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Business Performance Analysis of KFDC (Karnataka Fisheries Development Corporation)

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Abstract

Fisheries is one of the fastest growing food production sectors in India and all over the world. The present study was carried out in the KFDC of Mangaluru and Bengaluru, during 2014-15. Samples of 90 consumers were drawn for the study. Business performance analysis of KFDC was analysed using secondary data and financial ratios were employed. The data pertaining to financial aspects of the corporation were collected from KFDC, Mangaluru for the financial period of 2008-09 to 2013-14. The results of financial analysis projected that the current ratio was greater than unity (average was 2.09:1) in all the years, acid test ratio on an average was found to be 1.95:1. Tests of solvency revealed that the debt-equity ratio was less than the prescribed norm of 3:1 in the KFDC and debt-assets ratio was found to be less than unity in all the years. However, the overall weighted average debt-assets ratio was found to be 0.15, similarly the average debt – equity ratio was found to be 0.27. From the tests of efficiency it was observed that, due to high exit rate of the stock and its management, turnover ratio was constantly on the increasing trend for all the years. Tests of profitability revealed that the net profit was found to be less over the study period, indicating lower net profit, profitability ratios were found to be negative, indicating lower profit making ability of the corporation. However, as a public sector organization profitability is not the major objective of KFDC.

Keywords: Business Performance, Fisheries, Profitability and Financial ratios

Introduction

Fisheries is one of the fastest growing food production sectors in India and all over the world. India is the second largest producer of fish in the world contributing about 5.43 per cent of global fish production. India is also a major producer of fish through aquaculture and ranks second in the world after China. Growth of Indian fishery industry has accelerated, reaching a total marine and freshwater fish production to more than 8 million metric tons. The sector contributes about 1.30 per cent to the overall GDP and 4.60 per cent of the agricultural GDP. In India, fish industry possesses a higher growth rates than other food producing sectors. The contribution of marine fisheries has been continuously increasing over the years. It plays a vital role in the national economy and is the source of livelihood for a large section of economically backward population.

(Ministry of Agriculture, Govt. of India, 2011-12.)

Karnataka state is endowed with vast marine and fresh water resources and has a huge potential for fish production. The fish production from the state contributed about 4.80 per cent of India's total fish production. In Karnataka coast, Mangaluru is the main fishing and marketing centre. KFDC was established during 1970 under the Companies Act 1956, with authorized share capital of Rs.300 lakhs and paid up share capital of Rs. 7.12 lakhs for the development of fisheries sector and the welfare of fishermen. Head office of KFDC is located at Mangaluru and its divisions are located in different parts of Karnataka. It is the pioneer in establishing cold chain and marketing of marine fish in the major cities and towns of Karnataka. (KFDC Bulletin, Mangaluru, 2013-14)

Main Objectives of KFDC

- To provide fair price to the fishermen and supply fish to the consumers at affordable prices.
- To provide ice, diesel and others ancillaries to fishermen at reasonable prices.
- Production of fish meal and oil to utilize the surplus catches.
- Provision of cold store and transport logistics to ensure highest quality fish reaches consumers.
- Marketing of chilled and frozen fish with emphasis on hygiene and freshness.
- Establishment of modern fish retail outlets and quick service restaurants to serve delicious seafood to customers.

With this backdrop, an analysis on business performance of KFDC was conducted.

Methodology

The study was conducted in the KFDC of Mangaluru and Bengaluru during 2014-15 and a sample of 90 consumers were drawn for the study. Business performance analysis of KFDC was done using secondary data and financial ratios were employed. The data pertaining to financial aspects of the corporation were collected from KFDC headquarters, Mangaluru for the financial period of 2008-09 to 2013-14. The Financial ratios that were employed to examine the business performance of KFDC are as follows:

Financial Analysis

Ratios are the measures of results obtained from a business. In order to know the performance of the KFDC-Karnataka Fisheries Development Corporation, the financial ratio analysis, an effective tool providing the summation of the performance of a business organization, was employed for the study. The ratios relating to liquidity, solvency, efficiency and profitability of the KFDC have been analyzed. To highlight each of the above aspects, different ratios under each category have been worked out.

