



A STUDY ON WORKING CAPITAL MANAGEMENT

THALLAPENTA VENKATESWARA RAO*, V. SURESH**

PG SCHOLAR*, ASSOCIATE PROFESSOR**

DEPARTMENT OF MBA, SAI SPURTHY INSTITUTE OF TECHNOLOGY, B-GANGARAM, SATHUPALLI. 507303

ABSTRACT:

Working capital is just like the heart of every business. A study focuses on short term financial management and Working capital management. Working capital refers to that part of the firm's capital which is required for short-term financing current assets, this keeps revolving fast and constantly converted to cash. Hence, this paper analyses financial viability, structure and utilization of working capital in the company as analyzes for five years form 2008-09 to 2012-13. The study is mainly based on the Secondary data of the company. Further, to measure the effective utilization of the statement of working capital, Ratio analyses were used. It was concluded that the working capital is a vital role of an organisation.

INTRODUCTION Finance is an important thing for all area of management. Finance management as an integral part of overall management, is not a totally independent area. It is not routine and mechanical. It is dynamic and ever changing its function has become more demanding and complex. Its activities are centred with the planning and controlling of firms financial resources both long term and short -Term. The study is focused on the short-term financial management. Working capital is just like the heart of every business. A study of working capital is of major importance to internal and external analysis because of its close relationship with the current day to day operations of a business. As pointed out by Ralph Kennedy and steward mc Muller, inadequacy or mismanagement is the leading cause of risk in business. Capital required for a business can be classified into two main categories i.e. Finance capital, working capital. Working capital refers to that part of firm's capital which is required for short-term financing current asset, this keeps revolving fast and constantly converted to cash. Working capital management is the management of the current assets and current liabilities. The term working capital is used for the capital required for day to day working activities in a business concern. Such as for purchasing raw materials for meeting day to day expenditure on salaries, wages, rent, rates, advertising, etc. A solvency of a concern its proper circulation provides to the business the right account of cash to maintain regular flow of its operations. Profitability & solvency are the twin objective working capital

management. Hence, this paper analyses the working capital management of steel authority Indian Ltd, Salem

REVIEW OF LITERATURE

NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH (NCAER) in (1966) with reference to working capital management in three industries namely cements fertilizer and sugar. This study was mainly devoted to the analysis of composition of the working capital in these industries for the period 1959 to 1963. However, NCAER succeed to put into sharp focus the various improvements involved in the management of different components of working capital. KAMTA PRASAD SINGH, ANILKUMARSINHA AND SUBAS CHANDRA SIGN (1986) examined various aspects of working capital management in fertilizer industry in Indian during the period 1978 -1979 to 1982 -1993. Sample included public sector unit, Fertilizer Corporation of Indian Ltd (FCI) and its daughter units namely Hindustan fertilizers corporation Ltd., The financial fertilizer Ltd., RASHTRIYA chemicals and fertilizer Ltd. And fertilizer Indian Ltd HARBANS LAL VERMA (1989) evaluated working capital management in iron and steel industry by taking a simple of selected unit in both private and public sectors over the period 1978-1979 to 1985-1986. Sample included TATA iron and steel company Ltd (TISCO) in private sector and Steel Authority of Indian Ltd (SAIL) and Indian iron and steel company, a wholly owned subsidiary of SAIL, public sectors

NEED OF THE STUDY

- The study aims at analyzing the how much working capital needed for the company per day.
- This study is used to management to take an appropriate action to maintain working capital in efficient manner.
- To know the level of the working capital maintained by the organization

OBJECTIVE OF THE STUDY

- To analyze the working capital position of the firm for last five years.
- To analyze the liquidity and profitability, solvency position of the firm.
- To analyze the net worth position of working capital in the company.
- To assess the impact of working capital in shareholder value of the firm.

RESEARCH METHODOLOGY This study is an analytical research. The research has to use facts or information already available and analyze these to make critical evaluation of the study. A sample size of the study is five years from 2009 to 2013. In data collection as basically used the secondary data, as available in the records of the unit as from the publication of the financial statements in the company annual reports as include the balance sheet and profit and loss account of the company. Analysis of data is made using certain financial tools and techniques as ratio analysis.

SCOPE OF THE STUDY

- The study will help to maintain appropriate sources of working capital in organization.
- With the help of the study the company may invest more on short term assets over the liabilities.
- This study helps to control the short terms assets and liabilities.
- From this study the organization can know about the proportion of investment in current assets and current liabilities.

LIMITATION OF THE STUDY

- The study is short term period of five accounting year from 2008-2009 to 2012-2013.
- The main constraint of this study is considered as the data used is secondary.
- The data was collected based on the company annual report. So we cannot say it was accurate.

