A Study on Working Capital Management With Special Referenceto Universal Implements, Shornur

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Abstract- *Working capital management is the process of planning and controlling the level and mix of the current asset of the firm as well as financing the asset. Specifically working capital management requires financial managers to decide what quantity of a cash and other liquid asset such as account receivable and inventories to be held at any point of time. In any operating cycle, working capital transforms from the form of cash to inventories, account receivable and then back to the form of cash. Main objective of networking capital management is maintaining normal daily operational activities for the firm in order to increase the firm's performance and to reduce the firm's liquidity risk. To study the working capital management, UNIVERSAL IMOLEMENTS SHORNUR was selected as organization with the topic, "What are the steps took by the department to make the working capital more effective?". UNIVERSAL IMPLEMENTS SHORNUR has established in the year 1996, Mr. Jayan Padmanabhan is the proprietor of the Universal Implements.*

Keywords- Working capital management, Liquidity, current assets, current liabilities.

I. INTRODUCTION

The project work entitled a study on working capital management with special reference to universal implements, Shornur, is mainly conducted to identify whether the working capital is properly managed.

Finance is the prerequisite of every business organization. Finance is the life blood of any business organization. It is the base or the foundation on which the super structure of the business is conducted. Without a strong base, no structure cannot be formed. Finance has acquired so much importance in the modern world that today's economy is prescribed as a money economy. So, in the modern world we cannot think of any business without money or finance. Money has enabled us to bring rapid progress in every filed of human life. It has facilitated specialization, expansion, and diversification of business activities, and directly or indirectly involves that acquisition, as well as user funds. The finance function is basically related to raising the funds from the most economic source that is at the cheap rate. And it is equally important to see that the funds raised are used optimally, for the purpose of which they are raised.

The finance function or finance department of any company is such a function which is related to all other functional decisions. It may be the production department, marketing department or any other financial area.

Say for example, sales promotion activities come within the preview of marketing, but advertising and other sales promotions activities required investment of cash and hence, it affects finance department. In fact, finance policies will have to be framed in accordance with the requirement of money funds for different departments. Although it may be difficult to separate the finance functions from other department functions, it has got its own functions to perform. One of the important functions is investment. A company is required to invest its funds in fixed capital and in working capital. Fixed capital required to invest its funds in fixed capital and in working capital. Fixed capital requires investment to be made in fixed assets like plants, machinery, etc to earn the long-time yield by using these assets. And these assets are held for a longer period.

Working capital speaks about the investment of funds in current assets. This capital used to look after the daily financial requirements of business affairs. Current assets will be held in the form of cash or near form cash, for a period less than one year. Working capital management is the process of planning and controlling the level and mix of current assets of the firm as well as financing the assets. Specifically, working capital requires financial managers to decide what quantities of cash and other liquid assets such as accounts receivable and inventories to be held at any point in time. In addition, financial managers must decide how their current assets are to be financed. Financing choices include the mix of current as well as long-term liabilities. The main purpose of the study is to find out whether the company is efficiently managing its working capital. The management of working capital efficiently necessitates careful handling of current assets to ensure short-term liquidity and solvency of the business.

Working capital is descriptive of the capital which is not fixed. But the more common use of working capital is to consider it as the difference between the book value of current assets and liabilities.

Working capital therefore provides insight into how efficiently a company's management can oversee the company's operation. The speed at which the company can manage its short-term assets and short-term liabilities is also crucial to its business success.

II. REVIEW OF LITERATURE

Verma (2015) – study examined the working capital management in Tata iron and steel company ltd, Indian iron and steel company and steel authority of India ltd. during the period of 1978-1979 to 1985-1986 there are using various financial and statistical techniques finally concluded the three-firm use of bank borrowings to finance the working capital requirement.

Vijaykumar and A. Venkatachalam (2016) – the study focuses Tamilnadu Sugar Corporation for the period of 1985-86 to 1993-94. That indicate the corporation has maintain moderate level of working capital. In that long term funds has been used for meeting short term liability and excess liability. This period of study to as affected the profitability.

