

AN ANALYSIS OF FINANCIAL PERFORMANCE OF COROMANDEL SUGARS LTD., MANDYA

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ABSTRACT

The quality and sucrose percentage of the cane grown in the region decide the performance of a sugar factory. Mandya called as the land of sugar because it is famous for sugarcane cultivation. It is considered one of the fertile districts of Karnataka. The present paper aims to study the financial performance of the choromandel sugars ltd., K.R.Pet, Mandya District. Secondary data for five years for 2010-11 to 2014-15 was collected and analysed through ratio analysis. The study found that profitability in relation to investment of owned funds and ability to earn profits after meeting all direct and indirect cost of business was not satisfactory which indicate the inefficient management of the factory in operations and in controlling of costs. On the basis of observation made, suggestion have been made at the end of the study.

KEY WORDS: Financial Ratio, Profitability, Financial Performance Indicators, Ratio Analysis.

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INTRODUCTION

The performance of the firm can be measured by its financial results, i.e., by its size of earnings riskiness and profitability are two major factors which jointly determine the value of the concern. Financial decisions which increase risks will decrease the value of the firm and on the other hand, financial decisions which increase the profitability will increase value of the firm. Risk and profitability are two essential ingredients of a business concern. There has been a considerable debate about the ultimate objective of firm performance, whether it is profit maximization or wealth maximization. It is observed that while considering the firm performance, the profit and wealth maximization are linked and are effected by one-another. In Indian context, where an analyst has to rely upon the audited financial statement for a particular company, the performance is to be judged from the financial statement only.

The quality and sucrose percentage of the cane grown in the region decide the performance of a sugar factory. Mandya called as the land of sugar because it is famous for sugarcane cultivation. It is considered one of the fertile districts of Karnataka. The major industries in Mandya district are sugar mill, several khandasari sugar units, jaggery producing units, rice, oil and solvent extract units. The sugar factory at Mandya is one of the biggest in India and others in Pandavapura, K.R. Pet, K.M. doddi and Koppa.

BACKGROUND

Karnataka sugar industry ranks third in terms of its contribution of sugar in the total sugar production in the country. The sugar industry in Karnataka is able to manufacture sugar in such huge quantities due to the fact that sugarcane is abundantly available in the state. In fact, Karnataka stands fourth in the cultivation of sugarcane and third largest producer of sugar (12%) in India after Uttar Pradesh (35%) and Maharashtra (24%). The sugar industry in Karnataka has around 57 sugar factories spread over the state. The major benefits of Karnataka sugar industry are that it has generated many facilities in the state such as communication, employment and transport. It has also benefited the state by helping in the development of the rural areas of the state by mobilizing the various resources of the villages. Karnataka is the second state to establish a sugar factory in the country. Mysore Sugar Company Ltd., Mandya, is the first sugar factory established in the year 1933-34 in public sector.

NEED FOR THE STUDY

The need for the study has arisen because the sugar mills across the board have to perform consistently. Further the factors that affect the profitability of the sugar industry need to be identified. This study is unique and it covers the performance analysis of Coromandel Sugars Factory, K.R. Pet, Mandya. The study provides insight into the growth over the years on the basis of its business volume. Keeping the above said points in view, the present study was carried out with an overall objective of analysing the performance of sugar industry in Karnataka.

