



A STUDY ON WORKING CAPITAL MANAGEMENT AND PROFITABILITY ANALYSIS OF SELECT STEEL COMPANIES IN INDIA

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Abstract

This article attempts to study of the working capital management and profitability analysis effectiveness into the India steel companies in select steel companies of the India. The research is conduct on the basis of the published data by the Indian steel companies in India in the period of 2004-2013, and moderately, in admiration of the steel sector in select Indian country. The working capital management effectiveness was evaluate as a result of way of the inventory, accounts receivables, current liabilities turnover cycles, cash conversion cycle, and in reveere of the obtain rates of return from observes the profitability the financial soundness of a firm are the owners and management or the company. The study prove that in the Indian steel companies sectors with the shortest working capital cycles, comparatively privileged rates of profitability is obtained. The operating efficiency of a firm and its ability to ensure adequate returns to its shareholder/owners depends ultimately on the profit earned by it a flattering influence of working capital cycle's diminution of the profitability is also confirmed by way of a model fitting of performance of select financial parameters.

INTRODUCTION

There are two major concepts of working capital – net working capital and gross working capital. When accountants use the term working capital, they are generally referring to net working capital, which is the cash difference between current assets and current liabilities. This is one measure of the extent to which the firm is protected from liquidity problems. From a management view point, however, it makes little sense to talk about trying to actively manage a net difference between current assets and current liabilities, particularly when that difference is continually changing. Financial analysis, one the other hand, means current assets when they speak of working capital. Therefore, their focus is on gross working capital. Because it does make sense for the financial manager to be involved with providing the correct amount of current assets for the firm at all times, we will adopt the concept of gross working capital. As the discussion of working capital management unfolds, our concern will be to consider the administration of the firm's current assets-namely, cash and marketable securities, receivables, and inventory and the financing (especially current liabilities) needed to support current assets.

SIGNIFICANCE OF WORKING CAPITAL MANAGEMENT

The management of working capital, which is taken up this and the subsequent. In important for several reasons. For one thing, the current assets of a typical manafaucting firm account for over half of its total assets. For a distribution company, they account for even more. Excessive levels of current assets can easily result in a firm realizing a substandard return on investment. However, firms with too few current assets may incur shortages and difficulties in maintaining smooth operations.

For small companies, current liabilities are the principal source of external financing. There firms do not have access to the longer –term capital markets, other than to acquire a mortgage on a building. The fast – growing but larger company also makes use of current liability financing. For these reasons, the financial manager and staff devote a considerable portion of their time to working capital matters. The management of cash, marketable securities, accounts receivable, accounts payable, accruals, and other means of short-term financing is the direct responsibility of the financial manager; only the management of inventories is not. Moreover, these management responsibilities require continuous, day-to-day supervision. Unlike dividend and capital structure decisions, you cannot study the issue, reach a decision, and set the matter aside for many months to come. Thus working capital management is important, if for no other reason than the proportion of the financial manager's time that must be devoted to it. More fundamental, however, is the effect that working capital decision have on the company's risk, return, and share price.

PROFITABILITY ANALYSIS

Profitability reflects the final result of business operations. There are two types of profitability ratios: profit margins ratios and rate of return ratios. Profit margin ratios show the relationship between profit and sales. Since profit can be measured at different stages, there are several measures of profit margin. The most popular profit margin ratios are: gross profit margin ratio, operating profit margin ratio, and net profit margin ratio. Rate of return ratios reflects the relationship between profit and investment. The important rate of return measures are; return on assets, earning power, return on capital employed, and return on equity.

