



A STUDY ON CASH MANAGEMENT OF MERITT VENTURES PRIVATE LIMITED

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ABSTRACT

The efficiency of cash management, cash holding is the most important financial decisions that the manager of the organization, has to make in the organization. It is observed that organization hold cash for future purposes. If the organization invested cash in profitable securities then there is some flexibility but when it relates to the holding cash is not advantageous. Generally two contradictory theories such as Trade-off theory and the Pecking order theory are considered for the efficiency of cash management. We generally observed the efficiency of Cash Management influenced by Cash Holding. We measured cash holding of the organization is affected with the degree of financial leverage, investment and profitability.. Proper holding of cash can prevent the bankruptcy of any organization and also increases the efficiency of Cash management.

Keywords: Cash management, Cash holdings, Equivalent of Cash.

1.Introduction

Cash management is essential to business that meet up with its short-term financial obligations. Cash management is concerned with the efficient management of cash to achieve an optimum level of cash in the working capital. Cash represents the basic necessary to start and keep business running. A company maintain sufficient cash to keep its business running smoothly. Cash shortage disrupts the operation and can lead to insolvency. Excessive cash will tie unnecessarily capital with a result that return on capital employed low. A firm thus need to maintain large cash position. The importance of cash flow is particularly pertinent access to cash is expensive. The real economy slips into recession, businesses face the risk of customers running into financial difficulty and unable to pay invoices. It can lead to scarcity of cash from non-operational sources. For manufacturing operations to run effectively, optimum cash management techniques must adopted as cash shortage disrupt the firm's manufacturing operation, while excessive cash simply remain idle, without contributing anything in terms of return towards the firm's profitability. Today, companies are operating in competitive business world. Which enhance competitive advantage, limited under

competitive conditions. Use of efficient Cash management as a tool by financial manager who make financing and investment decisions behalf of stockholders create a significant impact on competitive advantage firm value.

This research aims at examining impact of firm growth, Conversion Cycle, Cash Holding, and Firm Size on duo performance variables measurement of Return on Assets and Return on Equity. The study aims at cash management problems faced by service firms and with a view of proffering solutions that assist in resuscitating the sector towards economic development. This research attempts to fill this gap by studying the situation, providing empirical evidence on the cash management on the performance of service industries.

1.1 Objectives of the study

1. To examine cash management techniques applicable by Meritt Ventures Pvt. Ltd
2. To examine the association between cash management and firm performance.
3. To determine the influence cash flow used in financing activities.

1.2 Scope of the study

To know a systematic way of handling cash inflows and outflows resulting from business operations. Understanding the basic concepts of cash management to plan for the unforeseen eventualities that nearly every business faces.

1.3 Limitation of the Study

1. This study is based on the date contained in published financial statement.
2. Average cash holding as percentage of total assets is considered.
3. More companies can be selected from but for simplicity, lack of time and unavailability of data it is not possible to select all companies for general comment.

2 Review of Literature

Bhutto, Abbas, Rehman and Shah, (2011)¹ conducted an investigation on the relationship between cash conversion cycle with firm size, working capital approaches and firm's profitability in Pakistan. Secondary data collected from the financial statements of non-financial companies comprising on 12 industrial groups listed on the Stock Exchange. The result revealed cash conversion cycle has negative relationship with sales revenue and financing policies of the firms has positive relationship with total assets, return on assets. Cash management is measured by cash conversion cycle (CCC) calculated by the number of days between actual cash expenditures on purchase of raw materials and actual cash receipts from the sale of products.

Abbasi and Bosra (2012)² investigated the effect of the cash conversion cycle components on the operational gross profit to assets ratio in Tehran. Data for the study were obtained from one hundred and twelve annual reports of firms listed in the stock exchange for the period. The result demonstrated the cash conversion cycle components, the net cash conversion cycle and the number of days inventory holding did not have significant effect.

Njeru, Njeru, Member & Tirimba ,(2015)³ defined Cash management as a financial discipline that adopts the same principles, regardless of the type of business, size or age of an enterprise. Cash management focus on building a cash flow by forecasting receipts and payments establish the lines to funding with banks and managing operations of business to minimize the amount of cash required to achieve business growth. Business firms maintained large cash reserves and liquidity positions within investment portfolios in effort to accommodate unforeseen expenditures.

