

A Study on Working Capital Management of Bharathi Cement Corporation Ltd

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ABSTRACT

Working capital is that amount of funds which is requiring carrying out the day to day transactions of an enterprise whether big or small. It may also regard as that position of an enterprise total capital which is employed in its short term operations those operations consist of primarily such items such as raw materials, semi-finished goods, finished goods, sundry debtors, short term investments etc. Thus working capital also refers to all the short term assets known as current assets used in day to day operations of an organizations Working capital sometimes called as networking capital is represented by the excess of current assets over the current liabilities and identifies the relatively liquid portion of total enterprise capital which constitutes a margin of buffer for maturing obligations with in the ordinary operating cycle of the business. The accounting principles of board of the American institute of certified public accountants. The main objective of the working capital management is to evaluate the company inventory position to analyze the company current ratio and liquidity ratios to analyze the company gross working capital and networking capital position and to identify the growth of inventory and net sales of the company to analyze the company performance the main tools and techniques which are used in this analysis are bar diagram, tables, ratio analysis and working capital changes.

KEYWORDS: Current Ratio, quick Ratio, Turnover Ratios

INTRODUCTION

Working capital defines the differences between the current assets and current liabilities.

Working capital refers to the capital which is required for short term purposes and to meet day to day expenses.

Working capital management is defined as the management of short term assets and short term liabilities.

Need for the study

- The primary need of Working capital management is to make sure that the company always maintain sufficient cash flow to meet its short term debt obligations.
- Efficient working capital helps company smooth financial operation and improves company earnings and profitability.

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Scope of the study

- This study is confined to the **BHARATHAI CEMENT CORPORATION LIMITED** only from a period of 2015-16 to 2019-20.

Objectives of the study

- To know the changes in working capital of Bharathi cement corporation ltd
- To analyze the liquidity position of Bharathi cement ltd.
- To Identify the operational efficiency of Bharathi cement Ltd.

Research methodology

SECONDARY DATA:

The study is based on secondary data. It was collected from the company annual reports, websites and journals.

TOOLS & TECHNIQUES

- Statement showing changes in working capital

- Liquidity ratios
- Turn over ratios
- Tables & Bar diagrams

Limitations

- The study is limited Ltd only. Bharathi cement ltd
- The study is limited to the 5 years data i.e., from 2015-16 to 2019-20 of Bharathi cement Ltd.

Data analysis and Interpretation

Statement showing changes in working capital is prepared to show the changes in the working capital between two balance sheet dates. This statement is prepared with the help of current assets and current liabilities taken from the two balance sheets.

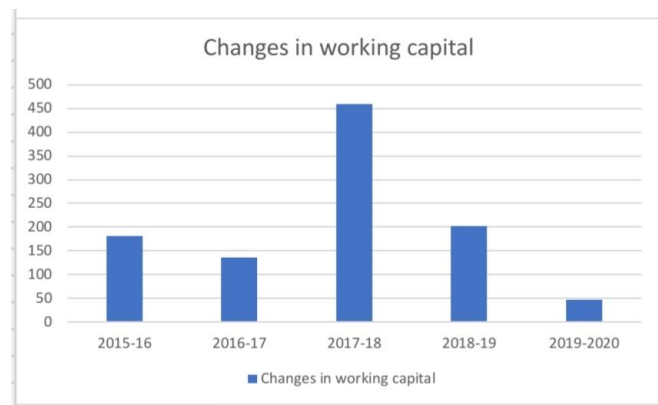
WORKING CAPITAL=CURRENT ASSETS-CURRENT LIABILITIES

While preparing a statement of changes in working capital it should be noted that

- Increase in current assets increase in working capital
- Decrease in current assets decrease in working capital
- Increase in current liabilities decrease in working capital
- Decrease in current liabilities increase in working capital
- Increase in current assets and increase in current liabilities does not affect the working capital.
- Decrease in current assets and decrease in current liabilities does not affect the working capital.

Table showing the changes in working capital

| Years | Changes in working capital |
|-----------|----------------------------|
| 2015-16 | 182.17 |
| 2016-17 | 136.22 |
| 2017-18 | 459.52 |
| 2018-19 | 201.69 |
| 2019-2020 | 47.35 |



Interpretation:

From the above graph represent the net working capital changes has increased in the year 2017-18 of

459.52(in lakhs) and decreased in the year 2019-2020 of 47.35in lakhs).