Kazmi Azar and mohd. amirkhan(2016)-the study define working capital analysis some used various tools like cash, management of account receivables and management of inventory. The study only for short term period there may comparison based on the international financial sector. So the study get some importance of working capital enjoy full of profit in competitive industry.

Bansal (2017)-Researcher study the working capital management in Himachal Pradesh agro industries for the period of 1985-86 to 1994-95 with the help of various financial tools that are define working capital, cash inventory, receivable and production capacity have not been managed properly by the company under study.

Raheman Abdul and Mohamed nasr (2018)-In that study he observed that working capital management and its effect on liquidity as well as profitability of firm. He selected 94 Pakistani firm on Karachi stock exchange for 6 years period i.e. 1999-2004.he used various tool and techniques of persons correlation and regression analysis. Finally find the negative and positive relationship in working capital management in a firm.

Paul (2018) – This is comprehensive study of working capital management in motor industries company limited. During the period of 2001 to 2005 for 5year data collected. To analysis purpose uses various kinds of ratio analysis. Finally shows that working capital of company under study has not been managed efficiently and effectively

JOSEPHJISHA(.2015) Closely examines the study of working capital management in Ashok Leyland and points out that the liquidity and profitability position of the company is not satisfactory, and needed to be strengthened in order to be able to meet its obligations in time.

MADHAVI K (2015) An empirical study of the co-relation between liquidity position and profitability of the paper mills in Andhra Pradesh. It has been observed that inefficient working capital management makes a negative impact on profitability and liquidity position of the paper mills.

GURUMURTHY.N.& REDDY JAYACHANDRA.K(2014) Have conducted a study on the working capital management of four pharmaceutical companies APSPDCL, APEPDCL, APNPDCL and APCPDCL and have come to the conclusion that the existing system of working capital management was not up to the mark and needed to be improved.

BAGCHI B. AND KHAMRUL B.(2012) Investigate the relationship between working capital management and the companies‟ profitability, and identify the variables that most affect profitability. It is also an empirical study where the authors have investigated the effect of working capital management on the companies‟ profitability by using a sample of Indian FMCG companies. The study concludes with the observation that both CCC and debt used by the firm are negatively associated with the companies‟ profitability.

Statement of the Problem:

Working capital speaks about the investment of funds and current assets. The capital is used to look after the day-to-day financial requirements of business affairs. current asset will be held in the form of cash or near cash form for period less than one year. The current assets are the assets which can be converted in to cash within an accounting year it also focusses to determine the solvency and liquidity position of the company. The study takes into consider the external analyst point of view and with the help of the past and latest financial statements, financial position will be tried to be analyzed impartially.

Significance of Study:

The study of the working capital management of the firm is very essential to know the financial condition of the firm. The goal of working capital management is to maximize operational efficiency. Efficient working capital management helps maintain smooth operations and can also help to improve the company's earnings and profitability.

Therefore the study of working capital is of major importance to internal and external analysis because of its close relationship with the current day-to-day operations of a business. The inadequacy of management of working capital is the leading cause of business failures.

Working capital is needed to meet the current requirement of a business enterprise such as the purchase of raw material etc. It also pointed out the working capital is nothing but one segment of the capital structure of the business.

Objectives of the Study:

- To ascertain the effectiveness of working capital management at universal implements.
- The study of the financial position of the company.
- To study the operating cycle of the organization.
- To assess the changes in the components of working capital.
- To study the cash and inventory management of the company.

Scope of the Study:

The project has been totally based on the financial analysis regarding the working capital management of universal implements, Shornur using ratio analysis. The data is collected from the financial statements of the company. The study involves the process of identification of financial strength and weakness of the company based on working capital management.

Research Methodology:

Research is the systematic method of finding solution to problems. It isessentially an investigation, a record and analysis of evidence for the purpose of gaining knowledge. According to Clifford woody research comprises defining and redefining problems, formulating hypothesis or suggested solutions; collecting, organizing and evaluating data making deductions and reaching conclusions; and at last carefully testing the conclusions to determine whether they fit the formulating hypothesis.

