

**Earning Quality measures - A Study of Selected Private sector Sugar Companies in Tamil Nadu**

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**Abstract**

India's strength in producing agricultural commodities at large scale is imminent and needs to feed about 12 million people across the country. Variety of reasons close to agricultural operations inhibit the planned growth and stall the economic progress in spite of the hard work coupled with the application of technological advancement. The fluctuations in prices of agricultural commodity in India make the farmers to disappoint and tend to seek alternative employment in other sectors. Sugar is one the sectors where farmers find it difficult to match the revenue and cost of agriculture. However, the role of sugar industry as the backbone of Indian economic condition cannot be overemphasized and need protection from all the corners. Sugar industry being agro based one has a long and traditional background provides abundant employment opportunities to several million people directly and indirectly. The problems in sugar industry are growing day by day and the industry needs immediate attention for its survival. Hence, this paper tries to evaluate the earning quality of sugar mills as a part of viable option to find a solution to the present situation.

Key words: Competitiveness, seasonal variations, financial ratios, earning quality and payment arrears

**1. Introduction**

India's strength lies in its capacity to produce agricultural commodities at large scale to feed about 12 million people across the country. Variety of reasons close to agricultural operations inhibit the planned growth and stall the economic progress in spite of the hard work coupled with the application of technological advancement. There has always been higher amount of fluctuations in prices of agricultural output in India and thereby the farmers tend to seek alternative employment in other sectors. However, the role of agriculture as the backbone of Indian economic condition cannot be overemphasized and need protection from all the corners. Sugar industry being agro based one has a long and traditional background provides unmatched employment opportunities to several million people directly and indirectly. The Indian sugar mills have by virtue of availability of sugarcane concentrated in two major pockets namely northern regions comprising of Utter Pradesh, Bihar and Maharashtra and another one is southern region comprising of Tamil Nadu, Karnataka and Andhra Pradesh.

The liberalization has paved way for offering benefits to Indian industry and the sugar industry is not an exception to it. While reaping some benefits, the Indian sugar industry still is in back seat in terms of installed capacity and its utilization, employment generation to the community, quality of sugar and maintenance of international standard in overall performance and achievement. In fact, studies reveal that Indian sugar industry show declining scenario in post liberalization period (Ray, 2012). Being the second largest sugar producing country, India's sugar industry provides abundant employment opportunity and the industry accounts for more than 1 percent of GDP of the nation. However, there is still lot of potential to create further employment chances if the sugar industry is properly channelized

towards its resources. Huge chunk of tax, cess and duties are paid from this sector to both Central and State Governments.

However, sugar in India is controlled as essential food commodity with enforcement of strict laws in connection with production, stock and price fixation etc. The income source of sugar mills come from multiple means by sale of sugar as a main product besides bagasse, power and ethanol, these are the by-products of the mills. Many of the co-operative and private sector mills disclose a great difference between the income at the lower end and expenses on the other edge. As a result, the sugarcane growers – who are the suppliers of raw material – could not get full amount for their supply from the mills and such a huge amount is still pending as arrears. Unbearable with the mounting amount to be received from mills, the cane growers resort stage dharna or strikes etc and ultimately the situation has become worsened in some of the country.

Sugar production has witnessed a phenomenal growth in Tamil Nadu in the past several years due to rise in yield per hectare of sugarcane, high rate of recovery, higher sucrose content, extended crushing season etc. The sugar mills of the country play a very vital role in development of the country and the incredible contribution of sugar mills in Tamil Nadu State to the national exchequer is noteworthy and hence the study is attempted to analyze the earning quality of private sector sugar mills amidst the prevailing competitive market condition.

The present research paper tries to analyze the earning quality of sugar industry and to assess the level of social disclosure practices resorted by these companies for the benefit of the stake holders of the industry. ANOVA has been applied to check the differences between key financial ratios.

## **2. Background of the Study**

The present study is centered on to assess the earning quality of private sector sugar mills in Tamil Nadu and these mills are controlled by few groups of reputed managements. With over 600 sugar mills operating in India, the state of Tamil Nadu alone has over 40 sugar mills out of which private sector accounts for 19 mills. There are only few mills that operate as single unit and others are composite or integrated mills. Sugar industry of Tamil Nadu is concerned; almost 70 percent of operations are controlled by four major business groups.

