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AN EMPIRICAL STUDY OF PROFITABILITY ANALYSIS IN COOPERATIVE SOCIETIES IN KAPRADA TALUKA

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Abstract

Financial analysis is the process of identifying the financial strengths and weakness of the Organizations from the available accounting data and financial statements. The focus of financial analysis is on key data in the financial statements. The analysis of financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance. This study aims at analyzing the overall financial profitability of the Shree Mandava Vibhag Bagayati Sahkari Mandali and Shree Dixal Vibhag Bagayati Sahkari Mandali Ltd. In Kaprada Taluka " by using various financial tools. The study has been undertaken for the period of 5 years from 2009-10 to 2013-14. In order to analyze financial efficiency in terms of Profitability ratios have been used.

Key Word: *Gross profit, Net Profit, Return on Investment Ratio, Net profit, Creditors, Sales.*

Introduction Profitability: Profitability ratios measure a Organization's ability to generate earnings relative to sales, assets and equity. These ratios assess the ability of a company to generate earnings, profits and cash flows relative to relative to some metric, often the amount of money invested. They highlight how effectively the profitability of a company is being managed.

Common examples of profitability ratios include return on sales, return on investment, return on equity, return on capital employed (ROCE), cash return on capital invested (CROCI), gross profit margin and net profit margin. All of these ratios indicate how well a company is performing at generating profits or revenues relative to a certain metric.

Different profitability ratios provide different useful insights into the financial health and performance of a Organization. For example, gross profit and net profit ratios tell how well the company is managing its expenses. Return on capital employed (ROCE) tells how well the company is using capital employed to generate returns. Return on investment tells whether the company is generating enough profits for its shareholders.

For most of these ratios, a higher value is desirable. A higher value means that the company is doing well and it is good at generating profits, revenues and cash flows. Profitability ratios are of little value in isolation. They give meaningful information only when they are analyzed in comparison to competitors or compared to the ratios in previous periods. Therefore, trend analysis and industry analysis is required to draw meaningful conclusions about the profitability of a company.

Some background knowledge of the nature of business of a company is necessary when analyzing profitability ratios. For example sales of some businesses are seasonal and they experience seasonality in their operations. The retail industry is example of such businesses. The revenues of retail industry are usually very high in the fourth quarter due to Christmas. Therefore, it will not be useful to compare the profitability ratios of this quarter with the profitability ratios of earlier quarters. For meaningful conclusions, the profitability ratios of this quarter should be compared to the profitability ratios of similar quarters in the previous years.

Information of Cooperative Society in Kaprada taluka: Different education level of five talukas of dist Valsad of Gujarat can be seen .Base on the education level of the people, a variety can be seen in their languages, culture, living standard etc has undergone a huge changes in last two decades to go. One can not ignore the opportunity in term of trade, religion, heritage, and industry in these areas under study. Even today one can see the presence of traditional as well as modernization touch in the business of these local areas. The areas are surrounded by lust green natural beauty covering the areas by hill. Even till date, many areas are under developed. Due to bad economic condition, many people are still living below poverty line. Selected cooperative societies are same working cashew processing unit is managed by Dhruva bife.

Review of Literature: Pawan kumar Research Scholar (2013) in research article "Financial Analysis of Indian Oil Corporation Ltd." The study of financial analysis of Indian Oil Corporation Limited from various financial aspects like profitability, liquidity and solvency, activity and investment, it can be concluded that the profitability position of the company can not be said satisfactory because the Gross Profit Ratio varies from 3.93% to 6.88 % with the average of 5.3%. The gross profit ratio of 5.3% needs to be improved. The second ratio of profitability is net profit ratio which varies from 0.82% to 5.14% with the average of 3.22%. The net profit ratio of 3.22% is not satisfactory from any point of view so company should concentrate on minimization of the expenses. The third measure of profitability taken in the study is return on investment which varies from 12.03% to 24.18% with an average of 18.67%. The return of 18.67% on investment to the investors can be said good and it seems to be an average return on any investment. The fourth and last measure of profitability is return on equity varies from 6.70% to 21.51% with an average of 14.63% which can be said satisfactory but company need to improve the quality of financial decision so that the wealth of equity shareholder' can be maximized. The short term solvency is measured by the current ratio and quick ratio. The ideal current ratio is 2:1 but undoubtedly the ideal ratios can not be applied in each and every industry. The company never even touched the ideal current ratio. **David S. Chesnick (200)** in the article " **Financial Management and Ratio Analysis for Cooperative Enterprises ".** This study discusses differences in financial management and goals between theinvestor-oriented firms and cooperatives. It briefly reviews what bankers look for when appraising potential borrowers. A summary of standard financial ratios used to analyze a variety of business structures is included, along with other modified ratios to address deficiencies evident in standard ratios.Financial reports contain a lot of information. Themain objective of financial analysis is to sort through that information to find useful and relevant data in analyzing a business. Literature is rich with financial analysis tools that examine the performance and strength of businesses. However, not all businesses are alike. Differences between IOFs and cooperatives mean that some standard financial analyses do not relate well with cooperatives. This is especially relevant for profit-oriented ratios. This report provides a supplement to standard analysis with an eye toward cooperatives. Some ratios help analyze the cooperative's financial performance and cash flow analysis. Managers and creditors should find these findings helpful in appraising the financial strength of the cooperative. While there is no set standard at this time, using these analysis tools should help the cooperativedevelop its own performance measurements.

