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Profitability Ratio Analysis of Ada Designer Chikan Studio: A Hypothetical Study with MSME Benchmarking

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Abstract:

India's economy has its foundation in micro, small, and medium-sized enterprises (MSMEs) particularly in the textile sector, which also creates employment and exports. In Lucknow, Ada Designer Chikan Studio is an MSME that deals with Chikankari embroidery, a traditional craft that has been given a modern twist through its designs. This is because a large number of businesses are family owned and hence financial information may not be readily available. The main purpose of this research study is to assess the profitability of a case MSME, Ada Designer Chikan Studio in comparison to the MSME textile sector and a subset of MSMEs. Profitability is a function of return on equity (ROE), return on assets (ROA), net profit margin (NPM), and gross profit margin (GPM) when it comes to assessing the financial performance of a company. It also highlights the position of the company in the small and medium-sized textile industry. The findings of the study conducted with the help of fictional data show that Ada Designer Chikan Studio is a very profitable firm and outperforms its peers in many respects. The study admits that the use of simulated financial data is a limitation and expects that further investigation with real data will produce more accurate results.

Key Words: MSME, Textile Sector, Chikankari Embroidery, Ada Designer Chikan Studio, Profitability, Financial Performance, Return on Equity (ROE), Return on Assets (ROA), Net Profit Margin (NPM), Gross Profit Margin (GPM)

Introduction:

Background of MSMEs in India

MSMEs are critical to India's economic development, accounting for over half of exports and more than 30% of GDP. One of the most important sectors of MSMEs is textile and apparel, which sustains traditional handcraft industries such as Chikankari embroidery and employs millions of people. Lucknow is known as the "hub of Chikankari craftsmanship," with many small companies specializing in this delicate embroidery style.

Ada Designer Chikan Studio: A Case Study

Ada Designer Chikan Studio is a well-known brand in the business, created to preserve and promote the Chikankari legacy. It caters to a diverse domestic and international clientele, focusing on exquisite craftsmanship and current designs. Despite their popularity, public records rarely include financial performance data for these private MSMEs. As a result, this study uses hypothetical financial data to analyze Ada's profitability.

Research Objectives:

The purpose of this paper is to analyze Ada Designer Chikan Studio's profitability using key financial metrics, compare the company's financial performance to data from the textile MSME sector, and provide insights into Ada's financial advantages and expansion prospects based on benchmarking findings. This report provides a well-informed assessment of Ada's financial health and how it compares to the MSME textile sector through profitability ratio analysis. Despite using hypothetical data, the study provides an orderly technique for examining the economic viability of such firms.

The purpose of this study is to compare Ada's performance to that of other MSMEs in the textile sector, evaluate the company's financial efficiency using fictional data, and explore Ada Designer Chikan Studio's profitability using major financial criteria.

Literature Review:

MSMEs and Their Role in the Textile Industry

Micro, Small, and Medium Businesses (MSMEs) are vital to the Indian economy because they export commodities, provide jobs, and propel industrial development. There are many MSMEs in the textile sector, specifically in the areas of fabric production, embroidery, and clothing manufacturing. MSMEs contribute significantly to India's textile exports, sustaining small enterprises and rural artisans, according to industry sources. The sector fulfills two functions: it maintains traditional craftsmanship while adjusting to the needs of the contemporary market.

Profitability Analysis in MSMEs

Profitability analysis is an important measure of financial performance, especially for MSMEs operating in the marketplace. Numerous studies have stressed the importance of financial ratios in assessing firm sustainability. A company's financial stability, profitability, and cost effectiveness are measured using ratios such as return on equity (ROE), return on assets (ROA), net profit margin (NPM), and gross profit margin (GPM). According to previous research, MSMEs with high profitability ratios have better access to funding and longer-term market viability. However, small business success is usually hampered by a lack of formal credit availability, fluctuating raw material costs, and financial constraints.

Chikankari MSMEs in Lucknow

Chikankari embroidery, a centuries-old Lucknow craft, has evolved from a local handicraft tradition to a successful business. Chikankari-focused MSMEs, such as Ada Designer Chikan Studio, play a vital role in promoting and commercializing the craft. Unlike huge textile enterprises, these businesses usually operate on a small scale, dealing with issues such as production costs, seasonal demand fluctuations, and labor-intensive manufacturing techniques. According to research on textile MSMEs, maintaining profitability requires combining production costs with pricing strategies while responding to consumer demand.

Benchmarking in Financial Analysis

Profitability criteria in the MSME textile sector vary depending on manufacturing efficiency, brand positioning, and cost management strategies. Benchmarking is extensively used in financial studies to compare a company's performance to that of its industry counterparts, providing insights and in-depth information about a company's position with competitors and industry norms. Previous studies have demonstrated that MSMEs that achieve better gross and net profit margins commonly implement

Gaps in Existing Research

While several studies examine the profitability of small and medium-sized enterprises, few particularly examine Chikankari firms in Lucknow. Most financial studies focus on large-scale textile organizations or overall MSME trends rather than handcrafted embroidery businesses. This study aims to fill this gap by examining Ada Designer Chikan Studio's profitability using hypothetical financial data and comparing it to other MSMEs in the textile industry.

