Financial Performance Evaluation: A Case Study of MAHA-Farmers Producers Company Ltd.

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Abstract

In 21st century, Farmer Producers Organizations (FPOs) model has been seen as vehicle for agri-food system transformation. Despite two decades journey, the FPOs movement is in the nascent stage, where in the focus is on formation and promotion of a commodity specific FPOs under both cooperative and producers company act. Increasingly, the government of India is spending huge amount on creating the social capital and handholding them. However, their financial and long-term sustainability is a serious issue. The present study is an attempt to assess the financial performance of one such state level federation of FPOs i.e. MAHA-FPC, a state level producers company. The study follows the case study approach and descriptive research design. The primary data was collected through semi-structured interview schedule from the chairman and CEO of MAHA-FPC. The secondary data has been collected through company's previous six years annual report (2014-15 to 2019-20). The data was analyzed through ratio analysis - liquidity, leverage and profitability and trend analysis. It was found that the liquidity position of MAHA-FPC is stable, net profitability to revenue from operation of the company has a fluctuating trend over the last six years. Overall, MAHA-FPC is in the growing phase of the business cycle thus, the company would increase the profitability in the coming years.

Keywords : *FPOs, Liquidity, Profitability, Returns on Capital Employed, MAHA-FPC.*

1. Introduction

A sustainable business requires effective planning and financial management. It is further becomes imperative in the case of community-based and community-driven social enterprises, where the focus is on addressing the

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common socio-economic, cultural and aspirational needs of members. Social enterprises are businesses that trade to tackle social problems, improve communities, people's life chances, or the environment (Social Enterprise UK, 2014). The social entrepreneurs play a key role as change agents in the social sector, including an emphasis on their *'recognizing and relentlessly pursuing new opportunities to serve that mission'* (Dees, 2001). According to McGill and Sachs (2013) social enterprises are generally more connected to the societies they work with than traditional businesses. In the recent development of the view of social enterprises, more emphasis has been put on the entrepreneurial dimension, whereas associated entrepreneurial features, such as seizing the opportunity of value creation and a pressure to innovate, have been used to complement the creation of social value by social enterprises (Perrini et al., 2010).

There are different forms of social enterprises in agriculture like cooperatives (since 1900s), Self-Help Groups (since 1980s) and Farmers Producers Organizations (FPOs) since 2000s (Tripathy and Wadkar, 2021). FPOs is a hybrid form possesses the altruistic characteristics of a cooperatives and the attributes of a private limited company (Murray 2008). FPOs can be registered as cooperative society under State cooperative society act or multi-state cooperative society act 2002 and producer's company act 2002 & 2013.

The performance and viability of FPOs depend on the kind of governance & management structure followed access to & control over resources & technology, business model & operating system, critical linkages with value chain actors, insularity from internal & external threats, producers/ members' participation in business activities and financial performance (Tripathy et al., 2020).

Though FPOs is almost two decades old, there are some empirical research studies, but there are very few studies about the financial performance of FPOs have been done. Sustainability of these companies is very important for the livelihood of the farmers in the long run.

The present study focuses on financial performance parameters to assess the viability of one of such FPOs i.e. MAHA-Farmer Producers Company (MAHA-FPC), a state level consortium of FPOs in Maharashtra. The financial performance with the help of 'Ratio analysis', a management tool that analyses financial results, trends over time, and provide key indicators of organizational performance. It also showcase the achievement of company goal in terms of its profitability, investment etc.

This helps decision makers (board members and management staff) understand strengths and weaknesses and devise strategies to undertake required business. This would also help investors and other rating agencies to measure financial growth against other organizations or make judgments concerning management effectiveness and organisational impact.

2. Review of Literature

Financial statement is a mirror of company as on date to current performance and growth of stakeholder's wealth. Financial statement provides complete information from sales to gross profit, gross profit to net profit and all summary of liability and assets. This financial information presented in trading account, profit and loss account and balance sheet. This information useful to internal management and decision makers like managers, employees and external parties like creditors, banks, debtors, government, etc. Financial statement based on year wise data is useful for forecasting future accurately and provides complete information regarding business operations as per Schedule VI of the Companies Act, 1956.

