



ORIGINAL RESEARCH PAPER

Commerce

PROBLEMS AND PROSPECTS OF CASHEW NUT PROCESSING INDUSTRY- A CASE STUDY

KEY WORDS:

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Introduction:

Cashew is held with great esteem in many customs and cultures. Its value can be estimated from a question that appeared on the household census in Mozambique that asked whether the house owned any cashew trees. Cashew is known by many names. In Mozambique, the Maconde tribe refer to it as the "Devil's Nut". It is offered at wedding ceremonies as a token of fertility and is considered by many to have aphrodisiac properties. The cashew tree and its products are known by the following names in other parts of the world-Portuguese caju, cajueiro, pe de caju, castanha de caju, maca de caju, French cajou, acajou, ancardier, noix de cajou, pomme de cajou, amande de cajou, English cashew, cashew tree, cashew nut, cashew apple, cashew kernel Spanish maranon, Hindi cadju, Sinhalese cadju, Italian anacardio, noce d'anacardio, mandorlad'anacardio Dutch acajou, kasha German acajuban etc.

Statement of the Problem

Agriculture is the background of India. Most of the small-scale industries depend on raw material produced in the agriculture sector. Agriculture in India is again dependent on rainfall and production of such raw material is highly depending on weather. This makes the dependent small-scale unit also to gamble with weather indirectly. Therefore it is common to have most of the small-scale industries suffering with uncertainty in profitability and growth.

The study of financial statement of any small-scale industry will reveal the same and it is interesting to analyze these statements in relation to profitability, liquidity, growth and survival over a period of time, this makes the researcher to study the financial analysis of Mahalaxmi Cashew Nut Export PVT Co. in Bhatkal.

Objectives of the Study

It is important to know the aims behind study and the reasons for which study is being undertaken, following are the various objectives of the study.

*To examine the financial health of Mahalaxmi Cashew Nut Export PVT CO.

*To identify the problems faced by Mahalaxmi Cashew Nut Export PVT CO.

Methodology

Present study is based on secondary data. However all financial aspects are analyzed mainly going into details of the available records in the industry, such as financial statement like profit and loss account and Balance Sheet. In addition to that the study also holds personal discussion with management and staff.

Profile of Mahalaxmi Cashew Nut Export PVT CO. Bhatkal

"MAHALAXMI CASHEW NUT EXPORT PVT CO." have been established in the year 2005-06. It is located in Sarapankatta in Bhatkal.

"MAHALAXMI CASHEW NUT EXPORT PVT CO." has been started with an initial amount of rupees 10 lakh loan and 5 lakh financial institution like WCCNFS. It produces more than 100 tons finished cashew kernels in a year. It purchases more than 50 lakh rupees raw material in a year. Cashew is the main raw material in this industry. It is in a small village near to that village there is no other cashew as well as other industry. So "MAHALAXMI CASHEW NUT EXPORT PVT CO." is started in that area and lot of people got the

job. It sells the kernels in all major markets of India like: Bombay, Bangalore, Delhi, Hubli, etc. It also sells its products to the foreign markets like Indonesia, Benin and South Africa through agents.

Section-A

Financial Prospects of Mahalaxmi Cashew Nut Export PVT Company

Financial prospectus of the factory is analyzed with the help of several ratios, calculated from the accounting data can be grouped into various classes according to financial activity or function to be evaluated. In view of the requirements of the various users of ratios, we may classify them into the following four important categories.

1. Liquidity Ratio.
2. Leverage Ratio.
3. Activity Ratio.
4. Profitability Ratio.

1. Liquidity Ratio

Liquidity Ratio measures the firm's ability to meet current obligations. In fact analysis of liquidity needs the preparation of cash budgets and cash and cash flow statements, but liquidity ratios by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity. A firm should ensure that it does not suffer from lack of liquidity and also does not have excess liquidity. The failure of company to meet its obligation due to lack of sufficient liquidity will result in poor credit worthiness, loss of creditor's worthiness or even in legal tangles resulting in the closure of the company.

