CHAPTER - 1

INTRODUCTION

Agriculture is a way of life, a tradition that for centuries has shaped the thought, the outlook, the culture and the economic life of the people of India. Agriculture sector in India has made significant strides since independence. The late sixties witnessed a green revolution in the sector and the annual food grain production increased four folds from about 51 million tonnes in the early fifties to 206 million tonnes by the turn of the 21st century. With the globalisation policies the agriculture is undergoing tremendous changes. Commercialisation of agriculture with hi-tech management systems and practices, new varieties or hybrid and high value crops, etc., have opened a new era in agriculture. Further, export orientation is picking up with the adoption of modern concepts and practices of cultivation and production by farmers in the rural India. Many multinational companies (MNCs) are also operating in the production and processing areas of agriculture.

India is now one among the leading producers of sugar, tea, milk, fruits and vegetables in the world. A wide variety of agro-climatic conditions enable India to produce a wide range of horticultural crops. During 2000-01, India produced 49.80 million tonnes of fruits and 98.50 million tonnes of vegetables. The strenuous efforts undertaken
to develop dairying on organised lines through special and operation flood programmes have changed dairying scenario in India. India has become the largest producer of milk in the world. During 2000-01, it produced 81 million tonnes of milk. The livestock sector has produced 32.4 billion eggs, 47.6 million kg of wool, and 4.7 million tonnes of meat. Fisheries sector also plays an important role in the socio-economic development of the country. The production of fish during 2000-01 was 5.6 million tonnes and the exports of this sector were estimated at Rs.6,318 crore.4

Despite these tremendous achievements on production front there has not been any change in the rural scenario and the quality and quantity of food available in the rural and urban areas. A large quantity of agricultural produce is lost for want of adequate storage and marketing facilities. Lack of holding capacity makes Indian agriculturists to sell their produce at lower price and incur phenomenal losses. Instances are rampant where Indian farmers threw their produce on the roads and in gutters. Moreover, products are sold in raw form fetching the lowest possible prices. The value addition efforts are hardly attempted. Due to perishable nature of fruits and vegetables (F&V), the post-harvest losses of these commodities is estimated at four to five times higher than in food grains. The loss is estimated at Rs.23,000 crore per year in F&V sector itself.5 In India F&V are generally marketed immediately after the harvest and hardly 2 per cent of the production is commercially processed whereas more than 50 per
per cent of the produce is processed in developed countries. Hardly 3.50 per cent of total agricultural and horticultural production is processed in India. It is observed that in perishable products sector, nearly 30 to 40 per cent of the production is being wasted because of glut in the market and also because of lack of required facilities for storage and processing. The unnecessary wastage of these products could be avoided if they are processed in value added form and sold adequately in different parts of the country.

The lack of value addition efforts, lower price realisations, wastage of produce, pitiable conditions of farmers in spite of good production yields, lack of availability of produce through all the periods and in all the areas, etc., make the necessity of establishing food processing industries (FPIs). The FPI has a critical role to play in transforming the agriculture of a primitive nature to agriculture of the highest order.

The western world owes a large per cent of economic development to the orderly growth of FPI sector. The FPI, being converter of raw produce of agriculture into processed product of different nature, requires both backward and forward linkages. The FPI sector is a connecting link between agriculture growth and industrial development. With the establishment of processing units and huge R&D expenditure on market, product and technology innovation, the sector contributes to the growth of industry and urban areas. The sector is to be continuously fed by produce from agriculture. The type,
quantity and quality of agriculture produce are pre-determined. This reduces uncertainty among agriculturists and they would know what to produce, how much to produce, when to produce, etc. Thus, FPI sector, in turn, contributes to the orderly growth of agriculture and rural economy. With assured prices, market, and income, the agriculture is given an elevated position. An orderly growth of this sector eliminates wastage at farm level, makes available processed food round the year, absorbs surplus production, provides cold storage facilities, improves export potential, etc. With the establishment of numerous industries producing varied processed food items, the sector also contributes to the growth of industrial development. With the establishment of production units nearer the farming would provide rural youths alternative employment opportunities and regular income. The customer would have the opportunity of buying and storing highly value added products round the year. There is value for what urban spends in the purchase of processed food. The processed food reduces the domestic chores of housewives and employed women are relieved of cooking all mundane items. This would totally change life styles and food habits of urban people and to some extent this may spill over to rural areas also.

