Research Paper
Impact Factor: 3.853
Refereed, Listed & Indexed

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

IMPACT OF WORKING CAPITAL MANAGEMENT ON THE LIQUIDITY POSITION OF SAKTHI SUGARS LTD., MODAKKURICHI.

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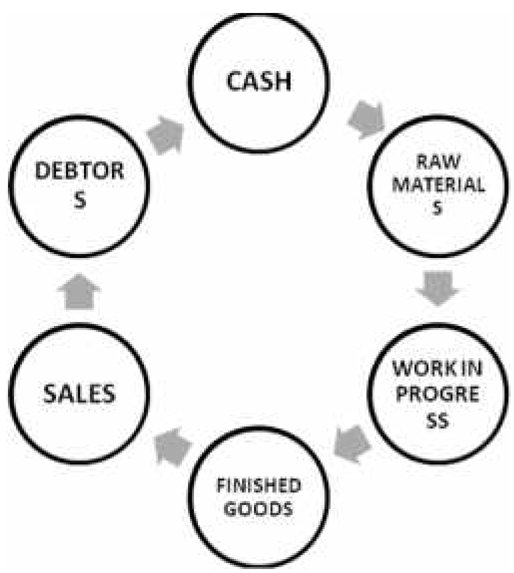
Abstract
Working capital is important for every organisation to run the business effectively. Working capital management deals with the management of current assets. A business concern acquires fund from various sources and invest in current and noncurrent assets. Current assets help in running day to day operation of business whereas noncurrent assets help in production or trading activities. Current assets ensure the liquidity of the concern, which has an impact on profit. An excess or shortage in working capital will have an adverse effect on profitability. So the decision regarding investment and management in current asset is a key for all business. In this study, Analytical research design is used and the required datas were collected from annual reports of Sakthi Sugars Ltd. The Schedule of changes in working capital and various ratios are calculated to find out the working capital position of the company. On the basis of the analysis it was found that Sakthi Sugars ltd has to improve and concentrate on their working capital requirements in order to maintain their profitability and the efficiency of working capital.

Key Words: Working Capital Management, Liquidity, Current Assets, Current Liabilities, Profit.

Introduction

Working capital is the life blood and nerve centre of a business. No business can be run successfully without adequate amount of working capital. Working capital management deals with the management of current assets. Maintenance of satisfactory level of working capital by managing the company's current assets and current liabilities is the main aim of the working capital management. Working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities and the interrelationship that exists between them. Modern business enterprises produce goods in anticipation of demand. Goods produced are not sold immediately. Cash for sales is also not realised immediately.



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There are time gaps between purchase of raw materials and production; production and sales; and sales and realisation of cash. Thus, the need for working capital arises due to the time gap between purchase of raw materials and realisation of cash from sales.Sakthi Sugars Limited is one of the important members of the Sakthi Group contributing a large share of revenue to the group's turnover. Sakthi Group has set up many educational and charitable institutions, hospitals and religious canters. It has also made significant contribution to rural development through a number of social welfare activities and initiatives. It has created ample employment opportunities for rural youth through its multi-fold agro-based institutions and other industries.

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Sakthi Sugars is a sugar manufacturing company based in Coimbatore in the Indian state of Tamil Nadu. It has factories in Appakoodal and Modakurichi, and plants in Orissa, Sakthinagar, Sivaganga, Dhenkanal, Modakurichi, and Pollachi. Sakthi Sugars was found in 1961 and started producing sugar from 1964, and now produces various kinds of sugar, industrial alcohol, ethanol, power stations, soybean products, and bio earth.

Literature Review

1. Corazon L. Magpayo (2011) highlighted the importance of working capital management and financial leverage on the firms' financial performance is emphasized in this study to bring attention of business leaders to the obvious but is often neglected. The next step is to look into the best practices of top performing companies. What working capital management strategies may be implemented to minimize investment in current assets, at the same time maximize use of financial leverage at the firm's acceptable financial risk appetite and concluded that aggressive working capital management policy reflected in low investments in current asset influences net income positively.

