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A STUDY OF CASH MANAGEMENT IN PRIVATE SECTOR SUGAR MILLS

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A Study of Cash Management in Private Sector Sugar Mills

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Abstract – District Lakhimpur Kheri is called the house of sugar and the bowl of sugar for its sugar industry. There are nine big sugar mills, Sarjoo Sahkari Chini Mill Ltd., The Kisan Sahkari Chini Mill Ltd., Bajaj Hindustan Ltd. Gola, Bajaj Hindustan Ltd. Palia Bajaj Hindustan Ltd. Khambai Khera, Ghagra Sugar Mills Ltd. Ajbapur, Govind Sugar Mill, Gularia Chini Mill Ltd. and Kumbi Chini Mill. Out of these mills, two sugar mills are in co-operative sector and other mills are in private sector. Present paper is an attempt as to study of cash management of Private sector mills.

INTRODUCTION

Lakhimpur Kheri is famous for its agricultural and sugarcane is produced in large amounts so there are nine big sugar mills and a lot of mini sugar production units. There are two hundred twenty two factories registered under factory Act 1948. Four thousand eight hundred and sixty six are other small scale industrial units and other two thousand sixty two different types of small production units are improving industrial profile of Lakhimpur Kheri. Sugar industry of Lakhimpur Kheri district is known at India level because it is the biggest sugar producer in U.P.

Lakhimpur Kheri is an important district of U.P. from the agricultural point of view. Total four lakh eighty five thousand nine hundred and thirty five hectare land is used for agriculture. Ten big rivers are flowing so land of Lakhimpur Kheri district is good for agriculture. The use of agricultural land is as follows –

Table No. 1.0 Use of agricultural land for crops in Lakhimpur Kheri District

S. No.	Agricultural land	Crop
1.	32.00%	Sugarcane
2.	38.4%	Wheat
3.	27.3%	Rice
4.	12.3	Other crop

Source : Magazine of Arth avam Sankhya Vibhag, Lakhimpur, 2010

The full profile of sugar mills under study are as follow –

Table No. 1.1 – Profile of Sugar mills in Lakhimpur Kheri District

S. No.	Name of Sugar Mills	Year of Establish.	Crushing Capacity	Work Force	Products
1.	Sarjoo Sahkari Chini Mill Ltd. Bilraya.	1983	5000	870	Sugar, Molasses Bagasses
2.	Kisan Sahkari Chini Mill Ltd. Sampurnanagar	1985	5000	870	Sugar, Molasses Bagasses
3.	Bajaj Hindustan Ltd., Gola	1931	13000	1101	Sugar, Molasses Bagass, Alcohol
4.	Bajaj Hindustan Ltd., Palia	1972	11000	937	Sugar, Molasses Bagass, Alcohol
5.	Bajaj Hindustan Ltd., Khambar Khera	2006	10000	1250	Sugar, Molasses Bagass, Alcohol
6.	Ghagra Sugar Mills Ltd. Aibapur	1998	10000	752	Sugar, Molasses Bagass
7.	Govind Sugar Mills Ltd., Aibapur	1952	7500	752	Sugar, Molasses Bagass,
8.	Gularia Chini Mills Ltd., A unit of Balrampur Chini Mills of Ltd.	2007	5800	838	Sugar, Molasses Bagass, Alcohol
9.	Kumbhi Chini Mills Ltd. A unit of Balrampur Chini Mills Ltd.	2006	8000	840	Sugar, Molasses Bagass, Alcohol

Source : Magazine of Arth avam Sankhya Vibhag, Lakhimpur, 2010

Table No. 1.2 – Fixed assets in different Sugar Mills

S. No.	Name of Sugar Mills	Fixed assets (in crore)	Total assets (in crore)
1.	Bajaj Hindustan Ltd.	5571.19	8763.52
2.	Balrampur Chini Mills Ltd.	1777.00	2409.00
3.	Govind Sugar Mills Ltd.	45.0342	107.19
4.	Ghagra Sugar Mills Ltd.	2037.66	2837.33
5.	Sarjoo Sahkari Chini Mill Ltd.	9.50	361.72
6.	The Kisan Sahkari Chini Mill Ltd.	9.51	350.02

Source :

Balance sheet of Bajaj Hindustan Ltd. (2009-10)

Balance sheet of Balrampur Chini Mills Ltd. (2009-10)

