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THE RELEVANCE OF WORKING CAPITAL MANAGEMENT

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ABSTRACT

Working capital management is part of the financial considerations that a finance manager needs to determine and plays an important role in determining the profitability of the firms. The main objective of financial decision making is to maximize shareholders wealth and to endeavor this firm should earn sufficient returns requires a successful sales activity. For a successful sales activity the firm has to invest sufficient funds in current assets. Current assets are needed because sales do not concert into cash instantaneously. There, is always an "operating cycle" involved in the conversion of sales into cash. Working capital management is considered as one of the most important aspects of firm’s financial management. The goal of working capital management is to manage the firm’s current assets and current liabilities in such a way that the satisfactory level of working capital is maintained. Each of the current assets should be managed efficiently in order to maintain the liquidity the firm while not keeping too high a level of any one of them.

Keywords: Working capital management, operating cycle, current assets, current liabilities

1. INTRODUCTION

Introduction:

Working capital may be regarded as the life blood of a business. Its effective provisions can do much to ensure the success of business, which its inefficient management can lead not only to loss of projects but also the ultimate downfall of what otherwise, might be considered as promising concern. Thus, its management is considered as one of the most important aspects of firm's Financial Management.

The term working capital stands for that part of the capital which is required for the financial working of the company in simple words, we can say that working capital is the investment needed for carrying out day to day operations of the business smoothly.

CONCEPTS OF WORKING CAPITAL:

1) Gross working capital.

2) Net working capital.

Gross working capital:

The gross working capital refers to the firm’s investment in the total current assets of the enterprise. The current assets are those assets within the ordinary course of business can converted into cash with in the short period of normally one accounting year.

Net working capital:

The net working capital can be defined into two ways the most common definition of working capital is difference between current assets and current liabilities.

Net working capital can also be defined as that portion of firm's current assets. Which are financed with long-term funds.

NEED FOR WORKING CAPITAL:

The need for working capital to run the day to day activities cannot be over emphasized we will hardly find a business firm, which does not require any amount of working capital. Indeed, every firm differs in these requirements of the working capital.

The main objective of financial decision making is to maximize shareholders wealth and to endeavor this firm should earn sufficient returns requires a successful sales activity.

For a successful sales activity the firm has to invest sufficient funds in current assets. Current assets are needed because sales do not concert into cash instantaneously. There, is always an "operating cycle" involved in the conversion of sales into cash.

2. REVIEW OF LITERATURE

ARTICLE: 1

Tile: An analysis of working capital management in India: An urgent needs to refocus

Author: Najib H.S. Farhan1, Fozi Ali Belhaj2, Waleed M. Al-ahdal3 and Faozi A. Almaqtar

Source: Farhan et al., Cogent Business & Management (2021), 8: 1924930

The current study aims to evaluate the impact of working capital components on the financial performance of Indian pharmaceutical companies. Moreover, it aims to analyze working capital among small, medium and large firms. The study uses a panel data of 82 pharmaceutical companies for the period from 2008 to 2017. Generalized Method of Moment (GMM) model is used for estimating the results. Findings show that there is a significant dif-ference in managing working capital among small, medium and large firms. Furthermore, it is found that number of days' collection period, number of days' payable period and number of days' inventory holding period positively impact the financial performance of Indian pharmaceutical company's mea-sured by return on assets and net operating margin. Whereas, cash conversion cycle has a negative impact on return on assets, net operating margin and Tobin's Q.

ARTICLE: 2

Tile: Effects of working capital management on firm performance: Evidence from the EFQM certified firms

Author: Muhammad Yousaf1* and Petr Bris

Source: Farhan et al., Cogent Business & Management (2021), 8: 1924930.

The main aim of the current study is to explore the relationship between working capital (WC) and firm performance. We chose a sample of 326 Czech firms, including 20 certified firms from the EFQM (European Foundation for Quality Management) Excellence Model from the Albertina database. The sample of the Czech firms was taken from three sectors: manufacturing, automobile, and con-struction. We employed a two-step system generalized method of moment (GMM) technique to determine the results. The study results revealed a negative impact of WC on firm performance; moreover, the firms having a quality certificate from the EFQM Excellence Model perform better. The findings of previous research, which were held globally, and the current study results will encourage the directors, managers, and leaders of the Czech firms to participate in the quality award.

