

Analyzing The Impact of Working Capital Management on Firm's Performance in Ramraj Industries

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ABSTRACT:

The Working Capital Management has an important role for the firm's success or failure because of its effect on firm performance and liquidity. Working Capital of a firm comprises on current assets. Current assets are cash and equivalents, account receivable, and inventory items of a firm. A well designed and implemented working capital management is expected to contribute positively to the creation of a firm's value. The management of working capital is important to the financial health of business of all sizes. The study aims to provide the objectives of the study, scope of the study, Limitation of the study, Review of literature, Research methodology, Data Analysis and Interpretation, findings, suggestions and conclusion of working capital management had a perceptible impact on firm's performance.

KEYWORDS:- Working Capital, Profitability, Liquidity, Operating Cycle

INTRODUCTION:

In this modern business world every business needs funds. Because, finance is blood of the business, without finance the business cannot survive successfully. Working capital refers to the cash a business requires for day-to-day operations, or more specifically, for financing the conversion of raw materials into finished goods, which the company sells for payment. One of the most important areas in the day-to-day management of the firm is the management of working capital. Working capital refers to the funds invested in the current assets i.e., Investment in stock, sundry debtors, cash and others current are essential to use fixed assets profitability for e.g: machinery cannot be need without raw materials. The investments on the purchase of raw material are identified as working capital (Srinivas K.T 2012). The decisions made in respect of current assets are called working capital management. Most of the researchers found a positive impact of working capital management decisions on profitability of organization.

MEANING OF WORKING CAPITAL:

Working Capital is the amount of funds required for meeting day-to-day expenses of the business. The firm starts with cash. It buys raw materials, employs workers and spends on expenditures like advertising etc.

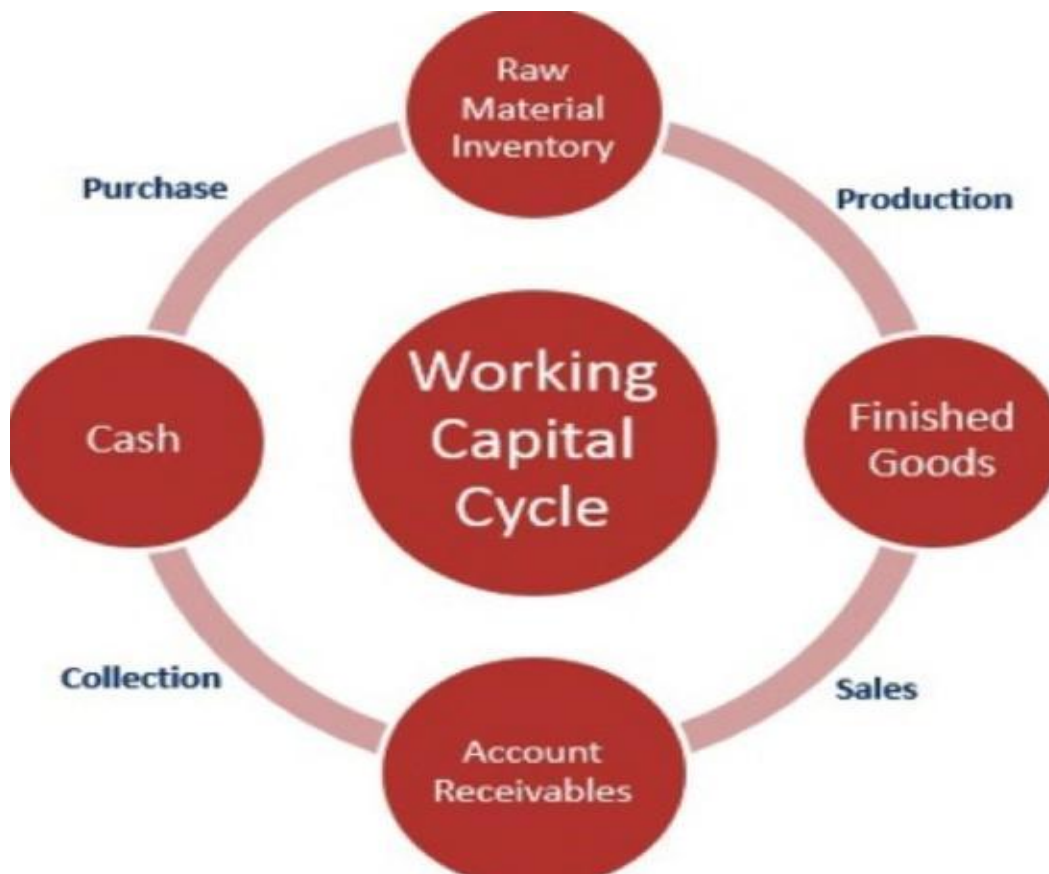
DEFINITION OF WORKING CAPITAL:

According to **ICAI** “Working Capital means the funds available for day-to-day operations of an enterprise”.

