



**A STUDY ON WORKING CAPITAL MANAGEMENT OF
SAKTHI SUGARS LIMITED, RACE COURSE ROAD,
COIMBATORE**

By

PONMANI RAJA.P.M

71206631038

Of

Department of management studies
Kumaraguru College of Technology

COIMBATORE.

A PROJECT REPORT

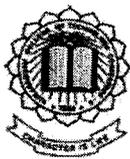
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In the partial fulfillment of the requirements
for the award of the degree

Of

**MASTER OF BUSINESS ADMINISTRATION
JULY'07 – AUGUST'07**



KCT Business School
Department of management studies
Kumaraguru College of Technology
Coimbatore – 641006

BONAFIDE CERTIFICATE

Certified that this project report titled “ A STUDY ON WORKING CAPITAL MANAGEMENT OF SAKTHI SUGARS LIMITED, COIMBATORE” is the bonafide work of PONMANI RAJA.P.M (Reg no:71206631038) who carried this research under my supervision. Certified further , that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

Prof. Col.N.Jothilingam
Project Guide

Director

Evaluated and Viva Voce conducted on _____

INTERNAL EXAMINER

EXTERNAL EXAMINER

DECLARATION

I, hereby declare that this project report entitled “ **A STUDY ON WORKING CAPITAL MANAGEMENT OF SAKTHI SUGARS LIMITED, COIMBATORE**” as has been undertaken for academic purpose submitted to Anna University in partial fulfillment of the requirements for the award of the degree of Master of Business Administration. The project report is the record of the original work done by me under the guidance of Prof.Col.N.Jothilingam during the academic year 2006 – 2007.

I, also declare hereby, that the information given in this report is correct to best of my knowledge and belief.

Date: 29.10.07

Place: Coimbatore



PONMANI RAJA.P.M



Sakthi Sugars Limited

180, Race Course Road, Post Box No. 3775, Coimbatore - 641 018. Phone : 4322222, 2221551
Grams : "SUGARKING" Fax : 4322488, 2220574 E-mail : info@sakthisugars.com

GA-26/ 3356 /2007

17.09.2007

CERTIFICATE

This is to certify that Mr.P.M.Ponmani Raja, M.B.A. student of Kumaraguru College of Technoloyg, Coimbatore, has done Project Work on the topic '**A STUDY ON WORKING CAPITAL MANAGEMENT OF SAKTHI SUGARS LIMITED, COIMBATORE**' in **FINANCE** Department of our organisation during the period from 19th June, 2007 to 31st July, 2007.

During the above period, his performance, conduct and character were found to be **GOOD.**

We wish all success in his career.

For SAKTHI SUGARS LIMITED

P.MUTHUVELAPPAN
SR.GENERAL MANAGER-HRD

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EXECUTIVE SUMMARY

The study aims to measure the growth of Sakthi Sugars Limited and to analyze how the working capital is managed in the company. The data used are taken from annual reports of the company. The working capital of the company is assessed with various parameters such as sales, net profit and other standard financial ratios.

Working capital refers to the firm's investment in current asset. The large holding of current assets, especially cash, strengthens the firm's liquidity position and reduces risk, and also reduces the overall profitability. The firm has a greater degree of flexibility in managing current assets.

Ratio analysis is one of the popular tools of financial statement analysis. Financial ratio is a relationship between two variables taken from financial statements of a concern. Ratio analysis helps management pinpoint specific areas that reflect improvement or deterioration, as well as detect any trouble spots that may prevent the attainment of objectives.

Working capital analysis is an important field of financial management. This analysis will provide a base to judge whether the practice and prevailing policies of management with regard to working capital is good enough or an improvement is required for managing the working capital funds.

The project has been undertaken to study the working capital management of Sakthi Sugars Limited, Coimbatore, for a period of three months 19-06-2007 to 31-07-07.

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CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF STUDY

The term working capital management refers to the analysis on the funds available for the firm. It refers to the process of determining financial strengths and weakness of the firm by establishing strategic relationship between the items of the balance sheets, profit and loss account and other operative data

A study on working capital management is a process of evaluating the items involved in the working capital of the firm & to obtain a better understanding of a firm's position and performance.

Broadly speaking there is three steps involved in the analysis of working capital involve selection, classification and interpretation.

The study enables the financial manager of the company to understand well about the company's past performance and thereby enables to estimate the future performance.

Working capital Management

Working Capital is the lifeline of every concern. Funds are heeded in every business for carrying on day -to-day operation. The importance of working capital in any industrial concern needs not be over- emphasize. It is judged from the fact-many a time the main cause of the failure of business enterprise has been found working capital is a serious handicap in business. So the amount of working capital in every business concern should be neither more nor less than what is actually required. Further, management of working capital in a given enterprise has profitability and liquidity implantations. The main objective of working capital is to arrange to the needed funds at right time from right source and for the right period so that a trade off between liquidity and profitability may be realized.

Developing economies are confronted with the problem of inefficient utilization of resources available to them. Capital is the limited productive resources in such economies and proper utilization of these resources promotes the rate of growth, cuts down the cost of

production and above all improves the fixed capital and working capital. Fixed capital investment generates production capacity whereas working capital makes this utilization of the capacity possible.

Funds are needed in every business for carrying on day-to-day operations. Working capital funds are regarded as the life blood of a business firm. A firm can exist and survive without making profit but cannot survive without working capital funds. If a firm is not earning profit it may be termed as "Sick", but not having working capital has acquired a great significance and sound position for the twin objects of "Profitability as well as to maintain proper liquidity at minimum risk". Thus, the study of working capital occupies an important place in financial management

Concepts of Working Capital

There are two concepts of working capital

➤ **Gross working capital**

In the broad sense, the term working capital refers to the gross working capital and represents the amount of funds invested in current assets. "Thus, the gross working capital is the capital invested in total current assets of the enterprise" current assets are those assets which in the ordinary course of business can be converted into cash within a short period of normally one accounting year.

➤ **Net Working capital**

Net working capital is the excess of current assets over current liabilities, i.e., Net working capital = current assets – current liabilities.

Classification of Working Capital

Working Capital may be classified in two ways

- a. On the basis of concept
- b. On the basis of time

On the basis of concept, working capital is classified as gross working capital and net working capital.

On the basis of time, working capital may be classified as

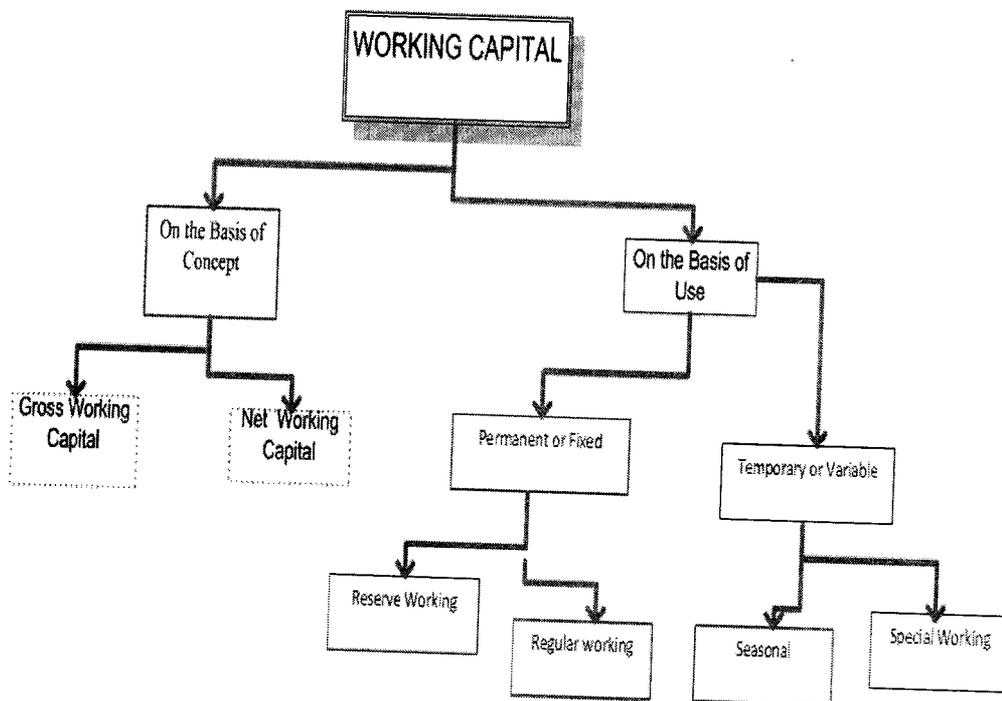
➤ **Permanent or Fixed working capital**

Permanent or Fixed working capital is the minimum amount which is required to ensure effective utilization of fixed facilities and for maintaining the circulation of current assets.

➤ **Temporary or Variable Working Capital**

Temporary or variable working capital is the amount of working capital which is required to meet the seasonal demands and some special exigencies variable working capital can be further classified as seasonal working capital and special.

Working capital Cycle – Chart



Advantages of working capital

Working capital is the life blood and name centers of a business. Just as circulation of blood is essential in the human body for maintaining life, working capital is very essential to maintain the smooth running of a business.

- **Solvency of the Business:** adequate working capital helps in maintaining solvency of the business by providing uninterrupted flow of production.
- **Good will:** sufficient working capital enables a business concern to make prompt payments and hence helps in creating and maintaining good will

- **Easy Loans:** a concern having adequate working capital, high solvency and good credit standing can arrange loans from banks and other on easy and favourable terms.
- **Cash Discounts:** adequate working capital also enables a concern to avail cash discounts on the purchase and hence it reduces costs.
- **Regular supply of raw materials:** sufficient working capital ensures regular supply of raw materials and continuous production
- **Regular payment of salaries, wages and other day-to-day commitments:** a company which has ample working capital can make regular payment of salaries, wages and other day-to-day commitment which raises the morale of its employees. Increase their efficiency, reduces wastages and costs and enhances production and profits.
- **Exploitation of favorable market conditions:** only concerns with adequate working capital and exploit favorable market conditions such as purchasing its requirement in bulk when he prices are lower and by holding its inventories for higher prices.
- **Quick and regular return on investment:** every investor wants a quick and regular return on his investments.
- **High Morale:** adequacy of working capital creates an environment of security, confidence, high morale and creates overall efficiency in a business.

Factors determining the working capital requirements

The Working capital requirement of a concern depend upon a large number of factors such as nature and size of business, the character of their operations, the length of the production cycles, the rate of stock turnover and the state of economic situation.

➤ **Nature or Character of Business**

The working capital requirements of a firm basically depend upon the nature of its business. Public utility undertakings like Electricity, water supply and railways need very limited working capital because they offer cash sales only and supply services not products and as such no funds are tied up in inventories and receivables.

➤ **Size of Business / Scale of operations**

The working capital requirement of a concern is directly influenced by the size of its business which may be measured in terms of scale of operations.

➤ **Production policy**

In certain industries the demands is subject to wide fluctuation due to seasonal variations. The requirements of working capital, in such cases, depend upon the production policy.

➤ **Manufacturing process/ Length of production cycle**

In manufacturing business, the requirements of working capital increases in direct proportion to length of manufacturing process.

➤ **Seasonal variations**

In certain industries raw materials is not available through out the year. They have to buy raw materials in bulk during the season to ensure an interrupted flow and process them during the entire year.

➤ **Working capital cycle**

In a manufacturing concern, the working capital cycle starts with the purchase of raw material and ends with the realization of cash from the sale of finished products.

➤ **Rate of Stock Turnover**

There is a high degree of inverse co-relationship between the quantum of working capital and the velocity or speed with which the sales are effected. A firm having a high rate of stock turnover will need lower amount of working capital as compared to a firm having a low rate of turnover.

➤ **Credit policy**

The credit policy of a concern in its dealings with debtors and creditors influence considerably the requirements of working capital

➤ **Business Cycles**

Business cycles refers to alternate expansion and contraction in general business activity. In a period of boom i.e, when the business is prosperous, there is a need for larger amount of working capital due to increase in sales, rise in prices, optimistic expansion of business etc.,

➤ **Rate of growth of business**

The working capital requirements of a concern increase with the growth and expansion of the business activities.

➤ **Earning capacity and dividend policy**

Some firms have more earning capacity than other due to quality of their products, monopoly conditions etc., the dividend policy of a concern also influences the requirements of its working capital

➤ **Price level changes**

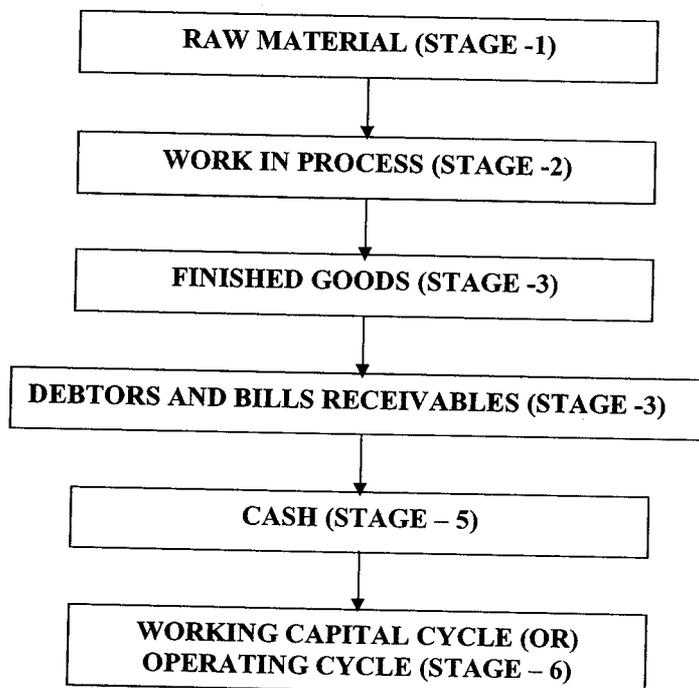
Changes in the price level also affect the working capital requirements. The effect of rising prices may be different for different firms. Some firms may be affected much while some others may not be affected at all by the rise in prices.

Working capital cycle

The working capital cycle is otherwise called operating cycle. It can be compared to the heart of the need for working capital. According to M.Y.Khan and P.K.jain "The contributing flow of cash from suppliers to inventory, then to accounts receivables and to bank or cash is what is called operating cycle. In other words, the duration of time required to complete the following sequence of events, in case of a manufacturing firm is called the operating cycle.

1. Conversion of cash into raw materials
2. Conversion of raw materials into work-in-progress
3. Conversion of work – in-progress into finished goods
4. Conversion of finished goods into debtors and bill receivables through sales.
5. Conversion of debtors and bills receivables into cash

1.2 WORKING CAPITAL



1.2. REVIEW OF LITERATURE

WORKING CAPITAL MANAGEMENT SURVEY by **Greg; Krueger, Thomas M.**
Mid-American Journal of Business, Fall2005, Vol. 20 Issue 2, p11-18.

Firms are able to reduce financing costs and/or increase the funds available for expansion by minimizing the amount of funds tied up in current assets. They provide insights into the performance of surveyed firms across key components of working capital management by using the CFO magazine's annual Working Capital Management Survey. They discovered that significant differences exist between industries in working capital measures across time. In addition, they discover that these measures for working capital change significantly within industries across time.

WORKING CAPITAL MANAGEMENT: by **Harris, Andrew**
Financial Executive, May2005, Vol. 21 Issue 4, p52-53.

The article focuses on the importance of management of the working capital in a business enterprise. From the perspective of the chief financial officer (CFO), the concept of working capital management is relatively straightforward: to ensure that the organization is able to fund the difference between short-term assets and short-term liabilities. In practice, though, working capital management has become the Achilles' heel of scores of finance organizations, with many CFOs struggling to identify core working capital drivers and the appropriate level of working capital. By understanding the role and drivers of working capital management and acting to reach the "right" levels of working capital, companies can minimize risk, prepare for uncertainty and improve overall performance. The most effective programs for both improving working capital performance and forecasting are those that look beyond the local organization and consider the broader corporate environment. While working capital forecasting is critical to a company's ability to make informed strategic business decisions, many CFOs struggle with the process.

**ANALYSIS ON WORKING CAPITAL MANAGEMENT: by Bhattacharyya S K
Raghavacahari M**

Currently, many financial analysts rely on traditional financial ratios for assessing the effectiveness of the working capital management. They correlate corporate performance in this area with the so-called "ideal" ratios. The present study sought to examine the validity of such practices and a. to identify a method of classifying those companies which manage their working capital more effectively than others; b. to determine the factors which lead to the effectiveness of working capital management process; c. to make recommendations for managers in this area. Analysis of the responses of those companies to a questionnaire relating to their managers' perceptions of the effectiveness of the working capital management process in their respective organizations. The analysis showed that the prime determinants of effectiveness of the working capital management, in order of relative importance, were: 1. Profit After Tax as a percentage of sales 2. Sales as number of times of total assets 3. Quick assets as a percentage of current liabilities 4. Receivables as number of days' sales This was in significant contrast to the current practice which emphasizes the organization's performance in relation to current ratio and debt-equity relationship. The authors recommend that the financial managers in the companies and the analysts in the financial institutions and commercial banks should pay more formal and explicit attention to these factors in their financial analysis. Also, they recommend that these variables should be reflected in the planning and information system of companies for keeping a track of the effectiveness of the working capital management.

**AN INTERNATIONAL STUDY OF MANAGEMENT PERCEPTIONS OF THE
WORKING CAPITAL PROCESS: by JAMES A. GENTRY, DILEEP R. MEHTA, S.
K. BHATTACHARYYA, ROBERT COBBAUT, JEAN-LOUIS SCARINGELLA
JOURNAL OF INTERNATIONAL BUSINESS**

Financial management decisions are divided into the management of assets (investments) and liabilities (sources of financing), in the long-term and the short-term. It is common knowledge that a firm's value cannot be maximized in the long run unless it survives the short run. Firms fail most often because they are unable to meet their working

capital needs; consequently, sound working capital management is a requisite for firm survival.

About 60 percent of a financial manager's time is devoted to working capital management, and many of the potential employees in finance-related fields will find out that their first assignment on the job will involve working capital. For these reasons, working capital policy and management is an essential topic of study. In many text books working capital refers to current assets, and net working capital is defined as current assets minus current liabilities. Working capital policy refers to decisions relating to the level of current assets and the way they are financed, while working capital management refers to all those decisions and activities a firm undertakes in order to manage efficiently the elements of current assets.

Working capital, sometimes called gross working capital, simply refers to the firm's total current assets (the short-term ones), cash, marketable securities, accounts receivable, and inventory. While long-term financial analysis primarily concerns strategic planning, working capital management deals with day-to-day operations. By making sure that production lines do not stop due to lack of raw materials, that inventories do not build up because production continues unchanged when sales dip, that customers pay on time and that enough cash is on hand to make payments when they are due. Obviously without good working capital management, no firm can be efficient and profitable.

IMPORTANCE OF WORKING CAPITAL MANAGEMENT: by David Gass

Working capital literature is rather limited and the process of managing short-term resources is not understood well by academicians. In contrast, corporate managers are continuously involved in the working capital decision-making process, but their perspective is limited to the practices within their firm. In order to fill this gap in the working capital literature, a study of management perceptions of the working capital process was undertaken. A survey was used to collect information from a sample of marketing, production, and financial executives in large corporations in Belgium, France, India, and the United States. The study interprets management ranking of working capital objectives and indicates the need to improve financial planning models to include explicitly short-run objectives; further, predictability of cash inflows and outflows is examined and the potential factors affecting predictability are evaluated. Finally, this study

examines management perceptions of long-range objectives in order to provide a proper perspective to the short run financial planning.