INDIA STEEL COMPANY

India's economic growth is contingent upon the growth of the Indian steel industry. Consumption of steel is taken to be an indicator of economic development. While steel continues to have a stronghold in traditional sectors such as construction, housing and ground transportation, special steels are increasingly used in engineering industries such as power generation, petrochemicals and fertilizers. India occupies a central position on the global steel map, with the establishment of new state-of-the-art steel mills, acquisition of global scale capacities by players, continuous modernization and up gradation of older plants, improving energy efficiency and backward integration into global raw material sources. Steel production in India has increased by a compounded annual growth rate (CAGR) of 8 percent over the period 2002-03 to 2006-07. Going forward, growth in India is projected to be higher than the world average, as the per capita consumption of steel in India, at around 46 kg, is well below the world average (150 kg) and that of developed countries (400 kg). Indian demand is projected to rise to 200 million tonnes by 2015. Given the strong demand scenario, most global steel players are into a massive capacity expansion mode, either through Brownfield or Greenfield route. By 2012, the steel production capacity in India is expected to touch 124 million tonnes and 275 million tonnes by 2020. While Greenfield projects are slated to add 28.7 million tonnes, Brownfield expansions are estimated to add 40.5 million tonnes to the existing capacity of 55 million tonnes. Steel is manufactured as a globally tradable product with no major trade barriers across national boundaries to be seen currently. There is also no inherent resource related constraints which may significantly affect production of the same or its capacity creation to respond to demand increases in the global market. Even the government policy restrictions have been negligible worldwide and even if there are any the same to respond to specific conditions in the market and have always been temporary. Therefore, the industry in general and at a global level is unlikely to throw up substantive competition issues in any national policy framework. Further, there are no natural monopoly characteristics in steel. Therefore, one may not expect complex competition issues as those witnessed in industries like telecom, electricity, natural gas, oil, etc.

STATEMENT OF THE PROBLEM

The Steel companies India inapt of size and nature of company requires essential amount of working capital management. The Working capital is the most essential issue for maintaining liquidity, continued existence, and solvency and profitability of steel sectors. The impact of working capital management on profitability is tremendously significant, as, firm required a balance between risk and competence to realize an optimal level of working capital.

OBJECTIVE OF THE STUDY

The objectives of the study are

1. To analyze various measure of working capital of the select steel companies India.
2. To analyses the efficiency of working capital management of the select steel companies in India.
3. To measure overall profitability performance of select steel companies in India.

METHODOLOGY OF THE STUDY

Nature of Data

This study is mainly based on secondary data; secondary data are collected from PROWESS, which is the most dependable and empowered company database of CIME. It contains a extremely normalized. Database built on a sound understanding of disclosure in India on several companies, the data base provides financial statements, ratio analysis, fund flows product profiles, returns and risks on the stock market, etc.

Hypothesis H₀₁: There is no significant difference in the mean Working Capital Turnover Ratio among the large scale companies

The following table 1.1 shows the mean and standard deviation of Working Capital Turnover Ratio of large scale companies of TATA, SAIL, JSW, VISA, BUSHAN, and JINDAL & KALYANI and summarizes the output of analysis.

Hypothesis H₀₁: There is no significant difference in the mean Working Capital Turnover Ratio among the medium scale companies

The following table shows the mean and standard deviation of Working Capital Turnover Ratio of medium scale companies of BUSHAN, JINDAL, and KALYANI and summarizes the output of analysis.

SAMPLE OF THE STUDY

The following is the sample used for the study.

Steel – Large Size

1. Tata Steel Limited
2. Steel Authority of India Limited (SAIL)
3. JSW Steel Limited
4. Visa Steel Limited

Steel –Medium Size

1. Bhushan Limited
2. Jindal Steel Limited
3. Kalyani Limited

PERIOD OF THE STUDY

The data for the study have been collected from the Prowess Data base of the Centre for Monitoring Indian Economy. Data for 7 companies are available in prowess Database. In selecting the samples, the steel companies, which have financial data available for a continuous period of ten years, viz., 2003-04 to 2012-2013 have been considered for the study.

FRAME WORK ANALYSIS

Appropriate statistical tools have been used to analyze the data. Statistical techniques such as tools are used to analyses the working capital management and profitability analysis of select steel companies in India, by sorting out and bringing together, the theoretical and practical principles. Mean, standard deviation, co-efficient of variation, annual growth rate (AGR), compounded annual growth rate (CAGR), linear growth rate (LGR), analysis of variation (ANOVA), correlation, regression, multiple regression, discriminates function and analysis of several of the financial parameters of the data.

SCOPE OF THE STUDY

This study aims at make an analysis of working capital and profitability analysis of the select steel companies in India. The Stock exchange listed companies occupied in steel companies have measured for the study. The scope of the working capital and profitability is very spacious and extensive based. Therefore, the study has analyzed only the accounting of working capital.

LIMITATION OF THE STUDY

1. This study is based on secondary data taken from CIME Prowess as such its findings depend entirely on the accuracy of such data.
2. The companies' overall inefficiency cannot be evaluated just by working capital and profitability analysis unaccompanied

REVIEW OF LITERATURE

The studies on working capital are larger in number and most of them are found to be case studies and firm specific however, an attempt has been made to provide a summary of the exiting studies.

