International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

A STUDY ON WORKING CAPITAL MANAGEMENT AT BUILDING MATERIALS INDUSTRY

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ABSTRACT:

Effective working capital management is essential for smooth functioning and long-term sustainability of any business. It provides a comprehensive over view of working capital, its components, importance, and strategies for optimization. The simplest net working capital can be defined as the differences between the value of current assets and short term liabilities together with other short term accruals. The components of working capital include cash, account receivable, inventory and Accounts payable. Efficient management of these components is crucial of maintaining liquidity, minimizing costs, and maximizing profitability.

Key words:-inventory, current assets, current liabilities, fixed capital.

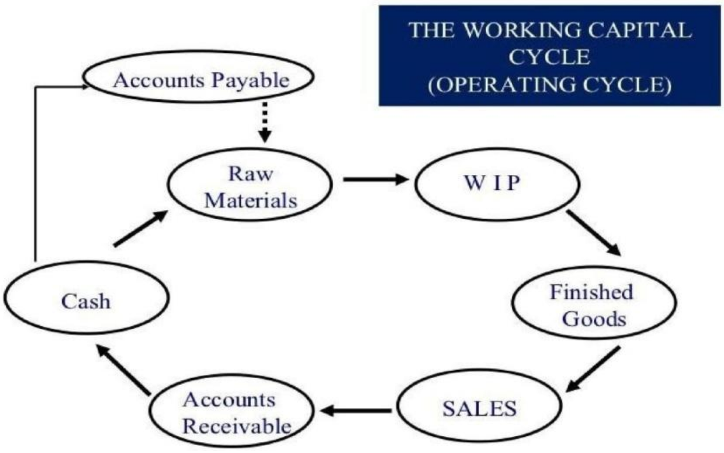
INTRODUCTION:

Working capital Management is usually described as involving the Administration of current assets namely cash and market able securities, Receivable and inventories and the administration of current liabilities. Administration of fixed assets normally not converted in cash with in the year in usually considered to all with realm of capital budgeting. Where as administration of one-term financing involves capital structure consideration. Our conceptual overview of decision concerning cash and marketable determined as any active decision sense but falls out as a residual from the decision sense but falls out as a residual from the decision just names. Working capital of firms not managed the term describes affecting types of current assets and current liabilities .Every business needs funds for two purposes-for its establishment and to carry out its day-to-day operations.
Long-term funds are required to create production facilitates through purchase of fixed assets such as plant and machinery, land, buildings, furniture, etc. inventories in these assets represent that part of firm's capital which is blocked on a permanent or fixed basis and is called fixed capital. Funds are also needed for short-term purpose for the purchase of raw materials, payment of wages and other day- to-day expenses, etc. These funds are meant for working capital. In simple words, working capital refers to that part of the firm's capital which is required for financing short-term or current assets such as cash, marketable securities, debtors and inventories .Funds, thus invested in current assets keep revolving fast and are being constantly converted into cash and this cash flows out again in exchange for other current assets.

Classification of working capital:

1. The working capital may be classified as follows:
a) On the basis of concept
b) On the basis of Time.
2. On the basis of concept, working capital is classified as:
a) Gross Working Capital
b) Net Working Capital
3. On the basis of Time, Working Capital is classified as:
a) Permanent or fixed Working Capital
b) Temporary or Variable Working Capital

Working capital cycle:



- **Working capital = Current assets - Current liabilities**

Objectives of the study:

- To understand and analyze the statement of changes in working capital management for the last 5 years.
- To examine the relationship between various components of working capital.
- To Study various ratios concerning working capital management.

