# A Study on Comparative Profitability Analysis of Gaja Engineering Private Limited with Select Competitors on Select Parameters

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**Abstract**
The primary goal of any business enterprise or an organisation is to earn profit. A proficient management should never be satisfied with the financial performance of its company for a particular period. It should always strive to find the ways and means to expand its business and achieve its objective of maximising its profits. A company can achieve its goals with the help of profitability analysis i.e. compare its present performance with the previous years and find out its strengths and shortcomings. The company can find out where the problems are and can strengthen itself in such areas. Also the Company can conduct profitability analysis with respect to other companies which would provide a good insight into the policies and procedures of the competitors and help them in adopting industry best practices. The present project titled "A Study on Comparative Profitability Analysis of Gaja Engineering Private Limited with select competitors on select parameters" is conducted in Gaja Engineering Private Limited and is compared with the financial data of select competitors by calculating profitability ratios. The project report is prepared based on the secondary data provided by the company i.e. financial statements, Business profile etc. and analytical methods were used to analyse the profitability of Gaja Engineering Private Limited and compare the same with NCC Ltd and Navayuga Engineering Company Limited. Hence it is important to conduct the study on Profitability analysis.

**Keywords:** Gaja Engineering Pvt. Ltd., NCC Ltd., Navayuga Engineering Company Ltd., Profitability

## Introduction

Profit plays a significant role in all the business organizations and it is very difficult to determine the same. Every business organisation strives for maximization of profits because the purpose of starting a business is to earn profits. The survival and continuation of a business and its diversification into other sectors or segments depends to a major extent on its ability to generate profits on a year on year basis.

Profit of a company can be defined as the amount remaining from the Sales or turnover after subtracting all the overhead costs, i.e. both direct and indirect costs. The general definition of profit is the excess of income over expenditure for a particular financial year.

Statement of Profit and Loss shows the revenues earned by the company and the different kinds of expenditure incurred by the company. It also calculates profits in various categories like gross profit, operating profit, EBITDA and Net Profit. It also indicates the earnings per share which is the distribution of profits to the number of shares. Management or the investors will get a fair view about the performance of the company.

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Profitability analysis is a technique which is used to analyse the past and current operating performance and efficiency of the Companies. Profitability analysis can help in forecasting turnover and profitability, taking into account geographic regions, customers or consumers or product/service types etc.

Profitability analysis helps the organisations to ascertain growth opportunities, market trends, etc., ultimately helping the management in taking decisions and enabling them to get a concrete picture of the company as a whole.

The best way to determine whether an organisation is profitable or not is by calculating margin ratios, which are usually called as profitability ratios. Business Analysts and investors use profitability ratios to measure and evaluate a company's ability to generate profit relative to the revenue, assets, costs and equity during a specific period of time. Ratios enable the investors as to how well a company utilizes its assets to produce profit and gives value to customers The users of the profitability ratios can both be internal and external to the company. Examples of the external users are Bankers, financial analysts, stakeholders, Creditors and competitors. Internal users are the management and the employees Financial performance analysis can be done by the management of the company or by outside parties who are interested to know the market trends. Profitability analysis can be done based on the statement of profit and loss of the Company This study is conducted to have an idea about the comparative profitability analysis of the company over the period of 2016-17 to 2020-21 and comparison of the profitability of the company with its select competitors i.e. NCC Ltd and Navayuga.

**Need for the Study**

Profitability analysis gives a company an insight into how the net profit is broken down. Net profit is contributed by various factors and an understanding such factors will give a better knowledge of how certain elements or aspects of the company are performing.

In short, profits keep the employees, management and stakeholders happy which would enable the company to get more opportunities to expand by increasing its share capital. Hence, profitability analysis plays an important role in the growth of an organization.

Profitability analysis will help to keep a track of operational and financial performance of a business. Profitability analysis helps organisations to maximize their profit by taking appropriate decisions in controlling costs, revamping the existing setup if required. Also, the organisations can tap the opportunities in diversifying their business into other fields which yield higher profitability based on the data analysis of the other markets. This would help the Companies to grow in an extremely dynamic and vibrant market conditions.

Analysts and investors use profitability ratios to measure and evaluate a company's ability to generate income (profit) relative to revenue, balance sheet assets, operating costs, and shareholders' equity during a specific period of time. They show how well a company utilizes its assets to produce profit and value to shareholders.