The most common ratio which indicates the extent of liquidity or lack of it is,

A. Current Ratio

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Table No-1 Current Ratio for five years (In Rs)

Year	Current Assets	Current Liability	Ratio
2005-06	12089656	3815064	3.10
2006-07	12503738	2970638	3.77
2007-08	13167953	1962617	6.71
2008-09	14082918	2122117	6.64
2009-10	10274816	1765782	7.33

(Source: Annual Reports of Mahalaxmi Cashew Nut Export Pvt.Co.)

The above table indicates the short term solvency of the factory. In the year 2005-06 the ratio was 3.10, 2006-07 the ratio the ratio was 3.77, 2007-08 the ratio was 6.71, 2008-09 the ratio was 6.64 and 2009-10 the ratio was 7.33. The standards norm is 2:1. So, in all the year the ratio calculated meets the standards requirements. This reveals that the factories ability to pay bill is stronger and also its short term solvency. That means the factory has sufficient assets to meets its current liability. Therefore, it is concluded that company had sufficient funds in the form of current assets to meet their claims.

B. Quick Ratio

$$\text{Quick ratio} = \frac{\text{Quick Assets}}{\text{Current Liability}}$$

Table No-2 Quick Ratio for Five years (In Rs)

Year	Quick Assets	Current Liability	Ratio
2005-06	6701816	3815064	1.75
2006-07	8873474	2970638	2.98
2007-08	10328543	1962617	5.26
2008-09	9698113	2122117	4.57
2009-10	5009542	1765782	2.83

(Source: Annual Reports of Mahalaxmi Cashew Nut Export Pvt. Co.)

In the year 2005-06 the ratio was 1.75, than in 2006-07 it increases to 2.98. In the year 2007-08 it again increases to 5.26, than in 2008-09 it decreases to 4.57. In the year 2009-10 it again decreases to 2.83. It is a most severe and strongest test of the firm's ability to its current liability. It establishes the relationship between quick or liquid assets and current liabilities.

2. Leverage Ratio

This ratio shows the proportion of debt and equity in financing the firm's assets.

Year	Quick Assets	Current Liability	Ratio
2005-06	6701816	3815064	1.75
2006-07	8873474	2970638	2.98
2007-08	10328543	1962617	5.26
2008-09	9698113	2122117	4.57
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(Source: Annual Reports of Mahalaxmi Cashew Nut Export Pvt. Co.)

In the year 2005-06 the ratio was 1.75, than in 2006-07 it increases to 2.98. In the year 2007-08 it again increases to 5.26, than in 2008-09 it decreases to 4.57. In the year 2009-10 it again decreases to 2.83. It is a most severe and strongest test of the firm's ability to its current liability. It establishes the relationship between quick or liquid assets and current liabilities.

A. Debt-equity Ratio

$$\text{Debt-equity ratio} = \frac{\text{Total long term Debt}}{\text{Total long term funds}}$$

Table- Debt-equity ratio for Five years (in Rs)

Year	Total Long Term Debts	Total Long Term Funds	Ratio
2005-06	16051037	8718226	1.84
2006-07	16146971	9216981	1.75
2007-08	17363542	9347844	1.85
2008-09	14013542	11037245	1.26
2009-10	13353401	11657317	1.14

(Source: Annual Reports of Mahalaxmi Cashew Nut Export Pvt. Co.)

In the year 2005-06 the ratio was 1.84, thereafter in 2006-07 the ratio comedown to point 1.75, 2007-08 ratio increased to point 1.85, 2008-09 the ratio was comedown to point 1.26 and 2009-10 the ratio decreased to the previous year i.e. 1.14. The standard norm is 1:1. So the calculated ratios are above the standard requirements. The absence of long term debt in capital structure

shows a conservative policy of financing adopted by the factory was sound during the period. The ratio indicates the proportion of owner's stake in the business. Excessive liabilities tend to cause insolvency. The ratio indicates the extent to which the firm depends upon outsiders for its existence. The ratio provides a margin of safety to the creditors. It tells the owners the extent to which they can gain the benefit of maintaining control with a limited investment

