FINANCIAL PERFORMANCE ANALYSIS OF VALAKKAVU KSHEERA VYAVASAYA SAHAKARANA SANGHAM LTD No.R 5(D) MILVAY

By,
VINISH WILSON
(2007-05-113)

PROJECT REPORT

Submitted in partial fulfillment of the requirement for the degree of

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Faculty of Agriculture

COLLEGE OF CO-OPERATION, BANKING AND MANAGEMENT

Kerala Agricultural University

Vellanikkara, Thrissur- 680656

Kerala, India

2011

DECLARATION

DECLARATION

I, hereby declare that this project report entitled "FINANCIAL PERFORMANCE ANALYSIS OF VALAKKAVU KSHEERA VYAVASAYA SAHAKARANA SANGHAM LTD No.R 5(D)-MILVAY" is a bonafide record of research work done by me during the course of project work and that it has not previously formed the basis for the award to me for any degree / diploma, associateship, fellowship or other similar title of any other University or Society.

Vellanikkara

Vinish Wilson

(2007 – 05 – 113)

CERTIFICATE

CERTIFICATE

Certified that this project report entitled **"FINANCIAL PERFORMANCE ANALYSIS OF VALAKKAVU KSHEERA VYAVASAYA SAHAKARANA SANGHAM LTD No.R 5(D)-MILVAY"** is a record of project work done independently by Mr. Vinish Wilson (2007-05-113) under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship or associateship to him.
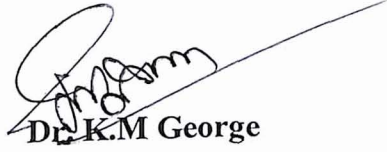
Vellanikkara

15 .06 . 11

Mr.M Jacob Thomas
Associate professor,
College of Co-operation, Banking and Management,
Vellanikkara.

CERTIFICATE

We, the undersigned members of the Viva-Voice Board of Mr. VinishWilson (2007-05-113) a candidate for the degree of B.Sc.(Hons.) Co-operation & Banking, agree that the Project Report entitled **"FINANCIAL PERFORMANCE ANALYSIS OF VALAKKAVU KSHEERA VYAVASAYA SAHAKARANA SANGHAM LTD No.R 5(D)-MILVAY"** may be submitted in partial fulfillment of the requirement for the degree.

Dr.K.M George

Associate Professor

Department of Rural Banking and Finance Management,

College of Co-operation, Banking and Management,

(Chairman)

M Jacob Thomas

Associate professor,

College of Co-operation Banking

and Management, Vellannikara

(Guide)

Ms.Jisha S Kumar

Teaching Assistant,

Dept. of Rural Marketing Management,

College of Co-operation Banking

and Management, Vellannikara

(Examiner)

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Needless to say I alone am responsible for any imperfections, which may remain…

Vinish wilson

Dedicated to
my parents
&
Friends

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DESIGN OF THE STUDY

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DESIGN OF STUDY

1.1 INTRODUCTION

Dairying has been an integral part of Indian agriculture and civilization from ancient times and remains as such even today. Dairying was the move of a religious practice than a commercial venture in the sense that cattle was reared because the Hindu's considered cow as the incarnation of God. Then, whatever produced was used for consumption alone and no effort was made to develop dairying on commercial lines. But now dairying is considered as a source of additional income and a ground for gainful employment especially for weaker sections. It is ideally suited to organize dairying on co-operative lines. Co-operative dairying serves as a strategy for rural development and helps to improve socio-economic conditions of rural households who are engaged in dairying and other allied activities.

India is the leading producer of milk in the world. Dairy co-operatives are the backbone of Indian dairy industry. Dairy co-operatives have excelled in their areas of cooperatives. The reason for success of dairy co-operatives is quite simple. The dairy co-operatives are controlled by themselves and the government has no role in the administration. The farmers own and manage them based upon the needs and demands of the country.

The White Revolution has an important role in the development of the dairy sector in India. Tired of exploitation by traders and local private dairy, the milk producers in the Katra village organized themselves into village dairy co-operatives. These co-operatives federated into the Kaira Milk Producers Union. Soon it had its first dairy plant. It started producing and marketing milk products under the brand name Amul. Under the efficient leadership of Dr.V. Kurien, the father of milk revolution, the Amul model of co-operatives soon

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became an example for others to adopt. The government wanted the Amul model to be replicated in other parts of the country.

Operation Flood, the world's dairy development program inspired by the Amul model and implemented by National Dairy Development Board- was implemented in three phases in the country between 1970 and 1996. The board was created in 1965 in response to Prime Minister Lal Bahadur Shastri's call to "transplant the spirit of Anand in many other places" in India. Milk was collected daily by village dairy co-operatives and sent to milk producers' unions who sold it as liquid milk and processed products through their federal marketing co-operatives. The Operation Flood Program had a tremendous impact. There has been rapid growth in India's milk production, around 4 to 5 percent annually.

The Operation Flood Program has also contributed to the social and economic development of rural milk producers. It helped the poor to increase their income and improve their standard of living. It has also established an effective partnership between farmers and professionals in the dairy industry. The professionals use the latest technologies in the dairy industry, based upon clear-cut assessment of the situation. No doubt dairy co-operatives are the most professionally managed sector of the Indian co-operatives.

Operation Flood was started in 1970 and concluded its third phase in 1996 and was implemented in three phases
Operation Flood Phase I   (1970–1980)
Operation Flood Phase II (1981–1985)
Operation Flood Phase III (1986–1996)

Objectives of Operation Flood

The operation Flood was the largest dairy development programme launched anywhere in the world at that time. Operation Flood has helped the dairy farmers to direct their own development, placing control of the resources

they create in their own hands. A 'National Milk Grid', links milk producers throughout India with consumers in over 700 towns and cities, reducing seasonal and regional price variations while ensuring that the producer gets a major share of the price consumers pay.

The base of Operation Flood has been village milk producers' co-operatives which procure milk and provide inputs and services, making modern management and technology available to members. Operation Flood's objectives included:

- Increase milk production
- Augment rural incomes
- Fair prices for consumers

From the inspiration generated from the growth of Amul and Operation Flood, there occurred a immense growth in the dairy co-operative sector. Anand Pattern Co-operatives were organized throughout the country. Thus the dairy.co-operatives formed dairying as a good employment opportunity for the poor. Dairy societies play an important role in the development of the dairy sector in our country. The main objective of a dairy society is to organize the milk and milk products into co-operatives and eliminating middlemen from the business, collecting milk in the village itself, making prompt payments for the milk collected .after testing the quality, arranging the transportation after pasteurization to major urban centres and converting the surplus milk in flush season in to skimmed milk powder. Thus assuring uniform prices to the milk producers and bringing about all round development to all its members. Besides these dairy co-operatives forward various technical inputs like balanced cattle feed, fodder seeds, veterinary services, artificial insemination facilities, medicines etc, to their members. There are two types of dairy co-operatives. One is the traditional model co0operative dairy and the other is the Anand pattern co-operative society. The Anand pattern is the replicated model of the Amul in

Anand, Gujarat. The traditional model is the conventional dairy society. The main difference between these two is that the Anand pattern co-operatives are having federated structure and the other one is having unitary structure. The Anand pattern is the appropriate model of dairy society in our country.

1.2. STATEMENT OF THE PROBLEM

In developing countries like India, the dairy co-operatives have an important role. It helps the poor people to find out a better employment opportunity to fight against the poverty. The dairy sector is a fastly growing sector and it is ideally suited to be organized in the co-operative lines. The dairy co-operatives provide a number of services to its members like purchase of good milch animal, procurement, purchase and marketing of milk and milk products, cattle feeds, veterinary services, insurance etc. As far as any institution is concerned, its performance evaluation is a very important task. The co-operatives should work for the development of the organization in terms of profitability, diversification, expansion etc and along with this it should work for the social and economic development of the members of the organization. The members of the co-operative organization should be benefited from the services provided by it. The organization should perform well, so that it can provide better services to its members. For an organization to run in profit it has to be careful in its financial aspects. The financial performance analysis is done so as to identify the organizations strength and weakness. Analysis of financial performance is an important matter for the members, managers, board of directors of the organization, because it allows the evaluation of efficiency or failure in meeting organizations objectives.

The present study is to evaluate the financial performance of Valakkavu Ksheera Vyavasaya Sahakarana Sangham Ltd.No R 5 (D)-Milvay. It helps to identify the society's strength and weakness.

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1.3. OBJECTIVE OF THE STUDY

To analyze the Financial Performance of **Valakkavu Ksheera Vyvasaya Sahakarana Sangham Ltd NoR.5 (D) - MILVAY**

1.4. METHODOLOGY

The study was primarily based on secondary data collected from the annual reports, and other statements of the society for the period of fifteen years from 1993-94 to 2007-08. Financial performance of MILVAY is examined by analyzing its performance with respect to efficiency in resource mobilization, efficiency in deployment of funds and efficiency in operation. Financial ratios, expense ratios, profitability ratios, percentages and growth indices are used for the purpose of the study.

- **Financial Ratios**
  - Efficiency in mobilization

Efficiency in mobilization is of great importance because mobilization of funds has a vital role in building a sound financial structure. The following ratios are used to analyse the efficiency of Milvay in the mobilization of funds:

1) *Borrowed fund to Working capital ratio*
$$= \left(\frac{\text{Borrowed fund}}{\text{Working capital}}\right) \times 100$$

Borrowed fund includes deposits and borrowings.

Working capital = Current Assets- Current Liability

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2) *Owned fund to Borrowed fund ratio*

$$= \left(\frac{\text{Owned fund}}{\text{Borrowed fund}} \right) \times 100$$

Owned fund = Share capital + Reserves + Undistributed Profits.

3) *Deposits to Working capital ratio*

$$= \left(\frac{\text{Deposits}}{\text{Working capital}} \right) \times 100$$

Deposits are the deposits received by the dairy

o   Efficiency in Deployment

Fund deployment is an important function as far as co-operatives are concerned. Efficiency in deployment is as equally important as efficiency in mobilization. The long term existence of any co-operative depends upon the effective deployment of funds mobilized. The following ratios are considered for analyzing the efficiency in deployment:

1) *Credit to Deposit ratio*

$$= \left(\frac{\text{Credit}}{\text{Deposits}} \right) \times 100$$

Credits are the loans and advances given by the dairy. Deposits are the deposits received by the dairy

2) *Credit to Working capital ratio*

$$= \left(\frac{\text{Credit}}{\text{Working capital}} \right) \times 100$$

Credits are the loans and advances given by the dairy. Working capital = Current Assets-Current Liability

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3) *Credit to owned fund ratio*

$$= \left(\frac{\text{Credit}}{\text{Owned fund}}\right) \times 100$$

Credits are the loans and advances given by the dairy

Owned fund = Share capital + Reserves + Undistributed Profits.

- **Expense Ratios**

  o *Establishment Expense Ratio*

  $$= \left(\frac{\text{Establishment Expenses}}{\text{Sales}}\right) \times 100$$

Establishment expenses are the expenses incurred for the day to day operations of the society.

  o *Manpower Expenses Ratio*

  $$= \left(\frac{\text{Manpower Expenses}}{\text{Sales}}\right) \times 100$$

Manpower expenses are the expenses incurred for the use of human workforce in the society.

  o *Provisions Expense Ratio*

  $$= \left(\frac{\text{Provisions Expense}}{\text{Sales}}\right) \times 100$$

Provisions expenses are the expenses incurred for allocating funds that is to be used at the time of contingencies.

  o *Interest Expense Ratio*

  $$= \left(\frac{\text{Interest Expense}}{\text{Sales}}\right) \times 100$$

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The interest expenses are the interest that the society has paid for its borrowings from banks.

- o *Cost of Goods sold Ratio*

$$= \left(\frac{\text{Cost of Goods sold}}{\text{Sales}}\right) \times 100$$

The cost of goods sold is the actual cost price of the goods sold. It includes all expenses incurred for the development of the goods.

- **Profitability Ratios**
  - o *Gross Profit Ratio*

$$= \left(\frac{\text{Gross profit}}{\text{Sales}}\right) \times 100$$

It measures the relationship of gross profit to net sales and is usually expressed as a percentage. Thus it is calculated by dividing gross profit by sales.

- o *Net Profit Ratio*

$$= \left(\frac{\text{Net profit}}{\text{Sales}}\right) \times 100$$

Net profit ratio establishes a relationship between net profit and sales, and indicates the efficiency of the management in manufacturing, selling, administrative and other activities of the firm.

