



Impact of Cash Management in Abirami Soap Works LLP

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ABSTRACT

The study entitled "IMPACT OF CASH MANAGEMENT IN ABIRAMI SOAP WORKS LLP". The method used by corporations to gather, manage, and use funds for (short-term) investing is known as cash flow management. It is crucial to ensuring the financial security and solvency of a business. Cash is the most important resource for every business because it is essential for them to be able to pay for the goods and services they need. To put it simply, a company needs to be financially viable in order to run its day-to-day operations. This means that they must always have cash on hand or at least have access to it. A business has a two-way flow of cash. It continues to come and go from business. Cash management is one of the most useful instruments for maintaining and managing the cash, which is the king of business because the inflow and outflow of cash never coincide. Various cash management approaches that are already in use can be used to manage cash successfully. working of many cash management strategies, including cash flow synchronisation, accelerating collection, regulating payments, projecting cash flow, and others. The basic goal of cash management is to ensure that there should be enough cash available when the need arises, not too much but never too little. This is an important feature of cash management that is particular to it.

I. INTRODUCTION

Cash is the important current asset for the operations of the business. Cash is the basic input needed to keep the business running on a continuous basis; it is also the ultimate output expected to be realized by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more nor less. Cash shortage will disrupt the firm's manufacturing operations while excessive cash will simply remain idle, without contributing anything towards the firm's profitability. Thus, a major function of the financial manager is to maintain a sound cash position. Cash

management is one of the key areas of working capital management. Apart from the fact that it is the most liquid current asset, cash is the common denominator to which all current assets can be reduced because the other major liquid assets, i.e. receivables and inventory get eventually converted into cash. This underlines the significance of cash management.

Cash is the money which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the firm, and balances in its bank accounts. Sometimes near-cash items, such as marketable securities or bank time's deposits, are also included in cash. The basic characteristic of near-cash assets is that they can readily be converted into cash. Generally, when a firm has excess cash, it invests it in marketable securities. This kind of investment contributes some profit to the firm.

MOTIVES FOR HOLDING CASH

The following three motives:

- The transactions motive
- The precautionary motive
- The speculative motive

TRANSACTION MOTIVE

The transactions motive requires a firm to hold cash to conduct its business in the ordinary course. The firm needs cash primarily to make payments for purchases, wages and salaries, other operating expenses, taxes, dividends etc. The need to hold cash would not arise if there were perfect synchronization between cash receipts and cash payments, i.e., enough cash is received when the payment has to be made. But cash receipts and payments are not perfectly synchronized. For those periods, when cash payments exceed cash receipts, the firm should maintain some cash balance to be able to make required payments. For transactions purpose, a firm may invest its cash in marketable securities. Usually, the firm will purchase securities whose maturity corresponds with some anticipated



payments, such as dividends or taxes in the future. Notice that the transactions motive mainly refers to holding cash to meet anticipated payments whose timing is not perfectly matched with cash receipts.

- **PRECAUTIONARY MOTIVE**

The precautionary motive is the need to hold cash to meet contingencies in the future. It provides a cushion or buffer to withstand some unexpected emergency. The precautionary amount of cash depends upon the predictability of cash flows. If cash flows can be predicted with accuracy, less cash will be maintained for an emergency. The amount of precautionary cash is also influenced by the firm's ability to borrow at short notice when the need arises. Stronger the ability of the firm to borrow at short notice, less the need for precautionary balance. The precautionary balance may be kept in cash and marketable securities. Marketable securities play an important role here. The amount of cash set aside for precautionary reasons is not expected to earn anything; the firm should attempt to earn some profit on it. Such funds should be invested in high-liquid and low-risk marketable securities. Precautionary balances should, thus, be held more in marketable securities and relatively less in cash.

- **SPECULATIVE MOTIVE**

The speculative motive relates to the holding of cash for investing in profit-making opportunity to make profit may arise when the security prices change. The firm will hold cash, when it is expected that interest rates will rise and security prices will fall. Securities can be purchased when the interest rate is expected to fall; the firm will benefit by the subsequent fall in interest rates and increase in security prices. The firm may also speculate on materials prices. If it is expected that materials prices will fall, the firm can postpone materials purchasing and make purchases in future when price actually falls. Some firms may hold cash for speculative purposes. By and large, business firms do not engage in speculations. Thus, the primary motives to hold cash and marketable securities are: the transactions and the precautionary motives.