B. Fixed Assets Ratio

$$\text{Fixed Assets Ratio} = \frac{\text{Fixed Assets}}{\text{Long Term Fund}}$$

Table -Fixed Assets Ratio for Five years (in Rs)

Year	Fixed Assets	Long Term Fund	Ratio
2005-06	1220552	8718226	0.14
2006-07	1290377	9216981	0.14
2007-08	1028263	9347844	0.11
2008-09	1434842	11037245	0.13
2009-10	2331463	11657317	0.20

(Source: Annual Reports of Mahalaxmi Cashew Nut Export Pvt. Co.)

The fixed assets ratio should not be more than 1. In the year 2005-06 the ratio was 0.14 times, 2006-07 the ratio was 0.14 times, 2007-08 the ratio was 0.11 times, 2008-09 the ratio was 0.13 times and 2009-10 the ratio was 0.20 times. Here the ratio is below the requirement, it is less than 1. So this indicates that a part of the working capital has been financed through long term funds. This ratio should not be more than 1. If it is less 1, it shows that a part of the working capital has been financed through long term funds. This is desirable to some extent because part of working capital termed as core working capital, which is more or less of a fixed nature.

C. Total Debt Ratio

$$\text{Total Debt Ratio} = \frac{\text{Total Debt}}{\text{Net Assets}}$$

Table - Total Debt Ratio for Five years (in Rs)

Year	Total Debt	Net Assets	Ratio
2005-06	16051037	15736311	1.02
2006-07	16146971	15676671	1.03
2007-08	17363542	16380700	1.06
2008-09	14013542	15745553	0.89
2009-10	13353401	14056212	0.95

(Source: Annual Reports of Mahalaxmi Cashew Nut Export Pvt. Co.)

In the year 2005-06 the ratio was 1.02, in 2006-07 the ratio was increased to 1.03, in 2007-08 the ratio was increased to 1.06, in 2008-09 the ratio was decreased to 0.89 and in 2009-10 the ratio was increased to 0.95.

3. Activity Ratio

Activity ratios reflect the firm's efficiency in utilizing its assets. These ratios are also called Turnover Ratio, because they indicate the speed with which assets are being converted into sales. Activity ratios involve a relationship between sales and assets. Activity ratio is determined to through light on the efficiency of operation of business based on effective utilization of resources. Turnover ratios usually calculated on the basis of sales or cost of sales and are expressed in integers rather than as a percentage.

A. Inventory Turnover Ratio

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Stock}}$$

Table- Inventory Turnover Ratio for Five years (in Rs)

Year	Cost of Goods Sold	Average Stock	Ratio
2005-06	6532610	1280904	5.1
2006-07	6638685	1125201	5.9
2007-08	8390048	1048756	8.0
2008-09	9886972	1594673	6.2
2009-10	12401924	2531005	4.9

(Source: Annual Reports of Mahalaxmi Cashew Nut Export Pvt. Co.)

The inventory turnover ratio which indicating whether investment in inventory is efficiently used or not. In the year 2005-06 the ratio was 5.10 times. In 2006-07 the ratio increases to 5.90 times. In 2007-08 it was again increases to 8.00times. In 2008-09 it was comedown to 6.20 and 2009-10 the ratio was 4.90 times. This ratio not higher, this is a good sign because it indicates efficient stock management.

B. Fixed Assets Turnover Ratio

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Net Fixed Assets}}$$

Table- Fixed Assets Turnover Ratio for Five years (in Rs)

Year	Net Sales	Net Fixed Assets	Ratio
2005-06	6521613	1120552	5.82
2006-07	8975442	1190377	7.54
2007-08	6989820	928263	7.53
2008-09	9090274	1334842	6.81
2009-10	11625922	2231463	5.21

(Source: Annual Reports of Mahalaxmi Cashew Nut Export Pvt. Co.)

