A STUDY ON CASH MANAGEMENT OF KKR AGRO MILLS PRIVATE LIMITED

PROJECT REPORT

Submitted in partial fulfilment of the requirement for the award Degree

MASTER OF BUSINESS ADMINISTRATION

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2020-2022

UNIVERSITY OF CALICUT

BONAFIDE CERTIFICATE

Certified that this project report **"A STUDY ON CASH MANAGEMENT OF KKR AGRO MILLS PRIVATE LIMITED"** is the Bonafide work of Mr. BASIL JAMES (YPAUMBA021) who carried out the project work.

Date:	Prof. Dr. Jacob P M
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UNIVERSITY OF CALICUT

BONAFIDE CERTIFICATE

Certified that this project report **"A STUDY ON CASH MANAGEMENT OF KKR AGRO MILLS PRIVATE LIMITED"** is the Bonafide work of Mr. BASIL JAMES (YPAUMBA021) who carried out the project work under my supervision.

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DECLARATION

I Basil James hereby declare that the Project Report entitled **"A STUDY ON CASH MANAGEMENT OF KKR AGRO MILLS PRIVATE LIMITED"** has been prepared by me and submitted to the University of Calicut in partial fulfilment of requirements for the award of the Master of Business Administration, is a record of original work done by me under the supervision of Mr. Mohammed Jasir PV, Assistant Professor of Naipunnya Business School, Pongam, Koratty East, Thrissur.

I also declare that this Project work has not been submitted by me fully or partly for the award of any Degree, Diploma, Title or recognition before any authority.

Place: Pongam, Thrissur **BASIL JAMES**

Date: **(Reg. No: YPAUMBA021)**

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Place: **BASILJAMES**

Date: **YPAUMBA021**

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CHAPTER – 1

INTRODUCTION

1.1 Introduction

The project was undertaken mainly to study the cash management of KKR Agro Mills Private limited. There is a big opportunity to see if the company's liquidity will be more efficient through cash management. Cash management is one of the most important areas in the day-to-day management of the firm deals with the management of working capital, which is defined as all the short-term assets used in daily operations. This consists primarily of cash, marketable securities, accounts receivable and inventory. The balances in these accounts can be highly volatile as they respond very quickly to changes in the firm 's operating environment. Healthy circulation of cash in the entire business operation is the basis of business solvency.

Every transaction in a business result either in an inflow or an outflow of cash. There should be sufficient cash with a firm all the time to meet the needs of the business. A cash flow statement is a statement depicting change in cash position from one period to another. A proper planning of the cash resource will enable the management to have cash available whenever needed and put it to some profitable or productive use in case there is surplus cash available. Cash management is one of the key areas of working capital management. A part from the fact that it is the most liquid current assets, cash is the common denomination to which all current assets can be reduced because the other major liquid assets that are receivables and inventory get eventually converted into cash.

Cash management is very much important because it is difficult to predict cash flows accurately, particularly the inflows, and there is no prefect coincidence between the inflows and outflows of cash. During some periods, cash outflows will exceed cash inflows, because payments for taxes, dividends, or seasonal inventory build-up. At other times, cash inflow will be more than cash payments because there may be large cash sales and debtors may be realized in large sums promptly. Further, cash management is significant because cash constitutes the smallest portion of the total current assets.

Cash shortage will affect the firm's manufacturing operations while excessive cash will simply remain idle, without contributing anything towards the firm's profitability. Thus, a major function of the financial manager is to maintain a sound cash position. Cash shortage will affect the firm's manufacturing operations while excessive cash will simply remain idle, without contributing anything towards the firm's profitability. Thus, a major function of the financial manager is to maintain a sound cash position.

Cash is the money which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the firm, and balances in its bank accounts. Sometimes near-cash items, such as marketable securities or bank times deposits, are also included in cash. The basic characteristic of near-cash assets is that they can readily be converted into cash. Generally, when a firm has excess cash, it invests it in marketable securities. This kind of investment contributes some profit to the firm.

In this study analysed the cash management of KKR Agro Mills Private Limited for the last 5 years in terms of ratio analysis, cash flow statement and trend analysis. A proper planning of the cash resource will always help the management to have cash available whenever needed and put it to some profitable or productive use in case there is surplus cash available.

1.2 Statement of the problem

Cash management is something all the companies need to consider. There is extra money to earn by managing the liquidity the right way. I have seen an opportunity to work with this subject and present it for KKR Agro Mills. There is a big opportunity to see if the company's liquidity will be more efficient through cash management. And I believe there are some areas that can be improved through the efficient management of cash.

1.3 Objectives of the study

Primary objective

- To analyse the cash management of KKR Agro Mills.

Secondary objectives

- To study the financial growth of KKR Agro Mills for the last 5 years in terms of cash flow statement, ratio analysis and through trend analysis.
- To know the cash management techniques adopted by KKR Agro Mills.

1.4 Scope of the study

It helps to take short term financial decision. It indicates the cash requirement needed for plant or equipment expansion programmes. And at the same time, help the management to have cash available whenever needed and put it to some profitable or productive use.

It reveals the liquidity position of the firm by highlighting the various sources of cash and its uses.

1.5 Significance of the study

The study is a detailed analysis of the cash management of KKR Agro Mills. This study is undertaken to understand how efficiently KKR Agro Mills utilizes its financial resources to carry out the day-to-day activities. Here we can understand company and it also evaluates liquidity position and also maintains the overall efficiency a business.

1.6 Research methodology

The research used in this project is Analytical in nature the procedure using, which researcher has to use facts or information already available, and analyse these to make a critical evaluation of the performance.

Sources of data

The study is based on both primary data and secondary data collection. Which is discussed below:

Primary data

Data are collected through personal interviews from the company itself.

Secondary data

- From the annual reports maintained by the company.
- Data are collected from the company's website.
- Books and journals pertaining to the topic.

1.7 Tools and techniques

Statistical tools used for this study is percentage analysis with charts and graph. Mainly uses ratio analysis, cash flow statement and trend analysis in order to identify the liquidity and overall efficiency of company.

1.8 Period of the study

The period of the study covers the month of 14th July 2022 to 8th September 2022, at KKR Agro Mills Private Limited.

1.9 Industry profile

Food Industry

Rice has been the important food for men over the past years. Nowadays these irreplaceable grains assist to tolerate two thirds of the whole world ‘s population. Rice has been serving manhood for over and above 5000 years. Archaeological proof clearly specifies that. Nowadays farming is that the spine of India ‘s economy given that nonstop work to about 70% of functioning people in the nation. It forms the preference of the various leading industries in India, plus the material, jute as sugar businesses. Indian economy may be a largely as agrarian economy with a large part of population or industry involved in the sector. Not just the agricultural produce, India now meat, poultry, spices and grain.

The problem is with that the quality products was available at the correct rate but there was a lack of infrastructure that could project them globally taking into account these gigantic growing prospects in the food industry. We created a platform that brought all agricultural and related products together. From this platform enables this not just the regular important and exporters but the producers and suppliers also get an identity. This facilitated larger markets, leads to better market reach and better deals. the good nourishing worth, small fat content, stress-free digestibility and particularly the rich separate aroma of rice provide the fortunate importance little miracle than that Indian rice can crack even the utmost regular serving dishes in the delicious rice is the staple food from breakfast to dinner dessert, rice eaters to each application in the lives of the people especially of south India rice in round grained long grained verities.

Food manufacturing contains several sorts of value adding to farming of horticulture and as well contains procedure such as grouping, cataloguing, wrapping, etc. which improves lifetime of foodstuff. The food manufacturer offers vital connection and interactions between business and farming. the govt has rendered it is great importance with a sum of facial inventories to inspire commercialization then value adding to the farming produce, for decreasing the pre/post-harvest leftovers, creating work and transfer progress, India ‘s product drinking water extraordinary protein nourishment etc. Fitness food and complement is another quickly growing a part of this productiveness which is attaining huge reputation between the healths alert.

1.10 Company profile

KKR Group was founded in 1976 by Mr. K.K. Karnan, a man who set out with a vision to bring quality rice to traditional homes in Kerala, South India. Starting with traditional methods of cooking, sun-drying and milling, the company has grown into one of India's most modern rice mills equipped with the latest world-class technology. Today, KKR Mills boasts state-of-the-art facilities with some of the best technology in the world, ensuring products that meet the most stringent quality and hygiene standards.

The group plans to set up a food park of facilities for processing and manufacturing a wide range of food products such as spices, pickles and other products for the global market. KKR Mills' factory is located in Okkal, a green and eco-friendly community near Kochi in the South Indian state of Kerala. The facility is equipped with the world's most advanced technology for all aspects of rice processing, from rice sorting, washing, drying, threshing, de-bran, milling and final sorting. This infrastructure is one of the largest in India at around Rs 25 million. KKR Mills is the only rice mill in South India to use his Z-Sortex machine with optical inspection for quality control.

Each grain of rice is scanned, discoloured, crushed, and immature rice is removed, and only the rice that meets the standards calibrated on a computer is sorted and packaged. Through this which result’s a delicious rice that comes in all sizes, colours, and bran, and it's a healthy dish for your eyes. Nirapara - The brand name of rice sold by KKR Mills is now the best-selling brand and household name in Kerala.

Brand

Nirapara products are now available and sold not only in Kerala but wherever Malayali population exists. Nirapara is that the most popular brand that manufactures and exports high-quality rice, rice products, pickles, spices, spice products, etc. Nirapara may be a pioneer group which came into existence in 1974, with a vision to bring quality rice to the homes in Kerala, located in South India. Further, we re-framed our mission, to supply natural, sustainable, healthy and wholesome food products to fellow beings round the globe. Production units of Nirapara are located in the green, pollution-free Okkal Township, near Kochi in Kerala in South India. KKR Agro Mills, the rice production facility is equipped with the latest technology in the world for every aspect of the

processing of paddy, right from destoning, cleaning, drying, de-husking, bran-removal, polishing to sorting.

Nirapara‟s association on the bottom level starts with the farmers in different parts of India from where the raw materials are sourced and extended through to small groceries, third party distributors, and enormous supermarkets in India like Big Bazaar, Metro Cash & Carry, Bookers, Spar, Star Bazaar, Tata Tesco, Reliance Fresh, D‟Mart, SRS Value Bazaar, Spencer's Retail, Easy Day, More Mega Store etc. We also supply to global retailers like Al Manama, Lulu Hypermarket, Carrefour, iShopIndian, India Bazaar, Spar etc. The reach of brand name Nirapara is extended all across different locations within India, together with a presence in another 46 International locations, which includes: USA, UK, Canada, New Zealand, Switzerland, UAE, Qatar, Bahrain, Kuwait, Oman, Jeddah, Riyadh, Dammam, Australia, Ireland, Singapore, Malaysia, etc.

Today Nirapara brand is that the largest Producer and Marketer of Kerala Pickles. We also are the largest Manufacturer of Palakkadan Matta Rice Variety. we've 10 Manufacturing Units established in Kerala. we've got ISO and HACCP certified manufacturing plants with hi-tech automation; R&D and microbial quality test labs are all part of the sound infrastructure. a good network of 500+ distributors enable the brand presence in over 1.5 lakh shops across the globe.

Products

Products which include the following items:

Rice

As a cereal grain, Rice is that the most consumed raw food for a large part of the world's population. Since an outsized portion of the maize crops are grown for purposes other than human consumption, rice remains the foremost important grain for human nutrition and caloric intake, providing quite one-fifth of the calories consumed worldwide.

India is one among the world's largest producers of white and brown rice, accounting for nearly 20% of total rice production. Rice, a basic food crop, may be a tropical plant that flourishes comfortably in hot and humid climes. At Nirapara, every single grain of rice is

subject to an in-depth screening to ensure fidelity in size, colour and dimension to supply you with the best grains.

Spices

To help discerning housewife's world over prepare curries that are tasty and nutritious while in essence remaining truly 'Keralean', K.K.R Food Products in 2002, launched the pioneering Nirapara Curry Masala Brand. Using carefully handpicked aromatic spices high in quality, Nirapara Spices & Curry Masalas are prepared during a completely dust-free environment employing some of the latest advances in Food Processing technology. so as to ensure cent percent purity, Nirapara Curry Masala Unit is that the only food processing unit in India wherein the products are subjected to a 4-stage process of Steam Sterilisation to render them completely germ-free.

Rice products

Rice is that the seed of the monocot plants. As a cereal grain, it's the most widely consumed staple food for a large part of the world's human population, especially in Asia and therefore the West Indies.

Pickles

The pickle may be a side dish without which an Indian meal is incomplete. Prepared during a traditional manner using a variety of vegetables, masalas and oil, Nirapara pickles may be a huge hit with millions of families within and beyond Kerala. to take care of an international standard in quality, taste and nutritional value, KKR Agro Mills employs the newest technological advances in producing its line of mouth-watering pickles, which are prepared using assorted ingredients of the very best quality, under the watchful eyes of a number of Kerala's well renowned culinary experts. Keep our pickles as entremets and enjoy the best traditional Indian cuisine experience.

Desserts

Desserts, a course that concludes a meal. The course usually consists of sweet foods, like confections, and possibly a beverage like a dessert wine or liqueur. Nirapara has been bringing to the market a good range of desserts-based products which is of top quality, healthy, and it will be with more nutritional value. So, desserts which are very much

effective and common for customers. It must be considered customer according to the changing tastes and preference of each customer.

Wheat products

Wheat and Wheat based products are popular with Kerala's as well as other rice consuming population since time immemorial. As per the rise in demand for wheat products, Nirapara has been bringing to the market a good range of Wheat based products which is of top quality, healthy, and farm fresh. Whether you're curious about flour, bread, specialty grains, pancake mixes, cereals, bakery items or maybe a homemade sandwich, our wheat products facilitate you to taste the difference of 100% pure wheat products.

Culinary paste

Culinary paste, semi-liquid sol, emulsion, or aggregation utilized in food preparation or eaten directly as a spread. Pastes are often highly spicy and aromatic. they're often prepared well in advance of actual usage, and are often preserved for future use.

Tea and occasional

Coffee: A brewed drink prepared from roasted seeds, called coffee beans, from the coffee plant. Tea: An agricultural product of the leaves, leaf buds, and internodes of varied cultivars and sub-varieties of the Camellia sinensis plant, processed and cured using various methods.

Condiments

Condiments is another important products item which makes them more strengthen among its competitors. A condiment may be a spice, sauce, or preparation that's added to food, after cooking, to impart a selected flavour, to reinforce the flavour, or to enrich the dish. A table condiment or table sauce is more specifically a condiment that's served separately from the food and is added to taste by the diner.

Oils

Cooking oils are healthy, have antioxidant content, and prevents cancer. Pulses Pulses, also referred to as grain legumes, are a gaggle of 12 crops that includes dry beans, dry peas, chickpeas, and lentils. they're high in protein, fiber, and various vitamins and that

they also provide amino acids. Cooking oil is very much important one in day-to-day life of every people. So, it will be necessary to maintain a high quality and healthy made one for the purpose of increasing demand without any side effects.

Coconut Products

Coconuts are especially high in manganese, which is important for bone health and the metabolism of carbohydrates, proteins, and cholesterol. coconut (tender and mature), may contains copra, toddy, neera, gur, coconut palm candy, sugar, vinegar etc. and few novel recipes like coconut boli, banana coconut cake. Coconut is a tasty food adjunct is well recognized They're also rich in copper and iron, which help form red blood cells, also as selenium, a crucial antioxidant that protects your cells.

Oats

Oats are one among the healthiest grains on earth. they seem to be a gluten-free whole grain and a great source of important vitamins, minerals, fiber, and antioxidants. Oats and oatmeal have many health benefits.

Instant (quick) oats are the most highly processed variety. While they take the shortest time to cook, the texture may be mushy. These include weight loss, lower blood glucose levels, and a reduced risk of heart condition.

Dairy Products

Dairy products or milk products are a kind of products produced from or containing the milk of mammals. they're primarily produced from mammals such as cattle, water buffaloes, goats, sheep, camels, and humans.

These sorts of products include food items such as yogurt, cheese, and butter. So, this is another important product deal with the Nirapara and this kind of products have lot more demand.

Exotic Rice

Exotic Rice blend will put a replacement twist on your usual rice dishes. This rice blend features a natural nutty flavour and firm texture that makes it great to use as a side dish for any meal.

Otc

Nirapara delivers you a good variety of other quality items such as masks, fresh wash meat and fish wash, fresh wash fruits and vegetable wash, nutrifirst, nutrifirst health mix, and other wide selection of food products.

Edible Roots

Edible roots are especially rich in soluble and insoluble fiber, which helps to spice up the health of gut bacteria, lower high levels of blood fats and blood sugar, and reduce the danger of Type-2 diabetes, heart condition, and bowel cancer.

Major competitors of Nirapara

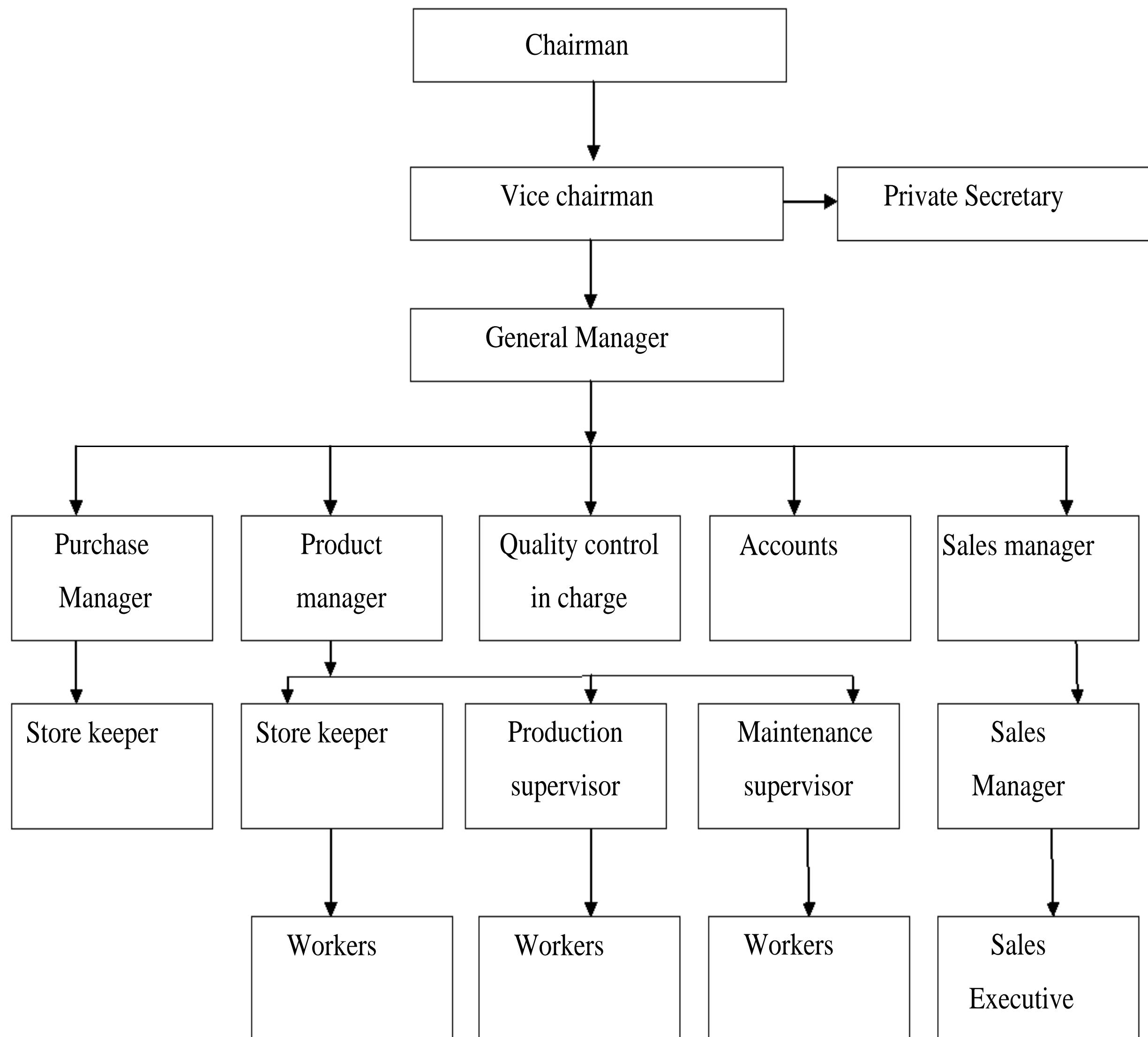
- Estern
- Periyar
- Double Horse
- Pavizham (Only in Rice)
- Gayathri (Only in Rice)
- Mariyas
- Melam
- Taste Buds (Forigne Market)
- Brahmins
- Grandma

Certifications

- Plant Quarantine Certificate: Issued by the Directorate of Plant Protection, Quarantine & Storage. (Govt. of India)
- ISO 22000: 2005 by TUV NORD Germany
- HACCP Certified (Hazard Analysis Critical Control Point)
- FDA Certified Production Facility
- FSSAI Licensed
- HALAL Certified

1.10.1 Organization Structure

Figure No. 1.10.1 Showing Organization structure



Functional Departments of a company

- Finance Department
- Accounts Department
- Purchase Department
- Production Department
- Human Resource Department
- Marketing Department
- Quality Assurance Department
- Export Department
- Vehicle and Transport Department
- Research and Development Department
- Systems and Maintenance Department

Finance department

Under finance department mainly have 2 departments. They are:

- Accounts department
- Finance department

Finance department is that the life blood of every business. Availability of sufficient funds at required time is that the key of success of a concern. As a matter of fact, finance could also be said to be 'circulatory system of the economic body' making possible co-ordination between the different activities.

Accounts department

One of the important functions of accounting is providing business information to all those who are interested in the business concern. Majority of the users of accounting information are satisfied with the small print available in statement like profit and Loss Account and Balance Sheet. An analysis of those statements helps to judge the general performance and overall progress of a business concern. Thus, the traditional accounting known as financial accounting provides valuable information to external users such as shareholders, creditors, financiers, government agencies etc. Financial accounting is especially concerned with the preparation of the Profit and Loss Account and Balance

Sheet. Profit and Loss Account shows the web results of the transactions and Balance Sheet shows the financial position of the concern as on a particular date. These statements are helpful to the management to possess an overall control on major functions of the business.

Finance department

The one among important area of finance department is to make cash budget and setting the parameter for the purpose of attaining the overall development of Nirapara. On the opposite hand the accounts department only helps the finance manager to perform various tasks assigned to them. The function managing finance is to form intensive and economic use of capital resources of the organization. The Nirapara mill maintains a transparent and perfect accounting system. the most activities of finance department are working capital management, preparation of monetary statements such as balance sheet, profit and loss account etc. The finance department carries out all the activities per long term and short-term requirements of the operation using purchase bill, maintaining the accounts, of contacts, sub-contracts and tax deductions.

The following are the different functions in finance department

- Sourcing finance
- Financial accounting
- Cash Management
- Taxation
- Management of Cost control
- Preparation of financial reports

Purchase Department

The purchase department pays a very important role in efficiency and prompt delivery of goods to customers. Its function is to produce materials, supplies, services, machines and toolset the most favourable terms consistent with maintaining the desired standard quality. Purchasing is the most important function of material management as the moment and order is placed for the purchase of materials a substantial part of the company's finance is committed which affect the cash flow position of the company. The purchase system is centralized in Nirapara. Centralized purchase department means that all the purchase

functions are routed through one department. This means all purchases should be made by the purchase department to avoid duplication, overlapping and non-uniform procurements.

Production Department

Production department deals with the process of producing a product/service. That means converting input into output. It includes physical commodities used to manufacture the final product. The terms ‘production’ and manufacturing’ are using interchangeably. Manufacturing is understood to refer to the process of producing tangible goods whereas production includes creation of both tangible goods as well as intangible services. In Nirapara, there is no separate department for research and development of new innovative products.

Marketing Department

The marketing department works as a separate company within the business enterprise and deals with all the sales and marketing related activities. The KKR Group markets a number of diversified brand of products in the competitive markets.

Functions of Marketing Department

- Local area sales
- Rural marketing
- Interstate Marketing
- Exports

Human Resource Department

The development of the organization can be achieved through the development of the people of the organization. So, we can say that workers are the backbones of the organization. The impressive level of productivity is hall committed and disciplined workforce, which leads ahigh degree of productivity with impressive levels of quality. The company gives importance for employee welfare and individual development of them. The organization promotes the concept of participative management. Especially in quality circle, employee suggestion scheme etc.

Quality Control Department

The KKR Mills is the only rice mills in the south India to use the Z – sorted machine capable of optical inspection for quality control. This machine scans every grain of the Rice and remove discoloured, broken and immature rice ensuring only rice that meet the Specification calibrated in the computer is selected for packaging. This quality section is headed by a Quality controller. He has assistants to assist him in quality checking. Research and Development Department In KKR Group of companies research is mainly conducted in the field of production. This department consists of lab assistant, chemist and microbiologist. It leads with Development of new product and quality inspection etc. The R&D Department of KKR Group is situated at Chalamattom unit.

Export Department

Export department dealing with transferring goods and service from the company to various departments. Export department checks out the activities of both marketing and finance department. In other words, export department in KKR Group of Companies help both finance and account departments. The main function of export department is to deal with customers or distributors in better way. All the transactions concerned with the export of finished goods are done this department and the result of transactions are then passed over to both finance and marketing departments.

