

A Study on Analysis of Working Capital Management

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ABSTRACT

The main contribution of this project is the fact finding of working capital management of Indian telephone industry limited. The data has been collected through primary data and secondary data. The data collected from 2016-2017 to 2020-2021. The tools which has been used in this finding is ratio analysis and comparative balance sheet. The type of ratios used is current ratio, liquidity ratio, inventory turnover ratio, creditors turnover ratio, debtors turnover ratio, current assets turnover ratio and working capital ratio. These ratios helped to find out the net working capital of ITI Ltd.

ITI had higher value of debtor's turnover ratio. It helps to increase the asset value. The net working capital have both increase and decrease in the financial year. Working capital is calculated is maintain properly, then the firm will able to manage sales activity to purchase raw materials, pay wages and day to day requirements.

I. INTRODUCTION

Finance is considered as the life blood of any business. It is defended as "the provision of money at the time it wanted". All the plans of businessperson would remain mere dreams unless adequate money is available to convert them into reality. It has given a birth to financial management as a separate subject.

The uses of funds of a concern can be divided into two parts namely long-term fund and short-term fund. The long-term investment may be termed as fixed investment. A major part of the long-term fund is invested in the fixed assets. To run the business operations short-term assets are also required.

Working capital management is concerned with the problems that arises in attempting to manage the current assets, current liabilities and the inter relationship that exists between them. Working capital management means the deployment of the

current assets and the current liabilities efficiently so as to maximize short term liquidity working capital management entails short term decision – generally, relating to the next one-year periods.

OBJECTIVES OF THE STUDY

- To understand the role of working capital management in the organization and the importance of working capital management in the organization.
- To analyse the changes in the working capital of the organization.
- To understand the working capital cycle.

II. REVIEW OF LITERATURE

According to E1 Jelly, in 2004, the relation between profitability and liquidity was examined as measured current ratio and cash gap (cash conversion cycle) on a sample of joint stock companies in Saudi Arabia using correlation and regression analysis.

According to Ghosh and Maji in 2003 it made an attempt to examine the efficiency of working capital management of Indian cement companies for measuring the efficiency of working capital management, performance, utilization and overall efficiency indices were calculated instead of using some common working capital management ratios.

According to F Samiloghlu and K Demigunes (2008), Istanbul stock exchange listed manufacturing firms for the period of 1998-2007 has been analysed under a multiple regression method.

According to Pradeep Singh (2008), the paper tried to evaluate the effect of the size of the inventory and the impact on working capital, and liquidity ranking, it was found that the size of inventory directly affects working capital and its management.

III. DATA ANALYSIS & INTERPRETATION

STATEMENT SHOWING CHANGES IN WORKING CAPITAL FOR THE YEAR 2017-2018 (IN LAKH)

Particulars	2016-2017	2017-2018	Increase	Decrease
<u>Current assets</u>				
Inventories	14,229	15,590		
Trade receivables /sundry creditors	2,19,595	3,12,374		
Cash and Cash Equivalents	2,440	4126		
Bank Balance	14191	28,349		
Short term loans and advances	33,348	38,548		
Unbilled Revenue	3,667	19344		
Other assets	2,948	4883		
Total current assets	2,90,418	4,23,212	1,32,794	
<u>Current liabilities</u>				
Borrowing	87,917	92,632		
Trade payables/sundry creditors	1,97,600	2,26,165		
Others	72,359	82,414		
Short term provisions	14,837			
Other current liabilities	23070	12006		
		74229		
Total current liabilities	3,95,783	4,87,447		91,664
Net WC=CA-CL				
Increase /decrease in WC	-1,05,364.6	-64,234.4		41,130

The above statement shows the changes in working capital during the year 2016-2017 and 2017-2018. It reveals how current assets and current liabilities are changing in the two-year period. Net

working capital for the two years 2016-2017 and 2017-2018 are 105364.6 and -64234.4. It shows net working capital decreased 41,130 in 2017-2018 as compared to 2016-2017.

STATEMENT SHOWING CHANGES IN WORKING CAPITAL FOR THE YEAR 2018-2019 (IN LAKH)

Particulars	2017-2018	2018-2019	Increase	Decrease
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<u>Current assets</u>				
Inventories	155890	14,876		
Trade receivables /sundry				
Creditors	312374	2,65,740		
Cash and Cash	4126.1	2,670		
Equivalents				
Bank balance	28349	17,683		
Short term loans and	38548	47051		
advances	19344	55,025		
Unbilled Revenue	4883	6,738		
Other assets				
Total current assets	4,23,212	4,09,783		13,429
<u>Current liabilities</u>				
Borrowing	92,632	95,871		
Trade payables/sundry				
creditors	2,26,165	1,80,486		
Others				
Short term provisions	82,414	1,13,107		
Other current liabilities	12,006	10,609		
	74,229	59,462		
Total current liabilities	4,87,447	4,59,535	27,912	
Net WC=CA-CL	-64,234.4	-49,752.38		14,482
Increase /decrease in WC				

The above statement shows the changes in working capital during the year 2017-2018 and 2018-2019 .it reveals how current assets and current liabilities are changing in the two-year .Net

working capital for the two years 2017-2018 and 2018-2019 are -64234.4 and- 49752.38. it shows net working capital decreased 14,482 in 2018-2019 as compared to 2017-2018.

