Cash Management in Textile Industry - A Comparative Study in Arvind Mills Ltd. and Raymond Ltd.

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Abstract: ***When it comes to creating and sustaining a company's financial stability, cash management is a key component. Since "cash" is the primary asset used to pay obligations (whether you're an individual or a company), it must be managed accordingly to maximize earnings. This impacts future growth for the company. Maintaining cash balances while earning a return on idle cash are also top concern. Most of the time, cash management can be integrated with your company's online banking. That way, you and your business administrators have access to funds all day, every single day. If you fully integrate your business with online banking, it will provide you with greater control of your cash flows and accessibility. This is typically customizable, as each business is different and might require a different suite of cash management options and services.***

Keywords: Cash Ratios, Current Ratios, Quick Ratios

1. Introduction

Cash management is concerned with minimizing unproductive cash balances, investing temporarily excess cash advantageously, and making the best possible arrangements for meeting planned and unexpected demands on the firm's cash. Cash Management must aim to reduce the required level of cash but minimize the risk of being unable to discharge claims against the company as they arise. All these aims and motives of cash management largely depend upon the efficient and effective functioning of cash management.

2. Need of the Study

Cash is one of the current assets of a business. It is needed at all times to keep the business going. A business concern should always keep sufficient cash for meeting its obligations. Any shortage of cash will hamper the operations of concern and any excess of it will be unproductive. Cash is the most unproductive of all the assets. While fixed assets like machinery, plant, etc. And current assets such as inventory will help the business in increasing its earning capacity, cash in hand will not add anything to the concern. It is in this context the cash management has assumed much importance.

3. Objectives of the Study

The main objective of the study is to analyze cash management in the textile industry. It includes;

1) To study the components of cash ratios in select companies
2) To analyze current ratios in select companies and
3) To evaluate the quick ratios of select companies.

3.1 Research Methodology

The study is based on secondary data. The secondary data was collected include the following: earlier studies/reports on selected textile units, annual reports of the selected undertakings, textbooks, journals, periodicals, daily newspapers, websites, etc., The data collected on inventory management in the textile industry processed, tabulated and analyzed in a systematic manner with the help of various statistical techniques such as percentages, averages, ratios, and such other relative measures.

Selection of sample

To carry out my research, I have selected two established textile manufacturing companies located in two states viz., Gujarat and Maharashtra State;

1) Arvind Mills Ltd: It is situated at located in Ahmadabad City Ahmedabad taluk, Ahmedabad district, Gujarat state.
2) Raymond Ltd.: It is located in Mumbai, Maharashtra.

3.2 Analysis of Cash Ratios of Arvind Mills Ltd and Raymond Ltd.

To study the liquidity position of both Arvind Mills Ltd and Raymond Ltd. the cash ratios are calculated and presented in Tables-5.3 and 5.4 the Cash ratio is the ratio of a company's cash and cash equivalents assets to its current liabilities. The cash ratio is an indicator of a company's short-term liquidity. It measures the ability to use its cash and cash equivalents to pay its current financial commitments. The cash ratio is a refinement of the quick ratio and indicates the extent to which readily available funds can pay off current liabilities. Potential creditors use this ratio as a measure of a company's liquidity and how easily it can service debt and cover short-term liabilities.

Generally, a cash ratio should stand at 1.00 and above to pay all its current liabilities in an immediate short-term period.

Therefore, creditors usually prefer a high cash ratio. But businesses usually do not plan to keep their cash and cash equivalent at level with their current liabilities because they can use a portion of idle cash to invest in marketable securities to generate profits. This means that a normal value of cash ratio is somewhere below 1.00. Against this backdrop, there is a need to analyze the cash ratios of select companies. The cash ratios of Arvind Mills Ltd. during the study period of ten years i. e. from 2011-12 to 2020-21 are presented in Table 1

Table 1: Cash Ratios of Arvind Mills Ltd Rs. in Crores

Financial Years	Cash & Cash Equivalents	Current Liabilities	Cash Ratios
2011-12	40.85	2, 513.22	0.02
2012-13	161.39	2, 934.20	0.06
2013-14	122.81	3, 318.75	0.04
2014-15	45.88	3, 722.30	0.01
2015-16	38.21	3, 979.40	0.01
2016-17	20.93	3, 991.38	0.01
2017-18	39.46	5, 104.81	0.01
2018-19	70.62	3, 407.51	0.02
2019-20	50.24	3, 074.97	0.02
2020-21	27.12	2, 596.25	0.01

Source: Annual Reports of **Arvind Mills Ltd.** from 2011-12 to 2020-21

In this company the cash ratio represented in almost all the financial years of the study period below the rule of thumb i. e.0.5: 1 thus indicating the poor liquidity position of the company. During the study period, the cash ratio of Arvind Mills Ltd ranges from 0.01 to 0.06. It indicates that Arvind Mills Ltd needs to take proper measures in maintaining established norms to maintain its liquidity position.