Research Methodology:

This study uses financial ratio analysis to provide a quantitative technique for investigating Ada Designer Chikan Studio's profitability. The study relies solely on secondary data sources, such as business case studies and online financial analysis of textile MSMEs, and employs imaginary financial figures derived from industry estimates and comparable MSME reports because the company's actual financial data is not publicly available. The process for assessing production efficiency, overall profitability, asset utilization, and shareholder returns includes computing important profitability ratios such as Gross Profit Margin (GPM), Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE).

This study uses secondary data sources and standard financial measures to provide insights into Ada Designer Chikan Studio's profitability and competitive status in the MSME textile sector.

For benchmarking, the calculated ratios are compared with textile MSME industry averages and selected MSMEs in India.

The following data represents Ada Designer Chikan Studio hypotheticals figures for analysis:

Revenue (₹ in Crores) 12.5
 Cost of Goods Sold (COGS) (₹ in Crores): 6.8
 Operating Expenses (₹ in Crores): 3.5
 Assumed Total Debt: ₹10.9 crore
 Assumed Shareholder's Equity: ₹12.1 crore
 Inventory Turnover Ratio 4.2 times

Profitability Ratio Analysis

1. Gross Profit Margin (GPM)

Formula=(Revenue-COGS/Revenue) ×100

Calculation= (12.5-6.8/12.5) ×100= (5.7/12.5) ×100=45.6%

Ada Designer Chikan Studio achieves a gross profit of ₹0.456 for every ₹1 of sales, indicating successful cost reduction in production.

2. Net Profit Margin (NPM)

Formula=(Net Profit/Revenue) ×100

Assumed Net Profit: Net Profit=Revenue- (COGS+ Operating Expenses)

=12.5-(6.8+3.5) =12.5-10.3=2.2 crore= 12.5 - (6.8 + 3.5) = 12.5 - 10.3 = 2.2%

Calculation: NPM= (2.2/12.5) ×100=17.6%

Ada's sound financial planning is shown in their net profit of ₹0.125 for every ₹1 in sales.

3. Return on Assets (ROA)

Formula: ROA= (Net Profit/Total Assets) ×100

Assumed Total Assets: ₹20.4 crore

Calculation= (2.2/20.4) ×100=10.8%

Ada earns a 10.8% return on total assets, demonstrating effective utilization of assets

4. Profitability Ratios	Ada Designer Chikan Studio (Hypothetical Data)	MSME Textile Industry Average
Gross Profit Margin (GPM)	45.6%	35% - 42%
Net Profit Margin (NPM)	12.5%	8% - 11%
Return on Assets (ROA)	10.8%	8% - 12%
Return on Equity (ROE)	18.2%	14% - 17%
Debt-to-Equity Ratio	0.9	1.0 - 1.3
Inventory Turnover Ratio	4.2 times	3.5 - 4.8 times

Return on Equity (ROE)

Formula: $ROE = (\text{Net Profit} / \text{Shareholder's Equity}) \times 100$

Assumed Shareholder's Equity: ₹12.1 crore

Calculation: $ROE = (2.2 / 12.1) \times 100 = 18.2\%$

Interpretation: The company's stockholders receive an 18.2% return, demonstrating a substantial profit.

Benchmarking Ada Designer Chikan Studio with MSMEs Textile Sector Average

Benchmarking permits Ada Designer Chikan Studio to compare its performance to that of other MSMEs in the textile sector, highlighting strengths and areas for advancement. The following is a comparison of key profitability ratios between Ada Designer Chikan and industry averages for MSME textile enterprises in India.

Findings:

- Ada Studio beats the industry averages in all profitability ratios.
- Higher GPM represents stronger pricing power and cost efficiency.
- Higher ROA & ROE indicates effective and attractive asset and equity utilization.

Discussion & Analysis

- **Strengths:** Ada Studio's hypothetical 45.6% GPM and 18.2% ROE reflect strong and ideal profitability, effective pricing, and good shareholder returns.
- **Challenges:** If actual operational costs were higher, profitability could be lower. Real-world factors like market demand, labour costs, and raw material prices affect performance.
- **Opportunities:** Expansion into e-commerce, teaming with designers, and export opportunities could enhance the profitability.

Conclusion

Ada Designer Chikan Studio's profitability research, which was carried out using hypothetical financial data and compared with MSMEs in the textile sector, provides crucial details on the company's financial standing. The study finds that Ada performs better than other small and medium-sized textile companies in terms of profit margins, asset utilization, and return on investment.

Ada's outstanding gross and net profit margins are evidence of their efficient cost control and pricing tactics. Because the company depends less on outside finance than is customary for the industry, it is more stable economically and less immune to market fluctuations. Additionally, investors benefit from it more than many of its competitors in the MSME textile sector because to its strong return on equity.

Ada can continue to develop and improve asset efficiency while maintaining its market competitiveness. Its growth and sustainability might be boosted further by increasing production capacity, adopting digital strategies, and exploring new markets.

Overall, the study found that Ada Designer Chikan Studio is an advantageous and financially stable MSME in the textile business. Although it has an edge due to effective cost and debt management, further innovation and expansion will be required for long-term success in the sector.

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