Cost of Capital: A Study on Cost of Capital with Reference to Ultratech Cement Limited

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Abstract

In this study we have examined the capital structure, financial leverage as well as Weighted Average Cost of Capital (WACC) of UltraTech Cement over a particular period of FY2020-21 to FY2025-26. Our primary objective is the evaluation of changes that has happened in the company's debt equity structure, financial risk, interest servicing capacity and cost of capital. We have used secondary data here which are obtained from Annual reports and audited financial statements. Various ratios and WACC has been analysed in this study.

Through the findings we can know that these is less dependence on debt until FY2023-24, the debt equity ratio has declined from 0.46 to 0.17. Leverage has increased in FY2024-25 and it was 0.31. But it declined slightly in FY2025-26 to 0.28. WACC fluctuations can also be seen between 10.56% and 15.10% also reaching to 13.19% in FY2025-26. Overall, we can say that UltraTech has maintain a relatively strong financial position but some factors need to be considered like careful management of leverage and financing costs. These are really important to maintain financial stability as well as to create shareholder value.

Keywords

Cost of Capital, WACC, UltraTech Cement, Cost of equity, Cost of debt, Ratio analysis.

1. Introduction

Cost of capital is a central concept in corporate finance as it links financing decisions and firm value. As we know a company usually obtains funds through debts, equity and in some cases, preference capital. Every source has a different contractual cost, risk profile and tax treatment. These financial costs have a weighted average that provides a benchmark against which the company can assess investment opportunities and capital decisions. The theoretical foundation of modern capital-structure analysis was strengthened by Modigliani and miller (1958), they demonstrated how important the financing structure is to understand the relationship between capital cost and firm value under stated assumptions. In later developments, they included the capital assets pricing model (CAPM), provided a framework for estimating the return by equity investors (Sharpe,1964).

The importance of cost of capital in Indian cement industry is mandatory because cement manufacturing is highly capital intensive. Most companies need large investments in integrated plants, grinding units, mines, logistics, power infrastructure and environmental technologies. In the end as result, decision regarding the use of debt and equity can influence interest costs, financial risk, shareholder expectations and the ability of a company to undertake expansion. Consolidation and capacity expansion, making capital allocation and financing discipline is also faced by Indian cement sector in relevant for large producers.

For appropriate case analysing UltraTech cement limited is a good option for these issues because its consolidated operations have expanded considerably during the study period. Total capital increased as per shown in the financial dataset from Rs.65,835.73 crore in FY2020 -21 to Rs.1,07,5447.7 crore in FY2025-26. Total debt, meanwhile, moved from Rs.20,487.77 crore to Rs.22,780.66 crore, while total equity including non-controlling

interests increased from Rs.44,180.40 crore to Rs.80,712.44 crore. These movements provide a useful basis for examining changes in leverage and the cost of financing.

Accordingly, the present study analyses UltraTech cement's cost of equity, preferences capital and WACC over FY2020-21 to FY2025-26, with detailed attention to the latest FY2025-26 position. The study also benchmarks selected financial indicators against two major Indian cement peers, Ambuja cements and Shree cement, to provide industry context.

1.2 About the Company

UltraTech Cement is one of India's largest building material companies. It is cement flagship company of Aditya Birla Group. It has various things like grey cement, white cement, ready to use concrete as well as other building materials. The shares of UltraTech Company have been listed on BSE as well as National Stock Exchange of India under BSE code 532538 and NSE Symbol ULTRACEMCO. The history of this company can be seen in the development of L&T cement business. The current name is adopted after 2000s. The company has expanded over a long period of time and by FY 2025-26, it has reported approximately 205.5 MTPA of cement capacity and is still aiming for more growth.

The financial scale of this company is also worth mentioning. At 31st March, 2026, UltraTech's Market Capitalization was 3.17 lakh crore. It can give a market value basis for the equity weight during the WACC Calculation. The investment grade credit ratings are also high of the company, it includes CRISIL AAA/ Stable for major long-term instruments and also CRISIL A1+ for commercial paper. It has supported the financial assessment of debt financing quality.

1.3 Objective of the Study

A study is incomplete without its objectives. The objectives for this topic are given below-

1. Firstly, we need to calculate and analyse the cost of debt, cost of equity, preference capital and weighted average cost of capital (WACC) of UltraTech Cement Limited for of 6 financial years.

2. Then we need to analyse various ratios like debt-equity ratio, equity ratio, debt ratio, capital gearing ratio, interest coverage ratio, proprietary ratio and then examine their movement across the years.

3. Lastly, we need to understand the capital structure, cost of capital and return indicators of UltraTech Cement against other companies like Ambuja cement and Shree cement. Then we need to draw implications for the allocation of capital and also value creation.

1.4 Scope and Limitations

Consolidated data is covered in financial data for UltraTech cement limited from FY2020-2021 to FY2025-26. It includes debt, equity, assets, capital employed, revenue, PBIT, finance, PBT, PAT and related ratios. The principal cost of capital analysis covers cost of debt, cost equity, preference capital and WACC. Peer benchmarking is limited to Ambuja cements and Shree cement.

