"A STUDY ON WORKING CAPITAL MANAGEMENT"

Ms. Pooja H B, PG Student, PGDMS&RC, PESITM, Shivamogga, poojahb01998@gmail.com 7338593077

Ms. Jyothi G H, Assistant Professor & Research Scholar, PGDMS&RC, PESITM, Shivamogga. 577204. jyothiguntnur@gmail.com,

Abstract

Working capital management is concerned with the problem that arise while the finance manager attempts to current assets, the current liabilities, as well as the inter relationship that exits between them. Because of its important in organization sector is has been consider the life blood and controlling nerve center of business, and also look upon the driving for behind a finance manager. A firm required both fixed and current asset. The effective utilization of the fixed however depends upon the amount usage of the current assets. For the study of Working capital management of **"Cad technologies limited, Bangalore"** for this study the time period that have been selected is of 5 years i.e. starts from 2014-2015 to 2018 -2019. The financial information has been extracted from the company's annual report published by the company.

Key words: Working Capital, Current Assets, Quick Assets, Ratio

Introduction

Every organization it may big, medium, and small requires finance to running its operations and achieve its target and grows more and more. In fact finance is indefeasible now that is accurately says that if blood of an organization. And this chapter deals with the different phases of Working capital Management which is required toward deal with day to day activities. the term working capital refers to the fraction of a firms funds structure which is necessary for finance current assets or short term such as cash, debtors, inventories and marketable securities invested in current assets keep circulating fast and are being permanently modified into cash and this cash flows out again in exchange for other current assets Therefore also known as circulatory capital. On the entire working capital management plays a key role and is of first main concern for all finance mangers In general working capital means is the amount of funds that a company required capital for its day to day activities. Working capital states that the duration of debtor and receivables for a company to generate fiancé from them very shortly. Working capital management involves managing the relationship between the organizations, short term assets and its short term liabilities.

Company profile

Established in 2010, they are design & project engineering professionals providing gas management solution to manufacturers and users of industrial, specialty, refrigerant & medical gases across various sector applications. It offers products and technologies to customer with focus on safety, quality, reliability and customer service. Our core team consists of well – qualified professionals and skilled technocrats with more than four decades of experience in gas handling systems, technologies and application of gases having worked with global leaders in industrial gas manufacturing.

Literature review

1. **Dinesh M (2008):** Explains the concept of working capital , the different challenges has to be faced by the every organization in maintaining working capital and the techniques to be used in the rational management. Dinesh conclude with the view that every businesses unsuccessful not for need of benefit but for lack of working capital. The fastest productivity and sales impact on the business to take use of all financialsourcessearching growth and making assets such as stocks, bills receivables and other assets.

2. **KaddumiThair A and Ramadan Imad Z (2012):**They were analyzed the effect of working capital management on the profitability with the sample of 49 Jordanian industrial operations listed at Amman stock exchange, with the help of 2 alternatives measures that the profitability as proxy for the performance and five proxies of working capital management, estimation of 20 models panel data cross sectional time series had been tasted using 2 recreation which is the fixed effects models and the ordinary lest model. The findings are to be significantly consistent with the of the traditional working capital.

3. **Arbab Ahmed and Matarneh Bashar** (**2011):** They explained that registration tools are very helpful statistical techniques of working capital prediction. in the area of working capital management, it will helpful in doing casting after installing the average correlation in the earlier between sales and working capital, and its various components. Heresiarch can be done with the help of calculation of mathematical formulas.

4. **Khatik S.K. and Jain Rashmi (2009):** They were explained the management of working capital is one of the very important and major recourses a firm for its daily activities. Working capital can be taking as investment recourses for daily operations of business. It is a very important way of capital management and profitability of a firm. the author has analyzed the working capital management position of MPSEB by ratio analysis techniques and it was identified that the situation of current ratio, quick ratio, acid test ratio, working capital ratio, stock turnover ratio are not at the standard ratio.

