

‘Study of Working Capital Management of Future Supply Chain Solutions Pvt. Ltd, Nagpur form 2014-15 to 2016-17’

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ABSTRACT: Managing liquidity and profitability is one of the most important tasks of working capital management which can make or mar a business. Supply chain and logistics are cost intensive and their demand on liquidity and effect on profitability of a business weigh on most of the business decisions. Though working capital management is a crucial area for each type of business, this paper studies the same in the context of Future Supply Chain Solutions Pvt. Ltd, Nagpur, a company engaged in providing logistics and supply chain solutions. The period selected for the study is from 2014-15 to 2016-17. The paper mainly uses various ratios for this purpose.

Key Words: working capital, liquidity, profitability

INTRODUCTION

Working capital management holds a greater significance in every industry as inadequate working capital may lead to loss of reputation and even bankruptcy in many cases. Future Supply Chain Solutions Pvt Ltd., Nagpur, the company under study offers supply chain solutions covering third-party logistics services, including contract logistics, express logistics and temperature-controlled logistics. Supply chain is a vital link in a business where there is potential of reduction in costs which can contribute in efficient working capital management. The project studies the techniques of working capital management in Future Supply Chain Solutions Pvt Ltd., Nagpur to gain an insight into the efficacy of the methods adopted by the company and to identify the

areas where steps can be taken to further improve the efficiency of working capital management.

Working capital policies have a great effect on a firm's liquidity and profitability. Therefore, the working capital should be managed in such a way which will ensure higher profitability and adequate liquidity to the business concern. Working capital management assumes significance in the backdrop of maintaining a 'good fit' with the ever-changing business and economic environment and is vital to enhance the capability of the organization to cope with challenges.

DEFINITION OF WORKING CAPITAL

Working capital means the funds which are required to meet the day-to-day transactions of the business. In other words it refers to that part of the firm's capital which is required for financing current assets such as cash, marketable securities, debtors and inventories. Gross working capital refers to the total investment in current assets and net working capital refers to the difference between current assets and current liabilities.

COMPANY PROFILE:

Future supply chains solutions. Pvt. Ltd. Was founded on 2007 promoted by Kishore Biyani of Future Enterprises Limited. The Company has presence in all over India with five zone respectively, North, East, South, West & Central zone. Mihan is a Central zone warehouse started in 2010 with seven branches namely Raipur, Bilaspur, Indore, Jabalpur, Nagpur, Gwalior, OCLP Gumgoan. & two hubs in OCLP Gumgoan & Indore. Currently the company employs 1500 employees..FSCS Pvt. Ltd is one of India's largest organized third-party supply chain and logistics service provider offering automated and IT-enabled warehousing, distribution and other logistics solutions to a wide range of customers. The service offerings, warehousing structure, pan-India distribution network, "hub-and-spoke" transportation model and automated technology systems support the firm's competitive market position. The customers of the company span across India, in various sectors including retail, fashion and apparel, automotive and engineering, food and beverage, fast-moving consumer goods (FMCG), e-commerce, healthcare, electronics and technology, home and furniture and ATMs.

The distribution centers and delivery network of FSCS form a supply chain system across India. As of July 31, 2017, for the contract logistics services, the operations are run through 42 distribution centers across India, covering approximately 3.80 million square feet of warehouse space and 2 distribution centers at customer premises, covering area of approximately 0.37 million square feet. The distribution centre at the Multi-modal International Hub Airport at Nagpur (MIHAN) is one of the largest and most highly automated distribution centers in India with an area of approximately 0.37 million square feet of warehousing space, housing a high-speed cross-belt sorter system, which was the first of its kind in India, with a sorting capacity of approximately 2,000 cases per hour.

The Company posted revenues of Rs 5,612 million and a net profit of Rs 458 million at the end of the financial year 2016-17. During the past three years since financial year 2013-14, the revenues from operations of the Company have grown at a compounded annual growth rate (CAGR) of 17%.

The working capital of the company for three years is depicted in the table below:

Table 1:: Statement Working Capital of FSCS Pvt. Ltd. Nagpur.