The Cash Ratios of Raymond Ltd. during the study period of ten years i. e. from 2011-12 to 2020-21 are presented in Table 2.

Table 2: Cash Ratios of Raymond Ltd.
Rs. in Crores

Financial Years	Cash & Cash Equivalents	Current Liabilities	Cash Ratios
2011-12	28.87	1, 624.05	0.02
2012-13	17.31	1, 841.18	0.01
2013-14	48.59	1, 649.06	0.03
2014-15	36.50	1, 930.87	0.02
2015-16	33.91	2, 140.45	0.02
2016-17	37.65	2, 805.69	0.01
2017-18	26.79	3, 444.43	0.01
2018-19	19.84	4, 133.67	0.01
2019-20	132.47	4, 274.79	0.03
2020-21	232.32	2, 969.10	0.08

Source: Annual Reports of Raymond Ltd. from 2011-12 to 2020-21

In this company the cash ratios represented in almost all the financial years of the study period far below the rule of thumb i. e.0.5: 1. Thus it is indicating the poor liquidity position of the company. During the ten years of the study, the cash ratios were ranging from 0.01 to 0.08. The analysis of data mentioned above clearly indicates that Arvind Mills Ltd is better in presenting cash ratios compared to that of Raymond Ltd. On inquiry it is found that due to rise in operating expenses like wages, carriage inward the cash balances are subjected to reduced very minimum levels to meet its short-term commitments becoming very hard.

3.3 Analysis of Current Ratios of Arvind Mills Ltd & Raymond Ltd

Current Ratio may be defined as the relationship between current assets and current liabilities. This ratio is also known as the working capital ratio is a measure of general liquidity and is most widely used to analyze a short-term financial position or liquidity of a business entity.

The current ratios of Arvind Mills Ltd during the study period of ten years i. e. from 2011-12 to 2020-21 are presented in Table 3.

Table 3: Cash Ratios of Arvind Mills Ltd Rs. in Crores

Financial Years	Current Assets	Current Liabilities	Current Ratio
2011-12	2, 296.76	2, 513.22	0.91
2012-13	2, 884.50	2, 934.20	0.98
2013-14	3, 642.49	3, 318.75	1.10
2014-15	3, 991.38	3, 722.30	1.07
2015-16	4, 308.30	3, 979.40	1.08
2016-17	4, 083.71	3, 991.38	1.02
2017-18	5, 539.40	5, 104.81	1.09
2018-19	3, 401.37	3, 407.51	1.00
2019-20	2, 947.21	3, 074.97	0.96
2020-21	2, 813.87	2, 596.25	1.08

Source: Annual Reports of Arvind Mills Ltd from 2011-12 to 2020-21

As a convention, the minimum of two to one ratio is referred to as a banker's rule of thumb or arbitrary standard of liquidity for a firm. The idea of having double current assets as compared to current liabilities is to prove for delays and losses in the realization of current assets. About Arvind Mills Ltd except in 2013-14 in other years of the study period the current ratios were 1.1 to less than 1 thus indicating poor liquidity position and reduced ability to pay its current obligations on time as and when they become due. Many a time the company could not pay the creditors on time thereby there was a little negative impact on its creditworthiness.

The Current Ratios of Raymond Ltd during the study period of ten years i.e. from 2011-12 to 2020-21 are presented in Table 4

Table 4: Current Ratios of Raymond Ltd.
Rs. in Crores

Financial Years	Current Assets	Current Liabilities	Current Ratio
2011-12	2, 169.87	1, 624.05	1.34
2012-13	2, 297.22	1, 841.18	1.25
2013-14	2, 597.67	1, 649.06	1.58
2014-15	2, 707.32	1, 930.87	1.40
2015-16	2, 996.80	2, 140.45	1.40
2016-17	2, 961.62	2, 805.69	1.06
2017-18	3, 432.10	3, 444.43	1.00
2018-19	4, 017.91	4, 133.67	0.97
2019-20	4, 406.80	4, 274.79	1.03
2020-21	3, 736.34	2, 969.10	1.26

Source: Annual Reports of Raymond Ltd. from 2011-12 to 2020-21

The current ratios in Raymond Ltd during the study period were not reached standards where the ratio was 2: 1. The very poor current ratio was depicted where the current assets position was just 0.97 in 2018-19 compared to that of current liabilities. Though the company is producing international standard textile to stay in the highly competitive market its liquidity position was just average in meeting its contingent liabilities on time.