Current ratio:

Current ratio = Current assets / Current liabilities

Standard current ratio = 2:1

Current assets include cash, bank balance, short term investment, bills receivables, trade debtors, short term loans and advances, inventories and prepaid payment etc.,

| Years | Current assets | Current liabilities | Current ratio |
|-----------|----------------|---------------------|---------------|
| 2015-16 | 68106320 | 35494571.72 | 1.92 |
| 2016-17 | 62039947 | 1505553 | 3.93 |
| 2017-18 | 59705731.39 | 8876129.86 | 6.73 |
| 2018-19 | 81103552.97 | 10104429.37 | 8.03 |
| 2019-2020 | 84755133.29 | 9020956.63 | 9.40 |



Interpretation:

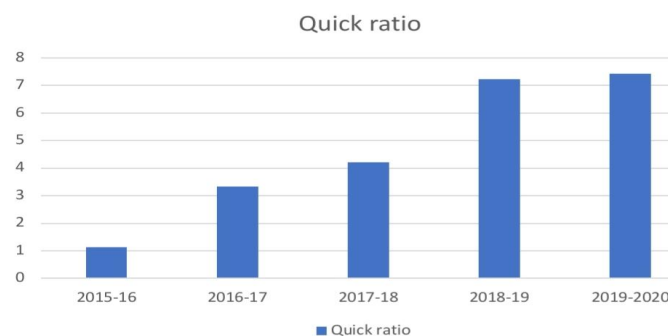
Current ratio has been showing increasing trend during the above years of study period even though in the year 2015-16, company's current ratio is less than the ideal ratio.

Quick ratio:

Quick Ratio = Quick assets / Current liabilities

Standard quick ratio = 1:1

| Years | Quick assets | Current liabilities | Quick ratio |
|-----------|--------------|---------------------|-------------|
| 2015-16 | 40318200 | 35494571.72 | 1.14 |
| 2016-17 | 52791174 | 1505553 | 3.34 |
| 2017-18 | 37399147.40 | 8876129.86 | 4.21 |
| 2018-19 | 73148575.97 | 10104429.37 | 7.24 |
| 2019-2020 | 66892817.29 | 9020956.63 | 7.42 |



Interpretation:

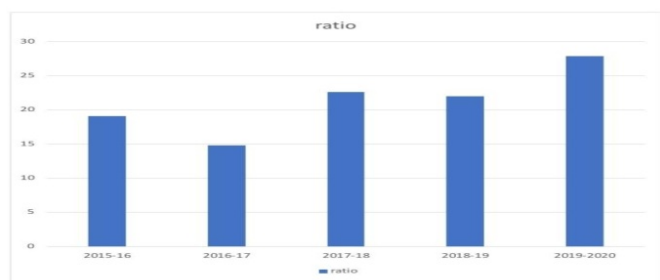
From the above table it is observed that in 2015-16 the ratio is 1.14. It is continuously increasing and reached

7.42 in 2019-2020 this indicate that the company is liquid enough to pay its current obligations.

Inventory turnover ratio:

Inventory turnover ratio = cost of goods sold/average inventory

| Years | Cost of sales | Average inventory | ratio |
|-----------|---------------|-------------------|-------|
| 2015-16 | 381013523 | 19936527 | 19.11 |
| 2016-17 | 273630389 | 18518446.50 | 14.78 |
| 2017-18 | 356574550.48 | 15777678 | 22.60 |
| 2018-19 | 332396494.49 | 15130780 | 21.97 |
| 2019-2020 | 359277141.83 | 12889186.50 | 27.87 |



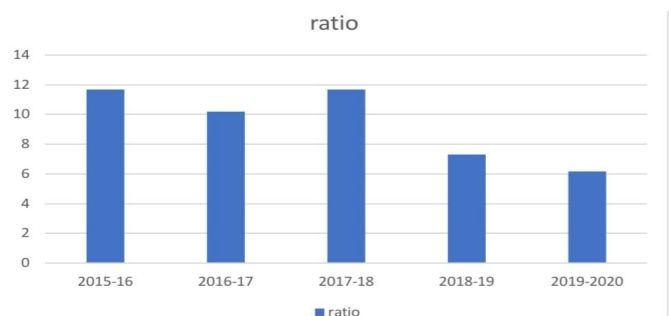
Interpretation:

Here the Inventory turnover ratio showing fluctuating trend .In the year 2015-16 the ratio is 19.11 that means the firm is converting its inventory into sales 19.11 in a year and has been increased to 27.87 in the year 2019-2020 This shows that the firm is making good use of its inventory.