The financial information would be useful if analysis of financial data done with specific objective by comparing some financial data with other financial data i.e. ratios to know the change in company's performance or loan fund. The ratios are financial analysis tool to analyze past financial statement to forecast past trends and impact on company. The ratios are used by external parties and internal parties to check current performance of company or to check impact of any strategy on company or check impact of company's/ government decision etc. As per interest of user different ratios like liquidity ratio, profitability ratio, working capital ratios, leverage ratio etc., can be worked out. In the process of financial analysis, the financial data, investment, and business activities are analyzed. This process led to find probable crises which may arises if business deviated from the proposed guideline of work (Andelic, Slavica & Vesic, Tamara, 2017).

It is very difficult to gauge the performance of social enterprises (Arena et al., 2014). The measurements are costly, time-intensive and often do not depict all of the reality regarding social impact (Arena et al., 2014; Luke, 2016). Since focus often lies on building sustainable operations that will bring the enterprise success and stability to grow (Blank, 2013), there might be an associated difficulty for social enterprise start-ups to account for measurements of impact at all. Thereby measurement is often focused on growth rather than achievement of the social mission. Additionally there is no "one size fits all" measurement for social enterprises due to their various different operating contexts, missions and goals (Arena et al., 2014; Hadad & Gauca, 2014).

Iyakaremys (2015) assessed the trend of financial performance in agricultural companies listed on the Nairobi Security Exchange. In this study, Iyakaremye used Return on Assets, Return on Equity and Return on Sales for measuring financial performance and current ratio, debt to equity, and debt ratio. Altman's Z score model (2000) was used to measure financial risk. It was found that financial performance and financial risk ratios were the prime indicators to determine the financial health of agricultural companies and also efficient predictors for financial performance and financial risk of agricultural companies.

Odalo (2016) also studies the relationship between liquidity and financial performance of agriculture firms listed in Nairobi Security Exchange, Kenya, to measure financial performance the researcher used Return on Assets, Return on Equity and Earnings per share as the variables. The liquidity of the company has a positive impact of the profitability, return on assets, return on equity and earnings per share of the company. He further emphasized that key attention should be given to liquidity and profitability of the listed agriculture companies to create wealth maximization of shareholders, long time survival and sustainability. Therefore, liquidity and profitability of listed agriculture companies in Kenya should be given key attention in view of their connection with the company's shareholders wealth maximization necessary for the long term survival and sustainability.

FPOs movement help farmers to strengthen their backward (access to inputs, technical information, etc.) and forward linkages (economies of scale, transportation, marketing, processing, etc.) in several countries and thereby have provided a cordial level playing field for cooperation with business outlook and have restored the passion of cooperative movement initiated with the aim of empowering the farming community (Tripathy et al., 2020). Many scholars have also demonstrated the issues and challenges in the formation & promotion of FPOs, establishing connects with markets, financial and technical institutions (Shah, 2016; Chauhan, 2015; Trebbin, 2014; Hassler and Trebbin, 2012; Murray, 2008; Singh, 2008; Dwivedi and Joshi, 2007). However, as on date, there is no any study, which measured the performance of FPCs. Financial performance evaluation is crucial to determine the growth and success of any business entity and accordingly would help in taking corrective action. This research aims to contribute to this field and add to the insufficient literature on financial performance of FPCs in India.

3. Research Methodology

The research methodology is a plan for smooth conduct of research to achieve its stated objectives. The study follows the "descriptive research design", to explain the financial health of MAHA-FPC. The study aims to test the basic concepts through data analysis. The data was collected through both primary and secondary sources. The primary data was collected through semi-structured interview schedule from the chairman and CEO of MAHA-FPC. The secondary data has been collected through company's previous six years annual report (2014-15 to 2019-20). The data was analyzed through ratio analysis and trend analysis.

4. Results and Discussion

4.1 About MAHA-FPC

MAHA-FPC Pvt. Ltd. is a state level producers company (SLPC) promoted by Small Farmers Agribusiness Consortium (SFAC), registered under Indian Companies Act 1956, as amended in 2002 and 2013 on 3rd September, 2014 in Pune district of Maharashtra State. The company started its operation with 11 member FPOs and in a short time span, its presence has now reached to 247 member FPOs of the State. The company mainly facilitates the business development of member FPOs by undertaking operations like procurement on behalf of National Agricultural Cooperative Marketing Federation (NAFED), marketing, selling, storage, processing, packaging, distribution, and trading of all agriculture and other produce. In addition, help in strengthening the backward and forward linkages to induce market driven agriculture with primary producers.

