

## AN ANALYTICAL EXAMINATION OF WORKING CAPITAL MANAGEMENT IN INDIAN FARMERS FERTILISER COOPERATIVE LIMITED (IFFCO)

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### **ABSTRACT**

*Working capital management includes the management of the relationship between a firm's short-run assets and its short-run liabilities. The objective of the research is to analyze the management of the working capital of fertiliser industry IFFCO, and the main objective is to analyse the significance and growth of various constituents of both current assets and current liabilities. For an intensive study of working capital management of fertiliser industry, the primary focus of the study would be on major and significant players of the fertiliser industry. The study has found that the IFFCO fertiliser industry has been managing its working capital very efficiently during the study period and increasing its volume of net worth and cash profit since 2014-15.*

**KEYWORDS:** *Financial Indicators, Net Worth and Cash Profit of IFFCO during Last Five Years*

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### **Article History**

**Received: 30 Jan 2021 | Revised: 17 Feb 2021 | Accepted: 22 Feb 2021**

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## **INTRODUCTION**

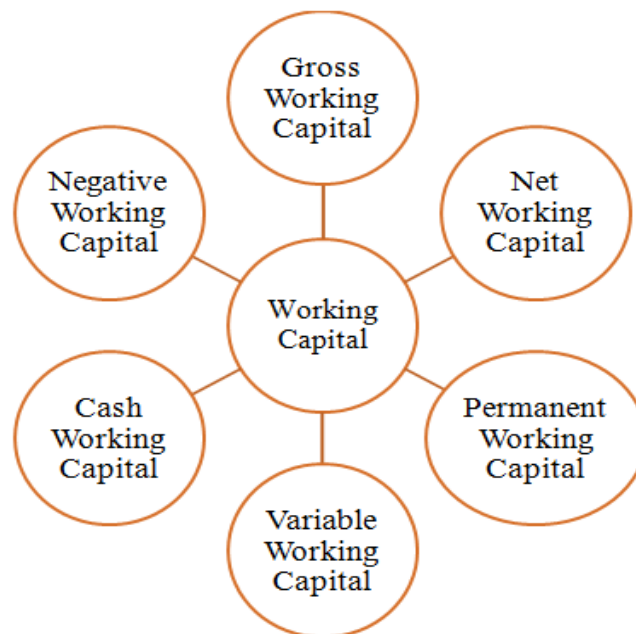
### **Working Capital Management**

Working capital management is concerned with the management of all the aspects of both the current assets and current liabilities, so as to minimize the risk of insolvency while maximizing return on assets. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash. Working capital management calls for addressing two basic issues-how much of current assets should an organization hold and how to finance such investment in current assets. It is opined that organizations which could tackle these two issues reasonably are able to combat liquidity problems comparatively more efficiently.

### **Fertiliser Industry**

The Indian Fertiliser Industry entered into the hundredth years of its existence in the year 2006. The industry had a very humble beginning in 1906, when the manufacturing unit of Single Super Phosphate (SSP) was set up in Ranipet near Chennai with annual capacity of 600 MT. The Fertiliser & Chemicals Travancore of India Ltd. (FACT) at Cochin in Kerala and the Fertiliser Corporation of India (FCI) in Sindri in Bihar were the first large sized fertiliser plants set up in

forties and fifties with a view to establish an industrial base to achieve self-sufficiency in food grains. Subsequently, green revolution in the late sixties gave an impetus to the growth of fertiliser industry in India.



**Figure 1**

## **PROFILE OF IFFCO**

### **Indian Farmers Fertilisers Co-Operative Ltd**

IFFCO had been registered in November 3, 1967 as a Multi-Unit Co-Operative Society. This society has been working in the field of the production and distribution of fertilisers.

### **Objectives of the Study**

- To examine the significance and growth of various constituents of current assets and current liabilities.
- To analyse the position of working capital management in IFFCO industry.

### **Significance & Scope of the Study**

The study focuses on the examining the working capital management of Indian Farmers Fertilisers Co-operative limited. There are different tools that are used to identify the effective management of working capital, have been analysed which will be useful in assessing the performance of this industry.

