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WORKING CAPITAL MANAGEMENT

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ABSTRACT

The success and stability of the business depend on well designed and implementation of the working capital management. It is necessary for the profitability as well as to maintain liquidity power of the firm. The main aim of this study is to find out the working capital adequacy and its impact on profitability of the firm and to find out the relationship between profitability and liquidity of the firm. Inefficient working capital not only affects the profitability of the firm but also it creates financial crises. Main aim is to provide information about current assets and current liabilities of nestle India and dabour India.

KEYWORDS : -*Current Ratio, Receivable Turnover, Payable Turnover, Inventory Turnover, Cash Conversion Cycle, Return Of Capital Employed.*

INTRODUCTION:

This introduces you to the concept of working capital management i.e management of the capital needed by the firm for its day to day activities. Here you also study the management of cash, marketable securities, account receivable, account payable, accruals and different means of short term financing.

The most important points to remember while studying working capital management are;

1. Optimum level of investment in current assets.
2. The optimum use of short term and long finance to invest in current assets.

It also involves managing balance between short term and long term capital. The main aim of working capital is to ensure that firm is continue its operation and firm has sufficient cash flow to satisfy manufacturing short term and upcoming operational expenses. The interaction between current assets and current liabilities is the main theme of working management.

There are many aspect of working capital management which makes it important function of financial management.

1. Time: working capital requires much of finance manager's time.
2. Investment: credibility: working capital management has great significance for all firms bur it

is very critical for small firm.

3. Growth: the needs of working capital are directly relates to the growth of the firm.

large amount of working capital would means that company has ideal funds since funds has cost and the company has to pay large amount as interest on such funds and if the firm has inadequate working capital than such firm run at the risk of insolvency. They may leads to situation where the firm may not be able to meet its current liabilities.

Today every management desire to know their financial strength and to make use of available resources to the minimizes its weakness and adopt suitable measure to improve its industrial operations. The management can adopt various techniques like fund flow statement, cash flow statement, ratio analysis, common size, comparative statement, trend analysis, cost volume profit analysis etc for its financial evaluation and performances.

The ratio analysis is one of the most important tools of financial analysis. It is process of establishing and interpreting relationship between figures and groups of figures. Ratios are the indicator of the financial strength and weakness of the firm. It helps the management in planning, forecasting, controlling, and coordinating. If the ratios are properly analyzed and interpreted the management can improve its solvency position, improve its efficiency and growth in profit and minimize its weakness.

Taking this as central idea the research work on comparative analysis was conducted on nestle India and dabour India to examine and evaluate its current position in term of solvency, liquidity, efficiency and profitability by adopting ratio analysis. An attempt has been made to analyzed the financial results on a financial statements from 2010-11 to 2014-15

The following points are selected for the comparison of working capital management.

1. Current ratio
2. Receivable turnover (in days)
3. Inventory turnover (in days)
4. Payable turnover (in days)
5. Cash conversion cycle
6. Return on capital employed (profitability measure)

REVIEW OF LITERATURE

Many Researchers Have Studied Working Capital From Different Views And In Different Environments. The Following Study Were Very Interesting And Useful For Our Research: According To Eljelly, 2004, Working capitalmanagement Requires Planning And Controlling Current Assets And Current Liabilities In Such A Way That Eradicate The Threat Of Inability To Meet Short Term T Short Term Liabilities And Evade Excessive Investment In These Assets. According To Eljelly, 2004, Working Capital Management Requires Planning And Controlling Current Assets And Current Liabilities In Such A Way That Eradicate The Threat Of Inability To Meet Short Term Liabilities And Evade Excessive

Investment In These Assets. Narasimhan And Murty (2001), Focus On Improving Return On capitalemployed By Targeting Some Critical Areas Such As Cost Containment, Reducing Investment In Working Capital And Improving Working Capital Efficiency. Shin & Soenen (1998) And Deloof (2003) Have Found A Strong Significant Relationship Between The Measures Of Working Capital Management And Corporate Profitability.

According To Them Profitability Can Be Increased By Reducing Amount Blocked In Account Receivables And Inventories. Further, The Study Was Found To Be More Significant In Case Of Small Growing Firms. Amit, Mallik, Debashish And Debdas (2005) In Their Study Regarding The Relationship Between Working Capital And Profitability Of Indian Pharmaceutical Industry Found And Concluded That No Definite Relationship Could Be Established Between Liquidity And Profitability. Vishanani And Shah (2007) Studied The Impact Of Working Capital Management Policies On Corporate Performance Of Indian Consumer Electronic Industry By Implemented Simple Correlation And Regression Models.

