



**ORIGINAL RESEARCH PAPER**

**Management**

**A PROFITABILITY ANALYSIS OF ANDHRA BANK WITH REFERENCE TO RATIO ANALYSIS (2006-07 TO 2015 -16)**

**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 the engine 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 Harvard & 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' are 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.

**Definition of Accounting Ratio:**

Ratio is a fraction whose numerator is the antecedent and denominator the consequent.

It is simply an expression of one number in terms of another. It may also be defined as the relationship or proportion that one amount bears to another, the first number being the numerator and the latter the denominator.

Another explanation of the ratio may be the relation of the latter to the earlier amount and computed by dividing the amount for the latter date or period by the amount of the earlier date or period.

**Objective of the Study:**

1. To analyze and evaluate the performance of Andhra Bank in term of profitability Analysis during the period i.e., 2006-07 to 2015 -16.
2. To analyze the various ratios for retaining the profit

**Research Methodology:**

This research study was mainly based on the secondary data. Therefore only published annual reports and accounts of Andhra Bank have been used in the study. Other necessary data and information for the study has been obtained from relevant books, magazines, newspaper, official paper, website, etc.

**Limitations:**

- Accounting ratios calculated based on ratio analysis will be correct only if the accounting data on which they are based are correct.
- It is only an analysis of past financial data.
- In certain cases ratio analysis might prove to be misleading with regard to profits.

**Findings of the study:**

**1. Net Profit to Total Assets Ratio**

**FINDINGS:**

It measures benefit against the advantages an organization used to produce income. It is a critical marker of the advantage power of an organization. A lower proportion implies a bank is more resource serious, and the other way around. the Net Profit to Total Assets Ratio is constant for the years 2006-07 to 2012-13 (0.01) and dropped to 0 in 2013-14 and from 2013-14 to 2015-16 it was 0

**SUGGESTION**

Following the Net profit to Asset Ratio above, the business should either increase sales (keeping all other expenses constant) or reduce or sell off any under performing assets. Additionally, the business could also seek to reduce any and all expenses to their bare minimum – to include reducing variable costs (cost of goods sold) or fixed costs (overhead or operating expenses). By observing the most recent ratios one will come to a conclusion that the bank has to improve its position.

**2. Net Profit to Net Worth Ratio**

**FINDINGS:-**

The proportion is produced from the point of view of the investor, not the organization, and is utilized to break down speculator

returns. The proportion is helpful as a measure of how well an organization is using the investor speculation to make returns for them, and can be utilized for correlation purposes with rivals in a similar industry. It can be understood that Net Profit to Net worth ratio has never crossed 1. It rose from 0.17 2006-07 to 0.18 in 2007-08 and maintained at same level in 2008-09. It increased from 0.18 to 0.24 in 2009-10 which is the highest and facing a downward trend from then to till 2015-16 where it reached its lowest point (0.05).

#### SUGGESTION:-

A low ratio demonstrates the business is not utilizing the equity in the business to its fullest. Improving this ratio, can consist of increasing sales (keeping all else the same), reducing all expenses (where possible) or reducing the amount of equity invested in the business. The goal is to get the most return on any investment injected into the business as this injection is usually the most expenses (most give up a portion of the business to investors of outside equity – or if owner's equity, it could have been deployed in other investments earning larger returns). To that note, this ratio should also be compared to other similar risk investments to determine if the return on the equity placed in the business is being utilized properly.

### **3. Net Profit to Fixed Assets Ratio**

#### FINDINGS:

By analyzing this ratio one can get an idea of how the fixed assets are utilized by the management of the bank. The ideal ratio should be more than 1 as it indicates the return for every rupee invested in fixed assets. A ratio higher than one will indicate that the assets are being utilized by the bank to the fullest extent. A ratio lower than one indicates that the fixed assets are not able to create enough profits. It is clearly evident that the bank has been constantly maintaining its Net profit to fixed assets ratio higher than 1 except for the last two years, the bank has attained its highest in 2011-12 (4.44) which implies that for every Rs. 1 of Fixed asset employed by the bank it is able to gain Rs4.44 from its fixed assets which says that the management is able to utilize its fixed assets to the fullest extent. The bank attained its lowest in the year 2015-16 which means it is unable to generate profits in relation to the fixed assets employed by it.

#### SUGGESTION

The bank maintained the ratio well in the initial period of study but failed to maintain the same till the end of period of study. The bank has to follow the same strategy on its investments that it followed during the initial period of study. On an average the bank maintained a ratio of 2.2 which is above the ideal ratio and satisfactory.

### **4. Gross ratio**

#### FINDINGS:

It gives an idea of how much of the total income earned by the bank is utilized for meeting its all expenses. Total Income includes the total of all the incomes earned by the bank during that period which includes interest earned on banking operations and income from investing and other incomes. The ideal ratio should not be equal to or greater than one. A higher ratio indicates that the bank is spending too much of its income which may sometimes happen because of mismanagement. The bank has a gross ratio of 0.86 in 2006-07 which indicates that for every Rupee 1 the bank is having an expense of Rs 0.86. It raised to an highest of 0.97 in 2013-14 and 2015-16. By observing the last 3 years one can say that Gross Expense is raising at an alarm rate. Hence bank has to take necessary precautions.

#### SUGGESTION

The bank has been constantly maintaining this ratio as per its standards. If it still wants to improve the ratio it can be done either by decreasing its expenses or by increasing its Gross Income. Hence from the above analysis it can be stated that the bank has maintained a decent level of Gross Ratio since it has not exceeded the ideal ratio.

### **5. Operating Ratio**

#### FINDINGS:

The working proportion demonstrates the effectiveness of a bank by contrasting working cost with net income. The smaller the proportion, the more noteworthy the association's capacity to produce benefit if incomes diminish. When utilizing this proportion, be that as it may, financial specialists ought to know that it doesn't consider obligation reimbursement or extension. A working proportion that is going up is demonstrative of a wasteful working condition that may need to actualize cost controls for edge change. A working proportion that is diminishing is characteristic of an effective working condition in which working costs are progressively a smaller level of income. The working proportion is ascertained by partitioning working costs by income. It can be analyzed that the bank has been keen in observing its expenses, as the ideal ratio for these ratios should not be greater than or equal to one, the bank is said to be maintaining the ratio well. The bank reached its highest in operating ratio in 2014-15 (0.85) and its least in 2006-07 (0.75).

#### SUGGESTION

The bank is maintaining the ratio well within the ideal limits, the bank has to keep an eye on its operational expenses in order to bring more utility to this ratio.