A STUDY ON ANALYSIS OF WORKING CAPITAL MANAGEMENT IN TRADING COMPANY

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Abstract
The evaluation provides the administration with food for thought regarding the presentation of the organization's operating capital. The problem of managing current assets, current liabilities, and their interactions is dealt with through working capital management. Current assets can be converted into cash without depreciating in value within a year. Current assets include things like cash on hand, cash in the bank, various debtors, bills, receivable, shares, pre-paid charges, etc. The phrase "current liabilities" refers to debt commitments that must be paid off within a year in the usual course of business using the company's current assets or earnings.
Every company needs money for two things: starting up and maintaining everyday operations. For this to happen, it is essential that the company's short-term assets and obligations are managed. Any firm must have working capital. A respectable manufacturing company needs some basic funding to make the goods before beginning to sell them. It is responsible for covering the costs of production, management, and sales. The purpose of this study is to examine how public companies manage their working capital. This study helps identify areas that might want improvement. Additional suggestions were made, which the company may include into a future plan to increase the effectiveness of all resources.
The key pillars of working capital management theory are the optimal quantity of current assets, a compromise between revenue and security that relies on the ratio of current financial assets to current obligations, and funding mix methods.
Keywords: Profitability, Working Capital, Current Ratio, Current liabilities, liquidity

Introduction

Any firm will periodically require short-term assets and short-term finance sources to carry out its daily operations. The management of working capital is a key aspect of the study of financial management. It could also be relevant to the process of making long-term decisions given that both fields examine risk and profitability.
Working capital requirements differ from company to company based on the nature of the business, the production policy, and the state of the market. Working capital is the phrase for the percentage of a company's capital that is required to finance certain assets, such as cash marketable securities, debtors, and inventory. Working capital is sometimes referred to as short-term or current assets.

Objectives of the study

- To understand the management of working capital in the company.
- To investigate and forecast the movements of an element based on current and historical data
- To know about the liquidity and solvency position of the company
- To comprehend the state of the business's profitability

Scope of study

- The study's primary objective is to evaluate past and current performance
- The main scope of the study was to put into practice the theoretical aspect of the study into practical implementation.
- Techniques like ratio analysis and a description of changes in working capital are the foundation of working capital analysis. Further, the study is based on the 5 years Annual Reports (2016- 2021)
- To improve business using trend data in decision-making.

Need for the study

 The study provides a managerial understanding of the working capital efficiency of the organization. Monitoring current assets, current liabilities, and their interactions are a component of working capital management.

 A successful working capital policy guarantees a company's increased profitability and enough liquidity.

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Review of literature

Shrivastava, et al (2017) This study examined the working capital effect on viability in Indian businesses between 2003 and 2012. Traditional panel data and Bayesian methods were used for the data analysis. The study argues that indicators of financial accuracy play a significant role in estimating profitability. Larger businesses seem to be more profitable and significant, according to the Bayesian approach.

Shivakumar, et.al. (2016) The effect of managing working capital on revenue and liquidity A study of Coal India Ltd is a piece of writing that aims to explain working capital management conceptually and evaluate how it affects the company's liquidity and profitability. All organizations now consider the liquidity and profitability trade to be crucial, and efforts have been made to test
the liquidity and profitability position using correlation and Spearman’s rank method. Liquidity and profitability have a low correlation and a bad relationship, according to the correlation Spearman ranking method. The total test has also been applied to gauge the effectiveness of liquidity.

Jason Kasozi (2017), This study examined the effect of working capital management on profitability in 69 listed manufacturing companies in South Africa between 2007 and 2016.

According to his research, ACP and APP have a significant negative impact on profitability as determined by the return on assets. In addition, Kasozi found that the total duration of inventory, which serves as an indicator of working capital management, has a significant positive impact on profitability.

Research Methodology

The methodical process of gathering and examining data to get a deeper understanding of the subject that interests or concerns us is referred to as "research." It is the devoted search for knowledge. It is a thorough examination or inquiry, particularly one that looks for new facts across all fields of study. Both descriptive and analytical elements are present in the study. Given that it evaluates and examines supporting evidence to get the proper conclusion, it is analytical and descriptive in terms of the theoretical notion. Data is interpreted using ratios and percentages.

Method of Data Collection

The company's annual reports, balance sheets, profit and loss statements, booklets, and other published papers as well as internally maintained files and reports served as the primary sources of secondary data. The annual report is primarily divided into two sections:

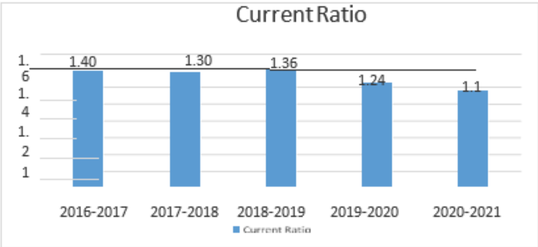
- Profit and loss account
- On a financial report sheet, the balance for money earned and spent shows the company's income and spending. The statement of assets and liabilities depicts the financial health of the organization. These two statements were written by highly competent people who relied on readily available facts or expertise.

Analysis and interpretation

Year	Change in Working Capital	
	Increase in Working capital	Decrease in Working Capital
2017-2018	10.8	
2018-2019		1.77
2019-2020	12.94	
2020-2021	10.56	

Ratio Analysis

CURRENT RATIO			
Rs. Lakhs			
Year	Current Assets	Current Liabilities	Current Assets
2016 - 2017	155	110	1.40
2017 - 2018	141.10	108	1.30
2018 – 2019	131.02	96.15	1.36
2019 – 2020	109.70	87.78	1.24
2020 - 2021	102.21	90.85	1.12



Interpretation

With respect to the above figure, the current ratio increases every third year during the study period. In 2016-2017, the current ratio was 1.40%, but in 2020 and 2021 it started to decrease. Nevertheless, the company is above the industry standards. This would affect the profitability of the company.

Trend Analysis:

Year	CURRENT ASSET	TREND %
2017	155	100.00
2018	141.2	91.09
2019	131.02	84.52
2020	109.7	70.77
2021	102.21	65.94

Interpretation

The base year is derived from the previous trend analysis. Current assets were reduced in 2021, 2020, and 2019. The trend rate for 2021 for current assets is 65.94.

Conclusion

Working capital management is essential for preserving a company's financial stability throughout routine business operations. The business should maintain a level of working capital sufficient to produce up to a certain capacity in order to maximize the return on investment in fixed assets. Reduced capacity utilization is a result of low working capital availability.

In order to maintain the company's financial stability and continue producing goods, there must be enough cash on hand to cover the costs of material, labour, selling, administrative, and other business-related expenses. The prompt payment of invoices to material suppliers ensures a continuous supply of raw materials and a fixed credit for the future or for normal operations.

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