Due to the importance of the sector, the Central as well as various State governments have initiated various policy measures in the country to develop the industry on an organised lines. As a result of these efforts, the sector has developed on a phenomenal scale in the
country. Statistics reflects that FPI rank fifth in its contribution to value addition but tops the list in terms of employment generation with approximately 1.50 million persons employed in the sector constituting 19 per cent of the total number of country's industrial labour. With only 5.20 per cent of the total industrial investment, the sector contributes 18 per cent to the Gross Domestic Product (GDP). According to a recent study on the food processing sector, the turnover of the total food market is estimated approximately at Rs.2,50,000 crore (US $ 69.40 billion), out of which value added food products comprises Rs.30,000 crore (US $ 22.20 billion).

Thus, considering the agricultural base of the country, sugar, F&V, fish products, oil and oilseeds, milk and milk products have the highest potential for development. But this process requires advanced technologies which allow the FPI units to process the food products without nutrient losses. Efforts should be made to encourage establishment of such units close to the area of production (Rural) to avoid wastage and transportation of raw material to far away places and to ensure increased value addition to agricultural produce.

Need for the Study

Over the last decade, the Karnataka State has been in the limelight for its innovative policies towards agriculture and industry in general and food processing sector in particular. In fact, Karnataka is the first State in India to announce an exclusive and exhaustive policy
for food processing sector. The State is basically an agrarian State where 66 per cent of its workforce directly and indirectly depends on agriculture and 33 per cent of the State's total GDP comes from agriculture.

The State has developed a well-established network of institutions on its own or has encouraged the establishment of private organisations in FPI sector. Besides private dairies, the co-operative dairying is a big player in the State. The Karnataka State Co-operative Milk Producers Marketing Federation (KMF) Ltd., is a State level organisation with various districts level unions and village co-operative societies. A State level oilseeds procurement, processing and distribution agency under co-operative sector has also been established.

For the growth of fisheries sector, the State has promoted its own corporation with headquarters at Mangalore. Besides these numerous co-operative and privately run organisations, various sugar factories, spinning mills, processed food manufacturing units, etc., have come up in a big scale. MNCs like cola companies, beverages, jams, sauce, bread making, processed atta manufacturers, etc., have also entered the scene in the State. These plethoras of FPI units control the destiny of the FPI sector in particular and that of agriculture in general.

The units are expected to perform exceptionally well to live up to the expectations. The operational and financial performance should be encouraging for new units to enter and for government to announce many more incentives and packages to develop the sector. Moreover,
good working of the units helps units themselves. Satisfactory revenue and profits realisations enable them to finance capacity and business diversification plans and pay attractive prices to growers. The value addition depends on quality of outturn the units produce. The quality of final products in turn depends on technology employed. A modern and hi-tech technology ensures quality and higher price recoveries. The financial resources generated internally are the best bet acquiring modern and innovative technology by the units. The financial and various operational policies all play the deciding role in shaping the future of the sector.

However, the working of food processing sector in the State is found to be unsatisfactory and has failed to produce desired results, defeating the confidence reposed by planners, administrators and farmers on this sector. The units instead of generating operating profits for development and growth have become loss making units. The majority of units in the sector depend on the government's subsidy or on borrowed capital. The large amounts of accumulated operating losses and heavy interest burden have severely impeded the orderly growth of the sector in the State.

