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A STUDY ON FUNDS FLOW STATEMENTS ANALYSIS WITH REFERENCE TO STERIL-GENE LIFE SCIENCE PVT LTD (THE MADRAS PHARMACEUTICALS)

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ABSTRACT

This study is important for understanding the management of working capital in STERIL GENE (THE MADRAS PHARMACEUTICALS) it gives information on the basis of analysis about percentage of investment in each current asset cause for changes in working capital from different sources amount of working capital required.

The firm's trade creditors are interest in the firm ability to meet their claim over a short period of time. So they required the evaluation of the firm's liquidity position. The suppliers of the long-term debt on the other hand of concerned with the longterm resolutions and survival. They analyses the firm profitability over time.

The present study is intended cover a period of 5 years from 2016-2017 to 2020-2021 for examining the cash management receivable management manages the short-term investment and also investor's management for the purpose of working capital management in Steril-gene pvt ltd

Working capital management policies have a great effect on firm's profitability, liquidity and its structural health. A financial manager therefore chalks out appropriate working capital, so as to ensure higher profitability proper liquidity and sound structural health of the organization. In order to achieve this objective the financial manager as to perform basically following two functions.

Estimating the amount of working capital.

Source from which these funds have to arises.

INTRODUCTION

Meaning and Definition of Funds Flow Statement:

Funds Flow Statement is a method by which we study changes in the financial position of a business enterprise between beginning and ending financial statements dates. It is a statement showing sources and uses of funds for a period of time.

Funds flow statement is the statement of sources and uses of fund. Funds flow statement shows the source from which the funds are receive and the areas to which they obtained funds have been utilized. Funds flow statement indicates various mean by which funds were received during a particular period and the ways in which these funds were applied. Funds flow statement comprises three words: fund, flow and statement.

Fund means the financial resources used by a concern. In the sense of working capital. 'Fund' represents the net working capital. The excess current asset over the current liabilities is called net working capital.

Similarly, the term **Flow** means the movement of funds and includes both inflows (receipt) and outflows (payments) of found. Funds from operation, issue of share and debentures, additional long term debt, non-operating revenues etc. are considered as the major sources of fund. Increase in working capital, redemption of debenture, repayment of long term loan, payment for nonoperating expenses etc. are the amine areas of uses of fund.

The term **Statement** represents the format or account under which the flows of fund i.e. cash inflows and outflows are recorded.

Funds flows statement is known by various names such as statements of sources and uses of funds, summary of financial operations, which got and where goes statement, movement of working capital statement, funds received and disbursement statement etc.

OBJECTIVES OF STUDY:

- To indicate the result of current financial management
- To lay emphasis on the most significant changes that have taken place during a specific period
- To show how general expansion in a business has been financed or describe the sources from which addition funds were derived
- To estimate the relationship between profit from operation, distribution of dividend & raising of new capital

REVIEW OF LITERATURE:

Edelen, R. (1999). Investor flows and the assessed performance of open-ended mutual funds. *Journal of Financial Economics*, 53, 439– 466;
Rakowski, D. (2003). Fund flow volatility and performance. Georgia State University, working paper, this cyclic relationship between flows, style drift, and performance is problematic to understand. Significant amounts of new flow could cause a manager to trade more frequently, therefore incurring more transaction costs. In addition, fund flows can constrain a fund manager from adhering to an optimal investment strategy, as they might have to hold more cash to allow for erratic flows.

Cooper, M., Gulen, H., & Rau, P. R. (2005). Changing names with style: mutual fund name changes and their effects on fund flows. *Journal of Finance*, 60, 2825– 2858, find that a change in the style of the name of a fund can subsequently attract significant amounts of fund flow.

Deaves, R. (2004). Data-conditioning biases, performance, persistence and flows: the case of Canadian Equity Funds. *Journal of Banking and Finance*, 28, 673–694, using a sample of Canadian funds, finds that money flows into successful funds, but not out of unsuccessful ones at the same rate. This finding is often referred to as the convex relationship between flow and performance.

DelGuercio, D., & Tkac, P. (2002). The determinants of the flow of funds of managed portfolios: mutual funds versus pension funds. *Journal of Financial and Quantitative Analysis*, 37, 523–558, this finding implies that successful funds are more likely to attract fund flow in the future. This finding is also reported by for those funds at the top of the distribution.

