

Summer Internship Project Report
On
**“Benchmarking comparison between cement companies in terms
of ratio analysis”.**



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(Submitted in partial fulfilment of the requirements for MBA degree)

Institute of Management
JK Lakshmipat University, Jaipur
(2019-20)

CERTIFICATE

It is certified that the Summer Internship Report titled “Benchmarking comparison between cement companies in terms of ratio analysis” submitted by Gargi Gautam is an original piece of research work carried out by the candidate under my supervision.

Sign. of the Faculty Guide

Mr. Praveen Arora

DECLARATION

I, undersigned, Gargi Gautam the student of Pinnacle MBA (2019-21), JK Laxmipath University, here by declared that this project report is my own work and it has been carried under the guidance of Prof. Praveen Arora. This is original work and report has not been submitted to any other university or institute for the award of any degree. We have followed the guidelines provided by the university in writing the report.

Date of project submission:

Signature:

Faculty Mentor's comments-

Signature

Mr. Praveen Arora

Faculty Mentor

Acknowledgement

I Gargi Gautam, firstly like to thank my faculty guide, Mr. Praveen Arora who helped me in all possible manner during this internship project. He turned out this internship as lifelong learning to me. This internship program helped me to apply my theoretical knowledge in practical field, hence enhance my knowledge in various aspects in cement industry.

I would like to show my sincere appreciation to Mr. Pranav Chitre (CFO, UCWL) who was an ideal industrial mentor in true sense. Sir guided me and helped me in the areas such as, the topic of the project, for suggesting alternative solutions and sharing his personal valuable experience and knowledge with me. Beside this, my sincere thanks go to the authority of UCWL for giving this opportunity to me.

Finally, I would like to express my gratitude to my parents, friends and all supportive JKLU faculty members for their endearing support and cooperation which has made me complete this project fruitfully.

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Executive summary

The project is on **“Benchmarking comparison between cement companies in terms of ratio analysis”**.

The main objective of the study was to study financial statements of **UCWL and 5 leading companies of cement industry**.

Aside from the core objective of the project, I have attempted to cover the following to improve my understanding of the cement sector

Industry overview

Production capacities, export and import trends

Overview of UCWL and the other 5 leading companies

Overview of the mission and objectives of the company along with its performance, the product line and the functions of the finance department, its structure and working.

I have gone through some useful and valuable financial statement courses, which helped me learn financial statement analysis using ratios. This helped me compare company's performance basis their ratios.

I have shared the methodology used to analyse & interpreted the collected data. I hope that you will find this report interesting & will help you in conducting further studies on this sector.

Overview

The Indian cement industry has tremendous impact in the Indian economy. The Cement Industry globally has immense forward and backward linkages with a Nation's economy. For developing and transitioning economy such as India, the value proposition of the cement industry is greater given the immense infrastructure requirement of the growing and urbanizing country, as well as increase the direct indirect employment opportunity.

One of the leading sectors of the building materials industry, producing various types of cement, such as Portland – pozzolan and Portland blast and special cement; the last category includes decorative, oil-well. A basic binding material in the production of concrete, reinforced concrete, asbestos cement, petroleum and other industry. India is the second largest producers of cement in the world. Some of the recent major initiatives such as development of 98 smart cities are expected to provide a major boost to the sector.

Market size: -

Cement production is reached to 337.32 million tons in 2018-19 and stood 278.79 million tons from April 2019-2020 which showing lower production than previous year. Indian cement industry is the dominated by private sector with 70% of total market share. Total capacity of Indian cement plan is 509 million tone. A total of 210 large cement plant accounts for a cumulative installed capacity of over 410 million tones and other 350 small plants accounting for the rest.

Economic & national scenario

- Cement demand is closely linked to the overall economic growth, particularly the housing and infrastructure sector. Ever since it was deregulated in 1982, when the first-time cement industry knocked the door of Indian market.
- Long term cement demand growth rate is estimated at 1.2 times of GDP growth rate.
- These followings are the ratios in which cement industry is engaged with;
Housing – 65%
Infrastructure -25%
Commercial – 10%
- Increase government spending and incentives to housing especially in the affordable segment (both rural and urban) should lead to direct growth rates for the structure from F20 onwards.
- Roads, urban infrastructure and commercial reality would continue to be key demand drivers for cement.

- Southern and eastern segment would continue to be major regional demand drivers followed by western region.

Investment

According to data released by the department for promotions of industry and international trade (DPIT) - cement and gypsum products attracted FDI worth US\$ 5.28 billion between April 2012 to Dec 2019. Higher government spending on infrastructure and housing and rising per capita incomes will be key growth drivers for the cement industry. There have also been positive moves on the policy front, in areas related to ease of doing business, promoting start-ups, rationalizing the tax structure and administration, and opening more areas for foreign investment through the automatic route. The government is substantially stepping up infrastructure spending.

Production

Cement production grew by 13.3% to 337.3 million tone in FY19 compared with 6.3% growth in FY18. This has been the fastest growth in cement production recorded in one single year over the last decade. Production grew at a CAGR of 5.6% from 230 MT in FY12 to 337.3 MT in FY19. the production of cement stood at 28.1 million tone. The cement production capacity is estimated to touch 550 MT by 2020. Of the total capacity, 98% lies with the private sector and the rest with the public sector. The top 20 companies account for around 70% of the total production.

