

“Current Assets Management in Small Dairy cooperatives”

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Abstract

The term Current Assets management refers to the management of short term capital invested in short term assets like inventory, debtors, cash and bank balance and so on. There are two concepts: Gross Current Assets and Net current assets. The Net current assets is that portion of a firm's current assets which is financed with long-term capital. The objective of the financial manager in managing current assets efficiently is to ensure sufficient liquidity in the operations of the enterprise. The liquidity of a business firm is measured by its ability to satisfy short-term obligations as they become due. In the present study, total 3 small cooperative dairy plants were selected and their financial data was analyzed using the Ratio analysis technique. Further, a study of composition of current assets, composition of Inventory was also done. The results indicated that over the selected period the current ratio of small dairies decreased from around 1 to 0.82 indicating a slightly poor liquidity position. A stricter measure of liquidity is the quick ratio (acid test ratio) also reduced in the same period from 0.84 to 0.71. The cash ratio has remained more or less constant. This indicates that over the selected period the liquidity position of small dairies was slightly low. The Inventory turnover ratio and debtors' turnover and creditor's turnover ratio were constant around 44, 40 and 13.8 times and hence, inventory period (8 days) and debtors' period (9 days) and creditors' period (26 days) has remained constant. Since the creditors' period is higher, the small dairies can survive very well with lower liquidity position. Also, during the selected period, the percentage of stock and debtors fell slightly from 18% to 11%, whereas the percentage of cash balance increased from 59% to 74% indicating increase in liquid assets. The FG (44% to 30%) and Spares inventory (27% to 15%) fell considerably indicating a slight improvement in inventory holding period (from 9 to 8 days). The reduction in spares inventory is good achievement since it is considered to be difficult to control and reduce.

Keywords: Current assets management of cooperative dairies, inventory and debtors' management, liquidity of dairy cooperatives, small dairy, Gujarat dairy cooperatives.

1. INTRODUCTION

The term Current Assets management refers to the management of short term capital invested in short term assets like inventory, debtors, cash and bank balance and so on. There are two concepts: Gross Current Assets and Net current assets.

The term “gross Current Assets”, refers to the sum of total current assets. The term "net current assets" can be defined in two ways: The most common definition describes it as the difference between total current assets and current liabilities; Alternate definition of Net current assets is that portion of a firm's current assets which is financed with long-term capital.

The job of the financial manager in managing current assets efficiently is to ensure sufficient liquidity in the operations of the enterprise. The liquidity of a business firm is measured by its ability to satisfy short-term obligations as they become due.

2. OBJECTIVE OF THE STUDY

To study the Current Assets management of selected small cooperative dairies

3. METHODOLOGY

In the present study, total 3 small (Milk Handling capacity- upto 5 lakh liters per day) cooperative dairy plants were selected for the study. The Annual reports for the period FY 2012-13 to FY 2016-17 of the dairies were collected, data entry was done and relevant data of working capital was analyzed

The analysis was done using the Ratio analysis technique which gives various ratios which indicate the working capital management of a company. Further, a study of composition of current assets, composition of Inventory was also done. The results were analyzed and conclusions were drawn.

4. RESULTS

Total 18 ratios/ parameters were calculated for each selected dairy. A sample of ratios calculated for one Small size dairy is given below.

Table no.1: Financial ratios of selected dairy

Sr. no	Liquidity ratios	Year				
		2012-13	2013-14	2014-15	2015-16	2016-17
i.	Current ratio = (Current Assets/ Current Liabilities)	0.68	0.70	0.51	0.57	0.73
ii.	Quick Ratio = (Current Assets - Inventories)/ Current liabilities	0.52	0.51	0.39	0.50	0.64
iii.	Cash Ratio = Cash and Bank Balance / Current liabilities	0.31	0.25	0.10	0.31	0.52
iv.	Level of current assets to total assets (%)	47%	53%	39%	44%	59%
v.	Leverage ratios					
vi.	Level of equities to total Liabilities	25%	25%	23%	22%	25%
vii.	Level of Long term Loans to total Liabilities	6%	3%	2%	1%	0%
viii.	level of current liabilities to total liabilities	70%	70%	76%	77%	70%
ix.	Turnover Ratios					
x.	Inventory turnover = Net Sales/ Inventory	45.16	32.43	63.31	96.33	66.67
xi.	Inventory Period (days)	8.08	11.25	5.76	3.79	5.47
xii.	Debtors turnover sales/ accounts receivable	39.23	25.20	29.55	40.03	58.85
xiii.	Debtors period (days)	9.30	14.48	12.35	9.12	6.20
xiv.	Total creditors turnover ratio	9.95	7.92	8.54	7.29	9.93
xv.	Creditors period (days)	36.68	46.11	42.75	50.05	36.76