Brown, K., & Harlow, W. (2004). Staying the course: performance persistence and the role of investment style consistency in professional asset management, find that when the market benchmark return is negative, low style consistent funds demonstrate relative out performance. They speculate that the reasons for better performance by style consistent funds could be less portfolio turnover and, therefore, lower transaction costs.

The current evidence on the role and efficacy of mutual funds in channeling investor funds through them into capital markets can be broadly categorized into those that investigate the performance of mutual funds and those that deal with the decision criteria that investors follow in selecting funds. This paper falls into the latter category. Studies in this funds flow category have found evidence of asymmetric response of fund flows to upside and downside performance changes (**Ippolito, 1989; and Sirri and Tufano, 1998**); implying that investors invest disproportionately in star performers and are reluctant to exit losing funds. In this paper, we provide robust estimates of the asymmetric performance and fund flow relationship using panel data techniques. The use of panel data techniques has several methodological advantages and we find evidence that suggests that some of the conclusions of the asymmetric performance flow literature on mutual funds may not stand the scrutiny of more robust regression techniques like panel data analysis. In addition, we provide additional corroborative evidence on the flow of funds in fund families and the influence of ‘star’ and ‘loser’ funds in the flow of funds within a fund family.

Studies by Nanda, Wang and Zheng (2004), and Kempf and Ruenzi (2004) show that fund flows in a family of funds are affected by the performance of one or more members of the family. Our study also augments the rather limited systematic evidence on Canadian mutual fund industry. The analysis identifies some of the fund related characteristics that drive trading behavior amongst mutual fund investors in Canada.

As Khorana, Servaes and Tufano (2005) point out, academic studies of mutual funds have remained geographically narrow. The study will help widen the evidence on trading behavior of mutual fund investors beyond the evidence typically reported on U.S. mutual funds. The study is organized as follows: Section 2 provides a review of the relevant literature on the performance and flow of funds. We also review the existing

literature on Canadian mutual funds. Section 3 examines some methodological and measurement issues that underpin the analysis. In particular we focus on the relevance of panel data techniques for the analysis of performance flow relationship. Section 4 discusses the sample and Section 5 discusses the empirical findings. Section 6 concludes the study.

Starting with Jensen's (1968), a number of studies have examined the performance of mutual funds. Studies focused on U.S. mutual fund industry are unable to conclude whether the active money management adds value to individual investors net of risk and expenses.

Jensen (1968) concluded that mutual funds significantly underperformed the market after expenses and those investors would be better off pursuing a passive investment strategy by following a comparable market proxy. However, later studies by **Grinblatt and Titman (1989; 1992)** and **Ippolito (1989)** on the net performance of mutual funds concluded that mutual fund managers did add value net of expenses because of the private information that money managers possessed.

These studies were however, criticized for their choice of benchmarks in assessing performance and for survivorship bias in that they included in their sample only current and existing funds. Later studies including **Malkiel (1995)**, **Elton Gruber and Blake (1996)** and **Gruber (1996)**, **Elton, Gruber, Das and Hlavka (1993)** concluded that the findings of **Grinblatt and Titman (1989; 1992)** and **Ippolito (1989)** on positive value added by money managers did not hold when more representative benchmarks are used and adjustments are made for the potential survivorship bias. In a recent paper, **Bhargava, Gallo and Swanson (2001)** evaluated the performance of 114 US international equity managers and found that international equity managers, on average, were also unable to outperform the MSCI World market proxy during the sample period 1988-1997. While these studies have typically concentrated on the reported returns by mutual funds, three strands of literature claim that returns to mutual fund investors (IRR, hereafter) maybe even lower than the returns reported by mutual funds (RR, hereafter). The first group of studies analyzes the sensitivity of capital flows into funds as a function of performance.

Studies by Chevalier and Ellison (1997), **Sirri and Tufano (1998)** provide extensive evidence in support of an inverse relationship between past performance and current fund flows. Barber, **Odean and Zheng (2003)** in a study trading behavior of more than 30,000 households find that investors use past returns as a positive signal of fund quality and future performance. This has been referred to as representative heuristic in behavioral finance. An above average performance by a mutual fund in the previous year is likely to induce greater inflow of funds in the current year. A second, group of studies examines the strategy of investing in out performing funds or what has been described as the 'hot hands' phenomenon.