Balance sheet of D.S.C.L. (2009-10)

Balance sheet of Ghagra Sugar Mills Ltd. (2009-10)

Balance sheet of Sarjoo Sahkari Chini Mills Ltd. (2009-10)

Balance sheet of The Kisan Sahkari Chini Mills Ltd. (2009-10)

The amount of inventories in different sugar mills are as follows –

Table No. 1.3 – Inventories in Different Sugar Mills

S. No.	Name of Sugar Mills	Inventories (in crore)	Total assets (in crore)	% of total assets
1.	Bajaj Hindustan Ltd.	1921.36	8763.53	21.93
2.	Balrampur Chini Mills Ltd.	343.43	2409.00	14.26
3.	Govind Sugar Mills Ltd.	25.87	107.19	24.13
4.	Ghagra Sugar Mills Ltd.	762.53	2837.33	26.87
5.	Sarjoo Sahkari Chini Mill Ltd.	01.60	361.73	00.44
6.	Kisan Sahkari Chini Mill Ltd.	100.33	350.02	28.65

Source : Annual reports of Chini Mills (2009-10)

The amount of debts in different sugar mills are as follows –

Table No. 1.4 – Debtors in Different Sugar Mills

S. No.	Name of Sugar Mills	Debtors (in crore)	Total assets (in crore)	% of total assets
1.	Bajaj Hindustan Ltd.	163.10	8763.52	01.86
2.	Balrampur Chini Mills Ltd.	17.10	2409.63	00.71
3.	Govind Sugar Mills Ltd.	13.97	107.19	13.03
4.	Ghagra Sugar Mills Ltd.	188.42	2837.33	06.64
5.	Sarjoo Sahkari Chini Mill Ltd.	0.88	631.73	00.14
6.	Kisan Sahkari Chini Mill Ltd.	1.37	350.02	00.39

Source : Annual reports of Chini Mills (2009-10)
The position of cash and bank balance in different sugar mills are as follows –

Table No. 1.5 – Cash and Bank Balances in Different Sugar Mills

S. No.	Name of Sugar Mills	Inventories (in crore)	Total assets (in crore)	% of total assets
1.	Bajaj Hindustan Ltd.	479.20	8763.52	05.47
2.	Balrampur Chini Mills Ltd.	32.97	2409.00	01.37
3.	Govind Sugar Mills Ltd.	01.82	107.19	01.70
4.	Ghagra Sugar Mills Ltd.	49.51	2837.33	01.74
5.	Sarjoo Sahkari Chini Mill Ltd.	03.23	361.73	00.89
6.	Kisan Sahkari Chini Mill Ltd.	03.09	350.02	00.88

Source : Annual reports of Sugar Mills (2009-10)

The position of loans and advances in different sugar mills are as follows –

Table No. 1.6 – Loan and Advances in Different Sugar Mills

S. No.	Name of Sugar Mills	Loan/ Advances (in crore)	Total assets (in crore)	% on total assets
1.	Bajaj Hindustan Ltd.	1424.21	8763.53	16.25
2.	Balrampur Chini Mills Ltd.	311.23	2409.00	12.91
3.	Govind Sugar Mills Ltd.	8.05	107.19	07.51
4.	Ghagra Sugar Mills Ltd.	400.85	2837.33	14.13
5.	Sarjoo Sahkari Chini Mill Ltd.	16.10	361.71	04.45
6.	Kisan Sahkari Chini Mill Ltd.	100.32	350.02	28.66

Source : Annual reports of Sugar Mills (2009-10)

Table No. 1.7 – Working Capital Turnover Ratio in Different Sugar Mills

S. No.	Name of Sugar Mills	Net Sales (in crore)	Net W.C. (in crore)	W.C. of Ratio in Time
1.	Bajaj Hindustan Ltd.	2873.60	2078.94	1.38
2.	Balrampur Chini Mills Ltd.	1744.09	374.43	4.65
3.	Govind Sugar Mills Ltd.	192.30	35.64	5.40
4.	Ghagra Sugar Mills Ltd.	3402.07	740.80	4.59
5.	Sarjoo Sahkari Chini Mill Ltd.	159.00	70.67	2.25
6.	Kisan Sahkari Chini Mill Ltd.	131.87	576.18	0.22

Source : Annual reports of Sugar Mills (2009-10)

