A STUDY ON CASH MANAGEMENT IN SRI RANGANATHAR INDUSTRIES PRIVATE LTD, COIMBATORE

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ABSTRACT

In a business anything done financially affects cash eventually. Cash is to a business is what blood is to a living body. A business cannot operate without its life-blood cash, and without cash management, there may remain no cash to operate. Cash movement in a business is two-way traffic. It keeps on moving in and out of business. The inflow and outflow of cash never coincides. Important aspect which is unique to cash management is time dimension associated with the movement of cash. Due to non-synchronicity of cash inflow and outflow, the inflow may be more than the outflow or the outflow may be more than the inflow at a particular point of time. This needs regulation. Left to itself cash flow is apt to follow monsoonic pattern, and showers of cash may be heavy, scanty or just normal. Hence there is a dire need to control its movement through skillful cash management. The primary aim of cash management is to ensure that there should be enough cash availability when the needs arise, not too much, but never too little.

Cash Management is a marketing term for certain services offered primarily to larger business customers. It may be used to describe all bank accounts (such as checking accounts) provided to businesses of a certain size, but it is more often used to describe specific services such as cash concentration , zero balance accounting , and automated clearing house facilities. Sometimes, private bank customers are given cash management services.

1. INTRODUCTION

Cash Management involves management of the liquidity of the firm in order to maximize cash availability and interest income on idle funds. At one end, the function starts when the customer writes a check to pay the accounts receivable and ends when the funds are realized the funds on an account payable and accrual. On the other hand, the payment of bills involves accounts payable and accrual management.

Efficient cash management processes are pre-requisites to execute payments, collect receivables and manage liquidity. Managing the channels of collections, payments and accounting information efficiently becomes imperative with growth in business transaction volumes.

1.1. HISTORY OF CASH MANAGEMENT :

An organizations cash operating cycle is the complete process of utilizing its resources and converting them into income through trading activities. Prior to the establishment of the Cash Management Product module, the SRI RANGANATHAR INDUSTRIES PVT. LTD transactions took place through the conventional methods of Regional Cash Credit module. In the RCC module the SBI branches of various states dispersed over various locations would send the information of remittance of funds to the Regional office of SBI and they in turn would then forward that information to the SBI head office. However, in this module the lead-time on an average was 4-10 days depending on the accessibility of the location. The delay included 2-7 days for the transfer between the location and State Office SBI Branch to the Regional Office SBI Branch, and another 2-3 days from the Regional Office to the Head Office SBI Branch. Therefore, though a collection may be made on the 10th of any month the credit of such a collection may reflect only on the 14th - 20th of that month.

1.2. CASH FLOW SYSTEM AT TODAY

Ranganathar industries, being a huge organization, have numerous transactions taking place throughout the country. On an average at least 5000 transactions take place within one working day with an amount equivalent to Rs.500 crore. All of these transactions take place through banks and since SBI is the primary banker to IOC, it has established various facilities to oversee that the transitions take place smoothly. Since Ranganathar industries is the biggest customer of SBI, they enjoy certain value added services provided by the bank. Corporate Accounts Group (CAG) – central office of SBI at Andheri, coimbatore is the controlling office of SBI, having Sanctioning Authority for the various credit facilities and the other needs of the corporation. CAG of SBI operates with network of branches called "CAG Branches" in all the Metro Cities. The co-ordination between SBI and IOC is done from the HO-Marketing Coimbatore.

1.3. ACCOUNTS AND FACILITIES PROVIDED BY CMP MODULE

In designing the CMP module, SBI established various accounts that would operate under it and also set up various amenities for the ease of transactions. These facilities include:

- Collection Account
- Special Current (Withdrawal) Account
- Current Imprest Account
- Letter of Authority Facility
- Railway Credit Note Facility
- Regional Cash Credit Account
- Cash Credit Account

