

A Study on Working Capital Management of Anantha PVC Private 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: working capital, current ratio, inventory turnover ratio

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 **ANANTHA PVC PRIVATE LIMITED** only from a period of 2015-16 to 2019-20.

Objectives of the study

- To know the changes in working capital of Anantha PVC Pipes Pvt Ltd.
- To analyze the liquidity position of Anantha PVC Pipes Pvt Ltd.
- To Identify the operational efficiency of Anantha PVC Pipes Pvt 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 to Anantha pvc pipes Pvt. Ltd only.
- The study is limited to the 5 years data i.e., from 2015-16 to 2019-20 of Anantha pvc pipes Pvt. 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.

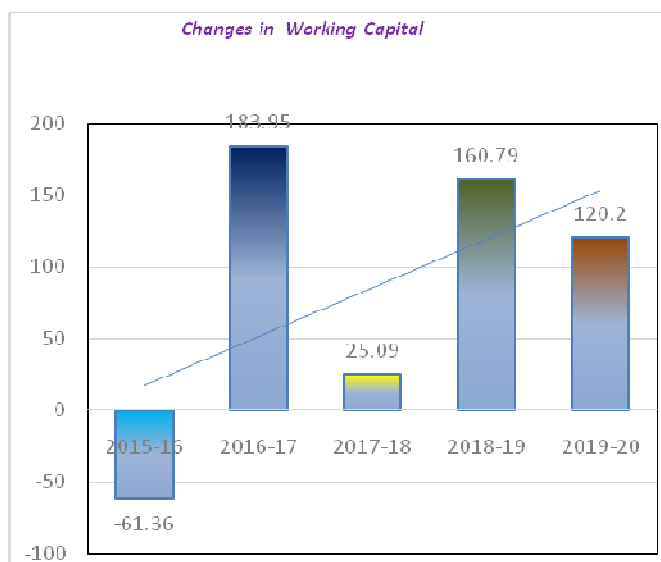
WORKING CAPITAL=CURRENT ASSETS-CURRENT LIABILITIES

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
2015-2016	(61.36)
2016-2017	183.95
2017-2018	25.09
2018-2019	160.79
2019-2020	120.2



Interpretation:

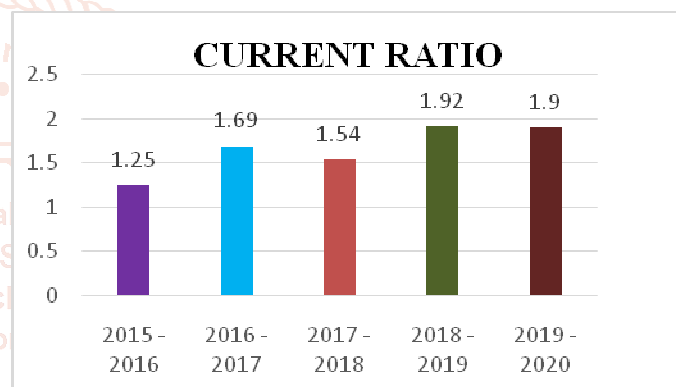
From the above graph represent the net working capital changes has increased in the year 2016-17 of 183.9(in lakhs) and decreased in the year 2017-18 of 25.09(in lakhs).

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
2015-2016	7,26,42,918	5,80,78,133	1.25
2016-2017	8,09,04,249	4,79,43,538	1.68
2017-2018	10,08,08,626	6,53,38,107	1.54
2018-2019	10,72,83,084	5,57,33,063	1.92
2019-2020	13,35,15,335	6,99,44,736	1.90



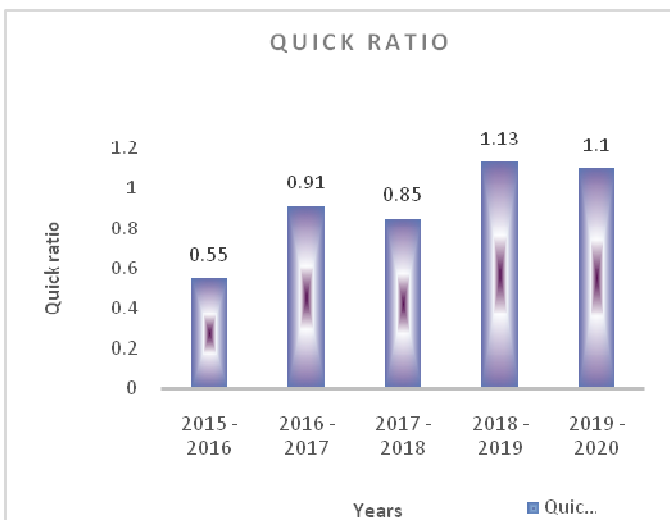
Interpretation:

The standard ratio of current ratio is 2:1. The above graph reveals that the current ratio is fluctuating trend. The highest current ratio is 1.92 in the year 2018-19 and lowest current ratio is 1.25 in the year 2015-16.

