

A Study on Working Capital Management

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Abstract:

The study is an outcome of the topic “A STUDY ON WORKING CAPITAL MANAGEMENT”. The study focuses on the Working Capital Management. Working capital management means amount of capital that a business has available to meet day-to-day cash requirement of its operations. For a success of working of a business organisation management of working capital is essential as it has direct impact on profitability and liquidity. An attempt has been made in this project to study the working capital position. Ratio analysis, Components of gross working capital and schedule of change in working capital have been used to analysis the data.

This study reveals that tend to be healthy and soundness of financial position is good. The ways in which ratio analysis can be assistance in long-range planning and helps to avoid difficulties of the company. It also helps to ascertain and give suggestions to improve the business transaction.

INTRODUCTION:

WORKING CAPITAL MANAGEMENT

Capital required for a business can be divided into two categories i.e. Fixed capital, Working capital.

Fixed capital is the part of total capital which is used for purchasing permanent a fixed asset like land, buildings, plant and machinery, furniture and fixtures, vehicles, etc.....this capital is invested by organisation in the beginning of running the business.

In addition to fixed capital an organisation requires additional capital for financing day-to-day activities like purchase of raw materials, payment of direct and indirect expenses, carrying out production, investment in stocks and stores, receivables and assets to be maintained in the form of cash is generally known as working capital (fluctuating capital).

In other words, this capital refers to the investment in current assets such as cash inventory, receivables, etc..... o All such assets are likely to be convertible into cash within one a year.

REVIEW OF LITERATURE:

Manjhi Rakesh Kumar and Kulkarni S. R (2019):

They focus on working capital structure and liquidity of Gujarat Textile Manufacturing Industry (GTMI). From the study, it was observed that of all the current assets across the industry, inventories formed the higher percentage, followed by loans and advances and trade receivables; whereas cash and bank balance formed a very negligible part. In conclusion it was found that Arvind Ltd., and Shri Dinesh Mills Ltd., Achieved lower sales over their working capital and current assets as compared to the other companies. However, the sample companies had good current ratios, which also imply sound liquidity position of the sample companies.

Sasikala D (2020):

Sasikala has conducted empirical study of Dr. Ready’s liquidity management and trade-off between liquidity, risk and profitability. The author concludes with the observations that the investment in current assets was much higher and the debtor’s contribution was the highest in the gross working capital. Besides, negative association between liquidity and profitability was found.

TiborTarnoczi and VeronikaFenyves (2021):

They attempted to show the relationship between liquidity and corporate risk. According to them the consequence of the economic crisis and the excess of the external financing resources were narrowed significantly and lenders became more caution. The authors conclude with the view that working capital management almost always shows the ability of a firm to earn profit. The more the firm is capable to handle working capital, 55 prosperity is ensured. On the other hand neglect in doing so would be dangerous for the survival of the firm. Managerial decision-making is needed for accurate ratios that describe the current situation of the firm and they are also suitable for forecasting.

G. Ramesh (2022):

Managing working capital in a manufacturing organisation is an important aspect. It measures the company ability to pay off short-term liabilities. The management of working capital effects on the primary objective (earning profit) of the organisation. These motivate the researchers to study the “effect of working capital management on the Financial Performance of Manufacturing Firms in Sultanate of Oman”. The study period is 10 years and data have been collected from 19 manufacturing companies listed in MSM. Mean, standard deviation, correlation and regression are used in this research to analyse the effect of working capital in the profitability among the sample firms. The study concludes that the debtor management, inventory management, creditor management and cash conversion cycle negatively effects on the financial performance of listed manufacturing firms in Sultanate of Oman over the 10 years

Objectives of the Study:

- To study the various components of working capital.
- To analyse the working capital positions.
- To find out the liquidity positions.
- To analyse the profitability ratios.

RESEARCH METHODOLOGY:

The statistical used for this study are,

- Components of gross working capital.
- Schedule of changes in working capital.
- Ratio analysis

DATA ANALYSIS & INTERPRETATIONS:

