

Financial Performance of Farmer Producer Organisations in Krishna District of Andhra Pradesh

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ABSTRACT

Farmer Producer Organisations (FPOs) are a legal form of the company and according to 2002 act passed in parliament; only farmer-producers can become members of FPOs. Farmers Organisations are inclusive of the poor and are charged with the purpose of becoming a market outlet for small holder farmers in Krishna. To analyse the financial performance of FPOs, ratio analysis has been done using the balance sheets and income statements provided by the four selected FPOs. The study concluded that the Sri Vigneswara FPO was more financially stable compared to other FPOs.

Key words: *FPO, Financial Performance, Current ratio, Profitability ratios.*

Small and marginal farmers constitute the largest group of cultivators in Indian agriculture, 85 percent of operated holdings are smaller than two hectares and amongst these holdings, 66 percent are less than one hectare. Indebtedness is often cited as the immediate reason for distress. Deeper issues are related to vulnerability to risks in agriculture production. These issues include lower scale of operation, lack of information, poor communication linkages with the wider markets and consequent exploitation by intermediaries in procuring inputs and marketing fresh produce, access to and cost of credit and, in isolated cases, aggressive loan recovery practices. monthly per capita consumption expenditure is higher for small and marginal farmer holdings.

Many approaches have been emerged in response to the problems faced by the small and marginal farmers. Agricultural cooperatives, formed under the Co-operative Credit Societies Act, 1904, has long been the dominant form of farmer collectives; however, the experience with cooperatives point to many limitations that prevent effective collective action. Hence the Indian government has been promoting a new form of collectives called Farmer Producer Organizations (FPOs) to address the challenges faced by the small and marginal farmers, particularly those to do with enhanced access to investments, technological advancements, and efficient inputs and markets

As on 30th April 2018, there are 847 FPOs in India, out of which 740 were registered and promoted by small farmers Agribusiness consortium (SFAC) and 107 FPOs under the process of registration (sfacina.com). There has been primarily two major institutional mechanisms by which FPO formation is facilitated. The first one is through SFAC and the second is facilitated by NABARD.

In the year 1995, the then chief minister of Andhra Pradesh, Sri N.T. Rama Rao (NTR) got the mutually aided co-operative societies Act passed following the recommendations of Brahma Prakash Committee to allow a liberal co-operative law but could not succeed. As per secondary sources of information, there are 99 FPOs that are being registered formally and which are functioning in the state. They are formed based on two sources of funds, SFAC and NABARD. Currently, six FPOs are registered with the help of SFAC, while NABARD funded nearly 93 FPOs. Out of these 99 FPOs in the state, Krishna district is having maximum number of FPOs.

It is very important to build prosperous financially stable and sustainable member-owned producer organisations so that farmers can enhance their productivity to cost-effective and sustainable resources and realise higher returns for their produce. Hence the present study has been taken up to study the financial performance of Farmer Producer Organisations in Krishna District of Andhra Pradesh.

MATERIAL AND METHODS

Out of 16 Registered and functional FPOs in the district, two FPOs with maximum membership and two FPOs with minimum membership are selected purposively. The selected FPOs belong to Vijayawada and Nuzvid revenue divisions. In Vijayawada revenue division, Sri Vigneswara FPO (600 members) of Thotlavalluru mandal, Chandragudem FPO (300 members) of Mylavaram mandal and Baji Baba FPO (223 members) of Nandigama mandal were selected for the study. In case of Nuzvid revenue division, China Ogirala FPO (580 members) of Vuyyuru mandal was selected for the study (Table 1).

To judge the the profitability, liquidity, solvency positions and credit worthiness of the four selected FPOs, ratio analysis has been done using the financial statements of march 2016 and 2017.

Current Ratio

Current ratio has been calculated to measure the financial status of the FPO. If current ratio is greater than one the FPO can meet its financial obligations well. If it is less than one indicates that the FPO has more current liabilities than assets.

$$\text{Current ratio} = \text{Currents Assets} / \text{current liabilities}$$

Return on Assets

Return on assets shows the profitability of a FPO. It gives the percentage profit earned by the FPO in relation to its overall usage of resources.

$$\text{Return on Assets} = \text{Net income} / \text{Total assets}$$

Return on Equity

Return equity is also a profitability ratio which gives the profit generated by the FPO with the money share holder have invested.

$$\text{Return on Equity} = \text{Net income} / \text{Equity}$$

Debt Equity Ratio

Debt equity ratio indicates the proportion of the FPOs assets that are being financed through debts. The high debt equity ratio generally means that a FPO has been aggressive in financing its growth with debt.

