CHAPTER VI

PROFITABILITY ANALYSIS
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Profitability Analysis

The principal motivating force behind conducting a business is profit. Therefore, the question of determination of profit is of great importance. Profit is the main and ultimate aim of every business. The true profit of a concern not only affects its proprietors but also the income-tax authorities, managers, directors, etc. who are to be paid a percentage of net profit. Therefore, the question is: What is profit? Law has not defined the word profit. Even the accountants do not have one view on this matter. In accounting, profit is the difference between total revenue and total expenses over a period of time. It is the barometer of the success of the business. Lord Keynes remarked that profit is the engine that drives the business enterprise. It is indeed a magic eye that mirrors all aspects of business operations including the quality of output.

The survival of business depends upon its earning capacity. Thus, if an enterprise fails to make profit, capital invested is eroded and if this situation prolongs, the enterprise ultimately ceases to exist.

Profit is a signal for the allocation of resources and a yardstick for judging managerial efficiency. Profits are essential means for reaching wider economic and social...
objectives. The profit of a business may be measured by studying the profitability of investment in it.

The concept profitability means the profit earning ability of an enterprise and the capacity of management to generate surplus in the process of business operations.

This term is a combination of two words i.e. profit and ability. Profit is the difference between revenue and expenses during a period of time and ability reflects the power of the enterprise to earn the profits. Thus, profitability may be defined as the ability of given investment to earn a return from its use. This ability is also referred to as 'earning power' or 'operating performance' of the concerned investment. However, profitability is not a condition that exists and it can be measured only for a limited period of time. It is a variable thing like the temperature of human body.

Profitability is distinguished from profits. Profit is related to absolute figure, it does not tell about the reason, scatteredness and how it takes place or the relationship of this figure with another one. These questions can be answered by looking into the profitability of an entity. Because profitability is a relative term and its measurements can be achieved by profit and its relation with other objects by which
the profit is affected. As observed by Goodman "The Accounting concept of profit measure what have been accumulated the analytical concept of profitability is concerned with future accumulation of wealth." ¹

Analysis Of Profitability:

An analysis of profitability reveals as to how the position of the profit stands as a result of total transactions during a year. The importance of profitability analysis has further been exaggerated in recent years because it helps in critically analysing and interpreting the current and prospective earning capacity of business corporations. This analysis becomes more important for both within and outside the business. The indices of profits are considered as reliable indicators of operational efficiency and organisational effectiveness of the firm in utilising its resources to earn satisfactory earnings.

Profitability analysis is internal as well as external. It is internal because it relates to the analysis to the internal working and operation of a concern over a sufficiently long period. Whereas external because it helps the external users, viz. stockholders, bond-holders, creditors, etc. of accounting information pertaining to a particular business concern in measuring its economic health by its earnings.
Profitability is 'positive if the business operations during a given accounting period result in creating a surplus thus, adding to the net worth of original investment made by the owners. As opposed to this, if the business operations result in a reduction of the owners original investment, profitability will be 'negative' for which it would be more appropriate to use the word 'unprofitability' which, if allowed to persist, would gradually consume the funds originally committed. If the funds originally committed to the business by the owners do not reveal any change during the accounting period, Profitability will be zero i.e. a state where there would be neither profit nor loss.

Measurement of Profitability:

Several relationships between different type of investments and income have been established by the accountants to measure profitability of the investments. Relationship of profit to various items of profit and loss statement can be established with the help of common size percent on one hand and the ratio of profit to its various investment segments on the other hand.

The profitability of an undertaking may be measured by means of different techniques. But ratio technique is one of the best and most understandable technique to measure the
"Profitability ratios are of two types, those showing profitability in relation to sales and those showing profitability on relation to investment."²

Profitability can be judged from different points of view such as:

(i) In relation to sales.
(ii) In relation to assets.
(iii) In relation to capital employed.

i) Profitability in relation to sales:

This ratio shows profit margin on sales in which management and shareholders are very much interested. Consumers and prospective purchasers are influenced by this ratio. If sales lack a sufficient margin of profit, it is difficult for the firm to cover its fixed costs, fixed charges on debt, and to earn a profit for shareholders.

ii) Profitability in relation to assets:

It is very important that profit be compared to the capital invested by owners and creditors. If a firm can not
produce satisfactory profit on its assets base, it may be
misusing the assets. Profitability as related to assets can be
studied through the following ratios:

a) Ratio of operating profits to operating assets:
   This ratio shows the earnings from assets independently of the source of funds invested in them. The profitability of operating assets depends upon two factors:
   (i) The extent to which fixed assets are being utilised.
   (ii) The speed with which current assets circulate.

b) The profit margin realised on sales:
   This ratio shows the earning power of the operating assets and, on this, the decision of the management regarding further investment depends. An investor can judge the company's future prospects by taking into consideration the earning capacity of its operating assets.

c) Ratio of net profits to total assets:
   This ratio is calculated in terms of net profit as percentage of total assets. Total assets means all assets as shown on the assets side of a balance sheet including fictitious assets. Net profit includes all profits including operating
profits and non-operating profits. This ratio shows the earning capacity of a business.

(ii) Profitability in relation to capital employed:

Return on investment is essentially a measure of finance. It is a quantitative goal that is rooted in accounting statistics. According to J. Batty, "This ratio is calculated in terms of net operating profit as a percentage of capital employed. Capital employed is used to describe the investment made in business."

Gross Profit Ratio

This ratio expresses the relationship of gross profit to net sales in terms of percentage. The determinations of this ratio are the gross profit and sales, which means net sales, obtained after deducting the value of goods returned by the customers from total sales. This ratio is of vital importance for gauging business results. A low gross profit ratio will suggest decline in business which may be due to insufficient sales, higher cost of production with the existing or reduced selling price or the all inefficient management. The financial manager must be able to detect the causes of falling gross profit ratio and initiate action to improve the situation.
Table 6.1
Gross Profit to Sales Ratio
(From 1981 to 1992) (in Percentage)

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Overall Average: 15.78

Source: Computed from appendices 2.1 to 2.10

Note: Figures in parentheses indicate negative ratio for the year.
A high gross profit ratio is a sign of good and effective management. It is calculated as follows:

\[
\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100
\]

Table 6.1 shows the gross profit ratio of seven corporations during the period under study. In case of remaining three corporations namely HFC, HWC and HSIDC the ratio could not be calculated due to non-availability of gross profit figures.

HSSI & EC:

The table shows that in HSSI & EC gross profit ratio has been showing fluctuating trend throughout the period. It varied between 44.0 percent and 63.0 percent with overall mean value 54.5 percent and C.V. .111. The overall performance on this ratio may be termed as not very encouraging.

HSMITC:

The table highlights that the gross profit ratio in the corporation varied between 28.6 percent and 49.52 percent. The overall mean value comes to 38.4 percent and C.V. .17. Thus, the overall position on gross margin has been relatively better.
In case of this corporation too, the gross profit ratio made considerable ups and downs and over the time registered a decline. It varied between 15.92 percent and 70.91 percent. The overall mean value comes to 46.73 percent and C.V. .47.

HSEDC :-

The gross profit ratio of the corporation during the period experienced the highest fluctuations. It varied between -34.61 percent and 18.75 percent. The overall mean value for the ratio comes to 2.10 percent with C.V. 6.42.

The above analysis leads to the conclusion that gross margin position in most of the corporations is not very encouraging. Only three corporations namely HSMITC, HLRDC and HML have the adequate level of gross profits ratio while other were not able to maintain consistency on this front. The average for all the corporations comes to 15.78 percent.

Operating Ratio :

The conduct of activity of an enterprise is selected to the efficiency of conducting business operations. The efficiency of the conduct of activity depends upon the capacity to keep the operating cost at minimum possible level. An efficient conduct of business operations requires that expenses should always be kept at the minimum so that they may also remain below revenue
resulting in profits thereby.

The operating ratio is an index of the efficiency of the conduct of business operations. An analysis of operating ratio, to judge the operating efficiency of the enterprise, requires a study of the main components of operating ratio.

Operating ratio matches cost of goods sold plus other operating expenses with net sales. This ratio is closely related to the ratio of operating profit to net sales which can be obtained by subtracting the operating ratio from 100. A comparison of the operating ratio would indicate whether the cost content is high or low in the figures of sales. If the annual comparison shows that the cost content of the sales has increased and concerned to know as to which element of the cost has gone up. It is not necessary that the management should be concerned to know as to which element of the cost has gone up. It is not necessary that the management should be concerned only when the operating ratio goes up.

