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A STUDY ON FINANCIAL PERFORMANCE EVALUATION OF ACC CEMENT LIMITEDUSING RATIO ANALYSIS AS A TOOL

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Abstract:

ACC Limited is a major participant in the Indian construction materials industry. ACC Cement has branches all across India. Products from the ACC Limited corporation areprofitable not just in India but throughout the entire world. It has developed a reputation as a pioneering organization that regularly sets new standards with our cutting-edge research and product development, earning the nickname "cement." It has made a significant contribution to India's advancement with our experience and knowledge spanning more than eight decades. Performance evaluation plays a very important role in the company which helps to maintain appropriate position of liability and assets in order to gain competitiveness. This particular study is undertaken by using five years balance sheet and profit and loss account to find out the required ratios and comment on the financial health of the company in the dimension s like liquidity, solvency profitability and efficiency of the Company.

Key words: ACC Cement, Ratio analysis, Financial Health.

Introduction:

A common commodity produced at tens of thousands of local plants is cement. Nearly 70% of India's total cement production is produced by 20 companies, which dominate the country's cement industry. Because of its weight, cement can only normally be transported byland within 300 kilometers of any given plant site. Globally, the industry is consolidating, although just 30% of the market is made up of big, international companies. China currently has the fastest expanding market. Because of its global and local nature, the cement industry has a special set of problems that draw attention from locals in the area as well as from other countries. Financial statement analysis is the process of reviewing a company's financial statements in order to make judgments. External stakeholders use it to evaluate the general health of a business as well as its financial performance and market worth. Through the useof financial ratios, such as the net profit ratio, which is determined by dividing net profit by sales, financial analysis examines a company's performance and trend.

Need For the Study:

The development of the nation's economy depends in large part on the cement sector. Over the past few years, the cement business has been one of the hottest. One of India's top cement producer is ACC Cement. The goal of the study is to understand and evaluate the ACC Cement Limited's financial performance. The main purpose of financial statements analysis isto find patterns and linkages among the financial statement elements. This study is useful to the investors, stakeholders, market analysts, etc. because it identifies the performance and strength of the organisation on various dimensions of financial soundness of the Company. The analysis and interpretation of financial statements is a regular exercise to review the performance of the company. This study is conducted to assess the short-term prospects as well as long term trends and to arrive at the conclusion on the financial performance of the company.

Objectives of the Study:

• To find the Liquidity position of the company.

• To ascertain the company's solvency position

• To interpret on the company's turnover ratios.

• To evaluate the company's profitability and long-term viability.

Review of Literature:

Dr. S. Baranidharan (2017): In his study titled to share price moments of selected Indian cement companies have made an attempt to know that, if done correctly, shares and stocks are among the best investments a person can make. Because the infrastructure sector is increasingly gaining importance, the current study was done to examine the share price movement of the cement business. Mean and standard deviation are the tools that are employed in this. The author draws the conclusion that cement's trend value has a greater potential for future high returns**. Gupta L C (2016):** In his study titled to debt equity ratio The predictive potential of63 financial ratios was tested on 41 Indian textile companies, 20 ill companies, and

21non-sick enterprises. The results showed that earnings before depreciation andinterest were the two ratios that were significant. **Dr.M. Kalimuthu (2018):** In his study titled to Financial Performance of ACC Cement Limited tried to learn about andanalyse the cement company's profitability, liquidity, and financial growth. The ratios of profitability, liquidity, and activity are the techniques used in this case. As a result, the author draws the conclusion that the working capital change must increase rather than decrease and must be kept at a modest level. **Baneerjee B (2016):** In his study titled Liquidity Position and Relationship with Profitability has made an effort to understand corporate liquidity and profitability in India. For the years 1970–1971 to 1977–1978, medium and large-scale public limited businesses in the corporate sector were used to analyse the trend of liquidity situation and its link with profitability. According to his research in India, an increase in liquidity has caused an increase in profitability and vice versa in several industry groupings. **R. Sunitha John (2018):** In her study titled to relationship between CSR Initiatives and Financial Performanceof ACC Ltd in India have made an effort to determine whether CSR initiatives have any impact on the financial performance of ACC Cement Industry Limited in India. They have also looked into the type and degree of CSR disclosure in annual reports. Earnings per share will affect the CSR recovery of ACC Limited for the study of the term, the author of this analytical style of research finds. **Ashok Panigrahi (2018):** In his study titled to Liquidity Management of Indian Cement Companies have made an evaluation of the working capital management, its adequacy and also to study and compare the liquidity positions of companies under the study. It is a comparative study and tools used here are regression. The author thus concludes that the company should ensure the percentage of investors in current assets are as low as possible.

