



An analysis of profitability position of Havells India limited from 2013-2017

¹ Dr. G Lakshmi, ² SM Sanjana, ³ S Saveetha, ⁴ S Sri Varshini

¹ Assistant Professor in Commerce, Department of B.Com (PA), PSGR Krishnammal College for Women Coimbatore, Tamil Nadu, India

²⁻⁴ III B.Com (PA) Students PSGR Krishnammal College for Women Coimbatore, Tamil Nadu, India

Abstract

The study is on an analysis of profitability position of Havells India Limited, from 2013 – 2015, which is one of the electronic manufacturing giants of India. The objective of this study is to ascertain the company's profitability for the past five years i.e. 2013 to 2017. The tool used is ratio analysis to ascertain Havells India ltd.'s profitability position. Ratio Analysis is a form of Financial Statement Analysis that is used to obtain a quick indication of a firm's financial performance in several key areas. Profitability ratios show a company's overall efficiency and performance. Profitability ratios are divided into two types: margins and returns. Ratios that show margins represent the firm's ability to translate sales into profits at various stages of measurement. Ratios that show returns represent the firm's ability to measure the overall efficiency of the firm in generating returns for its shareholders. Profitability ratios used are net profit ratio, operating profit ratio, return on asset, return on capital employed and return on equity.

Keywords: profitability, operating profit, net profit, asset, capital employed, equity

Introduction

The consumer electronics industry has witnessed a phenomenal growth over the past few years. Such drastic development of the electronic industries must be evaluated. Thus, this study is about an analysis of profitability position of Havells India Limited, one of those electronic giants. This involves financial statement analysis which deals with meaningful interpretation of financial data available in financial statements to serve specific purpose of organizations of such data for their decision making. This involves identifying the purpose and selecting suitable means of analysis. This analysis can be done through various methods. For example, trend analysis, ratio analysis, etc... The study is based on ratio analysis of Havells India ltd. Ratio Analysis is a form of Financial Statement Analysis that is used to obtain a quick indication of a firm's financial performance in several key areas. The ratios are categorized as Solvency Ratios, liquidity Ratios, Profitability Ratios, etc... in this study profitability ratios are used to analyse the profitability position.

Objective

Every study has an objective (i.e.) an aim or a purpose for the study. The objective of this study is to ascertain the chosen company's profitability position for the past five years i.e. 2013 to 2017.

Data Collected

The study was fully based on secondary data. It was collected from various websites, magazines, journals and articles.

Tools used

Tool used for analysing the profitability of the studied company is Ratio Analysis – Profitability ratios.

Review of Literature

- Ankit Shrivastav in June, 2017 has reported on Financial Analysis of Havells India Ltd. with an object to find whether Havells India ltd, a great investment for the investors. He found that the Company has seen a consistent rise in its earnings and profits, profit margins have also improved significantly. He mainly found that in 2016, Havells India is a completely debt free company. Company had significantly reduced its debt from 0.2 times in 2007 to 0.06 in 2012 and finally achieved zero debt level in 2016. This shows company is not only making good profits and is able to payback its debt, but will now be able to retain all its profits. Company has reported healthy and consistent Return on Capital employed which indicates that the company is utilizing its capital wisely.
- Rajeshsekarin February 2013 has done a report on Ratio Analysis of Vijay Electricals Limited, Hyderabad. His main objective was to evaluate the financial performance of the vijay electricals limited by calculating liquidity, leverage, turnovers and profitability ratios. They found that the overall performance of the company has been fairly good as it has turned the corner, from being a loss-making unit for past 3 years to a highly profit-making concern and also found that the turnover ratios indicates an efficient utilisation of the inventories in the past years.

Profitability Ratios

Profitability ratios show a company's overall efficiency and performance. Profitability ratios are divided into two types: margins and returns. Ratios that show margins represent the firm's ability to translate sales into profits at various stages of measurement. Ratios that show returns represent the firm's ability to measure the overall efficiency of the firm in

generating returns for its shareholders. Ratios used are:

1. Operating profit ratio
2. Net profit ratio
3. Return on asset
4. Return on capital employed
5. Return on equity

1. Operating Profit Ratio

The operating profit margin ratio indicates how much profit a company makes after paying for variable costs of production such as wages, raw materials, etc. It is also expressed as a percentage of sales and then shows the efficiency of a company controlling the costs and expenses associated with business operations. Furthermore, it is the return achieved from standard operations and does not include unique or one-time transactions. The formula for calculating is:

$$\text{Operating profit ratio} = (\text{operating profit}/ \text{net sales}) \times 100$$

Table 1: Showing Operating Profit Ratio

Years	Operating profit (in crores)	Net sales (in crores)	Ratio (in percentage)
2013	543.61	4224.99	12.9
2014	685.66	4719.69	14.5
2015	751.33	5238.69	14.34
2016	824.28	5378.32	15.33
2017	958.42	6135.26	15.6

Source: www.profit.ndtv.com

Interpretation

The ideal ratio is 20%. From the above table it can be found that the operating profit ratio was lowest in 2013(13%) representing the lowest profit. In 2017, it was (15.6%) which was the maximum profit. In 2014, 2015 and 2016, it shows the fluctuating trend. Therefore, the company has to control its operating expenses to increase its net revenue.

