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FINANCIAL APPRAISAL OF SUGAR INDUSTRY IN U.P.

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ABSTRACT

The Uttar Pradesh sugar industry has a bright future as one of the prospective players in the global sugar market. The demand for sugar across the world has been growing exponentially. The Uttar Pradesh sugar industry with its capacity can cater to this international demand. The advantages of the Uttar Pradesh sugar industry are that the cost of production is quite low and the climatic conditions and the conditions of the soil are favorable to the sugarcane production. The region of India where the state of Uttar Pradesh lies is one of the most fertile lands in India called the 'doab'. This is an extremely fertile belt of lands between the rivers Ganges and Jamuna. To boost the production of the Uttar Pradesh sugar industry, the government of Uttar Pradesh is likely to set up a research and development unit which would develop better quality sugarcane plants to have better yield and diseases-resistant crops to ensure that the industry has a sustainable growth. The geographical position of the state of Uttar Pradesh is one of the key advantages as it is very easy to access. With all these developments the Uttar Pradesh sugar industry can meet the increasing domestic demands in India, which due to the improvements in the economic conditions and the rise in the general income level.

Keywords: *Financial Appraisal, Global Sugar Market, Sustainable Growth, Geographical Position, Economic Conditions.*

Introduction

The sugar industry in the economy of U.P. state has played an important role in the industrial and economic development of this state. The industry has achieved significant growth not only in terms of number but also in the quantum of investment over the last 25 years. The sugar industry falls back upon the government for major investment and also relies heavily on the capital market for the various types of funds. In this study to show the way towards a more scientific approach in financial ratio analysis in selected sugar unit's health.

- To study the short-term and long-term solvency of the sugar industry.
- To study the profitability aspects of the sugar industry.
- To study the operational effectiveness of the sugar industry.
- To assess the quality of financial ratios an analytical technique to evaluate the performance of sugar company.
- To verify the widely held beliefs in accounting literature regarding the comparative utility of various financial ratios.

The study is essentially a cross-section analysis of ten years, 2005 to 2015. The financial ratio contained in balance sheet and profit and loss accounts of sugar companies, as published in their annual reports, constitute the basic source of data. In addition, the published annual accounts and Kothari's Economic and Industrial Guide have also been consulted to supplement the above data base. The ten Sugar Companies listed on the Bombay Stock Exchange, have been covered in the present study. The sugar companies in the present work are broad industrial classes as provided by the Stock Exchange Directory. The sugar companies have also been classified of into financial ratios. The financial technique of ratio analysis and trend analysis, common size analysis, method have been wised to examine the effect of the independent variables on financial ratio analysis of sugar companies. Four broad categories of the ratios formed on the basis of liquidity, solvency, activity, and profitability, have been analyzed in the present study.

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Although the scope of the study is study is broad, yet the research design of the present work has been formed with several constraints. The major limitations are related to the selection of sugar companies, financial variables, and analytical techniques as scribed in the subsequent chapters. The present study attempts to analyze the reasons for slow expansion and underutilization of capacity in sugar industry by investigating the financial analysis of the sugar industry at the company level. The prospects of growth in different sugar companies are also analyzed with the help of the determination of returns to scale, output elasticity financial position and the bias in technical progress made by different sugar companies. The analysis and forecasting of financial strength and weaknesses of sugar companies and study of the locational pattern of the sugar industry and the determination of economic companies, the study is based upon the financial analysis statements prepared under currently accepted reporting standards and examines the financial position ability of twenty-one financial ratios. The financial data for sample sugar companies' have been collected directly from sugar company annuli reports and the various issues of Bombay stock Exchange Directory. The reference period is 2005 to 2015. The initial sample includes four companies. The financial data for a period of a period of ten years prior to the date of collected.

