



A STUDY ON PROFITABILITY ANALYSIS OF ULTRATECH CEMENT LIMITED IN INDIA

Dr. K. Bhuvaneswari* & S. Dharshini**

* Assistant Professor, PG & Research Department of Commerce with Computer Applications, Sakthi College of Arts and Science for Women, Oddanchatram, Dindigul, Tamil Nadu

** PG Scholar, PG & Research Department of Commerce with Computer Applications, Sakthi College of Arts and Science for Women, Oddanchatram, Dindigul, Tamil Nadu

Cite This Article: Dr. K. Bhuvaneswari & S. Dharshini, "A Study on Profitability Analysis of Ultratech Cement Limited in India", International Journal of Scientific Research and Modern Education, Volume 10, Issue 1, January - June, Page Number 1-4, 2025.

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Abstract:

The purpose of this study is to Profitability relationship between the dependent (Debt Equity Ratio) and independent variable (Current Ratio, Return on Asset, Asset Structure, Return on Equity, Interest Coverage Ratio) in the model of the Ultratech Cement Limited in India from the financial year 2015-2024 .Data are analysed using Correlation and Regression analysis to find the association between the variables. The results shows that Return on Equity have a significant impact on Debt Equity Ratio. The result also shows Current Ratio, Return on Asset, Asset Structure, Interest Coverage Ratio negatively associated with Debt Equity Ratio. These results are consisting with previous empirical studies. Further recommendations are presented in the research.

Key Words: Correlation, Regression, Return on Equity, Debt Equity Ratio.

Introduction:

Ultratech Cement Limited is an Indian multinational cement company based in Mumbai. It is the largest manufacturer of grey cement Ready Mix Concrete (RMC) and white cement in India. It is also one of the leading cement producers globally. Ultratech Cement Limited it is India's second largest cement company and India's largest exporter of cement clinker. Ultratech is now targeting an ambitious goal of achieving a production capacity of 200 million tonnes. Values of Ultratech Cement are integrity, commitment, passion, speed. Cement business of Lerson and Tourbo limited demerged and vested in company in 2004. Profit is an excess of revenue over associated expenses for an activity over a period of time. It terms with similar meaning include 'earning', 'income' and 'margin'. Profitability is a measure of how well a business converts its expenses into profit for its owners. Profitability includes gross profit margin, operating profit margin, Net profit margin, Return on Asset, Return on Equity. Financial soundness of a firm depends upon Profitability. Profit can be defined number of ways but the meaning 'Profit' changes as per the purpose. The term 'ability' shows the power to the business firm to earn profit. Profitability is a measure of the efficiency of a company generating profit. Profitability is a fundamental concept in the world of finance and business, serving as a key indicator of a companies financial health and operational efficiency. Profitability is a crucial for various stakeholders, including management, investors and creditors.

Research Objectives:

- To find the relationship between Debt Equity Ratio and profitability ratio.
- To suggest the industry a way to increase profitability through adapting a better strategic framework.

Review of Literature:

Rajiben and Vagh (2003) carried out their study on "The profitability analysis of selected Cement Limited in India". To analyse the profitability of companies. To identify the profitability of selected Cement companies. This study was based on Secondary data. The main source of data is collected national stock exchange. A sample of five companies has been selected for this study. Return on Asset and Net profit ratio is considered the dependent variable and Current ratio and Gross profit ratio are considered independent variable. ANOVA test is used for the analysis. In this study, he has been founded that there is significance difference between in gross profit and net profit ratio of selected cement companies of India. During the study period the efficiency and growth of any company can be assumed through its profitability. The company should try to improve its financial position.

Prabalchakraborty and Naveshgupta (2017) in their study on "Profitability analysis of steel authority Indian limited". To measure the profitability performance of steel authority and to examine the growth of steel authority. The study was based on secondary data. The main source is collected national stock exchange. A sample of five companies has been selected for this study. Current ratio and Net profit margin is considered as the dependent variable. Return on asset and operating profit ratio and Gross profit ratio are considered the independent variable. Correlation, Regression is used for analysis. The result reveals the SAIL have significant impact on protection by steel authority. Profitability of the firm is highly influenced by internal and external variables. The efficiency of any organization can be judged through its profitability.

