

WORKING CAPITAL MANAGEMENT IN DAIRY SECTOR: A CONCEPTUAL STUDY

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ABSTRACT

Dairy cooperatives play important role in socio economic development of our country particularly in Bihar. Today Bihar is the poorest and most illiterate state in the country with high levels of unemployment. Agriculture is the main stay of the state but agriculture alone is unable to provide necessary employment and income to the farmers and the landless labourers. So, there is a crying need of improving the allied sector for improving the socio economic condition of the region. One of the important allied activities is dairying. Modern dairy cooperatives play a vital role in maintaining and promoting the health of the people. This Paper is a modest attempt to study about the working capital management in the dairy sector.

INTRODUCTION

The main purpose of Dairy cooperatives is to provide milk and milk products at reasonable cost that satisfy the consumer needs and fulfils consumers' nutritional requirement. The development of dairying thus, gains prominence in modern times as an additional source of income to the village poor fighting the problem of under-nourishment .Since independence the Government of India have planned a number of diary development programmes.

Keeping in view such benefits of dairying business and requirement of regular pecuniary support to the villagers, The Bihar State milk Co- Operative federation Ltd. (COMFED) was established in 1983 as the implementing agency of operational flood programme of dairy development on "Anand Pattern" in Bihar and Jharkhand (erstwhile Bihar). COMFED is the state level cooperative organisation, having six district level affiliated milk unions in the state of Bihar. COMFED works on four tier system. At the grass root level, it has Dairy Cooperatives Societies (DCS) in villages. These societies are affiliated to District Milk Producers'

cooperative unions, which in turn federated to form COMFED as a member of the National Cooperative Dairy Federation of India. The main: object of the COM FED is to promote economic interest of the milk producers of the Bihar state, particularly those belonging to the economically weaker sections of society. The federation is involved to make policy decisions and to coordinate activities of milk unions in purchasing and processing of milk into milk products and marketing the same through milk unions in the state. The various kinds of products produced by milk union of COMFED are Ghee, Panir, Dahi, Milk cake, Lassi, Peda, Rasgulla etc. and it has marketed under the brand name Sudha.

Hence, the better performance of such milk union is required to expand and encourage the production and marketing of milk and milk products specially in North; Bihar where, on the one hand, the people attached with poor farm sector are in dire need of getting suitable remunerative occupation and, on the other hand, Urban dwellers are presenting demand for standard quality of milk. The performance of Dairy cooperatives largely depends on good working capital management because considerable parts of its current assets and dairy products are of perishable nature Working capital management includes the management of funds invested in current assets i.e. investment in stock, receivable and cash. Current assets are required to carry on its operations and to produce goods for sale to earn Profit. Effective working capital management contributes to increase profitability of the Dairy cooperatives. Positive working capital is required to ensure that a cooperative is able to continue its operations and that it has sufficient funds to satisfy both maturing short term debt and upcoming operational Expenses. So, adequate amount of working capital is necessary for maintaining the profitability and liquidity position of dairy cooperatives. Taking into account the requirements of dairy development in North Bihar, present study about working capital management of Dairy cooperatives of North Bihar is being carried out.

Working capital management is a very significant area of financial management practice. It includes all management decisions and actions that ordinarily influence the size and effectiveness of the working capital. It is concerned with the most effective choice of working capital sources and the determination of the appropriate levels of the current assets and their use. It focuses attention to managing of the current assets, current liabilities and the relationship that exists between them. For proper; development of Dairy cooperatives sufficient working capital and its management is required. The present research work focuses on aspects of the working capital management in Dairy cooperatives of North Bihar with the help of accounting tools and techniques. For analyzing the various components of working capital management i.e. Inventory management, Receivable management and cash management of three units (Barauni Milk Union, Barauni, Tirhut Milk Union, Muzaffarpur and Mithila Milk Union, Samastipur) of COMFED available in North Bihar, various ratios and modern tools and techniques have been used.

