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AN ANALYSIS OF PROFITS WITHIN THE INDIAN FOOD PROCESSING SECTOR

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ABSTRACT

India has the tenth-largest arable land resources in the world with 161 million tonnes. With 20 agri-climatic regions, all 15 major climates in the world exist in India. The country also possesses 46 of the 60 soil types in the world. The planning and control of finance function aims at increasing profitability of the concern. It is true that money generates money. To increase profitability, sufficient funds will have to be invested. Finance function should be so planned that the concern neither suffers from inadequacy of funds nor wastes more funds than required. A proper control should also be exercised so that scarce resources are not frittered away on uneconomical operations. The cost of acquiring funds also influences profitability of the business. For our study, we have considered five companies and the data used for a period of five years.

Key words: Food processing sector, Profit management, Technological change, Demand, Agriculture.

INTRODUCTION

India's comparative advantage lies in its favourable climate, large agriculture sector and livestock base, long coastline, and inland water resources India also has an edge in cost of production compared to its competitors in Asia and the developed world In FY15, milk production is estimated around 146.3 million tones In August 2015, rice production is estimated around 104.8 million tonnes. The finance function is the process of acquiring and utilizing funds of a business. Finance functions are related to overall management of an organization. Finance function is concerned with the policy decisions such as like of business, size of firm, type of equipment used, use of debt, liquidity

position. These policy decisions determine the size of the profitability and riskiness of the business of the firm.

REVIEW OF LITERATURE

Kinsey (1998) while studying concentration in food retailing got mixed results. With increased concentration, prices of dry grocery goods were observed to increase but prices for fresh and chilled groceries decreased. Turning to profits, there was no evidence that individual retailer profits were greater than those of food processors. The debate is whether an observed increase in profits results from higher prices or lower costs. In a review of structural change in the American food manufacturing industry from 1958 to 1997, **Rogers (2000)** found that large firms are getting larger and the number of small firms is increasing. The firms in the middle are in the most danger from the consolidation movement. The small firms fill the gaps left by the larger firms and if they become successful the larger firms typically acquired them. There were similar studies in Canada. One early study by the Food Prices Review Board (1975) examined financial profitability in the Canadian food processing industry and analysed the relationship between profits and firm size. The study reported that profits for food companies exhibited more pronounced cyclical variation than other forms of national income and that in real terms the return on equity for food processing companies was lower in the 1970s than the 1960s. It was also found that, on average over the 1964- 1974 period, profitability in the food processing industry was slightly below that in the manufacturing sector. Canadian studies of corporate concentration have also been conducted, but most of this work was undertaken in the mid-1970s and early 1980s.

Recent studies of concentration in the agri-food chain focus on the increase in concentration and deterioration in competition (**MacDonald 2001; Rude and Fulton 2001; Calvin et al. 2001**). Focusing on the U.S. red meat industry, MacDonald observed that although there was increased concentration, the farm to wholesale price spread did not increase in the long term. He hypothesized that the “hard competition” from increased concentration may have forced out the high cost packers, allowing prices to remain low. Rude and Fulton concluded that concentration is increasing in some parts of the agribusiness sector. They found a positive correlation between increased concentration and the exercise of market power⁸ in a few food processing industries, although they do caution that more research must be carried out to confirm their results. A number of researchers try to quantify the influence of firms in the industry chain. **Schroeter and Azzam (1990)** developed an economic model to measure market power. They studied the United States meat industry and rejected the hypothesis that the industry is a price taker, concluding that half of the farm-to-retail price spread for beef and pork appeared to be attributable to market power. **Azzam and Pagoulatos (1990)** found that the industry exercises market power in both the output market and the factor input market, with the degree of market power being significantly greater in the input market than in the output market. **Sexton and Zhang (2000)** examined specific industry evidence for two different approaches to the problem: structure-conduct-performance (SCP) and new empirical industrial organization (NEIO). They found that market power in food industries varied depending on the specific industry. The SCP studies found that in highly concentrated industries, there is a positive correlation between concentration and selling price and a negative correlation between concentration and purchasing price. The NEIO studies found some evidence of processor market power. Sexton and Zhang found flaws with the studies, specifically that relevant markets and geographic areas were not defined and taken into account. They also reiterated the two opposing sides of the market power debate. The view

that market power “breeds inefficiency and waste” versus “it is mostly efficiency driven and therefore, those benefits must be weighed against the costs of supra competitive pricing”. **Paul (2000)** discussed the need for understanding how cost economies (efficiency) drive market structure (concentration). **Reed and Clark (2000)** took quite a different approach. Their study accounts for three features of the food market; 1) consumers prefer a variety of food items, 2) firms produce a variety of products using different technologies, and 3) structural changes in the food markets are unpredictable. They found that for the most part there was competitive conduct in the market, both buying and selling. They suggested that the unpredictability of consumer demand is responsible for concentration in the food processing sector. Industries reorganize to spread the risk of uncertain downward trends in consumer demand.

