



A Study on the Effectiveness of Profitability Analysis with Special Reference to Inncon, Chennai.

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ABSTRACT

A basic limitation of the traditional financial statement comprising the balance sheet and the profit and loss account is that they do not give all the information related to the financial operations of a firm. They provide some extremely useful information to the extent that the balance sheet mirrors the financial position on a particular data in terms of the structure of assets, liabilities and owners' equity and so on and the profit and loss account shows the results of operations during a certain period of time in terms of the revenues obtained and the cost incurred during the year the financial statements provide a view of the financial position the operations of a firm.

INTRODUCTION

'Profitability Analysis' is a meaningful interpretation of 'Financial statements' for 'parties demanding financial information'. There are certain steps, which have to be taken into consideration for Profitability Analysis. First identification of user's purpose, second identification of data source, last selecting the techniques to be used for such analysis.

In the words of John M. Myer – "Profitability Analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements and a study of the trends of these factors as shown in a series of statements". Thus, the Profitability Analysis refers to the classification, diagnosis and comparison of the data of financial statements so that the profitability, financial position managerial efficiency and weakness of the business may be disclosed.

COMPANY PROFILE

Inncon is a global information technology (IT) Development firm **started in the year of 2001** focusing on areas of specialization which includes strengths for vision of the future and an insight into the core technical concepts in the IT and BPO industry.

Objectives

- ✓ People : Be a great place to work where people are inspired to be the best they can.
- ✓ Integrity : Be real and simple
- ✓ Accountability: If it is to be, it's up to me.
- ✓ Passion: Committed in heart and mind
- ✓ Quality: What we do, we do well
- ✓ Customers: Know, Understand and Implement Customer needs.
- ✓ Innovation: Central to our culture.

Solution services: Inncon offers world-class software engineering, algorithm development, content development, and other consulting services to help your company meet all of its information technology needs We excel in helping companies develop new technologies and create new products based on those technologies.

OBJECTIVE OF THE STUDY

- To evaluate the financial performance of Inncon in Chennai during the past 5 years
- To study the financial performance of the company using various ratios
- To compare the performance through comparative and common size balance sheets
- To work out strength of networking capital by drafting the schedule of changes in working capital
- To find out the current status of financial position of the company

RESEARCH METHODOLOGY

- Research methodology is a systematic way of solving the problem. It includes the overall research design, the sampling procedures, data collection method and analysis procedure.
- Research design: The research is designed in such a way to concentrate mainly on data collected through secondary mode.
- Source of the data: secondary data has been collected from sources like company reports, magazine, journals, and annual reports.
- Tools for Research: Ratio analysis, Dupont analysis, schedule of changes in working capital, common size balance sheet, comparative balancesheet.
- Period of the study: the period of the study covers 5 years from 2018-2019 to 2022- 2023. the required data for the past 5 years were collected from the annual reports of the company

REVIEW OF LITERATURE

Burthwal (1990) in their research, they discussed about “profitability and structure: A firm level study of Indian Pharmaceutical Industry”. He concluded that the coefficient of growth rate of sales was positive and significant, and suggested that factors on the demand side of a firm had a greater impact on profitability than on the supply.

McDonald (1997) studied about ‘The Determinants of Firm Profitability in Australian Manufacturing’. he concluded that the cyclicity of profit margins depends on industry concentration - firm margins were pro - cyclical in concentrated industries and are counter-cyclical in less concentrated industries.

Mohammed Rafiqul Islam (2000) studied the profitability of Fertilizer Industry in Bangladesh for the period of 1985-86 to 1994-95. For the purpose of analysis he has selected five fertilizer enterprises of the seven fertilizer enterprises in Bangladesh under the control of Bangladesh Chemical Industries Corporation (BCIC). On the basis of comparative analysis he has concluded with suggestions for enhancement of the profitability of fertilizer industry in Bangladesh.

