

A study on divisional performance analysis of Shree Renuka Sugar Ltd.

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Abstract

One of the fundamental functions of management accounting is facilitating managerial control. Various devices are used by the management in performing this important function. Decentralization is a necessary response to the increasing complexity of the environment that organisations face and the increasing size of most organisations. Nowadays it would be impossible for one person to make all the decisions involved in the operation of even a small company, hence senior managers delegate decision-making responsibility to subordinates. The work of all the divisions must be conducted in such a manner that the work of no division comes in the way of profitability of other divisions or the profitability of company as a whole. The essence of divisional performance measurement is that all divisions must be so motivated as to maximise the profit of the company and not merely of division itself. Most large organisations adopt divisionalised structures. The manner in which divisional performance is controlled and measured is, therefore, of particular importance.

In this paper, an attempt made to introduce divisional performance analysis; briefly discuss divisional performance measures; analyse the performance of five segments at Shree Renuka Sugars Ltd. over a period of last five year and communicate the results to readers thereof.

Keywords: decentralization, divisional performance analysis, management accounting and managerial control

Introduction: Objectives of the Study

- To explore insight of divisional performance analysis.
- To study the trends of divisional performance at Shree Renuka Sugar Limited.
- To analyse the performance of five divisions at Shree Renuka Sugar Limited, with the help of divisional performance measures.

Research Methodology

The primary purpose of present study has been to obtain a deep insight and full familiarity with the Divisional Performance Analysis of Renuka Sugars Ltd... The present study is based on the secondary data i.e. annual reports and accounts of the companies selected for the study. A five yearly period commencing from 2011-12 to 2015-16 has been taken.

Data Collection

The source of data for this study was predominantly from secondary sources. The annual financial reports of Shree Renuka Sugars Ltd. were used as a source of secondary data in order to perform divisional performance analysis.

Period of Study

The study covers a period of five years from the financial year 2011-2012 to 2015-2016.

Tools Used for analysis

In order to analyze Divisional Performance Analysis of Shree Renuka Sugar Ltd.... the following tools were employed

1. Return on Investment

The earning power of assets measured as the ratio of the net income to the average capital employed in a company or

project. Expressed usually as a percentage, return on investment is a measure of profitability that indicates whether or not a company is using its resources in an efficient manner.

$$R O I = \frac{\text{Profit}}{\text{Investment}} * 100$$

2. Residual Income

Residual income is the net operating income that is earned by the investment centre. This income is the earning that is above the minimum target return. This means that a residual income is the excess income earned on the return on investment.

$$R I = \text{Operating Income} - \text{Capital Charge}$$

Statistical tools used

Simple statistical tools like average, tables, graphs, charts and CAGR were also used.

Shree Renuka Sugars

Shree Renuka Sugars is a global agribusiness and bio-energy corporation. The Company is one of the largest sugar producers in the world, the leading manufacturer of sugar in India, and one of the largest sugar refiners in the world. The company has its Corporate office in Mumbai (Maharashtra, India) and Head Office in Belgaum (Karnataka, India).

Company Profile

Type	: Public company
Industry	: Sugar
Founder	: Narendra Murkumbi and Vidya Murkumbi
Headquarters	: Belgaum, Karnataka, India
Area served	: Belgaum
Key people	: Narendra Murkumbi, MD
Revenue	: Rs.100, 876.0 million (US\$160 million)

Profit : Rs.10087.0 million (US\$160 million)
 Owner : Narendra Murkumbi
 Website : <http://www.renukasugars.com/>

The Company operates in the following segments:

1. Sugar
2. Trading
3. Co-Generation
4. Ethanol
5. Other

effectively, such an organization may be subdivided into separate units, each of which is responsible for planning and control of its own activities and for some aspects of decision making. Each of the separate units is called a division of the company. This chapter explains ways in which divisional performance can be measured and compared.

