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Financial Performance Analysis of Shree Chalthan Vibhag Khand Udyog Sahakari Mandli Ltd: Anempirical Study Based on Profitability Ratios

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Abstract

Indian sugar industry, second largest agro-based processing industry after the cotton textiles industry in country, has a lion's share in accelerating industrialization process and bringing socio-economic changes in under developed rural areas. Sugar industry covers around 7.5% of total rural population and provides employment to 5 lakh rural people. About 4.5 crore farmers are engaged in sugarcane cultivation in India. Sugar mills (cooperative, private, and public) have been instrumental in initiating a number of entrepreneurial activities in rural India. This paper tries to analyze financial performance of Shree ChalthanVibhagKhandUdyogSahakariMandli Ltd in terms of profitability ratios through descriptive statistics method. On the basis of analysis, it is found that all profitability ratios are unsatisfied and the cost of good is high and which effect on its profit. It's also concluded that factory's interest burden is so high it was also affected profit.

Keyword: Financial Performance, Profitability Ratio

1. Introduction

Sugar originated from the Arabic word “Sharkara” and is derived from the Sanskrit word “Sharkara”. Sugar is an important part of the daily diet and forming a class of edible substances which includes sucrose, lactose, and fructose. It provides the human body with requisite

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carbohydrates and is basically extracted from sugar cane and sugar beet. Found in fruits, honey, sorghum, sugar maple and in several other sources, it is the main ingredient of candy which is loved by children the world over. Yet, it has been blamed for causing tooth decay and excess consumption of sugar has been associated with a host of ailments like diabetes, obesity, weight gain, depression, joint pain, fatigue and insulin resistance and even cancer. Sugar is present in various forms in fruits, honey, maple syrup and other natural sources. It is extracted by an intricate process, whereby the pulp is extracted first and then, the remaining is used for producing the sugar. Sugar has wide variety of uses and is used for baking, sweets, alcoholic beverages, and even in the soap we use. Further, it is also used as a food preservative and in confectionery items.

Sugar Industry is the second largest agro based industry in India, next to textile. This is the only industry, located in the rural part of the country. About five crores of sugarcane farmers, their dependents and a large mass of laborers are involved in sugarcane cultivation, harvesting and other related ancillary activities.

India represents one sixth of the world population. The country is the largest consumer of sugar in the world, which generally corresponds to the output, although in recent years, the production has so far outstripped the consumption level, due to some aberrations in the sugar policy.

2. Statement of Problem

A bird's eye-view of the annual reports of the sugar mills in Gujarat, do show losses, mostly in the cooperative sector, and this increases year by year; whereas, the private sector mills earn lesser profit, when compared with other industries profitability. India is known as the second highest in the world, in sugar production. But, its share in the international market is very negligible. The reasons are, the Indian sugar industry is not cost effective, as compared to the leading sugar-producing countries, in the world. Though the country has an advantage of the lowest field cost, in the world, and when the factory cost is included in the total cost of sugar production, it shows, that the Indian sugar industry is placed at the third highest, in the increasing

order, in the world. Normally, it is the responsibility of the sugar industry, to provide the sugar for home consumption, at a cheaper rate. This can be achieved, only when all-round efforts are taken for minimizing its cost of production. Globalization has created obvious challenges for sugar producers, relating to cost. International sugar market is available, only to those, whose cost of production is cost effective.

3. Review of Literature

Raghavendra Kumar (2005) examined the role of Energy Service Companies (ESCOS) in saving energy and how it could be beneficial to the sugar Industry. The ESCOS at global levels and National levels have been discussed and concluded with a remark that the development of energy efficiency business in general and ESCOS business in particular has not yet taken place up to a desired level in our country for which collective action needs to be taken immediately.

Vinay Kumar (2006), Managing Director of national Federation of Co-operative Sugar Factories New Delhi, studied Sugar Technology-Prospects and challenges with reference to the technical area of the sugar industry. He stated that the productivity can be better improved by expand sugar complexes with the help of professional

C. Ramaswamy et al (2006), finalize that the production at large quantity and the export of sugar in large volume on regular basis may provide subsidiary added advantage to the sugar sector and that can help in produce clean energy in the form of ethanol and power besides sugar.

4. Objectives of the Study

1. To measure financial performance of the company by using profitability ratios.
2. To give suggestion and recommendation based on the study.

5. Methodology

Secondary data have been collected from the annual reports of SCVKUM. Period of five years starting from the year 2008-09 to 2012-13 has been covered. Ratio analysis has been done for the analysis.

Profitability ratio has been used to measure performance in which Operating Profit margin ratio, Net profit margin ratio, Operating ratio, Capital employed turnover ratio, Return on capital employed ratio, Return on Shareholders' funds ratio and Return on Fixed Assets Ratio are included.

