Financial Performance of Indian Sugar Industry

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ABSTRACT

This study analyzed the financial performance of selected Indian sugar companies during 2000 to 2016. The industry as a whole, maximum mean value was found in interest coverage ratio at 807.69 with high variation of 232.06 which implies that the industry's ability to admiration its debt payment was satisfactory. All the ratios reported positive mean value in the Indian sugar industry during study period except return on share holders fund ratio (-6.12 per cent). The growth rate was observed maximum in the fixed assets turnover Ratio at 1.92 per cent and the minimum growth rate was found in total assets turnover ratio at 0.27 per cent. There are nine ratios growth rate was found to have negative and highest being interest coverage ratio at -14.28 per cent in the Indian sugar industry during the period under review.

INTRODUCTION

India is the second largest sugar producer in the world (after Brazil), accounting for around 10-12 per cent of world's sugar production. India's sugar production rose 30 per cent to 69.4 lakh tone during the first two and half months of the current marketing year of 2017-18 on higher cane output. Mills have produced 69.40 lakh tone of sugar till 2017-18 marketing year as compared to 53.46 lakh tone in the corresponding period of the previous year.

The sugar industry is amongst the few industries that have successfully contributed to the rural economy. It has done so by commercially utilizing the rural resources to meet the large domestic demand for sugar and by generating surplus energy to meet the increasing energy needs of India. In addition to this, the industry has become the mainstay of the alcohol industry. The sector supports over 50 million farmers and their families, and delivers value addition at the farm side.

REVIEW OF EARLIER STUDIES

Kishore Kumar Das and Sanju Kumari Dhancholia (2016) studied to measure the economic performance of Indian sugar industry in terms of capacity utilization measured econometrically at aggregate level over a period from 1950 to 2012. Till now, a number of researches have worked on sugar industry. In these research works they have concentrated on the areas of research related to some other sugar industries located in Tamilnadu and India, Social-economic consequences of the co-operative sugar mills, Sugar Production in India, Technical performance of the sugar mill, Economic conditions of sugar mills in India, Cost-Benefit Analysis of Indian sugar mills, Financial Management of co-operative sugar mills, the development, problem and prospects of the industry etc. The importance of sugar factories in the rural economy and such other aspects of the industry also have been studied. This research work has been undertaken to fill up those gaps by analyzing the financial performance of selected sugar industrial units in India.

Channappa Javalagi and Umesh Bhushi (2016) examined the performance of Indian sugar industry plays a significant role in Indian economy. The performance of sugar industries depends on several factors. The study discussed the factors affecting the Indian sugar industries and explores the possible Methods to improve its productivity. Strategic productivity management is one of the major strategies to overcome the problems faced by Indian sugar industries. Since a firms' productivity can be evaluated in terms of financial ratios, financial factors can be used as a means of managing productivity. Selection of financial ratios from the available set of published ratios is done by correlation study between Total Factor Productivity (TFP) and financial ratios. Financial factors influencing productivity are obtained using factor analysis. The study also proposes a set of possible ways by which productivity management could be done in Indian sugar industries.

Ashok Kumar (2015) analyzed the financial performance analysis of sugar companies in Tamil Nadu" is a piece of research work done in order to assess the financial stability, profitability, long term solvency, efficiency in asset utilization of the five major sugar companies operating in the state of Tamil Nadu. The study has been conducted during 2006-07 to 2010-11 which is clear that the Ministry of Company Affairs, Ministry of Finance – Government of India, as well as the Reserve Bank of India are seriously thinking together for further liberalization, and to reduce the bank rate of interest on the welfare of the companies and the banking agencies were coming forward to support these industries financially to improve the productivity and giving direct and indirect employment for the common man. Since, these type of industries basically depends upon agricultural production and the same in turn depends on the geographical and climate conditions of a State which is above the hands of an common man. Knowingly the researcher has made an attempt to find that whether these white elephants are healthy and financially strong enough to run on its own leg, the researcher had made an attempt to critically analyze the financial strengths. It is found that on an average all the units considered for the study are at average to the industry standards and to the rule of thumb. While making with the Motaal's Comprehensive Test Kothari Sugars state in the first place where all the sugar companies considered for study should learn a lesson from Kothari Sugars. Rajshree Sugars shows a week ratio and implies that it is to be bankrupted. It is a warning for other companies to be at most clever. This researcher concluded that all the five major sugar companies considered for study shows an average productivity which can be increased provided these industries in particular depends upon agricultural production where the concerned central and state Government has to answer whether these industries will be at a survival.

Praveena et al., (2015) analyzed the financial performance of sugar industry in India. Profitability ratios are calculated to measure the overall efficiency of the business. Profitability ratio analysis will not be complete by just computing return on equity (ROE). It is essential to find out the factors that have an impact on the ROE. For this purpose DuPont analysis and Path analysis are used in this study. From the results, there was a significant difference between the return on equity and the DuPont variables and also there is no significant difference between the equity multiplier and the return on equity.

