

# Structure and Operations of Farmer Producer Company in India with Special Reference to the State of Kerala

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**Abstract:-**This research paper examined the structure and operations of Farmer Producer Company (FPC) in India. Farmer Producer Company operating in the poultry sector of Kerala state of India named Venad Poultry Farmer Producer Company was selected for the study. The company was a well renowned producer organisation established in the year 2016. The functional area of Producer Company was poultry and dealing with the marketing of chicken meat, eggs, poultry inputs like medicines, vaccines, feeds and equipments, supply of high yielding and disease resistant BV380 chicks. The company is supported by NABARD and Kerala Agricultural University (KAU). The company got best Farmer Producer Company award from the honorable chief minister of Kerala, Shri. Pinaray Vijayan during 2018.

The parameters selected for study were; organisational structure, share capital, borrowings, deposits, gross profit/loss (EBIT), net profit/loss, procurement, processing and sales. The study was solely depended on primary data obtained from the selected FPC. These data were obtained from the financial statements and annual reports of the company. The data from 2016-17 to 2019-20 had taken for analysis. Simple Growth Index and Compound Annual Growth Rate (CAGR) were used as the tools for analysis. Bar diagrams were depicted for a diagrammatic representation of growth throughout the years. It was clear from the analysis that the company was in the phase of growth stage from that of introductory stage.

The structures and operations of the company was based on the rules mentioned in the Indian Companies Act, amended in 2002, the Government of India incorporated a new section IXA based on the recommendations of the Y.K. Alagh Committee called "Producer Companies". The Venad Poultry FPC had obtained a trade mark in the industry through the introduction of India's first source traceability technology in the poultry sector. Therefore company could be able to provide safe eggs and meat for their customers, where people could trace the QR codes and able to identify the quality of products and details of farmers.

**Keywords:-**FPC- Farmer Producer Company, Farmer collectives, CAGR- Compound Annual Growth Rate, SGI- Simple Growth Index, NABARD- National Bank for Agriculture and Rural Development.

## I. INTRODUCTION

Agricultural activity is generally accepted as a noble profession. However, nature's fury, exploitation by market forces and other exogenous and endogenous factors compel the farmers to do away with cultivation. According to NABARD 2019 reports, 21% of the world's small holdings of 450 million are in India ie; 92 million small holdings or nearly. Therefore, the challenges were enormous for India in ensuring the true productiveness of those small holdings and are the main livelihood source for millions of people dependent on it. Today, farmers find it difficult to raise sufficient resources to meet their requirements, since the return from agriculture was insufficient. The escalating cost of cultivation and diminishing income from agriculture confirm the miserable condition of the farmers. The farmers are forced to continue the agricultural activities, since they do not have any alternative. Agriculture and farming operations are mostly not a lucrative venture in Kerala.

Thus Indian Government had introduced a new concept called "Producer Company" through an amendment in the Indian Companies Act, 1956 in 2002 for the economic revival of poorer farmers. For a Producer Company is concerned, the structure and its operation is very important. The structure and the operation guidelines are mentioned under Section 581(C) of Indian Companies Act, 1956, as amended in 2013. In order to revive Indian economy during 2020 - amidst of Covid-19 pandemic, the government focused in the self reliant agricultural production through these Farmer Producer Companies. As part of this initiative, Government of India had introduced several revival packages for these producer companies with the help of National Bank for Agriculture and Rural Development (NABARD) and Small Farmers Agribusiness Consortium (SFAC). At heart of this effort, the farmers can be ensured stable income and helps them to overcome disasters like crop loss, climate change etc. In this scenario, it is important to study the structure and operations of Farmer Producer Company in India.

