

A Study on Working Capital Management with Reference to the India Cements Ltd

Gogula Nagarjuna¹, Dr. P Basaiah²

¹Student, ²Assistant Professor,

^{1,2}School of Management Studies, JNTUA University Anantapur, Andhra Pradesh, India

ABSTRACT

Financial management basically deals with rising of financial resources and its proper allocation in order to maximize share holders wealth. For a successful running of an organization fixed and current assets play crucial role as organization generally invests in this options. A firm's working capital consists of its investments in short term assets like cash and bank balance, inventories, receivables and short term investments. Therefore the working capital management's mainly refers to the management of all this individual current assets. In this research paper an attempt has been made to study the components of working capital and the possible implications of working capital management policies on profitability of India cements ltd. The study is based on secondary data collected from annual reports of India cements ltd for the period 2015-16 to 2019-20. In this paper there is an application of ratio analysis to identify the significant impact of working capital management on the profitability.

KEYWORDS: Working capital, Current ratio, Inventory turnover ratio, Debt equity ratio

INTRODUCTION

The working capital management is the lifeblood of the business. Significant amount of resources are invested in working capital and therefore its management plays an important role in profitability and performance of the company. The effective management of the business among other things depends primary upon the manner in which its short term assets and sources of financing are managed. The working capital management or current asset management is one of the most important aspects of the overall financial management. The amount of capital invested in current assets such as cash, bank, debtors etc., is known as working capital

Need for the study:

- In any organization working capital plays as an important role. Under or over estimation of working capital affects the profitability and liquidity of the company financial position
- In order to maintain revenue from operations every firm needed certain amount of current

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assets i.e., cash is required to pay for expenses or to meet obligation for service received etc.

- Need to maintain cash, bank balance, debtors, bills receivables, closing stock, prepayment certain other deposits and invest which are temporary in nature represents current assets of the firm

Objectives:

- To study the working capital position of the India cements ltd
- To find out the operating efficiency of the India cements ltd
- To know at what proportion debt and equity are being used
- To evaluate the inventory management performance of India cements ltd

Scope of the study:

- The study of working capital management is confined only the India cements ltd

- It is proposed to study on working capital management in India cements ltd for 5 years I.e., 2015-16 to 2019-20

Limitations of the study:

- The information provided in the company balance sheet is only the data source available
- The information available in the balance sheet have taken from the published annual reports of the company
- The study is confined to a period of 5 years I.e., 2015-16 to 2019-20

Research methodology:

The applied research, which is also called decisional by some research scholars and it specifies alternative solutions and possible outcomes of each alternative and it is promoted by commercial considerations. The applied research can be further divided into two categories. They are

- Problem solving research
- Problem oriented research

Sources of data:

The date required for the study is mainly based on the secondary data. The required information is collected from the annual reports of the India cement ltd comprising of balance sheet, P&L accounts.

Data analysis and interpretation:

Statement of changes in working capital 31-03-2015 & 31-03-2016

Particulars	2015	2016	Rs In Lakhs	
			Working capital Increase	Decrease
Current assets				
Inventories	14632.88	16332.88		1700.00
Short term investments	176.36	280.80	103.44	
Trade receivables	1046.00	12582.00		11536.00
Trade and sundry debtors	62.36	321.00		258.64
Other current assets	4472.25	3266.00		1206.25
Total current assets	26170.25	32774.68		6604.43
Current Liabilities				
Short term borrowings	4854.71	5977.75		1123.04
Trade payables	7282.25	9141.36		1859.11
Short term provisions	17.00	17.00		
Other current liabilities	4677.71	2244.18	2433.53	
Total current liabilities	16631.67	17370.29	1100.00	
Net working capital (A-B)	9538.58	15404.39	5866.81	5904.43

Interpretation:

From the above table we can observe the net working capital is decreased by Rs 13422.18 lakhs in the year of 2015-16 due to increase of trade payables.

