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Appraisal of Profitability of Textile Companies in India

Abstract

''Profits are the soul of the business without which it is life-less in fact , profits are useful intermediate towards which a firms capital should be directed ''A business cannot breathe well without profits. Profits is the engine that drives the business enterprises it is unalterable permanent and as such the primary as well as final objective of a business enterprises.

Keywords: Profitability Appraisal, Textile Company.

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Introduction

M.E. Murphy HAS righty remarked that ''Business cannot exist without profits' as any economy cannot exist without sound business

J.F. West and E.F. Bryhem were of the opinion that''To the financial management profits are the test of efficiency and a measure of control to the owner ''

Further Prof. Samueson holds that profits are the report card of the past, the incentive gold star for the future and also stake for new venture.

Meaning and Definition of Profitability

The term profitability is composite of two words 'Profits' and 'ability' and signifies the ability of a business to earn profit on its investment. Profit is the sum arrived by deducting total cost form T.R> enterprise to earn profit in financial circles. Its exact connotation is 'earning power' of the concern investment.

Stanev has pointed out that '' Profitability is an overall reflection of the strength and weakness of an enterprise.

Profitability is the profit making ability of the enterprise denoting either constant or improved or deteriorated state of such ability during a given period. Thus, profit is an absolute connotation whereas profitability is relative concept.

Importance of Profitability Appraisal

Proper management of profit and profitability is very important for the success of textile mills. Profitability management is the functional area of finance that converts all the business aspects of the cotton textile mills of rajasthan state. Profitability management has many aspects which makes it an important function of the financial managers of cotton textile companies of Rajasthan:

1. If a cotton textile company has insufficient profitability this creates difficulties for the textile company to operate its daily tasks smoothly.
2. Profitability management ranges from identification of the needs to forecast planning, resource mobilization and control of all risk factors.
3. If there is efficient hand to generate profitability of textile company there is no financial danger for textile companies.
4. Adequacy of profitability makes it possible to take advanteges of cash discount.
5. Proper management of profit must ensure adequate amount of working capital as per needs of textile company.

Objective of Profitability Appraisal

Proper management of profit and profitability is very important for success of textile Mills. Profitability is an overall reflection of strength and weakness of an Enterprises so business wants to get Maximum profit

Adequacy of Profit and Profitability

Every textile company has to maintain adequate profitability position due to following reasons:-

1. It enables business to extend favourable credit terms to its customer.
2. It enables a textile company to with stand period of depression smoothly.

3. It enables to pay all current liabilities soon and to take benefit of cash discount.
4. There may be universe dividend policy.
5. Current funds may be invested in non-current assets.
6. Management may fail to obtain funds from other sources for purpose of expansion.
7. It permits carrying of inventories at a level that would enable a textile company to serve satisfactory the needs of customer.

Performance Appraisal in Actual Practise

Return on Capital Employed

Meaning and Computation

The primary objectives of making investment in any business is to obtained adequate return on capital investment it is also called return on investment (ROI).

The formula used as follows:

$$\text{Return on capital employed} = \frac{\text{Net Profit (PBIT)}}{\text{Capital employed}} \times 100$$

Or

$$= \text{Assets turnover} \times \text{Profit Margin}$$

Components

Net profit means the profit earned by capital employed it is the net profit before interest and tax excluding (i) non-trading incomes such as income from investment, (ii) non-recurring and abnormal profits and (iii) non-trading and abnormal losses. If profits after interest is given, then interest on long term will be added back.

Table

Return on Capital Employed Ratio of Selected Textile Companies of India during 2014-2017

(In %)

S. No.	Name of company	2014	2015	2016	2017
1	Bomay dyeing &manufacturing co. ltd.	13.86	7.77	16.08	9.10
2	Kesoram Industries Ltd.	18.69	9.11	11.20	41.01
3	Arvind mills Ltd.	8.19	9.94	8.3	1.85
4	Raymond ltd.	12.62	7.53	10.23	14.84
5	Alok Industries	17.28	13.08	12.47	16.09

In case of Bombay dying and manufacturing company ltd. This ratio has increasing trend from 2014 to 2016 and there after it has decresing trend in 2016-2017.

In case of kesoram industries ltd. %of return on capital employed fluctuating trend 2014-2017.

In case of arvind mills this ratio has increasing trend from 2014-2015 thereafter it has decreasing trend from 2016-2017.

In case of Raymond ltd. This ratio has fluctuation trend in whole of the study period 2014-2017.