Road Ahead

The eastern states of India are likely to be the newer and virgin market for cement industry. Of the cement national production of 300 million tonnes (mt) per annum, the contribution of eastern region with 55 MT capacity is 17-18 per cent. The national capacity now is 370 MT per annum. With demand expected to scale up to 600 MT over the next 10 years, the capacity would need to be at least 700 MT. While Chhattisgarh seems to be the favourite among the players, eyeing the eastern market, thanks to Emami Cement, Shree Cement, Dalmia Bharat and others, Jharkhand, West Bengal and Odisha are also in line. Shree, which has been strong in the northern markets over the past years, is eyeing the eastern zone by setting up plants in Bihar and Chhattisgarh with an investment of Rs 2,000 crore. The enhanced capacity will help the company increase its market share by better streamlining of cement availability in the cement markets in Bihar, Chhattisgarh and West Bengal.

In the next 10 years India could be one of the main exporters of clinker and grey content to middle east, Africa and other developing nation of the world. India's cement production capacity is expected to reach 550 million tons by 2025. As per Union Budget 2019-20, Government is expected to upgrade 1,25,000 kms of road length over the next five years.

UCWL

Udaipur Cement Works Limited, (formerly known as 'J.K.Udaipur Udyog Limited') was incorporated as a Public Limited Company on 15th March 1993 having registered office at Shripatinagar, CFA P.O Udaipur , Rajasthan.

The name of the Company was subsequently changed to its present name w.e.f. 19th May 2006. The Company is presently engaged in the business of manufacture and sale of cement. The Equity Shares of the Company are listed on BSE Limited.

OUR VISION

To grow and foster into one of the leading customer centric cement companies and a promise to deliver products with latest technology.

OUR MISSION

- Customer Gratification to be one of the predominant objectives.
- Obtain to achieve operational excellence.
- Inclined towards a responsible corporate social attitude towards society
- A talented pool of employees to achieve success in all domains!

Top leaders

Ultratech cement

UltraTech Cement Ltd. 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 is the Largest among the top 5 cement companies in India. Ultra tech is the subsidiary of Grasim industries which is owned by Birla corp.

UltraTech Cement's share price is 3850/- UltraTech Cement's EPS is **131.6**. Therefore, UltraTech Cement's P/E ratio is **29.33**. So higher PE ratio indicates that company's is considered a strong performer in the cement sector and more investors trust its growth potential over other cement companies. But average industry PE ratio could be the good option for investment which varies industry to industry that may help find under-priced stocks. Ultratech cement has less PE ratio as compared to

previous year as earnings have grown well. UltraTech Cement's P/B Ratio of today is 2.95. which is good sign for the company.

Ambuja Cement

Ambuja Cements Ltd, a part of the global conglomerate LafargeHolcim, is among the Top 10 Cement Companies in India. It is the second-largest producer of cement in India based on turnover. The plant with an installed capacity of 29.65 MTPA (million tons per year) was a huge success with some equipment changing. Ambuja cement has 16.67 as their price earnings ratio which is low as per industry average ratio. Similarly, company's PB ratio is also lower as compared to other top cement companies, which is 1.56.

Acc limited

ACC Limited is one of India's leading manufacturers of cement and ready-mix concrete with 17 cement factories, 75 ready mix concrete plants, over 6,700 employees, a vast distribution network of 50,000+ dealers & retailers and a countrywide spread of sales offices. It is the 3rd leading cement companies in India. in this company, the case is like Ambuja Cement like PE ratio of this company is 16.56 and PB ratio is 1.97 which can be average potential decision for the investors.

Shree cement

Shree Cement Ltd is the Fourth Cement company in terms of sales. Incorporated in 1979 by renowned Bangur family based out of Kolkata. Set-up the first Cement Plant in 1985 with an installed capacity of 0.6 MTPA. Today Total Cement Capacity of the Company is 37.9 Million tons. Shree cement has highest price earning ratio is can be better for company paying return as well as investors having higher expectation from the company which could be not for long term period. Company's PB ratio is 5.25, similarly highest from all industry average ratio which shows the company is good in terms of returns on its assets.

Birla corporation

Birla Corp is one of the finest companies in the cement industry. The Company has acquired 100% shares of Reliance Cement Company Private Limited (Reliance Cement), a subsidiary of Reliance Infrastructure Limited (RIL). This acquisition provides with the ownership of high-quality assets, taking its total capacity from 10 MTPA to 15.5 MTPA. Birla Corp having 13.94 as their PE ratio which is very lower as per industry average ratio and other top companies that means they are having

lower paying capacity on shares. Likewise, PB ratio of Birla Corp is 0.96, which showing lower returns on assets.

J K Cement

J.K. Cement Limited is engaged in cement business. The Company produces grey cement, white cement. The Company manufactures grey cement in two facilities located at Nimbahera and Mangrol in the state of Rajasthan in Northern India. Its cement products are marketed under the brand names: J.K. Cement and Sarvashaktiman for ordinary Portland cement (OPC) products; J.K. Super for Portland pozzolana cement (PPC) products, and J.K. White and Camel for white cement products.

