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Cash and Receivable Management of Sankar Cement and Tancem Cement: A **Compartive Study**

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ABSTRACT

A firm's profitability is determined partly by way of its working capital management. An efficient management of working capital will yield significant results and its neglect can be highly dangerous to any firm. The cement industry is one of the fast growing industries in India. In 2009, there was an increase of 2.9% in sales of cement, when compared to the last two years of sales. This shows that the construction work in the country, especially the intensive and it has several players, it is really worth asking if these companies are efficiently managing their cash and receivables. A sample of two companies were selected for this study on the basis of high sales turnover and data for this study were collected for a period from 2000 to 2010 to analyze whether the sample companies really managed their cash and receivables or not. The study used ration analysis and mean as tools to find out the efficiency of cash and receivable management. Finally, it could be concluded that the cement industry was efficiently managing their cash and receivables and based on the future sales forecast , the sales turnover and profit will be good in the near future.

Key words: Cash and receivables management, Ratio Analysis and mean.

1. INTRODUCTION

The manufacturing sector faces new challenges in the competitive world. It is worth noting that creating value with cash flow, high profitability, and better consumer service are fundamental challenges to all types of business. In this regard, the aim of any company is to increase the profit by increasing sales and reducing cost. A trader very often buys and sell goods on credit basis. The credit is one the instruments to promote sales in the competitive world. Cash is the most important current asset for the operations of the business. The firm should keep sufficient cash neither more or less. Cash shortage will disrupt the firm's manufacuturing process or operation, will excessive cash will simply remain idle, without contributing anything towards the firm's profitability. Cash management is one of the key areas of financial management. Cash is life blood stream in the human body which gives vitality and strength to a business enterprise. An obvious aim of every firm is to manage its cash affairs in such a way as to keep cash balance at an optimum level and to invest the surplus cash funds it profitable opportunities.

Trade credit is the most prominent force of the modern business. The objectives of receivable management are to increase the volume of sales, to ensure credit worthiness or financial soundness of the concern and to measure the effective handling of accounts receivables.

The term "Accounts Receivable" is defined as' debt owed to the firm by customers arising from sales of goods or services" The word 'Account Receivables' is also known as 'Sundry Debtors' or

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‘Trade Debtors’ or ‘Book Debts’. The sundry debtors may be defined as “Money due from a customer for sale of goods or services in the ordinary course of business”.
Receivables constitute a substantial portion of current assets of several firms. For example in India trade debtors, after inventories are the major components of current asset. They form about one-third of current asset in India. Cement is an important raw material for construction. Hence cement is considered to be one of the fast growing industries of the company. As this industry is it capital intensive and has several players, it is really worth exploring if these companies are efficiently managing their receivables.

FORMULATION OF CREDIT POLICIES

The economic conditions, product pricing product quality and the firm’s credit policies are the chief influencing aspects on the level of a firm’s account receivable. The credit policy however has a significant impact on sales. In other words, credit is one among many factors that stimulates the demand for a firm’s product. The term credit policy refers to a firm’s guidelines for determining quality of a trade accounts to be accepted, the length of the credit period, the cash discount and any special term such as seasonal dating, the collection programme and policy of discounting of bills.
Every firm has to determine credit policy and credit standard for efficient receivable management. The credit standard refers to the minimum quality of credit worthiness of a credit applicant that is acceptable to a firm. In other words, the quality of the trade accounts to be accepted is called as credit standard.

2. REVIEW OF THE LITERATURE

An attempt has been made to review the research works already undertaken in the area of cash and receivable management to understand research gap and methodology adopted by earlier researches. A review of selected studies has been finished.