Standard data is the base of the study from company annual reports, official financial disclosures and publicly available market data. Cost of equity is estimated using CAPM. The FY2025-26 beta used is the current 5-year monthly beta of 0.45 reported by yahoo finance, while the risk-free rate is based on the 10-year Indian government bond yield of 6.69% at 31 March 2026 country-risk premium is the 7.27% India ERP reported by Damodaran's January 2026 country-risk dataset. Because historical annual beta observations are not consistently disclosed in the company's annual reports the historical WACC series is presented as an indicative benchmark using the FY2025 -26 CAPM-based cost of equity with historical capital weights; the primary WACC conclusion

is the FY2025-26 market-value WACC.

2. Literature Review

1. Bhayani (2009) has studied the relationship between financial leverage, cost of capital and also firm valuation in the Indian cement industry. In this study there is importance of financial decisions in knowing the cost of capital and firm value. This can provide a very useful information regarding direct theoretical and industry level basis of UltraTech Cement.

2. Chester and Pillai (2014) studied and analysed economic value added among various Indian companies which included UltraTech Cement has well. This has focused on the importance of considering cost of capital during evaluation to know if a company is creating economic value or not.

3. Madhavi and Prasad (2015) analysed corporate performance by use of value-added measures by cement and FMCG companies. There is cost of debt, cost of equity and WACC while analysis of EVA. It creates a connection between cost of capital components and also shareholder value.

4. Jacob and Jay Krishnan (2015) studied profits among Indian cement companies. There is analysis of debt ratios and debt equity ratios here which gives a basis of UltraTech's financing mix before the calculation of cost of capital.

5. Mohan Kumar (2016) studied relationship between cost of capital and firm value in Indian cement companies which includes UltraTech. In this study there is analysis of cost of capital, cost of debt, cost of equity, and this makes it one the most relevant study for today.

6. Chakraborty (2018) studied various Indian cement companies by use of WACC and EVA. Through the findings he stated the relevance of operating performance for cost of capital employed. This can support comparison between the two - ROCE and WACC.

7. Kumar (2020) analysed value creation models to shareholder value of UltraTech cement. There is a very strong relationship between FVA and shareholder value. It states the importance of value-based performance measures to UltraTech.

8. Nagesha and Renuka Murthy (2021) analysed profits as well as capital structure, WACC among some selected Indian cement companies. In this study, there is consideration of debt, equity, and cost of capital relationships, it supports the inclusion of profit ratios in the present analysis.

9. Lavina and Saathiya (2023) has compared the overall financial performance of Shree Cement and UltraTech Cement with the help of annual data and also financial ratios. There is peer comparison in this study which makes it absolutely relevant to present day scenarios.

10. Singh and Babbar (2025) studied various factors of capital structure and equity among selected Indian cement companies including UltraTech Cement. Factors identified here are liquidity, profitability, company size, growth, tax rate, cost of debt as well as as interest covered.

Data of UltraTech Company of 6 years (Table 1)

DATA COLLECTION OF ULTRATECH COMPANY						
Here all financial figures are consolidated and in (Rs) Crore unless stated otherwise						
AREAS	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**
Total Debt (Long-term + Short-term)	20487.77	10202.84	9900.78	10298.39	23030.99	22780.66
Total Equity (Including Non Controlling Interests)	44180.4	50432.21	54380.17	60283.41	73892.84	80712.44
Total Assets	86183.51	83827.79	91386.96	100802.01	133697.15	141376.05
Total Capital Employeed (calculated)	65835.75	63672.6	67955.17	73896.05	101332.18	107544.35
Revenue from Operations	44725.8	52598.83	63239.98	70908.14	75955.13	88511.53
PBIDT	12302	12022	11123	13586	13302	17598
PBIT	9602	9307	8235	10440	9287	12953.54
Interest/Finance Cost	1485.65	944.71	822.72	968	1650.54	1871.71
Profit before Tax Expenses (PBT)	7857.64	8364.4	7416.25	9422.22	7528.13	10927.19
Net Profit for the period (PAT)	5461.85	7334.26	5073.4	7003.96	6039.64	8188.35
Profit attributable to Owners of Parent	5463.1	7344.31	5063.96	7005	6039.11	8165.64
Basic EPS (Rs)	189.4	254.64	175.63	243.05	205.3	277.62
Depreciation and Amortisation	2700.23	2714.75	2887.99	3145.3	4014.95	4644.46
Other Income	734.17	507.81	503.08	616.95	744.17	577.51
Total Income	45459.97	53106.64	63743.06	71525.09	76699.3	89089.04
Note: Total Capital Employed = Total Assets - Total Current Liabilities						

Link of Excel (Data collection)

3. Research Methodology

3.1 Data Sources

The study is taken entirely from secondary data. The primary source of company-specific financial information is the consolidated financial data of UltraTech cement limited for financial years FY2020-21 to FY2025-26. The data include total debt, total equity, total equity, total assets, capital employed, revenue from operations, PBIT, interest/financial indicators.

