

THE STUDY ON WORKING CAPITAL MANAGEMENT AI VIJAYA DAIRY MILK LIMITED AT SPSR NELLORE DISTRICT

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ABSTRACT: Working capital management is part of the financial considerations that a finance manager needs to determine and plays an important role in determining the profitability of the firms. In view of its importance, this study aims to investigate on the effect of working capital management components and working capital management policy towards profitability of **Vijaya Dairy Limited at SPSR Nellore** for five years period from 2013 to 2019. India has been the leading producer and consumer of dairy products worldwide since 1998 with a sustained growth in the availability of milk and milk products. Dairy activities form an essential part of the rural Indian economy, serving as an important source of employment and income.

Key words: working capital, milk dairy.

WORKING CAPITAL - OVERALL VIEW

Working Capital management is the management of assets that are current in nature. Current assets, by accounting definition are the assets normally converted in to cash in a period of one year. Hence working capital management can be considered as the management of cash, market securities receivable, inventories and current liabilities. In fact, the management of current assets is similar to that of fixed assets the sense that is both in cases the firm analyses their effect on its profitability and risk factors, differ on three major aspects. 1. In managing fixed assets, time is an important factor discounting and compounding aspects of time play an important role in capital budgeting and a minor part in the management of current assets. 2. The large holdings of current assets, especially cash, may strengthen the firm's liquidity position, but is bound to reduce profitability of the firm as ideal car yield nothing. 3. The level of fixed assets as well as current assets depends upon the expected sales, but it is only current assets that are ad the fluctuation in the short run u a business.

To understand the working capital better we should have basic knowledge about the various aspects of working capital. To start with, there are two concepts of working capital:
³/₄ Gross Working Capital ³/₄ Net working Capital.

Gross Working Capital: Gross working capital, which is also simply known as working capital, refers to the firm's investment in current assets. Another aspect of gross working capital points out the need of arranging funds to finance the current assets. The gross working capital concept focuses attention on two aspects of current assets management, firstly optimum investment in current assets and secondly in financing the current assets. These two aspects will help in remaining away from the two danger points of excessive or inadequate investment in current assets.

Net Working Capital: The term net working capital refers to the difference between the current assets and current liabilities. Net working capital can be positive as well as negative. Positive working capital refers to the situation where current assets exceed current liabilities and negative working capital refers to the situation where current liabilities exceed current assets. The net working capital helps in comparing the liquidity of the same firm over time. For purposes of the working capital management, therefore Working Capital can be said to measure the liquidity of the firm. In other words, the goal of working capital management is to manage the current assets and liabilities in such a way that acceptable level of net working capital is maintained.

DAIRY INDUSTRY IN INDIA

The dairy industry in India is going through major changes with the liberalization policies of the government and the restructuring of the Economy. These have brought greater participation of the private sector. This is also consistent with global trends which could hopefully lead greater integration at Indian dairying with the world market for milk and milk product. After stagnating to 80 million tons for 20 years between 1950 and 1970, Indian Milk production began to rise. It was crossing 30 million tons in the year 1980 and 59 million tons in the year 1992. Today India Ranks as the world second largest milk producer after the U.S.

India has the world's largest cattle & Buffalo populations adapted to tropical eliminate & poor nutrition & environment. Acc to Livestock census 1982. India's "ovine population was 191 million cattle & 69 million buffaloes. dairy industry provides employment to 70 million dairy farmers. In terms of total production India ranks 2nd to USA with a production of 71 million tons in 1997-1998. The production of various products in 2002 ,428(000 metric tons)

REVIEW OF DAIRYING IN INDIA

The main study of Indian farmers has been agriculture and allied occupations farm animals especially cattle, have been an integral part of rural India for thousands of years.

During the year 1920 military farms were established to supply adequate Raw Milk to the states. These military farms were well maintained and even their stages were raising improved animals. Elsewhere in urban areas, dairying was largely left in hands of traditional producers, middlemen, and dealers of private vendors.

DAIRY SCENARIO

Milk is an important nutritious food. It is more important to infants and old people. Large number of people depends upon milk as an important source of nourishment. India with its vast population gives sentimental attachment to milk as a good food. Milk is substance with 1.029 to 1.035 specific gravity and contains fat, minerals, proteins and vitamins. The government of India encouraged Co-operative societies for production of milk and its products and setting up of process of large milk units.