Vehicles Department

The main function of the vehicles department is the transportation of raw materials from various places to factory go down and finished goods from factory to various market. There are more than 140 vehicles for the company.

Research And Development Department

In KKR Group of company's research is mainly conducted in the field of production. This department consists of lab assistant, chemist and microbiologist It leads with development of a new product and quality inspection etc. The R&D department of KKR group is situated at Chelamattom unit.

New Technology

The KKR Group is all set to enter the food processing industry on large scale brining in the world latest technology and machines. In every new area of achieving attention to purring and hygiene that meet the highest world requirement is the focus of the group.

New Product

The KKR Group is looking at venture in food processing and presenting with a large-scale investment on a food technology park. The group has plans to manufacture an international product range like past presents sources squashes, fruits-based foods.

New Market

Today Nirapara groups has entered the Middle East America and Europe. The day is not far because the KKR Group makes food in the international markets and with the presence and communication of the group it needs a dream that will be true before long.

The Cash Management Techniques adopted by company

Cash Management Techniques include the following:

Budgeting

The budget is the cornerstone of sound financial planning. Budgeting is simply a process that tracks your monthly expenses and determines how you spend money. This could be for a weekly, monthly, quarterly, or annual budget. This budget is used to assess whether the entity has sufficient cash to continue operating over the given time frame. By assuming monthly costs for the production, we can find areas in which you can reduce or eliminate costs while preparing budget.

Monitor Cash Flow Regularly

Maintain cash flow from the first and most important aspect of cash management. To help with this, create a cash budget that presents funds required for both short-term and long-term. It tells you when and where you need it. if Cash flow monitor regularly can be used to reveal relationship of values, group of values between cash and other accounts. It reveals trends of events over accounting periods and evaluates the strengths and

weaknesses in the internal environment, as well as opportunities and threats in the external environment.

Bill Promptly and Accurately

The faster an invoice is sent by mail, the faster the invoice will be paid. If company's shipments or services do not automatically issue invoices, set up weekly billing schedules to track them. Which will definitely influence the performance and in addition, we have always included payment due dates to encourage customers to pay quickly.

Payment Delays to Supplier

To preserve cash in your account for long as possible, wait for a payment to your providers as long as possible (without risking late fees). The only time it is an earlier payment option is if there is an incentive worthwhile, otherwise, stay with the wait.

Use the Available Technology

There are other professional accounting software solutions (like SAP) allow their finances to be cash flow worksheets from sites such as drop boxes or a reader. The advantage of these powerful keys is that you can access your finances at any point of time.

1.11 Limitations of the study

- The study is restricted only to KKR Agro Mills. Being a project, the findings cannot be generalized.
- Time is one of the factors of limitation.
- Analysis is restricted to 5 years.
- Use of ratio as a technique for analysis. Hence all the limitations of ratio analysis are also applicable.

CHAPTER – 2

LITERATURE REVIEW

2.1 Review of literature

This chapter consists of studies and literature related to cash management. This literature was sourced from published and unpublished materials and knowledge gathered from various sources to give more focus and clarity to the topic.

Cash is lifeblood of the business, which is the most important component of the working capital. It is the most liquid assets, have vital important to daily operations of the firm. Cash is the common denominator to which all current assets can be reduced because the other major liquid, that is receivable and inventory get eventually converted into cash. This underlines the significance of cash management cash provides liquidity, but it doesn't pay interest; it is just one of the raw materials that you need to do business. It is expensive keeping your capital tied up in large inventories of raw materials when it could be earning interest **(Brealey & Myers, 1999)**.

Larsson, 2004 "Cash management is about earning extra cash "between the lines", by being smart and efficient with the payment routines". He says that by managing the cash means identify the chance for enhancing the efficiency of business while investing the money in an effective way by generating more return and manage the payments in a most efficient way.

The term cash with reference to cash management is used in two senses. In a narrow sense it is used broadly to cover cash (currency) and generally accepted equivalents of cash such as cheques, drafts and demand deposits in bank. The broader view of cash also includes near cash assets, such as marketable securities and time deposits in the banks. The main characteristic of these is that they can be readily sold and converted into cash. They also provide a short-term investment outlet for excess cash and are also useful for meeting planned outflow of funds. We employ the term cash management in the broader sense. Irrespective of the form in which it is held a distinguished feature of cash, as assets are that it has no earning power **(Khan & Jain, 1986)**.

Chimeras (2008) Says that however, within the unpredictable, some companies have excessive cash. This inactive fund has income potential that landlords don't know, which limits the expansion of the business and reduces profitability. Investing in cash for a brief time can increase the earning capacity of your business. With proper cash management,

homeowners can properly manage the income needed for their business, avoid unnecessarily high cash balances, and increase revenues per dollar within the business.

According to Davidson et al, (1992) "Cash management has four major functions; determination of minimum cash balances, effective borrowing, advantageous investment of excess cash, and acceleration of money flow".

Minimum cash balance is that the minimum amount kept for the purpose of meeting the immediate expenses. So should need to maintain a minimum balance for meeting these unexpected things. Effective borrowing means the corporate should have the credibility in their dealings then will be able to get cash for credit. the subsequent function is about advantageous investment of excess cash which is the amount will be get by way of return from the investment. On the opposite hand acceleration of cash flow means improving cash inflow by reducing the out flow.

According to Davidson (1992) The minimum cash balance is based on the required basic safety cushion, minimum balance requirements, cash withdrawal rate and daily costs. The cash balance must be preserved at rock bottom real level because the excess cash is not profitable and the purchasing power is lost at a higher price. The minimum cash balance should be the default liquidity needed to account for daily cash withdrawals and price ratios. the typical cash balance determined on an interim basis (the amount of the deposit needed) can be tested in accordance with industry standards using the percentage of the average cash balance for the total operating expenses for the year. If the activity is seasonal, the specified cash flow depends on the peak and the trough of activity. These companies calculate the typical cash balance each month as the best estimate of the total cost.

Cash management is especially important for new and growing businesses**. Jeffrey et al, (1992)** indicated in their book that income can be a problem even when a small business has numerous clients, offers a superior product to its customers, and enjoys a sterling reputation in its industry. Companies with income problems cannot afford unexpected costs. you'll have difficulty in finding funds for innovation or expansion. Finally, difficulty in cash flows make it difficult to rent and retain good employees.

According to (Pandey, 2007) Cash is that the basic input needed to keep the business running on a continuous basis. the shortage of liquidity will affect the company's production activities and excessive liquidity will simply remain unused. Without

contributing to the profitability of Hue. Therefore, the most function of the financial manager is to maintain a healthy cash flow. it's also the ultimate output expected to be realized by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more nor less. Cash shortage will quickly affect the firm's manufacturing operations while excessive cash will simply remain idle and without contributing anything towards the profitability. Thus, a serious function of the financial manager is to maintain a Sound cash position.

In the words of Hampton, (2001) Cash is that the money which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the firm, and balances in its bank accounts. Sometimes near-cash items, like marketable securities or bank times deposits, also are included in cash. the essential characteristic of near-cash assets is that they can readily be converted into cash. Generally, when a firm has excess cash, it invests it in marketable securities. this type of investment contributes some king of commercial benefits to the firm.

According to Zimmerer et al (2008) "cash management is the process of forecasting, collecting, spending, investing, and planning for cash a corporation needs to operate smoothly". He said that cash management may be a vital task because it is the most important yet least productive asset that a small business owns. A business must have enough cash to satisfy its obligations or it will be declared bankrupt. Creditors, employees and lenders expect to be paid on time and cash is that the required medium of exchange.

According to the study of Anton Stigo et al., (2012), cash management also considered management of money flow whereas the aim is to receive inflows as early as possible and to delay outflows as long as possible without offending additional expenses. Without cash, businesses might not be able to cover current debts, which successively leads to a greater risk of non-payment. Therefore, at the very core of a successful business lies the power to manage cash flows in an efficient way.

Erkki (2004) says that cash management as an element of treasury management, because treasury function includes cash management, risk management, account receivable management, indebtedness management etc. Companies and individuals offer a good range of services available across the financial marketplace to help with all types of cash management. Banks are typically a primary financial service provider. There also are

many different cash management solutions for both companies and individuals seeking to get the best return on cash assets or the most efficient use of cash

In the words of Sardakis et al, (2007) to possess efficient and effective liquidity management is very important for the survival, especially for smaller businesses. it's a matter of life and death for smaller companies because they can survive for a long time without a profit but fails when they cannot meet a payment. Liquidity means the extent of cash and near cash assets held, along with cash in and outflows of the assets.

According to Farris & Hutchison, (2002). Having payment routines is crucial to be as efficient as possible. this may make it easier for the company to have control over the customers and also earn extra money through interests. The key here is to form the payments from the customers interests bearing as fast as possible. it's also important to get the money as fast as possible from the customer. assets are also included in the payment systems. What the corporate wants to do is to manage the accounts receivable in an effective way in order to avoid unnecessary capital that is tied up.

The individual components of working capital management cash, receivables, payables and inventory management influence the working capital management performance indifferent manners (Schilling, 1986). In addition, the decisions made in any one working capital management components have an impact on the other working capital management components **(Sartoris et al., 1983).**

Mathura examined the influence of working capital management components on corporate profitability by using a simple of 30 firms listed on the Nairobi Stock Exchange for the period 1993 to 2008. He used person and spearman's correlations, the pooled ordinary least square (OLS) and the fixed effects regression models to conduct data analysis.

Lambrix and singhvi (1979) adopting the working capital cycle approach to the working capital management, also suggested that investment in working capital could be optimized and cash flow could be improved by reducing the time frame of the physical flow from receipt of raw material to shipment of finished goods i.e., inventory management and by improving the terms on which firm sells goods as well as receipt of cash.

Deloof in his study, "Does working capital management affect profitability of Belgian firms" found that the way working capital is managed has a significant impact on

profitability of firms. He also found that the longer the time lag, the larger the investment in working capital. A long cash conversion cycle might profitability because it leads to higher sales.

Realizing the dearth of pertinent literature on working capital management, **walker in his study (1964)** made a pioneering effort to develop a theory of working capital management by empirically testing, through partially, three propositions based on risk return trade off of working capital management. Walker studied the effect of the change in the level of working capital on the rate of return in nine industries for the year 1961and found the relationship between the level of working capital and the rate of return to be negative.

Vanhorn in his study (1969), recognizing working capital management as an area largely lacking in theoretical perspective, attempted to develop a framework in terms of probabilistic cash budget for evaluating decisions concerning the level of liquid assets and the maturity composition of debt involving risk return trade off. He proposed calculation of different forecasted liquid assets requirements along with their subjective probabilities under different possible assumption of sales, receivables, payables and other related receipts and disbursements

Soenen, (1993) Cash-to-cash cycle is closely associated with the valuation of the firm. Shorter cash cycle means higher present value of money flows that is generated in assets and hence higher value. By shortening the cash cycle means there are fewer days where the capital is tied up and results in more liquidity for the firm. By creating well-developed routines for order/billing and continuously keep it under observation, the corporate can then be more efficient.

Moss, (1993) says that liquidity position may be a decision to shorten the cash to-cash cycle That improves the profit and means that the firm does not have a great need for external financing. Management of capital is crucial for both the liquidity and profitability. If the management of capital is poor, usually means money is locked up in working capital. it's also important to be aware of that late payment of invoices can be very expensive. So efficient management of capital is important.

In the words of Paul & Boden, (2008) Inefficient routines are often one of the problems of lacking adequate money that can be very costly for the company. Financial theorists have developed a special mathematical model that allows companies to find the optimum or targeted cash balance between the minimum and maximum limits, between liquidity

and profitability and this may clearly specify the desired results Interest losses and interest charges can be the result by having inefficient routines. The delay between the sales and payment usually leads to default risks such as bad debts.

In the words of Collins & Jarvis, (2000). "Cash Management originally means the management of liquidity so as to meet their day to-day commitment". There are many companies that don't put enough focus on managing the liquidity of the firm. The results of poor focus on cash management often means that the financial assets are bound. rather than being bound, it might be used to invest for example in material. consistent with recent studies they found that small businesses have a poor cash management attention.

Eljelly empirically examined the relationship between profitability and liquidity, as measured by current ratio and cash gap (cash conversion cycle) on a sample of 929 joint stock companies in Saudi Arabia. Using correlation and regression analysis, Eljelly found significant negative relationship between the firm's profitability and its liquidity level, as measured by current ratio. This relationship is more pronounced for firms with high current ratio and long cash conversion cycle.

According to Vause and Woodward, (2001) income accounting involves the reporting of classified list of last year's cash flows, and a group of forecast cash flows, with supporting analysis of the variances between last year's actual and forecast cash flows. It therefore emphasizes the foremost fundamental events in business activities, cash flows into and out of the firm, and therefore the separation of past facts from future estimates, accounting period of time allocation, supported estimates of consumption are avoided.

Waltson and Head (2007) To manage cash and cash balances which can helps the organization for the purpose of optimizing free cash flow, optimizing interest generated by reserve funds that aren't immediately needed, and reducing losses from late transfers.

In the words of Soliman, 2008). Blessings and Onoya (2015) They both agree that profitability, assets, liabilities and capital are important ways to gauge an organization's overall performance reports and make investment decisions. It therefore believes that the cash report isn't an estimate, like delaying payment to creditors and ignoring non-financial changes in assets and liabilities, including profits and losses. Indicates the degree of wealth gained by the consumption of the asse. They note the overall view that published financial statements do not need to provide reliable information to investors and other users of financial statements.

According to Kasilo (1995) He mention that cash flow from operating activities generates cash when the company determines. Various methods are wont to determine the amount of operating cash flow. a standard method is to use a statement of work and a balance sheet to create a statement of cash flows (source and financial statements) emphasizes that Company's cash flow statement indicates whether the Company increased or decreased its liquidity during that period. A conservative reduction can indicate the degree of dissatisfaction of a corporation during a year and vice versa. Because profits aren't cash, companies can make profits but remain technically inadequate.

Melik Serhat (2010) reported construction industry is an important sector that cash flow plays an important role for that because of the most risks sectors due to high level of uncertainties included in the nature of the construction projects.

Hence, a suitable cash planning technique is very important for proper cost control and systematic cash management while considering the risk and uncertainties of the construction projects. The purpose of this study is to improve a realistic and cost schedule integrated cash flow modelling technique by using fuzzy set theory for including the uncertainties in project cost and schedule resulting from complex and ambiguous nature of construction works.

According to Charles, E. Jordan and Marilyn A. Waldron (2011) found that accrual basis measures are better predictors for future cash flows than cash flow basis measure. So, accrual component basis is better for financial managers and other users of financial statement for decision making.

Choong Yuel (2012) understood, analysts' cash flow forecasts have become widely available through financial services. Cash flow information enables practitioners to have a better understand the real operating performance and financial stability of accompany, practically when earning information is noisy and of low quality.

Hadri Kusuma (2013) investigated and assess statements relative of cashflow disclosures as needed by the Australian Accounting Standard Board (AASB) 1026statement of cash flow. The information capacity is estimated in terms of degree of the relationship between cash flow variable and security returns. After examining the data relative to cash flow, the researcher found out two important factors such as:1) To examine the capacity of the cash flow component in predicting future cash flow.2) To compare the capacity of cash flows and earning in predicting future cash flows. The best result from hypothesis tests reflecting

the second objective show that cash flow has information content more than that provided by earnings alone and cash flow information have relative content, given earnings alone. This finding suggests that the cash flow statement and income statement provide mutually exclusive information and previous study from USA and UK that indicated cash flow data had less information value than that of conveyed by earnings. This proof may suggest that data reported in cash flow statement may be original data for decision making, separated from the income statement.

Sandra Cohen (2003) compared accrual accounting information with that of cash accounting in terms of revenues, expenses and financial result in other to quantify their relationship. As cash method in the Greek public sector still constitute main basis for performance assessment and resource allocation decisions. The researcher wants to understand whether they eventually reflect a fair proxy of accrual measures that are deemed more suitable for these purposes. Empirical finding shows approximately 70% of accrual accounting revenues (expenses) figures can be explained on the basis of cash-based revenues (expenses).

In the words of Linda M. Nichols (2005) found out whether teaching the indirect or direct method of explaining the difference between accrual operating income and cash flow from operations is more effective in helping students understand the concept of accrual versus cash accounting. One expects that because business students are accustomed to using accrual based financial statements, they will understand cash flows better when presented with the indirect method which starts with accrual-based income and adjust it to be on a cash basis.

CHAPTER – 3

THEORETICAL FRAMEWORK

3.1 Theoretical Framework

Cash

Cash is money in the form of real money, such as banknotes and coins. In accounting and financing, cash is the current asset of money or money equivalents that can be easily or almost accessed. Cash is used as investment capital to be allocated to long-term assets, such as property, plant, and equipment (PP&E) and other non-current assets. Excess cash after accounting for expenses often goes towards dividend distributions.

Companies with a multitude of cash inflows and outflows must be properly managed to maintain adequate business stability. For individuals, maintaining cash balances is also a major concern. Cash is the most important asset for business operation. It is the basic input required to start the business and essential tool needed to keep the business running on a continuous basis. Cash is also the ultimate output expected to be realized by selling the products or service on an organization. In fact, it is the lifeblood of business. Effectual management of cash is essential in maintaining the cash control of business cash flow.

Historical Forms of Cash

Cash has been used as long as goods and services have been traded, and its form depends on the culture in which it operates. Many civilizations over the last 4,000 years used coins struck from precious metals including copper, bronze (an alloy of copper and tin), silver, and gold, though other early civilizations used seashells or commodities of weight, including salt and sugar.

In modern times cash has consisted of coins, whose metallic value is negligible, or paper. This modern form of cash is fiat currency. Paper money is a more recent form of cash, dating back to around the 18th century, and its value is set by its users' faith in the government backing the currency. This ability to determine price has extensive effects on an economy. It can affect inflation, or the rate at which prices rise for goods and services.

The more prices are inflated, the less purchasing power each paper note or coin holds. Inflation can cause all kinds of problems for an economy that doesn't yet understand the concept; in general, monetary authorities endeavour to keep inflation to a minimum and avoid deflation entirely. Deflation is the opposite of inflation the lowering of prices and has the potential to lead to economic depressions if severe.

Factors Affecting Cash

The amount of cash requirement of a business firm depends upon the following factors, which are discussed as under:

- Credit position

Firms having goodwill in the market do not require cash balance much. They get services and goods on credit as they re-pay the bills timely out of the in-sale proceeds and have such firms need not maintain thereby cash balances.

- Debtors position

The ability to pay bills depends upon the company's sales policy i.e., whether on credit or cash, credit for how long. Longer the credit period more the cash balances it should prepare to make its purchases. Further, a firm extending liberal credit will have its debtors position high and consequent of it more bad debts also. And firms with tight credit policy will maintain low debtors' position and less bed debts hence and the firm is able to do the business with less cash balances.

- Nature of market

It has great influence on cash requirement, in certain markets one has to buy on cash, since credit facility is not available. In some of the unorganized sectors and small businesses where bank loans are not extended, the firms have to arrange their own cash.

- Inventory levels

Inventory level is the amount of stock which is needed every stage of business. Higher the inventory levels a firm follows, more the 'cash' required. Lower the inventory level less is the cash balance to be needed. Thus, inventory level certainly influences the cash requirements of the business.

- Technology

The firms, which are, followed manual methods need more cash by weekends to pay for wages. Whereas, the firms whose business activities are more technology based required less amount of cash for the above said purposes. So, technology is another factor which affects the cash and its requirement in every business. Technology has its own impacts among the business and it bring different dimensions to every company.

- Efficiently in using cash

Cash balance depends upon the efficiency is using cash. Professional managements maintain, optimum cash balance and discharge cash obligations.

Determinants of Cash Flows

Investments in cash and marketable securities depend on the cash flow of the firm. Firms, which primarily sell the product against cash (e.g., petroleum products, gold, etc.) may not require much cash balance to be maintained since there is always cash inflows to the firm. Banks and insurance companies, which receive cash on regular intervals, can work with smaller cash balance at branch level. On the other hand, firms in a competitive industry which have to extend credit to the customers need to maintain large amount of cash to meet different motives of holding cash. Cash flows are also affected by several other factors, which can be broadly classified into two. They are:

1. **Internal Factors**
2. **External factors**

Internal factors

Internal factors relate to policies of management relating to working capital components and future growth plan. These factors are determined by the firm and arising out of management decisions. The internal factors that affect the cash flows of firms are discussed below. Production-related policies: Production-related policies determine production plan, which in turn affect, purchase of material and other components and level of finished goods. For example, firms that follow production policy of manufacturing for inventory and then selling the product in the market will normally carry high volume of material and other inventory in order to ensure smooth production process. The increase in purchase activity will demand more cash compared to other firms, which follow order-based production policy. Similarly, if production process is automated, then the demand for cash to pay wages to workers will come down significantly

Policies on Discretionary Expenses: Expenses not directly connected to the manufacturing process, which have some amount of flexibility in timing the expenditure are called discretionary expenses. Examples of discretionary expenses are Research & Development cost, advertisement, replacement of a machine before its life, etc. Some of the discretionary expenditure is planned in advance whereas in other cases, the need arises

suddenly. The management policy on sanctioning discretionary expenses has a bearing on the cash flow. If management follows a flexible policy and allows the expenses after seeing the current cash position, the pressure on cash will come down significantly.

Policies on Receivables: The policies on trade receivable, which is last stage of operating cycle, affect the cash flow. The credit period and cash discount together determine the flow of cash. While liberal credit policy delays cash flow, attractive discount policy speeds up the collection process.

Financial Policies: Firms, which pursue active capital expenditure programme in the form of new projects or expansion, need cash. While part of resources is raised externally in the form of fresh debt or equity, the balance is expected from the internal surplus. The financing policy of the firm determines the cash flow. Internal funding is also expected to meet any delay in raising external sources. These firms may require more cash to meet such eventuality. Similarly, the dividend policy of the firm affects the cash flow. Firms, which follow liberal dividend policy, will put pressure on internal cash flows.

Payment Polices: The ability to get credit terms for purchases of materials and other products and services also affects the cash flow. The credit period and cash discount together determine the flow of cash. While liberal credit policy delays cash flow, attractive discount policy speeds up the collection process.

External Factors

External factors can be broadly classified into monetary and fiscal factors and industry-related factors. These are discussed below.

Monetary and Fiscal Factors: The central bank (Reserve Bank of India) periodically spells out monetary policies and through which influences the availability of money. The monetary policy in turn is affected by the fiscal factors of the country. In a liberal monetary policy regime, it will not be difficult to get credit from banks as well as from suppliers of material and services. Thus, the need for holding cash is thus limited to transaction motive. Cash required for precautionary and speculative motives can be easily raised.

Industry-related factors: Industry-related factors affect the cash flow in the form of practices followed by other firms in the industry on terms of sale and nature of material and services required. Cash flow will be positive in retail industry. Cash flow will be

cyclical for industries such as plantation and agro-based products. Cash flow is volatile in certain industries like entertainment and hospitality industry. Cash flow is generally negative for manufacturing industries. Depending on the nature of cash flow relating to the industry, the demand for holding cash is determined.

What is cash management?

Cash management may be a process that collects and manages cash and uses it for short-term investments. This is often a key factor in financial stability and the ability of the company to pay. The chief treasurer or the company assumes overall cash management and related responsibilities. Cash management is an efficient resource for planning, managing and monitoring cash and cash equivalents which will minimize costs, maximize profits and control income and risk.

Cash management refers to an honest range of financial sectors related to the collection, processing and use of cash. This includes assessments of market liquidity, income and investments. Cash management is extremely much important because it's difficult to predict cash flows accurately, particularly the inflows, and there is no prefect coincidence between the inflows and outflows of cash. During certain periods, cash outflows will exceed cash inflows. Because payments for taxes, dividends, or seasonal inventory my rise up. At other times, cash inflow is visiting be more than cash payments because there may be large cash sales and debtors may be realized in large sums promptly. Further, cash management is critical because cash constitutes the littlest portion of the total current assets.

Cash shortage will affect the firm’s manufacturing operations while excessive cash will simply remain idle, without contributing anything towards the firm’s profitability. Thus, a significant function of the financial manager is to maintain a sound cash position. Cash is that the cash which a firm can disburse immediately without any restriction. The cash may include coins, currency and cheques held by the company, and balances in its bank accounts.

Objectives of Cash Management

The twin objectives of working capital management such as profitability and liquidity are also implied to cash management. The cash manager has to arrange right amount of cash at right time for a right purpose to pay for. It does not mean that he can hold heavy amount

at the cost of interest. In simple, the idle cash causes interest loss and the firm incur opportunity cost, which indirectly affects the profitability. Therefore, the cash manager has to hold optimum level of cash and not a rupee extra or short beyond the optimum level of cash.

Benefits of Money Management

- Reduce / remove internal species
- Reduction of labour costs
- Optimization of money flows
- Improved security for workers and customers
- Improve operational efficiency and accuracy
- Detection of problems within the various operations

Importance of Cash Management

Cash is unique resource and not comparable with any other component of current asset. If excess cash is held, it will not generate profits since cash is sterile. It will not be productive directly as in the case of other assets. Inventory bought excess will be useful even after sometime, without loss of value and many a time value of inventories tend to increase due to inflation. Hence idle cash will not generate profit but causes loss of interest. Further, cash shortage causes irreparable loss to the management, since firms loose not only profitable business opportunities but also goodwill when they fail to clear the bills timely due to cash shortage.