Gopal P. Sinha, and B. S. Chandrasekaran, (1995) in their study Tata Steel has been striving to optimize its operations amidst scarce resources and capacity imbalances. The study analyzed for decision support, are developed a mathematical model based on mixed-integer linear-programming (MILP) and hierarchical optimization between 1983 and 1986. It has been considers marketing constraints, capacities, yields, profitability, routes, energy, and oxygen balances. Its use just for optimal distribution of power has provided a benefit of US \$73 million in the first year of implementation (1986–1987). The Tata Steel has realized other benefits, such as optimal distribution of scarce oxygen and liquid iron, optimal power cogeneration levels, break-even prices and quantities of purchased scrap, and optimal conversion of semi finished steel into finished products by other companies functioning as conversion agents.

R.Hamsalaksmi (2012)In their study it is concluded that the performance of price earnings ratio from all the selected companies are highly satisfactory that the investors expect a high growth of earnings and the industry is having a strong growth prospects. It has been analyzed equity it is clear that the giant and large groups secured a remarkable growth rate it is highly suggested that the companies can maximize their return on investment by leveraging their initial investments in hard ware; software training and processes to accommodate business growth other than the companies should concentrate research and innovative areas to capture global market by taking the initiative of rethinking their delivery models.

Dr. Jeng-Ren Chiou and Li Cheng, Han-Wen Wu (2006) In their investigates the determinants of working capital management. It has been net liquid balance and working capital requirements as measures of a company's working capital management. Results indicate that the debt ratio and operating cash flow affect the company's working capital management, yet we lack consistent evidence for the influence of the business cycle, industry effect, growth of the company, performance of the company and firm size on the working capital management.

Russell P. Boisjoly, (2009) In his study examines accounts receivable turnover, accounts payable turnover, inventory turnover, cash flow and working capital per share, and investment ratio for 50 of the largest non-bank corporations over the period 1990-2004 to determine whether their management practices had an impact on their financial ratios and distributions. Aggressive management of working capital and significant increases in productivity resulted in significant improvements in cash flow per share and reduced corporate reinvestment. This study has investigated whether corporate financial management practices with respect to working capital management and reinvestment policies have altered the distributions of key financial ratios during the 1990 to 2004 time period. This is one of the first studies to associate empirical results on financial ratios to macro changes in management policies.

Mayukh Chakraborty and Sukanta Chandra Swain (2009) In this study examine that Vendor Management Inventory (VMI), through the effective use of technology, fosters a lasting relationship between them. Under this system, the distributor (seller) of products (e.g. Steel) monitors and manages a customer's (buyer's-in) inventory levels, often through a system of automated data collection and analysis. When product inventories drop below a specified level (reorder point), the distributor dispatches a delivery based on previously agreed-upon criteria. As a result, the buyers will be able to have the inventory available as soon as the need arises, without incurring the costs and risks of keeping a large surplus on hand.

ANALYSIS OF INTERPRETATION

Financial indicators of Working Capital Turnover Ratio (%)

The financial indicators of Working Capital Turnover Ratio (%) of large scale companies of TATA, SAIL, JSW, VISA, BUSHAN, and JINDAL & KALYANI for the period 2004 to 2013 is observed and shown in table 1.1 The growth rate in terms of percentage is also shown in the table.

Table 1.1 shows that the Working Capital Turnover Ratio (%) of **TATA** Company during the year 2004 was Rs.-17.74 crores. It increased to Rs.520.93 crores in 2009 leading to a more than threefold increase with a fall in 2005, 2006, 2007, 2008, 2010, 2011, 2012 and 2013. The average amount stood at Rs.59.5 crores. The co-efficient of

variation in Working Capital Turnover Ratio (%) is 298.37 percent. (%) of **SAIL** during the year 2004 was Rs.73.77 crores. It increased to Rs.181.95 crores in 2007 leading to a more than threefold increase with a fall in 2005, 2006, 2008, 2009, 2010, 2011, 2012 and 2013. The average amount stood at Rs.87.87 crores. The co-efficient of variation in Working Capital Turnover Ratio (%) is 68.21 percent.

