

CHAPTER - IV

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WORKING CAPITAL MANAGEMENT OF SAHYADRI SAHAKARI

SAKHAR KARKHANA LIT, YESWANT NAGAR, KARAD

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WORKING CAPITAL MANAGEMENT OF SAHYADRI SAHAKARISAKHAR KARKHANA LIT; YESWANT NAGAR, KARAD

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1. Working capital employed
2. Working capital ratios
3. Composition of current assets and current liabilities and growth trend index
4. Changes in working capital management
5. Financing working capital needs (requirements)
6. Utilisation of requirements of working capital

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### 1. WORKING CAPITAL EMPLOYED

The following Tables 4.1 to 4.5 reveal the position of gross and net working capital employed by the factory during the period 1979 to 1984.

Table numbering 4.1 to 4.5 shows position of current assets and current liabilities and net working capital.

TABLE 4.1 : Year 1979-80.

Sr. No.	Particulars	Rs. in lakhs	Percentage
<u>Current Assets</u>			
1	Cash		
	in hand	00.58	I
	at bank	57.86	I
2	Investment	05.13	00.78
3	Advances & Debtors	303.89	46.51
4	Closing stock	286.86	43.71
<hr/>			
(A)	Total gross working capital	653.32	100.00
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<u>Current Liabilities</u>			
1	Current liabilities and provisions	196.50	43.17
2	Short-term loans (secured loans from Bank)	246.93	54.25
3	Interest payable	11.72	02.58
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(B)	Total	455.15	100.00
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(C)	Net-working capital (A - B)	+ 198.17	

SOURCE : Annual Reports of the Factory.

TABLE 4.2 : Year 1980-81

Sr. No.	Particulars	Rs.in lakhs	Percentage
<u>Current Assets</u>			
1	Cash		
	in hand	0.15	
	at bank	9.24	
		9.39	02.78
2	Investment	5.01	01.48
3	Advances & Debtors	137.55	41.11
4	Closing stock	182.71	54.63
-----			
(A)	Total Gross Working Capital	334.66	100.00
-----			
<u>Current Liabilities</u>			
1	Current Liabilities and provisions	270.67	66.10
2	Interest payable	14.16	03.45
3	Loans (current)		
	(secured loans from Bank)	124.62	30.45
-----			
(B)	Total	409.45	100.00
-----			
(C)	Net Working Capital		
	(A - B)	- 74.79	

SOURCE : Annual Reports of the Factory.

TABLE 4.3 : Year 1981-82.

Sr. No.	Particulars	Rs. in lakhs	Percentage to Total current Assets
<u>I. Current Assets</u>			
1	Cash		
	in hand 00.20	1	
	at Bank 39.77	1	
		39.97	04.42
2	Investment	04.52	00.50
3	Advances and Debtors	157.01	17.38
4	Closing Stock	701.66	77.70
-----			
(A)	Total Gross Working Capital	903.16	100.00
-----			
<u>II. Current Liability</u>			
1	Short term loans		
	(secured loans from Banks)	475.18	58.99
2	Current Liability and		
	Provisions	325.49	40.40
3	Interest Payable	4.81	00.61
-----			
(B)	Total	805.48	100.00
-----			
(C)	Net Working Capital		
	(A - B)	+ 97.68	

SOURCE : Annual Reports of the Factory.

TABLE 4.4 : Year 1982-83.

Sr. No.	Particulars	Rs. in lakhs	Percentage to Total current Assets
<u>I. Current Assets</u>			
1	Cash		
	in hand 00.21	1	
	at bank 27.20	1	
		27.41	02.11
2	Investment	13.78	01.06
3	Advances and Debtors	190.17	14.64
4	Closing Stock	1067.31	82.19
-----			
(A)	Total Gross Working Capital	1298.67	100.00
-----			
<u>II. Current Liabilities</u>			
1	Current Liabilities and Provisions	471.37	35.44
2	Short-Term Loan (secured loans from Banks)	785.93	59.09
3	Interest Payable	72.74	05.47
-----			
(B)	Total	1330.04	100.00
-----			
(C)	Net Working Capital		
	(A - B)	- 31.37	

SOURCE : Annual Reports of Factory.

TABLE 4.5 : Year 1983-84.

Sr. No.	Particulars	Rs. in lakhs	Percentage to Total current Assets
I	<u>Current Assets</u>		
1	Cash		
	in hand ₹- 00.15 :		
	at Bank ₹- 15.17 :	15.32	01.94
2	Investment	14.71	01.87
3	Advances and Debtors	283.04	36.01
4	Closing Stock	472.77	60.18
-----			
(A)	Total Gross Working Capital	785.84	100.00
-----			
II	<u>Current Liability</u>		
1	Current Liability and provisions	314.27	37.75
2	Short-term loans (secured loans from Bank)	464.71	55.83
3	Interest payable	53.33	06.42
-----			
(B)	Total	832.31	100.00
-----			
(C)	Net Working Capital		
	(A - B)	- 46.47	

SOURCE : Annual Reports of Factory.