5. **Rahman Mohmmed M (2011):** In his study he focuses on the relationship between the working capital and profitability. A dominate working capital management has having positive effect on the profitability of the organization. From his study it has allays that the textile industry profitability and working capital situation are allayed that the they beyond the benchmark.

Statement of the Problem

The study of working capital very important for an organization to understanding whether it has sufficient working capital or not. The finance mangers of most firms invest maximum time and effort on working capital management strategy aimed to maintaining a balance between liquidity and profitability has far reaching results on the growth and survival of the firm. Therefore, in order to bring out the relationship between working capital management and profitability of the firm this topic has been chosen.

Objectives of the study

1. To study the changes of working capital over a period of 5years.
2. To study understand the importance of working capital management.
3. To suggest an effective working capital management plans.
4. To study the efficiency and effectiveness of working capital management.

Research methodology

Scope of the study

1. Limited to the published data provided from the company.
2. The study was limited to the few financial techniques of the company.
3. It covers the working capital management at cad technologies.

Tools and techniques

1. Ratio Analysis
2. Chi square test

Sources of Data

1. **Primary Data:** The information collected from personal interaction with finance Manager and other staff of the Cad technologies, Bangalore.
2. **Secondary Data**: 5 years financial statement of Cad technologies, Bangalore, Journals and Books of working capital management and relevant Websites.

Limitations of the study

1. The study is committed on the basis of data provide by the firm.
2. This study is depends on the secondary data.
3. Detail study is impossible due to time constraint and limited sources.

Data analysis and interpretation by using Ratio analysis and Chi square test

1. Current Ratio

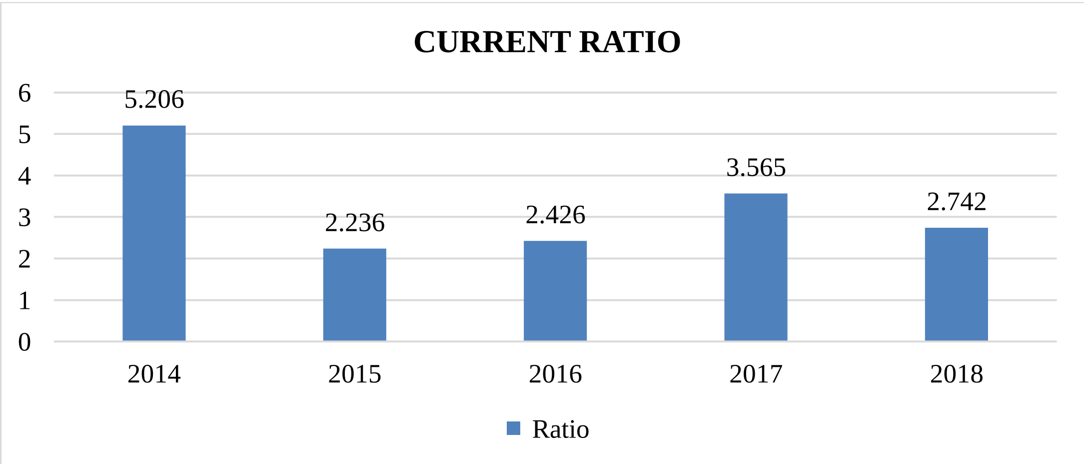
Table No: 01

Particulars	2014	2015	2016	2017	2018
Current Asset	20,64,622	25,06,104	49,20,187	89,48,405	1,14,00,917
Current Liabilities	3,96,557	11,20,355	20,27,690	25,10,029	41,57,377
Ratio	5.206	2.236	2.426	3.565	2.742

(Source: Company Annual Report)

Analysis: In the above table shows that current ratio for the year 2014-15 is 5.206 , in 2015-16 is 2.236 ,in 2016-17 is 2.426 , in 2017-18 is 3.565 and in the financial year 2018-19 it decreased to 2.742 .

