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A study on working capital management practices at Tea industries private limited

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ABSTRACT

A working capital management ensures a company has sufficient cash flow in-order to meet its short-term debt obligations and operating expenses. The main motive behind the study is to find out the working capital management and its impact on the financial performance of the company. The major problems focused on this research is

What extent the working capital management influences on financial performances of the firm.

To measure the working capital management potentiality operating cycle has been evaluated through that relationship between the working capital management and financial volatility were drawn.

Secondary data of the company from the year 2019-2023 were used to draw the conclusions, suggestion, interpretation.

The report involves a lot of study to tell the organization about its current status of asserts, liabilities and why exactly working capital management is required for the organization.

Key words: - working capital, financial performance, operating cycle, financial volatility

Introduction

Financial Management is that managerial activity which is concerned with the planning and controlling of the firm's finance. Finance is one of the foundations of all kinds of economic activities. Finance is the life-blood of a business. The financial management study deals with the process of procuring necessary financial resource and their judicious use with a view to maximizing the value of the firm and there by the value of the owners i.e. equity shareholders in a company.

Practicing managers are interest in this subject because among the most crucial decisions of the firm are those which relate to finance, and an understanding of the theory of financial management provides them with conceptual and analytical insights to make those decisions skilfully.

FINANCIAL MANAGEMENT

Financial Management emerged as a distinct field of study at the turn of this century many eminent persons defined it in the following ways.

DEFINITIONS: -

According **the BONNEVILE AND DEWEY**" Financing consists in the rising, providing and managing of all the money, capital or funds of any kind to be used in connection with the business".

According to **Prof. EZRA SOLOMAN**" Financial Management is concerned with the efficient use of any important economic resource, namely capital funds".

Working Capital

One of the most important areas in the day-to-day management of the firm is the management of working capital. Working capital management is the functional area of the finance that covers all the current accounts of the firm. It is concerned with management of the level of individual current assets as well as the management of total working capital. Financial management means procurement of funds and effective utilization of these procured funds. Procurement of funds is firstly concerned for financing working capital requirement of the firm and secondary for financing fixed assets.

Meaning of Working Capital

Working Capital refers to that part of the firm's Capital, which is required for Financing Short Working Capital is the amount of Capital that a Business has available to meet the day-to- day cash requirements of its operations.
Working Capital is the difference between resources in cash or readily convertible into cash (Current Assets) and organizational commitments for which cash will soon be required (Current Liabilities) .It refers to the amount of Current Assets that exceeds Current Liabilities (i.e., CA - CL).

DEFINITION OF WORKING CAPITAL

"Working capital some time called as net working capital is represented by the excess of current assets over the current liabilities and identified the relatively liquid portion to total enterprise which constitutes a margin of buffer for maturing obligation within the ordinary cycle of the business".
-aicpa
"The sum of the Current assets id the Working capital of a business".
"Working Capital refers to a firm's investment in short term assets like cash, short term securities. Accounts receivables and inventories".
-J.S.Mil

CONCEPTS OF WORKING CAPITAL: -

There are two concepts of working capital-
(1) Gross Working Capital Concept
(2) Net Working Capital concept

(1) GROSS WORKING CAPITAL:

Gross working capital refers to firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year and include cash. short-term securities, debtors, bill receivables and stock.

(2) NET WORKING CAPITAL CONCEPT:

Net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year and include creditors, bills payables, and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative Net working capital occurs when current liabilities are in excess of current assets.

COMPONENTS OF WORKING CAPITAL:

Working capital in common parlance is the difference between current assets and current liabilities. Current assets usually consist of cash, marketable securities, receivables and inventory. A major component of current liabilities, on the other hand, is the payables.
Management of working capital refers to the practices and techniques designed to control all the items of current assets and current liabilities. In the ordinary sense, working capital management is the function that involves effective and efficient use of all the components of current assets and current liabilities in order to minimize total cost.

Review of literature:

Review 1: **Rao Govinda D.** (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.
Review 2: **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.

Review 3: Aduda and Morgan (2020)
Explained that working capital orders the liquidity position of the company and can thus be used as a separation for performance sustainability across different sections. The company managing its working capital effectively tends to outshine its peers in profitability and sustainability hence getting a positive review in the capital market.
Review 4: Suhail Alnuaimi & Haitham Nobanee (2020)
Said working capital is the assets that are detained by the company to guarantee its day-to-day activities are well met, and its goals are well accomplished. It evaluates how these working capitals can be well managed and what is the importance of their management.
Review 5: Novak, Marco Della (2021)
Stated the individual determinants of working capital were used as independent variables, while leverage represented the control variable. Empirical findings suggests that longer extensions to customers do not affect profitability.

