International Research Journal of Management and Commerce
ISSN: (2348-9766)
Impact Factor- 5.564, Volume 4, Issue 7, July 2017
Website- www.aarf.asia, **Email** : editor@aarf.asia , editoraarf@gmail.com

CASH MANAGEMENT IN PAPER INDUSTRY – A COMPARATIVE STUDY IN SPML AND INTERNATIONAL PAPER APPML

Dr. Yellaswamy Ambati
Lecturer in Commerce, TS Model Junior College, Jangaon.
Warangal, Telangana State.

ABSTRACT

Cash management is one of the key areas of working capital management. Cash is the most liquid current asset. Cash is the common denominator to which all current assets can be reduced because the other major liquid assets, i.e. receivable and inventory get eventually converted into cash. This underlines the importance of cash management.

The term "Cash" with reference to management of cash is used in two ways. In a narrow sense cash refers to coins, currency, cheques, drafts and deposits in banks. The broader view of cash includes near cash assets such as marketable securities and time deposits in banks. The reason why these near cash assets are included in cash is that they can be readily converted into cash. Usually, excess cash is invested in marketable securities as they contribute to profitability in the form of interest

Key Wards: Cash Ratios, Current Ratios, Quick Ratios.

Introduction

Cash is one of the most important components of current assets. Every firm should have adequate cash, neither more nor less. Inadequate cash will lead to production interruptions, while excessive cash remains idle and will impair profitability. Cash management has assumed importance because it is the most significant of all the current assets. It is required to meet business obligations and it is unproductive when not used.

Need of the Study

Cash is one of the current assets of a business. It is needed at all times to keep the business going. A business concern should always keep sufficient cash for meeting its obligations. Any shortage of cash will hamper the operations of a concern and any excess of it will be unproductive. Cash is the most unproductive of all the assets.While fixed assets like machinery, plant, etc. And current assets such as inventory will help the business in increasing its earning capacity, cash in hand will not add anything to the concern. It is in this context the cash management has assumed much importance.

Objectives of the Study

The main objective of the study is to analyse the cash management in paper industry. It includes;

1) To study the components of cash ratios in select companies
2) To analyse current ratios in select companies and
3) To evaluate the quick ratios of select companies.

Research Methodology

The study is based on secondary data. The secondary data was collected include the following: earlier studies/reports on selected paper units, annual reports of the selected undertakings, textbooks, journals, periodicals, daily news papers, web sites etc., The data collected on inventory management in paper industry processed, tabulated and analysed in a systematic manner with the help of various statistical techniques such as percentages, averages, ratios and such other relative measures.

Selection of sample: In order to carry out my research, I have selected two established paper manufacturing companies located in two neighbouring states viz., Andhra Pradesh and Telangana State;

1) **Sirpur Paper Mills Limited (SPML):** It is situated at Sirpur town in Adilabad district of Telangana State.
2) **International Paper (APPM- formerly known as The Andhra Pradesh** Paper Mills) **Limited (International Paper APPML):** It is located at Durganagar, Sriramnagar, Rajahmundry, Andhra Pradesh.

Analysis of Cash Ratios of SPML and International Paper APPML

In order to study the liquidity position of both SPML and International Paper APPML the cash ratios are calculated and presented in Tables- 5.3 and 5.4 the Cash ratio is the ratio of a company's cash and cash equivalents assets to its current liabilities. Cash ratio is an indicator of company's short-term liquidity. It measures the ability to use its cash and cash equivalents to pay its current financial commitments. Cash ratio is a refinement of quick ratio and indicates the extent to which readily available funds can pay off current liabilities. Potential creditors use this ratio as a measure of a company's liquidity and how easily it can service debt and cover short-term liabilities.

Generally, a cash ratio should stand at 1.00 and above to pay all its current liabilities in immediate short term period. Therefore, creditors usually prefer high cash ratio. But businesses usually do not plan to keep their cash and cash equivalent at level with their current liabilities because they can use a portion of idle cash to investment in marketable securities to generate profits. This means that a normal value of cash ratio is somewhere below 1.00. In this backdrop there is a need to analyse the cash ratios of select companies.

The cash ratios of SPML during the study period of ten years i.e. from the 2003-04 to 2012-13 are presented in table – 1.1

Table – 1.1

Cash Ratios of SPML

Financial Years	Cash & Cash Equivalents	Current Liabilities	Cash Ratios
2003-04	680	4299	**0.16**
2004-05	882	6027	**0.15**
2005-06	631	7097	**0.09**
2006-07	1701	10779	**0.16**
2007-08	651	9542	**0.07**
2008-09	1150	11395	**0.10**
2009-10	466	10005	**0.05**
2010-11	827	10802	**0.08**

2011-12	1393	10802	0.08
2012-13	370	18001	0.03

Source: Annual Reports of SPML from 2003- 04 to 2012-13.

