

Assessment of Profitability of Small and Medium Food Processing Enterprises listed in BSE, India with reference to MSMED Act, 2006

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Abstract: “Food Processing has immense potential. We need to cash in on the global opportunities for the benefit of our farmers” – Sri Narendra Modi, our Prime Minister, quotes while inaugurating Mega Food Park in Tumkur, Karnataka on September 24, 2014. Considering the India’s potential to become the world leader in food processing, the Ministry of Food Processing Industries has envisioned an increase in food processing by exploiting the domestic and International market for processed food. Several policy measures have also been formulated in order to foster the growth and the development of food processing industries in India.

Keeping this background, this paper makes an attempt to measure the profitability performance of selected food processing industries using financial ratios. The study is carried out for a period of 10 years from 2005 to 2014 on a sample of 42 small and medium food processing enterprises listed in BSE, India as on 31st December, 2015. This is an Analytical research based on the secondary sources of data which uses the financial statements for measuring the profitability performance of the sample companies. The study compares the profitability performance of the sample companies during pre and post implementation period of MSMED Act by computing financial ratios. The paper concludes that though the overall profitability position of the sample companies in terms of ROCE, RONW and ROA has improved, Net profit Ratio has declined during the post implementation period when compared to the prior period.

Key Words: Food Processing Industry, Financial Performance, MSMED Act, profitability Ratios

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I. Introduction

India is the second largest producer of food and has the potential to be the largest in the world if ably supported by its agriculture economy. Food processing refers to transformation of raw ingredients obtained from farmers into manufactured food products sold by the retailers. Make in India initiative of the Prime Minister has immensely boosted the prospects of Indian food processing and beverages industry. 100% FDI is allowed under government approval for trading, including e-Commerce for food products produced and manufactured in India. Given all these support and importance, how are these enterprises performing in India? This paper makes an attempt to study one of the prominent factors of financial performance i.e profitability. This paper makes an attempt to study the impact of MSMED Act, 2006 on the profitability position of the selected food processing enterprises.

II. Review of Literature

Sl No.	Year of publication	Description of the article	
1	May 2015	Name of the Journal	Global Journal for Research Analysis
		Title of the paper	An Empirical Study on Effect of Profitability and Market Value Ratios on Market Capitalization of Infrastructural Companies In India
		Authors	Dr. Hanuman Prasad, Kapil Shrimal
		Objectives	To study the effect of profitability ratios on market capitalisation
		Methodology	Analytical study, sample size - 23 infrastructure companies, secondary sources of data obtained from www.capitaline.com
		Tools used	Descriptive statistics, multiple correlation, multiple regression, Z score, SPSS
	Outcomes / findings	There is a significant effect of profitability ratios on market capitalisation of selected infrastructure industries	
2	Jan 2015	Name of the Journal	Mediterranean Journal of Social Sciences, ISSN 2039-2117, Vol 6, No.1, Jan 2015

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		Title of the paper	Impact of Firms' Profitability on Environmental Performance: Evidence from Companies in India
		Authors	Vasanth Vinaygamoorthi, Selvam Murugesan, Lingaraja Kasilingam
		Objectives	To examine the relationship between profitability of the firm and firm's environmental performance
		Methodology	Sample size 191 companies listed in Bombay Stock Exchange, secondary data consisting annual financial statements obtained from Prowess Online Corporate Database. Study period consists of 10 years April 2004 to 31 st March 2014.
		Tools used	Profitability ratios, Descriptive statistics, Correlation, Regression
		Outcomes / findings	There is a negative relationship between firms' profitability variables and environmental performance
		3	May 2015
Title of the paper	The Effect of Working Capital Management on Corporate Profitability: Evidence from Nigerian Food Product Firms		
Authors	Sabo Muhammad1, Rabi'U Saminu Jibril1, Usman Sani K/Wambai1, Fatima Bello Ibrahim2, Tjjani Habibu Ahmad		
Objectives	To examine the impact of working capital management on corporate profitability through the periods of 2008 to 2012		
Methodology	Sample size – 7 firms listed in Nigerian Stock Exchange studied using secondary data viz., annual reports		
Tools used	Descriptive statistics and Regression analysis		
Outcomes / findings	Positive relationship among ACP, CR and the size of the firm		
4	May 2014	Name of the Journal	European Journal of Accounting Auditing and Finance Research Vol.2, No.3, pp. 10-21, May 2014
		Title of the paper	Working Capital Management And Profitability Of Selected Quoted Food And Beverages Manufacturing Firms In Nigeria
		Authors	Osundina Jacob Ademola,
		Objectives	To investigate the relationship between working capital management and profitability of food & beverages manufacturing firms listed on the Nigerian Stock Exchange
		Methodology	The study was conducted on 120 firms for the year 2002 and 2011
		Tools used	Descriptive statistics, Correlation and Multiple Regression
		Outcomes / findings	There is strong positive & significant relationship between WCM & Net Operating Profit
5	April 2014	Name of the Journal	Journal of Exclusive Management Science – April 2014 -Vol 3 Issue 4 - ISSN 2277 – 5684
		Title of the paper	The Impact of Size and Age on Profitability of Indian Food Processing Industry
		Authors	Ambily T. Chacko, Dr. Santhosh Kumar S.
		Objectives	To investigate the effect of age and size on Indian food processing industry's profitability based on margin of sales.
		Methodology	Indian food processing firms listed in BSE during the period 2009-13.
		Tools used	Profitability Ratios, T Test and ANOVA
		Outcomes / findings	There is no significant relation between age and profitability so the general notion of as firms grows older; their profitability seems to decline does not stand
6	Oct 2013	Name of the Journal	International Journal of Humanities and Social Science Vol. 3 No. 18; October 2013
		Title of the paper	Environmental Accounting and Firm Profitability: An Empirical Analysis of Selected Firms Listed in Bombay Stock Exchange, India
		Authors	Daniel Mogaka Makori Ambrose Jagongo
		Objectives	The objective of this study is to establish whether there is any significant relationship between environmental accounting and profitability of selected firms listed in India.
		Methodology	Based on secondary data viz., Annual Reports & Accounts of 14 randomly selected companies listed on the BSE for the year 2007 from different sectors.
		Tools used	Multiple regression analysis, Econometric model
		Outcomes / findings	Environmental Accounting has significant relationship with the various variables used in measuring firm profitability
7	Dec 2013	Name of the Journal	International Journal of Accounting and Taxation, Vol. 1 No. 1
		Title of the paper	Working Capital Management and Firm Profitability: Empirical Evidence from Manufacturing and Construction Firms Listed on Nairobi Securities Exchange, Kenya
		Authors	Daniel Mogaka Makori, Ambrose Jagongo
		Objectives	To examine the relationship between working capital management and profitability of manufacturing and construction firms listed on the Nairobi Securities Exchange (NSE).
		Methodology	Based on the financial data obtained from companies annual reports through NSE handbooks for the period 2003 to 2012
		Tools used	Profitability Ratios, Descriptive Statistics, Correlation, Regression
		Outcomes /	There is a negative correlation between Return on Assets and the firms average

