

## Agro-Based Industries: Capital Structure and Investment A Catalyst to Development

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**ABSTRACT:** The productive capital is defined as that capital which effectively contributes to the production or processing of a commodity in the performance of a job. the productive capital which consists of (1) fixed assets in the form of land, building plants and machinery, tools and equipments as well as furniture and (2) working capital or the floating assets which include stock of raw materials, finished products in stock, cash in hand or in the bank.

### I. INTRODUCTION

Before analyzing the pattern and structure of the capital invested in the agro-based industries, it is desirable to understand the meaning of the various terms and difficulties encountered in their composition.

The productive capital is defined as that capital which effectively contributes to the production or processing of a commodity in the performance of a job. In the case of our study, the entire capital amount was productive capital which consists of (i) fixed assets in the form of land, building, plant and machinery, tools and equipments as well as furniture and fixture and (ii) working capital or the floating assets which include stock of raw materials, finished products in stock, cash in hand or in the bank and so on.

As regards estimation of the value of fixed assets, generally three methods are suggested. These are:

- 1) Historical value i.e., the value of the fixed assets at the time of their purchase.
- 2) Book value, i.e., the purchase value less depreciation.
- 3) The replacement value, i.e., the value which the entrepreneurs would have to pay to purchase an exactly identical asset at the time of survey.

In the case of agro-based industries, there are no figures available for the historical as well as book value. Therefore, the only source for knowing the purchase value of fixed assets remains the entrepreneurs. In this case also, they may ask to state the price paid by them for their fixed assets, the year of its purchase, its current value and its replacement value. The value of total capital is an aggregation of fixed capital at current value as given by the entrepreneurs and working capital including balances with the banks and cash in hand.

It can be seen from Table 1.1 and diagram 1.1 that for agro-based industries as a whole fixed capital accounts for 0.84 per cent of the total capital, while working capital is 0.16 per cent. The total capital per unit of agro-based industries as a whole is Rs.11.14 lakhs, comprising Rs.9.37 lakhs of fixed capital and Rs.1.77 lakhs of working capital. The working capital forms a small part of the total capital for agro-based industries as a whole. This is because of the fact that agro-based industries do not stock raw materials in bulk for a period; rather there is a regular flow of raw materials.

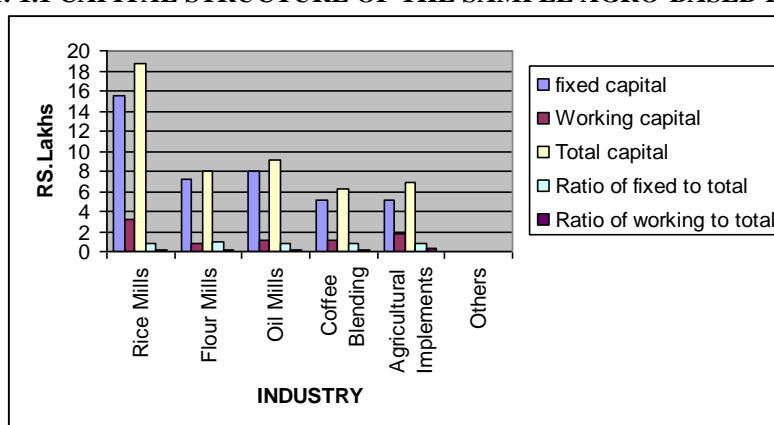
**TABLE: 1.1 CAPITAL STRUCTURE OF THE SAMPLE AGRO-BASED INDUSTRIES**

Sl. No.	Industry	No. of Units	Fixed Capital (A Unit) (Rs. in lakhs)	Working Capital (A Unit) (Rs. in lakhs)	Total Capital (A Unit) (Rs. in lakhs)	Ratio of Fixed Capital to Total Capital	Ratio of Working Capital to Total Capital
1	Rice Mills	46	15.53	3.18	18.71	0.83	0.17

2	<b>Flour Mills</b>	<b>41</b>	7.17	0.79	7.96	0.90	0.10
3	<b>Oil Mills</b>	<b>35</b>	8.01	1.09	9.10	0.88	0.12
4	<b>Coffee Blending</b>	<b>8</b>	5.17	1.11	6.28	0.82	0.18
5	<b>Agricultural Implements</b>	<b>9</b>	5.18	1.70	6.88	0.75	0.25
6	<b>Others</b>	<b>11</b>	8.57	3.58	12.15	0.71	0.29
	<b>All</b>	<b>150</b>	<b>9.37</b>	<b>1.77</b>	<b>11.14</b>	<b>0.84</b>	<b>0.16</b>

Source: Field data

**DIAGRAM: 1.1 CAPITAL STRUCTURE OF THE SAMPLE AGRO-BASED INDUSTRIES**



Source: Field data

The proportions of fixed capital in total capital are very high in all categories of agro-based industries. It is the highest (0.90 per cent) in the case of flour mills and the lowest (0.71 per cent) in other categories of agro-based industries. The size of total capital investment per unit of an industry varies from a low of Rs.6.28 lakhs in coffee blending industry to a high of Rs.18.71 lakhs in the case of rice mills.

