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WORKING CAPITAL ANALYSIS WITH SPECIAL REFERENCE TO SESHASAYEE PAPER AND BOARDS LIMITED, ERODE

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ABSTRACT

Working capital is the life line of every concern whether it is a manufacturing or non-manufacturing one without adequate working capital there can be no progress in the industry. Finance is the lifeblood of any business. It is an art of raising and spending money. Prudent management of finance will ensure not only liquidity as well profitability, which reflects on growth of the enterprise. The funds raised may be invested in assets for retention in the business to earn profits, which by their nature are regarded as being fixed, such as land and buildings, and equipment. Funds may also be invested in assets of non-permanent and working nature such as cash, short-term investment, receivables and inventory better known as working capital. In the latter case, assets will be in a state of continual change. There will be a constant movement of funds, where the original form of cash transforms into various stages of inventory, debtors and back to cash. The firm's fixed assets actually produce the goods for sale; create operational-base and earning capacity, whereas the working capital actually makes possible the production of such goods. Working capital puts the earning capacity of the fixed assets to effective use. In India, working capital management has acquired even more important due to the restrictive policies adopted by the R.B.I. It is believed that key to the success of any enterprising organisation in a developing country is utilisation of its working capital.

KEYWORDS

Seshasayee Paper and Boards Ltd., working capital analysis.

INTRODUCTION

In the modern civilized world paper is an important instrument of conveying messages. This word "paper" comes from 'papyrus'. This writing material is used in Egypt. For nearly nineteen centuries papermaking was dependent upon old rages for its basis raw materials. Due to technological developments paper industry was given shot by turning wood into pulp and trees into paper. Nearly every known fiber straw brass, esparto has been used for papermaking but today mechanized papermaking demands certain qualities, which these articles could not supply. The bamboo from forest and biogases from sugar mills or some of the sophisticated raw materials used in the modern paper mills today. The modularity of the world comes has come always the progress in paper. Today per capital consumption of paper is a vital commodity for the spread and development of education, literacy and democracy. The consumption of paper is very low in India that is 2kg per head as compared to USA Japan which amount to 289 grams and 15 kgs respectively. The domestic production has not been sufficient even to meet this major demand where India ranks 20th among the paper producing countries in the world.

In a developing economy like india importance of the growth of this industry much where the literacy rates are to be improved considerably we have been importing larger quantities of paper to meet the consumption needs in our country. This scarce foreign exchange to be saved and to be saved and to increase employment opportunities, the heavy investment sector of paper industry was developed. After the private sectorization of this industry in 1970. Hindustan paper co-operation was formed. In 1977 it under took expansion program at a cost of Rs.2000 lakhs to 55 tones per annum. Now it is installed capacity is at 60,000 tones per annum to be linked to an average basis weight of 150gms.

REVIEW OF LITERATURE

Padachi (2006), investigated the working capital management practices for the manufacturing firms in Mauritius by taking a sample of 58 small firms. Researcher examined the trends in working capital management and its impact on performance. Regression results observed negative relationship between inventories and receivables with profitability. The study has also shown a positive relationship between various working capital components and profitability.

Samiloglu and Demirnes (2008), conducted a study on a sample of manufacturing companies in Turkey during the period from 1998 to 2007 to investigate the relationship between profitability and working capital management shows that the period of accounts receivable, inventory turnover and leverages has significant and negative impact on the profitability of the companies, while the growth of the company in most sales has a positive and significant impact on profitability. The results suggest that profitability of company increase through decrease in accounts receivable and inventory.

Mathuva (2009), studied the impact of working capital management on the performance. He took almost 30 listed firms as a sample and all these companies were listed in Nairobi stock exchange and the data was taken from 1993 to 2008. There were certain findings of his research by analyzing the fixed effects regression models. Firstly, there is a negative relationship between the time when the cash is collected from the customers and the firm's productivity. This depicts, firms that are more profitable enjoys less time period for the collection of cash from the customers as compare to ones which are less profitable.

