

## AN ANALYTICAL STUDY ON TRADING ON EQUITY AND PROFITABILITY WITH REFERENCE TO ULTRATECH CEMENT

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### Abstract

The present study aims at analyzing trading on equity and profitability of UltraTech cement. For this purpose, the researcher has used secondary data from the company's annual reports and related websites. Period for the study is 2019-20 to 2022-23. Ratio analysis has been used as accounting tool and correlation and regression analysis have been used as statistical tool. The results revealed that trading on equity has a significant association with profitability either in positive or negative way.

**Key words:** Profitability, Trading on equity, Cement, UltraTech, Profitability ratio, Financial leverage

### Introduction

Trading on equity, also known as financial leverage, is a financial tactic where a company utilizes borrowed capital—such as bonds, debentures, loans, or preferred stocks—to enhance the profits of equity shareholders. This strategy aims to generate earnings through investments funded by debt that surpass the interest costs associated with the loans. In financial management, this approach involves acquiring debt in the form of bonds, debentures, loans, or preferred stocks. Companies adopt this strategy with the objective of increasing the return on investment for equity shareholders. The borrowed funds, sourced from bonds, debentures, loans, or preferred stocks, are employed to acquire assets for the company. The intention is to generate revenue from these assets that exceeds the overall cost of the borrowed funds. Companies opt for this financing method when they anticipate that the returns generated by the assets will

surpass both the principal amount and the interest paid on the debt. This financial maneuver contributes to an increase in the wealth of equity shareholders, consequently leading to a rise in the value of the company's shares.

The primary objective is to enhance shareholders' wealth. Trading on equity is applied when the company seeks additional funding from debt rather than equity sources. This approach is adopted to maintain consistent control over the company. Additionally, a company may employ the trading on equity strategy to elevate its market share price.

Profitability refers to the ability of a business or investment to generate profit or financial gain over time. It is a measure of how efficiently a company or investment is able to use its resources to generate earnings. Profitability is typically assessed through various financial ratios and metrics, such as net profit margin, return on investment (ROI), return on equity (ROE), and others.

In short, a profitable entity or investment is one that generates more revenue than the costs incurred in producing or acquiring goods and services, resulting in a positive net income. High profitability is generally considered a positive indicator of a company's financial health and operational efficiency.

## **Review of literature**

**(Abdullah, Hashmi, & Iqbal, 2022)** This study explores the impact of working capital management on firm profitability and liquidity, with a focus on the moderating role of family ownership. Using secondary data from 150 non-financial firms listed on the Pakistan Stock Exchange from 2014 to 2019, the research found that family ownership negatively affects both profitability and liquidity. The findings suggest that family-owned firms may face challenges in efficiently managing working capital to enhance financial performance.

**(Deari, Kukeli, Barbuta-Misu, & Virlanuta, 2022)** This study investigates the relationship between working capital management and firm profitability across European Union countries. Using a panel regression model, the analysis reveals a positive association between effective working capital management and profitability. The findings suggest that firms in the EU can enhance their profitability by efficiently managing their working capital.

**(Arhinful & Radmehr, 2023)** This study analyzes the impact of financial leverage on the performance of 257 firms listed on the Tokyo Stock Exchange from 2000 to 2021, across five major sectors. Using both random effects and GMM models, the research finds that interest coverage positively and significantly affects ROA, ROE, and Tobin's Q. Cash coverage is also

positively associated with ROE. However, debt service obligations negatively and significantly impact overall financial performance. The findings highlight the importance of managing leverage components to enhance firm performance.

**(Al-Habashneh, 2023)** This study examines the impact of financial leverage, liquidity, and bank size on the financial performance of 13 Jordanian commercial banks listed on the Amman Stock Exchange from 2012 to 2022. Using a fixed-effects model, it finds a significant positive relationship between financial leverage and return on equity. In contrast, bank size shows a significant negative effect on financial performance, while liquidity has no significant impact. The research fills a gap in Jordanian banking literature and suggests that enhancing total assets (size indicator) may improve financial performance.

### **Objectives of the study**

- To analyze trading on equity and profitability of UltraTech cement.
- To examine the association between trading on equity and profitability.
- To check the impact of trading on equity on profitability.

### **Hypotheses of the study**

- $H_0$ : Trading on equity and profitability do not have any significant association with each other in UltraTech cement.
- $H_0$ : Trading on equity has no significant impact on profitability of UltraTech cement.

