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A STUDY ON ANALYSIS OF WORKING CAPITAL MANAGEMENT IN MANUFACTURING COMPANY

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ABSTRACT

All business, small, medium, or large, requires finance to operate and achieve its goals. Finance, in fact, is so crucial today that it is aptly referred to as an enterprise's lifeblood. No business can reasonably achieve its goals without adequate finance. Working capital analysis depends on tools such as Ratio Analysis and Statement of Changes in Working Capital. So far as working capital management is concerned, the firm has two major issues: First, given the level of sales and corresponding cost factors, what are the optimal levels of cash, accounts receivable, and inventories that a firm should maintain? Second, given these optimal levels, what is the most cost-efficient method of financing these working capital investments? To get the best out of it, firms should have no idle assets and finance with the minimum possible sources of funds. Why? Typically, investment in short-term assets and financing short-term liabilities is beneficial to the firm in considerable extent.

1. INTRODUCTION

Working capital is the life blood of any organization. it provides amount for the day-to-day requirement of any organization. There are two concepts of working capital, gross capital and net capital. Gross working capital, simply called working capital, refers to the firm’s investment in current asset, current liabilities.Net working capital is the difference between current asset and current liabilities. The firm should maintain a sound working capital position. It should have adequate working position. It should have adequate working to sum its business operations. Both excessive as well as inadequate working position is dangerous form the firm’s point of view. Excessive working capital means idle funds, which earn on profit for the firm.

CONCEPT OF WORKING CAPITAL

The concept of working capital is very important as the term has been used to refer to the capital required for day-day operation. Adam smith (1776) stated, "the goods of the merchant yield him no revenue or profit, till he sell them for money, and the money yields him as little it again exchanged for goods.".

There are two theories of working capital. There are:

1.Gross Working Capital

2.Net Working Capital

Gross Working Capital

Gross working capital is that capital which is invested in the total current assets of the enterprises current assets are those assets which could be converted into cash within a short duration of time generally one accounting year.

FORMULA = Total Assets - Fixed Assets

CONSTITUENTS OF CURRENT ASSETS

- Cash in hand and cash at bank
- Bills receivables
- Sundry debtors
- Short term and advance loans
- Inventory of stocks as:
- ✓ Raw material
- ✓ Work in Progress
- ✓ Stores and spares

Net Working Capital

Net working capital can be positive or negative. When the current assets exceeds the current liabilities are more than the current assets. Current liabilities are those liabilities, which are intended to be paid in the ordinary course of business within a short period of normally one accounting year out of the current assets or the income business.

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Both gross working capital and net working capital concepts are important aspects of working capital. The gross working capital is suitable to company form of organisation where there is divorce between ownership and management and control. But the net working capital concepts may be suitable for sale proprietorship or partnership firm. Of the two, net working capital concepts are widely accepted.

Net working capital = current assets - current liabilities.

2. REVIEW OF LITERATURE

Verma (1989) – Study examined the working capital management in Tata iron and steel company ltd,Indian iron and steel company and steel authority of India Ltd during the period of 1978-1979 to 1985-1986 there are using various financial and statistical techniques finally concluded the three firm use of bank borrowings to finance the working capital management.

Bansal (2001) – researcher study the working capital management in Himachal Pradesh agro industries for the period 1985-1986 to 1994-95 with the help of various financial tools that are define the working capital ,cash inventory, receivables and production capacity that have not been managed properly by the company under study.

Paul (2007) – this is in-depth study of working capital management in motor industries company limited. In this 2001 to 2005 period of 5 year data collected. For analysis purpose uses of different types of ratio analysis. At last proves that the working capital of company under study has not been managed effectively and efficiently.

Gayathri. J (2015) – this study getting overall review about working capital management. This case study depending textile industry to analyses better understanding of methodology is used limitations of various available estimations procedures and database. This review empirical study explores the avenue for future and present research effort to the subject matter. There is various research studies different aspects use for financial performance of textile industry.

