

NET PROFIT ANALYSIS OF SELECTED FERTILIZER COMPANIES IN INDIA

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ABSTRACT

Indian fertilizers market is anticipated to witness robust growth during the forecast period, owing to continuous growth of population which is resulting in more demand for food, coupled with increasing demand for agricultural products in the country. India is one of the leading producers of agricultural products such as pulses, wheat, rice, groundnut, potatoes, onion etc., thereby leading to high demand for fertilizers in the country. This research paper is aiming to understand the net profit ratio of selected Indian fertilizer companies.

Keywords: *Net Profit Ratio, Ratio Analysis, Financial Analysis, Fertilizer Industry.*

Introduction

The Indian fertilizer market was worth INR 5,437 Billion in 2018. Looking forward, the market is projected to reach INR 11,116 Billion by 2024, growing at a CAGR of 12.3% during 2019-2024. Fertilizers have played a key role in the success of India's green revolution and subsequent self-reliance in food-grain production. The increase in fertilizer consumption has contributed significantly to sustainable production of food grains in the country. As a result, the demand of fertilizers has witnessed double digit growth rates over the past several years.

The financial result of the firm is one of the most important indicators of its performance. The financial performance of the any firm is basically measured by the financial statement analysis. The financial statements are constructed to present useful overall summaries of the financial data accumulated by a concern. They are very useful to communicate financial information to interested parties. They reveal the periodical review on the progress by the management. Therefore, to judge real scenario of a particular concern for a particular period, the analysis and interpretation of financial statements of that concern are necessary. It highlights the significant facts and relationship regarding the managerial performance, corporate efficiency, financial strength and weakness and credit worthiness of a business enterprise. Financial analysis is a process of evaluating relationship between components of financial statement to obtain better understanding of the firm's position and performance. This study highlights on the financial performance of selected fertilizers companies of India.

Review of Literature

- **Ferrouhi (2014)** analyzed the performance of major Moroccan financial institutions for the period 2001-2011 in his research paper entitled "Moroccan Banks Analysis Using CAMEL Model" He used one financial ratio for each of capital adequacy, assets quality, management quality, earning ability, and liquidity position measures. The testing of the above measurements on six Moroccan institutions revealed that all the six banks did well over the period of study. His

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findings were based on ranking the average of each ratio, showed that some banks are better off than others.

- **Gupta (2014)** evaluated the performance of public sector banks in India in his paper entitled "An Analysis of Indian Public Sector Banks Using Camel Approach.". He used camel approach for a 5-year period 2009-2013. Gupta had covered all the 26 Public Sector Banks in India have been analyzed for the purpose of the study. Secondary data collection were used, viz. journals, IBA bulletin, statistics published by Reserve bank of India and annual reports published by the banks. The results showed that there is a statistically significant difference between the camel ratios of all the public sector banks in India. Therefore, the overall performance of public sector banks is different.
- **Mukdad Ibrahim (2015)** had made the attempt to "Comparative study of financial performance between two leading private sector commercial banks i.e. Conventional and Islamic Banking in United Arab Emirates." The researcher ha used secondary data during the period of 2002 to 2006, which compiled from Abu Dhabi Financial Service Company. The financial performance ha measured by different financial ratios. Moreover, Z-Score indicator was used to measure the overall stability of each bank. The researcher had concluded that that both banks performed reasonably well during the period studied. While the bank of Sharjah benefited by having an overall higher degree of liquidity, profitability, management capacity and capital structure, Dubai Islamic bank was better off in relation to share indicators performance and in terms of overall stability.
- **Weerakoon Ranjan (2016)** had focused on information and recommendation about the financial position, performance and changes in financial position of Nike Ins. In his research paper entitled "The Financial Performance Analysis of Nike Inc: with Special Reference Year 2015 Annual Report". The financial performance of Nike has evaluated using methods of Horizontal analysis, vertical analysis tends analysis and selected key ratios for improvements to increase cash flow and improve dividend and reduce liabilities. According to the analysis data, recommendations have been given to ensure the company's revenue and reduce liabilities.

Objective of the Study

The main aim of the present study is to analyze net profit ratio of selected fertilizer companies of India.

Research Methodology

The study is purely based on secondary data which is collected from the audited annual financial reports of the selected fertilizers companies from the financial year 2008-09 to 2017-18. Other important financial information is collected through the various industrial magazines and journals of trade and commerce.