2. REVIEW OF LITRATURE

1. Christian Leuz, he says that the incentives of German firms to voluntary disclose cash flow statement overtime while cash flow statement are mandated under many GAAP regimes, its disclosure has been mandatory in Germany until recently never the les, an increasing number of firms provides cash flow statement voluntarily there firms are likely to be influenced .
2. Bolong Cao, Financial Statements analysis is in of the modern financial analysis. The financial statements from firm provide the information upon the dynamic and innovative process of contemporary business practice. By analyzing financial statement, investors, business pertness managers and Government agencies can infer the efficiency and risks involved in the business of the firm.
3. KGC Nair and Jayan states ratio analysis is an important and useful technique to check upon the efficiency with which working capital being used in the enterprise. Some ratios indicate the trend or progress or downfall of the firm. It help the financial management in evaluating the financial position and performance of the firm.
4. Pandey: clearly explain the standards of ratio analysis. The standards of comparison consist of past ratio; competitor ratios and projecting ratios. For that he describes the methods under which ratios can be analyzed, cross sectional analysis and Performa analysis.
5. John.N.Myer – financial statements provide a summary of the accounts of a business enterprise, the balance sheet reflecting the asset and liabilities and income statements showing the result of operations during a certain period.

3. EXECUTION OF RESEARCH DESIGN

3.1 RESEARCH METHODOLOGY

Research Methodology is a way to find out the result of a given problem on a specific matter or problem that is also referred as research problem. In Methodology, researcher uses different criteria for solving/searching the given research problem. Different sources use different type of methods for solving the problem. If we think about the word "Methodology", it is the way of searching or solving the research problem.

3.2 RESEARCH DESIGN

The collected data were presented in tables and these tables were analyzed systematically. Ratio analysis, the vital financial tool was used to study the financial performance of The Sri renganadhar industries. A chart and various diagrams are used to explain the analysis clearly. It is an undisputed truth that graphs and diagrams render any complicated discussion and any intricate subject, very simple to any casual reader of the thesis.

Common size financial statement is a tool to assess, in which figures reported are converted into percentages to some common base. Trend percentages are also taken as a tool which is immensely helpful in making a comparative study of the financial statement for several years. The method of calculating trend percentages involves the calculation of percentage relationship that each item bears to the same item in the base year.

3.3 STATEMENT OF THE PROBLEM

Cash Management analysis is the process of identifying the cash strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long term forecasting and growth can be identified with the help of cash management analysis.

3.4. DATA COLLECTION METHOD

PRIMARY DATA

The primary data are those which are collected a fresh and for the first time, and thus happened to be original in character. Primary data include the information collected from the officials and existing company through discussions

SECONDARY DATA

The secondary data, on the other hand are those which have already been collected by someone else and which have already been passed though the statically process. The secondary data include the information from the company annual reports which include financial statement like balance sheet and income statements and such other information from text books of financial management, journals and magazine has also been collected.

3.5. TOOLS TECHNIQUES USED

STATISTICAL ANALYSIS

The data collected were careful analysis and processed statistical chi – square test were applied to draw meaningful inferences

- **PERCENTAGE ANALYSIS**

This method is used as making comparison between two (or) source of data percentage can also be used to compare the distribution of two (or) more sources of data

- **CHI – SQUARE TEST**

Chi – square test in the simplest and most widely used non probability test in statistical work. Chi – square represent the magnitude of discreminance between theory and observation Formula for Chi – square: (O – E) 2/E With (n – 1) degree of freedom

4. ANALYSIS OF DATA

RATIO ANALYSIS

Ratio analysis is the one of the most powerful tool of financial analysis. It aims at making use of quantitative information for decision making. A ratio is an expression of relationship between two figures or two amounts. It is a yard – stick which measures relationship between two variables. Ratios are simply a mean of highlighting in arithmetical terms the relationship between figures drowns from various financial statements. Robert Antony defines a ratio as "simply one number expressed in terms of another"

CURRENT RATIO

Current ratio is the most common ratio for measuring liquidity. It represents the "**ratio of current assets to current liabilities**". It is also called working capital ratio. It is calculating by dividing current assets by current liabilities

$$\text{Current ratio} = \frac{\text{Current asset}}{\text{Current liabilities}}$$

Current assets are those, the amount of which can be realized with in a period of one year in includes cash in hand, cash at hand etc. Current liabilities are those amounts which are payable with in a period of one year-current liabilities are creditors, bills payable etc.