India is today the second largest producer of the milk in the world. Second only is the U.S.A. contributing 11% of the world market. The production of milk in India is 577 Lakhs of tones per year. It may be seen that the milk procurement by the organized sector is presently, a fraction of the total milk available. There is sufficient scope for procurement of milk and for the growth of the milk sector. With high quality technology and expertise available indigenously and with the milk and milk products order announced by the government enabling the private sector to deal directly with the farmer.

Organized handling of milk would lead to proper procurement measures, which would in turn be beneficial to farmers. Remunerative price to farmers would lead to better care of cattle and thereby set in motion a healthy cycle of increased availability of good milk.

WORLD FOCUS ON INDIAN DAIRY

Indian dairying is emerging as a Sunrise Industry. India represents one of the world's largest and fastest growing markets for milk and milk products due to the increasing disposable incomes among the 250 million strong classes.

Two main reasons for the world focus on India are one, the low cost economy; and two the liberalization process initiated since 1991. Other important factors include: low inflation rate, inexpensive labor, the presence of the world's third largest pool of technical manpower, the world's largest democracy.

Efforts to increase milk production by dairy farmers are strongly influenced by the degree to which demand signals are transmitted through the marketing system. Co-operatives have played an important role in transmitting the message of urban market demand to them.

COMPETITIVE ADVANTAGES OF INDIAN DAIRY

In the emerging liberalized global scenario, trade distorting agricultural policies has been the focus of the GATT multilateral trade negotiation. With the liberalization of agricultural trade under the new GATT regime, the heavy subsidies prevalent in the dairy sectors in the countries of the European Union as well as in the US will have to be brought down in the next few years. The competitive advantages of the Indians dairy industry are then considered to be substantial. With the substantial and continues investments in building up milk production. India can emerge as a major exporter of dairy products, at least by the early part of the next century, even though prospects may meet with considerable opposition from the advanced dairy nations and this opposition is likely to focus significantly on quality issues.

It is therefore necessary to evolve a long-term dairy industry policy that will not only sustain but also enhance production and productive levels. This would require ensuring remunerative and increased returns.

ORIGIN OF DAIRY INDUSTRY IN ANDHRA PRADESH

Organization dairy industry in Andhra Pradesh has its roots on pilot milk supply scheme in 1960, as prelude for its growth into integrated milk project under organization UNICEF. It turned into a public sector corporation in 1974 to function as a business organization. It was converted into dairy development corporation federation in 1981 to implemented operation flood programs on and pattern through a the tire cooperative structure i.e., a system through which the infrastructure of the milk production, procurement and processing, marketing are owned and managed by the producers themselves to protect their interest with participative management under cooperative concept as:

- ❖ Village level ----- Milk produce cooperative societies
- ❖ District level ----- Milk producer cooperative societies
- ❖ State level ----- Cooperative Federation

DAIRY DEVELOPMENT ACTIVITIES IN NELLORE DISTRICT

During the year 1969, the Nellore dairy was started with initial capacity of 12,000 liters per day mostly to collect milk from surrounding villages. After wares due to increases in procurement the handling capacity was expanded to 40,000 liters per day during the year. 1979. The Milk Chilling Centre at Kavali was started during the year 1977 with an initial capacity of 6,000 liters per day. Similarly the Milk chilling Center at Venkatagiri was started during the year 1981 with the same capacity. During the year 1985, due to the increase in Milk Procurement in the District. The capacity of milk Chilling Centres

Kavali and Venkatagiri has been increased from 6,000 liters to 12,000 per day. In the year 1986 the Nellore Milk Union was register under AP Co. op Societies Act 1964.

Due to further increase in Milk Procurement the present handling capacity of Nellore dairy is expanded to 40,000 Ltrs. To 75,000 Ltrs. Per day and Milk Chilling Center Kavali also expended from 12,000 Liters 20,000 liters per day under O.F. III Programmed in 1993. Another Milk Chilling Center in the District at Duttalur with handling capacity of 10,000 liter per day was started in month of October 1995 and subsequently expanded 20,000 liters per day during 1998.

At present there are nearly 57,360 milk producers supplying Milk to Nellore Union. Out of which there are small farmers 23, 960 marginal farmers 8,300. Among these milk producers there are schedule cast 8,152 schedule tribes 697, back ward class 11,612 and the remaining other casts are supplying milk to this union and they are being benefited financially by sales of milk by an amount of Rs.210 Lakhs is being paid the Milk Producers per month.

The date related to the above development of Nellore dairy has been shown following table.

