



CAPITAL STRUCTURE, EMPLOYMENT, OUTPUT AND PROFITABILITY OF AGRO-BASED INDUSTRIES IN KURNOOL DISTRICT OF ANDHRA PRADESH

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ABSTRACT Agro-based industries set up in rural areas have to be designed in such a way that they operate more as catalytic agents for developing infrastructure that would bridge the gap between rural and urban economies. According to Bhattacharya, agro-based industries are classified into four types namely Agro-Produce Processing Units, Agro-Produce Manufacturing Units, Agro-Inputs Manufacturing Units and Agro-Service Centers. The place of the agro-based industries in the development of India is widely recognized and needs no emphasis. They can provide vast employment opportunities at comparatively low investment. The techniques of production adopted by the agro-based industries are simple and the machinery and equipment required by them is easily available. The share of all agro-based industries in India account for 35.3 per cent of the total industrial units in India 40.32 per cent share of total employment and 21.69 of the total value of industrial output, and 15.18 per cent of the net value added during the year 2016-17. The percentage of working capital, fixed capital and net income of agro-based industries to total industries is 21.26 per cent, 20.3 per cent and 13.96 per cent respectively. In this paper an attempt has been made to study the performance of sample agro-based industries covering the different aspects like capital structure, cost structure, employment, level of output and profitability in Kurnool district of Andhra Pradesh.

KEYWORDS : Cost structure, capital structure, output, profitability etc.

1. INTRODUCTION

Agro-based industries set up in rural areas have to be designed in such a way that they operate more as catalytic agents for developing infrastructure that would bridge the gap between rural and urban economies. According to Bhattacharya, agro-based industries are classified into four types namely Agro-Produce Processing Units, Agro-Produce Manufacturing Units, Agro-Inputs Manufacturing Units and Agro-Service Centers. The place of the agro-based industries in the development of India is widely recognized and needs no emphasis. They can provide vast employment opportunities at comparatively low investment. The techniques of production adopted by the agro-based industries are simple and the machinery and equipment required by them is easily available.

The share of all agro-based industries in India account for 35.3 per cent of the total industrial units in India 40.32 per cent share of total employment and 21.69 of the total value of industrial output, and 15.18 per cent of the net value added during the year 2016-17. The percentage of working capital, fixed capital and net income of agro-based industries to total industries is 21.26 per cent, 20.3 per cent and 13.96 per cent respectively. In this paper an attempt has been made to study the performance of sample agro-based industries covering the different aspects like capital structure, cost structure, employment, level of output and profitability in Kurnool district of Andhra Pradesh with the following specific objectives.

2. OBJECTIVES

The specific objectives of the study are:

- to analyse the capital structure, employment and the level of output of sample agro-based industries, and
- to examine the cost structure and profitability.

3. SAMPLE DESIGN

Kurnool district of Andhra Pradesh is purposively selected for the study due to close proximity and acquaintance of researcher with the district. Further, Kurnool district has vast potential for the development of agro-based industries. There were 335 agro-based industries as on 31.03.2017 in Kurnool district. Kurnool district has been divided into three revenue divisions viz., Kurnool, Adoni and Nandyal. Kurnool revenue division has 20 mandals, Adoni and Nandyal divisions with 17 mandals each. From each revenue division, 4 mandals are selected based on the concentration of agro-based industries. From these mandals all the agro-based industries i.e., 202(census method) have been chosen for the study. Out of 202, 156 agro-based industries are working and the remaining 46 are closed due to financial and family problems. Therefore, division-wise agro-based industries were considered for investigation, 57 from Kurnool

division, 54 from Nandyal division and 45 from Adoni division.

4. CAPITAL STRUCTURE, EMPLOYMENT AND LEVEL OF OUTPUT

4.1 Capital Structure

In the agro-based industries as a whole fixed capital accounts for 79 per cent of the total capital, while working capital is 21 per cent. The total capital per unit of agro-based industries as a whole is Rs.12.06 lakhs comprising Rs.9.00 lakhs of fixed capital and Rs.3.06 lakhs of working capital. The working capital forms a small part of the total capital for agro-based industries as a whole. This is because of the fact that, agro-based industries do not stock raw materials in bulk for a period; rather, there is a regular flow of raw materials.