- o *Return on total assets ratio*

$$= \left(\frac{\text{Net profit}}{\text{Total Assets}}\right) \times 100$$

The Return on Total Assets is computed to know the productivity of the total assets. The two components of return on total assets ratio are the net profit and total assets.

- o *Return on Shareholders fund Ratio*

$$= \left(\frac{\text{Net profit}}{\text{Shareholders Fund}}\right) \times 100$$

The two basic components of this ratio are net profit and share holder's funds. This ratio is one of the most important ratios used for measuring the overall efficiency of the firm

Table 1.1 Ratios used for the study

Sl.No	Ratio	Formula
1	Borrowed Fund to Working Capital ratio	$\left(\dfrac{\text{Borrowed fund}}{\text{Working capital}}\right) \times 100$
2	Owned fund to Borrowed fund ratio	$\left(\dfrac{\text{Owned fund}}{\text{Borrowed fund}}\right) \times 100$
3	Deposit to Working capital Ratio	$\left(\dfrac{\text{Deposits}}{\text{Working capital}}\right) \times 100$
4	Credit to Deposit ratio	$\left(\dfrac{\text{Credit}}{\text{Deposits}}\right) \times 100$
5	Credit to Working Capital ratio	$\left(\dfrac{\text{Credit}}{\text{Working capital}}\right) \times 100$
6	Credit to Owned Fund ratio	$\left(\dfrac{\text{Credit}}{\text{Owned fund}}\right) \times 100$
7	Establishment Expense ratio	$\left(\dfrac{\text{Establishment Expenses}}{\text{Sales}}\right) \times 100$
8	Manpower Expense ratio	$\left(\dfrac{\text{Manpower Expenses}}{\text{Sales}}\right) \times 100$

Sl.No	Ratio	Formula
9	Provisions Expense ratio	$\left(\dfrac{\text{Provisions Expense}}{\text{Sales}}\right) \times 100$
10	Interest Expense ratio	$\left(\dfrac{\text{Interest Expense}}{\text{Sales}}\right) \times 100$
11	Cost of Goods Sold ratio	$\left(\dfrac{\text{Cost of Goods sold}}{\text{Sales}}\right) \times 100$
12	Gross Profit Ratio	$\left(\dfrac{\text{Gross Profit}}{\text{Sales}}\right) \times 100$
13	Net Profit ratio	$\left(\dfrac{\text{Net profit}}{\text{Sales}}\right) \times 100$
14	Return on Total assets ratio	$\left(\dfrac{\text{Net profit}}{\text{Total Assets}}\right) \times 100$
15	Return on Share holders fund ratio	$\left(\dfrac{\text{Net profit}}{\text{Shareholders Fund}}\right) \times 100$

1.5. OBSERVATIONS MADE

- Share capital
- Deposits
- Borrowings
- Reserves
- Loans and advances
- Owned funds
- Working capital
- Manpower Expenses
- Provisions
- Cattle Feed sold
- Cost of goods sold
- Overdue
- Loans outstanding
- Interest income
- Interest expenses
- Non-interest income
- Noninterest expenses
- Establishment Expenses
- Local sales
- Bonus given to members
- Total milk collected per year
- Borrowed Funds

1.6. SCOPE OF THE STUDY

MILVAY is a conventional model dairy society. Although it is a traditional model, it is well established. The study tries to evaluate the effectiveness in the working of a dairy society. It also helps to analyze the Financial Performance of the MILVAY, which will help the dairy to identify its strength and weakness.

1.7. LIMITATIONS

a) Study is limited to the financial performance of Milvay

b) Audit of previous years financial statements (2008-09) were not completed, so analysis of previous year could not be done.

1.8. Scheme of the study

The study has been presented in four chapters. The first chapter presents the design of the study. Second chapter gives the organisational profile of the dairy society. The third chapter examines the financial performance of the dairy society. The last chapter highlights the summary of findings and conclusions of the study.

Review of Literature

Rangaswami (2000) pointed out that the economic efficiency of dairy plants is severely influenced by a variety of constraints at 3 important value addition stages; milk procurement, processing and manufacturing and distribution of dairy products. This study was conducted to compare the constraints faced by co-operative and private dairy plants at these vital value addition stages. One dairy plant from the private sector and one from the co-operative sector were selected in Coimbatore district of Tamil Nadu. Some of the members of the co-operative society selling the milk to private milk vendors and some of the collection centers procuring inadequate quantity of milk were the very serious problems faced by the cooperative plants. At the distribution level higher sales commission to agents, wholesalers and retailers and highly competitive markets were the problems of private enterprise. They pointed out certain suggestion for the development of the dairy industry in India. They are encouraging value addition, effective sales promotion and advertisement strategy and also focusing on consumer oriented market research and development.

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Panth (2000) pointed out that Indian dairy products must meet international standards both in terms of quality and cost effectiveness. He also revealed that the dairy industry is maturing in to competitive dairy industry ready to meet the challenges caused by liberalization and W.T.O and Indian brands are finding a place in export market not only in small consumer packs but also in bulk.

Koli (2000) argues that milk co-operatives have always remained beneficial to rural population and hence they can sustain in future too.

Patel and Hadiya (2001) made a study about milk procurement cost for co-operative and private dairy plants in Tamil Nadu. Data were collected from the sample of 20 milk producer's co-operatives and 20 milk collection centres. In general they made the conclusion that the per litre procurement cost of milk is higher in cooperative dairy plants than in private dairy plants, and the same increased between the flush, transitory and lean seasons. This could be attributed to the increase in the reception cost of milk and the marginal increase in transport cost of milk in co-operative dairy plants. They opined that policy measures that might change the milk procurement efficiency of co-operative dairy plants should be made by the government

Kadirvel (2002) remarked that in rural areas, lack of awareness about clean milk production is further accentuated with obsolete technology when compared to the west. Such factors related to hygiene reduce the quality of our milk products, resulting in low demand for our dairy products in the world market.

Abdul Khadar (2002) opined that once dairy farmers of Kerala found it difficult to sell their milk at reasonable price, cooperative marketing was

the only option. The marketing through milk co-operative societies has been considered as a promising intervention since it is expected that it will remove all the inherent defects of traditional marketing and ensure fair price to the producers

Bhandair (2003) point out that the prime task before Indian dairy professionals, is to evolve effective and innovative techniques that can be efficiently used for procuring pure good quality raw milk without manipulations. Only our success on this front can improve the global competitiveness of Indian dairy industry and enable us to effectively deal with implications of WTO

Selvamani (2005 concluded that in order to survive and sustain in the new economic era of liberalization dairy co-operatives require both financial and technical assistance from central and state Governments. State and national level co-operative organizations, dairy research and training institutes for the sustainable and dynamic development should be established. By utilizing available opportunities and resources and converting challenges into opportunities, the dairy co-operatives would become an effective instrument for rural people's development and empowerment. The primary producer's co-operative societies have been providing platform for the growth and development.

Mulani(2006) said that dairy co-operatives become an effective instrument for the rural development and which has a vital role in poverty alleviation.

Varadarajan(2006) made a study about performance of dairy producer's co-operatives in Thirupur district in Tamilnadu. A sample of 20 dairy producer co-operatives were selected. He concluded that the Indian dairy industry attracts a large number of entrepreneurs. Their success in

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dairying depends on factors such as efficient economical procurement network system, hygienic and cost effective processing facilities and innovativeness in the market place.

Ramanujan (2008) opined that the dairy co-operatives which are unique have changed the social economic conditions of the farmers in the rural areas of India. They have multiple linkages in the development of agricultural employment, income, health, nutrition and educational level in rural areas.

Periaswamy (2008) said that Government and dairy co-operatives are essential for the development of rural people and their participation is essential for the development process. So dairy co-operatives are more suitable for the rural development of developing countries like ours.

Vyas(2008) opined that as the dairy co-operatives have been successful in India over many years and have contributed to economic development of the nation, it is necessary that these co-operatives are allowed to change in the changing environment. The Government should show equal faith and commitment towards cooperatives if not more as they go after wooing corporate sector.

Chandramohan (2008) opined that dairy co-operatives play a significant role in rural economy. They produce both private and public goods, nevertheless they create excludable and non excludable benefits to members.

Shobana Nelasco and Tamil Selvi (2008) said that dairying is a suitable job for small and marginal farmers and landless labourers. Hence dairy farming is to be developed in proper lines.

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According to Jayachandran (2008) the economic impact of dairying is reflected in the upliftment of rural poor farmers by way of additional part time and full time employment additional income and increased assets. Hence it could be concluded that dairying is an appropriate and beneficial occupation to increase the purchasing power of rural farmers.

Guruppa Naidu (2008) studied on the impact of dairy cooperatives on income, employment and creation of assets of marginal and small farmers in the dairy from various dairy co-operatives. He opined that dairy development has been acclaimed as an effective instrument capable of bringing about speedy economic and social transformation of the weaker sections of the rural community.

Ramanand(2009) opined that most of the dairy farmers depend on thousands of dairy co-operative societies for their survival .Dairy co-operatives have the potential to promote and facilitate development and empowerment process among rural women.

According to Singh and Datta (2010) the Indian dairy sector had shown tremendous growth in terms of milk production, from 17 million tonnes (1950–51) to 112 million tonnes (2009–10). This transition from deficiency to sufficiency has been achieved by a series of policy interventions by the government. It has been found that in the first phase of 'Operation Flood', growth rate of value-added products was 0.93 per cent per annum, but in the third phase, it became 9.10 per cent per annum. Milk processing in India is around 35 per cent, of which the organized dairy industry accounts for only 13 per cent of the milk produced, the remaining 22 per cent is processed in the unorganized sector.

Veena Goel and Suku Bhaskarkan (2010) reported that organized segment of dairy sector was hitherto dominated by the co-operative sector that established a structured and three-tiered organizational hierarchy, procured milk from small-scale farms, processed and distributed milk and milk products. With the liberalization of India's economy and market entry by the private sector, new dynamics have emerged. These include increased supplies of a greater variety of value-added products and increased inter-firm competition with companies and supporting their sales development with integrated marketing initiatives. This fostered greater attention to branding, product positioning and product differentiation with intense price discounting for some products. In response to these challenges, the State cooperatives have started to integrate their operations in areas such as procurement of supplies, logistics, manufacturing, distribution and inventory management. However, these face a major constraint regarding the sufficient availability of milk supplies over space and time while due to political interferences, excess staff adds to the administrative costs there by inefficiencies in its operations and losses results.

Shankar Ambhore (2010) opined that co-operatives have entered into all spheres of socio-economic activities viz. production, marketing, credit & banking, processing, sales, dairying, storage, housing, farming, fishing, etc. Need for development of suitable manpower for various activities related to dairying was realized since the early years of organized dairying in India. Dairy co-operatives have been getting various opportunities as well as facing different challenges. The dairy co-operative movement has not only improved the lives of the people here but has made significant contribution to the economy of the State itself. This is a success of not only the people of India and Maharashtra but also of the co-operative movement itself.

ORGANIZATIONAL PROFILE

CHAPTER-2
ORGANISATIONAL PROFILE OF
VALAKKAVU KSHEERA VYAVASAYA SAHAKARANASANGHAM LTD NO R 5(D)
MILVAY

2.1 Introduction

Valakkavu Ksheera Vyavasaya Sahakarana Sangham Ltd No.R 5(D) was registered as a co-operative dairy society in 1971. The area of operation includes ward 1 and ward 2 of Nadathara panchayat and ward 5 of Puthur panchayat. The society has two milk collection centres at Nadathara and Thonipara. In 1994, the society established chilling plant and automatic milk packing machine. Then onwards, the society uses a brand name for its products as **'MILVAY'**. The society came to be known by its brand name as **'MILVAY** society'. The main business of the society is procurement and sale of milk, curd, ghee. Other than this it has the sale of cattle feeds also.

MILVAY started its working on 14-11-1971 by collecting 50 litres of milk per day. Now it has 377 'A' class members and 366 'B' class members. It is now procuring 6000 litres of milk every day. MILVAY is a traditional model society with a share capital of Rs.105076. The society is running in profit and it is doing a great service to its members. The dairy society now has audit classification 'B'.

