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WORKING CAPITAL MANAGEMENT OF SANGAMNERR TALUKA SAHAKARI DUDH UTPADAK & PRAKRIYA SANGH LTD.SANGAMNER

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Abstract:-

The main objective of financial decision-making is to maximize shareholders wealth. For this it is very necessary to generate sufficient profits. The extent to which the profits can be earned will depend upon the magnitude of the sales. A successful sales programmer is necessary for earning profits by any business enterprise. However, sales do not convert into cash instantly; there is invariably a time lag between the sale of goods and the receipt of cash. There is, therefore, a need for working capital in the form of current assets to deal with the problem arising out of lack of immediate realization of cash against goods sold. Therefore, sufficient working capital is necessary, to sustain sales activity.

Keywords: Shareholders Wealth , Anorganization , Short-term Assets.

INTRODUCTION

Technically, this is referred to as the operating or cash cycle. The operating cycle can be termed as the heart of working capital. "The continuing flow from cash, to suppliers, to inventory, to accounts receivables and back into cash is what is called operating cycle".

The most important and critical point of the topic of the research is that how a company manages its Working Capital Requirements as it is needed to perform the day-to-day activities of the company.

In practice, a firm with fixed assets also has to employ short-terms assets and short-term resources of financing.

The most important point of the topic is that it is a day-to-day activity to be done but we have to plane in advance what are the requirements so that the work is carried on smoothly.

Technically Working Capital is an integral part of the overall financial management. It is very important aspect as far as the company working is concerned, as it is long-term decision-making process because both entail an analysis of the effect of risk and profitability.

Time factor is not crucial in Working Capital Management is at striking a risk. The main object of Working Capital Management is at striking a balance such that there is an optimum amount of short-term assets.

It helps in maintaining the optimum level of Currents Assets.

SELECTION OF THE TOPIC

The analysis of working capital is necessary for all the organization because if anorganization maintains a large holding of current assets especially cash, the risk is reduced but it also reduces the profitability.

The importance of working capital management is reflected in the fact that financial managers spend a great deal of time in managing current assets and current liabilities.

Arranging short term financing, negotiating favorable credit terms, controlling cash movement, managing accounts receivable and monitoring investment in inventories consume a great deal of time of financial managers. Hence, the main intention behind selecting this topic was to know the financial position of funds invested in working capital. It was a great pleasure in studying the working capital management of Sangamner Taluka Dudh Utpadak & Prakriya Sangh Ltd. Selecting this topic has not only helped to know the financial facts but also the efficient financial management especially the various elements of working capital with the help of financial ratios of Sangamner Taluka Dudh Utpadak & Prakriya Sangh Ltd.

SCOPE

Cut throat competition, squeezing profit margin, advancement technology and number of options available and choosy customers compels the company to focus on the key areas which affects the profitability of organization. Hence it becomes imperative to utilize the available resources effectively and efficiently.

Working capital management is concerned with the problems that arise in attempting to manage the current assets and current liabilities and the inter relationship between them. Its operational goal is to manage the current assets and current liabilities in such way that a satisfactory working capital is maintained. The term working capital refers to net working capital i.e. current assets less current liabilities.

COMPANY PROFILE

Sangamner Taluka Sahakari Dudh Utpadak & Prakriya Sangh Ltd., Sangamner, Tal. Sangamner, Dist. Ahmednagar has been registered under No. ANR/PRD/A/270 on Date. 12/11/1977. It is registered for milk collection, processing, making by products are marketing, for this union has developed related activities as per requirement. The union is an outcome of the ardent desire of Sahakar Maharshi Shri. Bhausaheb Santuji Thorat to provide employment in order to uplift the financial conditions of the farmers in the taluka at present Shri. Laxman Balaji Kute is the chairman of this union.

Location of company:-

The Sangamner Taluka in Ahmednagar District is located at the North-East region of the district at the South, Shrirampur Taluka at the East and Akole Taluka at the West.

Historical & Geographical:-

The river Pravara flows through the mid line of the Taluka. There are some Co-operative and individual lift irrigation schemes on Pravara, Mhalungi and Adhala River. It experienced that the average rainfall of the tahsil always not more than 450 mm. the tahsil is several affected by drought only a Bhandaradara Dam located 60 km. West to Sangamner is the major source of lift irrigation, which covers 50% area, and rest of the 50% always facing to drought.