Controlling of Cash Flows

The task of cash manager is to match the inflows and outflows of cash. For this, the manager starts with cash budget, where total cash receipts and payments of an enterprise are forecasted. In this broad exercise of cash management, synchronization of cash flows is the real task. The cash flows will never synchronize and it always the disbursements tend to be higher than receipts. Then the cash manager wisely accelerates the inflows and delays disbursements by all means without affecting liquidity and profitability the twin objectives of any business enterprise.

In practice collection of cash from debtors is time taking. The present system is so poor that cash manager cannot expedite collections unless he plans and takes necessary steps to reduce the gap between the date - the customers pones bills by cheque and the date of funds made available for firm's use i.e., reaching time and processing time. The cheque in transit takes minimum 2/3 days to receive and again the check has to be collected through bank, which takes minimum of ten days. Under the present state of postal and banking system the minimum days that comes around 15 days. Hence, in order to reduce the time period, the cash manager has to speed up mailing, cheque processing and collection times.

- Decentralized collections

To save mailing and processing time, can firms have decentralized collection practices. For this the firms lave to open several bank accounts and use them as collecting centres operated throughout the country. These centres collect the money and deposit in banks on the same day, which can be credit to central office account by using electronic media.

- Lock box system

Under the lock box system, lock boxes are arranged in banks, which are collection centres. customers are supposed to drop cheques into these boxes and the bank picks-up these cheques and deposits them into the firm's bank account and send the information daily to the firm. With this process, the firm can save lot of transaction time and also save the cost for their processing. Finally, it results to reduce the transit amount of cash and therefore with less cash balances one is able to maintain the business.

- Cash discounts

The customers are informed at the time of invoicing that they will be paid cash discounts on invoice for 2 per unit if they pay before the maturity date of the bill. This way receipts can be expedited, which is more benefited in the event of growing opportunities of the business of at the time of shortage of funds in the business

Managing Surplus Cash

Profit making firms have to generate surplus cash at the end of operating cycle since the cash collected from debtors is greater than cash invested initially. However, in reality,

many profit-making firms see the pressure of negative flow of cash. There are several reasons for this situation.

- The mismatch of inflows and outflows
- Diversion of short-term funds for long-term needs.

These are the two major reasons for this condition. Though it is not desirable to divert the short-term funds for long-term needs, often firms resort to this diversion if there is some delay in getting long-term funds. The situation is set right once the firm receives the long-term funds. In other words, profit-making firms periodically generate cash surplus even though they face pressure on cash flows in other times. The issue is how to deal with such surplus cash. Excess cash balance is the least productive asset of the firm and thus should be minimised. Firms normally resort to investing short-term surplus cash in short-term liquid securities to earn some return. The firm has to decide on two issues at this juncture. First, it should decide on investment avenues and products. The amount to be invested is the next important decision.

General Principles of Cash Management

Certain general principles of cash management that increases the efficiency of a business has been recommended by Harry Gross. The application of such principles is to be tuned in accordance with the fluctuating business environment. These principles depict the cause and effect that can be universally applied to the topic of cash management so as to provide a scientific outlook with a high degree of knowledge and skill that places the concept of cash management in the group of art therefore it can be said that cash management is both science as well as an art like the other management subjects as it has a well-defined principle that can be easily and skilfully adapted according to the requirements. The various principles of management are as below:

1. Contingency Cash Requirement

There may arise certain circumstances, which drop beyond the forecast of the management. These constitute unforeseen contingencies, which are very difficult to be provided for in the normal progress of the business. Such contingencies continuously demand for special cash requirements that was not estimated and provided for in the cash budget. Denials of wholesale product, large sum of bad debts, strikes, lockouts etc. are a

few among such contingencies. Only a prior experience and investigation of other like companies prove helpful as a customary practice. A practical procedure is to guard the business from such calamities like bad-debt losses, fire etc. by way of insurance coverage. So, contingencies continuously demand for special cash requirements that was not estimated and provided for in the cash budget.

2. Availability of External Cash

Another factor that is of abundant importance to the cash management is the availability of funds from external sources. There resources aid in providing credit facility to the firm, which materialized the firm's aims of holding minimum cash balance. When the firm acquires funds from the various external sources such as shareholders government agencies banks etc there will be reductions in the cash reserves.

3. Determinable Variations of Cash Requirements

A realistic portion of funds, in the form of cash is essential to be kept aside to overcome the period anticipated as the one of cash deficit. This period can either be short and temporary or last for a longer period of time. Normal and regular disbursement of cash leads to small declines in the cash balance at periodic intervals. Making this payment to various employees on different days of a week can equalize such reductions. Another method for balancing the level of cash is to schedule cash disbursements to creditors during that period when the accounts receivables collected sums to a large amount but without putting the goodwill at stake.

4. Minimizing of Cash Disbursements

Minimizing of cash disbursements is another principle which is about how the spending of cash with regards to the transactions. The ultimate advantage derived by maximizing the cash receipts is minimizing the cash payments. By way of stopping the fraudulent practices, making staggered payments to creditors and for pay rolls, serving time draft to creditors of huge amount etc it is possible to bring the cash disbursements under control.

5. Maximizing the Cash Receipts

This is another principle which specify that optimum usage of available cash receipts will be the target of every financial manager cash requirement of an entity can be minimized

if the cash receipts are tackled prudently. The management Should have the ability to maximise the cash receipts while decrease the payments. Therefore, it is necessary to estimate the comparative cost of allowance of cash discounts to the customers and the policies of charging interest for borrowing on a regular basis so as to decide between the alternatives for a particular period of time so as to maximize the amount of cash receipt.

6. Maximizing Utilization of Cash

Despite the fact that excess of cash is a luxury for an entity, yet money is costly. In order to achieve the aim of minimizing the cash payments and maximizing the cash receipts, appropriate and optimum usage of available cash is necessary.

Functions of Cash Management

Cash management refers to holding optimum cash balance by minimizing the unproductive cash balance, parking the same in short term investments and also make proper preparations in order to face the future uncertainties on the entity's cash.

It is important that cash management should always aim to reduce the risk of being unable to full fill the financial obligations of the company. Such motives and objectives of cash management are largely dependent on the proper and efficient functioning of cash management further the below mentioned points helps to understand the various functions of cash managements

1. Managing Cash Flows

This function explains the act of managing correctly the cash inflows that is the flow of cash into the business and cash outflow that is cash going out of the business. In order to ensure better management of cash it is necessary to expedite collections improving control over the payments, avoiding needless inventories etc. therefore a firm can rightly manage its cash flows only if it minimizes the cash outflow and accelerates the cash inflows.

2. Cash Planning

Good planning is the primary foundation of attaining success. For any management decision, planning is the primary requirement. Cash planning is a technique, which includes planning for and controlling of cash. It is a management process of predicting

the future need of cash, its available resources and several uses for a specified period. Cash planning, thus, deals at length with formulation of required cash policies and procedures in order to carry on business constantly and on sound lines.

3. Optimizing the Cash Level

Maintaining the proper cash level that is a sound liquidity position should be the focus of every financial manager. The various functions such as planning controlling and managing cash flows of a finance manager should aim at maintaining an optimum cash balance.

The primary aim of ensuring an optimum cash balance is to resolve all the financial obligations in time and to meet the various requirements of cash. Establishment of equilibrium between risk and expected profits are also related to the optimum level of cash to be maintained by a firm.

4. Controlling the Cash Flows

Cash planning will unavoidably differ with the actual results obtained because forecasting is based on a few assumptions and it is not an exact science due to this control of cash will become an in evitable part of cash management. It plays an important role in increasing the availability of cash in the enterprise due to which cash controlling becomes an integral part of the business.

As it is clear that when the speed of cash flow cycle is greater, the number of times a business can transform its stock into cash is also greater and so the lesser would be the requirement of the cash for financing the business at a desired volume for a particular period of time. Every firm is usually in procession of a particular quantum of hidden cash, which decreases the cash requirements when found out by such a firm.

5. Investing Idle Cash

The excess amount of cash inflows over the cash outflows refers to surplus cash or idle cash which will not usually have any other any particular operations or any other purpose to solve currently. A firm should hold right quantum of cash for facing the uncertainties and to sustain in the market for a long time along with developing the good will of bankers.

Cash Versus Profitability

One major problem with the current global capitalism is the wrong impression that earnings are the acme of organization success. This overreliance and pressure have considerably dwindled the quality of earnings. Besides, profit is short term and therefore imposes myopic insight into business vision. While cash is like blood, profit is like water to every enterprise. Organization could utilize the duo as performance metrics. However, better decision would be made using cash when liquidity is the key limiting factor. Profit, alongside other variables such as cash management, is the determinant of cash flows.

Enterprise can operate where profitability is dying, but cannot continue as a going concern with no cash because bills cannot be paid with profit, but profitability will catch up eventually when margin loss stifles out cash. Net cash flows are a more appropriate measure of profitability in the end because in the long term it is accurately done; for a good enterprise, in the end, cashflows must be positive.

The two basic underlying assumptions of financial reporting are accruals and going concern. The real measure of organisation performance is cash. Organisational performance is evaluated by ability and certainty to generate cash. That is, Cash flows a major determinant of going concern status of enterprise. While cash is essential for organisation survival and short-term nature, profitability is a basic requirement for growth and development in the long term. A good cash management function is analogous to the three Rs (Risk, Return, and Relationship).

High-quality cash management is apparent in positive cash flow, excess of cash receipt over cash pay-out with smart deployment of excess. Poor cash management can lead to increase expenses like finance charges, extra inventory cost. External and internal business environments influence cash requirements and inflow of organisation; so, enterprise should revise cash-management strategy as realities demands on regular basis. During the period of pressure on cash, profit is adversely affected.

Why Cash Management?

Every organization estimate its future cash need with some relevant technique or tools for making financial decision for the organization as a whole, but face a fundamental problem

of managing cash with a liquidity buffer to meet unexpected contingency. Liquidity itself is a measure of financial viability. The reasons are discussed below.

Complete Visibility

Corporate customers increasingly expect superior cash forecasting ability, for which they need complete enterprise level visibility into cash balances and movement of cash. This is provided by banks in the form of status reports, direct enquiry, and through consolidated view of accounts held with branches/banks across the globe.

Rich Reporting Modules

In order to make corporate customers understand the need to adopt cash management services, banks are showing cost-benefit analysis reports, and demonstrating the benefits offered by cash management using graphs and illustrations.

Integrated Services

Corporate customers prefer a single platform for all their financial needs in place of disparate systems. Hence the focus is on integrating cash management systems with other activities involving the bank. For example, linking of ERP solutions with banking systems facilitates cash management by enabling effective trade finance process and investment management, among others.

Remote Deposit Capture and Straight

Straight Through Processing (STP) is helps to accelerate transactions businesses are looking for solutions that offer straight through processing capability. For example, corporate customers are trying to streamline their transactions and reduce downtime, for which banks offer Supervises which enable businesses to conduct entire trade processes and payments electronically.

Components of Cash Management

Account Reconciliation

Managing cheques, monitoring their clearance, and keeping track of the true cash balance can be an overwhelming task for businesses because of the huge number of cheques that

are processed on a daily basis. Hence banks offer account reconcilement services wherein corporate customers can upload details about the cheques issued on a daily basis. And at the end of the month, the bank statement shows information on cheques which have been cleared and those which have not. This system is also helpful in the process known as positive pay, used by banks to prevent cheques from being fraudulently cashed if they are not on the list.

Cash Concentration

This is a quick and cost-effective method of moving funds from different accounts spread across the country to a single monitored and managed account. This allows businesses to maximize the use of available cash, and to optimize returns on consolidated balances.

Financial Risk Management

Risk management is the process of measuring risk, and developing and implementing strategies to manage and mitigate risk. Financial risk management plays an important role in cash management, because it focuses on managing risks in relation to changes in interest rates, commodity prices, stock prices, exchange rates, among others.

Liquidity Management

Forecasting the cash needs of a business is essential for managing cash flows, short-term borrowings, in order to ensure that such cash needs can be met if and when they arise. This requirement is addressed through liquidity management services offered by banks. Liquidity management comprises of activities that release the investments locked in working capital, enabling it to contribute to higher profits.

Strategies of money management

Every firm should develop appropriate strategies for cash management. The firm should evolve strategies for cash management. The firm should evolve strategies regarding the subsequent four facets of cash management.

- Cash planning
- Managing the cash flows
- Optimum cash level
- Investing surplus

Cash planning

Cash inflows and outflows should be planned and identified to project cash surplus or deficit for every period of the planning period. Cash budget should be prepared for this purpose.

Managing the cash flows

The company should decide about the properly managed. The cash inflows should be accelerated while, as far as possible, the cash outflows should be decelerated. And to better serve the needs of corporate customers, banks look to technology vendors who offer optimal solutions that can enable more efficient cash management.

Optimum cash level

The company should decide about the appropriate level of cash balances. The firm needs cash not only to get raw materials and pay wages, but also for payment of dividend, interest, taxes, and countless other purposes for the longer-term growth, the excess cash balances should be properly invested to earn profits. the value of excess cash and danger of cash deficiency should be matched to determine the optimum level of cash balances.

Investing surplus cash

the surplus cash balances should be properly invested to earn profits. The firms should decide about the division of such cash balances between alternative short-term investment opportunities like bank deposits, marketable securities, or inter-corporate lending.

Motives for Holding Cash

Mainly there are 3 motives have to hold cash may be attributed according to the requirements of the firm. they're as follow:

- Transaction motive
- Preventive motivation
- Speculative reason

Transaction motive

Cash is required for payments made on normal sales. These payments include purchases, wages and salaries, raw materials and suppliers, labour compensation, office expenses, selling costs, taxes and dividends. Cash efficiency does not come in naturally. It is a result of forecasting and planning, working capital cycle management, good internal control system etc. The transaction motive needs a firm to carry cash to conduct its business in the ordinary course. So, the transactions motive mainly refers to holding cash to satisfy anticipated payments whose timing is not matched with cash receipts

Preventive motivation

It is necessary to have money to face future emergencies, so as to keep cash or to amortize the unforeseen. Then we will easily predict the cash flow of your business. The solvency of the organization is sufficient to satisfy emergency cash requirements and the amount required to maintain the cash balance is low. And this motive can predict cash flows effectively, less cash is going to be maintained for an emergency. the quantity of preventive cash is also affected by the firm's ability to borrow at short notice when the need arises.

Speculative reason

It is relating to the holding of cash for investing in profit- making opportunities as and when they arise. This reason said you that you simply need money to keep the various benefits expected from the security price. This reason implies to stay cash if the interest rate should increase. it's silly that money is invested in liquid and long-term assets.

In order to manage cash flow control is only possible if there is a treasury planning and control officer who must consider government policies and business strategies and plan cash management. the subsequent tools are typically used to control the cash position. they're cash budget report, cash flows and out flows and Ratio analysis.

1. Cash budget report

Cash budget report are also excellent tool control tools, which are offered in addition to cash budgets. This is a comparison between real money, revenue and cash withdrawals. Management can identify resignations and take the necessary actions.

2. Cash inflows and outflows

This will very impact on the balance sheet and income statement. which is ready to confirm the repayment on the statement of cash flow. This allows you to control the inflow and outflow of funds. The amount of cash a business generates from its day-to-day activities over a period of time is its cash flow. Various means can be used to ascertain the amount of operational cash flow of a business; however, the most popular method is the use of income statement and the statement of financial position in preparing the cash flow statement. Positive cash flows shows that the volume of cash the business has generated from its operations outweigh its cash outflow during the financial year while negative cash flows indicate how much additional cash has been used to sustain the operations during the same period. It is not unusual that firms experiencing negative cash flow from operations also face challenges in financing their operations.

3. Ratio analysis

Cash ratios are also an important tool in controlling cash flow. Various cash and its related ratios are used to illustrate the effectiveness of cash management. Process of determining and analysing numerical relationships in accordance to financial statements like balance sheets, income statements and cash inflow statements is known as ratio analysis. The primary purpose of ratio analysis is to appraise the operating and financial performance of an economic activity and determine its efficiency, profitability, liquidity and solvency. It also helps in getting a brief idea about comparative valuation by calculating ratios of companies from the help of previous year's annual reports provided by the company.

Types of ratios

1. Liquidity Ratios
2. Profitability Ratios
3. Turnover Ratios
4. Long term financial Ratios

Liquidity Ratios

This is the ratio measure the adequacy of current and liquid assets and help evaluate the ability of the business to pay its short-term debts. The ability of a business to pay its short-

term debts is frequently referred to as short-term solvency position or liquidity position of the business. Generally, a business with sufficient current and liquid assets to pay its current liabilities as and when they become due is considered to have a strong liquidity position and a business with insufficient current and liquid assets is considered to have weak liquidity position. Short-term creditors like suppliers of goods and commercial banks use liquidity ratios to know whether the business has adequate current and liquid assets to meet its current obligations.

Profitability Ratios

Profit is the primary objective of all businesses. All businesses need a consistent improvement in profit to survive and prosper. A business that continually suffers losses cannot survive for a long period. Profitability ratios measure the efficiency of management in the employment of business resources to earn profits. These ratios indicate the success or failure of a business enterprise for a particular period of time.

Profitability ratios are used by almost all the parties connected with the business. A strong profitability position ensures common stockholders a higher dividend income and appreciation in the value of the common stock in future. Creditors, financial institutions and preferred stockholders expect a prompt payment of interest and fixed dividend income if the business has good profitability position. Management needs higher profits to pay dividends and reinvest a portion in the business to increase the production capacity and strengthen the overall financial position of the company

Turnover Ratios

Turnover ratios (also known as activity ratios) measure the efficiency of a firm or company in generating revenues by converting its production into cash or sales. Generally, a fast conversion increases revenues and profits. Activity ratios show how frequently the assets are converted into cash or sales and, therefore, are frequently used in conjunction with liquidity ratios for a deep analysis of liquidity.

Long term financial ratios

Solvency ratios (also known as long-term solvency ratios) measure the ability of a business to survive for a long period of time. These ratios are very important for stockholders and creditors. Solvency ratios are normally used to:

- Analyse the capital structure of the company
- Evaluate the ability of the company to pay interest on long term borrowings
- Evaluate the ability of the company to repay principal amount of the long-term loans (debentures, bonds, medium- and long-term loans etc.).
- Evaluate whether the internal equities (stockholders' funds) and external equities (creditors' funds) are in right proportion.

Cash Control

Cash management aims at keeping the investment in cash as low as possible while still keeping the firm operating efficiently and effectively. Once cash budget has been approved, and appropriate net cash flow established, the financial manager should ensure that there does not exist a significant variation between projected cash flows and actual cash flows. To do this, the financial manager has at his deposal an array of techniques to control the collections and disbursements of cash.

Types of Cash Management

Cash management is one of the pillars of finance. This is a broad area in finance involving the collection, handling, and usage of cash. To manage Cash is also an important tool in controlling cash flow. Various cash and its related ratios are used to illustrate the effectiveness of cash management. This process involves the assessment of financial markets and cash flows. The cash management process utilizes many tools that are vital to the efficiency and accuracy of this process. Cash flows from operating activities, free cash flow to equity, free cash flow to the firm, and the net change in cash, these are some of the cash management types in finance.

1. Cash flows from operating activities

This is one of the vital types of cash management. Here, a company's cash flow statement is explained. The sources and uses of cash from ongoing regular business activities are illustrated. This is done for a particular financial period. This reflects any changes in the working capital for the business. This is also where you can assess your business' financial health. If you're a bit low on cash to cover day-to-day operations you may also look for lenders with low interest rates and apply for cash flow loans to keep up with other expenses.

2. Free cash flow to equity

In cash management, this is the amount of cash a business generates. This amount can be distributed to shareholders in the event of a good performance of the business. This is important in determining the financial position of your business. This amount is calculated by taking the cash from business operations fewer capital expenditures of the business. Your business should always have increased cash flows to keep it above water.

3. Free cash flow to the firm

Free cash flow to the firm represents the amount of cash flow from operations available for distribution after depreciation expenses, taxes, working capital, and investments are accounted for and paid. Free cash flow to the firm is essentially a measurement of a company's profitability after all expenses and reinvestments. It is one of the many benchmarks used to compare and analyse a firm's financial health. It is through this evaluation that a firm can determine the amounts paid out to investors.

4. The net change in cash

The net change in cash is the amount by which a company's cash balance increases or decreases in an accounting period. When you own or consider buying stock in a company, it is important to monitor its net change in cash to make sure it doesn't run out. It is also important to know this cash management type. It is through it that the effectiveness of your revenue-generating strategies can be determined. It will thus enable you to adjust accordingly.

The objectives of cash management include fulfilling working capital requirements, handling of unorganized costs, planning capital expenditure, appropriate utilization of funds, planning of capital expenditure, initiating investments. These cash management types should always be put into consideration to ensure the success of your business.

Concerns of cash management

Cash management is concerned with the managing of:

- Cash flows into and out of the firm.
- Cash flows within the firm

- Cash balances held by the firm at a point of time by financing deficit or investing surplus cash.

Sales generate cash which has to be spending out. The act of maki ng money available when it is needed is the meaning of finance. No matter how big, how medium, or how tiny, every business requires money to function and accomplish its goals. No corporation could possibly fulfil its goals without enough cash. The surplus cash has to be invested while deficit has to be borrowed. Cash management means to accomplish this cycle at a minimum cost. At the same time, it also seeks to achieve liquidity and control.

The management of cash is also important because it is difficult to predict cash flows accurately, particularly inflows, and that there is a perfect coincidence between the inflows and outflows of cash. An obvious aim of firms now- a- days is to manage its cash affairs in such a way has to preserve cash balance at a minimum level and to invest the surplus cash funds in profitable opportunities.

Major uses of the long-term forecasts are it indicates as company's future needs, especially for its working capital requirements. It helps to evaluate proposed capital project; at the same time, it uses to pinpoints the cash required to finance these projects as well as the cash to be generated by the company to support them. And it helps to improve corporate planning long-term cash forecasts compel each division to plan for future to formulate projects carefully.

Working Capital

Working capital is the firm's investment in current assets. It refers to the amount of funds required by an industry to finance its day-to-day operations. It can be regarded as that part of capital, which is employed for short-term operations, so working capital relates to the management of current assets and current liabilities. We will hardly find a business firm which does not require any amount of working capital.

We know that firms aim at maximizing the wealth of shareholders. In its endeavour to maximize shareholders wealth, a firm should earn sufficient return from its operations. Earning a steady amount of profit requires successful sales activity. the firm has to invest enough funds in current assets for the success of sales activity. Current assets are needed because sales do not convert into cash instantaneously. There is always an operating cycle

involved in the conversion of sales into cash. The working capital is the difference between current assets and current liabilities. Which will be described below.

Current assets

Current assets are those assets, which are converted into cash within the usual course of business and within one year. They are

- Cash
- Accounts receivable within one year
- Inventory

These are the important current assets which is very much needed in any organization for the purpose of meeting short term needs.

Current liabilities

Current liability is those, which are intended at their inception to be paid in the ordinary course of business, within a year out of the current assets or earnings of the concern they are

- Accounts payable due within a year
- Short-term debt payments due within one year

Determinants of working capital

Various aspects of a business can impact the working capital and consequently, the short-term financial assistance required by a business. There are some of critical ones that must not be overlooked when it comes to evaluating the working capital requirements for any business concern.

1. Length of The Operating Cycle

The operation cycle is the number of days from the procurement of materials to the collection of sales from customers. This can be measured in days or months. The length of the operating cycle is directly proportional to the working capital required. Therefore, the longer the term, the more money you will attract. In general, production-intensive companies such as automobile manufacturers have long operating cycles, while

companies with non-intensive production processes such as bakeries have short operating cycles. As a result, the former requires much more working capital than the latter. Depending on the production time, entrepreneurs should have appropriate financing.

2. Inventory management policy

There are several methods of inventory management. The best is the one that fits the needs of the business and considers the time it takes to deliver the product to the customer. However, the policies adopted and practiced can have an impact on working capital.

3. Bargaining power with suppliers

Supply His chain predecessors are those from whom we source materials or outsource services. These inputs are further processed, refined and sold to the company's customers. We usually negotiate better prices and terms offered with these predecessors or suppliers.

This factor is inversely proportional to the working capital requirement. The stronger your bargaining power with suppliers, the more likely you are to reduce costs or extend credit terms. This will have a positive impact on the company's working capital position. This is because there is less run-off (which increases net working capital) and more time you have to repay your suppliers (resulting in smaller and faster operations) cycle).

4. Scale of Operation

This represents the size of the company. A large company means more money invested in a business through a higher asset base or installed capacity than a smaller company. A company's scope of business is not necessarily objective. Companies are always smaller as their horizons expand compared to other companies in the same region or industry. However, governments have different definitions of what constitutes "micro," "small," and "medium-sized" companies in relation to the value of long-term assets on the company's books.

5. Credit Extension Policy and Practices

Small businesses need to sell in instalments to sustain their business and generate revenue. Your credit policy determines how long customers can repay fees to your business. Longer

terms attract higher working capital needs. Small business owners are likely to be generous when it comes to collecting money from indebted customers.

Even after the agreed repayment date, the business owner may be reluctant to request payment as it may affect the relationship and potential for future sales. The practice may look good for business, but it can hurt a company's working capital position. Therefore, it is imperative that entrepreneurs insist on punctual payments.