The proportion of fixed capital in total capital is very high in all categories of agro-based industries. It is the highest (87 per cent) in the case of flour mills and the least (65 per cent) in other categories of agro-based industries. The size of total capital investment per unit of an industry varies from a low of Rs.6.07 lakhs in coffee blending industry to a high of Rs.18.12 lakhs in the case of rice mills. ANOVA results reveal that, there is no significant difference among the different categories of agro-based industries with respect to their capital structure. Hence, the null hypothesis is accepted ($F_{c < F}$). But the hypothesis is rejected because there is significant difference between the components of capital structure of agro-based industries (F, F).

a) Fixed Capital

Machinery and plants claim most of the fixed capital and their share in the total fixed capital varies from 20 per cent in the case of coffee blending to as high as 68 per cent in agricultural implements. The next major component of fixed capital is buildings, which claims at the lowest, 10 per cent in the case of agricultural implements and the highest i.e., 50 per cent, in the case of oil mills. The share of land value to the total capital in coffee blending is highest (40 per cent) and it is the lowest in the case of rice mills i.e., 7 per cent. Furniture and fixtures claim less than 3 per cent of the fixed capital for all the agro-based units under study except in the case of oil mills which is 3.44 per cent. ANOVA results reveal that there is a significant difference among the different categories of agro-based industries with respect to fixed capital and also between the different components of fixed capital. Therefore, the formulated hypothesis is rejected.

b) Working Capital

The stock of raw materials account for most of the working capital requirement in all the categories of sample agro-based industrial units. From 48 per cent in agricultural implements it goes up to as high as 53 per cent in the case of coffee blending units. Cash in hand or with banks

comes next. Its share in the working capital varies from a low of 17 per cent in the case of agricultural implements to a high of 37 per cent in flour mills. The share of the working capital locked up in finished products ranges from 6 per cent in rice mills to 26 per cent in agricultural implements. The share of loans and advances to the total working capital is low i.e., 5 per cent in the case of oil mills and high i.e., 12.5 per cent, in the case of rice mills. Based on the ANOVA results, it can be concluded that there is no significant difference among different categories of agro-based industries and also the different components of working capital. Therefore, the formulated hypothesis is accepted.

4.2 Structure and Level of Employment

Agro-based industries are generally small in size. As such the size of employment provided by these industries may be expected to be small. Most of the agro-based industrial units provide employment to 1-2 workers. Out of total 180 units, 75 units (40.5 per cent) are able to generate employment for 1-2 workers each. These units consists of 88 per cent of flour mills, 57 per cent of coffee blending, 57 per cent of agricultural implements, 29 per cent of other industries, 23 per cent of oil mills and 15 per cent of rice mills.

The industrial units providing employment to 3-4 persons are 43 in number and account for 24 per cent of the total units. Most of the units of coffee blending, other industries and rice mills are included in the category. About 16 per cent of the total units provide employment to 5-6 workers and such units are mainly spread over other industries, rice mills and oil mills.

There are 11 units of rice mills and oil mills which provide employment to 7-8 workers. There are 22 units of rice mills (7) and oil mills (15) which provide employment to more than 8 workers.

Obviously, in most of the units of the agro-based industries, the level of employment is less than 4 workers. In fact, about 65 per cent of industrial units are providing employment to less than 4 workers. The average level of employment for the agro-based industrial units as a whole works out to be 4.15. The average for individual industries varies from 1.5 in the case of flour mills to 5.67 in the case of rice mills. In the case of oil mills it is 5.5, in coffee blending it is 2.14, in agricultural implements it is 2.71 and in other industries it is 3.76. It is thus evident that the level of employment in agro-based industries is low. That is what one may expect as agro-based industries are mainly taken up as supporting occupations.

The results of ANOVA show that the formulated hypothesis is accepted because there is no significant difference among different categories of agro-based industries with respect to employment and also between the numbers of workers employed in agro-industry.

4.3 Output

It may be observed that the value of gross output of a unit is above Rs.17 lakhs for agro-based industries as a whole and it varies from a low of Rs.4,94,560 in agricultural implements to a high of Rs.27,26,254 in oil mills. The gross output per unit in the case of rice mill is Rs.19,72,330. It is interesting to note that the average output of flour mills, mango pulp is less than Rs.5,50,000. It may be due to the high cost of production and demand constraint and difficulties in marketing the output because of acute competition.

Of the total output, 81 per cent is accounted for by principal product, 7 per cent by by-product and 12 per cent by work done for others (job works). Job works are prominent in flour mills (58.12 per cent) and by-products account for a good share of output in oil mills category (11.42 per cent). Therefore, all agro-based industries have been found during job-works and servicing activities. The size of output varies considerably over units depending upon their size, marketing ability, demand condition, efficiency and productivity within an industry. The output level of most of the industries (54.33 per cent) lies between Rs.50,000 and Rs.10,00,000. It is only in the case of oil mills that the level of output is above Rs.20 lakhs based on the increasing demand and the size of the unit. However, the scale of production for an agro-based industry is small. It may be attributed to a number of factors, including low investable capacity of the entrepreneur, low marginal ability, being limited to the local markets, low level of demand and inadequate marketing facilities. ANOVA result reveals that there is no significant difference among the different categories of agro-based industries with respect to output and also between the different levels

of output of agro-based units. Hence, the null hypothesis is accepted.