A STUDY ON THE ROLE OF WORKING CAPITAL MANAGEMENT: by COREY.K

Working capital management plays a critical role in a company's quest to maximize its shareholder value. A key component of shareholder value is the cost of capital, and credit risk is its driver. Did you ever stop to think that how you judge a borrower's working capital management skills may impact its cost of capital? What if you judge the firm to be too easygoing in collecting its receivables, too overstocked in inventory, too slow in paying its trade suppliers, and too thin in its cash reserves? Is the customer then too risky to bank even with extra risk premium added to the rate? Of course, these mental adjustments would boost your borrower's cost of debt and ultimately decrease the firm's shareholder value. However, if your borrower pays a little more attention now to managing its working capital, the future boost to cash flow could pay off in more cash flow later that increases shareholder value and improves your customer's creditworthiness. A company's working assets and the liabilities that fund them are collectively referred to as working capital. Ideally, current assets are partly funded by current liabilities and the remainder by the owners.

1.3 OBJECTIVES

Objectives of the study

In the present study, the researcher has formulated the following objectives.

Primary Objectives

To study on the Working capital Management of "M/s. Sakthi Sugars Ltd"

Secondary Objectives

- ❖ To analyze the working capital of Sakthi Sugars Ltd., for the period of five year.
- ❖ To study about the liquidity position of the firm
- ❖ To analyze the various components of working capital in Sakthi sugars Ltd., which interns helps to identify the health structure of the firm.
- ❖ To Study about the growth of the firm.

PROBLEMS

Generally, the company faces the following problems

- ❖ New competitors emerges in the market
- ❖ Government has banned export of sugars
- ❖ Cyclical variation is the big problem in sugar industry
- ❖ Few month ago, Government announced that the company imports sugar alone can export the sugar to other countries. But now it has imposed a ban on this condition.
- ❖ Healthy competition like Bannari Amman Sugars, Rajshree sugars
- ❖ High cost of production
- ❖ The limitation of the period itself is the limitation of the study

The disadvantages of Excess Working Capital are:

1. Excessive working capital makes management complacent, which degenerates into managerial inefficiency.
2. Tendencies off accumulating inventories of make speculative profits grow. This may tend to make dividend policy liberal and difficult to cope with in future when the firm is unable to make speculative profits.
3. It results in unnecessary accumulation of inventories. Thus, changes, of inventory mishandling, waste, thief and losses increases.
4. it is an indication of defective credit policy and slack collection period.

Mean while, the disadvantages of inadequate working capital

- It Stagnates growth, it becomes difficult for the firm to undertake profitable projects for non-availability to working capital funds.
- It becomes difficult to implement operating plans and achieve the firms profit target.
- Operating inefficiencies creep in when it becomes difficult even to meet day-to-day commitments.
- Fixed assets are not efficiently utilized for the lack of working capital funds. Thus, the firm's profitability would deteriorate.
- The firm loses its reputation when it is not in position to honor its short-term obligations, as a results, the firm faces tight credit terms.

1.4. STATEMENT OF THE PROBLEM

In others words of Shubin, "Working Capital is the amount of funds necessary to cover the cost of operating the enterprises

Meaning of working capital

Capital required for a business can be classified under two main categories.

1. Fixed working capital
2. Working Capital

Every business needs funds for two purposes for its establishment and to carry out its day-to-day operations. Long-term funds are required to create production facilities through purchase of fixed assets such as plant and machinery, land, building, furniture etc., investments in these assets represent that part of firm's Capital which is blocked on a permanent or fixed basis and is called fixed capital. Funds are needed for short-term purposes for the purpose of raw materials. Payments of wages and other day-to-day expenses etc., these funds are known as working capital. In simple words, working capital refers to that part of the firm's capital which is required for financing short-term or current assets such as cash marketable securities, debtors and inventories.

In the words of Shubin, "working capital is the amount of funds necessary to cover the cost of operation the enterprise"

Need for the Study:

Working capital is clearly not the only aspect of a business that affects the amount of cash

- ❖ The business will have to make payments to government for taxation
- ❖ Fixed assets will be purchased and sold
- ❖ Losers of fixed assets will be paid their rent
- ❖ Shareholder (existing or new) may provide new funds in the form of cash
- ❖ Some shares may be redeemed for cash
- ❖ Dividends may be paid
- ❖ Long-term loan creditors (existing or new) may provide loan financed, loans will need to be repaid from time to time, and
- ❖ Interest obligation will have to be met by the business

The study of working capital can be conducted through a number of devices as follows:

- Ratio analysis
- Fund flow analysis
- Budgeting and trend analysis

1.5. SCOPE OF THE STUDY

The title "A study on working capital management" in the company M/s. Sakthi Sugars Ltd., helps to find out what is working capital for the project purpose. It helps to identify the present conditions in the organization and understand about the organization conditions.

It provides keen information about the organization. It also helps to know what is a project study and need for the study, which in turn helps to acquire knowledge about the company.

1.6. METHODOLOGY

Introduction

According to Clifford Woody, "Research comprises defining and redefining problems, formulating hypothesis or suggestion solution, collecting, organizing and evaluating data, at last careful testing the conclusion to deterring whether they fit the formulated hypothesis".

Working Capital Management is concerned with the management of the firms' current accounts, which includes current assets and current liabilities. Efficiency in the area of working capital management is necessary to assure the firms long- term success and to achieve its overall goal.

Research Design

A research design is an arrangement of condition for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure. The research design adopted for the study is analytical in nature.

Analytical research

In analytical research the research has to use the fact and information already available and analyze these to make the critical evaluation of the material.

Research Problem

To find out the working capital position of the company

Period of Study

The study covers a period of five years from 01.03.2001 to 31.06.2006

Data collection

The company Sakthi Sugars limited is chosen, as it is profitable factory. Both the primary and secondary data are used in this analysis. The main sources of the data are collected from the annual reports of the company.

Primary data

Primary data were collected from the Accounts manager by making personal interview for getting the relevant information related to the study

Secondary data

Secondary data had been gathered from the annual reports of the company

Tools used

- ❖ Ratio analysis
- ❖ Simple Average Method

1.7. LIMITATION

- The period of study is limited to 5 years from 2002 to 2006.
- Project duration was also a constraint.
- The reliability of the secondary data collected based on the published details and the annual reports are subjected to window dressing.

1.8. CHAPTER SCHEME

Chapter 1: Organization Profile

Organization profile includes details on the history of the organization, management and organization structure, product profile and market potential, competitive strength of the company and a brief description on various functional areas of the organization.

Chapter 2: Concepts

The second chapter deals with the concepts, background, objectives, need for the study, methodology used in data collection, limitations of the study.

Chapter 3: Macro –Micro Economic Analysis

Macro-Micro analysis deals with the prevailing scenario of the organization with respect to its respective industry and to perform the SWOT analysis of the company.

Chapter 4: Data Analysis and Interpretation

The Chapter mainly deals with performing various ratio analysis related to working capital in order to analyze and compare the performance of the company & trend analysis.

Chapter 5: Conclusion

Conclusion includes the results and the discussions put forth regarding the performance of the company for the past 5 years and the considered recommendations to improve the performance of the company.

CHAPTER 2

ORGANIZATIONAL PROFILE

2.1 HISTORY OF THE ORGANIZATION

The Sakthi Group is today one of the largest producers of sugar in the country. Together, with the new projects in the state of Orissa, its member companies account for a capacity, of over 16,000 tonnes of cane crush per day. Sugar also accounts for a large share of the Group's turnover. The member companies are:

SAKTHI SUGARS LIMITED - SAKTHI NAGAR SUGAR UNIT

Sakthi Sugars Limited's first unit, set up in 1964 by the riverside of Bhavani, has out beaten many records in performance like the 17 lakh tonnes of cane crush in 2001-02. The Unit also bagged the most prestigious National Efficiency Awards consecutively for several years. The capacity of the unit is 7000 tonnes of sugarcane crushed daily.

It has several most outstanding performances i.e. achieving the lowest sugar losses, highest standards of technical efficiency and the highest mill efficiency. This Unit is the only sugar factory in India which could produce superfine grade of sugar corresponding to international standard measured at grade 35 and below by International Commission for Uniform Method of Sugar Analysis (ICUMSA). This has been possible

Through constant R&D efforts, excellent rapport with the farming community, adoption of appropriate technology in cane cultivation and processing techniques. The registered area under sugarcane progressively increased from 3500 hectares to over 15,000 hectares and the per hectare productivity increased from 70 to 100 tonnes.

SIVAGANGA SUGAR UNIT

This unit was set up in 1989 as a part of the Company's expansion plans in one of the most backward areas of Sivagangai District of Tamilnadu. This 4000 TCD sugar mill supports thousands of cane growers in this region ushering in rural prosperity. This was the first unit in India to have Auto setting milling tandem.

BARAMBA SUGAR UNIT

It is a co-operative Sugar factory of 1250 TCD in Barambagarh in Cuttack District in the state of Orissa, taken over by Sakthi in 1991, under "Management Contract".

DHENKANAL SUGAR UNIT

This new sugar unit with a capacity of 2500 TCD is in Haripur Village, Dhenkanal District of Orissa State. Commercial production started during mid 1994-95 seasons. With numerous Lift Irrigation Projects established with Sakthi's efforts, the area under sugarcane is continuously increasing.

SRI CHAMUNDESWARI SUGARS

This Company was set up in 1974 with a capacity of 1250 TCD in Mandya District of Karnataka. The capacity was progressively increased to 4000 TCD in 1989. The Company has further plans of expansion and diversification. This company won the best performance award from SISTA in 1989-90. It is also known to be one of the first sugar plants to employ modern technology in cane crushing and sugar extraction.

DISTILLERY UNIT AT SRI CHAMUNDESHWARI SUGARS

A modern vacuum distillation unit of 50,000 Litres per day has been commissioned in Mandya utilizing the molasses from the sugar unit.

DISTILLERY & POLLUTION CONTROL DIVISION AT SAKTHINAGAR

As a part of its operations, Sakthi Sugars has a Distillery and Pollution Control Division at Sakthinagar Unit. The Distillery was commissioned in 1972 as a downstream project to produce Industrial Alcohol from molasses. The annual capacity has been expanded in stages from the initial 135 lakh litres to the present 275 lakh litres per annum. The Company's Pollution Control Division has set up an Effluent Treatment Plant for the safe and effective disposal of Distillery effluents. This plant was set up under technical collaboration with Society General Pourles Techniques Nouvellus of France and B.S. Smogless of Italy. This plant facilitates recovery of enormous quantities of biogas. This has replaced furnace oil as fuel for the operation of the Distillery, saving valuable foreign exchange. Over twenty such plants have been set up on turnkey basis for other distilleries which has proved to be a highly profitable venture on its own.

COGENERATION AT SAKTHI NAGAR

A 35 MW power plant has been set up at Sakthi Nagar plant. This is run by coal as fuel and the bagasse released from this unit is used as feedstock for the Tamilnadu News Prints Limited (World's first bagasse based newsprint plant). The highlight of this project is the low cost and the capacity utilization within 15 days of commissioning the plant.

DISTILLERY UNIT AT DHENKANAL

A new distillery Unit of 100 lakh litres per annum capacity for manufacture of Industrial Alcohol was set up in 1995 at the precinct of Dhenkanal Sugar Unit. This Unit has modern technology and is well equipped with all pollution control devices.

ABOUT THE COMPANY

Sakthi Sugars Limited is one of the largest producers of white crystal sugar in the country accounting for a capacity of 13,500 tonnes of cane crush per day.

Growth in terms of Crushing Performance

- Mills equipped with Auto Setting facilities.
- Best export quality of Sugar produced.
- Scientific farming.
- Continuous R&D in sugar rich, pest resistant and high yielding sugarcane varieties.
- Mechanization of cane harvesting.
- Efficient Sugar manufacturing method used thereby reducing the sugar loss.
- Factory sites are maintained neat and clean - Hygiene at its best.
- **Sakthi Sugars has set up sugar units in different parts of India**

SAKTHINAGAR UNIT	
Crushing Capacity	7500 tones / day
Total Sugar Produced (1998-1999)	13,82,100 quintals
Total Cane Crush (1998-1999)	14,23,252 Metric Tonnes
SIVAGANGA UNIT	
Crushing Capacity	2000 tones / day
Total Sugar Produced (1998-1999)	2,00,496 quintals
Total Cane Crush (1998-1999)	2,38,339 Metric tonnes
DHENKANAL UNIT	
Crushing Capacity	4000 tonnes / day
Total Sugar Produced (1998-1999)	4,66,825 quintals
Total Cane Crush (1998-1999)	4,87,409 Metric Tonnes

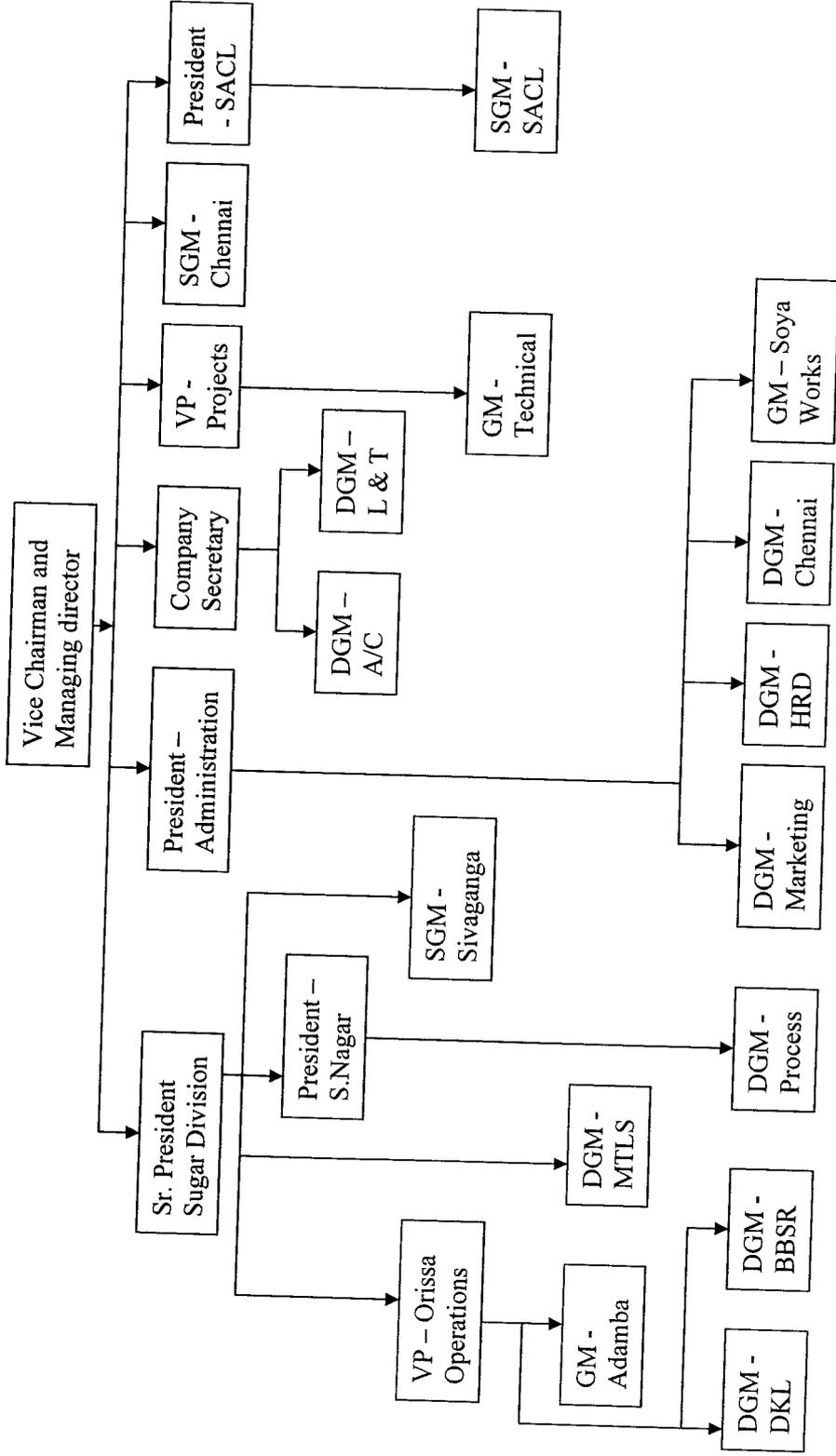
2.2 MANAGEMENT

- Dr N MAHALINGAM - Chairman
- Sri M MANICKAM - Vice Chairman & Managing Director
- Sri V K SWAMINATHAN - Executive Director
- Sri M BALASUBRAMANIAM
- Sri P K CHANDRAN
- Sri S S MUTHUVELAPPAN
- Sri G G GURUMUTHY
- Sri M SRINIVASAN
- Sri N K VIJAYAN
- Sri K DAVIDSON - Nominee of IDBI
- Sri S DORESWAMY - Nominee of ICICI
- Sri M PANDI - Nominee of IIBI
- Sri B RAMAKRISHNAN - Nominee of TIDCO
- Sri C RANGAMANI - Nominee of GICI
- Sri S BASKAR - Vice President - Finance & Company Secretary
- M/s P N RAGHAVENDRA RAO & CO - Auditors

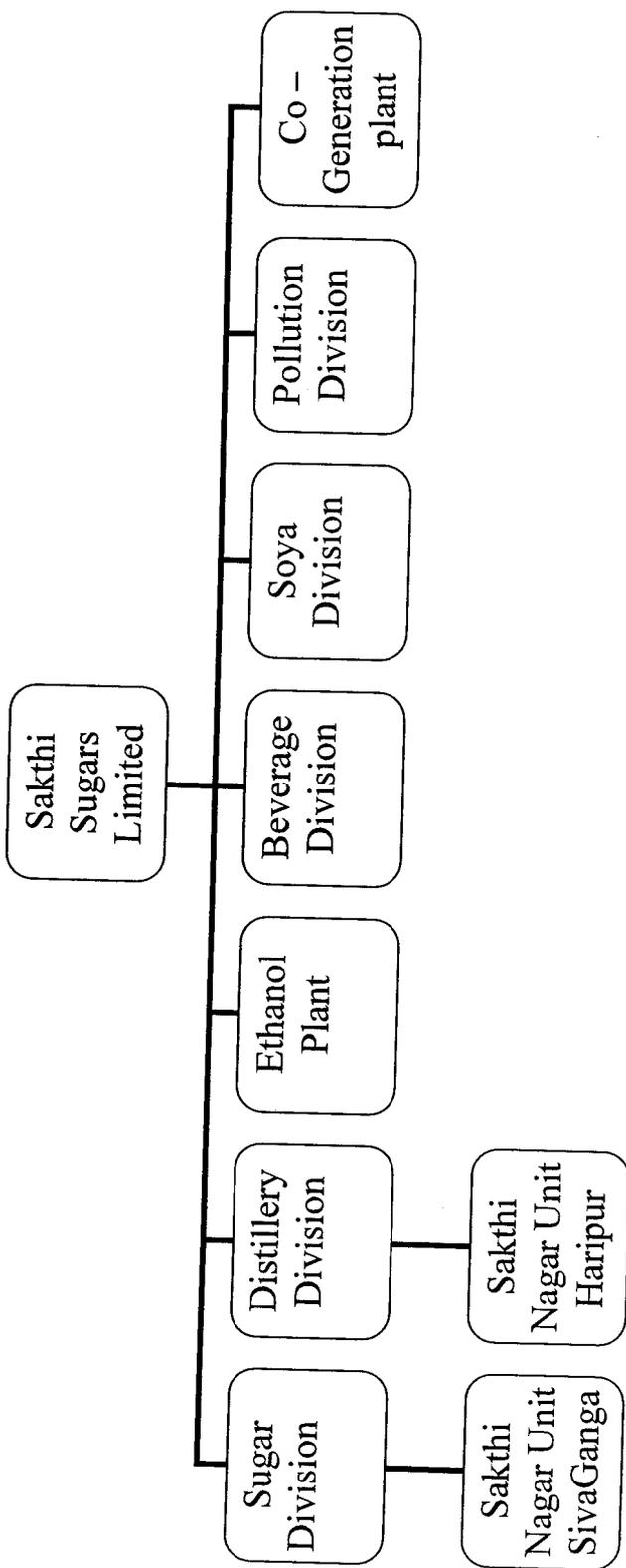
MAIN BANKERS

- State Bank Of India
- Canara Bank
- Punjab National Bank
- Indian Overseas Bank
- Oriental Bank Of Commerce
- Bank Of India
- Infrastructure Development Finance Company
- Allahabad Bank
- IDBI Bank Limited
- CitiBank N A
- Centurian Bank Of Punjab Limited

2.3 ORGANIZATIONAL CHART
SAKTHI SUGARS LIMITED - COMPANY AS A WHOLE



STRUCTURE OF SAKTHI SUGARS



2.4 PRODUCT PROFILE

WHITE CRYSTAL SUGAR

GRADE – S 30

M 30

L 30

BY PRODUCTS:

- Baggasse.
- Molasses.
- Bio - Compost.

