

COST-VOLUME PROFIT ANALYSIS OF FERTILIZER INDUSTRY IN INDIA: AN EMPIRICAL STUDY

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ABSTRACT

Earning of profit is considered as a main objective a business. Every business concern tries to earn maximum profit or at least satisfactory profit. Though the actual profit earning is left on luck but profit planning should be well designed. So, there are two main goals before it, (a) to maximize its profit and (b) To grow and survive. These two goals can be achieved by it only maintaining proper relationship between the three factors Cost Volume, Profit that ultimately decides the profit structure of a business. For measuring and forecasting the profit of a business the financial experts use the technique of cost -volume profit or Break even analysis, this analysis is the technique which helps in study of relationship.

KEYWORDS: *Earning of Profit, Break Even Analysis, Cost - Volume Profit, Product Mix.*

Introduction

Cost depends upon volume of output and volume of output depends upon selling price along with other factors, while profit depends upon On a large number of factors most important which are the cost of manufacturing and the volume of sales, both these factors are interdependent, volume of sales depends upon the volume of production and market forces which is turn is related to costs. Management has no control over market in order to achieve certain level of profitability; it has to exercise control and management of costs, mainly variable cost. This is because fixed cost is non-controllable cost. Cost is based on following factors.

- Cost of production
- Product mix
- Internal efficiency and the profitability of the
- Factors of production
- Method of production and technology
- Size of batches
- Size of plant

The Industry attempted humble start in 1906, when the first production unit of Single Super Phosphate (SSP) was installed in Ranipet near Chennai with an annual capacity of 6000 MT. The Fertilizer Corporation of India (FCI) in Sindri in Bihar (now Jharkhand) were the first big fertilizer plant installed in the fourth and fifth decade with an attempt to set up an industrial foundation to attain self - reliance in food grains. Consequently, green revolt in the sixth decade gave a momentum to the development of fertilizer industry in India and in sixth and eight decade India saw a noteworthy in the capacity of fertilizer production.

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India is the world's Second Largest Consumer of fertilizers (China is the first) and the world's third largest Producer. In 2014-15 the country Produced 3083.6 MT of fertilizer. India being an agriculture country Counts on the fertilizer industry for its growth and Substance. The Indian fertilizer Industry Produces about 80 Percent of urea fertilizer needs. And the fertilizer industry has the Capacity to indigenously meets 50 percent of the country's phosphatic fertilizer's. But India still depends heavily on imports for the raw ingredients for its phosphatic and potassium fertilizers. 2015 was a slow year of the Indian fertilizer Sector Demand for fertilizer has been shrinking and imports rise. For april to August 2015 import rose by 54 percent. Another challenge the Indian fertilizer Industry faces is delayed Subsidy payments from government.

The total Allocation for fertilizers in the Indian budget for 2016-17 is Rs. 70,000 crore (\$ 10 billion), a reduction of 4 percent year on year. The budget allocation on decontrolled fertilizer's (P&L) has been reduced by Rs 34.6 billion or 15% compared with the allocation for 2015/16. The large-scale use of fertilizers in India started in the late 1960s, after the introduction of high yielding varieties, which pioneered the "Green Revolution". The important fertilizers currently being used are Urea, Di-Ammonium Phosphate (DAP), Single Super Phosphate (SSP) and Muriatic of Potash (MOP). These fertilizers supply mainly nitrogen (N), phosphorous (P) and potassium (K) whereas the requirement of other essential nutrients is largely met only from soil and to some extent from organic manures. Thus, one can say that CVP analysis furnishes the complete picture of profit structure this enables management to distinguish among the effect of sales fluctuations in volume & the results of change in price. The Fertilizer industry occupies a prominence position in the economy in India by in view of its earnings, employment generation and growth.

Concept and Uses of Cost Volume Profit Analysis

Cost-Volume-Profit Analysis is one of the important analytical tools available to the management for taking decisions. Cost Volume Profit Analysis is a technique of knowing how profit and costs behave in response to change in the level of Business activity. It is primarily concerned with the possible outcomes of various decisions taken by the Management and hence it is predictive rather than Historical Concept.

Concept of Cost

A Layman understood Cost as the price for purchasing goods from /or using services Provided by other person. This simple definition is adequate for a layman, but for businessmen or an industrialist cost is a significant item, which requires an elaborate understanding. The cost of product is the most important factor for an Industrial Undertaking, This can be termed as the foundation stone for the unit and if the foundation, in the form of Cost is out of order, than the whole structure will be collapsed the stress of Competition and technological development.

Concept of Profit

The term profit means excess of revenue over expenditures during a certain period. It can be defined in a number of ways according to the mode of calculation and purpose. Profit can be defined in two ways. The Accountants defines the term profit as the excess of the price of goods sold or services rendered over the cost of goods purchased or services provided during a given period of time. Thus accountants derive the profit by total cost from the total revenue received from sale and other activities of the business, Total cost includes all expenses incurred as raw material, labor, work expenses, administration expenses and selling distribution expenses. The Economics defined profit as the excess of revenue over total cost including opportunity cost capital and owner's time is called implicit cost. Thus economist sees profit in the broad social perspective as the reward for various factors of production. The purpose of present study "**Cost Volume Profit Analysis of Fertilizer Industry of India**" examines the efficiency, profitability, cost structure and also to suggest the means and ways by which the management can improve their performance. The importance of the study is to determine the success or failure of business. The main object of the present study is to analysis the cost and profitability position of the Fertilizer Industry. The other objects of the study will as follows:

- To examine the profitability in Fertilizer Industry ,
- To Examine the efficiency of Fertilizer Industry,
- To analysis the cost structure of Fertilizer Industry,
- To evaluate the impact of Government policies ,
- To examine the complete operation of Fertilizer Industry ,
- To give suggestion to improve the efficiency and profitability of Fertilizer Industry,

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