2.2 Objective of the Society

The objectives of the society are as follows;

1. To develop the thrift, self help, co-operation and industrial attitude among members.
2. To provide help for buying hybrid cattle's and their maintenance.
3. To act as a mediator for selling the milk and milk products produced by the members.

4. To act as an agent for purchasing or leasing equipments for storage and maintenance of milk and milk products for the benefit of the members.

5. Purchase building, land and other equipments for the smooth functioning of the society.

6. Linking society with Milk Union and Government Dairy for the development of the society.

7. Starting milk bar and milk depot under the society.

8. To borrow funds from members or District Cooperative Bank or Government.

9. Purchasing cattle feed at a lower price and distribute it for cattle development.

10. To provide help for building up of the cattle house.

2.3 Membership

Any milk producer who is having the qualifications mentioned below can be the member of the society

- He should be 18 or above 18 years of age
- He should reside within the area of operation of the society
- He should pour milk to the society as a nominal number for 90 days out of 120 days before giving application for membership
- He should subscribe at least one share of the society
- He should not be an insolvent
- He should not be a convict of any criminal offence
- He should not be an employee of the society or financing bank.

2.4 Types of members

The society has two types of membership, A class membership and B class membership. At present the society has 377 A class members and 366 B class members. A class shares have the face value of ₹10 and B class shares have the face value ₹1.Normally the A class shares are provided to the producer

members and well wisher members. Producer member is one who owns a cattle and supply milk continuously giving milk to the society. Well wisher members are Government, financing bank etc. B class shares are given to members outside the area of operation without voting right.

Table 2.1. Membership of the society from 1993-94 to 2007-08

Year	Number of members
1993-1994	977
1994-1995	974
1995-1996	983
1996-1997	979
1997-1998	981
1998-1999	974
1999-2000	988
2000-2001	990
2001-2002	1000
2002-2003	1016
2003-2004	1024
2004-2005	880
2005-2006	392
2006-2007	401
2007-2008	329

Source: Annual reports of the society from 1993-94 to 2007-08

2.5 Procedure for taking Membership

A milk producer must give application in a prescribed format to the society for getting membership. The application should be submitted to the secretary. Secretary will place the application for approval in the committee meeting. Any order of refusal must be communicated with the milk producer

within 15 days from the date of decision about refusal. The applicant who got the refusal has the right to appeal with the Registrar of Cooperative Societies. No individual can subscribe more than 1/5th of the total paidup share capital.

2.6   Liability of the members

Liability of the members is limited to their share value

2.7   Input Services to the members

The society provides cattle feed to the milk producers at subsidized rate. Kali Samrakshana Nidhi is working as insurance for cattle.

2.8   Sources of Funds

The funds of the society shall be mobilized from the following sources
- Share capital
- Reserves.
- Grants
- Entrance fee
- Loans
- Deposits from members

Table.2.2 The share capital of the society from 1993-94 to 2007-08

Year	Share Capital	Growth (%)
1993-1994	63.47	100
1994-1995	61.91	97.53
1995-1996	60.18	94.80
1996-1997	59.08	93.07
1997-1998	64.83	102.13
1998-1999	64.02	100.85
1999-2000	64.38	101.42
2000-2001	64.35	101.39
2001-2002	65.39	103.01
2002-2003	63.95	100.74
2003-2004	64.52	101.64
2004-2005	47.28	74.48
2005-2006	63.88	100.63
2006-2007	91.18	143.64
2007-2008	101.23	159.47

Source: Annual reports of the society from 1993-94 to 2007-08   (in ₹.000's)

2.9 Procurement of Milk

Society procures milk from members and non members. The collection time is from 5.30am to 7.30am in the morning and from 1.pm to 2.pm in afternoon. The members bring milk directly to the society or to the collection centres. Distribution is mainly to households, retail shops etc in the brand name 'MILVAY'. Society fixes the price on the basis of the quality. The quality is measured on its fat and SNF content.

Table 2.3 Milk collection and sales of the society from 1993-94 to 2007-08

Year	Milk Collected	Growth(%)	Milk Sold	Growth (%)
1993-1994	4190.34	100	5421.05	100
1994-1995	6212.34	148.25	8019.22	147.93
1995-1996	8946.97	213.51	11686.54	215.58
1996-1997	10202.35	243.47	13452.61	248.16
1997-1998	10467.72	249.81	14038.43	258.96
1998-1999	12048.91	287.54	13597.93	250.84
1999-2000	15464.62	369.05	17331.12	319.70
2000-2001	16232.98	387.39	18299.22	337.56
2001-2002	15154.42	361.65	17111.11	315.64
2002-2003	16355.94	390.33	18700.93	344.97
2003-2004	17871.11	426.48	19256.03	355.21
2004-2005	22048.56	526.18	25172.24	464.34
2005-2006	24572.32	586.40	27691.33	510.81
2006-2007	24605.33	587.19	27719.96	511.34
2007-2008	30452.86	726.74	34459.74	635.67

Source: Annual reports of the society from 1993-94 to 2007-08   (in ₹.000's)

Tables 2.3 shows the milk collected and milk sold by the society. From the data we can see that the procurement and the sales of the milk shows an increasing trend. In the year 1993-94, the procurement of milk is ₹.4190340 and the sale is ₹.5421050. By 2007-08 we can see that the procurement has grown to ₹.30452860 and the sales increased to ₹.34459740. Milvay has shown a wonderful growth over these periods and finally it led the society to profit. The members are able to increase their production and it is the result of the good service provided by the society.

2.10   Sale of Cattle Feed and Milk Products

Table 2.4 Cattle feed sold by the society from 1993-94 to 2007-08

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Year	Cattle feed Sold	Growth (%)
1993-1994	219.73	100
1994-1995	325.03	147.92
1995-1996	473.68	215.57
1996-1997	545.35	248.17
1997-1998	548.63	271.87
1998-1999	550.91	250.72
1999-2000	901.82	410.41
2000-2001	924.34	420.65
2001-2002	1225.14	553.02
2002-2003	1280.42	582.72
2003-2004	1325.7	603.33
2004-2005	1485.27	675.95
2005-2006	2105.65	958.29
2006-2007	2383.48	1084.73
2007-2008	2553.00	1161.88

Source: Annual reports of the society from 1993-94 to 2007-08   (in ₹.000's)

Table 2.4 shows the cattle feed sold by the society from 1993-94 to 2007-08.It shows an increasing trend over the years. During 1993-94 it was ₹. 219730 and during 2007-08 it had increased to ₹. 2553000. The society is providing cattle feeds at a subsidized rate. The society is now giving ₹.15 less on each sack of cattle feed. This is very helpful for the farmers and they are utilising this service to the maximum. This is the reason for the increase in the sales of cattlefeed.

Table 2.5 Milk products sold during 1993-94 to 2007-08

Year	Milk Products Sold	Growth(%)
1993-1994	126.32	100

1994-1995	186.81	147.91
1995-1996	709.83	562.02
1996-1997	936.64	741.60
1997-1998	1056.33	836.37
1998-1999	1109.93	878.80
1999-2000	1495.62	1184.18
2000-2001	1643.24	1301.06
2001-2002	1988.03	1574.05
2002-2003	2279.32	1804.69
2003-2004	2526.31	2000.25
2004-2005	1525.52	1207.85
2005-2006	1996.92	1581.09
2006-2007	2609.41	2066.04
2007-2008	2948.61	2334.61

Source: Annual report of the society from 1993-94 to 2007-08   (in ₹.000's)

Table 2.5 shows the sale of milk products of the society from 1993-94 to 2007-08. It shows an increasing trend. In the beginning of the study period, the sale was ₹.126320. By 2007-08 it increased to ₹.2948610. From this it is clear that the milk products of Milvay have a wide acceptance. Society is now producing only curd and ghee as milk products.

2.11 Profit Distribution

The profit of the previous year should be announced in the general body meeting and the amounts given below should be deducted from it.

1. Reserve Fund
2. Education Fund
3. Cattle Protection Fund
4. Dividend
5. Cooperation Extension Fund

6. Donation Fund

7. Building Fund

2.12   Administrative setup

General body is the highest authority of the society. The Board of Directors of the society includes 9 members including President, 7 from general category, 1 SC/ST member and 1 women member. A paid Secretary is there in the society.

2.13   Organizational Structure

General Body

⇓

Executive Board

⇓

Secretary

⇓

Clerks

⇓

Milkman and Salesman
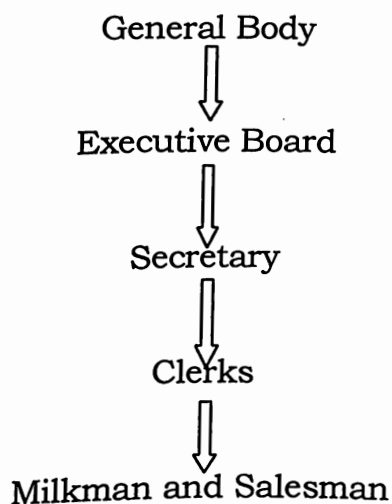
2.14   General Body

General body is the supreme authority of the society. The duties of the general body   meeting are of the following;

- Electing administrative members
- Passing the annual report
- Reading of annual audit report and taking decisions
- Amendment of byelaws for the smooth functioning of the society
- Dismiss member under sec.17 of Kerala Cooperative Societies Act 1969

- Taking decision on member complaints
- Elect a representative to milk unions or district cooperative bank
- Passing annual budget
- Dividing profit under Sections 56 of Kerala Societies Act 1969
- Sending documents prescribed by Registrar of Cooperative Societies

2.15   Secretary

Secretary has the liability to implement decisions taken by General Body and also he must keep the cash, books of accounts and other documents of the society. The paid secretary must be doing litigation for the society. The documents of the society are under the custody of the secretary. The present secretary is Mr.M.S.George , since 1975.

2.16   Conclusion

The Valakkavu Ksheera Vyavasaya Sahakarana Ltd No R5 (D) had made a mark of its own in the dairy processing industry situated in a rural area. It has been working for the last 40 years in that area. The main problem faced by the society is the low procurement during summer. Then the society find itself not able to meet the demand of the consumers. Society is under the administration of Dairy Department and the auditing is done by Cooperative Department. It is a traditional model dairy society.

FINANCIAL PERFORMANCE ANALYSIS

CHAPTER-3

FINANCIAL PERFORMANCE ANALYSIS

VALAKKAVU KSHEERA VYAVASAYA SAHAKARANASANGHAM LTD NO R 5(D)

MILVAY

Financial Analysis is the process of identifying the financial strength and weakness of the firm properly established the relationship between the items of balance sheet and the profit and loss account. Financial Analysis is the systematic numerical calculation of the relationship of one financial fact with the other to measures the profitability, operational efficiency, solvency and the growth potential of the business. The analysis serves the interest of share holders, debenture holder's potential investors, creditors, bankers, journalists, legislators, politicians, researchers, taxation authorities and economists. The analysis of financial statement makes it simple, intelligible and meaningful for all the concerned parties. Financial statements are split into simple statement by process of rearranging, regrouping and the calculation of various ratios. The analysis simplifies summaries and systematizes the monotonous figures.

Financial analysis is in this way is the purposeful and systematic presentation of financial statements. Various items of income and position statements are compared and their inter-relationship is established. Financial analysis as such presents meaningful, expression of the relationship between different items. The use of financial analysis made to measure the profitability, efficiency and financial soundness of the business to make comparative studies and effective future plans.

SIGNIFICANCE OF FINANCIAL ANALYSIS

Financial statements are prepared at a certain point of time according to established conventions. These statements are prepared to suit the requirements of the organization. It is, therefore, necessary to analyse financial statements to measure the efficiency, profitability, financial soundness and

future prospects of the concern. Financial analysis serves the following purpose.

- Judging the operational efficiency of the business
- Measuring short and long term financial position
- Indicate the trends of achievement

In general, a financial statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It is a process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheets and profit and loss accounts. It helps to know the firms actual position. This not only helps the management in decision making and control but also serve as a useful tool for all concerned to the firm. In this study, an attempt has been made to evaluate the financial performance of Valakkavu Ksheera Vyavasaya sahakarana Sangham Ltd No. R 5(D)-Milvay, by using ratio analysis.

