

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

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ABSTRACT

The financial management generally deals with raising of financial resources and its proper allocation in order to maximize shareholders wealth. For successful running of an organization fixed and current assets plays crucial role as organization generally invest in these 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 mainly refers to the management of all these individual current assets. In this study an attempt has been made to study the components of working capital and possible implication of working capital management policies on profitability of The India cements limited. The study is based on secondary data collected from annual reports of The India cements limited for the period 2016-17 to 2020-21.

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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 on 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 OF THE STUDY

- The purpose of this study is to understand efficiency and utilization of working capital in the India Cements Ltd.
- The effective management of working capital helps to operate the business smoothly without any financial problems.

SCOPE OF THE STUDY

- The study covers the “working capital management” of the India Cements Ltd. for a period of 5 years i.e., from 2016-17 to 2020-21.

OBJECTIVES OF THE STUDY

- To study the working capital position of the India Cements Ltd.
- To analyze the liquidity position of the India Cements Ltd.
- To know the operational efficiency of the India Cements Ltd.
- To study the relation between current assets and current liabilities of the India Cements Ltd.

RESEARCH METHODOLOGY

The data required for the study is mainly based on the “secondary data”.

SECONDARY DATA:

The secondary data was collected from the annual reports of the India cements limited. The related data is obtained from the printed and published journals and financial statements of the corporation.

Website: www.indiacements.co.in**TOOLS AND TECHNIQUES**

- Statement shows changes in working capital
- Liquidity ratios
- Turnover ratios
- Correlation
- Tables and Graphs

SOFTWARE PACKAGES USED

- MS Excel

LIMITATIONS OF THE STUDY

- This study only deals with the working capital management at the India Cements Ltd.
- The study is confined to a period of 5 years i.e., 2016-17 to 2020-21

DATA ANALYSIS AND INTERPRETATION

Statement of changes in working capital 31-03-2016 & 31-03-2017				
				(Rs In Lakhs)
Particulars	2016	2017	Working Capital	
			Increase	Decrease
Current assets				
Inventories	59,524.96	74,499.61	14,974.65	
Short term investments	189.56	254.69	65.13	
Trade receivables	1,23,982.59	1,42,888.03	18,905.44	
Cash & Cash equivalents	369.04	677.53	308.49	
Other current assets	23,689.02	24,524.45	835.43	
Total current assets (A)	2,07,755.17	2,42,844.31		
Current Liabilities				
Short term borrowings	46,977.72	30,177.13	16,800.6	
Trade payables	89,161.89	1,31,802.21		42,640.32
Short term provisions	16.72	17.93		1.21
Other current liabilities	7,315.59	6,918.76	396.83	
Total current liabilities (B)	1,43,471.92	1,68,916.03		
Net working capital (A-B)	64,283.25	73,928.28		
Increase	9,645.03			9,645.03
	73,928.28	73,928.28	52,286.57	52,286.57

Interpretation:

From the above table, it can be observed that the net working capital is increased by Rs. 9645.03 lakhs in the year of 2016-17. This is because of significant increase in current assets.

Statement of changes in working capital 31-03-2017 & 31-03-2018				
				(Rs In Lakhs)
Particulars	2017	2018	Working Capital	
			Increase	Decrease
Current assets				
Inventories	74,499.61	67,224.55		7,275.06
Short term investments	254.69	212.53		42.16
Trade receivables	1,42,888.03	1,42,947.74	59.71	
Cash & Cash equivalents	677.53	836.74	159.21	
Other current assets	24,524.45	37,072.32	12,547.87	
Total current assets (A)	2,42,844.31	2,48,293.88		
Current Liabilities				
Short term borrowings	30,177.13	15,483.29	14,693.84	
Trade payables	1,31,802.21	1,17,591.85	14,210.36	
Short term provisions	17.93	17.94		0.01
Other current liabilities	6,918.76	11,158.03		4,239.27
Total current liabilities (B)	1,68,916.03	1,44,251.11		
Net working capital (A-B)	73,928.28	1,04,042.77		
Increase	30,114.49			30,114.49
	104,042.77	1,04,042.77	41,670.99	41,670.99

Interpretation:

From the above table, it can be observed that the net working capital is increased by Rs.30114.49 lakhs in the year of 2017-18. This is because of significant increase in other current assets. On the other hand, current liabilities are decreased.