Review of literature:

Rao P. M.(1999):-As per the study management of working capital is constant process. So that proper observation on various components is needed. At the end relationship between different components are needed. This provides proper direction.Rao Govinda (1999):-Study believes that management of working capital is a constant process need of finance proper observation or monitoring and revising the relationship of all variables and give conclusion. This is a proper indication to the manager.MeszekWieslawandPolewskiMarcin(2006):-By observation of selected construction companies at area of working capital management and working capital policy formation and strategies implication. The Study was based to develop the controlling methodology for working capital. here, study that was going on construction company having the specific factors are to be consider like functional factors and market requirements which make working capital area wide and more focused.Chowdhury Anupam(2007):-That was the study carried on pharmaceutical companies listed in Dhanka Stock Exchange. Observation of the study based on the financial management, according to this major problem found in area of working capital management. It is true that working capital effects go on business performance and growth. The main objective of the study is to evaluate working capital practicability and implication of working capital policy and strategies in the targeted industry. To obtain the goal, evaluation was made regarding principles, procedures and techniques of stock management, creditors' management, and debtors' management.Arindam Ghosh(2007):-That was the study carried on Cement Industry of India specific area of study was "Working Capital Management and its practices and impact on profitability. Main aim of the study is to evaluate efficiency of working capital management of selected cement companies in India during the period 1992 to 2001. For the study targeted 20 large cement companies avail in India having very large portion in cement industry of India.Samiloglu F. And DemirgunesK.(2008):-The objective of the study is to examine effect of working capital management on firm's prosperity. The study carried with manufacturing companies listed in Istanbul Stock Exchange (ISE) the tenure for the study is 1989 to2007. For the study multi regression statistical method is used. Observed come outs of study revealed that some factors having negative impact and some having positive impact on profitability of firms. Positive factors like growth of sale on other hand debtors' payment period, stock conversion period as well as debt interest negatively affects firms' profitability.Virani Varsha (2008):-This study has been done with certain objectives first is to examine financial performance and second one is to examine profitability trend and at the last to find out assets operational model and evaluate liquidity position of the company. To achieve these goals used two classy analytical tools i.e. ratio analysis and correlation analysis. The study shows relationship between different ratios. That is also observed that correlation and coefficient is near about so there is a high degree of negative and positive correlation between various ratios.Rama chandran (2009):-In this study author examine the relationship among working capital management proficiency and earnings before interest and tax. The study was made on Paper industry in India during 1997 to 2005. For the measurement of working capital management three indexes are taken into consideration performance index, utilization index index, and EBIT of the selected companies for the study period are taken. As a conclusion of the study says paper companies of India performed well during period. Some having very good index and some of them need to improve the working capital management give proper attention on that particular area also.Kushwah,Mathur&Ball(2009):-The study undergone to evaluate the working capital management and direction in selected five major cement companies i.e. ACC, Grasim, Ambuja, Prism and Ultra- Tech.. For the research purpose secondary data are used like authors collected the financial statement of selected cements companies for the years from 2007 to 2009. There is liquidity ratios and activities ratios are used to analyse the condition of working capital of the companies. The study revealed the truth of study is that, most companies not maintain their working capital in a systematic way while over all ACC shows appropriate management of working capital.Rahman MohammadM.(2011):-Research is based on correlation among working capital and profitability. To analyse the effectiveness of working capital management of the selected textile companies. conclusion of the study found that overall good management in working capital management of selected textile companies and thus most of the companies are profitable way going on.

Scope of the study:

- Liquidity Management
- Accounts Receivable Management
- Inventory Management
- Accounts payable Management
- Short – Term Debt Management

Need of the Study:

- It is helpful in financial as it focuses on daily cash flows management and funds flow management in the organization.
- Finance plans are central instruments for directing and co- ordination the financial effort. Every business needs some amount of working capital.
- There are time gaps in purchase of raw material and production, production and sales, and realization of cash and this process is called operating cycle.

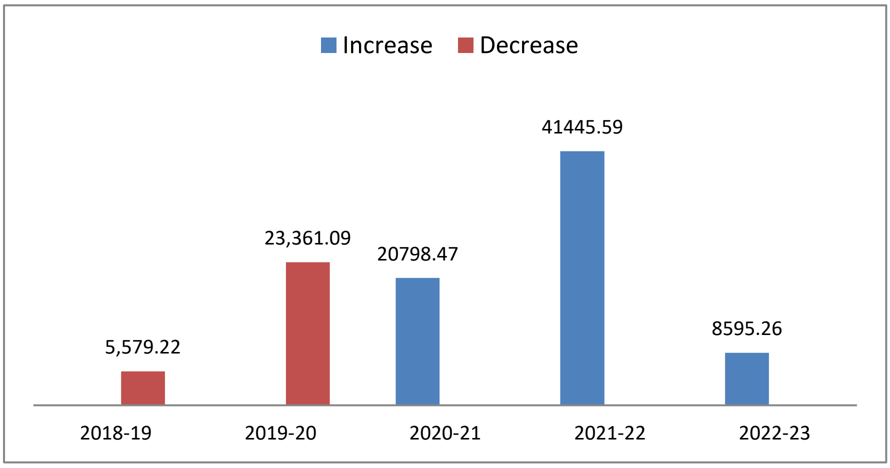
Limitations of the Study :