Sample Selection

In India there are total 112 fertilizer companies in the year 2013-2014. Out of which 19 companies are listed in Bombay Stock Exchange (BSE) and 14 fertilizer companies are listed in National Stock Exchange (NSE), whereas 13 companies are listed in both BSE and NSE. Researcher selected 11 companies for Net profit analysis which are listed in both BSE and NSE.

Data Analysis

• Net Profit Ratio

Net profit is the profit remaining after all cost of production, administration and financing have been deducted from sales and income taxes recognized. It is also known as return on sales ratio. Net Profit ratios represent the company's ability to convert revenue into profits. It compares net profit with sales. This indicates how much a company earns, taking into account the costs necessary to produce its goods and services. A high net profit ratio index reflects a greater efficiency of the main activities, which means that it can still cover operating costs, fixed costs, dividends and depreciation, while the company achieves net profits. On the other hand, a low profit ratio indicates a high cost price of sold goods, which can be attributed to unfavourable purchasing policies, low selling prices, low sales and difficult competition in the market or a wrong sales promotion policy.

Table 1: Net Profit Ratio (%)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Average	SD	CV
Aries Agro	1.18	8.06	9.22	5.45	5.00	4.95	5.04	3.08	5.46	5.42	5.29	2.24	42.41
Chambal Fertilizers	5.01	6.95	6.99	3.83	4.16	3.80	2.67	-0.13	5.74	6.44	4.54	2.20	48.40
Coromandel International	5.20	7.24	9.09	7.06	5.19	3.68	3.57	3.12	4.76	6.03	5.49	1.89	34.37
Deepak Fertilizers	10.51	13.34	11.93	9.09	5.64	6.39	2.11	7.15	4.39	3.54	7.41	3.72	50.19
Fertilizer & Chemical	2.00	-4.99	-2.00	0.69	-15.28	-11.99	-20.21	-26.05	-14.10	-6.77	-9.87	9.24	-93.59
GNFC	7.79	4.74	9.37	7.35	6.42	6.03	-9.74	4.98	11.36	13.53	6.18	6.25	101.16
GSFC	8.49	6.33	15.76	14.29	8.29	6.32	7.52	6.70	7.97	7.59	8.93	3.32	37.20
Manglore Chemicals & Fertilizers	1.14	2.72	3.08	1.86	2.39	2.14	1.46	-8.00	0.78	2.25	0.98	3.23	329.11
NFL	1.90	3.37	2.39	1.73	-2.54	-1.12	0.31	2.54	2.74	2.39	1.37	1.90	138.29
Rashtriya Chemicals & Fertilizers	2.53	4.15	4.44	3.87	4.07	3.79	4.18	2.21	2.53	1.08	3.28	1.12	34.06
Southern Petrochemical	-185.71	-29.56	8.42	-0.26	53.40	4.89	0.84	1.35	1.76	1.87	-14.30	63.48	-443.97

