Volume-5, Issue-9, September- 2016 • ISSN No 2277 - 8160 IF : 3.62 | IC Value 70.36

Original Research Paper Commerce

Liquidity Management of Sakthi Sugars Limited, Erode – A Case Study

Dr. Anuradha Rajendran

M.Com., M.Phil., M.Sc(IT)., Ph.D., Former Assistant Professor of Commerce (S.F), Vellalar College for Women (Autonomous), Erode-638 009.

ABSTRACT

In an agriculturally dominant country like India, Sugar industry plays a major role in a process of regeneration of the rural economy. India is the only country in the world that produces plantation white sugar. All other countries are producing either raw sugar or refined sugar or both. About four million hectares of land in India is under sugar cane with an average yield of seventy tonnes per hectare. It has the second largest area under cane production in the world.

Sugar industry in Tamilnadu is an important agro based industry. It plays a vital role in the economic development of the State and particularly in rural areas. High yielding varieties of cane are grown here and hence the per acre yield of Sugarcane is the highest in the country.The liquidity position of the company is vital for its survival. The liquidity of a firm should be optimum. Thus it refers to the ability of the firm to augment its future cash flows to cover any unforeseen needs or to take advantage of any unforeseen opportunities. Keeping this background, an attempt has been made by the researcher to analyse the efficiency in the "Liquidity management of Sakthi Sugars Limited, Erode".

KEYWORDS :

Introduction

In an agriculturally dominant country like India, Sugar industry plays a major role in a process of regeneration of the rural economy. India is the only country in the world that produces plantation white sugar. All other countries are producing either raw sugar or refined sugar or both. About four million hectares of land in India is under sugar cane with an average yield of seventy tonnes per hectare. It has the second largest area under cane production in the world.

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The liquidity position of the company is vital for its survival. The liquidity of a firm should be optimum. Thus it refers to the ability of the firm to augment its future cash flows to cover any unforeseen needs or to take advantage of any unforeseen opportunities.

Liquidity is measured by the availability of cash whether direct or indirect and involving the conversion of some assets into cash to meet ordinary or extraordinary demands upon it.

The most common interpretation for the term liquidity is the ability of a business unit to convert its current assets such as inventories, marketable securities into cash without loss of time and value.

The traditional concept of liquidity does not hold well in the present times. New concepts have been developed with broader features. According to the new concept a firm requires liquidity not only to pay its dues when they become due, but also to replace its absolute plant and machinery to give a reasonable return to its shareholders, and also to take advantage of any favourable market situations emerging in the product-market segments.

Keeping this background, an attempt has been made by the researcher to analyse the efficiency in the "Liquidity management of Sakthi Sugars Limited, Erode". SSL is very familiar among the best sugar mills in South India, especially in Tamilnadu. It has specialized in producing high quality white crystal sugar. It contributes nearly 13 percent of total sugar production in Tamilnadu.

Profile of the Company

Sakthi Sugars Limited (SSL) was incorporated in the 1961, headed by Dr. N. Mahalingam and is being spear headed by M. Manickam, Vice chairman and M.D / son of Dr. N. Mahalingam. The registered office of the company is situated in Sakthi Nagar, Erode district, Tamil Nadu and its Head Office is situated in Coimbatore, Tamilnadu.

The company has three units with crushing capacities of 6000 TCD, 4000 TCD (Tonnes crushed per day) and 2500 TCD in Tamilnadu. Apart from the sugar units, it has two distilleries and a foundry.

The company entered into technical collaboration with George Fischer Foundry, Switzerland to supply state-of-the-art manufacturing technology. The crushing capacity was increased to 15000 TCD in 2006-07. The company is engaged in the business of manufacture of white crystal sugar, industrial alcohol and soya products. Molasses one of the by-products is used in the distillery for manufacture of industrial alcohol. Press-mud is processed and converted into bio-fertilizer for direct application in fields. The company has entered into an arrangement in TNPC under which the bagasse produced by the company is exchanged for steam required for operation of the mill and the boilers at Sakthi Nagar.

