

A Comparative Study on Management of Working Capital with Special Reference to Eid Parry Sugar Units and Thiru Arooran Sugars

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ABSTRACT

The purpose of this study is to examine the effect of working capital management on firm's profitability. The study is based on a sample of 2 manufacturing firms situated on the Pudukkottai District and Thanjavur District, covering a span of five years from 2013 to 2017. The empirical evidence found that there is existence of significant positive relationship between exogenous variables, and its endogenous variable. The findings also show a significant inverse relationship between debt ratio (leverage) and firm's profitability, but the firm's capability to translate working capital into cash promptly.

Keywords: Working Capital, Profitability, Ratio.

INTRODUCTION:

Working capital is one of the measurement tools of a company's financial strength. Because of its relationship with the current day to day operations of business. The basic problem facing the finance manager of an enterprise is to tradeoff between conflicting but equally important goals of liquidity and profitability. That is the amount of surplus of current assets which remain after deducting current liabilities from total current assets which is equal to the amount invested in working capital consisting of work in progress, raw materials and component stocks consumable items amounts owing by customers and cash at the or bank in hand.

OBJECTIVES OF THE STUDY:

The specific objectives of the study are:

1. To study the concept and importance of working capital.
2. To Comparative the financial performance through Ratio Analysis of Selected sample units, on the basis of short term.

RESEARCH METHODOLOGY:

Source of Data:

The study is based on secondary data. Data regarding various sugar units is collected from the annual report of selected sugar units with the help of websites, books, journals, magazines.

Sample Size:

Two private sector units are selected for this study based on long period of operation and each one of two district of study area. Such as, Thiru Arooran Sugar units, Thanjavur District and EID Parry Sugar units, Aranthangi, Pudukkottai District

Period of the Study:

The five year study period is not enough to measure the overall financial performance but this study based on the short term only. For the purpose of analysis of sample units Study period is taken from 2013 to 2017.

Tools for Analyzing Data:

Tools for analysis – for analysis, techniques such as Current ratio, Quick ratio, Debtor turnover ratio, Inventory turnover ratios and Average collection period.

REVIEW OF LITERATURE:

Appuhami Ranjith B. A. (2008) investigates the impact of firms' capital expenditure on their working capital management. The data used in this article 103 was collected from listed companies in the Thailand Stock Exchange. In this work the writer has used Shulman and Cox's (1985) net liquidity balance and working capital requirement as a proxy for working capital measurement and developed multiple regression models. At the end it is derived that the firms' capital expenditure has a significant impact on working capital management, and that the firms operating cash flow which was recognized as a control variable, has a significant relationship with working capital management.

Samiloglu F. and Demirgunes K. (2008) intend to analyse the effect of working capital management on firm's profitability. To consider statistically significant relationship between the firm's profitability and the components of cash conversion cycle at length, a sample consisting of Istanbul Stock Exchange (ISE) listed manufacturing firms for the period from 1989 to 2007 has been analysed under a multiple regression model. Empirical findings of the study show that accounts receivable period, inventory period and leverage affect firm's profitability negatively, while growth (in sales) affects firm's profitability positively.

Virani Varsha (2008) has conducted a comparative analysis of CADILA healthcare with the following objectives: 1. To evaluate the financial performance 2. To examine the profitability trend 3. To ascertain the assets utilization pattern and evaluate liquidity position of the company. The author has used two sophisticated analytical tools for the analysis i.e. ratio analysis and correlation analysis. The correlation between various ratios is depicted in the study. It is observed that in most of the cases, correlation coefficient is near to 1. Hence, it can be said that there is a high degree of positive and negative correlation between most of the ratios.

Ramudu Janaki P. and Rao Durga S. (2008) attempt to analyze both concept and research based studies. Working capital may be regarded as the lifeblood of any business unit. Its effective management can do much more to the success of the business while its ineffective management will undoubtedly lead to failure of the business. It is in this context that the management of working capital assumes paramount importance. In the present scenario of competition, the business does not have any other option than reducing the cost of its operations in order to 104 survive and continue to be financially healthy. It is in this connection effective management of working capital forms an absolute part of cost reduction. As it is quite vivid and evident in many researches in any manufacturing unit, barring knowledge industry, the proportion of raw material in total cost of the product will be the highest and hence, if the organization wants to minimize the cost of production it has to tackle the cost of raw material first. So the authors have tried to analyze both the concept and research based studies on working capital management in a business unit.

