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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	**A STUDY ON FORECASTING BSE SENSEX BY USING HOLT-WINTER METHOD** *DR. M. SHEIK MOHAMED, DR. M.A.SHAKILA BANU & B.DEEPA LAKSHMI*	1
2.	**GLOBAL MARKET & GLOBALIZATION DRIVE – THE STRATEGIC NEED FOR BRANDS & PRODUCTS: A BUSINESS PERSPECTIVE ANALYSIS** *DR. S. P. RATH*	6
3.	**MEASUREMENT OF FRANCHISEE SATISFACTION BASED ON THEIR PERCEPTION ABOUT THE PERFORMANCE OF THE FRANCHISERS** *DR. MANISH SIDHPURIA*	13
4.	**IMPACT OF GAAR ON INDIAN EQUITY MARKET: AN EMPIRICAL STUDY** *DR. SANJIV MITTAL, DR. SUNIL KUMAR, DR. PRADEEP AGARWAL & DR. MOHINDER KUMAR*	17
5.	**CHANGING FACE OF INDIAN RETAIL INDUSTRY** *DR. ANIL CHANDHOK*	22
6.	**ENGLISH LANGUAGE TEACHING IN INDIA: REVIEWING THE RELEVANCE OF THEORY** *DR. PAWAN KUMAR SHARMA*	26
7.	**A REVIEW OF THE LITERATURE: WOMEN EMPOWERMENT THROUGH SELF HELP GROUPS (SHGs)** *U.DHANALAKSHMI & DR. K. RAJINI*	29
8.	**CONSUMER PERCEPTION TOWARDS BRAND PREFERENCE OF MOBILE PHONE SERVICE PROVIDERS** *A. MUTHUKUMARAN & DR. M. MATHIVANAN*	35
9.	**CORPORATE GOVERNANCE IN INDIA: EVOLUTION AND EMERGING ISSUES** *DR. BADIUDDIN AHMED, RAFIUDDIN & IRFANUDDIN*	40
10.	**STUDY OF FINANCIAL INCLUSION IN BANKING INDUSTRIES IN INDIA** *PAVAN KAPOOR*	44
11.	**SCM PRACTICES AND ITS IMPACT ON TURNOVER, PROFITABILITY AND SUSTAINABILITY IN INDIAN BUSINESS ENVIRONMENT** *VIVEK PANDEY*	49
12.	**ENCOURAGING POSITIVE WORKPLACE BEHAVIOUR: ETHICS ON THE JOB** *GEETU SHARMA*	54
13.	**A COMPARATIVE STUDY OF PROFITABILITY OF TWO COMPANIES – A CASE STUDY** *A. S. MANJULAKSHMI*	58
14.	**A STUDY ON EMPLOYEE RETENTION STRATEGIES AT JAMMU & KASHMIR BANK LTD, AT MISSION ROAD, BANGALORE** *S. POORNIMA*	65
15.	**TYPE – A TRAIT FOR EFFECTIVE MANAGER** *ANASUYA SWAIN*	75
16.	**IMPORTANCE OF MEASURING HR'S EFFECTIVENESS: A DRIVE TO HR METRICS** *P. AKTHAR*	78
17.	**IMPULSIVE BUYING BEHAVIOUR OF RURAL PEOPLE: WITH REFERENCE TO FMCG PRODUCTS** *J. JOSEPHINE LALITHA & DR. N. PANCHANATHAM*	82
18.	**AN INTRODUCTION TO EMPLOYEE ENGAGEMENT: SOLUTION FOR EFFECTIVE HRM WITH REFERENCE TO EMPLOYEE ENGAGEMENT MODEL** *B. KALAIYARASAN & DR. GAYATRI*	87
19.	**FDI IN INDIAN RETAIL: CHALLENGES** *DR. MANOJ KUMAR SHARMA*	90
20.	**WORKING CAPITAL PERFORMANCE: A CASE STUDY ON DABUR INDIA LTD.** *NIRMAL CHAKRABORTY*	93
21.	**A STUDY ON PERFORMANCE EVALUATION OF PUBLIC & PRIVATE SECTOR MUTUAL FUNDS IN INDIA** *DR. BHUPENDRA SINGH HADA*	98
22.	**HUMAN RESOURCE ACCOUNTING: REDEFINING HUMAN CAPITAL INVESTMENT IN CORPORATE SECTOR** *MONIKA KHEMANI*	104
23.	**THE RELATIONSHIP BETWEEN PATERNALISTIC LEADERSHIP AND ORGANIZATIONAL CITIZENSHIP BEHAVIOR–THE MEDIATING EFFECTS OF ETHICAL CLIMATE** *MENG-YU CHENG, LEI WANG & SRI-DWIJAYANTI LESMANA*	108
24.	**AIRLINE INDUSTRIAL UNREST AND STRATEGIC MANAGEMENT PRACTICES** *AHMED ABDIKARIM HASSAN & KARIM OMIDO*	118
25.	**INTEREST RATE DEREGULATION AND DEMAND FOR MONEY IN NIGERIA (2000-2011)** *ODITA ANTHONY OGOMEGBUNAM*	124
26.	**REDINGTON IMMUNIZATION THEORY APPROACH TO HEDGING INTEREST RATE RISK IN INSURANCE COMPANIES IN NIGERIA** *AFOLABI, TAOFEEK SOLA*	130
27.	**MICRO, SMALL AND MEDIUM ENTERPRISES IN WEST BENGAL: AN EVALUATION** *SOUMYA GANGULY*	136
28.	**ETHICS IN MARKETING IN REAL ESTATE INDUSTRY IN PUNE FOR CUSTOMER SATISFACTION** *MEERA SINGH*	142
29.	**THE EFFECTS OF STRATEGIC MARKETING ON SAVING AND CREDIT CO-OPERATIVES PERFORMANCE: A SURVEY OF SELECTED SAVING AND CREDIT CO-OPERATIVES IN MOMBASA COUNTY** *ELISHA MKOFIRHA ADE & KARIM OMIDO*	146
30.	**BUYING BEHAVIOUR - AN ISLAMIC PERSPECTIVE: AN ANALYSIS OF AN IDEAL MUSLIM BUYING BEHAVIOUR** *TAHIR AHMAD WANI*	152
	REQUEST FOR FEEDBACK	156

