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"A Study on Profitability Analysis with reference to Network Clothing Company Private Limited"

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ABSTRACT

Profitability Analysis is key to organizations' ability to understand what they should focus on in the future. There are many different ways to analyse profitability, from backward looking trend analyses to predictive modelling of the future. There are also many ways theories about how profitability should be analysed. Profitability costing is the concept of assigning all costs incurred by a company to the various products or relationships the organization maintains in an effort to determine which products or relationships are the most profitable. There are many types of software that allow a company to help create a Profitability Costing model. Mind Stream Analytics is well versed in Profitability Costing and can help your company figure out what can best help your company create a Profitability Costing module.

Keywords: Gross Profit, Profitability, Return on Investment, Operating Profit.

INTRODUCTION

Profitability Analysis is key to organizations' ability to understand what they should focus on in the future. There are many different ways to analyse profitability, from backward looking trend analyses to predictive modelling of the future. There are also many ways theories about how profitability should be analysed. Profitability costing is the concept of assigning all costs incurred by a company to the various products or relationships the organization maintains in an effort to determine which products or relationships are the most profitable.

This information can be utilized to help better position the company in the future by recognizing which types of activities are beneficial to the organization and which are not. There are many ways to assign the costs incurred by the company to different products, relationships or services, and many of them are based on some type of driver. While many companies consider Activities a good basis for drivers, there are many possibilities. The driver is used to allocate costs across the various products, relationships or services. Once the costs are allocated they can be matched to revenues derived from product sales, services revenue or any type of customer relationship.

There are many types of software that allow a company to help create a Profitability Costing model. Mind Stream Analytics is well versed in Profitability Costing and can help your company figure out what can best help your company create a Profitability Costing module.

REVIEW OF LITERATURE

Sung Gyun Mun (2015) efficient working capital management is becoming important for manufacturing industry coping with weak financial conditions and increased economic uncertainty. This study investigates the impact of manufacturing industry' working capital on their profitability. We further examine the effects of firms' cash levels on the relationship between working capital and profitability. The findings ascertain a strong inverted U-shape relationship between working capital and a firm's profitability, which indicates the existence of an optimal working capital level for manufacturing industry. This study also reveals that a firm's cash level is an important factor for efficient working capital management.

Andrew Ash et al (2016) The financial health of clothing enterprises in northern Australia has declined markedly over the last decade due to an escalation in production and marketing costs and a real decline in clothing prices. Historically, gains in animal productivity have offset the effect of declining terms of trade on farm incomes. This raises the question of whether future productivity improvements can remain a key path for lifting enterprise profitability sufficient to ensure that the industry remains economically viable over the longer term.

Giovanna Padula et al (2017) This clothing studies the inventive performance and profitability of small and medium sized manufacturing firms (SMEs) that are "technology specialists" compared to the inventive performance and profitability of SMEs that are instead vertically-integrated. In this clothing perspective, "technology specialists" are firms that specialize upstream in generating inventions and trade those inventions in disembodied form with other firms, usually through licensing agreements. Instead, vertically-integrated firms are those firms that both generate inventions and commercialize products incorporating those inventions. We argue that technology specialists achieve a higher inventive performance than vertically-integrated firms, since they can accumulate deeper and broader inventive experience, whilst keeping a more flexible organizational structure.

Ben Ukaegbu (2018) The purpose of this study is to examine the relationship between working capital efficiency and corporate profitability and in particular, to determine their significance across countries with differential industrial levels. The study reveals that there is a strong negative relationship between profitability, measured through net operating profit, and cash conversion cycles across different industrialisation typologies. The negative association implies that, when the cash conversion cycle increases, the profitability of the firm declines.

Salvatore Sciascia et al (2019) Prior research has not fully explained whether the relationship between clothing industry management and profitability is positive or negative in private manufacturing firms. This issue is critical for further theoretical development in the field and holds high practical relevance, given that the appointment or exclusion of industry managers is a decision virtually any firm is faced with. We tested and confirmed our hypothesis via OLS regression on a data set of 233 Italian family-owned firms utilizing lagged data on profitability.