ARTICLE: 3

Tile: Working Capital Management and Its Impact on Profitability

Author: Nimalathasan Balasundaram

University of Jaffna

Source: Journal of Emerging Technologies and Innovative Research (JETIR) www.jetir.org

Main purpose of the study is to identify the impact of working capital management on profitability of selected listed manufacturing companies from financial year 2003-2007. Correlation and regression analysis were performed. Results reveals that cash conversion cycle (CCC) and return on assets (ROA) are negatively correlated the value of -0.127 which is highly significant at 1 percent level of significance, which means that as the cash conversion cycle increases ROA decreases. In addition inventory conversion period (ICP) is highly significant at 1 percent level. It indicates that with increasing level of ICP, ROA will be increased -0.065 levels. Further the coefficient of the CCC variable is negative at a value of -0.0503 and p value is 0.006. This implies that an increase in the number of day's cash conversion cycle by 1 day is associated with a decline in ROA by 5.03%. The results suggest that managers can increase profitability of manufacturing firms by reducing the number of day's inventories and accounts receivable.

RESEARCH GAP:

This project results suggest that managers can increase profitability of manufacturing firms by reducing the number of day's inventories and accounts receivable.

OBJECTIVES:

The following are some of the objectives that are set for the study, that is

- To find out the ability of the firm to meet its current obligations.
- To examine the solvency of the firm.
- To assess the profitability position of the company.
- To know overall operation efficiency & financial performance of the company.
- To compare the yearly performance through ratios.

3. RESEARCH METHODOLOGY

Need For The Study

Financial statement is the instruments to watch out the performance of a business enterprise. Ratio analysis technique of analyzing the financial information contained in the balance sheet & profit & loss account, for more meaningful & understanding of the financial position & performance of firm.

In financial analysis a ratio is used as the index or yardstick for evaluation the financial position & performance of a firm. The analysis is very useful for both the inside & outside groups. They are interested in the results or relationship reported in the financial attachment.

Scope Of The Study:

The study is totally confined to analysis of profitability of Sangam Dairy Foods, profitability ratios. As a tool of financial analysis the ratios are of immense significance the importance of ratio analysis lies in fact that it presents facts on a comparative basis. Ratios are used in credit analysis to judge ability. Firm's liquidity or debt paying ability, which is very useful to the creditors.

Methodology

Methodologies are a systematic procedure of collecting information in order to analysis & verify a phenomenon. The collection is done through two principal sources viz.

1. Primary Data:

It is the information collected directly with out any reference. In this study it was mainly interviews with concernment officers & staffs either individually or collectively some of the information has been verified or supplemented conducting personal with observations.

The data includes:

- Interviews with Sangam Dairy foods employees.
- Organizations chart has been drawn through observation.

2. Secondary Data:

The secondary data was collecting from already published source such as payments annual reports returns & internal records.

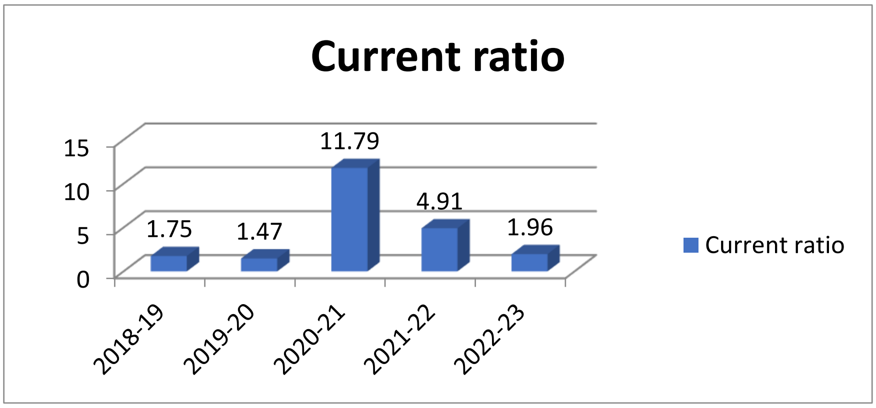
Limitations Of The Study

- The analysis is made on the basis of secondary data.
- Time is the main constraint in completing the study with in the stipulated periods allowed.
- It is not possible to analysis that in detail all documents.
- As there is more dependency in secondary data realistic conclusion may not be possible to be made.