From the above tables 4.1 to 4.5 it is observed that stock in trade (or) closing stock occupies major portion as the total current assets. That is 43.71%, 54.63%, 77.70%, 82.19% and 60.18% of the total current assets in 1979-80, 1980-81, 1981-82, 1982-83, 1983-84; respectively stores, spare parts, tools, sugar (taxes excluding), work-in-progress, sugar molasis, petrol, dezel, oil, etc; loans and advances and debtors cash in hand and cash at Bank and investment are another trace important items in the total current assets of the factory. Cash in hand and at Bank balances are formed i.e. 9.0% of the total current assets in the years 1979-80 and 2.78% in 1980-81, 04.42% in 1981-82, 2.11% in 1982-83 and 1.94% in 1983-84. Advances and Debtors are formed - 46.51% in 1979-80, 41.11% in 1980-81, 17.38% in 1981-82, 14.64% in 1982-83 and 36.01% in 1983-84. Generally investments a very small part of the total current assets in all these years i.e. 0.78%, 01.48%, 0.50%, 01.06% & 01.87%. Current liabilities and provisions and loan from banks are the two important items of current liabilities. Current liabilities were 43.17%, 66.10%, 58.99%, 35.44% and 37.75% of the total current liabilities and provisions during 1979-80, 1980-81, 1981-82, 1982-83, 1983-84 respectively.

Table 4.6, shows the sales and closing stock of sugar in value. The fluctuations in the figures of current liabilities and bank loans can also be linked with the above figures (Table 4.6) of production closing stock of sugar and sale procedure during the above periods.



TABLE 4.6 : Showing the sales and closing stock of sugar  
in value.

Year	Sugarcane crushed (M.T.)	No. of bags produced Qtls	Sugar sold Qtls.	Sales amount Rs. in lakhs	Closing stock of sugar values Rs. in lakhs
78-79	2,64,255	3,22,363	3,22,363	234.15	0.82
79-80	1,66,814	1,94,582	3,14,227	430.56	0.87
80-81	2,49,155	2,92,785	3,68,427	1349.27	1.23
81-82	4,68,800	5,56,712	3,76,141	1440.09	1.01
82-83	4,67,502	5,46,164	4,40,950	1609.28	1.03
83-84	2,78,917	3,31,140	5,18,294	1989.93	1.69

SOURCE : Annual Reports of Factory.

Loans formed of total current liabilities during 1979-80, 1980-81, 1981-82, 1982-83 and 1983-84, one thing has to be specifically clarified at this stage the secured loans from banks are obtained on Hypothecation of stocks of sugar, spare parts, tools and unsecured loans are temporarily cash credit, revolving and cash credit facilities obtained from co-operative credit society and also from banks.

The requirement of current assets depends, in case of this factory, mainly on production of sugar, stock of sugar, work-in-progress sugar, and sales proceeds. The investment in the current assets was Rs. in lakh 653.32, 334.66, 903.16, 1298.67 and 785.84, during the year 1979-80, 1980-81, 1981-82, 1982-83 & 1983-84 respectively.

Production stock of sugar and sales during the above five years were as follows.

## 2. WORKING CAPITAL RATIOS

In the preceding pages working capital ratio to ascertain the efficiency of working capital management of factory have been calculated. These ratios would finally determine how current assets and current liabilities have been managed. The following ratio have been studied in detail.

- a) Current Ratio
- b) Inventory turnover ratio
- c) Quick Ratio (or) Acid Test Ratio
- d) Debtors Turnover Ratio
- e) Creditors Turnover Ratio

### a) Current Ratio

This ratio can be calculated by following formula.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liability}}$$

Table 4.7 shows current ratio (working capital ratio).

Generally 2:1 a current ratio has long been considered satisfactory. But in this firm the current ratio is 1.12:1, 0.82:1, 1.11:1, 0.97:1 & 0.94:1 in the year 1979-80, 1980-81, 1981-82, 1982-83 and 1983-84 respectively. In this firm this ratio 0.97:1 and 0.94:1 are same time. So the current ratio has been considered unsatisfactory.

TABLE 4.7 : Showing current ratio (Working Capital Ratio).

Year	Current Assets (Rs.in lakhs)	Current Liabilities (Rs.in lakhs)	Current Ratio times
1979-80	653.32	455.15	1.12:1
1980-81	334.66	409.45	0.82:1
1981-82	903.16	805.48	1.11:1
1982-83	1298.67	1330.04	0.97:1
1983-84	785.84	832.31	0.94:1

SOURCE : Annual Reports of the Factory.

b) Inventory Turn Over Ratio

This ratio is calculated by the following formula.

$$\text{Inventory Turn Over Ratio} = \frac{\text{Net Sales}}{\text{Average Inventory}}$$

$$\text{Average Inventory} = \frac{\text{Opening inventories} + \text{Closing inventories}}{2}$$

Table 4.8, shows Inventory Turnover Ratio.