Ratio analysis is one of the most powerful tools of financial analysis. Accounting ratios are relationships expressed in mathematical terms between figures which are connected with each other in some manner. Ratio analysis is a technique of analysis and interpretation of financial statements. The different ratios used for analysis are as follows:

- **Financial Ratios**
- **Expense Ratios**
- **Profitability Ratios**

3.1 Financial Ratios

Financial Ratios indicate the financial position of the firm. A firm is deemed to be financially sound if it is in a position to carry on its business smoothly and meet all its obligations, both long term and short term. The operational efficiency of the Milvay is administered through the following headings:

- Efficiency in mobilization.

- Efficiency in deployment.

3.1.1 Efficiency in mobilization

Efficiency in mobilization is of great importance, because mobilization of funds has a vital role in building a sound financial structure. The following ratios are used to analyse the efficiency of Milvay in the mobilization of funds:

- Borrowed fund to working capital ratio

- Owned fund to borrowed fund ratio

- Deposits to working capital ratio

3.1.1.1 Borrowed fund to working capital ratio

The ratio highlight the share of borrowed fund in working capital. A higher ratio is an indicative of higher share of borrowed funds in the working capital and smaller ratio indicates the dominance of owned fund in the working capital. The borrowed fund would affect cost and unless the society ensures profitable deployment of such funds, the society may suffer losses.

Borrowed fund to working capital ratio =

$$\left(\frac{\text{Borrowed fund}}{\text{Working capital}}\right) \times 100$$

Borrowed fund includes both deposits and borrowings.

Table 3.1 Borrowed fund to Working Capital Ratio from 1993-94 to 2007-08

Year	Borrowed fund	Working capital	Ratio
1993-94	765.13	200.75	381.12
1994-95	888.36	-23.57	-3769.03
1995-96	675.70	-36.76	-1838.14
1996-97	400.83	185.31	216.29
1997-98	356.91	564.22	63.26
1998-99	617.57	1180.03	52.33
1999-00	428.50	1169.39	36.63
2000-01	273.56	1420.99	19.25
2001-02	151.14	1374.68	10.99
2002-03	148.78	2231.94	6.66
2003-04	1224.53	1494.69	81.92
2004-05	2379.11	1215	195.81
2005-06	1731.42	1364.73	126.87
2006-07	371.00	1795.38	20.67
2007-08	151.15	2520.13	5.99

Source: Audited annual reports of Milvay   (in `.000's)
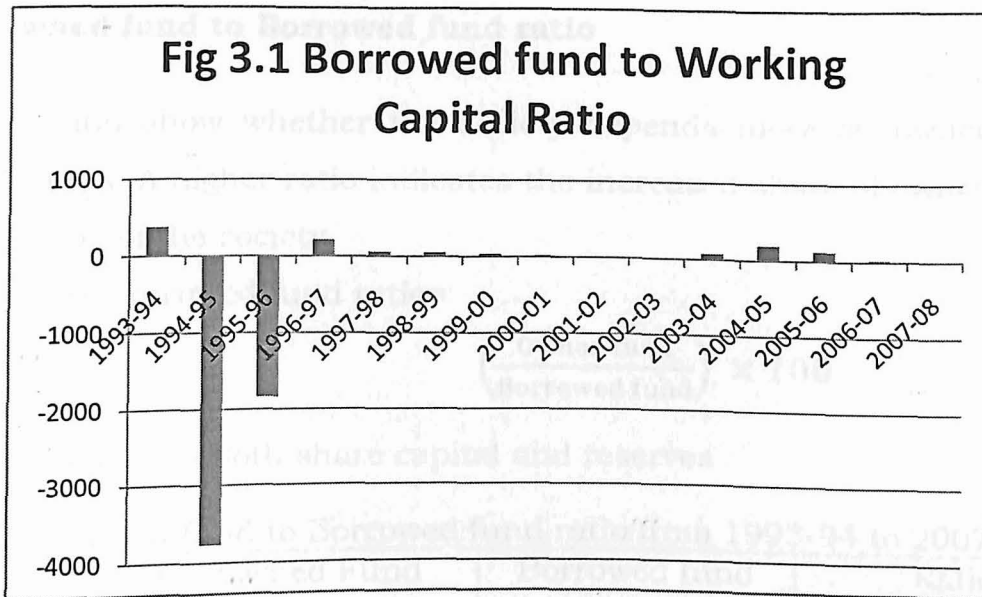
Fig 3.1 Borrowed fund to Working Capital Ratio

Table 3.1 and Figure 3.1 show the borrowed fund to working capital ratio of the Milvay from 1993-1994 to 2007-2008. From the table 3.1, it is clear that the Borrowed fund to Working capital ratio is fluctuating. In the beginning of the study period the ratio was high, because the working capital is low compared to borrowings. It shows that the borrowings are high. The ratio then decrease to 6.66% in 2002-03. From this it could be understood that the borrowings of the society decreased. The society is enjoying profit in this period and the borrowings are minimum. Again from 2003-04 the ratio again increases to 81.92%. In 2004-05 it reaches to 195.81%. The reason for this increase is that the society borrowed for the construction of new infrastructure facility for office and dairy plant. Then ratio again decreases to 5.99% in 2007-08. This shows that the society is repaying its borrowings. As the share of borrowed fund increase in the working capital, the interest expense of the society will also increase. So a low ratio is always good for the society. At the same time a very low ratio indicate the inability of the society to mobilize deposits also.

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3.1.1.2 Owned fund to Borrowed fund ratio

This ratio show whether the society depends more on owned fund or borrowed funds. A higher ratio indicates the increased share of owned funds in the functioning of the society.

Owned fund to borrowed fund ratio=

$$\left(\frac{\text{Owned fund}}{\text{Borrowed fund}} \right) \times 100$$

Owned fund includes both share capital and reserves

Table 3.2 Owned fund to Borrowed fund ratio from 1993-94 to 2007-08

Year	Owned Fund	Borrowed fund	Ratio
1993-94	103.44	765.15	13.51
1994-95	101.82	888.32	11.46
1995-96	101.96	675.72	15.08
1996-97	100.98	400.85	25.17
1997-98	106.60	356.91	29.84
1998-99	155.13	617.54	25.12
1999-00	164.00	428.42	38.28
2000-01	171.32	273.50	62.63
2001-02	176.94	151.11	117.07
2002-03	317.82	148.72	213.72
2003-04	332.71	1224.50	27.17
2004-05	400.12	2379.13	16.82
2005-06	423.74	1731.42	24.47
2006-07	546.00	371.00	147.17
2007-08	591.78	151.11	391.65

Source: Audited annual reports of Milvay   (in ₹.000's)
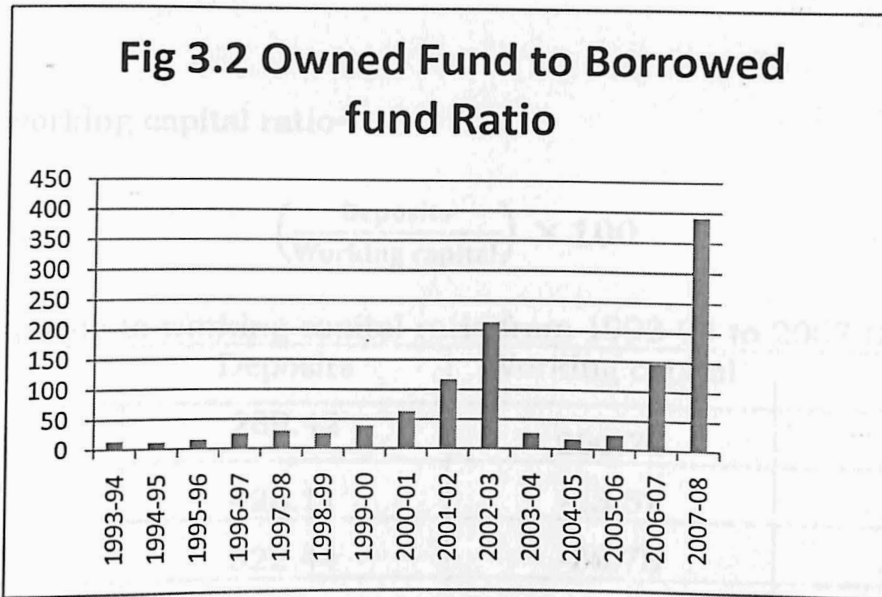
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Fig 3.2 Owned Fund to Borrowed fund Ratio

Table 3.2 and Figure 3.2 show the owned fund to borrowed fund ratio from 1993-1994 to 2007-2008. From table 3.2 it is clear that the ratio is fluctuating. The highest ratio is 391.65% in 2007-08 and the lowest is 11.46% in 1994-95. A higher ratio indicates the presence of more owned fund. Milvay is working in profit and it has more owned fund than borrowed fund by the end of the study period.

3.1.1.3 Deposits to working capital ratio

Deposits are the major source of funds for any banking institutions. In a dairy society like Milvay, the deposits are negligible. Milvay is not trying to mobilize funds through deposits because, they mainly concentrates on sales of milk and milk products. The deposits to working capital imply the proportion of deposits in working capital of the organisation. A higher ratio is the indication of higher share of borrowed funds in working capital since deposits are the only component of borrowed funds. A smaller fund indicates the dominance of owned fund in working capital. The ratio also implies the efficiency of the society in the deposit mobilization and at the same time imposes certain additional responsibility on the society to ensure deployment of funds in profitable channels otherwise, the society may suffer losses.

Deposits to working capital ratio=

$$\left(\frac{\text{Deposits}}{\text{Working capital}}\right) \times \mathbf{100}$$

Table 3.3 Deposits to working capital ratio from 1993-94 to 2007-08

Year	Deposits	Working capital	Ratio
1993-94	289.42	200.75	144.16
1994-95	428.11	-23.57	-1816.29
1995-96	322.44	-36.76	-877.04
1996-97	173.12	185.31	93.42
1997-98	145.50	564.22	25.79
1998-99	226.42	1180.03	19.19
1999-00	283.61	1169.39	24.25
2000-01	233.45	1420.99	16.43
2001-02	151.13	1374.68	10.99
2002-03	148.72	2231.94	6.66
2003-04	287.70	1494.69	19.25
2004-05	1642.21	1215	135.16
2005-06	1262.42	1364.73	92.50
2006-07	339.52	1795.34	18.91
2007-08	138.51	2520.10	5.49

Source: Audited annual reports of Milvay   (in ₹.000's)
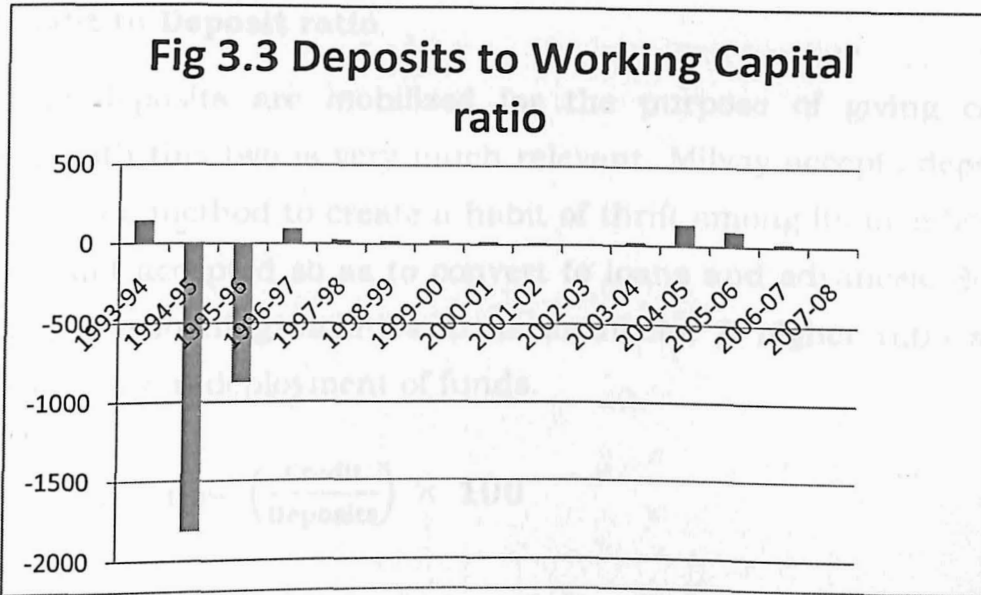
Fig 3.3 Deposits to Working Capital ratio

Table 3.3 and Figure 3.3 show deposits to working Capital ratio from 1993-1994 to 2007-2008. From the table 3.3 it could be understood that ratio is fluctuating. The highest ratio is 144.16% in 1993-94 and the lowest is 5.49% in 2007-08. It is clear from the table that the deposits constitute only a negligible portion of the working capital. Milvay is not concentrating in mobilising deposits, because its main business is the procurement and sales of the milk and milk products. The ratio indicates the increased presence of owned fund in working capital.

