

CHAPTER - VI

CONGLUSIONS AND SUGGESTIONS

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CONCLUSIONS AND SUGGESTIONS

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1. Conclusions
2. Suggestions

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## 1. CONCLUSIONS

The analysis of the working capital management of the Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad, with help of tables and ratios given in the previous paper can be summarised as follows.

The net working capital has been decreasing in first year (i.e. 1980-81) due to increase in total liabilities. In this year total liability is increased because this Accounts<sup>ny</sup> year consists of 15 months accounting trasactions. Actually, regular accounts are closed in the month of 30th June but in this year the accounts are closed in 30th September. So this year consists excess three months liabilities. In the subsequent year i.e. 1981-82 the working capital is increased due to increase in current assets, because in this year the current assets increased due to increase in inventories. But next two year i.e. 1983 and 1984 the net working capital is decreased due to increase in current liability i.e. the company taking a short-term loan for increasing the total crushing capacity of the factory (i.e. 1250 M.T. per day to 2200 M.T. per day)

TABLE 6.1 : Showing net capital working.

(Rs.in lakhs)

Year	Net working capital
1979-80	(+) 198.17
1980-81	(-) 74.79
1981-82	(+) 97.68
1982-83	(-) 31.37
1983-84	(-) 46.47

SOURCE : Annual Reports of the Factory.

According to the above table the working capital is relatively not sound of the concern company.

**TABLE 6.2 :** Showing cash payment other than for purchases.  
(Rs.in lakhs)

Sr. No.	Particular	1980	1981	1982	1983	1984
1	Factory wages and 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 and 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 and Stationery	02.97	04.02	04.32	04.66	03.30
6	Postage & Telephone and 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 Factory Reports.

According to the above table it is clear that the trends in cash payment of the company other than purchases every year is increased. According to the cash allocation other than purchases is more on factory wages and salary as well as sales and administrative salary. Because for improving the production as well as administration efficiency of the company and also for reduce the

cost of sales and increase the total sales. cash is used in total payment other than purchase is on the factory wages and salary, sales and administrative salary.

TABLE 6.3 : Showing cash 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

This ratio help in guiding the desirable level of working capital.

In Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad the cash balance in current assets is poor. Because in current assets cash balance is low were as the inventory taking the major part.

Table 6.4 shows that the cash balance in sales is very poor in the study period. The smaller cash balance making for effective and efficient use of cash and also for improved liquidity.

In the year 1981-82 the cash balance in sales is decrease because the management decide in that year to use cash effectively.

TABLE 6.4 : 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.

According to shortage of cash disrupt the company's manufacturing operation. The cash management position of company should not adequate. The company cannot maintain a cash planning. Cash forecasting is not maintain by the company.

TABLE 6.5 : Showing daily cash flow.

Year	Net profit + depreciation (Rs.in lakhs)	No. of working days in year	Daily cash flow	
			Rs.	Ps.
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	00	=00
1983-84	12.58	134	9,388	=05

SOURCE : Annual Report of the Factory.

According to the above table the daily cash flow in the year 1979-80 is Rs.14,318=84, but it is decreased in the year 1980-81 because in the year there is net loss. Therefore, the daily cash flow is decreased. But in the year 1981-82 there is net profit so in this year the daily cash flow is Rs.7,708=92.

In the year 1982-83 there is net loss and in this year company is not charge a depreciation and production is very low due to shortage of rain. So in this year the daily cash flow is nil.

Table 6.5 shows that the daily cash flow is increased in the study period due to increase in net profit.

Working capital ratio to ascertain the efficiency of working capital management of factory have been calculated by the following ratios.

a) Current ratio    b) Inventory turnover ratio    c) Quick ratio

TABLE 6.6 : Showing current ratio.

Year	Current Assets (Rs. in lakhs)	Current liabilities (Rs.in lakhs)	Current Ratio
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 Report of the factory.

a) Current Ratio

Generally 2:1 a current ratio has long been considered satisfactory. But in this firm the current ratio has been considered unsatisfactory, it is clear according to the above table. Which indicates that its working capital position was not sound for the year 1980-81, 1982-83 and 1983-84. Because in these year the current liability is more than the current assets due to increase in provisions and short-term loan. In these year the short-term loan and provisions are increased because for expansion of crushing capacity as well as adopted agricultural development schemes under the role of the firm.

TABLE 6.7 : Showing inventory turnover ratio.