The financial figures have been collected from UltraTech cement's annual reports and official financial disclosures. The study also uses relevant academic research papers, financial-management literature and publicly available market information for the theoretical framework, cost of equity estimation and industry benchmarking. All financial figures used in the ratio analysis are expressed in Rs crore, unless otherwise stated.

3.2 Tools and Techniques

The study uses financial ratio analysis, cost of capital technique, WACC analysis, and peer comparison. The following tools and formulas are applied:

Ratio analysis: Debt-equity ratio, debt ratio, equity ratio, capital gearing ratio, proprietary ratio, and interest coverage ratio.

Cost of debt: Interest/Finance ÷ TotalDebt × 100 (with tax adjustment for after-tax cost of debt)

Cost of equity: Capital pricing model (CAPM).

Cost of preference capital: preference dividend ÷ net proceeds × 100, wherever applicable

Weighted average cost of capital (WACC): Weighted cost of debt, equity and preference capital.

Trend analysis: Year-wise comparison of ratios and cost of capital measures from FY2020-2021 to FY2025-26.

Peer comparison: Comparison of selected financial and capital- structure indicators of UltraTech cement with Ambuja cements and Shree cements.

Software used: Microsoft excel was used organisation, calculations, cross checking, tables, and graphical presentation.

3.3 Period of Study

The study covers FY2020-2021 to FY2025-26, providing a six-year period for analysing changes in UltraTech cement's capital structure, financing costs and financial performance.All six financial years are covered in ratio analysis, while the detailed WACC calculations uses the relevant financial and market inputs for the selected analysis with detailed current- period assessment of cost of capital.

4. Data Analysis and Findings

4.1 WACC Analysis

The following measures are taken for this analysis:

Cost of Equity (Ke): The return which is required by shareholders to invest in a company (in this case, UltraTech Cement Limited) is known as Cost of Equity. We can calculate this with the help of Capital Asset Pricing Model (CAPM)

Formula:

$Ke=Rf+\beta(Rm-Rf)$

Where:

Ke = Cost of Equity Rf = Risk free

rate β = Equity beta
Rm − Rf = Risk premium of equity market

Cost of Debt (Kd): The effective cost which is incurred by the company to use borrowed funds can be called Cost of Debt. Interest usually provides a tax benefit, cost of debt after tax is in usage in WACC.

Formula:

Kd = Interest/(Total debt)

After tax:

Kd(AT) = Kd(1 − T)

Where:

- Kd = Pre − tax cost of debt
- T = Effective tax rate

Weight of equity (We): Weight of Equity can be termed as the proportion or percentage of a company's total capital structure which is financed by equity.

Formula:

We = E/V

Where:

We = Weight of equity V = Equity + Debt
E = Market value of equity

Weight of debt (Wd): The weight of debt can be called as the proportion of a company's total capital structure that is coming from debt financing.

Formula:

We = D/V

Where:

Wd = Weight of debt

D = Market value of debt (Total debt) V= Market

value of equity

Cost of Preference Capital (Kp): The rate of return which is paid by a company to preference shareholders on investment is called as Cost of Preference capital.

Formula:

$Kp = Dp/P \times 100$

Where:

- Kp = Cost of Preference Capital
- Dp = Preference Dividend
- P = Preference Capital

Weight of Preference Capital (Wp): The proportion of a company's total capital structure which can be financed through preference capital is known as Weight of Preference.

Formula:

$Wp = V/P$

Where:

Wp = Weight of Preference Capital P = Preference Capital
V = Total Capital

Calculation of WACC:

$Ko = WACC = (Wd \times Kd) + (We \times Ke) + (Wp \times Kp)$

Where:

Wd = Weight of Debt

Kd = After-tax Cost of Debt We = Weight of Equity
Ke = Cost of Equity

Wp = Weight of Preference Capital Kp = Cost of Preference Capital

WACC Calculation across the years in tabular manner (Table 2)

Particulars	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Total Debt (₹ Cr)	20487.77	10202.84	9900.78	10298.39	23030.99	22, 780.66
Total Debt (₹ Cr)	44180.4	50432.21	54380.17	60283.41	73892.8	80712. 44
Preference Capital (₹ Cr	0	0	0	0	635.09	0
Total Capital (₹ Cr)	64668.17	60635.05	64280.95	70581.8	97558.88	103493.1
After-tax Kd	0.0504	0.0812	0.0569	0.0699	0.0575	0.0616
Cost of Equity	0.1312	0.1273	0.1681	0.1425	0.138	0.1518
Cost of Preference	N/A	N/A	N/A	N/A	0.073	N/A
Debt Weight	0.3168	0.1683	0.154	0.1459	0.2361	0.2201
Equity Weight	0.6832	0.8317	0.846	0.8541	0.7574	0.7799
Preference Weight	0	0	0	0	0.0065	0
WACC	0.1056	0.1195	0.1511	0.1319	0.1186	0.1319

