

WORKING CAPITAL MANAGEMENT - AT A GLANCE

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ABSTRACT

Working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities and the inter-relationship that exist between them. The aim of working capital management is to manage the concerns current asset and current liabilities in such a way that an adequate working capital provide a business with operational flexibility.

KEYWORDS: Working Capital Management

INTRODUCTION

Working Capital is reflected by the fact that financial manager spends a great deal of time in managing current assets and current liabilities, Arranging short term financing, negotiating favorable credit terms, controlling, administering accounts receivables and monitoring the investment in inventories consume a great deal of their time

OBJECTIVES OF THE STUDY

Primary Object

- To studies the working capital management of **Sinecera Textiles Private Ltd**, Chennai by analyzing the profitability, solvency and liquidity position of the company.

Secondary Object

- To critically analyses the working capital requirement of Sinecera Textiles private limited.

NEED OF THE STUDY

- This study is needed to analysis the working capital management of the company.
- The study is being carries out, as it is necessary to identify the over utilization or under utilization of assets to the turnover of the company.

SCOPE OF THE STUDY

- The working capital of the organization will be further revealed through the adoption of various techniques available for analysis.
- These techniques reveal the measures that can adopt to improve the existing trend.

LIMITATION OF THE STUDY

- The study will be limited to observations of the past. The observation made will be related to laws operated in the

past.

- Sufficient data will not be made available to study the current operations being carried out in the company.

RESEARCH METHODOLOGY

The project study mainly focuses on the critical assessment of Working Capital Management of Sinecera Textiles private limited and deals with the liquidity dimension of Working Capital and the profitability. This is descriptive research design.

STATEMENT OF THE PROBLEM

Company's Working Capital, Which automatically includes inventory, account receivables and cash i.e., the proper undertakes to deal with the net concept of working capital i.e., excess of current assets over current liabilities.

METHOD OF COLLECTION

The data for the analysis are collected and gathered from the printed reports of Sinecera Textiles private limited like Annual reports, official files, records and other available related material.

Primary Data

As apart of strengthening the study, personal contacts are made with the officials and staff members of finance department in the form of discussions and collection of reports.

Secondary Data

The Secondary Data are collected from Annual Reports, mainly Balance Sheet, Income and expenditure and other brouchers of the company.

TOOLS AND TECHNIQUES FOR COLLECTION FOR DATA

- Ratio analysis and interpretation
- Statement of changes in working Capital.
- Common size Balance Sheet analysis.
- Comparative Balance Sheet statement.

Statistical Tools Implemented is

- Regression analysis.

ANALYSIS AND INTERPRETATION

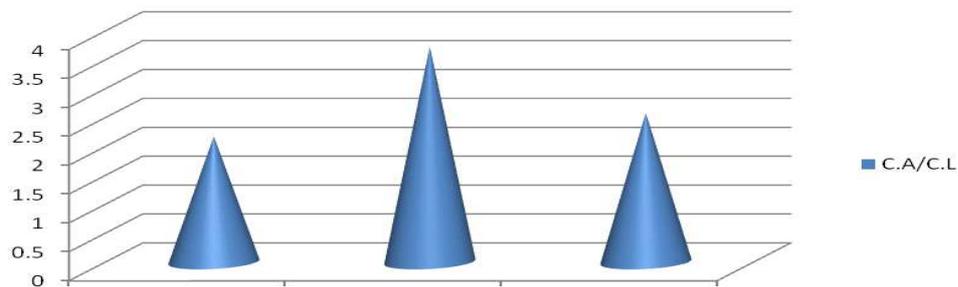
RATIO ANALYSIS AND INTERPRETATION

Current Ratio: (Rs. '000)

Years	C.A	C.L	C.A/C.L
2011-12	120030	55234	2.17
2012-13	157348	42260	3.72
2013-14	168567	65430	2.58

