

Profitability Analysis of Arun Steel Agencies: A Study of Financial Performance and Operational Efficiency (2022–2025)

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ABSTRACT

Financial performance evaluation is a cornerstone of strategic business management. This research paper presents a detailed profitability analysis of Arun Steel Agencies, a steel trading enterprise in Chennai, India, over the period 2022–23 to 2024–25. Employing a descriptive and analytical framework, the study uses secondary data from audited financial statements and applies key financial ratios — Gross Profit Ratio, Net Profit Ratio, Operating Profit Ratio, Return on Investment (ROI), Current Ratio, and Inventory Turnover Ratio — to assess profitability, liquidity, and operational efficiency. Net sales grew from ₹850 lakhs to ₹1,080 lakhs, while net profit after tax doubled from ₹30 lakhs to ₹60 lakhs. ROI improved from 10.00% to 16.67%, and the Inventory Turnover Ratio rose from 6.00 to 6.77 times. The study attributes this consistent growth to disciplined cost management, strategic inventory practices, and sound financial governance. Arun Steel Agencies is concluded to be financially robust and well-positioned for sustained long-term expansion.

Keywords: *Profitability Analysis, Financial Performance, Ratio Analysis, Steel Trading Industry, Return on Investment, Inventory Management, Operational Efficiency.*

1. Introduction

Profitability is the primary metric by which the success, sustainability, and growth potential of an organization are measured. For a business to survive competitive market conditions, fund its operations, attract investors, and reward stakeholders, it must generate consistent and growing profits. The measurement and analysis of profitability therefore constitute a fundamental aspect of financial management and strategic planning.

India's steel sector occupies a position of exceptional strategic importance as one of the world's largest producers and consumers of steel. Steel trading companies serve as vital intermediaries — procuring materials from large manufacturers and distributing them to builders, contractors, and industrial users across the supply chain. Their operational efficiency and financial health directly influence the competitiveness of industries that depend on steel.

Arun Steel Agencies is a customer-focused steel trading enterprise operating in Chennai, Tamil Nadu. Its activities encompass procurement, warehousing, distribution, and direct sales of a wide variety of steel products. This study rigorously examines the company's financial performance over 2022–23 to 2024–25 using ratio analysis and comparative financial statement analysis to reveal profitability trends, assess operational efficiency, and evaluate its capacity for sustained growth.

2. Company and Industry Profile

India is the world's second-largest steel producer, with annual crude steel output exceeding 130 million tonnes. Demand is driven by the government's ambitious infrastructure agenda — expressways, metro rail, affordable housing, and power plants — alongside growing industrial consumption. Steel trading firms serve as critical last-mile distribution partners within this ecosystem, though they must navigate price volatility, raw material cost fluctuations, and working capital pressures.

Arun Steel Agencies supplies TMT bars, structural sections, mild steel plates, angles, channels, and pipes to real estate developers, civil contractors, industrial manufacturers, and retail hardware dealers. The company is distinguished by bulk procurement advantages, personalized customer service, and a management team experienced in logistics, credit management, and inventory control. Its core strengths include an established customer base, efficient inventory turnover, competitive pricing, and a consistent record of improving profitability.

3. Review of Literature

Pandey (2023) articulates that profitability analysis is indispensable for understanding operational efficiency and resource deployment, with gross profit margin and return on capital among the most diagnostic indicators for financial managers. Khan and Jain (2022) emphasize the central role of financial statement analysis in identifying performance trends and guiding resource allocation, noting that ratios enable meaningful cross-period comparisons that raw figures cannot provide.

Prasanna Chandra (2023) argues that sustained profitability is a prerequisite for attracting financing, investing in growth, and building institutional resilience, highlighting the interconnection between operational efficiency and financial sustainability. Brigham and Ehrhardt (2021) reinforce that creditors and equity investors depend on return metrics to assess risk-return profiles, with sustained ROI improvements signaling competent management. Gitman and Zutter (2022) explore the balance between liquidity management and profitability — particularly relevant to trading enterprises where working capital management directly impacts earnings. Collectively, the literature confirms that profitability analysis remains an essential tool for evaluating business success and guiding strategic decisions.

4. Objectives of the Study

Primary Objective

To conduct a thorough analysis of the profitability performance of Arun Steel Agencies during 2022–23 to 2024–25 using financial statement analysis and ratio analysis.

Secondary Objectives

- Examine sales and profit trends across the study period
- Compute and evaluate key profitability, liquidity, and efficiency ratios
- Assess inventory management efficiency and Return on Investment
- Identify internal factors contributing to financial growth
- Provide actionable recommendations for further strengthening performance

5. Research Methodology

This study employs a descriptive and analytical research design. All data is secondary, sourced from the audited financial statements, income reports, and internal records of Arun Steel Agencies for the three financial years 2022–23, 2023–24, and 2024–25. The analytical tools applied are: Comparative Financial Statement Analysis, Gross Profit Ratio, Net Profit Ratio, Operating Profit Ratio, Return on Investment, Current Ratio, and Inventory Turnover Ratio. The study is confined to three financial years, and comparative benchmarking against industry peers is limited due to unavailability of comparable competitor data.

6. Financial Analysis and Interpretation

6.1 Comparative Income Statement

The income statement provides the most direct view of profitability by summarizing revenues and expenses over the period.

