

Caase study

Finance



The two primary functions of Varian Magna Agricultural Cooperative Society (EVANS) are procurement of agricultural produce from the farmers & marketing it to the amandine, and procurement & supply of agricultural inputs to the farmers. The objective is to devise a strategy for EVANS for efficient use of funds with respect to procurement and sale. Criteria Benefit of the farmers should be the top priority while planning the strategy.

Financial planning must be done carefully in view of the limited supply of funds. Variation of prices of payday as well as fertilizers during different seasons must be used to the advantage of EVANS. Since the society shares a good relationship with the bank, this must be leveraged to suit required credit facilities. Options We assume that EVANS maintains minimal liquid cash to handle administrative expenses and interest.

Some of the relevant options are listed below: Option 1: Option 2: Option 3:
 Evaluation Option 1 Farmers get sufficient funds to plan long term Losing out on higher margins by selling payday at current price Cost benefit on early arches of fertilizers is marginal Initial cash balance Cash paid to farmers Revenue from payday sales +500000 Fertilizers purchase expense Overheads -35000 ODD Extension Option 2 Cost benefit by postponing payday sales is high Insurance for payday -10000 From reserves Option 3 Farmers get their part of their share on time Cost benefit on early purchase of fertilizers can also be leveraged Credit limit extension translates to higher interest Part payment to farmers -250000 -38000 -298000 Interest -15000
 Decision The high cost of storage, labor and equipment and the low savings margin make the early purchase of fertilizers an unattractive option.

On the other hand, there would be a significant loss with regard to opportunity cost since we are selling payday at the current price of INNER 5000 per ton. Moreover, a marginal extension of Overdraft limit is required to support operations. The higher margin on payday sales can be leveraged by holding the stock in storage for 6 months. The high overheads of storing fertilizers can be avoided. Since we have sufficient reserves, we can support daily operations with minimal funds. The objective of the Co-operative society is to benefit the farmers over the long run. If the members agree to give up part payment towards procuring fertilizers at the discounted price, they can get the coupled benefits of the higher margins on payday and reduced fertilizer costs. Therefore, we recommend option 3.

Action Based on the calculations below, accounting for minimum and maximum possible price of payday in 6 months, we can bring about a substantial reduction in cost per bag of fertilizers. Min Max 630000 750000
 Profit margin 130000 250000 (-) Interest Net profit from payday sales 210000
 Fertilizer cost 475000 38000 Total Cost 513000 (-) Net profit from payday sales Revised Total Cost of Fertilizers 423000 303000 Revised cost per bag of Fertilizers 222. 63 159. 47 Contingency Since our recommended option requires deferring part payment, the farmers do not receive the entire sale revenue right away. This option also requires the bank to allow an extended overdraft limit to EVANS. In the circumstance, that either or both parties are unwilling to accept this proposal, we recommend option 2 as a backup.