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	67,224.55	82,321.29	15,096.74	
Short term investments	212.53	222.28	9.75	
Trade receivables	1,42,947.74	1,78,896.64	35,948.9	
Cash & Cash equivalents	836.74	673.24		163.5
Other current assets	37,072.32	47,112.86	10,040.54	
Total current assets (A)	2,48,293.88	3,09,226.31		
Current Liabilities				
Short term borrowings	1,54,83.29	33,719.08		18,235.79
Trade payables	1,17,591.85	1,31,191.73		13,599.88
Short term provisions	17.94	17.94		
Other current liabilities	11,158.03	20,113.92		8,955.89
Total current liabilities (B)	1,44,251.11	1,85,042.67		
Net working capital (A-B)	1,04,042.77	1,24,183.64		
Increase	20,140.87			20,140.87
	1,24,183.64	1,24,183.64	61,095.93	61,095.93

Interpretation:

From the above table, it can be observed that the net working capital is increased by Rs.20140.87 lakhs in the year 2018-19 due to increase of trade receivables and other current assets.

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	82,321.29	82,625.84	304.55	
Short term investments	222.28	119.28		103
Trade receivables	1,78,896.64	1,97,625.88	18,729.24	
Cash & Cash equivalents	673.24	662.95		10.29
Other current assets	47,112.86	45,775.1		1,337.76
Total current assets (A)	3,09,226.31	3,26,809.05		
Current Liabilities				
Short term borrowings	33,719.08	44,190.78		10,471.7
Trade payables	1,31,191.73	1,33,029.5		1,837.77
Short term provisions	17.94	17.94		
Other current liabilities	20,113.92	13910	6,203.92	
Total current liabilities (B)	1,85,042.67	1,91,148.22		
Net working capital (A-B)	1,24,183.64	1,35,660.83		
Increase	11,477.19			11,477.19
	1,35,660.83	1,35,660.83	25,237.71	25,237.71

Interpretation:

From the above table, it can be observed that the net working capital is increased by Rs.11477.19 Lakhs in the year of 2019-20 due to increase of trade receivables and decrease of other current assets. On the other hand, trade payables are also increased.

