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Research Article

Analysis of Working Capital Management of Chamundeshwari Sugar Limited, Mandya, Karnataka

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Abstract: This paper studies working capital management practices at Sri Chamundeswari Sugars Limited, a sugar company headquartered in Karnataka, India. Analysis is based on recent financial statements for fiscal years 2022-23 and 2023-24. Efficiency of components of working capital such as inventories, receivables, payables and cash conversion cycles is evaluated and their effect on profitability is considered in light of a highly regulated industry facing big structural challenges. Results show that the company has greatly improved its net working capital position by reducing deficit from ₹172.167 crore to ₹177.921 crore. However, interest coverage ratio remains very low at 1.08 and operating profit margins have fallen from 1.60% to 0.97%. Persistent mismatch between price received for sugarcane (FRP) and minimum support price (MSP) of sugar at ₹31/kg since 2019 is identified as the main cause of stress on working capital. Despite generating strong operating cash flow of ₹882.522 crore in FY 2023-24, high leverage (Debt to Equity ratio of 2.57) and rising input costs continue to limit profitability. This research contributes empirical evidence on working capital management in sugar processing and offers policy recommendations including revision of MSP to ₹36 to 40 per kg and realigning ethanol prices to ensure sustainability of this sector and safeguard livelihoods of farmers.

Keywords: Working Capital Management, Sugar Industry, Liquidity, Profitability, Misalignment of Cost and Price.

INTRODUCTION

1.1 Background

Working Capital Management is a vital function in corporate finance management. It affects a company's ability to meet short term obligations and influence the operation efficiency and profit level of the organization. In addition to this, in terms of the volatile market conditions which affect the raw materials required by the manufacturers, especially those in the agro-processing industry such as sugar producers; efficient working capital management is key.

Sri Chamundeswari Sugars Ltd. is situated in Bengaluru and runs all of its operations in Mandya district of Karnataka. It is one of the leading players in the State's Sugar Industry. Founded in 1970, the company produces sugar employing approximately 677 employees as of December 2024. With over 80 operational sugar mills located throughout the country, Karnataka ranks as the third largest sugar producing state of India. Therefore, many lives are dependent upon the financial stability of its sugar mills in order to help millions of sugarcane farmers.

Sugar production in Karnataka is under immense financial strain due to stagnation in sugar prices compared to increasing production costs such as labor, transportation, chemical usage, and maintenance. At present, Karnataka's sugar industry is at a crossroads. To date, sugar mills in the State have failed to begin their operations for the 2025/26 crushing season. Furthermore, industry representatives have stated that the Minimum Selling Price (MSP) for sugar has remained stagnant at

Rs. 3100/quintal since 2019 whereas the Fair and Remunerative Price (FRP) for sugarcane has substantially increased from Rs. 305/quintal during 2022-23 to Rs. 355/quintal for 2025-26 — a combined increase of Rs. 50/quintal (16.39%). These increases in costs versus revenue will create a serious financial constraint for all mills in the State.

Additionally, regulation creates obstacles to overcome. Although the Central Government has progressively increased FRP to support farmer well-being — setting it at Rs. 355/quintal for 2025-26 and thereby providing a margin of greater than 105 percent over production cost — State policies have been criticized for exacerbating the crisis. The State Government's policies include issues related to delayed PPA renewal applications, power tariffs rises, and new taxes on commercial vehicle operators. As a result, operational costs for both mills and farmers have increased.

1.2 Importance of Research

There are several ways this research is significant. First, this research will provide empirical evidence concerning how working capital management impacts profitability within the context of sugar manufacturing and contribute to the limited research on Agro Processing Industries in India. Previous research has analyzed working capital efficiency within other industrial contexts but because of the unique regulations and operations of the sugar industry; specific research into this area is warranted.

Secondly, this research provides practical insights to financial managers of sugar factories about optimizing their respective working capital components. Lessons can be learned from Sri Chamundeshwari Sugars' recent financial history including its successful deleveraging strategy and improved Operating Cash Flow Generation.

Lastly, there are policy implications from this research for regulators and organizations involved with maintaining long-term viability of sugar companies. The research identifies an immediate requirement for policy intervention including revising Minimum Selling Prices for sugar; realigning Ethanol pricing; and improving policy predictability — to resolve the systemic cost-price imbalance affecting both mill survival and farmer livelihoods.

BACKGROUND OF THEORY

The purpose of working capital management is to manage the present assets and liabilities so as to achieve both maximum profitability and liquidity to support day-to-day business. Working capital in excess of what is needed to operate creates a lower level of risk; however, there will be an opportunity cost associated with this lower level of risk because less money will have been made. Conversely, too much emphasis on working capital increases profitability; however, this approach also increases the risk of insolvency.

2.2 WORKING CAPITAL MANAGEMENT COMPONENTS

In addition to raw materials (sugarcane), a producer of sugar products holds inventory such as in process (juice, molasses) and finished products (sugar) as well as by-products (bagasse). An effective inventory management system allows a manufacturer to minimize their holding costs while maintaining their productive capabilities.

Receivable Management:

- Trade credit affects the cash flow of wholesalers/distributors. Cash conversion cycles affect receivable days. Payable Management:
- Delays in payment to supplier (for example, sugarcane growers, or transportation companies) can conserve cash, but may damage relationships with those suppliers, and result in late fees.
- Optimal cash levels need to be maintained to meet operational requirements. Surplus cash should be invested to generate returns.

2.3 BACKGROUND OF SUGAR INDUSTRY

Regulatory environment of the sugar sector is highly restrictive by virtue of Government regulations related to minimum selling price, FRP (Fair Remunerative Price) for sugarcane and Ethanol Blending Obligation. Studies conducted recently have shown that the sugar mills in Karnataka State are experiencing severe financial constraints with many delaying commencement of crushing operation primarily due to concerns regarding timely payment of sugarcane dues to farmers. Reduced margins between production costs and sale price has further worsened financial condition of sugar mills resulting in them facing difficulties in meeting their obligation of repaying their debts and paying to farmers.

METHODOLOGY

3.1 OBJECTIVES

1. To analyze working capital management of Sri Chamundeswari Sugars Limited.
2. To determine the relative efficiency of working capital using ratios.
3. To study effect of working capital on profitability.

4. To identify causes of inefficiencies in working capital management.

3.2 DATA SOURCE

The secondary data collected from the 2022-23 to 2023-24 Annual Reports of Sri Chamundeswari Sugars Limited and financial data provided through Moneycontrol and Economic Times databases were used in the analysis. Financial information was derived from the audited financial statement included within each year's annual report.

