

STUDY ON WORKING CAPITAL MANAGEMENT ON ETTIK SOFT SOLUTION

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ABSTRACT

The project report entitled “A Study on Working Capital Management on Ettiksoft solution” is used to analyze the financial performance and working capital of Ettiksoft Technologies Pvt. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt. A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial analysis or financial statement analysis or accounting analysis or Analysis of finance refers to an assessment of the viability, stability and profitability of a business, sub-business or project. Financial Analysis provides analytical services including annual reports and surveys, university and EVPCFO budget process, consulting services, capital planning and recharge rate approvals. It is performed by professionals who prepare reports using ratios that make use of information taken from financial statements and other reports. These reports are usually presented to top management as one of their bases in making business decisions.

KEY WORDS

profitability, sustainable growth, cash conversion cycle, return on assets, manufacturing industry.

INTRODUCTION

One of the most important areas in day-to-day management of the firm is the management of working capital. Working capital management is the fictional area of finance that covers all the current account of the firm. 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. Efficient management of working capital is an important prerequisite for successful working of a business concern it reduces the chances of business failure generates a feeling of security and confidence in the minds of personnel in the organization it assures solvency of steady of organization.

Working capital management is significant in Financial Management due to the fact that it plays a pivotal role in keeping the wheels of a business enterprise running. Working capital management is concerned with short-term financial decisions. Shortage of funds for working capital has caused many businesses to fail and in many cases, has retarded their growth. Lack of efficient and effective utilization of working capital leads to earn low rate of return on capital employed or even compels to sustain losses. The need for skilled working capital management has thus become greater in recent years. A firm invests a part of its permanent capital in fixed assets and keeps a part of it for working capital i.e., for meeting the day-to-day requirements. We will hardly find a firm which does not require any amount of working capital for its normal operations.

The requirement of working capital varies from firm to firm depending upon the nature of business, production policy, market conditions, seasonality of operations, conditions of supply etc. Working capital to a company is like the blood to human body. It is the most vital ingredient of a business. Working capital management if carried out effectively, efficiently and consistently, will ensure the health of an organization.

A company invests its funds for long-term purposes and for short-term operations. That portion of a company's capital, invested in short-term or current assets to carry on its day-to-day operations smoothly, is called the 'working capital'.

OBJECTIVES OF THE STUDY

To know the working capital of the concern through balance sheet.

- To know the liquidity position of the Ettiksoft Technologies Pvt with the help of current ratio.
- To find the goodwill of the Ettiksoft Technologies Pvt.
- To identify and analyze the working capital components of the Ettiksoft Technologies Pvt with the help of comparing the balance sheet.

SCOPE OF THE STUDY

- The main aim is to make a detail study on working capital management of Ettiksoft Technologies Pvt. which every company treated as a life blood which is working capital.

REVIEW OF LETRATURE

Bhatt V. V. (2023) widely touches upon a method of appraising working capital finance applications of large manufacturing concerns. It states that similar methods need to be devised for other sectors such as agriculture, trade etc. The author is of the view that banks while providing short-term finance, concentrate their attention on adequacy of security and repayment capacity. On being satisfied with these two criteria they do not generally carry out any detail appraisal of the working of the concerns.

Smith Keith V. (2023) believes that Research which concerns shorter range or working capital decision making would appear to have been less productive. The inability of financial managers to plan and control properly the current assets and current liabilities of their respective firms has been the probable cause of business failure in recent years. Current assets collectively represent the single largest investment for many firms, while current liabilities account for a major part of total financing in many instances. This paper covers eight distinct approaches to working capital management. The first three - aggregate guidelines, constraints set and cost balancing are partial models; two other approaches - probability models and portfolio theory, emphasize future uncertainty and interdependencies while the remaining three approaches - mathematical programming, multiple goals and financial simulation have a wider systematic focus.