TABLE 4.8 : Showing Inventory Turnover Ratio.

Year	Net sales Rs.in lakhs	Average Inventory	Ratio (times)
1979-80	951.50	337.75	3 times (2.81 : 1)
1980-81	1349.27	165.76	8 times (8.13 : 1)
1981-82	1440.09	356.46	4 times (4.03 : 1)
1982-83	1609.28	788.21	2 times (2.04 : 1)
1983-84	1989.93	667.69	3 times (2.98 : 1)

SOURCE : Annual Reports of the Factory.

Calculation of Average Inventory

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

$$1979-80 \quad \frac{438.09 + 237.46}{2} = 337.75$$

$$1980.81 \quad \frac{237.46 + 94.07}{2} = 165.76$$

1981-82	-	$\frac{94.07 + 618.86}{2}$	=	336.46
1982-83	-	$\frac{618.86 + 957.57}{2}$	=	788.21
1983-84	-	$\frac{957.57 + 377.81}{2}$	=	667.69

Calculation of Turnover Ratio

				$\frac{\text{Net sales}}{\text{Average Inventory}}$
	Inventory Turnover Ratio	=		
1979-80	-	$\frac{951.50}{337.75}$	=	3 times (2.81:1)
1980-81	-	$\frac{1349.27}{165.76}$	=	8 times (8.13:1)
1981-82	-	$\frac{1440.09}{356.75}$	=	4 times (4.03:1)
1982-83	-	$\frac{1609.28}{788.21}$	=	2 times (2.04:1)
1983-84		$\frac{1989.93}{667.69}$	=	3 times (2.98:1)

c) Quick assets are cash and Bank Balances; debtors, receivables, short-term marketable securities.

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

and Quick Assets = Current Assets - Inventories

TABLE 4.9 : Shows Quick Ratio.

Year	Quick Assets (Rs.in lakhs)	Current Liabilities (Rs.in lakhs)	Quick Ratio
1979-80	366.46	455.15	0.80:1
1980-81	151.95	409.45	0.37:1
1981-82	201.50	805.48	0.25:1
1982-83	231.36	1330.04	0.17:1
1983-84	313.07	832.31	0.37:1

SOURCE : Annual Reports of the Factory.

A Quick Ratio 1:1 has usually been considered satisfactory, but here this ratio is 0.80:1, 0.37:1, 0.25:1, 0.17:1 and 0.37:1 in the year 1979, 1980-81, 1981-82, 1982-83 and 1983-84 respectively. So here this firm has not been financial strong, because current liabilities more than quick assets during the period 1979-80 to 1983-84. The Quick Ratio shows the firms liquidity. Here the firms liquidity position is very poor.

d) Daily cash flows

$$\text{Daily cash flows} = \frac{\text{Net profit} + \text{Depriciation}}{\text{No. of working days in the year}}$$

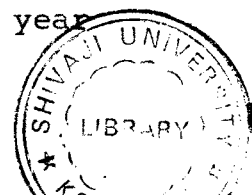


TABLE 4.10 : Showing daily cash flow.

Year	Net profit depreciation (Rs.in lakhs)	No. of working days in year	Daily cash flows in Rs.
1979-80	19.76	138	14,318=84
1980-81	03.10	154	2,012=98
1981-82	16.42	213	7,708=92
1982-83	-	209	-
1983-84	12.58	134	9,388=05

SOURCE : Annual Reports of the Factory.

		Net Profit	+	Depriciation		
1979-80	-	16.24	+	0.3.52	=	19.76
1980-81	-	-	+	03.10	=	03.10
1981-82	-	13.43	+	02.99	=	16.42
1982-83	-	-	+	-	=	-
1983-84	-	10.93	+	01.65	=	12.58

The above table shows the daily cash flow in the factory. In the year 1979-80, the daily cash flow was Rs.14,138=84. But in the year 1980-81, Rs.2,012=98 daily cash flow, in this year the daily cash flow is low than the year 1979-80 because in this year the net profit is more. In the year 1982-83 there is net loss so in this year the daily cash flow is nil.

e) Debtor's Turnover Ratio

This ratio shows how many days credit is outstanding in the value of amounts owing by debtors. It gives an indication of the efficiency or otherwise of the credit and collection policies of the firm.

It is measured as follows.

$$\text{Debtor's Turnover Ratio} = \frac{\text{Average Debtors}}{\text{Average Daily Credit Sales}}$$

$$\text{Average Debtors} = \frac{\text{Opening Debtors} + \text{Closing debtors}}{2}$$

$$\text{Average Daily Credit Sales} = \frac{\text{Total credit sales for the year}}{365}$$

TABLE 4.11 : Showing Debtors Turnover Ratio.

Year	Average debtors (Rs. in lakhs)	Average credit sales in Rs.	Ratio in days
1980-81	12.78	7,735	165 days
1981-82	15.21	10,016	151 days
1982-83	11.53	11,517	100 days
1983-84	10.52	15,731	66 days

SOURCE : Annual Reports of the Factory.



