

Practices of Working Capital Management of Selected Sugar Companies

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Abstract : In India, Sugar industry is the second largest agro based industry after textile. India is famous for original home of sugar and sugarcane. In 1840, the first sugar industry was setup in Bihar. Sugar production is famous in India since ancient times but in 21th century modern sugar industry developed in India. Now today, India has total 453 sugar mills working. 252 mills working under the Co-operative sector and 134 mills working under the private sector. India is the largest consumer of sugar. India produces 16 million tonnes of sugar per year. Maharashtra is the first state with highest sugar mills in India with the numbers of 195. Uttar Pradesh is the second state with highest sugar mills in India with the numbers of 155. Karnataka is the third state with highest sugar mills in India with the numbers of 58. First sugar plant was established in India at Aska in Orissa in 1824. Sugar industries development is backbone to economic development of the nation. In GDP, sugar industry contribution is very important in the socioeconomic development of the nation. Indian sugar industry is also effect of all sector growth. Sugarcane has used as a basic raw material for the production of sugar, ethanol, paper, electricity and any sugar related product.

Key Word: Working Capital Management, Ratio Analysis, Sugar Industry – Shree Renuka Sugars Ltd., Bajaj Hindusthan Sugar Ltd., Uttam Sugar Ltd.

INTRODUCTION

Working Capital Management is a principal of financial management. Working capital is the difference between company's current assets and current liabilities. Current assets mean we have to convert in cash easily. Ex. Inventories, trade receivables, cash and cash equivalents, short term loans and advances etc. Current liabilities mean we have to convert in cash easily. Ex. Trade payables and short term borrowing. We have to know company's operating efficiency and short term financial condition by working capital. Working capital suggested that how a business manages it money for paying their daily expenditure.

Working Capital = Current Assets – Current Liabilities

Working Capital Management is an important part of financial management. In human body heart is very important that similar Working Capital is very important. The main objective of financial manager to used maximum working capital in firm and earned more profit. In firm's working capital management is very important because of we have to know firm's profitability, risk and liquidity by working capital. Every firm's should maintain sufficient working capital to reach its operational requirements.

Literature Review

Taghizadeh K.V. and Ghanvati research that operating profitability is negatively associated with average collection period, inventory turnover in days, average payment period, cash conversion cycle and net trade cycle. Reddy C.V. (2012) investigated the association between liquidity, profitability and risk factor. Pandey (2012) studied the capital structure of IFCI Ltd. and concluded that the major loan component could not enhance the profitability of the corporation.

Yuvaraa J D and Perumal R studied the working capital management of Sakthi Sugars Ltd. in their research titled "A Study on Working Capital Management with special Reference to Sakthi Sugars Erode". They analyzed five years data of Sakthi Sugar Ltd. which include data of from year 2007 to 2012. They analyzed data using ratio analysis. Their researches conclude that Sakthi Sugars Ltd. current ratio is below satisfactory level and quick ratio is up to the satisfactory level. The debtors turnover ratio is up to satisfactory level and there is fluctuation in inventory turnover ratio. Sakthi Sugars Ltd. possess a positive working capital which shows good position of company to pay its short-term obligations. By examine the cash conversion of company, they conclude that Sakthi Sugars Ltd. has an inefficient cash management and company have a poor working capital management.

Objectives

- ✓ To evaluate working capital management practices of Shree Renuka Sugars Ltd.
- ✓ To evaluate working capital management practices of Bajaj Hindusthan Sugar Ltd.
- ✓ To evaluate working capital management practices of Uttam Sugar Ltd.
- ✓ To compare working Capital Management practices of these three companies.

Research Methodology

The research paper is based on exploratory research. All data collected from companies annual reports which are available on company's website. In this research paper covering companies four years data from 2015 to 2018.