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   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

A COMPARATIVE STUDY OF PROFITABILITY OF TWO COMPANIES – A CASE STUDY

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ABSTRACT

Profitability is one of the factors reflected in share price. Therefore, it is necessary to know how to analyze various facets of profitability. Every business should earn sufficient profits to survive and grow over a long period of time. The firm should manage all aspects of the business in such a way that revenues are maximized and costs are minimized for maximizing profit. Therefore it is essential to analyse the profitability of the firm to ensure to achieve the one the goals of the firm. Profitability measures the amount of equity required to generate the profit. Profitability analysis is the process of identifying the financial profit or loss of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Considering the significance and contribution of textile sector in national economy, initiative and efforts should be made to appraise the financial performance of these industries to attract investment and encourage wide spread development and growth in this sector. The present study was conducted to analyse the comparative profitability of the companies selected. It analysed that the profit earned by the firms are adequate and their rate of return to the shareholders are satisfactory. The study reveals that profitability of both the companies is satisfactory in some aspects and not satisfactory in certain aspects. Therefore the companies should put more efforts to strive for improved productivity and optimal utilisation of available resources. Profitability in long run contributes to sustained growth of the company.

KEYWORDS
Equity Multiplier, Profitability, Ratio and Turnover.

INTRODUCTION
Every business should earn sufficient profits to survive and grow over a long period of time. Profit is considered to be the main driving force in business. Lord Keynes remarked that 'Profit is the engine that drives the business enterprise'. It is one of the dominant goals or objectives of the firm. In economics a business man has to ensure optimum utilisation of four factors of production such as land labour capital and organisation to maximise the profit. The firm should manage all aspects of the business in such a way that revenues are maximized and costs are minimized for maximizing profit. Therefore it is essential for a financial manager to analyse the profitability of the firm to ensure to achieve the one the goals of the firm.The Management is basically concerned about the ability of the firm to meet its short term as well as long term obligation to its creditors, to ensure a reasonable return to its owner and secure optimum utilization of the assets of the concern. Without profit business enterprise will not be able to maintain its existence.Profitability analysis is the process of identifying the financial profit or loss of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Profitability analysis is an important activity of evaluating financial soundness of the companies. The effective management and control of various components of short term funds has direct impact on profitability. Profitability means ability to make profit from all the business activities of an organization, company, firm, or an enterprise.

