

Financial Analysis of the Rohtak District Co-operative Milk Producer Union of Haryana

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Abstract

1.1.1 The present study has made a modest attempt in assessing the financial health of the **Rohtak District Co-operative Milk Producer's Union Ltd** by applying accounting tools and techniques of Financial analysis such as common size statement and ratios to the secondary financial data.

Keywords: Milk Cooperatives, Financial analysis

Introduction

Over the last couple of decades, India has made tremendous growth in cooperative dairying. There has been rapid development in the production, processing, and marketing of milk and milk products. This has benefitted the small rural milk producers across the country and has provided access to milk for the underprivileged urban consumer. A wide range of cooperative dairy products once imported entirely, is now produced in the country and includes butter, cheese, baby food and Skimmed Milk Powder (SMP). Over the years, the most notable achievement on India's cooperative dairy scene has been the design and acceptance of the cooperative organizational structure, known as the "Anand Pattern". It has successfully increased the milk production, farm incomes and living standards of the rural poor of the country. It is important for cooperatives to balance economic as well as its social welfare objectives.

Review of Literature

❖ **M A Deshmukh, SS Chopde, SD Kalyankar, VD Kele (2015)** Dairy Industry has a special position in the agriculture sector Industries. Specialty of dairy industry lies in the fact that milk is produced every day by the farmers and it generates daily income to the farmers. Dairy Industry affects the marginal farmers and it is a labour intensive industry which provides employment to large number of population. Milk is also used to make a large number of milk products like Ice-cream, milk powder, Gulab Jamun, Cheese etc. Today, most of the dairy plants face major challenges of outdated automation system. The complex collection system,

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production, packaging and marketing need to be controlled and analyzed in an integrated manner to achieve the desired result.

❖ **Dr SP Mathur, Rekha Swarnkar, Yogesh Soni (2014).** Aim of this research paper is to study the liquidity management of various dairy cooperatives of Rajasthan Cooperative Dairy Federation. Working capital management is the life line of any organisation/ business venture. All business organisation require certain amount of fund to continue its day today operations and also produce goods for sale in the market to earn profit. A positive working capital is a must for a business organisation so that it is able to continue its day today operations/ working and they are still left with sufficient funds so that they are able to look after its short term debt and other operational related expenses.

❖ **D.B.Madlapure et al (2002)** evaluated the performance of dairy co-operatives in Konkan Region (M.S). Twenty dairy co-operative societies were selected randomly and their working, financial and operational efficiency were assessed. Majority of the members of the cooperative societies were found to be cultivators. Effort has been made to find out the relationship between total turn-over, average working capital and average rate of turn-over of the dairy societies were undertaken in the said study. The important finding of the study was that as share capital and working capital increased, milk collection was also found to increase, which was through multiple regression analysis. In addition, It was stated that devoted leadership along with disciplined working of staff, Co-operation of the state government and NDDB and members' response to the union have cumulatively contributed to the progress and prosperity of the union. He stressed on the fact that milk cooperatives in order to have a sustainable development should not depend upon Government help and assistance for a long time.

❖ **Dr. Harish Desai (2006),** has done his Ph.D. on "Financial Performance Appraisal of selected District Dairies Co-operative in Gujarat" in May-2006. Under this study he has made a modest attempt in assessing the financial health of the selected co-operative dairy units by applying accounting tools and techniques to the date of nine district co-operative dairy unions in Gujarat State. For this purpose, he has used many accounting tools and techniques like common size statement, Ratio analysis, etc. He has also used some statistical techniques like, mean, regression, F-test, T-test, diagrammatic and graphic presentation of data.

❖ **Mrs. Heena Rawal (1999)** studied the profitability of five district milk producers' co-operative union limited of Gujarat state. She studied costing and pricing practice of milk co-operative of Gujarat state. They found that the profitability increase by reducing the cost or increasing the total sales. The co-operative has not adopted a proper costing system and cost-volume profit method to control cost. Cost centre has not been identified by any of the co-operative dairy.

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Objectives

1. To examine the profitability and Financial efficiency of the Rohtak District Co-operative Milk Producer Union through different ratios.
2. To analyse the financial performance of the cooperative over five years.

Methodology

This study is based on secondary data which is taken from the annual reports of co-operative dairy unit for the period from 2011-12 to 2015-16. The data obtained have been duly classified edited and tabulated under various groups and sub-groups as per requirements of the study. Statistical and accounting measures like mean, ratio analyses, Common size ratios have been applied

Sample Design

This study based on the secondary data derived from annual published reports of the Rohtak district Co-operative Milk Producer Union for the period of five years from 2011-12 to 2015-16.

Analysis of the Data

Income statement (P & L A/C) of the Rohtak District co-operative milk producer's Union Ltd. has been presented from 2011-12 to 2015-16.

