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FINANCIAL ASSESSMENT OF AN AGRO-PROCESSING UNIT: THE CASE STUDY OF SRIVARI SPICES AND FOODS LIMITED, HYDERABAD, INDIA

S.S. Katkuri[1], R.B. Hile[1] and D.J. Sanap[2]
[1]Department of Agricultural Economics, MPKV, Rahuri Dist.- Ahilyanagar (M.S.) India-413 722.
[2]CPMCC, Department of Agricultural Economics, MPKV, Rahuri Dist. Ahilyanagar (MS) India-413 722.
*Corresponding author E-mail: email: sharwani.k18@gmail.com
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ABSTRACT

Spices have been an integral part of human civilization, valued for their flavor, aroma and medicinal properties. The processing of spices enhances their shelf life, potency, and usability, making them more convenient for everyday consumption. Efficient spice processing techniques such as drying, grinding, and packaging ensure quality, safety, and marketability. Beyond culinary applications, spices contribute significantly to health, industry, and economic development. The Agro-based industry all over the world provides vital linkages between the two important pillars of the economy- Agriculture and Industry. The present research was undertaken to study about the financial performance of one such budding sunrise industry, Srivari Foods and Spices Limited, Hyderabad, a company that has established itself as a key player in the spice industry in the states of Telangana and Andhra Pradesh. Financial performance was estimated for the years 2019-2024 using ratio analysis like liquidity ratios including current ratio, quick ratio, cash ratio, activity analysis including fixed asset turnover ratio, current asset turnover ratio, total asset turnover ratio, profitability analysis including gross profit ratio and net profit ratio. The study shows that low quick ratio and declining cash ratio, might make the unit face short-term liquidity challenges; rise in cash ratio indicates efforts to improve liquidity. The higher asset turnover ratios determine that the unit was efficiently utilizing its assets which are contributing in the revenue generation. Although the liquidity and activity ratios were marginally good, there is still room for improvement in profitability and capital structure ratios. Overall, the unit appeared to be financially stable with efficiency in operations and reasonable profitability.

Keywords **:** Asset, Financial performance, Liquidity, Ratio, Spices

Introduction

"Agro-industry" is a broad concept including a wide range of industrial, manufacturing and processing activities that rely on agricultural raw materials, along with ancillary services and inputs that support agricultural production. In India, the food processing industry has emerged as a sunrise sector, gaining economic significance in recent years. Factors such as abundant raw material supply, evolving consumer preferences and supportive fiscal measures have accelerated its growth. Economically, this sector plays a crucial role in bridging agriculture and industry, enhancing overall value chains. Prioritizing this sector, can effectively address issues related to food security. Strengthening this linkage is essential to reduce post-harvest losses, enhance the value and shelf-life of agricultural output and improve nutritional content. Notably, India already holds a strong position as a major exporter of various food products

India offers ideal conditions for the cultivation of nearly all types of spices, with every state and union territory producing at least one spice variety in substantial quantity. Under the act of Parliament, 52 spices fall under the regulatory scope of the Spices Board, while the International Organization for Standardization (ISO) recognizes 109 different spices. Spice products are derived from whole spices and are available in various forms such as powders, essential oils, oleoresins, natural colors and preserved formats including freeze-dried, dehydrated, frozen, brined and

syrup-based. Spices, known for their strong aroma and flavor, are plant-based substances predominantly sourced from tropical regions and commonly used as condiments. Historically, spices were highly valued due to their utility in medicine, preservation and perfumery. Today, India plays dominant role in global spice production

There is a significant surge in the consumption of processed foods, reflecting the impact of scientific and technological advancements on daily requirements and lifestyles. Spices, known for their distinctive flavor and aroma, play a vital role in enhancing the taste profile of a wide array of processed food products. Beyond their traditional use in raw or whole form, spices are increasingly processed to meet specific industry needs. You pick any packet of quick savoury around you, it would surely contain added spice powders in it, such is the amount of scope which the processed spice industry has. Processed spices have relatively shorter shelf-life than whole spices and hence they are sold in small packages in retail markets. The spices processing industry in India hence has a wide scope for development due to increasing trend in use of processed spices and in availability of wide range of spices in India.

