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Analyzing the Profitability of Adani Group: A Descriptive Study

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ABSTRACT

Regardless of size or industry, any business—whether it is in manufacturing, commerce, or transportation—needs capital to get started. For everyone, financial resources are essential. Finance serves as a benchmark for evaluating an individual's or an organization's financial health. The investigator seeks to investigate An examination of the Adani Group's profitability using a descriptive study. Key stakeholders are informed about the company's capacity to maintain its market position and promote expansion by profitability. It represents the company's ability to generate profits, which is dependent on revenue and costs. The primary purpose of this study is to evaluate and clarify the financial statements of the company in order to shed light on its financial performance and managerial decision-making efficiency. By utilizing Financial Ratio analysis, we aim to assess the company's available financial resources and revenue, with the intention of providing insights into its financial efficacy and potential. This study is solely conducted through secondary research and its goal is to assess the profitability of the company. Various profitability ratios, including gross profit ratio and operating ratio, will be utilized to determine the company's performance from 2018-19 to 2022-23. The primary purpose of this study is to analyze and evaluate the financial efficiency of the company during this specified time frame.

Keywords: Financial efficiency, financial statements, Turnover ratios Profitability ratios.

INTRODUCTION

Every business requires capital to commence operations, regardless of its size or sector, be it manufacturing, trading, or transportation. Financial resources are indispensable for all. Finance acts as a yardstick to assess the economic well-being of individuals or organizations. It enables them to accumulate wealth, tackle financial challenges, and achieve financial objectives. Comprehending the importance of finance involves understanding the financial position of the organization and formulating appropriate financial strategies. Profitability serves as a metric of effectiveness, indicating the company's profit margin concerning its scale and performance.

Profitability informs key stakeholders about the company's ability to sustain its market position and foster growth. It signifies the company's profit generation capacity, which hinges on revenue and expenses. A company is deemed profitable when its income surpasses its expenditures. The Adani Group, a diversified conglomerate in India, comprises 10 publicly traded entities. Renowned for its top-notch transport and utility infrastructure, the group boasts a nationwide presence and is headquartered in Ahmedabad, Gujarat. It has emerged as a frontrunner in transportation logistics and energy utilities, emphasizing large-scale infrastructure development in India with operational and maintenance practices meeting global standards. With four IG-rated businesses, it stands as the sole infrastructure investment-grade issuer in India. Understanding our income and expenses is crucial for making prudent investments and enhancing our financial standing. Adani Group's business operations span a diverse range of sectors, encompassing ports, power, mining, agribusiness, and renewable energy. Furthermore, the conglomerate has expanded its interests into sectors such as defense and aerospace, data centers, and financial services. Adani boasts a robust presence in the Indian market, holding significant market shares across various industries. The group's primary revenue sources are derived from its ports and logistics division, with power and agribusiness following closely behind. Despite encountering competition from other market participants, Adani has managed to sustain a consistent growth trajectory in recent years.

LITERATURE REVIEW

Chatterjee (2010) this study examines the impact of working capital management on the profitability of the listed company on the London Stock Exchange. For the efficient operation of any business organization, fixed and current assets play a crucial role. Working capital management is crucial as it has a direct impact on profitability and liquidity.

It has been observed that if a company seeks to take a greater risk for higher profits and losses, it reduces the amount of working capital relative to its sales. If it aims to improve its liquidity, it increases the level of its working capital.

Panigrahi Ashok (31 January 2017) in this investigate Effective working capital administration may be a fundamental part of the worldwide commerce technique to make value for shareholders. These days, the organization of working capital is one of the foremost critical and challenging angles of common money related administration. Optimizing the adjust of working capital implies minimizing the require for working capital and getting the most extreme conceivable wage. The effective WCM increments the free cash stream of companies, which in turn an increment the openings for commerce development and shareholder returns. Whereas companies customarily focus on the long-term capital budget and capital structure, the later drift is that numerous companies completely different divisions center on the proficiency of the WCM.

Research Objectives:
The objectives of this study are as follows:
1. To examine the present financial structure and financial performance of the Adani Group.
2. To analyze the financial statements and key financial ratios of the Adani Group.
3. To offer insights that bridges the existing information gap, thereby substantiating the necessity of this study.

RESEARCH METHODOLOGY

The research methodology employed in this study is of a descriptive nature, focusing on elucidating a specific aspect of the research issue at hand. Data utilized for gathering essential information to fulfill the study's objectives are sourced from secondary sources, encompassing published papers, journals, magazines, various annual reports, and financial reports from different years within the Adani group, as well as diverse websites. The study spans a five-year period from 2019-2020 to 2022-2023. Analytical tools such as ratio analysis and statistical methods including mean calculations, tables, and graphs are applied throughout the study for analysis purposes.