Through an attempt has been made thoroughly in the face of practical limitations of data and we feel a considerable sense of confidence in the conclusions drawn from the study year it is necessity to utter a warning here. The financial strength and weaknesses analysis system designed in this study is based wholly on published financial statements of companies and as such has its limitations. Financial ratios cannot be expected to do better than the financial statements, the basic source from which those are derived. The basic hypothesis is mismanagement of funds has been at the root of industrial sickness prevailing in the sugar industry. In spit of this following are the other important hypothesis which is to be tested in the present research work:-

- Is the Short term financial position sound of this industry?
- Is the interest burden leads to the industry towards sickness?
- Is the incidence of administrative overhead is too heavy? If so how much?
- Does the sugar industry create better management of cash, materials and receivables?
- Is the liquidity and efficiency of sugar industry is sound?
- Is the leverage and profitability position of sugar industry of UP state sound?

Thus the present study attempts to analyze the production behavior of this industry with a view to investigate the reasons for the existence of ever-widening gap between demand and supply. For the present study, a sample of sugar factories from different part of U.P. state was drawn. In all ten sugar companies were selected and data on their financial activities over the last ten years was collected. Bombay Stock Exchange Directory and the annual reports of the sugar companies were taken as the primary source of data collection. The technique of ratio analysis was accepted for the financial analysis. The following financial results of selected sugar companies have been measured by liquidity, activity, solvency and profitability.

In what follows, we shall first summaries the problem, the methodology, the data and then discuss the conclusions that emerge from our study.

The main problems of the sugar industry are excess demand, price and distribution controls and their mutual re-enforcing nature. To begin with the controls were started to fight exigencies of war and competition among producers. But they widened the gap between demand and supply, in that there stimulated demand by providing sugar at lower than the unregulated market price and constrained supply by cutting the profit margins and internal reserves of the producers normally used for expansion, the government responded to these sugar shortages by clamping down controls and vicious circle decisions leading to un-systematic growth of the sugar industry. Owing its origin to the two world wars, this industry suffered due to – (i) people's low preference; (ii) competition with imported sugar; (iii) government's refuel to provide protection to the industry; (iv) rate-wars among the local producers; (v) government's in-difference towards the industry in general; and (vi) price and distribution controls. These resulted in under-utilization of capacity on the one hand and slow expansion on the other.

While the sugar industry received relatively better attention since the advent of planning, the growth of the industry was still far from being satisfactory. The government's inter-faience on control on prices of sugar and control on distribution on sugar all aimed at stepping up production. Nevertheless, the post independents period continued to be characterized with excess demand, slow expansion and under-utilization of capacity. There appear to be due to:

- Massive construction;
- Low consumer's price of sugar;
- Un remunerative producer's price;
- Increasing regional imbalance in locational pattern of the industry;
- Transport bottlenecks, especially shortage of wagons;
- Use of old-technology requiring relatively more fuel and obsolete machinery having frequent breakdowns;
- Shortage of power and fuel;
- Un-economic size of some of the sugar plants; and
- Price and distribution controls.

Since the above analysis provides only a global picture of how the sugar industry responded to various policy decisions in the past or how the various historical forces affected the growth of the industry, we also attempted to analyze the performance of different sugar companies in terms of technological changes, elasticity of substitution and returns to scale etc. We need hardly mention that the aggregative industry level analysis does hide inter-company differences.

The study has provided a financial analysis for sugar companies of U.P. state. A series of ratios, liquidity efficiency, leverage and profitability were presented and examined. The objective in selecting the ration was to maximize the information obtained from the minimum of analysis.

While it is important to know what the above techniques can do, it is vital to be aware of what they cannot do. Ratio analysis is based on the assumption that the financial statements present a reasonable picture of what is happening in the business. This is not always the case. The information in the financial statements relates to one particular period on time only. Rarely do businesses stand still, so it is available when applying ratio analysis to examine the analysis in the light of developments which have accrued since the statement was drawn-up. The financial ratio analysis was accepted for the technique of financial analysis of sugar companies in U.P. state. None of the companies under the sample has been able to maintain a reasonable level of liquidity perhaps because of modernization and up gradation in technology advancement suiting the passage of time. The current assets, in some cases, even fail to cover the current liabilities. The traditional standards demand 200% coverage of current liabilities by current assets. Hence the hypothesis is to be tested that the Short term financial position of selected sugar companies are not sound. The interest burden leads to the industry towards sickness. The incidence of administrative overhead is too heavy to increase the cost. The selected sugar industries do not able to create better management of cash, materials and receivables. The liquidity and efficiency of selected sugar industries are not sound. The leverage and profitability position of sugar industry of UP state is not sound.

