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A Study on Working Capital Management at Shiva Shakti Dairy Private Limited, Sodum (Chittor District)

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ABSTRACT:

A Working capital management ensures a company has sufficient cash flow in order to meet its short-term debt obligations and operating expenses. The needs of efficient working capital management must be considered in relation to other aspects of the firms' financial and non-financial performance. The capitals noticeably go along with the operative cycle. A poring over of the operative cycle reveals that funds endowed within the operation area unit recycled back in to money. The shorter the amount of operative cycle the larger are going to be the turnover of the funds endowed in varied functions. The shorter amount of operative cycle shows higher potency of a firm. The potency of assets management are often determined by the in operation cycle of the firm. This paper aims at analyzing the potency of assets management through the connection between in operation cycle amount and profitableness of Shiva sakthi private limted.Components of WCM showed a positive impact on firms' profitability.

Key Words: Working Capital, Operating Cycle, Profitability, Operating Profit.

Introduction:

Working capital management aims at more efficient use of a company's resources by monitoring and optimizing the use of current assets and liabilities. Working capital is the difference between your company's **current assets**—cash, inventory, accounts receivables—and its **current liabilities**—short-term loans, accrued liabilities, and accounts payables. It must be monitored to ensure a positive cash flow, and when handled correctly, it can improve your company's profitability. In practice, it deals with the cash conversion cycle-or, how long it takes to turn inventory into sales, receive payment, and pay vendors.The importance of working capital management to your business cannot be understated. In fact, the management of working capital is one of the strongest indicators of the health of a company. But what is working capital, exactly. In a nutshell, working capital is the difference between your firm's available assets and its liabilities, and includes things on your balance sheet such as cash, unpaid invoices, existing inventory, current accounts payables, and liabilities. That seems simple enough. But how do each of these different elements come together to form the basis of working capital management.

Research methodology:

SOURCES OF DATA: For the purpose of the present study, data from two sources has been collected, namely primary data and secondary data.

PRIMARY DATA:

In this study, primary data plays a vital role for analysis, interpretation, conclusion and suggestions.For the purpose of collecting the same, 100 respondents have been randomly selected. Even the response of the respondents was taken into consideration.

SECONDARY DATA:

Secondary data is data which is collected and compiled for other purposes Few of the main sources of secondary data include newspapers, business journals, magazines, internet and company reports, etc

Scope of the study:

Financial management is that the managerial activity is concerned with the planning and controlling of the firm's financial resources. Though it was a branch of economics till 1890 as a separate activity or discipline, it is of recent origin. Still it has no unique body of knowledge of its own and heavily on economics for its theoretical concepts even today.

Objectives of the study:

- To evaluate the performance of SivaShakthi Dairy Pvt.ltd by analyzing the profitability and liquidity position of the company.
- To study changes in working capital position at the organization from 20016-2021.
- To identify and analyze relationship between working capital, sales, fixed asset to sales etc.
- To suggest measures if any for improving financial performance of company.

Needs of the study:

Any organization must have to maintain adequate working capital to meet its day to day operation. In order to maintain flows of revenues from operation, every firm need certain amount of current assets. For examples; cash is required to meet obligations for services received etc. By a firm on identical plan in inventories are required etc. by a firm on identical plan in inventories are required to provide the line between production and sales. The study is required to understand the working capital position in Shivashakti Dairy Pvt. Ltd.

