

Pioneer Distilleries

The working capital requirements of the Company are financed by the State Bank of Mysore, Hyderabad. The working capital loan limits of the Company during the year have been increased from Rs. 350.00 lakhs to Rs. 550.00 lakhs.

From the annual report it was found that no funds raised on short-term basis have been used for long-term investment. Further, a part of the long-term funds has been used to finance working capital and short-term investments.

Working Capital loan:

Cash credit facility with State Bank of Mysore is secured by hypothecation of stocks of raw materials, semi-finished and finished goods, consumable stores and book debts; and secured by second charges on fixed assets of the Company ranking pari passu, inter-se with term loan lenders; and The above said loan is also guaranteed by some of the directors of the Company in their personal capacities.

Pioneer Distilleries	In Rs(000)	
	2006	2005
Current Assets, Loans and Advances		
Inventories	71010976	62046246
Sundry Debtors	1610447	4524526
Cash and Bank Balances	5105519	3443093
Loans and Advances	69629725	82183997
TOTAL	147356667	152197862
Current Liabilities and Provisions		
Current Liabilities and Provisions	27754615	17463205
TOTAL	27754615	17463205
NET CURRENT ASSETS	119602052	134734657
SALES	444171693	436537614
COGS	237333372	312326281
INVENTORY TURNOVER	3.6	5.0
INVENTORY COLLECTION PERIOD (Days)	101	72
DEBTOR TURNOVER	144.8	96.5
DEBTOR COLLECTION PERIOD (Days)	2	4
OPERATING CYCLE (Days)	103	75
CREDITOR TURNOVER	19.6	25.0
ACCOUNTS PAYABLE PERIOD (Days)	18	14
CASH CYCLE (Days)	85	61

Comments

The INVENTORY COLLECTION PERIOD has increased from 2005 to 2006. The company is taking a lot of time for converting its raw material to finished good.

The debtor days has decreased by 2 days which is good.

The cash cycle has increased from 2005-2006. Hence they have to look out for funds for these 85 days.

ACCOUNTS PAYABLE PERIOD has increased which is good for the business.

For eg in 2006 that company gets money in 2 days from debtors and it has to return to its creditors in 18 days.

The operating cycle of the company as increased from 75 to 103 days. The main reason for this is the increase in INVENTORY COLLECTION PERIOD.

Balaji Distilleries

For the director report I found that in the absence of sufficient Earning Before Interest and Depreciation and as your company has already been extended financial restructuring package, your company is not in a position to avail any further financial assistance towards working capital. In the absence of availability of working capital, your company has utilized short term funds for acquisition of assets and also for payment of interest to the institutions / banks.

FROM BANKS

WORKING CAPITAL - TERM LOANS	343,656,927		
	2006	2005	
Interest Accrued but not Due before the year 2015	23,199,834		17,403,848

Balaji Distilleries	In Rs(000)	
	2006	2005
Current Assets, Loans and Advances		
Inventories	178,188,885	144,137,196
Sundry Debtors	146,088,466	175,637,836
Cash and Bank Balances	34,473,056	88,574,050
Loans and Advances	63,769,064	2,663,654,147
TOTAL	422519471	3072003229
Current Liabilities and Provisions		
Current Liabilities and Provisions	1,598,437,103	1,238,489,727
TOTAL	1,598,437,103	1,238,489,727
NET CURRENT ASSETS	-1175917632	1833513502
SALES	10,873,504,671	9,206,925,539
COGS	1,976,639,717	1,679,485,983

INVENTORY TURNOVER	12.3	11.7
INVENTORY COLLECTION PERIOD (Days)	29	31
DEBTOR TURNOVER	67.6	52.4
DEBTOR COLLECTION PERIOD (Days)	5	7
OPERATING CYCLE (Days)	35	38
CREDITOR TURNOVER	7.7	7.4
ACCOUNTS PAYABLE PERIOD (Days)	47	48
CASH CYCLE (Days)	-12	-11

Comments

Cash cycle is negative. Hence the company is playing on the creditors money.

The company is managing its working capital issues well. As it gets money from its debtors in 5 days and it has to return to its creditors in 47 days hence there is a lot of gap.

The operating cycle has reduced by 3 days which is good as we are able to convert cash to cash quickly.

Balaji is doing a good job as compared to pioneer distilleries, its managing its working capital issues well. The reason is Pioneer Distilleries is working on a turnaround path and this would take some more time to clean up the working capital issues of the company.

The above inputs and observations get enhanced when one takes into account the cash flow statement analysis and financial ratio analysis of Pioneer Distilleries (refer to chapter 2 and 3 submissions).

References:

www.nseindia.com

www.pioneerdistilleries.com

www.moneycontrol.com