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A Study on Working Capital in Bajaj Finserv with Reference to Sri Ram Bajaj, Tirupati

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ABSTRACT:

Working capital means the part of the total assets of the business that change from one form to another form in the ordinary course of business operations. In a perfect world, there would be no necessity for current assets and liabilities because there would be no uncertainty, no transaction costs, information search costs, scheduling costs, or production and technology constraints. The unit cost of production would not vary with the quantity produced. Borrowing and lending rates shall be same. Capital, labour, and product market shall be perfectly competitive and would reflect all available information, thus in such an environment, there would be no advantage for investing in short term assets. However the world we live is not perfect. It is characterized by considerable amount of uncertainty regarding the demand, market price, quality and availability of own products and those of suppliers. There are transaction costs for purchasing or selling goods or securities. Information is costly to obtain and is not equally distributed. The present study covers the working capital management of Bajaj Finserv with special reference to Sriram Bajaj, Tirupati.

Keywords: Working capital, Current Ratio, Quick ratio.

Introduction:

"Working capital means the part of the total assets of the business that change from one form to another form in the ordinary course of business operations."

In a perfect world, there would be no necessity for current assets and liabilities because there would be no uncertainty, no transaction costs, information search costs, scheduling costs, or production and technology constraints. The unit cost of production would not vary with the quantity produced. Borrowing and lending rates shall be same. Capital, labour, and product market shall be perfectly competitive and would reflect all available information, thus in such an environment, there would be no advantage for investing in short term assets. However the world we live is not perfect. It is characterized by considerable amount of uncertainty regarding the demand, market price, quality and availability of own products and those of suppliers. There are transaction costs for purchasing or selling goods or securities. Information is costly to obtain and is not equally distributed.

There are spreads between the borrowings and lending rates for investments and financings of equal risks. Similarly each organization is faced with its own limits on the production capacity and technologies it can employ there are fixed as well as variable costs associated with production goods. In other words, the markets in which real firm operated are not perfectly competitive. These real world circumstances introduce problem's which require the necessity of maintaining working capital. For example,, an organization may be faced with an uncertainty regarding availability of sufficient quantity of crucial imputes in future at reasonable price. This may necessitate the holding of inventory, current assets. Similarly an organization may be faced with an uncertainty regarding the level of its future cash flows and insufficient amount of cash may incur substantial costs. This may necessitate the holding of reserve of short term marketable securities, again a short term capital asset. In corporate financial management, the term Working capital management" (net) represents the excess of current assets over current liabilities.

Working capital may be regarded as the life blood of business. Working capital is of major importance to internal and external analysis because of its close relationship with the current day-to-day operations of a business. Every business needs funds for two purposes

- ➢ Long term funds are required to create production facilities through purchase of fixed assets such as plants, machineries, lands, buildings & etc
- ➢ Short term funds are required for the purchase of raw materials, payment of wages, and other day-to-day expenses. It is otherwise known as revolving or circulating capital

Working Capital = Current Asset – Current Liability

- ❖ Working capital is the difference between the inflow and outflow of funds. In other words it is the net cash inflow.

- ❖ Working capital represents the total of all current assets. In other words it is the Gross working capital, it is also known as Circulating capital or Current capital for current assets are rotating in their nature.
- ❖ Working capital is defined as the excess of current assets over current liabilities and provisions. In other words it is the Net Current Assets or Net Working Capital

CONSTITUENTS OF CURRENT ASSETS:

1. Cash in hand and cash at bank
2. Bills receivables
3. Sundry debtors
4. Short term loans and advances.
5. Inventories of stock as:
   - Raw material
   - Work in process
   - Stores and spares
   - Finished goods
6. Temporary investment of surplus funds.
7. Prepaid expenses
8. Accrued incomes.
9. Marketable securities.

In a narrow sense, the term working capital refers to the net working. Net working capital is the excess of current assets over current liability, or, say:

CONSTITUENTS OF CURRENT LIABILITIES:

1. Accrued or outstanding expenses.
2. Short term loans, advances and deposits.
3. Dividends payable.
4. Bank overdraft.
5. Provision for taxation, if it does not amt. to app. of profit.
6. Bills payable.
7. Sundry creditors.

The gross working capital concept is financial or going concern concept whereas net working capital is an accounting concept of working capital. Both the concepts have their own merits.

The Gross Concept Is Sometimes Preferred To The Concept Of Working Capital For The Following Reasons:

- ➢ It enables the enterprise to provide correct amount of working capital at correct time.
- ➢ Every management is more interested in total current assets with which it has to operate then the source from where it is made available.
- ➢ It take into consideration of the fact every increase in the funds of the enterprise would increase its working capital.
- ➢ This concept is also useful in determining the rate of return on investments in working capital. The net working capital concept, however, is also important for following reasons:
  - It is qualitative concept, which indicates the firm’s ability to meet to its operating expenses and short-term liabilities.
  - It indicates the margin of protection available to the short term creditors.
  - It is an indicator of the financial soundness of enterprises.
  - It suggests the need of financing a part of working capital requirement out of the permanent sources of funds

Review of Literature:

Amandeepetal 2017 made a comparative study of TATA steel and Jindal steel. Ratio analysis is used as a tool to evaluate the same for a period of five years. At last, it is concluded that both companies must maintain an ideal current ratio and quick ratio for future betterment.

Nasir Rashid and Dr. B. Manivannanet al 2017 studied the liquidity and profitability position of National Thermal Corporation Ltd., New Delhi covering a period of five years. It is suggested to take necessary steps to take control of the decreasing trend and conclude that firms could maintain the same policies for more profitability in future.