A higher ratio establishes that the company is on the profitable side and is generating enough revenue, profit and cash flow. This ratio analysis comes in handy while doing a comparative analysis with competitors in the market or even with previous periods, to understand the current situation of the firm.

**Objectives of the Study**

1. To analyse the profitability position of Gaja Engineering Private Limited over the last five years i.e. 2016-2017 to 2020-21.
2. To undertake Comparative Profitability Analysis of Gaja Engineering Private Limited with select Competitors, NCC Limited and Navayuga Engineering Company Limited on select parameters.
3. To compute and study Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and Earnings per Share (EPS) of Gaja Engineering Private Limited over the last five years i.e. 2016 to 2021.
4. To analyse the trends in the profitability analysis using column charts.

**Scope of the Study**

The proposed study on the profitability analysis is done for GAJA Engineering Private Limited, a private limited company situated at Kondapur, Hyderabad. It is a company primarily engaged in the business of executing construction contracts including civil, mechanical, electrical, water, irrigation, railways, and all types of buildings and other works.

The duration of the study is for 5 years i.e. from 2016-17 to 2020-21. The study covers profitability analysis of the Gaja Engineering Private Limited for the last five years. It also covers the comparison of select profitability ratios like Gross Profit, Net Profit and Operating Profit Ratios of Gaja Engineering Private Limited with its competitors i.e. NCC Limited and Navayuga Engineering Company Limited. Further the study also covers computation of Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and Earnings Per Share (EPS) of Gaja Engineering Private Limited.

**Review of Literature**

**Izhar Ahmed (2016)**

The research paper is authored the paper entitled "Analysis of financial performance of Hindustan Petroleum Corporation Limited". The objectives of this study are analysing the profitability position, financial system, profit margin and expenses ratio. The methodologies of this study are based on secondary data for a period of fifteen years from 2000 to 2015. In this duration of study, the researcher has used multiple regression analysis for the testing of the hypotheses. In order to measure the impacts of liquidity, solvency and efficiency on return on investment. The researcher has taken return on capital employed as a dependent variable under return on investment. The conclusion of this study has suggested that HPCL is required to have good strategies for maintaining the profitability in future.

**Kumar Aditya (2016) - An appraisal of financial solvency of ONGC**

The objective of the study is to analyse the financial position of ONGC for five years. The methodologies of this study are based on secondary data for a period of five years (2012-2016). From the study of financial data, it has been found that the profit earning capacity and short term investing capacity of ONGC is quite good. The study has suggested that the value of EBIT should be high in order to attain a maximum productivity capacity of assets. The conclusion of this study indicates that the fluctuating trend might shift the company into a situation of bankruptcy.

**Ketan H. Popat (2013)**

The objective of the study is to high light the profitability position of hotel industries and the methodology used for calculating various profitability ratio was application of the research tools like mean and anova to analyse the profitability trend of selected players of Hotel industries. The conclusion is that the hotel industry is India is heavily staffed. Demand between the national and the inbound tourists can be easily managed due to difference in the period of holidays.

**Venkatesh T. & Natarajan S.K. (2012)**

The objective of this paper studied the profitability position of steel industries in India and calculated various profitability ratios. The methodology of the study is that Hypothesis has been tested by using two way Anova of ROI of selected steel companies and found that there is a significant difference between the selected steel company viz; they maintain different level of returns on their investment. The conclusion is that finally TATA and SAIL have shown better performance in the area of earning power as compared to Bhushan steel and JSW companies on the other hand both companies have negative result during the study period.

**Amir Hossein Jamali & Asghar Asadi (2012)**

The objective of the study is to investigate the relationship between the management efficiency and the firms' profitability for a sample of 13 auto manufacturing companies listed on the Bombay Stock Exchange, located in Pune for the period of 5 years from 2006 to 2010. The research methodology is carried out using Minitab 14 and conducting Pearson Coefficient correlation test on variables of the study including Gross Profit Ratio (GPR) and Assets Turnover Ratio (ATR). The conclusion of the study is that; Management efficiency is an important component of corporate financial management because it directly affects the profitability of the firms.

## Research Methodology

### Sources of Information

The data collected for the study is the data available with company for the last 5 years 2016 to 2021.