Sugar manufactured is of international standard of ICUMSA 35 units maximum and exported overseas.

FUTURE PLANS

The directors are pleased to mention that crushing capacity of sugarcane is being enhanced by 5000 TCD. This is being done by expanding the existing 7500 TCD plant at Sakthinagar to 9000 TCD and by setting up a new plant at Erode District with the capacity of 3500 TCD.

Three new co-generation plants with an aggregate capacity of 85 MW PH are under implementation at Sakthinagar, Sivaganga and at the new sugar plant premises. These projects are funded by issue of FCCB and from internal accruals/borrowings.

With the commissioning of the co-generation projects under implementation, the company will be de-risking to a great extent the adverse cyclical effects that are prevalent in the sugar industry. The prospectus for the future are expected to be bright.

2.5 DESCRIPTION OF VARIOUS FUNCTIONAL AREAS

Secretarial department:

The Secretarial division is the main store house of activity. The company secretary heads the Secretarial department. The department does all secretarial functions and also all the legal matters connected to the day-to-day administration of the company.

Functions:

- Issue of shares and share certificates.
- Transfer and transmission of share.
- Conducting of meeting.

- Maintenance of book and registers.
- Filing of returns.
- Legal transactions.

Finance department:

Financial Department is concerned with procurement and use of funds; its main aim is to do business funds in such a way that the earnings are maximized. The General Manager – Finance heads the Finance department.

Functions:

- To assess the funds requirements.
- To plan the source of funds.
- To make-up timely arrangements of funds.
- To monitor utilization of funds.
- To prepare the tax planning and computation of tax.
- To submit financial statement and report to member of stock exchange and other board members.
- To finalize the financial performance and provide necessary information.
- To make stock valuation.
- To make periodic project analysis for all divisions.

Accounts department:

The Accounts Department is responsible for written statement of financial position. They do internal auditing in an exhaustive manner as well as assist themselves to the external auditor. It is headed by The General Manager – Finance and handled by Deputy General Manager.

Functions:

- Overseeing the accounting functions and periodical compilation of unit wise, division wise and Head office accounts.
- Preparation of profit & loss and balance sheet.
- Preparation of capital revenue budget of the company.
- Preparation of financial budget for individual units and corporate office.

Personnel and administration department:

Personnel department of the company is administering all employees in the organization and it covers the relationship between the employees and employers. This department precedes the procedures and practices through which HR is managed towards the attainment of individual social and organizational goals.

Functions:

- Man power planning.
- Recruitment, selection and induction.
- Performance appraisal and human resource system
- Training and development.
- Compensation and salary administration.
- Compliance of statutory obligation and returns relating to shops and establishments act, factories act, minimum wages act, etc.

Administration department

The administration department is mainly concerned with maintenance of organization and the service rendered staff, transport facilities for senior executives, maintenance of the guesthouse for visitors from abroad and provide them with required facilities.

Functions:

- To make the plan and administer the organizational program.
- To prepare the records for the wage and salary administration.
- To calculate receipts and payment of the department.
- To prepare budgets for the programs by the department.

Purchase department:

The purchase department plans to supply raw materials, required machinery and spares time to stores department of every division and its units. It is headed by GM and handled by Assistant GM (material) and GM (purchase).

Functions:

- To minimize the lead times in purchase.
- To introduce vendor rating.
- To identify new vendors.
- To minimize inventory.

- To minimize purchase cost.
- To supply raw material based on timely placement of purchase requisition.
- To purchase quality materials at minimum cost for genuine vendors.

Stores department:

The investments in materials constitute a major portion of current assets so there is a separate stores department to exercise stores control. The store keeper store manager is in charge of stores department and is responsible for stores control.

3. MACRO MICRO & ANALYSIS

3.1 MACRO ANALYSIS OF SUGARCANE INDUSTRIES

India is reported to be the country of origin of sugarcane; references to “Sweet Grass” - Sugarcane- exist in ancient epics of India dating 3000 BC. North eastern India was regarded as the center of origin, from where sugarcane seems to have been carried to China and other places by early traveler and nomads, sometime between 1800 and 1700 BC. Later, it spread to Philippines, Jawa and other places including Caribbean islands by explorers. The same established growth of sugarcane in many countries. Production of sweetening materials like sugar from sugarcane is the greatest contribution that India and China have given to the world. Sugar is referred to as Sharkara in Sanskrit, an ancient primary Aryan Language in India; Chini is another word for sugar derived from China in which country the manufacture of sugar in different food forms, was originally practiced.

India, the mother country of sugarcane, occupies even today a very pride place in the world. India is the foremost among the sugarcane producing countries in the world, it produces annually about 200 million tones of cane. This is utilized for production of different sweetening agents including crystal sugar, which alone forms the base for world’s sugar statistics. From the stage of production of less than 0.1 million; tones of crystal sugar in early 1930’s, India has become the foremost of crystal sugar producing country in the world, with 18.4 millions tones of production in 2002 – 2003.

The commendable achievement to Indian sugar industry over the last 5 decades is due to careful planning and development by the Central and State Governments and by all concerned with sugar industry. This chapter resents an account of the historical development of the Indian sugar industry.

GEOGRAPHICAL FEATURES FOR SUGARCANE CULTIVATION

The sub-continent, India being situated in tropical and sub-tropical areas is ideally suited for sugarcane cultivation. Nearly 1/3rd of the soil in the gangetic plains in the North is alluvial, with vast stretches of red soils in the peninsular India, black cotton soils in the Deccan belt, etc.; the climate is of tropical monsoon type. The sub-tropical region

experiences monsoon in June to September and also in the winter months, January and February. The tropical region has rains both by the south-west and south-east monsoons in May-September and in October – December. The mighty rivers, the Ganga and Yamuna in the northern India, and the Godavari, Krishna and Cauvery in the South, provide adequate irrigation facilities. Irrigation is also supplemented from tanks and wells. The total irrigated area in India is about 40 million hectares, as against 175 million hectares of cropped area. Sugarcane occupies about 2.5% of the total cropped area in India; Sugarcane is grown in almost all parts of India except in the colder regions of the extreme North like Jammu and Kashmir, Himachal Pradesh, etc.

Per Capita consumption of sugar in some Major countries of the World For the Year 2005

Country	Per capita consumption (Kilograms)
Afghanistan	4.7
Australia	55.3
Austria	4.3
Bangladesh	1.9
Barbados	57.3
Brazil	50.2
Bulgaria	47.7
Burma	1.8
Canada	47.5

State – wise Yield of Sugarcane in India

S.No.	State	(Tonnes / hectare)		
		2000-2001	2001 - 2002	2002 – 2003
1.	Andhra Pradesh	75.9	83.3	74.2
2.	Andaman & Nicobar Islands	3.0	3.0	3.0
3.	Assam	35.8	43.6	42.0
4.	Bihar	28.2	33.8	33.0
5.	Delhi	1.5	1.0	1.0
6.	Gujarat	59.2	59.6	70.3
7.	Haryana	40.5	39.7	37.4

8.	Himachal Pradesh	15.7	14.4	9.3
9.	Jammu & Kashmir	37.1	28.5	27.6
10.	Karnataka	79.4	81.5	79.9
11.	Kerala	59.3	59.9	59.4
12.	Madhya Pradesh	27.4	28.4	28.4
13.	Maharashtra	92.3	96.9	96.3
14.	Manipur	33.0	33.9	35.3
15.	Meghalaya	46.5	45.	45.0
16.	Mizoram	4.6	4.6	4.6
17.	Nagaland	29.9	31.8	45.0
18.	Orissa	63.0	64.4	61.9
19.	Punjab	55.2	57.7	61.0
20.	Pondicherry	76.5	83.5	86.9
21.	Goa, Daman & Diu	48.4	49.8	49.8
22.	Rajasthan	39.5	38.7	37.6
23.	Tamil Nadu	101.5	100.4	88.9
24.	Tripura	38.2	39.6	39.6
25.	Uttar Pradesh	47.1	46.3	45.6
26.	West Bengal	60.7	61.3	51.4
	ALL INDIA	57.8	55.4	56.2

3.2 MICRO ANALYSIS OF SUGARCANE INDUSTRIES

Sugar Cane in Tamil Nadu

1. Sugarcane is an important commercial crop and is classified as an essential commodity utilized for the production of another essential commodity, Sugar, which is the main source of energy to human being.
2. Sugar Industry is the second largest Agro based Industry, next to textiles both in the Nation and Tamil Nadu. About 30 million farmers are engaged in the cultivation of sugarcane. They are supplying cane to the sugar mills for a worth of Rs.14, 000/- crores per annum on an average. Govt. of India fetches around Rs.1550/- Crores as excise duty and State Govt. also get around Rs.120/- Crores as Purchase tax, per year. The Sugar

mills in Tamil Nadu are paying about Rs.1, 450/- Crores as cane price to their farmers, every year, on an average.

3. The per capita consumption of sugar and other sweetening agents like Gur, Khandasari etc. is steadily increasing it has increased from 20.0 kgs in 1960 – 61 to 30.0 kgs in 2002-2003. It is likely to be at 4.00 kgs. In 2025 it is estimated that the population in 2025 would be around 169 Crores and the total requirement of sweetening agents would be around 525 lakhs tones.

4. The area under sugarcane was 36.86 lakhs Hectares in India during 1990- 1991 with a total sugarcane production of 254 million tones of cane at average yield of 66.1 tonnes per hectare. The total sugar production was 120.46 lakh tones with an average recovery of 9.85%. The area has increased to 43.0 lakh hectares in 1999-2000 with a cane production of 299 million tones and average yield of 70.8 tonnes per hectare. The total sugar production was 182 lakhs tones with an average recovery of 10.2%

5. In Tamil Nadu, the area under sugarcane was 2.33 lakhs hectares only during 1990-91 and the total cane production was 234 lakh tones with an average yield of 100.8 tonnes per hectare. The total sugar production was 11.83 lakh tones with an average recover of 9.09%. The area has increased to 3.17 lakh hectares in 2002-2003 with a total sugarcane production of 336 lakh tones at an average yield of 105 tonnes per hectare. The total sugar production expected is 18.4 lakh with an average recovery of 9.71%. Thus production of sugarcane and sugar in the country has increased considerably in the last 10 years.

6. In general, the sugarcane yields and sugar recoveries are more in the regions where the winters are not very cool and the summers are not very hot coupled with required number of irrigations. The coastal areas of Tamil Nadu however faced the problem of low recovery of sugar as the humid and warm climate obtained in these areas are conduction to vegetative growth of the crop and not for the accumulation of sugar. However, in the recent years, due to adoption of high yielding and high sugar varieties, even the sugar factories in this belt are able to improve there recover levels substantially.

7. The average area under cultivation of sugarcane in Tamil Nadu is 2.75 lakhs hectares that is 2% of the total cultivated area in the State. The average production of sugarcane is about 270 lakhs tones per year, of which about 70% of the sugarcane is drawn and crushed by sugar mills in the State and the balance quantity of sugarcane is utilized for jaggery manufacture, seed and chewing purposed. The sugar mills register normally 2.10

lakhs hectares of cane. To entuse the ryots for sugarcane cultivation, ryots are provided with following facilities by the sugar mills:

- i) Incentive for nursery development
- ii) Supply of Bio-fertilizer at subsidized rate
- iii) Transport subsidy for the distance beyond 10 kms. From field to sugar mills.
- iv) Organizing seminars and educational tours to cane growers
- v) Sanction of crop cultivation loan from banks.
- vi) Implementation of the Scheme namely 'Sustainable Development of Sugarcane based cropping System' sponsored by Govt. of India for which Govt. of Tamil Nadu is granting 25% of the fund required for the scheme.

8. With a view to improve the transport facility for sugarcane, the Sugar Mills have been continuously taking up formation and improvement of link roads connecting various villages to the factories besides maintenance of existing roads in sugar mill areas. The funds for the Sugarcane Road Development Scheme are generated by the State Government at Rs.5/- per tonne on the cane purchased by the sugar mills outside its local area. A separate sugarcane Road Development wing is functioning at Chennai headed by a Chief Engineer for forming new roads and maintaining the existing roads in the area of operation of sugar mills in Tamil Nadu. 10% of the excess amount is also utilized for Research and Development purposed. Govt. of Tamil Nadu has sanctioned a sum of Rs.2.75 Crores to Tamil Nadu Agricultural University for the "Evolution of varieties resistant to red-rot disease with- high yield and quality".

9. Several sugar mills are running in loss due to varied reasons. To avoid further loss to them, it is necessary to ensure availability of cane sufficient to achieve 100% capacity utilization and to improve the average recovery. The current level of cane available for crushing to sugar mills should be increased by 300% to meet the requirement of the population in 2025. It is equally important to increase the income of the cane growers even without further increase in the cane price, in the ensuing years by raising the yield. The cane growers have been requesting the Government to fix a higher cane price for sugarcane in the form of State Advised price, on the plea that they have to get a remunerative price. But sugar mills are unable to pay higher price due to heavy accumulation of sugar stock and lower selling priced for sugar molasses and bagasse. However, it is possible to increase the income of cane growers, by improving the average cane yield per acre. The ryots can get an additional income of around Rs.7000/-

per acre even at the current level of cane price, by increasing the cane yield by nine tones per acre.

10. The sugarcane yield and quality is varying from mill to mill. When one mill is recording 50 tones per acre, another mill is recording only 23 tones per acre. The constraints in achieving maximum yield and recovery should be properly identified by the mills with the help of sugarcane Breeding Institute and Sugarcane Research Stations and rectified. Special efforts must be taken in the Delta areas for the development of cane. Early cane planting is a constraint in these areas and suitable strategy must be identified and implemented to improve early cane planting. Varieties must be evolved to suit early drought and late water logged conditions and at the same time which will be maturing early.
11. Irrigation sources is also a major constraint for sugarcane cultivation since it requires water at least for 24 months to raise one plant and one ratoon crop. The Sugar Development Fund should be made use for augmenting the irrigation source to ensure water availability for sugarcane cultivation. Several districts where sugar mills are located are facing water stress condition. Of course this is only for a limited period of few months and during such adverse conditions proper management practices should be educated to the ryots and the implementation should be ensured, to contain the ill effects. In case of failure of crop the ryots should be compensated with the expenditure incurred by implementing Crop Insurance Schemes. These will enthuse the ryots for continued cane cultivation.
12. The Sugar mills also have to improve their income by diversified activities like export of power, production of alcohol and ethanol for their viability. Adopting suitable strategies should reduce the cost of production of sugar.
13. With a view to enthuse the ryots for continued cane cultivation and also to improve the viability of sugar mills. Government of Tamil Nadu have called for Action plan from Department of Sugar to increase the cane yield to 40 tones per acre from the current level of 31 Tones and to increase the recovery from the current level of 9.35% to 10.0% in 2004-2005 season and the same is under analysis by Government.

CHAPTER 4

ANALYSIS & INTERPRETATION

Working Capital Analysis

Working Capital is the lifeblood and nervous centre of a business. Just as circulation of blood is essential in the human body for maintaining life. Working capital is very essential to maintain the smooth running of the business. No business can run successfully without an adequate amount of working capital. A going concern, usually had a positive balance of working capital i.e the excess of current liabilities. The working capital is employed in a business. This involves the need for working capital analysis.

The following ratios can be calculated for this purpose.

1. Current Ratio
2. Quick Ratio
3. Working Capital Turnover Ratio
4. Debtors Turnover Ratio
5. Cash Turnover Ratio
6. Current Asset Turnover Ratio
7. Fixed Assets Turnover Ratio

Analysis and Interpretation

Analysis and interpretation of financial statements, refers to such a treatment of the information contained in the income statement and the balance sheet so as to afford full diagnosis of the profitability and financial soundness of the business.

A distinction here can be made between the two terms "Analysis" and "Interpretation". The term "Analysis" means methodical classification of the data given in the financial statements. The figures given in the financial statements will not help one unless they are put in a simplified form. For example, all items relating "Current Assets" are put at one place while all items relating to "Current Liabilities" are put at another place. The term "interpretation" means explaining the meaning and significance of the data so simplified.

However "Analysis" and "Interpretation" are complementary to each other. Interpretation requires "Analysis" while is useless without interpretations. Most of the authors have used the term "Analysis" only cover the meaning of both analysis and interpretation, since analysis in values interpretation.

SIZE OF TOTAL WORKING CAPITAL OF SAKTHI SUGARS LTD

The management of all the current assets assumes greater importance because the sum total of investment in current assets forms over one- half of enterprises total assets. Besides, Liquidity and profitability the two desire goals of financial management are directly affected by working management performance.