3.1.2 Efficiency in Deployment

Fund deployment is an important function as far as co-operatives are concerned. Efficiency in deployment is as equally important as efficiency in mobilization. The long term existence of any co-operative depends upon the effective deployment of funds mobilized. The following ratios are considered for analyzing the efficiency in deployment:

- Credit to Deposit ratio
- Credit to working capital ratio
- Credit to Borrowed fund ratio

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3.1.2.1 Credit to Deposit ratio

Since deposits are mobilized for the purpose of giving credit, the relationship with this two is very much relevant. Milvay accepts deposits from its members as a method to create a habit of thrift among its members. So the deposits are not accepted so as to convert to loans and advances. Society has now stopped the loaning facilities to its members. A higher ratio shows the societies efficiency in deployment of funds.

$$\text{Credit to deposit ratio} = \left(\frac{\text{Credit}}{\text{Deposits}}\right) \times 100$$

Credits are the loans and advances given by the Milvay

Table 3.4 Credit to Deposit Ratio from 1993-94 to 2007-08

Year	Credit	Deposits	Ratio
1993-94	80.84	289.42	27.93
1994-95	47.96	428.14	11.20
1995-96	35.16	322.42	10.91
1996-97	26.56	173.10	15.34
1997-98	20.24	145.51	13.91
1998-99	16.49	226.42	7.28
1999-00	14.79	283.62	5.22
2000-01	14.39	233.44	6.17
2001-02	14.39	151.11	9.53
2002-03	14.39	148.72	9.68
2003-04	12.74	287.72	4.43
2004-05	11.84	1642.22	0.72
2005-06	11.84	1262.44	0.94
2006-07	11.84	339.51	3.49
2007-08	11.24	138.54	8.12

Source: Audited annual reports of Milvay   (in ₹.000's)
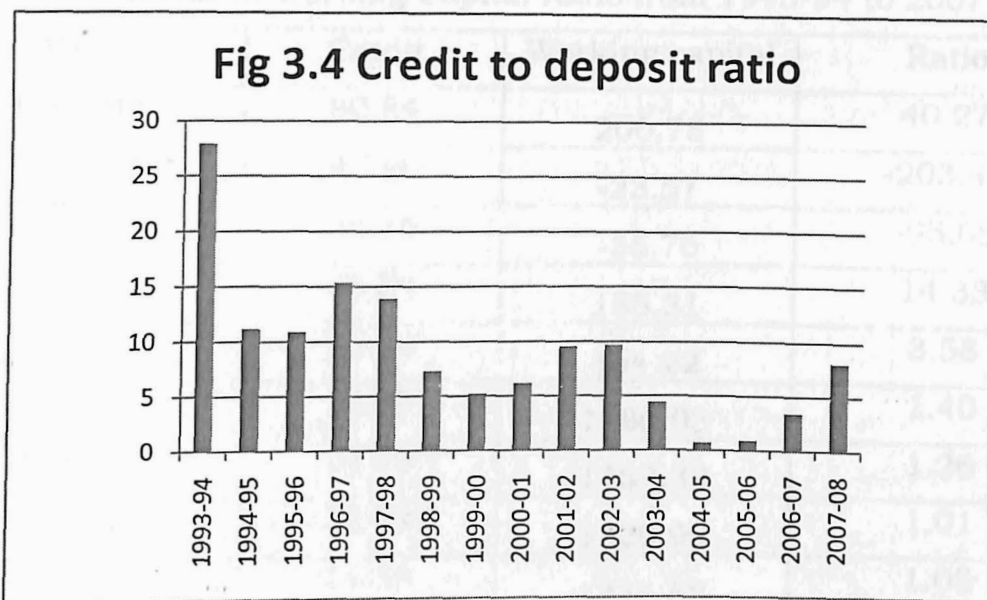
Fig 3.4 Credit to deposit ratio

Table 3.4 and Figure 3.4 show the Credit to Deposits ratio of Milvay from 1993-1994 to 2007-2008. It is clear from the table 3.4 that the ratio is fluctuating. Milvay is not concentrating on deposit mobilisation and it has currently stopped providing loan facilities. So the ratio is low by the end of the study period. The highest ratio is 27.93% in 1993-94 and the lowest is 0.72% in 2004-05.

3.1.2.2 Credit to Working Capital Ratio

The credit to working capital is comprehensive indicator to study the efficiency in fund management of the society. The ratio shows the relationship between the deployment in loans and advances and the available funds. Higher the ratio, higher will be the efficiency in managing the funds.

Credit to working capital ratio=

$$\left(\frac{\text{Credit}}{\text{Working capital}}\right) \times 100$$

Credits are the loans and advances given by the Milvay

Working capital =Current Assets-Current Liability
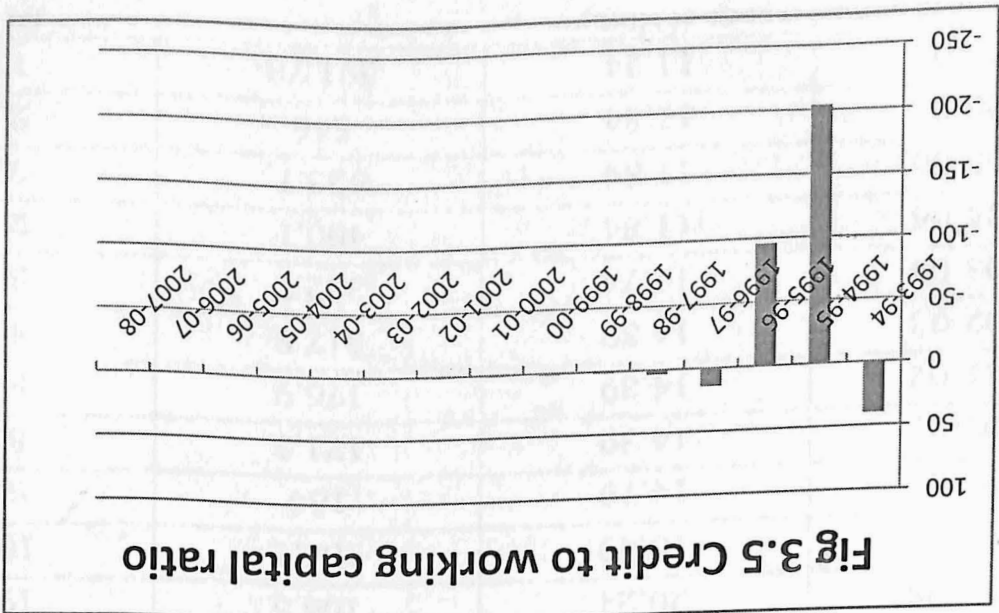
Fig 3.5 Credit to working capital ratio

Source: Audited annual reports of Milvay   (in ₹.000's)

Table 3.5 Credit to Working Capital Ratio from 1993-94 to 2007-08

Year	Credit	Working capital	Ratio
1993-94	80.84	200.75	40.27
1994-95	47.96	-23.57	-203.48
1995-96	35.16	-36.76	-95.65
1996-97	26.56	185.31	14.33
1997-98	20.24	564.22	3.58
1998-99	16.49	1180.03	1.40
1999-00	14.79	1169.39	1.26
2000-01	14.39	1420.99	1.01
2001-02	14.39	1374.68	1.05
2002-03	14.39	2231.94	0.64
2003-04	12.74	1494.69	0.85
2004-05	11.84	1215.00	0.97
2005-06	11.84	1364.73	0.88
2006-07	11.84	1795.34	0.66
2007-08	11.24	2520.10	0.45

Table 3.5 and Figure 3.5 show the Credit to working capital ratio from 1993-1994 to 2007-2008. From the table 3.5 it is clear that the ratio is fluctuating. The highest ratio is 40.27% in 1993-94. From 1994-95 to 1995-96 the ratio is negative. In these years the working capital of the society was negative. As the main income of Milvay is not through interest income the ratio is low.

3.1.2.3 Credit to owned fund ratio

Credit to owned fund ratio measures the capacity of the society to convert owned fund to credit. A higher ratio is a positive indication to the efficiency in deployment of funds.

$$\text{Credit to owned fund ratio} = \left(\frac{\text{Credit}}{\text{Owned fund}}\right) \times 100$$

Credits are the loans and advances given by Milvay

Table 3.6 Credit to Owned fund Ratio from 1993-94 to 2007-08

Year	Credit	Owned Fund	Ratio
1993-94	80.84	103.4	78.18
1994-95	47.96	101.8	47.11
1995-96	35.16	101.9	34.50
1996-97	26.56	100.9	26.32
1997-98	20.24	106.5	19.00
1998-99	16.49	155.1	10.63
1999-00	14.79	164	9.02
2000-01	14.39	171.3	8.40
2001-02	14.39	176.9	8.13
2002-03	14.39	317.8	4.53
2003-04	12.74	332.7	3.83
2004-05	11.84	400.1	2.96
2005-06	11.84	423.7	2.79
2006-07	11.84	546	2.17
2007-08	11.24	591.78	1.89

Source: Audited annual reports of Milvay   (in ₹.000's)
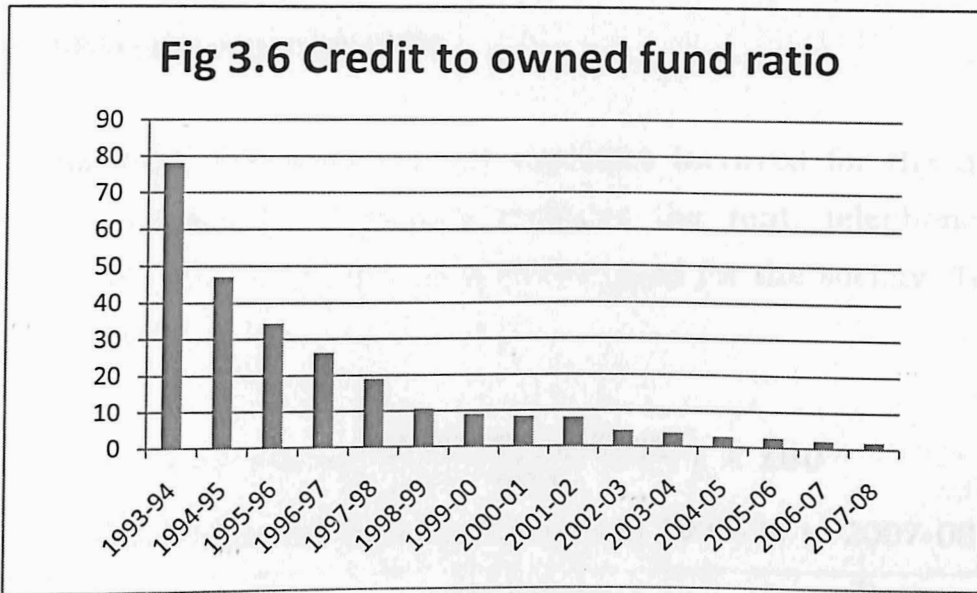
Fig 3.6 Credit to owned fund ratio

Table 3.6 and Figure 3.6 exhibits the Credit to owned fund ratio of the Milvay from 1993-1994 to 2007-2008. From the table 3.6 it is clear that the ratio is decreasing. The highest ratio is 78.18% in 1993-94 and the lowest is 1.89% in 2007-08. The main income of Milvay is not through interest income and Milvay is not giving much importance to credit and deposits. Milvay has stopped giving loans to its members and due to these reasons the ratio decreased.

