

OPERATING PROFIT OF SELECTED FOOD PROCESSING COMPANIES IN INDIA

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ABSTRACT

Food Processing Industry is one of the growing sectors in India. The government is taking lot of steps to encourage this industry. India's food processing sector covers a wide range of products fruit and vegetables; meat and poultry; milk and milk products, alcoholic beverages, fisheries, plantation, grain processing and other consumer product groups like confectionery, chocolates and cocoa products, Soya-based products, mineral water, high protein foods etc. The study has used stratified sampling techniques and ten companies were selected. The data were collected from the respective companies annual financial statement during from 2006-2007 to 2016-2017. The study has aimed to determine the Profitability of selected Food Processing Companies in India. Ratio analysis and ANOVA were used to diagnose the financial strength of a Company based on the Financial Statements.

Key words: Financial Statement, Food Processing Companies, Liquidity, Stratified sampling.

1. INTRODUCTION

Ally People are nowadays totally depending on fast food and other chat items. The petty shops are growing because of the sales of food products sold by them. The performance of any organization acts as a control program for effective functioning of the organization. It will find out the weak areas of the business and helps to strengthen those weak areas. It also helps the management to take corrective measures in case the company is deviating from its objectives.

2. STATEMENT OF THE PROBLEM

The increasing population, growing demand and change in Lifestyle are the reason for development of this sector. There is a huge competition between the Indian Companies and the foreign players. Competitive advantage plays a vital role among the companies. Though there is a growth, lot of Problems are also faced due to the lack of infrastructural facilities. Hence it is necessary to study the operating profit of food processing companies.

3. OBJECTIVES OF THE STUDY

To determine the operating Profit with respect to financial variables of selected Food Processing companies in India.

3. METHODOLOGY

The data used for the study are secondary in nature. The required data for sample companies were collected from the compilation made by the centre for monitoring Indian economy (CMIE) for the period from 2006-2007 to 2016-2017. Ten companies have been selected which constitute the sample. The sample companies were selected on the basis of total assets has maximum as per the last annual report published. The sample companies were undertaken this study:

S.NO.	LARGE SCALE	MEDIUM SCALE
1	KRBL	HATSUN
2	BRITANIA	HERITAGE
3	KOHINOOR	PRABHAT
4	KWALITY	MODERN DAIREES
5	LT FOODS	CHAMANLAL

For the purpose of this study, the Food Processing companies are selected using the criteria stated below. As the availability of data for companies which come under small scale was incomplete, it is not considered for the study

1. Availability of data for at least for the period of 10 years
2. The companies which hold Total Assets of more than of Rs. 700 crore is categorized as Large scale Food processing companies
3. The companies which hold Total Assets of more than of Rs. 100 crore and less than 700 crore is categorized as medium scale Food Processing companies

4. The companies which hold Total Assets of less than of Rs. 100 crore is categorized as small scale Food processing companies.

4. STATISTICAL TOOLS USED

Mean, Standard Deviation, Coefficient of Variation: Used to find out the average position of accounting ratios. **Correlation Analysis:** Used for to identify the relationship between short term solvency positions of the companies. **ANOVA:** To test those companies belonging to the same industry whether follow a different level of short term solvency position during the study period.

5. REVIEW OF LITERATURE

Hanuman Prasad, Kapil Shrimal (2015), did a study whose objective was to find out the influence of profitability on market capitalization. 23 companies were selected for the study. Using SPSS correlation and regression was done and it was found out that there is a significant influence of profitability on market capitalisation among the selected infrastructure companies.

Shanthi and Kesavan (2017), did a study in measuring liquidity of food industries in India 5 companies was selected for their study and the study was done from 2011 - 2012 to 2015 – 2016. The current ratio was highest for ITC agro and lowest for Hatsun, the quick ratio was highest for ITC Agro and lowest for Britannia, the cash earning ratio was highest for Hatsan and lowest for ITC Agro the dividend payout ratio was highest for ITC Agro and lowest for Rio Agro Arnold inventory turnover ratio was highest for Britannia and lowest for ITC Agro Agro. The study concluded that the inventory should be properly maintained and the carrying and maintenance cost should be reduced and an effective Credit Policy should be framed by these companies.

