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“A study on Cash Management in Standard Polymers private limited at Pondicherry”

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ABSTRACT

The need for Cash to run the day-to-day business activities cannot be overemphasized. One can hardly find a business firm, which does not require any amount of Cash. Indeed, firms differ in their requirements of the Cash. A firm should aim at maximizing the wealth of its shareholders. In its endeavor to do so, a firm should earn sufficient return from its operation. Earning a steady amount of profit requires successful sales activity. The firm has to invest enough funds in current asset for generating sales. Current asset 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 objectives are to analyze the Cash management and to determine efficiency in cash, inventories, debtors and creditors. Further, to understand the liquidity and profitability position of the firm. These objectives are



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achieved by using ratio analysis and then arriving at conclusions, which are important to understand the efficiency / inefficiency of Cash. It was noticed in the study that the company had utilized its Cash efficiently and can also try to get more effective values by working on it. The cash required to meet out the current liabilities is maintained at a normal level that shows the company follows an average policy.

Keywords; business activities, maximizing, shareholders. sales activity, liquidity

CHAPTER – I

1. INTRODUCTION

Cash is the important current asset for the operations of the business. Cash is the basic input needed to keep the business running on a continuous basis; it is 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 disrupt 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 time 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.



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FACTS OF CASH MANAGEMENT

Cash management is concerned with the managing of (i) Cash flows into and out of the firm, (ii) Cash flows within the firm, and (iii) Cash balances held by the firm at a point of time by financing deficit or investing surplus cash. It can be represented by a cash management cycle. Sales generate cash which has to be disbursed out. The surplus cash has to be invested while deficit this cycle at a minimum cost. At the same time, it also seeks to achieve liquidity and control. Cash management assumes more importance than other current assets because cash is the most significant and the least productive asset that a firm's holds. It is significant because it is used to pay the firm's obligations. However, cash is unproductive. Unlike fixed assets or inventories, it does not produce goods for sale. Therefore, the aim of cash management is to maintain adequate control over cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way.

Cash management is also important because it is difficult to predict cash flows accurately, particularly the inflows, and there is no perfect 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, yet management's considerable time is devoted in managing it.

In recent past, a number of innovations have been done in cash management techniques. An obvious aim of the firm these days is to manage its cash affairs in such a way as to keep cash balance at a minimum level and to invest the surplus cash in profitable



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investment opportunities. In order to resolve the uncertainty about cash flow prediction and lack of synchronization between cash receipts and payments, the firm should develop appropriate strategies for cash management. The firm should evolve strategies for cash management. The firm should evolve strategies regarding the following four facets of cash management.

- **Cash planning** Cash inflows and outflows should be planned to project cash surplus or deficit for each period of the planning period. Cash budget should be prepared for this purpose.
- **Managing the cash flows** The firm should decide about the properly managed. The cash inflows should be accelerated while, as far as possible, the cash outflows should be decelerated.
- **Optimum cash level** the firm should decide about the appropriate level of cash balances. The cost 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 such as bank deposits, marketable securities, or inter-corporate lending.

CHAPTER – II

2.1 OBJECTIVE OF STUDY

- To analyze the cash management of Standard Polymers.
- To find out the liquidity position of the concern through ratio analysis.

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- To study the growth of standard polymers in terms of cash flow statement.
- To make suggestion and recommendation to improve the cash position of standard polymers.

2.2 NEED FOR THE STUDY

The importance of Cash management in any industrial concern cannot be overstressed. Under the present inflationary condition, management of Cash is perhaps more important than even management of profit and this requires greatest attention and efforts of the finance manager. It needs vigilant attention as each of its components require different types of treatment and it throws constant attention on exercise of skill and judgment, awareness of economic trend etc, due to urgency and complicity the vital importance of Cash. The anti-inflationary measure taken up by the Government, creating a tight money condition has placed working capital in the most challenging zone of management and it requires a unique skill for its management. Today, the problem of managing Cash has got the recognition of separate entity, so its study and management is of major importance to both internal and external analyst to judge the current position of the business concerns. Hence, the present study entitled "An Analysis on Cash Management" has been taken up.

