

# Study on Working Capital Management in Rajshree Sugars and Chemicals Limited in Theni

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## ABSTRACT

The research paper “A Study on Working Capital Management in Rajshree Sugars and Chemicals Limited in Theni”, to ascertain this efficiency of working capital management of the company. Working capital may be regarded as the lifeblood of business. Working capital is needed to meet the day-to-day requirement of the business unit. The development of working capital assets is possible only by efficient working capital management. This study on working capital management is conducted in Rajshree Sugars and Chemicals Ltd., Theni. Therefore, the study of the management of working capital is very necessary. The objective of this paper was to study the pattern and procedures followed for managing various components of working capital, so as to evaluate the efficiency of working capital management. So, this study intends to comprehensively evaluate the inventory, receivables, creditors and cash management. The study also aims to analyze the alternative sources of working capital financing employed by Rajshree Sugars and Chemicals Ltd., Theni.

## 1. Introduction

The Indian sugar industry second large agro-industry Located in rural India. The Indian sugar has a turnover of Rs.500 billion per annum & it contributes almost Rs.22.5 billion to the central & state exchequer as tax, cess & excise duty every year. It is the second largest agro-processing industry in the country after cotton textiles. With 453 operating sugar mills in a different part of the country, Indian sugar industry has been a focal point for a socio-economic development in the rural areas. About 50 million sugarcane farmers & a large number of agricultural labors are involved in sugarcane cultivation & ancillary activities, constituting 7.5 % of the rural population. Besides, the industry provides employment to about 2 million skilled/semi-skilled workers & others mostly from the rural areas. The industry not only generates power for its own requirement but surplus power for export to the grid based on by-product-bagasse. It also produces ethyl alcohol, which is used for industrial & portable uses & can be used to manufacture ethanol, an ecology friendly & renewable fuel for blending with petrol.

## 2. Sugar production by state in India

The government de-licensed the sugar sector in August 1998, thereby removing the restrictions on the expansion of existing capacity as well as on the establishment of new units, with the only stipulation that a minimum distance of kms. Would continue to be observed between an existing sugar mill & a new mill.

State	2014-15	% of total	2015-16	% of total
Uttar Pradesh	5.65	28.06%	4.55	33.60%
Maharashtra	6.22	30.86%	3.18	23.44%
Karnataka	1.87	9.28%	1.12	8.24%
Gujarat	1.25	6.22%	1.07	7.87%
Tamil Nadu	1.64	8.16%	0.92	6.80%

Andhra Pradesh	1.21	6.01%	0.89	6.54%
Haryana	0.64	3.16%	0.58	4.30%
Punjab	0.59	2.91%	0.39	2.88%
Uttaranchal	0.50	2.47%	0.39	2.86%
Bihar	0.41	2.03%	0.27	2.02%
Others	0.17	0.85%	0.20	1.46%
<b>Total</b>	<b>20.14</b>	<b>100.00%</b>	<b>13.55</b>	<b>100.00%</b>

Source: Indian sugar magazine December 2015, published by ISMA.

There are 566 installed sugar mills in the country with a production capacity of 180 lack mats of sugar, of which the only 453 working. These mills are located in 18 states of the country. Around 315 of the total installed mills are co-operative sector, 189 in the private sector & 62 in public sector.

## 3. Objectives of study

- To study the efficiency of working capital management of the company.
- To study the efficiency of cash, inventory and receivables management of the company.
- To understand and analyze the working capital position of Rajshree Sugars and Chemicals Ltd. During the period of 2011-2015.
- To measure the overall financial position of the organization with the help of ratio analysis.

## 4. Need for the study

- For purchasing raw materials and components
- For paying wages and salaries
- To increase day-to-day expense and overhead costs like fuel, power and office expense etc.
- To meet selling costs of packing advertising etc...
- To provide credit facilities to customers

## 5. Scope of study

Since the decision regarding working capital are of an operating nature not a one-time decision, the scope of the study is geared towards identifying important areas of control and to establish a model for better control of the various components of working capital

The study would also attempt to identify the various sources available for the financing of working capital. The study gives a fair idea of improvement in efficiency of working capital management and also to have proper control over the components of working capital and managing of efficiency.

**6. Limitation of the study**

- This study deals only with the data made available. Hence the result of this study cannot judge the business of the firm in general.
- The study has been influenced by the limitation of the ratio analysis.
- The study extensively uses the data provided is the financial reports of the firm which may also have their own limited perspective.

**7. Methodology**

Desk Research method is adopted for this study. The required information was collected from secondary sources.