Table No. 1.8 – Current Ratio of Different Sugar Mills

S. No.	Name of Sugar Mills	Current Assets (in crore)	Currents Liabilities (in crore)	Current Ratio
1.	Bajaj Hindustan Ltd.	3987.87	1908.93	201 : 1
2.	Balrampur Chini Mills Ltd.	642.36	267.93	2.39 : 1
3.	Govind Sugar Mills Ltd.	49.70	14.07	3.53 : 1
4.	Ghagra Sugar Mills Ltd.	1401.31	660.49	2.12 : 1
5.	Sarjoo Sahkari Chini Mill Ltd.	120.65	499.18	0.24 : 1
6.	Kisan Sahkari Chini Mill Ltd.	118.65	61.03	1.97 : 1

1) Cash Flows in Bajaj Hindustan Ltd.

The cash flows of the Bajaj Hindustan Ltd. 2009-10 is as follows–

Table No. 1.9 – Cash Flows of Bajaj Hindustan Ltd. (in 2009-10) :

Particulars	Cash in flows (in crore)	Cash outflows (in crore)
(A) Cash flows from operating activities		
Net profit before exceptional items and taxation	55.44	--
Adjustment for Depreciation & Amortization	257.44	--
(Gain)/Loss due to foreign exchange fluctuation	--	14.00
Less/ (Surplus) on sale of fixed assets (Net)	--	0.15
Interest and financial charges	415.20	--
Dividend/ Income from current investment Received	--	3.59
Profit on sale of investment	--	16.61
Interest received	--	113.86
Employees compensation expense (ESOP)	--	0.88
Cash inflow and outflow	727.68	149.09
Operating Profit before working Capital changes (inflow-outflow)	578.59	--
Adjustment for –		
Trade and other receivables	48.74	--
Inventories	--	1209.38
Trade payable	08.23	--
	635.56	1209.38
Cash generated from operation	--	573.82
Direct tax paid	--	40.25
Net Cash from/ (used) operating activities	--	614.07

(B) Cash Flow from Investing activities		
Purchase of fixed assets	--	--
Sale of fixed assets	2.69	--
Purchase of investments	--	61.44
Loans and Advances	--	61.44
Interest received	113.86	--
Dividend Received	3.59	--
Sale of investment	4512.83	--
Net cash used in Investing Activities	--	348.64

(C) Cash Flow from Financing Activities		
Proceeds from borrowing (Net of repayment)	1674.18	--
Issue of convertible warrants	--	--
Issue of equity shares & premium thereon on issue of Q.I.P.	--	--
On conversion of Equity warrants	--	--
Issue expenses (Q.I.P)	--	--
Interest paid	--	391.95
Dividend paid (including tax thereon)	--	15.58
	1674.18	407.53
Net Cash from (Used in) Financing Activities	1266.65	--
Net increase in cash and cash equivalents [C-(A+B)]	303.94	--
Cash and cash equivalent (opening balance)	34.82	--
Earmarked for specific purpose	--	--
Other balances	77.53	--
	112.35	--

Cash and cash equivalents on amalgamation	6.21	--
Cash and cash equivalent closing balance-		
Earmarked for specific purposes	3.18	--
Other balances	476.02	--
	479.20	

Source: Annual Report of Bajaj Hindustan Ltd. (2009-10)

1) Study of Cash Flows of Balrampur Chini Mills Ltd.

The cash flows of the Balrampur Chini Mills Ltd. is as follows –

Table No. 1.10 – Cash Flows of Balrampur Chini Mills Ltd.

Particulars	Cash Inflow (in crores)	Cash Outflow (in crores)
(A) Cash flows from operating activities		
Net profit before tax and extra ordinary items	24.61	--
Adjustments to reconcile net profit before tax to cash flow provided by operating activities -	107.97	--
Depreciation & Amortization		
Interest	96.94	--
Provision for doubtful debts/advances	00.06	--
Provision for retirement benefits of employees	00.01	--
Dividend	--	--
Unspent liabilities/balances written back	--	1.49
Sundry debits balance/advances written off.	00.55	--
Profit on sale of fixed assets	--	00.35
Loss on sale/discard of fixed assets	06.83	--
Profit/Loss on sale of investments	--	00.42
Unrealized exchange rate fluctuation. Gain		--
Unrealized exchange rate fluctuation. Loss	00.15	--
Employees stock option expense	08.91	--
Share issue expenses written off	01.25	--
Transfer to storage fund for molasses	00.18	--
Cash inflow and outflow	247.43	02.26
Operating Profit before working Capital changes (Inflow-Outflow+Net profit)	245.17	--
Adjustments to reconcile operating profit to cash flow provided by changes in working capital :		
Trade, debtors & other receivables	42.67	--
Inventories	212.96	--
Trade payables and other liabilities	--	43.94
	500.80	43.95
Cash generated from operation (500.80-43.94)	456.85	--
Direct tax paid / Refund received	--	40.10
	456.85	40.10

