



Cost Volume Profitability Analysis-An Empirical Study With Reference To Laks Tex Karur

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ABSTRACT

Finance is needed for day to day operation. Easy availability of low cost manpower and preference of abundant referrers make India competitive in the global set up. I can be considered as a life blood for business. Profitability is the profit earning capacity which is a crucial factor contributing for the survival of the firms. This paper examines the short term financial position and overall profitability of Textiles subsidiaries. The data from 2018-19 to 2022-23 has been collected from secondary sources for the study. The data has been analyzed with the help of mean, annual growth rate and ratio analysis techniques. This study examines short term liquidity position, profitability, sales trend, production of yarn. In which indicated increase as compared to previous year. There was impressive growth in production as compared to previous year which mean value increase 2018-19. Current ratio and quick ratio of industry are satisfactory.

The profitability level should maintain at increasing level in order to overcome this problem. The data is purely based on secondary Profitability position is major determined by the direct and indirect expenses of the Textiles.

Keywords: Profitability analysis, liquidity position, profitability, sales trend, production

I. INTRODUCTION

The cost volume profit analysis, commonly referred to as CVP, is a planning process that management uses to predict the future volume of activity, costs incurred, sales made, and profits received. In other words, it's a mathematical equation that computes how changes in costs and sales will affect income in future periods.

Cost-volume-profit (CVP) analysis is a method of cost accounting that looks at the impact that varying levels of costs and volume have on operating profit.

INDUSTRY PROFILE

India's textiles sector is one of the oldest industries in the Indian economy, dating back to several centuries. The industry is extremely varied, with hand-spun and hand-woven textiles sectors at one end of the spectrum, with the capital-intensive sophisticated mills sector at the other end. The fundamental strength of the textile industry in India is its strong production base of a wide range of fibre/yarns from natural fibres like cotton, jute, silk and wool, to synthetic/man-made fibres like polyester, viscose, nylon and acrylic.

The decentralised power looms/ hosiery and knitting sector form the largest component of the textiles sector. The close linkage of textiles industry to agriculture (for raw materials such as cotton) and the ancient culture and traditions of the country in terms of textiles makes it unique in comparison to other industries in the country. India's textiles industry has a capacity to produce a wide variety of products suitable for different market segments, both within India and across the world.

COMPANY PROFILE

LAKS tex was established in the year 2005. Which engaged in the process of manufacturing and exporting of garments and supplying as per orders in bulk range. Mr. K. MURUGESAN is the Managing Director of Laks Tex Ltd. Laks Tex aims to create the best combination of product, quality, service and value for its clients.

Today, they are a 100 member team, touching an annual group turnover of more than USD 4 million. With the network comprises wholesalers, distribution agencies, mail order companies and chain stores spread across different areas. Steered by the vision, energy and acumen of its founder, Mr. K. MURUGESAN (Managing Director), Laks Tex is a name synonymous with success and accomplishment. Laks Tex was



Established in as a manufacturer & exporters of Home Textile products. Has embarked success towards customer focus and its continued commitment to product development. Laks Tex aims to create the best combination of product, quality, service and value for its clients.

II. REVIEW OF LITERATURE

Waller et Fawcett (2019) conducted a study on “deployment decision of a new distribution”. In this study the costs are associated with distribution process. The study conducts the inventory costs and labour costs and other factors may change over the period. The findings for the difficulties for the transportation frequencies are limited and also it proves that economic way is influenced by different variables in different intensity.

Verdon et al (2020) while studying the relationship between advertising and aggregate demand found that advertising has a positive relation with aggregate demand. At the global world, many valuable studies are available on industry and related sectors on various aspects. But such studies are not many in Bangladesh especially in the aspect of selling and distribution cost or marketing costs & promotional cost and their impact on sales revenue and profit. In such a context a brief review on some selected studies are made below with reference to aspects of selling and distribution cost or marketing costs & promotional costs.

Lulaj and Etem Iseni (2021) argued that the CVP analysis was an important content to plan and make decisions in business. The research was carried out in manufacturing and service businesses, using a combination of econometric models to make this research accurate and effective. The results showed that the amount of produced products had a positive impact on the sales for service companies and increased profits for the manufacturing business, there was an important relationship between production and sales.

DATA ANALYSIS AND INTERPRETATION

RATIO ANALYSIS

NET PROFIT RATION

Formula : Net Profit Ratio=
$$\frac{\text{Net Profit before Interest and Tax}}{\text{Sales}} \times 100$$

Adenji (2022) states that cost-volume- profit examination are foreordained costs, target costs or deliberately prearranged costs which administration attempts to accomplish with a view to setting up or achieving most extreme proficiency in the creation procedure. He characterizes cost-volume- profit examination as foreordained cost; they are taken a toll that ought to be damaged under productive working conditions. The cost volume profit examination might be resolved on various bases.

