"A STUDY ON PROFITABILITY AND ITS RELATIONSHIP WITH CREDITOR'S PAYABLBE PERIOD WITH REFERENCE TO OLEORESIN EXTRACTION INDUSTRIES IN KOCHI."

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Abstract

The study is conducted on the Profitability of various firms in the oleoresin extraction industries . This study focuses on profitability ratios and efficiency ratio to determine the effectiveness of the companies in gaining profits in oleoresin industries in Kochi, it covers a period of five years from 2014-2019. This also intends to determine the relationship between profitability of the firm and creditor payable period. A properly designed and implemented payables management is expected to contribute positively to the insurance firm's profitability. The purpose of this study is to determine the impact of average payments period on profitability The results indicated that Average Payments Period has a significant impact on profitability. Based on the findings, the study recommends that companies should Endeavour to reduce their number of days accounts payables optimally and concentrate on reducing the high variability in the average payables period to enhance their corporate profits.

Key words : *Payable Period , Profitability, oleoresin extraction industry*

INTRODUCTION

One needs money to make money. Finance is the life-blood of business and there must be a continuous flow of funds in and out of a business enterprise. Money makes the wheels of business run smoothly. Sound plans, efficient production system and excellent marketing network are all hampered in the absence of an adequate and timely supply of funds. Sound financial management is as important in business as production and marketing. A business firm requires finance to commence its operations, to continue operations and for expansion or growth. Finance is, therefore, an important operative function of business. Profitability means ability to make profit from all the business activities of an organization, company, firm, or an enterprise. It shows how efficiently the management can make profit by using all the resources available in the market.

STATEMENT OF PROBLEM

In this study an effort has been made to analyze the working capital management in Oleoresin extraction Industries in Kochi. Hence the problem is stated as "A study on the profitability analysis of Oleoresin extraction Industries in Kochi ."

OBJECTIVES OF STUDY

1. To analyze and evaluate profitability position of the concern by using profitability ratios.
2. To find out the structural health of the companies by using structural health ratios.
3. To determine the relationship between Creditor payment period and profitability of the concern

RESEARCH METHODOLOGY

TYPES OF DATA

Primary data

The primary data are obtained through personal interview with the Vice President of Corporate Finance of Various extraction Industries in Kochi .

Secondary data

Secondary data have been obtained from the annual reports of the companies. In this study the Balance sheets and Profit and Loss Account for the last five years are also used. Statistical tools such as ratio and regression are used to analyze the data.

TOOLS OF ANALYSIS

The data were analyzed with the help of statistical and accounting tools like ratio analysis, and Karl Pearson correlation

RESEARCH DESIGN

The research design of this project is both Quantitative research design and Correlation research design.

REVIEW OF LITREATURE

Eljelly (2004) Identified the relation between profitability and liquidity who was examined, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock firms n Saudi Arabia. The study found that the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have significant effect on profitability at the industry level. The results were stable and had important implications for liquidity management in various Saudi firms. First, it was clear that there was negative relationship between profitability and liquidity indicators such as current ratio and cash gap in the Saudi sample examined. Second, the study also revealed that there was great variation among industries with respect to the significant measure of liquidity.

Kania & Bacon (2005) studied the impact of profitability, growth, risk, liquidity and expansion on the dividend decision/policy of a corporation. Their study concluded that the dividend payout ratio is significantly affected by the profitability (return on equity), growth 76 (sales growth), risk (beta), liquidity (current ratio), control (insider ownership) and expansion (growth in capital spending).

Saswata Chatterjee (2010) Focused on the importance of the fixed and current assets in the successful running of any organization. It poses direct impacts on the profitability liquidity. Therehas been a phenomenon observed in the business that most of the companies increase the margin for the profits and losses because this act shrinks the size of working capital relative to sales. But if the companies want to increase or improve its liquidity, then it has to increase its working capital. In the response of this policy the organization has to lower down its sales and hence the profitability will be affected due to this action. For this purpose, 30 United Kingdom based companies were selected which were listed in the London Stock exchange. The data were taken of three years 2006-2008. It analysed the impact of the working capital on the profitability. The dimensions of working capital

management included in this research which is quick ratios, current ratios C.C.C, average days of payment, Inventory turnover, and A.C.P (average collection period) on the net operating profitability of the UK companies.

Mohamad and Saad (2010) Used Bloomberg's database of 172 listed companies randomly selected from Bursa Malaysia main board for five-year period from 2003 to 2007. Applying correlations and multiple regression analysis, they found that current assets to total asset ratio shows positive significant relationship with Tobin Q, ROA and ROI. Cash conversion cycle, current asset to current liabilities ratio and current liabilities to total assets ratio illustrate negative significant relations with Tobin Q, ROA and ROIC.