COMPONENTS OF WORKING CAPITAL

The working capital cycle is made up of four core components:

- Cash & Cash equivalent.
- Creditors / accounts payable.
- Inventory / stock in hand.
- Debtors / accounts receivables.



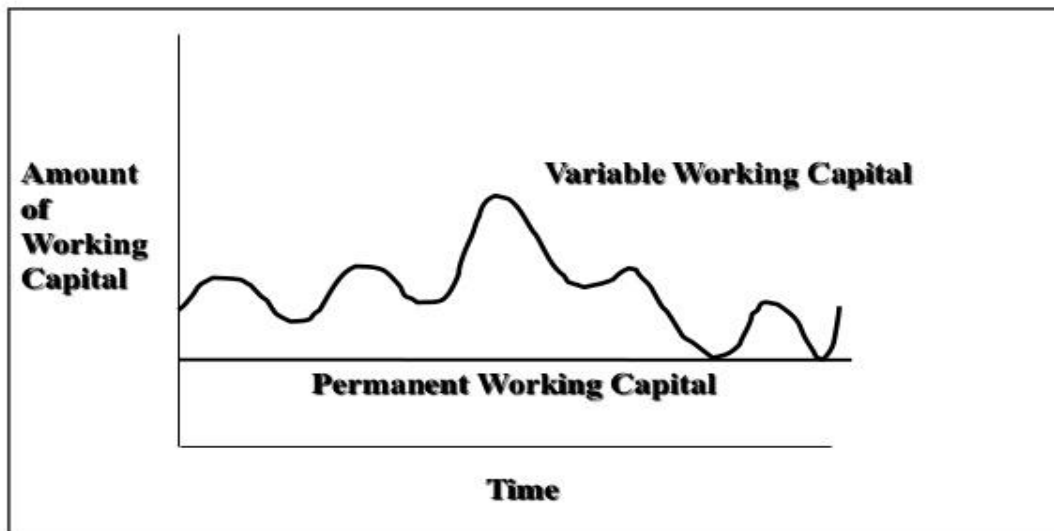
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TYPES OF WORKING CAPITAL NEEDS:

- The working capital need can be bifurcated into permanent working capital and temporary working capital.
- **PERMANENT WORKING CAPITAL-** There is always a minimum level of working capital which is continuously required by a firm in order to maintain its activities like cash, stock and other current assets in order to meet its business requirements irrespective of the level of operations.

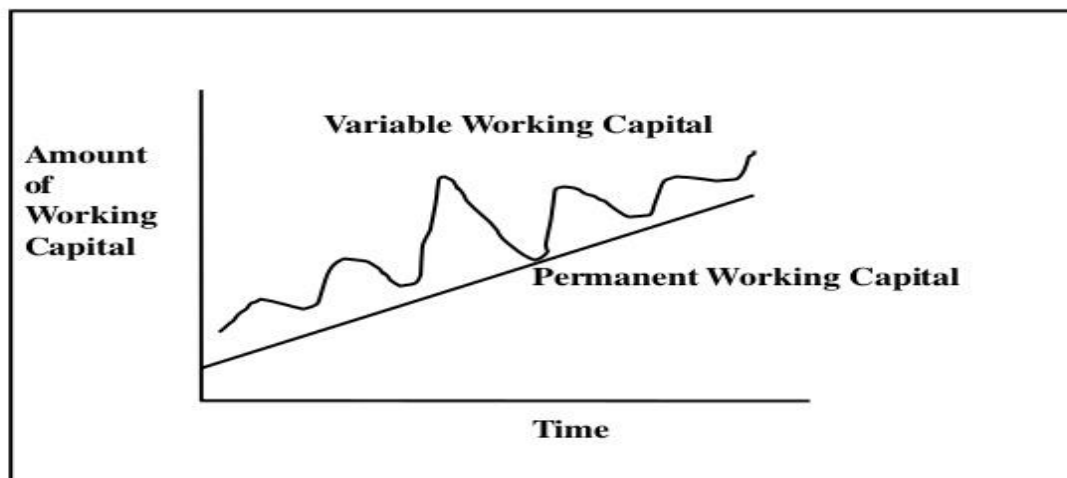
- **TEMPORARY WORKING CAPITAL-** Over and above the permanent working capital, the firm may also require additional working capital in order to meet the requirements arising out of fluctuations in sales volume. This extra working capital needed to support the increased volume of sales is known as temporary or fluctuating working capital.

