

Profitability in Corporate Sector

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This paper aims at analysing trends of profitability of the manufacturing industries in the corporate sector. Due to non-availability of comparable data, the study is confined to public limited companies in the private sector only¹. This however, does not greatly restrict the coverage of the study in as much as these companies claim more than half of the total paid-up capital².

Concepts and Methodology

This study defines profitability as a ratio of gross profit to total assets. Gross profit is defined to include retained profits, dividends, interest and taxes³. It excludes managing agents' remuneration⁴ and depreciation. Total assets are defined to include net fixed capital, inventory, cash and bank balances, debtor balance, intangible assets, and investments of the corporation at the end of the year. This definition is followed to analyse effectiveness of capital in different manufacturing activities⁵. Also, it has its role to play in presenting inter-company and inter-temporal comparisons of profitability. Herein, all the firms are treated equally regardless of their differing debt-equity ratios⁶.

The study is based on the Annual Reports of Accounts of companies published in the Reserve Bank of India Bulletin⁷. As the number of companies changes during different time periods reported by the RBI, this study relies upon the ratios. The study includes all the private sector manufacturing industries with the exception of agriculture, mining, trade and service sector⁸. The reference period of the study is 1950-51 to 1970-71.

For an analysis of industrywise profitability, it presents rate of growth, which is calculated by the relationship $Y_t = abt$ where $b = (1 + r)$, Y is the value of growth character (profitability), and t varies from 1 to n . Variation in profitability has been analysed with the help of coefficient of variations calculated over the period of time. Also, the profitability of industry-groups and total manufacturing sector has been analysed. For this purpose