Andrew Ash et al (2016) The financial health of clothing enterprises in northern Australia has declined markedly over the last decade due to an escalation in production and marketing costs and a real decline in clothing prices. Historically, gains in animal productivity have offset the effect of declining terms of trade on farm incomes. This raises the question of whether future productivity improvements can remain a key path for lifting enterprise profitability sufficient to ensure that the industry remains economically viable over the longer term.

Giovanna Padula et al (2017) This clothing studies the inventive performance and profitability of small and medium sized manufacturing firms (SMEs) that are “technology specialists” compared to the inventive performance and profitability of SMEs that are instead vertically-integrated. In this clothing perspective, “technology specialists” are firms that specialize upstream in generating inventions and trade those inventions in disembodied form with other firms, usually through licensing agreements

DATA ANALYSIS AND INTERPRETATION

SCHEDULE OF CHANGES IN WORKING CAPITAL

TABLE SHOWING THE CHANGES IN WORKING CAPITAL FY 2023-2022

Particular	2023	2022	Increase	Decrease
Current Asset				
Current investments	1150451.00	1150451.00		
Inventories	53023808.92	49074975.36	3948833.56	

Trade Receivables	58212161.02	49578450.05	8,633,710.97	
Cash and cash equivalents	5038275.24	4429209.97	609,065.3	
Short Term loans & advances	19276051.18	15667143.13	3608908.05	
	136700747.36	119900229.51		
Current Liabilities				
Short Term borrowings	62158870.51	48348589.78		13810280.73
Trade Payables	24069411.22	33062187.30	8992776.08	
Other current liabilities	9706136.68	9609637.66		96,499.02
Short term provisions	2300000.00	2233000.00		67,000.00
	98,234,418.41	93,253,414.74		
Net Working Capital	38,466,328.95	26,646,814.77		
Decrease in WC		11,819,514.18		11,819,514.18
	38,466,328.95	38,466,328.95	25,793,293.93	25,793,293.93

Source: Annual Reports of Inncon.

Interpretation:

The above table shows the working capital statement of Inncon for the year 2022 and 2023. Current assets of the company show an increasing trend from the year 2022-2023. Current liabilities increased from 2022 – 2023. This results in a decrease in working capital.