Calculation of Average Debtors :

1980-81	-	$\frac{14.99 + 10.58}{2}$	=	12.78
1981-82	-	$\frac{10.58 + 19.84}{2}$	=	15.21
1982-83	-	$\frac{19.84 + 3.23}{2}$	=	11.53
1983-84	-	$\frac{3.23 + 17.81}{2}$	=	10.52

Calculation of Average Daily Credit Sales :

1980-81	-	$\frac{28,23,569}{365}$	=	7,735
1981-82	-	$\frac{36,55,955}{365}$	=	10,016
1982-83	-	$\frac{42,03,738}{365}$	=	11,517
1983-84	-	$\frac{57,42,034}{365}$	=	15,731

In the year 1980-81 the debtors turnover only 165 days credit is outstanding in the value of amount owing by debtors. But in the year 1982, 151 days credit is outstanding and in the year 1983 the credit outstanding days are 100 days. In the year 1984, 66 days credit is outstanding in the value of amount owing by debtors.

Observation of above table, the average credit sales is increased were as the days of credit outstanding is decreased continuously in the study period.

f) Creditor's Turnover Ratio

This ratio measures the promptness or otherwise with which payment is made to creditors in respect of credit purchases of Sahyadri Sahakar Sakhar Karkhana Ltd; Yeshwant Nagar, Karad.

It is measured as follows.

$$\text{Creditors Turnover Ratio} = \frac{\text{Average creditors}}{\text{Average daily purchase}}$$

$$\text{Average Creditors} = \frac{\text{Opening creditor} + \text{Closing creditor}}{2}$$

$$\text{Average Daily Purchase} = \frac{\text{Total credit purchase for the year}}{365}$$

TABLE 4.12 : Showing Creditors Turnover Ratio.

Year	Average creditors (Rs. in lakhs)	Average daily purchase (Rs. in lakhs)	Ratios in days
1980-81	233.59	2.40	97 days
1981-82	298.09	4.06	65 days
1982-83	398.43	3.92	101 days
1983-84	392.82	2.31	170 days

SOURCE : Annual Report of the Factory.

Calculation of Average Creditors :

1980-81	-	$\frac{196.50 + 270.68}{2}$	=	233.59
1981-82	-	$\frac{270.68 + 325.50}{2}$	=	298.09
1982-83	-	$\frac{325.50 + 471.37}{2}$	=	398.43
1983-84	-	$\frac{471.37 + 314.28}{2}$	=	392.82

Calculation of Average daily credit purchase :

1980-81	-	$\frac{8,77,31,720}{365}$	=	2,40,360
1981-82	-	$\frac{14,81,97,167}{365}$	=	4,06,196
1982-83	-	$\frac{14,33,25,766}{365}$	=	3,92,673
1983-84	-	$\frac{8,46,27,468}{365}$	=	2,31,856

In the above table it is measure the promptness. In the year 1980-81 to 1983-84, 97 days, 65 days, 101 days, 169 days, payment is made to creditors in respect of credit purchases of Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad.

TABLE 4.13 : Showing cash balance in current assets.

(Rs. in lakhs)

Year	Cash balance	Current assets	Ratio
1979-80	58.44	594.88	0.09:1
1980-81	09.39	325.27	0.02:1
1981-82	39.97	863.19	0.04:1
1982-83	27.41	1271.26	0.02:1
1983-84	15.32	770.52	0.01:1

SOURCE : Annual Reports of the Factory.

The cash balance in current asset is very low because in current assets inventory taking a major part, so in the period 1979-80 to 1983-84 the portion of cash balance in current assets is 0.09, 0.02, 0.04, 0.02 & 0.01 respectively. In the year 1980-81 and 1982-83 the cash balance in current assets is same.

$$\text{Cash Turnover in Sales} = \frac{\text{Sales for the period}}{\text{Opening Cash Balance}}$$

TABLE 4.14 : Showing cash turnover in sales

(Rs. in lakhs)			
Year	Sales	Opening cash balance	Ratio
1980-81	1454.51	58.55	24.84:1
1981-82	1570.64	09.40	167.08:1
1982-83	1730.58	39.97	43.29:1
1983-84	2085.21	27.41	76.07:1

SOURCE : Annual Reports of the Factory.

The aim is to measure the number of times the opening cash balance is turned over the sales during the given period.

In the nature of business enifials a low rate of turnover of cash in sales it will be follow that the initial and the sustaining cash balance will have to be relatively large.

In the period 1980-81 to 1983-84 rate of turn-over of cash in sales is low so it will follow that the initial and the sustaining cash balance will have to be large of the Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad.

In the year 1981-82 the cash turnover in sales is very low, it making for effective and efficient use of cash and also for improved liquidity.

TABLE 4.15 : Showing cash payment other than purchases.