The company has several outstanding performances i.e., achieving the lowest sugar losses, highest standards of technical efficiency and the highest mill efficiency. This unit is the only sugar company in India which could produce superfine grade of sugar corresponding to International Standard measured at grade 35 and below by International Commission for Uniform Method of Sugar Analysis (ICUMSA).

Sakthi Sugars Limited, known for its superior quality of sugar has exported 1.34 lakh tones of sugar and emerged as the 'Largest exporter of sugar' among all the sugar factories in India during 2000-01. For that the company has received many awards from National Federation of Co-operative sugar factories Limited.The unit also bagged the most prestigious National Efficiency Awards consequently for several years.

Objectives of the study

The major objectives of the present study are given below:

- To assess the efficiency of the liquidity management of SSL;
- To evaluate and examine the liquidity position of SSL;
- To suggest some suggestions for improvement of the liquidity position of SSL.

Period of Study

A period of ten years from 1996-97 to 2005-06 is selected for the study.

Methodology

The study is based on secondary data. Data pertaining to the behaviour of liquidity were collected from the profit and loss account and balance sheet of the company. The analysis has been made in two ways.

Analyzing the liquidity position and

Analyzing the liquidity ratios.

Volume-5, Issue-9, September - 2016 • ISSN No 2277 - 8160

Limitation of the study

This study is based on secondary data taken from published annual reports and accounts of the company and as such its findings depends entirely on the accuracy of the data.

Only one company was selected for the study.

Liquidity position of SSL

Liquidity refers to the ability of the concern to meet its current obligation as and when required. If current assets can pay off current liability then the liquidity position will be satisfactory and vice versa. The difference between current assets and current liabilities excluding short-term borrowing is called the networking capital or net current assets. It is also used to measure the liquidity position of a concern.

The liquidity position of SSL is presented in Table I. The following ratios have been analyzed.

1. Current ratio
2. Quick ratio and
3. Absolute liquid ratio

Table 1
Liquidity position of Sakthi Sugars Limited

(Rs. in crore)

Period	Current Assets	Current Liabilities	Quick Assets	Net Working Capital
1997	262.4	70.13	88.83	186.68
1998	268.55	64.89	108	201.51
1999	316.87	67.86	133.98	247.5
2000	437.31	102.78	203.09	330.62
2001	429.05	146.47	214.41	279.72
2002	367.52	103.76	250.68	262.05
2003	323.05	100.47	252.71	222.2
2004	334.51	136.45	282.28	198.06
2005	394.39	142	320.47	252.32
2006	644.6	117.69	589.32	517.66
Mean	377.83	105.25	244.38	269.83
S.D	111.34	30.68	48.68	97.23
C.V	29.47	29.15	19.92	36.03
AGR	12.77	9.06	25.33	16.57

It can be inferred from Table 1 that the size of current assets had increased from Rs.262.4 crore in 1996-97 to Rs.644.6 crore in 2005-06 with an average of Rs.377.83 crore and exhibiting an annual growth rate of 12.77 per cent. Current liabilities increased from Rs.70.13 crore in 1996-97 to Rs.117.69 crore in 2005-06 with an annual growth rate of 9.06 per cent. The average of current assets and current liabilities were Rs.377.83 crore and Rs.105.25 crore with a standard deviation of Rs.111.34 crore and Rs.30.68 crore respectively. The co-efficient of variation was higher with 29.47 per cent in case of current assets in comparison to current liabilities being 29.15 per cent.

The total of quick assets increased from Rs.88.83 crore in 1996-97 to Rs.589.32 crore in 2005-06, with an annual growth rate of 25.33 per cent. The net working capital was also increased from Rs.186.68 crore in 1996-97 to Rs.517.66 crore in 2005-06 with an annual growth rate of 16.57 per cent.