Application of sound management principles in general and financial management principles in particular is hardly attempted in the sector. The financial management is a specialised activity which mobilises funds from cost-effective sources and deploys them to highly return maximising areas. The discipline continuously monitors the
return and risks (cost) involved in every activity or field and guides business suitably. The financial management is wedded to the principle of maximisation of shareholders value on the premise that it assures or guarantees the maximisation of value/satisfaction of remaining stakeholders. The application of sound financial management principle is the need of the hour in FPI sector. Being the forerunners of economic and social development in the country, the sector is expected to emancipate the living conditions of farmers and standard of living and food habits of both rural and urban consumers. The application of financial management techniques assures proper management and running of FPI units.

In view of the significance of financial management and financial performance, in this study an attempt has been made to diagnose or evaluate how far selected FPI units in Karnataka are adhering to the principles of financial management and how far their financial performance is in congruence with their objectives.

Review of Literature

Social science research, being an applied research, is not done in vacuum. It involves an exhaustive review of various studies and works already done. The present study is a part of applied social science research. The study involves an examination of FPI units working in the Karnataka State. The food processing is an extension of agriculture activities and involves value addition to its output. The studies
relating to food processing can broadly be classified into two groups, i.e.,

- Technical, and
- Non-technical, i.e., financial.

Technical works have so far concentrated on technology requirement, input-output relations, machinery requirements, etc. These are umpteen number of studies done by individuals, institutions, NGOs, Governments and UN agencies, etc. A review of such works is beyond the objective of this study.

Non-technical studies basically involve, financial and market related. The financial studies are with regard to cost-benefit-analysis of individual products like grapes, chillies, sugar, milk products, etc. Some studies have also been done on evaluation of institutions involved in FPI like milk federation, unions, societies, etc., sugar factories, rice mills, MNCs, etc. These are basically economic in nature. The market related studies have evaluated various marketing problems, prospects and strategies needed to push or augment processed food items in India.

The present study is basically non-technical, in the sense, it concentrates on financial profitability. Being financial oriented, the study has made an exhaustive review of a few of the important studies and works with a view to identify the trend and progress of research work in FPI sector, especially on financial line.
Balasubramaniam (1960)

The present study is a descriptive one and evaluated the role of processing of agriculture produce in India's rural economy. The study found that processing improves the marketing of farm products and reduces the marketing costs and margins, thereby, raising the share of the farmers in the price paid by the consumers. The author says that the processing of food stuffs narrows down the spread between the producer's price and the consumer's price and the products are made available throughout the year. Further, the price fluctuations of extreme nature can also be reduced.

However, the study is silent on how to reduce the processing cost, i.e., operating cost/expenses to improve the operating performance of the business. Improvement of operating performance is essential for improvement in total management performance.

Dineshwar Prasad (1966)

The present study entitled, Location and Role of Agricultural Processing Industry in the Rural Economy of India, pointed out that FPIs have an important role to play in overcoming the supply of agricultural commodities. These industries provide a stable level of prices and an assured market for farm products. Further, the study observed that FPIs evened out income disparities between rural and urban areas. The study found that agro-processing industries contribute indirectly towards agricultural production and productivity. But the
study did not cover how the farmer/producer will get higher price for their produce, after the processing of raw produce, i.e., concept of value addition is not considered.

**Anonymous (1977)**

This work relates to F&V processing industry in India and was done with a view to ascertain the capacity utilisation in FPI sector. The study found that the capacity utilisation in the industry ranges between 30 per cent to 40 per cent. The study concludes that suitable technology for processing of F&V has to be developed and the processing industry has to forge links between the growers of F&V and industries so as to obtain quality raw material and uninterrupted supplies to effect economies in production costs and ensure maximum utilisation of installed capacity. But the study did not cover production and marketing cost concepts which are very much essential to fix prices for the processed products and also to fix the price of the fruits and vegetables.

**Venkaih (1984)**

The present study is an impact study and examined the impact of the establishment of rice mills, sugar processing, tobacco processing, gur and Khandasari industries on the rural economy of Andhra Pradesh. The study found that the food processing sector in the study area had changed the cropping pattern of the farmers and had affected positively on the employment, wages and income levels of the people in the area.
However, the study did not cover the concept of value added and also on how much the farmer will get in value addition. The study is not specific about the degree of variation of return to the farmer on sale of raw produce and sale of processed product.