Secondary data were collected from various sources including the annual reports of the company for the year 2010-11, 2011-12, 2012-13, 2013-14, 2014-15.

Ratio analysis is the major tool for analyzing the working capital management of Rajshree Sugars and Chemicals Ltd... and also the information for 5 years is collected.

**8. Review of Previous Studies**

**Herbert & Sue (1998)**, has Undertaken one study on Industry practice relating to aggressive conservative working capital policies. The study looked at ten diverse industry groups over an extended time period to examine the relative relationship between aggressive and conservative working capital practices. Results strongly show that the industries had significantly different current asset management policies. Additionally, the relative industry ranking of the aggressive/conservative asset policies exhibited remarkable stability over time. Industry policies concerning relative aggressive/conservative liability management were also significantly different.

**Kesseven Padachi (2006)** has undertaken a study on trends in working capital management and its impact on firms'

performance by analyzing Mauritian small manufacturing firms. The study was undertaken by taking data from 1998- 2003 for 58 firms. The key variables used in the analysis were inventory days, accounts receivable days, accounts payable days and cash conversion cycle. A strong significant relationship between working capital management and profitability has been found in previous empirical work. An analysis of the liquidity, profitability and operational efficiency of the five industries shows significant changes and how best practices in the paper industry have contributed to performance. The findings also reveal an increasing trend in the short-term component of working capital financing.

**Abdul & Mohamed (2007)** has elucidated that there is a significant negative relationship between debt used by the firm and its profitability.

**Swaran Singh & S.K.bansal (2010)** had done a comparative study on the management of working capital in IFFCO & KRIBHCO. The study was done by taking data for the year 1999-00 to till 200607. The study was done using various analytical tools such as ratio analysis, operating cycle analysis & T-Test. The study has finally concluded that management of working capital at IFFCO is better as compare to KRIBHCO.

**9. Performance of Rajshree Sugars and Chemicals Ltd**

TABLE SHOWING PRODUCTION OF SUGAR

YEAR	SUGAR (in Qtls)
2011 – 2012	47,995
2012 – 2013	1,62,446
2013 – 2014	2,65,148
2014 - 2015	3,43,132
YEAR	BAGASSE (in Qtls)
2011 – 2012	47,995
2012 – 2013	1,62,446
2013 – 2014	2,65,148
2014 - 2015	3,43,132

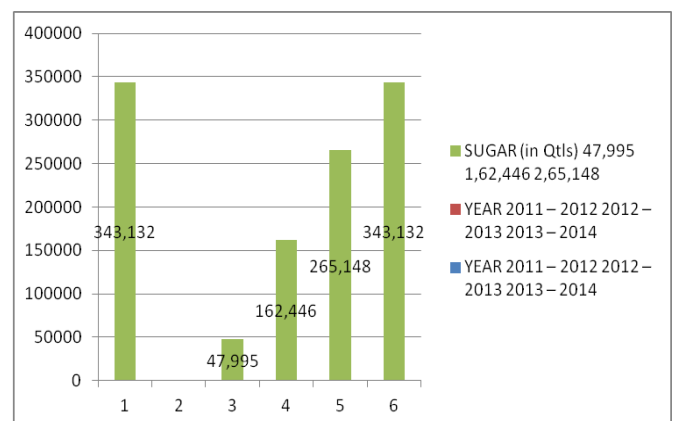


TABLE SHOWING GROSS WORKING CAPITAL OF RAJSHREE SUGARS AND CHEMICALS LTD

Particulars	2010 – 11	2011 – 12	2012 – 13	2013 - 14	2014 - 15
<b>Current Assets</b>					
Cash and Bank Balance	21347	16680	9679	9217	13618
Other Current Assets	6300	6300	6300	6300	-----
Loans & advances	18663	32726	42916	56818	34813
Inventories	92717	89713	96322	33818	84221

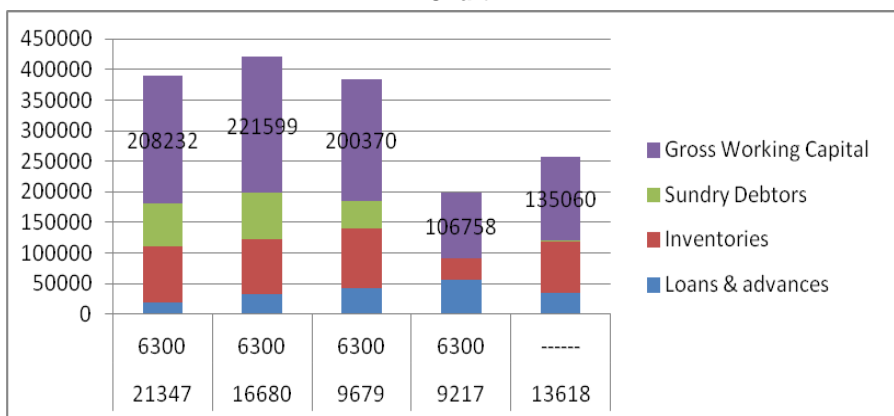
Sundry Debtors	69265	76180	45153	583	2408
<b>Gross Working Capital</b>	<b>208232</b>	<b>221599</b>	<b>200370</b>	<b>106758</b>	<b>135060</b>