LITERATURE REVIEW

Baliyan et al. (1998) in their study on costs and returns in sugarcane production vis-à-vis its competing crops in Muzaffarnagar district, Western Uttar Pradesh estimated that per hectare cost of production of sugarcane was Rs. 9118, Rs. 19,681 and Rs. 20,229 on small, medium and large farms, respectively. The major components of cost of production were operational cost, rental value of land and material cost. The major component of operational cost were transportation, harvesting and intercultural operations in all the three size of farms with 40 per cent share in total cost of production, while the major components of the material cost were manure and fertilizers, seed and irrigation on all the three size group of farms, (18.32% to 2.44% in total cost of production). Malik and Singh (1999) analyzed the cost and returns of sugarcane production in Haridwar district of Western Uttar Pradesh. In case of reserve area (< 10 kms from sugar mills) cost A1, A2, B1, B2, C1, C2, gross income from main product and by-product were Rs. 21,605, Rs. 21,605, Rs. 24,724, Rs. 33,908, Rs. 28,231, Rs. 37,415, Rs. 45,002 and Rs. 4419, respectively. In far area (>10 kms from sugar mills) the costs were Rs. 21,366, Rs. 21,366, Rs. 24,498, Rs. 33,293, Rs. 28,009, Rs. 42,758, and Rs. 4416, respectively. Lohar et al. (2000) estimated per tonnes cost of production of sugarcane, per quintal production of jaggery, per quintal manufacturing of sugar and profitability of production of jaggery and sugar. The study was conducted with sample of 30 jaggery producers from six villages in Karveer, Tahsil, Kolhapur district, Maharashtra, India and it revealed that profitability is more in jaggery production. Nagpure et al. (2004) in their study on economics of sugarcane production in Vidarbha region of Maharashtra estimated the per hectare cost of cultivation in suru crop at cost A, B and C as to Rs. 35,178.86, Rs. 53,207.91 and Rs. 54,011.11, respectively. In the case of ratoon crop, it was estimated to be Rs. 25,612.88, Rs. 42,326.52 and Rs. 43,162.62, respectively.

The net income per hectare of Rs. 15,766 was found out to be higher in the case of ratoon crop as against Rs. 11,334 from suru main crop. The efficiency of per rupee investment in the cultivation of ratoon vis-à-vis sole crop of suru at cost C was estimated to be 1.36 and 1.21, respectively. Namadev (2008) analyzed the quantum of cost 'B' incurred in the total cost of sugarcane cultivation was found to be the highest who incurred an amount of again for small farmers (Rs. 75,520.13 per ha) followed by large and medium farmers with Rs. 70,698.01 per hectare and Rs. 70,329.82 per hectare, respectively. Anwar and Naeem (2011) analyzed the average per acre cost was calculated as Rs. 35,450 for all varieties of sugarcane. The major cost elements were; land rent, labor input, seed, manure, irrigation, land preparation, fertilizer and hand weeding. The net revenue of variety-77/400, 44, Mardan-92, 48, 310 and 722082 were observed as Rs. 54,550, 48,550, 48,550, 45,550, 48,550 and 45,550, respectively. Sugarcane crop was characterized by increasing returns to scale.

PROBLEM STATEMENT

The performance of sugar mills across the board has not been consistent, with the result that the stakeholders are left dissatisfied. Several factors that affect the profitability of the sugar industry are left unaddressed. In this context, it is pertinent to study the financial performance of sugar factory particularly, coromandel sugars ltd., Mandya.

OBJECTIVES

1. To analyze the overall financial performance indicators of sugar factory.
2. To compare the last five years financial performance by different ratio.
3. To provide useful suggestions to improve the financial performance of the factory selected for the study.

RESEARCH METHODOLOGY

The present study is descriptive in nature and includes the analysis of secondary data. The secondary data was collected from the five years Annual reports (2010-11 to 2015-16) of the Coromandel Sugars Limited, K. R. Pet., Mandya. To analyse the financial performance of selected sugar factory, Liquidity Ratios, Activity Ratios and Profitability Ratios are calculated based on the financial and related statement like: Profit & Loss account and Balance Sheet.