- **Primary Data –** The information is collected by discussing with the Associate Vice President (F&A) of the Company and with the other team members.
- **Secondary Data –** The data for compiling the report is extracted from:
  1. Profit and Loss Account available in the Annual Reports of Gaja Engineering Private Ltd.
  2. Other books and records of Gaja Engineering Private Limited.
  3. Financial data of NCC is taken from the annual reports from their website.
  4. Internet and published records are considered for the company profile and making the comparative statement of the ratios of Gaja Engineering Private Limited with other competitors i.e. NCC Limited and Navayuga Engineering Private Limited.
  5. Academic text books and Journals.

**Tools and Techniques:** Profitability of the company is analysed through:

- **Vertical Analysis**: To analyze the Profitability of the Company in a single reporting period.
- **Horizontal Analysis:** – Comparison of the financial data over a period of time i.e. say 5 years.
- **Trend Analysis:** To show the trend of various components of Profit and Loss between different reporting periods.

### Computation of Profitability Ratios

- Gross profit ratio = Gross profit ÷ Net sales ×100
- Gross Profit = Revenue from operations + Changes in work in progress – Material consumed – Construction expenses

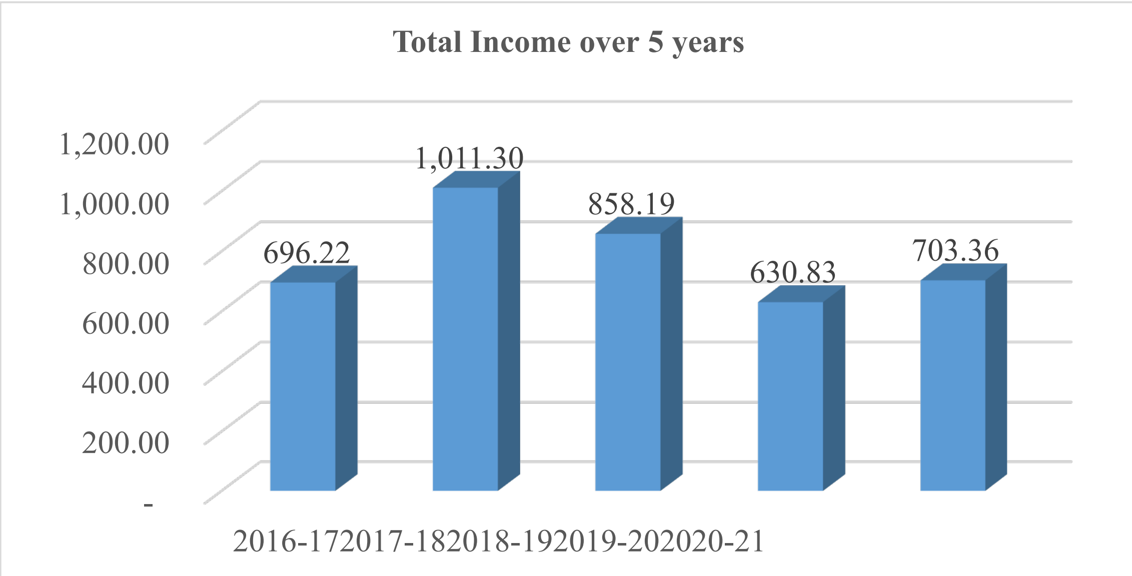
- Net profit ratio = Net profit ÷ Net sales × 100
- Net Profit = Total income – Total expenses – Interest – Depreciation – Taxes
- Operating Profit Ratio = Operating profit ÷ Net sales × 100
- Operating Profit = Net Profit + Interest (Finance cost) + Tax
- Earnings per share = Amount available to equity shareholders ÷ Total number of shares
- Earnings before interest, tax, depreciation and amortisation (EBITDA) = Net Profit + Taxes + Interest expense + Depreciation and amortisation