Statement of changes in working capital 31-03-2016 & 31-03-2017

Particulars	2016	2017	Rs In Lakhs	
			Working capital Increase	Decrease
Current assets				
Inventories	10934.40	7492.40		3442.00
Short term investments	100.00	66.25		33.75
Trade receivables	1196.00	7988.00		6792.00
Trade and sundry debtors	59.00	38.40		20.60
Other current assets	2282.25	2582.00		300.00
Total current assets	15573.65	15716.05		142.40
Current Liabilities				
Short term borrowings	2187.75	3477.75		1290.00
Trade payables	6571.36	11012.11		4440.75
Short term provisions	17.00	17.00		
Other current liabilities	225.00	608.75	383.75	
Total current liabilities	11000.11	15115.61	383.75	
Net working capital (A-B)	4573.54	600.44	3489.10	142.40

Interpretation:

From the above table we can observe the net working capital is increased Rs 38144.34 lakhs in the year of 2016-17 due to decrease of current liabilities.

Statement of changes in working capital 01-01-2017 & 01-01-2018

Particulars	2017	2018	Rs In Lakhs	
			Working capital Increase	Decrease
Current assets				
Inventories	11667.00	7111.00		4556.00
Short term investments	100.00	100.00	0.00	
Trade receivables	19882.00	19247.00		635.00
Trade and sundry debtors	677.00	316.00		361.00
Other current assets	1982.00	2116.00	134.00	
Total current assets	24688.00	19000.00		5648.00
Current Liabilities				
Short term borrowings	5077.15	3463.24		1613.91
Trade payables	11102.25	11791.97		689.72
Short term provisions	17.00	17.00		
Other current liabilities	6615.75	1113.11	5502.64	
Total current liabilities	22812.15	16385.32	6419.33	
Net working capital (A-B)	11875.85	2614.68	9256.17	5648.00

Interpretation:

From the above table we can observe the net working capital is decreased Rs 24455.31 lakhs in the year of 2017-18 due to increase of short term borrowings and trade payables.

Statement of changes in working capital 31-03-2018 & 31-03-2019

Particulars	2018	2019	Rs In Lakhs	
			Working capital Increase	Decrease
Current assets				
Inventories	7122.00	6232.00		890.00
Short term investments	100.00	100.00	0.00	
Trade receivables	18747.00	7280.00		11467.00
Trade and sundry debtors	540.00	312.00		228.00
Other current assets	2722.00	3212.00		500.00
Total current assets	26831.00	14256.00		12575.00
Current Liabilities				
Short term borrowings	448.00	1471.00		1023.00
Trade payables	11754.00	13142.00		1388.00
Short term provisions	17.00	17.00		
Other current liabilities	1128.00	1013.00	115.00	
Total current liabilities	16557.00	15643.00	930.00	
Net working capital (A-B)	10274.00	2613.00	7644.00	9900.00

Interpretation:

From the above table we can observe the net working capital increased by 1500.15 Lakhs in the year if 2018-19 due to increase of trade receivables.

Statement of changes in working capital 31-03-2019 & 31-03-2020

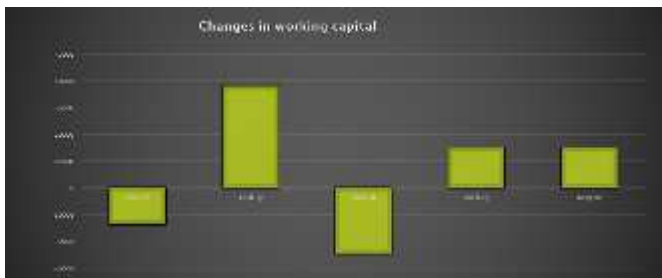
Particulars	2019	2020	Rs In Lakhs	
			Working capital Increase	Decrease
Current assets				
Inventories	6521.00	6202.00		319.00
Short term investments	100.00	100.00	0.00	
Trade receivables	7280.00	6820.00		460.00
Trade and sundry debtors	312.00	312.00		
Other current assets	4212.00	4000.00		212.00
Total current assets	14835.00	13454.00		1381.00
Current Liabilities				
Short term borrowings	3100.00	4400.00		1300.00
Trade payables	15142.00	14112.00		1030.00
Short term provisions	17.00	17.00		
Other current liabilities	200.00	500.00	300.00	
Total current liabilities	18469.00	19079.00	600.00	
Net working capital (A-B)	11276.00	1475.00	9801.00	1406.00

Interpretation:

From the above table we can observe the net working capital increased by Rs 14826.61 Lakhs in the year of 2019-20 due to decrease of trade payables and increase of trade receivables.