Milos Maryska (2020) Managers require, more than ever, exact information about economic situation of their business. They need high-quality information not only about business as a whole but also detail information about individual departments, divisions and activities and its share on business added value. Usually it is easy to identify parameters linked to companies' profits and companies' costs because these are known. But when companies want to make deeper analysis of the detailed cost structures of each product or service, they have to analyse companies activities in higher detail and try to identify business processes, cost drivers, cost centres etc. All of these activities are primarily connected with accounting and financial perception of which is based on accounting methodologies like the Activity Base Costing (ABC) and others. The proposed conceptual model mainly focuses two areas – "Cost Allocation", and "Profitability Management". The clothing further introduces the limitations of the model, its architecture (the different layers of the model). In the end, certain ideas are presented how the solution of the reference model should proceed

OBJECTIVE

- To measure the profitability position of Network clothing company (p) Ltd
- To analyze the income & expenditure pattern and its impact on the total profits of the company.
- To calculate the break even sales.
- To compare the past performance of the company with the present performance.
- To study the trend position of spinning mills by using the trend analysis.
- To ascertain the overall earnings performance of spinning mills.
- To analyse the profitability related to equity share of spinning mills.

RESEARCH METHODOLOGY

Research Design

"A Research Design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with the economy in procedure". In fact, the research design is the conceptual structure with in which research is conducted; it constitutes the blue print for the collection, measurement and analysis of data, the research design utilized in this study is analytical research.

Method of Collection

The study basically uses primary and secondary data. Primary data means data which is fresh collected data. Primary data mainly been collected through personal interviews, surveys etc Secondary data means the data that are already available.

Generally speaking secondary data is collected by some organizations or agencies which have already been processed when the researcher utilizes secondary data; the process of secondary data collection and analysis is called desk research. Secondary data provides economy in time and cost. It is easily available and unbiased. Secondary data may either be published data or unpublished data. For this study secondary data were collected from the annual reports of the company and from the company website.

TOOLS USED

- Ratio Analysis
- Trend analysis
- Comparative balance sheet

DATA ANALYSIS AND INTERPRETATION

RATIO ANALYSIS

Ratio is a relationship between two figures expressed mathematically. Financial ratio provides numerical relation between two relevant financial data. Financial ratios are calculated from the Balance sheet and Profit & Loss A/c. The relationship can be either expressed as a percent on as a quotient. Ratios summarize the data for easy understanding, comparison and interpretation.

The Ratio Analysis is the financial statement. It provides a yardstick to measure the relationships between the variable of figures. In work the Financial Analysis is necessary to know different angles.

PROFITABILITY RATIOS:

The purpose of study and analysis of profitability ratios are to help assessing the adequacy of profits earned by the company and also to discover whether profitability is increasing or declining. The profitability of the firm is the net result of a large number of policies and decisions. The profitability ratios show the combined effects of liquidity, asset management and debt management on operating results.

Profitability ratios are measured with reference to sales, capital employed, total assets employed etc. The major profitability rates are as follows,

NET PROFIT RATIO:

This ratio is designed to focus attention on the net profit arising from business operations before interest and tax is deducted. This conversion is to express profit after tax and interest and as a percentage of sales. This ratio measures the efficiency of operation of the company.

The ratio is calculated as follows:

$$\text{Net Profit Ratio} = \frac{\text{Net Profit before Interest and Tax}}{\text{Sales}} \times 100$$

TABLE NO. 1

NET PROFIT RATIO

Year	Net profit	Sales	Percent
2015-16	-14.44	186.79	-7.73
2016-17	9.11	217.49	4.18
2017-18	9.37	255.96	3.66
2018-19	3.45	242.33	1.43
2019-20	0.42	205.42	0.20

Source: Annual report

Inference:

The above table shows that, the high net profit margin in 2015-16. It is because of high profit in the year of 2016-17, from 2015-16 it shows the increasing trend. From 2018-19 and 2019-20 it shows the low not profit margin.

