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A Study on Working Capital Management in Salem Co-Operative Sugar Mills Ltd., Mohanur, Namakkal

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Abstract: **This project is a project aimed at judging the working capital management of the company. Working capital is the capital required for maintenance of day to day business operations. The study is aimed at analyzing the present position of the company for using tools like ratio analysis, comparative statement, and working capital changes. Ratio analysis is used to find the liquidity position of the company for the period of 5 years 2012 to 2017.**

Keywords: **Working capital management, SACOS, Sugar mill, Financial management.**

1. INTRODUCTION

Working Capital Management is an integral part of overall corporate management. Working capital sphere throws as welcome challenge and opportunity. A Management has to be alert to the internal, external, and environmental developments and constantly plan and review its working needs and strategy. Working capital may be regarded as life blood and controlling nerve centre of a business. Its effective provision can do much to ensure the success of a business. It's just like a heart of industry, if it is weak, the business cannot prosper and service.

2. ABOUT THE COMPANY

The Salem Co-operative Sugar Mill Ltd:

The Salem Co-operative Sugar Mills is situated on the banks of River Cauvery at a distance of 20 kilometres from Namakkal, which is the nearest town. The factory and residential colony is located in an extent of 148 acres of Pettapalayam Village. The Mills contains 3 major units.

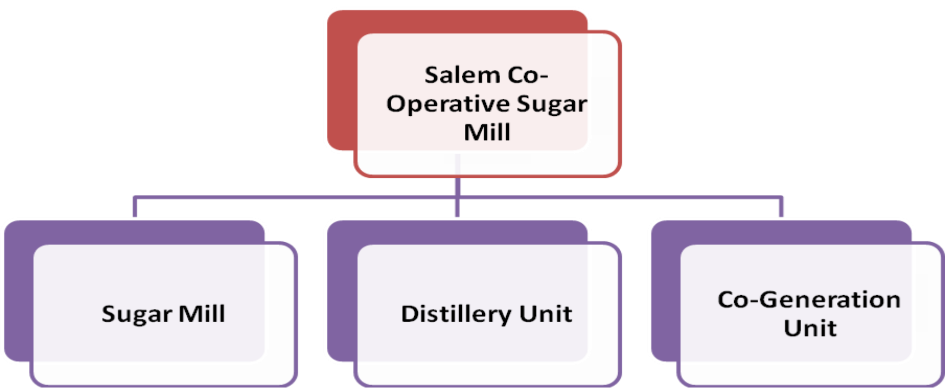

Fig. 1

3. INDUSTRY ANALYSIS

Sugar is produced in India primarily in nine major states. In 2017, the six major sugar producing states that produced more than 1 million MT (Metric Tons) of sugar per annum are,

1. Uttar Pradesh
2. Maharashtra
3. Karnataka
4. Gujarat
5. Bihar and
6. Andhra Pradesh

(Source: Media Release: Sugar Production upto 15th February, 2017)