Research methodology is a systematic way to solve a problem. It is a science of studying how research is to be carried out. Essentially, the procedures by which researches go about their work of describing, explaining and predicting phenomena are called research methodology. It is also defined as the study of methods by which knowledge is gained, its aim is to give the work plan of research. For conducting a research both primary and secondary data are required. Primary data is that which is collected for the first time and thus are original in character. Secondary data which published already by some other person or organization etc. In books, journals, subsidiary books etc.

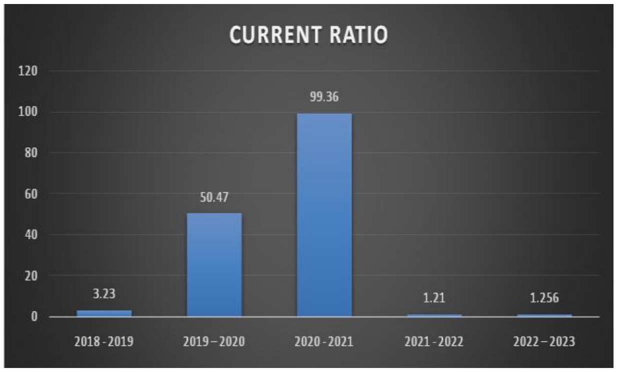
III. DATA ANALYSIS TECHNIQUES

Ratio Analysis

Current Ratio:

1)CURRENT RATIO= CURRENT ASSETS / CURRENT LIABILITIES (Amount in lakhs)

YEAR	**2018 - 2019**	**2019 – 2020**	**2020 - 2021**	**2021 - 2022**	**2022 – 2023**
CURRENT ASSET	2342341	2112580	2547345.83	4062916	4167023.6287
CURRENT LIABILITY	724196	41858	25636	3331484.41	3316566.75
CURRENT RATIO	3.23	50.47	99.36	1.21	1.256



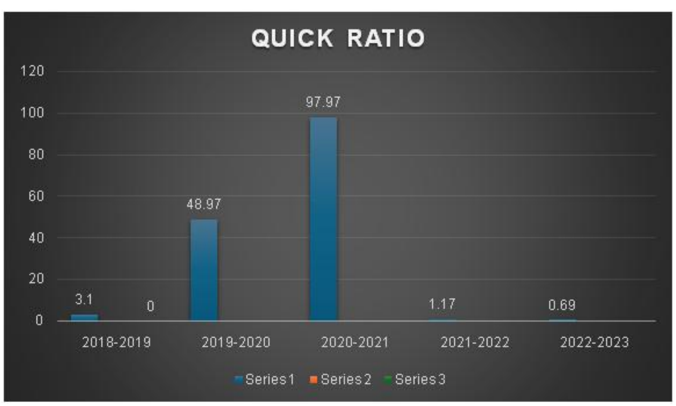
INTERPRETATION

The percentage of people who listen to current ratio has been decreasing over the past 5 years. The lowest percentage of people who listen to current ratio was in 2021-2022

Quick Ratio:

2) QUICK RATIO = CURRENT ASSETS – INVENTORY / CURRENT LIABILITIES

YEAR	**2018 - 2019**	**2019 – 2020**	**2020 - 2021**	**2021 - 2022**	**2022 – 2023**
QUICK ASSET	2259801	2050050	2511665	3930776	2291163.6287
CURRENT LIABILITY	724196	41858	25636	3331484.41	3316566.75
QUICK RATIO	3.1	48.97	97.97	1.17	0.69

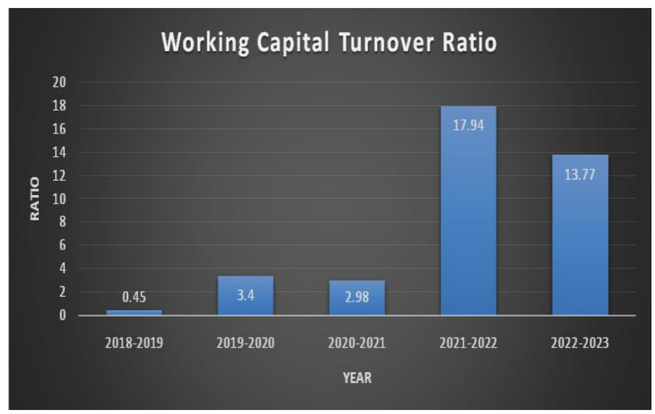


INTERPRETATION

The ratio of quick asset to current liability has been decreased in the year 2022-202. This suggest that the company ability to meet its short term obligations has been decreased.