They Found That No Established Relationship Between Liquidity And Profitability Exist For The Industry As A Whole; But Various Companies Of The Industry Depicted Different Types Of Relationship Between Liquidity And Profitability, Although Majority Of The Companies Revealed Positive Association Between Liquidity And Profitability. Reheman And Naser (2007) Found In Their Study Negative Relationship Between Profitability And Liquidity Of Firms And Also Ganesan (2007) Studied Working Capital Management Efficiency In Telecommunication Equipment Industry And The Study Revealed Significant Statistical Evidence And Negative Relationship Between Profitability And Liquidity. Bhunia (2007) Studied Liquidity Management Of Public Sector Iron And Steel Enterprise In India.

He Has Found That The Actual Values Of Working Capital Lower Than The Estimated Value Of Working Capital For Both Companies Under Study And Poor Liquidity Position In Case Of Both Companies. All The Above Studies Provide Base And Gives Idea Regarding Working Capital Management And Its Components. They Also Give Us The Results And Conclusions Of Those Researches Already Conducted On The Same Area For Different Countries And Environment From Different Aspects. On Basis Of These Researches Done In Different Countries, Researcher Has Developed Own Methodology For Research.

OBJECTIVES OF THE STUDY

The basic objectives of the paper are to comparatively examine and evaluate the working capital management of Indian FMCG companies based on the various parameters. It further seeks to assess the effect of negative working capital on profitability of the company.

RESEARCH METHODOLOGY

Balance sheet data source from the published annual report and statements of the company has been used for the analysis of working capital level of a company. Various ratios and net working capital over the past year has been calculated for the selected companies. The main research objectives of the paper have been achieved through the employment of quantitative method. The data assisted in investigating the cause effect relationship between profitability and working capital management, identifying the determinants of profitability associated with working capital of the company. Following data collection along with analysis method duly adopted has been discussed in brief. The survey of structural documentary review as leveraged to collect the data on working capital and profitability. Correspondingly the special attention paid to the review of companies audited statements like income statements and balance sheet. Once the data was acceptable and data entry and data process were made by using micro soft word. The analysis of data was undertaken with the help of ratio calculation.

SCOPE OF THE STUDY

The present comparative study was mainly confined to nestle India and dabour India. This is an attempt to have micro level imperial analysis in financial progress and performances of the firms. The finding and suggestions throw light on the guideline for future policy formulation and implementation for the effective functioning of the firm in other district of state and the country also, every effort has been made to conclude relevancy and suggest for the best performance in the most adoptable way keeping in view the market and production level.

LIMITATION OF THE STUDY

The ratio has been calculated and data has been collected for the period understudy i.e. from 2010-11 to 2014-15. The ratio has been calculated and interpretation of data is as per the historical statements hence the future performance of the firm not reflected. The financial statements are subject to window dressing. It will affect the result in process of analysis. The absolute figure may prove decorative as ratio analysis is not an end by itself. Anyhow every effort has been made to draw conclusions to all firm facing similar situations but non availability of financial data make difficulty on comparative analysis.

FINDINGS AND ANALYSIS

The component wise analysis of the working capital of nestle India can be observe from the following table for the period 2010-11 to 2014-15. The working capital found to be negative throughout the period under study.

TABLE: 1 short term liquidity position of nestle India

Year	Inventory	Sundry debtors	Cash &bank	Total current assets	Loans and advances	Total current liabilities	Net working capital
2010-11	575.95	63.29	445.82	1094.70	200.17	1751.62	-656.92
2011-12	734.04	115.42	749.36	1319.88	243.21	2156.95	-837.07
2012-13	745.58	87.57	236.96	1250.71	180.60	2351.32	-1064.61
2013-14	735.93	84.27	227.21	1799.17	229.61	2756.03	-956.86
2014-15	844.10	99.10	19.45	1586.26	197.24	2962.72	-1376.46

In the normal situation the negative working capital indicates looming insolvency threat or financial distress for the company and its stake holders. Paradoxically the company even with the negative working capital found to be generating excellent returns of capital employed for the period under study. The contrasting result of negative working capital and impressive return on capital employed signifies the managerial efficiency of the company.