Objectives of the study

- To measure the liquidity position of the firm by using working capital ratios during the study period.
- To study the changes in net working capital of the company.
- To understand the structure of working capital.
- To examine the utilization of working capital by construction of operating cycle.

Scope of the study

- To study the overall financial position of Everton Tea India Pvt. Ltd., by establishing proper relationship between the contents of Balance Sheet and Profit and Loss Account in the firm ratios.
- To know the various methods to be followed by Everton Tea India Pvt. Ltd., for inventories and accounts receivables.

Need of the study

Working capital is considered to be lifeblood of a business organization. Success and failure of a business depends on the management of firm's working capital.

The study is on internal financing pattern of the working capital management which deals with determining size of working capital needs to achieve certain long-term operating goals. Therefore, an analysis is to be made to know the reasons & find out the measures to be taken to make successful.

Limitations of the study
Considering the information provided by the company to be true and the correct the study works conducted.
Some of the needed secondary data were not provide by the company.
Primary Data is collected only in Finance and Accounts Department of the **Everton Tea India Pvt. Ltd.**
Research mrthodology and design
Source of Data:
The data required for the project work is collected from the period (2019-2023).
Primary Data:
First hand information was collected from experts of financial department, on the basis of which actual position of the company is identified.
Secondary Data:
The secondary data is collected from the following sources:

A. Internal reports of the company.
B. Balance sheets and Accounting Books of the company.

Data analysis and interpretation

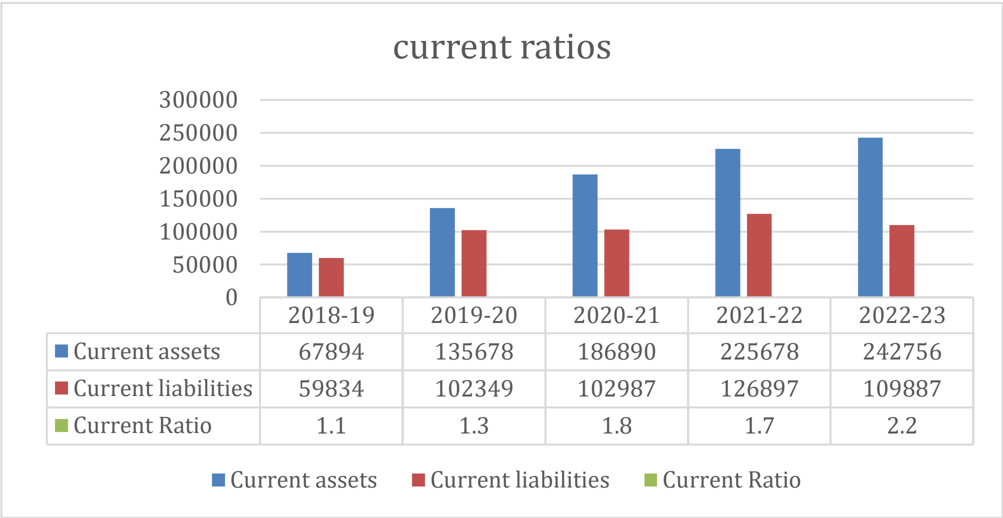
1. CURRENT RATIOS:

The current ratio is calculated by dividing current assets by current liabilities. The current ratio is computed by dividing current assets by current liabilities. Current assets normally include cash, marketable securities, accounts receivables and inventories. Generally a current ratio of 2:1 (current assets twice of current liabilities) is considered to be satisfactory.

Current Ratio = Current assets – Current liabilities

Table 4:1 CURRENT RATIOS

Year	Current assets	Current liabilities	Current Ratio
2018-19	**67894**	**59834**	**1.1**
2019-20	**135678**	**102349**	**1.3**
2020-21	**186890**	**102987**	**1.8**
2021-22	**225678**	**126897**	**1.7**
2022-23	**242756**	**109887**	**2.2**



