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Factors Responsible for The Profitability to Analyze The Andrew Yule & Co. Ltd., Tea Company in India.

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ABSTRACT

Tea is one of the most important non-alcoholic beverage drinks in the world and has been gaining further popularity as an important 'health drink' in view of its purported medicinal value. It is taken as a common drink by nearly 2/3 of the world population daily. Tea plantation industry is an important industry in India. It plays crucial roles in income generation, foreign exchange earnings and employment generation both directly and indirectly. Financial Performance is the snapshot of a position of concern and ability to withstand the ever-changing environment. Objectives of the study, to measure the extent of influence of the factors responsible for the profitability in either direction and also to analyze the direct and indirect effects of the factors on the profitability of Andrew Yule & co. is a tea company in India. Simple random sampling technique has adopted in this study, Secondary data has been used in this study. Multiple regression analysis has used in this study. Suggested in this study, to regularize and optimize the use of cash balance, proper techniques may be adopted for planning and control of cash. The investments in inventories should be reduced and need to introduce a system of prompt collection of debts. Conclude in this study, there is need to bring about technological improvement, structural changes, and liberalization from controls and regulations, increased productivities of labor and machine and reliable quality assurance systems to meet the present day needs.

KEYWORDS : Profitability, Profit after tax, restructure etc.,

INTRODUCTION

Tea is one of the most important non-alcoholic beverage drinks in the world and has been gaining further popularity as an important 'health drink' in view of its purported medicinal value. It is taken as a common drink by nearly 2/3 of the world population daily. The Indian tea industry is one of the major sources of income for the national exporters. At present, this industry is facing a multitude of problems. Lack of capital and modern machinery, lower market value of tea in comparison to increasing production cost, lower yield per hectare are forcing back to the tea entrepreneurs. Besides that, increasing domestic need and lack of modern techniques for measuring quality of tea are the main problems as well. There is also the lack of perennial water source for irrigation during dry season or during prolonged drought. In addition, some tea garden owners are not using Government prescription for improvement. Malnutrition among the children of the labour line, security problems of the executives, deteriorating the law and order situation of the tea estates (log stealing, political or outsider influence on their internal arrangements, illegal occupation of land by the outsiders), lack of medical facilities for labour and lack of infrastructure (road, network, etc.) are some of the other constraints. For successful tea culture, the above problems being faced by both the manufacturing and the marketing sector need to be addressed immediately. In India, there is thus dire need to focus attention on improvements in the manufacturing sector covering quality of tea, its productivity, and cost of production as well as the marketing system. Government policy initiatives have had some success, but much remains to be done to fully revitalize the tea sector. Infrastructure is still inadequate. The tax system is too complex, with too many taxes and high rates. Despite the restructuring, the Tea Board and the Ministry of Agriculture are still too powerful and trade policy needs to be revised to allow imports of made tea and exports of green leaf.

1.2. STATEMENT OF THE PROBLEM

One of the most important industries in India is Tea Industry. The industry plays vital roles in income generation, foreign exchange earnings and employment generation both directly and indirectly. The Financial Performance has always proved to be consistent and ever withstanding the changing environment. The financial affairs of the concern reveal how a business has prospered under the leadership of its management personnel. The financial performance is considered to be the medium of evaluation of the management performance since the overall objective being to earn satisfactory returns on the invested funds. In order to maintain a steady financial position, evaluation of such performance is done to measure the efficiency and profitability of the organization. The efficiency is compared with a similarly situated company to appraise the financial strength.

Generally different analysts analyse the financial performance as per their requirements. Financiers' interest is in financial position. Stakeholders' interest is in the operational efficiency and profitability position. Thus the various stakeholders of business enterprises like management, investors, bankers, financial institutions, creditors, employees, government, economist, prospective investors etc., look at financial position of the business concern according to their own needs/interest.

1.3. OBJECTIVES OF THE STUDY

Basically, this study intended to access, compare, test and analyze the financial performance of the selected company. To fulfill the above status, this study was carried with the following objectives.

1. To measure the extent of influence of the factors responsible for the profitability in either direction and also to analyze the direct and indirect effects of the factors on the profitability of Andrew Yule & co. Limited tea company in India.
2. To make suggestions for improvement for successful survival in the competitive business world.