Hendricks, Patel and Zeckhauser (1993), **Goetzmann and Ibboston (1994)** and **Brown and Goetzmann (1995)** suggest that mutual funds that show above average performance in one period will also follow it up with and above average performance in the following period. Thus, according to these studies mutual fund investors will get higher returns if they were to choose mutual fund investors that are past winners. However, **Malkiel (1995)** in a study of US mutual funds found that while there appeared to be persistence of returns in the 1970s, there was no significant in persistence in returns during the 1980s. In the 1980s the performance decay was characteristic and past performance was no predictor of future performance. The evidence on persistence is important for the IRR and RR relationship.

Advertising and mutual fund asset flows: Timo Korkeamaki (School of Business Administration, Gonzaga University, Spokane, Washington, USA)

Vesa Puttonen (Helsinki School of Economics, Helsinki, Finland) Tom Smythe (Furman University, Greenville, South Carolina, USA), Purpose— The paper aims to examine the effect of advertising on mutual fund cash flows in the Finnish fund market. Findings – The paper finds that neither past year's performance nor advertising alone is sufficient to produce increased cash flows.

RESEARCH METHODOLOGY

Research methodology is the specific procedures or techniques used to identify, select, process, and analyse information about a topic. In a research paper, the methodology section allows the reader to critically evaluate a study's overall validity and reliability. The process used to collect information and data for the purpose of making business decisions. The methodology may include publication research, interviews, surveys and other research techniques, and could include both present and historical information.

STATEMENT OF CHANGES IN WORKING CAPITAL FOR THE YEAR 2017-2018

Particulars	2017 (Rs)	2018 (Rs)	Changes in working capital	
			Increase	Decrease
Current assets: Inventories				
Sundry debtors	153,82,60,271	135,29,84,499	---	18,52,75,772
Cash and bank balances	7,31,85,488	12,48,86,536	5,17,01,048	---
Other current assets	5,30,91,438	5,52,57,959	21,66,521	6,45,843
Loans and advances	12,98,174	6,52,331	---	14,35,40,834
Total current assets	20,40,18,611	6,04,77,777	---	
Current Liabilities &				
Provisions				---
Sundry creditors			10,86,80,984	---
Unclaimed liabilities			29,61,215	20,000
Advances received against sales			42,49,059	2,03,04,519
Trade deposits			1,200	4,11,63,51
Staff security deposits			---	
Interest assumed but not due on			---	
Provisions				
	186,98,53,982	159,42,59,102		
Total Current Liabilities and				
	69,36,81,002	58,50,00,018	18,414,3292	
		1,32,78,884		
	1,62,40,099	47,48,053		
	89,97,112	75,500		
	76,700	1,65,000		
	1,45,000	2,03,04,519		
		4,92,10,370		
	4,50,94,019			
	76,42,33,932	67,27,82,344		

Provisions				
Net working capital(C.A-C.L)	1,10,56,20,050	92,14,76,758		
Decrease in working capital				
TOTAL	110,56,20,050	110,56,20,050	35,39,033,19	35,39,033,19

FUNDS FLOW STATEMENT FOR THE YEAR 2017-2018

Sources	Amount in Rs	Applications	Amount in Rs
Profit from Business operations	25,93,28,03	Payment of secured	21,29,91,771
Increasing unsecured loans		Loans	6,25,635
Sale of plant and machinery	12,62,170	Purchase of land	11,34,01,996
Sale of other fixed assets		Taxes Paid	2,83,46,263
Sale of Computers& Furniture	53,30,90,34	Dividend paid	
Other income received	40,47,71,01		
Sale of buildings			
Sale of vehicles	11,37,829		
Decrease in working capital	57,06,962		
	20,75,865		
	40,32,06,09		
	18,41,432,92		
	35,53,65,665		35,53,65,665

ADJUSTED PROFIT AND LOSS ACCOUNT FOR THE YEAR 2017-2018

Particulars	Amount in Rs	Particulars	Amount in Rs
To Depreciation of fixed assets	6,17,81,205	By Opening balance	16,61,67,459
To Provision for tax	1,00,00,000	By Profit from business operation	25,93,28,032
To Proposed dividend	2,83,46,263		
To Transfer to general reserve	19,00,00,00		
To Closing balance	13,53,68,023		
	42,54,95,491		42,54,95,491

FINDINGS:

From the study it is observed that the Net working capital position of STERIL GENE (THE MADRAS PHARMACEUTICALS) is gradually decreasing in the years 2017-2018, 2019-2020 and 2021-2022 due to decreasing in Current assets.