UCWL

Udaipur cement works limited (UCWL), JK Lakshmi cement's subsidiary had successfully started commercial production and with this commissioning, the company's overall operating capacity including that of UCWL stands increased to 12.5MT as on 31 March 2018. UCWL having 23.1 as their PE ratio which shows investors belief in company's future earning potential. Company's PB ratio is 1.71 which is in line with industry average.

NAME	PE RATIO	PB RATIO	PEG RATIO	52 WEEK HIGH/LOW
ACC LIMITED	16.56	1.94	4.64	1709/895
AMBUJA CEMENT	16.76	1.56	2.09	225/137
BIRLA CORP	13.60	0.66	0.42	807/372
SHREE CEMENT	45.06	5.25	9.84	60/14
UCWL	23.1	1.71	-	16/7
ULTRATECH	28.69	2.94	9.56	4754/2910
JK CEMENT	23.35	3.85	-	1568/795

Objectives of the study

- ✚ 1.To analyse the financial performance of cement industry
- ✚ 2.To ascertain financial position of selected companies on the basis key ratio/ parameters.
- ✚ 3.To identify the factors that influence the profitability of the company
- ✚ 4.To compare the profit earning of the selected cement industry from the Financial year
2016-17
2017-18
2018-19
2019-20.
- ✚ 5. Draw conclusion about financial position of selected cement company
- ✚ 6. Fundamentally strong for investment purpose
- ✚ 7. Used in comparison to internal benchmarks and goals
- ✚ 8. To analyse and evaluate management efficiency.

Moreover, my career-objective is to enter the corporate world. Keeping in line with my goal, I wanted to adorn myself with professional skills. Thus, I took this opportunity to acquaint myself with the 'Working and Functions' of the finance department

Research Methodology

1. Source of the data-

The study is based on secondary data. Data regarding industries is collected from the annual report of selected companies with the help of official website, journals, and credible resources.

2. Sample size-

Five companies are taken into consideration, those are follows;

1. Birla Corp. Cement
2. JK Cement
3. Ultratech Cement
4. Shree Cement
5. UCWL

Tools for analysing data-

Ratio analysis:

1. Liquidity ratio - This type of ratio helps in measuring the ability of a company to take care of its short-term debt obligations. A higher liquidity ratio represents that the company is highly rich in cash.
2. Profitability ratio - This type of ratio helps in measuring the ability of a company in earning enough profits.
3. Solvency ratio - Solvency ratios can be defined as a type of ratio that is used to evaluate whether a company is solvent and well capable of paying off its debt obligations or not.
4. Activity ratio - Turnover ratios are used to determine how efficiently the financial assets and liabilities of an organization have been used for the purpose of generating revenues.
 - Statistical tools: Trend analysis
 - ✓ The first task of the financial analysis is to select the information relevant to the decision under consideration from the statement and calculates appropriate ratios.
 - ✓ To compare the calculated ratio with the ratio of the same firm relating to the industry ratios. It facilitates in assessing success or failure of the firm.

Analysis and results

Ratio analysis

Financial analysis is the process of identifying the financial strength and weaknesses of the firm and establishing relationship between the items of the balance sheet and profit & loss account.

Financial ratio analysis is the calculation and comparison of ratio, which are derived from the information in a company's financial statement. The level and historical trends of these ratio can be used to make inferences about a company's financial conditions, its operations and attractiveness as an investment.

Purpose and use of ratio analysis:

A primary advantage of ratios is that they can be used to compare the risk and return relationships of firms of different sizes. Ratios can also provide a profile of a company, its economic characteristics and competitive strategies, and its unique operating, financial and investment characteristics. However, be deceptive as it ignores differences among industries, the effect of varying capital structure and differences in accounting and reporting methods. Given these differences, changes in a ratio and variability over time may be more informative than the level of the ratio at any point in time.

Solvency ratio

Solvency analysis examines the firm's capital structure, including the mix of its financing sources and the ability of the firm to satisfy its long-term debt and investment obligations. Solvency ratio of UCWL, has remain constant in year 2018-19 & 2019-20. Firms with high debt equity ratio may not be able to attract additional capital(equity). Also, Interest Coverage is in an optimal range during the FY 2019-20. The company is taking strong steps to increase the interest coverage ratio.

Ratios	Units	UCWL		ULTRATECH CEMENT		SHREE CEMENT		BIRLA CORP		JK CEMENT	
		2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Solvency Ratio											
Debt to Equity Ratio	Times	1.82	1.82	0.47	0.63	0.18	0.29	0.30	0.38	0.77	0.73
Debt to Total Asset	Times	0.36	0.46	0.25	0.30	0.12	0.18	0.17	0.21	0.31	0.30
Financial Leverage	Times	3.38	0.12	1.33	1.40	1.15	1.39	1.44	2.11	1.62	1.47
Interest Coverage	Times	1.42	0.10	4.06	3.51	7.84	6.10	3.27	1.90	4.72	3.13

Fig (1.1)

Liquidity ratio

Liquidity ratio measures the adequacy of a firm's cash resources to meet its near-term cash obligations. current ratio is 0.36 which is increasing year by year and quick ratio is in improving state. As we can see in **Fig (1.2)** when we compare UCWL with its competitor, we find that Shree cement, Birla Corp and J K cement ratios are approximately double. So, UCWL is working towards improving on the liquidity front and there is ample scope for them to do so (like Improve on debtor collection period, etc.).