		findings	collection period and cash conversion cycle. However, the study findings suggests that there is a positive correlation between Return on Inventory Holding Period, Accounts Payment Period
8	Jan 2012	Name of the Journal	International Journal of Business and Management Vol. 7, No. 1; January 2012
		Title of the paper	Relationship between Working Capital Management and Profitability in Context of Manufacturing Industries in Bangladesh
		Authors	Sayed Tahmina Quayyum
		Objectives	Is there a statistically significant relationship between the profitability and working capital management?
		Methodology	Secondary sources of data, sample of 6 industries based on judgemental sampling drawn from Dhaka Stock Exchange
		Tools used	Financial ratios, Correlation, Regression
		Outcomes / findings	The shorter is the cash conversion cycle, the more profitable the firm is likely to be. The firms should also put much importance on their receivables management and payables management to derive the best out of their profitability.
9	2011	Name of the Journal	Contemporary Economics, Vol 5, Issue 4, pg 68-81
		Title of the paper	The Influence of Working Capital Management on the Food Industry Enterprises Profitability
		Authors	Anna Bieniasz, Zbigniew Gołaś
		Objectives	To analyse relationships between the working capital and the profitability of food industry
		Methodology	Assessment of working capital management efficiency in the food industry in Poland & selected countries of the Eurozone based on unpublished data for the period 2005-09
		Tools used	Financial ratios, Multiple regression analysis
		Outcomes / findings	The research proved that in the food industry sectors with the shortest working capital cycles, relatively higher rates of profitability were obtained.
10	Dec 2011	Name of the Journal	Interdisciplinary Journal Of Contemporary Research In Business, December 2011, Vol 3, No 8
		Title of the paper	Sector-wise Performance of Working Capital Management Measures and Profitability Using Ratio Analysis
		Authors	Abdul Raheman, Dr. Abdul Quayyum, Dr. Talat Afza
		Objectives	To analyze working capital management performance of manufacturing sectors by using different working capital management measures.
		Methodology	Analysing working capital management performance efficiency for the overall manufacturing sector and for individual sectors using different working capital measures during the period 1998 to 2007.
		Tools used	Financial ratios.
		Outcomes / findings	Working capital management performance of different manufacturing sectors reveals that Cash Conversion Cycle and Net Trade Cycle, both are comprehensive measures of working capital management performance provides similar results.

Research Gap

From the above review of literature, it is observed that, several research works have been carried out on the related topics such as the effect of Profitability & Market Value Ratios on Market capitalisation, Impact of Firms' profitability on Environmental Performance, effect of WCM on Corporate Profitability, WCM and Profitability of selected Food & Beverages firms in Nigeria, Impact of size & age on Profitability of Indian Food Processing Industry and so on. But the research works carried out on the topic of measurement of profitability of food processing enterprises listed in BSE, India during the study period have been very few and far between. Hence this topic has been chosen by the researcher for further study.

III. Research Methodology

Objectives:

1. To assess the profitability position of small and medium food processing enterprises during the period prior to MSMED Act i.e 2005-06
2. To assess the profitability position of small and medium food processing enterprises during the post implementation period of MSMED Act i.e 2006-11.
3. To compare the profitability performance and to draw conclusion.

Scope:

This research article is based on the financial statements of Small, Medium food processing enterprises listed in BSE, India during the period 2005 to 2014. It covers a period of 10 years in order to reveal if there is an improvement in the profitability position of the food processing enterprises during post implementation

period of MSMED Act, 2006. The study covers 13 companies chosen from the food processing industry consisting of 7 small and 6 medium enterprises.

Sources of data:

The study is based on the secondary sources of data viz., published financial statements for 10 years viz., 2005 to 2014 obtained from BSE website through moneycontrol.com.

Methodology:

It is an Analytical study carried out on the basis of financial statements of the sample companies selected based on Judgemental sampling using financial ratios. The sample companies have been further classified into Small and Medium enterprises in order to compare their performance. The study covers a period of 10 years to study the impact of MSMED Act, 2006, on the profitability position of the listed food processing enterprises. Profitability ratios have been computed for the year 2005-06 to understand the position of the sample companies during pre-implementation period. Later the post implementation period is divided into 2 parts and ratios have been calculated at the end of 5 years viz., 2010-11 to understand the impact and again at the end of 2013-14 to check the sustainability.

IV. Data Analysis

Assessment of Profitability of the sample companies:

Profitability Ratios

They are the group of ratios which measure the ability of the companies to generate revenues out of their assets. It indicates the performance of the companies in terms of return on investment and also assists prospective investors and creditors in decision making. The following paragraphs explain the profitability position of the selected food processing enterprises during the study period 2005 through 2014.

Gross Profit Ratio:

The ratio measures the percentage of gross profit to the total sales turnover of an enterprise. It is calculated by dividing the Gross profit with Sales turnover. Higher the ratio, higher the gross profit and the company is more profitable and vice versa.

Table No. 1: Gross Profit Ratio of Small Enterprises

Sl. No.	Name of the Company	Average (%)		
		2005 - 06	2007 - 11	2012 - 14
1	Freshdrop Fruits	15.9	8.4	6.1
2	Hindustan Foods	17.7	-14.7	-13.0
3	KGN Enterprises	1.2	5.9	-3.4
4	Mahaan Foods	1.3	1.6	-1.4
5	Shah Foods	6.2	8.0	0.3
6	Tasty Bite Eatables	4.5	7.7	5.9
7	Vikas Granaries	6.0	20.1	5.0
	Mean	7.6	5.3	-0.1

The above table shows the Gross profit of the Small Enterprises under the food processing industry. Hindustan Foods records the highest average Gross Profit ratio of 17.7% and the least is seen in case of KGN Enterprises at 1.2% for the period 2005-06. During the period 2007-11, the highest of 20% is recorded by Vikas Granaries followed by Hindustan Foods with a least ratio of -14.7%. During the next 3 period 2012-14, the highest ratio comes down to 6.1% and the least is found to be -13% for the companies Freshdrop Fruits and Hindustan Foods respectively.

