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RESEARCH PAPER

Assessment of financial viability of farmer producer organizations in Garhwal Division of Uttarakhand

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Abstract : The study was undertaken to assess the financial viability of some Farmer Producer Organizations (FPOs) in Uttarakhand. Financial ratio analysis of FPOs were done on parameters such as liquidity, solvency, profitability and efficiency ratio and Financial Strength of the small organizations for the financial year 2017-18 to 2019-20 were analyzed. Financial ratio analysis depicted that liquidity position of producers' organization was good and adequate to manage their expenses while, profitability and efficiency position were not adequate enough. Overall,it was estimated that Producers' Organization are trying hard to make their presence in the market. FPOs require support not only at the individual FPO level but also at the promotion and ecosystem level.

Key Words : Liquidity, Solvency, FPOs, Profitability, Financial ratios

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INTRODUCTION

Agriculture plays an important role in the growth of developing countries like India where agriculture contributes around 19.9 percent Gross Domestic Products in the year (Economic Survey, 2020-21). In India, 58 percent of workforces are directly or indirectly working in agriculture sector (Economic Survey, 2020). Nearly 86 per cent of farmers are small and marginal with average land holdings in the country being less than 1.1 hectares. This is the major reason on which Farmer Producer Organizations function as a vehicle to augment farmer income. Agriculture continues to be the major source of livelihood, income, employment and a predominant business option for the people in the rural areas in India as more than 50 percent of people continue to depend on agriculture. The nation's economy is mainly dependent on farming which contributes a significant portion of the country's capital Gross Domestic Product (GDP) and employment potential. The rural people do not have proper access to food and non-food commodities due to poor employment and infrastructure facilities. Small and marginal farmers constitute the largest group of cultivators in Indian agriculture; 85 percent of operated holdings are smaller than two hectares and among these holding, 66 percent are less than one hectares (Singh, 2012). According to, Assessment Survey of Farmers many small and marginal farmer's household, monthly per capita consumption expenditure is higher than the monthly per capita income (Mishra, 2008).

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In India small and marginal holding farmers cultivate around 44 per cent of the area, and they produce around 60 per cent of the total food grain production (49% of rice, 40% of wheat, 29% of coarse cereals and 27% of pulses) and over half of the country's fruits and vegetables production (Agricultural census, 2014). In India, small and marginal farmers' average size of holdings is about 0.38 ha when compared to 17.37 ha for large farmers, which cannot generate adequate employment and income from crop cultivation (Dev, 2017). In India small and marginal holding farmers cultivate around 44 per cent of the area, and they produce around 60 per cent of the total food grain production (49% of rice, 40% of wheat, 29% of coarse cereals and 27% of pulses) and over half of the country's fruits and vegetables production (Agricultural census, 2014). Thereis a need to make farmers aware about the progressive efforts of the FPOs and also uplift the FPOs through promotion to achieve scale and sustainability.

Farmer producer organization in Uttarakhand:

The Government of Uttarakhand plans to create a helpful environment for FPOs by integrating and promoting the activities involved in the fields of Agriculture and allied sector, Food Processing, Agricultural Business, Warehousing and Logistics sectors through focused attention, global technologies and necessary infrastructure facilities. This FPOs policy shall be a pioneer of change and will act as an income generator. The economic growth of farmers results in higher scale employment generation in rural areas through people, public and private partnerships in Uttarakhand. The preferred numbers of farmers in FPOs should be 300 in plain regions 100 in hilly areas. This policy does not strictly specify any such minimum and maximum limit. FPOs will provide end to end services to its members, covering all aspects of cultivation i.e., financial, input supply, technology transfer, procurement and packaging, marketing insurance and networking services. Based on the emerging needs the FPOs can add new services with approval of the Government to ensure best interest of the farmer. National Cooperative Development Corporation (NCDC), Small Farmer Agribusiness Consortium (SFAC) and National Bank for Agriculture and Rural Development (NABARD) will be implementing agencies in the state. In recent years, FPOs have just moved beyond just providing farmers with inputs but have also started to add value to the produce through processing before the sale of final commodities.

Table A: Number of farmer producer organizations in Uttarakhand

Sr. No.	Name of district	Number of FPOs
1.	Almora	7
2.	Bageshwar	4
3.	Pithoragarh	9
4.	Champawat	4
5.	Nainital	5
6.	Udham Singh Nagar	4
7.	Uttarkashi	9
8.	Chamoli	10
9.	Dehradun	10
10.	Haridwar	4
11.	Tehri Garhwal	11
12.	Pauri Garhwal	10
13.	Rudraprayag	4

Source: NABARD, 2020

Literature Review:

Murray (2008) discussed the present condition and future scenario of producer company model and provide detail analysis over producer companies and discussed how value addition in agricultural commodities change the life of farmers.