Drexler, Fischer and Schoar, (2014)⁴ observed that both individuals and business owners are usually with difficult financial decisions in many aspects of life, be it in their personal finances or as business owners.

Kasim, Mutula & Antwi,(2015)⁵ observed cash management practices on the financial performance of and thus there is need for finance managers to embrace efficient cash management practices as a strategy to improve their financial performance of uncertain business environment.

Charitou, Elfani& Lois,(2010)⁶ observed that efficient utilization of the firm's resources, through working capital management, entails managers finding effective and efficient ways to deal with the available cash for the day –to-day operations.

Nyabwanga, Ojera, Lumumba, Odondo & Otieno, (2012)⁷ efficient cash management involves by considering the trade-off between the opportunity costs of holding too much and trading cost of holding too little. Cash management principles states that finance managers should accelerate cash inflow and delay cash out flow. Once cash inflows are accelerated, the cost of cash management and collection will most likely reduce while profitability will be enhanced. WF

Malik, Waseem and Kifayat (2011)⁸ carried out an investigation on working capital management and profitability in the textile industry of Pakistan. This was based on secondary data collected from listed firms in stock exchange. This study revealed that there is a relationship existed between profitability and cash, accounts receivable and, inventory while there a negative relationship between profitability.

Ebben and Johnson (2011)⁹investigated the relationship between cash conversion cycle and levels of liquidity, invested capital, and performance in small firms over time.. Firms with more efficient cash conversion cycles equity financing, and had higher returns. The results also indicated the managing cash conversion cycle. It also highlighted the significance of cash conversion cycle as a management tool.

Farris, Hutchison and Hasty (2011)¹⁰ made a study on cash to cash metric. This study presented an overview of cash and its calculation, comparisons between product and service industries. The study revealed that cash-to-cash knowledge helped the service industries to improve their cash position and overall value.

3 Research Methodology

3.1 Research Design

A descriptive research design is used for variety of research methods to investigate variables. It is a popular tool that allows us to collect and describe the demographic segment's nature.

3.2 Source of the data

This study is based on Secondary Data. Secondary Data that have been already collected by and readily available from other sources. Such data are cheaper and obtainable than the primary data and also may be available when primary data cannot be obtained at all.

3.3 Tools used

Cash Management Techniques

- Profitability Ratio Method
- Common Size Statement
- Trend Analysis
- Break Even Sales Method

4. Data Analysis

Data Analysis is the process of applying statistical or logical techniques to describe illustrate, condense and recap and evaluate data. It makes studying data more accurate. It helps the researchers straightforwardly interpret the data so that researchers don't leave anything and could help them derive insights from it.

TABLE NO.1
GROSS PROFIT RATIO

Source:
Secondary
Data

INTERPR
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YEAR	GROSS PROFIT	NET SALES	RATIO
2016-17	4013.14	4195.94	95.64
2017-18	4013.14	4575.08	87.71
2018-19	3265.22	4603.49	70.92
2019-20	2339.66	3646.63	64.15
2020-21	2265.22	2589.74	87.46

The

above table shows that the Gross Profit Ratio. In the year 2016-17 it was 95.64. In the year 2017-18 it was increased to 87.71 and the next year it was decrease to 70.92. In the year 2019-20 it was again decreased to 64.15. For the year 2020-21 it was 87.46

TABLE NO.2
NET PROFIT RATIO

YEAR	NET PROFIT	NET SALES	RATIO
2016-17	80.63	4195.94	1.93
2017-18	77.53	4575.08	1.69
2018-19	474.72	4603.49	10.31
2019-20	-488.67	3646.63	-13.4
2020-21	-292.42	2589.74	-11.29

Source: Secondary Data

INTERPRETATION

The above table shows that the Net Profit Ratio. In the year 2016-17 it was 1.93. In the year 2017-18 it was slowly decreased to 1.69 and the next year it was increased to 10.31. In the year 2019-20 it was again decreased to -13.4. For the year 2020-21 it was slowly decreased to -11.29.

