

A Study on Working Capital Management at Jakhotia Polysacks Pvt Ltd

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ABSTRACT:

The working capital management mainly refers to the management of all these individual current assets. In this study an attempt has been made to study the components of working capital and possible implication of working capital management policies on profitability using the reports for the period 2016-17 to 2020-21. The study has found that the net changes in working capital has been declining year to year and the liquidity position is also declining and it is suggested to review its credit policy, capital budgeting policy and also financial investment decisions for effective and efficient utilization of funds in the company.

I. INTRODUCTION

Management of working capital for the manufacturing companies includes optimizing your account receivables and inventory processes. It ensures that a business has the resources and capital to grow a healthy business operation and meet the current liabilities. Cash flow is the biggest challenge for any firm and this can be managed by streamlining of working capital.

Working capital represents short-term assets available to a business for meeting financial obligations such as payroll, creditors and suppliers. A company with insufficient working capital can have liquidity problems even when their asset position and profitability is healthy. Manufacturing companies are subject to working capital challenges because supplier and production expenses frequently require payment several months before goods are sold to customers.

Proper management of working capital is an important area in the financial management. Capital of any economic unit may be categorized into two components, such as, Fixed Capital and Working Capital or Circulating Capital. Fixed

assets are assets of a relatively permanent nature, used in the operations of a business undertaking. They are necessary for the manufacturing firms, since production would be impossible without them. While there have been a large number of studies focusing on fixed capital; studies on working capital have been few and far between.

MEANING:

The term working capital is commonly used for the capital required for day-to-day working in a business concern, such as for purchasing raw material, for meeting day-to-day expenditure on salaries, wages, rents rates, advertising etc. But there is much disagreement among various financial authorities (Financiers, accountants, businessmen and economists) as to the exact meaning of the term working capital.

Working capital is defined as "the excess of current assets over current liabilities and provisions".

In the words of **Shubin**, "working capital is the amount of funds necessary to cover the cost of operating the enterprise".

Net working capital = current assets - current liabilities

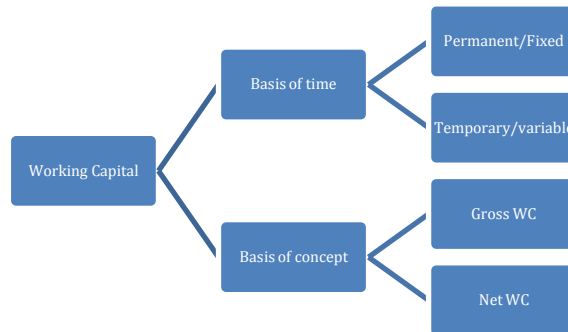
A positive calculation shows creditors and investors that the company is able to generate enough from operations to pay for its current obligations with current assets.

A negative net working capital, on the other hand, shows creditors and investors that the operations of the business are not producing enough to support the business current debts.

CLASSIFICATION OF WORKING CAPITAL

Working Capital may be classified in two ways,

- Concept based working capital
- Time based working capital



Gross Working Capital: It refers to the firm's investment in total current or circulating assets.

Net Working Capital: The term Net Working Capital has been defined in two different ways:

- It is the excess of current assets over current liabilities. This is, as a matter of fact, the most commonly accepted definition. Some people define it as only the difference between current assets and current liabilities.
- Alternate definition of net working capital is that portion of a firm's current assets which is financed by long-term funds.

II. REVIEW OF LITERATURE:

Semra Karacaer, Mehmet Aygün and AyhanKapusuzoğlu(2009) observed that, in terms of their revenues, the firms in the first group were very sensitive to changes in earning level and less sensitive to unexpected changes (positive/negative) in the working capital accruals. Vedavinayagam Ganesan (2007), found that the working capital management efficiency is negatively associated to the profitability and liquidity.Patrick Buchmann and Udo Jung (2009),observed that applying best practices of working capital management also means applying value-oriented management of tradeoffs between NWC and fixed assets. Karamjeet Singh and FirewChekolAsress (2010), concluded that firms which have adequate working capital in relation to their operational size are performed better than those firms which have less than the required working capital in relation to their operational size. If firms actual working capital is below the required working capital in relation to their operational size, firms are forced to produce below their optimal scale and this create problem to run day to day activities smoothly, so this lead firms to generate low return on their investment.Garcia-Teruel and Marinez -Solano(2007) affirmed in their study and found that the how managers can improve profitability by shortening the cash conversion cycle through inventory reduction and reduction in the outstanding number