The composition of fixed capital among different categories of agro-based industries is shown in Table 1.2 and diagram 1.2

**TABLE: 1.2 COMPOSITION OF FIXED CAPITAL BY THE SAMPLE AGRO-BASED INDUSTRIES**

(Rs. in lakhs)

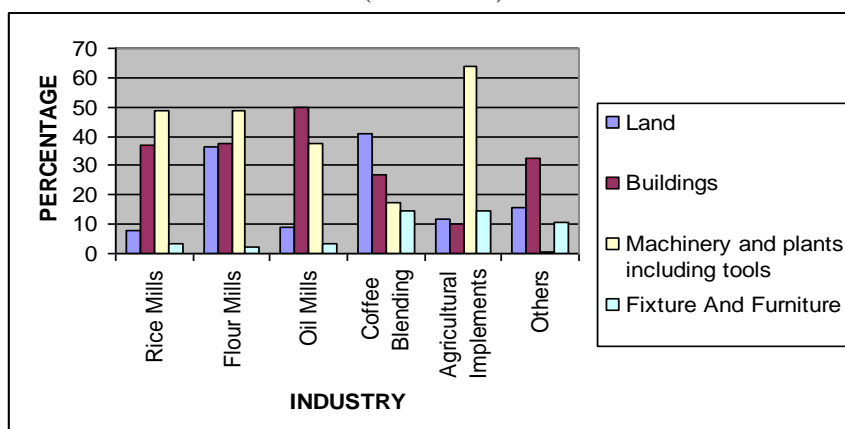
Sl. No.	Industry	Land	Buildings	Machinery and plants including tools	Fixture And Furniture	Total Fixed Capital
1	<b>Rice Mills</b>	56.55 (8.01)	280.11 (39.69)	345.00 (48.89)	24.00 (3.40)	<b>705.66</b>
2	<b>Flour Mills</b>	36.19 (12.02)	112.60 (37.42)	145.94 (48.50)	6.21 (2.06)	<b>300.94</b>
3	<b>Oil Mills</b>	43.01 (9.06)	200.18 (49.96)	120.49 (37.54)	16.52 (3.44)	<b>380.22</b>
4	<b>Coffee Blending</b>	14.06 (41.07)	9.11 (26.61)	6.00 (17.52)	5.06 (14.78)	<b>34.23</b>
5	<b>Agricultural Implements</b>	4.22 (11.98)	3.51 (9.96)	22.40 (63.61)	5.08 (14.42)	<b>35.21</b>
6	<b>Others</b>	25.60 (15.91)	52.41 (32.58)	65.33 (0.40)	17.05 (10.60)	<b>160.84</b>
	<b>All</b>	<b>179.63</b>	<b>657.92</b>	<b>705.16</b>	<b>73.92</b>	<b>1617.1</b>

Source: Field data

Note : Percentages in parentheses

**DIAGRAM: 1.2 COMPOSITION OF FIXED CAPITAL BY THE SAMPLE AGRO-BASED INDUSTRIES**

(Rs. in lakhs)



Source: Field data

Note : Percentages in parentheses

Machinery and plants claim most of the fixed capital and their share in the total fixed capital varies from 15 per cent in the case of coffee blending to as high as 63.61 per cent in agricultural implements. The next major component of fixed capital is buildings and its share is the lowest at 9.96 per cent in the case of agricultural implements and the highest i.e., 49.96 per cent in the case of oil mills. The share of land value to the total capital in coffee blending is the highest (41.07 per cent) and it is the lowest in the case of rice mills i.e., 8.01 per cent. Fixtures and furniture claims less than 3 per cent (rice mill and flour mill) of the fixed capital for all the agro-based industrial units under study except in the case of oil mills which is 3.44 per cent.