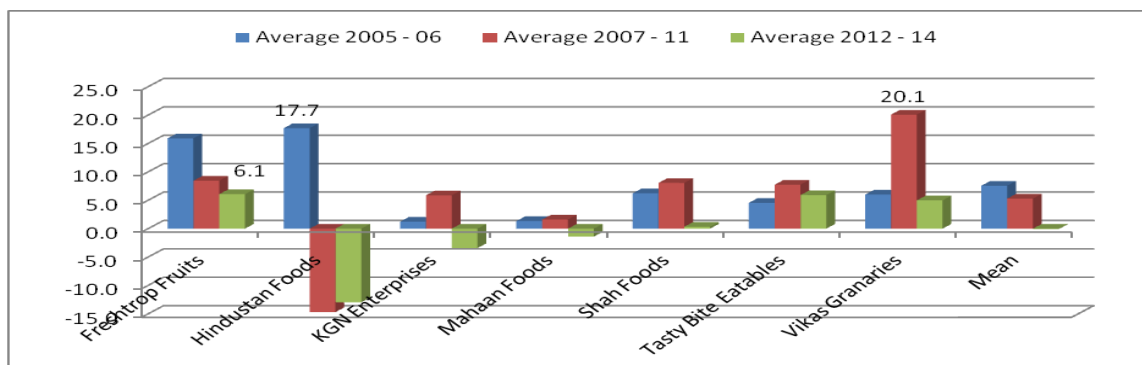


Chart No. 1: Gross Profit Ratio of Small Enterprises

The above chart reveals the trend in the performance of Gross Profit ratio small food processing enterprises during the study period. The average gross profit ratio has declined from 7.6% to 5.3% and further to -0.1 for the years 2005-06, 2007-11 and 2012-14 respectively.

Table No. 2: Gross Profit Ratio of Medium Enterprises

Sl. No.	Name of the Company	Average (%)		
		2005 - 06	2007 - 11	2012 - 14
1	Chaman Lal Setia Exports	4.4	5.7	7.3
2	Kwality Limited	6.2	4.7	5.9
3	Lotus Chocolate Company	7.6	1.7	-2.9
4	Milkfood Limited	1.1	1.7	3.5
5	Sampre Nutritions	9.6	9.8	8.5
6	Sita Shree Food Products	2.1	1.7	2.7
	Mean	5.2	4.2	4.2

The above table explains the position of gross profit ratio among the medium enterprises during the years 2005 and 2014. Sampre Nutritions leads the group with a highest average ratio of 9.6% and the least is found in Milkfood with 1.1% during the period 2005-06. Sampre Nutritions again leads the group with the highest average gross profit ratio of 9.8% and 8.5% during 2007-11 and 2012-14 respectively.

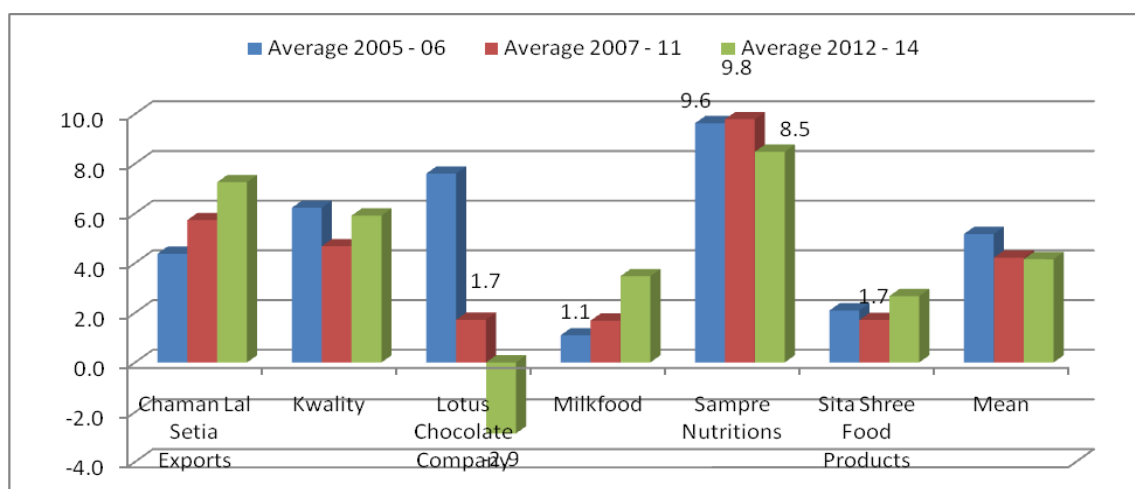


Chart No.2: Gross Profit Ratio of Medium Enterprises

The above chart reveals the trend in the Gross Profit Ratio during the years 2005 and 2014. The Mean value of Gross Profit Ratio shows a negative trend as it has declined from 5.2% to 4.2% among the select medium enterprises during pre and post implementation of MSMED Act 2006.

Net Profit Ratio

Net Profit Ratio measures the relationship between the Net Profit and the Sales turnover. It reveals the percentage of net profit earned by the firm and is calculated by dividing the Net profit with the sales turnover. Higher net profit ratio of the company proves that the company is more profitable.

Table No. 3: Net Profit Ratio of Small Enterprises

Sl. No.	Name of the Company	Average (%)		
		2005 - 06	2007 - 11	2012 - 14
1	Freshdrop Fruits	12.7	6.0	3.2
2	Hindustan Foods	1.7	-11.8	-28.8
3	KGN Enterprises	1.4	3.5	5.3
4	Mahaan Foods	0.7	0.7	2.8
5	Shah Foods	10.8	5.8	0.8
6	Tasty Bite Eatables	1.0	4.2	3.6
7	Vikas Granaries	1.9	13.7	3.0
	Mean	4.3	3.2	-1.4

The above table explains the percentage of Net Profit of Small Enterprises through the years 2005 and 2014. Freshrop tops the list with ratio of 12.7% and Mahaan Foods has the least ratio of 0.7% during the pre implementation period. During the period 2007-11, Vikas Granaries records the highest ratio of 13.7% and the least of -11.8% is found in case of Hindustan Foods and during 2012 -14, the KGN Enterprises records highest of 5.3% and the least of -28.8% by Hindustan Foods.

