ISSN No:-2456-2165

A Review on Working Capital Management

T. Poojitha
Vignan (Deemand to be) University, Vadlamudi

Abstract:- Working capital is known as the life blood of the organizations. The Purpose of this study is to understand efficiency and utilization of working capital in the Kdmpmacu ltd.,Vijayawada .Analyze for six years form 2011-12 to 2016-17.This study is based on the secondary data of the firm. The literature reviles that working capital is directly affects the profitability and liquidity of the firm and this study concludes that working capital is very much effects to the development of the firm.

I. INTRODUCTION

- *Review of the Literature*

Generally main contains of finance are capital budgeting, capital structure and working capital Management. Capital budgeting and structure are associated with investment decisions and working capital Management deals with the short term financing decision and also current as well as current liabilities (gitma,2005) .it is the day-to-day investment required to running business. Thus, working capital management is known as Management of finance in short time period (Malik&bukhari).

According to firm's Management putting efforts to identify the element that effect and increases of efficient working capital Management policy, the ratio of current assets is low contrast or it contrast higher ratio of current assets to total assets is in low contrast or it contrast higher ratio of current liabilities to total liabilities. Current assets are the high ratio it may affect the firm none positively where the low rate shows the negative in liquidity and decrease in stocks which leads to organization to face challenges (belt, 1979).so study of working capital management it is essential for organization for effective management (Malik&bukhari) its effects on the firm's profitability, risk and consequently its value (smith, 1980for smooth running and meeting of organisations obligations (eijelly.2004)

The importance of the working capital management is to study about the daily financial analysts operations on accounts of its intimate associations of the firm in that the short-term financial management is essential due to most of the assets deals with fixed assets(Raheman&nasr,2007 To maximize the value of the organization it maintains working capital management. Huge inventory base and a liberal trade credit policy could cause lofty sales, whereas huge inventory in hand, reduce the prospect of a stock-out. On the other hand, trade credit shows the positive impact the sales of a firm; by this the client's permits to judge the products performance prior to payment (long ET. Al., 1993, and deloof&jegers, 1996)

In general strategy used by the firms the efficiency management of working capital management can be increase the market value of the firm (howorth&westhead, 2003; dolour, 2003; afza&nazir, 2007). According to the kienschnick, lap ante and mousse(2006), the extra invested dollar would be less than a dollar invested in working capital. The firm's working capital policy would be changed according to sectors and "its changes over the time"filbeck&krueger (2005). Firm's or sectors focus on the cash conversion while less competitive firm's focus on the minimizing receivables on the other hand high competitive has high level of receivables (gamesman, 2007). Focus of small firms on inventory management while the low profitable firms focus on credit management (lizards & tryfonidis, 2005). If the company can manage the working capital effectively and efficiently the profitability of the firm increases (gill, bigger, &Mathura, 2010).

All those studies show that there is an effective relationship between working capital and profitability.

Summary of 7 articles are:

Sl. no	Title of the paper	Author/s	Findings
1	Effects of working capital management on sme	Pedro juangarcia-teruel&pedromartínez-solano	This thesis shows that there is a negative relation between the profitability of the firm and number of days of receivable and inventory
2	Does working capital management affect profitability of Belgian firms?	Marc dolor	This thesis shows that there is a negative relation between number of days of receivable, inventory accounts payables and the operating income
3	"The relationship between working capital management and profitability of listed companies in the athens stock exchange"	Drioannislazaridis&mscd imitriostryfonidis	Low profitable firms take an advantage of credit period granted by their suppliers for paying bills. There is a negative relation between firm's profitability and the accounts receivables
4	An analysis of working capital management efficiency in telecommunication equipment industry	Vedavinayagamganesan	Efficiency of working capital management can be negatively associated to the firm's profitability and liquidity.
5	The impact of working capital management on corporate performance: a study of firms in cement, chemical and engineering sectors of Pakistan	Mohammad shaukatmalik&mahumbu khari	Compared to more and less profitable firms .the firm's bills are pay early by the more profitable firms then of less profitable firms. There is an negative ration between average pay period and firm's profitability.
6	Does working capital management affect the profitability of property and real estate firms in Indonesia?	Johan firmansyah, hermantosiregar& ferry syarifuddin (Indonesia)	(1) cash conversation cycle has a significant negative effect on opm, roa, and roe; (2) cater has a significant positive effect on roe and roe; (3) cltar has a significant positive effect on opt; (4) Data has a significant negative effect on opm and roa.
7	Affects of working capital management on firm's performance: evidence from turkey	Game viral, ahmetgökhansökmen&eminhüseyinçetenak	There is a negative relation between the firm's profitability and working capital management.