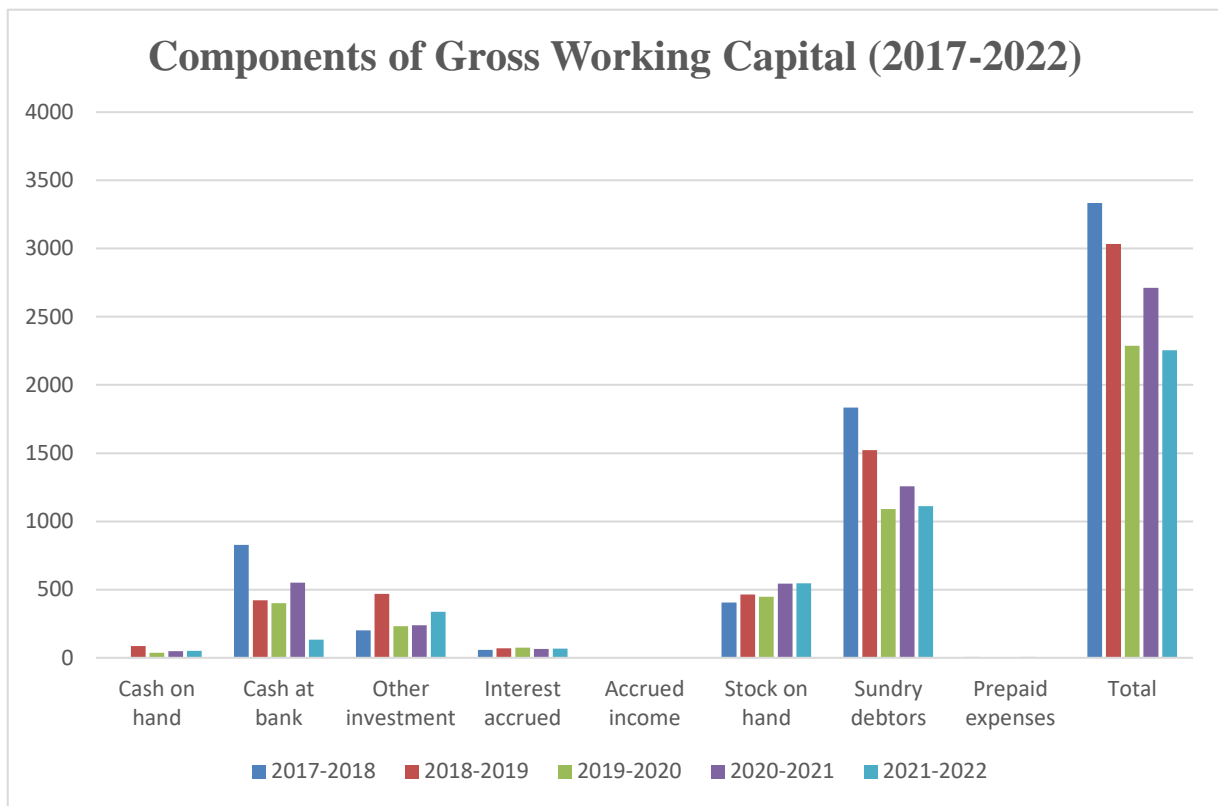
THE COMPONENTS OF GROSS WORKING CAPITAL FOR THE YEAR 2017-2022

(Rupees in Lakhs)

Year	Cash on hand	Cash at bank	Other investment	Interest accrued	Accrued income	Stock on hand	Sundry debtors	Prepaid expenses	Total
2017-	1.07	827.1	201.6	57.6	1.01	405.8	1834.4	5.83	3334.41

2018									
2018-2019	86.64	420.9	467.6	69.2	1.01	464.5	1522.3	2.51	3034.66
2019-2020	36.44	401.2	231.9	75.5	1.02	447.9	1089.4	4.56	2287.92
2020-2021	48.21	551.5	239.2	66.0	0.98	543.2	1256.2	6.42	2711.71
2021-2022	50.84	133.9	337.8	68.4	1.02	546.9	1111.9	4.31	2255.07

CHART FOR COMPONENTS OF GROSS WORKING CAPITAL



INTERPRETATION:

The above table infers that, the total gross working capital decreases gradually from the year 2017-2018 to 2019-2020 the amount of Rs.3334.41 l, Rs.3034.66 l, Rs.2287.92 l and increases during the year 2020-2021 the amount of Rs.2711.71 l and decreases during the year 2021-2022 the amount of Rs.2255.07 l.