of days receivables. Deloof (2003) have found a strong significant relationship between the measures of Working Capital Management and corporate profitability. Raheman A., Afza T, Qayyum A, Bodla M.A(2010) the Cash Conversion Cycle and Net Trade Cycle offer easy and useful way to check working capital management efficiency. For value creation of shareholders, firms must try to keep these numbers of days to minimum level.Amarjit Gill, Nahum Biger, Neil Mathur (2010) the finding indicates that slow collection of accounts receivables is correlated with low profitability. Managers can improve profitability by reducing the credit period granted to their customers. Regarding the average days of accounts payable previous studies reported negative correlation of this variable and the profitability of the firm.They found no statistically significant relationship between these variables.

On the whole, review of literature reveals that though studies are made on working capital analysis to find influencing factors, relationship of working capital variables and total assets, there are very few studies made on analysis of working capital position and efficiency focusing on manufacturing sector in this unpredicted economic condition namely demonetization and Covid-19 as well as recovery stage of the economy. It clearly shows that there is a gap in analyzing working capital, operational efficiency and relationship of working capital variables and efficiency under this scenario. At this juncture, there is a dire need to study working capital, liquidity position and operational efficiency in the present manufacturing company.

NEED OF THE STUDY:

- The study helps to know the changes in the working capital at Jakhotia Polysacks Private Ltd.

SCOPE OF THE STUDY:

- The study covers the “working capital management” of JakhotiaPolysacks Private Ltd. For a period of 5 years i.e., from 2016-17 to 2020-21.

OBJECTIVES:

- To study the trends in net working capital.
- To find out the liquidity position.
- To find out the operating efficiency.
- To examine the relationship between the overall efficiency (T.A.T.R) and liquidity

RESEARCH METHODOLOGY: To achieve the above objectives secondary data has been used for analysis referring 5 years of financial statements i.e. from 2016-17 to 2020-21 gathered from

reports. For analysis, Mean, Standard deviation, Correlation, Charts. Further financial tools i.e. Ratio Analysis has been used.

LIMITATIONS OF THE STUDY:

- The study is done only for a period of ten years i.e., 2016-17 to 2020-21.
- The study only deals with the working capital management of the company based on data available in secondary source.
- The study period is limited to 45 days.

Data Analysis & Interpretation:

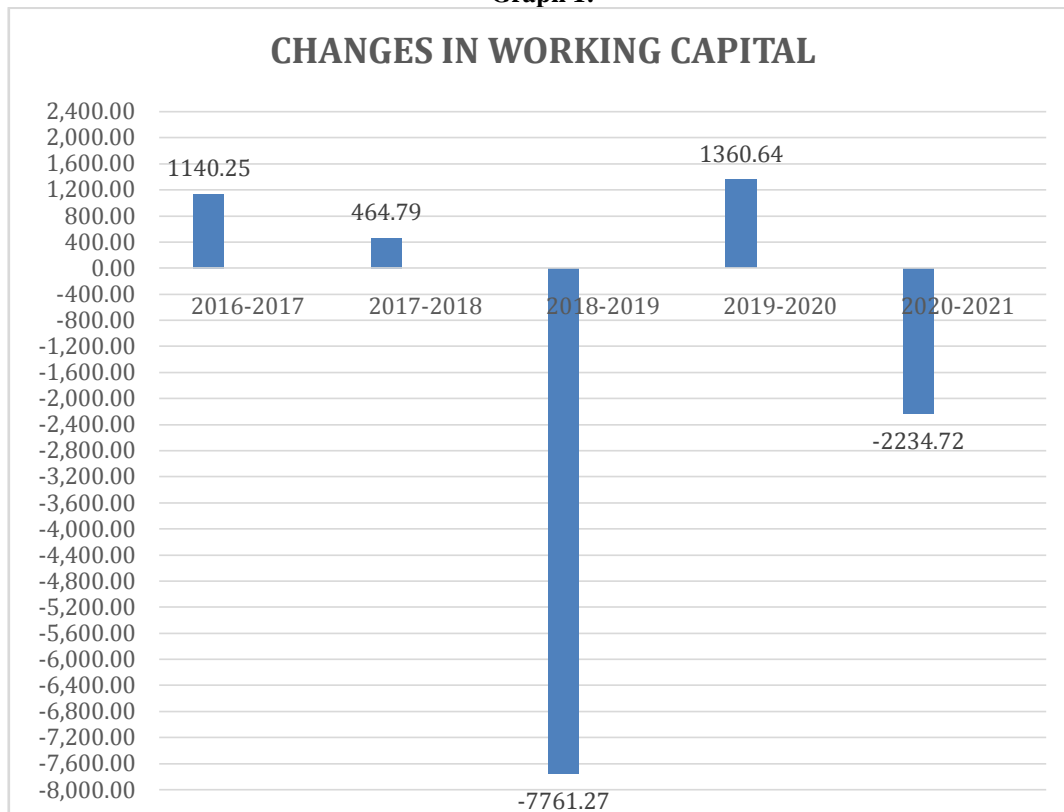
Trends in net working capital : To analyze the trends in networking capital, five year changes in working capital is observed and the results are presented in the below (Table:1 and Graph:1)