2.Wajahat Ali and Syed Hammad Ul Hassan (2010) study of 37 listed companies in the OMX Stockholm Stock Exchange showed no significant relationship between profitability and working capital management policy when grouped as aggressive, defensive or conservative based on cash conversion cycle. The ratio of current asset to total assets of the observations in this study was another possible proxy variable for working capital management, but the data failed the tests of normality. Because of this limitation, dummy variables were used instead to capture the effect of working capital management policy on profitability.

3. Amarjit Gill, Nahum Biger, Neil Mathur (2010) the finding indicates that slow collection of accounts receivables is correlated with low profitability. Managers can improve profitability by reducing the credit period granted to their customers. Regarding the average days of accounts payable previous studies reported negative correlation of this variable and the profitability of the firm. They found no statistically significant relationship between these variables.

4. Karamjeet Singh and Firew Chekol Asress (2010) concluded that firms which have adequate working capital in relation to their operational size are performed better than those firms which have less than the required working capital in relation to their operational size. If firms actual working capital is below the required working capital in relation to their operational size, firms are forced to produce below their optimal scale and this create problem to run day to day activities smoothly, so this lead firms to generate low eturn on their investment.

5. Saswata Chatterjee (2010) focused on the importance of the fixed and current assets in the successful running of any organization. It poses direct impacts on the profitability liquidity. For this purpose 30 United Kingdom based companies were selected which were listed in the London Stock exchange. The data were taken of three years 2006-2008. It analyzed the impact of the working capital on the profitability. The dimensions of working capital management included in this research which is quick ratios, current ratios C.C.C, average days of payment, Inventory turnover, and A.C.P (average collection period. on the net operating profitability of the UK companies.

6. Dong (2010) reported that the firms' profitability and liquidity are affected by working capital management in his analysis. Pooled data are selected for carrying out the research for the era of 2006-2008 for assessing the companies listed in stock market of Vietnam. He focused on the variables that include profitability, conversion cycle and its related elements and the relationship that exists between them. From his research it was found that the relationships among these variables are strongly negative. This denote that decrease in the profitability occur due to increase in cash conversion cycle. It is also found that if the number of days of account receivable and inventories are diminished then the profitability will increase numbers of days of accounts receivable and inventories.

7.Mohammad Neab and Noriza BMS (2010) worked on crating the relationship between Working Capital Management (WCM) and performance of firms. For their analysis they chose the Malaysian listed companies. They administered the perspective of market valuation and profitability. They used total of 172 listed companies from the databases of Bloomberg. They randomly selected five year data (2003-2007). They found that there is a negative relationship between working capital variables and the firm's performance.

8. Zariyawati et al. (2009) investigated the relationship between CCC and profitability for the Malaysian firms for the period 1996-2006. And their findings are consistent with the aforementioned studies.

9. Uyar (2009) using ANOVA and correlation analysis. The results showed retail/wholesale industry has shorter Cash Conversion Cycle (CCC) than manufacturing industries. Furthermore, study found significant negative correlation between CCC and profitability as well as between CCC and firm size.

IJBARR
E- ISSN -2347-856X
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Statement of The Problem

Working capital changes make the Sakthi sugars limited in meeting the day to day problems in their organisation. Generally, the changes in working capital create the problem in the area of daily scheduled productions, functions, creditor's settlement, payment to their suppliers and the working capital management in an organisation. Hence, the working capital in the concern was generally analysed to identify their performance.

Objectives of The Study

1. To analyze the liquidity position of the concern.
2. To make the comparative analysis in working capital statement of the company.
3. To measure the efficiency of operations regard to working capital management.

Research Methodology

The methodology of this study includes the design of the study and collection of data. Analytical research design is used in this study. The study is based on secondary data obtained from the published annual reports of Sakthi Sugars Ltd comprising of profit and loss account and balance sheet of 8 years(2008-2015) Ratio Analysis was the main tool used to attain the objectives of the study. Schedule of changes in working capital was also prepared to identify the increase or decrease in working capital.