### SOURCES OF FINANCE

An adequate supply of finance is needed for smooth and healthy running of an industry as finance is considered as the life blood of an industry. It is generally not possible for industries, particularly for small industries to meet huge capital requirements on their own. They, therefore depend on various sources of finance including institutional and non-institutional agencies. The distribution of total capital of agro-based industries under study by different sources is given in Table 1.3 and diagram 1.3

**TABLE: 1.3 DISTRIBUTION OF CAPITAL INVESTMENT BY DIFFERENT SOURCES**

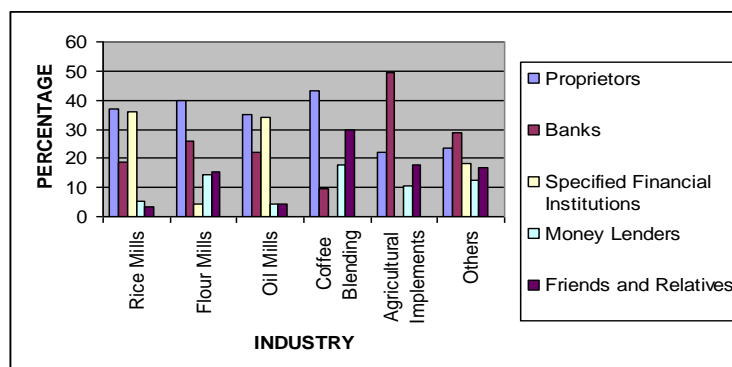
(Rs. in lakhs)

Sl. No.	Industry	Proprietors	Banks	Specified Financial Institutions	Money Lenders	Friends and Relatives	Total Capital Investment
1	Rice Mills	278.19 (37.15)	139.51 (18.63)	268.53 (35.86)	38.11 (5.09)	24.49 (3.27)	748.83 (100)
2	Flour Mills	132.85 (39.76)	86.77 (25.97)	14.67 (4.39)	47.71 (14.28)	52.12 (15.60)	334.12 (100)
3	Oil Mills	192.56 (35.26)	121.24 (22.20)	185.52 (33.97)	23.92 (4.38)	22.88 (4.19)	546.12 (100)
4	Coffee Blending	18.90 (43.02)	4.29 (9.77)	---	7.72 (17.57)	13.02 (29.64)	43.93 (100)
5	Agricultural Implements	10.68 (22.17)	23.74 (49.27)	---	5.18 (10.75)	8.58 (17.81)	48.18 (100)
6	Others	48.66 (23.56)	59.81 (28.96)	37.75 (18.28)	25.82 (12.50)	34.49 (16.70)	206.53 (100)
	All	<b>681.84</b> <b>(35.37)</b>	<b>435.36</b> <b>(22.59)</b>	<b>506.47</b> <b>(26.27)</b>	<b>148.46</b> <b>(7.70)</b>	<b>155.58</b> <b>(8.07)</b>	<b>1927.71</b> <b>(100)</b>

Source: Field data

Note : Percentages in parentheses

**DIAGRAM:1.3 DISTRIBUTION OF CAPITAL INVESTMENT BY DIFFERENT SOURCES**  
(Rs. in lakhs)



**Source:** Field data

**Note :** Percentages in parentheses

From the above table 1.3 and diagram 1.3 it may be observed that the bulk of the capital is managed by the entrepreneurs on their own. The proportion of entrepreneurs' own capital is one-third (35.37 per cent) of the total capital investment and it goes up to 43.02 per cent in the case of coffee blending industry. Thus, the share of own capital is high i.e. 39.76 per cent in flour mills and low i.e. 22.17 per cent in agricultural implements. Diagram 1.1 depicts the same results.

Commercial banks are providing finance to the extent of 22.59 per cent for all the units. Its share of finance to agricultural implements is high i.e., 49.27 per cent and 9.77 per cent in the case of coffee blending.

Four industries, namely, rice mills, flour mills, oil mills and other industries received sufficient financial assistance from Andhra Pradesh State Financial Corporation (APSFC). All the units which have obtained assistance from APSFC are large in size. This strengthens the contention that finance from financial institutions largely flows to big industrial units. The finance from this source accounts for as high as 35.86 per cent of the total investment in the case of rice mills and a minimum of 4.39 per cent in the case of flour mills.

The amount of money borrowed from private money lenders accounts for as high as 17.57 per cent of the total capital in coffee blending units and a minimum of 4.38 per cent of the total capital in oil mills.

The amount of money borrowed from friends and relatives accounts for as high as 29.64 per cent of the total capital in coffee blending units and a minimum of 3.27 per cent of the total capital in rice mills.

It may be generalized that the non-institutional agencies are still playing an important role in the growth of agro-based industries. Finance from institutional sources is available but it does not flow evenly to different industrial units and its quantum is insufficient to meet the requirements. Finance from non-institutional sources is easily available, but its terms and conditions are generally hard and they are charging exorbitant rates of interest. Therefore agro-based industries do not find it smooth sailing to meet their capital requirement.

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