Income Statement of Rohtak District Co-Operative Milk Producer's Union Ltd.						
	2011-12	%	2012-13	%	2013-14	%
Milk and Milk products	2549100357.53	98.37	2526308112.65	98.47	2361405492.95	98.51
Trading Goods	41093912.85	1.59	37522324.81	1.46	34558668.77	1.44
Scrap	1177341.84	0.05	1604626.91	0.06	1192552.90	0.05
Total Sales (A)	2591371612.22	100.00	2565435064.37	100.00	2397156714.62	100.00
Opening stock:						
Finished Goods	125148311.62	4.83	219953897.76	8.57	271627003.81	11.33
Trading Goods	4117025.71	0.16	808000.00	0.03	1267314.00	0.05
Raw Material Consumed	2330284249.57	89.92	2234897012.59	87.12	1979382507.42	82.57
Processing Expenses/Manufacturing exp	183839320.56	7.09	210840370.89	8.22	211123817.70	8.81
Procurement Exp.	38734776.77	1.49	42557056.32	1.66	36315874.50	1.51
Purchase of Trading Goods	92407707.37	3.57	70236838.86	2.74	32042525.40	1.34
Total Direct Expenses	2774531391.60	107.07	2779293176.42	108.34	2531759042.83	105.62

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Less: Closing Stock						
Finished Goods	219953897.76	8.49	271627003.81	10.59	213980020.73	8.93
Trading Goods	808000.00	0.03	1267314.00	0.05	1868806.07	0.08
COGS	2553769493.84	98.55	2506398858.61	97.70	2315910216.03	96.61
Gross Profit	37602118.38	1.45	59036205.76	2.30	81246498.59	3.39
Misc. Income	14638707.05	0.56	2771470.33	0.11	3468183.45	0.14
Total Income	52240825.43	2.02	61807676.09	2.41	84714682.04	3.53
Less: Administrative Expenses	20467245.55	0.79	26759523.84	1.04	51288704.34	2.14
Less: Marketing Expenses	7664049.00	0.30	7835226.49	0.31	8883696.80	0.37
Royalty paid	551500.00	0.02	561800.00	0.02	561800.00	0.02
Depreciation	3882783.00	0.15	3738085.00	0.15	3467732.55	0.14
Lease money	1221961.00	0.05	1372995.00	0.05	1372996.00	0.06
Less: Financial Expenses:						
Interest on cash cr	17420767.60	0.67	16316318.00	0.64	12679603.00	0.53
Total Indirect Expenses	51208306.15	1.98	56583948.33	2.21	78254532.69	3.26
Profit before Tax	1032519.28	0.04	5223727.76	0.20	6460149.35	0.27
Income tax on Profits	319197.00	0.01	1614133.00	0.06	2000000.00	0.08
Net Profit After Tax	713322.28	0.03	3609594.76	0.14	4460149.35	0.19

	2014-15	%	2015-16	%	Average
Milk and Milk products	1802734658.99	98.19	1661010716.62	98.74	98.46
Trading Goods	32302859.25	1.76	20418743.20	1.21	1.49
Scrap	889286.15	0.05	844727.75	0.05	0.05
Total Sales (A)	1835926804.39	100.00	1682274187.57	100.00	100.00
Opening stock:					
Finished Goods	213980020.73	11.66	134681481.09	8.01	8.88
Trading Goods	1868806.07	0.10	5976022.31	0.36	0.14
Raw Material Consumed	1379337200.00	75.13	1468977871.40	87.32	84.41
Processing Expenses/Manufacturing exp	195493803.82	10.65	202050871.00	12.01	9.36
Procurement Exp.	37844327.31	2.06	31481178.16	1.87	1.72
Purchase of Trading Goods	61098326.70	3.33	24359799.82	1.45	2.48
Total Direct Expenses	1889622484.63	102.92	1867527223.78	111.01	106.99
Less: Closing Stock					
Finished Goods	134681481.09	7.34	243736847.14	14.49	9.97
Trading Goods	5976022.31	0.33	2890796.10	0.17	0.13

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COGS	1748964981.23	95.26	1620899580.54	96.35	96.89
Gross Profit	86961823.16	4.74	61374607.03	3.65	3.11
Misc. Income	4939535.95	0.27	5151002.29	0.31	0.28
Total Income	91901359.11	5.01	66525609.32	3.95	3.38
Less: Administrative Expenses	27963909.36	1.52	23473681.92	1.40	1.38
Less: Marketing Expenses	8942876.14	0.49	7435312.81	0.44	0.38
Royalty paid	500000.00	0.03	500000.00	0.03	0.02
Depreciation	4458250.00	0.24	4804549.00	0.29	0.19
Lease money	1246962.00	0.07	1246962.00	0.07	0.06
Less: Financial Expenses:					
Interest on cash cr	26406901.30	1.44	15043348.53	0.89	0.83
Total Indirect Expenses	69518898.80	3.79	52503854.26	3.12	2.87
Profit before Tax	22382460.31	1.22	14021755.06	0.83	0.51
Income tax on Profits	7949427.40	0.43	4316000.00	0.26	0.17
Net Profit After Tax	14433032.91	0.79	9705755.06	0.58	0.34

Financial Performance Analysis of Rohtak District Co-Operative Milk Producer's Union Ltd.