Analysis of data:
Ratio analysis serves as a crucial instrument in evaluating a company's financial standing. By utilizing ratio analysis, a company can gain insight into its financial well-being by identifying both strengths and weaknesses. These financial ratios play a vital role in making informed decisions about the company's health, strategizing for the future, and forecasting through budgeting. Moreover, ratio analysis enables comparisons between different firms. It not only indicates the financial status of the entity but also aids in assessing operational efficiency. Financial ratios are categorized based on their uses, objectives, and financial statements. This study aims to determine the company's profitability. Profitability ratios offer a glimpse into the performance of a company's business activities, such as gross profit ratio, operating ratio, and capitalization.

1. **Profitability Ratios:**
   Profitability ratios play a significant role in assessing a company's capacity to generate income relative to its expenses. These ratios involve a thorough examination of various components within the balance sheet and income statement to evaluate the overall performance of the company.

- **Gross Profit Margin:**

The gross profit margin ratio is a key indicator of a company's profitability, showing how much profit is made from the sale of goods and services after subtracting direct costs. A higher gross profit margin suggests that the company can easily cover its operating expenses, fixed costs, depreciation, and still have enough left over to generate net income. Conversely, a low gross profit margin indicates potential issues such as high selling prices, low sales volumes, increased costs, and intense market competition.

Gross Profit Margin Ratio = $\frac{\text{Gross Profit}}{\text{Total Reveue}}$

Table 1: Gross Profit Margin Ratio
(Rs. In Crores)

Year	Gross profit	Net sales	Ratio
2019	648.02	15,541.30	0.041696641
2020	654.21	16,619.02	0.039365137
2021	768.11	13,750.65	0.055859905
2022	1,113.25	27,327.55	0.040737278
2023	2,285.41	68,592.22	0.033318793
mean	1,094	28,366	0

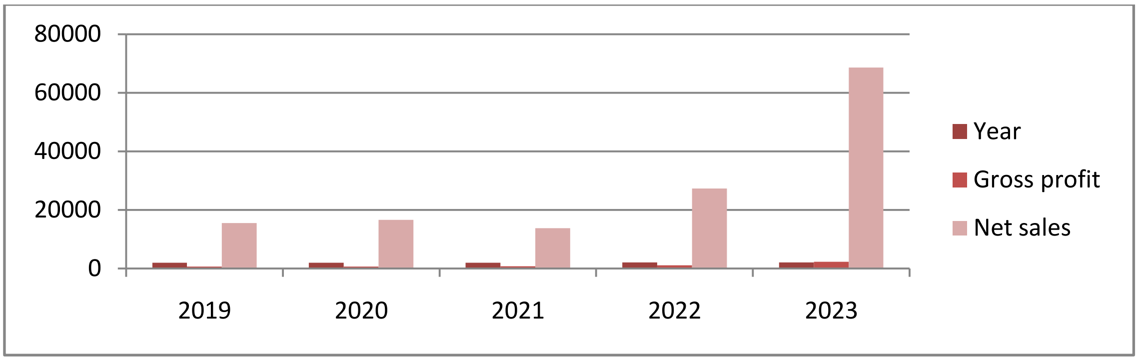

Fig 1: Gross profit to Net sales

- **Operating Profit Margin:**

Operating Profit Margin is a key metric used to evaluate a company's efficiency in managing operating expenses to generate profit before interest and taxes. It is calculated by subtracting operating costs from net sales. A higher margin signifies that the company is capable of covering fixed costs, interest payments, navigating economic downturns, and potentially offering competitive pricing with lower profit margins. This metric is commonly utilized by company management to enhance profitability through cost management strategies.

Operating Profit Margin Ratio= $\frac{\text{Operating Profit}}{\text{Net Sales}}$

Table 2: Operating Profit Margin Ratio **(Rs. In Crores)**

Year	Operating Profit	Net sales	Ratio
2019	15,923.60	15,541.30	1.024598972
2020	16,208.69	16,619.02	0.975309615
2021	13,358.73	13,750.65	0.971498075
2022	26,824.05	27,327.55	0.98157537
2023	67,324.71	68,592.22	0.981521082
mean	27,928	28,366	1

