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A Study on Profitability Ratio Analysis of Britannia Biscuits Ltd

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Abstract :- The Financial Statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements, and a study of the trend of these factors as shown in a series of statements. This project report covers all the aspects relating to the Profitability ratios of Britannia industries Ltd interpreted according to standards. Britannia was incorporated in 1918 as Britannia Biscuits Co LTD in Calcutta. In 1924, Pea Frean UK acquired a controlling stake, which later passed on to the Associated Biscuits International (ABI) and UK based company. The company is engaged in the manufacture of biscuits, Rusks, cookies and cakes. Britannia operates in a single segment, foods including bakery products such as biscuits, bread, cakes, Rusk, and dairy products. The company is headquarter in Kolkata, India and employs 2,358 people Global Markets Direct, the leading business information provider, presents an in-depth business, strategic and financial analysis of Britannia Industries Ltd.

Key words: *Gross profit Ratio, Operating Ratio and Net profit Ratio.*

I. ISNTRODUCTION

Analysis and Interpretation of financial statements refers to the process of determining the significant operating and financial characteristics from the accounting data with a view to getting an insight into the activities of an enterprise.
"Financial Statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements, and a study of the trend of these factors as shown in a series of statements".

Financial statement analysis allows analysts to identify trends by comparing ratios across multiple time periods and statement types. These statements allow analysts to measure liquidity, profitability, company-wide efficiency and cash flow. The preparation of financial statements i.e. Balance Sheet and Trading and Profit and Loss Account in the module titled 'Financial Statements of Profit and Not for Profit Organizations'. After preparation of the financial statements, one may be interested in analyzing the financial statements with the help of different tools such as comparative statement, common size statement, ratio analysis, trend analysis, fund flow analysis, cash flow analysis, etc. In this lesson you will learn about analyzing the financial statements by using comparative statement, common size statement and trend analysis.

This project report covers all the aspects relating to the Profitability ratios of Britannia industries Ltd interpreted according to standards. This project was done with the help of secondary data as research in finance subjects is done on performance and not potential. The project selected by me is to do statement the financial ratio analysis. The main intention was to group or regroup the various figures and information appearing on the financial statement (either profitability statement or balance sheet or both) to draw the fruitful conclusions there from.
Profitability ratios are valuable as they depict how are you utilizing and managing your resources.

II. OBJECTIVES OF THE STUDY

- To identify the financial analysis of Britannia industries Ltd.
- The Gross profit ratio, Net profit ratio and other profitability ratio position of the Company.
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- The financial ratio analysis and determining the financial capability of the Company.

III. COMPANY PROFILE

Britannia was incorporated in 1918 as Britannia Biscuits Co LTD in Calcutta. In 1924, Pea Frean UK acquired a controlling stake, which later passed on to the Associated

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Biscuits International (ABI) and UK based company. During the 50's and 60's, Britannia expanded operations to Mumbai, Delhi and Chennai. In 1989, J M Pillai, a Singapore based NRI businessman along with the Group DANONE acquired Asian operations of Nabisco, thus acquiring controlling stake in Britannia. Later, Group DANONE and Nusli Wadia took over Pillai's holdings. Britannia Industries Limited is one of the largest biscuit manufacturing companies in India. The company is engaged in the manufacture of biscuits, Rusks, cookies and cakes. Britannia operates in a single segment, foods including bakery products such as biscuits, bread, cakes, Rusk, and dairy products.

Britannia's plants are located in the 4 major metro cities – Kolkata, Mumbai, Delhi, and Chennai. A large part of products are also outsourced from third party producers. Dairy products are outsourced from three producers - Dynamic Dairy based in Baramati, Maharashtra, and Modern Dairy at Karnal in Haryana and Thacker Dairy Products at Howrah in West Bengal.

IV. RESEARCH METHODOLOGY

Research Methodology is a way to systematically solve the problems. It may be understood to study how research is done scientifically. In this, we study various steps that are generally adopted by the researcher in studying research problems along with the logic behind them, to understand why we are using particular method or technique so that the research results are capable of being evaluated. During my project work, I have used a lot of data to understand concept of Ratio Analysis. The data collected was interpreted and then used as information in project.

V . SOURCES OF DATA COLLECTION

Data for this project is collected through Secondary sources. Secondary data is collected with the help of following:

A. Annual report

Majority of information gathered from data exhibited in the annual reports of the company. These includes annual reports of the year 2011-12,2012-13,2013-14,2014-15 and 2015-16, the Theory relating to the various financial reference books.