- Since the procedures and policies of the company do not allow disclosing of all financial information the project has to be completed with great effort to get an insight into working capital management in Srikar Enterprises Private Limited.
- Some information is not available due to confidential matters.
- The study is based mostly on secondary data provided by the organization in their published annual reports.

Data analysis and interpretation:

Table:1

	Increase	Decrease
2018-19		5,579.22
2019-20		23,361.09
2020-21	20798.47	
2021-22	41445.59	
2022-23	8595.26	



Interpretation:

From the above table and Graph it is observed that is the Working Capital consolidated statements 3 years there is continuously increased in the Working capital previously 2 Years there is decreasing the Working Capital it was the Working Capital Management Statement

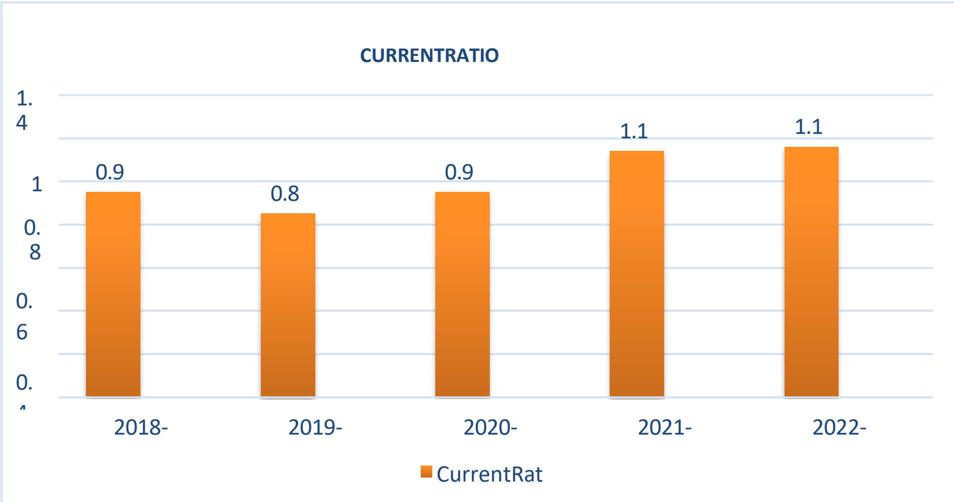
Current ratio:

Current assets=debtors, cash, inventory, bills receivables, short term investments.

Current liabilities = short term bank loan, creditors ,bills payable, provisions, bank over draft

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liablities}}$$

Year	Current assets	Current liabilities	Ratio
2018-19	2052.89	2150.09	0.95
2019-20	1874.94	2205.74	0.85
2020-21	2253.30	2376.12	0.95
2021-22	2312.77	2021.13	1.14
2022-23	2717.33	2339.74	1.16



Interpretation:

The ideal ratio for current ratio is 2:1 as the norms in the industry. However Srikar enterprises pvt.ltd is not involved in any manufacturing activity and concerned with providing service in order to increase the imports and exports. From the above table it can be observed that the current ratio is in decreasing trend from the year 2018-19 to 2019-20.Later it have been increased to 0.9 crores in the year 2020-21. The year 2021-22 have the highest current ratio of 1.14 crores stating that current assets have been increased while compared to the earlier years.

