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PROFITABILITY RATIO ANALYSIS IN INDIAN FIRMS AT ARVIND LTD

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ABSTRACT: Profitability ratio analysis is essential for business financial and operational health. Aravind Ltd., a major Indian company, is being examined for long-term financial health and profitability. Operational profit margin, ROA, and ROE were assessed to determine the company's profitability based on sales, assets, and owners' equity. In the Indian market, the analysis shows the company's strengths and opportunities for improvement. The paper's findings help investors and management understand Aravind Ltd.'s financial performance. This aids strategic planning and decision-making.

Keywords: *Profitability Ratio Analysis, Financial Performance, Operational Efficiency, Aravind Ltd, Net Profit Margin, Return on Assets (ROA), Return on Equity (ROE),*

1. INTRODUCTION

Profitability ratio research compares Indian companies' revenue to their assets, equity, and sales historically and to industry standards. Along with ROE and ROA, gross, operating, net, and margin percentages are important. Companies' financial health can be assessed by investors and stakeholders by comparing these numbers to industry standards or prior performance.

ROA, ROE, gross profit margin, and net profit margin are common profitability indicators. Creditors, managers, and investors can use these numbers to better evaluate a company's financial health, compare its performance to industry peers, and make operational and investment decisions.

The globalization of India's economy and investor pressure on the government to be transparent and accountable make papering its profitability ratio more important. India's enterprises in finance, IT, medical, and manufacturing face unique problems due to variable material costs, strong rivalry, and frequent regulatory changes. Profitability ratios measure how efficiently organizations use assets, distribute earnings to owners, and transform revenues into profits, helping analysts spot patterns and improvements. Income ratio paper is an excellent way to assess a company's growth and worth in India.

2. REVIEW OF LITERATURE

Panda, B., & Nanda, S. (2025) The profitability indicators Return on Equity (ROE), Return on Assets (ROA), and Net Profit Margin are examined in this paper to evaluate Indian pharmaceutical companies. The annual reports and financial statements of major pharmaceutical companies were used to produce a statistically reliable sample of the pharmaceutical industry's current situation.

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Ananda Kumar, A., & Subramanian, V. (2025) The profitability indicators Return on Equity (ROE), Return on Assets (ROA), and Net Profit Margin are examined in this paper to evaluate Indian pharmaceutical companies. The annual reports and financial statements of major pharmaceutical companies were used to produce a statistically reliable sample of the pharmaceutical industry's current situation.

Dr. S. Monica et al. (2024) This paper examines Britannia Industries, ITC Limited, and Hindustan Unilever Limited (HUL) profitability. The paper uses ROE, Net Profit Margin, and Asset Turnover to assess the company's financial health and operational effectiveness from 2017–18 to 2021–22. The paper compared company profitability and found patterns using statistical tools. HUL continuously earns significant revenue by managing their brands, maximizing resources, and keeping expenses low.

Mohanty, A. (2024) Mohanty examined the financial performance and growth of the top Indian IT companies from 2013 to 2023. This paper investigates these companies' financial management practices in a competitive, technologically advanced environment. Cost efficiency, return on equity, profit margins, and revenue growth are its focus. Research shows that digital transformation, innovation, and long-term financial success are linked.

Surya, S., Saroja, D., Meena, S., & Arulprakasam, M. (2023) This paper painstakingly evaluates India's top cement industries' profitability rates during the COVID-19 pandemic, which caused several economic problems. This inquiry examines crucial profitability indicators like ROA, ROE, net profit margin, and operating profit margin to assess these firms' financial health. The numerical analysis of these ratios and their effects on long-term viability, financial stability, and operational efficiency are examined in this paper.

Ravikumar, K., & Suresh, M. (2023) This paper examines the 2020–2024 financial performance of many significant Indian FMCG companies. HUL, ITC, Dabur, Britannia, Godrej, Tata, Colgate Palmolive, and United Spirits are these companies. Financial ratios including liquidity (current ratio, quick ratio), solvency (debt-to-equity ratio), and efficiency (asset turnover, inventory turnover) are used to assess these firms' operational efficiency and financial stability. Gross and net profit margins measure profitability.