(Rs. in lakhs)

Sr. No.	Particular	Y e a r				
		1980	1981	1982	1983	1984
1	Factory wages & salary	24.00	38.00	47.99	51.34	49.62
2	Power	00.07	00.06	00.22	00.26	00.18
3	Rent, Rates & Taxes	00.56	00.52	00.33	00.77	00.67
4	Sales & Administrative salary	11.68	17.66	21.76	25.03	23.50
5	Printing & Stationery	02.97	04.02	04.32	04.66	03.30
6	Postage, Telephone & Telegrams	00.96	01.43	01.39	01.79	01.87
7	Travelling expenses	01.94	02.52	02.44	02.82	03.04
----- Total Rs.		42.08	64.21	78.45	86.67	82.18

SOURCE : Annual Reports of the Factory.

According to the above table the cash payment of the company is increased every year. In the total payment of cash other than purchases, factory wages and salary taking a major part and secondly sales and administrative items take a major part. Cash used for power purpose is comparatively less. The travelling expenses is continuously increased in the study period.

3. COMPOSITION OF CURRENT ASSETS AND CURRENT LIABILITIES AND GROWTH TREND INDEX

Table 4.16 & 4.17 shows the composition of current assets and current liabilities in percentage and the growth trend index of the Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad with the base year 1979-80.

TABLE 4.16 : Showing composition of current assets and current liability.

Year as on 30th Sept.	(Rs. in lakhs)			
	1981	1982	1983	1984
<u>Current Assets</u>				
Cash & Bank balance	02.78	04.42	02.11	01.94
Advances & Debtors	41.11	17.38	14.64	36.01
Closing stock (inventorie)	54.63	77.70	82.19	60.18
Investments	01.48	00.50	01.06	01.87
	100.00	100.00	100.00	100.00
<u>Current Liabilities</u>				
Short-term loans	30.45	58.99	59.09	55.83
Interest payable	03.45	00.61	05.47	06.42
Current Liabilities & Provisions	66.10	40.40	35.44	37.75
	100.00	100.00	100.00	100.00

SOURCE : Annual Reports of the Facotory.

**TABLE 4.17 : Growth Trend Index of the Sahyadri Sahakari Sakhar Karkhana, Yeshwant Nagar, Karad (Index 1979-80, Base - 100).**

Particular	(figures in lakhs)				
	1979-80	1980-81	1981-82	1982-83	1983-84
Net Sales	951.50 (100.00)	1349.27 (313.37)	1440.09 (334.46)	1609.28 (337.76)	1989.93 (462.17)
Total Current Assets	653.32 (100.00)	334.66 (51.52)	903.16 (138.24)	1298.67 (198.78)	785.84 (120.28)
Current Liabilities and Provisions	455.15 (100.00)	409.45 (89.95)	805.48 (176.97)	1330.04 (292.22)	832.31 (182.86)
Net working capital from equity and long term borrowings	185.30 (100.00)	136.11 (73.45)	194.72 (105.08)	153.97 (83.09)	111.25 (60.03)
Bank borrowings short term	246.93 (100.00)	124.62 (50.46)	475.18 (192.43)	785.93 (318.28)	464.71 (188.19)

**Note :** Figures in the Bracket shows index.

**Source :** Annual Reports of the Factory.



It is observed from the table 4.16 & 4.17 that the current assets and liabilities, in the current assets inventories taking major parts and cash and bank balance take very poor part. In the current assets cash and bank balance, advances and debtors, inventories and short-term investments are composed. In the total current liability, short-term loans, interest payable, current liabilities and provisions are composed. In total current liability short-term loan take a comparatively major part.

According to the table 4.17 the net sale are continuously increased over the study period. Current liabilities increased in the year 1980 to 1983, but in the year 1984 the current liability is decreased.

#### 4. CHANGES IN WORKING CAPITAL MANAGEMENT

Changes in working capital has been studied from 1982-83 to 1983-84. In this part of chapter a statement is given to show the changes in working capital in above mentioned periods of the Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad.

Statement of changes in working capital shows the trend in the changes of working capital. This statement is prepared with the help of current assets and current liabilities of the two periods. An increase in the amount of any current assets in the current year in composition to that in the previous year results into an increase in the working capital. Similarly decrease in the amount of any current assets in the current year in composition to

that in the previous year results into a decrease in the working capital. An increase in any current liabilities in the current year in comparison on the previous year results a decrease in the working capital and vice-versa. The total increase and the total decrease is compared in the end, and the difference shows the decrease or increase in the working capital. An increase in working capital is the application of funds and decrease of working capital is the source of funds.

