

# A STUDY ON WORKING CAPITAL MANAGEMENT TOWARDS SALEM STEEL PLANT

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**Abstract :** *The major reason for choosing the topic related to working capital is every company has to maintain working capital to meet the day- to- day expenses incurring in the concern. Many tools like ratio analysis, schedule of changes in working capital, comparative balance sheet reveals the working capital position of the firm. The study period was 5 years from 2012-2016. The data collected was secondary data. The investment decisions, current asset and current liability management are the major factor in determining the working capital.*

**IndexTerms - Working Capital, Cash Management and Capital Position.**

## INTRODUCTION

The investment in current assets to meet the day- to- day expenses is called working capital management. Working capital is otherwise called as Circulating Capital (or) Revolving Capital. Working capital management is very essential for the concern to sort out the day- to- day expenses. Working capital sometimes called as Networking is represented by the excess of current assets and current liabilities and relatively identified the liquid portion of total enterprise capital which constitutes a margin (or) buffer for maturing obligations with in the ordinary operating cycle of business.

## STATEMENT OF THE PROBLEM

The research aims to study on working capital management “STEEL AUTHORITY OF INDIA, LIMITED, SALEM STEEL PLANT. The problem is enhanced on the study on working capital management in Salem steel plant. .. The management of working capital has a definitive effort on profitability and continued existence of any business. The research aims to find out the liquidity, activity, and leverage position of the company. This study is concerned with problems involved in working capital like estimation of working capital at the time.

## SCOPE OF THE STUDY

1. The project aims at studying the working capital management of Salem Steel Plant which is a subsidiary of SAIL (STEEL AUTHORITY OF INDIA)
2. Based on the data interpretation and recommendations are given to increase the efficiency of the firm.

## OBJECTIVES OF THE STUDY

1. To study and analyse the liquidity position of Salem steel plant.
2. To analyse and interpret the activity of Salem steel plant for Five years of profit & loss A/c and Balance sheet (2011-12 to 2015-16).
3. To analyse the impact of working capital changes.
4. To analyse the comparative financial statement in order to know the potential investment.

## RESEARCH METHODOLOGY

Research refers to the searching for knowledge. One can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact research is an art of scientific investigation. “A careful investigation or enquiry through search for new facts in any branch of knowledge”.

## DATA COLLECTION

Data refers to the information or facts often and researcher also understand it by numeric figures only. It also includes descriptive facts, non- numerical information, qualitative and quantitative information. In a research if data are available the research is half complete.

## DATA ANALYSIS

Secondary data means the data already available, that is they refers to the data which have already been collected and analysed for someone else. When the researcher utilizes the secondary data they have look into the sources of availability of data’s.

## TOOLS USED FOR ANALYSIS

The following is the tool used in the study for the financial performance of the company

- Ratio analysis

## REVIEW OF LITERATURE

**AmalenduBhunia (2014)** has undertaken an analysis of financial performance of pharmaceutical companies to understand how management of finance plays a crucial role in the growth. The present study covers two public sector drug & pharmaceutical enterprises listed on BSE. In order to analyse financial performance in terms of liquidity, solvency, profitability and financial efficiency various

accounting ratios have been used. Statistical measures namely Linear Multiple Regression Analysis and Test of Hypothesis t test has been used.

**Rao and Rao& Ramachandran (2015)** This study is aimed at analysing the trends and parameters of efficiency of WC(WC) utilization in respect of size of firms of cotton textiles sector in Indian on the application of three indices viz., Performance Index(PI, utilization Index(UI)and efficiency Index(ED). For the purpose of analysis the selected firms are classified into three size categories viz “Small”, Medium” and “Large” based on average assets size over the study period.

#### LIMITATIONS OF STUDY

1. The study is restricted to a period of Five years (2011-12 to 2015-16).
2. Ratio analysis will not completely show the company’s good or bad financial position.
3. Findings are restricted to a single firm and cannot be generalized to the industry as a whole.
4. The detailed information’s are not given from the company.

#### Data analysis

The term analysis refers to comparison of certain measures along with searching for patterns or relationship that exists among data groups.

Interpretation means applications of logical thinking and division to the facts to understand and explain the line between the variables

#### RATIO ANALYSIS CURRENT RATIO

**TABLE 1.1**  
(Rs in crores)

S.NO	YEAR	CURRENT ASSETS	CURRENT LIABILITY	RATIO %
1	2012	29137.97	16006.39	1.22
2	2013	28444.76	19766.79	1.01
3	2014	27527.73	25623.97	0.72
4	2015	29001.01	31171.67	0.68
5	2016	22882.98	38403.09	0.62

#### Source : Secondary Data

The current assets gradually decreases from 2013 and 2014 comparing to 2012 and met a slight increase in 2015 and again decrease in 2016. The current liability increases from 2013 to 2016 comparing to 2012.

