**THE RELEVANCE OF WORKING CAPITAL MANAGEMENT**

C.Ravi Kumar Asst .Professor MBA Departent Santhiram Engineering College(Autonomous) Nandyal

M .Ganesh MBA Student Santhiram Engineering College(Autonomous) Nandyal

--------------------------------------------------------------------------------------------------------------------------

**Abstract**

Working capital management can be considered as vital issue in financial decision-making processes in company. Consequently, it directly affects company’s success in the way of its profitability. Empirical evidence is provided on a sample of Croatian and Slovenian companies in the dairy processing industry. Univariate and multivariate analyses are used to test hypotheses about impact of working capital management components and cash conversion cycle on company’s profitability. Furthermore, differences in working capital management policies in condition of crisis and before crisis are examined. Our findings show that none of working capital management components significant affect profitability, measured by return on assets, while statistically significant relation exists between cash conversion cycle as working capital management comprehensive measure and profitability.

Keywords: Working capital management, Dairy industry, Milk production, Profitability

**Introduction**

The dairy processing industry together with dairy farming, dairy traders, retail and customers creates dairy supply chains (Muminović and Aljinović Barać, 2015). European Dairy Association (EDA) states that the dairy industry is one of the industry sectors of main importance for a healthy development of Europe and has an essential and functional contribution to the diet of all consumers in Europe. However, according to Muminović and Pavlović (2012) and Aljinović Barać and Muminović (2013), the dairy processing industry in Slovenia and Croatia are characterized by a few large companies (with dominant position and market share), accompanied by many small processors that often produce for niche markets. That is the case also in dairy processing industry in many other European countries (Gardebroek et al., 2010). Specifically, Slovenian and Croatian dairies have been analyzed together as example of two neighbouring countries with a common history before 1991. Their demand and supply markets are assumed to have broadly the same preferences and moreover these two countries are tightly related with trade in goods as well as daily labour migrations.

**Need for Working Capital:**

A firm has to make profit to maintain its image in the capital market the investors will also be looking forward to the continuous growth of profitability gradual increase in profit will result in capital growth of the firm. To earn substantial profit, sales volume has to be increased.

It is observed that the sale of goods will not immediately be converted in to cash. When the sale transactions are more credit in nature to have uninterrupted business operation the amount will be looked up in the current assets like accounts receivables, stock etc., this actually happens due to the ‘cash cycle’ by time the cash is converted back to the cash.

**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.

The analysis helps to make a qualitative judgment about the firm’s financial positions & relationship. The ratio indicates a quantitative relationship, which can in turn be used to make a qualitative judgment. It estimates the enterprise with other similar undertakings. Enterprise is possible through ratios. They help an analysis to find out liquidity profitability, leverage & efficiency.

**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.

**OBJECTIVES OF THE STUDY**

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.

**RESEARCH 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.

2. Secondary data.

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.

1. **Secondary Data:**

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

**The data includes:**

* Collection of required data from the annual reports of Sangam Dairy foods. In house magazines. Publications & websites.
* Reference from Text Books and Journals Relating to Financial Management.

**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.
* This study is confined to 5 years period only which related to quantitative information base.

**CURRENT RATIO**:

Current Liabilities

Current Assets

Current ratio=

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars** | **2017-18** | **2018-19** | **2019-20** | **2020-21** | **2021-22** |
| **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 |

the current ratio is in fluctuating from one year to another year. The ratio representing 2017-2018 is 1.75%, 2018-2019 is 1.47%, 2018-2019 is 11.79%, 2020-2021 is 4.91% and 2021-2022 is 1.96%. The current ratio is very low in the assessment year of 2018-2019 as 1.47%.

**FINDINGS**

The following observation has been made while studying the liquidity of Sangam dairy foods.

1. The change in working capital is high between 2018-2019 it amount is Rs:29,70,914/-
2. The working capital is decreased in between two years those are 2018-2019 as Rs;2,18,999.5/-
3. The working capital in 2019-2020 increased it amount is Rs:43,92,982.9/-
4. The working capital is decreased in the years of 2020-2021 it amount is Rs; 17,06,975.33/-.

**SUGGESTIONS**

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 2020-2021. 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 2017-2018. It also effected on employee and company image. So maintain bank balance it will useful in the critical situations.

**CONCLUSION**

At the end it is stated that the working capital management is a part of money invested in the business. Working capital may be regarded as lifeblood of a business. Its effective provision can do much to ensure the success of a business.

The Working Capital Management contributes much in the over all management of the organization affairs, efficiency of organization operations depend on how it manages its short term business dealings. Working Capital management contributes for the firm efficiency as well as the finance manager is proper utilizing the available wealth and maintaining the required liquidity.

**BIBLIOGRAPHY**

**Books:**

* SP Jian and K L Narang, “Advanced Accounting”, 10th Edition, Kalyani publisher Pvt., Ltd., New Delhi: 2001.
* Shashi. K Gupta and R K Sharma, Management Accounting, 10th Edition, Kalyani publisher Pvt., Ltd., New Delhi: 2012.
* Ashish K Bhattacharyya, Management Accounting, Kalyani publisher Pvt.,8th Edition, (Kindle), New Delhi, 2022.
* Inamdar, Cost & Management Accounting, Everest Publishing House6th Edition,, New Delhi, 2018

**Websites:**

1.<https://www.sangamdairy.com>,

2.[www.milkproducts.com](http://www.milkproducts.com)

3.[www.andhamilkproducts.com](http://www.andhamilkproducts.com)