

PROFITABILITY RATIO ANALYSIS IN INDIAN FIRMS AT ARAVIND LTD

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ABSTRACT:

Profitability ratios play a crucial role in determining the effectiveness and success of a company. This research looks at the financial standing and profitability patterns of Aravind Ltd., a well-known Indian firm, over a certain time frame. Operating profit margin, net profit margin, return on assets (ROA), and return on equity (ROE) were some of the key ratios used to assess the firm's profitability in relation to sales, assets, and shareholders' equity. Based on the data, we can see where the firm stands in the Indian market compared to its rivals and where it has room to grow. Management and investors can use the research's findings to better understand Aravind Ltd's financial situation and make future plans and decisions based on that knowledge.

Keywords: Gross Profit Margin, Net Profit Margin, Operating Profit Ratio, Return on Assets (ROA), Return on Equity (ROE).

Received Date: 5 January-February 2026;; **Accepted Date:** 15 January-February 2026;; **Published Date:** 20 January-February 2026

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1. Introduction

The profitability ratio compares a company's equity, assets, and sales to industry standards in India, allowing one to assess the company's long-term profitability. Important ratios to consider include gross profit, operating profit, and net profit margins. Ratios measuring returns include ROE and ROA, or return on assets. When compared to industry averages or past performance, these ratios reveal how well a company's finances are doing. They also provide important information to stakeholders and

investors. Net profit margin and return on equity (ROE) are two examples of profitability ratios.

A plethora of other choices exist. The financial health of a company, its position within the industry, and the ability to make informed investment and planning decisions can all be gleaned from these ratios, which are useful for creditors, managers, and investors. Investors are demanding more openness and accountability from India, and the country's growing reliance on global markets has led to a rise in the use of profitability ratio analysis. Indian

businesses face unique challenges in sectors like banking, pharmaceuticals, manufacturing, and IT as a result of rising input costs, unpredictable regulations, and fierce competition. Profitability ratios give analysts more insight into a company's ability to pay dividends, manage resources, and make sales-based profits. By going through this process, they can identify trends and places that could use some work. One of the most important ways to gauge a company's health is with a profitability ratio analysis. It measures how well a business can do in the cutthroat Indian market and how long its profits will survive.

2. Review of Literature

Panda, B., & Nanda, S. (2025) Profitability ratios, such as Net Profit Margin, Return on Equity (ROE), and Return on Assets (ROA). The authors gathered secondary data from the financial statements and annual reports of big pharmaceutical companies to ensure that their sample was representative and accurately reflected industry trends. Finding out how stringent cost control, efficient operations, and careful financial management affect financial outcomes is the main goal of the investigation. Higher equity and investment returns are generated by companies that effectively manage costs and capital, according to the research. Market rivalry, regulatory compliance, and raw material cost fluctuations are some of the external variables analyzed for their effects on profitability.

Dr. S. Monica et al. (2024) Using profitability ratios, such as Net Profit Margin, Return on Equity (ROE), and Return on Assets (ROA). The authors gathered secondary data from the financial statements and annual reports of big pharmaceutical companies to ensure that their sample was representative and accurately reflected industry trends. Finding out how stringent cost control, efficient operations, and careful financial management affect financial outcomes is the main goal of the investigation. Higher equity and investment returns are generated by companies that effectively manage costs and capital, according to the research. Market rivalry, regulatory compliance, and raw material cost fluctuations are some of the external variables analyzed for their effects on profitability.

Surya, S., Saroja, D., Meena, S., & Arulprakasam, M. (2023) This research mainly aims to examine the profitability ratios of well-known cement companies in India during the period when the COVID-19 pandemic had a significant economic impact. Net profit margin, operating profit margin, return on

assets (ROA), and return on equity (ROE) are some of the important profitability indicators that the research aims to use in order to assess the financial performance of these companies. In addition to offering statistical proof, the research stresses the importance of these ratios for operational efficacy, financial stability, and long-term sustainability. The authors state that due to reduced construction projects, supply chain issues, and fluctuating demand, the cement industry in India underwent significant changes during the pandemic years. Most companies still managed to maintain net profit margins of 5% to 10% despite all these challenges, according to the research. This demonstrates that they are capable of running their businesses, setting prices, and managing expenses efficiently. The research takes a look at the companies' risk profiles along with their strengths and weaknesses. These include things like their resource efficiency and dominant market share, as well as their over-reliance on raw material prices.