INDUSTRY PROFILE

Fast-moving consumer goods (FMCG) are also termed as consumer-packaged goods (CPG). The word FMCG itself has a clear definition of this product. These commodities are readily available for purchase, and their costs are also rather modest.

Non-durable goods including soft drinks, fast food, processed meals, prescription medications, cosmetics, and a wide range of other consumable goods can serve as ideal examples. The things that should be utilized in less than three years are included in the category of non-durable goods, according to further explanation. FMCG has a relatively short shelf life as a result of this particular feature, which may be due to its high demand or may be due to its non-durable nature.

The fourth-largest industry in India is fast-moving consumer goods (FMCG), and it has been growing steadily over time as a result of increased disposable income, a growing young population, and growing consumer brand awareness. In India, household and personal care products account for 50% of FMCG sales, making this sector a significant contribution to the country's GDP.

II. REVIEW OF LITERATURE

Jenis Cormier (2015)¹⁴² mentioned that the finance manager may use the received funds management to voluntary receive funds forecasting. Put on document of the range of earning management guarantee with Canadian Initial Public Offerings (IPOs) and study the scope to which firms with best corporate control systems are less likely to use achieving funds management to obtain their achieving funds estimates forecasting IPOs prospectus.

Bin Du et al (2016)¹⁴³ found out that again meet the role of the cash and accrual component of accounting earning in predicting future cash flow and using out of sample predictions. The researcher understands on average accruals improve upon current cash flow from operations in predicting future cash flow. This paper clears that positive accruals are more likely to improve upon current cash flow in prediction future cash flow.

In this paper the researcher has found out the continuity development of business management depend on good adequate cash flow but not the best profit. Accrual cash flow prediction can measure adequate liquidity. The paper centralization on cash flow of company in short time and in this paper, researcher clears that MELLRAL network method has better prediction effect than ARIMA method. However, after short term abnormal data adjustment the prediction effect has shown some improvement and he can take as a result large amount of cash flow data have relatively within a company for prediction.

Farzin Rezaei, and Zahra Safari (2016)¹⁴⁴ reported determining the effective factors on market value of equity can help shareholders to make an appropriate decision and allocate economic



resources efficiently. Profitability of companies is one of the most important criteria for investors to assess companies, but relying on net profit regardless of its constituent items will lead to loss of important and effective information on decision making and therefore making improper decisions. The present study was carried out in order to investigate and compare the explanatory power of different components of profit including operating cash flow OCF, current accruals, and non-current accruals and free cash flow, as well as to help explain the behaviour of abnormal accruals in Tehran Stock Exchange. The results indicate that information content of cash components of earnings is higher than other components of earnings and also findings of the research show that division of profit into two components of operating cash flow and accruals relative to other profit combinations has a higher explanatory value.

III. RESEARCH METHODOLOGY

The systematic process of gathering and evaluating information (data) for the purpose of bettering our comprehension of a phenomena is known as research. The framework or strategy for a study, known as a research design, serves as a manual for gathering and examining the data. In order to complete the study, the blueprint is followed. Without a suitable research design, the primary goal of the study cannot be met. It outlines the techniques and steps for gathering the data required to successfully complete the research. What information has to be gathered, from what sources, and how is determined by the project's overall operating structure.

RESEARCH DESIGN

The research approach used for the study is descriptive. The form of the study is on the cash management in general and specific to the financial position.

SOURCES DATA COLLECTION

PRIMARY DATA

Primary data is **information collected directly from first-hand experience**. This is the information that you gather for the purpose of a particular research project. Primary data collection is a direct approach that is tailored to specific company needs.

SECONDARY DATA

The study is period for the annual reports and statement of accounts extended from the year 2017-2018 to 2021-2022.

DATA ANALYSIS TECHNIQUES

During the course of research for the researcher for analysis and interpretation of data is given below has applied various tools.