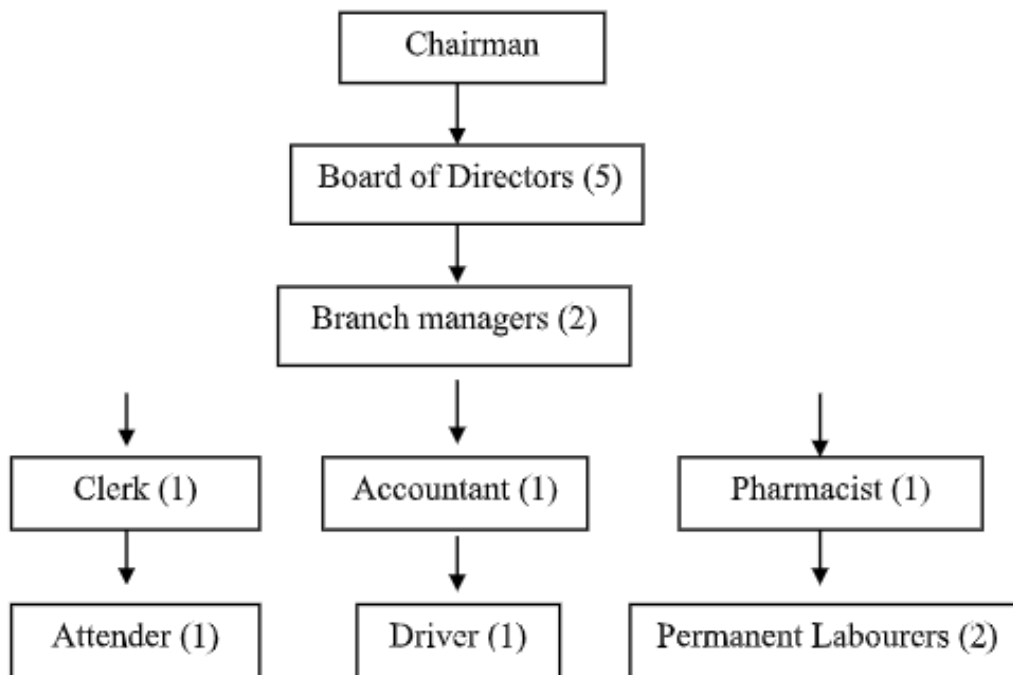
**II. MATERIALS AND METHODS**

The present study was analytical in nature. The study was solely based on primary data obtained from the selected FPC. The data collected from the annual reports and financial statements of company from 2016-17 (company established year) to 2019-20 were used to examine the structure and operations of Venad Poultry FPC. Diagrammatic methods, Simple Growth Index (SGI) and Compound Annual Growth Rate (CAGR) were used for the analysis of data obtained.

$$SGR = \frac{\text{Present value} - \text{Past value}}{\text{Past value}} * 100$$

$$CAGR = \frac{\text{Ending Value}}{\text{Beginning Value}}^{1/\text{No. of years}} - 1$$

**a) Organisational structure in terms of human resource.**



The company is governed by members/ shareholders, Board of Directors (BoD) and office bearers. BoDs are elected by the members and may act collectively through meetings. The minimum number of BoDs required to start a PC is 5 directors and not more than 15 directors. An office bearer is a person who is appointed to look after the day to day affairs of the PC. They include Chief Executive Officer (CEO), Managers, Accountants, clerk and other staffs.