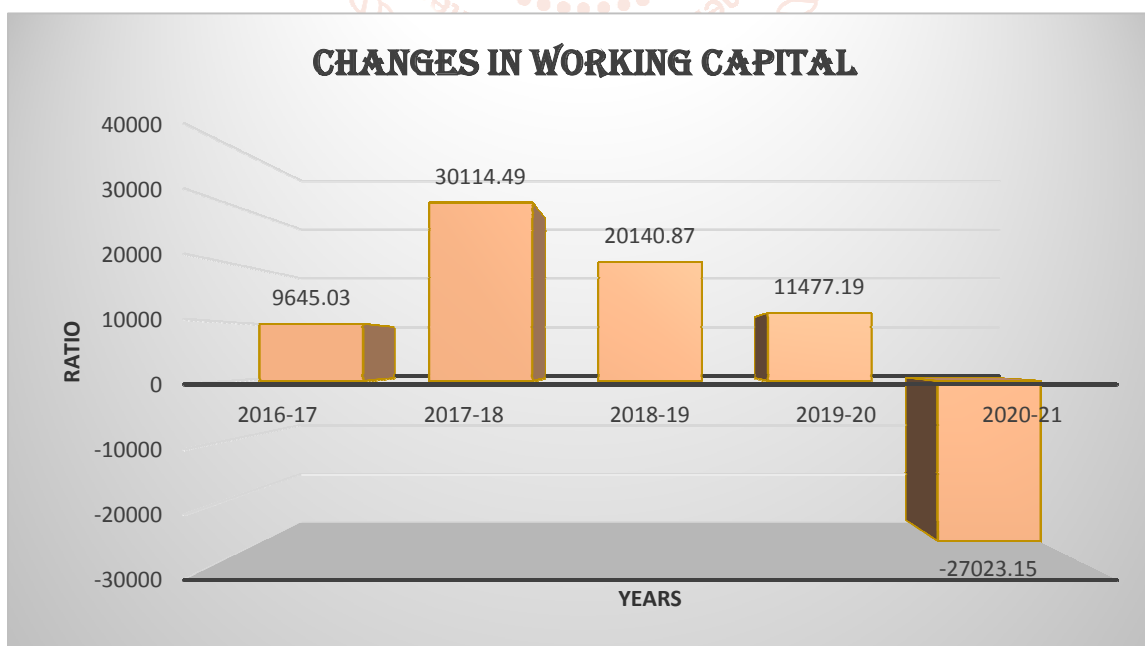
Statement of changes in working capital 31-03-2020 & 31-03-2021				
Particulars	2020	2021	(Rs In Lakhs)	
			Working Capital	
			Increase	Decrease
Current assets				
Inventories	82,625.84	58,376.81		24,249.03
Short term investments	119.28	182.18	62.9	
Trade receivables	1,97,625.88	1,85,960.52		11,665.36
Cash & Cash equivalents	662.95	676.22	13.27	
Other current assets	45,775.1	41,823.64		3,951.46
Total current assets (A)	3,26,809.05	2,87,019.37		
Current Liabilities				
Short term borrowings	44,190.78	46,364.01		2,173.23
Trade payables	1,33,029.5	1,07,317.59	25,711.91	
Short term provisions	17.94	17.94		
Other current liabilities	13,910	24,682.15		10,772.15
Total current liabilities (B)	1,91,148.22	1,78,381.69		
Net working capital (A-B)	1,35,660.83	1,08,637.68		
Decrease		27,023.15	27,023.15	
	1,35,660.83	1,35,660.83	52,811.23	52,811.23

Interpretation:

From the above table, it can be observed that the net working capital is decreased by Rs.27023.15 Lakhs in the year of 2020-21 due to decrease of trade receivables and increase of other current liabilities.

Table 4.1: Table shows the changes in working capital (In lakhs)

YEAR	CHANGES IN WORKING CAPITAL
2016 – 17	9645.03
2017 – 18	30114.49
2018 – 19	20140.87
2019 – 20	11477.19
2020 – 21	- 27023.15



Interpretation:

From the above graph, it can be observed that there is a mixed changes in working capital. That is both increase and decrease changes. The net working capital highly increased in the year 2017-18 of Rs 30114.49 Lakhs and decreased in the year 2020-21 of Rs 27023.15 lakhs.

RATIO ANALYSIS

1. Current Ratio

Current ratio is calculated by dividing current assets by current liabilities. Current assets include cash, bank balances, marketable securities, inventory, debtors and other assets which can be converted into cash within an accounting year. Current liabilities include creditors, bills payables, accrued expenses, short term loans and other liabilities maturing in one year. The current ratio is a measure of firm's short-term solvency.