xvi.	Fixed Assets Turnover = Net sales/ Net fixed assets	10.19	10.30	10.28	10.47	12.62
xvii.	Total Assets turnover = Net sales / Total Assets	4.96	4.52	5.88	5.44	4.78
xviii.	Current assets turnover= Net Sales / Current assets	10.50	8.58	15.14	12.27	8.11
xix.	Profitability Ratios					
xx.	Net profit margin= Net profit /sales *100	0.39%	0.47%	0.39%	0.66%	0.78%
xxi.	ROI = Net Profit/Total Assets	1.93%	2.15%	2.28%	3.61%	3.72%

Similarly the above mentioned ratios/parameters were calculated for all selected 3 dairies.

Further, the composition of current assets for all dairies was found. A sample calculation for one small dairy is given below.

Table. No. 2 Analysis of composition of Current Assets

Current Assets	2012-13	2013-14	2014-15	2015-16	2016-17	Average
Stock	23%	26%	24%	13%	12%	20%
debtors	27%	34%	51%	31%	14%	31%
cash and bank	46%	36%	20%	54%	71%	45%
Misc.	4%	3%	5%	2%	3%	4%
Total current assets	100%	100%	100%	100%	100%	100%

Similarly the above analysis was done for all selected 3 selected dairies

Also, the composition of Inventory for all dairies was found. A sample calculation for one dairy is given below.

Table. No. 3 Analysis of composition of Inventory

Type of Inventory	2012-13	2013-14	2014-15	2015-16	2016-17	Average	%
Finished goods	7477434	3267110	9740068	16727242	3469921	8136355	18%
Semi-finished goods	7311792	8673111	23623226	36281502	17854790	18748884	42%
Raw material	1237421	5483890	8556562	8775163	17382788	8287165	18%
Spares stores etc.	13371778	4392157	8909098	15171244	7084030	9785661	22%
Total inventory	29398424	21816268	50828954	76955151	45791529	44958065	100%

(Figures are in Rs.)

Similarly the above analysis was done for all selected 3 dairies

Discussion of results:

The following results were obtained for the selected small dairy cooperatives. The average of five years ratios of the 3 dairies were found and the summary is shown in the table below. The ratio wise discussion is given after this table.

Table 4: Important financial ratios of small coop. dairies

Sr. no.	Particulars	Average (Small dairy)
	Liquidity ratios	
1	Current ratio	0.81
2	Quick Ratio	0.68
3	Cash Ratio	0.45
4	Level of current assets to total assets (%)	0.35
	Leverage ratios	
5	Level of equities to total Liabilities	31%
6	Level of Long term Loans to total Liabilities	16%
7	level of current liabilities to total liabilities	50%
	Turnover Ratios	
8	Inventory turnover	43.4
9	Inventory Period	8
10	Debtors turnover sales/ accounts receivable	39.6
11	Debtors or Receivables period	9
12	Total creditors turnover ratio	13.8
13	Creditors period	26
14	Fixed Assets Turnover ratio	5.5
15	Total Assets turnover ratio	2.7
16	Current assets turnover ratio	7.4
	Profitability Ratios	
17	Net profit margin	0.78%
18	Return on Total Assets	1.63%

Liquidity ratios for selected small dairy cooperatives

Liquidity ratios reflect the ability of a firm to meet current /short term obligations when they become due for payment. The main ratios used to measure the liquidity of a firm are (a) Current ratio (b) Quick ratio /acid test ratio (c) Cash ratio

