A Study on Overall Financial Performance & Working Capital Management Followed In Vazhakulam Agro And Fruit Processing Company Limited, Nadukkara

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Abstract- *Financial management is one of the primary concerns for organization. The good profitability position of the management leads the company in a successful way. Every company is concerned about measuring its performance financially. Hence this study is undertaken to analyze the working capital on the financial performance with special reference to the "Vazhakulam Agro and Fruit Processing Company Ltd. Nadukkara".*

I. INTRODUCTION

Finance is one of the basic foundations of all kinds of business activities. It is needed for production of goods and services and their distribution. The efficiency of production and marketing operations is directly influenced by the manner in which the finance function of the enterprise is performed. Thus finance function assumes an important role in business system and it has an equal importance with its activities. The financial need of a business is divided into two via, Fixed Capital which involves providing money for investments in the form of fixed assets for a longer period and Working Capital which is needed for day to day operations.

Management of funds' is an important aspect of financial management. In a business undertaking, educational institution or elsewhere this is the primary concern of financial management and it is concerned with the efficient use of an economic resource namely the capital fund. Hence efficient management of every business enterprise is closely linked with efficient management of capital fund. It has been rightly said that a business needs money to make money and money can be generated only with its proper management.

One of the important areas in managing the financial needs of a business is related to proper management of the working capital. It is considered as the nerve ofa business as it is mainly used for meeting the day to day expenses. It simply means the amount of fund necessary to cover the cost of operating the enterprise.

There are two concepts of working capital-Gross concept and Net concept. Gross working capital refers to the firm's investment in current assets.Net working capital refers to the difference between current assets and current liabilities. Current assets mean assets which can be converted into cash within a year and it includes cash in hand, cash at bank, marketable (short term), short term investments, bills receivable, sundry debtors, stock and prepaid expenses. Current liabilities are those obligations which are payable within are a short period. It includes outstanding expenses, bills payable, sundry creditors, short term advances, income tax payable, bank over draft etc…

Working capital management involves deciding upon the amount and composition of current assets and how to finance these assets. It is often regarded as one of the conditioning factors in the long run of operations of a firm which is often inclined to treat it as an issue of short run analysis and decision making.

A concern needs fund for its day to day operations. Adequacy or inadequacy of these funds would determine the efficiency of the business. Most of the companies in India suffer from working capital shortage; it is true especially in the case of government firms. Management of working capital is an essential task of the Finance Manager. She has to ensure that the amount of working capital available with his concern is neither too large nor too small for its requirements. So a firm must be careful in estimating its working capital requirements.

The project was undertaken mainly to study the financial performance of Vazhakulam Agro and Fruit Processing Company Ltd. Nadukkara with its impact on financial performance.

II. REVIEW OF THE LITERATURE

Yusuf and Hakan, (2011) described the short term creditors of a company like suppliers of goods of credit and commercial banks providing short-term loans are primarily interested in knowing the company's ability to meet its current or short-term obligation as and when these become due.

Ross et al., (2007) implied that the most researchers divide the financial ratios into four groups i.e. profitability, solvency, liquidity and activity ratios for detailed analysis.

Eugene F Brigham and Michael C Ehrhardt (2010) stated that financial ratios are designed to help in evaluating financial statements and used as a planning and control tool.

Nadia Zedek (2016) investigated the controlling shareholders affects product diversification performance of 710 European commercial banks, it was found that when banks have no controlling shareholder or have only family and state shareholders diversification yields diseconomies, while the involvement of banking institutions, institutional investors, industrial companies or any other combination of these shareholder categories, produce diversification economies: they display higher profitability, lower earnings volatility and lower default risk.

Abe De Jong, et al (2008) analysed the importance of firm-specific and country-specific factors in the leverage choice of firms around the world. Data suggested that firm-specific determinants of leverage differ across countries, and that there is an indirect impact of country-specific factors on the roles of firm-specific determinants of leverage.

Dimitios Louzius (2012) In his study of Banking sector in Greece found that for all loan categories, NPLs in the Greek banking system could be explained mainly by macroeconomic variables (GDP, unemployment, interest rates, public debt) and management quality.

Muhammad Saifuddin Khan, et al (2016) in his research paper examines the relationship between funding liquidity and bank risk taking in the U.S. bank holding companies from 1986 to 2014, results showed that bank size and capital buffers usually limit banks from taking more risk when they have lower funding liquidity risk.

Malcom and Jeffrey Wurgler (2002) found that effects on capital structure are very persistent. Results suggest that capital structure is the cumulative outcome of past attempts to time the equity market.