Working Capital Turn Over Ratio:

Year	**2018-2019**	**2019-2020**	**2020-2021**	**2021-2022**	**2022-2023**
Net Sales	731495.40	7045225.30	7531606.41	13123822.44	11714500.69
Working Capital	1618145	2070722	2521709.83	731431.59	850456.8787
Working Capital Turnover Ratio	0.45	3.4	2.98	17.94	13.77



INTERPRETATION

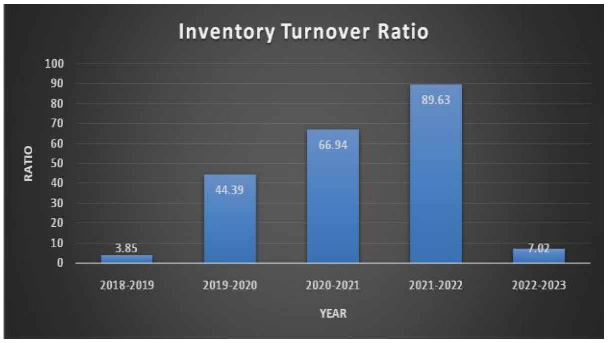
The working capital turnover ratio in the year 2019-2020 is 3.4 and it has been decreased in the year 2020-2021 2.98. This suggests that the company is less efficient at using it`s working capital to generate sales.

Inventory Turn Over Ratio:

Stock turnover ratio= Cost of goods sold/Average inventory

Year	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Cost of goods sold	7314495.4	3219998.75	3287303.78	9119866.04	7049361.6
Average Stock	1895085.33	72535	48105	101750	1003950

Inventory Turnover Ratio	3.85	44.39	66.94	89.63	7.02



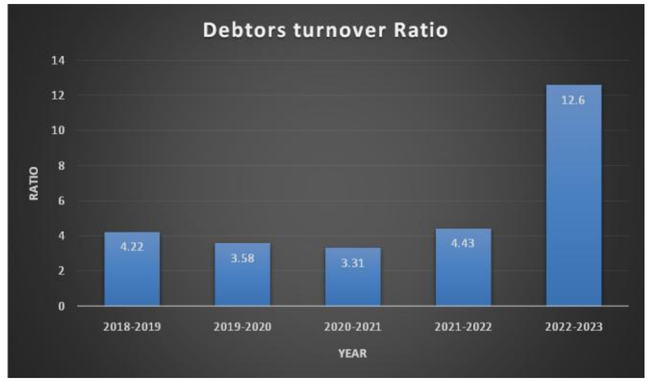
INTERPRETATION

The inventory turnover ratio has been decreased from 2021-2022 to 2022-2023. This suggests that the company is holding more inventory on hands.

Debtor's Turnover Ratio:

Debtors' turnover ratio = Credit sales / Closing Debtors

Year	**2018-2019**	**2019-2020**	**2020-2021**	**2021-2022**	**2022-2023**
Credit Sales	7314495.40	7045225.03	7531606.41	13123822.44	11714500.69
Closing Debtors	1730377	1966956	2272860	2959947	963237
Debtors turnover Ratio	4.22	3.58	3.31	4.43	12.6



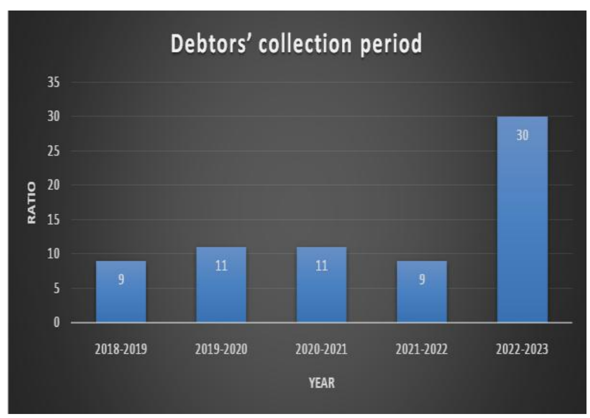
INTERPRETATION

The debtors turnover ratio has been decreased from 2019-2020 to 2020-2021.This suggest that thecompanyclosing debtors is slow.