A dynamic and successful management should also be interested in making a fuller analysis if the operating ratio has fallen. An increasing trend of the ratio denotes inefficiency while a declining trend shows efficiency in the conduct of business operation.
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Overall Average: 82.46

Source: Compiled from appendices 2.1 to 2.10
An ideal norm for this ratio is between 75 percent to 85 percent in a manufacturing concern. It can be computed as:

\[
\text{Operating Ratio} = \frac{\text{Cost of Goods sold} + \text{operating exp.}}{\text{Net sales}} \times 100
\]

The table 6.2 shows the operating ratio in seven corporations during the period under study. The remaining three corporations i.e. HFC, HWC and HSIDC are non-manufacturing corporations and due to non-availability of data, the ratio could not be computed.

**Operating Ratio**

**HSSI & EC:**

The table shows that in the corporation, the ratio has been showing fluctuating trend throughout the period under study. It varied between 95.61 percent and 103 percent with overall mean value 98.88 percent and C.V. .024. Thus, the corporation due to high operating costs has not been able to produce sufficient operating profits.

**HSMITC:**

The operating ratio of the corporation experienced ups and downs during the whole period. It fluctuates between 70.06
percent and 84.10 percent with overall mean value 77.10 percent and C.V. .062. Thus, the corporation's overall operating position may be said relatively better.

HAIC :-

The operating ratio of the corporation too have fluctuated throughout the period under study. It varied between 86.13 percent and 116.52 percent with overall mean value 104.15 percent and C.V. .112. On an average, the operating cost has been more than the revenue resulting into operating losses.

HLRDC :-

The table highlights that the ratio of the corporation registered considerable ups and downs during the period under review. It varied between 68.32 percent and 97.98 percent with overall mean value 83.12 percent and C.V. .126. The corporation has low efficiency on operating fronts.

HSDC :-

The table depicts that the ratio of the corporation has been fluctuating throughout the study period. It varied between 87.10 percent and 112.91 percent with overall mean value 98.32 percent and C.V. .083. Again, this corporation has not been able to exhibit any operating efficiency by earning operating profits.
In case of this corporation too, the operating ratio made considerable ups and downs over the period. The ratio varied between 68.34 percent and 99.20 percent with overall mean value 89.20 percent and C.V. 0.109. The operating cost has increased over the period.

HSEDC:

In this corporation the overall mean for the ratio comes to as high as 274.64 percent with C.V. 2.34. The operating position has been far from satisfactory.

On the whole it may be said that operating efficiency has been very low among all the corporations. The overall mean for all the corporations of this ratio comes to 82.46 percent.

Turnover ratios:

Some turnover ratios are being used to determine the profitability/efficiency of various groups of assets separately such as fixed assets, current assets, stock and total assets. There are three such ratios which have been used here for the purpose. These include fixed assets turnover, current assets turnover and stock turnover. All these ratios have already been discussed and their values have been given in table 4.2, table 5.2 and appendix 5( ) respectively. Here, only analysis of
these ratios from the point of ascertaining efficiency in their use is being given. Corporation-wise discussion of the turnover ratios runs as under:

HFC:

In case of HFC because of low fixed assets base, the fixed assets turnover ratio comes as high as 42.16 times. On the other hand, current assets turnover ratio has not been calculated because of non-availability of stock figure. Thus, the current assets ratio has been low in the corporation.

HSSI & EC:

The fixed assets turnover of the corporation has been, on an average, 23.88 and C.V. values .51. The current assets turnover ratio has been 3.45 times and stock turnover 9.31 times on an average. All the ratios reflect on relatively better utilisation of all the assets.

HWC:

On an average turnover ratio of all the assets have been very low throughout the period. Low fixed assets turnover ratio revealed that the more current assets have been blocked in the form of inventory. These ratio indicate that existing sales level do not largely justify these investments and the
The corporation has the lowest current assets turnover ratio. This indicates the corporation has a low sales volume in relation to current assets. The fixed turnover ratio has also been low. The inventory turnover ratio cannot be calculated due to non-availability of figures. Actually, the corporation is a financing institution so there is no component of inventory.