$$\text{Debt equity ratio} = \text{Total liabilities} / \text{Equity}$$

RESULTS AND DISCUSSIONS

Financial performance of Sri Vigneswara Farmer Producer Organisation

Sri Vigneswara FPO was located at Chagantipadu village, Thotlavalluru mandal, Krishna district. This FPO was functioning as a registered, mutually aided co-operative from 2013-15 and formally registered as a company in July 2015 with 250 active members as on July 2015. By March 2017, there were 600 active members in this FPO. Also NGO, Nestham is who running the FPO with an initial share capital of Rs 1,00,000. Farmers from 30 surrounding villages covering 5 mandals come to sell their banana bunches every Monday and Thursday during the week. The turnover of the FPO was 90 lakhs as on March 2016 and 1crore as on March 2017. The profit of FPO as on March 2016 was Rs 26,000 and Rs 50,000 as on March 2017 when 6 per cent levy on banana sales were charged. Farmers got the services of uniform costs of servicing of harvesting banana through engagement of labourers by FPO at a predetermined

price at right time. One major service rendered through this collective aggregation model was cutting down transportation cost while bringing the harvested banana to the market. This was being done by the FPO owned Mahindra van which was a unique strategy by the FPO member farmers. The abuse of intermediaries in differential pricing had dramatically reduced for the farmers participating in the FPO where grading and pricing was done with transparency. The FPO has also set up a market yard in of 3600 sq ft. In Chagantipadu village taking the support from NABARD and Horticulture department. There were also plans to introduce auctioning of vegetables on commission basis in the market yard.

The current assets in the year 2016 was 699926 and it was 1015356 in 2017 which was increasing from first year to second year. The current liabilities in the year 2016 and 2017 were 698264 and 1580159 respectively which were increasing year by year. The total assets in the year 2016 were 1264926 and 3301356 was in 2017. The total liabilities in 2016 and 2017 were 698264 and 1676831 respectively. The equity in the year 2016 was 566662 and in 2017 it was 1624525. The total assets, total liabilities and equity were increasing from 2016 to 2017. The estimated Return on Assets (ROA) value of the FPO was 0.02 for the year 2016 and 0.01 for the year 2017 which showed that company has earned more profits in the year 2016 in relation to its overall resources used. The Return on Equity (ROE) for the year 2016 and 2017 were 0.04 and 0.03 respectively which showed that the percentage of profit earned by FPO with the shareholders equity was more for the year 2016 than 2017 because the company had more fixed assets for the year 2017. Though the debt equity ratios were more than one, the declining trend from 1.2 to 1.03 was a good sign because lenders and investors usually prefer low debt equity ratio. The current ratio (CR) for the year 2016 found to be 1 which shows that FPO can meet its immediate obligations, but for the year 2017, CR was 0.64 because it had more accounts payable (Table 2) (Sourabh, 2017).

Financial performance of China Ogirala Farmer Producer Organisation

Chinaogirala FPO was located at China ogirala village, Vuyyuru mandal, Krishna district. This FPO was a mutually aided co-operative society established during 2014-15 and formally registered as a company in July 2015 with 200 active members and with 580 members as on March 2017. Also, Nestham (NGO) has been handholding the FPO with an initial share capital of Rs. 1 lakh. Farmers from 10 surrounding villages encompassing 2 mandals converge to sell their vegetables during the season i.e, from August to

Table 1. List of FPOs selected in the study area

S. No.	Revenue division	Name of FPO	Mandal	Village	No. of member	Crop
1	Vijayawada	Sri Vigneswara FPO	Thotla valluru	Chagantipadu	600	Banana
		Baji Baba FPO	Nandigama	Pedda cheruvu kommu palem	223	Chillies
		Chanadra gudem FPO	Mylavaram	Chandragudem	300	Jasmine
2	Nuzvidu	China Ogirala FPO	Vuyyuru	China Ogirala	580	Vegetables
Total	2	4	4	4		

Table 2. Financial performance of Sri Vigneswara FPO

S. No.	Particulars	Mar-16	Mar-17
1	Share capital (Rs)	1,00,000	2,93,000
2	Members (Rs)	250	600
3	Net profit (Rs)	26,662	52,363
4	Current assets (Rs)	699926	1015356
5	Current liabilities (Rs)	698264	1580159
6	Total assets (Rs)	1264926	3301356
7	Total liabilities (Rs)	698264	1676831
8	Equity (Rs)	566662	1624525
9	Current ratio (CR) (4÷5)	1.00	0.64
10	Return on assets (ROA) (3÷6)	0.02	0.01
11	Return on equity (ROE) (3÷8)	0.04	0.03
12	Debt equity ratio (DER) (7÷8)	1.26	1.03