Ratios	UCWL		ULTRATECH CEMENT		SHREE CEMENT		BIRLA CORP		JK CEMENT	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Liquidity Ratio										
Current Ratio	0.36	0.27	1.03	0.97	2.13	2.01	1.49	1.62	1.31	1.34
Cash Ratio	0.00	0.00	0.02	0.05	0.03	0.15	0.16	0.10	0.39	0.34
Quick / Liquid Ratio	0.18	0.10	0.77	0.69	1.69	1.21	1.04	1.09	0.92	0.94

Fig (1.2) table of liquidity ratio

Profitability ratio

Profitability analysis measures the income of the firm relative to its revenues and invested capital. Profitability ratio of UCWL is growing by the year, Shree and UltraTech having good gross and net profit margin. As far as return are concern both Return on Asset and Return of Capital Employed, UCWL needs to use their asset to the fullest. But in terms of return Shree and JK Cement is going very well with ideal ratio and well utilizing their assets and capital employed.

Ratios	UCWL		ULTRATECH CEMENT		SHREE CEMENT		BIRLA CORP		JK CEMENT	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Profitability Ratio										
EBITDA Margin	18.38	7.22	23.07	19.92	33.15	24.72	15.96	11.16	23.20	17.87
EBT Margin	3.98	10.14	12.84	10.15	16.47	9.23	8.87	3.67	11.93	9.51
EBIT (Operating) Margin	13.43	1.23	16.73	13.77	18.45	12.59	12.56	7.50	18.97	13.74
Net Profit Margin	2.26	-7.16	13.42	7.00	13.19	8.11	6.65	3.16	7.33	6.52
Return on Asset	1.69	-4.61	7.60	4.20	8.12	6.26	4.02	1.77	5.10	4.67
Return on Capital Employed (ROCE)	16.99	1.11	12.03	10.70	13.92	11.41	9.25	5.05	16.89	12.60

Fig (1.3) table of profitability ratio

Activity ratio

The Activity Ratio helps in understanding that the company's usage of assets and process of running the operations are efficient or not. UCWL assets turnover ratio is 1.49 in 2019-20 but in 2018-19 it was 1.29 which is showing improvement in current financial year. Investment turnover ratio is also rose by 1.32 times. UCWL is working towards improving their activity ratio and bring it in line to industry average ratio.

Ratios	UCWL		ULTRATECH CEMENT		SHREE CEMENT		BIRLA CORP		JK CEMENT	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Activity Ratios										
Inventory Turnover Ratio	1.48	2.48	1.40	1.49	0.51	0.57	1.74	1.70	1.45	1.49
Debtors Turnover Ratio	89.21	179.71	22.39	17.25	14.70	16.34	26.93	23.70	24.84	24.61
Investments Turnover Ratio	1.32	0.92	0.78	0.82	0.82	0.98	0.85	0.75	1.01	1.03
Fixed Assets Turnover Ratio	0.96	0.77	0.85	0.91	2.25	2.09	1.48	1.39	1.10	1.19
Total Assets Turnover Ratio	0.75	0.64	0.57	0.60	0.62	0.77	0.60	0.56	0.70	0.72
Asset Turnover Ratio	1.49	1.29	1.13	1.20	1.23	1.54	1.21	1.12	1.39	1.43
Number of Days In Working Capital	-128.17	-111.61	4.38	-4.00	111.14	62.43	48.80	57.51	33.13	35.37

Fig (1.4) table of activity ratio

1.UCWL

As shown in **fig (1.5)** current ratio of the company is going down from 2017 to 19 but in current FY2020 current ratio is slightly increases. Operating profit improve by the year on year basis. * Depreciation charges rose. * current ratio of the company increases by 0.27 to 0.36. * Debt to equity ratio stable but decline by 2018 to 2019-20. Interest coverage ratio which is 1.42. * Gross profit margin increases year by year. As we can see in **fig (1.6)** Net profit of 2020 is improved which shows growing rate of the company *EPS gone down in 2020