Chakraborty S. K. (2022) tries to distinguish cash working capital v/s balance sheet working capital. The analysis is based on the following dimensions:

- a) Working capital in common parlance
- b) Operating cycle concept
- c) Computation of operating cycle period in all the four cases.

The purpose of the analysis is to demonstrate operating cycle concepts based on published annual reports of the firms.

Rao K.V. and Rao Chinta (2019) observe the strong and weak points of conventional techniques of working capital analysis. The result has been obviously mixed while some of the conventional techniques which could comprehend the working capital behavior well; others failed in doing the job properly.

The authors have attempted to evaluate the efficiency of working capital management with the help of conventional techniques i.e., ratio analysis. The article concludes prodding future scholars to search for a comprehensive and decisive yardstick in evaluating the working capital efficiency.

Hossain, Syed Zabid (2016) throws light on the various aspects of working capital position. He has evaluated working capital and its components through the use of ratio analysis. For each aspect of analysis certain ratios are computed and then results are compared with the standard ratio or industry average

Singaravel, P. (2016) focuses on the interdependency among working capital, liquidity and profitability, of which sufficiency of liquidity comes in the first preference followed by sufficiency of working capital and profitability. The article is an in-depth analysis of liquidity and its interrelationship with working capital and profitability. As the working capital, liquidity and profitability are in triangular position, none is dispensable at the satisfaction of the other.

Garg Pawan Kumar (2016) focuses on the study of working capital trend and liquidity analysis in the selected public sector enterprises of Haryana. The study suggests forecasting of working capital requirement confined mainly to various components of working capital. After considering the facts the author realized the need for proper assessment and forecasting of working capital in the public sector undertaking. For this purpose, he has suggested the analysis of production schedule, sales trend, labour cost etc., should be taken into consideration. He further suggested the need for better management of components of working capital

Bansal S. P. (2016) opines that working capital management refers to the management of

current assets and current liabilities for maintaining the optimum levels of various components and increasing the profitability of an enterprise. The author has insisted on application of various techniques for management of working capital and its three main components cash, receivables and inventories. Pathania Kulwant Singh (2016) advocates for the bank to concentrate to maximize profitability and make optimum utilization of cash resources available, while at the same time taking care to economize cash holding without impairing the overall liquidity requirements of the bank. For strengthening the financial base of the bank, permanent working capital should be financed by equity capital or other longterm sources, whereas temporary working capital should generally be financed by short-term sources.

RESEARCH METHODOLOGY

Research in common parlance to search for knowledge. One can also define research as a scientific and systematic research for prominent information on a specific topic. The quality of the project work depends on the methodology adopted for the study. Methodology, in turn, depends on the nature of the project work. The use of the proper methodology is an essential part of any research. In order to conduct the study scientifically, suitable methods and measures are to be followed.

RESEARCH DESIGN

Research design is the arrangement of activities for the collection and analysis of the data in a manner that aims to combine relevance to the purpose with economy in procedure. The study carried out here is Analytical Research.

SOURCE OF DATA

The source of data for the study is collected from secondary sources i.e, the annual reports and balance sheet of Ettiksoft Technologies Pvt for last five financial years.

- Collection of data through company annual report, company manuals and other relevant documents.
- By websites, text books and journals.

PERIOD OF STUDY

The period of study was undertaken for 5 years from 2018-2019 to 2022-2023

TOOLS USED

The following are the financial tools used for analysis and interpretation of this study which is based on receivables management.

- Ratios Analysis
 - Current Ratio
 - Quick Ratio
 - Absolute Liquid Ratio
 - Proprietor's Ratio
 - Debt Equity Ratio
 - Inventory Turnover Ratio
 - Debtors Turnover Ratio
 - (Working capital to cost of sales analysis) *Working Capital Turnover Ratio*
 - Net Profit Ratio
 - Operating Profit Ratio
- Market Share
- Cost Of Production
- Comparative statement
- Common size statement
- Trend through Fund flow analysis

RATIO ANALYSIS

A ratio is the process of determining and presenting the relationship of items and groupsof items in the financial statements.

