

Business Model : A Case Study of Mandavgan Pharata Vividh Karyakari Seva Sahakari Society Maryadit

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ABSTRACT

Co-operatives have the capability and competence to deal with the conventional market system, which is one of the major obstacles to the improvement of the rural poor's situation and the advancement of agricultural development. The cooperative movement in India emerged with the Primary Agricultural Credit Societies (PACS). They are the cornerstone of India's cooperative credit system and account for the vast majority of cooperative institutes. By serving the financial needs of farmers and lower-income groups in the villages, these societies play an important role in their financial empowerment.

Different PACS are currently striving towards diversification to improve their economic and social standing to eradicate the stigma and repression that still exist in PACS. PACS is driven by a desire to help others. The purpose of this study is to look into the performance, issues, and future possibilities of PACS in the Pune District. Mandavgan Pharata Vividh Karyakari Seva Sahakari Society Maryadit (MPVKSS Society), a one-century-old PACS is studied in this research. The financial analysis is done with help of ratios to find the strength of MPVKSS Society. The business model of MPVKSS Society working in Shirur taluka, which has been involved in a variety of business operations, is highlighted in this article.

Keywords : *Co-operatives, Primary Agricultural Credit Societies, financial strength, business operations.*

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1. Introduction :

Co-operation is a way of human life. It exists in both formal and non-formal forms in all societies and communities all over the world. According to Calvert, a cooperative society is "a form of organization where in the persons voluntarily associate together as human beings on a basis of equality, for the promotion of economic interests of themselves". The theory of co-operation is that an isolated and powerless individual can by association with others and by moral development and mutual support obtain in his degree the material advantages available to the wealthy persons and thereby develop himself to the fullest extent of his natural abilities. The Report of the Committee on Co-operation in India, published by the then Government of India in 1915, stated that the theory underlying co-operation is that, weak individuals are enabled to improve their productive capacity and consequently their material and moral position by combining among themselves and bringing into this combination a moral effort and a progressively developing realization of moral obligation. Cooperation has contributed to the success of India's economic planning as the country's agricultural and rural policies are executed through the instrumentation of cooperatives. (Tripathy, Paliwal and Nistala, 2021)

The Primary Agricultural Credit Society (PACS) is the foundation stone on which the whole cooperative credit structure is built up. The District Central Co-operative Bank (DCCB) is present at the district level, and the State Co-operative Bank (SCB) which is an apex institution present at the state level having close links with the RBI and NABARD. The State/Central Land Development Bank (now renamed as State Co-operative Agricultural Rural Development Banks (SCARDBs) is the apex institution in two-tier credit cooperatives provide credit to the Primary Land Development Banks (PLDBs) (now renamed as Primary Co-operative Agricultural Rural Development Banks (PCARDBs) at district/taluka/block level in some states or through its branches where PCARDBs do not exist. Land Development Banks (LDBs) are providing long-term credit to the farmers.

The Primary Agricultural Credit Societies (PACS) are the root of the cooperative movement in India. They are the foundation stone of the cooperative credit structure and constitute by far the largest number of cooperative institutes in India. It is known by different names viz. PACS, Service Cooperative Banks, Farmers Service Societies (FSS), Large-Sized Adivasi Multipurpose Societies (LAMPS), and Multi-Purpose Service Cooperatives Societies (MPSCS), etc, while these organizations are generally known as PACS in India. The main functions of credit societies are to provide short and medium-term credit to

shareholders, the supply of agricultural and other requisites, and the marketing of agricultural produce (Ortmann and King, 2007). Primary Agriculture Cooperative Credit Societies (PACS) are the Short Term Cooperative Credit Structure (STCCS) building blocks in the country. As per the Reserve Bank of India, as of 31st March 2018, there exist 95,238 PACS with a membership of 132,029.7 thousand covering 639,342 villages in India. These societies play a significant role in the financial empowerment of farmers and lower-income groups in the villages by meeting their financial. At all India levels, we have roughly one PACS for every six villages embedded with rural needs for growth.