Limitations of the Study:

- This particular studied result is applicable only for the Cement Industry.
- The study is based on the secondary data and the limitations of using the secondary data may also affect the results.

Type of research:

This particular Project is based on the study on the financial performance evaluation of ACC Cement Limited. This type of research is a Quantitative in nature. A study technique known as quantitative research places a strong emphasis on quantifying data collection and processing. The study gives us the details about the financial performance evaluation of the

cement companies along with the Ratio Analysis which is also considered as the main tool. This methodology mainly focuses on the Ratios which might include liquidity ratio, solvency ratio etc. The study helps us to analyse the profitability, liquidity as well as operations of the company

Scope of the study:

The process of determining the operational and financial structure of a certain organisation is known as financial analysis, which is obtained from the statement of finances and accounts. These analyses have some specific goals and they can be told as the goals is to determine the performance and also efficiencies of the company's management so as it is shown in the financial reports and also in the financial records. Financial statements of this particular company become the population based on which the data is analyzed. Sampling unit is the five years income statement for the financial years starting from 2016-2017, 2017-2018, 2018-2019, 2019-2020, and 2020-2021. An income statement displays the revenues, costs, and profitability of a business over time. Convenience sampling method is otherwise called as non-probability method is used as a sampling method.

Sources of data collection:

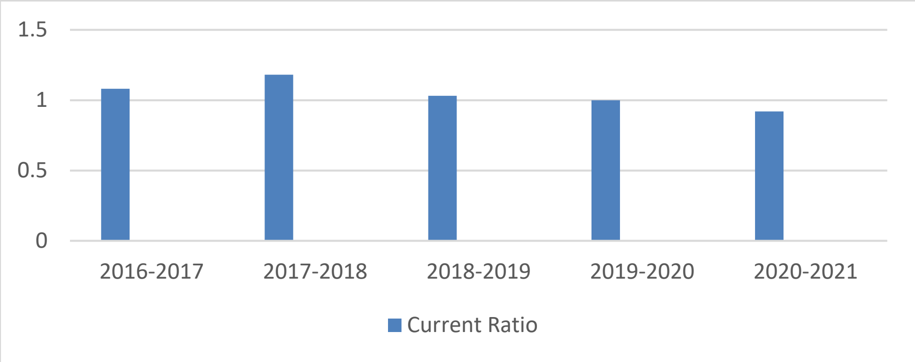
Secondary data: Here secondary data is used for this particular analysis.

Data Analysis and Interpretation:

1. Table and Graph showing Liquidity Ratio of ACC Limited

Current Ratio=Current Asset/Current Liability

Year	Current Assets (In crores)	Current Liabilities (In crores)	Value
2016-17	5339	4923	1.08
2017-18	5711	4834	1.18
2018-19	5107	4919	1.03
2019-20	5106	5088	1.00
2020-21	5815	6308	0.92



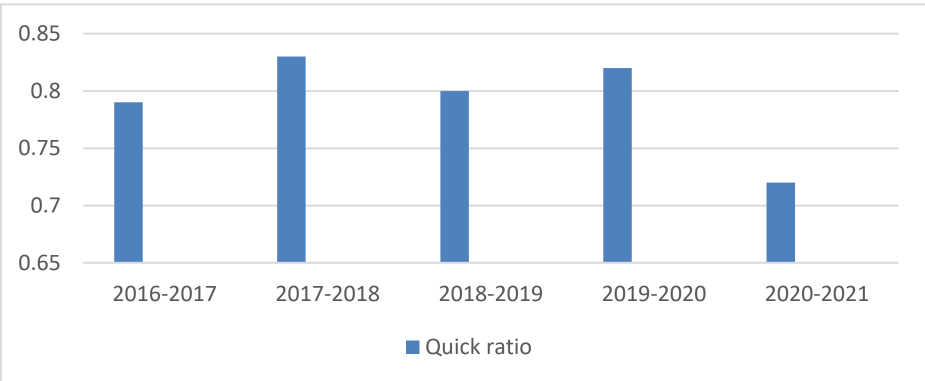
Analysis: The above table shows the current ratio for a period of five financial years. The Current Ratio is the highest in 2017-2018 and shows the lowest in 2020-2021.