2.3 SCOPE OF THE STUDY

- ❖ It helps to take short term financial decision.
- ❖ It indicates the cash requirement needed for plant or equipment expansion programmes.
- ❖ To find strategies for efficient management of cash.

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- ❖ It helps to arrange needed funds on the most favourable terms.
- ❖ It helps to meet routine cash requirement to finance the transaction.
- ❖ It reveals the liquidity position of the firm by highlighting the various sources of cash and its uses.

2.4 LIMITATIONS OF THE STUDY

- The study is restricted only to STANDARD POLYMERS. Being a case study, the findings cannot be generalized.
- The study does not take into account the inflation.
- The study takes into account only the quantitative data and the qualitative aspects were not taken into account

CHAPTER- III

3.1. RESEARCH METHODOLOGY

RESEARCH

Research is a process in which the researchers wish to find out the end result for a given problem and thus the solution helps in future course of action. The research has been defined as "A careful investigation or enquiry especially through search for new facts in branch of knowledge"

RESEARCH DESIGN

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

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DATA COLLECTION

❖ Primary Sources

1. Data are collected through personal interviews and discussion with Finance- Executive.
2. Data are collected through personal interviews and discussion with Material Planning- Deputy Manager.

❖ Secondary Sources

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

TOOLS USED IN THE ANALYSIS

- Cash flow statement
- Trend analysis
- Ratio analysis.

PERIOD of study

The present study has taken into account Five years viz., 2009-2010 to 2013-2014.

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CHAPTER-IV

DATA ANALYSIS & INTERPRETATION

Funds from operation and cash from operation for the year ended (Rs in Thousand)

Particulars	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Net Profit	621082	1183275	478738	400470	859362
Depreciation during the year	1260161	1440184	1620207	1800231	2020184
FFO(FLO)	1881243	2623459	2098945	2200701	2879546
ADD					
Sundry debtors	736292	293962			423622
Prepaid Expenses	43200				
Sundry creditors	4731130	1710210	10643203		1504963
Outstanding liabilities	1009534		91841		
Bank O/D	2950464			10801353	
LESS					
Stock	1497634	567073	1755576	1106913	956982
Bank O/D		2950464			235624
Outstanding liabilities		767131		334244	
Sundry Debtors			9562393	910746	
Sundry Creditors				1699354	
CFO(CLO)	9854229	342963	1516020	8950797	3615525

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CASH FLOW STATEMENT

Inflow	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Opening balance	14564	64678	104545	63582	85724
Cash from operation	9854229	342963	1516020	8950797	3615525
Increase in loan funds			2410798		
Sales of Asset		797244			597648
Increase in share capital			2800000		
Total	9868793	1204885	6831363	9014379	4298897
Outflows					
Cash outflow from operation					
Purchase of Asset	9776411	8756944	6767781	7004825	2096345
Decrease in loan funds	27704	900340		1731144	967343
Decrease in share capital		200000			500000
Closing balance	64678	104545	63582	278410	735209
Total	9868793	1204885	6831363	9014379	4298897

Inference

This table shows that the cash flow statements of standard polymers are to be efficient. The cash inflow of the company is to be increased for year after year. The fund from operation is also to differ from every year. The company should increase their share

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capital from 2011-2012/ for Rs. 28, 00,000. Its must be used as efficient for the next year for decrease their loan amount.

