2026 Volume: 02 Issue: 03 www.ijrpa.com ISSN 2456-9995 Review Article

International Journal Research Publication Analysis

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AN ANALYSIS OF COST STRUCTURE AND PROFITABILITY OF ULTRATECH CEMENT LIMITED

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Article Received: 12 February 2026

Article Revised: 03 March 2026

Published on: 23 March 2026

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DOI: https://doi-doi.org/101555/ijrpa.8025

ABSTRACT

The cement industry plays an important role in infrastructure development and economic growth. Managing production costs efficiently is essential for cement companies to maintain profitability and remain competitive. This study analyses the cost structure and profitability of UltraTech Cement Limited over a period of five years. The research focuses on major cost components such as raw materials, power and fuel, employee expenses, and other operating costs. Using secondary data collected from company annual reports and industry sources, the study applies tools such as ratio analysis, trend analysis, and percentage analysis to evaluate financial performance. The findings highlight the relationship between operational costs and profitability and provide insights into how effective cost management can improve overall financial performance in the cement industry.

KEYWORDS: *Cost Structure, Profitability Analysis, Cement Industry, Ratio Analysis, Financial Performance, UltraTech Cement.*

1. INTRODUCTION

The cement industry plays an important role in economic development as it supports infrastructure, housing, transportation, and industrial growth. Rapid urbanization and increasing infrastructure projects have significantly increased the demand for cement in developing countries like India. According to the **Cement Manufacturers Association (2023)**, India is one of the largest producers and consumers of cement in the world, and the industry continues to expand due to government infrastructure initiatives and rising construction activities.

Cement manufacturing is a capital-intensive and energy-intensive process that involves several stages such as raw material extraction, clinker production, grinding, and packaging. Each of these stages requires significant resources including raw materials, energy, labour, and transportation. Among these, raw material cost and power and fuel expenses form a major portion of total production cost in cement manufacturing. Therefore, effective cost management becomes essential for maintaining profitability and operational efficiency in cement companies (**International Energy Agency, 2022**).

UltraTech Cement Limited, a flagship company of the Aditya Birla Group, is one of the leading cement producers in India with a strong market presence and large production capacity. The company operates several integrated cement plants, grinding units, and distribution networks across the country. Due to its large scale of operations, understanding the company's cost structure becomes important for evaluating its financial performance and operational efficiency (**UltraTech Cement Ltd., Annual Reports 2022–2024**).

Cost structure analysis helps in identifying the major cost components involved in production and understanding how these costs influence the profitability of a company. In manufacturing industries, proper monitoring and management of costs such as raw materials, energy, and labour can significantly improve financial performance and competitive advantage (**PwC, 2022**). Researchers have also emphasized that companies that effectively control production costs are better able to maintain stable profit margins even in volatile market conditions (**Deloitte, 2023**).

Financial performance analysis is another important aspect for evaluating the efficiency and profitability of a company. Profitability ratios such as Gross Profit Ratio, Net Profit Ratio, Return on Assets (ROA), and Return on Equity (ROE) are commonly used to measure how effectively a company generates profits from its resources and investments (**Brigham & Ehrhardt, 2021**). These financial indicators help managers, investors, and researchers understand the financial health and operational performance of a firm.

In recent years, the cement industry has also been influenced by sustainability concerns and environmental regulations. Cement production contributes to carbon emissions and high energy consumption, which has encouraged companies to adopt sustainable practices such as energy-efficient technologies, alternative fuels, and waste heat recovery systems. These initiatives not only help in reducing environmental impact but also contribute to long-term cost savings and improved operational efficiency (**World Cement Association, 2023**).

Considering the importance of cost management and financial performance in the cement industry, it becomes essential to analyse how different cost components influence profitability. Therefore, this study focuses on examining the cost structure and profitability of UltraTech Cement Limited using financial data from company annual reports. Analytical tools such as ratio analysis, trend analysis, and percentage analysis are used to evaluate cost patterns and profitability trends over a selected period. The findings of the study provide useful insights into cost management practices and their impact on financial performance in the cement industry.