3. OBJECTIVES OF THE STUDY

- To analyze the working capital management of the company.
- To understand the liquidity and solvency position of the firm
- To evaluate the business' profitability
- Analyze and predict the movement of a component based on the current and historical data

4. RESEARCH METHODOLOGY

The scientific procedure of gathering and analyzing information to learn more about the topic that is interesting or bothering us is called "research." It is conscientious pursuit of knowledge. It is a laborious investigation or study, particularly one that seeks out new facts in all fields of learning. Both the analytical and descriptive sides fall under the study. Because it examines and analyzes corroborative evidence to reach the correct conclusion, it is analytical and descriptive from the perspective of the theoretical concept. Information is translated in ratios and percentages.

5. METHOD OF DATA COLLECTION

Annual reports, balance sheets, and income and expenditure statements and personal interaction with finance manager and other staff members were the primary and secondary sources of information.

TOOLS USED

Methods used are Ratio Analysis and Trend Analysis.

SCOPE OF THE STUDY

The study conducted on Working Capital management is related to of manufacturing company; the information is collected for a period of five years i.e., 2020, 2021,2022,2023,2024 of techniques like ratio analysis and a description of changes in working capital are the foundation of working capital analysis. Also it improves company using trend data in decision making on the basis of a company's profit showing in the final analysis.

NEED FOR THE STUDY

- The subject of research is working capital management. The research takes a manager's perspective regarding working capital performance within the company. Current assets, current liabilities, and their relationship are tracked in working capital management.
- An effective working capital policy guarantees a firm's greater profitability and adequate liquidity.
- All businesses require finance for two purposes: startup and continuation of day-to-day business. In order to be able to do this, it is important that the company's short-term assets and liabilities are controlled.

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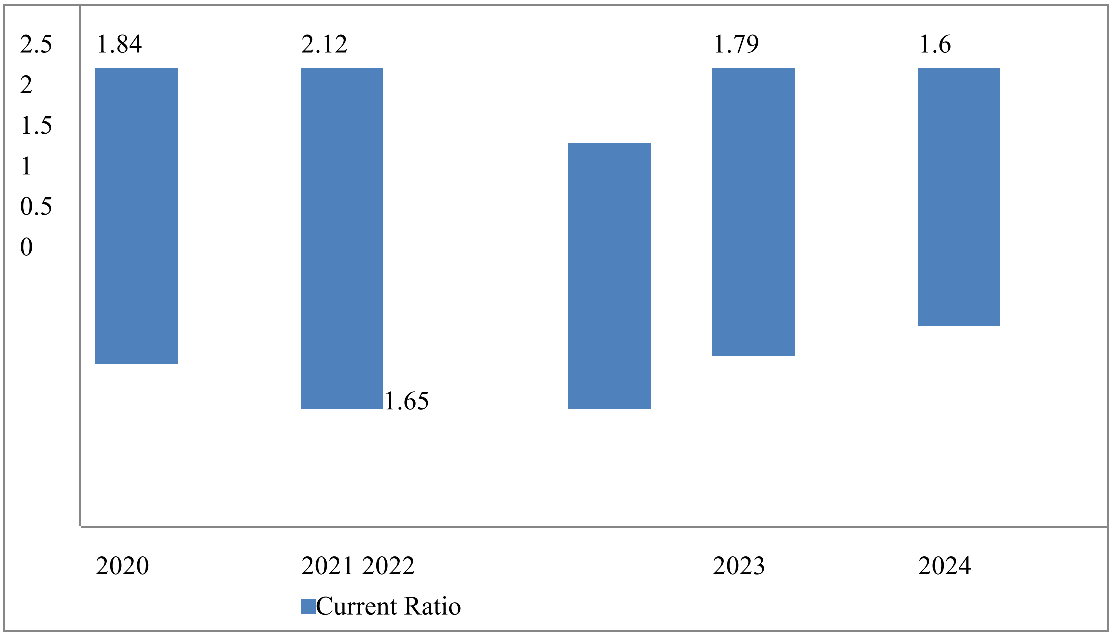
6. ANALYSIS AND INTERPRETATION

