

A STUDY ON WORKING CAPITAL MANAGEMENT

G Sanjana¹, Ms. C. Jyothika Sony²

¹Department of Management Studies Aristotle PG College, Chilkur, Moinabad, Ranga Reddy District, Telangana, India.

²Assistant Professor Aristotle PG College, Chilkur, Moinabad, Ranga Reddy District, Telangana.

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ABSTRACT

Working capital management is part of the financial considerations that a finance manager needs to determine and plays an important role in determining the profitability of the firms. In view of its importance, this study aims to investigate on the effect of working capital management components and working capital management policy towards profitability of firms manufacturing sector Ramya Spinning Mills Private Limited for five years period from 2019 to 2023, which also coincides with the implementation of the company. Further, the objective of this study is to examine whether there is any significant difference in profitability between firms in services and manufacturing sector during the period of 2019 to 2023.

Keywords: Working capital management

1. INTRODUCTION

Introduction to working capital

Working capital is the lifeblood and nerve center of a business. Just as circulation of blood is essential in the human body for maintaining life, working capital is very essential to maintain the smooth running of a business. No business can run successfully without an adequate amount of working capital.

Meaning of working capital:-

Working capital refers to the funds invested in current assets i.e. investment in stocks, sundry debtors, cash and other current assets. Current assets are essential to use fixed assets profitably.

For example a machine cannot be used without raw material. Thus it is obvious that certain amount of funds is always tied up in raw materials, work in progress and finished goods. However, the business also enjoys credit facilities from its suppliers who may supply raw materials on credit and the firm may not pay all the expenses immediately.

Therefore, certain amount of funds is automatically available to finance the current assets requirements. However the requirements for current assets are usually greater than the amount of funds payable through current liabilities. In other words, current assets are to be kept at a higher level than the current liabilities.

Definition:-

According to Ralph Kennedy and Steward M.C. Muller “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 business”.

Working capital management involves the relationship between a firm's short- term assets and its short-term liabilities. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash.

Working capital typically means the firm's holdings of current, or short-term, assets such as cash, receivables, inventory and marketable securities. These items are referred to as circulating assets because of their cyclical nature. In a retail establishment, cash is initially employed to purchase inventory, which is in turn sold on credit and results in accounts receivables. Once the receivables are collected, they become cash-part of which is reinvested in additional inventory and part going to profit or cash throw-off.

The need for working capital to run the day to day business activities cannot be overemphasized. We will hardly find a business firm which does not require any amount of working capital. Indeed, firms differ in their requirements of the working capital.

There are two concepts of working capital—gross and net.

Gross working capital refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year and include cash, Short-term securities, debtors, bills receivable and stock.

Net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year and include creditor's bills payable and outstanding expenses.

2. REVIEW OF LITERATURE

ARTICLE: 1

Title: An analysis of working capital management in India: An urgent needs to refocus

Author: Najib H.S. Farhan¹, Fozi Ali Belhaj², Waleed M. Al-ahdal³ and Faozi A. Almaqtar

Source: Farhan et al., *Cogent Business & Management* (2021), 8: 1924930

The current study aims to evaluate the impact of working capital components on the financial performance of Indian pharmaceutical companies. Moreover, it aims to analyze working capital among small, medium and large firms. The study uses a panel data of 82 pharmaceutical companies for the period from 2008 to 2017. Generalized Method of Moment (GMM) model is used for estimating the results. Findings show that there is a significant difference in managing working capital among small, medium and large firms. Furthermore, it is found that number of days' collection period, number of days' payable period and number of days' inventory holding period positively impact the financial performance of Indian pharmaceutical company's measured by return on assets and net operating margin. Whereas, cash conversion cycle has a negative impact on return on assets, net operating margin and Tobin's Q.

ARTICLE: 2

Title: Effects of working capital management on firm performance: Evidence from the EFQM certified firms

Author: Muhammad Yousaf^{1*} and Petr Bris

Source: Farhan et al., *Cogent Business & Management* (2021), 8: 1924930.

The main aim of the current study is to explore the relationship between working capital (WC) and firm performance. We chose a sample of 326 Czech firms, including 20 certified firms from the EFQM (European Foundation for Quality Management) Excellence Model from the Albertina database. The sample of the Czech firms was taken from three sectors: manufacturing, automobile, and construction. We employed a two-step system generalized method of moment (GMM) technique to determine the results. The study results revealed a negative impact of WC on firm performance; moreover, the firms having a quality certificate from the EFQM Excellence Model perform better. The findings of previous research, which were held globally, and the current study results will encourage the directors, managers, and leaders of the Czech firms to participate in the quality award.

RESEARCH GAP:

This project results suggest that managers can increase profitability of manufacturing firms by reducing the number of day's inventories and accounts receivable.