Table 1

The well-known measure of working capital is the cash conversation cycle (ccc) time lag between the expenditure for the purchases of raw materials and also the assortment of sales of finished goods. The lengthier is that this time gap, the larger in the investment in working capital (deloof 2003). Generally profit of the firm raise when the ccc is lengthier.

II. CONCEPT OF WORKING CAPITAL

According to IM Pandy there are two concepts of working capital- gross (investment in current assets) and networking capitals (difference between current assets and current liabilities)

- The current assets are that converts assets into money among the accounting year
- The current liabilities are that expected to mature among the accounting year

III. COMPONENTS OF WORKING CAPITAL

The management of current assets and liabilities are referred as working capital management. There is an appropriate relation between components of firm's working capital for economic guarantee capital adequacy (osisioma, 1997).

- Accounts payables: for sustaining smart relationship with the suppliers and creditors firms seeking to strike a balance between maintaining most cash flow by delaying the payments as long as possible to take care of positive credit ratings. (marc dolour and smith, 1999).

- Accounts receivables: account receivables are an essential to a company's smooth functioning in cash operation. These are recorded as assets on the records of the company, but they are not assets till they are collected.

ISSN No:-2456-2165

- Inventories: inventories are the company's primary assets that convert into the sales revenue.

- Cash: cash is very essential to perform all activities of the firm i.e, to acquire the raw material to the firms and to the marketing of the final goods.

- Marketable securities: The investment that are obtain, sell or exchanged simply with in the public exchange is named as marketable securities. Equity, preference shares and debentures are some examples of marketable securities.

IV. OBJECTIVES OF THE STUDY

- To analyse the ratios with the help of financial statements.
- To analyse the working capital position of the firm for last 6 years.
- To ascertain if the components of working capital are well managed.
- To examine the adequacy of working capital management in organization.
- To examine the composition of working capital items in organization.

V. LIMITATIONS

- This study is purely based on secondary data which is given by the firm.
- Only 6 years data 2011-12 to 2016-17 shall be taken into the consideration.
- This is only limited to the KDMPMACU ltd., Vijayawada.

VI. ANALYSIS

Working capital statement of the KDMPMACU ltd, from 2013-14 to 2018-19

Particulars	Year 2013-14	Year 2014-15	Year 2015-16	Year 2016-17	Year 2017-18	Year 2018-19
A)current assets:						
Inventories	17,22,56,321	18,79,34,012	23,98,80,075	23,69,75,762	32,74,12,543	34,19,06,868
Sundry debtors	2,49,37,024	2,68,60,540	3,59,92,686	3,62,58,591	2,23,61,498	8,30,13,158
Cash & bank balance	3,34,65,753	60,59,037	71,50,276	1,39,98,934	7,38,91,461	15,60,06,572
Other current assets	2,86,56,816	4,86,79,846	6,96,40,943	9,36,87,132	15,15,68,707	21,98,55,601
Loans & advances	1,49,28,012	1,17,23,019	1,25,29,745	1,08,64,119	1,39,66,691	1,62,18,625
Total current assets	27,42,43,926	28,12,56,454	36,51,93,725	39,17,84,538	58,92,00,900	81,70,01,823
B) current liabilities :						
Current liabilities	10,83,91,431	13,96,24,184	20,24,49,314	15,84,52,146	14,33,60,960	12,59,82,205
provision for taxation	72,56,927	1,20,18,960	90,73,986	2,15,80,520	9,08,60,140	12,78,93,051
Total current liabilities	11,56,48,358	15,16,43,144	21,15,23,300	18,00,32,666	23,42,21,100	25,38,75,256
Net working capital (a-b)	15,85,95,568	12,96,13,310	15,36,70,425	21,17,51,872	35,49,79,800	56,31,26,567

Table 2:- Source: compiled from the company working capital

VII. INTERPRETATION

From the above shows that the current assets and current liabilities of the are in the increase trend leads to increase (day by day) of net working capital of the company. The current assets are always in the increasing trend from 2013-14 to 2018-19. The current liabilities are increased from 2013-14 to 2015-16 but in the year 2016-17 it was decreased by incrs3,14,90,634/- and then from 2017-18 it was in the increasing trend. The working capital is defined as the difference between the current assets and current liabilities. The net working capital is trend is also increases day- by- day for the organization. The positive working capital is a sign to the financial strength of the organization or a firm. But having an excessive amount of working capital for a long time might be an indication of ineffective management of assets of the firm.

