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A Study on Working Capital Management in the Electricals Industry

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A B S T R A C T

The main aim of the research is to investigate significant role of working capital management in shaping a company's financial performanc operational efficiency.

Efficient management of working capital confirms the ideal balance between current assets and liabilities, permitting firms to meet short-term obligations and capitalize in growth opportunities.

This article studies the essence of effective working capital management in improving profitability and liquidity position of the firm. It discovers several strategies and tools used to manage working capital effectively, such as cash flow forecasting, inventory management, and accounts receivable and payable management.

The study also highlights the impact of poor working capital management on business performance, emphasizing the importance of good management practices.

Furthermore, the research paper debates on the difficulties faced by companies in managing working capital and provides recommendations for improving efficiency and profitability.

Key words: working capital management, current assets, liabilities, liquidity.

INTRODUCTION

Working capital is said to be the 'life blood 'of an enterprise. The fact remains that, it is working capital that keeps the whole on. Working capital, therefore, needs to be maintained at an adequate level. Because, both excessive and inadequate to meet the current liabilities will fall upon the liquidity position of the business. In case, current assets are in excess volume, the profitability of the business will be adversely affected due to same lying idle.

Management of working capital means, managing different components of current assets and liabilities namely:

1.Management of cash

2. Management of inventory

3. Management of Accounts Receivables

4. Management of Accounts payables

MEANING OF WORKING CAPITAL MANAGEMENT

Working capital management refers to the management of both current assets and liabilities in other words, it is a study of relationship between current assets and current liabilities. The main aim of financial management is to supply continuous flow of funds to administer the day-to-day activities. The size of this capital must not be in excess or inadequate. It should be adequately supplied to increase the wealth of the organization.

DEFINITION OF WORKING CAPITAL MANAGEMENT

According to smith Capital management is concerned with problems that arise in attempting to manage the current assets and current liabilities and their relationship that exists between them.

COMPONENTS OF CURRENT ASSETS AND CURRENT LIABILITIES

CURRENT ASSETS:

Cash and bank balance.

Investment.

- Government and other trustee securities (other than loan purpose like sinking fund and gratuity fund).
- Fixed deposits with banks.
- Raw material and components used in manufacturing purpose including those in transit.
- Stock in process including semi -finished goods.
- Advances for purchase of raw material components and consumable goods.
- Money receivables from contracted sale of fixed assets during the next 12 months.
- Installments of deferred receivables due within one year.
- CURRENT LIABILITIES:
- Short term borrowing (including bill purchased and discount from bank and others).
- Unsecured loans (payable within 1year).
- Public deposit maturity within one year.
- Sundry creditors (trades) for raw material and consumables stores and spares.
- Long term deposits not payable within one year.
- Statutory liabilities provident fund, provision for taxation.
- Miscellaneous current liabilities current liabilities.
- Dividends and some others.
- Gratuity payable within one year.
- Interest and other charges due for payable.
- Any other payment due for twelve months

REVIEW OF LITERATURE

Deloof marc.(2003) presents a picture of how working capital management affects the profitability of Belgium firms. The writer has made use of empirical analysis for the sample firms. It was observed that most of the firms have a large amount of cash invested in working capital. It can therefore, be deducted that the way in which working capital is managed will have a significant impact on the profitability of the firms.

Singh (2004)study on working capital in lupin laboratories ltd, attempted to asses the significance of management working capital through working capital ratio and operating cycle. Having analyzed seven years data (1995-2005), he concluded that the liquidity position of the company was good, mean percentage of current assets was very high when compared to the percentage of net fixed assets and the operating cycle showed declining trend. The element wise analysis of working capital also revealed that trade debtors constituted the highest percentage of current assets followed by loan and advances, inventories and cash and bank balances.

Filbeck Greg and Krueger Thomas M. (2005) base their study on the ratings of working capital management published in CFO magazines. The findings of the study provides insight into working capital performance and working capital management, which is explained by macro-economic factors, interest rates, competition, etc., and their impact on working capital management. The article further studies the impact of working capital management on stock prices.

Arindam Gosh (2007) “working capital management practice in some selected industries in India- A case of impact of working capital ratios on profitability in cement industry” the study which attempted to examine the efficiency of working capital management of the Indian cement companies during 92-93 to 2001-02.

