

# **Evaluation of UltraTech Cement Ltd.'s Working Capital Performance: An Empirical Investigation**

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## **Abstract:**

This study looks at UltraTech Cement Ltd.'s performance with respect to working capital from 2019-20 to 2023-24. Descriptive statistics were utilized to compute the mean, standard deviation, and coefficient of variation in order to analyze the working capital performance of a chosen organization.

Over the five-year period from March 2020 to March 2024, the financial ratios of the company present a mixed picture, reflecting various strengths and areas of concern. Here's a detailed conclusion based on the analysis of profitability, liquidity, debt, and efficiency ratios.

## **Introduction:**

Working capital is intended to sustain an organization's daily, regular activities. Material, salaries, and expenses—the three major components of cost—are produced by this operating capital. In the case of a manufacturing company, this cost typically results in both production and sales; in other cases, it results just in sales. The fund used as working capital is unique in that it is characterized by a perpetual state of transformation to propel the firm forward. It is also referred to as "circulating capital," which refers to current assets of a business that are converted from one form to another during regular business operations.

There are essentially two different kinds of working capital concepts. They are the concepts of the operational cycle and the balance sheet. The balance sheet concept defines working capital as the difference between total current liabilities and total assets, or gross working capital, which is the total of current assets. However, the operating cycle idea states that working capital is intended to fund all of the operational operations of the firm and deduct that amount. In this case, the operating cycle is the length of time that an investment of one unit of money will be prohibited from being used in the regular course of business until income is recovered.

It is typically observed that profitability and liquidity have a negative relationship at all times. Nonetheless, it is undeniable that output and sales cannot be sustained beyond a certain point in the absence of a minimum level of investment in the current assets. As a result, one complements the other. Profit is increased by maintaining a strong liquidity position, provided that the set level of liquidity fits the needs of the company.

### **Objective of research:**

When assessing a company's strength, working capital performance is crucial. Solvency and profitability are working capital management's primary goals. A sufficient amount of working capital enables a business to benefit from operational flexibility. The primary goal of working capital management is to achieve a balance between profitability and liquidity. The research paper's goal is to demonstrate how working capital affects the chosen company's performance over the course of the investigation. The key ratios for the chosen company have been implicated in an examination of working capital performance.

### **Hypothesis:**

The following is a description of the research paper's hypothesis. The null hypothesis states that the chosen company's working capital performance remains unchanged. The study is predicated on these hypotheses, which are as follows:

H0: The working capital performance of the chosen company remains unchanged.

H1: The working capital performance of the chosen company has changed.

### **Research's utility:**

This research will contribute to the body of knowledge regarding working capital performance. Additionally, the study makes an effort to analyze the many ratios that are closely related to working capital. Our study's conclusions can be applied by manufacturing companies as well as other organizations to enhance their financial performance and address the nation's financial issue.

### **Literature review:**

In 1993, Varma H.L. completed a doctoral thesis titled "Working capital management in the electronics industry in India." There were seven chapters in the thesis. The majority of the secondary data used in the study came from company annual reports that had already been released. These information was gathered from newspapers and monthly publications. The current investigation spans a ten-year (10) period. Tools and techniques employed included ratio analysis, average, mean, coefficient of variation, coefficient of correlation, coefficient of determination, trend analysis, and linear regression model.

Vataliya K.S. completed a Ph.D. thesis in 1996 with the title "Management of working capital in Indian industry." The study's primary source of secondary data is the annual published reports of the various corporations, as well as the official data directory of the various companies maintained by the BSE. The study was conducted over a ten-year period (1980–1981 to 1993–1994). The accounting techniques employed in this study were ratio analysis and trend analysis, while the statistical techniques were coefficient of variation and average.

"A study on the management of working capital in a sample of Indian pharmaceutical companies" Uday Chand Das completed a doctoral thesis in 2002. He made use of secondary data gathered from journals, OPPI reports, Capital Line 2000, CMIE reports, and other sources. His study span ten years, from 1991–1992 to 2000–2001, and it was broken up into eight chapters. He employed a number of ratios in his research.

In 2007, Vipin Kumar completed a doctoral thesis titled "Analysis of working capital management in India." There were eight chapters in the thesis. For the study, secondary data were employed. The official stock exchange directory, corporate financial statistics of the RBI, the economic survey, the annual reports of the chosen enterprises, and the publication of the automobile tire manufacturers association were the sources of the data. The study's ten-year timeframe runs from 1995–1996 to 2004–2005. For the investigation, ten businesses were chosen. Ratio analysis, average, standard deviation, analysis of variance, growth rate, and average growth rate were the instruments employed in the study.