Major Sugar Producing States

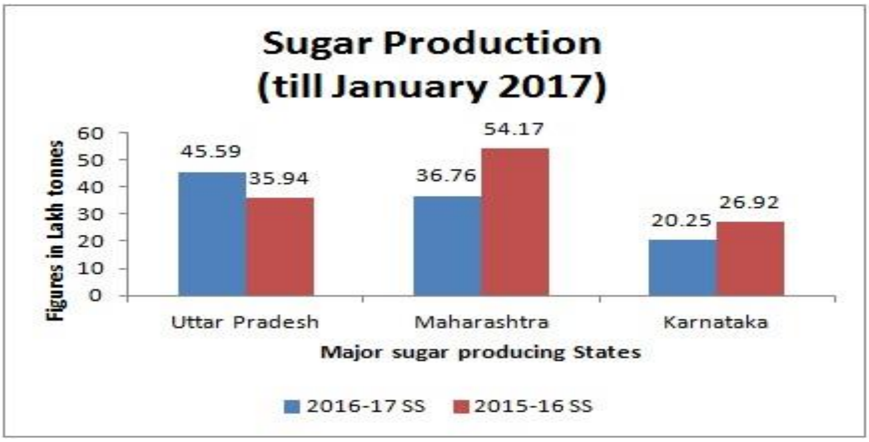

Fig. 2

Area under Sugarcane

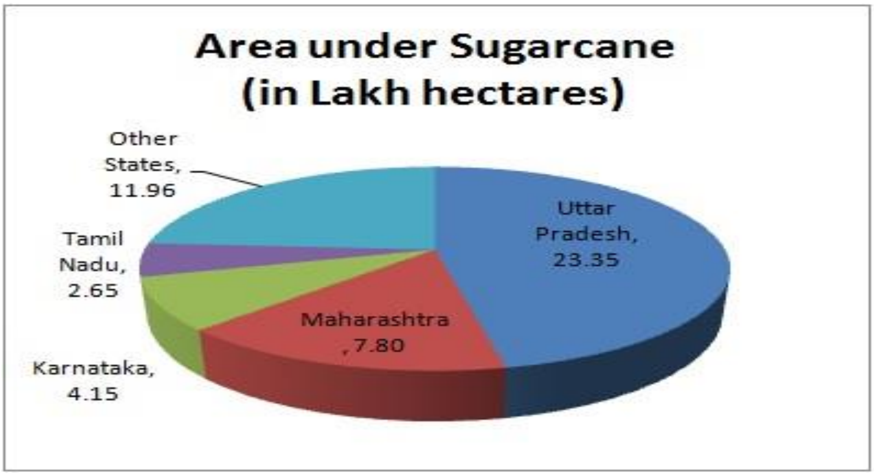

Fig. 3

4. STATEMENT OF THE PROBLEM

In order to maintain flows of revenue from operations every firms need certain amount of current assets. To earn sufficient profit, a firm has to depend on its sales activities. As per the views of different professionals, those sales are not always converted into cash immediately. So, an adequate amount of working capital is required by a firm to continue uninterrupted activities and to tackle the problems that may arise.

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5. OBJECTIVE

The study of working capital management in The Salem Co-operative Sugar Mills Ltd., has been undertaken with the view.

- To understand and analyze the working capital of the company.
- To study the efficiency of the working capital.
- To study the working capital trend of the selected sugar industry.
- To analyze the profitability and liquidity of the company.
- To assess the impact of working capital ratios on profitability.
- To analyze the credit worthiness of the firm.
- To offer suggestions for further improvement.

6. SCOPE OF THE STUDY

The present study aims at the assessment of working capital position, profitability, liquidity and solvency position of the company. The analysis provides a good view about the company's past performance and suggestion for future improvement. Working capital position is analyzed with regard to the sufficient amount of the working capital needed to carry out the day to day operations. Profitability position is analyzed to know whether the study unit earns the sufficient amount of the profit by employing working capital properly.

The liquidity and solvency position is analyzed to know whether the study unit can be able to pay the liabilities in time without delay. To know the efficiency of the study unit and the efficient management of the capital. The working capital ratios are prepared. The study also attempts to suggest some remedial measures for the proper and efficient utilization of working capital for the betterment of the company financial structure.

7. DATA ANALYSIS AND INTERPRETATION AND FINDINGS

7.1. Ratio Analysis:

Working Capital Turnover Ratio

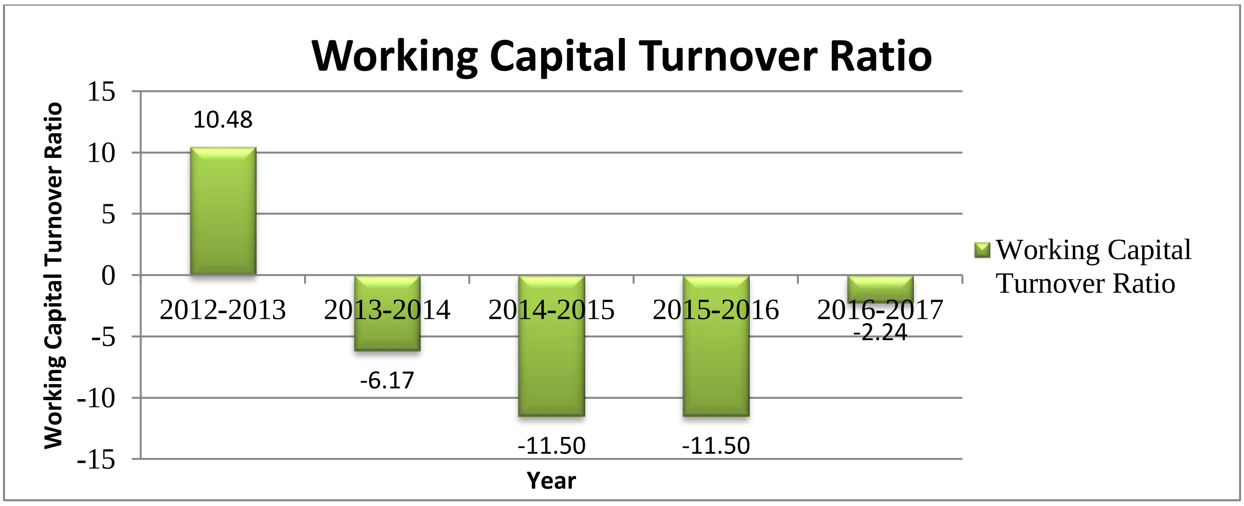

Fig. 4

Interpretation

From the above table, it is interpreted that the working capital turnover ratio is in fluctuating trend during the year 2012-2017. The Efficiency Ratio at first is in peak position which is more profit corned from the business activities and the subsequent years it shows a decreasing trends. The working capital turnover ratio is showing a negative figure in the subsequent years which will affect the operations. Though, the company managed to have efficient utilization of working capital during the period 2016-2017. The ratio increased from -11.50 to -2.24 which is considered as a positive sign from the point view of the finance.