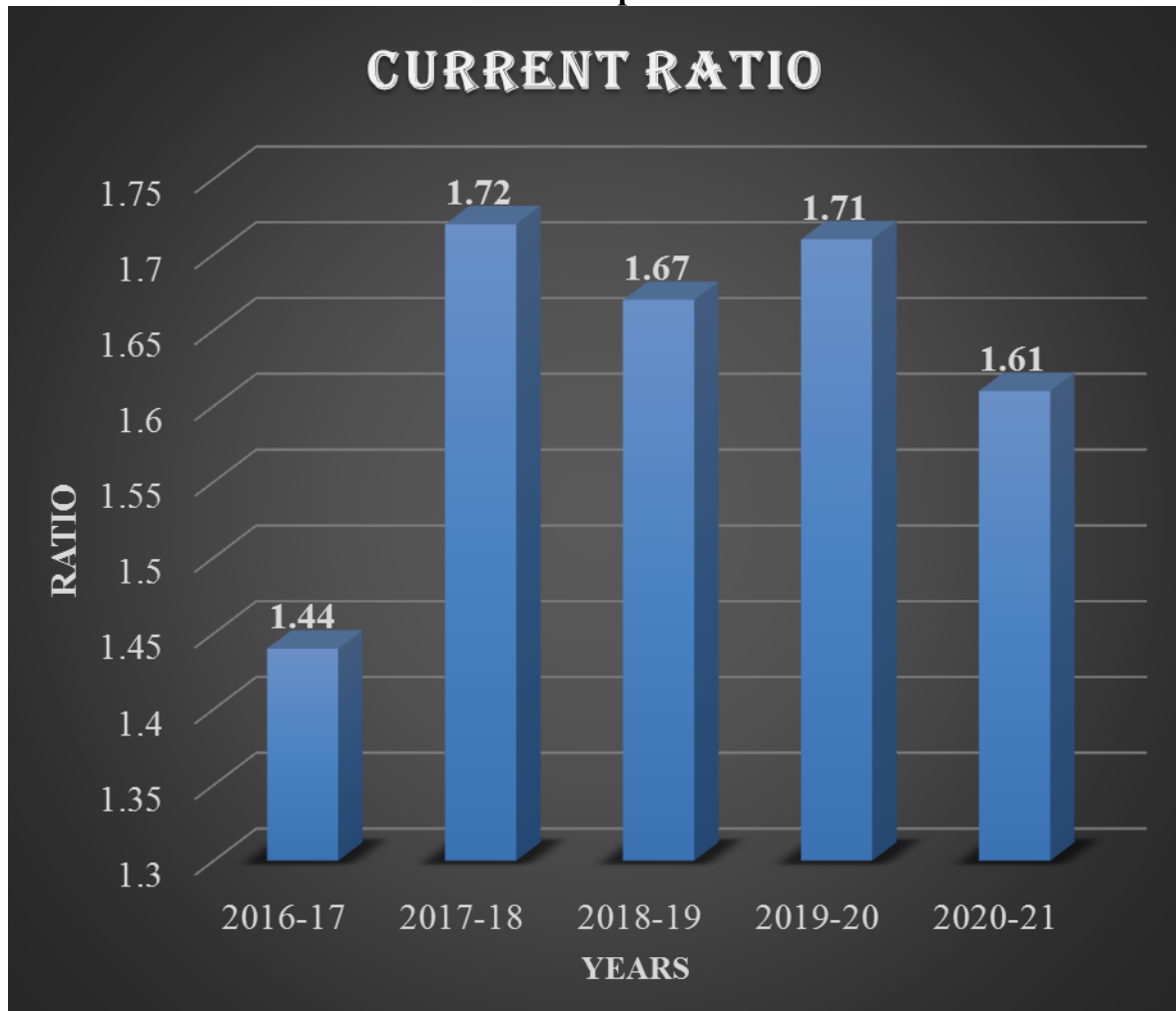
As conventional rule a current ratio of 2:1 or more is considered satisfactory. The current ratio represents margin of safety for creditors.

Current ratio = current assets / current liabilities

Table 4.2 The Following Table Shows the Current Ratio

YEARS	CURRENT ASSETS	CURRENT LIABILITIES	RATIO
2016-17	242844.31	168916.03	1.44
2017-18	248293.88	144251.11	1.72
2018-19	309226.31	185042.67	1.67
2019-20	326809.05	191148.22	1.71
2020-21	287019.37	178381.69	1.61

Chart 4.2 a: The Chart Represents Current Ratio



Interpretation

From the above graph, it can be observed that the current ratio is in fluctuation trend. The respective years current ratios are 1.44, 1.72, 1.67, 1.71, 1.61. The highest current ratio is 1.72 in the year 2017-18 and lowest current ratio is 1.44 in the year 2016-17.

2. Quick Ratio:

Quick ratio establishes a relationship between quick are liquid, assets and liabilities, cash is the most liquid assets, other assets, which are considered to be relatively liquid and included in quick assets, are debtors and bills receivables and marketable securities. Inventories are considered to be less liquid.

Generally, a quick ratio of 1:1 is considered to represent a satisfactory current financial condition.