REVIEW OF LITERATURE

Previous studies in the field of Indian dairy sector have underlined some critical issues. The development of dairying depends mainly on two aspects; making optimum use of the available yield and improving the quality of the livestock to increase the yield. The dairying is fast becoming a big business with the technological advancement in modern times. The dairy industry is trying to bridge the gap between the rural based producer and the urban based consumer by playing the role of a middle-man (Mohan, 1989). On the recommendations of the Board of Agriculture, the Department of Defence established a few Dairy farms, for the first time in India, in 1886, to supply milk and milk products to the British troops. For the first time in India, in 1919, the Livestock Census was carried out as a preparatory action for planned dairy development by the Board of Agriculture. In 1929, the Imperial Council of Agriculture Research was established which was later renamed as Imperial Dairy Institute and presently known as Indian council of Agricultural Research.

Carley and Ling (1991) in their research paper evaluated the percentage of southern dairy farmers' perception regarding their cooperative or proprietary handlers performance, level of satisfaction with the milk handlers and reasons for staying with the current milk handlers. The study showed that the dairy farmers were concerned about price, deductions, assessment and price farmers received appeared to be a significant factor which affected farmer's satisfactions level. The study also found a trade-off between price and deductions versus service and market and payments assurance. The study suggested that the dairy farmers needed a cooperative which provides an assured market for the members. Rao, P. Sarveswara (1992) studied the Working Capital Management of dairy industry in India. In this study two dairy units Sangam Dairy and Heritage Foods Ltd. were studied from the point of view of the management of working capital. Debtors turnover reveals that Sangam Dairy is following a little liberal credit policy than Heritage. Inventory turnover ratio conveyed that Heritage is more efficient than Sangam. Working capital turnover ratio revealed that Sangam is using its working capital more efficiently to improve sales. Current and quick ratios showed that the creditors in Heritage are more secured than that of Sangam. The findings revealed that in certain areas of working capital management Heritage Foods (India) Ltd. is having better performance. It is inferred from the study that Sangam Dairy is better in working capital management besides protecting the interests of the milk producers.

Misra and Fletcher (1993) in their study analyzed the factors influencing farmer's degree of satisfaction with the overall performance of milk marketing cooperative. The data for the study were obtained from dairy farmers located in 12 southern states. They took a random sample of grade A dairy farmers and mail survey was conducted among 5,660 dairy farmer's degree of satisfaction with the overall performance of their milk marketing

cooperative. The analysis suggested that the southern dairy farmer's perceived cooperative ability to hold down operating and marketing costs to provide higher prices and competent field service. The study found that there were significant differences in the degree of satisfaction with the cooperatives among the dairy farmer's located in the 12 southern states.

An ISO-9002 dairy plant having installed capacity of 60,000 Litres Per Day (LPD); situated in the north-eastern area of the Haryana state was selected for the study by Chauhan and others. The costs and revenue generation for the four products were analysed. It was observed that raw material was the major cost component contributing 90% of the total costs, followed by packaging cost for the entire four products. The study has revealed that all the products, except the double-toned milk were being produced above the calculated break-even levels. Ice-cream manufacturing was found to be the most profitable proposition.

Sarkar and Ghosh (2008) a comparative study of cost, return and profitability of cooperative and cooperative dairying in West Bengal. A survey of 320 household was conducted. The analysis of costs revealed that the variable cost was the major component of total cost for both cooperative and non cooperative dairy farms. Feed cost and Labour cost were found to be the two major components of variable costs. Interest cost was found to be the major component of fixed costs. NPV, IRR and Benefit Cost ratios were the techniques used to evaluate the financial performances of dairy farms. The authors found that some cooperatives, named as good cooperatives showed better performance than rest of all dairy farms which included bad cooperatives and non cooperative dairy farms.

