A Study on Profitability Analysis of Eid Parry (India) Limited

Mr. J. Manivannan [1], Mr. S. Kumar [2]
[1] Department of Management Studies,[2]Department of Commerce
[1] Constituent College, Lalkudi, Trichy,[2] MIET Arts & Science College, Gundur, Trichy

Abstract- *Financial reporting practices in the past were restricted to focus the core objective of business enterprises. It concentrated on profit performance reporting and financial position reporting on a whole sum basis. In late 20th century, with the diversification of business, return as well as risk aspects have been changed from single product to multi product perspective. In the context of multi-product situation, profitability performance on a whole sum basis may not be sufficient to arrive at subjective judgments towards the profitability performance. Enterprises having multi-products business are supposed to follow the Accounting Standard 17- Segment Reporting to make the information public and corporate financial reporting practices have started incorporating the requirements of Accounting Standard-17.Given the segment wise financial details, an attempt is made in the article to evaluate the segment profitability performance by taking the largest producer of sugar in south India and the third largest in the country, EID Parry (India) Limited, which started involving in various other segments to reap the strategic business advantage of diversification.*

Keywords- diversification, financial reporting, segment reporting.

I. INTRODUCTION

Sugar, a major industry in India has been controlled by the government on various counts. The sugar producers have to follow the State Advised Price (SAP) in cane procurement. On the revenue front, the mills have to surrender 10 percent levy sugar to government and the government releases monthly free sales quota of 90 percent to mills to be sold within stipulate timeframe. Exports and Imports are not freely allowed thereby creating a restricted operating environment.

In a highly restricted business environment in sugar being the largest producer of sugar in South India and the third largest in the country, E.I.P. Parry had resorted to diversified business operations through its different segment to reap the strategic business advantage. Therefore a study on profitability performance assumed significance in ascertaining the study unit capability to earn profits in its diversified operations as well as its core segment sugar.

II. OBJECTIVES OF THE PAPER

1. To study the enterprise profitability performance as a whole.
2. To analyze the profitability performance of different segments.

III. SCOPE AND STUDY PERIOD

The study was carried out to conduct a detailed profitability analysis by taking 5 years from 2001-02 to 2005-06, as a five year period study in profitability performance in deemed quiet sufficient. Performance of the subsidiary companies was not included.

IV. METHODOLOGY

The study was purely before on secondary data collected from the published financial statements in the annual reports of the company. During the first two years of the study period, the study unit had five reportable segments namely farm inputs, sugar, parry ware, bio products and others (Knitted fabrics and insect screens). From 2003-04 onwards there have been only four reportable segments due to the de-merger of farm inputs segment with Coramandal Fertilizer Limited, a subsidiary of E.I.D. Parry.

Therefore common size income statement has been used to study the enterprise profitability. Segment profitability analysis was made by; taking the share of segment revenue and share of segment profit in enterprise sale and enterprise profit respectively. Since the interest cost and dividend income had not been segmented, the enterprise profit has been reconciled with the reported segment profits up to operating profit level.

Segment capital employed was arrived at by taking the asset side approach namely segment assets minus segment liabilities to relate the segment profits with segment capital employed.

V. LIMITATIONS

Even though the segment profitability analysis was made based on the reported segment operating profits, analysis regarding segment cost – component wise has not been made due to non-availability of such segment cost data in annual reports. Segment assets detail available in the annual report has not been broken into fixed assets and current assets to enable the extension of segment profitability to fixed assets and current assets basis.

