

CHAPTER - VI

OBSERVATIONS AND SUGGESTIONS OF THE STUDY

- 6.1 OBSERVATIONS REGARDING WORKING CAPITAL MANAGEMENT
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- 6.3 SUGGESTIONS OF THE STUDY

CHAPTER - VIOBSERVATIONS AND SUGGESTIONS OF THE STUDY

Based on the analysis made in the earlier chapter following observations are drawn and suggestions are made in the next part of this chapter. All the observations divided into two groups. (1) Observations regarding working capital management. 2) Observations regarding general performance regarding working capital management.

6.1.1 OBSERVATIONS :

1. The stock in trade occupied major proportion in the composition of total current assets. This proportion varies from 74% to 90% indicating high stock holding.

2 During the period of study, investments in current assets show a declining trend viz. Investment in total assets in the years 1981-82 is made to the extent of Rs. 2156.07 lakhs which has come down to Rs. 1480.50 lakhs in the year 1985-86, indicating managing operations with minimum current assets.

3 Short term loans consisting of bank borrowing etc. occupy major proportion in the composition of total liabilities which is an indication of depending upon short term loans for financing current assets.

4. The borrowings from Govt. shows an increasing trend during the period of study and borrowings from cooperative bank shows a declining trend. But total borrowing shows a declining trend,

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as in total borrowings. Borrowing from cooperative banks occupy major proportion i.e. 89% to 98% of total borrowings.

5 The organisation under study has been deducting some amount from the bills of sugarcane supplied by the farmers major portion of which is being utilised as additional capital for the operations of the factory an interest i.e. 12.5% is given on the deduction made on account of fixed deposits. This rate of interest is not competitive in the light of interest offered by different financial institutions maximum rate of deduction is observed in the year 1984-85 which is Rs. 56.00 per tonne of sugarcane supplied.

6 The current ratios of the factory for the study period are lower than conventional ratio i.e. 2:1 which is an indication of poor liquidity position.

7 Quick ratios indicate very poor inventory management and sales productions but it is on account of govt. policy, of release of sugar quota. As the factory can not sale all the sugar produced in open market, like other manufacturing organisation but to control the sugar price, sugar is released as per govt. directives which results in holding of inventory at high level which affects on quick ratios of the factory and indicates poor inventory and sales management. The liquidity highlighted by the quick ratio is poor as per conventional norm i.e. 1:1.

8 Inventory turnover ratios have registered an increasing trend in the latter part of the study which is a good sign.

9 During the period of study highest working capital utilisation per tone observed in the year 1983-84 i.e. Rs. 18 and maximum was the year 1981-82 i.e. Rs. 57.58 per tonne of sugar cane crushed.

10 As regards cash utilisation in relation to sales, the cash was efficiently used in the year 1981-82 registering 6.81:1 cash turnover ratio. Lower ratio is observed in the year 1982-83 i.e. 2.26:1.

11 Maximum cash balance was held in the year 1985-86 i.e. 8.30% of total current assets. It is observed that cash balance remained increasing in latter part of the study which is not a fair practice 1 to 4% cash balance is advisable.

12 As high amount of funds were blocked in inventory the organisation is forced to go for hypothecation on stock which remained in the range of 32% to 54% of total stock holding and resulted in to interest burden affecting profit earning capacity.

6.1.2 : OBSERVATIONS REGARDING GENERAL PERFORMANCE :

13 The factory is successful in increasing the membership. Since 1982-83 to 1985-86 average increase observed is around 3% and in the year 1984-85 it is 5.77%.

14 The expenditure incurred on supply of sugarcane and fertilizers shows increasing trend, which corresponds with increase in sugarcane supply.

15 During the study period sugarcane supply increase in the range of 27.63% to 32.28% which shows the effectiveness of the factory to encourage farmer to cultivate more and more sugar cane.

16 The organisation has contributed good amount to the Govt. treasury by way of paying good amount of excise duty.

17 The organisation has contributed to regional development too by undertaking road constructions, etc. in the area of operation during the study period.

18 A huge expenditure has been made on irrigation infrastructure which has increased the productivity of land in the area of operation, with this capital expenditure decision, small and marginal farmers have been benefited to large extent.

19 The enough expenditure has been incurred on labour welfare facilities to motivate the workers and welfare facilities, to motivate the workers and enhance their moral.

62. SUGGESTIONS OF THE STUDY :

Based on analysis done and observations made, few suggestions are offered here, to improve the prevailing working capital management in the organisation studied.

1. As the organisation has been holding high level inventory at the cost of liquidity it is suggested that Govt. may be convinced to frame a policy which would be resulted in to minimum sugar stock holding by the organisation.
2. Meaning affairs with minimum amount of current assets is an indication of better working capital management which may be continued in future.
3. To avoid interest burden bank borrowing may be reduce and replaced by extending membership to aspiring farmers.
4. Compulsory deductions from the sugar cane bills may be reduced but those who are interested in investing in the fixed deposits scheme of sugar the factory may be encouraged. This scheme of public deposits can be successfull when competative rate of interest is offered on fixed deposits. If attractive rate of interest is offered as against present rate of 2.5% which is relatively lower than market rate even general public may welcome the scheme.
5. Liquid cash holding is also higher which may be maintained in 1% to 2% of total current assets as against the 4% to 7% liquid cash holding leading underutilisation of funds.
- 6 Staff training programmes are required in the area of financial management of the factory to create awareness of modern financial management practices.

In the conclusion it may be stated that the organisation is being run on sound footing and principles of cooperation, operating efficiency is also appreciable, working capital management in particular is affected by inventory management in which area the organisation has a very small role to play, as the finished sugar is released as per government directives which leads to high stock holding.