Sarkar and Ghosh (2010)⁷ has also explored the major constraints faced by cooperative and non cooperative dairy farmers on the basis of primary data collected from 320 dairy farmers. The important issues were included under 38 constraints under 5 groups - Infrastructural Constraints (11), Economic cstraints (10), Marketing constraints (6), Technical Constraints (5) and Socio- Psychological constraints (6). It was found that the non-cooperative farms faced major constraints and high severity compared with cooperative dairy farms in expanding milk production. The financial problem was found to be the most significant constraint faced by the cooperative farms. Among infrastructural constraints, unavailability and infrequent visit of veterinary medical practitioners were the main constraints. Among marketing constraints, not exercising proper management practices by cooperative societies in favour of their attached farms was the major constraint. For technical constraints, lack of technical guidance was severe for members of cooperative farms. As regards the socio-psychological constraints, the lack of time due to busy in domestic/agricultural work and lack of cooperation and coordination among members were major constraints.

A trend analysis of composition of different species in total milch animals and the productivity of these species was carried out by Shah and Dave (2010) based on secondary data for 18 years: 1990-91 to 2008-09. They found that the local cows have consistently improved their performance across the state (Gujrat). The increase in number of animals was found as the main driver of the growth in milk production. However, beyond a limit the incremental number was found unfavorable. The authors have suggested that the milk yield of the milch animals needs to be paid attention for sustainable growth of milk production.

Kaur (2011) has studied the operational performance of MILKFED (The Punjab State Cooperative Milk Producers' Federation Limited) and HDDCF (Haryana Dairy Development Cooperative Federation Ltd) on the basis of various indicators; using 5 years financial data. It has been observed that the MILKFED and HDDCF have set up their milk booths in urban and semi-urban areas but they have no milk booth in the rural areas. It was found that societies of HDDCF were reduced in the year 2009-10. The proportion of interest income to total income of HDDCF was found higher as compare to MILKFED but MILKFED was earning more from other sources as compared to HDDCF. It has been found that the HDDCF spent larger proportion of total expenses on its employees as compare to MILKFED but MILKFED had utilized its resources more efficiently than HDDCF. HDDCF earned high rate of return on its investments as compare to MTLKFED. It was concluded that financial performance of HDDCF was better than MILKFED.

A comparative analysis of economic performance of members and non members was the basic intent of the study of Meena and Jain (2012). A comparison of cost and returns of milk production among different herd size was also carried out. In order to serve these purposes, data from 75 members and 75 non members from Alwar District of Rajasthan was collected. The Per day net maintenance cost was found to be higher for membergroup than that of non-member group. It was found to be higher in ease of buffalo than that of cow and also observed more in the summer season. Per litre cost of buffalo and cow milk production was observed to be higher for the non-member as compared to member group. Per litre cost of buffalo milk production decreased with increase in herd size across different seasons while same trend was not observed in case of cow milk production. Further, it was found higher in summer season. Daily net return was found relatively higher in member group as compared to non-member group and also found higher in winter. Per litre cost of buffalo and cow milk production was observed to be higher for the non-member as compared to member group. In the study of Singh et. al (2012) the milch animals were categorised into crossbred cows against the local cows and buffaloes. It was found that the farmers with large herd size (10-12); preferred crossbred cows against the local cows or buffaloes, while farmers with small herd size (6); preferred local cows and buffaloes. The author found that improved scientific dairy farming practices and increase in proportion of crossbred cows in the total milch

animals, led to increase in average daily milk production in the state. It was further observed that Increase in herd size led to decrease in the productivity. The members of single family maintained dairy animals more carefully than those of joint family. Herd size, period, season and type of animals had significant effect on average daily milk contribution by dairy farmers to DCS milk pool. Herd size did not differ with each other with respect to their share in consumer's rupee. The study further analysed that per litre milk production is one of the components for farm level decision making and it was found that per litre cost of milk production was comparatively low in case of crossbred cows (10.4) than local cows (13.99) and buffaloes (14.34). Per litre cost of milk production in urban areas was found relatively high in comparison to rural and semi-urban areas, probably due to higher feed, labour and fixed costs.

Mathur, S P., Swarnkar, R and Soni, V (2014) studied the working capital management of Rajasthan Cooperative Dairy Federation Ltd. and found that most of the union have no good Working Capital Management. Alwar union has high liquidity position this is not good for union. Alwar union had high debt exposure and doesn't maintain good liquidity which may be a dangerous trend.

