

Rural Industrialisation

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## PROBLEMS AND PROSPECTS

M. Soundarapandian

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Rural Industrialisation plays a vital role in India due to a large and growing reservoir of potential workers, abundant resources of raw materials, traditional skills and large demand for goods and services.

This book consists of selected papers presented in the seminar organised to analyse the impact of the economic reforms on the rural industrialisation in India at the GRI. The book consists of two papers on the general theme of rural industrialisation. A few papers discuss about the growth and performance of rural industries in India and other countries. The problems and suitable recommendations are presented in few papers of the book. A few case studies are given for strengthening the rural industrial policy measures in India.

This book would help the researchers and students involved in the study of rural industrialisation.

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Problems and Prospects

*Edited by*  
M. Soundarapandian

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slowly decreases from 1997-98 onwards. This is due to the fact that the period of credit allowed to customers was reduced to 6 months.

#### 4. FINDINGS AND SUGGESTIONS

The following are the findings of this study. The total sales is decreasing from 1998-99 onwards. It is due to the fact that the period of credit allowed to customers is reduced. In the year 1997-98, 40 percent rebate was allowed. Due to this, the sale of Khadar products was increased. From 1998-99 onwards the rebate was reduced to 30%. Therefore, the sales are reduced.

The following suggestions are given for the improvement and efficient operation of the Sarvodaya Sangam. The rate of rebate may be increased to some extent. It may be treated as complimentary for the purchase of Khadar products:

- i. The period of credit allowed to customers may be increased to ten months as in the case of festival advance.
- ii. Credit sales are allowed normally to salaried class employees. Steps may be taken to sell the products on credit to non-salaried people also and the period of credit may be three to five months. It will increase the sale to some extent. But recovery of loans may pose problems. Increase in sales will provide employment to various sections of the community.

On the whole the performance of the Sarvodaya Sangam has been satisfactory. However, the general sales trend of the Sarvodaya Sangam has not been sound. The performance of the Sarvodaya Sangam was satisfactory even though the Sarvodaya Sangam had to function under very difficult and stringent financial constraints.

#### REFERENCES

1. *Yojana*, July 2001, p. 16, Vol. 45
2. K.K. Sen, *Rural Industrialisation*, Sultan Chand & Sons, New Delhi, p. 22

## Managerial Analysis of Sarvodaya Sangh: A Case Study of Tiruchirappalli Sarvodaya Sangh

M. Selavam\*

Tiruchirappalli Sarvodaya Sangh was established in the year 1961. It is considered as one of the well organized institutions and directly aided by the Central Government under the flow of Khadi and Village Industries Commission. It produces and sells the goods of Khadi as well as Village Industries products such as Soap, Oil, Leather, Agarbathi, Honey, Carpentry and Blacksmith etc. It is a non-profit organisation. Hence the motive of Tiruchirappalli Sarvodaya Sangh is "No Profit No Loss".

It is interesting to note that the Sangh has recently achieved the production targets in respect of Khadi valued at Rs. 127 lakhs and Village industries production valued at Rs. 143 lakhs during 1998-1999. Out of total performance, the company's carpentry and blacksmith activities has been contributed considerably to the tune of Rs. 69 lakhs which accounts about 50% of the total Village Industrial activities of the institution.

Though Tiruchirappalli Sarvodaya Sangh is a non-profit

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It could be noted that current ratio in all the years of the study period has been very nearer to the standard norms of the current ratio (2:1). This evidenced that TSS was unable to maintain sufficient current assets throughout the study period to meet out its current liabilities.

With regard to liquid ratio, it ranged between 1.38 in 1996 to 0.68 in 2000. Liquid ratio in all the years was less than the standard ratio (1:1) except in 1996 when the ratio was 1.38. It could be noted from the analysis that the TSS's liquidity position was not satisfactory; with the result it was not able to meet its obligations in the short run.

The working capital Turnover ratio of TSS ranged between 1.52 in 1996 and 1.71 in 2000 with moderate fluctuations. This showed that the net working capital of TSS was not utilized properly during the study period.

The present study brought out the facts that the working capital management was not given due importance by the TSS during the study period. Because of this, the TSS was not in a position to manage even its short-term working capital problems. Therefore, the management of TSS may take appropriate steps to pay due attention on its working capital management.