3.2 Expense Ratios

Expense ratios indicate the relationship of various expenses to net sales. The lower the ratio the greater is the profitability and higher the ratio, lower is the profitability

The various expense ratios used in the study are

- Establishment expense ratio
- Man power expense ratio
- Provisions expense ratio
- Interest expense ratio
- Cost of goods sold ratio

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3.2.1 Establishment expense ratio

Establishment expenses are the expenses incurred for the day to day operations of the society. It mainly includes the rent, telephone charges, electricity charges etc. Lower the ratio will be good for the society. The ratio is calculated as follows

$$\text{Establishment Expense Ratio} = \left(\frac{\text{Establishment Expenses}}{\text{Sales}}\right) \times 100$$

Table 3.7 Establishment Expense Ratio from 1993-94 to 2007-08

Year	Sales	Establishment Expenses	Ratio
1993-94	5767.14	206.32	3.58
1994-95	8531.13	196.64	2.30
1995-96	12432.43	304.13	2.44
1996-97	14311.33	220.74	1.54
1997-98	14934.50	187.62	1.25
1998-99	15633.41	340.13	2.18
1999-00	20127.94	500.44	2.48
2000-01	21217.82	378.22	1.78
2001-02	20596.51	410.11	1.99
2002-03	22534.31	394.61	1.75
2003-04	23188.53	464.12	2.00
2004-05	28183.00	490.32	1.74
2005-06	31793.82	447.53	1.41
2006-07	32712.31	626.92	1.91
2007-08	39961.30	668.83	1.67

Source: Audited annual reports of Millway (in ₹.000's)
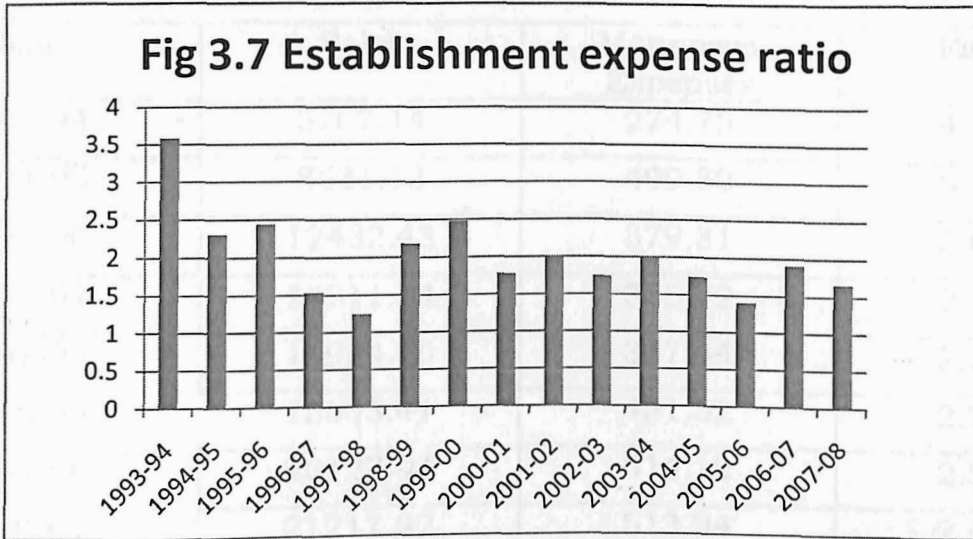
Fig 3.7 Establishment expense ratio

Table 3.7 and Figure 3.7 show the Establishment Expense ratio from 1993-94 to 2007-08. From table 3.7 it could be understood that the ratio is fluctuating. The highest ratio is 3.58% in 1993-94 and the lowest ratio is 1.25% in 1997-98. The establishment expenses are controllable expenses. If it is not controlled, it will affect the operational efficiency of the society.

3.2.2 Manpower expense ratio

Manpower expenses are the expenses incurred for the use of human workforce in the society. It mainly includes the salary, wages etc. The manpower expenses are unavoidable for any type of firms. The Manpower Expense's ratio is calculated as follows:

Manpower Expenses Ratio

$$= \left(\frac{\text{Manpower Expenses}}{\text{Sales}} \right) \times 100$$

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Table 3.8 Manpower Expense Ratio from 1993-94 to 2007-08

Year	Sales	Manpower Expenses	Ratio
1993-94	5767.14	274.73	4.76
1994-95	8531.13	499.52	5.86
1995-96	12432.43	379.31	3.05
1996-97	14311.34	355.72	2.49
1997-98	14934.50	337.44	2.26
1998-99	15633.41	431.52	2.76
1999-00	20127.94	514.12	2.55
2000-01	21217.82	513.94	2.42
2001-02	20596.51	527.43	2.56
2002-03	22534.31	597.21	2.65
2003-04	23188.53	625.22	2.70
2004-05	28183.00	692.72	2.46
2005-06	31793.82	726.12	2.48
2006-07	32712.31	874.21	2.67
2007-08	39961.30	1149.31	2.88

Source: Audited annual reports of Milvay   (in ₹.000's)

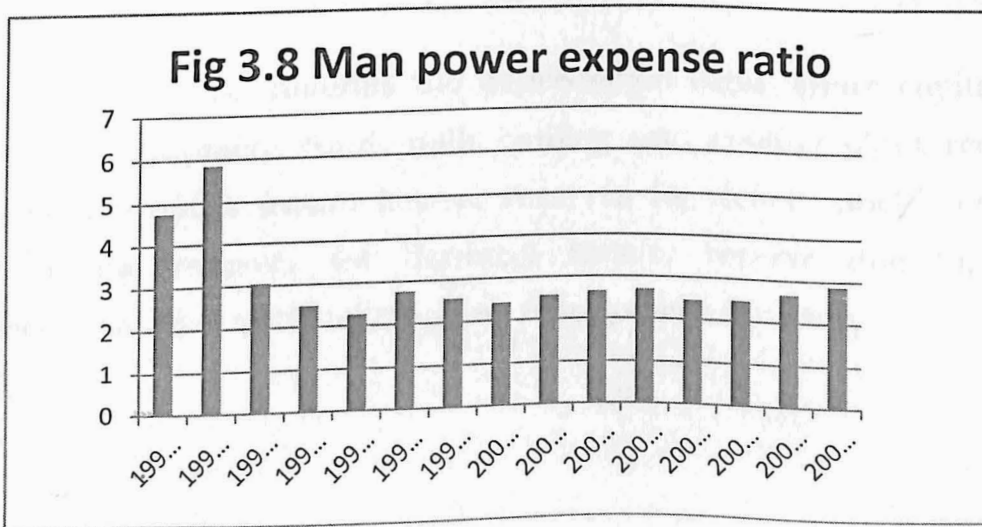

Fig 3.8 Man power expense ratio

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Table 3.8 and Figure 3.8 show the Manpower expense ratio from 1993-94 to 2007-08. From table 3.8 it is understood that the Manpower Expense ratio is fluctuating. The ratio by the end of the period is low, compared to beginning of the study period. The highest ratio is 5.86% in 1994-95 and the lowest is 2.26% in 1997-98%. The Manpower expense is an unavoidable expense. When the expenses increase, the profit of the society will be affected. So a low ratio is better for the society.

3.2.3 Provisions expense ratio

Provisions expenses are the expenses incurred for allocating funds that to be uses at the time of contingencies. They are allocated to different heads and used only for that. The provisions are to be allocated even if there is no profit. The Provisions expense ratios are calculated as follows:

Provisions Expense Ratio
$$=\left(\frac{\text{Provisions Expense}}{\text{Sales}}\right) \times 100$$

The provisions expense includes the depreciation fund, share capital reserve fund, vehicle recoupment fund, milk chilling and cooling plant recoupment fund, reserves towards future losses, reserves for deficit stock, reserves for damaged stocks, reserves for doubtful assets, reserve due to, building recoupment fund, milk packing machine recoupment fund etc.

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Table 3.9 Provisions expense ratio from 1993-94 to 2007-08

Year	Sales	Provisions	Ratio
1993-94	5767.14	1065.62	18.48
1994-95	8531.13	1186.43	13.91
1995-96	12432.43	1380.92	11.12
1996-97	14311.33	1594.84	11.14
1997-98	14934.50	1876.14	12.56
1998-99	15633.41	2219.44	14.20
1999-00	20127.94	2524.63	12.54
2000-01	21217.82	3037.82	14.32
2001-02	20596.51	3742.51	18.17
2002-03	22534.31	4504.41	19.99
2003-04	23188.53	4472.42	19.29
2004-05	28183.00	4746.90	16.84
2005-06	31793.82	5283.62	16.62
2006-07	32712.31	5732.92	17.53
2007-08	39961.30	6749.91	16.89

Source : Audited annual reports of Milvay   (in₹.000's)

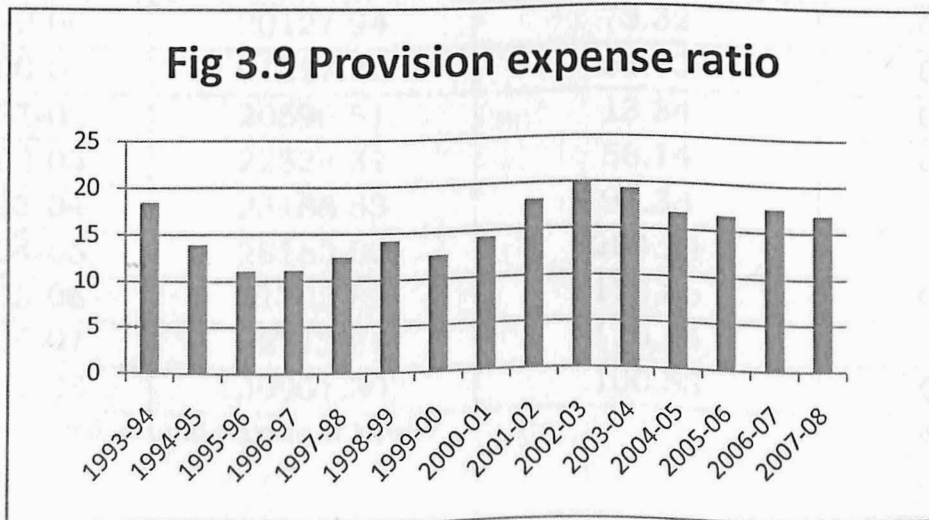## Fig 3.9 Provision expense ratio

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Table 3.9 and Figure 3.9 show the Provisions Expense Ratio from 1993-94 to 2007-08. From table 3.9 it is clear that the ratio is fluctuating. The highest ratio is 19.99% in 2002-03 and the lowest is 11.12% in 1995-96. If the provision expenses are high it would affect the profit of the society. The provisions are to be allocated even if the society is in loss. So, lower ratio is better for the society.

3.2.4 Interest expense ratio

The interest expenses are the interest that the society has to pay for its borrowings and to its members on their deposits. A low ratio is good for the working of the society. The Interest Expense ratio can be calculated as follows:

Interest Expense Ratio=$\left(\dfrac{\text{Interest Expense}}{\text{Sales}}\right) \times \mathbf{100}$

Table 3.10 Interest Expense Ratio from 1993-94 to 2007-08

Year	Sales	Interest Expense	Ratio
1993-94	5767.14	49.32	0.85
1994-95	8531.13	103.32	1.21
1995-96	12432.43	135.13	1.08
1996-97	14311.33	89.84	0.63
1997-98	14934.50	62.64	0.42
1998-99	15633.41	109.73	0.70
1999-00	20127.94	73.32	0.36
2000-01	21217.82	58.73	0.28
2001-02	20596.51	13.34	0.06
2002-03	22534.31	58.14	0.26
2003-04	23188.53	91.33	0.39
2004-05	28183.00	204.24	0.72
2005-06	31793.82	176.85	0.56
2006-07	32712.31	120.64	0.37
2007-08	39961.30	100.53	0.25

Source: Audited annual reports of Milvay   (in₹.000's)
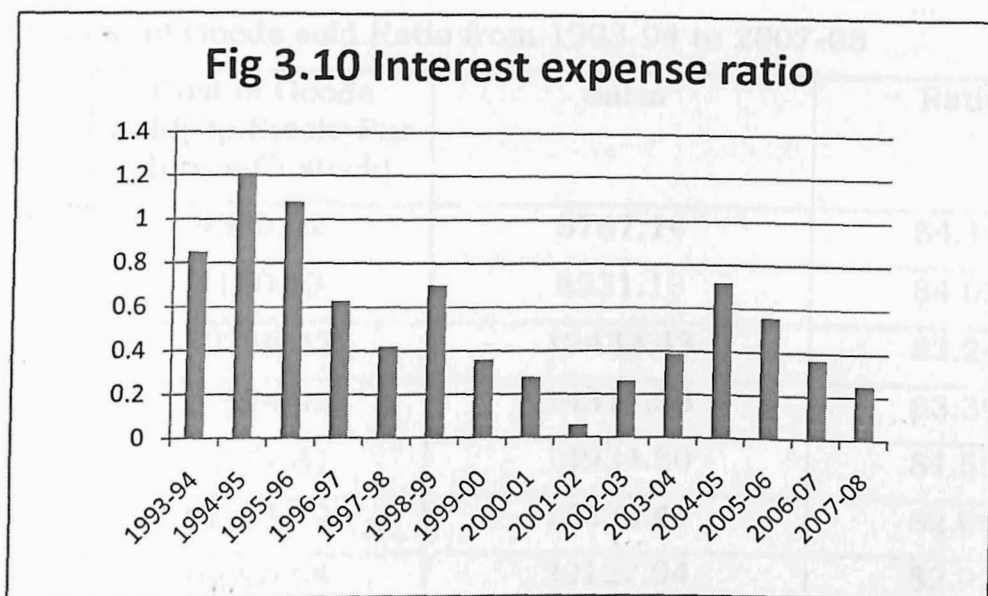
Fig 3.10 Interest expense ratio

Table 3.10 and Figure 3.10 show the interest expense ratio of Milvay from 1993-94 to 2007-08. From table 3.10, it is understood that the ratio is fluctuating. The interest expense is not good for a dairy society like Milvay. The interest in 2004-05 was higher because the society has borrowed for the construction of new building and dairy plant. The highest interest expense ratio was 1.21% in 1994-95 and the lowest ratio is 0.06% in 2001-02.