REVIEW OF LITERATURE
Fieldsend, Longford and McLeay, (1987)explained how financial ratios can also give mixed signals about a company's financial health, and can vary significantly among companies or industries over a time. Other factors should also be considered such as a company's products, management, competitors, and vision for the future. Perttunen and Martikainen, (1990) explained some listing of ratios to be aware of in analyzing a Company's balance sheet and income statement. They expressed that these ratios fall into four categories — liquidity, profitability, asset management (efficiency), and debt management (leverage). Leslie Rogers, (1997) Ratios are a valuable analytical tool for financial analysis. They can indicate the standing of a particular company, within a particular industry. However, ratios alone can sometimes be misleading. Ahmed (2001) has suggested some indicators of financial sustainability like ratios, operating efficiency ratios and portfolio quality ratio. Most of the literature on financial sustainability deals with sustainability of MFIs, NGOs or immunization financing. According to Khan and Jain (2007) **"**The Return on Assets ratio is a central measure of the overall profitability and operational efficiency of an organization", it shows the interaction of profitability and activity ratios. It implies that the performance of an organization can be improved either by generating more sales volume per rupee of investment or by increasing the profit margin per rupee of sales. I.M.Pandey (2002**)** suggested that "RONA (return on net asset) or ROCE (return on capital employed) is the measure of an organization's operating performance. It indicates an organization's earning power. It is a product of the asset turnover gross profit margin and operating leverages. S.K. Khatik and Amit Kr.Nag (2013) in their study on analysis of profitability operational and financial efficiency of limited company concluded that huge amount of total asset are not properly utilised will reflect the profitability of the firm. D. Maheswara Reddy and Mohan (2013) analysed that if ROCE is far away from the industry average will show the ineffective utilisation of resources. DTR of the company reflects the efficient collection management. Singh and Pandey **(**2008) said that working capital management is the management of current assets and current liabilities. Maintaining high inventory levels reduces the cost of possible interruption in the production process or of loss of business due to the scarcity of products, reduces supply costs and protects against price fluctuations. Granting trade credit favours the firm's sales in various ways. Trade credit can act as an effective price cut and incentives to customers to acquire merchandise at times of low demands. Thus, greater the investment in current assets, lower is the risk, and profitability obtained. Similarly trade credit is a Spontaneous source of financing that reduces the amount required to finance the sums tied up in the inventory and account receivables. Profitability and liquidity comprises the salient and all too often conflicting goals of working capital management. The conflicts arise because the maximum of firm's returns could seriously threaten liquidity and on the other hand, the pursuit of liquidity has a tendency to dilute returns.

IMPORTANCE OF THE STUDY
Profitability measures the amount of equity (or shareholders funds) required to generate the profit. It measures the amount of input required to produce the output. The measure of profitability of a company is the ROE. Profitability is also one of the factors reflected in share price. Therefore, investors should know how to analyze various facets of profitability; including how efficiently a company uses its resources and how much income it generates from operations. Calculating a company's profit margin is a great way to gain insight into these and other aspects of how well a company generates and retains money.

STATEMENT OF PROBLEM
The textile industry holds significant status in the Indian Economy. Textile industry provides one of the most fundamental necessities of the people and holds importance. This industry is at present working near its productive capacity which needs to be increased with increasing demand and competition. Considering the significance and contribution of textile sector in national economy, initiative and efforts should be made to appraise the financial performance of these industries to attract investment and encourage wide spread development and growth in this sector. Therefore the sectors should be analysed to identify the problems and find solution for the same.

