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A Study on Working Capital Management of Endeka Ceramics India Private Limited at Hosur

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Abstract: *This is a study conducted to focus on the short term financial management or working capital management. Working capital refers to that part of the firm's capital which required for financing short term or current asset. Adequate amount of working capital is required by the firm in the form of different activities to continue uninterrupted and to tackle problems that may arise. Financial viability structure and utilization of working capital in the company is analyzed for five years from 2019- 2023. The study is mainly based on the secondary data. Ratios and statement of changes in working capital are the tools used for the study. The interpretations are summarized and suggestions are provided based on it.*

Key Words: *Profitability, Efficiency, Leverage, Ratios, Globalization.*

1. INTRODUCTION

Finance is viewed as the most important factor in every enterprise and it is provision of money at the time when it is required. Every enterprise whether they are big, medium or small needs finance to carry on its operations and to achieve its targets. Finance is so indispensable today that it is rightly said that it is the lifeblood of an enterprise. Without adequate finances, no enterprise can possibly accomplish its objectives Capital required for a business can be classified under two main categories i.e., fixed capital and working capital. Fixed capital stands for the amount of capital which is required for long term to create production facilities through purchase of fixed assets such as plant, machinery, land and buildings etc. Working capital refers to that part of the firm‘s capital which is needed for financing short terms or current assets such as marketable securities, debtors and inventories etc. working capital in brief, is the amount of funds necessary to cover the cost of operating the enterprise. Just as circulation of blood is essential in the human body for maintaining life of a person, working capital is very essential to maintain the smooth running ofa business.

2. SCOPE OF THE STUDY

The present study is designed to make effort to understand the management of working capital in Endeka Ceramics with the help of financial ratios so as to enable to determine the financial viability of the company. To study the aspect of working capital management in the company prepares a project report. This report is compiled result of the information gathered during the three months period of the industry. The project is mainly based on the study of management of the working capital. The analysis of the working capital has been done with the help of financial ratios, which acts as a powerful tool, financial analysis. The study aims at appraising the existing working capital condition and give suggestions if any based on the analysis.

3. OBJECTIVE OF THE STUDY

Primary Objective:

In this study Working Capital analysis towards Endeka Ceramics India Private Limitedat Hosur.

Secondary Objectives:

To measure the current working capital in Endeka Ceramics.

To give suggestive framework for an affective functioning of working capitalmanagement of the company.

To find out the problems faced by the company towards working capital management.

To examine the quantum of working capital and study the sources of working capital.

To evaluate the performance of the Working Capital Management of the Endeka Ceramics.

4. LITERATURE REVIEW

M.G. Kibria (2018) 1 An overview of working capital management and corporate financing‖, describes that over the past 40 years major theoretical developments have occurred in the areas of longer-term investment and financial decision making. Many of these new concepts and the related techniques are now being employed successfully in industrial practice. By contrast, far 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 Michael Huberman (2018):How to Understand Working Capital Management‖ describes that Cash is king‖--so say the money managers who share the responsibility of running this country's businesses. And with banks demanding more from their prospective borrowers, greater emphasis has been placed on those accountable for so-called working capital management. Working capital management refers to the management of current or short-term assets and short term liabilities. In essence, the purpose of that function is to make certain that the company has enough assets to operate its business. Here are things you should know about working capital management A. Basu (2021) 11 :Working Capital Management Manages Flow of Funds‖ describes that Working capital is the cash needed to carry on operations during the cash conversion cycle, i.e. the days from paying for raw materials to collecting cash from customers. Raw materials and operating supplies must be bought and stored to ensure uninterrupted production. Wages, salaries, utility charges and other incidentals must be paid for converting the materials into finished products. Customers must be allowed a credit period that is standard in the business. Only at the end of this cycle does cash flow in again. Chiara Bonfiglioli (2023) 15 ―Working capital management: an urgent need to refocus‖ Management Decision, Argues that attempts to improve working capital by delaying payment to creditors is counter-productive to individuals and to the economy as a whole. Claims that altering debtor and creditor levels for individual tiers within a value system will rarely produce any net benefit .Proposes that stock reduction generates system-wide financial improvements and other important benefits .Urges those organizations seeking concentrated working capital reduction strategies to focus on stock management strategies based on lean supply-chain‖ techniques.