4.2 Financial Performance of MAHA-FPC

4.2.1 Trend Analysis of Sales

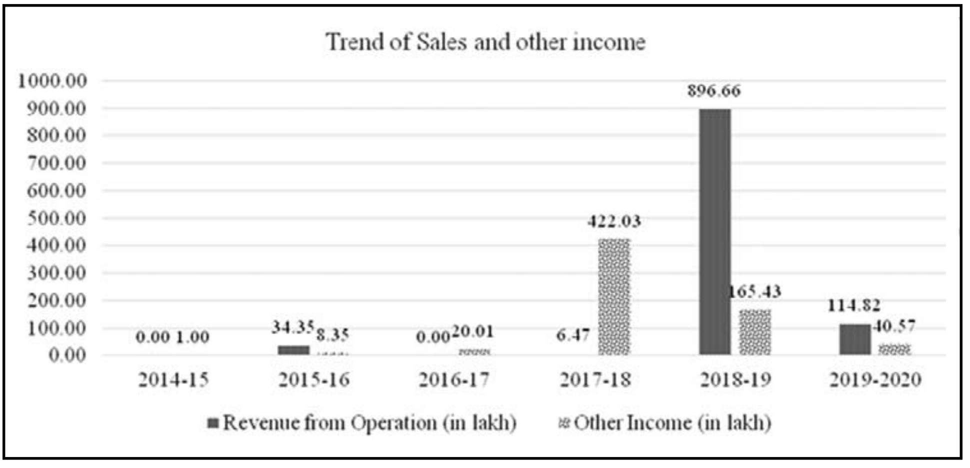

Figure 1: Trend analysis of sales and other income of MAHA FPC

Figure 1 indicates the trend analysis of sales and other income. It was observed that every year both sources of income is fluctuating. A FY 2014-15 has been considered as a base year. Sales trend in 2015-16 it increased to Rs. 34.35 lakhs in next year again it was zero and again, in the year 2017-18 it increased up to Rs. 6.47 lakhs. Now in 2018-19 it has been drastically increased to Rs. 896.66 lakhs and in the year 2019-20 revenue decreased to Rs. 114.82 lakhs.

In the other sources of income, the grant & interest received from SFAC as well as commission received from NAFED against the procurement activities undertaken. The company has continuous other income but has a fluctuating trend. In 2014-15 it was Rs. 1 lakh. In next year it rose to Rs. 8.35 lakh. Again in 2016-17 it rose to Rs. 20.01 lakhs. But in 2017-18 it has increased drastically to Rs. 422.03 lakhs. Afterwards the other income started decreasing in 2018-19 (Rs. 165.43 lakhs) and in the year 2019-20 it was Rs. 40.57 Lakhs.

4.2.2 Liquidity Ratio

Current Ratio : is calculated to analyze the company's capability to cover debts/ payables of the company. This ratio also shows liquidity position the company.

$$\text{Working Capital Ratio Analysis} = \frac{\text{Current Assets}}{\text{Current Liability}}$$

A table 1 show that in the year 2014-15, 2016-17 and 2019-20 the current ratio was maintain at 1:0. It means the company has current assets & current liabilities both in an equal proportion. This current ratio indicates company position is not risky, but it is not even safe. The current ratio was slightly increased in the year 2015-16, 2017-18 and 2018-19. But still, it's not satisfactory as per ideal current ratio (2:1). This is a good sign for the company. It presents company has sufficient balance to meet current obligations.

Cash Ratio: is calculated to measure the liquidity of a company. If an emergency came and company need to all current liabilities on urgent basis, at that time this ratio shows the company's ability to pay current liabilities without selling or liquidating other assets.

$$\text{Cash Ratio} = \frac{\text{Cash + Cash Equivalent+ Marketable securities}}{\text{Current Liability}}$$

MAHA-FPC has maintained cash ratio more than one in the year 2014-15, 2015-16 and 2017-18. For these three years, the company had sufficient cash to repay current liability. On opposite side cash ratio drastically fall up 0.43 in 2016-17 whereas in the year 2019-20 and 2018-19 the cash ratio was maintained at 0.88 and 0.87 respectively. Current position of cash ratio is not favorable to the company and in the coming years, company has to improve their cash position.