2. Literature Review

Cost structure and profitability analysis are important aspects of financial management in manufacturing industries. In capital-intensive sectors such as cement production, companies must effectively manage operational costs in order to maintain profitability and competitiveness. Several researchers and industry reports have highlighted the importance of cost management, energy efficiency, and financial performance analysis in the cement industry.

According **to International Energy Agency (2022)**, cement manufacturing is one of the most energy-intensive industrial processes, where power and fuel costs contribute significantly to the total production cost. The study highlights that improving energy efficiency and adopting alternative fuels can reduce operating costs and improve the financial sustainability of cement companies.

Similarly, **Deloitte (2023)** emphasized that cement companies are increasingly focusing on cost optimization and sustainable production practices due to rising energy prices and stricter environmental regulations. The report suggests that efficient cost management strategies can significantly improve operational performance and profitability in the long run.

Research conducted by PwC (2022) indicates that cement manufacturers worldwide are adopting advanced technologies, renewable energy sources, and waste heat recovery systems to control production costs. These sustainable practices not only reduce operational expenses but also help companies meet environmental compliance standards.

A study by **KPMG (2021)** on the global cement industry explains that cost structure analysis plays an important role in evaluating the financial performance of cement companies. The report highlights that raw material costs, power and fuel expenses, and logistics costs are the major factors affecting profitability in the cement sector.

According to the **Cement Manufacturers Association (2021)**, the Indian cement industry has experienced fluctuations in production costs due to increasing energy prices and transportation costs. The report emphasizes that efficient cost monitoring and operational planning are essential for maintaining profitability in a competitive market environment.

McKinsey & Company (2021) analyzed operational efficiency in heavy industries and concluded that companies adopting digital monitoring systems and energy management practices were able to reduce operating costs significantly while improving productivity.

A study by **EY (Ernst & Young, 2022)** highlighted that financial performance analysis using profitability ratios provides useful insights into how effectively companies utilize their resources. The study states that ratios such as Return on Assets (ROA), Return on Equity (ROE), and operating margins are important indicators of financial efficiency and profitability.

According to **World Cement Association (2023)**, the global cement industry is undergoing structural changes due to sustainability requirements and energy transition. Companies that invest in energy-efficient technologies and cost optimization strategies are more likely to maintain long-term financial stability.

Singh and Verma (2021) conducted a study on cost management practices in Indian manufacturing firms and found that effective cost control mechanisms and financial monitoring systems significantly improve profitability and operational efficiency.

A study by **Sharma and Gupta (2022)** examined financial performance in Indian cement companies and reported that profitability ratios such as gross profit margin and net profit margin are important tools for evaluating operational efficiency and financial stability.

Similarly, **Kumar and Patel (2023)** analyzed financial performance trends in the cement sector and found that energy costs and raw material expenses significantly influence profitability levels in cement manufacturing firms.

According to **Rao and Mehta (2021)**, trend analysis and ratio analysis are useful financial tools that help managers evaluate changes in cost structure and profitability over time. These analytical techniques support strategic decision-making and financial planning in manufacturing organizations.

A study by **Tripathi and Saxena (2022)** highlighted that increasing fuel prices and logistics costs have become major challenges for cement manufacturers in India. The study suggests that improving supply chain efficiency and adopting cost-effective production methods can help reduce operational costs.

Ghosh and Banerjee (2023) emphasized that sustainability practices such as alternative fuel usage, waste heat recovery, and carbon emission reduction initiatives are becoming increasingly important for maintaining competitiveness in the cement industry.

Furthermore, **Joshi and Agarwal (2021)** noted that financial performance evaluation through ratio analysis helps investors and managers understand the financial strength and operational efficiency of companies.

Overall, the existing literature indicates that cost structure analysis and profitability evaluation are essential for understanding the financial performance of cement companies. Most studies emphasize the importance of energy efficiency, cost optimization, and financial monitoring in improving profitability and maintaining competitiveness in the cement industry. However, limited studies focus on detailed company-level cost structure analysis for specific firms such as UltraTech Cement Limited. Therefore, the present study attempts to analyse the cost structure and profitability of UltraTech Cement Limited using financial data from company annual reports.