COMPANY PROFILE

Seshasayee Paper and Boards Limited (SPB), the flagship company belonging to 'ESVIN GROUP', operates an integrated pulp, paper and paper board Mill at Pallipalayam, Erode-638 007, District Namakkal, Tamilnadu, India. SPB, incorporated in June 1960, was promoted by Seshasayee Brothers (Pvt) Limited in association with a foreign collaborator M/s Parsons and Whittemore, South East Asia Inc., USA. After commencement of commercial production, having fulfilled their performance guarantee obligations, the foreign collaborators withdrew in 1969. Main promoters of the Company as on date are a group of companies belonging to the ESVG group headed by Mr.S.Viswanathan. SPB commenced commercial production in December 1962, on commissioning a 20000 tpa integrated facility, comprising a Pulp Mill and two Paper Machines (PM-1 and PM-2), capable of producing, writing, printing, kraft and poster varieties of paper. The Plant capacity was expanded to 35000 tpa in 1967-68, by modification of PM-2 and addition of a third Paper Machine (PM-3). The cost of the expansion scheme, at Rs 34 Million, was part financed by All India Financial Institutions (Rs 31 Millions). In the second stage of expansion, undertaken in 1976, capacity was enhanced to 55000 tpa, through addition of a 60 tpd new Paper Machine. Cost of the project, including cost of a Chemical Recovery Boiler and other facilities for enhanced requirement of utilities, was estimated at Rs. 176 Millions. Seshasayee Paper and Boards Limited is equipped with full-fledged process control and

development of new products and processes. R & D Laboratory is approved by Ministry of science and technology product manufactured by seshasayee paper board limited find extensive use in editing and printing and packaging applications.

STATEMENT OF THE PROBLEM

The industry is facing several problems. Growth of paper industry in India has been constrained due to high cost of production caused by inadequate availability and high cost of raw materials, power cost, etc. The sharp rise of prices created a paper crisis in the country. Since then, the paper industry has been engulfed in a crisis due to variety of reasons, and has led a sub-optimal use of installed capacity. The financial performance of the paper mills has been highly unsatisfactory despite numerous facilities and fiscal concessions being provided to them. Paper industry is highly capital intensive. To create the required additional capacity based on 75 per cent capacity utilization, an investment of roughly Rs. 40,800 crores would be required to meet the projected demand.

OBJECTIVES OF THE STUDY

- To analyze the liquidity position of Seshasayee Paper and Boards Limited and there by analyzes the short-term solvency.
- To examine the effectiveness of working capital management of the Seshasayee Paper and Boards Limited.
- To examine the impact of working capital ratios and inventory ratios on profitability position of the Seshasayee Paper and Boards Limited.
- To analyze and interpret the financial health of enterprise.

SCOPE OF THE STUDY

The study relates only to the existing system of working capital analysis in working capital management of Seshasayee Paper and Boards Limited and it also analytical. For the purpose of the study, the researcher has used facts already available and personnel interview from officials and analyzed them to make a critical evaluation of working capital of the paper mills.

METHODOLOGY AND TOOL

The data from various sources have been analyzed by using various tools and techniques with a view to evaluating the performance of different aspects in the management of working capital and its various components.

SOURCE OF DATA

The Study is based on secondary obtained from annual reports of Seshasayee Paper and Boards Limited; Clarifications were obtained from the company's officials whenever necessary.

PRIMARY DATA

The Primary data has been collected from Personal Interaction with Finance department i.e.Chife financial officers, General Manager Finance and other staff members.

SECONDARY DATA

The major source of data for the study has been collected from the published annual reports, profit and loss account of 6 year period from 2008 - 2009 to 2013 - 2014 of the Seshasayee Paper and Boards Limited some more information has been collected from different websites and magazines.

ANALYSIS

The Balance Sheet and Profit and loss account have been redrafted so as to facilitate analysis. Ratio analysis and percentage analysis is the important tool used in the study. Various reasons may make it essential to analyze the working capital position of a business enterprise. One reason for analyzing the working capital position of a company is to see what will be found when financial statements are examined. A second reason is to enable management to detect trends and take corrective steps when the analysis indicates need for them. A third reason is to see what changes have taken place in the company over a period of time so that this knowledge may be used in setting guidelines.

CURRENT RATIO

Current ratio may be defined as the relationship between assets and current liabilities. This ratio also known as working capital ratio is measure of general liquidity and is most widely used to make the analysis of a short term financial position or liquidity of the firm. It is calculate by dividing the total of current assets by total of current liabilities. However, the ratio of 2:1 is considered satisfactory.