Difference between permanent & temporary working capital

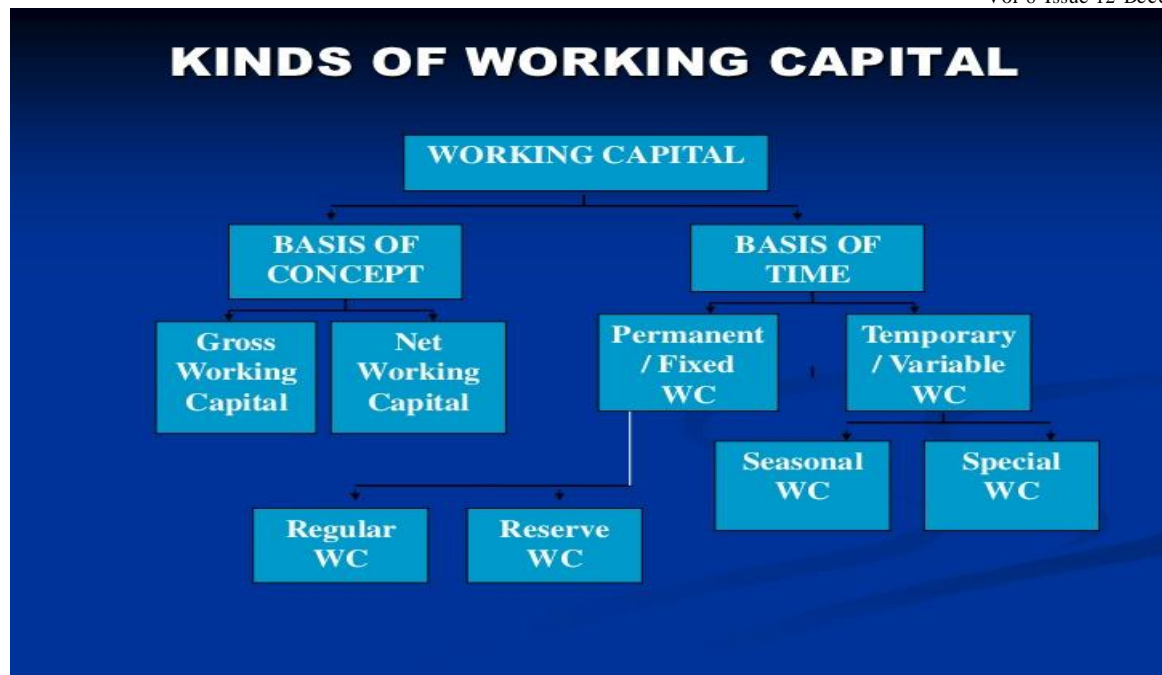


(Source: www.slideshare.net)

Permanent & Temporary Working Capital



(Source: www.slideshare.net)



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FACTORS AFFECTING THE WORKING CAPITAL REQUIREMENTS:

- Nature of the business.
- Scale of operations.
- Growth and expansion of business.
- Length of manufacturing process.
- Length of the Operating Cycle.
- Cash Cycle.
- Current Asset Policy and Current Asset Financing Policy.
- Production Policies.
- Rapidity of turnover.
- Seasonal fluctuations in demand.
- Fluctuations in supplies.
- Operating efficiency.
- Credit Policy.
- Credit facilities enjoyed from creditors.
- Price level changes.
- Government regulations.
- Profit level.
- Dividend policy.
- Taxes.
- Depreciation policy.

