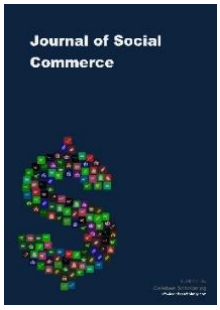

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Performance Evaluation through Value Added Ratios: A Case study of Ambuja Cement Ltd with Additive Method of Value Added

Ashish Premjibhai Chirodiya[1]

[1]Department of Commerce and Business Administration, Saurashtra University

Article History

Keywords

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Value Added,
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Abstract

This paper is a case study of Ambuja Cement Ltd for the performance evaluation. Ambuja Cement Ltd is one of the leading Cement manufacturer company in India. This study is based on 5 years of period started from 2017-18 to 2021-22. To analyze its performance, Value Added Ratios (VARs) are used. Value Added Ratios (VARs) are very important in the analysis of Value related data. Total five important ratios are used and for statistical analysis Chi-Square test is used to know whether performance of the company is consistent or not. Chi-Square – goodness of fit test is used with an assumption that performance of the company is consistent if actual data "fits" expected data. Value Added (with the help of Additive method) and Value-Added Ratios (VARs) shows that Ambuja Cement Ltd is consistent in most of its financial activity and sound in the financial performance.

Introduction

In the rapidly evolving landscape of financial reporting and commerce, the significance of Value-Added Reporting, particularly through Value Added Statements (VAS), has garnered notable attention. This paradigm shift underscores a growing interest in understanding not only the profitability but also the broader value generated and distributed by companies over specific periods. Contrary to common misconceptions conflating it with the Income Statement, a Value-Added Statement delineates the creation and allocation of value within an organization, elucidating how value is generated and disseminated among stakeholders. It serves as a complementary narrative to the traditional Income Statement, offering a holistic view of a company's economic activities (Beattie & Smith, 2013; Roos & Reccius, 2024).

Recent literature highlights this shift, showcasing a burgeoning interest in Value Added Reporting methodologies. Abhisha & Anjali (2022) conduct a performance evaluation of selected food processing companies through Value Added Statements, echoing the trend toward utilizing such frameworks for comprehensive analysis. Similarly, Chirodiya (2022) undertakes a comparative study on Value Added Ratios of prominent cement companies,

[1]Corresponding Author: Ashish Premjibhai Chirodiya, Address: Saurashtra University Campus, Munjka, Rajkot, Gujarat 360005, India

further corroborating the relevance and applicability of Value-Added Reporting in diverse sectors.

Scholars like Popa et al. (2010) shed light on specific methodologies such as the Additive method of Value-Added analysis, emphasizing its ease of use and growing popularity compared to alternative approaches. Furthermore, studies by Niranjan & Suvuran (2008) delve into the critical analysis of Value-Added Statements, underlining their utility in financial analysis. This scholarly discourse underscores a paradigmatic shift toward embracing Value-Added Reporting as a valuable tool for stakeholders' decision-making processes (Abela, 2022; Parginos, 2021; Fogaça et al., 2024; Koep, 2017).

As Staden (2000) posits, a comprehensive understanding of over 200 companies from the Johannesburg Stock Exchange affirms the practical utility of Value-Added Statements in financial reporting, echoing its widespread adoption and recognition among industry players. Stainbank (2009) similarly examines the efficacy of Value-Added Statements, questioning whether they indeed add tangible value to financial reporting. These discussions underscore the nuanced dialogue surrounding Value Added Reporting, urging for further scrutiny and exploration into its benefits and limitations (Arifin et al., 2024; Oyeniyi et al., 2024; Chang & Chang, 2023).

Against this backdrop, the present study endeavors to contribute to this burgeoning discourse by conducting a meticulous performance evaluation of Ambuja Cement Ltd (Adhikary, 2024). Utilizing Value Added Ratios, particularly employing the Additive method of Value-Added analysis, the study aims to provide insights into Ambuja Cement Ltd's financial performance over a five-year period (Prabhakar & Japee, 2023; Venugopal et al., 2023; Mishra, 2020). By scrutinizing the company's Gross Value Added (GVA), Net Value Added (NVA), and Value-Added Ratios, the research seeks to offer a comprehensive assessment of Ambuja Cement Ltd's financial health and operational efficiency (Mohite, 2022; Mittal & Singh, 2023; Saraswathy, 2021).