### **Research methodology**

- **Universe**

Universe of the study contains all the cement manufacturing companies working in India

- **Population**

Population of the study contains all the BSE listed cement manufacturing companies as on 25<sup>th</sup> January, 2024.

- **Sampling unit**

UltraTech cement has been selected as sample on the basis of market capitalization. It is number 1 cement manufacturing company working in India today.

## **Period of the study**

The present study covers the period of 4 years from 2019-20 to 2022-23.

## **Data collection**

The present study is completely based on secondary type of data. The related data has been collected from company's annual reports and related other websites.

## **Tools and techniques**

- **Accounting tools**

Ratio analysis has been taken as an accounting tool.

- **Statistical tools**

Correlation and regression analysis have been taken as statistical tool.

## **Data analysis**

### **Ratio analysis**

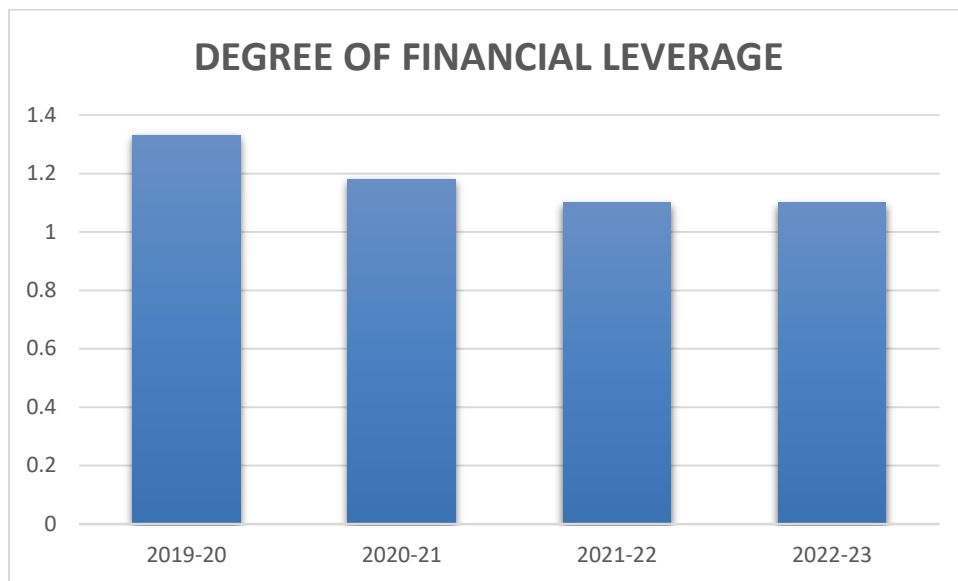
#### **Degree of financial leverage (Trading on equity)**

Year	UltraTech cement
2019-20	1.33
2020-21	1.18
2021-22	1.1
2022-23	1.1
Min	1.1
Max	1.33
Average	1.18

(Computed from company's annual reports)

### **Interpretation**

Above table indicates the degree of financial leverage during the study period, i.e. 2020 to 2023. During these years, minimum degree of financial leverage was 1.1 and the maximum degree of the same was 1.33. Overall, it was 1.18 during the study period. It shows decreasing trend mostly.



