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A Study on Working Capital Management in APSPDCL, Tirupati

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ABSTRACT

Working capital management is a business strategy designed to ensure that a company operates efficiently by monitoring and using its current assets and liabilities in the most effective way.It helps maintain a smooth operation of net operating cycle. The current study aims to evaluate the impact of working capital components on the financial performance of APSPDCL. The study used secondary data for a period of 5 years from 2017-2022.The results of the study have shown a satisfactory WCM in APSPDCL during the given period.

INTRODUCTION

Meaning of Working Capital:

Ordinarily, the time period “operating capital” stands for that a part of the capital, that's required for the financing of running or present day-day dreams of the agency. Working capital is the lifetime of every challenge. Whether it is production or non-manufacturing one with out ok walking capital, there may be no development inside the organization

Inadequate strolling capital technique scarcity of raw materials, hard work and so on., resulting in partial cutting-edge property tons much less present day-day-day liabilities-has no economic because of this internal the feel of implying some form of normative conduct. According to this line of reasoning, it is largely an accounting artifact. Working capital manage, then, is a misnomer.

The running capital of the company isn't always managed. The term describes a class of manage picks affects specific varieties of current property and contemporary liabilities. In turn, those decisions should be rooted within the trendy Valuation of the organization.

Definition:

- According to Western and Brigham, Working capital refers to a firm’s investment in short term assets- cash, short term securities, accounts receivables and inventories”.
- According to Hoagland, “working capital is descriptive of that capital which is not fixed. But the more common use of the working capital is to consider it as the difference between the book value of the current assets and the current liabilities.

Conceptual classification:

Working capital quantitative and qualitative. The quantitative concept takes into account as the current assets while the qualitative concept takes into account the excess of current assets over current liabilities. Deficit of working capital exists where the amount of current liabilities exceeds the amount of current asset.

1. Gross Working Capital = Total Current Assets
2. Net Working Capital = Excess of Current Assets over Current Liabilities
3. Working Capital Deficit = Excess of Current Liabilities over Current

REVIEW OF LITTERATURE

❖ Garcia-Teruel & Martınez-Solano, 2007; Karaduman et al., 2010; Pais & Gama, 2015) investigated the impact of WCM on firm’ performance using ROA as a measure of firms performance and Average Collection Period (ACP), inventory conversion period (ICP), averagepayment period (APP) and Cash Conversion Cycle (CCC) as measures of WCM. It was concluded that WCM has a negative impact on the firm's profitability.

- Singh and Kumar (2014) believe that the development in the existing literature of WCM is limited. Further, the focus of researchers has been shifted either towards the determinants of working capital or long-term corporate finance

INDUSTRY PROFILE

Power is an important tool for economic growth of the country. Power is vital for every form of human activity- domestic, agriculture and industrial infrastructure such as telecommunication and transport. The demand for electricity in India is enormous and is growing steadily. This growth has been slower than country's economic growth. The big challenge in front of the power industry is to balance the demand and supply of electricity. There exists a link between economic growth and per capita consumption of electricity.

Installed capacity

India's power sector has shown remarkable growth from about 1,400 MW in 1947 to 134716.7MW by June, 2007 inclusive of all the three Sectors (Central, State, Private Sectors)**.**

Thermal Power Plants:

Current installed base of Thermal Power is **86,936 MW** which comes to 64.5% of total installed base.

Hydro Power Plants:

India was one of the pioneering states in establishing hydroelectric power plants. The power plant at Darjeeling and Shims a (Shivanasamudra) was established in 1898 and 1902 respectively and is one of the first in Asia. Current installed base of Hydro Power is **33,486 MW** which comes to 24.8% of total installed base.

Companyprofile

AP Power sector reforms envisage creation of Distribution Companies Government undertakings for the first few years and privatization later on. The Andhra Pradesh Gazette No.37 published by the Government of Andhra Pradesh on Friday the 31st of March 2000 declared formally formation of Distribution Companies. In this process, Andhra Pradesh Southern Electricity Distribution Company Limited (APSPDCL) was formed for the following six districts of Andhra Pradesh. The Corporate Office and Headquarters of APSPDCL are at Tirupati City.

