Chapter - VII
Analysis of Profitability
CHAPTER VII

ANALYSIS OF PROFITABILITY

A Company should earn profits to survive and grow over a long period of time. Profits are essential but it would be wrong to assume that every action initiated by management of a company should be seemed at maximizing profits irrespective of social consequences. It is a fact that sufficient profits must be earned to sustain the operations of the business to be able to obtain funds from investors for expansion and to contribute towards the social overheads for the welfare of the society.

Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate output of a company and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of its company in terms of profits. The profitability ratios are calculated to measure the operating efficiency of the company. Creditors are also interested in the profitability of the firm. Creditors want to get interest regularly and return of principal at maturity. Owners want to get a reasonable return on this investment. This is possible only when the company earns enough profits.

Generally two major types of profitability ratios are calculated:

1) Profitability in relation to sales.

2) Profitability in relation to investment.
A Company should be able to produce adequate profits on each rupee of sales. If sales do not generate sufficient profits, it would be very difficult for the firm to cover operating expenses and interest charges and as a result will fail to earn, Company should also be evaluated in terms of capital contributed by creditors and owners. If the company is unable to earn a satisfactory return on investment, its survival is threatened.

**PROFITABILITY IN RELATION TO SALES :-**

Gross Profit Margin:

The first profitability ratio in relation to the sales is the gross profit margin. It is calculated by dividing the gross profit by sales.

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

The gross profit margin reflects the efficiency with which management produces each unit of product. Their ratio indicates the average spread between the cost of goods sold and the sales revenue. A high gross profit ratio is a sign of good management. A gross margin ratio may increase due to the following factors.

1) Higher sales prices, Cost of goods sold remaining constant.

2) Lower cost of goods sold, sales prices remaining constant.

3) A combination of variations in sales prices and costs the margin widening.

4) An increase in the sales of proportionately higher profit margin items.
A low gross profit margin ratio should be carefully investigated. It may reflect a higher cost of goods sold due to the firm's inability to purchase at favorable terms, inefficient utilization of plant and machinery, or investment in plant and machinery. The gross profit margin ratio will also be low due to a fall in prices in the market or a reduction in selling prices by the firm in an attempt to obtain large sales volume. The cost of goods sold remaining unchanged.*1

The gross profit margin ratio of Co-operative Spinning Mills under study for the period from 1997-98 to 2001-02 has been presented in the Table No.7.1.

Table No 7.1

GROSS PROFIT MARGIN OF SAMPLE MILLS

<table>
<thead>
<tr>
<th>Year</th>
<th>BCSM</th>
<th>GCTM</th>
<th>RSNG</th>
<th>FCSM</th>
<th>SFCSM</th>
<th>TCSM</th>
<th>VCTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>9.08</td>
<td>10.52</td>
<td>5.84</td>
<td>4.84</td>
<td>16.08</td>
<td>-0.69</td>
<td>1.86</td>
</tr>
<tr>
<td>1998-99</td>
<td>7.01</td>
<td>7.03</td>
<td>2.02</td>
<td>-1.90</td>
<td>2.20</td>
<td>-11.61</td>
<td>0.75</td>
</tr>
<tr>
<td>1999-00</td>
<td>6.75</td>
<td>7.37</td>
<td>5.41</td>
<td>13.20</td>
<td>3.87</td>
<td>-5.34</td>
<td>-74.90</td>
</tr>
<tr>
<td>2000-01</td>
<td>11.57</td>
<td>8.63</td>
<td>7.57</td>
<td>14.31</td>
<td>11.24</td>
<td>-0.57</td>
<td>-54.32</td>
</tr>
<tr>
<td>2001-02</td>
<td>9.00</td>
<td>0.19</td>
<td>6.94</td>
<td>2.57</td>
<td>3.28</td>
<td>12.11</td>
<td>-65.76</td>
</tr>
</tbody>
</table>

Source: Compiled from annual reports of the mills.

* The minus figures indicate the margin of loss.

I. Mill 'BCSM' has been continuously showing gross profit throughout the period. The gross profit margin ratio registered a fluctuating trend year after year up to 2001-2002. The highest ratio was 11.57 percent in 2000-01 and the lowest was 6.75 percent in 1999-00. Though the sales revenue showed a
production of yarn increased at faster rate in the 1999-00 and 98-99 years of the study which resulted in the low ratio.

