

NEGATIVE WORKING CAPITAL AND ITS IMPACT ON PROFITABILITY WITH REFERENCE TO HINDUSTAN UNILEVER LIMITED

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ABSTRACT

The efficient management of working capital plays an important role in the success of functioning of firm. Mainly working capital management decisions are relating to current assets and current liabilities, such decision involve the relationship between company's short term assets and liabilities. The objective of management of working capital is liquidity position of the company to meet short term and midterm obligation and meet day to day business needs. The study is based on secondary data i.e. annual reports of the HUL, the period of study is five years, The study analysis negative working capital and it's impact on profitability. Standard deviation, covariance, correlation and different ratios tools used for examine the degree of efficiency of working capital management and its impact on profitability of HUL.

Key words: current assets, Liquidity position.

INTRODUCTION

Negative working capital describe a situation where current liabilities more than current assets. Negative working capital arises when a business generates cash so quickly that it can sell a product to customer before it has had to pay its bill to the creditors. The management of negative working capital is one of the most difficult tasks in overall financial management. In the present scenario some companies are using negative working capital with good amount of profits and good retain on capital. Hindustan unilever also one of the company among them. Firms with high liquidity of working capital have to low risk then low profitability. Firm that has low liquidity of working capital facing high risk to make high profit. Managing negative working capital firm must take into consideration all the items in both accounts and try to balance the risk and return.

OBJECTIVES OF THE STUDY

- ❖ To analyze and evaluate the impact of negative working capital on the profitability of the HUL.

- ❖ To analyze the effect of liquidity on profitability.
- ❖ To give suggestions on the basis of findings of the study.

RESEARCH DESIGN AND METHODOLOGY

In this study the sample company named HUL has been taken for analysis of negative working capital and its impact on profitability of the company. Present study is based on secondary data published annual report of the HUL. The study covers five year viz, 2012-13 to 2016-17. For the purpose of analysis the data, both financial tools as well as statistical techniques have been used. The ratio relating to working capital also has been used.

ANALYSIS AND DISCUSSION

1. Standard Deviation
2. Ratio Analysis
3. Correlation Analysis.



ANALYSIS AND INTERPRETATION

Table: Working Capital Structure of HINDUSTAN UNILEVER LIMITED (Rs. In cr)

YEAR	INVENTORIES	%in GWC	RECEIVABLES	%in GWC	CASH AND BANK	%in GWC	LOAN AND ADVANCES	%in GWC	FIXED DEPOSITE	%in GWC	GWC	CURRENT LIABILITIES AND PROVISION	NWC
2012-2013	2526.99	40.74	833.48	13.44	326.41	5.26	1134.2	18.3	1381.48	22.27	6202.56	7866.28	-1663.72
2013-2014	2747.53	40.46	816.43	12.02	620.61	9.14	1005.73	14.8	1600.36	23.57	6790.66	8838.25	-2047.59
2014-2015	2602.68	36.62	782.94	11.02	721.97	10.16	1183.17	16.7	1815.59	25.55	7106.35	9053.48	-1947.13
2015-2016	2528.36	33.28	1064.52	14.01	634.55	8.35	1245.91	16.4	2124.27	27.96	7597.61	9416.45	-1818.84
2016-2017	2362.00	39.98	928.00	15.71	572.00	9.68	947.00	16.00	1099.00	18.60	5908.00	7202.00	-1294.00
TOTAL	12767.56	-	4425.37	-	2875.54	-	5516.01	-	8020.70	-	33605.18	42376.46	-8771.28
AVG	2553.51	37.99	885.07	13.17	575.11	8.56	1103.20	16.40	1604.14	23.87	6721.03	8475.29	-1754.26
S.D	139.71	-	113.85		149.19	-	124.12	-	393.70	-	920.57	914.33	294.72
C.V%	5.47	-	12.86		25.94	-	11.25	-	24.54	-	80.06	10.79	-16.80

Net Working Capital: Net working capital in HUL as shown in table 1 is not having same trend, in the year 2012-2013 it was negative 1663.72 and in the year 2016-2017 was Rs 1294, in between increase or decrease for other year on an average it stood negative Rs 1754.26 with high standard deviation of 294.72. High negative coefficient variance of 16.80 which shows company using negative working capital in its operation.

