ISSN: 2320-8090

Available online at http://www.journalijcst.com

International Journal of Current Science and Technology
Vol.3, Issue 5 , pp.11-13, May, 2015

IJCST

RESEARCH ARTICLE

A STUDY OF WORKING CAPITAL MANAGEMENT, UNDERGONE AT REDDY'S POLYMERS PROCESSING LTD., HYDERABAD INDIA

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ARTICLE INFO

Article History:
Received April 20, 2015
Received in revised form
April 25, 2015
Accepted May 15, 2015
Published online May 28, 2015

Key words:

Working Capital Management, Ratio Analysis, Liabilities

ABSTRACT

The management of the working capital of vital importance and forms a major work load function of finance manager and his teaming every organization. The working capital of any business is the capital requires funding its current assets. Working capital management is concerned with problem that arises in attempting to manage the current assets, current liabilities and inter relations that exist between them. Neglect of management of working capital need may results in technical insolvency and even liquidation of business unit. Inefficient working capital is dangerous for the organization. The management of the working capital is vital importance to companies and forms a major work load function of finance manager and accountant it is the amount of fund, which a company must have to finance its day-to-day operations.

Methodology: The project "Evaluation of Financial Performance using Ratio Analysis" is based on the information collected from the annual report and balance sheets of the company. The different ratios are calculated from the items of balance sheet and analysis is given, thus evaluating its financial performance. Analysis is a powerful tool in evaluating a firm's financial performance.

Results: The proportion of current asset, inventories and sundry debtors constitute nearly 94.53% where as the current liabilities in 2009 is 94.99%and the current asset in 2010 is 96.11% and the current liabilities 94.94% so the working capital is in increasing trend.

INTRODUCTION

Working capital management is signification in financial management due to the fact that it plays a vital role in keeping the business enterprise running. The management of the working capital of vital importance and forms a major work load function of finance manager and his teaming every organization. The working capital of any business is the capital requires funding its current assets. The term current assets refer to those assets in which the ordinary course of business can be or will be converted into cash within a year, without undergoing a diminishment in value and without disrupting the operations of the firm. The major current assets are cash, bank balance, mark able securities and account receivables, inventories, prepaid expenses and short term advances etc. Working capital management is concerned with problem that arises in attempting to manage the current assets, current liabilities and inter relations that exist between them. The net working capital is the difference between the current assets and current liabilities. Current liabilities are those liabilities, which are intended at their inception to be paid in the ordinary course of business within a year, out of the current assets or earnings of the concern.

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The current liabilities includes creditors of purchase of goods, accounts payable, bill payable, bank over drafts, short term borrowings, outstanding expenses, advances received against the sales, taxes due, dividends payable and other liabilities maturing within a year. Working capital is the life blood of the business organization. As a matter of fact, any organization whether profit oriented or otherwise, will not be able to carry on day to-day activities without adequate working capital. Neglect of management of working capital need may results in technical insolvency and even liquidation of business unit. Inefficient working capital is dangerous for the organization. The management of the working capital is vital importance to companies and forms a major work load function of finance manager and accountant it is the amount of fund, which a company must have to finance its day-to-day operations.

Need for working capital

The objective of financial management i.e., maximization of wealth of shareholders cannot be attained if the operations of the firm are not optimized. Thus every firm must have adequate working capital. It should have neither the excessive working capital nor inadequate working capital. Both the situations are risky and may have dangerous outcome. Investment in fixed assets only is not sufficient to run the business. Therefore working capital or investment in current assets is a must for the purchase of raw materials and for meeting the day to day expenditure or salaries, wages, rent etc.

RESEARCH METHODOLOGY

The project "Evaluation of Financial Performance using Ratio Analysis" is based on the information collected from the annual report and balance sheets of the company. The different ratios are calculated from the items of balance sheet and analysis is given, thus evaluating its financial performance. Analysis is a powerful tool in evaluating a firm's financial performance.

Polymer Processing Working Capital For The Last 5 Years

The total working capital maintained by the RPP Ltd yearly wise(in lakhs) 2005-06, 1063.08 in the year 2006-07, 1475.91 in the year 2007-08,3330.5 in the year 2008-09, 3361.7 in the year 2009-10,3651.89.

Table 1

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Current assets					
Inventories	721.56	1539.70	2171.42	2550.38	2333.41
Sundry debtors	677.80	1079.60	1452.81	1499.99	2897.94
Cash & bank	25.65	56.70	22.51	-33.35	4.92
Other current assets:	195.01	302.93	304.49	267.84	205.99
Total A:	1620.02	2978.93	3952.23	4284.86	5442.26
Current liabilities:					
Creditors	544.03	1483.00	573.16	876.75	1699.82
Prov for tax	12.91	20.02	48.57	46.41	90.55
Total B:	556.94	1503.02	621.73	923.16	1790.37
Working capital(A-B)	1063.08	1475.91	3330.5	3361.7	3651.89

Calculation of operating cycle

The total sales done by the RPP Ltd yearly wise (in lakhs) 2005-06,3694.54 in the year 2006-07,4773.61 in the year 2007-08,6872.71 in the year 2008-09,7020.43 in the year 2009-10,8041.76.and the total sales made in lost 5 years 30403.07 and average sales is 15201.5.