II. In mill 'GCTM' The gross profit margin ratio registered a fluctuating trend and varied between 0.19 percent in 2001-02 and 10.52 percent in 1997-98 the reason for low ratio was larger cost of production due to the higher depreciation charges and other operating expenditures in the last period of study of the mill.

III. In mill 'RSNG' also the gross profit margin ratio registered a fluctuating trend in the year 1997-98 5.84 percent and 2.02 percent in 1998-99 than highest in the study period 7.57 percent in 2000-01 lowest 2.02 percent in the year 1998-99 the reason for this variation is higher operating expenditure and cost of production.

IV. In gross profit margin of mill ‘FCSM’ disclosed a fluctuating trend. The mill incurred losses in the years of 1998-99 and lowest ratio 1997-98 and 2001-02 and highest ratio was 14.31 percent in 2000-01 and 13.20 percent in the year 1999-00.

V. Mill ‘SFCSM’ was the gross profit margin ratio showing fluctuating trend. Lowest 2.20 percent in the year. 1998-99 and highest 16.08 percent in the year 1997-98.
VI. Mill ‘TCSM’ four years in the study period having negative ratio and 2001-02 showed 12.11 per cent due to heavy losses. The reasons reported for the losses were glut in the yarn market, increase in the labour and cotton cost, increased cost in generating power to meet out the power cut and decreasing trend of machine productivity due to the lack of modernization.

VII. Mill ‘VCTM’ suffered losses in three years out of five years of the study period 1.86 percent in the 1997-98 and 0.75 percent in 1998-99 and next three years was negative percent due to cost of production and (heavy expenditure for construction, administrative and other buildings) operating expenditures in the early period of the mill.

An analysis of gross profit margin of the respective mills under study revealed that though mill ‘BCSM’ and ‘GCTM’ earned satisfying gross profit during the whole study period. All other mills FCSM,,RSNG,,SFCSM, upto the mark, TCSM,,VCTM, were in the instances of negative ratio. The reasons reported by the mills for the losses are glut in the yarn market, workers unrest, Increased labour and cotton cost. Increased cost in the generating power during power cut and lower machine productivity due to the lack of trained labour and modernization. In addition to the above SITRA says that “the poor technical efficiency of the mills is also the reason for losses” Further the SITRA pointed out that “The present losses or low profits are not so much due to the lack of modernization as to want of good
operational efficiency of the mills” Therefore it is suggested that the mills should take measures to improve the operational efficiency without waiting for modernization.

**NET PROFIT MARGIN:**

Net profit is obtained when operating expenses and income tax are subtracted from the gross profit. The net profit margin ratio is measured by dividing net profit after tax by sales.

\[
\text{Net Profit Margin} = \frac{\text{Net Profit after tax}}{\text{Sales}}
\]

This ratio establishes a relationship between net profit and sales indicating management's efficiency in manufacturing, administrating, selling. The product of this ratio is the overall measure of the firm's ability to turn each rupee of sales into net profit. If the net margin is inadequate, the firms will fail to achieve satisfactory return on owners equity. This ratio also indicates the firm's capacity to withstand adverse economic conditions. A firm with high net margin ratio would be in an advantageous position to survive in the face of falling sales prices, rising costs of production of declining demand for the product. It would really be difficult for a low net margin firm to withstand, these advertise. Similarly, a firm with high net profit margin can make better use of favorable conditions, such as rising sales prices failing costs of production or increased demand for the product, such a firm
will be able to accelerate its profits, at faster rate than a firm with low net profit margin.²

An analyst will be able to interpret the firms profitability more meaningfully if he evaluates both the ratios gross profit margin and net profit margin jointly.

Table No. 7.2 shows the net profit margin ratio of the respective co-operative spinning mills for the period from 1997-98 to 2001-02.

**Table No.7.2**

<table>
<thead>
<tr>
<th>NET PROFIT MARGIN OF SAMPLE MILLS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(In percentage)</strong></td>
</tr>
<tr>
<td>Year</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>1998-99</td>
</tr>
<tr>
<td>1999-00</td>
</tr>
</tbody>
</table>

Source: Compiled from annual reports of the mills.

The minus figures indicate the margin of losses.

I. Mill BCSM suffered losses in the year 1998-99 & 1999-00 The position for first year of study period and last two years was favorable when it was 16.55 percent 1997-98 and 32.93 percent in the 2000-01 & 0.75 percent in the year 2001-2002. This was not because of the higher expenditure and it was solely due to the payment of sales rebate to its customers thereafter the
mill suffered losses due to the higher cost of production and increased interest burden.