COMPARATIVE STATEMENT ANALYSIS

Comparative balance sheet as on two or more different dates can be used for comparing assets and liabilities and finding out any increase or decrease in the items. Thus while in single balance sheet the emphasis is on present position, it is on change in the comparative balance sheet

COMMON SIZE STATEMENT ANALYSIS

Common size statements indicate the relationship of various items with some common items. In the income statements, the sales figure is taken as basis and all other figures are expressed as percentage of sales. Similarly, in the balance sheet the total assets and liabilities is taken as base and all other figures are expressed as percentage of this total.

TREND THROUGH FUND FLOW ANALYSIS

Fund flow is the net of all cash inflows and outflows in and out of various financial assets. Fund flow is usually measured on a monthly or quarterly basis; the performance of an asset or fund is not taken into account, only share redemptions, or outflows, and share purchases, or inflows. Net inflows create excess cash for managers to invest, which theoretically creates demand for securities such as stocks and bonds.

LIQUIDITY RATIOS

CURRENT RATIO

Current ratio is also known as short-term solvency ratio or working capital ratio. Current ratio is used to assess the short-term financial position of the business.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

DATA ANALYSIS

CURRENT RATIO

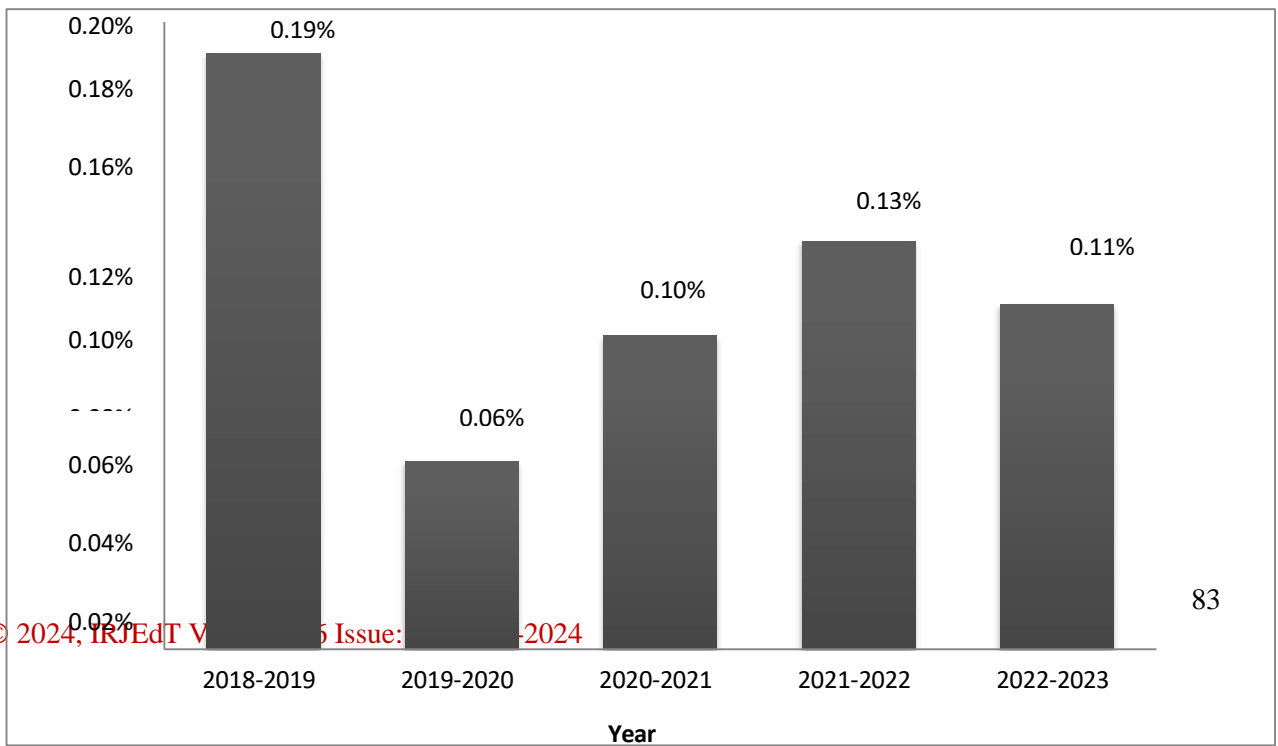
Year	Current Asset (in Rs)	Current Liability (in Rs)	Ratio %
2018-2019	30.34	155.81	0.19
2019-2020	11.28	183.93	0.06
2020-2021	24.06	219.09	0.10
2021-2022	35.75	265.38	0.13
2022-2023	38.37	341.61	0.11