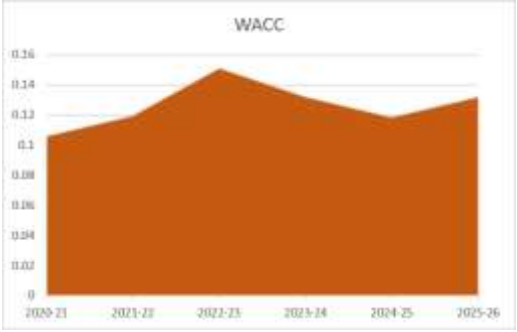
Excel link for WACC calculation table

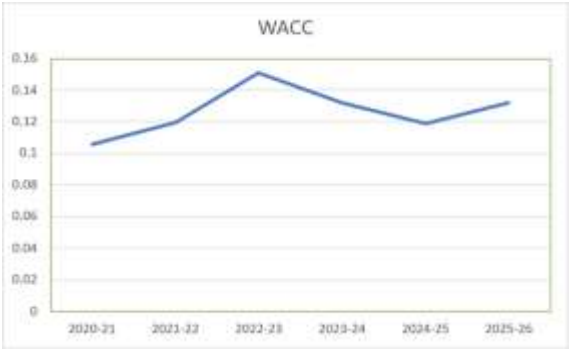
WACC Analysis

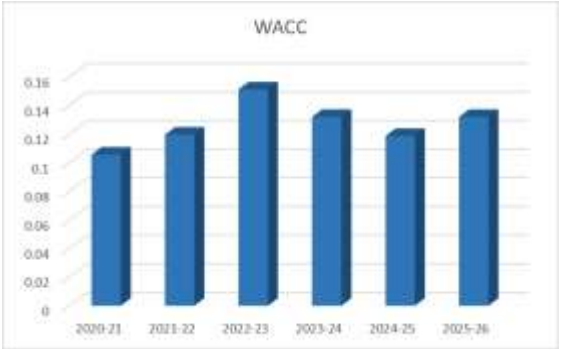
There is fluctuation in the UltraTech Cement's WACC during the period of FY2020-21 to FY2025-26, it has ranged from 10.56% to 15.10%. It is a significant difference. Lowest WACC was recorded at 10.56% in FY2020-21 and the highest can be seen in FY2022-23 at 15.10%. It was due to rise in the equity cost to 16.81% which is combined with equity weight 84.60%. WACC has declined to 13.19% in FY2023-24 and again to 11.86% in FY2024-25. It can be due to lower financing costs and also changes in capital structure. There is increase of WACC to 13.19% in FY2025-26. It can be due to increase in equity cost to 15.18% as well as slight increase in the after-tax cost of debt. The analysis can indicate that there is not only influence of debt-equity ratio mix but also through movements in the cost of equity and cost of debt. The company's WACC can provide a very essential benchmark to evaluate the investment decisions and also to assess if prospective projects can generate sufficient returns or not in order to cover the company's overall cost of capital.

Diagrammatic Representation of WACC









Link of Excel (Diagrams of WACC)

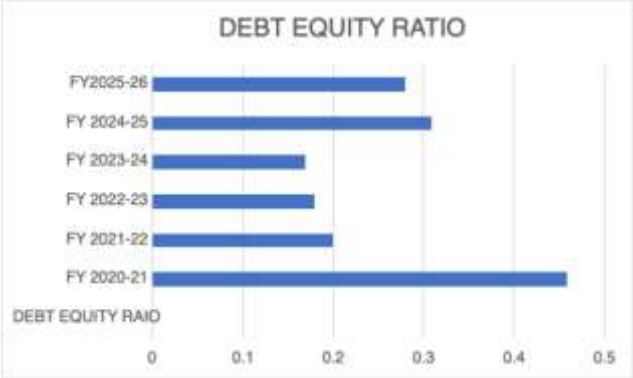
4.2 Ratio Analysis

1. Debt-to-equity ratio:

It measures the company total liabilities to its total shareholders' equity. Formula:
Debt equity ratio: total debt/shareholder's equity

Effects:

Higher the debt equity ratio suggests that company relies more on borrowed funds which can lead to financial risks. Lower the debt equity ratio the less company depends on borrowed funds which allow to company to work financial risk free.



- It shows the relationship between debt and equity. It means if the ratio is high, there is more dependency on debt; a lower ratio means financing is mostly covered by shareholders' funds.

- The ratio falls from 0.46 in FY 2020-21 to a low of 0.17 in FY 2023-24, rises to 0.31 in FY 2024-25, and slightly decreases to 0.28 in FY 2025-26.