VI. ENTERPRISE PROFITABILITY

Profitability Relating to Sales

In order to analyze the profitability of the selected firm under study a common-size income statement is presented in the following table1

Table 1 Common Size Income Statement

Particulars	01-02	02-03	03-04	04-05	05-06
Sales	100	100	100	100	100
Less : Direct Expenses					
Materials consumed	66.62	66.30	49.33	50.76	55.49
Consumption of stores	0.86	0.82	1.20	1.02	1.25
Power and fuel	2.29	2.67	4.00	4.99	3.96
Repairs & Maintenance	1.79	1.80	2.49	2.39	1.84
Excise Duty	3.69	4.01	7.25	6.02	5.15
Total Direct Cost	75.25	75.60	64.27	65.18	67.69
Gross Profit	**24.75**	**24.40**	**35.73**	**34.82**	**32.31**
Less: operating expenses					
Salaries & Bonus	4.31	4.97	9.19	6.50	5.58
Administration cost	1.23	1.48	2.42	0.96	1.16
Selling and distribution expenses	9.67	10.57	10.36	9.60	9.56
Depreciation	2.87	3.30	4.76	3.51	2.87
Total indirect operating cost	17.90	20.32	26.73	20.57	19.17
Operating profit	**6.85**	**4.08**	**9.00**	**14.25**	**13.14**
Add : Non- operating income					
Dividend income	0.49	1.05	0.53	2.05	1.49
EBIT	**7.34**	**5.13**	**9.53**	**16.30**	**14.63**
Less : Interest	3.48	2.41	1.18	0.44	0.73
EBT	**3.86**	**2.72**	**8.35**	**15.86**	**13.90**
Less : Tax	1.57	0.75	1.57	2.87	2.49
PAT	**2.29**	**1.97**	**6.78**	**12.99**	**11.41**

Source: Computed from Annual Reports of E.I.D. Parry

It is observed that the gross profit ratio was fluctuated during the study period and ranged from 24.40 percent (2002-03) to 35.73 percent (2003-04). It is interesting to note that a decreased trend in gross profit ratio in 2003-04 was reversed to have an increase for the rest of the study period. At the end of the year 2002-03, the Farm-inputs division was de-merged into its subsidiary CFL (Coramandel Fertilizer Limited). The increase in gross profit ratio during the study period made the researcher to go in for a detailed analysis of direct expenses during the study period.

It is observed that the direct expenses to sales varied from 64.27 percent 75.60 percent during the study period. The direct expenses ratio of 64.27 percent only in 2003-04 contributed to the increased gross profit ratio, whereas a 75.60 percent direct expenses ratio in 2002-03 pulled the gross profit ratio to the lowest. The fluctuation in gross profit was due to both the fluctuation in sales and direct cost efficiency.

The profit path from gross profit to operating profit depends on the indirect operating expenses. It is noted that a fluctuating trend in operating profit was mainly due to the fluctuating trend in sales and gross profits, which varied from 4.08 percent (2002-03) to 14.25 percent (2004-05).

Even though, the gross profit ratio is highest in 2003-04 the operating profit ratio was only 9.00 percent during the year. On the other hand a gross profit ratio of 34.82 in 2004-05 had the maximum operating profit ratio (14.25 percent). This was mainly due to reduction of indirect operating cost from 26.73 percent to 20.57 percent of sale in 2004-05. The lowest operating profit ratio was recorded in 2002-03 (4.08 percent) was contributed by reduced gross profit ratio (24.40 percent) and a 20 percent indirect operating cost to sales. The last year of the study period witnessed a reduction in indirect operating expenses, but a reduced gross profit ratio resulted in 13.14 percentage of operating profits only.

The path from Operating profits to Earning Before Interest and Taxes (EBIT) would give some insights into the non-operating items as a whole. Throughout the study period, due to the increased level of non-operating income, EBIT registered notable increase and it was the highest in 2004-05 with 16.30 percent and lowest in 2002-03 with 5.13 percent. Throughout the study period the operating profits resulted in increased earning before interest and taxes because of increased non-operating income in the form of dividend receipt.