Current Assets – Current Liabilities = New Working Capital

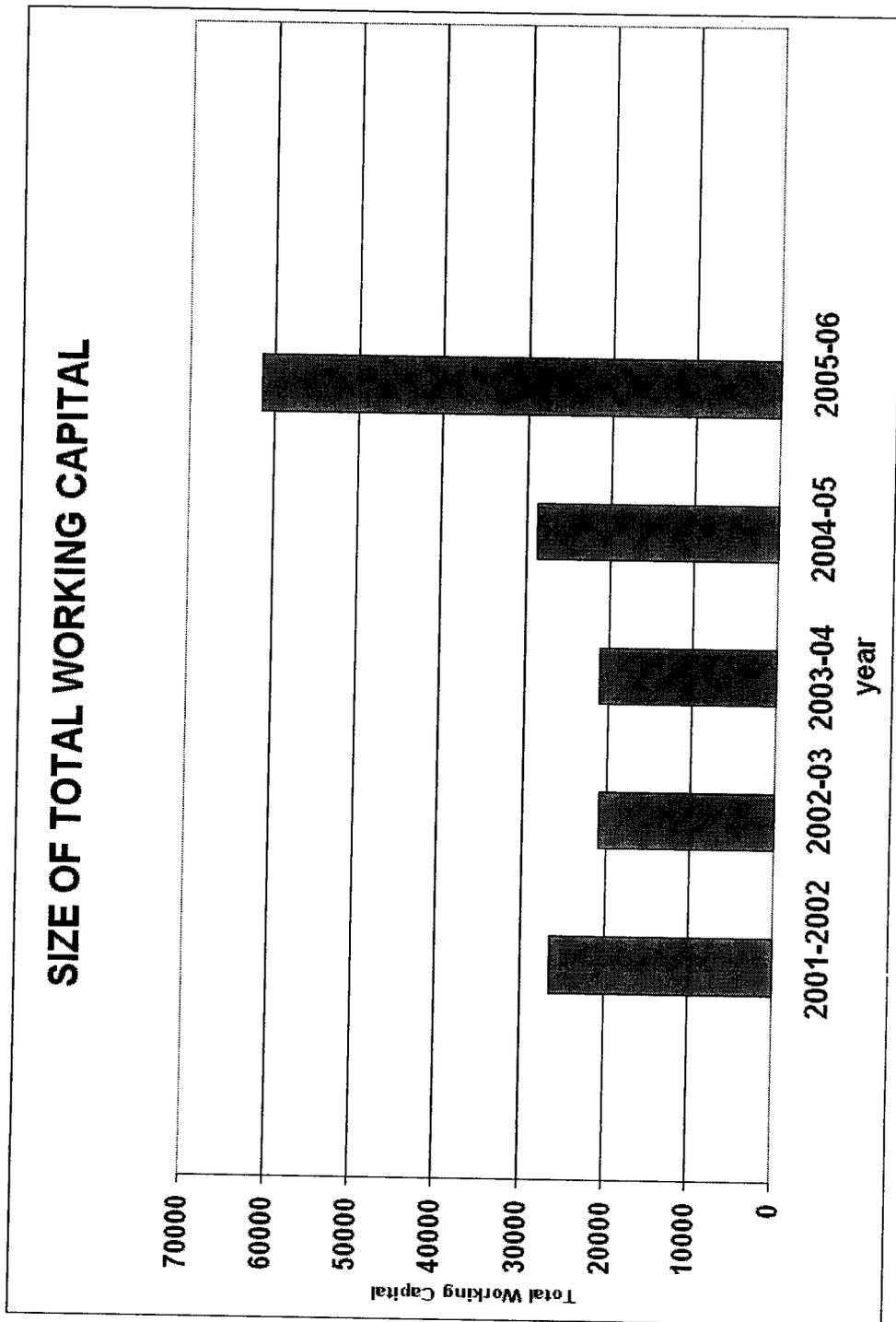
Size of Total Working Capital of Sakthi Sugars Ltd

Table no.1

Year	Current Assets	Current	Total
	Rs in Lakhs	Liabilities	Working Capital
		Rs in Lakhs	Rs in Lakhs
2001-2002	35237.73	8748.01	26489.72
2002-03	31326.71	10531.42	20795.29
2003-04	34159.46	13116.66	21042.80
2004-05	41199.57	12482.98	28716.59
2005-06	72215.30	10677.28	61538.02
Average(X)	42827.75	11111.27	31716.48

Source: Annual Report of M/s Sakthi Sugars Ltd

The total Working capital is in increasing and decreasing trend from 2001 – 02 till 2004 -05, later in the year 2005 – 2006 it has increased massively to Rs. 61538.05 (in lakhs)



WORKING CAPITAL TURNOVER RATIO

This ratio measures the efficiency with which the working capital is being used by a firm. A higher ratio indicates efficient utilization of working capital and a low ratio indicates otherwise, but a very high working capital turnover ratio is not a good situation for any firm and hence, care must be taken while interpreting the ratio working capital turnover ratio indicated the velocity of the utilization of net working capital. This ratio indicated the number of times the working capital turnover.

$$\text{Working Capital Turnover Ratio} = \frac{\text{Cost of Sales}}{\text{Net Working Capital}}$$

Working Capital Turnover ratio

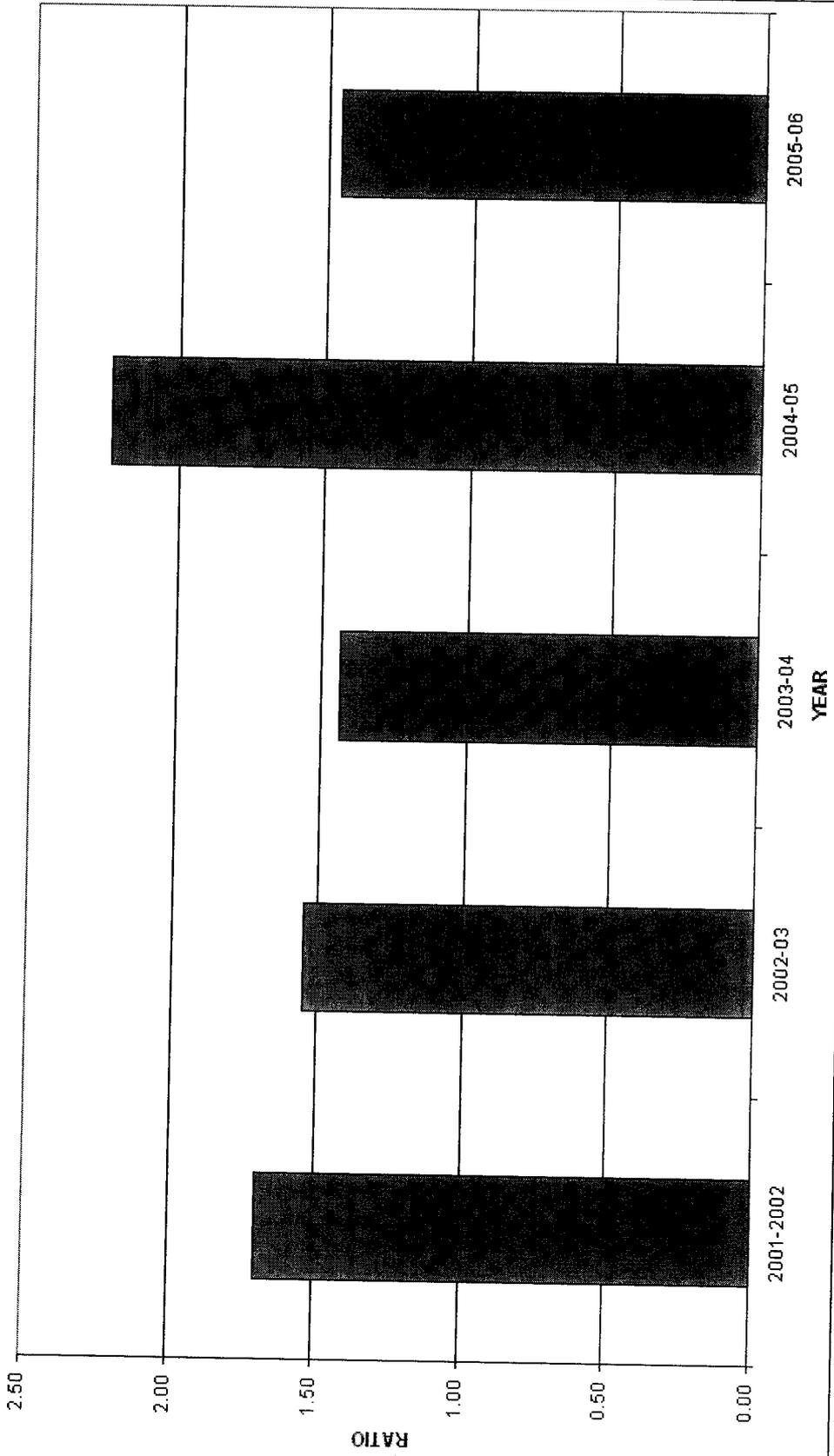
Table no. 2

Year	Current of Sales	Networking	Ratio
	Rs in Lakhs	Capital (Rs)	
		Rs in Lakhs	
2001-2002	45022.47	26489.72	1.70
2002-03	32221.35	20795.29	1.55
2003-04	30313.24	21042.80	1.44
2004-05	63942.19	28716.59	2.23
2005-06	89601.78	61538.02	1.46
Average(X)	52220.21	31716.48	1.67

Source: Annual Report of M/s Sakthi Sugars Ltd

The working capital turnover ratio deals with the performance of recording the utilization of working capital. From the 2001-03 till 2003-2004, the ratio decreased, but in the year 2004-2005 it has been increased to 2.23 times. Afterward, in the year 2005-06, it has been decreased to 1.46 times. Above all, it maintains an average of 1.67 times.

WORKING CAPITAL TURNOVER RATIO



CURRENT RATIO:

Current ratio may be defined as the relationship between current assets and current liabilities. This ratio is also known as working capital. It is used to make an analysis of a short term financial position or liquidity of a firm. It is calculated by dividing the total of current assets by total of the current liabilities. Thus,

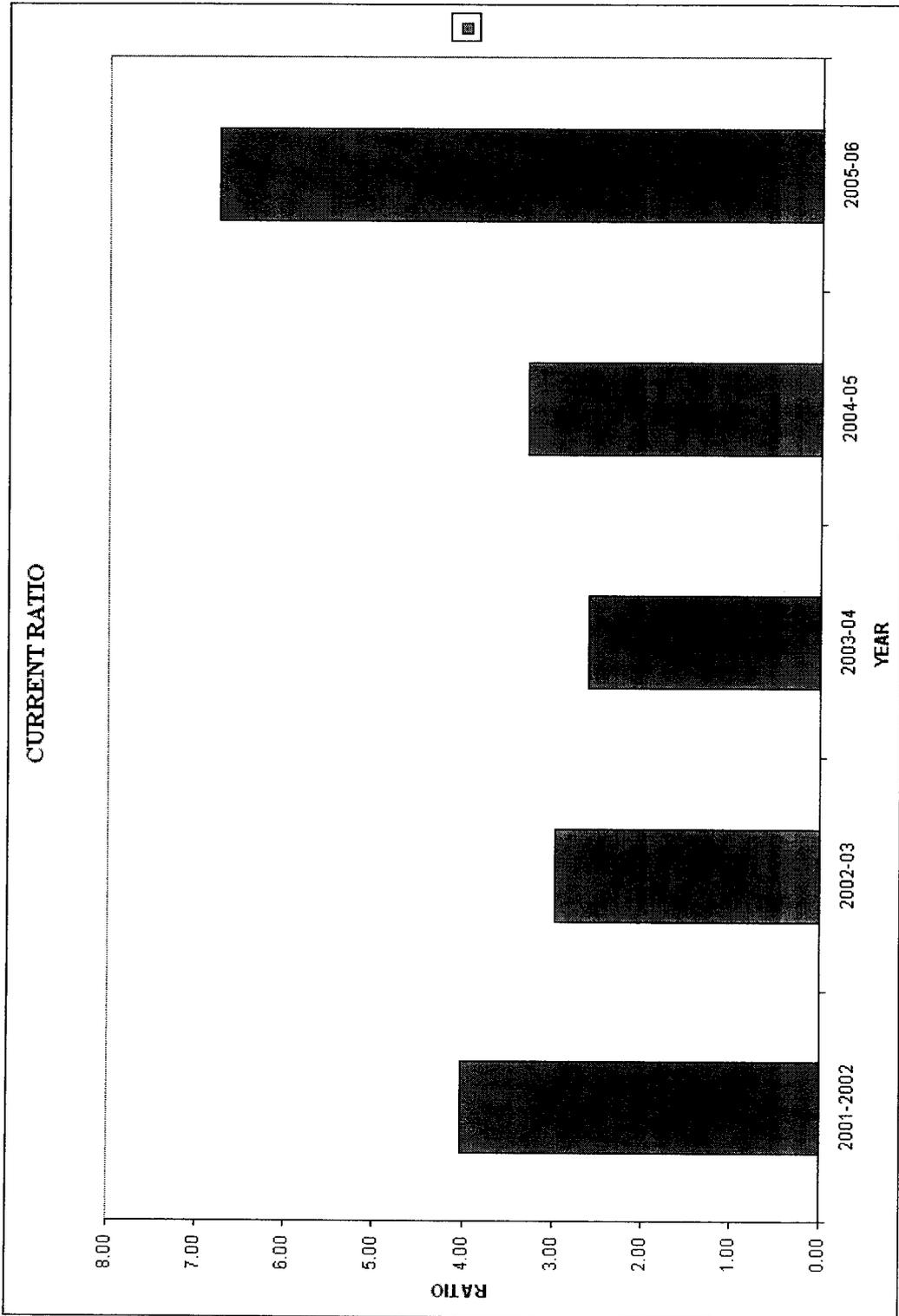
$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Ratio**Table No: 3**

Year	Current Assets	Current Liabilities	Ratio
	Rs in Lakhs	Rs in Lakhs	
2001-2002	35237.73	8748.01	4.03
2002-03	31326.71	10531.42	2.97
2003-04	34159.46	13116.66	2.60
2004-05	41199.57	12482.98	3.30
2005-06	72215.30	10677.28	6.76
Average(X)	72827.75	11111.27	3.93

Source: Annual Report of M/s Sakthi Sugars Ltd

The current ratio in the year 2001-02 is 4.03 times but for the year 2002-03 it has been decreased to 2.97 times. Later from the year 2003.04 to 2005-06 it has been increased to 6.76 times. The current ratio in the year 2005-2006 has increased to double times.



QUICK RATIO:

This ratio is also termed as acid test ratio or liquidity ratio. This ratio is ascertained by comparing the liquid assets (ie., assets which are immediately convertible into cash without much loss) to current liabilities, prepaid expenses and stock are not taken as liquid assets. The quick ratio can be calculated by dividing the total to the quick assets by total current liabilities. Thus,

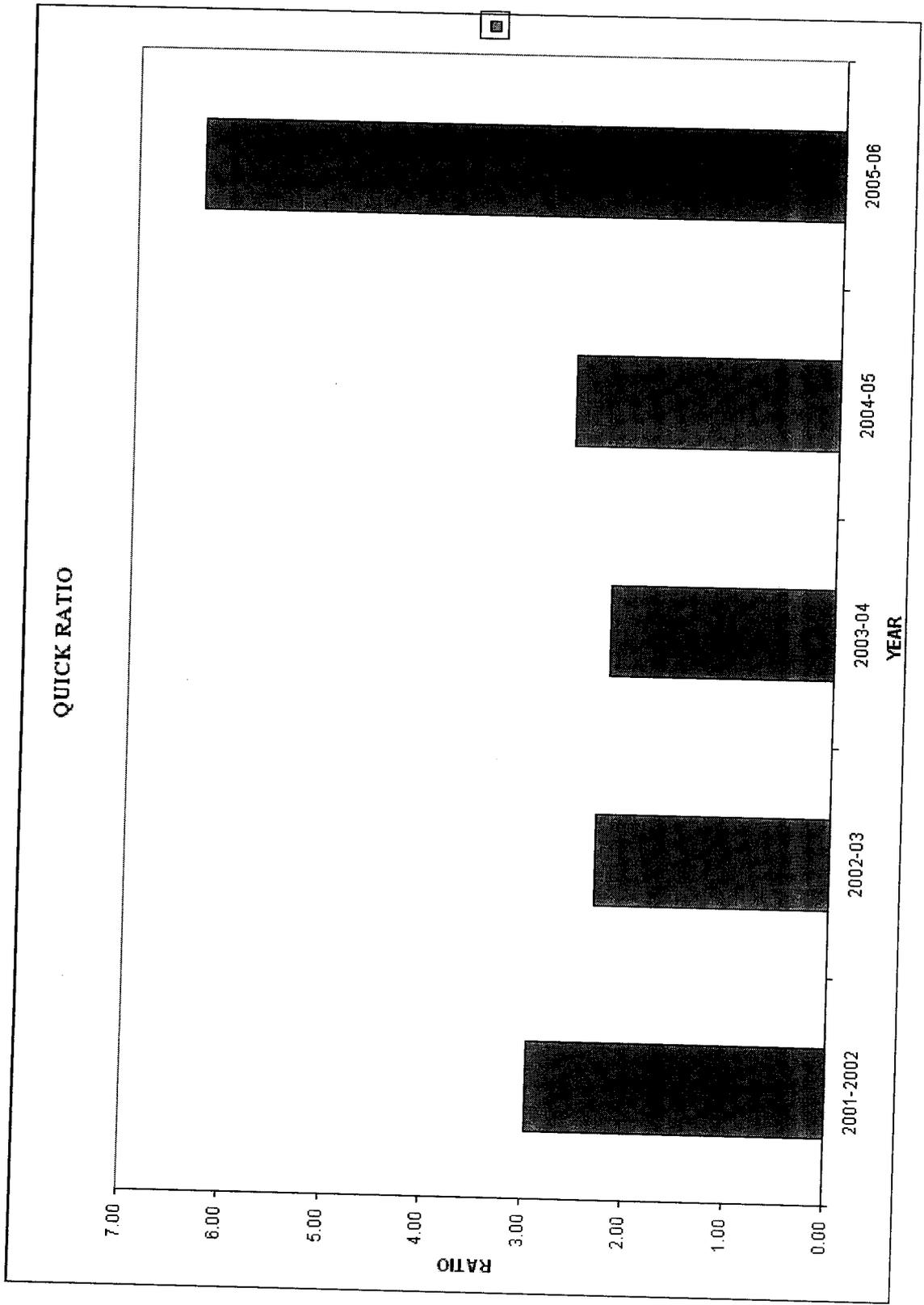
$$\text{Quick Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

Quick Ratio**Table No: 4**

Year	Liquid Assets	Current	Ratio
	Rs in Lakhs	Liabilities	
		Rs in Lakhs	
2001-2002	25649.32	8748.01	2.97
2002-03	24577.98	10531.42	2.33
2003-04	29127.03	13116.66	2.22
2004-05	32714.36	12482.98	2.62
2005-06	67646.97	10677.28	6.34
Average(X)	36003.13	11111.27	3.30

Source: Annual Report of M/s Sakthi Sugars Ltd

The Quick ratio for the year 2001-2002 to 2004-2005 has an average trend but for the year 2005-2006 it has been increased to 6.34 times.



TOTAL ASSETS TURNOVER RATIO:

This Ratio indicates the extent to which the investment in total assets contribute towards sales if compared with a previous period. It indicated whether the investments in total assets has indicates or not.