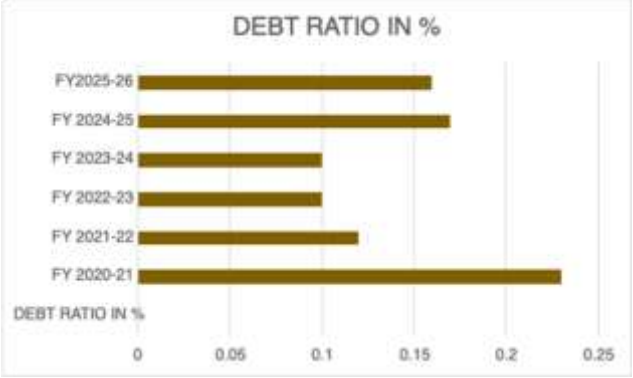
- The company steadily reduced its dependence on debt compared to equity until FY 2023-24, followed by a slight increase in debt during FY 2024-25.

2. Debt ratio:

It measures the company total funds that are that are funded by borrowed money Formula:
Debt ratio: total debts/total assets

Effects:

Higher the debt ratio more financial risk. Lower the debt ratio less financial risk.



- It shows what percentage of a company's total assets are financed by debt. A higher ratio means the company relies heavily on debt to finance its assets.

- The ratio declined steadily from 0.23 (23%) in FY 2020-21 down to 0.10 (10%) in FY 2022-23 and FY 2023-24, before increasing to 0.17 (17%) in FY 2024-25 and settling at 0.16 (16%) in FY 2025-26.

- Asset reliance on debt saw a strong downward trend in the initial years, but expanded in FY 2024-25 to fund total asset growth

3. Equity Ratio:

It measures the company total assets funded by shareholders equity. Formula:
Equity ratio: total shareholders' equity/ total assets

Effects:

The higher the equity ratio less risk for bankruptcy and relies less on debt. Lower the equity ratio higher dependency onbeat which increase in financial risk.



- It shows the ratio of total assets that are financed by shareholder's equity. A higher ratio indicates a better financial base and less dependence on outside funds.

- The ratio rose from 51.26% in FY 2020-21 to around 60.16% in FY 2021-22, stayed steady around 59.5%–59.8% through FY 2023-24, dipped to 55.26% in FY 2024-25, and recovered to 57.09% in FY 2025-26.

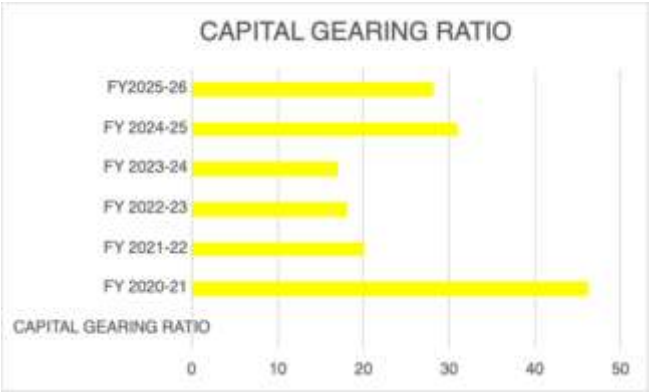
- Shareholders' equity financed most total assets throughout all time periods, strengthening up to FY 2023-24 before slightly weakening in FY 2024-25 due to an expansion in debt.

4. Capital gearing ratio:

It measures the company fixed cost capital relative to its variable cost capital Formula:
Capital gearing ratio: fixed interest/common shareholders' equity

Effects:

Higher capital gearing ratio means increase equity returns during boom but higher financial risk during downtowns. Lower capital gearing ratio means strong financial growth but limits potential growth.



- It measures the relationship between fixed interest-bearing debt funds and equity shareholders' funds.

- The ratio decreased significantly from 46.37% in FY 2020-21 to 17.08% in FY 2023-24, jumped to 31.16% in FY 2024-25, and then declined to 28.22% in FY 2025-26.

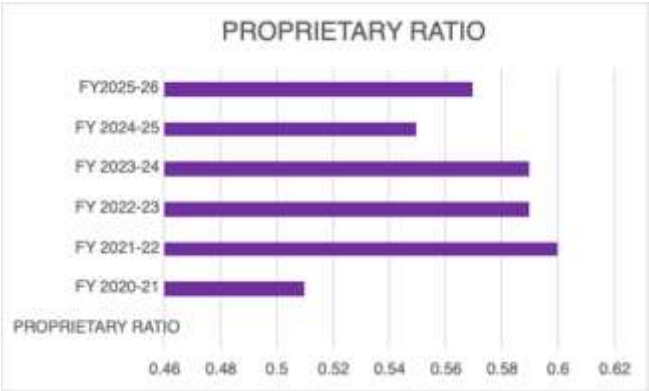
- The company initially low-geared its capital structure significantly over four years, but re-leveraged its financial structure in FY 2024-25 with additional fixed-cost capital.

5. Proprietary ratio:

Measures company overall total assets financed by owner funds. Formula:
Proprietary ratio: shareholders equity/ total assets

Effects:

High ratio indicates strong financial stability and less dependency upon on external lenders Low ratio means high risk in revenue declining.



