

Chapter-I

Introduction and Research Design

CHAPTER-I

INTRODUCTION AND RESEARCH DESIGN

1.1 INTRODUCTION:

The co-operation and coordination is the basis of human society. First builds the society while other manages it. The co-operative movement is well flourished in India as well as in Maharashtra by efforts and philosophy of Mahatma Phule and Rajarshi Shahu Maharaj Late Shri. Keshavrao Vichare and Vaikuthbhai Mehta etc. The co-operative sugar factories are the examples of well flourished co-operative in Maharashtra. These co-operative sugar factories have changed the lives of the millions of peoples from villages. They provided direct and indirect employment to the peoples in large number around the operational area. The roads, educations, hospitals, irrigations and even the culture in the rural area have been supported by these co-operatives. The co-operatives organizations are life line of the rural people. Every need of these people is considered by the co-operative organization. They totally change the life style of the rural people and they have provided better standard of life.

Sugar industry occupies an important place in the Indian economy. It is the second largest agro-based industry in the India. India is the second largest sugar producing country in the world, the first being Brazil / India can rightly be called the home land of sugar. It is key driver of rural development supporting over about 45 million sugar cane farmers, their dependents and a large mass of agricultural labours involved in sugarcane cultivation and harvesting etc. it is the agro-based industry with immense potential for transforming the rural economy into a self-generating one and for development wealth and prosperity through agro-based companies.

More than one-third sugar factories are in Co-operative sector the co-operative sugar industry has been playing an important role in economic development of the rural area by mobilizing rural resources, generating employment and raising family income and thereby enhancing the standard of living of rural agriculturist.

The co-operative sugar industry particularly in the Maharashtra state is one of the biggest co-operative processing industries which is functioning as growth center for rural development but unfortunately today the financial position of the majority of the co-operative sugar factories is not sound due to some problem such as shortage of sugarcane, fluctuating sugar price, absolute plant and machinery, shortage of working capital. In this scenario it is necessary to conduct a micro level research to examine, evaluate overall performance especially financial performance of Co-operative sugar factories.

1.1.1 Sugar Industry in India:

India is known as the original home of sugar and sugarcane. The growth of the sugar industry in full of takes of adventure and conquest production of sugar from sugarcane has been a very old industry in India. Sugarcane is being cultivated in almost all parts of the country. After independence India has been making remarkable progress through the successive five year plans in agriculture, industrial and economic filed for development of the country.

“India is second largest producer of sugar over the globe, with having more than 45 million of sugarcane farmers in the country. At present in India there are 553 registered sugar factories having capital investment of Rs.50000 cores and annual production capacity of 180 lakh metric tons” (Indian Sugar Mill Association 2011-12).

The sugar industry is the back-bone of rural economy in India. Sugar industry in India is well maintained and is growing at a steady pace, boasting up a consumer base of overall billions of people. Sugar production in India is concentrated in six states only such as Maharashtra, Uttar Pradesh, Gujarat, Karnataka, Tamilnadu and Andhra Pradesh. These major sugar producing states which together account for 85-90% of sugar production in the country.

Table 1.1 shows the growth of sugar factories in India and their sugar production during the period from 2005-06 to 2011-12.

Table 1.1 shows that in the year 2005-06 there were 498 sugar factories in India which produced 26255 metric tons sugar. The trend of no. of sugar factories in operation in India is fluctuating over a period of time. In the year 2010-11 there were highest maximum sugars factories were operating in India which was 527. The total sugar production trend is also fluctuating over a

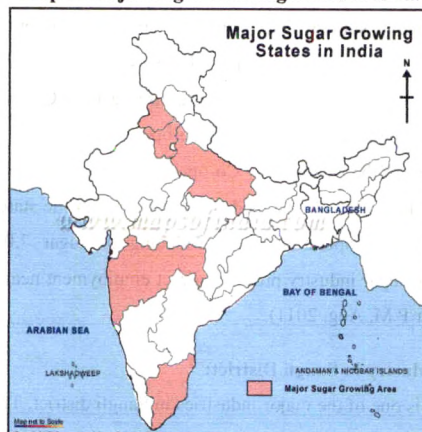
period of time. In the year 2011-12 where 525 sugar factories operating in India and they produced the 25412 metric tons sugar.