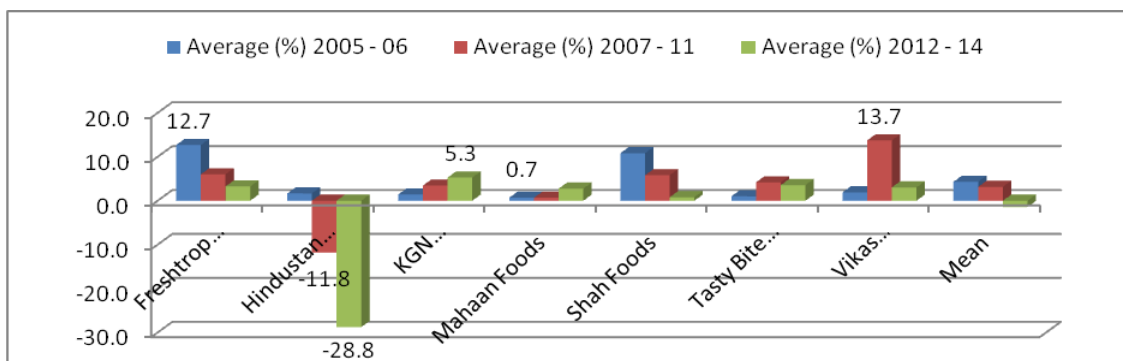


Chart No. 3: Net Profit Ratio of Small Enterprises

The above chart reveals that there is a decreasing trend in the average Net Profit ratio as observed from the values during the study period. The Mean ratio has decreased from 4.3% to 3.2% and further to -1.4% during the years 2005-06, 2007-11 and 2012-14 respectively. The performance of small food processing enterprises is not satisfactory during the post implementation of MSMED Act.

Table No. 4: Net Profit Ratio of Medium Enterprise

Sl. No.	Name of the Company	Average (%)		
		2005 - 06	2007 - 11	2012 - 14
1	Chaman Lal Setia Exports	1.9	3.2	4.1
2	Kwality Limited	2.9	2.0	3.1
3	Lotus Chocolate Company	0.7	0.6	-3.9
4	Milkfood Limited	0.9	0.1	0.2
5	Sampre Nutritions	3.4	2.6	1.7
6	Sita Shree Food Products	0.7	0.9	0.2
	Mean	1.7	1.6	0.9

The above table reveals the percentage of Net Profit earned by the Medium Enterprises through the years 2005 and 2014. Sampre Nutritions records the highest ratio of 3.4% and the least is 0.7% by Lotus Chocolate Company and Sita Shree Food Products during the pre-implementation period of MSMED Act. Chaman Lal Setia Exports records a Net Profit of 3.2% while the least is 0.1% by Milkfood Limited during 2007-11. During the period 2012-14, Chaman Lal Setia Exports remains at the top with 4.1% and Lotus Chocolates records its losses at -3.9%.

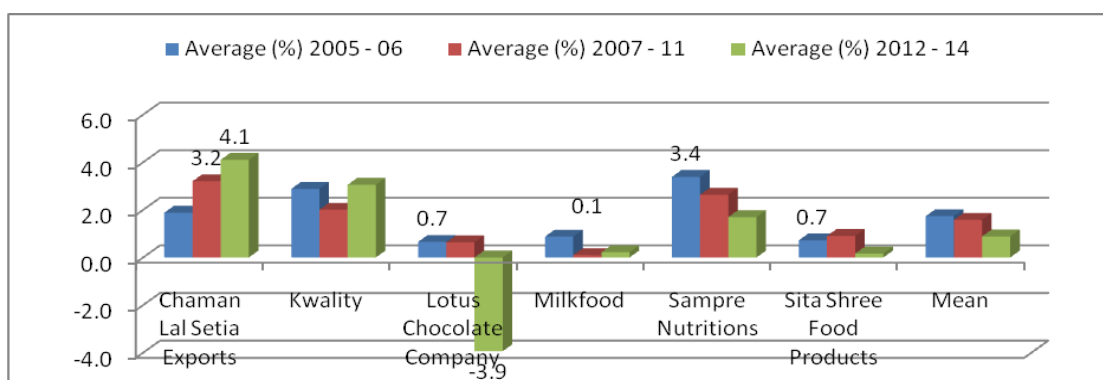


Chart No. 4: Net Profit Ratio of Medium Enterprise

The above chart reveals the trend in Net Profit ratio among the Medium Enterprises during the years 2005 to 2014. The Mean ratio has decreased from 1.7% to 1.6% and further drops to 0.9% during the periods 2005-06, 2007-11 and 2012 to 2014. The overall profitability of the medium food processing enterprises has decreased during the study period.

Return on Capital Employed

This Ratio measures the efficiency with which the company’s capital is put to use to generate profits. It indicates how efficiently firm’s capital is employed to earn profits. A higher ratio indicates more productive and efficient use of the firm’s capital and a lower ratio indicates under-utilisation of capital. It is calculated by dividing the Earnings before Interest and Taxes with the Total Capital Employed.

Table No.5: Return on Capital Employed of Small Enterprises

Sl. No.	Name of the Company	Average (%)		
		2005 - 06	2007 - 11	2012 - 14
1	Freshdrop Fruits	27.8	12.1	12.6
2	Hindustan Foods	5.6	-2.8	-5.2
3	KGN Enterprises	4.1	4.4	1.0
4	Mahaan Foods	8.6	9.5	5.2
5	Shah Foods	5.7	17.6	3.6
6	Tasty Bite Eatables	8.5	14.9	11.4
7	Vikas Granaries	-6.5	15.3	4.1
	Mean	7.7	10.1	4.7

The above table presents the performance of Return on Capital Employed of Small Food Processing Enterprises for the study period. During the year 2005-06, the highest ratio of 27.8% is found in Freshdrop Fruits and the least is -6.6%. During the period 2007-11, Shah Foods has earned highest return on its capital employed at 17.6% and Hindustan Foods records a negative return of -2.8%. Further during the next 3 year period 2012-14, Freshdrop Fruits earns highest return of 12.6% on its capital employed and negative returns of 5.2% is found in case of Hindustan Foods.

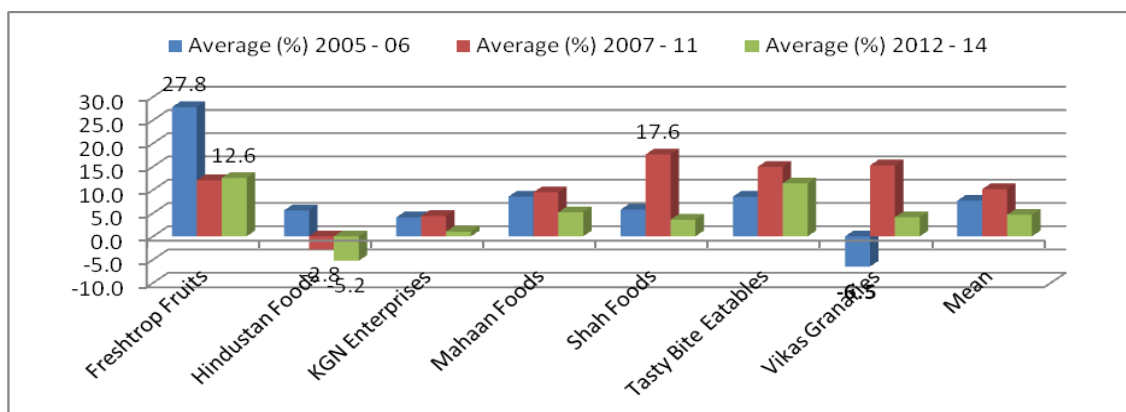


Chart No.5: Return on Capital Employed of Small Enterprises

The above Chart reveals the performance of Small Food Processing Enterprises in terms of Return on Capital employed during the years 2005 and 2014. The above chart reveals a positive trend in the ratio as the Mean Ratio has increased from 7.7% (2005-06) to 10.1% for the period 2007-11 due to efficient employment of capital by the small companies during the study period.

