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PROFITABILITY ANALYSIS OF THE SELECT PRIVATE SUGAR MILLS IN TAMILNADU

S.Thiruvarangadas* Dr.V.K.Somasundaram**
**Ph.D. Research Scholar, Manonmaniam Sundaranar University, Tirunelveli, Tamilnadu.*
***Head, Department of Corporate Secretaryship, Avvaiyar Government College for Women, Karaikal.*

Abstract
The sugar industry is among the few industries, which have successfully contributed to the rural economy. It generates large scale direct employment, apart from providing indirect employment to thousands of persons in rural areas, who are involved in cultivation, harvesting, transport of cane and other services. In the era of globalization, sugar industry needs more competitive edge which can be given by way of modernization, enhancing productivity, and manufacturing outstanding quality sugar at competitive prices. Global sugar prices have fallen sharply because of a huge glut of production driven by the world's leading producers such as Brazil, India and Thailand. India's sugar sector faces a fall in prices, rising raw material costs, limited export capacity and a lack of flexibility to produce ethanol for bio-fuel. Problems relating to financial aspects like inadequate working capital, inappropriate capital structure, excess or low liquidity, low profit margins, low return on equity and financial health affect the overall performance of sugar industry. Levy sugar obligations causes huge financial burden on mills under which mills are bound to sell sugar for distribution under public distribution system at price determined by the Government which is way below the cost of production. Mounting losses and decreasing net worth of sugar mills have been responsible for sickness of sugar industry. In this context, the researcher has made an attempt to have an insight into the profitability of the select private sugar mills in Tamilnadu. The present study is confined to only five private sugar mills, namely, Ponni Sugars, Erode; Bannari Amman Sugars, Sathyamangalam; E.I.D. Parry, Nellikuppam; Kothari Sugars and Chemicals Limited, Kattur; and Sakthi Sugars Limited, Sakthinagar, Erode. The secondary data were extracted from the published annual reports of the study units for a period of ten years. These reports are the financial statements, books of accounts, minutes, audit reports, annual reports, and circulars. The study covers a period of 10 years starting from 2005-06 to 2014-15. The period is considered sufficient to reveal the short and long-term fluctuations. The select private sugar mills face problems such as inadequate short-term liquidity, improper utilization of working capital, inefficiency of cash management, delay in payables, idle of total assets, and poor profitability. The researchers suggested suitable measures to improve the profitability of the select private sugar mills.

Introduction
The sugar industry is among the few industries, which have successfully contributed to the rural economy. It generates large scale direct employment, apart from providing indirect employment to thousands of persons in rural areas, who are involved in cultivation, harvesting, transport of cane and other services. Besides, the industry has become the mainstay of the alcohol industry. India remains a key growth driver for world sugar, growing above the Asian and world consumption growth average. However, the position for the sugar industry remains grim as the industry is facing a tough time as cane arrears still seem to be mounting with higher sugar cane prices and lower rice of produce. Low recovery from sugarcane poses a problem for sugar industry. It has been difficult for sugar mills to pay cane price of farmers and price the debt under current circumstances. In order to make Indian sugar industry competitive, the government should rationalize cane pricing policy, at par with norms across the world. The sugar factories not only enhanced the economic status of farmers but also it pushed the gross domestic product of the nation on the upper scale by the increase in the exports of sugar. In the era of globalization, sugar industry needs more competitive edge which can be given by way of modernization, enhancing productivity, and manufacturing outstanding quality sugar at competitive prices. It needs quality management at every level of activity to improve its performance. Effectiveness of financial performance has got direct bearing on shareholders, investors and investment analysis to identify the determinants of corporate performance. Of them, problem relating to financial aspects like scarce working capital, inappropriate capital structure, excess or low liquidity, low profit margins, low return on equity and financial health affect the overall performance of sugar industry. These factors ultimately fell down the profit of the sugar mills.

Statement of the Problem
Global sugar prices have fallen sharply because of a huge glut of production driven by the world's leading producers such as Brazil, India and Thailand. India's sugar sector faces a fall in prices, rising raw material costs, limited export capacity and a lack of flexibility to produce ethanol for biofuel. Problems relating to financial aspects like inadequate working capital, inappropriate capital structure, excess or low liquidity, low profit margins, low return on equity and financial health affect the overall performance of sugar industry. Levy sugar obligations causes huge financial burden on mills under which mills are bound to sell sugar for distribution under public distribution system at price determined by the Government which is way below the cost of production. Mounting losses and decreasing net worth of sugar mills have been responsible for sickness of

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sugar industry. Sickness in sugar industry has reached to an alarming proportion. The main concern of sugar industry in India is fluctuation in sugarcane production due to inadequate irrigation facilities lower sugarcane yield. Most of the sugar mills in Tamilnadu are incurring losses due to many reasons. Some of the reasons are increase in cost involved during production and recovery of sugar per tonne sugar cane crushed also not upto the international level. It is felt that these problems could be solved efficiently by making a detailed analysis. In this context, the researchers haves made an attempt to have an insight into the profitability of the select private sugar mills in Tamilnadu.