Dinesh M. (2008) explicates the concepts of working capital, the different challenges being faced by the business firms in managing working capital and the strategies to be adopted for its prudent management. The author concludes with the view that most of the businesses failed not for want of profit but for lack of cash. The fast growth in production and sales may cause the business to utilize all of the financial resources seeking growth and making assets such as inventories, accounts receivable and other assets as more illiquid.

Narender Vunyale, Menon Shrijit and Shwetha V. (2008) examine the determinants of working capital management in cement industry in India. In this article, net liquid balance and working capital requirements were used by the authors as measures of investing working capital management of the industry. The factors like size, business indicator, firm performance, growth of the firm, debt-equity ratio and operating cash flow are taken into consideration. Overall, the paper concludes with the observation that only size of firm affects both net liquid balance and working capital ratio in a company's working capital management. The results suggest that there is a lack of consistent evidence of the factors influencing working capital management in the cement industry.

Dr.Khatik S. K. and Jain Rashmi (2009) state that the management of working capital is one of the most important and key resources of an organization for its day-to-day operations. Working capital can be taken as funding resources for routine activities of business. It is the most vital and important part of fund management and profitability for business. The writer has analyzed the working capital position of MPSEB (Madhya Pradesh

State Electricity Board) by ratio analysis technique and it was found that the position of current ratio, quick ratio, acid-test ratio, working capital ratio, inventory turnover ratio are not up to the standard benchmark.

Sen Mehmet and Oruc Eda (2009) want to determine the relationship between efficiency level of firms being traded in Istanbul Stock Exchange (ISE) in working capital management and their return on total assets. In this article they have made an attempt to explain the relationship between different indicators relating to efficiency in working capital management and their return on total assets through two models. The study concludes with the observation that according to the results in terms of both, all the firms involved in the study and sectors, there is a significant negative relationship between cash conversion cycle, net working capital level, current ratio, accounts receivable period, inventory period and returns on total assets.

Ramachandran Azhagaiah and Janakiraman Muralidharan (2009) have attempted to analyze the relationship between working capital management efficiency (WCME) and earnings before interest and taxes (EBIT) of the paper industry in India during 1997-98 to 2005-06. To measure the working capital management efficiency three index values i.e., performance index, utilization index and efficiency index, and EBIT have been used for all the firms over the period of the study. At the end of the study it was noted that Indian paper firms performed remarkably well during the period. Industry overall efficiency index was >1 in 3 out of 9 years for the study period. Though some of the sample units had successfully improved efficiency during the three years, the existence of a very high degree of inconsistency in this matter clearly points out the need for adopting sound WCM (working capital management) policy in these firms.

Baig Viqar Ali (2009) aims at reporting comparative findings of a survey of working capital management practices of selected agribusiness firms from diary co-operatives, private and MNC diary firms as a part of the research thesis completed in July 2008. Besides, an attempt has been made to know the effect of the ownership, government regulations, managerial empowerment and cultural factor on the working capital decision making.

N. Suresh Babu and Chalam (2014) Author studied the relationship between the components of working capital and firms' profitability of firms in Indian leather industry. he undertake profitability (ROA) as a dependent variable and the inventory conversion period (ICP), the average collection period (ACP), the average payment period (APP), and the cash conversion Cycle (CCC) are used as independent variables, and are considered for measuring working capital management.. The results show that for overall leather industry, working capital management has significant impact on profitability of the firms.

Mukti R. Barot(2016). In this study the researcher tried to carry out a comparative analysis on working capital management of Raymond and vardhman textile limited. The aim of this study is to analyze which company's performance is better than other company. For this analysis researcher have use only of secondary data for ten years 2006-2015.for data analysis researcher have selected the technique of ratio analysis.

RESULTS AND DISCUSSION:

The various ratios that will be calculated are as follows:

Liquidity Ratios:

These ratios are express on the liquidity position of the concern. The following ratios were calculated:

Current Ratio

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

Quick Ratio

$$\text{Quick Ratio} = \text{Current Assets} - (\text{Inventory} + \text{Prepaid Expenses}) / \text{Current Liabilities}$$

Turnover Ratios

These ratios measure the effectiveness with which an organization manages its resources on assets.