STATEMENT SHOWING CHANGES IN WORKING CAPITAL FOR THE YEAR 2019-2020 (IN LAKH)

Particulars	2018-2019	2019-2020	Increase	Decrease
<u>Current assets</u>				
Inventories	14,876	17,334		
Trade receivables				
/sundry Creditors	2,65,740	2,76,114		
Cash and Cash	2,670	3,978		
Equivalents		20,529		
Bank balance	17683			
Short term loans and		57,288		
advances	47051	62,329		
Unbilled Revenue	55,025	6,599		
Other Current assets	6,738			
Total current assets	4,09,783	4,44,170	34,387	

<u>Current liabilities</u>				
Borrowing	95,871	1,03,558		
Trade payables/sundry creditors	1,80,486	2,18,305		
Others		94,931		
Short term provisions	1,13,107	12,704		
Other current liabilities	10,609	60,311		
	59,462			
Total current liabilities	4,59,535	4,89,810		30275
Net WC=CA-CL	-49752.38	-40730.37		9022
Increase /decrease in WC				

The above statement shows the changes in working capital during the year 2018-2019 and 2019-2020 .it reveals how current assets and current liabilities are changing in the two-year.Net

working capital for the two years 2018-2019 and 2019-2020 are -49752.38 and -40730.37. it shows net working capital increase 9022 in 2019-2020 as compared to 2018-2019.

STATEMENT SHOWING CHANGES IN WORKING CAPITAL FOR THE YEAR 2020-2021 (IN LAKH)

Particulars	2019-2020	2020-2021	Increase	Decrease
<u>Current assets</u>				
Inventories	17,334	19,370		
Trade receivables	2,76,114	2,55,210		
Cash and cash equivalents	3,978	2,794		
Bank Balances other	20,529	51,970		
Loans	62,329	55,764		
Unbilled Revenue	62,329	1,71,119		
Other current assets	6,599	9046		
Total current assets	444170	565273	1,21,103	
<u>Current liabilities</u>				
Borrowing	1,03,558	1,16,426		
Trade payables/sundry creditors	2,18,305	2,80,898		
Others	94,931	81,032		
Provisions	12,704	13,665		
Other current liabilities	60,311	1,06,125		
Total current liabilities	4,89,810	5,98,146		108336
Net WC=CA-CL	-40730.37	-32872.44		7858
Increase /decrease in				

WC				
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The above statement shows the changes in working capital during the year 2019-2020 and 2020-2021 .it reveals how current assets and current liabilities are changing in the two-year .Net working capital for the two years 2019-2020 and 2020-2021 are -40730.37 and -32872.44. it shows net working capital increased 7858 in 2020-2021 as compared to 2019-2020

IV. SUGGESTIONS

- To realize the debtors and pay the dues immediately to improve the working capital.
- To increase the sales with better margin order from customers, ITI improve its efficiency in marketing and to take necessary steps to get more order from the customers and to boost the marketing people for increasing their efficiency.
- The company should have acquired sufficient fixed and current assets to meets its current liabilities and provision.
- Debt collection should be continuously followed up that recovers outstanding debt of ITI Ltd.

V. CONCLUSION

India's first public sector unit (PSU) – ITI Ltd was established in 1948. Ever since, as a pioneering venture in the field of telecommunications, it has contributed to 50% of the present national telecom network. With State-of-the-art manufacturing facilities spread across six locations and a country wide network of marketing/service outlets, the company offers a complete range of telecom products and total solutions covering the whole spectrum of switching, transmission, access and subscriber premises Equipment.

The study was conducted to analyze the working capital ratios and other ratios affecting working capital along with schedule working capital. Average of the net working capital for the past five years shows decreasing trend. The debtor's turnover ratio is decreasing trend which shows that the company is not able to manage the credit sales in a good manner.

A study on the working capital management of ITI Ltd, revealed that the company using unsatisfactory level of working capital utilization. The study analysis that the organization is increasing profit since 2016 - 2017 and it is showing positive growth of trend for organization.

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