



A STUDY ON FINANCIAL ANALYSIS OF AGRICULTURAL MILLS IN SOUTH INDIA

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ABSTRACT

Finance is a field that deals with the study of which includes the dynamics of assets and liabilities over time under conditions of different degrees of uncertainty and risk. Finance can also be defined as the science of money management. Financial statement analysis (or financial analysis) is the process of reviewing and analyzing a company's financial statements to make better economic decisions. Financial statement analysis is a method or process involving specific techniques for evaluating risks, performance, financial health, and future prospects of an organization. Four of the rice mills exhibited positive percentage change in owned funds and also recorded an increasing trend in net profits. The current ratios and quick ratios for three rice mills were above two and one respectively indicating the healthy liquidity status of these rice mills. There was an increasing trend in the gross profit ratio of two mills while it was decreasing trend in the case of remaining mills. The constraints faced by the rice millers were irregular power supply, non-availability of adequate labour, scarcity of raw materials and unfair levy system as 75 per cent of the total production is submitted to Government as levy. The research design of the study is descriptive research design and secondary data was collected from the published websites of organization for the research. The tools used for analysis is comparative ratio analysis of the balance sheet. Suitable ratios were framed and calculated to know the financial performance of the company. The findings from the analysis were discussed in detail and suggestions for corrective actions like maintain good solvency in order to meet short

term and long term obligations were given wherever applicable.

Keywords: Financial Performance, Ratio Analysis, Spinning Mills & Rice mills.

1. INTRODUCTION

Rice is the seed of the monocot plant *Oryza sativa* (Asian rice). As a cereal grain, it is the most widely consumed staple food for a large part of the World's human population, especially in Asia and the West Indies. It is the grain with the second highest world-wide production, after Maize (corn). Rice is one of the most important food crops of India in terms of area, production and consumer preference. China and India contributed 30.25 per cent and 22.43 per cent respectively of the World's rice production in 2011-12 (Source: www.drd.dacnet.nic.in). India is the second largest producer and consumer of rice in the World. Rice production in India crossed 100 million tonnes in 2011-12 accounting for 22.88 per cent of global production. In some states of the country, viz., Andhra Pradesh, Kerala and West Bengal, rice is a monoculture crop and the source of prosperity and livelihood of a majority of the population. Andhra Pradesh ranks third in terms of the nation's rice-growing area (47.52 m ha) but second in terms of rice production (144.2 m tonnes) in 2010 -11 (Source: indiastat.com). Rice is the primary source of carbohydrates and protein besides, rice also contains small quantities of fat, ash, fibre and moisture. It has very high calorific value (363 K cal) than any other cereal crop with easily digestible carbohydrates (80.40 per cent) and high quality protein (6.76 per cent) with biological value as high as egg protein, due to high content of amino acids. Vitamins and mineral are present largely in bran and germ. Rice is obtained by milling paddy. The practice of milling is as

old as the cultivation of rice itself and finds reference even in Vedic literature. Different types of milling equipments for shelling/polishing of rice existed in Indian homes many centuries ago. The discovery of parboiling was one of the most important achievements in food science and the credit for this discovery goes to India. The Indian textile industry has a significant presence in the economy as well as in the international textile economy. Its contribution to the Indian economy is manifested in terms of its contribution to the industrial production, employment generation and foreign exchange earnings. It contributes 20 percent of industrial production, 9 percent of excise collections, and 18 percent of employment in the industrial sector, nearly 20 percent to the countries total export earning and 4 percent to the Gross Domestic Product. In human history, past and present can never ignore the importance of textile in a civilization decisively affecting its destinies, effectively changing its social scenario.

2. REVIEW OF LITERATURE

In Mansur A Mulla (2002) in his study "*The financial health of Shri Venkatesh Co-operative textile mills ltd*". He found that the textile mill under the study was just on the edge of financial collapse. The financial position is not in the healthy zone during that period of study.

Dev (1998) in his study on management appraisal of cashew processing industry in Uttar Kannada found that the total capital investment directly varied with the size of the unit. Further, he concluded that the total capital investment was Rs. 117.5 lakhs for large scale units and Rs. 36.32 lakhs for small scale units, wherein majority (80 %) of the fixed capital investment was on building and machinery.