Current Assets Turnover Ratio

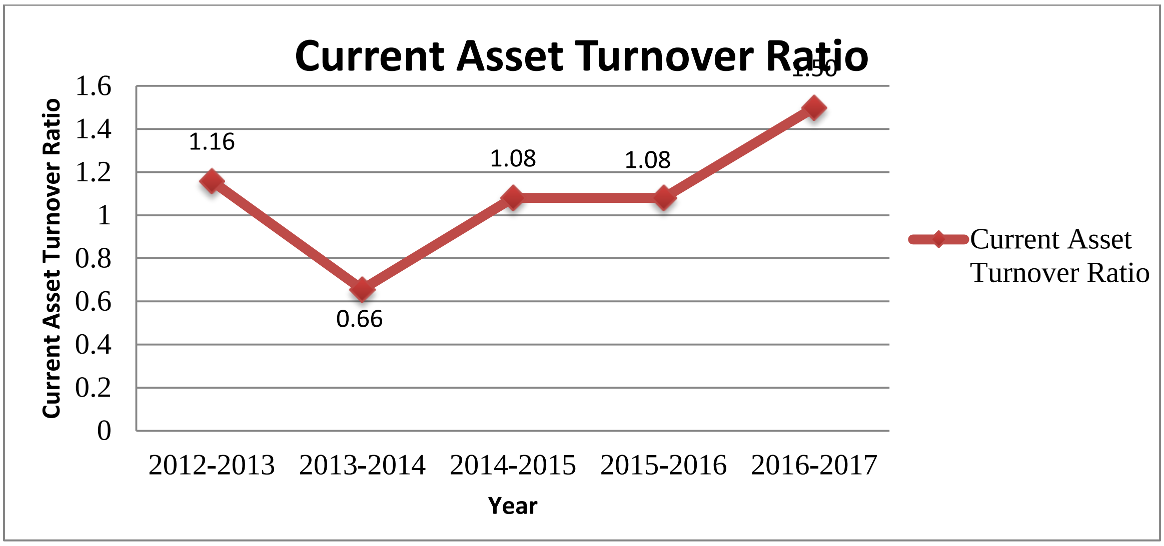

Fig. 5

Interpretation

The above table shows that the current asset turnover ratio is in increasing trend during the year 2012-2017. The ratio at first seems to be in decreasing trend then managed to maintain stability in subsequent years and switch to rising trend which shows that the company is efficiently using its current asset to generate revenue in terms of sales. The ratio increased from 1.16 to 1.50 which is considered as satisfactory level.

Inventory Turnover Ratio

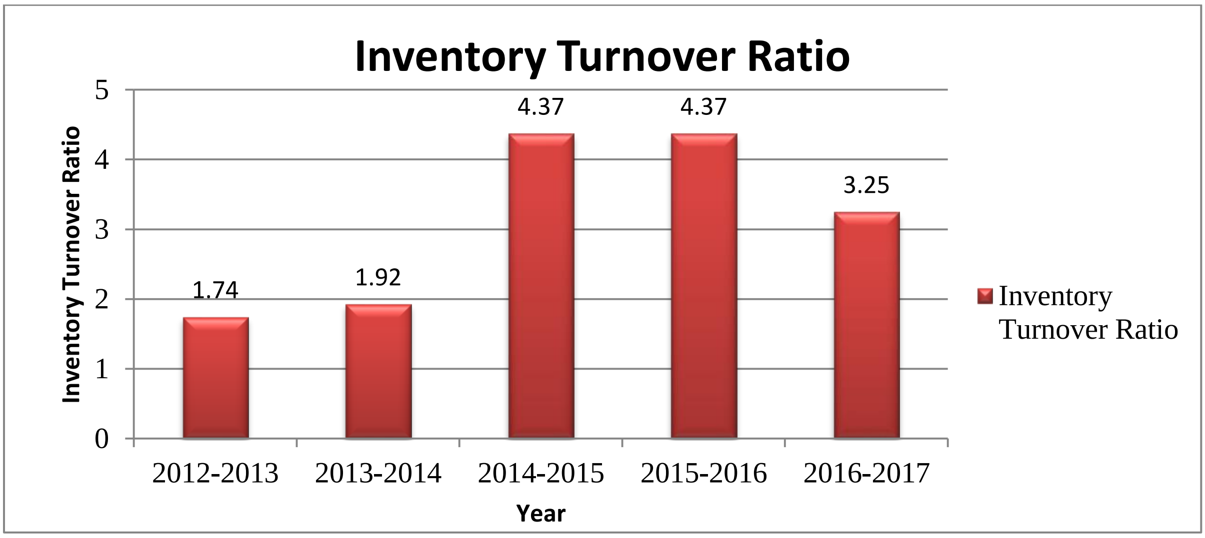

Fig. 6

Interpretation

The above table shows that the inventory turnover ratio from 2012-2017 is in fluctuating trend. Initially the ratio is in low level (1.74) then have significant rise (4.37) in the subsequent years during 2014-2016 which indicates the fast moving inventories due to efficient inventory management. During 2016-2017, the ratio seems to be in declining stage (3.25). It is inferred that in recent years, the firm is maintaining excessive inventories which should be taken into concern.

