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Impact of ESG Investing on Financial Performance of Ultra-Tech Cement

Dr. Suresh kumar Pattanayak[1],Shreya Agrawal[2]
[1]Amity Business School, Amity University Chhattisgarh
[2] Amity Business School, Amity University Chhattisgarh
Corresponding Email: shreyaagrawal168@gmail.com

Abstract -

This study examines the impact of Environmental, Social, and Governance (ESG) investing on the financial performance of UltraTech Cement, one of India's leading cement manufacturers. With growing investor emphasis on sustainability, ESG factors have become increasingly relevant in corporate valuation and capital allocation. The research investigates how UltraTech's ESG strategies—such as carbon footprint reduction, resource efficiency, employee welfare, and governance practices—affect its financial metrics including profitability, return on equity, and stock performance. Using both qualitative and quantitative methods, the study analyzes UltraTech's ESG disclosures, third-party ESG ratings, and financial data over the past five years. Findings suggest a positive correlation between strong ESG performance and improved financial outcomes, highlighting ESG investing as a value-enhancing strategy for long-term stakeholders.

Keywords -

ESG Investing, Financial Performance , UltraTech Cement, Sustainability, Corporate Governance, Environmental Impact, Social Responsibility, Return on Equity, ESG Ratings, Green Investing

1.Introduction

Financial statements summarize a business's operating, financing, and investing activities, helping investors and creditors assess future earnings and cash flows. However, these statements alone provide only a limited view and must be analyzed to draw meaningful conclusions about a company's financial health, profitability, and performance.

India, the world's second-largest cement producer, has a strong and growing cement industry that plays a key role in the economy. Since deregulation in 1982, the sector has attracted major domestic and foreign investments. With abundant raw materials and supportive government policies, the industry benefits from ongoing infrastructure projects like smart cities, road development, and expanded transportation networks, which are expected to significantly boost cement demand.

Company History

Søren Kristian Toubro (civil engineer) and Henning Holck Larsen (chemical engineer), founders of Larsen & Toubro (L&T), were schoolmates and studied engineering in Denmark. After working for F.L. Smidth & Company, a cement machinery firm, they came to India in 1935 to evaluate cement companies, which later merged into Associated Cement Companies. Inspired by their experience in India, they started a partnership on May 1,

1938, initially repairing imported dairy machinery during World War II. Eventually, L&T began manufacturing such equipment and gained a reputation for quality.

L&T entered the cement business in 1980, establishing its first plant in Awarpur (Maharashtra) in 1983, followed by plants in Hirmi (1991), Kovaya (1996), and Tadipatri (1998). Its Kovaya unit (GCW), operational from April 2, 1996, became Asia's largest cement plant with a capacity of 4.2 million tones per year.

Company Profile

Ultra-Tech Cement Limited, a subsidiary of Grasim and formerly L&T Cement Ltd., is India's largest manufacturer of premium quality cement with an annual capacity of 18.2 million tones. It produces Ordinary Portland Cement, Portland Blast Furnace Slag Cement, and Portland Pozolana Cement. The company operates five integrated plants, five grinding units, and three terminals, including units from the merged Narmada Cement Company. Ultra-Tech is also India's largest exporter of cement clinker, exporting over 2.5 million tones annually to regions including the Indian Ocean, Africa, Europe, and the Middle East.

After Grasim acquired L&T's cement division in 2004, Ultra-Tech gained strategic advantages, particularly with growing infrastructure and housing demands. The company is expanding into the Ready Mix Concrete business. Its largest plant, GCW at Kovaya, is the biggest in Asia, located near rich limestone reserves to support 40 years of production. With a nationwide network and strong brand equity, Ultra-Tech remains a leader in India's cement industry.

ULTRA TECH CEYLINCO (PVT.) LIMITED.

Ultra-Tech Cement Limited, in collaboration with Ceylinco Insurance Company Limited—one of Sri Lanka's most respected business groups in banking, insurance, and finance—has established a subsidiary in Sri Lanka. This joint venture has set up a bulk cement terminal near Colombo with an annual capacity of 0.5 million tones. Cement is sourced in bulk from Ultra-Tech's Gujarat Cement Works in India and transported to Colombo via sea carriers.

A National Presence

Ultra-Tech Cement, part of the eighth-largest cement manufacturer globally, has developed its infrastructure over several decades, operating five integrated plants, five grinding units, and three terminals (including one overseas in Colombo, Sri Lanka).

