PERFORMANCE ANALYSIS OF INDIAN FARMERS FERTILISER COOPERATIVE LIMITED (IFFCO)

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ABSTRACT

As a result of Green revolution there was a huge demand for fertilizers in India. To gain opportunities in this area, a new cooperative society IFFCO was established to specifically cater to the requirements of farmers. It was a unique venture in which the farmers of the country through their own Co-operative Societies created this new institution to safeguard their interests.

The purpose of this case is to analyze the financial performance of IFFCO and also to identify the factors favorable for success of IFFCO and also suggestions to overcome the new challenges.

Keywords- Co-Operative Society, Financial Performance, Diversification , Joint Venture

From 1967 till today, IFFCO is performing well in fertilizer and other related areas. Fertilizers are substances that supply one or more of the chemicals required for plant growth. Fertilizers can be both organic and inorganic. As per industry experts it is said that there are sixteen elements that are absolutely necessary for plant growth. Out of these sixteen 9 elements are required in large quantities while the other seven are needed in smaller amounts. Since agriculture is a very important sector it goes without saying that the fertilizer industry is one which the Indian economy cannot do without. The fertilizer industry in India is extremely vital as it manufactures some of the most important raw materials required for crop production. The primary objective of this industry is to ensure the inflow of both primary and secondary elements required for crop production in the desirable quantities.

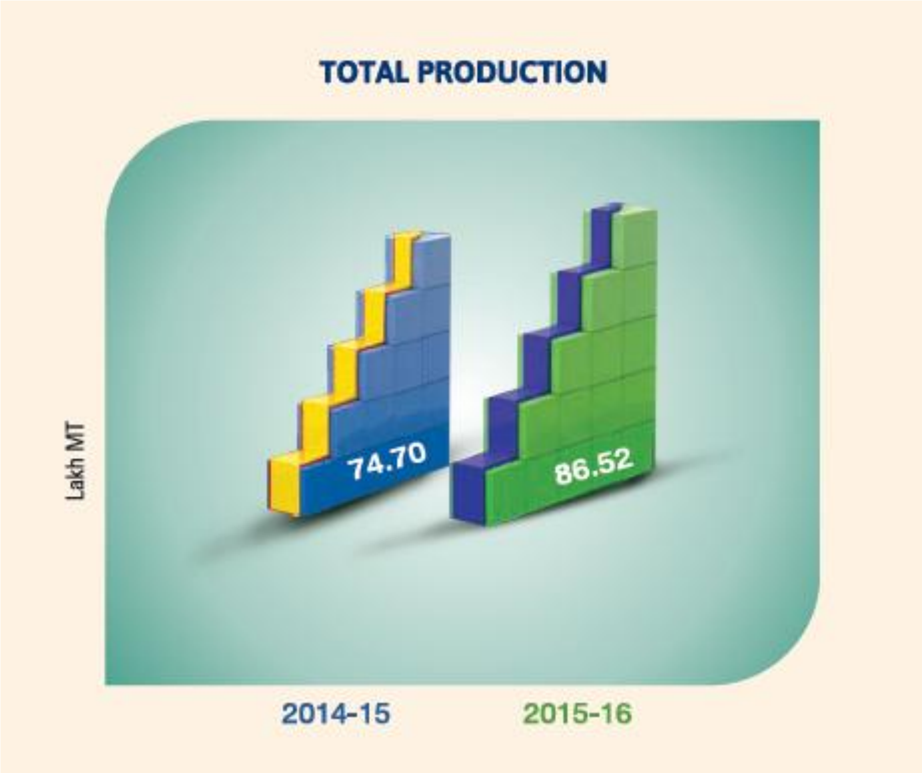
The success of the agricultural sector in India is largely dependent on the fertilizer industry. The benchmark that the food industry in India has set is mainly due to the many technically competent fertilizer producing companies in the country.

