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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

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   APPENDIX/ANNEXURE

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CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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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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PERFORMANCE OF PROFITABILITY MANAGEMENT IN LANCO INDUSTRIES LIMITED: AN EVALUATION

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ABSTRACT

The overall objective of business enterprise is to earn at least reasonable return on the funds invested, consistent with maintaining a sound financial position. The present research paper aims at focusing the objectives to appraise the profitability performance from the point view of sales levels, to analyze the profitability performance from the point view of investments. The gross profit margin reported the ups and downs over the study period. The profitability performance in relation to sales was thin over the study period in LIL and hence not satisfactory. The net profit margin had never touched even six percent of sales which is standard norm during the entire period of study excluding 2010. It may be observed that the net profit performance in relation to sales was sad in LIL. The return on net worth ratio had exceeded the standard norm of 12 per cent over the study period barring beginning and closing years of study. The profit performance in relation to investment was highly satisfactory with an exception of beginning and closing year of study. The profitability performance in LIL was much satisfactory in terms of investment. It is a clear indication that the net assets were used productively in the LIL. The return on investment ratio is quite encouraging to the existing investors and to the prospective investors. It is also welcoming feature for taking capital budgeting decisions to obtain assets which provide appropriate return on investment. The profitability performance in relation to sales shall be improved to the satisfactory level. Hence, it is suggested that the LIL has to go for integrated marketing practices so that it can increase its sales. Consequently, the profits will be increased. The LIL is suggested to improve the net profit by increasing the volume of sales. The company's profitability performance is declined due to various reasons in the concluding years of the study. Hence, it is better to forecast the future trends, and make changes in the company's financial policies to get good returns.

KEYWORDS

Gross profit margin, net profit margin, return on net worth and return on investment ratio in Lanco Industries Limited.

INTRODUCTION

Management evinces interest in evaluating financial aspects of the firm's performance. They have to protect the interests of stakeholders and to enable the firm to grow profitably. The financial analysis is measured from the point of view of profitability. The business undertaking has to earn profit from its operations. In other words, its receipts from operations should be more than the expenses over a period of time usually in an accounting year. The overall objective of business enterprise is to earn at least reasonable return on the funds invested, consistent with maintaining a sound financial position.

OBJECTIVES

The Present research paper aims at focusing the following objectives:

- to appraise the profitability performance from the point view of sales levels;
- to analyze the profitability performance from the point view of investments.

TOOLS OF ANALYSIS

The data drawn from the manual reports of Lanco Industries Limited (LIL) have been carefully, analyzed, tabulated and interpreted by using well established financial tools. The analysis of data is carried out through profitability ratios such as gross profit margin, net profit margin, return on equity and return on investment ratio. Statistical tools like mean, standard deviation, coefficient of variation and coefficient of correlation are also applied. Graphs and diagrams are presented to illuminate the facts and figures.

SCOPE AND COVERAGE

The present study is confined to Lanco Industries Limited (LIL). The LIL, Chittoor District in Andhra Pradesh, India has been selected because of the proximity to the investigator. This study is restricted to assess the performance of Profitability Management in LIL with the help of the ratio analysis. The time period considered for evaluating the study is seven years i.e. from 2006 to 2012.

PROFITABILITY RATIOS

A company should earn profits to survive and grow over a long period of time. Profits are essential, but it would be wrong to assume that every action initiated by management of a company should be aimed at maximizing profits, irrespective of concerns for customers, employees, suppliers or social consequences. Profit is the difference between revenues and expenses over a period of time (usually one year). Profit is the ultimate 'output' of an enterprise, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in term of profits. The profitability ratios are calculated to measure the operating efficiency of the company. Generally, two major types of profitability ratios are calculated:

PROFITABILITY IN RELATION TO SALES

•Gross profit margin ratio
•Net profit margin ratio

PROFITABILITY IN RELATION TO INVESTMENT

•Return on equity capital
•Return on shareholders' investment or net worth

GROSS PROFIT MARGIN RATIO

This ratio indicates the average spread between the cost of goods sold and the sales revenue. When we subtract the gross profit margin is subtracted from 100 percent, cost of goods sold to sales ratio is obtained. A high gross profit margin ratio is a sign of good management. The ratio establishes a relationship between gross profits to sales. The fundamental profitability ratio is gross profit margin ratio.