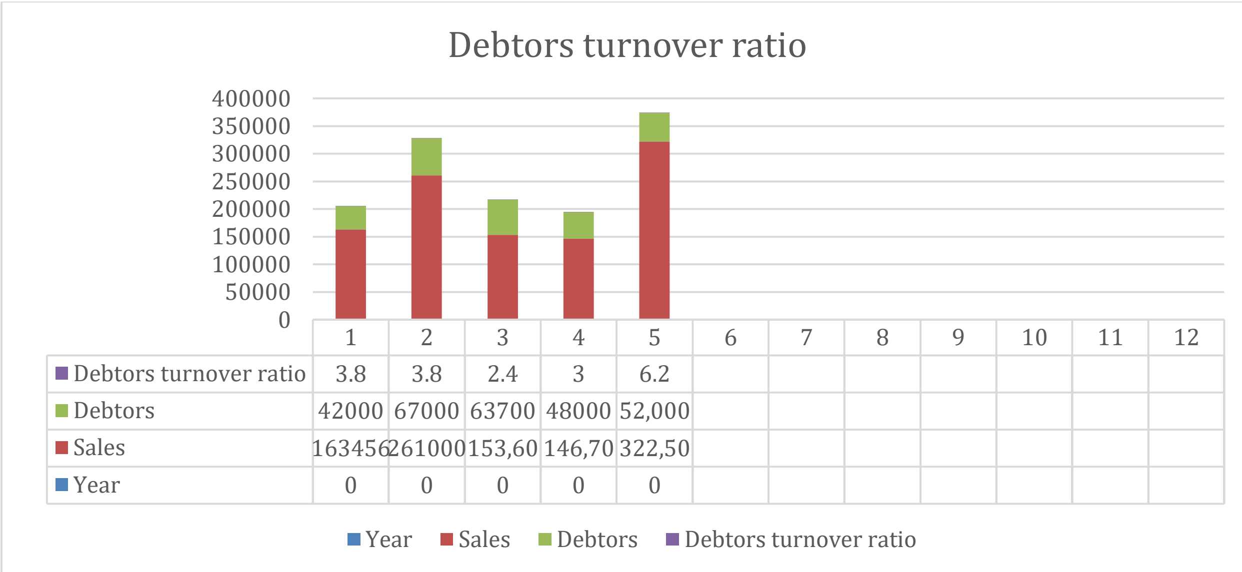
INFERENCE:

It starts at 0.1 in 2018-19, indicating potential difficulty meeting short-term obligation
It then rises to 1.3 in 2019-20 and 2020-21, suggesting improved liquidity.
By 2021-22, the ratio jumps to 1.8, signaling a significant enhancement in liquidity.
Finally, in 2022-23, it reaches 2.2, indicating a robust ability to cover short-term liabilities.
During 2018-19 the current ratio of company was 1.1, 1.3, 1.8, and 2.2. The highest during the year 2022-23 that is 2.2. the lowest position during the year 2018-19 that is 1.1

2. DEBTORS TURNOVER RATIO:

The calculation of the Debtors turnover ratio is an important financial metric that helps businesses understand their ability to collect outstanding debts. This ratio is calculated by dividing the Net Working sales by the average account receivable.
Debtors turnover ratio = sales / debtors
Table 4:2 DEBTORS TURNOVER RATIO

Year	Sales	Debtors	Debtors turnover ratio
2018-19	**163456**	**42000**	**3.8**
2019-20	**261000**	**67000**	**3.8**
2020-21	**1,53,600**	**63700**	**2.4**
2021-22	**1,46,700**	**48000**	**3.0**
2022-23	**3,22,500**	**52,000**	**6.2**



INFERENCE:

In 2018-19, the ratio was 3.8, indicating a good turnover rate.
In 2021-2022, it remained at 3
Then, in 2022-23, it surged to 6.2, signaling a significant improvement in collecting payments efficiently.
The Debtors turnover ratio was the highest during the year 2022-23 that is 6.2.

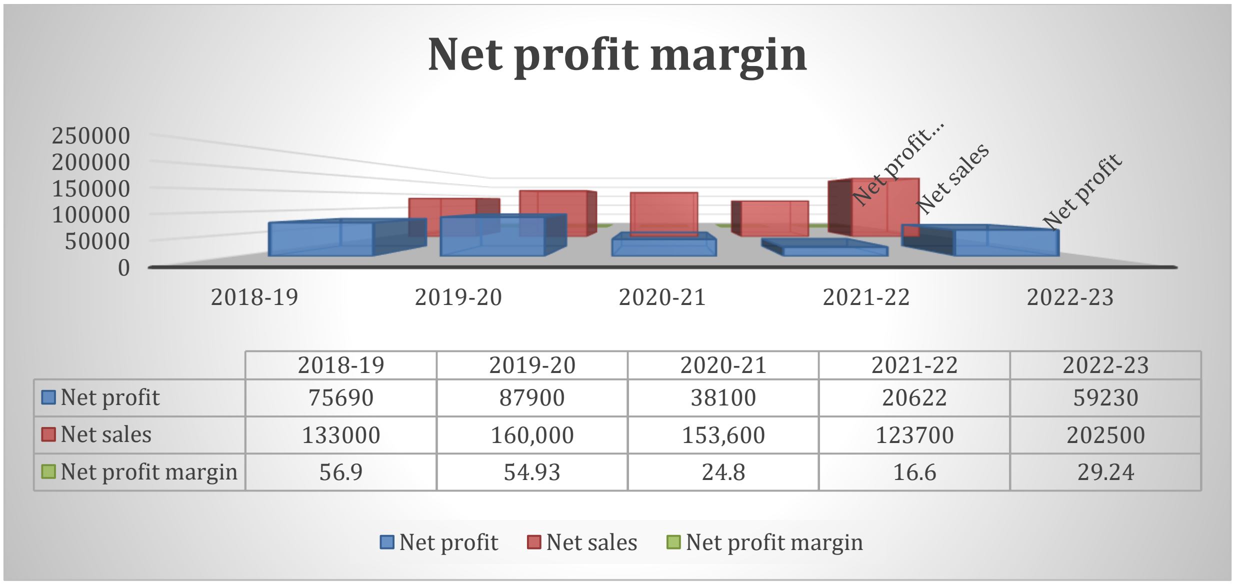
3. NET PROFIT MARGIN:

Net profit is calculated by deducting all company expenses from its total revenue. The result of the profit margin calculation is a percentage – for example, a 10% profit margin means for each $1 of revenue the company earns $0.10 in net profit.

Net Profit Margin = Net profit / Net sales x 100

year	Net profit	Net sales	Net profit margin			
2018-19	75690	133000	56.90			
2019-20	87900	1,60,000	54.93			
2020-21	38100	1,53,600	24.80			
2021-22	20622	123700	16.6			
2022-23	59230	202500	29.24			

Graph 4:3 **NET PROFIT MARGIN**



INFERENCE:

In 2018-19 and 2019-20, the margin was high, indicating strong profitability.
It dropped significantly in 2020-21, suggesting challenges or increased costs.
Further decline occurred in 2021-22.
There was a rebound in 2022-23, although not to the levels of 2018-19 and 2019-20.
The Net profit margin ratio was the highest during year 2018-19 that is 56.9. The lowest position during the year 2021-22 that is 16.6.

4. COLLECTION RATIO:

The collection ratio is usually expressed in days and represents the average number of days it takes for a company to collect payment from its customers after a sale has been made on credit terms

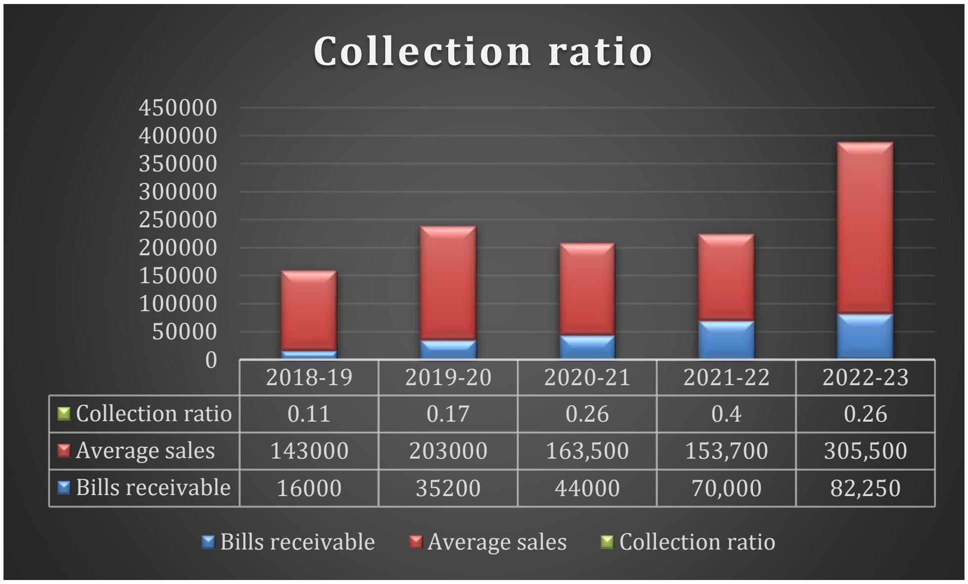
Collection ratio = bills receivable/ Average sales

Table 4:4 COLLECTION RATIO

Year	Bills receivable	Average sales	Collection ratio
2018-19	**16000**	**143000**	**0.11**
2019-20	**35200**	**203000**	**0.17**
2020-21	**44000**	**1,63,500**	**0.26**
2021-22	**70,000**	**1,53,700**	**0.4**
2022-23	**82,250**	**3,05,500**	**0.26**