Table 1: Comparative Income Statement of Arun Steel Agencies (₹ in Lakhs)

Particulars	2022–23	2023–24	2024–25
Net Sales	850	950	1,080
Cost of Goods Sold	720	790	880
Gross Profit	130	160	200
Operating Expenses	75	85	100
Operating Profit	55	75	100

Particulars	2022–23	2023–24	2024–25
Interest & Other Expenses	15	18	20
Net Profit Before Tax	40	57	80
Tax Provision	10	14	20
Net Profit After Tax	30	43	60

Interpretation: Net sales expanded by approximately 27% from ₹850 lakhs to ₹1,080 lakhs. More significantly, net profit after tax doubled from ₹30 lakhs to ₹60 lakhs — profit growth outpacing revenue growth — confirming improved operational leverage and cost discipline. Operating profit rose from ₹55 lakhs to ₹100 lakhs, a near doubling that underscores effective overhead management.

6.2 Profitability Ratios

Table 2: Key Profitability Ratios (2022–23 to 2024–25)

Ratio	Formula	2022–23	2023–24	2024–25
Gross Profit Ratio (%)	GP / Net Sales × 100	15.29	16.84	18.52
Net Profit Ratio (%)	NPAT / Net Sales × 100	3.53	4.53	5.56
Operating Profit Ratio (%)	OP / Net Sales × 100	6.47	7.89	9.26

Gross Profit Ratio rose from 15.29% to 18.52%, reflecting effective pricing and procurement strategies. The Net Profit Ratio improved from 3.53% to 5.56%, indicating superior earnings conversion and expense management. The Operating Profit Ratio grew from 6.47% to 9.26%, demonstrating that operating expenses were controlled at a rate significantly below revenue growth — a hallmark of operational leverage. For a trading organization in a competitive market, a net margin exceeding 5% and an operating margin above 9% represent commendable performance benchmarks.

6.3 Return on Investment (ROI)

Formula: $ROI = (Net\ Profit\ After\ Tax / Total\ Investment) \times 100$

Table 3: Return on Investment

Financial Year	Net Profit After Tax (₹ Lakhs)	Total Investment (₹ Lakhs)	ROI (%)
2022–23	30	300	10.00
2023–24	43	330	13.03
2024–25	60	360	16.67

ROI rose from 10.00% to 16.67% — an increase of 6.67 percentage points — confirming that profit growth consistently outpaced investment growth. An ROI exceeding 16% by 2024–25 positions the company favorably among trading sector peers and signals strong potential for continued value creation.

6.4 Liquidity and Inventory Efficiency

Table 4: Current Ratio and Inventory Turnover Ratio

Financial Year	Current Assets (₹ L)	Current Liabilities (₹ L)	Current Ratio	COGS (₹ L)	Avg. Inventory (₹ L)	ITR (Times)
2022–23	220	120	1.83	720	120	6.00
2023–24	250	130	1.92	790	125	6.32
2024–25	280	140	2.00	880	130	6.77

The Current Ratio improved from 1.83 to 2.00 — precisely reaching the conventional benchmark for financial soundness — indicating that Arun Steel Agencies has strengthened its short-term financial buffer while managing liabilities effectively. The Inventory Turnover Ratio advanced from 6.00 to 6.77 times, reflecting faster stock conversion, reduced holding risks, and more demand-responsive procurement — critical advantages in a sector vulnerable to steel price fluctuations.

7. Key Findings

- Net sales grew by ~27% from ₹850 lakhs to ₹1,080 lakhs, indicating consistent market expansion.
- Net Profit After Tax doubled from ₹30 lakhs to ₹60 lakhs; the NP Ratio rose from 3.53% to 5.56%.
- Gross Profit Ratio improved from 15.29% to 18.52%, reflecting stronger pricing and procurement efficiency.
- Operating Profit Ratio rose from 6.47% to 9.26%, demonstrating superior control over operational overheads.
- ROI grew from 10.00% to 16.67%, confirming increasingly productive capital deployment.
- Current Ratio reached the optimal 2.00 benchmark by 2024–25, evidencing strong short-term liquidity.
- Inventory Turnover Ratio improved from 6.00 to 6.77 times, confirming enhanced stock management.
- All key financial ratios exhibited positive trends, indicating holistic and multi-dimensional performance improvement.

8. Suggestions and Recommendations

- Expand Market Reach: Target emerging construction corridors and new industrial zones to broaden the customer base and grow revenue volume.
- Leverage Inventory Technology: Implement demand forecasting and inventory management software to further optimize stock levels and reduce carrying costs.
- Strengthen Receivables Management: Establish structured credit evaluation and collection frameworks to improve cash flow predictability and reduce the cost of capital.
- Invest in Digital Transformation: Adopt digital platforms for order management, invoicing, and customer communication to reduce overheads and improve service quality.
- Build Strategic Supplier Partnerships: Develop long-term procurement relationships with steel manufacturers to secure cost advantages, priority supply access, and enhanced credit terms.
- Conduct Regular Financial Reviews: Institute quarterly performance reviews to proactively identify cost pressures or revenue shortfalls and enable timely corrective action.

9. Conclusion

The profitability analysis of Arun Steel Agencies over the three financial years from 2022–23 to 2024–25 reveals a business consistently strengthening its financial foundation across all measured dimensions. Net profit doubled, ROI improved by over 6.6 percentage points, gross and operating margins expanded steadily, liquidity reached the optimal

benchmark, and inventory efficiency improved each year — together painting a picture of holistic and disciplined financial management.

These achievements, set against the backdrop of India's competitive steel trading environment, are a testament to the effectiveness of the company's management and its strategic clarity. Looking ahead, India's infrastructure pipeline, urbanization trends, and industrial expansion continue to support strong steel demand, providing a favorable macroeconomic context for growth. By acting on the recommendations outlined in this study — particularly in areas of market expansion, digital transformation, receivables management, and supplier partnerships — Arun Steel Agencies can consolidate its existing strengths and unlock new dimensions of profitability and value creation. The company represents a well-managed, financially sound, and growth-oriented enterprise within India's dynamic steel trading sector.

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