Ali (2000) used financial ratios for analyzing and appraising the business performance of co-operative oil mills in Gadag district of Karnataka and found that on overall levels, the condition of large scale unit was very unsatisfactory while that of the medium scale unit was just satisfactory.

Neha Mittal (2011) has studied the determination of the capital structure choice of the selected Indian companies. The main objective was to investigate whether and to what extent the main structure theories could explain the capital structure choice of Indian firms. It has

applied multiple regression models on the selected industries by taking data for the period 2001-2008. The study concluded that the main variables determining capital structure of industries in India were agency cost, assets structure, non-debt tax shield and size. The coefficients of these variables were significant at one per cent and five per cent levels.

3. METHODOLOGY

In this chapter, the characteristic features of area selected for the study, the methods used in sampling, the nature and sources of data and statistical tools and techniques used in data analysis are discussed.

The methodology is presented under the following headings.

3.1 Selection and description of the study area

3.2 Sampling design

3.3 Nature and sources of data

3.4 Analytical tools and techniques used

3.5 Definition of terms and concepts used in the study

3.1 Selection and description of the study area

The study was conducted in East Godavari district of Andhra Pradesh and Coimbatore of tamilnadu, where paddy processing is taken up extensively by the private sector. East Godavari was purposively selected to analyse the business performance of rice mills, since it has the highest number of rice mills in Andhra Pradesh and spinning mills in Tamilnadu.

3.2 Sampling design

Considering the importance of paddy crop in East Godavari district and presence of highest number of rice mills in the state, this area was purposively selected for the study. Maximum number of rice mills are situated in Kakinada (rural), Kajuluru Mandal, Tallarevu Mandal, Karapa Mandal, Ramachandrapuram Mandal, Rayavaram Mandal and Peddapuram Mandal. A sample of five rice mills was purposively selected.

3.3 Nature and sources of data

The data required for accomplishing the objectives of the study were collected from both primary and secondary sources. The primary data collected from the rice mill owners related to problems encountered in the rice milling operations. Secondary data were collected from the records maintained by the mill owners. These data pertained to the details of assets and

liabilities, extent of investment made at different points in time, cash inflows and outflows. The data were collected for the period from 2007-08 to 2011-12, i.e., five years.

3.4 Analytical techniques used

In order to analyze the objectives of the study, the data collected was subjected to analysis through appropriate techniques as follows.

- 1 . Percentage Change Analysis
- 2 . Financial Ratio Analysis
- 3 . Garrett's Ranking Technique

3.5 Definition of terms and concepts used in the study

Modern Rice Mills: Modern rice mills are the units, in which paddy processing is carried out by using rubber roll shellers, a modern technology which is more efficient. Majority of the activities are carried out using machineries like driers, aspirators, graders, polishers, etc.

Working Capital: The working capital includes cost of raw materials, utilities (like power, oil and water charges), processing material (cloth bags, tags, labels), wages, salaries, company overheads (repair and maintenance cost) and administrative overheads (stationery expenses and office communication), interest on working capital, license fee, cost of processing and advertisement expenses.

Tools Used For Analysis

- ✓ Comparative ratio analysis

Abbreviation:

- ✓ LM- Lakshmi Mills
- ✓ BASM- Bannari Amman Spinning Mill
- ✓ SRSM- Sri Ramakrishna Spinning Mill
- ✓ KPRSM- Kpr Spinning Mill
- ✓ SSP- Super Spinning Mill

4. COMPARATIVE RATIO ANALYSIS:

4.1. COMPARATIVE CURRENT RATIO OF 5 COMPANIES

YEAR	LM	BAM	SRM	KPR	SSM
2009-10	5.08	1.43	0.84	1.64	0.95
2010-11	4.55	2.05	1.45	1.71	1.20
2011-12	3.97	0.98	1.36	1.09	1.09
2012-13	3.45	0.99	1.24	1.04	1.32
2013-14	3.56	1.50	0.78	1.53	1.55

Interpretation: From the above table it is clear that current ratio of Lakshmi mills is high and all other companies current ratio is too low then the standard norms 2:1.