Debtors Turnover Ratio

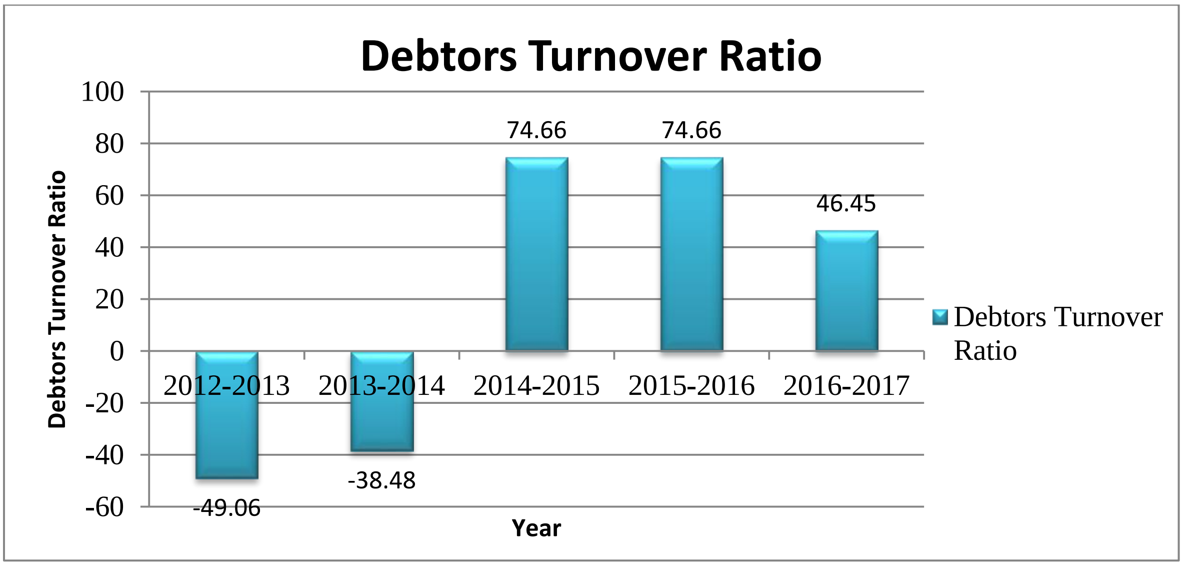

Fig. 7

Interpretation

The debtor turnover ratio is in fluctuating trend during the period of study. Initially the ratio is in lower level of -49.06 and -38.48 during 2012-2014 and then comparatively good ratio is seems to be in the year 2014-2016 of 74.66 which shows that the company has improved its debt collection. The ratio seems to be slightly declining (74.66 to 46.45) in 2016-2017 which is inferred that the firm should focus on maintaining its credit management more effectively.

Profitability Ratios:

Gross Profit Ratio

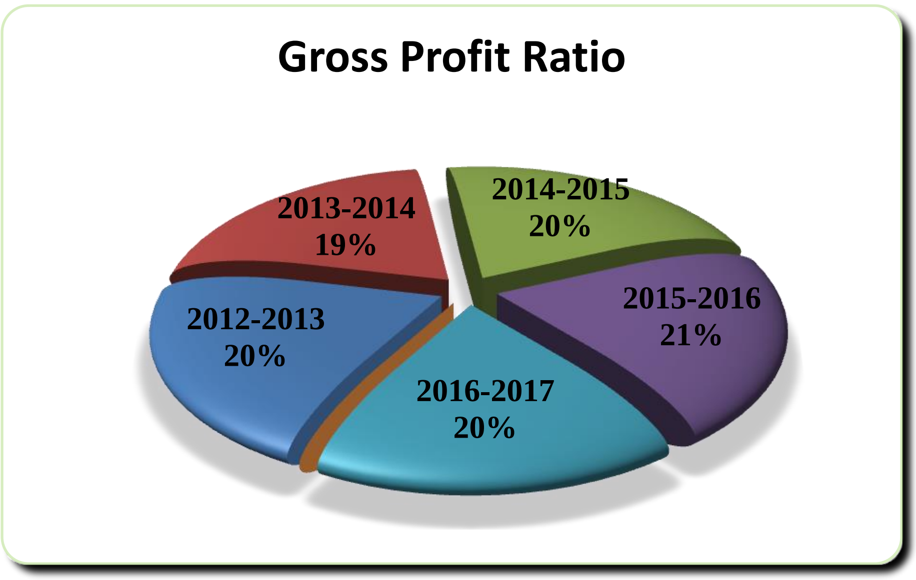

Fig. 8

Interpretation

The above table shows that the gross profit ratio of the study period have no significant changes which is neither inferred as continuous improvement nor deprivation. The ratio is maintained between 19% to 21% which shows the stability of the firm's operational performance. It is inferred that the company is spending very less amount on non-manufacturing activities, as the gap between gross profit & net sales is very less.

