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A Study on Working Capital Management in HFL, Kasipentla

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ABSTRACT:

Working capital is similar to the heart of each commercial enterprise. A look at specializes in brief term economic management and Working capital control. Working capital refers to that part of the firm's capital that's required for brief-term financing cutting-edge assets, this continues revolving rapid and continuously converted to cash. Hence, this paper analyses monetary viability, shape and usage of operating capital in the employer as analyses for five years from 2016-17 to 2020-21. The study is mainly primarily based at the Secondary information of the corporation. Further, to measure the effective utilization of the assertion of operating capital, Ratio analyses were used. It became concluded that the operating capital is a crucial position of an enterprise.

INTRODUCTION:

Working capital is that quantity of price range which is required to perform the everyday operations of a company. It may also regard as that liquidity position of an organization, which is hired in–time period operations. This operation includes commonly such items inclusive of unused materials, semi – completed items, completed items, sundry borrowers, short – time period investments and so on., Thus working capital refers to all the liquid assets. There is no business for which running capital isn't adequate. The primary goal each company is to maximize shareholders wealth.

Working capital is the heart and soul of every business. A study of working capital is of major importance to internal and external analysis because of its close relationship with the everyday operations of a business. As pointed out by Ralph Kennedy and steward mc Muller, inadequacy or mismanagement is the leading cause of risk in business. Capital required for a business can be classified into two main categories such as Fixed capital and working capital. Working capital refers to that part of firm's capital which is required for short-term financing current asset, this keeps revolving fast and constantly converted to cash. Working capital management is the efficient management of the current assets and current liabilities. The term working capital is used for the capital required for day to day working activities in a business concern. Such as for purchasing raw materials for meeting day to day expenditure on manufacturing and Processing of milk, staff salaries, wages, rent, rates, advertising, etc. A solvency of a concern its proper circulation provides to the business the right amount of cash to maintain regular flow of its operations. Profitability & solvency are the twin objective working capital management. Hence, this paper analyses the working capital management of HFL, Kasipentla.

Gross Working Capital = Investments in Current Assets only

Net Working Capital = Current Assets - Current Liabilities

DEFINITION OF WORKING CAPITAL

Working Capital refers to that part of the firm's capital, which is required for financing short-term or current assets such a cash marketable securities, debtors and inventories. Funds thus, invested in current assets keep revolving fast and are constantly converted into cash and this cash flow out again in exchange for other current assets. Working Capital is also known as revolving or circulating capital or short-term capital.

The following are some definitions of this group:

"Working capital means current assets"

MEAD, BAKER, MOOT.

"Working capital refers to a firm's investment in short-term Assets like cash, Short-term securities, and Account receivables inventories."

-WESTON & BRIGHAM.

"The sum of the Current Assets id the working capital of a Business"

-J.S. MILL.

"Any acquisition of funds of which increase the Current Assets increase Working Capital also, for the are one and these same"

-BONNEVILE.

REVIEW OF LITERATURE

Deloof (2003) investigates the relationship between working capital management and firm profitability by using CCC as a measure of working capital management

Eljelly, (2004) elucidated that efficient liquidity management involves planning and controlling current assets and current liabilities in such a manner that eliminates the risk of inability to meet due short-term obligations and avoids excessive investment in these assets.

Filbeck G. et al. (2005) investigated the data of 26 industries by taking the data of 970 companies during 1996 to 1999. They found out that firms are able to decrease financing cost and/or augment the funds obtainable for development by reduce the amount of funds attached to the current assets.

Lazaridis and Tryfonidis (2006) find a negative relationship between profitability and CCC for 131 listed companies listed in Athens Stock Exchange for the period 2001 - 2004. Similar to the results of these studies focused on large firms, the findings of Garcia-Terfel and Martinez-Solano (2007) also indicates negative relationship between profitability and CCC for small and medium sized firms from Spain.

Sayaduzzaman MD. (2006), examined that the management of British American Tobacco is highly reasonable due to the constructive cash inflows, designed approach in running the major components of working capital by evaluating five years data from 1999-2000 to 2002-2003.

Ganesan (2007) used a sample of 349 telecommunication equipment companies covering the period 2001-2007. The independent variables used were current ratio, day's receivable, day's inventory, day's payable, day's working capital and cash

Lazaridis and Tryfonidis (2006) accounts payable has positive relationship. No conflict between the authors regarding leverage and/or debt financing with negative relationship. Finally, the variable cash conversion efficiency was used by only one author (Ganesan, 2007) and presents no association at all with profitability.

Raheman and Nasr (2007) selected a sample of 94 listed Pakistani companies from different sectors of economy for a period of 8 years, from 1999-2004. The independent variables used were current ratio, day's receivable, day's inventory, days payable and cash conversion cycle.