Zeitun (2007) investigated the effect which capital structure has had on corporate performance using a panel data sample representing of 167 Jordanian companies during 1989-2003. Results showed that a firm's capital structure had a significantly negative impact on the firm's performance measures, in both the accounting and market's measures.

Patra (2005) has studied about the impact of liquidity on profitability by using current ratio, acid test ratio. Current assets to total assets ratio, inventory turnover ratio, working capital ratio, receivable turnover ratio, cash turnover ratio of selected two company's viz., Tata Iron & Steel Company Limited for the period 1999 to 2005. Using mean, standard deviation, coefficient variation, correlation and coefficient of relation. He has concluded that Out of seven liquidity ratios selected for this study, four ratios namely current ratio, acid test ratio, current assets to total assets ratio and inventory turnover ratio showed negative correlation with profitability ratio. Whereas The remaining three ratios namely working capital turnover ratio, receivable turnover ratio and cash turnover ratio have shown positive association with the profitability ratio, all of which are statistically significant at 5% level of significance. He found that the impact of liquidity ratios on profitability showed both negative and positive association. However, these correlation co-efficient were not statistically significant. The result showed that all the correlation co-efficient is as desirable except correlation co-efficient between inventory turnover ratio 38 and ROI while undesirable sign between ITR and ROI was not supported by the multiple regression analysis, which indicated the positive association between these two variables. He mentioned that growing of profitability which was depends upon many factors including liquidity.

Kakani, Saha & Reddy (2003) have studied about an empirical validation of the widely held existing theories on the determinants of firm performance in the Indian context. In their study they have used financial statements and capital market data of 566 large Indian firms over a time frame of eight years divided into two sub-periods (1992-96 and 1996-2000) and to analyse Indian firm's financial performance across various dimensions viz., shareholder value, accounting profitability and its components, growth and risk of the sample firms. They have found that size, marketing expenditure and international diversification had a positive relation with a firm's market evaluation. They have also concluded that a firm's ownership compositions, particularly the level of equity ownership by domestic financial institution and dispersed public shareholders, and the leverage of the firm were important factors affecting its financial performance

III. STATEMENT OF THE PROBLEM

Industries do not introduce professionalism in its financial performance in the hope that it can be managed easily. But working capital management is one of the thrust area of financial management which require greater care and attention. Working capital assumes important once the company starts its operation. Whether it is Government institution or private institution, the day to day activities and profitability greatly depends upon the efficient management of the working capital of the firm. The present study attempts to investigate the "FINANCIAL PERFORMANCE OF VAZHAKULAM AGRO AND FRUIT PROCESSING COMPANY LTD., NADUKKARA, MUVATTUPUZHA."

IV. OBJECTIVE OF THE STUDY

- To analyses the working capital position of the company.
- To evaluate the short term solvency of the concern.
- To study about the profitability of the company.
- To know about financial performance of company.
- To know the liquidity position of the company.

V. SCOPE OF THE STUDY

The study dwells on assessing the working capital position, and to analyze the liquidity, solvency and efficiency in managing the working capital position on the basis of past five years financial statement. This study also interprets the schedule of changes in working capital of the company. The project work will be useful for the improvement in the performance of the firm.

VI. METHODOLOGY OF THE STUDY

Methodology refers to the various methods used by the researcher starting from the data collection and various techniques and tools used for interpretation and arriving at inference. The main sources of data are primary and secondary sources. The study of the functioning of the company is done on the basis of both primary and secondary data. The techniques used for data collection are many. The information required for the study is obtained from the following sources.

VII. LIMITATIONS OF THE STUDY

- The study is subjected to certain limitations. They are;
- The study is entirely based on quantities data, qualitative factors are not taken.
- The study is opened to the inherent weakness of secondary data.
- Since the study is confined to a single unit the interim comparison is not possible and the suggestion may not have universal applicability.
- Time is the major limit factor of the study .It is not possible to analyse all aspects in detail within the allowed time.

VIII. DATA ANALYSIS

NET WORKING CAPITAL

Networking capital refers to the difference between current assets and current liabilities. It is a qualitative concept which indicates the liquidity position of a firm. Net working capital can be negative or positive. It enables a firm to determine the exact amount available at its disposal for operational requirement. Current Assets includes cash in hand, cash at bank, sundry debtors, inventories, short term loans and advances. While current liabilities include sundry debtors, unclaimed dividend, security deposits and dividend not paid. Net Working Capital = Current Assets – Current Liabilities

Calculation of Net Working Capital

Year	Current Assets (Rs. in lakhs)	Current Liabilities (Rs. in lakhs)	Net Working Capital
2015-2016	737.45	696.56	40.89
2016-2017	734.95	703.54	31.41
2017-2018	753.06	702.88	50.18
2018-2019	720.37	331.25	389.12
2019-2020	692.37	301.33	391.04

Interpretation

Figure 4.1 shows the changes in working capital from 2015-2020. In 2016-17 it shows a balance which indicates that the use of working capital is more than the sources of working capital. It shows that the working capital is positive during 2018 to 2020, which indicates the efficiency of the firm. This negative balance is generally offset soon by gains in the periods.

