Causes of Sickness Relating to Profitability – A Study with Reference to Ponni Sugar (Orissa) Limited

Dr. P.Vijayalakshmi, M.Com., B.Ed., Ph.D., M.B.A.,
Assistant Professor in Commerce,
Department of Commerce, Faculty of Arts,
Annamalai University

Abstract- *Profitability of the manufacturing company is very essential to satisfy the return to the investors and to maintain liquidity of the company. The present study examines the variables which are influencing profitability of the study unit since as processing unit it is necessary to examine the operating cost and operating profit. Knowing Earnings before Interest and Tax to Interest is also necessary to identify the ability of the concern to pay interest without affecting the return to the shareholders as it affects the returns to the equity and finally leads to insolvency. The study examines the causes of sickness and closure of the study unit with reference to profitability related variables by taking the published annual data from the website of the company from 1990-91 to 2002-03 and the suggestions given in this paper may be helpful to the companies involving in processing of sugars especially in the areas relating to operational cost in future.*

Keywords- Efficiency, Operational, Profitability, Sickness.

I. INTRODUCTION

Profit making is the main objective of business. Aim of every business concern is to earn maximum profits in absolute terms and also in relative terms i.e., profit is to be maximum in terms of risks undertaken and capital employed. In the words of Lord Keynes, “profit is the engine that drives the business enterprise”. A business needs profit not only for its existence but also for expansion and diversification. The investors want an adequate return on their investments workers want higher wages, creditors want higher security for their interest and loan and so on. Profits are, thus, a useful measure of overall efficiency of a business. Profits to the management are the test of efficiency and a measurement of control; to employees, a source of fringe benefits; to government, a measure of tax-paying capacity and the basis of legislative action ;to customers, a hint to demand for better quality and price cuts; to an enterprise, less cumbersome source of finance for growth and existence and finally to the country, profit are an index of economic progress profitability ratios are calculated to measure the overall efficiency of the business. Generally, profitability ratios are calculated either in relation to sales or in relation to investment. Ability to make maximum profit from optimum utilization of resources by a business concern is termed as “Profitability”. Profit is an absolute measure of earnings capacity .Profitability depends on sales, costs and utilization of resources. Profitability analysis consists of different elements i.e., study of sales, cost of goods sold, analysis of gross margin on sales, analysis of operating expenses, operating profit and analysis of profit in relation to capital employed.

Profits are the goal of every business firm. They indicate a firm’s progress. They are the criterion to judge the effectiveness of management .From the owner’s point of view; profits measure the worth of their investment. Profits enhance the value of their ‘wealth’ in terms of shares or goodwill. Creditors and lenders are reassured by profits of a firm. They provide ‘safety net’ for them. For employees, profits imply job security, better working conditions and remuneration. For the society, Profitable firms provide stability and employment opportunities to the people.

II. RESEARCH DESIGN

The present paper analysed by the secondary data published by the sample study unit from 1990-91 to 2002-03. The data is available from the company website. It is a analytical study.

III. MARSHALLING OF DATA

The following table – 1 inferred that the Gross profit is highly fluctuating and ranging from -34.49 crores to 4.71 crores. Sales during the study period are also highly fluctuating from zero to 151.48 crores. Gross profit ratio is ranging from -34.49 per cent to 15.12 per cent. The operating profit of the study unit during the study period is highly fluctuating and ranging from -110.31 crores to 15.81 crores and the capital employed into the business is ranging from 24.86 crores to 128 crores which are reflected in overall profitability ratio ranges from -41.47 per cent to 24.86 per cent. For the last five years of the study period the investors were getting negative return on their investments.

The net profit of the study period ranges from -39.24 crores to 2.04 crores; shareholders fund ranges from -17.64 crores to 40.34 crores. Percentage of Return on shareholders' fund is also highly fluctuating even from -202.76 per cent. For the last 8 years of the study period, profit after interest and tax have only negative values. In the years 1999-00, 2001-02 and 2002-03 both shareholders' fund and profit after tax have negative values only. The net profit is ranging from 2.04 crores to -39.24 crores. The total assets invested into the business is ranging from 24.86 crores to 48.54 crores and the return on total assets ranges from -63.67 per cent to 4.94 per cent.

The operating expenses of the study unit during the study period is surprisingly noted that in all the years of the study period operating expenses are more than the net sales and ranging from 3.85 crores to 309.9 crores. Sales of the study unit range from 0 to 151.48 crores. The proportion of operating expenses to sales ranges from 184.85 per cent to 271.62 per cent. The operating profit of the study units varies from -10.31 crores to 15.81 crores. Sales is also having high fluctuations from 0 151.48 crores. The proportion of operating profit to sales varies from -116.57 per cent to 22.41 per cent.