6. Limitation of Study:

1. This Study is a case study of, only one Sugar Factory i.e. "SCVKUSM Ltd." is selected for the present study. There are twenty-four¹ Sugar Factory working in Gujarat. Out of these 24 Sugar Factories only one factory is selected of the present study; therefore the limitations of the small sample are included under the present study.
2. The conclusion of the study has been derived through the analysis of the data collected from the annual Report of "SCVKUSM Ltd.", therefore the study included the limitations whatever the report portrays.
3. The Limitation of tools and techniques applied for the analysis are inherent in present study.

7. Data Analysis and Interpretation

Table 1 Profitability Ratio of Shree Chalthan Vibhag Khand Udhyog Sahakari Mandli Ltd.

Year	Operating Profit Margin Ratio	Net Profit Margin Ratio	Operating Ratio	Capital Employed Turnover Ratio	Return on Capital Employed Ratio	Return on Shareholders' Funds Ratio	Return on Fixed Assets Ratio
2008-09	1.79	0.002	99.87	1.08	1.67	0.010	6.23
2009-10	2.32	0.010	99.07	1.04	1.28	0.061	5.64
2010-11	1.71	0.008	99.90	1.33	3.08	0.037	8.24
2011-12	-0.60	0.010	102.74	1.41	2.73	0.050	7.10
2012-13	1.71	0.008	100.43	1.15	1.76	0.038	6.08
Average	1.39	0.008	100.40	1.20	2.10	0.039	6.66

Source: Annual Financial Report of SCVKUSM Ltd.

7.1 Operating Profit

¹<http://www.gujsugarfed.com/html/sugar-factory-list.html>

The operating profit margin ratio of SCVKUSM Ltd was fluctuating trend during the period of study. It was fluctuated between -0.60% (2011-12) to 2.32% (2009.10). The average operating Profit margin ratio is worked out to be 1.39%. The ratio always remains above than the average ratio accepted year 2010-11. In this year it was negative -0.60. It's indicate in this year factory cost of goods was higher than sales. It was not good for factory.

7.2 Net Profit Margin Ratio

Net profit margin ratio of SCVKUSM Ltd was fluctuated during the study period. Net profit margin ratio was fluctuated between 0.002 (2008-09) to 0.010(2009-10 & 2011-12). The net profit margin ratio of the SCVKUSM Ltd showed a very unsatisfactory profitability position during the study period.

7.3 Operating Ratio

On an average Operating ratio of SCVKUSM Ltd was 100.40%, which indicates that almost operating expenses and Sales was same. Moreover, it remained high for the year 2011-12 (102.74%) followed by 2012-13 (100.43). For the rest of the years, it stayed lower than average.

7.4 Capital Employed Turnover Ratio

The average of Capital Employed Turnover ratio of SCVKUSM Ltd was 1.20 time during the study period. Moreover, it remained high for the year 2011-12 (1.40 time) followed by 20110-11 (1.33 time). For the rest of the years, it stayed lower than average, for the year 2008-09 (1.08 time), 2009-10 (1.04 time) and 2012-13 (1.15 time).

7.5 Return on Capital Employed Ratio

The Average of Capital Employed turnover ratio of SCVKUSM Ltd was 2.10% during the study period. Moreover, it remained high for the year 2010-11 (3.08%) followed by 2011-12 (2.73%). For the rest of the years, it stayed lower than average. For the year 2008-09 (1.67%), 2009-10 (1.28%) which was lowest during the study period and 2012-13 (1.76%).

7.6 Return on Shareholders' Funds Ratio

The Average of Return on Shareholder's fund ratio of SCVKUSM Ltd was 0.039% during the study period. Moreover, it remained high for the year 2009-10 (0.061%) followed by 2011-12 (0.050%). For the rest of the years, it stayed lower than average. For the year 2008-09 (0.010%) which was lowest during the study period, 2010-11 (0.037%) and 2012-13 (0.038%) which was very near average of Return on Shareholder's funds.

7.7 Return on Fixed Assets Ratio

The Average of Return on Fixed Assets ratio of SCVKUSM Ltd. was 6.66% during the study period. Moreover, it remained high for the year 2010-11 (8.24%) followed by 2011-12 (7.10%). For the rest of the years, it stayed lower than average. For the year 2008-09 (6.23%), 2009-10 (5.64%) which was lowest during the study period and 2012-13 (6.08%).

Table 2 Descriptive Statistics

	N	Range	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
Operating Profit Margin Ratio	5	2.92	-.60	2.32	1.3860	.50940	1.13905	1.297
Net Profit Margin Ratio	5	.01	.00	.01	.0076	.00147	.00329	.000
Operating Ratio	5	3.67	99.07	102.74	100.4020	.62355	1.39430	1.944
Capital Employed Turnover Ratio	5	.37	1.04	1.41	1.2020	.07193	.16084	.026
Return on Capital Employed Ratio	5	1.80	1.28	3.08	2.1040	.34133	.76324	.583
Return on Shareholders' Funds Ratio	5	.05	.01	.06	.0392	.00852	.01904	.000
Return on Fixed Assets Ratio	5	2.60	5.64	8.24	6.6580	.46107	1.03098	1.063
Valid N (list wise)	5							

