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A STUDY ON WORKING CAPITAL MANAGEMENT IN STANLEY MATERIAL AND METALLURGICAL PIPE AND TUBE INDUSTRY AT COIMBATORE

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ABSTRACT

A study of working capital is the major importance to internal and external analysis because of its close relationship with the day-to-day operation of a business. The statement of changes in working capital for the year ended 2013-2017 which shows that working capital net result of the current asset over the current liability is in an decreasing trend which is favourable to the Economic service operations and the working capital possessed by the Economic service was adequate. So the overall efficiency of the economic service is satisfactory.

In this study should be performance of working capital of last 5 years growth for economic service some of the risk has taken from the stanley material and metallurgical pipe and tube industry, because the company are rising working capital level for aim to its structure level.

INTRODUCTION

Working capital is formally arrived at by subtracting the current liabilities from current assets of a firm on the day the balance sheet is drawn up. Working capital is also represented by a firm's net investment in current assets necessary to support its everyday business. Working capital frequently changes its form and is sometimes also referred to as circulating capital. According to Grettenberger "circulating capital means current assets of a company that are changed in the ordinary course of business from one form to another."

Concept of Working Capital Management

There are two concepts of working capital *viz.* **quantitative** and **qualitative.** Some people also define the two concepts as gross concept and net concept. According to quantitative concept, the amount of working capital refers to 'total of current assets'. What we call current assets **Smith** called, 'circulating capital'. Current assets are considered to be gross working capital in this concept.

The qualitative concept gives an idea regarding source of financing capital. According to qualitative concept the amount of working capital refers to "excess of current assets over current liabilities**.**" **L.J. Guthmann** defined working capital as "the portion of a firm's current assets which are financed from long–term funds."

The excess of current assets over current liabilities is termed as 'Net working capital'. In this concept "Networking capital" represents the amount of current assets which would remain if all current liabilities were paid. Both the concepts of working capital have their own points of importance. "If the objectives is to measure the size and extent to which current assets are being used, 'Gross concept' is useful; whereas in evaluating the liquidity position of an undertaking 'Net concept' becomes pertinent and preferable. It is necessary to understand the meaning of current assets and current liabilities for learning the meaning of working capital, which is explained below.

Current assets

It is rightly observed that "Current assets have a short life span. These types of assets are engaged in current operation of a business and normally used for short– term operations of the firm during an accounting period *i.e.* within twelve months. The two important characteristics of such assets are, (i) short life span, and (ii) swift transformation into other form of assets. Cash balance may be held idle for a week or two, account receivable may have a life span of 30 to 60 days, and inventories may be held for 30 to 100 days."

Fitzgerald defined current assets as, "cash and other assets which are expected to be converted in to cash in the ordinary course of business within one year or within such longer period as constitutes the normal operating cycle of a business."

Current liabilities

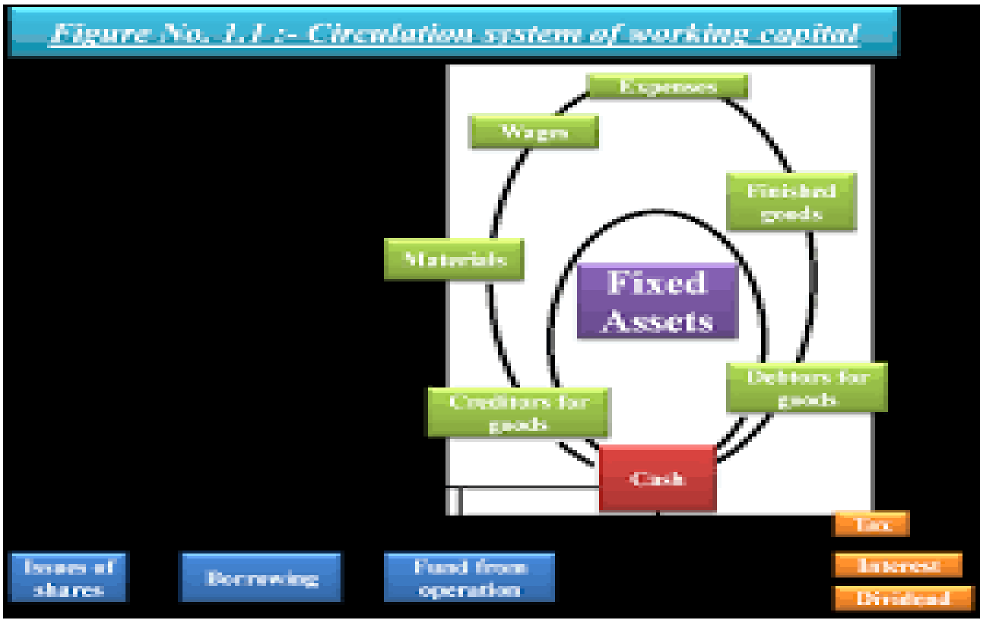
The firm creates a Current Liability towards creditors (sellers) from whom it has purchased raw materials on credit. This liability is also known as accounts payable and shown in the balance sheet till the payment has been made to the creditors.