GROSS PROFIT MARGIN RATIO = GROSS PROFIT / SALES x 100

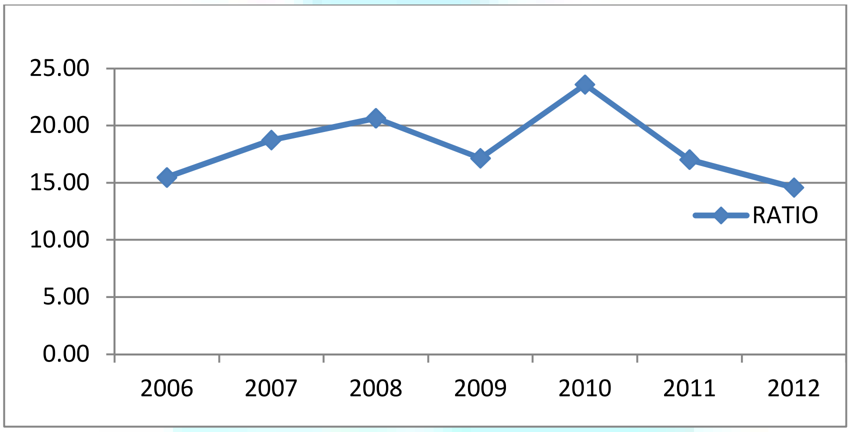
The gross profit margin ratio of the Lanco Industries Limited is presented in the Table 1 and Figure 1:

TABLE 1: GROSS PROFIT MARGIN RATIO OF LIL

Year	Gross Profit (Rs. in crores)	Sales (Rs. in crores)	Ratio (in percentage)
2006	*46.84*	*302.96*	*15.46*
2007	*69.20*	*369.37*	*18.73*
2008	*95.77*	*463.66*	*20.65*
2009	*110.51*	*644.72*	*17.14*
2010	*162.91*	*690.58*	*23.59*
2011	*123.57*	*726.00*	*17.02*
2012	*114.79*	*787.00*	*14.58*
Mean	***103.37***	***569.18***	***18.16***
Standard deviation	***37.76***	***189.03***	***3.12***
C.V(%)	***36.53***	***33.21***	***17.18***
CO-efficient of Correlation between debt and equity (r)=0.84			

Source: Compiled from Annual Reports of Lanco Industries Limited

FIGURE 1: GROSS PROFIT MARGIN RATIO OF LIL



The higher gross profit ratio is indicated better performance and lower gross profit ratio is shown unfavorable. It is apprehend a that the gross profit had depicted a rise over the period under reference on line with the sale. Gross profit had moved from Rs.46.84 crores in the beginning year 2006 to Rs.162.91 crores in 2010 and thereafter declined in the last two years. The gross profit ratio had fluctuated between the lowest of 14.58 percent in 2012 and the highest of 23.59 percent in 2010. The ratio reported the ups and downs over the study period. The Gross profit margin was less than 25 percent during the study period. The ratio had crossed 20 percent margin only in two years over the seven years. Thereby, the profitability performance in relation to sales was thin over the study period in LIL and hence not satisfactory. The mean, standard deviation and co-efficient of variation of gross profit margin ratio in LIL are 18.16, 3.12 and 17.18 per cent respectively. The average gross profit and sales worked out to be Rs.103.37 crores and 569.18 crores respectively. The average gross profit margin ratio was registered at 18.16 percent. The coefficient of correlation between gross profit and sales in LIL was 0.84 and thereby, denoting that there was highly positive correlation between gross profit and sales.

NET PROFIT MARGIN RATIO

Net profit is obtained when operating expenses, interest and taxes are subtracted from the gross profit. The ratio establishes a relationship between net profit and sales and indicates management's efficiency in manufacturing, administrating and selling the products. This ratio is the overall measure of the firm's ability to turn each rupee sales into net profit. If the net margin is inadequate, the firm will fail to achieve satisfactory return on owner's equity. A firm with a high net margin ratio would be in an advantageous position to survive in the face of falling selling prices, rising costs of production or declining demand for the product.

