A Study on Working Capital Management In Gangothri Textile., Coimbatore

Ms.P.Tharani[1], Ms.Shabana Rahamn[2]
[1]Dept of Management Studies
[2] Assistant professor, Dept of Management Studies
[1, 2] Karpagam College of Engineering, Coimbatore, Tamil Nadu

Abstract- *Working capital management is concerned with the decisions which are related with the current assets and current liabilities. It means, it concerned with day-to-day management activities. The key factor, which is use to differentiate long term financial management and short term financial management, is the timing of cash. The objective of the study is to analyze the Working Capital Analysis of Gangotri Textiles Limited, Coimbatore. The sample period of the study is 2019-2020 to 2023-2024. Analytical research design has been used. Financial statement of the company has been used as secondary data. Ratio analysis, Trend analysis and Statement Showing Changes in Working Capital have been applied as statistical tool to reach the findings of the study. It is found that the result of debtor turnover ratio were increased and collection period decreased in the year 2023-2024 when compared to previous year 2019-2020 ,it implies that payments by debtor are quick because the turnover is high and collection period is short. It is suggested that liquidity ratio here reflects the firm ability to meet short term current obligation. An analysis of these ratio revealed that the liquidity position have been satisfactory. It is concluded that the management may concentrate on keeping the working capital more scientific method. Proper analysis should be made in increases of sales, sales level before changing credit policy variable, credit policy helps to retained its old customer and create new customer by coming them away from competitors.*

Keywords- Working capital, Profitability, credit policy, Financial working capital.

I. INTRODUCTION

Working Capital

Working capital management is concerned with the decisions which are related with the current assets and current liabilities. It means, it concerned with day-to-day management activities. The key factor, which is use to differentiate long term financial management and short term financial management, is the timing of cash. Long-term financial decisions by buying capital equipment or issuing debentures, involve cash wish flows over an extended period of time. But a short term financial decision mainly involves the cash flow within a year, or within the operating cycle of the firm.

KINDS OF WORKING CAPITAL

- Net working capital.
- Gross working capital.
- Permanent working capital.
- Temporary or variable working capital.

II. REVIEW OF LITERATURE

Nakamura Palombini Nathalle Vicente and Nakamura Wilson Toshiro (2018) focus on the key factors of working capital management by exploring the internal variables of a number of companies. 2976 Brazilian Public Companies data were used for the study. And it was found that debt level, size in growth rate could affect the working capital management of the companies. The study aimed at contributing to the understanding of the short term financial decisions by investigating the key factors of working capital management. At the end of the study, it was found that companies with a high level of working capital were consistent with previous studies (CHIOU, CHENG and WU, 2006; NAZIR and AFZA, 2008). These findings corroborate the Pecking Order Theory and suggest that as companies increase their financial leverage, they tend to assume a more restrictive policy in working capital management in order to prevent capital consumption in accounts receivable and inventory and to avoid issuing new bonds and shares.

Singh Moirangthem B. and Singh Tejmani N. (2019) emphasize on the efficient management of working capital. According to them it means proper management of various components of working capital due to which adequate amount of working capital and liquidity is maintained in the larger interest of successful running of an enterprise. At the end he offers the following suggestions: The industry should try to maintain proper level of net working capital by trying to control the growth rate of current assets as compared to current liabilities to some extent. 2. The industry should also try to maintain balance between liquidity and profitability position by improving current ratio and quick ratio.

Morshed, A. (2020) The study aims to explain the relationship between accounting and finance through measuring the effect of rational working capital management on profitability. Employing the methodology of semi-structured interviews with sixteen financial managers. The findings pointed out the relationship between accounting and finance is complementary, since it supports the accountant by the critical skills and information, like project evaluation, managing the company funding resources and working capital management. These skills put the accountant up to the financial manager stage. The working capital investment and financing policies have the most significant impact on profitability. These policies related to risk and return theory; since the conservative policy will reduce both the risk and return and the aggressive one will have the opposite impact.

Muhammad Yousaf &Petr Bris, David McMillan(2021). The main aim of the current study is to explore the relationship between working capital (WC) and firm performance. We chose a sample of 326 Czech firms, including 20 certified firms from the EFQM (European Foundation for Quality Management) Excellence Model from the Albertina database. The sample of the Czech firms was taken from three sectors: manufacturing, automobile, and construction. We employed a two-step system generalized method of moment (GMM) technique to determine the results. The study results revealed a negative impact of WC on firm performance; moreover, the firms having a quality certificate from the EFQM Excellence Model perform better. The findings of previous research, which were held globally, and the current study results will encourage the directors, managers, and leaders of the Czech firms to participate in the quality award.