Interpretation: The current ratio is in decreasing trend. In the graph above the ideal ratio is 2:1. The current ratio of less than two means that the company does not have enough current assets to pay of its current liabilities. Hence the liquidity position is not satisfactory.

2. Table and Graph showing Quick Ratio:

Quick Ratio=Current Assets – Inventory / Current Liabilities

Year	Current Assets(In crores)	Inventory (In crores)	Current liabilities (In crores)	Value
2016-17	5339	1404	4923	0.79
2017-18	5711	1679	4834	0.83
2018-19	5107	1141	4919	0.80
2019-20	5106	900	5088	0.82
2020-21	5815	1273	6308	0.72



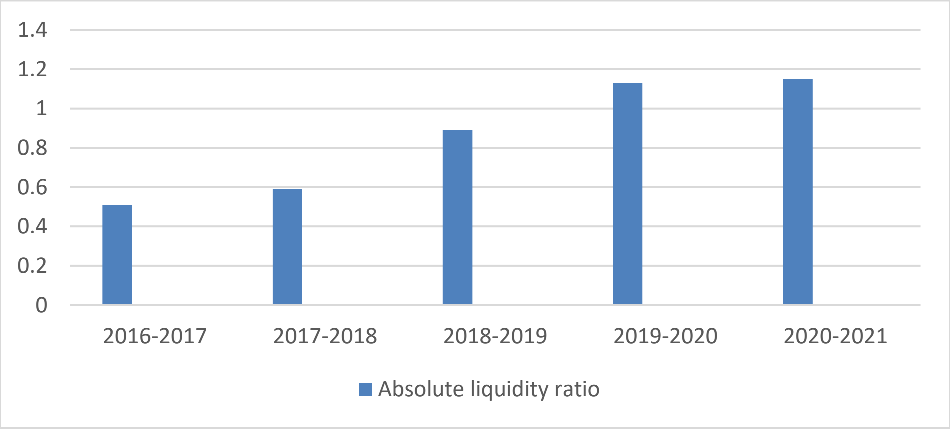
Analysis: The above table shows the quick ratio for a period of five financial years. The quick ratio is highest in 2017-2018 and lowest in 2020-2021.

Interpretation: The quick ratio is in decreasing trend. In the graph above the ideal quick ratio should be 1. Anything less than this indicates that the company's liquidity is low.

3. TTable and Graph showing Absolute Liquidity ratio:

Absolute Liquidity Ratio=Cash Equivalent / Current Liabilities

Year	Cash Equivalent (In crores)	Current Liabilities (In crores)	Value
2016-2017	2527	4923	0.51
2017-2018	2837	4834	0.59
2018-2019	4383	4919	0.89
2019-2020	5735	5088	1.13
2020-2021	7247	6308	1.15



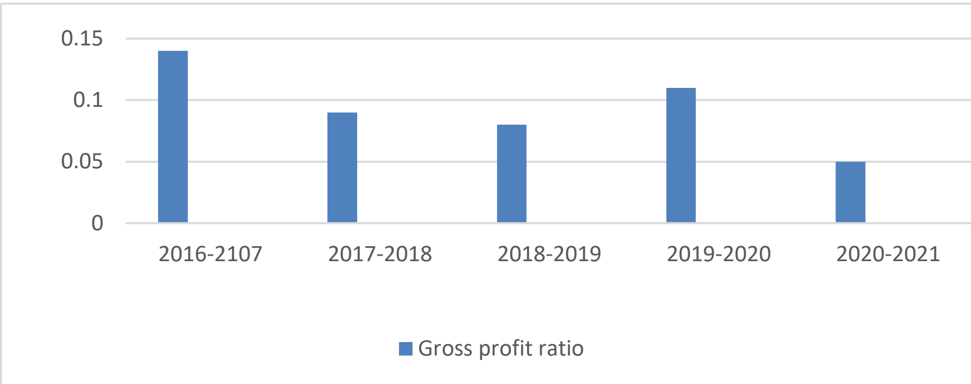
Analysis: The above table shows that the absolute liquidity ratio for a period of five Financial years. The absolute liquidity ratio is the highest in 2020-21 and lowest in 2016-17.