In this company the cash ratio represented in almost all the financial years of study period below the rule of thumb i.e. 0.5:1 thus indicating poor liquidity position of the company. During the study period, the cash ratio of SPML range from 0.03 to 0.16. It clearly indicates that the SPML need to take proper measures in maintaining established norms to maintain its liquidity position.

The Cash Ratios of International Paper APPML during the study period of ten years i.e. from the 2003-04 to 2012-13 are presented in table – 1.2.

Table –1.2

Cash Ratios of International Paper APPML

Financial Years	Cash & Cash Equivalents	Current Liabilities	Cash Ratios
2003-04	795	8106	**0.10**
2004-05	612	8771	**0.07**
2005-06	777	14487	**0.05**
2006-07	972	12563	**0.08**
2007-08	1330	13345	**0.10**
2008-09	807	15975	**0.05**
2009-10	1377	14188	**0.10**
2010-11	2068	14456	**0.14**
2011-12	2415	30049	**0.08**
2012-13	1656	30342	**0.05**

Source: Annual Reports of International Paper APPML from 2003-04 to 2012-13.

In this company the cash ratios represented in almost all the financial years of study period far below the rule of thumb i.e. 0.5:1. Thus it is indicating poor liquidity position of the company. During the ten years period of the study, the cash ratios were ranging from 0.05 to 0.14.

The analysis of data mentioned above clearly indicates that SPML is better in presenting cash ratios compared to that of International Paper APPML. On enquiry it is found that due to rise in operating expenses like wages, carriage inward the cash balances are subjected to reduced very minimum levels to meet its short-term commitments becoming very hard.

Analysis of Current Ratios of SPML & International Paper APPML

Current Ratio may be defined as the relationship between current assets and current liabilities. This ratio also known as working capital ratio is a measure of general liquidity and is most widely used to make analysis of a short-term financial position or liquidity of a business entity. The current ratios of SPML during the study period of ten years i.e. from the 2003-04 to 2012-13 are presented in table – 1.3.

Table – 1.3

Current Ratios of SPML

Financial Years	Current Assets	Current Liabilities	Current Ratios
2003-04	9794	4299	**2.28**
2004-05	8935	6027	**1.48**
2005-06	9600	7097	**1.35**
2006-07	11721	10779	**1.09**
2007-08	8865	9542	**0.93**
2008-09	13740	11395	**1.21**
2009-10	13028	10005	**1.30**
2010-11	13334	10802	**1.23**
2011-12	16196	18001	**0.90**
2012-13	14648	13254	**1.11**

Source: Annual Reports of SPML from 2003- 04 to 2012-13.

As a convention the minimum of two to one ratio is referred to as a banker's rule of thumb or arbitrary standard of liquidity for a firm. The idea of having double current assets as compared to current liabilities is to prove for delays and losses in the realisation of current assets. With regard to SPML except in 2003-04 in other years of study period the current ratios were 1.5 to less than 1 thus indicating poor liquidity position and reduced ability to pay its current obligations on time as and when they become due. Many a time the company could not pay the creditors on time thereby there was a little negative impact on its credit worthiness.

The Current Ratios of International Paper APPML during the study period of ten years i.e. from the 2003-04 to 2012-13 are presented in table – 1.4.

Table – 1.4

Current Ratios of International Paper APPML

Financial Years	Current Assets	Current Liabilities	Current Ratios
2003-04	15136	8106	**1.87**
2004-05	15102	8771	**1.72**
2005-06	15603	14487	**1.08**
2006-07	18165	12563	**1.45**
2007-08	22010	13345	**1.65**
2008-09	23901	15975	**1.50**
2009-10	24835	14188	**1.75**
2010-11	28986	14456	**2.01**
2011-12	31814	30049	**1.06**
2012-13	26129	30342	**0.86**

Source: Annual Reports of International Paper APPML from 2003- 04 to 2012-13.

The current ratios in International Paper APPML during the study period were just above except in 2010 where the ratio was 2:1. Very poor current ratio was depicted where current assets position was just 0.86 in 2012-13 compared to that of current liabilities. Though the company is producing international standard paper to stay in the highly competitive market its liquidity position was just average in meeting its contingent liabilities on time.

