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PROFITABILITY ANALYSIS :
A CASE STUDY OF SELECTED CEMENT COMPANIES IN INDIA

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Abstract

Profitability is the capacity of an organization/activity to earn profits in the normal course of operation. Thus an inefficient firm, which makes large profits on account of fortuitous circumstances (such as sudden price rise/stock-piling programmes in the wake of war), would not in strict terms, be profitable. On the other hand, an efficient undertaking which suffers loss accidentally {say resulting from an earthquake} may, still, be deemed as profitable. However, in actual practice, it may be quite difficult to abide by convenient to say that profitability refers to a situation where output exceeds input. In other words, profitability follows "Overall contribution. Profitability analysis is external as well because it helps the external users of accounting information pertaining to a particular business concern viz., shareholders, potential investors, bankers, and other creditors and numerous governmental agencies in measuring its economic health by its net earnings. Its profit indices for a number of years serve as indicators of its business activity which, in turn, from the view point of the outsiders are the only reliable bases for the appraisal of the effectiveness with which funds are used in the various segments of the enterprise. In this paper, a study has been made on Profitability analysis based on some selected Cement Companies in India.

Keywords: *Profitability, Stock-Piling, Economic Health, Net Earnings, Operating Costs.*

Introduction

The word 'profitability' may be defined as the ability of a given investment to earn a return from its use. "Profitability is a relationship of the earnings to the total resources of the corporations. **Stanley** mentioned that, profitability is an overall reflection of the strength and weaknesses of an enterprise". The word 'profit' has already been defined in a number of ways. Actually the meaning of profit differs according to the use and the purpose. In modern times profit is considered under the following two meanings:

- Excess of revenue over operating costs; and
- Excess of revenue over operating cost and other deductions.

The most important precaution in connection with the measurement of profitability is that the investment figure used should be related to its income figure. Several relationships between different types of investments and incomes have been established by the accountants to measure profitability of the investments.

Significance of Profitability

Profitability is a ratio. Being a ratio, profitability is a meaningful yardstick to assess and evaluate the performance of a concern irrespective of the concern's size or quantum of investment. Investors are invariably interested in the return "coming in future either in the form of dividends or in the form of the capital gains", and it is through this criterion that success or failure of a concern is generally measured.

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