Interpretation: The Absolute liquidity ratio is in the increasing trend. In this company, the absolute liquid ratio for the year 2021 is 1.23:1 which means there is enough funds in the company with reference to holding sufficient amount of cash equivalents in the company.

4.Table and graph showing the profitability ratio

Gross Profit Ratio = Gross Profit/Net Sales

Year	Gross Profit (In crores)	Net sales (In crores)	Value	Value in %
2016-2017	1820	12909	0.14	14%
2017-2018	1415	14477	0.09	09%
2018-2019	1359	15343	0.08	08%
2019-2020	1507	13487	0.11	11%
2020-2021	915	15814	0.05	05%



Analysis: The table above shows that the gross profit ratio for a period of five financial years. The Gross profit ratio is the highest in 2016-17 and the lowest in 2020-21.

Interpretation: The gross profit ratio is in the decreasing trend. In the above graph, the ideal operating margin should be between 10%-20% which means 10% is considered as average and 20% or above is considered as high.

5. Table and Graph showing Net profit ratio

Net profit ratio=Net profit / Net sales*100

Year	Net profit (In crores)	Net sales (In crores)	100	Value in %
2016-2017	1166	12909	100	9.03
2017-2018	1356	14477	100	9.36

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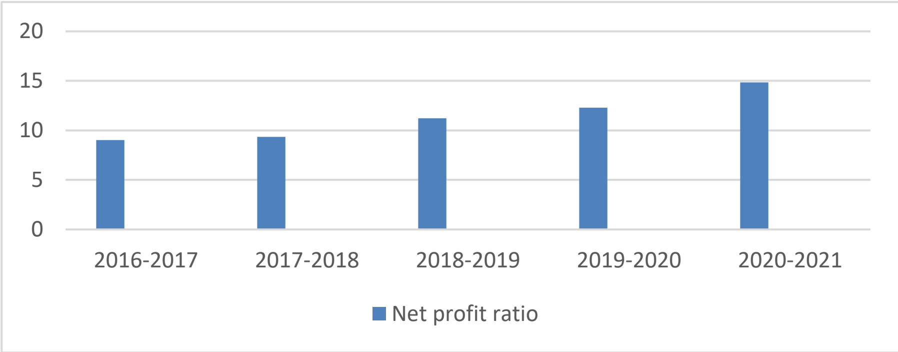
2018-2019	1721	15343	100	11.21
2019-2020	1660	13487	100	12.30
2020-2021	2348	15814	100	14.84



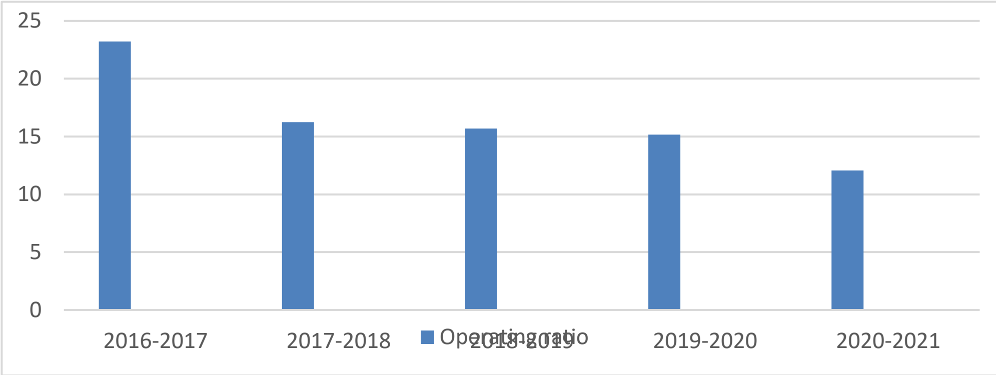
Analysis: The above table shows the net profit ratio for the period of five financial years. The Net profit ratio is the highest in 2020-2021 and lowest in 2016-2017.

