PREFACE

In recent years, India has made commendable advance on the industrial front. The process of industrialisation and the growth of the corporate sector are inter-related and inter-dependent. As such the corporate sector in India has made rapid strides. This is evidenced by the fact that the number of companies at work in India increased from 28,532 companies with a paid-up capital of Rs. 775 crore in 1950-51 to 296,999 companies with a paid-up capital of Rs. 97,092 crore by the end of 1993, recording an increase by more than 9 times in number and 124 times in paid-up capital. The corporate sector in India provides an effective and organised system for the overall growth and development of the economy. Ultimately, it maximises the gross domestic product and the tax revenue.

The growth of a Joint Stock Company is based on its success and profit is the primary test of the success of an enterprise. Other things being equal, the larger the profit, the better the enterprise is managed. Thus, the principal motivating force behind conducting a business is profit. Therefore, the importance of the study lies in the analysis of profitability in the corporate sector.

The private corporate sector in India has witnessed drastic changes in its structure of finance since 1956. From the year 1991-92 onwards, the Government of India has inclined
towards privatisation of public sector and in order to give more scope to private sector, it has abolished certain regulatory laws. No doubt, a change is observed in capital formation as well as profitability trend of the corporate sector. But, it is not uniform in all the companies working in the country. While companies functioning in advanced regions prospered remarkably, the companies working in the relatively backward regions were found lagging behind. In the same region again, the trends of profitability were different depending upon the nature of economic activity undertaken by it and the size and the age of the companies. The Eastern region of India being one of the economically backward regions has to face a large number of problems for its industrial growth, in spite of its rich natural resources. The corporate sector in Eastern India is underdeveloped and its rate of investment is the lowest in the country. The extent to which the corporate sector in the region has been able to sustain its profitability and the factors affecting its profitability are the subject matter of this thesis.

The present study is on the whole an analytical research on the trend and pattern of profitability of the public limited companies in the private sector of Eastern India from 1984-85 to 1993-94. The analysis clearly revealed that the corporate sector in Eastern India, in general, witnessed an increasing trend in its profitability. However, the average profit margin on sales was lower for the Eastern India companies, as compared
to the average profit margin of the All-India companies. Though the profitability in relation to sales was lower, yet the average overall profitability of the corporate sector in Eastern India was at par with the average overall profitability of the All-India corporate sector. Again, the interest expense was the prime factor which eroded the corporate profitability. On an average the interest expenses has grabbed about 35 per cent of the earnings before depreciation, interest and tax. The gross earnings ratio and the gross assets turnover ratio increased with the increase in the age of a firm. The overall profitability was found to be inter-related between the industries. Further, the gross profit margin, more or less, remained constant over the years and there existed about a perfect positive correlation between sales and gross profit. Again, the profitability of the sample companies differed significantly depending upon their industrial activities and age, but the size of the companies did not count much for significant difference in their profitability. The overall profitability of some industries converged at the median rate of overall profitability of the corporate sector and the average overall profitability of the corporate sector was perceived as target profitability by the industries. Moreover, the profitability series of individual firms as well as the corporate sector followed a random-walk model and the industry-wide factors were important factors affecting the profitability of a firm. Above all, the increase/decrease in
gross earnings ratio, total assets turnover ratio, gross block turnover ratio and inventory turnover ratio, in order, resulted in increased/decreased gross surplus ratio. However, change in working capital turnover ratio did not account for any change in the gross surplus ratio.

The study has been divided into eight chapters. It starts with an introduction which deals with socio-economic analysis of Eastern India, the importance, the objectives and the limitations of the study. The methodology adopted in selection of sample and their analysis constitutes chapter 2 while chapter 3 is related to the theoretical review of literature on aspects of profitability. The fourth chapter of the study details the procedure followed in measuring the composite profitability. The analysis of profitability of the total sample companies constitutes the fifth chapter whereas the variable-wise analysis of profitability is included in the sixth chapter. Testing of hypotheses have been made in chapter 7. Finally, summing up the findings of the study finds place in the last chapter of the study.