Source: Secondary data

Graphical Representation of change of direction of Current Ratio



Interpretation

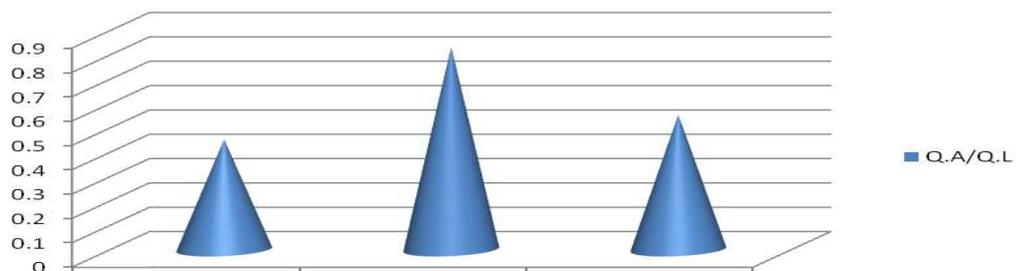
From the above table it shows that, the Ideal Ratio between Current Assets and Current Liabilities is 2:1. This is insisted because even if current assets are reduced to half i.e., 1, the creditors will be able to get their dues in full. Here, the ratio is showing a volatile trend, for the period of 2011-12.

Quick Ratio: (Rs. '000)

Years	Q.A	Q.L	Q.A/Q.L
2011-12	23356	51695	0.45
2012-13	30564	36789	0.83
2013-14	34821	63009	0.55

Source: Secondary data

Graphical Representation of change of direction of Quick Ratio



Interpretation:

From the above table it shows that, the Ideal Quick ratio is 1. Here, the analysis shown as volatile movement due to low creditors in the year of 2012-13. That led to decrease in liabilities in the year 2012-13. so that make a increasing trend in WC Ratio and QA Ratio.

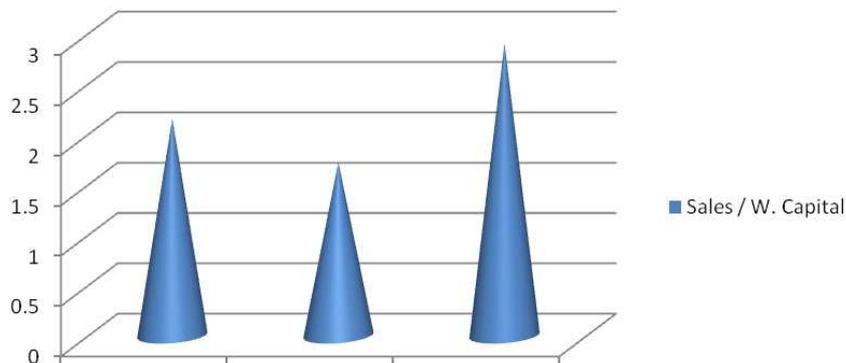
Working Capital Turnover Ratio:

(Rs. '000)

Years	Sales	Working Capital	Sales/ W.Capital
2011-12	139409	64797	2.15
2012-13	197485	115118	1.72
2013-14	298853	103136	2.90

Source: Secondary data

Graphical Representation of change of direction of Working Capital Ratio



Interpretation

From the above table It shows that, For the period of 2012-13 when comparatively to 2011-12 their sales is low compare to the working capital, so they have a lite decrease in their working capital trend, but he pick up the trend and come on the very next year itself.

STATEMENT OF CHANGES IN WORKING CAPITAL

Changes in Working Capital: (2012-13 & 2013-14)

Particulars	2012-13	2013-14	Increase	Decrease
Current Assets				
Inventories	126,783,723	133,745,896	6,962,173	
Sundry debtors	10,533,391	16,348,905	5,815,514	
Cash & bank balances	425,688	226,887		198,801
Other Current Assets	13,320,955	15,411,731	2,090,776	
Loans & Advances	6,314,684	2,833,206		3,481,478
Total	157,378,441	168,566,625		
Current Liabilities				
Current Liabilities & Provisions	42,260,252	65,430,423		23,170,171
Total Current Liabilities	42,260,252	65,430,423		
Net Working Capital	115,118,189	103,136,202		
Net decrease in Working Capital		11,981,987	11,981,987	
	115,118,189	115,118,189	26,850,450	26,850,450