Source: Primary data

**Inference**

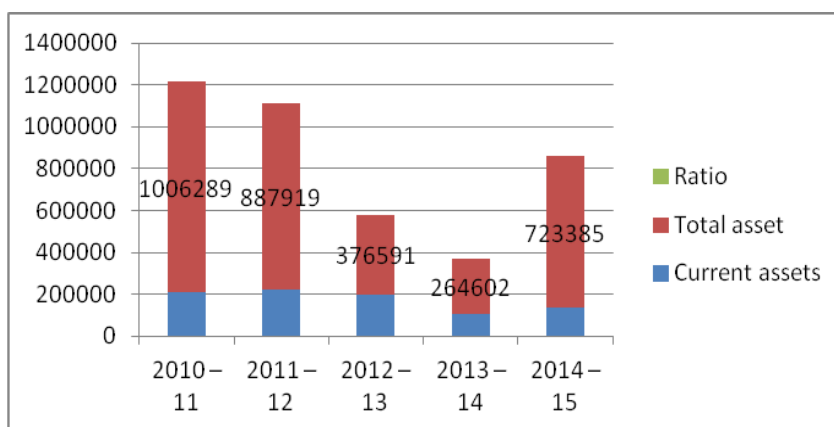
The gross working capital has fluctuated with the growth of the business over a period of 2011-2015. There is a decrease in the current assets of the company.

**Chart**



**CURRENT ASSETS TO TOTAL ASSETS RATIO**

Year	Current assets	Total asset	Ratio
2010 – 11	208232	1006289	0.2069
2011 – 12	221599	887919	0.2496
2012 – 13	200370	376591	0.5320
2013 – 14	106758	264602	0.4034
2014 – 15	135060	723385	0.1867



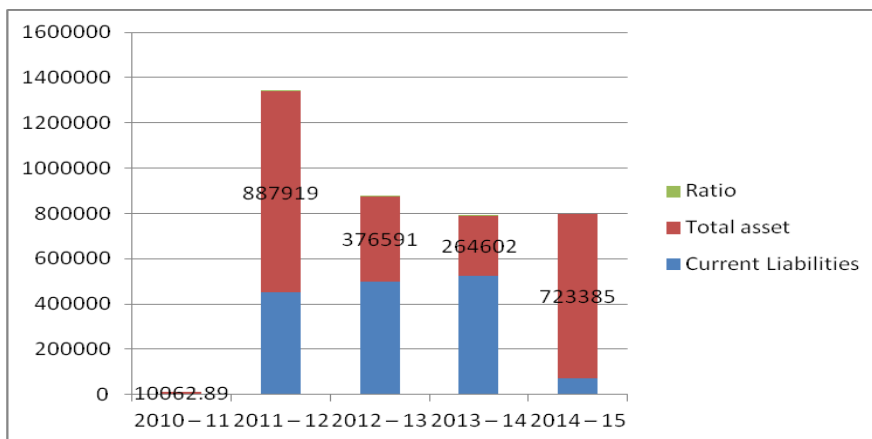
**Interpretation**

An increase in the ratio of current assets to total assets will lead to an increase in profitability and decrease leads to technical solvency. The ratio's fluctuating like during the year

2011 it 0.2069% and it is increased to 0.2496% and it increased to 0.5320% and 0.4034% in the year 2012 and 2013 and in the last a slight decreased to 0.1867% in 2015.