II. The net profit margin of mill ‘GCTM’ only for first year of study period showed positive and negative net profit margin during remaining period. The reasons behind these losses were increased salaries and wages and heavy burden of interest.

III. The profitability position was very serious in mills RSNG, FCSM, SFCSM, TCSM & VCTM period of study, these mills suffered heavy losses. The mill reported in its proposal for comprehensive rehabilitation scheme, that heavy burden of interest and diversion of working capital funds to modernization and expansion are the reasons for the losses.

Comparative picture of net profit margin of the respective co-operative spinning mills shows that mill ‘BCSM’ fluctuating trend. Which in the case of mill ‘GCTM’ alarming situation to improve the profitability and the mills RSNG, FCSM, SFCSM, TCSM the ratio was negative for the whole period of the study was also due to the non favorable market conditions. The situation was very serious in mill ‘VCTM’ which incurred heavy losses during the whole period of study. Further the analysis revealed that all the seven mills under study suffered losses in the last five years of the study, it was reported by the mills that the glut in
the yarn market was the main cause, for the loss and no demand for yarn in National level market because of globalization. Therefore it is suggested that managements of the mills have to take immediate steps to reduce costs and improve the turnover to face the glut in market. In addition avoiding diversion of funds and training to laborers may reduce the interest burden.

OPERATING RATIOS:

It is an index of operating the profits Guthmann opines that "Operating ratio is a measure of operational efficiency even though the ratio is determined by external and uncontrollable conditions as well as managerial skills".

The term operating ratio refers to the ratio of all operating expenses (including cost of goods sold, selling expenses and general and administrative expenses) to operating revenue. The formula for calculating this ratio:

\[
\text{Operating ratio} = \frac{\text{Operating expenses}}{\text{Sales}} \times 100
\]

A high operating ratio is unfavorable since it will leave a small amount of operating income to meet interest, dividend etc and that total profits are likely to be extremely sensitive to any changes in the total income from sales that may result from changes in the prices or volume of goods sold. "During the period of business decline, a firm with high operating ratio will be in a greater danger of defaulting on fixed charges than a firm with a low operating ratio". A low operating ratio is by
and large a test of operational efficiency. Table No 7.3 reveals the operating ratio of the selected co-operative spinning mills during the period under review.

Table No. 7.3.
STATEMENT SHOWING OPERATING RATIO IN THE MILLS UNDER STUDY.

<table>
<thead>
<tr>
<th>Year</th>
<th>BCSM</th>
<th>GCTM</th>
<th>RSNG</th>
<th>FCSM</th>
<th>SFCSM</th>
<th>TCSM</th>
<th>VCTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>97.24</td>
<td>97.87</td>
<td>115.72</td>
<td>108.33</td>
<td>100.65</td>
<td>118.64</td>
<td>115.63</td>
</tr>
<tr>
<td>1998-99</td>
<td>99.72</td>
<td>99.55</td>
<td>115.73</td>
<td>117.81</td>
<td>104.10</td>
<td>133.70</td>
<td>147.96</td>
</tr>
<tr>
<td>1999-00</td>
<td>100.67</td>
<td>99.89</td>
<td>109.70</td>
<td>94.91</td>
<td>107.19</td>
<td>137.63</td>
<td>320.89</td>
</tr>
<tr>
<td>2000-01</td>
<td>96.41</td>
<td>107.53</td>
<td>106.49</td>
<td>109.58</td>
<td>99.37</td>
<td>159.96</td>
<td>248.88</td>
</tr>
<tr>
<td>2001-02</td>
<td>99.75</td>
<td>107.28</td>
<td>104.89</td>
<td>123.13</td>
<td>106.86</td>
<td>100.27</td>
<td>646.77</td>
</tr>
</tbody>
</table>

Source: Compiled from annual reports of the mills.

I. In mill ‘BCSM’ the operating ratio registered a fluctuating trend and varied between 96.41 percent and 100.67 percent. In 1997-98 97.24 percent and it increased to 99.72 percent and the ratio crossed 100.67 percent in 1999-00 because of which the mill tried to reduce its cost during the period from 2000-01 to 2001-02, 96.41 percent and 99.75 percent respectively.