DATA ANALYSIS AND INTERPRETATION

a) Financial indicators of Coromandal Sugars Ltd, Mandya

Table 1 shows that reserve fund was Rs. 34.85 crores in 2010-11 increased to 81.19 crores in 2011-12 at an average rate of Rs. 64.22 crores. The owned fund was Rs. 48.85 crores in 2010-11 increased to 96.19 crores in 2014-15 at an average rate of Rs. 78.42 crores. Current assets showed increasing trend over the study period. It was increased from Rs. 102.12 crores in 2010-11 to Rs. 206.33 crores in 2013-14 and decreased to Rs. 188.80 crores in 2014-15. Fixed assets were increased from Rs. 57.06 crores in 2010-11 to Rs. 291.62 crores in 2014-15 at an average rate of Rs. 187.84. Total asset was Rs. 216.46 crores in 2010-11 increased to Rs. 522.83 crores in 2014-15 at an average rate of Rs. 388.18. Current liabilities were Rs. 35.85 crores in 2010-11 increased to Rs. 231.80 crores in 2014-15. Total borrowing was Rs. 109.41 crores in 2010-11 increased to Rs. 269.84 crores in 2014-15. Total liabilities were Rs. 167.61 crores in 2010-11 increased to Rs. 426.64 crores in 2014-15 at an average rate of Rs. 309.76 Crores. Total sales was Rs. 205.52 crores in 2010-11 and increased to Rs. 266.09 crores in 2014-15 with the average rate of 225.43 crores. Total income showed varying trend over the study period. It was Rs. 207.34 crores in 2010-11 and decreased to Rs. 198.85 crores in 2013-14 again increased to Rs. 259.54 crores in 2014-15. Total expense was Rs. 184.31 crores in 2010-11 and increased to Rs. 259.16 crores in 2014-15. Inventory was Rs. 81.39 crores in 2010-11 and increased to 147.08 crores in 2013-14 again decreased to Rs. 113.43 crores. Net profit was Rs. 17.21 crores in 2010-11 and increased to Rs. 147.08 crores in 2013-14 and decreased to Rs. 113.43 crores in 2014-15 with the average rate of Rs. 13.11 crores.

Table 1: Financial Performance Indicators of Coromandel Sugars Ltd., Mandya. (Rs. in Crores)

Sl. No	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	Average
1	Share Capital	14.00	14.00	14.00	14.00	14.00	14.00
2	Reserve Funds	34.85	53.11	75.68	76.27	81.19	64.22
3	Owned Funds	48.85	67.11	89.69	90.27	96.19	78.42
4	Current Assets	102.12	124.17	134.96	206.33	188.80	151.28
5	Fixed Assets	57.06	172.70	191.08	226.75	291.62	187.84
	Total assets	216.46	334.55	392.81	474.25	522.83	388.18

6	Current Liabilities	35.85	125.02	134.96	190.47	231.80	143.62
7	Total Borrowings	109.41	198.74	229.05	269.47	269.84	215.30
	Total Liabilities	167.61	267.44	303.12	383.98	426.64	309.76
8	Total Sales	205.52	227.66	231.25	196.62	266.09	225.43
9	Total Income	207.34	228.44	234.35	198.85	259.54	225.70
10	Total Expenses	184.31	208.74	219.92	198.61	259.16	214.15
11	Inventory	81.39	89.62	122.92	147.08	113.43	110.89
	Net Profit	17.21	18.26	22.57	0.59	6.93	13.11

Source: Annual Reports

b) Financial ratio analysis of Sugar Factory

Ratios are the measurement of results obtained from a business. In order to know the performance of the sugar factory in Mandya district, financial ratios analysis is the process of identifying the solvency, liquidity, profitability, efficiency and strengths and weakness of the companies by properly establishing relationship between the items of balance sheet and the profit and loss account. The nature of the analysis was to analyze the companies financially from management perspective. To highlight each of the above aspects, different ratios under each category have been worked out. The secondary data drawn from the audited annual statements of the balance sheet, reports receipts and payment account, profit and loss account of the sugar factory for a period of five years from 2010-11 to 2014-15 were subjected to rigorous financial ratio analysis. The financial ratios used for the analyses are presented in table 2 and described below.

Test of liquidity

The liquidity ratios/balance sheet ratios are used to measure the ability of sugar factory to meet its immediate maturing liabilities out of its owned short term resources. The degree of liquidity of the sugar factory was determined by employing the current ratio, Acid Test ratio and Inventory ratio. The table 2 shows the overall weighted average current ratio; acid test ratio and inventory for the sugar factory were found to be 1.35, 0.32 and -5.32 respectively.

Test of solvency

The solvency ratios would reflect on the medium term and longterm solvency position of the sugar factory, indicating its ability to meet the medium term and long term obligations and these ratios would provide basis for measuring the leverage effect on the performance of the sugar factory. The solvency position of sugar factory was computed by employing the total liabilities to owned funds ratio, fixed assets to owned funds average ratio and debt -equity average ratio. The Table 2 shows that overall average total liabilities to owned funds ratio were found to be 3.90. Fixed assets to Owned Funds average ratio was 2.27 and debt -equity average ratio was found to be 1.87.