TABLE: 2 working capital management efficiency of nestle India

Year	Current ratio	Receivable days	Inventory days	Payable days	Cash conversion cycle	ROCE %
2010-11	0.54	3.65	30.76	52.10	-17.69	135.06
2011-12	0.65	4.24	31.06	40.72	-5.42	64.60
2012-13	0.54	4.30	31.35	30.56	-5.09	56.58
2013-14	0.61	3.33	28.71	32.36	0.32	47.79
2014-15	0.62	3.29	28.33	34.11	-2.49	62.66

In the above table the current ratio of nestle India in 2010-11 was 0.54 and in 2014-15 its 0.62 which is below the ideal ratio of 2:1. This indicates that higher level of current liabilities as compare to current assets leading the company to earn high rate of return. These points to the fact that the company has managed to generate the cash quickly with the customers not turning into debtors, instead paying for the purchases upfront. Consequently, the company does not appear to face any issue in raising the cash. Hence it can be asserted that net working capital cannot always be associated with the profitability of the company. Negative working capital not always necessarily means bas financial conditions are proven by nestle India. On the contrary negative working capital high light the managerial efficiency in management of nestle indie's operations with low inventories and accounts receivables being maintained. In essence the company is basically operating strictly on cash basis. Also it can be said that the growth in working capital was managed sensibly by the company targeting days cover for inventories, accounts receivables and account payables instead of focusing on the above value. Further most of the day to day activities of the company have been found to be financed by customers instead of company's own working capital.

Further the cash conversion cycle of the nestle India was found to be negative throughout the study period. This indicates that product sold by nestle India are getting sold faster than that of nestle India paying it's for creditors. In other word we can say that nestle India is able to recover the money from the customer much faster than the payment to be made to its creditors.

DABOUR INDIA

TABLE:3 short term liquidity position of Dabour India

Year	Inventory	Sundry debtors	Cash &bank	Total current assets	Loans and advances	Total current liabilities	Net working capital
2010-11	306.37	103.29	80.62	727.65	237.37	723.87	3.78
2011-12	433.04	94.27	369.63	1192.26	295.32	817.89	374.37
2012-13	536.37	122.13	460.55	1371.40	252.35	1066.46	304.94
2013-14	493.57	139.26	205.26	1065.98	227.89	1460.81	-394.83
2014-15	489.51	142.94	495.36	1382.85	255.04	1538.69	-155.84

The above table shows that the net working capital is positive throughout the period under study except for the last two period of the study where it is turn out to be negative due to increase in total liabilities and simultaneous decline in total current assets.

TABLE: 4 working capital management efficiency of dabour India

Year	Current ratio	Receivable days	Inventory days	Payable days	Cash conversion cycle	ROCE %
2010-11	1.01	9.76	33.94	32.57	11.13	31.83
2011-12	1.46	11.63	43.54	58.62	-3.45	21.90
2012-13	1.29	10.42	46.69	72.81	-15.70	21.45
2013-14	0.73	11.09	43.71	84.18	-29.38	24.84
2014-15	0.90	10.95	38.15	83.56	-34.46	25.28

TABLE:4 Comparative analysis of the selected companies

Company	Average net working capital	Average account receivable in days	Average account payable in days	Average inventory in days	Average cash conversion cycle	Average ROCE in %
Nestle India	-978.38	3.762	37.97	30.04	-4.17	73.34
Dabour India	276.44	20.424	54.76	41.60	7.27	42.64

CONCLUSION

The net working capital of the nestle India company is negative throughout the period under study, this company is subsidiary of foreign parent company performing consistently for the past many years also the product sold by nestle India is faster of the shelves in the retail environment this make the cash recovery faster. Another thing here is that this company enjoys greater bargaining power with the supply of raw material as well as the debtor. This makes them negotiate payment term as per their convenience.

While the dabour India Company have positive working capital during the period under study this show that they have managing their operations efficiently.

The cash conversion cycle refers to net time leg in days between payment of firm to its creditors and receipt of cash from debtors. The negative cash conversion cycle indicates the managerial inefficiency of the company. Alternatively positive cash conversion cycle leads to efficient operating cycle of the company. The nestle India company shows negative cash conversion cycle, manager efficiently to finance their operating cycle through customer, saving sufficient cost on short term debts.

The return on capital employed represent ratio of company returns measures in earnings before interest and tax to the capital employed. The rate of return on capital employed of nestle India is more than dabour India. This shows managerial efficiency in earning the profitability which ultimately benefits the shareholder in form of higher dividend and higher amount of earning per share.

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