Turkish Online Journal of Qualitative Inquiry (TOJQI)
Volume 13, Issue 1, January 2022: 371-378

A Study on Profitability and Economic Value Added at Vst Industries Limited, Hyderabad

Dr. P. Hima Jagathi,
Professor in Finance, Aurora's PG College, Hyderabad
Ph. No: 9247859290, email:himajagathi@gmail.com

Abstract

Financial analysis is the examination of a business from a variety of perspectives in order to fully understand the greater financial situation and determine how best to strengthen the business. The main objective of the study is to analyse the profitability position of the company and Economic Value added. It is the process of identifying the financial strength and weakness of the firm properly by establishing the relationship between the items of balance sheet and profit and loss account. The detail regarding the history and financial details are collected through discussions with the company officers. Secondary data is collected based on the annual reports of the company for period 2015-16 to 2019-20. The company's performance is measured through a financial tool i.e., ratio analysis and also with the help of Economic value added.

Key words: Profitability, Ratios, Economic value added, financial position

Introduction

In modern money oriented economy "Finance" is one of the basic foundations of all kind of economic activities. The success of a company to a greater extent depends upon its financial performance. A careful and well planned financial management is needed for rising of funds and utilize them in to effective manner. The financial performance of an undertaking deal with the evaluation of the company's financial health, at a particular point of time, during its life time and also it involve the determination of efficiency of the management in utilizing and managing the funds provided for the business. The financial performance of a company is to be evaluated from time to time, to detect any fault in the financial and take a remedial in appropriate time.

Financial analysis refers to an assessment of the viability, stability and profitability of a business, sub-business or project.

Financial Analysis in terms of profitability helps management in making business decisions such as:

- Continue or discontinue its main operation or part of its business;
- Make or purchase certain materials in the manufacture of its product;
- Acquire or rent/lease certain machineries and equipment in the production of its goods;
- To negotiate for a bank loan to increase its working capital.

- Other decisions that allow management to make an informed selection on various alternatives in the conduct of its business.

Hence the profitability of the company influences its production, marketing and other functions and consequently effect the rise of the company and its growth.

Profitability Ratios

It refers to the percentage of the total value of sales that represents the profit of the business. Managers want to know how much profit they are making as a proportion of sales revenue. The higher the proportion, the more profitable they are. Profitability ratios are as follows:

Gross Profit Margin

The gross profit margin ratio indicates how efficiently a business is using its materials and labor in the production process. It shows the percentage of net sales remaining after subtracting cost of goods sold.

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Net Sales}}$$

Net Profit Margin

Net Profit is obtained when operating expenses, interest and taxes subtracted from the Gross Profit. The net profit margin ratio is measured by

$$\text{Net Profit Margin} = \frac{\text{Net profit after taxes}}{\text{Net Sales}}$$

Operating Profit Margin

A ratio used to measure a company's pricing strategy and operating efficiency. Calculated as:

$$\text{Operating profit margin} = \frac{\text{Operating Income}}{\text{Net Sales}}$$

Economic Value Added: EVA compares the rate of return on invested capital with the opportunity cost of investing elsewhere. This is important for business to keep track of particularly those business that are capital intensive. When calculating economic value added, a positive outcome means that the company is creating value with its capital investments. Conversely, a negative outcome would mean that the company is destroying value with its capital investments and the capital would be better spent elsewhere. Business can use economic value added to assess managerial performance as it serves a measure of value creation for shareholders. The formula for calculating EVA is as follows:

EVA = Net Operating Profit After Tax (NOPAT) – (Weighted Average Cost of Capital Invested)

Objectives of the study

1) To find out the profitability ratios for the past five financial years (2015-16 to 2019-20) of VST Industries Ltd.,
2) To compute the economic value added for the past five financial years (2015-16 to 2019-20) of VST Industries Ltd.,

Methodology of the study

The secondary source of information has been used for collection of required data for the study. the sources include annual reports of the company, websites, fiancé journals etc. Profitability ratios and Economic Value Added are calculated for past 5 years i.e. 2015-16 to 2019-20. Table and graphical presentation are used to indicate the changes in trend and there by interpreted the calculations of profitability ratios and Economic value added with the help of numeric and graphical presentation.

