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PROFITABILITY ANALYSIS OF A SMALL ENTERPRISE – A CASE STUDY OF RADHIKA EGETABLE OILS PRIVATE LIMITED

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Abstract

Owners and Managers are naturally interested in financial soundness of their Business Enterprise. Financial soundness can be measured in terms of operating efficiency. Operating efficiency of an enterprise means its ability to earn adequate returns to owners and depends ultimately on the profits earned by the enterprise. The profitability of an enterprise is measured by profitability ratios. In this paper, an attempt is made to do Profitability Analysis of Radhika Vegetable Oils Private Limited is an Indian unlisted private company in Andhra Pradesh. It was located at Garividi of Vizianagaram District. It is engaged in production, extraction and delivery of palm oil to major Vanaspati makers in India. Profitability analysis was done through analyzing various profit margins, Profitability ratios relating to investments and Profitability ratios relating to various expenses. Profit margins covered include Gross Profit Margin, Operating Profit Margin and Net Profit Margin. Profitability

Keywords:

Cost of Goods sold Ratio;
Financial Expenses Ratio;
Gross Profit Margin;
Operating Profit Margin;
Return on Assets (ROA);
Return on Capital Employed;

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ratios relating to investments include Return on Assets (ROA), Return on Capital Employed (ROCE) and Return on Share holder's equity (ROSE). Profitability ratios relating to various expenses include Cost of Goods sold Ratio, Operating Expenses Ratio, Administrative Expenses Ratio, Selling Expenses Ratio and Financial Expenses Ratio. Chi-square test is used for testing the hypotheses formed.

1. Introduction

Owners and Managers are naturally interested in financial soundness of their Business Enterprise. Financial soundness can be measured in terms of operating efficiency. Operating efficiency of an enterprise means its ability to earn adequate returns to owners and depends ultimately on the profits earned by the enterprise. The profitability of an enterprise is measured by profitability ratios. There are three important profitability ratios namely profitability ratios relating to sales, profitability ratios relating to investment and profitability ratios relating to expenses. In this paper, an attempt is made to do Profitability Analysis of Radhika Vegetable Oils Private Limited is an Indian unlisted private company in the state of Andhra Pradesh. It was located at Garividi of Vizianagaram District. It was started in 1984. It is engaged in production, extraction and delivery of palm oil to major Vanaspati makers in India. It was the first company in India to import Oil Palm sprouts and to start a 5MT per hour extraction unit. Radhika Vegetable Oils Private Limited today sources palm fruit from over Fifteen thousand acres of assisted plantations in over ten mandals within Andhra Pradesh. This Small Enterprise has an annual turnover of Rs.2723.2 lakhs as per 2015-16 accounts. The total Assets of the company are Rs.993.4 lakhs. The Enterprise had provided employment to fifty people.