Methods

The research methodology employed in this study encompasses several key components aimed at ensuring rigor, reliability, and validity in the analysis of Ambuja Cement Ltd's financial performance through the lens of Value-Added Ratios (VARs) utilizing the Additive method of Value-Added calculation. This section elucidates the various facets of the research methodology, including sample selection, study period, hypotheses formulation, and data analysis techniques.

Sample and Sample Selection: Ambuja Cement Ltd, a prominent player in the Indian cement industry, was selected as the focal point of this study owing to its substantial market presence and future growth potential. Employing a non-probability sampling technique, specifically judgmental sampling, Ambuja Cement Ltd was chosen based on its current market positioning and anticipated trajectory in the foreseeable future. This purposive selection strategy aimed to ensure the selection of a representative case study subject that could offer meaningful insights into the broader industry landscape.

Period of the Study: The study period spans five consecutive fiscal years, commencing from 2017-18 to 2021-22. This extended duration enables a longitudinal analysis of Ambuja Cement Ltd's financial performance, allowing for the identification of trends, patterns, and shifts in operational dynamics over time. By capturing data over multiple years, the study aims to

provide a comprehensive assessment of the company's financial health and performance trajectory.

Hypotheses Formulation: The formulation of hypotheses serves as a crucial step in delineating the research objectives and guiding the subsequent data analysis process. In this study, hypotheses were formulated to assess the consistency and significance of various Value-Added Ratios (VARs) pertaining to Ambuja Cement Ltd's financial activities. The null hypotheses (H0) and alternative hypotheses (H1) were structured to evaluate the degree of fit between observed and expected data for each ratio, thereby gauging the company's operational consistency across different financial dimensions.

Data Collection: The primary source of data for this study comprised the annual reports of Ambuja Cement Ltd for the stipulated study period. These reports provided comprehensive insights into the company's financial statements, including income statements, balance sheets, and cash flow statements, facilitating the extraction of relevant data points for Value Added Ratio analysis. Additionally, supplementary data was sourced from the company's official website and other credible financial databases to ensure data comprehensiveness and accuracy.

Data Analysis: The analysis of data was conducted using a combination of quantitative techniques, including Value Added Ratio calculations and statistical tests. The Additive method of Value-Added calculation was employed to derive Gross Value Added (GVA) and Net Value Added (NVA) figures for Ambuja Cement Ltd across the study period. Subsequently, Value Added Ratios (VARs) pertaining to sales, employee contributions, capital provider contributions, government contributions, and internal allocations were computed to assess various dimensions of the company's financial performance.

Results and Discussion

Table 1. Calculation of Net Value Added (NVA) of Ambuja Cement Ltd (with Additive Method)

Years	PBT	Employees Cost	Depreciation	Interest	GVA	Depreciation	NVA
2017-18	2754.96	1511.24	1219.45	205.78	5691.43	1219.45	4471.98
2018-19	2906.01	1524.37	1153.94	170.5	5754.82	1153.94	4600.88
2019-20	3855.34	1570.75	1152.52	169.87	6748.48	1152.52	5595.96
2020-21	3977.15	1540.4	1161.78	140.22	6819.55	1161.78	5657.77
2021-22	5144.24	1529.15	1152.49	145.66	7971.54	1152.49	6819.05

Source: Annual reports of Ambuja Cement Ltd

Table No. 1 - Calculation of Net Value Added (NVA) of Ambuja Cement Ltd (with Additive Method): This table presents the calculation of Net Value Added (NVA) for Ambuja Cement Ltd using the additive method. It includes various components such as Profit Before Tax (PBT), Cost of Employees, Depreciation, Interest, Gross Value Added (GVA), and NVA for the years 2017-18 to 2021-22. The NVA is calculated by subtracting Depreciation from GVA.

Table 2. NVA to Sales Ratio

Year	NVA	Sales	Ratio (in %)
2017-18	4471.98	23608.69	18.94
2018-19	4600.88	26040.94	17.67
2019-20	5595.96	27103.55	20.65
2020-21	5657.77	24516.17	23.08

2021-22	6819.05	28965.46	23.54

Source: Annual reports of Ambuja Cement Ltd

The table shows the data of NVA to Sales ratio of Ambuja Ltd from 2017-18 to 2021-22. This ratio shows that how much of NVA (Net Value Added) contributed by sales only. Higher the ratio shows that operating activities are good and vice-versa.