To eliminate the stigma and repression in PACS which are still existing with the time, different PACS are now-a-days moving towards diversification for an upsurge of their economic and social status respectively. PACS are based on service motive. PACS offers ample opportunities to empower its registered members to face challenges and problems. The present study is an inquiry into the performance, problems, and prospects of PACS in Pune District. This paper highlights the business model of PACS at Shirur which has been involved in diversified activities.

The study is divided into 5 sections. The next section describes the literature review followed by the research design. The result and discussion describe the different financial ratios and financial statements. The study concludes with the diversified activities that result in the viability of the PACS.

2. Literature Review

Farmers need finance for purchasing high-yield varieties of seeds, fertilizers pesticides, and agricultural implements. These agriculture inputs are made available through cooperative societies which are functioning level (Bikkina et al., 2018). PACS are set up under the cooperative act and rules and their members get limited finance from these societies in June-July every year so that they can purchase the various inputs to be used in the agricultural sector. PACS functioning at the grass-root level is directly connected with the rural people and farmers and helps to meet the financial requirements of more than 10 crore members (Mazumder et al., 2014). PACS provide short-term loans for agriculture and consumption purpose as well as medium-term loans for agriculture and allied activities. Demand for rural credit is increasing day-to-day by considering credit needs, agricultural credit societies were transformed from single purpose to multi-purpose societies (Das et al., 2009). Now-a-day's Primary Agricultural Cooperative Credit Societies were transformed from single purpose to multi-purpose societies. With time the demand for rural credit is increasing by considering credit needs, agricultural credit societies were

transformed from single purpose to multi-purpose societies (Reddy, 1990). PACS depend on external support and yet has not been able to become self-reliant relating to resources through deposit mobilization and internal accruals which affects the growth and expansion of business activities.

The PACS is the base on which the entire credit system is built. The farmers' members are having direct contact with the PACS at the village level, the Central Cooperative Bank at the district level, and the State Cooperative Bank at the state level (Shinde, H. R., et al., 2020). These societies are generally organized, managed, and benefited by the farmer members. The cooperative movement consisting of the different types of society it is these societies that form the bulk. The PACS provides short-term finance to the farmers (Vijayakumar, 2016). PACS as a financial institution plays a very important role at the grassroots level in the development of local areas. They are not only multipurpose organizations catering to the needs of a diverse society, but they are also multi-functional organizations with a host of activities like banking, supplies, marketing produce, and trading in consumer goods (Tenaw and Islam, 2009). The first PACS was formed in the year 1904. Since then these societies have been playing a significant role in providing short-term and medium-term credit to the farmers and till the early seventies, this was the only institutional credit agency available to the people in rural areas (Shah, 2001). The PACS functioning at the base of the cooperative banking system constitutes the major retail outlets of short-term and medium-term credit to the rural sector.

3. Research Methodology

This study adopts an exploratory and case study approach and relies on both primary and secondary data. The study has been completed by the way of personal interviews held with the branch manager of Shirur branch of Pune District Cooperative Bank and the secretary of the select PACS- Mandavgan Pharata Primary Agricultural cooperative credit societies. Further, the secondary data has been collected from the various annual reports of PDCC bank and the reports of PACS.

4. Business model-Mandavgan Pharata PACS

Mandavgan Pharata village is located in Shirur Tehsil of Pune district in Maharashtra, India. It is situated 40 km. away from sub-district head quarter Shirur and 80km. away from district headquarter Pune. As per 2009 statistics, Mandavgan Pharata is the gram panchayat of Mandavgan Pharata village.

The total geographical area of the village is 2843 hectares. Mandavgan Pharata has a total population of 9,543 people. There are about 1,962 houses in

Mandavgan Pharata village. As per 2019 stats, Mandavgan Pharata villages come under Shirur assembly & parliamentary constituency. Shirur is the nearest town to Mandavgan Pharata which is approximately 40km. away.

Mandavgan Pharata village is surrounded by small other villages, namely Dhumalwadi, Pimpalsuti, Inamgaon, VadgaonRasai, Sadalgaon, Faradwadi, Bambhulsar Bk, Ganegaon Dumala, Tandali, Koregaon Bhima and Sanaswadi. The total population of the village is 9,543 out of which 60% are male population. The literacy rate in the village is 80.65% including male literacy (87.48%) and female literacy (73.21 %). The total working population is 5,217 out of which 2,942 are males and 2,275 are females working in various business activities.

