



A Study on Working Capital Management on Liquidity and Profitability in Sree Balamurugan Textiles, Erode

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ABSTRACT

The term working capital means the circulation of capital in one form or another during the day-to-day operations business. Working capital is defined in the annual survey of the industries to include stock of material, stores, fuels, semi-finished goods including work-in-progress and finished and by products, cash in hand and algebraic sum of sundry creditors. The objective of the study is to analyse working capital management in Sree Balamurugan Textiles, Erode. The analytical research design is used on the study. Ratio analysis, common size balance sheet and comparative balance sheet tools have been applied to the study. It is found that current ratio has decreased from 1.48 to 1.42 in the year of 2017-2018 and 2018-19 and Debt ratio has decreased from 0.14 to 0.08 in the year of 2017-2018 to 2018-19. It is suggested that there should be close co-ordination between production, sales, inventory and credit collection. It should back by an efficient information system. It is concluded that credit policy aids in the retention of existing customers as well as the acquisition of new customers by luring them away from rivals. Better coordination across departments (such as sales, manufacturing, and purchasing) is critical since it helps to eliminate credit risk and reduces debt collection days.

Keywords: working capital, comparative balance sheet, common size balance sheet, ratio analysis

I. INTRODUCTION OF THE STUDY

The movement of capital in whatever form during daily business activities is referred to as working capital. In the yearly survey of the industries, "working capital" is defined to encompass material stock, stores, fuels, semi-finished items, including work-in-progress and finished and by-products, cash on hand, and an algebraic sum of various creditors.

Concerned with the issue that occurs while attempting to manage current assets and current liabilities is working capital management. Working capital management's primary objective is to manage a company's current assets and liabilities in such a way that a reasonable level of working capital is maintained, meaning that it is neither insufficient nor excessive both of which are negative for any corporation. It would be wonderful if there were no scarcity of finances or working capital. A company's working capital management policies have a significant impact on its likelihood, liquidity, and structural health. As a result, working capital management is three dimensional.

It has been often observed that the shortage of working capital leads to the failure of a business. The proper management of working capital may bring about the success of a business firm. The management of working capital includes the management of current assets and current liabilities. A number of companies for the past few years have been finding it difficult to solve the increasing problems of adopting seriously the management of working capital.

A firm may exist without making profits but cannot survive without liquidity. The function of working capital management in an organization is similar that of the heart in a human body. Also, it is an important function of financial management. The financial manager must determine the satisfactory level of working capital funds and also the optimum mix of current assets and current liabilities. He must ensure that the appropriate sources of funds are used to finance working capital and should also see that short term obligation of the business are met well in time.

1. It was concerned with developing policies for risk, liquidity, and profitability.
2. It is concerned with the choice about the make-up and quantity of existing assets.



3. It is concerned with the choice of the make-up and magnitude of present liabilities.

INDUSTRY PROFILE

INDIAN TEXTILES INDUSTRY

India's textiles sector is one of the oldest industries in the Indian economy, dating back to several centuries. The industry is extremely varied, with hand-spun and hand-woven textiles sectors at one end of the spectrum, while the capital-intensive sophisticated mills sector on the other end. The decentralized power looms/ hosiery and knitting sector forms the largest component in the textiles sector. The close linkage of textiles industry to agriculture (for raw materials such as cotton) and the ancient culture and traditions of the country in terms of textiles makes it unique in comparison to other industries in the country. India's textiles industry has a capacity to produce wide variety of products suitable for different market segments, both within India and across the world.

COMPANY PROFILE

Sree Balamurugan Textiles

Backed by a talented team and latest technology machines, Sree Balamurugan Textiles provides impeccable quality products to the textile industry. Established in the year 1989, it has become one of the leading manufacturers and exporters of Designer Fabric, Antimicrobial Fabrics, Ladies Scarf, Hotel Linens, Cotton Yarn, Cotton Drop Cloth, Mens T-Shirts, Grey Fabric and other textile products. The business is handled successfully under the able guidance of the CEO, Mr. Govindaswamy Balakrishnan, who has an extensive experience of 25 years in the industry. Today, we are counted among the supreme Wholesale Apparel Fabric Suppliers and Designer Drapery Fabric Exporters from Erode, Tamil Nadu.

- Name of CEO - Mr. Govindaswamy Balakrishnan
- Year of Establishment - 1989
- Nature of Business- Manufacturer, Exporter & Supplier
- Number of Employees -65
- Annual Sales-1.55 million USD
- Market Covered -USA, Canada & Sri Lanka

WORKING CAPITAL

The term Working Capital refers to that part of firm's capital, which is required for financings short-term or current assets such as cash, marketable securities, debtors, and inventories. Hence funds which are invested in current assets keep revolving fast and are constantly converted into cash and this

cash flow out again in exchange for other current assets. Working Capital is also known as revolving or circulating capital or short-term capital. Working Capital is a measure of both a company's efficiency and its short-term financial health. It is basically the difference between the current assets and the current liabilities; hence it is also known as net Working Capital. It can be calculated as:

Working Capital = Current Assets - Current Liabilities

The Working Capital ratio (Current Assets/Current Liabilities) indicates whether a company has enough short-term assets to cover its short-term debt. Anything below 1 indicates negative Working Capital. While anything over 2 means that the company is not investing excess assets.