Table -1
PERFORMANCE OF DAIRY IN NELLORE (Dist)

| NAME OF THE UNIT | CAPACITY PER DAY | PRESENT PER DAY | PEAK ON ANY DAY OF THE YEAR |
|--------------------------|------------------|-----------------|-----------------------------|
| <i>Nellore Dairy</i> | 75,000 Liters | 36,000 Liters | 43,000 Liters |
| <i>Kavali Dairy</i> | 30,000 Liters | 12,000 Liters | 17,000 Liters |
| <i>Venkatagiri Dairy</i> | 12,000 Liters | 12,000 Liters | 12,000 Liters |
| <i>Duttalur Dairy</i> | 22,000 Liters | 22,000 Liters | 22,000 Liters |

APDDCF was formed in Oct 1981 to implement operation flood II program through involvement of producers in organi4ing milk production procurement processing & it will low due to rapid population growth. It was178 gram per day in 199'0. There was only an increase of 500' grams per day from1980-90. It is expected that milk availability will reach 213 gram/capita/ per day by200 D as against 300 scientist. Today India ranks first in Milk production in the world.

VIJAYA DAIRY AT A GLANCE

| | | |
|----------------------------|---|--|
| Name of the Organization | : | Vijaya Dairy Limited |
| Nature of the Business | : | Liquid Milk, Ghee, Butter Milk and Butter |
| Basic Raw Materials | : | Milk |
| Procuring the raw Material | : | Co-Operative Milk Society Boots. |
| Year of Establishment | : | 1969 |
| Plant Location | : | Venkateshwara puram, Nellore |
| Plant Capacity (per day) | : | 75000 Liters |
| Promoters | : | AP Milk Co – Operative Society, Hyderabad |

The products that are offered by the vijaya dairy is milk, ghee, curd, paneer, skimmed milk powder, butter milk

OBJECTIVES OF THE STUDY

- To understand the growth of dairy industry in india.
- To understand the role of working capital in the company's performance
- To know the Working Capital Management in Vijaya Dairy Limited
- To analyze the position of the current assets and current liabilities in the company

RESEARCH METHODOLOGY

The analyses of working capital management of the company necessitate accurate and reliable data. There for the sources for collecting the data including both primary and secondary, mainly secondary data has been used for the study.

LIMITATIONS

- ❖ Time constraint limited to my study.
- ❖ Due to the inadequate time it is not possible to analyze all aspects relevant to the study.
- ❖ The study is purely based on secondary data which were taken primarily from published annual reports of Vijay Dairy Limited , Nellore.

REVIEW OF LITERATURE

Carley aid Ling (1991) in their research paper evaluated the percentage of southern dairy farmers' perception regarding their cooperative or proprietary handlers performance, level of satisfaction with the milk handlers and reasons for staying with the current milk handlers. The

study showed that the dairy farmers were concerned about price, deductions, assessment and price farmers received appeared to be a significant factor which affected farmer's satisfactions level. The study also found a trade-off between price and deductions versus service and market and payments assurance. The study suggested that the dairy farmers needed a cooperative which provides an assured market for the members.

Rao, P. sarveswara (1992) studied the Working Capital Management of dairy industry in India. In this study two dairy units Vijaya Dairy and Heritage foods Ltd. Were studied from the point of view of the management of working capital. Debtors turnover reveals that Vijaya Dairy is following a little liberal credit policy than heritage. Inventory turnover ratio conveyed that Heritage is more efficient than Vijaya. Working capital turnover ratio revealed that Vijaya is using its working capital more efficiently to improve sales.

Misra and Fletcher (1993) in their study analysed the factors influencing farmer's degree of satisfaction with the overall performance of milk marketing corporative. The data for the study were obtained from dairy farmers located in 12 southern states. They took a random sample of grade A dairy farmers and mail survey was conducted among 5,660 dairy farmer's degree of satisfaction with the overall performance of their milk marketing cooperative. The analysis suggested that the southern dairy farmer's perceived cooperative ability to hold down operating and marketing costs to provide higher prices and competent field service.