Materials and Methods

Selection of the Study Area

Hyderabad district of Telangana was purposively selected. Srivari Spices and Foods Limited have wide variety of product mix. So, it has been selected purposively for the study. In addition to wider product mix, maintenance of detailed data and records and easy accessibility to data prompted to its selection.

Data Collection

The required data for the financial year 2023-2024 was collected from the annual budget provided. For calculating the cost of manufacturing, data was collected by taking actual observations of the activity of the unit by conducting interview with the supervisors and from the records maintained by the unit for the year 2023-2024. Discussions were held with machine operators and in-charge of different sections. The detailed data on various aspects like raw material used for different sections of the unit for manufacturing different products, output of different products was acquired from the production manager.

Ratio Analysis

The net worth statement is also known as balance sheet. It is summery of assets, liabilities and owners' equity at given point of time. A project is considered solvent if the value of assets exceeds debt level. It is very useful for the lender for scrutinizing the loan application. The test of liquidity was worked out by using ratios *viz.,* Current ratio, quick ratio, cash ratio, turnover ratio, net profit ratio and gross profit ratio with the help of balance sheet. Tests of liquidity and solvency were framed to test the ability of the farming units to meet the current financial obligations. Liquidity plays a prominent role in business enterprises through its sensitive characters of meeting immediate financial demands.

In order to evaluate financial condition and performance of any firm, one of the widely used and powerful tools is ratio or index. Ratio analysis plays an important role in determining the financial strengths and weaknesses of a company relative to that of other companies in the same industry. The analysis also reveals whether the company's financial position has been improving or deteriorating over time. The value of ratio analysis enables the equity or credit analyst, lenders, traders and other users to evaluate past performance, assess the current financial position of the company and gain insights useful for projecting future results.

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Liquidity Ratio

These ratios depict the unit's ability to meet short-term obligations with short-term resources. Current assets are those that can be realized in one year or less. Cash and cash equivalents, accounts receivables, inventory, marketable securities, prepaid expenses and other liquid assets are all included in this category. For the purposes of this study, the following ratios were calculated (Vijayalakshmi *et al*., 2017).

$$\text{(i) Current ratio} = \frac{\text{Current asset}}{\text{Current Liabilities}}$$

$$\text{(ii) Quick ratio} = \frac{\text{Quick asset}}{\text{Quick Liabilities}}$$

$$\text{(iii) Cash ratio} = \frac{\text{Cash + Marketable securities}}{\text{Current Liabilities}}$$

Activity Analysis

These ratios are used to assests how effectively a unit manages and utilizes its assets. Because they show how quickly assets are transformed or turned over into sales, these ratios are also known as turnover ratios. As a result, activity ratios entail a link between sales and assets. To assess the efficiency of asset utilization, a variety of activity ratios will be evaluated. For the

purposes of the study, the following ratios were calculated,

$$\text{(i) Fixed Asset Turnover Ratio} = \frac{\text{Net sales}}{\text{Net fixed asset}}$$

$$\text{(ii) Current Asset Turnover Ratio} = \frac{\text{Net sales}}{\text{Current asset}}$$

$$\text{(iii) Total Asset Turnover Ratio} = \frac{\text{Net sales}}{\text{Total asset}}$$

Profitability Analysis

The ratio analysis will be utilized to investigate the profitability situation. It's a measure of control and efficiency. It refers to the efficiency or efficacy with which a unit's activities are carried out. Profitability is the ability to make a profit, which is a critical aspect in a unit's survival. Every business wants to get the most profit out of its invested money. The company's success is usually determined by the profits it generates. For the purpose of profitability analysis, the following ratios were calculated; (Idhyajothi *et al.*, 2014).