Literature Review

Review of literature refers to the collection of the results of the various researchers relating to the present study. It takes into consideration the research of previous researchers which are related to the present research in any way. During the past few decades, a large number of researchers has been undertaken in India and abroad on evaluating the financial performance, analysis and financial health of organization or industry. Thus, various studies that have been made in the past on financial analysis on profitability and Economic value Added have been reviewed and presented below:

Dr. Monica Tulsian (2014) opined that the purpose of a business unit is to make profit. The profitability analysis is done to throw light on the current operating performance and efficiency of business firms. It should be duly noted that net income figure alone is not very helpful in determining the efficiency and performance of the business firm unless it is related to some other figures such as sales, cost of goods sold, operating expenses, capital invested etc. Thus the profitability ratios are calculated to enlighten the end result and comparison of business firms which is the sole criterion of overall efficiency of business concern. Issa F. O. , Abdulazeez M.O (2014) analysed the profitability of small-scale catfish farming in Kaduna State, Nigeria. Sixty respondents were randomly selected and interviewed using interview schedule to elicit information through multi-stage sampling technique. The data were analysed using frequency, percentages, mean, and ranking while budgetary analysis (gross-margin) was used to determine the profitability of catfish farming. The result shows that majority (70%) used the concrete pond of an average of 200m^2. The source of their capital was mainly from personal savings (48.3%). The quantity of fingerlings raised ranges from 500-6000 at 20 fingerling s/m^2. Majority (55%) of the respondents raised between 3000 and 6000 fish per cycle at 6 to 8 tons/ha^{-1} year^{-1}. Quantity of fish raised and consumed had contributed positively to respondents' household income. However, savings from catfish farming has contributed about 20 to over 75% of the total income of the respondents. The result of profitability reveals that respondents had an average of about ₦774,223.05 and net gross percentage of 73.4% per production cycle. Inadequate capital, scarcity of fingerlings, and inadequate extension services were the major problems facing catfish farmers. The study recommended that catfish farmers should be encouraged to form and manage functional cooperatives as a way to pool their resources for individual development within the fish farming industry. Also, the government should subsidize the prices of input used in fish farming. T. Venkatesan; Dr. S. K. Nagarajan (2012) stated that the 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 overcome this problem. The data is purely based on secondary Profitability position is major determined by the direct and indirect expenses and two away ANOVAs of ROI of selected steel company was, there is a significant different on the selected steel company viz, they are maintaining different level of returns on their investment and correlation of sail to TATA of Net Profit and Bhushan to JSW of OP was positive it tells, they are maintaining similar level in the Net Profit a of SAIL to TATA and JSW to Bhushan of OP. Finally TATA, SAIL has got better first better performer in the area of earning power. Bhushan and JSW have got second better performer in the area of overall earning power.

Achmad Daengs GS, Moch Rizaldy Rahmansyah (2014) opined that for the investors, financial statement is a benchmark of investors in assessing the company's performance. In fact, investors are not always receiving the accurate company's financial statements information and its levels of fairness are in doubt. The financial statement analysis with using financial ratios is not enough. The investors may need to use alternatives financial statement analyses techniques that reflect the actual company's performance. Therefore, both of the investors and the prospective can use Economic Value Added (EVA) and Market Value Added (MVA) analysis. With these technical analyses, the investors may know the company's performance where they are invested or to be used as a place to invest whether it has value added or not. With the results of these analyses, it is the expected for the investors to be more confident in making decision whether to buy, sell or hold the ownership in the company. Daraban Marius Costin (2017) Business organizations of the 21st century, a century driven by globalization, internationalization and speed, must compete on changing and evolving markets. One of the main goals of every business is to create value for its shareholders, value that is generated by the proper usage of existing resources. The notion that can be utilized to successfully illustrate the increase in economic value is the economic value added concept. The Economic Value Added concept known also as EVA is an add on to value, value based management and economic value. EVA is a method and a tool for quantification and measurement of the value created by a business organization. Dr. Anil K. Sharma (2010) research work is aimed to present a narrative literature review of 112 papers published on the EVA from 1994 to 2008. It provides a classification scheme, identifies the gaps in existing literature and suggests the direction for future research. Studies are classified and presented on the basis of the time period, issues covered, distribution of literature in various sources, methodology used, country-wise publications and contributions made by the researchers on the concept. The studies conducted in the developed countries have largely been found to be supporting EVA though there are certain studies in these countries too that consider conventional measures as better tools of corporate performance reporting. However, in developing economies less numbers of studies are available supporting the empirical validity of the concept as a corporate performance measurement tool. The concept of EVA has gained significant attention in the advanced economies, but implementation issues and its validity is under debate all over the world. The paper presents a comprehensive literature review and a critical analysis to move towards the advances in EVA. It may be a very useful source of information to the researchers and managers who wish to understand and implement EVA and carry out further research on the diverse issues of this interesting and value adding performance metric.