Table No.6: Return on Capital Employed of Medium Enterprises

Sl. No.	Name of the Company	Average (%)		
		2005 - 06	2007 - 11	2012 - 14
1	Chaman Lal Setia Exports	8.0	13.8	22.7
2	Kwality Limited	23.8	20.3	18.6
3	Lotus Chocolate Company	9.2	8.2	-8.1
4	Milkfood Limited	3.3	7.9	12.8

5	Sampre Nutritions	9.1	5.6	7.9
6	Sita Shree Food Products	9.7	7.3	6.0
	Mean	10.5	10.5	10.0

The above Table shows the performance of the Medium Food Processing Enterprises in terms of Return on Capital Employed during the study period. Kwalitiy Limited has been more efficient in earning highest return on capital at 23.8% and Milkfood Limited records the least of 3.3% for the period 2005-06. During the post implementation of MSMED Act, Kwalitiy Limited still retains the top place among the Medium food processing enterprises with 20.3% followed by 5.6% by Sampre Nutritions during 2007-11. During the next 3 years period 2012-14, Chaman Lal Setia Exports has been more efficient in capital employment with returns of 22.7% and Lotus Chocolate Company seems to be inefficient with negative returns of -8.1%.

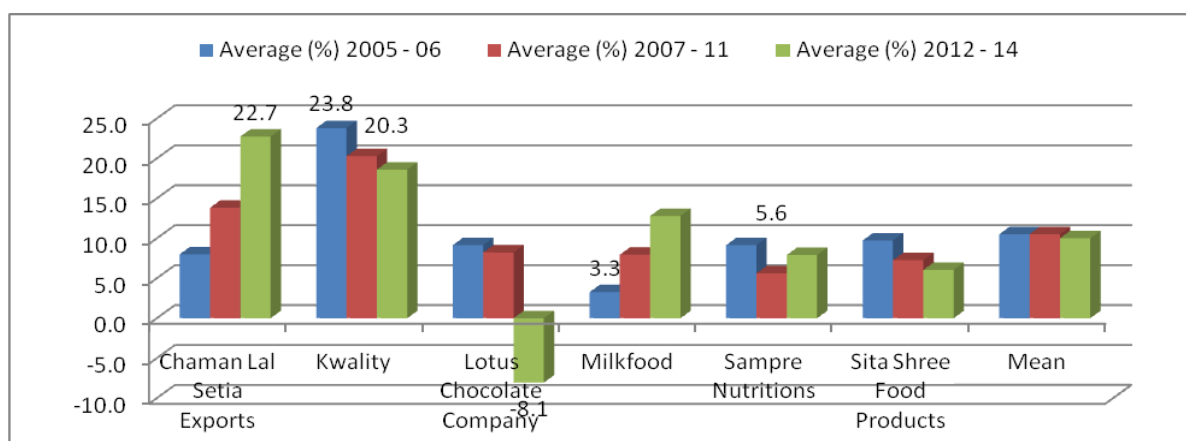


Chart No.6: Return on Capital Employed of Medium Enterprises

The above chart shows the trend in Return on Capital Employed of Medium Enterprises during through the years 2005 to 2014. The overall performance of these enterprises in terms of return on capital employed has almost been the same as the Mean ratio is 10.5% through out the period of study.

Return on Net Worth / Equity:

It refers to the percentage of income which the business earns on its investment. It is calculated by dividing the net income with share capital or net worth. A Higher ratio indicates more income for the shareholders and vice versa.

Table No. 13: Return on Net Worth of Small Enterprises

Sl. No.	Name of the Company	Average (%)		
		2005 - 06	2007 - 11	2012 - 14
1	Freshdrop Fruits	39.7	14.0	10.2
2	Hindustan Foods	9.6	36.2	61.5
3	KGN Enterprises	2.9	3.8	1.4
4	Mahaan Foods	4.8	5.0	3.8
5	Shah Foods	14.2	11.5	1.9
6	Tasty Bite Eatables	2.4	13.4	13.6
7	Vikas Granaries	-12.2	24.1	5.4
	Mean	8.8	15.4	14.0

The above table presents the performance of small enterprises measured in terms of Return on Net worth through the years 2005 to 2014. Freshdrop Fruits is leading the group with highest ratio of 39.7% and the least ratio of -12.2% is seen in Vikas Granaries for the period 2005-06. For the period 2007-11, Hindustan tops the group with 36.2% and KGN Enterprises records the least at 3.8%. During the next 3 year period, Hindustan Foods records the highest ratio of 61.5% followed by the least figure of 1.4% posted by KGN Enterprises.

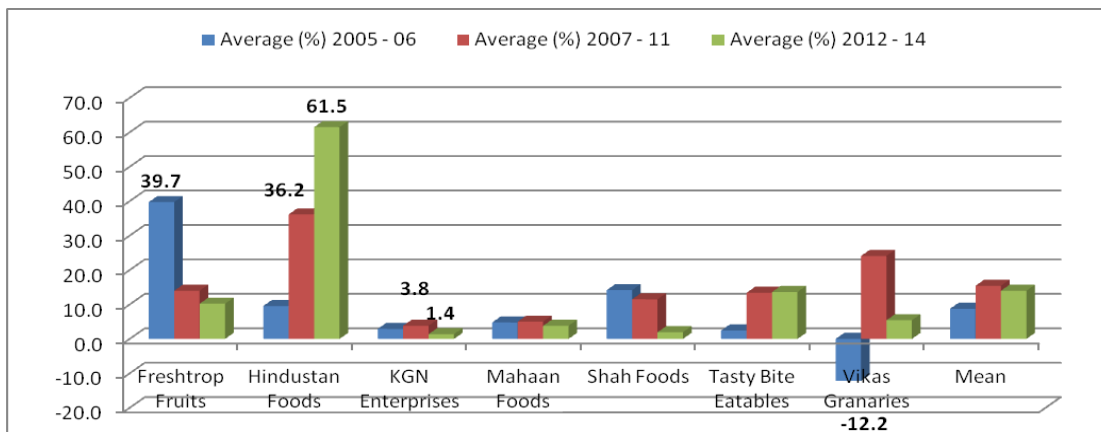


Chart No. 10: Return on Net worth

The above chart reveals the trend in the ratio of Return on Net worth of small food processing enterprises. It shows an increasing trend in the overall performance as the ratio has improved from 8.8% to 15.4% for the years 2005-06 and 2007-11 respectively. But the performance has declined to 14% as per the Mean ratio during the next 3 year period 2012-14.