Key milestones in its growth include:

- 1983–1994: Establishment of major plants such as Awarpur (1983, 1987), Jharsuguda (1993), Hirmi (1994), and Gujarat Cement Works (1996–1998), as well as bulk terminals in Mangalore, Navi Mumbai, and Colombo (1998–2000).
- 1999–2003: Acquisition of Narmada Cement and Ratnagiri Cement Works. L&T demerges its cement division in 2003, forming CemCo. Grasim begins acquiring stakes in L&T, initiating a major shift in ownership.
- 2004–2006: Grasim completes the demerger and open offer, gaining control of Ultra-Tech. Narmada Cement Company is amalgamated with Ultra-Tech under BIFR approval.

Ultra-Tech's expansion reflects strategic mergers, acquisitions, and investments, securing its position as India's largest cement producer.

2.Objectives

- To understand the financial position of the company.
- To know liquidity position of the company.
- To know the operating efficiency of the company.

3.Research Hypothesis

H_0 (Null Hypothesis): There is no significant relationship between Ultra-Tech Cement's ESG initiatives and its financial performance.

H_1 (Alternative Hypothesis): Ultra-Tech Cement's ESG initiatives have a significant positive impact on its financial performance

4.Literature Review

The collection of studies reviewed here offers a broad analysis of financial performance across various industries, focusing on key parameters such as liquidity, leverage, profitability, and efficiency. These studies employ diverse methodologies, including ratio analysis, trend analysis, statistical tools, and financial modeling, providing insights into the financial health and strategic needs of the companies and sectors examined.

Agarwal (2015) conducted a comparative study of the financial performance of Maruti Suzuki and Tata Motors Ltd., using data from their annual reports. The focus was on liquidity and leverage, with the leverage position analyzed through four key ratios: capital gearing, debt-equity, total debt, and proprietary ratio. The study concluded that Tata Motors should increase the proportion of proprietors' funds to strengthen its long-term solvency position.

Idhayajothi et al. (2014) analyzed Ashok Leyland Ltd.'s financial performance and found it to be sound. However, the study recommended improving financial results further by reducing expenses to enhance profitability.

Daniel A. Moses Joshunar (2013) studied Tata Motors' financial strengths and weaknesses using a five-year data set. Applying trend and ratio analysis, the study found Tata Motors' performance satisfactory but suggested the company could improve by increasing its loan levels to boost operational efficiency and growth.

Hotwani Rakhi (2013) examined Tata Motors' profitability in relation to sales over a decade using ratios, standard deviations, and coefficient of variance. The study revealed that there is no strong correlation between sales growth and profitability, implying other factors might influence financial outcomes.

Sharma Nishi (2011) focused on the passenger and commercial vehicle segments in the automobile industry. The study evaluated liquidity, profitability, leverage, and managerial efficiency from 2001-02 to 2010-11, concluding that while Tata Motors and Mahindra & Mahindra exhibited satisfactory profitability and managerial efficiency, their liquidity position was unsatisfactory. It also noted that commercial vehicle segments had better liquidity than passenger vehicles.

Adolphus J. Toby (2007) modeled financial management for Nigerian small and medium-sized enterprises (SMEs). His empirical analysis found a significant inverse relationship between current ratio and gross profit margin, suggesting that adequate liquidity and profitability depend heavily on investment and financing decisions within SMEs.

T. Vanniarajan and C. Samuel Joseph (2007) applied the DuPont control chart technique to analyze banks' financial performance over a decade. Their study emphasized evaluation across three dimensions: structural, operational, and efficiency factors, highlighting the need for banks to assess performance relative to competitors, particularly in a landscape of changing ownership.

Santimoy Patra (2005) analyzed the impact of liquidity on profitability in Tata Iron & Steel Company Limited. The study showed mixed associations; liquidity ratios had both positive and negative correlations with profitability, but many were statistically insignificant. However, working capital turnover, receivable turnover, and cash turnover ratios showed a significant positive association with profitability, highlighting their importance.

Sudarsana Reddy (2003) assessed the financial performance of the paper industry in Andhra Pradesh, emphasizing the need for additional capital infusion, financial restructuring, and technological modernization to enhance operational performance and competitiveness.

Key Sengupta (1998) studied India's fertilizer industry using cost function and Cobb-Douglas production function analyses. The findings indicated the industry is subject to increasing costs, with average labor productivity exceeding marginal productivity. This suggests inefficiencies in resource utilization and increasing operational costs over time.

In summary, these studies collectively underline the critical role of liquidity management, capital structure, expense control, and operational efficiency in sustaining and improving financial performance across industries. They highlight sector-specific challenges, such as liquidity issues in the automobile sector, investment needs in the paper industry, and cost pressures in fertilizers, offering strategic recommendations for growth and stability.

