

A Study on Profitability Analysis of Britannia Industries Ltd

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Abstract

Profitability is a sign that business has reached a certain level of competence. Profitability is the profit earning capacity which is a crucial factor contributing for the survival of the firms. The profitability level should maintain at increasing level in order to avoid this problem. A variety of Profitability Ratios can be used to assess the financial health of a Britannia Industries Ltd. And can be tracked over a period of years to identify emerging problems. The study is analytical in nature. The data used for the study is secondary data. The required data for the Britannia Ltd. was collected from the Annual Reports of the company from the period 2008-09 to 2012-13. In this paper, researcher has done the profitability analysis in two ways viz., i) Profit margin ratios, example Gross Profit ratio, Net Profit ratio, operating profit ratio ii) Rate of return ratios example Return on capital employed, Return on net worth and Earning per share. Former ratios show the relationship between profit and sales later indicates relationship between profit and investment. She has found profitability position of Britannia Industries Ltd. is very good it is evidently proved through ratios and correlation analysis.

Key words: Correlation, Gross Profit, Net Profit, Net Sales, Profitability, and Return on Total Assets.

Introduction

Profitability is the primary goal of all business. It is applicable to biscuits industry also. The term profitability comprises of two terms viz, profit and ability. The most important part of profitability is not the profit – it is the ‘ability’. Profit means it is difference between revenues and expenses of the organization. Ability indicates that organization level of ability to earn profit. Profit magnifies the value of the asset base because it shows some current (and presumably future) income. Increasing profitability is one of the most important tasks of the business managers. So measuring current and past profitability and projecting future profitability is very important.

Literature Reviews

Narware (2004) in his empirical study envisaged that the assess the impact of working capital on profitability, the combine effect of the ratios relating to working capital management and profitability and determination the working capital leverage in National Fertilizer Limited for the period ten years from 1991 to 2000. This study concluded that working capital management and profitability has both the negative and positive association, three ratios registered negative correlation with profitability ratio, ROI and in working capital leverage increase in the profitability of the company was less than proportion to decrease in working capital.

Sanjay J. Bhayani (2004) in his study made an attempt to examine the empirical study of Gujarat Ambuja Cements Limited a cement producing enterprise

in Gujarat for assessing the impact of working capital on its profitability during the period from 1993-94 to 2002-03. The results of the study showed that the working capital leverage of the company recorded a fluctuating trend during the period under study. It ranged between 0.04 in the year 1999-2000 and 0.24 in the year 1994 -1995. The working capital leverage was always less than unity. Hence, the increase in the profitability of the company was less than the proportion to decrease in working capital. The study suggested that there may be a negative relationship between working capital and profitability.

T. Venkatesan and DR. S. K. Nagarajan (2012) in their study examined profitability analysis of selected steel companies in India during the period from 2005-06 to 2010-11. It is cleared from that profitability more or less depends upon the better utilization of resources, cutoff expenses and quality of management function in the products, customer services and to manpower and goodwill and market share. It is worthwhile to increase production capacity and use advance technology to cut down cost of production and wage cost in order to increase profitability, not only against the investment, but also for investor's return point of view.

Camelia Burja (2011) in his study found out the Factors Influencing the Companies' Profitability. The results of the study showed a strong dependent relationship between company performance and how the available resources are managed. For performance indicator Return on assets was one of the influencing factors that can contribute to increasing or lowering of the profitability of the company.

Ioannis Lazaridis and Dimitrios Tryfonidis (2006) investigated the relationship of corporate profitability and working capital management. The purpose of this study was to establish a relationship that is statistically significant between profitability, the cash conversion cycle and its components for listed firms in the Athens Stock Exchange. The results of the study showed that there was statistical significance between profitability, measured through gross operating profit, and the cash conversion cycle. The study concluded that managers can create profits for their companies by handling correctly the cash conversion cycle and keeping each different component (account receivables, accounts payables and inventory) to an optimum level.

