

Fund Management and Profitability with Reference to APMDC

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Abstract—A business needs profits not only for its existence but also for expansion and diversification. The investors want an adequate return on their investments. Profits to the management are the test of efficiency and measurement of control. The Efficiency with which funds are managed gleaned from turnover ratios. BY using secondary data the current study focuses on the variables of profitability and also measures the impact of Independent variables on Profitability (PBITM) using multiple regression and measures the impact of Independent variables on Profitability It aims at analyzing how funds are managed.

Keywords—Measurement of Funds, Profitability, Ratio Analysis, Regression, Turnover Ratios, Variables

Abbreviations—Debtor's Turnover Ratio (DTR), Fixed Asset Turnover Ratio (FATR), Inventory Turnover Ratio (ITR), Profit Before Interest & Tax Margin (PBITM), Return on Capital Employed (ROCE), Working Capital Turnover Ratio (WCTR)

I. INTRODUCTION

EFFICIENT fund management is an integral part of the overall corporate strategy to create share holders value. Fund management implies the efficient and effective acquisition and allocation and utilization of funds.

1.1. Fund Management

The Efficiency with which funds are managed gleaned from turnover ratios. Turnover ratio measure how rapidly the assets are being turned over into sales. In other words they indicate how well the company managers it funds and indicates sales turnover for every rupee of fund the way in which funds are managed can have a significant impact on the profitability of the company. It is an empirical question whether a high value of turn over ratio as a positive influence on the companies earning capability. A company can have larger sales with a very liberal Credit policy which shrinks the Debtor's turnover ratio. In this case, the lower Debtors turnover ratio may result in higher profitability. However as for the traditional view, a low value of turnover ratio hits company's profitability.

1.2. Profitability

The primary objective of a business undertaking is to earn profits. Profit earning is considered essential for the survival of the business. In the words of Lord Keynes, "Profit is the engine that drives the business enterprise. The workers want higher wages, creditors want higher security for their interest and loan and so on. A business enterprise can discharge its obligations to the various segments of the society only

through earning of profits. Profits are, thus, a useful measure of overall efficiency of a business. Profits to the management are the test of efficiency and measurement of control; to owners, a measure of worth of their investment; to creditors, the margin of safety; to employees, a source of fringe benefits; to Government, a measure of tax-paying capacity and the basis of legislative action; to customers, a hint to demand for better quality and price cuts; to an enterprise, less cumbersome source of finance for growth and existence and finally to the country, profits are an index of economic progress profitability ratios are calculated to measure the overall efficiency of the business.

II. REVIEW LITERATURE

Henri Kuokkanen (2013) published an article, "Improving profitability: A Conceptual Model of Destination-Centric Revenue Management Concept", targeted at businesses struggling to maintain profitability. Dave & Ashvin (2012) published an article, "Financial Management as a Determinant of Profitability", examine the relationship between financial management and profitability of the enterprise. Amarjit Gill & Neil Mathur (2012) published an article, "Factors that Influence Financial Leverage of Canadian Firms", focused on factors of financial leverage. Odit & Gobhardhun (2011) published an article, "Determinants of Financial Leverage of SME's in Mauritius", concentrates on determinants of financial leverage variables. Aborn (2005) published an article, "The Effect of Capital Structure on Profitability", focused on effect of capital structure on profitability. Sarkaria & Shergill (2000)