Net Profit Ratio

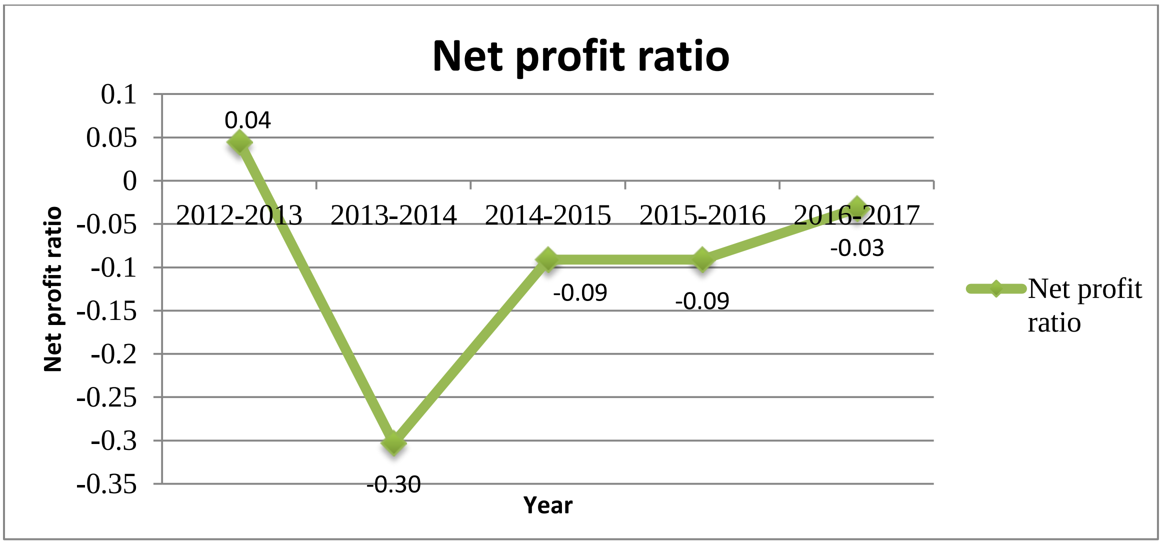

Fig. 9

Interpretation

The above table shows that the Net profit ratio from 2012-13 to 2016-17 is in fluctuating stage. The ratio decreased from initial peak (0.04) to ground (-0.30) in the initial stage and then have constant rise in subsequent years (2013-2017) from -0.30 to -0.03 which shows that the company is able to translate more of its sales into profits at the end of the period. Yet, due to negative term, it is inferred that the overall efficiency of the business is very low and firm is not earning sufficient profit on sales but is in improving stage which shows some positive sign in finance.

Liquidity Ratios:

Current Ratio

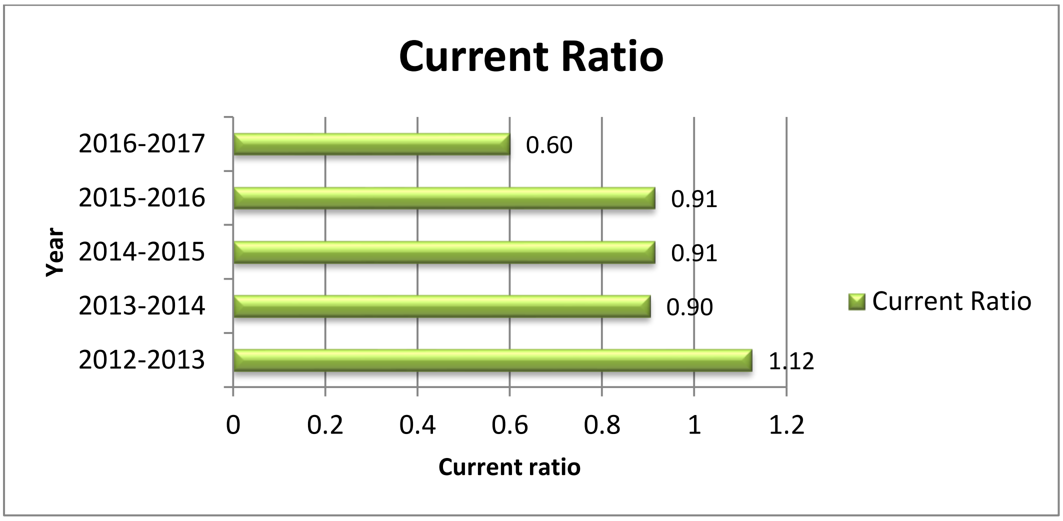

Fig. 10

Interpretation

The above table shows that the current ratio is in decreasing trend throughout the study period. Initially, the ratio is at its peak (1.12) at 2012-13 and then gradually decreased to 0.90 and then to 0.60 at the end (2016-17). The ratio doesn't attain its satisfactory level of thumb rule throughout the study period. This indicates that the firm’s ability to meet its current obligations is scarce. But the exceptional case scenario can be applied here, because a large portion of its current assets consists of highly liquid assets i.e., cash, bank balance and fast moving inventories, the company (with low current ratio) may be able to pay its current obligations as they become due.

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Quick Ratio

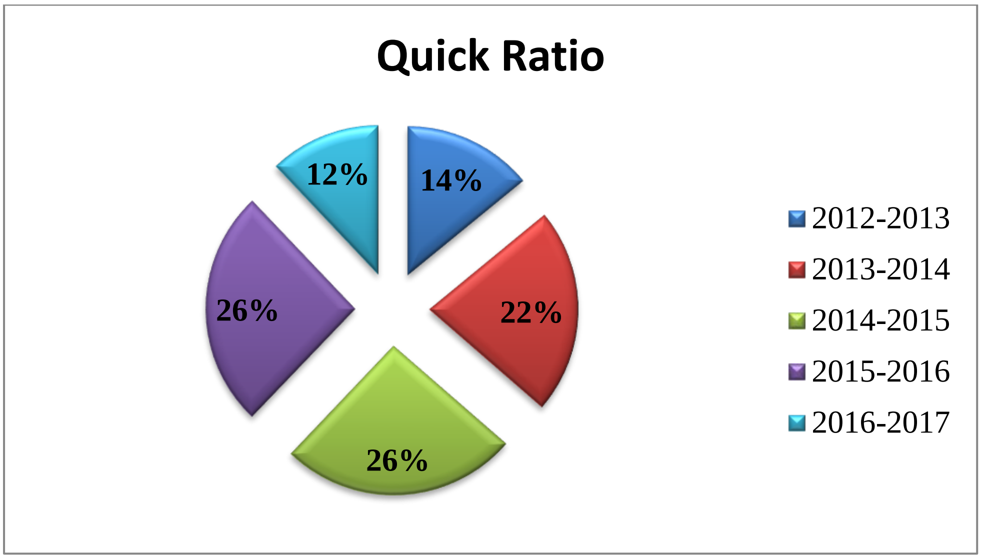

Fig. 11

Interpretation

The above table shows that the quick ratio is in the form of downward curve which is in low point 0.37 (14%) at 2012-13, then starts to rise to the peak 0.68 (26%) in the subsequent years and again decline to the lowest point 0.32 (12%) at the end duration 2016-2017. It has very low liquid asset and liquid ratio. It is inferred that the firm doesn't meet its satisfactory level. The firm's ability to pay its short term debts is scarce. Yet, due to fast moving inventories the result may vary.