In case of HSMITC, the fixed assets turnover ratio indicates that the fixed assets have not been utilised efficiently throughout the period. The low current assets turnover ratio indicates that the current assets are not efficiently used. Stock turnover ratio is highest among all the corporations.

In this corporation, the fixed assets turnover ratio has been on average 18.04 times, current assets turnover ratio 3.48 times and stock turnover ratio 6.93 times. The fixed assets have been efficiently utilised throughout the period. Thus, the corporation has relatively better level for these ratios.
HLRDC :

In case of HLRDC, fixed assets turnover has been on an average 4.27 times. The current assets turnover ratio has been 1.53 times during the period. Again, the stock turnover ratio has been on an average vary low i.e. 3.62 times. The ratio reveal that the corporation has relatively larger investments in the form of current assets.

HSDC :

The fixed assets turnover ratio of the corporation has been on an average, low i.e. 2.76 times. This indicates that utilisation of fixed assets is poor causing there by low activity of the total investments. The current assets turnover ratio has been on an average 1.53 times too less than expected norms. The inventory turnover has also been low. Thus, existing sales volume do not justify the investments in these assets.

HML :

In case of HML, fixed assets turnover ratio has been 9.65 times, current assets ratio 3.25 times and stock turnover ratio 10.92 times. All ratios reflect on relatively better utilisation of all assets during the period.
HSEDC:

The corporation has slightly low fixed assets turnover ratio i.e. 3.62 times but the current assets ratio has also been on an average very low. This ratio indicates that the utilisation of current assets has been poor. Stock turnover ratio has been on an average, 4.19 times.

On the whole, these turnover ratios revealed that with a few exceptions the overall performances of the corporation has not been very encouraging on this front.

Return on Capital Employed:

Return on capital employed is an important tool for management as it helps in decision making and in establishing control mechanism. The return on capital employed indicates how well the management has used the funds supplied by creditors and owners. It measures productivity as well as profitability. According to Garison, managers have two basic responsibilities in managing a firm: financing responsibilities and operating responsibilities. Financing responsibilities related to how one obtains the funds needed to provide for assets in an organisation. Operating responsibilities relate to how one uses the assets once they have been obtained. There are two methods for calculating the return on capital employed.
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Table 6.3
Ratio of Return on Capital Employed
(From 1981 to 1992) (in Percentage)

Overall Average GCE 6.51
NCE 5.11

Sourced from Appendices 1.1 to 1.3 and 2.1 to 2.10
1. Gross Capital employed: This would show:
   (i) Fixed Assets and Current Assets (excluding investment)
   (ii) Proprietors funds (owners equity) plus long term and short term liabilities (i.e., current liabilities)
   return on gross capital employed = earnings before interest and tax. Total Assets
   Ideal norms for this ratio is 10 to 12 percent.

2. Net Capital Employed: (i) Fixed assets (excluding investment) and current assets are added together and then current liabilities are deducted or.
   (ii) Gross Capital employed minus current liabilities.
   or
   (iii) Fixed Assets plus working capital, where working capital represents the differences of current assets liabilities. Therefore, the ratio can be computed as:

Return on Net Capital Employed: Earnings after int and tax ------------------------------------------- Total Assets - Current Liabilities

Ideal norm of this ratio is 10 percent to 12 percent.

HFC: The table shows that the ratio of return on gross capital employed has registered fluctuations during the period. The ratio varied between 6.20 percent and 8.41 percent with overall mean value 7.34 percent and C.V. .167. The net capital
employed ratio has been declining throughout the period. The overall mean value for this ratio comes to only 2.37 percent and C.V. .785. The high CV value reflect on greater variation in profits on net capital employed corporation has been able to earn the profit capital employed throughout the period.

HSSI & EC :

In case of HSSI & EC, the ratio has been fluctuating throughout the period and net ratio of GCE has decreased up to 1990 and increased in last two years. Overall mean value for GCE and NCE to 5.13 percent and 9.34 percent respectively with .465 and 1.219 C.V. values. This corporation too has been able to made profits throughout the period.

HWC :-

The table depicts that the ratio of GCE has been increased throughout the period. The ratio of NCE also increased up to 1986 and after that it registered fluctuations. The overall mean values of both the ratios come almost same 9.34 and 9.74 percent with .399 and .496 C.V. respectively. Due to sharp increase in profits, the ratio shows better position.

