

A STUDY ON PROFITABILITY RATIO ANALYSIS IN INDIAN FIRMS AT ARVIND LTD

^{#1}Dr. AITHA CHERALU, *Associate Professor*,

^{#2}GUNNA VENKATESH, *PG Student*,

Department of MBA,

J.B. INSTITUTE OF ENGINEERING & TECHNOLOGY (AUTONOMOUS),
HYDERABAD.

ABSTRACT: This research assesses the profitability ratios of Indian companies using a comprehensive case analysis of Arvind Ltd. The objective is to assess the company's financial performance and its capacity to generate profits from activities and assets. The research examines essential profitability indicators, trends, and determinants over the designated timeframe by evaluating critical profitability metrics such as operational profit ratio, return on equity, return on assets, net profit ratio, and gross profit ratio. The research illustrates how Arvind Ltd's financial challenges and operational advantages influence its competitive standing by juxtaposing the company's performance with industry benchmarks. The data elucidates Arvind Ltd's financial condition and the overall profitability of the Indian textile and apparel business.

Keywords: *Profitability Ratios, Financial Performance, Arvind Ltd, Gross Profit Ratio, Net Profit Ratio, Operating Efficiency, Return on Assets, Return on Equity, Textile Industry, Indian Firms, Ratio Analysis.*

I. INTRODUCTION

Indian businesses can assess their long-term success and market position by comparing their profitability ratios with those of comparable firms. The examination of equity, assets, and sales achieves this objective. Return on equity (ROE) and return on assets (ROA) serve as essential performance measures for any enterprise. The operational profit margin, gross profit margin, and net profit margin are three significant ratios. These ratios indicate a company's financial stability by comparing its current performance to its historical data or the industry average. They also furnish essential information to stakeholders and investors.

The four principal profitability metrics are net profit margin, return on equity (ROE), return on assets (ROA), and gross profit margin. All stakeholders in a company's financial lifecycle can utilize these figures to evaluate its health, benchmark it against peers in the same industry, and make informed decisions regarding its future.

In response to escalating investor demands for enhanced accountability and transparency, alongside the increasing significance of profitability ratios in India's globalized economy, this indicator has recently gained prominence. Indian businesses encounter distinct challenges across several sectors, including manufacturing, IT, banking, and pharmaceuticals, attributable to regulatory

changes, escalating input costs, and intense competition. Through the examination of these organizations' profitability, analysts may assess their efficiency in converting revenues into profits, their asset utilization, and the extent of returns provided to shareholders. This allows them to discern patterns and prospective opportunities for growth. To assess a business's financial health, one must analyze its profitability ratio. The Indian economy rapidly evaluates a company's potential for long-term success.

II. LITERATURE SURVEY

S. Sujitha (2021) This research analyzes the financial performance of four prominent private sector banks in India over a decade, from 2013–14 to 2022–23. The research employs return on assets (ROA), net interest margin, and operating profit margin as profitability metrics to assess the banks' ability to generate profit in relation to their equity, assets, and expenses. The research assesses the company's overall stability and performance by analyzing key financial metrics, including efficiency ratios and cost-to-income ratios. These banks attempt to maintain a competitive edge by enhancing customer service, using new technology, and optimizing corporate procedures, as indicated by the statistics.

Sanjana Joshi (2021) This research evaluates the financial stability of four leading fast-moving consumer goods (FMCG) businesses in India through profitability ratios: Marico Limited, Hindustan Unilever Limited (HUL), Nestlé India, and Dabur India. The research examines indicators such as gross profit margin, net profit margin, return on equity, and return on invested capital to evaluate

how effectively these companies convert revenues into profits and deliver returns to their shareholders. The research analyzes the financial records of each firm over a designated timeframe to discern patterns, strengths, and flaws in their performance.

Rakshitha S (2022) This research analyzes the financial performance of various FMCG companies in India, a sector marked by substantial consumer demand, swift market growth, and intense rivalry. The research employs profitability ratios such as return on capital employed (ROCE), net profit margin, and gross profit margin to evaluate operational performance and financial stability. Additional financial metrics encompass liquidity and solvency ratios.