- It measures the proportion of shareholders' funds to total assets.

- The ratio increased from 0.51 in FY 2020-21 to 0.60 in FY 2021-22, remained stable at 0.59 through FY 2023-24, dipped to 0.55 in FY 2024-25, and improved to 0.57 in FY 2025-26.

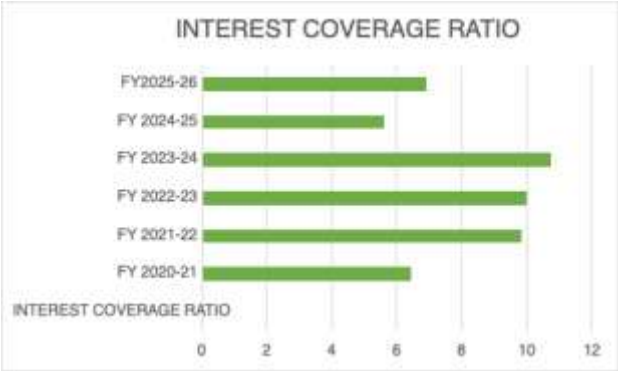
- Shareholder funding offers strong financial backing, remaining well above 0.50 across all years, despite a small decline in FY 2024-25 as asset expansion outpaced equity growth.

6. Interest coverage ratio:

Measures how much company can pay its interest on its outstanding debt. Formula:
Interest coverage ratio: earning before interest and tax (EBIT)/interest expense

Effects:

Higher icr company has strong financial stability. Lower icr means difficulty in paying debts and higher financial risk.



- The ratio displayed a strong rising trend from 6.46 in FY 2020-21 to a peak of 10.78 in FY 2023-24, dropped significantly to 5.62 in FY 2024-25, and recovered to 6.92 in FY 2025-26.

- Debt serviceability improved continuously up to FY 2023-24 due to lower interest costs and strong PBIT, but dropped in FY 2024-25 as interest costs nearly doubled following new debt additions.

Link of Excel Diagrams (Ratio Analysis)

Ratio Analysis Table (Table 3)

YEARS	DEBT EQUITY RATIO	DEBT RATIO IN%	CAPITAL GEARING RATIO	PROPRIETARY RATIO	INTEREST COVERAGE RATIO	EQUITY RATIO
FY 2020-21	0.46	0.23	46.37	0.51	6.46	51.26
FY 2021-22	0.2	0.12	20.23	0.6	9.85	60.16
FY2022-23	0.18	0.1	18.2	0.59	10.01	59.5
FY2023-24	0.17	0.1	17.08	0.59	10.78	59.8
FY 2024-25	0.31	0.17	31.16	0.55	5.62	55.26
FY 2025-26	0.28	0.16	28.22	0.57	6.92	57.09

4.3 Peer Comparison

UltraTech Cement's financial performance for FY 2023-24 and FY 2024-25 is benchmarked below against two listed industry competition, Ambuja Cements Limited and Shree Cement Limited, both are one of the major industries in the Indian industry.

Peer comparison table (Table 4)

Metric	UltraTech Cement		Ambuja Cements		Shree Cement	
	FY 2023-24	FY 2024-25	FY 2023-24	FY 2024-25	FY 2023-24	FY 2024-25
Revenue from Operations (Rs Cr)	70,908.14	75,955.13	33,160.00	35,336.00	20,404.00	19,283.00
EBITDA (Rs Cr)	13,586.00	13,302.00	6,400.00	5,971.00	4,517.00	3,934.00
EBITDA Margin (%)	19.16%	17.51%	19.30%	16.90%	22.14%	20.40%
Profit after Tax - PAT (Rs Cr)	7,003.96	6,039.64	4,735.00	5,294.00	2,396.00	1,124.00
Net Profit Margin (%)	9.88%	7.95%	14.28%	14.98%	11.74%	5.83%
Total Debt (Rs Cr)	10,298.39	23,030.99	699.00	788.00	1,656.00	1,046.00
Total Equity (Rs Cr)	60,283.41	73,892.80	41,452.00	53,579.00	20,703.00	21,538.00
Debt-Equity Ratio (x)	0.17x	0.31x	0.02x	0.01x	0.08x	0.05x
Return on Equity - ROE (%)	11.62%	8.17%	11.42%	9.88%	11.57%	5.22%
Return on Capital Employed - ROCE (%)	14.13%	9.16%	11.32%	6.76%	11.72%	4.10%
Basic / Diluted EPS (Rs)	243.05	205.30	16.26	17.47	663.98	311.18

Interpretation

On scale, UltraTech is the clear winner in the leaderboard: its FY 2024-25 revenue of Rs 75,955 crore is roughly 2.1 times Ambuja's and 3.9 times Shree Cement's, showing its larger industrial capacity and pan-India presence. UltraTech's EBITDA margin (17.51%) sits between Shree Cement's (20.40%) and Ambuja's (16.90%), while Ambuja shows the highest net profit margin (14.98%) of the three, helped by its debt-free balance sheet and lower finance costs.