In 2005-06 the ratio was 5.82. In 2006-07 it was increases to 7.54. In 2007-08 it was comedown to 7.53. In 2008-09 it was also come down to 6.81 and in 2009-10 it was again comedown to 5.21. So, higher ratio is the good sign because, it indicates efficient utilization of working capital. This ratio indicates the extent to which the investment in fixed assets contributed towards sales.

C. Working Capital turnover ratio

$$\text{Working Capital Turnover Ratio} = \frac{\text{Net Sales}}{\text{Net Working Capital}}$$

Table- Net Working Capital Turnover Ratio for Five Years (in Rs)

Year	Net Sales	Net Working Capital	Ratio
2005-06	6521613	7012487	0.93
2006-07	8975442	9158614	0.98
2007-08	6989820	9445702	0.74
2008-09	9090274	11654197	0.78
2009-10	11625922	12368002	0.94

(Source: Annual Reports of Mahalaxmi Cashew Nut Export Pvt. Co.)

In 2005-06 the ratio was 0.93. In 2006-07 it was increases to 0.98. In 2007-08 it was comedown to 0.74. In 2008-09 it was increases to 0.78 and in 2009-10 it was again increases to 0.94.

D. Assets Turnover Ratio

$$\text{Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Net Assets}}$$

Table-Assets Turnover Ratio for Five Years (in Rs)

Year	Net Sales	Net Assets	Ratio
2005-06	6521613	15736311	0.41
2006-07	8975442	15676671	0.57
2007-08	6989820	16380700	0.43
2008-09	9090274	15745553	0.58
2009-10	11625922	14056212	0.83

(Source: Annual Reports of Mahalaxmi Cashew Nut Export Pvt. Co.)

In 2005-06 the ratio was 0.41, and 2006-07 it was increases to 0.57, in 2007-08 the ratio was decreases to 0.43, in 2008-09 it was also come down to 0.58 and in 2009-10 it was increased to 0.83.

4. Profitability Ratio

Profitability Ratio measures overall performance and effectiveness of the firm. Profitability is an indicator of the efficiency with which the operations of the business are carried on. Besides, management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principle regularly. Owners want to get reasonable return on their investment. Profitability Ratio is the overall measures of the companies with regard to efficient and effective utilization of resources. Profitability Ratio is important for a concern. These ratios are calculated to know the end result of the business activities. Profitability Ratio deals with the item or group of item from profit and loss account.

A. Gross Profit Ratio

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

Table-Gross Profit Ratio for Five Years (in Rs)

Year	Gross Profit	Net Sales	Ratio (in %)
2005-06	1826052	6521613	28.00
2006-07	3310143	8975442	36.88
2007-08	2122808	6989820	30.37
2008-09	2320747	9090274	25.53
2009-10	4019081	11625922	34.57

In 2005-06 the ratio was 28.00%. In 2006-07 it was increases to 36.88%. In 2007-08 it was comedown to 30.37%. In 2008-09 it was again comedown to 25.53% and in 2009-10 it was increases to 34.57%. Higher ratio is good sign because, it indicates favorable purchases.

It indicates higher the ratio, higher is the profitability of the concern. This ratio shows the degree to which, the selling price per unit decline without resulting in losses from operation to the firm. The gross profit should be adequate to cover operating expenses and to provide for fixed charges and building up of reserve.

B. Net Profit Ratio

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

Table- Net Profit Ratio for Five Years (in Rs)

Year	Net Profit	Net Sales	Ratio (in %)
2005-06	547815	6521613	8.40
2006-07	136426	8975442	1.52
2007-08	172648	6989820	2.47
2008-09	411789	9090274	4.53
2009-10	639425	11625922	5.50

(Source: Annual Reports of Mahalaxmi Cashew Nut Export Pvt. Co.)