Year	Net sales (Rs. in lakhs)	Average Inventory	Ratio Times
1979-80	951.50	337.75	3 times
1980-81	1349.27	165.76	8 times
1981-82	1440.09	356.78	4 times
1982-83	1609.28	788.21	2 times
1983-84	1989.93	667.69	3 times

SOURCE : Annual Report of the Factory.

b) Inventory Turnover Ratio

According the above table in the year 1980-81 net sale is increased due to increased in production. But in the year 1979-80,



and 1983-84 the turnover ratio is same.

Current assets consists of a higher rate of inventory. In the study period the net sale is increased due to increase in production.

c) Quick Ratio

Generally 1:1 a Quick Ratio has long been considered satisfactory. But in this firm this ratio is unsatisfactory. However the quick assets were insufficient to meet the current liabilities in full indicating an inadequate margin of safety to current creditors. This indicates that company's liquidity position was not sound during the period i.e. 1979-80 to 1983-84.

This quick ratio fairly indicates that the financial position of the concerned unit is far from satisfactory.

TABLE 6.8 : Showing Quick Assets 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

It can be seen from current ratios that current liabilities exceed current asset mainly because of the loans taken by Karkhana for implementing irrigation schemes in the region.

TABLE 6.9 : Showing the debtors turnover ratio

Year	Average debtors (Rs. in lakhs)	Average daily credit sales (Rs. in lakhs)	Ratio in days
1980-81	12.78	7,735	165 days
1981-82	15.21	10,016	151 days
1982-83	11.53	11,117	100 days
1983-84	10.52	15,731	66 days

The above table of debtor's turnover ratio shows the average amount of credit sales for the number of days in the corresponding column. This throws light not only on the magnitude of credit sales effected but also on the time dimension involved in the problem. This is attributable to the policy of the management to have credit sales.

Table 6.10 shows the credit turnover ratio in Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad. According to the creditors turnover ratio it is clear that payment is made to creditors in respect of credit purchase. In the year 1981-82 the days are low so it indicates that the creditors are paid

promptly thus enhancing the good will of the firm. But in the year 1983-84 the days are more, it is indicates signifies the delay in liquidating the claims of the creditors.

TABLE 6.10 : Showing turnover ratio.  
crédit

Year	(Rs. in lakhs)		
	Average creditors	Average purchase	Ratio in days
1980-81	233.59	2.40	97 days
1981-82	298.09	4.06	65 days
1982-83	398.43	3.93	101 days
1983-84	392.82	2.32	169 days

SOURCE : Annual Reports of the Factory.

According to the Table 6.11, changes in working capital in Sahyadri Sahakari Sakhar Karkhana Ltd. Yeshwant Nagar, Karad, the amount of increase in current assets are comparatively more than current liabilities. In this firm current liabilities are not increased. The total decrease of working capital is the source of fund.

In the year 1983-84 the current liability is decreased because in this year the company refunded a short-term borrowing which is borrowed for construction of a 'Warehouse' in the previous year.

TABLE 6.11 : Showing working capital trend.

(Rs. in lakhs)

Particulars	1982-83	1983-84	Increase	Decrease
<u>Current Assets</u>				
Cash in hand & at Bank	27.41	15.32	-	12.09
Investments	13.78	14.71	00.93	-
Advances & Debtors	190.17	283.04	92.87	-
Inventories	1067.31	472.77	-	594.54
-----				
A	1298.67	785.84	93.80	606.63
<u>Current Liabilities</u>				
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
-----				
New Working Capital (A - B)	- 31.37	- 46.47	93.80	108.90

SOURCE : Annual Report of the Factory.

In the year 1983-84 the current assets are increased because in this year credit sales are increased due to increased in credit sale the Advances and debtors of the firm is increased. So current assets are increased.

TABLE 6.12 : Showing current assets in sales.

Year	Sales (Rs.in lakhs)	Current assets (Rs.in lakhs)	Percentage of current assets in total sales
1979-80	951.50	653.32	0.68
1980-81	1349.27	334.66	0.24
1981-82	1440.09	903.16	0.62
1982-83	1609.28	1298.67	0.80
1983-84	1989.93	785.84	0.39

SOURCE : Annual report of the factory.

According to the above table it is clear that in the total sales current assets portion is very poor. In the total current assets generally inventories taking a higher percentages and cash & bank balance taking a very short percentage. And the firm is not utilised the current assets properly. In the year 1982-83 current assets is higher than the period 1979-80 to 1983-84, because in this year closing stock is taking a major part in the total current assets.