The secondary data drawn from the audited annual statements of the balance sheet, profit and loss account of the KFDC for a period of six financial years from 2008-09 to 2013-14 were subjected to rigorous financial ratio analysis. The financial ratios used for the analysis are described below:

a. Test of Liquidity

(i) Current Ratio

$$Current\ Ratio = \frac{Current\ assets}{Current\ liabilities}$$

The current ratio would give the relationship between current assets and current liabilities of the KFDC. A ratio greater than one would suggest that, the current assets of the corporation were adequate to meet all the current liabilities. If the ratio is equal to one, it indicates that the current assets are just sufficient to meet the current liabilities. A current ratio of 2:1 is considered to be satisfactory and indicated the extent to which short term claims could be met by the assets that could be readily convertible into cash. Generally, higher the value of ratio, better would be the safety margin and technical solvency of any organization.

(ii) Acid -Test Ratio

$$Acid\ test\ or\ Quickratio = \frac{Current\ assets - Inventory}{Current\ liabilities}$$

The ratio would indicate whether the organization is dependent on inventory for liquidity. A ratio 1:1 would be regarded as a suitable standard and a ratio of less than 0.5 could be considered unsatisfactory situation.

b. Test of Efficiency

(i) Total Assets Turnover Ratio

$$Total\ assets\ turnover\ ratio = \frac{Total\ sales}{Total\ working capital}$$

This ratio indicates the number of times total assets are being turned over in performing the fish sales. A higher ratio indicates that the composition of total assets is low and a lower ratio indicates the accumulation of fixed assets.

(ii) Fixed Asset Turnover Ratio

$$Fixed\ asset\ turnover\ ratio = \frac{Net\ sales}{Net\ property, plant, equipment}$$

The fixed-asset turnover ratio measures a firm's ability to generate net sales from fixed-assets specifically property, plant and equipment and net of depreciation. A higher fixed-asset turnover ratio shows that the company has been more effective in using the investment in fixed assets to generate revenues.

c. Test of Solvency

(i) Debt -Equity Ratio

$$Debt\ equity\ ratio = \frac{Debt}{Shareholder's\ equity + Debt\ equity}$$

The debt equity ratio probably one of the most commonly used financial leverage ratios, are calculated by dividing total liabilities by shareholders equity. Typically, only interest-bearing long-term debt is used as the liabilities in this calculation. The ratio indicates what proportion of equity and debt a company uses to finance its assets.

(ii) Debt-Asset Ratio

$$Debt\ asset\ ratio = \frac{Longterm\ debt}{Total\ asset}$$

A measurement representing the percentage of a corporation's assets that are financed with loans and financial obligations lasting more than one year. The ratio provides a general measure of the financial position of a firm, including its ability to meet financial requirements for outstanding loans. A year-over-year decrease in this metric would suggest that the firm is progressively becoming less dependent on debt in the growth of their business.

d. Test of Profitability

(i) Net Profit Ratio

$$Net\ Profit\ Ratio = \frac{Net\ income}{Net\ sales\ (revenue)}$$

Often referred to as a company's profit ratio, so-called bottom line is most often mentioned when discussing a company's profitability. While undeniably an important number, investors can easily see from a complete profit ratio analysis that there are several income and expense operating elements in an income statement that determine a net profit ratio.

(ii) Return On Equity

$$Return\ on\ equity\ = \frac{Net\ income}{Average\ shareholders\ equity}$$

This ratio indicates how profitable a company is by comparing its net income to its average shareholder's equity. The return on equity ratio (ROE) measures how much the shareholders have earned for their investment in the company. Higher the ratio percentage, higher is the management efficiency in utilizing its equity base and the better return to investors.

Results

The business performance indicators of KFDC were computed from the Balance sheet and Income statements for the period of 2008-09 to 2013-14.

