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Assessing the Profitable Position of LG Balakrishnan Brothers & CO (LGB) Pvt Ltd, Coimbatore

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ABSTRACT

Profitability analysis provides valuable insights into how a company's net profit is composed. It serves as an important metric that reflects the relationship between an organization's income and its expenditures. Generally, companies that operate more efficiently are able to achieve higher profits relative to their expenses, while less efficient organizations incur greater costs to generate similar profits. This type of analysis is designed to uncover detailed information about an organization's various sources of income. The present study focuses on evaluating the profitability of L.G. Balakrishnan & Bros Ltd., Coimbatore. An analytical research method has been adopted for this study, using data collected from the company's annual reports over a five-year period, from 2019–20 to 2023–24. The main tool employed in this research is Ratio Analysis. The study reveals that the ratios are derived from financial statements that are influenced by the company's internal accounting policies, especially in terms of depreciation and inventory valuation. As a result, these ratios reflect numerical data in monetary terms but may not present a complete or entirely accurate picture of the company's financial health. Moreover, they might not capture external or qualitative factors that could significantly impact performance.

Keywords: Profit, Profitability, Efficiency, Financial Management, Ratio Analysis

INTRODUCTION

PROFIT & PROFITABILITY

The terms "profit" and "profitability" are sometimes used interchangeably, but they represent distinct financial concepts. Profit is an absolute measure, indicating the total income a business earns over a specific period. In contrast, profitability is a relative measure that reflects how efficiently a business operates to generate profit. While they serve different purposes, profit and profitability are closely connected and interdependent.

Profit represents the actual financial gain, whereas profitability measures a company's ability to earn a return on the resources—such as capital and labor—employed in its operations. It indicates how effectively a company converts sales into profits.

As highlighted by Weston and Brigham, profit plays multiple roles:

- For financial managers, it reflects operational efficiency and managerial control.
- For business owners, it represents the value of their investment.
- For creditors, it provides a safety buffer.
- For governments, it serves as an indicator of taxable income and supports policymaking.
- For the economy, it signifies growth, national income, and improved standards of living.

REVIEW OF LITERATURE

Madhusudana, Dr. T. (2024). The current study examines the profitability of five significant Central Public Sector Maharathna companies—Coal India, ONGC, IOC, SAIL, and NTPC—in relation to net sales from 2012–13 to 2021–22. The profitability of the chosen companies was examined in relation to sales using a variety of methodologies, including trend analysis and ratios like the gross profit ratio, operating profit ratio, cash profit ratio, and net profit ratio. It was determined that over the study period, the chosen Maharatna Companies' trends in net sales, other income, total income, total costs, gross profit, operating profit, cash profit, and net profit varied. These companies' average growth rate was extremely low, and in few years it was negative.

During the study period, SAIL's profitability ratios were negative for a number of years. Thus, it can be said that, with the exception of Coal India, efforts should be increased to increase the efficiency of the chosen enterprises.

Lubis, Dody Suhanda et al. (2024). Islamic banks must also actively contribute to the development of societal dynamics, such as non-performing financing (NPF) and financial profitability (ROA). A financial ratio that is associated with profitability that gauges a company's capacity to produce a profit is called return on assets (ROA). Additionally, if sharia banking's NPF value declines, sharia banks will perform better. The purpose of this study is to ascertain how Indonesian Sharia Commercial Banks' profitability is impacted by non-performing financing (NPF) and the financing to deposit ratio (FDR). Panel data regression analysis examines the relationship between the independent and dependent variables using regression analysis based on panel data. In order to ensure that the estimator parameter values are impartial and legitimate, the panel data analysis approach employing the classical assumption test (Ordinary Least Square) is the analytical technique employed in this study. According to the research findings, FDR had a partial impact on the profitability of Indonesian Sharia Commercial Banks, whereas NPF had no effect at all.

