FINANCIAL PERFORMANCE ANALYSIS OF SELECTED DAIRY UNITS IN ANDHRA PRADESH USING ALTIMAN Z SCORE MODEL

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ABSTRACT

The growth of the dairy sector during the last three decades has also been impressive, at more than five percent per annum; although the country has emerged as the largest producer of milk only in the ‘90s. Dairying has become an important secondary source of income for millions of rural families and has assumed a most important role in providing employment and income generating opportunity. This study analyses the financial health of eleven sample dairy units Andhra Pradesh using Z Score Analysis.

INTRODUCTION

India is the world’s largest producer of dairy products by volume and has the world’s largest dairy herd. The country accounts for more than 13% of world’s total milk production and is also the world’s largest consumer of dairy products, consuming almost all of its own milk production. Dairying has been regarded as one of the activities that could contribute to alleviating the poverty and unemployment especially in the drought-prone and rain-fed areas. In India, about three-fourth of the population live in rural areas and about 38% of them are poor. Therefore among these people, as well as the large vegetarian segment of the country’s population, dairy products provide a critical source of nutrition and animal protein to millions of people in India.

In India, Andhra Pradesh has been showing definite positive growth trends and is inclining close towards national trends. Dairy business in Andhra Pradesh hits jackpot as it has grown by leaps and bounds over the past few years to be currently worth Rs. 5000 crore. The rise in demand for milk and milk processed products has catapulted the state to third position in the country in terms of milk production with 1.12 crore tones produced in 2010-2011.
Research Goals
To study the financial health of sample dairy units in Andhra Pradesh using Z score analysis

Methodology
The study has been undertaken for the period of eight years from 2005 to 2012. In order to study the financial health of dairy industry in Andhra Pradesh eleven sample dairy units have been taken.

Tools Applied
To predict the financial health of dairy companies, Z Score Analysis has been adopted.

Z Score Analysis
In order to analyse the financial health of sample dairy units in Andhra Pradesh in terms of liquidity, solvency, profitability and financial efficiency, various accounting ratios like Ratio of working capital to total assets, Ratio of net operating profit to net sales, Ratio of earnings before interest and taxes to total assets, Ratio of market value of equity to book value of debt and Ratio of sales to total assets have been used.

Altman Z Score
"Z" score analysis has been established by Edward I. Altman to evaluate the general trend in the financial health of an enterprise over a period. Many of the individual accounting ratios used frequently to predict the financial performance of an enterprise may only provide warnings when it is too late to take a corrective action. Further single ratio does not convey much of the sense. There is no internationally accepted standard for financial ratios against which the results can be compared. Therefore, Edwin I Altman combined a number of accounting ratios (liquidity, leverage, activity and profitability) to form an index of the probability, which was effective indicator of corporate performance in predicting bankruptcy. The data collected were first analyzed with the help of five accounting ratios. These different ratios are combined into a single measure-Z Score Analysis with the help of Multiple Discriminant Analysis (MDA). “Z” is the overall index and the variables $X_1$ to $X_4$ are computed as absolute percentage values while $X_5$ is computed in number of times.

The formula for "Z" score analysis is as follows:

$$ Z = 0.012X_1 + 0.014X_2 + 0.033X_3 + 0.006X_4 + 0.999X_5 $$

$X_1$: Ratio of working capital to total assets = Working Capital /Total Assets *100.

$X_2$: Ratio of net operating profit to net sales = Net Operating Profit /Sales *100.

$X_3$: Ratio of earnings before interest and taxes to total assets = Earnings before Interest and Taxes / Total Assets *100.

$X_4$: Ratio of market value of equity to book value of debt = Market Value of Equity / Book Value of Debt *100.

$X_5$: Ratio of sales to total assets = Sales / Total Assets.

Altman Guidelines
- Below "Z" score of 1.8, the unit failure is certain and it is considered to be in bankruptcy zone.
If a unit has a "Z" score between 1.8, and 3, its financial viability is considered to be healthy. The failure in this situation is uncertain to predict.

Above "Z" score of 3, the unit is in too healthy zone and its financial health is very viable.