They are also called the Activity ratios because they indicate the speed with which assets are converted or turned over into sales. The various ratios calculated are as follows:

$$\text{Debtors Turnover Ratio} = \text{Total Sales} / \text{Average Debtors}$$

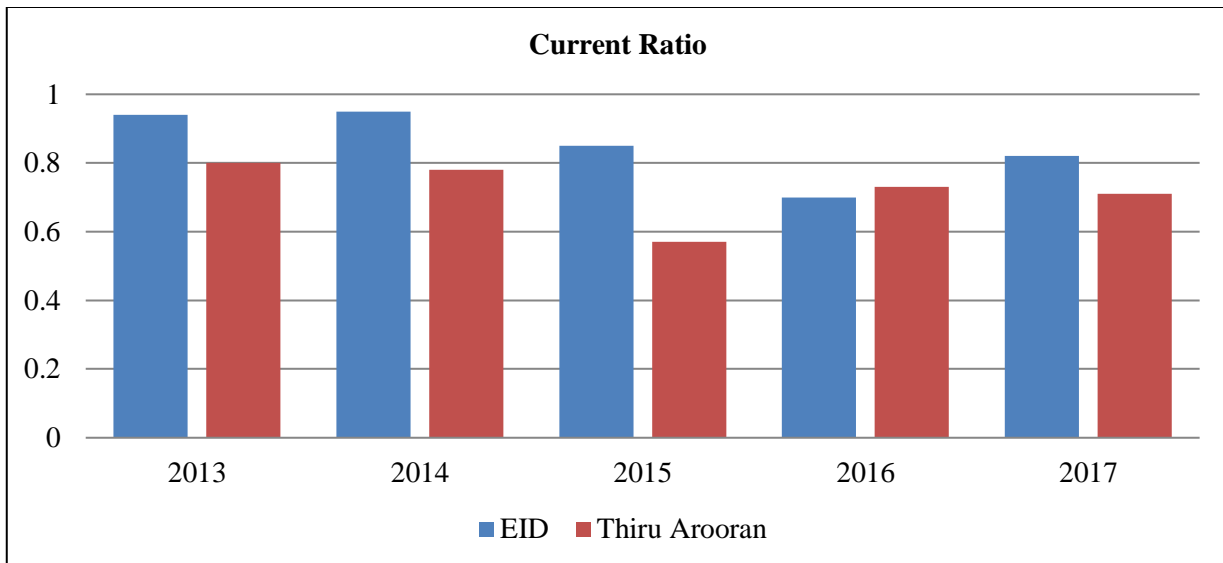
$$\text{Average Collection Period} = 365 / \text{Debtors Turnover Ratio}$$

Current ratio:

Study Units /years	2013	2014	2015	2016	2017
EID Parry Sugar Units	0.94	0.95	0.85	0.70	0.82
Thiru Arooran Sugar Units	0.80	0.78	0.57	0.73	0.71

Source: Secondary data

The above table shows that the Current ratio of EID Parry Sugar Units, from Pudukkottai District have fluctuating trend during the study period. The EID Parry Sugar Units have a maximum of current ratio is 0.95:1, the maximum of current ratio is less than the standard ratio. While the Thiru Arooran Sugar Units from Thanjavur District also have a fluctuating trend. Thiru Arooran Sugar Units also less than the standard ratio, such as less than 2:1. So the researcher will conclude the both of the sample units will try to improve their current ratio.