4. DATA ANALYSIS & INTERPRETATION

CURRENT RATIO:-

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
Current assets	23,27,193	24,17,193	56,54,803	43,53,094	17,48,432
Current liability	13,25,982	16,34,982	4,79,609	8,84,875	8,87,929
Current ratio	1.75	1.47	11.79	4.91	1.96

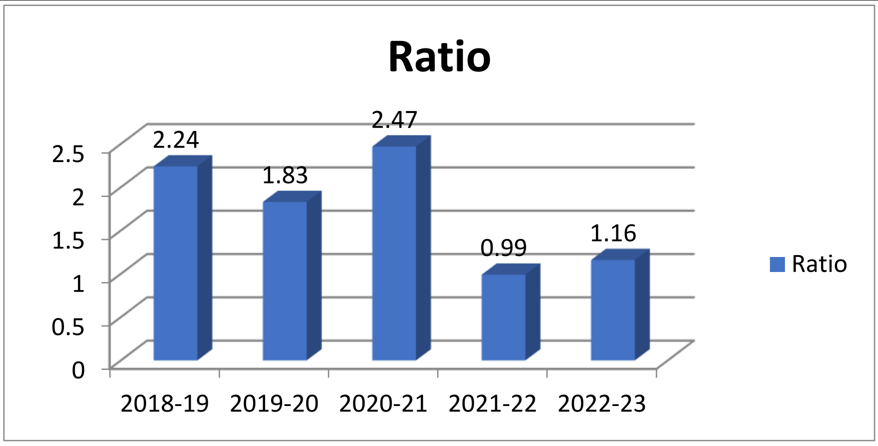


Interpretation:

From the above graphical representing the difference of current ratio, the current ratio is in fluctuating from one year to another year. The ratio representing 2018-2019 is 1.75%, 2019-2020 is 1.47%, 2019-2020 is 11.79%, 2019-2020 is 4.91% and 2022-2023 is 1.96%. The current ratio is very low in the assessment year of 2019-2020 as 1.47%.

RECEIVABLE TO WORKING CAPITAL:-

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
Receivable	15,30,308	18,36,308	19,36,308	51,66,016	4,70,28,423
Working capital	6,82,261	10,01,211	7,82,211	51,75,194	34,68,218
Ratio	2.24	1.83	2.47	0.99	1.16

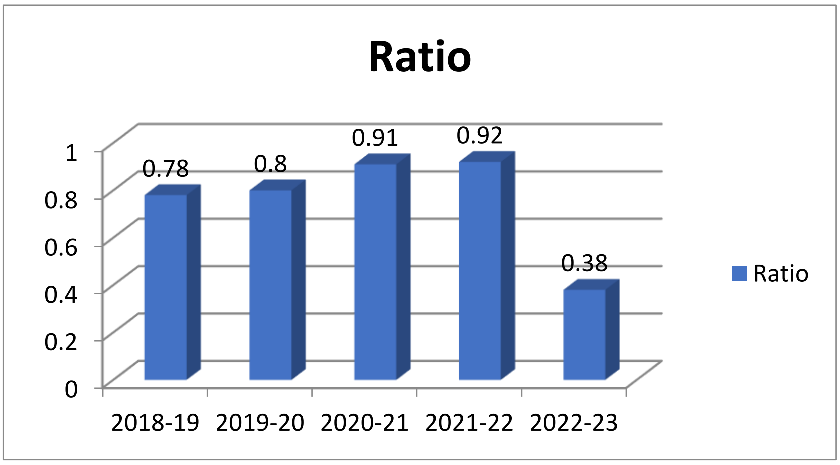


Interpretation:

From the above graphical representing the difference of the receivable to working capital ratio, the receivable to working capital ratio is in fluctuating from one year to another year. The ratio representing 2018-2019 is 2.24%, 2019-2020 is 1.83%, 2020-2021 is 2.47%, 2021-2022 is 0.99% and 2022-2023 is 1.16%. The receivable to working capital ratio is very low in the assessment year of 2022-2023 as 0.99%.