NET PROFIT MARGIN RATIO = NET PROFIT / SALES x 100

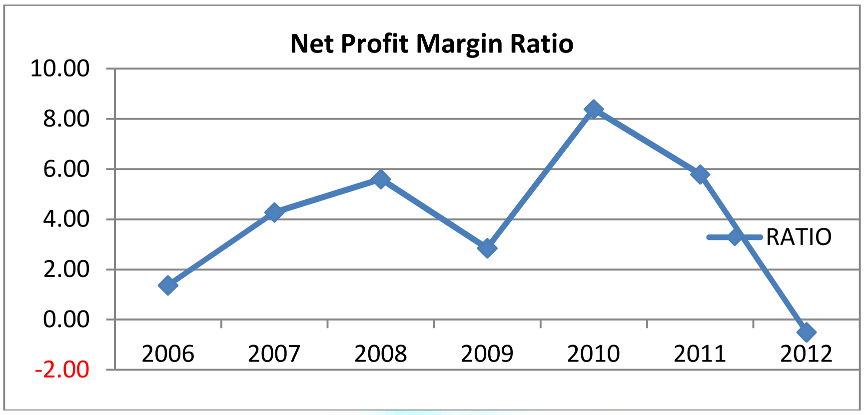
The net profit margin ratio of the Lanco Industries Limited is presented in the Table 2 and Figure 2:

TABLE 2: NET PROFIT MARGIN RATIO OF LIL

Year	Net Profit (Rs. in crores)	Sales (Rs. in crores)	Ratio (in percentage)
2006	*4.15*	*302.96*	*1.37*
2007	*15.81*	*369.37*	*4.28*
2008	*25.92*	*463.66*	*5.60*
2009	*18.35*	*644.72*	*2.85*
2010	*57.94*	*690.58*	*8.39*
2011	*42.03*	*726.00*	*5.79*
2012	*-3.95*	*787.00*	*-0.50*
Mean	***22.89***	***569.18***	***27.78***
Standard Deviation	***21.39***	***189.03***	***2.99***
C.V.(%)	***93.45***	***33.21***	***10.76***
CO-efficient of Correlation between debt and equity (r)=0.29			

Source: Compiled from Annual Reports of Lanco Industries Limited

FIGURE2: NET PROFIT MARGIN RATIO OF LIL



It is obvious that net profit was very meager in the beginning year of the study and gradually improved to 42.03 crores in 2011 and sharply declined and registered a net loss of Rs.-3.95 crores. It quantitative terms the net profit performance had depicted an improvement in intervene years. The net profit margin had fluctuated between the lowest of -0.50 percent to the highest of 8.39 percent over the study period. The net profit margin had never touched even six percent of sales which is standard norm during entire period of study excluding 2010. It may be observed that the net profit performance in relation to sales was sad in LIL. The mean, standard deviation and co-efficient of variation of net profit margin ratio in LIL are 27.78, 2.99 and 10.76 per cent respectively. The average net profit and sales worked out to be Rs.22.89 crores and 569.18 crores respectively. The average net profit margin ratio was registered at 22.78 per cent. The coefficient of correlation between net profit and sales in LIL was 0.29 and thereby, implying that there was minimum positive correlation between net profit and sales.

RETURN ON NET WORTH (OR) EQUITY

This ratio is one of the most important relationships in financial analysis. The earning of satisfactory return is the most desirable objective of a business. This in turn, measures the profitability of the equity funds invested in the company and shows the shareholders, how efficiently their investments have been utilized. Common or ordinary shareholders are entitled the residual profits. This ratio is of great interest to the present as well as prospective shareholders and also of great concern to management which has the responsibility of maximizing the owner's welfare. A return on shareholder's equity is calculated to see the profitability of owner's investment.