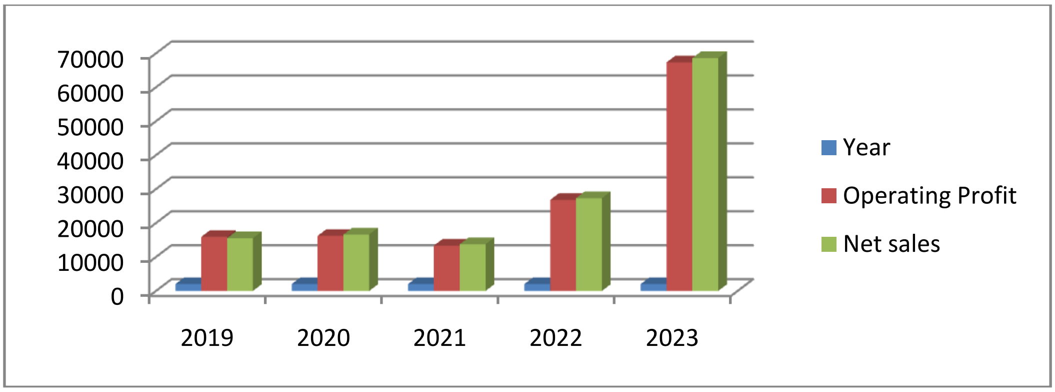

Fig 2: Operating Profit to Net sales

- **Net Profit Margin:**

The net profit margin is a metric used to assess the overall profitability of a company by calculating the percentage of revenue that remains after deducting all expenses, interest, and taxes. It serves as an indicator of how effectively the company manages its costs and pricing of goods and services. However, one limitation of this ratio is that it incorporates one-time expenses and gains, which makes it difficult to compare performance with competitors.

Net Profit Margin Ratio = $\frac{\text{Net Income}}{\text{Net Sales}}$

Table 3: Net Profit Margin Ratio **Rs. In Crores)**

Year	Net Income	Net sales	Ratio
2019	484.91	15,541.30	0.03120138
2020	698.89	16,619.02	0.042053623
2021	368.81	13,750.65	0.026821278
2022	720.7	27,327.55	0.026372653
2023	1,622.73	68,592.22	0.023657639
mean	779	28,366	0

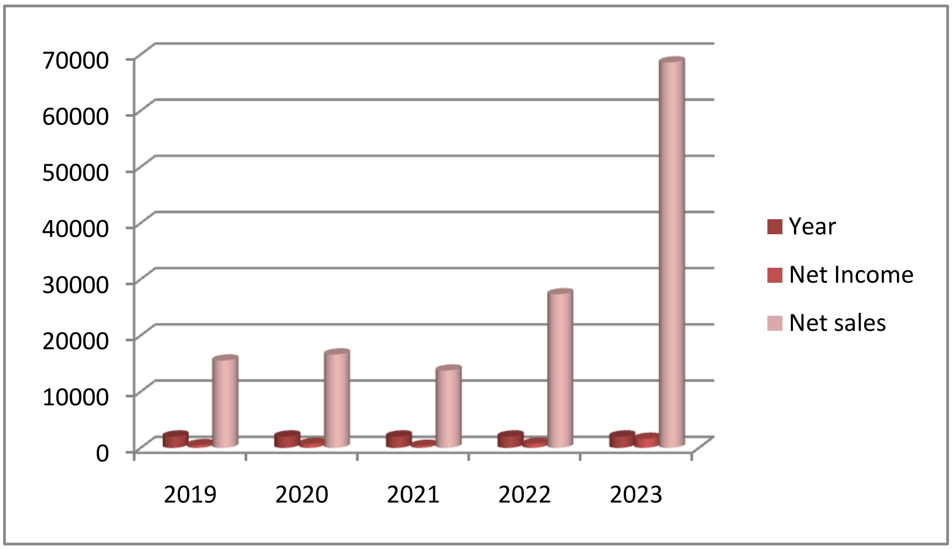

Fig 3: Net Income to Net sales

2. **Turnover Ratios:**
Turnover ratios also referred to as Activity Ratios, Performance Ratios, and Efficiency Ratios, are calculated with the primary aim of assessing a company's efficiency in utilizing its assets and capital. These ratios aid in evaluating how quickly resources are transformed into sales. They serve as valuable tools for gauging the operational effectiveness of the organization and the impact of managerial decisions.

- **Total Assets Turnover ratio:** The Total Assets Turnover ratio is a financial metric that compares a firm's total assets with its sales revenue. This ratio reflects the connection between Net Sales and Total Assets of the company.

$$\textbf{Total Assets Turnover Ratio=} \frac{\textbf{Net Sales}}{\textbf{Total Assets}}$$

Table 4: Total Assets Turnover Ratio **Rs. In Crores)**

Year	Total Assets	Net sales	Ratio
2019	14,673.49	15,541.30	0.944161042
2020	13,885.57	16,619.02	0.835522793
2021	12,992.26	13,750.65	0.944846971
2022	71,766.18	27,327.55	2.626147606
2023	72,831.95	68,592.22	1.061810654
mean	28,366	28,366	1