Jain P.K and Praveen Kumar (2006) in their study “Working capital Management Practice- A study of Nifty Index companies” analyzed the impact of working capital in listed companies of S&P CNX Nifty index. The result of the study revealed that the sample Nifty companies had lower liquidity ratio. The company’s current assets and quick asset were below the standard norms of 2:1 and 1:1 respectively. Further, the sample companies gained positive leverage, excess of creditor’s payment period over debtors’ and collection period during the study period. The study concluded that the sample companies must reduce their financing cost in order to have better profitability in their study entitled, “A study of receivable management of Indian pharmaceutical Industry”

Hitesh and Shukla J (2007), examined the receivable management of sample companies for the period from 1997 to 2006, using working capital ratios and Annova test. The authors found that there was significant relationship between and within the group of the sample companies. The study concluded that the pharmacy industries were efficient in managing their receivables.

Ioannis Lazandis and Demetrious Thyfondis (2002) in their study.” The Relationship between working capital management and profitability of listed companies in the Athens stock exchange,” examined the relationship between corporate profitability and working capital management. The study used a sample of 131 companies listed in the Athens stock exchange for the period 2001-2004. The study showed that there were significant returns between profitability, measured through gross operating profit, and the cash conversion cycle. The study concluded that the manager should

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be efficient enough in handling the cash conversion cycle and keeping optimum level of account receivables, account payable and inventory.

The above literature provides an overview at the working capital management from different industries. This study has analyzed the cash and receivable management of sankar cement and Tancem Cement during the period 2000-2010.

3. STATEMENT OF THE PROBLEM

As stated earlier, creating value with cash flow, high profitability returns on investment and better customer service are real challenges to all types of business. The cash and receivables, the key element of working capital, usually push up business revenue and help to earn profit. It is to be noted that maximizing sales is possible only through credit sales. Hence the cash and receivable management is a real challenge that needs to be tackled. Under, these circumstances, this study was conducted to test how best the cement companies were able to manage these challenges to realize cash receivable management.

4. OBJECTIVES OF THE STUDY

The objectives of this study is to analyze the efficiency of cash and receivable management in selected sample of sankar Cement and TANCEM cement

METHODOLOGY OF THE STUDY

a) **Sample size:** In order to meet the objectives of the study, two sample companies of the cement industry were selected on the basis of companies which recorded higher turnover of sales (more than 1000 crores) during the year 2008. The reason behind choosing the sales as a criteria is that higher the sales, higher the amount of working capital. It is known fact that the company with high sales may have to have better cash and receivable management. The sample companies include sankar cement and TANCEM Cement.

b) **Period of the study:** The study covers a period of Eleven years from 2010-011 to 2018-19.

c) **Sources of Data:** The present study is mainly based on secondary data. The data were collected from Annual Reports of Sankar Cement and TANCEM Cement

d) **Tools used for the Analysis:** The ratios are effective tools to evaluate the cash and receivable management. Hence the present study used ratios for the purpose of analysis. The ratios used in this study, include cash turnover Ratio (Times) cash to current liability ratio, Current Assets to Total Net Assets Ratio, Current Assets to Sales Ratio (Times) Working capital to sales ratio (Times), Receivable to Turnover Ratio (Times) and Average collection period (In days)

5. RATIOS OF CASH AND RECEIVABLE MANAGEMENT

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The following ratios are generally used to test cash and receivable management.

a) Cash turnover ratio

Greater turnover in sales indicates the effective utilization of cash resources. If a business cash turnover its cash large numbers of times, it can finance greater volume of sales with relatively lesser cash resources which will increase the profitability of a concern.
The following formulae is used to calculate the cash Turnover Ratio
Cash Turnover Ratio= Sales/ Cash

b) Cash to current liability Ratio

The best method to control cash balance is to analyze the level of liquid funds in relation to current liabilities. Every organisation should manage the cash effectively, if they could not meet out the current liability in time.
The following formulae is used to calculate the cash to current liability ratio
Cash to current liability ratio: Cash/ Current liability x 100

C) Current assets to total net assets ratio

Current assets to total net assets ratio shows the proportion of current assets to total investment in assets. If the maximum portion of total net assets is tied up with current assets on a continuous, basis it draws attention to the management because current assets are less profitable then fixed assets.

