

Equity Market Research of Ambuja Cements Limited

Syed Kashif Karim

Student, Indira School of Business Studies PGDM, Pune

Corresponding Author: Prof. Puneet Bafna

Assistant Professor, Indira School of Business Studies PGDM, Pune

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ABSTRACT: Financial Management or financial literacy has become a necessity in today's time. This study aims to study the nature of stock market and how the prices of a stock market is determined. Only 5% of the Indian population is active at trading in Stock Market. 90% of traders do not use the techniques or charts properly, instead they do it on basis of news or information that is not factual. The study will help amateur traders to learn the right way of investing money which gives them higher return. It also includes various tools and techniques which would help amateur investors or traders in understanding the basics of how stock market works. The research paper analyses various aspects of Ambuja Cements Ltd. With the help of ratios, P&L, Balance sheet of the company etc.

CHAPTER 1. INTRODUCTION

In a country like India where most of its population is youth, trading or investment in stock market has seen an immense growth in the recent few years. Today the world is growing rapidly and with the growing economy, it has almost become important to learn basic financial management. Every individual should have a second source of income along with their primary income. Stock market is a place where one can earn money from their money.

Earlier there were many misconceptions about the stock market that very few people wanted to invest their money in the market. But today, this concept has been changed by young population of the country as well as by elderly people who are trained in this field or have basic knowledge on how to manage their finances in a way that would maximize their wealth. Financial Management or financial literacy has become a necessity in today's time as it safeguards an individual from frauds. It also helps a person to plan their future or prepare in case of emergency.

Stock Market is a place where shares of the companies are traded. It is the place where the buyers and sellers of the stocks meet. Stock Market

is a highly volatile and it needs months and years of training to understand the trends of the market. Stock Market is a place where there are low to high risk involved as per the market conditions. The stock prices and profits also depend on company to company. Learning and practicing in stock market trading or investing takes time. Learning is an integral part of investing or trading as it helps a person to make sound financial decision rather than playing their moves on instincts.

This research study aims to study the nature of stock market and how the prices of a stock market is determined. It also includes various tools and techniques which would help amateur investors or traders in understanding the basics of stock market.

This study also analyses Ambuja Cements Ltd. through various tools and techniques such as Ratio Analysis, SWOT analysis, Porter's Five Forces etc.

OBJECTIVES OF THE STUDY

- To do the fundamental analysis of scrips of Ambuja Cements Ltd.
- To analyse the financial position of the company by using ratios, P&L statement, Balance sheet.
- To analyse company's position in the industry by using Porter's Five Forces and SWOT analysis.

HYPOTHESIS

- Ambuja Cement is an old player in the field of cement manufacturing industry which makes it profitable in the long run.
- Profit or loss of Ambuja Cements might have been affected by Covid-19 and lockdown in 2020.
- More than 90% of the traders do not use the techniques or charts properly, instead they do it on basis of news or information that is not factual (i.e., Unqualified influencers on social media or youtubers, financial scammers, who claims to double the money in just a month.)

SCOPE OF THE STUDY

- This study will be beneficial for Indian population who do not possess any financial literacy and falls for the scams rather than investing their money in the right place.
- This study will also help amateur traders to learn the right way of investing money which gives them higher return.

LIMITATIONS

- Stock Market is unpredictable because of its volatile nature. Therefore, this study is limited to analysis of 3 years which could not explain how the company will perform in future.
- There are various tools and techniques to analyse a particular stock, which could not be used for every other stock.
- Prices of stocks majorly depend on two things in today's time. First political impact/market fluctuations or Social Impact, i.e., single social media could lead to change in price of the stock.

RESEARCH METHODOLOGY

This study includes research of Indian stock market, various tools, techniques used on these platforms and various trends that have occurred over the period in the markets. This study is based on Secondary Data analysis. Data is taken from the

internet, company's financial reports, online articles, online journals etc.

CHAPTER 2. EQUITY MARKET RESEARCH Company: Ambuja Cements Ltd.

Ambuja Cements Ltd. is a major Indian cement manufacturing company which is widely popular in both domestic and international markets. It was founded in 1983 by Sureesh Kumar Neotia (Founder) and NarotanSekhsaria (Co-Founder) and it is headquartered in Mumbai, India.

History & Milestone:

- In 1987, they open their first manufacturing plant in Ambujanagar, Gujarat.
- Between the year 1996-1997, they have achieved the highest ever export capacity by an Indian cement company.
- Between the 2000-2001, they open another manufacturing plant at Chandrapur district, Maharashtra with the two million tons of capacity.
- In the year 2009, Ambuja cement Ltd took the initiative to open a Ambuja Knowledge Center for inducing the professional knowledge of the world of cement and concrete industry.
- In the year 2010, company inaugurated another plant at Nalagarh, Himachal Pradesh with the capacity of 1.5 million tones.