India is the 2nd largest consumer of fertilizer first being China. It is also world's third largest producer of fertilizers. In 2015-16, country produced 3083.6 thousand tons of fertilizer. India is also home to numerous top class private and government fertilizer companies. Ranging from fertilizers to seeds to fungicides the many fertilizer companies in India are the major reason behind the success story of the sector in India. In the present scenario, there are more than 57 large and 64 medium and small fertilizer production units under the India fertilizer industry. The main products manufactured by the fertilizer industry in India are phosphate based fertilizers, nitrogenous fertilizers, and complex fertilizers. The fertilizer industry in India with its rapid growth is all set to make a long lasting global impression.

Though, 2015-16 was the slow year for Indian fertilizer industry. Demand is shrinking and import rising. Another challenge which industry is facing is regarding late payment of subsidies. There was also reduction of 4% on fertilizer budget in the year 2016-17, a budget of 70,000 crore. Still IFFCO is performing well in fertilizer industry.

I. IFFCO

During mid- sixties the Co-operative sector in India was responsible for distribution of 70 per cent of fertilizers consumed in the country. This Sector had adequate infrastructure to distribute fertilizers but had no production facilities of its own and hence dependent on public/private Sectors for supplies. To overcome this lacuna and to bridge the demand supply gap in the country, a new cooperative society was conceived to specifically cater to the requirements of farmers. It was a unique venture in which the farmers of the country through their own Co-operative Societies created this new institution to safeguard their interests. The number of Co-operative Societies associated with IFFCO has risen from 57 in 1967 to 36,666 at present.



Source: www.ifcco.com

Indian Farmers Fertilizer Co-operative Limited (IFFCO) was registered on November 3, 1967 as a Multi-unit Co-operative Society. On the enactment of the Multistate Co-operative Societies Act 1984 & 2002, the Society is deemed to be registered as a Multistate Co-operative Society. The Society is primarily engaged in production and distribution of fertilizers. The byelaws of the Society provide a broad frame work for the activities of IFFCO as a Co-operative Society.

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At present IFFCO has 5 Manufacturing Plants at KALOL, PHULPUR, AONLA, and KANDLA & PARADEEP. As on 31st March 2016, it has an Authorized Share Capital of Rs. 1000.00 Crore and Subscribed & Paid up Capital: RS. 424.39 Crore.

IFFCO has been undertaking various plans from time to time and these plans have resulted in IFFCO becoming one of the largest producer and marketer of Chemical fertilizers by expansion of its existing Units, setting up Joint Venture Companies Overseas and Diversification into new Sectors.

Source: www.ifcco.com

The distribution of IFFCO's fertilizer is undertaken through over 36666 Co-operative Societies. The entire activities of Distribution, Sales and Promotion are co-ordinate by Marketing Central Office (MKCO) at New Delhi assisted by the Marketing offices in the field. In addition, essential agro-inputs for crop production are made available to the farmers through a chain of 158 Farmers Service Centre (FSC). IFFCO has promoted several institutions and organizations to work for the welfare of farmers, strengthening cooperative movement, improve Indian agriculture. Indian Farm Forestry Development Cooperative Ltd (IFFDC), Cooperative Rural Development Trust (CORDET), IFFCO Foundation, Kisan Sewa Trust belong to this category. An ambitious project 'ICT Initiatives for Farmers and Cooperatives' is launched to promote e-culture in rural India. IFFCO obsessively nurtures its relations with farmers and undertakes a large number of agricultural extension activities for their benefit every year.

At IFFCO, the thirst for ever improving the services to farmers and member co-operatives is insatiable, commitment to quality is insurmountable and harnessing of mother earths' bounty to drive hunger away from

India in an ecologically sustainable manner is the prime mission. All that IFFCO cherishes in exchange is an everlasting smile on the face of Indian Farmer who forms the moving spirit behind this mission.

IFFCO, to day, is a leading player in India's fertilizer industry and is making substantial contribution to the efforts of Indian Government to increase food grain production in the country. IFFCO has now visualized a comprehensive plan titled 'Vision-2015' which is presently under implementation.