**CURRENT LIABILITIES TO TOTAL ASSETS RATIO**

Year	Current Liabilities	Total asset	Ratio
2010 – 11	3274.56	10062.89	0.3254
2011 – 12	451021	887919	0.5079
2012 – 13	499078	376591	1.325
2013 – 14	524239	264602	1.9812
2014 – 15	73665	723385	0.1018



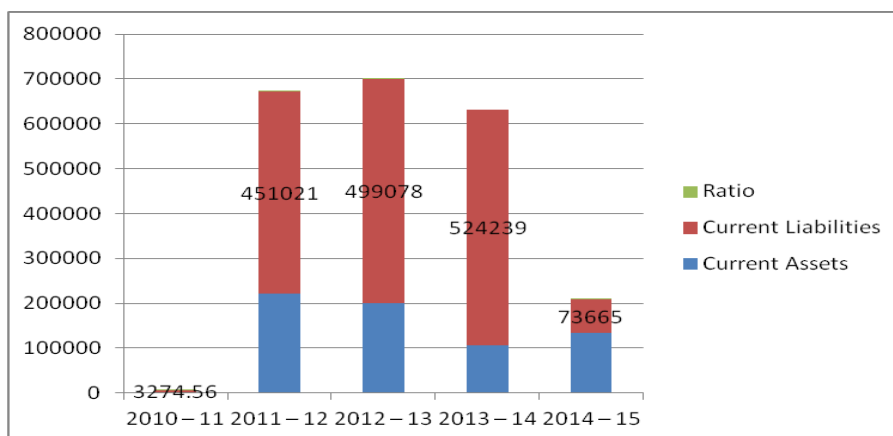
**Interpretation**

Effect of an increase in this ratio of current liabilities to total assets would be that profitability is decreased and increased the risk. In the above ratio it is increased from 0.3254% to 0.5079% from 2011 to 2015 but increase in the year 2013 up to 1.325% and in the next year again is increased from 1.9812% and decreased the year 2015 from 0.1018% as compared to last two years.

**Liquidity Ratio / Current ratio**

The current ratio is the most common ratio for measuring liquidating being related to working capital analysis it is also called the working capital ratio. Current ratio expenses relationship between current assets and current liabilities

Year	Current Assets	Current Liabilities	Ratio
2010 – 11	2082.32	3274.56	0.6359
2011 – 12	221599	451021	0.4913
2012 – 13	200370	499078	0.4014
2013 – 14	106758	524239	0.2036
2014 – 15	135060	73665	1.8334



**Interpretation**

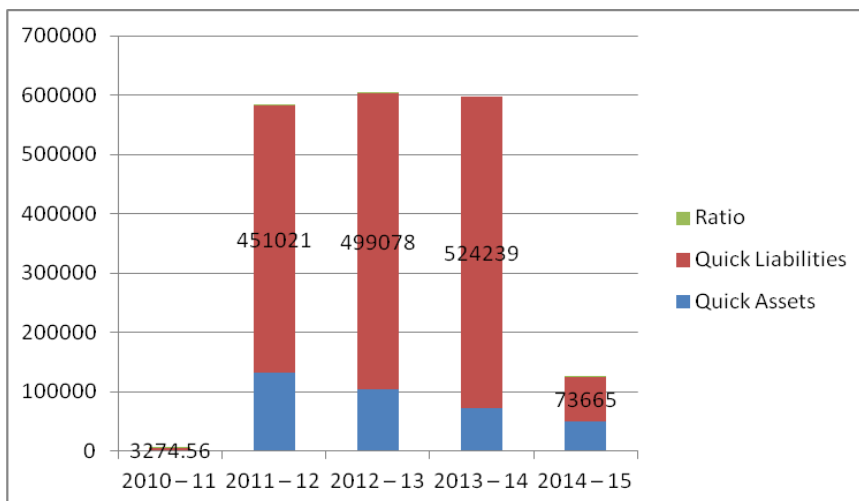
This ratio indicates higher the current ratio the larger amount of rupees available per rupee of liability its standard rate is 2;1 the above mentioned. In the year 2011 ratio is 0.6359, in the 2012 ratio is 0.4913, in the year 2013 decreased 0.4014, in the year 20147 again decreased 0.2036 these ratios are below the standard of ratio company position is bad and recovered in 2015, 1.8334 covered the company position.

The quick ratio is also known as a liquid ratio or acid test ratio or near money ratio. It is the ratio between quick or liquid assets and quick liabilities. As pointed out, the current ratio in the study of solvency may be sometimes misleading due to the high ratio of stock to current assets.