ABOUT THE COMPANY

ARVIND LTD

Arvind Limited (Arvind Ltd) started in the year 1931 with the aim of manufacturing the high-end superfine fabrics. Arvind Ltd invested in very sophisticated technology. Arvind Ltd took its place amongst the foremost textile units in the country. In the mid 1980's the textile industry faced another major crisis. With the power loom churning out vast quantities of inexpensive fabric, many large composite mills lost their markets, and were on the verge of closure. Yet that period saw Arvind Ltd at its highest level of profitability. The national focus paved way for international focus and Arvind Ltd's markets shifted from domestic to global, a market that expected and accepted only quality goods.

WELSPUN INDIA LTD

Welspun India Limited (WIL) was incorporated on 17th January, 1985 as a Private Limited Company in the name and style of Welspun Winilon Silk Mills Pvt. Ltd. at Mumbai. The Main Object of the Company is to manufacture Polyester filament yarns and tartarised yarns. . In 1995, the name changed from Welspun Polyster to Welspun India Ltd. The aim of this company is to emerge as a global leader preferred by every home serve with passion to grow, with innovation and quality excellence in addition to their well formulated ethics.

OBJECTIVES OF THE STUDY

The objectives of this study are to assess the financial performance of Arvind Ltd and Welspun India Ltd ltd from the angle of profitability. It also made an effort to compare the the profitability of Arvind Ltd and Welspun IndiaLtd for the selected period. Finally the objective is to identify the area of weakness and give some suggestions for the same of the selected companies in relation to profitability.

HYPOTHESIS

H_o (1) No significant difference between the sample units lies for Net Profit (NP) Margin during the study period.
H_o (2) No significant difference between the sample units lies for Operating Profit (OP) Margin during the study period.
H_o (3) No significant difference between the sample units lies for Assets Turnover Ratio during the study period.
H_o (4) No significant difference between the sample units lies for Equity Multiplier during the study period.
H_o (5) No significant difference between the sample units lies for Fixed Asset Turnover Ratio during the study period
H_o (6) No significant difference between the sample units lies for Current assets Turnover Ratio during the study period.
H_o (7) No significant difference between the sample units lies for Return on Total Assets during the study period
H_o (8) No significant difference between the sample units lies for Return on Shareholders' Fund.

RESEARCH METHODOLOGY

The study is concerned with comparative study of profitability of Arvind Ltd and Welspun India Ltd from textile industry listed in stock exchange. This study was based on the data obtained from the Annual reports of these companies for five financial years (2007-08 to 2011-12). The collected data was analyzed with the help of ratio analysis and ANOVA. Ratio analysis being a primary tool of financial analysis helps in assessing and evaluating financial health of the companies using various types of ratios. Ratio analysis thus provides an overall picture of financial position of the companies to the investors, regulators, stakeholders and analysts who are directly or indirectly interested in the performance evaluation of companies. Ratios help to summaries large quantities of financial data and to make qualitative judgment about the firm's financial performance. Ratios are quantitative or arithmetical expression of the relationship between two numbers. It is used as statistical yardstick to measure and compare the relationship between two variables. Prof. R.A Fisher was the first man to use the term 'variance' and he who developed a very elaborate theory concerning ANOVA .It is a procedure for testing the difference among different groups of data for homogeneity. ANOVA can investigate any number of factors which are hypothesized or said influence the dependent variable.

LIMITATIONS OF THE STUDY

The study is limited to five years only.
The study is limited to two companies only.
The data for this study is taken from the published Annual reports only.
Research was based on secondary data and historical in nature.