The 2009 doctoral thesis "Working capital management of Indian automobile industry" was completed by Mr. N. Pasupathi. Secondary data was gathered for the study. The study included a 15-year span, from 1992–1993 to 2006–2007. He chose seventeen businesses to investigate. For the investigation, he employed the following methods: ratio analysis, mean, T test, simple growth rate, trend analysis, coefficient of determination, co-relation coefficient, and chi-square test. He used secondary data from the internet, media, reports on money and finance, the official BSE directory, the CMEI magazine, and the annual industry survey.

Mr. Parveen Kumar Gautam completed a Ph.D. thesis in 2011 with the title "Working capital management of cement industry - a case study of Ambuja Cement Company limited." The six chapters that comprised the thesis were written between 1995–1996 and 2009–2010. Only secondary data, gathered from websites, periodicals, magazines, and the annual reports of the chosen companies, was used for this investigation. For the investigation, ten businesses were chosen. The study employed skewness, exponential growth rate, zero order correlation, trends analysis, indices, F test, average, mean, minimum, maximum, standard deviation, coefficient of correlation, Analysis of Variations, cash flow, ratio analysis, and zero order correlation as methods.

### **Example Style:**

One of the top companies in the Indian cement industry, Ultratech Ltd., was chosen to be the subject of the investigation.

### **Information Source:**

The published annual reports of the chosen company have provided the data needed to finish the study.

### **Study Period:**

Based on the data that is currently available, we have selected a study period that runs from 2019–20 to 2023–24.

### **Tools and Technique of data analysis:**

According to the needs of the study, the data gathered from the chosen company's five years of published annual reports have been appropriately rearranged, sorted, and calculated.

### **Performance of Working Capital for the Selected Company:**

Ratio analysis is the approach used to examine the working capital performance of the chosen organization. The following ratios are taken into consideration:

**Table 1 lists the ratios that were taken into account while evaluating working capital performance.**

| Performance Drivers           | Performance Measures  |
|-------------------------------|---|
| Current Ratio                 | Current Assets ÷ Current Liabilities                              |
| Quick Ratio                   | (Current Assets – Stock) ÷ (Current Liabilities – Bank Overdraft) |
| Gross Profit Margin (%)       | (Gross Profit / Net Sales) * 100                                  |
| Net Profit Margin (%)         | (Net Profit / Net Sales) * 100                                    |
| Debt to Equity Ratio          | Total Debt / Shareholders' Equity                                 |
| Interest Coverage Ratio       | EBIT / Interest Expense   |
| Current Assets Turnover Ratio | Sales ÷ Current Assets  |

- **Current Ratio:** Indicates the ability to pay short-term obligations with short-term assets.
- **Quick Ratio:** Shows the ability to pay short-term obligations with assets that can quickly be converted to cash.
- **Gross Profit Margin (%):** Measures profitability after deducting the cost of goods sold.
- **Net Profit Margin (%):** Measures profitability after deducting all expenses including taxes.
- **Debt-to-Equity Ratio:** Shows the proportion of debt used to finance the company's assets relative to shareholders' equity.
- **Interest Coverage Ratio:** Measures the company's ability to cover interest expenses with operating income.
- **Current Assets Turnover Ratio:** Measures how effectively current assets are used to generate revenue.

### Alternative Techniques

In addition to the aforementioned, the study employed basic statistical metrics such as mean, standard deviation, and coefficient of variation.

### Converting information from data

the data was analyzed using Microsoft Excel 2007.

## Examination of UltraTech Cement Ltd.'s working capital performance.

The following Table 2 displays the ratios that were chosen for this purpose:

| Ratio/Year                    | 2023-24 | 2022-23 | 2021-22 | 2020-21 | 2019-20 | Mean   | S.D. | Co-efficient of Variation |
|-------------------------------|---------|---------|---------|---------|---------|--------|------|---------------------------|
| Current Ratio                 | 0.7     | 0.82    | 0.87    | 0.72    | 0.91    | 3.29   | 0.09 | 0.03                      |
| Quick Ratio                   | 0.49    | 0.58    | 0.64    | 0.57    | 0.75    | 2.43   | 0.10 | 0.04                      |
| Gross Profit Margin (%)       | 57.98   | 49.22   | 55.62   | 61.28   | 58.48   | 235.80 | 4.55 | 0.02                      |
| Net Profit Margin (%)         | 10.06   | 8.02    | 13.95   | 12.37   | 13.41   | 47.08  | 2.48 | 0.05                      |
| Debt to Equity Ratio          | 0.16    | 0.17    | 0.2     | 0.34    | 0.47    | 0.96   | 0.13 | 0.14                      |
| Interest Coverage Ratio       | 15.24   | 14.09   | 14.45   | 9.25    | 5.28    | 54.09  | 4.27 | 0.08                      |
| Current Assets Turnover Ratio | 4.73    | 3.93    | 3.77    | 3.64    | 4.05    | 16.88  | 0.42 | 0.03                      |

Source: Published Annual Reports of UltraTech Cement Ltd. (2019-20 to 2023-24)

These ratios together provide a comprehensive view of the company's financial health and performance over the five-year period.