**III. RESULTS AND DISCUSSIONS**

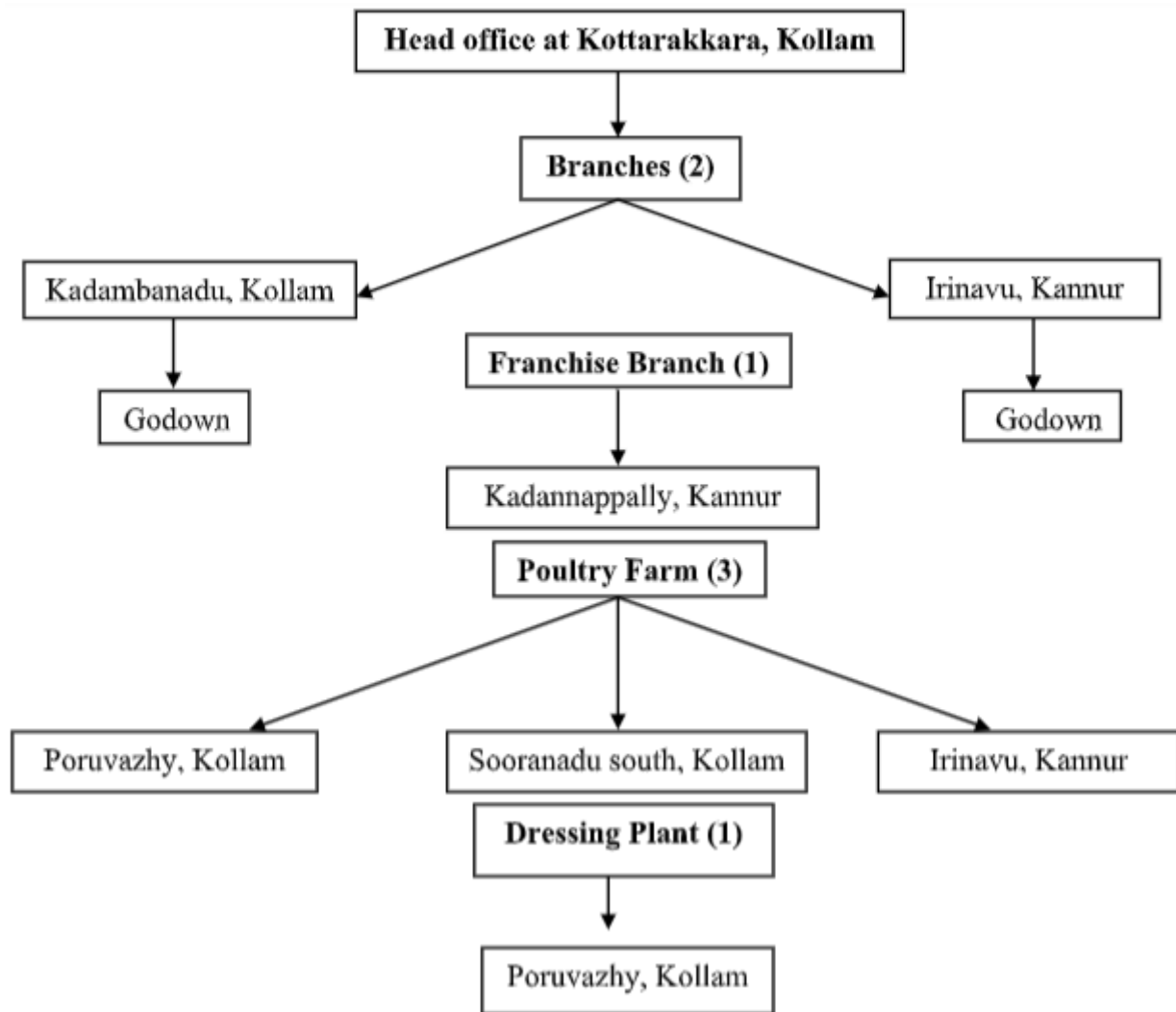
**Structure and Operations of Venad Poultry Farmer Producer Company**

The right structure and operations are significant for efficient running of a Producer Company. The structure and the operation guidelines are mentioned under Section 581(C) of Indian Companies Act, 1956, as amended in 2013. In this section, scrutinizing whether the structure and operations of Venad Poultry Farmer Producer Company is as stipulated by law or not.

**Organisational Structure**

Organisational structure is the foundation of the company in which the actual strength inhabits. To study the variable, certain factors such as vision, mission, company departments, human resources, members and membership were need to be considered.

**b) Organisational structure in terms of company departments**



**c) Company Vision, Mission, Members and Memberships**

**i. The Vision of Venad FPC:**

Stable income for farmers and provide safe to eat egg, meat and milk to public.

**ii. The Mission of Venad FPC:**

Increase the income of small farmers and building confidence among the consumers by bringing them closer to farmers through traceability of products using QR code.

**iii. Members and Membership:**

Any individual, group, association, producer of goods or services can be the members of a Producer Company (PC). All the primary producers residing in the relevant area, and producing the same or similar produce, for which producer organization has been formed, can become the member of the producer organisation. All members enjoy equal rights.

| Particulars                    | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|--------------------------------|---------|---------|---------|---------|
| Number of share holder members | 12      | 51      | 201     | 531     |

**Table 1. Membership of Venad Poultry Farmer Producer Company (Amount in no.s)**

Source: Data compiled from the Annual Reports.