RATIO ANALYSIS

A ratio is the quotient of two mathematical expressions and the relationship between two or more numbers. In financial analysis, a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. The absolute accounting figures are reported in the financial statement which do not provide a meaningful understanding of the performance and financial position of a firm. The relationship between the two accounting figures expressed mathematically is known as a financial ratio.

COMMON SIZE BALANCE SHEET

A common size balance sheet is a balance sheet that displays both the numeric value and relative percentage for total assets, total liabilities, and equity accounts. Common size balance sheets are used by internal and external analysts and are not a reporting requirement of generally accepted accounting principles (GAAP).

COMPARATIVE BALANCE SHEET

A comparative balance sheet presents side-by-side information about an entity's assets, liabilities, and shareholders' equity as of multiple points in time. For example, a comparative balance sheet could present the balance sheet as of the end of each year for the past three years. Another variation is to present the balance sheet as of the end of each month for the past 12 months on a rolling basis. There is no standard format for a comparative balance sheet. It is somewhat more common to report the balance sheet as of the least recent period furthest to the right, though the reverse is the case when you are reporting balance sheets in a trailing twelve-month format.

II. REVIEW OF LITERATURE

Sayaduzzaman (2017) Extensive research works on working capital management have been done in both public and private sectors including multinational



companies in Bangladesh. **Sayaduzzaman (2017)** in his article on “Working Capital Management: A study on British American Tobacco Bangladesh Company Limited” mentions that the efficiency of working capital management of British American Tobacco Bangladesh Company Ltd. is highly satisfactory due to the positive cash inflows and planned approach in managing the major elements of working capital.

Deloof (2017) surveyed on Belgian Firms to find out whether the working capital management affects profitability. He found that most firms had a large amount of cash invested in working capital.

Vijayakumaran (2017), while studying Sri Lanka’s listed manufacturing firms from 2011 to 2016, found that when working capital is low, the relationship between WCM and profitability is positive. On the contrary, when the level of working capital is high, this relationship is reversed.

Beneda, Nancy; Zhang, Yilei (2022), studied impact of working capital management on the operating performance and growth of new public companies. The study also sheds light on the relationship of working capital with debt level, firm risk, and industry.

OBJECTIVES OF THE STUDY

PRIMARY OBJECTIVE

➤ To study on working capital management in Sree Balamurugan Textiles, Erode

SECONDARY OBJECTIVES

➤ To study on working capital managements of Sree Balamurugan Textiles, Erode.

➤ To understand the working capital components of the company.

➤ To analyse the working capital efficiency of the company.

➤ To understand the profitability of the company

➤ To study the liquidity position of the firm.

STATEMENT OF THE PROBLEM

Although profitability may be regarded the ruling aspect of a corporation, the management of working capital may easily put a successful and prosperous firm to a stop, or even to its eventual demise. The present cash and credit crunch is endangering the future of many companies throughout the globe, since they are the primary sources of a company's operating assets and liabilities. The credit constraint has resulted in significant reductions in production and sales, resulting in enormous layoffs and the closure of numerous businesses. Unfortunately, not every business can readily get outside funding. Where it is accessible, borrowing costs may be high, resulting in

a lower bottom line. As a result, liquidity management (working capital management) has emerged as one of the most critical concerns in businesses, with many executives attempting to determine the fundamental working capital drivers and the optimum amount of working capital.

III. RESEARCH METHODOLOGY

The research approach used in this study was methodical, and it was carried out in line with the goals set out in the previous chapters. The process of doing systematic study to address an issue is known as research methodology. Research methodology has several dimensions, and research method is one of them. When we speak about research method, we mean how we use it and why we use it, as well as how we evaluate the findings. In general, research may be defined as an investigation of the causes and implications of a certain set of circumstances. After a comprehensive investigation of the situational circumstances, it is the process of identifying solutions to the issue.

RESEARCH DESIGN

Analytical research design method has been used in this study. Where the researcher can report what has happened without having control over the variables. Research design is the arrangement of condition for collection and analysis of data in a manner that aim to combine research purpose with economy in procedure. It is the conceptual structure within which research is conducted.

SOURCE OF THE DATA

Data about the company's profitability, financial condition, and other operational outcomes were taken from its five most recent published annual reports. Data refers to information or facts. It includes numerical figures, qualitative and quantitative information. There are two types of data collection method. They are

➤ Primary data

➤ Secondary data

PRIMARY DATA

A primary data is a data which is collected for the first time for a particular interest to collect more information. In this study the primary data was collected through questionnaire.

SECONDARY DATA

Information that has been obtained from pre-existing sources is referred to as secondary data. Data from past studies, information from any published or unpublished sources available inside or outside the organisation, library records, online information, websites, and the internet are a few examples of secondary data sources. Web sites, publications,



yearly reports, and the internet were used to gather the study's secondary data.