1.4 HYPOTHESIS OF THE STUDY

"A hypothesis is a special proposition, formulated to be tested in a certain given situation as a part of research which states what the researcher is looking for. Keeping the above objectives of the research study, the following hypothesis have been formulated and tested.

- There is no significant difference in the mean percentage of profitability ratios between years and the company in tea industry.

1.5. RESEARCH DESIGN AND METHODOLOGY

The financial data and information required for the study were drawn from the secondary source. The Prowess' corporate databases developed by CMIE (Centre for Monitoring Indian Economy) and CLP (Capital Line Plus) have been used as principal sources. The other relevant data were collected from Journals, Magazines, Dailies like The Financial Express and The Economic Times.

1.5.1. Sampling Design

According to Prowess' corporate database developed by CMIE, (Centre for Monitoring Indian Economy) there were 1120 tea estates out of that seven hundred belong to big companies and about three hundred belong to small companies. There were about one hundred and

fifty such companies, which were working in India during the time of the study and have been listed in Stock exchanges; researcher selected a company as the sample for this study. In order to select the sample company to fulfill the purpose of study, only one company have been selected, based on the average paid up capital of 10 years from 2002-03 to 2011-12, which were engaged in cultivation and production of tea. The selected company is in the market for a minimum of twenty years.

TABLE 1
LIST OF RATIOS HAVING IMPACT ON PROFITABILITY

S.No.	RATIOS HAVING IMPACT ON PROFITABILITY
Y	Return on total assets (Dependent ratio)
INDEPENDENT RATIOS	
X_1	Quick ratio
X_2	Current ratio
X_3	Debt to equity ratio
X_4	Interest cover
X_5	Total income / total assets
X_6	Total income / compensation to employees
X_7	PBDITA /total income
X_8	PBT/total income
X_9	Profit after tax / total income
X_{10}	Profit after tax /capital employed
X_{11}	Cash to current liabilities
X_{12}	Cash to average cost of sales
X_{13}	Raw material turnover
X_{14}	WIP turnover
X_{15}	Finished goods turnover
X_{16}	Debtors turnover
X_{17}	Creditors turnover
X_{18}	PBIDT/Sales
X_{19}	Sales/Net Assets
X_{20}	PBDIT/Net Assets
X_{21}	PAT/PBIDT
X_{22}	Net Assets/Net Worth
X_{23}	Inventories/Sales
X_{24}	Net working capital/Sales

Statistical Tools Used: Multiple Regression Analysis
Multiple Regression Analysis is a statistical process by which several independent variables are included to predict the dependent variables. It is a functional relationship between a dependent variable and more than one independent variable, where the effect of the independent variables on the dependent variables (profitability) is found out through analysis. This analysis had been applied by the current study in order to lookout for a different combination of variables that explain the variations in the profitability. Multiple Regression was calculated by taking the Return on Assets as the dependent variable and all other variables as independent variables. In this study, multiple regression analysis measured the relationship between variables and to identify the factor influencing the profitability.

1.6. LIMITATIONS OF THE STUDY
Some of the unavoidable limitations of the present work were as follows:

- Financial information collected for the present study was entirely secondary in nature. In such a case, the study carried all the limitations inherent with the secondary data and financial information.
- The study was restricted to selected company only for the period of ten years.
- While computing the data for the purpose of analysis, the approximation of decimal places might lead to minor variations in ratios as well as percentage analysis and hence these were bound to exist in the present study.

MULTIPLE Regression Analysis
Multiple regression analysis measures the relationship between two variables in such a way that the effects of other related variables are eliminated. In other words, it measures the relation between a dependent variable and a particular independent variable by holding all other variables constant. In the present study multiple regression analysis was applied by taking into account the return on total assets as dependent variable and other listed variables as independent variables for the sample company for the study period of 2002-03 to 2011-12. The results of the analysis were presented in the following pages from Table No.1 along with interpretations.

