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Research Paper Commerce

Working Capital Analysis in Sugar Mills A Comparative Study

* Promila

* PhD Scholar, NIMS University, Shobha Nagar, Jaipur, Rajasthan

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Working Capital is the amount of money that a Company has tied up in funding its day to day operations.

The most common definitions of Working Capital are:

Working Capital = Current Assets - Current Liabilities

Working Capital = Stocks + Trade Debtors Trade creditors

Working Capital Analysis: - Decision relating to working capital and short term financing are referred as working capital analysis. This involves managing the relationship between a firm's short team assets and its short team liabilities. The goal of working capital analysis and management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short term dent and upcoming operational expenses.

Objectives of working Capital Analysis

1) Time:- Working Capital Analysis requires much of the financial manager's time.
2) Investment:- Working Capital represents a large portion of the total investment in assets.
3) Criticality:- Working Capital analysis has great significance for all firms but it is very critical for small firms.
4) Growth:- The need for working Capital is directly related to the firm's growth.

"Working Capital analysis has looked upon as the driving seat of a financial manager."

Research Methodology

The proposed study is an empirical and analysis in approach and instrumental prospective. Primary and Secondary data relating to Working Capital Analysis in the selected sugar mills have been collected from the office of the companies. The questionnaire is designed to collect primary data, personal interview is held to obtain technical information and where clarification required. The secondary data have been collected from the published annual reports and accounts of the companies and various other publications of the industry.

Scope of the Study

In the present study following sugar mills of Haryana have been taken

1. Sarswati Industrial Syndicate Limited, Yamuna Nagar (SISL)
2. Kaithal Cooperative Sugar Mills Limited, Kaithal (KCSML)

Size of Working Capital:- The size of working capital has been shown in Table 1

Table 1 : Size of working capital of SISL and KCSML From 2003-04 to 2009-10

Year	SISL	KCSML
2003-04	9225	6178
2004-05	7333	4914
2005-06	4891	3988
2006-07	12762	2207
2007-08	21517	4770
2008-09	15045	4970
2009-10	7795	3436
Average	11224.00	4351.86
S.D.	5263.24	1181.97
CVC%	46.89%	27.16%

Source: Calculated from Annual Reports and Accounts of SISL and KCSML for the period from 2003 04 to 2009 10.

It is evident from the above table that the size of working capital in SISL registered a mixed fluctuating trend throughout the period under study. In 2003 04 it was Rs. 9225 lakhs which decreased to Rs. 7333 lakhs in 2004 05 and further came down to Rs. 4891 lakhs (lowest). After that size of working capital decreased to Rs. 15045 lakhs in 2008 09 and declined up to Rs. 7795 lakhs in the final year 2009 10.

For KCSML the size of working capital also showed a fluctuating throughout the period under study. In 2003 04, it was Rs. 6178 lakhs which decreased to Rs. 4914 lakhs in 2004 05 finally; size of working capital decreased to Rs. 3436 lakhs in the year 2009 10.

Current Ratio:- The Current Ratio shows the relationship between current assets and Current Liabilities and explains the proportion of current assets to current Liabilities ratio of the sugar mills under the study has been calculated by using the following formula.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table 2 : Current Ratio of SISL and KCSML

Year	SISL	KCSML
2003-04	1.83	4.46
2004-05	1.34	7.61
2005-06	1.12	4.04
2006-07	1.26	2.41
2007-08	1.31	4.19
2008-09	1.23	11.55
2009-10	1.08	8.11
Average	1.31	6.05
S.D.	0.23	2.93
C.V.%	17.53%	48.45%

Source: Annual Reports and Account of SISL and KCSML Sugar Mills for the period of 2003 04 to 2009 10.

It is evident from the above table the current ratio of SISL registered a mixed fluctuating trend throughout the period under study. In 2003 04, it was 1.83 times (highest) which decreased to 1.34 times to 1.12 times in 2005 06. After that the current ratio decreased to 1.23 times in 2008 09 and further declined up to 1.08 times (lowest) in the final year 2009 10.

For KCSML, the current ratio of KCSML showed a fluctuating trend throughout the period under study. In 2005 06 and it is rapidly reached up to 11.55 times (highest) in 2008 09. Finally, the ratio decreased to 8.11 times in the year 2009 10.

Working Capital Turnover Ratio

The working capital turnover Ratio shows the relationship between sales and working capital and explains the proportion of sales to working capital. The sale to working capital ratio of the sugar mills under study has been calculated by using the following formula.

Working capital Turnover Ratio = $\frac{\text{Sales}}{\text{Working capital}}$

Table 3 : Working capital Turnover Ratio of SISL and KCSML From 2003-04 to 2009-10

Year	SISL	KCSML
2003-04	3.08	0.64
2004-05	5.52	1.59
2005-06	17.9	1.47
2006-07	8.90	2.75
2007-08	5.99	0.80
2008-09	11.30	1.57
2009-10	22.43	1.92
Average	10.73	1.53
S.D.	6.55	0.65
C.V.%	61.01%	42.48%

Source: Annual Reports and Accounts of SISL and KCSML for the period from 2003 04 to 2009 10.

It is evident from the table that working capital turnover ratio in SISL registered a mixed fluctuating trend throughout the period under study. In 2003 04, it was 3.18 times (lowest) which increased to 5.52 times in 2004 05 and reached up to 17.90 times in 2005 06. After that, the ratio decreased to 8.90 times in 2006 07 and further cone down to 5.99 times in 2007 08. In the next year 2008 09, it increased to 11.30 times and rose up to 22.43 times in the final year 2009 10.

For KCSML, the working capital turnover ratio of KCSML showed a fluctuating trend throughout the period under study. In 2003 04, it was 0.64 times which increased to 1.59 times in 2004 05 but decreased to 1.47 times in 2005 06 but inclined up to 2.75 times (highest) in 2006 07. Then it decreased to 0.80 times in 2007 08 but rapidly reached up to 1.57 times in 2008 09 and finally, reached up to 1.92 times in the year 2009 10.

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