6. PROFITABILITY RATIOS

- Net Profit Ratio
- Operating Profit Ratio
- Return on Net worth Ratio
- Expense Ratio

TABLE 1											
NET PROFIT RATIO FOR SELECTED FOOD PROCESSING COMPANIES IN INDIA											
	LARGE SCALE					MEDIUM SCALE					
YEAR	KRBL	BRI	KOHINOOR	KWALITY	LT	HATSUN	HERITAGE	PRABHAT	MODERN	CHAMNLAL	IND AVG
2007 - 08	0.05	0.07	0.01	0.01	0.05	0.02	0.00	0.00	0.02	0.04	0.03
2008 - 09	0.04	0.06	-0.02	0.02	0.01	0.01	-0.04	0.00	-0.06	0.02	0.004
2009 - 10	0.07	0.03	0.01	0.02	0.04	0.00	0.01	0.02	0.00	0.04	0.02
2010 - 11	0.07	0.03	-0.03	0.03	0.02	0.01	0.00	0.033	-0.09	0.04	0.01
2011 - 12	0.04	0.04	0.19	0.04	0.00	0.02	0.01	0.01	-0.04	0.04	0.03
2012 - 13	0.07	0.04	0.01	0.03	0.02	0.02	0.03	0.01	0.00	0.04	0.03
2013 - 14	0.10	0.06	0.01	0.03	0.02	0.03	0.03	0.00	0.01	0.04	0.03
2014 - 15	0.09	0.09	-0.06	0.03	0.02	0.01	0.01	0.00	-0.04	0.04	0.02
2015 - 16	0.11	0.09	0.00	0.03	0.02	0.02	0.02	0.01	-0.05	0.08	0.03
2016 - 17	0.13	0.10	-0.14	0.03	0.01	0.03	0.03	0.02	-0.03	0.08	0.03
TOTAL	77.35	61.95	-1.97	24.61	21.45	18.08	9.53	10.83	-26.99	45.50	24.03
MEAN	7.73	6.19	-0.20	2.46	2.14	1.81	0.95	1.08	-2.70	4.55	2.40
SD	2.74	2.41	7.84	0.68	1.19	0.86	2.09	1.09	3.16	1.71	0.91
CV(%)	35.39	38.98	-3978.16	27.61	55.59	47.78	219.55	100.44	-117.06	37.61	37.93
MAX	0.13	0.10	0.19	0.04	0.05	0.03	0.03	0.03	0.02	0.08	0.03
MIN	0.04	0.03	-0.14	0.01	0.00	0.00	-0.04	0.00	-0.09	0.02	0.004
AGR(%)	134.39	35.85	-1782.13	93.17	-70.61	59.72	1738.66	2.40	-282.78	86.70	-6.43
CAGR(%)	8.89	3.11	-230.20	6.81	-11.52	4.79	33.80	0.238	-204.130	6.44	-0.66