Sardo, F. and Serrasqueiro, Z. (2022), This study seeks to analyse the determinants of working capital of manufacturing small and medium-sized enterprises (SMEs), particularly the effect of the probability of financial distress on working capital. Using panel data models, the authors analyse a sample of 3994 manufacturing SMEs for the period 2011–2017. The results suggest that SMEs pursue conservative working capital management to avoid the failure to fulfil the commitments with creditors. Also, the positive impact of the probability of financial distress on SME working capital suggests that SMEs exposed to a higher probability of bankruptcy invest more in working capital to avoid the risk of default and financing imbalance.

SCOPE OF THE STUDY

This study focuses on evaluating the working capital, profitability, liquidity, and solvency of the selected unit. It examines whether the available working capital is adequate to support the unit's daily operations. The analysis of profitability aims to determine if the unit generates sufficient profits through the effective use of its working capital. The study also assesses liquidity and solvency to understand the unit's ability to meet its financial obligations on time, which reflects its overall financial health and the efficiency of capital management. Additionally, the study aims to propose practical recommendations for the optimal and effective use of working capital to improve the performance of the unit.

STATEMENT OF THE PROBLEM

In managing working capital, a firm typically encounters two major challenges:

First, based on the level of sales and cost-related factors, the firm must determine the optimal levels of cash, accounts receivable, and inventory it should maintain.

Second, once these optimal levels are identified, the firm must decide on the most cost-effective methods for financing these working capital needs. For maximum efficiency, a firm should avoid holding idle or unproductive assets and should utilize the least expensive sources of funds. This is particularly beneficial as investing in short-term assets and financing through short-term liabilities is generally more advantageous.

In addition to these key issues, the study also aims to explore and provide insights into the following concerns faced by the firm:

What is the firm's current short-term liquidity status?

What are the main factors impacting accounts receivable?

What strategies can be used to effectively manage and control debtors?

What is the firm's long-term solvency position?

What are the best practices for managing working capital efficiently?

LIMITATIONS OF STUDY

- The study is constrained by limited access to information and data.

- It focuses solely on the working capital management of selected units, and therefore may not be applicable to other organizations.
- The financial position portrayed in the annual reports reflects only the status as of the last day of the accounting year, which may not accurately represent the situation throughout the rest of the year.
- As a result, the conclusions drawn from this study should be viewed in light of these data limitations.
- The analysis is based on secondary data obtained from the company, which may further limit the scope of the findings.

RESEARCH OBJECTIVES

- To analyze the composition, sources, and application of the company's working capital.
- To evaluate the efficiency and performance of individual components of working capital.
- To determine the effect of working capital ratios on the company's profitability.
- To provide recommendations for enhancing the management of working capital.
- To assess the effectiveness of the company’s cash management practices.

III. RESEARCH METHODOLOGY

This study employs a comprehensive research approach to analyze Gangotri Textiles Limited, Coimbatore, using both primary and secondary data sources. A descriptive research design is followed, incorporating analytical tools such as ratio analysis, trend analysis, and fund flow statements to assess the financial performance of the company over the past five years. Data collection is ensured through probability and systematic sampling techniques to obtain a representative sample. The research is intended to provide meaningful insights into the company’s profitability and overall financial stability, thereby enhancing understanding of its operational efficiency. The study is conducted over a three-month period and is based on the company’s annual reports from 2019 to 2024.

Ratio Analysis:

Ratio analysis involves calculating and interpreting the relationship between various items or groups of items in the financial statements. It helps in understanding the financial position and performance by comparing two related figures and analyzing their connection.

Trend Analysis:

Trend analysis is a financial tool used to forecast future movements based on historical data. It operates on the principle that past performance can offer insight into future outcomes. Trends are typically categorized into three types: short-term, medium-term, and long-term.

IV. ANALYSIS AND INTERPRETATION

LIQUIDITY RATIO
CURRENT RATIO

In order to measure the short term liquidity or solvency of a concern, comparison of current assets and current liabilities is inevitable. Standard current ratio 2:1

Current ratio = current asset / current liabilities

CURRENT RATIO

Rs.inlakhs

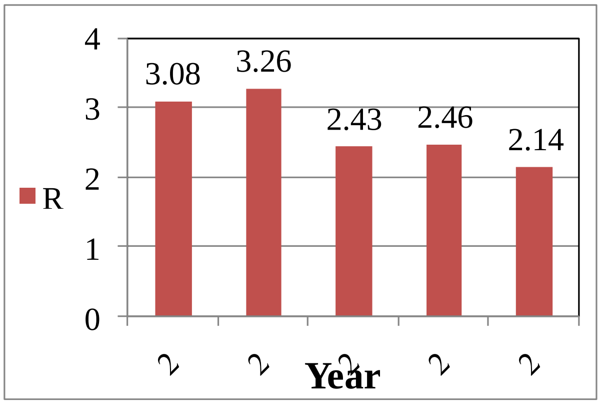
Years	Current assets	Current liability	Ratio
2019-2020	53326.21	17327	3.08
2020-2021	56451.22	17327	3.26
2021-2022	64676.05	26660	2.43
2022-2023	88368.91	35986	2.46
2023-2024	126862.5	59226	2.14

SOURCE: SECONDARY DATA

INTERPRETATION

The above table shows that the current ratio is 3.08 in the year of 2019-2020. It has increased to 3.26 in the year of 2020-2021. It has decreased to 2.43 in the year of 2021-2022. It has increased to 2.46 in the year of 2022-2023 and it has decreased to 2.14 in the year of 2023-2024.