Table 3. Financial performance of China Ogirala FPO

S.No.	Particulars	Mar-16	Mar-17
1	Share capital (Rs)	1,00,000	1,00,000
2	Members (Rs)	200	580
3	Net profit (Rs)	7853	5683
4	Current assets (Rs)	207224	172683
5	Current liabilities (Rs)	95860	57412
6	Total assets (Rs)	207224	172683
7	Total liabilities (Rs)	95860	574412
8	Equity (Rs)	111364	115271
9	Current ratio (CR) (4÷5)	2.16	2.56
10	Return on assets (ROA) (3÷6)	0.03	0.06
11	Return on equity (ROE) (3÷8)	0.07	0.09
12	Debt equity ratio (DER) (7÷8)	0.86	0.58

January. The turnover of FPO as on March 2016 was 10 lakhs on March 2017 was 12 lakhs. One major service rendered through this aggregate collective action is cutting down of transportation cost by bringing vegetables to market. They run the FPO on commission basis. The market price of FPO was more than other markets by reducing the cost of intermediaries. They provide bags required for packing of the vegetables. The FPO sells produce to the Vijayawada market. They constructed a market yard for the benefit of member farmers.

The current assets and total assets in the year 2016 were 207224 and in 2017 it was 172683 which were increasing from first year to second year. The current liabilities and total liabilities in the year 2016 and 2017 were 95860 and 57412 respectively which were decreasing year by year. The equity in the year 2016 was 111364 and it was 115271 in the year 2017. The equity were increasing from 2016-2017. The ROA of the FPO was 0.03 and 0.06 for the year 2017 which showed that percentage profit earned by the FPO in relation to its overall resources used was more in 2017. The ROE was 0.07 in 2016 and 0.09 in 2017 which showed that the profit earned by FPO was more in 2017. The DER for the year 2016 was 0.86 and for the year 2017 it was 0.58. This means that for every rupee of FPO owned by the shareholders, it owes Rs 0.86 in 2016 and 0.58 in 2017 to the creditors. The decreasing DER from 2016-2017 was a good sign because lenders and investors usually prefer low DER because their interests were better predicted in the event of a business decline. The current ratio for the years 2016 and 2017 were 2.16 and 2.56 respectively showing that the FPO can meet its immediate obligations (Table 3) (Sourabh, 2017).

Financial Performance of Chandragudem Farmer Producer Organisation

Chandragudem jasmine FPO was located at Chandragudem, Mylavaram mandal Krishna district, A.P. The FPO was registered in September 2015 with over 175 members as on March 2016 and 300 members by March 2017 from two revenue panchayats. A share capital of Rs. 2,50,000 was invested by 5 directors of the FPO personally. Later on they got support from NGO, Nestham and NABARD. The FPO was active during the jasmine season from February to August every year. Jasmine was a perennial crop grown only in small pockets of less than 0.4 ha by each member as most of them have other sources of income like mango orchards. The market opens every day early in the morning at village temple premises, where weighing, bagging, labelling was alone done by hired staff by the FPO. Also, they take responsibility of keeping the flowers fresh during their transport to Guddimalkapur

market, Hyderabad by providing their own vans. They also had plans to build shed to undertake operations during rains. At present, the remuneration to the farmers was higher than outside traders.

The current assets and total assets in the year 2016 were 2,00,000 and in 2017 it was 1,80,000 which were decreasing from first year to second year. The current liabilities in the year 2016 and 2017 were 1,00,000 and 74,612 respectively which were decreasing year by year. The total liabilities in the year 2016 was 1,05,284 and 50,187.5 in 2017 which was showing decreasing trend. The equity in the year 2016 was 111364 and in 2017 it was 1,15,271. The equity was increasing from 2016-2017. The ROA of the FPO for the year 2016 was 0.02 and 0.05 for the year 2017 which showed that the percentage profit earned by the FPO in relation to all its resources increased from 2016-2017. The ROE for the year 2016 was 0.06 and for 2017 it was 0.08 which showed that the profit generated with the money shareholders had invested was more in 2017. The current ratio for 2016 and 2017 was 2 and 2.33 respectively which showed that FPO can meet its obligations immediately. The DER declined from 1.11 in 2016 to 0.38 in 2017 which is usually preferred by lenders and investors (Table 4) (Sourabh, 2017).