Net Cash from/(used) operating activities (456.85-40.10)	415.75	--
(B) Cash Flow from Investing activities		
Additions to fixed assets	--	10.90
Sale of fixed assets	02.79	--
Purchase of investments	--	--
Sale of investment	--	--
Sale/purchase of shares of associates	01.36	--
Investment in shares of a subsidiary	--	--
Purchase of Post office National saving certificate	--	0.03
Sale of NPC & Post office national saving certificate	00.01	--
Fixed Deposits made with banks	--	5.86
Fixed Deposits redeemed from banks	05.93	--
Loan given to subsidiary	--	41.82
Loan received from a subsidiary	41.82	--
Loan given to others	--	120.50
Dividend Received	93.00	--
Interest received from a subsidiary	10.02	--
Interest received from fix deposits	01.04	--
	155.97	179.11
Net cash used in Investing Activities (179.11-155.97)	--	23.14

(C) Cash Flow from Financing Activities		
Proceeds from issuing of equity shares/exercise of stock option	05.48	--
Deposit against convertible warrants	--	--
Proceeds from long term burrowing	55.70	--
Repayment/proceeds from other borrowings (Net)	--	329.00
Repayment of long term borrowings	--	104.68
Interest paid	--	110.36
Dividend paid (including tax thereon)	--	14.95
	61.18	559.88
Net cash use/generated from financing activities - (559.89 - 61.18)	--	498.70
Net increase in cash and cash equivalent [A-(B+C)] [416.75-(23.14+498.70)]	--	105.09
Opening cash and cash equivalent	32.80	--
	--	105.09

Source: Annual Report of Balrampur Chini Mills Ltd. (2009-10)

3) Study of Cash Flows of Govind Sugar Mills Ltd. :

The cash flows of Govind Sugar Mills Ltd. as follows –

Table No. 1.11 – Cash Flows of Govind Sugar Mills Ltd.

Particulars	Cash Inflow (in crores)	Cash Outflow (in crores)
(A) Cash flows from operating activities		
Net Profit before tax	11.61	--
Adjustments for :		
Depreciation	04.50	--
Interest & Finance expenses (Net of Subsidy)	13.62	--
Molasses storage and maintenance reserve	0.05	--
Interest and dividend income	--	1.06
Provision for bad & doubtful debts/advances	--	--
Bad debts, irrecoverable claims & advances written off.	00.01	--
Loss/ (Profit) on fixed assets sold/discarded (Net)	00.08	--
	18.26	1.06
Operating Profit before working Capital changes [(18.26 - 1.06) + 11.61]	28.81	--
Adjustment for –		
Decrease in trade payable	--	6.07
Increase in trade and other receivables	--	11.70
Decrease/ (increase) in inventories	66.66	--
	95.47	17.77
Cash generated from operation (95.47 - 17.77)	77.70	--
Direct tax Refund/Paid	00.15	--
Net Cash from/ (used) operating activities	77.85	--
(B) Cash Flow from Investing activities		
Loan refunds / paid	00.01	--
Interest & dividend received	01.05	--
Purchase of fixed assets	--	0.99
Sale of fixed assets	00.07	--
Purchase of investment	--	0.01
Fixed Deposits	--	0.04
	1.13	1.04
Net cash From Investing Activities	0.09	--
(C) Cash Flow from Financing Activities		
Proceeds and borrowings	7.50	--
Repayments of loans	--	7.01
Redemption of preference share capital	--	--
Interest & finance charges paid	--	13.61
	7.50	20.62
Net cash from/ used in financing activities	--	7661.97
Net change in cash and cash equivalent (A+B-C)	64.82	--
Cash and cash equivalents – O.B.	0.41	--
Cash and cash equivalents – C.B.	65.23	--

Source: Annual Report of Govind Sugar Mills Ltd. (2009-10)

(4) Study of Cash Flows of Ghagra Mills Ltd. :

Table No. 1.12 – Cash Flows of Ghagra Sugar Mills Ltd.