SCHEDULE OF CHANGES OF WORKING CAPITAL FOR THE YEAR 2020-2021

Particulars	2020-2021	2021-2022	Increase	Decrease
CURRENT ASSETS				
Cash on hand	4821076.00	5084330.00	263254.00	-
Cash at banks	55146342.20	13399980.95	-	41746361.25

Other investment	23928194.00	33782172.00	9853978.00	-
Interest accrued	6601032.04	6849452.51	248420.47	-
Accrued income	98380.70	102147.56	3766.86	-
Stock on hand	54316801.94	54696707.39	379905.45	-
Sundry debtors	125620677.51	111192524.58	-	14428152.93
Prepaid expenses	642304.00	431591.00	-	210713.00
Total Current Assets(A)	271174808.40	225538906.00	-	-
CURRENT LIABILITIES				
Loans and deposits	14892757.75	15119346.75	-	226589.00
Special fund of society borrowed	112500.00	112500.00	-	-
Interest due	648707.00	495395.00	153312.00	-
Sundry creditors	166752695.24	147214438.23	19538257.01	-
Total Current Liabilities(B)	182406660.00	162941680.00	-	-
Working Capital(A-B)	88768148.40	62597226.00	-	-
Decrease in Working Capital	-	26170922.40	26170922.40	-
Total	88768148.40	88768148.40	56611816.18	56611816.18

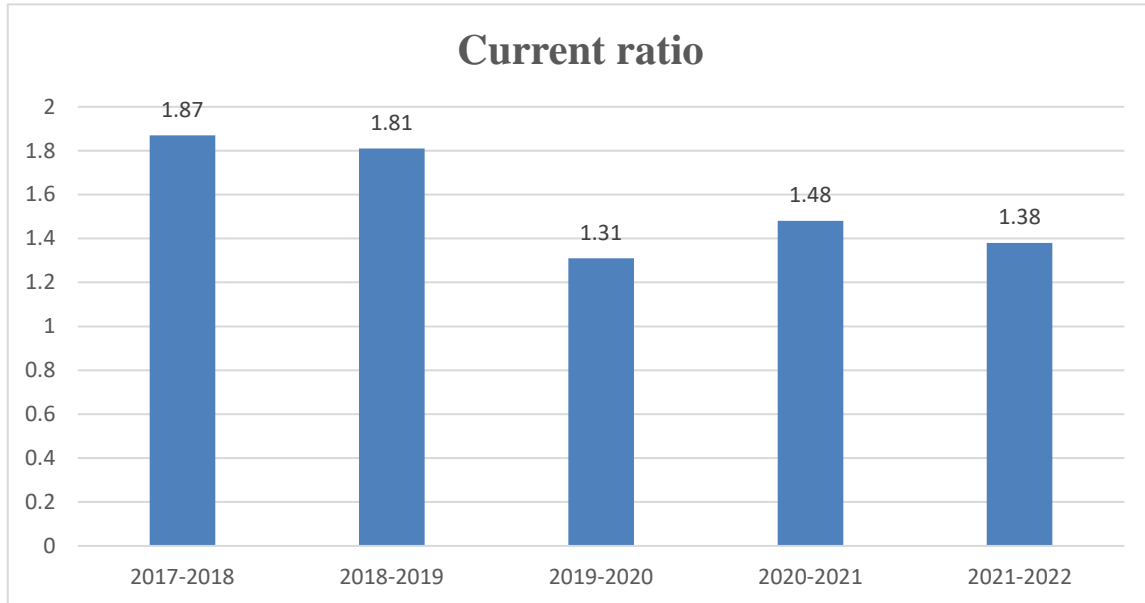
INTERPRETATION:

The above table clearly shows the decrease in working capital for the year 2020-2022. All the current assets except sundry debtors and prepaid expenses have decreased in the year 2021-2022. The end result of the schedule of changes in working capital after comparing all the increases and decreases in the net decreases in the amount of working capital. The above table focuses on the fact that the decrease in working capital of Rs.26170922.40.

CURRENT RATIO FOR THE YEAR 2017-2022

Year	Current assets	Current liabilities	Current ratio
2017-2018	333448804.75	178125160.14	1.87 times
2018-2019	303548132.91	167359811.41	1.81 times
2019-2020	228812316.00	173705959.80	1.31 times
2020-2021	271174808.40	182406660.00	1.48 times
2021-2022	225538906.00	162941680.00	1.38 times