TECHNICAL ANALYSIS

FIGURE 1. P&L:

QUARTERLY ANNUAL	FY 2020	FY 2019	FY 2018
Total Revenue	24,965.76	27,684.29	26,412.38
Total Revenue Growth (%)	-9.82	14.82	110.37
Total Expenses	20,812.60	23,828.95	23,354.59
Total Expenses Growth (%)	-12.66	12.03	110.29
Profit after Tax (PAT)	2,365.44	2,095.00	2,777.40
PAT Growth (%)	12.91	-1.71	143.99
Operating Profit Margin (%)	17.51	14.85	12.39
Net Profit Margin (%)	9.64	7.72	8.36
Basic EPS (₹)	11.91	10.55	10.97

Findings

- Total revenue has increased by 4.82% in FY2019 but in FY2020 that growth has declined by -9.82%.
- Same is the case with the total expenses as it has increased by 2.03% in FY2019 but in the FY2020 that growth has decline by -12.66%.
- Although, in the case of PAT (Profit after tax) it's totally opposite that it has declined by -

3.78% in the FY2019 but in the FY2020 it has increased by 12.91%.

- An increasing Operating profit margin is good for company and here it shows that in both the financial years it is increasing by 14.85% & 17.51 in the FY2019 & FY2020 respectively.
- Here the Net Profit Margin is doing average work as it is under the 10% in all the financial

years as 7.72% & 9.64% in the FY2019 & FY2020 respectively.

- EPS has slightly increased by Rs. 1.36 in the FY2020 as compared to FY2019.

Analysis

- Decline in Total Revenue and Total Expenses could be due to the Covid-19 outbreak as all the manufacturing units had to be shut down as per the government's guidelines.

- This has resulted in less expense and more revenue which has led to the growth in Profit after Tax.
- Since the company's EPS is increasing, it's a positive sign for the organization, as it indicates that the company is profitable, and the shareholders of the company are more secured.

FIGURE 2. Balance Sheet:

ANNUAL	FY 2020	FY 2019	FY 2018
Total Assets	39,720.70	40,182.34	37,340.73
Total Assets Growth (%)	-1.15	17.61	15.35
Total Liabilities	10,622.21	10,367.59	9,739.06
Total Liabilities Growth (%)	2.46	6.45	-4.82
Total Equity	29,098.49	29,814.75	27,601.67
Total Equity Growth (%)	-2.40	8.02	19.18
Current Ratio (x)	1.38	1.58	1.48
Total Debt to Equity (x)	0.00	0.00	0.00
Contingent Liabilities	7,987.02	7,02.69	5,881.56

Findings

- Total asset has increased in the FY2019 by 7.61% but in the FY2020 it has declined by -1.15%.
- Whereas the total liabilities are growing in both the years by 6.45% & 2.46% in FY2019 & FY2020 respectively.
- In the case of Total Equity, its growing in FY2019 by 8.02% but in the FY2020 its declining by -2.40%.
- A good current ratio is between 1.5-2 and here it shows a good current ratio in the FY2019 as 1.58 but in the FY2020 it has declined to 1.38.

Analysis

- Growth in asset shows that a company is growing, and a decline could be due to company abandoning its old assets or selling it.
- An increase in liability shows that the company is getting funds and its cash inflow is increasing.
- Increase in total equity could be due to increase in company's retained earnings or donations received by the company. While the decline could be due to loss in company's profit.
- Overall, the current ratio of the company is good which indicates it could pay off its liabilities with assets in the short run during these 3 years.

FIGURE 3. Ratios:

ANNUAL	FY 2020	FY 2019	FY 2018
Return on Equity (%)	10.39	8.70	9.73
Return on Capital Employed (%)	14.09	12.93	10.15
Return on Assets (%)	5.95	5.21	5.83
Interest Coverage Ratio (x)	30.62	23.70	18.93
Asset Turnover Ratio (x)	61.72	67.45	69.73

Findings

- A good ROE is always between the 15-20% bracket and here it shows 8.70% & 10.39% in the FY2019 & FY2020 respectively which means that it is giving the average return on the company's equity.
- A normal ROCE lies around 10% and here it shows 12.93% & 14.09% in the FY2019 & FY2020 respectively which means that the ROCE of company is good.
- A good ROA is considered as 5% and here its 5.21% & 5.95% in the FY2019 & FY2020 respectively.
- A minimum of 2 or 3 is considered as a good Interest Coverage Ratio and here it's spectacularly good 23.70 & 30.62 in the FY2019 & FY2020 respectively.
- A good Asset Turnover Ratio is considered as 2.5 or more and here its 67.45 & 61.72 in the FY2019 & FY2020 respectively which is plenty.