Limitations of The Study

1. The figures taken from the financial statement for analysis are historic in nature and the time value of money is not considered.
2. The study covers only eight years from 2007-08 to2014-15.
3. The analysis is applicable to the Sakthi sugars limited only.

Analysis

1. Schedule of Changes In Working Capital

The term net working capital is the difference between current assets and current liabilities or alternatively the proportion of current assets financed with long-term funds.

Net working capital = Current assets - current liabilities

Every business concern should have adequate working capital for its smooth functioning. It should have neither excess working capital nor shortage of working capital. Both redundant as well as inadequate working capital positions are bad for any business. However, out of the two, inadequacy of working capital is more dangerous for a firm.

The following table shows the increasing and decreasing of working capital for eight years from 2008 to 2015.

Table No: 1.1 (Rs. In Cr.)

Years	Current Assets	Current Liabilities	Net Working Capital
2007-2008	574.07	313.75	260.32
2008-2009	824.06	333.44	490.62
2009-2011	414.11	907.63	(493.52)*
2011-2012	394.16	804.30	(410.14)*
2012-2013	287.83	499.71	(499.71)*
2013-2014	227.93	1,016.87	(788.94)*
2014-2015	391.16	1,164.03	(772.87)*

Source**:** Annual report of Sakthi Sugars Ltd.

*****indicates decreasing in working capital

Interpretation

From the above table it is observed that there was a positive net working capital for first two years 2008 and 2009 with 260.32cr and 490.62cr respectively. It had a negative net working capital from the year 2011 to2015 with 493.52cr, 410.14cr, 499.71cr, 788.94cr, 772.87cr respectively.

It indicates that there is no liquidity of cash to settle their immediate liabilities. It indicates liquidity position is shocking.

2. Ratio Analysis

Inventory Turnover Ratio

$$\text{Inventory turnover ratio} = \frac{\text{Sales}}{\text{Inventory}}$$

IJBARR
E- ISSN -2347-856X
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Table No: 2.1 (Rs. In cr.)

Years	Net sales	Inventory	Ratio (in times)
2007-2008	1,020.34	43.52	23.45
2008-2009	1,374.71	187.90	7.32
2009-2011	2,139.43	141.25	15.15
2011-2012	1,103.16	118.99	9.27
2012-2013	1,170.41	98.94	11.83
2013-2014	707.28	130.84	5.41
2014-2015	836.51	99.51	8.41

Source: Annual Report of Sakthi Sugars Ltd.

Interpretation

The above table reveals that, the ratio is varying from 7.32 to 23.45 times. All the year ratios are good except the year 2008-2009 value 7.32times which was not satisfactory.

The standard norm for the inventory turnover ratio is 8 times. A high inventory turnover ratio indicates efficient management of inventory.

Debtors Turnover Ratio

$$\text{Debtors turnover ratio} = \frac{\text{Total credit sales}}{\text{Debtors}}$$

Table No: 2.2 Rs. In cr.

Years	credit sales	Debtors	Ratio (in times)
2007-2008	1,020.34	27.58	37.00
2008-2009	1,374.71	59.74	23.01
2009-2011	2,139.43	127.37	16.80
2011-2012	1,103.16	102.99	10.71
2012-2013	1,170.41	110.74	10.57
2013-2014	707.28	45.71	15.47
2014-2015	836.51	131.36	6.37

Source: Annual report of Sakthi Sugars Ltd.

Interpretation

From the above table it is observed that the debtors' turnover ratio during the year 2007-08 is 37 times, 2008-09 is 23.01 times, 2009-11 is 16.80 times, 2011-12 is 10.71 times, 2012-13 is 10.57 times, 2013-14 is15.47 times and 2014-15 is 6.37times.

The higher the ratio indicates that more efficient in the management of debtors or more liquid are the debtors. Low debtors turnover ratio during the year which indicates inefficient management of debtors and less liquid debtors.

Creditors Turnover Ratio

$$\text{Creditors turnover ratio} = \frac{\text{Credit purchases}}{\text{Creditors}}$$

Table No: 2.3 Rs. In cr.

