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PROFITABILITY ANALYSIS

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ABSTRACT

This study aims to conduct a comprehensive *profitability analysis* of a selected business organization to evaluate its financial efficiency, sustainability, and capacity to generate earnings over time. *Profitability* is a crucial indicator of a company's operational performance and is essential for stakeholders such as investors, creditors, and management to assess the firm's ability to achieve long-term success. The research is based on *secondary data* collected from the company's audited *financial statements*, including the *income statement* and *balance sheet*, over a defined period.

To achieve this objective, the study employs various *financial ratios* and *analytical tools* such as *gross profit margin*, *net profit margin*, *operating profit margin*, *return on equity (ROE)*, and *return on assets (ROA)*. These indicators provide a clear understanding of how effectively the company utilizes its resources to generate profits. In addition, *trend analysis* and *comparative analysis* are used to examine the consistency and growth of profitability over the years.

The findings of the study reveal the strengths and weaknesses in the company's *cost control*, *revenue generation*, and *resource allocation strategies*. The analysis offers valuable insights into internal factors affecting profitability and highlights external influences such as market conditions, competition, and economic trends. Based on the results, strategic recommendations are provided to enhance *profit margins*, optimize operational efficiency, and improve *financial decision-making*. This study contributes to better financial planning and supports the organization's efforts toward achieving *sustainable growth* and *shareholder value maximization*.

Keywords: Profitability, Financial Ratios, Net Profit Margin, Return on Equity, Financial Performance, Cost Control, Income Statement, Operating Efficiency, Trend Analysis, Sustainable Growth.

INTRODUCTION

Profitability analysis is a critical financial tool that helps businesses evaluate their ability to generate earnings relative to their revenue, assets, equity, and costs. It plays a key role in determining the operational success and sustainability of a business. For a retail company like Heritage Fresh, profitability analysis is essential for understanding how effectively the company is utilizing its resources to generate profit and how it compares to industry standards and competitors.

Heritage Fresh, as a key player in the retail and grocery sector, faces constant pressure to maintain healthy profit margins amid rising operational costs and increasing competition. Profitability analysis helps the company determine its profit potential and evaluate whether its financial performance aligns with its strategic objectives.

Through the use of financial ratios such as profit margins, return on equity (ROE), and return on assets (ROA), Heritage Fresh can make informed decisions regarding pricing strategies, cost management, and expansion. Analyzing profitability trends over time also provides insights into how the company has adapted to market changes and external economic factors.

Profitability analysis is one of the fundamental aspects of financial analysis for any business. It involves assessing the company's ability to generate profits from its operations, and it provides critical insight into the financial health and sustainability of the organization. For companies like Heritage Fresh, profitability analysis is essential in evaluating whether the business is managing its resources effectively and generating returns that justify the investments made by shareholders, lenders, and other stakeholders.

In the highly competitive retail and grocery sector, maintaining healthy profit margins is not only a measure of success but also a necessity to thrive in an increasingly complex market environment. The pressure to balance cost control, price competitiveness, and operational efficiency means that Heritage Fresh must consistently focus on improving its profitability. Profitability analysis allows the company to evaluate the profitability of its core operations, assess potential risks, and identify opportunities for growth and cost optimization.

A comprehensive profitability analysis typically includes evaluating key financial ratios and metrics, such as Net Profit Margin (NPM), Gross Profit Margin (GPM), Operating Profit Margin (OPM), Return on Assets (ROA), and Return on Equity (ROE). These ratios help assess the company's capacity to generate earnings relative to its costs, assets, and equity. By continuously monitoring these indicators, Heritage Fresh can make strategic decisions, such as adjusting pricing, improving cost management, optimizing inventory turnover, and making capital investment decisions.

RESEARCH METHODOLOGY

The research methodology for this study involves a descriptive approach, focusing on the use of quantitative data derived from Heritage Fresh's financial statements. The study will primarily utilize secondary data sources to conduct the analysis.

DATA COLLECTION METHODS:

The research methodology for this study adopts a descriptive approach, focusing on the use of quantitative data to assess the profitability of Heritage Fresh. This methodology involves a thorough examination of secondary data sources, which will provide the foundational information for the analysis. The primary data sources will include Heritage Fresh's financial statements, such as the balance sheet, income statement, and cash flow statement, covering the past five years. These documents will offer critical insights into the company's financial health, enabling an assessment of profitability over time. Additionally, industry reports from reputable financial and retail sources will be used to compare Heritage Fresh's performance against industry standards and its competitors in the retail sector. Relevant publications and research papers on profitability analysis in the retail sector will also be referenced to support and contextualize the findings.

The data collected will be subjected to quantitative analysis to calculate key profitability ratios such as the gross profit margin, net profit margin, return on assets (ROA), and return on equity (ROE). These ratios will serve as indicators of how well Heritage Fresh is generating profits from its revenue and assets. A comparative analysis will also be conducted, comparing Heritage Fresh's performance with industry averages and those of key competitors, to provide a benchmark for evaluating the company's profitability. Various statistical tools such as trend analysis and financial ratio analysis will be employed to identify patterns and derive meaningful insights from the data. These tools will help draw conclusions regarding the company's financial health, operational effectiveness, and areas for improvement in terms of profitability.

In addition to these internal financial metrics, external benchmarks will play a crucial role in this study. Industry reports will be sourced from leading financial and market research firms, including sources like IBISWorld, Statista, and Euromonitor. These reports will be used to compare Heritage Fresh's profitability against broader market trends, allowing for insights into the retail sector's overall performance. Industry-specific data will be crucial for placing Heritage Fresh's financial performance within the context of broader market trends and identifying relative advantages or weaknesses. The secondary data from these sources will provide an external lens for evaluation, which will complement the company's own internal performance data.