The current ratio of the firm measures its short term solvency, ie, its ability to meet short term obligations. In a sound business a current ratio of 2:1 is considered an idle one. It provides a margin of safety to the creditors

CO-EFFICIENT OF CORRELATION

Co-Efficient of Correlation is an algebraic method of measuring the correlation. Under this method, we measure correlation by finding a value known as co- efficient of correlation using an appropriate formula. Correlation co-efficient is a numerical value. It shows the degree on the extent of correlation between two variables.

This is no association between cash position and net profit.

Ho: There is no association between cash position and net profit.

H1: There is no association between cash position and net profit

The correlation coefficient is a measure that determines the degree to which two variables' movements are associated. The range of values for the correlation coefficient is -1.0 to 1.0. If a calculated correlation is greater than 1.0 or less than -1.0, a mistake has been made. A correlation of -1.0 indicates a perfect negative correlation, while a correlation of 1.0 indicates a perfect positive correlation.

$$\rho_{xy} = \frac{\mathrm{Cov}(r_x, r_y)}{\sigma_x \sigma_y}$$

$$r = \frac{n(\Sigma xy) - (\Sigma x)(\Sigma y)}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2][n\Sigma y^2 - (\Sigma y)^2}}$$

Table.1. CORRELATION BETWEEN CASH AND NET PROFIT

YEAR	CASH	NET PROFIT(Y)	XY	X^2	Y^2
2011-12	**3246.12**	**2724.03**	**8842528.264**	**10537295**	**7420339**
2012-13	**1644.8**	**2189.11**	**3600648.128**	**2705367**	**4792203**
2013-14	**5504.47**	**1689.32**	**9298811.26**	**30299190**	**2853802**
2014-15	**3981.92**	**2230.31**	**8880915.995**	**15855687**	**4974283**
2015-16	**5092.95**	**2726.81**	**13887506.99**	**25938140**	**7435493**
TOTAL	$\sum X=19470.26$	$\sum Y=11559.58$	$\sum XY=44510410.64$	$\sum X^{2}=85335679$	$\sum Y^{2}=27476120$

STATEMENT OF CHANGES IN CASH FLOW STATEMENT FOR THE YEAR 2014-15

	2014	2015	Change	% of Changes
Cash flow from operating activities	1654.43	2661.40	606.97	36.68
Profits for the year Adjustment for:	899.59	1279.13	379.48	42.18
Depreciation & amortization	420.64	756.05	-164.59	-17.87
Interest paid				
Profit or Loss on Asset	1.34	1.53	0.49	14.17
Interest received	(100.37)	197.89	-97.52	97.16
Operating profit Before working capital changes	3375.63	4100.17	824.54	21.46
Increase or Decrease in sundry debtor	(281.42)	1459.05	1740.47	-618.46
Increase or decrease in other receivable	12227	1332.33	-1454.6 2609.92	-1189.66 -146.13
Increase or decrease in inventory	(1785.96)	823.96	-8020.42	-115.756

Increase or decrease in trade and other payables	8928.70	1091.72	-4400.08	-52.63
	8359.22	3959.14	-15.86	1.94
Cash generate from operation				
	(815.86)	831.72	-4415.94	-58.54
Income tax paid	7543.36	3127.42	-3747.95	140.37
	(2702.39)	3311.12	98.46	132.39
	74.37	172.83	97.52	97.16

5. CONCLUSION

In this study we focus on the Cash management relationship by examining a comprehensive data set of mutual funds that is free of survivorship bias. Successful cash management involves not only avoiding insolvency, but also reducing the length of account receivables (AR), increasing collection rates, selecting appropriate short-term investment vehicles, and increasing cash on hand to improve a company's cash position and profitability.Successfully managing cash is an essential skill for small business developers, because they typically have less access to affordable credit and have a significant amount of upfront costs to manage while waiting for receivables. Wisely managing cash enables a company to meet unexpected expenses, and to handle regularly occurring events such as payroll distribution.

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