It is evident from the table.1 that, the Venad FPC had fulfilled the minimum requirements in membership as stipulated by the law. Minimum number of members required to start a PC is 10. They initially started the company with twelve members and there was a drastic increase in the number of members for the past three years. The gradual growth and sustainability of the company in the technology development and implementation might attracted more people towards the company.

**Operations of the Venad Poultry Farmer Producer Company**

The operations of the producer company are studied using the growth in their share capital, borrowings, deposits, profit/loss, procurements and sales. Growth index and compound annual growth rate were used for the analysis.

**Share capital**

Share capital is the money a company raises by issuing common or preferred stock. The company must specify the total amount of equity it wants to raise and the base value of its shares, called par value. Authorized share capital is the maximum amount a company has been approved or allowed to raise. This does not limit the number of shares a company may issue but it puts a ceiling on the total amount of money that can be raised by the sale of those shares.

The minimum paid up capital for Producer Company is Rs. 1 lakh and the minimum authorized capital for a Producer Company is Rs. 5 lakh. The authorized capital of the company can be more than Rs. 5 lakh as indicated in the Memorandum of Association (MoA). The authorized share capital should be sufficient for carrying out the objects mentioned in the memorandum. The authorized share capital should be realistic.

| Year        | Authorised share capital | Paid up share capital | Growth index |
|-------------|--------------------------|-----------------------|--------------|
| 2016-17     | 50,00,000                | 5,20,000              | 100          |
| 2017-18     | 50,00,000                | 24,70,000             | 475          |
| 2018-19     | 50,00,000                | 32,41,000             | 623          |
| 2019-20     | 50,00,000                | 45,22,000             | 870          |
| <b>CAGR</b> |                          | <b>105.6</b>          |              |

Table 2:- Share capital of the Venad Poultry Farmer Producer Company (Amount in lakhs)  
Source: Data compiled from the Financial Statements.

It is clear from the table 2 that Venad Poultry Farmer Producer Company had satisfied the share capital criteria stipulated in the Act. During 2016-17, the share capital of the company was Rs. 5,20,000 which means five hundred and twenty equity shares of Rs. 1000/- each fully paid up during the year. Two thousand four hundred and seventy equity shares of Rs. 1000/- each fully paid up of which 150 shares are issued for consideration other than cash during 2017-18. In 2018-19, the share capital of the company had grown to Rs. 32,41,000. Afterwards, there was a huge increment in the paid up share capital and as on March 31<sup>st</sup> 2020, Venad FPC has a paid up share capital of Rs. 45,22,000 which indicates a strong base of the company in their owned fund.

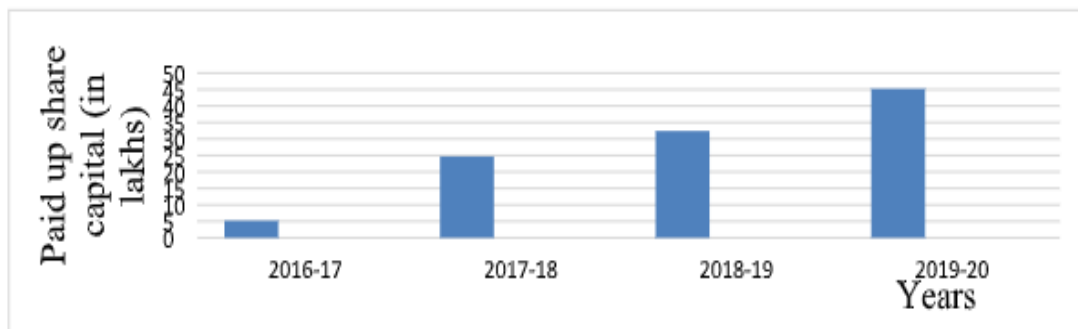


Fig1:- Share capital of Venad Poultry FPC from 2016-17 to 2019-20

**Borrowings**

Borrowings are the sum of money borrowed from a bank or any other financing agencies for specific purposes or it is an act of taking money from a bank and paying it back over a period of time. Based on the period of time,

borrowings are of three types; short term, medium term and long term borrowings. A company usually takes loans for business purposes like expansion of infrastructure, branch expansion, product expansion etc.