Interpretation: The net profit ratio is in the increasing trend. The ideal net profit margin is based on industry and size of the business, but as a general rule of thumb, a 10% net profit margin is considered as average, a 20% margin is considered as high and 5% margin is low. Hence the company is average.

6. Table and graph showing the operating Ratio

Operating Ratio = Operating expenses*100/Sales

Year	Operating Expenses (In crores)	Sales (In crores)	100	Value
2016-2017	3000	12909	100	23.23
2017-2018	2352	14477	100	16.24
2018-2019	2409	15343	100	15.70
2019-2020	2045	13487	100	15.16
2020-2021	1909	15814	100	12.07



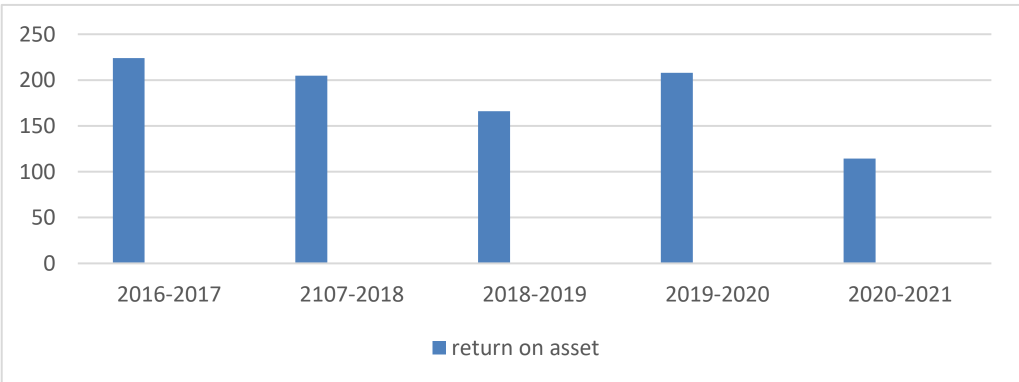
Analysis: The above table shows that the operating ratio for the period of five financial years. The Operating ratio is the highest in 2016-2017 and stands the lowest in 2020-2021.

Interpretation: The operating ratio is in the decreasing trend. In the graph above, the ideal operating margin should be more than 15% is good, hence the operating margin of the company for all the financial years are good. A greater ratio would suggest that spending exceed the company's capacity to produce adequate income and would be viewed as inefficient.

7. Table and Graph showing Working capital ratio

Working capital ratio=Net sales / working capital

Year	Net income (In crores)	Average total asset (In crores)	*100	Value
2016-2017	1820	812	100	224.13
2017-2018	1415	691	100	204.77
2018-2019	1359	814	100	166.21
2019-2020	1507	725	100	207.86
2020-2021	915	800	100	114.37



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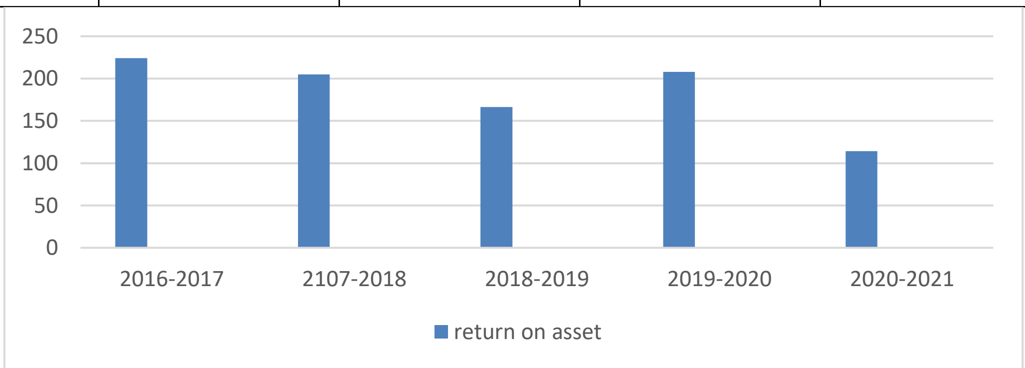
Analysis: The above table shows the working capital ratio for a period of five financial years. The working capital turnover ratio is the highest in 2017-2018 and lowest in 2019-2020.