Nayak (2009) analyzed the underlying imbalance in design, structure and objective between traditional firm and Producer Company and it would lead to exploitation of marginal producer under the current structure of production and trade relationship between the two. The study suggested that any enterprise system or model to be sustainable for all in a community has to ensure the sustainability of the poorest in the community.

Chauhan (2015) suggest on the grounds of few measures such as number of shareholders, annual turnover and net profit. Chauhan (2016) discussed the model of Lav Kush Crop Producer Company Limited (LCPCL) in Madhya Pradesh and analyzed how this company is bringing change in the livelihood of small and marginal farmers by collective action in the districts of Raisen in Gairatganj (M.P).

Kakati and Roy, (2017) conducted study on the financial performance of farmer producer companies of Northeast India. The purpose of this study to analysis four Farmer Producer Companies with the help of financial ratio.

Chauhan *et al.* (2019) analyzed financial ratio on parameters like liquidity, inventory, solvency, turnover, profitability, efficiency and financial strength of the firm for the financial years 2013-2014 to 2016-2017. The financial ratio represented all the Producer Organization; liquidity position was good and adequate to manage their expenses.

Nirgude *et al.* (2019) study was conducted on economic analysis of farmer producer organization. The financial feasibility of investment in Abhinav farmer groups was worked out by using different financial tools and ratio. The study revealed that average per hectare yield obtained was 204.64 and 211.31 quintals respectively member and non- member growers. B:C ratio was calculated which came up to be 1.42 and 1.30, respectively, which indicated that profitable enterprise.

Objectives of the study:

The major objective of the study was to analyze the financial viability of FPOs in Uttarakhand with various financial statementsover the years.

Material and Methods

In the proposed study, multistage sampling was used. From Garhwal division, two districts namely (Dehradun and Pauri Garhwal)were taken on the basis of maximum number of FPOs. From these districts, five FPOs were selected randomly.Audited annual financial Statements of five farmer producer organization for three years 2017-18, 2018-19 and 2019-20 was taken for the study purpose. The primary data were collected from producermembers as well as from the executives of organization on various aspects by personal interview method with the help of well-structured questionnaire and secondary data were collected from various annual reports of NABARD, article and published reports.

Analytical framework:

The data of the Farmer producer organization were collected for three years through balance sheets and income statements. Thereafter analysis was carried out with the help of various financial ratios. Liquidity and Solvency ratios were obtained from the Balance Sheet while the efficiency and profitability ratios were obtained from the Income Statement. The analytical tools adopted to analyze the financial position of farmer producer organization are represented in Table B.

Table B : Financial ratios

Ratio	Formula
Liquidity Ratios	
Current Ratio (CR)	Total current assets/Total current liabilities
Acid- Test Ratio (ATR)	Current asset- (Inventories+ Supplies)/ Current liabilities
Solvency Ratios	
Leverage Ratio or Debt – equity Ratio (DER)	Total Liabilities / Net worth
Equity to asset value Ratio (EVR)	Net worth / Total asset
Efficiency Ratio and Profitability Ratios	
Operating Ratio (OR)	Operating ratio/ Gross income
Fixed Ratio (FR)	Fixed expenses/ Gross income
Gross Ratio (GR)	Gross expenses/Gross income
Financial Strength	
Net worth (NW)	Total Assets- Total Liabilities
Net Capital Ratio (NCR)	Total Assets/ Total Liabilities
Capital turnover ratio	Gross Income/ Total capital investment

Results and Discussion

This section presents the financial ratio analysis of farmer producer organizations. The financial performances of the five-farmer producer organization are assessed on the financial parameters of liquidity, solvency, profitability and efficiency ratios. Total 10 ratios are used for measuring financial performance of farmer producer organization. The results obtained for various FPOs are depicted in Table 1.

Liquidity ratios measure the cash position of the organization, as cash is important in forms for managing working capital expenses. Current Ratio measures the short-term liquidity of the organization. Optimum ratio for the firm should be 1:5:1 or 2:1, higher the ratios better the liquidity position. Year on year liquidity position fluctuating, Current ratio was highest in 2017-18 and lower in 2018-19. As current ratio is very high, it was shows FPOs had current asset three times more than current liabilities in next year. Acid Test Ratio is a better measure over Current Ratio because inventories deducted from current asset. The study depicted that for each FPO the current ratio kept on decreasing while there was increase in the acid test ratio for few FPOs 20-18-19 was 3.76 and lower in 2o19-20 was 0.25.