CHART FOR CURRENT RATIO



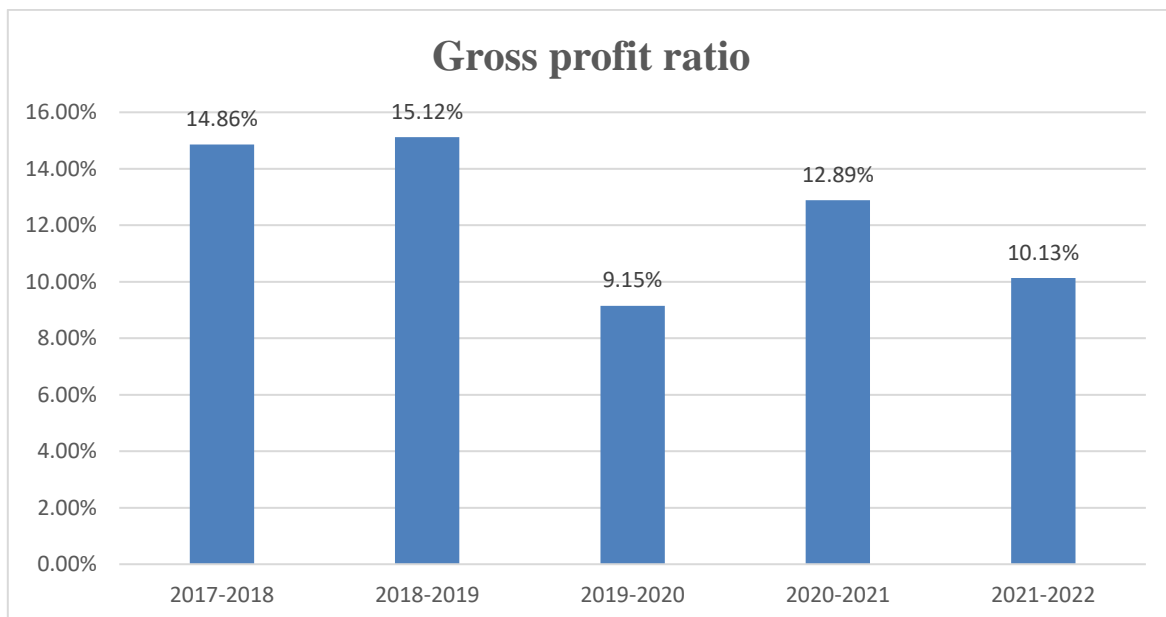
INTERPRETATION:

The above table shows that the current ratio for the year 2017-2018 is 1.87 times, 2018-2019 is 1.81 times, 2019-2020 is 1.31 times, 2020-2021 is 1.48 times and 2021-2022 is 1.38 times.

GROSS PROFIT RATIO FOR THE YEAR 2017-2022

Year	Gross profit	Sales	Gross profit ratio
2017-2018	277928917.68	1870236498.45	14.86%
2018-2019	281886248.70	1863627871.61	15.12%
2019-2020	175428235.01	1916650739.00	9.15%
2020-2021	249425971.97	1933669042.99	12.89%
2021-2022	206787138.81	2039480654.56	10.13%

CHART FOR GROSS PROFIT RATIO



INTERPRETATION:

The above table shows that the gross profit ratio for the year 2017-2018 is 14.86%, 2018-2019 is 15.12%, 2019-2020 is 9.15%, 2020-2021 is 12.89% and 2021-2022 is 10.13%.

FINDINGS OF THE STUDY:

- It has been found that the total gross working capital for the financial year 2017-2018 higher as Rs.3334.4 lakh and it has been found that lowest in the year 2021-2022 as Rs.2255.07
- It has been found that the decrease trend of net working capital in the financial year 2020-2021 with the amount of Rs.26170922.40
- It has been found that the current ratio for the financial year 2017-2018 higher as 1.87 times and current ratio lowest in the year 2019-2020 as 1.31 times.
- It has been found that the gross profit ratio for the financial year 2018-2019 higher as 15.12% and gross profit ratio lowest in the year 2019-2020 as 9.15%

SUGGESTIONS:

- Working capital is decreases in three years. It affects the production of the company also. Based on their need they try to maintain the working capital properly.
- Net decrease in working capital directly affects the stock level and reflects on profit.
- Current ratio for the year 2017-2018 is in increasing trend, the higher ratio denotes more capable of paying off debts. Hence, it is suggested to maintain higher current ratio.
- The gross profit ratio for the year 2018-2019 shows increasing trend due to increase in total sales. Hence, it is suggested the management to maintain higher sales in upcoming years.

CONCLUSION:

The organisation cannot run efficiently if it does not have adequate finance to meet its day-to-day operations. Working Capital is essential not only for the large scale industries but also to the small scale industries. An effective utilization of working capital results in maximum of production and profit. From the study include that, working capital position is not in expected level. So, it reflects on profit also. But, the total asset contribution is year ways increasing trend that condition is positive sign to the company. Adequate working capital is not only essential for the meeting day-to-day expenditure but also to maintain financial stability and profitability of the firm.

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