STATEMENT OF THE PROBLEM

The primary objective of a business undertaking is to earn profits. Profit earning is considered essential for the survival of the business. A business needs profits not only for its existence, but also for expansion and diversification the investors want an adequate return on their investment as well as workers, creditors. And a business enterprise can discharge its obligation to various segments of the society only through earning of profit.

OBJECTIVES OF THE STUDY

- To evaluate the profitability related to sales of Food processing industries
- To analyse the profitability related to equity share of selected Food processing industries

RATIO ANALYSIS

The general profitability ratios are as follows:

- Net Profit Ratio
- Gross Profit Ratio
- Operating Profit Ratio
- Return on Net worth Ratio
- Return on Capital employed Ratio

STATISTICAL TOOLS USED

Mean, SD and CV used to find out the average position of accounting ratios related to Profitability analysis.

Correlation analysis is used for to identify the relationship between short term Profitability analyses of the companies.

DATA ANALYSIS AND INTERPRETATION (PROFITABILITY RATIOS)

TABLE NO: 1

MEAN, S.D, C.V OF GROSS PROFIT RATIO FOR SELECTED FOOD INDUSTRIES					
YEAR/COMPANY	LT FOODS	KRBL	KOHINOOR FOODS	MODERN DIARIES	KWALITY
2012	9.13	11.24	1.08	-0.91	6.58
2013	6.80	11.74	9.67	1.49	5.49
2014	6.46	12.38	8.49	1.86	5.66
2015	5.38	13.97	-0.20	-1.22	5.56
2016	6.14	12.56	10.97	-1.39	5.69
MEAN	6.78	12.38	6.00	-0.03	5.80
SD	1.26	0.92	4.63	1.41	0.40
CV	18.64	7.47	77.08	-4143.29	6.87

Source: Secondary Data

INTERPRETATION:

The above table shows that the mean, SD, & CV Values to gross profit Ratio of selected Food processing industries , the highest mean value is 12.38 for KRBL& the lowest mean value of Net Profit Ratio is -0.03forMODERN DIARIES, & other companies are maintaining Average level LT-6.78, KOHINOOR– 6.00 & KWALITY 5.80 respectively. The highest variability of was **4.63** observed in Net profit Ratio of KOHINOOR FOODS, Which means a higher degree of variability and lowest variability of **0.40** was observed in Net Profit Ratio of KWALITY. The CV of Net Profit Ratio of KOHINOOR FOODS was highest **77.08** with and the lowest variability of (**-4143.29**) in Net Profit Ratio of KWALITY

TABLE NO: 2

MEAN, S.D, C.V OF NET PROFIT RATIO FOR SELECTED FOOD INDUSTRIES					
YEAR/COMPANY	LT FOODS	KRBL	KOHINOOR FOODS	MODERN DIARIES	KWALITY
2012	0.45	4.36	19.06	-3.68	3.79
2013	2.04	7.23	0.89	-0.17	2.61
2014	2.13	9.50	0.51	1.47	2.76
2015	1.68	9.02	-6.26	-3.55	2.67
2016	1.66	11.05	0.33	-4.87	2.51
MEAN	1.59	8.23	2.91	-2.16	2.87
SD	0.60	2.29	8.50	2.40	0.47
CV	37.76	27.79	292.56	-110.96	16.32

Source: Secondary Data

INTERPRETATION:

The above table shows that the mean, SD, & CV Values to Net profit Ratio of selected Food processing industries,the highest mean value is**8.23** for KRBL & the lowest mean value of Gross Profit Ratio is -2.16 for MODERN DIARIES, & other companies are maintaining Average level LT-

1.59, KOHINOOR – 2.91 & KWALITY – 2.87 respectively. The highest variability of 8.50 was observed in Gross profit Ratio of KOHINOOR which means a higher degree of variability and lowest variability of 0.47 was observed in Gross Profit Ratio of KWALITY. The CV of Gross Profit Ratio of KOHINOOR was highest with **292.56** and the lowest variability of **-110.96** in Gross Profit Ratio of MODERN DIARIES.