Dairy Co-operative Movement and Taluka Union:-

The co-operative movement in agricultural farming was started under inspiration of our first Chief Minister late Shri. Y. B. Chavan and with the success of green revolution late Mr. V.P. Naik. Assured base prices for not only agricultural commodities but also for the milk. With this assurance, the programmed of crossbreeding was launched under the joint efforts of late Mr. Annasaheb Shinde, Ex. Agriculture Minister Govt. of India, Maharashtra Government, Bharatiya Agro Industries Foundation at Urali Kanchan and Mr. Bhausaheb Thorat, Freedom Fighter and senior co-operative leader who is the founder of the Union.

With this background, Sangamner Taluka Sahakari Dudh Utpadak & Prakriya Sangh Ltd. has been started on 12/11/1977 initially only 1500 liters per day of milk was collected through 3 milk routes covering only 19 co-operative milk societies. Since its inception, union has definite goal to provide gainful employment through dairy farming and cross breeding. The programmed envisaged providing technical service to the farmers at their door step by starting cross breeding (A.I.) centers in the rural areas using frozen semen of proven sires, by these efforts the best cows were produced under the local agro climatic conditions which were more suited that the purchased cows from other countries/states, for this milk union took the B.A.I.F's technical support and established centers under self-employment scheme for which inputs like semen, liquid nitrogen, containers were made available. Milk union took the fodder development programmed also and thus every milk producer produces fodder for his own requirement and also for sale, while in the dry area the milk producers use dry fodder as well as concentrates for milk production.

Union has supplied 350 chaff cutters to milk producers on subsidy and installment system.

After working for 29 years, total milk production of our union is 2, 20,000 liter per day, today 250 primary dairy co-operative societies are established. This milk is collected from about 30000 milk producers with help of 50 hired vehicles through 50 routes. Sangh has established own ice plant having capacity of 40 tons per day in year 1984. We are also organizing training programmed. Work campaigns cattle camps and calf rallies giving prizes to the progressive farmers and to the crossbreed calves and cows.

Initially Sangamner milk union was supplying milk to the Government milk Schemes Akole, Ahmednagar and Nasik covering distance 24, 100 and 70 km. respectively. Due to the long distance, the spoilage of milk was more in summer season that is why it was felt necessary to have a processing plant at Sangamner.

Accordingly, this union made the efforts and as a result Maharashtra Government, has established processing plant having capacity 100000 ltr. Per day during the year 1988. This was handed over to our milk union on DT. 20/08/1994 on lease basic @ Rs. 3,00,000 per year by efforts of Hon. BhausahebThorat and Hon. Minister BalasahebThorat.

The Dudhsangh is marketing its milk products under the name and style "Rajhans Milk". The market distribution is already established though out the Maharashtra, Gujarat, and Karnataka. Due to huge inquiries from the customers, dealers for mineral water the Sangh decided to set up Mineral Water Research. In addition, Sangh had requirement of bacteria free, pesticide free and insecticide free water for bacteria free milk and milk products as well as for the boiler and cooling condenser coils. The processed treatment water can be used for the above purpose and rest will be packed in pouch and bottles. Due to this, the cost of manufacturing will be low. In addition, the transportation and distribution is already available with the sangh.

Daily milk collection:-

Today the daily collection of milk is 2, 20,000 liters/ day through 250 primary milk co-operatives from the taluka.

Market:-

The market for Rajhans Milk and Milk products is already establishment in the state Maharashtra, Gujarat, Karnataka. There is continuous demand and inquiries from existing dealers and distributors for the Rajhans milk. At present big sale of milk is in Maharashtra. There is always a huge demand for Rajhans milk from the big cities in Maharashtra which are Bombay, Pune, Aurangabad, Nasik, Nandurbar, Dhule, and A.Nagar.

Distribution of milk:-

Union has its own vehicles for collection of milk from primary dairy co-operatives & distribution of milk to the dealers. Distribution of milk is done through perforated vans. Union has its own 56 perforated vans for timely distribution of milk to the dealers.

Function and Activities:

- 1.Collection of milk
- 2.Processing of milk
- 3.Manufacturing of different products.

Our Mission:

We educate ourselves continuously in increasing per cattle production of milk as per International standards and transform knowledge and technology to the Dairy Farmers to enable to give better returns to the shareholders.

Our Vision:

To become No.1 producer and exporter of quality milk and milk products having international quality standard from india.