Table no.5: Liquidity ratios for selected small dairies

Sr. no.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	Average (Small dairy)
1	Current ratio	0.99	0.83	0.72	0.68	0.82	0.81
2	Quick Ratio	0.84	0.69	0.60	0.56	0.71	0.68
3	Cash Ratio	0.57	0.41	0.30	0.40	0.56	0.45
4	Level of current assets to total assets (proportion)	0.44	0.36	0.32	0.29	0.33	0.35

From the above table it can be seen that over the selected period the current ratio of small dairies decreased from around 1 to 0.82 indicating a slightly poor liquidity position. A stricter measure of liquidity is the quick

ratio (acid test ratio) also reduced in the same period from 0.84 to 0.71. The cash ratio has remained more or less constant. This indicates that over the selected period the liquidity position of small dairies was slightly low. Further, in small dairies the level of current assets was found to be average 35% of total assets.

Table no.6: Liquidity ratios for selected small dairies

Sr. no.	Particulars	Average (Small dairy)
1	Current ratio	0.81
2	Quick Ratio	0.68
3	Cash Ratio	0.45
4	Level of current assets to total assets (%)	0.35

From the above table it can be seen that over the selected period the average current ratio of small dairies was around 0.8, the average quick ratio and cash ratio of small dairies was 0.68 and 0.45 respectively, and the level of current assets to total assets in small dairies was lower (0.35).

The higher quick ratio and cash ratio of small dairies maybe explained by the fact that small dairies are engaged mainly in Liquid milk selling (i.e Pouch milk as opposed to Milk Products) which is primarily a cash business.

Activity ratios for selected small dairy cooperatives

Also referred to as the asset management ratios, measure how efficiently the assets are employed by a firm. The main ratios are: Inventory turnover ratio, Debtors' Turnover ratio, fixed asset turnover ratio and Total asset turnover ratio.

Table no.7: Activity ratios for selected small dairies

Sr. no.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	Average (Small dairy)
a)	Inventory turnover ratio	39	37	44	52	45	43.4
b)	Inventory Period	9	10	8	7	8	8
c)	Debtors turnover ratio	45	33	37	39	45	39.6
d)	Debtors period	8	11	10	9	8	9
e)	creditors turnover ratio	16	9	14	13	18	13.8
f)	Creditors period	23	40	27	29	21	26
g)	Fixed Assets Turnover ratio	7	5	5	5	6	5.5
h)	Total Assets turnover ratio	3	3	3	3	2	2.7
i)	Current assets turnover ratio	7	7	9	8	7	7.4

As shown in the table above, in small dairies, the Inventory turnover ratio and debtors turnover and creditors turnover ratio were constant around 44, 40 and 13.8 times and hence, inventory period (8 days) and debtors period (9 days) and creditors period (26 days) has remained constant. Since the creditors' period is higher, the small dairies can survive very well with lower liquidity position.

The Fixed assets TO ratio (5.5), Total assets TO ratio (2.7) and Current assets TO ratio (7.4) have remained almost constant through the period, indicating that the small dairies management of FA, CA and TA did not change much in the period.

Leverage ratios for selected small dairy cooperatives

While debt represents a cheaper source of finance, it usually carries a financial risk which is created by the obligatory payment of interest and final repayment of capital. The leverage ratio helps in assessing the risk arising from the use of debt capital.

Table no. 8: Leverage ratios for selected dairies

Sr. no.	Particulars	Average (Small dairy)
a)	Level of equities to total Liabilities	31%
b)	Level of Long term Loans to total Liabilities	16%
c)	Level of current liabilities to total Liabilities	50%

From the above table it can be seen the small dairy cooperatives use higher (31%) of their own capital, and have 16% LT borrowings and 50% Short term liabilities.

Profitability ratios for selected small dairy cooperatives

Profitability ratios

These ratios measure the profitability of the firm. The main ratios are: Net profit margin and Return on assets.