2. Review of Literature

Gangadhar (1982)[1] had conducted the profitability Analysis of large public limited cement companies in India. V. K. Purohit (1982)[2]had examined the profitability trends of manufacturing industries in Indian corporate sector during 1950-51 to 1970-71. Sindhu Rani (1998)[3] had examined the factors affecting profitability in Indian textile industry. Md. Rafiqul Islam (2000)[4] had conducted a study on the profitability of Fertilizer Industry in Bangladesh from 1985-86 to 1994-95. Manorselvi and Vijayakumar (2007)[5] had examined the trends in of profits of the selected Indian automobile companies during the period 1991-92 to 2003-04. Hyz and Gikas(2012)[6] had done profitability analysis of SME sector in Poland. Oni Timothy Olukunle (2017)[7] had done Profitability Analysis of Small scale Fishery Enterprise in Nigeria. Venkateswararao.Podile (2017)[8] had examined the recent MSME policy of Andhra Pradesh. Venkateswararao.Podile et al., (2017)[9] examined working capital management in PL Plast Pvt Ltd. Venkateswararao.Podile et al., (2017)[10] had examined various Government schemes supporting MSMEs in India. Venkateswararao.Podile et al., (2018)[11] examined working capital management in Sri Rama Chandra Paper Boards Ltd. Venkateswararao.Podile (2018)[12] examined working capital management in Tulasi seeds Pvt.Ltd. Venkateswararao.Podile et al., (2018)[13] studied working capital management in Sri Nagavalli solvent oils Pvt. Ltd. Venkateswararao.Podile et al., (2018)[14] analysed working capital management in Naga Hanuman Solvent Oils Private Limited. Venkateswararao.Podile (2018)[15] examined working capital management in Cuddapah Spinning Mills Ltd. Venkateswararao.Podile et al., (2018)[16] studied working capital management in Kristna Engineering Works. Venkateswararao.Podile et al., (2018)[17] examined working capital management in Radhika Vegetables Oils Pvt. Ltd. Venkateswararao.Podile et al., (2018)[18] examined working capital management in Power Plant Engineering Works in Andhra Pradesh. Venkateswararao.Podile et al., (2018)[19] examined working capital management in Nagas Elastomer Works. Venkateswararao.Podile et al., (2018)[20] had studied working capital management in M.G.Metallic Springs Pvt. Ltd. Venkateswararao.Podile et al., (2018)[21] had studied working capital management in Sri Srinivasa Spun Pipes Company. Venkateswararao.Podile et al., (2018)[22]had studied working capital management in Raghunath Dye Chem Pvt. Ltd. Venkateswararao.Podile et al., (2018)[23] had examined working capital management in Maitreya Electricals Pvt. Ltd. Venkateswararao.Podile et al., (2018)[24] had examined working capital management in Laxmi Vinay Poly Print Packs Pvt. Ltd. Venkateswararao.Podile et al., (2018)[25] had done capital structure analysis of M.G.Metallic Springs Pvt. Ltd. Venkateswararao.Podile et al., (2018)[26]had done capital structure analysis of Naga Hanuman Solvent Oils Private Limited. Venkateswararao.Podile et al., (2018)[27]had done capital structure analysis of Raghunath Dye Chem Pvt. Ltd. Venkateswararao.Podile et al., (2018)[28]had done capital structure analysis of Nagas Elastomer Works. Venkateswararao.Podile et al., (2018)[29]had done capital structure analysis of Tulasi Seeds Pvt. Ltd. Venkateswararao.Podile et al., (2018)[30]had done capital structure analysis of Maitreya Electricals Private Limited. Venkateswararao.Podile et al., (2018)[31]had done capital structure analysis of Bharat Cashew Manufacturing Company. Venkateswararao.Podile et al., (2018)[32]had done capital structure analysis of Sri Rama Chandra Paper Boards Limited. Venkateswararao.Podile et al., (2018)[33]had done capital structure analysis of Power Oxides Private Limited. Venkateswararao.Podile et al., (2018)[34]had done capital structure analysis of Laxmi Vinay Poly Print Packs Private Limited. Venkateswararao.Podile et al., (2018)[35]had studied working capital management in Power Oxides Pvt. Ltd. Venkateswararao.Podile et al., (2018)[36]had done capital structure analysis of Radhika Vegetable Oils Private Limited. Venkateswararao.Podile et al., (2018)[37]had done capital structure analysis of Sri Nagavalli Solvent Oils Private Limited. Venkateswararao.Podile et al., (2018)[38]had done capital structure analysis of P.L.Plast Private Limited. Venkateswararao.Podile (2018)[39] had done capital structure analysis of Power Plant Engineering Works. It was found that most of the studies dealt with Profitability analysis of different large Enterprises and of sectors in India and abroad. Some of the studies dealt with MSME policies. Some other studies though dealt with MSMEs, they were confined to working capital management and capital structure analysis. There was no study on Profitability analysis of a small enterprise which is engaged in production, extraction and delivery of palm oil to major Vanaspati makers in India. Hence, this study is taken up.

3. Objectives

The general objective of the study is to do Profitability Analysis of Radhika Vegetable Oils Private Limited. The specific objectives include the following.