In case of alok industry this ratio has decreasing trend in whole of the study period 2014-2016 except in case of 2017.

Return on Net Worth

This ratio expresses the percentage relationship between net profit (after interest and tax) and proprietors funds or shareholders' funds or net worth. This is also known as return on net worth.

$$\text{Return on net worth} = \frac{\text{Net profit(after int. \& tax)}}{\text{Shareholders funds or net worth}} \times 100$$

Components

Table

Return on Net Worth Ratio of Selected Textile Companies of India during 2014-2017. (In %)

S. No.	Name of Company	2014	2015	2016	2017
1	Bomay dyeing &manufacturing co. ltd.	13.51	18.26	17.37	18.00
2	Kesoram Industries Ltd.	13.82	8.02	10.16	25.71
3	Arvind mills Ltd.	6.92	8.37	7.91	5.27
4	Raymond ltd.	8.59	6.51	8.28	5.84
5	Alok Industries	12.73	9.62	7.68	7.75

Properietors or shareholders funds include preferences share capital as well as equity share capital as well as equity shareholders funds which in turn comprises equity share capital, sharte premium and reserve and surplus.

In case of Bombay dyeing and manufacturing company ltd. This ratio has flucatuating trend during whole study period from 2014-2017.

In case of kesoram ind. Ltd. This ratio has fluctuating trend in the year 2014-2017 but except in year 2015.

In case of arvind mills this ratio has increasing 2014-2015 and thereafter it has decreasing 2016-2017.

In case of Raymond ind. This ratio has fluctuating trend in whole if the study 2014-2017.

In case of Alok Ind. Ltd. This ratio has decreaing trend from 2014-2016 after that it has increasing trend.

Earning Per Share

The rate of dividend on shares depends upon the amount of profits earned by the firm whatever profit remains after meeting all expenses and paying preference share dividend belongs to equity share holders. The EPS is calculated by dividing the profit available to equity shareholders by the number issued.

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$$\text{Earning per share} = \frac{\text{Profit after tax-preference dividend}}{\text{Number of equity share}}$$

Table

Earning per Share of Selected Textile Companies of India during (2014-2017)

In Rs.

S. No.	Name of Company	2014	2015	2016	2017
1	Bomay dyeing &manufacturing co. ltd.	13.86	6.88	15.89	9.31
2	Kesoram Industries Ltd.	13.77	7.33	9.99	58.08
3	Arvind mills Ltd.	4.53	6.31	5.89	1.06
4	Raymond ltd.	21.55	13.55	19.71	32.79
5	Alok Industries	7.88	6.03	6.45	9.63

Table shows that this is a popular ratio as it measures the profitability of a firm from owners stand point. The higher earning per share is Bombay dyeing and manufacturing company and lower earning per share company is arvind mills.

Return on Total Assets

Profitability can also be measured by establishing relationship between net profit an total assets. This ratio is computed by dividing the net profit after tax by total funds invested or total assets.

$$\text{Return on total assets} = \frac{\text{Net Profit After*100}}{\text{Total assets}}$$

Table

Return on Total Assets Ratio of Selected Textile Companies of India during 2014 -2017

In%

S. No.	Name of Company	2014	2015	2016	2017
1	Bomay dyeing &manufacturing co. ltd.	7.1	3.8	5.9	2.4
2	Kesoram Industries Ltd.	8.5	4.0	4.7	18.0
3	Arvind mills Ltd.	3.8	4.2	3.7	0.7
4	Raymond ltd.	8.6	4.9	6.1	9.3
5	Alok Industries	5.7	4.4	3.6	3.7

In case of Bombay dyeing company this ratio has fluctuating trend from 2014 to 2016 thereafter it has decreasing trend.

In case of kesoram industry this ratio has fluctuating in whole year 2014-2017

In case of arvind mills the trend on total assets is fluctuating during 2014-2016 and there after decreasing

In case of Raymond industry this ratio has decreasing 2014-2015 there after its has increasing trend during 2016-2017.

In case of alok industry ltd it has decreasing trend in the year 2014-2016 expect in the year 2017.

Conclusion

Progress of textile industry depends on proper use of profits. It profit are not well managed and inadequate in textile companies, a textile unit cannot achieve good operating results. Smooth flow of profitability is very necessary to maintain the health of a textile company. Profits should be sufficient to enable textile company to conduct its business on most economical basis and without financial difficulties to a meet the emergencies with danger of financial disaster. Proper management of profits must ensure adequate amount of working capital as per needs of textile company.

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