6. Business seasonality

Some industries are naturally more seasonal than others. This means that sales and sales activities are not evenly distributed over the fiscal year. Weeks to months he has one or more periods of increased primary revenue-generating activity.

7. Sale

Among other factors, sales are one of the key factors that determine the level of working capital. In order to increase sales volume, the company must maintain working capital. Over time, the company will be able to maintain current assets at a constant percentage of annual sales. As a result, the turnover rate is improved. Return working capital to sales and reduce the length of operating cycles. Therefore, the shorter the operating cycle time, the lower the working capital requirement and vice versa.

8. Type of business

This is a key factor in determining the amount of working capital required for various businesses. A trading or manufacturing company requires more working capital in addition to fixed investments in inventory, raw materials and finished goods. Utilities and railroads with large fixed investments typically require the least working capital.

This is partly because of cash, the nature of the business, and partly because we sell services rather than goods. Similarly, basic and key industries, Similarly, basic and key industries, or industries involved in the production of capital goods, typically have a smaller working capital share of fixed capital than industries that produce consumer goods. So clearly identify that the type business associated which each industry will be one of the factor which determines the working capital.

9. Percentage of raw material cost in total cost

If the cost of the raw materials used to manufacture the product is very high compared to the total cost and its final value, the required working capital will also be high.

10. Need to store large quantities of raw materials for finished products

Manufacturing companies typically need to store raw material warehouses and other inventories, as well as finished goods. The more inventory you have (whether raw materials or finished goods), the greater your need for working capital.

11. Production flow

When companies estimate their production needs, they may deviate slightly from actual demand, resulting in excess inventory. Conversely, the just-in-time method requires less inventory investment because it is only made-to-order.

Benefits of working capital management

Working capital always helps the organization for the purpose of stable the business and provide various benefits to the firm.

Secure liquidity

Businesses often face problems because they lack the cash they need to operate and to pay off short-term debt. This happens because the company's working capital management policy is invalid or non-existent. Working capital management ensures liquidity by monitoring receivables, payables, inventory management and debt management. It helps the company always have enough cash to pay its operating expenses and short-term borrowings. This helps distribute resources optimally.

Avoid business disruption

Working capital management involves the use of key figure analysis. Indicators such as working capital ratio, quick ratio and accounts receivable turnover ratio are calculated and interpreted to provide information to management. Such information helps managers plan and execute their operations in the most efficient manner. Optimal use of working capital management can prevent future obstacles in business operations. Incidents such as late

payment of debts and lost production are greatly minimized. This gives the company a competitive advantage over its competitors.

Increased profitability

Appropriate application of working capital management strategies will improve company profitability in the long run. Policies properly manage inventory to avoid operational downtime. Accounts receivable collection is timely because accounts receivable management is an integral part of working capital management. Due to proper management and allocation of funds, there have been no cases of non-payment of accounts payable by the due date.

Improve financial health

Working capital management essentially deals with managing a company's cash. Evaluate sources of cash inflows and determine the best possible cash outflows. A good liquidity allocation gives you room to invest your remaining cash or service short-term debt. This allows the company to remain financially solvent in most cases, thus avoiding potential legal issues arising from lack of working capital. High profitability means high return on capital employed. This will attract more capital from potential investors and lead to further capacity development.

Added value

As already explained, working capital improves a company's financial health and operational success. It makes the company stand out from its competitors. There is respect for the company in the market. All of this leads to added value for the company.

Disadvantages of working capital management

Monetary factor only

This strategy only considers monetary factors. Monetary items such as bond value, finished goods value, etc. are fundamental determinants in implementing strategies. Non-monetary factors such as recession, worker dissatisfaction and changes in government policy towards industry are not considered or relevant in this policy. So, it is clear that some of the monetary factor will be one of the problem of working capital.

Non situational

Another drawback of the working capital management policy is that it is inherently situational. This strategy is based on historical events and figures and does not take into account sudden changes in market conditions. The time it takes to respond to a particular topical issue has a significant impact on business operations and profitability.

Problem of interpretation

Working capital management includes ratio analysis techniques. A ratio is just a number that allows the user to interpret the results. In most cases, users do not know whether a particular ratio is favourable to their company. For example, for working capital ratios, it is recommended that a ratio greater than 1:1 is desirable. On the other hand, however, given the trading conditions and trading cycles, we also recommend against ratios above 2:1. Now, if a company's accounts receivable cycle is longer than the industry average, that company will not be able to interpret the ratio accurately.

Cash and Cash equivalents

One of the most important working capital components to be managed by all organizations is cash and cash equivalents. Cash management helps in determining the optimal size of the firm’s liquid asset balance. It indicates the appropriate types and amounts of short-term investments along with efficient ways of controlling collection and pay out of cash. Good cash management implies the co-relation between maintaining adequate liquidity with minimum cash in bank. All companies strongly emphasize on cash management as it is the key to maintain the firm’s credit rating, minimize interest cost and avoid insolvency.

Dangers of Inadequate Working Capital

1. A concern which has inadequate working capital cannot pay its short-term liabilities in time. Thus, it will lose its reputation and shall not be able to get good credit facilities.
2. It cannot buy its requirements in bulk and cannot avail of discounts, etc.
3. It becomes difficult for the firm to exploit favourable market conditions and undertake profitable projects due to lack of working capital.

4. The firm cannot pay day-to-day expenses of its operations and it creates inefficiencies, increases costs and reduces the profits of the business.
5. It becomes impossible to utilize efficiently the fixed assets due to non-availability of liquid funds.
6. The rate of return on investments also falls with the shortage of working capital.

Operating cycle

Operating cycle is the time duration required to convert sales, after the conversion of resources into inventories, into cash. The operating cycle of a manufacturing company involves three phases:

- Acquisition of resources such as raw material, labour, power and fuel etc.
- Manufacture of the product which includes conversion of raw materials into work-InProgress into finished goods.
- Sales of the product either for cash or on credit. Credit sales create book debts for collection.

These phases affect cash flows, which most of the time, are neither synchronized nor certain. They are not synchronized because cash out flows usually occur before cash inflows. They are not certain because sales and collections, which gives rise to cash inflows, are difficult to forecast accurately. The firm is therefore required to invest in current assets for a smooth, uninterrupted functioning. It needs to maintain liquidity to purchase raw materials and pay expenses such as wages and salaries, other manufacturing, administrative and selling expenses and taxes as there is hardly a matching between each cash inflows and outflows.

Cash is also held to meet any future exigencies. Stock of raw materials and work-in-process are kept to ensure smooth production and to guard against non-availability or raw materials and other components. The firm holds stock of finished goods to meet the demands of customers on continuous basis and sudden demand from some customers. Book debts (accounts receivables) are created because goods are sold on credit for marketing and competitive reasons. Thus, a firm makes adequate investment in inventories and book debts for a smooth and uninterrupted production and sale. So, operating cycle tells how the company is going on.

Determining the optimum cash balance

One of the primary responsibilities of the finance manager is to maintain a sound liquidity position of the firm so that dues may be settled in time. The firm needs cash not only to get raw materials and pay wages, but also for payment of dividend, interest, taxes, and countless other purposes. The test of liquidity is basically the availability of cash to meet the company's obligations when they become due.

The operating cash balance is maintained for transaction purposes and a further amount may be maintained as a buffer or safety stock. The finance manager should determine the acceptable amount of cash balance. Such a choice is influenced by a trade-off between risk return. If the firm maintains small cash balance, neither too small nor overlarge. to seek out the optimum cash balance, the transaction costs and risks of too small a balance should be matched with the chance costs of too large a balance.

Management of Receivables

Account receivable/sundry debtors constitute the third most important assets category for business firms, after plant and equipment and inventories. When a business or an industry would like to sell on cash the pressure of competition and the force of custom persuades them to sell on credit. Business /Industry grants credit to facilitate sales. The term receivable is defined as debt owed to the firm by customers arising from sales of goods or services in the ordinary course of business.

When a firm makes an ordinary sale of goods or services and does not receive payment, the firm grants trade credit and creates account receivable which would be collected in the future, thus account receivable represents an extension of credit to customers. Allowing them a receivable period of time in which to pay for the goods, which they have received, therefore receivables is less than the cost of funds raised to finance that additional credit.

Credit Evaluation

In extending credit to customers, the firm would ensure that receivables will be collected in full and on due dates. Credit should be granted to those customers who have the ability to make the payment on time.

Inventory Management

Inventories are stock of the product a company is manufacturing for sale and components that make up the product. The various forms in which inventories exist in a manufacturing company are Raw materials, Work-in-progress and finished Goods. Inventories constitute the most significant part of current assets of a large majority of companies. A considerable amount of funds is required to be committed to them.

Causes of Problems with Cash Management

Unfortunately, many businesses engage in poor cash management, and there are several reasons for the problem. They are discussed below:

1. Poor understanding of the cash flow cycle

Business management should clearly understand the timing of cash inflows and outflows from the entity, such as when to pay for accounts payable and purchase inventory. During rapid growth, a company can end up running out of money because of over-purchasing inventory, yet not receiving payment for it.

2. Lack of understanding of profit versus cash

A company can generate profits on its income statement and be burning cash on the cash flow statement. When a company generates revenue, it does not necessarily mean it already received cash payment for that revenue. So, a very fast-growing business that requires a lot of inventory may be generating lots of revenue but not receiving positive cash flows on it.

3. Lack of cash management skills

It is crucial for managers to acquire the necessary skills despite the understanding of the abovementioned issues. The skills involve the ability to optimize and manage the working capital. It can include discipline and putting the proper frameworks in place to ensure the receivables are collected on time and that payables are not paid more quickly than is needed. So, the lack of cash management skills is the one of major problem of cash management.

4. Bad capital investments

A company may allocate capital to projects that ultimately do not generate sufficient return on investment or sufficient cash flows to justify the investments. If such is the case, the investments will be a net drain on the cash flow statement, and eventually, on the company's cash balance.

Cash forecasting and budgeting

Cash budget is that the most significant device to plan for and control cash receipts and payments. Cash budget may be a summary of the firm's expected cash inflows and outflows over a projected time period. It gives information on the timing and magnitude of expected cash flows and cash balances over the projected period. This information helps the financial manager to work out the future cash needs of the firm, plan for the financing of those needs and exercise control over the cash and liquidity of the firm. Cash forecasting could also be done on short-term or long- term, those extending beyond one year considered long-term.

Short-term forecasts

It is comparatively easy to make short term forecasts. The important functions of carefully developed short-term forecasts are:

- To determine operating cash requirements
- To anticipates short-term financing
- To manage investment of surplus cash

The short-term forecast helps in determining the cash requirements for a predetermined period to run business. If the cash requirements aren't determined, it might not be possible for the management to know how much cash balance to keep in hand, to what extent bank financing be depend on and whether surplus funds would be available to invest in marketable securities.

Most companies depend on banks for their temporary financing needs. one among the significant roles of short-term forecasts is to pinpoint when the money will be needed and when it can be repaid. It gives information on the timing and magnitude of expected cash flows and cash balances over the projected period. With such forecasts in hands, it'll not

be difficult for the financial manager to negotiable short-term financing arrangements with banks this in fact convinces bankers about the ability of management to run its business. Another important function of short-term cash forecast is to assist in managing the investment of surplus cash forecast helps a firm to select securities with appropriate maturities and reasonable risk, avoid over and under investing and maximize profits by investing idle money.

There are two commonly used methods of short-term cash forecasting are:

- The receipt and disbursements methods
- The adjusted net method

The receipts and disbursements method are usually employed to forecast for limited periods, like week or a month. The adjusted net method, on the opposite hand, is preferred for extended durations ranging between a few months to a year. The cash flows are often compared with budgeted income and expenses items if the receipts and disbursements approach is followed. On the opposite hand, the adjusted income approach is acceptable in showing a company's working capital and future financing needs. So, these short-term forecasting methods which helps the organization to meet their short-term needs.

Long-term forecasts

Long-term cash forecasts are prepared to offer an idea of the company's financial requirements in distant future. they're not as detailed as the short-term forecasts. Once a corporation has developed long-term cash forecast, it is often used to evaluate the impact of, say, new- product developments are plant acquisitions on the firm's economic condition three, five or more years within the future.

Major uses of the long-term forecasts are it indicates as company's future needs, especially for its capital requirements. It helps to gauge proposed capital project; at the same time, it uses to pinpoints the cash required to finance these projects also as the cash to be generated by the company to support them. And it helps to enhance corporate planning long-term cash forecasts compel each division to plan for future to formulate projects carefully. So, both short-term and long-term methods used for the purpose of cash forecasting.

3.2 Tools for cash management

Mainly there are three tools used for the study. They are ratio analysis, cash flow statement and trend analysis

Ratio analysis

The primary purpose of ratio analysis is to appraise the operating and financial performance of an economic activity and determine its efficiency, profitability, liquidity and solvency. In other words, ratio analysis is a method of analysing and comparing financial data by calculating meaningful percentages of year-end values instead of comparing items in each financial statement.

Ratio analysis has its own strengths and weaknesses. The points listed below highlight these points.

The advantages of ratio analysis are:

- Performing trend analysis helps in forecasting and planning.
- Analysing historical trends can help you estimate your company's budget.
- It helps determine how efficiently a company or organization is operating.
- Provides users of accounting information with important information about company performance.
- Useful when comparing multiple companies. It helps determine both a company's liquidity and long-term solvency.

The disadvantages of ratio analysis are:

- Financial reporting can seem complicated.
- Some organizations operate in different companies, each occupying different environmental positions such as market structures, regulations, etc. Factors like these are important and can blur comparisons between her two organizations in different industries.
- Financial accounting data is subject to beliefs and assumptions. Ratio analysis is not very useful in such situations because accounting standards provide different accounting methods, which reduces comparability. Ratio analysis shows the

relationship between historical data while users are interested in current and future data.

Uses of Ratio Analysis

Ratio analysis is useful for different purposes.

1. Compare

One use of ratio analysis is to understand a company's position in the market by comparing a company's financial performance to its industry peers. Obtaining financial metrics such as price/earnings from known competitors and comparing them to company metrics can help management identify market gaps and examine competitive advantages, strengths and weaknesses. Helpful. Management can then use that information to formulate decisions aimed at improving the company's position in the market.

2. Trend line

Companies can also use metrics to determine if there are trends in their financial performance. Established companies collect data from their financial statements over various reporting periods. The resulting trends can be used to predict the direction of future financial performance or to identify anticipated financial disruptions that could not have been predicted using a single reporting period indicator.

3. Operational efficiency

Company management can also use financial ratios to determine the efficiency of asset and liability management. Inefficient use of assets such as vehicles, land and buildings create unnecessary costs that should be eliminated. Financial metrics also help determine whether financial resources are overutilized or underutilized.

Different ratios used for the study discussed below:

Current ratio

Current ratio shows the relationship between total current assets and total current liabilities. And the current ratio indicates the firm’s capacity to pay its current liabilities in time. Generally, a current ratio of 2:1 is considered satisfactory or ideal. This means

that current assets shall be at least twice the current liabilities. This further means that paying off the current liabilities, there should be sufficient margin of working capital.

Current ratio=Current assets/Current liabilities

Quick ratio

As quick ratio of 1:1 is considered as satisfactory or idea. It means that the liquid assets are just equal to quick/current liabilities. If the quick ratio is 1:1 or more than 1:1, the financial position of the firm is said to be good. It indicates that quick assets are sufficient to pay off the short-term obligations. If the ratio is less than 1:1 the financial position is said to be unsound. This means that the firm will not be able to pay off its current liabilities when they become due.

Quick Assets =Quick Assets/ Quick liabilities

Inventory Turnover Ratio

It is a ratio which used to measure liquidity of inventory. This ratio measures how quickly inventory is sold. It can be used to test the efficiency in inventory management. Generally, a ratio of 8 times is considered satisfactory. A high turnover ratio indicates that inventory is sold fast. It is an indication of inventory management. On the other hand, a low turnover ratio reflects over investment in inventories, accumulation of huge stock, dull business etc.

Inventory turnover ratio=Net sales/Avg inventory

Inventory To Working Capital

Inventory to working capital turnover ratio it shows the day-to-day expenses going on the production. When the production expenses are less the profit will be increased and also the sales are increased in less waste in the production place. It is the ratio which helps to understand the overall development of the particular company

Inventory to Working capital=Inventory/Working capital

Working capital = Current Assets - Current Liabilities

Working Capital Turnover Ratio

Working capital turnover measures how effective a business is at generating sales for every dollar of working capital put to use. A higher working capital turnover ratio is better, and indicates that a company is able to generate a large amount of sales. However, if working capital turnover rises too high, it could suggest that a company needs to raise additional capital to support future growth.

Working Capital Turnover Ratio= Net Sales/Working capital

Fixed Assets Turnover Ratio

The ratio indicates how efficiently the fixed assets are utilized. The ratio calculated in determining to what extent the investment in fixed assets has been achieving its objective of generating sales. And it helps to shows how well the fixed asset are being used to generate sales in the business. The higher the ratio, better is the performance. On the other hand, a low rate indicates that fixed assets are not being efficiently utilized.

Fixed Assets Turnover Ratio = Net Sales / Fixed Assets

Net profit ratio

Net profit ratio is the ratio of net profit earned by a business and its net sales. It is the final net profit after adjusting all expenses and all incomes. It measures overall profitability. The ideal net profit ratio is 5% to 10%. Higher the ratio, better the profitability. This means higher returns to shareholders. And this ratio indicates how much of sales is left after meeting all expenses. So, which will clearly specify the profitability of business.

Net Profit = Profit after Tax/ Sales*100

Gross Profit Ratio

Gross profit ratio is more useful in wholesale and retail trading concerns. It indicates the efficiency of production or trading operations. In simple words, this ratio measures the margin of profit available on sales. The ideal ratio is 20% to 25%. The ratio helps to measure the efficiency with which a firm produces its products, to determine the selling price along with that to analyses the reasons of significant variations in various years. The formula for calculating gross profit ratio mentioned below.

Gross Profit ratio = Gross profit/ Sales*100

Operating Profit Ratio

Operating profit ratio explains the relationship between operating profit and sales. It is the ratio indicates the result of operation of business. It indicates how efficiently the business is being operated. In short, it measures the operational efficiency. It is the profit before adjusting non-operating expenses, purely financial charges like interest on loan and debentures and non-operating income.

Operating Profit ratio= Operating profit/sales*100

Current Asset to Total Asset Ratio

Current asset to total asset ratio reveals the part of current asset to the total asset. It helps in determining what part of the total assets is utilized for fixed capital and for current assets. This is the ratio which provide what amount of assets that can be used for capital and with that the firm will be able maintain its resources.

Current Asset to Total Asset Ratio = Current Assets / Total Assets

Cash ratio

The cash ratio is the ratio of cash and cash equivalents to short-term liabilities of the Company. This is an extremely high liquidity ratio as it only compares cash and cash equivalents with current liabilities. Measure ability to repay your current debt using only cash and cash equivalents. Cash & cash equivalent is greater than current Liabilities, that means the organization has more cash than they need to pay off the current liabilities. It's not always a good situation as it denotes that the firm has not utilized assets to their fullest extent.

Cash ratio = Cash/Current liabilities*100

Cash to Working Capital

This is another ratio which helps to study cash to working capital. The cash generating capital ratio measures the extent to which current liabilities can be hedged using cash and cash equivalents and current assets such as securities. This includes situations in which the company does not spend too much money on inventory and moves quickly to sales. This used following formula to calculate cash to working capital.

Cash To Working Capital= Cash and Cash Equivalents /Working capital

Cash To Total Asset Ratio

Cash to total asset ratio is another ratio which used in this study. This is basically a ratio which reveals the amount of liquid cash a firm holds when compared to the total assets held by the company. Cash to total asset ratio is calculated by dividing with total assets of the company. From this ratio which helps to identify the liquid cash to the total assets for the purpose of meeting the requirements.

Cash to Total Asset Ratio = Cash / Total Assets

Debt equity ratio

Debt equity ratio is of particular importance to long term creditors. The debt-equity ratio is a measure of the relative contribution of the creditors and shareholders or owners in the capital employed in business. It indicates the degree of protection the creditors have. A high ratio indicates safety to the creditors and a low ratio indicates greater risk to the creditors. This ratio shows the relative contributions of creditors and owners of business in its financing.

Debt Equity Ratio = Total Liabilities / Shareholders Funds

Debt Collection Period

Debt collection period helps to identify the collection period or age of debtors. The average collection period is the average number of days it takes a business to collect and convert its accounts receivable into cash. It is one of the main calculations used to determine short-term liquidity, that is, the ability of a company to pay its bills as they come due. It clearly specifies the time or days which is taken to collect the money from debtors related to the particular company. If it takes less time then it shows the quick debt collection of that company.

Debt collection period= Debtors/ Sales

Payment Period

Payment collection period helps to identify the payment period or age of creditors. The payment period is the period of time from the point a debt is incurred to the due date of the repayment. It clearly specifies the time or days which is taken to settle the payment which is taken from creditors on credit related to the particular company. If it takes more

time then it shows the delay in payment. As a businessman he is always looking for delay in payment.

Payment Period= Creditors/ Purchases

Cash to Current Assets

The cash rate represents the portion of total current assets, including the most current assets, cash and cash equivalents, and securities of the Company. The ratio of cash and cash equals the present value of the securities and cash divided by the current liabilities of the Company. Cash ratios (also known as cash ratios) compare the amount of highly liquid assets (such as cash and securities) to the amount of current liabilities.

Cash to Current Assets = Cash/Current Assets*100

Cash to Sales

The cash to sales ratio represents the ability to generate cash flows in proportion to the volume of sales. Calculated by cash flow from operations divided by net sales. Ideally, the ratio should be about the same as revenue growth.

Cash to sales= cash / Net sales

Cash flow statement

In financial accounting, a statement of cash flows is also called cash flow statement. It presents the impact of changes in the balance sheet and income statement on cash and cash equivalents. And divides the analysis into operating activities, investments and financing activities. The cash flow statement is a statement of changes in financial position based on funds defined as cash or cash equivalents. The cash flow statement summarizes the company's cash inflows and outflows over a period of time.

A cash flow statement is a financial statement that provides aggregate data regarding all cash inflows a company receives from its ongoing operations and external investment sources. It also includes all cash outflows that pay for business activities and investments during a given period. A company's financial statements offer investors and analysts a portrait of all the transactions that go through the business, where every transaction contributes to its success. The cash flow statement is believed to be the most intuitive of all the financial statements because it follows the cash made by the business in three main

ways. Which is through operations, investment, and financing. The sum of these three segments is called net cash flow.

- Cash flow from operating activities

Cash flow from operating activities is included in a statement of cash flows that describes the source of cash and the use of on-going commercial activities during a given period. This generally, includes changes in net income from income statement, adjustments to net income and working capital.

- Cash flow from investing activities

Investing activities refer to the funds contributed or acquired from purchasing or selling securities or investments. In such a case, money outflow results from the purchase of property, plant, equipment (PPE), and other investment instruments. Money inflow is generated by selling the possessed securities. Such exchanges exclude securities held for dealing and trading activities.

- Cash flow from Financing activities

Financing activities are those activities which result in changes in size and composition of owner's capital and short-term and long-term borrowings. Financing activities primarily include any receipts and payments related to capital. The inflow from financing refers to the raising of capital from equity or long-term debts It involves cash receipts from issuing common stock preferred stock, bonds, and various short-term and long-term borrowings. Thus, there are two significant sources of finance—shareholders and creditors in contrast, money outflow comprises repayment of borrowings, the redemption of bonds treasury stock repurchases, and payment of dividends. However, indirect borrowing from accounts payable is classified as money flow from operating activities and not from financing activities.

Importance of the cash flow statement

For a company to be successful, it always needs sufficient liquidity. This allows him to repay bank loans, buy goods, and invest to earn profitable returns. A company is declared bankrupt if it does not have enough cash to pay its debts. Here are some of the benefits of cash flow statements:

- Provide Expense Details: The cash flow statement clearly shows the capital payments the company is making to creditors. It also presents transactions recorded in cash that are not reflected in other financial statements. This includes purchasing inventory, lending to customers, and purchasing capital goods.
- Helps you maintain an optimal cash balance: The cash flow statement helps you maintain an optimal cash balance. It is important for the company to determine if there is too much unused cash or if there is a shortage or excess of funds. When excess cash is left over, the company can use it to invest in stocks or purchase inventory.

When cash is tight, businesses can borrow money to find sources of funding to sustain their operations. Helps you focus on cash generation: Profit plays a key role in growing your business by generating cash. However, there are several other ways to generate money. For example, if a company finds a way to keep capital costs down, it will actually generate cash. Every time you collect a debt from a customer faster than usual, you are earning cash.

- Helps with short-term planning: The cash flow statement is an important tool for managing cash flow. A successful business must always have sufficient liquid funds to meet short-term obligations such as upcoming payments. Financial managers can analyse deposits and withdrawals from past transactions to make important decisions. Situations where you need to make decisions based on cash flow include predicting cash shortfalls to pay off debt or providing the basis for applying for a loan from a bank.

Disadvantages of Cash Flow Statement

- Since it shows only cash position, it is not possible to deduce the actual profit and loss of the company by just looking at this statement.
- In isolation, this is of no use and it requires other financial statements like balance sheet, profit and loss etc…, and therefore limiting its use.