Subba Rao (1985)

In this study, an attempt was made to analyse the business performance of the Central Arecanut Marketing and Processing Cooperative Ltd., Mangalore, Karnataka. The author has used various financial ratios, viz., solvency, liquidity, profitability and other performance variables to measure the overall performance. The study concluded that return on investment (ROI) as measured by net profit to capital contributed by shareholders was abysmally very poor. The liquidity ratios were also found to be below standard norms. The study suggested for investment of share capital and other long-term funds in current assets (CAs) to improve overall liquidity. It also suggested for control of operating cost and interest on borrowed capital to increase ROI.

The study covers only financial management performance area but not operating management performance. For the success of any business, improvement in total management performance is essential which is a product of both OMP and FMP.
The present study evaluated financial performance of Dharmapuri District Co-operative Sugar Mill in Tamil Nadu. For this, the author used various financial ratios like, proprietary ratio, current ratio, assets turnover ratio, RONA ratio, working capital turnover ratio, operating expenditure ratio and operating margin ratio, etc.

The study identified the key factors for the financial success and offered suggestions for improving operational efficiency of the unit. The study is restricted to sugar processing mill only which is one of the sectors in food processing. Development in all the sectors of food processing is essential for the development of FPI as a whole.

The study evaluated the economic aspects of groundnut processing industries in Chittor district of Andhra Pradesh. The study examined the various facets of groundnut processing between oil mills and oil rotaries. Further, it also observed that the processing cost and return are high in oil mill but net profit margin is large in oil rotaries. Functional analysis of the study revealed that there is a scope for increasing the capacity utilisation as the present oil mills and oil rotaries are functioning below their installed capacities. The study concluded that further investment in human labour and procurement operations will fetch dividends in oil mills as compared to oil rotaries.
The study lacks justification for the variation in cost and return in oil mill and oil rotaries.

Srivastava (1989)

Srivastava in his study on Agro-processing Industries: Potential, Constraints and Task Ahead, indicated that with subsequent secondary and tertiary processing of various raw material, the value added as well as the price of the finished products would be increased. The study observed that agro-processing units account for 39 per cent of all factories, 12 per cent of fixed capital, 13 per cent of working capital and 15 per cent of total capital employed in the industry in the organised sector. The study indicates that this 15 per cent of capital investment has generated 36 per cent of the total employment, 26 per cent of the output and 21 per cent of the net value added. The study concludes that capital productivity in agro-industries is 0.35, while labour productivity is less than half as compared to non-agro-based industries.

The study can be criticised on the ground that it is an extension of theoretical aspects. It did not comment on the extent of value addition possible with subsequent secondary is tertiary processing of raw material, etc.
Dalvi (1989)\(^{16}\)

The present study aimed to evaluate the economies of production, marketing and processing of cashewnut in Sindudurg district of Maharashtra. The study found that the overall capital investment was Rs. 40.44 lakh consisting of 11 per cent fixed capital and 89 per cent working capital. The study with the help of financial ratios points out that the FPI units are incurring 51 per cent of total cost of sales in the form of interest on debt capital only and pay 60 per cent of total selling and distribution expenses in the form of commission to agents.

The study did not provide any reason for the incurrence of such huge interest burden and did not provide any logical basis for incurrence of huge commission to agents.

Mattigatti, et al., (1990)\(^{17}\)

This study evaluated the impact of dairy co-operative societies on cost-return structure of buffalo milk production in Dharwad district of Karnataka State. The study concluded that members of co-operative societies get higher rate of net profit than the non-members on total investment. The study points that co-operatives have succeeded in procuring better price for milk producers.

Efficiency in operating activities and optimum financial policy may be the reason for better margin to the members of co-operative society. Further, it is also pointed out that processing adds value for
the product thereby increase the return to the farmers or growers of the agriculture produce.