Dinesh M. (2008) explicates the concepts of working capital, the different challenges being faced by the business firms in managing working capital and the strategies to be adopted for its prudent management. The author concludes with the view that most of the businesses failed not for want of profit but for lack of cash. The fast growth in production and sales may cause the business to utilize all of the financial resources seeking growth and making assets such as inventories, accounts receivable and other assets as more illiquid.

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 cement companies for the years from 2007 to 2009. There is liquidity ratios and activities ratios are used to analyses the condition of working capital of the companies. The study revealed the truth of study is that, most companies not maintain their working capital capital in a systematic way while overall ACC shows appropriate management of working capital.

Kaur harsh v. and Singh Sukhdev (2013) This article focuses on cash conversion efficiency and setting up the operating cycle days. The study tests the relationship between the working capital attain and profitability calculated by income to average total asset. Authors did study with companies listed in BSE 200 that is spread over 19 industries for the period 2000 to 2010. At the end ,the study lay emphasis on the proficient management of working capital notably effects profitability.

Akash B. Selkari and omde Ghyar (2016) conducted a "study on working capital of Mahindra and Mahindra ltd " for a period of 3 years from 2015-18. To study the working capital of the company ratio analysis technique was used. They came to an end that the working capital of the company was satisfactory because of maintaining proper inventory levels, cash, and other current assets and a decrease in the current liabilities and provisions.

Singh al. (2017) Indicated that WCM is negatively connected with corporate profitability. Which means an aggressive WCM policy leads to higher profitability.

Dr.V. Bhuvaneswari (2020) highlighted the working capital which will determine whether the position of the company from the working capital point of view is sound and satisfactory.

She concluded that the overall working stability, soundness and overall financial performance have improved over the years.

Objective of study

- To analysis the working capital position of the company for the past 5 years.
- To measure the liquidity position of the concern.
- To study the composition of current assets.
- To study the composition of current liabilities

Research Methodology & Design:

The secondary data which has been collected from company websites are the source of the study.

SOURCES OF DATA

Primary data: Firsthand information was collected from the experts, i.e., Finance Manager & other persons in the finance department.

Secondary data: The secondary data is collected from the following sources.

- Annual financial reports of the company.
- Internal reports of the company.
- Brochures on book of the company.

ANALYTICAL TOOL

The research used the following data based on secondary data. Following tools are used in this study:

A. CURRENT RATIO

B. QUICK RATIO

C. ABSOLUTE LIQUID RATIO

DATA ANALYSIS &INTERPRETATION:-

A.CURRENT RATIO :

The current ratio establishes the relationship between current assets and current liabilities. The objective of computing this ratio is to measures the ability of the firm to meet short term financial / solvency of a firm. The satisfactory current ratio is 2:1 in other words, the objective is to measure the safely margin available for short term indicators. This ratio is expressed as under.

CURRENT ASSETS

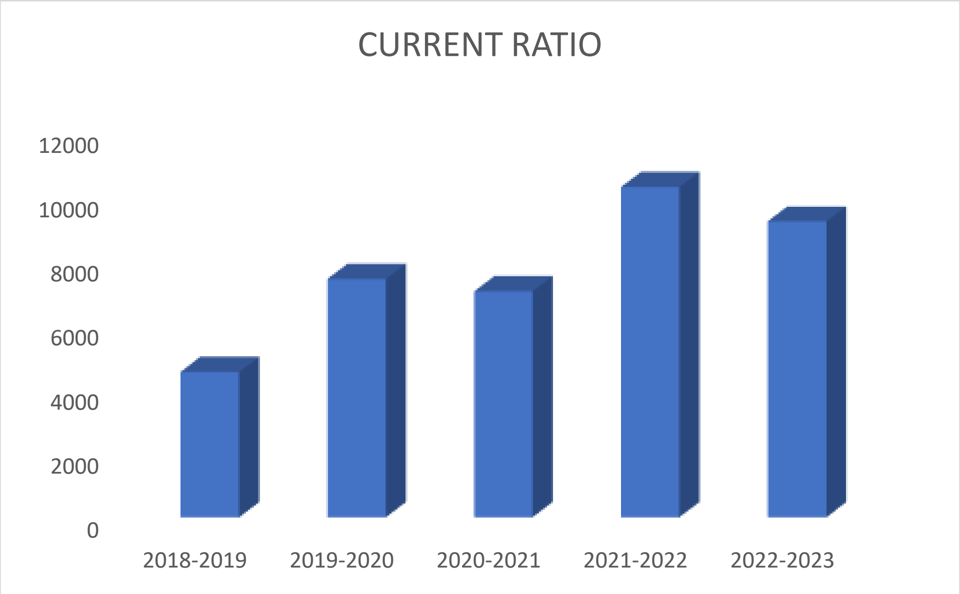
CURRENT RATIO = ------------------------------------

