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An analysis of working capital management

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Abstract
Working capital management simply deals with short term financial necessities of Business enterprises. Working capital is appraised of both a company's operational efficiency and its short-term financial health. The study is based on secondary data in this research we will see the different working capital management practices and its impact of profitability for a period of 2013-2017. The data for this study is composed using the non-survey method. The tool used in the research is the working capital analysis of the business. Any business needs finance it inventories and debtors net of its payables. The proportions of the working capital components always vary in several stage of the trade cycle. The working capital management is decides how low the liquidity is to manage in order increase the profitability of the business, which will leads to the financing and investing decisions. Working capital analysis is one method of evaluating the credit worthiness of a business. By evaluating changes in a firm's current assets or liabilities, an analyst can determine how much financing will be required to see a business through its normal cycle of operation. An important step in working capital analysis is to review changes in a firms net worth. A simple definition of net worth of liabilities is subtracted from assets. If net worth figure increases, a business should have more working capital. A lower net worth mean less working capital. If a company's current assets do not exceed its current liabilities, then it may have trouble paying back creditors or go bankrupt.

Keywords: working capital, analysis, assets, liabilities, net worth

Introduction
Working capital management simply deal with short term financial requirements of business enterprises. Even though it is deals with the financial requirements of day-to-day operation of business activities, it is highly contributes to the long run results of the enterprises. Working capital is to quantify both a company's operational efficiency and its short-term financial health. The working capital ratio (current assets/current liabilities), or current ratio, indicates whether a company has enough short-term assets to coat its short-term debt. A good working capital ratio is measured anything between 1.2 and 2.0. A ratio of less than 1.0 indicates unconstructive working capital, with probable liquidity problems, while a ratio above 2.0 might indicate that a company is not using its excess assets effectively to generate maximum possible revenue.

Statement of Problem
Malayala Manorama Sicaf Pvt. ltd being a plantation company faces following problem in managing working capital in the company as working capital has acquired important position and great significance in operation of a company
Level of current assets changes severely with change in sales, It is difficult to understand optimum units of inventory due to less knowledge, leading to accumulation of inventory and increase in storage cost. Profit of the company is affected by seasonal sales, as sales are considered seasonal so excess of investment and contingency in profits.

Objectives of Study
- To understand working capital of the company and to suggest measures to overcome shortfalls.
- To ascertain efficiency of cash management using cash flow statement

Research Methodology
- Data
- The study is based on secondary data in this research we will see the different working capital management practises and its impact of profitability for a period of 2012-2017
- Tools and Techniques Used
- Working Capital Analysis

Limitation of Study
- The study is based on secondary data which is collected from the annual reports, websites and publications.
- This study deals only with the data available. Period of study is limited only to a period of 5 consecutive years which may not provide a true result.

Review of Literature
Dauda Ibrahim Adagye (2015) [5] "Effective working capital management and the profitability of quoted banks in Nigeria", The main of this paper is to examine the effects of working capital management on profitability of Deposit Money Banks(DBM's) for a period 2013 on Nigerian stock exchange. The result shows that there is significant relationship between working capital management and profitability. The study results that there is a positive relationship between Return on equity, Return on assets and components of working capital management.
Paul Aondona Angahar, Agbo Alematu (2014) [6] "Impact of working capital on the profitability of the Nigerian cement industry", to examine the effect of working capital

management on profitability of Nigerian cements industry for the period of 8 years (2002-2009). The result shows that there was a negative relationship between profitability of cement companies and the number of days inventory are held.
Osundina Jacob Ademola (2014) [7] "Working capital management and profitability of selected quoted food and beverages manufacturing firms in Nigeria", this research is focus on the relationship between working capital management and profitability of food and beverages manufacturing firms in Nigeria. The survey is taken for 10 years from 2002 to 2011. In this study it was found that there was a strong positive relationship between working capital and net operating profit but there was a negative relationship between cash conversion cycle and net operating ratio.

Analysis and Interpretation

Working capital analysis

Working capital analysis is one way of evaluating the credit worthiness of a business. By evaluating changes in a firms current assets or liabilities, an analyst can determine how much financing will be required to see a business through its normal cycle of operation. An important step in working capital analysis is to review changes in a firms net worth. A simple definition of net worth of liabilities is subtracted from assets. If net worth figure increases, a business should have more working capital. A lower net worth mean less working capital.