- Cash flow statement analysis
- Ratio analysis.
- Trend analysis

LIMITATIONS OF THE STUDY

- It was difficult getting time and access to senior level Finance/HR managers (who had to be talked to, to get required information) due to their busy schedules and prior commitments.

A few of the managers refrained from giving the required information as he considered me to be from their confidential domains

CURRENT RATIO

| YEAR | CURRENT ASSETS | CURRENT LIABILITIES | RATIO |
|-----------|----------------|---------------------|-------|
| 2017-2018 | 7277.32 | 4,098.48 | 1.78 |
| 2018-2019 | 9085.26 | 5,169.25 | 1.76 |
| 2019-2020 | 9534.83 | 5,243.88 | 1.82 |
| 2020-2021 | 12,501.00 | 7,193.00 | 1.74 |
| 2021-2022 | 16379 | 9559 | 1.71 |

Interpretation:

The above graph in shows that current ratio is 1.78 in year 2017-2018, in year 2018-2019 it is 1.76, in year 2019-2020 it is increased to 1.82, in year 2020-2021 it is reduced to 1.74, in year 2021-2022 it is

decrease to 1.71. The standards norm for this ratio is 2:1. From the above table the current ratio for the year 2017- 2018 is normally 1.78 and 2021 -2022 it was 1.71. It is not good position.



QUICK RATIO

| YEAR | CURRENT ASSETS | CURRENT LIABILITIES | STOCK | RATIO |
|-----------|----------------|---------------------|-----------|-------|
| 2017-2018 | 7277.32 | 4,098.48 | 5,749.20 | .37 |
| 2018-2019 | 9085.26 | 5,169.25 | 6,719.18 | .46 |
| 2019-2020 | 9534.83 | 5,243.88 | 7,740.62 | .34 |
| 2020-2021 | 12,501.00 | 7,193.00 | 7,984.00 | .63 |
| 2021-2022 | 16379 | 9559 | 12,787.00 | .38 |

Interpretation:

The above graph in shows that quick ratio is 0.37 in year 2017-2018, in year 2018-2019 it is 0.46, in year 2019-2020 it is decrease to 0.34, in year 2020-2021 it is increased to 0.63, in year 2021-2022 it is

decrease to 0.38. The standard norms for the quick ratio are 1:1. From the above table the quick ratio for the year 2017 – 2018 are not in satisfactory position and 2021 - 2022 it was 0.38:1. This level is not satisfactory level.

DEBT EQUITY RATIO

| YEAR | DEBT | EQUITY | RATIO |
|-----------|---------|---------|-------|
| 2017-2018 | 4202.42 | 5193.99 | .81 |
| 2018-2019 | 5288.1 | 6181.72 | .86 |
| 2019-2020 | 6363.09 | 6824.08 | .93 |
| 2020-2021 | 8307 | 7553 | 1.1 |
| 2021-2022 | 10584 | 9373 | 1.13 |

Interpretation:

The above graph in shows that debt equity ratio is 0.81 in year 2017-2018, in year 2018-2019 it is 0.86, in year 2019-2020 it is increased to 0.93, in year

2020-2021 it is increased to 1.10, in year 2021-2022 it is 1.13. It implies that company working capital is not weak in financial policy.

INVENTORY TURNOVER RATIO

| YEAR | COST OF SALES | AVERAGE INVENTORY | RATIO |
|-----------|---------------|-------------------|-------|
| 2017-2018 | 14,045.69 | 5749.20 | 2.44 |
| 2018-2019 | 17,251.10 | 6719.18 | 2.57 |
| 2019-2020 | 18,051.08 | 7740.62 | 2.33 |
| 2020-2021 | 19,413.00 | 7984 | 2.43 |
| 2021-2022 | 24,473.00 | 12787 | 1.91 |

Interpretation

Inventory turnover ratio represent operational efficiency of the contend. From the above graph, it shows in the year 2018 the ratio is 2.44 times. But in year 2019, the ratio is 2.57; it is a good inventory

management. In the year 2020, the ratio is 2.33 but compare to the year 2019 it is reduced. In the year 2021 the ratio is raised to 2.43. But compared to last 4 year in 2022 the ratio decreased to 1.91.