Quick ratio = Quick assets / Current liabilities

Table 4.3: The Following Table Shows the Quick Ratio

YEARS	QUICK ASSETS	CURRENT LIABILITIES	RATIO
2016-17	143820.25	168916.03	0.85
2017-18	143997.01	144251.11	0.99
2018-19	179792.16	185042.67	0.97
2019-20	198408.1	191148.22	1.03
2020-21	186818.92	178381.69	1.04

Chart 4.3 a: Chart Represents the Quick Ratio



Interpretation

From the above graph, it can be observed that the quick ratio is in fluctuation trend. The respective years quick ratios are 0.85, 0.99, 0.97, 1.03, 1.04. The highest quick ratio is 1.04 in the year of 2020-21. The lowest quick ratio is 0.85 in the year of 2016-17.

3. Inventory Turnover Ratio:

The inventory turnover ratio is also known as the stock turnover ratio, is an efficiency ratio that measures how efficiently inventory is managed. The inventory turnover ratio formula is equal to the cost of goods sold divided by total or average inventory turnover to show how many times inventory is turned or sold during a period. The ratio can be used to determine if there are excessive inventory levels compared to sales.

Inventory turnover ratio = Cost of goods sold / Average inventory

Table 4.4: The Following Table Shows the Inventory Turnover Ratio

YEARS	COST OF GOODS SOLD	AVERAGE INVENTORY	RATIO
2016-17	519977.241	67012.28	7.76
2017-18	480664.647	70862.08	6.79
2018-19	506518.587	74772.92	6.78
2019-20	455178.708	82473.565	5.52
2020-21	399300.111	70501.325	5.67

Chart 4.4 a: Chart Represents the Inventory Turnover Ratio



Interpretation

From the above graph we can observe that the inventory turnover ratio is in positive trend. The respective years inventory turnover ratios are 7.76, 6.79, 6.78, 5.52, 5.67. The highest inventory turnover ratio is 7.76 in the year of 2016-17 and lowest inventory turnover ratio is 5.52 in the year of 2019-20.

4. Debtors Turnover Ratio

Debtors turnover ratio is also known as accounts receivables turnover ratio, is an efficiency ratio that measures how efficiently a company is collecting revenue and by extension, how efficiently it is used its assets. The accounts receivables turnover ratio measures the number of times over a given period that a company collects its average accounts receivables.

Debtors turnover ratio = $\frac{\text{Net credit sales}}{\text{Average debtors}}$

Table 4.5: The Following Table Shows the Debtors Turnover Ratio

YEARS	NET CREDIT SALES	AVERAGE DEBTORS	RATIO
2016-17	531532.29	64428.16	8.25
2017-18	491346.09	52382.32	9.38
2018-19	517774.56	62457.73	8.29
2019-20	465293.79	66470.55	7.00
2020-21	408173.45	57814.94	7.06

Chart 4.5 a: Chart Represents the Debtors Turnover Ratio



Interpretation

The above graph represents that the debtors turnover ratio is in fluctuation trend. The respective years debtors turnover ratios are 8.25, 9.38, 8.29, 7.00 and 7.06. The highest debtors turnover ratio is 9.38 in the year of 2017-18 and lowest debtors turnover ratio is 7 in the year of 2019-20.