| Years          | Long term borrowings |                     |                  |                | Total       | Simple Growth Index (%) |
|----------------|----------------------|---------------------|------------------|----------------|-------------|-------------------------|
|                | Bank Over Draft      | Loan from directors | Loan from others | Unsecured loan |             |                         |
| 2016-17        | -                    | -                   | -                | 1280843.75     | 12,80,844   | 100                     |
| 2017-18        | -                    | 4,00,000            | 1,004,160        | -              | 14,04,160   | 109.6                   |
| 2018-19        | 50,00,000            | 4,00,000            | 6,65,000         | -              | 60,65,000   | 473.5                   |
| 2019-20        | 10,00,000            | -                   | -                | -              | 10,00,000   | 78                      |
| <b>CAGR(%)</b> |                      |                     |                  |                | <b>-7.9</b> |                         |

Table 3:- Borrowings of the Venad Poultry Farmer Producer Company (Amount in lakhs)  
Source: Data compiled from the Financial Statements.

Table3 indicates that the Venad FPC was established during 2016-17 by taking a loan amount of Rs. 12,80,844 from Kerala Gramine Bank to meet their establishment cost and all in the initial year. They took long term loan in the year 2017-18 because they had started their branches in the same year. And during 2018-19, they had taken a huge amount of loan compared to that of previous year because

they had started retail outlets in different parts of the state and introduced new technology in the poultry sector of farming. In the year 2019-20, the loan amount outstanding was only Rs. 10 lakh which means they had obtained a successful state to repay those huge loan amounts. The current long term loan is for a period of ten years.

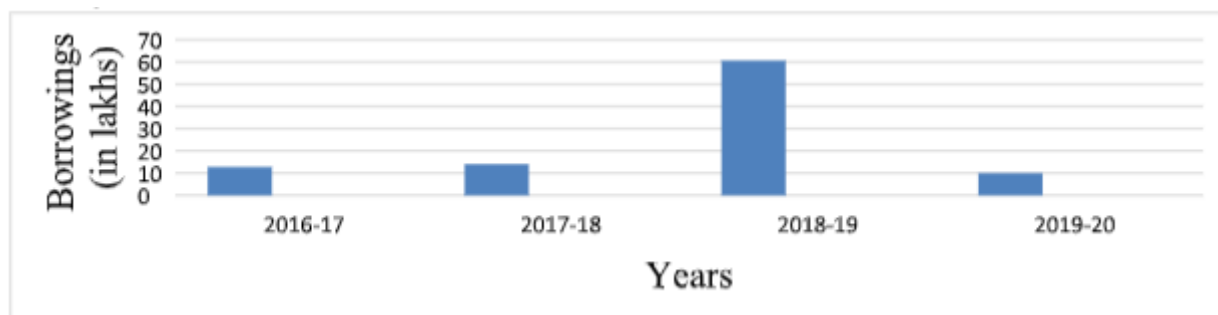


Fig2:- Borrowings of Venad Poultry FPC from 2016-17 to 2019-20

**Deposits**

Deposits are sum of money paid into a bank for the future benefits and to meet any emergency. Deposits are of different types with different rate of interest and period. Different types of deposits are fixed deposits, savings

deposit, current deposit, recurring deposits etc. A company after meeting the expenses and investments, the remaining revenue obtained from their operations will deposit in a bank to meet any eventuality.

| Particulars                   | 2016-17    | 2017-18   | 2018-19  | 2019-20   |
|-------------------------------|------------|-----------|----------|-----------|
| Fixed Deposit                 | 4,24,155   | 10,64,212 | 5,64,421 | 10,00,000 |
| Savings Deposit               | 5,61,048   | 2,73,480  | 2,75,000 | 3,00,000  |
| Total Deposit                 | 9,85,203   | 13,37,692 | 8,39,421 | 13,00,000 |
| <b>Simple Growth Index(%)</b> | 100        | 135.77    | -48      | 132       |
| <b>CAGR of total deposits</b> | <b>9.6</b> |           |          |           |

Table 4:- Deposits of the Venad Poultry Farmer Producer Company (Amount in lakhs)

Source: Data compiled from the Financial Statements.