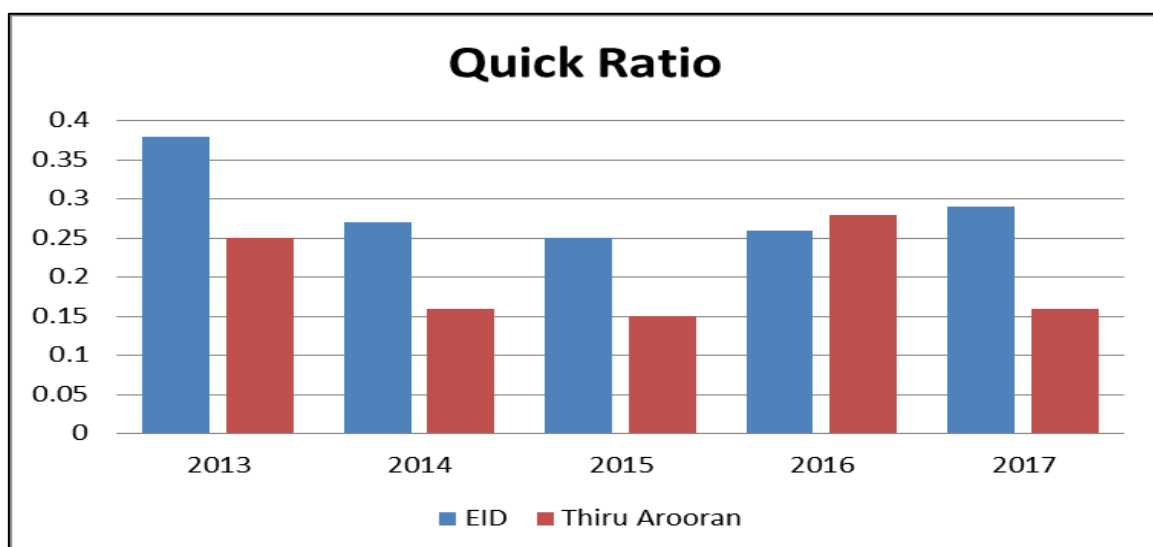


Acid Test Ratio:

Study Units /years	2013	2014	2015	2016	2017
EID Parry Sugar Units	0.38	0.27	0.25	0.26	0.29
Thiru Arooran Sugar Units	0.25	0.16	0.15	0.28	0.16

Source: Secondary data

The above table shows that the Acid Test Ratio of EID Parry Sugar Units, from Pudukkottai District have fluctuating trend during the study period. The EID Parry Sugar Units have a maximum of Acid Test Ratio is 0.38:1, the maximum of Acid Test Ratio is less than the standard ratio. While the Thiru Arooran Sugar Units from Thanjavur District also have a fluctuating trend. Thiru Arooran Sugar Units also less than the standard ratio, such as less than 2:1. So the researcher will conclude the both of the sample units will try to improve their Acid Test Ratio.

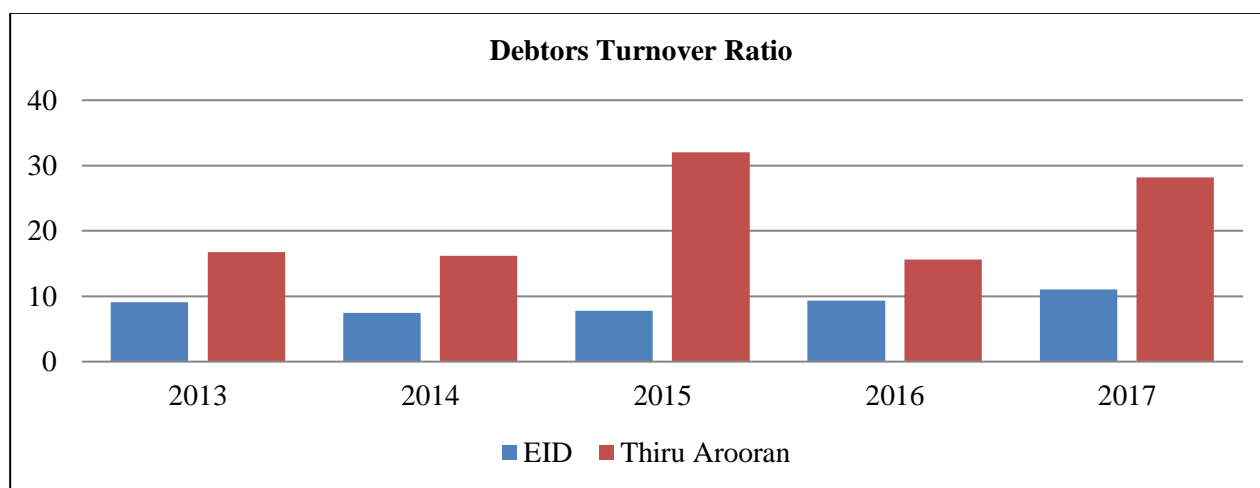


Debtors Turnover Ratio:

Study Units /years	2013	2014	2015	2016	2017
EID Parry Sugar Units	9.11	7.44	7.76	9.32	11.02
Thiru Arooran Sugar Units	16.73	16.21	32	15.63	28.21

Source: Secondary data

The above table shows that the Debtors Turnover Ratio of EID Parry Sugar Units, from Pudukkottai District have fluctuating trend during the study period. The EID Parry Sugar Units have a maximum of Debtors Turnover Ratio is 11.02 in 2017. While the Thiru Arooran Sugar Units from Thanjavur District also have a fluctuating trend. The Thiru Arooran Sugar Units have a maximum of Debtors Turnover Ratio is 32 in the year 2015. So the researcher will conclude the both of the sample units will try to improve their Debtors Turnover Ratio.

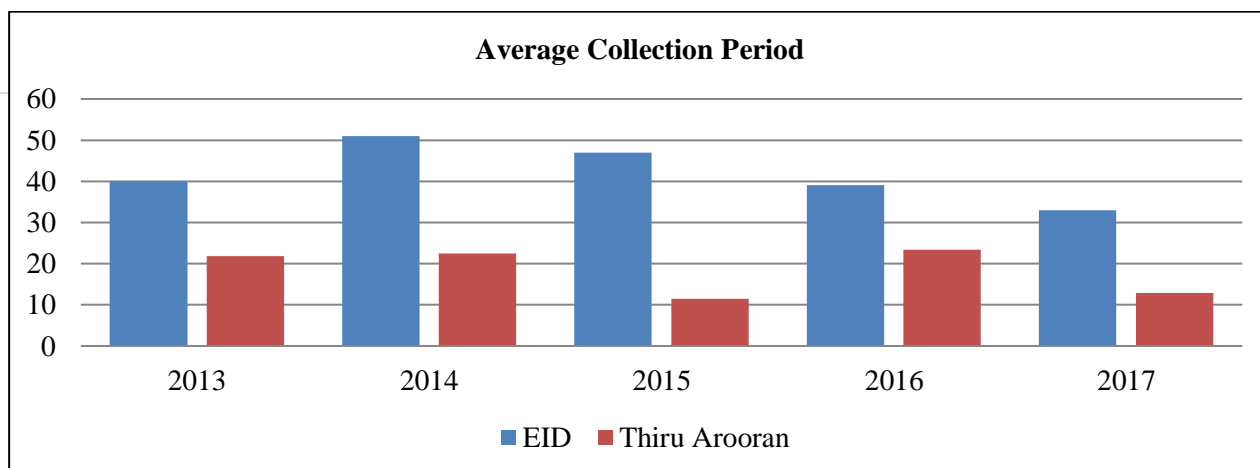


Average Collection Period:

Study Units /years	2013	2014	2015	2016	2017
EID Parry Sugar Units	40	51	47	39	33
Thiru Arooran Sugar Units	21.82	22.50	11.40	23.34	12.94

Source: Secondary data

The above table shows that the Average collection Period of EID Parry Sugar Units, from Pudukkottai District have fluctuating trend during the study period. The EID Parry Sugar Units have a maximum of Average collection Period of their debtors is 51 in 2014. While the Thiru Arooran Sugar Units from Thanjavur District also have a fluctuating trend. The Thiru Arooran Sugar Units have a maximum of Average collection Period of their debtors is 23.34 in the year 2016. So the researcher will conclude the both of the sample units will try to improve their collections of their Debtors.



CONCLUSION:

Working capital management is one of the most important decisions for financial decisions in any business unit. The researcher had tried to carry out a comparative analysis on working capital management. The results show that liquidity position of EID Parry Sugar Units, from Pudukkottai District was better than Thiru Arooran Sugar Units from Thanjavur District because its result is fluctuating and more nearer to ideal than Thiru Arooran Sugar Units from Thanjavur District. We may further conclude that these firms properly manage components of working capital like cash, marketable securities, receivables and inventory management and make collection as soon as possible to strength there financial sources.

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