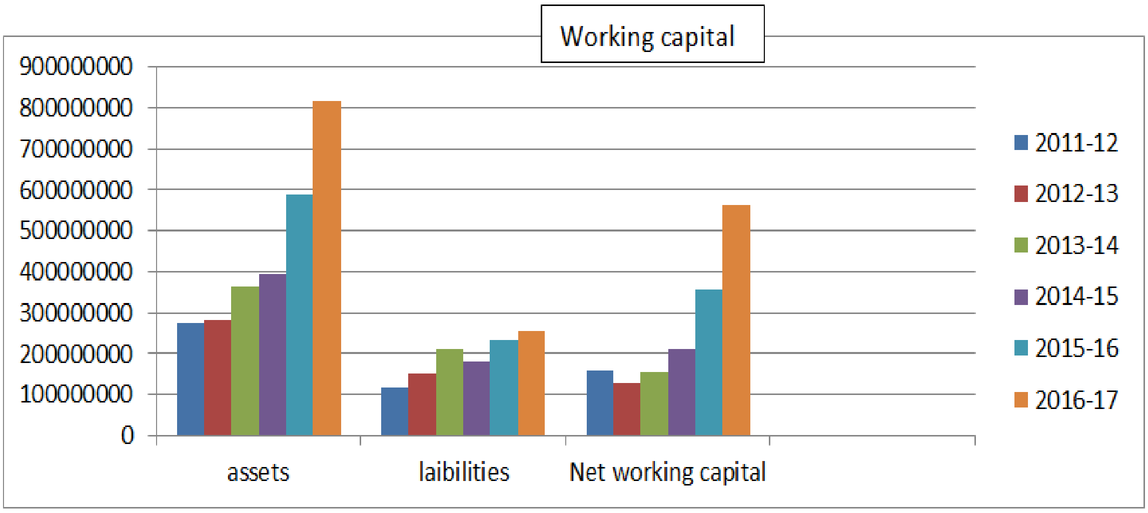

Fig 1:- Source: compiled from the company working capital statements

➢ *Ratio Analysis:*

The true positions of the firms does not presented in the financial statements. The firm's performance can be evaluated by proper analysis and interpretations of financial systems. Even there are many tools the most useful, popular and appropriate tool to extract the information from the financial statements is ratio analysis. Liquidity ratios, leverage ratios and profitability ratios are the three broad categories of financial ratios.

Particulars	Year 2013-14	Year 2014-15	Year 2015-16	Year 2016-17	Year 2017-18	Year 2018-19
Current ratio	2.37136	1.854726	1.726494	2.176186	2.515576	3.218123
Quick ratio	0.881877	0.615408	0.592434	0.859893	1.117698	1.871372
Debt equity ratio	1.918233	2.066195	2.768668	2.789122	1.720115	6.385628
Debt assets ratio	0.028232	0.030857	0.03885	0.038045	0.019482	0.059684
Return in capital employed	0.255409	0.624553	0.926962	1.185696	0.725405	0.8061
Return on shareholders' equity	1.368501	2.735251	3.198378	4.423481	1.846482	2.094487