Cash flow is usually expressed as positive (the company receives more cash than it spends) or negative (the company uses more cash than it earns).

A positive cash flow indicates that the company has been inflowing more money into its business than out of it over a period of time. This is the ideal situation. That's because

companies can use their excess cash to reinvest in themselves and their shareholders, pay down debt, and find new ways to grow their businesses.

However, positive cash flow does not necessarily mean profit. Your business can be profitable without being cash flow positive, and can be cash flow positive without actually being profitable.

A negative cash flow means that the cash outflow is greater than the cash inflow during the period, but it does not necessarily mean that profits are lost. Instead, negative cash flow can be caused by an imbalance between expenses and income that needs to be addressed as soon as possible.

Negative cash flow can also be caused by a company's decision to expand its business and invest in future growth. Therefore, it is important to analyse changes in cash flows from one period to another. This gives you an idea of the company's overall performance.

Use of cash flow statement

- The cash flow statement is based on the cash basis of accounting and is therefore very useful in assessing a company's cash position.
- You can create a forecast cash flow statement to understand the future cash position of the group and help the company to properly plan and coordinate its financial operations. By preparing this statement, businesses can know how much cash is flowing into their business and how much cash they need to make various payments, so they know what their future cash needs will be.
- A comparison of historical cash flow statements and projected cash flow statements can be performed to spot performance gaps, shortfalls, or other points, so companies can take immediate and effective action.
- A series of intercompany and intercompany cash flow statements show whether a company's liquidity (short-term solvency) has improved or deteriorated over time, and how it has improved relative to other companies over time.
- Cash flow statements help you plan loan repayments, fixed asset replacements, and other similar long-term liquidity plans. It is also important for investment decisions.
- By revealing the different uses of the cash, the company makes, it better explains why the company is in financial trouble despite making a lot of money. It also

helps answer complex questions such as: where has the profit gone? Why couldn't we pay more dividends, even though we had plenty of profit?

- Cash flow analysis is more useful and appropriate than cash flow analysis for short-term financial analysis. This is because cash is more important than working capital in predicting a company's ability to meet its immediate obligations.
- The cash flow statement prepared in accordance with AS-3 (Revised) does not use a standard format and is therefore more suitable for comparison than the cash flow statement.
- The cash flow statement provides information on all activities classified as business, investment and financial activities. A cash account, even if prepared on a cash basis, does not separately identify cash flows from such activities. A cash flow statement is therefore more useful than a cash flow statement.

Trend analysis

Trend analysis is comparing financial statements to analyse market and future trends based on past performance results, analysing company trends, and making the best decisions based on the results of the analysis performed. Trend analysis collects information from multiple time periods and plots the collected information on a horizontal line to find actionable patterns in the given information.

Trend analysis helps in understanding the direction in which the organization is moving. Under this analysis the values of an item in different years are expressed in relation to the value in one year called the base year. Taking the values of the item in the base year to be equal to 100. The values of the item in different years are expressed as percentages to this value.

Types of Trend

1 – Uptrend

An uptrend, or bull market, occurs when financial markets and assets (as well as the broader economy) rise, allowing the prices of stocks and assets, as well as the size of the economy, to increase over time. It's a booming period when jobs are being created, the economy is moving towards positive markets, market sentiment is good, and the investment cycle is beginning.

2 – Downtrend

Poor sales have forced companies to shut down operations or scale back production. A downtrend, or bear market, occurs when financial markets and asset prices (as well as the broader economy) fall, and the prices of stocks and assets, or even the size of the economy, continue to fall over time. Jobs are being lost, asset prices are starting to fall, market sentiment is not favourable to further investment, and investors are rushing to invest.

3 – Sideways/horizontal trend

A sideways/horizontal trend means that an asset or stock price is not moving in any direction, as is the case in the broader economy. They move sideways, move up for a while, then move down for a while.

You cannot determine the direction of a trend. It's a trend in which investors feel uneasy about investing and governments are trying to push the economy into an uptrend. Sideways or horizontal trends are generally considered risky because it is not possible to predict when sentiment will reverse. Therefore, investors should stay away from such situations.

Uses of trend analysis

1 – Use in Accounting

Income and expense information from an organization's income statement can be laid out on a horizontal line over multiple time periods to examine trends and data discrepancies. For example, if an expense increases sharply in one quarter and then decreases sharply in the next period, this indicates that the expense was booked twice in the first quarter.

Analysis of accounting trends is therefore essential for examining financial statement inaccuracies to determine whether certain heads need to be adjusted before drawing financial statement conclusions.

2 – Use in Technical Analysis

Investors can create trend lines from past stock prices and use this information to predict future stock price movements. Through the trend analysis the investors can easily predict the stock price movements. Trends can be assigned to specific information. Before completing any trend analysis, you should investigate causality.

Advantages of trend analysis:

a) Possibility of company comparison

Trend analysis helps analysts make reasonable comparisons of two or more companies over a period of time. You can also compare to industry averages. In other words, it helps us understand the strengths or weaknesses of a particular company compared to other related companies within the industry.

b) Useful for comparative analysis

Trend analysis is very useful for comparative analysis of data to measure a company's financial performance over a period of time and helps management to make future decisions. In other words, it helps us predict the future.

c) Liquidity and solvency measurements

Trend analysis helps analysts/and management to understand a company's short-term liquidity position and long-term solvency position over time using relevant financial trend indicators.

d) Measuring profitability position

Trend analysis also helps measure the profitability of a business or company over time using relevant financial trend indicators (eg, utilization rate, net profit margin, gross profit margin, etc.).

Disadvantages of trend analysis:

Which includes, choice of year, consistency, and Useless in inflationary situations.

a) Choice of base year

Choosing a base year is not so easy. Normally, the normal year is used as the base year. However, it is very difficult to choose a proposed base year for determining trends. Otherwise, comparative analysis and trend analysis are meaningless.

b) Consistency

It is also very difficult to follow consistent accounting principles and policies, especially when corporate accounting trends are constantly changing.

c) Useless in inflationary situations

Trend percentage analysis is useless at times of price level changes (inflation). Data trends used for comparison can lead to misleading results.

CHAPTER – 4

DATA ANALYSIS AND INTERPRETATION

4.1 Ratio analysis

4.1.1 Current Ratio

Current ratio=Current assets/Current liabilities

Year	Current Assets	Current Liabilities	Ratio
2016-2017	494155804	451981689	1.09
2017-2018	1157922441	1231192557	0.94
2018-2019	1395260759	1148814056	1.21
2019-2020	1541927173	1362294870	1.13
2020-2021	1553383850	1441559230	1.07

Table No. 4.1.1 Table Showing current Ratio

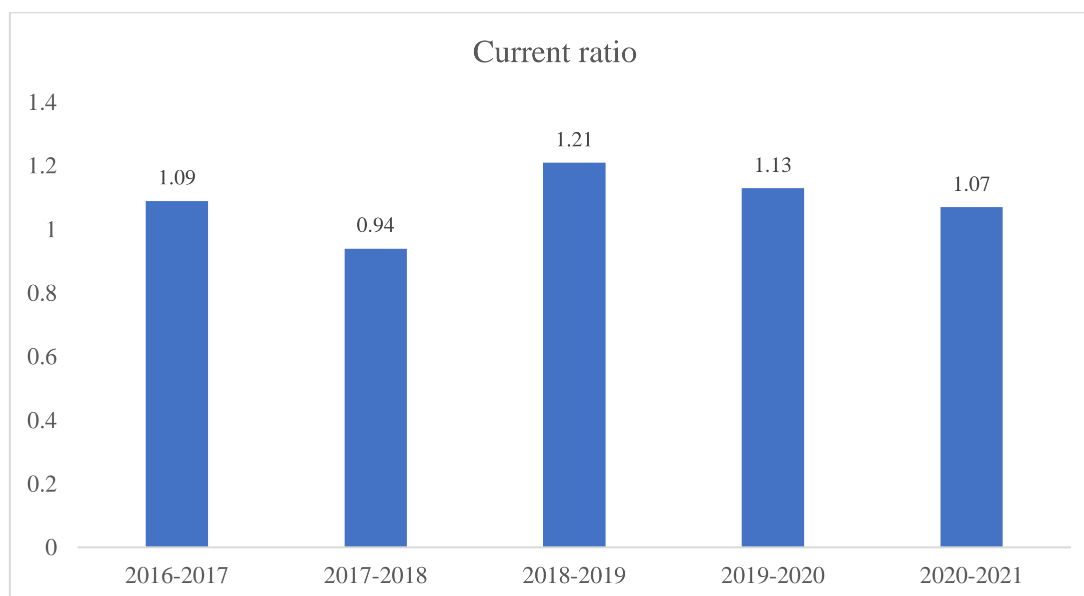


Figure No. 4.1.1 Showing current ratio

Interpretation

When we compare the current assets to current liability, we can understand the company didn’t have the standard proportion of current assets and current liability. In 2016-17 current ratio is 1.09 and when it come next year it is below than the previous year. Compare to 2019-20 there is much more increase in the 2020-21. So, the graph indicates the company need to improvement in current assets to current liabilities.

4.1.2 Quick Ratio

Quick Assets =Quick Assets/ Quick liabilities

Year	Quick assets	Quick Liabilities	Ratio
2016-2017	164354109	147627580	1.11
2017-2018	192223842	965698599	0.19
2018-2019	437976469	710837587	0.61
2019-2020	450842945	397971111	1.13
2020-2021	469481729	972077501	0.48

Table No. 4.1.2 Showing quick ratio

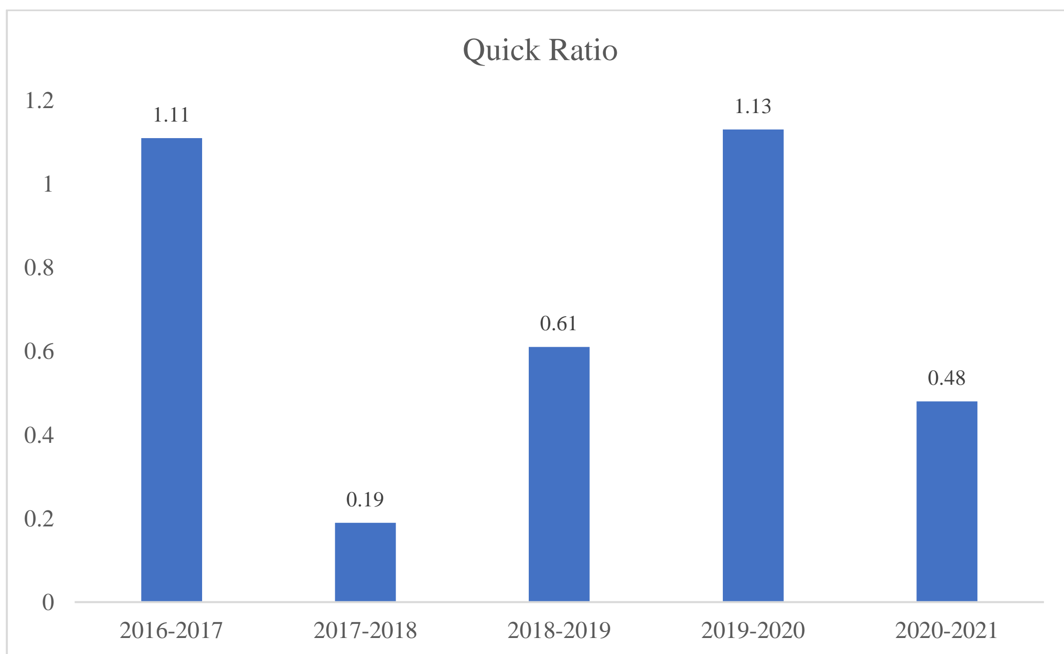


Figure No. 4.1.2 Showing quick ratio

Interpretation

From the graph shows quick ratio of different years. In 2016-17 was 1.11, in 2017-18 it is decreased to 0.19 and in 2018-19 it is 0.61. And 2019-20 it reaches to 1.1. In 2020-21 it is decreased to 0.48. So, the financial position of a company is not good. Because it shows decreasing trend compared to the base year and the standard ratio.

4.1.3 Inventory Turnover Ratio

Inventory turnover ratio=Net sales/Avg inventory

Year	Net sales	Average Inventories	Ratio
2016-2017	216189360	164900848	1.31
2017-2018	232210806	482849300	0.48
2018-2019	26913264	478642145	0.05
2019-2020	121050219	545542114	0.22
2020-2021	2277061317	541951061	4.2

Table No. 4.1.3 Showing Inventory turnover ratio

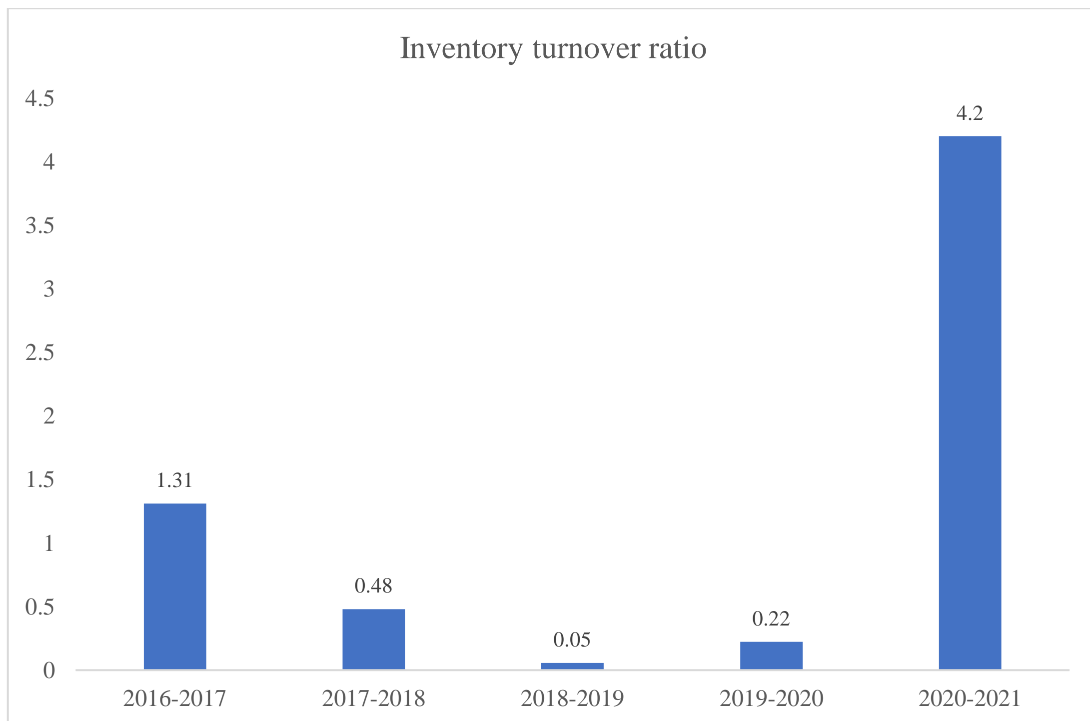


Figure No. 4.1.3 Showing inventory turnover ratio

Interpretation

The inventory ratio in the year 2016-17 was 1.31 and in 2017-18 it was 0.48. In the year 2018-19 it decreased to .05 and in 2019-20 is 0.22. But in 2020-21 it climbs to 4.2. Considering all the year in 2020-21 it reaches maximum. At the same time the company needs to improve in the management of inventory.

4.1.4 Inventory to Working Capital

Inventory to Working capital=Inventory/Working capital

Working capital = Current Assets - Current Liabilities

Year	Inventory	Working Capital	Inventory To Working Capital
2016-2017	329801695	42174115	7.82
2017-2018	965698599	73270116	13.17
2018-2019	957284290	246446703	3.88
2019-2020	1091084228	179632303	6.07
2020-2021	1083902121	111824620	9.69

Table No. 4.1.4 Showing calculation of Inventory to working capital

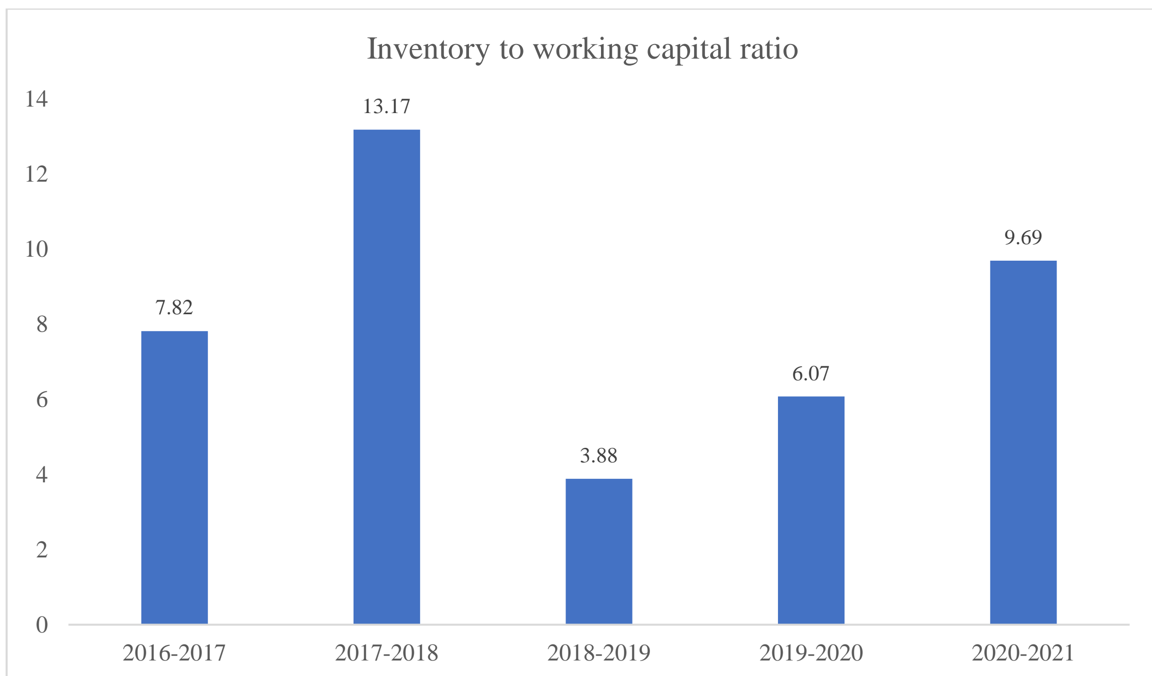


Figure No. 4.1.4 Showing inventory to working capital

Interpretation

From the graph it shows the inventory to working capital ratio, in 2016-17 was 7.8 and in 2017-18 it increases to 13.1. And in 2018-19 it was 3.8 and in 2019-20 it increases to 6.07. In 2020-21 it increased to 9.6. So, Inventory to working capital turnover ratio it shows the day-to-day expenses going according to the production. It shows comparatively good performance.

4.1.5 Working Capital Turnover Ratio

Working Capital Turnover Ratio= Net Sales/Working capital

Year	Net sales	Working capital	Ratio
2016-2017	216189360	42174115	5.12
2017-2018	232210806	73270116	3.16
2018-2019	26913264	246446703	0.1
2019-2020	121050219	179632303	0.67
2020-2021	2277061317	111824620	20.3

Table No. 4.1.5 Showing Calculation of Working Capital Turnover Ratio

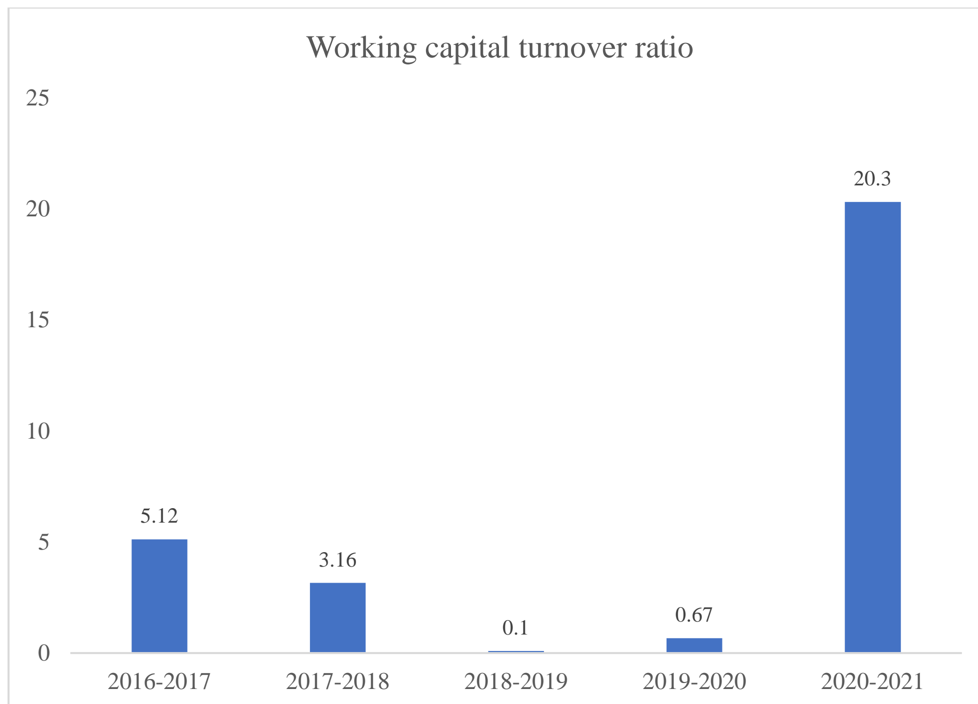


Figure No. 4.1.5 Showing Calculation of Working Capital Turnover Ratio

Interpretation

The working Capital Ratio in the year 2016-17 was 5.12, 2017-18 it decreased to 3.16, and in 2018-19 it is again decreased to 0.1. And the very next year it increased to 0.67. In 2020-21 it is climbed to 20.3. It indicates that that the working capital of the company will be not in good condition. Because every year which is fluctuating whether it will be in maximum nor it will be in very low.

4.1.6 Fixed Assets Turnover Ratio

Fixed Assets Turnover Ratio = Net Sales / Fixed Assets

Year	Sales	Fixed assets	Ratio
2016-2017	216189360	54475645	4
2017-2018	232210806	197519863	1.17
2018-2019	26913264	216855527	0.12
2019-2020	121050219	233026243	0.51
2020-2021	2277061317	221647868	10.2

Table No. 4.1.6 Showing fixed assets turnover ratio

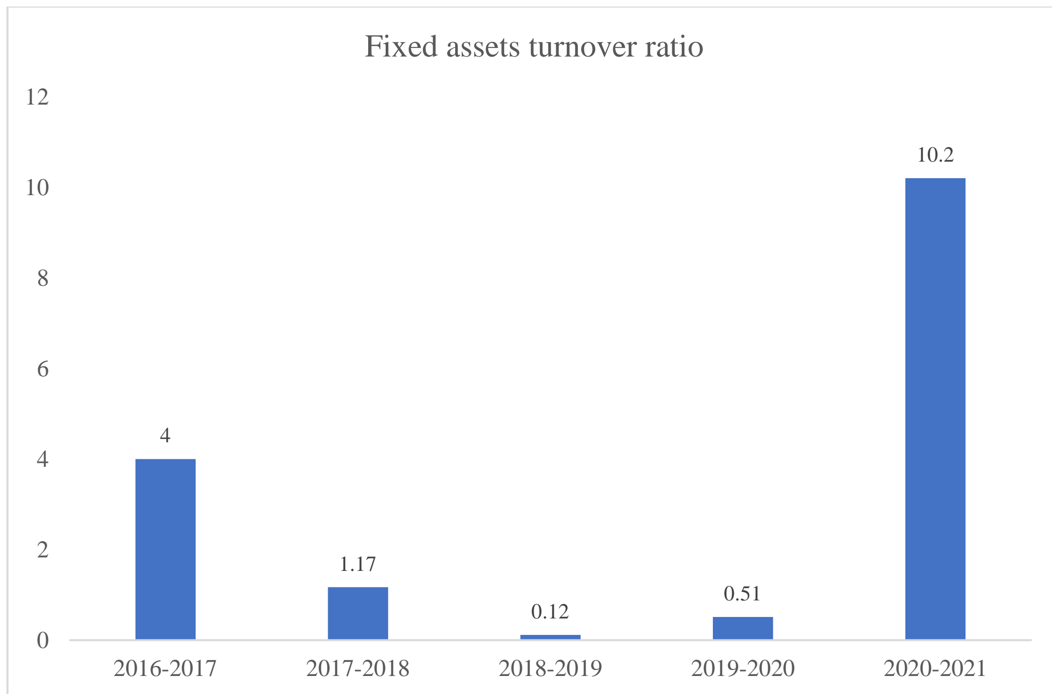


Figure No. 4.1.6 Showing fixed assets turnover ratio

Interpretation

Fixed Asset Turnover Ratio stands highest during the financial year 2020-21 and 2016-2017 with 10.2 and 4 respectively compared to other 3 years.so, in between 2017-18, 2018-19, and 2019-20 it decreases very drastically. There is no stability in the management that considering fixed assets being generated to sales in the business.