The average amount of quick assets and net working capital are Rs.244.38 crore and Rs.269.83 crore respectively. The standard deviation and co-efficient of variation for quick assets was Rs.48.68 and 19.92 per cent and net working capital was Rs.97.23 crore and 36.03 per cent respectively. The analysis represents that variability in quick assets is less than current assets and current liabilities. Thus, judged from the standard, it reveals that the liquidity position of the company is not satisfactory.

Liquidity ratio of SSL

Liquidity ratios are also referred as short-term solvency ratios or working capital ratios. For effective running of an enterprise, they must have adequate working capital. The important liquidity ratios are current ratio, Quick ratio and Absolute liquid ratio.

1. Current ratio

Current ratio is defined as the relationship between current assets and current liabilities. This ratio also known as working capital ratio is a measure of general liquidity and is most widely used to make the analysis of a short-term financial position or liquidity of a firm. A good current ratio may mean a good umbrella for creditors against the rainy day, but to the management, it reflects bad financial planning or presence of idle assets or over capitalization.

An increase in the current ratio represents improvement in the liquidity position of a firm while a decrease in the current ratio indicates that there has been deterioration in the liquidity position of the firm. A ratio equal or near to the rule of thumb of 2:1 is considered to be satisfactory.

2. Quick ratio

Quick ratio, also known as Acid Test or liquid ratio refers to the ability of a firm to pay its short-term obligations as and when they become due. The quick ratio is defined as the relationship between quick/liquid assets and current or liquid liabilities.

The rule of thumb of 1:1 is considered to be satisfactory. The quick ratio is very useful in measuring the liquidity position of a firm. It measures the firm's capacity to pay off current obligations immediately and is a more rigorous test of liquidity.

3. Absolute Liquid ratio

The absolute liquid assets include cash, bank and marketable securities. A ratio of 1:2 is recommended to ensure liquidity. This test is a more vigorous measure of a firm's liquidity position.

Table 2
Liquid Ratios of Sakthi Sugars Limited

Period	Current Ratio	Quick Ratio	Absolute liquid ratio
1997	3.74	1.27	0.16
1998	4.14	1.66	0.2
1999	4.67	1.97	0.14
2000	4.25	1.98	0.07
2001	2.93	1.46	0.04
2002	3.54	2.42	0.07
2003	3.22	2.52	0.08
2004	2.45	2.07	0.06
2005	2.78	2.26	0.09
2006	5.48	5.01	1.78
Mean	3.72	2.26	0.27
S.D	0.93	1.05	0.53
C.V	25.12	46.21	198.25
AGR	9.10	22.95	210.47

It is observed from Table2 that the current ratio of SSL varied between 2.45 and 5.48 during the entire study period. The average ratio is 3.72. The ratio of the company is more than the conventional standard of 2:1. Hence judged from the conventional standard, a very high degree of liquidity is also bad, as idle assets earn nothing and affects profitability.

The quick ratio of SSL for the study period fluctuated between 1.27 in 1996-97 and 5.1 in 2005-06. It reveals that the average ratio was 2.26 for every one rupee of current liabilities. The ratio was higher than the standard norm 1:1. It signifies that liquid assets were sufficient in meeting short-term liabilities.

absolute liquid ratio of the company ranges between 0.16 and 1.78 during 1996-97 and 2005-06. The average ratio was 0.27 which was lower than the conventional norm (0.50:1) excepting the year 2005-06.

Conclusion

It can be concluded that the short-term liquidity is not stable. The current and quick ratio was above the standard norm. The position of the absolute liquid ratio was below the standard norms excepting the year 2005-06. Hence, it can be concluded that the liquidity management of SSL is poor and is not satisfactory. The liquidity position of the company has to be improved. The mills have urged the Government to reduce the sugarcane tax. If the Government comes to the rescue, the liquidity of the company can be improved.

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