Indicators of Financial Performance of KFDC

The data on sales, operational profit, net-profit, inventory, earning power, share capital, external debts, fixed assets, working capital and investments are presented in Table-1. It is evident from the table that the total sales increased over the study period from Rs.4,350 lakhs in 2008-09 to Rs.13,853 lakhs in 2013-14. The Operational profit of KFDC has shown variations across all the six years and there was decline in operating profit during the years 2010-11 and 2013-14. The performance was poor in 2013-14 since with the operating profit decreased by almost 75 per cent. In respect of the net profit, the performance was satisfactory for the period. Net profit which was Rs. 60 lakhs in 2008-09 has increased to Rs. 104 lakhs in 2009-10 and again increased to Rs.115 lakhs in 2010-11. However, during 2013-14 the net profit has declined to Rs. 71 lakhs reflecting annual variations in the net earnings of KFDC.

The value of inventory of KFDC has gradually decreased during the study period. It was Rs. 432 lakhs in 2008-09 which has decreased to Rs. 130 lakhs in 2011-12 and further to Rs. 122 lakhs in 2013-14. The share capital of the KFDC was Rs. 2043 lakhs in 2008-09 which increased to Rs. 2060 lakhs in 2013-14. Further, the share capital was the highest in the year 2009-10(Rs. 2899lakhs) and lowest in 2010-11 (Rs. 1594 lakhs).

The long term debt of KFDC shows that the KFDC borrowings in the form of long term debt has increased substantially during the year 2010-11 (Rs.921 lakhs). In the year 2012-13 it was Rs. 490 lakhs while, in 2013-14 the borrowings by KFDC has come down drastically to Rs. 326 lakhs. The Fixed assets of KFDC presented an increasing trend over the study period. It has from Rs. 525 lakhs in 2008-09 to Rs. 1005.8 lakhs in 2013-14.

Table 1: Analysis of Financial Performance Indicators of KFDC (Rs. Lakhs).

Sl. No.	Financial performance indicators	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
1.	Revenue from sales	4350.72	5876.29	7733.29	10765.56	10926.12	13853.56
2.	EBIT	72.35	116.30	106.05	170.84	433.84	117.70
3.	PAT	60.66	104.53	115.42	112.44	-20.42	71.94
4.	Inventories	432.28	28.17	26.24	130.89	120.27	122.15
5.	Shareholder's Equity	2043.09	2899.44	1593.52	2219.54	2017.68	2060.80
6.	Long Term Debt	240.08	251.78	967.20	921.08	490.41	326.21
7.	Fixed assets	525.32	640.54	649.90	709.50	954.76	1005.80
8.	Current Assets, Loans and Advances	1733.29	3219.09	2422.12	2846.24	2369.83	3493.98
9.	EPS	4.90	3.20	3.70	4.28	0.72	4.50
10.	Investments	0.00	0.00	2236.98	2152.03	1437.96	1470.42

The value of Current assets showed varying trend over the study period. They have increased from Rs. 1733.2 lakhs in 2008-09 to Rs. 3219 lakhs in 2009-10 but decreased to Rs. 2422.1 lakhs in 2010-11. However, their value increased to Rs. 3493.9 lakhs in 2013-14.

EPS (Earning per share) of KFDC had shown fluctuating pattern with the PAT and averages at 4.11 with the lowest in the year 2012-13, when it was 0.72 and highest of 4.90 in 2008-09. From 2010-11 onwards the firm has taken up investments including fixed deposits The investment pattern of KFDC showed varying trend. The investment was high during the year 2010-11 (Rs. 2236 lakhs) and 2011-12 (Rs. 2152 lakhs) and declined substantially thereafter.

Analysis of Financial performance of KFDC

The ratio analysis is one of the most useful and common methods for analyzing the financial statements of any firm. The ratio analysis of KFDC was carried out for the period from 2008-09 to 2013-14 (Table-2). The selected financial ratios fall under four groups viz., test of liquidity, solvency, efficiency and profitability ratios.

a. Test of Liquidity

(i) Current ratio

The ratio of current assets to current liabilities is termed as current ratio. The overall average value of current ratio for the KFDC was 2.09. The ratio was found to be the highest in 2011-12 (2.50) and lowest in 2013-14 (1.54). This entails that the firm is able to meet its current liability with the help of its current assets without any difficulty.