Table1: Table shows the changes in net working capital from 2016-17 to 2020-21

Year	Changes in Working Capital (Rs. in lakhs)
2016-2017	1140.25
2017-2018	464.79
2018-2019	-7761.27
2019-2020	1360.64
2020-2021	-2234.72

Source: Compiled from secondary source

Graph 1:



Interpretation:

From the above table and graph, it is observed that there is a mixed change in working capital i.e., both negative and positive changes. The net working capital is highly decreased in the year 2018-19 of Rs.7761.27 lakhs (due to decrease in total current assets i.e., Rs.8794.13 lakhs) and increased in the year 2019-20 of Rs.1360.64 lakhs (due to increase of total current assets i.e.,

Rs.1011.37 lakhs) then it again shows negative trend in year of 2020-21 of Rs.2234.72 lakhs (due to decrease of total current liabilities i.e., Rs.1308.65 lakhs).

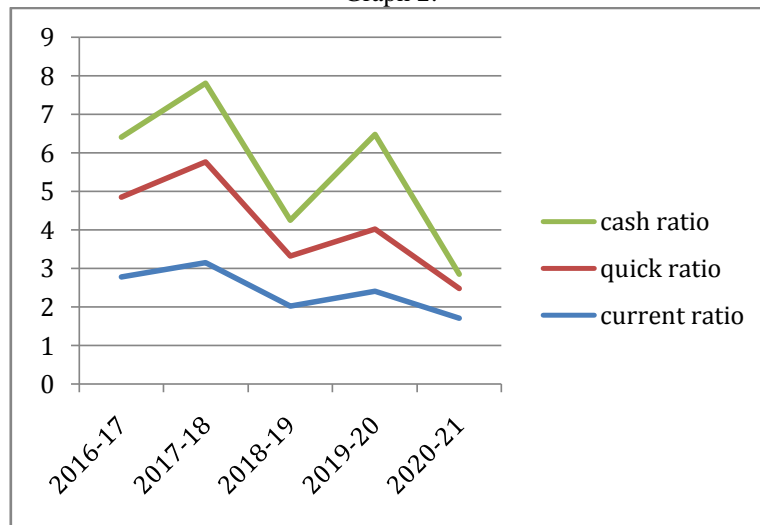
Liquidity position: To analyze the overall liquidity position, current ratio, quick ratio and cash ratios have been computed and the results are presented as below (Table:2 and Graph:2)

Table 2: Table showing liquidity position

Year	CURRENT RATIO	QUICK RATIO	Cash Ratio
2016-2017	2.798	2.058	1.561
2017-2018	3.157	2.609	2.034
2018-2019	2.024	1.300	0.921
2019-2020	2.403	1.621	2.450
2020-2021	1.706	0.776	0.367
Total	12.088	8.364	7.333
Mean	2.417	1.672	1.466
S.D	0.5815	0.7019	0.837

Source: Compiled from secondary source

Graph 2:



Interpretation

From the above table and graph it is observed that, the current ratio is in fluctuation trend. The respective years current ratios are 2.798, 3.157, 2.024, 2.403, and 1.706. The highest current ratio is 3.157 in the year 2017-18 and lowest current ratio is 1.706 in the year 2020-21. Here, the fluctuation trend of the current ratio is due to decrease in current assets i.e., Rs.9165.58 lakhs. The mean and standard deviation are 2.417 and 0.5815 respectively. The quick ratio is in fluctuation trend. The respective years quick ratios are 2.058, 2.609, 1.3, 1.621 and 0.776. The highest quick ratio

is 2.609 in the year of 2017-18 and the lowest quick ratio is 0.776 in the year of 2020-21. Here, the fluctuation trend of the quick ratio is due to the decrease in quick assets i.e., Rs.9532.88 lakhs. The mean and standard deviation are 1.672 and 0.7019 respectively. The cash ratio is in fluctuation trend. The respective years cash ratios are 1.561, 2.034, 0.921, 2.45 and 0.367. In the year of 2019-20 it has higher value of 2.45 and it has lower value of 0.367 in the year 2020-2021. Here, the cash ratio has fluctuating changes and finally decreased due to the decrease in sum of the cash & cash equivalents and short term investments i.e., Rs.8523.21 lakhs. The

mean and standard deviation are 1.466 and 0.837 respectively.

turnover ratio and net working capital turnover ratios have been computed and the results are presented as below (Table:3 and Graph:3)

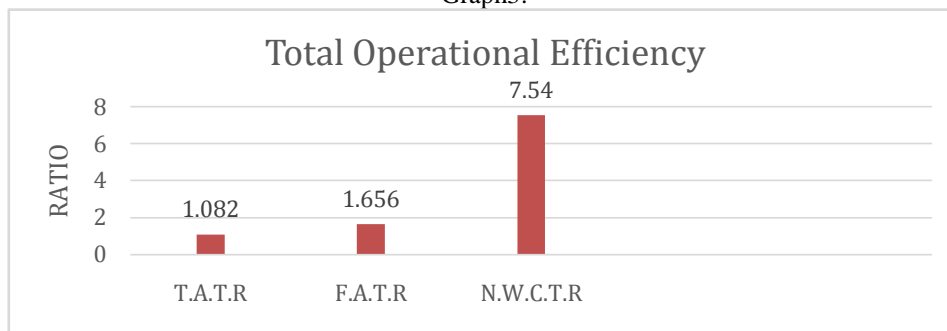
Operational efficiency: To analyze the operational efficiency, total asset turnover ratio, fixed asset

Table 3: Table showing Total Operational efficiency

Year	Total Asset Turnover Ratio	Fixed Asset Turnover Ratio	N.W.C Turnover Ratio
2016-2017	0.331	0.566	1.17
2017-2018	0.258	0.422	0.98
2018-2019	0.249	0.351	2.48
2019-2020	0.146	0.198	1.16
2020-2021	0.098	0.119	1.75
TOTAL	1.082	1.656	7.54
MEAN	0.2164	0.3312	1.508
S.D	0.093	0.177	0.6159

Source: Compiled from secondary source

Graph3:



Interpretation:

From the above table and graph it is observed that, the total asset turnover ratio for the five years is 1.082. The mean and standard deviation are 0.216 and 0.093 respectively. The fixed asset turnover ratio for the five years is 1.656. The mean and standard deviation are 0.3312 and 0.177 respectively. The net working capital turnover ratio for the five years is 7.54. The mean and standard deviation are 1.508 and 0.6159 respectively

Analysis of relationship between efficiency and liquidity: To test significant level relationship value between efficiency and liquidity correlation and PE has been used to test accuracy of “r” value.

HYPOTHESIS TESTING:

H₀₁: There is no significant relationship between overall efficiency (Total asset turnover ratio) and revenue.

H₀₂: There is no significant relationship between overall efficiency (Total asset turnover ratio) and current ratio.

H₀₃: There is no significant relationship between overall efficiency (Total asset turnover ratio) and cash ratio.

H₀₄: There is no significant relationship between overall efficiency (Total asset turnover ratio) and quick ratio.