Jaydeep Ramanuj and Salina Memon (2023) conducted a study focusing on selected Indian automobile companies to evaluate their liquidity and profitability performance, as well as to explore the relationship between these two financial aspects. The research involved three major companies from the automobile sector: Maruti Suzuki India Ltd., Tata Motors Ltd., and Mahindra & Mahindra Ltd. The data used in this study was obtained from the annual reports of the selected companies, covering a 10-year period from 2013–14 to 2022–23. For the purpose of analysis, the researchers employed two statistical methods: arithmetic mean and regression analysis. The findings revealed that, in terms of liquidity, Mahindra & Mahindra Ltd. showed stronger performance compared to Maruti Suzuki and Tata Motors. However, when assessing profitability, Maruti Suzuki India Ltd. outperformed the other two companies. The study ultimately concluded that there is no statistically significant relationship between liquidity ratios and profitability ratios among the selected companies.

Prathwin B. V. and Nagendra Marisetty (2023) conducted a study focusing on the profitability of India's infrastructure sector. This sector plays a vital role in driving the country's economic growth. In recent years, the Indian government has made substantial investments in infrastructure development, leading to a significant increase in the demand for infrastructure-related services. While these developments have created new opportunities for companies in the sector, they have also intensified market competition, making it more difficult for firms to maintain strong profitability. To analyze this, the study employs a panel data analysis approach, using secondary data collected from the financial reports of infrastructure companies listed on the National Stock Exchange (NSE). The financial data spans a five-year period from 2019 to 2023, and was sourced from the Moneycontrol website.

SCOPE OF THE STUDY

Analyzing L.G. Balakrishnan & Bros Ltd.'s profitability throughout five fiscal years, from 2019–20 to 2023–24, is the main goal of this study. Important financial topics are covered, including operating profit, turnover position, total profitability, and income growth rate. The results aid in determining the company's financial performance's trends, advantages, and disadvantages. Businesses may increase revenue production, improve cost efficiency, and make better financial decisions by having a better understanding of these elements. This research can be used by businesses to assess their present profit strategies and modify them for improved results. Additionally, it assists management in pinpointing areas that require budgetary enhancements. The information can be used by stakeholders and investors to evaluate the company's prospects for future growth and financial stability. Utilizing these results effectively promotes long-term success and keeps companies competitive in shifting market situations.

STATEMENT OF THE PROBLEM

Due to shifting market conditions, ineffective cost control, and inadequate financial planning, many businesses struggle to maintain a solid profitability position. Problems including growing operating costs, dwindling revenues, and inefficient resource use can lower profit margins and hinder the expansion of a corporation as a whole. Financial instability brought on by inefficient profitability management makes it challenging for businesses to maintain long-term success. Inadequate profit management also reduces prospects for future growth and undermines investor trust. Without adequate analysis, businesses might not recognize important areas for development, which could lead to ongoing financial difficulties.

LIMITATIONS OF STUDY

- The financial accounts used for analysis contained historical data, and the time value of money was not taken into account.
- The research is predicated solely on data from the 2019–20 to 2023–24 timeframe.
- Only secondary data was used in this investigation.
- period has been a constraint, making it challenging to study the several issues within the allotted period.

RESEARCH OBJECTIVES

Primary objective

- To conduct research on profitability analysis, specifically focusing on L.G. Balakrishnan & Bros Ltd. in Coimbatore.

Secondary objectives

- To research the company's profitability situation
- To assess the company's operating profit
- To evaluate the company's turnover status
- To assess the company's yearly income growth rate

RESEARCH METHODOLOGY

The conceptual framework in which research is carried out is known as the research design. A research design is a strategy that outlines the kinds and sources of data pertinent to the study question. The process of choosing which items to observe for a particular study is known as sampling design. Analytical research is used in this work. Analytical research is a particular kind of research that requires the use of critical thinking abilities as well as the assessment of data and facts in relation to the study being carried out.