RETURN ON NET WORTH = PROFIT AFTER TAXES / NET WORTH x 100

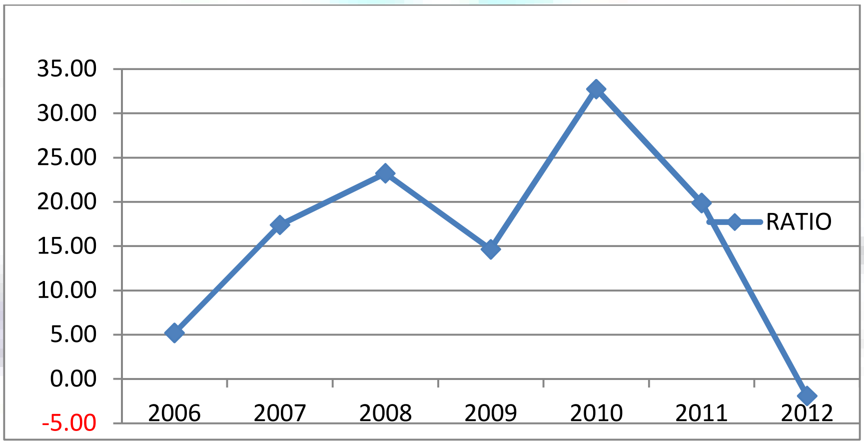
The return on capital ratio of the Lanco Industries Limited is presented in the Table 3 and Figure 3:

TABLE 3: RETURN ON NET WORTH OF LIL

Year	Profit After Tax (Rs. in crores)	Net Worth (Rs. in crores)	Ratio (in percentage)
2006	*4.15*	*79.69*	*5.20*
2007	*15.81*	*90.85*	*17.40*
2008	*25.92*	*111.56*	*23.23*
2009	*18.35*	*125.26*	*14.65*
2010	*57.94*	*176.90*	*32.75*
2011	*42.03*	*211.40*	*19.88*
2012	*-3.95*	*206.86*	*-1.91*
Mean	***22.89***	***143.22***	***15.88***
Standard Deviation	***21.39***	***54.68***	***11.47***
C.V.(%)	***93.45***	***38.18***	***72.22***
CO-efficient of Correlation between debt and equity (r)=0.33			

Source: Compiled from Annual Reports of Lanco Industries Limited

FIGURE 3: RETURN ON NET WORTH OF LIL



It is clear that net worth had jumped from Rs.79.69 crores in 2006 to Rs.206.86 crores in 2012, had registered a net loss of Rs.3.95 crores in 2012. The return of net worth ratio had gone up from 5.20 percent in 2006 to 19.88 percent in 2011 and thereafter recorded a negative ratio -1.91 percent. It is gratifying to note that the return on net worth ratio had exceeded the standard norm of 12 percent over the study period barring 2006 and 2012. It may be deduced that the profit performance in relation to investment was highly satisfactory with an exception of 2006 and 2012. The mean, standard deviation and co-efficient of variation of return on net worth (or) equity in LIL are 15.88, 11.47 and 72.22 per cent respectively. The average profit after tax and net worth worked out to be Rs.22.89 crores and 143.22 crores respectively. The average return on net worth ratio was registered at 15.88 per cent. The coefficient of correlation between profit after tax and net worth in LIL was 0.33 and thereby, denoting that there was minimum positive correlation between profit after tax and net worth.

RETURN ON INVESTMENT

The term investment may refer total assets or net assets. The fund employed in net assets is known as capital employed. Investments represent pool of a funds supplied by shareholders and lenders. Net assets equal net fixed assets plus current assets minus current liabilities excluding bank loans. Alternatively, capital employed is equal to net worth plus total debt. The conventional approach of calculating return on investment is to divide profit after tax by investment. Where ROTA and RONA are respectively return on total assets and return on net assets. RONA is equivalent of return on capital employed. Calculate return on investment by dividing