History to Mandavgan Pharata Vividh Karyakari Seva Sahakari Society Maryadit (MPVKSS Society) :

Mandavgan Pharata Vividh Karyakari Seva Sahakari Society Maryadit (MPVKSS Society) is a century old society working in Mandavgan Pharata. The society was started on 27th August, 1920 under the able leadership of Kisan Tatyapa Pandrinath Pharate. Shri Pharate was the renowned landlord of the village. He established Mandavgan Pharata Vividh Karyakari Seva Sahakari Society Maryadit with an objective to protect the farmers from exploitation of the moneylenders and to give loans to farmers at less interest rate.

During the initial years, the working of this society covered the nearby villages like, Madhavgan, Inamgaon, Faradwadi, Tandali, Dhumalwadi etc. Over the years, this primary credit society became renowned in nearby areas. Now, it is more focused on Mandavgan Pharata and Faradwadi villages.

The number of members of the society as reported recently is 3500, out of which there are 1100 women members. The society is engaged in distribution of farming products to farmers which helps them to enhance the production of crops.

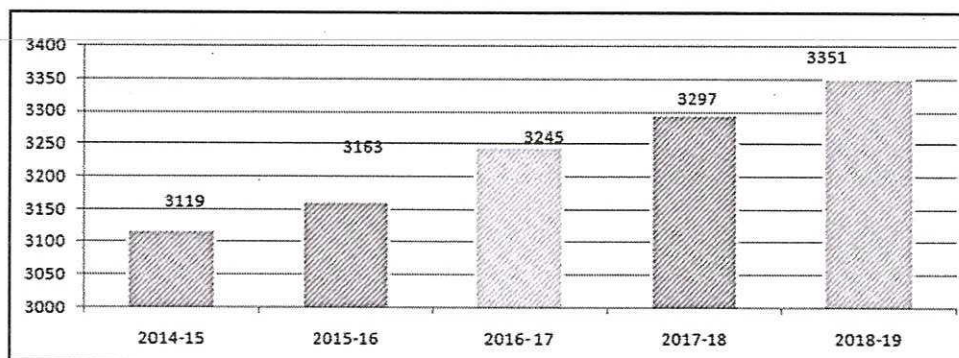
The main objects of the society are:

- a) To provide a measure of financial support to farmers in the event of crop failure as a result of drought, flood, etc. ;
- b) To restore the credit eligibility of the farmers after the crop failure for the next crop season; and
- c) To support and stimulate production of cereals, pulses and oil seeds.

At presently, the society is working under the leadership of Shri Santosh Pharate, Chairman and Shri Tukaram Thorat Vice Chairman. The society

management board includes Shri Mahadev Pharate, Shri Vishwas Pharate, Shri Rajaram Shitode, Shri Vijay Pharate, Shri Shahaji Pharate, Shri Satish Pharate, Shri Appaso Pharate. In management board, two women directors are working namely Smt. Babytai Pharate, and Smt. Sunita Pharate is working.

Graph 1: Membership Trend in Society



Graph 1 represents the membership trend of last five years. The number of members joining the society is increasing every year.

Vividh areas of working of MPVKSS Society

Society's main service is to provide credit to its members. The society provides various types of loans namely the irrigation loan, crop loan, seed loan, drip irrigation loan, vehicle loan, livestock loan, property loan, etc. The society also provides storage facilities for various agricultural produce. They also provide loans to farmers to construct small storage for onion. These loans are lent only to its members.

The society does the work of advancing loans to the farmers for various agricultural activities, including crop loan. The funds for advancing these loans is provided by the District Central Cooperative Bank (DCCB) of the districts, while the overall function of this loaning business is also under the control of the Apex Co-operative Bank, i.e, the Maharashtra State Co-operative Bank Limited. The D. C. C. Bank shoulder responsibility to provide funds to the Primary Co-operative Societies of the villages and, for that, interest at the rate of 9 % p.a. (per annum) is charged. While the Primary Co-operative Societies, on advancing crop loans to the farmers, charge 12% p.a. interest to the farmers. The crop loan is a short-term kind of loan which farmers need to repay the loan along with interest at the end of the harvesting season. The crop loan is disbursed for both Kharif crops and Rabi crops.