PRODUCTS:

- 1.Rajhans-Shrikhand
- 2.Rajhans-Paneer
- 3.Rajhans-Sterilized Flavored Milk

- 4.Rajhans-Ghee
- 5.Rajhans-Lassi
- 6.Rajhans-Pedha
- 7.Rajhans-Chas
- 8.Rajhans-Gulabjamun

1.Rajhans-Shrikhand:-

Buffalo Milk heated to boil for 5 minutes and then cooled to 420c then started culture is added. The same is left for six hours and the curd obtained hang for six hours. The Chaka obtained is mixed with sugar in a big mixer for 15 minutes. Then spices, cardamom is added to it and packed in the different size cup and then sealed and kept in Refrigeration condition then sold.

2.Rajhans-Paneer:-

Milk is heated to 850c and cooled 800c. Then citric acid is added. Stir slowly for 1 minute then the total residue is poured in a muslin cloth and kept under 60 Kg press for 30 minutes. Then the brick of Paneer is kept in the chilled water for 1 HR. Then is cutter into pieces and packed for marketing.

3.Rajhans-Sterilized Flavored Milk:-

Milk is standardized to double toned milk fat and is pasteurized then sugar and essence, color is added. The mixture is then filled in 200 ml-size glass bottle and sealed in cork machine. Then bottles kept in sterilizer and heated to 1200c for 20 min. Then cooled at room temp and ready for sale.

4.Rajhans-Ghee:-

The cream separated from milk and heated to 1080c or until total moisture is removed. Then it filtered in trough filleting machine and packed in different bag and ready for market.

5.Rajhans-Lassi:-

Milk is pasteurized to 800c for 17 second and cooled to 420c starter culture is added to it kept for six hours. Add sugar to it mix it thoroughly and homogenize it. Then the curd is pasteurized, essence is added and packed in 200 ml packet and ready for market.

6.Rajhans-Pedha:-

Milk is heated in khoa machine to the stage khoa stage, sugar is added and again heated to remove moisture then velchi, and badametc added and mixed thoroughly and is given with the help of mould. The pieces are packed in box and ready for sale.

7.Rajhans-Chas:

Milk is pasteurized to 800c for 17 second and cooled to 420c starter culture is added then it incubate 6 hours then the curd formed is mixed and homogenized then it pasteurized, salt is added and packed in 250ml, 500ml packets and stored under refrigeration and ready for market.

8.Rajhans-Gulabjamun:-

It is a product prepared from Khoa. Break entire khoa into bits. Mix baking powder into the maida separately. Add this mixture to the broken khoa and mix again. Now start kneading by adding small quantities of water until uniform dough is obtained. Prepare small balls of this dough. Now dip this ball into the sugar-syrup for 10-12 hours.

The goal of working capital management is to manage the firm's current assets and liabilities in such a way that a satisfactory level of working capital is maintained. This is because if the firm cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may even be forced into bankruptcy.

The interaction between current assets and current liabilities, is, therefore the main theme of the theory of working capital.

Working capital management may be defined as the difference between the current assets and current

liabilities, which is very common.

Working capital management is that portion of the current assets which is financed with long- terms funds.

1.Changes in the level of sales and/or operating expenses:

The changes in the factor may be due to three reasons:

First, there may be a long-run trend of change. For instance, the price of a raw material, say oil, may constantly rise, necessitating the holding of a large inventory. The secular trends would mainly affect the need for permanent current assets. In the second place, cyclical changes in the economy leading to ups and downs in business activity influence the level of Working Capital. The third source of change is seasonality in sales activity. Seasonality-peaks and troughs-can be said to be the main source of variation in the level of temporary Working Capital.

The change in sales and operating expenses may be either in the from of an increase or decrease. An increase in the volume of sales is bound to be accompanied by higher levels of cash, inventory and receivables. The decline in sales has exactly the opposite effect a decline in the need for working capital. A change in the operating expenses rise or fall has a similar effect on the levels of Working Capital.

2.Policy Changes:

The second major cause of changes in the level of working capital is because of policy changes initiated by the management. There is a wide choice in the matter of current assets policy. The term current policy may be defined as the relationship between current assets and sales volume. A firm following a conservative policy in this respect having a very high level of current assets in relations to sales may deliberately opt for a less conservative policy and vice versa. This conscious managerial decision certainly has and impact on the level of working capital.

3.Technological changes:

Technological changes can cause significant changes in the level of working capital. If a new process emerges as a result of technological developments, which shortens the operating cycle, it reduces the need for working capital and vice versa.