Research Tools

Ratio	Formula
Current Ratio	Current Assets / Current Liabilities
Working Capital Turnover Ratio	Net Sales / Working Capital
Numbers of Days Account Receivables (DAR)	Trade Receivables / Net Sales*365
Days of Inventory Held (DIH)	Inventory / Cost of Material Consumed*365
Numbers of Days Account Payable (DAP)	Trade Payables / Purchase*365
Cash Conversion Cycle (CCC)	DAR + DIH – DAP
Trade Receivables to Current Assets Ratio	Trade Receivables / Current Assets
Inventory to Current Assets Ratio	Inventory / Current Assets

Companies Profile

- (A) **Shree Renuka Sugars Ltd:** - Shree Renuka Sugars Ltd. is an international agro business and bio-energy corporation. Shree Renuka Sugars Ltd. was established in the year 1998 as public limited. Narendra Murkumbi and Vidya Murkumbi was founder of this company. The company has its headquarters in Kalaburgi, Karnataka, India and corporate office in Mumbai. Shree Renuka Sugars Ltd. is one of the largest sugar producers and sugar refiners in the world. The company started four sugar mills in Brazil and other seven sugar mills started in India and two port based refineries in India. The company total crushing capacity of 20.7 million tonnes per annum (MTPA) or 94,520 tonnes crushed per day (TCD). In India, company started seven sugar mills with 7.1 MTPA or 35,000 TCD crushing capacity. Two port based sugar refineries with capacity of 1.7 MTPA. The company is the only maximum producer of sugar due to seasons in India and Brazil. The company produce alcohol in international 6240 kilo per day (KLPD) and in India 930 KLPD. The company produces power from sugarcane by product. Company total power generation capacity of 356 MW. In India, company power generation capacity increase from 135 MW to 242 MW and Brazil power generation capacity increase from 221 MW to 313 MW. This company share listed in BSE and NSE.
- (B) **Bajaj Hindusthan Sugar Ltd:** - Bajaj Hindusthan Sugar Ltd. is a part of “Bajaj Group”. Bajaj Hindusthan Sugar Ltd. is world’s 4 number integrated sugar companies and in Asia’s number One company. The company was started on 23rd November 1931. Jamnalal Bajaj was founder to this company. Company’s head quarter in Mumbai. This company manufacturing Sugar, Molasses, Bagasse, Flyash and Press Mud. In this company 10,000 employs working. The company has fourteen sugar plants. All plants located in Uttar Pradesh, India. These all plants have crushing capacity of 1, 36,000 TCD and distillery capacity to produce alcohol 8, 00,000 liters per day. Bajaj Hindusthan Sugar Ltd. is one of the largest ethanol producers. Now presently company’s ethanol manufacturing capacity has increased with 218 million liters per day. Bajaj Hindusthan Sugar Ltd. power generation capacity 430 MW from the bagasse produced in its sugar mills.
- (C) **Uttam Sugar Mills Ltd:** - Uttam Sugar Mills Ltd. is part of “Uttam Group”. It was started on 4th October 1993. Company’s corporate office at Noida (U.P), India. This company produce Sulphur less sugar, White plantation sugar, Ethanol and Power. The company has four sugar units. 3 plants are located in Uttar Pradesh and 1 plant in Uttarakhand. These all plants crushing capacity of 23,750 TCD. In these four units three sugar units produce 100% “Sulphur less Sugar”. Uttam sugar provides naturally double refined sulphur less sugar. Uttam sugar is made from high quality sugarcane by the sweet waters of the Ganga. Uttam manufacturing process is standards in the worlds. The consumer pack M-31 sugar is available in 1 and 5 kg. The company also installed four Co-generation power plants with power generation capacity in all plants 103 MW. Uttam sugar also produces ethanol in Barkatpur plant. This plant also produces ethanol at capacity of 75 kilo liters per day (KLPD).

Data Analysis

(1) Current Ratio:-

Year	Shree Renuka Sugars Ltd.	Bajaj Hindusthan Sugar Ltd.	Uttam Sugar Mills Ltd.
2014-15	0.45	1.55	0.59
2015-16	0.59	1.55	0.81
2016-17	0.73	1.26	0.93
2017-18	0.57	1.31	0.85
Average	0.59	1.42	0.80

The current ratio is measure company liquidity. The ideal current ratio is 2:1. All companies follow this ideal ratio. This ratio shows current ratio of selected sugar companies during the year 2014-15 to 2017-18. When we have to compare all companies current ratio with average current ratio we know that Bajaj Hindusthan Sugar Ltd. current ratio nearly ideal ratio and more than other two sugar companies. So, Shree Renuka Sugars Ltd. and Uttam Sugar Ltd. are reducing current liabilities in compare of their current assets. Bajaj Hindusthan Sugar Ltd. liquidity position is better because every year current ratio has been increase.