Sanjay J.Bhayani (2006) made an attempt to study the impact assets utilization on profitability of Indian Industry. For the purpose of study 24 Indian Industry has been selected which comprises 641 Indian firms. The results of the study indicate that fixed assets turnover and profitability has shown a positive relationship. So, it indicates that high fixed assets turnover higher profitability. Further, the results of analysis of multiple determinations make it clear that 40.70 percent of total variation in the corporate profitability was accounted for by the joint variation in the efficiency of inventory and receivable management.

Research gap

It is obvious that all these studies have attempted to examine the importance of liquidity position and impact of liquidity on profitability of the companies. None of these studies has, however made any effort to analyze the impact of profit on sales and profit on investment by using correlation analysis. Hence, the researcher

identified this area as research gap and the present study is therefore focused on highlighting the above said aspect.

Indian Biscuit Industry

Indian Biscuit Industry gained vital place in the national baker during the end of the 20th century this was the time when urban people was ready to take readymade food. Earlier days, biscuits were for people who were ill, but recent days it is one of the liked fast food. Its popularity has grown because it can be carried easily and offered a wide variety of tastes. India is also one of the leading producers of biscuits in the world along with the US and China. Nowadays the biscuit industries contribute approximately 33 percent of the total production of the bakery industry. The Indian biscuit Industry has a yearly production of almost 3000 crores and is the biggest among all the food based industries operating in the country.

Parle, Anmol, Britannia, Priya gold, Horlicks, Cremica, Biskfarm, Rose, Sobisca, Sunfeast, Dukes and Nezone are top biscuits brands in India. Britannia is one of the biggest brands in India and also the leading food related brand. Forbs Global has rated it as one of the top 200 companies of tge world and also the second most trusted brand in India.

Profile of Britannia Industries Ltd

Britannia Industries Limited is an Indian food-products corporation based in Kolkata. . The company was established in the year1892, with an investment of Rs.295. In earlier stage, the company was manufactured biscuits in a small house in central Kolkata. Later, the enterprise was acquired by the Gupta brothers mainly Nalin Chandra Gupta, a renowned attorney, and operated under the name of "V.S. Brothers." In 1918, C.H. Holmes, an English businessman in Kolkata, was taken on as a partner and The Britannia Biscuit Company Limited was launched. In 1924 the Mumbai factory was set up and Peek Freans UK acquired a controlling interest of The Britannia Biscuit Company Limited. During World War II, the very big demand for biscuits which gave a boost to the company's sales. In 1979 the company name was changed as "Britannia Industries Limited".

At presentMr. Nusil Wadia is chairman and Mr. Varun Berry, is Managing Director of Brintannia Industries Ltd. Britannia Industries Limited has an production capacity of 433,000 tonnes per year. The brand names of biscuits include Marie Gold VitaMarieGold, Tiger, Nutrichoic 5 grains, Nutrichoic sugar out, Nutrichoic digestive biscuit, Treat Fruit Rollz, Nutrichoic Raagi cookies, Nutrichoic Oat cookies, Good day, 50-50 Maska-Chaska, 50-50,Treat, Pure Magic, Milk Bikis, Bourbon, Thin Arrowroot, Nice, Little Hearts and many more.

Objectives of the Study

1. To analyze the profile of Britannia Ltd.
2. To evaluate the profit margins in relation to sales.
3. To examine the profitability in relation to investment

Period of the Study

The period of the study selected only five years from 2008-09 to 2012-13.

Methodology

The study is analytical in nature. The data used for the study is secondary data. The required data for the Britannia Ltd. was collected from the Annual Reports of the company from 2008-09 to 2012-13. Some of the data collected from journals, websites, books etc. Editing, classification and tabulation of the financial data, which will be collected from the above-mentioned sources, will be done as per the requirements of the study.

Financial and Statistical Tools

Ratio analysis is used to evaluate the profitability position of the Britannia Industries Ltd. Mean, standard deviation and co-variance are employed to identify the best performance of the company in the different financial years. For assessing the impact of profitability ratios on net sales and investment of the Britannia Ltd., Karl Pearson's correlation is used and to find out core relationship between the variables.