WORKING CAPITAL FINANCING

After determining the level of working capital, a firm has to decide it is to be financed. The need for financing mainly arises because the investment in working capital/current assets i.e. raw materials or work-in-progress, stock of finished goods and receivables typically fluctuates during the year. The main sources of working capital financing are:

- a.Hedging Approach
- b.Trade Credit,
- c.Bank Credit,
- d.RBI Framework/Regulation Of Bank Credit/Finance,

a) Hedging Approach

In this approach long term sources are used for financing fixed assets and permanent current assets while short-tem funds are used for financing temporary or variable current assets. However exact matching is not possible because of the uncertainty about the expected lives of the assets.

b) Trade Credit

This implies the credit allowed by the supplier to the purchasing firm.

Trade credit does not mean rising of money from outside but on the other hand, it is only the postponement of the payment to the creditors.

Credit granted by the supplier can be on open account, which implies that goods are sold on credit without any formal instrument and the customer is expected to make payment according to the credit period.

In other case, the creditor (supplier) prepares an instrument known as bill of exchanges that is accepted by the purchaser (firm). The amount of the bill is to be paid after expiry of the period of credit.

c) Bank Credit

Another commonly used source for financing working capital needs is the bank finance. This assessment is done on the basis of the sales level as well as production plans of the firm. How much amount of current assets are to be maintained is also assessed by bank and then after deducting the margin money the balance amount is financed.

Forms of Bank Finance:

Bank Overdraft:

This is most common method of bank financing. A customer is allowed to withdraw more amounts than the balance at his credit in the account.

For e.g. if bank balance to the credit of a customer is Rs. 20000/- he may be allowed to withdraw Rs. 30000/- thus indicating that there is a bank overdraft of Rs. 10000/-. The amount allowed to be withdrawn depends upon the limit sanctioned by the bank. The limits are decided after a careful scrutiny of the bank account transactions of the customer. Interest is charged only on the amount that is withdrawn as overdraft.

Cash Credit

In this method a bank sanctions a particular limit up to which a borrower can borrow. It is not necessary for a borrower to withdraw the entire amount of borrowing immediately. Interest is charged only on the borrowed amount. A bank may demand security in the form of a current asset.

Bills Discounting

A bill of exchange which is drawn by a creditor on his debtor is a negotiable instrument. It contains an unconditional order to pay a certain sum of money after a certain period of time to the creditor. But the creditor has to wait till the maturity date before he receives the payment.

His money remains blocked till the period is over. In order to remove this difficulty the creditor can discount the bill with his bank. The bank deducts certain amount as discount from the amount of the bill and the remaining amount is paid to the creditor. However before giving this facility to the drawer or the creditor the credit rating of the drawer is checked by the bank.

Working Capital Loans

This is the method in which their temporary capital loans are given. In this method it does not actually generate funds but it only postpones the payment of certain expenses. The greater is the postponement, the greater is the amount available for financing.

Letter of Credit:

A bank in favor of its customer undertaking the responsibility to pay to the supplier (or the supplier's bank) opens a letter of credit in case its customer fails to make payment of goods purchased from the supplier within the stipulated time. Unlike in other types of finance where the arrangement is between the customer and bank and the bank assumes the risk of non-payment and also provides finance, under the letter of credit.

The securities, which the bank has taken, are:

1. Hypothecation of raw materials, semi-finished products lying in godown, factory, office and elsewhere;
2. Hypothecation of Plant & Machinery and other Fixed Assets;
3. Personal Guarantee of all Directors.

OBJECTIVES OF THE RESEARCH

- To know the liquidity position of the company with the help of current ratio.
- To know the present financial position of Sangamner Taluka Dudh Utpadak & Prakriya Sangh Ltd.
- To know the working capital performance of Sangamner Taluka Dudh Utpadak & Prakriya Sangh Ltd. over the past three years.

RESEARCH METHODOLOGY

Methodology is the process of collecting the information and help to find out the solution to the topic selected by the researcher. Whereas research helps to study and find out the techniques with proper process. It is a

systematic way of presenting information.

The data can be of the two types and collected by two ways i.e. primary data and secondary data. The through study of the research must prove it's finding on the basis of the facts and figures. However as the research is of finance it becomes very difficult to collect the required information from manufacturing company as the financial data is a summarized statement of account.