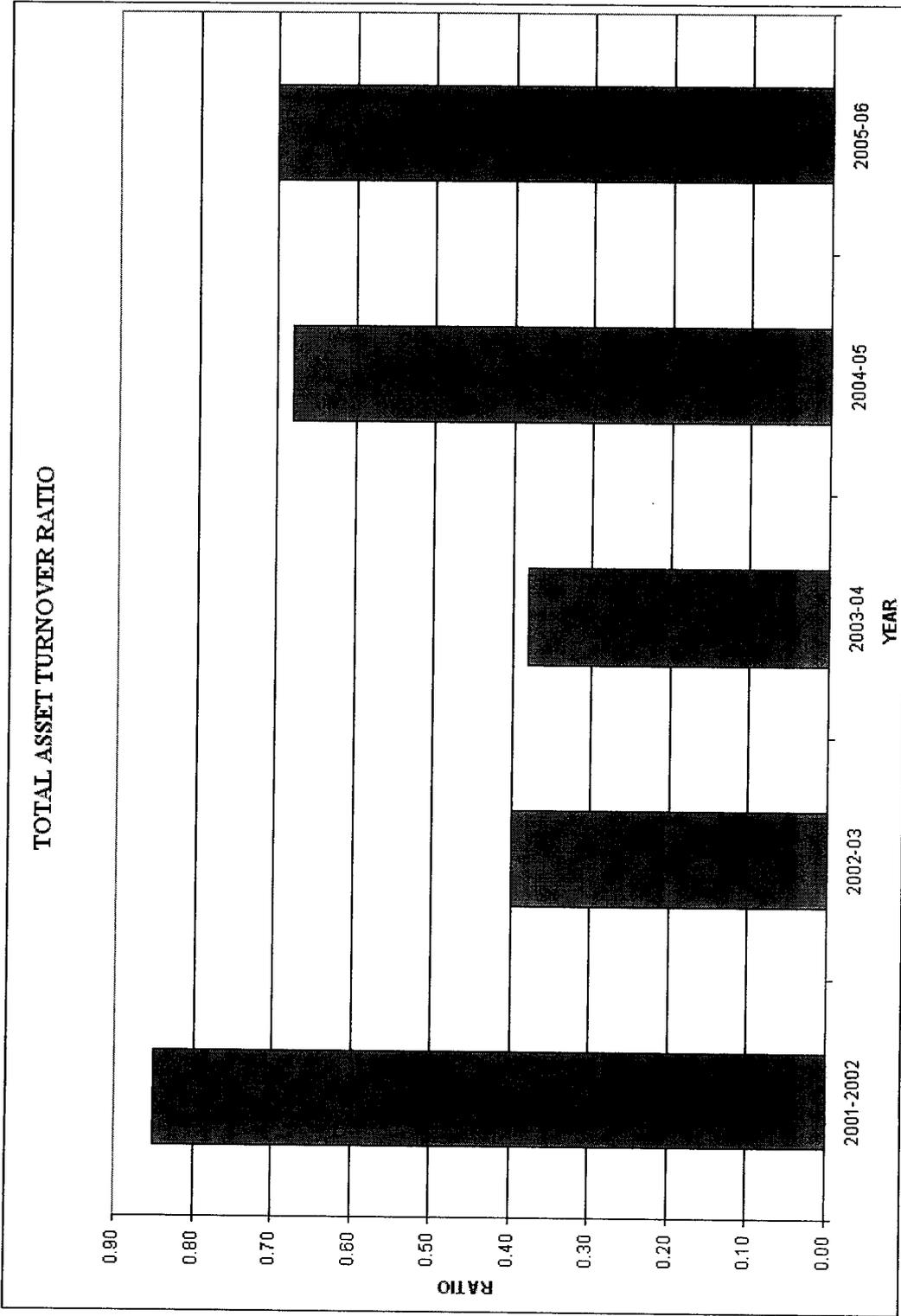
$$\text{Total Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

Total Assets Turnover Ratio**Table No: 5**

Year	Net Sales	Total Assets	Ratio
	Rs in Lakhs	Rs in Lakhs	
2001-2002	45022.47	52689.99	0.85
2002-03	32221.35	80893.41	0.40
2003-04	30313.24	80460.93	0.38
2004-05	63942.19	93399.96	0.68
2005-06	89601.78	128849.57	0.70
Average(X)	52220.21	87258.59	0.60

Source: Annual Report of M/s Sakthi Sugars Ltd

The total asset turnover ratio for the year 2001-2002 is 0.85 times, which has been decreased in the year 2003-04 to 0.35 times. Then in the year 2004 -05 and 2005-06 it has been increased to 0.68 and 0.70 times



CURRENT ASSETS TO TOTAL RATIO:

This ratio is calculated by dividing the total of current assets by the amount of total assets. The ratio of current assets to total assets in terms of percentage would be

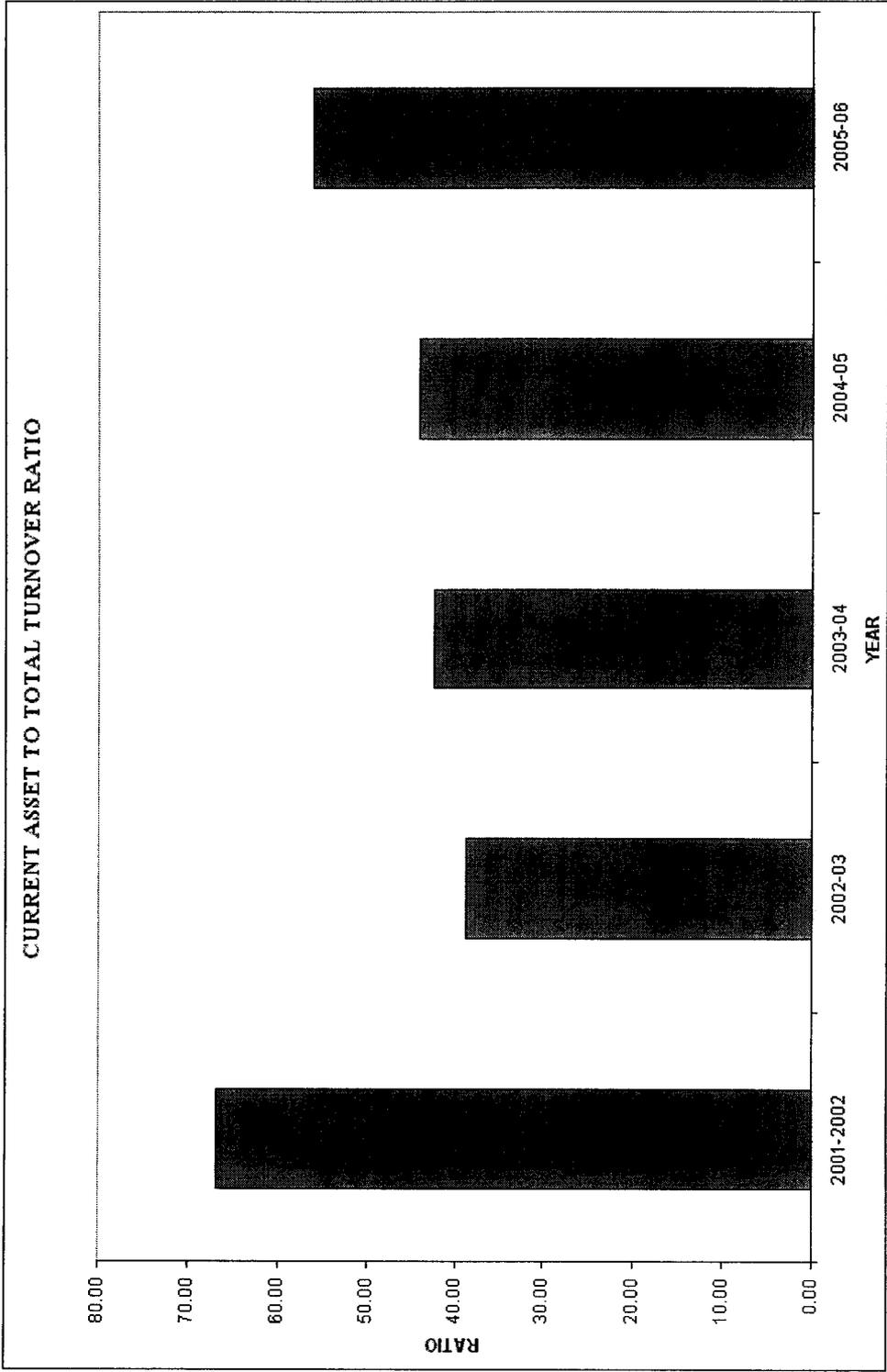
$$\text{Current Assets to total Assets Ratio} = \frac{\text{Current Assets}}{\text{Total Assets}} \times 100$$

Current Assets to Total Ratio**Table No: 6**

Year	Current Assets Rs in Lakhs	Total Assets Rs in Lakhs	Ratio
2001-2002	35237.73	52689.99	66.88
2002-03	31326.71	80893.41	38.73
2003-04	34159.46	80460.93	42.45
2004-05	41199.57	93399.06	44.11
2005-06	72215.30	128849.57	56.05
Average(X)	42827.75	87258.59	49.05

Source: Annual Report of M/s Sakthi Sugars Ltd

The current asset to total asset ratio for the year 2001-02 has an increasing trend of 66.88% the year 2002-03 has a decreasing trend, but later for the year 2003-04 it has been increased to 42.25% and the finally for the year 2005-06 it has been increased to 56.05%



FIXED ASSETS TURNOVER RATIO:

This ratio indicates the extent to which the investments in fixed asset contribute towards sales. It compared with a previous period. It indicated whether the investment in fixed assets has been judicious or not thus,

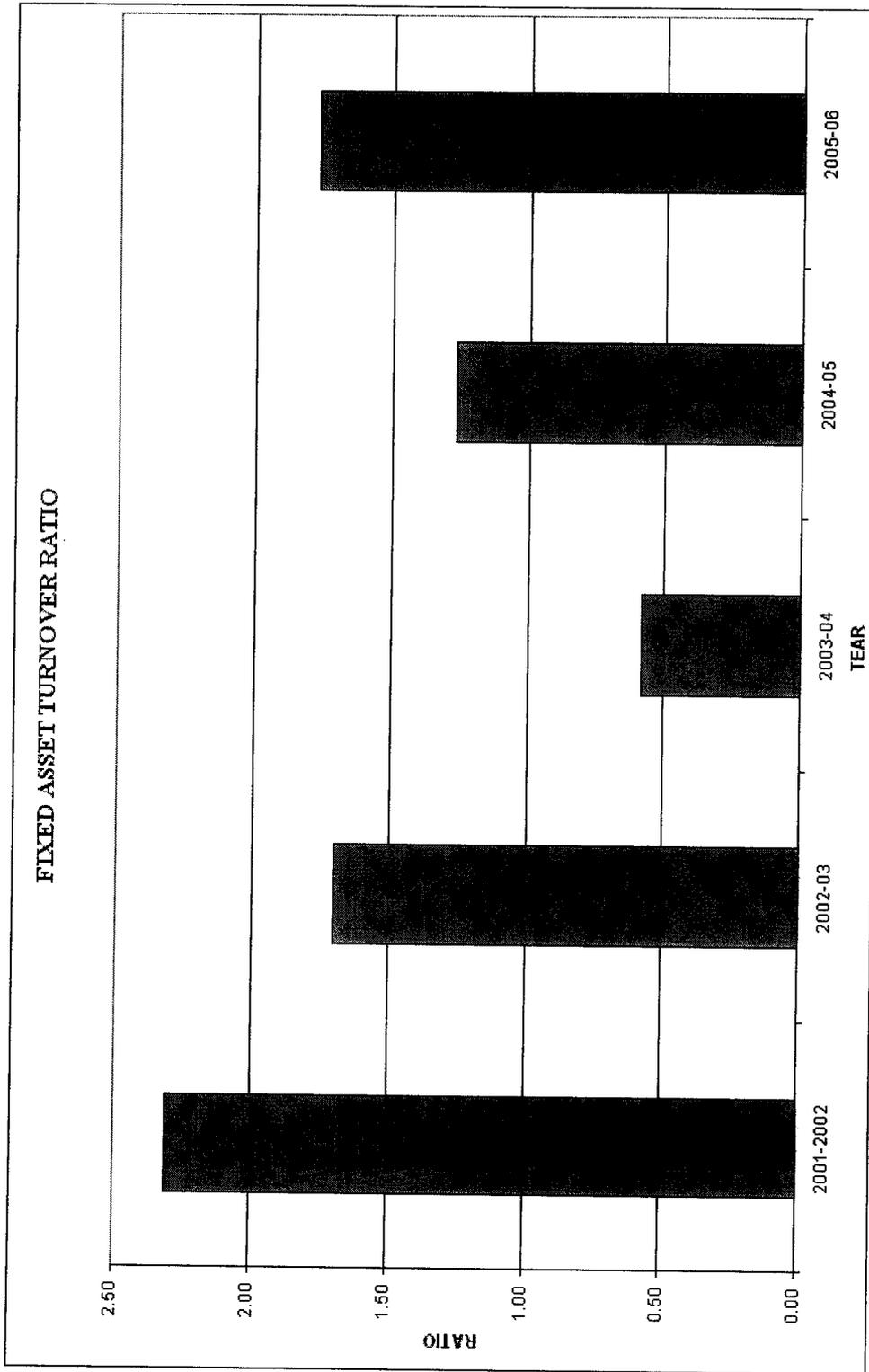
$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Fixed Assets}}$$

Fixed Assets Turnover Ratio**Table No: 7**

Year	Net Sales Rs in Lakhs	Fixed Assets Rs in Lakhs	Ratio
2001-2002	45022.47	19476.83	2.31
2002-03	32221.35	18988.80	1.70
2003-04	30313.24	52569.49	0.58
2004-05	63942.19	50520.42	1.27
2005-06	89601.78	50607.07	1.77
Average(X)	52220.21	38432.52	1.52

Source: Annual Report of M/s Sakthi Sugars Ltd

The fixed asset turnover ratio for the year 2001-02 has an increasing trend of 2.31 times but later it has a decreasing trend till 2003-04. from the year 2004-05 ti again has an increasing trend of 1.27 times and finally for the year 2005-06 it has an increasing trend of 1.77 times.



DEBTORS TURNOVER RATIO:

Debtors' turnover ratio indicates the velocity of debt collection of a firm. In simple words it indicates the number of times debtors are turned. The debtor turnover ratio is calculated by dividing the sales by the amount of debtors.

$$\text{Debtors Turnover Ratio} = \frac{\text{Sales}}{\text{Debtors}}$$

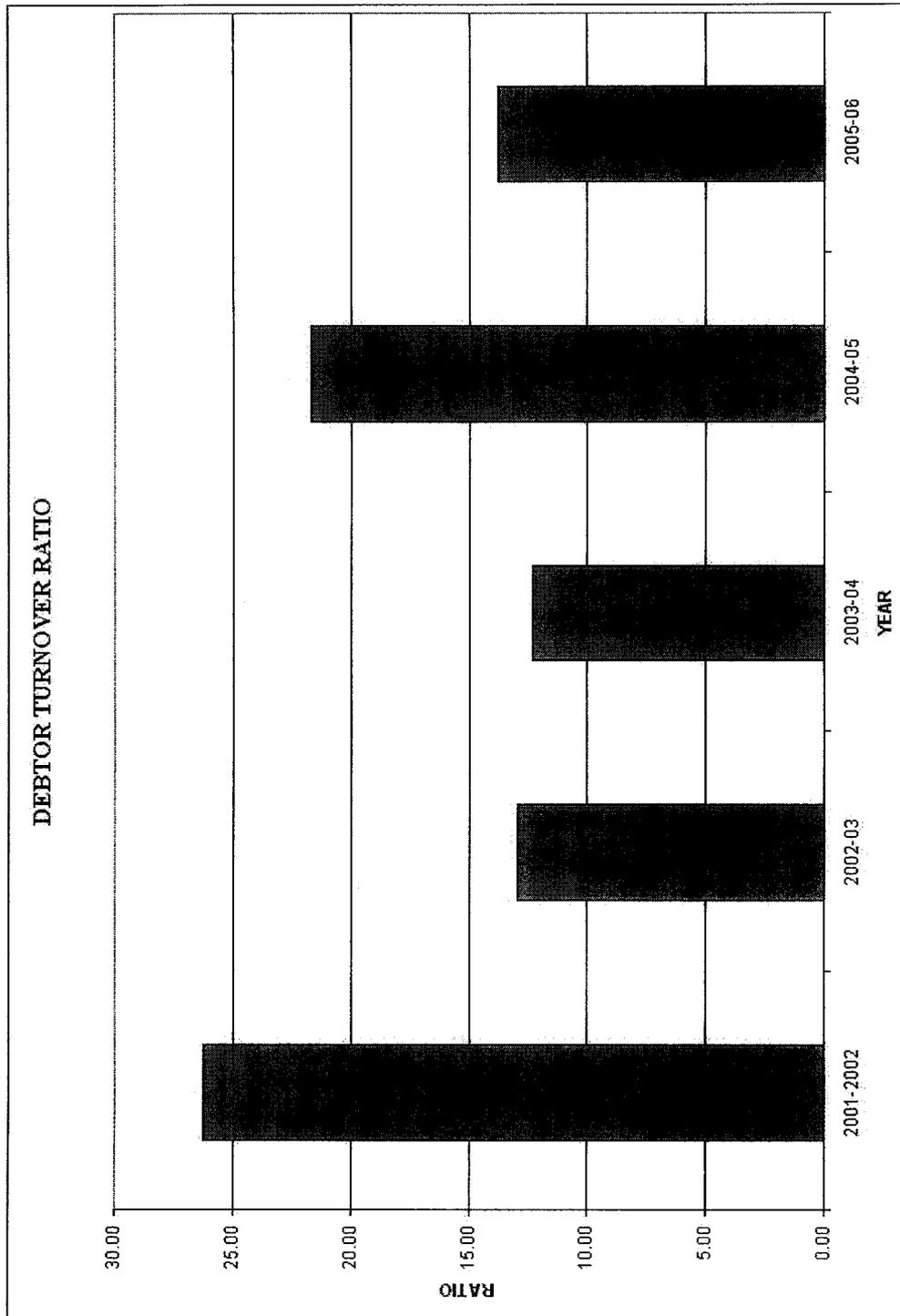
Debtors Turnover Ratio**Table No: 8**

Year	Sales Rs in Lakhs	Debtors Rs in Lakhs	Ratio
2001-2002	45022.47	1716.41	26.23
2002-03	32221.35	2485.02	12.97
2003-04	30313.24	2467.07	12.29
2004-05	63942.19	2947.27	21.70
2005-06	89601.78	6497.49	13.79
Average(X)	52220.21	3222.65	17.39

Source: Annual Report of M/s Sakthi Sugars Ltd

The debtor turnover ratio for the year 2001-02 is 26.23 times and decreased for the year 2002-03 and 2003-04 to 12.97 times and 12.29 times.

For the year 2004-05 it has been increased to 21.70 times and finally it is decreased to 13.79 times in the year 2005-06.



INVENTORY TURNOVER RATIO:

This ratio indicates the effectiveness and efficiency of the inventory management. The ratio shows how speedily the inventory is turned into accounts receivable through sales. The lower the inventory to sales ratio, the more efficiently the inventory is said to be managed vice versa.

$$\text{Inventory Turnover Ratio} = \frac{\text{Sales}}{\text{Inventory}}$$

Inventory Turnover Ratio

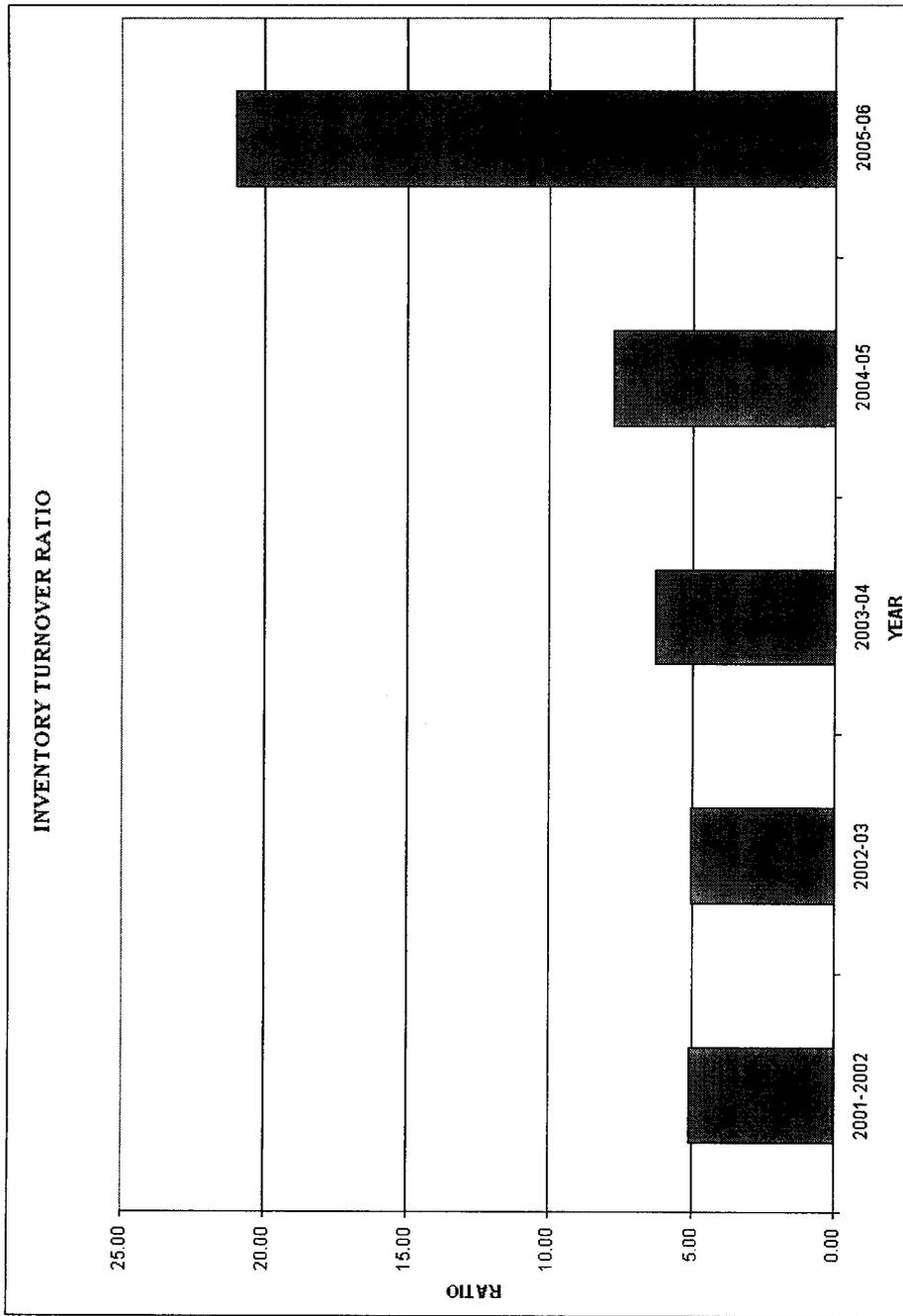
Table No: 9

Year	Sales	Inventory	Ratio
	Rs in Lakhs	Rs in Lakhs	
2001-2002	45022.47	8832.08	5.10
2002-03	32221.35	6433.51	5.01
2003-04	30313.24	4818.51	6.29
2004-05	63942.19	8250.29	7.75
2005-06	89601.78	4261.06	21.03
Average(X)	52220.21	6519.09	9.04

Source: Annual Report of M/s Sakthi Sugars Ltd

The inventory turnover ratio for the year 2001-02 and 2002-03 are 5.10 and 5.01 times, later for the year 2003-04 and 2004-05 it has been increased to 6.29 and 7.75 times.