Limitations of the Study

The data used in this study have been taken only from secondary sources and as such its findings depend entirely on the accuracy of such data.

Findings of the Study

This section presents the results of the profitability ratios and discussion based on them. The financial ratios like gross profit margin, net profit margin, operating profit margin, earning per share, ROCE, ROTA, and RONW were used and find core relationship between them by using correlation analysis.

Gross Profit Ratio of Britannia Industries Ltd

TABLE NO.1

Year	Gross Profit	Net Sales	GPR (in %)
2008-09	816.95	3421.40	23.88
2009-10	846.51	3772.70	22.44
2010-11	1023.17	4606.87	22.21
2011-12	1268.05	5477.10	23.15
2012-13	1548.46	6185.15	25.04
Mean	1100.63	4692.64	23.34
S.D	308.07	1152.46	1.15
C.V	-792.56	-3540.18	0.05
Source: Compiled from the Annual Reports			

Table No. 1 presents the results of the Gross profit ratio and discussion based on that. Gross profit ratio measures the relationship of gross profit and net sales. Higher ratio is better. It depicts that ratios increasing trend except in the year 2009-10 and 2010-11. The table 1 highlights that the highest GPR was observed for the year 2012-13(25.04 percent), and lowest GPR percent was

observed for the year 2010-11(22.21 percent). The average GPR of Britannia Industries Ltd was 23.34per cent and a standard deviation of 1.15 was observed. The highest ratio indicates an increase in the selling price of the goods sold without any corresponding increase in the cost of the goods sold. From the table 1, it can be inferred that the ratio increased over a period of time. It shows the good progress of the company.

Net Profit Ratio of Britannia Industries Ltd

TABLE NO.2

Year	Net Profit	Net Sales	NPR (in %)
2008-09	143.24	3421.40	4.19
2009-10	103.10	3772.70	2.73
2010-11	134.20	4606.87	2.91
2011-12	199.73	5477.10	3.65
2012-13	259.88	6185.15	4.20
Mean	168.03	4692.64	3.54
S.D	62.08	1152.46	0.69
C.V	0.37	0.25	0.20
Source: Compiled from the Annual Reports			

Net profit ratio is also called profit margin. Higher the ratio indicates that operational efficiency of the concern. It can be observed from the Table No. 2 that the net profit ratio of the Britannia Industries Ltd. shows increasing trend during the study period. The lowest NPR percent was observed in the year 2009-10, where it was 2.73 per cent, and the highest value was observed during the year 2012-13, when it was 4.20 per cent. The average NPR stood at 3.54 per cent. The coefficient of variation was 0.20 percent. It showed good performance of the company during the study period.

Operating Profit Ratio of Britannia Industries Ltd**TABLE NO.3**

Year	Operating Profit	Net Sales	OPR (in %)
2008-09	238.49	3421.40	6.97
2009-10	165.69	3772.70	4.39
2010-11	239.12	4606.87	5.19
2011-12	305.05	5477.10	5.57
2012-13	420.64	6185.15	6.80
Mean	273.80	4692.64	5.78
S.D	95.75	1152.46	1.09
C.V	-178.04	-3540.18	0.19
Source: Compiled from the Annual Reports			

The Operating Profit margin of Britannia Industries Ltd. is exhibited in the Table No. 3. The Operating profit ratio of Britannia Industries Ltd. showed progressive trend except in the year 2009-10. For the period from 2008-09 to 2013-13, the lowest ratio 4.39 was observed in the year 2009-1, and the highest ratio 6.97 was evidenced in the year 2008-09. The co-efficient of variance was 0.19 percent. The Mean value of operating profit ratio was 5.78 percent during the study period.