Inventory happens to be the major item of current assets, since sugar is an industry where in natural inputs from the major part by way of raw materials. The sugar companies, though established for a longtime, have not been able to show a good rate of profits on sales or on investments. The generation of internal resources for financing the capital requirements is not generally observed. High cost of production and restrictive market has resulted in low profits. To meet exigencies of such a situation, sugar manufacturing companies have had to resort to modernization for cost effectiveness and improving profitability.

The inventory turnover has been repaid. It reflects that inventories are not unnecessarily pilling up and investment in inventory is not blocking the funds. This is a good phenomenon.

Working capital turnover does not appear to be satisfactory as per the given dated.

Shareholders do not seem to have a large stake in the growth of firm's assets except in the case of some companies.

Even with the constraints involved and low profitability, earning appears sufficient to cover the interest charges. But, this alone cannot be taken to be a sufficient measure of firm's good performance. Loans and other sources of finance are not being utilized to benefit equity shareholders due to low profitability in the sugar industry. Trading on equity does not appear to be practice of the companies. In general, the companies do not seem to declare a sustained rate of dividend.

The financial function used herein provides elasticity of substitution as a function of factor-ratio and has a built-in feature of capital intensive production.

I have used the Annual Reports data for fitting the cost functions for individual sugar companies. But the companies Annual Reports do not provide any information on total employees and factor prices. Therefore, ratio analysis on company's financial position using the information provided in Annual accounts of the selected companies.

Let us, however, remember that this analysis of different ratios in-dependently is just for the sake of convenience. Any kind of happening in one part, affects all other parts in the organization. Therefore, operation of a particular ratio cannot be viewed in isolation. All aspects of performance of a company analyzed under the study are inter-related to each other. The liquidity, activity, and solvency of a business firm affect its profitability and profitability also affected other aspects of performance. A higher turnover or better efficiency will improve the profitability position of a company. Similarly, a large amount of debt in the business although means, a higher risk of insolvency, it may also increase the return to the owners if the interest on debt is lower than the profits earned on that capital. There is a close integration between profitability and liquidity. A high liquidity position may affect the profitability because excess liquidity implies idle funds in the business. A very high profitability position may also affect liquidity adversely. Therefore, a very high profitability and liquidity both should be avoided by the firm. The analysis suggested that the sugar companies can improve its financial health if it is able to justify its heavy assets base by increased sales volume, control its over-capitalization, reduce its dependence on debt and improve its equity base. In this connection, it may be pertinent to refer to a study recently conducted on predictive capability and usefulness of financial ratios, in the University of Delhi which suggested the importance of profitability and liquidity ratios in predicting the sickness in public sector undertakings six years period to the event.

From the finding of the study, it may be inferred that the sugar industry is pawing through economic crisis. The present position of industry is that it is free from all types of Governmental controls and that the supply of sugar is in less of the demand for it. The industry does not seem to have received incentives from the Government. A glance into the developments of sugar industry shows that the Government has exercised controls on the industry mainly for such consumer who is below poverty line. Sugar industry being a basic consumer industry, having both forward and backward linkages, its promotion needs to be taken care of. Excess competition in the industry may at times, compel the companies to lower the price of sugar which could, in turn, affect the quality of the product. It is high time when both the industry and the Government should review the position of the industry. The behavior of sugar manufacturing companies, ever since 1924, had been that in time of crisis they have joined together to promote common interests. Even now, through managerial effectiveness, a proper utilization of resources men and material ought to be made. It is in the interest of the industry to make steps for increasing the demand for sugar. A mechanism should be evolved to explore home and export market by way of joint venture to create awareness about importance of sugar, to establish markets do not exist. India has a large number if rural and sparely habituated population belts such as treble areas, where the life is in its traditional modes. Even the concepts of shelter and domestic industry are old and primitive sugar, like electricity and surface communication, is an indicator of development and harbinger of modernization. its extensive use would do good to both, the industry and the people of India It is time for the government of India to take a view of the obtainable situation and to do a moral boosting of the industry through provision of necessary monetary and fiscal incentives so that the industry is able to provide sugar to the users at suitable price as also meet may foreign competition that it may have to face in the international market.