Interpretation: The working capital ratio is in the decreasing trend. In the graph above, the ideal ratio of working capital should be between 1.5 and 2. The company's working capital ratio for the year 2021 is 38.01. . Here, the working capital ratio is more than the ideal ratio, hence it is satisfactory. The working capital ratio of a corporation may be too high since a ratio that is too high may be a sign of operational inefficiency. A high ratio may indicate thata corporation is sitting on a lot of assets rather than using them to develop and grow its operations.

8. Table and Graph showing Return on Asset

Year	Net income (In crores)	Average total asset (In crores)	*100	Value
2016-2017	1820	812	100	224.13
2017-2018	1415	691	100	204.77
2018-2019	1359	814	100	166.21
2019-2020	1507	725	100	207.86
2020-2021	915	800	100	114.37



Analysis:

The table above shows the returns on assets for a period of five financial years. The Return on asset is highest in 2016-2017 and lowest in 2020-2021.

Interpretation:

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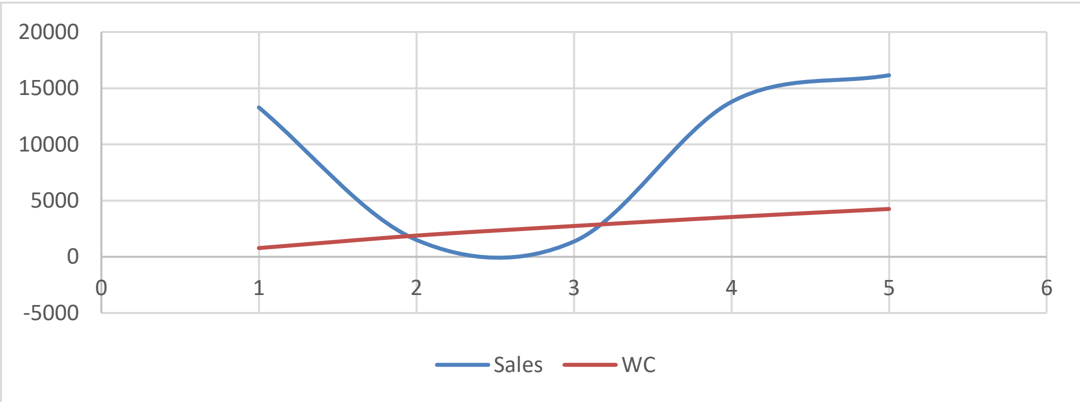
The return on asset is in the decreasing trend. In the graph above, the ideal return on assets is same as return on equity that is 5% – 20%. The Return on Assets of ACC cement ltd for the year 2021-2022 is 18.4%. It indicates that the company is not efficient as well as productive at managing its total assets to generate profits and indicates that there is a room for improvement.

9. Table and Graph showing Correlation

Year	Sales	WC	0.324717
2017-2018	12909	-493	
2018-2019	14477	18	
2019-2020	15343	188	
2020-2021	13487	877	
2021-2022	15814	416	



Interpretation: There is a direct relationship between sales and working capital. Since the correlation value is 0.324717.

10.Table and Graph showing Correlation

Year	Sales	net profit	0.054684
2017-2018	12909	1166	
2018-2019	14477	1356	
2019-2020	15343	1721	
2020-2021	13487	1660	
2021-2022	15814	2348	