**TABLE 4.18** : Showing changes in working capital.

(Rs. in lakhs)				
Particulars	1982-83	1983-84	Increase	Decrease
<b><u>Current Assets</u></b>				
Cash in hand & Bank	27.41	15.32	-	12.09
Investments	13.78	14.71	00.93	-
Advance & Debtors	190.17	283.04	92.87	-
Inventories (trade in stock)	1067.31	472.77	-	594.54
(A)	1298.67	785.84	93.80	606.63
<b><u>Current Liabilities</u></b>				
Short-term borrowing	785.93	464.71	-	321.22
Current liability & provisions	471.37	314.27	-	157.10
Interest payable	72.74	53.33	-	19.41
(B)	1330.04	832.31	-	497.73
Net working capital (A-B)	31.37	- 46.47	93.80	108.90

**SOURCE** : Reports (Annual) of the factory.

So, in the Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad, the amount of increase in current assets are comparatively more than current liabilities. In this factory current liabilities are not increased. The total decrease of working capital is the source of funds.

#### 5. FINANCING WORKING CAPITAL NEEDS (REQUIREMENTS)

Second important aspect of the working capital position is financing of working capital needs.

TABLE 4.19 : Showing current ratio to net working Capital.

Years	Net working capital (Rs. in lakhs)	Current Ratio (in times)
1979-80	(+) 198.17	1.21 : 1
1980-81	(-) 74.79	0.82 : 1
1981-82	(+) 97.68	1.11 : 1
1982-83	(-) 31.37	0.97 : 1
1983-84	(-) 46.47	0.94 : 1

SOURCE : Annual Reports of the Factory.

Following are the important observations in respect of financing of working capital needs of the firm.

- 1) Figures of Net Working Capital and Current Ratio : Current ratio in net working capital is very poor in the year 1981, 1983 1984 because in this year factory get net loss.

- 2) The company has neither taken any long-term loan, nor raised capital by issuing debentures. The company is taking heavy on short-term borrowings from banks.
- 3) The owned capital of the firm - The percentage of total liability in owned capital is increased in the year 1980-81 due to increase in current liability and provisions; but in the year 1981-82 it decreased by 11.63% and in the year 1982-83 the percentage of total liability in owned capital is also decreased to the extent of 7.51 due to decrease in long-term loan

TABLE 4.20 : Shows the owned capital of the company.

Year	Owned capital (Rs. in lakh)	Percentage of the total liabilities
1979-80	426.77	38.85
1980-81	538.58	47.96
1981-82	643.09	36.30
1982-83	658.13	28.79
1983-84	713.28	39.39

SOURCE : Annual Reports of the Factory.

- 4) Figures of stock - In trade and bank loans taken on security of hypothecation of stock and equitable mortgage of the company's fixed assets of the company.

TABLE 4.21 : Showing percentage of bank loan to stock.

Year	Stock in trade at the end of the year (Rs. in lakhs)	Bank loan out- standing as on the last day of the year (Rs. in lakhs)	Percentage of bank loans to stock
1979-80	286.86	246.93	86.00
1980-81	182.71	124.62	68.20
1981-82	701.66	475.18	67.72
1982-83	1067.31	785.93	73.63
1983-84	472.71	464.71	98.30

SOURCE : Annual Reports of the Factory.

In the year 1981-82 the bank loan decreased but in the year 1983 and 1984 the bank loans are increased. In short the bank loans are increased Rs.12.30 lakhs over the period 1980 to 1984, because the company use the bank loan for increase the crushing capacity (i.e. 1250 M.T. to 2200 M.T. per day).

Table 4.22 & 4.23 shows the financing of working capital requirement of the Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad during the period under study has been as follows.

To ascertain the working capital requirements of Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad, in the first

instance as in the Table 4.22 financing of fixed assets has been studied, surplus, after financing fixed assets for available for working capital is calculated. An in term it is transfered to Table 4.23 i.e. Financing working capital requirements to find out the working capital requirement.

Though how working capital has been financed during the period of 1979-80 to 1983-84, it gives in table 4.23. They are discussed in detail in the preceeding pages. Here it is necessary to mention that the above discussion has been presented year after year i.e. from 30-9-80 to 30-9-84 of Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad.

**TABLE 4.22 :** Financing of fixed assets : position as on 30th September (Rs.in lakhs).

Year	1980	1981	1982	1983	1984
Fixed Gross Assets (a)	413.17	686.44	779.83	900.72	949.19
Financed by share capital	178.89	188.44	201.20	208.08	212.75
Reserve	176.20	261.77	318.71	299.64	329.37
Long Term Loan	185.30	136.11	194.72	153.97	111.25
Non refundable deposits from members	71.17	88.36	123.17	150.39	171.15
Total (b)	611.56	674.68	837.80	812.08	824.52
Surplus (deficit) available for financing working capital (c)+	198.40	- 11.75	+ 57.96	- 88.64	-124.67

