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AN ANALYSIS OF PROFITABILITY TRENDS AND COST STRUCTURE OF
VL APPLIANCE INDIA PRIVATE LIMITED

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| Keywords | Abstract |
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| <i>Profitability Analysis, Cost Structure, Ratio Analysis, Manufacturing Industry, Financial Performance, VL Appliance India Pvt. Ltd.</i> | The study examines the profitability performance and cost structure of VL Appliance India Pvt. Ltd., a Coimbatore-based manufacturer of kitchen and home appliances, over a five-year period Using ratio analysis, comparative statements, and trend analysis, the research identifies key trends in profitability, cost composition, and financial performance. The findings reveal significant improvements in gross profitability due to efficient production, countered by rising financial and employee costs that weaken net profitability and shareholder returns. The study concludes with recommendations for cost optimization, debt restructuring, and inventory management to enhance sustainable growth. |

1. INTRODUCTION TO THE STUDY

In today's globally competitive manufacturing environment, profitability and cost management are the twin pillars that determine an organization's success, growth, and long-term sustainability. Profitability represents a firm's capacity to generate sufficient income from its operations, while cost structure reveals how effectively the organization allocates and controls its resources in the



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production process.

Manufacturing firms operate under continuous pressure from dynamic market conditions, volatile raw material prices, labor cost fluctuations, and technological disruptions. Understanding profitability trends over time helps management assess the financial trajectory of the business — whether it is improving, stable, or declining. Meanwhile, studying cost structure allows for deeper insights into how direct and indirect costs influence operational efficiency and overall margins.

This study analyzes the profitability trends and cost structure of VL Appliance India Private Limited, a Coimbatore-based manufacturer, over a five-year period. Using key ratios such as Gross Profit Margin, Net Profit Margin, Return on Assets (ROA), and Return on Equity (ROE), alongside cost structure metrics like material cost ratio and employee cost ratio, the research identifies financial patterns, efficiency levels, and potential areas for strategic improvement.

The study serves a dual purpose:

To evaluate financial performance and operational effectiveness.

To provide actionable insights for future managerial decision-making and sustainability.

Profitability Analysis

Profitability analysis measures how efficiently a company uses its assets, equity, and resources to produce profit. Ratios such as Net Profit Margin and ROA help assess operational effectiveness and management performance. They also reflect the firm’s ability to generate value for shareholders and maintain its position in the marketplace.

High profitability signifies sound cost control, efficient asset utilization, and effective pricing strategies, while declining profitability highlights inefficiencies or external challenges affecting margins.

Cost Structure Analysis

Cost structure analysis focuses on understanding how different categories of costs — such as material, labor, overheads, and administrative expenses — contribute to total production expenses. For manufacturing firms, even small variations in cost structure can significantly influence overall profitability. Hence, evaluating these ratios is essential for maintaining financial balance, planning budgets, and achieving sustainable growth.

Industry Profile

VL Appliance India Private Limited, established in 2003 and formally incorporated in 2018, is a Coimbatore-based manufacturer and exporter of home and kitchen appliances under the brand name Vijayalakshmi (VL). The company’s product portfolio includes mixer grinders, pressure cookers, and non-stick cookware catering to both domestic and international markets, with exports to the USA, Canada, Singapore, and Gulf countries.

The company is part of the VL Group, which has diversified business interests across chemicals, warehousing, real estate, and renewable energy. This diversification helps stabilize financial performance during industry downturns. The appliance division, in particular, focuses on product innovation, quality enhancement, and operational efficiency, supported by a dedicated



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R&D and engineering team.

2. OBJECTIVES OF THE STUDY

- To evaluate the profitability performance of VL Appliance India Pvt. Ltd.
- To analyze changes in profitability over a five-year period.
- To determine the impact of cost structure on profit margins.
- To identify the relationship between operational efficiency and profitability trends.

3. REVIEW OF LITERATURE

Nirali J. Kantharia (2020) analyzed profitability in the power sector using Net Profit and Operating Profit Ratios, concluding that ratio analysis helps identify growth trends in capital-intensive industries.

Bhavana Raj (2020) examined liquidity and profitability of Indian telecom companies, emphasizing the need to balance working capital with profitability for financial stability.

Srinivas Murthy (2019) found that profitability ratios like ROA and Debt-Equity Ratio serve as essential management tools to interpret financial results effectively.

Siva Priya Sellathurai (2019) highlighted that profitability depends on innovative product design and efficient resource allocation.

Hardik Joshi (2018) emphasized that companies achieving high returns on capital employed outperform industry averages when they efficiently utilize assets.