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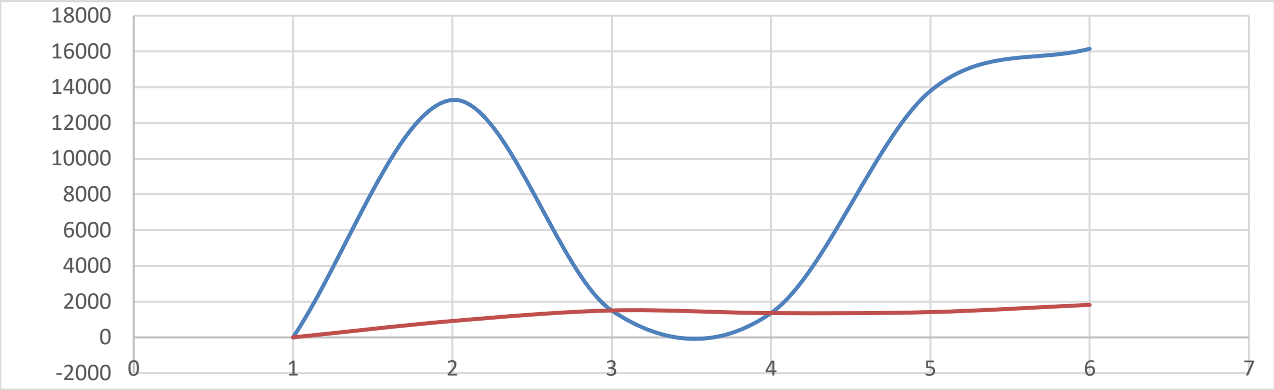

There is a direct relationship between sales and net profit. Since the correlation value is 0.54684.

Du Pont Analysis:

Du Point Analysis = NPM * AT * EM

2017 = 0.0903*1.2909*7.2303 = 0.8428

2018 = 0.0936*2.1994*3.4880 = 0.7180

2019 = 0.1121*2.0669*2.7210 = 0.6304

2020 = 0.1230*1.6188*2.3533 = 0.4685

2021 = 0.1484*1.5434*2.4091 = 0.5517

Findings:

1. To assess the individual components of a company's ROE, a DuPont analysis is utilised. This information can be used to identify the financial actions that affect ROE. The fundamental DuPont Analysis model is a way to separate the operational efficiency, asset efficiency, and leverage variables from the original ROA calculation. The Net Profit Margin, which measures operating efficiency, shows how much net income is produced sales. It highlights the company's strengths and helps to identify the area where there is a scope for improvement. Since the company's ROE is reducing, shareholders might get dissatisfied with the lower ROE.

2. The liquidity ratio of ACC Limited is not satisfactory. This means that the companyshould maintain adequate amount of current assets or reduce the amount of current liabilities to fulfill its short term obligations.

3.The profitability Ratio of ACC Limited stands declining. It indicates that the company should look into the ways of generating its profits for the growth of the company as well as maximizing its stable

4. The solvency Ratio of the company is satisfactory, less the solvency ratio, there is more equity investment from shareholders than the lenders.

5. The turnover Ratio of the company is high, which indicates a high level of efficiency to the company.

6. The ROE of the company is declining. The lower ROE may not always be a concern for the company as it may also happen due to normal business operations.

Suggestions:

1. The current asset investment of the company is less when compared to its current Liabilities. So, the current assets should be increased or the amount of current liabilities has to be decreased.

2. The total increase in production costs is partly attributed to the shortage of domestic coal and the rising price of imported coal. However, India's electricity prices are greater than those in any of its peer nations, and smaller businesses cannot afford captive power plants.

3. The ACC marketing strategy uses the following promotional and advertising tactics: To promoteitself, ACC Cement use a variety of media platforms. Customers are drawn to the brand because of its history and reputation, as opposed to sales being forced.

4. The company with the help of the DuPont Analysis formula can assess whether the lower ROE is due to low-profit margin, low asset turnover, or poor leverage. Once the management of the company has found the weak area, it may take steps to correct it.

Conclusion:

With India being the second largest producer of cement in the world. It accounts for more than 7% of the global installed capacity. ACC Cement Ltd. has a lot of potential for development in the infrastructure and construction sector and the cement sector is expected to largely benefit from it. As per CRISIL Ratings, the Indian cement industry is likely to add ~80 million tonnes (MT) capacity by FY24, the highest since the last 10 years, driven by increasing spending on housing and infrastructure activities.

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This study is a brief examination of ACC Limited financial performance. Because of the company's satisfactory liquidity situation. Since there may not be a difficulty paying off their long-term creditors, the solvency ratios show that the corporation is likewise strong insolvency. Although the profitability position is increasing. By taking steps like cost-cutting, budgeting, and manufacturing modernization, the business may increase its profitability. Overall, ACC Limited is effective in terms of financial performance. Along with maintaining a sound supply chain management strategy, the company needs to consolidate in order to grow powerful and dynamic.