ANALYSIS FRAMEWORK

- Following ratios were determined and analyzed:
- Liquidity Ratios:
- Ratio of Current Assets to Current Liabilities = Current Ratio
- Quick Ratio = (Current Assets - Inventory) / Current Liabilities

Efficiency Ratios:

- Inventory Turnover Ratio = Cost Goods Sold/Average Inventory
- Debtors Turnover Ratio = Net Credit Sales / Average Trade Receivables
- Creditors Turnover Ratio = Net Credit Purchases / Average Trade Payables
- Working Capital Turnover Ratio = Sales/Net Working Capital
- Days required to Complete Cash Conversion Cycle = Days Required to Sell Inventory + Days Required to Collect Receivables - Days Required to Pay Suppliers

Profit Ratios:

- Net Profit Margin = Net Profit/Sales X 100
- Return on Asset = Net Profit / Total Asset X 100
- Return on Equity = Net Profit / Shareholder’s Equity X 100

4.1 Financial Performance Overview (2023-2024)

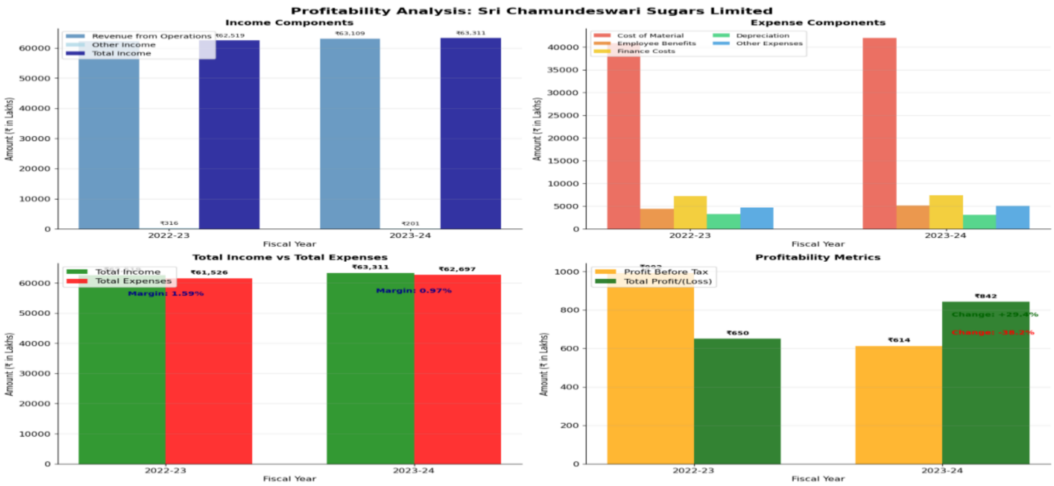
The financial statements reveal a company in transition, showing modest profitability improvement while facing significant working capital pressures.

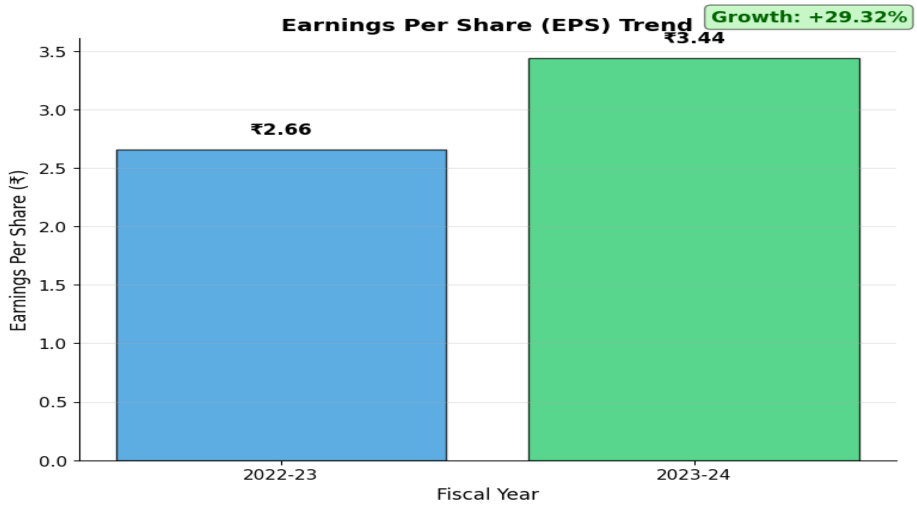
Table 1: Profitability Summary (₹ in Lakhs)

Particulars	FY 2022-23	FY 2023-24	Change (%)
Revenue from Operations	62,202.73	63,109.28	+1.46%
Other Income	315.93	201.32	-36.28%
Total Income	62,518.66	63,310.60	+1.27%
Cost of Material Consumed	40,800.22	41,996.63	+2.93%
Employee Benefit Expenses	4,460.01	5,123.65	+14.88%
Finance Costs	7,224.95	7,410.32	+2.57%
Depreciation & Amortization	3,221.53	3,078.98	-4.43%
Other Expenses	4,688.30	5,103.96	+8.87%
Total Expenses	61,526.26	62,696.93	+1.90%
Profit Before Tax	992.40	613.67	-38.16%
Total Profit/(Loss) for the Period	650.50	841.76	+29.40%

Particulars	FY 2022-23	FY 2023-24	Change (%)
EPS - Basic (₹)	2.66	3.44	+29.32%

Source: Compiled from annual financial statements





Financial Performance Review:

The financial results show an overall mix of trends. There was a slight improvement in gross margin, as Marginal Revenue rose to ₹63,109.28 lakhs (a 1.46% rise over previous year's ₹62,202.73 lakhs). However there was a significantly greater rise in Total Expenses of 1.9%. As such, PBT declined by 38.16% to ₹613.67 lakhs from ₹992.40 lakhs. Nonetheless, with the addition of Deferred Tax of ₹228.09 lakhs, TFP for the period increased by 29.40% to ₹841.76 lakhs (up from ₹650.50 lakhs).

This shows that although Operating Income declined, the Company implemented effective tax planning strategies that helped to improve the Bottom Line. In terms of EPS, Basic EPS has risen from ₹2.66 to ₹3.44 showing that Net Income improved.

Material Cost rose by 2.93% to ₹41,996.63 lakhs and represented 66.54% of the Company's total revenue. Sugarcane prices are a major driver of material cost and the FRP (Fair and Remunerative Prices) policies drive these costs; therefore the

Company is highly exposed to changes in sugarcane pricing.

Employee Benefits Expenses were up 14.88% to ₹5,123.65 lakhs and represent the largest percentage increase in expenses. Rising Labour Costs in the Sugar Industry are being experienced across the sector.

As is typical for many companies in the Sugar Sector Finance Charges remained high at ₹7,410.32 lakhs or 11.74% of revenue. The high finance charges highlight the need for ongoing debt funding to meet working capital needs.