Rakshitha S (2022) This inquiry focuses on Indian FMCG companies' financial performance. Fast-moving consumer goods (FMCG) companies face rapid growth, high customer demand, and fierce competition. The paper uses liquidity, solvency, and profitability ratios like ROCE, net profit margin, and gross profit margin to assess these businesses' financial stability and operational efficiency. The inquiry analyzes financial accounts and yearly reports to find patterns in how organizations make money, control expenses, and make money.

Sushma B S (2022) In 2019–2023, this paper examines the financial health of Infosys, Wipro, Tech Mahindra, TCS, and HCL Technologies, the biggest Indian IT businesses. The paper evaluates corporate efficiency, liquidity, solvency, and profitability using ratio and trend analysis. Return on equity, net profit margin, and operational profit margin can predict long-term profitability.

S. Sujitha (2021) Four significant Indian private sector banks' financial performance from 2013–14 to 2022–23 is the focus of this paper. The paper uses operational profit margin, net interest margin, and return on assets (ROA) to assess bank profitability in relation to equity, assets, and costs. Cost-to-income ratios, efficiency ratios, and other financial indicators are used to assess operational success and financial sustainability.

3. PROFITABILITY RATIOS AND THEIR SIGNIFICANCE

To assess productivity, companies use profitability, income-to-sales, and assets-to-equity ratios.

The top six profitability evaluation methodologies are:

Gross Profit Margin

Comparisons between gross profit and sales income are possible. This shows a company's revenue after production and service costs. The company's main operations run more efficiently with a high gross profit margin. This allows the corporation to create net earnings after operating, fixed, dividend, and depreciation costs.

Operating Profit Margin

measures earnings as a percentage of sales before interest and taxes. Businesses with better operating profit margins can fulfill their fixed costs and interest commitments, are more robust to economic downturns, and may offer cheaper prices than their competitors.

Net Profit Margin

The bottom line matters most. A company's net income is calculated by dividing revenues by assets. It's the last sign of a business's profitability after taxes and interest. The net profit margin is a good indicator of corporate profitability because it considers all elements.

EPS

Shareholder dividends are called earnings per share. Profit per share must be calculated.

Return on Assets

A company's ROA can be calculated by comparing net income to total assets. This statistic shows a company's asset-based revenue after taxes. It evaluates a company's asset resiliency. A corporation with a lower profit per dollar of assets is thought to have more assets.

Return on Equity

Divide EPS by total equity to calculate ROE. This number shows a company's profitability relative to its owners' capital. Experts and stockholders constantly examine ROE. Return on equity often justifies buying a company's stock. Companies with high returns on equity have better revenue-generating methods, reducing their loan dependence.

Return on Capital Employed

Indian investors use ROCE to assess a company's ability to produce revenue from stock and loans. Individuals feel a high ROCE indicates cautious financial management and successful administration. The company's ability to earn revenue from investments indicates a good investment.

4. TRENDS IN INDIAN FIRMS

SECTORAL DIFFERENCES

Due to organizational structures, capital requirements, and operational effectiveness, Indian enterprises' profitability percentages vary widely among industries.

IT Sector: Top Indian tech businesses include TCS, Infosys, and Wipro. They achieved this by providing superior service at a lower cost and using less capital than manufacturing

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enterprises. Gross, working, and net profit margins, ROA, and ROE are all quite high. They convert a large amount of their sales into profit thanks to their efficient business operations.

Pharmaceuticals: Pharmaceutical companies, especially generic drug manufacturers, are highly profitable. Net profits are large for products with strong margins, patents, and global demand. Due to less heavier production equipment, ROA has improved.

FMCG (Fast-Moving Consumer Goods): Brand loyalty, economies of scale, and strong distribution networks allow Hindustan Unilever and ITC to sustain high profitability ratios. Strategies that raise product prices and cut costs can produce revenue in a competitive market.

Manufacturing & Infrastructure: Industrial and infrastructure enterprises that make steel, cement, construction, and cars have moderate to poor profitability rates. These businesses need lots of money for structures, machinery, and tools. Price changes in basic materials, salaries, and other business expenses hurt net profits and ROA. Due to intensive planning and construction, infrastructure projects sometimes take longer to profit.

INFLUENCE OF GLOBALIZATION

Globalization has changed how Indian companies make money.