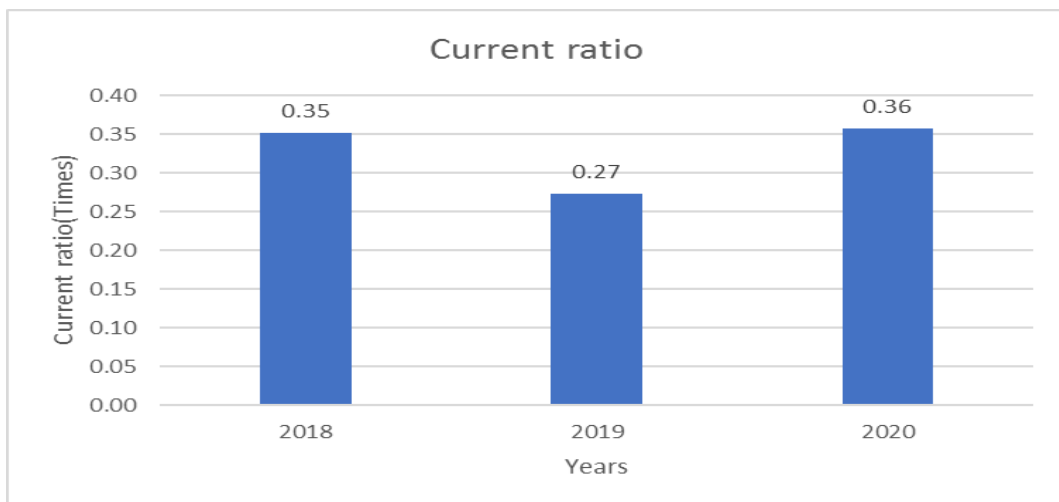


Fig (1.5) table of UCWL current ratio

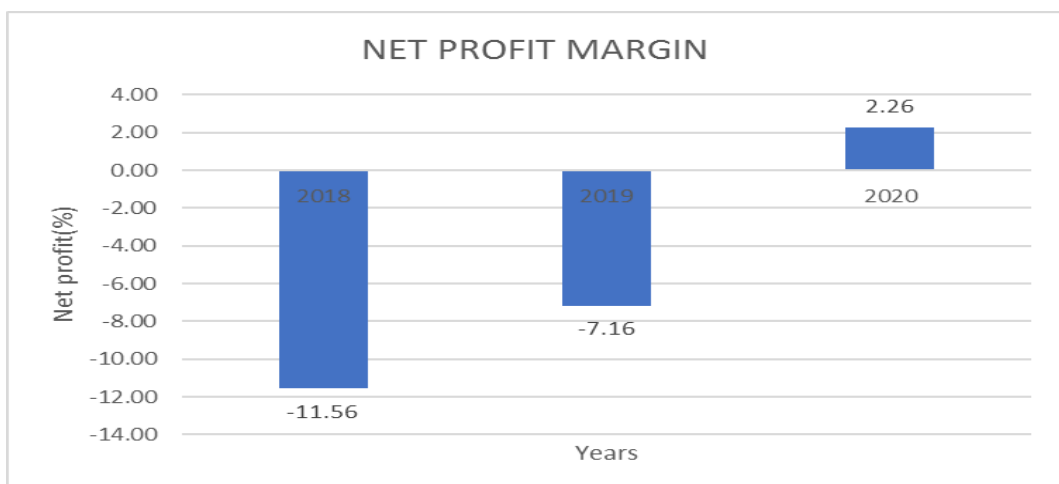


Fig (1.6) table of UCWL net profit margin

2.Ultratech Cement

In UltraTech cement, company's Operating income is rose by 10.3% during the year. *operating profit is increasing by 13 %. Net Profit Margin grown by 6 % this year which is 13.7.* but depreciation increases by this year. Total assets and liability witnessed to grow by 20%. And long-term debt gown down by 2%. Current Ratio of the company is improving by 1.03 but where cash ratio is going down. AS shown in **Fig (1.7)** net profit margin of the company increasing by the year which is 13.42. profitability of the company is growing than previous year which is good sign for paying debt. * Assets turnover ratio shows down fall during the year which is 1.13.