Table showing the changes in working capital

Year	Changes in working capital
2015-16	-13422.18
2016-17	38144.34
2017-18	-24455.31
2018-19	15000.15
2019-20	14826.61

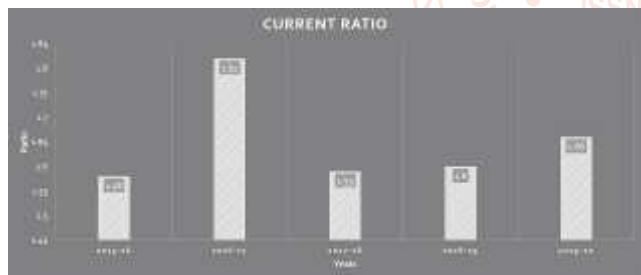


Interpretation

From the above graph we can observe there is a mixed changes in working capital. That is both negative and positive changes. The net working highly increased in the year 2016-17 of Rs 38144.34 Lakhs and decreased in the year 2017-18 of Rs 24455.31 lakhs

Current ratio:

Years	Current assets	Current liabilities	Ratio
2015-16	226755.17	142701.69	1.58
2016-17	271113.85	148916.03	1.82
2017-18	261993.62	164251.11	1.59
2018-19	298226.23	185483.57	1.6
2019-20	318809.05	191239.78	1.66

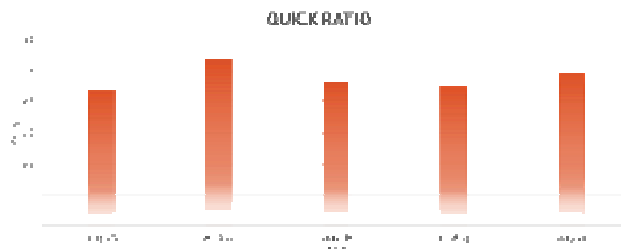


Interpretation:

From the above graph we can observe the current ratio is in fluctuation trend. The highest current ratio is 1.82 in the year 2016-17 and lowest current ratio is 1.58 in the year 2015-16

Quick ratio:

Years	Quick assets	Current liabilities	Ratio
2015-16	124536.19	142701.69	0.87
2016-17	160761.79	148916.03	1.07
2017-18	153696.75	164251.11	0.93
2018-19	173792.08	185483.57	0.9
2019-20	190408.11	191239.78	0.99

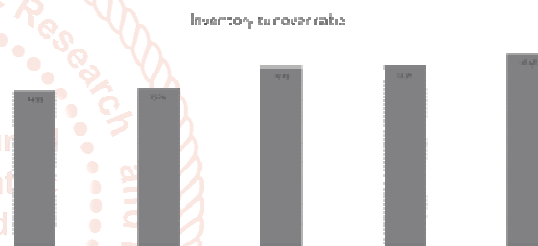


Interpretation:

From the above graph we can observe the quick ratio is in fluctuation trend. The highest quick ratio is 1.07 in the year of 2016-17 due to decrease of trade payables. The lowest quick ratio is 0.87 in the year of 2015-16 due decrease in trade receivables.

Inventory turnover ratio

Years	Cost of goods sold	Average inventory	Ratio
2015-16	1073725.29	71605.27	14.99
2016-17	1097840.31	72012.28	15.24
2017-18	1260228.41	72862.08	17.29
2018-19	1333436.15	76772.92	17.36
2019-20	1524657.89	82473.56	18.48

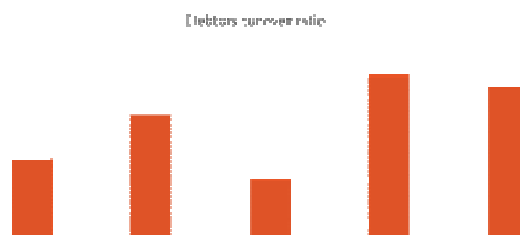


Interpretation:

From the above graph we can observe that the inventory turnover ratio is in positive trend. The highest inventory turnover ratio is 18.48 in the year of 2019-20.