OBJECTIVES OF THE STUDY:

1. To study the financial performance of selected Mandava And Dixal Co-operative Societies.
2. To make comparative study of the selected Co-operative Societies.
3. To make suggestions for the betterment of the Co-operative Societies in general and selected co-operative societies in particular.

SCOPE OF THE STUDY: Today's world had become very competitive. In each field thousand's of competitors has entered the market. In the changing market scenario equipped with science and technology, they re struggling to survive in the market, whether it is a field of knowledge, business or any other Profession. Even the Indian economy is not free from the air of liberalization, privatization and globalization. The public sector has to become more active and should also take necessary measures to fit them in the changing economic scenario. With this objectives in mind the research on "Shree Mandava Vibhag Bagayati Co-operative Society Ltd and "Shree Dixal Vibhag Bagayati Co-operative Society Ltd is undertaken. Where the financial performance of the same will be conducted keeping the current situation on the top. A study on the problem faced and its relevant solution, so that the people of these areas get good service from this co-operative society. This co-operative society can act as a role model to be followed by other society of the Kaparad Taluka. Other co-operative society can follow the management system for improving the financial position of the society.

RESEARCH METHODOLOGY AND DATA ANALYSIS

SECONDARY SOURCES: Published annual reports of the Cooperative Society 2009-10 To 2013-14.

PRIMARY SOURCES:

1. Detailed discussions with President and Accountant of Cooperative Societies.
2. Discussions with the Accountant of Dhruva Bife office and other Cooperative society members And District Level Information Department Officer.

DATA ANALYSIS: The collected data has been processed using the tools of

Ratio analysis , Graphical analysis , Year-year analysis

LIMITATION OF THE STUDY

1. The study has been conducted over a limited period of Six years only.
2. The study is mainly based on secondary data.
3. The study is limited to One Selected Cooperative society only.
4. The study is based on consolidated financial statement, which may lead to some errors and assumptions.

Financial Profitability Data Analysis: Profitability ratios measure a Organization's ability to generate earnings relative to sales, assets and equity. These ratios assess the ability of a company to generate earnings, profits and cash flows relative to relative to some metric, often the amount of money invested. They highlight how effectively the profitability of a company is being managed.

Common examples of profitability ratios include return on sales, return on investment, return on equity, return on capital employed (ROCE), cash return on capital invested (CROCI), gross profit margin and net profit margin. All of these ratios indicate how well a company is performing at generating profits or revenues relative to a certain metric.

Gross Profit Ratio:

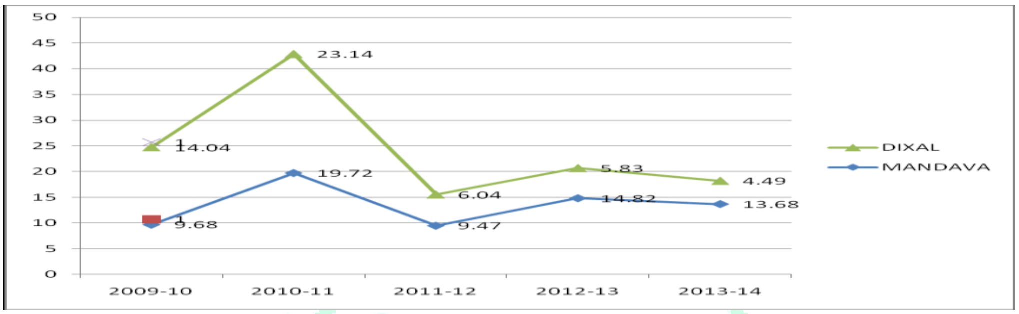
Gross profit margin (gross margin) is the ratio of gross profit (gross sales less cost of sales) to sales revenue. It is the percentage by which gross profits exceed production costs. Gross margins reveal how much a company earns taking into consideration the costs that it incurs for producing its products or services. Gross margin is a good indication of how profitable a company is at the most fundamental level, how efficiently a company uses its resources, materials, and labour. It is usually expressed as a percentage, and indicates the profitability of a business before overhead costs; it is a measure of how well a company controls its costs.