TABLE 1

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Durga Dairy Limited</td>
<td>-2.3</td>
<td>-15.06</td>
<td>-8.53</td>
<td>16.64</td>
<td>33.51</td>
<td>26.69</td>
<td>26.43</td>
<td>23.86</td>
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</tr>
<tr>
<td>Tirumala Milk Products Limited</td>
<td>39.56</td>
<td>30.89</td>
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<td>34.79</td>
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<td>45.98</td>
<td>38.37</td>
<td>36.5</td>
<td>37.61</td>
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<tr>
<td>Aseem Dairy &amp; Milk Products Ltd</td>
<td>40.76</td>
<td>68.79</td>
<td>48.95</td>
<td>57.49</td>
<td>36.84</td>
<td>36.84</td>
<td>44.83</td>
<td>65.83</td>
<td>50.04</td>
</tr>
<tr>
<td>Dodla Dairy Limited</td>
<td>-1.42</td>
<td>7.71</td>
<td>23.04</td>
<td>25.12</td>
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<td>32.01</td>
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<td>11.75</td>
<td>49.78</td>
<td>47.88</td>
<td>37.46</td>
<td>38.73</td>
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<tr>
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<td>41.01</td>
<td>37.57</td>
<td>39.17</td>
<td>35.81</td>
<td>32.26</td>
<td>68.34</td>
<td>67.84</td>
<td>44.85</td>
</tr>
<tr>
<td>Heritage Foods Limited</td>
<td>29.43</td>
<td>34.15</td>
<td>30.27</td>
<td>19.91</td>
<td>17.55</td>
<td>17.33</td>
<td>12.21</td>
<td>8.46</td>
<td>21.16</td>
</tr>
</tbody>
</table>

Source: Computed from Annual Reports of the sample units from (2005-2012)

The table 1 reveals that the average ratio of working capital to total assets of the sample dairy units from 2005 to 2012. The average net liquid assets to total capitalization is recorded highest in Aseem Dairy & Milk Products Limited(50.04percent), Nakoda Dairy Private Limited(44.85percent), Tirumala Milk Products Private Limited(37.61 percent), Glaxo Smithkline Consumer Health Care Limited(33.19percent), Heritage Foods Limited(21.16percent), Dolphin Milk Products Private Limited(18.48percent), Model Dairy Private Limited(12.63percent), Dodla Dairy Limited(12.46percent), Durga Dairy Limited(8.5percent) and Ravileela Dairy Products Limited(5.6percent), which indicates adequate liquid assets to meet short-term obligations. The Nandi Milk Private Limited recorded negative net liquid assets ratio of -3.12percent indicating inadequate liquid assets.
TABLE 2

X2: Ratio of Net Operating Profit to Net Sales (in percentage)

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Average</th>
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<tr>
<td>Durga Dairy Limited</td>
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<td>6.6</td>
<td>12.54</td>
<td>11.75</td>
<td>-2.88</td>
</tr>
<tr>
<td>Model Dairy Private Limited</td>
<td>-3.64</td>
<td>8.53</td>
<td>7.94</td>
<td>8.34</td>
<td>9.65</td>
<td>7.34</td>
<td>9.39</td>
<td>7.09</td>
<td>6.83</td>
</tr>
<tr>
<td>Tirumala Milk Products Limited</td>
<td>3.78</td>
<td>4</td>
<td>4.37</td>
<td>5.94</td>
<td>6.26</td>
<td>7.04</td>
<td>7.24</td>
<td>6.78</td>
<td>5.68</td>
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<tr>
<td>Nandi Milk Private Limited</td>
<td>2.36</td>
<td>3.24</td>
<td>3.09</td>
<td>2.48</td>
<td>1.89</td>
<td>2.07</td>
<td>2.02</td>
<td>2.21</td>
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<tr>
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<td>2.53</td>
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<td>1.42</td>
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<td>Dodla Dairy Limited</td>
<td>1.65</td>
<td>1.75</td>
<td>1.98</td>
<td>4.43</td>
<td>6.6</td>
<td>6.18</td>
<td>4.29</td>
<td>5.77</td>
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<tr>
<td>Nakoda Dairy Private Limited</td>
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<td>4.09</td>
<td>4.76</td>
<td>5.36</td>
<td>5.79</td>
<td>6.09</td>
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<td>5.35</td>
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<tr>
<td>Heritage Foods Limited</td>
<td>8.05</td>
<td>8.81</td>
<td>3.55</td>
<td>4.82</td>
<td>1.11</td>
<td>5.9</td>
<td>3.86</td>
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<tr>
<td>Ravileela Dairy Products Limited</td>
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<td>-0.75</td>
<td>20.21</td>
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<td>19.16</td>
<td>-2.58</td>
<td>-1.59</td>
<td>-9.77</td>
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</tr>
</tbody>
</table>

Source: Computed from Annual Reports of the sample units from (2005-2012)