Board of directors:

Sri P. Gopal Reddy was elevated to the post of Chairman & Managing Director of APNPDCL on 23 may, 2002 after a brief stint as Director (operation & HRD) of APNPDCL

Sri A. Venkata Reddy, has taken charge as Director (Finance) of Southern Power Distribution Company of A.P. Ltd., on 20th Aug 2007.

Sri T.H.N.S. Damodora Rao., has taken charge as Director Purchases of APSPDCL., on 5th Jan 2005.

NEED FOR THE STUDY

APSPDCL is a major distributor of the power in southern area of AP However in the recent time s the companies do not make many profit to the in efficient recovery management'

Under the situation, a study is needed to know about the efficiency of working capital management in the APSPDCL.

The need for Working Capital cannot be over Emphasized. Every business needs some amount of Working Capital. The need for Working Capital arises due to the time gap between production and realization of cash from sales. There is an operating cycle involved in the sales and realization of cash. There are time gaps in purchases of Raw-Materials and production; production and sales; and sales and realization of cash.

SCOPE OF THE SUTDY

- Working capital management plays a major role in the financial management of a Working capital management necessary.
- Thus the study is made to know the liquidity position of APSPDCL
- This study will help to know the sources of the funds which are necessary for effective and smooth functioning to the company financial activities.

OBJECTIVES OF THE STUDY

The study is primarily to scan the financial health condition of APSPDCL through financial analysis and evolve package of measures for their betterment. The following are specific Objectives set of the study

- To Study the changes in net working capital of the APSPDCL
- To Study the liquidity position of the APSPDCL.
- To Study the working capital turnover of the APSPDCL.

METHODOLOGY OF THE STUDY

DATACOLLECTION:

The study depends on primary and secondary data from various sources.

Primary Data:
First hand information was collected from experts of finance department on the basis of which actual position of the company is identified.

Secondary Data:
The secondary data that is required for the study is collected from the annul reports, schedules, budgets and other statements provided by finance department of "APSPDCL"

Research Design

Exploratory research design has been adopted in the present study. Exploratory research design largely interprets the already available information; it makes use secondary data and lays emphasis on analysis and interpretation of the existing and available information.

LIMITATIONS OF THE STUDY

The present study suffers from the following limitations

- The APSPDCL is one of the production units, which located in TIRUPATI the result may not be applicable to other area.
- To information provided by the company of balance sheet are only data sources available.
- The information available in the balance sheet has been taken from published annual reports so it has it is only limitation.
- Since financial matters are sensitive in nature the same could not be acquired easily.
- The source of the study is limited to 5 years from 2017-18 to 2021-22.

DATA ANALYSIS

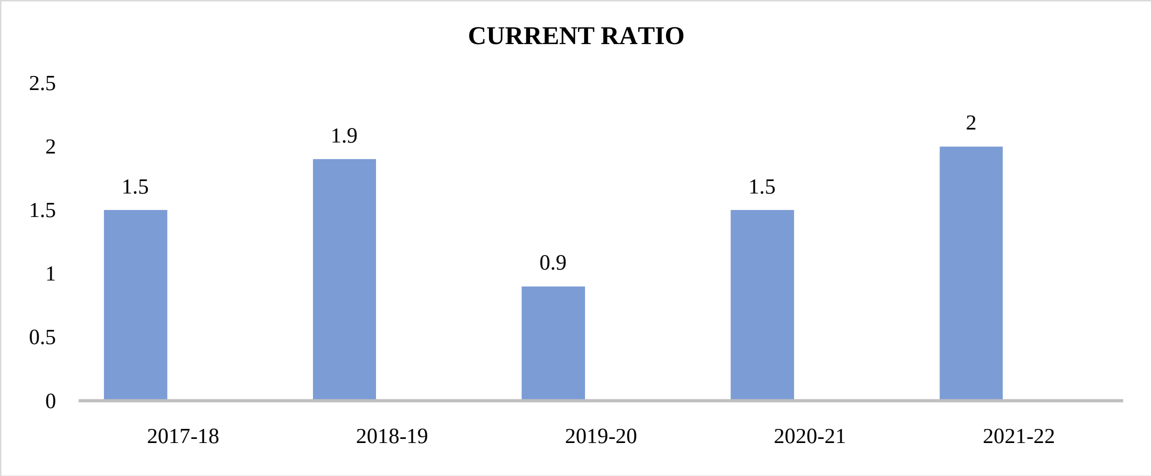
CURRENT RATIO:

Current ratio represents a margin of safety for creditors. Current ratio 2:1 or more is considered satisfactory. The higher the current ratio is greater the margin of safety. The larger amount of current assets in ratio to current liabilities the more the firm's ability to meet its current obligations.
Carrent ratio = carrent assets / curent liabilities

TABLE

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
2017-18	9774.91	6586.95	1.5
2018-19	27336.10	14506.15	1.9
2019-20	24288.00	25214.04	0.9
2020-21	36866.00	24366.35	1.5
2021-22	29245.94	32118.16	2.0

CHART



INFERENCE

The standard ratio of current ratio is 2:1. The higher the current ratio the grater the margin of safety. In the year 2017-2018 Current ratio is 1.5 and 2018-19, 1.9 from 2019. The current ratio is gradually decreased. In 2022 the current ratio is 2.0 lower than the safety margin.

QUICKRATIO(or)ACIDTESTRATIO:

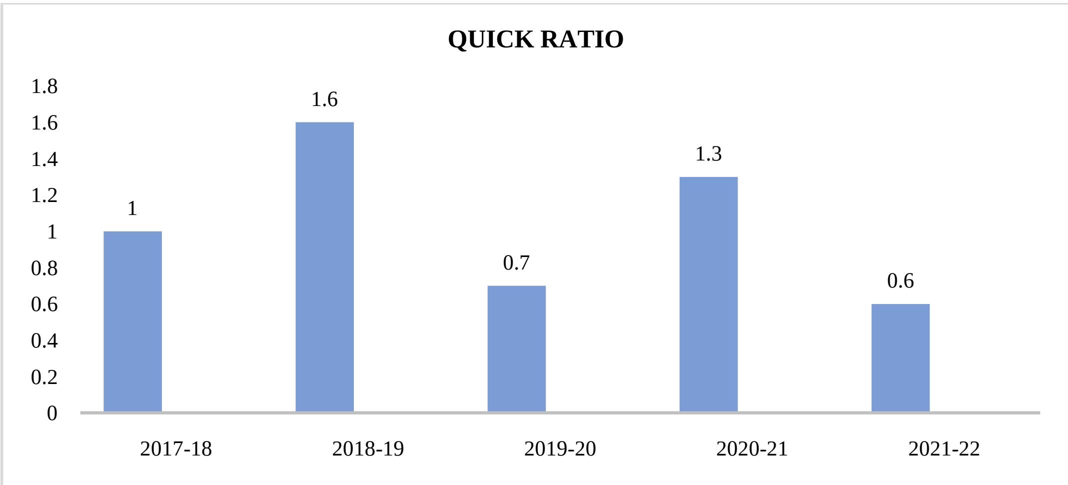
It establishes the relationship between quick or liquid, Assets and liabilities. An asset is a Liquid if it can be converted into cash immediately. Inventories are considered to be less liquid. The quick ratio is found out by dividing quick assets by current liabilities. A quick ratio of 1to1 is considered to represent a satisfactory current financial condition.

Quick Ratio= (current assets-Inventories)/current liabilities

TABLE

YEAR	QUICK ASSETS	CURRENT LIABLITIES	QUICK RATIO
2017-18	6885.40	6586.95	1.0
2018-19	23365.09	14506.15	1.6
2019-20	18216.65	25214.04	0.7
2020-21	32487.57	24366.35	1.3
2021-22	20184.33	32118.16	0.6

CHART



INFERENCE:

The standard ratio of quick ratio is 1:1. It represents the satisfaction of a company. In the 2017-18 the ratio is 1.0. It has become up to 1.6 in the year 2018-19. The remaining years it was 0.7, 1.3 and 0.6. Hence we can say that the company has maintained more than ideal quick ratio 1:1

overall the 5 financial years.