Solvency ratio measure the financial soundness of the Farmer Producer organization. Debt Equity Ratio depicts the proportion of debt over owned fund. The ratios were found to be higher in 2017-18 and lower in 2018-19, but in 2019-20 got reduced to 0.15-0.12. This ratio is very low and it shows FPOs does not have high debt obligation. Equity to asset value ratio were fluctuating for all the FPOs, initially there was increase in the value for few FPOs while in few FPOs they were decreasing.

Profitability ratio is used to evaluate the organization ability to generate income as compared to its expenses and other cost associated with the generation of income during a particular period. Profitability and efficiency ratio is not so poor. The ratio was found to be higher in 2019-20, respectively 8.12 and lower in 2017-18, respectively 0.13.

Financial strength ratio shows that net worth of PO reduced from eighty thousand in the year 2017-18. A higher working capital turnover ratio is better and indicates that a company is able to generate a larger number of sales, its support to sales and growth of organization.Working capital turnover ratio was higher in 2018-19 respectively 2.81 and lower in 2017-18, respectively 1.61 of few FPOs. It represents organization is reducing its liability over the years. Net capital ratio faced a decrease in value for the continuing years which likely represents that FPOs are not able to function properly due to less support available to them from supporting agency. Net capital ratio of farmer producer organization is more than 1 and it shows assets are more than liability.

Limitations and Direction for future Research:

Inevitably, the study is subject to some limitations, the first is the time constraint and the second is the sample size. The study was undertaken with few FPOs, further the study could be conducted with increased number of FPOs to get the deep and broader understanding of the functioning of FPOs. Producer Organizations are considered to be institutions that have all the significant features of private enterprise while incorporating principles of mutual assistance in their mandate similar to cooperatives. Producer Organizations are non- political entities aimed at providing business service to smallholder farmer members, founded on the principle of self-reliance. NABARD provide financial aid to Farmer Producer Organization to run smoothly up to three years but even after three years many Farmer Producer Organizations fail to establish themselves as a result most of the FPOs face the fragile balance sheet issue, unable to increase their capital and also face many challenges in the growth and management of FPOs due to lack of business plan. Producer Organizations are

Table 1 : Financial ratio analysis of farmer producer organizations

	FPO-1			FPO-2			FPO-3			FPO-4			FPO-5		
Year	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20
Liquidity Ratios															
CR	1.23	1.16	1.10	1.66	0.56	1.38	2.76	1.20	1.39	2.55	2.32	1.43	1.08	1.21	1.81
ATR	0.06	0.68	3.76	0.09	0.15	0.11	1.34	0.56	0.90	1.11	0.77	0.66	0.41	1.12	0.25
Solvency Ratios															
DER	4.24	3.12	1.56	1.23	2.31	1.44	1.14	3.16	5.21	1.44	2.49	3.37	0.15	0.12	0.13
EVR	0.74	0.45	0.17	0.44	0.23	1.32	0.64	0.91	1.21	0.51	0.67	1.16	0.17	1.23	1.55
Profitability and Efficiency Ratios															
OPR	0.23	1.54	1.61	0.31	0.41	1.12	0.84	0.61	0.04	0.32	0.43	1.3	0.12	1.23	3.2
FR	1.2	2.31	1.31	0.13	0.67	1.2	2.31	5.34	8.12	0.24	0.14	0.05	0.67	0.98	0.87
GR	1.04	1.03	1.00	0.56	1.00	0.98	0.68	0.54	0.87	1.00	1.00	1.00	1.04	1.07	1.17
Financial Strength															
NW	81215	58401	49013	18195	14006	12521	65625	53025	57625	57480	68390	71324	36427	58910	43681
NCR	1.36	1.21	1.42	1.81	2.32	1.21	1.00	1.02	1.00	1.12	0.53	1.43	1.00	1.00	1.00
CTR	1.32	2.81	2.07	2.13	2.81	1.58	2.02	2.56	2.16	1.65	2.53	1.32	2.45	2.76	1.98

playing important role in transforming the livelihood of the farmers. Sustainability of these companies is very important for the livelihood of the farmers in the long run. Short term liquidity position of all the companies is good but long-term solvency position is not very sound. Overall analysis represents Producers' Organization is trying hard in make their presence in the market and benefit farmers. Major challenges for these organizations are availability of funds and management of funds. The study is useful for POs for self-evaluation, for Government in policy making, for funders for the continuing support. As, FPOs are focal point of supply chain in agribusinesses there is a need to strengthen FPOs for stabilizing business and supporting growth.

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