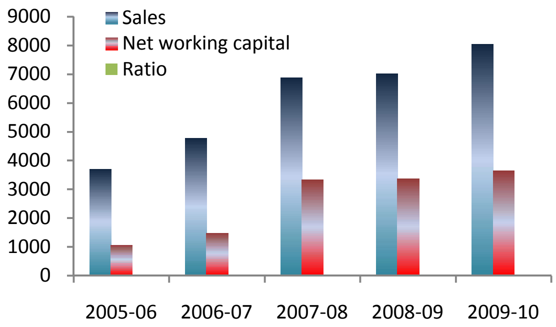

Figure 1 Working capital ratio

inventory low inventory turnover ratio indicates an inefficient management of inventory. In the current year the inventory turnover ratio the company shows gradual decreasing. This shows that there is a function on inventory turnover ratio

$$\frac{\sum X_i}{5} = 3.78$$

$$\frac{\sum Y_i}{5} = 2.60$$

Variance(X) = 2.38 Variance(y) = 0.3666

Standard deviation(x) = 1.54 Standard deviation(y) = 0.6

Copy(x,y) = -0.672

$$R = \frac{Cov(x,y)}{sd(x) * sd(y)}$$

$$R = \frac{-0.672}{1.54*0.6}$$

$$R = \frac{-0.672}{0.924}$$

R= -0.727 (R<0)

Table 2

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	Total	Average
Raw materials	395.19	610.70	933.72	1315.17	1222.95	4477.7	2238.86
Finished goods	204.60	462.41	667.05	714.92	677.28	2726.2	1363.13
Work in progress		305.12	507.33	514.33	455.62	1782.4	891.2
Receivables	677.80	1079.60	1452.8	1499.99	2897.94	7608.1	3804.07
Trade creditors	544.03	1483.00	573.16	876.75	1699.82	5176.7	2588.38
Raw material consumed	2453.56	1817.56	2073.3	2669.90	3420.65	12435	6217.52
Purchase of raw material	2517.40	2033.08	2396.40	3051.34	3328.44	13326.66	6663.33
Cost of goods sold	3619.51	4690.33	6770.8	6969.31	7758.76	29808.77	14904.38
Sales	3694.56	4773.61	6872.71	7020.43	8041.76	30403.07	15201.5

Table 3 Correlation coefficient between liquidity Ratio and current assets turnover ratio

Year	Current assets	To/new
2005-06	2.90	3.47
2006-07	1.98	3.2
2007-08	6.35	2.06
2008-09	4.64	2.08
2009-10	3.03	2.20

The working capital turnover ratio is highest in 2005-06 with 3.47 followed by 2006, 2007, 2008, 2009, 2010. There is decreasing in 2008, 2009. In 2010 it with 2.20. so the working capital turnover ratio is decrease from 3.47 to 2.20

Inventory turnover ratio

Inventory turnover ratio measures the velocity of conversion of stock into sales. High stock velocity indicates efficient management of inventory because more frequently the stocks are sold the lesser amount of money is required to finance

Findings

- In the year 2005 is the proportion of current assets, inventories, and sundry debtors constitute nearly 90%where as the current liabilities in 2005 98.3% and the current asset in 2006 is 86.37%and the current liabilities 97.68%. so the working capital is in increasing trend.
- During the year 2006 is the proportion of current assets, inventories and sundry debtors constitute nearly 86.37% and the current liabilities 97.68%and the current asset in 2007 is 87.92% and the current liabilities 98.86%. so the working capital is in increasing trend.
- In the year 2007 is the proportion of current assets, inventories and sundry debtors constitute nearly 87.92% where as the current liabilities in 2007 98.64% and the current asset in 2008 is 91.71% and the current liabilities 92.18%. so the working capital is in increasing trend.

- The proportion of current assets, inventories and sundry debtors constitute nearly 91.71% in 2008 where as the current liabilities in is 92.18% and the current asset in 2010 is 94.58% and the current liabilities 94.97% so the working capital is in increasing trend.
- The current ratio highest in 2007-08 with 6.35 followed by 2009, 2010, 2006 and 2007. During the year 2007 the current ratio is less than the standard norms 2:1. In the remaining years it is above the standard level. from 2008 onwards current ratio is decrease from 6.35 to 3.03.
- The quick ratio highest in 2007-08 with 2.86 followed by 2009, 2010, 2006 & 2007. During the year 2007 the quick ratio is less than the standard norms 1:1. In the remaining years from 2008 onwards quick ratio is decrease from 2.86 to 1.73.
- The working capital turnover ratio is highest in 2005-06 with 3.47 followed by 2006, 2007, 2008, 2009, 2010. There is decreasing in 2008, 2009. In 2010 it with 2.20. so the working capital turnover ratio is decrease from 3.47 to 2.20
- The inventory turnover ratio is highest in 2005-06 with 10.24 followed by 2006, 2007. There is decreasing in 2008 with 5.50 and there is increase in 2010 with 6.89. so the inventory turnover ratio is in increasing trend
- The debtor's turnover ratio is highest in 2005-06 with 10.90. There is decrease in 2007 with 8.8 and there is increase in 2008 and there is a decrease in 2010 with 5.54. So the debtor's turnover ratio is in decreasing trend.

Recommendations

- Company should use its entire long term sources fully on fixed assets and small portion on permanent current assets.
- The company should maintain the current asset ratio in 2:1 and quick asset ratio in 1:1.
- Company should invest most of its long term sources in current assets rather than fixed assets because the current assets helps to make uninterrupted flow production.

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