Years	2014-15	2015-16	2016-17
Working Capital	5323.68	7354.41	11222.96
%Increase in Working Capital		38.14	52.60
Working Capital/Total Assets			

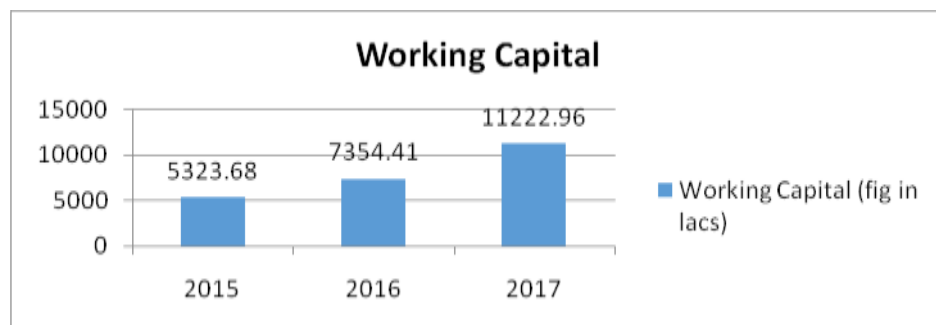


FIGURE 1: WORKING CAPITAL OF FSCS

EFFICIENCY RATIOS

Working capital management can be assessed by studying the efficiency ratios which indicate the efficiency of the utilization of various kinds of assets in terms of sales achieved. These ratios are also called as activity ratios or assets management ratios.

- Working Capital Turnover Ratio.
- Inventory Turnover Ratio.
- Current Assets Turnover Ratio.
- Debtors Turnover Ratio.
- Debtors Collection Period.
- Creditors Turnover Ratio.
- Fixed Assets Turnover Ratio.

The various turnover ratios for the past three years for the company are depicted in the table

TABLE 2: EFFICIENCY (TURNOVER) RATIOS.

Ratios/Year	2014-15	2015-16	2016-17
Working Capital Turnover	7.45	5.78	3.40
Inventory Turnover	9.395	7.02	6.57
Current Assets Turnover	2.23	2.18	1.68
Debtors turnover Ratio	17.78	15.73	21.14
Debtors Collection Period(days)	21	23	17
Creditors Turnover Ratio	1.26	1.72	1.45
Fixed asset turnover Ratio	13.79	11.56	9.89

The working capital turnover ratio shows a decline during these three years, i.e., the working capital is comparatively higher than the previous periods. This might indicate a build-up of stock with more non-moving items. The investment in working capital seems to be increasing without a corresponding increase in turnover. This might indicate locking of funds.

The inventory turnover ratios are showing a declining trend. This, along with higher working capital turnover ratio indicates stocks are moving at a slower rate and hence that is one of the major reasons behind the decrease in working capital turnover ratio. The same applies to the current assets turnover ratio also. The debtors turnover ratio is increasing which indicates that the recovery from debtors are better and this is reflected in the declining debtor collection period. This is a welcome development for the company as its funds would be blocked in debtors for a less period.

The creditors turnover ratio is also increasing which implies that the company has also sped up the payment of the creditors, which means that the company has to look more into internal sources for financing working capital.

Liquidity vs. Profitability: One of the chief objectives of Working capital management is to achieve a trade-off between the twin objectives of Liquidity and profitability. A large net working capital may reduce the liquidity risk of the firm but excess of liquidity would lead to idle funds which would adversely affect profitability. The following ratios have been calculated to assess whether these objectives are adequately met by the company.

TABLE 3: LIQUIDITY RATIOS

RATIOS/YEAR	2014-15	2015-16	2016-17
Current Ratio.	1.43	1.61	1.98
Quick Ratio.	1.09	1.11	1.47
Absolute Liquidity Ratio	0.69	0.49	0.82

The current ratio of the firm is showing an upward trend and indicates that the current assets are sufficient to cover current liabilities and the liquidity position is quite sound. Quick ratio and the absolute liquidity ratios are also satisfactory and well above the industry average.

TABLE 4: PROFITABILITY RATIOS

RATIOS/YEAR	2014-15	2015-16	2016-17
Gross Profit Ratio	15.74	13.45	17.04
Net Profit Ratio	9.16	9.61	12.54
Return on Equity	37.93	32.08	29.33
Return on capital employed.	23.06	33.57	51.58

The Gross profit, Net Profit and the return on capital employed show a positive trend. The Gross profit has increased from 15.74 to 17.04 % during the period of study. Net profit has also shown a positive trend as it has increased from 9.16 in the year 2014-5 to 12.54 in 2016-17. However, the return on equity has declined from 37.93% to 29.33. This might be due to the reduction of proportion of debt in the capital structure. The return on capital employed, which is the return on total funds invested has also shown a rising trend which indicates the increase in the profitability of the company.

FINDINGS & CONCLUSIONS

The working capital position of the company is quite sound. The working capital has increased during the three years of study period. From the study of other efficiency ratios, it is found that current assets have increased and current liabilities have decreased which has resulted in the increase in working capital. However, this has not affected the profitability as the Gross Profit, Net Profit and Return on the Capital Employed ratios are showing an upward trend. In the event of the company wishing to mobilize more capital, the profitability would help in getting good response from the investors. However, the return on equity has reduced which can become a concern for the owners.

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