## Profitability ratios

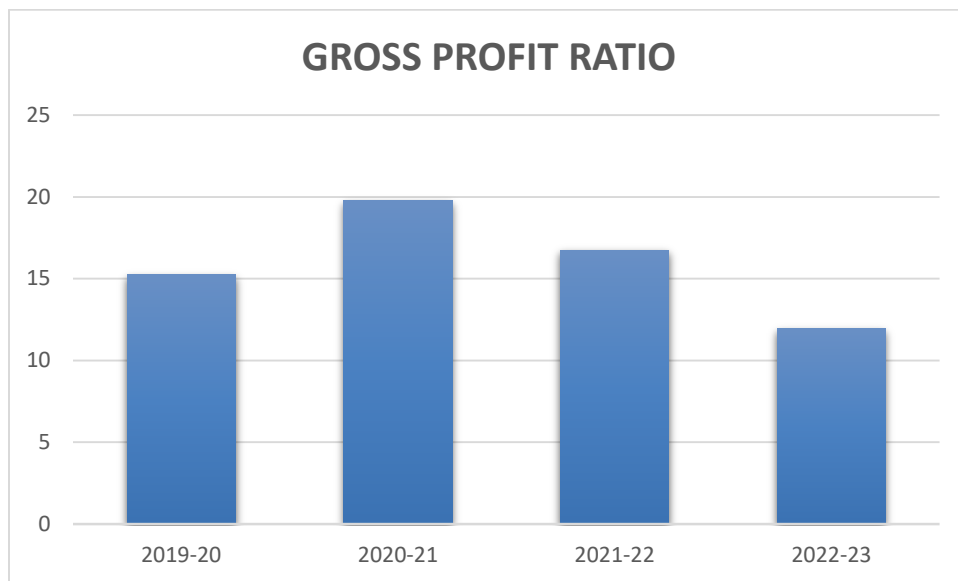
### Gross profit ratio

Year	UltraTech cement
2019-20	15.24
2020-21	19.75
2021-22	16.73
2022-23	11.92
Min	11.92
Max	19.75
Average	15.91

[www.monecontrol.com](http://www.monecontrol.com)

### Interpretation

Above table shows gross profit ratio of UltraTech cement during the year 2019-20 to 2022-23. Minimum gross profit ratio was 11.92 during the study period. Maximum and average gross profit ratio of the company was 19.75 and 15.91 respectively. Overall, it shows mixed trend during the years.



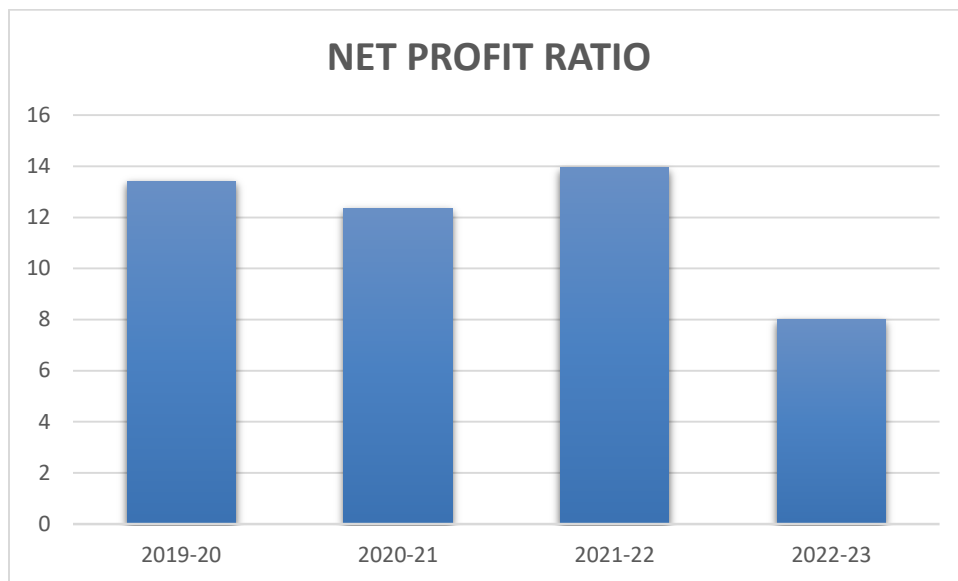
### **Net profit ratio**

Year	UltraTech cement
2019-20	13.42
2020-21	12.36
2021-22	13.94
2022-23	8.01
Min	8.01
Max	13.94
Average	11.93

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### **Interpretation**

Above table directs the net profit ratio of UltraTech cement during the study period of four years, i.e. 2020 to 2023. The minimum value of net profit ratio was 8.01 which is in the last year of study period. Maximum value of it was 13.94. Overall average value of net profit ratio was 11.93. During the study period it showed mix trend.



### **Return on capital employed**

Year	UltraTech cement
2019-20	12.27
2020-21	15.99
2021-22	15.36
2022-23	12.97
Min	12.27
Max	15.99
Average	14.15

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### **Interpretation**

Above table indicates return on capital employed ratio of UltraTech cement during the study period. Minimum and Maximum return on capital employed was 12.27 and 15.99 during the period of the study. Overall, average value of the same was 14.15 during the study period. So, it indicates mixed trend.