(ii)Acid-test ratio

Acid test ratio or quick ratio provides a better measure of liquidity than the current ratio, as inventories are deducted from current assets for calculation of this ratio. The overall average value of acid test ratio for the KFDC was 1.95. The ratio was found to be highest in 2011-12 (2.39) and lowest in 2013-14 (1.49). It is significant to note that the firm had a moderately higher level of quick assets.

b. Test of Solvency

(i) Debt-equity ratio

Debt -Equity ratio was found to be lowest in 2009-10(0.09) and highest in 2010-11 (0.61). The overall average value of the ratio was found to be 0.27 suggesting that, for every one rupee of owned funds, the firm had 27 per cent of borrowed funds.

(ii) Debt-assets ratio

Debt-Assets ratio was lower in 2013-14 (0.07) and the highest in 2010-11 (0.31).The overall average value of the ratio was found to be 0.15. This signifies that 85 per cent of firm's assets are supported by owned funds.

c. Test of Efficiency

(i) Fixed asset- turnover ratio

The fixed asset turnover ratio was highest in 2011-12 (15.17) and lowest in 2008-09 (8.28). The average ratio was found to be 11.62. The fixed asset turnover ratio was constantly on the increasing trend which implies that the firm had managed to improve its fixed asset position year after year in relation to its turnover.

(ii) Total assets- turnover ratio

The overall average value of the ratio was found to be 1.90, with highest ratio in 2013-14 (2.32) and lowest in 2010-11 (1.46). It is an indication of financial efficiency of corporation in terms of productivity of its total assets which was increasing over the years.

d. Test of Profitability

(i) Net profit ratio

The average net profit ratio worked out to be 0.01.The values remained same (0.01) during 2008-09, 2009-10 and 2011-12. It was lowest in 2012-13 (-0.002). The ratio denotes poor profitability of the corporation which is an objective indicator of the overall financial performance.

(ii) Return on equity

The average return on equity of KFDC was 0.02.It was highest in the year 2011-12 (0.05) and lowest in 2012-13 (-0.01). This indicates that the return to investment by any standards was very poor.

Discussion

Analysis of Financial performance of KFDC

The analysis of financial statement employing ratio analysis technique and their comparison indicate the extent of business success of the corporation. Ratios are measurements of results originating from a business. The ratio analysis is one of the most useful and common method of analyzing the financial statements. A rigorous financial analysis of KFDC (Karnataka Fisheries Development Corporation) Mangaluru, was attempted through financial ratios. Different measures of financial performance like liquidity, solvency, efficiency and profitability, were computed by employing different ratios and are discussed below under different subheads.

a. Test of Liquidity

The liquidity ratios measure the ability of an organization to cover its short term obligations out of its short term resources without disrupting the ongoing nature of the business. The current ratio is widely used analytical measure using typical balance sheet values. The average value of the ratio was 2.09 over the last six years of the study period which is relatively higher indicating the financial strength of corporation (Table-2). This indicates that the corporation was able to meet its current liabilities with the help of its current assets without any difficulty.

Table 2: Analysis of Financial performance of KFDC.

Financial ratios/ Years	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Average
Test of Liquidity							
Current ratio	2.06	2.14	1.86	2.50	2.44	1.54	2.09
Acid-test ratio	1.55	2.12	1.84	2.39	2.32	1.49	1.95
Test of Solvency							
Debt-equity ratio	0.12	0.09	0.61	0.41	0.24	0.16	0.27
Debt -assets ratio	0.11	0.07	0.31	0.22	0.14	0.07	0.15
Test of Efficiency							
Fixed assets-turnover ratio	8.28	9.17	11.90	15.17	11.44	13.77	11.62
Total assets-turnover ratio	1.93	1.52	1.46	1.89	2.29	2.32	1.90
Test of Profitability							
Net profit ratio	0.01	0.01	0.001	0.01	-0.002	0.005	0.01
Return on equity	0.03	0.03	0.007	0.05	-0.01	0.03	0.02