RESEARCH METHODOLODY

OBJECTIVES

- To study working capital position of HERITAGE FOODS LIMITED.
- To analyse the changes in working capital of HERITAGE FOODS LIMITED From 2016-17 TO 2020-21.
- To analyse working capital efficiency of HERITAGE FOODS LIMITED.
- To suggest measures to improve working capital position of the company

NEED OF THE STUDY

- Current assets must be managed efficiently in order to maintain the liquidity of the firm to know about the financial mixed strategies.
- Hence forth so far researchers not touched with said topic to knowing the information in organization exactly the working capital wants to know the balances of current assets & current liabilities.

SCOPE OF THE STUDY

- The study is confined to HFL and analysis of its financial statements.
- The main aim of the study is to assess the proper management of current assets & current liabilities.
- The study concentrates more on the working capital management of HFL
- Working capital gives only a good basis for quantitative analysis of short-term financial problems

DATA ANALYSIS AND INTERPRETATION

YEAR	NET INCREASE /DECREASE IN WORKING CAPITAL
2016-17	18,031
2017-18	(13,03,614
2018-19	20,91,452

2019-20	94,83,171
2020-21	1,23,14,557

INTERPRETATION: From the above table shows that the net increase /decrease in working capital from 2016-17 to 2020-21 are 18031, 1303614, 2091452, 9483171, 12314557 in the year 2016-17 net working capital increased and the years 2017-18 to 2019-20 the net working capital is decreased and 2020-21 is increased.

Ratios used to analyse working capital management

Years	**CURRENT Ratio**	**Quick Ratio**	**Current assets Turnover Ratio**	**Net working capital Ratio**	**Networking Capital turnover Ratio**	**Inventory turnover Ratios**
2016-2017	1.05	0.53	0.53	3.45	10.73	0.33
2017-2018	1.15	0.71	0.71	0.21	7.18	4.92
2018-2019	1.28	0.63	0.63	0.45	1.99	3.74
2019-2020	2.88	1.28	1.28	0.67	0.57	7.44
2020-2021	5.17	2.08	0.50	0.05	6.36	8.76

INTERPRETATION: from the above table the years from 2016-17 to 2020-21 all the ratios used in working capital are current, quick, current assets turnover, networking capital, networking turnover, inventory turnover ratios shown above to understand the working capital efficiency.

FINDINGS

- It is found that there is net decrease in working capital of 18,031 from 2016 to 2017 due to increase in sundry creditors
- It is found that There is net increase in working capital of 13,03614 from 2017-18 due to decrease in short tern loans and advances
- It is found that There is net increase in working capital of 2091452 from 2018-19 due to decrease in sundry debtors
- It is found that There is net increase in working capital of 9483171 from 2019-20 due to decrease in short term loans and advances
- It is found that There is net decrease in working capital of 1231455 from 2019-20 due to increase in other current liabilities
- It is found that current ratio from 2016-17 to 2020-21 are 1.05,1.15,1.28,2.88,5.17 it shows increasing trend the company has maintain standard ratio in 2019-20
- It is found that that current ratio from 2016-17 to 2020-21 are 0.53,0.71,063,1.28,2.08 it shows increasing trend the company has maintain standard ratio in 2019-20
- It is found that the current assets ratio from 2016-17 to 2020-21are 0.53,0.71,0.63,1.28,0.5 it shows increased in 2017-18 to 2019-20 and decreased in 2020-21
- It is found that the net working capital ratio from 2016-17 to 2020-21 are 3.45,0.21,0.45,0.67,0.05 it shows decreasing trend the company has failed to maintain standard ratio in all years
- It is found that the working capital turn ratio from 2016-17 to 2020-21 are 10.73,7.18,1.99,0.57,6.36 it shows decreasing trend from 2016-17 to 2019-20 the company has failed in maintain standard ratio
- It is found that the inventory turnover ratio from 2016-17 to 2020-21 are 0.33,4.92,3.74,7.44,8.76 it shows increase from the 2016-17 and decreased in 2018-19 and increased from 2019-20 to 2020-21

SUGGESTIONS

- From the analysis it is observed current ratio is relatively comfortable zone. But still it is advised to enhance the current ratio.
- The organization wants to increase the liquid assets as to meet the liquidity position.
- The cash is in idle position so maintain it in the required norms.
- As inventory ratio is declining so it is not able to meet the demand of the market (sales).
- The organization wants to decrease the debtor’s collection period because to improve the conversation of debtors into cash.

CONCLUSION

The working capital management followed by Heritage Foods India Ltd, Kasipentla, shows a satisfactory position. Proper working capital management is used to establish a cause-and-effect relationship between variables to help the management in making effective operational planning and take necessary steps to reach the organizational goals. Various critical positions are found, that need much attention and practical suggestions were given to improve working capital performance.

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