## Profitability Ratios

Profitability: The Company experienced some fluctuations in profitability, with a notable dip in gross and net profit margins in March '23, but these ratios improved in March '24.

- **Gross Profit Margin (%):**

Definition: Indicates the percentage of revenue that exceeds the cost of goods sold (COGS). It measures how efficiently a company is producing its goods.

Calculation:  $(\text{Gross Profit} / \text{Revenue}) * 100$

Interpretation: Higher percentages indicate better efficiency in production and higher profitability from core operations.

Trend: The gross profit margin fluctuated, with a significant dip in March '23 but a strong recovery in March '24. This suggests varying production efficiency or changes in costs.

Gross Profit Margin: Experienced a significant dip in March '23 but recovered strongly in March '24, indicating that the company faced some challenges in managing production costs in March '23 but managed to address these issues effectively by March '24.

- **Net Profit Margin (%):**

Definition: Shows the percentage of profit remaining after all expenses (including taxes and interest) are deducted from revenue.

Calculation:  $(\text{Net Profit} / \text{Revenue}) * 100$

Interpretation: Higher percentages indicate better overall profitability and cost management.

Trend: There were fluctuations over the years, with a low in March '23 but an increase in March '24, indicating variability in overall cost control and revenue generation.

Net Profit Margin: Similarly, the net profit margin showed variability, with a notable decrease in March '23 followed by an improvement in March '24. This suggests the company had issues with overall cost control and profitability in March '23 but improved its financial performance by the following year.

## Liquidity Ratios

Liquidity: Both the current and quick ratios showed a declining trend, suggesting a potential decrease in liquidity and ability to meet short-term liabilities.

- **Current Ratio:**

Definition: Measures a company's ability to pay short-term obligations with short-term assets.

Calculation:  $\text{Current Assets} / \text{Current Liabilities}$



Interpretation: A ratio above 1 indicates good liquidity, while a ratio below 1 suggests potential liquidity problems.

Trend: The current ratio generally declined, indicating potential reductions in liquidity and a decreasing ability to cover short-term liabilities with short-term assets.

Current Ratio: There was a general decline in the current ratio over the period, indicating a decrease in the company's ability to cover short-term liabilities with short-term assets. By March '24, the ratio was 0.70, suggesting potential liquidity issues.

- **Quick Ratio:**

Definition: Measures a company's ability to meet short-term obligations with its most liquid assets (excluding inventory).

Calculation:  $(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$

Interpretation: A ratio above 1 is favorable, indicating good short-term financial health.

Trend: The quick ratio also showed a consistent decline, suggesting a decrease in the company's ability to meet short-term obligations without relying on inventory sales.

Quick Ratio: Mirroring the current ratio, the quick ratio also declined, dropping to 0.49 by March '24. This reinforces concerns about the company's short-term financial health and its ability to meet immediate obligations without relying on inventory sales.

## **Debt Ratios**

Debt: The debt-to-equity ratio decreased, indicating reduced reliance on debt, while the interest coverage ratio improved, showing better ability to cover interest payments.

- **Debt-to-Equity Ratio:**

Definition: Indicates the proportion of equity and debt used to finance a company's assets.

Calculation:  $\text{Total Debt} / \text{Total Equity}$

Interpretation: Lower ratios indicate less reliance on debt financing and potentially lower financial risk.

Trend: The ratio decreased over the period, indicating a reduced reliance on debt financing, which can be seen as reducing financial risk.

Debt-to-Equity Ratio: The ratio decreased significantly from 0.47 in March '20 to 0.16 in March '24, showing a reduced reliance on debt financing. This indicates a shift towards a more equity-financed structure, reducing financial risk and potential interest burdens.

- **Interest Coverage Ratio:**

Definition: Shows how easily a company can pay interest on outstanding debt.

Calculation: Earnings before Interest and Taxes (EBIT) / Interest Expenses

Interpretation: Higher ratios indicate better ability to cover interest expenses.

Trend: There was a significant improvement, suggesting the company's increasing capability to cover its interest expenses from operating earnings.