It was observed that current ratio above unity indicates a corporation's ability to meet its current obligations. This ratio was found to be greater than unity in all the years over the study period. Thus, it could be concluded that KFDC has maintained a reasonably good level of liquidity position.
This ratio is a quick measure of liquidity, as inventories are excluded from current assets. A standard for this ratio is 1:1 is desirable for production units like sugar factories. The average value of the ratio was 1.95:1 for the study period. This indicated that the KFDC had maintained adequate cash balances to meet the day – to –day requirements and had a moderately higher level of highly liquid assets.

b. Test of Solvency

Solvency is another measure of financial strength of the corporation which reflects the firm's ability to meet its total commitments. It indicates the margin of safety offered to the creditors. The solvency of the KFDC was measured in terms of two solvency ratios and the results are presented in Table-2. The Debt–Equity ratio explains the extent of dependence of the corporation on external funding in relation to its equity. A ratio less than 3:1 signifies the financial soundness of the organization regarding its debt and equity position. In the present study the debt – equity ratio on an average was less than the norm of 3:1 (0.27:1) suggesting that, for every one rupee of owned funds, the corporation had 27 paisa of borrowed funds. The debt to assets ratio indicated that on an average, the corporation has been maintaining debt of 15 per cent of its assets. This signifies that 85 per cent of firm's assets are supported by owned funds.

c. Test of Efficiency

The degree of efficiency in the utilization of resources was measured by employing different ratios. The results are presented in Table-2. The fixed asset turnover ratio is constantly on the increasing path which implies that the corporation had managed to improve its fixed assets position year after year in relation to its turnover. The average value of the ratio was found to be 11.62. Total assets to turnover ratio, which is a ratio of annual sales to the total assets, indicates the sales efforts of KFDC, in relation to the total assets. Generally, the higher the turnover, the greater is the efficiency and higher is the rate of profit. In the present study, the average value of ratio was 1.90 over the study period. Performance of KFDC has increased year after year which is an indication of financial efficiency of corporation in terms of its productivity of total assets.

d. Test of Profitability

Profitability levels of KFDC were measured by employing different ratios. The results are presented in Table-2.The average net profit ratio worked out to be 0.01 and it has been on the decreasing trend that denotes poor profitability of the corporation which is an objective indicator of the overall financial efficiency of KFDC, although as a public sector organization profitability is not the major objective of KFDC. The return on equity of KFDC, on an average, was two per cent over the last six years indicating that the return to investment by any standards was very poor. Throughout the study period the situation remained more or less the same.

Conclusion

Financial ratio analysis was employed for KFDC to know about the financial strength of the corporation over the study period. The current ratio was greater than unity (average was 2.09:1) in all the years. The acid test ratio on an average found to be 1.95:1. This indicated that KFDC had adequate cash balance to meet day to day requirements. Tests of solvency ratios revealed that the debt-equity ratio was found less than the prescribed norm of 3:1 in the KFDC. The debt-assets ratio was found to be less than unity in all the years. However, the overall weighted average debt-assets ratio was found to be around 0.15.Similarly the average debt – equity ratio was found to be 0.27. Tests of efficiency ratios revealed that, due to high exit rate of the stock and its management, the turnover ratios (i.e., fixed asset turnover ratio and total assets turnover ratio) were found to be constantly on the increasing trend and better in all the years. Tests of profitability ratios revealed that the net profit was found to be less over the study period, indicating lower net profit. The profitability ratios (net profit ratio and return on equity) were found to be negative in KFDC, indicating lower profit making ability of the corporation. However, as a public sector organization profitability is not the major objective of KFDC.

Policy implications and appropriate strategies recommended for improving the business performance of KFDC are establishment of KFDC mobile canteens to reach more consumers and widen the business in the market, diversification of the fish products and value addition to the existing products to improvise and compete in the business sector and market survey on a sustainable basis would improve decision making on marketing of fish which in turn will improve the turnover and profitability of the corporation.

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