Particulars	Cash Inflow (in crores)	Cash Outflow (in crores)
(A) Cash flows from operating activities		
Net Profit before tax and exceptional items	96.91	--
Adjustments for :		
Depreciation	159.68	--
Provision for diminution in the value of non-trade investment	00.20	--
Loss on sale of fixed assets	00.10	--
Finance charges	02.08	--
Interest expenses	86.03	--
Interest and dividend income	--	20.66
	345.00	20.66
Operating Profit before working Capital changes (345.00 – 20.66)	324.34	--
Adjustment for –		
Trade and other receivables (net)	352.82	--
Inventories	--	17.21
Trade and other payables	138.61	--
	815.77	17.21
Cash generated from operation	798.56	--
Income Tax Paid	--	17.28
Net Cash from / (used) operating activities	798.56	17.28
(798.56–17.28)	781.28	--

(B) Cash Flow from Investing activities		
Purchase of fixed assets	--	84.88
Sale of fixed assets	2.53	--
Purchase of trade long term investment	--	--
Purchase of non-trade long term investment	--	5.15
Purchase of non-trade current investment	--	1091.30
Sale of non-trade current investment	1091.30	--
Loan an advances to subsidiary co.	--	3.01
Interest received	14.01	--
Dividend received	01.79	--
	1109.63	1184.34
Cash Flow from Investing Activities before exceptional item (1109.63 – 1184.34)	--	74.71
Exceptional items	--	8.65
Net Cash from/ used in Investing Activities		66.06
(C) Cash Flow from Financing Activities		
Proceeds from borrowings	4689.45	--
Repayment of borrowings	--	5165.13
Finance charges	--	2.08
Changes in working capital borrowings	--	111.80
Dividend paid	--	19.91
Corporate dividend tax paid	--	3.39
Interest paid	--	86.38
	4689.45	5388.69
Net cash from/ used in financing activities		699.24
(5388.69 – 4689.45)	--	699.24
Net increase / decrease in cash and cash equivalent (A – B+ C)	15.98	--
Cash and cash equivalents as at opening cash and cheques in hand and balance with banks	31.49	--
	47.47	--
Cash and cash equivalents as at closing	--	--
Cash and cheques in hand and balance with banks	--	--
and cheques in hand and balance with banks	--	--

Source: Annual Report of D.S.C.L. (2009-10)

(5) CONCLUSIONS:

Sugar Industry is a capital intensive industry. Sugar production takes place in six month in a year. At the

time of sugar production cash is needed at large scale and after production cash is needed at small scale. To balance this position and to maintain optimum cash every time cash management is needed. For this purpose sugar mill determines working capital and prepare cash budget for a year and use the concentration banking technique of cash management. Baumal cash management model and Millor-Orr model of cash management are not used in Bajaj Hindustan Ltd. B.H.L. is a profit making company so it has surplus fund. This surplus fund is invested by the company in shares of subsidiary companies, mutual funds and Government securities for short and long term on the basis of risk, return and liquidity.

The Cash flows of Bajaj Hindustan Ltd. (2009-10) shows that the Net Cash which is used in operating activities in 2009-10 is 614.07 Crores and Net Cash which has been used in investing activities is 348.64 Crores and Rs. 1323.35 Crores earned by the company in 2009-10 from financing activities. The net inflow of company or increases in cash is [1323.35 - (348.64+614.07)] Rs. 360.64 Crores.

The Cash flows of Balrampur chini mills Ltd. shows that the Company has the Net Cash from operating activities is 416.75 crores and company has use Rs. 23.14 in investing activities and Rs. 498.70 crores in financing activities.

The Cash flows of Govind Sugar mills Ltd. show that the GSML is getting Rs. 77.85 crores from operating activities and the company use Rs. 13.12 crores in financing activities in the year 2009-10. GSML the net cash balance Rs. 65.23 crores in the year 2009-10. The Cash flows of D.S.C.L. show that D.S.C.L. is getting Rs. 781.28 crores from operating activities and use Rs. 66.06 crores for investing activities and amount Rs. 699.24 crores for financing activities. The company D.S.C.L. has amount Rs. 47.47 crores cash balance with banks in the year 2009-10.

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