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A Correlational Study on Value Added (VA) and Profit with Special Reference to Ultratech Cement LTD

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Abstract

This is a correlational study on Ultratech Cement Ltd. The main objective of this study is to find out whether there is any kind of relationship do exist between Value Added (VA) and Profit. Here Value Added (VA) includes Gross Value Added (GVA) and Net Value Added (NVA) only. To find out if there is any relation exist between those variables correlational analysis is used. To fulfil the objective of study, the data of 7 years (from 2015-16 to 2021-22) is taken from the annual reports of the company and analysed by preparing Value Added Statement (VAS). It is found out that there is actually a strong positive correlation exist between Value Added (VA) & Profit (Gross Value Added (GVA) & Profit and Net Value Added (NVA) & Profit).

Introduction

Value Added is a sensation in the world of accounting. Value Added is not a totally new word or concept but it got popular now. In recent time many of changes and situations lead the people to take much interest in the financial report of the companies (Roychowdhury et al., 2019; Christensen et al., 2017). Here traditional or conventional report are someway lacking to provide enough information that people strive to get and this is where from Value Added Statement and Value Added comes into play (Eakin & Gladstone, 2020). It changed whole scenario and became people's favourite modern statement to get financial information.

There is also a small problem that many people think that Value Added (VA) and Profit both are same. That's the point where people started to get confused and have a misconception that Value Added Statement (VAS) can substitute the Income statement (Cheung & Lau, 2016). That's not true at all. Value Added Statement (VAS) supplements the Income statement and both Value Added (VA) and Profit are different terms.

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Rationale of study

Value Added Statement became a sensation in recent times (Echchakoui, 2016; Mantai, 2017). It is very helpful to all the stakeholders but with the that it is also evident that many people got confused between Net Profit and Value Added (VA). It is true that Value Added Statement is a good supplement to the Income statement but it can't replace it. Also, on other hand there is a huge difference between Net Profit and Value Added (VA).

Net Profit is a residual income that left after subtracting all the expenses from the total income (Napoli, 2017; Hand et al., 2017). On the other hand , Value Added (VA) is a total amount of Value that is added by the organization to the raw form of any goods or services by doing some procedures, processes and operations on it and convert it to the final or usable or consumable product (Arribas-Bel et al., 2021).

Concept of Value Added

Value Added or Added Value is something when some of extra or more Value got included in the raw or basic form (Xiong et al., 2019; Sharma et al., 2017). For example, if chips manufacturing companies purchased potato as raw form and then they do process like cleaning, cutting and frying and then prepare a potato chips – a final product. That's how they add value to the raw form potato and make it more valuable in the form of potato chips (Genovese et al., 2019). So by doing any kind of process businesses tend to increase the value of raw form of something that is called Value Added.

Concept of Profit

Profit in the simplest form is a residual monetary value after the deduction of all the expenses from total income (Devereux et al., 2019; Dietrich & Weber, 2018). According to Dyllick & Muff, (2016) profit itself is a very vague term. Still it is one of the most used and important term of business. Kretschmann et al. (2017) states Profit can be divided in many forms like Gross Profit, Net Profit, Economic Profit etc. It can be narrated in many ways but it will be one of the important aspects of any business.

Literature Review

Chirodiya, (2022), It is a comparative study on Ultratech Cement Ltd and Ambuja Cement Ltd. On the basis of Value-Added Ratios. Value Added Ratios are very effective tool to analyse Value Added Statement (VAS). This study shows various ratios of the both companies and applied T-Test to find out if both companies are performing the same or not. It was found out in that study that Ultratech Cement Ltd is doing better than Ambuja Cement Ltd (Chirodiya, 2022). Dadhaniya & Rathod (2022), This is a comparative study on KBRL foods and LT foods. The main objective of this paper is to find out which food company is doing good in its business. So, researcher applied a new tool known as "Value Added Statement (VAS)". After preparing it, they analysed it with the help of Value-Added Ratios. They found out that during the study period both of the companies are doing almost same.