TABLE 2											
OPERATING PROFIT RATIO FOR SELECTED FOOD PROCESSING COMPANIES IN INDIA											
	LARGE SCALE					MEDIUM SCALE					
YEAR	KRBL	BRI	KOHINOOR	KWALITY	LT	HATSUN	HERITAGE	PRABHAT	MODERN	CHAMNLAL	IND AVG
2007 - 08	0.15	0.09	0.13	0.04	0.12	0.07	-0.02	0.00	0.07	0.07	0.07
2008 - 09	0.15	0.07	0.17	0.05	0.17	0.07	0.00	0.00	0.15	0.06	0.088
2009 - 10	0.13	0.06	0.15	0.05	0.08	0.06	0.35	0.06	0.01	0.08	0.10
2010 - 11	0.15	0.05	0.12	0.06	0.08	0.07	0.03	0.06	-0.01	0.08	0.07
2011 - 12	0.14	0.06	0.02	0.07	0.11	0.07	0.04	0.04	0.01	0.08	0.06
2012 - 13	0.14	0.07	0.11	0.06	0.08	0.07	0.06	0.03	0.03	0.09	0.07
2013 - 14	0.14	0.09	0.09	0.06	0.08	0.07	0.06	0.04	0.03	0.08	0.07
2014 - 15	0.16	0.11	0.01	0.06	0.07	0.07	0.04	0.04	0.00	0.07	0.06
2015 - 16	0.14	0.14	0.12	0.06	0.08	0.09	0.05	0.05	0.00	0.12	0.09
2016 - 17	0.21	0.14	-0.09	0.07	0.07	0.09	0.06	0.04	-0.01	0.13	0.07
TOTAL	150.21	88.74	83.63	57.39	94.49	72.04	67.34	36.19	25.68	85.28	76.10
MEAN	15.02	8.87	8.36	5.74	9.45	7.20	6.73	3.62	2.57	8.53	7.61
SD	2.03	3.16	7.48	0.87	3.13	0.96	9.65	2.00	4.68	2.19	1.15
CV(%)	13.51	35.63	89.40	15.17	33.08	13.34	143.29	55.39	182.39	25.74	15.07
MAX	0.21	0.14	0.17	0.07	0.17	0.09	0.35	0.06	0.15	0.13	0.10
MIN	0.13	0.05	-0.09	0.04	0.07	0.06	-0.02	0.00	-0.01	0.06	0.063
AGR(%)	35.18	59.41	-168.04	67.14	-40.47	29.29	-407.28	-31.75	-117.94	78.47	-3.20
CAGR(%)	3.06	4.77	-196.00	5.27	-5.05	2.60	-212.00	-3.748	-182.00	5.96	-0.32
Source: Computed from annual report of respective companies											

TABLE 3											
RETURN ON NETWORTH RATIO FOR SELECTED FOOD PROCESSING COMPANIES IN INDIA											
	LARGE SCALE					MEDIUM SCALE					
YEAR	KRBL	BRI	KOHINOOR	KWALITY	LT	HATSUN	HERITAGE	PRABHAT	MODERN	CHAMNLAL	IND AVG
2007 - 08	0.15	0.25	0.03	0.19	0.20	0.36	0.01	0.00	0.21	0.19	0.16
2008 - 09	0.12	0.22	-0.05	0.29	0.07	0.21	-0.42	0.00	-0.64	0.13	-0.007
2009 - 10	0.21	0.29	0.04	0.38	0.13	0.05	0.07	0.22	-0.05	0.22	0.16
2010 - 11	0.19	0.32	-0.14	0.50	0.08	0.20	0.01	0.18	20.33	0.17	2.19
2011 - 12	0.11	0.36	0.50	0.51	0.02	0.25	0.10	0.06	0.92	0.19	0.30
2012 - 13	0.19	0.37	0.03	0.35	0.14	0.34	0.35	0.02	0.05	0.23	0.21
2013 - 14	0.26	0.43	0.01	0.32	0.14	0.46	0.25	0.01	-0.83	0.27	0.13
2014 - 15	0.22	0.50	-0.18	0.23	0.10	0.18	0.15	0.02	0.66	0.24	0.21
2015 - 16	0.23	0.44	0.01	0.19	0.09	0.26	0.23	0.02	0.42	0.34	0.22
2016 - 17	0.21	0.33	-0.56	0.16	0.08	0.39	0.22	0.05	0.19	0.27	0.13
TOTAL	189.84	351.71	-29.82	312.07	104.22	269.34	97.31	57.30	2126.78	225.50	370.43
MEAN	18.98	35.17	-2.98	31.21	10.42	26.93	9.73	5.73	212.68	22.55	37.04
SD	4.81	8.38	24.69	11.87	4.55	11.29	20.11	7.48	608.93	5.61	60.99
CV(%)	25.36	23.83	-828.05	38.05	43.64	41.90	206.70	130.60	286.31	24.87	164.65
MAX	0.26	0.50	0.50	0.51	0.20	0.46	0.35	0.22	20.33	0.34	2.19
MIN	0.11	0.22	-0.56	0.16	0.02	0.05	-0.42	0.00	-0.83	0.13	-0.007
AGR(%)	41.18	29.30	-1716.68	-11.64	-57.51	7.26	2685.07	-77.80	-11.32	39.74	-15.75
CAGR(%)	3.51	2.60	-234.00	-1.23	-8.20	0.70	39.47	-13.972	-1.19	3.40	-1.70
Source: Computed from annual report of respective companies											

