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Research Paper

# A STUDY OF RATIOS ANALYSIS OF SIDDESHWAR SUGAR FACTORY, SOLAPUR.

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***ABSTRACT***

*India stood first in sugar production country during the year 2001 – 2002 by producing 19.87 million ton of sugar. while Brazil stood 1st in sugar production during 2002 – 2003 by producing 23.65 million ton of sugar followed by India producing 21.90 million ton sugar in the world using sugar cane as a raw material. There are 122 countries producing sugar with total quantity of 148.91 million tones in the world during 2002 – 2003, Using sugar cane & sugar beet as a raw material. The major sugar producing countries are Brazil, India, China, Thailand, Australia, Mexico, France & Germany.*

## 1 INTRODUCTION TO THE STUDY

A sugar industry occupies an important place among organized industries in India. It ranks 3rd largest industry in terms of its net value added by manufacture and employees. Nearly 325 lakhs workers besides creating extensive indirect employment for 25 million cultivators of sugar cane with 4.7 million sugar cane grower members. The various agencies of distributive trade & through subsidiary, industries such as confectionary ice cream, cold drinks etc. It is also an important source of excise duty for central government excise duty and sugar cane purchase tax to state government. Central government has collected Rs. 395 crore during the year 2002 – 2003 by way of duties and taxes.

There are 505 sugar factories in India with a total installed capacity of 177.86 lakhs ton against this 419 factories were in operation of which 184 were in private & public sector and 235 in co-operative sector.

## 2 OBJECTIVES OF THE STUDY:

2.1] To review the efficiency of the organization.
2.2] To know the profitability of the organization.
2.3] To know the capital structure of the organization.
2.4] To review progress in sales.
2.5] To give suggestions to overcome the problems faced by the organization.

## 3. SCOPE AND LIMITATION OF THE STUDY

The scope of the study is confined to Shri Siddheshwar Sahakari Sakhar Karkhana only. It is depended on the information collected in various departments and from accounts of this organization.

### 3.1 LIMITATIONS

3.1.1] It is difficult to decide the proper basis for comparison of competitors.
3.1.2] The ratios are calculated from past financial statements so it will not Show the current position of the organization.
3.1.3] This study is restricted to Shri Siddheshwar Sahakari Sakhar Karkhana only.
3.1.4] The duration of study is limited to 50days.
3.1.5] This study is consider only Ratio Analysis factor other factors ignored.

## 4 RESEARCH METHODOLOGY

4.1 Data Sources : Secondary data from textbooks and audit reports of factory.
4.2 Year : 2004 to 2009

**5. Major findings at Siddeshwar Sahakari Sakhar Karkhana , Solapur.**

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## INCOME STATEMENT

(Rs. In lakhs)

| Sr. No. | Particulars | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|---|---|---|---|---|---|---|
| A. | Sales | 9446.55 | 15485.54 | 13138.08 | 13491.49 | **21019.52** |
| B. | Cost of goods sold | | | | | |
| (a) | Raw material purchase | 5196.88 | 9606.55 | 8591.21 | 8234.94 | **13032.42** |
| (b) | Manufacturing expenses | 1731.17 | 1852.91 | 2355.24 | 2405.12 | **2621.16** |
| (c) | Labour | 825.87 | 1098.06 | 959.93 | 935.24 | **1388.75** |
| | **Total : (B)** | **7753.92** | **12557.52** | **11906.38** | **11575.3** | **17042.33** |
| C. | Gross profit | 1692.63 | 2928.02 | 1231.7 | 1916.19 | **3977.19** |
| D. | Operating expenses | | | | | |
| (a) | Office and admn. expenses | 291.88 | 1240.32 | 1677.12 | 1565.17 | **1487.64** |
| (b) | Selling and distribution exp. | 16.96 | 333.79 | 722.74 | 508.86 | **500.01** |
| | **Total (D)** | **308.84** | **1574.11** | **2399.86** | **2074.03** | **1987.65** |
| E. | Operating profit. (C – D) | 1383.79 | 1353.91 | (1168.16 ) | (157.84) | **1989.54** |
| F. | Non operating income | *306.85* | 472.35 | 1034.75 | 2012.35 | **1817.55** |
| G. | Less : Non operating expenses | 114.14 | - | .04 | - | **41.81** |
| H. | **E B I T** | **1576.50** | **1826.26** | **(133.45 )** | **1854.51** | **3765.28** |
| I. | Less : Interest | 1334.61 | 1453.70 | 1858.19 | 2582.02 | **2367.49** |
| J. | E B T (H – I) | 241.89 | 372.56 | - | - | - |
| K. | Less : Tax | - | - | - | - | - |
| L. | **E A T (J – K)** | **241.89** | **372.56** | **(1858.19)** | **(727.51)** | **1397.79** |

## ANALYSIS OF RATIO

**A] PROFITABLITY RATIO:-**

**1] GROSS PROFIT RATIO :**

| Particulars | 2004-2005 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|---|---|---|---|---|---|
| **Gross Profit** | 1692.63 | 2928.02 | 1231.7 | 1916.19 | **3977.19** |
| **Net Sales** | **9446.55** | **15485.54** | **13138.08** | **13491.49** | **21019.52** |