The claims or obligations which are normally expected to mature for payment within an accounting cycle are known as current liabilities. These can be defined as "those liabilities where liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current assets, or the creation of other currentliabili.

CIRCULATION SYSTEM OF WORKING CAPITAL

Working capital is also known as 'circulating capital or current capital' Kulkarni has remarked that, "The use of the term circulating capital instead of working capital indicates that its flow is circular in nature".

The funds in a business are obtained from the issue of share, the issue of debentures, and other long-term arrangement and from operations of business. A huge part of generated funds is used to acquire fixed assets, via, plant and machinery, land building and some other fixed assets, while the remaining part of the generated funds is used for day to day operations of the business e.g. to pay wages and overheads expenses for the raw materials processed.



This makes possible the stocking of finished goods by whose sales either accounts receivables are created or cash is received. In this process profits are generated. A part of the profit is used to pay tax, interest and dividends, while the remaining part is ploughed back in the business.

WORKING CAPITAL STRUCTURE

Various current assets and current liabilities components make up the working capital composition. Each component plays important part in any business firm. If any component of working capital is not adequate, it may bring down efficiency and profitability of the company. Current asset and current liabilities which constitute working capital structure are shown in table 1.1

Table 1.1 Working Capital Structure

Current Liabilities	Current Assets
Creditors	Inventories
Bank Overdraft	Cash and Bank Balance
Bills Payable	Accounts Receivables
Outstanding Expenses	Bills Receivables
Short-term Loans	Accrued Income
Provision for Taxation	Prepaid Expenses
Other Current Liabilities	Other Current Assets

IMPORTANCE OF WORKING CAPITAL

The importance of sufficient working capital in any business concern can never be overemphasized. A concern requires adequate working capital to carry on its day-to-day operations smoothly and efficiently. Lack of adequate working capital not only impairs firm’s profitability but also results in stoppage in production and efficiency in payment of its current obligations.

Smooth Flow of Production

To maintain a smooth flow of production, it is necessary that adequate working capital is available for paying trade suppliers, hiring labor and incurring other operating expenses.

Increase in Liquidity and Solvency Position

It enhances the liquidity and solvency position of the business concern.

Goodwill

A firm with sound working capital position can make timely payment of its outstanding bills. This enhances the reputation of the firm.

Advantages of Cash Discount

It enables the firm to avail itself of the facilities like cash discount by making prompt payments .

Easy Loan

Adequate amount of working capital builds a sound credit-worthiness of the firm. As a result it becomes easier for the firm to obtain additional loans in favorable terms and conditions in order to meet seasonal increase in demand or to finance the increased working capital resulting from expansion.

Regular Payment of Wages and Salaries

The firm can make regular and timely payment of wages and salaries to its employees. This increases the morale and efficiency of employees.

Security and Confidence

It creates a sense of security and confidence in the mind of management or officials of the firm.

Efficient Use of Fixed Assets

Adequate amount of working capital enables the firm to use its fixed assets more efficiently and extensively. If the fixed assets remain idle due to paucity of working capital, depreciation of fixed assets and interest on borrowed capital invested in fixed assets will have to be incurred unnecessarily.

Meeting of Contingencies

It can meet unforeseen contingencies of the firm. Unforeseen contingencies like business depression, financial crisis due to huge losses etc. can easily be overcome, if adequate working capital is maintained by a firm.

Completing operating cycle

A sound management of working capital helps in completing the operating cycle quickly. This enables a firm to increase its profitability.

Timely Payment of Dividend

Adequate working capital ensures regular payment of dividends to the shareholders.

SIGNIFICANCE OF THE STUDY

Financial managers to plan properly and control current assets and current liabilities of their respective firms. Otherwise, Many business failures in recent years to the inability of financial management. Shortages of funds for working capital as well as uncontrolled over-expansion of working capital have caused many businesses to fail and in less severe cases, have stunted their growth. Especially in small firms, working capital management may be the factor that decides success or failure; in large firms, efficient working capital management can significantly affect the firm's risk, return and share price.

STATEMENT OF THE PROBLEM

Working capital management or simply the management of capital invested in current assets is the focus of study. So topic is to study working capital management in **Stanley material and metallurgical pipe and tube industry at Coimbatore.**

Working capital is the fund invested by a firm in current assets. Now in a cut throat competitive era where each firm competes with each other to increase their production and sales, holding of sufficient current assets have become mandatory as current assets include inventories and raw materials which are required for smooth production runs.