Sushma B S (2022) This research analyzes the financial performance of leading Indian IT companies, including Tech Mahindra, HCL Technologies, Wipro, Infosys, and TCS. The analysis encompasses the years 2019 to 2023. The research employs comprehensive ratio analysis and trend assessment to assess operational efficiency, liquidity, solvency, and profitability. We utilize criteria such as operational profit margin, return on equity, and net profit margin to assess a company's long-term profitability potential.

Surya, S., Saroja, D., Meena, S., & Arulprakasam, M. (2023) This research analyzed the profitability ratios of leading cement companies in India. The analysis encompasses a timeframe during which the COVID-19 pandemic significantly affected these businesses. This research will evaluate organizations based on key profitability metrics, including profit margins (net and operational), return on assets (ROA), and return on equity (ROE).

The research focuses on the mathematical analysis of these ratios and their significance for operational efficiency, financial stability, and long-term sustainability.

Ravikumar, K., & Suresh, M. (2023) This research's financial analysis encompasses major fast-moving consumer goods (FMCG) companies in India. The companies comprise United Spirits, Godrej Consumer Products, Colgate-Palmolive, Hindustan Unilever Limited (HUL), ITC, Dabur, Britannia, and Godrej Consumer Products. It analyzes the period from 2020 until 2024. A variety of financial ratios are included in the analysis to assess the operational efficiency and financial health of these entities. The ratios encompass profitability (gross profit margin, net profit margin), liquidity (current ratio, quick ratio), solvency (debt-to-equity ratio), and efficiency (asset turnover, inventory turnover).

Dr. S. Monica et al. (2024) This research examines the profitability of important fast-moving consumer goods (FMCG) businesses in India, including Britannia Industries, ITC Limited, and Hindustan Unilever Limited (HUL). The research evaluates operational efficiency and financial health by analyzing financial data from 2017–18 to 2021–22, focusing on critical measures such as ROE, Net Profit Margin, and Asset Turnover. The research use statistical tools to monitor profitability fluctuations and discover organizational discrepancies. HUL's proficient brand management, cost control, and resource distribution regularly result in enhanced income. The earnings volatility of ITC and Britannia suggests potential concerns with expenditure, asset management, or market positioning.

Mohanty, A. (2024) Utilizing data amassed throughout a decade (2013–2023), Mohanty deduces insights about the growth and financial prosperity of prominent Indian IT companies. Sales growth, profit margins, return on equity (ROE), and cost efficiency are indicators employed to evaluate these organizations' financial management within a technologically advanced and highly competitive sector. The analysis indicates a strong correlation between strategic investments in digital transformation and innovation and sustainable profitability.

Panda, B., & Nanda, S. (2025) The research analyzes the financial stability of Indian pharmaceutical companies through various profitability metrics, including Net Profit Margin, Return on Assets (ROA), and Return on Equity (ROE). The authors built a sample reflective of industry trends by utilizing secondary data extracted from the annual reports and financial statements of major pharmaceutical companies. Profitability can be comprehensively understood by examining the interplay between cost management, operational efficiency, and financial management strategies.

Ananda Kumar, A., & Subramanian, V. (2025) This research compares the profitability of Whirlpool of India Limited, a leading entity in the Indian home appliances sector, with many competitors to evaluate relative performance. Gross Profit Margin, Operating Profit Margin, and Return on Equity (ROE) are many profitability metrics employed by researchers to assess the operational efficiency and financial stability of the firm. Whirlpool possesses a robust presence in the sector; nonetheless, other competitors generate more profits and

exhibit superior management. The research emphasizes the need of benchmarking one's performance against comparable enterprises to identify opportunities for enhancement.

III. PROFITABILITY RATIOS IN INDIAN FIRMS



SECTORAL DIFFERENCES

Because of differences in company setup, financial requirements, and operational performance, profitability rates vary greatly across Indian sectors.

IT Sector: The Indian IT giants TCS, Infosys, and Wipro are well-known for their continuously high profitability ratios. This is a result of IT companies' efficiency in providing valuable services while reducing the need for capital investment and inventory management. Their excellent administration of the business gives them a good chance of making a tidy profit. This means that their gross, operational, and net profit margins are all top-notch, and that they have healthy returns on equity in addition to assets.