Debtor's Collection Period:

Debtors collection period (in days)=365/Debtors turnover ratio

Year	**2018-2019**	**2019-2020**	**2020-2021**	**2021-2022**	**2022-2023**
Debtors' Turnover ratio	4.22	3.58	3.31	4.43	12.6
Debtors' collection period	9	11	11	9	30



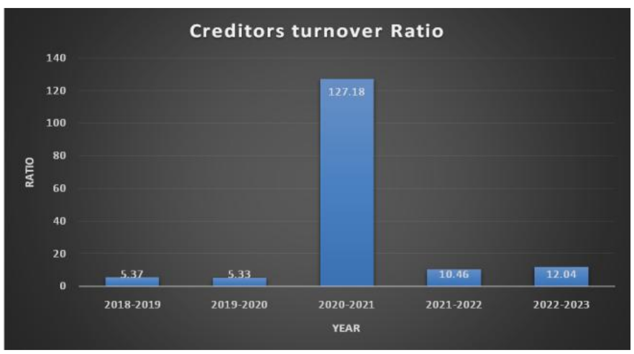
INTERPRETATION

The bar graph shows the number of debtors in each collection period. The highest number of debtors is in the 0-30 days period. The number of debtors decreases as the collection period increases.

Creditor's Turn Over Ratio:

Creditors turnover ratio= Credit purchase / Closing Creditors

Year	**2018-2019**	**2019-2020**	**2020-2021**	**2021-2022**	**2022-2023**
Credit Purchase	3688204.74	3199988.75	3260453.78	9216326.04	8792981.60
Closing Creditors	685601.00	600000	25636	880654.45	730100.83
Creditors turnover Ratio	5.37	5.33	127.18	10.46	12.04



INTERPRETATION

The bar graph shows the creditors turnover ratio for a company over a five-year period. The ratio has been decreasing over time, suggesting that the company is taking longer to pay its creditors.

SCHEDULE OF CHANGES IN WORKING CAPITAL (2018-2019)

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Particulars	2018	2019	Changes in Working Capital	
Current Assets			Increase	Decrease
Stock	82540	62530	-	20010
Sundry Debtors	305733	1966956	1661223	-
Cash	208251	81286	-	126965
Cash and Bank	4986.30	1808	-	3178.30
Total(A)	601510.30	2112580	-	-
Current Liabilities				
Sundry Creditors	685601	-	-	685601
Audit Fee	11700	15000	3300	-
ESI Payable	1859	1858	-	1
GST Payable	36	-	-	36
Agency Deposit	25000	25000	-	-
Total Current Liabilities	724196	41858	-	-
Working Capital A-B	-122685.70	2070722	1664523	835791.30
Net Increase in working capital	1948036.30			828731.70
Total	2070722	2070722	1664523	1664523

INTERPRETATION

The above schedule of changes in working capital showing that the previous year capital was Rs.122685.70, later it in current year it was Rs.2070722 thus there is an increase in working capital.

SCHEDULE OF CHANGES IN WORKING CAPITAL (2019-2020)

Particulars	2019	2020	Changes in Working Capital	
Current Assets			Increase	Decrease
Stock	62530	35680	-	26850
Sundry Debtors	1966956	2272860	305904	-

Bank Account	1808	32722.05	30914.05	-
Cash	81286	198786	117500	-
Total(A)	2112480	2540048.05		
Current Liabilities			-	-
Sundry Creditors	-	-	-	-
Audit Fee	15000	-	-	15000
GST Payable	-	-	-	-
Agency Deposit	25000	25000	-	-
Esi Payable	1858	636	-	1222
Total Current Liabilities	41858	25636		
Working Capital A-B	2070722	2514412.05	454318.05	43072
Net Increase in working capital	443690.05			411246.05
Total	2514412.05	2514412.05	454318.05	454318.05

INTERPRETATION

The above schedule of changes in working capital showing that the previous year capital was Rs. 2070722, later it in current year it was Rs. 2514412.05 thus there is an increase in working capital.