Organization Profile

VST Industries Limited: The group's principal activities are to manufacture and market cigarettes. The group also exports cut and manufactured tobacco and cigarettes. The group's major brand names are charms, Charminar special filter,Charminar plain.VST Industries Limited is the third largest cigarette company with an annual turnover of six thousand million, is situated in Hyderabad, Joint Capital of Telangana and Andhra Pradesh. The factory was established in November, 1930and over the years it has grown into a major industry. Charminar and Charm Cigarette are the key brands produced by this company. They exports cut tobacco and cigarettes to different countries.VST is an associate company of British American Tobacco Industries, UK. The company adopts best practice and is the lives of business and considers social responsibilities as a prime consider action in the part of business transaction. It is an organization known for the industry of its business principle, pioneering efforts and in agricultural extension activities, brand marketing and advertising, technological excellence as well as service to its customers.

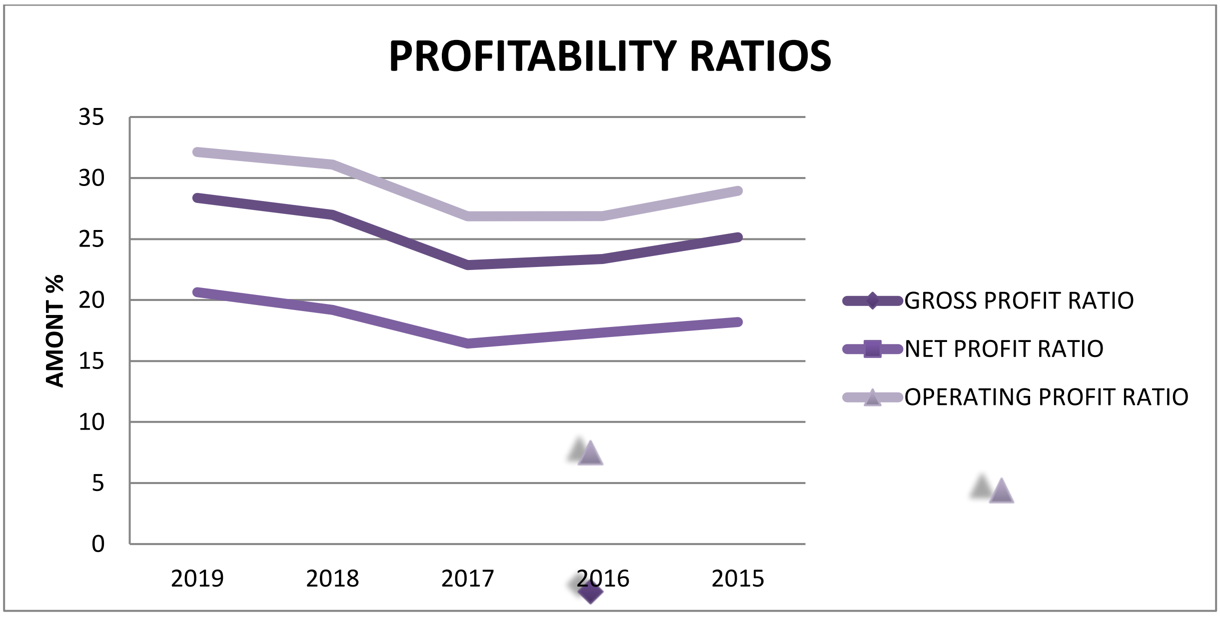
Data Analysis and Interpretation

Table 1

Profitability Ratios from 2015 -16 to 2019-20

Year	Gross Profit Ratio	Net Profit Ratio	Operating Profit Ratio
2019-20	28.37	20.64	32.13
2018-19	26.98	19.20	31.11
2017-18	22.86	16.43	26.89
2016-15	23.36	17.33	26.88
2015-16	25.142	18.20	28.96

Graph 1



Interpretation

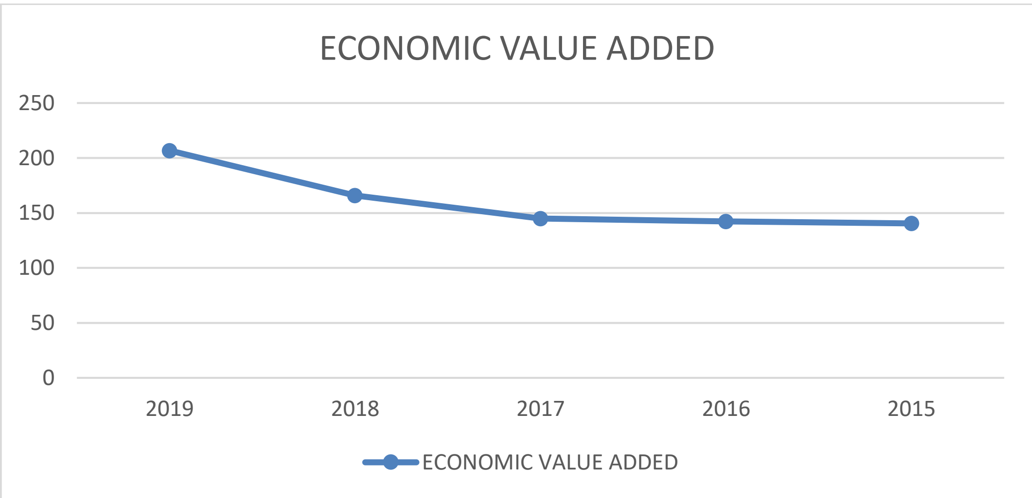
