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An Analytical Study on Profitability Analysis of NDMC

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Abstract

As this paper is going to highlight the profitability analysis of NMDC from the year 2019-2020 in this paper we had selected two years only to compile the related information about these two stated years to cover up the objectives of the research study like to study the profitability analysis of NMDC and even prevailing the pandemic conditions too for sake of feedback under the shadow of suggestion to point-out the drawbacks of company actually on based of this research with the help of average method system percentile method system and ratios analysis system to give a clear information about profitability of NMDC.

Keywords: Profitability • Ratios • Average • Capital • Funds • Analysis

Introduction

Profitability is the essence of every kind of investment and every kind of fund employment into the right order or on the right direction to earn profit for the shareholders and for its survival too [1]. Profitability is the reason which makes every possible efforts to fulfil the requirement of the company and is one of four building blocks which helps to analyse the whole overall performance of company after accounting year rest are efficiency, solvency, and market prospects. Investors, creditors, and managers use these key concepts to analyse how well a company is doing and the future potential it could have if operations were handled properly [2].

The two key notes of profitability are revenues and expenses. Revenues are the business income. This is the amount of money earned from customers by selling products or providing services. Generating income isn't free, however. Businesses must use their resources in order to produce these products and provide these services [3]. Resources, like cash, are used to pay for expenses like employee payroll, rent, utilities, and other necessities in the production process. Profitability looks at the relationship between the revenues and expenses to see how well a company is performing and the future potential growth a company might have. The most important part of analysis of financial statements of a business concern is the calculation of different kinds of ratios like profitability ratios, capital structure ratios, liquidity ratios and solvency ratios [4]. As far as present study is concerned, the researcher has critically examined the profitability ratios as the part of financial analysis of NMDC. In the present study the researcher has taken into account the core profitability ratios like operating profit ratio/margin, gross profit ration/margin, net profit ratio and return on equity to analyse the profitability position of NMDC. The analysis of these profitability ratios are in detail shown below with interpretations [5].

Kuldeep Chaudhary and Surbhi Gupta: "A study on the profitability analysis of power grid corporation of india ltd" the net profit ratio is around 30% and the expenses ratio is around 17%. This is highly satisfactory. ROE has gradually increased from 7% to 14%. Dividend per share and net worth per share also increasing which is a good indication for company's shareholders and owners. During recession 2007-08, had no effect on PGCIL [6].

Andrius Kazukauskas and Jurate Jaraite: "The profitability of power generating firms and policies promoting renewable energy" the estimation results show that power generators with larger assists had higher profitability. Also, the higher growth in renewable energy production led to higher profits [7].

Pranati Misra: "An empirical analysis of financial performance of leading power sector organisation-NTPC" The profitability ratio shows that overall profitability on NTPC has been positive during the study period. Finding of the study brought the conclusion that overall financial performance of NTPC was satisfactory during initial years of the study but deteriorated in later years [8].

Objectives

- To study about the profitability of NMDC.
- To give suggestions for rehabilitation for further progress.

Materials and Methods

Research methodology

Research methodology is the systematic way of understanding and solving the research problem. Hence it can be regarded as a science that makes us understand how to carry out our research in a proper way. In this research study we dealt with the descriptive method in order to define the reality and observation of the objectives then percentile and ratios were employed by the researcher during the tenure of this research study and the research were confined to the two years only 2019-2020 [9].

Accounting tools

Profitability ratio analysis.

Results

Data analysis and interpretation

Gross profit ratio/margin: The first ratio of profitability in relation to sales is gross profit margin ratio or simply gross profit ratio. This ratio gives us information regarding for every one rupee of revenue that was generated. This ratio reflects the efficiency of the management in producing each unit of the product or in trading each unit of a product (Table 1 and Figure 1).

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The tabular analysis of the very ratio for the financial years 2019 and 2020 ending 31 March along with interpretation is shown below:

Gross profit ratio=(Gross profit)/(Net sales) × 100

Year ending 31 March	Gross profit	Net sales	Product-100	Ratio
2020	5707	11700	100	48.77
2019	6645	12153	100	54.68

Table 1. Showing gross profit ratio.

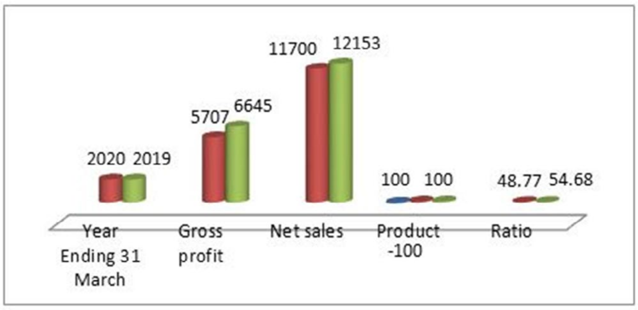

Figure 1. Pictorial representation of gross profit ratio for the year 2019 and 2020.

