

**ANALYSIS OF WORKING CAPITAL MANAGEMENT AT KESORAM INDUSTRY LIMITED**

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**Abstract**

Working capital can be considered the most important factor in a business. Its effective delivery and use can go a long way in ensuring the success of a business. While efficient management can not only lead to the loss of projects, but also the demonstrable demise of what would otherwise be considered a promising problem. A working capital study is of paramount importance, due to its close relationship with a firm's current day-to-day operations. Working capital stands for that form of capital which is required for the business or current financial needs of the company. It is usually invested in commodities, work in progress, finished assets, active accounts and salvable securities. The management of working capital usually involves the planning and control of current assets, i.e. cash and negotiable securities, credit assets and inventories, as well as the administration of current liabilities. The management of working capital or current assets is one of the most important aspects of overall financial management. It deals with the problem that arises in trying to manage current assets. The reporting year includes the creditors account payable and outstanding expenses. The purpose of working capital management is to manage the current assets and liabilities of a company in such a way as to cover its current liabilities in order to ensure that they are received and used in the best possible way. Owing to the importance of the working capital to a firm the present paper aims at analyzing the working capital management at Kesoram Industry Private Ltd., located in Hyderabad for the duration 2017-2021. The study used ratio analysis to analyze the working capital management system prevalent in the company during the afore-mentioned period.

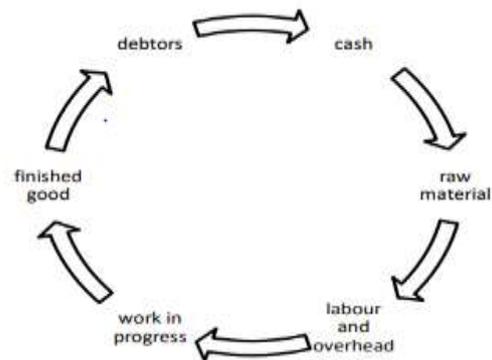
**Keywords:** Working Capital, Operating Cycle, Profitability, Operating Profit.

**I. Introduction**

The life or death of any business firm depends on the cash availability. A Firm or business enterprise that incurs losses still survives due to the sufficiency of cash. Likewise, a lack of cash can lead to failure in the face of actual or future earnings. Efficient cash planning through relevant and timely cash budgeting can enable a business obtain optimal working capital and alleviate the stress of cash shortages, making it easier cash investment and test funds for normal growth. Many organizations / firms are interested in increasing their profits. However, there are only a few Companies are worried about managing working capital. Many firms fail because they are bad Working capital management. They can be profitable, but they unable to pay their invoice. The management of working capital involves the relationship between a company's short-term assets and its liabilities.

The goal of working capital management is to ensure that a company is able to continue as a going concern and that has sufficient capacity to satisfy both short-term debt and upcoming operating expenses. Working capital management includes accounts receivable, payable and management of inventory and cash. Working capital is the amount of capital that is readily available to an organization. The organization needs both a long-term and short-term funds. Funds are needed for the long-term purposes of fixed assets such as machinery, equipment, building, land and furniture. Funds also needed for short-term purposes such as purchasing raw materials, paying wages and other daily expenses. The motive of working capital management is to maintain the optimal ratio of each of the components of working capital.

**Working capital operating cycle:**



**II. Review of literature:**

Nufazil Altaf and Farooq Ahmed Shah (2018) found that how does working capital management affect the profitability of Indian companies, the purpose of this paper is to examine the relationship between working capital management (WCM) and firm profitability for a sample of 437 nonfinancial Indian companies. The study based on secondary financial data obtained from capital database pertaining to a period of ten years this study employer's two-step generalized methods of moments (GMM) technique to arrive at results. The result of the study confirms the inverted U-shape relationship between WCM and firm profitability. in addition complete it's CCC on an average by 63 days.