Bhanwarsingh (2018) in his study on "The profitability analysis of cement companies". To analyse the profitability of sampled cement companies during the period of study. This study was based on secondary data. The main source of data is collected national stock exchange. A sample of three companies has been selected for this study. Return on Equity and Net profit margin and Return on capital is considered the dependent variable. BIT margin and Return on Asset are considered independent variables. One way ANOVA test is used for analysis. In this study, he has compared the profitability performance of top three cement companies on different profitability parameters. The performance of three companies is same statistically and it confirmed from analysis of data. It concluded the Shree Ultratech and Ambuja cement is performing better than Ultratech Cement.

Saheed Adekunle Muraina (2018) to study the "Profitability of listed deposit money bank". To examines the effect of adequacy on profitability of listed deposit money bank in Nigera. To identify the effect of credit risk on profitability. The study

was based on secondary data. The main source of data is collected national stock exchange. A sample of two banks has been selected for this study. Return on assets is considered the dependent variables. Liquidity ratio and current ratio are considered the independent variables. Correlation and Regression is used for analysis. In this study, He found that internal factors had significantly influenced the deposit money banks profitability over the study period. It was found that capital adequacy has positive and significant effect.

Preeti Premsingh and Hosmani (2018) in their study on “Profitability of Selected Cement Companies in India”. To find the profitability of selected cement companies in an equity and to examine the Return on Investment of selected companies. The study is based on secondary data. The main source of data is collected national stock exchange. A sample of two companies has been selected for this study. Assets turnover ratio and return on investment is considered the dependent variable. Return on Asset ratio and Return on Equity ratio are considered the independent variable. Correlation and Regression is used for analysis. The ACC Ltd followed by CCI Ltd among the selected cement companies’ ratios, indicates the management ability to operate sufficient success. They founded the Return on Investment among the selected companies

Neha G. Tank and Chitra and Lekha H Dihedral (2019) in their study on “Profitability analysis of Cement Companies.” To study the concept of profitability. To identify the profitability of Cement companies over the period of study. The study was based on secondary data. The main source of data is collected national stock exchange. A sample of five companies has been selected for this study. Return on Asset and Debt Equity ratio is considered the dependent variable. Operating profit ratio and Return on net worth and Earning per share are considered independent variable. ANOVA test is used for analysis. In this study she founded the profitability of more or less depends upon the better utilization of resources. There is a significant difference between net profit ratios of selected cement companies during the period of study.

Anitha and Thayumanavar (2023) carried out their “A study on profitability analyse of Indian cement limited”. To analyse the profitability position. To assess the Profitability and performance. The study was based on secondary data. The main source of data is collected national stock exchange. A sample of eight companies has been selected for this study. Return on Equity and Debt Equity ratio is considered the dependent variable. Return on asset and Operating profit ratio and Return on net worth are considered independent variable. Correlation is used for the analysis. In this study, they has founded the company’s profitability is more depend on the advisable utilization of resources. They say Finance is the blood of business. Financial analysis used to find out the profitability of the company.

Methodology:

Secondary data required for research were collected from the official web sites of cement industries in India Data were used on various financial statements of Ultratech Cement Limited in India (2015-2024).

Regression Model:

The multiple Regression models have been followed to test the empirical relationship between the dependent and independent variables of the firm.

$$DER = a + b_1CR + b_2ROA + b_3AS + b_4ROE + b_5 + ICR + e$$

Where;

DER = Debt equity ratio

AS = Asset structure

CR = Current ratio

ICR = Interest coverage ratio

ROA = Return on asset

e= Error term

Dependent Variable:

Debt Equity Ratio (DER):

The debt equity ratio is a financial metric used to assess a companies financial leverage and overall risk by comparing its total liabilities to its shareholders equity. The debt equity ratio is commonly used by investors, analysts, and creditors to assess a companies risk profile and financial stability. It is calculated using the following formula:

$$\text{Debt Equity Ratio} = \text{Total Liabilities} / \text{Shareholders Equity}$$

Independent Variable:

Current Ratio (CR):

The current ratio is a financial metric that measures a companies ability to pay off its short term assets. It calculated by dividing companies current assets by its current liabilities. Current ratio is a vital liquidity ratio which measures the liquidity position of a company.