CURRENT LIABILITIES

TABLE SHOWING CURRENT RATIO

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	RATIO
2018-2019	9835.20	5020.57	1.95
2019-2020	14518.79	8088.44	1.79
2020-2021	16250.34	9195.11	1.76
2021-2022	20950.14	10185.34	2.05
2022-2023	21327.32	9319.38	2.28

GRAPH SHOWING CURRENT RATIO



INTERPRETATION: The above graph shows that 2019-2020 the current ratio of the company is decreased .In the year 2021-2022 current ratio increased which shows the progress of the company.

B. QUICK RATIO :

Quick ratio known as acid test ratio or liquid ratio is more rigors test of liquidity than the current ratio. The term liquidity refers to the ability of a firm to pay its short term obligation as and when by become due. Generally a quick ratio of 1:1 is considered to represent a satisfactory ratio. Doubtful long duration out- standing book debts. On the other hand company with low value of quick ratio may really be prospering and paying and paying its current obligation in time if it has been turning over its invertories efficiently. This ratio my express as under:

QUICK ASSETS

QUICK RATIO = -----------------------------------

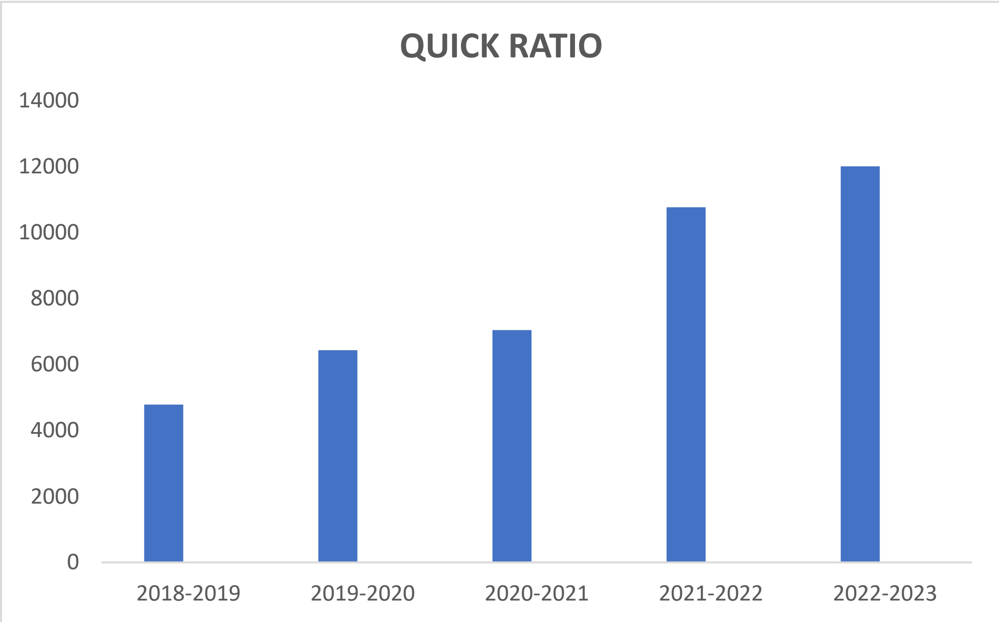
QUICK LIABILITIES

TABLE SHOWING QUICK RATIO

YEAR	CURRENT ASSETS	INVENTORY	QUICK ASSETS	CURRENT LIABILITIES	RATIO
2018-2019	9835.2	5294.05	4544.15	5020.57	0.9
2019-2020	14518.79	7075.18	7443.61	8088.44	0.87

2020-2021	**16250.34**	**9194.05**	**7054.26**	**9195.11**	**0.87**
2021-2022	**20950.14**	**10636.86**	**10315.29**	**10185.34**	**1.04**
2022-2023	**21327.32**	**12092.91**	**12090.91**	**9319.38**	**1.29**

GRAPH SHOWING QUICK RATIO



INTERPRETATION:- The graph shows that 2019 to 2020 and2020 to 2021 the quick ratio of the company is decreased. But in the 2021 to 2022, quick ratio increase It shows the progress of the company.