$$\text{(i) Net profit ratio} = \frac{\text{Net profit}}{\text{Net sales}} \times 100$$

$$\text{(ii) Gross profit ratio} = \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

Results and Discussion

Liquidity analysis

These ratios represent the capacity of the business unit to meet its short-term obligation from its short-term resources. Liquidity has to do with a firm's assets and liabilities. In particular, liquidity looks at whether or not a firm can pay its current debt with its current assets. Fig. 1 depicts the current ratio, quick ratio and cash ratio for five years from 2019 to 2024. The current ratio was fluctuating throughout the study. It was highest *i.e.,* 1.87 in 2023-24 and lowest *i.e.,* 1.28 in 2021-22. The average current ratio is 1.51. In other words, the unit had 1.51 rupees in current assets available to meet 1 rupee in liabilities on average. However, it is not significantly high, meaning the company has just enough short-term assets to meet obligations. The current ratio (1.51) of the unit is lower than the standard 2.00 but higher than the practical standard recommended by bankers which is 1.33 (Sawalkar *et al.*, 2021). Hence, it is satisfactory.

The quick ratio was highest *i.e.,* 0.99 in 2020-21 and lowest *i.e.,* 0.74 in 2023-24. The average quick ratio was 0.90. A quick ratio of 1:1 is considered satisfactory and desired. Here, the annual average quick ratio was 0.90 which was not fully satisfactory. It states that the company could not be able to meet its current obligation when inventory was excluded. Quick ratios i.e., 0.90 of the unit is lower than the standard, but are higher than the practical standard which is 0.66 (Sawalkar *et al.*, 2021). Therefore, it is moderately satisfactory.

The trend of cash ratio kept declining from 2019 to 2023 and then rose to 0.01 in 2024. The highest cash ratio was 0.38 in 2019-2020. The average cash ratio was 0.11. Decreasing ratio indicates decreasing cash reserves, may be due to increased expenses or investments. An ideal cash ratio of 0.5 to 1 is usually preferred. (Sawalkar *et al.*, 2021). Here, the company's cash ratio is less than the required limit, so there are more current liabilities than cash. In this situation, there was insufficient cash on hand to pay off short term debt.

Activity analysis

These ratios are employed to evaluate the efficiency with which firm manages and utilizes its assets. These ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over into sales. Activity ratios, thus, involve a relationship between sales and assets. Several activity ratios can be calculated to judge the effectiveness of assets utilization. Fig.2 depicts an increasing trend in fixed assets turnover ratio for five years during study period from 2019 to 2024. The fixed asset turnover ratio was lowest *i.e.,* 2.61 in 2019-2020 and was highest *i.e,* 13.50 in 2023-2024. This huge increase is could be because of better utilization of the machinery, higher production without the actual increase in fixed assets or expansion in operations and increase in revenue. The average fixed assets turnover ratio was 6.20. A higher ratio means the company is generating more sales revenue from its fixed assets. It strongly indicates better asset utilization by the unit and potentially higher profitability. Therefore, it is indicated that unit generates a sale of 6.20 for 1 rupee of investment in fixed assets which indicates that the unit was using its assets more efficiently (Rao and Lokeshwari 2020).

Current asset turnover ratio was highest *i.e.,* 3.80 in 2020-21 and lowest *i.e.,* 1.60 in 2023-2024. The average current assets turnover ratio was 2.52. Therefore, it is indicated that company generates a sale of 2.52 for 1 rupee of investment in current assets. Though there is a decreasing trend, the average current asset turnover ratio is above the ideal ratio i.e., 1, which depicts that the company is efficiently using its current assets in generating revenue (Rao and

Lokeshwari 2020). This decrease could be attributed to high inventory accumulation like excess of stock over sales, an increase in the accounts receivables or inefficient use of short term assets.

There is a fluctuating trend in total assets turnover ratio for five years during study period from 2019 to 2024. The average total assets turnover ratio was 1.52. Therefore, it is indicated that company generates a sale of 1.52 for 1 rupee of investment in net assets which also means that the company was using its assets more efficiently reflecting company's good management (Rao and Lokeshwari 2020).