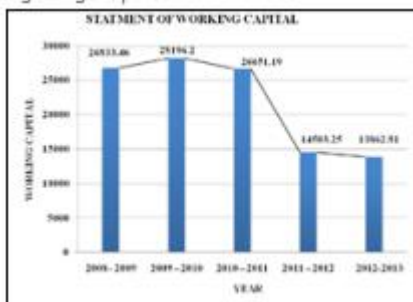
DATA ANALYSIS AND FINDINGS STATEMENT OF WORKING CAPITAL

Statement of working capital is prepared to depict the changes in the working capital. it represent the excess of the current assets over current assets over current liabilities are the components of the working capital its necessary to measure the increase or decrease there in by preparing a statement is prepared with current assets and current liabilities are appearing in the balance sheet under consideration. The statement shows the changes in individual items of current liabilities and their effect of the working capital. The total increase and total decrease in the end is compared and the difference of total increases and total decreases shows the increases or net decreases, in the working capital. The calculated statement of working capital as

STATEMENT OF WORKING CAPITAL FROM 2008-2009 TO 2012-2013

PARTICULARS	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Current assets					
Inventories	10121.45	9027.46	11302.79	13742.37	16008.21
Sundry debtors	3024.36	3493.90	4161.30	4761.32	4424.18
Cash & bank balance	18228.53	22436.37	17478.86	6415.70	3850.35
Interest receivables	1014.47	780.34	489.56	2126.13	2342.55
Loan & advances	2122.06	3343.09	4657.85	1385.77	990.69
Total current assets (a)	34510.87	39081.16	38090.36	28431.29	27615.98
Current liabilities					
Sundry creditors	4150.85	6217.09	6093.96	3190.42	3322.04
Advanced received	565.64	699.28	685.61	906.45	675.28
Security deposit	431.20	517.08	634.63	580.56	495.71
Interest accrued	95.58	401.12	446.88	543.95	579.92
Unpaid dividend	7.55	9.00	10.12	11.29	11.67
Unclaimed matured deposits	1.60	1.42	1.36	1.49	1.09
Unclaimed matured bonds	0.25	0.00	0.57	0.00	0.00
Interest accrued in matured	0.63	0.58	12.05	12.78	12.76
Other liabilities	2424.11	3039.69	3553.99	8681.46	8654.70
Total current liabilities (b)	7677.41	10884.96	11439.17	13928.04	13753.17
Net working capital (a-b)	26833.46	28196.20	26651.19	14503.25	13862.81

INFERENCE: Form the above table shows that the net working capital is showing decreasing trend. It was increasing in the 2009- 2010 (28196.20). But it was decreasing in the (26651.19 to 13862.81) 2010-2011 to 2012-2013. This because all the components of current assets and current liabilities decreasing during this period



ANALYSIS OF RATIOS Ratio analysis is the powerful tool for financial analysis. A ratio is defined as “the indicated quotient of two mathematical expressions” and as “the relationship between two or more things”. In financial analysis, a ratio is used to evaluating the financial position and performance of a firm.

PARTICULARS	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Current ratio	2.01	2.28	2.19	1.52	1.23
Quick ratio	1.42	1.75	1.54	0.78	0.51
Operating profit ratio	0.25	0.29	0.21	0.16	0.18
Net profit ratio	14.2	16.6	11.4	7.7	4.94
Return on investment	27.0	24.2	18.2	15.6	10.33
Debts – equity ratio	0.26	0.49	0.54	0.29	0.33
Net worth ratio	0.81	0.63	0.70	0.90	0.96

Fixed assets to net worth ratio	43.7	40.8	40.6	43	41
Return on shareholder funds	22	20	13	8.9	5.3
Dividend yield ratio	2.70	1.30	1.41	2.12	3.23

FINDINGS

- The current ratio was highly increasing (2.28) occur in the 2009-10.
- The Quick ratio observed highest ratio is (1.75) occur in the 2009-10.
- The operating profit ratio increasing (0.16 to 0.18) in the 2011-12 to 2012-13.
- The net profit ratio has observed highest ratio is (16.6%) occur in the 2009-10.
- The returns on investment as observed highest ratio is (27%) occur in the 2008-09
- Debts equity ratio gets increased in (0.29) to (0.33) in the 2011-12 to 2012-13. It shows long term debt is getting increase.
- Net worth ratio increasing (0.90 to 0.96) in the 2011-12 to 2012-13.
- Fixed assets to net worth increasing (40.8%) to (43%) in the 2009-10 to 2011-12 .So the firm has invested more on assets for the growth of the organization.
- Return on shareholder’s funds ratio as decreasing (22%) to (5.3%) ratio value from the year 2008-09 to 2012-13. The firm’s ability of generating profit per rupee of shareholder’s funds.
- Dividend yield ratio has increasing (1.41%) to (3.23%) in the 2010-11 to 2012-13. Market price is more efficient of the firm’s.

SUGESSTIONS

- Balanced working capital should be maintained as excessive working capital will reduce profitability and inadequate working capital will threaten the solvency of the firm.



- To efficiently manage the inventory. The company can follow economic order quantity to avoid unnecessary blocking of funds in excessive inventory.
- Cash management in the organization has been streamlined by proper planning and control. So that optimum cash balance will be maintained

CONCLUSION Working capital management plays significant facts of finance management. Finance manager is required to spend a great deal of time and maintaining optimal working capital for the running of the business. A lot funds now invested and received can be released for the alternate user. Ultimately liquidity and profitability of the company will be promoted. The problems under utilization of capacities of the industry will be solved to a larger extent with the improvement in the management of the working capital. A balanced approach should be followed by the organization to finance permanent current assets by long term sources and temporary current assets by short term sources of the finance.

TEXT AND REFERENCES

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