Debtors turnover ratio:

Debtor turnover ratio = Net Credit sales / Average debtors

| Years | Net credit sales | Average debtors | ratio |
|-----------|------------------|-----------------|-------|
| 2015-16 | 381013523 | 32643229.68 | 11.67 |
| 2016-17 | 273630389 | 26839038.26 | 10.20 |
| 2017-18 | 356574550.48 | 30518743.9 | 11.68 |
| 2018-19 | 332396494.5 | 45407463.55 | 7.32 |
| 2019-2020 | 359277141.83 | 58011381.36 | 6.19 |



Interpretation:

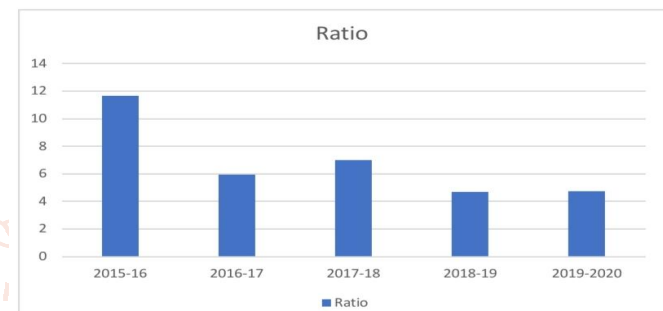
Debtors turnover ratio indicates the number of times debtors are converted into sales in the each year. The above graph represents that the debtors turnover ratio is in fluctuating trend. In the year 2019-20 the debtors turnover ratio is (5.12times) as compared to (4.09

times) in the year 2018-19 due to increase in credit sales.

Working capital turnover ratio:

Working capital turnover ratio = Net sales/ Net working capital

| Years | Cost of Sales | Net working capital | Ratio |
|-----------|---------------|---------------------|-------|
| 2015-16 | 381013523 | 32611748.28 | 11.68 |
| 2016-17 | 273630389 | 46234394 | 5.92 |
| 2017-18 | 356574550.48 | 50829601.53 | 7.02 |
| 2018-19 | 332396494.49 | 70999123.60 | 4.68 |
| 2019-2020 | 359277141.83 | 75734176.66 | 4.74 |



Interpretation:

From the above table, it is clear that the higher working capital turnover ratio is 11.68 in the year 2015-16 it indicates that greater are the profits. A low working capital turnover ratio is 4.68 in the year 2018-19, it indicates that the working capital is not effectively utilized.

FINDINGS

- In the year 2015 -16 the working capital is decreased by 1,82,17,853 lakhs and in the year 2016-17 increased in working capital 1,36,22,645.572 lakhs and the again 2017-18 increased working capital 45,95,207.53 lakhs and in the year 2018-19&2019-2020 increased by 201,69,522 lakhs&47,35,053.06 respectively.
- Networking capital of Bharathi cement ltd is increasing year by year during the period of study and which is good for the company.
- Current ratio of the company for the years 2015-16,2016-17,2017-18,2018-19,and2019-2020 are 1.92,3.93,6.73,8.03,9.40 respectively. Higher the ratio better is coverage. Standard ratio is 2:1, which shows that the company’s current ratio is more than the standard ratio.
- Quick ratio during the study period has been increasing that is for the year 2015-16 is 1.14, 2016-17 is 3.34, 2017-18 is 4.21, 2018-19 is 7.24, 2019-2020 is 7.42, which shows these ratios are above the standard ratio of 1:1
- The liquidity ratios indicate that Bharathi cement ltd liquidity position is satisfactory.

- Debtors turnover ratio has been showing the decreasing trend during the study period except in the year 2017-18 which is not good for the company.
- The inventory turnover ratio except in the years 2016-17 and 2018-19 is showing increasing trend. The trend is 19.11, 14.78, 22.60, 21.97 & 27.87.
- The company has a very strict credit policy and has been collecting debts promptly. The credit policy is effective.
- 24-25% of the current assets are in the form of inventories, which shows the company is making good use of its inventories.

SUGGESTIONS

- Inventory turnover has declining year by year. It is suggested Company to increase inventory level.
- The company current ratio is less than standard ratio, it should increase the current assets which are in the form of sundry debtors, inventory etc.

- Debtors turnover ratio has been showing fluctuating trend. So it is suggested to the company that it should have proper control on the credit sales.

CONCLUSION

The liquidity positions of the Bharathi cement Ltd., is good. It can be concluded that the working capital management efficiency has been fluctuating every year. It needs to be increased further for effective utilization of current assets.

BOOKS:

TITLE NAME & PUBLISHER

Financial management - I.M Pandey 8th addition
Financial management - Khan and Jain 4th addition
Company annual reports

INTERNET SITES:

- [1] www.wikipedia.com
- [2] www.google.com
- [3] www.bharathicement.com