Profitability Analysis

These ratios are used to determine a company's profitability. It is calculated to determine the company's operational efficiency. The profitability of the company is also important to creditors and owners. This is only achievable if the company generates sufficient income. For the purposes of the study, the following ratios were calculated.

Fig. 3 depicts the gross profit ratio from 2019 to 2024. The maximum gross profit was in year 2023-2024 which was 12.81. The average gross profit ratio was 7.61. An increasing gross profit ratio indicated that the company became more efficient at managing its production costs and increasingly generated higher profits from its core operations, suggesting better financial health and profitability (Sawalkar *et al*., 2021). It actually indicates a relatively low gross profit margin means the unit is operating in the market with low pricing.

The net profit ratio from the year 2019 to 2024. The maximum net profit is 8.99 in the year 2023-2024.The average net profit ratio is 5.50. It means the company is keeping a considerable amount of its sales as profit, implying that it can manage its costs well, has effective pricing strategies and is also generating a decent profit. An average net profit ratio of 5.50 indicates that for every 100 units of revenue, the unit retains 5.50 units as profit after deducting all the expenses, taxes and interests, suggesting a moderate level of profitability, suggesting that the unit retains a small portion of its revenue as profit. (Sawalkar *et al*., 2021).

Summary and Conclusions

The liquidity analysis throughout the study period from 2019–2024 showed fluctuating current ratio, at an average of 1.51 which is below the ideal 2.00 but above the practical 1.33, indicating satisfactory short-term solvency. The average quick ratio was 0.90, slightly below the standard 1:1, which showed moderate ability to meet the obligations excluding inventory. The average cash ratio was 0.11, which indicated insufficient cash reserves to cover immediate liabilities.

The fixed asset turnover ratio showed a strong increasing trend from 2.61 to 13.50, with an average of 6.20, indicating high and efficient use of fixed assets. The average current asset turnover ratio was 2.52 that is above the ideal **1**, which suggested efficient current asset use. The total asset turnover ratio fluctuated with an average of 1.52, indicating the overall effective asset utilization and good management performance.

The average gross profit ratio was 7.61, which indicated improved cost efficiency despite operating on low margins. The average net profit ratio was 5.50, which indicated moderate profitability and effective cost control.

The unit's liquidity ratios were moderately satisfactory, with sufficient short-term solvency but lower quick cash availability. Activity ratios indicated efficient asset utilization, particularly in fixed assets. The profitability ratios reflected moderate but improving profits. Overall, the unit appeared to be financially stable with efficiency in operations and reasonable profitability.

