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A Study on Profitability Analysis at Bajaj Finserv Ltd

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ABSTRACT:
Profitability is a measure of the overall success of the company. It is a measure of the income or the operating success of the company for a given a period of the time. The purpose of the study is to analyze overall profitability, operating profit, return on investments and the trends in the profitability growth using 10 years of financial statements i.e., from 2011-12 to-2020-21. The study has found that the profitability of the company has been stable for the last 3 years. There is a negatively strong relation exist between net profit ratio and total asset turnover ratio and it suggests to control, monitor company's operating expenses.

I. INTRODUCTION

The financial services industry has served as common ground for investors seeking steady growth and income for decades. Organizations that facilitate banking and insurance services, asset management services, lending and credit services, and brokerage operations make up a substantial portion of gross domestic product (GDP) each year, and they can have a lasting impact on total stock market performance.

The financial services industry includes a large group of businesses that manage money. This includes banks, credit unions, investment groups, credit card companies, insurance companies, financial technology companies, financial advisors, and even mobile financial services. Profit margin for all these various subsectors of the financial services industry varies; whereas many financial services companies generate revenue by charging a fee for their services, some more personalized services rake in a higher profit margin.

To determine whether an investment in the financial services industry is profitable or not for financial services company. The analysis of profitability and operational efficiency is dire need of the hour.

PROFITABILITY:

Profitability is a primary measure of the overall success of the company. It is necessary for the company's survival. It is a measure of the income or the operating success of the company for a given period of the time. A company's income or lack of its ability to obtain debt and equity financing its liquidity positions and its ability to grow cannot be determined.

A business needs profits not only for its existence but also for expansion and diversification. A business finds it difficult to remain stable and survive in gather market without profits. The greater the volume of profits generated, the higher is the efficiency of the concern.

Profitability means "a company's ability to earn return on investment through its business activities. It shows how the resources are efficiently utilized to achieve its goal of earning profits".

Profit is an absolute connotation, whereas profitability is a relative concept, despite being closely related to a mutually interdependent, as they are, profit and profitability are two different concepts. Profitability is the main indicator of the efficiency and effectiveness of a business enterprise in achieving its goal of earning profit. Analysis of the profitability reveals as to how the position of profits stands as a result of total transactions made during the year.

Profitability may be analyzed through ratio analysis. Ratio analysis is one of the most powerful tool and widely used technique of analyzing financial statements. It is the process of computing and interpreting relationship between the items of the financial statements for arriving at conclusions about the financial position and performance of an enterprise.

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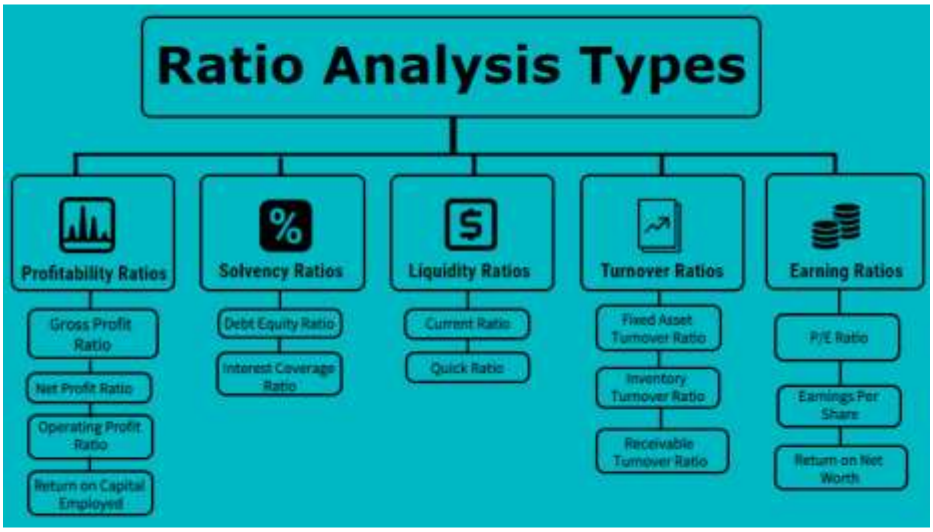

Source: https://www.quora.com/

Financial ratio analysis groups the ratio into categories which tell about different facets of a company's finances.

1. Liquidity Ratio.
2. Leverage Ratio
3. Profitability Ratio.
4. Activity Ratio

II. REVIEW OF LITERATURE:

Frederick H. De B. Harris (1994) made a study and found that a higher, firm-specific, predicted cost of capital (COC) lower capital intensity predicted capital intensity (CAPINS) increase liquidity (LTD) in the firm's capital structure and predicted profitability decrease and also found that increased debt financing raises the firms' systematic risk.

Chang, S.J. (2003) found that profitability is positively associated with inside ownership and family portions of inside ownership. Performance determines ownership structure but not vice versa.

