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Case study

Profitability Performance of Dairy Industry in Andhra Pradesh – A Case Study of Kdmpmacu (Vijaya Dairy) Limited – Vijayawada

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ABSTRACT:

The dairy business is a highly concentrated industry, with the top five industries accounting for the vast majority of the country's GDP and income. Using financial ratios and the correlation co-efficient, this article attempts to assess the financial health of the dairy business in Andhra Pradesh.Profitability is the most important indicator of a company's financial performance, and it is used in this study. It's critical to assess present and previous profitabilities as well as forecast future profitabilities. A study of the co-operative sector unit KDMPMACU (Vijaya Dairy) Limited, which is one of the low capital intensive, was done for this aim.

KEYWORD :National Income, Financial Health, Profitability, and Financial Ratios are all terms used to describe how well a country's finances are doing.

INTRODUCTION

India has surpassed the United States as the world's greatest producer of milk. This was accomplished through "operation flood," one of the largest dairy development programmes in the world, which established strong ties between rural producers and urban customers. The dairy industry in India accounts for a significant portion of the country's Gross Domestic Product (GDP) (GDP). The Indian government began extensive trade policy reforms in the early 1990s, favouring increased privatisation and liberalisation of all sectors of the economy, including the dairy sector. In June 1991, the dairy business, including the handling, processing, and selling of fluid milk, which had previously been reserved mostly for cooperatives, was delicensed. Multinational corporations, as well as private sector enterprises, were allowed to build up milk processing and product manufacturing operations. Delicensing was founded on the idea of encouraging competition in the procurement and marketing of milk, hence enhancing value for both producers and consumers. Despite the fact that delicensing drew a significant number of participants, worries about excess capacity, the selling of contaminated or inferior milk, and other issues prompted the government to publish the Milk and Milk Products Order (MMPO) 1992, some of which were adjusted again in April 1993.The Indian dairy industry would now have to compete in global dairy markets. In today's changing environment, the state of Andhra Pradesh is experiencing significant modernization with cutting-edge technologies. It would be appropriate to examine and analyse the performance of Andhra Pradesh's district co-operative milk unions, with particular reference to KDMPMACU (Vijaya Dairy) Limited, and to recommend cost-cutting and profit-enhancing measures.

Objectives:-

- Following are the objectives of this study:-
  - To assess the profitability of a company using key metrics such as the gross profit margin, net profit margin, operating profit margin, return on investment, return on capital employed, return on equity, and operating ratio.
  - To investigate Vijaya Dairy's earning potential and analyse
  - Assess the important elements affecting Vijaya Dairy's profitability, and
  - Make recommendations for improving earnings based on the study's findings the significance of the correlation using a student t-test.

Hypothesis of the Study:

- The company's profitability remains consistent throughout the year.
- and profitability is strongly linked to the Dairy's investment.

Data Sources and Period of the Study:

- Secondary data was gathered from the Vijaya Dairy's published annual reports in order to achieve the study's objectives. These financial data are categorised, tabulated, and revised according to the profitability analysis' requirements. The data for this study was collected during a ten-year period, from 2003-04 to 2012-13.
- **Limitations of the Study:**
  - For the profitability analysis of Vijaya Dairy, Vijayawada, the study only covers a 10-year period, from 2003-04 to 2012-13.
  - Secondary data has been taken from public annual reports only.

- **analysis**
  - In this analysis, the following profitability ratios were used:

Goss Profit Ratio	Goss Profit / Net Sales x 100
Net Profit Ratio	Net Profit / Net Sales x 100
Operating Profit Ratio	Operating Profit / Net Sales x 100
Operating Ratio	Operating Cost / Net Sales x 100
Return on Investment	EBIT / Total Capital Employed x 100 Where Total Capital Employed= Total Net Fixed Assets (including Capital Work in Progress) + Net Current Assets
Productivity Ratio	Gross Profit / Total Sales x 100
Return on Equity	Net Profit / Net Worth x 100

The coefficient of correlation was used to examine the relationship between profit and sales, as well as profitability and investments, and the significance of the association was determined using the student t-test.

