CHAPTER V
SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

5.1 Introduction

In the previous chapters, the financial performance of both the sugar industrial units in Tiruchirappalli District, by means of long-term solvency, short-term solvency, assets utilization, activity/efficiency, profitability and financial healthiness is analyzed and the results of analysis are discussed in detail. Many findings emerge out from the inferences of these results which are summarized in this chapter. Further, conclusions and suggestions based on the findings are also provided here.

5.2 Findings

The findings of the study are given under six heads, namely, Long-term Solvency Ratios, Short-term Solvency Ratios, Assets Utilization Ratios, Activity/Efficiency Ratios, Profitability Ratios, and Overall Financial Healthiness.

(i) Long-Term Solvency Ratios

In EID Parry Sugars the trend of Long term debt to equity and total debt to equity are in increasing trend. Both ratios are nearly doubled in 10 years. The use of debt fund from long term sources compared to equity capital is higher during the study period. Hence, the debt content of EID Parry Sugars leads to alarming position. Moreover the capital gearing ratio also above 60 percent which shows there is a long term solvency risk in EID Parry Sugars.

Relying on interest bearing debt for financing the capital is at manageable level for Kothari Sugars, which is significantly much less than that of EID Parry Sugars.

The interest coverage ratio of long term debts in EID Parry Sugars is not consistent and there is a notable change in its average, but the same time there has
been a significant increase in reserves and surplus which is mainly due to retained earnings, whereas in Kothari Sugars there is a greater inconsistency in interest coverage, reserves and surplus. A long term debt to total asset ratio shows a decreasing trend. Whereas, equity to total assets ratio shows an increasing trend but in the past four years the ratios are consistent in EID Parry Sugars, the both ratios are inconsistent.

Hence it is concluded that EID Parry Sugars has excess debt content but relatively interest coverage ratio. But Kothari Sugars has less debt content with poor interest coverage ratio

(ii) Short-Term Solvency

The short-term solvency position is revealed through various liquidity ratios like current ratio, quick ratio and cash ratio. In EID Parry Sugars, the current ratio is also below the normal required level of 2 and the quick ratio lower the most of years. Only for a few years it crossed the normal required level of 1, whereas in Kothari Sugars which is a little better than EID Parry Sugars.

Hence it is concluded that the short term solvency position of Kothari Sugars is comparatively better than EID Parry Sugars.

(iii) Assets Utilisation Ratio

The assets utilisation ratio derived through current assets, fixed assets and total assets of both the sugar industrial units shows that in EID Parry Sugars all the asset utilisation ratios show the decreasing trend. In Kothari Sugars it is consistent. It is mainly due to total assets variations of both sugar mills.
(iv) Activity/ Efficiency Ratios

Working capital turnover ratio reveals greater shortage of working capital in EID Parry Sugars in most of the years which is relatively better in Kothari Sugars. Inventory turnover ratio of the sugar mills shows a greater inconsistency due to seasonal effects. The receivable and payable turnover ratios are better in EID Parry Sugars compared to Kothari Sugars. The cash conversion cycle of EID Parry Sugars has more negative values due to delayed payment for the purchases which is comparatively higher in Kothari Sugars. Hence it is concluded that on the basis of operational efficiencies of both the sugar mills, EID Parry Sugars is much better positioned than Kothari Sugars.

(v) Profitability Ratios

Gross Profit ratio, net profit ratio and operating profit ratios are calculated in order to find the profitable position of both the sugar industrial units. The results of EID Parry Sugars show that though the results are inconsistent which is better than the results of Kothari Sugars. Similarly the return on assets and return on equity are also better in EID Parry Sugars than that of the Kothari Sugars. Therefore it is concluded that the profitability analysis reveals that the EID Parry Sugars is in better position than the Kothari Sugars.

(vi) Overall Financial Healthiness

(a) Altman Z-Score

The above results of Altman Z-score model reveals that EID Parry Sugars was in grey zone for eight years out of ten years of study period whereas the Kothari Sugars was in grey zone for seven years out of ten years. In other years they are in distress. Thus it is concluded that the prediction model do not reveal the positive scores for both the sugar mills to relay on safe zone (i.e., above 2.99).
(b) Du Pont Financial Analysis Model

EID Parry Sugars has 10.46 of average and Kothari Sugars has only 0.11 average of ROROE. However, the levers of the Du Pont system indicate that the sources of the weakness are different. EID Parry Sugars has a stronger operating profit margin ratio with stronger asset turnover compared to Kothari Sugars. Furthermore, EID Parry Sugars has a higher leverage ratio (equity multiplier) than Kothari Sugars.

The weak ratios for each sugar industrial units may be decayed into workings to decide the potential sources of the weakness. To improve asset turnover EID Parry Sugars needs to increase production efficiency or price levels or reduce current or non-current assets. To improve profit margins, Kothari Sugars needs to increase production efficiency or price levels more than costs or reduce costs more than revenue.