Natarajan, et al., (1990)\textsuperscript{18}

The study evaluated the working of consumer co-operatives in Andhra Pradesh. To achieve these objectives, the study has used various financial ratios, viz., profitability, solvency and liquidity and concludes that the liquidity position of the units was unsatisfactory. Debt finance was more than the equity and hence debt equity ratio was also found to be unsatisfactory. The study shows poor inventory turnover, huge accumulated inventory, ineffective utilisation of total resources of the business, etc., as the reasons responsible for poor financial position. However, the study is not specific about the reasons responsible for the inefficiency in the operating performance of the business.

R.L. Hyderabad (1991)\textsuperscript{19}

The study analysed the pattern and productivity of financial resources employed by KMF in Karnataka State. The study focussed on capital productivity and aimed to ascertain causative factors responsible for poor ROI. The study found that the KMF has failed to manage its total financial resources effectively and efficiently. The debt capital was the most predominant source employed to finance capital requirements and large part of the resources raised have been lost in operating activities. Thus, the study concludes that high debt
and high operating losses have contributed to poor financial working of KMF and had impugned the growth of co-operative dairy sector in the State. The study is basically a case study which ignored the impact of working of unions and societies on the Federation. Being macro in its approach, the study lacked micro usefulness.

**Balasundhari (1991)**

The study was done with a view to assess the performance of coconut processing sector. The study points out that in desiccated coconut units P&M accounts for the largest share in capital investment and wages on permanent labour accounted for the greatest share of total cost of goods sold. The operating profit is decreasing because of fixed amount of expenses in the form of depreciation. The study also observed that the percentage of raw material cost to total variable cost was the highest followed by cost of packaging, labelling and transportation costs.

The study has made a contrasting note on the proportion of labour cost and material cost. Though both of them are regarded as high, no valid reasons are cited for predominance of these two costs.

**Jogindersing (1995)**

Jogindersing and others in their study based on *Fruits and Vegetable Processing Units: An Economic Analysis*, indicated that fixed cost and labour expenses are predominant in total cost of goods
sold and such higher costs have reduced the operating profits of the units. The cost of raw material, i.e., fruits, vegetables, sugar and packing as percentage to total cost has declined over time due to minimisation of wastage and adoption of up to date technology. The analysis reveals that the percentage of profit to total cost was 9.65 per cent, 18.19 per cent and 26.83 per cent respectively for the study period 1990-91, 1991-92 and 1992-93.

The study did not identify the specific reasons for the variation in percentage of profit to total cost. It was also not specific as to which line of activity the government should pay more attention so that performance of F&V processing units could be improved.

Khatkar (1996)\textsuperscript{22}

Based on the secondary data, the researcher observed that although the FPI had attained an annual growth rate of 5.70 per cent in 1992-93, a vast majority of agricultural produce was consumed and exported unprocessed. The study suggested that government should pay due attention to make FPI a viable industrial sector by capturing an export foreign exchange potential of the sector. But the study did not cover the concept of improvement in productivity and profitability. It is also not specific about the degree of variation of return to the farmers for their produce before and after the processing.
S.N. Hanchinmani (1996)\textsuperscript{23}

The study evaluated financial analysis of co-operative sugar factories in Belgaum district with special reference to Malaprabha Co-operative Sugar Factory, M.K. Hubli. The researcher used ratio analysis technique for analysing the performance. The study suggested that cost reduction and cost control are the only method to increase the operating profit margin. Further, the study identified broad areas of cost reduction, namely, material cost, conversion cost, administrative cost and selling and distribution costs. However, the study is not that much specific about how to improve the financial performance of the specific sector, i.e., sugar factory.

Roy (1997)\textsuperscript{24}

The study evaluated the growth and prospects of F&V processing industry in India and concluded that the low level of processing in India was mainly due to inadequate post-harvest technology, lack of transport and marketing, absence of linkages between processor and the grower, and also lack of domestic demand for processed products. The study pointed out that poor infrastructure is the single and the biggest problem that afflicts Indian agricultural processing sector.