To generate other income, society has started different business activities. The society has started Fertilizers department, Cloth department, Gas department, Drip Irrigation at Mandavgan Pharata and Shirur area for the farmers and members of the society. The society believes that while doing such a vast business, the trust of farmers, members and customers play an important role. To create fixed income through owned land, the society has built a four-story building, which is rented to school.

Use of Computer in society :-

The PACS began their working using technology in the year 2004. At present, total 12 computers are installed in the PACS where all loan details to the members are saved. The experts from DCCB helped the members in technology training.

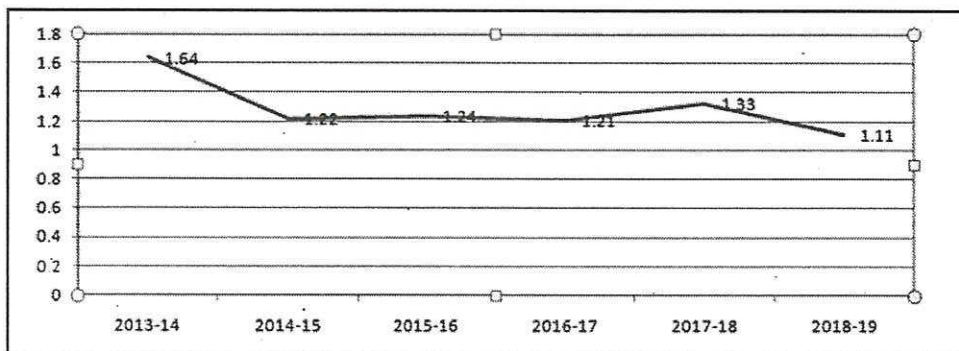
Society has implemented computer management system for all transactions of Primary Agriculture Cooperative Credit Societies, which provides doorstep assistance to member producers via the use of POS devices. This implementation of information system allows them to provide internet banking through bank of board. This type of services eliminates the visits of members in the co-operative and gives flexibility and payment of any loan. It reduces interaction with people in such a decentralized area of operations driven by innovation.

5. Financial Analysis of MPVKSS Society

The analysis of the society has been studied through financial ratios and financial statement of the MPVKS Society. The analysis helps to measure the society’s performance.

I. Current Ratio :

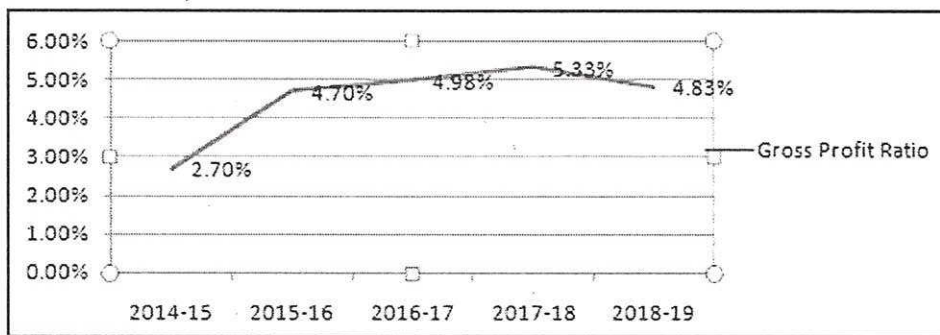
Graph 2 : Current Ratio



Graph 2 represents the current ratio of MPVKSS Society. The ability to meet co-operatives' obligations in the short term was measured using the current ratio. During the period 2014 to 2017, the current ratios of the selected society were stable. 1.29 is an average current ratio maintain during the period. Society does not have any inventories. A current ratio is above 1 which indicates that society has met the acid-tests ratio. This indicates that society has well-positioned to meet its short-term maturing obligations.