This ratio was highest in the year of 2021-22 at 23.54 % and it was lowest in 2018-19 at 17.37 %. On an average it was between to 21-22 %. Therefore, from the data it can be said that the company is earning a normal amount of NVA by its sales only.

Table 3. Contribution to Employees to NVA Ratio

Year	Contribution to Employees	NVA	Ratio (in %)
2017-18	1511.24	4471.98	33.79
2018-19	1524.37	4600.88	33.13
2019-20	1570.75	5595.96	28.07
2020-21	1540.4	5657.77	27.23
2021-22	1529.15	6819.05	22.42

Source: Annual reports of Ambuja Cement Ltd

The table expressed the data about Contribution to Employees to NVA Ratio. That ratio shows that how much of total NVA (Net Value Added) is utilized for the employs of the company. A normal amount of this ratio should be appreciable.

This ratio was lowest as 22.42 % in the year of 2021-22 and was highest in the year of 2017-18 with 33.79 %. On an average it was approximately 27-28 %. Which is average.

Table 4. Contribution to Providers of loan capital to NVA Ratio

Year	Contribution to Providers of loan capital	NVA	Ratio (in %)
2017-18	205.78	4471.98	4.60
2018-19	170.5	4600.88	3.71
2019-20	169.87	5595.96	3.04
2020-21	140.22	5657.77	2.48
2021-22	145.66	6819.05	2.14

Source: Annual reports of Ambuja Cement Ltd

This table states details about the Contribution to providers of loan capital to NVA ratio. Now this ratio depicts that how much of value is actually given to the loan capital providers. Loan capital provides the leverage to the performance of the company and that is why it is important to know about ratio.

On the data it is quite visible that company is not providing much value to the loan capital providers. It was highest in 2017-18 at 4.60 % and then it constantly decreasing to 3.71 % in 2018-19, 3.04 % in 2019-20, 2.48% in 20220-21 and 2.14 % in 2021-22, which is lowest in study period.

Table 5. Contribution to Government to NVA Ratio

Year	Contribution to Government	NVA	Ratio (in %)
2017-18	822.85	4471.98	18.40
2018-19	-54.15	4600.88	-1.18
2019-20	1092.15	5595.96	19.52
2020-21	884.75	5657.77	15.64
2021-22	1453.43	6819.05	21.31

Source: Annual reports of Ambuja Cement Ltd

The table shows that how much portion of the total value is dedicated to government. This ratio is showing the mixed trend during the study period. It was 18.40 % in 2017-18 then it got sudden downfall and hit to -1.18 % but in the next year it recovered and was increased to 19.52 %. Then again in the next year it was decreased to 15.64 % and in the last year (2021-22), it was highest at 21.31 %.

Table 6. Contribution to Company (itself) to NVA Ratio

Year	Contribution to Company (Itself)	NVA	Ratio (in %)
2017-18	1932.11	4471.98	43.20
2018-19	2960.16	4600.88	64.34
2019-20	2763.19	5595.96	49.38
2020-21	3092.4	5657.77	54.66
2021-22	3690.81	6819.05	54.12

Source: Annual reports of Ambuja Cement Ltd

The table shows the data about contribution to company ratio. This ratio reveals hat how much of the total NVA company kept aside for it business use instead of giving it to other stakeholders.

This ratio was lowest in 2017-18 at 43.20 %. Which was increased to its highest at 64.34 % in 2018-19. After that it went down to 49.38 % in 2019-20. In next year (2020-21), it was increased to 54.66 % then it shows a slight decrease in 2021-22 and recorded at 54.12 %.

Application of Chi-Square

Chi-Square Test: For the purpose of the analysis of data, researcher used Chi-Square test, one of the non-parametric statistical test (as per the requirement of data). Here, chi-square for goodness of fit is used. If expected data fits actual data, then it can be said fit is good. For this study if fit is good then performance of this company is consistent otherwise, it is inconsistent.

* Oi = Observed Frequencies (calculated ratios)

** Ei = Expected Frequencies (calculated by total Oi/ No. of years)

(Ei is calculated on the basis of the assumption that progress of the company is constant or Consistent.)