3.2.5 Cost of goods sold ratio

The cost of goods sold is the actual cost price of the goods sold. It includes all expenses incurred for the production of the goods. The cost of goods sold should be minimum, so as to increase the profit. The cost of goods sold can be calculated as follows:

$$\text{Cost of Goods sold Ratio} = \left(\frac{\text{Cost of Goods sold}}{\text{Sales}}\right) \times 100$$

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Table 3.11 Cost of Goods sold Ratio from 1993-94 to 2007-08

Year	Cost of Goods Sold(Op.Stock+Purchases-Cl.stock)	Sales	Ratio
1993-94	4855.52	5767.14	84.19
1994-95	7170.63	8531.13	84.05
1995-96	10348.42	12432.43	83.24
1996-97	11934.92	14311.33	83.39
1997-98	12171.81	14934.50	81.50
1998-99	12825.72	15633.41	82.04
1999-00	16690.84	20127.94	82.92
2000-01	17298.15	21217.82	81.53
2001-02	16728.34	20596.51	81.22
2002-03	18147.94	22534.31	80.53
2003-04	17957.00	23188.53	77.44
2004-05	23495.82	28183.00	83.37
2005-06	26552.83	31793.82	83.52
2006-07	26880.64	32712.31	82.17
2007-08	32882.51	39961.30	82.29

Source:Audited annual reports of Milvay   (in ₹.000's)

Fig 3.11 Cost of goods sold ratio

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Table 3.11 and Figure 3.11 show the Cost of Goods sold Ratio of Milvay from 1993-94 to 2007-08. From table 3.11 it is clear that ratio is fluctuating. The Cost of goods sold is high and it is not good for the society. A high cost of goods sold will decrease the profit of the firm. The highest is 84.19% in 1993-94 and lowest is 77.44% in 2003-04. Milvay has to decrease its cost of goods sold so as to increase its profit.

3.3 Profitability Ratios

Profitability is the indication of the efficiency with which the operations of the business are carried on. Poor operational performance may indicate poor sales and hence poor profits. A lack of profitability may occur due to less control on expenses. Owners are interested to know the profitability as it indicates the return which they can get from their investments. In societies, the members like to know about the profitability of the cooperatives.

3.3.1 Gross profit ratio

Gross profit ratio is an important general profitability ratio. It measures the relationship of gross profit to net sales and is usually expressed as a percentage. Thus it is calculated by dividing gross profit by sales.

$$\text{Gross Profit Ratio} = \left(\frac{\text{Gross profit}}{\text{Sales}}\right) \times 100$$

The two basic components of the gross profit ratio are sales and cost of goods sold since gross profit is simply the excess of net sales over cost of goods sold. The gross profit ratio indicates the extent to which selling price of goods per unit may decline without resulting in losses on operation of a firm. It reflects the efficiency with which a firm produces its products. As the gross

profit is found by deducting cost of goods sold from the net sales, higher the gross profit ratio (G/P ratio) better the result. There is no standard norm for gross profit ratio and it may vary from business to business but the gross profit should be adequate to cover the operating (administrative and office expenses, selling and distribution expenses) and to provide for fixed charge, dividends and accumulation of reserves. A low gross profit ratio, generally indicates high cost of goods sold due to unfavorable purchasing policies, lesser sales, lower selling prices, over-investment in plant and machinery etc.

Table 3.12 Gross Profit Ratio of Milvay from 1993-94 to 2007-08

Year	Gross Profit	Net Sales	Ratio
1993-94	503.52	5767.14	8.73
1994-95	726.43	8531.13	8.51
1995-96	930.53	12432.43	7.48
1996-97	1091.52	14311.33	7.63
1997-98	1301.21	14934.50	8.71
1998-99	1209.71	15633.41	7.74
1999-00	1387.63	20127.94	6.89
2000-01	1419.54	21217.82	6.69
2001-02	1610.73	20596.51	7.82
2002-03	1814.22	22534.31	8.05
2003-04	1106.92	23188.53	4.77
2004-05	1625.83	28183.00	5.77
2005-06	1929.54	31793.82	6.07
2006-07	2173.61	32712.31	6.64
2007-08	2824.81	39961.30	7.07

Source: Audited annual reports of Milvay   (in₹.000's)
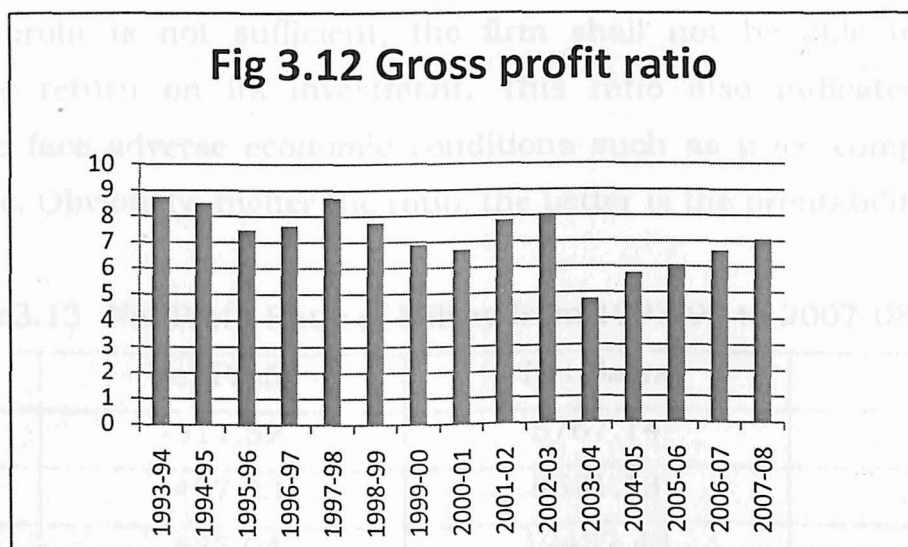
Fig 3.12 Gross profit ratio

Table 3.12 and Figure 3.12 show Gross profit ratio of Milvay from 1993-94 to 2007-08. From table 3.12 it is clear that the ratio is fluctuating. The highest ratio is in 1993-94, i.e. 8.73% and minimum is 4.77% in 2003-04. By the end of the study period it shows an increasing trend. From this it could be understood that the cost of goods sold is increasing. So Milvay has to decrease its cost of goods sold to increase its gross profit. To maintain its efficiency Milvay has to increase its gross profit.

3.3.2 Net profit ratio

Net profit ratio establishes a relationship between Net Profit and Sales, and indicates the efficiency of the management in manufacturing, selling, administrative and other activities of the firm. This ratio is the overall measure of the firms profitability and is calculated as:

$$\text{Net Profit Ratio} = \left(\frac{\text{Net profit}}{\text{Sales}}\right) \times 100$$

The two basic elements of the ratio are Net profit and Net Sales. They are obtained from the Audited annual reports of the society. The ratio is very useful

as if the profit is not sufficient, the firm shall not be able to achieve a satisfactory return on its investment. This ratio also indicates the firms capacity to face adverse economic conditions such as price competition, low demand etc. Obviously, higher the ratio, the better is the profitability.

Table3.13 Net Profit Ratio of Milvay from 1993-94 to 2007-08

Year	Net Profit	Net Sales	Ratio
1993-94	-311.52	5767.14	-5.4
1994-95	-497.33	8531.13	-5.83
1995-96	-537.94	12432.43	-4.33
1996-97	-323.21	14311.33	-2.29
1997-98	121.41	14934.50	0.81
1998-99	52.32	15633.41	0.34
1999-00	48.91	20127.94	0.24
2000-01	30.23	21217.82	0.14
2001-02	38.72	20596.51	0.19
2002-03	95.21	22534.31	0.42
2003-04	0	23188.51	0
2004-05	48.45	28183.00	0.17
2005-06	146.90	31793.82	0.46
2006-07	248.52	32712.31	0.76
2007-08	111.92	39961.30	0.28

Source: Audited annual Reports of Milvay   (in₹.000's)
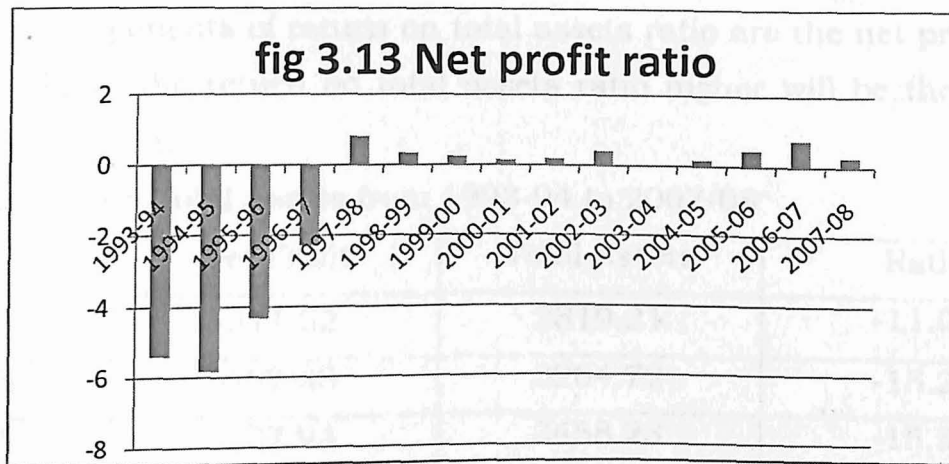
fig 3.13 Net profit ratio

Table 3.13 and Figure 3.13 show the Net Profit ratio of Milvay from 1993-94 to 2007-08.From the table 3.13 it is understood that the net profit for the first four years of study reflects a negative growth i.e. from 1993-94 to 1996-97, the society was in loss. From 1997-98 the society came to profit. But it shows a fluctuating trend. In 2003-04 there was no profit or loss. The highest ratio is 0.81% in 1997-98. In the last year of the study period, ratio decreased to 0.28%. Although Milvay is in profit, the profit is not high. The main reason for its low profit is its increasing cost of goods sold. Milvay has to decrease its cost of goods sold so as to increase its Net profit, thus overcome adverse financial situations

3.3.3 Return on total assets ratio

The Return on Total Assets is computed to know the productivity of the total assets.

Return on total assets ratio $= \left(\dfrac{Net\ profit}{Total\ Assets}\right) \times 100$

The two components of return on total assets ratio are the net profit and total assets. Higher the return on total assets ratio higher will be the overall profitability of the firm.