HSIDC :-

The table highlights that the ratio of GCE of the corporation has been increased throughout the period. It rose from 1.61 percent to 4.40 percent with overall mean value 3.32
percent and C.V. .27. According to net capital employed, the ratio is lower than the gross CE. However, the performance of the corporation and its efficiency in using funds were satisfactory.

HSMITC :-

In case of HSMITC the ratio of GCE has been fluctuating throughout the period. It varied between 3.00 percent and 5.65 percent with overall mean value 3.71 percent and C.V. .39. The ratio was satisfactory but according to net capital employed, the ratio was overall negative except the year 1981 and 1990. This shows that the corporation was bearing loss after paying interest and tax because corporation was not using funds adequately.

HAIC :

The table portrays that the ratio has registered considerable ups and downs and from 1984 to 1987 it showed negative values. The overall mean value has been positive i.e. 4.62 and C.V. 2.82. The high C.V. values reflect on greater variations in the ratio. The net capital employed ratio has negative values up to 1988 and after that positive but the overall value is negative i.e.(10.15) and high C.V. 2.004. The corporation has been suffering losses throughout the period.
HLRDC:
The Table reveals that the ratio of GCE showed negative values upto 1984 and from 1985 onward it started fluctuating. The overall mean value comes to 6.93 percent with C.V. 2.075. The ratios of NCE showed similar trend. But the overall mean value is less than gross ratio because of more interest charges.

HSDC:
The table reflects that both the ratios have been showing fluctuating trends throughout the period. The overall mean value comes to 8.83 percent and 4.32 percent respectively. the net capital employed ratio has negative value from 1987 to 1989. On the whole the performance of the corporation seems to be quite satisfactory.

HML:
In case of HML, the ratio of GCE was too much high in first two years but after that it made considerable ups and downs. In 1989, it has negative value in both cases. The overall mean value comes to 18.97 percent with C.V. 0.896. Overall ratio shows that the corporation has sufficient profit during the period. In case of net capital employed, it was too much and overall mean value also comes too high i.e. 35.55. This corporation has the highest return on capital employed among all the corporations.
The ratio of GCE has been fluctuating throughout the period except the starting year. The overall mean value is positive i.e. 0.94 with C.V. 1.89. The ratio of return on NCE has also been fluctuating except first year. The overall means value is negative (-4.40) and C.V. 5.10. The corporation should try to increase the return on capital employed.

On the whole, all the corporations have positive profit values throughout the period except, HSMITC, HAIC, and HSEDC. These three corporations have negative values from net capital employed point of view. The overall average of GCE and NCE comes to 6.91 percent and 5.11 percent respectively. The corporation HML has been earning highest profit values among all the corporations.

Return On Net Worth:

The return on net worth is the net profit after taxes relative to the net worth. The return represents the profit after deducting all charges including interest and taxes i.e. the real return or residual profit available to the owners of the business. The formula is:

\[ \text{Return on net worth} = \frac{\text{Return after tax and interest}}{\text{Net worth}}. \]
Table 6.4
Return on Net Worth or Net Profit after tax to Net Worth Ratio from 1981 to 1992 (in Percentage)

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Source: Compiled from Appendices 2.1 to 2.10
Note: Figures in parenthesis indicate the negative value for the year.
The ratio indicates how well the firm has used the resources of the owners. Satisfactory return is the most desirable objective of a business. The return on net worth of the company should be compared with the ratio for other similar corporations and the overall mean. This will reveal the relative performance and relative strength of the corporation in attracting future investments.

Table 6.4 reveals the ratio of return on net worth in the corporations of Haryana as under:

Return on Net Worth
or
Net profit after tax to Net Worth Ratio

HFC:

The table shows that in HFC the return on net worth has been showing fluctuating trend throughout the period under study. It varied between 1.46 percent and with the overall mean value 6.64 percent and C.V. .602. Thus, the corporation has been able to earn profits on net worth throughout the period.

HSSI & EC:

The table reveals that the ratio of the corporation has been declining during the period under study and even negative in
year 1987. The overall mean value comes to 3.35 percent and high C.V. as 1.152. Overall, the ratio is not so good because of inadequate profit and high net worth.