RECEIVABLE TO CURRENT ASSETS:-

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
Receivable	18,36,308	19,36,308	51,66,016	40,28,423	6,72,027
Current assets	23,27,193	24,17,193	56,54,803	43,53,094	17,48,432
Ratio	0.78	0.8	0.91	0.92	0.38

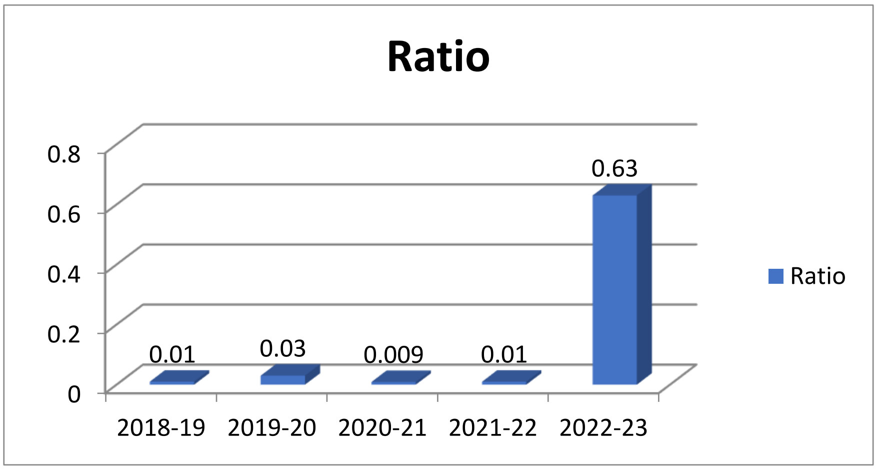


Interpretation:

From the above graphical representing the difference of receivable to current assets, the receivable to current assets is in fluctuating from one year to another year. The ratio representing 2018-2019 is 0.78%, 2019-2020 is 0.80%, 2020-2021 is 0.91%, 2021-2022 is 0.92% and 2022-2023 is 0.38%. The receivable to current assets are very low in the assessment year of 2022-2023 as 0.38%.

CASH AT BANK BALANCE TO WORKING CAPITAL RATIO:

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
Cash at bank	38,020	28,020	46,631	55,204	5,49,282
Working capital	36,53,175	7,82,211	51,75,194	34,68,218	8,60,503
Ratio	0.01	0.03	0.009	0.01	0.63



Interpretation:

From the above graphical representing the difference of cash at bank balance to working capital ratio, cash at bank balance to working capital ratio is in fluctuating from one year to another year. The ratio representing 2018-2019 is 0.01%, 2019-2020 is 0.03%, 2020-2021 is 0.009%, 2021-2022 is 0.01% and 2022-2023 is 0.63%. The cash at bank balance to working capital ratio is very low in the assessment year of 2020-2021 as 0.009%.

5. CONCLUSION

From the above financial analysis of the company, my opinion on the working capital management on the **SANGAM DAIRY FOODS.**

1. The organization current assets and current liabilities are very low in the assessment year 2019-2020. Then the working capital is also decreased it will be effect on the productions and also employees.
2. The organizations bank balance is very low in the assessment year 2015-2016. It also effected on employee and company image. So maintain bank balance it will useful in the critical situations.
3. The sundry debtors have more than 85% in current asset. So reduce that amount or percentage to avoid the debts arising in the organization. And increase the current assets.
4. In the working capital amount the sundry debtors have more than half percentage of amount so try to decrease the doubtful debts for better performance.
5. I suggested that the working capital faced some fluctuation for production. Try to maintain growth stage of working capital for better performance.

6. REFERENCES

[1] Six years Annual Reports of SANGAM DAIRY Foods
[2] www.indiandairy.com
[3] www.gdsangam.com