SCHEDULE OF CHANGES IN WORKING CAPITAL (2020-2021)

Particulars	2020	2021	Changes in Working Capital	
Current Assets			Increase	Decrease
Stock	35680	132140	96460	-
Sundry Debtors	2272860	2959947	687087	-
Cash	198786	245089	46303	-
Bank Account	32722.05	865.98	-	31856.07
Total(A)	2540048.05	3338041.98		-
Current Liabilities				
Creditors	-	81943	81943	-
Agency Deposit	25000	-	-	25000
Esi Payable	636	-	-	636
Total Current Liabilities	25636	81943		
Working Capital A-B	2514412.05	3256098.98	911793	57492.07
Net Increase in working capital	741686.91			854300.93
Total	3256098.98	3256098.98	911793	911793

INTERPRETATION

The above schedule of changes in working capital shows that the previous year capital was Rs. 2514412.05, later in current year it was Rs. 3256098.98 thus there is an increase in working capital.

SCHEDULE OF CHANGES IN WORKING CAPITAL (2021-2022)

Particulars	2021	2022	Changes in Working Capital	
Current Assets			Increase	Decrease
Stock	132140	1875760	1743620	-

Sundry Debtors	2959947	963237	-	1996710
Cash	245089	131140	-	113949
Bank Account	865.98	21052.52	16727.83	-
Total(A)	3338041.98	2991189.52		
Current Liabilities				
Creditors for Purchases	81943	730100.83	648157.83	-
Total Current Liabilities	81943	730100.83		
Working Capital A-B	3256098.98	2261088.69	2408505.66	2110659
Net Increase in working capital		995010.29		297846.66
Total	3256098.98	3256098.98	2408505.66	2408505.66

INTERPRETATION

The above schedule of changes in working capital showing that the previous year capital was Rs. 3256098.98, later it in current year it was Rs. 2261088.69 thus there is an decrease in working capital.

IV. FINDINGS

1. The short term solvency position of the firm is good the current ratio is above the standard 2.1 liquid ratio is also above the standard. But the main portion of the current asset includes debtors and stock, so the cash ratio is below the standard.
2. The inventory turnover ratio show some increasing trend. During the year 2018 – 2019, 2019 – 2020, 2020 – 2021 the ratio showed an increase but in the last year 2022 – 2023 it shows the decreasing trend. After the initial rise, starts falling shows the sign of bad inventory management. The reason could be poor sale or over production.
3. Debtor`s turnover ratio show the stability in the initial years but it had increased in the later years. It shows the firm had focused in the last two years in credit sales.
4. Debt collection period was very long in the years 2018 – 2019,2019 – 2020, 2020 – 2021 but in the year 2021 – 2022 it has been reduced. It points that the firm is able to recoup the amount of debt in short span of time.
5. Working capital turnover ratio of the company satisfactory.

V. SUGGESTIONS

- To overcome the poor liquidity position of the company, it should maintain an effective system of working capital.
- The company should try to invest some money in short term marketable securities. It will help to increase absolute liquidity or cash position.
- Taking steps to reduce the debt collection period will help.
- Working capital turnover ratio shows a fluctuating trend. So it is suggested that the company may take necessary steps to avoid wide fluctuations.
- The debt equity ratio of the firm is not satisfactory. The firm can improve it by using the advantages of debt capital.
- The firm has a small amount of over stocking. It should be avoided
- Company has a fluctuating trend in the amount of current assets and current liabilities. Such fluctuation should be avoided as it may affect the working capital of the firm.

VI. CONCLUSION

The analysis of working capital management of UNIVERSAL IMPLEMENTS SHORANUR reveals that the liquidity position of the company is higher than actually needed. There is an unnecessary blocking of funds in the current assets. It shows the working capital of the company are fairly good. Inventory turnover ratio and working capital turnover ratio are satisfactory then it could attain a satisfactory profitability position under the period of study but during the study there is a positive change in the profitability position. It can be considered as a sign of bright future for the company.

The firm has a lot of opportunities ensuring very good working capital management. If they manage properly the profitability and earning capacity of the firm will increase which ensure proper returns to the investors.

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