The following formulae are used to calculate the current assets to total net assets ratio:

Current assets to total Net assets Ratio = Current Assets/ Total Assets

e) Current Assets to Sales ratio

Current assets to sales ratio indicates the efficiency with which current assets turn into sales. A lower ratio implies by and large a more efficient use of funds. Thus a high turnover indicates reduced lockup of funds in current assets.
The following formulae are used to calculate the current assets to sales ratio.
Current assets to Sale ratio = Current asset/ Sales

f) Working capital to sales Ratio

Working capital to sale ratio signifies that for an amount of sales a relative amount of working capital is needed. If any increase in sales is contemplated working capital should

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be adequate. Therefore this ratio is guideline to maintain the adequate level of working capital.

The following formulae are used to calculate the working capital to sale ratio:
Working capital to sales ratio: = working capital / Sales
Working capital= Current assets- current liabilities

g) Receivable turnover ratio

The receivable turnover ratio shows the efficiency achieved in using the funds invested in receivables. Funds invested in receivables are not available for other profitable uses. Increase in the volume of receivables without corresponding increase in total assets may cause decrease in the volume of investment in other component of current assets. If investment in inventory is reduced, it may in turn affect total sales and consequently reduce the profits of the firm. This reserve may be in the case of decrease in the volume of receivables. This can be computed into:

Receivable Turnover ratio= Credit sales/ Average account receivables
Average account receivable = Opening debtors + closing debtors / 2

h) Average collection period (In days)

The average collection period is a significant measure of the collection activity and the quality of account receivables. A high collection period indicates a slow collection process. A shorter collection period implies the prompt payment by debtors and reduces the chances of bad debts. It measures the quality of book debts since in indicates the speek of their collectability. This can be computed as
Average collection period = 360/ Debtors turnover ratio
Debtors turnover ratio= credit sales / Average account receivables

6. ANALYSIS OF THE STUDY

Table 1 shows the cash management ratios of two cement companies in India during the study period from 2000-01 to 2010-11. As stated earlier, the two companies include sankar Cement ltd and TANCEM Cement Ltd. For this purpose of this study, ratio wise analysis (in each row) was made in the following lines. Further, ratios of individual companies are compared with the average of two companies.

It is understood from Row-1 of table 1 (Cash turnover Ratio) that Sankar Cement Ltd (0.4801 times) acquired larger amount of cash as a part to turnover ratio during the study period, and it is followed by TANCEM Cement (0.1875 times) . It was found that when compared to the ratio of

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sample companies with the industry average ratio (0.1806 times) two samples firms did not perform efficiently in the area of cash management during the study period.

From the ratio of cash to current liability of the sample companies during the study period of 2000-01 to 2010-11, as given in Table1 (row 2), it is clear that the TANCEM Cement Ltd (31.41) earned larger amount of cash management as a part of cash to current liability, followed by Sankar Cement Ltd (11.78). But acquired the lowest percentage of cash to current liability during the study period. The Industry Mean Ratio of TANCEM Cement 18.15 per cent was compared to the mean of Sankar Cement.

Table 1 (Row-3) shows the results of current assets to total net assets ratio of the sample companies during the study period of 2000-01 to 2010-11. It is clear that the Sankar Cement Ltd (8.20 times) earned larger amount of cash management as a part of current asset to total net assets, followed by TANCEM Cement Ltd (8.15 times) The average mean ratio of Sankar Cement 5.79 times compared to the mean of TANCEM Cement.