CURRENT RATIO

TABLE -1 Showing Current Ratio

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
2020	396.88	215.93	1.84
2021	352.25	166.23	2.12
2022	360.33	218.74	1.65
2023	379.18	211.98	1.79
2024	400.16	250.68	1.60

CHART-1 SHOWING CURRENT RATIO



INTREPRETATION: We can see from the above graph that there is a fluctuating trend in the study period. It has risen to 2.12 from 1.84 in the year 2021. It is 1.65 in the year 2021 and it has a slight rise to 1.79 in the year 2023. In the year 2024 it fell again to 1.60. Remedial actions are to be taken by the management to enhance the current position.

CHANGES IN WORKING CAPITAL

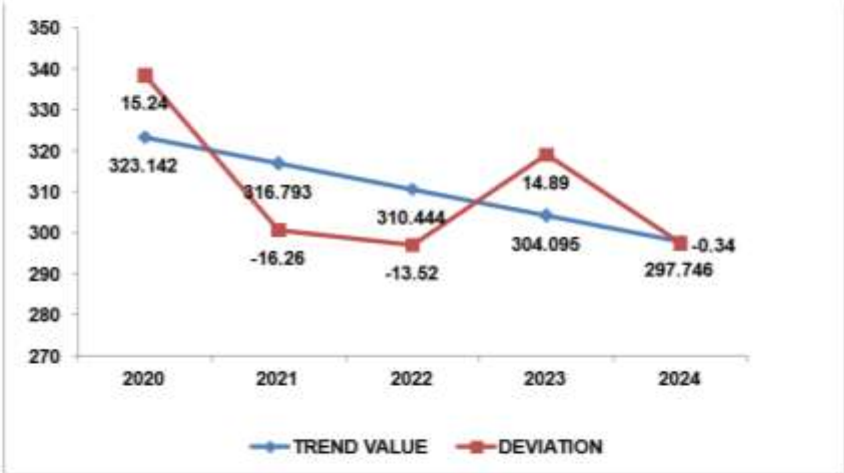
YEAR	Increase in working capital	Decrease in working capital
2020-2021	5.04	
2021-2022		45.13
2022-2023	21.49	
2023-2024		12.69

TREND ANALYSIS

TABLE SHOWING TREND ANALYSIS OF CURRENT ASSETS

Year	X	Y(RS.lakhs)	X2	XY (RS.lakhs)	Trend value	Deviation
2020	-2	338.38	4	-676.76	323.142	15.24
2021	-1	300.53	1	-300.53	316.793	-16.26
2022	0	296.92	0	0	310.793	-13.52
2023	1	318.98	1	318.98	304.095	14.89
2024	2	297.41	4	594.82	297.746	-0.34
Total		1,552.22	10	-63.49		

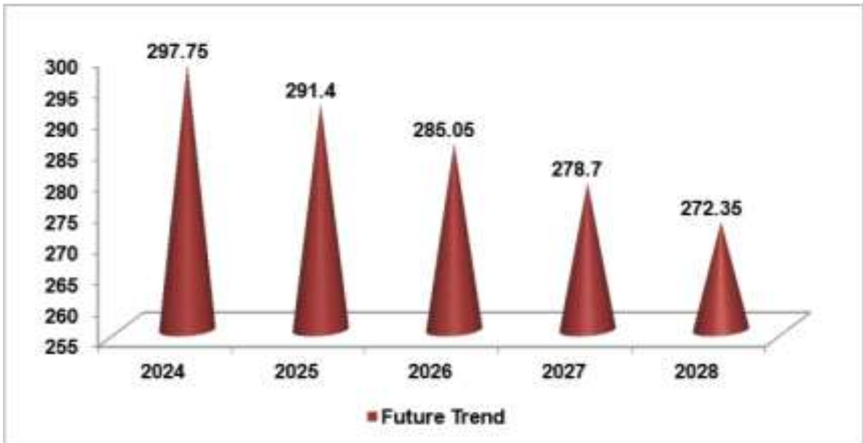
CHART SHOWING TREND & DEVIATION



PROJECTED TREND VALUE – CURRENT ASSETS
FOR THE FORTHCOMING YEARS (2024 - 2028)