**aGross Profit Ratio** $= \dfrac{\text{Gross Profit}}{\text{Net Sales}} \times 100$

1] 2004-2005 $= \dfrac{1692.63}{9446.55} \times 100 = 17.92\ \%$

2] 2005-2006 $= \dfrac{2928.02}{15485.54} \times 100 = 18.91\%$

3] 2006-2007 $= \dfrac{1231.7}{13138.08} \times 100 = 9.38\%$

4] 2007-2008 $= \dfrac{1916.19}{13491.49} \times 100 = 14.20\%$

5] 2008-2009 $= \dfrac{3977.19}{21019.52} \times 100 = 18.92\%$

Gross profit is the profit made on sale of goods. Gross profit is obtained after deducting the cost of goods sold form net sales. It is very difficult to say that standard of gross profit ratio as it differs from industry to industry. In any case gross profit ratio must be maintained at comfortable level. If cannot improved. At least cover the operating expenses. The gross profit ratio is 17.92 % in the year 2004-2005 & there is continuous increase in the gross profit ratio up to 2008-2009 due to reduction in manufacturing expenses & raw material purchases except the year 2006-2007.

**2] NET PROFIT RATIO:**

| Particulars | 20004-2005 | 2005-06 | 2008-09 |
|---|---|---|---|
| Net Profit | 241.89 | 372.56 | 1397.79 |
| Net Sales | 9446.55 | 15485.54 | 21019.52 |

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

1] 2004-2005 $= \frac{241.89}{9446.55} \times 100 = 2.56\ \%$

2] 2005 - 2006 $= \frac{372.56}{15485.54} \times 100 = 2.40\%$

3] 2008-2009 $= \frac{1397.79}{21019.52} \times 100 = 6.65\%$

The net profit ratio establishes a relationship between Net profit and sales. In the year 2006-2007 and 2007-2008 the factory incurred loss, therefore the Net Profit ratio of these particular year cannot be calculated & the rest years ratios are positive & it had been increased which is good sign to the organization, but there is still need for improvement.

**3] CREDITORS TURNOVER RATIO:**

| Particulars | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|---|---|---|---|---|---|
| Annual Credit purchases | 5196.88 | 9606.55 | 8591.21 | 8234.94 | 13032.42 |
| Trade creditors | 3901.67 | 1474.17 | 1371.72 | 2465.56 | 1582.72 |

$$\text{Creditors turnover ratio} = \frac{\text{Annual Credit Purchases}}{\text{Trade Creditors}}$$

1] 2004 - 2005 $= \frac{5196.88}{3901.67} = 1.33$ times

2] 2005 – 2006 $= \frac{9606.55}{1474.17} = 6.52$ times

3] 2006 - 2007 $= \frac{8591.21}{1371.72} = 6.26$ times

4] 2007 - 2008 $= \frac{8234.94}{2465.56} = 3.34$ times

5] 2008-2009 $= \frac{13032.42}{1582.72} = 8.23$times

The creditor's turnover ratio indicates the number of times the creditors are turned over during a year.

The above table indicate that creditors turnover ratio is reduced 1.33 in 2004-2005, which was a good sign as it reflect liberal credit terms granted by suppliers, but after that it has increased for consecutive 4 years which shows a strict credit terms by suppliers.

**OBSERVATIONS**

1] The overall profitability of the factory is not satisfactory as Karkhana is unable to earn sufficient profit after meeting all cost & expenditures. The installed capacity of the plant is underutilized. The Karkhana has not implementing the production programmed of its By Product.

2] The factory is not using the techniques of cost Accounting, i.e. budgetary control, Standard costing.

3] The overall liquidity position of factory is satisfactory but the quick ratio of the factory is below the standard of 1:1, which indicates that substantial part of the current assets is in the form of stock. The absolute liquid ratio of the factory is also below the standard which indicates that factory may face difficulty in liquidating its current liabilities

4] Fixed assets turnover ratio of factory indicates that the fixed assets of the factory are underutilized.

5] Total assets turnover ratio of factory indicates that there is over investment in the assets of factory and the assets of the factory are underutilized.

6] Working capital turnover ratio of the factory indicates that there is excess investment in working capital of the factory.

7] The debtor's turnover ratio of the factory indicates that there is poor management of receivables.

8] The debt-equity ratio of the factory is higher than the standard which indicates there is dominance of out spiders on the affairs of the factory.

9] The interest coverage ratio of the factory indicates that Karkhana is hardly able to earn to profit to the extent of interest on loans which is below the standard.

10] The proprietary ratio of factory indicates that there is on an average 18% investment of shareholder's funds in the total assets of the Karkhana.

11] Fixed assets to net worth ratio indicate that fixed assets are partly financed by shareholder's funds and partly by outsider's funds.

12] The capital gearing ratio of the factory indicates that the factory's capital is highly geared.

13] There is a heavy loss of factory on account of slow moving stock and stock carrying cost and interest.

14] Inventory turnover ratio of the factory is far below the standard of 8 which indicates that there is over investment in stock

**SUGGESTIONS**

1] The factory should try to utilize maximum capacity of the plant. This will help the factory in reducing the total cost.

2] The factory should start the processing of its bye products which will increase the profit of the factory.

3] The factory should implement the techniques of Budgets, and budgetary control, standard costing Inventory management. This will help the factory in reducing the cost and increasing the product.

4] The factory should try to maintain working capital to the extent of optimum level.

5] The factory should manage inventory scientifically by using E.O.Q, ABC-VED techniques.

6] The factory should introduce strict credit policy for its customers.

7] The factory should try to collect additional share capital from the share-holders and Repay the long-term loan.

**References :**

1.Field work.
2. Annual report of Siddeshwar Sahakari Sakhkar Karkhana, Solapur.