Objectives of the Study

The following are the objectives of the study:

1. To study the profitability position of the select private sugar mills in Tamilnadu., as changes in profitability indicate changes in efficiency
2. To suggest suitable measures to improve the profitability of the select private sugar mills in Tamilnadu.

Testing of Hypotheses

The study is based on the formulation of the following null hypotheses. The validity of some of them was tested with the available data through appropriate analysis.

Ho_1: There is no significant relationship in profitability ratios over the years.

Ho_2: There is no significant relationship in financial ratios among the select private sugar mills.

Sampling Design

There are 42 sugar mills in Tamilnadu, of which 37 mills are in operation, which include 16 co-operative sugar mills, 2 public sector mills, and 28 private sugar mills. Since the study is restricted to private sugar mills. As the researcher need of data for 10 years i.e. from 2005-06 to 2014-15, out of 28 private mills, 8 mills which are established after 2007-08 were ignored. The remaining 20 mills are categorized into 3 groups according to their crushing capacity namely, mills with 2500 and below tonnes capacity, mills with 2501 to 5000 tonnes capacity, and mills with above 5000 tonnes capacity. 25 per cent of the mills have been selected from each category by adopting simple random sampling. Therefore, one mill with 2500 and below tonnes capacity (Ponni Sugars, Erode), three mills with 2501 to 5000 tonnes capacity (Bannari Amman Sugars, Sathyamangalam; Kothari Sugars and Chemicals Limited, Kattur; and E.I.D. Parry, Nellikuppam), and one mill with above 5000 tonnes capacity (Sakthi Sugars Limited, Sakthinagar, Erode) were selected for this study.

Data Collection and Analysis

The study is analytical in nature with a focus on assessing the profitability of the select private sugar mills. The study encompasses primary and secondary data. For collecting the primary data, personal discussions were held with the officials of the select private sugar mills. The secondary data were extracted from the published annual reports of the study units for a period of ten years. These reports are the financial statements, books of accounts, minutes, audit reports, annual reports, and circulars. Literature relating to the study was gathered from published reports, journals, magazines, books, etc. The collected data were analyzed and interpreted as intelligibly as possible to highlight the divergent activities related to the profitability of the select sugar mills. The data were analyzed with the help of different statistical techniques such as ratios, analysis of two-way variance, co-efficient of variation, growth rates and inter-correlation analysis. For the purpose of carrying out the analysis, the data available in the financial statements have been regrouped and rearranged.

Period of the Study

The study covers a period of 10 years starting from 2005-06 to 2014-15. The period is considered sufficient to reveal the short and long-term fluctuations.

Findings

1. There is no significant relationship in net profit ratio over the years. A significant relationship is found in gross profit ratio, operating profit ratio, return on capital employed ratio, return on shareholders' funds ratio and return on total assets ratio over the years. Further, there is a significant relationship in gross profit ratio, operating profit ratio, net profit ratio, return on capital employed ratio, return on shareholders' funds ratio and return on total assets ratio among the select private sugar mills.
2. Sakthi Sugars registered highest gross profit ratio. There exists stability in gross profit ratio of the Kothari Sugars and Chemicals during the study period. Gross profit ratio of E.I.D. Parry registered higher annual growth rate (234.20), followed by Bannari Amman Sugars (13.10). Gross profit ratio registered negative linear annual growth rate in the select private sugar mills. Gross profit ratio registered negative compound annual growth rate in Kothari Sugars and Chemicals (4.86) followed by Bannari Amman Sugars (4.72) during the study period.