Holding of sufficient current assets will ensure smooth and un interrupted production but at the same time, it will consume a lot of working capital. Here creeps the importance and need of efficient working capital management. Working capital management aims at managing capital assets at optimum level, the level at which it will aid smooth running of production and also it will involve investment of nominal working capital in capital assets.

"The problem generally explains that, less attention has been paid to the area of short- term finance, in particular that of working capital management. Such neglect might be acceptable were working capital considerations of relatively little importance to the firm, but effective working capital management has a crucial role to play in enhancing the profitability and growth of the firm. Indeed, experience shows that inadequate planning and control of working capital is one of the more common causes of business failure."

SCOPE OF THE STUDY

This project acts as a reference guide or as a source of information. It gives the idea about the financial analysis of the firm. The main scope of the study was to put into practical the theoretical aspect of the study into real life work experience. The study deals with analysis and interpretation of the data collected through the sources of primary and secondary data for a period of five financial years. I.e. 2012-2013, 2013-2014, 2014-2015, 2015-2016 and 2016-2017 Graphs, diagrams and tabulation methods are used to analyze and interpret the data collected. It will help to understand the company's liquidity position. Since the decision regarding working capital are of an operating nature not one time decision, the scope of the study is geared towards identifying important areas of control and to establish model for better control of the various components of working capital.

OBJECTIVES OF THE STUDY

- To investigate the different aspects of **working capital management in Stanley material and metallurgical pipe and tube industry at Coimbatore**.
- To identify the various systematic processes in managing the working capital.
- To find-out the various liquidity, profitability, solvency and the turnover positions of the company as a tool of performance which will lead us to identify the financial soundness of the company.
- To provide reliable financial information about economic resources and obligation of a business enterprise.
- To disclose to the extent possible other information related to the financial statements users.
- To estimating the potential of the enterprise.

REVIEW OF LITERATURE

Jose et al (2018) examines the relationship between profitability and management of ongoing liquidity needs by measuring a cross-section of firms during the period of over twenty-years and find the strong evidence that aggressive working capital policies improve the profitability of the firms. The aggressive liquidity management leads to a shorter cash conversion cycle by reducing the inventory period and the accounts receivables period while increasing the accounts payables period.

Appavadhanulu (2018) recognizing the lack of attention being given to investment in working capital, analyzed working capital management by examining the impact of method of production on investment in working capital. He emphasized that different production techniques require different amount of working capital by affecting goods-in process because different techniques have differences in the length of production period, the rate of output flow per unit of time and time pattern of value addition. Different techniques would also affect the stock of raw materials and finished goods, by affecting lead-time, optimum lot size and marketing lag of output disposals. He, therefore, hypothesized that choice of production technique could reduce the working capital needs.

Jain P. K. and Yadav Surendra S. (2018) study the corporate practices related to management of working capital in India, Singapore and Thailand. In this paper the authors have tried to understand the working capital management and current assets and current liabilities, and their inter-relationship. Further the authors have shown an aggregative analysis of current assets and current liabilities in terms of major liquidity ratios. It also states working capital position in terms of these ratios pertaining to various industries. From the paper one can infer that the available data in respect of the sample companies from the three countries confirm the wide inter-industry variations in liquidity ratios.

RESEARCH METHODOLOGY

INTRODUCTION

Research methodology is a way to systematically solve the research problem. It May be understood as a science of studying now research is done systematically. In that various steps, those are generally adopted by a researcher in studying his problem along with the logic behind them “The procedures by which researcher goes about their work of describing, explaining and predicting phenomenon are called methodology”.

RESEARCH DESIGN

This project “A Study on Working Capital Management of **STANLEY MATERIAL AND METALLURGICAL PIPE AND TUBE INDUSTRY AT COIMBATORE** is considered as an analytical research. Analytical Research is defined as the research in which, researcher has to use facts or information already available, and analyze these to make a critical evaluation of the facts, figures, data or material.

DATA COLLECTION

SECONDARY DATA

The secondary data are those which have already collected and stored. Secondary data easily get those secondary data from records, journals, annual reports of the company etc. It will save the time, money and efforts to collect the data. Secondary data also made available through trade magazines, annual reports, books etc.

This project is based secondary data collected through annual reports of the organization. The data collection was aimed at study of working capital management of the company.

Project is based on

- Annual report - 2013-2014
- Annual report -2014-2015
- Annual report - 2015-2016
- Annual report - 2016-2017

TOOL FOR THE STUDY

During the course of research for the researcher for analysis and interpretation o data is given below has applied various tools.

- Ratios analysis
- Comparative balance sheet
- Changes in working capital

LIMITATIONS OF THE STUDY

1. The study conducted and done is analytical, subject to the following limitations
2. This study is based on the historical data and information provided in the annual reports therefore it may not be a future indicator.
3. There may be some fractional differences in the calculated ratios.
4. As the study was for short span of 3 month and due to lack of time other areas could not be well focused.
5. This study deals only with the data made available. Hence the result of this study cannot judge the business of the firm in general.
6. The study extensively uses the data provided is the financial reports of the firm which may also have their own limited perspective.