Rakshitha S (2022) These businesses operate in a dynamic sector defined by high consumer demand, quick market growth, and fierce competition. Financial ratios like ROCE, gross profit margin, and net profit margin assess a company's operational efficacy and financial stability. Learning how to boost income, rein in expenses, and turn a profit begins with poring over financial records and yearly reports. In order to find out how some companies in the same industry beat their rivals, this research compares them and looks at things like supply chain efficiency, innovative strategies, and persuasive marketing. The findings indicate that regulatory shifts, market conditions, and customer behavior are examples of external factors that can impact a company's performance. The research provides valuable insights for legislators, investors, and managers by demonstrating how financial ratio analysis can help with strategic planning and informed decision-making in the FMCG sector.

Sanjana Joshi (2021) The research uses a number of ratios, such as gross profit margin, net profit margin, return on equity, and return on capital employed, to evaluate how well these businesses turn sales into profits and distribute those profits to shareholders. The research's objective is to discover trends, strengths, and possible development areas by analyzing the financial statements of each company over a specific time period. A company's operational efficiency, financial success, brand value, and positioning in the market are all strongly related. The research also shows how factors like consumer

actions, market rivalry, pricing policies, and government regulations affect financial results. This research compares different companies to provide stakeholders with information about industry standards, differences in strategic performance, and company best practices. It is possible that lawmakers, managers, and investors might benefit from these findings. The overarching goal of this research is to

Six of the most common profitability ratios are as follows:



Gross Profit Margin

One way to measure gross profit is as a percentage of sales revenue. A company's net income is the amount left over after deducting the expenses of labor and raw materials. The capacity to earn a profit after deducting fixed costs, operating expenses, dividends, and depreciation is a strong indicator of a successful

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Net Sale}} \times 100$$

Operating Profit Margin

Before deducting income taxes and interest expenses, operating profit margin compares earnings to sales. Higher operational profit margins allow businesses to weather economic storms better by covering fixed

$$\text{Operating Profit Margin} = \frac{\text{Operating Profit}}{\text{Net Sale}} \times 100$$

Net Profit Margin

The single most important statistic is the net profit margin. The ratio of net income to total revenue is the formula for this measure. It shows how much money is left over after a business has paid all of its bills, including taxes and interest. Because it takes

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Net Sale}} \times 100$$

EPS

A company's earnings per share (EPS) are calculated by dividing its operating profit by the total number of

shed light on lucrative growth strategies for the FMCG industry in India.

3. Profitability Ratios and Their Significance

The majority of companies use profitability ratios to measure a company's output in comparison to its sales, assets, and equity.

business. That is why it is very promising to see a gross profit margin ratio that is high. However, if the cost of goods sold is high, the profit margin will be low. An inadequate sales promotion strategy, cheap prices, low sales, fierce market competition, or inadequate buying practices might all play a role.

costs and interest on debt while undercutting rivals with lower margins. Since efficient management can boost operational profit margins by cutting expenses, this metric is commonly used to evaluate a company's leadership.

everything into account, the net profit margin is a great measure of a business's profitability. The measurement is plagued by a great deal of "noise," such as one-time gains and expenditures, which makes comparing a business's performance to its rivals more difficult.

common stock shares outstanding. It is necessary to calculate profit per share.

The methods used to calculate earnings per share (EPS) are as follows:

$$\text{EPS} = \frac{\text{Net Profit - Dividends on Preferred Stock}}{\text{Average Outstanding Shares}}$$

Return on Assets

An organization's ROA can be defined as the ratio of its net income to its total assets. The return on assets (ROA) ratio measures a company's profitability by contrasting its net income with its total assets. Furthermore, it shows the company's asset utilization rate. When the profit falls short of the asset value per dollar, we say that the company is asset-intensive.

Companies with larger capital expenditure budgets tend to rely more on machinery and equipment to produce revenue. The railroad, automotive, and telecommunications industries all have large asset bases. Companies in the software and advertising industries are good examples of those that often need very little capital.

$$\text{ROA} = \frac{\text{Net Income}}{\text{Average Total Assets}} \times 100$$

Return on Equity

Return on equity (ROE) is the ratio of after-tax profit to total equity. The benefits of their investment in the organization have been realized by the equity investors. Investors and stock market watchers must pay close attention to the return on equity ratio.

When the return on equity (ROE) ratio of a company is high, it usually means that investing in its stock is a smart move. A high return on equity (ROE) indicates that a company is able to maximize profits while keeping its debt load to a minimum.

$$\text{ROE} = \frac{\text{Net Income}}{\text{Average Shareholders' Equity}} \times 100$$

Return on Capital Employed

Return on Capital Employed (ROCE) measures the effectiveness of a company's capital investment

conversion into profit by comparing earnings to the amount of capital used.