**Graphs –** Column charts are used in the study to give a pictorial presentation of the data

**Research Data Analysis and Interpretation**

**Trend Analysis**

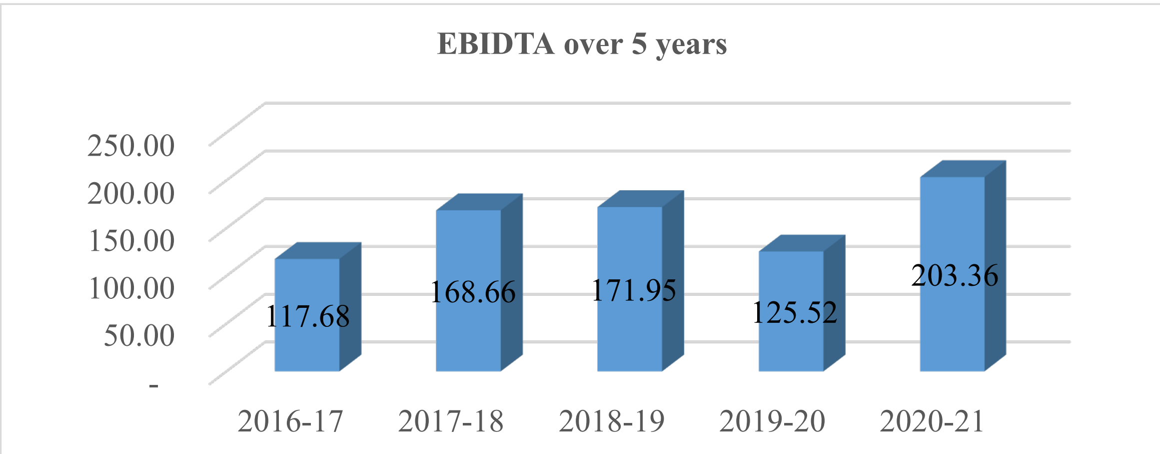
**Graph III – Total Income of Gaja Engineering over 5 years**




**Interpretation**

Total income of the Company has been constantly growing over the years. Due to the pandemic situation, total income of the Company has marginally come down due to shortage of labour, transportation problems and liquidity issues with the Client.

**Graph IV - Earnings Before Interest, Tax, Depreciation and Amortisation over 5 years**




**Interpretation**

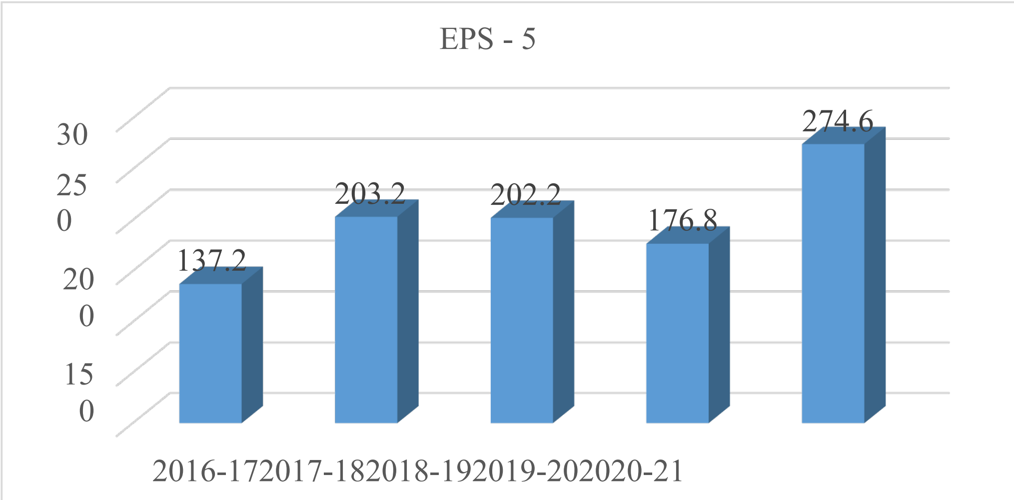
Though the total income suffered a low due to the Covid 19, the Company's Earnings Before Interest, Tax, Depreciation and Amortisation has shown a tremendous growth. This is mainly due to the mix of projects executed by the company and drastic measures taken by it to cut down the direct costs. Decrease in EBITDA in the financial year 2019-20 is mainly due to the reduced turnover.

**Graph V – Movement of Profit after tax (2016-17 to 2020-21)**

**Interpretation**

Profit for the year has been constantly increasing. Profit after Tax increased from 9.17% in the financial year 2016-17 to 20.16% in the financial year 2020-21. Despite the fall in turnover during the pandemic, the company has been able to increase its profits. The increase in profitability is mainly from tunnel and irrigation projects executed by the company.