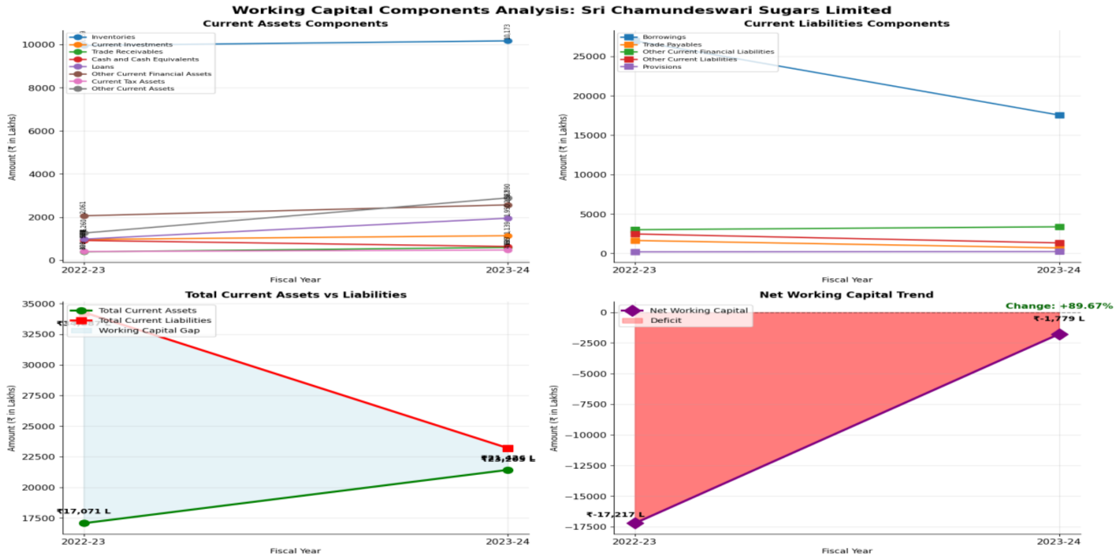
4.2 Working Capital Position Analysis

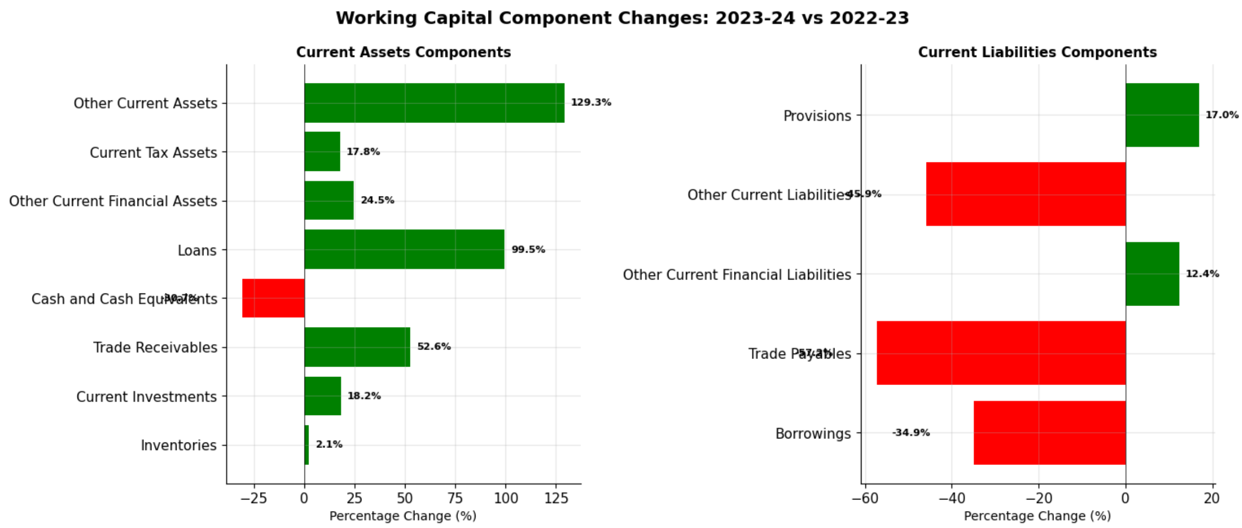
Table 2: Working Capital Components (₹ in Lakhs)

Particulars	31-Mar-23	31-Mar-24	Change (%)
Current Assets			
Inventories	9,958.85	10,172.82	+2.15%
Current Investments	963.90	1,138.90	+18.15%
Trade Receivables, Current	390.17	595.46	+52.62%
Cash and Cash Equivalents	918.91	636.79	-30.70%
Loans, Current	977.50	1,949.89	+99.48%
Other Current Financial Assets	2,061.00	2,566.75	+24.54%
Current Tax Assets	403.36	475.21	+17.81%
Other Current Assets	1,260.37	2,889.86	+129.29%
Total Current Assets	17,070.51	21,425.69	+25.52%
Current Liabilities			
Borrowings, Current	26,969.31	17,553.25	-34.91%
Trade Payables, Current	1,640.98	701.82	-57.23%
Other Current Financial Liabilities	3,008.24	3,380.12	+12.36%
Other Current Liabilities	2,467.23	1,334.02	-45.93%

Particulars	31-Mar-23	31-Mar-24	Change (%)
Provisions, Current	201.45	235.69	+17.00%
Total Current Liabilities	34,287.21	23,204.90	-32.32%
Net Working Capital	(17,216.70)	(1,779.21)	+89.67%

Source: Compiled from balance sheet data





Interpretation of Working Capital Position

There is an impressive turnaround in working capital. Net Working Capital Deficit fell by 89.67% as it went from negative ₹17,216.70 lakh to negative ₹1,779.21 lakhs.

1. Strategic Debt Reduction: Borrowings at the present time have come down by 34.91 % i.e. from ₹26,969.31 lakhs to ₹17,553.25 lakhs due to a clear cut de-leveraging policy adopted by the company
2. Improved Payables Management: Trade payables fell by 57.23% (i.e. from ₹1,640.98 lakhs to ₹701.82lakhs) which signifies better payment discipline to creditors (including cane growers).
3. Current Assets Expanded: Total current assets have increased by 25.52% mainly on account of expansion in Loans (99.48%) Other Current Assets (129.29%) and Trade Receivable (52.62%).

However, the very large increase in Trade Receivable (i.e. ₹390.17 lakhs to ₹595.46lakhs with an increase of 52.62%) with revenue growth being only 1.46%, indicates that there has been decline in collection efficiency. Thus, the Company could be providing more liberal credit terms to its customers or experiencing difficulty in collecting money from them.

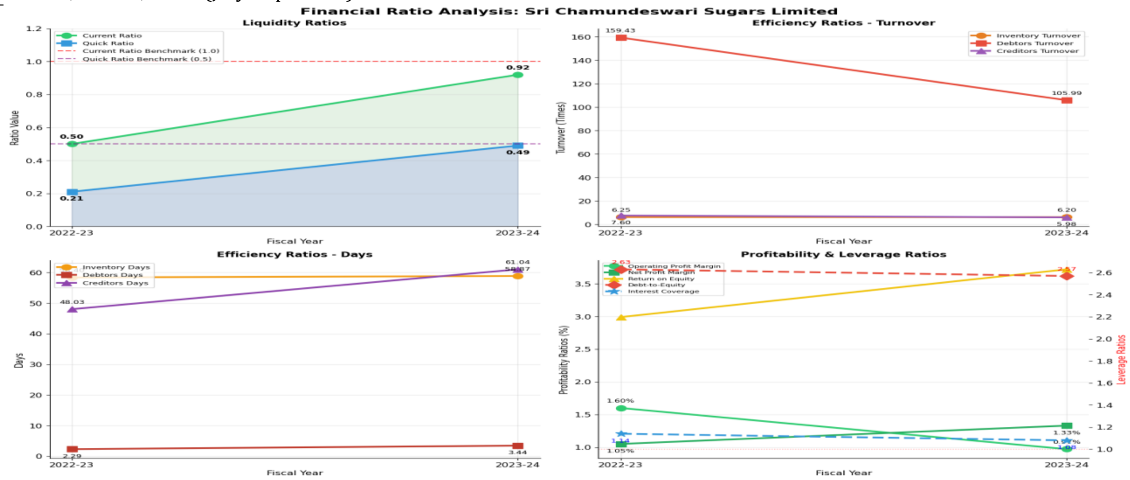
Cash and Cash Equivalent decreased by 30.70% (i.e. from ₹918.91 lakhs to ₹636.79lakhs) clearly indicating that cash was used for reducing debts and meeting the requirements of working capital.

