

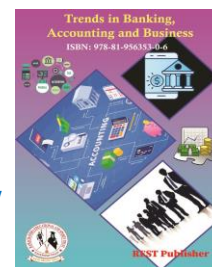


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A Study on Working Capital with Reference to Praveen Engineering Products India Pvt Ltd at Hosur

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Abstract: Working Capital is one of the most vital functions of corporate management. Every organization whether public or private, profit oriented or not, regardless of its extent and nature of business, needs sufficient amount of working capital. The proficient working capital management is most critical factor in maintaining existence, liquidity, solvency and accomplishment of the any business organization. A company needs sufficient finance to carry out purchase of raw materials, payment of predictable operational expenses and funds to meet these expenses are together known as working capital. This title of the project is "A Study on working capital with reference to Praveen Engineering Products India Pvt Ltd". This study is based on secondary data it was collected from: Balance sheet of the company for past 5 years (2017-2018 to 2021-2022), Profit and loss account of the company of the past 5 years (2017-2018 to 2021-2022), Website of the company and other sites. The tools and techniques are used for this study is Ratio analysis, Schedule of changes in working capital, Trend Analysis. This financial statement analysis to examine the degree of efficiency of working capital management has been embraced.

Keywords: Working capital, Current ratio, Inventory turnover ratio, Debt equity ratio

1. INTRODUCTION

In business point of view working capital is money or money value is used in business regardless of the source of obtaining it. The term working means the circulation of capital in one form or another during the day-to-day operations of business. Working capital is defined as the annual survey of the industries to include stock of material, stores, fuel, semi-finished goods including working progress and finished by products, cash in hand and algebraic sum of sundry creditors. Financial management can be divided into two broad areas of responsibility as the management of long-term capital and the management of short-term funds or working capital. Working capital management is a business strategy designed to ensure that a company operates efficiently by monitoring and using its current assets and liabilities to their most effective use. Working capital management involves calculating various ratios, including the profitability ratio, liquidity ratio, and the inventory ratio. Working capital means the funds available and used for day-to-day operations of an enterprise. It consists broadly of that portion of assets of a business which are used in or related to its current operations. Efficient management of working capital is an essential pre-requisite for the successful operation of a business enterprise and improving its rate of return on the capital invested in short-term assets. The components of Working Capital Management are as follows: Cash Management, Inventory Management, Receivables Management, and Payables Management.

2. OBJECTIVES OF THE STUDY

To find out the liquidity of the concern by using liquidity ratio To find out the profitability of the concern by \ using profitability ratio , To find out the performance of the concern by using turnover ratios To find out the working capital of the current year using regression analysis To analyse schedule of changes of working capital.

3. SCOPE OF THE STUDY

The scope of the study aims at analysing the working capital statements of Praveen Engineering Productsthrough various techniques like ratio analysis, cash flow statement, schedule of changes in working capital, etc. The study aims at assessing the working capital position and liquidity position of the company. For conducting the study the financial statements for the past 5 years are used.

4. REVIEW OF LITERATURE

Rao Govinda D. (1999) had attempted to find out the causes of the changes in the size of working capital in the sample companies during the period under study. He found several causes of changes in working capital, mainly (a) sources of funds and (b) applications of funds. In the end, the changes in working capital were analysed with the help of the changes in working capital and funds flow statement. He believed that the changes in quantum of working capital were to be ascertained and analysed. Singh (2004) study conducted on working capital in Lupin Laboratories ltd. He attempted to assess the significance of management of working capital through working capital ratios and operating cycle. Having analysed seven years data (1995-2002), he indicated that the liquidity position of the company was good, means percentage of current assets was very high when compared to the percentage of net fixed assets and the operating cycle showed declining trend. Parasuraman (2004) study attempts to understand the relationship between credit period given by companies and their actual performance in terms of sales and profitability. He has also attempted to find average level of other key financial parameters connected to working capital management. Having laid the emphasis on Indian Pharmaceutical companies, he found out that leading companies have employed greater working capital for enhancing profitability. The study also revealed the days sales outstanding had gone up in the sample companies. The study inferred that the top pharmacy companies’ strategies on their working capital policy to relax the credit policy to achieve greater sales and greater profits. Akash B. Selkari and Omdeo Ghyar (2016) conducted a “Study on Working capital of Mahindra and Mahindra Ltd” for a period of 3 years from 2015-18. To study the working capital of the company ratio analysis technique was used. They came to an end that the working capital of the company was satisfactory because of maintaining proper inventory levels, cash, and other current assets and a decrease in the current liabilities and provisions Singh et al. (2017) indicated that WCM is negatively connected with corporate profitability, which means an aggressive WCM policy leads to higher profitability Dr.V. Bhuvanewari (2020) highlighted the working capital which will determine whether the position of the company from the working capital point of view is sound and satisfactory. She concluded that the overall working stability, soundness and overall financial performance have improved over the years.

