

A Study of Profitability Analysis of Selected NSE CNX Companies in India



Management

KEYWORDS :

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Mostly every firm is most apprehensive with its profitability. One of the most frequently used tools of financial ratio analysis is profitability ratios which are used to conclude the company's bottom line and its return to its investors. Profitability measures are important to company promoters and owners similarly. If a small business has outside investors who have put their own money into the company, the promoters certainly have to prove profitability to those investors.

Profitability ratios are considered to evaluate the firm's ability to create income. Analysis of profit is of vital concern to investors because they get revenue in the form of dividends. Profits are also vital to creditors because profit is one resource of funds for liability. Furthermore Management uses profit as a performance appraisal.

NSE CNX Companies

The CNX Nifty is a well diversified 50 stock index accounting for 22 sectors of the economy. It is used for a variety of purposes such as benchmarking fund portfolios, index based derivatives and index funds.

CNX Nifty is owned and managed by India Index Services and Products Ltd. (IISL), which is a joint venture between NSE and CRISIL. IISL is India's first specialised company focused upon the index as a core product.

- The CNX Nifty Index represents about 68.03% of the free float market capitalization of the stocks listed on NSE as on March 28, 2013.
- The total traded value for the last six months ending March 2013 of all index constituents is approximately 50.23% of the traded value of all stocks on the NSE.
- Impact cost of the CNX Nifty for a portfolio size of Rs.50 lakhs is 0.06% for the month March 2013.
- CNX Nifty is professionally maintained and is ideal for derivatives trading.

Profile of Selected companies for the study

ACC

In a historic merger of 10 cement companies, ACC (formerly known as Associated Cement Companies) was incorporated in 1936. It is one of the largest cement producers in India. The company was owned by the Tata group during the period 1936-2000. However, between 1999 and 2000, the Tata group sold its entire stake in ACC to Gujarat Ambuja Cements Ltd. in three stages.

In a major consolidation deal in 2005, Swiss cement major, Holcim in a strategic partnership with Ambuja Cements acquired a majority stake in ACC through Ambuja Cement India Ltd. (ACIL), the holding company.

The company is mainly engaged in the manufacture of ordinary portland cement and blended cement. It is the only cement company which has a pan-India presence, with 15 cement factories situated across the country. It has the largest distribution network in India with 170 warehouses and over 9,000 dealers. Some of the company's popular cement brands include 'ACC Samrat', 'ACC Suraksha' and 'ACC Super'. The company also expanded through the acquisition route. Cement companies acquired include Cement Marketing Co, Bulk Cement Corporation, Damodhar Cement and Bargarh Cement (the latter two were merged with ACC in March 2006).

Asian paints

Asian Paints is India's largest paint company and Asia's third largest paint company, with a turnover of Rs 96.32 billion. The group has an enviable reputation in the corporate world for professionalism, fast track growth, and building shareholder equity. Asian Paints operates in 17 countries and has 24 paint manufacturing facilities in the world servicing consumers in over 65 countries. Besides Asian Paints, the group operates around the world through its subsidiaries Berger International Limited, Apco Coatings, SCIB Paints and Taubmans.

Asian Paints was included in Forbes Asia's 'Fab 50' list of Companies in Asia Pacific in 2011 and 2012. Forbes Global magazine USA ranked Asian Paints among the '200 Best Small Companies in the World' for 2002 and 2003 and presented the 'Best under a Billion' award, to the company. Asian Paints is the only paint company in the world to receive this recognition. Forbes has also ranked Asian Paints among the 'Best under a Billion companies in Asia' in 2005, 2006 and 2007.

Reliance Infrastructure

Incorporated in 1929 by the Reliance Group, Reliance Infrastructure Ltd. is one of India's leading integrated power utility company in the private sector. The company is mainly engaged in the transmission and distribution of electricity in Maharashtra, Goa and Andhra Pradesh. It has also ventured into power generation as well. From August 5, 2005 the company was demerged from Reliance Industries Ltd., and now falls under the Anil Dhirubhai Ambani Group (ADAG).

There are 16 associates of the company, some of them being BSES Kerala Power Ltd, BSES Rajdhani Power Ltd, BSES Yamuna Power Ltd, Reliance Energy Trading Ltd, Reliance Energy Transmission Ltd, Reliance Energy Global Pvt Ltd, Reliance Energy Investment Private Ltd, Reliance Energy Generation Ltd, Tamil Nadu Energy Generation Ltd, Tamil Nadu Industries Captive Power Company Ltd etc.

The generation division of the company has a capacity of about 940 MW which comes from five projects namely Dahanu TPS, 7.59 MW Wind Farm Project, BSES Kerala Ltd, BSES Andhra Power Ltd and Goa Power Station. The company has commissioned two 200 KV receiving stations at Ghodbunder and Versova. It has also commissioned a 400 MVA station at Aarey for receiving power from Dahanu plant. The 200 KV lines operated by REL are Dahanu-Versova, Dahanu-Ghodbunder, Ghodbunder-Versova, Versova-Borivali, Versova-Aarey and Aarey-Borivali. The company has 779 transmission towers.

Objective of the study

The main purpose of the study is to evaluate the profitability of the selected NSE CNX companies of India.

