



PROFITABILITY ANALYSIS OF SELECTED TEXTILE COMPANIES

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ABSTRACT

The Textile sector in India ranks next to Agriculture. Textile is one of the India's oldest industries and has a formidable presence in the national economy in as much as it contribute to about fourteen percent of manufacturing value, addition, accounts for around, one third of our gross export earning and provides gainful employment to millions of people. In top 10 Textile companies; Raymond Ltd. and Reliance Ltd. are selected for Research purpose.

Every business unit is established to earn profit and develop on that basis. Hence profitability ratios are the most important ratios. The management of business should find out profitability ratio to evaluate their own performance and to get an idea of progress of their business. This study is conducted to know the profitability of selected textile companies.

The purpose of this study and analysis of profitability ratios are to help across the adequacy of profit earned by the company and also to discover whether profitability is increasing or decreasing.

KEYWORDS: Profitability, Textile Company.

Introduction:

The primary object of all business organizations is to earn profit. Profit is an important element to boost up business activities. Profit is the engine that drives the business enterprise. It is a measure of the worth of owner investment. A business firm can tolerate loss only for sometimes but for its survival, it must earn profit. Therefore measurement of profit and profitability occupies important place in the financial analysis. The profitability of the item is the net result of a large number of policies and decisions. Thus, Ratio analysis is a very powerful analytical tool for measuring performance of an organization.

The company's financial information is contained in balance sheet and profit and loss account. The figures contained in these statements are absolute and sometimes unconnected with one other. Ratio is only a comparison if the numerator with the denomination.

With the help of profitability ratio, the financial statement can be analysed more clearly and decisions are drawn from such analysis. Profitability analysis helps the management to analysis the past performance of the firm and to make further projections.

Review of Literature:

Dinesh A Patel (1992) in his study, "Financial analysis- A study of Cement Industry in India"- aimed to examine the profitability in the cement industry and also found out the financial position of the industry. The finding shows that the profitability of cement industry was very unsatisfactory and liquid position and short term strength of all selected companies were not good.

Sanjay Kaushik (1995) in his thesis entitles, "Social objectives and profitability of Indian Banks" has discussed the effect of social objective on the profits and profitability of the Indian Commercial banking Industry. He is of the opinion that the nationalization of the banks had a more dampening effect on profitability. The profitability of nationalized banks is adversely by a lot of factors, including social objectives, so to know there relative significance, he has used multivariate approach, per annum growth rates, correlation analysis, regression analysis, factor analysis. He concluded that the social obligation was not a major drag on profitability of banks. He suggested various measures to improve the profitability.

Murty (1996), analysed various factors, which can be helpful to improve the profitability of public sector banks. The study examine the impact of monetary policy and market interest rates on the bank profitability and also suggest various measures to improve the profitability of the public sector banks in India.

Jayesh R. Patel (2002) in his cash study entitled, "Financial Analysis- A cash study of sugar factory in Valsad and Navsari district." Aimed to evaluate analysis and appraise the financial performance of the sugar factories selected for the study. The major finding of the study reveals that the cash position in the sugar factory was very poor. The liquid position of the sample unit was not satisfactory. Rakesh and Kulkarni (2012) analyzed the Gujarat Textile Industry working capital evaluation on selected five company for the eleven years and performed ratio analysis, descriptive statistics etc. the study concluded with all the company financial performance with sound effective as well as current and quick ratio, current assets on total assets, sales, turnover etc. are analyzed with the help of hypothesis and used ANOVA. In this research also researcher followed this attributes.

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Research Methodology:

Objectives:

- To analyze the profitability position of Textile companies.
- To understand the factors affecting profitability of Textile companies.
- To do comparative analysis of the performance of the selected Textile companies with regards to the Capital employed by the companies.

Sample selections:

- For the purpose of the study, two companies i.e. Raymond Ltd. and Reliance Ltd. have been selected.

Period of Study:

- The present study on "Profitability Analysis of Selected Textile Companies" cover the span of five years from 2010-11 to 2014-15. This period is enough long to desire meaningful conclusion.

Tools and Techniques:

- The following Tools and Techniques used for analysis.

Accounting Techniques:

Accounting techniques such as Ratio analysis itself have been used for the study.

Statistical Techniques:

Mean, Standard Deviation and t-Test have been used for the analysis of data.

Data Collection:

- Important part of the work is data collection. Only data collection is not sufficient but to analyze, interpret and present them in meaningful manner is also important.
- In this study, mainly secondary data is collected.
- Secondary data has been obtained from the following.