Interest Coverage Ratio: Improved consistently, reaching 15.24 in March '24. This suggests the company has become increasingly capable of covering its interest expenses, indicating strong earnings relative to interest obligations.

## Efficiency Ratios

Efficiency: The current assets turnover ratio increased, indicating better efficiency in using current assets to generate revenue.

- **Current Assets Turnover Ratio:**

Definition: Measures how efficiently a company is using its current assets to generate revenue.

Calculation: Revenue / Current Assets

Interpretation: Higher ratios indicate more efficient use of current assets.

Trend: The ratio increased, indicating improved efficiency in utilizing current assets to generate revenue over the years.

Current Assets Turnover Ratio: Increased over the period, reaching 4.73 by March '24. This indicates that the company has become more efficient in utilizing its current assets to generate revenue, reflecting improved operational efficiency.

## Conclusion and limitations

Over the five-year period from March 2020 to March 2024, the financial ratios of the company present a mixed picture, reflecting various strengths and areas of concern. Here's a detailed conclusion based on the analysis of profitability, liquidity, debt, and efficiency ratios:

Strengths: The Company has shown resilience in improving its profitability after a dip in March '23. It has also strengthened its financial structure by reducing reliance on debt and significantly improving its interest coverage ratio. Additionally, the company has become more efficient in utilizing its current assets.

Concerns: Despite improvements in some areas, the declining current and quick ratios raise concerns about the company's short-term liquidity and its ability to cover immediate liabilities.

Overall, while the company has demonstrated robust recovery and efficiency improvements, it needs to address liquidity issues to ensure sustained financial health and stability.

## Suggestions

Based on the analysis and conclusion of the company's five-year financial ratios, here are some suggestions to address the identified strengths and concerns:

### Profitability Improvements

#### 1. Cost Management:

Recommendation: Implement stricter cost control measures to maintain or improve the gross profit margin. Regularly review production costs and negotiate better terms with suppliers.

Action: Conduct a thorough cost analysis to identify areas of inefficiency and potential cost-saving opportunities. Introduce cost-effective technologies and optimize the supply chain.

#### 2. Revenue Enhancement:

Recommendation: Focus on increasing revenue through market expansion, product diversification, and enhanced marketing strategies.

Action: Invest in market research to identify new opportunities and customer needs. Enhance marketing efforts to increase brand visibility and customer acquisition.

### Liquidity Improvement

#### 3. Improve Current and Quick Ratios:

Recommendation: Enhance liquidity by managing current liabilities and increasing current assets.

Action:

Current Liabilities: Negotiate better payment terms with creditors to extend payment periods.

Current Assets: Accelerate the collection of receivables, manage inventory more efficiently, and possibly increase cash reserves.

#### 4. Cash Flow Management:

Recommendation: Strengthen cash flow management to ensure sufficient liquidity for operations.

Action: Implement a detailed cash flow forecast and monitor it regularly to anticipate and address potential shortfalls. Explore short-term financing options if needed.

## **Debt Management**

### **5. Maintain Low Debt Levels:**

Recommendation: Continue to keep the debt-to-equity ratio low to minimize financial risk.

Action: Avoid unnecessary borrowing and finance growth through retained earnings or equity financing when feasible. Maintain a balanced capital structure.

### **6. Enhance Interest Coverage:**

Recommendation: Further improve the interest coverage ratio to ensure financial stability.

Action: Increase earnings before interest and taxes (EBIT) through cost-cutting and revenue-enhancing measures. Consider refinancing high-interest debt to lower interest expenses.

## **Efficiency Optimization**

### **7. Maximize Asset Utilization:**

Recommendation: Continue to improve the current assets turnover ratio by maximizing the efficiency of asset utilization.

Action: Regularly review asset utilization to identify underperforming assets. Invest in technology and training to improve operational efficiency.

### **8. Inventory Management:**

Recommendation: Optimize inventory levels to reduce holding costs and improve liquidity.

Action: Implement inventory management techniques such as Just-In-Time (JIT), and use data analytics to forecast demand more accurately.

## **Overall Strategic Initiatives**

### **9. Risk Management:**

Recommendation: Develop a comprehensive risk management strategy to mitigate financial and operational risks.

Action: Regularly review and update risk management policies. Establish contingency plans for potential financial disruptions.

### **10. Continuous Monitoring:**

Recommendation: Implement ongoing financial monitoring to track performance and make timely adjustments.

Action: Use financial dashboards and key performance indicators (KPIs) to continuously monitor financial health. Hold regular review meetings to discuss financial performance and strategic adjustments.

By implementing these suggestions, the company can address its liquidity concerns, maintain low debt levels, improve profitability, and optimize efficiency, thereby ensuring sustained financial health and growth.

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