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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

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CONTRIBUTIONS TO BOOKS

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PROFITABILITY PERFORMANCE OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED: A CASE STUDY

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ABSTRACT

Fertilizer in the agricultural process is an important area of prime concern. Fertilizer industry in India has succeeded in meeting the demand of all chemical fertilizers in the recent years. The profitability performance of the NFCL has registered fluctuations over the years. The long term funds show the dynamic nature of funds. The lowest fixed assets are Rs.200243.10 in 2003-04 and highest are 326137.59 in 2011-12. Long term funds are greater than fixed assets and current assets, when compared to fixed assets and current assets, fixed assets are more than current assets. The gross profit margin was fluctuating over the years. Despite fluctuations, the ratio was satisfactory. It may be inferred that NFCL was able to produce fertilizers and sell at low cost. The net profit margin ratio is (0.14) in 2002-03 and 3.80 in 2010-11. It may be concluded that the net profit performance was not satisfactory in NFCL as the ratio was too low. In other words, net profit was not commensurate with sales. Equity is greater than profit after tax. It is concluded that the profitability performance in terms of equity was very thin. The ratio was too low and for behind the standard norm of 12 per cent. The net profit shall be improved in line with sales through effective operating and cost mechanisms. The profitability performance with regard to equity and capital employed shall also the improved by gearing up the variables of profitability. The return on investment shall be improved through effective cannons of finance. To this end, Capital budgeting techniques, operating cycle Concept for estimation of working capital and leverage principle shall be initiated.

KEYWORDS
Profitability Performance, Profitability in relation to sales, Profitability in relation to investment, Nagarjuna Fertilizers and Chemicals Limited.

INTRODUCTION
Agriculture, the backbone of Indian Economy, still holds its relative importance for more than a billion people. The Government of India from time to time has taken considerable steps for the upliftment of agriculture sector. Here the performance of fertilizer industry being one of the vital parts in agricultural production and Government's policy initiatives for the same. Fertilizer in the agricultural process is an important area of prime concern. Fertilizer industry in India has succeeded in meeting the demand of all chemical fertilizers in the recent years. The Fertilizer Industry in India started its first manufacturing unit of Single Super Phosphate (SSP) in Ranipet near Chennai with a capacity of 6000 MT a year.

Fertilizer sector is very crucial for Indian economy because it provides a very important input to agriculture. The fertilizer industry in India has played a pivotal role in achieving self-sufficiency in food grains as well as in rapid and sustained agriculture growth. India is the third largest producer and consumer of fertilizer in world after China and USA. The growth of the fertilizer is highly dependent on govt. policies. The government exercises extensive controls on pricing, distribution and movement of fertilizers. Determinants of fertilizer demand are rainfall and irrigation facilities. Diversified and adequate rainfall gives farmers confidence to invest in fertilizers. Apart from this, well irrigation facility is much sought after. Fertilizer production is capital intensive and presently the cost of production of indigenous material is high and returns on investment are low. The Indian fertilizer industry which achieved phenomenal growth in eighties, witnessed a decline in the growth rate during the nineties. In the recent past, the fertilizer industry has not attracted any significant investment. No multinational has invested in fertilizer sector in India. Due to sufficient indigenous capacity and low international prices of urea the Government of India in Feb. 2000 decided that no new grassroots projects would be allowed during the next three years in public, private or cooperative sector.

The results of the firm can be evaluated in terms of its earnings with reference to a given level of assets or sales or owners interest. 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. Profit is the difference between revenues and expenses over a period of time. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principle regularly.

The profitability performance of the NFCL has registered fluctuations over the years. In some years, losses were also registered. The declining profitability has serious impact on financial performance of NFCL. Hence the modest attempt is made to trace out the deficiencies and inadequacies in the financial performance of NFCL. In recent past, production of nitrogen and fertilizers and chemicals has witnessed an increase for meeting the increased demand. Modest attempt in made to trace out the deficiencies and inadequacies in the financial performance of NFCL.

OBJECTIVE
The present research paper aims at evaluating the profitability performance of Nagarjuna Fertilizers and chemicals Limited

TOOLS OF ANALYSIS
The data drawn from the manual reports of Nagarjuna Fertilizers and chemicals Limited 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. Graphs are presented to illuminate the facts and figures.