(2) Working Capital Turnover Ratio:-

Year	Shree Renuka Sugars Ltd.	Bajaj Hindusthan Sugar Ltd.	Uttam Sugar Mills Ltd.
2014-15	-2.29	2.65	-1.86
2015-16	-3.36	2.72	-7.19
2016-17	-9.61	3.83	-21.60

2017-18	-3.82	4.20	-8.60
Average	4.77	3.35	-9.81

Working Capital Turnover Ratio is a measure a company is using its working capital against the level of sales. This table shows Working Capital Turnover Ratio of three sugar companies. Above this table Shree Renuka Sugars Ltd. and Uttam Sugar Ltd. possess negative turnover ratio. So we know that in these both companies, companies decrease their current liabilities compare of their current assets and companies maximum to use their current working capital against its sales. Bajaj Hindusthan Sugar Ltd. possess positive working capital ratio. So, we believed that in Bajaj Hindusthan Sugar Ltd. perfectly used their working capital against its sales.

(3) Numbers of Days Account Receivables:-

Year	Shree Renuka Sugars Ltd.	Bajaj Hindusthan Sugar Ltd.	Uttam Sugar Mills Ltd.
2014-15	17.99	13.61	12.26
2015-16	23.94	24.06	25.61
2016-17	27.34	13.09	17.99
2017-18	43.52	11.83	14.23
Average	28.20	15.65	17.52

This table shows that how many days company collect their outstanding amount from their debtors. We have to measures company collection efforts in allowing credit to consumers. During this research period Shree Renuka Sugars Ltd. averagely gave 28 days credit to their customers. Bajaj Hindusthan Sugar Ltd. averagely gave 16 days credit and Uttam Sugar Ltd. gave 18 days credit to their customer. Shree Renuka Sugars Ltd. gave more credit time to their customers to pay in compare of Bajaj Hindusthan Sugar Ltd. and Uttam Sugar Ltd.

(4) Days of Inventory Held:-

Year	Shree Renuka Sugars Ltd.	Bajaj Hindusthan Sugar Ltd.	Uttam Sugar Mills Ltd.
2014-15	120.57	214.72	277.42
2015-16	179.14	224.57	253.44
2016-17	93.31	272.04	246.71
2017-18	73.12	212.12	236.43
Average	116.54	230.86	253.5

This ratio measures how many days company takes to convert inventory into sales or cash. By this ratio company know that how many stocks possess in finished goods. Shree Renuka Sugars Ltd. convert their inventory into cash only 116 days while Bajaj Hindusthan Sugar Ltd. convert their inventory into sales only 231 days and Uttam Sugar Ltd. convert their inventory into cash or sales only 253 days. Shree Renuka Sugars Ltd. converts their inventory in less time to compare with other two companies.

(5) Numbers of Days Account Payable:-

Year	Shree Renuka Sugars Ltd.	Bajaj Hindusthan Sugar Ltd.	Uttam Sugar Mills Ltd.
2014-15	645.64	291.73	236.12
2015-16	794.59	256.56	203.33
2016-17	641.42	251.72	112.85
2017-18	1146.47	251.04	126.16
Average	807.03	262.76	169.62

This ratio shows companies short time liability from its suppliers for the goods and service received before making the payment for it. This ratio measures how many days in company's pay for their credit purchase. Shree Renuka Sugars Ltd. pays their suppliers averagely in 807 days which means Shree Renuka Sugars Ltd. to take full credit benefit facilities from their suppliers. But it is not good for company's long term goodwill. Bajaj Hindusthan Sugar Ltd. averagely takes 263 days credit facilities from their suppliers. Uttam Sugar Ltd. pay their suppliers averagely in 170 days which means Uttam Sugar Ltd. pay to their suppliers in less time to compare of other two companies.

(6) Cash Conversion Cycle (CCC):-

Year	Shree Renuka Sugars Ltd.	Bajaj Hindusthan Sugar Ltd.	Uttam Sugar Mills Ltd.
2014-15	-507.08	-63.4	53.56
2015-16	-591.51	-7.93	75.72
2016-17	-520.77	33.41	151.85
2017-18	-1029.83	-27.09	124.5
Average	-662.30	-16.25	101.41

This ratio shows that how much time company needs to sell its inventory to collect receivables and to pay its outstanding. We have to evaluate the company's operations and management efficiency by Cash Conversion Cycle. Cash Conversion Cycle shows that how many days company take to convert its investment in inventory and other resources into cash flows from sales. Shree Renuka Sugars Ltd. and Bajaj Sugar Ltd. average CCC are -662.30 and -16.25. This negative sign is good for company because both companies have paid its suppliers before payment period. The Uttam Sugar Ltd. averagely takes 101 days to convert cash on hand into inventory and payables, through sales and trade receivables and then back into cash. It is not good for company. So we have to suggest that Bajaj Sugar Ltd. has good Cash Conversion Cycle to compare of other two companies.

