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Commerce

# A STUDY OF WORKING CAPITAL MANAGEMENT OF SELECT CO-OPERATIVE SUGAR MILLS IN TAMIL NADU

**KEY WORDS:** sugar industry, raw material scarcity, working capital, Profitability etc.,

**Dr.K.Muthuraj** Ph.D., (Rtd) Associate Professor and Research Supervisor in Commerce, Salem Sowdeswari College. Salem -10.

**Mrs.A.Kanimozhi** M.Com.,M.Phil.,(Ph.D.), Ph.D Research Scholar in Commerce & Head Dept of Commerce (CA.), Sri SakthiKailassh Women's College, Salem.

**ABSTRACT**

Now a day, Sugar Industry faces many issues such as fluctuations in the production due to insufficient availability of sugarcane and power breakdown. The profitability of the sugar industry comparatively with other industry very low due to high cost of production. In fact, some units are incurring losses continuously. The industry has failed to retain more profits, consequently been forced to define more on external sources. Hence, it is necessary to study the working capital management practices in different sugar mills. To analyze the working capital management, the current research focused on Co-operative Sugar mills in Tamil Nadu.

## INTRODUCTION

In the Global Scenario, India is the second largest producer of sugar. It occupies an significant place in the Indian economy. almost 7.5 million people across the country are directly or indirectly engaged Employment opportunity in the industry and over 50 million people depend on their livelihood from mounting and supplying sugarcane. It contributes annually around Rs.50 billion by way of excise duty and other related taxes. In addition about Rs.6 billion is realized by the State Government annually through VAT, cess and octroi. It is the second largest agro-based industry and its contribution to the Indian economy is enormous. Sugar is produced from sugarcane and sugar beet. Bagasse also a by-product of sugar can be used as a bio-fuel and as renewable resource in manufacturing pulp, paper-products, building materials and also a renewable energy for power generation. Working Capital (WC) is regarded as the lifeblood of a business. It plays a pivotal role in keeping the wheels of a business enterprise running. However, the management of WC is a delicate area as it involves complex decision-making. Every organization whether profit oriented or not, depends on its size and nature of business needs requisite amount of WC. Sugar Industry in India is well developed with a consumer base of more than billion of people. The well-organized management of WC is crucial as it decision. In the world ides the survival, liquidity, solvency and profitability of the business concern. The maintenance of excessive levels of current assets can easily result in a substandard return on a firm's investment. The firms with inadequate levels of current assets may incur shortages of funds and have difficulties in smoothly maintaining day to-day operations. Efficient WCM involves planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability to meet due to short term obligations and avoid excessive investment in these assets. This paper made an attempt on the impact of working capital management on profitability using liquidity ratios, and turnover ratios.

## REVIEW OF LITERATURE

**Deloof.M (2003)** concluded that profitability dependent on working capital proper management. He considers it minimum necessary condition to maximize shareholder wealth. Different firms are operating in different business scenarios. Firms give preference to different factors in this way to manage working capital. Using one factor more than optimal level intensify problem. Firms in growth stage endorsed to focus more on inventory section and cautious on credit policy selection to protect relationship with suppliers and financial intermediaries. It reduces production and financial cost which increase sales, revenue and profits ultimately.

**Kesseven Padachi (2006),** made an important study on Trends in Working Capital Management and its Impact on Firms' Performance: An Analysis of Mauritian Small Manufacturing Firms. The purposes of the study were to analyze the trend in working capital needs of firms and to examine the causes for any significant differences between the industries. The empirical study was based on a sample of 58 small manufacturing companies. The data had been collected from the financial statements of the sample firms having a legal entity and had filed their annual return to the Registrar of Companies. The sample was drawn from the directory of Small Medium Industrial Development Organization (SMIDO), a database for registered manufacturing firms operating in diverse activities and for which data was available for a 6 years' period, covering the accounting period 1997-98 to 2002-03. He reported that the working capital needs of an organization changed over time and the small firms should ensure a good synchronization of its assets and liabilities.

**Dheenadhayalan.V and Devianbarasi (2009)** made "A Study on Financial Health of Co-operative Sugar Mills - A Case of NPKRR Co-Operative Sugar Mills Ltd". In this study they have used „Z score model. They have concluded that the financial health of co-operative sugar mills remained sick and was not healthy. They had suggested that those mills should take proactive approach in order to improve their financial performance in future.

**Anuradha Rajendran** (2009) studied "Performance Appraisal of Private Sector Sugar Companies in Tamil Nadu". The researcher undertook seven private sector sugar industries for his study. Mean, Co-efficient of variation, T-test, Correlation, Multiple Regression, Stepwise Regression, and Path analysis are statistical tools used for his analysis. The main objectives are to determine profitability of selected industry and analysis the financial performance and growth analysis. The researcher gives suggestion for further development and growth of selected sugar industries.

## STATEMENT OF THE PROBLEM

The working capital management is the most significant problem in financial management. Most of the time financial executives are dedicated towards managing the current assets and current liabilities which are the main constituents of working capital. Importance of working capital management seems from the two reasons viz.,

a) A substantial portion of total investment is invested in current assets and
b) Level of current assets and current liabilities will change quickly with the variation in sales.

## OBJECTIVES OF THE STUDY

The sugar co-operatives of Tamil Nadu are selected for the analysis with the following objectives:

- To examine the working capital trends and liquidity of working capital in co-operative sugar in Tamil Nadu.
- Impact of working capital ratios on profitability.

## PERIOD AND GEOGRAPHICAL AREA OF THE STUDY

The period of study is 10 years from 2006-07 to 2015-16. The area of study covers the state of Tamil Nadu.

## METHODOLOGY OF THE STUDY

The present research aim is confined to co operative sugar mills in Tamil Nadu. The present study covers important aspects of working capital management like current assets, current liabilities, operating cycle etc. The current investigation mainly depends upon secondary data collected from the Co-operative Sugar Federation and Commissioner of Sugar. The data has been analyzed with the help of financial and statistical tools like ratio analysis, averages and other statistical tools.

## CONCLUSION

The adequacy of working capital together with its efficient handling virtually determines the survival or demise of an enterprise. After determining the requirement of current assets, one of the important tasks of the financial manager is to select an assortment of appropriate sources of finance for current assets. Normally, the current assets of a firm are supported by a combination of long term and short term sources of financing. The short term financing is less costly than long term financing but the former is more risky than the later. Thus the choice should naturally involve a tradeoff between risk and return. Normally the excess of current assets over current liabilities should be finance by long term sources. Previously it is not possible to find out which long term source has been used to finance current assets, but it can be examined as to what proportion of current assets has been financed by long term funds. The production of sugar is cyclical as it depends upon the sugarcane production. Dual pricing system is adopted in sugar companies, which includes sugar price in public delivery system and free sale sugar price. So, the companies are overburdened with surplus inventories that most of them do not have adequate storage amenities, capacities and cash flows which have led them to resort to distress sale of sugar which only brings down the prices. So, the Sugar mills has to maintain an integrated and distinctive department for management of inventory and it can work inliasion with finance department .Better cash position would earn credit confidence and reduce the risk of short term calamity.

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