Correlation has been used to identify the relation between each selected variable (i.e., Revenue, Current ratio, Quick ratio, Cash ratio) and overall efficiency. The model is as below (table 4 and table 5)

Table 4:

YE AR	OVERALL A.T.R	REVENUE	CURRENT RATIO	CASH RATIO	QUICK RATIO
2016-2017	0.331	14426.2	2.798	1.561	2.058
2017-2018	0.258	12529.52	3.157	2.034	2.609
2018-2019	0.249	12380.99	2.024	0.921	1.300
2019-2020	0.146	7368.94	2.403	2.450	1.621
2020-2021	0.098	7230	1.706	0.367	0.776

Source: Compiled from secondary source

Correlations

	TATR	SALES	CURRENT RATIO	CASH RATIO	QUICK RATIO
Pearson Correlation TATR	1.000	.980	.676	.248	.689
SALES	.980	1.000	.605	.092	.630
CURRENT RATIO	.676	.605	1.000	.738	.995
CASH RATIO	.248	.092	.738	1.000	.726
QUICK RATIO	.689	.630	.995	.726	1.000

To test significance of correlation value r, probable error has been used i.e., $r \geq 6PE$.

Correlations

Table 5:

Variable	Overall Efficiency(r)	6PE	Decision(Significant/Not significant)
Revenue	0.980	0.0717	Significant
Current ratio	0.676	0.9841	Not Significant
Cash ratio	0.248	1.7008	Not Significant
Quick ratio	0.689	0.9519	Not Significant

Interpretation:

If $r \geq 6PE$, then r is statistically significant. However, it is found in the study that

$r > 6PE$ i.e., $0.980 > 0.0717$ which indicates relationship between overall efficiency and revenue is 98% and the relationship is statistically significant and positively highly correlated. But the relationship between overall efficiency and liquidity i.e., current ratio, cash ratio and quick ratio are 67.6%, 24.8% and 68.9% respectively and the relationship is not statistically significant.

III. FINDINGS

- There is a mixed changes in working capital i.e., both negative and positive changes. The net working capital is highly decreased in the year 2018-19 of Rs.7761.27 lakhs (due to decrease in total current assets i.e., Rs.8794.13
- The highest current ratio is 3.157 in the year 2017-18 and lowest current ratio is 1.706 in the year 2020-21. On the whole the current ratio is upto standard mark i.e., 2.798, 3.157, 2.024, 2.403 > 2:1 for the years 2016-17 to

2019-20. But the current ratio for the year 2020-21 is not upto the mark i.e., $1.706 < 2:1$.

- The highest quick ratio is 2.609 in the year of 2017-18 and the lowest quick ratio is 0.776 in the year of 2020-21. On the whole the quick ratio is upto standard mark i.e., 2.058, 2.609, 1.3, 1.621 > 1:1 for the years 2016-17 to 2019-20. But the quick ratio for the year 2020-21 is not upto mark i.e., $0.776 < 1:1$.
- In the year of 2019-20 it has higher cash ratio value of 2.45 and it has lower value of 0.367 in the year 2020-2021.
- The total asset turnover ratio for the five years is 1.082. The mean and standard deviation are 0.216 and 0.093 respectively. The fixed asset turnover ratio for the five years is 1.656. The mean and standard deviation are 0.3312 and 0.177 respectively. The net working capital turnover ratio for the five years is 7.54. The mean and standard deviation are 1.508 and 0.6159 respectively
- The relationship between overall efficiency and revenue is 98% and the relationship is

statistically significant and positively highly correlated. But the relationship between overall efficiency and liquidity i.e., current ratio, cash ratio and quick ratio are 67.6%, 24.8% and 68.9% respectively and the relationship is not statistically significant.

IV. CONCLUSIONS

- Study on working capital management conducted in Jakhotia Polysacks private limited to analyze the financial position of the company. The company's position is analyzed by using the tools of annual reports from 2016-17 to 2020-21.
- The net changes in working capital has been declining year to year and the liquidity position is also declining. With regard to operating efficiency, it is revealing mixed results. In the Jakhotia Polysacks private limited. Therefore, it is suggested to review its credit policy, capital budgeting policy and also financial investment decisions for effective and efficient utilization of funds in the company.

V. SUGGESTIONS

- The credit policy and inventory policy of the company needs to be revised to improve its working capital position.
- The company has to reduce the borrowings in order to improve its working capital.
- The company has to take steps to improve the operating efficiency i.e., sales by utilizing total assets effectively.
- The company has to rethink on investment in long term assets i.e purchasing plant & equipment and also try to reduce work in progress capital.
- As the company financial investment assets increased drastically in the last year, it has to monitor its financial investment policy in terms of risk and returns.

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