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# CONTENTS

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**OBJECTIVES**

**HYPOTHESIS (ES)**

**RESEARCH METHODOLOGY**

**RESULTS & DISCUSSION**

**FINDINGS**

**RECOMMENDATIONS/SUGGESTIONS**

**CONCLUSIONS**

**LIMITATIONS**

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# A COMPARATIVE ANALYSIS OF THE EFFECTIVENESS OF CASH MANAGEMENT PRACTICES BETWEEN COOPERATIVE AND PRIVATE MILK PROCESSING PLANTS

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## ABSTRACT

*This paper describes the effectiveness of cash management practices between the cooperative and private milk processing plants. The sample used for the study consists of one large scale cooperative and private milk processing plant each on the basis of simple random sampling method. The data collected over 12-year period during 2001-2012. The various relevant ratios related to cash management calculated and 't-test' used to draw statistical inferences. This study concluded that the effective cash management is necessary as shortage or excess cash has negative impact on profitability as the cash in non-earning asset. The better cash inflow and outflow management is necessary for the survival and financial health of business.*

## KEYWORDS

cash management practices, cooperative milk processing plants, cash inflow and cash outflow.

## INTRODUCTION

Cash inflows and outflows do not always match. There could be either surplus or shortage. A financial management challenge in front of manager is cash flow management, liquidity, growth and return on Investment. Brigham quote, "cash is non earning asset, excessive cash balance simply lowers the total asset turnover, thereby reducing both the rate of return on net worth and the value of the stock. Excess cash will remain idle without its contribution to profit whereas shortage of cash will disrupt the firm's manufacturing process. Effective management of cash involves an effort to minimize the idle cash without impairing the liquidity of the firm. Hence objective of cash management is to maintain optimum cash balance. To quote Bolten, "the cash is an oil to lubricate the ever turning wheels off business, without it process grinds to stop.

The milk processing sector act as a link between the milk production and consumer. Owing to sectors tremendous potential to generate employment and source of income for around 60% of the rural population, determine its role and significance rural development and sector's contributions in agriculture GDP of the country. Previous research studies across industries related to cash management and researcher's own observation of the financial health of milk processing plant in study area, it is observed that poor and carless cash management is major reason of failure of the milk processing plants during the initial years after the establishment. Too much focus on marketing, poor selection of customer, inadequate debtor policy, late payment, poor recovery and inappropriate use of cash funds etc are sighted as major reasons for milk plant failure. Hence researcher undertaken this study to identify the reasons of poor cash management through financial analysis.

## LITERATURE REVIEW

Literature review is important to know the trends, updates and past findings to find out the research gap or areas which remained untouched to contribute something in knowledge

**Padachi,at el**.(2010) reveals the disproportional increase in current asset investment in relation to sales resulting in sharp decline in working capital structure. The suggested that the SMEs should concentrate on the short term funds since they frequently suffer from the lack of working capital. **Arora A.**(2014)conducted research on "Analysis of the Cash Management of NEPA" with the help of various statistical techniques such as absolute percentage change, index numbers, trend values and ratio techniques during 1987-88 to 2001-02.He found that the cash balance of NEPA shows ups and downs and reveals that cash in hand play a major role in the cash management of NEPA Ltd in comparison with bank and other balances. **Schroeder,et al.**(2011) revealed that the ability of an enterprise to generate cash from operations is an important indication of financial health. Regarding cash management practices, Grablowsky (1978) and **Grablowsky and Rowell** (1980) surveyed concerned cash management practices of 66 small enterprises across industries in Virginia. The results showed that 67 percent of respondents replied they did not do forecasting of cash flows. When asked how they determined the level of cash to be held by the business, less than 10 percent of enterprises reported using any type of quantitative technique. The method most often employed was to hold cash as a fixed ratio of projected expenses, forecasted sales or anticipated purchases. Non-quantitative methods used consisted of meeting compensating balance requirements, maintaining the level considered safe by management or achieving a level recommended by outside advisers. Additionally, seventy-one percent of business reported that they had no short-term surpluses of cash in their recent history. Only 23 percent had a long-term surplus. Nearly 30 percent of respondents had invested excess cash in earnings securities or accounts. The most common investments were savings accounts, certificates of deposit, treasury bills, repurchase agreements, commercial papers, shares, bonds and other investments. Based on **Cooley and Pullen's** (1979) research, cash management was seen as the process of planning and controlling cash flows. It consisted of three basic components: cash forecasting practices, cash surplus investment practices and cash-control practices. They examined cash management practices of 122 small businesses engaged in petroleum marketing and reported that 73 percent of respondents had experienced a cash surplus. **Anvari and Gopal** (1983) studied the cash management practices of 123 small enterprises across a variety of industries in the Canadian provinces of Quebec and Ontario was provided by generally, 53 percent of the sample businesses indicated that they prepared cash forecasts.

Up to researcher's knowledge and the literature review, no studies specific to Cash management is carried out in the context of milk processing sector. Hence present research topic will throw the light on the cash management aspects of the milk processing plants in the dairy industry.