RESULTS AND DISCUSSION

TABLE 1: SUMMARY OF RATIOS

Year		2007-08	2008-09	2009-10	2010-11	2011-12	Mean	Sd	CAGR
NP Margin %	Arvind	1.20	-2.12	2.31	5.02	12.43	3.77	5.48	59.61%
	WIL	2.12	2.30	6.31	-5.01	4.52	2.05	4.31	16.30%
OP Margin %	Arvind	13.11	13.26	14.26	16.33	18.23	15.04	2.20	6.82%
	WIL	15.62	15.91	19.95	14.82	18.83	17.02	2.23	3.81%
AT Ratio(times)	Arvind	1.64	1.66	1.66	1.59	1.32	1.58	0.14	-4.25%
	WIL	1.90	1.87	1.45	1.42	1.24	1.58	0.29	-8.18%
Equity Multiplier(times)	Arvind	17.03	17.47	16.14	16.74	18.16	17.11	0.76	0.98%
	WIL	32.26	34.34	36.09	31.84	36.07	34.12	2.02	2.26%
FAT Ratio(times)	Arvind	0.90	0.89	0.85	0.74	0.65	0.80	0.11	-7.79%
	WIL	1.10	1.11	0.83	0.77	0.60	0.88	0.22	-11.42%
CAT Ratio (times)	Arvind	0.41	0.45	0.44	0.64	0.47	0.48	0.09	2.77%
	WIL	0.59	0.59	0.54	0.45	0.40	0.51	0.09	-7.48%
Return on Assets %	Arvind	0.73	-1.28	1.39	3.16	9.39	2.68	4.07	66.67%
	WIL	1.11	1.23	4.36	-3.52	3.65	1.37	3.09	26.88%
Return on SF%	Arvind	1.86	-4.07	3.66	7.51	21.49	6.09	9.57	63.13%
	WIL	4.70	5.52	18.61	-15.07	12.72	5.30	12.72	22.03%

Sources: Computed data from Annual Reports

OPERATING PROFIT MARGIN: OPERATING PROFIT MARGIN/ NET SALES *100

This ratio shows the margin left after meeting manufacturing costs. It measures the efficiency of production as well as pricing of the firm.

GRAPH 1

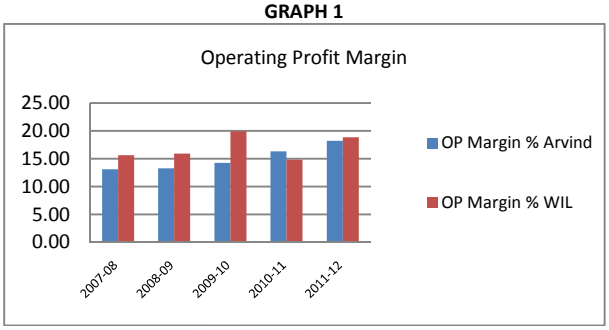

TABLE 2: ONE WAY ANOVA FOR OPERATING PROFIT MARGIN

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	9.85713	1	9.85713	2.008699	0.194147	5.317655
Within Groups	39.25777	8	4.907221			
Total	49.1149	9				

Sources: Computed in MS Excel

According to graph 1 operating profit margin of Arvind Ltd is increasing throughout the study period while WIL is showing a minor fluctuating trend during the study period. The one way ANOVA result for the ratios between the companies shows the calculated value of F is 2.0087 is less than the F crit 5 .3176 which support our null hypothesis is indicated in table 2. The Compounded Annual Growth Rate (CAGR) for operating profit margin of both the companies is indicated in Table 1.

NET PROFIT MARGIN: NET PROFIT / NET SALES *100

This ratio shows the earnings left for shareholders (both equity and preference) as a percentage of net sales. It measures the overall efficiency of production, administration, selling financing, pricing and tax management.

GRAPH 2

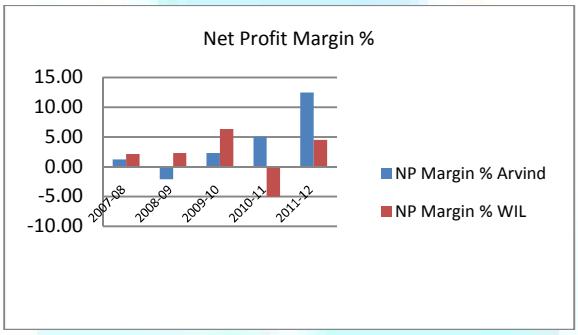

TABLE 3: ONE WAY ANOVA FOR NET PROFIT MARGIN

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	7.421044	1	7.421044	0.305876	0.595335	5.317655
Within Groups	194.093	8	24.26163			
Total	201.5141	9				

Sources: Computed in MS Excel

Net profit margin of WIL is showing a negative result during 2010-11 even though the net profit margin is high in 2009-10 it indicates some major changes in overall efficiency of the company. However, the net profit margin of Arvind Ltd is also showing negative result during 2008-09 but later it shows increasing trend in the subsequent period of the study. It also shows a huge increase in 2011-12 which indicates the high overall efficiency of the firm as per the graph 2. The ANOVA table 3 indicates the result of ratio of net profit margin to sales that there is no significant difference between the companies. . The Compounded Annual Growth Rate (CAGR) for Net profit margin of both the companies is indicated in Table 1.