ANALYSIS AND INTERPRETATION

TABLE NO: 4.1

OPERATING PROFIT RATIO

Year	Operating profit	Net sales	Ratio
2019- 2020	103.82	628.01	0.165
2020- 2021	130.65	778.14	0.167
2021- 2022	80.88	758.31	0.106
2022- 2023	100.49	575.52	0.174
2023- 2024	154.42	735.09	0.210

(Source: Secondary data)

Interpretation:

According to the following table, the operating profit ratio for 2019–2020 is 0.165. The year 2020–2021 saw an increase of 0.167. In the years 2021–2022, it dropped to 0.106. The year 2022–2023 saw an increase to 0.174. In the years 2023–2024, it rose once more to 0.210.

CHART NO: 4.1

OPERATING PROFIT RATIO

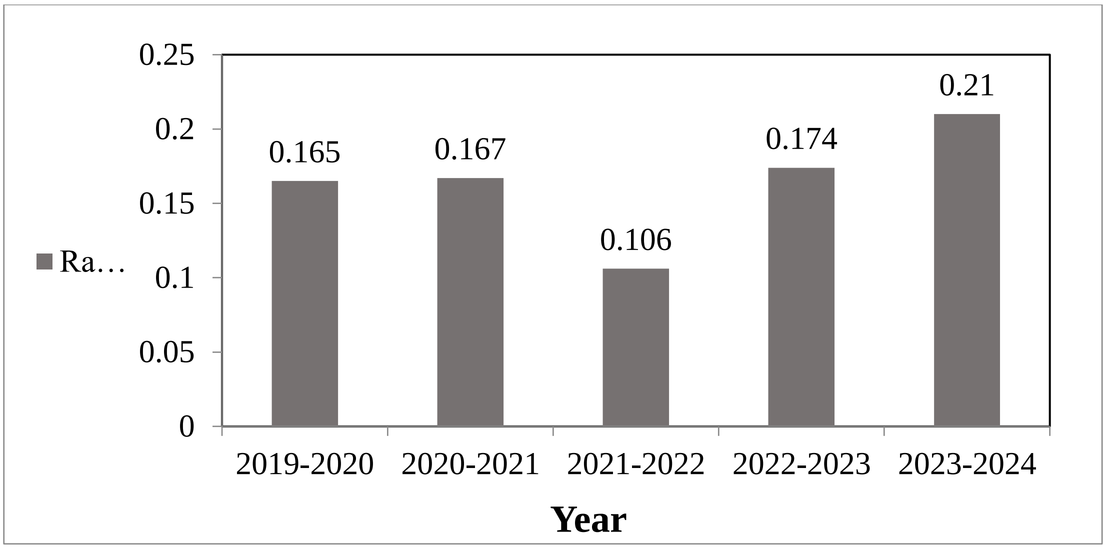


TABLE NO: 4.2

NET PROFIT RATIO

Year	Net Profit	Net sales	Ratio
2019- 2020	42.01	628.01	6.68
2020- 2021	69.77	778.14	8.96
2021- 2022	44.03	758.31	5.80
2022- 2023	38.68	575.52	6.72
2023- 2024	83.20	735.09	11.31