4.1.7 Net Profit Ratio

Net Profit = Profit after Tax/ Sales*100

Year	Profit After Tax	Sales	Ratio in %
2016-2017	19926679	216189360	9.21
2017-2018	17670279	232210806	7.6
2018-2019	3972015	26913264	14.75
2019-2020	18978979	121050219	15.67
2020-2021	191363400	2277061317	8.4

Table No.4.1.7 Showing net profit ratio

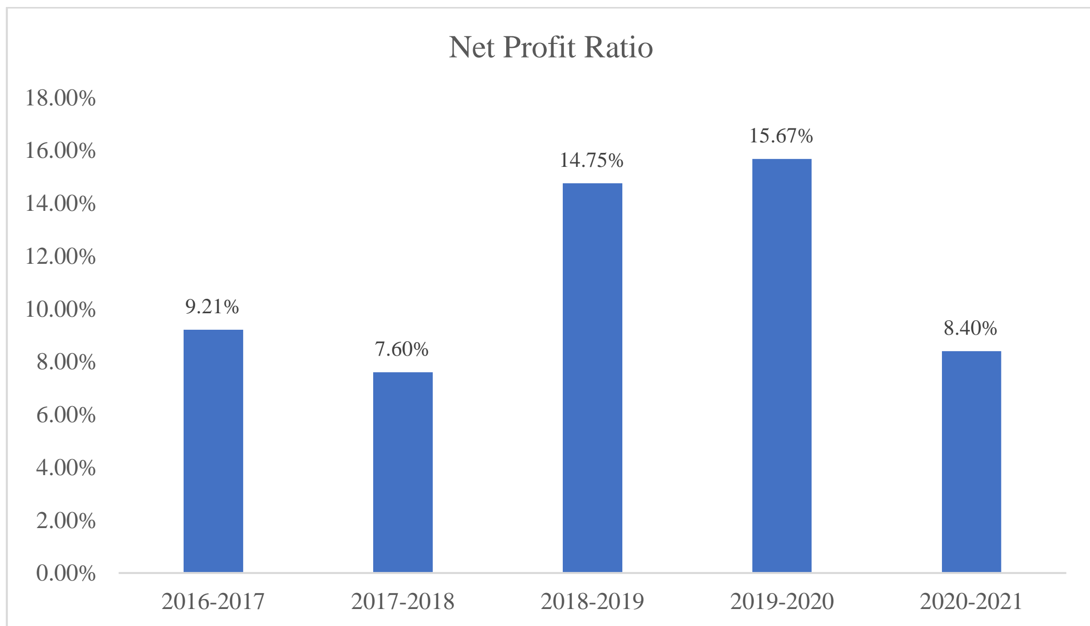


Figure No. 4.1.7 Showing net profit ratio

Interpretation

Net Profit ratio for the year 2016-17 is 9.21, in 2017-18 net profit ratio is 7.6, 2018-19 profit is from the graph it is evident that net profit ratio of KKR Agro Mills is increasing. Then the coming years there is increase and decrease in the net profit ratio. Even though decreasing it is between the standard ratio. So, it indicates that the company's profitability position is Flexible.

4.1.8 Gross Profit Ratio

Gross Profit ratio = Gross profit/ Sales*100

Year	Gross Profit	Sales	Ratio in %
2016-2017	70151349	216189360	32.4
2017-2018	39261961	232210806	17
2018-2019	10445784	26913264	38.8
2019-2020	40562679	121050219	33.5
2020-2021	518850906	2277061317	22.78

Table No. 4.1.8 Showing Gross profit ratio

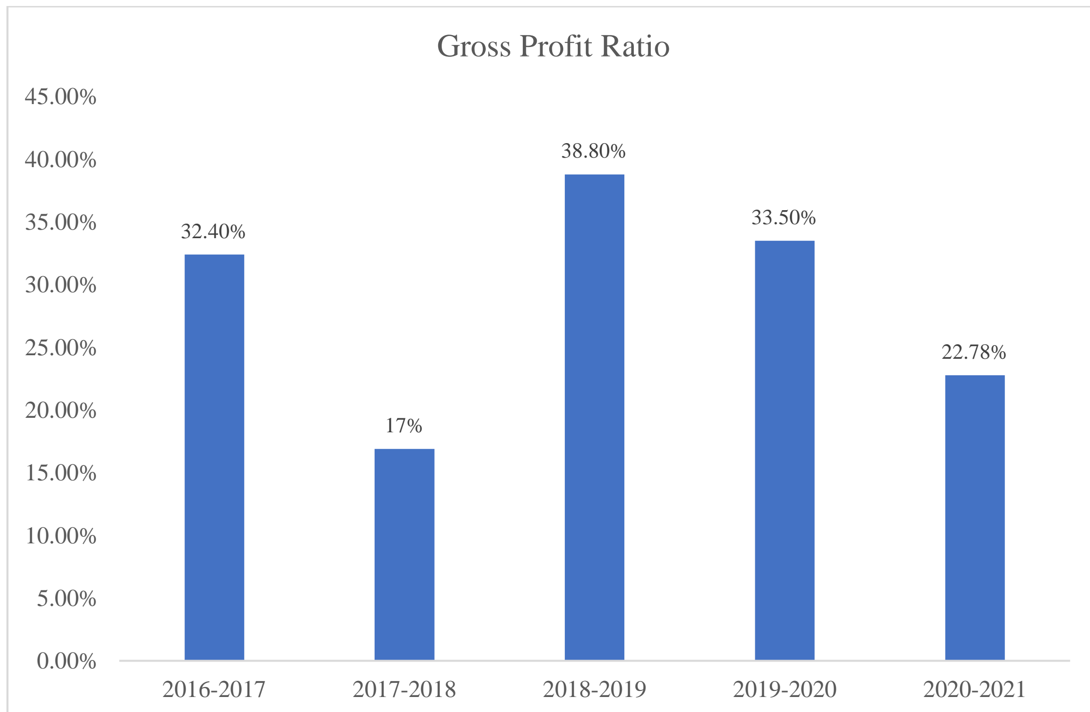


Figure No. 4.1.8 Showing Gross profit ratio

Interpretation

From the graph we can understand that the company's gross profit ratio will be according to the ideal standard ratio. Even though there is decrease in the 2020-21. And it is very lower in the 2017-18. So, the company should take necessary steps to maintain gross profit for the purpose of efficiency in production and profit margin.

4.1.9 Operating Profit Ratio

Operating Profit ratio= Operating profit/sales*100

Year	Operating profit	Sales	Ratio in %
2016-2017	146038011	216189360	68
2017-2018	192948845	232210806	83.09
2018-2019	16467480	26913264	61.18
2019-2020	80487540	121050219	66.49
2020-2021	1758210411	2277061317	77.21

Table No. 4.1.9 Showing calculation of Operating Profit Ratio

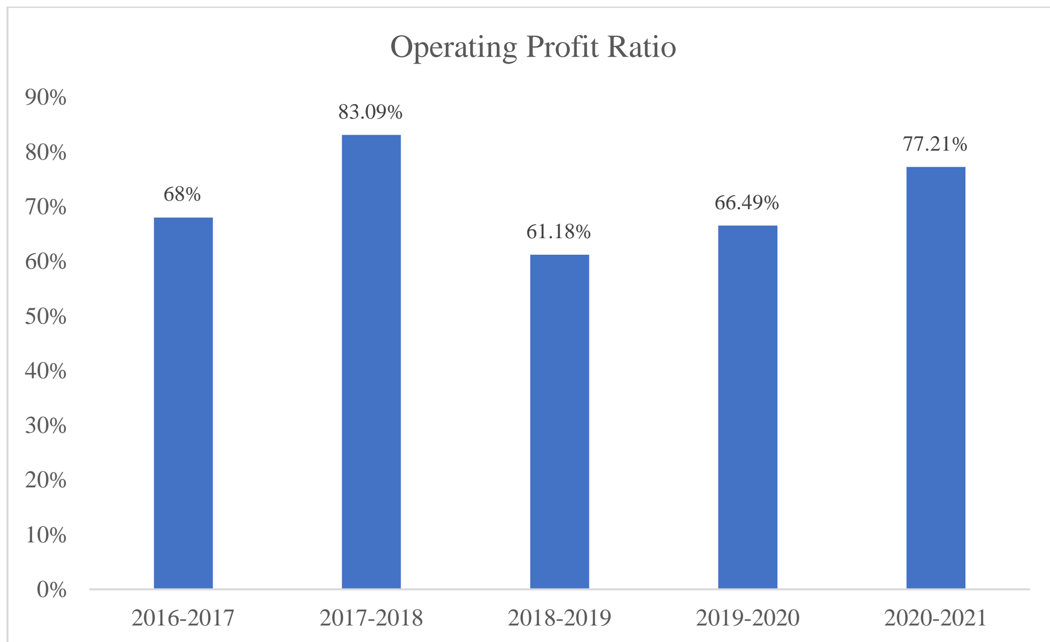


Figure No. 4.1.9 Showing operating profit ratio

Interpretation

The graph reveals that in 2016-17 operating ratio was 68% and in 2017-18 it increases to 83.09%. In 2018-19 it is decreases to 61.18% and in 2019-20 it is 66.49% at last in 2020-21 it is increased to 77.21%. Overall, the ratio increasing but it seems to be earnings and sales keep fluctuating it is being risky to the business.

4.1.10 Current Asset to Total Asset Ratio

Current Asset to Total Asset Ratio = Current Assets / Total Assets

Year	Current assets	Total Assets	Ratio
2016-2017	494155804	571925092	0.86
2017-2018	1157922441	1316430288	0.87
2018-2019	1395260759	1398431040	0.98
2019-2020	1541927173	1801128951	0.85
2020-2021	1553383850	1806249453	0.84

Table No. 4.1.10 Showing calculation of Current Asset to Total Asset Ratio

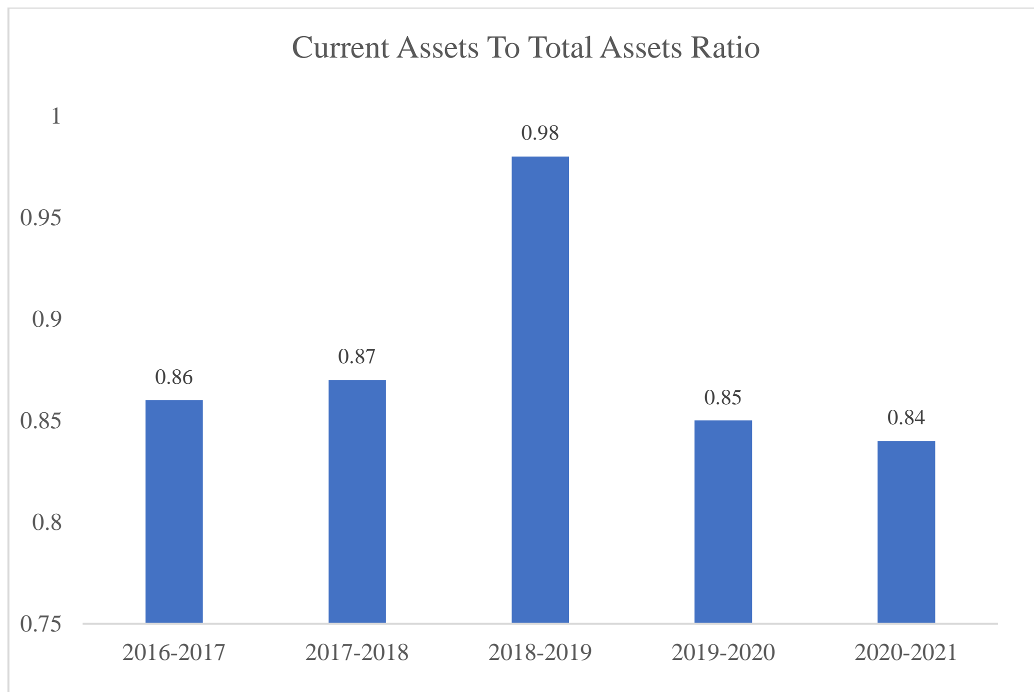


Figure No. 4.1.10 Showing Current Asset to Total Asset Ratio

Interpretation

From the graph observed that Current assets to total assets is being part of current asset to the total asset. But at the same time, it will not be in stable manner. In 2018-19 it is come to 0.98. Then the all years it is seemed to be showing a decreasing trend. So, it shows that the management should take effective care while utilizing what part of the total assets is used for fixed capital and for current assets.

4.1.11 Cash Ratio

Cash ratio = Cash/Current liabilities*100

Year	Cash	Current Liability	Ratio in %
2016-2017	9145852	451981689	2.02
2017-2018	28793003	1231192557	2.33
2018-2019	18596963	1148814056	1.61
2019-2020	32760686	1362294870	2.4
2020-2021	9436066	1441559230	0.65

Table No. 4.1.11 Showing Cash ratio

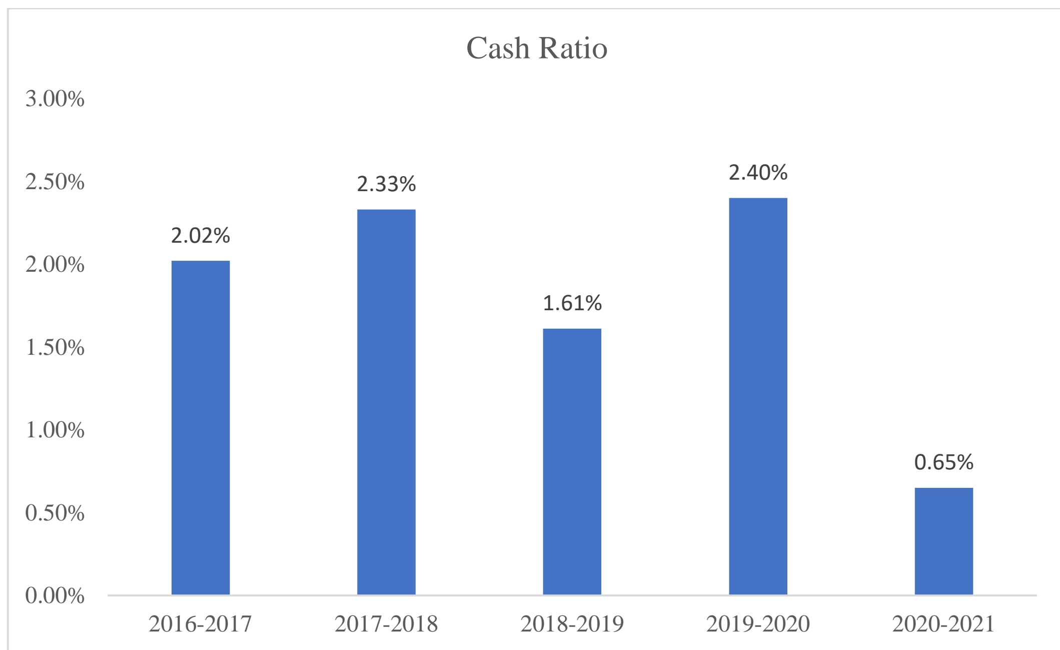


Figure No. 4.1.11 Showing the Cash Ratio

Interpretation

As you can see in the figure above, the liquidity ratio in 2016-17 was 2%. In 2017-18, it was raised to 2.3%. But in 2018-19 it is decreased. Then the very next year it started to improve. But in 2020-21 again it started to decrease very low. It is not good for the company.

4.1.12 Cash to Working Capital

Cash To Working Capital= Cash and Cash Equivalents /Working capital

(Amount in lakhs)

Year	Cash	Working Capital	Ratio in %
2016-2017	91.45	421.74	21.68
2017-2018	287.93	732.7	39.29
2018-2019	185.96	2464.46	7.5
2019-2020	327.6	1796.32	18.23
2020-2021	94.36	1118.24	8.43

Table No. 4.1.12 Showing Cash to working capital

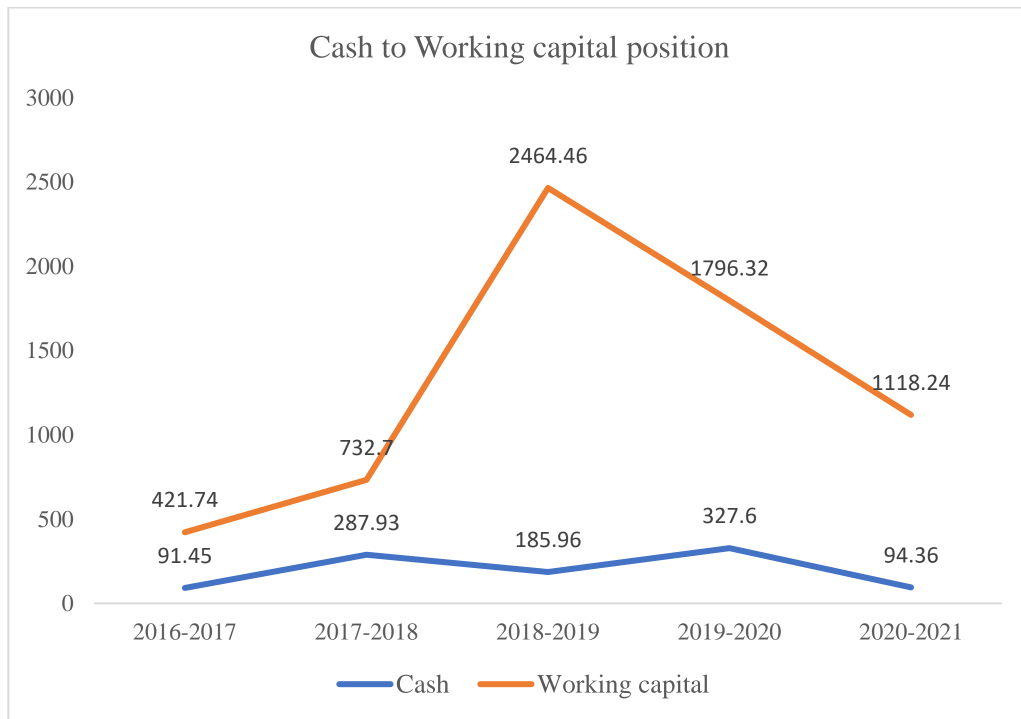


Figure No. 4.1.12 (a) Showing cash to working capital position

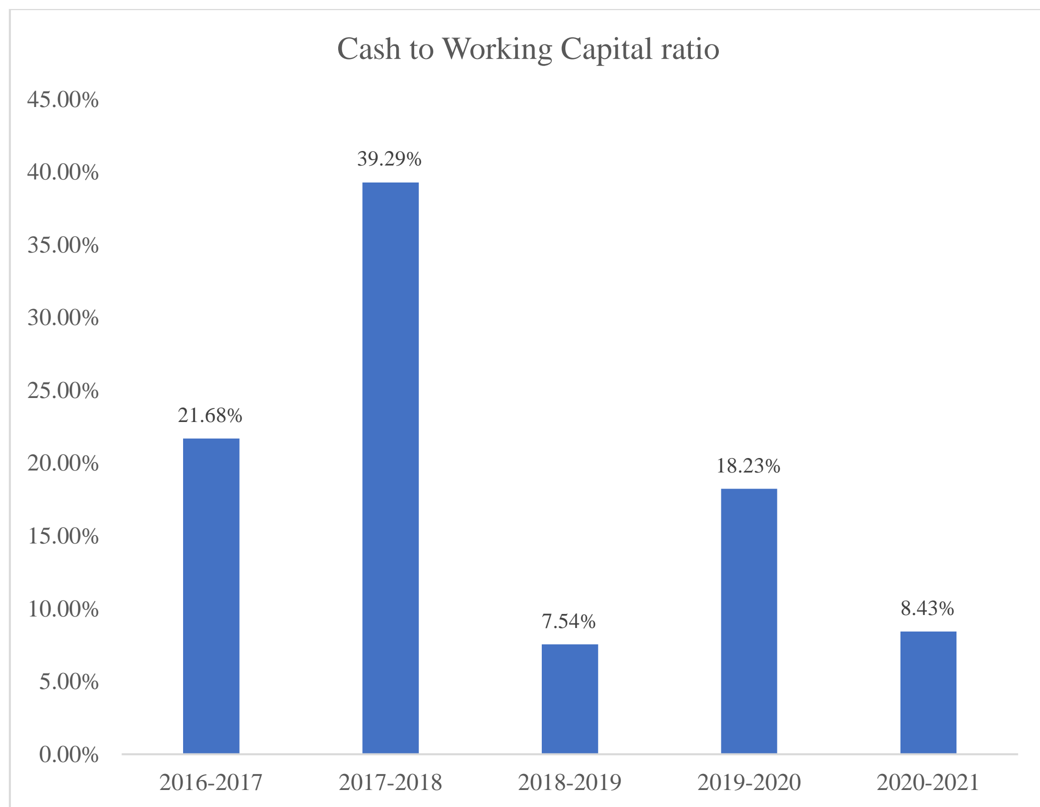


Figure No. 4.1.12 (b) Showing the Cash to working capital ratio

Interpretation

The figure above shows that the cash / working capital ratio for 2016-2017 was 21.68%. In 2017-2018 it was 339.29. In 2018-19, it is decreased to 7.5% and increased to 18.23% in 2019-2020. But in 2020-21 it decreased to 8.2%.

4.1.13 Cash to Total Asset Ratio

Cash to Total Asset Ratio = Cash / Total Assets

Year	Cash	Total assets	Ratio
2016-2017	9145852	571925092	0.01
2017-2018	28793003	1316430288	0.02
2018-2019	18596963	1398431040	0.01
2019-2020	32760686	1801128951	0.01
2020-2021	9436066	1806249453	0.005

Table No. 4.1.13 Showing calculation of Cash to Total Asset Ratio

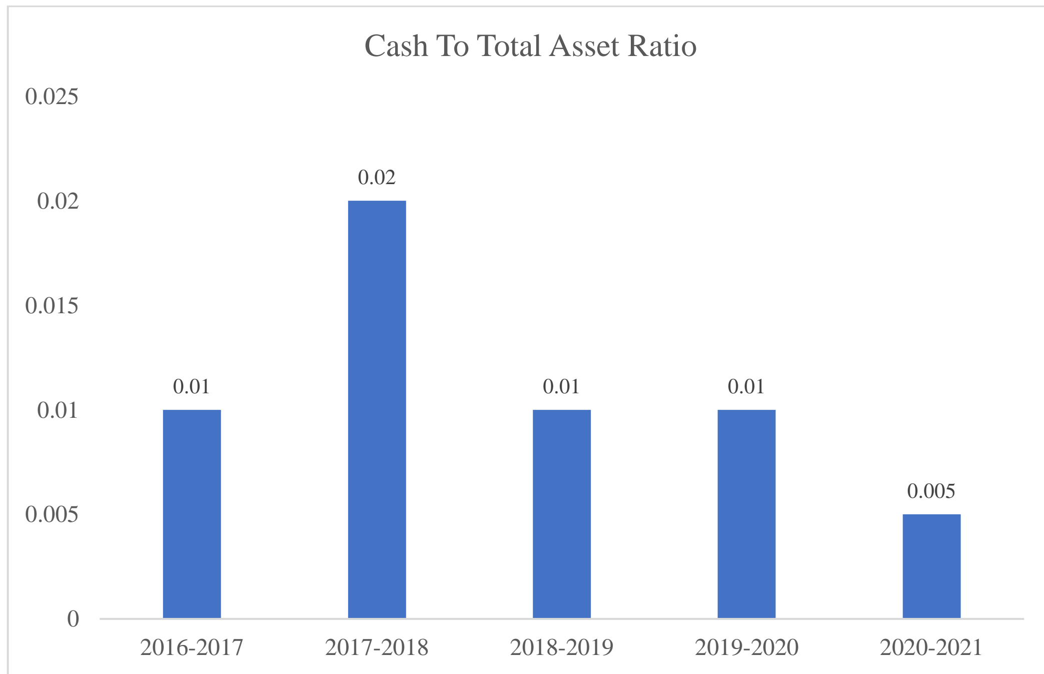


Figure No. 4.1.13 Showing Cash to Total Asset Ratio

Interpretation

From the graph reveals the amount of liquid cash a firm holds when compared to the total assets held by the company. In 2016-17 it was 0.01, in 2017-18 it was 0.02 and in 2018-19 it was 0.01 and the next year it is almost same. The 2020-21 which is very decreased to 0.005. So, the says that the company's liquidity with the total assets seems to be low level.

