



International Journal of Research Publication and Reviews

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

A Study on Working Capital Management in Dairy Industry

Elisha Gangipangi^a, Eswar Reddy R^b

^a Department of Management Studies, Narayana Engineering College (Autonomous), Gudur

^b Associative Professor, Department of Management Studies, Narayana Engineering College (Autonomous), Gudur

ABSTRACT:

The present research aims to measure the impact of working capital components on the financial performance and liquidity position of the firm. The main emphasis is to identify changes in working capital over the last five years. To understand the dynamics and trends shaping the company's short run financial performance. Furthermore, the article investigates into different ratios related to working capital management and providing insights into their importance and implications for business operations. The study offers a comprehensive understanding of working capital management importance in maintaining financial stability and supporting growth strategies.

Key words: working capital management, financial performance, components, liquidity.

INTRODUCTION:

Working capital is that amount of funds which is required to carry out the day- to – day operations of an enterprise. It may also regard as that position of an enterprise total capital, which is employed in its short – term operations. This operation consists of primarily such items such as raw materials, semi – finished goods, finished goods, sundry debtors, short – term investments etc., Thus working capital also refers to all the short – term assets known necessary. There is no such a business for which working capital is not needed. The main aim every firm is to maximize shareholders wealth.

Firm must earn sufficient returns to increase the shareholder wealth. To earn steady amount of profit, a successful sales activity is necessary. Firm can generate sales if sufficient amount is invested in Current assets. The need of current assets is necessary because sales do not convert into cash immediately. There is always an operating cycle involved in the conversion of sales into cash. Working capital management is one of the most important aspects of financial management. It forms a major function of the finance manager and accountant. It is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelation ship that exists between them. The management of current assets is similar to that of fixed assets in the sense that in both cases a firm analyses their effects on its return and risk.

REVIEW OF LITERATURE:

[1] Dr Kaddumi Thair A. and Dr Ramadan Imad Z. (2012): - The evaluation was made in 49 Jordanian companies they are listed in Amman Stock Exchange, the carried with topic like effect of working capital management on the profitability in a targeted companies for the period 2005 to 2009. This goal could be achieved with help of two different measures one is for profitability and another one is for performance of working capital management i.e. proxy and five proxies use full for respective goal. For the estimation two regression models fixed effects model and ordinary least model are used.[2] Dr Arbab Ahmed and Dr Matarneh Bashir (2011): - Research carried with registration technique which is very powerful statistical tool to forecast the working capital. the area of working capital management, that is possible to make the projection after starting the average relationship in the past. For the purpose different components are used and to be finalized result. And it is presented in diagrammatic way as well mathematical way. [3] 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 current assets and income to average total assets. 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 that proficient management of working capital notably affects profitability. Madhavi K. (2014):- She has done research based on empirical study of co relation among liquidity position a profitability of the paper mills in Andhra Pradesh. That has been evaluated ineffective working capital negatively effect on profitability of the paper mills. **Mr. N. Suresh Babu IRACST (2011):** - Research is based on correlation among working capital and profitability. To analyze 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.

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.

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.

SCOPE OF THE STUDY:

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

STATEMENT OF THE PROBLEM:

- 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.

RESEARCH METHODOLOGY & DESIGN:

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

SOURCES OF DATA

Data collection: The study is dependent on primary and secondary data from various sources.

Primary data:

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

Secondary data:

The secondary data was collected from the annual reports, schedule, budgets and other statements provided by the finance department., Tadipatri Books and internet.

STATEMENT OF THE PROBLEM:

- Hypothesis means a mere assumption or some supposition to be proved or disproved. But for are searcher hypothesis is a formal question that he intends to resolve. Thus, a hypothesis, may be defined as a proposition or a set of prepositions set forth as an explanation for the occurrence of some specified group of phenomena either asserted merely as a provisional conjecture to guide some investigation or as highly probable in the light of established facts. A research hypothesis isa predictive statement, capable of being tested by scientific methods that relates an independent variable to some dependent variable.