5. Working Capital Turnover Ratio:

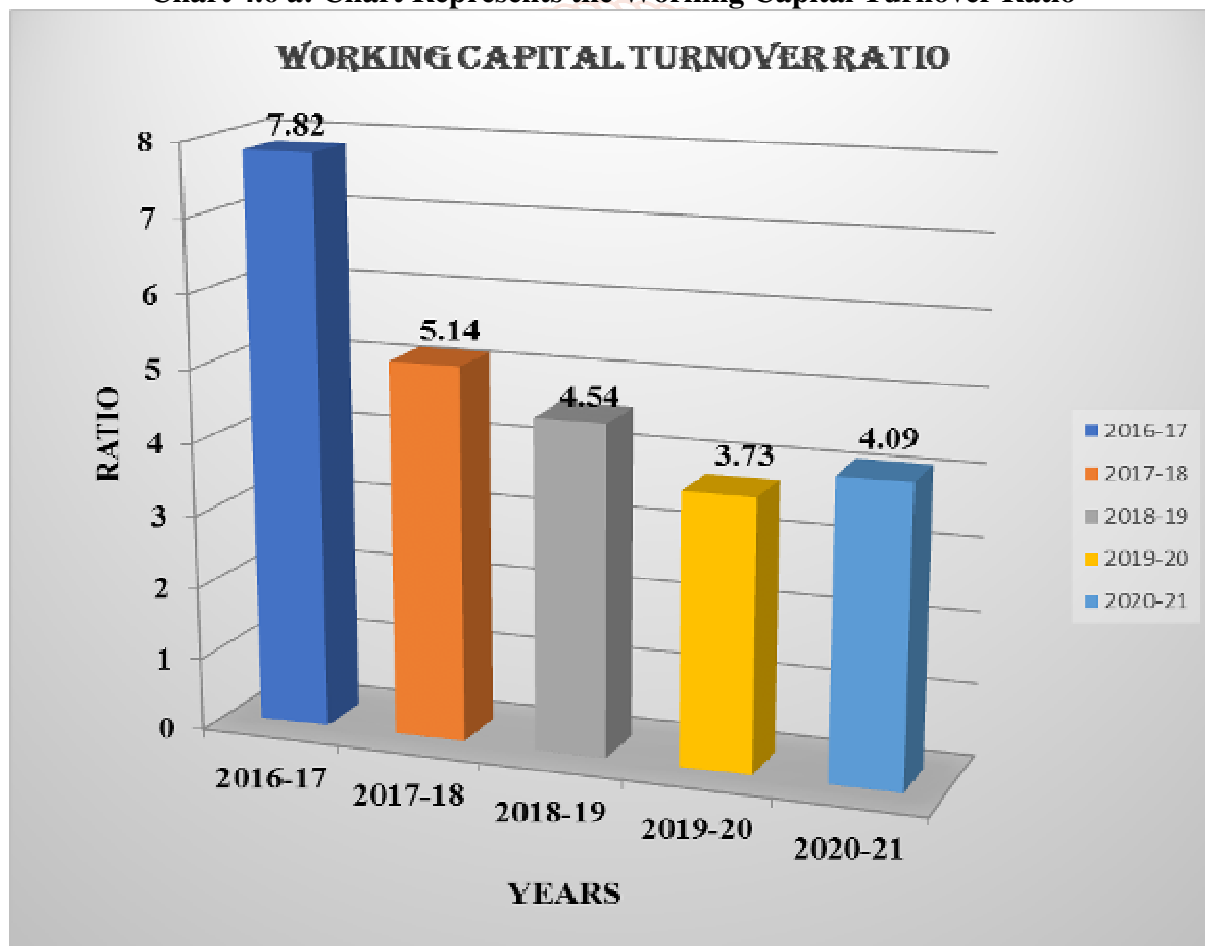
Working capital turnover is ratio that measures how efficiently a company is using its working capital to supports sales and growth. Also known as net sales to working capital, working capital turnover measures the relationship between the funds used to finance a company’s operations and the revenues a company generates to continue operations and turn profit.

Working capital turnover ratio = Net sales / Net working capital

Table 4.6: The Following Table Shows the Working Capital Turnover Ratio

YEARS	NET SALES	NET WORKING CAPITAL	RATIO
2016-17	577752.49	73928.28	7.82
2017-18	534071.83	104042.77	5.14
2018-19	562798.43	124183.64	4.54
2019-20	505754.12	135660.83	3.73
2020-21	443666.79	108637.68	4.09

Chart 4.6 a: Chart Represents the Working Capital Turnover Ratio



Interpretation

From the above graph, it can be observed that the working capital turnover ratio is in fluctuation trend. The respective years working capital turnover ratios are 7.82, 5.13, 4.54, 3.73 and 4.09. In the year of 2016-17 it has higher value of 7.82 it indicates working capital is effectively used and it indicates higher profits.