VI. RATIO ANALYSIS

Ratio analysis is an important technique, which is widely used for interpreting financial statement. The technique serves as a tool for assessing the current and long-term financial soundness of a business. It is also used to analysis various aspects of operating efficiency and level of profitability. A German scholar used ratios for the first time in 1919.

VII. PROFITABILITY RATIO

Measures that indicate how well a firm is performing in terms of its ability to generate profit and Formulae of some of the common ratios are as follows:

- ❖ Gross profit percentage: Total cost of sales in a period x 100 ÷ Total sales revenue for that period.
- ❖ Net income percentage: Net income for a period x 100 ÷ Total sales revenue for that period. Operating profit percentage: Earnings before interest and taxes (EBIT) in a period x 100 ÷ Total sales revenue in the same period.
- ❖ Return on Investment: Net income ÷ Total assets.

VIII. PROFITABILITY OPERATING SYSTEMS

The relevant literature on the role of profitability in competition analyses and to show the benefits and drawbacks of relying on profit measures as indicators of market power or the abuse thereof in competition cases. This is particularly relevant given that other jurisdictions have taken the approach of investigating markets for competition problems when profitability is found to be 'excessive', despite that this approach is a controversial one. In the ongoing healthcare market inquiry, this may be one possible point of departure, given such precedents.

A. Concept of Profitability

Profit is the main objective behind the establishment of an any business organization. It is the engine that drives the business enterprise. Importance of profit to different parties Weston and Brigham pointed "To the financial management, profit is the test of efficiency and a measure of control, to the owners; a measure of the worth of their investment, to the creditors, the margin of safety, to the government a measure of taxable capacity and basis of legislative action; and the country profit is an index of economic progress.

B. Accounting Profit

The excess of revenue over related costs applicable to a transaction, a group of transactions or the transactions of an operating period is profit. In accounting terminology "The profit of a business during given period is the excess of income over expenditure for the period.

Gross Profit: The excess of total gross revenue over the revenue expenditure is the gross profit.

Operating Profit: The excess of the total operating revenue over the total cost of operation is the operating profit.

Net Profit: The excess of the total gross revenue over the total cost of operation is the net profit. Net profit further divided into three parts:

Net Profit before interest

Net Profit before tax

Net Profit before interest and tax

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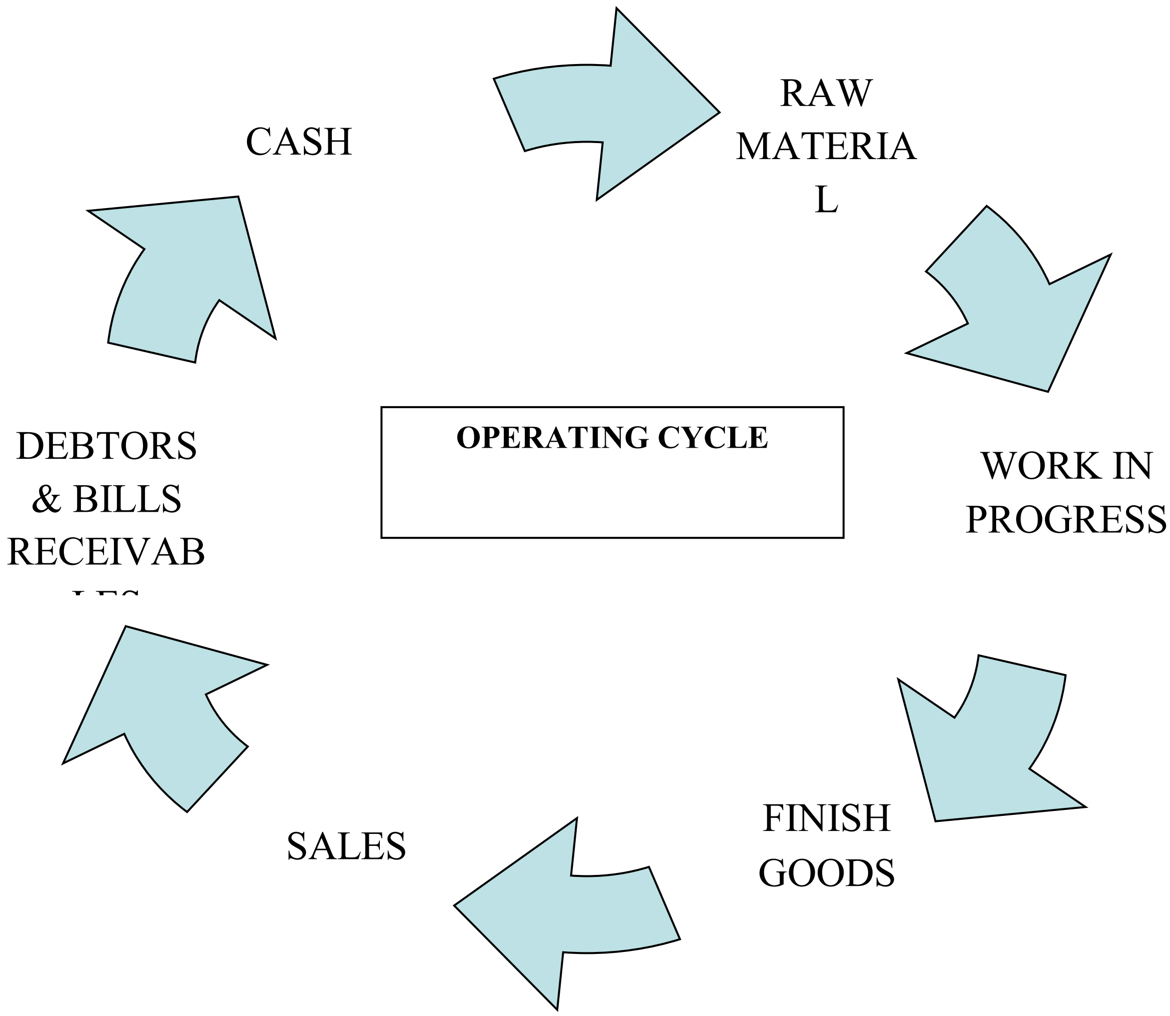