FORMULA

Current Ratio = Current Assets / Current Liabilities

CURRENT RATIO OF SESHASAYEE PAPER AND BOARDS LIMITED, FROM 2008 – 2009 To 2013 -2014

YEAR	CURRENT ASSETS	CURRENT LIABILITES	RATIO
2008 – 2009	21245.97	11818.81	1.80
2009 – 2010	22709.39	10583.65	2.15
2010 – 2011	36715.24	11021.69	3.33
2011 – 2012	32341.28	30820.52	1.05
2012 – 2013	35668.13	45297.92	0.79
2013 - 2014	36275.71	39454.46	0.92

Source: Annual Reports of Seshasayee Paper and Boards Limited from 2008 -2009 to 2013 -2014.

This Table indicates that the company's ratio is not exactly equal to the standard 2:1 in any of the year. It was high during the year 2010-2011, 2009-2010 and 2008-2009 ie. 3.33, 2.15 and 1.80 but in the year 2011-2012, 2012-2013, and 2013-2014 the standard norm is not achieved. It indicates the inadequate working capital. In spite of this liquidity position of the company is quite satisfactory.

LIQUID RATIO

This ratio is also known as quick ratio or acid test ratio. This ratio is calculated by relating liquid or quick assets to current liabilities. Liquid assets mean those assets which are immediately converted into cash without much loss. All current assets except inventories and prepaid expenses are categorized as liquid assets. The ideal ratio is considered as 1:1 as the firm can easily meet all current liabilities.

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

LIQUID RATIO OF THE SESHASAYEE PAPER AND BOARDS LIMITED, FROM 2008 – 2009 To 2013 -2014

TABLE 2 (Rs. In Lakhs)

YEAR	LIQUID ASSETS	CURRENT LIABILITIES	RATIO
2008 – 2009	14401.41	11818.81	1.80
2009 – 2010	17928.42	10583.65	2.15
2010 – 2011	32227.21	11021.69	3.33
2011 – 2012	23721.11	30820.52	1.05
2012 – 2013	26955.54	45297.92	0.79
2013 - 2014	25047.13	39454.46	0.92

Source: Annual Reports of Seshasayee Paper and Boards Limited from 2008 -2009 to 2013 -2014.

Table : 2 shows Quick Ratio is an indicator of company's short – term liquidity. It measures the ability to use its quick assets (cash and cash equivalents, Marketable securities and accounts receivable) to pay its current liabilities. Here in all the years from 2009 to 2014 the firm liquid ratio position is satisfactory.

ABSOLUTE LIQUID RATIO

It is a modified form of liquid ratio. The relationship of absolute liquid assets to liquid liability is known as absolute liquid ratio. This ratio is calculated as,

$$\text{Absolute Liquid Ratio} = \frac{\text{Absolute Liquid Assets}}{\text{Current Liabilities}}$$

ABSOLUTE LIQUID RATIO OF THE SESHASAYEE PAPER AND BOARDS LIMITED, FROM 2008 – 2009 To 2013 -2014

TABLE 3 (Rs. In Lakhs)

YEAR	CASH AND BANK BALANCE	CURRENT LIABILITIES	ABSOLUTE LIQUID RATIO
2008 – 2009	6440.94	11818.81	0.54
2009 – 2010	9168.22	10583.65	0.87
2010 – 2011	2884.45	11021.69	0.26
2011 – 2012	648.96	30820.52	0.02
2012 – 2013	7397.82	45297.92	0.16
2013 - 2014	2958.73	39454.46	0.07

Source: Annual Reports of Seshasayee Paper and Boards Limited from 2008 -2009 to 2013 -2014.

Table: 3 shows the reason of computing absolute liquid ratio is to eliminate accounts receivables from the list of liquid assets because there may be some doubt about their quick collection. This ratio is useful only when used in conjunction with current ratio and quick ratio. Throughout the years from 2009, 2010, 2011, 2012, 2013 and 2014 the ratio was 0.54, 0.87, 0.26, 0.02 and 0.16 and but in the year 2014 the ratio was 0.07.

FIXED ASSET TURNOVER RATIO

The fixed asset turnover ratio indicates the extent of the utilization of fixed assets to total sales of the company and increasing ratio indicates utilisation of the fixed factors. The fixed asset ratio can be given as follows.