Correlation

Correlation refers to the statistical relationship between two entities. In other words, it’s how to variables move in relation to one another. Correlation can be used for various data sets as well. In some cases, you might have predicted how things will correlate, while in other, the relationship will be a surprise to you. It’s important to understand that correlation does not mean the relationship is casual.

CORRELATION		
YEARS	CURRENT ASSETS	CURRENT LIABILITIES
2016-17	242844.31	168916.03
2017-18	248293.88	144251.11
2018-19	309226.31	185042.67
2019-20	326809.05	191148.22
2020-21	287019.37	178381.69

Correlations			
		CURRENT ASSETS	CURRENT LIABILITES
CURRENT ASSETS	Pearson Correlation	1	.848
	Sig. (2-tailed)		.069
	N	5	5
CURRENT LIABILITES	Pearson Correlation	.848	1
	Sig. (2-tailed)	.069	
	N	5	5

Interpretation:

From the above table, it can be observed that the correlation between current assets and liabilities is 1, 0.848. Which is highly positive correlation. There exists positive relation between current assets and current liabilities.

FINDINGS:

- In the year 2016-17 the working capital is increased by Rs.9645.03 Lakhs and in the year 2017-18 it is increased by Rs.30144.18 Lakhs and again in the year 2018-19 it is increased by Rs.20140.87 Lakhs and in the year 2019-20 it is increased by Rs.11477.19 Lakhs and it is decreased by 27023.15 Lakhs in the year 2020-21. So it is fluctuating more.
- The standard current ratio is 2:1. The current ratio is in fluctuation trend. The respective years 2016-17 to 2020-21 of current ratios are 1.44, 1.72, 1.67, 1.71, 1.61. The highest current ratio is 1.72 in the year 2017-18 and lowest current ratio is 1.44 in the year 2016-17.
- The standard quick ratio is 1:1. The quick ratio is in fluctuation trend. The respective years 2016-17 to 2020-21 of quick ratios are 0.85, 0.99, 0.97, 1.03, 1.04. The highest quick ratio is 1.04 in the year of 2020-21 due to decrease of trade payables. The lowest quick ratio is 0.85 in the year of 2016-17 due to increase in trade receivables.
- The inventory turnover ratio shows positive trend. The respective years 2016-17 to 2020-21 of inventory turnover ratios are 7.76, 6.79, 6.78, 5.52, 5.67. The highest inventory turnover ratio is 7.76 in the year of 2016-17 and lowest inventory turnover ratio is 5.52 in the year of 2019-20.
- The debtors turnover ratio is in fluctuation trend. The respective years 2016-17 to 2020-21 debtors turnover ratios are 8.25, 9.38, 8.29, 7, 7.06. In the year 2018-19 debtors turnover ratio is increased 9.38 times as compared to 8.25 times in the year of 2016-17.

- The working capital turnover ratio is in fluctuation trend. The respective years 2016-17 to 2020-21 of working capital turnover ratios are 7.82, 5.14, 4.54, 3.73, 4.09. In the year of 2019-20 it will be decreased to 3.73 it indicates working capital is not effectively used. In the year of 2016-17 it was higher that 7.82 it indicates higher profits.
- The correlation between current assets and liabilities is 1, 0.848. Which is highly positive correlation. There exists positive relation between current assets and current liabilities.

SUGGESTIONS:

- Working capital of the company is fluctuating, so it is suggested that the management is better to maintain sufficient level of working capital for smooth operational activities.
- The company current ratio is less than standard ratio. It is suggested to that the management should increase the current assets which are in the form of Trade receivables and inventories etc.,
- The company quick ratio is almost up to the standard ratio. It is suggested to that the management should increase in the form of cash, marketable investments and other cash equivalents.
- Inventory turnover ratio has declining year by year. It is suggested company to increase inventory level.
- The debtors turnover ratio is increased in 2017-18. It creates more bad debts. So, it is suggested that the management to decrease the debtors turnover ratio for effective operating efficiency.

CONCLUSION

The Study on working capital management conducted in India cements limited. The liquidity position of the India cements limited 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.

On the whole, the company is moving forward with excellent management.

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