Table No. 11: Return on Networth of Medium Enterprises

Sl. No.	Name of the Company	Average (%)		
		2005 - 06	2007 - 11	2012 - 14
1	Chaman Lal Setia Exports	6.9	16.2	23.2
2	Kwality Limited	16.2	30.9	39.2
3	Lotus Chocolate Company	-37.1	58.0	21.8
4	Milkfood Limited	5.9	-0.1	2.5
5	Sampre Nutritions	5.8	2.3	2.4
6	Sita Shree Food Products	7.0	4.3	0.7
	Mean	0.8	18.6	15.0

The above table shows the percentage of Return on Net worth of Medium Enterprises during the years 2005 to 2014. The highest ratio of 16.2% is found in case of Kwality Limited and the least is found in case of Lotus Chocolate Company with negative returns of -37.1% for the period 2005-06. During the next 5 year period 2007-11, Lotus Chocolate Company has earned highest return on its Net worth and the least of -0.1% is found in case of Milkfood Limited. Further during the period 2012-14, Kwality Limited tops the list again with 39.2% and the least is found in case of Sita Shree Food Products.

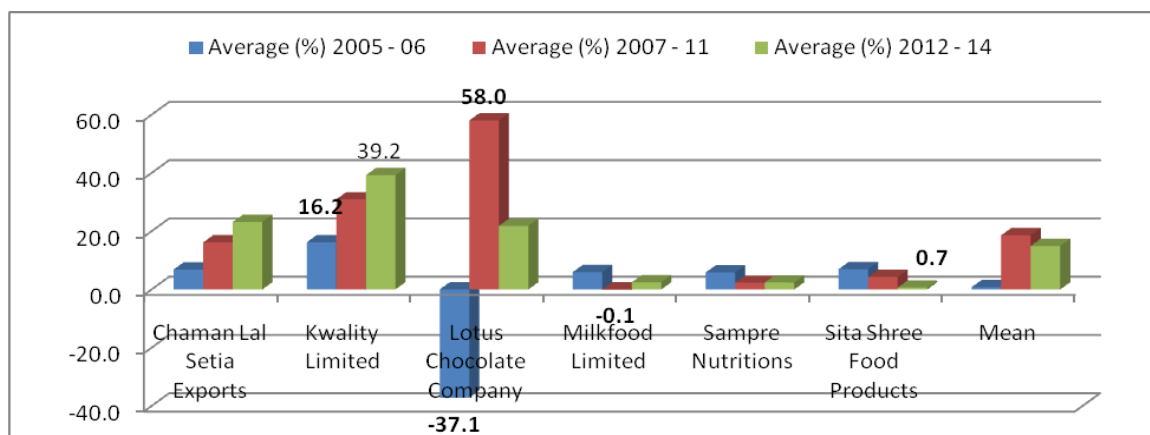


Chart No. 11: Return on Networth of Medium Enterprises

The above chart shows the trend in the return on networth for the years 2005 to 2014 among the medium enterprises. Trend shows an improvement in the performance of the companies as the Mean ratio has increased from 0.8% to 18.6% for the periods 2005-06 and 2007-11 respectively.

Return on Assets

It is the ratio which measures of the efficient utilisation of Assets of an organisation to generate higher revenues. It is calculated by dividing the Total Earnings with Total Assets of the company during the period. Higher the ratio, more efficient is the company in its Assets utilisation and vice versa. The following paragraphs explain the performance of select food processing enterprises in terms of Return on Assets.

Table No. : Return on Assets of the Small Food Processing Enterprises

Sl. No.	Name of the Company	Average (%)		
		2005 - 06	2007 - 11	2012 - 14
1	Freshdrop Fruits	19.3	25.7	25.7
2	Hindustan Foods	-1.9	-2.1	-5.5
3	KGN Enterprises	14.6	16.5	29.0
4	Mahaan Foods	26.5	33.2	37.7
5	Shah Foods	13.4	18.0	21.4
6	Tasty Bite Eatables	41.0	64.1	113.8
7	Vikas Granaries	6.1	23.0	50.8
	Mean	17.0	25.5	39.0

The above Table shows the performance of Small Food Processing Enterprises during the years 2005 and 2014. Tasty Bite Eatables has highest returns during the period 2005-06 posting 41% and Hindustan Foods has the least ratio of -1.9%. During the post implementation of MSMED Act 2006, the average Return on Assets for the 5 year period is highest at 41% in case of Tasty Bite Eatables and Hindustan Foods puts up a negative return of 2.1%. Even during the period 2012-14, the same companies maintain their positions in terms of performance.

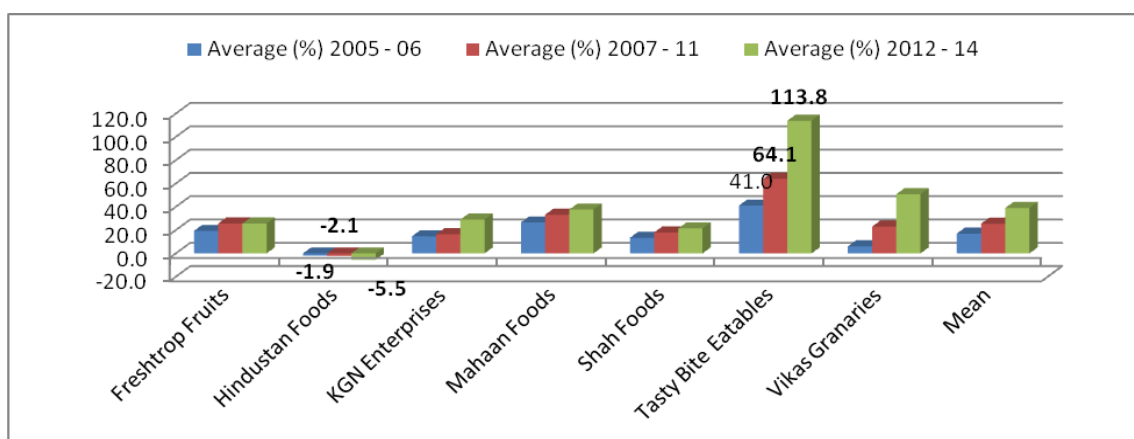


Chart No. : Return on Assets of the Small Food Processing Enterprises

The above chart reveals the trend in the Return on Assets of Small Food Processing Enterprises during the study period. The efficiency in utilisation of their assets has improved as revealed by the increase in ratio from 17% to 25.5% and further to 39% for the period 2005-06, 2007-11 and 2012-14 respectively.

