

Available online @ www.iaraindia.com
SELP Journal of Social Science - A Blind Review & Refereed Quarterly Journal
ISSN: 0975-9999 (P) 2349-1655 (O)
Impact Factor: 3.655 (CIF), 2.78(IRJIF), 2.5(JIF), 2.77(NAAS)
Volume XV, Issue 56, April-June 2024
Formally UGC Approved Journal (46622), © Author

A STUDY ON WORKING CAPITAL MANAGEMENT IN SAKTHI SUGARS PRIVATE LIMITED AT MODAKKURCHI ERODE

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Abstract

Working capital management is a fundamental aspect of financial management that focuses on optimizing the balance between a company's short-term assets and liabilities to ensure efficient operations and sustainable growth. This abstract provides an overview of key principles and strategies involved in working capital management, including cash flow forecasting, inventory management, accounts receivable and payable management, and short-term financing decisions. Effective working capital management enables companies to maintain liquidity, minimize financing costs, and enhance profitability. The abstract also discusses the challenges and risks associated with working capital management, such as liquidity constraints, inventory obsolescence, and credit risks. By implementing sound working capital management practices, businesses can improve their financial health, strengthen their competitive position, and achieve long-term success in today's dynamic business environment.

Keywords: Working capital management, Private limited company.

INTRODUCTION

The American Institute of Certified Public Accountants defines working capital as the surplus of current assets over current liabilities, serving as a buffer for meeting short-term obligations. It encompasses managing current assets like cash, stocks, and debtors, along with current liabilities such as credit and short-term loans.

OBJECTIVES OF THE STUDY

- To analyze the financial performance of the company using ratio's
- To know the relationship between current assets and current liabilities values.
- To suggest suitable measure so as to improve the working capital position.
- To study the need and importance of working capital.
- To identify the problems, if any, faces by the company in managing the working Capital.

NEED FOR THE STUDY

The study aimed to analyze various financial aspects of selected company over the period of 2019-2023, focusing on key areas such as sources of funds, cost-volume-profit analysis, and working capital management. By examining annual reports and balance sheets, researchers sought to provide investors with insights into the financial health, decision-making processes, and potential future performance of these company

SCOPE OF THE STUDY

- The present study is designed to make effort to understand the management of working capital in the company with the help of financial ratios so as to enable to determine the financial viability of the company.

LIMITATIONS OF THE STUDY

- Information shown in financial statements is not precise since it is based on practical experience and the conventions.
- Balance sheet of a concern is a static document as it discloses the financial position of a concern on a particular date.

REVIEW OF LITERATURE

Thachappilly Gvi (2016) “Working Capital Management Manages Flow of Funds” describes that Working capital is the cash needed to carry on operations during the cash conversion cycle, i.e. the days from paying for raw materials to collecting cash from customers.

Nihat Aktased al (2017) We examine the value effect of working capital management (WCM) for a large sample of US firms.

Saganvii (2017) in his paper perhaps the first theoretical paper on the theory of working capital management, studies the need for management of working capital accounts and said that it could be importantly affect the health of the firm.

Walk viii (2018) in his study made a pioneering effort to develop a theory of working capital management by empirically testing, though partially, three propositions based on risk-return trade-off of working capital management.

RESEARCH METHODOLOGY

SAMPLING UNIT:

Sampling unit is in Sakthi Sugars Private limited at Modakkurichi.

SOURCE OF DATA:

The secondary data is used for the study and are collected from the annual reports of the company.