Data analysis:

TABLE: 1SCHEDULE OF CHANGES IN WORKING CAPITAL FOR THE YEAR

PARTICULARS	**Effect of working capital Increase Decrease (2016-17)**		**Effect of working capital IncreasE Decrease 2017-18**		**Effect of working capital Increase Decrease (2018-19)**	
CURRENT ASSETS:						
Cash and bank balance	289518	2740564	459009	---------	--------	--------
Sundry debtors	---------	----------	2814310	---------	79910	289527
Short term loans & advances to employee	---------	----------	978184	---------	143309	00022
TOTAL CURRENT ASSETS(A)	289518	2740564	4251503	0000000	223219	289549
CURRENT LIABILITIES:						
Loans & borrowings	----------	---------	178430	----------	846772	218000
Employees stat liabilities	200000	667467	-----------	1069560	---------	---------
Other non stat liabilities	----------	----------	-----------	1268924	1034427	---------
TOTAL CURRENT LIABILITIES (B)	200000	667467	178430	2338484	1881199	218000
NET WORKING CAPITAL (A-B)	489518	3408031	4429933	2338484	2104418	507549
		----------	-----------	2091449	1303614	
		3408031	**4429933**	**4429933**	**3408031**	

INFERENCE: The net working capital requirement of the company during the year 2017 has Decreased than in the year 2016, and the net working capital of the company was recorded Rs.631169 and it was been Decreased to Rs.613138 in the year 2017.

- The net working capital requirement of the company during the year 2018 has increased than in the year 2017, and the net working capital of the company was recorded Rs.613138 and it was been increased to Rs.1916752 in the year 2018.
- The net working capital requirement of the company during the year 2019 has increased than in the year 2018, and the net working capital of the company was recorded Rs.1916752 and it was been increased to Rs.4008203 in the year 2019.

Table 2 :SCHEDULE OF CHANGES IN WORKING CAPITAL

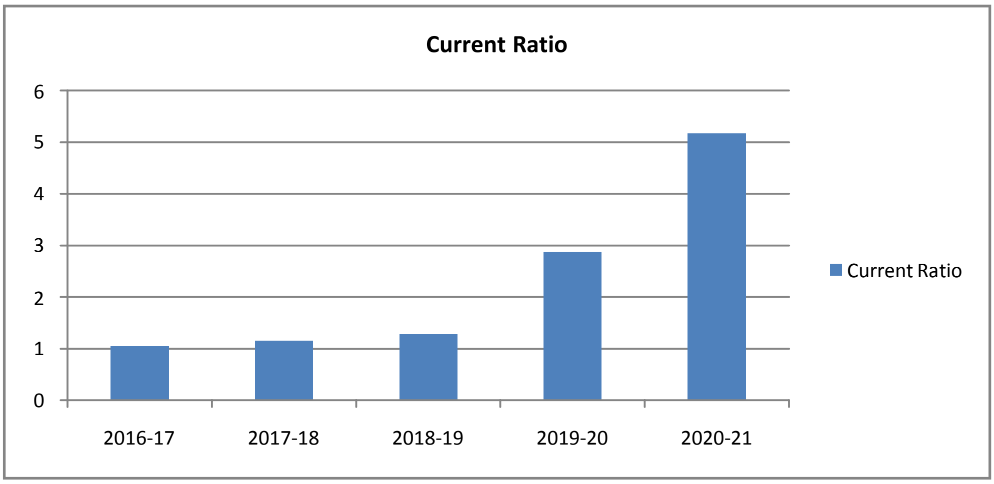
PARTICULARS	Effect of working capital Increase (2019-2020)	Decrease (2019-2020)	Effect of working capital Increase (2020-2021)	Decrease (2020-2021)
CURRENT ASSETS:				
Cash and bank balance	188530	---------	8600456	---------
Sundry debtors	307800	---------	7030635	---------
Short term loans & advances to employees	1970160	---------	3550363	---------
TOTALCURRENTASSETS (A)	2466490	000000	19181454	000000
CURRENT LIABILITIES:				
Loans & borrowings	2143312	2975262	---------	---------
Employees stat liabilities	2341198	2284272	---------	---------
Other non stat liabilities	2532171	1607363	---------	---------
TOTAL CURRENT LIABILITIES(B)	7016681	6866897	000000	000000
NET WORKINGCAPITAL (A-B)	9483171	6866897	19181454	---------
NET INCREASE IN WORKING CAPITAL	-----------	12314557	---------	9483171
TOTAL	**9483171**	**19181454**	**19181454**	**9483171**

- The net working capital requirement of the company during the year 2020has increased than in the year 2019, and the net working capital of the company was recorded Rs.4008203 and it was been increased to Rs.13491374 in the year 2020.
- The net working capital requirement of the company during the year 2021 has Decreased than in the year 2020, and the net working capital of the company was recorded Rs.13491374 and it was been Decreased to Rs.1176817 in the year 2021.