Sources:

- Published Annual Report of the Companies for the financial year.
- Websites of the selected companies.

Reference books.

Limitation of the study:

There is no activity that can be completed without any limitation. The main limitations faced during the preparation of this study are:

- The study solely depend upon the secondary data obtained from the pulished annual report of respective companies, so the study in corporate all the limitation that are inherent in the published financial statement.
- The present study is based in the analysis of the five year data which may not be sufficient in some cases.
- It touches only the financial aspect of the companies understudy.

Data Analysis and Interpretation:

1. Gross Profit Ratio:

It is a ratio expressing relationship between Gross Profit earned to Net sales. The ratio shows whether the mark up obtained on cost of production is sufficient.

Gross Profit Ratio (%) = Gross Profit/Net sales * 100

	2014-15	2013-14	2012-13	2011-12	2010-11
Reliance Ltd.	12.34	10.23	11.21	12.53	18.40
Raymond Ltd.	29.07	31.07	28.94	34.58	37.87

Null Hypothesis: The situation of an average profitability in both the companies is same.

Alternative Hypothesis: Profitability is not same.

Types of Ratio	t-Statistics	t-table@5%	Significance			
Gross Profit Ratio	t-value - 8.65	2.78	Not significant			
Descriptive Statistics	Variable	Mean	SD	SE	Variance	CV
	Reliance	12.942	3.19	1.43	10.17	0.246
	Raymond	32.306	3.96	1.72	14.86	0.119

From the above table at 5% level,
t cal < 0.05,
-8.65 < 2.78,

which indicate that there is no significance difference in Gross profit ratio of both the companies at 5% level so H₀ is accepted.

Conclusion:

- We can say that the situation of Gross Profit Ratio in both the companies is same.
- By taking into consideration co-efficient of variation of both the companies, we can say that as per measure of variability, Raymond Ltd is more stable as compared to Reliance Ltd.

2. Operating Ratio:

It is a ratio showing relationship between cost of good sold plus operating expenses and net sales. It shows the efficiency of the management. This ratio suggests that a particular share of selling price is absorbed by cost of sales and other operating expenses and the remainder is left for the owner of the business.

Operating Ratio (%) = Operating Expenses + Sales of Good sale/Net sale * 100

	2014-15	2013-14	2012-13	2011-12	2010-11
Reliance Ltd.	90.40	92.08	91.46	89.80	84.71
Raymond Ltd.	91.42	88.95	91.53	68.70	67.35

Null Hypothesis: The situation of on an average profitability in both the companies is same.

Alternative Hypothesis: Profitability is not same.

Types of Ratio	t-Statistics	t-table@5%	Significance			
Operating Ratio	t-value 1.42	2.78	Not significant			
Descriptive Statistics	Variable	Mean	SD	SE	Variance	CV
	Reliance	89.69	2.922	1.307	8.540	0.032
	Raymond	81.59	12.435	5.561	154.62	0.152

From the above table at 5% level
t Cal < 0.05
1.42 < 2.78

Which indicate that there is no significance difference in operating ratio of both the companies at 5%; So H₀ is accepted.

Conclusion:

- We can see that the situation of operating ratio in both the companies is a same.
- By taking into consideration co-efficient of variation of both the companies, we can say that as per measure of variability, Reliance Ltd is more stable as compared to Raymond Ltd.

3. Net Profit Ratio :

The ratio is valuable for the purpose of ascertaining the overall profitability of business and shows the efficiency or otherwise of operating the business.

Net Profit ratio (%) = Profit after Tax/ Net sales * 100

	2014-15	2013-14	2012-13	2011-12	2010-11
Reliance Ltd.	6.90	5.63	5.83	6.07	8.17
Raymond Ltd.	3.78	4.03	-2.35	2.99	6.98

Null Hypothesis: The situation of on an average profitability in both the companies is same.

Alternative Hypothesis: Profitability is not same.

Types of Ratio	t-Statistics	t-table@5%	Significance			
Gross Profit Ratio	t-value 2.162	2.78	Not significant			
Descriptive Statistics	Variable	Mean	SD	SE	Variance	CV
	Reliance	6.52	1.041	0.465	1.084	0.159
	Raymond	3.086	3.394	1.518	11.523	1.100

From the above table at 5% level
t Cal < 2.78
2.162 < 2.78

Which indicate that there is no significance difference in Net Profit of both the companies at 5%, So H₀ is accepted.