The Operating Profit Ratio is relatively very high when compared to the other two ratios i.e., Net Profit Ratio &Gross Profit Ratio. The Gross Profit Ratio decreased from 25.142% in the year 2015 to 23.36% in the year 2016-17. From the Financial statements it indicates that the company's expenditure on Raw material and others has increased from year to year, which is the reason for the fluctuations and decrease in the gross profit ratio. The operating profit is relatively increased from 31.11% in the year 2018-19 to 32.13% in the year 2019-20, suggesting to maintain the same level of cost of production and to implement effective pricing strategies to maintain the increase in operating profit. The Net Profit Ratio incurred is very low when compared to that of Gross Profit & Operating. Profit Ratios. The Net Profit Ratio has also increased from 18.20% in the year 2015 to 20.64% in the year 2019-20, suggesting an improvement in the control of sales and costs. Thus suggesting to maintain the same.

Table 2

Economic Value Added from 2015-16 to 2019-20

Year	Economic Value Added
2019-20	206.78
2018-19	165.84
2017-18	145.00
2016-15	142.39
2015-16	140.49

Graph 2



Interpretation

We can observe that the amount of economic value added is increasing year by year this is because of increase in increase in earning per share from 108.09 in the year 2017-18 to 115.81 in the year 2018-19. Since there is a positive outcome the company is creating value with its capital investments.

Findings of the Study

Profitability affected by Sales

Sales in the last 5 years (2015-16 to 2019-20) has been a constant increase mainly due to the launch of new variants of products in the latest packaging styles/novelty packaging styles in the market. In 2017-18 the sales have been increased mainly due to the introduction on new brands. As a result both the profitability ratios and EVA are showing an increasing trend.