4.2. COMPARATIVE QUICK RATIO OF 5 COMPANIES

YEAR	LM	BAM	SRM	KPR	SSM
2009-10	0.48	0.44	0.47	0.82	0.27
2010-11	0.46	0.34	0.55	0.61	0.19
2011-12	0.61	0.31	0.38	0.56	0.55
2012-13	0.56	0.42	0.38	0.41	0.61
2013-14	0.61	0.49	0.11	0.70	0.66

Interpretation: The standard norms for quick ratio are 1:1 where the quick ratios of all companies are below the standard norms. All companies shows fluctuating trend during the period 2009-10 to 2013-14

Table.3. Year-wise Capital Investment of selected rice mills (Rs.)

	2007-08	2008-09	2009-10	2010-11	2011-12
Mill 1	6,05,55,100	7,84,89,483 (29.61)	8,48,30,001 (8.07)	13,23,59,304 (56.02)	14,30,34,626 (8.06)
Mill 2	1,32,63,042	1,48,71,772 (12.12)	1,55,24,860 (4.39)	1,48,05,328 (-4.63)	1,74,91,202 (18.14)
Mill 3	7,57,435	12,86,011 (69.78)	13,61,088 (5.83)	16,66,844 (22.46)	19,50,188 (16.99)
Mill 4	70,24,948	66,24,948 (-5.69)	86,94,248 (31.23)	1,34,13,955 (54.28)	2,86,03,164 (113.23)
Mill 5	1,26,30,042	1,58,71,772 (25.66)	2,55,24,860 (60.81)	3,48,05,328 (36.35)	3,94,91,202 (13.46)

Note: Figures in parenthesis indicate the percentage change over the previous year

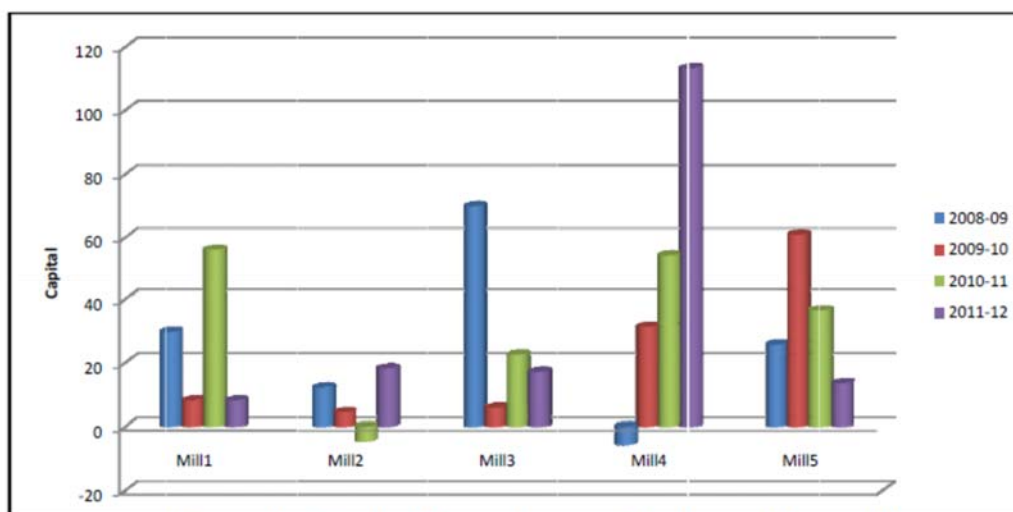


Figure 1. Year-wise Capital Investment of selected rice mills

5. CONCLUSION

The financial analysis plays a vital role in present era, it becomes an interested topic. Here the researcher could understand and derive more results by applying appropriate ratio analysis and other tools. Also customer's satisfaction can be extended in this study. Textile constitutes the single largest industry in India. The Technology Up gradation Fund Scheme has made drastic changes for companies to import high capacity machines to increase production. The Indian textile industry has a significant presence in the economy as well as in the international. Government is providing many subsidies to raise the textile industry Its contribution to the Indian economy is manifested in terms of its

contribution to the industrial production, employment generation and foreign exchange earnings since if the companies maintain a well planned financial policy it can be main income generating industry.

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