RATIO ANALYSIS

Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Liabilities

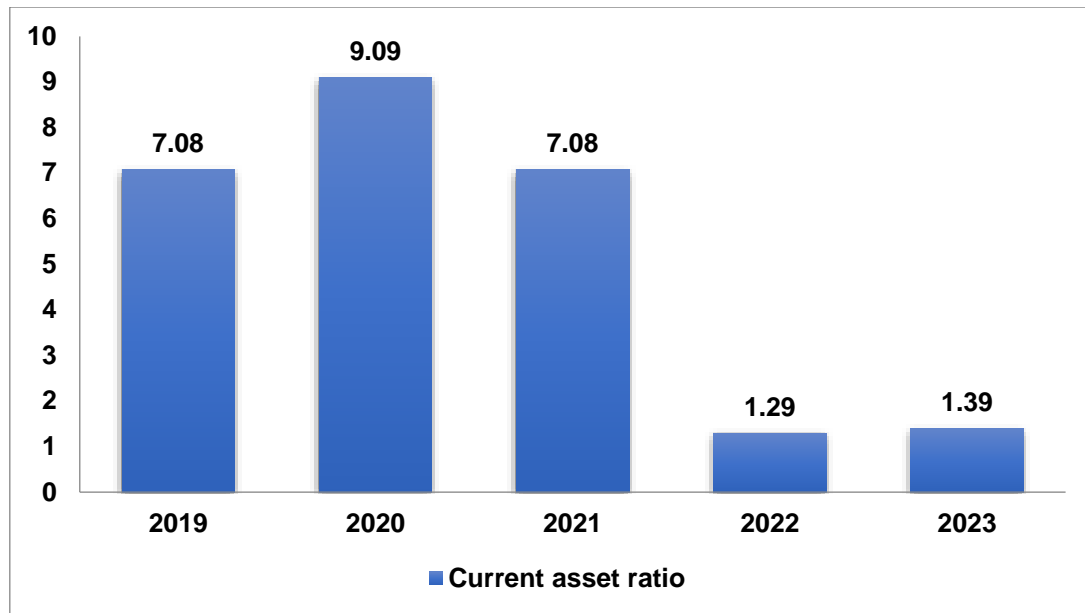
TABLE SHOWING CURRENT ASSETS RATIO

Year	Current assets	Current liabilities	Current asset ratio
2019	56132794.31	7929635.83	7.08
2020	78987183.77	8690005.75	9.09
2021	99628120.4	14066553.76	7.08
2022	119900229.5	93253414.74	1.29
2023	136700747.4	98234418.41	1.39

Sources: Annual Reports of Inncon.

Interpretation: As a rule, the current ratio with 2:1 (or) more is considered as satisfactory position of the firm. This ratio shows the ability of the firm and it related with Current Assets & Current Liabilities. Generally Current Ratio of 2:1 is considered ideal for a concern i.e., current asset should be twice of the current liabilities. This is the most widely used ratio. In the year 2019 and 2020, the current asset ratio was 7.08 and 9.09 respectively. But it started decreasing in the consequent years to 1.29 in 2022, 1.39 in 2023. Fluctuation in the financial statements are due to various reasons like business boom that had happened during the initial 2 years of the study period and it got stabilized in the 3rd year and the final two years there was a steep fall in the financial position of the organization due to an internal transition among the management team of the organization.

CHART SHOWING CURRENT ASSETS RATIO



COMMON SIZE BALANCE SHEET

COMMON-SIZE BALANCE SHEET OF INNCON FOR THE YEAR 2022-2023

Liabilities	2022	Percentage	2023	Percentage
Sources Of Funds				
Share Holders Fund				
Total Share Capital	10500000	7.28	10500000	6.56
Reserves & Surplus	14302931.38	9.91	19053010.6	11.91
Non-Current Liabilities				
Long Term Borrowings	19726750.11	13.67	31429112	19.64
Deferred Tax Liabilities	879837	0.61	824247	0.52
Other Long term liabilities	5603303	3.88	0	0.00
Current Liabilities				
Short Term borrowings	48348589.78	33.51	62158870.51	38.84
Trade Payables	33062187.3	22.92	24069411.22	15.04
Other current liabilities	9609637.66	6.66	9706136.68	6.06
Short term provisions	2233000	1.55	2300000	1.44
Total Liabilities	144,266,236.23	100.00	160,040,788.01	100.00
Assets				
Non-Current Assets				
Fixed Assets-Tangible	23981954.87	16.62	22972028.8	14.35
Long Term loans & advances	384051.85	0.27	368011.85	0.23
Current Assets				
Current investments	1150451	0.80	1150451	0.72
Inventories	49074975.36	34.02	53023808.92	33.13

Trade Receivables	49578450.05	34.37	58212161.02	36.37
Cash and cash equivalents	4429209.97	3.07	5038275.24	3.15
Short Term loans & advances	15667143.13	10.86	19276051.18	12.04
Total	144266236.2	100.00	160040788	100.00

Interpretation: The above table reveals the common-size balance sheet of Inncon for the year 2022 and 2023. The company's fixed assets got a sudden steep from 16.62% to 14.35% followed by 2022 and 2023. The company's trade receivables and cash equivalents showed a decent rise. The company's non-current is showing better results comparing to previous years but current liabilities are not performing well. Finally it can be concluded that the overall financial position of the company is satisfied.