**HWC:**

The table depicts that the ratio of the corporation has improved up to 1987 and then started declining. In terminal year it was again very high. It varied between .72 percent and 26.83 percent with overall mean value 13.46 percent and C.V. .713. The higher ratio indicates that owners investments in this corporation were very profitable.

**HSIDC:**

The table highlights that the ratio of the corporation made considerable ups and downs during the period under study. It varied between 1.03 percent and 4.5 percent with Y value 1.64 percent and C.V. .72. The corporation has been able to earn profits throughout the period. Overall position of the corporation was, however, satisfactory.

**HSMITC:**

The table reflects that the corporation has shown poor return on shareholders fund throughout the period under review. The corporation has been suffering heavy losses. The reason for
poor ratio is great losses, great losses are due to higher manufacturing costs. The overall mean value is also negative. It indicates that the corporation was not using its owner funds adequately.

**HAIC:**

In case of HAIC, the ratio has negative values throughout the period under study except 1989 and 1990. The overall mean value also comes negative i.e. \((-253.2)\) and C.V. 2.17. This indicates that the corporation has been suffering heavy losses throughout the period. It should try to improve its working, reduce losses and earn profits.

**HLRDC:**

The table depicts that the ratio of the corporation has negative up to 1984 and in 1991 but in rest of the years it has been fluctuating. The overall mean value is negative and C.V. 3.07. It indicates that the increase in profits was not commensurate with the increase in net worth. It should try to improve this ratio by increasing profits.

**HSDC:**

The table portrays that the ratio of the corporation was positive up to 1985. From 1986 onward it has negative values.
In last two years the corporation has positive value. The overall mean value also comes to negative with C.V. 2.45. The corporation has poor return on shareholders fund. The reason of poor ratio is deficiency in the net profit after tax and increment in net worth.

HML:

The corporation has shown negative returns in the year 1981, 1989 and 1991, in rest of the years it showed positive returns. The overall mean value also comes negative with C.V. 8.48. In this case too the corporation has been suffering losses.

HSEDC:

The table reveals that the ratio of the corporation has shown positive returns excepts 1983 and 1985. The overall mean value comes negative and C.V. 3.58. It means owners investment in this corporation was not profitable.

Management view of profitability:

In order to know the management views of various corporations under study, the following types of questions were included in the questionnaire.

1. What are the basic problems and factors effecting profitability?
2. How profit allocation decision is made?
3. How different problem relating to profitability can be solved?

In three corporations, i.e. HWC, HFC and HSSI & EC, the profitability position of the enterprise has been increasing during the last ten years. In HSDC, the profitability position of the enterprise is mixed during the last ten years. In HSEDC, the profitability position of the enterprise is satisfactory and in HSMITC, the enterprise is running at loss. HLRDC is generating profit, except in 1983-84 and 1990-91. Rest of the corporations give information about profitability. It was found by various corporations as to what are the main factor that affect their profitability, the position was that in the case of HFC's interest, it was realisation of interest and overdues and expenses incurred, in HWC crop of food grains, in HSEDC administrative and control by MD, in HSMITC-running of DIT and AT tubewells, in HLRDC sales of quality seeds, Gypsum and fertilizer in HACIC—Turnover and market competition, in HSSI & EC inventory control optimum utilisation of capital and in HSDC large scale turnover, minimum inventory, optimum capacity of capital are the main factors that influence the profitability of the enterprise.

As regards allocation of profits it was found that in HFC the dividend policy is as per govt. instructions and in HWC the corporation declares dividend annually to its shareholders.
The Dividend for 1992 was 10 percent. In rest of the corporations, no information is available about dividend policy.

It was further repeated that in HFC, the excessive dependence on external source problem can be solved by generating more internal resources by the finance manager. In HSDC, the inadequate return on investment problem can be solved by the manager by increasing seed turnover, defective debt equity ratio by increasing capital base, problem of working capital finance by short term loans from Govt. and cash credit facilities, interest burden by generating own resources. In HSSI & EC, the problems of the inadequate return on investment can be solved by the manager by evaluation & improvement, working capital finance problem can be solved by less inventory maintenance. In HSMITC, continuous losses problem can be solved by the manager through subsidy for running of DIT and revision of rates from A.T. Tube wells and defective debt equity ratio by conversion of Government loan into subsidy. In HSEDC, the problem of continuous losses excessive dependence on external sources, defective debt equity ratio and Working Capital finance problems and interest burden can be solved by the manager by framing new methods and policies, issuing own resources. In HAIC, the continuous losses problem can be solved by the manager by suggesting viable activities and close unviable activities, excessive dependence on external sources can be solved to retain earnings and to increase
equity, defective debt equity ratio by repayment of term loan effective funds flow, problem of Working Capital finance by credit from suppliers and cash sales, interest burden can be solved by credit from suppliers and cash sales. In rest of the corporations, no information is available.