II. It can be seen that the operating ratio of mill ‘GCTM’ registered an increasing trend. It stepped up from 97.87 percent in 1997-98 to 99.55 percent in 1998-99 and 1999-2000 was 99.55 percent and 99.89 percent. After that the ratio crossed 107.53 percent in 2000-01 and 107.28 percent
in 2001-02. The reason behind that increasing trend is that whenever the sales increase, the operating expenditures also increase at faster rate and when ever the sale decrease, the operating expenditures also decrease.

III. In mill ‘RSNG’, the operating expenditure was more than the operating revenue during the study period and the ratio was more than 100 percent.

IV. In mill ‘FCSM’ the operating expenditure was more than the operating revenue during the study period except in 1999-2000, so here the ratio was more than 100 percent.

V. In mill ‘SFCSM’ was also more than the operating revenue during the study period except in 2000-01, the remaining ratio’s are more than 100 percent.

VI. The operating ratio of mill ‘TCSM’ was more than 100 percent. The reason for this situation was that in these years the operating revenue was not sufficient to cover the operating expenses.

VII. Mill ‘VCTM’ had the largest operating ratio during the period under study and it was extremely very high. The operating ratio was between 115.63 percent and 646.77 percent in the whole period. The reason behind this was the hike in costs of merchandise sold, selling and administration costs and on the other hand, the absence of matching increases in the revenue.
On the whole, it can be inferred that the operating ratio of all the mills under study showed a poor performance as the ratio exceeded 100 per cent. The mills under study did not achieve the rated performance even on new machinery. It can be well seen from the analysis of mills BCSM, and GCTM, therefore, top priority should be given towards monitoring the performance of machinery with evaluation of the returns from the investments. Further the SITRA observed, “for the level of modernization and the work assignment prevailing, the cooperative spinning mills should achieve about 20 percent higher labour productivity and 15 percent higher machinery productivity. Lack of good machinery maintenance, adoption of wrong work practices, low spindle speeds, poor machine efficiency and inefficient supervision are responsible for the short-fall”. Consequent to the low machine productivity and higher complement of labour engaged combined with poor operational efficiency, the labour productivity of the mills was found to be lower than the standard. Therefore it is suggested that the mills under study should exercise more care on control of its costs by improving the operational efficiency.
PROFITABILITY IN RELATION TO INVESTMENT:

Return on Investment (ROI):

The profitability of firm is also measured in relation to investment. The term investment may refer to total assets, capital employed or the owner's equity. Accordingly, many profitability ratio in relation to investment can be calculated.

The important area:

1) Return on assets (ROA)

2) Return on shareholder equity (ROSE)

1) RETURN ON ASSETS:

The return on assets or profit to assets ratio is net profit plus interest charges divided by total assets.

\[
\text{Return on Assets} = \frac{\text{Net Profit after taxes, interest}}{\text{Total assets}}
\]

The return on assets is a useful measure of the profitability of all financial resources invested in the firm's assets. It evaluates the sources of funds. This ratio is particularly useful to evaluate the performance of divisions in a multi-divisional firm. Generally, these divisions have their responsibility of using and controlling assets without any responsibility toward the raising and utilizing funds. The return on operating assets has been catalogue in the Table No. 7.4.
Table No. 7.4

RETURN ON ASSETS OF THE MILLS UNDER STUDY
(In percentage)

<table>
<thead>
<tr>
<th>Year</th>
<th>BCSM</th>
<th>GCTM</th>
<th>RSNG</th>
<th>FCSM</th>
<th>SFCSM</th>
<th>TCSM</th>
<th>VCTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>4.35</td>
<td>2.79</td>
<td>-14.23</td>
<td>-16.35</td>
<td>-0.43</td>
<td>-11.31</td>
<td>-3.19</td>
</tr>
<tr>
<td>1998-99</td>
<td>0.51</td>
<td>0.54</td>
<td>-17.48</td>
<td>-32.42</td>
<td>-2.36</td>
<td>-12.74</td>
<td>-3.93</td>
</tr>
<tr>
<td>1999-00</td>
<td>-1.40</td>
<td>0.12</td>
<td>-11.87</td>
<td>4.96</td>
<td>-5.09</td>
<td>-12.67</td>
<td>-12.10</td>
</tr>
<tr>
<td>2000-01</td>
<td>6.18</td>
<td>-5.55</td>
<td>-7.46</td>
<td>-8.29</td>
<td>0.56</td>
<td>-7.96</td>
<td>-10.94</td>
</tr>
<tr>
<td>2001-02</td>
<td>2.46</td>
<td>-5.83</td>
<td>-6.88</td>
<td>-3.81</td>
<td>-6.08</td>
<td>-0.20</td>
<td>-7.76</td>
</tr>
</tbody>
</table>

Source: Compiled from annual reports of the mills.