Conclusion:

- We can see that the situation of operating ratio in both the companies is a same.
- By taking into consideration co-efficient of variation of both the companies, we can say that as per measure of variability, Reliance Ltd is more stable as compared to Raymond Ltd.

4. Return on Capital Employed:

It is an index of profitability of business and is obtained by comparing net profit with capital employed. The success or otherwise of the enterprise is judged with the help of this ratio.

Return on capital employed (%) = EBIT/ Capital Employed * 100

	2014-15	2013-14	2012-13	2011-12	2010-11
Reliance Ltd.	13.21	14.09	16.61	17.96	19.65
Raymond Ltd.	15.56	15.22	11.36	14.69	1.55

Null Hypothesis: The situation of on an average profitability in both the companies is same.

Alternative Hypothesis: Profitability is not same.

Types of Ratio	t-Statistics	t-table@5%	Significance			
Return on Capital Employed	t-value 1.60	2.78	Not significant			
Descriptive Statistics	Variable	Mean	SD	SE	Variance	CV
	Reliance	16.304	2.669	1.193	7.126	0.164
	Raymond	11.676	5.902	2.639	34.841	0.505

From the above table at 5% level
t Cal < 0.05
1.62 < 2.78

Which indicate that there is no significance difference in Return Capital employed of both the companies at 5%, so H₀ is accepted.

Conclusion:

- We can see that the situation of operating ratio in both the companies is a same.

- By taking into consideration co-efficient of variation of both the companies, we can say that Reliance Ltd is more stable as compared to Raymond Ltd.

5. Return of Equity shareholder fund:

It shows what percentage of profit is earned on the capital invested by ordinary shareholder. The ratio is obtained by dividing net profit after deduction of preference dividend by the amount of ordinary share capital plus free reserve.

Return on Equity shareholder fund (%) = PAT/Equity share holder fund * 100

	2014-15	2013-14	2012-13	2011-12	2010-11
Reliance Ltd.	10.51	11.15	11.73	12.30	13.89
Raymond Ltd.	8.56	8.00	-4.64	5.10	9.84

Null Hypothesis: The situation of on an average profitability in both the companies is same.

Alternative Hypothesis: Profitability is not same.

Types of Ratio	t-Statistics	t-table@5%	Significance			
Return on Equity shareholder fund	t-value 2.438	2.78	Not significant			
Descriptive Statistics	Variable	Mean	SD	SE	Variance	CV
	Reliance	11.916	1.289	0.576	1.660	0.108
	Raymond	5.372	5.860	2.620	34.336	1.090

From the above table at 5% level

t Cal < 0.05

1.62 < 2.78

Which indicate that there is no significance difference in Return on equity shareholder fund of both the companies at 5%, so H0 is accepted.

Conclusion:

- We can see that the situation of operating ratio in both the companies is a same.
- By taking into consideration co-efficient of variation of both the companies, we can say that as per measure of variability, Reliance Ltd is more stable as compared to Raymond Ltd.

Findings:

Findings based on ratio and statistical analysis are:

- In Gross Profit Ratio, Raymond Ltd is more stable than Reliance Ltd.
- The Operating Ratio, Reliance Ltd is more stable than Raymond Ltd.
- The net profit of Reliance Ltd is more Raymond Ltd which is found after comparing.
- Return on capital employed ratio indicates earning capacity of business. In this situation, Reliance Ltd is more stable as compared to Raymond Ltd.
- Return on Equity share holder funds ratio indicate to know the profitability from the view point of equity share holders. In that case, Reliance Ltd is more stable as compared to Raymond Ltd.

Suggestion:

Profit is the soul of the business body without which the body becomes lifeless. Finance is the heart of the business body and profit is the soul of the business body. Profit has now become a measurement test to measure financial efficiency of the business firm.

Operating ratio of Raymond Ltd. is not satisfactory,. To improve this ratio, company should reduce the operating expenses.

Net profit ratio indicates that the portion of sales, revenue which remains with the proprietors after all operating expenses is met. We can see that the Net Profit Ratio of Raymond Ltd. is less. To increase the company should increase the sales or reduce the expenditure.

The return on capital employed of Raymond Ltd. is less, so company should increase the profit. For that it should increase the sale or decrease the expenses.

The Return on Equity Share holders fund Raymond Ltd. is less. To improve it, company should increase profit and it should also invest the reserve in other profitability investments.

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