Table 2  
Working Capital Ratios of TSS

Particulars	1996	1997	1998	1999	2000
	2.78	2.41	2.16	1.91	1.83
	1.38	0.92	0.96	0.63	0.68
	1.52	1.48	1.74	1.60	1.71

Source: computed from annual reports of TSS from 1996-2000.

### SWOT ANALYSIS

SWOT Analysis is a conceptual framework for a systematic analysis. It facilitates matching the external threats and

opportunities with the internal weaknesses and strengths of the organisation. SWOT Analysis is otherwise called as "TWOs". It has been proposed as; 'S' stands for strengths, 'W' for weaknesses; 'O' for opportunities and 'T' for threats. It starts with threats because in many situations a business organisation undertakes strategic planning as a result of perceived crisis, problem or threat.

### INTERNAL FACTORS

It includes strengths and weakness.

#### Internal Strengths

Internal Strengths of the business organisations are: strengths in management, operations, finance, marketing, research and development, engineering etc.

#### Internal Weaknesses

The Internal Weaknesses of the organisations are: weaknesses as in the areas shown under the head of "Strengths."

### EXTERNAL FACTORS

It covers Opportunities and Threats.

#### External Opportunities

External Opportunities of business organizations are: current and future economic conditions, political and social changes, new products, services and technology.

#### External Threats

External Threats are lack of energy, competition and areas similar to those shown in "Opportunities".

### USES OF SWOT ANALYSIS

SWOT Analysis is highly useful for the management to study their Strengths and Weaknesses of an organisation. It

- (3) Availability of improved quality of textile products manufacture by national as well as multinational companies.
- (4) Lack of Common Facility Center for Handicraft products.
- (5) Use of sophisticated machinery and advanced technology by the competitors.
- (6) A typical threat would be in the form of a slowdown in the economy where many opt for the other types of product particularly in textile field.

The analysis of this study throws light on the Strengths, Weaknesses, Opportunities and Threats of Tiruchirappalli Sarvodaya Sangh, which has been rendering remarkable service in the field of rural industry. The management of Tiruchirappalli Sarvodaya Sangh should take all steps to avoid Weakness and convert the Threats into Opportunities. The Common Facility Center is to be set up with the help of Khadi and Village Industries Commission. All necessary infrastructural facilities are to be provided wherever the Rural Engineering Industry Programme is going on. Through this the organisation like Tiruchirappalli Sarvodaya Sangh can easily overcome its Weaknesses and Threats by its Strengths and Opportunities.

#### FINANCIAL MANAGEMENT

To analyse the financial performance and conditions of the business unit the following tools or techniques may be used:

- Comparative Statements,
- Trend Analysis,
- Common-Size Statements,
- Fund Flow Statements,
- Cash Flow Statements, and
- Ratio Analysis.

An attempt in this paper is made to evaluate the financial performance of Tiruchirappalli Sarvodaya Sangh with the help of Ratio Analysis.

#### RATIO ANALYSIS

Ratio analysis is one of the powerful techniques of financial analysis. A ratio is an arithmetical relationship between two figures. Financial ratio analysis is a study of ratios between various items or groups of items in financial statements. Ratios help to summaries large quantities of financial information and to make qualitative judgements about the firm's financial performance.

#### CLASSIFICATION RATIO ANALYSIS

Financial ratios can mainly be grouped into the following three ways, according to financial activities or functions to be evaluated:

- I Liquidity Ratios,
- II Turnover Ratios, and
- III Profitability Ratios.

#### I. Liquidity Ratios

Liquidity ratios indicates the liquidity position of a company. It refers to the ability of a firm to meet its obligations in the short-run, usually one year. Liquidity ratios are generally based on the relationship between current assets and current liabilities. The important Liquidity ratios include Current Ratio, Quick Ratio, Interval Measure and Net Working Capital Ratio.

#### I. (a) Current Ratio

Current ratio is the most popular liquidity ratio. It expresses the relationship between current assets and current liabilities. It measures the ability of the firm to meet its current liabilities. An ideal Current ratio is 2: 1

**Table 5**  
Interval Measure of TSS

Year	Quick Assets (in Rs.)	Operating Expenses (in Rs.)	Operating Expenses Per Day	Interval Measure (in Rs.)
1995-1996	12268708.28	3348569.03	9174.16	1337.31
1996-1997	12299067.66	3983309.62	10913.18	1126.99
1997-1998	16401793.11	4137186.35	11334.76	1447.03
1998-1999	13056500.61	4630101.21	12685.21	1029.27
1999-2000	14223879.28	4340597.26	11892.05	1196.08

Source: Annual Reports of TSS.

