

Working Capital Management in Co-Operative Milk Producers Union Ltd”- Pondicherry

M.Vetrivel, R. Ravimohan, Vinoth Kumar.S

Abstract: Working capital management in The Pondicherry refers to the administration of all aspects of current Assets and current liabilities. Generally the main components of current Assets are inventories, sundry debtors, cash and bank balances and other liquid Assets like short term/temporary investments. Similarly Current liability comprises of bank borrowings, trade creditors, bills payable, and other account payables with in a short period in a year. The corporate finance department’s managers evaluate and determine the levels and composition of current Assets and current liabilities. Evaluation of right sources, right timing and utilization of funds in respect of current Assets and current liabilities perpetually is the theme of working capital management. Here an attempt has been made to analyses the efficiency and efficacy in managing working capital and its component management namely

I. INTRODUCTION

The study is about the working capital management and their expecting in the milk products. Particularly in the ponlait milk is given importantly. This is as done with special reference to Pondicherry Co-operative Society. [14],[16], [18]

The study was taken on area like whole Pondicherry and Karaikal. But only selective Pondicherry about Co-operative society were taken into.This study is based on the research methodology to get survey and data’s are analyzed using statistically tools. The appropriate suggestion and recommendations have been given for me finding. The study was concluded and preparing annual reports from the financial department. [13], [15] ,[17]

II. OBJECTIVE OF THE STUDY

- To manage the current assert and current liabilities in such way that the net return on investment in these assert should not be less than the cost of capital acquired to finance them. This will ensure the maximization of the value of the business unit.
- To maintain the proper balance between the amount of current assert out the current liabilities in such a way that the firms always able the meet its financial obligations, in due

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course. This will ensure the smooth function of business/production.

- To maintain the quantum the structure of financing the current asset to meet the seasonal demands which will improve the “Return on Capital Employed”. [1],[3],[5]

III. LIMITATIONS OF THE STUDY

- 1.Time constraint is the first limitation and even though it is attempted to present a full-fledged report. But detail study of various departments was not made.
2. This study covers only a period 7 years from (2003-2010) thereby the performance of the company in some; more years could not be analyzed. [7],[9] ,[11]
3. The data given are taken from the past records, accurate data for the future cannot be predicted.

IV. RESEARCH METHODOLOGY

A. Research Design

The data of the study were collected by the way of using financial records of our company. From the chief accountant of the Pondicherry Co-operative milk producers union Ltd.

B. Sample size

The sampling size was taken for one months.

C. Area of the study

This study was conducted in The Pondicherry Co-Operative Milk Producer’s Union Ltd At Pondicherry.

D. Data collection

E. Primary data

Primary data was collective from the financial department with the help of financial officer. [19],[21],[23]

F. Secondary data

Secondary data is collection from various sources like “Periodicals” company records etc.**Statistical Tools**

The following satistical tools were used for data analysis. [8],[10] ,[12]

G. Percentage analysis

The percentage method was extensive used for finding various details as mentioned in the chapter to analysis and interpretations. It can be calculated as follows. No. of Respondents favorable[25],[27],[29]

V. ANALYSIS AND INTERPRETATION

A. Working capital management in The Pondicherry

Working capital management in The Pondicherry refers to the administration of all aspects of current Assets and current liabilities. Generally the main components of current Assets are inventories, sundry debtors, cash and bank balances and other liquid Assets like short term/temporary investments. Similarly Current liability comprises of bank borrowings, trade creditors, bills payable, and other account payables with in a short period in a year. The corporate finance department's managers evaluate and determine the levels and composition of current Assets and current liabilities. Evaluation of right sources, right timing and utilization of funds in respect of current Assets and current liabilities perpetually is the theme of working capital management. Here an attempt has been made to analyses the efficiency and efficacy in managing working capital and its component management namely. [31],[33]

1. Cash management
2. Inventory management
3. Receivables management
4. Administration of current liabilities

Apart from the above components, some more ratios have been worked out to find the actual position of working capital, trends of current Assets, current liabilities and net working capital. [26],[28],[30]

Table 5.1 Show the working capital trends for the year from 2003-2004 to 2009-2010

| Year | Sales Rs. | sales % | Current Assets Rs. | Current Assets % | Current liabilities Rs. | Current liabilities % | Net working Capital Rs. | Net working capital % |
|-----------|--------------|---------|--------------------|------------------|-------------------------|-----------------------|-------------------------|-----------------------|
| 2003-2004 | 220895853.1 | 100 | 27922635.16 | 100 | 11709675.02 | 100 | 16212960.14 | 100 |
| 2004-2005 | 223942205.58 | 101.3 | 28574085.09 | 102.3 | 12585880.90 | 107.04 | 15988204.19 | 98.6 |
| 2005-2006 | 250994559.99 | 113.6 | 35583057.01 | 127.4 | 22454435.52 | 191.7 | 13128621.49 | 80.9 |
| 2006-2007 | 281892069.53 | 127.6 | 42970515.48 | 153.8 | 23221407.66 | 198.3 | 19749107.82 | 121.8 |
| 2007-2008 | 306329147.30 | 138.6 | 38436919.27 | 137.6 | 22648327.61 | 193.4 | 15788591.66 | 97.3 |
| 2008-2009 | 369562069.41 | 167.3 | 71508598.45 | 256.0 | 52574321.13 | 448.9 | 18934277.32 | 116.7 |
| 2009-2010 | 445639830.33 | 201.7 | 83498233.24 | 299 | 70034565.37 | 598.01 | 3463667.87 | 83.0 |

Observations

The table 3.1 shows the sales current asset, current liabilities and networking capital for the respective years in Rs. Lakhs and in percentage with reference to 2003-2004 figures as base value. In the first sight it was clear that the sales have gone upto 201% in the study period of 7 years. Where as the net working capital increases only 2009-2010r 121% in the same period. However current asset went up to 299% and current liabilities up 598% in this period.

This overall picture is the first measure of the performance of the working capital management in the Pondicherry co-operative milk producers union Ltd. [20],[22], [24]

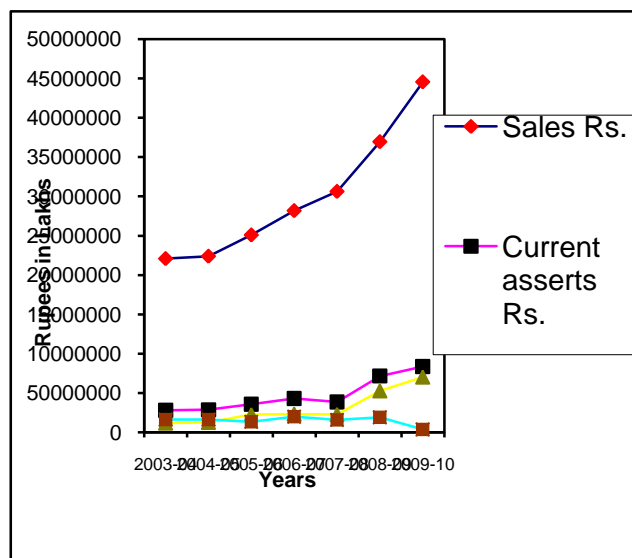


Fig.1. Show the working capital trends for the year from 2003-2004 to 2009-2010

Table 5.2 Similar to Table 3.2 this table shows trend of sales CA, CL and Net working capita
 Current Assets – Current liability = Net working capital

| Year | Current Assets Rs. | Current liabilities Rs. | Net working Capital Rs. |
|-----------|--------------------|-------------------------|-------------------------|
| 2003-2004 | 27922635.16 | 11709675.02 | 16212960.14 |
| 2004-2005 | 28574085.09 | 12585880.90 | 15988204.19 |
| 2005-2006 | 35583057.01 | 22454435.52 | 13128621.49 |
| 2006-2007 | 42970515.48 | 23221407.66 | 19749107.82 |
| 2007-2008 | 38436919.27 | 22648327.61 | 15788591.66 |
| 2008-2009 | 71508598.45 | 52574321.13 | 18934277.32 |
| 2009-2010 | 83498233.24 | 70034565.37 | 3463667.87 |

Observations

There is a steady in increase in sales current and also current liabilities and decreases in net working capital. This should increasing financial strength of the company. An increasing trend except in the year 2004-2005

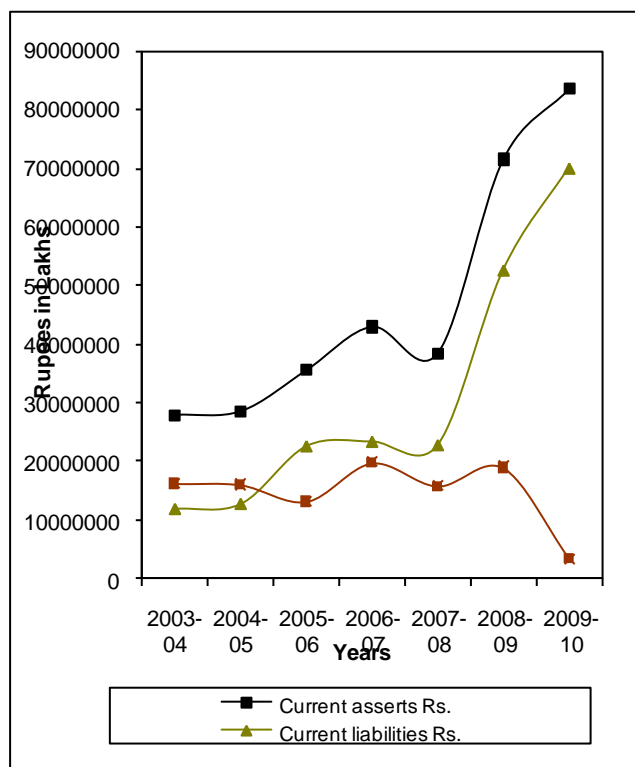


Fig.2. Similar to Table5.2 this table shows trend of sales CA, CL and Net working capital

Current Ratio
The current ratio of any firm measures is short-term solvency of that company i.e. its ability to meet its short-term obligation accompanied by the safety of margin to the creditors. The safety more in arises from the unevenness is the flow of fund through the current Assets and current liabilities, current ratio is the ratio of current Assets to current liability. It indicates the rupee of current Assets available for each rupee of current liabilities.

$$\text{Current Ratio} \Rightarrow \frac{\text{Current assets}}{\text{Current liabilities}}$$

| Year | Current Assets | Current liabilities | Current ratio |
|-----------|----------------|---------------------|---------------|
| 2003-2004 | 27922635.16 | 11709675.02 | 2.384578147 |
| 2004-2005 | 28574085.09 | 12585880.90 | 2.270328578 |
| 2005-2006 | 35583057.01 | 22454435.52 | 1.584678313 |
| 2006-2007 | 42970515.48 | 23221407.66 | 1.850469881 |
| 2007-2008 | 38436919.27 | 22648327.61 | 1.697119537 |
| 2008-2009 | 71508598.45 | 52574321.13 | 1.360143068 |
| 2009-2010 | 83498233.24 | 700344565.37 | 0.119224503 |

Observations

The current ratio of this company during the study period was well above the traditional standard of 1:2 which show the company ability in meeting its immediate liability.

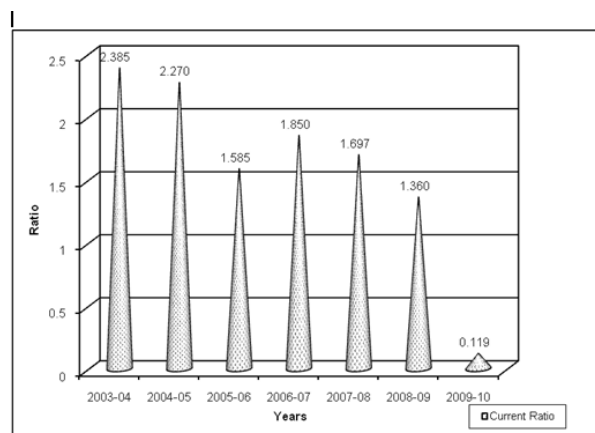


Fig.3. Show the current ratio from the year 2003-2004 to 2009-2010 of the company

Liquid ratio

This ratio establishes a relationship between quick or liquid Assets and current liability some of the current Assets can be converted into cash immediately or relatively in a shorter period with out any loss of value are the liquid Assets. Cash is most liquid Assets followed by investments, bill – receivable etc.

$$\text{Liquid ratio} = \frac{\text{Liquid Assets}}{\text{Liquid Liability}}$$

$$\text{Liquid Assets} = \text{Current Assets} - \text{Inventories}$$

The quick ratio signifier the ability of the firm to meet its entire current obligation on a particular day. Traditionally 1:1 is taken as the standard it means those liquid Assets is equal to liquid liabilities.