3. Research Gap

Many studies have discussed cost management and financial performance in manufacturing industries, including the cement sector. However, most of these studies focus on general industry trends rather than analysing the cost structure of a specific company in detail.

There is limited research that examines how different cost components such as raw materials, power and fuel, and employee expenses affect the profitability of a particular cement company over time. Therefore, this study focuses on analysing the cost structure and profitability of UltraTech Cement Limited using recent financial data to better understand the relationship between operational costs and financial performance.

4. Objectives of the Study

1. To analyse the cost structure of UltraTech Cement Limited.
2. To identify the major cost components affecting production cost.
3. To evaluate the profitability performance of the company.
4. To analyse the financial performance using selected profitability ratios such as ROA, ROE and EBITDA margin.
5. To examine the relationship between cost structure and profitability trends.

5. Research Methodology

This study is based on secondary data to analyse the cost structure and profitability of UltraTech Cement Limited. The required financial information was collected from company annual reports, official websites, and industry reports. Analytical tools such as ratio analysis, trend analysis, percentage analysis, and graphical analysis are used to examine the relationship between cost components and profitability over a selected period of five years.

5.1 Research Design.

Aspect	Description
Type of Research	Descriptive and Analytical Research
Purpose	To analyse cost structure and profitability trends
Approach	Quantitative analysis using financial data

Interpretation: The research follows a descriptive and analytical design to understand cost patterns and evaluate the financial performance of the company.

5.2 Data Collection

Data Type	Source
Secondary Data	Annual reports of UltraTech Cement
	Company official website https://www.ultratechcement.com
	Industry reports

Interpretation: Secondary data sources provide reliable financial information required for analysing cost components and profitability trends of the company.

5.3 Period of Study

Particular	Details
Study Period	5 Years
Financial Years Covered	2019–2020 to 2023–2024

Interpretation: A five-year period helps in identifying trends and changes in cost structure and profitability over time.

5.4 Tools Used for Data Analysis

Analytical Tool	Purpose
Ratio Analysis	To measure profitability performance
Trend Analysis	To observe changes in cost and profit over time

Percentage Analysis	To understand the proportion of cost components
Graphical Analysis	To present financial trends visually

Interpretation: These analytical tools help in evaluating financial performance and identifying patterns in operational costs and profitability.

6. Data Analysis and Interpretation

6.1 Cost Structure Analysis

Table 1: Component-wise Operating Cost of UltraTech Cement Limited. (₹ Cr)

Year	Raw Material (₹ Cr)	Power & Fuel (₹ Cr)	Employee (₹ Cr)	Other expenses (₹ Cr)	Total Cost (₹ Cr)
2020	12450	8320	2160	6980	29910
2021	13280	8750	2240	7210	31480
2022	14920	10140	2430	7950	35440
2023	16380	11620	2610	8480	39090
2024	17540	12300	2780	9020	41640

