A STUDY ON EFFICIENCY OF WORKING CAPITAL MANAGEMENT

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Abstract

Working capital may be regarded as the lifeblood of a business. The term working capital refers to the capital required for day-to-day operations of a business enterprise. It is represented by excess of current assets over current liabilities. It is essential that a certain proportion of funds be kept invested in the form of different current assets like inventories, receivables, cash marketable securities. Managing current assets require more attention than managing plant and equipment expenditure. Working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities and their inter-relationship that exists between them. Its goal is to maintain a satisfactory level of working capital. The study attempts to determine the efficiency and effectiveness of management in each segment of working capital.

Keywords: Working capital management, Current liabilities, Current assets, Efficiency, Effectiveness

INTRODUCTION

Financial management is mainly concerned with the acquisition, financing and management of assets with some overall goal in mind. Financial manager has to forecast expected events in business and note their financial implications. Whatever may be the organization, working capital plays an important role, as the company needs capital for its day to day expenditure. Thousands of companies fail each year due to poor working capital management practices. Entrepreneurs often don’t account for short term disruptions to cash flow and are forced to close their operations. Inadequate planning and control of working capital is one of the more common causes of business failure.

Effective management of working capital helps by providing uninterrupted production, enables to make prompt payments and maintain the goodwill, leads to high solvency and credit standing can arrange loans from banks, enables a concern to avail cash discounts on the purchases, ensures regular supply and continuous production, reduces wastage and costs and enhances production and profits, can exploit the favorable market conditions such as purchasing its requirements in bulk when the prices are lower and holdings its inventories for higher prices,enables a concern to pay quick and regular of dividends to its investors and gains confidence of the investors and can raise more funds in future, brings an environment of securities, confidence, high morale which results in overall efficiency in a business.

Working Capital has been conveniently classified into two: permanent and temporary working capital. Permanent working capital refers to the minimum level of current assets maintained in a firm. Temporary working capital refers to additional current assets temporarily over and above the permanent working capital to satisfy cyclical demands. The operating cycle concept penetrates to the heart of the working capital management in a more dynamic form. The time that elapses to convert raw materials into cash is known as operating cycle. Cash Conversion Cycle (CCC) is the time length between the payment for suppliers of raw materials and the collection of cash for sales. Working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities and their inter-relationship that exists between them. Its goal is to maintain a satisfactory level of working capital.

Management of working capital is an essential task. The amount of working capital available should be neither too large nor too small. Efficiency in this area can help, to utilize fixed assets gainfully, to assure the firm’s long- term success and to achieve the overall goal of maximization of the shareholders, fund. Shortage or bad management of cash may result in loss of cash discount and loss of reputation due to non-payment of obligation on due dates. A large amount of working capital would mean that the company has idle funds. Since funds have a cost, the company has to pay huge amount as interest on such funds. If the firm has inadequate working capital, such firm runs the risk of insolvency. The adequacy of cash and current assets together with their efficient handling virtually determines the survival or demise of a concern.

The study attempts to determine the efficiency and effectiveness of management in each segment of working capital. This will enable to increase the profitability of the concern and the firm could be able to meet its current obligation will in time. The study includes various aspects regarding the future plans and diversification activities. The study of working capital based on tools like ratio analysis, statement of changes in working capital.

NEED FOR THE STUDY

Working capital decides not only liquidity and solvency but also operating efficiency of the organization. This project is done as a whole entirely. It will give overall view of the organization and it is useful in further expansion decision to be taken by management. To study the working capital needs and strength of the organization in meeting and managing working capital of the organization. This project also useful as it combines the present year data with the previous year data and thereby it shows the trend analysis, i.e. increasing or decreasing. The process of our study focuses mainly on the analysis of working of Steel Plant. Good financial analysis with the help of working capital guides the board and management to pursue objectives that are in the interests of the company and shareholders and facilitates effective monitoring there by promoting optimal use of financial reserves more efficiently. The study is also beneficial to employees and offers motivation by sharing how they are contributing of the company growth.

OBJECTIVES OF THE STUDY

1. To find out working capital position of the company for last five years.
2. To study the liquidity position through various working capital related ratios.
3. To determine whether the company’s efficiency of working capital is increasing or decreasing and how effectively it is handling current assets etc.

METHODOLOGY

Methodology is a systematic procedure of collecting information in order to analyze and verify a phenomenon. The collection of information has done with the help of two principle sources. The primary data was gathered through personal interaction with various functional heads and technical personal by discussing with financial department. Secondary data was collected from companies’ annual reports, various books, newspapers and internet. The past five years balance sheets and Profit & loss Account statement of the company. The study is carried basing on the information and documents provided by the organization and based on the interaction with the various employees of the respective departments.

