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An analysis of working capital management of Malayala Manorama Sicaf Pvt. Ltd.

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Abstract
Working capital management simply deal with short term financial necessities of Business enterprises. Working capital is a appraise 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 tools used are ratio analysis and working capital analysis. The ratios used are liquidity ratios and turnover ratio. Working capital analysis is one way of evaluate the credit praiseworthiness 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. By using the above listed tools we conclude that the company's financial positions has improved in the following years it can be concluded consumption of increase in working capital was optimal and efficient and this study will help them to improve their working capital management even further.

Keywords: working capital, ratios, analysis, assets, liabilities

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. It is unease to manage the time lag between the expenditure or the payment due to the suppliers for the raw material purchases and the cash collection from its debtors for its credit sales. The basic apparatus of working capital are inventories, amounts to be paid to suppliers and cash to be received from its customers from the credit sales. Any business desires finance it inventories and debtors net of its payables. The scope of the working capital components always vary in several stage of the trade cycle. The working capital management is decide how low the liquidity is to administer in order increase the profitability of the business, which will leads to the financing and investing decisions. The lower the working capital requirement will lead to decrease in the cost of capital by the way will bring more profitability to the business, on the other hand poor evaluation on working capital will directly results lost sales due to the reason of lowers level of inventory and lesser offer of credit sales which will surly results less profitability. Therefore, the balance and vigilant management on working capital components is critical for any industry or the business. 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
- It is to understand working capital of the company and to suggest measures to overcome shortfalls.
- To determine credit worthiness of the company and to understand working capital requirement with working capital analysis.
- To understand operating and financial performance through ratio 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. Hence the result of this study cannot arbitrate the business of the firm in general.
- Period of study is limited only to a period of 5 consecutive years which may not provide a true result

Review of Literature
Yakubu, Ibrahim Nandom, Alhassan, Mohammed Mubarik, Fuseini, Abdul-Aiz(2017) [5] " The impact of working capital management on corporate performance: Evidence from listed

non-financial firms in Ghana" is a study on the impact of working capital management on the performance of non-financial firms in Ghana was examined. The results shows that average payment period and current ratio have a positive relationship with firm performance. On the other hand average collection period, inventory turnover have a negative relationship.

Manjurul Alam Mazumder (2015) [6] "Working capital management and profitability: Evidence from the cement industry in Bangladesh" is a study on the Cement industry is highly related with profitability and working capital management. In this study correlation, ratio analysis and regression have been used as a tool to find profitability. The study reveals that the position of profitability and working capital management of the industry is not satisfactory. The result shows that working capital management has a positive impact on profitability.

Tasiu Tijiani Kademi, Mustapha Nasidi and Sadiq Mansur Yakasi (2017) "Working capital management and firm profitability during and after the economic crisis among Malasyian listed companies" is to explore the working capital management components and examine their relationship with firm profitability. These findings suggest that the firm should try to collect cash faster from its customers and pay bills as soon as possible. Management should maintain level of stock to avoid shortage and supply interruption.

Analysis and Interpretation

Ratio Analysis

A ratio analysis is a quantitative analysis of information enclosed in a company's financial statements. Ratio analysis is used to estimate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency. Here are few

- Liquidity ratios
- Turnover ratios

Liquidity ratios

Liquidity refers to ability of a firm to meet its current financial obligation as at when due. Hence, liquidity ratios have a lot to do with the amount and relationship of current assets to current liabilities.

Current ratio

The ratio of current assets to current liabilities is known current ratio. In order to measure the short-term liquidity or solvency of a concern, comparison of current assets and current liabilities is inevitable. Ideal current ratio is = 2:1.

$$\textbf{Formula: current ratio} = \frac{\textbf{Current assets}}{\textbf{Current liabilities}}$$

Liquid ratio

This ratio is also called as 'quick' or 'acid test' ratio. It is calculated by comparing the quick assets with current liabilities Ideal liquid ratio is = 1:1.

$$\textbf{Formula: liquid ratio} = \frac{\textbf{Quick or liquid assets}}{\textbf{Current liabilities}}$$

Turnover ratios

The turnover ratio can be defined as the ratio to compute the quantity of any asset which is used by a business to generate revenue through its sales.

Total assets turnover ratio

The total asset turnover ratio uses the information of net sales and average total assets to measure the ability of a company to use its assets efficiently to generate sales

$$\textbf{Formula: total assets turnover ratio} = \frac{\textbf{Net sales}}{\textbf{Average total assets}}$$

Fixed asset turnover ratio

This ratio determines efficiency of consumption of fixed assets and profitability of a business concern. Higher the ratio more is the efficiency in consumption of fixed assets.

$$\textbf{Formula: fixed asset turnover ratio} = \frac{\textbf{Cost of sales}}{\textbf{Net fixed assets}}$$

Capital turnover ratio

Managerial efficiency is also deliberated by establishing the relationship between cost of sales or sales with the amount of capital invested in the business.

$$\textbf{Formula: capital turnover ratio} = \frac{\textbf{Net sales}}{\textbf{Capital employed}}$$

Table 1: Ratio Analysis of the firm

Year	Current ratio	Quick ratio	Total asset turnover ratio	Fixed asset turnover ratio	Capital turnover ratio
2018	3.69	0.51	0.38times	0.78	0.44
2017	2.16	0.33	0.42 times	0.83	0.49
2016	1.67	0.57	0.43 times	0.9	0.55
2015	1.60	0.44	0.06times	1.037	0.08
2014	1.51	2.14	0.04 times	0.99	0.06

Interpretation

During the Current ratio analysis we observed that current ratio of the company has increased over the period of time. An ideal ratio for current ratio is 2:1. Therefore it indicates that solvency of the concern has increased over the period of time.

During the Quick ratio analysis we observed that quick ratio of the company has decreased over the period of time. An ideal ratio for current ratio is 1:1. Therefore it indicates that current assets that are quickly convertible into cash have diminished. Therefore this concern has a low liquidity position.

During the Total asset Turnover Ratio analysis we observed that total asset turnover ratio of the company has increased over the period of time. Therefore it indicates that the company uses its assets efficiently to generate sales. Therefore total assets invested in the organisation has optimally used in the operations of the business.

During the Fixed Asset Turnover Ratio analysis observed that fixed asset turnover ratio of the company has slightly decreased over the period of time. Therefore it indicates that the fixed assets used for the production are deteriorating over the period of time. Therefore total sales to investment in the asset are not optimum.

During the Capital Turnover Ratio analysis observed that capital turnover ratio of the company had a steep increase and then a decrease over the period of time. Therefore it indicates that the capital investment is excess to the actually needed to be invested.

Working capital analysis

Working capital analysis is one way to evaluate 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.

Formula:

Working capital = current assets- current liabilities.

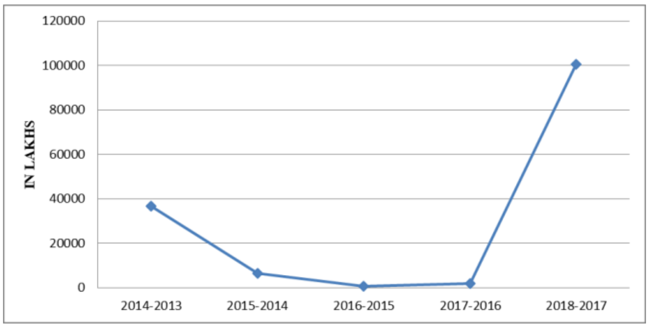

Fig 1: Net increase/decrease in working capital

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, ratios 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 ratio and 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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