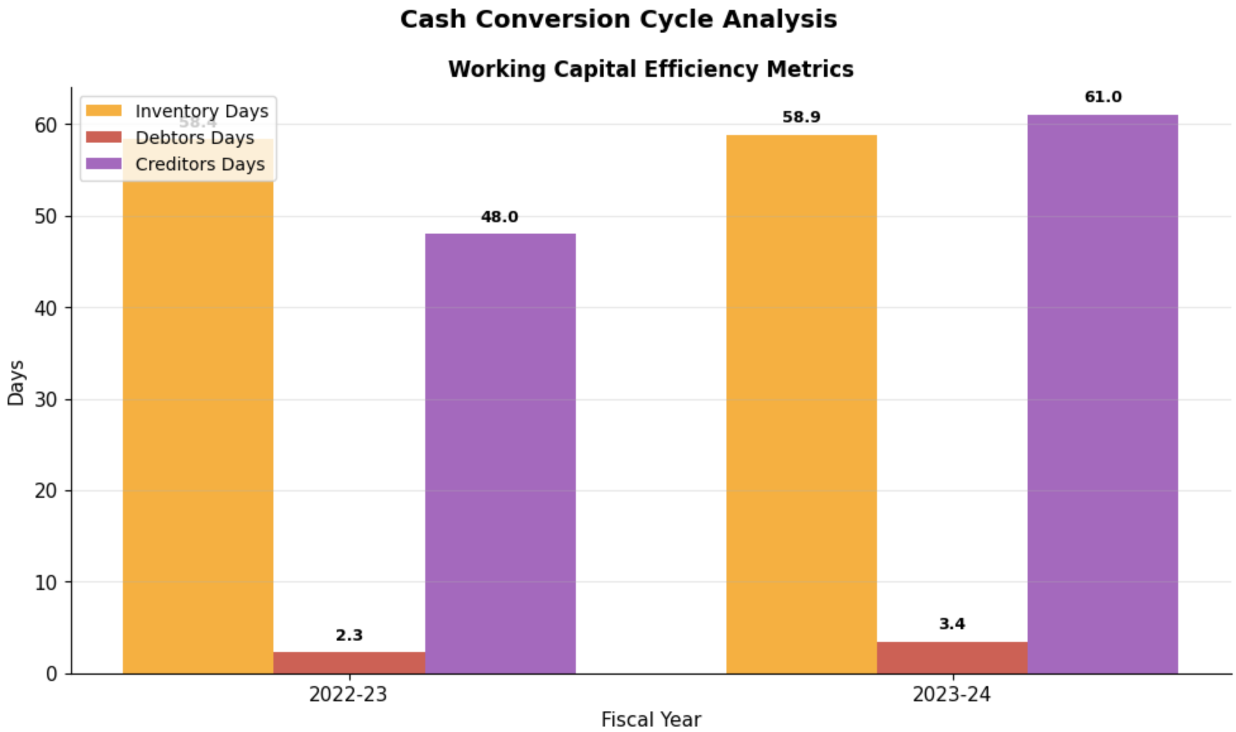
4.3 Ratio Analysis

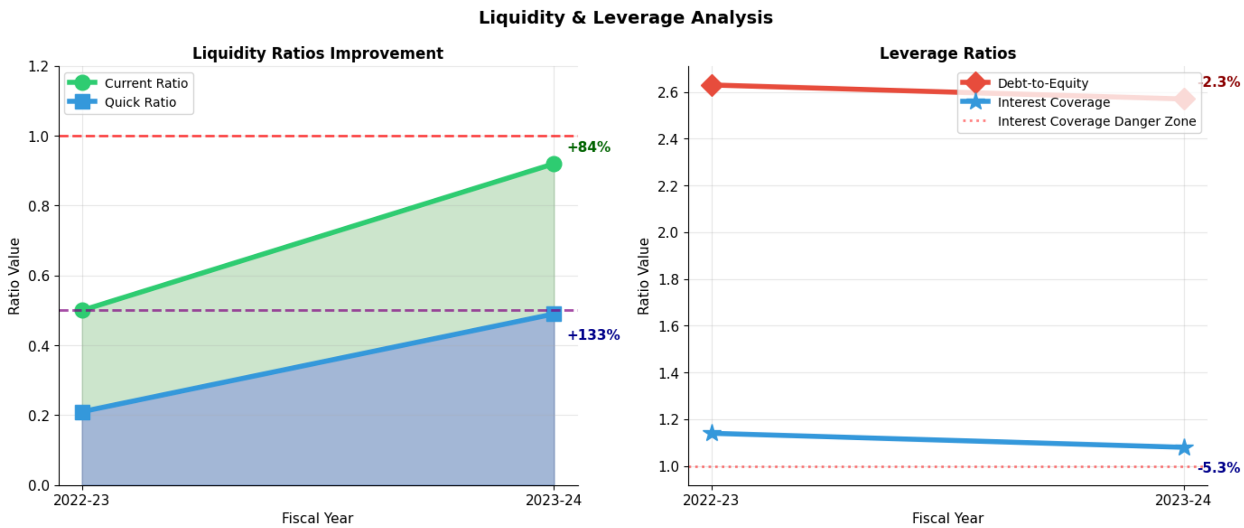
Table 3: Key Financial Ratios

Ratio	FY 2022-23	FY 2023-24	Interpretation
Liquidity Ratios			
Current Ratio	0.50	0.92	Still below 1, but significantly improved
Quick Ratio	0.21	0.49	Improved but remains low
Efficiency Ratios			
Inventory Turnover (times)	6.25	6.20	Stable, slightly declined
Inventory Days	58.40	58.87	Stable
Debtors Turnover (times)	159.43	105.99	Significant deterioration
Debtors Days	2.29	3.44	Collection period increased
Creditors Turnover (times)	7.60	5.98	Slower payment cycle
Creditors Days	48.03	61.04	Payment period extended
Working Capital Turnover	N/A	N/A	Negative NWC makes ratio not applicable
Profitability Ratios			
Operating Profit Margin (%)	1.60	0.97	Declined
Net Profit Margin (%)	1.05	1.33	Improved due to tax benefits
Return on Equity (%)	2.99	3.72	Improved
Leverage Ratios			
Debt-to-Equity Ratio	2.63	2.57	High but slightly improved
Interest Coverage Ratio	1.14	1.08	Precariously low