YEAR	2011-12	2012-13	2013-14	2014-15	2015-16
Current Ratio	8.51	4.65	5.39	5.01	5.77
Quick Ratio	7.00	3.87	4.14	4.07	4.97
Fixed Asset Turnover Ratio	5.20	4.37	4.23	5.25	6.04
Working Capital Turnover Ratio	2.87	1.99	2.21	2.57	2.46
Debt- Equity Ratio	2.28	1.69	1.46	1.56	1.90
Operating Profit to Turnover (%)	6.93	6.62	3.15	5.24	4.50
Profit Before Tax to Turnover	9.14	10.06	4.03	8.41	6.51
Return on Capital Employed	5.80	6.10	2.41	6.04	5.08
Profit Before Tax to Net Worth	18.03	17.63	6.26	15.07	13.58
Profit After Tax to Net Worth	13.68	11.60	4.90	9.38	9.39

5 Years Financial Analysis of IFFCO

Current Ratio in all 5 years is above the Standard Ratio, which is 2:1. It shows the sound financial position of the company. But it becomes double in 2011-12 as compared to Financial Year 2012-13 i.e. it becomes 8.51 from 4.65, which is too much high from ideal ratio. It is not a good sign for the company as too much of increase or decrease from the ideal ratio is not good for the company. Too high Current Ratio indicates that the funds of the company are not being used efficiently and are lying ideal and ideal funds doesn't yield any return. So, company should not maintain a very high Current Ratio.

Over the course of five financial periods of the study of IFFCO, Quick Ratio in all the 5 years is above the rule of thumb i.e. 1:1. It shows the sound liquidity position of the company. But in the year 2011-12, it gets near about double from the year 2012-13, i.e. from 3.87 it becomes 7.00, which is not at good for the company as it shows too much of liquid assets hold with the company and too much of assets lying ideal with the company is not giving any return to the company. Therefore, it's not very satisfactorily.

Fixed Assets Turnover Ratio is 5.2 for the year 2011-12. Then it decreased to 4.37 in year 2012-13, 4.23 in year 2013.14 which is not good for the company as lower ratio indicates the company's notability to generate more sales per rupee of investment in fixed assets. Then in next 2 years it increased continuously and reached 6.04 in the year 2015-16. Increase in Fixed Assets Turnover Ratio is good for the company as it shows that fixed

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investment in fixed assets has been utilized efficiently as compared to years in which Fixed Assets Turnover Ratio was lower.

Working Capital Turnover Ratio was 2.87 in the year 2011-12. Then it is continuously decreasing over the years and reached 2.46 in 2015-16. A lower Working Capital Turnover Ratio is not good for a company because it shows a lower efficiency of the management and inefficient utilization of working capital. So, the company should try to maintain the proper level of Working Capital Turnover Ratio.

Debt Equity Ratio was 2.28 in the year 2011-12. Then in the year 2012-13, it decreased then the previous year and becomes 1.69, which shows that company's external borrowing has decreased. In the next year, in 2013-14 it decreased continuously from the previous 1.46. But it again increased slightly and reached 1.56 in the year 2014-15 which is not a good sign for the company as it shows that the external borrowings of the company is increasing and company is more dependent on external sources of finance. As the ratio is increasing for the last year 2015-16 it is not good indication for the creditors as well as for the company.

The operating profit to turnover was 6.93% in the year 2011-12 which decreased to 6.62% in the year 2012-13. It shows that the company's operating profit has decreased as against the turnover of the company and then it continuously decreased for 2 years and reached 3.15% in the year 2013-14 which shows the operating deficiency of the management of the company. But in the year 2014-15 it increased to 5.24% and again decrease 4.5% to year 2015-16. It is not a good indication for the company. So, company should try to maintain a proper operating profit to turnover ratio by maintaining a proper balance between above mentioned 2 factors i.e. Gross Profit and Operating Expenses.

