

## PROFITABILITY ANALYSIS

### [A Case Study of HCL]

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In India, since last decade growth in power and infrastructure development has been speed up therefore increase in copper consumption is expected about 8% per year. Electrical, electronics and telecommunication sectors usages nearly 52% copper in India while in Global Market, the demand for copper has been growing steadily at 3-4%. Presently four major companies namely Hindustan Copper Limited (HCL) M/s. Hindalco Industries Ltd. (HIL), M/s. Sterlite Industries (I) Ltd., and M/s Jhagadia Copper Limited are producing the copper in the country. The Hindustan Copper Limited (HCL) a public sector undertaking is manufacture copper right from the stage of mining to beneficiation, smelting, refining and casting of refined copper metal into downstream saleable products. Its main products are copper wirebar, copper wire rod, copper cathode including toll smelted cathode and by products are Gold, Silver, Nickel Sulphate, Selenium and Sulphuric Acid.

Profit is the main objective of all business concerns. It is reward or consideration of capital to entrepreneur, who succeeds in keeping total costs below total revenue. Every and each business firm or unit is suppose to earn sufficient profit for its survival and growth. Profit generally refers to the excess of revenue over expenditure during a specific period. Eric L. Kohler has defined accounting profit as "The Excess of revenues over related costs applicable to a transaction, a group of transaction or the transaction of an operating period." According to Meigs Johnson and Meigs Profit is an increase in the owner's equity resulting from operations of the business." Actually the accounting profits is the principle motivating force behind conducting a business as without profit survival of business becomes difficult. Profitability refers to profit earning capacity of the business. It indicates 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 owners and optimum utilization of the assets of the firm. Profitability analysis is very important for all the interested parties in the firm's or business but especially for equity shares holders since the derive revenue in the form of dividend. Usually profitability can be determined on the basis of either sales or investment. Ratio analysis technique can be used to test profitability. Profit ratios

like gross profit ratio, Net Profit Ratio, Operation ratio, earning per share, return capital employed and return on Net worth are used to analysis the profitability. The operating efficiency of a firm in terms of the efficient utilization of the resources is reflected in net profit margin.

**Objectives of the study**-The present study has the following objectives : (i) To analyse the profitability position of the Hindustan Copper Limited (ii) To highlight the relationship between different component of income statement with sales (Turnover) (iii) To examine or comment on overall profitability maintained by HCL by applying statistical tool of coefficient of variation.

**Methodology**-To analys the profitability of Hindustan Copper Limited, Financial statements have been rearranged, summarized & presented in suitable form and various ratios reflecting profitability have been computed. Data have taken from the published annual reports of HCL. The study cover period of seven years from 2001-02 to 2007-08. Moreover statistical tools like mean, standard deviation have been applied.

**Profitability Ratios**-Profitability ratios are calculated to analys and find out the adequacy of profits earned by the HCL and disclose the position of profitability. These ratios measure the operational efficiency and firms ability to generate profit in this paper an attempt has been made to evaluate profitability by applying six different profitability ratios i.e. Gross Margin Ratio, operating ratio, Net Profit ratio capital employed Turnover, Return on investment (ROI) and return on capital employed and return on Equity.

**Gross Profit Margin Ratio**-This ratio show the relationship between gross profit and turnover. It is expected that the ratio would be quite high so as to cover not only the remaining cost but also to allow proper creation of reserves, depreciation, interest loans and return to owners. The table II shown the fluctuating trends in Gross Margin Ratio during the study period. It was highest gross loss (19.28%) in 2001-02 and highest gross margin ratio (20.38%) in 2006-07. The average of gross margin was 4.48% and standard deviation was 15.7%.

**Operating Ratio**-This ratio indicates relationship

between operating cost and net sales. It is expected to lower ratio so that non operating cost, payment of dividend and creating of reserve can be covered against operating profit. Lower operating ratio mean higher the operating profit ratio. In case of HCL it was more than 100% during the year 2001-02 and 2002-03 which indicates operating loss instead of profit. The average of ratio as 95-36% which can be said to much higher. The standard deviation was equals to the deviation of gross margin i.e. 15.7%.