TABLE NO.3
OPERATING PROFIT RATIO

YEAR	GROSS PROFIT- OPERATING EXPENSES	NET SALES	RATIO
2016-17	3894.31	4195.94	92.8
2017-18	4068.83	4575.08	88.9
2018-19	3144.53	4603.49	68.3
2019-20	2509.87	3646.63	68.8
2020-21	4524.45	4603.49	98.2

Source: Secondary Data

INTERPRETATION

The above table shows that the Operating Profit Ratio. In the year 2016-17 it was 92.8. In the year 2017-18 it was slowly decreased to 88.9. In the next year it was again decreased to 68.3. In the year 2019-20 it was slightly increased to 68.8. For the year 2020-21 it was highly increased to 98.2

TABLE NO.4
RETURN ON INVESTEMENT

YEAR	NET PROFIT BEFORE INTEREST & TAXES	CAPITAL EMPLOYED	RATIO
2016-17	111.97	5599.84	1.99
2017-18	-2536	5149.2	-49.26
2018-19	-40.97	4222.66	-0.97
2019-20	-842.72	3767.12	-22.37
2020-21	173.28	3309.1	5.23

Source: Secondary Data

INTERPRETATION

The above table shows that the Return on Investment ratio. In the year of 2016-17 it was 1.99, in the year of 2017-18 was decreased to -49.26 and then decrease of 2018-19 to -0.97. In the year 2019-20 it was again decreased -22.37 and for the last year it increased to 5.23.

TABLE NO.5
RETURN ON TOTAL ASSETS

YEAR	NET INCOME	TOTAL ASSETS	RATIO
2016-17	4458.14	11203.98	39.79
2017-18	4826.08	11266.23	42.83
2018-19	4726.62	10578.40	44.63
2019-20	3676.14	10896.44	33.73
2020-21	2642.38	10769.91	24.53

Source: Secondary Data

INTERPRETATION

The above table shows that the Return on Total Assets ratio. In the year of 2016-17 it was shown as 39.79, in the year of 2017-18 was increased to 42.83 and then it again increased to 44.63. In the next year of 2019-20 it decreased to 33.73. For the last year it again decreased to 24.53.

TABLE NO.6
COMMON SIZE STATEMENT

Particulars	2017		2018		2019		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Liabilities										
I.Shareholders fund										
Share capital	151.31	1.4	151.31	1.35	151.31	1.43	101.55	1.20	101.08	1.18
Reserves	460.55	4.3	1027.43	9.15	1202.32	11.4	2,673.39	31.63	2,588.90	30.40
Total(A)	611.86	5.7	1179	11	1354	12.8	2774.95	32.83	2689.90	31.59
II.Non-Current liability (B)	2,697.24	25	2588	23	2869.03	27.12	2,374.26	28.09	2,909.86	34.18
Currentliabilities(C)	7460.81	69.3	7461	67	6355.74	60.07	6,077.03	71.90	5,604.14	65.82
Total (A+B+C)	10,769.91	100	11228	100	10579	100	8451.29	100	8514	100
Assets										
Fixed Assets(A)	482.03	6.05	523.88	9	587.15	8.12	758.32	11.29	782.65	11.34
Current Assets(B)	7488.66	93.9	5021.4	91	6,645.83	91.8	5,955.72	88.71	6,114.01	88.6
Total (A+B)	7971	100	5545	100	7232.98	100	6714.04	100	6896.66	100

Source: Secondary Data

INTERPRETATION

From the above statement the share capital amount for three years are same, but last two years are different. While calculating the percentage of share capital over the sources of funds it will differ from year to year. It is applicable for all the items in the balance sheet. According to this, in the year of 2013 the percentage of reserve and surplus is high, and the loan funds come down in negative effect.

In case of application of funds there are no huge changes in the additional investment. And the current assets are decreased in every year.