RETURN ON INVESTMETNT = EBIT/ NET ASSET x 100

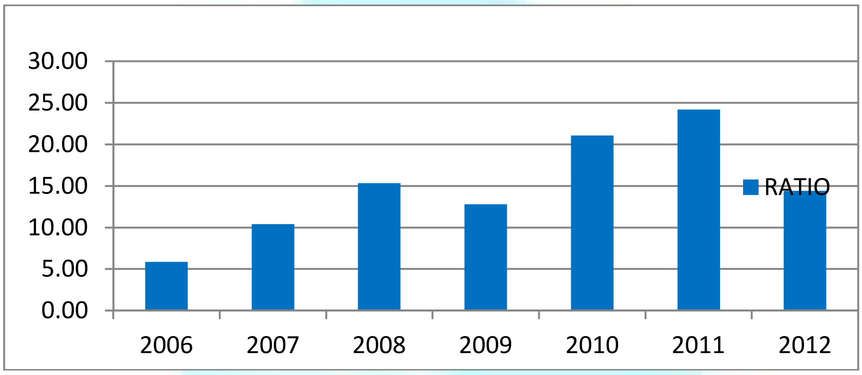
The return on capital ratio of the Lanco Industries Limited is presented in the Table 4 and Figure 4:

TABLE 4: RETURN ON INVESTMENT OF LIL

Year	EBIT (Rs. in crores)	Net Asset (Rs. in crores)	Ratio (in percentage)
2006	*19.25*	*329.01*	*5.85*
2007	*41.98*	*403.87*	*10.39*
2008	*67.32*	*438.36*	*15.35*
2009	*68.76*	*537.56*	*12.79*
2010	*113.24*	*537.41*	*21.07*
2011	*78.52*	*324.66*	*24.18*
2012	*53.70*	*372.38*	*14.42*
Mean	***63.25***	***420.46***	***14.86***
Standard Deviation	***29.60***	***89.29***	***6.20***
C.V.(%)	***46.80***	***21.24***	***41.72***
CO-efficient of Correlation between debt and equity (r)=0.62			

Source: Compiled from Annual Reports of Lanco Industries Limited

FIGURE 4: RETURN ON INVESTMENT OF LIL



It is obvious that both the variables EBIT and net assets had registered with fluctuations over the study period. But the oscillations were wild in the case of EBIT in compare to net assets. The EBIT had gone from Rs.19.25 crores in 2006 to Rs.113.74 crores in 2010 and thereafter decline. Net assets had moved from Rs.329.01 crores in 2006 to Rs.537.41 crores in 2010 and their after reduced and thereby indicating similar trend as in the case of EBIT. Return on investment ratio had improved from 5.85 percent in 2006 to 24.18 percent in 2010 and thereby registered decline. The ratio had recorded with fluctuations over the study period. But the ratio had exceeded the standard norm of 12 percent barring in the first two years of the study. It is also welcoming feature for taking capital budgeting decisions to obtain assets which provide appropriate return on investment. The mean, standard deviation and co-efficient of variation of return on investment in LIL are 14.86, 6.20 and 41.72 per cent respectively. The average EBIT and net asset worked out to be Rs.63.25 crores and 420.46 crores respectively. The average return on investment ratio was registered at 14.86 per cent. The coefficient of correlation between EBIT and net asset in LIL was 0.62 and thereby, denoting that there was satisfactory positive correlation between profit after tax and net worth.

CONCLUSION

The gross profit margin reported the ups and downs over the study period. The profitability performance in relation to sales was thin over the study period in LIL and hence not satisfactory. The net profit margin had never touched even six percent of sales which is standard norm during entire period of study excluding 2010. It may be observed that the net profit performance in relation to sales was sad in LIL. The return on net worth ratio had exceeded the standard norm of 12 per cent over the study period barring beginning and closing years of study. The profit performance in relation to investment was highly satisfactory with an exception of beginning and closing year of study. The profitability performance in LIL was much satisfactory in terms of investment. It is a clear indication that the net assets were used productively in the LIL. The return investment ratio is quite encouraging to the existing investors and to the prospective investors. It is also welcoming feature for taking capital budgeting decisions to obtain assets which provide appropriate return on investment. The profitability performance in relation to sales shall be improved to the satisfactory level. Hence, it is suggested that the LIL has to go for integrated marketing practices so that it can increase its sales. Consequently the profits will be increased. The LIL is suggested to improve the net profit by increasing the volume of sales. The company's profitability performance is declined due to various reasons in the concluding years of the study. Hence, it is better to forecast the future trends, and make changes in the company's financial policies to get good returns.

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In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals