

ANALYSIS OF CASH MANAGEMENT WITH SPECIAL REFERENCE TO SUGAR UNIT'S LTD IN TAMILNADU

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I. INTRODUCTION

Cash is seen as the “life blood” of every business organization. Khan and Jain (2013) indicate that, apart from the fact that cash is the most current asset, it is also seen as the common denominator to which all current assets can be reduced. They explain this to mean that all other liquid assets, such as; inventories, receivables and marketable instruments will all be converted to cash eventually.

Scherr (1989) says cash management deals with determining the optimal level of cash, the appropriate types and amounts of short-term investments in cash as well as the efficient methods and controls of cash collections and disbursements. This involves the administration of liquid assets and liabilities, and the raising of funds to finance a business.

As a greater portion of every transaction involves the receipt or disbursement of cash, efficiency in cash control is essential to ensuring that a business remains liquid enough to be able to meet payment obligations when it is due. This is carried out through the management of cash receipts and payments, cash balances and cash transfers between the different departments of the business.

While holding cash has its own benefits to the business, it nonetheless comes with a cost - the

opportunity cost of the profits that could be made if the cash was invested elsewhere. It is therefore the duty of the financial manager to balance the firm's liquidity with its profitability.

A business organization must develop appropriate mechanism to manage and correctly forecast its cash needs in order to make appropriate decisions with respect to borrowing and investment. Proper cash management therefore is an effective way of ensuring that the little cash available to the business is managed well to bring full benefit to the business in question.

Planned acquisition and utilization of cash or near cash resources ensures that businesses are in the position to meet their liquidity requirement while earning reasonable profits on their cash reserves. On the other hand, poor cash management practices can result in cash flow a problem which is characterized by inability to honor financial obligations, inability to put idle funds into profitable ventures and failure to expand.

Unfortunately, studies on this subject matter reveals that availability and proper management of funds remains a major challenge to the survival, growth and expansion of businesses in Ghana. Mbroh (2012) indicated that, although the burden of cash management remains critical in discussions regarding the establishment, operation,

successes or failure of the business sector, majority of businesses operating in Ghana are cash-trapped as a result of inadequate cash inflow to meet their operational needs. Logli (1981), on the other hand, identified poor management of funds as a major problem affecting businesses in Ghana.

General Principles of Cash Management

Harry Gross has suggested certain general principles of cash management that, essentially add efficiency to cash management. These principles reflecting cause and effect relationship having universal applications give a scientific outlook to the subject of cash management. While, the application of these principles in accordance with the changing conditions and business environment requiring high degree of skill and tact which places cash management in the category of art. Thus, we can say that cash management like any other subject of management is both science and art for it has well-established principles capable of being skillfully modified as per the requirements. The principles of management are follows as -

- Determinable Variations of Cash Needs
- Contingency Cash Requirement
- Availability of External Cash
- Maximizing Cash Receipts
- (A)Concentration Banking:
- (B)Local Box System:
- (C)Reviewing Credit Procedures:
- (D)Minimizing Credit Period:
- (E)Others:
- Minimizing Cash Disbursements
- Maximizing Cash Utilization

Function of Cash Management

"Cash management is concerned with minimizing unproductive cash balances, investing temporarily excess cash advantageously and to make the best possible arrangements for meeting planned and unexpected demands on the firm's cash." Cash Management must aim to reduce the

required level of cash but minimize the risk of being unable to discharge claims against the company as they arise. All these aims and motives of cash management largely depend upon the efficient and effective functioning of cash management. Cash management functions can be studied under five heads, namely, cash planning, managing cash flow, controlling cash flow, optimizing the cash level and investing idle cash. All these functions are discussed below in details:

- Cash Planning
- Managing Cash Flows
- Controlling the Cash Flows
- Optimizing the Cash Level
- Investing Idle Cash

Motives of Holding Cash

Every business transaction whether carried on credit or on cash basis ultimately results in either cash inflow or cash outflows. The pivotal point in present day financial management is to maximize cash generation and to minimize cash outflows in relation to the cash inflows. Keynes postulated three motives for holding cash:-

- Transaction Motive,
- Precautionary Motive, and
- Speculative Motive.
- Compensation Motive

II. OBJECTIVES

The main objective of the study is to analyze the management of Cash at Sugar Units in Tamil Nadu.

Period of the study

The study period is not quite enough to measure the cash management about the sugar Units in Tamil Nadu. The researcher should analysis the cash management of the sugar industries from 2013 -2014 to 2017 – 2018.

Data Source and Methodology

The present study is used the secondary sources of data. The data was collected from annual

reports of the company, Government reports, research journals etc. Besides, the operational problems of management of cash in Sugar Units in Tamil Nadu have been analyzed through the available secondary data collected from internal reports of the finance department of the organization. In this course of data analysis has been used various financial techniques namely, Ratios, Growth Rates, Trend Analysis, and statistical techniques namely, Percentages and Coefficient of Correlation.

Cash Management of Selected Sugar Units in Tamil Nadu

The purpose of the present study would remain half-achieved in the absence of analysis of efficiency of cash management of various steel companies under study, in respect of liquidity of

cash and cash position maintained by them. This discussion is forwarded under the following heads:

1. Size of cash,
2. Control of cash flows, and
3. Adequacy of cash.

Size of Cash

The size of cash is directly associated with the sales level achieved. There also exists a rule that as sales increase cash also increase but at decreasing rate. However, a sound management system of cash would always attempt at achieving a comparatively lower rate of growth in cash holding than the growth rate of sales. Table 1 portrays the quantum of cash held by the selected Sugar Units in Tamil Nadu from 2013 -2014 to 2017-2018. The trend percentages are also calculated and shown in the table 1.

Table 1: Size of Cash of Sugar Units in Tamil Nadu (From 2013-2014 to 2017-2018)

(Rs. In Crores)

Company	Thiru Arooran Sugars Ltd, Unit -1 Thanjavur Dt		Sree Amibika Sugars Ltd, Unit II Thanjavur Dt		E.I.D. Parry (India) Ltd, Unit – IVPudukkottai Dt.		E.I.D. Parry (India) Ltd, Unit – III Trichy Dt..	
	Cash	Indices	Cash	Indices	Cash	Indices	Cash	Indices
2013-2014	152.36	100	0	100.00	2967.57	100.00	1093.02	100.00
2014 -2015	180.39	118.3972	2.95	0	3045.08	102.61	1455.45	133.158
2015 -2016	283.7	186.2037	41.01	0	1150.67	38.77	1154.13	105.59
2016 -2017	521.5	342.2814	37.3	0	2667.74	89.896	2093.15	191.501
2017 -2018	853.69	560.3111	-0.29	0	7202.56	242.709	2887.84	264.207
Total	1991.64	1307.193	80.97	100	17033.62	573.985	8683.59	794.456
Mean	398.328	217.75	16.194	20	3406.724	114.797	1736.718	158.8912

Sources: Annual Reports of Sugar Units in Tamil Nadu From 2013-2014 To 2017-2018

The table 1 indicates that in Thiru Arooran Sugars Ltd, Unit -1 Thanjavur Dt. the quantum of cash held by it showed an increasing trend throughout the period of study period. In 2013 -2014 Thiru Arooran Sugars Ltd, Unit -1 Thanjavur Dt.. had a cash balance of Rs. 152.36 crores that increased to Rs. 853.69 crores in 2017-2018. E.I.D. Parry (India) Ltd, Unit – IV Pudukkottai Dt. The quantum of cash held by it showed a fluctuating trend during the study period. E.I.D. Parry (India)

Ltd, Unit – IV Trichy Dt. The quantum of cash held by it showed a fluctuating trend during the study period but less than the E.I.D. Parry (India) Ltd, Unit – IV Pudukkottai Dt.

Control of Cash flows

The main purpose of keeping cash is to meet day-to-day requirements along with sufficient liquidity and adequate profitability. A financial analyst has come to the conclusion that "business enterprises should keep its cash and near-cash reserves below the requirements of one month's

normal expenditure. If cash and near cash reserves happen to be more than this limit, it should be taken for granted that excessive cash is being carried by the concern."

In fact, a concern should go for optimizing its cash holdings without impairing the overall liquidity requirements. This can be possibly executed only if a firm exercises tight control over cash flows. A concern in this respect may develop a trend or pattern from its past records and experience or a comparative study of its own cash balances with that of other concerns of the same industry may also be conducted for framing a line of control. This may help the concern in determining the extent of cash balances and in avoiding risk of holding excess cash balance in the

business. The following ratios are considered helpful in this respect: -

Cash to Current Ratio

A concern shall under all possibilities avoid holding unnecessary cash balance as it affects the profitability of a concern adversely. Moreover, idle cash is devoid of generating any earning as well as it involves cost. Further during inflation cash loses its purchasing power over a time period. A downward trend in this ratio over period of time indicates a together control of cash whereas an upward trend reveals a slack control over cash resources. The lower the ratio the greater may be the profitability of the concern. Table 2 shows the cash to current assets ratio in selected sugar Units in TamilNadu from 2013 -2014 to 2017-2018.

Table 2: Cash to Current Assets Ratio of Sugar Units in Tamilnadu (From 2013-2014 To 2017-2018)

(Rs. In Crores)

Company	Thiru Arooran Sugars Ltd, Unit -1 Thanjavur Dt...	Sree Amibika Sugars Ltd, Unit II Thanjavur Dt	E.I.D. Parry (India) Ltd, Unit – IV Pudukkottai Dt.	E.I.D. Parry (India) Ltd, Unit III Trichy Dt..
Year	Cash to C.A.	Cash to C.A.	Cash to C.A.	Cash to C.A.
2013 -2014	23.39	0.00	37.60	40.87
2014 -2015	28.25	4.62	37.41	52.67
2015 -2016	43.58	71.21	16.79	44.42
2016 -2017	71.82	189.63	37.60	68.01
2017 -2018	85.31	-4.52	89.75	121.41
Total	252.35	260.94	219.15	327.38
Mean	52.188	52.188	43.83	65.476

Sources: Annual Reports of Sugar Units in Tamilnadu From 2013-2014 To 2017-2018

The above table presents that Thiru Arooran Sugars Ltd, Unit -1 Thanjavur Dt. had the increasing cash to current assets ratio during the study period having some fluctuations. The ratio was 23.39 percent in 2013 -2014, which was increased to 85.31 per cent in 2017 -2018. It indicates that the control on cash is not tight during the study period. Sree Amibika Sugars Ltd, Unit II Thanjavur Dt had the ratio of cash to current assets varying between 189.63 per cent and -30.05 per cent. Its ten year average had been 52.188 per cent, which indicates lack of control over cash resources. E.I.D. Parry (India) Ltd, Unit – IV Pudukkottai Dt.

had desirable level of cash to current assets ratio during the study period as indicated by the ten-year average 43.83 per cent cash management. The standard deviation was 41.38 percent. The ratio showed increasing trend during the study period. It may be concluded from the analysis that the Sugar Industries had very high cash to current assets ratio. They should avoid holding unnecessary cash balance as it affects the profitability and adversely.

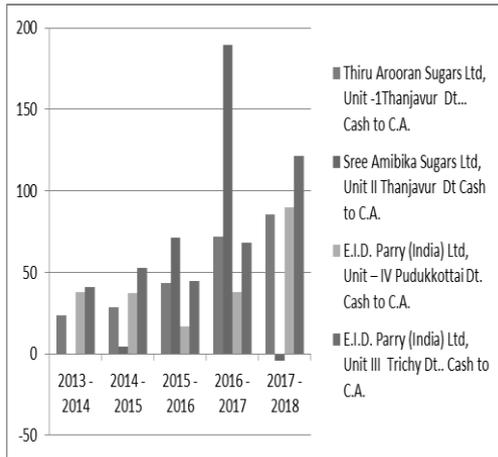


Table 3: Cash to Sales Ratio of Sugar Units in Tamilnadu (from 2013-2014 to 2017-2018)

(Rs. In Crores)

Company	Thiru Arooran Sugars Ltd, Unit - I Thanjavur Dt		Sree Amibika Sugars Ltd, Unit II Thanjavur Dt		E.I.D. Parry (India) Ltd, Unit – IVPudukkottai Dt.		E.I.D. Parry (India) Ltd, Unit – III Trichy Dt..	
	Cash to Sales	Indices	Cash to Sales	Indices	Cash to Sales	Indices	Cash to Sales	Indices
2013 - 2014	16.39	100.00	0.00	0.00	18.19	100.00	17.75	100.00
2014 - 2015	13.40	81.75	1.09	100.00	18.71	102.83	20.22	113.91
2015 - 2016	14.18	86.53	16.43	1501.53	7.39	40.61	15.20	85.58
2016 - 2017	18.72	114.20	18.96	1732.19	13.79	75.80	21.38	120.44
2017 - 2018	23.78	145.06	-0.28	-25.20	29.55	162.40	24.23	136.48
Total	86.47	527.54	36.2	3308.52	87.63	481.64	98.78	556.41
Mean	17.294	105.508	7.24	661.704	17.526	96.328	19.756	111.282

Sources: Annual Reports of Sugar Units in Tamilnadu From 2013-2014 To 2017-2018

The table N0.3 reveals that on average cash to sales ratio had been 17.294 per cent in Thiru Arooran Sugars Ltd, Unit –I Thanjavur Dt during the five years under study. It can be observed that the ratio showed increasing trend and the lowest at 13.40 percent in 2014-15. Sree Amibika Sugars Ltd, Unit II Thanjavur Dt, on the other side had 7.24 percent of five years average of cash to sales ratio but the ratio had hiked more during the third and fourth years of study indicating that proportionate rise in cash held by the company had been more than the sales. It may be concluded that the Sugar Industries had high liquid cash position which indicates underutilization of cash.

Cash to Sales Ratio

It is one of the most important ratios of assessment of control of cash flows. This ratio provides a deep insight into the amount of cash balance held by a concern. In the words of Professor John Sengan, "The increase in sales is generally associated with larger bank balances." the growth of which will increase decrease as the size of business increases." Table 3 illustrates the cash to sales ratio of the selected steel Companies during the study period.

Cash Turnover Ratio

It is yet another measure of assessing the sufficient of cash. Cash turnover ratio is calculated by dividing the amount of total sales by the amount of total sales by the amount of total cash available at the end of the accounting year. It indicates the number of days for which the particular amount of cash held was sufficient to finance the business operations. If a firm turnover its cash larger number of times, it can finance a larger volume of sales with relatively lesser cash resources. Thereby, increasing the profitability of a concern. While a declining trend in this ratio exhibits firm's failure utilizing the available resources to its optimum. Table 4 provides the

figure of cash turnover ratio of steel companies during the study period.

Table 4: Cash Turnover Ratio of Sugar Units in Tamilnadu (From 2013-2014 To 2017-2018)

(Rs. In Crores)

Company	Thiru Arooran Sugars Ltd, Unit - I Thanjavur Dt...		Sree Amibika Sugars Ltd, Unit II Thanjavur Dt		E.I.D. Parry (India) Ltd, Unit – IV Pudukkottai Dt.		E.I.D. Parry (India) Ltd, Unit – III Trichy Dt..	
	Cash to Sales	Indices	Cash to Sales	Indices	Cash to Sales	Indices	Cash to Sales	Indices
2013 -2014	6.10	100.00	0.00	0.00	5.50	100.00	5.63	100.00
2014 -2015	7.46	122.32	91.37	100.00	5.35	97.25	4.94	87.79
2015 -2016	7.05	115.57	6.09	6.66	13.53	246.22	6.58	116.84
2016 -2017	5.34	87.56	5.27	5.77	7.25	131.92	4.68	83.03
2017 -2018	4.21	68.94	-362.55	-396.80	3.38	61.58	4.13	73.27
Total	30.16	494.39	-259.82	-284.37	35.01	636.97	25.96	460.93
Mean	6.032	98.898	51.964	56.874	7.002	127.394	5.192	92.186

Sources: Annual Reports of Sugar Units in Tamilnadu From 2013-2014 To 2017-2018

The table No. 4 reveals that Thiru Arooran Sugars Ltd, Unit -1 Thanjavur Dt had average cash turnover ratio of 6.032 times. The ratio shows a decreasing trend throughout the period of study having some fluctuations. It was 6.10 times in 2013 -2014, which Increased to 4.21 times in 2017 -2018 with an average of 6.032 times. The cash turnover ratio of Sree Amibika Sugars Ltd, Unit II Thanjavur Dt had fluctuated in the beginning of study period and there after it showed decreasing trend. The cash turnover ratio in E.I.D. Parry (India) Ltd, Unit – IV Pudukkottai Dt. had also showed fluctuating trend. The average of cash turnover ratio had been 7.002 times. The cash turnover of E.I.D. Parry (India) Ltd, Unit – III Trichy Dt.. was showing downward trend with an average of 5.192 times.

Overall, it may be concluded that there were a very low cash turnover ratio in Sugar Industries under study. It indicates surplus of cash balance.