Table 3

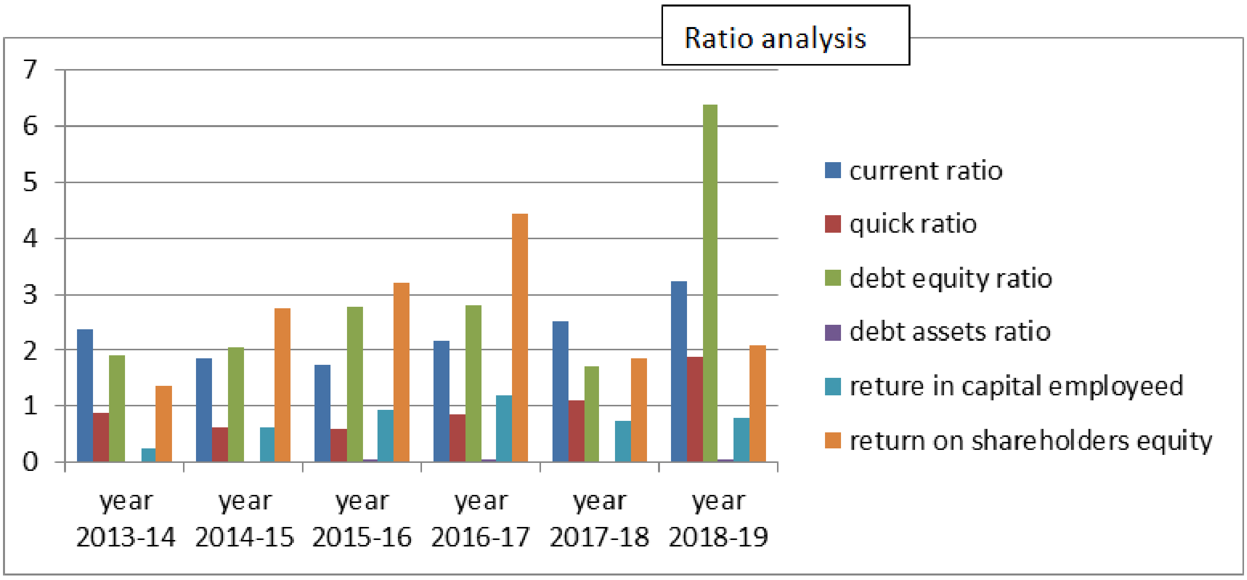

Fig 2

VIII. FINDINGS

- Current ratio of the company is in decrease ratio from 2013-14 to 2015-16 then from 2015-16 till now it is increases.
- Quick ratio of the company is decreases from 2013-14 to 2015-16 then it is increases from 2015-16 to 2018-19 and in 2018-19 the quick ratio is high.
- Debt-equity ratio is increased from 2013-14 to 2016-17 and then decreased in 2017-18 and there is a high increase in 2018-19.
- Debt-assets ratio is increased from 2013-14 to 2016-17 and then there is a fall in debt assets ratio and then it is increased heavily in 2018-19.
- Return on capital employed is increased from 2013-14 to 2016-17 and then it is decreased in 2017-18 and increased in 2018-19.
- Return on shareholder's equity is increased from 2013-14 to 2016-17 and then in 2017-18 it is in decrease and then in 2018-19 it is in increasing trend.

IX. CONCLUSION

Working capital management of the company plays an important role in the financial position of the company of the firm. The 3 components of the working capital management are the cash management, receivables management and inventory management. If the finance manager maintains these three components of working capital management properly means the priority can get dramatic improvement in their sales volume and additionally in the business. The literature reveals that the working capital management shows impact on the profitability and liquidity of the organisation. Particularly in this organisation current assets are higher than the current liabilities. Thus, working capital flows into the organisation is incredibly effective, however the surplus amount invested in the working capital indicates the unskillfulness of the financial management within the organisation. Here we tend to bear in mind the old chestnut of kienschnick, laplante and moussawi (2006), the extra dollar invested in working capital would be less that a dollar.

SUGGESTIONS

- The current ratio represent positive and current ratio of the company is satisfactory
- The profits of the company are increasing year by year. It is good for the company and it is better to keep the working capital concept to protect the present profits.
- Current ratio of the company is satisfactory and it has to maintain it further.
- The working capital of the company is increasing every year this amount to be invested effectively.

REFERENCES

[1]. Deloof,marc."Does working capital management affect profitability of Belgian firms?" Journal of business finance &accounting, 30(3-4), 573-588.
[2]. Juan garcia-teruel, pedro, and pedromartinez-solano. "effects of working capital management on same profitability". International journal of managerial finance 3.2(2007), 164-177.
[3]. Lazard's, ionise, and dimitriostryfonidis. "Relationship between working capital management and profitability of listed companies in the athens stock exchange." journal of financial management and analysis19.1 (2006).
[4]. Bagchi, bhaskar, jayantachakrabarti, and piyalbasuroy. "influence of working capital management on profitability: a study on indianfmcg companies." international journal of business and management 7.22 (2012)
[5]. Ganesan, vedavinayagam. "an analysis of working capital management efficiency in telecommunication equipment industry." rivier academic journal 3.2 (2007): 1-10.
[6]. Malik, mohammadshaukat, and mahumbukhari. "the impact of working capital management on corporate performance: a study of firms in cement, chemical and engineering sectors of Pakistan." Pakistan journal of commerce and social sciences (picas) 8.1 (2014): 134-148.
[7]. Edam, our, and senmehmet. "Relationship between efficiency level of working capital management and return on total assets in ise." international journal of business and management 4.10 (2009).
[8]. Firmansyah, Johan, hermantosiregar, and ferry syarifuddin. "does working capital management affect the profitability of property and real estate firms in Indonesia?." jurnalkeuangandanperbankan 22.4 (2018)
[9]. Fatimatuzzahra, micas, and retnokusumastuti. "the determinant of working capital management of manufacturing companies." member: jurnalsosialdanpembangunan 32.2 (2016): 276-281.vural,
[10]. Gamze, ahmetgökhansökmen, and eminhüseyinçetenak. "affects of working capital management on firm's performance: evidence from turkey." international journal of economics and financial issues 2.4 (2012): 488-495