3.4 Analysis of Quick Ratios of Arvind Mills Ltd. & Raymond Ltd.

Quick Ratio, also known as Acid Test or Liquid Ratio, is a more rigorous test of liquidity than the current ratio. The term liquidity refers to the ability of a firm to pay its short-term obligations as and when they become due. The Quick Ratios of Arvind Mills Ltd. during the study period of ten years i. e. from 2011-12 to 2020-21 are presented in Table 5.

Table 5: Quick Ratios of Arvind Mills Ltd
Rs. in Crores

Financial Years	Quick Assets	Current Liabilities	Quick Ratios
2011-12	713.05	2, 513.22	0.28
2012-13	940.23	2, 934.20	0.32
2013-14	1, 175.64	3, 318.75	0.35
2014-15	1, 249.13	3, 722.30	0.34
2015-16	1, 482.33	3, 979.40	0.37
2016-17	867.77	3, 991.38	0.22
2017-18	1, 832.47	5, 104.81	0.36
2018-19	977.69	3, 407.51	0.29
2019-20	1, 131.75	3, 074.97	0.37
2020-21	1, 143.23	2, 596.25	0.44

Source: Annual Reports of Arvind Mills Ltd. from 2011-12 to 2020-21

As a rule of thumb or as a convention quick ratio of 1: 1 is considered satisfactory. It is generally thought that if quick assets are equal to current liabilities then the concern may be able to meet its short-term obligations on time. Concerning Arvind Mills Ltd. Entire Study period Not reach the conventional ratio standard to 1: 1 and the ratios were not near to one in almost all the years of the study period showing the company's liquidity position shows adversely. The Quick Ratios of Raymond Ltd during the study period of ten years i. e. from 2011-12 to 2020-21 are presented in Table 6.

Table 6: Quick Ratios of Raymond Ltd.

Financial Years	Quick Assets	Current Liabilities	Quick Ratios
2011-12	670.47	1, 624.05	0.41
2012-13	776.53	1, 841.18	0.42
2013-14	930.89	1, 649.06	0.56
2014-15	1, 053.14	1, 930.87	0.55
2015-16	1, 139.93	2, 140.45	0.53
2016-17	1, 120.36	2, 805.69	0.40
2017-18	1, 172.70	3, 444.43	0.34
2018-19	1, 385.57	4, 133.67	0.34
2019-20	1, 487.13	4, 274.79	0.35
2020-21	1, 510.16	2, 969.10	0.51

Source: Annual Reports of Raymond Ltd. from 2011-12 to 2020-21

The liquidity position of Raymond Ltd. in all years of study period presenting ratios at less than. During the latest year of the study i. e.2017-18 and its immediately preceding year, the proportion of quick assets to that of current liabilities were only 34%. This poor state of condition is reducing its ability to meet short-term obligations thereby affecting its creditworthiness adversely.

4. Findings of the Study

1) The company Arvind Mills Ltd. is adopting the policy of investing temporary cash surplus in short-term investments and thereby avoiding bank overdrafts and cash credits to meet the cash requirements of the company. In this company the cash ratio represented in almost all the financial years of the study period below the rule of thumb i. e.0.5: 1 thus indicating the poor liquidity position of the company. During the study period, the cash ratio of Arvind Mills Ltd ranges from 0.01 to 0.06. It indicates that Arvind Mills Ltd needs to take proper measures in maintaining established norms to maintain its liquidity position.

2) In Raymond Ltd.'s entire period of the study, the cash ratios were ranging from 0.01 to 0.08. The analysis of data mentioned above clearly indicates that Arvind Mills Ltd is better at presenting cash ratios compared to Raymond Ltd.

3) On inquiry it is found that due to rise in operating expenses like wages, carriage inward the cash balances are subjected to reduced very minimum levels to meet its short-term commitments becoming very hard.

4) About Arvind Mills Ltd except in 2013-14 in other years of the study period the current ratios were 1.1 to less than 1 thus indicating poor liquidity position and reduced ability to pay its current obligations on time as and when they become due. Many a time the company could not pay the creditors on time thereby there was a little negative impact on its creditworthiness.

5) The current ratios in Raymond Ltd during the study period were not reached standards where the ratio was 2: 1. The very poor current ratio was depicted where the current assets position was just 0.97 in 2018-19 compared to that of current liabilities. Though the company is producing international standard textile to stay in the highly competitive market its liquidity position was just average in meeting its contingent liabilities on time.

6) Concerning Arvind Mills Ltd. Entire Study period Not reach the conventional ratio standard to 1: 1 and the ratios were not near to one in almost all the years of study period showing the company's liquidity position shows adversely. The liquidity position of Raymond Ltd**.** in all years of study period presenting ratios at less than. During the latest year of the study i. e.2017-18 and its immediately preceding year, the proportion of quick assets to that of current liabilities were only 34%. This poor state of condition is reducing its ability to meet short-term obligations thereby affecting its creditworthiness adversely.

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