Debtors turnover ratio

Years	Net credit sales	Average debtors	Ratio
2015-16	750309.12	135296.07	5.54
2016-17	847306.47	141935.31	5.96
2017-18	839889.86	156417.88	5.36
2018-19	1035851.72	162922.17	6.35
2019-20	1131590.74	181261.24	6.24

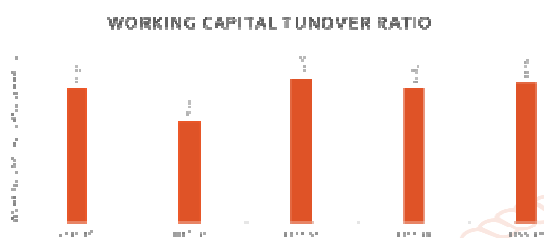


Interpretation:

The above graph represent that the debtors turnover ratio is in fluctuation trend. In the year 2018-19 debtors turnover ratio is 6.35 times as compared to 5.36 in the year of 2017-18 due to increase in credit sales.

Working capital turnover ratio

Years	Net sales	Net working capital	Ratio
2015-16	918382.98	84053.48	10.92
2016-17	1018357.66	122197.82	8.33
2017-18	1152014.21	97742.51	11.78
2018-19	1227850.83	112742.66	10.89
2019-20	1449623.8	127569.78	11.36

**Interpretation:**

From the above graph we can observe in the year of 2016-17 it will be decreased to 8.32 it indicates working capital is not effectively used. In the year of 2019-20 it will be higher than 11.36 it indicates higher profits.

Findings:

- In the year 2015-16 the working capital is decreased by Rs 13422.18 Lakhs and in the year 2016-17 it is increased by Rs 38144.18 Lakhs and again in the year 2017-18 it is decreased by Rs 24455.31 Lakhs and in the year 2018-19 & 2019-20 it is increased by Rs 15000.15 & 14826.61 Lakhs Respectively. So it is fluctuating more.
- The standard current ratio is 2:1. The current ratio is in fluctuation trend. It is find out that the current ratio is very high in the year 2016-17 i.e., 1.82. Remaining years also its shows positive trend
- The standard quick ratio is 1:1. The quick ratio is in fluctuation trend. It is find out that the quick ratio is high in the year 2016-17 i.e., 1.07 due to decreased trade payables. The remaining years its show small negative trend.

- The inventory turnover ratio shows positive trend. The inventory turnover ratio is 18.48 times in the year 2019-20 due to increase of goods sold.
- The debtors turnover ratio in the year 2018-19 & 2019-20 is high i.e., 6.35 & 6.24 times as compared to 5.36 times in the year 2017-18 due to increase in credit sales.
- The working capital turnover is 11.78 & 11.36 in the year 2017-18 & 2019-20 respectively. It indicates the greater profits. The lower working capital turnover ratio is 8.33 times in the year 2016-17 it indicates the working capital is not effectively utilized.

Suggestions:

- working capital of the company is fluctuating, so it is better to maintain sufficient level of working capital for smooth operational activities.
- The company current ratio is less than standard ratio. It should increase the current assets which are in the form of Trade receivables and inventories etc.,
- The company quick ratio is less than standard ratio. It should increase in the form of cash, marketable investments and other cash equivalents.
- The company has high inventory ratio it indicates high inventory cost. So it better to maintain optimum level of inventory.
- The debtors turnover ratio is increased in last two years. It creates more bad debts. So it is suggested that to decrease the debtors turnover ratio.

Conclusion:

The liquidity position of the India cements Ltd is good. It can be concluded that the working capital management efficiency has been fluctuating every year. Its need to be increased further for effective utilization of current assets.

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