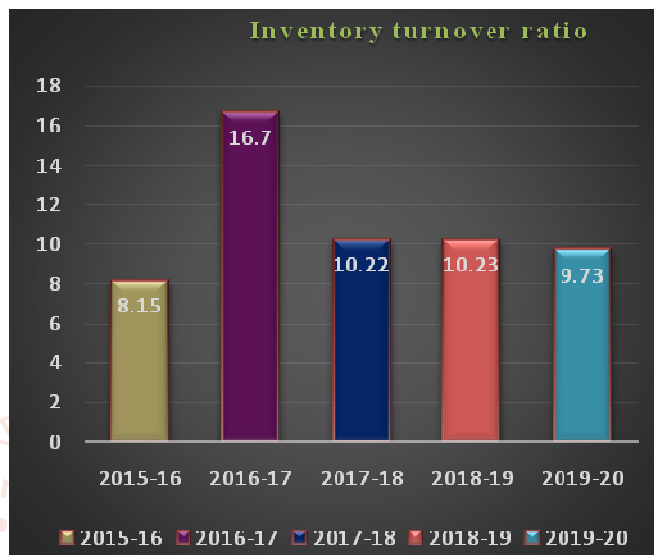
Quick ratio:

Quick Ratio = Quick assets / Current liabilities
Standard quick ratio = 1:1

years	Quick assets	Current liabilities	Quick ratio
2015-2016	3,21,73,304	5,80,78,133	0.55
2016-2017	4,35,84,013	4,79,43,538	0.99
2017-2018	5,60,22,841	6,53,38,107	0.85
2018-2019	6,33,43,615	5,57,33,063	1.13
2019-2020	7,12,67,298	6,99,44,736	1.1



years	Cost of goods sold	Average inventory	Inventory turnover ratio
2015-2016	19,73,72,529	2,42,10,278	8,15
2016-2017	20,35,84,013	1,21,43,524	16.7
2017-2018	25,60,22,841	2,50,32,101	10.22
2018-2019	26,33,43,615	2,57,33,063	10.23
2019-2020	27,24,65,789	2,79,86,917	9.73



Interpretation:

The standard ratio of quick ratio is 1:1. The above graph represent that the quick ratio is in fluctuating trend. The highest quick ratio is 1.13 in the year 2018-2019 due to decrease in sundry creditors. The lowest quick ratio is 0.55 in the year 2015-16 due to decrease in cash and sundry debtors.

Absolute Quick Ratio

Absolute Quick Ratio = cash + marketable securities / Current liabilities

years	cash	Current liabilities	Cash ratio
2015-2016	2,76,79,796	5,80,78,133	0.48
2016-2017	4,21,60,014	4,79,43,538	0.88
2017-2018	4,95,06,442	6,53,38,107	0.76
2018-2019	5,66,77,708	5,57,33,063	1.02
2019-2020	6,27,59,886	6,99,44,736	0.90

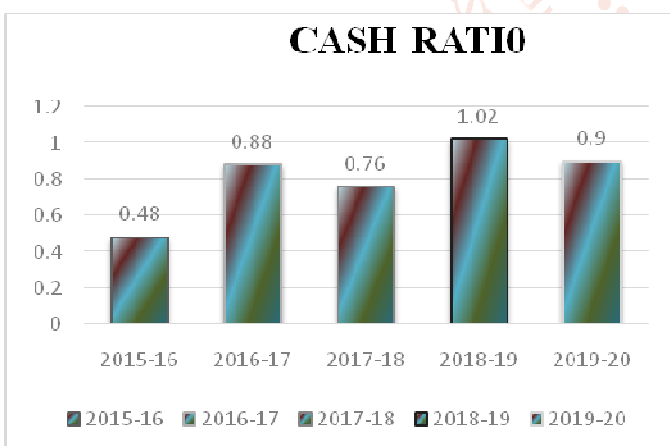
Interpretation:

From the above graph represent that the inventory turnover ratio is in fluctuating trend. The highest inventory turnover ratio is 16.7 in the year 2016-17 due to increase in COGS.