TABLE – No.2
MULTIPLE REGRESSION ANALYSIS - ANDREW YULE & CO. LIMITED

S.No.	Ratio of	MR Co-efficient	t' value	p-value
X_1	Quick ratio	-.043	-.408	.700
X_2	Current ratio	-.021	-.179	.865
X_3	Debt to Equity ratio	.287	4.566	.004**
X_4	Interest cover	.148	1.930	.111
X_5	Total income / Total assets	.658	8.158	.000**
X_6	Total income / Compensation to employees	-.062	-1.150	.302
X_7	PBDITA /Total income	.023	.188	.858
X_8	PBT/Total income	-.045	-.372	.725
X_9	PAT / Total income	-.041	-.335	.751
X_{10}	PAT /Capital employed	.015	.160	.879
X_{11}	Cash to Current liabilities	.000	-.001	.999
X_{12}	Cash to average cost of sales	-.013	-.153	.885
X_{13}	Raw material turnover	.147	2.617	.040*
X_{14}	WIP turnover	-.070	-1.361	.232
X_{15}	Finished goods turnover	-.147	-1.936	.111
X_{16}	Debtors turnover	.044	.492	.644
X_{17}	Creditors turnover	-.023	-.356	.736
X_{18}	PBIDT/Sales(%)	.065	.788	.467
X_{19}	Sales/Net Assets	.044	1.016	.356
X_{20}	PBDIT/Net Assets	-.027	-.438	.680
X_{21}	PAT/PBIDT(%)	.186	1.248	.267
X_{22}	Net Assets/Net Worth	.064	1.339	.238
X_{23}	Inventories/Sales	-.021	-.383	.717
X_{24}	Net working capital/Sales	-.088	-.846	.436

- **R2=0.981; R = 0.990 **P<0.01 *P<0.05**

TABLE - 3
ANOVA - ANDREW YULE & CO. LIMITED

	SUM OF SQUARES	DF	MEAN SQUARE	F-VALUE	P-VALUE	S/NS
Between Groups	.237	3	.079	222.850	.000**	S
Within Groups	.002	6	.000			
Total	.239	9				

**** P<0.01 * P<0.05 S-Significant NS- Not Significant**

The result for Andrew Yule & Co. Limited in the above table revealed that the multiple regression co-efficient of the three variables with the ratio of return on total assets was significant. It indicated that the three factors viz., X3, X5 and X13 individually contributed sig-

nificantly to variations in the ratio of return on total assets whereas the influence of other variables was kept constant. The p-value was significant for the following variables when the other variables were kept constant namely, X3- Debt to equity ratio (t- 4.566, p- 0.04, p< 0.01), X5- Total income / total assets (t- 8.158, p- 0.00, p< 0.01) and X13 - Raw material turnover (t- 2.617, p- 0.04, p< 0.05) respectively. The R2 value in terms of these variables was 98.1 per cent showing a minor variation from the value if it would have been calculated from the population.

As per the ANOVA results, the p-value was less than the 0.01 (p<0.01). Hence, the model was statistically significant.

SUGGESTIONS OF THE STUDY

- To regularize and optimize the use of cash balance, proper techniques may be adopted for planning and control of cash. The investments in inventories should be reduced and need to introduce a system of prompt collection of debts.
- The policy of borrowed financing in selected the tea company under study was not proper. So the company should use widely the borrowed funds and should try to reduce the fixed charges burden gradually by decreasing borrowed funds and by enhancing the owner's fund. For this purpose, the company should enlarge their equity share capital by issuing new equity shares. It should be done keeping in mind the principle of trading on equity.

CONCLUSION

The tea industry has passed through many hardships and coarse days. Many a times there has been adversity, and has appeared as though misfortune might overtake. The rapid changes in the world trading system have caused danger to the stability of tea industry. An atmosphere of turmoil and insecurity caused is necessary for any change in the industry. To meet the present day's needs technological improvement, structural changes, liberalization from controls and regulations, increased productivities of labour and machine and reliable quality assurance systems are crucial. If there is insecurity natural in the globalised economy, there should also be opportunity which was regulated earlier and thus benefitting the Indian tea market. Indian tea industry is all set to take up this opportunity of free trade and secure its well deserved position in the international tea arena through improved efficient financial management by framing effective policies in raising and utilizing the funds.

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