Graph No: 01



(Source: Table No: 01)

Interpretation: The ideal ratio is 2:1 for current ratio. Here it is meeting the standard. The company has sufficient current asset to meet its current liability. Hence the company not facing the shortage of working capital.

2. Quick Ratio

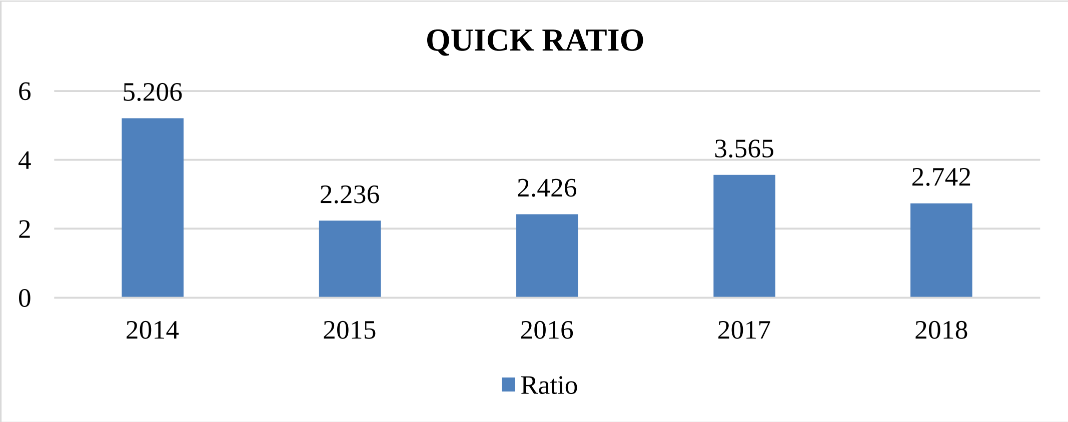
Table No: 02

Particulars	2014	2015	2016	2017	2018
Quick Asset	20,64,622	25,06,104	49,20,187	89,48,405	1,14,00,917
Current Liabilities	3,96,557	11,20,355	20,27,690	25,10,029	41,57,377
Ratio	5.206	2.236	2.426	3.565	2.742

(Source: Company Annual Report)

Analysis: In the above table shows that quick ratio for the year 2014 -15 is 5.206, in 2015-16 is 2.236, in 2016 -17 is 2.426, in 2017 -18 is 3.565 and in the financial year 2018 – 19 it decreased to 2.742.

Graph No: 02



(Source: Table No: 02)

Interpretation: The ideal ratio is 1:1 for quick ratio, in all the year the standards have been met so the company has sufficient working capital to do day to day activity.

3. Debt-To-Equity Ratio

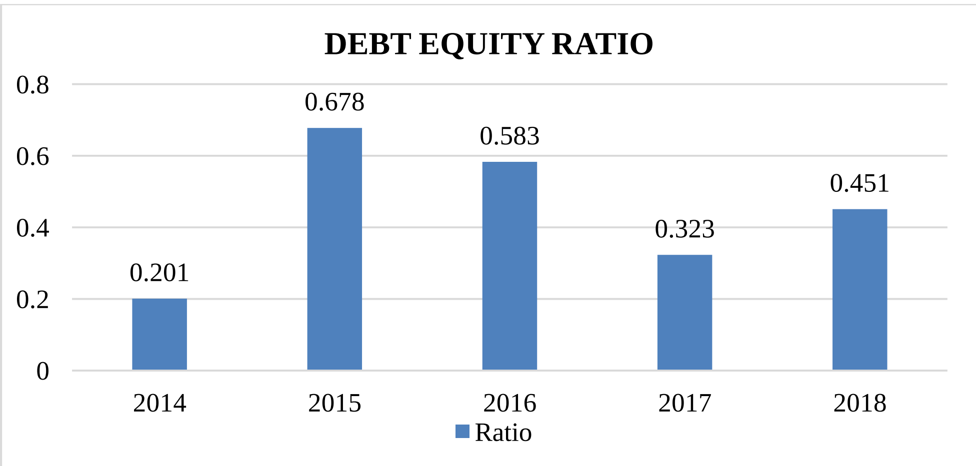
Table No: 03

Particulars	**2014**	**2015**	**2016**	**2017**	**2018**
Total liabilities	3,96,557	11,20,355	20,27,690	25,10,029	41,57,377
Total shareholders' equity	19,69,405	16,50,600	34,74,135	77,65,148	92,16,703
Ratio	0.201	0.678	0.583	0.323	0.451