OBJECTIVES:

- To understand the working capital position of the Ramya Spinning Mills Pvt Ltd.
- To know the company's financial Position.
- To examine the solvency position of Spinning Ramya Spinning Mills Pvt Ltd.
- The aim is to study the functionality of working capital management in Ramya Spinning Mills Pvt.Ltd.

3. RESEARCH METHODOLOGY

Need For The Study

- This study gives the analysis in financial decision making process.
- This study gives information about growth of the organization
- This is useful to formulating the company financial plans and policies
- This study helps to assess company financial health and soundness of its management.

Scope Of The Study:

The project is as a reference guide or as sources information. It gives the idea about the financial analysis of a firm.

- The main objective of the study was to the put into practical the theoretical aspect of the study into real life work experience.
- The study aims to the liquidity position of the firm. Ratio analysis has been used to analysis the financial position of the firm

Methodology

A methodology is a systematic procedure of collecting information in order to analyze and verify a phenomenon. The collection of information has been through two principal sources, they are:

Sources of information:

Primary Data

The primary data is collected by discussions with the functional managers, officers, officers, staff and other members of the Spinning Mills Pvt Ltd.

Secondary Data

The secondary data is obtained from the annual report and financial statements that is balance sheet and Profit and Loss account, Annual reports, Journals, and other informational publications of the Ramya Spinning Mills Pvt Ltd. and from the text books of financial management.

Limitations Of The Study

- Every study will have its own limitation's the present study is also carriers out with the following limitations.
- The study is limited a set universe comprising of the five years samples.
- The controllable constraints are overlooked.

4. DATA ANALYSIS & INTERPRETATION

Schedules of changes in Working Capital of Ramya Spinning Mills Pvt Ltd as on 31 March 2018

	Particulars	2016-2017	2017-2018	Increase in working capital	Decrease in Working capital
A	Current Assets				
	Inventories	17,22,56,321	18,79,34,012	1,56,77,691	-
	Sundry debtors	2,49,37,024	2,68,60,540	19,23,516	-
	Cash & bank	3,34,65,753	60,59,037	-	2,74,06,716
	Other current assets	2,86,56,816	4,86,79,846	2,00,23,03 0	-
	Loans & Advances	1,49,28,012	1,17,23,019	-	32,04,993
	Total Current Assets	274243926	281256454	-	-
B	Current Liabilities				
	Current Liabilities	108391431 7256927	139624184 12020960		31232753 4762033
	Total Current Liabilities	115648358	151643144	-	-
A- B	Working Capital	158595568	129613310	-	-
	Increase in Working capital		28982258	28982258	
		158595568	158595568	66606495	66606495

Interpretation:

The working capital at the end of the period (2016) is more than the working capital at the beginning (2017) an amount of is represented by decrease in working capital. Current assets are increased in 2017-18 than previous year and also current liabilities are increased in 2017-16 than previous year. In the year 2017-2018 current assets are more than the current liabilities by 15,85,95,568. The current organization position is positive.

schedules of changes in Working Capital of Ramya Spinning Mills Pvt Ltd as on 31 March 2019

	Particulars	2017-2018	2018-2019	Increase in Working capital	Decrease in Working capital
A	Current Assets				
	Inventories	18,79,34,012	23,98,80,075	5,19,46,063	-

	Sundry debtors	2,68,60,540	3,59,92,686	91,32,146	-
	Cash & bank	60,59,037	71,50,276	10,91,239	-
	Other current assets	4,86,79,846	6,96,40,943	2,09,61,097	-
	Loans & Advances	1,17,23,019	1,25,29,745	8,06,726	-
	Total Current Assets	28,12,56,454	36,51,93,725		
B	Current Liabilities				
	Current Liabilities provisions	13,96,24,184 1,20,18,960	20,24,49,314 90,73,986	29,44,974	6,28,25,130
	Total Current Liabilities	15,16,43,144	21,15,23,300		
A- B	Working Capital	12,96,13,310	15,36,70,425	-	-
	Decrease in Working capital	24,05,71,150	-	-	24,05,71,150
		15,36,79,425	15,36,70,425	8,68,82,245	8,68,82,245

Interpretation:

The working capital at the end of the period (2019) is less than the working capital at the beginning (2018) an amount of is represented by increase in working capital. Current assets are increased in 2018-18 than previous year and also current liabilities are increased in 2018-17 than previous year. In the year 2018-2019 current assets are more than the current liabilities by 15,36,70,425. The current organization position is positive.