## OBJECTIVES OF THE STUDY

The objectives of the study are

1. To compare the cash management practices of the cooperative and private milk processing plants through ratio analysis techniques which is widely used and popular method of financial analysis.
2. To suggest appropriate cash management strategies which have positive influence on the profitability of the milk processing plants

## RESEARCH METHODOLOGY

The researcher analyzed the audited financial statements of the cooperative and private milk processing plants with the help of financial ratios. The sample used for the study consists of 1 large scale plants each from cooperative and private milk processing industry of Ahmednagar district of Maharahstra. The milk processing plants in which investment in plant and machinery is higher than 10 crores are considered as a large scale plant for this study. This research study collected the data over a period of 12 years. The correlation analysis used to find out the degree of relationship and direction of various independent variables viz. current ratios(CR), liquidity ratios(LR), Net working capital to sales(NWCTS), Cash and Bank to Current Assets(C&BTS),)Current Assets to Total Assets (CATTA), Net Working Capital to Total Assets (NWCTTA) and Return on Total Assets (ROTA).The 't-test' used as a statistical tools to draw the inferences as the sample size is below 30 and the study is comparative in nature.

## DATA ANALYSIS AND INTERPRETATION

The Table 1.0 and Table 2.0 presented the liquidity analysis especially focused on cash management aspects of the cooperative milk processing plants over a period of 12 years during 2001 to 2012. After comparative analysis of cooperative and private milk processing plants on the basis of descriptive statistics, the following observations are recorded:

**TABLE 1.0: LIQUIDITY ANALYSIS OF COOPERATIVE MILK PROCESSING PLANTS**

| Year | Current Ratio | Liquidity Ratios | Net Working Capital to Sales (%) | Cash and Bank to Current Asset (%) | Cash and Bank to Sales (%) | Current Assets to Total Assets (%) | ROTA-COP |
|---|---|---|---|---|---|---|---|
| 2001 | 2.42 | 2.40 | 9.93 | 10.00 | 1.69 | 61.93 | 1.947551 |
| 2002 | 1.72 | 1.70 | 6.81 | 8.18 | 1.33 | 56.99 | 1.567995 |
| 2003 | 1.88 | 1.86 | 8.85 | 7.38 | 1.39 | 56.91 | 1.431849 |
| 2004 | 1.80 | 1.78 | 7.75 | 4.24 | 0.74 | 51.78 | 1.559237 |
| 2005 | 2.11 | 2.09 | 11.99 | 2.66 | 0.61 | 55.42 | 1.200636 |
| 2006 | 1.81 | 1.79 | 8.93 | 7.36 | 1.47 | 49.67 | 1.269681 |
| 2007 | 1.62 | 1.60 | 8.23 | 15.39 | 3.29 | 46.56 | 1.087842 |
| 2008 | 1.27 | 1.22 | 3.71 | 6.32 | 1.11 | 44.96 | 2.255421 |
| 2009 | 1.52 | 1.49 | 7.43 | 3.41 | 0.74 | 51.95 | 0.640161 |
| 2010 | 1.51 | 1.48 | 7.78 | 2.85 | 0.66 | 54.25 | 0.493419 |
| 2011 | 1.68 | 1.64 | 8.27 | 7.66 | 1.57 | 53.04 | 0.922198 |
| 2012 | 1.70 | 1.66 | 8.46 | 8.71 | 1.79 | 55.86 | 1.567671 |
| **Average** | **1.75** | **1.72** | **8.18** | **7.01** | **1.37** | **53.28** | **1.33** |

**Source**: Author's Calculation on the basis of Annual Financial Statements

1. The average current ratio of the cooperative plant is 1.75 during 2001-2012 whereas for the private milk processing plant it is 2.18 for the same year. The current ratio of the private milk processing plants found to be on higher side compared to cooperative milk processing plants. It indicates that liquidity position of private plant is better than cooperative milk processing plant.
2. The liquidity ratios of cooperative plant found to be 1.72 which is slightly higher than the private plant which observed to be 1.67 during the 12-year period from 2001-2012.This shows that the ability of the cooperative milk plants to satisfy the immediate liquid need is better than the private plant.
3. The net working capital to sales ratios (%) of cooperative plant is 8.18 compared to the private plant of 8.63 during the study period. The relatively higher per centage of net working capital to sales ratio in case of private plant indicates that they keep more cash as a % of sales to fulfill their day today liquid liabilities compared to cooperative plants.
4. The ratio of cash and bank to total current assets found to be 7% in case of cooperative plant whereas for private plant proportion of cash and bank balance to total current assets found to be 0.77 % which is quite low. It indicates that the private plant maintains less cash and bank balance in proportion to current assets. That is good indicator of effective cash management.
5. In case of cooperative plant, the 1 rupees cash balance cash and bank balance generate Rs. 73 sales where as for the same cash and bank of Rs.1 the sales generation is of Rs. 130 in case of private milk processing plants
6. The proportion of current assets to total assets is 53% in case of cooperative milk plants whereas in case of the private plant it observed to be around 56% during 2001-2012.It indicates that private plant invested more capital in current assets compared to total assets as compared to cooperative plant which observed to be 53%.
7. For the 12 year period during 2001-2012, the average return on total assets of private milk processing plant is much higher i.e. 22.52% compared to 1.33% average ROTA of private milk processing plant.

