Overall average profit after tax and dividend paid in the corporate sector of selected companies in Baddi, Himachal Pradesh (India)

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Abstract: The analysis of average PAT in case of Food and Beverages Industry has been revealed that the average PAT has been increased from Rs. 7.92 crore in 2003 to Rs. 134.62 crore in 2018. The average PAT in the industry has shown increasing trend up the year 2006, which due to increase in total demand in the early phase of economic reforms. The average PAT has shown again increasing trends from the year 2008, which means that competition in the late 2000s has very less impact on average PAT of the Food and Beverages industry. The variability in average PAT in terms of Standard Deviation ranges between 19.20 to 455.26, which indicates the level of variability in PAT in the industry. The annual growth rate has shown a positive trend during most of the years under study. The analysis of PAT in case of chemical industry revealed that the average PAT has been increased from Rs. 55.26 crore in 2003 to Rs. 306.59 crore in 2018. The average PAT has shown increasing trend in all most all years except the years 2004 and 2008. Although the average PAT has shown very high level of fluctuations during the study period, annual growth rate has shown positive trend and touches all time high level of growth in the year 2014. Similarly the analysis of PAT in case of Banking Industry revealed that the average PAT has been increased from Rs. 3149 crore in 2003 to Rs. 306.59 crore in 2018. The average PAT has shown fluctuations during first phase of economic reforms but it has shown increasing trend after 2009 till 2018. The average PAT has touches its all time high level in the year 2018. The variability in terms of standard deviation ranges between 85.42 to 1086, which indicate very high level of variability in earnings. The average annual growth rate has shown positive trend in most the years under study. It touches all time high level in the year 2003 due to sudden increase in demand in first phase of economic reforms.

Introduction:

The growing concern needs finances for its development and expansion in any form, which, may come by way of share capital, borrowings, or self-financing. The dexterity of management lies more in the management of earnings than in the procurement of capital. The efficient use of capital is not only depends upon the acquisition of capital in proper amounts at the right time but also on the careful formulation of internal financial policies and constant vigilance in their administration. The raising of capital may not entail so much of foresight and prudence as the effective utilization of the available resources. Defective administration of income, inadequate provision for depreciation and ill-planned resources likely to be the results of an absence of scientific internal financial control and may lead to liquidation. Earning is one of the important ingredients of business success and it needs constant and intelligent handling by the management. Earnings refer to a company's reported profits i.e., profits after all expenses including depreciation, interest and taxes have been deducted. Management of earnings means how these earnings are utilized i.e., how much is paid to the shareholders

in the form of dividends and how much is retained and ploughed back in the business. The way companies allocate their after tax earnings, between dividends and retention are termed as 'Management of earnings'[1].

A well-established policy regarding management of earnings must be formulated to secure the maximum benefits for the body corporate and its owners. The prime creation for every decision-making is the expected effect of a decision upon the value of the enterprise. The decisions relating to management of earnings require proper consideration as to its effects on the firm's cost of capital, its growth and its share prices.

All the business concerns are established to earn profits. The foremost duty of an enterprise is economic performance, which means the preservation and increase in the value of economic resources entrusted to it. To achieve this objective, the enterprises must

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[1] Gupta R.S and Sharma B.D (2010), "Principal& Practice of Management", Pub. Kalyani Publishers, New Delhi, pp90 to 96.

earn profit at a certain minimum rate. The rate of profit is regarded as an indicator of the progress of the enterprise and of the direction in which the company's resources are utilized. Profit must also provide economic growth and development. According to Peter Drucker[2], the profit of the concern should be sufficient to cover: (i) Current cost of business; (ii) the future cost of staying in the business due to certain risk; (iii) to fill dry holes, as the productive well must compensate the loss of pipe and labour wasted in dry hole; and (iii) to bear the social burden. The cost of social security must be met out of the profits of successful concerns. The social burden includes defence, civil administration, health services, education relief, old age benefits etc.

Materials and methods:

To examine the various hypotheses, the study has used secondary data. The sample was drawn from the companies listed of Baddi, Himachal Pradesh (India) on the Bombay Stock Exchange. The companies were selected on the basis of having a track record of consistent dividend payment for at least seven years during the study period 2002 -2018. The data has been collected from prowess database maintained by the Center for Monitoring Indian Economy (CMIE), Bombay for the period of 16 years ranging from 2002 -2018. The yearly data has been used on the concerning aspects of the thesis. This led to the short-listing of 801 companies at the first stage. Then companies were classified into various industrial groups on the basis of industries given in prowess database. These companies were found from various industries i.e. Chemical, Textile, Banking, Construction, Mining, Food and Beverages, Cement, Transport and Miscellaneous Industrial groupings. At the second stage of sampling from each such industry grouping having more than 50 companies, top 50 companies were selected on the basis frequency of dividend payment and from the industries having companies less than 50 all such companies were selected in the sample. After selection on the basis of above criteria, a sample of 374 companies was left at stage second. The total companies has been further classified into three categories on the basis of their market capitalization (a) the companies having market capitulation below Rs. 500 Crores have been termed as Small cap companies, (b) the companies with market capitalization between Rs. 500 Crores to Rs. 1000 Crores have been termed as mid cap companies and (c) companies with market capitalization above Rs. 1000 Crores have been classified as large cap companies. To make comparison of relationship