Interpretation

The gross profit ratios for the financial year 2019 and 2020 are 54.68% and 48.77% respectively. A high gross profit ratio relative to the industry average implies that the firm is able to produce at relatively lower cost. A high gross profit ratio relatively indicates the sign of efficient management in terms of t the profitability. It is evident from the analysis of the ratio that competent enough to even more profits. During the year 2020, the ratio falls down; it could be because of the COVID-19 lockdown as there is continuous lockdown country wide due to this pandemic [10].

Operating profit ratio/margin

Operating profit ratio is a modified version of net profit ratio. It studies the relationship between operating profit and net sales. The analysis of operating profit ratio gives us the figure regarding the profits generated and financial viability out of the core operations of the business (Table 2 and Figure 2). The tabular analysis of the very ratio for the financial years 2019 and 2020 ending 31 March along with interpretation is shown below:

Operating profit ratio=EBIT/(Sales) × 100

Year ending 31 March	EBIT	Sales	Product-100	Ratio
2020	6105	11700	100	52.17
2019	7154	12153	100	58.86

Table 2. Showing operating profit ratio.

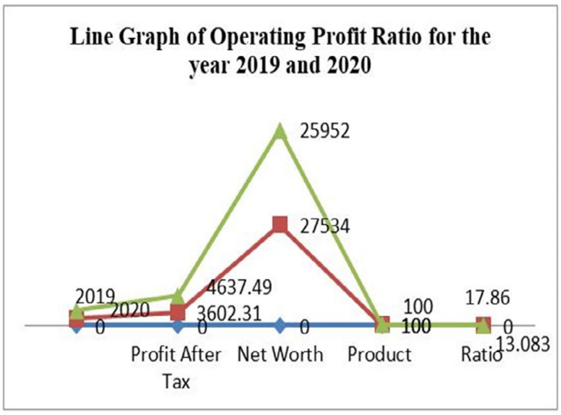

Figure 2. Line graph of operating profit ratio for the year 2019 and 2020.

Interpretation

The operating profit ratios for the financial year 2019 and 2020 are 58.86% and 52.17% respectively. A high operating profit ratio is relatively the indicator of the good operating efficiency of the management while as low ratio indicates the operational inefficiency of the management. As far as the very ratio is concerned, the operating efficiency of the NMDC seems to be good [11].

Net profit ratio

Net profit ratio establishes a relationship between net profit (after taxes) and sales and indicates the efficiency level of the management regarding manufacturing, administering and in selling the products. It is determined by dividing the net income after tax to the net sales for the period and measures the profit per rupee of sales (Table 3 and Figure 3). The tabular analysis of the very ratio for the financial years 2019 and 2020 ending 31 March along with interpretation is shown below:

Net profit ratio=(Net Profit)/ (Net sales) × 100

Year ending 31 March	Profit after tax	Net sales	Product-100	Ratio
2020	3602.31	11700	100	30.78
2019	4637.49	12153	100	38.15

Table 3. Showing net profit ratio.

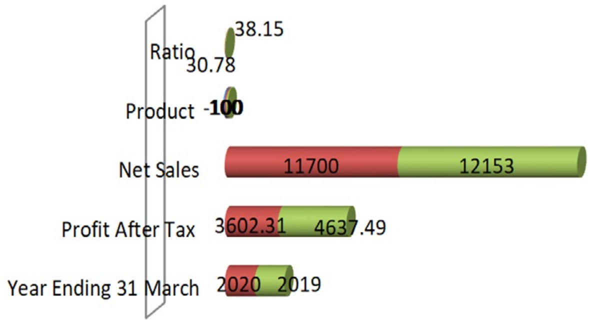

Figure 3. Graphical representation of net profit ratio.

Interpretation

The net profit ratios for the year ending 31 March 2019 and 2020 are 38.15% and 30.78% respectively. However, a slight downward trend in the ratio is seen in 2020 as compared to 2019 it is because of the pandemic prevalent throughout the world. Higher the net profit ratio indicates the better profitability of the concern as the concern with higher net profit ratio would be in a better position to survive in the ever changing market. On the other hand, a low net profit ratio indicates that the profitability of the enterprise is poor. There is a scope for improvement in the performance of the company. Therefore the present situation of the company is good enough to make sufficient profits [12].