(7) Trade Receivables to Current Assets Ratio:-

Year	Shree Renuka Sugars Ltd.	Bajaj Hindusthan Sugar Ltd.	Uttam Sugar Mills Ltd.
2014-15	0.14	0.03	0.04
2015-16	0.15	0.06	0.12
2016-17	0.27	0.03	0.07
2017-18	0.35	0.03	0.06
Average	0.23	0.04	0.07

This ratio shows that how much part of current assets is cover by trade receivables. If this ratio is very high it means company credit policy is not good and company money is blocked in the receivables. Shree Renuka Sugars Ltd. averagely maintains 23% of their current assets in trade receivables. While Bajaj Hindusthan Sugar Ltd. and Uttam Sugar Ltd. averagely maintain 4% & 7% of their trade current assets in trade receivables. Bajaj Hindusthan Sugar Ltd. less amount blocked in trade receivables in compare of other two companies.

(8) Inventory to Current Assets Ratio:-

Year	Shree Renuka Sugars Ltd.	Bajaj Hindusthan Sugar Ltd.	Uttam Sugar Mills Ltd.
2014-15	0.69	0.45	0.78
2015-16	0.77	0.40	0.77
2016-17	0.62	0.51	0.85
2017-18	0.47	0.48	0.90
Average	0.64	0.46	0.83

This ratio shows how much current assets is include in inventory. Generally, a lower ratio is better for company and it shows good liquidity position of company and its shows good liquidity position of company. Uttam Sugar Ltd. averagely maintains highly 83% of their current assets in inventory. While Shree Renuka Sugars Ltd. and Bajaj Hindusthan Sugar Ltd. maintain 64% and 46% of their current assets in inventory. So, Bajaj Hindusthan Sugar Ltd. less part of current assets include in inventory to compare of their two companies.

Conclusion

- (1) Current Ratio:-** During the research period, Bajaj Hindusthan Sugar Ltd. maintain highly current ratio averagely 1.42 while Shree Renuka Sugars Ltd. and Uttam Sugar Ltd. maintain current ratio is 0.59 and 0.80.
- (2) Working Capital Turnover Ratio:-** Uttam Sugar Ltd. possess negatively -9.81 Working Capital Turnover Ratio while Shree Renuka Sugars Ltd. and Bajaj Hindusthan Sugar Ltd. possess averagely positive 4.77 and 3.35 Working Capital Turnover Ratio. So, we should not properly to compare company's performance by this ratio.
- (3) Numbers of Days Account Receivables:-** Bajaj Hindusthan Sugar Ltd. applies traditionalist policy for their customers while Shree Renuka Sugars Ltd. possess liberal policy for their customers.
- (4) Days of Inventory Held:-** Uttam Sugar Ltd. takes to more time to convert inventory into sales or cash while Shree Renuka Sugars Ltd. less time to convert its inventory in compare of other two companies.
- (5) Numbers of Days Account Payable:-** Shree Renuka Sugars Ltd. take more credit benefits from their suppliers while Uttam Sugar Ltd. less time for credit facilities from their suppliers other two companies.
- (6) Cash Conversion Cycle:-** Uttam Sugar Ltd is possess negative Cash Conversion Cycle because Uttam Sugar Ltd. take more time to convert cash on hand into inventory and payable in compare of remaining two companies.
- (7) Receivables to Current Assets Ratio:-** Shree Renuka Sugars Ltd. maintains more of their current assets in trade receivables against of Bajaj Hindusthan Sugar Ltd. and Uttam Sugar Ltd. So, Shree Renuka Sugars Ltd. more amounts blocked in compare of other two companies.
- (8) Inventory to Current Assets Ratio:-** During the research period, Uttam Sugar Ltd. invest more than 83% current assets in inventory which is high in compare of Shree Renuka Sugars Ltd and Bajaj Hindusthan Sugar Ltd.

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