PROFITABILITY PEFORMANCE
The profitability ratios measure the profitability or the operational efficiency of the firm. These ratios reflect the final results of business operations. Generally, two major types of profitability ratios are calculated.

1. Profitability in relation to sales
2. Profitability in relation to investment

GROSS PROFIT MARGIN

The gross profit margin reflects the efficiency with which management produces each unit of product. This ratio indicates the average spread between the cost of goods sold and the sales revenue. When we subtract the gross profit margin from 100 per cent, we obtain the ratio of cost of goods sold to sales. A high

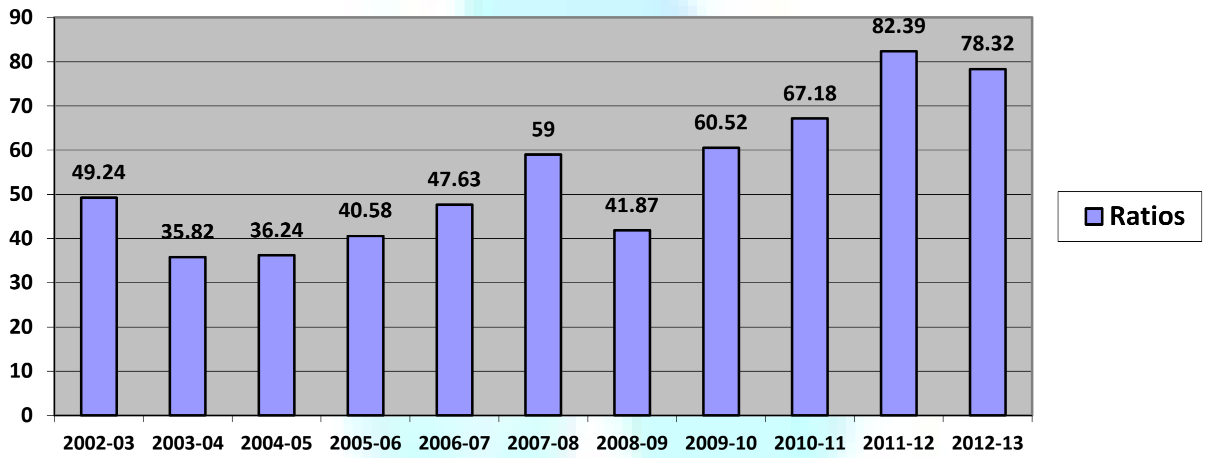
gross profit margin ratio is a sign of good management. A low gross profit margin may reflect higher cost of goods sold due to the firm's inability to purchase raw materials at favorable terms, inefficient utilization of plants and machinery, or over investment in plant and machinery, resulting in higher cost of production or due to fall in prices in the market.
Gross Profit margin Ratio is calculated by using the following formula.
Gross Profit margin Ratio = sales – cost of goods sold / sales x 100
Or
Gross Profit margin Ratio = Gross profit/sales x 100
The gross profit margin ratio is shown in the Table 1.

TABLE 1: GROSS PROFIT MARGIN RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LTD. (Rs. in Crores)

Years	Sales	Cost of goods sold	Gross profit	Gross profit margin ratio (times)
2002-03	899.85	456.75	443.10	49.24
2003-04	1072.62	688.28	384.34	35.82
2004-05	1266.39	807.47	458.92	36.24
2005-06	1452.95	863.39	589.55	40.58
2006-07	1815.24	950.65	864.59	47.63
2007-08	2193.59	900.34	1293.25	59.00
2008-09	2371.91	1378.72	993.19	41.87
2009-10	1987.91	784.82	1203.09	60.52
2010-11	3087.87	1013.54	2074.33	67.18
2011-12	4992.28	879.15	4113.13	82.39
2012-13	5484.62	1188.93	4295.69	78.32

Source: Compiled from Annual Reports

FIGURE 1: GROSS PROFIT MARGIN RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED



The sales of fertilizers varies from Rs. 899.85 Crores in 2002-03 to Rs. 5484.62 Crores in 2012-13 showing an increasing trend while the cost of goods sold ranges from Rs.456.75 Crores in 2002-03 to Rs. 784.82 Crores in 2009-10 showing an up and down trend. The gross profit is Rs.443.10 Crores in 2002-03 and, the gross profit gradually increased to Rs. 4295.69 Crores in 2012-13. It is observed that the gross profit has continuously increased from 2002-03 to 2012-13 except in 2008-10.
The gross profit margin ratio is 49.24 in 2002-03 and increased to 36.24 in 2004-05 and again decreased to 78.32 in 2012-13. The gross profit margin ratio has been fluctuating over the years. It may be said that the gross profit margin was fluctuating over the years. Despite fluctuations, the ratio was satisfactory. It may be inferred that NFCL was able to produce fertilizers and sell at low cost.