As seen from the above table, maximum range found in operating ratio, followed by operating profit margin ratio, return on fixed assets ratio, return on capital employed ratio etc. Due to high level of range in operating ratio, the risk level is also high in terms of standard deviation and coefficient of variance, followed by operating profit margin ratio, return on fixed assets ratio, return on capital employed ratio etc. On the other side, minimum range found in the Return on Shareholders' Funds Ratio therefore, it has low degree of risk in terms of standard deviation and coefficient of variance. Overall concluded that the management of SCVKUSM Ltd have not efficient control over their operating expenses as well as management of the factory was unable to cover operating expenses in terms of income of sales. The management of the factory should try to decrease production cost in relation to operation and increase sales margin level to reduce risk in operating ratio.

8. Finding regarding Profitability

The profitability of the SCVKUSM Ltd has been analyzed through various profitability ratios. The major findings regarding the profitability are as follows.

1. Operating profit margin or Gross profit margin is the first profitability ratio in relation to sales. It reflects the efficiency with which the management produce and sales each unit of its products. The profit margin ratio of the sugar Factory is 1.39% which is comparatively low. It can be concluded that the management of SCVKUSM Ltd do not have an efficient control over their operating expenses.
2. The net profit margin ratio indicates the efficiency of the management to generate net profit after deducting all expenses per each rupee of sales. This ratio measures the ability of a business enterprise to turn each rupee of sales in to net profit. The average of net profit margin ratio of the SCVKUSM Ltd is very unsatisfactory as it is only 0.01%. It can be concluded that the reason behind the low net profit margin is the high interest burden on profit.
3. Operating ratio reflects the efficiency of the management to produce and sales the product at a lower cost. The average operating ratio of the SCVKUSM Ltd is 100.40% which is very

high. It can be concluded that the management of SCVKUSM Ltd have not efficient control over their operating expenses. The analysis of Operating ratio clearly indicates that during the last two year of the study period the position was very unsatisfactory as the operating ratio was above 100%. It can be concluded factory was not cover operating expenses in income of sales.

4. Capital is employed in business to generate profit and the capital employed turnover ratio indicates how efficiently the capacity employed have been utilized to generate sales and thereby to generate profit. The average of capital employed turnover ratio is only 1.20 time which indicate that the management of SCVKUSM Ltd failed to utilize their capital employed in an efficient manner.
5. The return on capital employed is good measure of profitability as it is an extension of input output analysis. It helps in comparing the performance efficiency of a dissimilar enterprise. The return on capital employed ratio on an average is 2.10% which indicate the inefficiency of the management of SCVKUSM Ltd to generate satisfactory operating profit was very poor.
6. The return on net worth is an effective device to measure the profitability form the shareholders point of view. This ratio revels how profitability the owners' funds have been utilized by the management of an enterprise. The return on shareholders' funds in SCVKUSM Ltd is only 0.039% on an average which is very low. It can be concluded that the profitability position of the SCVKUSM Ltd was highly unsatisfactory during the study period.
7. The investment in fixed assets is made to generate profit though efficient utilization of fixed assets. The return on fixed assets ratio measures how efficiently the fixed assets have been utilized to generate profit. The return on fixed assets ratio on an average in SCVKUSM Ltd is 6.66%. If company investment in Bank fixed Deposit Company earn return round about 8.50%. It can be concluded that the efficiency of the management of SCVKUSM Ltd to generate sufficient profit per each rupee of investment made in fixed assets was very poor.

9. Conclusion

In the present study of SCVKUSM Ltd conclude that its financial position is unsatisfied. The main objective of Cooperative sectors' is not to earn maximum profit but to earn enough profit to cover manufacturing cost as well as administrative cost and selling cost. The SCVKUSM Ltd.'s all profitability ratio is unsatisfied and the cost of good is high and which effect on its profit. It's also concluded that factory's interest burden is so high it was also affected profit.

10. Suggestion

1. The management of SCVKUSM Ltd have not efficient control over their cost of goods sold which has badly affected the profitability. The management of SCVKUSM Ltd have been suggested to reduce the cost of goods sold to a considerable extent by exercising efficient control. It is also suggested here to utilize the install capacity to its full extent & to modernize their plants as well as improvement in storage department.
2. The management of SCVKUSM Ltd is suggested here to reduce the debt burden by repayment of long term borrowing and thereby reduce the burden of interest & to use the cheap sources of funds to improve the profitability and improve the return on shareholders' funds.
3. To be in competition the SCVKUSM Ltd paying the more price for the sugarcane to farmers, but they are not getting the price of sugar in return against the sugarcane price which they are paying, this is the reason which affect the profitability & for this it is suggested that to decrease the gap between these two.
4. The proportion of interest in SCVKUSM Ltd is considerably higher in sales. The management of the SCVKUSM Ltd is here by suggested to use internal sources of funds by creating reserves.

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