Collectively, the literature underlines that profitability analysis and cost control are interdependent, and their integration enables firms to enhance financial performance while mitigating risks.

4. RESEARCH METHODOLOGY

Research Design

This study employs a quantitative analytical approach using secondary data from financial statements spanning . Tools such as ratio analysis, comparative statements, trend analysis, and common-size statements have been used to interpret financial performance and identify structural shifts.

Data Collection

Data were obtained from the company's audited financial reports, balance sheets, profit and loss statements, and internal management reports.

Tools of Analysis

Comparative Analysis – to observe year-to-year changes.

Ratio Analysis – to evaluate profitability and cost efficiency. Trend

Analysis – to identify long-term performance direction.

Common-Size Analysis – to standardize financial statements for comparison.

5. DATA ANALYSIS AND INTERPRETATION

➤ Profitability Ratios



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Gross Profit Margin (GPM)

The GPM rose sharply from 10.02% in FY 2020 to 29.6% in FY 2024, indicating excellent manufacturing efficiency and cost control. This suggests improved productivity and reduced dependence on external suppliers.

Operating Profit Margin (OPM)

The OPM initially improved from 2.25% to 11.60%, but dropped to 4.9% in 2024, showing that administrative and overhead expenses have begun eroding operating profits. This highlights inefficiencies in cost management beyond production.

Net Profit Margin (NPM)

Despite strong GPM performance, the NPM increased only modestly from 1.38% to 3.79%, reflecting the impact of rising financial costs and fixed expenses on final profitability.

Return on Assets (ROA)

ROA peaked at 6.73% in FY 2023 before falling to 3.57% in FY 2024, showing declining efficiency in asset utilization as capital investments failed to yield proportional income.

Return on Equity (ROE)

ROE dropped drastically from 27.12% to 12.91% between FY 2020 and FY 2024, signaling that shareholders' funds are not being used effectively to generate returns.

➤ **Cost Structure Ratios**

Material Cost Ratio

Material costs fell steadily from 89.98% to 70.41%, confirming improved production efficiency and better cost control.

Employee Cost Ratio

Employee cost rose alarmingly from 2.25% to 7.24%, suggesting an unsustainable increase in fixed costs due to higher wages and administrative expansion.

Financial Cost Ratio

Interest expenses surged from 0.35% to 6.44%, demonstrating heavy dependence on debt financing — a critical warning sign for long-term sustainability.

Comparative Balance Sheet Analysis

- Comparative analysis reveals
- Rapid asset expansion (over 600% growth) driven by credit sales and borrowings.
- Debt-swap phenomenon: Short-term payables replaced with long-term borrowings by 2022.
- Liquidity strain: Inventories ballooned by 119.6% in FY 2024, tying up cash and reducing flexibility.

Common-Size Statement

- Trade receivables dominated assets, averaging 60–70% of total assets, reflecting credit-based sales.



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- Borrowings rose sharply, indicating leverage-driven growth.
- Inventories became increasingly heavy, revealing operational inefficiency in managing demand and supply alignment.

Trend Analysis

- Trend analysis shows:
- Sales rose but declined thereafter.
- Interest and employee costs grew consistently every year.
- Working capital improved in mid-years but weakened again due to inventory surpluses and cash flow constraints.

6. FINDINGS

- Gross Profit Margin improved strongly, confirming efficient production.
- Operating Profit Margin fell sharply in 2024 due to overhead escalation.
- ROE and ROA show declining asset and capital productivity.
- Employee and financial costs grew disproportionately to sales.
- Inventory buildup and rising debt indicate poor working capital management.

7. SUGGESTIONS

- Rebalance profitability: Review operating expenses and implement strict cost controls.
- Optimize asset utilization: Sell excess inventory and delay new fixed asset purchases.
- Reduce leverage: Refinance high-interest loans and align debt with revenue capacity.
- Implement HR cost rationalization: Limit non-productive administrative hiring.
- Strengthen cash flow management: Improve receivable collections and inventory turnover.

8. CONCLUSION

The study concludes that VL Appliance India Pvt. Ltd. Has achieved strong manufacturing efficiency but faces serious challenges due to financial mismanagement and rising fixed costs.

While operational control on production costs is commendable, profitability is being eroded by debt obligations and excessive administrative expenditure.

Sustaining growth will require:

- Aggressive debt restructuring,
- Inventory liquidation, and
- Tighter financial discipline.

If these measures are implemented promptly, the company can convert its production strengths into long-term profitability and shareholder value.

9. AUTHOR(S) CONTRIBUTION

The writers affirm that they have no connections to, or engagement with, any group or body



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The authors declared no potential conflicts of interest with respect to the research, authorship, And/or publication of this article.

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