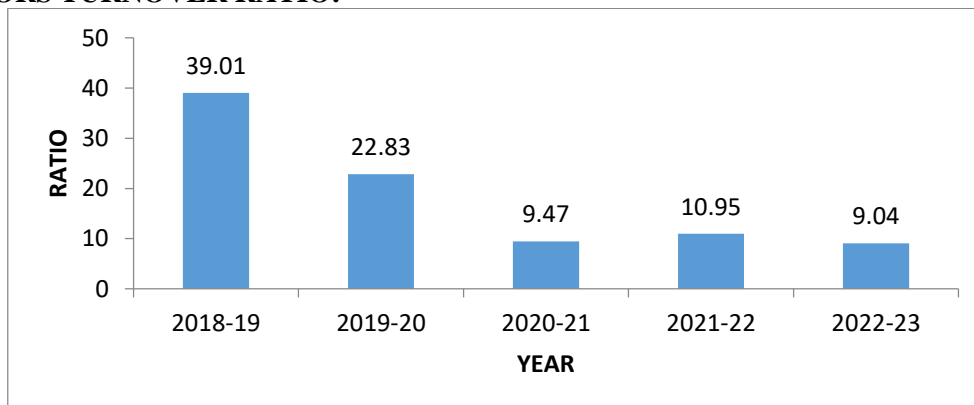
TOOLS USED FOR ANALYSIS DATA

- Ratio analysis
- Changes of working capital
- Correction analysis

RATIO ANALYSIS

A ratio is a simple arithmetic expression of relationship of one number to another. Ratio is an expression of the quantitative relations between two numbers. Ratio analysis is a technique of analysis and interpretation of financial statements. It is a process of establishing and interpreting various ratios which help in making certain decisions.

DEBTORS TURNOVER RATIO:



INTERPRETATION:

From the above table shows that the Debtors turnover ratio lies within its upper limit and also maintains a reasonable level which is useful for the liquidity of the firm. The ratio shows lowest as 9.04 at 2022-23 and shows highest as 39.01 at 2018-19 and there is no standard norm for Debtors turnover ratio.

CHANGES OF WORKING CAPITAL

The linear correlation coefficient defines the degree of relation between two variables and is denoted by "r". It is also called a cross-correlation coefficient, as it predicts the relation between two quantities. Now, let us proceed to a statistical way of calculating the correlation coefficient. If x & y are the two variables of discussion, then the correlation coefficient can be calculated using the formula

| Particulars | 2021-22 | 2022-23 | Changes | |
|--|---------------|----------------|-----------------------|-----------------|
| | | | Increase/ Decrease | % of Changes |
| Currents Assets : | | | | |
| Inventories | 98.94 | 130.84 | 31.9 | 32.24 |
| Sundry debtors | 110.74 | 45.71 | -65.03 | 58.72 |
| Cash and Bank Balance | 16.17 | 6.84 | -9.33 | -57.70 |
| Loans and advances | 402.62 | 447.47 | 44.85 | 11.14 |
| Total (A) | 628.47 | 630.86 | 2.39 | 0.38 |
| Current Liabilities and provisions: | | | | |
| Current Liabilities | 688.26 | 843.39 | 155.13 | 22.54 |
| Provisions | 28.85 | 93.99 | 65.14 | 225.79 |
| Total (B) | 717.11 | 937.38 | 220.27 | 30.71 |
| Working Capital [A - B] | -88.64 | -306.52 | -217.88 | 245.80 |

FINDINGS

- Gross profit ratio experienced a declining trend, from its highest value of 0.13 in 2018-19 to its lowest at -0.23 in 2022-23, indicating a decrease in profitability relative to revenue.
- Quick ratio demonstrated a decreasing trend throughout the study period, despite meeting standard norms. The ratio declined from 1.56 in 2018-19 to 0.53 in 2022-23, suggesting a weakening ability to meet short-term obligations with liquid assets.
- Net profit ratio declined consistently from 7.53 in 2018-19 to -4.66 in 2019-20 and continued to decrease in subsequent years, indicating a decreasing profitability trend over the years.
- Fixed asset turnover ratio fluctuated, reaching a peak of 2.33 in 2019-20 and decreasing to 0.60 in the last year, indicating varying efficiency in utilizing fixed assets to generate

SUGGESTIONS

- Cash and bank balance has to be maintained by the company to meet working capital needs.
- The company can utilize the shareholders fund in proper way.
- The company facing loss for the 2018-2023 due to high cost of production, and high amount spent on sugarcane. If there is any loss the company can adopt the new technology.
- Capital structure efforts must be taken place to provide an adequate amount of working capital.

CONCLUSION

"Cash is the life blood of business" is the maximum amongst financial managers. Working capital management refers to the management of current of short-term assets and short-term liabilities with its sound financial position. It is important that the industry by produce working capital management and however it facts problems in respect of collecting does from its customers like central and stare government owned public food sector units. In recent years by implementing all the latest technology and techniques in all areas and employing all the control measures its efficiency in managing working capital is improving every year. Overall the profitability of the company is good.

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