



## An Empirical Study of Profitability Analysis of Neyveli Lignite Corporation Limited (Nlc Ltd.)

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### ABSTRACT

*Finance in the life blood and nervous system of an enterprise, the importance of the timely appraisal of the performance of the firm cannot be overemphasized. Profitability which is a crucial factor contributing for the survival of the firms. Profitability and management efficiency are usually taken to be positively associated: poor current profitability may threaten current management efficiency and vice versa; poor management efficiency may threaten profitability. It is related to the goal of shareholders' wealth maximization, and investment in current assets is made only if an acceptable return is obtained. Further, the firm should apply the profit maximization as criteria in taking financial decisions like financing, investment and distribution. In addition, it is clear from the review of earlier literatures that there has been no study with reference to profitability appraisal of NLC Ltd. Hence the Researcher felt the need to undertake the present study.*

**KEYWORDS :** Profitability, Earning capacity, Return on total assets, Return on equity, Return on Investment

Finance act as a fulcrum to activate the operating and financial efficiency of every organisation, Hence, finance is the life blood of every organization. Financial performance analysis is method of determining the operating and financial efficiency of a firm from available accounting and financial statements. Financial Performance refers to the achievement of the organisation in terms of profitability. The ability of profit earning is known as profitability. So profitability is the profit earning capacity which is a crucial factor contributing to the survival of the organisations. It shows how efficiently the management can make profit by using all the resources available in the market. Profitability of an organisation denotes the efficiency with which an organisation deploys its total resources to optimize its net profits and thus serves as an index to the degree of asset utilization and managerial effectiveness. Profitability is considered to be the main factor in influencing the reputation of the firm. The borrowing capacity of the firm is also determined by profit. Assessing the organisation's profitability mainly indicates that the business is conducted in a rational and normal way and ensuring enough returns to the shareholders. The profitability level should maintain at increasing level in order to overcome many problems. Through a careful analysis of its profitability, the organization can identify opportunities to improve the performance of the department, unit or in organizational level. One of the most frequently used tools of financial ratio analysis is profitability ratios, which are used to determine the company's bottom line. Two major types of profitability ratios are computed: (i) Profitability in relation to sales and (ii) Profitability in relation to investment. Profitability ratios show an organisation's overall efficiency and performance. Gross profit margins (GPM), Net operating margin (NOM), Return on total assets (ROTA), Return on equity (ROE), and Return on investment (ROI) are the main measures of profitability. Therefore, profit is an absolute measure and profitability is a relative measure of efficiency of the operations of an organisation.

### Statement of the Problem

Finance in the life blood and nervous system of an enterprise, the importance of the timely appraisal of the performance of the firm cannot be overemphasized. Profitability which is a crucial factor contributing for the survival of the firms. Profitability and management efficiency are usually taken to be positively associated: poor current profitability may threaten current management efficiency and vice versa; poor management efficiency may threaten profitability. It is related to the goal of shareholders' wealth maximization, and investment in current assets is made only if an acceptable return is obtained. Further, the firm should

apply the profit maximization as criteria in taking financial decisions like financing, investment and distribution. In addition, it is clear from the review of earlier literatures that there has been no study with reference to profitability appraisal of NLCLtd. Hence the Researcher felt the need to undertake the present study.

### Objectives of the Study

The main objectives of the study are

- To more specifically assess the profitability related to sales and equity share of NLC Ltd.
- To give suggestions on the basis of findings of the study

### Research Methodology

The study is descriptive in nature and reveals an existing fact. Data has been collected from financial reports of NLC Ltd. through official website.

### Nature of Data

The analysis of the company under study namely NLC Ltd. is based on secondary data.

### Period of the Study

The period of study covers 5 years from 2008- 09 to 2012-13.

### Statistical Tools

Ratio analysis was used to analysis the collected data

### Analysis on Profitability

Profitability ratios measure a company's ability to generate earnings relative to sales, assets and equity. These ratios assess the ability of a company to generate earnings, profits and cash flows relative to relative to some metric, often the amount of money invested. They highlight how effectively the profitability of a company is being managed. The gross profit margin, operating profit margin, net profit margin, return on assets (ROA) and return on equity (ROE) ratios are calculated to measure the profitability of an enterprise. Operating margin ratio which reflects profit earned by the company, Return on capital employed which indicates what the company has earned for its shareholders and Return on Net worth which notes the profit earning capacity. Profitability position of the NLC Ltd. for the five years period was analysed and the results is presented in the following table.

**TABLE 1**  
**PROFITABILITY POSITION OF NLC LTD**

Ratios(%)	2008-09	2009-10	2010-11	2011-12	2012-13	Mean	Growth Rate	AGR (%)
Operating Margin	22.82	32.03	37.74	35.69	35.94	32.84	0.57	11.50
Return on Capital Employed	8.83	11.17	11.17	10.32	10.28	10.35	0.16	3.28
Return on Net worth	8.72	12.20	11.67	11.77	11.29	11.13	0.29	5.89
Capital Gearing Ratio	0.43	0.39	0.37	0.35	0.32	0.37	-0.24	-4.86
Earnings Per Share	4.89	7.44	7.74	8.41	8.70	7.44	0.78	15.58
Dividend Payout Ratio	20.00	20.00	23.00	28.00	28.00	23.80	0.40	8.00

Source: Annual reports of NLC Ltd. From 2008-09 to 2012- 2013

During the period of study the operating margin ratio even through showed a fluctuating tendency it was more than 30 per cent in all the study years except 2008-09. The highest ratio of 37.74 was observed in the year 2010-11 and the least of 22.82 in the year 2008- 2009. All the selected profitability ratios show a fluctuating tendency. From the analysis it is very clear the AGR for all the selected ratios except Capital Gearing Ratio were positive hence corporation under study is performing better. Present study also revealed that the company is low levered. Own fund is more compared to borrowed fund. Performance of NLC Ltd. was very good towards its shareholders earnings per share and dividend payout ratio also was very fruitful during the study period. It can be concluded from the analysis that the corporation under study is sound in profitability performance.

### Suggestions

In the light of the analysis and findings, following suggestions are reproduced for profitability development of NLC Ltd.

- The corporation can meet its entire requirements for capital expenditures and higher level of working capital commitment with higher volume of operations and from its operating cash flows.
- Expenses are the major direct impact on the profitability of every enterprise, because effective and efficiency performance of company can be measured in terms of profitability. Hence, NLC Ltd. may give attention in the area of direct expenses as well as indirect expenses to reduction it.
- The NLC Ltd. should be allowed to raise funds from stock market to enable them report profitable figures. Consequently the insurers will focus on profitable business underwriting will lead to better liquidity management on the part of public sectors undertakings.

### Conclusion

After the analysis of various data related to NLC Ltd., it is clear that profitability more or less depends upon the better utilization of resources, cutoff expenses and quality of management function in the products, customer services and to manpower and goodwill and market share. It is worthwhile to increase production capacity and use advanced technology to cut down cost of production and wage cost in order to increase profitability, not only against the investment, but also for investor's return point of view. This study will be helpful to increase profitability of NLC Ltd. in future prospects.

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