II. Gross Profit Margin

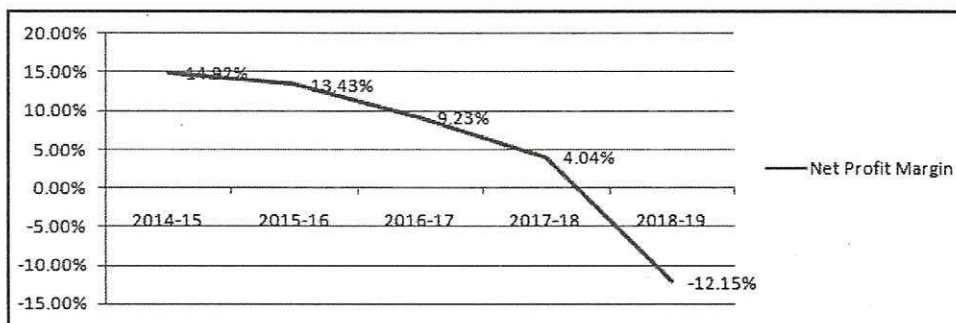
Graph 3: Gross Profit Ratio



Graph 3 represents the Gross Profit ratio of MPVKSS Society. The gross profit of society has subsequently increased in the year 2017-18 from 4.98% to 5.33% but again decreased in the year 2018-19. Though a consistent gross profit ratio is observed in subsequent years, the decrease may be due to some unfavorable conditions or mark-up policies in the society. Over five years society has managed resources efficiently.

III. Net Profit Margin :

Graph 4 : Net Profit Ratio

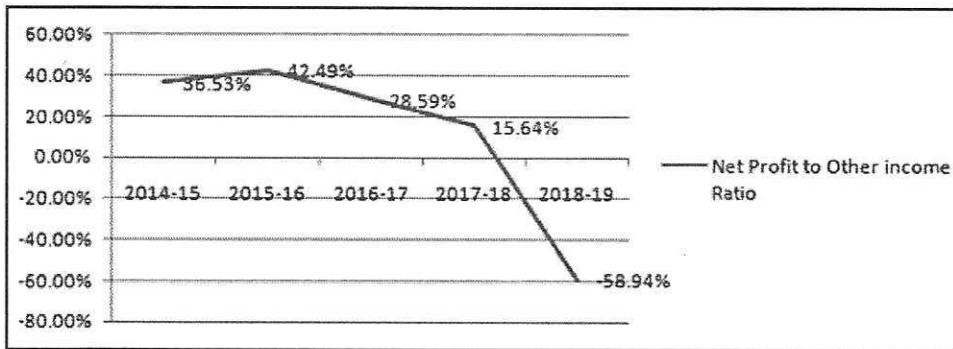


The above graph represents the Net Profit ratio of MPVKSS Society. The Net profit of MPVKSSSM has subsequently decreased in the subsequent

years. The data analysis indicates that the net profit margin was good/ positive until the year 2017-18, but in the year 2018-19, it reported negative net profit margin, indicating that the society is incurring net loss. Ultimately, it is inferred that the profitability of the society are declining over the years and moving towards a temporary downfall. This trend is due to a rise in expenses and NPA's also have an impact on profitability of society.

IV. Net Profit to Other Income Ratio

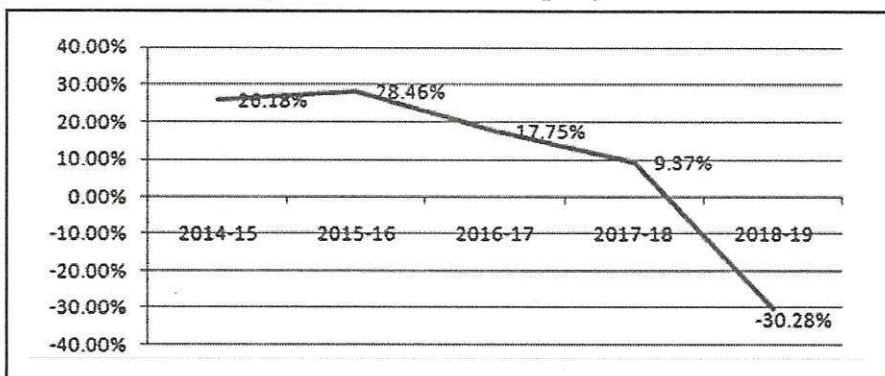
Graph 5 : Net Profit to Other income Ratio



Graph 5 represents the Net profit to other income ratio of MPVKSS Society. The net profit to other income ratio increased in the year 2015-16 but continuously decreased in subsequent years. In the year 2018-19 it became negative, which shows the losses have increased. It indicates that other different activities are not contributing to inflow in society. However, to conduct these different (vividh) activities cash outflow is happening. The society should find unnecessary or irrelevant expenses to reduce the indirect cost to recover from losses.