In 2005-06 the ratio was 8.40%. In 2006-07 it was decreases to 1.52%. In 2007-08 it was increases to 2.47%. In 2008-09 it was again increases to 4.53% and in 2009-10 it was increases to 5.50%. So the ratio is fluctuating year by year. This ratio helps in determining the efficiency of the firm to carry on its business. An increase in the ratio over the previous period indicates improvement in the operational efficiency in the firm. The ratio is thus as effective measures to check the profitability of business.

Section-B

Problems faced by Mahalaxmi Cashew Nut Export Pvt. Co.

Profit, goodwill not only the main features of companies but problems and risks are also play vital role in every business. No business is free from problems. Every company is having its own merits and demerits without any problems no one company get success in market. It has to fight with several problems, which decreased companies' image, profit every thing. Similarly Mahalaxmi Cashew Nut Pvt. Co. has its own merits and demerits. This company also facing several problems and these problems restrict the growth of tiles factory.

Following are the problems, which faced by BITCO tiles factory.

1. Problem of Sales

The biggest problem of this unit is the problem of sales. Since processed cashew nut have high price in the market they find it very difficult to sell their products. Once final product is ready, while storing or for any other reasons if it is looses its quality it will be wastage and there will be no market for the same. There will be much wastage while cleaning and peeling the nuts in the factory

2. Problems of Labour

Cashew Nut Processing industries are mainly labour oriented industries. In the smooth running of an industry labourers play an important role. Though the labour is available in abundant but the firm is facing the problems of training those labours.

3. Scarce supply of Raw Material

These industries do not get adequate supply of required raw material in the time at reasonable prices on account of the inadequate supply of raw material; they are not able to utilize their installed capacity fully. Again on account of high cost of the required raw material mainly raw-cashew nut sometimes, they are forced to stop the work.

4. Unfortunate marketing Condition

These Cashew Nut Processing industries suffer from number of marketing problems. They do not have sales organization for marketing their products through publicity is not given to the consumer about the availability of the cashews. They should produce according to demand in foreign as well as domestic market

5. Rise in Labour Cost

Rise in the labour cost is also one of the problems faced by this unit. Nowadays due to hike in market price of all basic goods the workers demand to increase their wages as per inflation in market. Moreover they have labour union [CITU, BMS] for completion of any of their demand.

6. Lack of Advanced knowledge

The techniques of processing methods adopted by the cashew nut processing industries are very old and outdated. The backward and outdated techniques in use in the cashew nut processing industries have reduced the quality and quantity of production and also increased the cost of production.

7. Lack of advertising

In this unit, the demand for the product is low due to lack of advertising. There is no advertisement made on the product of this unit. Advertisement play an important role in the popularity of the products, which, further increases the sale of the products.

8. High cost of production

One of the serious problems of the cashew nut processing industry

is high cost of production. This is because of high cost of raw cashew nuts it-self and processing cost which increases cost of production.

9. Transportation problems

Cashew nut processing industries are also facing a problem of transportation. Usually cashew nuts are supplied by auto or goods carrier etc. sometimes irresponsibility of transportation owners may lead to some damage and recently transportation charges also increase

10. Shortage of trained personnel

It is also one important problem of industrial development particularly in developing country like India. To success in business there should be most effective planning and most effective planning there must be trained personnel. Processing of raw cashew nuts into processed cashew nuts requires a good skill otherwise it may lead to wastage.

11. Lack of co-operation and co-ordination

It is also a one of the problem of this unit. There is a lack of co-operation between the workers and supervisors. This lacks the communication between them, which results in low productivity.

12. Problems of finance

Mahalaxmi cashew nut export Pvt. Co. main source of finance is the owner's capital and loan from banks. Since finance is solely dependent on bank and owner, if the owner finds it difficult to raise fund from bank the whole burden falls on owner.

13. Lack of continuity production

The cashew nut processing industries carry out their operation highly during the month of March, April and May and during other seasons it is dependent on stock of raw material stored

14. Low labour productivity

Labour productivity is very low in Indian when compared to others countries like African countries

15. Irregular power supply

Power is an important factor for all types of industries since it is very skill full work it requires more light around the factory

16. Poor relationship between Cashew Nuts Plantation Owners and factory owners

The poor relationship between management and workers creates labour interest in strikes, lockouts, which effect on industrial development. And workers should get together than only workers department take keen in improving industrial position.