Table 4 summarizes that in case of Fixed Deposits, the year 2017-18 faced a drastic increase followed by a decline in the year 2018-19. But in 2019-20, the fixed deposit was increased to 10 lakh. While considering the Savings Deposit, there were a drastic decline from the initial year and followed by a slow increase in the deposit. As on 31<sup>st</sup> March, 2020, Venad FPC has a savings deposit of Rs. 3 lakh.

2018-19 was negative means the growth rate of deposit was almost nil in comparison to the previous year. This was the indication of revenue utilization in the investments at proper time which in turn gave a positive growth in the succeeding year. During 2019-20, the growth index was higher than that of previous years which indicate the increment of total deposit of the company. The deposits are directly depends upon the sales, profit and operations undertaken by the company.

In case of Total Deposit of Venad Poultry Farmer Producer Company, the growth index obtained in the year

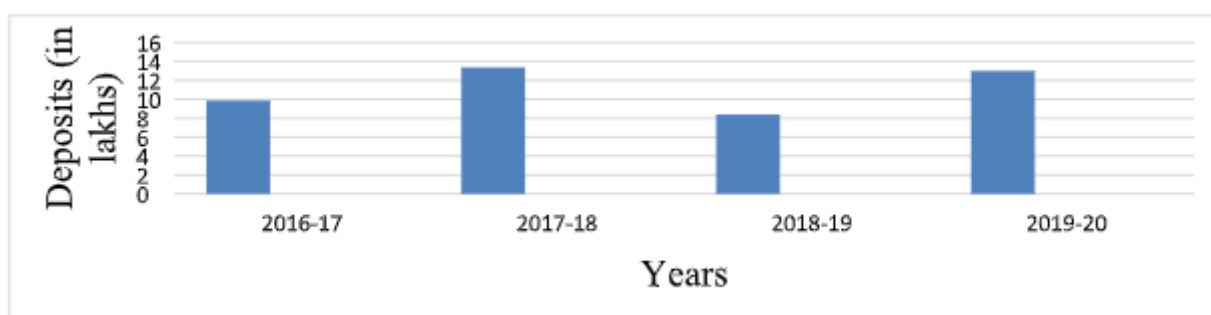


Fig3:- Total deposits of Venad Poultry FPC from 2016-17 to 2019-20

**Gross Profit and Net Profit**

Gross profit is the profit a company makes after deducting the costs associated with making and selling its products, or the costs associated with providing its services. Gross profit will appear on the company's income statement and can be calculated by subtracting the cost of goods sold from revenue. It assesses a company's efficiency at using its labor and supplies in producing goods or services. It is also known as Earnings Before Interest and Tax (EBIT), which is

a company's profit before interest and taxes are factored in. It is also called as gross income.

A company's profit is called net income or net profit. Net profit reflects the total residual income that remains after accounting for all cash flows, both positive and negative. It can be calculated by deducting all income, expenses and costs from revenue. It is arguably the most important financial metric, reflecting a company's ability to generate profit for the owners and shareholders alike.

| Year        | Gross Profit | Growth Index | Net Profit  | Growth Index |
|-------------|--------------|--------------|-------------|--------------|
| 2016-17     | 4,28,782.96  | 100          | 1,22,631.59 | 100          |
| 2017-18     | 95,612.08    | -42.96       | 71,942.08   | 58.67        |
| 2018-19     | 9,10,000     | 189.93       | 3,00,848    | 245          |
| <b>CAGR</b> | <b>45.6</b>  |              | <b>56.6</b> |              |

Table 5:- Profits of the Venad Poultry Farmer Producer Company (Amount in Rs.)  
Source: Data compiled from the Financial Statements.