DATA ANALYSIS & INTERPRETATION

Table -2

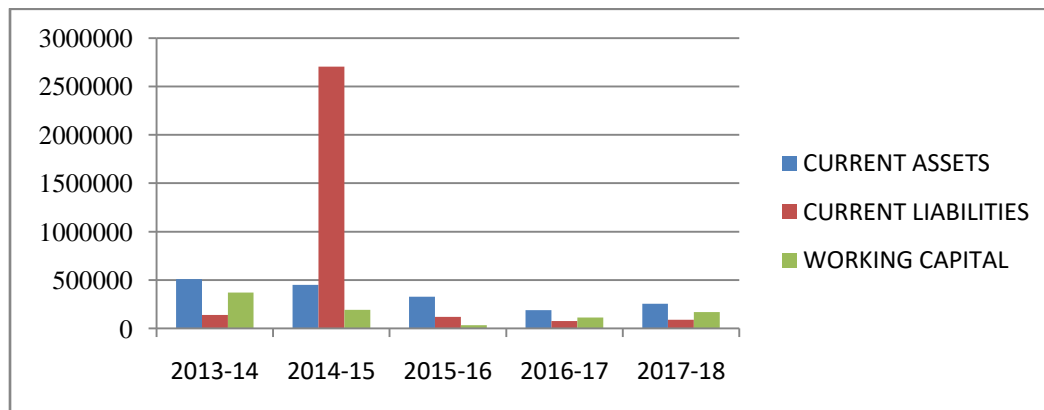
THE CHANGING TRENDS IN THE WORKING CAPITAL SCHEDULES

| YEARS | CURRENT ASSETS | CURRENT LIABILITIES | WORKING CAPITAL | REMARKS |
|----------------|---------------------------|--------------------------------|----------------------------|-----------------|
| 2013-14 | 508620 | 139378 | 369242 | Decrease |
| 2014-15 | 450235 | 2704033 | 193040 | Decrease |
| 2015-16 | 328385 | 119672 | 32511 | Increase |
| 2016-17 | 188153 | 77096 | 111057 | Decrease |
| 2017-18 | 254940 | 87884 | 167056 | Increase |

INTERPRETATION

The above table shows the scheduled changes of working capital statements one can understand that there are different working capital requirements has been allotted during period. However, if we go to in depth analysis of the trend In the changing pattern of the working capital in the company we must analysis with subtle tool two get the actual trends are changes in the schedules of working the period of 2013-14 to 2017-18 financial years.

CHART - 1



CURRENT RATIO

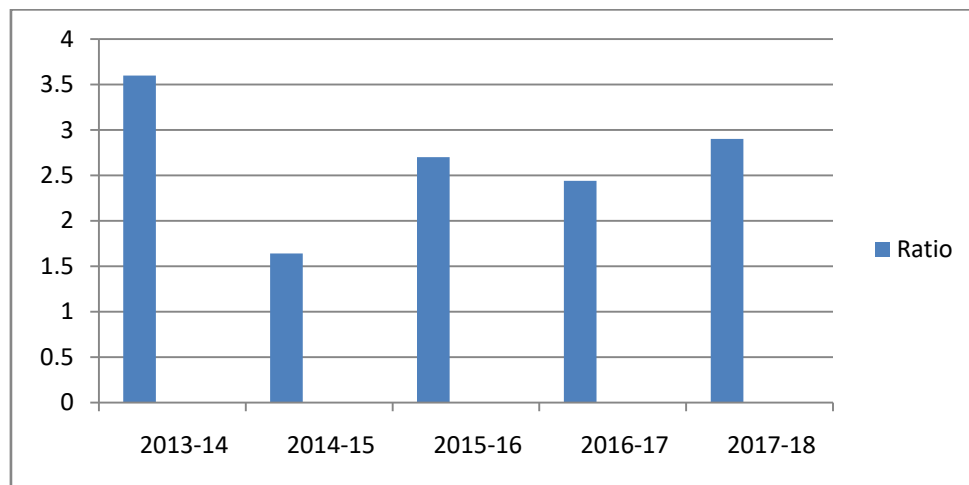
$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Table -3

Year wise Current assets, Current liabilities and Current ratio of Vijaya Diary LTD, NELLORE.

| Year | Current Assets | Current liabilities | Ratio |
|---------|----------------|---------------------|-------|
| 2013-14 | 508620 | 139378 | 3.6 |
| 2014-15 | 450235 | 274033 | 1.64 |
| 2015-16 | 328385 | 119672 | 2.7 |
| 2016-17 | 188153 | 77096 | 2.44 |
| 2017-18 | 254940 | 87884 | 2.9 |

CHART- 2



INTERPRETATION:-

Table 5.7 reveals the following current ratio of Vijaya Dairy Ltd . It was 3.6 in the year 2013-14, 1.64 in 2014-15, 2.7 in 2015-16, 2.44 in 2016-17, 2.9 in 2017-18