NET PROFIT MARGIN

Net profit is obtained when operating expenses, interest and taxes are subtracted from the gross profit. Net profit margin ratio establishes a relationship between and sales and indicates management's efficiency in manufacturing, administering and selling the products. This ratio is the overall measure of the firm's ability to turn each rupee sales into net profit. This ratio also indicates the firm's capacity to withstand adverse economic conditions. A firm with a high net margin ratio would be in an advantageous position to survive in the face of falling selling prices, rising cost of production or declining demand for the product.
Net profit margin is calculated by using the following formula:
Net Profit Margin = Profit after tax / Sales x 100
The net profit margin ratio is presented in the Table 2.

TABLE 2: NET PROFIT MARGIN RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED (Rs. in Crores)

Years	Profit after tax	Sales	Ratio(times)
2002-03	(127.47)	899.85	(14.17)
2003-04	17.44	1072.62	1.63
2004-05	29.53	1266.39	2.33
2005-06	66.85	1452.95	4.60
2006-07	31.71	1815.24	1.75
2007-08	22.49	2193.59	1.03
2008-09	32.41	2371.91	1.37
2009-10	66.37	1987.91	3.34
2010-11	118.10	3087.87	3.82
2011-12	135.95	4992.28	2.72
2012-13	83.84	5484.62	1.53

Source: Compiled from Annual Reports.

FIGURE 2: NET PROFIT MARGIN RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED.

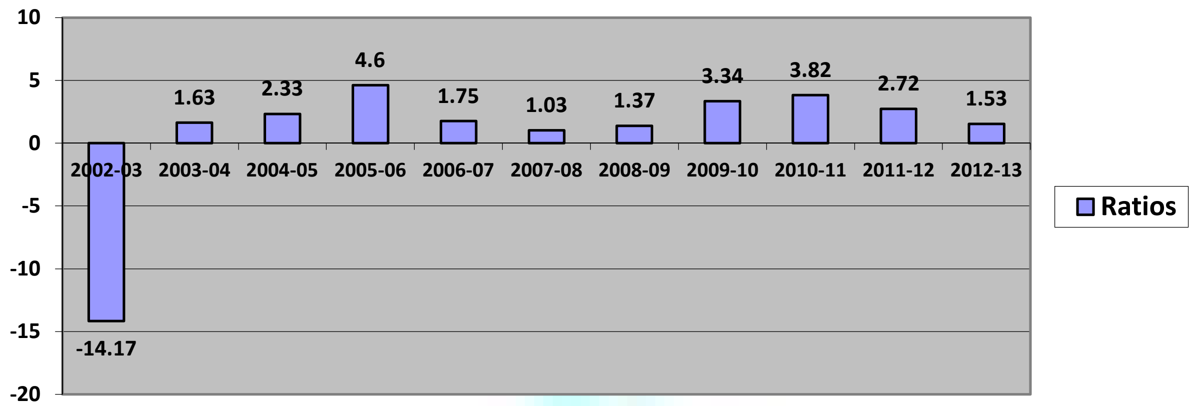


Table 2 shows net profit ratio. It is evident that the profit after tax is Rs.127.47 Crores in 2002-03 and decreased to Rs.17.44 Crores in 2003-04. But from 2006-07 onwards, the profit again gradually decreased to Rs. 83.84 Crores in 2012-13. Sales are greater than profit after tax.

The net profit margin ratio is (0.14) in 2002-03 and 3.82 in 2010-11. It may be concluded that the net profit performance was not satisfactory in NFCL as the ratio was too low. In other words, net profit was not commensurate with sales.

