

Working Capital Management with Respect to Southern Polymers

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ABSTRACT

Working capital management is a vital aspect of financial management that ensures a company can meet its short-term obligations while maintaining operational efficiency. This study focuses on analyzing the working capital management practices of **Southern Polymers**, a company engaged in the production and distribution of polymer-based products. The primary objective is to assess how effectively the company manages its current assets and liabilities, particularly inventory, accounts receivable, accounts payable, and cash balances. The research utilizes key financial indicators such as the current ratio, quick ratio, working capital turnover ratio, and the operating cycle to evaluate performance over a specified period. Findings indicate that while Southern Polymers maintains an adequate level of working capital, it faces challenges in managing inventory turnover and receivable collections. These inefficiencies can impact liquidity and profitability if not addressed through improved credit policies and inventory controls. The study concludes that adopting efficient working capital strategies can lead to better financial health, improved cash flow, and sustainable growth. Recommendations include enhanced cash flow forecasting, vendor negotiations, and real-time inventory monitoring to optimize working capital usage.

KEYWORDS: Working Capital Management, Southern Polymers, Current Assets, Current Liabilities, Cash Flow, Inventory Turnover, Receivables Management, Financial Efficiency, Liquidity, Operating Cycle.

1. INTRODUCTION

Working capital management refers to the process of managing a company's short-term assets and liabilities to ensure smooth business operations and maintain financial stability. It involves overseeing cash flow, inventory, accounts receivable, and accounts payable to optimize liquidity and operational efficiency. Effective working capital management ensures that a company has sufficient cash to meet its short-term obligations while minimizing excess capital tied up in inventory or receivables. Businesses must strike a balance between liquidity and profitability to maximize growth and sustain operations.

A well-managed working capital strategy helps companies avoid financial distress, improve profitability, and enhance overall business performance. By implementing efficient credit policies, managing supplier payments strategically, and optimizing inventory levels, firms can reduce costs and increase cash availability. Proper working capital management also allows businesses to take advantage of

growth opportunities, negotiate better terms with suppliers, and improve their financial health. In essence, it plays a crucial role in maintaining a company's operational stability and long-term success.

2. RESEARCH METHODOLOGY

Research Design

This study follows an exploratory research design, which primarily interprets existing financial data. It emphasizes analysis and interpretation of available information and is based on secondary data.

Sources of Data

The study is based on secondary data collected from:

- Annual reports of SOUTHERN POLYMERS over the last six years.
- Company magazines, published books, and other relevant reports.
- Official company websites and financial portals.

PERIOD OF STUDY

The study covers financial data for the past six years (2019 to 2024-25).

3. DATA ANALYSIS

A large number of factors influence working capital needs of companies. All factors are of different importance. Also, the importance of factors changes for a firm overtime. Therefore, an analysis on relevant factors should be made in order to determine total investment in working capital. The following is the description of factors, which generally influence the working requirements of the company.

Nature and size of business

Working capital requirements of a company are basically influenced by the nature of its business. Trading and financial companies have a very small investment in fixed assets, but require large sum of money to be invested in working capital. Some manufacturing business companies have to invest substantially in working capital and a nominal amount in the fixed assets. In contrast, public utilities have a very limited need for working capital and have to invest abundantly in fixed assets. Their working capital requirement is nominal because they may have cash sales only and supply services, not product. Thus, no funds will be tied up in debtors and stock.

Manufacturing cycle

The manufacturing cycle comprises of the purchase and use of raw materials and the production of finished goods. Longer the manufacturing cycle, larger will be the company's working capital requirements. The manufacturing process needs proper planning and coordination at all levels of activities.

Sales Growth:

The working capital needs of the company increase as its sales grow. It is difficult to precisely determine the relationship between volume of sales and working capital needs. It is necessary to make advance planning of working capital for a growing company on a continuous basis.