17. Competition

There is fully fledged competition between owners to get the raw cashew nuts from cashew nut plantation owners. Because during off seasons the factory solely depends on stock of raw cashew nuts stored.

Findings

This study attempted to bring together all element of the study described in earlier chapter in the form of findings and suggestions the following are the importance finding of the study

1. The net profit ratio is increase year after year. There is uniformly in the amount of net profit earned by the company. The first year net profit ratio shows highest figure because in this year company make more profit. It is reduced after maximum profit in second year and later increases progressively.
2. The fixed assets turnover ratio should not be more than one. So in all years it is below the requirement of 1:1. So if provide margin of safety to the creditors
3. The standard current ratio is 2:1. So in all 5 years the ratio meets the standard requirement.
4. Inventory turnover ratio is very high in all 5 years. It is a good sign. It indicates efficient stock management.
5. The debt equity is above the standard requirement of 1:1. So if

provide margin of safety to the creditors.

6. The standard quick ratio should be 1:1. So in all 5 years the ratio meets the standard requirements.
7. The serious problem of Cashew industry is gathering raw cashew nuts, because all the competitors rush to store more and more stock of raw cashew nuts to meet out necessity in off seasons. This raises the prices of raw cashew nuts.
8. Finance is another problem this industry. There is only owner's capital and loans from banks are source of finance, since there are no partners their contributions lack. More bank loan may cause problems
9. Cashew nut processing industries are facing competition in gathering raw cashew nuts from cashew plantation owners.
10. The cost of raw cashew nuts always increases during seasons and are less available in off seasons
11. Irregular supply of power is also one of the main problems of the Cashew nut processing industries. Irregular supply of power may stop the operation of the factory.
12. These factories suffer from number of marketing problems like
 - Poor transport facility
 - Lack of publicity
13. Lack of training facility to workers and non availability worker.
14. Taxation which burdens on every company first of all the company makes the less profit, but it has to pay some tax every year.
15. Lack of skilled labours thus low productivity
16. Lack facility to workers, since most of the workers work on daily wages, and the workers do not stay long in factory, this forces the management to give less attention towards facility provisions.

Suggestions

In the light of the above findings the following suggestions have been made for the healthy functioning of the tiles factory.

1. Net profit ratio is very low. It indicates a danger sign to Mahalaxmi Cashew Nut Export Pvt. Co. So, net profit of the factory can be increased by reducing cost of production and by adopting efficient method of production.
2. Mahalaxmi Cashew Nut Export Pvt. Co. must go for some partners this will help for both raising finance and gathering raw cashew nuts.
3. It is suggested that there should be proper supply of raw materials at proper time and at a reasonable cost. Govt. should exempt royalty for material subsidiary should be given on the material at fair price.
4. Marketing help should be given to these cashew factories like storing facilities, transport facilities and enough publicity in the market.
5. It is advisable that to reduce the labour problem factory should have periodic meeting with labours.
6. In order to reduce the competition, Govt. should give priority to the cashew factories in the matter of supply of raw material, power, credit etc.
7. It is advisable that power must be supplied regularly
8. With a little more care and caution the wastages in the process of production can be reduced, because cashew kernels are very soft and it may break
9. Govt. should provide exemption in sales tax and purchase tax.
10. They should arrange for continuity even in off seasons by storing enough raw materials
11. District industrial centre should provide all kinds of facilities to cashew factory.
12. Cashew industry owners must go for agreements with cashew plantation owners. So that they get regular supply.

Conclusion

Mahalaxmi Cashew Nut Export Pvt. Co. is running profitably from these past five years. The study specifies that the company has made sincere efforts in marketing its products and resulting in increase in demand for such products. The Mahalaxmi Cashew Nut Export Pvt. Co. needs the supervision of district industrial centers and state government.

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