Table No. : Return on Assets of the Medium Food Processing Enterprises

Sl. No.	Name of the Company	Average (%)		
		2005 - 06	2007 - 11	2012 - 14
1	Chaman Lal Setia Exports	23.1	30.0	55.8
2	Kwality Limited	8.2	9.9	14.0
3	Lotus Chocolate Company	-6.7	-3.4	-7.6
4	Milkfood Limited	58.8	73.5	66.8
5	Sampre Nutritions	14.1	14.2	16.0
6	Sita Shree Food Products	12.9	18.3	22.0
	Mean	18.4	23.8	27.8

The above table reveals the percentage of Return on Assets of Medium Food Processing for the years 2005 to 2014. Milkfood records the highest ratio at 58.8% and Lotus Chocolate Company records the least with -6.7% during the period 2005-06. During the post implementation period of 2007-11, the performance of Milkfood Limited improves to 73.5% where as the performance of LCC decreases to -3.4%. During the next 3 years period the same companies maintain the similar performances.

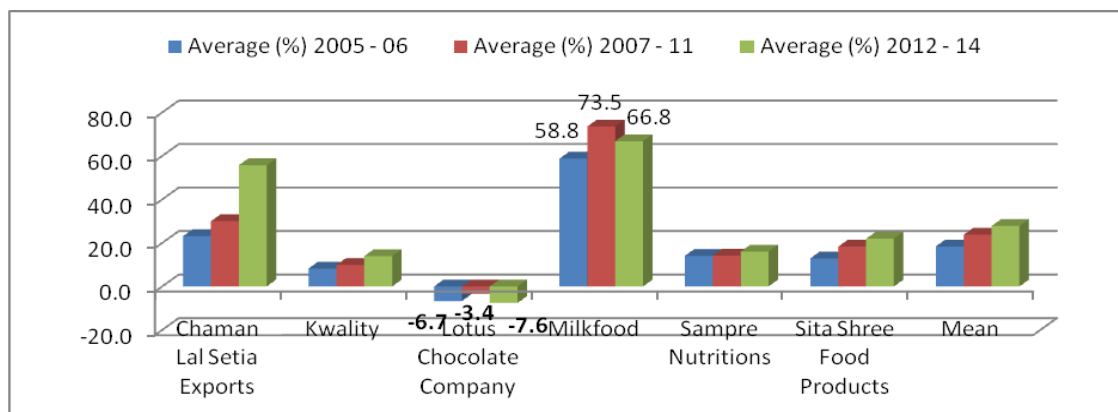


Chart No. : Return on Assets of the Medium Food Processing Enterprises

The above chart depicts the trend in the Ratio of Return on Assets among Medium Food Processing Enterprises. There is an improvement in the performance of Assets of the companies as the ratio shows an increasing trend for study period as the Ratio has increased from 18.4% to 23.8% and further to 27.8% during the periods 2005-06, 2007-11 and 2012-14.

V. Findings

Gross Profit Ratio

The analysis of the performance of Small, Medium and Large food processing enterprises using Gross Profit Ratio for the study period 2005 to 2014 reveals the following results.

A. Performance during the pre-implementation of MSMED Act, i.e 2005-06:

- Among the small food processing enterprises, Hindustan Foods records the highest average Gross Profit ratio of 17.7% and the least is seen in case of KGN Enterprises at 1.2%. The Mean Gross Profit Ratio of the sample stands at 7.6%.
- Among the Medium food processing enterprises, Sampre Nutritions leads the group with a highest average ratio of 9.6% and the least is found in Milkfood with 1.1%. The overall performance of the sample as indicated by the Mean Gross Profit Ratio stands at 5.2%.

B. Performance during the post-implementation of MSMED Act, i.e 2007-11:

- Among the small food processing enterprises, the highest of 20% is recorded by Vikas Granaries followed by Hindustan Foods with a least ratio of -14.7%. The overall Mean Gross Profit Ratio has decreased from 7.6% to 5.3%.
- Among the Medium food processing enterprises, Sampre Nutritions again leads the group with the highest average gross profit ratio of 9.8% and the least ratio of 1.7 is found in case of Lotus Chocolate Company and Milkfood Limited. The overall performance of the sample during the post implementation period of 5 years has declined to 4.2%.

C. Performance during the post-implementation of MSMED Act, i.e 2012-14:

- Among the small food processing enterprises, the highest ratio comes down to 6.1% and the least is found to be -13% for the companies Freshrop Fruits and Hindustan Foods. The performance has further dropped as the Mean Gross Profit Ratio has further declined to -0.1% from 5.3%.
- Among the medium enterprises, Sampre Nutritions again leads the group with the highest average gross profit ratio of 8.5% and the least ratio of -2.9% is found in case of Lotus Chocolate Company. The Mean of the sample during the said period has remained the same indicating the stagnancy in their performance.

Net Profit Ratio

The analysis of the performance of Small, Medium and Large food processing enterprises using Net Profit Ratio for the study period 2005 to 2014 reveals the following results.

A. Performance during the pre-implementation of MSMED Act, i.e 2005-06:

- Among the small food processing enterprises, Freshrop tops the list with ratio of 12.7% and Mahaan Foods has the least ratio of 0.7%. The overall performance as indicated by the Mean Net Profit Ratio stands at 4.3%.
- Among the Medium food processing enterprises, Sampre Nutritions leads the group with the highest ratio of 3.4% and the least ratio of 0.7% is found in case of Lotus Chocolate Company and Sita Shree Food Products. The overall performance as measured by the Mean Net Profit Ratio stands at 1.7%.

B. Performance during the post-implementation of MSMED Act, i.e 2007-11:

- Among the small food processing enterprises, Vikas Granaries records the highest ratio of 13.7% and the least of -11.8% is found in case of Hindustan Foods. The overall performance of the group as indicated by the Mean Net Profit Ratio has decreased from 4.3% in the previous period to 3.2%.
- Among the Medium food processing enterprises, Chaman Lal Setia Exports records a Net Profit of 3.2% while the least is 0.1% by Milkfood Limited. The overall performance as indicated by the Mean Net Profit Ratio has decreased to 1.6% from 1.7% of the previous period.

C. Performance during the post-implementation of MSMED Act, i.e 2012-14:

- Among the small food processing enterprises, the KGN Enterprises records highest of 5.3% and the least of -28.8% by Hindustan Foods. The overall performance of the group as further gone down to -1.4% when compared to the previous period.
- Among the medium enterprises, Chaman Lal Setia Exports records a Net Profit of 3.2% while the Lotus Chocolates records its losses at -3.9%. The overall performance of the group has decreased from 1.6% to 0.9% when compared to the previous period.