Source: Secondary data

Interpretation

In the year 2012-13 their net working capital is slightly decreased due to repayment of their previous debts like unsecured creditors and so on.,

Cash and bank balance reduced indicating lesser liquidity position of the company. However, it shows the best management of surplus funds. But the total Current Liabilities is increased because of their credit Re-Payout policy.

COMMON SIZE BALANCE SHEET ANALYSIS

Values in %

Particulars	2011-12	2012-13	2013-14
Liabilities			
a) Current Liabilities			
Current Liabilities & Provisions	13.86	10.20	16.78
Total (a)	13.86	10.20	16.78
B) Share holders Funds			
Capital(1)	21.31	20.49	21.78
Reserves & Surplus (2)	4.43	4.26	4.52
Share Application Money (3)	6.27	9.05	9.62
Total (b) (1+2+3)	32.02	33.80	35.93
c) Loan Funds			
Secured Loans (1)	41.38	38.52	38.93
Unsecured Loans (2)	0.35	4.86	0.00
Total (c) (1+2)	41.73	43.38	38.93
Deferred Tax Liabilities (d)	12.39	12.62	8.36
Total Liabilities (a+b+c+d)	100.00	100.00	100.00
Assets			
a) Net Fixed Assets (a)	39.08	35.44	35.41
b) Investments (b)	0.06	0.06	0.09
c) Current Assets			
Inventories (1)	24.26	30.60	34.31
Sundry debtors (2)	1.61	2.54	4.19
Cash & bank balances (3)	0.56	0.10	0.06
Other Current Assets (4)	1.61	3.21	3.95
Loans & Advances(5)	2.09	1.52	0.73
Total (c) (1+2+3+4+5)	30.13	37.98	43.24
e) Misc. Expenditure (d)	0.04	0.03	0.03
P & L a/c (e)	30.69	26.48	21.23
Total (a+b+c+d+e)	100.00	100.00	100.00

Source: Secondary data

Interpretation

In Common size balance sheet analysis of Sincera Textiles Private Limited, it is found that the Total assets and liabilities are taken as 100% total and other components of assets and liabilities are also expressed in terms compared to total asset and total liability. (This is also a good technique to minimize their Tax liability)

COMPARATIVE BALANCE SHEET (2012-13 & 2013-14)

Particulars	2012-13	2013-14	Absolute Change	Change %
Source of funds				
Share holders Fund				
Capital (1)	84921900	84921900	0	0
Reserves and surplus (2)	17640767	17640767	0	0
Share application Money (3)	37500000	37500000	0	0
(1+2+3) (A)	140062667	140062667	0	0
Loan Funds:				
Secures Loans (1)	159633382	151771125	7862257	4.92
Unsecured Loans (2)	20119745	0	20119745	100
(B) (1+2+3)	179753127	151771125	27982002	15.57
Deferred Tax Liability (c)	52311311	32596670	19714641	37.69
Total (A+B+C)	372127105	324430462	47696643	12.82

Application of funds				
Fixed Assets				
Gross block (1)	254093480	257380128	3286648	1.29
Less: depreciation (2)	107214386	119313574	12099188	11.29
Net block (1+2) (D)	146879094	138066554	-8812540	-6
Investments (E)	250000	350000	100000	40
Current Assets, loans and advances:				
Inventories (1)	126783723	133745896	6962173	5.49
Sundry debtors (2)	10533391	16348905	5815514	55.21
Cash and bank balances (3)	425688	226887	-198801	-46.70
Other current assets (4)	13320955	15411731	2090776	15.7
Loans and advances(5)	6314683	2833206	-3481477	-55.13
Total (1+2+3+4+5) (F)	157378440	168566625	11188185	7.109
Current Liabilities:				
Current Liabilities & Provisions (G)	42260252	65430423	23170171	54.83
Net Current Assets(H) (F-G)	115118188	103136202	-11981986	-10.41
Miscellaneous Expenditure (to the extend not written off in P&L A/c) (I)	131950	113100	-18850	-14.29
Profit & Loss A/c (J)	109747872	82764606	-26983266	-24.59
			0	
Total (F+H+I+J)	372127104	324430462	-47696642	-12.82