5.Research Methodology

Research Design:
A quantitative, longitudinal study analyzing data from FY2015 to FY2024 to evaluate the relationship between Ultra-Tech Cement's ESG initiatives and its financial performance over time.

Data Collection:

- ESG Performance Metrics:

Data on environmental factors (CO_2 emissions, renewable energy use, water conservation, waste management), social factors (community programs, employee health and safety), and governance (board composition, transparency) will be collected from Ultra-Tech's sustainability reports, CRISIL, Sustainalytics, and other credible sources.

- Financial Performance Indicators:

Revenue, profit margins, ROA, ROE, EBITDA, and stock price performance will be gathered from Ultra-Tech's annual reports and financial databases like Bloomberg and Reuters.

Data Analysis Techniques:

- Descriptive statistics to identify trends
- Correlation analysis to assess relationships between ESG and financial metrics
- Multiple regression analysis to determine ESG's impact on financial performance, controlling for other variables
- Comparative analysis with industry peers lacking ESG commitments

Hypotheses:

- Null Hypothesis (H_0): No significant relationship exists between Ultra-Tech's ESG initiatives and financial performance.
- Alternative Hypothesis (H_1): ESG initiatives have a significant positive impact on financial performance.

Limitations:
Challenges include isolating ESG effects from other factors and potential inconsistencies in data availability.

Sampling:
The study focuses solely on Ultra-Tech Cement Ltd, a recognized "Superbrand" and "Powerbrand" in its sector.

Tools for Analysis:
Comparative balance sheet and ratio analysis.

6.Data Analysis and interpretation

Data Analysis involves processing collected data by editing, coding, and tabulating it into quantitative form, typically using tables and percentages. This process helps uncover meaningful patterns, relationships, or differences among variables to support or challenge hypotheses. Statistical tests of significance are applied to validate conclusions. Data analysis uses various tools like tables and graphs to interpret results. Overall, it is a systematic approach of inspecting, cleansing, transforming, and modeling data to discover useful insights that inform decisions and improve business effectiveness.

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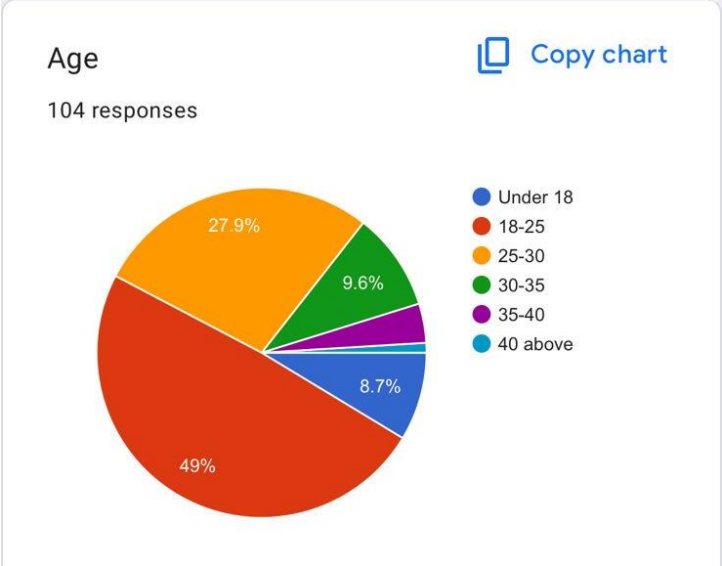
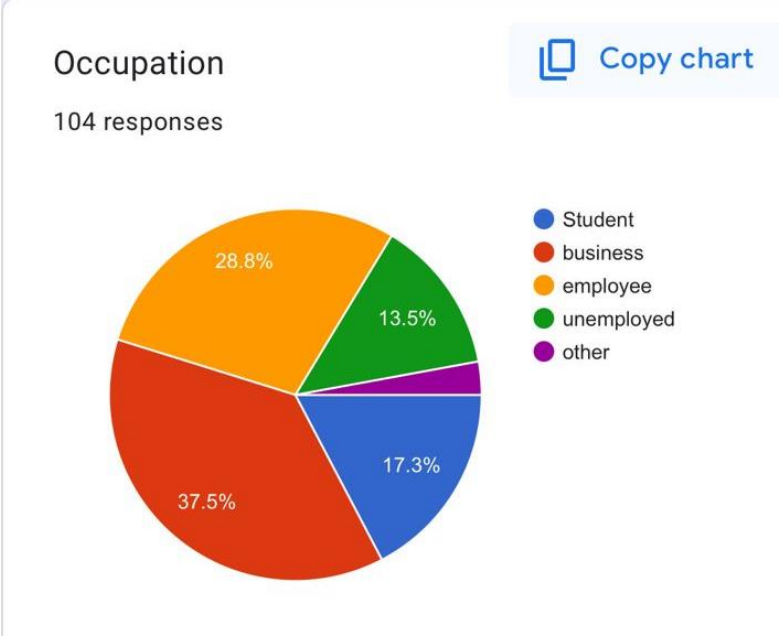
Age Group	Percentage (%)	Respondents
Under 18	8.7%	9
18–25	49.0%	51
25–30	27.9%	29
30–35	9.6%	10
35–40	3.8%	4
40 Above	1.0%	1
Total	100%	104