1. To examine Gross profit margin, Operating profit margin and Net Profit Margin of Radhika Vegetable Oils Private Limited during the period of study.
2. To investigate into various profitability ratios relating to investment in Radhika Vegetable Oils Private Limited during the period of study.
3. To analyze various profitability ratios related to expenses in Radhika Vegetable Oils Private Limited during the period of study.

4. To examine the overall profitability of Radhika Vegetable Oils Private Limited during the period of study.
5. To offer suggestions for improvement of profitability of the Enterprise, if required.

4. Hypotheses

H_{01}: Gross Profit Margin of Radhika Vegetable Oils Private Limited is uniform during the period of study.

H_{02}: Operating Profit Margin of Radhika Vegetable Oils Private Limited is uniform during the period of study.

H_{03}: Net Profit Margin of Radhika Vegetable Oils Private Limited is uniform during the period of study.

H_{04}: Return on Assets (ROA) in Radhika Vegetable Oils Private Limited is uniform during the period of study.

H_{05}: Return on Capital Employed (ROCE) in Radhika Vegetable Oils Private Limited is uniform during the period of study.

H_{06}: Return on Share holder's equity (ROSE) in Radhika Vegetable Oils Private Limited is uniform during the period of study.

H_{07}: Cost of Goods sold Ratio in Radhika Vegetable Oils Private Limited is uniform during the period of study.

H_{08}: Operating Expenses Ratio in Radhika Vegetable Oils Private Limited is uniform during the period of study.

H_{09}: Administrative Expenses Ratio in Radhika Vegetable Oils Private Limited is uniform during the period of study.

H_{10}: Selling Expenses Ratio in Radhika Vegetable Oils Private Limited is uniform during the period of study

H_{11}: Financial Expenses Ratio in Radhika Vegetable Oils Private Limited is uniform during the period of study.

5. Methodology

The present study is mainly based on secondary data. The data is taken from the financial statements including balance sheet, trading account and profit and loss account of Radhika Vegetable Oils Private Limited. The period of study is ten years covering the financial years from 2006-07 to 2015-16.The data gathered is analyzed through the ratios relating to profitability of the enterprise. Profitability analysis was done through analyzing various profit margins, Profitability ratios relating to investments and Profitability ratios relating to various expenses. Profit margins covered include Gross Profit Margin, Operating Profit Margin and Net Profit Margin. Profitability ratios relating to investments include Return on Assets (ROA), Return on Capital Employed (ROCE) and Return on Share holder's equity (ROSE). Profitability ratios relating to various expenses include Cost of Goods sold Ratio, Operating Expenses Ratio, Administrative Expenses Ratio, Selling Expenses Ratio and Financial Expenses Ratio. Chi-square test is used for testing the hypotheses formed.

6. Profitability Analysis with Profit Margins

Profit Margins are based on the assumption that an Enterprise should earn sufficient profit on each Rupee of sales.

Gross Profit Margin

Gross Profit Margin has varied between -3.7 and 20.9 during the period of study. Gross Profit Margin is low during the period of study and even negative during 2013, 2015 and 2016. Management needs to put efforts in reducing cost of production. It is found in the significance test that Gross Profit Margin is not uniform during the period of study.

Table-1: Gross Profit Margin

(Figures in Lakhs)

Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Gross Profit	131.2	189.2	131.2	103.9	140.1	275.6	-24.9	101.3	-105.9	52.7
Sales	783.3	906.8	1223.5	838.8	1241.6	2136.6	2108.4	2746.1	2843.7	2723.2
Gross Profit Margin	16.7	20.9	10.7	12.4	11.3	12.9	-1.2	3.7	-3.7	1.9

Source: Annual Reports of Radhika Vegetable Oils Private Limited from 2006-07 to 2015-2016.

Calculated value of Chi-Square for Gross Profit Margin = 67.5. Calculated value is greater than critical Value at 5% level of Significance i.e., 67.5>16.919, Hence, H_{01} is Rejected.