The benefit of creating a divisional structure is that those managing and working in each division have a sense of responsibility for their own area of operations, but the risk lies in the divisional management taking actions which may appear to be beneficial to the division but which are not good for the organization as a whole.

Divisional Performance Analysis

Large organizations have a variety of activities which they carry out in different locations. In order to manage it

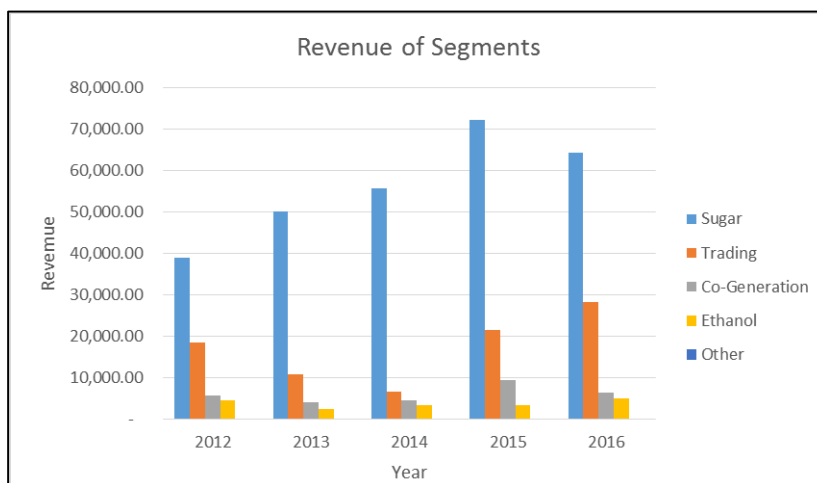
Table 1: Measuring Divisional Performance

Type of division	Description	Type measures used to assess performance
Cost centre	<ul style="list-style-type: none"> ▪ Division incurs costs but has no revenue stream 	<ul style="list-style-type: none"> ▪ Total cost and cost per unit ▪ Cost variances ▪ NFPIs related to quality, productivity and efficiency.
Profit centre	<ul style="list-style-type: none"> ▪ Division has both costs and revenue ▪ Manager does not have the authority to alter the level of investment in the division 	<ul style="list-style-type: none"> ▪ All of the above plus: ▪ Total sales and market share ▪ Profit ▪ Sales variances ▪ Working e.g. related to productivity, quality and customer satisfaction.
Investment centre	<ul style="list-style-type: none"> ▪ Division has both costs and revenue ▪ Manager does have the authority to invest in new assets or dispose of existing ones 	<ul style="list-style-type: none"> ▪ All of the above plus: ▪ ROI ▪ Residual income ▪ These measures are used to assess the investment decisions made by managers

Data Analysis and Interpretation

Table 2: Sugar Segment Revenue since 2012 to 2016.

Year	Revenue (Rs. in Million)				
	Sugar	Trading	Co-Generation	Ethanol	Other
2012	38,851.00	18,471.00	5,817.00	4,592.00	80.00
2013	50,105.00	10,798.00	4,094.00	2,350.00	60.00
2014	55,659.00	6,729.00	4,474.00	3,457.00	45.00
2015	72,058.00	21,391.00	9,326.00	3,412.00	65.00
2016	64,331.00	28,304.00	6,382.00	5,035.00	61.00