Source: Computed from financial statements


Financial Ratio Analysis: Sri Chamundeswari Sugars Limited
Liquidity Ratios
Current Ratio
Quick Ratio
Current Ratio Benchmark (1.0)
Quick Ratio Benchmark (0.5)
Ratio Value
Fiscal Year
0.50
0.92
0.21
0.49
Efficiency Ratios - Turnover
Inventory Turnover
Debtors Turnover
Creditors Turnover
Turnover (Times)
159.43
105.99
Efficiency Ratios - Days
Inventory Days
Debtors Days
Creditors Days
Days
48.03
61.04
2.29
3.44
Profitability & Leverage Ratios
Operating Profit Margin
Net Profit Margin
Return on Equity
Debt-to-Equity
Interest Coverage
Profitability Ratios (%)
Leverage Ratios
1.60%
1.05%
1.33%


Cash Conversion Cycle Analysis
Working Capital Efficiency Metrics
Inventory Days
Debtors Days
Creditors Days
Days
58.4
2.3
48.0
58.9
3.4
61.0
2022-23
2023-24
Fiscal Year


Liquidity & Leverage Analysis
Liquidity Ratios Improvement
Current Ratio
Quick Ratio
+84%
+133%
Ratio Value
Fiscal Year
Leverage Ratios
Debt-to-Equity
Interest Coverage
Interest Coverage Danger Zone
-2.3%
-5.3%
Ratio Value
Fiscal Year
2022-23
2023-24

Interpretation:

Liquidity:

Although the current ratio has improved from .50 to .92 it remains well below an acceptable standard of 2.0 indicating the possibility of short term cash flow issues. Although both ratios have improved from .21 to .49 respectively, they remain below acceptable standards of 1.0 and 1.0 respectively. Therefore there is possible difficulty in meeting short term obligations without liquidating inventory.

Efficiency metrics:

Turnover of inventory was relatively constant at 6.2 turns, which equates to approximately 59 days of inventory on hand. Therefore turnover of inventory has been maintained consistently by management.

Decrease in debtor turnover (159.43 to 105.99), represents a 33.5 % decrease in collection efficiency. In addition, the number of days required to collect accounts receivable has increased from 2.29 days to 3.44 days. Although this increase in collection time is still relatively small, the trend indicates a need to improve collections as sales channels become diversified.

Decrease in creditor turnover (7.60 to 5.98), reflects an increase in average payment days from 48 days to 61 days. It can be expected that extended payment cycles will place pressure upon supplier relationships; especially with sugar cane farmers whose timely receipt of payment is critical to their ability to maintain their operations.

Profitability ratios:

Decline in operating profit margin (from 1.60% to 0.97%) reflects the negative impact that increases in raw materials cost had on the operational efficiency of the company. An improvement in net profit margin (from 1.05% to 1.33%), however, is attributed to deferral of taxes. Therefore, although the core operation is experiencing reduced profitability, improvements in tax management are helping to mitigate those losses.

Leverage:

A marginal reduction in debt/equity (from 2.63 to 2.57) indicates a slight de-leverage. A comparison of total debt (Rs. 58,213.96 lk) to equity (Rs. 22,599.48 lk) shows that the company is still heavily indebted.

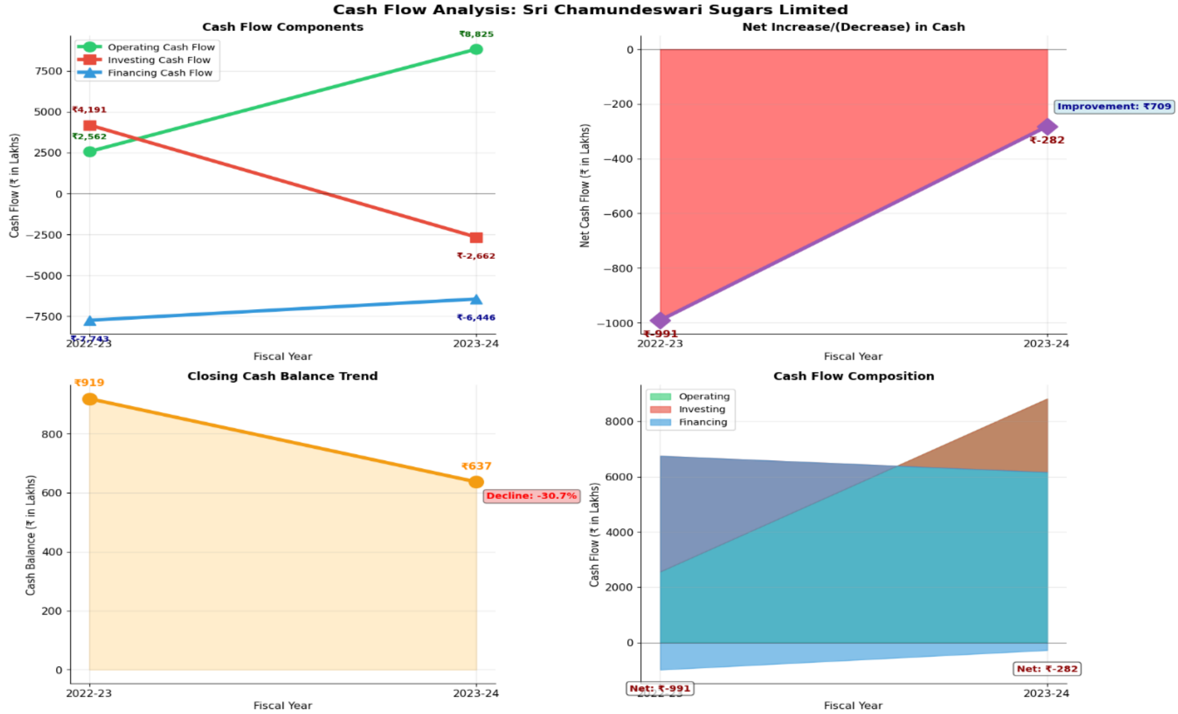
Decline in Interest coverage (from 1.14 to 1.08) is a major concern because it indicates that earnings before interest and taxes are just enough to meet interest expenses and therefore does not provide any cushion for financial shocks or other unforeseen events.