RETURN ON INVESTMENT

Year	Operating Profit	Capital Employed	Ratio
2015-16	7.15	100.87	0.070
2016-17	38.66	59.02	0.655
2017-18	38.26	41.89	0.193
2018-19	26.81	42.38	0.632
2019-20	22.81	54.08	0.422

Source: Annual report

Inference:

The above table shows that the Return on Investment ratio. In the year of 2015-16 it was 0.070, in the year of 2016-17 was increased to 0.655 and then decrease of 2017-18 to 0.193. In the year 2018-19 it was increased 0.632 and for the last year small decrease to 0.422

EQUITY SHARE CAPITAL RATIO

Year	Reserve	Equity capital	Ratio
2015-16	25.88	4.28	604.67
2016-17	34.94	4.28	816.35
2017-18	43.27	4.28	1010.98
2018-19	45.77	4.28	1069.39
2019-20	45.51	4.28	1063.31

Source: Annual report

Inference:

The above table shows the reserve and surplus to equity capital ratio. From the year 2015-16 the ratio is 604.67. Later it had increased at 816.35. Higher the ratio better will be the position. So there is no better position during the period of 2017-18.

RETURN ON ASSET

Year	Net profit	Total assets	Ratio
2015-16	-14.44	159.84	-9.03
2016-17	9.11	132.49	6.87
2017-18	9.37	133.71	7.01
2018-19	3.45	124.37	2.77
2019-20	0.42	127.81	0.33

Source: Annual report

Inference:

The above table shows the return on asset. It shows the maximum return on asset in the year of 2015-16. It is because of more net profit of the company and it shows that the minimum return on assets in the year of 2019-20 at (0.42). It is because of the high net loss of a firm

GROSS PROFIT RATIO

Year	Gross profit	Net Sales	Ratio
2015-16	-10.43	186.79	-5.58
2016-17	24.81	217.49	11.41
2017-18	24.76	255.96	9.67
2018-19	15.94	242.33	6.57
2019-20	11.94	205.42	5.81

Source: Annual report

Inference:

The above table shows that the Gross Profit Ratio. In the year 2015-16 ratio is negative -5.58 and next year 2016-17 is 11.41. In the last three years was decreased continually. The company should concentrate his sales value.

RETURN ON SHAREHOLDER FUNDS

Year	Net profit after interest and tax	Shareholders fund	Ratio
2015-16	-14.44	30.16	47.74
2016-17	9.11	39.22	23.23
2017-18	9.37	47.55	19.70
2018-19	3.45	50.05	6.89
2019-20	0.42	49.79	0.84

Source: Annual report

Inference:

The above table shows that the Return on Shareholders fund ratio. In the year of 2015-16 are 47.74 and the next year 2016-17 was decrease 21.23. In the year 2015-16 was decrease to 19.70. In the year 2019-20 it was decreased.

TABLE SHOWING TREND ANALYSIS

INVENTORY			RAW MATERIAL		PROFIT AFTER TAX	
YEAR	**AMOUNT**	**TREND %**	**AMOUNT**	**TREND %**	**AMOUNT**	**TREND %**
2016	21.70	**100%**	124.18	**100%**	-14.44	**100%**
2017	33.33	**153.59%**	118.72	**95.60%**	9.11	**-63.08%**
2018	53.43	**246.22%**	156.04	**125.65%**	9.37	**-64.88%**
2019	34.42	**158.61%**	142.80	**114.99%**	3.45	**-23.89%**
2020	35.51	**163.64%**	123.13	**99.154%**	0.42	**-2.90%**

Source: Secondary Data

INFERENCE

The inventory percentage was fluctuating for year by year. The Raw material consumption percentage was decreased year by year. It's does not good performance to the company. The profit after tax percentage was negative performance in year by year.