FORMULA

$$\text{Fixed Asset Turnover Ratio} = \text{Net Sales} / \text{Fixed Assets}$$

FIXED ASSETS TURNOVER RATIO OF THE SESHASAYEE PAPER AND BOARDS LIMITED, FROM 2008 – 2009 To 2013 -2014

TABLE 4 (Rs. In Lakhs)

YEAR	NET SALES	FIXED ASSETS	RATIO
2008 – 2009	49166.98	52795.47	0.93
2009 – 2010	50925.76	50578.40	1.01
2010 – 2011	56807.40	48344.68	1.18
2011 – 2012	61141.78	45574.28	1.34
2012 – 2013	83355.13	71482.86	1.17
2013 - 2014	101337.69	67523.58	1.50

Source: Annual Reports of Seshasayee Paper and Boards Limited from 2008 -2009 to 2013 -2014.

The fixed assets turnover ratio shows fluctuating trend during the study period. During the year 2008-2009 the ratio was 0.93 and in 2009 – 2010 the ratio was increased 1.01 and 2010-2011 and 2011 – 2012 the ratio was 1.18 and 1.34, Then in the year 2012-2013, and 2013 -2014 the ratio was increased. The increase in fixed assets turnover ratio shows that fixed assets of the company utilized properly.

NET WORKING CAPITAL TO CURRENT LIABILITIES

This ratio shows the relationship between net working capital and current liabilities.

FORMULA

$$\text{Net Working Capital To Current Liabilities} = \text{Net Working Capital} / \text{Current Liabilities}$$

This ratio reveals the financing mix that is used for financing the current assets. It also reveals the equity and long term vis – a vis current liabilities and financed portion of current assets. From the liquidity angle it throws light on the equity and long term financed asset cushion for a given amount of current liabilities.

NET WORKING CAPITAL TO CURRENT LIABILITIES OF THE SESHASAYEE PAPER AND BOARDS LIMITED, FROM 2008 – 2009 To 2013 -2014

TABLE 5 (Rs. In Lakhs)

YEAR	NET WORKING CAPITAL	CURRENT LIABILITIES	RATIO
2008 – 2009	9427.16	11818.81	0.79
2009 – 2010	12125.74	10583.65	1.14
2010 – 2011	25693.55	11021.69	2.33
2011 – 2012	1520.76	30820.52	0.05
2012 – 2013	-9629.79	45297.92	-0.21
2013 - 2014	-3178.75	39454.46	-0.08

Source: Annual Reports of Seshasayee Paper and Boards Limited from 2008 -2009 to 2013 -2014.

The ratio of net working capital to current liabilities presented in this table. The ratio of net working capital to current liabilities was low in 2012 -2013 and 2013-2014 due to increase in sundry creditors. It was very high in the year 2010 – 2011 is 2.33 because the current liabilities are very low during the year. In the year, 2008-2009 and 2011 - 2012 the ratio was 0.79 and 0.05. It was 1.14 in 2009 -2010.

DEBTORS TURNOVER RATIO

A concern may sell goods on cash as well as on credit. Credit is one of the important elements of sales promotion. The volume of sales can be increased by following a liberal credit policy that the effect of Liberal credit policy may result in trying up substantial funds of a firm in the form of trade debtors. Higher the value of debtors' turnover the more efficient is the management of debtors. Low debtors turnover implies inefficient management of debtors.

Debtors Turnover Ratio = Total Sales / Average Trade Debtors

DEBTORS TURNOVER RATIO OF THE SESHASAYEE PAPER AND BOARDS LIMITED, FROM 2008 – 2009 To 2013 -2014

TABLE 6 (Rs. In Lakhs)

YEAR	NET SALES	AVERAGE TRADE DEBTORS	RATIO
2008 – 2009	49166.98	4903.15	10.03
2009 – 2010	50925.76	4497.24	11.32
2010 – 2011	56807.40	5227.57	10.87
2011 – 2012	61141.78	10020.16	6.10
2012 – 2013	83355.13	9910.33	8.41
2013 – 2014	101337.69	12045.21	8.41

Source: Annual Reports of Seshasayee Paper and Boards Limited from 2008 -2009 to 2013 -2014.

Table – 6 presents the debtors turnover ratio during the study period. In the year 2009, 2010 and 2011 debtor's turnover is 10.03, 11.32 and 10.87 times. In the year 2012 the ratio was 6.10 again 2013, 2014 the ratio has been increased 8.41 but the increased the ratios of the company credit sales have been increased due to liberal credit policy.