The minus figures indicate the margin of losses.

I. As far as mill 'BCSM' is concerned it is found that its return on assets registered a fluctuating trend. It decreased from 4.35 percent in 1997-98 to 0.51 percent in 1998-99. Then the mill incurred operating loss from the next year, so there the ratio shows 1.40 percent in 1999-00 respectively because of the operating losses suffered by the mill and further next year in 2000-01 was 6.18 percent, High return on asset 2.46 in 2001-2002 situation was good.
II. Mill ‘GCTM’ incurred losses for two years of the study. The mill earned operating profits only in the years of 1997-98, 1998-99, 1999-00 when the ratio was 2.79 per cent, 0.54 percent & 0.12 percent respectively.

III. The return on assets of mill ‘RSNG’ showed negative ratio for the whole period of the study.

IV. The return on assets of mill ‘FCSM’ showed negative ratio for the whole period of the study except in 1999-00 when it was 4.96 percent respectively. Further, the analysis reveals that the mill incurred losses.

V. Mill ‘SFCSM’ also showed negative ratio for the whole period of the study except in 2000-01 when it was 0.56 percent.

VI & VII. Mill TCSM, and VCTM, both showed the return on assets of negative ratio for the whole period of the study.

On the whole, overall trend of this ratio shows negative, in that two mills kept fluctuating and was also more or less negative during the period under review except in some instances discussed above. It can be concluded from the foregoing discussions that in general the operating assets of the mills were not utilized efficiently and in a profitable manner.

2) RETURN ON SHAREHOLDERS EQUITY:

The return on shareholders equity is net profit after taxes dividend by the common shareholders equity. The common shareholders are the residual owners
in the real sense of the word. They assume the maximum risk and have the highest stake in the company. The rate of dividend is fixed for preference shareholders, but not in the case of common shareholders. Preference shareholders generally receive dividends, whenever the company makes profits, but the earnings of common shareholders can be retained in the business. Since common shareholders are the real owners of the company. The performance of its operations is judged on the basis of return earned on common equity. The return on common equity is the net profit after taxes and after preference dividends divided by the shareholders equity.

\[
\text{Return on Common Equity} = \frac{\text{Net Profit after taxes}}{\text{Common Shareholders Equity}}
\]

The ratio indicates how well the firm has used the resource of the owners. In fact, the ratio is one of the most important relationships in ratio analysis. The earning of a satisfactory return is the most desirable objective of a business. The ratio of net profit to owners equity reflects the extent to which this objective has been accomplished. The ratio is thus of great interest to present as well as prospective shareholders and also of great concern to management which has the responsibility of maximizing the owners welfare. The return on capital employed of the co-operative spinning mills under study has been exhibited in the Table No 7.5.
**Table No. 7.5**

**RETURN ON CAPITAL EMPLOYED OF MILLS UNDER STUDY.**

<table>
<thead>
<tr>
<th>Year</th>
<th>BCSM</th>
<th>GCTM</th>
<th>RSNG</th>
<th>FCSM</th>
<th>SFCSM</th>
<th>TCSM</th>
<th>VCTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>5.37</td>
<td>3.73</td>
<td>-15.96</td>
<td>30.60</td>
<td>-0.03</td>
<td>-13.15</td>
<td>-7.11</td>
</tr>
<tr>
<td>1999-00</td>
<td>0.24</td>
<td>1.20</td>
<td>-12.09</td>
<td>-11.23</td>
<td>-6.20</td>
<td>-15.59</td>
<td>*</td>
</tr>
<tr>
<td>2000-01</td>
<td>7.90</td>
<td>-4.80</td>
<td>-9.33</td>
<td>-1.26</td>
<td>-2.30</td>
<td>-11.02</td>
<td>*</td>
</tr>
<tr>
<td>2001-02</td>
<td>2.99</td>
<td>-5.71</td>
<td>-6.61</td>
<td>-4.69</td>
<td>-9.02</td>
<td>-4.43</td>
<td>*</td>
</tr>
</tbody>
</table>

*Source: Compiled from annual reports of the mills.*

- Negative Capital employed
- The minus figures indicate the margin of losses.