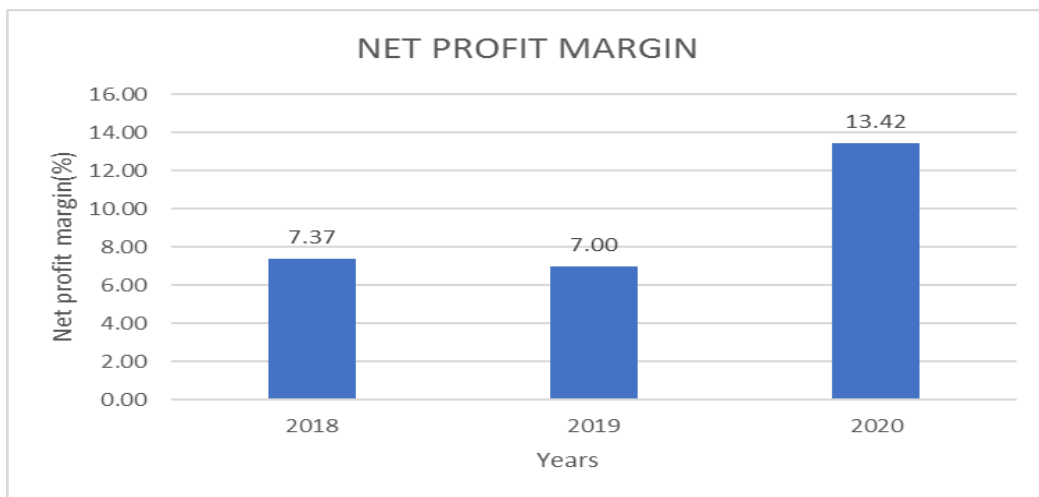


Fig (1.7) table of net profit margin

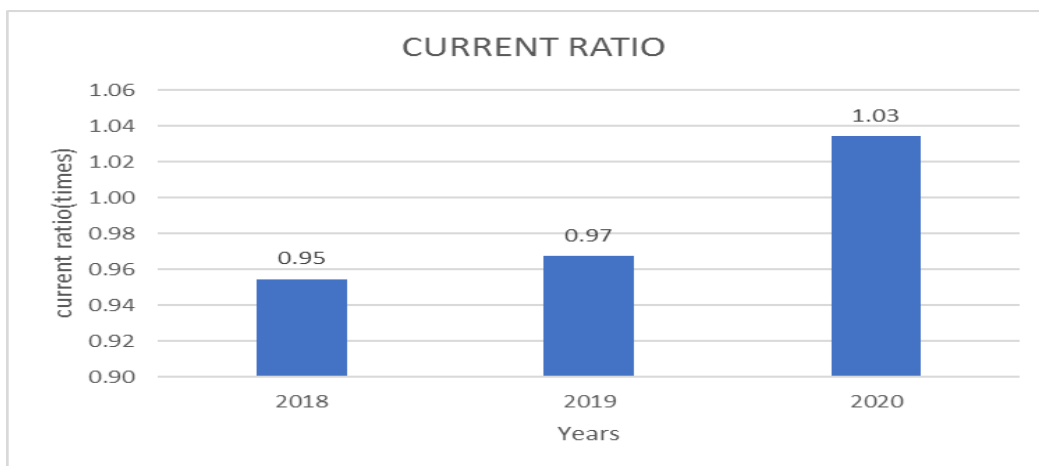


Fig (1.8) table of current ratio

3.Shree Cement

Shree cement's Operating income during the year rose 20%. * Company's operating profit margin increases by 6% over the year. * Depreciation charges in 2020 rose by 1391 to 1699. other income is declined by 35.8%. In **fig (1.9)**, Net profit margin during the year is rose which major upward for growth rate. * Total Assets and liability are witnessed a growth 2% but total current liability is increasing by the year which is not a good sign for solvency of the company. *Major Declining in EPS. As per **Fig (2.0)** current ratio of the company is improving which is good for short-term& long-term obligation. *Interest coverage ratio rose by 1%. * ROCE of the company is declined in 2019 with 9.5 to 15.4 by 2018 and it increases to 12.5 in 2020 again.

