

2. Executive Summary

Karnataka is the third largest coconut producing state, after Kerala and Tamil Nadu thus has potential to develop large scale coir based industry. Karnataka State Coir Development Corporation Limited (KSCDC) was established in the year 1985 with the purpose of developing coir based industries, including private sector. Current products produced by KSCDC are coir fibre, yarn, curled rope, corridor mats, dutch mats, mattings, coir pith, coir veneer board and rubberized coir mattresses.

Since KSCDC's inception in 1985, profit before tax (PBT), was negative from 1985-86 to 1991-92. After being marginally profitable for 4 years from 1992-93 to 1996-97, the Corporation recorded a loss of Rs. 15.22 lakh in 1997-98 and it has been in the red since then. It was an exceptional year of 2014-15, when the Corporation made a PBT, of about Rs. 11.66 lakh, which was due to 4G exemption. The challenges faced by KSCDC currently are poor financial performance due to lower sales coupled with high overheads and poor inventory management.

KSCDC's market share is estimated to be around 0.3% of the domestic market, despite Karnataka having third highest coir potential in the country. Export market is witnessing high growth due to increase in exports of coir pith, which is witnessing a Compounded Annual Growth Rate (CAGR) of ~36% during 2010-11 and 2015-16. Domestic market is growing on increase in consumer spend and growth in organised mattress brands. KSCDC has to leverage the growing opportunities in domestic and export market to improve sales and profitability.

While the current product mix covers a broad dimension of value added products, key share of revenue comes from sale of mattresses, cots and tables. KSCDCs sale of these products is limited primarily to Government Institutions while retail market needs to be addressed. Further potential for sale of coir briquettes in both domestic and export market exists however this product is not currently marketed by the corporation.

With the corporation having about 60 production centres for producing yarn, curled coir, rope, matting and foot mats, 10 de-fibring units and four curling units, it has clocked a total revenue about Rs. 10 crore during 2012-13. Excluding the mattress and pillows which have primarily traded goods component, an estimated average production value per centre is Rs. 31,400 per month. Further to manage these units, unit in charge/regional in charge are being employed which would add up to the overheads.

While decentralisation helps in broad basing of units within geography and job creation, it will add to the costs leading to lack of competitiveness. So there is a need for finding a balance in decentralisation to cover the catchment potential and manage profitability.

During our visits to the private players in coir fibre manufacturing , it was observed that that their production unit was visibly more efficient due to better technology and employment of unskilled labour was lesser than the KSCDC production units it is necessary to centralise the units and upgrade technology in line with the latest developments. For the Corporation to be profitable, they need to increase sales and/ or reduce overhead expenses. The administrative expenses and cost of manpower, which is at an average of about 68% of revenue from operations, for the duration 1985-86 to 2012-13. To offset such high overheads, they need to increase revenue from operations to at least Rs. 25 crore with share of cost materials maintained at 70% of the revenue.

To achieve this, the CAGR for the revenue of operations need to be 20%, without considering the effect of 4G exemption. Assuming the corporation achieves 10% growth in the sale of existing line of products, with mattresses especially by focusing on retail market and starting exports of coir briquettes by capturing about 0.25% of share of India's exports, at an estimated value of Final around Rs. 1.5 crore, KSCDC can get an estimated Rs. 2 to Rs. 3 crore increase in revenue every year, thereby making them profitable in 5 to 6 years from now.

After analysing the financial statements of KSCDC between 1985-86 and 2013-14, infrastructure facilities, coir products produced and the market it is catering to, it can be seen that the overhead expenses are high for the corporation for the current level of sales. Significant sale of products is restricted to mattress, cots and tables and mainly through sales channel of Government Institutions. It is essential for the Corporation to increase competitiveness, by generating higher revenues through sale of coir products in domestic retail market as well as exports. Our recommendations are in the direction of improving cost structure in the short term and generating increased revenues through medium and long term measures.

Short term recommendations are implementable within a year without significant policy/budgetary interventions. The short term recommendations are to improve inventory management by maintaining inventory turnover ratio at 4 or more and make necessary changes in KSCDCs Internal documentation/ Payment cycle such that the wages may be paid before 7th of every month to the workers.

In the medium term the corporation may focus on consolidating the number of manufacturing units for efficient management, upgrade technology to produce cost effective products, focus on coir briquette sales in domestic and export market and coir mattress sales in domestic market. Further since the government has been assisting the corporation the social benefit cost analysis may be carried out annually and may be published as part of the annual report.

In the long term KSCDC may focus on R&D to develop the low cost and environmental friendly substitutes to wood/metals/plastics which includes development of cost effective veneer boards. Further the corporation should focus and upgrading technology as well as scale of operations to be viable at the individual unit level. The corporation has to focus on promotion of coir industry/ MSMEs in the industry by tying up with online market places, providing platforms of markets through national and international exhibitions and having a brand ambassador to promote products.