Table: 1 GROSS PROFIT RATIOS OF COOPERATIVE SOCIETIES

YEAR	MANDAVA	DIXAL
2009-10	9.68	14.04
2010-11	19.72	23.14
2011-12	9.47	6.04
2012-13	14.82	5.83
2013-14	13.68	4.49

Source: Compiled Calculated Data

Interpretation: Gross Profit ratio of Mandava Cooperative society in kaprada taluka's Gross Profit 9.68 in the year 2009 -10 in subsequent years increase it is 19.72 in 2010-11, and descrease in ratio 9.47 in 2011-12.again inceasing in14.82 2012-13 and 13.68 in year 2013-14.The dixal cooperative society Gross profit ratio 14.04 in 2009-10.and increasing ratio 23.14 in 2010-11. And all next study perid low ratio. The analysis clearly shows that the profitability ratio is Mandava Cooperative society highly average ratio in all year so mandava society is get raw material purchase lowest price and Dixal Society Iowest ratio show highest price in product so dixal co.society is last three study year don't use assets and other machinery. From the above it can be calculated that the financial position of Mandava cooperative society is better than the Dixal cooperative society in term of gross profit because Mandava has more variation in Gross Profit as compared to Dixal.



Net Profit Ratio : The net profit percentage is the ratio of after-tax profits to net sales. It reveals the remaining profit after all costs of production, administration, and financing have been deducted from sales, and income taxes recognized. As such, it is one of the best measures of the overall results of a firm, especially when combined with an evaluation of how well it is using its working capital. The measure is commonly reported on a trend line, to judge performance over time. It is also used to compare the results of a business with its competitors.

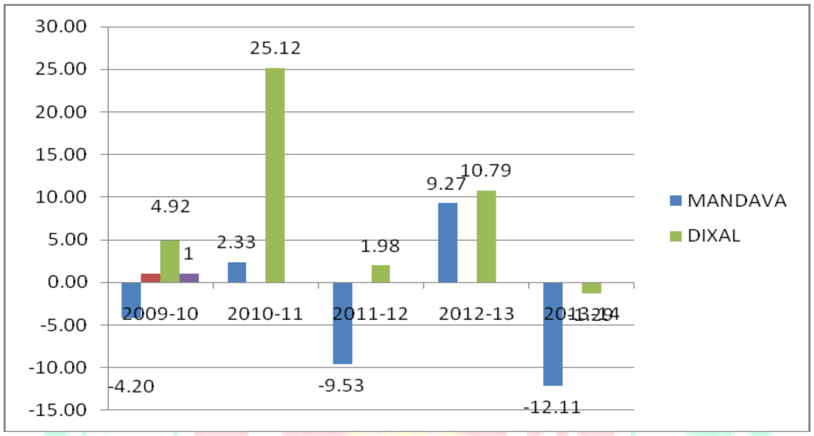
Net profit is not an indicator of cash flows, since net profit incorporates a number of non-cash expenses, such as accrued expenses, amortization, and depreciation.

Source: Compiled Calculated Data

Table: 2 NET PROFIT RATIOS OF COOPERATIVE SOCIETIES

YEAR	MANDAVA	DIXAL
2009-10	-4.20	4.92
2010-11	2.33	25.12
2011-12	-9.53	1.98
2012-13	9.27	10.79
2013-14	-12.11	-1.29

Interpretation: Net Profit ratio of Mandava Cooperative society -4.20 in the year 2009 -10 in subsequent years increase it is 2.33 in 2010-11, -9.53,2011-12, 9.27 in 2012-13. And -12.11 in year 2013-14. The dixal cooperative society Net profit ratio 4.92 in 2009-10.and increasing ratio 25.12 in 2010-11. 1.98 in 2011-12 ,10.79 in year 2012-13 And -1.29 in 2013-14. The analysis clearly shows that the Net profitability ratio is Mandava Cooperative society has study perod three year is net loss and its compare to Dixal cooperative society is only one year has net loss. So ,Dixal cooperative sociey's Management good working and show in good financial helth. it can be calculated that the Net profit ratio position of Dixal Coperative society is better than the Mandava cooperative society in term of Net profit ratio.



