**TEACHING CASE LETS AND CASE-STUDY**

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## Dairy+

On January 10th, 2022, all the newspapers featured Riya Sharma .........

"Riya Sharma The Young Transformer"; "The Youth Icon: Riya Sharma". "Daughter of the Ex. Chairman of Milk cooperative won the Young Entrepreneur Award". "Is the award fair? Businesswomen with old idea begs the award for Young Entrepreneur."

And why should they not? 'At the age of 21, Riya has marked a remarkable presence in the milk business and won the young entrepreneur award of India. It was indeed a happy moment and a celebration time for Riya, but instead of it, Riya seemed worried and stressed. The reason for Riya's stress was the headlines of the two newspapers; one claiming that she got the award because of her political connection and the other claiming no innovation or transformation in her business. Riya has taken these news reports too seriously and has made up her mind to prove her abilities by transforming the business of Dairy +.

**Background of Indian Milk industry**

India is the world's largest milk producer, accounting for over 23 percent of the worldwide milk supply. According to the Food and Agriculture Organization Corporate Statistical Base (FAOSTAT), India produced an anticipated 209,8 metric tonnes (MT) of milk in 2021-22. Presently, India has 75 million dairy farms, of which 80 percent of dairy production is handled by the unorganised sector. The majority of the unorganised sector comprises of small-scale farmers. These small-scale dairy farmers sell their products to rural and non-rural consumers or provide milk to private or public limited corporations. The milk then undergoes testing, filtration, pasteurisation, cooling, and storage before being packaged under the firms' respective brand names.

**Riya's Background**

Riya Sharma was born and raised in Uttar Pradesh, the state with the biggest contribution to milk production in India, by a family of farmers and landlords. Mr. Charnsingh Sharma, Riya's father, was a prominent landowner in Uttar Pradesh and the chairman of Uttar Pradesh Milk Cooperative (UPMC). Since childhood, Riya has had a strong affinity for farming and livestock. She used to spend her whole school break in her father's farmhouse, assisting with farm and livestock labour and living in the farmhouse. Riya enjoyed reading books about agriculture, but formal texts and school subjects were alien to her. When Riya was in the eighth grade, she wanted to leave school and begin a business related to agriculture and cattle farming. However, her father dissuaded her and insisted that she complete her education through the twelfth grade. He also promised to take her to UPMC, where she could gain insight and training for the dairy business when she completed her education through the tenth grade.

**Incorporation of Dairy+**

After finishing her tenth grade, Riya began working as an intern with her father at UPMC, where she learned the fundamentals of the milk industry. Soon after she completed the 12th standard, she started the preparations for starting her own business. Riya founded the Dairy + in 2018 at the age of 17 and began supplying the highest quality and freshest milk in the Lakhimpur Kheri district of Uttar Pradesh. Within four years of its establishment, Dairy+ became one of the biggest dairy companies in Uttar Pradesh. Dairy + owns branches in all the major districts of Uttar Pradesh and has also started manufacturing of other dairy products like curd, buttermilk, ghee, butter and cheese. Within 4 years, the turnover of the company reached Rs. 100 crores.

The day at Dairy + began with the procurement of milk from small-vendors, followed by the milk's quality testing for colour, taste, odour, appearance, and other factors such as temperature, foreign matter, etc. After passing stringent quality inspections, milk is delivered to dairy units for processing, which includes filtration, clarifying, pasteurisation, filling, packaging, and storage. The quantity of milk that is produced in excess of what is required for daily use is then sent to another department to undergo additional processing so that it can be used to make products such as curd, buttermilk, ghee, butter, cheese, and so on.