Debtors turnover ratio:

Debtor turnover ratio = Net Credit sales / Average debtors

years	Net Credit sales	Average debtors	Debtor turnover ratio
2015-2016	9,06,92,666	1,23,92,788.5	7.32
2016-2017	17,21,22,322	2,62,32,686.5	6.56
2017-2018	18,27,85,083	3,49,19,905	5.23
2018-2019	18,73,06,621	4,58,33,228	4.09
2019-2020	27,18,35,766	5,30,92,075	5.12



Interpretation:

The standard cash ratio is 0.5:1. The above graph represent that the cash ratio is in fluctuating trend. The cash ratio is higher in the year 2018-19 due to maintain the high level of cash balance and the lowest quick ratio is 0.48 in the year 2015 -16 due to increase in current liabilities.

Inventory turnover ratio:

Inventory turnover ratio = cost of goods sold/average inventory

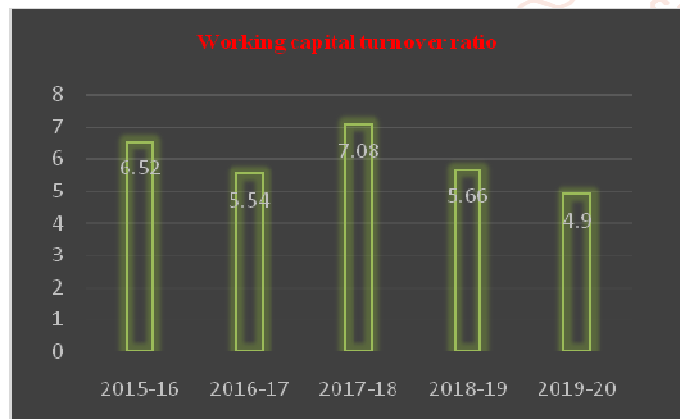
Interpretation:

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	Net sales	working capital	Working capital turnover ratio
2015-2016	9,49,62,380	1,45,64,785	6.52
2016-2017	18,27,85,083	3,29,60,711	5.54
2017-2018	25,12,01,421	3,54,70,519	7.08
2018-2019	29,18,35,766	5,15,50,021	5.66
2019-2020	38,18,38,298	6,35,70,599	4.90



Interpretation:

From the above graph represent the higher working capital turnover ratio is 7.08times in the year 2017-18 it indicates the greater the profits. The low working capital turnover ratio is 4.90 times in the year 2019-20,it indicates that the working capital is not effectively utilised.

FINDINGS

Above table and chart represent the net working capital of Anantha pvc pipes pvt ltd, Hampapuramu

- The standard current ratio is 2:1.The current ratio is in fluctuating trend. The highest current ratio is 1.92 in the year 2018-19 and lowest current ratio is 1.25 in the year 2015-16.
- The standard ratio of quick ratio is 1:1. the quick ratio is in fluctuating trend. The highest quick ratio is 1.13 in the year 2018-19 due to decrease

in creditors. The lowest quick ratio is 0.55 in the year 2015-16 due to decrease in cash and debtors.

- The cash ratio is higher in the year 2018-19 due to maintain the high level of cash balance and it decreased to 0.9 in 2019- 20 due to increase current liabilities.
- Inventory turnover ratio for the years has a stable trend over the years. The high inventory turnover is 3.60times in the year 2016-17 due to increase in cost of goods sold.
- The debtors turnover ratio in the year 2019-20 is high 5.12 times as compared to 4.09 times in the year 2018-19 due to increase in credit sales.
- The working capital turnover is 7.08 times in the year 2017-18 it indicates the greater the profits. The low working capital turnover ratio is 4.90 times in the year 2019-20, it indicates the working capital is not effectively utilised.

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 position of the Anantha PVC Pipes Pvt 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 - Prasanna Chandra 3rd addition

Financial management - Khan and Jain 2nd addition

Company annual reports

INTERNET SITES:

- [1] [http\:\:www.google.com](http://www.google.com)
- [2] [http\:\:www.ananthapvcpipes.com](http://www.ananthapvcpipes.com)
- [3] [http\:\:www.googlefinance.com](http://www.googlefinance.com)