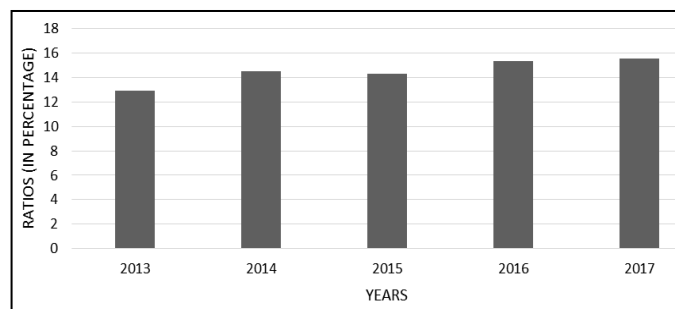


Fig 1: Showing Operating Profit Ratio

2. Net Profit Ratio

The net profit percentage is the ratio of after-tax profits to net sales. It reveals the remaining profit after all costs of production, administration, and financing have been deducted from sales, and income taxes recognized. Net profit is not an indicator of cash flows, since net profit incorporates a number of non-cash expenses, such as accrued expenses, amortization, and depreciation. The formula for the net profit ratio is to divide net profit by net sales, and then multiply by 100. The formula is:

$$\text{Net profit ratio} = (\text{Net profit}/\text{Net sales}) \times 100$$

Table 2: Showing Net Profit Ratio

Years	Net profit (in crores)	Net sales (in crores)	Ratio (in percentage)
2013	371.39	4224.99	8.8
2014	478.69	4719.69	10
2015	464.94	5238.69	8.88
2016	712.03	5378.32	13
2017	539.04	6135.26	9

Source: www.profit.ndtv.com

Interpretation

The above table shows that the net profit ratio of the company shows a fluctuating trend except in the years of 2015 and 2017. It will affect the company's financial position which indicates the inefficiency of the company to pay adequate return to the owners and also reflect the inability of the company to face the economic conditions. The net profit of the company is low and the company has to improve the net profit.

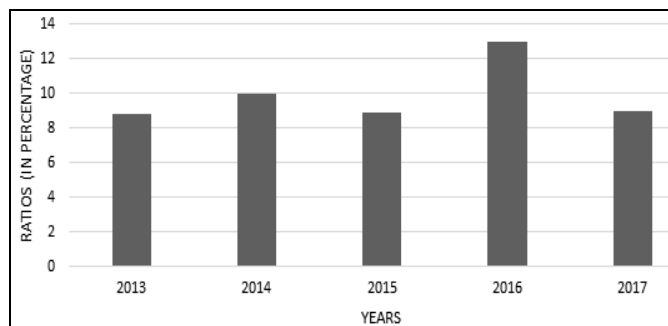


Fig 2: Showing Net Profit Ratio

3. Return on Asset Ratio

The return on assets ratio, often called the return on total assets, is a profitability ratio that measures the profits produced by total assets during a period by comparing net profits to the total assets. In other words, the return on assets ratio or ROA measures how efficiently a company can manage its assets to produce profits during a period.

$$\text{ROA} = (\text{Net Profit}/\text{Total Assets}) \times 100$$

Table 3: Showing Return on Asset Ratio

Year	Net profit (in crores)	Total assets (in crores)	Ratio (in percentage)
2013	371.39	2858.28	13
2014	478.69	3398.1	14.1
2015	464.94	3648.85	12.7
2016	712.03	4088.98	17.4
2017	539.04	4959.99	10.9

Source: www.profit.ndtv.com

Interpretation

The above table shows that the return on assets of the company shows a fluctuating trend. In 2016, it was (17.4%) which was the maximum of all the years. The ratio shows how effectively the assets are utilised for making profits. The ratio

should be higher, which indicates that the assets are utilised effectively. The company can improve the ratio.

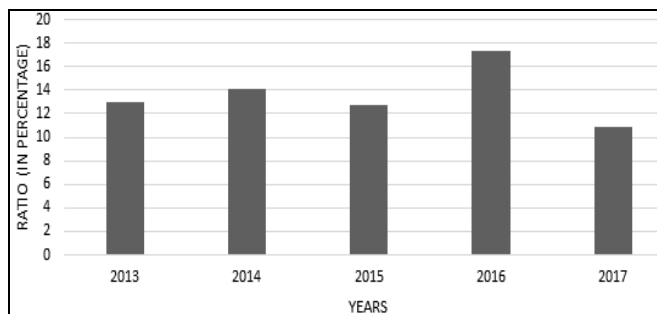


Fig 3: Showing Return on Asset Ratio

4. Return on Capital Employed

Return on capital employed (ROCE) is a profitability ratio that measures a company's profitability and the efficiency with which its capital is employed. ROCE is a useful metric for comparing profitability across companies based on the amount of capital they use. There are two metrics required to calculate the Return on Capital Employed - earnings before interest and tax and capital employed. Earnings before interest and tax (EBIT), also known as operating income. ROCE is calculated as:

$$ROCE = \frac{\text{Earnings before Interest and Tax (EBIT)}}{\text{Capital Employed} \times 100}$$