(Source: Company Annual Report)

Analysis: In the above table shows that debt -to-equity ratio for the year 2014 -15 is 0.201, in 2015-16 is 0.678, in 2016 -17 is 0.583, in 2017 -18 is 0.323 and in the financial year 2018 – 19 it increased to 0.451

Graph No: 03



(Source: Table No 03)

Interpretation: The ideal ratio of debt equity ratio is 1:2, by seeing the above graph it is clear that the company as not meet the standard .which mean the company borrowed less amount from creditors then by equity shareholders , here the company enjoy high more profit and the company need not to give more amount to the creditors as interest.

4. Debtors Turnover Ratio

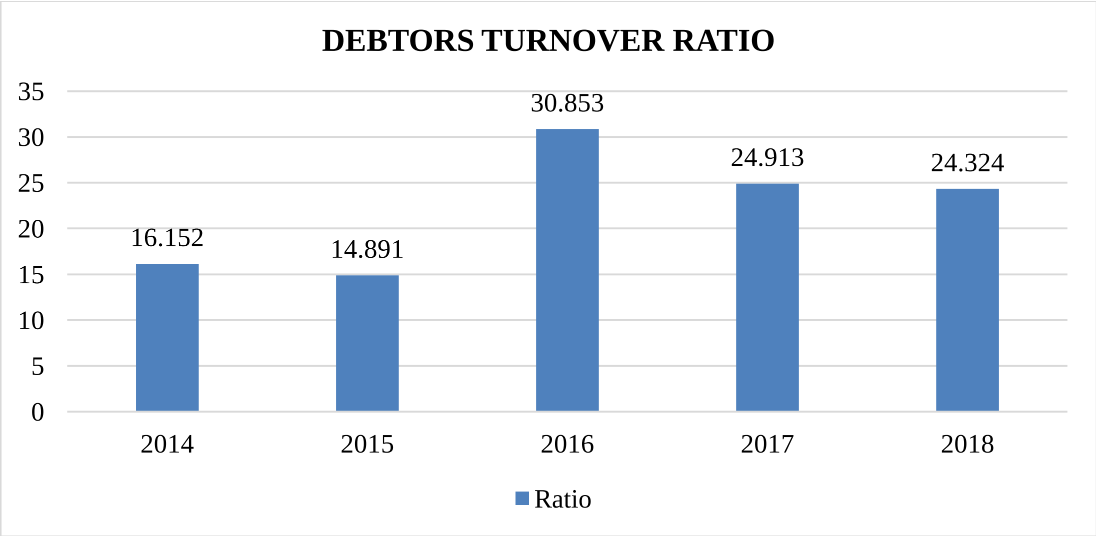
Table No: 04

Particulars	2014	2015	2016	2017	2018
Sales	41,21,234	47,21,364	1,10,35,413	1,31,08,058	2,58,06,346
Average	2,55,150	3,17,060	3,57,670	5,26,140	10,60,935
Ratio	16.152	14.891	30.853	24.913	24.324

(Source: Company Annual Report)

Analysis: In the above table shows that debtors turnover ratio for the year 2014 -15 is 16.152, in 2015-16 is 14.891, in 2016 -17 is 30.853, in 2017 -18 is 24.913 and in the financial year 2018 – 19 it decreased to 24.913.