It is understood from the above table -1 (Row4) that the current assets to Sales ratio as earned by sample companies varied between during the study period of 2000-01 to 2010-11. The overall industry average ratio was (8.59) times. The Sankar Cement Ltd (12.74) times earned large of current assets to sales ratio when compared with other companies. It shows the efficient cash management of Sankar Cement Ltd that achieved higher sales. It is to be noted that the ratio of TANCEM Cement (7.88) times were much below the industry average (57.9)

Working capital to sales ratio of the sample companies during the study period from 2000-01 to 2010-11 is given in Table 1 (Row-5). It is clear that Sankar Cements Ltd (8.98) times extended extremely higher units of its customers during the entire study period compared to other sample companies. TANCEM Cement Ltd (0.42) times extended much lower units of its customer for every unit of it obtained from its supplier. The average ratio of sankar cement (6.08) times

It is under stood from the above table-1 (Row-6) that the receivable turnover ratio as earned by sample companies varied between during the study period of 2000-01 to 2010-11. The overall industry average ratio was (9.33) times. The Sankar Cements Ltd (12.62) times earned large times of receivable turnover ratio when compared with other companies. It shows the efficient receivable management of Sankar Cement Ltd that achieved higher turnover. It is noted that the ratio of TANCEM Cement Ltd (5.70) times were much below the industry average (9.33) times,

The average collection period ratio of the sample companies during the study period from 2000-01 to 2010-11 is given in Table 1 (Row-7). It is to be noted that on an average, the receivables collection period across the industry. The overall aggregate period was (160) days in TANCEM Cement Ltd. As far as receivables turnover is concerned, the Sankar Cement Ltd (63) days performed well by holding receivables for a lessor period.

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So, these two companies held receivables for a higher time period than the industry average (109) days.

It is clear that Sankar Cement Ltd has performed well during the study period as it recorded the best in five ratios out of seven ratios used to test working capital management.

7. FINDINGS AND SUGGESTIONS OF THE STUDY

The following are the important findings of the study:

1. The average cash turnover ratio of the cement industry during the study period was 0.1806 times. From the analysis, it is found that the cash turnover ratios were efficiently managed by the sample cement companies during the study period. However, appropriate efforts have to be made to maintain management at this level.

2. The average cash to current liability ratio was 18.15% .The results of sample were below the average when compared with the TANCEM Cement 18.15% and Sankar Cement 4.3%. The samples companies have put efforts in future in maintain this level.

3. The current assets to total net assets ratio is (5.79) times (Average). It is found out the average mean current assets to total net assets ratio was diminishing every year from 2000-01 to 2010-11. But sankar cement alone was above the (8.20) times when compared to the industrial average of (5.79) times.

4. It is clear from that the receivables turnover ratio was efficiently managed by two sample companies during the study period. The average receivable turnover ratio (12.69) times more than the average (9.33) times. The management of Sankar Cement should perform better in respect of this ratio.

5. It is found that the average collection period ratio was 109 days. The Sankar Cement Ltd was able to collect with in a lesser period. The overall charges of ratio shows that sample companies were efficiently managed in matter of collection.

6. The current asset to sales ratio is (8.59times) (Average). It is found out that the average mean cash to sales ratio was diminishing every year from 2000-01 to 2010-11. It is also a sign that the sample company was becoming efficient. But Sankar Cements alone was above the average (12.74 times) when compared to the industrial average of (8.59times).

7. The overall performances of the sample cement companies in the area of working capital management was satisfactory during the study period.

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8. The overall performances of TANCEM Cements Ltd when compared to Sankar Cement ltd, seems to be poor and they need to take necessary steps in improving the working capital management.

8. SCOPE FOR FURTHER STUDY

The present study was conducted by using the data of cement industry. There is good scope to do the evaluation for TANCEM Cement Ltd like manufacturing servicing etc.

9. CONCLUSION

The present study found that the level of cash to current liability ratio of the sample companies in cement industry was found to be 18.15% while looking at the current assets to total net assets of the industry, it had about 5.79 times of cash against net assets. Current assets to sales ratio of the industry it had about 8.59 times. Working capital to sales of the industry was found to be 6.08 times. The receivables turnover of the industry was about 12.62 times in year. Finally it could be concluded that the cement industry was efficiently managing their cash and receivables and based on the future sales forecast, the sales turnover and profit will be good in the near future.

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