COMPARATIVE BALANCE SHEET

COMPARATIVE BALANCE SHEET FY 2022-2023

Liabilities	2022	2023	Increase	Decrease
Sources Of Funds				
Share Holders Fund				
Total Share Capital	10500000	10500000	0	
Reserves & Surplus	14302931.38	19053010.6		4750079.2
Non-Current Liabilities				
Long Term Borrowings	19726750.11	31429112		11702362
Deferred Tax Liabilities	879837	824247	55590	
Other Long term liabilities	5603303	0	5603303	
Current Liabilities				
Short Term borrowings	48348589.78	62158870.51		13810281
Trade Payables	33062187.3	24069411.22	8992776	
Other current liabilities	9609637.66	9706136.68		96499.02
Short term provisions	2233000	2300000		67000
Total Liabilities	144,266,236.23	160,040,788.01		
Assets				
Non-Current Assets				
Fixed Assets-Tangible	23981954.87	22972028.8		1009926.1
Long Term loans & advances	384051.85	368011.85		16040
Current Assets				
Current investments	1150451	1150451	0	
Inventories	49074975.36	53023808.92	3948834	
Trade Receivables	49578450.05	58212161.02	8633711	
Cash and cash equivalents	4429209.97	5038275.24	609065.3	
Short Term loans & advances	15667143.13	19276051.18	3608908	
Total	144266236.2	160040788		

Interpretation: The above table reveals the comparative balance sheet of Inncon for the year 2022 and 2023. The company's current assets increased. The assets value faced a sudden fall this might be due to decrease in fixed assets and long term loans

FINDINGS

- ✓ The working capital statement of Inncon for the year 2022 and 2023 shows Current assets of the company an increasing trend from the year 2022-2023. Current liabilities increased from 2022 – 2023. This results in a decrease in working capital
- ✓ The current ratio in 2019 and 2020, the current asset ratio was 7.08 and 9.09 respectively. But it started decreasing in the consequent years to 1.29 in 2022, 1.39 in 2023
- ✓ The common-size balance sheet of Inncon for the year 2022 and 2023 reveals the company's fixed assets got a sudden steep from 16.62% to 14.35% followed by 2022 and 2023. The company's trade receivables and cash equivalents showed a decent rise. The company's non-current is showing better results comparing to previous years but current liabilities are not performing well. Finally it can be concluded that the overall financial position of the company is satisfied
- ✓ The comparative balance sheet of Inncon for the year 2022 and 2023 reveals the company's current assets increased. The assets value faced a sudden fall this might be due to decrease in fixed assets and long term loans

SUGGESTIONS OF THE STUDY

- After the analysis of Financial Statements, the company status is better, because the Net working capital of the company is doubled from the last year's position.
- The company profits are huge in the current year; it is better to declare the dividend to stakeholders.
- The company is utilising the fixed assets, which majorly help to the growth of the organisation. The company should maintain that perfectly.
- The company fixed deposits are raised from the inception, it gives the other income i.e., Interest on fixed deposits.
- Steps have to be taken to increase the current asset position of the firm so as to improve the liquidity position of the firm.
- Percentage of debt to equity can be reduced so as to reduce the financial risk.
- Percentage of debt in capital can be reduced so as to increase the return to stakeholders.
- Steps can be taken to reduce the current liability of the firm so as to have a stable financial position.
- Steps can be taken to increase the net profit so as to increase the overall financial performance.

CONCLUSIONS OF THE STUDY

The company's overall position is at a good position. Particularly the current year's position is well due to raise in the profit level from the last year position. It is better for the organization to diversify the funds to different sectors in the present market scenario. Inncon is showing fluctuations in its profitability position from the past 5 years, which is concluded with the financial statement analysis. The previous year assets were also increased but its working capital position was decreasing which says that the company was unable to meet its current liabilities. In this study, a sincere attempt has been made to analyze the working of Inncon making use of different financial appraisal technique like Ratio analysis, Trend analysis, Common size balance sheet analysis etc; the period of study was 5 years i.e. 2019 to 2023. The data for the study obtained from published annual report of the company. However, it is expected that the study will provide useful information for the better and easier understanding of the financial result of the company. The focus of financial position is on key figures in the financial statements and the significant relationship that exists between them the analysis of financial statements to obtain a better understanding of the firm's position and performance, financial position is the process of selection, relation and evaluation. It may show a position at a moment in time, as in the case of a balance sheet or may reveal a series of activities over a given period of time as in the case of an income statement. Financial statements are the major means through which firm present their financial situations to stock holders, creditors and the general public.

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