CURRENT RATIO



QUICK RATIO

This ratio is also called quick or acid test ratio. It is calculated by comparing the quick asset with current liabilities. An Assets is liquid if it can be converted in to cash immediately with out any loss of value .cash is the most liquid assets. Generally a quick ratio 1:1 is considered to represent a satisfactory current financial condition.

Acid test ratio = Quick asset / current liabilities

TABLE 4.2
QUICK RATIO

Rs.in lakhs

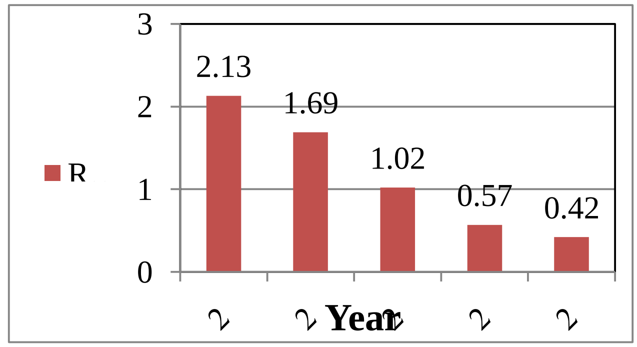
Years	Liquid assets	Current liability	Ratio
2019-2020	36914.3	17327	2.13
2020-2021	29289.4	17327	1.69
2021-2022	27236.61	26660	1.02
2022-2023	20620.68	35986	0.57
2023-2024	24753.44	59226	0.42

SOURCE: SECONDARY DATA

INTERPRETATION

The above table shows that the quick ratio is 2.13 in the year of 2019-2020. It has decreased to 1.69 in the year of 2020-2021. It has further decreased to 1.02, 0.57 and 0.42 in the year of 2021-2022, 2022-2023 and 2023-2024 respectively.

QUICK RATIO



TREND ANALYSES

Year	Net working capital (y)	X	X^2	Xy
2020	35999.2	-2	4	-71998.4
2021	39124.2	-1	1	-39124.2
2022	38016.1	0	0	0
2023	52382.9	1	1	52382.91
2024	67636.5	2	4	135273
TOTAL	**∑Y=233158.90**	Ex=0	Ex^2=10	**∑XY= 76533.31**

Solution. .Let the equation of the straight line of best fit, with the origin at the middle year 2019 and unit of X as 1 year, be

Y = a + Bx

By the method of least square, the values of a and b are given by

a =∑Y/ N and b =∑XY/∑X2

N = number of years = 5

Using [2], a =∑y/N = **233158.90**/5 =46631.78, and b =∑XY/∑X2 =**76533.31**/10 =7653.33

Substituting these values in (1),we get, the required equation of the best fitted straight line as :

Y= 46631.78+ 7653.33 x., with 2019 = 0

TABLE : TREND VALUES

YEARS	**X**	**TREND VALUES [Y=**46631.78+ 1066.49 x**]**
2020	**-2**	46631.78+ 7653.33 ***-(2) =31325.12**
	-	46631.78+ 7653.33 ***-(1) = 38978.45**

2021	**1**	
2022	**0**	46631.78+ 7653.33 ***-(0) = 46631.78**
2023	**1**	46631.78+ 7653.33 ***+(1) = 54285.11**
2024	**2**	46631.78+ 7653.33 ***+(2) = 61938.44**

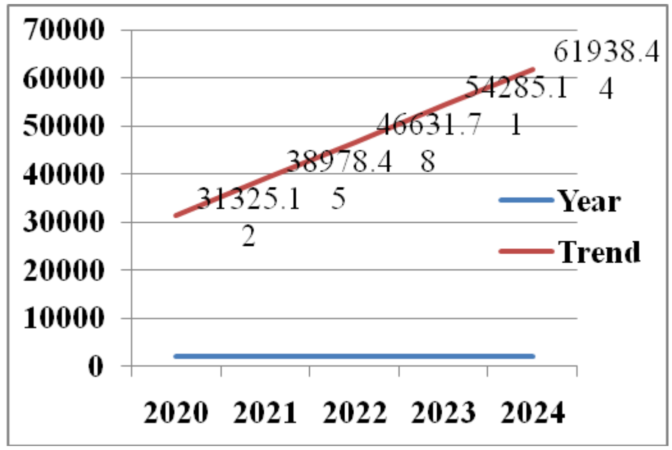
The trend analysis shows that there was an increase in working capital from the year 2019-2023. This shows that the company is in a good position.