The study concentrates only on infrastructural development rather than the improvement in production performance and on the management of scarce financial resources in FPI. Operational and
financial improvements are equally essential for overall improvement in total performance.

S.T. Bagalkoti (1997)

The author of this study entitled, *An Economic Analysis of Agro-processing Industries in India: An Inter-state and Inter-industry Study*, has focused on the manifold restrictions on the inter-regional movement and prices of many raw materials as well as the processed products. The study pointed out that the synergy between agriculture and agro-processing has not been fully exploited. However, the agro-climatic regional planning and economic reforms have some elements that favour the growth of agro-processing industries.

The study concluded that the growth of industries in any region requires a set of conditions to be fulfilled and accordingly regional industrial growth has to be postulated as a function of the availability of raw material, infrastructural development, per capita income, level of demand and degree of urbanization. However, the study was found to be silent with respect to the question of how these agro-processing industries help for value addition and in turn regular availability of seasonal produce at a reasonable price to the consumer.

S.I. Bhat (1998)

In his doctoral work on the problem entitled, *Problems and Prospects of Food Processing Industry in Western Karnataka*, the
author examined the nature and the extent of food processing industrial activity in western Karnataka. The researcher suggested that the resources within agriculture needs to be re-allocated for bringing a shift in focus of production from traditional field crops to new diversified crops. The study identified areas ideal for the growth of F&V, aquaculture, floriculture, etc.

The study concluded that efforts should be made by the government to further accelerate the pace of development in FPI by announcing additional incentives, concessions and packages, etc., and called for preparation of state-wise plans for the development of sector. However, the study did not cover the cost and return factors which are most important to evaluate the performance of FPI.

Amit K. Mallik and Debasish Sur (1999)

The present study on working capital management analysis selected Hindusthan Lever Ltd., (HLL) a giant in food processing sector for the purpose. The objective was to examine in the context of published figures of the accounting statements how far the management of working capital is successful in the case of HLL during the study period of 1987-1996. To analyse the working capital management (WCM), the study used various financial ratios and statistical tools. Financial ratios, viz., Current Ratio, Quick Ratio, CA to TA Ratio, CA to Sales, Inventory Turnover Ratio and Debtors’ Turnover Ratios.
Mean, CV, Regression and Correlation statistical tools were also employed.

The study observed that the general performance regarding the WCM in the HLL was very much encouraging during the study period. Further, the Company was moving in the right direction of reducing the proportion of inventories and increasing that of debtors, miscellaneous current assets (CAs) and cash and bank balances. The study observed a change in the composition of CAs helps to increase not only the individual efficiency in the management of various component of working capital but also the efficiency in the WCM as a whole.

Arup Chattopadhyay, et al., (2001)

The study evaluated the economic performance of rice processing industry in India, and found that government policy towards financing working capital needs and the procurement of rice through imposition of levy are the important factors responsible for the poor performance of the unit. Further, the study found lack of modern technology and skilled labour as contributing factors for poor performance. The study suggested that to capture the full benefits of input potentiality and to avoid the wastage of different by-products of paddy-rice system, the government restrictions should be abolished and trade unions should play responsible role to create and develop congenial working environment in the industry.
The study is restricted only to the evaluation of operating performance. But with only operating performance analysis, it is very difficult to judge the total performance of any business units.

Debasis Rej and Debasish Sur (2001)

The study analysed the profitability of Indian food products industry and selected Cadbury India Ltd., as a case analysis. The objectives of the study were to assess the degree of relationship between the selected performance ratios and some important parameters of the Company’s position and to test the statistical significance of the relationship by using appropriate tests. The study was based on a selected period of 10 years, i.e., from 1987-88 to 1996-97.