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

Return on Asset (ROA):

Return on asset is a type of return on investment (ROI) metric that measures the profitability of a business in relation to its total assets. The ratio indicates how well a company is performing by comparing the profit its generating to the capital its invested in asset.

$$\text{Return on Asset} = \text{Net Income} / \text{Average Total Assets}$$

Asset Structure (AS):

Asset structure refers to the combination of all assets a company owns and uses to run its business .It includes both current assets and fixed assets, and can have a significant impact of a company s financial stability, growth and success.

$$\text{Asset Structure} = \text{Fixed Asset} + \text{Total Current Asset}$$

Return on Equity (ROE):

Return on equity (ROE) is a measure of a companies financial performance. It is calculated by dividing net income by shareholders equity. Because shareholders equity is equal to a companies assets minus its debt, ROE is a way of showing companies return on net assets. The return on equity is a measure of the profitability of a business in relation to its equity.

$$ROE = \text{Net Income} / \text{Shareholders Equity}$$

$$\text{Net Income} = \text{Revenue} - \text{Total Expenses}$$

Interest Coverage Ratio (ICR):

The interest coverage ratio is a financial metric used to determine a companies ability to meet its interest obligations on outstanding debt. It measures how easily a companies can pay interest on its outstanding debt with its earnings before interest and taxes (EBIT). A high ratio is better since it shows that the company has sufficient funds to pay the interest expenses.

$$\text{Interest Coverage Ratio} = \text{EBIT} / \text{Interest Expenses}$$

Results of the Study:

Table 1: Results of the Correlation

Variables	R	R2
Current Ratio	0.582	0.338724
Return on Asset	-0.773	0.139129
Asset Structure	0.706	0.042436
Return on Equity	-0.048	0.002304
Interest Coverage Ratio	-0.359	0.128881

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

Table 1 above represents the relationship between the various independent and dependent variables used in this study. From this table it is clear that the variables current ratio and asset structure have positive association debt equity ratio. Whereas the variables like return on asset was negatively associated with Debt equity ratio. So we conclude that all the select variables have associated with profitability Ultratech Cement Limited in India.

Result of the Regression:

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std error of the Estimate
1	.929 ^a	.862	.691	.04277

a. Predictors: (Constant), Interest coverage ratio, Asset structure, Return on asset, Current ratio, Return on equity

The model summary table illustrates the magnitude of the variance in the dependent variables as described by the independent variables. The value of the R-Square is 0.862 which is approximately the dependent variable 86.2% variance of the debt equity ratio is explained by independent variables of profitability ratios.

Table 3: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	.046	5	.009	5.017	.072 ^a
Residual	.007	4	.002		
Total	.053	9			

a. Predictors: (Constant), Interest coverage ratio, Asset structure, Return on asset, Current ratio, Return on equity

b. Dependent variable: Debt equity ratio

ANOVA test to find whether the regression model is valid or not. F-Statistics is 5.017 which are low and have a not significant value of less than 5% which indicates that the testing of ANOVA is significant and that the model is valid from the given predictors.

Table 4: Regression Coefficient of Select Ultratech Cement Limited

Variables	Model
(Constant)	
Un-Standardized coefficients	-265
Standard error	0.252
T-Value	-1.050
P-Value	0.353
(Current ratio)	
Un-Standardized Co-efficient	2.540
Standard error	0.565
T-Value	4.496
P- Value	0.001
(Return on asset)	
Un-Standardized Co-efficient	-1.243
Standard error	0.496
T-Value	-2.507
P-Value	0.066
(Asset Structure)	
Un-Standardized Co-efficient	0.122
Standard error	0.045
T-Value	2.714
P-Value	0.053
(Return on Equity)	
Un-Standardized Co-efficient	6.5
Standard error	0.000
T-Value	0.229

P-Value	0.004
(Interest coverage ratio)	
Un-Standardized Co-efficient	1.224
Standard error	0.811
T-Value	1.509
P-Value	0.206

The parameter of the regression model above the table is related. The table No:4 shows the significant of the individual independent variable in interpreting the dependent variable. The un-standardized Coefficient(B) value shows the magnitude and relationship between Debt equity ratio and independent variables of profitability ratio. The regression Coefficient value shows the relationship between DER and independent variables of profitability ratios. The regression of co-efficient value shows the relationship between Return on equity and Debt equity ratio. Other variables like Current ratio, Return on asset, Asset structure, and Interest coverage ratio not significant with Debt equity ratio.

Conclusion:

The purpose of this research study is to investigate the relationship between Debt equity ratio and profitability ratios. For this purpose Ultratech Cement Limited Industry has been selected from India as study sample and is collected 9 years (2015-2024) and processed by using statistical tools. The study found that the R values of Asset structure (0.706) positively significant with Debt Equity Ratio. Return on asset (−0.351) shows negatively correlate with Debt Equity Ratio. Asset structures affect a company's financial stability, growth potential and overall success. It also impacts a company's capital structure. In this study Ultratech Cement Limited should have concentrated asset structure for their growth.

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