DATA ANALYSYS AND INTERPRETATION

PROFITABILITY RATIO

Profitability ratios are:
1) Gross Profit Ratio
2) Net Profit Ratio
3) Return on Asset Ratio

1)GROSS PROFIT RATIO

Gross Profit is the result of the relationship between prices, sales volume and costs.

Gross Profit Ratio = (Gross Profit /Sales)x100

Gross Profit= Net Sales – Cost of goods sold

Table No 1, showing Gross Profit Ratio

GROSS PROFIT RATIO			
YEAR	**GROSS PROFIT***	**SALES***	**GROSS PROFIT**
2014-2015	3136.86	12166.82	25.78209
2015-2016	3665.84	12965.5	28.2738
2016-2017	4089.26	15478.44	26.41907
2017-2018	4260.98	14388.86	29.61305
2018-2019	4448.55	13322.02	33.39246

***** (All figures in Million Rs)

INTERPRETATION

By observing the graph, we can see that gross profit ratio shows a rising from trend with an exception for the year 2016-2017 where there is slight dip. The cost of goods sold is high during the financial 2016-2017 which resulted to in slight fall in the ratio. The companies is at a position to give sufficient amount discounts without incurring any loss.

2) NET PROFIT RATIO

Net Profit ratio measures the percentage of each sale rupee remaining after all costs and expenses including interests and taxes have been deducted.

Net Profit Ratio = (Net Profit /Sales) x100

Table 2, showing Net Profit Ratio

NET PROFIT RATIO			
YEAR	**NET PROFIT***	**SALES***	**NET PROFIT RATIO**
2014-2015	382.13	12166.82	3.14
2015-2016	645.09	12965.5	4.97
2016-2017	816.61	15478.44	5.27
2017-2018	899.94	14388.86	6.25
2018-2019	973.62	13322.02	7.30

(*All Figures in million Rs.)

INTERPRETATION

The net profit ratio shows a rising trend during period of study. When compared to the financial year 2014-2015 the net profit ratio has 1.5x growth in the financial year 2015-2016, this happened so since the expenses were properly controlled. A similar effect can also be noticed in the financial year 2018-2019 where even though the net sales came down the profit increased this was also due to proper management of expenses. From the period of study, it is clear that companies has taken measures to ensure a steady increase in the profit.

4. RETURN ON ASSET RATIO

Here the profitability ratio is measured in terms of the relationship between the net profits and assets.

ROA = (Net Profit/Total Assets) x100

Table No 4.7, showing Return on Asset Ratio

RETURN ON ASSET RATIO			
YEAR	**NET PROFIT***	**TOTAL ASSET***	**ROA**
2014-2015	382.13	13100.82	2.91
2015-2016	645.09	15592.81	4.13
2016-2017	816.61	18011.29	4.53
2017-2018	899.94	16685.4	5.39
2018-2019	973.62	17118.51	5.68

(*All figures in million Rs.)

INTERPRETATION

The return on asset indicates the efficiency of the management in using the assets of the company for generating earnings for the company. Hence higher ratio indicates higher efficiency.

From graph we can see that the ratio shows a rising trend every year, which indicates that the company has made a proper and well planned investments in the assets to ensure it suits their needs and it is evident from the increasing trend of the ratios.

3) CURRENT ASSET TURNOVER RATIO

This shows the relation of sales and current assets. It is calculated as

Current Assets Turnover Ratio =Sales/Current Assets.

Table No 4.11, showing Current Asset Turnover Ratio

CURRENT ASSET TUROVER RATIO			
YEAR	NET SALES*	CURRENT ASSET*	CURRENT ASSET TURNOVER
2014-2015	12166.82	8594.22	1.41
2015-2016	12965.5	11112.47	1.16
2016-2017	15478.44	12239.27	1.26
2017-2018	14388.86	10846.07	1.32
2018-2019	13322.02	9763.53	1.36

(All Figures in million Rs.)

INTERPRETATION

The average current asset turnover ratio is 1.30, which means that on an average 1.30% of the sales are from current asset. This figure indicates the percentage return earned by the company through the sales revenue by investing money in the current assets.

(Structural Health Ratios)

1) CREDITOR TURNOVER RATIO

In the course of business operations, a firm has to make credit purchases and incur short term liabilities. Supplier of goods i.e. creditors, are interested to know about repaying capacity of the firm.

Creditors turnover ratio = Net credit purchases / Average trade creditors
Average payment period = days or months in a year / creditors turnover ratio

Since credit purchase is not available total purchases is assumed as credit purchase for analysis.