Bohra et al. (2022), This is also a comparative study on HUL and ITC, two big corporates of FMCG industry of India. This study aimed to find out that which company's products are more preferred by consumers. To do that they perform ratio analysis of both companies and by doing statistical analysis they found out that both of the companies are doing almost same. Santos et al. (2019), The primary objective this study was to find out if the Value-Added Statement is really useful for its users or not. To test this, researchers took more than 155 samples as well done 714 observation of the companies listed on Brazilian Stock Exchange. They found out

that Value Added Statement is really beneficial for all its users as it provide more financial information as well in a very helpful and creative way than traditional reporting system.

Patel (2018) This paper presents a conceptual framework of Value Added (VA) and Value-Added Statement (VAS). This paper deeply shows very important aspects of Value-Added Statement (VAS) like its inception, definition, bifurcation, importance and loopholes. It also states a proforma of desired Value-Added Statement (VAS). It also try to explain that Value Added Statement (VAS) can actually provide much more information than older financial reporting system and Value Added Statement (VAS) is a supplementary to Income statement. Polisetty & Madhuri (2018) The primary objective of this study was to analyse the Value-Added Ratios of Volkswagen company. To fulfil the objective of the study, researchers prepared a Value-Added Statement of the company and then calculated important Value-Added Ratios. After the analysis important findings of the study were that Value-Added Statement is a very useful tool to analyse companies' performance. It also gives a in depth view of activities of company like how value is generated and applied.

Kijewska & Bluszcz (2015), This study aimed to find out whether the Social Responsibility activity is performed by mining companies of Poland. This paper narrated about the cost and benefits rose because of the activities of the company and it is a moral duty of the company to reimburse the cost it occurs to the society in the form of Social Responsibility benefits. To find out researchers used the Value-Added Statement and found out that most of mining companies is actually doing social accounting and performing the responsibility towards the society.

Methods

Objectives of the study: (1) To prepare Value Added Statement (VAS) and Calculate the Gross Value Added (GVA) and Net Value Added (NVA) of Ultratech Cement Ltd ; (2) To find whether there is any relationship exists between Value Added and Profitability

Sample Selection

This is a case study. So it is important that the sample have a significant impact on its related industry. Sample is selected by Judgmental Sampling / Non-probability method of sampling. All the companies which are operating its activities related to manufacturing the cement in the geographical boundaries of India are included in population of this study.

Sample Profile

Ultratech Cement Ltd is an Indian company founded in 1983. Currently it is owned by Aditya Birla group of companies. Ultratech Cement Ltd has its headquarter in Mumbai, Maharashtra, India. It is engaged in the manufacturing of Cement, RMC (Ready Mix Concrete) etc. From the viewpoint of market share as well sales , it is no. 1 in the Indian Cement industry

Period of the Study

The period of this study is 7 years starting from 2015-16 to 2021-22.

Hypotheses of the Study

H0: There is no relationship between Gross Value Added and Profitability during the study period.

H1: There is a relationship between Gross Value Added and Profitability during the study period.

H0: There is no relationship between Net Value Added and Profitability during the study period.

H1: There is a relationship between Gross Value Added and Profitability during the study period.

Data Collection and Analysis

All the required data, which is used in this study is taken from the annual reports of the Ultratech Cement Ltd from 2012-13 to 2021-22.

Data Analysis

For data analysis and fulfilment of the study objectives Value Added Statement (VAS) is prepared to find out Gross Value Added (GVA) and Net Value Added (NVA) are calculated. Then to find out if there is any relationship exists between profit and Value Added (GVA & NVA) Correlation technique is used.

Results and Discussion

Correlation

Correlation is a statistical tool which is used to know relationship between two or more variables. There are many types of correlation like linear correlation and multiple correlation. As per the objective of this study to find out if there is any relationship between profitability and Value Added, simple correlation is used.