Return on equity/net worth

As it is obvious that ordinary or in other words equity share holders receive their share in the profits of the business only after meeting the claims and obligations of other type of share holders and creditors as equity share holders are fully owners of the company for the proportion of their shares. Also the rate of dividend is not fixed. The earnings in the form of dividend may be distributed among them or may be retained in the business. The return on equity is analysed to know how much profits are earned out of owner's investment. Return on equity/net worth is calculated by dividing net profits after tax to net worth/ equity of the shareholders (Table 4 and Figure 4). The tabular analysis of return on equity for the financial years 2019 and 2020 ending 31 March along with interpretation is shown below:

Return on equity=(Net profit)/(Net worth/equity)

Year ending 31 March	EBIT	Sales	Product-100	Ratio
2020	6105	11700	100	52.17
2019	7154	12153	100	58.86

Table 4. Showing return on equity ratio.

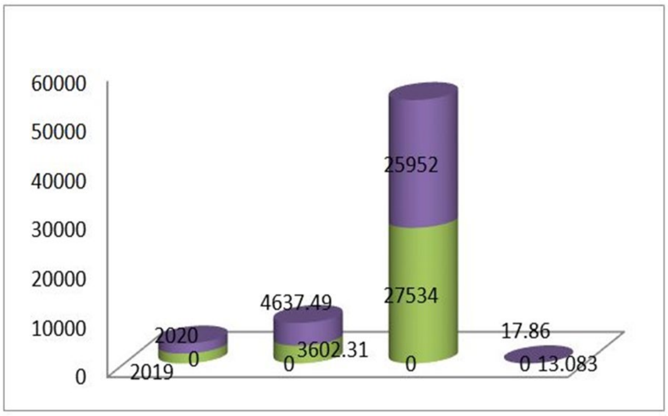

Table 4. Graphical representation of the return on equity ratio.

Interpretation

The analysis of return on equity for the year ending 31 March 2019 and 2020 are 17.86% and 13.083% respectively. This ratio indicates that how well the firm has utilised the resources of its owners. Higher this ratio will reveal the relative performance and strength of the company in attracting investments. Slight downward trend in the ratio is seen in 2020 as compared to 2019 it is because of the pandemic prevalent throughout the world [13].

Discussion

It is said that higher the gross profit ratio indicated the good sign of efficient management. As for as the present study period of NMDC Ltd is concerned, in the beginning of the study period it was found that the ratio is better but then it decreased during the next financial year which is not a good sign. The decrease in the ratio may be due to COVID-19 Pandemic during the year 2020 as there was worldwide lockdown which drastically decreased the overall economy of the countries in the world. In the year 2017 the ratio moved up to 7.68% which is better, but the company should further improve its performance.

It is said that higher the net profit ratio, better it indicates the efficiency of the business enterprise. As for as present study period of NMDC Ltd is concerned, in the beginning of the study period it is found that the ratio was better but then it slightly decreased which was not a good sign but as everyone of us is aware of the fact that why this happen. As far as the previous so many years profitability position of NMDC is concerned its capacity to withstand adverse economic conditions seems to be good enough. Now, the company should improve its performance as the adversity due to pandemic is getting low day by day and there is the scope for improving profitability. It is found by analysing that operating performance of the concern is good and the firm should maintain its performance in a same way as there is a lot of scope of it. It is also found that the return to its equity share holders is slightly low during the study period but there is a lot of scope for its improvement [14].

Suggestions

The company should increase its gross profit margin by increasing its selling price but the cost of goods sold should decrease or should remain unchanged. The company should try to increase the proportion of higher margin items. The company should make efforts to lower the cost of manufacturing, administering and selling the products. As if the net profit margin will be low, it will fail in attaining the objective of satisfactory return to its share holders.

The company should maintain its operating efficiency as the analysed data reflects a satisfactory position. But there is always a scope of improvement, so for the improvement purpose the company should lower its operating expenses which will help in better operating efficiency of the company. There is a wide scope of the company to increase returns to its shareholders. When the return to its shareholders will increase it will intern help the company in attracting prospective investors to invest in the company [15].

Conclusion

The study was conducted on the profitability analysis of NMDC Ltd for the period of last 2 years *i.e.,* 2019 and 2020. The study reveals that the company's financial performance in terms of profitability was seen to be fair. After analysing the financial statements of the company during the period of the study, it comes to be known that the financial performance of the company is slightly fluctuating. This is because of the COVID-19 pandemic which has ruined the economy worldwide. Now the adversity of the pandemic is getting low day by day. So, there is a lot of scope for the company to take the necessary measures to improve its overall performance. Therefore, NMDC Ltd. should try to improve its financial performance in the coming years to maximize the shareholders wealth by increasing its operating efficiency.

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