Source: Secondary data

Interpretation

There is no increase in Reserves and surplus of the company. This fact tells that they spend all the profit for the company concern alone, but they must to keep some money for reserves and surplus, because every company is run on basis accountability concept "Going concern concept".

REGRESSION ANALYSIS

PROFIT ON SALES: Rs. In '0000

Year	Sales X	Profit Y	XY	X ²
2012	13941	1255	17495955	194351481
2013	19749	1255	24784995	390023001
2014	29885	2112	63117120	893113225
Total	63575	4622	105398070	673487707

Source: Secondary data

X = Independent Variable (Sales)

Y = Dependent Variable (Profit)

A, B = Constants

Regression equation Y on X is

$$Y_c = a + bx$$

To find out the values of a, b

$$\sum y = na + b\sum x$$

$$\sum xy = a\sum x + b\sum x^2$$

By Substituting this Equation

$$4622 = 3a + 63575b \quad \text{----- Multiple by (63575)}$$

$$105398070 = 63575b + 673487707 \quad \text{----- Multiple by (3)}$$

$$293843650 = 190725(a) + 4041780625(b)$$

$$316194210 = 190725(a) + 2020463121(b)$$

$$-22350560 = \quad \quad \quad 2021317504(b)$$

$$\mathbf{B} = -90.44$$

By Substituting b Value in Equation (1)

$$4622 = 3(a) + 63575(b)$$

$$4622 = 3(a) - 5749533$$

$$5754155 = 3a$$

$$\mathbf{A} = 1918051$$

For 2009

$$Y_c = a + b(x)$$

$$Y_c = 1918051 - 90.44(45126)$$

$$Y_c = 1918051 - 4108327$$

$$\mathbf{Y_c} = 2190276$$

Interpretation

As a sales increases by every year 90.44%. The Profit Shows the higher level in the last year comparing previous year.

The "B" values show the number of times of the year.

FINDINGS**Ratio Analysis**

- Their WC Ratio and Quick Ratio are in increasing trend.
- The Company has a good liquidity Position

Comparative Analysis

- there Reserves & Surplus is maintain constant position neither increase or decrease that may be to their credit Re-pay out policy

Common Size Balance Sheet

- Owned Capital Equity is in increasing Trend, and their Overall Liability is in decreasing trend that's shows their overall Great Management Performances

Changes in Working Capital

In the year 2007-08 their net working capital is slightly decreased due to repayment of their previous debts like unsecured creditors and so on.,

Cash and bank balance reduced indicating lesser liquidity position of the company. However, it shows the best management of surplus funds. But the total Current Liabilities is increased because of their credit Re-Payout policy.

Regression Analysis

- As a sales increases by every year 90.44%. The Profit Shows the higher level in the last year comparing previous year.
- The "B" values show the number of times of the year

SUGGESTIONS

- They have a good credit Re-Payout Policy the company has not to take less time to give all the credit, If they use long term liability as a part of their capital, that reduce their tax liability because of their interest rates
- Working Capital Ratio also in some volatile movement because of their credit Re-Payout Policy

CONCLUSIONS

- To conclude that, Sincera Textiles P Ltd has mobilized the funds in the same manner the funds are invested productivity in the capital asset as well as Working Capital.
- They have a good credit Re-pay out Policy to return all their debts in a short term period
- The company may take efforts to increase its efficiency in taking control of the top level management.

REFERENCES

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