Bevan et al.(2002) found that it is recommended that more profitable firms should hold less debt since higher profits generate more internal funds.

Chen, L. et al. (2004), profitable firms tend to issue more debt as debt capital may be available at a cheaper rate the negative relations between profitability and leverage ratio arise from firm's preference of internal fund over external funds and the availability of internal funds.

Dr. S.K. Khartik titto Varghese, (2011) found that profitability more or less depends upon the better utilization of resources and to manpower. It is worthwhile to increase production capacity and use advance technology to cut down cost of production and wage cost in order to increase profitability, not only against the investment, but also for investor's return points of view.

Eljelly (2004) elucidate found that the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability. The variable was found to have significant effect on profitability at the industry level.

On the whole, Review of Literature reveals that though studies are made on profitability and operational efficiency, influencing factors of profitability and operating efficiency, there are very few studies made on analysis of profitability and operational efficiency of financial services sector focusing credit services, insurance services providing companies in this unpredicted economic condition namely financial recession, demonetization and Covid-19 etc. It clearly shows that there is a gap in analyzing profitability and operational efficiency under this scenario. At this juncture, there is a dire need to study profitability and operational efficiency in the present selected Finserv company i.e. Bajaj Finserv Ltd.

NEED OF THE STUDY:

Profitability analysis gives new growth opportunities and better understanding of profitability performance and how stable things are in the company and operating efficiency which can drive the business forward. So, the study is undertaken to understand the profitability of Bajaj Finserv Ltd.

SCOPE OF THE STUDY:

The study covers the profitability of the Bajaj Finserv Ltd by analyzing the financial statements

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for the time period of 10 years i.e., 2011-12 to 2020-21.

OBJECTIVES OF THE STUDY:

- To analyze the profitability in terms of sales.
- To examine the relationship of net profit and total assets efficiency.

RESEARCH METHODOLOGY:

To achieve the above objectives the following methodology has been used.

Source of the data:

Secondary data has been used for analysis referring 10 years of data i.e. from 2011-12 to 2020-21 collected from screener website. (www.screener.in)

DATA TOOLS:

- Mean
- Standard deviation
- ANOVA
- Correlation
- Charts further financial tools i.e. Ratio Analysis has been used.

LIMITATIONS OF THE STUDY:

- The study is done only for a period of ten years i.e. 2011-12 to 2020-21.
- The study only deals with the profitability analysis of the company based on data available in screener online site.
- The study period is limited to 45 days.

III. DATA ANALYSIS AND INTERPRETATION:

Table 1: Profitability ratios

Years	Gross profit margin ratio	Operating profit margin ratio	Net profit margin ratio
2012	99.54	66.07	49.28
2013	99.78	48.80	19.54
2014	99.85	74.56	25.63
2015	99.82	48.61	14.90
2016	99.89	32.82	9.07
2017	99.89	35.55	9.23
2018	95.74	32.82	8.06
2019	54.63	35.29	7.55
2020	56.30	33.59	6.19
2021	54.69	32.41	7.37
Mean	87.23	46.82	18.45
Standard Deviation	20.61	17.17	15.67
Coefficient of Variation	23.62	36.67	84.91

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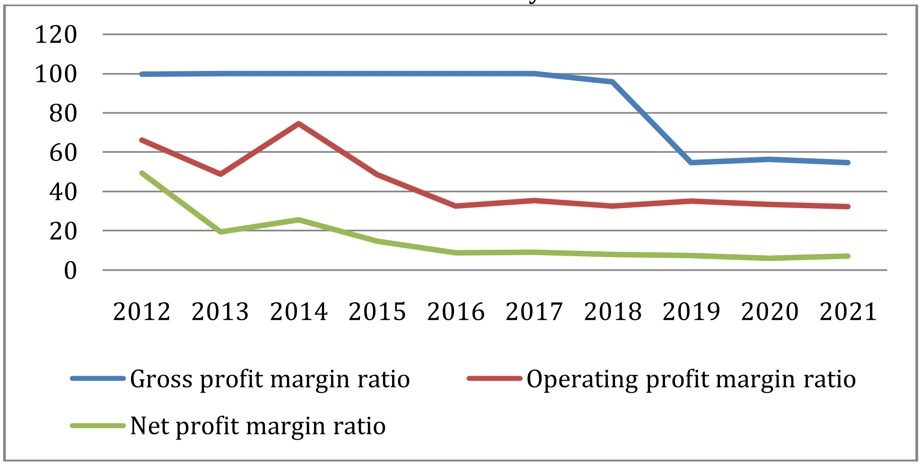
Chart 1: Profitability Ratios



From the above chart, it is possible to understand that the gross profit margin ratio was neutral until the year of 2017 whereas it has a drastic fall in the year of 2019 which is from 95.74% to 54.63% with a result of decline 41.11%. %. The reason for this drastic decrease may be the decrease in the proportionate change in the sales and it has happened even more in the year of 2019 in which the Covid-19 pandemic has started which might have made the company to increase their direct expenses. The mean of Gross profit ratio is 87.23, the standard deviation is +/- 20.61% from its means and the coefficient of variation is 23.62% from its means.