5. RESEARCH METHODOLOGY

The advanced learner's dictionary of current English lays down meaning of research as "A careful investigation or inquiry especially through search for new facts in any branch of knowledge". The theoretical framework of working capital management has been in Endeka Ceramics for the purpose of the study. Current assets included in working capital. It has been divided into receivables, inventories, cash and bank balance. Current liabilities have been classified in the order of creditors, loans and advances and sundry liability. The information and data for the present study was obtained from both primary and secondary data by conducting personal interviews with senior executives of the company to secure the first hand information and various aspects of working capital management were discussed on managing working capital. The secondary information was collected from annual reports and other financial reports etc and published documentary material available on the subject. The data collected has been analyzed against the accepted working capital management techniques. Data Analysis: Working Capital Turnover Ratio: Working capital of a concern is directly related to sales (i.e.) the current assets like debtors, bills receivables, cash, stock etc., and change with the increase (or) decrease in sales. Working capital = Current assets - Current liabilities This excess of current assets over current liabilities is referred to as net working capital. Working capital turnover ratio indicated the velocity of the utilization of net working capital. This ratio indicated the number of times the working capital is turned over in the course of a year. A higher ratio indicates efficient utilization of working capital and a low ratio indicatedotherwise.

Sales WORKING CAPITAL TURNOVER RATIO = -------------------------

TABLE 1. Working capital

WORKING CAPITAL TURNOVER RATIO

Year	Sales	Networking capital	Ratio
2018-19	5742.04	1621.97	3.54
2019-20	5613.42	2073.61	2.71
2020-21	5690.43	1610.78	3.53
2021-22	5851.27	2429.17	2.41
2022-23	6414.58	2759.53	2.32

Sources: Secondary data

Inventory turnover ratio implicates the number of times the stock has been turned over during the period and evaluates the efficiency with which a firm is able to manage its inventory.

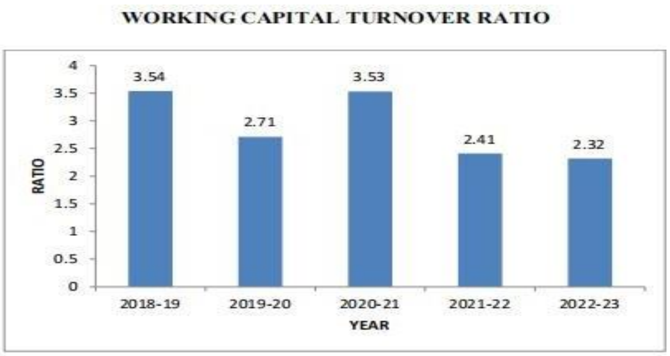


FIGURE 1. Inventory Turnover Ratio

Cost of goods sold Inventory Turn over Ratio = --------------------------------

Average Stock = --------------**2**--------------------------

DEBTORS TURNOVER RATIO

Year	Sales	Average Debtors	Ratio
2018-19	5742.64	706.19	8.13
2019-20	5613.96	723.41	7.76
2020-21	5690.95	743.95	7.65
2021-22	5851.37	722.61	8.10
2022-23	6414.58	745.07	8.61

Sources: Secondary data

INVENTORY TURNOVER RATIO

Year	Cost of goods sold	Average stock	Ratio
2018-19	5742.64	1754.13	3.27
2019-20	5613.96	1722.92	3.26
2020-21	5690.95	1699.06	3.35
2021-22	5851.37	1852.75	3.16
2022-23	6414.58	2279.32	2.81