Absolute Liquid Ratio

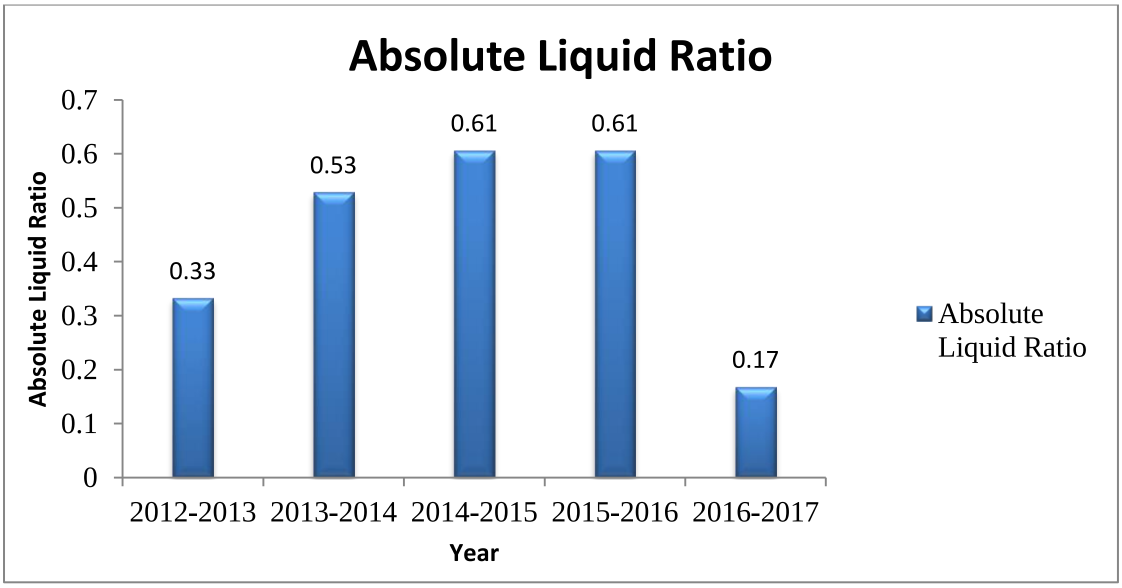

Fig. 12

Interpretation

The above table shows that the absolute liquid ratio is in the form of downward curve which is in low point 0.33 at 2012-13, then starts to rise to the peak 0.53 and 0.61 in the subsequent years which is the satisfactory level of ratio and again decline to the lowest point 0.17 at the end duration 2016-2017. It has very low absolute liquid asset and absolute liquid ratio. It is inferred that the firm doesn't meet its satisfactory level (50%) at the end of the period. The firm's ability to make immediate arrangement of cash is insufficient.

Proprietary Ratio

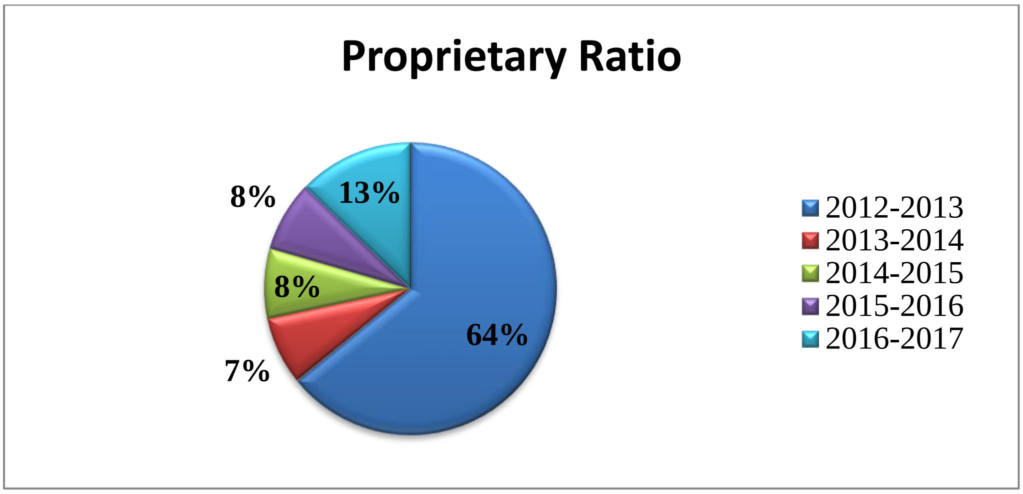

Fig. 13

Interpretation

The above table shows that the proprietary ratio is in fluctuating trend but mostly decreasing from initial period 2012-13 (64%) to 2015-2016 (8%) which indicates the company is already heavily depending on debt for its operations. During the recent years the company managed to increase the ratio slightly over 13%. It is inferred that the shareholders' contribution is greatly reduced which is due to scare production of sugarcane i.e., farmers are the main shareholders of the company. This reduces the creditor interest.

Solvency Ratio

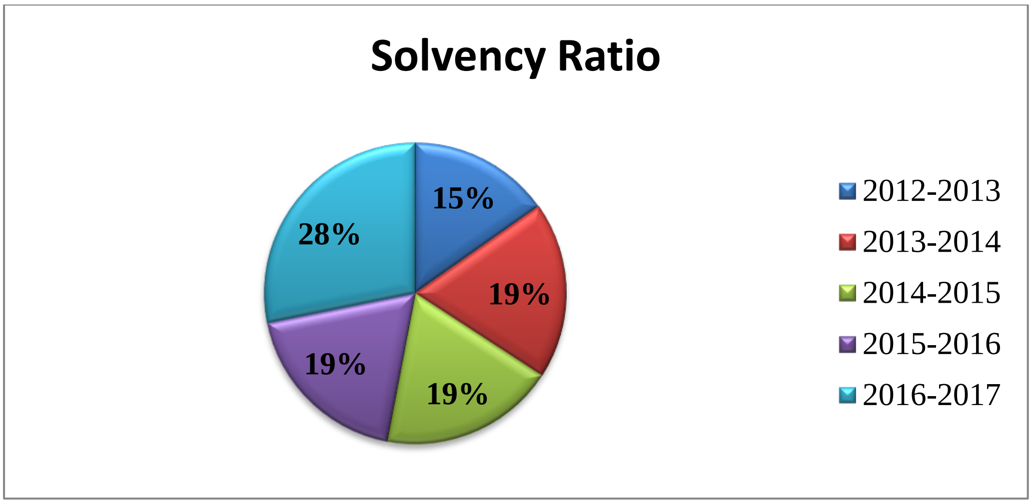

Fig. 14

Interpretation

The above table shows that the solvency ratio is in increasing trend. The ratio is increasing constantly from 15% to 19% and then to 28% during the years 2012 to 2017. It is inferred that the company has higher ratios 1.08, 1.07, 1.61 (> 0.5) which implies the total liabilities exceeds the total assets i.e., the company would have to sell off all of its assets in order to pay off its liabilities. Hence the company is in unstable position.

