



## A Study on Working Capital Management of Salem District Cooperative Milk Producer Union Ltd, Salem

**Dr.V.R.Palanivelu**

Associate professor, PRIMS, Periyar university, Salem – 11, Tamilnadu

**V.Kalaiselvi**

M.Phil Research Scholar, PRIMS, Periyar university, Salem – 11, Tamilnadu

### ABSTRACT

*The importance of working capital in any industry needs no special emphasis. Working capital is considered to be life-giving force to an economic entity. Management of working capital is one of the most important functions of corporate management. Every organization, whether profit oriented or not, irrespective of its size and nature of business, needs requisite amount of working capital. Capital to keep an entity working is working capital.*

### KEYWORDS :

#### INTRODUCTION ABOUT THE STUDY

##### Meaning

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account.

Management should be particularly interested in knowing the financial analysis of the firm to make their best use and thereby they can spot out the weakness of the firm to take corrective actions and keep things going on the right track. The future plans of the firm should be laid according to the financial position of the firm. Thus financial analysis is the starting point of the planning procedure.

For the purpose of financial analysis individual items are studied, their inter relationship with other related figures are established, at times the data is rearranged to have better for the financial analysis purpose.

##### Definition

A measure of a company's operating liquidity expressed as current assets less current liabilities. Companies with current liabilities that exceed current asset are operating with a working capital deficiency which may prevent them from fulfilling short term obligations such as accounts payables, operational expenses and current interest payments. Analysts track net working capital over time in order to assess a company's operational efficiency. Also called as working capital.

##### FINANCIAL ANALYSIS DONE

- To know the earning capacity of the firm.
- The operational efficiency of the concern as a whole is known.
- To know the long term and short term solvency of the firm.
- To forecast the future and to prepare efficient budgets.
- To make a comparative study within and outside the concern.

#### REVIEW OF THE LITRATURE

Adesh Sharma (1994) applied accelerator model with financial variables to determine the factors influencing investment in inventories in pesticides industry in India. Data had been taken from the Stock Exchange Official Directory, Mumbai for the period 1978-1992 in respect of 18 firms in this industry. The coefficients of the accelerator and financial variables were found to be significant and positive. The coefficient of inventory of inventory stock was significant and negative. The above brief review of studies in Indian context shows that no attempts have been made to analyse working capital management in Hotel industry in India. Secondly, there have been many studies exploring the determinants of inventory investment; no attempt has been made to study the factors influencing investment in total working capital. On the basis of previous studies, the present study aims at filling both these gaps.

Singhvi (1979)<sup>2</sup> adopting the working capital cycle approach to the working capital management, also suggested that investment in working capital could be optimized and cash flows could be improved by reducing the time frame of the physical flow from receipt of raw material to shipment of 53 finished goods, i.e. inventory management,

and by improving the terms on which firm sells goods as well as receipt of cash. However, the further suggested that working capital investment could be optimized also (1) by improving the terms on which firms bought goods i.e. creditors and payment of cash, and (2) by eliminating the administrative delays i.e. the deficiencies of paper-work flow which tended to extend the time-frame of the movement of goods and cash.

The study by George (1972)<sup>3</sup> was cross section analysis of balance sheet data of 52 public limited companies for the period 1967-70. Accelerator, internal and external finance variables were considered in the equations for raw materials including goods-in-process and total inventories. However, equations for finished goods inventories considered only output variable. Accelerator and external finance variables were found to be important.

The analysis by Seamy and Rao (1975)<sup>4</sup> of the flow of funds of public limited companies had an equation for aggregate inventory investment. RBI data for the period 1954- 6870 had been used. The explanatory variables considered were accelerator, flow of bank borrowings, an index of man-days lost, capacity by the call rate. Accelerator, bank finance and fixed investment were found to be significant.

Sastry's study (1966)<sup>5</sup> was a cross section analysis of total inventories of companies across several heterogeneous industries for the period 1955-60 using balance sheet data of public limited companies in the private sector. The study brought out the importance of accelerator represented by 66 change in sales. It also showed negative influence of fixed inventory investment.