The table shows that the current ratio is high in 2012 because the current assets exceed current liabilities.

**LIQUID RATIO**  
**TABLE 1.2**  
(Rs in crores)

S.NO	YEAR	LIQUID ASSETS	LIQUID LIABILITY	RATIO %
1	2012	15239.04	19330.02	0.82
2	2013	12279.03	23211.68	0.68
3	2014	12162.24	28845.77	0.62
4	2015	11058.05	34801.32	0.55
5	2016	7519.37	38804.65	0.44

#### Source : Secondary Data

The liquid assets had a decreasing trend from 2013 to 2016 comparing to 2012. The liquid liability increases from 2013 to 2016 comparing to 2012. The concern’s liability shows an increasing trend which shows the bad financial position of the concern. The increase in loans and advances and payments to creditors is the major reason for the short fall.

The table shows the liquid ratio is higher in 2012 because the liquid liabilities exceed liquid assets.

**DEBT-EQUITY RATIO**  
**TABLE 1.3**

(Rs in crores)

S.NO	YEAR	DEBT	EQUITY	RATIO %
1	2012	17110.69	40270.84	0.40
2	2013	19760.25	41644.52	0.52
3	2014	19650.29	433301.44	0.57
4	2015	19748.52	44171.87	0.65
5	2016	22396.65	39929.20	0.80

**Source : Secondary Data**

The equity is high and the company's position is good to pay off the debt. The debt increases from 2013 to 2016 comparing to 2012. The equity increases from 2012 to 2015 and decreases in 2016. The ratio is higher in 2016 as equity exceeds debt.

**ABSOLUTE LIQUID RATIO**  
**TABLE 1.4**

(Rs in cores)

S.NO	YEAR	CASH AND BANK	CURRENT LIABILITY	RATIO %
1	2012	6662.28	1600.39	0.41
2	2013	4190.32	1977.79	0.35
3	2014	3165.97	25623.97	0.29
4	2015	2620.34	31171.67	0.15
5	2016	710.76	38403.09	0.10

**Source: Secondary Data**

The absolute liquid ratio indicates the cash and bank balance available to pay the current liability. The cash available and bank balance helps the company to pay of the liability immediately.

The above table shows that the absolute liquid ratio does not maintain its standard level because of the increase in current liabilities.

**EARNINGS PER SHARE RATIO**  
**TABLE 1.5**

(Rupees in crore)

S.NO	YEAR	CASH AND BANK	CURRENT LIABILITY	RATIO %
1	2012	6662.28	1600.39	0.41
2	2013	4190.32	1977.79	0.35
3	2014	3165.97	25623.97	0.29
4	2015	2620.34	31171.67	0.15
5	2016	710.76	38403.09	0.10

**Source : Secondary Data**

The earning per share is determined by the market value of the company's share. The net profit of the company is considered while determining the earnings of the shareholder in the concern. The investments in shares in also calculated i.e., holding of No.Of. Shares.

The net profit decreased during 2013 to 2015 and had a increase in 2016. The no .of equity shares held is 41.

**FINDINGS**

1. The current ratio describes the liquidity position of the company. The current assets can be easily converted into cash within one year and current liability indicates the payments that can be made within one year.
2. The liquid ratio describes the liquidity position of the company. The liquidity position implies the availability of ready cash to meet the daily expenses of the concern.

3. The increase in loans and advances and payments to creditors is the major reason for the short fall.
4. The debt indicates the payments that are to be made to debenture holders and long term provision. The equity indicates the equity share capital of the concern and reserves and surplus in the concern.
5. The equity is high and the company's position is good to pay off the debt. The debt increases from 2013 to 2016 comparing to 2012. The equity increases from 2012 to 2015 and decreases in 2016.
6. The earning per share is determined by the market value of the company's share. The net profit of the company is considered while determining the earnings of the shareholder in the concern. The investments in shares in also calculated i.e., holding of no. of. Shares

#### SUGGESTIONS

1. The company should increase the investment by proper formation of portfolios for investment.
2. The company should maintain adequate cash to meet the day to day expenses of the concern.
3. The creditors and loans should properly managed, so as less the liability of the concern.
4. The inventory has to be maintained properly to estimate the stock holding and amount to be earned through sale of stock.
5. The market price of the shares should be increased to have an earnings over the share for the shareholders

#### CONCLUSION

The study was undertaken to know the working capital management. Tools such as ratio analysis, schedule of changes in working capital and comparative statement have been used to find out the company's efficiency in performing all the functions. The analysis reveals that the company's working capital management is bad in terms of short and long period.

The cash and bank balance investments shows a negative which shows the poor financial position of the firm over the period of study (5 years). The steel plant can be privatised for the efficient working rather than public undertaking. The current assets can be increased and cash and bank balance should be maintained adequately for the better working capital arrangement.

#### REFERENCE

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