7.2. STATEMENT OF CHANGES IN WORKING CAPITAL

- **2012-2013**

From the above table there is a increase of **Rs. 62501440.74** in the net working capital during the year 2011-12 and 2012-13. This is mainly due to the decrease in Inventory, Loan and advance. Current Liabilities is also decreasing compared to the previous years. It is inferred that the working capital is increasing as well as positive from 2011-12 and 2012-13. This implies that the additional funding is needed to be tied up in operations and improving the revenue growth.

- **2013-2014**

From the above table there is decrease of **Rs. 260623946.22** in the net working capital during the year 2012-2013 and 2013-2014 which is about two fold as compared to the previous year. This is mainly due to the increase in current liabilities, cash and bank balance, loan and advance as well as decrease in inventory as compared to the previous to the year reflecting the liquidity of the company. It is inferred that the working capital is decreasing from 2012-2013 and 2013-2014 which implies that the firm has more cash available that can be used for other projects since an increase in current liabilities is a net inflow.

- **2014-2015**

From the above table there is a increase of **Rs. 21342586.94** in the net working capital during the year 2013-14 and 2014-15. This is mainly due to the decrease in Inventory, Loan and advance. Current assets are also decreasing compared to the previous years. It is inferred that the working capital is increasing from 2013-14 and 2014-15 implies that the additional funding is needed to be tied up in operations and improving the revenue growth. Here, the working capital position is a negative working capital. If a company is growing, this can be the most advantageous working capital position but the revenue of the year 2013-2014 and 2014-2015 is declining. Hence the company immediately needs the annual working capital investment during the time when the company can least afford it.

- **2015-2016**

In contrast to the previous year, the company managed to have **zero changes** in the net working capital during the year 2014-15 and 2015-16 and maintained neutral position in working capital which is used to drive down the level of investment required to operate a business due to the harmful effect of negative working capital of the year 2013-14 and 2014-15. This can also increase the return on investment for shareholders, eliminate the cash flow expense and maintain funding neutrally.

- **2016-2017**

From the above table there is decrease of **Rs. 378808281.06** in the net working capital during the year 2015-2016 and 2016-2017. Though the inventories and loans and advances are increasing, the decrease in current liabilities and cash equivalents played a major role in the ultimate decrease of working capital as compared to previous year. It is inferred that the working capital position of the previous year has some impact on the current year and also the company can grow with less capital. Though, the working capital position is a negative working capital, fortunately the company is in growing stage if it has been skillfully and successfully used, this can be the most advantageous working capital position.

8. SUGGESTIONS

- The working capital turnover ratio and current asset turnover ratio shows negative term which should be taken special care to improve the efficiency of the firm.
- By inventory turnover ratio it is found that excessive inventories are maintained which should be reduced or changed to fast moving inventories.
- The credit management of firm should be focused due to declining debtor turnover ratio.
- The current liabilities should be reduced to improve the working capital and maintain liquidity position of the firm.
- The current ratio shows an exceptional case due to high liquid assets available in current assets which need to be effectively utilized to pay off current debt on due.
- The gross profit needs to improved and the spending of non-manufacturing activities should be raised.
- Sales should be improved to increase net profit.
- Shareholder's contribution should be increased to reduce debt and improve creditors interest.
- The company's solvency position should be stabilized either by increasing total assets or by reducing total liabilities.

9. CONCLUSION

"Cash is the life blood of business" is the maximum amongst financial managers. Working capital management refers to the management of current short-term assets and short-term liabilities with its sound financial position. Working Capital is very essential to maintain smooth running of a business, to run the business successfully it must need adequate working capital and it also helps to increase the profitability. Salem Co-operative Sugar Mills is in a position to manage all its financial problems. However it faces problems in respect of collecting dues from its customers like central and state government owned public sectors units.

The overall working capital management and profitability of the company is good but not highly satisfactory. It is important that Salem Co-operative Sugar Mills should focus on improvement by implementing working capital management in effective way and reduce expenses. The analysis has shows the fluctuations and have both good and bad sides during five years. The performance of the company seems to be in increase every year because of the increase in sales but the efficient management of adapting to changes is needed to run towards success. The company is having good reserves and reputation, which will lead to excellent progress in the fore coming years.

ACKNOWLEDGEMENTS

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