A Project by World Bank and Jharkhand State Livelihood Promotion Society

CASE STUDY

Inside-Outside: Mechanisms for Managing Credit Sales and Receivables at DKPCL in Jharkhand

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ABOUT The JOHAR PROJECT

JOHAR (Jharkhand Opportunities for Harnessing Rural Growth) is a project implemented in 68 blocks across 17 districts of Jharkhand, India. The development objective of the project is to enhance and diversify household income in select farm and non-farm sectors for targeted beneficiaries in rural areas. Ananya is engaged as one of the Technical Support Agencies for enhancing creditworthiness of the Producer Groups (PGs) and Producer Companies (PCs) by way of imparting trainings, streamlining book keeping, helping adherence to regulatory compliance & supporting financial reporting & analysis.

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BACKGROUND

Dakhshini Koel Producer Company Limited (DKPCL) is one of the reputed FPCs located in Lohardaga, Jharkhand. It is promoted by Jharkhand State Livelihood Promotional Society (JSLPS), under JOHAR Project, a World Bank funded Project. The FPC has presence in 4 blocks of the district i.e., Kuru, Kisko, Senha and Bhandra. DKPCL has a base of more than 2,000 women farmers. The FPC has major engagement in High-Value Agriculture (HVA) crops like chili, tomato etc. along with livestock, Fishery, and Non-Timber Forest Produce (NTFP).

A distinct characteristic of the FPC is that the Board of Directors (BoDs) come from different age groups ranging from 20 to 65 years. These enthusiasts work together by bringing a distinct blend of experience and energy for a common goal. The average BoDs participation in the meeting is around 80%. The BoDs have undergone training on various components from Governance to Financial Management with Ananya under the JOHAR project.

THE CHALLENGE

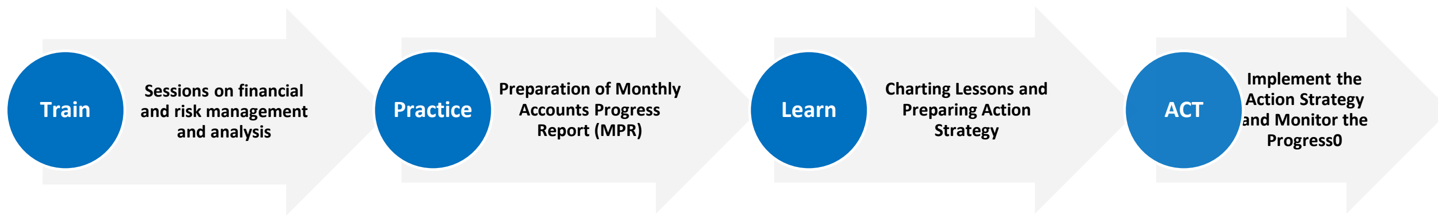
The diverse portfolio of the DKPCL has made it difficult for the FPC to maintain a proper record of the cash flows. With little experience in accounts and bookkeeping, the accounts department faces the problem of managing the debtors. This resulted in higher working capital requirements, higher costs, increased probability of non-realization of debtors and sub-optimal profitability. Moreover, the BoDs of the DKPCL are not aware of proper mechanisms to analyze financial statements and hence, fail to keep track of critical areas like debtors management. On understanding the issue, it was also discovered that the debtors are willing to pay the amount but there is no formal collection practice established by the FPC for regular collection. A system on better financial statement analysis, collection practice and accounts management was identified as a challenge.

INTERVENTION

The team realized that mere establishing a mechanism and spoon-feeding the same to the FPC is not a sustainable solution. Hence, the team adopted a simple **TPLA (Train, Practice, Learn and Act)** strategy to solve the problem. In TPLA, the team conducted a set of dedicated training sessions on financial statement analysis, risk management, accounting, bookkeeping, and collection practices for the staff and BoDs of FPCs. Post it, the team engaged the staff and the board members in financial statement analysis and debt collection exercises through DKPCL-oriented case studies. In the third phase, the team conducted sessions on learning and experiences from training and practice and induced the FPC to create an action plan. In the fourth and the final phase, the team developed an action calendar and aided the FPC in implementing the lessons from the sessions. A detailed approach on TPLA is mentioned below:

Train: The training on financial management and risk management was to help the members understand how a financial statement is analyzed. During the sessions, they were also introduced to data-driven decision-making and risk-based analysis. The sessions were conducted by in-house experts from

> **"The FPC has been facing issues with proper cash flow management and hence, finds the profitability to be poor all the time. There was poor awareness on financial analysis and decision making . A system on better financial statement analysis, collection practice, and accounts management was identified as a challenge."**



ANANYA'S TPLA (Train-Practice-Learn-Act) STRATEGY FOR SAFPCL

Ananya who mentored the members of the FPC to develop a comprehensive understanding of each concept. A major portion of the training revolved around debtors management. Ananya facilitated the members of the FPC to understand the importance of the debtors management. Working capital gets blocked in debtors. If the working capital gap, due to high debtors, is financed through loans, the expenses of the company increase leading to lower profitability. Unattended debtors, for a longer period, run the risk of loss of entire receivables. Higher the aging of debtors, lower the probability of realization. Debtors also put a strain on managerial bandwidth in the form of follow-ups. These are some of the themes and topics discussed in the training sessions.

Practice: In the second phase of the intervention, practice sessions were planned for the members of the FPC. In these sessions, the experts from Ananya facilitated the members through financial statements prepared by the experts based on the actual accounts of the FPC. Ananya helped FPC to track their monthly progress by developing a Monthly Account Progress Report (MPR). In the MPR, they were provided a format and were then asked to prepare the report based on the financials. The MPR tools request the FPC to feed the basic business information of FPC and a progress report is generated in the pictorial form. The information that comes out from the MPR are Sales, Profit, Creditors, Debtors, Inventory, Share Capital etc. After understanding and practicing the format, the members especially the BoDs had a better understanding of the financial health of the FPC.