DATA ANALYSIS

YEAR	2023	2022	2021
INCOME			
Sales Turnover (1)	834.67	672.74	239.92
Other Income (2)	29.19	29.56	18.01
Stock Adjustments(3)	52.80	9.04	19.21
Total income 4=(1+2+3)	916.66	711.34	277.14
EXPENDITURE			
(5)			
Raw materials	652.46	523.19	184.67

Excise duty	33.89	33.49	13.83
Power & fuel cost	25.56	27.87	16.75
Other Manufact uring Expenses	24.69	21.08	12.87
Employee cost	12.22	8.18	3.52
Selling & Administ ration exp	59.67	24.69	10.86
Miscellaneous exp	59.67	24.69	10.86
Less: preoperative expenditure capitalized	0	0	0
PROFIT	102.11	70.41	33.57

PROFIT AND LOSS ACCOUNT

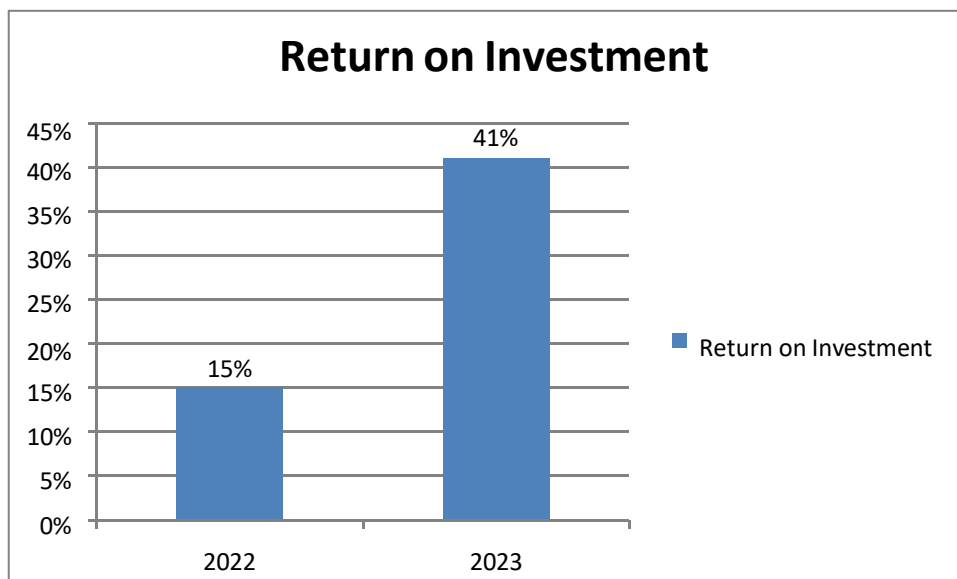
BEFORE INTEREST			
Depreciation & Tax 6=(4-5)			
Less: Interest & Financial change (7)	18.78	13.36	11.33
PROFIT BEFRE DEPR & TAX:8=(6-7)	83.33	57.05	22.24
Less: Depr (9)	8.78	8	7.07
PROFIT AFTER TAX 12=(10-11)	56.27	40.73	12.27

Adjustment below Net profit	-0.69	-7.27	0
P&L Balance carried down	38.22	18.07	091
Equity Dividend:	4.76	4.77	1.36
Preference Dividend	0	0.01	0.01
Corporate Dividend Tax	0.67	0.67	0.18
Equity Dividend (%)	20	20	10
Earnings Per share(RS)	23.35	20.03	8.21
Book Value	93.42	31.86	20.68
Extraordinary items	0.87	-0.1	-0.03

It is a very powerful tool useful for meaning performance of an organization. It concentrates on the interrelationship on the figures appearing in the balance sheet and income statements and helps the management to make the past performance and make future prediction. Ratio analysis pinpoints a business strengths and weakness in two ways, They provide an easy way to compare present performance with the past. They depict areas in which the business is competitively advantage or disadvantaged through comparison of ratios of other businesses within the same industry.

Return on Investment

YEARS	Net profit	Capital employed	Ratios
2022	93.33	593.37	15%
2023	62.41	150.83	41%

**Interpretation:**

From the above ratio it can be analyzed with the comparison of two financial years the Gross profit in the year 2022 is 15% and in the year 2023 Gross Profit was 41%.

CONCLUSION

The financial analysis of the company over the past three years indicates significant growth in revenue and profitability, demonstrating a strong market presence and operational efficiency. The company has witnessed a steady increase in sales turnover from ₹239.92 Cr in 2021 to ₹834.67 Cr in 2023, reflecting its expansion and improved market strategies. Additionally, the total income has consistently increased, signifying robust business operations. However, the net profit ratio has declined from 11% in 2022 to 9% in 2023, suggesting a need for better cost control and pricing strategies.

The liquidity position of the company has strengthened, as indicated by the improvement in the current ratio from 1.19 in 2022 to 2.02 in 2023, ensuring the company's ability to meet short-term liabilities. However, the quick ratio declined, highlighting a higher dependency on inventory rather than liquid assets, which could pose a risk in case of unexpected financial challenges. The debt-equity ratio has increased significantly from 0.73 in 2022 to 1.66 in 2023, indicating a higher reliance on external borrowings. While debt financing can be beneficial for expansion, excessive dependency on borrowed funds can lead to financial strain.

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