published an article, "Market Structure and Financial Performance - An Indian Evidence with Enhanced Controls", focused on financial health of firm and its performance. Paul A. Geroski et al., (1997) published an article, "Corporate Growth and profitability", concentrated on growth factors and factors of profitability. Kuldip Kaur (1997) published an article, "Size, Growth and Profitability of Firms in INDIA. An Empirical investigation", focused on the impact of size of the firm on growth and profitability. Gilbert & Reichert (1995) published an article, "The Practice of Financial Management among Large United States Corporations", focused on the financial management practices. Roden & Lewellen (1995) published an article, "Corporate Capital Structure Decisions: Evidence from Leveraged Buyouts", concentrates on capital structure decision based on leverages. Huang (1995) published an article, "Caution implies Profit", focused on factors of profitability. Paul Barnes (1987) published an article, "The Analysis and use of Financial Ratios", focused on payment of debts and evaluation of business and managerial success. Harry DeAngelo & Ronald W. Masulis (1980) published an article, "Optimal Capital Structure under Corporate and Personal Taxation", concentrates on optimal capital structure. Buzzell et al., (1975) published an article, "A Market Share- A Key to Profitability", explains the key steps for profitability. Hall & Weiss (1967), "Firm Size and Profitability", focused on the size of the firm and the factors of profitability.

III. RESEARCH METHODOLOGY

3.1. Nature of the Study

The Efficiency with which funds are managed gleaned from turnover ratios. Turnover ratio measure how rapidly the assets are being turned over into sales. In other words they indicate how well the company managers it funds and indicates sales turnover for every rupee of fund the way in which funds are managed can have a significant impact on the profitability of the company.

3.2. Need for the Study

The "Fund Management and Profitability" is an integral part of the overall corporate strategy to create share holders value. Fund management implies the efficient and effective acquisition and allocation and utilization of funds. The Efficiency with which funds are managed gleaned from turnover ratios. Turnover ratio measure how rapidly the assets are being turned over into sales.

3.3. Objectives of the Study

- To calculate the variables like PBITM, FATR, ITR, ROCE, WCTR, DTR
- To measure the impact of Independent variables (PBITM, FATR, ITR, DTR, ROCE, WCTR) on Profitability (PBITM) using multiple regression.

3.4. Sources of Data

Secondary Data: Secondary data is collected through trade magazine, balance sheets, books Financial reports of the company etc.,

3.5. Tools of Analysis

3.5.1. Fixed Asset Turnover Ratio (FATR)

It is the ratio of sales (on the Profit and loss account) to the value of fixed assets (on the balance sheet). It indicates how well the business is using its fixed assets to generate sales.

$$FATR = \frac{\text{Sales}}{\text{Net Fixed Assets}}$$

3.5.2. Inventory Turnover Ratio (ITR)

A ratio showing how many times a company's inventory is sold and replaced over a period calculated as:

$$ITR = \frac{\text{Sales}}{\text{Inventory}}$$

The days in the period can then be divided by the inventory turnover formula to calculate the days it takes to sell the inventory on hand or "inventory turnover days".

3.5.3. Debtor's Turnover Ratio (DTR)

It incites the velocity of debt collection of a firm. In simple words it indicates the number of times average debtors (receivable) are turned over during a year.

$$DTR = \frac{\text{Net Sales}}{\text{Average Debtors}}$$

3.5.4. Return on Capital Employed (ROCE)

ROCE ratio, expressed as a percentage, complements the Return On Equity (ROE) ratio by adding a company's debt liabilities, or funded debt, to equity to reflect a company's total "capital employed". This measure narrows the focus to gain a better understanding of a company's ability to generate returns from its available capital base.

$$ROCE = \frac{\text{PBITM}}{\text{Capital Employed}} \times 100$$

3.5.5. Profit Before Interest & Tax Margin (PBITM)

An indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest. PBIT is also referred to as "operating earnings", "operating profit" and "operating income", as you can re-arrange the formula to be calculated,

$$PBITM = \frac{\text{PBITM}}{\text{Net Sales}} \times 100$$

3.5.6. Working Capital Turnover Ratio (WCTR)

The Working capital is the difference between the current assets and the current liabilities. This ratio is ascertained by dividing sales with working capital. This ratio indicates the extent of working capital turned over in achieving sales of the firm.

$$WCTR = \frac{\text{Net Sales}}{\text{Net Working Capital}}$$

IV. ANALYSIS AND INTERPRETATION

Table 4.1 – Profit Before Interest and Tax Margin (PBITM)