The study concluded that the profitability of Cadbury India Ltd., in terms of GPR, NPR and ROIR was not stable during the study period. The study also revealed that out of the six ratios selected for the study, three ratios, namely, CR, QR and CTTR registered negative correlation with the selected profitability ratio ROIR. Further, the slopes of the ROIR equation associated with QR, TATR and CETR witnessed both positive and negative influences of variations in the independent variables on the profitability of the Company. However, the study was found to be not specific about the methods to improve the financial strength of the business in question.
Statement of the Problem

A review of the literature reveals that there is a yawning gap between various studies so far conducted. The majority of studies concentrated on technical aspects of FPI like dairy processing, technology, input-output matrices, etc. Other studies looked at single product or single institution and concentrated basically on cost-benefit-analysis. A few of the studies on financial analysis selected only one institution either at village level, district level or State level. No attempt so far has been made to compare more than one FPI unit. If there is any comparison, it is only among related units or units within the same sector like units within dairy sector, sugar, rice mills, oil processing units, etc. No attempt has so far been made to relate performance of one unit in one sector with the performance of another in another sector. Such a comparison would throw a light on relative profitability between various sectors and indicates which sector needs government assistance or help for the overall growth of FPI sector. The growth and development of FPI is complete when all sectors grow and develop. A growth of dairy sector and a fall in the progress of, say, oil processing, does not contribute to the growth of food processing sector. In this regard, there has been no attempt to analyse/compare the performance among the unrelated units.

Moreover, financial management is a critical input in the success or failure of business. A failure in financial management leads to failure on all counts while a successful financial management assures
the success of other functions also. The FPI units need to be evaluated on financial front among unrelated units.

Evaluation of financial performance assumes an added significance in food processing sector where efforts are being made to increase productivity and profitability. The Karnataka State is unique in its kind to announce a separate policy for FPI. The State has declared various packages, incentives and concession for the growth of food processing sector in the State. Efforts are being made to develop food processing sector by investing crores of funds. Hence, the efficiency with which the FPI units mobilise and utilise the scarce financial resources determines the development of FPI. In this context, the financial performance of the FPI assumes a paramount importance to the government as well as to FPI itself. Therefore, the present study concentrates to x-ray the factors responsible for good or bad performance of selected FPI units in Karnataka State. Hence, the statement of problem is, **FINANCIAL PERFORMANCE OF SELECTED FOOD PROCESSING UNITS IN KARNATAKA STATE**.

**Objectives of the Study**

The present work is basically an attempt to diagnose the financial performance of selected FPI units in Karnataka State. In order to achieve this broad objective the following workable objectives have been set:
To analyse the need, growth and development of food processing sector in India and in the Karnataka State,

To provide a historical and organisational profile of selected sample units,

To examine the total management performance, a product of operating and financial management performance of sample units,

To analyse the operating management performance of the sample units,

To examine the financing policies pursued by sample units and their impact on total performance,

To analyse how far investment policies pursued has contributed to poor or good total management performance,

To identify the possibilities of employing working capital leverage technique in sample units, and

To suggest feasible remedies and measures to improve the overall working of the sample units.

Research Methodology

To accomplish the objectives set and to assist the sample units, the study has employed extensively both primary sources and secondary sources of data.

The primary sources include interview held with the officials of the sample units, workers, farmers, etc. The secondary data were collected through annual reports and other published data sources. A
time period of 9 years, i.e., from 1992-93 to 2000-01 has been used to collect annual reports.

The data so collected were properly collated and analysed to achieve the objectives set. The study amply uses the 'ratio analysis' as a technique to dig out the financial performance of sample units. The study also uses other financial analysis techniques like, comparative financial statements, common size statements, etc. Besides these financial techniques, statistical tools like averages, standard deviation, co-efficient of variance, etc., have been used extensively to accomplish the stated objectives.