ABSOLUTE LIQUID RATIO

It is suggested that it would be useful, for the management if the liquidity measure also takes into account reserve borrowing power as the firm's real debt paying ability depends not only on cash resources available with it but also on its capacity on its capacity on borrow from the marking at short notice.

Absolute liquid assets

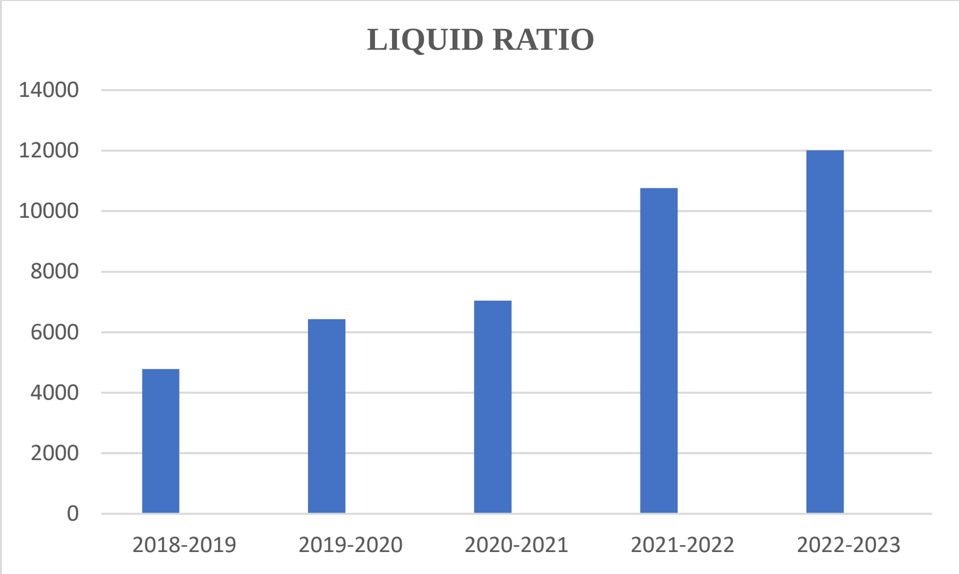
Absolute Liquid Ratio= -------------------------------

Current liabilities

TABLE SHOWING ABSOLUTE LIQUID RATIO LAKHS)

YEAR	**CASH**	**CURRENT LIABILITIES**	**LIQUID RATIO**
2018-2019	**447.49**	**5020.57**	**0.89**
2019-2020	**247.72**	**8088.44**	**0.03**
2020-2021	**350.67**	**9195.11**	**0.03**
2021-2022	**2650.37**	**10185.34**	**0.26**
2022-2023	**420.1**	**9319.38**	**0.04**

GRAPH SHOWING ABSOLUTE LIQUID RATIO



INTERPRETATION: The above graph shows that the cash ratio fluctuation from **2018 to 2019 it is decreased. But 2019 to 2020 and 2020 to 2021 is the cash** ratio increased .but 2021to 2022 cash ratio increased which shows the progress of the company.

FINDINGS

- The current ratio is increasing year to year which is considered satisfactory to the company.
- It is interpreted that the quick ratio of electricals industry is having 1 to1 ratio which implies sound liquidity position.
- The debtors turnover is increasing year to year which indicates the better liquidity position of company.
- The firm is efficiently managing the cash in the current assets.
- By observing liquidity ratios, in all years it was in 2 :1 pattern. This shows that the company is maintaining an optimum level of current assets with regard to current liabilities.

CONCLUSION

The working capital management system implemented by Electricals Industry is demonstrating a satisfactory position. Effective working capital management plays a crucial role in establishing a cause-and-effect relationship between variables, aiding management in strategic planning and forecasting future outcomes to align with organizational goals.

During the analysis, several key areas requiring attention were identified, and practical suggestions were provided to enhance performance. This proactive approach to identifying and addressing potential areas of improvement is essential for optimizing operational efficiency and sustaining long-term profitability.

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