Profitability affected by Net Profits (after tax)

Profits for the year 2018-19 to 2019-20 have substantially gone up, when compared to previous years. Profit for the year 2015-16 has decreased with the increasing in the payment of Excise duty and other expenses when compared to the previous year.

Economic Value Added affected by EPS

EarningPer Share (i.e., the earnings of the equity holder/number of shares held by equity holders) has seen an increasing trend from the year 2015-16. The EPS in the year 2017-18 fell as low as to 98.13. However, it has improved in the last 2 years mainly because of the profits earned by the company. Hence it resulted in increase in Economic Value Added of the company.

Economic Value Added Dividends:

The dividend has been consistently maintained at the same level for 3 years i.e., from 2017 to 2015. However, it has improved in the last 2 years mainly because of the profits earned by the company. It again shown the impact on Economic value added.

Suggestions

1) The company should explore new products and services to increase its customer base and to stand as a market leader when compared to its competitors.
2) The company should adopt new technology and train its employee for the latest techniques & technology, so that it can compete with its competitors.
3) The company is having qualified & skilled workforce who can be utilized for development of new products & technologies.
4) The company can divert the skilled & qualified employees towards productive jobs by imparting training programs.
5) The company must concentrate on new & improved technology to increase its productive level and this reduces scrap levels.
6) The company can minimize the cost by reducing the Raw Material consumption.

Conclusions

The company made a huge growth in profits during the year 2019-20 & further the company maintained the tempo of growth. This was all made possible by the determined efforts of the management to bring company out of the crisis, co-operation of the employees union and officers association, support from bankers and financial institutions, support from the vendors and customers, & the support from Government of India. The company's profitability efficiency in regards to its Gross Profit, Net Profit & Operating Profit Ratios is satisfactory when compared to the past 5 years & relatively increased & maintained the tempo of growth. Sales in the last 5 years has been a constant increase mainly due to the launch of new variants of products in latest packaging styles/ novelty packaging styles in market.

References:

Text Books

1) I M Pandey (n.d.). Financial Management. New Delhi: Vikas Publishing House.
2) Prasanna Chandra (n.d.). Financial Management Theory & Practice. New Delhi: Tata McGraw hill.
3) S.N.Maheshwari. management accounting & financial control.
4) Robert, L., Patricia, A. and Daniel G., S. (n.d.). Financial Accounting.
5) Vst Industries Ltd. Annual Reports 2015-2019

Journals

1) Dr. Monica Tulsian. Profitability Analysis (A Comparative Study of Sail & Tata Steel). ISRO Journal of Economic and Finance (ISOR-JEF) e-ISSN: 2321-5933, p-ISSN: 2321-5925. Volume 3, Issue 2. Ver. I (Mar. – Apr. 2014). PP 19-22.
2) **Issa F. O. ,** Abdulazeez M.O. Profitability Analysis of Small-Scale Catfish Farming in Kaduna State, Nigeria. Journal of Agricultural Extension and Rural Development. Vol. 6(8), pp. 267-273, August, 2014.
3) T. Venkatesan; Dr. S. K. Nagarajan. An Empirical Study of Profitability Analysis of Selected Steel Companies in India. International Journal of Marketing, Financial Services & Management Research. Vol.1 Issue 10, October 2012, ISSN 2277 3622.
4) Achmad Daengs GS, Moch Rizaldy Rahmansyah. Implementation of Economic Value Added and Market Value Added Analysis as Valuation Tools of Invest Feasibility. GSTF Journal on Business Review (GBR) Vol.3 No.4, November 2014.
5) Daraban Marius Costin ("Lucian Blaga" University of Sibiu). Economic Value Added – A General Review of the Concept. "Ovidius" University Annals, Economic Sciences Series Volume XVII, Issue 1 /2017.
6) Dr. Anil K. Sharma**.** Economic Value Added (EVA) - Literature Review and Relevant Issues. International Journal of Economics and Finance Vol. 2, No. 2; May 2010.

Websites

1. www.indiainfoline.com
2. www.VST Industries Ltd.com
3. www.invest.economictimes.indiatimes.com