Finally for the year 2005-2006, it has been increased massively to 21.03 times.



CASH TURNOVER RATIO:

The cash turnover ratio indicates the number of times the average cash balance is turned over during the year. Every business firm is required to maintain a particular level of cash to meet its day-to-day requirement, which is known as an operational requirement of cash. The cash turnover ratio indicated that the cash held by the firm should be adequate for meeting its day-to-day liability.

$$\text{Cash Turnover Ratio} = \frac{\text{Net Sales}}{\text{Cash and Bank Balance}}$$

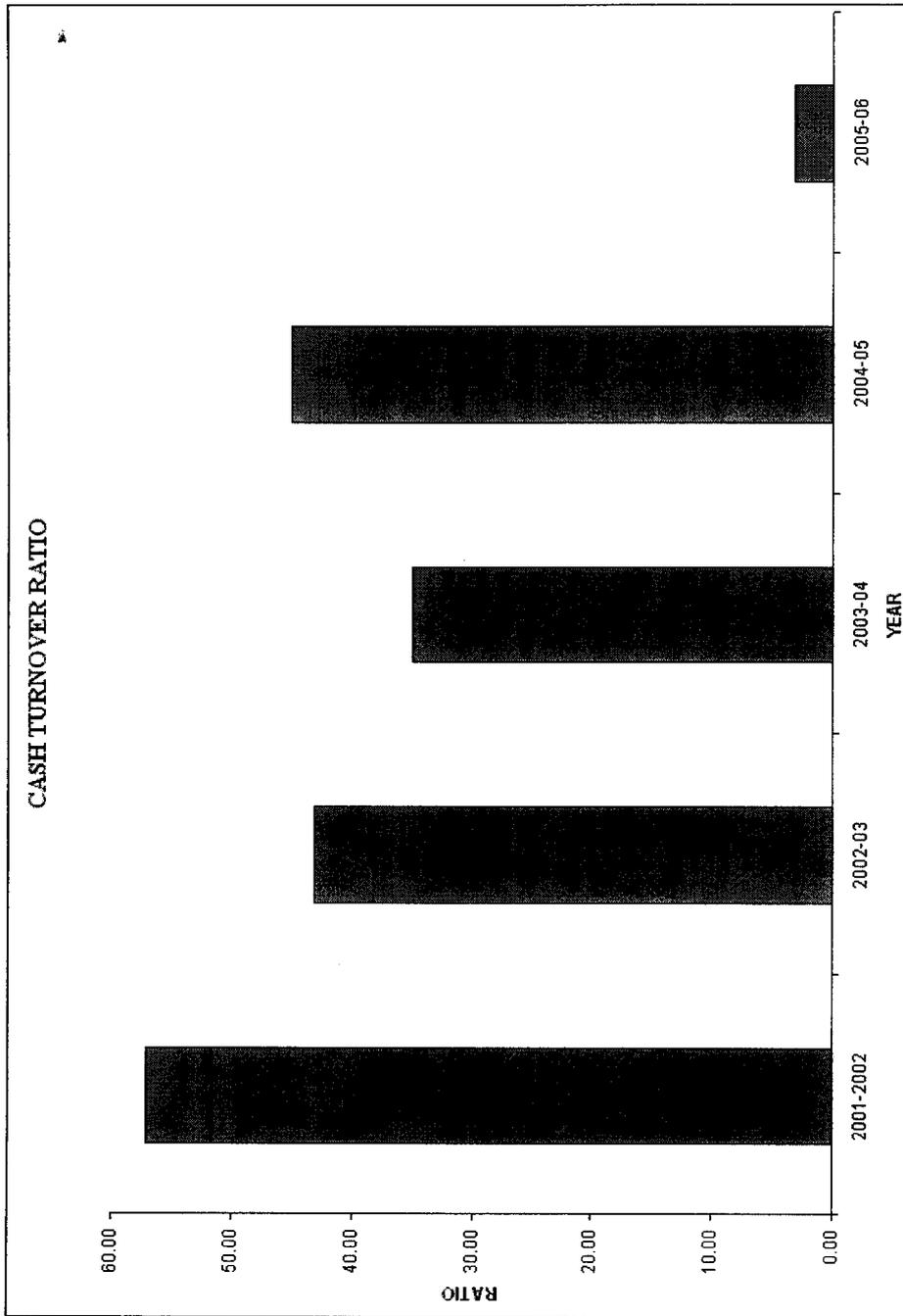
Cash Turnover Ratio**Table No: 10**

Year	Sales	Inventory	Ratio
	Rs in Lakhs	Rs in Lakhs	
2001-2002	45022.47	788.78	57.08
2002-03	32221.35	747.20	43.12
2003-04	30313.24	867.25	34.95
2004-05	63942.19	1420.25	45.02
2005-06	89601.78	27475.15	3.20
Average(X)	52220.21	62590.73	36.69

Source: Annual Report of M/s Sakthi Sugars Ltd

The cash turnover ratio for the year 2001-02 is 57.08 times and in the year 2002-03 and 2003-04 it has been decreased to 43.12 and 34.95 times, for the year 2004-05 it has been increased to 45.02 times.

Finally in the year 2005-2006 it has been decreased to 3.25 times.



AVERAGE COLLECTION PERIOD:

Average collection period which measures how long it takes to collect amounts from debtors. The actual collection period can be compared with the stated credit terms of the company. If it is longer than those terms, then this indicates some insufficiency in the procedures for collecting debts.

$$\text{Average Collection period} = \frac{\text{Debtors}}{\text{Sales}} \times 365$$

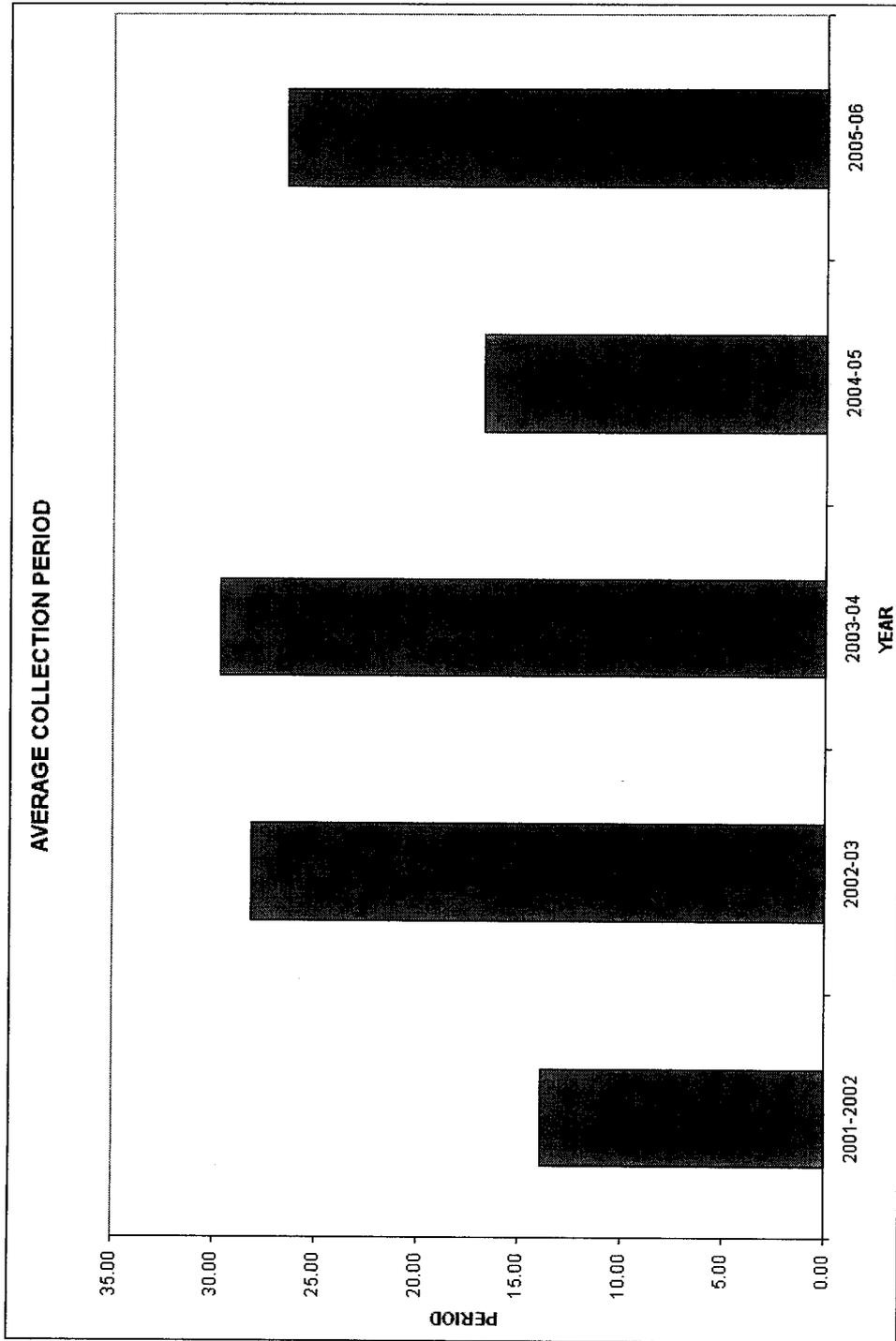
Average Collection Period**Table No: 11**

Year	Debtors	Sales	Period
	Rs in Lakhs	Rs in Lakhs	
2001-2002	1716.41	45022.47	13.92
2002-03	2485.02	32221.35	28.15
2003-04	2467.07	30313.24	29.71
2004-05	2947.27	63942.19	16.82
2005-06	6497.49	89601.78	26.47
Average(X)	3222.65	52220.21	23.01

Source: Annual Report of M/s Sakthi Sugars Ltd

The average collection period for the year 2001-02 is 13.92 days and for the year 2002-03 and 2003-04 is 28.15 and 29.71 days.

It has been decreased to 16.82 days in the year 2004-05 and finally for the year 2005-06 it has been increased to 26.47 days.



CREDITORS TURNOVER PERIOD:

The measured of creditor turnover periods shows the average time taken to pay for goods and services purchased by the company. In general the longer the credit period achieved the better, because, delays in payment mean that the operations of the company are being financed interest free by suppliers funds. It too long a period is taken to pay creditors, then the credit rating of the company may suffer, thereby making it more difficult to obtain supplier in the future.

$$\text{Creditors Turnover period} = \frac{\text{Creditors}}{\text{Purchase}} \times 365$$

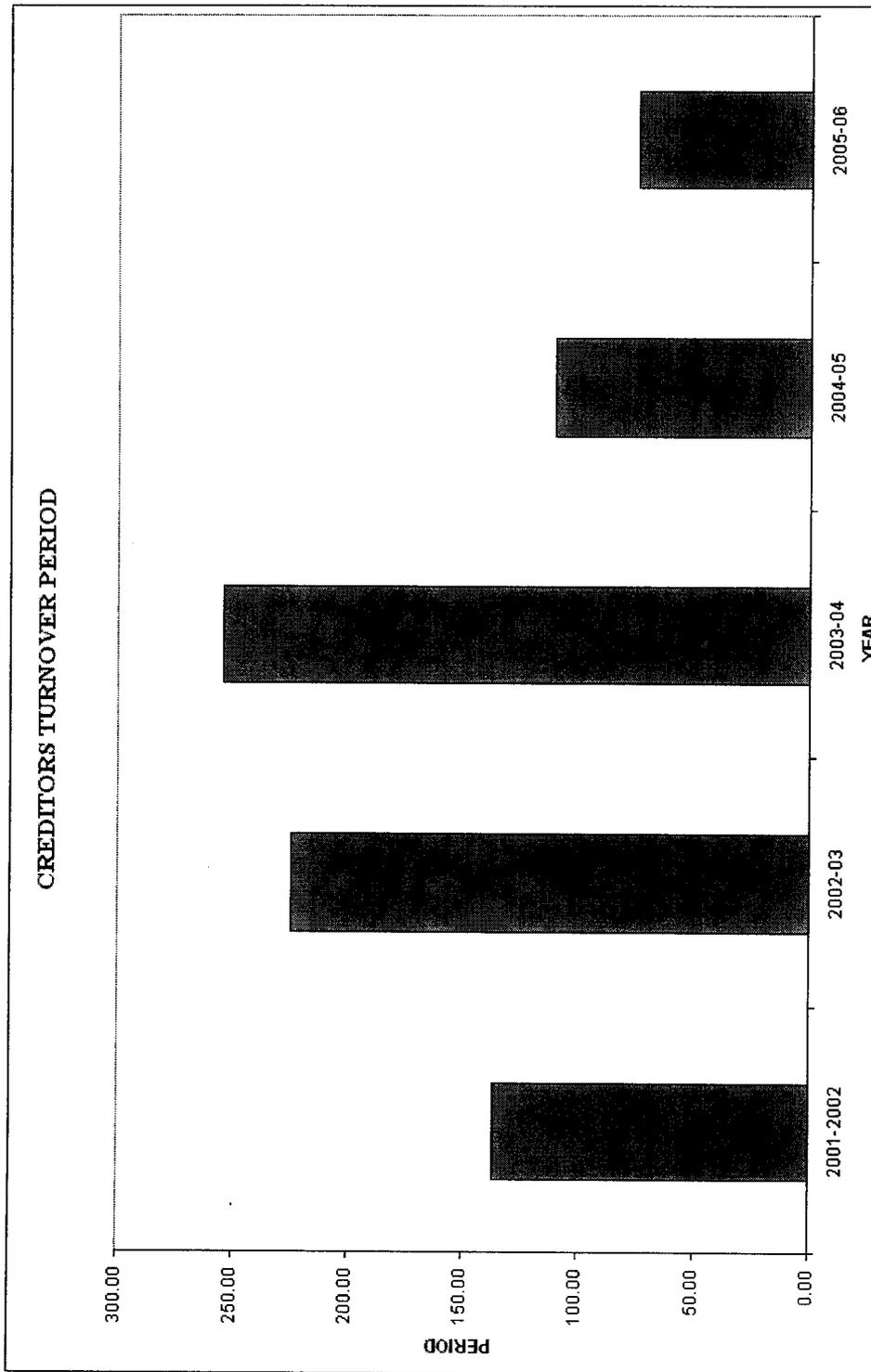
Creditors Turnover period**Table No: 12**

Year	Creditors	Purchase	Period
	Rs in Lakhs	Rs in Lakhs	
2001-2002	8078.05	21631.53	136.31
2002-03	10100.31	16433.34	224.34
2003-04	12814.47	18399.60	254.21
2004-05	12272.87	40686.08	110.10
2005-06	9250.36	45165.77	74.76
Average(X)	10503.21	28463.26	159.94

Source: Annual Report of M/s Sakthi Sugars Ltd

The creditors turnover period for the year 2001-02 is 136.31 days and it has been drastically increased in the year 2002-03 and 2003-04 is 224.34 days and 254.21 days.

Later for the year 2004-2005, the creditor's turnover period has been decreased to 110.10 days and finally for the year 2005-2006 it has been comes down to 74.76 days.



WORKING CAPITAL:

The working capital funds are needed from short term purpose for the purchase of raw materials, payment of wages and other day-to-day expenses etc., these funds are known as working capital. "Working Capital is the amount of funds necessary to cover the cost of operating the enterprise".

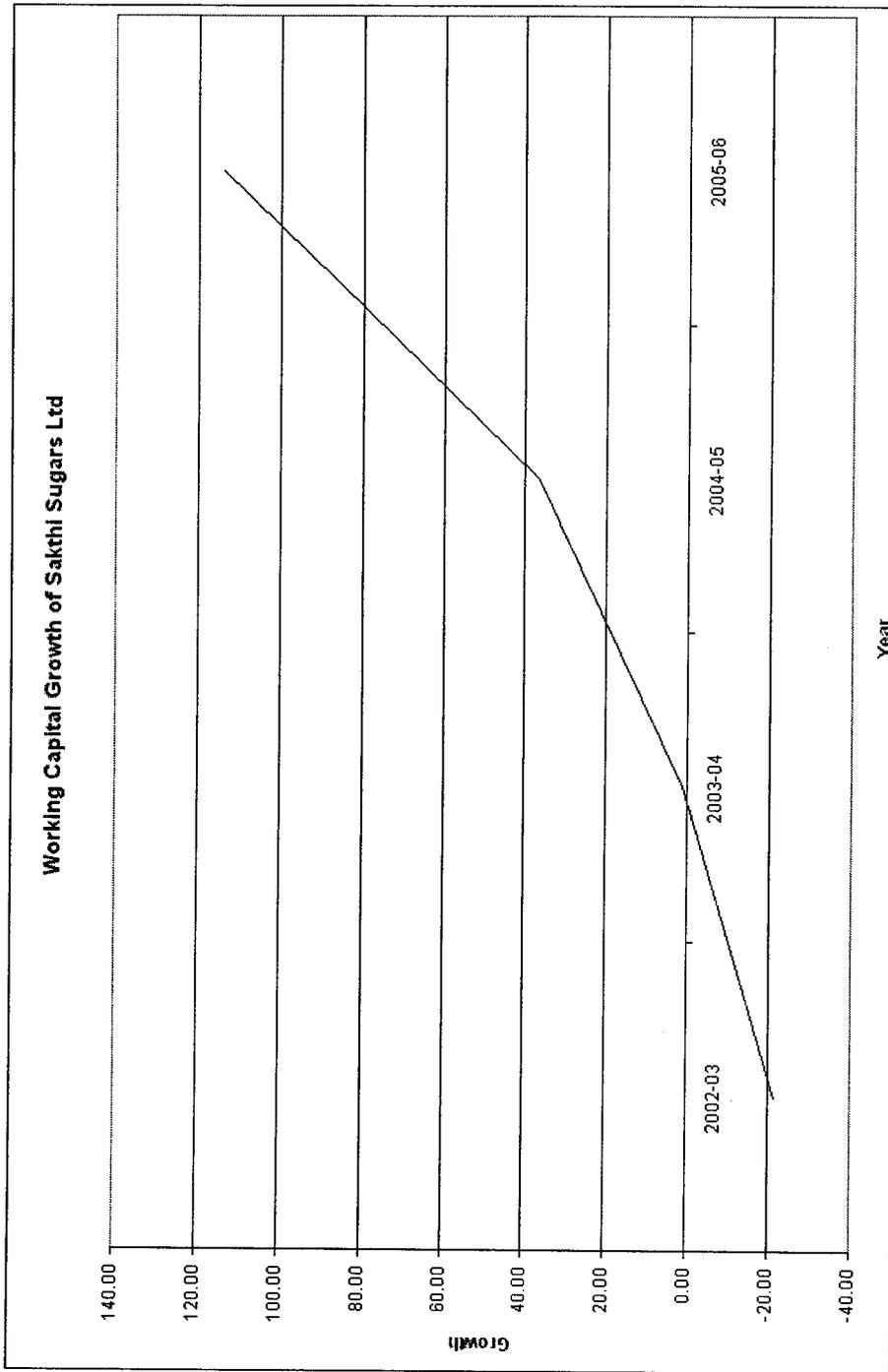
Working Capital

Table No: 13

Year	Working Capital Rs in Lakhs	Growth
2001-2002	26489.72	-
2002-03	20792.29	-21.50
2003-04	21042.80	1.19
2004-05	28716.59	36.47
2005-06	61538.02	114.29
Average(X)	31713.48	

Source: Annual Report of M/s Sakthi Sugars Ltd

The Working capital for the year 2002-2003 decreases to 21.50 and for the year 2002-2003 it is increased to 1.19 times. For the year 2004-2005 it has a massive increase of 36.47 times. Above all, for the year 2005-2006, it has been increased dramatically as 114.29 times. The Growth is on satisfied limit.