Source: Secondary data

INTERPRETATION

The above table reveals the current ratio in Ashok Engineers. Current ratio in the year 2018-2019, 2019-2020, 2020-2021, 2021-2022 and 2022-2023 is 0.19, 0.06, 0.10, 0.13 and 0.11. When comparing previous year (2021-2022) and current year (2022-2023) the value of current ratio decreased from 0.13 to 0.11.

CURRENT RATIO CHART :



QUICK RATIO

Quick ratio is another measure of a company's liquidity. Quick ratio is also known as liquid ratio or acid test ratio. This ratio is used to assess the firm's short term liquidity. The relationship of liquid asset to current liabilities is known as quick ratio.

$$\text{Quick Ratio} = \frac{\text{Liquid assets}}{\text{Current Liabilities}}$$

QUICK RATIO

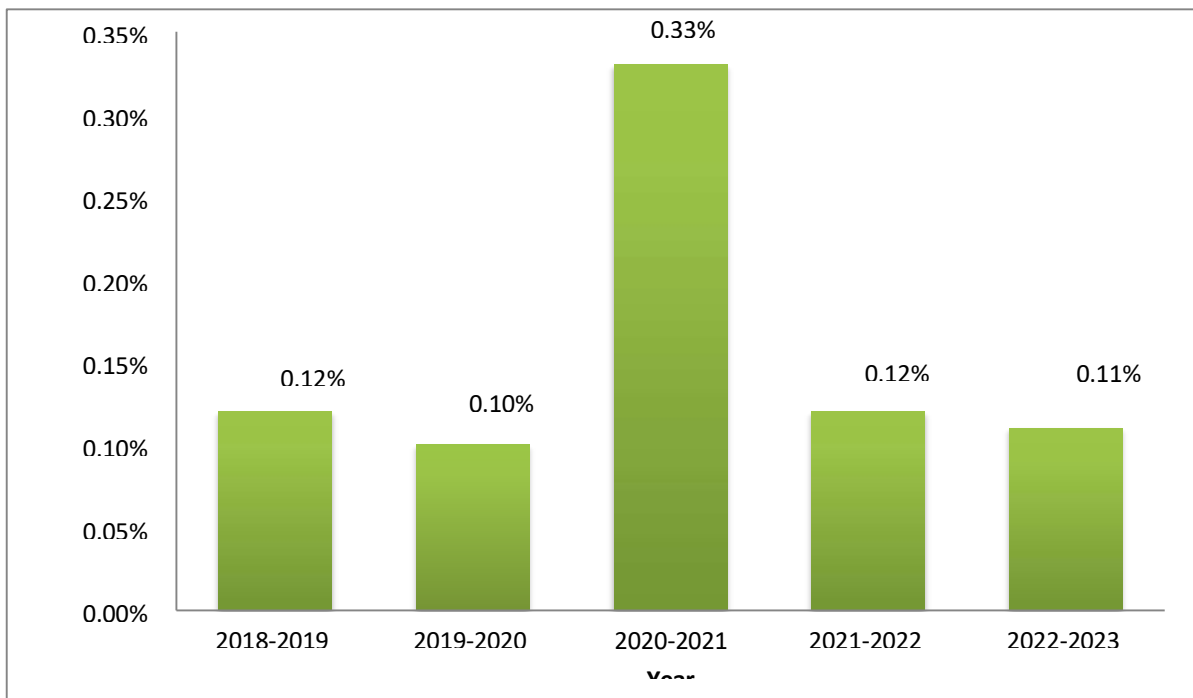
Year	Quick Asset (in Rs)	Current Liability (in Rs)	Ratio %
2018-2019	19.69	155.81	0.12
2019-2020	18.79	183.93	0.10
2020-2021	73.01	219.09	0.33
2021-2022	32.63	265.38	0.12
2022-2023	36.2	341.61	0.11