Analysis of Quick Ratios of SPML & International Paper APPML

Quick Ratio, also known as Acid Test or Liquid Ratio, is a more rigorous test of liquidity than the current ratio. The term 'liquidity' refers to the ability of a firm to pay its short-term obligations as and when they become due. The Quick Ratios of SPML during the study period of ten years i.e. from the 2003-04 to 2012-13 are presented in table – 1.5

Table – 1.5

Quick Ratios of SPML

Financial Years	Quick Assets	Current Liabilities	Quick Ratios
2003-04	7506	4299	**1.75**
2004-05	6252	6027	**1.04**
2005-06	7052	7097	**0.99**
2006-07	8838	10779	**0.82**

2007-08	6538	9542	0.69
2008-09	10676	11395	**0.94**
2009-10	9507	10005	**0.95**
2010-11	10304	10802	**0.95**
2011-12	11575	18001	**0.64**
2012-13	10552	13254	**0.80**

Source: Annual Reports of SPML from 2003- 04 to 2012-13.

As a rule of thumb or as a convention quick ratio of 1:1 is considered satisfactory. It is generally thought that if quick assets are equal to current liabilities then the concern may be able to meet its short term obligations on time. With reference to SPML except in 2003-04, 2004-05, 2005-06 and 2009-10 in remaining years of study the quick ratios were not equal to 1:1. But on an average the ratios were near to one in almost all the years of study period showing the company's liquidity position standing at border line.

The Quick Ratios of International Paper APPML during the study period of ten years i.e. from the 2003-04 to 2012-13 are presented in table – 1.6 .

Table – 1.6

Quick Ratios of International Paper APPML

Financial Years	Quick Assets	Current Liabilities	Quick Ratios
2003-04	6432	8106	**0.8**
2004-05	6478	8771	**0.7**
2005-06	7510	14487	**0.5**
2006-07	9219	12563	**0.7**
2007-08	11529	13345	**0.9**
2008-09	10376	15975	**0.6**
2009-10	13248	14188	**0.9**
2010-11	16879	14456	**1.2**
2011-12	10622	30049	**0.4**
2012-13	11650	30342	**0.4**

Source: Annual Reports of International Paper APPML from 2003- 04 to 2012-13.

The liquidity position of International Paper APPML in most of the years of study period presenting ratios at less than 1 except in 2010-11. During the latest year of the study i.e. 2012-13 and its immediate preceding year the proportion of quick assets to that of current liabilities were only 40%. This poor state of condition is reducing its ability to meet short term obligations thereby affecting its credit worthiness adversely.

Findings of the Study

1) The company (SPML) is adopting the policy of investing temporary cash surplus in short-term investments and thereby avoiding bank overdraft and cash credits to meet the cash requirements of the company. In this company the cash ratio represented in almost all the financial years of study period below the rule of thumb i.e. 0.5:1 thus indicating poor liquidity position of the company. During the study period, the cash ratio of SPML range from 0.03 to 0.16. It clearly indicates that the SPML need to take proper measures in maintaining norms established to maintain its liquidity position.

2) In International Paper APPML cash ratios represented in almost all the financial years of study period were far below the rule of thumb i.e. 0.5:1. Thus it was indicating poor liquidity position of the company. During the ten years of period of the study, the liquidity ratios were ranging from 0.05 to 0.14.

3) The observation of cash ratios clearly indicates that SPML is better in presenting absolute liquid ratios compared to that of International APPML. On enquiry it is found that due to rise in operating expenses like wages, carriage inward the cash balances are subjected to very minimum and cash levels to meet its short-term commitments becoming very hard.

4) The SPML except in 2003-04 in other years of study period the current ratios were 1.5 to less than 1 thus indicating poor liquidity position and reduced ability to pay its current obligations on time as and when they become due. Many a time the company could not pay the creditors on time thereby there was a little negative impact on its credit worthiness.

5) The current ratios in International Paper APPML during the study period were above except in 2010 where the ratio was 2:1. Very poor current ratio was depicted where current assets position was just 0.86 in 2012-13 compared to that of current liabilities. Though the company is producing international standard paper to stay in the highly competitive market its liquidity position was just average in meeting its contingent liabilities on time.

6) The SPML except in 2003-04, 2004-05, 2005-06 and 2009-10 in remaining years of study the quick ratios were not equal to 1:1. But on an average the ratios were near to one in almost all the years of study period showing the company's liquidity position is on border line.

7) The liquidity position of International Paper APPML in most of the years of study period presenting ratios at less than 1 except in 2010-11. During the latest year of the study i.e. 2012-13 and its immediate preceding year the proportion of quick assets to that of current liabilities were only 40%. This poor state of condition is reducing its ability to meet short term obligations thereby showing negative impact on its credit worthiness.

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