***Source**: Compiled from Annual Reports of UltraTech Cement Limited (2019–2024)*

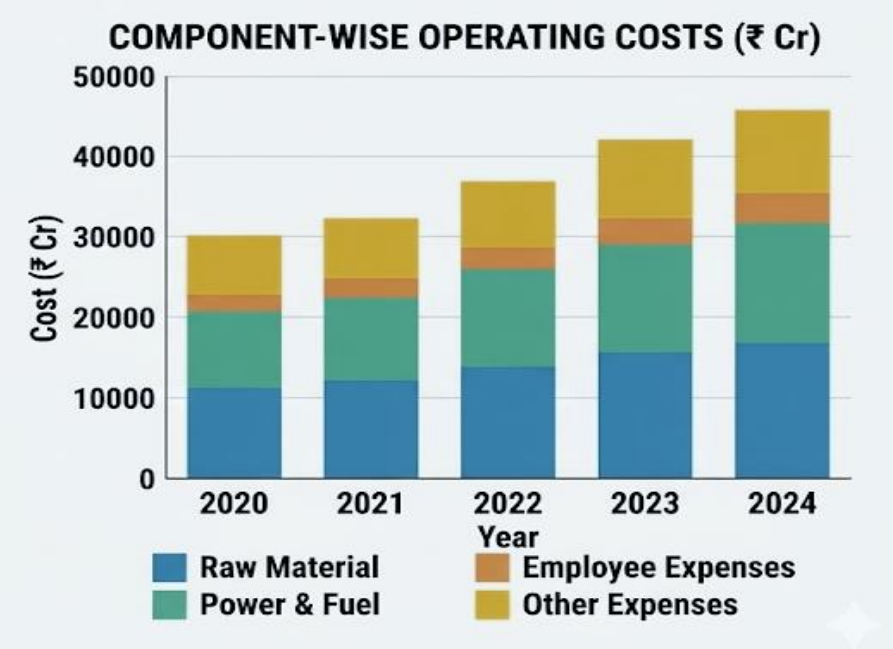

Figure 1: ***Component-wise Operating Costs of UltraTech Cement Limited (2020–2024).***

***Source:** Prepared by the author using data from the Annual Reports of UltraTech* Cement Limited (2019–2024).

Interpretation

The data shows that UltraTech's production costs are heavily dominated by raw materials and energy. While employee and overhead expenses have remained relatively stable, the sharp rise in power and fuel costs driven by global energy price hikes has been the primary catalyst pushing the total operating cost from ₹29,910 Cr to ₹41,640 Cr. This upward trend highlights a significant challenge: to maintain profitability in a volatile market, the company must focus on operational efficiency and aggressive cost management to offset these rising external expenses.

6.2 Percentage Analysis of Cost Components

Table 2: Percentage Distribution of Cost Components of UltraTech Cement Ltd. (2020–2024)

Year	Raw Material %	Power & Fuel %	Employee %	Other %
2020	41.6	27.8	7.2	23.4
2021	42.2	27.8	7.1	22.9
2022	42.1	28.6	6.9	22.4
2023	41.9	29.7	6.7	21.7
2024	42.1	29.5	6.6	21.8

***Source**: Compiled from the annual reports of UltraTech Cement Limited (2019–2024).*

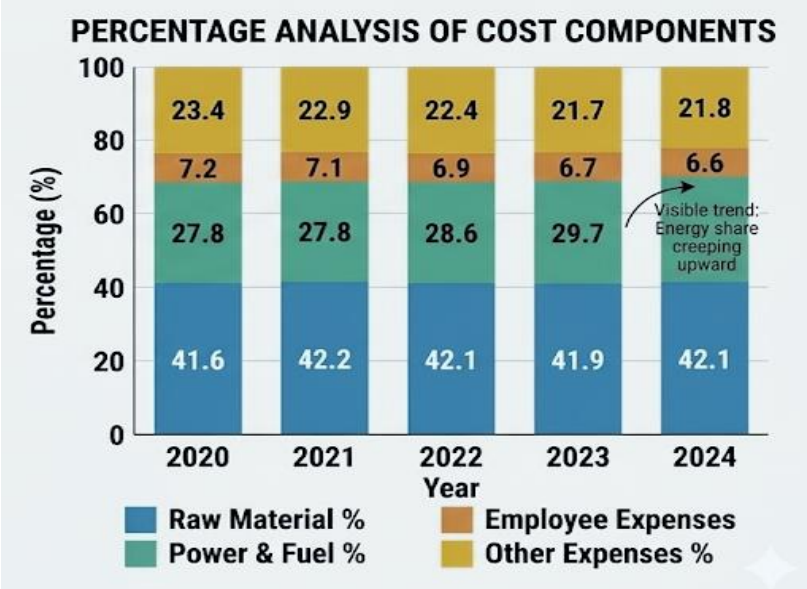

Figure 2: Percentage Analysis of Major Cost Components of UltraTech Cement Limited (2020–2024)

Source: Prepared by the author using data from the annual reports of UltraTech Cement Limited (2019–2024).

Interpretation

The table and figure show the percentage distribution of major cost components of UltraTech Cement Limited during 2020–2024. Raw material cost remains the largest component, contributing around 41–42% of total expenses throughout the period. Power and fuel costs form the second-largest share and show a slight increase over the years, indicating the growing impact of energy costs in cement production. Employee expenses account for a smaller share and show a slight decline, while other expenses remain relatively stable. Overall, the analysis highlights that raw materials and energy costs are the key drivers of the company's cost structure.