**Current Scenario**

Dairy + has always placed a high value on customer satisfaction. Riya always kept abreast of market situations, and it has always prioritised consumer requirements over those of its competitors. Her tireless effort paid off, as seen by the expansion of the business. On the 10th of January, however, Riya appeared somewhat disheartened and dissatisfied upon reading the headlines of the few newspapers, as if she had failed in her duties and her effort to comprehend the Milk business. She evaluated herself and concluded that she may be deficient in spotting new consumer trends and demands. She was now desperate and desired more information regarding the present market situation. She convened a meeting with the organization's officials for this purpose. Mr. P. Kumar, the marketing director for Dairy +, was tasked with performing market research with his team and reporting to Riya any changes in consumer preferences and other aspects. The company's marketing department performed a survey through consumer interactions and online questionnaires. The team's investigation yielded two significant findings. The first was about the awareness of consumers towards their health, and the second was about the ignorance of youngsters concerning milk consumption. Riya once saw an article indicating that India has the youngest population in the world, which means that the bulk of India's population is comprised of millennials or young people. As a result, she drew a connection between this observation and her research, noting that the youthful population is more health-conscious and that the company may produce a product that will acquire popularity if it offers items that are popular among children, adolescents, and young adults. She co-led a meeting with Mr. P. Kumar. After a thorough review of the idea, Mr. P. Kumar's team and the finance team came up with a proposal to introduce the following products to the market:

a) Low-fat milk or milk products such as buttermilk and cheese, such as fat-free and protein-packed milk/buttermilk/cheese. [A Project]. This project's initial cost will be 20 million rupees, and its lifespan will be five years.

b) Introducing healthful, sugar-free, and flavoured milk that is convenient for youngsters to consume onto the market. [Project B]. This project will require an initial expenditure of Rs. 25 million with a lifespan of five years.

b) Introducing a protein-packed yoghurt to the market [Project C]. This project will require an initial expenditure of Rs. 30 million rupees and will last for five years.

d) "Under-100 Calorie" ice creams of every flavour. [Project D]. This project will require an initial expenditure of Rs. 35 million over a duration of 5 years.

Mrs. Avantika Goyal, the Finance head of Dairy +, asked the team to produce a fully budgeted cash inflow matrix for all four projects based on the data provided by the Mr. P Kumar's team. Within a month, the team created the estimate and submitted Mrs. Avantika with the projected cashflow data. Riya simultaneously instructed Avantika to determine how much investment the company can afford at the present time. Avantika expected that a maximum of 5 crores could be raised from all sources, including retained earnings and external sources, as capital. She also emphasised that the annual average cost of all funds will be 10%.

Exhibit I: Budgeted After tax Cashflow

| Year | Project A | Project B | Project C | Project D |
|---|---|---|---|---|
| 1 | ₹ 70,00,000 | ₹ 60,00,000 | ₹ 65,00,000 | ₹ 80,00,000 |
| 2 | ₹ 90,00,000 | ₹ 70,00,000 | ₹ 70,00,000 | ₹ 85,00,000 |
| 3 | ₹ 1,10,00,000 | ₹ 1,10,00,000 | ₹ 75,00,000 | ₹ 90,00,000 |
| 4 | ₹ 1,30,00,000 | ₹ 1,20,00,000 | ₹ 82,00,000 | ₹ 1,10,00,000 |
| 5 | ₹ 1,50,00,000 | ₹ 1,25,00,000 | ₹ 95,00,000 | ₹ 1,30,00,000 |

**Questions**

1. Calculate NPV of all the 4 investment Alternatives. Assuming that projects are indivisible prepare the capital rationing schedule utilizing NPV as a decision criteria and advice the company on which projects should be selected and why?

2. Calculate PI of all the 4 investment Alternatives. Assuming that projects are indivisible prepare the capital rationing schedule utilizing PI as a decision criteria and advice the company on which projects should be selected and why?

3. Calculate Internal Rate of Return (IRR) for all the 4 investment Alternatives. Assuming that projects are indivisible prepare the capital rationing schedule utilizing IRR as a decision criteria and advice the company on which projects should be selected and why?

4. What are the different capital budgeting methods available to evaluate these projects? Critically evaluate all these methods.