Year	PBITM (Rs In Crores)	Net Sales (In Crores)	Ratio (%)
2002	697.23	3675.33	18.97
2003	996.91	3775.63	26.40
2004	345.94	3634.69	9.51
2005	315.06	4146.76	7.59
2006	2025.50	5973.61	33.90
2007	1897.69	5834.94	32.52
2008	3367.07	8946.04	37.63
2009	4749.00	8570.41	55.41
2010	4917.14	14220.43	34.57
2011	5280.48	6239.09	84.63
2012	9848.69	1137.54	86.57

Interpretation

From the above table 4.1 it is observed that the profit before interest and tax margin of the company during the study period is fluctuated from the year 2002 to 2012. In the year 2012 PBITM registered high value 86.57% because of increase in PBITM and increase of Net sales. In the year 2005 it is low 7.59% because of the decrease in PBIT as well as increase in net sales.

Table 4.2 – Return on Capital Employed

Year	PBITM	Capital Employed	Ratio (%)
2002	697.23	2936.48	23.74
2003	996.91	3708.40	26.88
2004	345.94	3958.69	8.7
2005	315.06	4146.65	7.59
2006	2025.50	5348.54	37.87
2007	1897.69	5889.10	32.22
2008	3367.07	8460.27	39.79
2009	4749.00	9994.74	47.51
2010	4917.14	12306.84	39.95
2011	5280.48	1387.59	38.05
2012	9848.69	1881.80	52.33

Interpretation

From the above table 4.2 it is observed that the ROCE of the company during the study period is fluctuated from the year 2002 to 2012. In the year 2012 is high 52.33% because of increase in the PBITM and capital employed. In the year 2005 is low 7.59% because of decrease in PBITM and capital employed.

Table 4.3 – Fixed Assets Turnover Ratio (Rs in Crores)

Year	Net Sales	Fixed Assets	Times (%)
2002	3675.33	383.34	9.58
2003	3775.63	364.54	10.35
2004	3634.69	331.20	10.9
2005	4146.76	306.18	13.5
2006	5973.61	323.08	18.48
2007	5834.94	404.56	14.42
2008	8946.04	464.82	17.29
2009	8570.41	458.48	18.69
2010	14220.43	490.26	29.00
2011	6239.09	561.29	11.11
2012	1137.54	677.17	16.79

Interpretation

From the above table 4.3 the FATR of the company is high in the year 2010 because of Net sales and fixed assets are continuously increasing. In the year 2002 the FATR is low because of fixed assets are low.

Table 4.4 – Debtors Turnover Ratio (Rs in Crores)

Year	Net Sales	Average Debtors	Days
2002	3675.33	271.18	13.55
2003	3775.63	140.52	26.85
2004	3634.69	268.99	13.51
2005	4146.76	833.55	4.97
2006	5973.61	977.08	6.11
2007	5834.94	659.10	8.85
2008	8946.04	830.33	9.68
2009	8570.41	86745	9.88
2010	14220.43	989.32	14.37
2011	6239.09	727.12	8.58
2012	1137.54	456.20	24.93

Interpretation

From the above table 4.4 it is observed that the DTR of the company during the study period is fluctuated from the year 2002 to 2012. In the year 2003 it shows high value 26.85days because of increases in sales and inventory. In the year 2001 it is register low value 4.97days because of decreases in sales as well as inventory.

Table 4.5 – Inventory Turnover Ratio (Rs in Crores)

Year	Net Sales	Inventory	Times (%)
2002	3675.33	202.73	18.12
2003	3775.63	549.54	6.87
2004	3634.69	467.06	7.78
2005	4146.76	177.09	23.41
2006	5973.61	228.10	26.19
2007	5834.94	256.73	22.72
2008	8946.04	772.43	11.58
2009	8570.41	435.75	19.66
2010	14220.43	260.83	54.51
2011	6239.09	298.75	20.88
2012	1137.54	415.42	27.38

Interpretation

From the above table 4.5 it is observed that the ITR of the company during the study period is fluctuated from the year 2002 to 2012. In the year 2010 it shows high value 54.51 times because of increases in net sales and decrease of average debtors. In the 2003 it is register low value 6.87 times because of increase in sales and increase in average debtors.