The operating profit margin ratio has declined in the year of 2013 and it is graphically visible that the drastic decrease in operating profit margin ratio has happened in the year of 2015 may be due to the increment in operating costs. From the year 2016 the company has stabilized their operating margin ratio until the year of 2021. The company has not stabled the operating profit margin from the year 2016 might be because of demonetization happened in the country. But in the year of 2019 the margin might have increased due the decrease in the operating cost as the pandemic started in the very same year. The mean of Operating profit ratio is 46.82, the standard deviation is +/- 17.17% from its means and the coefficient of variation is 36.67% from its means.

The net profit margin ratio of the company has increased in the year of 2012 and the decrease has happened in the next year 2013 and from the year of 2016 even though there were minute fluctuations the net profit margin ratio has been stabilized until the year of 2021. The continuous fluctuations in the margin have started from the year of 2016 where the company might have increased operating expenses because of the demonetization happened in the country which might have resulted in the decrease of net profit margin of the company. The mean of Net profit ratio is 18.45, the standard deviation is +/- 15.67% from its means and the coefficient of variation is 84.91% from its means.

The gross profit margin ratio of the company has been stable from the past three years. The operating profit margin ratio has been stable from the year of 2016 and the net profit margin ratio has also been stable since the year of 2016. On whole, the profitability of the company has been stable in the last 3 years.

RELATIONSHIP OF NET PROFIT AND TOTAL ASSETS:

To know the relationship of net profit and total assets, correlation has been used and the results are below.

Table 2: Correlation of net profit and total assets

Years	Net profit	Total asset turnover ratio
2012	49.28	0.04
2013	19.54	0.12
2014	25.63	0.08
2015	14.9	0.13

2016	9.07	0.21
2017	9.23	0.21
2018	8.06	0.22
2019	7.55	0.23
2020	6.19	0.23
2021	7.37	0.22

R= n (∑xy)- (∑x) (∑y)/ √[n∑x^2-(∑x)^2] [n∑y^2-(∑y)^2]

R= -0.921

The correlation value that is obtained is -0.921and the negative or inverse correlation describes when two variables tend to move in opposite size and direction from one another, such that when one increases the other variable decreases, and vice-versa. Here, the net profit ratio and total asset turnover ratio are negatively highly correlated as those variables are moving in opposite direction from each other with inverse relationship which may be due to the increase in operating expenses in the company.

Hypothesis testing:

In the study, it is tried to know that is there significant difference in the mean net profit and total assets turnover ratios.

To test this, hypothesis has been formulated and tested with One-way ANOVA. The results are as below.

H_0: There is no significant mean difference between net profit ratio and total asset turnover ratio

H_1: There is a significant mean difference between net profit ratio and total asset turnover ratio

One-way anova for net profit ratio and total assets turnover ratio

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1203.266	1	1203.266	13.43525	0.00177	4.413873
Within Groups	1612.087	18	89.56039			
Total	2815.353	19				

As per the value obtained the p value<0.05, it means null hypothesis is rejected, indicating that there is a significant mean difference between net profit ratio and total asset turnover ratio.

IV. FINDINGS

- In the year of 2017 , the gross profit margin ratio has been stable. But, the dropdown of margin has happened in the year of 2019. In the year of 2019, the margin has decreased from 95.74% to 54.63% where the decrease the percentage is 41.11% as the company might not have stabled the proportionate change in the sales.
- In the year of 2015, the operating profit margin ratio has decreased from 74.56% to 48.61% where the decrease percentage is 25.95% . However, the company has stabled the operating profit margin ratio in the last 4 years.
- In the year of 2012, the company has accumulated the highest net profit with the net profit margin ratio of 46.16%. However, the continuous fluctuations in the margin have started from the year of 2016 and have lasted until the year of 2021. The lowest net profit margin is in the year of 2020 where the margin is 6.19%
- There is a negatively strong relation exist between net profit ratio and total asset turnover ratio and it suggests to control, monitor company's operating expenses.

V. CONCLUSION

It can be concluded that the Bajaj Finserv Ltd profitability ratios show that the gross profit ratio has decreased and the operating profit has been stable where the net profit has been stable even after many fluctuations in the past years. The growth of profitability of the company can be considered as stable in the last 3 years. The negative relation between the net profit and the total assets exists in the company due to the increase in the operating expenses.

VI. SUGGESTIONS:

- The company needs to stabilize the decreasing proportionate change in sales in order to maintain the gross profit margin ratio.
- The company is already maintaining the operating profit margin ratio in a stabilized manner, it is required to take measures to increase the operating profit margin ratio.
- The company needs to increase the net profit margin ratio by taking required measures as decreasing their operating expenses.

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