## **RESEARCH METHODOLOGY/ ANALYTICAL TOOLS**

### **Ratio Analysis**

Ratio analysis / Accounting Ratio are one of the widely used tools of analysing the working capital and its management under different industries. Some important ratios that have been calculated are as follows:

### **Liquidity Ratios**

These ratios represent the liquidity position of the concern. The following ratios were calculated:

- **Current Ratio:** = Current Assets/ Current Liabilities
- **Quick Ratio:** = (Current Assets – Inventory & Prepaid expenses)/ Current Liabilities

Here,

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

**Profitability Ratio**

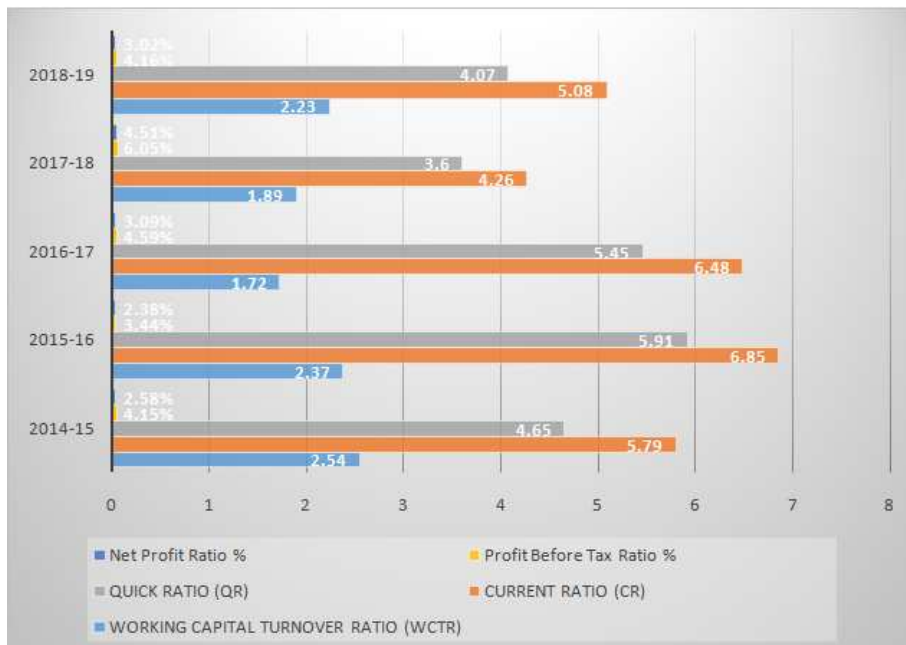
The Net Profit Ratio, calculated, reflects the efficiency of management in manufacturing, selling, administrative and other activities of the concern.

- *Profit Before Tax Ratio = Profit Before Tax/ Net Sales*
- *Net Profit Ratio = Net Profit After Tax/ Net Sales*

**Table 1: Important Financial Indicators of Working Capital Management**

Ratios	2014-15	2015-16	2016-17	2017-18	2018-19
WORKING CAPITAL TURNOVER RATIO (WCTR)	2.54 Times	2.37 Times	1.72 Times	1.89 Times	2.23 Times
CURRENT RATIO (CR)	5.79:1	6.85:1	6.48:1	4.26:1	5.08:1
QUICK RATIO (QR)	4.65:1	5.91:1	5.45:1	3.60:1	4.07:1
Profit Before Tax Ratio	4.15%	3.44%	4.59%	6.05%	4.16%
Net Profit Ratio	2.58%	2.38%	3.09%	4.51%	3.02%

The above table 1 reflects about the previous five financial year accounting ratio tool, which are the important player in working capital management. The results found through financial indicators shows the sound working capital management position of IFFCO and all indicators are higher than ideal ratios.



**Figure 2**

The figure 2 reflects net profit ratios, PBT ratios, QR, CR and WCT Ratios of last five financial years. These all are in sound form and it can be concluded that the IFFCO has been utilising its all financial resources very well.



**Figure 3**

With the help of the above figure no. 3, it has been found that the net worth of IFFCO has been continuously increasing/ improving since the financial year 2014-15, which is very good for the financial health of the society.



**Figure 4**

The figure 4 shows the trend in cash profit of IFFCO industry since the financial year 2014-15. It shows the increasing trend in cash profit of the industry till 2017-18, but in 2018-19 this cash profit has got slight reduction form before.

**CONCLUSIONS**

After the analysis of Working Capital Management it has been found that the working capital amount has been high. During the study period, IFFCO possessed huge amounts of current assets, which has been shown and found through the current ratio. This co-operative society is performing as front or opening player in the fertiliser industry since 2014-15 during the study period. All the financial indicators Profit before tax ratio, Quick ratio, Current ratio, and Working capital turnover ratio have been found in their improving position and this is the reason why this IFFCO fertiliser industry has been finding for touching its peak currently. The society has not only been improving its financial indicators but it has been improving or increasing its net worth and cash profit during the study period.

The current ratio and quick ratio of this IFFCO industry are very much higher than its ideal ratio, which shows that the industry can borrow more short term funds from the market and can increase the net worth and cash profit in coming future.

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