Table 7. Application of Chi-Square on NVA to Sales Ratio

Year	*Oi	**Ei	Oi-Ei	Oi- Ei^2	$Oi-Ei^2/Ei$
2017-18	18.94	20.776	-1.83	3.363215	0.1619
2018-19	17.67	20.776	-3.11	9.660458	0.4650
2019-20	20.65	20.776	-0.13	0.016746	0.0008
2020-21	23.08	20.776	2.30	5.297857	0.2550
2021-22	23.54	20.776	2.77	7.650783	0.3683
Calculated Value of Chi-Square					**1.2509**

This table presents the application of the Chi-Square test to assess the goodness of fit between expected and observed data for the NVA to Sales Ratio of Ambuja Cement Ltd. The table includes the observed frequencies (Oi), expected frequencies (Ei), the differences between observed and expected frequencies (Oi-Ei), the squared differences (Oi-Ei)^2, and the ratio of squared differences to expected frequencies (Oi-Ei)^2/Ei for each year from 2017-18 to 2021-22. The calculated value of Chi-Square is 1.2509.

The Chi-Square value of 1.2509 is compared to the table value (critical value) at a specified level of significance and degrees of freedom. If the calculated value is less than the critical

value, the null hypothesis (H0) is accepted, indicating a good fit between the observed and expected data for the NVA to Sales Ratio. Therefore, for this ratio, the performance of Ambuja Cement Ltd is consistent over the study period.

Table 8. Application of Chi-Square on Contribution to Employees to NVA Ratio

Year	*Oi	**Ei	Oi-Ei	Oi- Ei^2	Oi- Ei^2/Ei
2017-18	33.79	28.93	4.86	23.65395	0.82
2018-19	33.13	28.93	4.20	17.65798	0.61
2019-20	28.07	28.93	-0.86	0.740706	0.03
2020-21	27.23	28.93	-1.70	2.90268	0.10
2021-22	22.42	28.93	-6.51	42.31922	1.46
Calculated Value of Chi-Square					**3.02**

This table illustrates the application of the Chi-Square test to evaluate the fit between expected and observed data for the Contribution to Employees to NVA Ratio of Ambuja Cement Ltd. It includes the observed frequencies (Oi), expected frequencies (Ei), differences between observed and expected frequencies (Oi-Ei), squared differences (Oi-Ei)^2, and the ratio of squared differences to expected frequencies (Oi-Ei)^2/Ei for each year from 2017-18 to 2021-22. The calculated value of Chi-Square is 3.02.

Similar to Table No. 7, the Chi-Square value of 3.02 is compared to the critical value to determine the goodness of fit. If the calculated value is less than the critical value, the null hypothesis (H0) is accepted, suggesting a good fit between observed and expected data for the Contribution to Employees to NVA Ratio. Thus, Ambuja Cement Ltd's performance in allocating value to employees appears consistent over the study period.

Table 9. Application of Chi-Square on Contribution to Providers of loan capital to NVA Ratio

Year	*Oi	**Ei	Oi-Ei	Oi- Ei^2	Oi- Ei^2/Ei
2017-18	4.60	3.19	1.41	1.988288	0.62
2018-19	3.71	3.19	0.52	0.266063	0.08
2019-20	3.04	3.19	-0.15	0.023845	0.01
2020-21	2.48	3.19	-0.71	0.506429	0.16
2021-22	2.14	3.19	-1.05	1.110759	0.35
Calculated Value of Chi-Square					**1.22**

This table demonstrates the application of the Chi-Square test to assess the fit between expected and observed data for the Contribution to Providers of loan capital to NVA Ratio of Ambuja Cement Ltd. It includes the observed frequencies (Oi), expected frequencies (Ei), differences between observed and expected frequencies (Oi-Ei), squared differences (Oi-Ei)^2, and the ratio of squared differences to expected frequencies (Oi-Ei)^2/Ei for each year from 2017-18 to 2021-22. The calculated value of Chi-Square is 1.22.

Similarly, the Chi-Square value of 1.22 is compared to the critical value to determine the goodness of fit. If the calculated value is less than the critical value, the null hypothesis (H0) is accepted, indicating a good fit between observed and expected data for the Contribution to Providers of loan capital to NVA Ratio. Thus, Ambuja Cement Ltd's performance in allocating value to loan capital providers seems consistent over the study period.