Years	credit purchases	Creditors	Ratio (in times)
2007-2008	558.79	313.75	1.78
2008-2009	1087.64	333.44	3.26
2009-2011	1581.31	204.11	7.75
2011-2012	763.16	192.50	3.96
2012-2013	883.38	272.52	3.24
2013-2014	575.41	274.70	2.09
2014-2015	455.41	245.45	1.86

Source: Annual Report of Sakthi Sugars Ltd.

Interpretation

From the above table it is identified that the creditors turnover ratio during the year 2007-08 is 1.78 times, 2008-09 is 3.26, 2009-11 is 7.75, 2011-12 is 3.96, 2012-13 is 3.24, 2013-14 is 2.09 times, and 2014-15 is 1.86 times. There is no rule of thumb or standard which may be used as a norm while interpreting this ratio.

The lower ratio indicates the better liquidity position of the concern. The higher ratio indicates their lower liquidity position of the concern.

Working Capital Turnover Ratio

The working capital ratio indicates to analysts the company’s liquidity, or whether it has cash flow adequate enough to meet of its short term liabilities and expenses.

$$\text{Working capital turnover ratio} = \frac{\text{Sales}}{\text{Net working capital}}$$

Table No: 2.4 (Rs. In cr.)

Years	Sales	Net working capital	Ratio (in times)
2007-2008	1,020.33	260.32	3.92
2008-2009	1,374.71	490.62	2.80
2009-2011	2,139.43	-493.52	-4.34
2011-2012	1,103.16	-410.14	-2.69
2012-2013	1,170.41	-499.71	-2.34
2013-2014	707.28	-788.94	-0.90
2014-2015	836.51	-772.87	-1.08

Source: Annual report of Sakthi Sugars Ltd.

Interpretation

Above table shows the positive net working capital ratio for first two years 2008 and 2009 with 3.92times and 2.80 times respectively. The following year there was a negative net working capital ratio from 2011 to 2015 with -4.34times, -2.69times, -2.34times, -0.9times, and -1.08times respectively.

There was a fluctuation of working capital from first two years to the next following years. It indicates the working capital turnover ratio was not good as their ratio value have moved to the negative. It has found that the concern is not having adequate liquidity position to meet its short term liabilities and expenses.

Findings

Schedule of Changes In Working Capital

It has negative net working capital from the year 2011 to2015. The inadequate working capital indicates that there is no liquidity of cash to settle their immediate liabilities. The concern had face difficulties in meeting its day to day expenses. The value of current liabilities is higher than the value of current assets which mainly leads to negative net working capital.

Ratio Analysis

1. Inventory turnover in the concern was good except in the year 2008-09 7.32times because it does not reach the rule of thumb 8times.
2. The concern has efficiently managed the debtors except in the year 2014-15 6.37times.
3. Creditors’ turnover ratio shows the fluctuations during the study period which indicates that less liquidity position of the concern.
4. The working capital position was not good during the study period and the negative value indicates that it was not favour to the organisation.
5. The net profit ratio during the study period was not good as it was in the negative value of percentage due to impact of negative net working capital during the study period.

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

Suggestions

1. The working capital of the concern is fluctuating. Therefore the management may take necessary steps to improve the working capital of the company.
2. The current assets value can be increased to meet their current financial needs.
3. The concern can maintain a better liquidity position to meet their current liabilities on time.
4. The creditors' turnover ratio is more fluctuation, so the concern can make efficient management on the payment of their debts.
5. The company can highly concentrate on their net profit.

Conclusion

It is concluded that the current liabilities values are higher than the current assets value which makes inefficient in management of working capital which has a great impact on net profits of the organisation. If the organisation maintains proper current assets and increase the cash and other liquid assets will be more efficient to meet the working capital needs and effective in the attainment of the objectives. The management can be more active and efficient in order to overcome the obstacles, which requires effective working capital management in order to pinpoint the problem and necessary and relevant steps for the smooth running of the organisation.

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