TABLE NO.7
TREND ANALYSIS

RAW MATERIALS			PROFIT BEFORE TAX		PROFIT AFTER TAX	
YEAR	AMOUNT Rs. In Lakhs	TREND %	AMOUNT Rs. In Lakhs	TREND %	AMOUNT Rs. In Lakhs	TREND %
2016-17	1824.55	100	299.62	100	292.42	100
2017-18	2635.36	144.43	465.09	155.22	-488.67	-167.11
2018-19	3500.13	132.81	588.99	126.64	474.72	-97.14
2019-20	3381.46	96.60	643.88	109.31	77.53	16.33
2020-21	2926.29	86.53	753.63	117.04	80.63	103.99

Source: Secondary Data

INTERPRETATION

In the years, 2017, 2018 and 2019 trend values were highly satisfactory and However during 2020 it was normal and by 2021 trend analysis has been lowed and unsatisfactory. The decreasing trend percentage is reassuring.

TABLE NO.8

BREAK EVEN ANALYSIS

YEAR	FIXED COST	TOTAL CONTRIBUTION	TOTAL SALES	BREAK EVEN SALES
2016-17	2642.38	2290.12	2589.74	2988.08
2017-18	3676.14	3181.54	3646.63	4213.53
2018-19	4721.62	4014.50	4603.49	5414.35
2019-20	4826.08	3931.20	4575.08	5616.52
2020-21	4458.14	3442.31	4195.94	5434.16

Source: Secondary Data

INTERPRETATION

The above table shows the breakeven sales for five years i.e. 2017-21. The breakeven level means there are no profit and no loss. If the firm's sale goes above the breakeven level, it shows that the firm earns more profit and vice versa. Here the breakeven sales for four years shows increase from the year 2021.

2021 is the favorable period for the firm. Because the breakeven sales high in that year to compare with others at 5616.52. The firm got more profit due to more sales. If the firm sales go above this limit, it makes chance to more profit. From the year 2017-21, there are no big changes in their breakeven sales.

FINDINGS

The above table shows that the Gross Profit Ratio. In the year 2016-17 it was 95.64. In the year 2017-18 it was increased to 87.71 and the next year it was decrease to 70.92. In the year 2019-20 it was again decreased to 64.15. For the year 2020-21 it was 87.46. The above table shows that the Net Profit Ratio. In the year 2016-17 it was 1.93. In the year 2017-18 it was slowly decreased to 1.69 and the next year it was increased to 10.31. In the year 2019-20 it was again decreased to -13.4. For the year 2020-21 it was slowly

decreased to -11.29. The above table shows that the Operating Profit Ratio. In the year 2016-17 it was 92.8. In the year 2017-18 it was slowly decreased to 88.9. In the next year it was again decreased to 68.3. In the year 2019-20 it was slightly increased to 68.8. For the year 2020-21 it was highly increased to 98.2. The above table shows that the Return on Investment ratio. In the year of 2016-17 it was 1.99, in the year of 2017-18 was decreased to -49.26 and then decrease of 2018-19 to -0.97. In the year 2019-20 it was again decreased -22.37 and for the last year it increased to 5.23. In the years, 2017, 2018 and 2019 trend values were highly satisfactory and However during 2020 it was normal and by 2021 trend analysis has been lowed and unsatisfactory. The decreasing trend percentage is reassuring. 2021 is the favorable period for the firm. Because the breakeven sales high in that year to compare with others at 5616.52. The firm got more profit due to more sales. If the firm sales go above this limit, it makes chance to more profit. From the year 2017-21, there are no big changes in their breakeven sales.

CONCLUSION

This study examines the effects of cash management on profitability of construction company. The results reveal a positive and significant relationship between cash conversion cycle and profitability when return on equity is used as a proxy for profitability. Furthermore, the study revealed a non-significant negative relationship between cash conversion cycle and profitability when return on assets is used as a proxy for profitability. To form such information flows, accounting must expand its accounting and analytical functions in the business management system, by synthesis with the processes of planning and budgeting. This is possible because in well managed, planned and budgeted cash institutions, expensive and irregular borrowings could be avoided, idle cash minimize and the available cash is being used to extend low risk, short-term loans to qualified borrowers with sure, timely and prompt repayments history. The resulting effect will be that profitability will increase as bad and unpaid loans that are cash trapped will be unnecessarily avoided.

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