FIXED ASSET TURNOVER RATIO

| YEAR | NET SALES | FIXED ASSET | RATIO |
|-----------|-----------|-------------|-------|
| 2017-2018 | 15,707.70 | 2119.09 | 7.41 |
| 2018-2019 | 19,248.47 | 2,384.56 | 8.07 |
| 2019-2020 | 20,156.05 | 3,653.12 | 5.52 |



| | | | |
|-----------|-----------|------|------|
| 2020-2021 | 20,783.00 | 3359 | 6.19 |
| 2021-2022 | 27,456.00 | 3758 | 7.31 |

Interpretation : The ideal ratio is 7 or 8 times. Fixed Assets Turnover Ratio is higher than the

standard. This indicates a better utilization of fixed assets in generating sales.

WORKING CAPITAL TURNOVER RATIO

| YEAR | NET SALES | WORKING CAPITAL | RATIO |
|-----------|-----------|-----------------|-------|
| 2017-2018 | 15,707.70 | 3178.84 | 4.94 |
| 2018-2019 | 19,248.47 | 3916.01 | 4.92 |
| 2019-2020 | 20,156.05 | 4290.95 | 4.70 |
| 2020-2021 | 20,783.00 | 5308 | 3.92 |
| 2021-2022 | 27,456.00 | 6820 | 4.03 |

Interpretation

From the above graph, the working capital turnover ratio in the year 2022 is 4.03. A very high turnover of working capital is 3.92 to 4.94. Under this concept it is not effective one. Because the ideal ratio is 7 or 8 times. Higher the ratio the better is the utilization of working capital.

IV. FINDINGS

- The Current ratio of the company in 2017-2018 was 1.78. During the last five years the highest current ration is 1.82 on 2019- 2020. But in Abirami soap works the current ratio is not ficient manner. So, the short-term solvency position of the company is not good position.
- The Quick ratio of the company in 2017-2018 was .37. During the last five years the highest current ration is .63 on 2020- 2021. The Abirami soap works limited quick ratio is below standard norms. So, the financial soundness of Abirami soap works Limited is not effective one.
- The company does not utilize the inventory in proper manner. The company should concentrate on sales.
- The Debt Equity ratio of the company in 2017-2018 was .81. Then debt equity ratio gradually increases to 1.13 on 2021-2022. The ratio for the current year is satisfactory.
- The Fixed asset turnover ratio in 2017-2018 was 7.41. Then it starts to increases and it start to decrease in 2019-2020. The ratio for the current year is satisfactory.

- The working capital turnover ratio was 4.94 in 2017-2018. But it gradually decreases form 4.94 to 4.03 in 2021-2022. The ratio for the current year is not satisfactory.

V. SUGGESTION

- Abirami soap works may try to reduce its level of inventories to a reasonable level. It will create liquidity position and also the increase in profitability of the concern.
- The company may try to improve its working capital position through long term sources. It will create free flow of funds. So that the cash management and the company performance will be in a good position.
- The company should provide more credit facilities to the customers. It will create good sales and also to yield a good profit.
- The company should concentrate on local sales over sales by export. It will improve the sales and profitability of the concern.
- The current ratio below 2:1. In case of inadequacy, arrangement can be made for improving the working capital position. It will create good result.
- The company can try to utilize the fixed assets in efficient manner. It will create a higher productivity and also create profit.
- The company can increase their advertisement it can increase the sales and adding more distribution network



VI. CONCLUSION

From the critical analysis depicted through out of the study. It is evident that the overall cash management of the company with regard to profitability is satisfactory but still, the company can maximize through stringent measures which will enhances the operating of the company. So, the company management has to take several steps in order to improve the profitability. The soap is the one of the basic needs of human beings. The company should adopt to the changing environment and use more advertising to attract the customer. So, the sales of the company will be increased which leads to increase in the profitability of the Abirami soap works. The company's foresighted future plans, on successful execution can bring farther growth and results which is expected. As there are more competition in the FMCG sectors, people are also having more options to choose from. This has also made shopping of FMCG more fun and has helped to make the life of people easier.

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