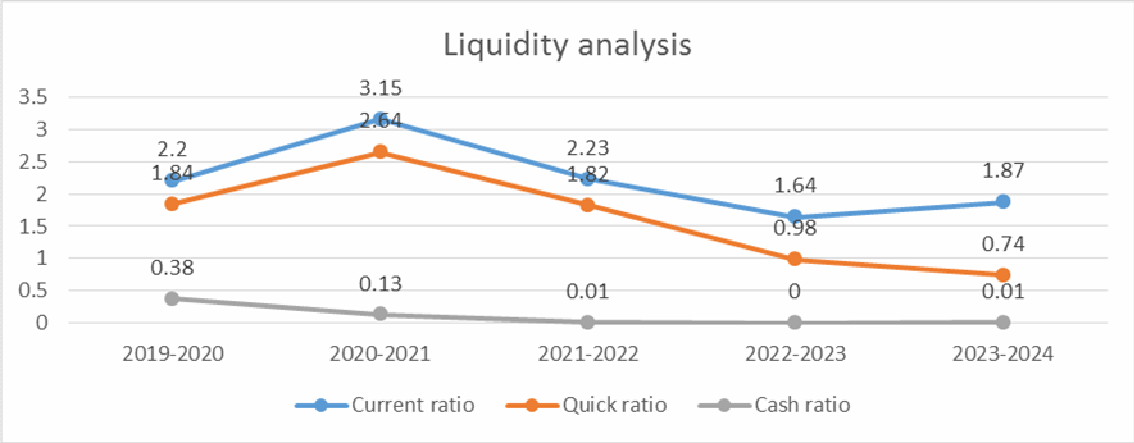

Fig. 1 : Liquidity ratios in the study period

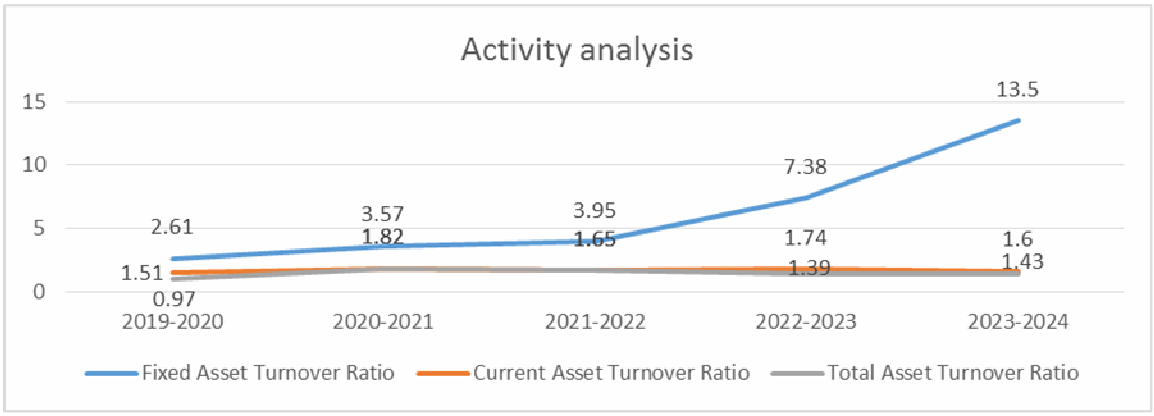

Fig. 2 : Activity analysis in the study period

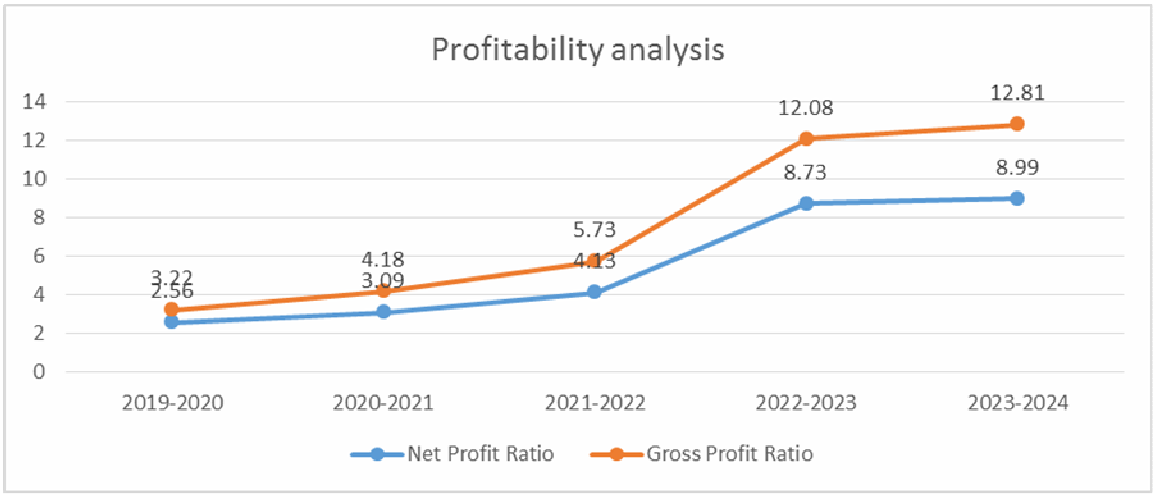

Fig. 3 : Profitability analysis in the study period

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