Increased Competition: Indian enterprises must improve processes, apply lean manufacturing, increase productivity, and decrease costs to compete globally. In foreign markets like IT, pharmaceuticals, and auto exports, profit margins and efficiency have improved.

Foreign Investment & Collaboration: FDI and partnerships have enabled new management and technology distribution. Thus, operational efficiency and profitability grew. Multinational partnerships have improved automobile manufacturers' manufacturing efficiency, product quality, and profitability in a competitive domestic market.

Market Expansion: Globalization has allowed firms to grow into new locations and find new revenue streams. Pharmaceutical, IT, and FMCG companies can boost revenues by exporting to the US and Europe.

REGULATORY & TAX IMPACT

Indian government policies and tax changes affect profitability ratios.

Corporate Tax Reforms: The 2019 corporate tax rate drop boosted net profit margins for several Indian enterprises. Tax debt reduction increased net income, ROE, and NPM.

Sector-Specific Policies: Renewable energy and IT exports receive increased subsidies and incentives. Due to high compliance costs and regulations, energy and infrastructure enterprises may struggle to produce cash.

GST Implementation: The GST increased profitability for several enterprises. Due to logistics improvements, indirect tax clarification, and working capital management.

ECONOMIC CYCLES

Indian businesses' profitability is closely tied to the economy.

Cyclical Industries: The cement, steel, and car industries are especially vulnerable to economic swings. Economic growth boosts demand, improving ratios and production efficiency. Profitability rates may drop due to higher input costs, underutilized capacity, and lower demand during a recession.

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Non-Cyclical Sectors: FMCG, IT, and pharmaceutical companies can react to economic changes, thus their profitability rates are more consistent. These industries depend on constant demand, export revenues, or basic necessities, thus domestic recessions rarely touch them.

Inflation & Interest Rates: In industries that rely on capital investments, wage, interest, and material price inflation can reduce profit margins. Financially savvy businesses can keep making money even when prices and costs rise.

5. DATA ANALYSIS AND INTERPRETATION

INDIAN FIRMS' PROFITABILITY TRENDS:

TABLE 1: SECTORAL DIFFERENCES IN PROFITABILITY

Sector	Net Profit Margin (NPM)	Return on Equity (ROE)	Asset Utilization	Example Companies
IT	High ↑	High ↑	Moderate	TCS, Infosys
FMCG	High ↑	High ↑	Moderate	HUL, Nestle India
Textiles / Apparel	Moderate	Moderate	High ↑	Arvind Ltd
Steel	Low ↓	Moderate	High ↑	Tata Steel
Cement	Low ↓	Moderate	High ↑	ACC, Ultratech

TABLE 2: IMPACT OF GST & TAX REFORMS

Firm / Sector	Profit Margin Trend	Reason / Tax Strategy	Example Companies
IT	↑	Efficient corporate tax planning & GST input credit utilization	Infosys, TCS
FMCG	↑	Effective GST management & supply chain optimization	HUL, Nestle India
Textiles	↑	Input tax credit on raw materials; cost optimization	Arvind Ltd
Manufacturing	Moderate ↑	Cost control & efficient tax compliance	Tata Steel, ACC

TABLE 3: GLOBAL EXPANSION & PROFITABILITY FOCUS

Firm	Focus Metric	Trend / Strategy	Notes
Infosys	ROA, ROE	↑ Improving asset efficiency & investor confidence	Expansion into US & Europe markets
Tata Motors	ROA, ROE	↑ Optimizing overseas operations & cost structure	Focus on EVs & exports
Mahindra & Mahindra	ROA, ROE	↑ Strong overseas market presence	Agriculture & automotive sectors
Arvind Ltd	ROA, ROE	↑ Improving operational efficiency for export markets	Apparel exports, global brand partnerships