CURRENT RATIO:

This ratio is a barometer of general measures of liquidity and state of trading current ratio shows the firm's commitment to meet its shot-term liabilities. It expresses the relationship between current assets and current liabilities.

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$$



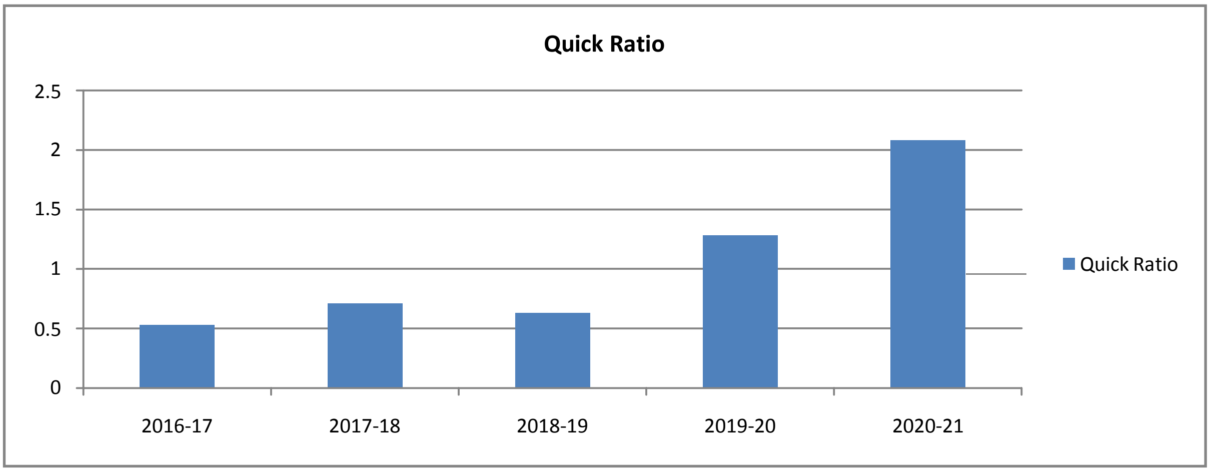
INFERENCE:

Current ratio measures the firm's short-term solvency. The standard norm for current ratio is (2:1). It is evident that in the year 2019-20and2020-21 Current Ratio is satisfactory. In remaining years current ratio is less then 3 is not satisfactory. Therefore it can be calculated that the liquidity performance of the company is poor.

QUICK RATIO:

This ratio is also called as "acid test ratio". Quick ratio is the real index of the liquidity or the short-term solvency of a concern. Quick ratio generally expressed as a pure, i.e.., as a promotion between quick assets and quick liabilities.

$$\text{Quick ratio} = \frac{\text{Super Quick assets}}{\text{Current liabilities}}$$