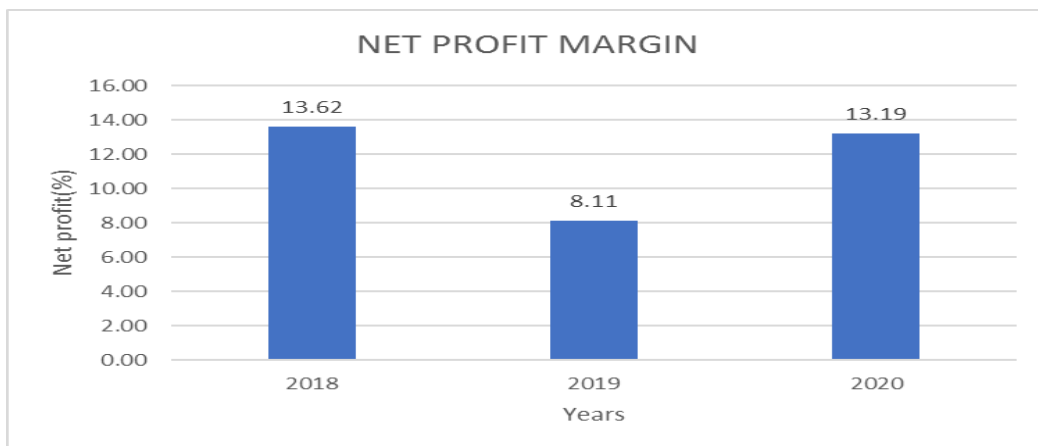


Fig (1.9) table of shree cement net profit margin

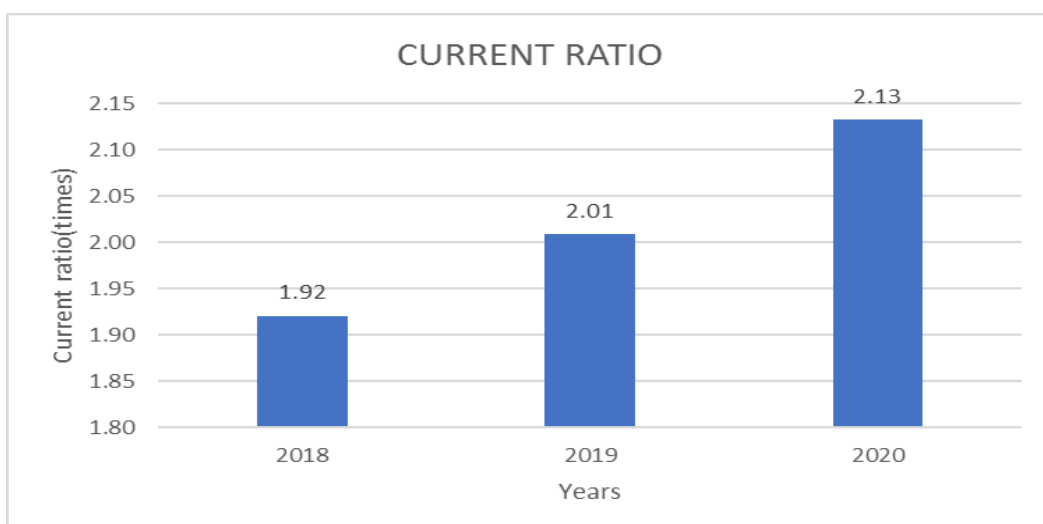


Fig (2.0) table of shree cement current ratio

4. Birla Corp

Birla Corp operating profit is growing by 14%. *Depreciation charges increased with finance cost. *Total assets and total liability witnessed growth 2%. * EPS improved but PE ratio constant. Market cap go down with the price. **Fig (2.2)** shows that the company's current ratio deteriorated and fall 1.6 to 1.4 in 2020. *Interest Coverage ratio improved by .90 to 2.27 times. As we can see that in **fig (2.1)** company's net profit increases by 3% in 2020 * Company's ability to generate profit from its total capital employed is improving because its ROCE IS 6.4 in 2020.

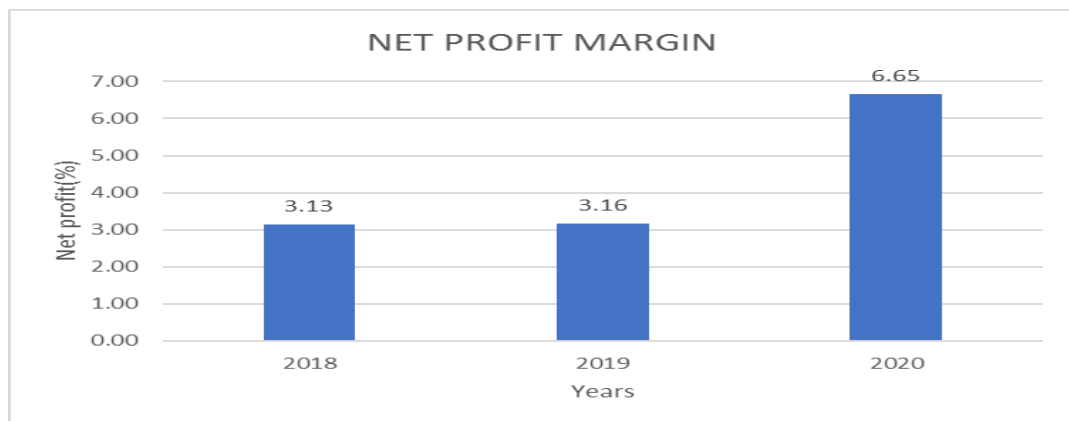


Fig (2.1) table of Birla corp. cement net profit margin

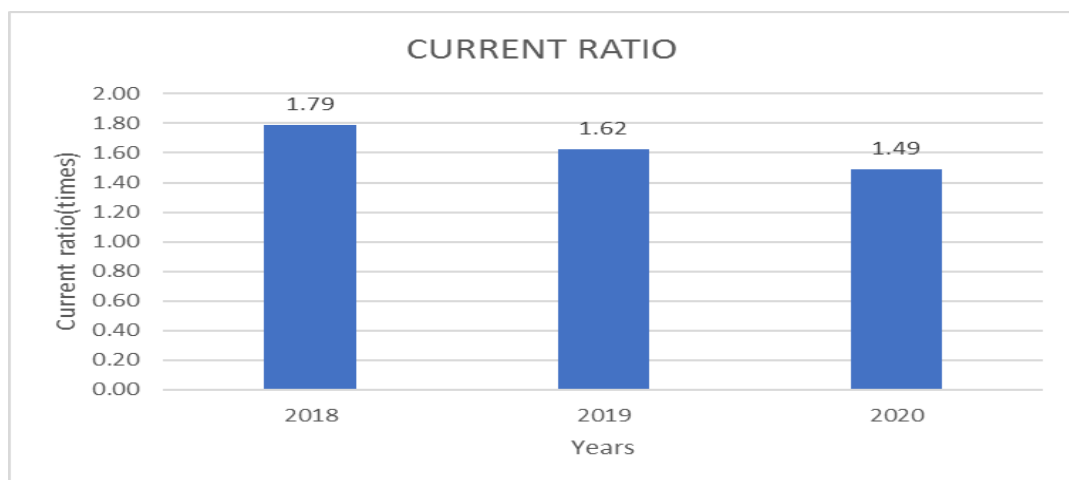


Fig (2.2) table of Birla corp. cement current ratio

5.J K Cement

JK Cement shows that Operating profit during the year rose 8.3% on a year on year basis *operating profit margin witnessed a fall and stood at 16.2% to 15.8% in FY18 to19. the total assets and liability witness 15% growth. As we can see in **fig (2.4)** current ratio of the company is constant and improved. The company's interest coverage ratio also improved by 2.5 to 3.2. which shows how easily company pay its interest expenses or outstanding. Company's ROA is better before previous years. company's ROCE improved by 5% which is good for company's profitability and capital efficiency.