RETURN ON EQUITY RATIO (ROE)

A return on shareholder's equity is calculated to see the profitability of owner's investment. Return on equity ratio indicates how well the firm has used the resources of owners. 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. The ratio of net profit to owner's equity reflects the extent to which this objective has been accomplished. This ratio is of great interest to the present as well as prospective shareholder and also of great concern to management which has the responsibility of maximizing the owner's welfare.

Return on Equity Ratio is calculated by using the following formula.

Return on Equity Ratio = Profit after tax / Net worth x 100

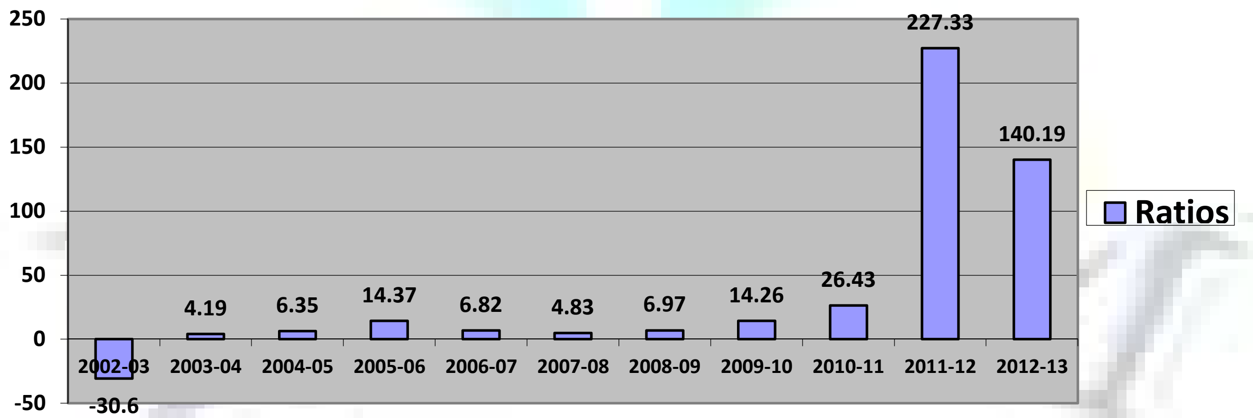
Return on Equity Ratio of Nagarjuna Fertilizers and Chemicals Limited is presented in the Table 3.

TABLE 3: RETURN ON EQUITY RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED (Rs. in crores)

Years	Profit after tax	Equity	Return on Equity Ratio(times)
2002-03	(127.47)	416.61	(30.60)
2003-04	17.44	416.61	4.19
2004-05	29.53	464.97	6.35
2005-06	66.85	465.16	14.37
2006-07	31.71	465.17	6.82
2007-08	22.49	465.18	4.83
2008-09	32.41	465.20	6.97
2009-10	66.37	465.39	14.26
2010-11	118.11	446.78	26.43
2011-12	135.96	59.81	227.33
2012-13	83.84	59.81	140.19

Source: Compiled from Annual Reports

FIGURE 3: RETURN ON EQUITY RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED



The table depicts that the return on equity ratio is 0.31 in 2002-03 and gradually decreased to 0.04 in 2003-04. Again the ratio increased to 0.06 in 2004-05 to 0.14 in 2005-06. Ever since, the ratio again decreased to 0.07 in 2006-07 to 140.19 in 2012-13 for the last four years consecutively. Equity is greater than profit after tax. It is concluded that the profitability performance in terms of equity was very thin. The ratio was too low and for behind the standard norm of 12 per cent.

RETURN ON INVESTMENT RATIO

The term investment may refer to total assets or net assets. The fund employed in net assets is known as capital employed. Investment represents pool of 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 (ROI) is to divide profit of tax by investment. Where ROTA and RONA are respectively return on total assets and return on net assets. RONA is equivalent on return on capital employed.

Return on investment ratio is calculated by using the following formula.