Table 3.14 Return on Total Assets from 1993-94 to 2007-08

Year	Net Profit	Total Assets	Ratio
1993-94	-311.52	2819.21	-11.05
1994-95	-497.33	3264.72	-15.23
1995-96	-537.94	3458.23	-15.55
1996-97	-323.21	3507.83	-9.21
1997-98	121.41	3931.02	3.08
1998-99	52.32	4656.12	1.12
1999-00	48.91	5103.82	0.96
2000-01	30.23	5628.71	0.54
2001-02	38.72	6242.13	0.62
2002-03	95.21	7503.63	1.27
2003-04	0	9065.64	0
2004-05	48.45	10597.81	0.46
2005-06	146.90	11455.51	1.28
2006-07	248.52	10970.71	2.27
2007-08	111.92	11677.43	0.96

Source: Audited annual reports of Milvay   (in₹.000's)

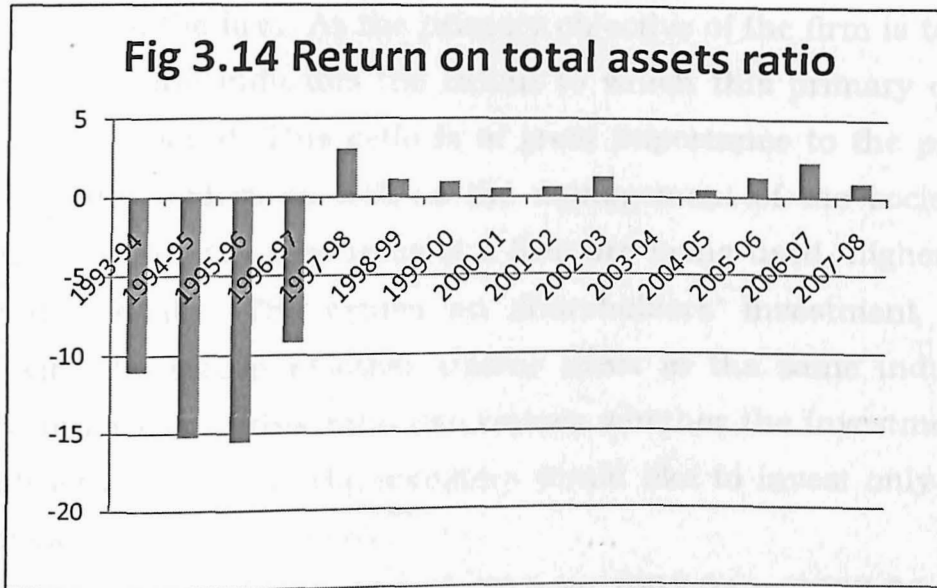**Fig 3.14 Return on total assets ratio**

Table 3.14 and Figure 3.14 show the Return on Total assets ratio from 1993-94 to 2007-08. From table 3.14 it is clear that the return on total assets is very low. The main reason for the less returns is low net profit. In the beginning of the study period, the net profit is negative. In 1997-98 it reached 3.08%. From 1997-98 it shows a decreasing trend up to 2002-03. From 2002-03 it showed a fluctuating trend. In 2007-08 the ratio decreased to 0.96% from 2.27% of 2006-07. In order to increase the return on total assets, the society has to increase its net profit. Milvay has to increase its return on total assets so as to increase its overall profitability.

3.3.4 Return on shareholder's fund

The return on shareholders' fund popularly known as R.O.I. or return on shareholder's investment is the relationship between net profit and the shareholder's fund.

$$\text{Return on Shareholders fund Ratio} = \left(\frac{\text{Net profit}}{\text{Shareholders Fund}}\right) \times 100$$

The two basic components of this ratio are net profit and share holder's funds. This ratio is one of the most important ratios used for measuring the

overall efficiency of the firm. As the primary objective of the firm is to maximize its earnings, the ratio indicates the extent to which this primary objective of business being achieved. This ratio is of great importance to the present and prospective share holders as well as the management of the society. As the ratio reveals how well the resources of a firm are being used, higher the ratio, better are the results. The return on shareholders' investment should be compared with the return of other similar firms in the same industry. This inter firm comparison of this ratio determines whether the investments in the firm are attractive or not as the investors would like to invest only where the return is higher.

Table 3.15   Return on Shareholders fund from 1993-94 to 2007-08

Year	Net Profit	Shareholders Fund	Ratio
1993-94	-311.52	94.23	-330.57
1994-95	-497.33	91.78	-541.83
1995-96	-537.94	92.68	-580.38
1996-97	-323.21	91.58	-352.92
1997-98	121.41	164.78	73.67
1998-99	52.32	205.25	25.48
1999-00	48.91	258.9	18.88
2000-01	30.23	306.27	9.86
2001-02	38.72	336.06	11.52
2002-03	95.21	228.5	41.66
2003-04	0	319.4	0
2004-05	48.45	207.89	23.28
2005-06	146.90	270.36	54.33
2006-07	248.52	361.2	68.79
2007-08	111.92	607.09	18.43

Source: Audited annual reports of Milvay   (in₹.000's)

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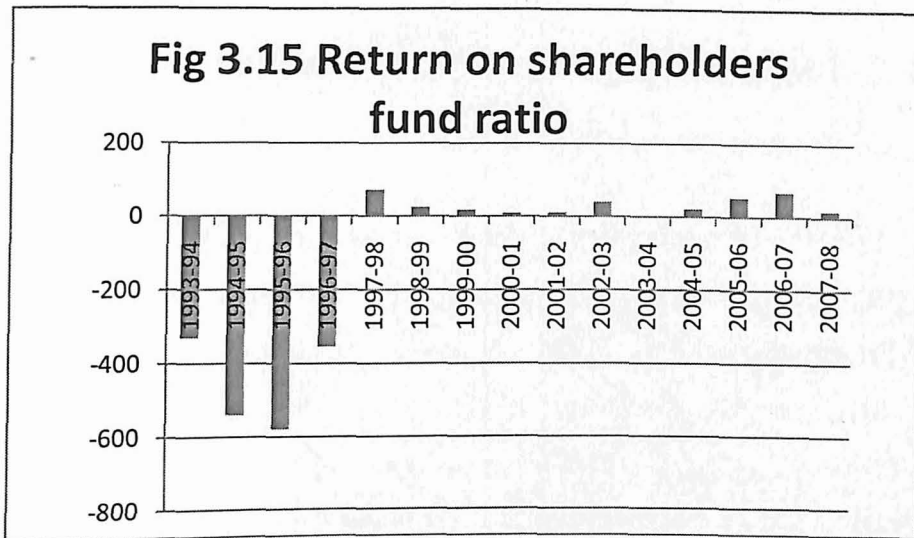**Fig 3.15 Return on shareholders fund ratio**

Table 3.15 and Figure 3.15 show the Return on Shareholders fund from 1993-94 to 2007-08. From table 3.15 it is clear that the ratio is fluctuating. In the first four years of study period the society was in loss. So the ratio is negative. From 1997-98 the society gained profit and the ratio came to 73.67%. But the net profit shows a fluctuating trend and so do the net profit ratio. In 2003-04, there was no profit and there was no return on shareholder's fund. A higher ratio is better for the society. The ratio measures the efficiency of the firm and the society has to keep it high.

Conclusion

From the analysis of the financial aspects of the society we can understand that the society is not having a good financial performance. The expenses of the society are increasing every year .The net profit ratio of the society for the last four years of study is very low. The profitability of the society is decreasing year after year. The return on shareholder's fund is another area which is decreasing year after year with high velocity. The society is not able to mobilize much money through deposits. Though, the society had increased its sales, it is not able to increase its net profit.

SUMMARY OF FINDINGS AND CONCLUSION

CHAPTER 4
SUMMARY OF FINDINGS AND CONCLUSION

Summary

The dairy cooperatives are playing a very important role in the dairy development of our country. The cooperative societies are meant for the development of the members both socially and economically. They are supposed to work for the interest of their members. So that the performance of the organization should be in a way to have a good financial position to meet the member's needs, along with the satisfaction of the members

Financial Performance Analysis of Valakkavu Ksheera Vyavasaya Sahakarana Sangham Ltd No.R 5(D) was conducted for the fifteen years from 1993-94 to 2007-08.The analysis was based on the secondary data collected from the annual reports of the society.

Findings

- Within 15 years the membership of the society decreased from 977 to 329. This is because, from 2005-06 the membership was restricted only to pouring members.
- The share capital of the society increased from ₹.63476 to ₹.101226
- The milk collection and sales of Milvay shows an increasing trend
- The cattle feed and milk products sale shows an increasing trend
- The audit classification of the society is B.
- Borrowed fund to working capital ratio shows a fluctuating trend. The society has a low borrowed fund to working capital ratio, which is better for the society.
- The present owned fund to borrowed fund ratio is good for the society. The ratio is 391.65% in 2007-08. The ratio shows a fluctuating trend during the study period.

- Deposits to working capital ratio shows a fluctuating trend. The present ratio is not good for Milvay.

- Credit to deposit ratio is very low. The society has now stopped providing loans to its members. Credit to deposit ratio shows a fluctuating trend.

- Credit to working capital shows a fluctuating trend. But the ratio is very low and it is not good for the society.

- Credit to owned fund ratio shows a decreasing trend. Milvay has stopped providing loan facilities.

- Establishment expense ratio shows a fluctuating trend. Milvay is having low establishment expenses.

- The Manpower expenses are low in Milvay. The manpower expense ratio shows a fluctuating trend. The ratio is low by the end of the study period compared to the beginning.

- The provisions expense ratio shows a fluctuating trend. The provisions expenses are high for Milvay.

- The interest expenses are low for Milvay. The Interest expense ratio shows a fluctuating trend.

- The cost of goods sold is very high for Milvay. The ratio shows a fluctuating trend but not varying too much.

- The gross profit ratio of Milvay shows an increasing trend during the study.

- The net profit ratio of Milvay has a fluctuating trend. In the beginning of the study period it was negative. From 1997-1998 the society came to profit.

- The return on total assets ratio shows a fluctuating trend.

- The return on shareholders' fund is fluctuating as the net profit is fluctuating every year.

Suggestions

From the analysis it could be understood that the society is not working efficiently. The society is mainly concentrating in the procurement and sale of

milk, milk products and cattle feeds. The society has stopped the loan facilities to its members. So the society has no interest income. But society is accepting deposits from members. If the society is not providing loans it has to give interest for deposits from the profit obtained from the sale of milk and milk products. If the society provides credit, it can pay interest on deposits from interest income. Milvay should encourage its members to increase the habit of thrift. Thus it can make more deposits. Milvay is now dealing only with milk, milk products and cattle feeds. Earlier it had other products like ice creams, sip up, buttermilk etc. If Milvay can again engage in the sale of these products it can increase its profit.

Conclusion

To conclude, we can see from the analysis that Valakkavu Ksheera Vyavasaya Sahakarana Sangham Ltd.No R5(D) is in profit. But when comparing its current performance with the past performance it can be understood that the financial performance of the society is not good. The society is enjoying profit, but in a declining trend. The number of members decreased during the study period. But it is due to the restrictions on the membership i.e. membership is given only to pouring members. The share capital increased during the study period which is a good sign. The society has good practice in collection and sale of milk, milk products and cattle feeds. The society has to control its expense, so it can improve its profitability. The society has to take care to increase the mobilization of deposits. This will help the society to increase its funds as well as increase the thrift habit of its members. Currently society is dealing in milk products like curd and ghee. If the society can diversify its products, i.e. to buttermilk, ice creams, sip-up, butter, etc, it can increase its profitability.

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ABSTRACT

FINANCIAL PERFORMANCE ANALYSIS OF VALAKKAVU KSHEERA VYAVASAYA SAHAKARANA SANGHAM LTD No.R 5(D) MILVAY

By,
VINISH WILSON
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ABSTRACT OF PROJECT REPORT

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COLLEGE OF CO-OPERATION, BANKING AND MANAGEMENT

Kerala Agricultural University

Vellanikkara, Thrissur- 680656

Kerala, India

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ABSTRACT

The study entitled "Financial Performance Analysis of Valakkavu Ksheera Vyavasaya Sahakarana Sangham Ltd.No R5(D)-Milvay" was undertaken to examine the financial strength and weakness of Milvay. For the purpose of the study secondary data were collected from annual reports of Milvay. The data was collected for a period of 15 years i.e. from 1993-94 to 2007-08. Financial Performance Analysis was done using financial ratios, Expense ratios, Profitability ratios etc. From the study we are able to understand that Milvay is enjoying profit. Milvay's Share capital has increased from year to year. The main activity of the dairy is procurement and sale of milk and milk products and sale of cattle feeds. Milvay had been able to increase its procurement of milk as well as its sales. The members are served with loans and advances and Milvay accepts savings and fixed deposits. As the main activity is trading on milk, milk products and cattle feed, Milvay is not giving much importance to banking activities like accepting deposits and lending loans. But the profit of Milvay is decreasing every year. Milvay was in loss several years before and now enjoys profit. So as to remain in profit and serve members, Milvay has to be more careful in its operation. If the society can diversify its milk products mix, i.e. to buttermilk, ice creams, sip-up, butter etc it can increase its profitability.