The difference between earning before interest and taxes and earning before tax would give some ideas regarding the major financing service component- interest cost. It is observed that the earning before tax showed a fluctuating trend and got reduced in 2002-03 to 2.72 percent and started increasing thereby to account for 15.86 percent (the maximum in 2004-05) and finally ended with 13.90 percent in the terminal year of the study. In the context of fluctuating earning before interest and taxes and increased earning before taxes, it is inferred that a reduction in interest cost was made during the study period. The interest cost component as a percentage of sales showed a decreasing trend throughout the study period and resulted in increased earning before taxes.

In spite of decreased sales volume the profitability performance registered an increase due to reduction of direct cost in the year 2003-04 and 2004-05. It was supported by heavy non-operating incomes and reduced interest cost which made the profit performance as an improved one during the study period. Even though absolute volume of sales was reduced after the de-merger of the Farm-input division, all the profitability ratios showed better performance, especially in the area of reduced cost in terms of raw material consumption, administration cost and interest.

Profitability Relating to Investments

In order to analyze the profitability relating to investments an attempt is made to focus profitability ratios related to investment and presented in the following table.

Table 2 Profitability Relating to Investment

Particulars	01-02	02-03	03-04	04-05	05-06
EBIT to total assets (%)	9.89	6.15	7.90	16.35	14.98
EBIT to fixed assets (%)	18.79	12.34	14.72	30.82	32.92
EBIT to investments (%)	14.37	9.53	10.81	21.69	20.18
Total assets turnover ratio (Times)	1.34	1.18	0.79	0.96	0.99
Fixed assets turnover ratio (Times)	2.54	2.37	1.47	1.80	2.17
Investment turnover ratio (Times)	1.94	1.83	1.08	1.27	1.33

Source: Computed from Annual Reports of E.I.D. Parry

The earning before interest and taxes to total assets showed a fluctuating trend and it was varied from 6.15 percent (2002-03) to 16.35 percent in 2004-05. It was mainly due to the fluctuating trend in earning before interest and taxes. It is interesting to observe that a poor total assets performance in the form of reduced total assets turnover ratio was not a constraint in making better earning before interest and taxes. The total assets turnover ratio indicated the poor performance of total assets in generating sales revenue as it was reduced from 1.34 times in 2001-02 to 1 time in the terminal year. The same trend was noticed in investment turnover ratio and the earning before interest and taxes to investment was improved from 14.37 percent (2001-02) to 20.18 percent in the terminal year.

Regarding the performance of fixed assets it is inferred that a reduced turnover performance in 2003-04 and 2004-05 got some improvement in the terminal year. But the performance of fixed assets was in no way affect the profitability performance.

Considering the assets turnover, which showed a decreased performance, the improvement in profitability was mainly achieved not by the investment related aspects, but by the efficiency in operations especially in the areas of cost reduction in material cost and administrative cost. The non-operating side fetched more income to boost earning before interest and taxes, which resulted in improved profitability performance relating to assets during the study period.

Segment Profitability Relating to Sales

The annual report of the selected unit of the study contained the information according to the requirements of Accounting Standared-17: Segments Reporting regarding Segment revenue, Segment operating profits, Segment assets and Segment liabilities. In order to analyze the share of contribution from different Segments to the enterprise profitability, the Segment profitability is presented in Table 3. It is observed that the share of Sugar and Parry ware Segments were increased during the study period, as it was 34.85 percent and 8.46 percent in the first year of the study period and increased to 70.32 percent and 22.56 percent respectively. Bio-products registered a nominal increase in the share of revenue and the Others Segments showed a fluctuating contribution to the pie. Since, the Farm-inputs segment was de-merged in 2002-03, the company concentrated more on the Sugar and Parry ware segments during the rest of the study period.