**I. (d) Net Working Capital Ratio:**

Net Working Capital Ratio is used to measure the firm's liquidity positions. It expresses the relationship between net working capital and net assets. Net working capital is the difference between current assets and current liabilities. The firm having larger Net working capital ratio has the greater ability to meet its current obligations.

$$\text{Net Working Capital Ratio} = \frac{\text{Net Working Capital}}{\text{Net Assets}}$$

**Table 6**  
Net Working Capital Ratio of TSS

Year	Net Working Capital (in Rs.)	Net Assets (in Rs.)	Net Working Capital Ratio
1995-1996	21143652.86	31037773.54	0.68
1996-1997	23222649.78	35548361.72	0.65
1997-1998	22985405.17	40258819.31	0.57
1998-1999	14484582.59	51996470.58	0.47
1999-2000	23503149.19	50835682.50	0.46

Source: Annual Reports of TSS.

Table 6 brings out the Net working ratio of Tiruchirappalli Sarvodaya Sangh during the study period 1995-1996 to 1999-2000. The net working capital got marginal increase from Rs. 21143652.86 in 1995-1996 to Rs. 23503149.19 in 1999-2000, while net assets have substantially increased from Rs. 31037773.54 in 1995-1996 to Rs. 50835682.50 in 1999-2000. This reveals the fact that the rate of investments in net assets has been much greater than that of net working capital during the study period. Though both the net working capital and net asset recorded upward increase, the net working capital ratio recorded downward trend from 0.68 to 0.46.

**I. (e) Consolidated Liquidity Ratios**

Consolidated Liquidity Ratios include Current ratio, Quick ratio, Interval measure and Net working capital ratio are given in Table 7. The table reveals the fact that the current ratio, quick ratio and net working capital ratio have registered downward trend during the study period. But the interval measure ratio has got upward trend.

**Table 7**  
Consolidated Liquidity Ratios of TSS

Ratio \ Year	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Current Ratio	2.79	2.41	2.16	1.91	1.83
Quick Ratio	1.24	0.92	0.96	0.63	0.68
Interval Measure	1337.31	1126.99	1447.03	1029.27	1196.08
Net Working Capital Ratio	0.68	0.65	0.57	0.47	0.46

Source: Annual Reports of TSS.

### III. (c) Return on Total Assets Ratio

The return on total assets ratio is a useful measure of the profitability of all financial resources invested in the firm's assets. It evaluates the use of total funds without any regard to the sources of funds.

$$\text{Return on Total Assets Ratio} = \frac{\text{Net Income (Profit)}}{\text{Average Total Assets}}$$

Table 14  
Return on Total Assets of TSS

Year	Net Income (in Rs)	Average Total Assets (in Rs.)	Return on Total Assets
1995-1996	161006.50	27513923.06	0.006
1966-1977	217374.10	33293067.63	0.007
1997-1998	101245.35	37903590.51	0.003
1998-1999	145073.41	46127644.94	0.003
1999-2000	76387.79	51416077.00	0.001

Source: Annual Reports of TSS.

The return on total assets of Tiruchirappalli Sarvodaya Sangh is shown in Table 14. It is understood from the table that the average total assets have considerably increased while the net income has decreased considerably. It is surprising to record here that the rate of return on average total assets has largely decreased from 0.006 to 0.001 during the study period. This clearly reveals the fact that the Sangh has failed to use its assets to generate even reasonable return.

### III. (d) Consolidated Profitability Ratios

Table 15 brings out the consolidated profitability ratios of Tiruchirappalli Sarvodaya Sangh. It is not encouraging to record the fact that all profitability ratios were not satisfactory during

the study period. All the three ratios – gross profit margin ratio, net profit margin ratio and return on total assets ratio were not on the increase (or) upward trend.