Table 1. Value Added Statement (VAS) of Ultratech Cement Ltd for 10 Years (From 2012-13 to 2021-22)

Generation of Value	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Sales	24,879.85	25,091.62	30,978.62	41,608.81	42,429.89	44,725.80	52,598.83
add :Change in stock	-18.61	75.69	-111.2	46.35	-357.83	450.15	-383.16
Value of Production	24,861.24	25,167.31	30,867.42	41,655.16	42,072.06	45,175.95	52,215.67
add: other income	463.8	648.1	588.57	463.44	651.06	734.17	507.81
Gross Output	25,325.04	25,815.41	31,455.99	42,118.60	42,723.12	45,910.12	52,723.48
less: Brought in Goods & Service							
(A) Material Used	3,982.91	3,911.82	4,519.95	5,698.20	5,727.98	5,793.67	7,096.49
(B) other expenditure	13,155.22	13,172.29	16,890.74	23,982.10	21,854.36	22,878.95	28,195.48
GVA	8,186.91	8,731.30	10,045.30	12,438.30	15,140.78	17,237.50	17,431.51
less : Depreciation	1,377.17	1,348.41	1,847.93	2,450.73	2,722.66	2,700.23	2,714.75
NVA	6,809.74	7,382.89	8,197.37	9,987.57	12,418.12	14,537.27	14,716.76
Distribution of Value							
To Employees	1,444.97	1,522.34	1,810.24	2,291.07	2,519.86	2,353.02	2,534.68
To Providers of capital (Interest on loan)	566.3	640.1	1,237.60	1,777.86	1,991.65	1,485.65	944.71
To Government (Tax)	941.69	1,158.55	1,077.01	1,068.07	-568.16	2,538.70	1,190.06
To Owners	3856.78	4061.9	4072.52	4850.57	8474.77	8159.9	10,047.31
NVA	6,809.74	7,382.89	8,197.37	9,987.57	12,418.12	14,537.27	14,716.76

Source: Annual Reports of Ultratech Cement Ltd

Table 2. Gross Value Added (GVA) and Profit of Ultratech Cement Ltd

Year	GVA	PROFIT
2015-16	8,186.91	2,479.61
2016-17	8,731.30	2,713.49
2017-18	10,045.30	2,224.59
2018-19	12,438.30	2,399.84
2019-20	15,140.78	5,752.11
2020-21	17,237.50	5,459.67
2021-22	17,431.51	7,332.56

Source: Annual Reports of Ultratech Cement Ltd)

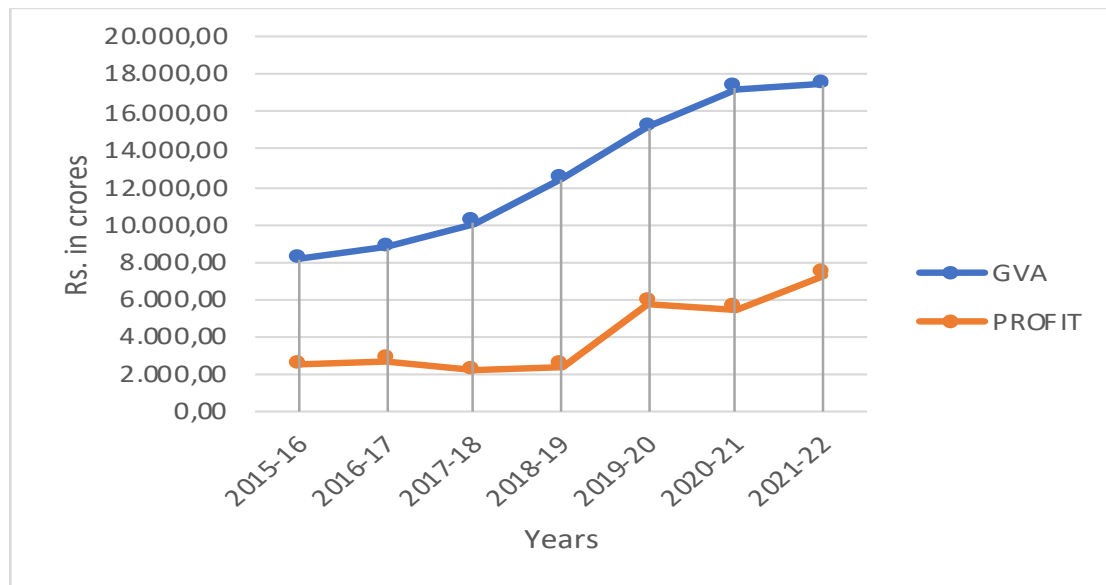


Figure 1. GVA and Profit of Ultratech Cement Ltd.