**SOURCE :** Annual Reports of the Factory.

**TABLE 4.23** : Financing working capital requirement position as  
on 30th September (Rs. in lakhs).

Year →	1980	1981	1982	1983	1984
<u>Current Assets</u>					
Cash & Bank Balance	58.44	09.39	39.97	27.41	15.32
Investments	05.14	05.01	04.52	13.78	14.71
Advances & Debtors	303.89	137.55	157.02	190.17	283.04
Inventories	286.87	182.71	701.67	1067.31	472.72
<b>Total (d)</b>	<b>654.35</b>	<b>334.66</b>	<b>903.18</b>	<b>1298.67</b>	<b>785.84</b>
<u>Financed by</u>					
Surplus or Deficit as					
shown in table below +	198.40	- 11.75	+ 57.98	- 88.64	- 124.66
Short term-loan	246.93	124.62	475.18	785.93	464.71
Current Liabilities					
and provisions	196.50	270.67	325.49	471.37	314.27
Interest payable	11.72	14.16	40.81	72.74	53.33
<b>Total (e)</b>	<b>653.54</b>	<b>409.45</b>	<b>899.44</b>	<b>1330.04</b>	<b>832.31</b>
Differance represented by cumulative profit or Loss					
	- 0.81	+ 74.79	- 3.37	+ 31.36	+ 46.47

SOURCE : Annual Reports of the Factory.

FINANCING OF FIXED ASSETSPOSITION AS ON 30-9-1980A) Financed By

Share capital	1,78,89,053	
Reserve & Surplus	1,76,20,108	
Long-term loans	1,85,30,120	
Non refundable deposits from member	71,17,142	6,11,56,423

B) Gross Fixed Assets

Fixed Assets	4,12,27,106	
Deferred Revenue expenditure	90,133	4,13,17,239

C) Surplus

Available for financing working capital		1,98,39,184
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Financing of working capital requirement positionAs on 30th September 1980D) Financed By

Surplus as shown above	1,98,39,184	
Current Liabilities	1,96,50,000	
<u>Short term loans</u>		
M.S.C. Bank Ltd.	1,09,55,134	
Land D. Bank	4,44,268	
Cane purchase tax loan	22,01,147	
The Bank of Karad interest Payable	9,81,404	2,46,93,252
		11,72,000
		6,53,54,436

E) Current Assets

Investments	5,13,904	6,54,35,205
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F) Difference represented

By cumulative losses		(-) <u>80,769</u>
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POSITION AS ON 30-9-1981FINANCING OF FIXED ASSETS

A) <u>Financed by</u>			
Share capital	1,88,44,425		
Reserve & surplus	2,61,77,014		
Long-term Loan	1,36,11,015		
Non returnable deposit from members	88,36,034	<u>6,74,68,488</u>	
B) <u>Gross fixed Assets</u>			
Fixed assets	6,84,79,091		
Differed Revenue expenses	1,65,347	<u>6,86,44,438</u>	
C) Deficite available for financing working capital			11,75,050

Financing of working capital requirement positonAs on 30th September 1981.

D) <u>Financed by</u>			
Deficite as shown above	- 11,75,050		
current Liabilities	2,70,67,263		
Interest payable	14,16,046		
<u>Short-term loans</u>			
M.S.Co-op.Bank Ltd.	11,50,000		
Uninterested Govt.loan	1,01,11,198		
Cane purchased tax loan	12,01,247	1,24,62,445	<u>4,09,45,754</u>
E) <u>Current Assets</u>			
Current assets	3,29,66,136		
Investments (s.term)	4,99,864		<u>3,34,66,000</u>
F) <u>Difference</u>			
Represented by cummulative profit			(+) <u>74,78,754</u>

POSITION AS ON 30-9-1982FINANCING OF FIXED ASSETS

A) Financed by		
Financed by share capital	2,01,20,670	
Reserve and surplus	3,18,71,020	
Long-term loan	1,94,72,000	
Non-returnable deposit from members	1,23,17,041	8,37,80,631
B) Gross fixed assets		
Fixed Assets	7,79,17,617	
Deffered revenue expenditure	66,012	7,79,83,629
Surplus		57,97,002
C) Surplus		

Available for financing  
of working capital

Financing of working capital requirement position

As on 30th September 1982.

D) Financed by		
Surplus shown as on above	57,96,602	
Current liabilities	3,25,49,102	
<u>Short-term loans</u>		
M.S.C.Bank Ltd.	3,62,06,016	
Uninterested Govt. Loan	1,01,11,198	
Cane purchase tax loan	12,01,247	4,75,18,432
Interest payable	40,81,000	8,99,44,536
E) Current Assets	8,98,65,879	
Short term investments	4,52,170	9,03,18,049
F) Difference represented cummulative lossess		(-) 3,73,513

FINANCING OF FIXED ASSETSPOSITION AS ON 30-9-1983

A) Financed by			
Share capital	2,08,08,101		
Reserve & surplus	2,99,64,940		
Long-term loan	1,53,97,800		
Non refundable deposits from members	1,50,39,997	8,12,10,838	
B) Gross fixed assets			
Fixed assets	8,99,27,956		
Deferred revenue expenditure	01,47,203	9,00,75,159	
C) Deficit available for financing working capital		-	88,64,321

Financing of working capital requirement positionAs on 30th September 1983.