QUICKRATIO:

$$\text{Quick ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

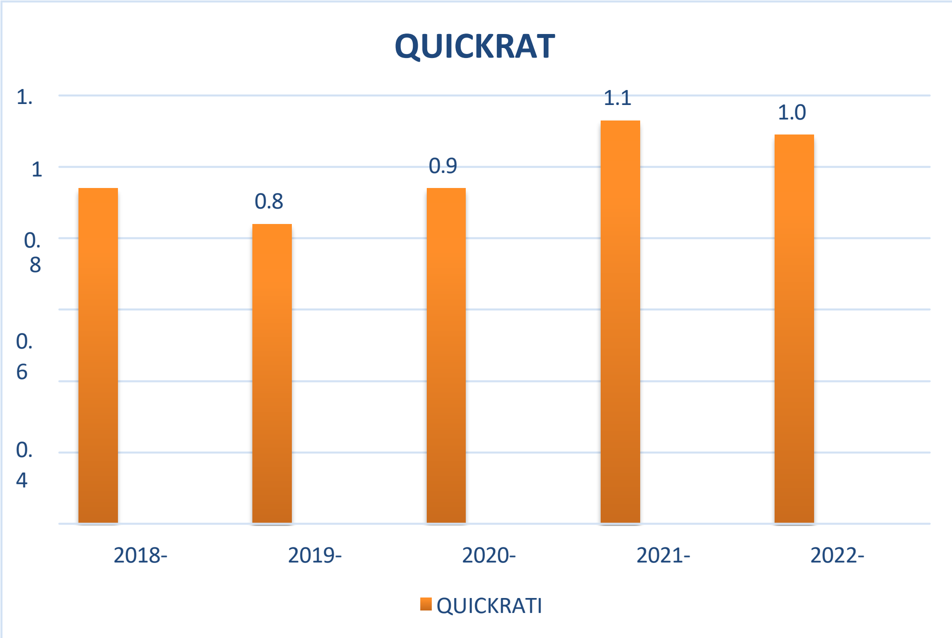
Quick assets =current assets-inventory

Current assets= debtors, cash, inventory, bills receivable, short term investments.

Current liabilities = short term bank loan, creditors ,bills payable ,provisions ,bank overdraft.

Year	Quick assets	Current liabilities	Ratio
2018-19	2028.73	2150.09	0.94
2019-20	1847.17	2205.74	0.84

2020-21	2225.19	2376.12	0.94
2021-22	2289.80	2021.13	1.13
2022-23	2566.81	2339.74	1.09



Interpretation:

Quick ratio is the ratio of quick assets to current liabilities. A ratio of1:1 for quick assets and current liabilities is considered as idle. A very high quick ratio is also not advisable as funds can be more profitability employed higher the ratio higher the short term solvency of the firm. Liabilities are approximately equality in just behind ideal ratio in future fraction. From the table it can be observed that the srikar enterprises pvt.ltd managed to maintain the quick ratio nearly to 1:1 in the year 2021-22 with a ratio of

1.13 with a slight deviation an later decreaseto1.09 crores in the year 2022-23.

Absolute cash ratio:

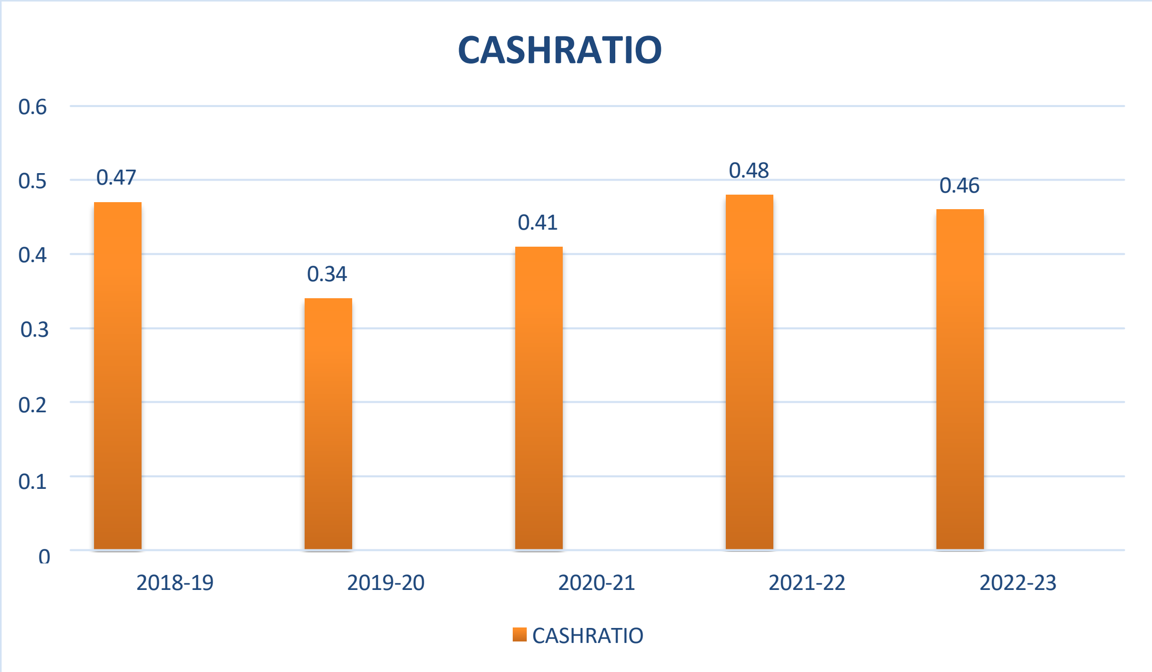
Absolute cash=Cash in hand + Cash at bank + Marketable securities.