DATA INTERPRETATION

GROSS PROFIT RATIO

This ratio expresses the relationship between gross profit and net sales.

Gross Profit Ratio Formula = (Gross Profit/Net Sales) X 100

Gross Profit: It refers to the profit earned after deducting all the expenses directly related to production from the net revenue earned from operations. Such profit normally accounts for variable costs and not fixed ones.

Net Sales: It refers to the revenue earned by the firm by selling its products after adjusting all kinds of sales returns, discounts, allowances to the customers, etc.

GROSS PROFIT RATIO			
Year	Gross profit	Net sales	Ratio
2017-18	499.25	1,147.48	43.51
2018-19	559.68	1,315.40	42.55
2019-20	639.40	1,582.10	40.41
2020-21	631.67	1,444.27	43.74
2021-22	847.38	1,531.47	55.33

(Source: secondary data)

EXPLANATION

It shows that the gross profit ratio has decreased from 43.51 to 42.55 in the year of 2017-2018 to 2018-19. It has again decreased to 40.41 in the year of 2019-20. It has increased to 43.74 in the year of 2020-21. It has further increased to 55.33 in the year of 2021-22.

INVENTORY TURNOVER RATIO

This ratio expresses the relationship between cost of goods sold and net average inventory.

Inventory Turnover Ratio = Cost of Goods Sold / Avg. Inventory

Cost of goods sold is the cost attributed to the production of the goods that are sold by a company over a certain period. The cost of goods sold by a company can found on the company's income statement.

Average inventory is the mean value of inventory throughout a certain period. Note: an analyst may use either average or end-of-period inventory values.

INVENTORY TURNOVER RATIO			
Year	Cost of goods sold	Average inventory	Ratio
2017-18	648.23	218.04	2.97
2018-19	732.48	229.66	3.19
2019-20	894.43	265.42	3.37
2020-21	833.02	279.34	2.98
2021-22	664.95	278.7	2.39

(Source: secondary data)

EXPLANATION

It shows that the inventory turnover ratio has increased from 2.97 to 3.19 in the year of 2017-18 to 2018-19. It has again increased to 3.37 in the year of 2019-20. It has decreased to 2.98 in the year of 2020-21. It has again decreased to 2.39 in the year of 2021-22.

A comparative analysis is one of the widely used tools to analyse financial statements. It is an act of comparing the report for 2 or more financial years or any given period. A comparative balance sheet is one of the most sought financial statements by the business. The biggest advantage of comparing financial statements over time is discovering trends, analysing the findings and taking suitable decisions.

COMPARATIVE BALANCE SHEET



To define comparative financial statements, it's a financial statement which represents the financial position over different periods of time. The financial position is represented in a comparative form to give an idea of financial position at two or more periods. Generally, two financial statements are prepared in comparative form for financial analysis purpose.

IV. FINDINGS

- Current ratio has decreased from 1.48 to 1.42 in the year of 2017-2018 and 2018-19.
- Quick ratio has increased to 0.80 in the year of 2019-20. It has decreased to 0.70 in the year of 2020-21.
- Cash ratio has increased to 0.37 in the year of 2021-22.
- Gross profit ratio has decreased from 43.51 to 42.55 in the year of 2017-2018 to 2018-19.
- Operating profit has increased to 17.08 in the year of 2021-22.
- Net profit ratio has further increased to 9.68 in the year of 2021-22.
- Return on investment ratio has increased from 0.26 to 0.30 in the year of 2017-2018 to 2018-19.
- Inventory turnover ratio has again increased to 3.37 in the year of 2019-20.
- Debt equity ratio has decreased to 0.12 in the year of 2020-21. It has decreased to 0.06 in the year of 2021-22.

V. SUGGESTIONS

- Liquidity ratio here reflects the firm ability to meet short term current obligation. An analysis of these ratio revealed that the liquidity position has been satisfactory.
- There should be close co-ordination between production, sales, inventory and credit collection .it should back by an efficient information system.
- Fund is proper allocated to fixed assets and current assets. it should possible for the company to carry on the work smoothly without paucity.
- Turnover ratio indicates the turnover position of the company. here ratio reflects high turnover on the basis of five years is good.
- Come to a suggestion, the company within a short span of time is making very good progress. The company trademark was its highest ever turns over during the progress, further the capacity utilization of the plants and the various operational efficiency achievements further the capacity signifies growth of the organization. It can take up the following suggestions based on the study.

- The financial performance of the company is good, so this company capture high market share and growth.

VI. CONCLUSION

Any company's success is dependent on its ability to manage its working capital effectively. Working capital management is strong, according to the report. Working capital management is in excellent shape, according to the corporation, and profit levels are on the rise. However, in order to provide a better commercial outcome, management may focus on using a more scientific technique to manage working capital. Before modifying credit policy variables, a thorough examination of sales growth and sales levels should be conducted. Credit policy aids in the retention of existing customers as well as the acquisition of new customers by luring them away from rivals. Better coordination across departments (such as sales, manufacturing, and purchasing) is critical since it helps to eliminate credit risk and reduces debt collection days.

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