The purpose of this present study is two-fold. First, is to assess the earning quality of selected private sector sugar mills and the second, is to make known the disclosure practices of sugar mills to all its stake holders.

## **3. Review of Related Literature**

Sugar industry in India always attracts political intervention and hence sensitized as and when the market witnesses up and downs and also there is heap of arrears from sugar mills to farmers. The sugar mills do not fully depend on sugar production alone and try to augment revenue resources from multiple sources by generating power and producing ethanol etc. Thus, those sugar mills with composite capacity survive better than the others. The sugar industry in India is coupled with seasonal production and poor infrastructure facilities in many of the mills. The seasonal variation tends to push the farmers to switch over to cultivation of other crops when they find sugarcane cultivation uneconomical. This ultimately leads to shortage of canes to mills and eventually the revenue goes down. Due to revenue shortage out of uneven operations, the sugar mills have lot of arrears to pay to farmers.

The de-licencing and liberalization process initiated in 1998 paved a good start to mills besides the export initiative support offered to sugar industry. From time to time based on the prevailing situation, exports were allowed under different licence schemes as to meet the higher production. In recent times, the overall sugar industry situation has improved as is witnessed from the reports of CARE (2012). The increase in sugar price has benefited the factories and in turn they extended a portion of benefit to the farmers by way of increased price to canes. Naturally, the acreage of sugar cultivation has increased and the quantum of arrear amount has gone down significantly in some pockets of the country. According to Agricultural outlook (2011) the international sugar industry is subject to price volatility and Indian industry is no exception to it and in fact, it is directly linked to the international market.

#### **4. Methodology**

The research framework mainly focuses on analyzing the earning quality of Tamil Nadu private sugar mills. The emphasis is put on evaluating the earnings selected mills using primarily the profitability ratios as indicators defining financial health of mills. The study mainly uses secondary data collected from available data base like PROWESS and from companies directly. Current and updated information and data have been obtained from various journals and websites.

#### **Period of the study**

The study period of 12 years from 2002-03 to 2013-14 have been taken into account to have a fairly long cyclically well balanced period accepted by experts and researchers for which reasonably homogenous, reliable and up-to-date financial data have been gathered.

#### **Selection of Companies for the study**

The universe of the study is private sector sugar mills in Tamil Nadu State. Nineteen (19) sugar mills are in operations and in one group or name few mills operate at different parts of the State. These mills are Dharani Sugars & Chemicals Ltd (2), Sri Ambika Sugar Mills(1), Rajashree Sugars & Chemicals Ltd (3), Sakthi Sugar Mills Ltd (3), EID Parry India Ltd(4), Kothari Sugars & Chemicals Ltd (2), S.V. Sugar Mills Ltd (1), Thiru Arooran sugars Ltd(1), Ponni Sugars Ltd (1), Bannari Amman Sugars Ltd (1), and have been purposively selected from the PROWESS data base as all these mills have comparatively long standing in the field.

#### **List of Private sector sugar mills under study**

S.No.	Abbreviation	Name of the sugar mills
1	Dharani	Dharani Sugars & Chemicals Ltd
2	Ambika	Sri Ambika Sugar Mills
3	Rajashree	Rajashree Sugars & Chemicals Ltd
4	Sakthi	Sakthi Sugar Mills Ltd
5	Parry	Parry India Ltd
6	Kothari	Kothari Sugars & Chemicals Ltd
7	S.V.	S.V. Sugar Mills Ltd
8	Arooran	Thiru Arooran sugars Ltd
9	Ponni	Ponni Sugars Ltd
10	Bannari	Bannari Amman Sugars Ltd

### 5. Analysis and Interpretation

It is essential to know and assess the level of earning quality of Indian sugar industry to understand the precise position of competitiveness of a nation's sugar industry in order to give further impetus to it. Earning quality assessment is a practice which aims at evaluation of capacity utilization, operational efficiency, recovery rate etc. By employing suitable and most relevant ratio analysis and other measuring tools, the stated quality is assessed. The financial viability of the sugar mills the much expected threshold to meet the present day competitive environment as the large production and huge supply from neighbouring states flood the sugar market in the study area. Another big blow in the form of imposing VAT from the Government side also seems to penalize the industry as well.