Methodology of the study

- Source of the data

The study is based on the secondary data which are taken from the financial statements of ACC cement, Asian Paints and Reliance Infrastructure through prowess from 2008-09 to 2011-2012 to find out the profitability of selected companies. For more information different journals, News papers and related Websites are also taken into consideration as and when required for the study.

Hypothesis of the study

- The amount of profitability Trend value of PBT as % of total

income is the same.

- The amount of profitability Trend value of PAT as % of total income is the same.
- The amount of profitability Trend value of PAT as % of net worth is the same.
- The amount of profitability Trend value of cash profit as % of net worth is the same.

Techniques of Analysis

For the analysis of data various ratios relating to Profitability is considered. Moreover the simple statistical measures like mean and ANOVA Test is also applied for hypothesis testing. For that SS=Sum Of squares, D.F=Degree Of Freedom, MSS=Mean Sum of Squares, F cal=Calculated Value of F. and Ft =critical value of F ratio at 5% level, are calculated and mentioned in the table to draw outcome.

Net Operating Profit Ratio/PBT to Sales

This ratio measures the efficiency of operations of the company. This ratio is designed to give attention on the net profit margin arising from the business process before tax is deducted. This convention is to express (PBT) Profit before tax (PBT) as a percentage of sales.

Net Operating Profit Ratio =PBT/Sales *100

Table-1 PBT to Sales

Year	ACC	Asian P	Reliance
2008	20.2	13.6	16.9
2009	25.5	10.8	11.3
2010	17.1	18.7	12.8
2011	15.9	15.4	12
2012	11	14.7	13.4
Total	89.7	73.2	66.4
Mean	17.94	14.64	13.28
Combined Mean	15.28667		

Table -2 One Way ANOVA result of selected companies

Sources of variance	SS	D.F.	M.S.	F value	F table value
BSS	57.426	2	28.713		
ESS	167.09	12	13.92417	2.062098	3.88
TSS	224.51				

At 95% confidence level, the critical value obtained from F table is 3.88.The calculated value is 2.06 which is less than the tabular value and falls in the acceptance region. From the above analysis we can say that Net Operating Profit Ratio for selected companies is similar.

Net Profit Margin Ratio

This ratio shows the relationship between net profits to sales. The net profit is overall measures of a firm's ability to turn each rupee of sales into profit. It indicates the efficiency with which a business is managed.

Table-3 Net Profit Margin Ratio =PAT/Sales*100

Year	ACC	Asian P	Reliance
2008	14.1	9.1	14.7
2009	17.8	7.1	10.2
2010	12.4	13	10.5
2011	11.9	10.6	10.4
2012	8.2	10.3	10.8
Total	64.4	50.1	56.6
Mean	12.88	10.02	11.32
Combined Mean	11.40667		

Table -4 One Way ANOVA result of selected companies

Sources of variance	SS	D.F.	M.S.	F value	F table value
BSS	20.506	2	10.253		
ESS	81.92	12	6.826667	1.501904	3.88
TSS	102.42				

At 95% confidence level, the critical value obtained from F table is 3.88.The calculated value is 1.50 which is less than the tabular value and falls in the acceptance region. From the above analysis we can say that Net Operating Profit Ratio for selected companies is similar.

Profit after Tax (PAT) to Net Worth Ratio

This ratio is a very effective measure of the profitability of any firm. This ratio measures the return on the total equity of shareholders Net Worth. This ratio is one of the important tool in financial statement analysis.

Table-5 PAT as % of net worth

Year	ACC	Asian P	Reliance
2008	26.7	44.9	11
2009	29.4	35.8	10.2
2010	18	58.4	8.9
2011	19.4	43.9	6.8
2012	14.6	43	11.4
Total	108.1	226	48.3
Mean	21.62	45.2	9.66
Combined Mean	25.49333		

Table -6 One Way ANOVA result of selected companies

Sources of variance	SS	D.F.	M.S.	F value	F table value
BSS	3270.2	2	1635.1		
ESS	436.74	12	36.395	44.9265	3.88
TSS	3706.94				

At 95% confidence level, the critical value obtained from F table is 3.88.The calculated value is 44.92 which is greater than the tabular value and falls in the rejection region. From the above analysis we can say that PAT to net worth Ratio for selected companies is not the similar.

Cash Profit to Net Worth Ratio

This ratio is effective tool to measure of the profitability after tax. This ratio measures the after tax return on the total equity of shareholders Net Worth.This ratio is also one of the important tool in analysis of shareholders return.

Table-7 cash profit as % of net worth

Year	ACC	Asian P	Reliance
2008	32.4	51.3	11
2009	35	42.8	10.8
2010	22.6	62.7	10.1
2011	23.7	50.6	7.5
2012	25.5	47.6	12
Total	139.2	255	51.4
Mean	27.84	51	10.28
Combined Mean	29.70667		

Table -8 One Way ANOVA result of selected companies

Sources of variance	SS	D.F.	M.S.	F value	F table value
BSS	4171.4	2	2085.7		
ESS	349.58	12	29.13167	71.59563	3.88
TSS	4520.98				

At 95% confidence level, the critical value obtained from F table is 3.88. The calculated value is 71.59 which is greater than the tabular value and falls in the rejection region. From the above analysis we can say that cash profit to net worth Ratio for selected companies is not the similar.

From the above analysis, we can say that net operating profit ratio and net profit ratio for selected companies is similar but there may be vast difference in PAT to net worth ratio and cash profit to net worth ratio for selected companies.

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