4.5 COST STRUCTURE AND PROFITABILITY

i) Cost Structure

The different constituents of total costs incurred by an agro-based industrial unit may be specified as: (i) raw materials (ii) wages and salaries (iii) fuel and electricity (iv) rent (v) interest (vi) repairs and maintenance (vii) depreciation and insurance.

Raw materials are the most important components of cost and they account for as high as 54 per cent of the total cost. The proportion of raw materials to the total cost is high in all the categories of agro-based industries under the study. They are followed by wages and salaries, fuel and electricity, repair and maintenance, interest and depreciation in that order. The amount of interest paid by different categories of agro-based industries on their borrowings is less than 6 per cent of the total cost. The proportion of depreciation in total cost is below 4 per cent, being as low as 2.78 per cent in the case of coffee-blending.

Among the different categories of agro-based units the average cost per unit is highest i.e., Rs.21,00,350 in the case of oil mills and the lowest, i.e., Rs.3,74,085 for agricultural implements. Taking the prevailing prices of the products into consideration, the average cost is high and it needs to be produced for improving viability and profitability. An appreciable reduction in the cost of production may be effected, if mode of production is improved with the introduction of modern technology. However, the process of technological change is not so smooth. Most of the agro-based industries have a small resource base and little access to financial institutions, serve local markets and, thus, confront demand constraint, lack of entrepreneur's high ambition and are unaware of modern technology. Therefore, agro-based industries have few options to affect costs and any reduction in costs depends on their managerial competence. An enlargement of resource-base of agro-based industries may be helpful in making them efficient. Based on the ANOVA results, it can be concluded that there is no significant difference among different categories of agro-based industries and also the different components of cost.

ii) Profitability

It has been reported that most of the agro-based industries earn profits. About 14 per cent of agro-based industrial units incur losses while the remaining 86 per cent are earning profit. All the units in the coffee blending and agricultural implements industries are earning profit. For the remaining agro-based industries, the proportion of units to total units earning profits varies from a minimum of 83 per cent in the case of flour mills and oil mills to a maximum of 88 per cent each in the case of rice mills and other agro-based industries. Out of 24 agro-based industrial units viz., 10 units in oil mills, 7 units in flour mills, 5 units in rice mills and 2 units in other category are incurring losses. Factors responsible for losses include high cost of production, inability to face competition in the market, lack of initiative on the part of entrepreneurs' difficulties in managing various activities associated with production due to paucity of resources, etc. These units, even after incurring losses, are operating owing to lack of a viable alternative to the entrepreneurs.

The average profit per unit of agro-based industries varies from a minimum of Rs.1,06,990 for flour mills, to a maximum of Rs.6,25,904 for oil mills. The average profit a unit for agro-based industries as a whole works out of Rs.4,03,370. Even with a marginal profit, entrepreneurs continue to be in the existing industry because of so many factors. It is not easy for them to shift to other occupations. In some cases they have inherited these industries and they just do not like to effect any change. In some cases, they have taken up these industries as their subsidiary occupation and as such, even marginal profit is enough for them. They exercise full freedom and enjoy owner's pride and they are unwilling to accept an alternative occupation at the cost of freedom.

5. SUGGESTIONS

Nearly 72 per cent of the agro-based industrial units have reported that they need government assistance for their growth. It has also been reported that comparatively large size industrial units get the favour of the government officials in the disbursement of the assistance as these units have wide contact links and comparatively better resource base to withstand the cumbersome and time consuming process of loan disbursement. This trend is required to be reversed in order to provide more assistance to small size units. The government's policy of

providing assistance should in fact be discriminatory in favour of small size units as they, compared to large size units, have greater difficulty in meeting their capital requirement.

A switch over to modern technology is a slow and gradual process. It is, therefore, likely that agro-based industries would be operating with the existing technology for a long period of time to come. In the interim period, a reduction in the cost of production and, thereby, an increase in the working efficiency of agro-based industries is possible only through an improvement in the management. However, in most of the cases, it has been found that entrepreneurs do not have full knowledge of different details which affect management efficiency. They are not even able to maintain various accounts properly. Attempt may be made to train entrepreneurs in these areas so that they are able to manage their units efficiently.

It has been observed that agro-based industries have immense potentialities of generating employment opportunities. Development of agro-based industries stimulates agricultural development strengthening the process of mutual development of agriculture and industry. It, thereby, ensures all-round prosperity, in rural areas providing solutions to problems like poverty, unemployment and inequalities. As such, agro-based industries should be developed in a massive way.

The measures suggested above, if implemented sincerely, can ease out the problems of agro-based industries and help their development to a large extent. What is required most is a positive approach on the part of the Government and financial and other institutions towards the growth of agro-based industries in Kurnool district of Andhra Pradesh.

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