### **Return on equity**

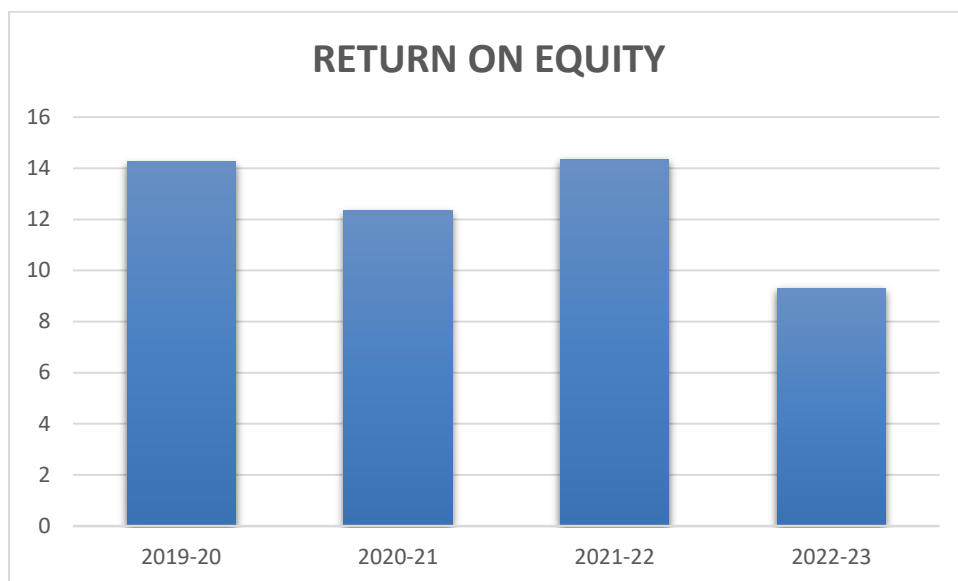
Year	UltraTech cement
2019-20	14.25
2020-21	12.33
2021-22	14.35
2022-23	9.3
Min	9.3
Max	14.35
Average	12.56

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### **Interpretation**

Above table shows return on equity ratio of Ultratech cement during the years 2020 to 2023. Minimum and maximum value of Return on equity was 9.3 and 14.35 respectively. Average of all 4 years was 12.56. overall it shows mixed trend during the study period.





## **Correlation**

**Correlation of degree of financial leverage (Trading on equity) with gross profit ratio, net profit ratio, return on capital employed and return on equity in UltraTech cement**

$H_0$ : Trading on equity and profitability do not have any significant association with each other in UltraTech cement.

Ratio	Correlation coefficient	Relationship
Gross profit ratio	0.14	Positive
Net profit ratio	0.43	Positive
Return on capital employed	-0.48	Negative
Return on equity	0.48	Positive

Above table clearly indicates that the researcher is able to reject the null hypothesis and it can be said that trading on equity and profitability do have association with each other either in positive or negative way.

## **Regression**

**Impact of degree of financial leverage (Trading on equity) on gross profit ratio, net profit ratio, return on capital employed and return on equity in UltraTech cement**

$H_0$ : Trading on equity has no significant impact on profitability of UltraTech cement.

Ratio	R <sup>2</sup>	Linear equation	p-value	Seg <sup>t</sup> 5%
Gross profit ratio	0.0209	$Y = 1.10 + 0.004x$	0.8554	0.05
Net profit ratio	0.1840	$Y = 0.97 + 0.017x$	0.5709	0.05
Return on capital employed	0.2345	$Y = 1.58 - 0.029x$	0.5156	0.05
Return on equity	0.2331	$Y = 0.89 + 0.022x$	0.5171	0.05

Above table indicates the impact of trading on equity on different profitability ratios. In all four ratios, the p-value is greater than the significance level 5% (0.05). That's why, the null hypothesis is not rejected and it can be said that there is no significant impact of trading on equity on profitability.

## Result of the Study

- So one of the objective was to find out the association between Trading on Equity and Profitability, study suggests there is a Association exist between these two variables.
- Another objective was to find out the impact of Trading on Equity on Profitability, study reveals that there is no such significant impact of Trading on Equity on Profitability.

## Conclusion

Generally, companies don't want to share the equity of the company and that's why it is their tendency to raise funds through debt, i.e. debentures. Using these fixed cost bearing fund to increase the wealth of equity shareholders, this is called financial leverage (trading on equity). In the present study, the researcher has tried to examine the association between trading on equity and profitability and the results revealed that there is an association between both the variables. Regression analysis showed that there is no significant impact of trading on equity on profitability ratios.

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