III. RESEARCH METHODOLOGY

RESEARCH DESIGN

Research is a process in which the researchers wish to find out the end result for a given problem and thus the solution helps in future course of action. The research has been defined as “A careful investigation or enquiry especially through search for new facts in branch of knowledge”

SOURCES OF DATA

Only the secondary data has been used in project study. The researcher himself being an external one and doing study as a part of curriculum has had to depend mainly upon secondary data for the different aspects.

Hence the data required for the study where collected mostly from the annual report manuals and accounts of laks textile products, and various magazines and journals.

PERIOD OF THE STUDY

The data were collected for Five years from 2018-2023

TOOLS FOR ANALYSIS:

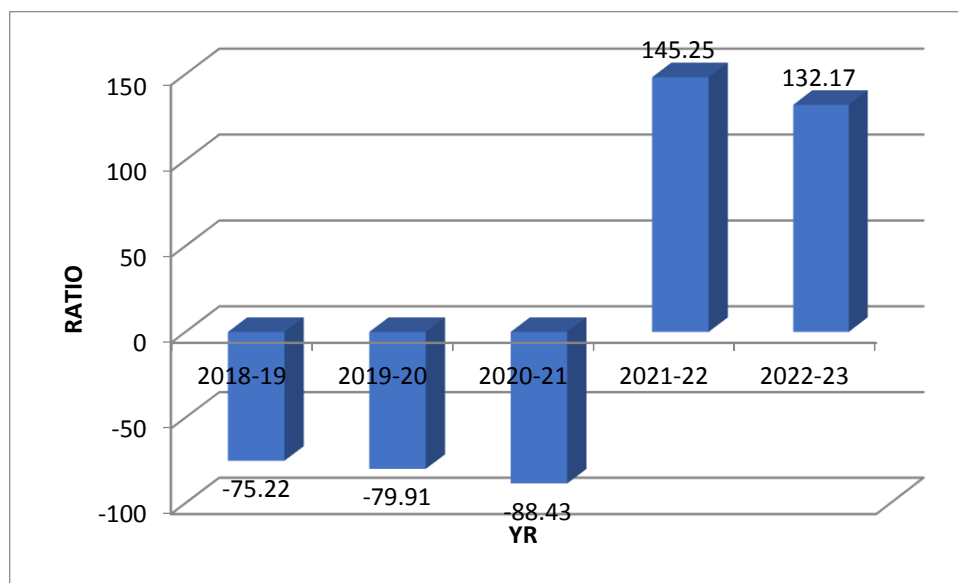
- Ratio analysis
- Trend analysis
- Common size analysis
- Comparative analysis



Table 4.1 Net Profit Ratio

Year	Net profit	Sales	Net margin (%)
2018-19	(145106159.32)	1982888080.79	-75.22
2019-20	(168744358.94)	211164520.05	-79.91
2020-21	(198480945.70)	224425407.37	-88.43
2021-22	221565218.24	152540443.37	145.25
2022-23	160925573.68	121756398.90	132.17

Source: Annual report



Inference:

The above chart shows that, the high net profit margin in 2021. It is because of high profit in the year of 2021, from 2021-22 it shows the increasing trend. From 2018 to 2020 it shows the low not profit margin.

CURRENT RATIO

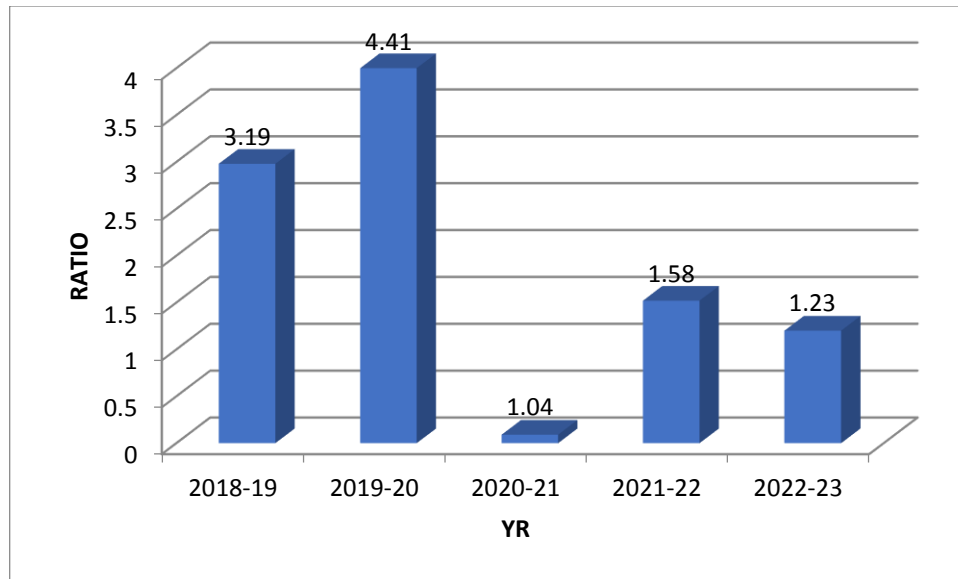
Formula:

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Table 4.2 Current Ratio

Year	Current assets	Current liabilities	Ratio
2018-19	155834939.4	48816088.59	3.19
2019-20	161773635.53	36618215.22	4.41
2020-21	521252213	498984662.78	1.04
2021-22	71360257	44943287.71	1.58
2022-23	40637986.09	32864351.27	1.23

Source: Annual report



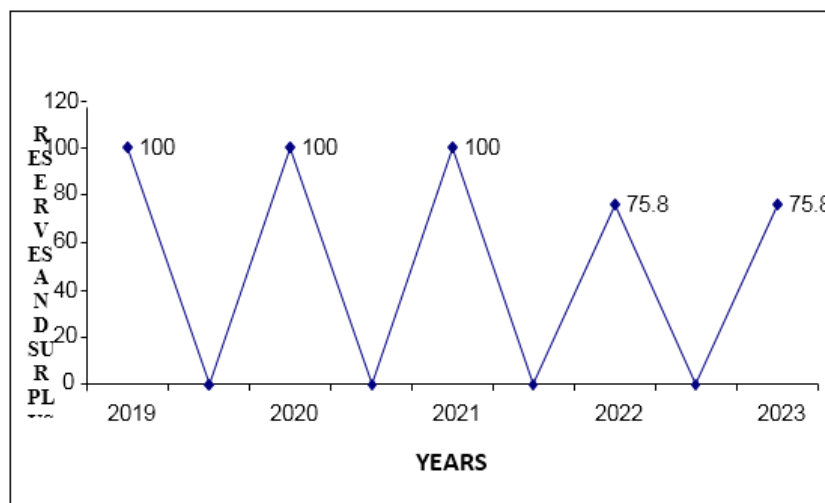
Inference:

The above chart shows, for the two years i.e. from 2018-2022 the current ratio of the firm showed an increasing trend, later in 2020 the current ratio got declined because of the increase in current liability. The high current ratio shows the favourable condition of the firm. So in 2019-20, the firm got high current ratio at 4.41.

Trend Percentage Of Reserve And Surplus

Year	2018-19	2019-20	2020-21	2021-22	2022-23
Reserve and surplus	334534139.25	334534139.25	334534139.25	253598494.25	253598494.25
Trend %	100	100	100	75.80	75.80

Source: Annual report



Inference:

Reserves and surplus shows a same level trend from the year 2018 to 2023. In the year 2023, it shows a decreasing trend at 75.80. In 2022, it shows the same level trend to compare with 2018. It shows the unfavourable position for a firm.



COMPARATIVE FINANCIAL STATEMENTS

Comparative Income Statement (Amounts in lakhs)

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
INCOME					
Sales			2244.25		
Income from job work	1928.88	2111.64	2.74	1525.40	1217.56
Interest and other income	3.04	0.37	78.96	83.72	594.70
Increase/decrease in Stock	29.69	32.11	49.63	17.78	22.88
profit on sale of Assets	32.73	(100.71)		145.46	(239.65)
Total income	6.58				
EXPENDITURE	2000.95	2043.42	2375.58	1772.58	1595.49
Materials consumed					
Purchase of finished Goods	1233.99	1013.72	1180.46	1003.45	885.47
Employees Remuneration				45.52	39.94
Manufacturing selling, admin exp	469.29	457.98	555.61	509.09	564.24
Finance charges	488.47	545.45	603.20	493.48	453.92
Bad debts and provisions	232.70	237.98	246.53	135.59	295.38
Depreciation	2.20	-	82.75	0.07	0.07
Total Expenditure	9.01	7.55	5.04	17.84	9.08
PROFIT /LOSS FOR THE YEAR	2435.68	2262.68	2673.60	2205.04	2329.86
Net Prior period income/exp	(434.72)	(219.26)	(298.01)	(432.45)	(734.36)
Provisions written back	(23.93)	(16.50)	(0.29)	(0.018)	(3.93)
Extraneous income			0.76	3823.55	128.24
Reserve written back			6.07	0.54	5.23
Ordinary items				809.89	
PROFIT BEFORE TAX	(458.66)	(235.50)	(291.47)	4200.98	(604.82)
Benefit tax	(992.39)	(0.19)	(0.4)	(0.37)	(0.37)
Provision Wealth tax					
Balance brought down fromlast year		(1451.74)	(1692.93)	(198.49)	2214.44
BALANCE OF PROFIT / LOSS(carried forward)	(1451.06)	(168.74)	(1984.80)	2215.65	1609.25