Table 15  
Consolidated Profitability Ratio of TSS

Year	1995- 1996	1996- 1997	1997- 1998	1998- 1999	1999- 2000
Gross Profit Margin Ratio	0.17	0.18	0.16	0.21	0.16
Net Profit Margin Ratio	0.59	0.78	0.30	0.48	0.26
Return on Total Assets Ratio	0.006	0.007	0.003	0.003	0.001

Source: Annual Reports of TSS

Tiruchirappalli Sarvodaya Sangh produces and sells products of Khadi and Village and Rural Industries for the past four decades. As the main motto of the Sangh is to provide service to the public by selling products at cheaper rate with good quality, the aspects of profitability can not totally be ignored. During the study period the overall analysis of financial performance was not satisfactory. Hence, the management of the Sangh has to take all possible steps to improve its financial performance. Otherwise, its very survival will be at stake in the long run.

### INVENTORY MANAGEMENT

Inventory represents the value of raw materials, consumables, stores, work-in-progress and finished goods. Larger portion of working capital funds are invested in inventories. Since, it constitutes a major element of total working capital, it is absolutely necessary to manage inventories efficiently and properly. The efficient management of inventory enables a firm to achieve better working result and reduce the



Item No.	Particulars	Rate of Margin
1.	Vathal and Vadagam	10%
2.	Neo soap	10%
3.	Komi mat	10%
4.	Umbrella	10%
5.	Agarbathi	10%
6.	Daranagam and Javadhu	10%
7.	Suitcase and Resin Bag	10%
8.	Footware and Leather Products	10%
9.	Steel Furniture	10%
10.	Tier cart	10%
11.	Village Industries Goods	10%
12.	Honey	10%
13.	P.C.P. Goods	10%
14.	Polyester Khadi and Poly Raw Materials	9%
15.	Packing Materials	10%

#### EVALUATION OF INVENTORY MANAGEMENT IN TIRUCHIRAPPALLI SARVODAYA SANGH

There are various tools/techniques popularly used by business organizations to maintain proper inventory management.

In this study it is proposed to use ratio analysis to evaluate inventory management of Tiruchirappalli Sarvodaya Sangh. The following ratios are used:

- (i) Inventory to Sales Ratio;
- (ii) Inventory Turnover Ratio; and
- (iii) Inventory Expressed in Number of Days.

These ratios are explained below:

#### Inventory to Sales Ratio

This ratio indicates the rate at which inventory is turned into sales. It is calculated by dividing inventory by sales. The lower the ratio the more efficient the management of inventory and vice-versa. It is valuable yardstick for measuring selling efficiency and quality of inventories.

Table 16  
Inventory to Sales Ratio

Year	Inventories (in Rupees)	Sales (in Rupees)	Ratio
1995-1996	1,48,72,674.33	2,72,06,261.39	0.55
1996-1997	1,89,89,147.17	2,79,50,304.61	0.68
1997-1998	1,94,25,246.53	3,43,14,980.19	0.57
1998-1999	2,52,72,498.02	2,99,14,101.84	0.84
1999-2000	2,29,20,987.06	2,95,22,616.04	0.78
Average	2,02,96,110.62	2,97,87,652.81	-
Growth Rate	154.11%	108.51%	-

Source: Computed from the Annual Report of Tiruchirappalli Sarvodaya Sangh.

Table 16 reveals that the inventory of Tiruchirappalli Sarvodaya Sangh increased from Rs. 1,48,72,674.33 in 1995-1996 to Rs. 2,29,20,987.06 in 1999-2000 and it registered a growth rate of sales (108.51%). The sales of Tiruchirappalli Sarvodaya Sangh increased from Rs. 2,72,06,261.39 in 1995-1996 to Rs. 2,95,22,616.04 in 1999-2000 and it registered a growth rate of 108.51%. The average Inventory used during the study period was Rs. 2,02,96,110.62 and sales (average) were Rs. 2,97,81,652.81. Regarding inventory to sales ratio, it got increased from 0.55 in 1995-1996 to 0.78 in 1999-2000.

#### INVENTORY TURNOVER RATIO

The inventory turnover (or) stock turnover ratio measures

has brought out the fact that the management of Tiruchirappalli Sarvodaya Sangh has to give more importance on the various aspects of inventory management without any further delay; otherwise the survival of Tiruchirappalli Sarvodaya Sangh will be affected. It is true that the management of Tiruchirappalli Sarvodaya Sangh can provide still better service to the public if it has better inventory management.

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