Operating Profit Margin

Operating Profit Margin has varied between -6.9 and 12.8 during the period of study. Operating Profit Margin is relatively low during the period of study and even negative during 2013, 2015 and 2016. It is not due to increase in operating expenses but due to increase in cost of goods sold. Management needs to put efforts in reducing cost of production. It is found in the significance test that Operating Profit Margin is not uniform during the period of study.

Table-2: Operating Profit Margin

(Figures in Lakhs)

Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
EBIT	49.9	116.2	40.4	41.5	62.5	165.6	-101.9	17	-197	-65.1
Sales	783.3	906.8	1223.5	838.8	1241.6	2136.6	2108.4	2746.1	2843.7	2723.2
Operating Profit Margin	6.4	12.8	3.3	4.9	5.0	7.8	-4.8	0.6	-6.9	-2.4

Source: Annual Reports of Radhika Vegetable Oils Private Limited from 2006-07 to 2015-2016.

Calculated value of Chi-Square for Operating Profit Margin = 124.0. Calculated value is greater than critical Value at 5% level of Significance i.e., 124.0>16.919, Hence, H_{02} is Rejected.

Net Profit Margin

Net Profit Margin has varied between -6.9 and 9.4 during the period of study. Net Profit Margin is low during the period of study and even negative during 2013, 2015 and 2016. Management needs to put efforts in reducing cost of production. It is found in the significance test that Net Profit Margin is not uniform during the period of study.

Table-3: Net Profit Margin

(Figures in Lakhs)

Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Net Profit	41.4	84.8	40.4	31.4	44.4	110.8	-94.4	16.2	-197.4	-67.4

Sales	783.3	906.8	1223.5	838.8	1241.6	2136.6	2108.4	2746.1	2843.7	2723.2
Net Profit Margin	5.3	9.4	3.3	3.7	3.6	5.2	-4.5	0.6	-6.9	-2.5

Source: Annual Reports of Radhika Vegetable Oils Private Limited from 2006-07 to 2015-2016.

Calculated value of Chi-Square for Net Profit Margin = 131.0. Calculated value is greater than critical Value at 5% level of Significance i.e., 131.0>16.919, Hence, H_{03} is Rejected.

7. Profitability Analysis with Profitability Ratios Related to Investment

Profitability ratios relating to investment are based on the assumption that an Enterprise should earn good profit on its investment.

Return on Assets (ROA)

Return on Assets Ratio has varied between -24.0 and 25.9 during the period of study. It is found in the significance test that Return on Assets Ratio is not uniform during the period of study. Return on Assets Ratio is less than 10 during 2010, 2013, 2014, 2015 and 2016 which indicates that there is a need for better profitability management during these years.

Table-4: Return on Assets (ROA)

(Figures in Lakhs)

Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Net Profit	41.4	84.8	40.4	31.4	44.4	110.8	-94.4	16.2	-197.4	-67.4
Average Total Assets	213.9	327.3	381.1	375.2	418.7	775.1	786.9	863.2	822.1	993.4
ROA	19.4	25.9	10.6	8.4	10.6	14.3	-12.0	1.9	-24.0	-6.8

Source: Annual Reports of Radhika Vegetable Oils Private Limited from 2006-07 to 2015-2016.

Calculated value of Chi-Square for ROA = 431.4. Calculated value is greater than critical Value at 5% level of Significance i.e., 431.4>16.919, Hence, H_{04} is Rejected.

Return on Capital Employed (ROCE)

Return on capital employed has varied between -24.0 and 35.5 during the period of study. It is found in the significance test that Return on capital employed is not uniform during the period of study. Return on Capital Employed is less than 20 during the period of the study except during 2007, 2008 and 2012 which indicates that management needs to do better profitability management.

Table-5: Return on Capital Employed (ROCE)

(Figures in Lakhs)

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EBIT	49.9	116.2	40.4	41.5	62.5	165.6	-101.9	17	-197	-65.1
Average Total Capital	213.9	327.3	381.1	375.2	418.7	775.1	786.9	863.2	822.1	993.4
ROCE	23.3	35.5	10.6	11.1	14.9	21.4	-12.9	2.0	-24.0	-6.6

Source: Annual Reports of Radhika Vegetable Oils Private Limited from 2006-07 to 2015-2016.