Table No 4.13, showing Creditor Turnover Ratio

CREDITOR TURNOVER RATIO				
YEAR	CREDIT PURCHASE*	AVG. TRADE PAYABLE*	CTR	AVG. PAYMENT PERIOD
2014-2015	9505.15	611.36	15.54	23
2015-2016	10989.39	1014.32	10.83	34
2016-2017	11703.47	1232.73	9.49	38
2017-2018	8654.8	1360.17	6.36	57
2018-2019	8908.94	1500.72	5.93	61

***(**All Figures are in Million Rs.)

INTERPRETATION

It is always ideal to maintain high payable period. From graph its evident payable period is increasing every year. Company which had a payable period of 23 days in the year 2014-2105 shows tremendous improvement when it comes to the financial year 2018-2019 where it has increased to 61 days. This shows management is successful in negotiating with creditors to secure a higher payable period. Creditors trust on the company has improved.

RELATIONSHIP BETWEEN PROFITABILITY AND CREDITOR PAYMENT PERIOD.

For the purpose of study, we assume here that Profitability as a dependent variable and Creditor Payable Period as the independent variable.

HYPOTHESIS

H0- There exists a strong positive correlation between Profitability of the concern and the Creditor Payment Period, ie. The movement of variable will be in the same direction

H1- There exists a negative correlation between Profitability of the concern and Creditor Payment Period, ie. The movement variable is in the opposite direction.

CORRELATION (Analysis)

Correlation is a statistical technique that can show whether and how strongly pairs of variables are related.

Table No 4.14, showing calculations for Correlation between Net Profit and Creditor Payable Period

X	Y	$(X-\bar{X})$	$(Y-\bar{Y})$	$(X-\bar{X})(Y-\bar{Y})$	$(X-\bar{X})^2$	$(Y-\bar{Y})^2$
382.13	23	-361.348	-19.6	7082.421	130572.4	384.16
645.09	34	-98.388	-8.6	846.1368	9680.199	73.96
816.61	38	73.132	-4.6	-336.407	5348.289	21.16
899.94	57	156.462	14.4	2253.053	24480.36	207.36
973.62	61	230.142	18.4	4234.613	52965.34	338.56

X- Net Profit

Y- Creditor Collection Period

$\sum(X-\bar{X})(Y-\bar{Y})$	14079.82
$\sum(X-\bar{X})^2$	223046.6
$\sum(Y-\bar{Y})^2$	1025.2

KARL PEARSON CORRELATION VALUE RANGE

$$\mathbf{r} = \frac{\sum(\mathbf{x}-\bar{\mathbf{x}})*(\mathbf{y}-\bar{\mathbf{y}})}{\sqrt{\sum(\mathbf{x}-\bar{\mathbf{x}})^2*\sum(\mathbf{y}-\bar{\mathbf{y}})^2}}$$

r= 0.98

INTERPRETATION

From the correlation value which has been obtained indicates that there exists a strong correlation between Creditor payable period and Profitability of the concern.

This implies that higher the creditor payable period higher is the profit. The correlation value indicates that when the payable period increases the profit also increases.

FINDINGS

- Over the period of study, the Gross Profit ratio shows a steady increase except for the financial year 2016-17 where we observe a slight dip on account of increase in cost of goods sold. The companies are at a position to provide a discount which is more than 25% without incurring any loss.
- Over the period of study, the Net Profit ratio shows a steady increase. Net profit of the company has increased every year since the company is able to properly manage the expenses incurred by the company.
- The current asset turnover ratio has improved every year. It indicates the efficiency of the management in generating earnings for the company. So the values obtained indicates that the company has made proper and planned management in the current assets of the company.
- The payable period which was at 23 days for the financial 2014-15 has increased to 61 days in the year 2018-19, this indicates company is able to negotiate with its creditors to offer higher payable period. It also indicates the trust which the creditors have on the company.
- We accept the hypothesis H0, since there exists a strong positive correlation between profitability of the company and creditor payable period.

5.2 SUGGESTIONS

- There exists a strong positive correlation between creditor payable period and net profit earned by the company. The company can negotiate with the creditors to achieve a higher payable period.
- The liquid cash held by the company is low when compared to the current liability which it has. The cash in hand can be improved by reducing their investments in other current asset and by bringing changes in the collection policy to expedite payments from debtors

CONCLUSION

The main aim of the research is to Analyze the profitability of Oleoresin extraction Industries in Kochi. The project also intends to find the relationship between the Creditor Payable Period and Net profit of the companies. After the analysis we found that the companies are efficiently managing and has a steady increase in the profit of the company over the period of study. We also found a strong correlation between the Creditor Payable Period and the net profit of the company. So we can conclude that Creditor payable period has an impact on the Net Profit of the company. The suggestions provided above will further help to improve the efficiency of the company and improve the profitability of the company.

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