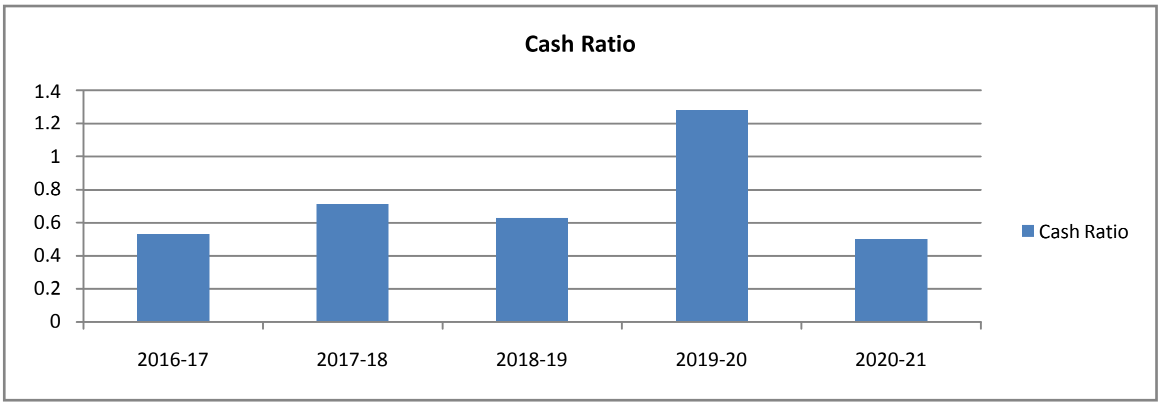
INFERENCE:

This is the more penetrating test of liquidity than the current ratio. Generally a quick ratio is 1:1 it considered to represent a satisfactory current financial condition. The quick ratio has never exceeded the standard ratio. Empirically the quick ration the year2019-20 to 2020-21 satisfactory. In remaining years quick ratio is less than 1 is not satisfactory. Therefore it can be calculated that the liquidity performance of the company is poor.

CASH TO CURRENT ASSETS RATIO:

Cash is important and sensitive current assets. It is viewed as the most liquid assets. When the proportion of cash in current assents is more then it is said that the company had more liquid. High proportion of cash in current assets also indicates the good stock in receivables. This ratio indicates the cash proportion in current assets.

$$\text{Cash ratio} = \frac{\text{Cash and bank balance}}{\text{Current liabilities}}$$



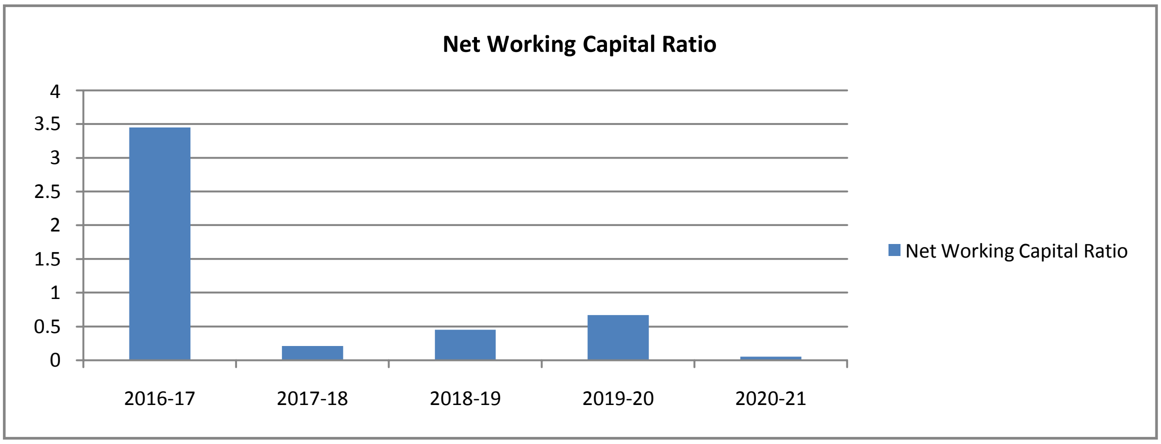
INFERENCE:

The desirable norm for cash ratio is 1:2. The cash ratio is very low in 2020-21 year. There after it is increased slightly on the years 2016-17 to 2018-19 respectively and declined in 2019-20 and 2020-21. Anyway finally the company failed in keeping sufficient cash and bank balance and marketable securities.