Discussion and Conclusions:

Tableno1:The company's Gross Profit (G.P.) Ratio fluctuated between 49.6 and 78.3 percent, as shown in Table 1. In 2006-07, it was at its highest, and in 2012-13, it was at its lowest. Except for the year 2006-07, the gross profit ratio has been steadily declining. Vijaya Dairy is doing well, with an average gross profit ratio of 65.0 percent and a S.D. of 10.4 percent over the research period. However, the corporation faces a major dilemma as a result of the downward trend.During the research period, the company's net profit fluctuated from 8.71 percent to 40.09 percent. The highest net profit ratio was in 2006-07, while the lowest was in 2012-13. The net profit ratio grew in the early years, from 2003-04 to 2006-07, but then fell to the lowest level.The Operating Profit Ratio (OPR) grew from 2003-04 to 2006-07, then decreased to the lowest level in 2007.2012-2013 fiscal year The highest OPR during the study period wasThe highest percentage was 61.15 percent in 2006-07, and the lowest was 12.15 percent in 2012-13.It also showed that the company's profitability has been declining in recent years, which is not a good sign for the Dairy.The operating ratio ranged between 47.52 percent in the first quarter and 47.52 percent in the second quarter.from 88.25 percent in 2006-07 to 88.25 percent in 2012-13. It has been successful.from 55.19 percent in 2003-04 to 40.58 percent in 2004-05It began to rise in 2007-08 and has continued to rise since then.In 2012-13, it was at an all-time high of 88.25 percent. As a result,A higher operating ratio denotes a lower level of efficiency.

Year	Gross Profit (Rs in Lakh)	Net Profit (Rs in Lakh)	Operating Profit (Before Depreciation) (Rs in Lakh)	Operating Cost (Rs in Lakh)	Net Sales (Rs in Lakh)	Gross Profit Ratio (%	Net Profit Ratio (%)	Operating Profit Ratio (%)	Operating Ratio (%)
2003-04	2,197.85	737.37	1,526.82	1,718.71	1,718.71	70.6	23.68	49.03	55.19
2004-05	3,121.42	123.84	2315.01	1983.08	4123.96	75.7	29.94	56.14	48.09
2005-06	3,548.71	1562.20	2648.30	2305.40	4851.90	73.1	32.20	54.58	47.52
2006-07	4,649.67	2381.38	3632.52	2410.63	5940.19	71.9	40.09	61.15	40.58
2007-08	3,587.02	1631.52	2333.59	2800.63	4988.80	71.9	32.70	46.78	56.14
2008-09	3,294.30	1272.27	1790.21	3427.21	5094.52	64.7	24,97	35.14	67.27
2009-10	2,769.44	814.22	1090.36	3247.21	5094.05	54.8	16.11	21.57	80.78

2010-11	3,501.52	1069.30	1594.09	4084.15	5055.66	58.8	17.94	26.75	74.87
2011-12	3,387.04	849.50	1144.91	5466.66	6500.27	52.1	13.07	17.61	84.10
2012-13	3,380.63	897.59	3380.63	592.83	11416.95	11932.45	7.86	20.71	16.4
mean	1833	3343.8	1212.5	8775.4	11296.1	8589.4	23.3	32.6	16.4
sd	832.7	626.2	536.3	2665.4	3756.0	2960.6	12.5	11.6	9.3

Table 2 depicts the relationship between profitability and the company's investment and net value. Except for the year 2010-11, the Return on Investment (ROI), Productivity Ratio (PR), and Return on Equity (ROE) all showed a growing trend from 2003-04 to 2006-07 and a falling trend from 2006-07 to 2012-13,The given ratios showed a rise over the prior year in 2010-11. The highest return on investment (ROI) was 43.58 percent in 2006-07, while the lowest was 7.80 percent in 2013-14. During the study period, the average ROI was 23.20 percent.

The Productivity Ratio, which measures the return on total assets, was best in 2006-07 at 48.81 percent and lowest in 2012-13 at 20.71 percent. Table-2 shows that the average production ratio for the study period wThe given ratios showed a rise over the prior year in 2010-11. The highest ROI was 43.58 percent in 2006-07, while the lowest was 7.80 percent in 2013-14. During the study period, the average ROI was 23.20 percent.The return on total assets, as measured by the productivity ratio, was For the year 2006-07, the greatest percentage was 48.81 percent, and the lowest was 20.71 percent. % in 2012-13- The average productivity ratio for the fiscal year As stated in Table, the study period was 32.6 percent.as 32.6 percent.

Findings and Conclusions:

The company's gross profit ratio was positive during the study period, which was excellent because the average GP ratio was 65 percent. However, in the latter six years of the study period, it showed a downward tendency. The falling rate was around 8% in the middle of the study period and 4% in the last three years of the study period, requiring the company's immediate action. The study period's average net profit ratio of 23.9 percent n the last six years, Return on Investment, Productivity Ratio, and Return on Equity have all shown a downward trend. Profitability is growing at a slower rate than revenue. to the financial investment. There is a sluggish positive relationship between Net Profit and Revenue. as well as Net Sales. Operating profit as a percentage of capital employed The ratio of net profit to net worth is negative and weak. correlation. However, all of the relationships point to the same conclusion. During the research period, there was no discernible impact.

Based on the examination of numerous statistics, it is obvious that die profitability is dependent on the most efficient use of resources; so, the firm should make better use of its resources. to reduce production costs (operation costs) while increasing profitsis regarded satisfactory.

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