DATA ANALYSIS & INTERPRETATION

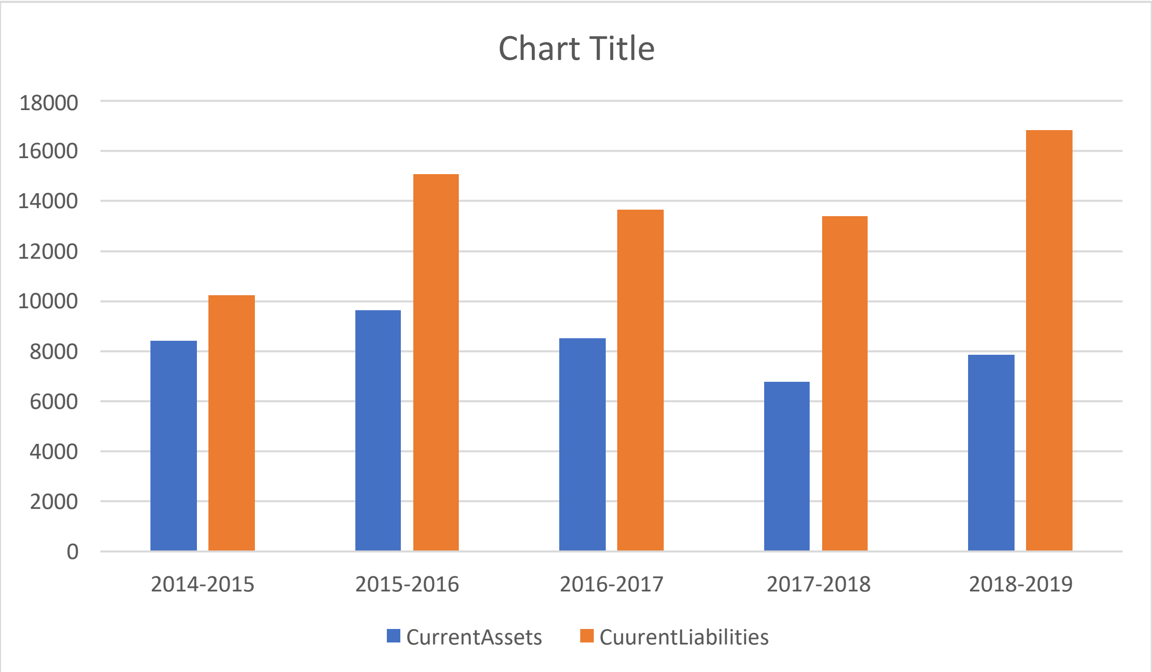
The importance of the study is emphasized by the fact that the manner of administration of current asset and current liabilities determined to a very large extent the success or failure of a business. The efficient and effective management of working capital is of crucial importance for the success of a business, which involves the management of the current assets and the current liabilities. The business concern has therefore to optimize the use of available resources through the efficient and effective management of the current assets and current liabilities.

Table-1. Working Capital Statement 2014-2019

Particulars	**F.Y.2014-15 (Rs. Crs)**	**F.Y.2015-16 (Rs. Crs)**	**F.Y.2016-17 (Rs. Crs)**	**F.Y.2017-18 (Rs. Crs)**	**F.Y.2018-19 (Rs. Crs)**
B) CURRENT ASSETS					
Inventories					
Semi Finished/ Finished goods	2065.05	3129.95	1873.47	2343.94	2410.77
Raw Materials	1311.31	1467.96	1438.09	1734.96	2139.81
Stores& spares	486.68	581.60	595.94	687.95	1078.09
Total Inventories	**3863.04**	**5179.51**	**3907.50**	**4766.85**	5628.67
Financial Assets					
Trade Receivables					
GrossReceivables	823.97	1055.69	977.81	899.78	1016.81
Less:-provision fo trade receivables	20.32	20.26	19.70	20.98	20.83
Net Receivables	803.65	1035.43	958.11	878.80	995.98
Cash &Bank balances	175.89	63.94	45.56	53.9	51.9
Shortterm loans& advances	3461.35	3259.83	3440.21	440.85	471.30
Other Current Assets	96.73	98.75	147.79	636.48	684.53
Total Current Assets	**8400.66**	**9637.46**	**8499.17**	**6776.88**	**7832.38**
B) CURRENT LIABILITIES					

Financial Liabilities					
Borrowings	3739.93	7444.89	6585.64	8048.84	9221.27
Trade payables	829.93	600.60	733.56	1037.85	1197.57
Current liabilities	5484.04	6979.28	6328.91	512.47	495.92
Short term	157.65	34.61	-	3801.04	5922.06
provisions					
Total current Libalities& provisions	10211.55	15059.38	13648.11	13400.20	16836.82
C)Working capital	-1810.89	-5421.92	-5148.94	-662.32	-9004.44
Increase/ decrease Of working captia over pervious yrs(Rs.Crs)					

Figure-1. Balance Sheet 2014 to 2019 Chart



From the above chart we can interpret that the Current Liabilities are more than Current Assets from past 5 years i.e., from 2014 to 2019. Several ratios, calculated from the accounting data, can be grouped into various classes according to financial activity or function to be evaluated. As stated earlier, the parties interested in financial analysis are short-term and long-term creditors, owners and management. Short-term creditors` main interest is in the liquidity position or the short-term solvency of the firm. Long-term creditors`, on the other hand, are more interested in the long-term solvency and profitability of the firm. Similarly, owners concentrate on the firm's profitability and financial condition. Management is interested in evaluating every aspect of the firm's performance. They have to protect the interests of all parties and see that the firm grows profitably.