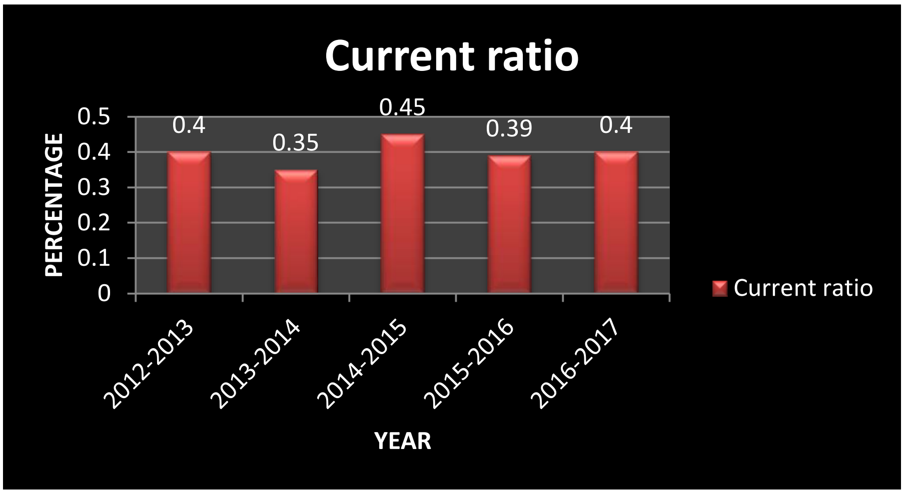
DATA ANALYSIS AND INTERPRETATION

4.1 RATIO ANALYSIS

TABLE 4.1.1
CURRENTRATIO

Rupees (in Cores)					
YEAR	**2012-2013**	**2013-2014**	**2014-2015**	**2015-2016**	**2016-2017**
Current Assets	4423.18	5939.67	7133.06	8411.63	6735.93
Current Liabilities	10968.95	16909.30	15740.69	21271.45	16580.47
CURRENT RATIO	0.40	0.35	0.45	0.39	0.40

CHART 4.1.1
CURRENT RATIO



INTERPERTATION

As per the figure shown the company current liabilities are more than company assets, for the good position the ratio should be above the one, but hers the rubber industry current ratio is less than one, the assets stabilities are less than liabilities.

5.1 FINDINGS OF THE STUDY

1. The current ratio is the good position the ratio should be above the one, but current ratio is less than one, the assets stabilities are less than liability.
2. Quick or acid test ratio is very low 2016-2017. The company liquid assets are continuously shows negative impact on liquid assets.
3. Current turnover ratio is rapidly is increasing but 2014-2015 is at highest 6.72 times.
4. Working capital turnover ratio is the net sales in increasing 2014-2015 (5.58), but last two years it gives decreasing value.
5. Capital employed turnover ratio has increased in the year 2015-2016 1.78 times but 2016-2017 1.34 times only moving so it negative process.

5.2 SUGGESTION

- ✓ The company's future plans for expansion seem clear due to increased investment in Fixed Assets .Efficient use of these Assets has enabled the company to observe an increased profit.
- ✓ Though the company's sale is continuously rising but the net profit is not so much increased so management should take some steps to decrease its expenses.
- ✓ Company should try its best to increase sales and profit.
- ✓ The profit margin ratio shows decline in current year so that company should try to increase profit after tax
- ✓ Current ratio is very good it is 0.4% increasing, so company has fully utilized cash liquidity for business development.

5.3 CONCULSION

From last two years the company has been struggle. After analysing all the ratio, current ratio has mostly remained below the 1 which means the company has been under pressure of not having enough assets to repay their short term obligations. Quick ratio suggests that the company has more liquid liabilities than liquid assets, it is bad sign for the company, and company should not be able to meet the liquid liabilities which are higher as compare to liquid assets. Current assets turnover ratio shows that company current assets value is more than 6 times in that year, company capability to earn profit through current assets is very good. As per the data, the working capital not that much capable to generate the sales revenue, when company needs the working capital that were not available at that time so it should defiantly have impact on sales. The capital employed shows that when shareholder's invested their money in to the business, it helps to increase the sales. The net sales in increasing reasoned may be requirement of working capital or machinery etc.. The debt equity ratio describes that company creditors have higher contribution than shareholders. Company is only depending on debt not utilizing the shareholders capital. The gross profit is continuously going down and net profit ratio also going negative after the three years. The company overall performance is weak it may be for high debt and increase in interest upon it. From the ratio analysis the company Stanley material and metallurgical pipe and tube industry at Coimbatore profile is dealings due to the decline of whole automobile industries should be advisable not to invest in the company.

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