**TABLE 2.0: LIQUIDITY ANALYSIS OF PRIVATE MILK PROCESSING PLANTS**

| Year | Current Ratio | Liquidity Ratios | Net Working Capital to Sales (%) | Cash and Bank to Current Asset (%) | Cash and Bank to Sales (%) | Current Assets to Total Assets (%) | ROTA-PVT |
|---|---|---|---|---|---|---|---|
| 2001 | 2.22 | 1.59 | 5.93 | 0.11 | 0.01 | 49.60 | 34.34702 |
| 2002 | 2.21 | 1.59 | 5.99 | 0.30 | 0.03 | 49.94 | 29.31598 |
| 2003 | 2.18 | 1.57 | 5.91 | 0.28 | 0.03 | 50.87 | 29.73774 |
| 2004 | 2.23 | 1.62 | 6.16 | 0.42 | 0.05 | 52.50 | 27.51006 |
| 2005 | 2.24 | 1.63 | 6.20 | 0.40 | 0.04 | 53.34 | 23.94106 |
| 2006 | 2.20 | 1.59 | 6.05 | 0.37 | 0.04 | 54.84 | 25.47273 |
| 2007 | 2.35 | 1.72 | 6.48 | 0.42 | 0.05 | 55.63 | 21.0998 |
| 2008 | 2.27 | 1.76 | 5.45 | 0.58 | 0.06 | 54.86 | 25.86396 |
| 2009 | 1.92 | 1.26 | 6.65 | 2.48 | 0.34 | 59.14 | 30.22447 |
| 2010 | 1.72 | 1.62 | 13.38 | 3.19 | 0.77 | 59.30 | 13.00467 |
| 2011 | 1.64 | 1.43 | 13.57 | 0.22 | 0.08 | 61.92 | 4.848485 |
| 2012 | 2.92 | 2.70 | 21.83 | 0.42 | 0.14 | 66.94 | 4.864092 |
| **Average** | **2.18** | **1.67** | **8.63** | **0.77** | **0.14** | **55.74** | **22.52** |

**Source**: Author's Calculation on the basis of Annual Financial Statements

## SUMMARIZED FINDINGS

The summarized findings of the comparison between the cooperative and private milk processing plants presented in Table 3.0.The researcher conducted one tailed 't-test' to find out which type of plant is better by comparing the different ratios at 5% significance level. The findings of the study are as mentioned below:

1. There is significant relation between the current ratios of the private and cooperative milk processing plant. The current ratio of the private plant is higher and shows better liquidity position compared to cooperative plant.
2. The cooperative plant's cash & bank to current assets and cash and bank to sales ratio found to be higher and statistically significant relationship found between the cooperative and private plant.

3. Net working capital to total assets and return on total assets of private milk processing plants founds to be higher compared to cooperative milk processing plants. Statistically significant relationship found between NWCTTA and ROTA of private plant with cooperative plant.

**TABLE 3.0: 't' TEST BETWEEN MEAN DIFFERENCE OF COOPERATIVE AND PRIVATE PLANTS**

| | Significant Value | P(T<=t) one-tail | t-test result | Conclusion |
|---|---|---|---|---|
| Current Ratio | 0.05 | **0.00040758** | significant | **PVT is high** |
| Liquidity Ratios | 0.05 | 0.35478378 | Insignificant | No difference |
| Net Working Capital to Sales (%) | 0.05 | 0.38728432 | Insignificant | No difference |
| Cash and Bank to Current Asset (%) | 0.05 | **3.7359E-06** | significant | **COP is high** |
| Cash and Bank to Sales (%) | 0.05 | **7.3968E-06** | significant | **COP is high** |
| Current Assets to Total Assets(%) | 0.05 | 0.10835275 | Insignificant | No difference |
| Return on Total Assets (In %) | 0.05 | **1.6382E-08** | significant | **PVT high** |

## CONCLUSIONS

On the basis of comparative study of liquidity of cooperative and private milk processing plant, it can be concluded that the private plant better manages their cash and bank balances to generate the sales compared to cooperative milk processing plants. The cash and bank balance maintained in proportion to current assets and to sales is higher. This shows ineffective cash management as cash in non-earning asset. It should be optimum neither short nor excess. Otherwise higher cash and bank balance shows high liquidity but poor cash management as it negatively affects profitability. Hence researcher recommended to maintain the optimum cash and bank balance on the basis of sound cash management practices like cash forecasting, cash policy regarding maintaining minimum cash balance, frequent review of cash budget and using better techniques of cash planning and control on the basis of scientific cash management tools.

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