All three companies saw margins constraint in FY 2024-25 compared with FY 2023-24, consistent with an industry-wide changes from high fuel and power costs. UltraTech's leverage also rise sharply over the year - its Debt-Equity ratio moved from 0.17x to 0.31x as it funded partly through debt, whereas Ambuja and Shree Cement continued to work on an almost debt-free basis (Debt-Equity below 0.10x in both years). This explains why UltraTech's Return on Capital Employed (9.16% in FY25) decreasing faster than its competitors.

Overall, the comparison shows UltraTech is focusing on market-share and capacity growth over near-term margin or return-ratio optimisation, while Ambuja and Shree Cement are focusing on leaner, debt-free balance sheets with comparatively higher capital efficiency.

Capital Structure / Solvency Ratios - Peer Comparison

The same capital-structure ratios used for UltraTech's own trend analysis are extended here to Ambuja Cements and Shree Cement for FY 2023-24 and FY 2024-25, the two years for which comparable data is available for all three companies.

Capital Structure/Solvency Ratios table (Table 5)

Ratio	UltraTech Cement		Ambuja Cements		Shree Cement	
	FY 2023-24	FY 2024-25	FY 2023-24	FY 2024-25	FY 2023-24	FY 2024-25
Debt-Equity Ratio (x)	0.17x	0.31x	0.02x	0.01x	0.08x	0.05x
Debt Ratio (Debt / Total Assets) (%)	10.22%	17.23%	1.07%	0.97%	5.93%	3.67%
Capital Gearing Ratio (Debt/Equity x 100)	17.08	31.17	1.69	1.47	8.00	4.86
Proprietary Ratio (Equity / Total Assets)	0.60	0.55	0.64	0.66	0.74	0.76
Interest Coverage Ratio - PBIT / Interest (x)	10.79x	5.63x	17.29x	17.01x	10.16x	4.52x
Equity Ratio (Equity / Total Assets) (%)	59.80%	55.27%	63.71%	66.06%	74.14%	75.67%

UltraTech carries higher status other than its competitors on every ground. Its FY 2024-25 Debt-Equity ratio of 0.31x and Capital Gearing of 31.17 are roughly 20 -30 times Ambuja's and 4-6 times Shree Cement's, shows UltraTech's debt-funded capacity expansion. Both Ambuja and Shree Cement remain almost debt-free, consistent with company statements which helps in giving them Proprietary and Equity ratios of 0.66-0.76 versus UltraTech's 0.55.

UltraTech's Interest Coverage Ratio fell sharply from 10.79x in FY 2023-24 to 5.63x in FY 2024-25 as finance costs rises along with its higher debt load, while PBIT declined. Ambuja's coverage stayed consistently high (17x) given its really low debt, but Shree Cement's coverage also fell, from 10.16x to 4.52x, mainly because of its sharp drop in FY 2024-25 PBIT rather than by rising debt.

4.4 Trend Analysis

UltraTech Cement's capital-structure ratios are shown below for over a six-year window to identify how the company's leverage and solvency position has been moving.

Trend Analysis Table (Table 6)

Ratio	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26P
Debt-Equity Ratio (x)	0.46x	0.20x	0.18x	0.17x	0.31x	0.28x
Debt Ratio (%)	23.77%	12.17%	10.83%	10.22%	17.23%	16.11%
Capital Gearing Ratio	46.37	20.23	18.21	17.08	31.17	28.22
Proprietary Ratio	0.51	0.60	0.60	0.60	0.55	0.57
Interest Coverage Ratio (x)	6.46x	9.85x	10.01x	10.79x	5.63x	6.92x
Equity Ratio (%)	51.26%	60.16%	59.51%	59.80%	55.27%	57.09%

Causes of the trend

FY 2020-21 - peak leverage (D/E 0.46x, Interest Coverage 6.46x): this was the tail end of a multi-year, debt-funded acquisition spree - Jaiprakash Associates' cement plants (2017), Banani Cement / UltraTech Nathdwara Cement (2018), and Century Textiles' cement business (2019) - which moves the gross borrowings sharply in the previous years. Management had already marked debt reduction as the priority for FY20 and FY21.

FY 2021-22 to FY 2023-24 – gradual debt reduction (D/E 0.46x -> 0.17x; Interest Coverage 6.46x

-> 10.79x): strong cash flows, helped by a post-pandemic recovery in construction and government infrastructure spending, were used to pay debt. The Debt Ratio nearly halved (23.77% to 10.22%) and the Proprietary/Equity ratios rises rapidly, shows a progressively more equity-funded balance sheet.