Findings from the annual reports
Kothari Sugars

1. During the financial year 2010-11 due to volatility in sugar prices the profitability was lower compared to financial year 2009-10 during which the sugar prices in domestic market was continuously raising.

2. The Gross total income for the financial year 2010-11 was Rs.28,070.48 lakhs as compared to Rs.34,858.81 lakhs during the financial year 2009-10. Fall in sugar sales quantity is mainly on account of volatile sugar selling prices which had affected our Gross total income. The profit after tax was Rs.757.07 lakhs for the financial year 2010-11 compared to Rs.1138.79 lakhs during the financial year 2009-10.

3. Sugar production in India after two years of low production, recovered in the SY 2010-11. During SY 2010-11, sugar output is likely to see a 25-30 per cent growth mainly due to improved cane acreage, adequate rainfall and the consequent increase in sugar production. Domestic sugar stock position is expected to turn surplus in the current season 2010-11 even after considering the exports of sugar around 1.50 million MT. Sugar production is likely to overtake domestic consumption marginally.
4. Sugar prices, which declined to around Rs.2,600 per Quintal by August 2010 from around Rs.3400 per Quintal in February 2010 firmed up, since then and stood at around Rs.2600-2700 per Quintal during January-March 2011. This was largely driven by an increase in demand during the festive season; a fall in sugar releases by the government during September to November 2010. Further a rise in international sugar prices also improved the sentiments for the domestic sugar industry.

5. With the crushing season of SY 2010-11 coming to a close, there will not be any significant variation in final production from the estimated range. Hence, the sugar price trends in the near term will be largely determined by three factors.

6. International crude oil prices which is critical for ethanol mix in Brazil, the world’s largest producer, which will determine the raw sugar availability

7. The Government of India’s policies regarding exports of sugar and import duties.

8. Expectations on domestic sugar production for the coming season (SY 2011-12).

9. During the month of June 2010, the Government of India (GOI) increased the levy sugar prices (which had been stagnant at Rs.1250-1350 per Quintal across the country since SY 2003-04) to Rs.1650-1850 per Quintal from SY 2009-10 onwards. In October 2010, the GOI reduced the levy quota from 20 per cent prevailing in SY 2009-10 to the earlier level of 10 per cent, following the upward revision in the estimates for domestic production. Reduction in levy per cent coupled with an increase in levy sugar price is likely to benefit the sugar mills significantly.

10. Further during 2010-11, the Indian Government relaxed many import restrictions due to concerns over food price inflation. Imported sugar was exempted from levy sugar obligations and market quota release requirements. Duty-free imports of sugar were extended to the end of March 2011.
11. An asset is treated as impaired when the carrying cost of assets exceeds its recoverable value. An important loss is charged to the Profit and Loss Account in the year in which an asset is identified as impaired, after considering adjustment if any already carried out.

12. The Company creates a provision when there is a present obligation as a result of an obligation / event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require immediate outflow of resources. Where there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is very remote, no provision or disclosure is made.

13. The earnings considered in ascertaining earnings per share comprises of the net profit after tax before exceptional items. The number of shares used in computing earnings per share is the weighted average number of shares outstanding during the year. Diluted earnings per share comprises of weighted average share considered for deriving basic earnings per share as well as dilutive potential equity shares.

14. Tax expense comprises of current tax and deferred tax. Current income tax is provided on the taxable income for the period as per the provision of Income tax Act 1961. Deferred tax is recognized, subject to consideration of prudence, on timing differences, being the difference between taxable incomes and accounting income that originate in one period and is capable of reversal in one or more subsequent periods.

15. The researcher found that the financial statements of the subsidiary whose financial statements reflect total assets of Rs.130.95 lakh as at March 31, 2011 and total revenues of Rs.84.10 lakh for the year then ended. The consolidated financial statements have been prepared based on the audited financial statements of the subsidiary, Kothari International Trading Limited as on 31.03.2011 and the audited financial statements of the associate Kothari Petrochemicals Limited as on 31.03.2011.
EID Parry Sugars