Findings

The total sales value has gone down during the study period. The highest sales were ₹ 2591371612.22 in the year 2011-12, and the lowest sales were ₹ 1682274187.57 in the year 2015-16.

It can be remarked from the table 3.3 that the cost of milk procurement registered declining trend during the period under study. The cost of goods sold was always more than 95.26 percent of the total sales. However, the absolute figures declined during the study period it was ₹ 2553769493.84 in 2011-12 which went down to ₹ 1620899580.54 in 2015-16. The gross profit registered an increasing trend during the period under study except the year 2015-16. It ranged between 1.45 percent and 4.74 percent of the sales respectively during 2011-12 and 2014-15. The processing expenses ranged from 7.09 percent to 12.01 percent of the sales during the period under study. The processing expenses registered increasing trend during the period under study. The marketing expenses ranged from 0.30 percent to 0.49 percent during the period under study. It showed a mixed trend during the study period. It was always more than 0.30 percent of sales during the study period. The administrative expenses consist of stationary, audit and co-operative development expenses. It varied from 0.79 percent to 1.40 percent of sales during the period under study. It represented a mixed trend during the period under study. The financial expenses include interest paid for loan borrowed. It ranged from 0.53 percent to 1.44 percent of sales during the period under study. It contributed a tiny share of the total expenditure during the

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period under study. The miscellaneous income in the unit mainly consists of income from bank interest, dividend, and interest on non-trading investment, profit on the sale of assets, etc. The miscellaneous income contributed a tiny share towards the profit during the period under study. It ranged from 0.11 percent to 0.56 percent of sales during the study period. The profit after tax showed a mixed trend during the period under study. It ranged from 0.03 percent to 0.79 percent of sales during the study period. It was the highest in the year 2014-15 which was 0.79 percent of sales and the lowest of 0.03 percent of sales in the year 2011-12. However, the performance of the unit is satisfactory during the period under study.

Ratio Analysis

Ratios	2011-12	2012-13	2013-14	2014-15	2015-16	Average
Gross Profit Ratio	1.45105079	2.30121614	3.38928607	4.73667158	3.64831176	3.10530727
Net Profit Ratio	0.027526789	0.14070108	0.186059982	0.786144245	0.576942518	0.343474922
Return on Shareholders' funds	0.927330749	4.474685561	5.3012073	16.29138168	10.39124802	7.47717066
Total asset Turnover	3.05523724	3.83759299	2.95825091	2.91935946	2.54987725	3.064063
Fixed asset Turnover	22.58817	22.287069	20.581522	14.537038	13.941595	18.787079
Working Capital turnover	3.9678784	5.8840586	4.38669058	4.74447574	4.0834849	4.613

Findings

The gross profit ratio of Hisar was highest in 2014-15 because of increased sales and reduced raw material expense.

The Net profit ratio of Hisar dairy was low at 0.027 percent in 2011-12 because of increased administrative and other expenses.

In Rohtak dairy, the return on shareholders fund employed has been on average 7.47 ranging from .92 percent in the year 2011-12 to 16.29 percent in the year 20014-15 during the period

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under study. The return on shareholders fund in Rohtak dairy registered a mix trend over the years.

Rohtak dairy with an average of Total asset Turnover of 3.06 times showed a decreasing trend during the period of study because of a decrease in total sales.

The fixed assets turnover ratio in Hisar dairy recorded a fluctuating trend during the period under study. It was 22.5 times in 2011-12 which went down to 13.9 times in 2015-16. It went down to due to a decrease in the sales.

Rohtak dairy showed a declining trend during the period of study with an average of 4.61 times. Based on the above, the working capital management was not satisfactory and proper.

Suggestions

To make the co-operative dairy industry more financially sound following recommendations are made:

- ❖ Rohtak Co-operative Milk Producer Union is required to reduce procurement cost and processing expenses by reducing packing expenses, transport cost and power and fuel costs.
- ❖ This situation of overstaffing should be avoided. Likewise, Banking industry, this industry required to introduce VRS for their employees which will result in a reduction in the personnel expenses. Administrative overheads need to be controlled too.
- ❖ Financial expenses are required to reduce it by reducing loans and creating capital from equity.
- ❖ The gross profit can be increased by increasing sales of various products and reducing the procurement cost.
- ❖ To achieve the required rate of return, tools of financial management have to be brought in to play, and relevant management techniques are required to adopt. One of the powerful management tools is the budget which should be implemented correctly in the co-operative dairy units.
- ❖ Total asset turnover ratio can be improved by continuously using assets, limiting purchases of inventory and increasing sales without purchasing new assets.
- ❖ Rohtak dairy should manage its inventory, accounts payable and receivable more efficiently to improve its working capital turnover ratio

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