Capital employed = total assets – current liabilities

Table 4: Showing Return on Capital Employed

Year	Ebit (in crores)	Capital employed (in crores)	Ratio (in percentage)
2013	485.73	2075.79	23.4
2014	622.03	2367.23	26.2
2015	663.82	2467.03	27
2016	921.76	3048.66	30.2
2017	780.98	3400.99	23

Source: www.profit.ndtv.com

Interpretation

The above table shows that the return on capital employed of the company was lowest in 2017 (23%) because of increase in capital employed. In all the years that is from 2013-2016 it shows an increasing trend indicating that the company generates more earnings of capital employed and thus having higher profitability. A higher ratio would be more favourable because it means that more profit is generated by capital employed. During the studied years 2016 has highest ROCE (30.2%)

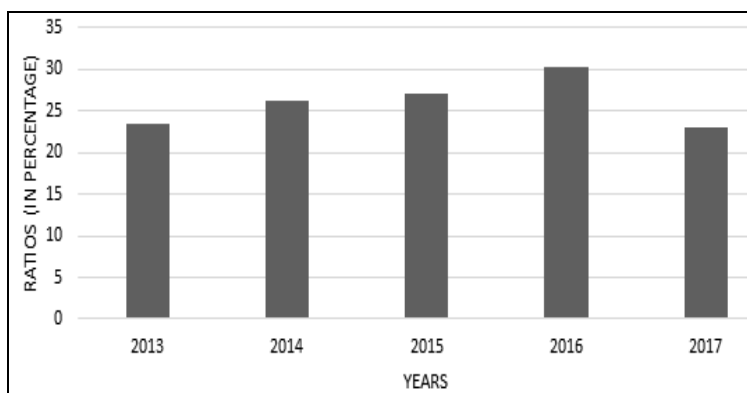


Fig 4: Showing Return on Capital Employed

5. Return on Equity

Return on equity (ROE) is the amount of net profit returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. Net profits is for the full fiscal year (before

dividends paid to common stock holders but after dividends to preferred stock.) Shareholder's funds do not include preferred shares. Also known as "return on net worth" (RONW). ROE is expressed as a percentage and calculated as:

$$\text{Return on Equity} = \text{Net Profits} / \text{Shareholder's Funds} \times 100$$

Table 5: Showing Return on Equity

Year	Net profit (in crores)	Shareholders fund (in crores)	Ratios (in percentage)
2013	371.39	1870.22	19.86
2014	478.69	2129.85	22.48
2015	464.94	2375.79	19.6
2016	712.03	2953.67	24
2017	539.04	3273.58	16.5

Source: www.profit.ndtv.com

Interpretation

The above table shows that the return on equity of the

company was lowest in 2017 (17%) representing the lowest profit. In 2016, it was (24%) which was the maximum profit.

In 2013, 2014 and 2015, it shows the fluctuating trend. It implies that the net worth has been used less to generate return to shareholders. This is an important measurement for potential investors because they want to see how efficiently a company will use their money to generate net income.

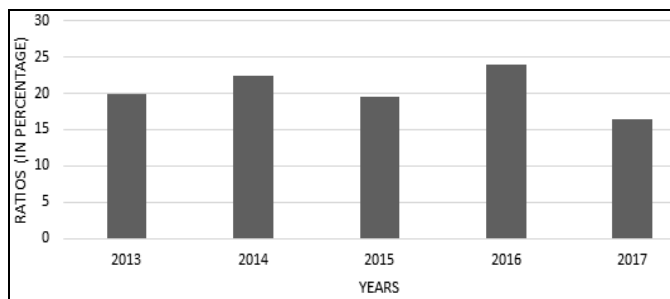


Fig 5: Showing Return on Equity

Findings

- Operating profit shows a fluctuating trend. It is lesser than the ideal ratio. So, the company has to take measure to improve the operating profit.
- When the net profit ratio of the studied company is analysed, it is much lesser. The company has to control the operating expenses which will improve the net profit.
- The return on asset ratio shows that the ratio is not satisfactory higher ratio implies that the asset is effectively utilised.
- Return on capital employed is higher only in the year 2016. A higher ratio shows a favourable condition. It indicates the capital employed is effectively utilised. The company can improve the ratio.
- Return on equity shows that the shareholders' funds are less utilised to generate return to shareholders.

Suggestion

- The company can control its operating expenses to increase its net revenue which in turn would increase their operating and net profit.
- The company should utilise the assets and capital employed to increase the return to shareholders.

Conclusion

This project, "An analysis of Profitability Position of Havells India Limited" using profitability ratios give a brief knowledge and experience of how to analyse the profitability position of the firm. On a final note, it is concluded that Havells India Limited has a decent profitability position. Still then, there is enough room for improvement and further strengthening of its profitability position.

Reference

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