CURRENT ASSETS:

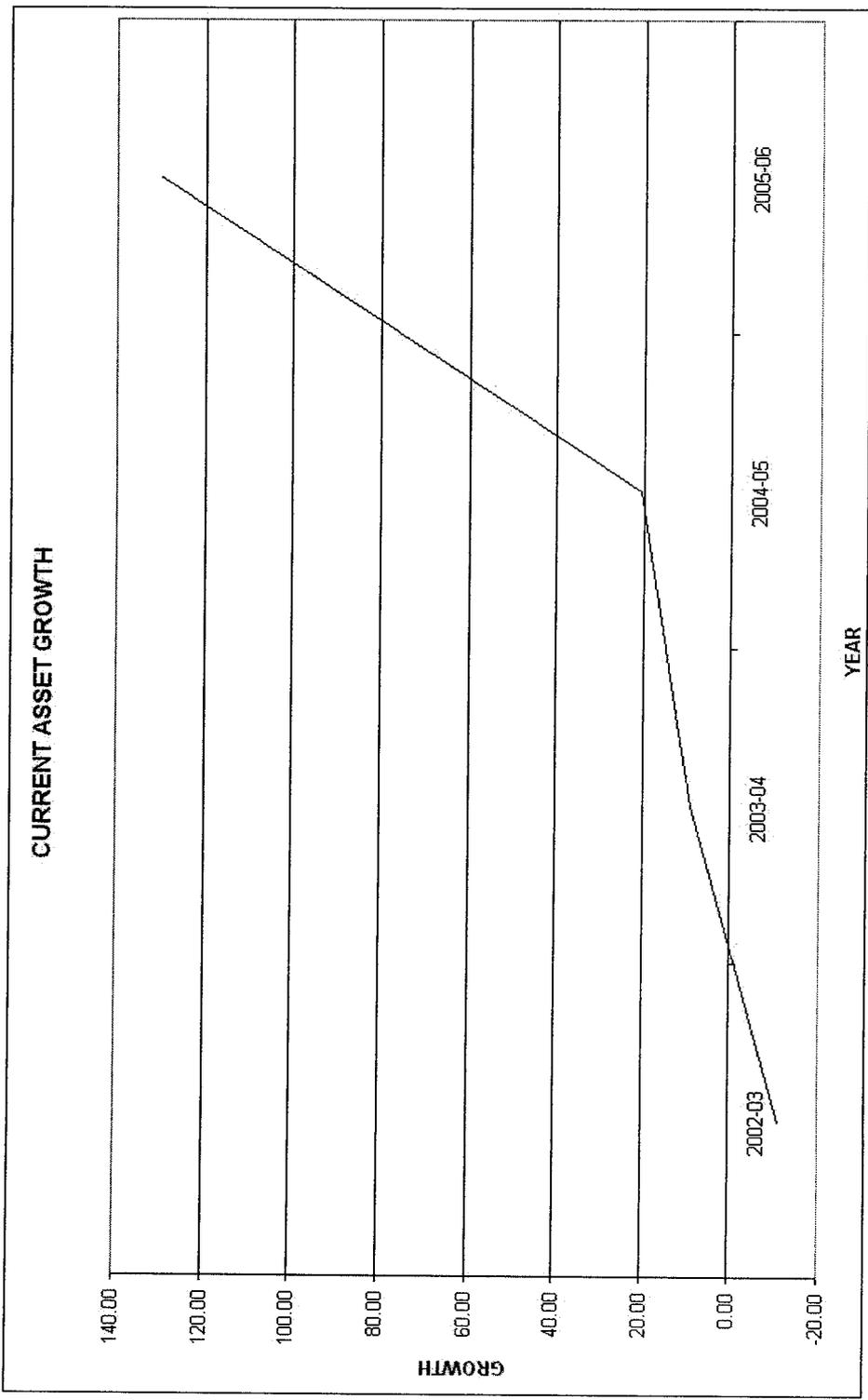
The Current assets are such assets as in the various processes of product ional distribution and payments of goods, until they become cash of its equivalent by which debits my be readily and immediately paid. (ie) Cash in Hand Cash at Bank short term investments Bills Receivables, Sundry debtors, inventories (Stock) work- in –Process, Prepaid Expenses.

Growth of Current Assets**Table No: 14**

Year	Current Assets	Growth
	Rs in Lakhs	
2001-2002	35237.73	-
2002-03	31326.71	-11.10
2003-04	34159.46	9.04
2004-05	41199.57	20.64
2005-06	72215.30	130.52
Average(X)	42827.75	

Source: Annual Report of M/s Sakthi Sugars Ltd

The current asset growth is to analysis the performance of utilization of current assets. The current asset growth during the year 2002-2003 is decreased to -11.10 times. But from the year 2003-04 to 2005-2006 it has been increased from 9.04 to 130.52 times. This is massive growth of current asset of the company.



SALES:

A Sales is an estimate of expected sales during a budget period. A sales is known as name centre of backbone of the enterprise. The degree of accuracy with which sales are estimated well determine the practicability of operating budgets.

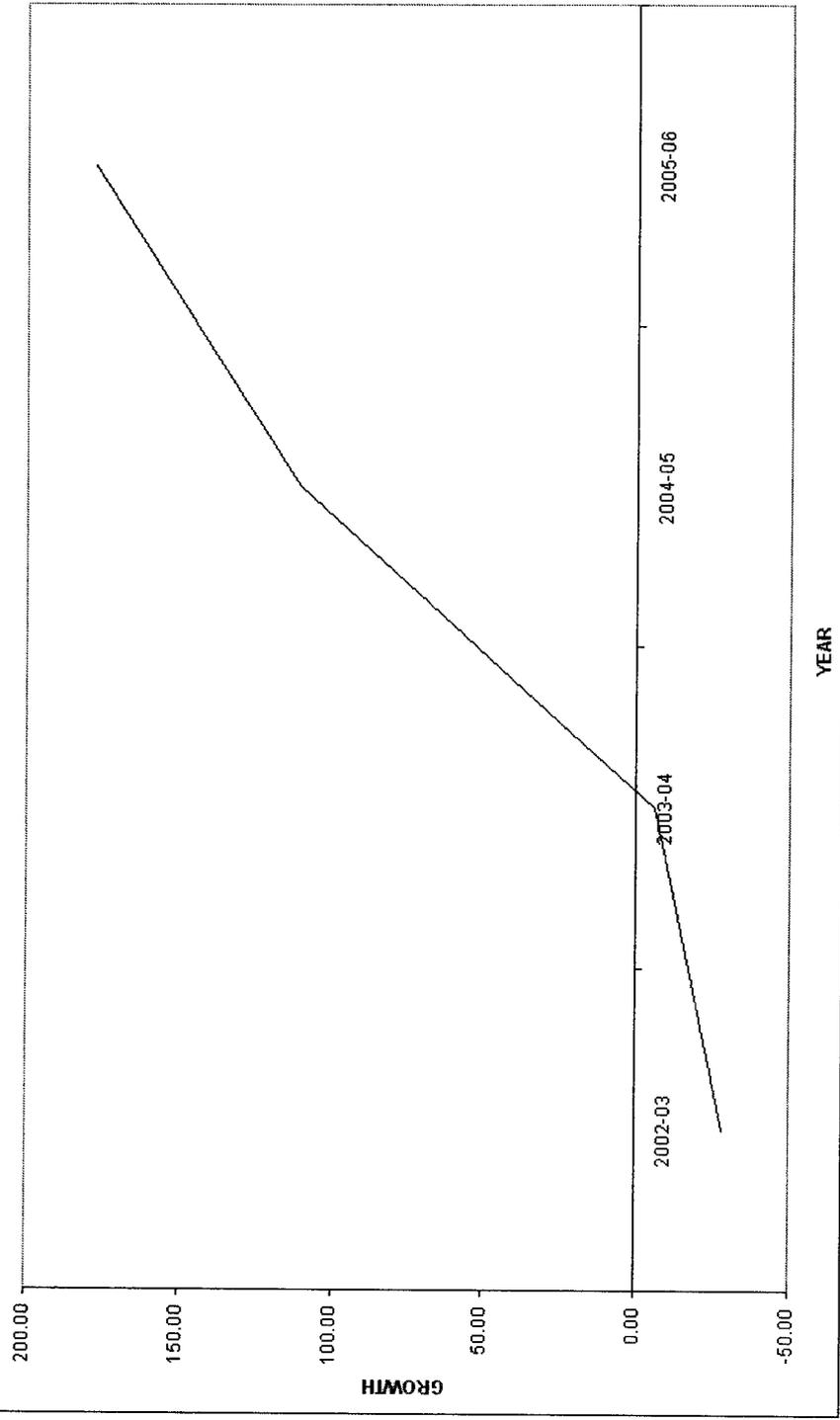
Growth of Sales**Table No: 15**

Year	Sales	Growth
	Rs in Lakhs	
2001-2002	45022.47	-
2002-03	32221.35	-28.43
2003-04	30313.24	-5.92
2004-05	63642.19	110.94
2005-06	89601.78	178.08
Average(X)	52220.21	

Source: Annual Report of M/s Sakthi Sugars Ltd

For the year 2002-2003 and 2003-04 the growth of sales is in decreasing trend, but from the year 2004-05 and 2005-06 it has been increased to 110.94 and 178.08 times. This indicates good performance level of the firm.

SALES GROWTH OF SAKTHI SUGRAR LTD.,



PROFIT:

Profit is an indication of the efficiency with which the operations of the business are carried on. Poor operational performance may indicate poor sales and hence poor profits.

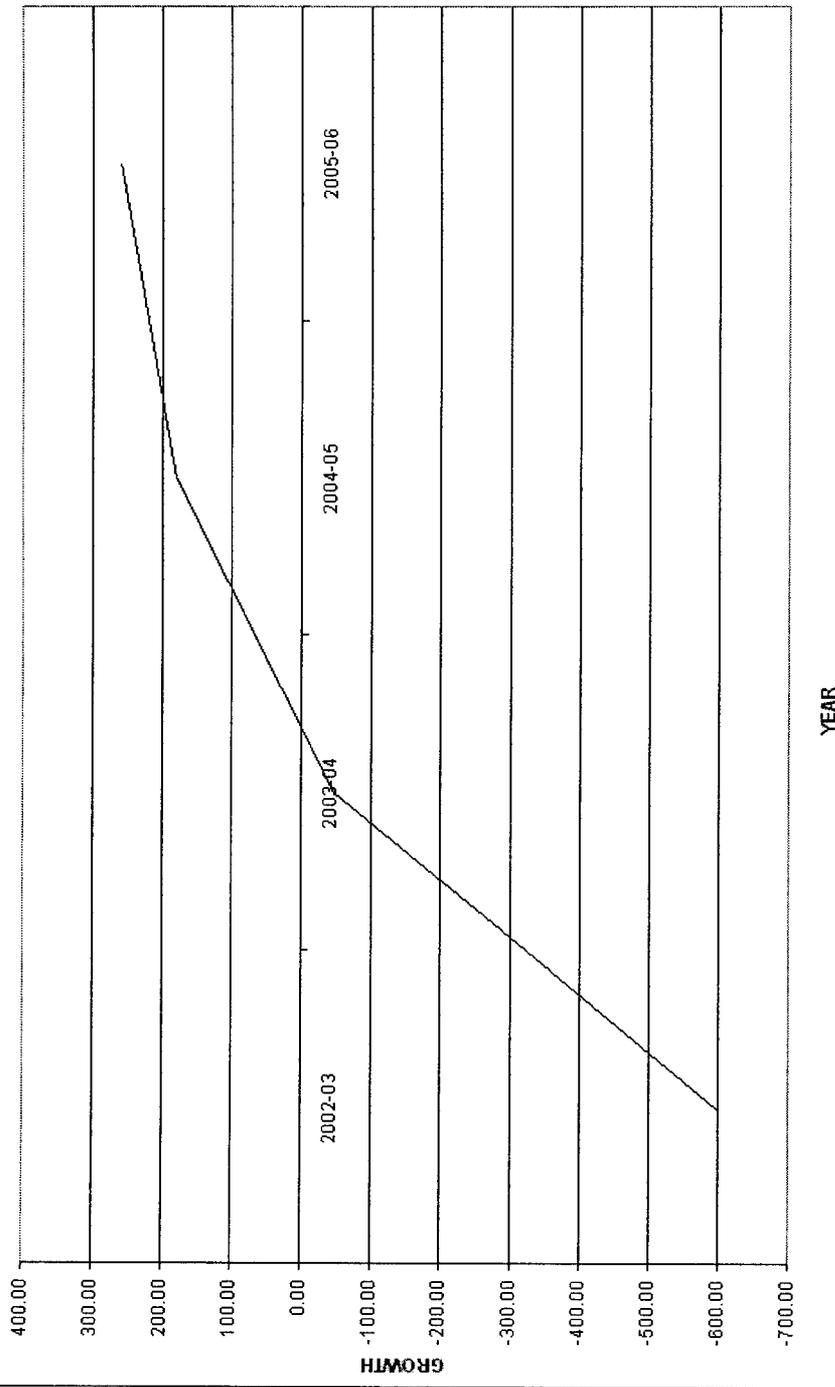
Profit**Table No: 16**

Year	Profit	Growth
	Rs in Lakhs	
2001-2002	968.55	-
2002-03	-4827.00	-598.37
2003-04	-2485.31	-48.51
2004-05	2706.46	179.43
2005-06	9734.29	259.67
Average(X)	1219.40	

Source: Annual Report of M/s Sakthi Sugars Ltd

The profit for the year 2002-03 and 2003-04 has a decreasing trend. But for the year 2004-05 it has been increased massively to 179.43 times. For the year 2005-2006 the company has a good profit growth of 259.67 times.

PROFIT OF SAKTHI SUGARS LTD



SHARE CAPITAL:

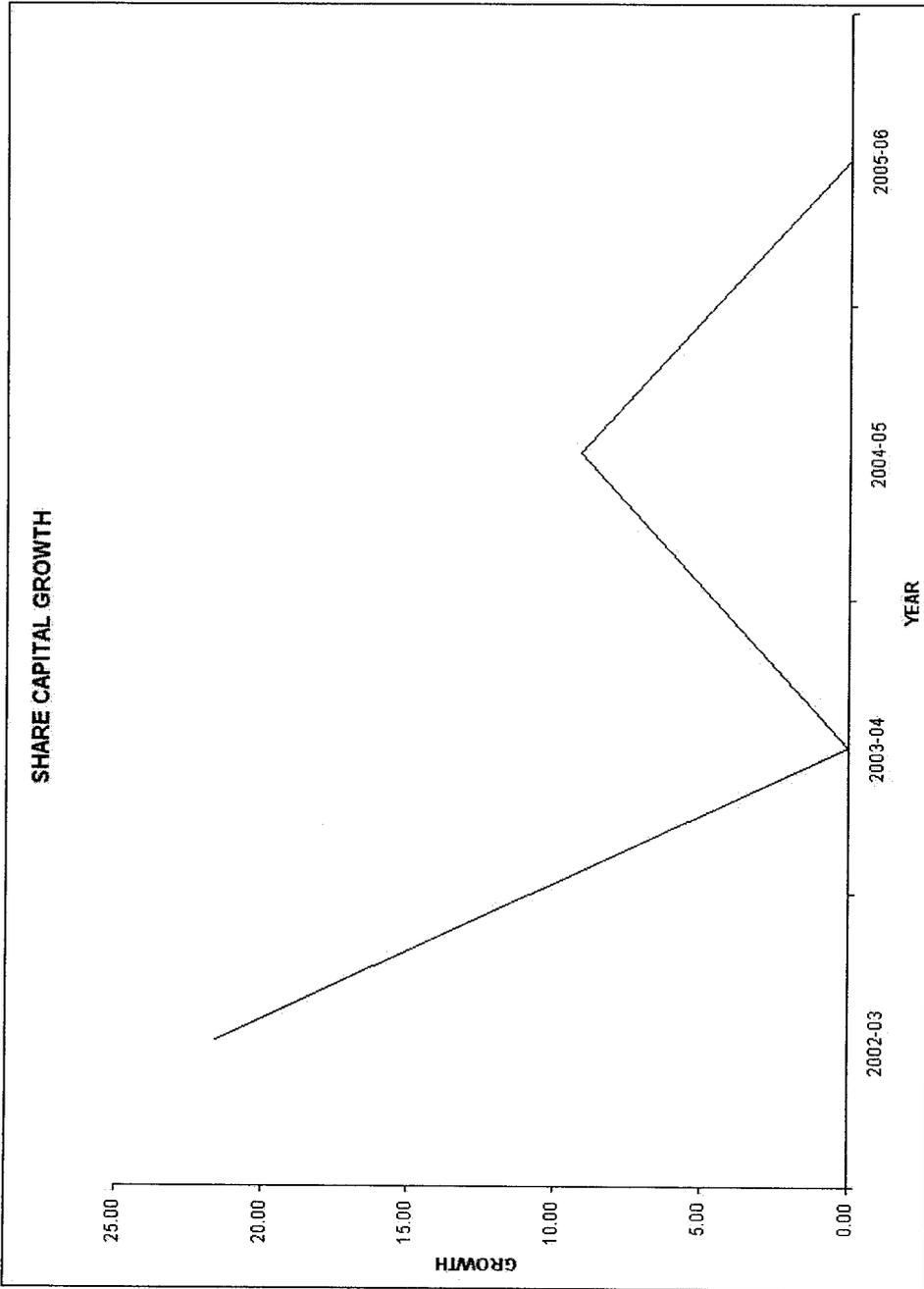
The Share capital is shown as a first item on the liabilities side of the balance sheet. The growth of share capital is necessary for any firm to maintain its efficiency.