WORKING CAPITAL TOOLS:

- Inventory turnover ratio
- Cash ratio

- Sales ratio
- Liquidity ratio
- Debtors turnover ratio
- Creditors turnover ratio

LITERATURE REVIEW:

1. **DELOOF (2003)** have found a Strong significant relationship between the measures of working capital management and corporate profitability. Their findings suggest that managers can increase profitability by reducing the number of days accounts receivable and inventories. This is particularly important for small growing firms who need to finance increasing amounts of debtors.
2. **RAHEMAN A., AFZA T, QAYYUM A, ET.,AL (2010)** has stated that the cash conversion cycle and net trade cycle offer easy and useful way to check working capital management efficiency. For value creation of shareholders, firm most try to keep these numbers of days to minimum level.

NEED OF THE STUDY:

Today financial soundness and profitability of business enterprises largely depend upon the working capital management by the firm. If there is shortage of working capital it affects the day-to-day operations of the business firm, if there is excess of working capital, fund became idle it also affects the financial soundness of the firm. In this perspective there is need to manage the working capital effectively in any business.

OBJECTIVES OF THE STUDY:

1. To understand the concept of working capital in general.
2. To see whether the company is prepared with enough working capital to face any kind of contingencies.
3. To analysis the implementation of working capital in Ramraj Industries.
4. To summarize, the findings and to offer suggestions for more effective management of working capital in Ramraj Industries, Vellore.

LIMITATIONS OF THE STUDY:

1. This study is conducted only in Ramraj Industries Vellore.
2. Some respondents did not properly respond to the questionnaire.
3. Time is a major limitation.

COMPANY PROFILE

The Ramraj Industries was established in 1992 by Mr. Premsekar at Ambur (Vellore district) in Tamil Nadu, India, primarily to process and export sole and insole leather board. The Ramraj Industries, managing by Mr. Rajasekar, Mr. Ram Kumar and by Mrs. Mangayarthilagam. Ramraj Industries has diversified its product and has entered into the manufacture of finished leather. Leather shoe uppers, leather shoes and full shoes under the dynamic administration of the

Patterns and by all the managers. Now a good number of industries are working under this group, such as,

- ❖ Prem shoes Pvt. Ltd
- ❖ Ramraj Industries sole & insole plant
- ❖ Ramraj Industries Full shoe division
- ❖ Ramraj Industries sole & insole plant

DATA ANALYSIS AND ITS INTERPRETATION:

1. WORKING CAPITAL TOOLS ARE EASY TO ACCESS IN A FIRM:

NULL HYPOTHESIS: H_0

There is no significant different between working capital tools are easy to assess and based on education.

ALTERNATIVE HYPOTHESIS: H_1

There is a significant different between working capital tools are easy to assess and based on education.

DEGREE OF FREEDOM:

$V = 6$

CONCLUSION:

The table value @5% significant level is 11.09, The calculated value is 3.94 Hence the calculated value is lesser than the table value, so null hypothesis is accepted. Therefore there is no significant different between working capital tools are easy to assess and based on education.

2. CURRENT ASSETS ARE EXCELLENT INDICATOR IN A FIRM.

NULL HYPOTHESIS: H_0

There is no significant different between current assets have excellent and based on age.

Alternative hypothesis: H_1

There is a significant different between current assets have excellent and based on age.

DEGREE OF FREEDOM:

$V = 6$

CONCLUSION:

The table value @ 5% significant level 11.09, The calculated value is 0.06 Hence the calculated value is lesser than the table value, so null hypothesis is accepted. Therefore there is no significant different between current assets have excellent and based on age.

SUGGESTIONS:

- It is suggested to the company should decries the cost of goods sold as earlier as possible, and try to increase the sales margin.
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- It also shows that operating profit ratio is comparative good. So it is suggested that the firm should increase the operating profit margin.
- To find out the face of falling sales prices, raising cost of production or declining demand for the product. Its also means that a firm with high net profit margin can make better use of favorable condition in a firm.
- It is suggested to a firm current liabilities less than current assets. It also means that firm is in position to reflect its current liabilities properly, and try to increase the current assets.

CONCLUSION:

It is concluded that working capital place a vital role in the capital structure of a firm. It is the life-blood of all types of organization, manufacturing and trading sectors. If the firm has enough working capital, it can maintain its operating cycle efficiency. Not only that, but more working capital provides psychological satisfaction and relief to the management. From this point of view the management of working capital becomes a tedious experience for a financial manager of a firm. Thus Working Capital Management has an important role for the firm's success or failure became of its effect on firm performance and liquidity.

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