According to the Table 6.13 the percentage of current assets in total assets is very low. In the year 1982-83 total assets are more other than the year 1979-80, 81-82 and 83-84 because in the

year 1982-83 the inventory takes a major part.

TABLE 6.13 : Showing current Assets in Total Assets.

Year	Total Assets (Rs.in lakhs)	Current Assets (Rs.in lakhs)	Percentage of current assets in total asset
1979-80	1098.50	653.32	0.59
1980-81	1122.75	334.66	0.29
1981-82	1771.20	903.16	0.50
1982-83	2285.78	1298.67	0.56
1983-84	1810.47	785.84	0.43

SOURCE : Annual Reports of the Factory.

In total assets fixed assets (i.e. machinery, factory building, land) take a major part. Because the factory providing educational facilities to the member, other wear-housing facilities and irrigation. So the factory invest a major portion of finance in fixed assets so comparatively current assets are used to maintain and running purposes.

The firm has not prepared a working capital planning in the study period i.e. 1980-84.

**TABLE 6.14 :** Showing financing of fixed assets position as on 30th September of Sahyadri Sahakari Sakhar Karkhana, Ltd., Yeshwant Nagar, Karad.

(Rs. in lakhs)					
Year	1980	1981	1982	1983	1984
Fixed Gross Assets (a)	413.17	686.44	779.83	900.75	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 (c)	611.56	674.68	837.80	812.10	824.52
-----					
Surplus/Deficit Available for financing working capital	+ 198.39	- 11.75	+ 57.96	- 88.64	- 124.67
=====					

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

TABLE 6.15 : Showing Working Capital Requirement.

(Rs. in lakhs)

Year	1980	1981	1982	1983	1984
<u>Current Assets</u>					
Cash and Bank Balance	58.44	9.39	39.97	27.41	15.32
Investments	5.14	5.01	4.52	13.78	14.71
Advances & Debtors	303.89	137.55	157.02	190.17	283.04
Inventories	286.87	182.71	701.67	1067.32	472.77
Total	(d) 654.35	334.66	903.18	1298.68	785.84
<u>Financed by</u>					
Surplus/Deficit as shown in Table 6.14	198.39	- 11.75	57.96	- 88.64	124.67
Short-term Loan	246.93	124.62	475.18	785.93	464.71
Current Liability & Provisions	196.50	270.67	325.49	471.37	314.27
Interest payable	11.72	14.16	40.81	72.74	53.33
Total	(e) 653.54	409.45	899.44	1330.04	832.31
Difference represented by cumulative profit or loss	- 0.81	+ 74.79	- 3.73	+ 31.36	+ 46.47

Note : + = surplus, - = Deficit



It observed from Table 6.14 & 6.15, the gross fixed assets are increased over the period 1979-80 to 1983-84 to the extent of Rs.536.02 lakhs, because the company provides educational facilities to the members and increases the wearhouses and one important investment made by the company during the study period that is to increase the per day crushing capacity of the factory (i.e. 1250 M.T. to 2200 M.T. per day). So the fixed assets of the company has increased. On the other hand fixed liabilities have increased over the period to the extend of Rs.212.76 lakhs. This has resulted into more funds being available from the long term sources for financing the working capital requirements. The fixed liability is increase because the company increased its fixed assets for running a firm in favourable concern.

It is observed from the above table the current assets are increased over the study period to the extent of Rs.131.49 lakhs. In the current assets inventory take a major part but cash and bank balance take a very poor part. Current liability on the other hand is increased to the extent of Rs.178.77 lakhs, because the company take a short-term loan from Maharashtra State Co-operative Bank to meet the lift irrigation schemes to the members, also chemicals and standard seeds to the members. So current liability of the company is increased.

In the year 1979-80 and 1980-81 there is a cummulative loss because there is burden of a high bank loan on the company and interest on bank loan is more, but total bank loan is not fully

utilised by the company in production concern so there is unnecessary interest burden on the bank loan of the company. So in the year 1982 company face the commulative loss.

The firm has not paid adequate attention on any aspect of working capital management analysis. In total current liabilities & provisions taking higher percentages and interest payable is participated a very low percentages.

In the year 1981, 1983 and 1984 the company shows a commulative profit because in that period fixed gross assets is more than fixed liability.

The company is crushing a sugarcane of members as well as non-members. The company also crushing a sugarcane which is out of factory area but from Maharashtra State.

## 2. SUGGESTIONS

On the basis of conclusions emerging from my study I have ~~try~~ to provide certain suggestions. These suggestions will help in improving the working capital management of Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad.