MrShivakumar And Dr N BabithaThimmaiah (2016) in their paper titled working capital management its impact on liquidity and profitability a study of coal India ltd makes an attempt to give a conceptual insight on working capital management and assess its impact on liquidity and profitability of coal India ltd the liquidity and profitability trade of has becomes an important aspect for all the organization the attempt also has been made to test the liquidity and profitability position by using correlation and spearman's rank method the correlation spearman ranking method indicates weak correlation and negative relationship between liquidity and profitability the total's test has also been applied to test the liquidity performance.

Mukti R Barot (2016) In this study the researcher tried to carry out a comparative analysis on working capital management © JUN 2021 | IRE Journals | Volume 4 Issue 12 ISSN: 2456-8880 IRE 1702800 ICONIC RESEARCH AND ENGINEERING JOURNALS 257 of reymond and vardhman textile limited the aim of this study is to analyze which companies performance is better than other company for this analysis researcher have use only of secondary data of ten years 2006-2015 for data analysis researcher have selected the technique of ratio analysis.

Apurba Kumar Sharma (2015) examined the efficiency of working capital management of some select proprietary tea estates registered under tea board on India, operation in Jordan district of assume during 200809 to 2012- 13. instead of calculating common method of analyzing different working capital management ratio three index value performance index, utilization index and efficiency index have been to working capital requirement of a firm where as operating cash flows and sales growth are positively related to working capital to recruitment.

Hina Agha (2014) reviewed the impact of working capital management of profitability the main purpose of the study is to empirically test the impact of working capital management on profitability, keeping in mind this objective he studied the Glaxo-smith –line pharmaceutical company registered in Karachi stock exchange for the period of 1996-2011. the interpretation of the result is that by

increasing the debtor's turnover, inventory turnover by decreasing creditor's turnover ratio's the company can increase its profitability but there is no significant effect of increasing or decreasing the current ratio on profitability therefor the result of the research indicate that through proper working capital management, the company can increase its profitability.

Madhavi K. (2014) makes an empirical study of the co-relation between liquidity position and profitability of the paper mills in Andhra Pradesh. It has been observed that inefficient working capital management makes a negative impact on profitability and liquidity position of the paper mills. Gurusurthy N. and Reddy Jayachandra K. (2014): have conducted a study on the working capital management of four pharmaceutical companies APSPDCL, APEPDCL, APNPDCL and APCPDCL and have come to the conclusion that the existing system of working capital management was not up to the mark needed to be improved.

Joseph Jisha (2014) closely examines the study of working capital management in also Leyland and point out that the liquidity and profitability position of the company is not satisfactory and needed to be strengthened in order to be able to meet its obligation in time. Rahman Mohammad M. (2011): focuses on the co-relation between working capital and profitability. An effective working capital management has a positive impact on profitability of firms from the study it is seen that in the textile industry profitability and working capital management position are found to be up to the mark. Uyar Ali (2009): examines the relationship of cash conversion cycle with firm size and profitability of the corporations listed in the Istanbul stock exchange (ISE) for the year 2007.

Davoudi (2013) asserted there is a significant and negative association between the inventory time and profitability evaluated by return assets at the industrial enterprises listed on Istanbul securities. Furthermore, the workshop experimental result demonstrates that the total inventory period and total firm operating income have a statistically significant relationship; this result indicates that businesses may be active with less benefit as a result of decreasing sales because the firm's inventory volume is expanding.

According to Abuzayed (2012), cash capital management assessed by receivables, the currency conversion cycle, and credit account maintenance have a significant beneficial impact on organizational performance as evaluated by both return on assets and return on investment. However, as evaluated by the inventory conversion period, working capital management has a statistically significant and favorable impact on investment returns, but a minimal influence on the performance of sample enterprises in Ethiopia as measured by asset returns.

### **III. Need for the study:**

- ✓ Understanding the financial health performance and profitability of the firm is essential to leverage the capabilities.
- ✓ Analyzing the balance sheets using ratios so as to know firms assets and their allocation status which again depicts the financial health of the firm.
- ✓ Financial analyst analyses the financial statements using various tools of analysis before commanding upon the financial health of the firm.
- ✓ The study can assist the management in expansion decisions.