The Profit before Tax to Turnover was 9.14 in the year 2011-12. It increased in the year 2012-13 and reached 10.06 which is good for the company. But then it decreased for 2013-14 is 4.03. Again this is increase in year 2015-16 is 6.51. This high ratio shows the good business efficiency of the company. In the year 2013-14 it decreased to 4.03. This doesn't indicate a good position for the company as profit is a useful measure of efficiency of business and should be maintained at a higher ratio.

Return on capital employed should always be higher than the rate at which the company borrows; otherwise any increase in borrowing will reduce shareholders' earnings. Return on Capital Employed is the testimony of a company's continuous effort to effectively utilize its assets. In the year 2011-12, ratio was 5.8 but during the year 2012-13, ratio increase to 6.1. Than the ratio decreased in 2013-14 is 2.41 and again increase in year 2014-15 is 6.04 but in the year 2015-16 it again decreased and reached 5.08 decrease in Return on Capital Employed Ratio is not a good sign for the company. Company should try to maintain its Return on Capital Employed Ratio at a higher level because higher the ratio, good is for the company as this ratio indicates the firm's ability of generating profit per rupee of capital employed. The higher ratio indicates the efficiency of management and effective utilization of capital employed.

The higher profit before tax to net worth ratio indicates the more efficient utilization of the Long Term Funds provided by the shareholders. The ratio shows the firm's ability of generating profit per rupee of net worth. Profit before Tax to Net worth was 18.03 for the year 2011-12. It continuously decreased over the next 2 years and reached 6.26 in the year 2013-14 which was the lowest among the 5 financial periods studied. The lower ratio indicates the ineffective utilization of shareholder's funds. But in the year 2014-15 it goes up to 15.07 which is a good indicator for the company as Profit before Tax to net worth shows the company's ability to generate profit per rupee of shareholder's funds. So, the company should try to maintain the ratio at a higher level by increasing profit.

Profit before Tax to Net worth was 13.68 for the year 2011-12. It continuously decreased over the next 2 years and reached 4.9 in the year 2013-14 which was the lowest among the 5 financial periods studied. The lower ratio indicates the ineffective utilization of shareholder's funds. But in the year 2015-16 it goes up to 9.39 which is a good indicator for the company as Profit before Tax to net worth shows the company's ability to generate profit per rupee of shareholder's funds. So, the company should try to maintain the ratio at a higher level by increasing profit.

From the ratio analysis of Financial Statements of IFFCO for the 5 years, it can be concluded that liquidity position of the company was not very good as compared to the ideal situation because in the year 2011-12 Liquidity Ratio is high form their standard ratio. Debt Equity Ratio of the company is satisfactory. The company is dependent more on Long Term debts than Shareholder's Funds, which is the cheap source of capital than share capital due to which shareholder does can get a higher share in earnings. In the year 2010-11, the long term funds supplied by the creditors are used efficiently. But in the year 2011-12, Return on Capital Employed goes down because there is decrease in Profit before Interest and Tax.

There is an increase in Profit before Depreciation Interest and Tax in the year 2015-16 than previous year. But in spite of its increase, Profit after Tax goes down due to finance cost and depreciation. The increase in finance cost is mainly due to increase in borrowings of the company. So, the company should try to maintain low finance cost so that profit can be increased.

As far as dividend is concerned, the company is following Stable Dividend Policy and dividend is almost constant level over the s study period which is a good source of regular income for the shareholders.

Thus, it can be concluded from the study of 5 financial periods of IFFCO that the maximum Financial Indicators of IFFCO are not at a very good position. From the analysis of main Financial Indicators it is clear that Operating Profit to Turnover Ratio, Fixed Assets Turnover Ratio, Debt Equity Ratio, Current Ratio, Liquidity Ratio, etc are at a desirable position. However, company's Return on Capital Employed, Profit before tax to Turnover, etc were undesirable as compared to Previous Years.

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