RATIO ANALYSIS

Ratio analysis is the most powerful tool of the financial analysis ratio is defined as the relationship between two or more things. A ratio is used as a benchmark for evaluating the financial position and performance of the firm. With the help of ratios, one can determine the ability of the firm to meet its current obligations and overall operating efficiency and performance of the firm. Two types of ratio can be analyzed to measure short-term financial position of the firm. These ratios are-

LIQUIDITY RATIOS

An enterprise must have adequate working capital to run its day-to-day operations and it is the basis of survival of a firm. Thus, these ratios are used to judge a business units ability to meet its short-term obligations. The Important liquidity ratios are-

CURRENT RATIO

It represents the ratio of current assets to current liabilities and is known as working capital ratio. This is a measure of firm's short-term solvency. It indicates the availability of current assets in rupees for every one rupee of current liability. In a sound business, a current ratio of 2:1 is considered as ideal one.

Current Ratio = Current Assets/Current Liabilities

Year	Current Assets(Rs.in lakhs)	Current Liabilities(Rs.in lakhs)	Current Ratio (in times)
2015 - 2016	737.45	696.56	1.05
2016 - 2017	734.95	703.54	1.04
2017 - 2018	753.06	702.88	1.07
2018 - 2019	720.37	331.25	2.17
2019 - 2020	692.37	301.33	2.29

Interpretation

Figure 4.2 reveals that during the year 2016-2017 the current ratio declined to 1.05:1 is due to the increase in the current liability of the firm. Hence, we can conclude that the firm's liquidity position is average. But it has achieved the standard ratio 2:1 in the last four years.

QUICK RATIO

Quick ratio also known as 'acid test ratio is the ratio of quick or liquid assets to current liabilities. The term quick assets include all current assets except stock and prepaid expenses.

An acid test ratio of 1:1 is considered as ideal one.

Quick Ratio=Quick Assets/Current Liability

Year	Quick Assets (Rs. in lakhs)	Current Liabilities(Rs. in lakhs)	Quick Ratio (in times)
2015-2016	408.89	696.65	0.587
2016-2017	405.89	703.54	0.576
2017-2018	421.92	702.88	0.600
2018-2019	461.68	331.25	1.39
2019-2020	457.42	301.33	1.51

Interpretation

From figure 4.3, it is clear that the company achieved the ideal quick ratio 1:1 in all the year except 2015- 2018.The quick ratio in 2016- 17 is 0.55. But on considering the average quick ratios of the five year it is 2.11:1 which more than the standard form is and the firm's liquidity position is satisfactory. In the years 2018-2019 the quick ratio increased due to increase in quick assets and decrease in current liability. It should also be noted that holding of excess liquid cash with the company doesn't translate in to any productive results and only give raise to inefficiency.

INVENTORY TURN OVER RATIO

Inventory constitutes a major element of the total working capital. Inventories include raw materials, work-in progress, finished goods etc...Proper management of inventories is necessary so that the inventories maintained in firm should neither be excessive or inadequate.

This ratio indicates the number of times the inventory or stock is replaced during the year. It measures the relationship between goods sold and inventory level indicates whether investment in inventory is efficiently used or not. A right inventory turnover indicates good inventory management.

Inventory Turn Over Ratio = Cost of Goods Sold during the Year/ Average Inventory OR

Inventory Turn Over Ratio = Net Sales/ Average Inventory
Inventory Conversion Period = 365/Inventory Turn Over Ratio

Year	**Net Sales(Rs. in lakhs)**	**Average Inventory (Rs. in lakhs)**	**Ratio(in times)**
2015-2016	1685.68	1642.84	1.02
2016-2017	1643.24	1645.34	0.99
2017-2018	1519.57	1655.68	0.91
2018-2019	1485.66	1496.35	0.99
2019-2020	926.25	1293.43	0.71

Figure 4.5 reveals that there is high inventory ratio from 2015 to 2020 except 2018-2019. A high inventory turnover ratio indicates efficient management of inventory because more frequently the stocks are sold the lesser amount of money is required to finance inventory. Thus, the inventory turnover ratio is satisfactory.