### **IV. Scope of the study**

- To study the Working Capital Management the data is confined to five years (i.e) 2017-2021
- Kesoram Industries Private Ltd-Hyderabad.
- Ratio analysis-Liquidity ratio, Leverage ratio, Current ratio, Activity ratio, Profitability ratio.

- The sample data comprises of five years balance sheets of kesoram industry limited
- ❖ **Objectives of the study**
- ❖ To understand the planning and management of working capital at “Kesoram Industry LTD”.
- ❖ The study delivers better understanding of the concept “Working Capital Management”.
- ❖ To improve the allocation of working capital within the business.
- ❖ To evaluate the financial performance of the company in terms of cash flows.

## **V. Research methodology**

### **RESEARCH DESIGN**

This is a systematic way to solve the research problem and it is important component for the study without which researches may not be able to obtain the format. A research design is the arrangement of conditions for collection and analysis of data in a manager that aims to combine for collection and analysis of data relevance to the research purpose with economy in procedure.

### **SOURCES OF DATA**

Data we collected based on two sources.

- Primary data.
- Secondary data.

#### **Primary data:**

The Primary data are those information's, which are collected afresh and for the first time, and thus happen to be original in character.

#### **Secondary Data:**

The Secondary data are those which have already been collected by some other agency and which have already been processed. The sources of Secondary data are Annual Reports, browsing Internet, through magazines.

1. It includes data gathered from the annual reports of Kesoram.
2. Articles are collected from official website of Kesoram.

## **VI. Limitations Of the Study**

- The study is limited to four years only.
- The study is restricted to Kesoram Industries Ltd only.
- Future plans of the company will not be disclosed.
- There are other tools are also available for conducting the same analysis but we are restricted only to ratio analysis.
- The Sample data only four years is considered we can extend it further ten years or a decade to better understand the cash flow management inside the organization.
- The analysis is depending upon annual reports of the industry only.

## **VII. Empirical Results**

### **APPRAISAL OF WORKING CAPITAL PERFORMANCE THROUGH RATIO ANALYSIS**

Ratio analysis is used as a technique of analyzing the financial information, contained in the balance sheet and profit and loss accounts, for a more meaningful under thousand standing of the financial position and performance of a firm.

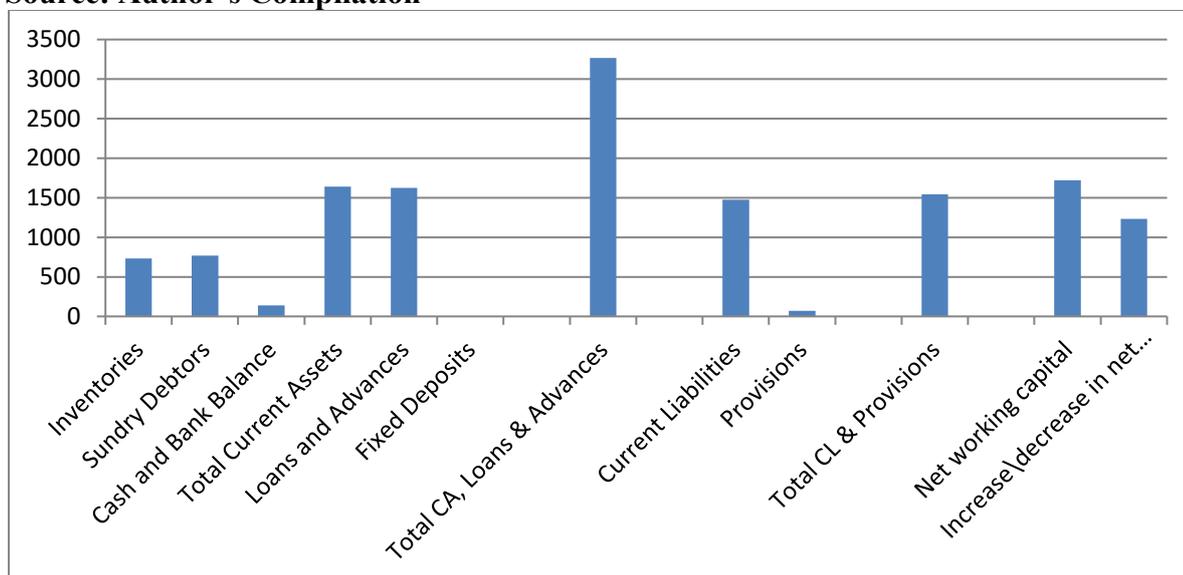
The relationship between two accounting figures, expressed mathematically, is known as a financial ratio. A ratio helps the analyst to make qualitative judgment about the firm's financial position and performance. Several ratios were calculated from the accounting data contained in the financial statements. A representative analysis carried out is presented in table 1.1 and figure 1.1(a).