1. The total Gross revenue of the company grew by 51 per cent to Rs.118576 lakh in the year 2009-10 from Rs.78384 lakh in the year 2008-09.
2. Sugar sales increased from Rs.58618 lakh to Rs.93634 lakh in 2009-10 mainly driven by increased average realization of 78 per cent. Alcohol sales increased by 113 per cent as the newly commissioned Distillery at Sivaganga district, Tamilnadu contributed to the higher output. Power sales recorded an increase of 29 per cent due to higher rate realized during off-season period.
4. Nutraceuticals division’s sales have increased by 29 per cent, due to higher sales volume of Spirulina and traded products that include Lycopene, Lutein and Others.
5. Other income was Rs.14950 lakh as against Rs.89248 lakh in 2008-09. Other income of the previous year includes Rs.74639 lakh of profit on sale of shares held in Parry ware Roca Pvt. Ltd.
6. Dividend income decreased by 13 per cent to Rs.10017 lakh mainly due to drop in the short term investment surplus during the year. The interest income earned during the year is Rs.772 lakh as against Rs.840 lakh in 2008-09.
7. The Earnings before Interest, Depreciation, Tax and Amortization for the year was Rs.34738 lakh (excluding Profit on sale of Investments) representing 30 per cent of total revenues and showed a growth of 61 per cent over previous year of Rs.21,567 lakh. The increased profits in sugar segment have contributed for higher EBIDTA during current year.
8. The Net worth increased from Rs.96932 lakh in 2008-09 to Rs.109634 lakh. During the year, the Company earned a net profit of Rs.20528 lakh.
9. During the year, 244656 Equity Shares were issued to the employees on exercise of Employee Stock options for an aggregated premium of Rs.374 lakh (2009 : Nil) and total number of shares were 86358470 as on 31st March, 2010.
10. Debenture Redemption Reserve has been created for the Non-convertible Debentures of Rs.5000 lakh issued and Rs.417 lakh has been transferred from Profit and loss account.

11. The Company has incurred Rs.4451 lakh of capital expenditure during the year towards Distillery expansion at Nellikuppam and normal capex. Since the company has already completed the expansion projects in 2008-09, the capex spend was lower by 84 per cent in 2009-10 compared to previous year.

12. During the year, the Company made its entry in Karnataka State by acquiring 76 per cent stake in M/s.SadashivaSugars Ltd. for Rs.4962 lakh. Further, Company infused equity of Rs.1430 lakh in M/s.Silkroad Sugar Private Limited.

13. Other investments include Rs.804 lakh in Coromandel International Limited and Rs.40 lakh in Parry Phytoremedies Private Limited, subsidiary companies. The total investment of the company as at 31\textsuperscript{st} March 2010 amounts to Rs.68282 lakh. The Mutual Fund Investments as at 31\textsuperscript{st} March, 2010 was Rs. 37710 lakh.
5.3 SUGGESTIONS

1. EID Parry Sugars has some better results mainly due to its diversified ancillary units, which is less in Kothari Sugars. So it incurs huge loss. Hence sugar units share concentrate an all the possible allied activities in order to boost their profits.

2. Regarding the select sugar private units, though they take various measures to overcome the financial problems, they are still in alarming position due to inconsistent production and control of government. Hence the government should setup a special committee to study the problems of sugar units in depth and take necessary action on the basis of the reports of the committee.

3. Public sector units should be started in possible areas of our country, in order to reduce the production cost and face the global competition. Capital formation is greater problem to sugar units due to continuous loss and lack of consistent dividend. Hence the management should concentrate on stakeholders’ betterment through efficient utilisation of resources.

4. India’s farm costs are high as compared to competing geographies. The cane pricing model will be critical in enhancing India’s competitiveness. India’s competitiveness for exports would continue to be low; India’s cost of production continues to be high due to the cane pricing model. Cane pricing directly make impacts on the mills and farmers. The incentives for mills to invest in farm productivity would be reduced and the incentives for farmers to adopt better varieties to be increased. Non implementation of the suggested modifications will adversely impact the future improvements in yields, recovery and mill efficiency.
5. According to CRISIL Report in 2013 there is a chance of increase in operating cost of sugar units upto 24 per cent whereas the sugar price increased only upto 6 per cent per year. It will create greater problems to the financial positions to the sugar units especially Tamilnadu and Utter Pradesh due to higher price fixation for sugarcane by the state government. To overcome this problem the sugar price should be increased to meet out the production expenses. Central government should restrict the import of sugar in order to develop the domestic industries.
5.4 CONCLUSION

Sugarcane is covered under the Essential Commodities Act due to its perishable nature and the need for regulation on cane supply and pricing. Given the large number of farmers with small landholdings involved in farming cane, sugarcane needs to be regulated. In order to meet the future expected demand of 28.5 million MT by 2017, Government support may therefore be needed to bridge the availability gap and the sector will not be able to achieve self sufficiency. Large investments are needed for realizing the complete potential of by-products by 2017. Lower attractiveness of the sector would lead to lower investments. Unless the sustainability of mills can be improved through a viable cane pricing model, these investments may not be possible. In order to meet domestic demand, the sector would need new investments in farm productivity and in milling capacities. Cane is also increasingly being viewed as a strategic crop due to the emergence of ethanol and cogeneration. Since cane is produced primarily in nine states but cane based products are consumed across the country, it needs to be regulated in a unified manner. Moreover, for a sustainable price band to be effective across the country, it is necessary that cane pricing be done consistently across states. The independent regulator could play this role in the future.