Test of financial strength

These measures were employed to assess the real worth of the sugar factory. The results of these tests are presented in Table 2. The table indicated that overall weighted average net – worth was Rs. 78.42 crores over the study period. The overall weighted average net capital ratio was 1.26 over the study period.

4.2.10.4 Fixed assets ratios

The important fixed assets ratios considered in the present study are net profit to owned funds ratio, net profit to total assets ratio, fixed assets to total assets ratio, fixed assets to net worth ratio and Fixed assets to total sales ratio. The average net profit to owned fund ratio found to be 0.19. The net profit to total sales ratio for all five years is almost same i.e., 0.06, over the study period. The overall fixed assets to total assets ratio was found to be 0.65. The average fixed assets to net worth ratio was found to be 2.28 and the overall average fixed assets to total sales ratio were found to be 0.82.

Table 2: Test of Liquidity, Solvency, Financial Strength and Fixed Assets Ratios of Coromandel Sugars Ltd., Mandya

Sl. No	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	Average
I	Test of Liquidity Ratios						
1	Current Ratio	2.85	0.99	1.00	1.08	0.81	1.35
2	Acid Test Ratio	0.58	0.28	0.09	0.31	0.33	0.32

3	Inventory Ratio	66.27	-105.22	0	9.23	3.10	-5.32
II	Test of Solvency Ratios						
4	Total Liabilities to Owned Funds Ratio	3.43	3.99	3.38	4.25	4.44	3.90
5	Fixed Assets to Owned Funds Ratio	1.12	2.57	2.13	2.51	3.03	2.27
6	Debt Equity Ratio	1.65	1.96	1.77	2.04	1.95	1.87
III	Test of Financial Strength Ratios						
7	Net Worth	48.85	67.11	89.69	90.27	96.19	78.42
8	Net Capital Ratio	1.29	1.25	1.30	1.24	1.23	1.26
IV	Fixed Assets Ratios						
9	Net Profit to Owned Funds Ratio	0.35	0.27	0.25	0.01	0.07	0.19
10	Net Profit to Total Sales Ratio	0.08	0.08	0.10	0	0.03	0.06
11	Fixed Assets to Total Assets Ratio	0.26	0.52	1.42	0.48	0.56	0.65
12	Fixed Assets to Net Worth Ratio	1.17	2.57	2.13	2.51	3.03	2.28
13	Fixed Assets to Total Sales Ratio	0.28	0.76	0.83	1.15	1.10	0.82

Source: Annual Reports.

MAJOR FINDINGS

- Current ratio is high in the year 2010-11 and too low in the year 2014-15 then the standard norms 2:1.
- Acid test ratio for five years is below the standard norms and it could be considered as unsatisfactory situation.
- Inventory ratio shows fluctuating trend during the period 2010-11 to 2014-15. It meant that net working capital of the sugar factory was not tied up in inventory.
- The amount institution owes to creditors within the amount of money which is invested in the institution is not satisfactory.

- Debt – Equity Ratio of all the years shows fluctuating trend during the period 2010-11 to 2014-15 and highest debt equity ratio is in the year 2013-14 which shows the too much dependence of sugar factory on borrowings.
- Net worth of sugar factory is very good as it has the wider positive difference.
- The margin of safety against the decline in the prices of major assets of the sugar factory is satisfactory as the net capital ratio is high.
- Profitability in relation to investment of owned funds and ability to earn profits after meeting all direct and indirect cost of business was not satisfactory as the net profit to owned funds and net profit to total sales ratios were low.

SUGGESTIONS AND CONCLUSION

The present study was an attempt to analyze the performance of coromandel sugar mill by using ratio analysis for the period of 2010-11 to 2014-15. The results showed that profitability in relation to investment of owned funds and ability to earn profits after meeting all direct and indirect cost of business was not satisfactory which indicates the inefficient management of the companies in operations and in controlling of costs. It can be improved by the companies by improving their asset turnover. There is lot of scope for sugar factory to increase profitability by use of by-products by manufacturing other products like bio-compost and ethyl alcohol.

LIMITATIONS OF THE STUDY

The study based on secondary data which is gathered only for five financial years of a sugar factory which is insufficient to justify the analysis to the financial performance of a sugar factory. Further, the study did not encompass various other issues connected with the operation of a selected sugar factory.

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