**Graph VI – Earnings Per Share – 2016-17 to 2020-21**




**Interpretation**

Earnings per share indicates the company's profitability by showing how much money a business earns per each share. Earnings per share of the Company has been showing a growth trend from the first year onwards.

**Financial Performance analysis of GAJA, NCC Ltd and Navayuga for a period of 5 years 2017 to 2020**

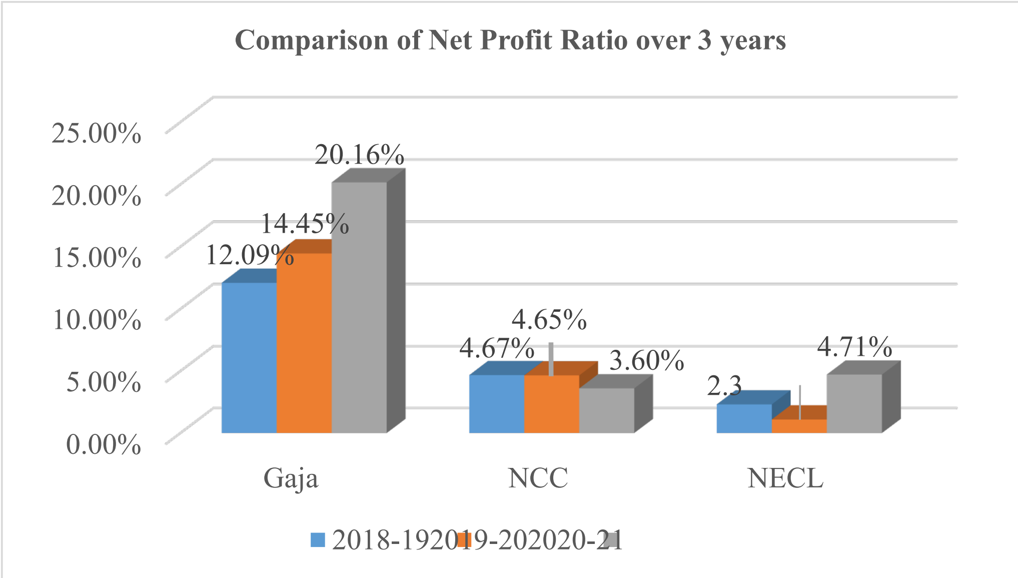
**Graph– Comparison of Revenue and Profit over 3 years**

**Interpretation**

- It can be analysed from the above data that revenue of Gaja had decreased by 27% in 2020 but subsequently increased by 11% in 2021.Revenue of NCC showed a great rise in 2019 wherein it achieved a revenue of Rs. 12,080 Cr but subsequently shows a downward trend wherein revenue decreased by 32% in 2020 and by 12% in 2021. Revenue of NECL also was high at Rs. 5,574 Cr but showed a decline of 38% in 2020 and marginal increase of 12% in 2021.
- An analysis of net profits of these three companies shows that Gaja had improved its profit from Rs.

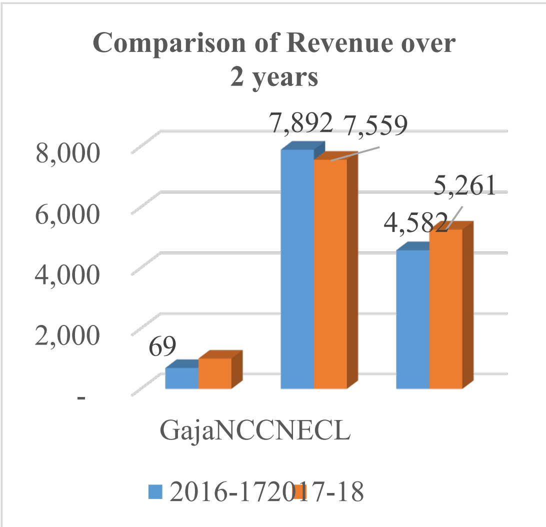
103 Cr in 2019 to Rs. 140 Cr in 2021. Net profit of NCC declined from Rs. 564 Cr to Rs. 261 Cr due to decrease in their revenue. NECL's profitability declined drastically in 2020 but it could coup up in 2021.