Table-2. CURRENT RATIO

(` in Crores.)

Years	Current Assets	Current Liabilities	Ratio's
2014-2015	8400.66	10211.56	0.82
2015-2016	9637.46	15059.38	0.64
2016-2017	8499.17	16328.91	0.52
2017-2018	6776.88	13400.2	0.51
2018-2019	7832.38	16836.82	0.47

From the above table we can interpret that there is a sudden decrease from 2014-2015 to 2015-2016 whereas from 2017-2018 to 2018-2019 there is a gradual decrease.

Table-3. GROSS PROFIT RATIO

(in crores)

Year	Gross profit	Sales	Ratio's
2014-2015	887	12028.33	7.37
2015-2016	538	9314.36	5.78
2016-2017	(766)	8989.50	(0.09)
2017-2018	(263.89)	12706.31	(2.07)
2018-2019	346.19	16618.40	2.08

From the above chart we can interpret that Gross Profit ratio is declining drastically from the year 2014-2015 to 2017-2018 but the gross profit ratio has increased by 2 times from the year 2017-18 to 2018-19.

Table-4. NET PROFIT RATIO

(` in Crores)

YEAR	NET PROFIT	SALES	RATIO'S
2014-2015	366	12028.33	3.04
2015-2016	62	9314.36	0.67
2016-2017	1421	12270.58	11.58
2017-2018	1263.16	12706.31	9.94
2018-2019	(1369.01)	16618.40	(8.24)

Net profit is in decline position from the year 2015-2016 when compared to 2014-15. Main attributable reason for declining profit is overall global scenario meltdown. Even I adverse market conditions, the company is able to earn net profits till 2017-18. But in the year 2018-19 the company incurred a Net loss of Rs. 1369.01 Crs.

Table-5. RETURN ON INVESTMENT RATIO

(` in Crores)

Year	Net profit	Shareholder funds	Return on Investment ratio
2014-2015	366.45	12140.74	0.03
2015-2016	62.38	11593.93	0.005
2016-2017	(1421)	4890	(0.29)

2017-2018	(1263)	4890	(0.26)
2018-2019	(1369)	4890	(0.28)

Highest return on investment was recorded in the 2014-2015. From the year 2015-16the return on investment has been drastically decreased till 2016-17. From the year 2016-17 the return on investment has been fluctuating. More reserves and surplus funds have been diverted for expansion activities.

Table-6. RETURN ON CAPITAL TABLE

(` in Crores)

Year	Profit after Tax	Invested Capital	Return on Capital ratio
2014-2015	366.45	5739.85	6.384
2015-2016	62.38	5189.85	1.202
2016-2017	(1421)	17575	(0.08)
2017-2018	(1263)	6620	(19.08)
2018-2019	(1369)	8687	(15.75)

From the above we can interpret that the highest return on capital is observed in the year 2014-2015. From the 2015-2016 till 2018-19 the return on capital is in declining position .

Table-7. WORKING CAPITAL TURNOVER RATIO

(` in Crores)

Years	Net sales	Working capital	Working capital turnover ratio
2014-2015	12028.33	(1810.90)	(6.64)
2015-2016	9314.36	(5421.92)	(1.72)
2016-2017	12270.58	7829.74	1.57
2017-2018	12706.31	6623.32	1.92
2018-2019	16618.40	9004.44	1.85

From the above table we can interpret that the working capital turnover ratio during the year 2015-16 is -1.72 times. From the year 2016-17 to 2018-19 the working capital turnover ratios are fluctuating. The higher working capital ratio indicates efficient utilization of working capital.

CONCLUSION

Effective management of working capital helps by providing uninterrupted production, enables to make prompt payments and maintain the goodwill, leads to high solvency and credit standing can arrange loans from banks, enables a concern to avail cash discounts on the purchases, ensures regular supply and continuous production, reduces wastage and costs and enhances production and profits, can exploit the favorable market conditions such as purchasing its requirements in bulk when the prices are lower and holdings its inventories for higher prices, enables a concern to pay quick and regular of dividends to its investors and gains confidence of the investors and can raise more funds in future, brings an environment of securities, confidence, high morale which results in overall efficiency in a business.

Working capital management not only decides the liquidity & solvency but also increases operating efficiency of the organization. Working capital management requires monitoring a company's assets and liabilities to maintain sufficient cash flow. It increases value of the firm. It is a process of managing short term assets & liabilities. It makes sure that a firm has sufficient liquidity to run its operating smoothly.

The company should focus on the current ratio as it is not satisfactory. The management should focus on the of current assets and current liabilities. Current liabilities is more than the current assets. So the working capital is not good, the company has to increase the current assets to meet short term debts. In order to maintain Operating profit ratio at a constant level the production department need to use the capacity optimally, try to minimise the operating expenses without compramising production level.

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