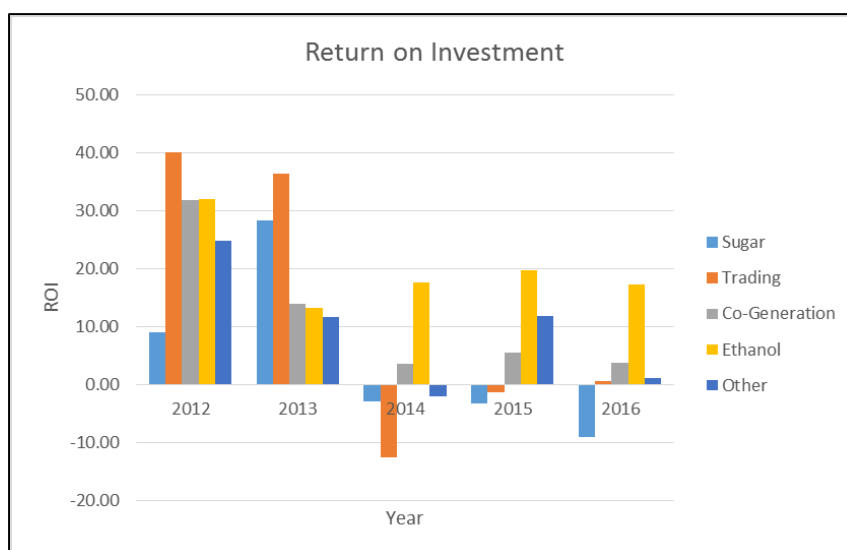


Sugar Segment has increasing trend in its revenue except for the year 2016. The Compound Annual Growth Rate in revenue of Sugar Segment for the study period is 11.65 %. Decrease in revenue during 2016 is due to steep fall in production. Trading Segment had decreasing trend in its revenue from the year 2012 to 2014, From then it catches upward trend for the next two years (2015 and 2016) The Compound Annual Growth Rate in revenue of Trading Segment for the study period is 8.96%. Co-Generation Segment has no particular trend for the study

period. The revenues from 2012 to 2016 are hovering. The Compound Annual Growth Rate in revenue of Trading Segment for the study period is just only 3.88%. Ethanol Segment’s Revenue is in between Rs. 2350 million and Rs. 5035 million. No particular trend is observed over the study period. The Compound Annual Growth Rate is just only 3.59 for the study period. While others Segment has decreasing trend for the study period. Revenue of Other Segment was Rs. 80 million in the year 2012 and it stood at Rs.61 million.

Table 3: Return on Investment of Segments

Year	Sugar	Trading	Co-Generation	Ethanol	Other
2012	9.06	40.09	31.80	32.05	24.80
2013	28.37	36.29	14.01	13.29	11.67
2014	-2.88	-12.50	3.60	17.59	-2.08
2015	-3.21	-1.37	5.46	19.71	11.80
2016	-9.00	0.58	3.75	17.24	1.08



ROI of Sugar Segment has declining trend except for the year 2013. ROI for the last three years is negative. During last three years, Sugar Segment suffered loss.

ROI of Trading Segment has declining trend except since 2012 to 2016. ROI for the year 2014 and 2015 is negative. ROI for the year 2016 is negligible.

ROI of Co- Generation Segment has decreasing trend except during 2015. This trend due to short fall of profits earned by

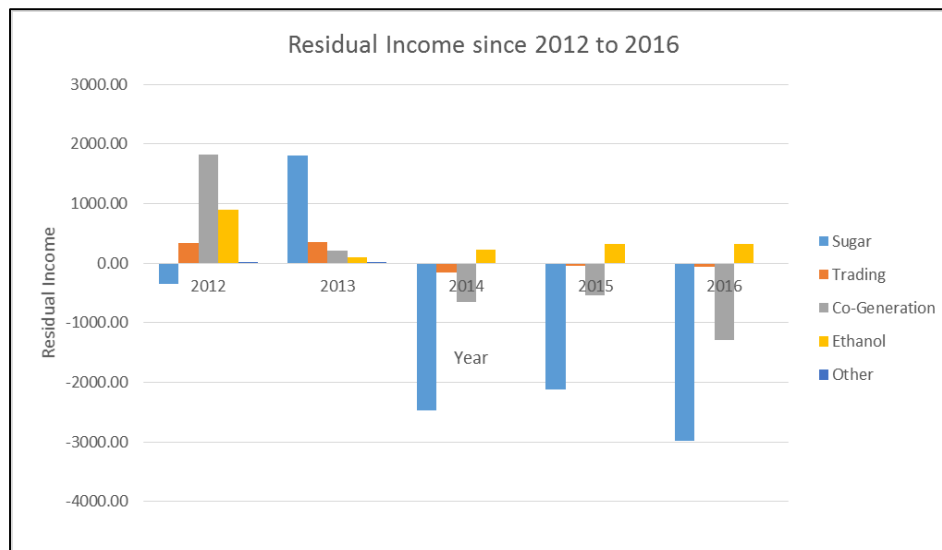
this segment over the study period.