Roopa. T. N and H. B. ChayaDeviet al 2017 made a study on financial performance of selected IT and ITeS companies listed in NSE, India. Forty-five companies are selected for this study. They have commented that the majority of IT companies are free from debt and concluded that the big companies are better performers and medium companies are consistent performers.

Dr. M. Prakash and K. Natarajan et al 2014 studied the financial performance of Salem Steel Plant in Salem for five years. Ratio analysis is used to study the performance of the firm. It is suggested that the company may increase performance by reducing the borrowed capital.

M. Sakthi Vadivel and S. Ayyappanetal 2013 studied the financial efficacy of selected public and private sector banks in India for 10 years. Correlation analysis is employed to know whether there are any significant relationships between variables.

Objectives of the study:

- To study the capital structure.
- To understand firms working capital position.
- To determine the efficiency in cash, inventory, debtors, creditors

Research Methodology:

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them. It is necessary for the researcher to know not only the research methods/techniques but also the methodology.

METHODOLOGY OF STUDY

TYPE OF RESEARCH

Type of research employed is analytical research

COLLECTION OF DATA

Secondary data is mainly used for this study and the five year data from 2009-2013 pertaining to the study was collected from the company and the remaining from books, magazines, journals, web sites etc.

TOOLS FOR ANALYSIS

Secondary data were analyzed and interpreted with the help of different tools such as ratio analysis, graphs, tables, comparative balance sheets, schedule of changing in working capital etc.

TIME PERIOD

The duration of the study was for a period of 2017-2022

Scope of the study

The study confines itself to the financial performance of Bajaj Finserv. The study therefore excludes the non-financial areas such as production, marketing, personnel form its previews.

This project is as a reference guide or as a source of information it gives the idea about the financial analysis of a firm.

The study aims to study the liquidity position of the firm . Working Capital has been used to the financial position of a firm.

Data Analysis:

Current Ratio

YEAR	CURRENT ASSETS(lakhs)	CURRENT LIABILITIES(lakhs)	CURRENT RATIO
2017-18	537.42	205.12	2.62
2018-19	990.76	352.58	2.81
2019-20	863.73	237.28	3.64
2020-21	970.67	344.20	2.82
2021-22	1070.91	374.44	2.86

INTERPRETATION

As a conventional rule, idle current ratio should be 2:1. The actual current ratio is 2:1 it can be reasonably being taken as a sign of liquidity or the short term solvency of concern. The company has maintained the current ratio favorable from 2018-2019 to 2019-2020, but the year 2021-2022 the ratio was highly increased to 3.64.

The main reason for increasing current ratio in the year 2020-2021 is dipping the sail in that year, it is because of increased price of the products. So the stock increased. To recover this problem the sales have to increase.

LIQIDITY RATIO

YEAR	CURRENT ASSETS-CLOSING STOCK(laks)	CURRENT LIABILITES(laks)	LIQUDITY RATIO
2017-18	452.71	469.56	0.9641
2018-19	535.94	345.01	1.5534
2019-20	910.17	632.15	1.4398
2020-21	828.96	644.35	1.2865
2021-22	1255.03	1142.59	1.0984

INTERPRETATION

Quick ratio is expressed as quick asset:quickliability.quick ratio of 1:1 is considered to represent a satisfactory financial position. If actual quick ratio is equal or more than the standard quick ratio of 1:1,the conclusion can be the concern is liquid and so it can pay of its short-term liability out of its quickly The company has maintained quick ratio favorable from 2017-18 to 2021-22. In year 2018-19 the company shows lower quick ratio because of the company had highest stock in the year.

CREDITORS TURNOVER RATIO

YEAR	ANNUAL PURCHASE	AVERAGE PAYABLE	CREDITORS TURNOVER RATIO
2017-18	16867.45	322.68	52.27
2018-19	17987.75	787.55	22.84
2019-20	21910.96	418.8	52.32
2020-21	23071.44	491.29	46.96
2021-22	29308.93	557.84	52.54

INTERPRETATION

This ratio reflects whether terms of terms of credit allowed by suppliers are liberal or stringent. High creditors turnover ratio shows that creditors are being paid promptly, while a low turnover ratio reflects liberal credit terms granted by suppliers.

The company has been maintaining a better creditor's turnover ratio but the year 2018-19 the ratio was highly decreased. Now the company recovers this problem.

Findings:

- The company has maintained quick ratio favorable from 2018- 2019 In year 2020-21 the company shows lower quick ratio because of the company had highest stock in the year.
- The company has maintained the current ratio favorable from 2018-2019 to 2019-2020, but the year 2020-2021 the ratio was highly increased to 3.63.
- The company has been maintaining a better creditors turnover ratio but the year 2020-21 the ratio was highly decreased. Now the company recover this problem.

Suggestions:

- The management should try to increase the liquidity position of the company by proper investment in current assets.
- The management is never think credit sales in their policies. But trade debtors in balance sheet so it must think to eliminate it so as to reduce working capital requirements.
- The company mainly depends on cash sales if credit sales to maximum extend.
- Unnecessary operational expenses should be reduced.

Conclusion:

From the study it is concluded that BAJAJ FINSERV has good working capital management .however it is also revealed that current ratio is least minimum and quick ratio is not up to peak , even though the company is maintaining a good track record . It means that efficient utilization of working capital especially in the areas of inventory and cash management.

Profitability is the key to success in business customer centric thinking is extremely essential for survival in today's business environment. Searching and developing the strategic control points in an industry simultaneously with business design process can go along way. Every good business design should have at least one strategic control point.

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