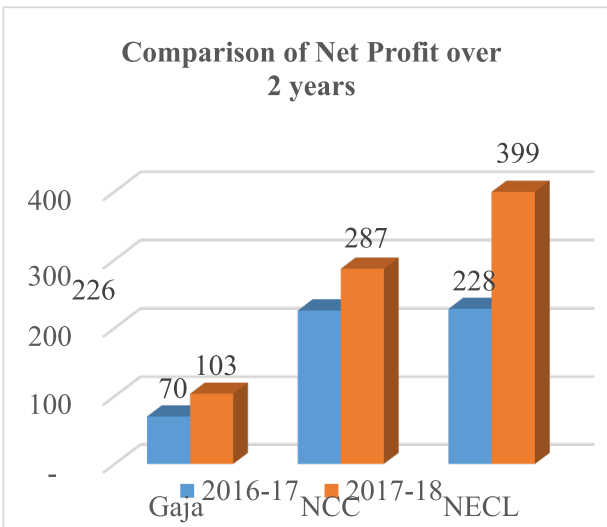
**Graph X – Comparison of Net Profit Ratio for 3 years**




- Net profit ratio of Gaja shows a tremendous improvement over the three years wherein it has increased from 12.09% to 20.16%. Net profit ratio of NCC remained almost constant at 3.60% to 4.65%. NECL posted a low profit of 1.09% in 2020 but recouped in 2021 with a net profit ratio of 4.71%.

**Graph – Comparison of Revenue and Profit of 3 companies over a period of 2 years**




**Interpretation**

- It can be analysed from the above table that revenue of Gaja had increased by 45% in 2018 as compared to 2017. Revenue of NCC slightly declined during the year 2018. Revenue of NECL showed an increase of 15% in 2018.
- An analysis of net profits of these three companies shows that Gaja had improved its profit in 2018 to Rs. 103 Cr as compared to Rs.70 Cr in 2017. NCC had constantly improved its profits over the two years. NECL had improved its profit position in 2018 and its profitability increased by 75%.

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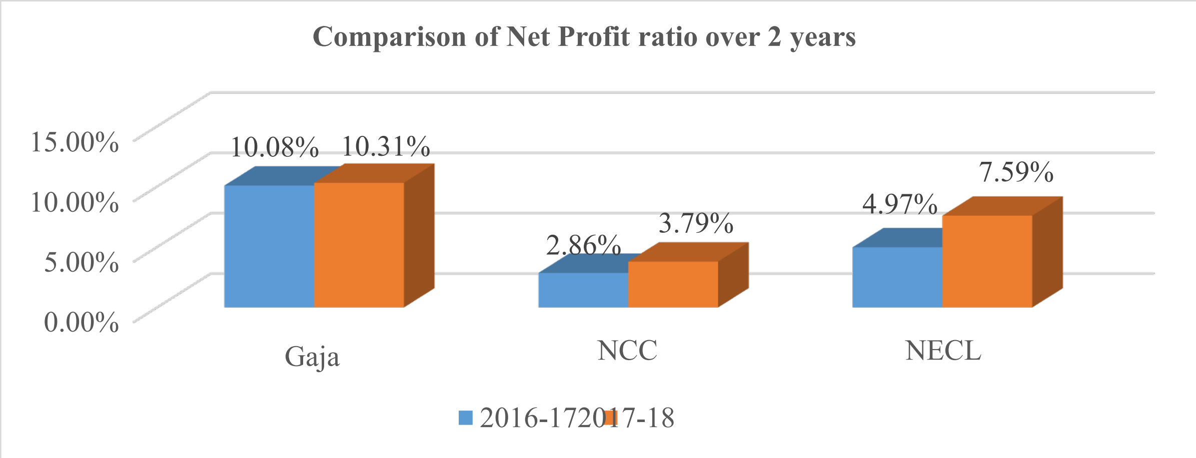
**Graph – Comparison of Revenue and Profit of 3 companies over 2 years**




### Interpretation

- Net profit as a percentage of revenue shows that Gaja profitability almost remained same in the two years.
- Percentage of Net profit of NCC increased constantly by about 1%.
- NECL posted a profit of 4.97% in 2017 as compared to its profit of 7.59% in 2018.