ROI of Ethanol Segment has no particular trend. ROI for the study period is hovering between 17 % to 32 %. ROI is positive for all the years under the study period.

ROI of Others Segment has no particular trend. ROI was negative for the year 2014. ROI is positive for all others years under the study period.

Table 4: Residual Income of Segments

Segment	Sugar	Trading	Co-Generation	Ethanol	Other
2012	-347.11	344.82	1823.19	892.58	18.05
2013	1814.37	356.13	217.82	90.96	0.48
2014	-2470.20	-155.71	-648.26	231.55	-20.04
2015	-2120.23	-49.87	-538.97	328.72	-0.74
2016	-2976.32	-64.39	-1290.34	319.22	-6.20



Residual income of Sugar Segment is negative for all years except during 2013 under the study period. This trend is because Sugar Segment earned its profit at the rate below imputed charge. Residual income of Trading Segment is Positive for the first two years under the study. Trading Sector was unable to earn in excess of its imputed charges for last three years of the study period. Residual income of Co- Generation Segment is Positive for the first two years under the study while it was unable to earn in excess of its imputed charges for last three years of the study period. Residual income of Others Segment is Positive for the first two years under the study while it was unable to earn in excess of its imputed charges for last three years of the study period.

Key Findings

1. The CAGR in Revenue of Sugar Segment is 11.65%.
2. The CAGR in Revenue of Trading Segment is 8.96%
3. The CAGR in Revenue of Co-Generation is 3.88%
4. The CARG in Revenue of Ethanol Segment is 3.59 %
5. Revenue of Other segments has been in declining trend for the study Period
6. Return on Investment for Sugar Segment has been in declining trend and it is negative for last three years.
7. Return on Investment for Trading Segment also got declining trend and it is negative for the year 2014 and 2015.
8. Return on Investment for Ethanol is positive for all the years under the study. However, it has been also or declining trend.
9. Return on Investment for Other Segment is positive for all the years under the study, however declining trend was observed.
10. Return on Investment for Other Segment is positive for all the years under the study, however no particular trend is observed.
11. Sugar Segment is unable to earn minimum imputed charge on its investment except in the year 2013.
12. Trading segment's Residual Income is positive for the first two years under the study period while for the remaining period it's negative.
13. Co- Generation Segment is unable to earn minimum imputed charge for the last three years.

14. Ethanol's Segment is able to earn in excess of its minimum imputed charge for all the years under the study period.
15. Other Segment's revenue is positive for the first two years under the study period. While it was negative for the last three years.

Suggestions

1. All the segments were suggested to generate more and more revenue.
2. All the Segments were suggested to maximum their ROI by earning more profit and reducing their operating costs.
3. All the Segments were suggested to earn in excess of their imputed charge either by maximising their earnings or by Minimising the cost of earnings
4. The Company is suggested to develop a good system that enables the evaluation of performance of all the segments.

Conclusion

The Study is first of its kind and was motivated by several factors. There was a lack of recent empirical research relating to divisional performance measurement, as well as research examining the possible different levels of application of the controllability principle. Despite the limitations that have been identified, and the failure to address some of the issues that have been identified for future research, this study has provided many additional insights into the area of divisional performance measurement and control.

The Divisions of Shree Renuka Sugar Ltd should perform much well than what they have been doing at present. Despite of many drawbacks faced by the Sugar Companies in recent past like government policy based on dual price system; disposing by-products especially under pollution control devices and cost of sugar production in India is one of the highest in the world. The Company must ensure that its divisions are performing well with appropriate measure and controls

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