The Working Capital Turnover Ratio (%) of **JSW** Company during the year 2004 was Rs.-8.82 crores. It increased to Rs.44.04 crores in 2013 leading to a more than threefold increase with a fall in 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012. The average amount stood at Rs.-35.96 crores. The co-efficient of variation in Working Capital Turnover Ratio (%) is -123.15 percent.

Table No.1.1 Working Capital Ratio (%)

Year	Large Scale Companies								Medium scale Companies					
	TATA	% Inc/Dec	SAIL	% Inc/Dec	JSW	% Inc/Dec	VISA	% Inc/Dec	BUSHAN	% Inc/Dec	JINDAL	% Inc/Dec	KALYANI	% Inc/Dec
2004	-17.74		73.77		-8.82		-244.59		207.25		133.85		68.6	
2005	-10.22	-42.39	78.7	6.68	-43.65	394.9	-310.65	27.01	89.22	-56.95	68.91	-48.52	77.24	12.59
2006	123.01	-1303.62	162.86	106.94	-34.18	-21.7	-127.88	-58.83	116.74	30.85	91.18	32.32	67.15	-13.06
2007	20.53	-83.31	181.95	11.72	-79.8	133.47	-58.73	-54.07	117.64	0.77	6.36	-93.02	52.48	-21.85
2008	-4.56	-122.21	131.98	-27.46	-111.72	40	-62.79	6.91	79.49	-32.43	50.53	694.5	55.68	6.1
2009	520.93	-11523.9	104.06	-21.15	-71.67	-35.85	21.97	-134.99	82.5	3.79	79.41	57.15	81.62	46.59
2010	131.85	-74.69	84.07	-19.21	-34.04	-52.5	122.91	459.44	77.09	-6.56	21.08	-73.45	46.13	-43.48
2011	-45.6	-134.58	44.31	-47.29	-18.72	-45.01	203	65.16	76.66	-0.56	43.8	107.78	87.28	89.2
2012	-48.7	6.8	29.13	-34.26	-1.07	-94.28	75.97	-62.58	80.26	4.7	42.59	-2.76	44.56	-48.95
2013	-78.02	60.21	-12.15	-141.71	44.04	-4215.89	139.36	83.44	100.2	24.84	28.21	-33.76	52.83	18.56
Mean	59.15		87.87		-35.96		-24.14		102.71		56.59		63.36	
SD	176.48		59.94		44.29		168.73		39.89		37.75		15.2	
CV	298.37		68.21		-123.15		-698.89		38.84		66.7		23.99	

Source: CIME Data base (Annual Report)

Interpretation of Working Capital Turnover Ratio (%) Of Medium Scale Companies

This ratio indicates the speed with which working capital is turnover during a year. Higher working capital ratio indicates better management of working capital and lower ratio indicates efficient management of working capital.

The Working Capital Turnover Ratio (%) of the company **VISA** during the year 2004 was Rs.-244.59 crores. It increased to Rs.139.36 crores in 2013 leading to a more than threefold increase with a fall in 2005, 2006, 2007, 2008, 2009, 2010, 2011, and 2012. The average amount stood at Rs.-24.14 crores. The co-efficient of variation in Working Capital Turnover Ratio (%) is -698.89 percent.

By comparing the coefficient of variation more variation in the Working Capital Turnover Ratio is observed in TATA and consistency was observed in VISA Company. The **BUSHAN** Company during the year 2004 was Rs.207.25 crores. It continuously decreases in 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013. The average amount stood at Rs.102.71 crores. The co-efficient of variation in Working Capital Turnover Ratio (%) is 38.84 percent. The Working Capital Turnover Ratio (%) of **JINDAL** during the year 2004 was Rs.133.85 crores. It continuously decreases in 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013. The average amount stood at Rs.56.59 crores. The co-efficient of variation in Working Capital Turnover Ratio (%) is 66.70 percent.

The Working Capital Turnover Ratio (%) of **KALYANI** Company during the year 2004 was Rs.68.6 crores. It increased to Rs.87.28 crores in 2011 leading to a more than threefold increase with a fall in 2005, 2006, 2007, 2008, 2009, 2010, 2012 and 2013. The average amount stood at Rs.63.36 crores. The co-efficient of variation in Working Capital Turnover Ratio (%) is 23.99 percent. By comparing the coefficient of variation more variation in the Working Capital Turnover Ratio is observed in JINDAL and consistency was observed in KALYANI Company.