One of the important aspects of working capital is the investment in inventory of finished goods i.e. sugar, pressmud, bugas, etc. Unnecessary high amount of working capital is blocked up in the inventory. So it can be suggested that it is better to adopt following inventory control system for improve this situation.

### Determining Economic Order Point

The term 'order point' is computed to know the point of time where the order should be placed so that the company dose not face a situation of stock-out. Order point gives the answer in terms of units of inventory, with the help of order point. An order point is placed as soon as inventory stock is reduced to a particular quantity.

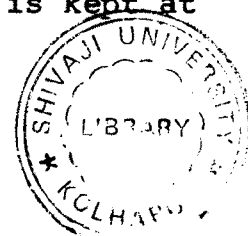
The firm has not paid much attention to the working capital and had not calculated on the operational level. More attention is required to be paid on calculations of working capital on the basis of operational level.

The company should try an accelerating cash collections for managing the cash flow. Cash collection can be improved by redusing the lag or gap between the time a cultivater pays his bill and the time the cheque is collected and funds become available for the firm's use.

The company should try to adopt a cash planning to have proper control and use of cash.

In the plan for effecton utilisation of cash, it is suggested that company should have proper control on certain administrative overheads including expenses on telegrams, telephones and travelling.

The financial manager of Sahyadri Sahakari Sakhar Karkhana Ltd., Yeshwant Nagar, Karad should see that Inventory is kept at



an optimum level. The concerned should familiar with the inventory control techniques and ensure that inventory is managed well. He should introduce the policies which reduce the lead time, regular usage and thus minimise safety stock. The optimum level of inventory will release the substantial amount blocked in inventories and this will enable the firm to make effective use of the same for more profit generation.

The firm should pay maximum attention to those items whose value is highest.

There is a close relationship between cash and marketable securities. Therefore the investment in marketable securities should be properly managed. Excess cash should ~~be~~ normally be invested in marketable securities which can be conveniently and promptly converted into cash. The firm should examine three basic features of security, ~~safety~~, maturity and marketability.

The choice of marketable securities for the purpose of investing excess cash is restricted to Government treasury bills and commercial bank deposits. The usual practice in India is to sell treasury bills at discount and redeem at part maturity. Thus the difference between the issuing price and redeeming price is the gain of investors. The bills are generally held till maturity. But they can be sold at any time for more than their issue prices. Thus, there is no risk of default in the payment of principal or interest in case of the treasury bills.

The firm can deposit its excess cash with commercial banks for some fixed maturity. The rate of interest depends upon the maturity. Greater the maturity, greater is the interest rate offered to investors purchasing the fixed-deposit certificates from the banks very safe short-run investment. The firm regularly gets the interest and gets back its original investment at maturity. If the firm wishes to withdraw its funds before maturity, it will lose some interest without any impairment of the principle.

The firm should try to reduce the days, credit is outstanding in the value of the amounts owing by debtors. For this purpose the company increased an average daily credit sales and put a limit on debtors for outstanding the credit in the value of amounts.

The current ratio of the company is unsatisfactory because current assets are lower than current liabilities. So the company may try to increase the current assets by way of increase in short term investments.

It may try to improve the position of quick assets. This can be done by proper investment in quick assets like highly marketable securities, etc. which is discussed in previous page.

According to working capital trends the company should try to decrease the current liability. For this purpose the company should try as far as possible, to reduce short-term borrowing and provisions.

The company should try to prepare working capital planning for keeping a sound position of working capital of the company.

The company also try to increase the ratio of 'cash balance' to current assets, because it helps guidance to the desirable level. For this purpose the company should fully utilise the capacity of the plant and try to reduce the cost of production.

The percentage of current assets in total asset is very low. The company should try to increase the percentage of current assets by way of increase in short-term investment.

According to the financing of fixed assets position company should try to increase in financing amount by way of share capital and non refundable deposits from the members.

The working capital requirements show cumulative loss in the year 1980-81. For keeping sound position of working capital the company should try to increase the current assets by way of short-term investments and the firm should try to maintain a large size of inventory for efficient and smooth production and sales operations.

The company should try to crush the whole sugarcane which is planted in factory area and also non factory area, because now the company has increased the crushing capacity per day (i.e. 1250 M.T. to 2200 M.T. per day).

The company has taken a loan from bank for increase this crushing capacity. Naturally this requires the company to bear heavy interest burden. Therefore, it is suggested that the company should pay-off the high interest loan amount and may raise funds from members.