DATA ANALYSIS AND INTERPRETATION:**Statement showing changes in working capital during the period 2016-2017 (Rs. In Crores):**

S.No	Particulars	2016	2017	Increase	Decrease
A.	Current Assets:				
1.	Inventories	433.58	609.76	176.18	-
2.	Debtors	183.50	216.61	33.11	-
3.	Cash & Bank balances	89.59	100.69	11.1	-
4.	Loans & Advances	253.50	376.83	123.33	-
	Total Current Assets	960.17	1303.89		
B.	Current Liabilities:				
1.	Current Liabilities	736.71	1153.01	-	416.3
2.	Provisions	18.47	125.55	-	107.08
	Total Current Liabilities	755.18	1278.56		
	Working Capital(A-B)	204.99	25.33	343.72	523.38
	Decrease in working Capital	-	179.66	179.66	-
	Net working capital	204.99	204.99	523.38	523.38

Source : Annual Reports 2016-2021

INTERPRETATION:

The above statement reveals that the statement of changes in working capital during the year 2016 – 2017. When compare to previous year the net working capital decreases in Rs.179.66 Crores. This financial year also all current assets are increased tremendously. Inventories are increases rapidly. Here, provisions are increases in Rs.107.08 Crores. Finally, net decrease working capital is Rs.179.66 Crores.

Statement showing changes in working capital during the period 2017-2018 (Rs. In Crores):

S.No.	Particulars	2017	2018	Increase	Decrease
A.	Current Assets:				
1.	Inventories	609.76	691.97	82.21	-
2.	Debtors	216.61	186.18	-	30.43
3.	Cash & Bank balances	100.69	104.49	3.80	-
4.	Loans & Advances	376.83	378.97	2.14	-
	Total Current Assets	1303.89	1361.61		
B.	Current Liabilities:				
1.	Current Liabilities	1153.01	1120.92	32.09	-

2.	Provisions	125.55	121.80	3.75	-
	Total Current Liabilities	1278.56	1242.72		
	Working Capital(A-B)	25.33	118.89	123.99	30.43
	Increase in working Capital	93.56	-	-	93.56
	Net working capital	118.89	118.89	123.99	123.99

Source : Annual Reports 2015-2020

INTERPRETATION:

The above statement reveals that the statement of changes in working capital during the year 2017 – 2018. When compare to previous year the net working capital increases in Rs.93.56 Crores. This financial year current assets, debtors decrease in Rs.30.43 Crores. Current liabilities are decrease in Rs. 35.84 Crores. Finally, net working capital is increase current financial year.

Statement showing changes in working capital during the period 2018-2019 (Rs. In Crores):

S. No.	Particulars	2018	2019	Increase	Decrease
A.	Current Assets:				
1.	Inventories	691.97	821.70	129.73	-
2.	Debtors	186.18	215.83	29.65	-
3.	Cash & Bank balances	104.49	83.73	-	20.76
4.	Loans & Advances	378.97	351.13	-	27.84
	Total Current Assets	1361.61	1472.39		
B.	Current Liabilities:				
1.	Current Liabilities	1120.92	1138.08	-	17.16
2.	Provisions	121.80	161.01	-	39.21
	Total Current Liabilities	1242.72	1299.09		
	Working Capital(A-B)	118.89	173.30	159.38	104.97
	Increase in working Capital	54.41	-	-	54.41
	Net working capital	173.30	173.30	159.38	159.38

Source: Annual Reports 2014-2019

INTERPRETATION:

The above statement reveals that the statement of changes in working capital during the year 2018– 2019. When compare to previous year the net working capital increases in Rs.54.41 Crores. This financial year inventories and debtors are increased by 159.38 Crores and cash and loans are decreased by Rs.48.6 crores. Current liabilities are increased in Rs.

104.97 Crores. Finally, net working capital is increase current financial year.

Statement showing changes in working capital during the period 2019-2020 (Rs. In Crores):

S. No.	Particulars	2019	2020	Increase	Decrease
A.	Current Assets:				
1.	Inventories	821.70	1956.52	1134.82	-
2.	Debtors	215.83	602.29	386.46	-
3.	Cash & Bank balances	83.73	144.79	61.06	-
4.	Loans & Advances	351.13	1053.88	702.75	-
5.	Assets held for disposal		1.22	1.22	-
	Total Current Assets	1472.39	3758.70		
B.	Current Liabilities:				
1.	Current Liabilities	1138.08	2880.41	-	1742.33
2.	Provisions	161.01	573.49	-	412.48
	Total Current Liabilities	1299.09	3453.90		
	Working Capital(A-B)	173.30	304.80	2286.31	2154.81
	Increase in working Capital	131.50	-	-	131.50
	Net working capital	304.80	304.80	2286.31	2286.31