TABLE NO: 3

MEAN, S.D, C.V OF OPERATING PROFIT RATIO FOR SELECTED FOOD INDUSTRIES					
YEAR/COMPANY	LT FOODS	KRBL	KOHINOOR FOODS	MODERN DIARIES	KWALITY
2012	11.29	13.97	2.10	0.50	6.89
2013	8.21	14.17	10.53	2.63	5.77
2014	7.68	14.45	9.39	2.95	5.94
2015	6.95	15.66	1.34	-0.45	6.03
2016	7.59	14.35	12.10	-0.40	6.09
MEAN	8.34	14.52	7.09	1.05	6.14
SD	1.53	0.60	4.51	1.47	0.39
CV	18.29	4.11	63.64	140.25	6.32

Source: Secondary Data

INTERPRETATION:

The above table shows that the mean, SD, & CV Values to OP Ratio of selected Food processing industries, the highest mean value is 14.52 for KRBL & the lowest mean value of OP Ratio is (1.05) for MODERN DIARIES, & other companies are maintaining Average level LT-8.34, KOHINOOR 7.09 & KWALITY – (6.14) respectively. The highest variability of 4.51 was observed in OP Ratio of KOHINOOR which means a higher degree of variability and lowest variability of 0.39 was observed in OP Ratio of KWALITY. The CV of OP Ratio of 1 MODERN DIARIES was highest with 140.25 and the lowest variability of 4.11 in OP Ratio of KRBL.

TABLE NO: 4

MEAN, S.D, C.V OF RETURN ON NETWORTH RATIO FOR SELECTED FOOD INDUSTRIES					
YEAR/COMPANY	LT FOODS	KRBL	KOHINOOR FOODS	MODERN DIARIES	KWALITY
2012	2.04	10.62	19.06	-3.68	50.63
2013	13.79	18.85	0.89	-0.17	35.24
2014	13.86	26.01	0.51	1.47	31.80
2015	10.15	22.30	-6.26	-3.55	23.94
2016	9.25	23.42	0.33	-4.87	18.95
MEAN	9.82	20.24	2.91	-2.16	32.11
SD	4.31	5.33	8.50	2.40	10.89
CV	43.94	26.34	292.56	-110.96	33.91

Source: Secondary Data

INTERPRETATION:

The above table shows that the mean, SD, & CV Values to RONW, the highest mean value is 32.11 for KWALITY & the lowest mean value of Ratio is -2.16 MODREN DIARIES for LT, & other companies are maintaining Average level LT-9.82, KRBL 20.24 & KOHINOORS– 2.91 respectively. The highest variability of 10.89 was observed in Ratio of KWALITY which means a higher degree of variability and lowest variability of 2.40 was observed in OE Ratio of MODERN DIARIES. The CV of OE Ratio of KOHINOOR was highest with 292.56 and the lowest variability of -110.96 in OE Ratio of MODRN DIARIES

TABLE NO: 5

MEAN, S.D, C.V OF RETURN ON CAPITAL EMPLOYED RATIO FOR SELECTED FOOD INDUSTRIES					
YEAR/COMPANY	LT FOODS	KRBL	KOHINOOR FOODS	MODERN DIARIES	KWALITY
2012	10.85	12.23	29.93	-3.37	18.99
2013	11.35	16.77	9.17	6.69	17.92
2014	11.91	17.45	8.45	8.65	18.90
2015	10.83	17.25	-0.01	-4.74	17.99
2016	11.80	19.59	9.97	-6.89	17.26
MEAN	11.35	16.66	11.50	0.07	18.21
SD	0.46	2.42	9.89	6.34	0.65
CV	4.01	14.51	86.00	9320.60	3.57

Source: Secondary Data

INTERPRETATION:

The above table shows that the mean, SD, & CV Values to ROCE Ratio of selected Food processing industries, the highest mean value is 18.21 for KWALITY & the lowest mean value of ROCE Ratio is 00.07 for MODERN DIARIES, & other companies are maintaining Average level LT-11.35, KRBL 16.66 & KOHINOOR – 11.50 respectively. The highest variability of 9.89 was observed in KOHINOOR which means a higher degree of variability and lowest variability of 0.46 was observed in ROCE Ratio of LT. The CV of ROCE Ratio of MODERN DIARIES was highest with 9320.60 and the lowest variability of 3.57 in ROCE Ratio of KWALITY.