Financial Performance of Baji Baba Farmer Producer Organisation

Baji baba chillies producers organization was located at Pedda cheruvu kommupalem, Nandigama mandal, Krishna district. This FPO was functioning as a mutually aided co-operative society from 2013-2015 and formally registered in July 2015 with 200 active members. Also, Nestham NGO had handholding the FPO with a initial share capital of Rs. 1lakh as on March 2016. Farmers from 5 surrounding villages of one panchayat converge to sell their chillies at predetermined time. The turnover of this FPO as on March 2016 was Rs.1,87,510 and as on March 2017 it was Rs.11,80,420. One major service rendered through this collective aggregation model was awareness about subsidies available for plant protection chemicals (PPC), fertilizers, herbicides and machinery. They also help in marketing rice and cotton. The current assets and current liabilities and total liabilities in the year 2016 were 64736 and 38,326 respectively.

The total assets during the year 2016 were 1,40,389. The current assets and total assets in the year 2017 were 1,61,866. The current liabilities and total liabilities in the year 2017 were 39,681. The equity in the years 2016 and 2017 were 1,02,063 and 1,22,185 respectively. All the assets, liabilities and equity were increasing from 2016-2017. The ROA of the FPO for the year 2016 was 0.01 and 0.09 for the year 2017

Table 4. Financial Performance of Chandragudem FPO

S. No.	Particulars	Mar-16	Mar-17
1	Share capital (Rs)	2,50,000	3,00,000
2	Members (Rs)	175	300
3	Net profit (Rs)	5683	10385
4	Current assets (Rs)	200000	180000
5	Current liabilities (Rs)	100000	74612
6	Total assets (Rs)	200000	180000
7	Total liabilities (Rs)	105284	50187.5
8	Equity (Rs)	94716	129812
9	Current ratio (CR) (4÷5)	2.00	2.33
10	Return on assets (ROA) (3÷6)	0.02	0.05
11	Return on equity (ROE) (3÷8)	0.06	0.08
12	Debt equity ratio (DER) (7÷8)	1.11	0.38

Table 5. Financial Performance of Baji Baba FPO

S. No.	Particulars	Mar-16	Mar-17
1	Share capital (Rs)	1,00,000	1,00,000
2	Members (Rs)	200	223
3	Net profit (Rs)	1443	15,530
4	Current assets (Rs)	64736	161866
5	Current liabilities (Rs)	38326	39681
6	Total assets (Rs)	140389	161866
7	Total liabilities (Rs)	38326	39681
8	Equity	102063	122185
9	Current ratio (CR) (4÷5)	1.6	4.07
10	Return on assets (ROA) (3÷6)	0.01	0.09
11	Return on equity (ROE) (3÷8)	0.01	0.12
12	Debt equity ratio (DER) (7÷8)	0.37	0.32

Table 6. Services rendered by selected FPO

S.No.	Particulars	Sri Vigneswara	China Ogirala	Baji Baba	Chandra gudem
1	Crops covered	Banana	Vegetables	Chillies	Jasmine
2	Out put marketing	Procurement of produce	Procurement and packaging of produce	Procurement of produce	Procurement and packaging of produce
		Sales of the produce	Sales of the produce	Sales of the produce	Sales of the produce
3	Extension services	Visit to successful farmer fields	Visit to successful farmer fields	Visit to successful farmer fields	Visit to successful farmer fields
		Scientific farming practices	Seed treatment	Seed treatment	Seed treatment
		Technical advices	Technical advices	Technical advices	Technical advices
		Training about cropping pattern	Training about cropping pattern	Awareness about subsidies	Awareness about subsidies

which showed that the percentage of profits earned by the FPO was more for the year 2017 in relation with the overall resources used. The ROE of the FPO was increased from 0.01 to 0.12 which showed that the profits earned by FPO was more in 2017 with the money shareholders had invested. The DER of FPO for the years 2016 and 2017 were 0.37 and 0.32 respectively which shows that the FPO has to use its debts properly for earning its profits. The current ratio for the year 2016 was 1.6 which showed that the FPO meets its immediate obligations but for the year 2017 it was 4.07 which showed that the company is not using its current assets properly (Table 5) (Sourabh, 2017).

Services Rendered by FPO

Table 6 presents the services offered by the selected FPOs to its members. FPOs provided various services like output marketing services i.e. procurement of the produce brought by the members and also selling the produce on behalf of the members. Various extension services are also rendered by the FPOs such as field assistance, seed treatment, visit to successful farmer fields and awareness on the use of plant protection chemicals (PPC), herbicides, weedicides and machinery and also creating awareness on subsidies available to the farmers.

CONCLUSION

The four selected FPOs were found to be financially stable showing increasing trend in case of liquidity and profitability ratios and declining trend in case of debt equity ratios from the financial years 2016 and 2017. Among the four selected FPOs Sri vigneswara FPO showed better performance earning more profits within two years of registration. There is tremendous scope for the improvement of financial performance of FPOs through proper management and strong leadership.

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