Misra (1975)<sup>6</sup> studied the problems of working capital with special reference to six selected public sector undertakings in India over the period 1960-61 to 1967-68. Analysis of financial ratios and responses to a questionnaire revealed somewhat the same results as those of NCAER study with respect to composition and utilization of working capital. In all the selected enterprises, inventory constituted the more important element of working capital. The study further revealed the overstocking of inventory in regard to its each component, very low receivables turnover and more cash than warranted by operational requirements and thus total mismanagement of working capital in public sector undertakings.

#### OBJECTIVE OF THE STUDY

##### Primary objective:

- To analysis the working capital management of SDCUMPU Ltd., in terms of financial parameters.

##### Secondary Objectives:

- To find out the liquidity position of Aavin Dairy
- To measure the profitability and activity of Aavin Dairy

#### SCOPE OF THE STUDY:

The study under gone to analyze the financial position of the SALEM DISTRICT CO-OPERATIVE MILK PRODUCER'S UNION LIMITED, SALEM. The study under taken to know about the maintenance assets and

current liabilities. The study under gone to provide few suggestions for improvement in financial position of SDCOMPUL.

#### **NEED OF THE STUDY:**

- The success of any commercial enterprise depends on its financial performance.
- Financial analysis also helps to measure the operating efficiencies of all the key areas.
- SDCMPU Ltd. is a listed company thereby financial analysis will bring out the potential for the investors.
- Measuring SDCMPU Ltd., financial performance will help to highlight how SDCMPE Ltd., is cost competitive.

#### **RESEARCH METHODOLOGY:**

A research is the blue print or plan of the research undertaken the researcher. It is the specification of methods and procedures for acquiring the information need to structure to solve problem. It is the overall patterns or framework of project that estimate what information to be collected from which sources, and what procedure to be followed.

#### **Research Design:**

For this study analytical research design has been adapted to analyze the secondary data.

#### **Source of Data:**

The data used for the study secondary in nature. The data collected from the company and some details collected from the websites of company.

#### **Period of the study:**

The period of the study was three months. During the period all the required data was collected through secondary sources and analyzed with the help of financial tools of analysis. It included data collection and analysis of data, and interpretation.

#### **Tools used:**

Various ratios how been calculated to analyze the liquidity, profitability and activity position of the firm.

Trend analysis was also used to understand the current and future trend of working capital and net profit.

#### **FINDINGS:**

- It was found that, the current ratio for the year 2008-09 was 2.94 ratio was decreased into 1.72 in 2010-11.

- The liquid ratio was found as 2.57 in 2011-12 and slightly decreased to 1.41 in 2010-11
- It was found that, the current asset ratio for the year 2012-12 was 4.50, and it was 1.56 in 2009-10
- The fixed asset turnover ratio for the year 2008-09 was 2.75, and it was 1.29 in 2012-13.
- It was found that, the net working capital turnover ratio for the year 2010-11 was 4.32 and in 2011-12 the ratio was recorded as 2.46.
- It was noted that the net profit ratio for the year 2009-10 was 20.05, and for 2012-13 it was 15.52.

#### **SUGGESTION:**

- The operating profit ratio was found as 27073 in 2010-11 and it was slightly decreased to 18.78 in 2012-13.
- The company shall concentrate on net working capital.
- The company should be taken be normal price for the customer; so that sales price will be improved.
- The company has to take measure to increase sales and utilize the assets effectively.
- Optimum utilization of resources will help the company to get more profit.
- Maintenance of liquid assets will definitely help the company in facing the unexpected situation.

#### **CONCLUSION:**

the Salem district co-op milk producer's union ltd has been performing well in the milk and milk product goods being one of the union of the salem district co-op milk producer's union ltd has been showing an increasing trend in its profitability position for the past 5 years which deficits a good sign.

the turnover ratios indicate that the average collection period has been reduced from two month to one month and inventory ratio is a indicated that the larger part of the amount is tied up to inventory. so the company must take steps to improve it liquidity position.

the company has a high a operational efficiency and most of the ratios seen to be satisfaction from the point of view of both the agent and customers.

the other important factor which is worth mentioning year is that the company has been progressing steadily on its capacity utilization in line with its growing financial performance.