Hence, a few study has been carried but in the area Working Capital Management of Dairy Cooperatives, Moreover, no comprehensive indices were formed to examine the relationship between every components of working capital. So, the present study will pay attention to the existing literature.

Financial soundness and profitability of business enterprises largely depend upon, the working capital management by the firm. If there is shortage of working capital it affects the day to day operations of the business firm, if there is excess of working capital, fund become idle it also affects the financial soundness of the firm. In this perspective, there is need to manage the working capital effectively in any business. The question which strike the mind that how Dairy Co-operatives Capital. The given business is different from other ones because

- Govt. grant is one of the main portions of its capital
- Major portion of its product is of perishable nature
- Constituents of working capital and components of inventory are different storage and marketing aspects are of special nature
- Milk producers attached with cooperatives, and
- Organizational structures are different.

Keeping in view the above aspects, the present studies highlight the following problems:

- Ascertain the concept and critical components of working capital in the case of Dairy cooperatives,

- Detail analysis of financial statements of the business,
- Measuring and compare the working capital of different units of COMFED and
- Critical observation of Working Capital Management of selected units of COMFED.

OBJECTIVES OF THE STUDY

The main objectives of the study are to examine and evaluate the Working Capital Management of the selected units of COMFED in North Bihar. To attain this main objective, the following incidental objectives are sought to be achieved:

- To know about various components of current assets and current liabilities of Dairy business,
- To examine the working capital performance of the selected units of COMFED in North Bihar,
- To examine the trends of working capital needs in Dairy cooperatives and to trace the causes responsible for it,
- To study the liquidity position of the selected unit of COMFED in North Bihar and
- To know how Working Capital Management done in Dairy Cooperatives.

HYPOTHESIS

In order to present empirical study, we framed hypotheses like:

- Successful organisation demand good Working Capital Management.
- Proper management of working capital improves both liquidity and profitability position of a business firms
- External sources of finance particularly bank borrowings are being liberally utilised in financing the working capital requirement.
- For the management of working capital there is greater scope of managing inventory as well as receivables than the management of cash.

It is also true in the case of Dairy cooperative because Dairy cooperatives better performance is directly helpful to large number of farmers and workers engaged in dairy framing and its better performance depends on good Working Capital Management. Taking this assumption, this research work has been carried out to analyse and assess the Working Capital Management of COMFED units in North Bihar.

RESEARCH METHODOLOGY

Working capital comes into business operation which actual operation takes place. Generally, the requirement of quantum of working capital is determined by the level of production. In all enterprises, cash holding is maintained for transaction, precautionary and speculative motives. The firm can reduce investment in receivables by offering cash discount to customers. Also, there are several factors which influence the amount of funds invested in inventories at any one time. The present work has been carried out to study working capital management of dairy cooperatives.

NATURE OF STUDY

The present study is analytical and descriptive and accordingly working capital management of dairy cooperatives with special reference to Milk unions of COMFED in North Bihar has been studied.

SOURCES OF DATA

The study is based on Secondary data source. The data and information have been collected from different

- Books,
- Journals and Magazines,
- Reference Annuals,
- Economic surveys,
- Annual Reports of Selected Milk Unions,
- Official Reports of COMFED and its Milk Unions,
- Newspapers,
- Websites etc.

DATA ANALYSIS AND INTERPRETATION

With the help of collected data, analysis and interpretation of results have been made. For the purpose of data analysis and interpretation suitable mathematical and statistical techniques have been used like

- Ratio Analysis,
- Trend Analysis,
- Percentages,

- Averages etc.

As per suitability and bring lucidity in communication, We have also taken help of pictorial representations viz.

- Pie Charts,
- Bar Diagrams,
- Histograms etc.

CONCLUSION:

During the past decades, India holds a significant position and has undergone revolutionary changes in the profile of dairy industry. There have been considered improvement in formulating the method and technology of manufacturing the dairy product. In spite of having a signifying role in the Indian economy, the dairy industry still faces some problems and challenges specially in working capital management.

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