I. In mill ‘BCSM’ the return on capital employed decreased from 5.37 percent in 1997-98 to 2.24 percent in 1998-99, and in 1999-00 the percent was very lowest 0.24 and the position of the mill improved and the return on capital employed varied between 0.24 percent to 7.90 percent in 2000-01 and again decreased 2.99 percent in 2001-02.

II. Return on capital employed of mill ‘GCTM’ decreased from 3.73 percent in 1997-98 to 1.16 & 1.20 in 1998-99, 1999-00. In the subsequent two years the mill suffered losses so that the ratio was negative.

III. In mill ‘RSNG’ the return on capital employed shows negative ratio due to the losses suffered by the mill.
IV. In mill 'FCSM' return on capital employed shows 30.60 in 1997-98, thereafter the position of the mill did not improve. Subsequent in fewer years the mill suffered losses so that the ratio was negative.

V. Mill ‘SFCSM’ and ‘TCSM’ the return on capital employed shows negative ratio, due to the losses suffered by the mills.

VI. In mill ‘VCTM’ the ratio was negative in 1997-98 and 1998-99 and in the remaining periods the ratio could not be calculated due to the negative capital employed.

On the whole, it can be seen that the performance of the co-operative spinning mills was highly unsatisfactory despite the fact that there were positive ratios in some instances. Here it is evident that all the co-operative spinning mills except the mills GCTM & FCSM had negative capital employed due to the continuous losses. It is the indication of conversion of working capital to the long term needs. Thus the interest paid on short term borrowings substantially increased year after year. Though the co-operative spinning mills could not provide at least the same rate of return on its equity as it would be equal to the cost of loan, capital, they may avoid losses by improving their operating efficiency.
EARNINGS PER SHARE (EPS) :

The profitability of the common shareholders investment can be measured by calculating the earnings per share. The earnings per share are calculated by dividing the net profit after taxes less preference divided by total number of common shares outstanding.

\[
ESP = \frac{\text{Net profit after taxes} - \text{preference dividend}}{\text{Number of common shares outstanding}}
\]

The earnings per share calculations made over years indicate whether or not the firms earning power on a per share basis has changed over the period. The earnings per share simply show the profitability of the firm as per share basis. It does not reflect how much is paid as dividend and how much is retained in the business. Table No 7.6 shows the EPS of the respective mills during the period under study.

**Table No. 7.6**

<table>
<thead>
<tr>
<th>Year</th>
<th>BCSM</th>
<th>GCTM</th>
<th>RSNG</th>
<th>FCSM</th>
<th>SFCSM</th>
<th>TCSM</th>
<th>VCTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>-52.14</td>
<td>-73.03</td>
<td>-29.16</td>
<td>-88.03</td>
<td>-15.54</td>
<td>-22.05</td>
<td>-32.19</td>
</tr>
<tr>
<td>2000-01</td>
<td>136.26</td>
<td>-30.00</td>
<td>-25.42</td>
<td>-19.54</td>
<td>-23.06</td>
<td>-27.01</td>
<td>-86.62</td>
</tr>
</tbody>
</table>

Source: Compiled from annual reports of the mills.

* The Minus figures are losses per share
I. The earning per share of mill ‘BCSM’ was Rs.7.73 in 1997-98 However, the mill suffered losses during the two years and the loss per share decreased from Rs.67.85 in 1998-99 to Rs.52.14 in 1999-00 and thereafter earning per share increased to Rs.136.26 in 2000-01 and decreased Rs.31.86 in 2001-02. It was reported that the reasons for the losses were the slump in the yarn market, and heavy increase in the raw materials and labour cost.

II. The earning per share of mill GCTM was Rs.15.77 in 1997-98 However, the mill suffered losses during few years and the loss per share increased from Rs.11.57 in 1998-99 to Rs.73.03 thereafter Rs.30.00 in 2000-01 to Rs.57.80 in 2001-02. In addition to the slump in the yarn market and increased cost of production, the heavy interest burden due to too much reliance on debt was the cause for the loss during the last four years of the study.

III. Mill RSNG, suffered a loss of Rs.37.26 per share in 1997-98 However the profitability position of the mill changed in 1998-99 and the earning per share of Rs.35.87. Thereafter mill suffered losses for the whole period of study.

IV. Mill FCSM, SFCSM, and TCSM,VCTM, suffered losses during the whole period of study due to the heavy losses suffered by the mills.
References