**Net Profit Ratio:** This ratio indicate the relationship between Net Profit and Net Sales. This ratio determine the efficiency of business concern. Higher net profit ratio reflect efficient & proper utilization of resources of the firm and provide safeguard to owner's fund. According to Table II, Net Profit ratio was Negative upto 2003-04 (-10.82%) which can be said unsatisfactory. The higher net profit Ratio (17.44%) was in 2006-07 and average of the ratios

was -3.24%. It is concluded that HCL profitability position is not satisfactory.

**Capital Employed, ROI and Return on equity-** Similarly in case of other ratios like capital employed turnover, return on investment and return on equity the fluctuating trends has been shown by the table. The average of return on investment was 18.52% while return on equity average was negative i.e. 1-80%. The standard deviation were 48.47% and 21.89% respectively. ROI present the relationship between margin before tax and investment therefore it is overall profitability measurement ratio. In case of the Hindustan Copper Limited it was highest in the year 2006-07 (72.76%) and lowest in 2001-02 (-46.78%). The most important factor that effects the company's turnover & managing were fluctuation in foreign exchange rate and Amortisation & Depreciation as indicates by the table I. Steps should be taken to reduce non-operating expenses.

SUMMARIZED FINANCIAL STATEMENTS OF HINDUSTAN COPPER LIMITED (HCL) (RS. IN CRORE)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Sales (Turnover)	604.98	595.68	518.87	559.11	1055.76	1799.64	1839.79
Less Cost of goods sold	721.59	993.81	515.41	504.06	915.01	1432.96	1509.28
Gross Profit/Loss	-116.61	-398.13	3.46	95.05	138.75	366.68	330.51
Depreciation and Amortization	58.12	57.71	59.05	55.75	58.37	89.45	81.89
Net other non-operation income	-9.31	-1.86	114.75	-0.70	+25.5	-36.71	2.16
Net Profit / Loss (After Tax)	-184.04	-147.70	-56.16	38.6	165.88	313.94	246.46
Value Added for the year	153.09	147.37	212.30	328.53	593.39	781.08	726.12
Share Capital	710.11	795.11	908.95	948.85	948.85	977.45	462.61
Internal Resources	-169.45	-310.39	-350.30	-298.85	-110.57	195.60	1015.88
Term loans	526.84	316.32	209.12	232.96	287.50	212.50	112.50
Cash Credit from Banks	122.04	139.49	75.14	118.23	4.81	3.98	0.98
Capital Expenditure Gross	1024.77	1007.10	595.10	967.71	977.89	993.99	1037.05
Working Capital	7.51	-25.95	-1.02	33.94	62.78	328.62	492.06
Capital Employed	242.29	203.89	215.28	234.55	247.47	594.62	657.48
Equity	540.66	484.72	558.65	650.10	938.38	1173.05	1478.49

Source : Computed from The Annual Report of the Hindustan Copper Limited from 2001-02 to 2007-08

PROFITABILITY RATIOS OF HINDUSTAN COPPER LIMITED

Year	Gross Margin Ratio (%)	Operating Ratio (%)	Net profit Ratio (%)	Capital Employed Turnover (time)	Return on Investment ROI %	Return on Equity %
2001-02	-19.28	119.28	-30.42	+2.43	-46.78	-34.04
2002-03	-17.43	117.43	-29.21	2.48	-43.22	-30.47
2003-04	0.67	99.33	-10.82	2.41	0.02	-10.05
2004-05	17.01	83.00	6.90	2.38	40.46	5.94
2005-06	13.17	86.83	10.05	4.26	56.10	12.63
2006-07	20.38	79.62	17.44	3.37	72.76	26.76
2007-08	17.86	82.04	13.40	2.80	50.29	16.67
Mean	4.40	95.36	-3.24	2.90	18.52	-1.80
Standard Deviation	1.57	15.70	18.75	0.68	48.47	21.89

Source : Computed from The Annual Report of the Hindustan Copper Limited  
Period : From 2001-02 to 2007-08.

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