Graph 4:4

COLLECTION RATIO



INFERENCE:

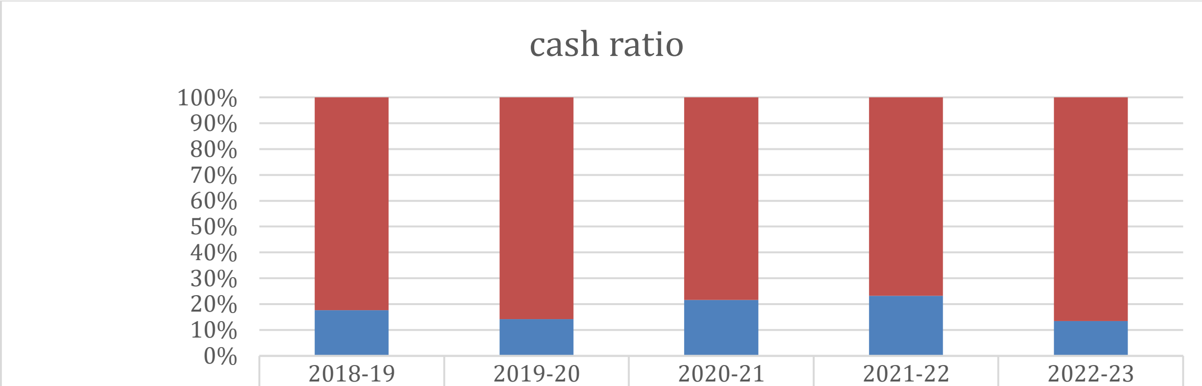
In 2018-19, the ratio was 0.11, indicating a slower collection process.
It improved to 0.17 in 2019-20 and further to 0.26 in 2020-21.
In 2021-22, there was a significant jump to 0.4, suggesting a substantial improvement in collection efficiency.
Although it decreased slightly to 0.26 in 2022-23, it remained higher compared to earlier years, indicating continued efficiency in collecting payments.

5. CASH RATIO:

The Cash ratio is a liquidity measure that shows a company's ability to cover its short-term obligations using only Cash and Cash equivalents. The Cash ratio is derived by adding a company's total reserves a cash and near-cash securities and dividing that sum by its total current liabilities.

Cash ratio = Cash / Current liabilities
Table 4:5 . CASH RATIO

Year	Cash	Current liabilities	Ratio
2018-19	**26788**	**125567**	**0.2**
2019-20	**17500**	**106500**	**0.1**
2020-21	**34567**	**125900**	**0.2**
2021-22	**41600**	**137800**	**0.3**
2022-23	**25400**	**163000**	**0.15**



	2018-19	2019-20	2020-21	2021-22	2022-23
Ratio	0.2	0.1	0.2	0.3	0.15
Current liabilities	125567	106500	125900	137800	163000
Cash	26788	17500	34567	41600	25400

INFERENCE:

In 2018-19, the ratio was very low at 0.2, indicating minimal cash reserves.
It droped significantly to 0.1 in 2019-20.
The ratio increased further to 0.2 in 2020-21 and 0.33 in 2021-22, indicating continued improvement.
Although it decreased slightly to 0.15 in 2022-23, it remained relatively high, signaling continued stability in covering short-term obligations with cash.

FINDINGS:

After proper analysis of the financial position of the ACUTESOFT SOLUTIONS with the help of tools of financial analysis, the following analysis, the following things are found during the study.

- In the year 2018-19 to 2022-23 the company current ratio is increased. That is 1.1, 1.3, 1.8, 1.7, 2.2.
- In the years 2018-19 the Debtors turnover ratio is increased that is 3.8, 3.8, 1.8, 1.7, 2.2.
- In the years 2018-19 the Net profit margin ratio is decreased that is 56.90, 54.93, 24.80, 16.6, 29.24

SUGGESTIONS:

- The profitability of the company is affected due to unnecessary administration expenses incurred by the company. It is better to reduce it to increase the profit.
- The company must maintain its operating expenses in manner and improve the operating nature.
- It is suggested to take measures for collecting dues from the debtors, by allowing discount and reduce bad debts.
- It is suggested to pay the dues to the creditors as earlier as possible, because delay increases more interest charges and damage the credibility.

CONCLUSION:

Effectively managing working Capital is must for financial stability and for the success of the business. By strategically managing current assets and liabilities, Companies can ensure they have the necessary liquidity to meet short-term obligations, invest in growth opportunities, and navigate unexpected financial challenges. The Current assets of the company are increasing year by year which impact a better financial position.

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