TOTAL ASSETS TURNOVER RATIO: NET SALES/TOTAL ASSETS

This ratio indicates the firm's ability to generate sales in relation to investment in fixed assets**.**

GRAPH 3

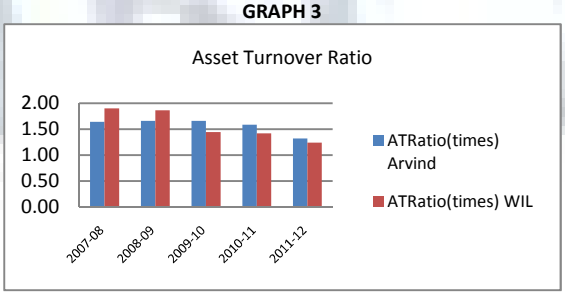

TABLE 4: ONE WAY ANOVA FOR ASSET TURNOVER RATIO

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	1.65E-08	1	1.65E-08	3.09E-07	0.99957	5.317655
Within Groups	0.425911	8	0.053239			
Total	0.425911	9				

Sources: Computed in MS Excel

The graph 3 indicates the Asset turnover ratio of Arvind Ltd and WIL both are in decreasing trend during the study period. Since the calculated value of F as per table 3 is less than the table value the null hypothesis is accepted and hence it is concluded that there is no significant difference in the ATR of these selected companies during the study period as per table 4. The Compounded Annual Growth Rate (CAGR) for Asset turnover ratio of both the companies is indicated in Table 1.

EQUITY MULTIPLIER: TOTAL ASSETS/ STOCKHOLDER'S EQUITY.

It examines how a company uses its debt to finance its assets. It is also known as financial leverage ratio.

GRAPH 4

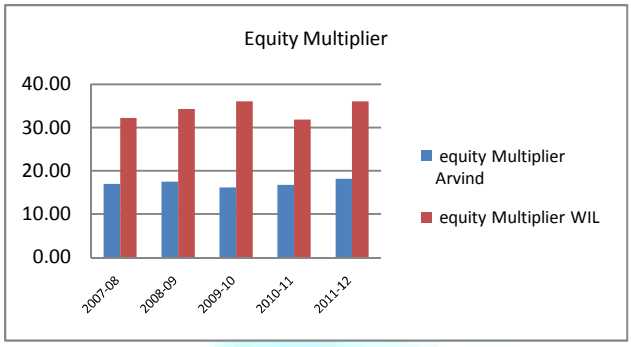

TABLE 5: ONE WAY ANOVA FOR EQUITY MULTIPLIER

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	723.3463	1	723.3463	309.5672	1.11E-07	5.317655
Within Groups	18.6931	8	2.336638			
Total	742.0394	9				

Sources: Computed in MS Excel

According to graph 4 Equity Multiplier of both the companies are almost constant during the study period. The F test shows there is significant difference between the companies in regard to Equity multiplier during the study period as shown the table 5. The Compounded Annual Growth Rate (CAGR) for Equity Multiplier of both the companies is indicated in Table 1.

FIXED ASSETS TURNOVER RATIO: NET SALES /NET FIXED ASSETS

This ratio is important for the company's long term policy and is computed to determine the efficient utilisation of the fixed assets. It measures the relationship between Net Sales and Net Fixed Assets. This ratio indicates the number of times total assets are being turned over in a year. Higher ratio indicates the overtrading of total assets and low ratio indicates idle capacity.