Table no.9: Profitability of selected small dairies

Sr. no.	Particulars	Average (Small dairy)
a)	Net profit margin	0.78%
b)	Return on Total assets	1.63%

The above table indicates that for the selected dairy cooperatives, during the selected period the Net profit margin of small dairies was 7.8% and Return on total assets of small dairies was 1.63%.

Composition of Current Assets for selected small dairy cooperatives

The Composition of Current Assets for selected small dairy cooperatives is given in the table below.

Table no.10: Composition of Current Assets for selected small dairies

Current Assets	2012-13	2013-14	2014-15	2015-16	2016-17	Average (Small dairy)
Stock	18%	18%	19%	15%	11%	16%
debtors	17%	22%	30%	20%	11%	20%
cash and bank	59%	49%	37%	63%	74%	56%
Misc.	7%	10%	15%	2%	4%	8%

The above table shows that, in small dairies, during the selected period, the percentage of stock and debtors fell slightly from 18% to 11%, whereas the percentage of cash balance increased from 59% to 74% indicating increase in liquid assets.

Composition of Inventory for selected small dairy cooperatives

Table no.11: Composition of Inventory for selected small dairies

Type of Inventory	2012-13	2013-14	2014-15	2015-16	2016-17	Average (Small dairy)
Finished goods	44%	55%	30%	21%	30%	36%
Semi-finished goods	18%	17%	39%	49%	28%	30%
Raw materials	11%	13%	15%	13%	27%	16%
Spares stores etc.	27%	15%	17%	17%	15%	18%
Total Inventory	100%	100%	100%	100%	100%	100%

From the above table it can be seen that in small dairies, the FG (44% to 30%) and Spares inventory (27% to 15%) fell considerably indicating a slight improvement in inventory holding period (from 9 to 8 days). The reduction in spares inventory is good achievement since it is considered to be difficult to control and reduce.

Profile of the selected dairies

The following tables show the growth of important parameters of small dairies during the selected period.

Table no. 12: Average growth rate of important profile parameters during selected 5 year period.

Particulars	Average small dairy (in Rs lakhs)	Annual Growth rate small dairy
Sales	21889	13%
Net Profit	157	38%
Total Assets	10620	26%

The above table indicates that, the total assets (26%) and Net Profit (38%) of small dairies grew at a high rate.

5. CONCLUSION

From the above discussion, the following conclusion can be drawn:-

Liquidity position for selected small dairy cooperatives: Over the selected period the current ratio of small dairies decreased from around 1 to 0.82 indicating a slightly poor liquidity position. A stricter measure of liquidity is the quick ratio (acid test ratio) also reduced in the same period from 0.84 to 0.71. The cash ratio has remained more or less constant. This indicates that over the selected period the liquidity position of small dairies was slightly low. Further, in small dairies the level of current assets was found to be average 35% of total assets.

Activity ratios for selected small dairy cooperatives: In small dairies, the Inventory turnover ratio and debtors' turnover and creditor's turnover ratio were constant around 44, 40 and 13.8 times and hence, inventory period (8 days) and debtors period (9 days) and creditors period (26 days) has remained constant. Since the creditors' period is higher, the small dairies can survive very well with lower liquidity position. The Fixed assets TO ratio (5.5), Total assets TO ratio (2.7) and Current assets TO ratio (7.4) have remained almost constant through the period, indicating that the small dairies management of FA, CA and TA did not change much in the period. As indicated by the inventory period (10 days), debtors' period (17 days) and creditors period 26 days is good indicating that they are able to obtain their required material and expenses on considerable credit terms.

Borrowing level in selected small dairy cooperatives: The small dairy cooperatives use higher (31%) of their own capital, and have 16% LT borrowings and 50% Short term liabilities.

Composition of Current Assets for selected small dairy cooperatives: In small dairies, during the selected period, the percentage of stock and debtors fell slightly from 18% to 11%, whereas the percentage of cash balance increased from 59% to 74% indicating increase in liquid assets.

Composition of Inventory for selected small dairy cooperatives

In small dairies, the FG (44% to 30%) and Spares inventory (27% to 15%) fell considerably indicating a slight improvement in inventory holding period (from 9 to 8 days). The reduction in spares inventory is good achievement since it is considered to be difficult to control and reduce.

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