Inference:

From the above comparative income statement it is inferred that sales increased in every year and maximum in the year 2020 at 2244.25, other income shows an increase in the year 2018-2020 and 2019-20 but it marked its greatest increase in 2021-22. This greatest increase makes the big change in their profit. Due to this income the firm got profit to compare with other years.

In the year 2021-22 the stock level got decreased position. Material consumption shows a throughout increase or decrease of the every year and in the year got maximum at 1233.99. The employee cost shows increase in every year. An interest and financial change shows its decline from 2017-18 to 2018-19 and 2019-20 got increase. It is maximum in the year 2021-22. Depreciation shows its decline for 2017-18 and 2018-19 and it later increasing.

In the case of profit and loss before interest and taxes shows the increase of losses in the year from 2019-2022. The extra-ordinary items maximum in the year 2020-22 is at 3823.55. Ordinary income highest in the year 2020-2021 at 809.35. It shows the ability of the company to raise the profit from external as well as internal sources.

Due to this, the firm got profit for the year 2020-2021 at 4200.98. After deducting taxes it shows the high net profit in the year

In the case fixed asset shows its decline trend in year 2018-2019 at (-0.51) and later increasing in the year 2019-20 at 5715. Current Assets showed its decline in year 2017-2018 at 3.87 and later increase in the year 2019-20 at 20.05 Current Liabilities showed it increase or decrease for every year 2020-2021 at 2215. From the year 2018 – 19 the firm got losses. Then in the year of 2022, the profit is 1609.25. It is the favourable condition for the organization.



COMMON SIZE BALANCESHEET:

Common Size Balance Sheet From 2018-2022

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
SOURCE OF FUNDS					
Shares	6.31	6.03	3.81	29.28	13.7
Reserve and surpluses	52.25	49.99	31.85	183.77	86.41
Loan funds	29.38	34.20	14.35	(171.78)	25.90
Current liability and provisions	12.04	9.76	50.27	58.72	25.71
Total	100	100	100	100	100
APPLICATION OF FUNDS					
Fixed assets	68.51	67.67	39.50	81.5	90.62
Investment	0.0017	0.0017	0.0010	0.0002	0.0002
Current assets, loan advances	31.48	32.32	60.49	18.58	9.37
Total	100	100	100	100	100

IV. FINDINGS, SUGGESTIONS AND CONCLUSION

FINDINGS

The highest net profit margin in 2021. It is because of high profit in the year of 2020, from 2020-21 it shows the increasing trend. From 2018 to 2020 it shows the low not profit margin.

The reserve and surplus to equity capital ratio. From the year 2018-20 the ratio is 8.27. Later it had decreased at 6.27. Higher the ratio better will be the position. But here it was decreased. So there is no better position during the period of 2018-2020.

That sales percentage for every year from the year 2018-2019, it shows the increasing trend in sales. But in 08 the sales comes to decline trend, because of less demand, high price, high production cost etc. It marked that the minimum percentage in 2022 at 63.12

SUGGESTIONS

- The company may develop and concentrate with growth of working capital position.
- The company may minimize the production cost to increase the profit level.
- The management may try to be more attentive to increase the cash position to meet its short term liabilities.
- The management may try to decrease the current liabilities.
- The management may make the payments earlier. This may be due to better liquid resources and working capital as it's evident from current ratio and liquid ratio.

- The management may quick recovery of money from debtors. It will increase the cash position of the company.

CONCLUSION

From the above study the research has concluded that the financial strength and weakness in the Laks textile products at Karur. The analysis indicates present position is not satisfactory because its creditors turnover ratio, working capital turnover ratio, and current asset turnover ratio. The findings and suggestions given in the study will help the company to enhance its financial strength.

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