<b>Particulars</b>	<b>Mar '21</b>	<b>Mar '20</b>
Inventories	734.06	894.13
Sundry Debtors	766.72	904.00

Cash and Bank Balance	140.27	77.21
Total Current Assets	1,641.05	1,875.34
Loans and Advances	1,626.12	332.74
Fixed Deposits	0.00	0.00
Total CA, Loans & Advances	3,267.17	2,208.08
Current Liabilities	1,475.24	1,644.47
Provisions	69.42	73.23
Total CL & Provisions	1,544.66	1,717.70
Net working capital	<b>1,722.51</b>	<b>490.38</b>
Increase\decrease in net working capital		<b>1232.13</b>

**Table No: 1.1 Statement of changes in working capital 2020-21**

**Source: Author's Compilation**



**Figure: 1.1.a Statement Of Changes In Working Capital 2020-21**

**Source: Author's Compilation**

The Net working capital of kesoram has been increased to 1232.13 that is the performance of kesoram has increased and the current assets exceeds its currently liability. And in years 2018-2020 the capital of a company has been decreased to 418.04. An overall every year cash and bank balance were increased fixed deposits receipts are decreased inventories on average are in good position. The ratios of a company are driven well and quite considerable in this study.

## **Findings, Suggestions and Conclusion**

### **Findings**

- I found that sales are increasing in a consistent pace every year. It's a positive indicator for the company. Due of competitiveness and high fixed asset spending, it only varies for one year.
- The gross profit was decreased every year. This occurred as a result of the rising cost of items sold each year.
- In the year 2019, they spend more money towards raw material sealing and distribution transportation and administration expenses and debtors also increased. The shows results in reduction of operating profit in 2019.

- Overall, cash and bank balances have climbed every year, although fixed deposit receipts have fallen, and inventories are in good shape on average.
- In the year 2019 they minimized the exp .of stores maintenance. However, additional costs such as packing materials and transportation costs grew quickly.

### **Suggestions**

- In the Annual Report, the corporation should include notes to clarify things that do not match the profit and loss and balance sheet.
- Funds should be used properly to improve the position.
- It will be more meaningful to disclose the combined flows of debtors and loans advances as a decrease/(increase) in trade and other receivables rather than as a decrease/(increase) in trade and other receivables.
- With the globalisation of economies and the demand for shares from investors in the capital market, the annual report must provide a clear and detailed picture of the company's financial status to a varied and demanding audience.
- Control expenses to improve cash flow.

### **Conclusion**

The working capital position of Kesoram is quite comfortable with a judicious mix of debt and equity. The overall assessment signifies efficient utilization of funds available. The company's profitability appears to be excellent, based on the increase in reserves and surplus. The management discussions and analysis by Director's report and opinions expressed by Auditor's report through analysis statements are true and fair view in accordance with the provisions of the companies Acts, and Accounting standards. The overall working capital of the company appears to be more than satisfactory. The working capital is properly maintained by the Kesoram Organization and the overall position of the firm is satisfactory.

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