Graph No: 04



(Source: Table No 04)

Interpretation: The ideal ratio of debtors turnover ratio is 6 times, above table shows that the calculation of debtors turnover ratio, which indicates number of times the credit sales are converted in to cash in a year. Higher the turnover ratio shorter is the collection period, this show the better credit management of the company.

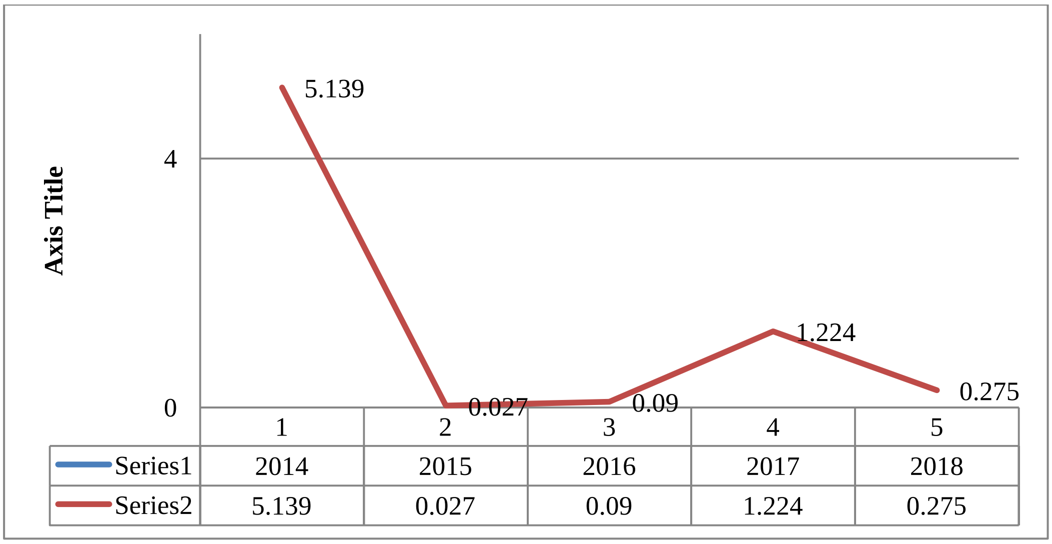
5. To find the relationship between current assets and current liabilities.

Table No: 05

Year	Observed Value	Expected Value	O - E	O – E 2	O – E2/E
1	5.206	2	3.206	10.278	5.139
2	2.236	2	0.236	0.055	0.027
3	2.426	2	0.426	0.181	0.090
4	3.565	2	1.565	2.449	1.224
5	2.742	2	0.742	0.550	0.275

(Source: Company annual Report)

Graph No: 05



(Source: Table No: 05)

Calculation:

O – E 2

E

5.027 + 0.027+0.090+1.224+0.275 = 6.755

Degree of freedom = (n – 1) @ 5% significance level finds the value:

n - 1

5 - 1

= 4

Table Value is = 9.49

Interpretation: From the above table we can observe that the calculated chi square value is 6.755 and table value with 5 percent significant level is 9.49. The calculated chi square value is less than the table value, hence Null hypothesis is accepted and alternative hypothesis is rejected there is no significant relationship between current assets and current liabilities during the study period.