Source: Secondary data

INTERPRETATION

The above table reveals the Quick ratio in Ashok Engineers. Quick ratio in the year 2018-2019, 2019-2020, 2020-2021, 2021-2022, and, 2022-2023 is 0.12, 0.10, 0.33, 0.12 and 0.11. When comparing previous year (2021-2022) and current year (2022-2023) the value of Quick ratio decreased from 0.12 to 0.11.

QUICK RATIO CHAT :



NET WORKING CAPITAL RATIO

The net working capital ratio measures how well a company is utilizing its working capital to support a given level of sales. Working capital is current assets minus current liabilities.

$$\{\text{Net working capital} = \text{Sales} / \text{working capital} \}$$

WOKING CAPITAL TURNOVER RATIO

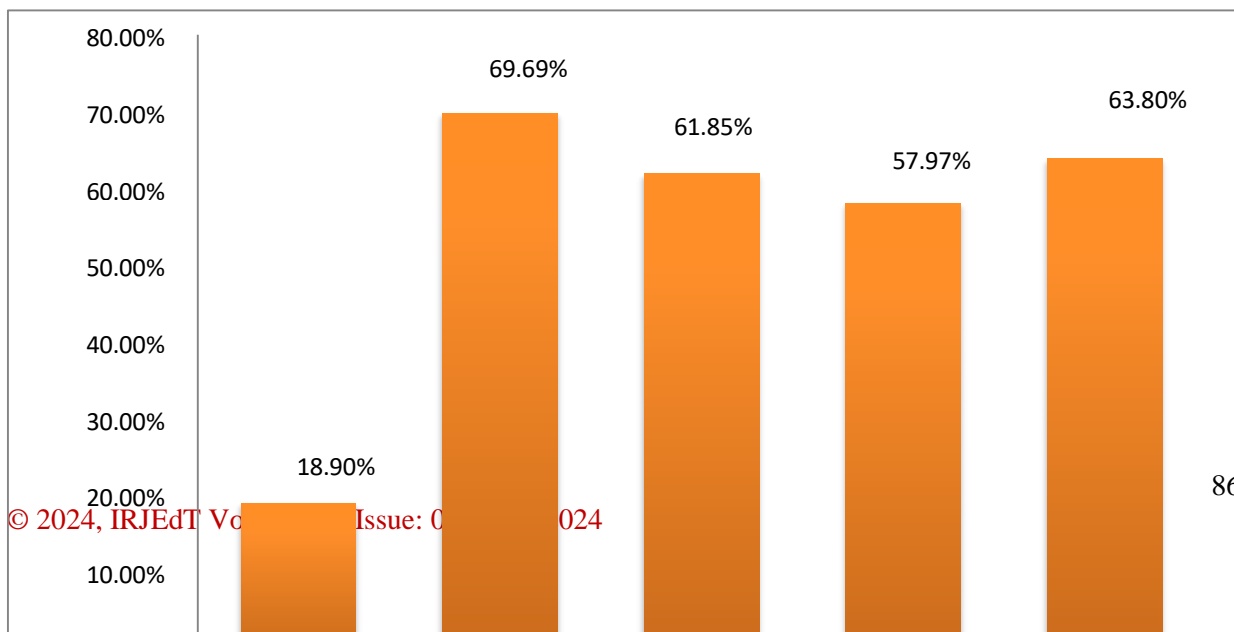
Year	Net Sales (in Rs)	Net Working Capital (in Rs)	Times %
2018-2019	1,355.73	71.8	18.9
2019-2020	1,603.54	23.92	69.69
2020-2021	2,165.02	35.38	61.85
2021-2022	2,493.54	43.47	57.97
2022-2023	2,933.08	46.88	63.80