Table 5 indicates a negative growth index in gross profit as well as net profit in the year 2017-18 was due to the increase in the expenses incurred by the company. Expenses include cost of materials consumed, employment benefit expenses, finance cost, depreciation and amortization expense and other expenses. As far as the company is concerned, 2017-18 is the year in which they expanded their branches, outlets, farms, freezing plants and other infrastructures which lead to a high establishment cost in the

year. And also they adopted new and pioneer technology called "source traceable chicken" which also leads to cost increment. Cost increment in the sense that GST registration, drug and trade license, export-import license and FSSAI license and so on. But the next year onwards they reaped what they sown which was understandable from the positive hike of the graph. Gross profit and net profit had obtained a tremendous growth index in the next year ie; during 2018-19.

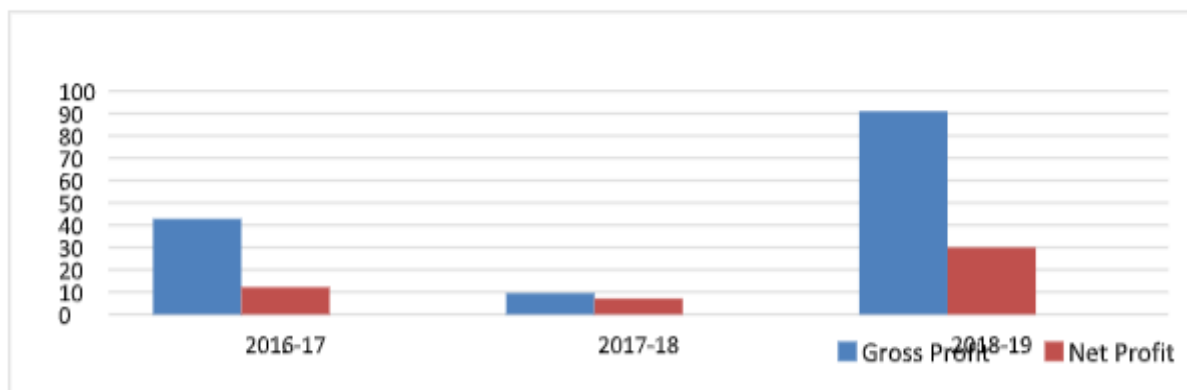


Fig4:- Profits of Venad Poultry FPC from 2016-17 to 2018-19

**Procurement and Processing**

Procurement in the simplest sense, involves a series of activities and processes that are necessary for an organization to acquire necessary products or services from the best suppliers at the best price. Such products or services that are procured include raw materials, office equipments, service and supplies, furniture and facilities, technical equipment and support, telecommunications, printed collateral, contingent worker recruitment, testing and training and travel related services, among many others. It is otherwise a process of buying raw materials for the active engagement of production activities. The company may procure raw materials based on its quality, price and availability in the market.

Processing is the process of converting the raw materials into fine products according to market demand and customer wants. It is a value adding process of converting raw materials into finished goods through the use of tools, human labor, machinery and chemical processing. And it allowed businesses to sell finished products at a higher cost over the raw materials used.

While considering the Venad Poultry Farmer Producer Company, majority of the inputs are procured from Tamil Nadu which include poultry feeds, medicines, vaccines, equipments and day old broiler chicks. Hi-tech cages are procured from Hyderabad and BV380 chicks from Bangalore.



In case of processing, the company processed the broiler meat as frozen and marketed the meat according to customer demands. They converted the frozen meats adoptable for different chicken dishes in restaurants. The eggs produced in households are collected, and marketed with traceability using hologram and QR code label in Venad brand.