Schedules of changes in Working Capital of Ramya Spinning Mills Pvt Ltd as on 31 March 2020

	Particulars	2018-2019	2019-2020	Increase in Working capital	Decrease in Working capital
A	Current Assets				
	Inventories	23,98,80,075	23,69,75,762	-	29,04,313
	Sundry debtors	35992686	3,62,58,591	2,65,905	-
	Cash & bank	71,50,276	1,39,98,934	68,48,658	
	Other current assets	6,96,40,943	9,36,87,132	2,40,46,189	-
	Loans & Advances	1,25,29,745	1,08,064,119	-	16,65,626
	Total Current Assets	365193725	365193725		
B	Current Liabilities				
	Current Liabilities & provisions	202449315 9073986	15,84,52,146 2,15,80,520	4,39,97,169	1,25,06,534
	Total Current Liabilities	21,15,23,300	18,00,32,666		
A- B	Working Capital	15,36,70,425	21,17,51,872		
	Increase in Working capital	5,80,81,447	-	-	5,80,81,447
		21,17,51,872	21,17,51,872	7,51,57,921	7,51,57,921

Interpretation

The working capital at the end of the period (2020) is more than at the beginning (2019) an amount of represented by increase in working capital. Current assets are constant in 2019-19 than previous year and also current liabilities are decreased in 2019-18 than previous year. In the year 2019-2020 current assets are more than the current liabilities by 21,17,51,872 . The current organization position is positive.

Schedules of changes in Working Capital of Ramya Spinning Mills Pvt Ltd as on 31 March 2021

	Particulars	2019-2020	2020-2021	Increase in Working capital	Decrease in Working capital
A	Current Assets				
	Inventories	23,69,75,762	32,74,12,543	9,04,36,781	-
	Sundry debtors	3,62,58,591	2,23,61,498	-	-
	Cash & bank	1,39,98,934	7,38,91,461	5,98,92,527	-
	Other current assets	9,36,87,132	15,15,68,707	5,78,81,575	-
	Loans & Advances	1,08,64,119	1,39,66,691	31,02,572	-
	Total Current Assets	39,17,84,538	58,92,00,900		
B	Current Liabilities				
	Current Liabilities & provisions	15,84,52,146	14,33,60,960	1,50,91,186	6,92,79,620
		2,15,80,520	9,08,60,140	-	-
	Total Current Liabilities	180032666	23,42,21,100		
A- B	Working Capital	21,17,51,872	35,49,79,900	-	-
	Increase in Working capital	14,32,27,928	-	-	14,32,27,928
		35,49,79,800	35,49,79,800	22,64,04,641	22,64,04,641

Interpretations:

The working capital at the end of the period (2021) is more than the working capital at the beginning (2020) an amount of is represented by increase in working capital. Current assets are increased in 2020-20 than previous year and also current liabilities are increased in 2020-19 than previous year. In the year 2020-2021 current assets are more than the current liabilities by 35,49,79,900 . The current organization position is positive.

Schedules of changes in Working Capital of Ramya Spinning Mills Pvt Ltd as on 31 March 2022

	Particulars	2019-2020	2020-2021	Increase in Working capital	Decrease in Working capital
A	Current Assets				
	Inventories	32,74,12,543	34,19,06,868	1,44,94,325	-
	Sundry debtors	2,23,61,498	8,30,13,168	6,06,51,670	-
	Cash & bank	7,38,91,461	15,60,07,572	8,21,16,111	-
	Other current assets	15,15,68,707	21,98,55,601	6,82,86,894	-
	Loans & Advances	1,39,66,691	1,62,18,624	22,51,933	-
	Total Current Assets	58,92,00,900	81,70,01,833		
B	Current Liabilities				
	Current Liabilities & provisions	14,33,60,960	12,59,82,205	1,73,78,755	- 3,70,32,911
		9,08,60,140	12,78,93,051	-	
	Total Current Liabilities	23,42,21,100	25,38,75,256		
A- B	Working Capital	35,49,79,800	56,31,26,577	-	-
	Increase in Working capital	20,81,46,777	-	-	20,81,46,777
		56,31,26,577	56,31,26,577	24,51,79,688	24,51,79,688

Interpretation

The working capital at the end of the period (2020) is more than the working capital at the beginning (2021) an amount of is represented by increase in working capital. Current assets are increased in 2021-21 than previous year and also current liabilities are increased in 2021-21than previous year. In the year 2021-2022 current assets are more than the current liabilities by 56,31,26,577. The current organization position is positive.

5. CONCLUSION

The overall performance of Ramya Spinning Mills Pvt Ltd from last decade is outstanding. By observing net working capital ratio, it shows that the liquid position of the company is strong. By comparing the working capital turnover ratio, the conversion of the working capital into sales is good. So, the efficiency in the management of the working capital is very high.

It suggested that the company has to maintain more number of assets and should maintain the bank balances and suggested that the company has to convert the working capital into sales very quickly which improves the efficiency of the management of W.C. the company is that it should maintain current standards of performance and continue its efforts to the growth and development of Indian tobacco Industry, which ultimately benefits its employees, formers, Government and others who are linked with this corporate giant today.

6. REFERENCES

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