Table 3 Segment Profitability – Sales Basis (in percent)

Particulars	01-02	02-03	03-04	04-05	05-06
Share of Revenue					
Farm-input	54.89	53.42	-	-	-
Sugar	34.85	34.00	64.72	67.46	70.32
Parryware	8.46	10.31	24.93	23.92	22.56
Bio- products	1.08	0.64	2.49	2.47	2.49
Others	0.72	1.63	7.86	6.15	4.63
Total	**100**	**100**	**100**	**100**	**100**
Share of Operating profit					
Farm-input	43.13	35.70	-	-	-
Sugar	50.86	39.28	60.26	61.33	59.72
Parryware	10.03	30.53	31.43	20.16	22.20
Bio-products	2.42	(2.54)	2.30	3.40	3.16
Others	(6.44)	(2.97)	6.01	15.11	14.92
Total	**100**	**100**	**100**	**100**	**100**
Operating Profit as a percentage of Revenue					
Farm-input	5.35	2.70	-	-	-
Sugar	9.94	4.67	8.33	12.69	11.00
Parryware	8.08	11.96	11.28	11.76	12.74
Bio- products	15.26	(16.08)	8.26	19.20	16.41
Others	(60.79)	(7.35)	6.85	34.31	41.77

Source: Computed from Annual Reports of E.I.D. Parry.
Figures in parenthesis showed losses.

During the first two years, the Farm-input Segment which had the share of revenue to the tune of 54.89 percent and 53.42 percent respectively earned a 43.13 percent and 35.70 percent share in profits, which means the profit making potential of Farm-input segment has reduced and it was evidenced from the declined profit as a percentage of revenue from 5.35 to 2.70.

As for as the Sugar segment was concerned, it is interesting to observe that profit potential of Sugar segment was enormous and during the first year of the study, it contributed 50.86 percent to the profit pie for only a 34.85 percent share in the revenue. But in the next year for a near same share in revenue its contribution to operating profit reduced to 39.28 percent. The last three years of the study period witnessed an increased share of revenue as well as profits in the Sugar Segment.

Regarding the Parryware segment, the same trend in Sugar segment was observed regarding the share of revenue (increased from 8.46 percent to 22.56 percent) and the profit potential of Parryware was also good. The first three years of the study recorded huge profits and declined thereafter to end up with a near same share of revenue and profits.

The increased profit potential of Sugar segment during the study period was mainly due to the profit as percentage of revenue which got improvement during the study period and it was 9.94 percent in the first year of the study and end up with 11 percent in the end. The same factor has been instrumental in the Parry ware segment also. It was evidenced that 8.08 percent profit as a percentage of revenue was increased to 12.74 percent in the terminal year.

As far as the Bio-product segment was concerned, except in the year 2002-03 in all the other years it recorded profits. The profit making potential of Bio-products segment was even better than the Sugar and Parry ware segments during the last two year of the study period.

The Others Segment showed a highly dissatisfactory performance during the first two years and started contributing to the revenue as well as profits to the tune of 4.63 percent and 15 percent respectively during the terminal year of the study. This was also due to improvement in profit as a percentage of revenue and the profit making potential of the Segment was the highest during the last two years of the study period even to beat the core Segments.

Segment Profitability Relating to Investments

In order to analyze the Segment profitability relating to investments the following table is presented to have some insights into the reported segment assets and segment liabilities.

Table 4 Common Size Balance Sheet- Reported Segments

Particulars	01-02	02-03	03-04	04-05	05-06
Segment assets	90.56	91.07	81.94	84.86	87.21
Unallocated assets	9.44	8.93	18.06	15.14	12.79
Total assets	**100**	**100**	**100**	**100**	**100**
Share holders funds	34.10	35.09	44.29	52.46	49.14
Unallocated liabilities	41.54	36.85	35.05	29.28	29.93
Segment liabilities	24.36	28.06	20.66	18.26	20.93
Total liabilities	**100**	**100**	**100**	**100**	**100**

Source: Computed from Annual Reports of E.I.D. Parry

The proportion of segment assets reported to total assets varied from 90.56 percent in 2001-02 to 87.21 percent in the terminal year. The remaining properties were categorized as unallocated assets to reportable Segments. During the study period a majority of the assets had been reported Segment wise.