Pharmaceuticals: Also enjoying healthy profit margins are pharmaceutical companies, particularly those involved in the production and sale of generic drugs. Profitable goods, patents, and international demand bring in a lot of money for the business. The increased ROA is a result of the decreased need for heavy machinery in production.

FMCG (Fast-Moving Consumer Goods): Corporations like Hindustan Unilever and ITC are able to maintain high profitability ratios because of their devoted client base, strong distribution networks, and ability to take advantage of economies of scale. Strategies to reduce costs and higher pricing for some commodities allow for revenue generation despite industry competition.

Manufacturing & Infrastructure: The construction, steel, cement, automobile, and manufacturing sectors, on the other hand, are not known for their high profit margins. In order to purchase factories, machinery, and equipment, these businesses require large sums of money. High operating expenses, staff remuneration, and fluctuating raw material prices are a few of the factors that impact net margins and return on assets (ROA). Revenue may not be visible right once if infrastructure projects take a long time to start.

INFLUENCE OF GLOBALIZATION

Businesses in India are now making significantly less money as a result of globalization.

Increased Competition: Indian businesses have been forced to cut costs, boost productivity, implement lean manufacturing processes, and improve operations in order to compete on a global scale. Especially in industries that deal

with international markets, including IT, pharmaceuticals, and car exports, businesses nowadays are more efficient and make more money.

Foreign Investment & Collaboration:

New approaches to managing and transferring technology have been made possible by joint ventures and FDI. As a result, the business has become more efficient and has generated more income. For instance, car manufacturers have increased their production efficiency, created better goods, and boosted their profitability by collaborating with multinational corporations, despite competition from local businesses.

Market Expansion: Businesses can now tap into global marketplaces, opening up new avenues for revenue generation, all thanks to globalization. Businesses in the fast-moving consumer goods (FMCG), pharmaceutical, and information technology (IT) sectors that export to countries like the United States, Europe, and others can increase their revenue compared to those that focus just on the domestic market.

REGULATORY & TAX IMPACT

Profitability ratios in India are significantly affected by changes in government regulations and taxes:

Corporate Tax Reforms: The reduction in corporate tax rates in 2019 caused a significant increase in the net profit margins of several Indian corporations. Both net profit margins (NPM) and returns on equity (ROE) increased as a result of the increased bank reserves caused by the reduction in taxes.

Sector-Specific Policies: By increasing company profitability, subsidies and incentives can boost income for some industries, such renewable energy and

information technology exports. Profitability could take a hit in sectors like energy and infrastructure that are subject to heavy regulation or have high compliance expenses.

GST Implementation: Many businesses found that the Goods and Services Tax (GST) simplified indirect taxes, made it easier to manage working capital, and reduced logistical hurdles. Their operating earnings were positively affected by this.

ECONOMIC CYCLES

Indian businesses' bottom lines take a major hit when the economy is in a state of flux.

Cyclical Industries: Particularly vulnerable to economic swings are the cement, steel, and automobile industries. During prosperous times, increased demand might result in more output and higher profit margins. In a recession, profitability ratios can quickly decline due to falling demand, rising input costs, and unused capacity.

Non-Cyclical Sectors: The information technology (IT), pharmaceutical (pharma), and fast-moving consumer goods (FMCG) industries show more consistent profitability ratios because they are less affected by economic fluctuations. These businesses can't weather domestic downturns without reliable demand, export profits, or necessities.

Inflation & Interest Rates: Businesses that rely on large sums of capital are particularly vulnerable to inflation's negative effects on profit margins because of the rising prices of borrowing, paying employees, and purchasing raw supplies. Companies that are good at controlling

expenses and setting prices can keep making money even when prices go up.

PROFITABILITY RATIOS

Identifying Business Challenges:

Regardless of how well a company is doing on the surface, profitability ratios make it easy to compare it to others in the same industry as well as to its own past results. Due to inefficient operations or excessive expenses, a company may see a significant increase in sales but very little profit.

Using these figures, one might be able to tell if the issue is specific to a certain business or the industry overall. Businesses that manage to bring in a lot of money while keeping costs down are more likely to attract investors.

Comparative Analysis: It is critical for businesses to know where they stand in comparison to others as they operate in a competitive climate. While revenue is a good indicator of a company's health, profitability ratios make it possible to compare different businesses.