Occupation	Percentage (%)	Responses
Student	17.3%	18
Business	37.5%	39
Employee	28.8%	30
Unemployed	13.5%	14
Other	2.9%	3
Total	100%	104



Qualification	Percentage (%)	Responses
Graduation	53.8%	56
Post-Graduation	39.4%	41
Others	6.7%	7
Total	100%	104

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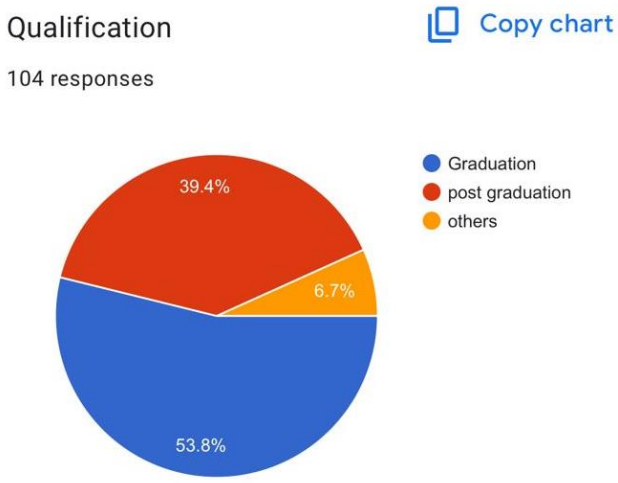
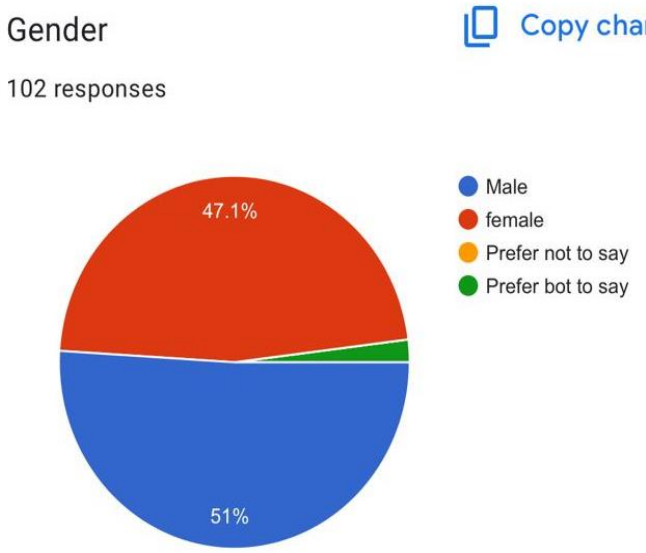


Gender	Percentage (%)	Responses
Male	51.0%	52
Female	47.1%	48
Prefer not to say	0.0%	0
Prefer not to say	2.0%	2
Total	100%	102



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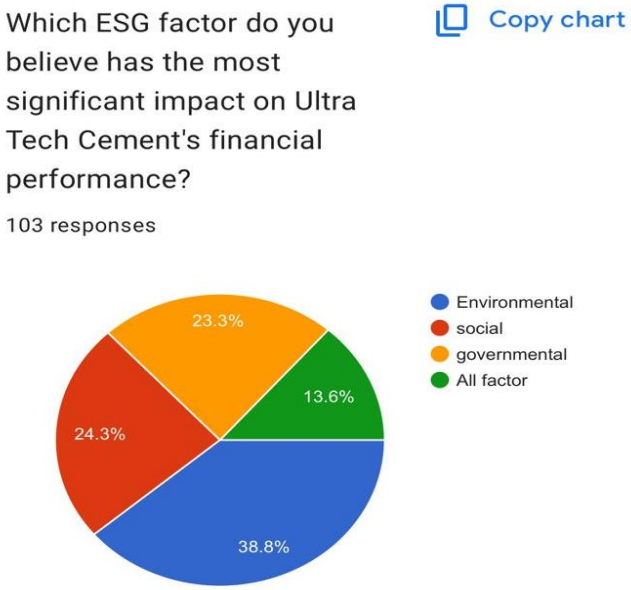
ESG Factor	Percentage (%)	Responses
Environmental	38.8%	40
Social	24.3%	25
Governmental	23.3%	24
All factors	13.6%	14
Total	100%	103