Analysis

- The ROE ratio of the company is low which could be due to company's mismanagements, or the company might be trying to reinvest into unproductive assets.
- The ROCE of the company is good which indicates that the company's profit could be reinvested for the benefits of the shareholders.
- The company has more than normal range of ROA which shows that the company's asset is generating good revenue.
- The Interest Coverage Ratio is exceptionally high which shows that the company is very much capable in paying its debt. This ratio is also beneficial for the company when taking loans as it gives a hint to the creditors that their money is going into a secured hand.
- The Asset Turnover Ratio of the company is extremely high which shows that the company is generating huge revenue through its assets.

Thus, the company is using its assets efficiently.

SWOT ANALYSIS

STRENGTHS

1. One of the earliest cement manufacturing industry in India.
2. It has an experience of far more years than its competitors.
3. Strong revenue growth along every year.
4. Company is listed on both NSE and BSE.

WEAKNESSES

1. It has limited number of global reaches as compared to other competitors.
2. Major weakness of the company is that it only deals in cements.
3. From the above point it also affects the investors and customer because other competitors deal in various other products apart from cement industry.

OPPORTUNITIES

1. The Indian government is now promoting the manufacturing in the country, which will eventually help in the growth of the business.
2. Increase in global export business can impact the business in whole new level.

THREATS

1. Facing strong competition from domestic and international market.
2. There is tough competition from the global markets because it can impact the business in both domestic and international market.

PORTER'S FIVE FORCES OF AMBUJA CEMENTS LTD.

Threats of new entrants:

- If the brand loyalty or goodwill in the market is weak, then consumers can indisputably switch between the brands.

- Entry of new players can be easy because of existing government regulations.
- Initial capital investment will be on the higher side.

Threats of substitute product or services:

- A cheaper product or service is always available from the competitor industries.
- Sometimes substitute products or services are in a more superior quality than its competitions.

Rivalry among existing firms:

- This industry is growing fast day by day.
- Limited number of players in the market as initial cost is on the higher side.
- The exit barriers are low in this industry, which means that any company can easily backout from the business without incurring heavy losses.

Bargaining power of suppliers:

- Because of substitute products are available in the market.
- In this industry differentiation of the products are nil.
- There is no danger of forward coordination by providers.

Bargaining power of buyers:

- Switching cost between the different products are low.
- When comes to cement products, consumers are highly price sensitive.

CHAPTER 5. CONCLUSION

- Ambuja cements ltd. has been a profitable company in accordance with the analysis. It also provides efficient returns on its assets which shows that the company is managing its assets properly. During the year 2020 there has been seen decline in various aspects such as total revenue and total expenses. These declines have happened for an obvious reason as in the beginning of the year 2020, when Covid-19 outbreak started. All the manufacturing units were shut down due to lockdown and very few productions took place which led to less expenses. Due to the lockdown, the construction work also stopped which has mainly affected the total revenue of the company.
- Despite not earning much revenue in 2020 the company managed to be profitable as the Interest coverage ratio and asset turnover ratio

shows a great result throughout the 3 years. Therefore, technical analysis and ratio analysis shows that the company is growing and it's profitable with being capable of paying off its debt in the future.

- Ambuja cements is among the oldest cement manufacturing companies with many years of experience and a strong revenue growth and is mentioned in both NSE and BSE. Despite having a strong revenue growth, the investors and customers are affected as the company only deals in cement industry whereas other competitors deal in various products. The Indian government is expanding the manufacturing which will be a boost to the business along with global export business. The global market can affect the business both domestically and internationally as there is much competition in the market.
- Brand loyalty and goodwill should be good as it can risk losing consumers. Government regulations have made it easy to have new competitors. A few competitors give product at a cheaper rate and with superior quality which can result in less consumers. Due to initial cost being high, there are limited number of players in the market and the exit barriers are low which means backout won't cause heavy losses to the company. Substitute products are easily available and the difference between the products is little to no. Substitute cost is low between products. People tend to be price sensitive to cement products.
- To conclude this research study, it can be said that **Ambuja Cement's stock is profitable in the long-run**, and it is felicitous for an individual to invest in such type of stock. It would give a high return in the future while being on the safer side. While it can or can't be suitable to trade depending on the market conditions as the stock market is always fluctuating.

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