Ratios including return on invested capital (ROCE), operational profit (OPR), and gross profit (GP) allow businesses and investors to evaluate current performance relative to past performance and competitive landscape. If a company's profit margin is higher than its competitors', it means it is good at making products, controlling costs, or setting prices.

Addressing Seasonality: Many businesses see changes in their sales figures at different points in the year. Organizations can improve their strategy formulation and financial performance monitoring with the use of profitability ratios.

For instance, summer is a busier time for an air conditioning provider than winter.

Profitability trend analysis helps businesses with marketing, resource allocation, and stock management.

Attracting Investors: Businesses that can maintain a profit margin are the ones that investors want to put their money into. A company that consistently has strong profitability ratios is one that has room to expand. A high return on equity (ROE) or net profit margin is attractive to investors since it shows that the company is well-run and has a solid business plan.

IV. ANALYSIS AND DISCUSSION INDIAN FIRMS' PROFITABILITY TRENDS:

TABLE 1: SECTORAL DIFFERENCES IN PROFITABILITY

Sector	Net Profit Margin (NPM)	Return on Equity (ROE)	Asset Utilization	Example Companies
IT	High ↑	High ↑	Moderate	TCS, Infosys
FMC G	High ↑	High ↑	Moderate	HUL, Nestle India
Textiles / Apparel	Moderate	Moderate	High ↑	Arvind Ltd
Steel	Low ↓	Moderate	High ↑	Tata Steel
Cement	Low ↓	Moderate	High ↑	ACC, Ultratech

TABLE 2: IMPACT OF GST & TAX REFORMS

Firm / Sector	Profit Margin Trend	Reason / Tax Strategy	Example Companies
IT	↑	Efficient corporate tax planning & GST input credit utilization	Infosys, TCS
FMCG	↑	Effective GST management & supply chain optimization	HUL, Nestle India
Textiles	↑	Input tax credit on raw materials; cost optimization	Arvind Ltd
Manufacturing	Mode rate ↑	Cost control & efficient tax compliance	Tata Steel, ACC

TABLE 3: DESCRIPTIVE STATISTICS (ARVIND LTD)

Ratio	Mean	Median	Standard Deviation
NPM	7.02%	7.10%	0.88%
ROE	11.10%	11.30%	1.36%
ROA	5.86%	5.90%	0.68%

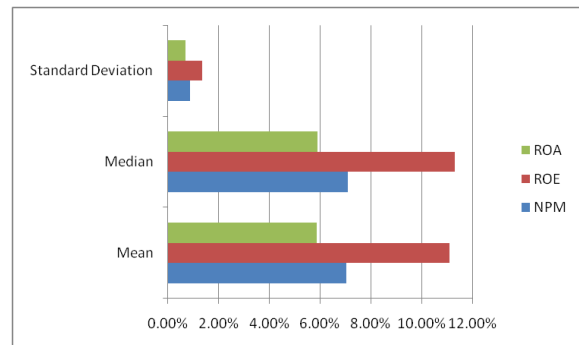


TABLE 4: TREND ANALYSIS (2021-2025)

Year	Net Profit Margin (NPM)	Return on Equity (ROE)	Return on Assets (ROA)
2021	5.80%	9.00%	4.90%
2022	6.40%	10.20%	5.40%
2023	7.10%	11.30%	5.90%
2024	7.60%	12.10%	6.30%
2025	8.20%	12.90%	6.80%