Level of Importance	Percentage (%)	Responses
Not important	18.3%	19
Slightly important	31.7%	33
Moderately important	26%	27
Very important	14.4%	15
Extremely important	9.6%	10
Total	100%	104

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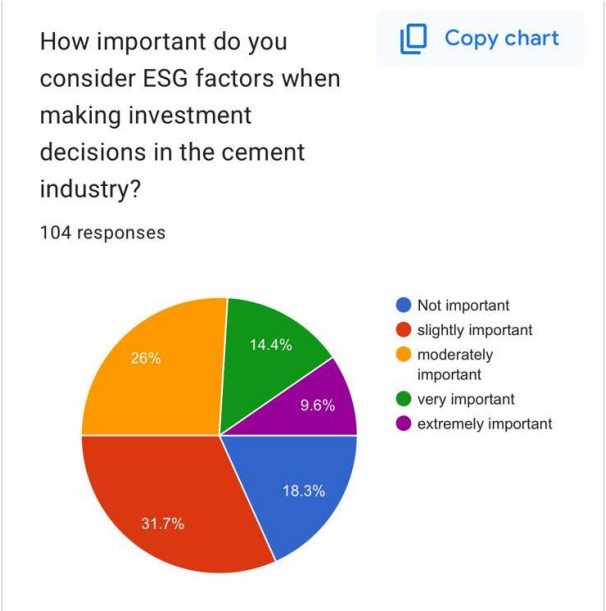
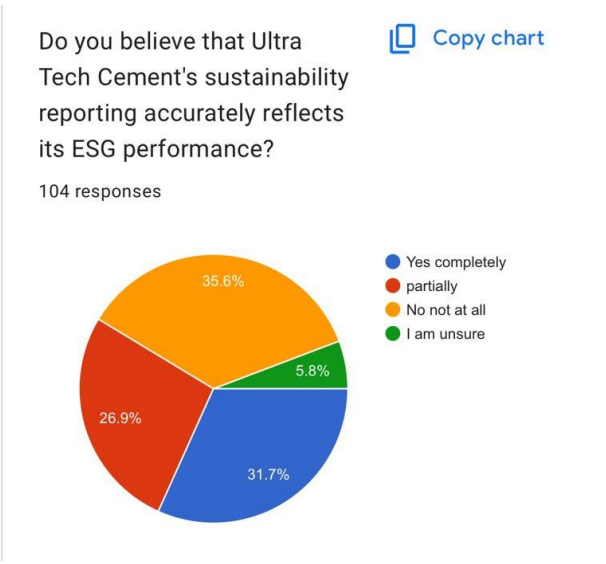


Response Option	Percentage (%)	Responses
Yes completely	31.7%	33
Partially	26.9%	28
No, not at all	5.8%	6
I am unsure	35.6%	37
Total	100%	104



7.Conclusion

Ultra-Tech Cement Limited, based in Mumbai, is a subsidiary of the Aditya Birla Group and the largest manufacturer of grey cement, white cement (under the brand Birla White), and ready-mix concrete in India. With a production capacity of 116.75 million tonnes annually, it is the only company outside China with over 100 million tonnes capacity in a single country. Its operations span India, UAE, Bahrain, and Sri Lanka, with 23 integrated plants, 1 clinkerisation plant, 26 grinding units, and 7 bulk terminals.

The project aims to assess Ultra-Tech's financial performance, analyzing profit and loss accounts and balance sheets. The findings show consistent year-on-year growth, especially between 2016 and 2020. The financial department's functioning is effective, and the company's overall financial health has steadily improved during the analyzed period.

8.Recommendations

To improve its financial stability, the company should raise more shareholders' funds to maintain an optimal debt-equity ratio and enhance liquidity by ensuring adequate current assets. Increasing overall business efficiency is essential. The company has shown strong net profit ratios, which it should continue to maintain. It is recommended to borrow more long-term funds and use profits to strengthen the financial position. Efficient and systematic resource utilization is necessary for better performance. Additionally, the company's liquidity position should be leveraged more effectively for productive purposes, ensuring better financial health and long-term sustainability.

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