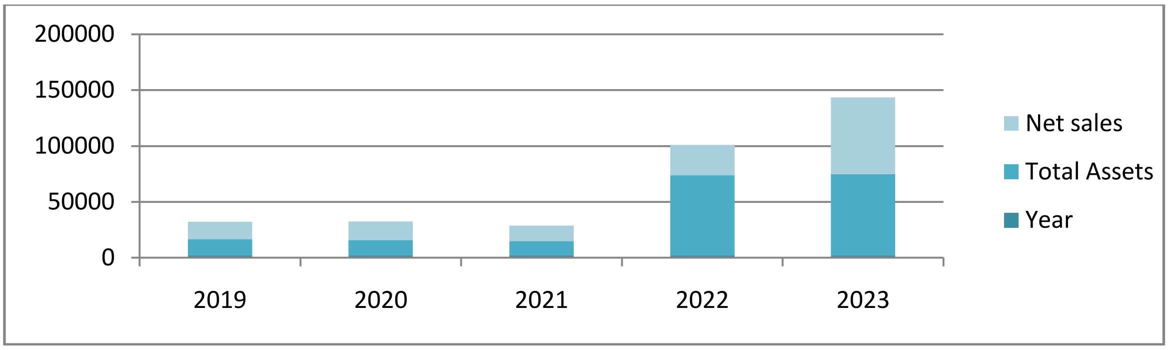

Fig 4: Total Assets to Net sales

- **Fixed Assets Turnover ratio:** The Fixed Assets Turnover Ratio shows how much of the company's fixed assets are converted into sales. This ratio indicates the relationship between the company's Net Sales and its fixed assets.

Fixed Assets Turnover Ratio= $\frac{\textbf{Net Sales}}{\textbf{Fixed Assets}}$

Table 5: Fixed Assets Turnover Ratio

(Rs. In Crores)

Year	Fixed assets	Net sales	Ratio
2019	4,288.88	15,541.30	0.275966618
2020	4,754.23	16,619.02	0.286071622
2021	4,942.66	13,750.65	0.35944919
2022	56,216.27	27,327.55	2.057128063
2023	55,633.82	68,592.22	0.811080615
mean	28,366	28,366	1

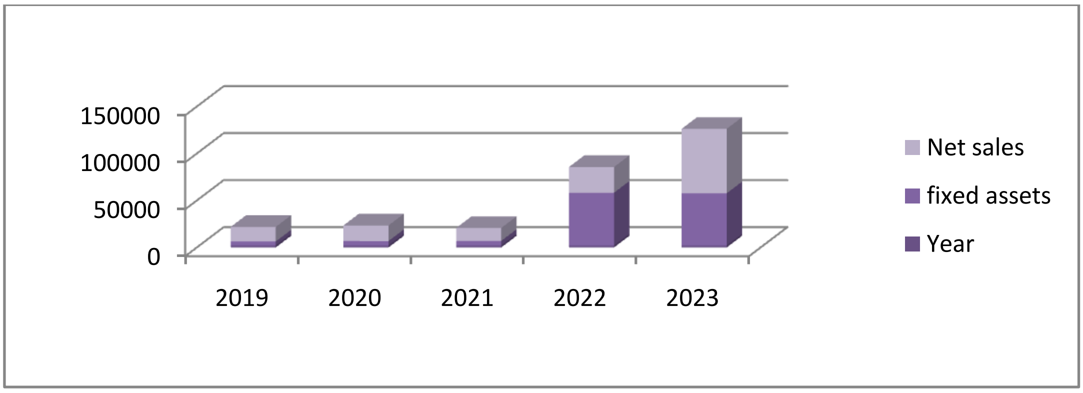

Fig 4: Fixed assets to Net sales

CONCLUSION

In conclusion, this study aimed to evaluate the company's ability to maximize revenue through efficient resource management. The findings of this research establish a clear correlation between the company's resources and its sales performance. Through the use of Turnover and Profitability ratios, this analysis has effectively measured the financial and operational efficiency of the company. Based on these results, the following conclusions can be drawn. When compared to previous financial years, the Adani Group's gross profit margin ratio for 2021 was the highest at 0.055, indicating that the business was able to pay for operating expenses, fixed costs, and depreciation with ease and still have enough money left over to produce net income in the most effective way possible. However, the company's ratio was at its lowest for the year 2023 (0.033), indicating that it was inefficient in making use of the high selling prices, low sales volumes, higher costs, and fierce market rivalry in that specific year. Compared to previous financial years, the Adani Group's Operating Profit Margin Ratio for 2019 was the highest at (1.0). This indicates that the company can manage economic downturns, pay interest on fixed costs, and maybe offer competitive pricing and profit margins.

The Adani Group's Net Profit Margin Ratio has a pattern of both decrease and increase over the study period, suggesting that the company needs to concentrate more on making better use of its net income in order to increase net sales. In compared to previous financial years, the Adani Group's Total Assets Turnover Ratio for the year 2023 was the highest at 1.06, indicating the company's efficiency in using its total assets to generate the maximum revenue.

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