Current liabilities=Short term borrowings + Creditors + Bills payables + Provisions

+ Bank over draft + O/S Expenses + Advances received.

Absolute cash ratio= $\frac{\text{Absolute Cash}}{\text{Current Liabilities}}$

Year	Absolute cash	Current liabilities	Ratio
2018-19	955.33	2150.09	0.47
2019-20	635.67	2250.09	0.34
2020-21	987.36	2376.12	0.41
2021-22	978.23	2021.13	0.48
2022-23	1055.16	2339.74	0.45



Interpretation:

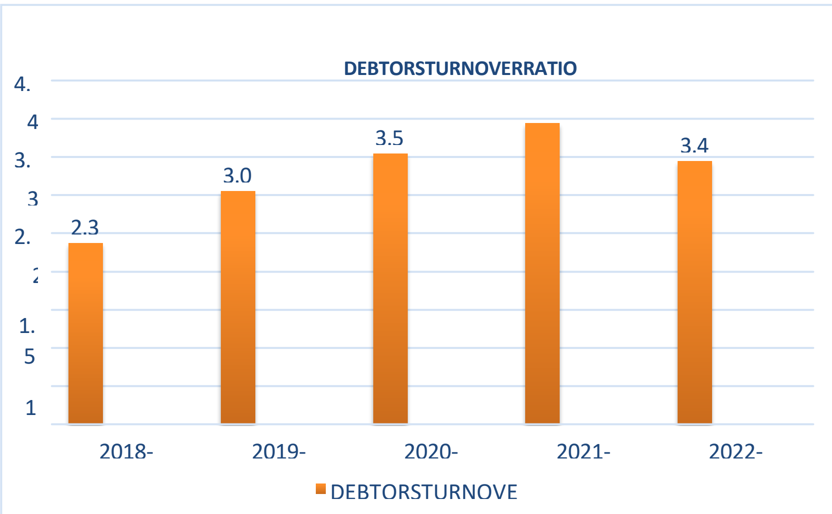
Service oriented organization like Srikar Enterprises maintains the ratio as per requirement. From the above table absolute cash ratio of Srikar Enterprises has been fluctuating. They should maintain their cash ratio as per their safety. A highest cash ratio can be observed in the last year of 0.45 crores (Inthe year 2022-23).

DebtorsTurnoverRatio:

Debtors Turnover Ratio = $\frac{\textbf{operating income}}{\textit{Average debtors}}$

Average Debtors = $\frac{\textit{opening debtors+closing debtors}}{2}$

Year	Operating Income	Average debtors	Ratios
2018-19	1063.81	448.43	2.37
2019-20	1201.39	394.52	3.05
2020-21	1404.18	396.52	3.54
2021-22	1436.86	364.15	3.94
2022-23	1525.89	443.54	3.44