The following is the formula for ROCE:

$$\text{ROCE} = \frac{\text{Net Profit Before Interest and Tax (EBIT)}}{\text{Capital Employed}} \times 100$$

To better understand how profitable a company is with respect to equity and debt capital, Indian investors can look at the Return on Capital Employed (ROCE). When the ROCE is high, it means that

management is doing a good job of allocating capital. Given this number, investors will be interested in the company's ability to make money from its investments.

4. Data Examination and Result Interpretation

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
FMCG	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

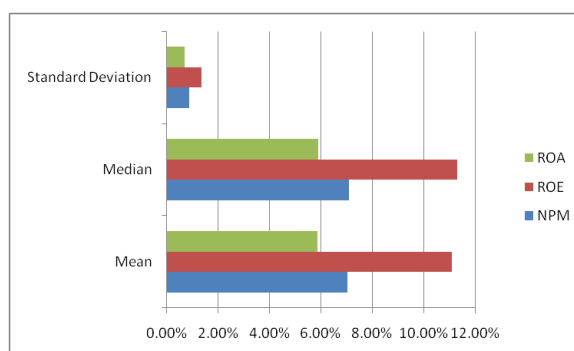
Firm / Sector	Profit Margin Trend	Reason / Tax Strategy	Example Companies
IT	↑	Efficient corporate tax planning & GST input credit utilization	Infosys, TCS
FMCG	↑	Effective GST management & supply chain optimization	HUL, Nestle India
Textiles	↑	Input tax credit on raw materials; cost optimization	Arvind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

Table 3: Global Expansion & Profitability Focus

Firm	Focus Metric	Trend / Strategy	Notes
Infosys	ROA, ROE	↑ Improving asset efficiency & investor confidence	Expansion into US & Europe markets
Tata Motors	ROA, ROE	↑ Optimizing overseas operations & cost structure	Focus on EVs & exports
Mahindra & Mahindra	ROA, ROE	↑ Strong overseas market presence	Agriculture & automotive sectors
Arvind Ltd	ROA, ROE	↑ Improving operational efficiency for export markets	Apparel exports, global brand partnerships

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%



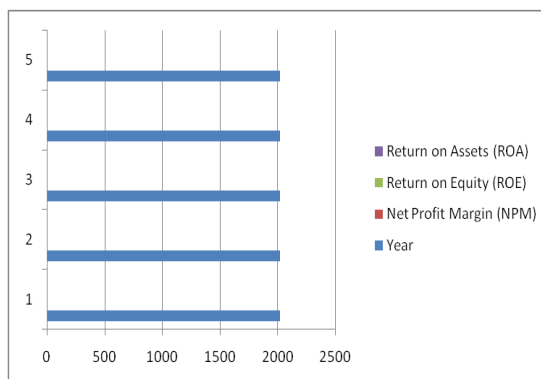
Interpretation:

The profitability ratios show that the company did very well during that time. Consistently profitable sales have resulted in an average Net Profit Margin (NPM) of 7.02%, with a standard deviation of only

0.88%. Shareholders have reaped substantial returns with a Return on Equity (ROE) of 11.10%, which exhibits moderate variability. And a consistent Return on Assets (ROA) of 5.86% shows that money is coming out of the assets.

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%



Interpretation:

Profits have been on the rise for the last five years, according to the numbers. In 2025, the net profit margin of the company was 8.20%, up from 5.80% in 2021. This exemplifies the company's ability to control costs while generating profits. As

compensation for their investment, shareholders saw an increase in the Return on Equity (ROE) from 9% to 12.90%. An increase from 4.90% to 6.80% in Return on Assets (ROA) indicates that the company is making better use of its assets.

5. Conclusion

Numerous insights into the financial health and management style of an Indian firm can be gleaned from its profitability ratios. There are three important ratios that show how profitable a business is in relation to its investments and resources: return on assets, net profit margin, and return on equity. Numerous Indian companies have amassed large sums of cash due to careful cost management and strong product demand, according to the data.

However, challenges arise for some companies as a result of cost overruns, fierce competition, and an unpredictable economy. In order to assess performance, make better decisions, and identify problem areas, managers, investors, and other stakeholders can use profitability ratios. They highlight the risks and opportunities that modern Indian businesses face for this reason.

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