[2] P. Drunker, (1957), "The Function of Profit" Fortune March

between earning per share and, the total companies have been also classified into various listing groups as per BSE listing information available in the prowess database. The companies were found from the various groups i.e. A, B, S, Z and T groups. Further on the basis of track record of dividend payment companies have been classified into payer groups and regular payer groups. The companies which have paid dividend for all sixteen years under study were termed as regular payers and rest in the payer group. Detail of these companies is given in the table below:

Table 1.1 Industry-wise Number of Sample Units

Industries	No. of Companies
Chemical	50
Textile	50
Banking	33
Construction	49
Mining	22
Food and Beverages	50
Cement	20
Transport Equipment	50
Miscellaneous Manufacturing Industries	50
Total	374

Source: Prowess Database (CMIE)

Results

Table 1.2depicted the trends in profit after tax and dividend paid. It is clear from the table that the average profit after tax has been increased to Rs. 100.50 crore in 2018 from Rs 49.55 crore in 2003. It has shown an increasing trend in the first two years. However there are several fluctuations in the average profit after tax (PAT) reflecting the changes in Indian economy. In the early phases of economic reforms, there was a sudden increase in total, demand, resulting in increase in PAT in early two years. The late 2000s, which marked a significant increase in competition, witnessed a decline in average PAT in the years 2009 and 2010. The subsequent pickup in 2011 has seen an increase in average PAT.

Similarly the variability in PAT in terms of standard deviation ranges between 136.01 to 857.85. In the early phase of reforms the variability was more in comparison with years after 2013. The annual growth rate average PAT has shown positive signs in most of the years followed by 3.1 percent compound annual growth rate in average PAT while the analysis of dividend paid revealed that the average dividend paid in case of overall analysis has been increased from Rs. 3.39 crore in 2003 to Rs. 57.52 crore in 2018.

Table 1.2 Overall average profit after tax and dividend paid (Rs. Crore)

Years	Average PAT			Dividend Paid		
Years	Average	Std. Dev	Percent growth	Average	Std. Dev	Percent growth
2003	49.55	213.50	(-56.7)	3.39	8.03	4.43
2004	78.90	857.85	59.24	3.51	9.41	3.76
2005	37.55	183.89	(-52.4)	4.08	10.55	16.09
2006	43.80	147.61	16.65	6.56	18.57	60.83
2007	40.83	122.16	(-6.79)	8.41	23.92	28.21
2008	59.55	210.14	45.86	10.22	32.26	21.55
2009	56.80	235.70	(-4.63)	10.17	34.57	-0.52
2010	32.06	136.01	(-43.5)	13.47	56.17	32.43
2011	32.81	138.75	2.33	19.02	78.32	41.23
2012	37.81	196.71	15.25	20.79	105.01	9.29
2013	49.61	220.64	31.20	25.46	132.64	22.47
2014	58.80	267.00	18.53	42.40	283.39	66.52
2015	95.95	491.57	63.18	52.10	269.75	22.90
2016	67.17	363.20	(-29.9)	36.33	131.00	-30.27
2017	72.31	202.43	7.65	50.52	376.49	39.04
2018	100.50	587.27	38.98	57.52	153.47	13.86
CAGR			3.1			1.59

Source: Prowess Database (CMIE), CAGR= Compound annual growth rate

Despite fluctuations in PAT the average aggregate dividend has shown an increasing trend during the study period. The growth rate in dividend paid was very slow in first three years of the study, which was due to increased demand of fund for internal investment, as a result of increase in total demand in the early phase of economic reforms. The growth rate in dividend payment touches the all time high level in the year 2014, followed by 1.59 percent compound annual growth rate in dividend paid.

The industry wise analysis of average PAT revealed that in case of cement industry the average PAT has been increased from Rs.17.76 crore in 2003 to Rs. 274.61 crore in 2018. In the early phase of the reforms, average PAT of cement industry has shown an increasing trend up to the year 2007. After that due to increase in competition the average PAT has shown declining trend up to the year 2011. The subsequent pick up in 2012 has also been shown impact on the cement industry, resulting in increasing trend in average PAT in the industry. The variability in terms of standard deviation ranges between 18.48 to 426.53, which indicates a very high level of variability in average PAT of the industry. The annual growth rate in average PAT has shown positive trend in most the years under study.

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The analysis of PAT in case of chemical industry revealed that the average PAT has been increased from Rs. 55.26 crore in 2003 to Rs. 306.59 crore in 2018. The average PAT has shown increasing trend in all most all years except the years 2004 and 2008. Although the average PAT has shown very high level of fluctuations during the study period, annual growth rate has shown positive trend and touches all time high level of growth in the year 2014. Similarly the analysis of PAT in case of Banking Industry revealed that the average PAT has been increased from Rs. 3149 crore in 2003 to Rs. 306.59 crore in 2018. The average PAT has shown fluctuations during first phase of economic reforms but it has shown increasing trend after 2009 till 2018. The average PAT has touches its all time high level in the year 2018. The variability in terms of standard deviation ranges between 85.42 to 1086, which indicate very high level of variability in earnings. The average annual growth rate has shown positive trend in most the years under study. It touches all time high level in the year 2003 due to sudden increase in demand in first phase of economic reforms.

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