### Sales

A sale is a transaction between two or more parties in which the buyer receives tangible or intangible goods, services or assets in exchange for money. In the financial markets, a sale can also refer to an agreement that a buyer and seller make regarding the price of commodities. In addition, the goods or service that is being offered has to actually be available to purchase and the seller has to have the authority to transfer the item or service to the buyer.

| Year        | Products      |               |             |                    | Total Sales  | Growth Index |
|-------------|---------------|---------------|-------------|--------------------|--------------|--------------|
|             | Poultry feeds | Hi-tech cages | BV380 birds | Medicines/vaccines |              |              |
| 2016-17     | 49.56200      | 12.07194      | 7.15276     | 2.51156            | 71.29826     | 100          |
| 2017-18     | 78.640        | 23.8015       | 12.1476     | 4.12321            | 118.71231    | 165          |
| 2018-19     | 251.6521      | 68.7623       | 54.3840     | 7.39435            | 382.19275    | 531          |
| <b>CAGR</b> |               |               |             |                    | <b>131.5</b> |              |

Table 6:- Sales of the Venad Poultry FPC (Amount in lakhs Rs.)

Source: Data compiled from the Annual Reports.

It is evident from the table 6 that the total sales had a positive and increasing trend. From 2017-18 to 2018-19 there was a tremendous hike in the sales leads to a growth index of 369.5 which was 6 times more than that of the preceding year index. This incredible growth in the sales was due to the introduction of traceability in their products which increases the company loyalty and in turn leads to high confidence among customers regarding the trustworthy products.

Availability of these poultry farming inputs at an affordable rate attracted more people towards this sector and thus it impacted a drastic growth in the sale of poultry feeds, BV380 birds and Hi-tech cages. From the second year to third year, all the products had a sale of 3-4 times than that of previous years. It indicates a higher and irreplaceable position of the company in the current market.

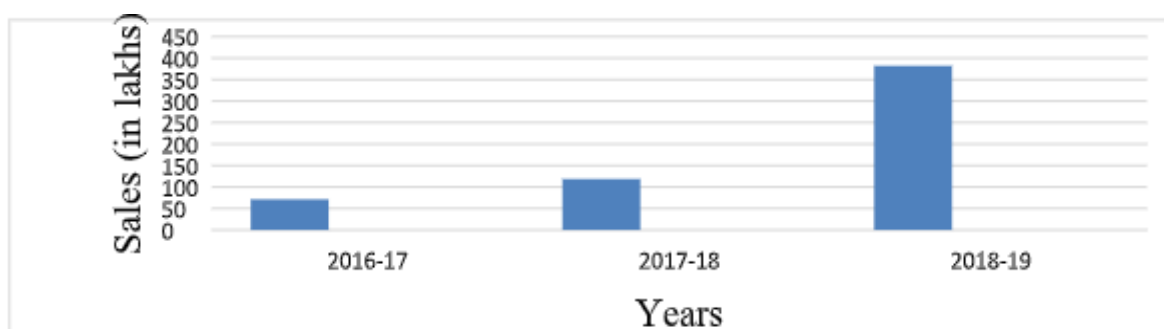


Fig5:- Sales of Venad Poultry FPC from 2016-17 to 2018-19

## IV. CONCLUSION

Venad Poultry Farmer Producer Company had established in the year 2016 with 12 member farmers. Now the company had grown and as of March 2020, they had 531 member farmers. As on March 2020, share capital of the company was Rs. 45,22,000. The company is concentrated on the household production of country eggs by utilizing kitchen waste and food balance generated in the households. For this, small units of high yielding layer birds along with hi-tech poultry cages were supplied to farmers. The eggs produced in the households are collected and marketed with traceability using hologram and QR code in Venad brand. The QR code label on the packet, when scanned using mobile application give details such as name and address of the farmer, variety of birds, feed used, number of birds, date of collection of eggs etc. This unique technology is called "Source traceability" and it was the first a Farmer Producer

Company in India introduced this technology. The company also processed the broiler meat as frozen and marketed the meat according to customer demands. They converted the frozen meats adoptable for different chicken dishes in restaurants.

The analysis of structure and operations of Venad Poultry Farmer Producer Company reveals that the company had a good structure in terms of human resource as well as company departments. While analyzing the operations of the company, growth index and compound annual growth rate were used. The company was in its introductory stage ie; they were established during the mid of 2016. Only up to last year data were available (3 years). The share capital, deposits, sales, gross and net profits were having a positive growth rates. The borrowings growth rate of the company had decreased so far which indicates the operations of the company was good enough to repay its borrowings.

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