Return on total assets of britannia industries ltd**TABLE NO.4**

Year	Profit After Tax	Total Assets	ROTA (in %)
2008-09	143.24	995.40	14.39
2009-10	103.10	941.93	10.95
2010-11	134.20	946.96	14.17
2011-12	199.73	590.07	33.85
2012-13	259.88	901.48	28.83
Mean	168.03	875.17	20.44
S.D	62.08	162.82	10.20
C.V	0.37	-712.35	0.50
Source: Compiled from the Annual Reports			

Table 4 provides the results of return on total assets. The highest value of ROTA was 33.85 per cent, and least value was about 10.95 and the mean value was observed at about 20.44 and co-efficient of variation was 0.50 per cent. The total assets decreased in the middle of the study period but PAT increased gradually except in the year 2009-10. Hence the ROTA showed a fluctuating trend over the study period.

Earnings per Share, Roce of Britannia Industries Ltd**TABLE NO.5**

Year	EPS (Rs)	RONW (%)	ROCE (%)
2008-09	59.96	19.86	30.20
2009-10	43.16	36.46	20.57
2010-11	11.23	41.16	31.40
2011-12	16.72	48.81	69.59
2012-13	21.74	46.58	71.62
Mean	30.56	38.57	44.68
S.D	20.41	11.52	24.05
C.V	0.67	0.30	0.53
Source: Compiled from the Annual Reports			

Table No. 5 shows the profitability ratios of Britannia Industries Ltd. during the study period. It could be observed that fluctuated during the study period. The mean value of EPS was 30.56, and the co-efficient of variation was 0.67 per cent, which shows that the highest variation was observed in the study period. The minimum value of EPS was 11.23 per cent, observed in the year 2010-11 and the maximum value of EPS (59.96 per cent) was attained in the year 2008-09.

RONW could be observed from the table 9 that the return on net worth ratio increased from 19.86 percent to 48.81 percent. The average RONW was evidenced to be 38.57 and during the study period the last three years attained the above average. A low co-efficient of variation was observed during the study period. The ROCE of Britannia Industries Ltd. was registered increasing trend during the study period except in the year 2009-10. The latest years 2011-12 and 2012-13 the company attained the above average.

Analysis of Karl Pearson’s Co-Efficient of Correlation

Table No. 6 indicates that results of Karl Pearson co-efficient of correlation between the Gross Profit and Net Sales, Net Profit and Net Sales, Operating Profit and Net Sales, Total assets and Net Sales and Net worth and Net Sales. The Karl Pearson co-efficient of correlation were used to test core relationship between two variables.

Correlation Results

TABLE NO. 6

Particulars	r Value	Results
Gross Profit and Net Sales	0.986	Positive (High)
Net Profit and Net Sales	0.894	Positive (High)
Operating Profit and Net Sales	0.885	Positive (High)
Total assets and Net Sales	-0.539	Negative (medium)
Net worth and Net Sales	-0.661	Negative (medium)
Source: Compiled from the Annual Reports		

There is high positive relationship between gross profit and net sales

There is high positive relationship between net profit and net sales

There is high positive relationship between operating profit and net sales

There is negative relationship between total assets and Net Sales

There is negative relationship between net worth and Net sales

Conclusion

From the above analysis of gross profit ratio of Britannia industries Ltd. was good. Normally 25 to 30 per cent may be considered good. In the year 2012-13 the company’s gross profit has reached 25 per cent. Britannia industries Ltd. Net profit ratio was also very good and showed increasing trend. It is an indicative of the

company ability to operate the business with sufficient success not only to recover from the revenues of the period but also to leave a margin of reasonable compensation to the owners for providing their capital at risk.

Operating ratio of Britannia industries Ltd. was good and have showed increasing trend. Moreover it is evidently proved through correlation analysis, which indicates gross profit, net profit and operating profits are positive relationship with net sales. Earnings per share of Britannia Industries Ltd. is good because it highlights overall success of the business. Return on capital employed of Britannia Industries Ltd. shows increasing trend, which reflects that high operational and managerial efficiency

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