The sample units for evaluating financial performance of FPI sector in the State have been selected considering factors like, availability of data, coverage, importance of the unit, relative contribution to FPI growth, etc. The study has selected four food processing units engaged in entirely unrelated food processing sector in Karnataka State. The unrelated units, as said earlier, are chosen with a definite purpose of comparing and evaluating financial performance of units across various sectors to contribute to the overall growth of FPI in the State. The units selected for the study are among the several units coming under the description of manufacture of food products as notified by the National Industrial Classification (NIC) 1970 and Major Industry Group 20-21. The following four units are taken as sample units for the study.
1. **Dharwad Co-operative Milk Producers’ Union Ltd., Dharwad.**

2. **Karnataka Co-operative Oilseed Growers’ Federation Ltd., Bangalore.**

3. **Karnataka Fisheries Development Corporation, Mangalore, and**

4. **Shri Malaprabha Sahakari Sakkare Karkhane Ltd., M.K.Hubli.**

1. **Dharwad Co-operative Milk Producers’ Union Ltd., Dharwad (DAMUL)**

   The manufacture of dairy products is coming under the industrial code of 201 as per the NIC notification. The Karnataka State is the pioneer in the country to initiate cross breeding programme with the technical assistance of National Dairy Development Board (NDDB) and DAMUL is the largest district level union in the State which covers four districts of the State and a part of neighbouring State, i.e., Goa, which is a unique character among milk unions in the State.

2. **Karnataka Co-operative Oilseed Growers’ Federation Ltd., Bangalore, (KOF)**

   The manufacture of edible oil also comes under the industrial code of 211 as per the NIC notification. The KOF is a State level co-operative oilseeds processing unit with three regional offices in the State. Besides concentrating in Karnataka State, the unit has its presence in other States of India, namely, Uttar Pradesh, Maharashtra, New Delhi and parts of Rajasthan.
3. Karnataka Fisheries Development Corporation, Mangalore, 
(KFDC)

The manufacture of food products 20-21 has given a code No. 203 for canning, preserving and processing of fish. The Karnataka State is one of the eight maritime States of India and the KFDC is a State government undertaking established in 1970 under Indian Companies Act, 1956. The KFDC is one of the oldest organisations in the country contributing much to the processing of fish in the State.

4. Shri Malaprabha Sahakari Sakkare Karkhane Ltd., 
M.K.Hubli, (Ranisugar)

The manufacture of food products 20-21 has given code No. 206 for manufacturing and refining of sugar. The Ranisugar, is one of the oldest and biggest sugar factory established in the State, is in Belgaum district covering 577 villages of the district. Ranisugar was established in 1961 and in 1971 actual production of sugar was commenced. It is estimated that the State government is getting about Rs.90 crore revenue from sugar sector. The factory has a greater share in total production of sugar in the State and is considered to be a properly managed co-operative unit in the sugar sector.
Chapter Scheme

The present study has been organised into eight chapters.

Chapter – I gives a brief account of FPI sector need for the study, review of literature, statement of the problem, objectives of the study, research methodology, sample units selected and chapterisation adopted.

Chapter – II is used to explain the growth and development of food processing industry in India in general and in the Karnataka State in particular. The growth is analysed using criterion like share in GDP, exports, employment provided, Foreign Direct Investment (FDI) flow to the sector, state-wise distribution of FPI, etc. The chapter gives a critical account of the current food processing policy of the State.

Chapter – III is devoted to provide a historical profile, organisational structure and growth of 4 sample units selected for the study.

Chapter – IV analyses the total management performance which is defined to be a product of operating management and financial management performances. The financial management performance is also explained in this chapter.

Chapter – V is used to account for the operating management performance of selected sample units.
Chapter – VI gives a detailed account of financing policies of sample units. An exhaustive coverage of debt-equity and proprietary ratios and other aspects relating to sample units is given in this chapter.

Chapter – VII provides a critical analysis of investment policies pursued by sample units. The chapter is also used to describe the possibilities of employing working capital leverage technique in the sample units.

Chapter – VIII is a concluding chapter and is used to give summarised conclusions and suggestions to further or to improve performance of the sample units.
References


3. Ibid., p. 192.

4. Ibid., p. 193.


6. Ibid.