Table-1.1
No. of Sugar Factories Operating in India

Year	No. of Sugar Factories in Operation	Total Sugar Production (in metric tons)
2005-06	498	26255
2006-07	501	28328
2007-08	516	26356
2008-09	488	14538
2009-10	490	18912
2010-11	527	24394
2011-2012	525	25412

(Source- Indian Sugar Mill Association (ISMA) Annual Report, 2011-12)

Figure 1.1
Map of Major Sugar Growing States in India



(Sources- National Federation of Co-operative Sugar Factories Ltd. New Delhi)

1.1.2 Sugar Industry in Maharashtra:

The Maharashtra is the state which have well developed co-operative sector network. The development of co-operative sector is done very fast than that in

other state in the India. The contribution of co-operative sector in the development of Maharashtra was very important. The co-operative sugar factories have also important in the rural development of Maharashtra. The co-operative sugar factories in Maharashtra provided the facilities to the society like Schools, Colleges, Medical Centers, and Hospitals and Irrigations Schemes to the agriculture sector, banking and sports centers in rural area and given very appraisable contribution in the development.

The co-operative sugar factories are not only income generating and sugar producing entities but also highest employment generating in recent year. There are 199 registered factories in Maharashtra state out of which more than 90% factories are co-operative sugar factories and out of 199 sugar factories more than 50% factories are located in Western Maharashtra and these units are successfully played vital role in development of Western Maharashtra. These factories are directly related to livelihood of 20 million farmers, 1.7 million employees and 5 million labours in Maharashtra (Chellawamy P. and Revathi S.V. 2009).

British government started first sugar factory in 1919 at Haregaon in Ahmednagar district of Maharashtra. Then R.N. Hiremath and G. N. Sahasrabudhe introducing concept of establishment of Co-operative sugar factory in 1912. The first sugar factory in co-operative sectors is established in 1918 in the name of the Neera Vally Co-operative sugar factory at Baramati in Pune District. There are 199 installed Sugar factories in the state out of them 142 factories are in operation with producing of sugar 7.066 MTS. In Maharashtra the sugar industry provides direct employment near about 5 lakh people (Herekar P.M. Aug. 2011).

1.1.3 Sugar Industry in Sangli District:

Sugar industry is one of the major industries in Sangli district. There is a great scope for the expansion of these industries if raw material and capital are made available. Sangli District is known as main part of Indian Sugar Belt. In Sangli district there are 13 sugar factories. Most of the sugar factories of the Sangli work on the co-operative basis. These co-operative sugar factories play important role in the development of Sangli district, the development of rural area in Sangli district depends on the co-operative sugar factories.

The following is the list of various sugar factories operating in the Sangli District (National Federation of Co-operative Sugar Factories 2012).

- 1] Manganga Sahakari Sakhar Karkhana Ltd. Sonarsidhenagar, Atpadi.
- 2] Hutatma Kisan Ahir Sahakari Sakhar Karkhana Ltd., Walwa.
- 3] Shri Mahankali Sahakari Sakhar Karkhana Ltd., Kavathe Mahankal.
- 4] Rajarambapu Sahakari Sakhar Karkhana Ltd., Rajaramanager, Islampur.
- 5] Yashwant Sahakari Sakhar Karkhana Ltd., Nagewadi, Khanapur.
- 6] Vasntdada Shetkari Sahakari Sakhar Karkhana Ltd., Sangli.
- 7] Mohanrao Shinde Sahakari Sakhar Karkhana Ltd., Arag, Miraj.
- 8] Tasgaon Taluka Sahakari Sakhar Karkhana Ltd., Turchi Fata Tasgaon.
- 9] Sonhira Sahakari Sakhar Karkhana Ltd., Wangi.
- 10] Kranti Sahakari Sakhar Karkhana Ltd., Kundal.
- 11] Dongarai Sagareshwar Shetkari Sahakari Sakhar Karkhana Ltd., Kadepur Raigaon.
- 12] Rajaram Patil Sahakari Sakhar Karkhana Ltd., Wategoon.
- 13] Vishwas Sahakari Sakhar Karkhana Ltd., Chikhali, Shirala.

These factories not only irrigated their area but, also established other new agro industrial processing units like spinning mills, dairy and poultry co-operatives and industrial estate. These factories also provided income security to the rural people by way of ready market and reasonable price to their product, employment opportunities and opportunities social and political leadership.

The researcher selected two sugar factories in Sangli District which are Hutatma Kisan Ahir Sahakari Sakhar Karkhana Ltd. Walwa, and Kranti Sahakari Sakhar Karkhana Ltd. Kundal.” They are working well in their area. These two sugar factories are among leading co-operative sugar factories in

Sangli District. They are given higher price for sugarcane to the farmers. They also are providing social contribution for development of rural area.