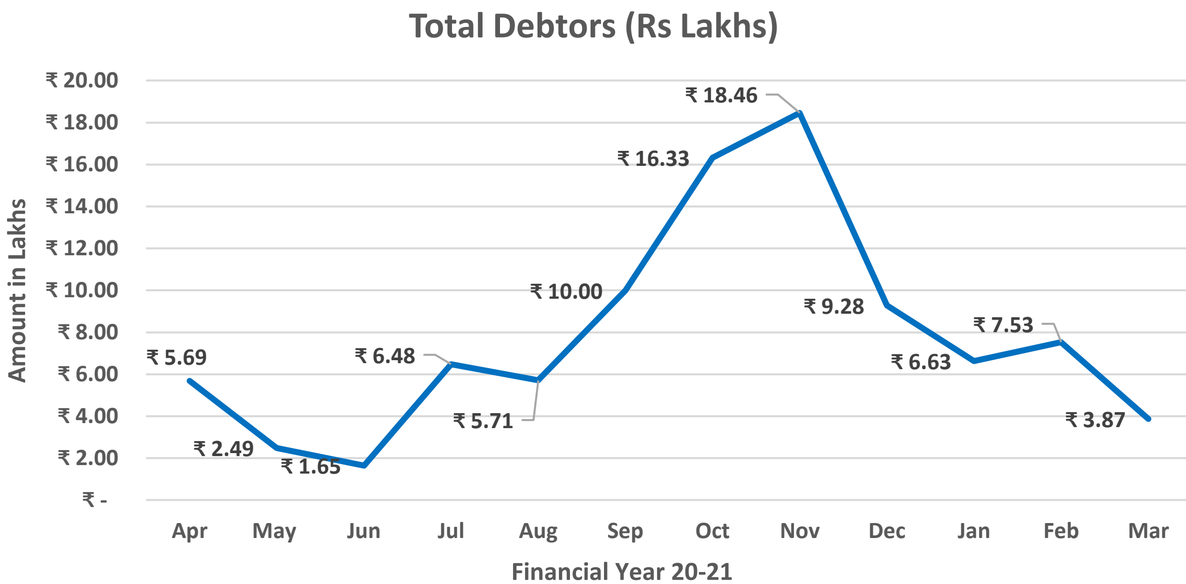
Learn: In the third phase of the intervention, the members were asked to prepare a detailed chart of learning they had from the sessions and how should the FPC act. A detailed action plan was prepared for the FPC by the members and an implementation strategy was discussed.

Act: In the last phase of the intervention, a robust system came into force. The FPC staff initiated the sales collection practice and prepared their first MPR. They started tracking the debtors with the help of MPR from Sep'20. In FY 2020-21, due to the pandemic, the business picked up slowly. Till Nov'20, the revenue generated was Rs.48.98 Lakhs. The MPR report was shared with the BoDs where they came to know that approx. 38% of the revenue was yet to be realized. The money was stuck with debtors for over 60 days. BoDs took the responsibilities and had an internal discussion with the FPC staff and JOHAR support staff to list out the ways to recover the dues. A clear and specific decision was made, where each was assigned a responsibility to follow up and reduce receivables. Field visits were planned for each debtor to understand the problem first hand. They realized that the farmers were ready to pay money but nobody came to collect. Hence, it was made mandatory to conduct monthly collection exercises.

> **"THE DPLA strategy was designed to induce the members of the DKPCL devise their own scientific method of accounting and debt collection practice."**

Outcome

FPC has reduced the debtors from Rs. 18.46 Lakhs in Nov'20 to Rs. 3.87 Lakhs in Mar'21. The debtors reduced from 38% to less than 6% by the end of FY 20-21. With regular visits and follow-up in the field not only the debtors reduced but also the sales increased from Rs.48.98 Lakhs in Nov'20 to Rs. 70.27 Lakhs till Mar'21, despite the last 4 months being the off-season for sales. Also, the share capital mobilized increased to Rs.19.26 Lakhs.



In Nov'20, the BoDs requested the FPC accountant to share and discuss the Monthly Progress Report with them. This has become a practice for the BODs to regularly check the status of the FPC. The MPR helped FPC to properly track and monitor their progress in an easy format. The regular monitoring of the business, despite focusing on the sales and increasing the turnover, helped the FPC. The MPR is presented to the BoDs regularly which helps them plan for further course of action. Also, it helps to check the necessary compliance of taxes and RoC filing to avoid unwanted penalties.

CONCLUSION AND LEARNING

We had two distinct learnings from the experience. Firstly, merely knowledge won't impact the business unless it is complemented by adequate monitoring systems. Even after initial basic training was conducted for BoDs, the debtors' skyrocketed for the FPC. Hence, it is important to develop a standardized monitoring system that is equally understood by lower, middle and top-level management. Secondly, the monitoring system should capture every facet of detail that can directly or indirectly influence the financing standing of an FPC. Hence, it is important to involve a detailed evaluation of the existing monitoring mechanism of FPCs to ensure effective data-driven decision-making.

ACKNOWLDEGEMENT

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GLOSSARY AND ABBREVIATIONS

1. **BoD**: Board of Directors
2. **DKPCL:** Dakhshini Koel Producer Company Limited
3. **JOHAR:** Jharkhand Opportunities for Harnessing Rural Growth
4. **JSLPS**: Jharkhand State Livelihood Promotion Society
5. **MPR:** Monthly Accounts Progress Report

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