FIXED ASSET TURN OVER RATIO

This ratio indicates the extent to which the investments in fixed assets contribute towards sales. If compared with previous years, this ratio indicates whether the investments made in fixed assets were judicious or not .Larger is the ratio, better is the utilization of fixed assets. Higher the volume of sales produced from the use of lower investment in fixed assets indicates the efficient management of fixed assets.

Fixed Asset Turn Over Ratio=Net Sales/Fixed Assets

Year	**Net Sales (Rs. in lakhs)**	**Fixed Assets (Rs. in lakhs)**	**Ratio (in times)**
2015-2016	1685.68	1138.97	1.48
2016-2017	1643.24	1083.97	1.51
2017-2018	1519.57	1026.60	1.48
2018-2019	1485.66	915.60	1.62
2019-2020	926.25	802.06	1.15

Interpretation

Figure 4.6 indicates the extent to which the investments in fixed assets contribute towards sales generally the higher the value of fixed asset turn over the more efficient is the management of fixed assets. From the above figures it is clear the ratio ranges from 1.03 to 1.60 during the five years.

<u>Working capital Turn Over Ratio</u>

This ratio is also called working capital average ratio. It measures the efficiency with which the working capital is used by the firm. It indicates the no: of times the working capital is turned over in the course of a year. I-11Higher the ratio is the more efficient is the utilization of working capital.

Working Capital Turn Over Ratio =Sales/Net Working Capital

Year	**Net Sales**	**Net working Capital**	**Ratio (in times)**
2015-2016	1685.68	40.88	42.22
2016-2017	1643.24	31.40	32.31
2017-2018	1519.57	50.17	30.28
2018-2019	1485.66	389.11	3.81
2019-2020	926.25	391.03	2.36

From the above graph it is clear that in the year 2015-2016 working capital turnover ratio is 42.22 and in the subsequent years 2016-2018 it is 30.28. From the above table, it is that there is an increasing trend in the utilization of working capital during the year 2015-2018. Generally, a higher ratio indicates efficient utilization of working capital, but at the same time too much utilization of net working capital will adversely affect the firms day to day operations and very high working capital turnover ratio is not a good situation. But during the period from 2018 to 2020 it decreased and ratio becomes 2.36. It indicates a good situation.

IX. FINDINGS

On the basis of the analysis of the financial data for the five years period from 2015 to 2020 of a "Vazhakulam Agro and Fruit Processing Company ltd., Nadukkara" the following findings are made; The component analysis of current assets shows that the major components are inventories, sundry debtors and cash. Gross working capital is satisfactory, but statement showing net working capital is decreased during the period 2019-2020. A very high working capital turnover ratio is not satisfactory; it may affect the day to day operations.

X. SUGGESTIONS

Based on findings mentioned before, the following suggestions are given for improving the working capital management of the company.

- It is found that the liquidity ratios of last 5 years (2015-2020) are below the standard norm. So the company must improve the current asset.
- Both debtor's turnover ratio and creditor's turnover ratio are satisfactory. So, it is advisable that the management to take necessary steps to maintain the liquidity position in the same direction.
- Steps should be taken to improve inventory turnover ratio of the company. For that, the company may adopt control techniques.
- The cash position of the company is satisfactory, however if the company tries to increase the level, it will help to improve the day to day affairs of the company.
- Steps should be taken to improve the efficiency of working capital management and the company must reduce its cost of production.
- There is an increasing trend in current liability, so the management must be cost conscious and should utilize its resource in an efficient manner.
- Since the profitability of the company is not satisfactory, the firm must give due attention for improving the profitability of the company.

XI. CONCLUSION

The present study is undertaken to study an overall financial performance and working capital position of Vazhakulam Agro and Fruit Processing Company Ltd., for a period of five years from 2015-2016 to 2019-2020.Both primary data and secondary data were used to analyze the working capital management of the company. Various tools such as ratio analysis, statement of changes in working capital etc… Based on various ratios, some important interpretations were made. Efforts are needed for increasing sales, which will improve profitability as well as turnover ratio of the company. The position of current assets decreased than its current liabilities during the period of 2016-2017.1t is clear that the company is not able to handle the working capital management efficiently in that year. Working capital is directly related to sales. The current assets like debtors, bills receivables, cash, stock etc change with the increase or decrease in sales. Adequate care has to be taken for improving the efficiency of working capital management. The position of current assets increased than its current liabilities during the period of 2018-2020.1t is clear that the company is able to handle the working capital management efficiently in the last year.

To conclude, it can be said that the firm has been on the way of development, expansion and cost cut programs which would facilitate better results in future.

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