Source : Annual Reports 2014-2019

INTERPRETATION:

The above statement reveals that the statement of changes in working capital during the year 2019– 2020. When compare to previous year the net working capital increases in Rs.131.50 Crores. This financial year current assets, has been increase in Rs.2286.31 Crores. Current liabilities are increased by Rs. 2154.81 Crores. Finally, net working capital is increasing current financial year.

Statement showing changes in working capital during the period 2020–2021 (Rs. In Crores):

S.No.	Particulars	2020	2021	Increase	Decrease
A.	Current Assets:				
1.	Inventories	1956.52	2035.94	79.42	-
2.	Debtors	602.29	765.96	163.67	-
3.	Cash & Bank balances	144.79	188.19	43.40	-
4.	Loans & Advances	1053.88	1366.76	312.88	-
5.	Assets held for disposal	1.22	0.15	-	1.07
	Total Current Assets	3758.70	4357		
B.	Current Liabilities:				
1.	Current Liabilities	2880.41	3494.83	-	614.42

2.	Provisions	573.49	700.17	-	126.68
	Total Current Liabilities	3453.90	4195		
	Working Capital(A-B)	304.80	162	598.30	741.10
	Decrease in working Capital	-	142.80	142.80	-
	Net working capital	304.80	162	741.10	741.10

Source : Annual Reports 2016-2021

INTERPRETATION:

The above statement reveals that the statement of changes in working capital during the year 2020 – 2021. When compare to previous year the net working capital decreases in Rs.142.80 Crores. This financial year also all current assets are increased tremendously. Inventories are increases rapidly. Here, provisions are increases in Rs.126.68 Crores. Finally, net decrease working capital is Rs.142.80 Crores.

FINDINGS:

Based on the study and calculations made in the project, I observe and find the following:

Current Ratio of the company is below the standard norm of 2:1 consistently throughout the study period 2016-2021 as follows: 1.02, 1.09, 1.13, 1.08, 1.03. Average current ratio during the period is 1.06.

Quick ratio of the company during the study period 2016-2021 as follows: 0.54, 0.53, 0.50, 0.52, 0.55 is below standard ratio i.e. 1:1. The average is 0.52. It can be understood that the company has poor liquidity position.

The organization is maintaining cash ratio above the standard norm of 0.5:1. The average cash ratio during the study period is 0.834.

From the study we find the inventory turnover ratio is down falling. The inventory ratio during the study period is 4.18, 4.64, 3.94, 3.69, 3.78 & average is 4.046.

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 organization wants to decrease the debtor's collection period because to improve the conversation of debtors into cash.

The working capital of the company is in comfortable position, but it is observed that the working capital is not consistently increased compare to the sales. Hence it is advised to implement innovative practices in managing working capital.

The company is maintaining consistent current assets turnover ratio, but the ratio maintained is below the standard norms of the industry. Hence it is advised to maintain required current assets.

CONCLUSION

The working capital management system followed by Ultra Tech Cement Ltd, Tadipatri, A.P. Cement works 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 strategic planning to forecast the future and take necessary steps to reach the organizational goals. Various crucial areas that need attention were identified and practical suggestions were given to improve performance.

REFERENCES:

- Dr KaddumI Thair A. and Dr Ramadan Imad Z. (2012) www.researchgate.net Profitability and Working Capital Management the Jordanian 962-795-004-334
- Dr Arbab Ahmed and Dr Matarnah Bashar (2011)
- Kaur Harsh V. and Singh Sukhdev (2013) Asian Journal of Business Management 5(2) 197-207, 2013
- Madhavi K. (2014) www.Impacjournals.us 2, Issue 3, Mar 2014, 63-72 Working Capital Management

Mr. N. Suresh Babu IRACST- International Journal of Research in Management & Technology (IJRMT), ISSN: 2249-9563 Vol. 4, No.5, October 2014
Study on the Working Capital Management Efficiency in Indian Leather Industry- An Empirical Analysis