IX. DATA AND INTERPRETATION

A. Gross Profit

Gross profit ratio is a profitability ratio that compares the gross profit of a business to the net sales. This ratio measures how profitable a company sells its inventory or merchandise. In other words, the gross profit ratio is essentially the percentage markup on cost of goods sold. This is the pure profit from the sale of inventory that can go to paying operating expenses.

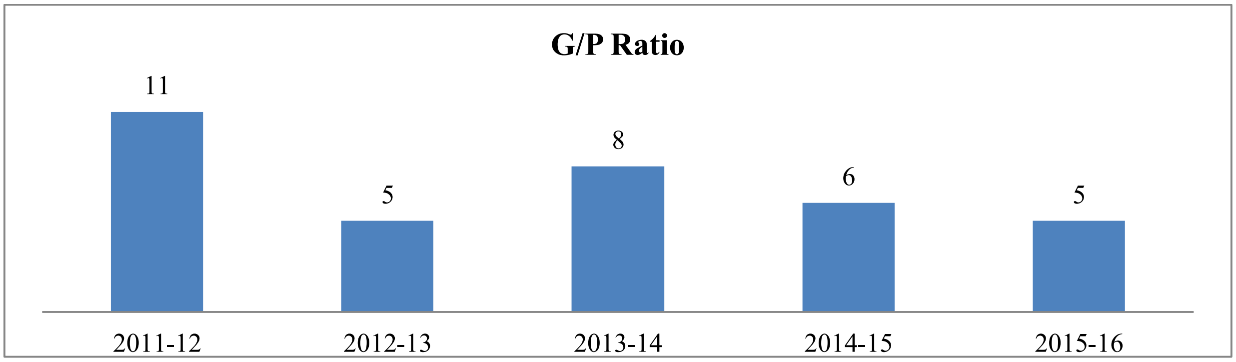
$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

Table 1

Year	2011-12	2012-13	2013-14	2014-15	2015-16
G/P Ratio	11	5	8	6	5
Result Level	Best	Low	Best	Normal	Low

Sources: secondary of data

Chart 1



Norm: - Higher the ratio shows higher efficiency and vice versa.

The analysis of table 1 and chart 1: In 2011-12, the Gross Profit Ratio was highly 11percentage and it went to 8% low highly for the 2013-14. As there is no standard Ratio, company has to determine its standard ratio based on past GP ratios or GP ratios of other concern. The Ratio if we compare it shows that

- Failure in managing purchases, production, sales and inventory
- Lose control over direct costs of labour, fuel, freights etc.
- Lower productivity and lower margin to meet other expenses

X. OPERATING RATIO

The operating cycle begins with the acquisition of raw materials and ends with the collection of receivables

It may be broadly classified into the following four stages viz.