TABLE 4											
PARTICULAR EXPENSE RATIO FOR SELECTED FOOD PROCESSING COMPANIES IN INDIA											
	LARGE SCALE					MEDIUM SCALE					
YEAR	KRBL	BRI	KOHINOOR	KWALITY	LT	HATSUN	HERITAGE	PRABHAT	MODERN	CHAMNLAL	IND AVG
2007 - 08	0.88	0.58	0.90	0.75	0.49	0.81	0.66	0.00	0.93	0.81	0.68
2008 - 09	0.82	0.58	0.38	0.76	0.47	0.77	0.64	0.00	0.90	0.61	0.593
2009 - 10	0.73	0.56	0.46	0.79	0.55	0.80	0.63	0.00	0.98	0.50	0.60
2010 - 11	0.92	0.56	0.60	0.85	0.58	0.74	0.66	0.85	0.93	0.35	0.70
2011 - 12	0.82	0.53	0.56	0.91	0.53	0.78	0.69	0.55	0.95	0.47	0.68
2012 - 13	0.80	0.51	0.54	0.90	0.57	0.75	0.61	0.78	0.92	0.36	0.67
2013 - 14	0.75	0.50	0.59	0.82	0.81	0.73	0.62	0.84	0.90	0.27	0.68
2014 - 15	0.79	0.50	0.72	0.72	0.65	0.80	0.65	0.83	0.92	0.26	0.68
2015 - 16	0.81	0.48	0.64	0.65	0.63	0.73	0.60	0.84	0.87	0.19	0.64
2016 - 17	0.78	0.52	0.70	0.80	0.67	0.71	0.62	0.81	0.91	0.19	0.67
TOTAL	810.17	532.59	607.80	794.66	595.04	762.59	637.81	550.51	921.67	400.44	661.33
MEAN	81.02	53.26	60.78	79.47	59.50	76.26	63.78	55.05	92.17	40.04	66.13
SD	5.35	3.41	13.73	7.50	9.54	3.40	2.69	37.00	2.75	18.99	3.54
CV(%)	6.60	6.40	22.59	9.44	16.03	4.46	4.22	67.20	2.99	47.42	5.35
MAX	0.92	0.58	0.90	0.91	0.81	0.81	0.69	0.85	0.98	0.81	0.70
MIN	0.73	0.48	0.38	0.65	0.47	0.71	0.60	0.00	0.87	0.19	0.593
AGR(%)	-10.82	-11.41	-22.49	6.22	36.57	-12.29	-6.52	-5.16	-1.76	-77.02	-1.65
CAGR(%)	-1.14	-1.20	-2.52	0.60	3.17	-1.30	-0.67	-0.53	-0.177	-13.68	-0.166
Source: Computed from annual report of respective companies											

H₁: There is no significant difference in Expenses ratio between the companies and between the years.

TABLE 5 SHOWS TWO – WAY ANOVA

<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Years	0.00831	9	0.00092	0.85336	0.56989	1.99761
Between Companies	0.08447	9	0.00939	8.67664	5.3E-09	1.99761
Residual	0.08762	81	0.00108			
Total	0.1804	99				

H₂: There is no significant difference in Operating Profit Ratio between the companies and between the years.

TABLE 6 SHOWS TWO – WAY ANOVA

<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Years	0.01314	9	0.00146	0.61546	0.78056	1.99761
Between Companies	0.1071	9	0.0119	5.01499	2.3E-05	1.99761
Residual	0.1922	81	0.00237			
Total	0.31245	99				

H₃: There is no significant difference in Return on Net worth Ratio between the companies and between the years.

TABLE 7 SHOWS TWO – WAY ANOVA

<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Years	37.1998	9	4.13331	0.99917	0.44761	1.99761
Between Companies	35.5609	9	3.95121	0.95516	0.48306	1.99761
Residual	335.074	81	4.13672			
Total	407.835	99				

H₄: There is no significant difference in Expense Ratio between the companies and between the years.