- There have been major fluctuations in the working capital, which affect the current assets and current liabilities and sources of the funds have affected a lot.
- The relationship between employment and management is not satisfactory, as there have been occurred strikes during the years on account of failure of negotiations.
- It is find out that the company is using long term funds to maintain day to day activities this leads to higher interest rates
- It is observed that the company has an unfavorable working capital position and not has sufficient sources of funds to meet long term requirements of the company.
- From the study it is observed company is depending upon other sources of capital which leads to increase in the payment of more amounts towards interest rates which results to increase in expenditure.
- From the study it is observed company is maintaining sufficient stock of inventory for smooth production process. Much of the sales of the company posses' very low amount of debtors in all the years.
- From the study it is observed company is poor in utilizing credit facilities available in the market. It is found that the working capital performance is not profitable to the company also unsatisfactory due to high financial changes and high provision for expenditure.
- From the study it is observed the company is maintaining good reserve in order to meet uncertain conditions in future if any.

SUGGESTIONS

- It is to be suggested that the company should maintain consistent amount of current assets and Current Liabilities and also the firm has to find ways to increase the source of funds.
- The company should maintain cordial relations with employees and proper communication must be provided to the employees and also democratic leadership style helps management to reduce strikes.
- The company should finance some parts of its current assets with short-term funds. It should not depend on long-term funds as they involved higher interest payments.
- It is suggested that the company should maintain optimum liquidity and should maintain a rational working capital and it should sale the Non profitable assets and invest in profitable ones may increase the assets of the firm and while designing capital structure the company should go for low cost of capital avenues that increases the sources of funds to the company.
- From the study it is found that the Net Working Capital of STERIL GENE (THE MADRAS PHARMACEUTICALS) is gradually

decreasing in the years 2017-2018 and 2020-2021 due to decreasing current assets. It is suggested to the company to maintain the current assets in proper level.

- From the study it is found that the company is depending upon other sources of capital which leads to increase in the payment of more amounts towards interest rates which results to increase in expenditure. It is suggested to the company to reduce the expenditures.
- From the study it is observed company is maintaining sufficient stock of inventory for smooth production process. It is suggested to the company to maintain the same level of inventory.
- From the study it is observed Company is poor in utilizing credit facilities available in the market. It is suggested to the company to utilizing the credit facilities available in the market.

CONCLUSIONS:

STERIL GENE (THE MADRAS PHARMACEUTICALS) was the flat ship company of STERIL GENE (THE MADRAS PHARMACEUTICALS) after successful beginning and performance of Steril genes pvt lmd, It was the India based infrastructure in motors based operations in entire a manufacturing seeds industries. The company is having experienced professionals in management and also in supervisory levels.

The company is having the efficiency of the plant operations on average for the last 3 years in 98% which is recorded as the best in India. The company is having scientists in seeds Management. The company is developing seeds in certain areas of the country which is said to be of high quality standards in the international market. The company is having experts in almost all departments and running their company always at better standards than the competitors in India.

They had satisfied their strength and now they are setting on fixed properties worth about Rs.400 crores. The group is own in fixed properties of Rs 400 crores and they were enjoying the financial limits.

The company started diversifying into infrastructure projects and developed a software technology building named as "Steril genes Pvt Ltd".

This is a project of around 7,500 acres. This would flex around 1,25,000 a month. It is concentrated on seeds trading is reduced. The company is enjoying working capital limits with the Bank.



TO WHOMSOEVER IT MAY CONCERN

This is to confirm that Ms.T.Monisha (Reg No : 42410244) studying II year MBA at M/s Sathyabama Institute of Science and Technology, Chennai, has completed her Internship at M/s Steril-Gene Life Sciences Pvt. Ltd. from 22nd January, 2024 to 16th April 2024. Throughout the duration, she maintained a professional demeanour and showcased moral integrity.

We wish her every success in her future endeavours.

for Steril-Gene Life Sciences Pvt. Ltd.


S. Saritha
DGM-Finance & Accounts