Table 10. Application of Chi-Square on Contribution to Government to NVA Ratio

Year	*Oi	**Ei	Oi-Ei	Oi- Ei^2	Oi- Ei^2/Ei
2017-18	18.40	14.74	3.66	13.40827	0.91

2018-19	-1.18	14.74	-15.92	253.3493	17.19
2019-20	19.52	14.74	4.78	22.81742	1.55
2020-21	15.64	14.74	0.90	0.806021	0.05
2021-22	21.31	14.74	6.57	43.22089	2.93
Calculated Value of Chi-Square					**22.63**

This table showcases the application of the Chi-Square test to evaluate the fit between expected and observed data for the Contribution to Government to NVA Ratio of Ambuja Cement Ltd. It includes the observed frequencies (Oi), expected frequencies (Ei), differences between observed and expected frequencies (Oi-Ei), squared differences (Oi-Ei)^2, and the ratio of squared differences to expected frequencies (Oi-Ei)^2/Ei for each year from 2017-18 to 2021-22. The calculated value of Chi-Square is 22.63.

The Chi-Square value of 22.63 is compared to the critical value to determine the goodness of fit. If the calculated value exceeds the critical value, the null hypothesis (H0) is rejected, indicating a poor fit between observed and expected data for the Contribution to Government to NVA Ratio. Thus, Ambuja Cement Ltd's performance in contributing value to the government appears inconsistent over the study period, necessitating further investigation and potentially corrective measures.

Table 11. Application of Chi-Square on Contribution to Company (itself) to NVA Ratio

Year	*Oi	**Ei	Oi-Ei	Oi- Ei^2	Oi- Ei^2/Ei
2017-18	43.20	53.14	-9.94	98.72674	1.86
2018-19	64.34	53.14	11.20	125.4175	2.36
2019-20	49.38	53.14	-3.76	14.15038	0.27
2020-21	54.66	53.14	1.52	2.30304	0.04
2021-22	54.12	53.14	0.98	0.970202	0.02
Calculated Value of Chi-Square					**4.55**

This table displays the application of the Chi-Square test to assess the fit between expected and observed data for the Contribution to Company (itself) to NVA Ratio of Ambuja Cement Ltd. It includes the observed frequencies (Oi), expected frequencies (Ei), differences between observed and expected frequencies (Oi-Ei), squared differences (Oi-Ei)^2, and the ratio of squared differences to expected frequencies (Oi-Ei)^2/Ei for each year from 2017-18 to 2021-22. The calculated value of Chi-Square is 4.55.

Similarly, the Chi-Square value of 4.55 is compared to the critical value to determine the goodness of fit. If the calculated value is less than the critical value, the null hypothesis (H0) is accepted, indicating a good fit between observed and expected data for the Contribution to Company (itself) to NVA Ratio. Thus, Ambuja Cement Ltd's performance in retaining value for internal investments seems consistent over the study period.

Table 12. Result of the Study

Ratio	Calculated Value	Table Value	Result
NVA to Sales	1.25	9.488	h_0 is accepted
Contribution to Employees to NVA	3.02	9.488	h_0 is accepted
Contribution to Providers of loan capital to NVA	1.22	9.488	h_0 is accepted
Contribution to Government to NVA	22.63	9.488	h_0 is rejected
Contribution to Company (Itself) to NVA	4.55	9.488	h_0 is accepted

This table provides a summary of the Chi-Square test results for all the analyzed ratios. It includes the calculated Chi-Square values and the decision outcomes (Accept/Reject) for each

ratio. Additionally, it highlights the level of significance (α) and the degrees of freedom (df) considered in the analysis.

The summary table presents the decision outcomes of the Chi-Square tests conducted for each ratio. If the calculated Chi-Square value is less than the critical value at the specified level of significance, the null hypothesis (H0) is accepted, indicating a good fit between observed and expected data. Conversely, if the calculated Chi-Square value exceeds the critical value, the null hypothesis is rejected, suggesting a poor fit between observed and expected data. This summary provides an overall assessment of the consistency of Ambuja Cement Ltd's performance across various financial activities analyzed in the study (Swaminathan et al., 2013).

As per the statistical test applied on the given data, the result is clear that shows that the calculated value for the NVA to Sales ratio, Contribution to employees to NVA ratio, Contribution to Providers of loan capital to NVA ratio and Contribution to company(itself) to NVA ratio is less than the table value (Critical value) of 9.488 (at 5 % level of significance and 4 degree of freedom). Thus, researcher failed to reject the null hypotheses for above ratios. It can be said that the "fit" between Actual data and Expected data is good. It shows that for these ratios performance of the company is consistent.