Conclusions:

From the foregoing analysis on profitability on the various corporations, the following conclusions emerged:

HFC:

In HFC, the gross profit and stock turnover ratio could not be calculated due to the nature of operating of the business. Turnover ratio revealed that the fixed assets have been efficiently utilized throughout the period. The return on capital employed ratio has been sufficient during the period. Overall analysis shows that the performance of this corporation has been found good throughout the period.

HSSI & EC:

The corporation has been able to earn gross profits throughout the period. The operating ratio revealed that the
corporation has incurred on operating cost about 98.88 percent of the revenue fixed turnover ratio has been very high. From capital employed point of view, the analysis revealed that the corporation has positive profits. Overall analysis shows that the corporation has always earned profits.

HWC :-

In case of HWC, again the gross profit figure and operating cost figure have not been available throughout the period. Low turnover ratios revealed that existing sales level do not largely justify the investments in assets. The corporation has relatively better position from capital employed front. This corporation has highest return on net worth during the period. On the whole, the performance of the corporation has been quite satisfactory.

HSIDC :

The corporation has no gross profit and stock turnover figure. The analysis of turnover ratio revealed that the current assets turnover has been the lowest among all the corporations. From capital employed front, the corporation has positive profits throughout the period. Overall position of the corporation may be said relatively better.
HSMITC:

In case of HSMITC, the gross margin has been relatively better. Operating ratio analysis revealed that because of effective and efficient operations of business, the overall performance on the front remained quite satisfactory. Turnover ratio reflects that the both current and fixed assets have not been efficiently utilised throughout the period. The corporation was in a good position in relation to profitability. The return on gross capital employed was positive but in relation to net worth and net capital employed it was negative. The profitability of the corporation was very poor as the board always suffered losses. It should try to overcome this situation.

HAIC:

The corporation has been suffering losses throughout the period. The operating ratio revealed that the operating cost has been more that the revenue resulting into the operating losses. The turnover ratio revealed that the corporation has relatively better level for these ratios. The return on net capital employed and return on net worth ratio has been all negative throughout the periods it shows financial inefficiency of the corporation. The corporation should improved its efficiency by reducing its expenses.
HLRDC:

In case of HLRDC, the emerging trend on gross margin front indicates that cost of sales have increased at a higher rate than sales growth over the time. Turnover ratio reflected that the corporation has relatively larger investment in the form of current assets. The corporation has positive profits for capital employed but for net worth negative profit i.e. losses throughout the period because increase in profits were not commensurate with the increase in net worth. Overall, the performance has been found far from satisfactory.

HSDC:

The gross profit ratio reflected that the corporation has not been able to exhibit any operating efficiency by earning operating profits. Turnover ratio analysis revealed that the existing sales volumes do not justify the investment in assets. As regards the capital employed, the corporation has positive profits but it has poor return on net worth. On the whole, performance of the corporation seems to be satisfactory.

HML:

In this corporation, the gross profit ratio has been highest among all the corporations i.e. 46.75 percent on an average. The operating cost has been increased over the period.
Turnover ratio reflects on relatively better utilisation of all the assets. This corporation has the highest return on capital-employed but the return on net worth has negative values. The corporation's profitability has been far from satisfactory although it always earned profits during the period except heavy losses in first year.

HSEDC:

The operating position has been far from satisfactory during the period. The gross profit ratio has been very low. The current assets turnover ratio indicates that the utilisation of current assets has been very poor. The return on gross capital employed has positive value but net capital employed and net-worth front, it has negative value. Overall, the performance has not very encouraging one.

From profitability point of view, six corporations out of ten have been suffering heavy losses throughout the period.

References:
2. Ibid, P.81.