1. Raw materials and stores storage stage.
2. Work-in-progress stage.
3. Finished goods inventory stage.
4. Receivables collection stage.

The operating cycle of the firm reveals the days within which the inventory procured gets converted to sales or revenue for the firm. This time period is of importance to the firm as a lag here could significantly affect the profitability, liquidity, credit terms, and the policies of the firm. All the firms would like to reduce it to such extend that their cash inflows are timely enough to meet their obligations and support the operations.

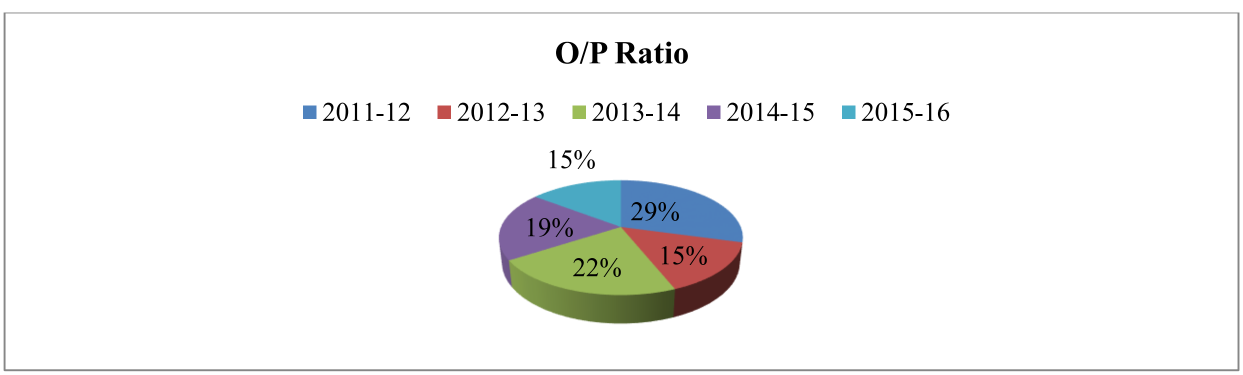
$$\text{Operating Ratio} = \frac{\text{Cogs + Operating Expenses}}{\text{Sales}} \text{ X } 100$$

Table 2

Year	2011-12	2012-13	2013-14	2014-15	2015-16
O/P Ratio	12	6	9	8	6
Result Level	Highly	Best	Highly	Normal	Best

Sources: secondary of data

Chart 2



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XI. INTERPRETATION

The above table 2 and chart 2 shows that in Britannia, Operating ratio is decreasing year by year from 2012 to 2016. In 2011-12, the Operating Ratio was 12% and it went to 9% next year 2013-14. It indicates the cost of Expenses. As there is no standard Ratio, company has to determine its standard ratio based on past GP ratios or GP ratios of other concern. The Ratio if we compare it shows that-

1) High efficiency in managing the Operations of the concern like purchases made at lower prices, optimum level of production, good inventory management and good control of direct cost of labour, fuel, freight etc.
2) A very good Margin available to meet non-operating Expenses.

A. Net Profit Ratio

Net profit represents the number of sales rupees remaining after all operating expenses, interest, taxes and preferred stock dividends have been deducted from a company's total revenue. Net profit is also referred to as the bottom line, net income, or net earnings. Net profit is found on the last line of the income statement, which is why it is often referred to as the bottom line. The formula for net profit is as follows: Total revenue – Total expenses = Net profit

NET PROFIT RATIO:

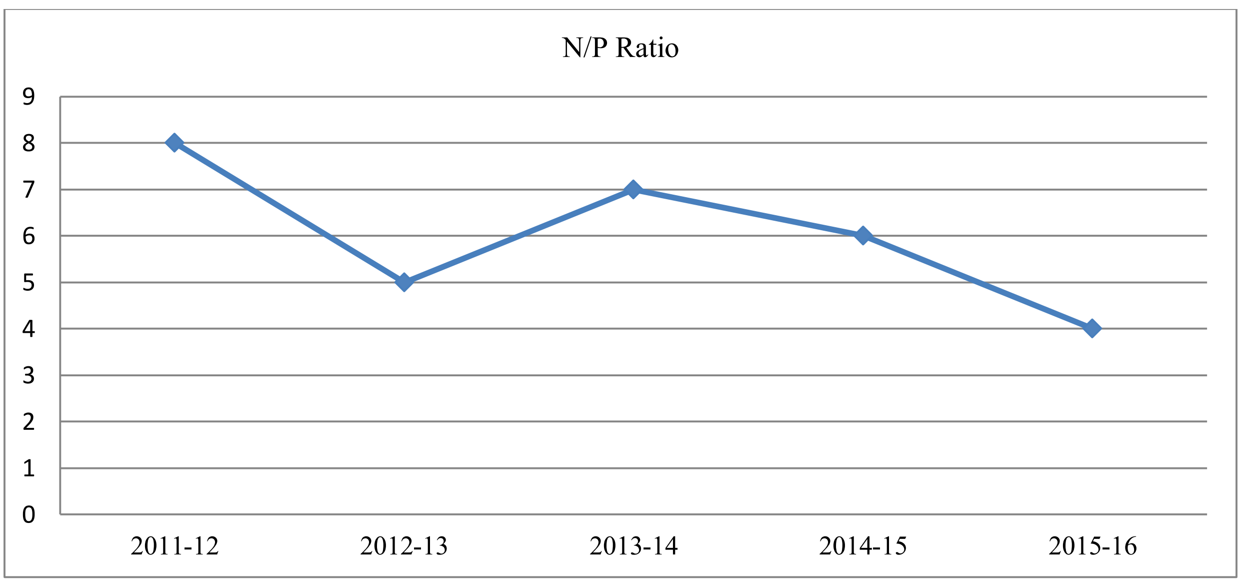
$$\text{NET PROFIT RATIO} = \frac{\text{NPAT}}{\text{SALES}} \times 100$$

Table 3

Year	2011-12	2012-13	2013-14	2014-15	2015-16
N/P Ratio	8	5	7	6	4
Result Level	Best	Low	Best	Normal	Low

Sources: secondary of data

Chart 3



The above table 3 and chart 3, shows that in Britannia, the net profit is increasing year by year like it in 2011-12 and 2013-14. It was decreasing from 2014-15 and 2015-16 was 6% and it went up 4%. It indicates the relationship between net profit and sales. As there is no standard Ratio, company has to determine its standard ratio based on past NP ratios or NP ratios of other concern. The Ratio if we compare it shows that:

1) Inefficiency in managing its activities like trading.production, financing and investment.
2) unsatisfactory control over operating as well as non operating costs

3) Unusual losses like loss by fire, flood etc.
4) Low increase in the net worth or the proprietor's funds.
5) Weak capacity of the concern to face bad economic situation.

XII. OBSERVATION AND FINDINGS

- In this project I calculate some ratios; these ratios are very useful to interpret financial position of the company. From that it is clear that the Britannia India Ltd is in advanced stage. From the ratios calculated above following conclusions can be drawn.

- The gross profit earned by the Britannia Company is declining every year. From 2012-13 to 2015-16, it is fluctuating a lot which is due to failure in managing purchases, production, sales and inventory or loses control over direct costs of labor, fuel, freights etc.
- Operating ratio of Britannia going down from 2012-13 to 2015-16, which is nothing but due to certain reasons like low efficiency in managing the operations of the company or low margin available to meet non-operating expenses.

- The net profit is nothing but profit earned by the company after deducting interest and taxes. The graph is showing that in Britannia from the year 2012-13 and 2015-16, the net profit is declining which is due to inefficiency in managing its activities like trading, production, financing and investment or unsatisfactory control over operating or non operating costs.

XIII. SUGGESTIONS AND CONCLUSION

- The in-depth analysis of key financial ratios in this project helps in measuring the financial strength, liquidity conditions and operating efficiency of the company. It also provides valuable interpretation separately for each ratio that helps organization implementing the findings that would help the organization to increase its efficiency.
- The position of the company in the interim period not revealed by analysis, moreover they give no clue about the future. Ratio analysis in view of its several limitations should be considered only as a tool for analysis rather than as an end itself.
- From the analysis it is evident that the gross profit ratio is good, whereas the operating ratio is around optimum level to the industry standards. As a whole the liquidity position of the company is good.

- The company not very well used its fixed assets efficiently company has reduce it in order to invest the major portion in working capital or investment in current assets. This is one of the reasons for profit fluctuation.
- Thus finally the company must try to improve its profit margins as they are below industry levels. This improvement may also bring up its return on investment and overall efficiency to the company.

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