Calculated value of Chi-Square for ROCE = 390.7. Calculated value is greater than critical Value at 5% level of Significance i.e., 390.7>16.919, Hence, H_{05} is Rejected.

Return on Share Holders' Equity (ROSE)

Return on Shareholders' Equity has varied between -80.2 and 28.8 during the period of study. Return on Shareholders' Equity is less than 10 during five years of the study which is not good for owners. Return on Shareholders' Equity is not uniform during the period of study.

Table-6: Return on Share Holders' Equity (ROSE)

(Figures in Lakhs)

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Profit	41.4	84.8	40.4	31.4	44.4	110.8	-94.4	16.2	-197.4	-67.4
Average Share Holders' Equity	210	294.7	335.1	366.5	410.9	521.7	427.3	443.5	246.1	178.6
ROSE	19.7	28.8	12.1	8.6	10.8	21.2	-22.1	3.7	-80.2	-37.7

Source: Annual Reports of Radhika Vegetable Oils Private Limited from 2006-07 to 2015-2016.

Calculated value of Chi-Square for ROSE = 2916.3. Calculated value is greater than critical Value at 5% level of Significance i.e., 2916.3>16.919, Hence, H_{06} is Rejected.

8. Profitability Analysis with Profitability Ratios Related to Expenses

These ratios are based on the assumption that Enterprise should reduce its expenses in relation to sales.

Cost of Goods Sold Ratio

Cost of Goods Sold Ratio has varied between 79.1 and 103.7 during the period of study. Cost of Goods Sold Ratio is very high during the period of study and even greater than 100 during 2013 and 2015. Management needs to put efforts in reducing cost of production. It is found in the significance test that Cost of Goods Sold Ratio is uniform during the period of study.

Table-7: Cost of Goods Sold Ratio

(Figures in Lakhs)

Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Cost of Goods sold	652.1	717.6	1092.3	734.9	1101.5	1861.0	2133.3	2644.8	2949.6	2670.5
Sales	783.3	906.8	1223.5	838.8	1241.6	2136.6	2108.4	2746.1	2843.7	2723.2
Ratio	83.3	79.1	89.3	87.6	88.7	87.1	101.2	96.3	103.7	98.1

Source: Annual Reports of Radhika Vegetable Oils Private Limited from 2006-07 to 2015-2016.

Calculated value of Chi-Square for Cost of Goods sold Ratio = 6.3. Calculated value is less than critical Value at 5% level of Significance i.e., 6.3<16.919, Hence, H_{07} is Accepted.

Operating Expenses Ratio

Operating Expenses Ratio has varied between 1.5 and 6.3 during the period of study. A low Operating Expenses Ratio is indicating that management is making good efforts in reducing Operating expenses. It is found in the significance test that Operating Expenses Ratio is uniform during the period of study.

Table-8: Operating Expenses Ratio

(Figures in Lakhs)

Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Operating Expenses	49.6	40.9	33.1	26.8	41.6	42.1	39.6	46.6	41.8	60.5
Sales	783.3	906.8	1223.5	838.8	1241.6	2136.6	2108.4	2746.1	2843.7	2723.2
Ratio	6.3	4.5	2.7	3.2	3.4	2.0	1.9	1.7	1.5	2.2

Source: Annual Reports of Radhika Vegetable Oils Private Limited from 2006-07 to 2015-2016.

Calculated value of Chi-Square for Operating Expenses Ratio = 6.9. Calculated value is less than critical Value at 5% level of Significance i.e., 6.9<16.919, Hence, H_{08} is Accepted.

Administrative Expenses Ratio

Administrative Expenses Ratio has varied between 1.0 and 4.0 during the period of study. A low Administrative Expenses Ratio is indicating that management is making good efforts in reducing Administrative expenses. It is found in the significance test that Administrative Expenses Ratio is uniform during the period of study.