As far as the liabilities were concerned, a majority of the liabilities were coming under the category of non-segmented liabilities which included share holders funds and borrowed capital. It ranged from 75.64 percent in 2001-02 to 79.07 percent in 2005-06. Among the non-segmented liabilities the proportion of shareholders funds got increased and the proportion of borrowed capital got reduced during the study period. It is inferred that only a minority portion of liabilities were reported segment wise. This was due to the fact that operational liabilities were only reported segment wise to have proper capital employed in the segments. The following discussion is devoted to analyze the segment profitability on the basis of segment assets and segment capital employed.

Table 5 Segment Profitability - Assets Basis

Particulars	**01-02**	**02-03**	**03-04**	**04-05**	**05-06**
Share of Assets (percentage)					
Farm-input	36.54	40.92	-	-	-
Sugar	46.20	43.28	69.42	63.29	62.88
Parryware	10.02	9.41	14.45	17.19	18.02
Bio- products	4.38	3.76	4.91	3.39	3.86
Others	2.86	2.63	11.22	16.13	15.24
Total	**100**	**100**	**100**	**100**	**100**
Segment profitability - Assets (percentage)					
Farm-input	12.04	4.69	-	-	-
Sugar	11.22	4.87	7.90	16.33	14.65
Parryware	10.21	17.43	19.78	19.76	19.01
Bio- products	5.64	(3.62)	4.26	16.89	12.60
Others	(22.93)	(6.07)	4.87	15.79	15.11
Segment Assets Turnover (Times)					
Farm-input	2.25	1.74	-	-	-
Sugar	1.13	1.05	0.95	1.29	1.33
Parryware	1.26	1.46	1.75	1.68	1.49
Bio- products	0.37	0.23	0.52	0.88	0.77
Others	0.38	0.83	0.71	0.46	0.36

Source : Computed from Annual Reports of E.I.D. Parry

Farm-inputs Segments was the most profitable Segment on assets basis in 2001-02 with a 12.04 percent return on assets which accounted for 36.54 percent of total segment assets. In 2002-03 the return on Farm-input segment fell drastically to 4.69 percent in spite of having a near 41 percent share the total segment assets. It was mainly due to the fact that assets turnover in Farm-input segment has reduced from 2.25 times in the first year to 1.74 times in the second year.

Sugar has been the major segment as for as the share of segment assets and revenues were concerned during the study period. The return on assets in Sugar segment showed a fluctuating trend and it was varied from 11.22 percent in the first year of the study to end up with 14.65 percent in the terminal year. After the de-merger of the Farm-input segment E.I.D. Parry concentrated heavily on Sugar and an improved return on assets was observed during the last three years of the study. In spite of the reduction of Sugar segment assets turnover from 1.05 times to 0.95 times in (2002-03 and 2003-04) the return on assets was improved from 4.87 percent to 7.90 percent due to reduction in costs. Increased assets turnover and improved profitability were observed during the last two years.

As for as the Parry ware segment was concerned, the share of Parry ware segment assets has grown over the years from 10.02 percent in 2001-02 to 18.02 percent in the terminal year to have a return on assets of 10.21 percent in 2001-02, 17.43 percent in 2002-03, a near 19.80 percent in the next two years and ended up with 19 percent in the terminal year. Even though, the Parry ware segment was the second largest segment after Sugar in terms of segment assets share, the return on assets was better in the Parry ware segment in majority of the years (four out of five) during the study period.

It was mainly due to increased assets turnover during the last four years and it was supported by better operating profit to revenue also when compared to Sugar segment.

The Bio-product segment recorded a lower profitability in relation to assets in 2001-02 (5.64 percent) and 2003-04 (4.26 percent). It reported negative return in 2002-03 because of very poor assets turnover (0.23 times) and as a result it suffered operating loss. During the last two years of study period, even though the share of Bio-segment assets was reduced from 5 percent to 3.5 percent, the return on assets on an average was increased to 16.89 percent in 2004-2005 and 12.60 percent in 2005-06. It was due to improvement in Bio-segment assets turnover to 0.8 times and it was properly supported by the operating profit as a percentage of revenue.