D) Financed by			
Deficit as shown above	-	88,64,321	
Current liabilities and provisions	4,71,37,178		
Interest payable	72,74,120		
Short Term Loan			
M.S.C. Bank Ltd.	6,84,82,613		
Non interested Govt. loan	1,01,11,198	7,85,93,811	13,30,05,179
E) Current Assets	12,84,90,241		
Short-term investments	13,78,660	12,98,68,901	
F) Difference represented by cumulative profit		(+)	<u>31,36,278</u>

FINANCING OF FIXED ASSETSPOSITION AS ON 30-9-1984.

A) Financed by		
Share capital	2,12,75,011	
Reserve & surplus	3,29,37,037	
Long-term loan	1,11,25,000	
Non refundable members deposit	1,71,15,365	8,24,52,413
B) Gross fixed assets		
Fixed assets	9,48,01,174	
Defered revenue expenditure	1,18,693	9,49,19,867
C) Deficit available for financing working capital		- 1,24,67,454

Financing of working capital requirement positionAs on 30th September 1984.

D) Financed by		
Deficite as shown above	- 1,24,67,454	
Current liabilities and provisions	3,14,27,279	
Interest payable	53,33,819	
<u>Short term loan</u>	4,64,71,247	
M.S.C.Bank Ltd.	3,63,60,049	
Non-interested Govt.Loan	1,01,11,198	8,32,31,344
E) Current Assets		
Current assets	7,71,14,305	
Short term investments	14,69,900	7,85,84,205
F) Difference represented by cumulative profit		(+) <u>46,47,130</u>

It is observed from the table 4.22 & 4.23 that gross fixed assets are increased over the period 1980 to 1984 to the extent of Rs.536.02 lakhs, while increase in the fixed liabilities to the extent of Rs.212.78 lakhs over the same period. In the year 1980 there is a surplus of Rs.198.39 lakhs available for financing the working capital. But in the year 1980 total current assets is more than financing amount, so in this year there is a deficit of Rs.0.81 lakhs.

This may also be observed in growth of current assets and current liabilities. Current assets increased by Rs.131.49 lakhs. On the other hand current liabilities are increased to the extent of Rs.178.77 lakhs over the period.

#### 6. UTILISATION OF REQUIREMENTS OF WORKING CAPITAL

Stock-in-trade cash in hand and cash at bank, loans and advances and spare-parts, stores, tools, etc. are the important current assets which should be utilised efficiently. Current liabilities and loans from banks are the important current liabilities.

Position of stock in trade depends to a large extent on the Government policy of control on such of Sugar to which 65% of the sugar produced was to be supplied or levy sugar to the Government at a fixed price and 35% of free market sugar. But in the year 1987-88 the Government is allow the company to supply 50% of the sugar produced was levy and 50% is non-levy.

In case of position of other current assets, it can be observed that except in spare parts, stores and tools, the investment in loans and advances show wide fluctuations during the period under study i.e. 1979-80 to 1983-84.

In case of current liabilities bank loans form the major portion. The firm throughout the during period under study (i.e. 1979-80 to 1983-84) has heavily relised upon short-term bank loans.

TABLE 4.24 : Showing yearwise refund of Loans.

Year	Medium-term loan Rs.in lakhs	Long-term loan Rs.in lakhs	Total refunded loans Rs. in lakhs
1979-80	-	15.00	15.00
1980-81	-	30.00	30.00
1981-82	-	16.27	16.27
1982-83	30.00	22.00	52.00
1983-84	30.00	27.73	57.73

SOURCE : Annual Reports of the Factory.

In the year 1979-80, 1981-1982 there is a only long-term loans refunded by the company, in that concerned year ended. But in the year 1983 and 1984 the company refunded a medium term-loan as well as long-term loan.

TABLE 4.25 : Showing deduction per ton.

<u>Year</u>	Non-refundable deposit	Fixed deposits	Primi-nistry fund	House-hold-ing fund	Reason deve-lop-ment fund	Sugar-cane deve-lop-ment fund	Other savi-ng	<u>Total</u>
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
79-80	8/-	-	0.50	1.00	1	1	-	11.50
80-81	8/-	-	1.00	1.00	1	-	1	12.00
81-82	8/-	11	0.50	0.50	1	-	1	22.00
82-83	8/-	9	0.50	0.50	1	-	1	20.00
83-84	10/-	-	0.50	0.50	1	-	1	13.00

SOURCE : Annual Reports of the Factory.

In the year the factory deducted Rs.11.50 per ton. In the year 1982 & 1983 the company deducted a fixed deposits, so in that year total deduction is more than other year in the period of 1980-1984.

The deduction is increased in the period 1980 to 1984.

CHAPTER - V

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A CRITICAL STUDY AND PROBLEMS OF WORKING CAPITAL  
MANAGEMENT IN SAHYADRI SAHAKARI SAKHAR KARKHANA  
LIMITED, YESHWANT NAGAR, KARAD