V. Return on Equity Ratio:

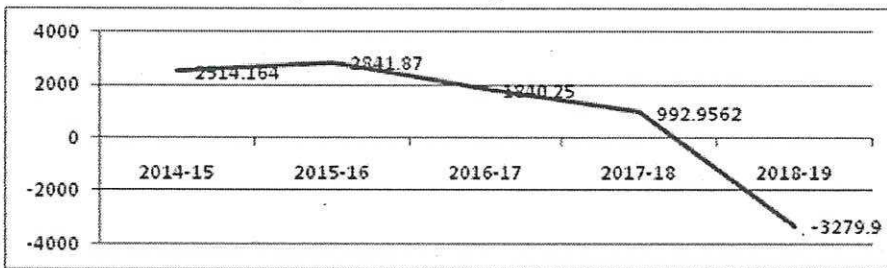
Graph 6 : Return on Equity Ratio



The return on equity ratio of MPVKSS Society is highlighted in Graph 6. ROE relates net income to the amount invested by members. This ratio helps to measure the efficiency of society to generate returns for members of society. The graph indicates that the ROE has decreased in all the subsequent years. Declining ROE suggests the cooperatives are becoming less efficient at creating profits and increasing shareholder value. This is because the management is making poor reinvestment decisions and not able to generate enough income.

VI. Earnings Per Share (in Rs.)

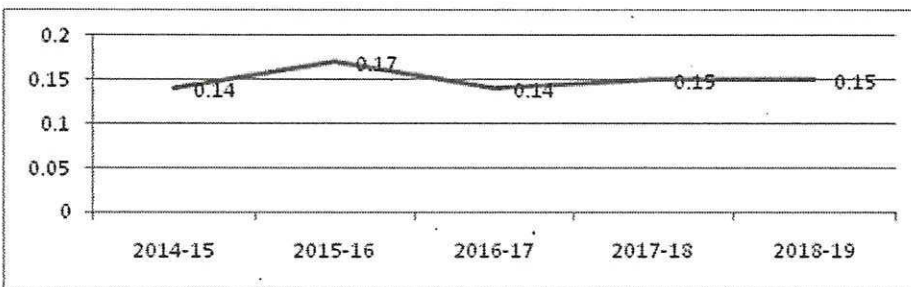
Graph 7 : Earnings Per Share



The above graph represents the earnings per share of MPVKSS Society. EPS measures the amount of net income earned per share of stock outstanding. As indicated in the graph, the EPS decreased from 2015-16 until it become negative in the year 2018-19. The decreasing EPS of the cooperatives gives an indication of a poor health of the MPVKSS Society and gives lower returns to the shareholders. Decreasing growth on EPS will affect the goodwill of society. This financial situation gives a poor indication of the cooperative’s future growth prospect.

VII. Asset Turnover Ratio

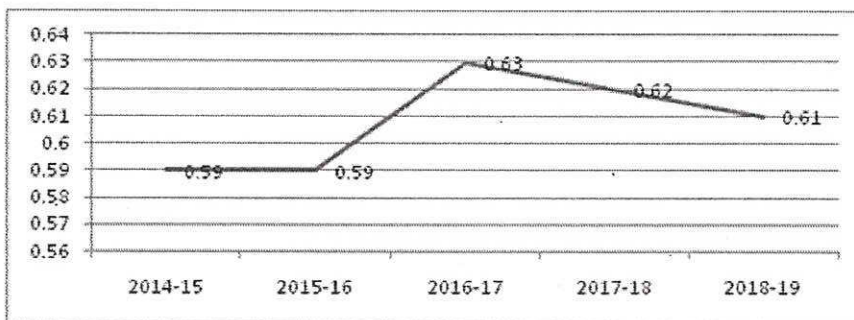
Graph 8 : Asset Turnover Ratio



The asset turnover ratio of MPVKSS Society is represented in graph 8. The asset turnover ratio measures the value of society's sales or revenues relative to the value of its assets. The asset turnover ratio is used to find the efficiency of society in using its assets to generate revenue. As shown in the figure, the society under study has negligible ratio ranging from 0.14 to 0.15, which indicates very high unproductive assets. ATR is below 1 throughout the five years period because in the cloth and fertilizer department society has invested money to maintain inventory to meet supply.