The Others segment had suffered severe loss on assets (22.93 percent) in the first year of the study and gradually recovered from the state of affairs to reduce the loss to 6.07 percent in 2002-03 and started earning profits to improve the return on assets from 4.87 percent in 2003-04 to 15.79 percent in 2004-05 and 15.11 percent in the terminal year.

The reason for the negative return on assets in the first year was due to poor others segment assets turnover (0.38 times only). The recovery from loss was also attributed by an improvement in assets turnover to the tune of 0.83 times and 0.71 times in the next two years. It is interesting to observe that the last two years of the study recorded a reduction in assets turnover (0.46 times and 0.36 times) during 2004-05 and 2005-06 respectively but earned an improved return on assets of 15.79 percent and 15.11 percent in the same period. This was mainly due to improvement in profitability as a percentage of revenue in those two years.

Since, the operational liabilities are segmented, the following discussion is focused towards analysis of segment profitability based on capital employed and the profit earned as a percentage of capital employed in various segments is given in the following table together with the share of segments in the total segment capital employed.

It is observed that Farm-input Segment had 28.69 percent in the share of capital employed to have 21 percentage of share in the return on capital employed during the first year of the study. In 2002-03, in spite of having a share of nearly 33 percent in the capital employed it reported only 8.44 percent return share in capital employed.

In case of Sugar Segment share of Segment capital employed and share of return on capital employed showed a fluctuating trend throughout the study period. As far as the return on capital employed was concerned the last two years of the study supported the fact that the performance of Sugar Segment has been improved.

Table 6 Segment Profitability- Capital employed (in percent)

Particulars	01-02	02-03	03-04	04-05	05-06
Segment Capital Employed					
Farm-inputs	28.69	32.83	-	-	-
Sugar	53.81	50.45	71.88	65.03	60.98
Parry ware	11.55	11.20	15.81	18.28	20.67
Bio-products	5.61	5.07	6.29	4.14	4.93
Others	0.34	0.45	6.02	12.55	13.42
Total	**100**	**100**	**100**	**100**	**100**
Return on Capital Employed					
Farm-inputs	20.97	8.44	-	-	-
Sugar	13.18	6.04	10.19	20.24	19.87
Parry ware	12.12	21.15	24.17	23.67	22.42
Bio-products	6.03	(4.05)	4.45	17.63	12.98
Others	(262.75)	(51.4)	12.14	25.84	8.88

Source: Computed from Annual Reports of E.I.D. Parry

Regarding the Parry ware Segment the share of Segment capital employed increased from 11.55 percent to 20.67 percent during the study period. The return on capital employed showed drastic improvement during the study period (12.12 percent to 22.42 percent and it was mainly due to increased assets turnover and improved profitability relating to sales.

The Bio-product Segment showed improved profitability as the share of return on capital employed recorded improvement in spite of having reduction of share in capital employed during the study period.

As far as the others segment was concerned the share of capital employed got increased from a mere 0.34 percent in the first year of the study to 13.42 percent in the terminal year, whereas heavy loss was reported in the initial year (262.75 percent) to reduce the losses in the second year and an improvement was noticed in the next two years to ended up with a reduced share in the terminal year. This was mainly due to poor assets turnover.

VII. CONCLUSION

The financial performance of E.I.D. Parry (India) Limited, a diversified business unit showed improvement in profitability. Even though the sales in absolute amount, assets and liabilities got reduced during the last three years of the study period due to the de-merger of Farm-inputs division, the financial performance in relative terms resulted in an improved position. If the company started concentrating on two small Segments Bio-products and others the possibility of enhancing profitability is clear.

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