Table 1: Liquidity Ratios

Year	**2014-2015**	**2015-2016**	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**
Current Ratio	1.0	1.3	1.0	1.2	1.1	1.0
Cash Ratio	1.04	1.10	0.43	1.09	0.87	0.88

4.2.3 Leverage Ratio

Equity Ratio : is calculated to analyze equity share capital investment in assets. This ratio has been used by an equity shareholder to know the usage of share capital in growth of the company.

$$\text{Equity Ratio} = \frac{\text{Total Equity}}{\text{Total assets}}$$

Table 2 shows that, the equity ratio has declining trend. From the year 2014-15 to 2019-20 the equity ratio is decreasing from 0.086 to 0.041. MAHA-FPC is a leveraged company, the company has a very low equity ratio in the last six years. The company is more relied on equity share capital. In the year 2016-17 equity ratio became -0.0014 because the company was having negative reserve and surplus. In the year 2017-18, MAHA-FPC has received a matching equity grant of Rs. 10 lakhs from SFAC, Government of India. In year 2014-15 and 2015-16, the MAHA-FPC was having only current asset and thereafter company began to increase fix-assets as per requirements.

Assets to Proprietorship Ratio: is calculated to support equity ratio to measure company investment in fixed-assets. This ratio gives clarity about the utility of equity share capital in fixed-asset procurement.

$$\text{Assets to proprietorship Ratio} = \frac{\text{Fixed Assets}}{\text{Total equity shares}}$$

Equity Ratio has supporting percentage to Proprietorship Ratio. In year 2014-15 and 2015-16, the company does not have any fixed assets.

In 2016-17, the company has a huge procurement of fixed-assets and in subsequent two year purchase of fixed-assets was maintained appropriately by the company.

Table 2: Leverage Ratios

Year	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Equity Ratio	0.0868	0.1862	-0.0014	0.1221	0.1029	0.0413
Proprietorship Ratio	0	0	-0.26	0.03	0.03	

4.2.4 Profitability Ratio :-

Net Profit to Revenue Ratio (NPR) : This ratio used to measure the profitability of company. This ratio shows relationship between net profit and sales. The other income earned by company is ignored. All operating expenditures and incomes are considered in this ratio because the main objective of this ratio is to calculate actual profitability of the company from business operations.

$$\text{Net profit Ratio} = \frac{\text{Net Profit (PBT)}}{\text{Net Sales}}$$

Table 3 represents that, net profitability over the period was decreasing toward below zero. In 2014-15 and 2016-17 the company has maintained no profit no loss. In 2017-8, the company did its procurement business but they didn't received payment in same year due to which the Company has booked huge losses in 2017-18. Nonetheless, in 2019-20 the company was able to overcome from loss up to 27%. In the year 20018-19 and 2019-20, the company has earned good amount of revenue from operations but simultaneously the other expenses were also increased. Company had huge expense in stock in trade, change in inventory and other expenses which result in decrease in the net profitability ratio of company.

Net profit to Other Income Ratio (NPO): is calculated to support net profit ratio of the company. This ratio used to measure a company's profitability with respects to other income received. This ratio gives clarity about how much percentage of other income source contributes to profit of the company.

$$\text{PBT to Other income} = \frac{\text{PBT}}{\text{Other income}}$$

Table 3 indicates the percentage of profit received through other sources of income. In the year 2014-15 the ratio was only 0.33%, but it was drastically increased up to 32.85%. In the year 2016-17 company has booked huge loss as a result other income ratio became -35.24%. However, in subsequent three years other income have contributed continuously in net profit. This indicated that other income plays important role in the functioning of MAHA-FPC.