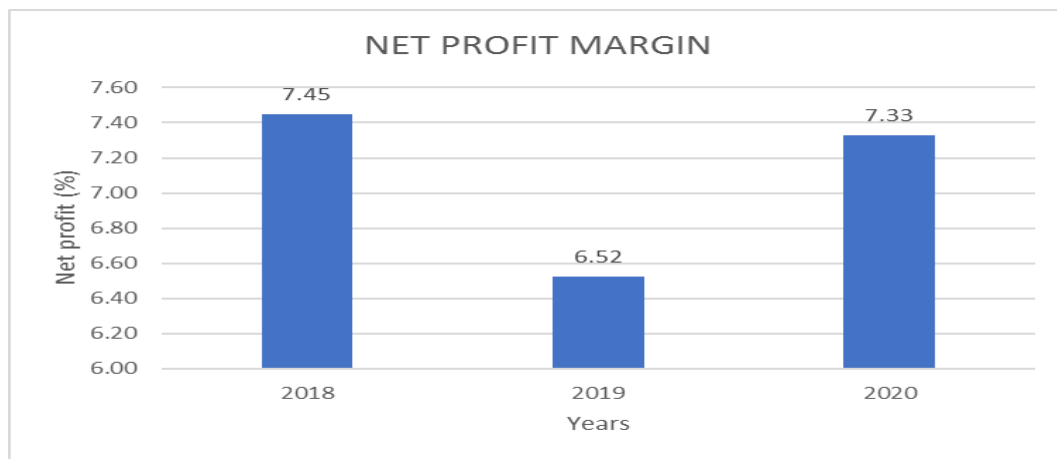


Fig (2.3) table of JK cement Net profit

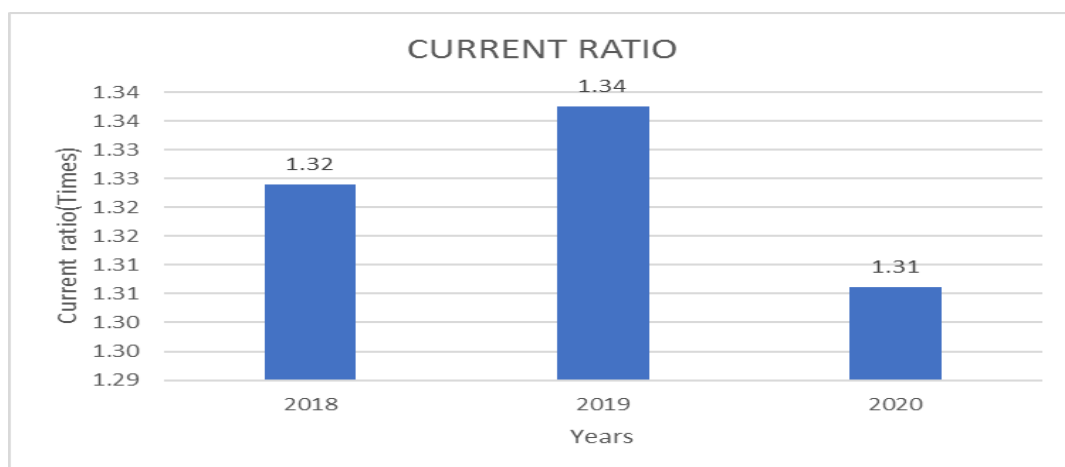


Fig (2.4) table of JK cement Current ratio

Conclusion/Discussion/Observation

FY20 results for most of the cement manufacturers were better than market expectation largely driven by sharp rise in topline owing to rise in realization. Also cost moderation on the back of declining Power & Fuel and Freight cost helped in driving the profitability.

- Indian cement industry facing tough time from demand side and struggling to competitive in world mainly from China. But the cheer movement for cement sector that India's real estate sector will touch \$180 billion by 2020.
- Considering the growing demand for cement in India and higher capacity utilization over the years. Key Indian players have already begun to revisit their business strategies.
- From the above data analysis, it has been found that the two companies (Ultratech and Shree cement) profitability ratio is satisfactory and the two (UCWL and Birla Corp) companies' short term liquidity position is not satisfactory because current ratio and quick ratio is low and secondly (UCWL) Company are not promptly maintained their inventory, investment and debtors.
- Based on this analysis Shree and UltraTech cement is more financially sounds compare to other three companies
- Interest Coverage is in an optimal range during the FY 2019-20. The company is taking strong step to increase the interest coverage ratio.
- UCWL working towards improving on the liquidity front and there is ample scope for them to do so (like Improve on debtor collection period, Etc.)
- In the past years company faced loss continuously but during this year (2020) company set back to being on track again which is good sign for the company.

- As per the analysis shows that the net profit ratio of UCWL shows increasing trend. It increased in the current year compared with the previous year.
- Now with the cost reduction initiatives of the company coupled with the improvement in demand and realisation, profitability has started to improve from the start of FY 2018.

Recommendations

Given the size and scale of operations, UCWL has been trying to create a niche for itself and sustaining in a highly competitive environment, so following recommendations are here;

- UCWL needs to increase its market share.
- UCWL needs to increase its scale of operation so it gets benefit to economy of scale.
- Improve their Paying creditors upfronts and negotiate for discounts.
- If they follow the market trends, then they can deliver and, they should reduce the cost.
- Improving debtor's collection period. This will have direct positive impact in improving working capital management.

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