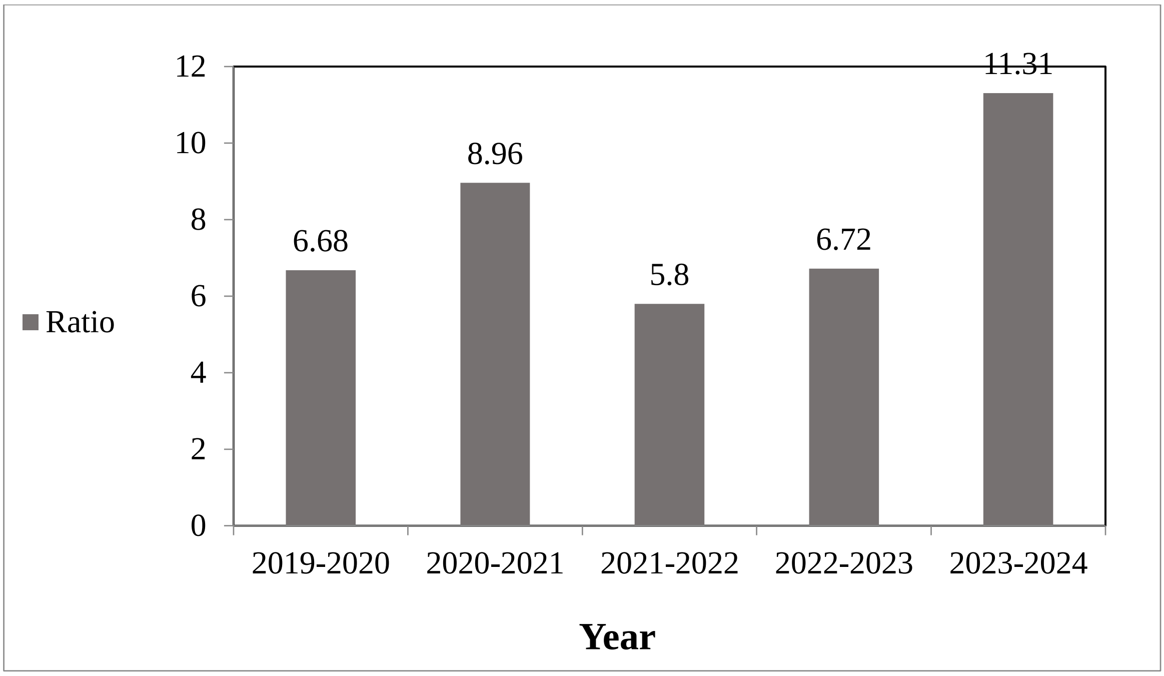
(Source: Secondary data)

Interpretation:

According to the table above, the net profit ratio for 2019–2020 is 6.68. The year 2020–2021 saw a rise of 8.96. In the years 2021–2022, it dropped to 5.80. The year 2022–2023 saw a rise of 6.72. The year 2023–2024 saw another increase to 11.31.

CHART NO: 4.2

NET PROFIT RATIO



FINDINGS

Operating Profit Ratio:

The operating profit ratio measures the percentage of net sales that remains after covering all operating expenses. It illustrates the efficiency of the company in managing its core operations. Operating profit refers to earnings before deducting interest and taxes (EBIT), while net sales encompass both credit and cash transactions.

Net Profit Ratio:

This ratio indicates the proportion of net profit to net sales and reflects the overall operational effectiveness of the business. A consistent upward trend in this ratio implies better performance, whereas a decline may suggest inefficiencies or rising costs.

SUGGESTIONS

- The company should maintain and further strengthen the strategies that have contributed positively to net profits and return on investment, as these are vital indicators of performance.
- Long-term profitability can be enhanced by streamlining operational expenses, employing strategic pricing methods, and optimizing the use of organizational resources.

- A thorough analysis of the factors that led to the decline in operating profits in the fiscal year 2021–2022 is crucial, and suitable remedial actions should be taken promptly.
- Delayed payments from clients have adversely affected the debtor turnover ratio. To accelerate collections, the firm should enforce tighter credit policies and offer discounts for early payments.
- Implementing a comprehensive sales forecasting system that accounts for seasonal fluctuations and market trends can help achieve stable and continuous growth.

CONCLUSION

The core objective of this study was to analyze the company's profitability performance from the fiscal year 2019–2020 through 2023–2024. The findings indicate that the financial ratios derived from the firm's financial statements are significantly shaped by the management's internal accounting decisions, such as depreciation policies and inventory valuation. As a result, these ratios provide limited insights and do not capture a holistic view of the company's financial standing.

Although the firm has managed to remain within the generally accepted net profit margin range of 5–10%, the trend in profitability has been inconsistent over the study period. These variations are due to fluctuations in sales volumes, changes in operational profit, and increasing administrative and operational expenses. To ensure sustainable growth, it is essential for the company to enhance both net and operating profits while minimizing overhead and operating costs. The current inefficiencies in resource management call for a reassessment of business strategies. Adjustments in cost control and sales practices will be critical for achieving improved profitability in future years.

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