Suggestions for further study have multiple dimensions. There is a considerable scope for further research in this particular industry in areas like capacity utilization, industrial relations, price inflation, productivity and such other areas. Case studies of major sugar manufacturing companies may be taken up to study their efficiency in the areas such as production, management, finance. Other tools of analysis such as analysis of variance and regression could be used to substantiate the findings of various studies. A few promising lines of investigations, however, are given below.

- To achieve better value addition, all the interested manufacturers all over the country should be given equal opportunity to develop value added products by way of involving them in the collection and processing of minor sugar industry, as this will introduce an element of competition as well as achieve larger collection of raw-materials and more remunerative price will be received by sugar-cane growers.
- No state government should be allowed to collect any sales tax on sugar.

- A multivariate analysis would provide additional information about the effect the casual factors of financial ratios.
- Another techniques analysis of company financial performance would further substantiate the findings of the present study.
- International comparison of company financial analysis and the effect of certain exogenous variables on them could be made, and their findings generalized.
- A study of financial analysis of public and private limited companies could be conducted on similar lines.
- Mass education through radio and T.V. is very important to educate the people or public worker, etc. of importance of sugar purchasing a price value and encouraging the supplier and customers.
- The estimates of returns to scale and elasticity of cost refer to the overall economies of scale enjoyed by a particular company. But many times, constant return to scale may result simply from the fact that economies of scale in respect of other. Thus, in order to find out whether the estimated returns to scale result from large economies of scale in the use of some, it may be important to estimate economies of scale in the use of each unit. We need, hardly mention that knowledge of such specific economies may be quite useful from the managerial as well as the policy point of view.
- Since the sugar industry has been operating under both price and distribution controls and manufacturers have been attributing sole responsibility to them for sluggish growth of the industry, it may be useful to investigate the effects of these controls on both capacity utilization and capacity expansion in different companies. Again the non-availability of data on the retention price of sugar for each company and for all the sample years forbade us to investigate the effect of price controls.

Since at the industry level, the rate of capacity utilization is shown to depend on the age of the machinery, and since many of the factories continue working with old and obsolete machinery, it may be useful to identify the efficient and inefficient units in a company so that inefficient units could be given proper attention for rehabilitation and improvement. Evidently in-efficient units generally suffer as members of a large company which may have efficient unit as well. Such an analysis would be particularly important if the objective is to step up capacity utilization rates and production. It would also be important for correctly interpreting constant returns to scale.

- Since the cost function used in this analysis is highly non-linear in parameters, it might improve the results if the cost functions are estimated by some non-linear algorithm, and
- Of course, the improvement in the quality of data used in any empirical study always leaves considerable scope for further work.

As the developments in sugar industry in the retrospect are a backdrop to the present situation, the role of the Government of India comes in for a comment. The controls are imposed on price and distribution to serve the public sector needs and for seeking the favor for general public. The loss to the sugar companies due to erratic power supply and natural calamities also indirectly involves the Government for its own failure in vigilance and extension of subsidy. It is universally acknowledged that sugar industry is a basic consumer industry and it is in a bad shape. The need of the day is for the formulation of a suitable government policy to help the industry modernize itself. There are, no doubt other suggestions which are worth exploring. Nevertheless, a base has been provided for examining financial sound the effect of various causal factors on the financial position of sugar manufacturing companies by utilizing the financial ratios as the basis of study.

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