CHAPTER-7

SUMMARY OF FINDINGS AND RECOMMENDATIONS
Performance

The present study examined performance of the mills in respect of cane crushed, Recovery ratio, volume of sugar sold, value of sales, value addition and utilization of capital (Capital output ratio). Volume of cane crushed fluctuated sharply moving downward, especially in the first group. In Moongil and Padalam volume of cane crushed in 1998-99 was lower than in 1989-90. Kethandapati in the first group registered better performance than others but reliability of the finding (Value of $R^2$) is very low. Though the three mills in the second group functioned better than the first group they could not fully compensate the fall in cane crushed during the period under review.

In recovery ratio three mills in the second group reported higher rate of recovery than the four mills in the first group. However recovery ratio declined in all the seven mills and as a result the ratio in the last year (1998-99) was lower than in the first year (1989-90). Already cooperative sector had lower recovery ratio than the private sector and analysis shows that the ratio kept falling. Therefore improvement in the recovery rate through choice of improved varities of cane ought to be among the remedial package.

In respect of volume of sugar sold all the mills sold lower volume of sugar in the last year than in the first year of analysis and all of them suffered fall in sales in the last three years. It suggests the growing inability of the whole of cooperative sugar industry to expand market.
With regard to value of sales too performances of the mills was unimpressive even when sales are valued in current prices. In Padalam value of sales in the last year was lower than sales in the first year. Though three mills in the second group achieved better than the first group none could raise sales sufficiently to offset the fall in sales in the intervening years as indicated by the negative values of 1=10. In the constant prices six out of seven mills had lower value of sales in 1998-99 than in 1989-90 with Ammundi alone having higher value of sales in the last year than in the first year.

Trends in value addition in the sample mills are found to be similar to those in other parameters - cane crushed, recovery ratio and sales. Amount of value addition fell in all the seven mills and more sharply in Kethandapatti and Padalam. Mettupatti alone had higher amount in value addition (in constant prices) in 1998-99 than in 1989-90 while other mills had lower amount of value addition in the last year than in the first year.

Increase in capital and decline in output resulted in increase of COR indicating under utilization of the capital in all the seven mills even though Palacode and Ammundi performed better than the other mills.

The basic reason for poor performance of the mills was the inadequacy of the market which led to growing unsold stock inhibiting the operations of the business.

Profitability

Gross profit ratio varied between 11.64 percent and 1.82 percent for the sample mills in the first group. With regard to gross profit Kethandapatti
was the only mill in the first group to earn gross profit in the entire period of ten years. Among the other three mills Moongil and Padalam incurred gross loss in the last four years and Mettupatti in six years.- In the second group Ammundi alone incurred gross loss in 1998-99 and the other two mills earned gross profit in the entire period. The amount of gross profit and ratio of gross profit fluctuated widely in both groups between 11.64 percent and 1.82 percent in the first group and between 26.51 percent and 0.24 percent in the second group.

Under utilization of capacity, low rate of recovery and lack of control over costs and prices were the major reasons for poor level of gross profit. Multiple regression analysis of the causes of gross profit indicated volume of cane crushed, cost of cane, rate of recovery, prime cost of production and price of sugar as main reasons for poor gross profit in the two groups of seven mills.

In view of the above record of gross profit there cannot be any high hope about net profit. In the first group Mettupatti incurred net loss in nine years, Kethandapatti in five years, Moongil in four years, Padalam in six years. In the second group Palacode suffered net loss in four years, Ammundi in five years and Thiruval in seven years. Gross loss and rising fixed costs of establishment and interest charges were responsible for poor profitability. Multiple regression analysis showed more specific reasons involving volume of cane crushed, price of sugar, rate of recovery and fixed costs for poor record of profitability.
Low and fluctuating gross profit and gross loss weakened the profitability of the sample mills. On the other hand capital of these mills grew due to inflow of fresh capital, accumulated depreciation and long-term loans. Therefore as return on investment (ROI) was very low in profitable year at less than 10% except in Kethandapatti and Padalam which registered 11.77 percent and 10.67 percent respectively in 1989-90. It is also found that the accumulated losses wiped out the entire long-term liabilities in the first group of four mills and share capital in the second group. Thus the financial conditions of the four mills as the first group are in a very alarming state requiring immediate measures of correction.

Operating Cycle

Only two mills - Mettupatti in the first group and Ammundi in the second group carefully managed the turnover of working capital keeping component cycles under control. In the first group long duration of trade credit in some years helped to reduce the span of operating cycle but it was not a healthy development as the short duration of operating cycle resulted from long delay in paying the cane growers.

In other mills in both groups long duration of storage and collection cycles caused long operating cycle and low turnover of working capital.

Therefore solution to the problem of long operating cycle and low turnover of working capital lies in revamping the strategy of marketing.
Fund flow and Z score

Fund flow analysis fully reflects the unimpressive performance of the sugar mills. Stagnant and falling levels of operations and inadequate utilization of investment eroded profitability depriving the mills of the benefits of plough-back. The mills had to depend on long-term loans. Market constraints caused swelling of stocks sundry debtors and sundry creditors.

Further analysis of Z score shows that none of the mills could sustain a score of 2.63 or more representing sound financial health. On the other hand continuous decline in the Z score indicated continuous erosion of the financial health of these mills. Especially all the four mills in the first group and Thiruval in the second group had the score below 1.80 implying alarming conditions of their financial health.

Recommendations

Package of remedial measures should include research and extension, for improving yield of cane and sucrose content, management of soil and irrigation and down-stream diversification of the sugar industry using bagasse and molasses. The above measures will help the management to control costs and expand market.