WORKING CAPITAL TURNOVER RATIO:

Working capital turnover ratio shows the efficiency of business operations is also judged by the comparing capital invested to sales. Working capital turnover ratio indicates the utilization of working capital and the number of times that the working capital turnover during the year the better is the utilization of resources of working capital.

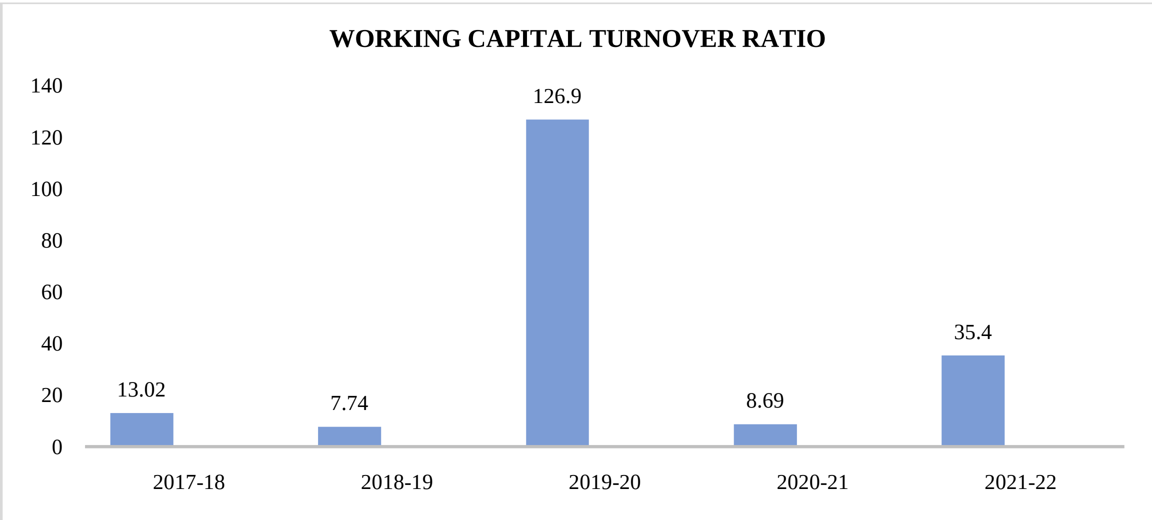
It is calculated as:

WORKING CAPTIAL TURNOVER RATIO=Sales/Net Working capital

TABLE

YEARS	NET SALES	NET WORKING CAPTIL	WORKING CAPITAL TURNOVER RATIO
2017-18	41516.72	3187.96	13.02
2018-19	99378.32	12829.95	7.74
2019-20	117521.84	926.04	126.90
2020-21	108728.85	12499.65	8.69
2021-22	101677.84	2872.22	35.40

CHART



INFERENCE

The higher working capital turnover ratio indicated the better management of working capital in the years 2017-18 to 2022 the ratio is 13.02 and 7.74, 126.90, 8.69, 35.40 respectively. In the year 2020 working capital turnover will be increased that is 126.90 over. Previous year will not refer the better management of working capital of the firm. All the five years better management of working capital of the firm.

FINDINGS

- The current ratio is not satisfactory as it is not meeting standard 2:1 it shows poor liquidity position of the firm
- The quick ratio is satisfactory except two financial years during study period it shows the firm sound quick assets proportion to the liabilities as it is meeting the standard 1:1 in the financial years 2017-18,2018-19,2019-20,2020-21 &2021-22.
- Working capital turnover ratio is fluctuating the during the study period which shows in effective conversion of working capital into sales it is satisfactory only financial year 2019-2020.

SUGGESTIONS

- It is suggested to company to manage the current assets bill receivable and cash management etc… Effectively in order to improve the liquidity position of projection to meet the current liabilities.
- Company may go for effectively cash management techies by the reducing the debtor's collection period and etc… in order to meet immediate cash requirement.
- It suggested to the company to improve the inventory turnover ratio by reducing the length inventory operating cycle.

CONCLUSION

The study of working capital management as it shown importance in financial management which studded the change net working capital &working capital ratio in which I observed poor current &cash ratio &other turnover ratios and suggested to improve the operating effecting by reducing operating &non-operating expenses &reducing debtors collection period Appling effective inventory control techies.

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