Adequacy of cash

Adequacy of cash is essential for every concern as liquidity and profitability are directly related with it. If a firm fails in realizing its current obligations for the want of sufficient liquidity, it may suffer in terms of bad credit rating, losing creditor's confidence. Contrary to this, too much liquidity will result in unnecessary blocking of cash

in current assets endangering firm's profitability position. Many financial executive's support holding excessive liquidity as an insurance against unforeseen contingencies. While others are of the opinion that 'if the unforeseen contingencies do not occur it may be analogous to say that we pay too much for the fire insurance because we do not have fire. A sound liquid position is of primary concern to the management from the point of view of meeting current liabilities as and when they mature as well as for answering continuity of operations. A firm is said to have a strong liquidity, it is able: -

- To meet the claims of short-term creditors when they are due.
- To maintain sufficient working capital for effective normal operations.
- To meet current interest and dividend requirements, and
- To maintain a favorable credit rating.

To test liquidity and solvency the following ratios are being used in the present study:

- Net Cash Flows to current liabilities, Coverage of current liabilities

Net cash flow to Current Liability

Walter has suggested, Instead of matching current assets with current liabilities i.e. current ratio quick assets with current liabilities i.e. quick ratio, better results can be obtained by matching

current obligations with net cash flows. The net cash flow to current liability ratio is expressed in percentage as:

Net cash flow to	Net Profit + operating exp.	
Current Liabilities Ratio=	Current Liabilities	x 100

The concept forecasts net cash flow is prepared on the ground that it indicates the flow of cash. Whereas, current liabilities indicates only the outstanding obligations on a particular date. Moreover, 'keeping in view the fact that most of the current liabilities continue getting new lease of life and other have payment period of one month or more, every firm maintaining positive net cash

flows to current liabilities ratio can be considered and solvency. The higher the ratio is the greater the degree of liquidity and solvency of a firm and vice-versa.

Though no standard as this ratio has been suggested but view of held that "an enterprise to be actually liquid and solvent, should have hundred percent or more net cash flow to current liabilities ratio" Table 5 gives the percentage of net cash flow to current liabilities of the selected steel Companies in India for the studies during the five years period.

Table 5 Net Cash Flow to Current Liabilities Ratio of Sugar Units in Tamil Nadu (From 2013-2014 to 2017-2018) (Ratio In %)

Companies	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	Total	Avg.	S.D
Thiru Arooran Sugars Ltd, Unit - I Thanjavur Dt...	0.006	0.014	0.007	0.005	0.036	0.068	0.03	0.08
Sree Amibika Sugars Ltd, Unit II Thanjavur Dt	0.000	0.002	0.001	0.007	0.007	0.017	0.01	0.01
E.I.D. Parry (India) Ltd, Unit – IV Pudukkottai Dt.	0.001	0.038	0.034	0.012	0.155	0.24	0.14	0.15
E.I.D. Parry (India) Ltd, Unit – III Trichy Dt..	0.054	0.015	0.010	0.037	0.028	0.144	0.03	0.48
Total	0.061	0.069	0.052	0.061	0.226			

Sources: Annual Reports of Sugar Units in Tamil Nadu From 2013-2014 To 2017-2018.

The table No.5 presents that Thiru Arooran Sugars Ltd, Unit -1 Thanjavur Dt had evidently not satisfactory level of liquidity during the period of study. Though Thiru Arooran Sugars Ltd, Unit -1 Thanjavur Dt... faced highly fluctuating trend ranging between - 0.03 per cent and 0.08 per cent. The Net cash flow to current liabilities ratio in Sree Amibika Sugars Ltd, Unit II Thanjavur Dt had also showed fluctuating trend. E.I.D. Parry (India) Ltd, Unit – IV Trichy Dt. had average only 0.03 per cent of current liabilities to be met from profit. E.I.D. Parry (India) Ltd, Unit – IV Trichy Dt had faced positive ratio.

III. CONCLUSION

The purpose of this study is to investigate the cash management efficiency and profitability position of selected Sugar Units in Tamil Nadu. It revealed that cash impact on profit ability in the present study an attempt is made to investigate the cash position of the sugar industries by applying various accounting ratios. The analysis of the Sugar Units in Tamil Nadu shows that it is possible to strengthen its growth at the global level. The knowledge of markets should be improved and strong brands should be built to adapt to the changing environment. Because of the large number of players in the Sugar Units in Tamil Nadu, the increased competition is the challenge for the industry. It may be concluded that the cash

management of selected sugar industries were not sufficient to cover current liabilities.

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