On the other hand, the calculated value of Contribution to Government to NVA ratio is higher than the table value (critical value) of 9.488. Therefore, researcher failed accept the null hypothesis. Thus, for this ratio the expected data does not "fit" actual data. It shows the inconsistency of the company for this particular ratio.

Actual data of Ambuja Cement ltd for NVA to Sales ratio, fits Expected data, which shows that this ratio is consistent over a period of time, which is a good for company. Contribution to Employees to NVA ratio is a bit higher than ideal but still company is able to maintain at a stable rate which is beneficial to it (Eeckhout, 2022). Company has a very low amount of debt which is reflected in Contribution to providers of loan capital and since that leverage is also limited. Company can take more debt to lever its financial performance (Okeya et al., 2020; Brown et al., 2021). Company has a variability in Contribution to government to NVA ratio, which needs to be corrected in time for betterment of the future of company. Company is harvesting a big amount of the total value, which needed to be invested in much more fruitful and financially appreciable investments (Gardelli Colcioni, 2022).

The evaluation of Ambuja Cement Ltd's performance through Value Added Ratios (VARs) and statistical analysis unveils insightful perspectives into its financial activities over the past five years (Singh et al., 2022). As the global economic landscape continues to evolve, understanding the dynamics of value creation and distribution becomes paramount for stakeholders and investors. In this context, the findings of this study shed light on Ambuja Cement Ltd's financial standing and provide valuable insights for strategic decision-making (Adhikary, 2024; Jayapraksh & Banu, 2024).

The analysis of Net Value Added (NVA) to Sales Ratio indicates the efficiency of Ambuja Cement Ltd's operating activities (Chirodiya & Parmar, 2023). The observed fluctuations in this ratio underscore the company's ability to generate value from its sales operations. The highest ratio recorded in 2021-22 suggests improved operational efficiency, possibly attributed to strategic initiatives or market demand shifts (Buer et al., 2021). Conversely, the lowest ratio in 2018-19 signals potential challenges or adjustments in the company's sales strategies.

The Contribution to Employees to NVA Ratio highlights the company's allocation of value to its workforce. Despite fluctuations, the company has maintained a relatively stable allocation to employees, indicating a commitment to human capital investment and possibly fostering a

positive organizational culture (Edeh et al., 2020). However, the slight decrease in this ratio over the study period warrants attention, urging the company to ensure equitable distribution of value to its employees while optimizing operational efficiency.

The Contribution to Providers of loan capital to NVA Ratio reflects the company's management of debt and financial leverage (Galvão, 2021). The declining trend in this ratio suggests a reduced reliance on external financing sources, possibly indicative of improved financial stability or internal resource management (Leepsa & Mishra, 2016). However, maintaining a balance between debt utilization and equity financing remains crucial for sustaining growth and mitigating financial risks.

The Contribution to Government to NVA Ratio portrays the company's contribution to public welfare through taxes and duties. The fluctuating trend in this ratio underscores the dynamic regulatory environment and tax policies impacting the company's financial obligations (Dev et al., 2020). The significant increase in 2021-22 signals potential shifts in tax regulations or increased profitability, necessitating proactive engagement with government authorities for tax planning and compliance.

The Contribution to Company (itself) to NVA Ratio elucidates the company's retention of value for internal investments and growth initiatives. The observed fluctuations in this ratio reflect strategic decisions regarding capital reinvestment, dividend distributions, or expansion endeavors (Munir et al., 2024). While a higher retention ratio signifies confidence in future growth prospects, prudent allocation of retained earnings is essential for maximizing shareholder value and sustaining competitiveness.

The application of Chi-Square tests provides statistical validation of the consistency of Ambuja Cement Ltd's performance across various financial activities. The acceptance of null hypotheses for most ratios indicates a good fit between expected and observed data, affirming the company's overall financial stability and strategic alignment (Almajali et al., 2022). However, the rejection of the null hypothesis for the Contribution to Government to NVA Ratio underscores the need for further examination and potentially corrective measures to ensure regulatory compliance and sustainable fiscal practices (Aruna, 2022).

Conclusion

So overall, Ambuja Cement Ltd is consistent in its most of its financial activities. That lead to the conclusion that Ambuja Cement Ltd is in a good situation and having a good financial performance in last five years which is expected to grow more in future time. So as per the data it can be said that company has a very bright future if they utilize the resources and opportunities in sound manner.

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