Table 5. Shows the liquid ratio for the year 2003-2004 to 2009-2010 of the company

| Year | Current Assets | Inventories | Liquid Assets | Current liabilities | Liquidity Ratio |
|-----------|----------------|--------------|---------------|---------------------|-----------------|
| 2003-2004 | 27922635.16 | 5813187.81 | 22109447.35 | 11709675.02 | 1.88 |
| 2004-2005 | 28574085.09 | 6305132.56 | 22268952.53 | 12585880.90 | 1.76 |
| 2005-2006 | 35583057.01 | 5508335.70 | 30074721.31 | 22454435.52 | 1.33 |
| 2006-2007 | 42970515.48 | 5796292.25 | 37174223.23 | 23221407.66 | 1.60 |
| 2007-2008 | 38436919.27 | 7510468.99 | 30926450.28 | 22648327.61 | 1.36 |
| 2008-2009 | 71508598.45 | 9930718.78 | 61577879.67 | 52574321.13 | 1.17 |
| 2009-2010 | 83498233.24 | 113441642.80 | 71156590.44 | 70034565.37 | 1.3 |

Observation

In the period under study the liquid ratio and above the traditional value of 1:1. It was 1.88 in 2003-2004 to improve of the company under study the another year decrease of the company.

VI. RESULTS OF THE STUDY

- The networking capital of this company is showing a healthy trend in the study periods. 2003-2004 16212960.14, 2009-2010-13463667.87.
- In general the current ratio 1:2 indicate the sound liquidity position of any company. In the case of the Pondicherry co-operative milk producers union Ltd. P.I. It is gradually shooting up from 2003-2004, 2.3845 in 2004-2005, 2.2703 in 2005-2006, 1.5846 in 2006-2007. 1.8504 in 2007-2008 1.6971 in 2008-2009 1.3601 in 2009-2010 1.1922 maintained between 2003 and 2010. The current asset are less profitable when compared to fixed asset.
- The standard liquid ratio is 1:8 where as the liquid ratio of the Pondicherry co-operative milk producers union Ltd. P.I. has slowly decrease to 1:3 in the year 2009-2010 which low secured financial stands of the company.
- The current asset turnover ratio was 7.91 in 2003-2004 to 7.965 to 7.96 in 2006-2007 and the year reduced decrease in the ratio 2009-2010 in 5.33.
- Inventory turnover ratio has gradually increase from 33.53 in 2006-2007 to 32.07 in 2007-2008. In terms decrease in ratio.
- The debtor's turnover ratio reduced from 28.10 in 2003-2004 to 8.56 in 2009-2010. Hence the working capital requirement is getting decrease.
- The net working capital turn over ratio reduced from 13.26 in 2003-2004 to 33.09 in 2009-2010. Hence the ratio in increase.
- In the cash management front the cash forms just 100% of current asset in 2003-2004 went up 31.86 and these reduced to 74.30 in the year 2009-2010 of the company.
- The current liability and total asset ratio 0.20 in 2003-2004 to 0.52 in 2009-2010. Hence the ratio increase in the company

VII. SUGGESTION AND RECOMMENDATION

1. The company should take immediate step to maximize current assets position to improve the profit
2. The profit position of the company analysis was slow and decreasing trend in the company. The company must have take immediate steps to avoid less leading business operation.
3. Production can be increased in order to utilize the fixed assets to fulfill list capacity
4. Additional investment can be made in order to maximize the current assets position.
5. The cash position to the company should be maintained in standard norms throughout the year.

VIII. CONCLUSION

It may be concluded that the overall performance in the area of working capital management in "The Pondicherry

co-operative milk producer's union Ltd P.I is good. It will enhance the company the performance well.

The company has maintained the current asset and current liabilities in efficient and effective manner. The financial ration were found to be comfortable with working capital management. **The Pondicherry Co-operative milk producers union Ltd.**, has been effectively and properly maintained.

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