FINDINGS

1. The net profit margin in 2015 is the high net profit margin in 2015-16. It is because of high profit in the year of 2016-17, from 2015-16 it shows the increasing trend. From 2018-19 and 2019-20 it shows the low not profit margin.
2. The current ratio of the firm showed and increasing trend, later in 2015-16, 2019-20 the current ratio of the firm showed and increasing trend, later in 2017-18 the current ratio got declined because of the increase in current liability. The high current ratio shows the favorable condition of the firm. So in 2015-16 and 2019-2020 the firm got high current ratio at 1.35.
3. The equity capital ratio 2015-16 the ratio is 604.67. Later it had increased at 816.35. Higher the ratio better will be the position. So there is no better position during the period of 2017-18.
4. The solvency ratio shows an increasing trend from the year 2017-18 and it has reached its maximum in the year 2016 at 68.67%. Here the total assets less than the total liabilities. So it is the unfavorable position for a firm in 2015-2016.
5. ssThe return on asset in the year of 2015-2016 is more net profit of the company and it shows that the minimum return on assets in the year of 2019-20 at (0.42). It is because of the high net loss of a firm.
6. The Cash position ratio from the year 2015-16 the cash position ratio is 0.28 and it was 0.09 in the year 2016-17 was decreased and it was increased in the year 2017-18 as 0.33. In the year 2018-19 it was decreased to 0.10 and again in the year 2019-20 also decreased to 0.03.
7. The working capital turnover ratio measure analyses current assets and liabilities. During the year 2015-16 the working capital ratio is 8.98 which are increased to 57.84 in the year 2016-17. From the next year decreased to 16.55 in the year of 2017-18. The last year decreased to 7.89.
8. The Gross Profit Ratio for the year 2015-16 ratio is negative -5.58 and next year 2016-17 is 11.41. In the last three years was decreased continually. The company should concentrate his sales value.
9. The Return on Investment ratio year of 2015-16 it was 0.070, in the year of 2016-17 was increased to 0.655 and then decrease of 2017-18 to 0.193. In the year 2018-19 it was increased 0.632 and for the last year small decrease to 0.422.
10. The Return on Shareholders fund ratio year of 2015-16 are 47.74 and the next year 2016-17 was decrease 11.33. In the year 2015-16 was decrease to 19.70. In the year 2019-20 it was decreased.
11. The proprietary ratio year of 2015-16 is 0.136 and the next year 2016-17 was increase 0.188. In the year 2017-18 was increase to 0.208. In the year 2018-19 to 2019-20 it was increased. The company proprietary ratio is highest.

12. The quick ratio for the year 2015-16 was 0.984 and the year of 2016-17 to 2016-17 was decreased to compare to 2017-18 and finally in the year of 2015-16 is small increased to 0.870.
13. The inventory percentage was fluctuating for year by year. The Raw material consumption percentage was decreased year by year. It's does not good performance to the company. The profit after tax percentage was negative performance in year by year.
14. The comparative balance sheet on 2016-2017. In the year of 2017 fixed assets are decreased for 128.56. The net worth has been increased by Rs. 39.22. The current assets have decreased to 77.23. The current liabilities have been increased to Rs. 75.40.
15. The comparative balance sheet on 2017-2018. In the year of 2018 fixed assets are decreased for 119.58. The net worth has been increased by Rs. 47.55. The current assets have increased to 107.28. The current liabilities have been increased to Rs. 94.82.
16. The comparative balance sheet on 2018-2019. In the year of 2019 fixed assets are decreased for 110.48. The net worth has been increased by Rs. 50.05. The current assets have decreased to 97.03. The current liabilities have been decreased to Rs. 85.11.
17. The comparative balance sheet on 2019-2020. In the year of 2020 fixed assets are decreased for 102.71. The net worth has been decreased by Rs.49.79.
18. The current assets have decreased to 99.75. The current liabilities have been decreased to Rs. 77.03.

SUGGESTIONS

- Company should undergo in efforts to increase their production, and then only they can achieve more profit.
- Company should be able to maintain a safe position of current ratio as 2:1. But by reducing the current liabilities it is possible for the company to maintain a better liquidity position and this in turn helps the company for its efficient performance.
- Company should introduce a better policy for the Reserves maintained by the company. If the company is able to maintain an improved level of reserve it helps the company to phase the future contingencies of losses modernization expansion of the business. Here the company maintained a less level of Reserves to compare with previous years.
- Company should introduce measures to cut down the administrative expenses of the company. But at the same time, it should be possible for the company to withhold the experienced and skilled employees by providing them attractive remuneration. The joining of qualified professionals with the company will improve the productivity of the business.
- The company should improve their total income to meet their expenses.

CONCLUSION

By considering the industry performance this year was a difficult year for the spinning mill industry. Profitability analysis is the vital part of Financial Management of any business like Network clothing ltd. However the profitability of this Company was adversely affected by the various factors. This study helps the "Network clothing ltd." to control over the financial areas and the smooth functioning of the business. This study and analysis of profitability and financial statement gives a thorough insight to the research and how the financial statements should be analyzed which will help in the improvement of profitability and liquidity of the business.

The study will enable the company to plan for future financial analysis and Helps to analyze the firm's profitability over time, its ability to generate more profit.

It's of responsibilities financial Manager to see that the sources of the funds are used effectively and efficiently. By considering the above suggestions that the Company will be improve and for the better management of finance in near future

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