OPERATING RATIO: The operating ratio is the ratio of production and administrative expenses to net sales. The measure excludes financing costs, non-operating expenses, and taxes. Essentially, it is the cost per sales dollar of operating a business. A lower operating ratio is a good indicator of operational efficiency, especially when the ratio is low in comparison to the same ratio for competitors and benchmark firms.

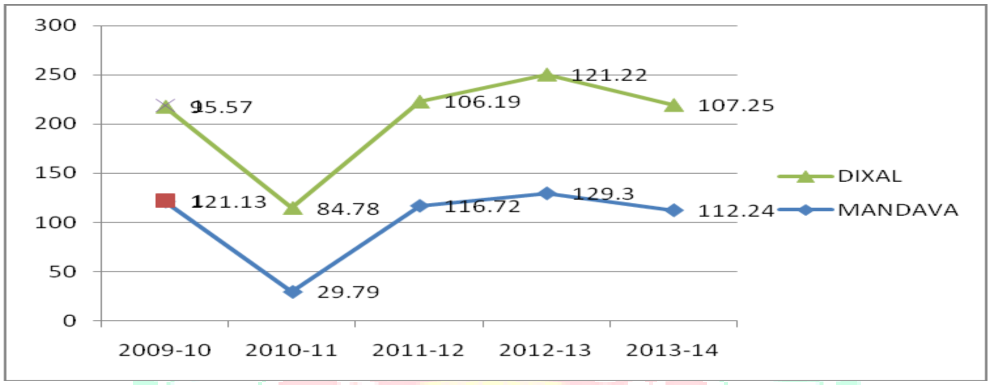
The operating ratio is only useful for seeing if the core business is able to generate a profit. Since several potentially significant expenses are not included, it is not a good indicator of the overall performance of a business, and so can be misleading when used without any other performance metrics. For example, a company may be highly leveraged and must therefore make massive interest payments that are not considered part of the operating ratio.

Table : 3 OPERATING RATIOS OF COOPERATIVE SOCIETIES

YEAR	MANDAVA	DIXAL
2009-10	121.13	95.57
2010-11	29.79	84.78
2011-12	116.72	106.19
2012-13	129.3	121.22
2013-14	112.24	107.25

Source: Compiled Calculated Data

Interpretation: Operating ratio of Mandava Cooperative society in kaprada taluka's The highes ratio 121.13 was in the year 2009-10 and the lowest 29.79 in the year 2010-11.and dixal cooperative society highest ratio 121.22 in 2012-13 and lowest ratio 84.78 in year 2010-11.It can be concluded that Dixal cooperative society is office and administrative expenses and selling and distribution expenses is control in all study period. And Dixal cooperative society compare to Mandava society is Average good.



Return On total assets ratio: Return on Assets shows how many Amount of earnings result from each Amount of assets the company controls. Return on Assets ratio gives an idea of how efficient management is at using its assets to generate profit.

Return on Assets can vary substantially across different industries. This is the reason why it is recommended to compare it against company's previous values or the return of a similar company.

The only common rule is that the higher return on assets is, the better, because the company is earning more money on its assets. A low return on assets compared with the industry average indicates inefficient use of company's assets.

Return on Assets is one of the profitability ratios and is usually expressed as a percentage.

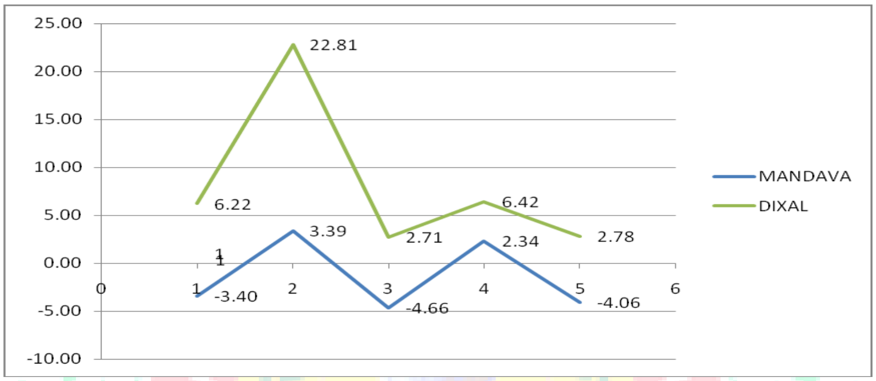
Table : 4 RETURN ON TOTAL ASSETS RATIOS OF CO OP SOC.