Table-9: Administrative Expenses Ratio

(Figures in Lakhs)

Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Administrative Expenses	17.2	36.6	26.1	23.0	36.0	32.6	27.5	32.5	27.2	42.5
Sales	783.3	906.8	1223.5	838.8	1241.6	2136.6	2108.4	2746.1	2843.7	2723.2
Ratio	2.2	4.0	2.1	2.7	2.9	1.5	1.3	1.2	1.0	1.6

Source: Annual Reports of Radhika Vegetable Oils Private Limited from 2006-07 to 2015-2016.

Calculated value of Chi-Square for Administrative Expensive Ratio = 3.8. Calculated value is less than critical Value at 5% level of Significance i.e., 3.8<16.919, Hence, H_{09} is Accepted.

Selling Expenses Ratio

Selling Expenses Ratio has varied between 0.4 and 4.1 during the period of study. A low Selling Expenses Ratio is indicating that management is making good efforts in reducing selling expenses. It is found in the significance test that Selling Expenses Ratio is uniform during the period of study.

Table-10: Selling Expenses Ratio

(Figures in Lakhs)

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Selling Expenses	32.4	4.3	7.0	3.8	5.6	9.5	12.1	14.1	14.6	18.0
Sales	783.3	906.8	1223.5	838.8	1241.6	2136.6	2108.4	2746.1	2843.7	2723.2
Ratio	4.1	0.5	0.6	0.5	0.5	0.4	0.6	0.5	0.5	0.7

Source: Annual Reports of Radhika Vegetable Oils Private Limited from 2006-07 to 2015-2016.

Calculated value of Chi-Square for Selling Expenses Ratio = 12.9. Calculated value is less than critical Value at 5% level of Significance i.e., 12.9<16.919, Hence, H_{10} is Accepted.

Financial Expenses Ratio

Financial Expenses Ratio has varied between 0.01 and 0.35 during the period of study. A low Financial Expenses Ratio is indicating that management is making good efforts in reducing financial expenses. It is found in the significance test that Financial Expenses Ratio is uniform during the period of study.

Table-11: Financial Expenses Ratio

(Figures in Lakhs)

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Financial Expenses	0.1	3.2	2.7	1.7	0.6	0.4	0.9	0.8	0.4	2.2
Sales	783.3	906.8	1223.5	838.8	1241.6	2136.6	2108.4	2746.1	2843.7	2723.2
Ratio	0.01	0.35	0.22	0.20	0.05	0.02	0.04	0.03	0.01	0.08

Source: Annual Reports of Radhika Vegetable Oils Private Limited from 2006-07 to 2015-2016.

Calculated value of Chi-Square for Financial Expenses Ratio = 1.2. Calculated value is less than critical Value at 5% level of Significance i.e., 1.2<16.919, Hence, H_{11} is Accepted.

9. Conclusion

Gross Profit Margin, Operating Profit Margin, Net Profit Margin, Return on Assets Ratio, Return on Capital Employed Ratio and Return on Share holder's Equity Ratio are not uniform during the period of study. Cost of Goods sold Ratio, Operating Expenses Ratio, Administrative Expenses Ratio, Selling Expenses Ratio and Financial Expenses Ratio are uniform during the period of study. Gross Profit Margin, Operating Profit Margin and Net Profit Margin are low during the period of study and are even negative during 2013, 2015 and 2016. This is due to increase in cost of goods sold. Management needs to put efforts in reducing cost of production. Return on Assets Ratio is less than 10 during 2010, 2013, 2014, 2015 and 2016 which indicates that there is a need for better profitability management during these years. Return on Capital Employed is less than 20 during the period of the study except during 2007, 2008 and 2012 which indicates that management needs to do better profitability management. Return on Shareholders' Equity is less than 10 during five years of the study which is not good for owners. Low Operating expenses Ratio, low Administrative Expenses Ratio, low Selling Expenses Ratio and low Financial Expenses Ratio are indicating that management is making good efforts in reducing these expenses.

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