The table 2 reveals that the average ratio of net operating profit to net sales of the sample dairy units from 2005 to 2012. The average net operating profit to net sales is recorded highest in Glaxo Smithkline Consumer Health Care Limited (21.58 percent), when compared to the other sample units like Dolphin Milk Products Private Limited (10.71 percent), Model Dairy Private Limited (6.83 percent), Tirumala Milk Products Private Limited (5.68 percent), Nakoda Dairy Private Limited (5.35 percent), Heritage Foods Limited (5.02 percent), Dodla Dairy Limited (4.08 percent) and Nandi Milk Private Limited (2.42 percent). The average net operating profit to net sales recorded lowest in Aseem Dairy & Milk Products Limited (0.02 percent) when compared to all other sample units indicating efficiency of the management in controlling expenses. The ratio is recorded negative in Durga Dairy Limited (-2.88 percent) and Ravileela Dairy Products Limited (-9.77 percent) during the study period, indicating inefficiency of the management in controlling manufacturing, administration, sales and other expenses.
Table 3

X3: Ratio of Earnings before Interest and Taxes to Total Assets (in percentage)

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Durga Dairy Limited</td>
<td>12.62</td>
<td>-50.9</td>
<td>-23.03</td>
<td>75.86</td>
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<td>10.16</td>
<td>21.78</td>
<td>23.29</td>
<td>-14.17</td>
</tr>
<tr>
<td>Model Dairy Private Limited</td>
<td>-3.87</td>
<td>19.14</td>
<td>213.24</td>
<td>10.06</td>
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<td>12.97</td>
<td>17.22</td>
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<td>55.26</td>
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<tr>
<td>Dolphin Milk Products Private Limited</td>
<td>7.95</td>
<td>10.49</td>
<td>10.73</td>
<td>10.61</td>
<td>16.93</td>
<td>16.44</td>
<td>15.19</td>
<td>15.36</td>
<td>12.96</td>
</tr>
<tr>
<td>Tirumala Milk Products Private Limited</td>
<td>8.9</td>
<td>8.5</td>
<td>11.09</td>
<td>20.07</td>
<td>19.89</td>
<td>15.09</td>
<td>15.92</td>
<td>17.04</td>
<td>14.56</td>
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<tr>
<td>Nandi Mills Private Limited</td>
<td>2.46</td>
<td>5.25</td>
<td>5.17</td>
<td>7.55</td>
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<td>-3.29</td>
<td>1.29</td>
<td>1.11</td>
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<tr>
<td>Aseem Dairy &amp; Milk Products Limited</td>
<td>-8.31</td>
<td>1.8</td>
<td>3.2</td>
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<td>6.98</td>
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<tr>
<td>Glaxo Smithkline Consumer Health Care Limited</td>
<td>25.33</td>
<td>25.84</td>
<td>27.9</td>
<td>26.96</td>
<td>25.47</td>
<td>26.21</td>
<td>26.17</td>
<td>27.08</td>
<td>26.37</td>
</tr>
<tr>
<td>Nakoda Dairy Private Limited</td>
<td>8.25</td>
<td>7.1</td>
<td>7</td>
<td>8.66</td>
<td>7.82</td>
<td>5.99</td>
<td>6.12</td>
<td>5.94</td>
<td>7.11</td>
</tr>
<tr>
<td>Heritage Foods Limited</td>
<td>17.77</td>
<td>17.41</td>
<td>2.59</td>
<td>5.2</td>
<td>-2.53</td>
<td>9.35</td>
<td>6.2</td>
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<td>-2.01</td>
<td>-0.9</td>
<td>-0.69</td>
<td>-4.59</td>
</tr>
</tbody>
</table>

Source: Computed from Annual Reports of the sample units from (2005-2012)