GRAPH 5

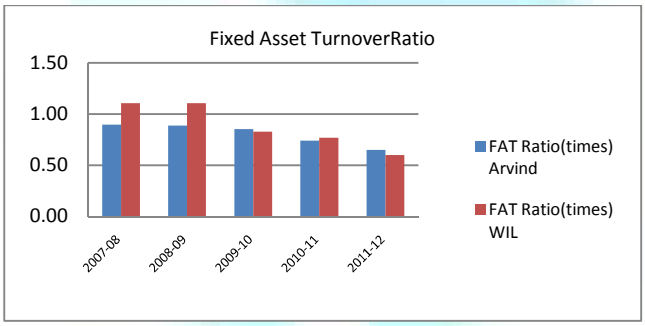

TABLE 6: ONE WAY ANOVA FOR FIXED ASSET TURNOVER RATIO

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	0.014698	1	0.014698	0.487576	0.504798	5.317655
Within Groups	0.241157	8	0.030145			
Total	0.255855	9				

Sources: Computed in MS Excel

According to graph 5 the fixed asset turnover ratio of both the companies are moving in the same direction. The ANOVA table 6 shows that there is no significant difference between the companies in relation to fixed asset turnover ratio. The Compounded Annual Growth Rate (CAGR) for Fixed Asset turnover ratio of both the companies is indicated in Table 1.

CURRENT ASSETS TURNOVER RATIO: NET SALES /CURRENT ASSETS

This ratio is important for the company's short term policy and is computed to determine the efficient utilisation of the current assets. It measures the relationship between Net Sales and current Assets. This ratio indicates the number of times current assets are being turned over in a year.

GRAPH 6

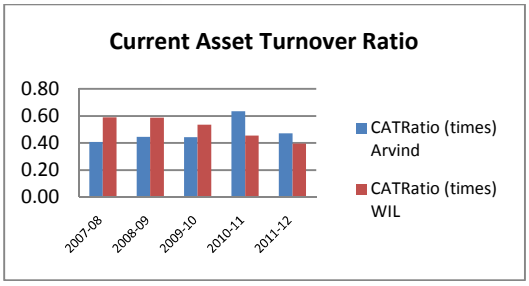

TABLE 7: ONE WAY ANOVA FOR CURRENT ASSET TURNOVER RATIO

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	0.00258	1	0.00258	0.336695	0.577717	5.317655
Within Groups	0.061305	8	0.007663			
Total	0.063885	9				

Sources: Computed in MS Excel

It may be seen from the above graph 6 that the Current asset turnover ratio of the companies is not fluctuating very much during the study period. The ANOVA table 7 shows that the calculated F value of Current asset ratio of the companies are less compared to the table value , so it supports our null hypothesis in relation to current assets turnover ratio of the companies selected during the study period. The Compounded Annual Growth Rate (CAGR) for Current Asset turnover ratio of both the companies is indicated in Table 1.

RETURN ON ASSET RATIO: NET PROFIT (AFTER TAX)/AVERAGE TOTAL ASSETS

This ratio reveals the utilisation of the total assets to earn revenue by the firm. It establishes the relationship between net profit and assets of the company.

GRAPH 7

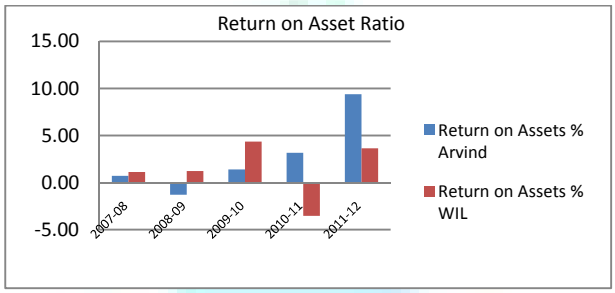

TABLE 8: ONE WAY ANOVA FOR RETURN ON ASSET RATIO

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	4.315569	1	4.315569	0.330411	0.581218	5.317655
Within Groups	104.4898	8	13.06122			
Total	108.8054	9				

Sources: Computed in MS Excel

It may be seen from the above graph 7 that the return on asset ratio of Arvind Ltd is -1.28 in the year 2008-09 and WIL is -3.52 in the year 2010-11 indicates the assets are not properly utilised in generating the revenues of the companies. However the asset utilisation of Arvind Ltd is showing very high percentage of 9.39% in the year 2011-1, and WIL also showed positive result of of 3.65% in the year 2011-12 compared to the previous year. The ANOVA table 8 shows that the calculated F value of Return on asset ratio of the companies are less compared to the table value , so it supports our null hypothesis in relation to Return on assets ratio of the companies selected during the study period. The Compounded Annual Growth Rate (CAGR) for Return on asset ratio of both the companies is indicated in Table 1.