VIII. Debt Ratio :-

Graph 9: Debt Ratio



Graph 9 represents the debt ratio of MPVKSS Society. This ratio compares the borrowed fund of the society with fund invested by members. As seen in the graph, it has a high debt ratio (above .5 or 50%) which is almost stable throughout the subsequent years, considered to be "highly leveraged," which means that most of its assets are financed through debt, not equity.

Findings :

- The society has diversified its business by establishing the fertilizers department, Cloth department, Gas department, Drip Irrigation at Mandavgan Pharata and Shirur area for the farmers and members of the society. The society has recorded the highest revenue from fertilizers department.
- The society reported that the Annual General Meeting (AGM) is held regularly every year and the board meetings were held monthly with majority of participation of the members.
- The current ratio in the year 2018-19 indicates that the co-operatives were well positioned to meet their short term maturing obligations.

- The Gross Profit ratio of the society subsequently increased in the year 2017-18 from 4.98% to 5.33% but again declined in the year 2018-19. Society needs to focus on credit business and NPAs.
- The net profit of society has been declining and started making losses in 2018-19. The same is indicated in the net profit to other income ratio. This trend is due to a rise in expenses and NPAs of the society. The NPAs in crop loans has increased in the last few years because of the behavior of individuals regarding repayment of loans. Many times government has given a waiver of crop loans; therefore individual regular loan payer is becoming a defaulter.
- The return on equity has declined in society; it suggests the cooperatives are becoming less efficient at creating profits and increasing shareholder value. This is because the management of NPAs. Society needs to have proper non-performing assets management.
- The society has high debt ratio (above .5 or 50%) which is almost stable throughout the subsequent years, considered to be "highly leveraged" which means that most of its assets are financed through debt, not equity.
- It is reported that during the lockdown period owing to COVID-19 pandemic, all the departments of the society were shut down. In emergency, fertilizers has provided to the farmers on demand. Discounts of 15% offer to the members after the pandemic to motivate people and shareholders and helped the society in increasing sales.
- 65.85% of the members of society are user friendly in handling net banking.

Conclusion :

The Mandavgan Pharata Vividh Karyakari Seva Sahakari Society Maryadit is most preferred cooperative society for its members because it is the oldest society providing variety of loans and working in diverse sectors. Its financial performance was analyzed to be satisfactory in general. The debt-to-equity ratio has performed admirably. The MPVKSS Society shall take the necessary steps to ensure that operational expenditures should keep to a minimum. The society has many financial troubles during the previous five years, according to the financial records. Amongst the most effective methods for MPVKSS Society to establish themselves as major players in rural financial services is to turn into Multi Service Centres (MSCs), which offers a diverse range of goods and services to the local population. The society began by accepting deposits and extending loans to its members for agricultural and allied activities. Over time, the society's activities have expanded to include

pesticides, seeds, and fertilizers trading, custom hiring of agri equipment, value-added operations such as crop harvesting, seed production, processing infrastructure, and extensive marketing etc.

PACS has a business model which can deliver end-to-end solutions, however they haven't completely reached their commercial potential by utilizing their capabilities and links owing to a variety of flaws. The restricted business activity of primarily providing short-term agriculture loans has resulted in concentration risk in PACS's business portfolio, in addition to severe weather and market concerns and the presence of political risk. PACS is a microfinance institution that focuses on the short-term financing needs of small and marginal farmers. The timely provision of loans will assist rural farmers in increasing agricultural productivity, which would result in overall economic growth. PACS are meant to operate as effective and efficient multipurpose societies, providing a suite of services to rural residents, including finance, agricultural inputs and implements, consumer goods, marketing services, and technical guidance, in addition to mobilizing their resources as deposits. Diversification and deployment of technology are the main strategies to sustain the cooperatives in the ever-expanding competitive environment. (Tripathy, Paliwal and Nistala, 2021)

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