TABLE 8 SHOWS TWO – WAY ANOVA

<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Years	0.1251	9	0.0139	0.56108	0.82489	1.99761
Between Companies	2.22688	9	0.24743	9.98799	3.7E-10	1.99761
Residual	2.0066	81	0.02477			
Total	4.35858	99				

7. FINDINGS

NET PROFIT RATIO

The Net profit ratio for selected food processing companies is categorized as large and medium. Among the large and medium scale companies, mean value is high for KRBL (7.73) and low for Modern (-0.270), SD value is high for Kohinoor (7.84) and low for Kwalitiy (0.68), CV value is high for Heritage (219.55) and low for Heritage (-3978.16), AGR value is high for Heritage (1738.66) and low for Kohinoor (-1782.13), CAGR value is high for Heritage (33.80) and low for Kohinoor (-230.20). The industry average of the Net profit ratio of all selected food processing companies Mean, SD, CV, MAX, MIN, AGR and CAGR was (2.40), (0.91), (37.93), (0.03), (0.004), (-6.43) and (-0.66) respectively.

OPERATING PROFIT RATIO

The operating profit ratio for selected food processing companies is categorized as large and medium. Among the large and medium scale companies, mean value is high for KRBL (15.02) and low for Modern (2.57), SD value is high for Heritage (9.65) and low for Kwalitiy (0.87), CV value is high for Modern (182.39) and low for KRBL (13.51), AGR value is high for Chamnlal (78.47) and low for Heritage (-407.28), CAGR value is high for Chamnlal (5.96) and low for Heritage (-212.00). The industry average of the operating profit ratio of all selected food processing companies Mean, SD, CV, MAX, MIN, AGR and CAGR was (7.61), (1.15), (15.07), (0.10), (0.063), (-3.20) and (-0.32) respectively.

RETURN ON NET WORTH RATIO

The Return on Net worth ratio for selected food processing companies is categorized as large and medium. Among the large and medium scale companies, mean value is high for Modern (212.68), low for Kohinoor (-2.98), SD value is high for Modern (608.93) and low for LT (4.55), CV value is high for Modern (286.31) and low for Kohinoor (-828.05), AGR value is high for Heritage (2685.07) and low for Kohinoor (-1716.68), CAGR value is high for heritage (39.47) and low for Kohinoor (-234.00). The industry average of the Return on Net worth ratio of all selected food processing companies Mean, SD, CV, MAX, MIN, AGR and CAGR was (37.04), (60.99), (164.65), (2.19), (-0.007), (-15.75) and (-1.70) respectively.

EXPENSE RATIO

The Expense ratio for selected food processing companies is categorized as large and medium. Among the large and medium scale companies, mean value is high for Modern (92.17) and low for Chamnlal (40.04), SD value is high for Prabhat (37.00) and low for Heritage (2.69), CV value is high for Prabhat (67.20) and low for Modern (2.99), AGR value is high for LT (36.57) and low for Chamnlal (-77.20), CAGR value is high for LT (3.17) and low for Chamnlal (-13.68). The industry average of the Expense ratio of all selected food processing companies

Mean, SD, CV, MAX, MIN, AGR, and CAGR is (66.13), (3.54), (5.35), (0.70), (0.593), (-1.65) and (-0.166) respectively.

8. SUGGESTIONS

In some of the companies, the profitability has declined over a period, on due to increase in the consumption of cost. Hence it is recommended that those companies must try to take measures to manage the cost and increase the margin of profit. The positive trend of profit can be achieved by controlling operating expenses. Many companies are incurring loss because of high switching cost, as the consumers are switching from one product to another product in food processing industry. Every now and then companies are coming out with new products according to the needs, taste, and preference of customers. Therefore new marketing strategies needs to be applied to tap the existing and new market

9. CONCLUSION

The main aim of the study is to find out the Profitability as for as our study is concerned. The main challenges faced by this industry are modernization, lack of quality product, lack of varieties etc. If these problems are addressed, food processing industries will be in the peak when compared to other industries.

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