RETURN ON SHAREHOLDER'S FUND: NET PROFIT (AFTER TAX)/SHAREHOLDERS FUND

The shareholders, who bear all risks, participate in management and are entitled to all the profits remaining after outside claims, who are the real owners of the business. Therefore, the profitability of a firm, from the owner's point of view should be assessed in terms of the return to the shareholders. Higher the ratio shows efficient management and utilization of shareholder's fund.

GRAPH 8

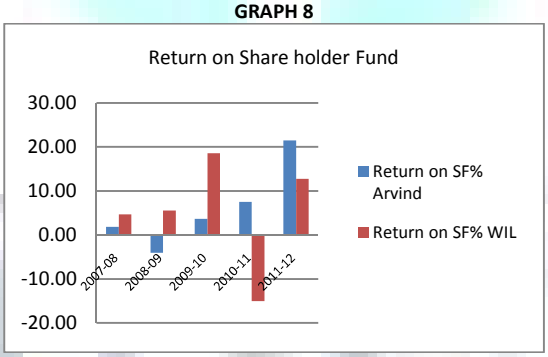

TABLE 9: ONE WAY ANOVA FOR RETURN ON SHAREHOLDERS FUND

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	1.582389	1	1.582389	0.012487	0.913778	5.317655
Within Groups	1013.78	8	126.7226			
Total	1015.363	9				

Sources: Computed in MS Excel

It may be seen from the above graph 8 that the return on Shareholders fund of Arvind Ltd are 1.86%, -4.07%, 3.66%, 7.51% and 21.49% for the years 2007-08 to 2011-12 shows tremendous increase in return on shareholders fund during the study period. However, the return on shareholders' fund of WIL are 4.70%,5.52%,18.61%,-15.07% and 12.72% for the years 2007-08 to 2011-12 indicates fluctuating trend in return to shareholders' during the study period. The ANOVA table 9 shows that the calculated F value of return on shareholders' fund of the companies are less compared to the table value , so it supports our null hypothesis in relation to Return on assets ratio of the companies selected during the study period. The Compounded Annual Growth Rate (CAGR) for Return on shareholders' fund of both the companies is indicated in Table 1.

FINDINGS

The Operating Profit Margin is very high compared to Net Profit Margin of both the companies, it appears that there is more fixed cost expenses as well as finance cost which reduces the Net operating Margin of the companies. Asset turnover ratio and fixed asset turnover ratio are greater as compared to return on asset ratio may be due to improper utilisation of assets of the companies. The equity multiplier examines how a company uses its debt to finance its assets. It is also known as financial leverage ratio. In our study the equity multiplier is high in WIL compared to Arvind Ltd. Return on Shareholders fund is high in case of Arvind Ltd in the year 2011-12 indicates the efficient management and utilisation of shareholders fund.

RECOMMENDATION/SUGGESTIONS

The companies yielding are sufficient through sales to meet the obligations. Therefore the debt should not remain unpaid. The companies should try to minimize its cost of goods sold and convert debt capital into equity capital to give more return to the shareholders. The companies should endeavour to optimise the utilisation of the fixed assets instead of keeping them idle for long time.

CONCLUSION

Profitability of the company is a matter of concern for every stakeholder. The operating efficiency of a firm and its ability to ensure adequate returns to its shareholders depends ultimately on the profits earned by it. The present study was conducted to analyse the comparative profitability of the companies selected. It analysed the profit earned by the firms are adequate and their rate of return to the shareholders are satisfactory. The study reveals that profitability of both the companies is satisfactory in some aspects and not satisfactory in certain aspects. Therefore the companies should put more efforts to strive for improved productivity and optimal utilisation of available resources. The effective management and control of various components of short term funds has direct impact on profitability. Profitability represents the ability to earn a good return on investment. Profitability in the long run contributes to sustained growth of the company.

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