YEAR	MANDAVA	DIXAL
2009-10	-3.40	6.22
2010-11	3.39	22.81
2011-12	-4.66	2.71
2012-13	2.34	6.42
2013-14	-4.06	2.78

Source: Compiled Calculated Data

Interpretation: Return on total assets ratio of Mandava Cooperative society The highes ratio was 2010-11 and lowest ratio in 2013-14. Wherever dixal cooperative society highest ratio in

2010-11 and lowest ratio in year 2011-12.It can be concluded that Dixal cooperative society is good better than Mandva cooperative society. because Dixal cooperative society was efficient management is at using its assets to generate profit So we can say the financial Return on total assets ratio position of Dixal Cooperative society is better than the Mandava Cooperative society in the terms of return on total assets ratio because the return on total assets ratio of Mandava Cooperative societies is low, as compare to Dixal Cooperative society.



Return Capital Employed ratio: Return on capital employed or ROCE is a profitability ratio that measures how efficiently a company can generate profits from its capital employed by comparing net operating profit to capital employed. In other words, return on capital employed shows investors how many Rupees in profits each rupees of capital employed generates.

ROCE is a long-term profitability ratio because it shows how effectively assets are performing while taking into consideration long-term financing. This is why ROCE is a more useful ratio than return on equity to evaluate the longevity of a company.

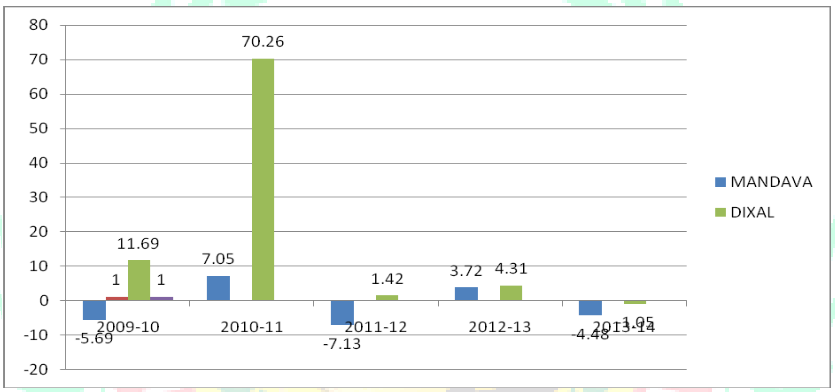
This ratio is based on two important calculations: operating profit and capital employed. Net operating profit is often called EBIT or earnings before interest and taxes. EBIT is often reported on the income statement because it shows the company profits generated from operations. EBIT can be calculated by adding interest and taxes back into net income if need be.

Table : 5 RETURN ON CAPITAL EMPLOYED RATIOS OF COOPERATIVE SOCIETIES

YEAR	MANDAVA	DIXAL
2009-10	-5.69	11.69
2010-11	7.05	70.26
2011-12	-7.13	1.42
2012-13	3.72	4.31
2013-14	-4.48	-1.05

Source: Compiled Calculated Data

Interpretation: Return on capital employed ratio of Mandava Cooperative society The highes ratio was 2010-11 and lowest ratio was 2012-13 Wherever dixal cooperative society highest ratio 2010-11 in and lowest ratio in year 2013-14.It can be concluded that Dixal cooperative society is good better than Mandva cooperative society. because Dixal cooperative society was efficient management is effectively e performing while taking into consideration long-term financing policy.so it can be concluded that the financial Return in Capital Employed position of Dixal Cooperative society is better than the Mandava Cooperative society in the terms of return in capital employed ratio.



Suggestions & Conclusion: From the above study, it is concluded that the values of Profitability ratios standard. This indicates the cooperative financial position was good to meet its current both cooperative societies, But Net profit ratio are no maintain every year so management take some step to increase net profit and sale of promotion policy, absolute Total return on total assets ratio and Return on Capital employed ratio of the cooperative are below the Cooperative Societies average, because ,cooperative societies net profit are no regular every year in study period. that shows the financial position of the cooperative is not satisfactory bue we can't say very bad situation.

Finally, still there is a scope and hope for the betterment to maintain the optimum level financial stability in future, if the cooperative societies operate the management in profitability manner, try to maintain the optimum level of financial helth stability in future.

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