

AN ANALYSIS OF WORKING CAPITAL MANAGEMENT EFFICIENCY IN RAMYA SPINNING PVT LTD

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Abstract:

Working capital is the lifeblood and nerve center of a business. Just as circulation of blood is essential in the human body for maintaining life, working capital is very essential to maintain the smooth running of a business. No business can run successfully without an adequate amount of working capital.

The Working Capital is necessary to run the day-to-day business activities. It is very difficult to find a business firm, which does not require any amount of working capital. However, firms differ in their requirements of the working capital. Companies aim at maximizing the wealth of shareholders. In their efforts to maximize shareholder's wealth, they should earn sufficient return from their operations. Earning a steady amount of profit requires successful sales activity. The firm has to invest enough funds in current assets for the efficient sales activity. Sales do not convert into cash immediately. There is always an operating cycle involved in the conversion of sales into cash.

KEYWORDS: Asset, Capital, Dividend, Liability, shareholder, wealth etc

INTRODUCTION

According to Ralph Kennedy and Steward M.C. Muller "a study of working capital is of major importance to internal and external analysis because of its close relationship with the current day to day operations of business".

Working capital management involves the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient

ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash.

Working capital typically means the firm's holdings of current, or short-term, assets such as cash, receivables, inventory and marketable securities. These items are referred to as circulating assets because of their cyclical nature. In a retail establishment, cash is initially employed to purchase inventory, which is in turn sold on credit and results in accounts receivables. Once the receivables are collected, they become cash-part of which is reinvested in additional inventory and part going to profit or cash throw-off.

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TYPES OF WORKING CAPITAL

Working Capital may be classified in two ways.

- On the basis of Concept
- On the basis of time

On the basis of Concept Working Capital

1. Gross Working Capital
2. Net Working Capital

Based on time, Working Capital can be classified into

1. Permanent Working Capital
2. Temporary Working Capital

SOURCES OF WORKING CAPITAL:

There are two types of financing sources. They are:

a) Long –term

Financing which have a maturity period for long – term, such as shares, debentures, preference shares, and retained earnings, loans from financial institutions, public deposits etc.

b) Short –term

Financing which are to be repaid in short span like one year, bank overdraft, commercial papers, and factoring receivables etc.

Short – term financing refers to borrowing funds or raising credit for a maximum of 1 year period i.e., the debt is payable within a year at the most. Whereas, the Long – term financing refers to the borrowing of funds or raising credit for one year or more. The finance manager has to mix funds from these two sources optimally to ensure profitability and liquidity.

Approaches of Working Capital

Depending on the mix of short and long-term financing, the approach followed by any company fall under these three categories

- Matching Approach
- Conservative Approach
- Aggressive Approach

OBJECTIVES OF THE STUDY

- ❖ To understand the working capital position of the Ramya Spinning Mills Pvt Ltd.
- ❖ To know the company's financial Position.
- ❖ To examine the solvency position of Spinning Ramya Spinning Mills Pvt Ltd.

RESEARCH METHODOLOGY:**Data Collection****Primary Data**

The primary data is collected by discussions with the functional managers, officers, officers, staff and other members of the Spinning Mills Pvt Ltd.

.Secondary Data

The secondary data is obtained from the annual report and financial statements that is balance sheet and Profit and Loss account, Annual reports, Journals, and other informational publications of the Ramya Spinning Mills Pvt Ltd. and from the text books of financial management.

DATA ANALYSIS AND INTERPRETATION

Table-4.1: Schedules of changes in Working Capital of Ramya Spinning Mills Pvt Ltd as on 31 March 2018

	Particulars	2016-2017	2017-2018	Increase in working capital	Decrease in Working capital
A	Current Assets				
	Inventories	17,22,56,321	18,79,34,012	1,56,77,691	-
	Sundry debtors	2,49,37,024	2,68,60,540	19,23,516	-
	Cash & bank	3,34,65,753	60,59,037	-	2,74,06,716
	Other current assets	2,86,56,816	4,86,79,846	2,00,23,030	-
	Loans & Advances	1,49,28,012	1,17,23,019	-	32,04,993
	Total Current Assets	274243926	281256454	-	-
B	Current Liabilities				
	Current Liabilities & provisions	108391431 7256927	139624184 12020960		31232753 4762033
	Total Current Liabilities	115648358	151643144	-	-
A-B	Working Capital	158595568	129613310	-	-
	Increase in Working capital		28982258	28982258	
		158595568	158595568	66606495	66606495

Interpretation:

The working capital at the end of the period (2016) is more than the working capital at the beginning (2017) an amount of is represented by decrease in working capital. Current assets are increased in 2017-17 than previous year and also current liabilities are increased in 2017-16 than previous year. In the

year 2017-2018 current assets are more than the current liabilities by 15,85,95,568. The current organization position is positive.

FINDINGS

- The working capital of the company is gradually increased from 2017-2019 but it suddenly decreased in 2020.
- The growth rate of quick ratio of the firm is not showing consistent increase from the last four years.
- The current ratio of the company is inadequate for the last four years.
- The company is always maintaining high liquidity to meet daily operations and also maintaining good cash management. The excess cash in banks always converted into fixed deposits.

SUGGESTIONS

- The holding of raw material takes long period by the firm. So it is suggestible to bring the raw material from nearby places, so that the firm can deliver the order to the buyer within a short period.
- The company is maintaining the higher value of closing stock of finished goods, which leads to lower inventory turnover ratio. It would be better to the company to maintain low level of stock as at the year-end by initiating more sales.
- In order to increase the sales company has to concentrate in capturing the foreign markets.

CONCLUSION

The overall performance of Ramya Spinning Mills Pvt Ltd from last decade is outstanding. By observing net working capital ratio, it shows that the liquid position of the company is strong. By comparing the working capital turnover

ratio, the conversion of the working capital into sales is good. So, the efficiency in the management of the working capital is very high.

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