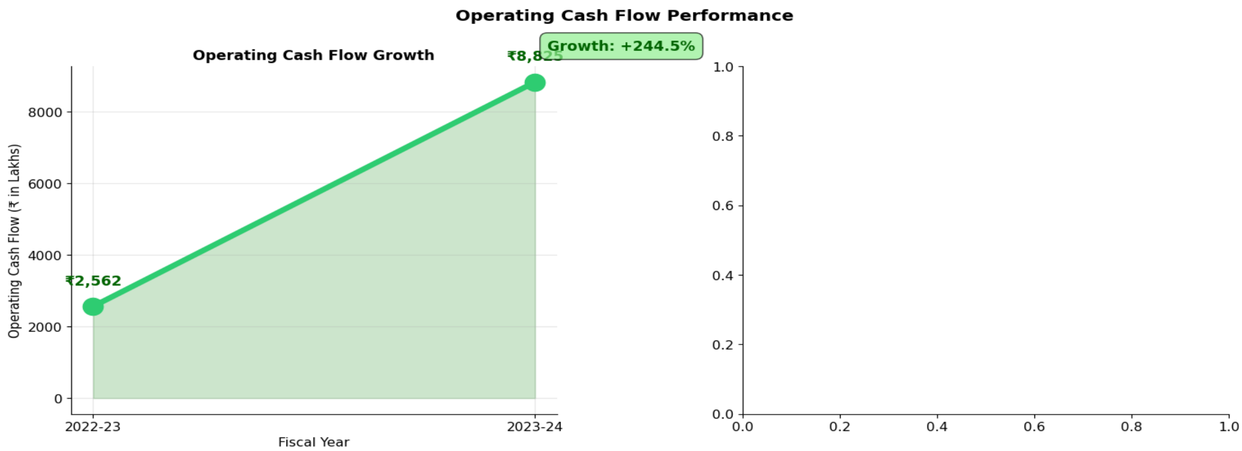
4.4 Cash Flow Analysis

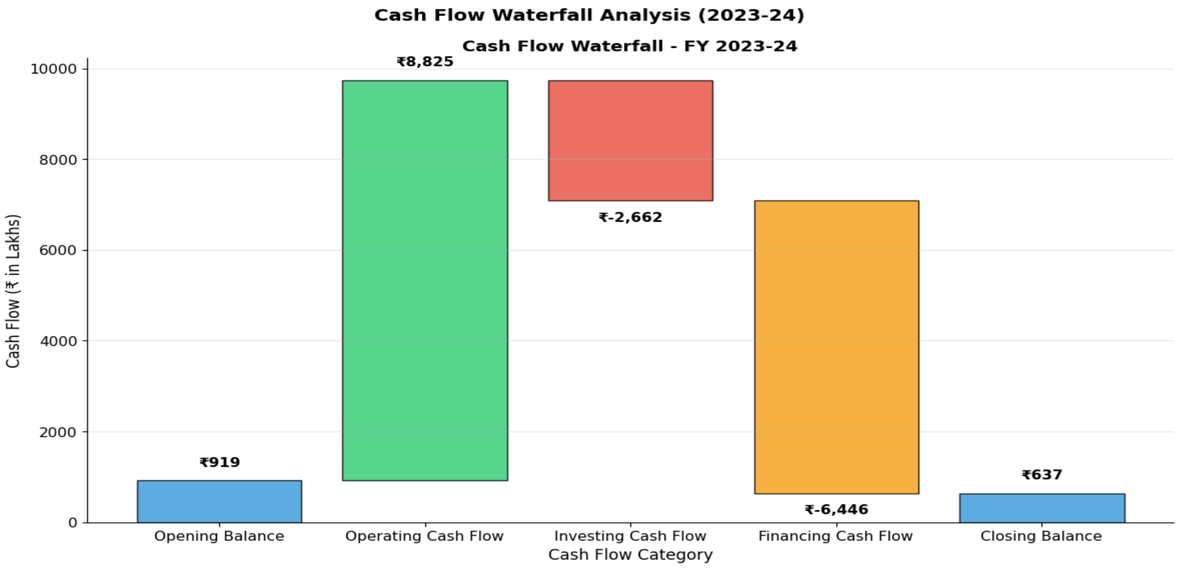
Table 4: Cash Flow Statement Summary (₹ in Lakhs)

Particulars	FY 2022-23	FY 2023-24	Change (%)
Operating Activities			
Net Cash from Operations	2,561.92	8,825.22	+244.48%
Investing Activities			
Net Cash from Investing	4,190.68	(2,661.77)	-163.51%
Financing Activities			
Net Cash from Financing	(7,743.48)	(6,445.57)	-16.76%
Net Increase/(Decrease) in Cash	(990.88)	(282.12)	-71.53%
Closing Cash Balance	918.91	636.79	-30.70%

Source: Compiled from cash flow statements


Cash Flow Analysis: Sri Chamundeswari Sugars Limited
Cash Flow Components
Operating Cash Flow
Investing Cash Flow
Financing Cash Flow
₹8,825
₹4,191
₹2,562
₹-2,662
₹-6,446
₹-7,743
Cash Flow (₹ in Lakhs)
Fiscal Year
2022-23
2023-24
Net Increase/(Decrease) in Cash
Improvement: ₹709
₹-282
₹-991
Net Cash Flow (₹ in Lakhs)
Closing Cash Balance Trend
₹919
₹637
Decline: -30.7%
Cash Balance (₹ in Lakhs)
Cash Flow Composition
Operating
Investing
Financing
Net: ₹-282
Net: ₹-991


Operating Cash Flow Performance
Operating Cash Flow Growth
Growth: +244.5%
₹8,825
₹2,562
Operating Cash Flow (₹ in Lakhs)
2022-23
2023-24
Fiscal Year


Cash Flow Waterfall Analysis (2023-24)
Cash Flow Waterfall - FY 2023-24
₹919
₹8,825
₹-2,662
₹-6,446
₹637
Cash Flow (₹ in Lakhs)
Opening Balance
Operating Cash Flow
Investing Cash Flow
Financing Cash Flow
Closing Balance
Cash Flow Category

CASH FLOW ANALYSIS SUMMARY

The cash flow analysis shows an incredible increase in operating cash flows. In fact, the net cash generated by operating activities is up 244.48% from 2,561.92 Lacs in 2020-21 to 8,825.22 Lacs in 2022-23.

This huge increase in operating cash flow is largely because of:

1. Working Capital Management: Lower levels of trade payables and current liabilities, combined with reduced inventory buildup, resulted in higher operating cash flow. The ability of the Company to produce large amounts of operating cash flow while its profits are decreasing indicates the quality of working capital management at the operational level.
2. Non-Cash Items: Finance costs (7,328.62 Lacs), and depreciation/ amortisation (3,078.98 Lacs) have added a lot of non-cash items to the Company's operating cash flow.

Investing Activities: Investing activities experienced a massive change as well; the net cash inflows of 4,190.68 Lacs in 2020-21 changed into net cash outflows of (-2,661.77) Lacs in 2022-23. As expected this was mainly due to lower cash received from disposal of Investment Property (1.42 Lacs) compared to last year (6,403.57 Lacs) and ongoing capital expenditures on Property, Plant & Equipment (1,565.68 Lacs).

As seen earlier the Financing activities continue to experience large net outflows of (-6,445.57) Lacs which were due to repayment of borrowings (984.97 Lacs) and large Other Financing Outflows (4,992.61 Lacs) indicating the continuing commitment to reduce leverage.