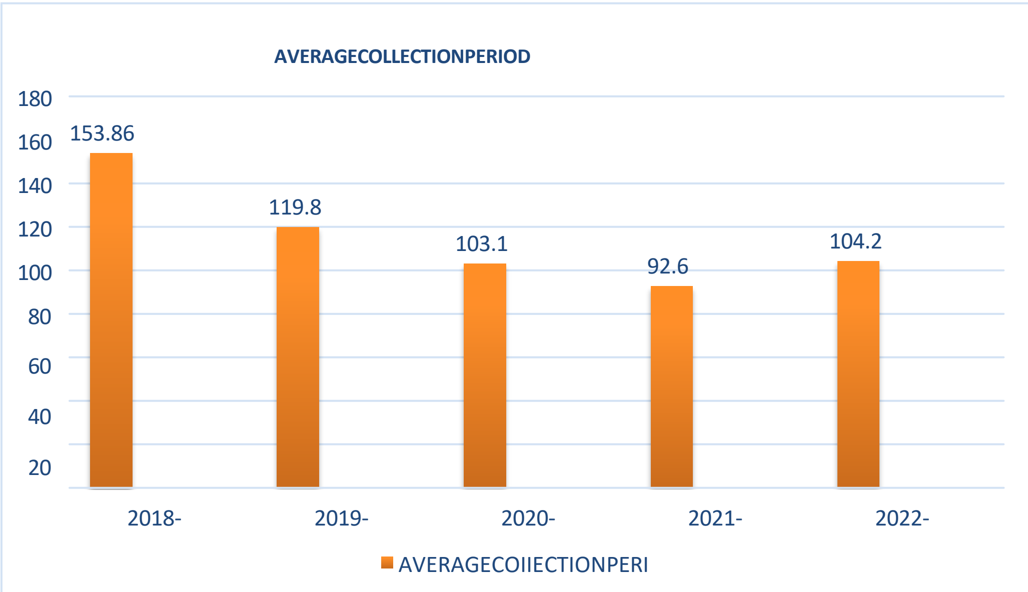
Interpretation:

Debtor’s turnover ratio indicates the number of times the debtors turned each year. A high turnover indicates an efficient credit management system and the company is able to convert its receivables into cash. From the above table it can be interpreted that the ratio has been in an increasing trend from 2018-19 to 2022-23 recurring the highest debtor turnover ratio of 3.44 crores in the year 2022-23.

Average collection period:

Average collection period = $\frac{\textit{Days in year}}{\textit{debtors turn over ratio}}$ $\mathbf{365}\frac{\textbf{days}}{\textbf{debtors}}$**turn over ratio**

Year	**No.of days in a year**	**Debtors turn over ratio**	**Average collection period**
2018-19	365	2.37	153.86
2019-20	366	3.05	119.86
2020-21	365	3.54	103.11
2021-22	365	3.94	92.63
2022-23	365	3.50	104.28



Interpretation:

From the above table it can be observed that the collection period has been decreasing from last five years which is a positive thing for the Srikar enterprises pvt.ltd .At present the Debtor turnover period is noticed as 92.63 days which has been drastically decreased from 153.86 days in the year 2018-19.

Findings:

- The fore most finding of the study is fluctuations in working capital.
- Cash balance at bank is not very high SRIKAR ENTERPRISES PVT.LTD should try to improve the same to maintain liquidity.
- Current assets of Srikar enterprises are decreasing.

- The company doesn't maintained ideal form 1:1 of quick ratio from 2018-2021.After that is increased.
- Debtor's turnover ratio of the company is fluctuated over the years.

Suggestions:

- As for the study the company is not maintaining standard liquidity position in respect of current ratio and quick ratio it is suggested to increase the current assets to maintain the standard.
- In respect of debtors turnover ratio and collection period it was identified that the average collection period was more than 3 months so it is suggested to decrease the collection period by giving discounts for onetime re-payment system in ordered to have good liquidity position.
- As for the study the company's working capital management was fluctuating so it is suggested to maintain the proper working capital management in order to meet day to day obligations of the company in future.

Conclusion:

The conclusion on working capital typically involves summarizing the findings of an analysis. It might include recommendations for optimizing working capital management, identifying areas for improvement, and highlighting the importance of maintaining a healthy balance between liquidity and operational needs.

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