A growing company may need to invest funds in fixed in order to sustain its growing production and sales. This will, in turn, increase investment in current assets to support enlarged scale of operations. It should be realized that a growing company needs funds continuously. Such a company faces further financial problems when it retains substantial portion of its profits. Techniques for Assessment of working capital requirements Estimation of components of working capital method

Since working capital is the excess of current assets over current liabilities estimating the amounts of different constitutes of working capital can make an assessment of working capital requirements.

Operating cycle approach

According to this approach, the requirement of working capital depends up on the operating cycle of the business. The operating cycle begins with acquisition of raw material and end with collection of receivables. It may be broadly classified into the following four stages viz.

Raw materials and stores storage,

Working -in-process.

Finished goods inventory and

Receivables collection

The duration of operating cycle for purpose of estimating working capital requirements is equivalent to the sum of the durations of each of the stage less the credit period allowed

by the suppliers of the company. Symbolically, the duration of the working capital cycle can be put as follows:

$$O=R+W+F+D-C$$

Where,

O= Duration of operating cycle.

R= Raw materials and stores storage period.

W= Working process period.

F= Finished stock storage period.

D= Debtor’s Collection period.

C= Creditors payment period.

Each of the components of the operating cycle can be calculated as follows:

$$R = \frac{\text{Average stock of raw materials \& stores}}{\text{Average raw material and stores consumption per day}}$$

$$W = \frac{\text{Average work-in-progress inventory}}{\text{Average cost of production per day}}$$

$$F = \frac{\text{Average finished stock inventory}}{\text{Average cost of goods sold per day}}$$

$$D = \frac{\text{Average book debts}}{\text{Average credit sales per day}}$$

$$C = \frac{\text{Average trade creditors}}{\text{Average credit purchases per day}}$$

After completing the period of one operating cycle, the total number of operating cycle that can be completed by during the year can be computed by dividing 365 days with the number of operating days in a cycl

Table No:1 Statement showing changes in working capital as on 31st march 2016-17 Changes of working capital

Particulars	2019	2018	Increase	Decrease
CURRENT ASSETS:				
Cash in hand	42,159.91	12,83,980.24	12,41,820.33	-----
Balance with banks:				
Current account	2,47,588.70	17,15,099.27	14,67,510.57	-----
Savings account	2,47,364.46	23,80,139.99	12,32,775.53	-----
Advances to members	70,47,218.96	64,61,883.31	-----	5,85,335.65
Interest receivable	18,26,488.57	18,26,488.57	-----	-----
Value of closing stock:				
Stores stock	2,23,39,640.03	2,02,69,708.93	-----	60,69,931.10
Packing material	5,33,729.55	1,78,240.45	-----	3,55,489.10
Stationery	25,381.85	26,375.50	-----	993.65
Spares	26,11,39,024.38	19,19,96,947.80	-----	691,42,076.58
Cash in bank	3,66,905.99	2,54,382.07	-----	1,12,523.92
Loans, Advance& deposit	82,52,332.24	69,07,474.80	-----	13,44,857.44
Fixed Assets	14,668.05	9,200.00	-----	5,468.05
Sunday Debtors	24,074.20	20,474.20	-----	-----
CURRENT LIABILITIES:				
Outstanding interest	44,29,829.55	60,94,477.90	-----	16,64,648.45
Bank o/d	47,43,751.85	-----	47,43,751.85	-----
Other current liabilities	1,75,06,036.55	18,29,12,074.27	-----	34,06,037.72
		178240.45		
Decrease in working capital		6094477,90	691,01,503.46	
			786,87,361.66	786,87,361.66

Inference: The same decrease in trend in current assets is being continued in the current year 2018 also. The current assets are more than current liabilities but working capital is decreased. The decrease in working capital is about Rs.6910150.46

4. CONCLUSION

As Southern Polymers continues to evolve in the highly competitive and rapidly changing plastic industry, it is well-positioned to take advantage of emerging trends, technological innovations, and a growing demand for sustainable solutions. By focusing on customer relationships, advanced technology adoption, and sustainable practices, Southern Polymers can maintain its competitive edge and contribute to the growth of the plastics industry in a responsible and innovative way. The company's commitment to high-quality products, tailored solutions, and a future-oriented vision makes it a key player in the global market.

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