Table 4.6 – Working Capital Turnover Ratio (Rs in Cores)

Year	Net Sales	Net Working Capital	Ratio (Times)
2002	3675.33	2553.12	1.43
2003	3775.63	3250.17	1.16
2004	3634.69	3539.55	1.02
2005	4146.76	3561.41	1.16
2006	5973.61	4777.37	1.25
2007	5834.94	5499.95	1.06
2008	8946.04	7285.53	1.22
2009	8570.41	9536.26	0.89
2010	14220.43	10985.55	1.29
2011	6239.09	1291.59	0.48
2012	1137.54	17390.84	0.65

Interpretation

From the above table 4.6 it is observed that the WCTR of the company during the study period is continuously decreases from the year 2002 to 2012. In the year 2002 it is high 1.43 times because of decrease in net sales and decrease of net working capital. In the year 2012 it is low 0.48 times.

Table 4.7 – Multiple Regression

Year	PBITM	FATR	ROCE	ITR	DTR	WCTR
2002	18.97	9.58	23.74	18.12	13.55	1.43
2003	26.40	10.35	26.88	6.87	26.85	1.16
2004	9.51	10.9	8.7	7.78	13.51	1.02
2005	7.59	13.5	7.59	23.41	4.97	1.16
2006	33.90	18.48	37.87	26.19	6.11	1.25
2007	32.52	14.42	32.22	22.72	8.85	1.06
2008	37.63	17.29	39.79	11.58	9.68	1.22
2009	55.41	18.69	47.51	19.66	9.88	0.89
2010	34.57	29.00	39.95	54.51	14.37	1.29
2011	84.63	11.11	38.05	20.88	8.58	0.48
2012	86.57	16.79	52.33	27.38	24.93	0.65

Table 4.8 – Correlation Coefficient

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	60.913	10.849		5.615	.002
ROCE	1.256	.203	.679	6.197	.002
FATR	-1.314	.687	-.280	-1.911	.114
DTR	.035	.288	.009	.121	.908
WCTR	-49.174	8.482	-.523	-5.797	.002
ITR	.437	.246	.211	1.778	.136

Interpretation

The PBITMR is influenced by the independent factor ROCE and WCTR at 5% level of significance.

V. FINDINGS

- PBITM registered high value 86.57% because of increase in PBITM and increase of Net sales. In the year 2005 it is low 7.59% because of the decrease in PBIT as well as increase in net sales. The ROCE ratio of the company during the year 2012 is high 52.33% because of increase in the PBITM and capital employed. In the year 2005 is low 7.59% because of decrease in PBITM and capital employed.
- FATR is high in the year 2010 because of Net sales and fixed assets are continuously increasing. In the year 2002 the FATR is low because of fixed assets are low. The DTR of the company was high in the year 2003 value 26.85 times because of increases in sales and inventory and in the year 2000 it registered low value 4.97 times because of decreases in sales as well as inventory. The WCTR of the company during the study period is continuously decreased from the year 2002 to 2012.

VI. SUGGESTIONS

The company can concentrated on the return on capital employed as it is best indicator of company performance. The corporation instead of keeping the fund in the fixed deposits with the banks where the return and risk is low, it can seek various alternatives in investing the funds where the return is more and risk is comparatively less.

VII. CONCLUSION

The study “fund management and profitability APMDC” is observed that FATR and profitability was positive because of net sales and fixed assets increase. The ITR and WCTR both are fluctuated by affecting sales and debtors from this study, it may be concluded that the profits are more in the APMDC ltd because the turnover is high. The all inventory ratios are good and also fund management is supporting to increase profits.

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