The table 3 reveals that the average ratio of earnings before interest and taxes to total assets of the sample dairy units from 2005 to 2012. The average ratio of earnings before interest and taxes to total assets is recorded highest i.e. 55.26 percent in Model Dairy Private Limited, when compared with Glaxo Smithkline Consumer Health Care Limited (26.37 percent), Dodla Dairy Limited (14.9 percent), Tirumala Milk Products Private Limited (14.56 percent), Dolphin Milk Products Private Limited (12.96 percent), Heritage Foods Limited (8.14 percent), Nakoda Dairy Private Limited (7.11 percent) and Aseem Dairy & Milk Products Limited (4.13 percent) when compared Nandi Milk Private Limited (1.11 percent), which indicates efficiency of productivity of assets employed. The ratio is found negative in Ravileela Dairy Products Limited (-4.59 percent) and Durga Dairy Limited (-14.17 percent) indicating inefficiency of productivity of assets employed.
The table 4 reveals that the average ratio of market value of equity to book value of debt of the sample dairy units from 2005 to 2012. The average ratio of market value of equity to book value of debt is recorded highest in Ravileela Dairy Products Limited (136.49 percent), Durga Dairy Limited (111.79 percent) and Aseem Dairy & Milk Products Limited (100.32 percent) when compared to Nandi Milk Private Limited (42.51 percent), Dodla Dairy Limited (29.12 percent), Heritage Foods Limited (22.28 percent), Tirumala Milk Products Private Limited (17.76 percent), Nakoda Dairy Private Limited (15.01 percent), Dolphin Milk Products Private Limited (13.82 percent) and Model Dairy Private Limited (12.88 percent), which indicates market value of equity is more than that of the debt capital. The Glaxo Smithkline Consumer Health Care Limited has not maintained any debt capital in its capital structure.
### TABLE 5

**X5: Ratio of Sales to Total Assets (in times)**

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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</tr>
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<tr>
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<td>1.81</td>
<td>1.85</td>
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<td>1.51</td>
</tr>
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<td>3.75</td>
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<td>1.44</td>
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<td>1.33</td>
<td>1.33</td>
<td>1.33</td>
<td>1.4</td>
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<tr>
<td>Nakoda Dairy Private Limited</td>
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<td>2.09</td>
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<td>1.26</td>
<td>1.16</td>
<td>1.64</td>
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<tr>
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<td>0.63</td>
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<td>0.4</td>
<td>0.54</td>
<td>0.58</td>
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</tbody>
</table>

**Source:** Computed from Annual Reports of the sample units from (2005-2012)

The table 5 reveals that the average ratio of sales to total assets of the sample dairy units from 2005 to 2012. The average ratio is recorded highest in Nandi Milks Private Limited (19.94 times), when compared to Dodla Dairy Limited (4.63 times), Tirumala Milk Products Private Limited (3.73 times), Aseem Dairy & Milk Products Limited (3.34 times), Heritage Foods Limited (2.50 times), Durga Dairy Limited (2.49 times), Nakoda Dairy Private Limited (1.64 times), Dolphin Milk Products Private Limited (1.51 times), Glaxo Smithkline Consumer Health Care Ltd (1.40 times) and Model Dairy Private Limited (1.05 times). The average ratio is recorded lowest in Ravileela Dairy Products Limited (0.58 times) when compared with the other sample units.

The table 6 reveals that the financial health of sample dairy companies in Andhra Pradesh. Z - score value of Model Dairy Private Limited (3.2), Tirumala Milk Products Private Limited (4.84), Aseem Dairy & Milk Products Limited (4.77), Dodla Dairy Limited (5.5) and Heritage Foods Ltd (3.22) are greater than 3, which indicating financial health is very viable and these companies fall under too healthy zone. The Z - score value of Durga Dairy Ltd (2.75), Dolphin Milk Products Private Limited (2.39), Nandi Milk Private Limited (2.28), Glaxo Smithkline Consumer Health Care Limited (2.97) and Nakoda Dairy Private Limited (2.58) is in between.
### TABLE 6

**ALTMAN Z - SCORE ANALYSIS**

(In times)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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**FINANCIAL HEALTH**

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**Source:** Researchers Computation
1.8 and 3, which indicating healthy zone. The Z - score value of Ravileela Dairy Products Limited (1.18) is found below 1.8, which indicating bankruptcy zone. By analyzing the sample dairy units, it can be concluded that the overall financial health of dairy industry is in healthy zone.

**Reasons for Poor Financial Health Ravileela Dairy Products Limited**

- Inadequate maintenance of working capital. It is negative from the year 2008 to 2012.
- The negative operating profit during the study period was a serious concern.
- High operating expenses than sales.
- Failed to achieve the growth in sales turnover due to under utilization of available capacity, which contributed for the deterioration of financial health.
- Excess debt was a serious concern as it carries with interest burden. This also affected financial health.

**CONCLUSION**

It can be concluded that the overall financial health of dairy industry is in healthy zone. Most of the sample units found in too healthy zone(Model Dairy Private Limited, Tirumala Milk Products Private Limited, Aseem Dairy & Milk Products Limited, Dodla Dairy Limited and Heritage Foods Ltd).

**References**