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3. Bannari Amman Sugars registered highest operating profit ratio. There is consistency in operating profit ratio of the Bannari Amman Sugars. Operating profit ratio of Bannari Amman Sugars registered higher annual growth rate (2.14). Operating profit ratio of Ponni Sugars, E.I.D. Parry, Kothari Sugars and Chemicals and Sakthi Sugars registered negative annual growth rate. Operating profit ratio registered negative linear annual growth rate in the select private sugar mills except E.I.D. Parry. Operating profit ratio registered negative compound annual growth rate in Bannari Amman Sugars and Kothari Sugars and Chemicals during the study period.
4. E.I.D Parry registered highest net profit ratio. There is stability in net profit ratio of the Bannari Amman Sugars. Net profit ratio of Kothari Sugars and Chemicals registered higher annual growth rate (47.17). Net profit ratio of Ponni Sugars, Bannari Amman Sugars, E.I.D. Parry and Sakthi Sugars registered negative annual growth rate. Net profit ratio registered negative linear annual growth rate in the select private sugar mills except Sakthi Sugars. Net profit ratio of Bannari Amman Sugars registered negative compound annual growth rate during the study period.
5. Ponni Sugars registered highest return on capital employed ratio. There exists stability in return on capital employed ratio of the Bannari Amman Sugars during the study period. Return on capital employed ratio of Kothari Sugars and Chemicals registered higher annual growth rate (63.18), followed by Sakthi Sugars (37.87) and Bannari Amman Sugars (14.93). Return on capital employed ratio registered negative linear annual growth rate in the select private sugar mills. Return on capital employed ratio registered negative compound annual growth rate in the select private sugar mills during the study period.
6. E.I.D Parry registered highest return on shareholders’ funds ratio. There exists stability in return on shareholders’ funds ratio of the Bannari Amman Sugars. Return on shareholders’ funds ratio of Sakthi Sugars registered higher annual growth rate (114.14), followed by Kothari Sugars and Chemicals (78.52). Shareholders’ funds ratio of Ponni Sugars, Bannari Amman Sugars and E.I.D Parry registered negative annual growth rate. Shareholders’ funds ratio registered higher linear annual growth rate (42.55) in Sakthi Sugars. Return on shareholders’ funds ratio registered negative linear annual growth rate in Ponni Sugars, Bannari Amman Sugars, E.I.D Parry and Kothari Sugars and Chemicals mills. Return on shareholders’ funds ratio of Bannari Amman Sugars registered negative compound annual growth rate.
7. Bannari Amman Sugars registered highest return on total assets ratio. There is stability in return on total assets ratio of the E.I.D Parry during the study period. Return on total assets ratio of Kothari Sugars and Chemicals registered higher annual growth rate (77.33), followed by Ponni Sugars (16.49) and Bannari Amman Sugars (12.59). Return on total assets ratio of Sakthi Sugars registered highest linear annual growth rate (58.39), followed by Ponni Sugars (15.02) and Bannari Amman Sugars (11.16). Return on total assets ratio registered higher compound annual growth rate (18.62) in Ponni Sugars, followed by Bannari Amman Sugars (12.92) and E.I.D. Parry (2.53) during the study period.
8. Gross profit ratio is positively correlated with net profit ratio, operating profit ratio, return on capital employed ratio, return on shareholders’ funds ratio and return on total assets ratio in the select private sugar mills. Besides, there exists positive relationship among the other profitability ratios in the select private sugar mills. Conversely, gross profit ratio, operating profit ratio, net profit ratio, return on capital employed ratio and return on shareholders’ funds ratio are negatively correlated with return on total assets ratio of Ponni Sugars and Bannari Amman Sugars.

Suggestions

1. Steps to be taken on top priority to reduce the production cost of in select private sugar mills. The cost of production of sugar mills is higher as it is labour extensive. Now, sugars mills are shifting to mechanization and automation, however the change is very slow. Thus, higher percentage share of lost hours leads to under utilization of capacity. Therefore, the select private sugar mills should concentrate on efficient capacity utilization.
2. The select private sugar mills are facing severe financial crunches. The reluctance of the financial institutions and the banks to provide term loans as well as working capital has crippled these sugar mills. The interest and bank charges absorb the major portion of net sales. This led them to be financially sick and thereby caused poor performance. Therefore, the select private sugar mills should bring down their dependence on borrowed funds and increase their own capital.
3. The select private sugar mills have to take necessary steps to bring down cost of goods sold and major overheads. For the natural growth of the select private sugar mills, the sugarcane price should be fixed on the basis of recovery per cent. It results in profit making ability of the sugar mills and to reduce cost of sugarcane.
4. Sugar industry is the largest single user of credit in the agro sector by reason of holding large stock of sugar for a larger period of time. Besides, the long-term loans carry higher rate of interest which affects the financial position of sugar mills. Therefore, government should ensure easier and cheaper credit facilities to the select private sugar mills for timely disbursement of sugarcane prices of sugarcane farmers.

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5. The dual price system encourages setting up of sugar mills in high cost areas thereby building a high cost sugar industry. It is the reason for poor financial health of select sugar mills and for investment in the industry not forthcoming without special incentives and it leads to widespread resentment among cane growers as they feel that they have to bear the burden of subsidy for sugar in public distribution system where the burden of subsidy is borne by the government. Hence, it is suggested that the phasing of decontrol will improve their efficiency so that they can face the competition.
6. The select private sugar mills should reduce the administrative cost so as to increase the net profit which is very essential for the growth of the mill. In order to improve the inventory position, the select private sugar mills should take immediate steps to adopt scientific inventory management activities. Measures should be taken to reduce the operating cost to increase the net profit, which is essential for their existence.

Conclusion

Sugar industry is the second largest agro-based industry in India. Sugar mills have been instrumental in building confidence among rural people and strengthening industrial base in rural India. In the era of globalization, sugar industry needs more competitive edge which can be given by way of modernization, enhancing productivity, and manufacturing excellent quality sugar at competitive prices. It needs quality management at every level of activity to enhance its performance. Most of the sugar units do not have byproduct utilization plants. Ethanol, alcohol and paper projects have tremendous scope for development in India. The select private sugar mills face problems such as inadequate short-term liquidity, improper utilization of working capital, inefficiency of cash management, delay in payables, idle of total assets, and poor profitability. The researchers suggested suitable measures to improve the profitability of the select private sugar mills.

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