1.2 STATEMENT OF THE PROBLEM:

In general, the condition of the co-operative sugar factories is not well. There are so many problems in the working of sugar factory. Efficient management is essential for its survival and growth of any organization. The management, shareholders, and other beneficiaries always seek answer about the financial position. Considering the overall situation the researcher has come across the following investigative questions;

- a) What are the factors responsible for affecting the profitability?
- b) What are the factors influencing the efficient working capital management?
- c) How does this sugar factory maintain the long term financial stability?
- d) Which are the factors affecting the financial strength of co-operative sugar factories?
- e) How do sugar factories overcome their financial weaknesses?

To understand the financial health of Co-operative sugar factories, working well in their areas, it is need to undertake a research on this problem. Therefore the study has been decided to undertake on the topic, "Assessment of financial Health of Co-operative Sugar Factories: A Comparative Study of Hutatma Kisan Ahir Sahakari Sakhar Karkhana Ltd. Walwa, and Kranti Sahakari Sakhar Karkhana Ltd. Kundal."

1.3 OBJECTIVES OF THE STUDY:

The main objective of study is to make comparative study of selected co-operative sugar factories with reference to their financial strengths and weaknesses. The specific objectives of the study are as follows:

- 1) To study the growth of the selected co-operative sugar factories in terms of Share Capital, Sales, Working Capital, Long-Term Investment and Profit.
- 2) To identify the key factors affecting the profitability of sugar factories.

- 3) To examine the efficiency of the selected sugar factories in relation to their turnover.
- 4) To test the liquidity position of sugar factories.
- 5) To assess long term financial stability of selected sugar factories.
- 6) To offer suggestion for improvement financial performance of sugar factories.

1.4 HYPOTHESES:

During the course of study the following hypothesis may be revised on the basis of result thereof.

1. There is significant growth in Share Capital, Sales, Working Capital, Profit and Long-Term Investment of Sample Sugar Factories.
2. Liquidity position of selected sugar factories is different.
3. The operational efficiency of sample sugar factories is different.
4. Solvency position of selected sugar factories is different.
5. Profitability position of selected sugar factories is different.

1.5 SCOPE OF THE STUDY:

1.5.1 Topical Scope:

The present study is on the topic of Assessment of Financial Health of Co-operative Sugar Factories.

1.5.2 Analytical Scope:

For the analysis of present research topic the researcher has used the Ratio analysis, Comparative Statement analysis, Correlation, one sample t test and paired sample t test for testing the hypotheses. The present study comprises a comparison of performances of two selected Co-Operative sugar factories.

1.5.3 Geographical Scope:

In the present research two Co-operative sugar factories have been selected from Sangli District. These factories are from two different Talukas i.e. Walwa and Palus.

1.5.4 Periodical Scope:

The financial performance of the Sugar factories has been studied for a period of 7 years from 2005-06 to 2011-12.

1.6 SIGNIFICANCE OF THE STUDY:

Co-operative sugar factories are playing important role in the Indian agriculture sector. Co-operative sugar factories not only provide high quality sugar to the society but also they provide the social service like education, water supply, medical facilities, and financial support to the rural area. The co-operative sugar factories play important role in the improvement of the life style of the farmers in the rural area. They are giving good return to the farmers for their sugarcane production.

The present study covers one of the important issues which affects the largely on the sugar factories. This study is useful to sugar factories to conduct the day to day management. It would help to the co-operative sugar factories management in proper way for solving their general and species problems. This study is also important to the shareholders and farmers to know the financial health of sugar factories and progress in near future. The present study will provide policy prescription to government to improve the support to such sugar factories.

1.7 RESEARCH METHODOLOGY:

The present study is an analytical study and mainly dependent on secondary sources of data. The primary sources of data are supplementary.

1.7.1 Selection of Sugar Factories:

Palus and Walwa are adjoining talukas there are three sugar factories in Walwa and one sugar factory in Palus taluka. Out of them one sugar factory from each taluka has been selected for the study, on the basis of their financial performance and hence the following sugar factories have selected, i.e. Hutatma Kisan Ahir Sahakari Sakhar Karkhana Ltd. Walwa and Kranti Sahakari Sakhar Karkhana Ltd. Kundal.

1.7.2 Data Collection:

The researcher has used primary and secondary sources for collection of data as given below:

a] Primary data :-

The primary source is restricted to personal discussion only. The researcher has collected primary data regarding problems of the sugar factories and the social responsibility which are done by the co-operative sugar factories from the Chairman, Managing Director, and Chief Accountant of the Hutatma Kisan Ahir Sahakari Sakhar Karkhana Ltd. Walwa and Kranti Sahakari Sakhar Karkhana Ltd. Kundal.

b) Secondary Data:-

The researcher has collected necessary information from the Annual Report, Books, M.Phil and Ph.D research work, Magazines, Internet, Different Websites, Newspapers and Articles etc.