Source: Computed from the annual reports of the selected fertilizer companies

Figure 1: Net Profit Ratio (%) of Selected Fertilizer Companies

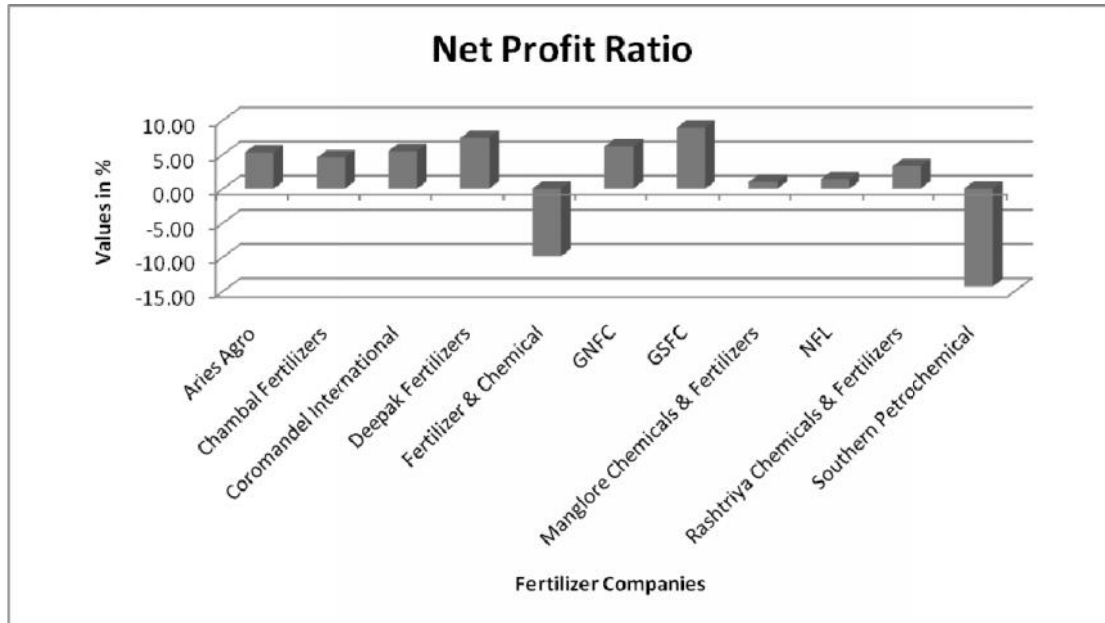


Table 2: Net Profit Ratio of Selected Fertilizer Companies Taking together from the Year 2008-09 to 2017-18

Financial Year	Net Profit (Cr)	Net Sales (Cr)	Net Profit Ratio (%)
2008-09	116.0682	3906.799	2.970928
2009-10	137.5645	3039.445	4.525976
2010-11	248.2136	3534.993	7.021617
2011-12	242.1773	4613.059	5.249819
2012-13	238.6336	4543.601	5.252082
2013-14	142.7073	4830.999	2.953991
2014-15	62.00364	5178.565	1.197313
2015-16	75.40364	5070.155	1.487206
2016-17	192.3018	4554.41	4.222321
2017-18	253.7036	5161.795	4.915027
Average	170.8777	4443.382	3.979628
SD	73.67402	725.335	1.817857
CV	43.11505	16.32394	45.67907
R	-0.13329		

Source: Computed from the annual reports of the selected fertilizer companies

H₀₂: There is no significant difference in mean net profit ratio (%) between selected fertilizer companies

H₁₂: There is significant difference in mean net profit ratio (%) between selected fertilizer companies

Table 3: Result of ANOVA Test for Comparing Net Profit Ratio (%) Between Selected Fertilizer companies

Source of variation	Sum of Squares	df	Mean Square	F	p-value
Between Groups	5332.008	10	533.201	1.394	0.194
Within Groups	37874.813	99	382.574		
Total	43206.821	109			

Average Net profit ratio (%) of each selected fertilizer companies is presented in table-1 and figure-1. It shows that GSFC, Deepak Fertilizer, Fertilizer & Chemical Ltd., Coromandel International and Aries Agro has earned high net profit at 8.93%, 7.41%, 6.18%, 5.49% and 5.29% respectively. Table-2 shows net profit, net sales and net profit ratio of all selected fertilizer companies. It is studied from the data that the fertilizer industry has recorded fluctuating trend in net profit during the study period which shows that the trend of net profit is also similar to the gross profit ratio. Highest net profit is reported by companies is Rs.253.70 Cr in year 2017-18 whereas lowest net profit is reported is Rs. 62.00 Cr in year 2014-15. Overall net profit and net Sale has marked fluctuating trend during the study period. The highest net sale is 5178.57Cr in 2014-15 and the lowest is 3039.45Cr in 2009-10. The mean of the net profit ratio is 3.98% with SD is 1.82 and CV is 45.68%. During the study period companies have reported less net profit than average in Five years 2008-09, 2009-10, 2013-14, 2014-15, 2015-16 respectively. There is weak negative correlation between net profit and net sales ($r = -0.133$). Table-3 gives result obtained by ANOVA test. The p-value is 0.194, which is more than 0.05. It infers that null hypothesis is not rejected at 5% risk, on this basis we can say that there is no significant difference in mean net profit ratio (%) between selected fertilizer companies. The lowest ratio is 0.98% which is reported by GSFC whereas highest ratio is 8.93% which is reported by GNFC.

Conclusion & Suggestion

It can be concluded that GNFC, Deepak Fertilizer, Fertilizer & Chemical Ltd., Coromandel International and Aries Agro has earned higher net profit than the average whereas other fertilizer companies' net profit is below then the average which indicates that the management efficiency in manufacturing, administration and selling of products are not good and these companies are fail to achieve satisfactory return so these companies should try to increase their net profit by increasing their efficiency.

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