5. RESEARCH METHODOLOGY

The methodologies of the study included detailed observation and maintain notes, discussion with concerned persons, workers and managers regarding the various processes involved in the respective functional areas. The data has been collected through secondary sources. The data collection was done during the period from 2015 -16 to 2019-20.

TABLE 1. Trendan alysis of currentliabilities

Year	Current Liabilities	Trendpercentage
2018	8636	100
2019	8353	97
2020	9104	105
2021	10841	126
2022	10944	128

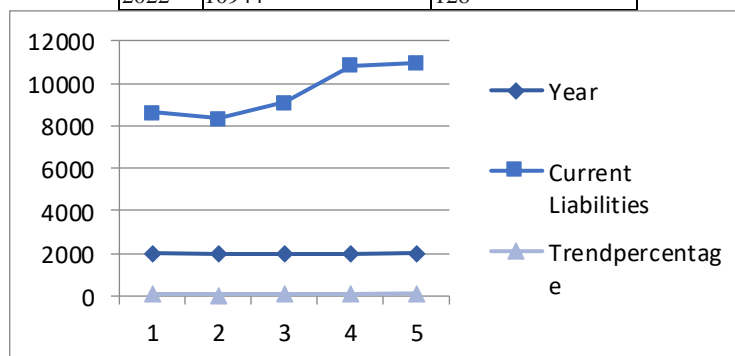


FIGURE 1. Trend Percentage of Current Liabilities

Interpretation: From a fall in the year 2018-19, the graph the current liabilities show a steady increase in the last

three years Findings: There haven't been any drastic changes in the working capital ratio during the 5 years. It was highest in the year 2021, which implies better utilization of working capital. Current assets show an upward trend during the five years. Inventory hasn't shown drastic fluctuation during the first three years which later showed a sharp increase in the consequent years. Cash has not increased during the first two years after which it drastically increased. Later it declined. Current liabilities have showed a steady increase in the last three years. Suggestions: The current ratio of the company was below the standard of 2:1 in all the years. In order to maintain the standard, the company has to either increase the current asset or decrease the current liability. For example, by increasing current investments, settling trade payables etc. The liquid ratio of the company attained the ideal ratio in the last two years. But, in the first three years the ratio was not satisfactory. Therefore, the company should either increase its quick assets or decrease its current liabilities. The absolute liquid ratio of Pepipl is below the standard of 0.5:1 in all the years. Therefore, the company should decrease current assets or improve its cash position. The cash position of the company can be improved by selling off unproductive assets which will lead to better liquidity position. The inventory turnover can be increased through sales forecasting, trying a new marketing strategy, improving the accuracy of demand forecasting etc. Working capital is important for meeting day to day expenses. There is a net increase in working capital in all the years except in the years 2019-20 and 2020-21.

6. CONCLUSION

The study on working capital management conducted in Praveen Engineering Products India PVT LTD was to analyze the working capital position of the company. It was undertaken with main objective of studying the working capital management and liquidity position using ratio analysis and statement of working capital changes. The study was undertaken to analyze and interpret the efficiency of the company in working capital management. The working capital position of the company is analyzed by using the financial statements of five years, i.e. from 2017-18 to 2021-22. After analyzing the financial data, we can conclude that overall financial performance is satisfactory. The liquidity position analyzed through the various liquidity ratios showed that the company has attained the ideal ratio in the last two years and has thus improved. In the year 2021-22 the working capital position is satisfactory. Thus, this study helped as to know more about working capital management of Praveen Engineering Products over the last 5 years.

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