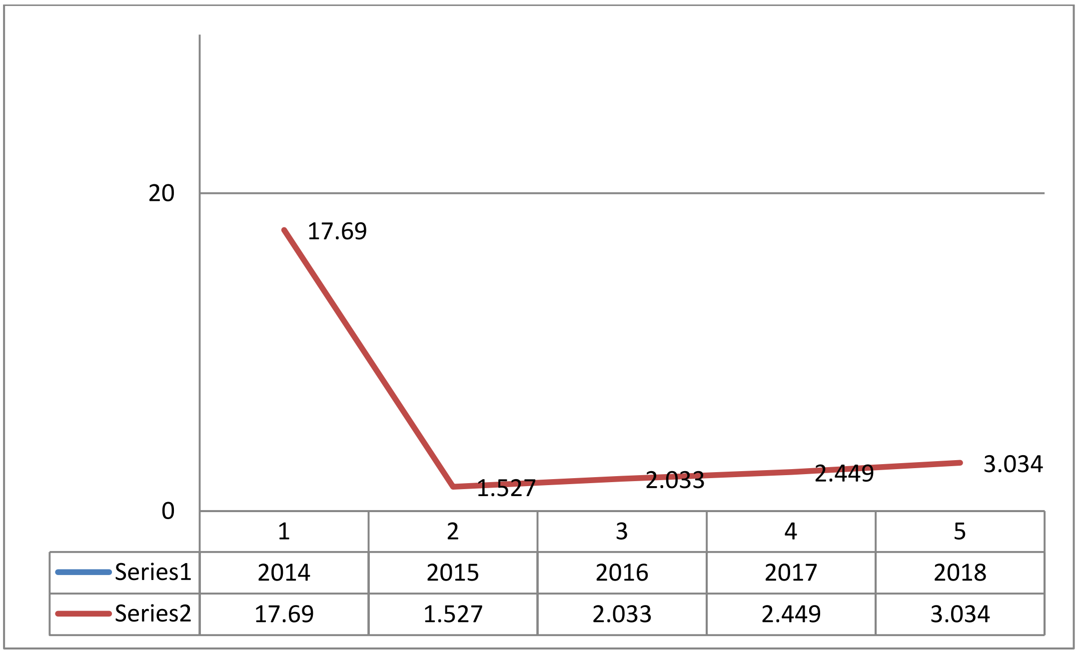
6. To find the relationship between quick assets and quick liabilities.

Table No: 06

Year	Observed Value	Expected Value	O - E	O –E 2	O – E2/E
1	5. 206	1	4.206	17.690	17.690
2	2.236	1	1.236	1.527	1.527
3	2.426	1	1.426	2.033	2.033
4	3.565	1	1.565	2.449	2.449
5	2.742	1	1.742	3.034	3.034

(Source: Company Annual Report)

Graph No: 06



(Source: Table No: 06)

Calculation:

O – E 2

E

17.690+1.527+2.033+2.449+3.034 = 26.73

Degree of freedom = (n – 1) @ 5% significant level finds the value:

n - 1

5 - 1

= 4

Table Value is = 9.49

Interpretation: From the above table we can observe that the calculated chi square value is 26.73 and Table value with 5 percent significant level is 9.49. The calculated chi square more than the table value, hence Alternative hypothesis is accepted and Null hypothesis is rejected.

Findings

1. During the study it was found that in the year 2015-16 the current ratio was is low i.e. 2.236 and high 2.742 in the year 2018-19. Hence the company not facing the shortage of working capital.
2. During the study the quick ratio was low in the year 2015-16 and high in the year 2018-19 i.e. 2.742. So this company not facing any shortage of working capital and maintain good position.
3. Debt to equity ratio was high i.e. 0.678 in the year 2015 -16 and low 0.451 in the year 2018-19. The lower the percentage means that a company is using less leverage and has a stronger equity position.
4. Debtor's turnover ratio was lower in the year 2014-15 i.e. 16.152 and higher 24.324 in the year 2018-19. So this Company maintains good liquidity position.

Suggestions

1. Company should work on increasing sales revenue by speeding up their cash operating cycle.
2. Amount lying in current asset is not generating any revenue to the organization; it is lying ideal with the organization.
3. The company needs to increase quick asset so that it can pay off current asset obligation immediately.

Conclusion

Every organization has to meet its cash obligations in order to ensure smooth functioning of an organization and build up goodwill with stake holders related to organization .profit maximization is the ultimate goal and primary purpose of any business therefore every business tries very hard to gain profit. Profitability and working capital have a positive relationship which infers that change in working capital leads to change in profitability. Efficiency level of working capital could have been better by using opportunity cost which is shown in the analysis above and opting various investment avenues, because huge amount of money is lying ideal as working capital with the organization.

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