TREND ANALYSIS

$$Y = a + bX$$

$$\text{Where } a = \frac{\sum Y}{n} ; \quad b = \frac{\sum XY}{\sum X^2}$$

INVENTORIES

YEAR	X	X ²	Inventories (Rs in lakhs) Y	XY (Rs in lakhs)
'09- '10	-2	4	27,76,072	-55,52,144
'10 - '11	-1	1	12,78,438	-12,78,438
'11- '12	0	0	18,45,511	0
'12- '13	1	1	36,01,087	36,01,087
'13 - '14	2	4	47,08,000	94,16,000
TOTAL		10	1,42,09,108	61,86,505

$$a = \frac{1,42,09,108}{5} = 2,84,182.6$$

$$b = \frac{61,86,505}{10} = 6,18,650.5$$

Inference



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This table indicates that the volume of inventory has been increased every year. Its must be increased for the last year 11, 06,913. Inventories value in 2015 will be about 21, 40,134.1

CHAPTER – V

5.1 FINDINGS

- The cash management of standard polymer has been working well in the organization.
- The Funds from operations of a company has been increased from year by year.
- The cash from operations has been find that it used as efficient.
- The cash inflow and outflow of cash flow statement have a cash balance will be increased 4.2 times when compared to last year balance.
- Current Ratio shows that the company has sufficient funds to meet its short-term obligations.
- The company's Liquidity Ratio shows a satisfactory trend.
- Super Quick Ratio shows that standard polymer is able to meet its current obligations (liabilities)..
- The efficiency of inventory control in standard polymer shows a satisfactory position..
- The Cash Ratio shows that the cash required to meet out the current liabilities is maintained at a normal level hence, it shows that standard polymer follows an average policy.
- Interval Measure Ratio shows that the company can meet its operating cash requirements within a period of 105 to 146 days without resorting to next year's income.



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- The Current Assets to Total Assets Ratio implies that standard polymer is maintaining a considerable level of Current Assets in proportion to Total Assets.
- The average Cash to Current Assets is maintained at 0.009 times. Hence, it is found that the company had maintained a moderate level of cash in proportion to Current Assets.
- The average ratio of Inventories to Current Assets is 0.46 times and thus it is found that the investment in inventories.
- The average ratio of Sundry Debtors to Current Assets is 0.67 times. Hence it implies that the credit policy followed by standard polymers is moderate.
- The loans and Advances to Current Assets ratio of the company imply that a quarter positions of the Current Assets are kept in for loans and advances, which is considerable.
- The policy regard financing the Working Capital in standard polymer can be said as Aggressive policy according to the Cash to Working Capital Ratio.
- The average cash to sales ratio is 0.004 times and which indicates that only 0.4% of sales has been maintained as cash with the business.

5.2 SUGGESTIONS & RECOMMENDATIONS

- ✓ standard polymer should try to match their Cash with the sales. In case of surplus Cash, it should be invested either in securities or should be used to repay borrowings.
- ✓ The company should try to prepare a proper ageing schedule of debtors. This will help them to reduce the bad debts and speed up collection efforts.

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- ✓ The company should be prompt in making payments so as to enjoy cash discount opportunities
- ✓ The company should determine the optimum cash balance to be kept.
- ✓ The company followed an aggressive policy of financing working capital should try to finance 50% of their working capital using long term source and improve their status.
- ✓ The current Ratio of 2 : 1 is considered normally satisfactory. standard polymer should try to improve the current ratio. So it should invest large amount in current ratio, in order to maintain liquidity and solvency position of the concern.
- ✓ The company should try to follow a matching policy for financing current Assets (i.e.) using both long term and short-term sources of finances.

5.3 CONCLUSION

The Cash Management Analysis done on the financial position of the company has provided a clear view on the activities of the company. The use of the ratio analysis, trend analysis, Cash Flow Statement and other accounting and financial management helped in this study to find out the financial soundness of the company. 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. Before I conclude I wish to convey my thankfulness in regard to the training given to me in standard polymer. It gave me extreme satisfaction and practical knowledge of the financial activities carried out in the company. The kindness, attention, and immense co-operation extended to me by all the officials in the company made my project easy and comfortable. Really it was a very pleasant experience in standard polymer.

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