1.7.3 Methods of Data Analysis:

Researcher used different ratios of Liquidity, Solvency, Profitability and Operational Efficiency of sugar factories for the analysis of data. The comparative study is made on the basis of Liquidity, Solvency, Profitability, Operational Efficiency and Growth of two selected sugar factories. Researcher has used one sample t test and paired sample t test for testing the hypotheses. The following parameters have been used for the Assessment of Financial Health of Co-Operative Sugar Factories.

I] To Test Solvency:

- 1) Debt-Equity Ratio
- 2) Shareholders Equity Ratio
- 3) Debt to Net worth Ratio
- 4) Capital Gearing Ratio
- 5) Fixed Assets to Long Term Fund Ratio
- 6) Proprietary Ratio

II] To Test Liquidity:

- 1) Current Ratio
- 2) Quick Ratio
- 3) Cash Ratio

III] To Test Profitability:

- 1) Gross Profit Margin Ratio
- 2) Net Profit Margin Ratio
- 3) Earnings per Share Ratio
- 4) Return on Assets Ratio
- 5) Return on Capital Employee Ratio

IV] To Test Operational Efficiency:

- 1) Material Cost Ratio
- 2) Administrative Expenses Ratio
- 3) Labour Cost ratio
- 4) Selling and Distribution Expenses Ratio
- 5) Factory Overhead Ratio

V] To Assess the Growth of Sugar Factory:

- 1) Share Capital
- 2) Sales
- 3) Working Capital
- 4) Profit
- 5) Long Term Investment

1.8 LIMITATIONS OF THE STUDY:

The researcher has tried to get all the relevant fact about the research topic but, still study has some limitations as mentioned below-

- 1] The researcher has selected only two out of 13 co-operative sugar factories in Sangli district.

2] The present research is done mainly on secondary sources of data which is one limiting factor of the study.

1.9 CHAPTER SCHEME:

The chapter scheme shall be as follows:

CHAPTER- I - INTRODUCTION AND RESEARCH DESIGN

This chapter has covered introduction of research methodology, scope, significance, objectives and hypotheses of study, primary and secondary data collection method and limitation of study.

CHAPTER- II - REVIEW OF LITERATURE

This chapter has comprised published and unpublished literature review and meaning, definition, objectives, characteristics, importance and other theoretical concept of the study, theories and models.

CHAPTER-III- PROFILE OF THE SUGAR FACTORIES

This chapter includes profile of the Hutatma Kisan Ahir Sahakari Sakhar Karkhana Ltd. Walwa and Kranti Sahakari Sakhar Karkhana Ltd. Kundal.

CHAPTER-IV- ANALYSIS AND INTERPRETATION

This chapter has included the data analysis and interpretation about the financial performance of sugar factories.

CHAPTER-V- CONCLUSION

This chapter has covered findings and suggestions with respect to financial performance of sugar factories.

1.10 CONCLUSION:

The co-operative sugar industry has given major contribution to the Indian economy. This sugar factories are also plays an important role in the development of the society. In India there is more than one third sugar factories are in co-operative sector. In the year 2011-12 there were 525 sugar factories operating in India and they produced the 25412 meteoric tones sugar. The Maharashtra is the state which will developed co-operative sector network. Maharashtra is one of the leading sugars producing state in the country. In Maharashtra there were 199 sugar factories. These sugar factories provided

various facilities to the society and played very important role in the development of the state. Western Maharashtra is the sugar belt of the India. The Sangli district has all 13 sugar factories in co-operative sectors. The researcher has selected two sugar factories in Sangli district which are Hutatma Kisan Ahir Sahakari Sakhar Karkhana Ltd. Walwa, and Kranti Sahakari Sakhar Karkhana Ltd. Kundal. The co-operative sugar factories having so many problems about profitability, working capital management, financial stability and financial strength and weaknesses etc.

In this chapter the researcher has also given major objectives of the study. The hypothesis which is to be tested by using various tests. The scope of the study about topical, analytical, geographical, and periodical point of view. There is also given the significant of the study in perspective of the shareholders, management, employees, society, government etc. the limiting factors of the study are also pointed out in this chapter. The research methodology has given about the data collection and the analysis of the data. There is also given the different parameters of the study which are used for the analysis of the data have also been mentioned. At the last chapter has been articulated. The review of literature supporting to research gap and selection of research problem has been covered in the next chapter.

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