Formula

Working capital = current assets- current liabilities

Table 1: Working capital analysis for a period of 2018-17

Particulars	Year		Effect On Working Capital	
	2018	2017	Increase(+)	Decrease(-)
Current Assets				
Inventories	744.40	764.19		19.79
Investments	536.98	67.70	469.19	
Trade receivables	136.66	99.62	37.04	
Cash and cash equivalents	232.80	13.76	219.04	
Other bank balance	302.47	7.02	295.45	
Loans	8.10	11.97		3.87
Other financial assets	34.09	26.80	7.29	
Other current assets	104.93	45.69	59.24	
Total current asset	2100.43	1036.75		
Current liabilities				
Borrowings	84.25	32.26		51.99
Trade payables	248.46	244.33		4.13
Other financial liabilities	91.33	88.06		3.27
Other current liabilities	71.88	72.32	0.44	
Provisions	73.25	74.11	0.86	
Total current liabilities	569.17	511.08	1088.63	83.05
Working capital	1531.26	525.67		
Net increase / decrease in working capital			1005.59	

Interpretation

For the above table it indicates that current assets net of 1063.59crores. Current liability such as provisions and other current liabilities have decreased by 58.09crores. It can be concluded that as there has been an increase in net working capital compared to previous year production has been increased.

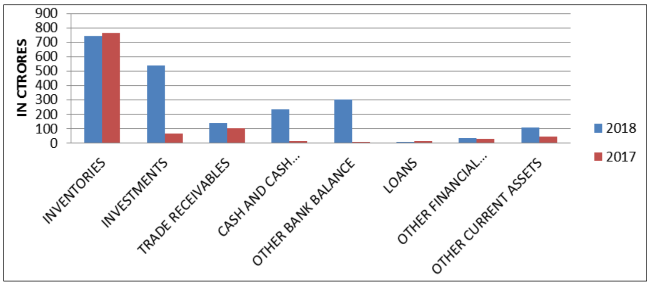

Fig 1: Current Assets

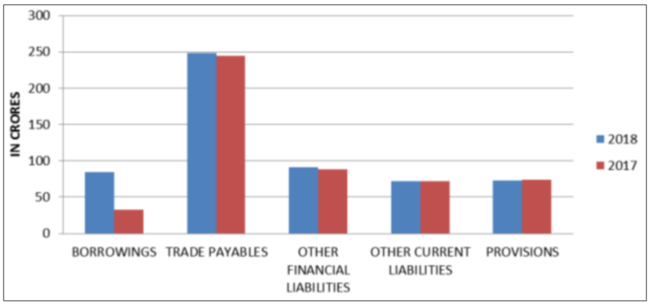

Fig 2: Current Liabilities

Net Increase/Decrease in Working Capital

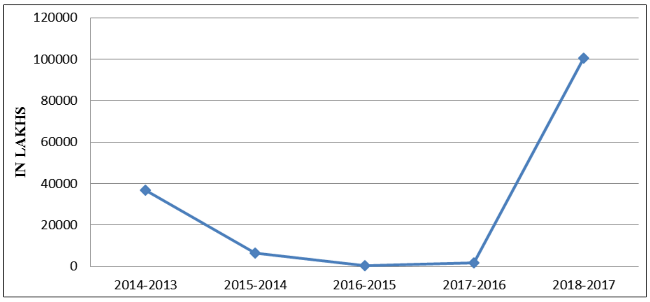

Fig 3: Net Increase/Decrease in Working Capital

Interpretation

It indicates that by comparing working capital over past 5 years the working capital in the company decreases during the period 2015-14, 2016-15 and 2017-16. It shows that during the starting period of analysis the production of the company was not optimal as more working capital was required for its production. Then as years continued same quantity was produced with less working capital. During the recent years it seems working capital requirement has increased due to increase in production as total turnover also increased during the period.

Conclusion

This study will subsidize to the investor to identifying how M.M Plantation is managing their working capital. This study will provide a general outline to researchers, strategy makers, investors and professionals to guide future researches. From this study after analyzing the five years data of the company we have come to the conclusion that among the different component of working capital management and working capital analysis, they have significant effect on profitability of the company and moreover, effective management of working capital have significant impact on profitability of the plantation. This study is limited only to the plantation sector. The findings of the study could be useful for the similar sort of companies only. According to the working capital analysis during the recent years it seems working capital requirement has increased due to increase in production as total turnover also increased during the period so the company's working capital management is performing well and will be much better in future.

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