Sources: Secondary data

INVENTORY TURNOVER RATIO

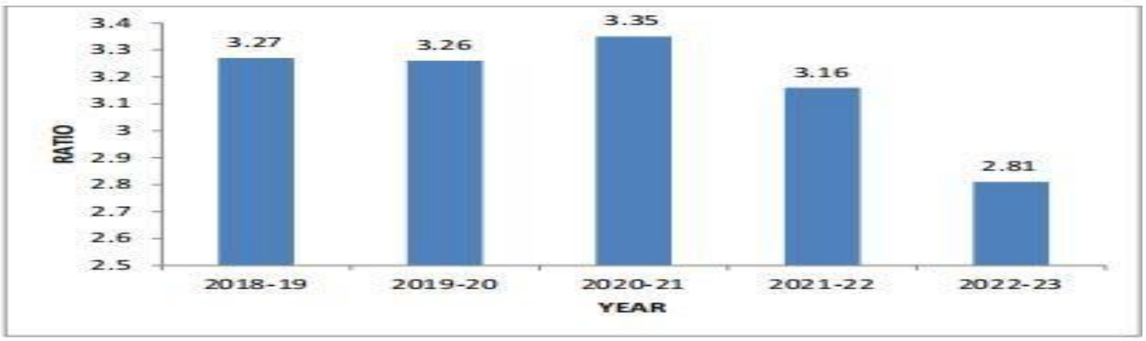


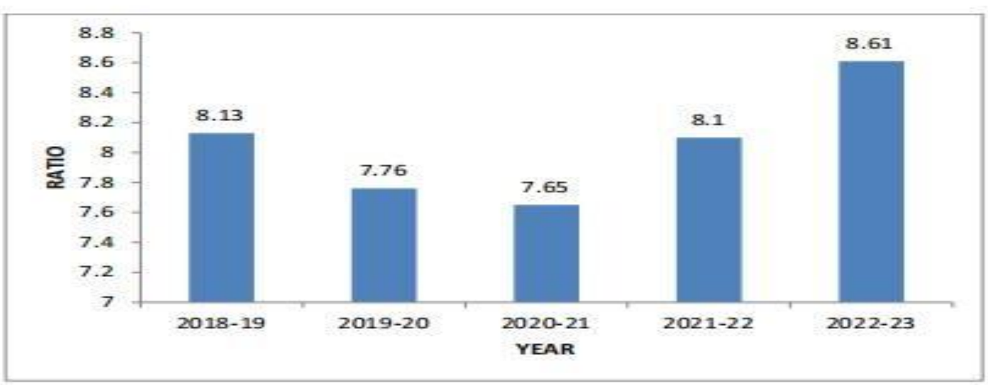
FIGURE 2. Debtors Turnover Ratio

The liquidity position of a concern to pay its short term obligations in time depends upon the quality of its debtors. Debtors turn ratio indicates the velocity of debtors collection firm (i.e.)it indicates the number of times average debtors are turned over during a year.

Sales Average debtors + bills receivable

Debtors turnover ratio = --

DEBTORS TURNOVER RATIO



6. FINDINGS

1. The working capital turnover ratio is 3.54 in 2018-19 and decreased to 2.71 in 2019-20 and then increased to 3.53 in 2020-21 then last year decreased to 2.32. This shows working capital turnover ratio is decrease level.
2. The inventory turnover ratio from 2018-19 to 2022-23. The ratio shows Decreasing trend during the study

period. The ratio shows highest as 3.35 at 2020-21 and shows lowest asat 2022-23. The ratio indicates at the year 2021-22 the company performs better of inventory and at the year 2022-23 the company performs low level of inventory.

3. The Debtors turnover ratio lies within its higher limit. The ratio shows lowest as 7.65 at 2020-21 and shows highest as 8.61 at 2022-23 and there is no standard norm for Debtors
4. Turnover ratio. Debtor's turnover ratio is Increasing trend.
5. The gross profit ratio is an indicator of the firm‘s ability to meet its current obligations. The lowest ratio 0.16 was obtained during the period 2021-22 and the highest ratio 0.29 value obtained during the period 2020-21. The gross profit ratio is Decreasing and fluctuating
6. Trend.
7. The Net profit ratio from 2018-19 to 2022-23. The ratio shows that 6.25 at 2018-19 and increased to 17.60 at 2020-21 and then it was decreased to 9.33 in 2021-22 and then increase to 10.85 in 2022-23. So the Net profit ratio is fluctuated trend and decreasing trend
8. The current ratio is an indicator of the firm‘s ability to meet its current obligations. The lowest ratio 2.13 was obtained during the period 2018-19 and the highest ratio 3.32 value obtained during the period 2022-23. The current asset ratio is above than the increased in year by year. Therefore the current ratio is considered satisfactory.
9. The quick ratio from 2018-19 to 2022-23. The quick ratio shows fluctuating trend throughout the study period. Even though it had decrease the quick ratios not satisfy the standard norm. The ratio shows highest as 1.29 at 2021-22 and shows lowest as 0.99 at 2018-19.

7. SUGGESTIONS

The company may increase the investments in current assets more than current liabilities. The debtor‘s turnover ratio showing the effective management of credit sales of the company. It may maintain continuously. The inventory to current assets is fluctuating from year to year. So, it leads to the risk. It may maintain always in the increasing way. The company may maintain the high level of the cash and bank balances to make the effective working in the company. The level of the inventory is good. So it may maintain the same level to avoid the danger level of the inventory..

8. CONCLUSION

Company was maintaining adequate stock of inventory in order to meet the demand of output which needs some sort of improvement. The company can gain more if it can get cheaper financial resources by decreasing its interest component. It helps the firm in understanding its Strength, weakness and problems. So that it can take necessary course of action in future. If the company gives more attention on the suggestion it can improve future and can perform better. Company is cash rich but as there are expansion and diversification plans under the pipeline, company is not utilizing these funds. For meeting the working capital needs and capacity expansion needs, it has borrowed from banks.

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