FY 2024-25 - renewed leverage (D/E 0.17x -> 0.31x; Interest Coverage 10.79x -> 5.63x): leverage rises immediately again as UltraTech acquired a majority (81.49%) stake in The India Cements Limited in December 2024 and completed the Kesoram Industries cement-business demerger in march 25, while also spending about Rs 9,000 crore on capital expenditure and adding 42.6 MTPA of capacity. PAT fell along with rising interest and depreciation costs, so Interest Coverage nearly cut to halved even though the company was operating profitably.

FY 2025-26 - partial reversal (D/E 0.31x -> 0.28x; Interest Coverage 5.63x -> 6.92x): it shows some capitalizing as the acquired India Cements and Kesoram capacities are integrated and ramp up utilisation, consistent with management's stated goal of bringing net debt/EBITDA down from the ~1.2-1.3x level reached in FY 2024-25. Projected EBITDA growth (to Rs 17,598 crore) outpaces the projected rise in finance cost, which is what lifts Interest Coverage back up even as absolute debt stays elevated.

Taken together, the six-year trend shows a clear cyclical pattern for UltraTech: multi-year phases of debt-funded, inorganic capacity growth (FY17-FY21 and again FY24-FY25) are followed by multi-year phases of deleveraging funded from internal accruals (FY21-FY24). This is a recognisable and, so far, sustainable pattern for a market leader consolidating a fragmented industry, but it does mean the company's solvency ratios should be read in the context of where it sits in that cycle rather than as a simple linear trend.

5. Discussion

There is consistency in the analysis of UltraTech's capital structure, financial leverage as well as WACC from FY2020-21 to FY2025-26. There is decrease of debt equity ratio from 0.46 in FY2020-21 to 0.17 in FY2023-24. The debt ratio also declined from 23.77% to 10.22%. This can indicate that there is less dependence on debt of UltraTech Cement in this period. It has maintained a strong equity base. The equity ratio is above 50% in the period. From this we can know that strong equity base can reduce the financial risks.

There is increase in company's leverage in a significant manner in FY2024 -25. The debt equity ratio rises to 0.31 and debt ratio also increased to 17.23%. This can tell us greater reliance on debt financing. Debt can be used to provide tax benefits and lower financing costs, but excessive leverage can also increase fixed financial obligations and financial risk.

The increase of interest coverage ratio also shows improvement in the company's ability to meet the obligations of the interest. However, it has also decreased with passage of time and then again has recovered in FY2025-26. It has highlighted the relevance to monitor company's interest burden.

There is also fluctuation of WACC in this period. It increased from 10.56% to 15.10% in FY2020-21 to FY2022-23. But it has decreased to 11.86% in FY2024-25 and also rose to 13.19% in FY2025-26. There WACC is not only influenced by debt equity mix but also by changes in cost of debt as well as cost of equity.

From the findings we can support the trade-off theory of capital structure. In this debt provides financing and text advantages but increases financial risk. It is very important to maintain a proper balance between debt and equity base and also it is needed to cover interest expenses. These are positive factors.

6. Conclusion and Recommendations

6.1 Conclusion

UltraTech has been able to maintain a strong equity position throughout the period of FY2020-21 to FY2025-26. The equity ratio was above 50% every year. This can indicate that shareholders' funds financed a substantial proportion of company's assets.

- Financial leverage can be seen declining until FY2023-24. The debt equity ratio also fell from 0.46 to 0.17. Again, the debt ratio declined from 23.77% to 10.22%. The leverage rose in FY2024-25. The debt equity ratio also increased to 0.31.

- The interest serving capacity was positive but also fluctuating. It had improved to 10.78x in FY2023-24 but fell to 5.63x in FY2024-25. It was also recovered to 6.92x in FY2025-26.

- We have been able to achieve the objectives of this study. The analysis can demonstrate how UltraTech's capital structure, financing cost as well as risk has changed in these years and how it affected the WACC.

6.2 Recommendations

Excessive increase in debt should be avoided by Ultratech and maintain a balance between debt and equity. The rise in the debt-equity ratio from 0.17 in FY2023-24 to 0.31 in FY2024-25 depicts that the leverage should be monitored carefully.

- Use debt selectively for value-creating investments: -

Debt financing can be beneficial when the expected return ok investment exceeds the after-tax cost of debt. Therefore, additional borrowing should primarily he directed towards projects capable of generating returns above the company's cost of capital.

- Protect interests-servicing capacity: - The fall in interest coverage ratio from 10.78 to approximately 5.63 depicts the sensitivity of debt-servicing capacity to higher financecosts. Management should monitor interest obligations and maintain adequate cash flow coverage.

- Continue strengthening internal equity generation: -

Maintaining a strong equity base will reduce dependence on external borrowing and provide greater

financial flexibility, particularly during the period of higher interest rates or weaker operating conditions.

- For investors:

Investors should not asses UltraTech solely on its debt level. The debt-equity ratio, interest coverage ratio, WACC and profitability should be considered together. The recovery of the interest coverage ratio to 6.92 in FY2025-2026 is positive, but the higher leverage compared with FY2023-24 indicates that investors should continue monitoring debt levels, financing costs and the company's ability to generate enough operating returns.

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