4.1.14 Debt Equity Ratio

Debt Equity Ratio = Total Liabilities / Shareholders Funds

Year	Total Liabilities	Shareholders fund	Ratio
2016-2017	571042092	81791320	6.98
2017-2018	1386430288	85763335	16.16
2018-2019	1658431040	296812247	5.58
2019-2020	1806128951	336448588	5.36
2020-2021	1806249453	299797560	6.02

Table No. 4.1.14 Showing Debt equity ratio

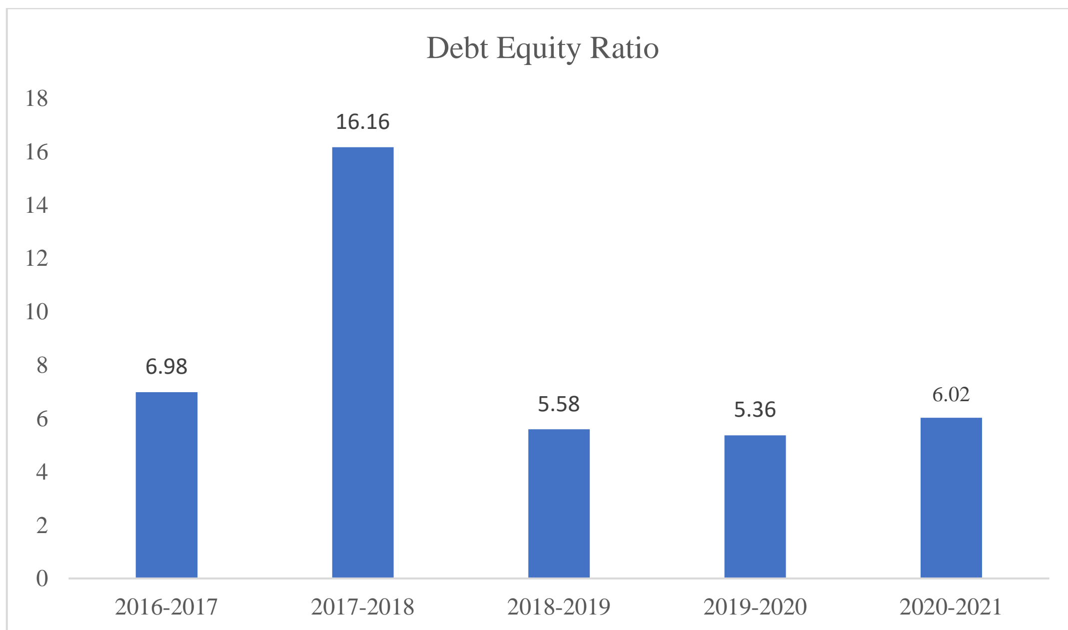


Figure No. 4.1.14 Showing Debt Equity Ratio

Interpretation

KKR Agro Mills private ltd. Debt Equity Ratio for the year 2016-17 is 6.98, 2017-18 is 16.19 and in the year 2018-19 is 5.58 From the figure it is evident that debt equity ratio of KKR Agro Mills is decreasing at increasing manner. So, the company has to worry in meeting its fixed obligations and also less dependent on shareholders and outsiders.

4.1.15 Debt Collection Period

Debt collection period= Debtors/ Sales

Year	Debtors	Sales	Period
2016-2017	14817169	216189360	25 days
2017-2018	23821339	232210806	37 days
2018-2019	2382133	26913264	32 days
2019-2020	20365364	121050219	60 days
2020-2021	291319563	2277061317	46 days

Table No. 4.1.15 Showing debt collection period

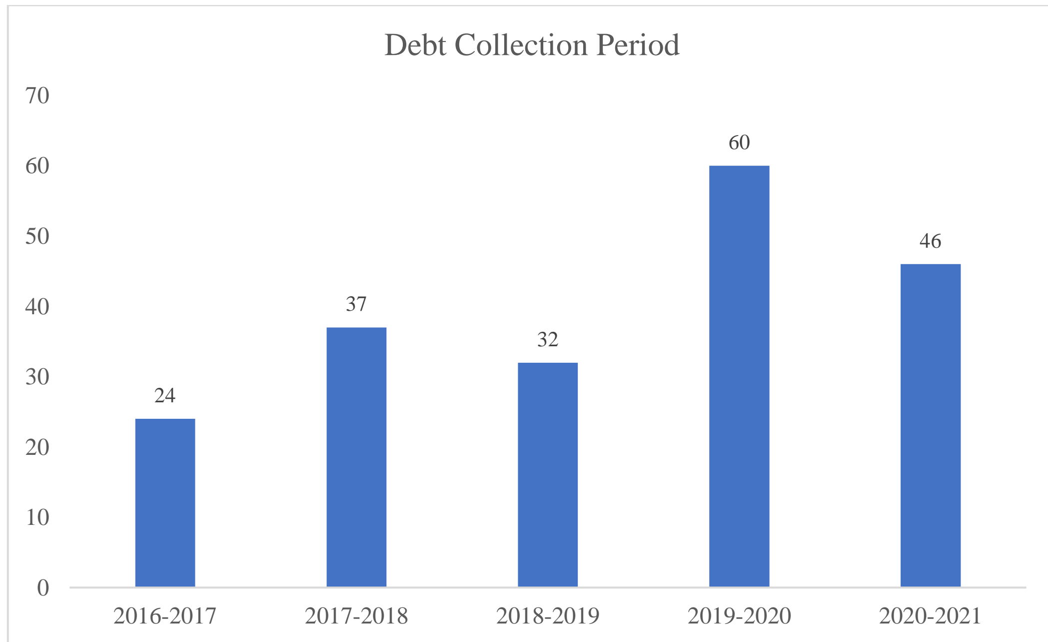


Figure No. 4.1.15 Showing debt collection period

Interpretation

The above graph indicates that the company is collecting the money from the debtors in 2016-17 within 25 days, 37 days in 2017-18. And in 2018-19 within 32 days, at the same time in 2019-20 within 60 days. But in 2020-21 paying the money within 46 days. So, the company will be able to collect money in short time.

4.1.16 Payment Period

Payment Period= Creditors/ Purchases

Year	Creditors	Purchases	Period
2016-2017	101199523	403413881	90 days
2017-2018	301451353	1295720738	84 days
2018-2019	89981630	441981437	73 days
2019-2020	98696875	407123006	87 days
2020-2021	59363308	281760317	76 days

Table No. 4.1.16 Showing calculation of payment period

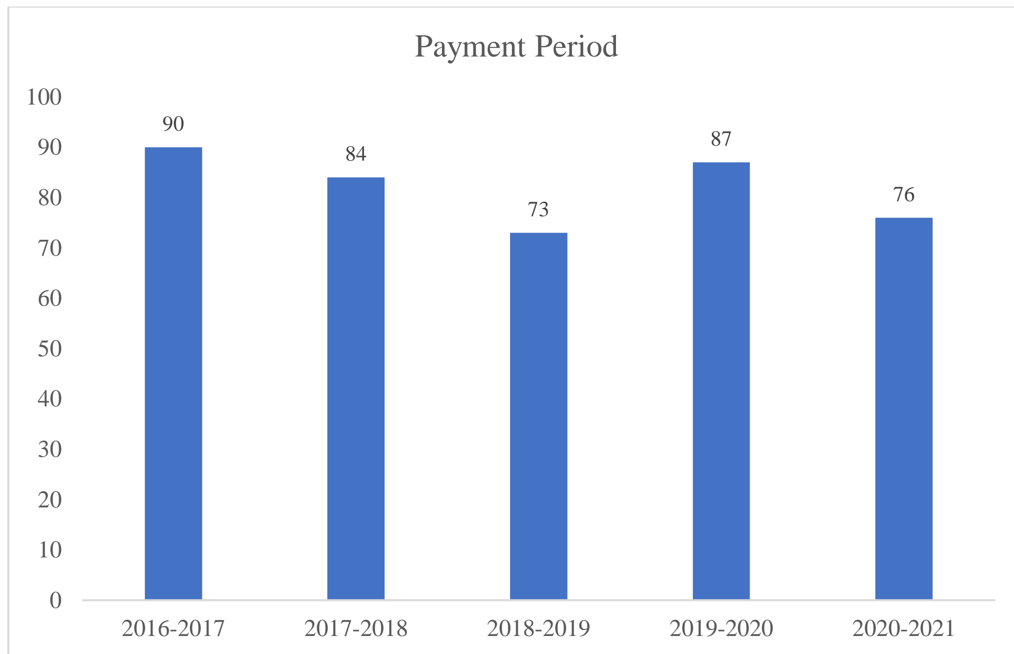


Figure No. 4.1.16 Showing payment period

Interpretation

The above graph indicates that the company is paying the money to the creditors in 2016-17 within 90 days, 84 days in 2017-18. And in 2018-19 within 73 days, at the same time in 2019-20 within 87 days. But in 2020-21 paying the money within 76 days. So, the company take almost same period in different years.

4.1.17 Growth of Cash Position

Here showing the growth of cash position with related to different years. And base year it will be in 100%.

(Amount in lakhs)

Year	Cash	Growth rate in %
2016-2017	91.458	100
2017-2018	287.93	131
2018-2019	185.969	203.2
2019-2020	327.606	358.2
2020-2021	94.36	103.17

Table No. 4.1.17 Showing Growth of Cash Position

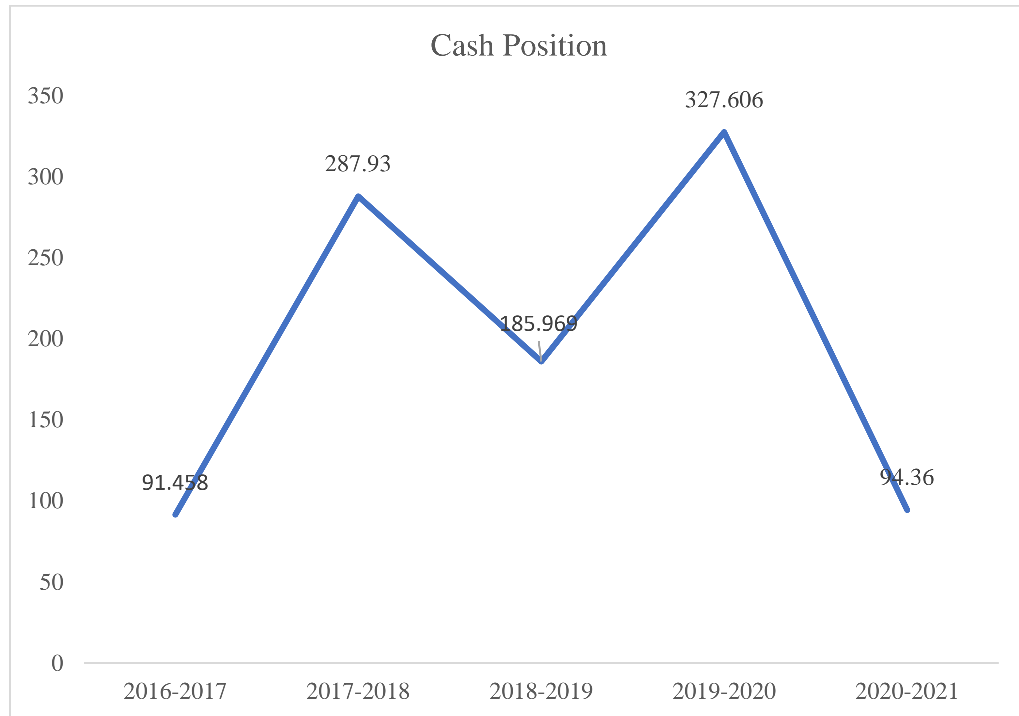


Figure No. 4.1.17 (a) Showing the Cash position

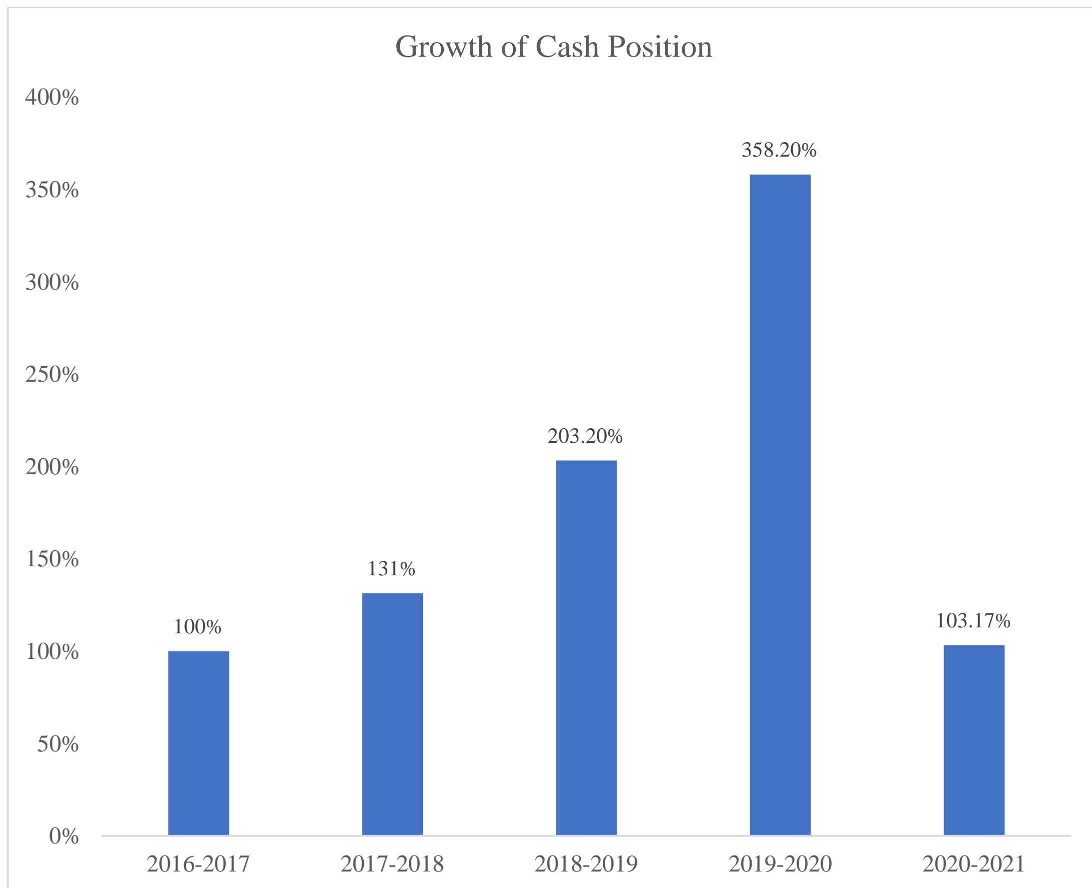


Figure No. 4.1.17 (b) Showing the Growth of Cash position

Interpretation

As shown in the chart above and the Figure above, the increase in cash holdings tends to increase expectations for 2017-18 compared to 2016-17. There is an increase in 2018-19 and growth rate for 2019-20 rise to 358.8%. In addition, 2020-21 it started to decrease very badly. it can be said that the company's cash management is not favorable.

4.1.18 Cash to Current Assets

Cash to Current Assets = Cash/Current Assets*100

Year	Cash	Current assets	Ratio in %
2016-2017	9145852	494155804	1.85
2017-2018	28793003	1157922441	2.48
2018-2019	18596963	1395260759	1.33
2019-2020	32760686	1541927173	2.12
2020-2021	9436066	1553383850	0.6

Table No. 4.1.18 Showing Cash to Current Assets

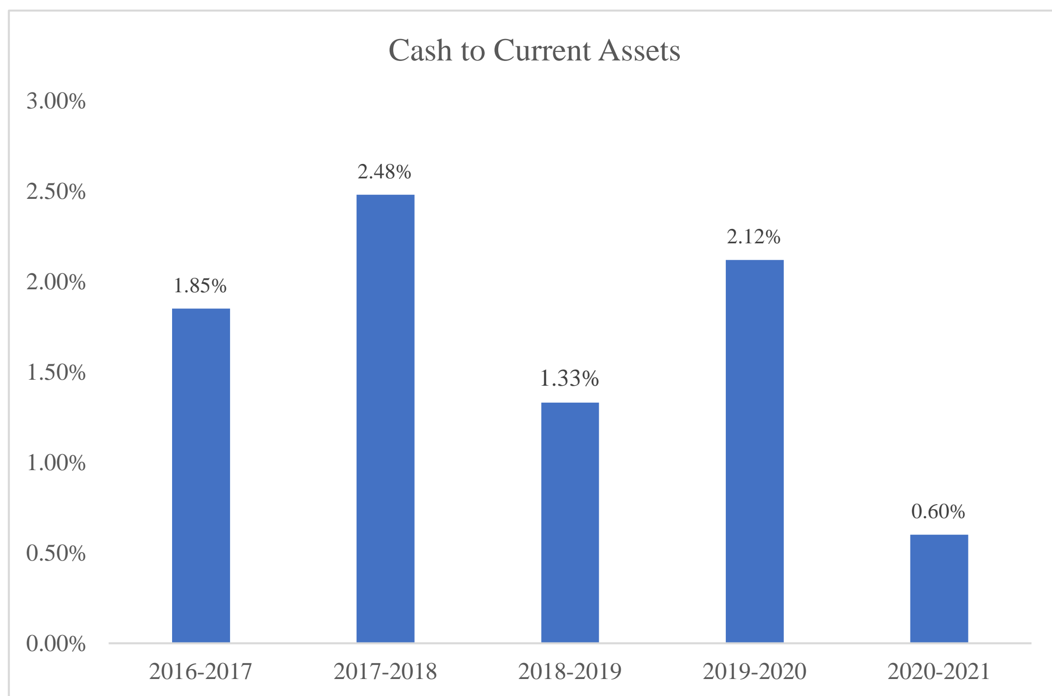


Figure No. 4.1.18 Showing Cash to Current Assets

Interpretation

In the figure above, the ratio of liquid assets to liquid assets in 2016-17 was 1.85. In 2017-18, but increased to 2.48. In 2018-19, decline to reach 1.33. Then it increased to 2.12. So, there is no balance in between liquid assets and cash ratio The above data show that the company's cash / present ratio fluctuates over time.

4.1.19 Cash to Sales

Cash to sales= cash / Net sales

(Amount in lakhs)

Year	Cash	Sales	Ratio in %
2016-2017	91.458	2161.89	4.23
2017-2018	287.93	2322.108	12.39
2018-2019	185.969	2691.32	6.9
2019-2020	327.606	1210.502	27.06
2020-2021	94.36	22770.61	0.41

Table No. 4.1.19 Showing Cash to Sales

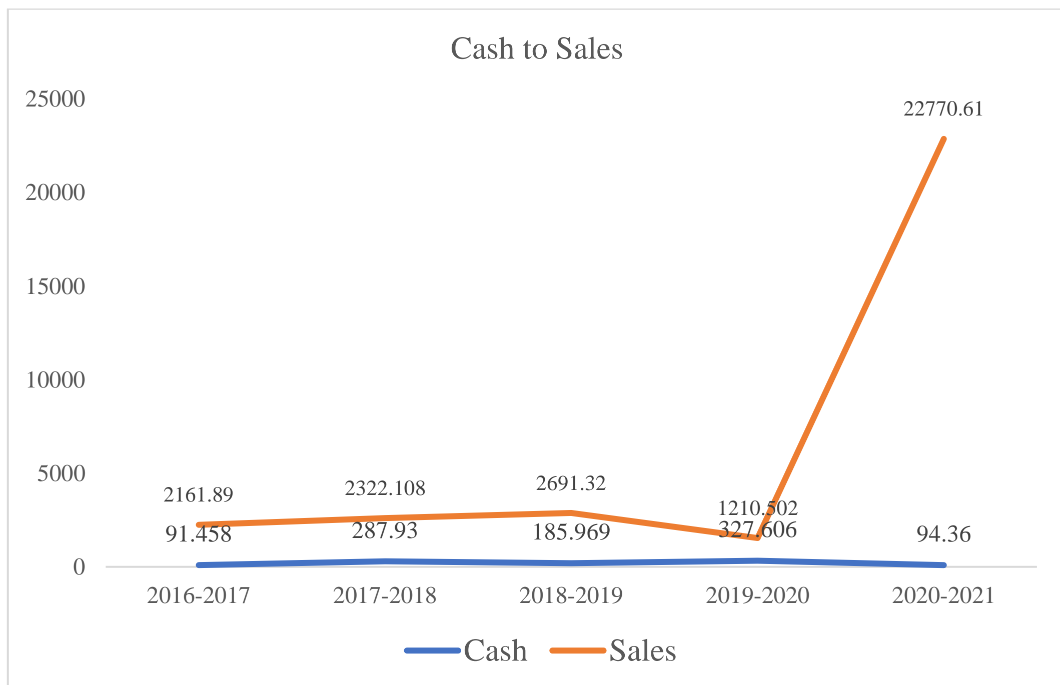


Figure No. 4.1.19 (a) Showing Cash to sales

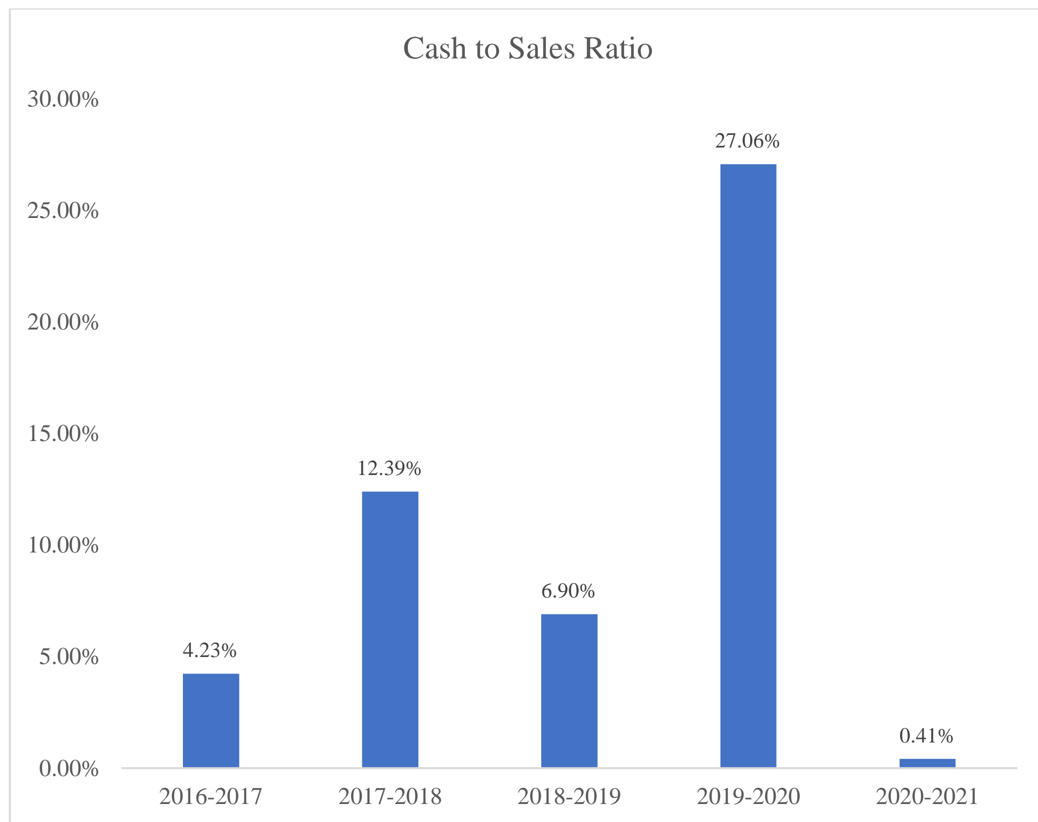


Figure No. 4.1.19 (b) Showing the ratio of cash to sales

Interpretation

As noted above, the cash flow ratio for the 2016-17 period was 4.23% and the 2017-18 cash sales ratio was 12.39%. In 2018-2019, you can see that the ratio of cash and sales is 6.9%. Then the next year the ratio is at its peak. Then a huge decrease in the very next year. The above ratios indicate that, as sales increase, the cash position is being not favorable to the company and the organization can't be able to survive in the long run.