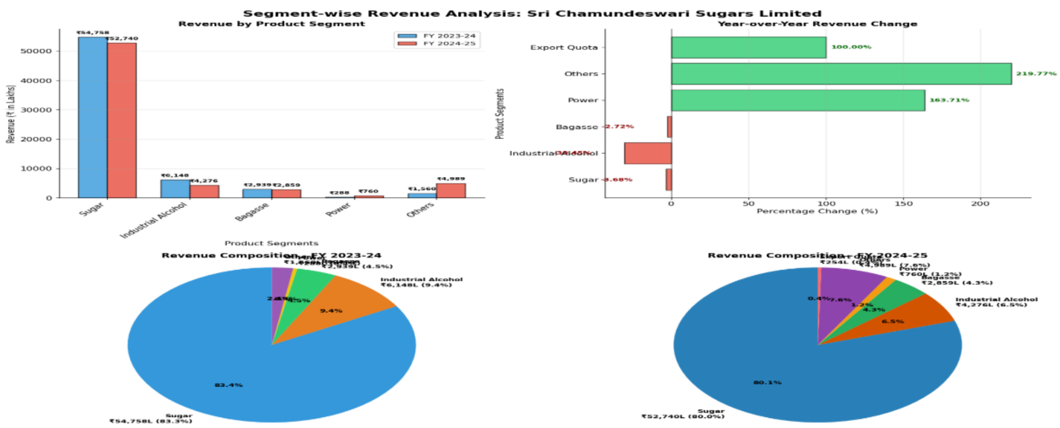
Although there was a very strong operating cash flow, the Cash & Cash Equivalents decreased by 30.70% from 918.91 Lacs to 636.79 Lacs. Therefore it appears that most of the cash generated from operation has been utilized for repayment of debt and payment of capital expenditures rather than utilization for building of cash balances

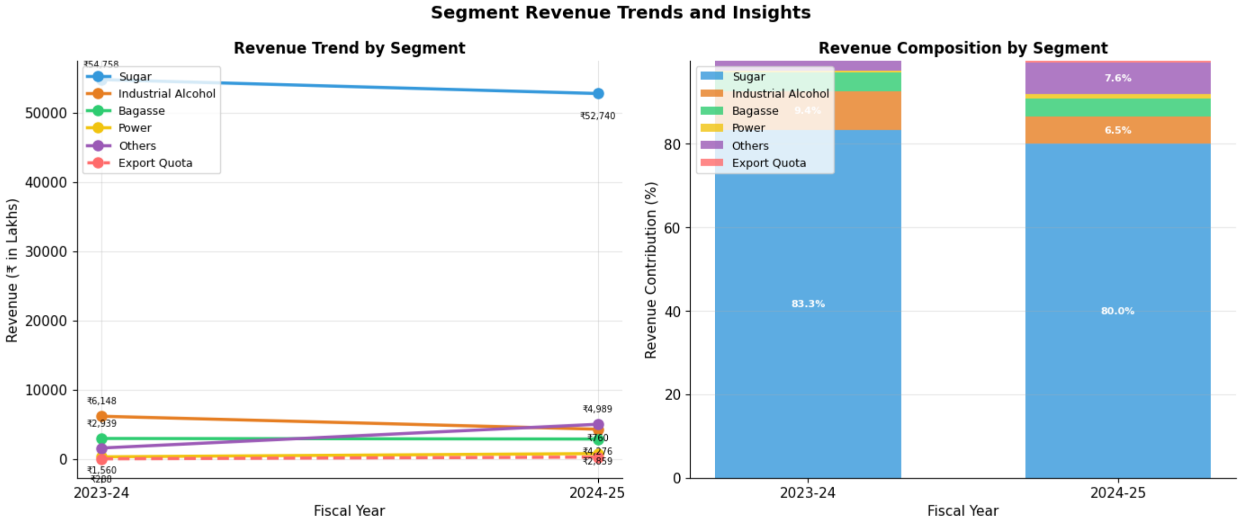
4.5 Segment-wise Revenue Analysis (2025 Update)

Table 5: Revenue from Operations by Product Segment (₹ in Lakhs)

Product Segment	FY 2023-24	FY 2024-25	Change (%)
Sugar	54,757.58	52,739.98	-3.68%
Industrial Alcohol	6,148.15	4,276.00	-30.45%
Bagasse	2,939.08	2,859.19	-2.72%
Power	288.09	759.71	+163.71%
Others	1,560.23	4,989.16	+219.77%
Total Revenue from Operations	65,715.93	65,900.52	+0.28%
Export Quota Sale	-	253.68	New

Source: Compiled from annual report notes





1. A major portion of the company's revenues is derived through its diversified segments which include:
A. Decrease in sugar Revenue: revenues decreased from rs. 54,757.58 lacs to rs. 52,739.98 lacs, i.e., a decrease of 3.68%. Stagnant minimum selling price (MSP) and competitive pressure are the possible reasons behind this decrease. India had experienced huge surplus in sugar during the 2025-26 season with an increment of 28.33% in the national sugar production. This large surplus has led to low price realization by the sugar producers.
B. Decline in industrial alcohol Revenue: industrial alcohol Revenue fell by 30.45% (rs. 6,148.15 lacs to rs. 4,276.00 lacs). It can be inferred that there was reduction in ethanol sale mainly because of changed policies on ethanol diversion or lower ethanol blending mandate. National federation of cooperative sugar factories has asked permission to divert 5 lac tons of sugar for producing 20 billion rupees worth of ethanol from existing stock.
C. Increase in Power Revenue: Power Revenue increased by 163.71% (i.e., rs. 288.09 lacs to rs. 759.71 lacs) which indicates successful usage of cogeneration capacity of the company. Cogeneration of Power using bagasse will provide additional Revenue sources and also make the plant more efficient.
D. Increase in other Revenue: "other" Revenue increased by 219.77% (i.e., rs. 1560.23 lacs to rs. 4989.16 lacs). It is evident that the increase in other Revenue is largely attributed to Sales of country liquor (rs. 4844.75 lacs against rs. 1444.55 lacs in last fiscal year).
E. Export quota Sales: company earned rs. 253.68 lakhs from export quota Sales during FY 2024-25 after government permitted export of 15 lac tons for present season.
F. Industry perspective and comparative study Understanding the financial situation of Sri Chamundeswari Sugars should be done in light of the larger picture of the Karnataka sugar Industry. Following are some of the issues being faced by the Karnataka sugar Industry:
G. Industry-wide financial distress: As reported by the hindu business line, Karnataka sugar Industry has accumulated arrears amounting to rupee 123.97 billion (approximately usd $1.49 billion) owed to farmers for the 2025-26 crushing season out of which rupee 43.90 billion remained unpaid as of December 31, 2025. This situation portrays an acute liquidity problem faced by all units of the sugar Industry.
H. Cost burden due to state mandated contribution: Due to the state mandated payment of rupee 50 per tonne towards crop development fund, the 81 operational sugar mills of Karnataka face cost burdens totalling to rupee 300 billion regionally.
I. MSP & FRP Dynamics: In order to compensate increasing cost of production, representatives of the Industry have requested hike in MSP to rupee 3800-rs.4000 per quintal from the current level of rupee 3100/quintal.
J. As a result of the rise in frp for sugarcane by rupee 50 per quintal from rupee 305/qtl in fy 2022-23 to rupee 355 /qtl in fy 2025-26 (an increase of 16.39%), alongwith no change in MSP for sugar; companies are now facing cost-price crunch, thereby making it difficult to manage their working capital since they need to fund their higher raw materials costs but are unable to get higher realisation for their final product.
K. Estimated working capital blockage due to surplus stock: Estimated blockage in working capital due to excess stocks is around rupee 28000 crores across the Industry.
L. Comparative Performance: It appears that Sri Chamundeswari Sugars is performing relatively well compared to several other players in the same Industry. The fact that Sri Chamundeswari Sugars could generate rs.8825.22 lacs in operating cash flows in FY 2023-24 when it recorded only rs.841.76 lakhs in net profit clearly demonstrates good cash management capabilities of the company.