CORRELATION ANALYSIS

Coefficient of correlation (r) is a mathematical method of measuring correlation. It gives the degree of relationship between two variables. The values of r lie between +1 and -1. When r = 1, means perfect positive correlation, r = -1 means perfect negative correlation, r = 0 means no relationship between variables. It can be calculated as

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

TABLE NO: 6

CORRELATION BETWEEN GROSS PROFIT RATIO OF KRBL AND KWALITY							
Year/ Company	KRBL(X)	KWALITY (Y)	X- MEAN	Y- MEAN	XY	X*X	Y*Y
2012		6.58	-1.14	0.78	-0.89	1.30	0.61
2013	11.74	5.49	-0.64	-0.31	0.20	0.41	0.10
	12.38	5.66	0.00	-0.14	0.00	0.00	0.02
2015	13.97	5.56	1.59	-0.24	-0.38	2.53	0.06
2016	12.56	5.69	0.18	-0.11	-0.02	0.03	0.01
MEAN	12.38	5.80			-1.09	4.27	0.79
CORRELATION $r = -0.59$							

Source: Secondary Data

INTERPRETATION

The above Table 4 indicates the correlation between two variables is negative. There is negative relationship ($r = -0.59$) between KRBL Industries and KWALITY. It can be clear that companies belonging to the same Food processing industries have been maintaining different ratio position.

TABLE NO: 7

CORRELATION BETWEEN NET PROFIT RATIO OF KRBL AND KWALITY							
YEAR/ COMPANY	KRBL(X)	KWALITY (Y)	X-MEAN	Y-MEAN	XY	X*X	Y*Y
2012	4.36	3.79	-3.87	0.92	-3.56	14.98	0.85
2013	7.23	2.61	-1.00	-0.26	0.26	1.00	0.07
2014	9.50	2.76	1.27	-0.11	-0.14	1.61	0.01
2015	9.02	2.67	0.79	-0.20	-0.16	0.62	0.04
2016	11.05	2.51	2.82	-0.36	-1.02	7.95	0.13
MEAN	8.23	2.87			-4.61	26.17	1.10
$r = -0.86$							

Source: Secondary Data

INTERPRETATION

The above Table 4 indicates the correlation between two variables is negative. There is negative relationship ($r = -0.86$) between krbl Industries and kquality. It can be clear that companies belonging to the same food processing industries have maintaining different ratio position.

FINDINGS FROM THE STUDY

GP Ratio of selected steel companies was positive and showed both decreasing and increasing trend throughout the study period. Among the selected FOOD PROCESSING INDUSTRIES was found that the GP Ratio was sound. Average level LT-6.78, KOHINOOR– 6.00 and KWALITY 5.80 respectively. It indicates that the company was able to control the direct expenses of the business because the major impact of GP is direct expenses.

Modern Diaries - **110.96** Net Profit ratio is not satisfactory for the business, because its average is negative value. The Net Profit Ratio of Kohinoor foods **292.56** is indicated the better performance. The increase in production cost had a major impact on the Net Profit Ratio of the company the Net profit position of selected food processing industries were found good except Modern diaries, due to proper controlled on indirect expenses like power and fuel, repair and maintenance etc.,

KRBL & KWALITY OP ratio is not satisfactory for the business, because its average is Low values of 4.11 and 6.32 respectively. The OP Ratio of MODERN DIARIES 140.25 is indicated the better performance.

The return on capital employed ratio of selected Food processing industries in India is good, because return on capital employed ratio of mean range from **18.21 kquality** return on capital employed ratio is satisfactory. However, they may give attention to control the selling and administration expenses.

SUGGESTIONS

Modern diaries and Kquality food processing industries may give attention in the area of direct expenses to reduction it, because effective and efficiency performance of company can be measured in terms of profitability. Expenses are the major direct impact on the profitability of every enterprise.

CONCLUSION

The profitability analysis of the food processing industries during the study period KRBL foods was quite satisfactory. The research and findings are practical and logical. The results of the research may be useful for its future policy decision for every industries concern.

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