Net Profit (NP) : This ratio helps to calculate actual earn profit by company in a year. Total revenue encompasses other incomes and revenue from operations. This ratio helps to identify future prospects of the company.

$$\text{Net profit with other income} = \frac{\text{PBIT}}{\text{Total revenue}}$$

Table 3 shows that the company has started earning profit from initial year's i.e., 2014-15. But in 2016-17 the company has recorded a loss. Because revenue from operations was zero and other income earned by the company was not sufficient to cover expenses. But in the year 2017-18 and 2019-20 the company has gained sufficient profit. This ratio indicates that in coming years the company would grow and can earn good profit.

Return on Capital Employed

Return on Capital Employed (ROCE), it is a profitability ratio. It is calculated to judging a company's profitability and capital efficiency. This ratio signals about the funds employed for the expansion of company or generating profit. This ratio is used by investors to determine risk in business as per that they can decide about investment in company.

$$\text{Return on capital Employed} = \frac{\text{EBIT}}{\text{Capital employed}}$$

Table 3 shows that the return on capital employed in the last six years. The company has maintained fluctuating return on capital employed. In the year 2016-17 ratio was -2.53 because the company had recorded a loss in this year, so returns were also recorded in negative. In the year 2015-16 and 2017-18 the capital return ratio was good but in the year 2018-19, the ratio drops to 0.11 followed down to 0.07 in the year 2019-20.

Table 3: Profitability Ratios

Year	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Net Profit to Revenue Ratio	0	7.99%	0.00	369.92%	0.50%	8.73%
Net Profit to other income Ratio	0.33%	32.85%	-35.24%	5.67%	2.73%	24.71%
Net Profit	0.33%	6.43%	-35.24%	5.58%	0.42%	6.45%
Returns of Capital Employed	0.002	0.82	-2.53	0.74	0.11	0.07

4.3 Discussion

- In the last six years, the liquidity position of MAHA-FPC is stable, but they are not able to achieve the ideal Current Ratio i.e 2:1. As well as the cash ratio was slightly decreased in the year 2018-19.
- The equity ratio and assets to proprietorship ratio indicated the decline in the year 2019-20. This ratio indicates future implications on the profitability of MAHA-FPC in the long term period because the company may need to take a more loan and it will lead to financial costs in the form of interest.
- The net profitability to revenue from operation ratio of the company has a fluctuating trend over the last six years. The revenue of the company has very high variations, which results in a very high loss in some years.
- It is suggested that the company should focus on stabilizing the revenue for better performance in the coming years and build trust in shareholders. The net profit to other income has indicated a significant contribution to the overall profit of MAHA-FPC. Overall net profitability of MAHA FPC is proved that the company has started making a profit. Presently, MAHA-FPC is in the growing phase of the business cycle thus, the company may increase the profitability in the coming years.
- Return on Capital Employed (ROCE) indicates that the company has a good return against capital employed in business operations. It is a signal of the prosperity of the company in near future.
- In the previous six years company was not in a position to keep the required liquidity. The company has to focus on cash management.

☞ Equity capital indicates the contribution of members in capital formation. MAHA-FPC is in a growing stage, a company needs finance for expansion.

5. Conclusion and Recommendations

The FPOs model is still in the nascent stage. FPOs are struggling to establish themselves in the market. The case of MAHA-FPC, as a state level Federation of FPOs has established a good example for other FPOs of State and the Country. The financial analysis of MAHA-FPC indicated the company has a bright future, the share capital is in the increasing trend as new FPOs are becoming shareholders. In addition, the trade receivable has also shown increasing trend. It is recommended that the MAHA-FPC must focus on stabilizing revenue from operation and net profitability. As per phases of business cycle company is in expansion phase and in near future company would reach to a peak.

Cash management plays important role in strategic planning. A company needs to focus on operations of a business concerning debtor's turnover and creditor's turnover. High equity capital contribution in a company's capital structure signifies a strong capital mix, which will lead to a boost in profitability. Accordingly, the company needs to promote themselves to attract new shareholders to kick the overall growth of a company.

It is recommended that there is need to have two-pronged approach – Formation & Promotion of FPOs as well as creating enabling ecosystem for strengthening FPOs, particularly during post-handholding period. More integrated efforts are required on capability enhancement of board of directors & management staff of FPOs on different aspect of management of business entity and sensitization & orientation of financial institutions on financing FPOs on the other.

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