The net profit for the first 5 years of the study period is positive and the remaining 8 years of the study period it has negative value and ranges from -39.25 crores to 2.04 crores. Sales during the study period are also highly fluctuating from zero to 151.48 crores. Net profit ratio for the first five years of the period is positive and the remaining 8 years of the study period it has negative value and ranging from -235.37 per cent to 5.06 crores.

The EBIT ranges from-12.85 crores to 12.37 crores. Fixed Interest charges paid by the company during the study period ranges from -26.4 crores to 1.74 crores. Interest Coverage Ratio lies between -447.70 times to 178 times. For the first 8 years of the study period the company was in a position to pay interest out of the profit earned before paying interest and tax and for the subsequent 5 years of the study period the company was unable to pay interest out of the EBIT. The selling and administration expenses have fluctuating trend ranging from 0.51 crores to 4.35 crores. Sales during the study period are also highly fluctuating from zero to 151.48 crores. The proportion of selling and distribution expenses to sales is ranging from 2.47 per cent to 75.91 percent.

Sales during the study period are also highly fluctuating from zero to 151.48 crores. The cash inflow of the study unit during the study period ranges from -34.49 crores to 4.19 crores. The proportion of cash inflow to sales is raging from - 154.87 per cent to 14.46 per cent.

Table – 1 Measurement of Operational Efficiency of Ponni Sugars (Orissa) Limited

Year	Gross Profit Ratio	Overall profitability ratio	Return on shareholders' funds	Return on total assets	Operating ratio	Operating Profit Ratio	Net Profit Ratio	Interest Coverage Ratio	Selling and administrative expenses ratio	Cash Profit Ratio
1990-91	15.12	22.04	9.85	4.30	187.64	22.41	5.06	178.80	6.97	14.46
1991-92	12.27	24.86	12.21	4.94	203.16	19.73	4.50	175.35	6.47	11.16
1992-93	8.96	15.47	11.65	4.09	184.85	16.53	4.50	167.93	7.45	8.32
1993-94	12.62	8.84	4.24	1.68	191.66	19.91	3.88	219.48	6.48	7.80
1994-95	8.99	7.72	2.17	0.81	224.11	16.58	1.82	173.48	6.22	5.24
1995-96	-5.44	1.82	-12.50	-4.01	192.07	3.00	-7.45	11.71	5.19	-5.44
1996-97	-2.53	6.67	-8.87	-2.60	243.66	13.09	-6.29	59.73	5.85	-2.53
1997-98	0.82	12.34	-7.91	-2.00	198.46	17.29	-3.26	82.13	4.36	0.50
1998-99	-17.04	-1.47	-88.46	-15.57	210.81	-1.69	-20.28	-31.99	3.50	-17.06
1999-00	-22.76	-8.10	236.16	-38.14	204.58	-5.34	-25.91	-48.67	2.47	-22.77
2000-01	-146.94	-16.60	-202.76	-23.69	271.62	-116.57	-166.31	-447.70	75.91	-146.95
2001-02	-154.87	-2.26	358.24	-17.76	138.98	-29.96	-235.37	-88.43	18.41	-154.87
2002-03	-	-41.47	89.73	-63.67	-	-	-	-379.69	-	-

Note: Figures are representing in percentages

Source: Computed Based on Secondary data Published by the Ponni Sugars (Orissa) Limited

IV. SUGGESTIONS AND CONCLUSION

Gross profit ratio is less than 20 per cent throughout the study period; the concern would concentrate on reducing direct cost involved in production. The company would utilize the capital employed into the business effectively in order to more profitability ratio. During the whole study period Operating expenses are higher than sales. The company did not concentrate on controlling the expenditure. The company who has taken over the company should concentrate on the expenditure part which is one of the components to maintain liquidity.

The Ponni Sugars (Orissa) Limited is launched in the year 1982 and it took sick co-operative sugar mill, Bargarh in 1991. The company spent more on direct and indirect expenses and finally it was unable to pay interest out of Earnings before Interest and Tax. Finally the debts were transferred to Ponni (Erode) Limited and Ponni's Co-operative sugar mill Bargarah was taken over by BIJAYANANDA co-operative, Bolangir. Financial Planning and working capital management and keeping the optimum capital structure are vital for avoiding sickness and closure. One company avoid sickness if they have proper financial control mechanism in every aspects cost elements, and financial structure.

REFERENCES

[1] Guptha K. Sharma.(2014) Financial Management: Theory and Practice, Kalyani Publishers: Chennai

[2] Jain S.P. K.L. Narang.(2010) Advanced Accounting, Kalyani Publishers: New Delhi

[3] Lal Jawaharlal,(2015) Advanced Management Accounting : Text, Problems and Cases, Sultan Chand and Company : New Delhi.