### Research findings and Conclusion

- Gaia's turnover increased by 11.32% in 2021 and its direct cost decreased by 10% as compared to 2020. The direct cost of the company is about 60% of its revenue. Employee expense is about 8% which is high as per the industry standard. Finance cost and depreciation are about 1% of the revenue.
- Gross profit of the Company is at 40% 2021 with an Earnings before interest, tax, depreciation and amortisation of 29.30%. Gaja posted a net profit of about 20.16% and operating profit of 28.49%. Earnings per share of the company is Rs. 274.66.
- On comparison of the data for five years, Revenue of Gaja Engineering Private Limited has grown from Rs. 68 Cr to Rs. 1,003 Cr in a span of 2 years and then it started decreasing during the Covid period. It had been posting continuous profits in spite of the fact that the Company's turnover has decreased during the last two years. Total expenses of the company decreased over the years from 83% of the revenue in 2017 to 71% in 2021.
- The company had limited borrowings leading to low finance cost of about 1% over the 5 years and Depreciation cost of the company has increased to 1% by 2021 as compared to a minimal of 0.06% in 2017. EBITDA increased by about 12% during the 5 years and Earnings per share of the Company has been growing steadily over the years and reached to Rs. 274.66. Gross profit increased from 20% to 40%.
- A comparative study of Gaja with NCC Ltd and NECL shows that revenue of NCC and NECL are far higher than Gaja. Revenue of these companies has been growing steadily over the years except during Covid. Direct cost of NCC and NECL is about 88% and 90% respectively as compared to 60% direct cost of Gaja. Employee cost of NCC and NECL is nearly about 4% to 5% whereas Gaja incurred about 8%. It can be seen that the finance cost of NCC (6%) and NECL (14%) are quite high when compared with Gaja (1%).
- EBITDA of NCC had grown steadily from 10% in 2017 to 13.37% in 2021 and EBITDA of NECL had increased from 19.32% to 24.77% in 2021. This is quite slow as compared to Gaja whose EBITDA is at

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29.3%. A comparison of Net Profit of the 3 companies shows that NCC is recording a profit of about 3% steadily over the years, NECL about 4% except in 2020 and Gaja's profit increased by 10% over the five years' period.

- A comparison of Operating profit ratio of the companies shows that Gaja has achieved 28.49% of operating profit in 2021 as compared to NCC 10.97% and NECL 21%. Earnings per share of NCC Rs.4.28, NECL Rs. 46.38 are quite low as compared to Gaja's earning per share of Rs. 274.66.

**Conclusion**

The study conducted on comparative profitability with reference to select competitors of Gaja Engineering Private Limited gives an overview of the Company's profitability over the 5 years. As per the analysis, the profitability of the company has been growing at a high rate as compared to the other two companies. The Company has been able to achieve high operational efficiency with respect to its direct cost as compared to its competitors. It is observed from the analysis that the operations of the company are mainly concentrated in a couple of sectors and mainly in one State which could be of high risk over the long run. It is suggested in the study that the company should diversify into other sectors and strengthen its working capital and work force to enhance its performance in meeting new challenges and exploiting resources. Based on the analysis and interpretations, this study attempted to give some valid suggestions to the company.

**Suggestions and Recommendations**

A study of the Gaja financials shows that it has been concentrating on projects which are mostly located in State of Telangana. Though the company is temporarily reaping high profits, it would be difficult to maintain the profitability in the long run.

An insight into the company reveals that Gaja is undertaking projects on a subcontract basis and is yet to acquire qualifications to bid on its own. It is recommended that Gaja may bid for projects on its own which would enhance its experience and capabilities.

It is suggested that the company may spread itself geographically across India because any change in the Government or liquidity of the Client would drastically affect the Company's financial performance.

Also on the other hand, Gaja had been mostly working in Water and Tunnel projects. In the long run, it is recommended to diversify itself into other sectors like Roads, Buildings etc. which have a long executional requirements. This would also help the company to cope from losses of one sector from profits from the other sector.

Gaja does not have working capital limits from Banks. It is suggested that, Gaja may try to get fund and non-fund based limits from Banks which would help it to enter into capital intensive sectors like Roads, Canals, Ports etc. Banking limits would enhance the material procurement capacity of the company and negotiability.

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