WORKING CAPITAL TURNOVER RATIO:

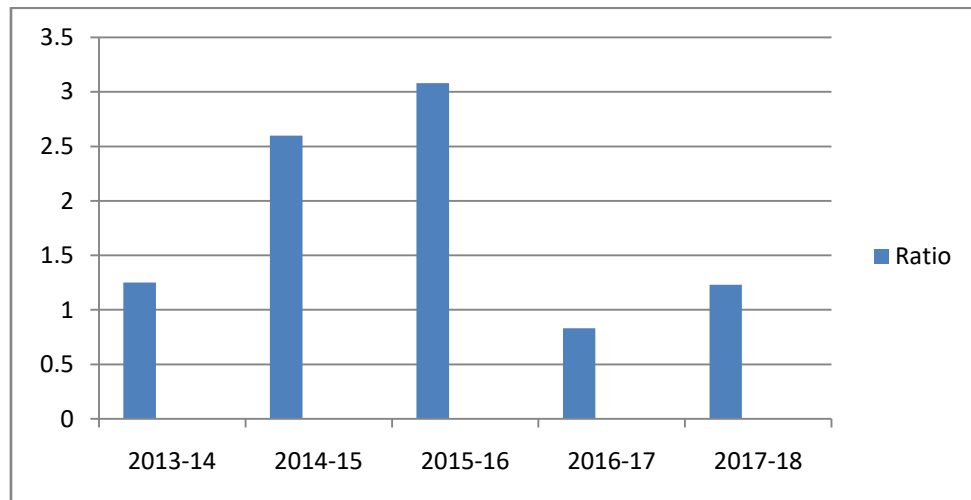
$$\text{Working capital turnover ratio} = \frac{\text{Sales}}{\text{Net working capital}}$$

TABLE- 4

Year wise Sales, Net working capital and Working capital turnover ratio

| Year | Sales | Net working capital | Ratio |
|---------|---------|---------------------|-------|
| 2013-14 | 464778 | 399242 | 1.25 |
| 2014-15 | 458622 | 176202 | 2.60 |
| 2015-16 | 644872 | 208713 | 3.08 |
| 2016-17 | 92728 | 111057 | 0.83 |
| 2017-18 | 2062727 | 167056 | 1.23 |

CHART-3



INTERPRETATION

This is also known as working capital leverage ratio. The working capital turnover ratio of Vijaya Dairy Ltd. is 1.25 in 2013-14, 2.60 in 2014-15, 3.08 in 2015-16 and 0.83 in 2016-17 and 1.23 in 2017-18.

FINDINGS

- ❖ Generally a current ratio 2:1 is considered to represent satisfactory current financial conditions. Vijaya Dairy Ltd is very healthy because the company is having a current ratio is near to 2:1
- ❖ The working capital turnover ratio during year 2017-18 is 1.23 and previous year is 0.83 the ratio is increased.
- ❖ The cash position ratio during the year 2017-18 is 0.478 however the improvement in the cash position has been achieved there after the company's capable of meeting all each commitment promptly.
- ❖ The return on total assets of Vijaya Dairy Ltd increased from 2013-14 to 2017-18 from 5.98 to 2.84.
- ❖ Working Capital has decreased by 16471 in the year 2014 when compared to 2013 due to decrease in inventories.
- ❖ Working Capital has decreased by 193040 in 2015 due to large amount decrease in inventories
- ❖ In 2016 working capital has increased by 32511 due to decrease in loans & advances and increase in creditors.

- ❖ In 2017 working capital decreased by 9756 due to increase in inventories.
- ❖ In 2018 working capital increased by 56943 due to increases in cash& bank, loans advances.

SUGGESTIONS

- The cash reserves in Vijaya Dairy are not standard maintaining. The cash ratio is lower for some year and very excess for some other years. So the cash reserves must be standardized.
- The utilization of assets to be improved.

CONCLUSION

From the analysis about the working capital at Vijaya Dairy Ltd, conclude that the company's interest is to reduce its cost of production by increasing its sales. The concern has efficient management. But contribution at working capital towards inventory is decreased. Due to this, the company has under stocking at inventory. Also the company would pay its creditors amount in order to get raw material without failure. It is worth noticing that its overall performance is favorable. But a little more care may be taken in managing the various aspects at working capital management. Hence the suggestion listed in the previous page is realistic which would lead to that increase in the profitability at the company.

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