ORIGINAL RESEARCH PAPER

Management

A PROFITABILITY ANALYSIS OF ANDHRA BANK WITH REFERENCE TO CASH FLOW ANALYSIS

KEY WORDS:

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Profit is an excess of revenues over associated expenses for an activity over a period of time. Terms with similar meanings include 'earnings', 'income', and 'margin'. Lord Keynes remarked that 'Profit is theengine that drives the business enterprise'. Every business should earn sufficient profits to survive and grow over a long period of time. It is the index to the economic progress, improved national income and rising standard of living. No doubt, profit is the legitimate object, but it should not be over emphasised. Management should try to maximise its profit keeping in mind the welfare of the society. Thus, profit is not just the reward to owners but it is also related with the interest of other segments of the society. Profit is the yardstick for judging not just the economic, but the managerial efficiency and social objectives also.

CONCEPT OF PROFITABILITY

Profitability means ability to make profit from all the business activities of an organization, company, firm, or an enterprise. It shows how efficiently the management can make profit by using all the resources available in the market. According to Harward & Upton, "profitability is the 'the ability of a given investment to earn a return from its use."

However, the term 'Profitability' is not synonymous to the term 'Efficiency'. Profitability is an index of efficiency; and is regarded as a measure of efficiency and management guide to greater efficiency. Though, profitability is an important yardstick for measuring the efficiency, the extent of profitability cannot be taken as a final proof of efficiency. Sometimes satisfactory profits can mark inefficiency and conversely, a proper degree of efficiency can be accompanied by an absence of profit. The net profit figure simply reveals a satisfactory balance between the values receive and value given. The change in operational efficiency is merely one of the factors on which profitability of an enterprise largely depends. Moreover, there are many other factors besides efficiency, which affect the profitability.

PROFIT & PROFITABILITY

Sometimes, the terms 'Profit' and 'Profitability' rea used interchangeably. But in real sense, there is a difference between the two. Profit is an absolute term, whereas, the profitability is a relative concept. However, they are closely related and mutually interdependent, having distinct roles in business.

Profit refers to the total income earned by the enterprise during the specified period of time, while profitability refers to the operating efficiency of the enterprise. It is the ability of the enterprise to make profit on sales. It is the ability of enterprise to get sufficient return on the capital and employees used in the business operation.

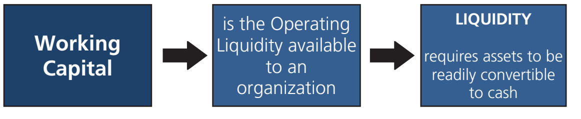
As Weston and Brigham rightly notes "to the financial management profit is the test of efficiency and a measure of control, to the owners a measure of the worth of their investment, to the creditors the margin of safety, to the government a measure of taxable capacity and a basis of legislative action and to the country profit is an index of economic progress, national income generated and the rise in the standard of living", while profitability is an outcome of profit. In other words, no profit drives towards profitability.

Cash flow is simply the flow of cash through the organization over time. In the case of businesses that are run for profit, cash is paid out in return for the labor and materials that are used to provide goods and services that can be sold. The revenues received provide cash that can then be used to finance further production and sales as well as increasing the organization's economic value.

Cash flows are also essential for nonprofit organizations such as charities, schools, and hospitals that need to meet the various ongoing expenses associated with providing their services.

As a manager, you need to understand how cash flows are generated and what factors impact those flows. This knowledge is an integral part of making financial decisions that increase a firm's economic value or the capabilities of a nonprofit organization.

The management of cash flow is one part of a larger management responsibility known as the management of working capital, which refers to the operating liquidity available to an organization.



An organization can have assets and profitability, but find itself short of liquidity if its as- sets cannot readily be converted into cash.

Working capital is required to ensure that the organization is able to continue its opera- tions and that it has sufficient funds to satisfy operational expenses and any maturing short-term debt. The management of working capital involves managing the four follow- ing aspects of an organization's operations:

- Inventories (stock, work-in-progress and finished goods)
- Accounts receivable (debts that are owed to the organization)
- Accounts payable (money the organization owes to its suppliers)
- Cash

Effective management of working capital will increase the profitability of the organiza- tion. It also enables managers to concentrate on their jobs without worrying too much about the potential for insolvency It can also reduce the amount of capital needed to run the enterprise, so even if you work in the nonprofit sector it is still an important consideration.

- Cash flow is simply the flow of cash through the organization over time.
- Working capital is required to ensure that the organization is able to continue its day-to-day operations.
- The management of working capital involves actively controlling inventories, accounts receivable, accounts payable, and cash.
- The effective management of working capital can increase profitability in the private sector and reduce the amount of capital required by nonprofit orga- nizations.

Importance of Managing working Capital Many organizations that failare profitable at the time, and their demise often comes as a surprise to managers and staff who can see that there is a full order book and plenty of satisfied customers. In these circumstances, the reason for the failure is usually down to a shortage of working capital.

This shortage in working capital can cause a company to not be able to pay its workers or suppliers even though there are sufficient sales and profits. Even in cases where these short-term liabilities can be met, the deterioration of cash flow critically undermines a company's ability to reinvest in the business and, ultimately, to survive.

Findings and Suggestions:

- The bank has suffered negative outflows in all the 3 activities it can be analyzed that the bank is in transition phase and the bank has accumulated cash surplus in the previous years through which it is able to meet its liabilities and invest in Fixed Assets. But maintaining this situation can lead to exhausting of money surplus and loss of liquidity and could end in bankruptcy .Hence the bank has to take adequate measures to cover its expenses by increasing its revenue
- Bank has positive cash flows in operating and financing activities negative outflows in investing activities it can be analyzed that the bank is having positive surplus of cash from operating activity is not enough to meet capital expenditures (investing activity), therefore the firm has to gain additional external capital. This is typical of growing and developing corporations with such credibility to have access to capital.
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- It can be concluded that the surplus from operating segment is used to pay for undertaken investments or pay to owners and creditors. If the net increase in cash and cash equivalents is negative, then it can suggest that the firms is in financial troubles, but since the total cash increased during the time, the situation is not bad and the firm saved money for the future.