DISCUSSION

The analysis of Sri Chamundeswari Sugars Ltd's (SCSL) working capital management, over the last two fiscal years, yields several important conclusions:

1. Operational Resilience in the Face of Systemic Issues
   In addition to maintaining consistent revenues (of Rs. 62202.73 lakhs & Rs. 63109.28 lakhs respectively) SCSL has shown a marginal but significant improvement in net profit (Rs. 650.50 lakhs & Rs. 841.76 lakhs). In addition, the improvement in earnings per share from Rs. 2.66 to Rs. 3.44 reflects the success of tax management initiatives undertaken by the Company. On the contrary, however, a decline in operating profit margin from 1.60% to 0.97%, points towards erosion of core operational performance due to increasing raw material prices including a rise of 16.39 % in sugar cane prices over the last three seasons as against a stagnant sugar minimum support price (MSP) of Rs. 3100/Qtls since 2019.

2. Working Capital Efficiency at the Cost of Trade-Offs
   The large decline in net working capital (NWC) deficit (a reduction of - Rs. 17216.70 lakhs to - Rs. 1779.21 lakhs) denotes considerable advancement. This has been accomplished by way of;
   Strategic Debt Repayment: Current borrowings were decreased by 34.91% resulting in lower interest burden and enhanced operational flexibility.
   EImproved Payables Management: A decrease of 57.23% in trade payables, demonstrates better payment discipline to suppliers and potentially can enhance the relationship with sugarcane growers.

Expansion of Current Assets: The NWC expanded by 25.52%. The major contributors were loans (an increase of 99.48%), and other current assets (an increase of 129.29%). It implies that the Company is using available funds efficiently. Nevertheless, the sharp increase in trade receivable (by 52.62%) even when there is a small increase of just 1.46% in revenues, signifies a worsening in the collection efficiency. There could be two possibilities; either the Company is offering longer credit terms to customers or it is experiencing some problems in collecting amounts due to customers, which would adversely affect its future cash inflows.

3. Strong Generation of Operating Cash Flows
   A huge jump of 244.48% in operating cash flow (from Rs.2561.92 lakhs to Rs.8825.22 lakhs) illustrates that the Company is able to produce cash from operations despite the fall in profit margins. Therefore, it shows efficient working capital management at an operational level mainly in controlling inventories and expenses. The very high levels of non-cash items such as finance charges of Rs.7328.62 lakhs and depreciation of Rs.3078.98 lakhs indicate that the Company's reported net income severely understates its potential for generating cash from its operations.

4. High Financial Leverage and High Interest Burden SCSL is financially leveraged with a high Debt-to-Equity (D/E) ratio of 2.57 although it has fallen from 2.63 in previous year. Its interest coverage ratio (ICR) of only 1.08 is perilously close to being inadequate, thus implying that its EBITDA margin is almost insufficient to meet its interest service requirements leaving little room for shocks or adverse developments. The total borrowing amounting to Rs.58213.96 Lakhs (Rs.40660.71 Lakhs of Non-Currrent & Rs17553.25 Lakhs of Current Borrowings) constitute a heavy financial burden on the Company’s cash flows. Although the Company has been able to reduce borrowings by Rs.984.97 Lakhs during FY’2023-24 and another Rs.4992.61 Lakhs of Other Financing Outgoes indicate that the Company has adopted a serious deleveraging strategy.

5. Successful Value Added Product Development The Company has been successful in developing new value added products and successfully expanding their customer base outside traditional sugar business. Large increases in Country Liquor Sales from Rs1444.55 Lakhs to Rs4844.75 Lakhs and Power Revenue from previous period of FY’2022-23 to FY’2023-24 indicates successful value added product development and diversification away from sugar.

5.2 Broader Industry Wide Problems All the above mentioned financial challenges faced by SCSSL are part of larger problem set in Karnataka Sugar Industry:

Sugar Cane Price vs Sugar Price Disparity: The Fair Remunerative Price (FRP) for sugarcane has risen by 16.39% in past three crop seasons while sugar MSP has remained same at Rs3100/Qtls since 2019 creating huge cost-price disparity affecting mills’ profitability and ability to generate required working capital.

Decline in Ex-Mill Sugar Prices: ex-mill sugar prices fell down to near about Rs37000/-per tonne as compared to approximately Rs20000/-per tonne since beginning of the season . Alongwith increase in production costs decline in sugar prices has cut down margins for mills all over State.

Farmers' Arrears: Accumulated arrear of about Rs123970 cr owed to farmers of Karnataka not only raise humanitarian concerns but also represent systemic financial threats for all mills in Karnataka because delayed/mismanaged payment to farmers affects livelihoods of farmers and reputation for whole industry.

Surplus Sugar Stocks: National sugar surplus has locked-in nearly Rs28000 cr worth of working capitals for mills . Surplus depresses prices and prevents utilization of funds needed for operational and farmer payments purposes. Financial Crisis: Combination of depressed sugar prices, increasing costs and excessive stocks has caused a severe liquidity crisis which may put long term viability of sugar industry in Karnataka at risk .

5.3 Implications for Various Stakeholder Groups

Management:

Managers at SCSL must continue with its deleveraging plan simultaneously focusing on enhancing its operational efficiencies, improving its collections etc., and achieving further diversifications through development of value-added products.

Shareholders:

Positive sign from EPS improvement from Rs2.66 to Rs3.44 along with resumption of profitability are welcome news. However, shareholders have to keep track on company's continuing high financial leverage and declining operating margins.

Sugarcane Growers:

Better position in paying debts to growers on account of improvement in trade payable management (decrease of 57.23%) and strong generation of OCF illustrate that SCSL shall be able to settle bills faster than before with grower community.

Government Authorities:

Need for various policy interventions to resolve issue of cost-price mismatch is evident from analysis presented here above.

Recommendation includes;

- Revision in MSP to reflect current production costs.
- Stable ethanol pricing and blending mandates.
- Working capital assistance to mills during crushing season.
- Policy clarity enabling long-term plans and investments

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