Year	Trend Y= a+bx
 2020 2021 2022 2023 2024 2025 2026 2027	A B x 46631.78+ 7653.33 ***-** **(2) =31325.12** 46631.78+ 7653.33 ***-** **(1) = 38978.45** 46631.78+ 7653.33 ***-** **(0) = 46631.78** 46631.78+ 7653.33 ***+(1) = 54285.11** 46631.78+ 7653.33 ***+(2) = 61938.44** 46631.78+ 7653.33 ***+(3) = 69591.77** 46631.78+ 7653.33 ***+(4) = 7724.51** 46631.78+ 7653.33 ***+(5) = 84898.43**

Interpretation:

It is inferred from the table that the working capital for the next 5 years will be at on increasing trend.

TREND VALUE



V. FINDINGS

Liquidity Ratios

- Current Ratio:

The current ratio has shown fluctuations over the study period. It started at a healthy 3.08 in 2019-2020, which is well above the standard benchmark of 2:1. The ratio then improved slightly to 3.26 in 2020-2021. However, there was a consistent decline in the ratio over the subsequent years, reaching 2.14 in 2023-2024. Despite the decline, the ratio remains above the standard 2:1, indicating that Gangotri Textiles Limited, Coimbatore, still has a good short-term liquidity position.

- Quick Ratio:

The quick ratio started at 2.13 in 2019-2020, which is well above the satisfactory level of 1:1. However, the ratio declined sharply in subsequent years, reaching 0.42 in 2023-2024. This indicates that the company's liquid assets (excluding inventories) are becoming insufficient to cover its current liabilities as time progresses.

Trend Analysis

- Trend in Working Capital:

The working capital of the company has shown a positive trend over the years. In 2020, the working capital was Rs. 35,999.2 lakh, and by 2024, it had increased to Rs. 67,636.5 lakh, representing a steady upward trajectory.

VI. SUGGESTIONS

- Come to a suggestion, the company within a short span of time is making very good progress. The company hallmark was its highest ever turn over during the progress, further the capacity utilization of the plants and the various operational efficiency achievements further the capacity signify growth of the organization .it can take up the following suggestions based on the study

- Liquidity ratio here reflects the firm ability to meet short term current obligation. An analysis of these ratio revealed that the liquidity position have been satisfactory
- Turnover ratio indicates the turnover position of the company .here ratio reflects high turnover on the basis of five years is good
- The financial performance of the company is good ,so this company capture high market share and growth
- There should be close co-ordination between production, sales, inventory and credit collection .it should back by an efficient information system
- Fund is proper allocated to fixed assets and current assets. it should possible for the company to carry on the work smoothly without paucity.

VII. CONCLUSION

A Successful management of the working capital in any concern will ensure the success of business .in the analysis working capital management good. According to Gangotri Textiles Limited, Coimbatore working capital management is in good condition; the level of profit is increasing in nature. However to show the better business result, the management may concentrate on keeping the working capital more scientific method. Proper analysis should be made in increases of sales, sales level before changing credit policy variable, credit policy helps to retained its old customer and create new customer by coming them away from competitors. Bettor co-ordination between the each department is very important, like sales, production, purchase) because it helps to avoid the credit risk and it decrease the debt collection days.

REFERENCES

[1] **Briones, O.F., Camino-Mogro, S.M. and Navas, V.J. (2024),** "Working capital, cash flow and profitability of intensive MSMEs: evidence from Ecuador", *Journal of Entrepreneurship in Emerging Economies*, Vol. 16 No. 2, pp. 396-417.

[2] **Desai, R. and Mehta, B. (2024),** "Working capital policy of newly incorporated firms", Asian Journal of Accounting Research, Vol. 9 No. 1, pp. 13-24.

[3] **Amity Ijuwo (2024).** Effect of working capital management on profitability of listed consumer good companies in nigeria. Journal of Advance Research in Business Management and Accounting (ISSN 2456-3544) 10(2):12-25

[4] **Jabbouri, I., Benrqya, Y., Satt, H., Naili, M. and Omari, K. (2023),** "Determinants of working capital management for emerging markets firms: evidence from the MENA region", *Journal of Economic and Administrative Sciences*, Vol. 6(3).

[5] **Umar Nawaz Kayan (2023).** Working capital management and firm performance: evidence from emerging African markets. International Journal of Emerging Markets. vol 6(3).

[6] **Elizabeth N. Emongor (2023).** The Tacticality of Working Capital. International Journal of Scientific Research and Management (IJSRM), 11(11), 5365-5369.