YEAR	FUTURE TREND (Trend value+B)
2024	297.75
2025	291.4
2026	285.05
2027	278.70
2028	272.35

SHOWING TREND ANALYSIS OF CURRENT ASSETS



7. FINDINGS

- It can be seen that there is a fluctuating trend in the study period. It is raised to 2.12 in the year 2021 from 1.84. It is reduced to 1.65 in the year 2022 and it gets a slight increase to 1.79 in the year 2023. It again decreases to 1.60 in the year 2024. Remedial action should be taken by the management to enhance the current position.
- In the year 2021 it is increased to 1.44 from 1.21 of 2020. The above graph it can be observed that there is fluctuating trend during the study period. In the year 2023 it is increased to 1.35 and falls again to 1.08 in 2024. It can be observed that there is fluctuating trend during the study period. In the year 2020 and 2021 it was in its peak of 3.35 and 2.77 and falls deep to 2.21 in 2022 and there on it is increased and regained its initial level.
- Current Assets increased due to the increase in the sundry Debtors and the net fixed assets of the firm are decreased due to the charge of depreciation and there is no major increment in the fixed assets. The increment in current assets and the decrease in the fixed assets resulted on increased in the ratio compared with the previous year. The Debt-Equity Ratio shows a growth from 0.86 in 2020 to 3.18 in 2022, in 2023 found a small decline and again rose to 3.93. This shows a negative signal and the company should restrict the purchase of inventory or fixed assets in future years.

- The Debt to assets ratio was found to be in a good rate in 2020 and 2021 which is below 50%, but there after in the fourth coming years, it is increased. This show a possible overuse of leverage, and it may indicate potential problems meeting the debt payments.
- The working capital statement of manufacturing for the years 2020 and 2021 reveals that the current assets of the company show a deep declining trend from the year 2020-2021.Current liabilities decline from 20202021.This was really a good sign and favourable to the organization.
- The trend of the study period indicates the increase to be marginal. This is mainly due to the reason that these data's have been arrived in comparison with the last 5 years fixed assets value. There was no phenomenal increase in growth in terms of assets during 2024 and this is the one of the major reasons that the projections are also showing only a marginal increase. In reality if we assume that the same increasing in trend value continues compared to 2023, the ratio for the above 5 years will be still higher.

8. SUGGESTIONS

- The status of the company is improved after the examination of Financial Statements, since the Net working capital of the company has been doubled compared to last year position.
- The company's profits are huge in this year; it is better to declare the dividend to the stakeholders.
- The company is utilising the fixed assets, which majorly help to the growth of the organisation. The company should maintain that perfectly.
- The company fixed deposits are raised from the inception, it gives the other income i.e., Interest on fixed deposits.
- Steps must be initiated to augment in the current asset position of the company in order to enhance the liquidity position of the company.
- Debt to equity ratio can be minimized to minimize the financial risk.
- Debt as a percentage of capital can be minimized to return as much as possible to the stakeholders.
- Steps can be taken to minimize the existing liability of the company so that the financial position is safe.
- Measures can be put in place to maximize the net profit in a bid to improve the overall financial performance.

9. CONCLUSIONS

The company is in good overall position with increased profits for the current year. Profitability has been uneven in the past 5 years, and while there are more assets, working capital decreased, indicating trouble in repayment of short-term obligations. Financial statements are a prime area for regulatory compliance and cost management. Diversification of funds and maintaining liquid current assets so there can be continuity of business is an area management should keep in mind since working capital management is essential. The recommendations made should be applied based on historical financial results.

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