Quick ratio= Quick assets / Quick liabilities  
 Quick assets = current assets- inventories  
 Quick liability= current liability- bank over draft

**Quick Ratio**

Year	Quick Assets	Quick Liabilities	Ratio
2010 – 11	1155.15	3274.56	0.3527
2011 – 12	131886	451021	0.2924
2012 – 13	104048	499078	0.2084
2013 – 14	72918	524239	0.1390
2014 – 15	50839	73665	0.6901



**Interpretation**

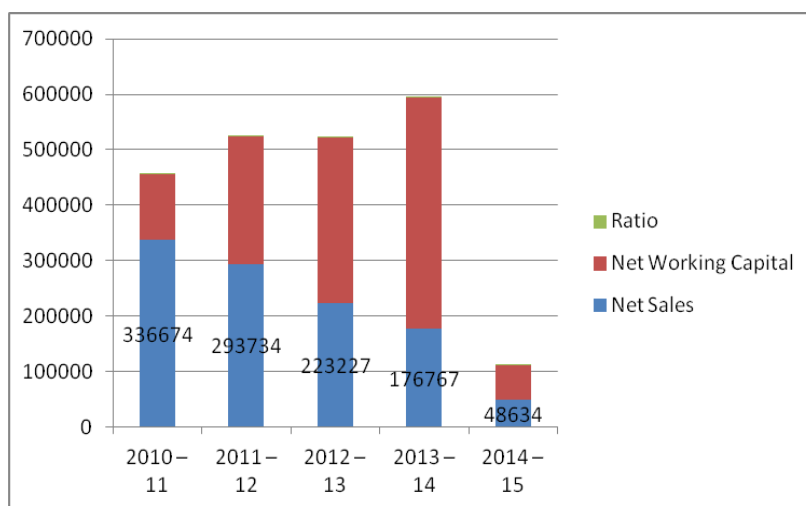
Usually, the acid test ratio is an indication of company's liquidity position. The standard quick ratio is 1:1 in the year 2011 of ratio 0.3527 and 2012 decreased 0.2924 2012 decreased 0.2084, 2013 decreed 0.1390 and 2015increased 0.6901 but still below the standard of the ratio company position is bad.

It is taken as one of the primary indicators of the short-term solvency of the business. It establishes the relationship with the net sales. This ratio represents the number of times the working capital is turned over in course of a year i.e. it measures the efficiency with which the working capital is being used by the firm.

$$\text{WORKING CAPITAL TURNOVER RATIO} = \frac{\text{Net Sales}}{\text{Net Working Capital}}$$

**Working Capital Turns Over Ratio**

Year	Net Sales	Net Working Capital	Ratio
2010 – 11	336674	119224	2.823
2011 – 12	293734	229422	1.280
2012 – 13	223227	298708	0.747
2013 – 14	176767	417481	0.423
2014 – 15	48634	61395	0.792



**Interpretation**

The ratio establishes a relationship between sales and networking capital The working capital ratio of the company was 2.823% in 2011 but it decreased 1.280 to 0.747 to 0.423 times from 2013- 2014 respectively. The highest ratio was 2.823 in the year 2011.

- The gross working capital has fluctuated with the growth of the business over a period of 2011-2015. There is a decrease in the current assets of the company.
- An increase in the ratio of current assets to total assets will lead to an increase in profitability and decrease leads to technical solvency. The ratio's fluctuating like during the year 2011 it 0.2069% and it is increased to 0.2496% and it increased to 0.5320%

**10. Findings and Suggestions**

**Findings**

and 0.4034% in the year 2012 and 2013 and in the last a slight decreased to 0.1867% in 2015.

- Effect of an increase in this ratio of current liabilities to total assets would be that profitability is decreased and increased the risk. In the above ratio it is increased from 0.3254% to 0.5079% from 2011 to 2015 but increase in the year 2013 up to 1.325% and in the next year again is increased from 1.9812% and decreased the year 2015 from 0.1018% as compared to last two years.
- This ratio indicates higher the current ratio the larger amount of rupees available per rupee of liability its standard rate is 2;1 the above mentioned. In the year 2011 ratio is 0.6359, in the 2012 ratio is 0.4913, in the year 2013 decreased 0.4014, in the year 2014 again decreased 0.2036 these ratios are below the standard of ratio company position is bad and recovered in 2015, 1.8334 covered the company position.
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### Suggestions

- The company needs to increase the current assets turnover ratio by increasing in their current assets.
- The company needs to increase its current ratio by increasing its current assets so it helps to maintain standard form 2:1.
- The liquidity position of the company is weak hence it should increase investment in current assets.
- The company properly not maintained to working capital compare to last 4 years, so the company should constantly improve working capital

### 11. Conclusion

After going through the different aspects of the factory departments and the awards it has received in different fields it appears that the company is making steady process in all the issue the very fact that single instance of a strike or lockouts shows the relationship between the management and employees is cordial with the same pace of progress. The management concerned about employees completes health and wealth.

Today working capital is considered to be an important tool for progress. Working capital management techniques are playing a significant role in assisting the management in decision making. The study of working capital management at Rajshree Sugars and Chemicals Ltd. is found to be very effective. The working capital contains the management of cash, management of receivables and management of inventory.

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