NET WORKING CAPITAL RATIO:

The difference between current assets and current liabilities excluding short term bank borrowing is called net working capital it is sometimes used as a measure of a firm's liquidity. It is considered that between two firms the one have a largest networking capital bas the greater than liability to meet its current obligations.

$$\text{Net working capital} = \frac{\text{Net working capital}}{\text{Net assets}}$$



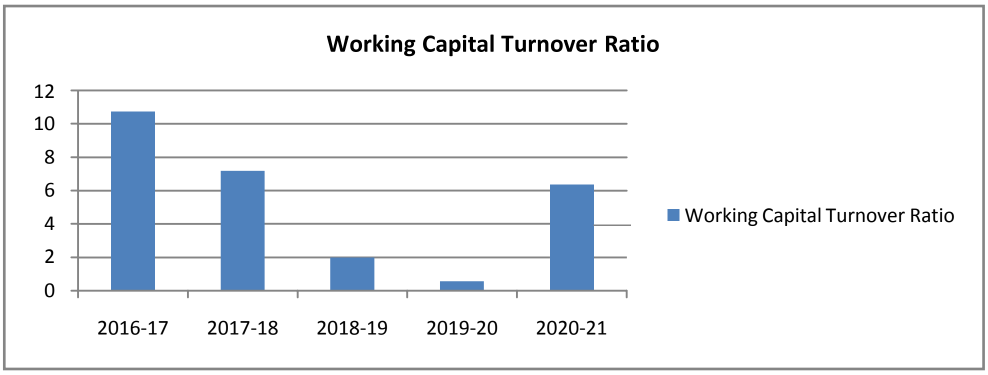
INFERENCE:

I inferred from the above table that the net working capital is decreasing every year which shows the ideal funds are used for most productive purpose and company continues doing it.

WORKING CAPITAL TURNOVER RATIO:

This ratio is also known as Sales to Working Capital. It shows the number of times working capital is turned-over in a stated period. The higher is the ratio, the lower is the investment in working capital and the greater are the profits. It is calculated as follows.

$$\text{Working Capital Turnover Ratio} = \frac{\text{Sales}}{\text{Net Working Capital}}$$



INFERENCE:

This ratio measures the relationship between sales and net working capital. In the years2017-18, 2018-19 and 2019-20 recorded as the highest working capital turnover ratio respectively. In the year 2019-20 and 2020-21 recorded as the lowest working capital turnover ratio. The higher indicates more favorable it is for the company. In S.S.Dairy is highly fluctuating in the ratios.

Findings:.The Company is suffering from lack of adequate working capital.

- The Company is using Current Assets and Fixed Assets well.
- The Company has maintained relationship between Working Capital and Sales.
- The desirable norm for cash ratio is 1:2. The cash ratio is very low in 2020-21year.
- The inventory turnover was at fluctuating condition.
- The concern had fluctuating trend amount of profits during all the years of the study, according to gross profit and net profit margin.
- The net working capital is decreasing every year which shows the ideal funds are used for most productive purpose and company continues doing it.
- The Operating ratio was at fluctuating condition.

Suggestions: The firm must improve its net assets to increase the capital employed for next year so that it will improve sales to get profits. This will also improve debt servicing capacity.

- The firm to make efforts to improve short term solvency position. This can be done by improving current assets or by limiting the current liabilities.
- The working capital turnover ratio gradually decreased year by year. So the company investment in working capital is more.
- Company should make efforts to utilize its fixed assets in an optimum manner.
- Current ratio has to be strong read. Adequate cash balance has to be maintained.

Conclusion:

Finally I conclude saying that the liquidity position is satisfactory, performance of the company is satisfactory but still needs to cut down or reduce the expenses to earn more net profits and see that turnover ratios are increased so that it can enjoy reduce in no operating cost, due to large scale production and results in increase in profits. Working capital is in fluctuating trend so the company must maintain adequate working capital.

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