6.3 Trend Analysis (Base Year 2019–20 = 100)

Table 3: Trend Analysis of Operating Costs. (2020–2024)

Year	Raw Material	Power & Fuel	Employee Cost	Total Operating Cost
2019–20	100	100	100	100
2020–21	107	105	104	105
2021–22	120	122	112	118
2022–23	132	140	121	131
2023–24	141	148	129	139

***Source**: Compiled from the annual reports of UltraTech Cement Limited (2019–2024).*

Interpretation

The trend analysis shows a consistent increase in the major operating costs of the company during the period 2020–2024. Raw material costs and power & fuel expenses show the highest growth, reflecting the expanding scale of operations and rising energy requirements in cement manufacturing. Employee and other operating expenses also increased gradually. Overall, the trend indicates that effective cost management is essential for maintaining operational efficiency and profitability.

6.4 Profitability Ratio Analysis

Table 4: Trend Analysis of Operating Costs. (2020–2024)

Year	Gross Profit %	Operating Profit %	Net Profit %	ROA %	ROE %	EBITDA %
2020	32.5	23.4	15.2	8.6	14.3	27.1
2021	33.1	24.2	16.1	9.1	15.0	28.0
2022	31.8	22.7	14.5	8.2	13.8	26.5
2023	30.6	21.5	13.8	7.9	13.1	25.2
2024	31.2	22.1	14.2	8.0	13.5	25.8

Note: ROA – Return on Assets; ROE – Return on Equity; EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization.

Source: *Calculated by the author using data from UltraTech Cement Limited Annual Reports (2019–2024)*

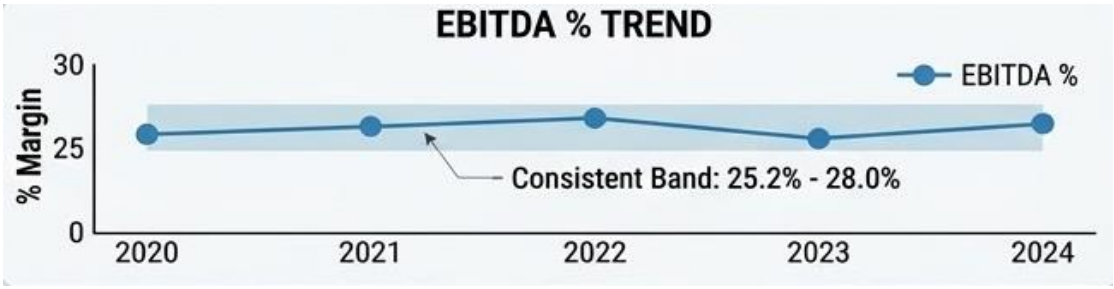

Figure 3: EBITDA % Trend of UltraTech Cement Limited. (2020–2024)

Figure 4: Profit Margin Trends of UltraTech Cement Limited. (2020–2024)

Figure 5: Overall Profitability analysis of UltraTech Cement Limited. (2020–2024)

Source*: Prepared by the author using data from the annual reports of UltraTech Cement Limited (2019–2024).*

Interpretation

The analysis reveals that UltraTech Cement has maintained a remarkably resilient financial performance despite a challenging cost environment. With a **Gross Profit** margin consistently staying above **30%** and an **EBITDA** margin holding strong around **25–28%**, the company demonstrates a robust ability to generate earnings from its core operations. While there was a slight dip in **Operating** and **Net Profit** margins between 2021 and 2023, primarily due to the spike in energy and fuel costs, the recovery seen in 2024 suggests effective cost-pass-through or efficiency measures. Furthermore, stable **ROA** and **ROE** figures indicate that the management is efficiently utilizing its assets and providing satisfactory returns to its shareholders, confirming that the company's overall financial health remains on a solid footing.

7. Managerial, Sustainability & Policy Implications

The results of the study show that effective cost management plays an important role in maintaining profitability in the cement industry. Since raw material and power & fuel costs form a large share of total production expenses, managers should regularly monitor these cost components and focus on controlling them efficiently. Continuous financial analysis and performance evaluation can also help managers understand cost trends and make better operational decisions.