Source: Secondary data

INTERPRETATION

The above table reveals the working capital turnover ratio in Ashok Engineers. Working capital turnover ratio in the year 2018-2019, 2019-2020, 2020-2021, 2021-2022 and 2022-2023 is 18.9, 69.69, 61.85, 57.97 and 63.80. When comparing previous year (2021-2022) and current year (2022-2023) the value of working capital turnover ratio increased from 57.97 to 63.80.

EXHIBIT SHOWING NET WORKING CAPITAL RATIO



FINDINGS, SUGGESTIONS & CONCLUSION

5.1 FINDINGS

The following are the findings interpreted through financial performance analysis of Ashok Engineers .

- Current ratio was high during 2021-2022 with 0.13% and low during 2019-2020 with 0.06%
- Quick ratio was high during 2020-2021 with 0.33 and low during 2019- 2020 with the value 0.10
- Working capital turnover ratio is low during 2018-2019 with the value 18.9 and high during 2019-2020 with the value 69.69
- Gross profit ratio was high with value 36.82 in 2018-2019. Low ratio was shown during 2020-2021 with the value 28.54.
- Net profit ratio was high during 2018-2019 with 25 and low during 2020- 2021 with the value 14
- Operating profit ratio shows decreasing trend. The ratio was high during last financial year 2021-2022 with 7 and low during 2019-2020 and 2022-2023 with the value 6.7
- Inventory turnover ratio was high during 2021-2022 with the value 28.33 and low during 2019-2020 and 2022-2023 with the value 11.37. Overall it shows fluctuation trend.
- Debt collection period was high during 2020-2021 with 7.19% and low

during 2022-2023 with 1.56%

- Debt ratio was high during 2018-2019 with the value 15.14 and low during 2021-2022 with the value 10.06
- Debt equity ratio was high during 2022-2023 with the value 43.8 and low during 2019-2020 with the value 27.3
- Capital Employed Net worth was high during 2020-2021 with the value 0.13 and low during 2021-2022 with the value 0.04
- Creditors turnover ratio was high during 2018-2019 with the value 6.63 and low during 2021-2022 with the value 1.46
- Cash to current assets turnover ratio was high during 2020-2021 with the value 1.25 and low during 2021-2022 with the value 0.30
- Cash turnover ratio was high during 2021-2022 with the value 232.38 and low during 2020-2021 with the value 71.61

CONCLUSION

The financial position of the company has provided a clear view on the activities of the company. The use of the ratio analysis, trend analysis, cash flow statement and other accounting and financial management helped in this study to find out the financial soundness of the company. This project was very useful for the judgment of the financial status of the company from the management point of view. This evaluation proved a great deal to the management to make a decision on the regulation of the funds to increase the sales and bring profit to the company. The study is conducted to analyze the present performance and profitability position of the organization. The present situation of the organization was taken for the study is through analyzing the five years annual report which clearly depicts the Balance sheet in which the sources of funds, application of funds, and current liabilities and provisions of the company. The present situation of the organization was taken for the study is through analyzing the five years annual report which clearly depicts the Balance sheet in which the sources of funds, application of funds, and current liabilities and provisions of the company. From the study, it can be concluded that the company's working capital position is good, and the company should concentrate more on improving its net profit by various means. Reducing expenses and employing cost control measures in all departments is one effective way to increase the net

profit. The company should consider converting short term debt with long term debt, and also concentrate to improve inventory management. There are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to the purchase of inventory and fixed assets and for the sale of goods and services. Financial management plays a major role in the company in achieving the position in the mind of the customers

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