Table – 1: Ratio of Net income to total sales (2002-03 to 2013-14)

Name of the company	Average	SD	Pearson's correlation coefficient between individual company and industry average
Dharani	-0.324	0.311	.847**
Ambika	-0.189	0.244	.721*
Rajashree	-0.157	0.345	.699**
Sakthi	-0.212	0.256	.812**
Parry	-0.209	0.189	.945**
Kothari	-0.425	0.345	.598**
S.V.	-0.428	0.254	.781**
Arooran	-0.561	0.715	.814**
Ponni	-0.199	0.233	.795**
Bannari	-0.290	0.145	.823*
Industry average	-0.234	0.264	-

Note: \*\* Correlation is significant at the 0.01 level

\* Correlation is significant at the 0.05 level

The above table shows that the industry average of net income to total assets has been -0.234 and Ambika, Rajashree, Sakthi, Parry and Ponni sustain the ratio above the industry average. Whereas, the ratio of other mills happened to be below the industry mark. A high level fluctuation is significantly noticed between the Rajashree and Arooran where the former shows much above the industry average, the latter reveals too low ratio.

Table 1 shows high degree of positive correlation of the ratio of net income to total assets between the industry average and sugar companies under study. The correlation is significant at 1% and 5% level.

Table 2: One way ANOVA of the ratio of Net income to total sales

Sources of variation	Sum of Squares	D.F.	Mean Square	F	P - value
Between groups	1.650	18	.138	1.212	.420
Within Groups	12.589	135	.112	-	-
Total	14.239	153	-	-	-

The above table discloses that the differences in net income to total assets are not significant as the p-value is 0.420

Table 3: Net Profit to average assets (2002-03 to 2013-14)

Name of the company	Average	SD	Pearson's correlation coefficient between individual company and industry average
Dharani	0.324	0.311	.847**
Ambika	0.189	0.244	.721*
Rajashree	0.288	0.345	.699**
Sakthi	0.233	0.256	.812**
Parry	0.428	0.189	.945**
Kothari	0.425	0.345	.598**
S.V.	0.209	0.254	.781**
Arooran	0.217	0.715	.814**
Ponni	0.267	0.233	.795**
Bannari	0.290	0.145	.823*
Industry average	0.234	0.264	-

Company's assets are the base for their earnings and generally high amount of investment in assets lead to strong earnings and vice versa. The net profits of the mills are compared to average assets and the analysis is done in table 3 and 4.

Table 3 discloses that net profits to average assets of three mills namely Ambika, S.V. and Arooran are lower than the industry average whereas the rest of mills a higher ratio. The ratio of Sakthi alone shows almost closer to industry average. Much fluctuation is shown between the Ambika and Parry in terms of net profits to average assets, while the former indicates low ratio as against higher ration reported by the latter.

The table shows high degree of positive correlation of the net profits to average assets between the industry average and sugar companies under study. The correlation is significant at 1% level.

Table 4: One way ANOVA of the ratio of net profits to average assets

Sources of variation	Sum of Squares	D.F.	Mean Square	F	P - value
Between groups	2.253	18	.216	.714	.744
Within Groups	42.125	135	.358	-	-
Total	48.178	153	-	-	-

The above table discloses that the differences in net profits to average assets are not significant as the p-value is 0.744.

### **Findings of the Study**

1. The study does not find any significant difference in the ratios that were considered the present study. To be specific, the differences in net income to total assets are not significant and thus the correlation is significant.
2. Similarly in case of net profits to average assets also, the differences are not significant and correlation is significant. Hence, it could be understood that the averages assets of the selected sugar mills have been positively employed to generate revenue to the mills. The industry average is here considered to be the bench mark which shows low figure.
3. The overall observation of the study exposes the fact that there exists some marked relationship between the profit scenario of the companies and their asset creation level. The stake holders tend to see whether there is persistent and constant increase in the quantum of assets. It so happens in the mills under study and hence it leads to the conclusion that the earning quality of the private sugar mills is good and undisputable.

### **Conclusion**

The occupiers of the sugar mills can safely compare the bench mark level from time to time and evaluate the performance and put more efforts to enhance the level of performance at all levels of core business areas so as to increase the income and boost the image of the organizations. The study also reveals that the present scenario in sugar market is to some extent conducive to the mills and government may take some positive steps to gauge the interest of the private sector sugar mills further in Tamil Nadu.

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