Patil (2011) examined the liquidity position of the industry on the basis of some ratios; the data was collected from the published annual reports of the case study sugar industry over the period 2005-06 to 2009-10. For analyzing the performance of liquidity management of the industry, ratio analysis, comprehensive rank test, and spearman's rank correlation analysis have been used. To test the significance of relationship between liquidity and profitability worked out by rank correlation coefficient and students 't' test has also been employed.

METHODOLOGY

The present study estimates the financial performance used various ratios in the selected Indian sugar companies.

DATA AND VARIABLES

The study is based on the secondary data collected from the electronic data base "PROWESS" compiled by the Centre for Monitoring Indian Economy (CMIE). The data base consists of data on various aspects of Indian manufacturing and is compiled from the annual reports submitted by the firms. The company level data were obtained from the electronic database PROWESS, and there are 135 Indian sugar companies listed in CMIE database out of which 33 companies are selected between 2000 and 2016.

Output

Gross value added, calculated by deleting total purchases of intermediate inputs from gross outputs, was taken as a measure of output, and was then deflated by the wholesale prices index of the sugar industry, with the base of 2004 = 100.

Capital

The PROWESS database provides total fixed assets net of accumulated depreciation, including capital work-in-progress and revalued assets, if any. The total fixed assets were deflated by the wholesale prices index of machinery and machine products, and thus real total fixed assets were included in the function as a measure of capital stock.

Labour

The PROWESS database does not provide employment details. To estimate the number of workers engaged in an industry, the average wage rate of the industry concerned was calculated from the ASI data for all years of the study. The average wage rate was estimated by dividing the total emolument of the industry by the number of workers in the industry. This average wage rate, obtained from the ASI data, was then used to divide the total wages and salary of each industry, in order to estimate the number of workers in the industry.

RESULTS AND DISCUSSION

ANALYSIS OF FINANCIAL PERFORMANCE OF SELECTED INDIAN SUGAR COMPANIES

The table 1 presents the comparative analysis of financial performance of selected Indian sugar companies during 2000 to 2016. The maximum mean value of interest coverage ratio was 807.69 with the high variation of 232.06 followed by current assets turnover ratio was witnessed at 296.30 with the high variation of 284.16 and Fixed Assets Turnover Ratio observed to be 244.73 with the low variation of 21.41. The minimum mean value was found in return on total assets ratio at 0.79 while there was high variation of 456.23 during the study period. Only one ratio called return on share holders fund Ratio reported to have negative mean value of (-) 6.12 in the Indian sugar industry with high negative variation of -1703.98.

The growth rate was observed maximum in the fixed assets turnover ratio at 1.92 per cent followed by 0.63 per cent in the return on share holders fund ratio and 0.27 per cent in total assets turnover ratio. There are nine ratios growth rate was found to have negative and highest being interest coverage ratio at -14.28 per cent followed by inventory turnover ratio at -10.14 per cent. The minimum negative growth rate was reported in operating leverage ratio at -4.16 per cent in the Indian sugar industry during the period under review.

TABLE – 1

ANALYSIS OF FINANCIAL PERFORMANCE OF SELECTED INDIAN SUGAR COMPANIES DURING 2000-2016

RATIOS	MEAN	CV	GROWTH RATE
Operating Profit Margin Ratio	13.43	39.80	-7.10
Gross Profit Margin Ratio	13.63	41.35	-7.69
Net Profit Margin Ratio	1.33	448.28	-7.83
Total Assets Turnover Ratio	76.58	12.85	0.27
Fixed Assets Turnover Ratio	244.73	21.41	1.92
Current Assets Turnover Ratio	296.30	284.16	-5.93
Interest Coverage Ratio	807.69	232.06	-14.28
Return on Capital Employed Ratio	25.54	351.09	-7.06
Return on Total Assets Ratio	0.79	456.23	-4.82
Return on Share Holders Fund Ratio	-6.12	-1703.98	0.63
Inventory Turnover Ratio	57.90	147.45	-10.14
Operating Leverage Ratio	21.21	1153.54	-4.16

CONCLUSION

The present study concluded that the financial performance of selected Indian sugar companies during 2000 to 2016 reported that the maximum mean value was found in interest coverage ratio at 807.69 with high variation of 232.06 it implies that the industry's ability to admiration its debt payment was satisfactory followed by current assets turnover ratio witnessed at 296.30 with the high variation of 284.16. The minimum mean value was found in return on total assets ratio at 9.79 while there was high variation of 456.23 and the implication of result is that the industry is not effectively using its assets to generate earnings during the study period. All the ratios reported positive mean value in the Indian sugar industry during study period except return on share holders fund ratio (-6.12 per cent). The growth rate was observed maximum in the fixed assets turnover Ratio at 1.92 per cent and the minimum growth rate was found in total assets turnover ratio at 0.27 per cent. There are nine ratios growth rate was found to have negative and highest being interest coverage ratio at -14.28 per cent in the Indian sugar industry during the period under review.

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