The important growth rates of average annual growth rate, linear growth rate and compound growth rate of Working Capital Turnover Ratio (%) for the large scale companies of TATA, SAIL, JSW, VISA, BUSHAN, and JINDAL & KALYANI are calculated and the results are given in Table.1.2

Table 1.2 Growth Rates of Working Capital Ratio (%)

	Large scale companies				Medium scale companies		
Growth Rates	TATA	SAIL	JSW	VISA	BUSHAN	JINDAL	KALYANI
AAGR	-1468.6	-18.42	-432.98	36.83	-3.51	71.14	5.08
LGR	-0.97	-2.17	5.43	1.34	1.94	-2.24	-1.41
CGR	1.63	9.31	7.59	100	-9.59	3.68	8.14

Source: CIME Data base (Annual Report)

The average annual growth rate, linear growth rate and compound growth rate of TATA Company are -1468.63 percent, -0.97 percent and 1.63 percent respectively. The annual growth rate was a maximum of -60.21 percent at the end of the year 2013 and minimum during the year 2009.

Interpretation of Growth Rates of Working Capital Ratio (%) of medium scale companies

The average annual growth rate, linear growth rate and compound growth rate of SAIL Company are -18.42 percent, -2.17 percent and 9.31 percent respectively. The annual growth rate was a maximum of 106.94 percent at the end of the year 2006 and minimum during the year 2013. JSW Company are -432.98 percent, 5.43 percent and 7.59 percent respectively. The annual growth rate was a maximum of 394.90 percent at the end of the year

2005 and minimum during the year 2013. VISA Company are 36.83 percent, 1.34 percent, 100 percent respectively. The annual growth rate was a maximum of 459.44 percent at the end of the year 2010 and minimum during the year 2009.

BUSHAN Company are -3.51 percent, 1.94 percent and -9.59 percent respectively. The annual growth rate was a maximum of 30.85 percent at the end of the year 2006 and minimum during the year 2005. JINDAL Company are 71.14 percent, -2.24 percent and 3.68 percent respectively. The annual growth rate was a maximum of 694.50 percent at the end of the year 2008 and minimum during the year 2007. KALYANI Company are 5.08 percent, -1.41 percent and 8.14 percent respectively. The annual growth rate was a maximum of 89.20 percent at the end of the year 2011 and minimum during the year 2010.

MODEL FITTING OF PERFORMANCE OF SELECTED FINANCIAL PARAMETERS

Eleven basic mathematical models were used to fit these data. The best fitting model is identified by the highest R^2 value, since R^2 describes them the goodness of fit of the model. Once the best fit model is identified then the forecast for the next few years were estimated using the model. It is seen from the analysis that the cubic model has highest R^2 value and hence considered as the best fitting model when comparing with all other models. The model equations for the Working Capital Ratio for the large scale companies are

$$\begin{aligned}
 Y_{TATA} &= -91.230 + 45.9085 t + 6.2738 t^2 - 1.1361 t^3 \\
 Y_{SAIL} &= -34.712 + 112.560 t - 19.923 t^2 + 0.8943 t^3 \\
 Y_{JSW} &= 47.5153 - 57.911 t + 7.3505 t^2 - 0.1586 t^3 \\
 Y_{VISA} &= -280.84 - 9.6970 t + 19.5234 t^2 - 1.4599 t^3 \\
 Y_{BUSHAN} &= 239.837 - 65.565 t + 8.4708 t^2 - 0.3393 t^3 \\
 Y_{JINDAL} &= 191.629 - 74.463 t + 12.0340 t^2 - 0.6241 t^3 \\
 Y_{KALYANI} &= 86.9187 - 15.592 t + 3.1781 t^2 - 0.1989 t^3
 \end{aligned}$$

Using the coefficient values of these models the forecast was done for next few years i.e. for 2014, 2015 and 2016. Observing the estimates of these models it can be predicted that the Working Capital Ratio for TATA is expected to be -339.21, -600.03 and -930.09 for the years 2014-16 respectively.