Table 3

Variable	Variable Name	Value of Correlation Coefficient "r"	Interpretation of "r" value
1	GVA	0.8943	Strong Positive Correlation
2	Profit		

Table 4. Net Value Added (NVA) and Profit of Ultratech Cement Ltd

Year	NVA	PROFIT
2015-16	6,809.74	2,479.61
2016-17	7,382.89	2,713.49
2017-18	8,197.37	2,224.59
2018-19	9,987.57	2,399.84
2019-20	12,418.12	5,752.11
2020-21	14,537.27	5,459.67
2021-22	14,716.76	7,332.56

Source: Annual Reports of Ultratech Cement Ltd

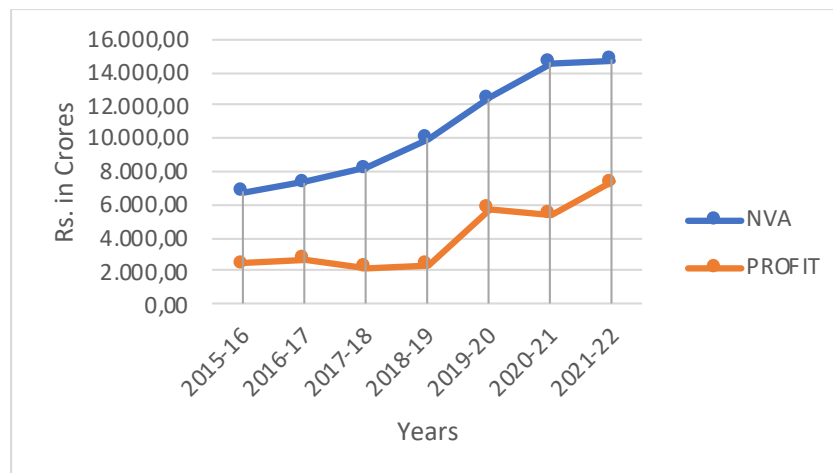


Figure 2. NVA and Profit of Ultratech Cement Ltd

Table 5

Variable No.	Variable Name	Value of Correlation Coefficient "r"	Interpretation of "r" value
1	NVA	0.9090	Strong Positive Correlation
2	Profit		

If Value of 'r' = 0(zero) then No Correlation and null hypothesis will be accepted. If Value of 'r' is between (-1) to 0 then Negative Correction and null hypothesis will be rejected. If Value of 'r' is between 0 to 1 then Positive Correlation and null hypothesis will be rejected.

Table 6

Particulars	Calculated Value of Correlation Coefficient (r)	Correlation Type	Result
Gross Value Added (GVA) and Profitability	0.8943	Strong Positive Correlation	H ₀ is REJECTED
Net Value Added (NVA) and Profitability	0.9090	Strong Positive Correlation	H ₀ is REJECTED

Conclusion

Here, Gross Value Added (GVA) and Profit of the companies increase in the same direction – it means if one variable increases another variable also increase. So as per the linear correlation it is POSITIVE CORRELATION. As well the value of 'r' is 0.8943. so it is visible that there is a Strong Positive Correlation between variables. Due to this, researcher failed to accept the null hypothesis.

Net Value Added (NVA) and Profit of the company is also increasing in the same direction and the Value of 'r' is 0.9090 . So it is a Strong Positive Correlation. Due to this, researcher failed to accept the null hypothesis. So, in both cases correlation type is STRONG POSITIVE CORRELATION.

As per the study it is clear that :

There is a significant relationship (**Strong Positive Correlation**) exists between Gross Value Added (GVA) and Profitability of Ultratech Cement Ltd during the study period. There is a significant relationship (**Strong Positive Correlation**) exists between Net Value Added and Profitability of Ultratech Cement Ltd during the study period.

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