4.2 Cash Flow Statement

Particulars	2017	2018	2019	2020	2021
Cash flow from operating activities:					
Net profit before tax	28119899	9541515	23384012	29368540	-39174527
Add: Adjustments					
Depreciation and amortization expenses	9311137	11435661	11703308	12506448	13107872
Interest debited in P & L	27480101	38891239	68841638	63517518	66247577
Income tax	-	-	1042819	-	1958379
Fixed assets written off	-	-	146094		
Interest income	184557	-96746	-551319	-2377562	-616786
Profit/Loss on sale of fixed assets	-496902	-1316008	-1910245	-222325	168111
Operating cash flows before working capital changes	**64598793**	**58455662**	**102656307**	**102792619**	**41690625**
Adjustments for Changes in working capital:					
Change in inventories	-124904108	-635896904	8414309	-13399938	7182107
Change in trade receivables	-49715849	14973157	-105014859	-15440237	-37665927
Change in long -term loans and advances	-2715170	-9696841	-463050	-135000	-42200
Change in short -term loans and advances	-1200732	-16695027	-50248632	28191600	-5592834
Change in short-term borrowings	164194235	409479052	-268145927	153011284	50889055
Change in trade payables	2990535	318254830	184685337	-17170937	6664336
Change in other long-term liabilities	-	-	-5500000	-4000000	16343750
Change in other current liabilities	7688947	58312036	-2217606	72831492	33390689
Change in other current assets	-2279876	-650013	-100685176	-11454116	1295358
Cash generated from operations	58656775	190685253	-236519297	174826766	114154960
Less: Income tax paid	10367653	13721491	5743120	2991023	13638100

Net cash generated from operating activities (A)	**48289122**	**176963762**	**-242262418**	**171835743**	**100516860**
Cash flow from investing activities:					
Purchase of fixed assets	-25402008	-117186694	-34274825	-28789838	-2344608
Sale of fixed assets	569000	2690000	5000000	335000	447000
Goodwill	-	-38667177	-		
Interest received	-184557	96746	551319	2377562	616786
Construction-capital WIP	-	-	-15274219	15274219	-
Net cash from/(used) in investing activities (B)	**-25017566**	**-153067125**	**-43997725**	**-10803057**	**-1280822**
Cash flow from financing activities:					
Issue of shares	-	-	198170000	20000000	-
Interest paid	-27480101	-36532249	-68841638	-63517518	-66247577
Increase in long-term borrowings	10508621				
Decrease in long-term borrowings	-	32282763	146735741	-103351444	-56313081
Net cash from/ (used in) financing activities (C)	**-16971480**	**-4249486**	**276064103**	**-146868962**	**-122560658**
Net increase/ (decrease) in cash and cash equivalents (A+B+C)	**6300077**	**19647151**	**-10196040**	**14163723**	**-23324620**
Cash & cash equivalents at the beginning of the year	2845776	9145852	28793003	18596963	32760686
Cash & cash equivalents at the end of the year	**9145852**	**28793003**	**18596963**	**32760686**	**9436066**

Table No. 4.2 Showing cash flow statement

4.2.1 Cashflow from Operating Activities

(Amount in lakhs)

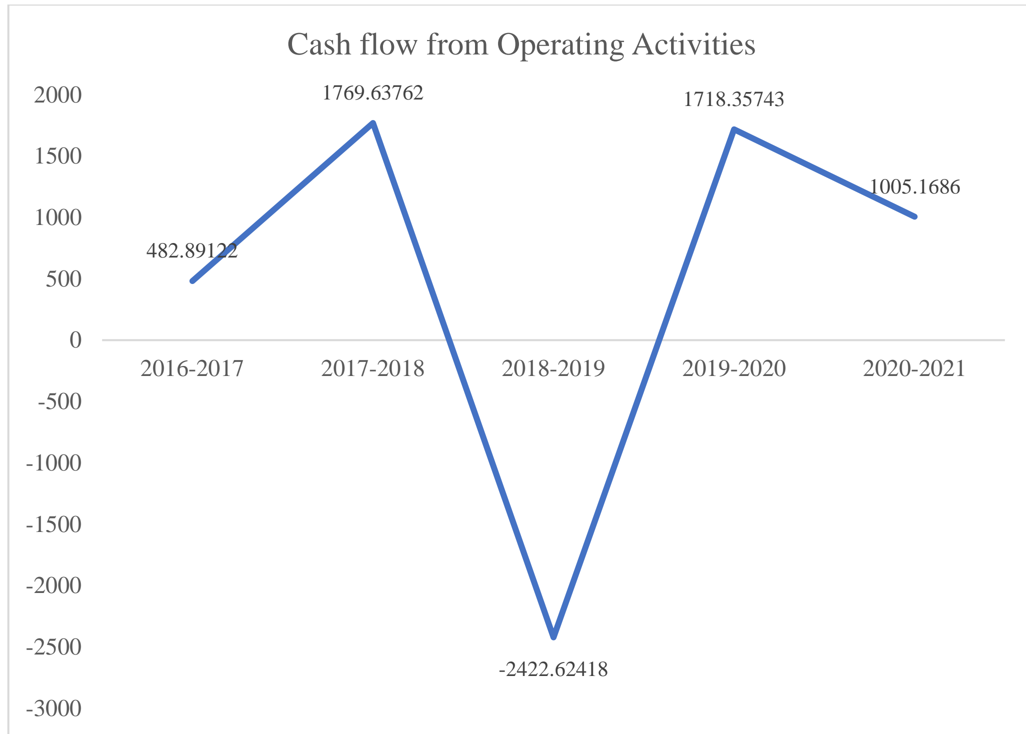


Figure No. 4.2.1 Showing the cash flow from operating activities of the financial years 2016-17 to 2020-21

Interpretation

From the above chart, cash flow from operating activities shows high rate of the fluctuations in the cash flows in 201718 and 2019-2020. In 2018-2019 it comes down and reaches to negative. It is because of the decrease in the current assets and increases in the current liabilities.

4.2.2 Cashflow from Investing Activities

(Amount in lakhs)

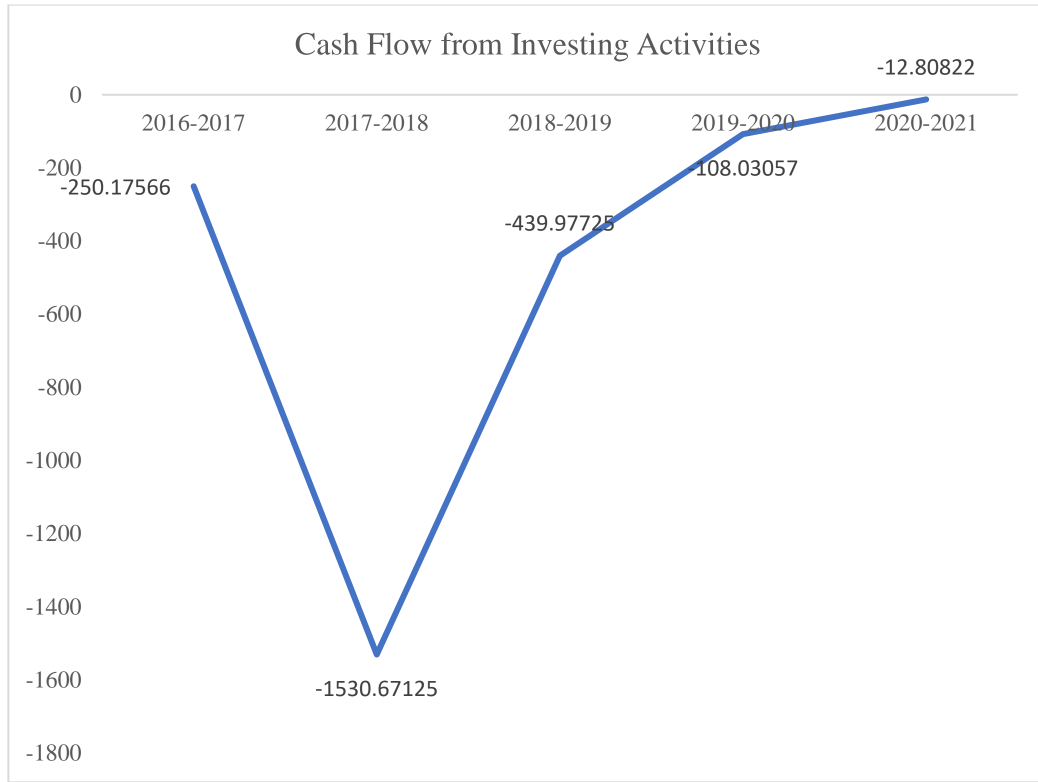


Figure No. 4.2.2 Showing the cash flow from investment activities of the financial years 2016-17 to 2020-21.

Interpretation

From the above chart, cash flow from investing activities shows decrease rate of investment on fixed assets. It can be observed that it come down year after year. But in 2020-21 it provides more cash flow from investing activities.

4.2.3 Cashflow from Financing Activities

(Amount in lakhs)

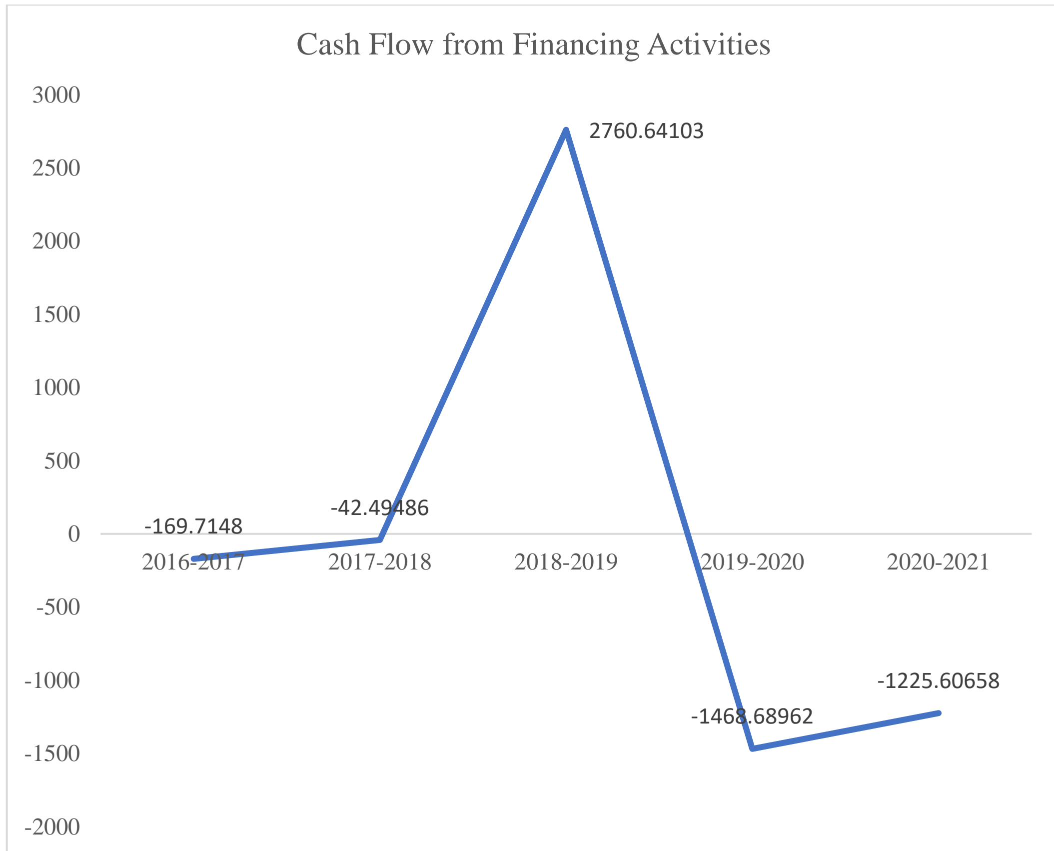


Figure No. 4.2.3 Showing the cash flow from financing activities of the financial years 2016-17 to 2020-21.

Interpretation

The cash and bank balance held by the company are fluctuating over the years as seen from the above chart the company cash and bank balance were high in the year 2019-20 Rs 2760 lakhs, and it shows negative trend in all other years.

4.3 Trend Analysis

Taking the values of the item in the base year to be equal to 100. The values of the item in different years are expressed as percentages to this value.

Particulars	**Year (Amount in lakhs)**				
	2016-2017	**2017-2018**	**2018-2019**	**2019-2020**	**2020-2021**
Stock	3298	9656	9572	10910	10839
Debtors	1481	1331	2382	2536	2913
Cash	91	288	186	328	94
current assets	4870	11275	12140	13774	13846
Current liabilities	4520	11179	11488	13622	13698
Working capital	350	96	652	152	148

Table No. 4.3.1 (a) Represents values of stock, debtors, cash, current assets, current liabilities and working capital

Particulars	**Base year-2016-2017 Trend percentages**				
	2016-2017	**2017-2018**	**2018-2019**	**2019-2020**	**2020-2021**
Stock	100	293	290	331	329
Debtors	100	90	161	171	197
Cash	100	316	316	204	103
current assets	100	232	249	283	284
Current liabilities	100	247	254	301	303
Working capital	100	27	186	43	42

Table No. 4.3.1 (b) Showing trend percentages

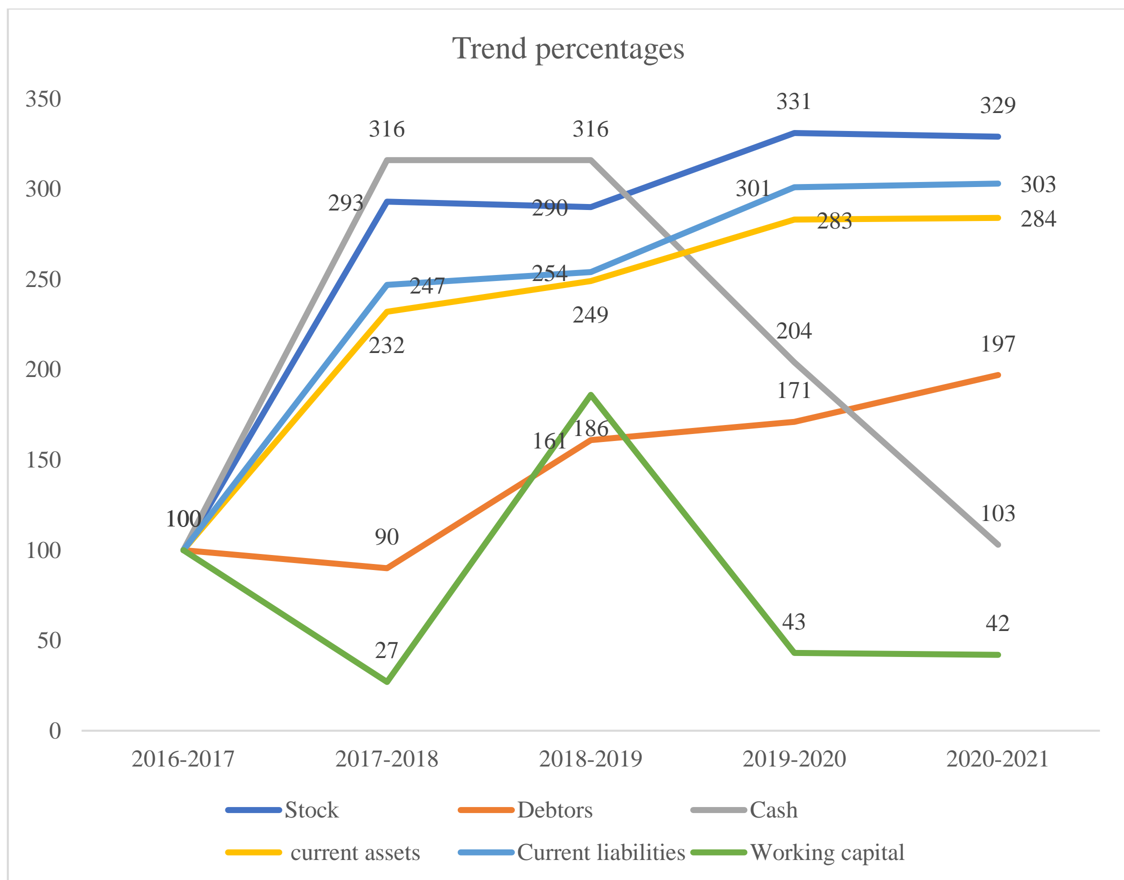


Figure No. 4.3.1 (b) Showing trend percentages

Interpretation

The data shows trend percentages in different years. It seems to be a decreasing trend in the case of overall working capital, and cash. And there are slight increases in debtors. But here there is increases in current liabilities. On the other hand, stock is in satisfactory level. Overall, it seems to be increasing the expenses and it is difficult to meet the day-to-day operations.

CHAPTER – 5

FINDINGS, SUGGESTIONS AND CONCLUSION

5.1 Findings

- From the study we could understand that the current ratio seems to be less than the standard ratio. Which is fluctuating in year by year.
- The quick ratio is being increased in the base year. After that it seems to be decreasing trend.
- It is observed that in 2016-17 the total cash is 9145852 and the cash ratio was 2% in the base year, during the year 2017-18 it is increased to 2.3% and in the year 2018-19 it is decreases to 1.6%. In 2019.20 it was increased to 2.4%. But it was decreased very drastically in 2020-21.
- Cash flow from working capital increased from 21.6% in the base year to 39.2% in 2017-18 and 7.5% in 2018-19. So, it seems to be decreasing trend. Fundamental working capital is generally useful if the company has more short-term debt than cash and other assets, but you can use healthy cash resources based on your business model.
- The debt ratio was 6.9 for the base year, rising to 16.16 in 2017-2018 and 5.58 in 2018-2019. It shows comparatively higher ratios. Higher debt ratios may also indicate that higher proportion of debt content in the capital structure.
- The efficiency of inventory control in KKR Agro Mills shows a satisfactory position.
- It is found that the company collect debt in a positive way. But should try to collect little early. And at the same time done the payment in early.
- From this study it reveals that the amount of liquid cash a firm holds when compared to the total assets held by the company is seems to be decreasing.
- The growth rate of the total cash position in 2017-18 is 131% compared to the base year indicated in the table above, but the increase in the cash position in 2018-2019 is 203% in 2019-2020 reaches maximum of 358.2%. But in 2020-21 it is come to 103%. The company should take care about the expenses.
- It is observed that the cash to current asset ratio was 1.85% in the base year, during the year 2017-18 it is increased to 2.48% and in the year 2018-19 it is decrease to 1.3%. In 2019-20 it is increased to 2.1% and in 2020-21 it is decreased to 0.6%
- The net profit, gross profit and operating profit is in ideal ratio. Even though it is meeting the standard but can understand it is decreasing when it compared to previous years.

- It is found that the cash to sales ratio was 4.23%, in the base year, during the year 2017-18 it is increased to 12.39% and in the year 2018-19 it is started to decrease to 6.9%. Then the 2019-20 it is climbed to 27.06%. But during the year 2020-21 it decreases very badly to 0.41%
- From the study cash flow statement shows inadequacy in meeting operational, financing and investing activities. Because the statement shows the inefficient flow of cash.
- It is found that the trend percentage of cash, current assets and working capital are at low level. While stock is at satisfactory level. And on the other hand, the current liability is increasing.

5.2 Suggestions

Based on the findings of the research, it is recommended that the following suggestions:

- K.K.R Agro Mills should maintain its current assets and improve them.
- The liquidity value of the company has to be increased to meet continuous needs of the company. A liquidity position ensures safety for the company in order to meet contingencies.
- It should be noted that to bring stability in overall dealings of the company.
- The company needs to decrease the collection period because it is more than the required. And also try to settle the payments very lately.
- And another important area where more attention is needed in inventory management. Proper inventory management brings more efficiency.
- The company must take steps to reduce operating expenses and financial expenses and at the same time need attention while investing activities.
- The company needs better liquidity to ensure that liquidity needs are properly met.
- From study it reveals that company may lack steady growth. So, they should need to improve their cash management techniques.
- Management must take necessary steps to reduce downtime to improve productivity and save energy. Step to be taken to increase the working capital of the firm to meet short term obligation.
- From the study I feel that the company should take care in the overall cash management and need to be more vigilant in managing liabilities and at the same time should try to bring stability in the dealings.

5.3 Conclusion

From this study, it can be said that the cash management effectiveness analysis was conducted at KKR Agro Mills Private Limited, l analysed the effectiveness of liquidity based on data from annual report of KKR Agro Mills for the last 5 years. The effectiveness of KKR Agro Mills cash management was analysed by analysing the relationship between cash flow and the balance of sales, investments and financing activities. Since cash management cannot control cash flow, inefficient liquidity management can hurt business. In most cases, poor cash management is due to the failure of the business. Effective cash management is therefore required for the company.

The analysis of this project shows significant fluctuations in long-term credit for clients. The analysis shows unstable financial growth, that sales volume and collections management need some improvement. Efficient receivables management can generate good revenue growth, healthy cash flow, profitability and a stable sales cycle. This project was very useful for the judgment of the financial status of the company from the management point of view. This evaluation proved a great deal to the management to make a decision on the regulation of the funds to increase the sales and bring profit to the company.

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ANNEXURE

Balance sheet as on 31 March 2017, 2018, 2019, 2020 and 2021.

Particulars	2017	2018	2019	2020	2021
A) Equity and liabilities					
1. shareholders' funds					
a) Share capital	28214000	28214000	226384000	246384000	246384000
b) Reserves and surplus	54537770	57549335	70428247	90064588	53413560
	82751770	85763335	296812247	336448588	299797560
2. Non-current liabilities					
a) Long-term borrowings	17791633	49474396	196210137	92858693	36545612
b) Deferred tax liabilities(net)	-	-	2094600	4026800	1503300
c) Other long-term liabilities	20000000	20000000	14500000	10500000	26843750
	37191633	69474396	212804737	107385493	64892662
3. Current liabilities					
a) Short-term borrowings	319164735	728643787	460497860	613509143	664398199
b) Trade payables	101199523	419454353	604139690	586968753	593633089
c) Other current liabilities	21211331	79523368	77305762	150137253	183527942
d) Short-term provisions	10406100	3571049	6870744	11679721	-
	451981689	1231192557	1148814056	1362294870	1441559230
Total liabilities	**571925092**	**1386430288**	**1658431040**	**1806128951**	**1806249453**
B) Assets					
1. Non-current assets					
a) Property, Plant and equipment:					
i)Tangible assets	54475645	158852686	178188350	194075994	182768387
ii)Intangible assets	-	38667177	38667177	38950249	38879481
iii)Capital work in progress	-	-	15274219	-	-
b) Long-term loans and advances	20880644	30577485	7621581	7756581	31217735
c) Deferred tax asset	2413000	410500	-	-	-

	77769289	228507847	239751327	240782824	252865603
2. Current assets					
a) Current investments					
b) Inventories	329801695	965698599	957284290	1091084228	1083902121
c) Trade receivables	148171696	133198539	238213398	253653636	291319563
d) Cash and cash equivalents	9145852	28793003	18596963	32760686	9436066
e) Short-term loans and advances	3200732	19895759	93563344	65371744	47545624
f) Other current assets	3835828	10336541	111021718	122475833	121180475
	494155804	1157922441	1418679713	1565346127	1553383849
Total assets	**571925092**	**1386430288**	**1658431040**	**1806128951**	**1806249453**

Cash flow statement as at 31 March 2017, 2018, 2019, 2020 and 2021.

Particulars	2017	2018	2019	2020	2021
Cash flow from operating activities:					
Net profit before tax	28119899	9541515	23384012	29368540	-39174527
Add: Adjustments					
Depreciation and amortization expenses	9311137	11435661	11703308	12506448	13107872
Interest debited in P & L	27480101	38891239	68841638	63517518	66247577
Income tax	-	-	1042819	-	1958379
Fixed assets written off	-	-	146094		
Interest income	184557	-96746	-551319	-2377562	-616786
Profit/Loss on sale of fixed assets	-496902	-1316008	-1910245	-222325	168111
Operating cash flows before working capital changes	**64598793**	**58455662**	**102656307**	**102792619**	**41690625**
Adjustments for Changes in working capital:					
Change in inventories	-124904108	-635896904	8414309	-13399938	7182107
Change in trade receivables	-49715849	14973157	-105014859	-15440237	-37665927
Change in long -term loans and advances	-2715170	-9696841	-463050	-135000	-42200
Change in short -term loans and advances	-1200732	-16695027	-50248632	28191600	-5592834
Change in short-term borrowings	164194235	409479052	-268145927	153011284	50889055
Change in trade payables	2990535	318254830	184685337	-17170937	6664336
Change in other long-term liabilities	-	-	-5500000	-4000000	16343750
Change in other current liabilities	7688947	58312036	-2217606	72831492	33390689
Change in other current assets	-2279876	-650013	-100685176	-11454116	1295358
Cash generated from operations	58656775	190685253	-236519297	174826766	114154960
Less: Income tax paid	10367653	13721491	5743120	2991023	13638100

Net cash generated from operating activities (A)	**48289122**	**176963762**	**-242262418**	**171835743**	**100516860**
Cash flow from investing activities:					
Purchase of fixed assets	-25402008	-117186694	-34274825	-28789838	-2344608
Sale of fixed assets	569000	2690000	5000000	335000	447000
Goodwill	-	-38667177	-		
Interest received	-184557	96746	551319	2377562	616786
Construction-capital WIP	-	-	-15274219	15274219	-
Net cash from/(used) in investing activities (B)	**-25017566**	**-153067125**	**-43997725**	**-10803057**	**-1280822**
Cash flow from financing activities:					
Issue of shares	-	-	198170000	20000000	-
Interest paid	-27480101	-36532249	-68841638	-63517518	-66247577
Increase in long-term borrowings	10508621				
Decrease in long-term borrowings	-	32282763	146735741	-103351444	-56313081
Net cash from/ (used in) financing activities (C)	**-16971480**	**-4249486**	**276064103**	**-146868962**	**-122560658**
Net increase/ (decrease) in cash and cash equivalents (A+B+C)	**6300077**	**19647151**	**-10196040**	**14163723**	**-23324620**
Cash & cash equivalents at the beginning of the year	2845776	9145852	28793003	18596963	32760686
Cash & cash equivalents at the end of the year	**9145852**	**28793003**	**18596963**	**32760686**	**9436066**

Profit And Loss Account for the Period from 1-04-2017 TO 31-03-2021

Particulars	2017	2018	2019	2020	2021
1. Revenue from operation	792820816	873138844	1329650019	1277061317	960712057
2. Other income	10565797	53216097	352359811	168516458	112501608
3. Total revenue (1+2)	803386613	926354941	1682009830	1445577774	1073213664
4. Expenses:					
a) Cost of material consumed	367335718	-388621726	498434664	574872284	330114662
b) Purchases of stock in trade	403413881	1295720738	441981437	407123006	281760317
c) Changes in inventories of finished goods, work-in - progress and stock in trade	-126635268	-212489134	248039032	-71395	103762752
d) Employee benefits expenses	18746907	31451427	50915638	54839785	64029497
e) Finance costs	28420112	38891239	69919791	63662454	68254882
f) Depreciation and amortisation expenses	9311138	11435661	11703308	12506448	13107872
g) Other expenses	74674225	140425221	337631949	303276651	251358210
Total expenses	775266713	916813426	1658625818	1416209234	1112388192
5. Profit/(loss) before tax 3 (+/-) 4	**28119899**	**9541515**	**23384012**	**29368540**	**-39174527**
6. Tax expenses:					
a) Current tax expense for current year	11643620	4450000	23384012	7800000	-
b) Deferred tax	-1194000	1119500	2505100	1932200	-2523500
Total tax expenses	10449620	5569500	10505100	9732200	-2523500
7. Profit/(loss) for the year 3 (+/-) 4	**17670279**	**3972015**	**12878912**	**19636340**	**-36651027**