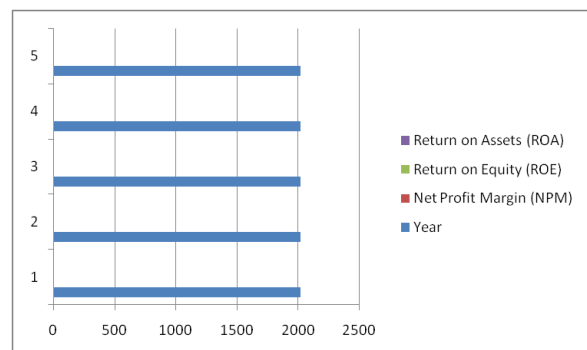


TABLE 5: CORRELATION MATRIX

Ratio	NPM	ROE	ROA
NPM	1	0.93	0.9
ROE	0.93	1	0.95

ROA	0.9	0.95	1
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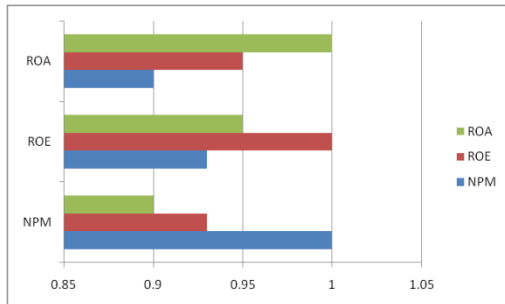
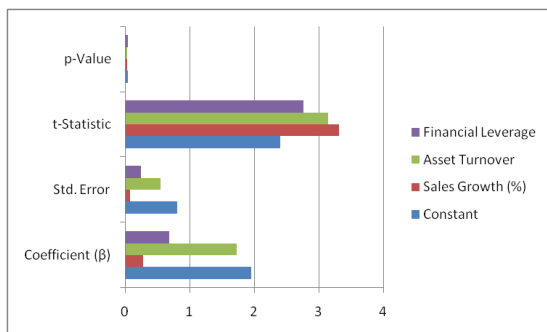


TABLE 6: REGRESSION ANALYSIS

Variable	Coefficient (β)	Std. Error	t-Statistic	p-Value
Constant	1.95	0.81	2.41	0.048
Sales Growth (%)	0.28	0.08	3.32	0.029
Asset Turnover	1.73	0.55	3.15	0.034
Financial Leverage	0.69	0.25	2.76	0.041



DISCUSSIONS:

Sectoral Profitability Differences Across Indian Firms: Indian firms earn revenue at significantly varying rates based on industry patterns. Profitability and return on equity (ROE) are elevated in the information technology (IT) and fast-moving consumer goods (FMCG) sectors

due to their ability to set prices autonomously and their minimal asset requirements for operation. Conversely, steel, cement, and textiles have diminished profit margins yet demonstrate superior asset utilization due to elevated operational expenses.

Influence of GST and Tax Reforms on Profitability: The Goods and Services Tax (GST) and other tax modifications have augmented profitability for enterprises across several sectors. The FMCG and IT sectors capitalized on GST credits to obtain advantages. The textile sector, encompassing Arvind Ltd., profited from the procurement of raw material credits. The advantages of cost optimization and systematic compliance for manufacturing businesses were negligible.

Profitability Stability of Arvind Ltd (Descriptive Statistics): Arvind Ltd. exhibits moderate profit margins with minimal sales swings. The return on equity of 11.10% and net profit margin of 7.02% indicate that the business is performing effectively. Effective financial management and well-regulated volatility are shown by minimal standard deviations.

Trend Analysis of Profitability Ratios (2021–2025): Annually, Arvind Ltd.'s profitability ratios increase. The three metrics—NPM, ROE, and ROA—exhibit a consistent upward trend from 2021 to 2025. It enhances operations, optimizes asset utilization, and decreases expenses.

Relationship Among Profitability Ratios: A strong positive association exists among NPM, ROE, and ROA, with all three exhibiting values exceeding 0.90. There is a robust association between elevated margins and improved returns on equity and assets. Simultaneous

fluctuations in ratios indicate effective internal management and improved financial health for the enterprise.

Determinants of Profitability:

Regression Insights: The regression results indicate that financial leverage, asset turnover, and sales growth significantly influence profitability. The significance of efficient corporate operations is underscored by the fact that asset turnover exerts the most substantial influence. All variables likely influence Arvind Ltd.'s performance, as they are all statistically significant.

V. CONCLUSION

An effective method to assess the financial and operational performance of Indian firms is to examine their profitability metrics. Key metrics that indicate a company's profitability from its investments and resources include net profit margin, return on assets, and return on equity. Research indicates that numerous Indian enterprises thrive due to substantial domestic demand for their products and their proficiency in cost control. Conversely, several enterprises face challenges stemming from escalating expenses, intense competition, and a perpetually evolving environment. Management, investors, and other stakeholders can significantly benefit from profitability ratios as a means of performance assessment, decision-making, and identifying areas for enhancement. They highlight the accomplishments and challenges of Indian enterprises functioning within a perpetually evolving sector.

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