Return on Capital Employed

A. Performance during the pre-implementation of MSMED Act, i.e 2005-06:

- Among the small food processing enterprises, the highest ratio of 27.8% is found in Freshrop Fruits and the least is -6.6%. During the period, the overall performance of the group stands 7.7% as measured by Mean Ratio of Return on Capital Employed.
- Among the Medium food processing enterprises, Kwalitiy Ltd has been more efficient in earning highest return on capital at 23.8% and Milkfood Limited records the least of 3.3%. The over all performance of the group measured in terms of Mean ratio of Return on Capital Employed stands at 10.5%.

B. Performance during the post-implementation of MSMED Act, i.e 2007-11:

- Among the small food processing enterprises, Shah Foods has earned highest return on its capital employed at 17.6% and Hindustan Foods records a negative return of -2.8%. The performance of the group has improved as the Mean Ratio has increased from 7.7% to 10.1% for the periods under comparison.
- Among the Medium food processing enterprises, Kwalitiy Limited remains at the top place among the Medium food processing enterprises with 20.3% followed by the least of 5.6% by Sampre Nutritions. The over all performance of the group measured in terms of Mean ratio of Return on Capital Employed has remained the same at 10.5%.

C. Performance during the post-implementation of MSMED Act, i.e 2012-14:

- Among the small food processing enterprises, Freshrop Fruits earns highest return of 12.6% on its capital employed and negative returns of 5.2% is found in case of Hindustan Foods. The performance of the group has decreased from 10.1% to 4.7% as indicated by the Mean Ratio for Return on Capital Employed.
- Among the medium enterprises, Chaman Lal Setia Exports has been more efficient in capital employment with returns of 22.7% and Lotus Chocolate Company posts a negative return of -8.1%. The over all performance of the group measured in terms of Mean ratio of Return on Capital Employed has slightly come down from 10.5% to 10%.

Return on Net Worth / Equity:

A. Performance during the pre-implementation of MSMED Act, i.e 2005-06:

- Among the small food processing enterprises, Freshrop Fruits is leading the group with highest ratio of 39.7% and the least ratio of -12.2% is seen in Vikas Granaries. The overall performance of the group measured by the Mean Ratio of Return on Equity stands at 8.8%.
- Among the Medium food processing enterprises, the highest ratio of 16.2% is found in case of Kwalitiy Limited and the least is found in case of Lotus Chocolate Company with a negative return of -37.1%. The over all performance of the group as measured using the Mean Return on Net Worth stands at 0.8%

B. Performance during the post-implementation of MSMED Act, i.e 2007-11:

- Among the small food processing enterprises, Hindustan tops the group with 36.2% and KGN Enterprises records the least at 3.8%. The overall performance of the group measured by the Mean Ratio of Return on Equity as increased to 15.4% from 8.8% of the previous period.
- Among the Medium food processing enterprises, Lotus Chocolate Company has earned highest return on its Net worth and the least of -0.1% is found in case of Milkfood Limited. The overall performance of the group (Mean Return on Net worth) has improved from 0.8 to 18.6% during the post implementation period of MSMED Act.

C. Performance during the post-implementation of MSMED Act, i.e 2012-14:

- Among the small food processing enterprises, Hindustan Foods records the highest ratio of 61.5% followed by the least figure of 1.4% posted by KGN Enterprises. The overall performance of the group measured by the Mean Ratio of Return on Equity has declined to 14% when compared to the previous period.
- Among the medium enterprises, Kwality Limited tops the list again with 39.2% and the least is found in case of Sita Shree Food Products. The overall performance of the group (Mean Return on Net worth) has declined to 15% during the period from 18.6% during 2005-06.

Return on Assets:

A. Performance during the pre-implementation of MSMED Act, i.e 2005-06:

- Among the small food processing enterprises, Tasty Bite Eatables has highest returns of 41% and Hindustan Foods has the least ratio of -1.9%. The overall performance of the group as measured using the Mean Ratio of Return on Assets stands at 17%.
- Among the Medium food processing enterprises, Milkfood records the highest ratio at 58.8% and Lotus Chocolate Company records the least with -6.7%. The overall performance of the Medium food processing companies as measured using Mean Ratio of Return on Assets stands at 18.4%.

B. Performance during the post-implementation of MSMED Act, i.e 2007-11:

- Among the small food processing enterprises, the average Return on Assets for the 5 year period is highest at 41% in case of Tasty Bite Eatables and Hindustan Foods puts up a negative return of 2.1%. The overall performance of the group as measured using the Mean Ratio of Return on Assets has improved from 17% to 25.5% during the post implementation period.
- Among the Medium food processing enterprises, the performance of Milkfood Limited improves to 73.5% where as the performance of LTC decreases to -3.4%. The overall performance of the Medium food processing companies as measured using Mean Ratio of Return on Assets has improved to 23.8% from 18.4% recorded in the pre implementation period.

C. Performance during the post-implementation of MSMED Act, i.e 2012-14:

- Among the small food processing enterprises, Tasty Bites Eatables leads with 113.8% and Hindustan Foods records -5.5%. The overall performance of the group as measured using the Mean Ratio of Return on Assets has improved further to 39% from 25.5%.
- Among the medium enterprises, Milkfood Limited records the highest ratio of 66.8% where as the performance of Lotus Chocolate Company decreases to -7.6%. The overall performance of the Medium food processing companies as measured using Mean Ratio of Return on Assets has further improved to 27.8% from 23.84% recorded during the implementation period.

VI. Suggestions

The MSMED Act, 2006 was aimed at achieving rapid industrial growth throughout the Indian economy. Since Indian food processing industry is the sixth largest in the world, the government should formulate such measures which would bring out the best performance from these industries. Further more specific and stringent policy measures are required to strengthen the sector. The profitability position of the target group consisting of small and medium companies is not satisfactory. Government should assist the SMEs through financing, diversify products, getting export orders, technical and managerial skills, marketing of their products in order to enhance sales.

VII. Conclusion

The performance of the selected sample based on the profitability ratios, reveals that there is no satisfactory improvement in the profitability position of the sample companies during the post implementation period when compared to their profitability position during pre implementation of MSMED Act, 2006. The objective of the MSMED Act was to achieve robust industrial growth in the economy. The Indian Food Processing Industry contributes 14% of manufacturing GDP and 13% of India's exports. Looking at the above analysis, the objective of the government is hardly fulfilled by the industry. Hence, the measures need to be customised for each category of the industry.

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