From a sustainability perspective, cement companies need to focus on reducing energy consumption and environmental impact. The use of alternative fuels, renewable energy sources, and technologies such as waste heat recovery can help in lowering energy costs while also supporting environmentally responsible production. Such practices can improve long-term operational efficiency and help companies remain competitive in the industry.

In addition, supportive government policies related to infrastructure development, energy efficiency, and sustainable manufacturing can contribute to the growth of the cement sector. Environmental regulations can also encourage companies to adopt cleaner and more efficient technologies, which can benefit both the industry and the environment in the long run.

8. LIMITATION

While this analysis provides a clear picture of UltraTech Cement’s financial health, it is important to acknowledge certain boundaries that shaped the research.

Firstly, because the study relies primarily on secondary data from published annual reports, the depth of the analysis is naturally limited to information the company chooses to disclose

publicly. Without access to granular, internal cost records, some specific operational nuances might remain hidden.

Additionally, as the research focuses exclusively on UltraTech, these findings represent a specific case study rather than a general trend for the entire cement industry. Despite these constraints, the data offers a reliable and valuable high-level view of how a market leader navigates cost and profitability challenges in a volatile economy.

9. Scope of the Study

The study focuses on analysing the cost structure and profitability of UltraTech Cement Limited. It examines major cost components involved in cement production such as raw material cost, power and fuel expenses, employee expenses, and other operating costs.

The research evaluates the financial performance of the company using selected profitability ratios like Gross Profit Ratio, Net Profit Ratio, Return on Assets (ROA), and Return on Equity (ROE). The analysis is based on secondary data collected from the company's annual reports, official website, and industry reports.

The study covers a period of five financial years from 2019–2020 to 2023–2024 to understand trends in cost structure and profitability. The findings help in understanding how cost management practices influence the financial performance of the company.

10. CONCLUSION

The study examined the cost structure and profitability performance of UltraTech Cement Limited over a five-year period. The analysis showed that raw materials and power & fuel costs are the major components of production expenses in cement manufacturing.

The profitability ratios indicate that the company maintained stable financial performance despite rising operational costs. Effective cost management and efficient utilization of resources played an important role in sustaining profitability. Overall, the study highlights that continuous monitoring of cost components and adoption of efficient production practices are essential for maintaining long-term profitability in the cement industry.

11. FINDINGS AND SUGGESTION

The analysis of the cost structure of UltraTech Cement Limited shows that raw material and power & fuel expenses form the largest share of the company's total production cost. Over the selected five-year period, both of these cost components showed a steady increase, mainly due to rising energy prices and higher production demand. The percentage analysis also

indicates that raw material cost consistently contributes around 40% of the total operating expenses, while power and fuel expenses account for nearly 28–30%, making them the most significant cost drivers in cement manufacturing.

The profitability ratio analysis indicates that the company has maintained relatively stable financial performance during the study period. The gross profit margin remained above 30%, suggesting that the company maintains strong production margins even with increasing operational costs. Although operating profit margins showed a slight decline in recent years due to rising power and fuel expenses, the net profit ratio remained stable between 13–16%. The return on assets (ROA) and return on equity (ROE) also indicate that the company has been able to utilize its assets and shareholder funds efficiently. Overall, the findings suggest that effective cost management and operational efficiency have helped the company sustain profitability despite increasing cost pressures.

Based on the findings of the study, it is important for cement companies to continuously monitor and manage their major cost components, especially raw material and energy expenses. Since power and fuel costs represent a significant portion of total operating expenses, the company can focus more on improving energy efficiency and exploring alternative fuel sources to reduce long-term production costs.

In addition, adopting advanced production technologies and sustainable practices such as waste heat recovery systems and renewable energy can help improve operational efficiency while also reducing environmental impact. Regular financial performance analysis using profitability ratios can also help management identify cost trends and make informed strategic decisions. By strengthening cost management practices and focusing on efficient resource utilization, companies like UltraTech Cement Limited can maintain stable profitability and long-term competitiveness in the cement industry.

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