Share Capital Growth of Sakthi Sugars Ltd**Table No: 17**

Year	Share Capital	Growth
	Rs in Lakhs	
2001-2002	3268.21	-
2002-03	39763.21	21.57
2003-04	3973.21	0.00
2004-05	4337.31	9.16
2005-06	4337.31	0.00
Average(X)	3977.85	

Source: Annual Report of M/s Sakthi Sugars Ltd

The Share capital has its growth initially in the year 2002-03 and it is in constant for the year 2003-04. Then for the year 2004-05 it has been increased to 9.16 times and maintain its efficiency for the year 2005-06.



INVENTORIES:

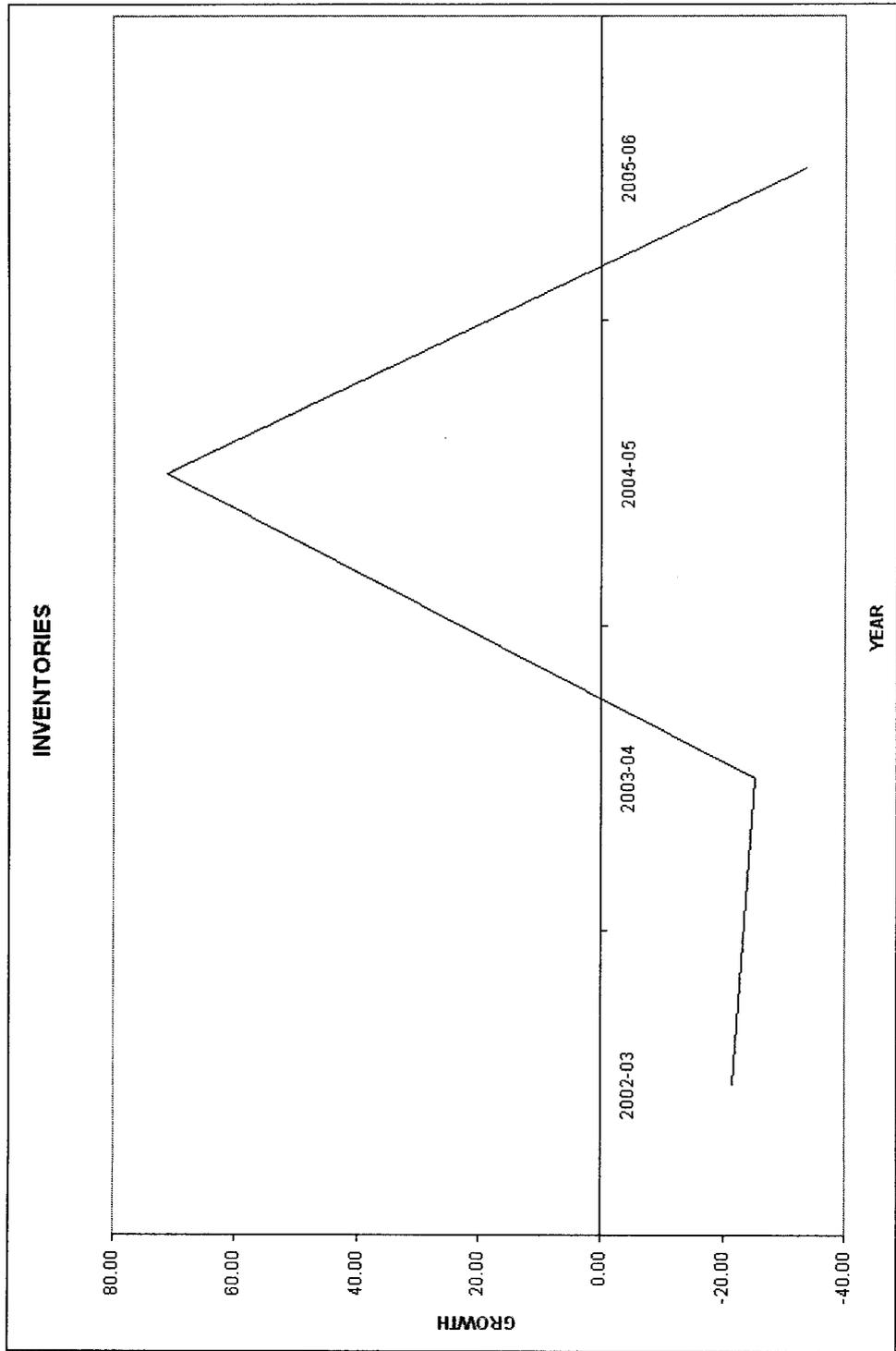
The investment in inventories constitutes, the most significant part of current assets working capital in most of the undertakings. Thus, it is very essential to have proper control and management of inventories. The purpose of inventory management is to ensure availability of materials in sufficient quantity as and when required and also to minimize investment in inventories.

Inventories**Table No: 18**

Year	Inventory	Growth
2001-2002	8832.08	-
2002-03	6433.51	-21.57
2003-04	4818.51	-25.10
2004-05	8250.29	71.22
2005-06	4261.06	-33.77
Average(X)	6519.02	

Source: Annual Report of M/s Sakthi Sugars Ltd

The inventory growth of the company for the years 2002-03 and 2003-04 is in decreasing trend but for the year 2004-05 it is increased massively to 71.22 tunes, Later for the year 2005-06 it has been decreased to -33.77 times. For the year 2004-05, the performance is good. But still the growth of inventory has to recover.



DEBTORS:

Debtors constitute an important constitute of current assets and therefore the quality of debtors to a great extent determine a firm's liquidity.

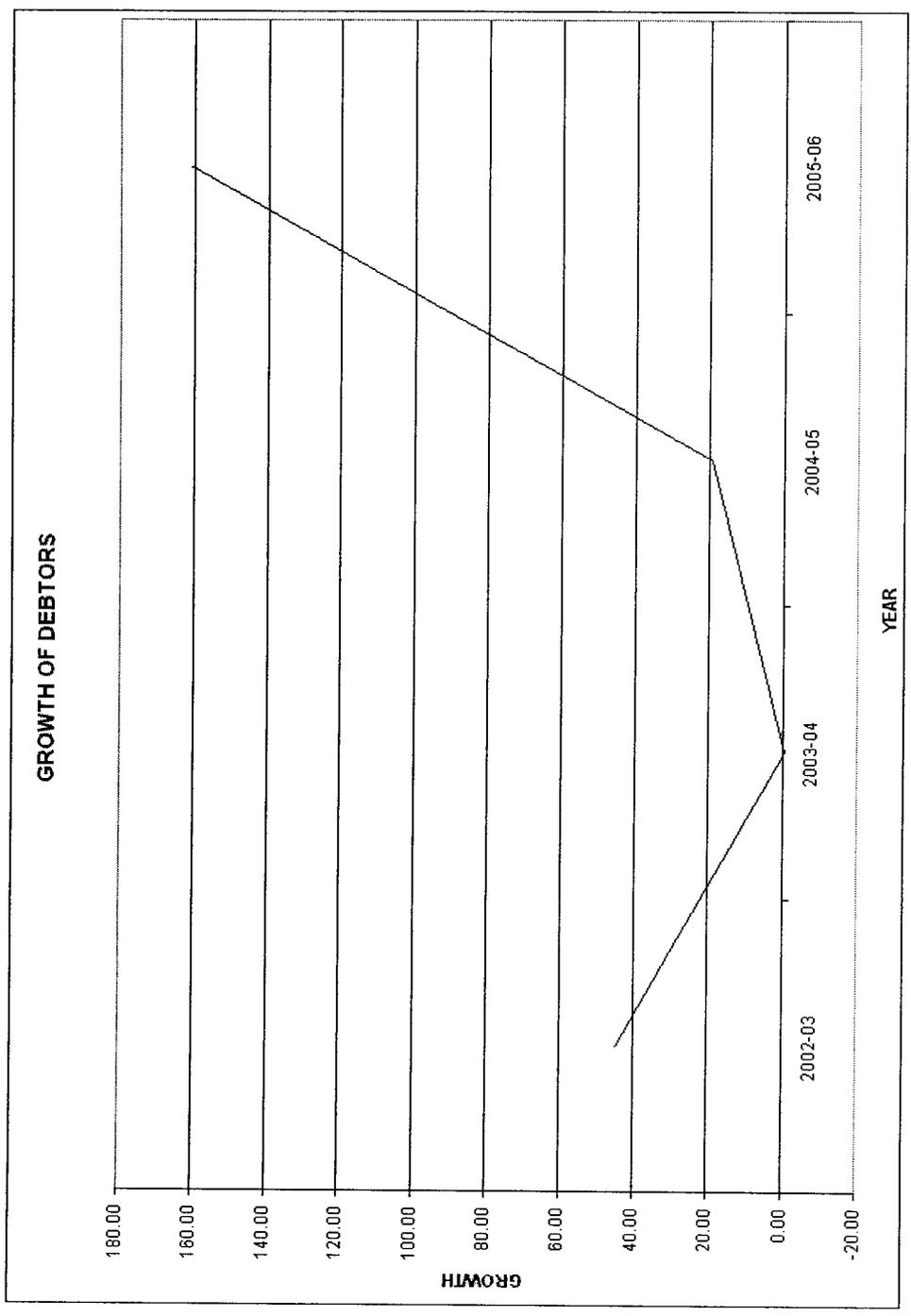
A concern may sell goods on cash as well as on credit. Credit in one of the important element of sales promotion. The volume of sales can be increased by following a liberal credit policy. But the effect of a liberal credit policy may result in typing up substantial funds of a firm in the form of trade debtors.

Growth of Debtors.**Table No: 19**

Year	Debtors	Growth
2001-2002	1716.41	-
2002-03	2485.02	44.78
2003-04	2467.07	-0.72
2004-05	2947.27	19.46
2005-06	6497.49	161.47
Average(X)	3222.65	

Source: Annual Report of M/s Sakthi Sugars Ltd

For the year 2002-03, the growth of debtors is 44.78 times and it has been decreased to 0.72 times. For the year 2004-05 it has a growth of 19.46 times and finally for the current year it has a massive increase in growth of 161.47 times.



CASH BALANCE:

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. A firm will have to maintain a critical level of cash.

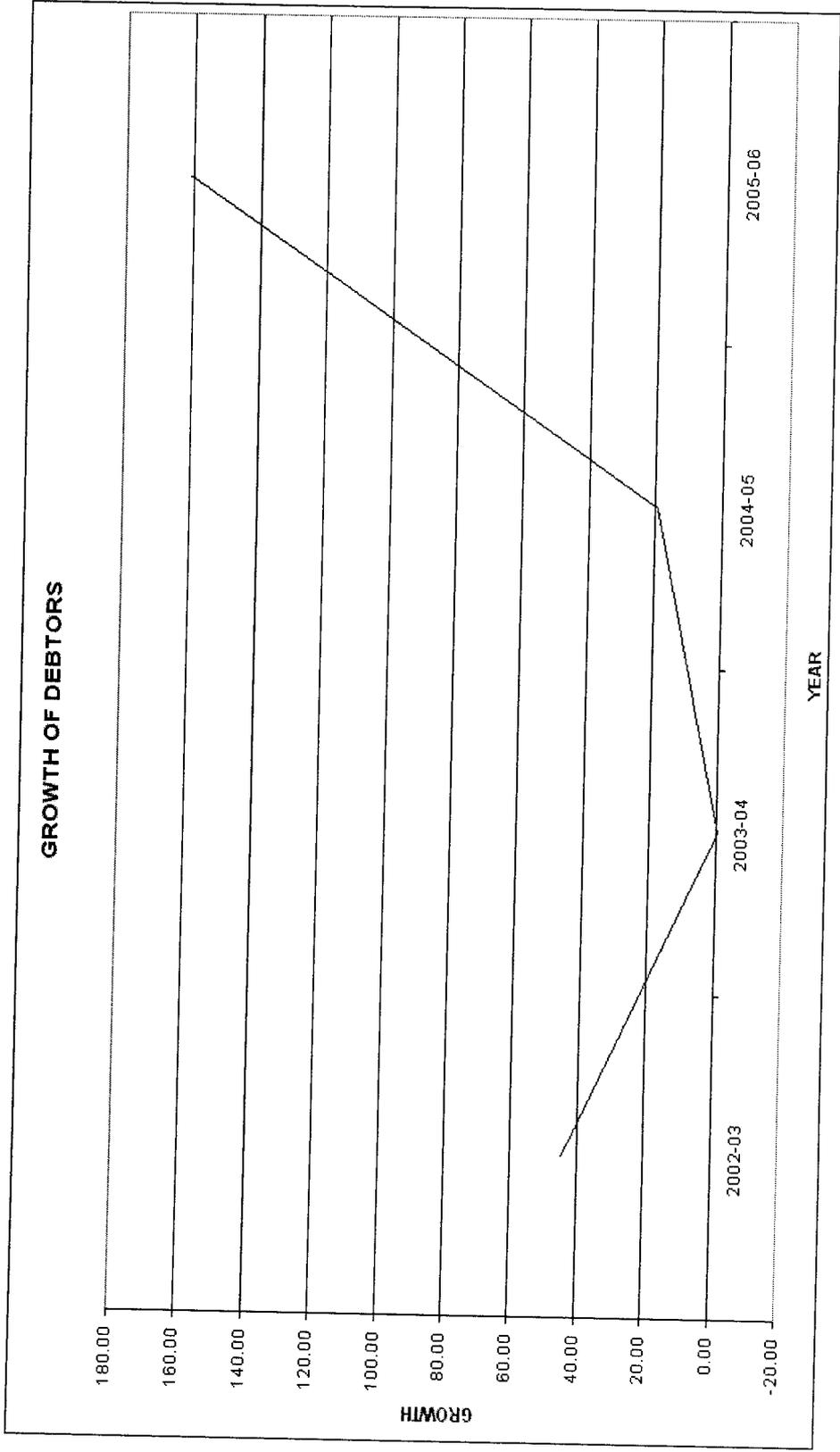
Growth of Cash Balance**Table No: 20**

Year	Cash Balance	Growth
2001-2002	788.78	-
2002-03	747.20	-5.27
2003-04	867.25	16.07
2004-05	1420.25	63.77
2005-06	274275.15	3577.08
Average(X)	6259.73	

Source: Annual Report of M/s Sakthi Sugars Ltd

For the year 2002-03, it is in decreasing trend of 5.27 times but later in the year 2003-04 and 2004-2005 it is increased to 16.07 times and 63.77 times.

And finally in the year 2005-2006, there is a massive growth in the cash balance of 3577.08 times.



EXISTING SYSTEM

There is a tremendous growth in the size of working capital in the year 2005-06 when compared to the previous four years. The working capital turnover ratio for the year 2005-06 has been decreased when compared to the previous years.

The current ratio for the year 2005-06 has been increased to 6.76 times when compared to the previous four years. The quick ratio has been increased to 6.34 times when compared to the previous four years.

The total asset turnover ratio was higher in the year 2001-2002, in the year 2005-06 it has reached to 0.70 times. The current asset to total asset ratio was higher in the year 2001-2002, in the year 2005-06 it has reached to 1.77 times. The debtors turnover ratio was higher in the year 2001-02, in the year 2005-06 it has come down to 13.79 times. The inventory turnover ratio was in the average for the year 2001-2002 to 2004-2005, but for the year 2005-2006 it has been increased to 21.03 times. The cash turnover ratio was in the average for the year 2001-02 to 2004-2005 but for the year 2005-06 it has been decreased to 3.26 times. The average collection period for the year five years is 23.01 days. The creditors turnover period is in average of 159.94 days.

NEED FOR CHANGE IN THE SYSTEM

The working capital has been increased massively and at present system it is in good condition.

The current ratio and quick ratio have increased for the year 2005-06 when compared to the previous year and the growth is at satisfactory level.

The total asset turnover ratio, fixed asset turnover ratio needs more attention; the debtors turnover ratio is at satisfactory level. The inventory turnover ratio for the year 2005-06 is higher some steps to be taken to decrease the level of inventory, the cash, turnover ratio needs more attention, the average collection period and creditors turnover period is at satisfactory level.

The growth of working capital, current assets, sales, profit, share capital is at satisfactory level.

The total asset turnover ratio, fixed asset turnover ratio needs more attention, the debtors turnover ratio is at satisfactory level, the inventory turnover ratio for the year 2005-06 is higher some steps to be taken to decrease the level of inventory, the cash turnover ratio needs

more attention, the average collection period and creditors turnover period is at satisfactory level.

The growth of working capital, current assets, sales, profit, share capital is at satisfactory level. The growth of debtors has been increased, steps to be taken to decreased the level of debtors, the cash balance growth is massive, and some steps to be taken to decrease the level of cash balance.

PROPOSED SYSTEM

The Company is mostly depended on seasonal variation. If the cultivations good for the period, there is a massive production and the company earns good profit. In the present scenario, it is found good and satisfactory.

The company has a vast technical and financial assistance at present, this helps the company to carry on the same with the existing system in the future.

The company earned huge profit through high sales and it is also expected for the forthcoming year.

The company is expecting the export of sugar products which is at present banned by the government.

PRESENT CONDITIONS WITH SPECIAL REFERNCE TO THE INDUSTRY

The present condition prevailed in the company are as follows:

Expansion plan

The crushing capacity of sugar cane is being enhanced by 5000 TCD. This is being done by expanding the existing 7500 TCD plant at Sakthinagar to 9000 TCD and by setting up a new plan at Erode District with the capacity of 3500 TDC

Three new co-generation plants with an aggregate capacity of 85MW PH are under implementation at Sakthinagar, Sivaganga and at the new sugar plant premises.

Project Completion

Sakthi Sugars has completed a project at Thailand offering consultancy services for establishing a similar bio-gas plant. Sakthi Sugars is now looking forward to similar projects from Asian countries.

Interim Dividend Declaration

In the board member meeting held on 18.09.2006, the directors recommended interim dividend at 12.50% on 12,00,000 Redeemable cumulative preference shares of Rs.100 each for the financial years 200-03 2003-04, 2003-04, 2005-06 and for the current year upto the date of redemption.

SUMMARY OF THE STUDY

M/s Sakthi Sugar Ltd., is chosen because it is a well-know and popular company. The company concentrates more on sugar products because sugar industry of a country is the backbone of the economic growth.

The tile “The study on working capital management” is chosen for the study because it involves managing the firm’s liquidity, managing the firms investment in current assets and its current liabilities.

The analysis of the project involves various ratios which intern helps to identify the worth of the project.

The project in turn helps to identify the financial conditions of the company. Sakthi sugars Ltd., is a well profitable company having vast resources and various technical aspects in their developments

The company “Sakthi Sugars Ltd.,” have a bright and glorious prospects in the near future.

5. CONCLUSIONS

5.1 FINDINGS

- Net worth of the company has increased substantially in a period of five years that was compared from 2002-2006.
- The market capitalization of the company has increased tremendously from 2002 to 2006.
- The study reveals that the debtor's turnover is increased. An increase in the average debt collection period indicates an unsatisfactory position of the trade receivables position. This was mainly due to the increase in the price of the product.
- Efficient inventory management was revealed through the inventory turnover ratio.
- The cash flow coverage ratio shows a satisfactory position, showing better ability to service outside liabilities due to an increasing trend

5.2 SUGGESTION

The title "A study on working capital management" in the company M/s Sakthi Sugars Ltd., helps me to gain knowledge about the company and the project work.

The growth of working capital, current assets, sales, profits, share capital is at satisfactory level. The growth of debtors has been increased, steps to be taken to decreased the level of debtors, the cash balance growth is massive, some steps to be taken to decreased the level of the cash balance.

The company has a very good working condition. The proper management, good administration, healthy communication, involvement in social activities become a strong basic for the successful growth of the company.

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