In order to collect the required information for the research the following methods were adopted.

The information is collected through the primary sources like:

- Discussion with the employees of the department.
 - Getting information by observations e.g. in manufacturing processes.
 - Discussion with the head of the department.
 - Collection of the information related to working capital from the other members of accounts departments of the organization.
-
- The data is collected through the secondary sources like
 - Annual Reports of the company.
 - Office manuals of the department.
 - Reports, records of the company.

DATA ANALYSIS AND INTERPRETATION

Introduction:

The data after collection has to be processed and analyzed in accordance with the defined laid down for the purpose at the time of developing the research plan. This is essential for a scientific study and for ensuring that we have all relevant uses for making contemplated comparisons and analysis technically speaking, processing implies editing, coding classification and tabulation of collected data so that they are amenable to analyses.

Data analysis:

It's term analysis refers to the computation of certain measures along with watching for patterns of relationship that exists among data group simply analysis can be defined the ordering or breaking of the data into constituent parts in order to obtain answer to research questions.

Interpretation:

After collection and analyzing the data, the researcher has to accomplish the ink of drawing inferences followed by report writing. This has to be done very carefully; otherwise misleading conclusions may be drawn. Interpretation refers to the task of drawing inferences from the collected facts after an analytical or experimental. In fact, it is a search for broader meaning of research finding. Interpretation is essential for the simple reason that the usefulness and utility of research finding lie in proper interpretation.

Though sometimes data are properly collected and analyzed, wrong interpretation would lead to inaccurate conclusions. It is therefore, absolutely essential that the task of interpretation be accomplished with patience in an impartial manner and also in correct perspective.

LIMITATIONS OF THE RESEARCH

This research focuses only on certain factors which are important to discuss. But they cannot be discussed completely.

- The study is done on only one organization so it does not provide any scope of comparison with other organization.
- The study is based only on last five years record and do not give clear idea from the data available.
- The study is restricted to financial position of the company with no attention given to loans and advances and deposit mobilization.
- The tool of ratio analysis has certain fundamental and conceptual limitations in this research as well.
- While computing ratios, averages and percentages the figures are appropriated to two decimal places. Therefore sometimes the total may not tally.

Schedule of changes in working capital for the year ending 31/3/2012 to 31/3/2013
Consolidated table shows the effect on working capital of

WORKING CAPITAL RATIOS

Working capital ratios indicate the ability of the business concern in meeting its current obligations as well as its efficiency in managing the current assets for generation of the sales. These ratios are applied as well as its efficiency with which the firm manages and utilizes its current assets. The following three categories of ratios are used for the efficient management of the working capital:

Liquidity ratio

- a.Current ratio
- b.Quick ratio.

Turnover Ratio:-

- a.Debtors Turnover Ratio
- b.Creditors Turnover Ratio
- c.Working capital turnover ratio
- d.Inventory Turnover Ratio

1) Liquidity ratios:-

- Current ratio
- Quick ratio

Liquidity ratios measure the extent to which the firm can meet its immediate obligations. They also reflect the firm's ability to meet financial contingencies that might arise.

FINDINGS

- Sale of milk & milk products has shown continuous increase for last 3 years. The Organization is having plans for expenditure on Research & Development in processing. The benefits will be available in future years.
- Although sales have increased the expenses have also increased & hence the margins have reduced, resulting in only marginal increase in profit.
- The organization has efficiently utilized its transport system for distribution of milk.
- The efforts of the organization to get increased milk of good quality will show its results in future years & the organization's performance will improve.
- The overall performance is satisfactory & organization is also able to achieve the social objectives.

LEARNING

- It was a great pleasure in studying the working capital management of sangamner taluka dudh utpadak prakriya sangh ltd. selecting this topic has helped to know the financial position of the sangh.
- Arranging short term financing that is managing the current assets and current liabilities is very important for day to day activity.
- Financial management means procurement of funds. Procurement fund is required to finance working capital as well as fixed assets.
- Rajhans industries has excellent Brand Image in market so it does not require investing the huge amount to create brand image.

SUGGESTIONS:

After learning the location, management, financial condition, work culture the following suggestions are enlisted.

- The company should provide finance to supply raw materials to plant.
- The company should maintain its inventory at a certain level otherwise it would incur unnecessary block up of the funds which will result in heavy increase in working capital.
- The company should increase its market share by offering competitive prices in local as well as global markets.
- The company should improve its creditors turnover ratio.

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