PERCENTAGE ANALYSIS**CURRENT ASSETS**

TABLE 7 (Rs. In Lakhs)

YEAR	CURRENT ASSETS	PERCENTAGE
2009	21245.97	11.49
2010	22709.39	12.28
2011	36715.24	19.85
2012	32341.28	17.49
2013	35668.13	19.28
2014	36275.71	19.61
TOTAL	184955.72	100

Source: Annual Reports of Seshasayee Paper and Boards Limited from 2008 -2009 to 2013 -2014.

From the above table it was found the current asset of 19.85% was found high in the year 2011 and it was low in the year 2009 with 11.49%. The asset was maintained high as the purchase.

AVERAGE DEBTORS

TABLE 2 (Rs. In Lakhs)

YEAR	AVERAGE DEBTORS	PERCENTAGE
2009	4903.15	10.52
2010	4497.24	9.65
2011	5227.57	11.22
2012	10020.16	21.50
2013	9910.33	21.26
2014	12045.21	25.85
TOTAL	46603.66	100

Source: Annual Reports of Seshasayee Paper and Boards Limited from 2008 -2009 to 2013 -2014.

From the above table the average debtors maintained is high in the year 2014 with 25.85% as there is heavy demand for the product, the credit sales is made more than compared to cash sales. The debtor was low with 9.65 % in the year 2010.

SALES

TABLE 3 (Rs. In Lakhs)

YEAR	SALES	PERCENTAGE
2009	49166.98	12.21
2010	50925.76	12.64
2011	56807.40	14.11
2012	61141.78	15.18
2013	83355.13	20.70
2014	101337.69	25.16
TOTAL	402734.74	100

Source: Annual Reports of Seshasayee Paper and Boards Limited from 2008 -2009 to 2013 -2014.

From the above table the sale was high with 25.16% in the year 2014 as there is heavy orders and low in the year 2009 with 12.21%.

FINDINGS

- The Current Asset ratio of the company also good for all the years from 2009 to 2014 as it indicates the company is working in an efficiency manner. The management efficiency in operating business is successful.
- The liquid ratio is an indicator of company's short – term liquidity. It measures the ability to use its quick assets (cash and cash equivalents. Marketable securities and accounts receivable) to pay its current liabilities. Here in all the years from 2009 to 2014 the firm liquid ratio position is satisfactory.
- The Absolute Liquid Ratio of the company is throughout the years from 2009 and 2010 the ratio was 0.54 and 0.87 high but from 2011 to 2014 the firm Absolute liquid ratio was 0.26, 0.02, 0.16 and 0.07 respectively.
- The debtors Turnover Ratio of the company is throughout the years from 2009 and 2012 the ratio was 0.79, 1.14, 2.33, 0.05 and in the year 2012, 2013 and 2014 was 0.05, -0.21 and -0.08 respectively.
- It was found the current assets Percentage 19.85% was found high in the year 2011 and it was low in the year 2009 with 11.49%. The asset was maintained high as the purchase.
- The average debtors percentage was maintained is high in the year 2014 with 25.85% as there is heavy demand for the product, the credit sales is made more than compared to cash sales. The debtor was low with 9.65 % in the year 2010.
- The sale Percentage was high with 25.16% in the year 2014 as there is heavy orders and low in the year 2009 with 12.21%.

CONCLUSION

A study of working capital is of major importance to internal and external analysis, because of its close relationship with the current day to day operation of a business. The analysis of working capital consists of a study of relationship and tends to determine whether or not the firms' liquidity position was good to meet day – to –day obligation of a business. It is used as a device to analyse and interpret the financial health of enterprise. Working capital management is one of the most important functions of the finance management. The success of a business concern largely depends upon the manner of management of the working capital. There are a number of aspects of working capital management, which make it an important function of the finance manager. The paper industries occupy a key position in our country. This paper industries has an important role to play both in the economic stability of the country and in the supply of essential commodity for the entire population. Its further development and progress should therefore be of great concern to everyone. The most firmly established an industry in Tamilnadu is paper industries. Hence an analysis of working capital management of this unit has been undertaken. Working capital management not only maintains proper liquidity of the firm but also helps to increase profitability of the concern, Working capital analysis is one of the most powerful tools of financial analysis.

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