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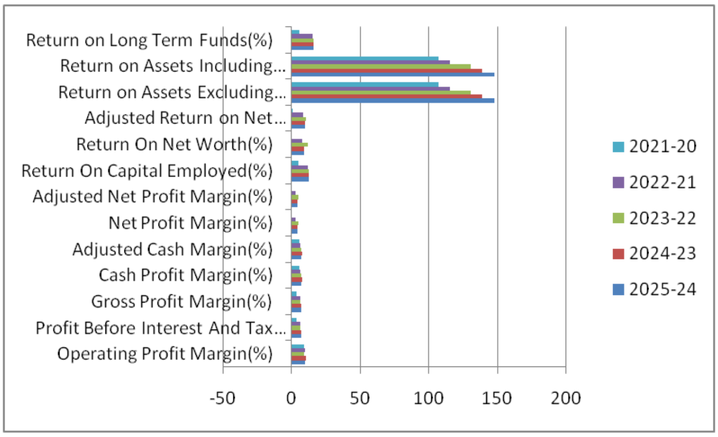
PROFITABILITY RATIOS

Profitability Ratios	2025-24	2024-23	2023-22	2022-21	2021-20
Operating Profit Margin(%)	10.24	10.92	9.54	9.81	9.11
Profit Before Interest And Tax Margin(%)	7.08	7.44	6.49	6.38	3.46
Gross Profit Margin(%)	7.14	7.48	6.52	6.42	3.49
Cash Profit Margin(%)	7.47	7.92	7.23	6.5	5.72
Adjusted Cash Margin(%)	7.47	7.92	7.23	6.5	5.72
Net Profit Margin(%)	4.24	4.35	4.82	2.96	-0.32
Adjusted Net Profit Margin(%)	4.21	4.32	4.8	2.94	-0.32
Return On Capital Employed(%)	12.78	12.74	12.45	12.03	4.96
Return On Net Worth(%)	9.33	9.5	12.09	8.07	-0.6
Adjusted Return on Net Worth(%)	9.73	9.88	10.66	8.61	0.29
Return on Assets Excluding Revaluations	147.86	138.39	130.18	115.37	106.85
Return on Assets Including Revaluations	147.86	138.39	130.18	115.37	106.85
Return on Long Term Funds(%)	16.17	16.29	15.88	15.28	5.78



INTERPRETATION: Financially, the company is doing well and improving. Improved cost management raised the operating profit margin from 9.11% in 2020 to 10.24% in 2024. Net profit margin was -0.32% in 2020. It turned around in 2024 and earned 4.24%. Increased long-term cash, assets, net worth, and earnings on capital used reflect financial health and resource usage.

PROFIT & LOSS ACCOUNT RATIOS

Profit & Loss Account Ratios	2025-24	2024-23	2023-22	2022-21	2021-20
Material Cost Composition	56.5	55.4	59.87	65.23	53.33
Imported Composition of Raw Materials Consumed	0	0	0	0	0
Selling Distribution Cost Composition	0.6	0.56	0.44	0.17	2.2
Expenses as Composition of Total Sales	0	0	0	0	0

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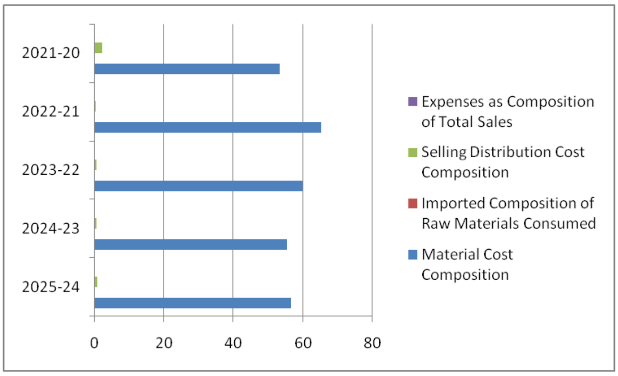

INTERPRETATION: The company's profit and loss account ratios show that material costs dominate its spending. Due to rising material costs, these expenses will rise from 53.33% in 2020-2021 to 56.5% in 2024-2025. We bought all our fundamental materials domestically during this time. The 0.6% increase in selling and distribution expenditures from 2025 to 2024 shows that marketing and distribution are working. Average incremental costs have been modest compared to overall sales. This shows outstanding cost control.

6. CONCLUSION

The company's profit and loss account ratios show that material costs dominate its spending. Due to rising material costs, these expenses will rise from 53.33% in 2020-2021 to 56.5% in 2024-2025. We bought all our fundamental materials domestically during this time. The 0.6% increase in selling and distribution expenditures from 2025 to 2024 shows that marketing and distribution are working. Average incremental costs have been modest compared to overall sales. This shows outstanding cost control.

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