Return on investment ratio = PBIT/sales x sales/Total Assets x 100

(or)

Return on investment ratio = PBIT / Total Assets x 100

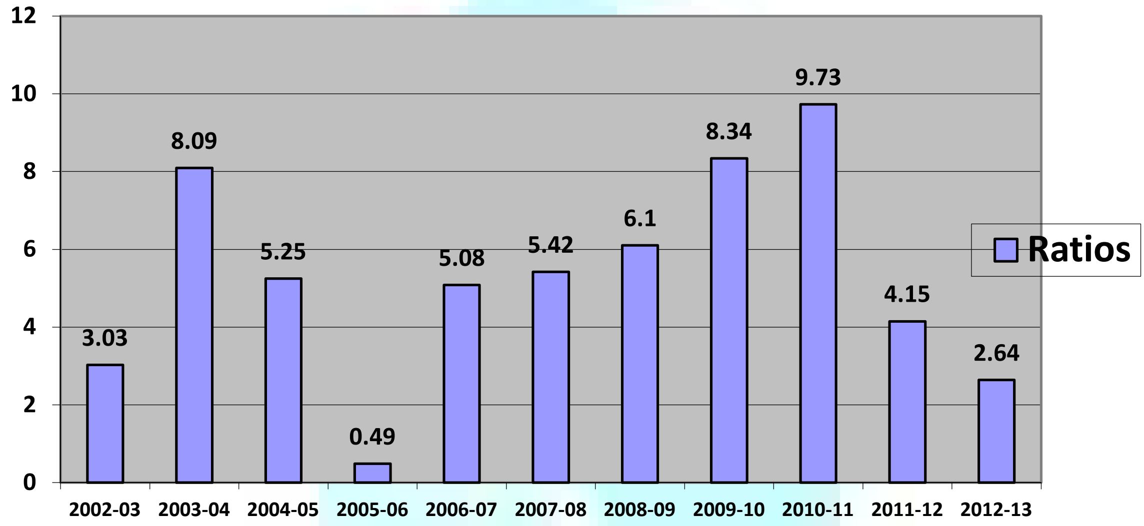
The return on investment ratio is presented in the Table 4.

TABLE 4: RETURN ON INVESTMENT RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED (Rs. in Crores)

Years	PBIT	Total Assets	Ratio(times)
2002-03	96.35	3178.11	3.03
2003-04	237.50	2935.04	8.09
2004-05	198.04	3772.45	5.25
2005-06	18.46	3753.85	0.49
2006-07	183.83	3616.39	5.08
2007-08	203.10	3744.08	5.42
2008-09	219.60	3602.27	6.10
2009-10	260.46	3121.49	8.34
2010-11	341.20	3508.31	9.73
2011-12	230.68	5557.43	4.15
2012-13	165.10	6261.23	2.64

Source: Compiled from Annual Reports

FIGURE 4: RETURN ON INVESTMENT RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED



The profit before interest and tax (PBIT) is Rs.96.35 Crores in 2002-03 and increased two and half folds to Rs.237.50 Crores in 2003-04 and 341.20 Crores in 2010-11. Total assets are more than PBIT. The return on capital employment ratio is 3.03 in 2002-03 and 8.09 in 2003-04. It is 5.06 for the rest of the period, i.e. 2004-08. Moreover, the ratio rapidly increased from 6.10 in 2008-09 to 9.73 in 2010-11 and again decreased in 2012-13. It may be concluded that profitability in terms of capital employee in NFCL was poor. The return on investment ratio was too low and therefore the profitability performance was quite dissatisfactory.

CONCLUSION

The long term funds of NFCL show the dynamic nature. The lowest fixed assets are Rs.2002.43 in 2003-04 and highest are 3261.38 in 2011-12. Long term funds are greater than fixed assets and current assets, when compared to fixed assets and current assets, fixed assets are more than current assets. The gross profit margin was fluctuating over the years. Despite fluctuations, the ratio was satisfactory. It may be inferred that NFCL was able to produce fertilizers and sell at low cost. The net profit margin ratio is (0.14) in 2002-03 and 3.80 in 2010-11. The profit performance was not satisfactory in NFCL as the ratio was too low. In other words, net profit was not commensurate with sales. Equity is greater than profit after tax. It is concluded that the profitability performance in terms of equity was very thin. The ratio was too low and for behind the standard norm of 12 per cent. It may be concluded that profitability in terms of capital employee in NFCL was poor. The return on investment ratio was too low and therefore the profitability performance was quite dissatisfactory. The net profit shall be improved in line with sales through effective operating and cost mechanisms. The profitability performance with regard to equity and capital employed shall also the improved by gearing up the variables of profitability. The return on investment shall be improved through effective cannons of finance. To this end, Capital budgeting techniques, operating cycle concept for estimation of working capital and leverage principle shall be initiated.

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