Table 1.2.a Forecasted values of Working Capital ratio

	Large scale companies				Medium scale companies		
Year	TATA	SAIL	JSW	VISA	BUSHAN	JINDAL	KALYANI
2014	-339.21	-16.89	88.87	31.7	91.93	-2.06	35.25
2015	-600.03	-7.51	137.07	-108.53	86.47	-47.52	13.8
2016	-930.09	26.41	188.56	-314.84	73.52	-113.85	-15.61

Source: CIME Data base (Annual Report)

The predicted Working Capital Turnover Ratio for SAIL is expected to be -16.89, -7.51 and 26.41 for the years 2014-16 respectively, for JSW is expected to be 88.87, 137.07 and 188.56 for the years 2014-16 respectively and for VISA is expected to be 31.7, -108.53 and -314.84 for the years 2014-16 respectively, for BUSHAN is expected to be 91.93, 86.47 and 73.52 for the years 2014-16 respectively, for JINDAL is expected to be -2.06, -47.52 and -113.85 for the years 2014-16 respectively, for KALYANI is expected to be 35.25, 13.8 and -15.61 for the years 2014-16 respectively.

HYPOTHESES TESTING -'F' test Analysis (ANOVA)

For the purpose of analyzing the equality of means for different ratios 'ANOVA' test is used. The following hypotheses are framed and tested by using 'F' test to test the validity of the hypothesis.

WORKING CAPITAL TURNOVER RATIO: -'F' test

Based on the data, the researcher has formulated the following hypothesis:

Table 1.2 b Inferential Statistics Working Capital Turnover Ratio - Large scale companies

Company	Mean	SD	SE	F	p	Decision
TATA	87.87	59.94	18.95	2.29	0.095	Accept H ₀
SAIL	59.15	176.48	55.81			
JSW	-35.96	44.29	14.01			
VISA	-24.14	168.73	53.36			
Overall	21.73	133.84	21.16			

** Significant at 1%

From the above table, it is observed that the p value is less than 0.05; null hypothesis is accepted at 5% level of significance. i.e. Working Capital Turnover Ratio do not differ significantly between Large scale companies.

Table 1.2 Inferential Statistics Working Capital Turnover Ratio - Medium scale companies

Company	Mean	SD	SE	F	p	Decision
BUSHAN	102.71 ^b	39.89	12.62	5.73	0.008	Reject H ₀
JINDAL	56.59 ^a	37.75	11.94			
KALYANI	63.36 ^a	15.20	4.81			
Total	74.22	37.89	74.22			

** Significant at 1%

From the above table, it is observed that the p value (<0.001) is less than 0.01, null hypothesis is rejected at 1% level of significance. i.e. Working Capital Turnover Ratio differs significantly between Medium scale companies. Once we have determined that differences exist among the means, post hoc range tests can determine which means differ. Tucky's tests identified the homogeneous subsets of means that are not different from each other and the results were also given in the table 4.1.13b by showing the homogeneity subsets within which the groups fall in. The homogeneity subsets are shown by the letters a, b and c in the affix of the mean values.

FINDINGS

It is clear from the analysis that the higher the turnover ratio, the more efficient is the management and utilization of the assets while low turnover ratios are indicative of underutilization of available resources and presence of idle capacity. In operations terms, it implies that the firm can expand its activity level in terms of production and sales without requiring additional capital investments. In the case of high ratios, the firm would normally be required, the other things being equal, to make additional capital investments to operate at higher level of activity. To determine the efficiency of the ratio, it should be compared across time as well as with the industry average.

SUGGESTION

The working capital turnover ratio indicates the number of times the working capital is turned over in the course year. It measures the efficiency with the working capital is used by the firm. It helps in determine the profitability



of the firm in much as it gives the rate at which inventories are converted to sales and then to cash. A high ratio indicates the efficient utilization of working capital and low ratio indicates otherwise. But a very high ratio is not good for the firm.

CONCLUSION

Working capital management is only part, but for many firms a very important component of financial analysis. The WOC offers an easy and useful way to check the efficiency of managing the firm's working capital. A company's operating cycle typically consists purchasing resources, producing the product, and distributing selling the product. These activities create funds flows that are both unsynchronized and uncertain. Usually take place before cash receipts they are uncertain because future sales and costs, which generate the respective receipts and disbursements, cannot be forecasted with complete accuracy. If the firm is to maintain liquidity and function properly. It has to invest funds in various short-term assets working capital during cycle. It has to maintain a cash balance to pay the bills as they come due. The company must invest in inventories to fill customer orders promptly. And finally the company invests in accounts receivable to extend credit to its customers.

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