Inventories: There is no constant trend for usage of Inventory of the company in the year 2012-2013 it was Rs 2526.99, and in the year 2016-2017 it was Rs 2362 in between increase or decrease. Overall average of inventory during 5 years was Rs 2553.51 with standard deviation of 139.71 with lower coefficient variance of 5.47% which indicate decrease trend for HUL products year to year except in 2013-2014, inventory constitute 37.99% of gross working capital which is first highest component in gross working capital.

Receivables: In case of receivables also decreasing and increasing trend for study period in 2012-13 it was rupees 833.48. Thereafter decreases for next 2 years then it were increasing in 2015-16 Rs 1064.52 overall average receivables for 5 years is Rs 885.07 with normal coefficient of variance of 12.86 % it constitute only an average 13.17 of gross working capital.

Cash and Bank Balance: It is increasing Trend year by year compared to 2012-13 it was Rs 326.41 crore thereafter increases and overall average of Rs 575.11 crore with standard deviation of 149.19 and coefficient of variation of 25.94% it constitutes only an average of 8.56% gross working capital.

Loans and Advances: In case of loans and advances also no constant Trend in 2012-13 it was Rs 1134.20 and in 2016-17 Rs 942 which indicate no constant level of loans and advances by company on an average it is Rs 1103.20 crore with standard deviation of 124.12 and very low coefficient variation of 11.25%, loans and advances constitute overall 16.4 % of gross working capital is the third highest component in gross working capital.

Fixed Deposit: Fixed deposit trend is in increasing order during study period except 2016-17 every year in increasing order on an average is Rs 1604.14 with high standard deviation of 393.70 and high coefficient of variance of 24.54 % fixed deposit constitute second highest gross working capital of 23.87 % to total gross working capital.

Current liabilities and provisions: Current liabilities and provisions are in increasing order up to 2015-2106. In 2016-17 it decreases to Rs 7202 from Rs 9416.45 in 2015-16 on an average is Rs 8475.29 with high standard deviation of 914.33 and low coefficient variance of 10.79.

Table -2: Ratio Analysis of HINDUSTAN UNILEVER

YEAR	times	ICP days	DTR	DCP	CR	QR	ROCE %	PBITM %	WCTR	NP MARGIN %	NET SALES	NWC	N.P	NO.OF DAYS IN WORKING CAPITAL	OPERATING PROFIT
2012-2013	10.80	33.79	34.13	10.69	0.76	0.45	163.63	14.26	-15.51	14.70	25810.21	-1664	3796.70	-38.69	4349.48
2013-2014	10.76	33.92	33.96	10.75	0.74	0.44	147.59	14.71	-13.68s	13.80	28019.13	-2048	3867.50	-36.35	4799.71
2014-2015	12.57	29.03	38.52	9.48	0.75	0.47	148.75	15.66	-15.82	14.00	30805.62	-1947	4315.30	-32.52	5523.12
2015-2016	13.61	26.81	18.06	20.21	0.75	0.49	160.30	16.64	-17.59	12.76	31987.17	-1819	4082.40	-32.78	5909.62
2016-2017	14.6	25.00	17.30	21.10	0.82	0.51	95.17	17.43	-24.65	14.07	31890.00	-1294	4490.00	-27.12	6155.00
TOTAL	62.34	148.57	141.97	72.22	3.82	2.36	715.44	78.70	-87.25	69.33	148512.13	-8771	20552.00	-167.46	26736.93
AVERAGE	12.47	29.71	28.39	14.45	0.76	0.47	143.09	15.74	-17.45	13.87	29702.43	-1754	4110.40	-33.49	5347.39
S.D	1.70	4.05	9.95	5.70	0.03	0.03	27.69	1.32	4.26	0.70	2702.10	294.72	293.38	4.39	757.46
C.V%	13.63	13.61	35.06	39.46	4.20	6.07	19.35	8.36	-24.39	5.08	9.09	-16.80	7.14	-13.12	14.17

Inventory Turnover and Conversion Period: Low inventory turnover ratio is indicating blocking of funds in inventory which may be result in heavy losses. in this study the average inventory turnover ratio is 12.47 will a low standard deviation of 1.70 and low coefficient of variation of 13.63% average inventory conversion period is 29.71 days.

Debtor Turnover Ratio and Debt Collection Period: Higher the debtor turnover ratio is better which indicate that debts are being collected promptly in in time in this study it's not having constant of DTR overall it is having an average of 28.39 time with very low standard deviation of 9.95 with coefficient of variation 35.06% for debt collection period we know there is an increase in period will result in Greater blockage of funds in debtor, the average debtor collection period is 14.45 days that is company recover dues from debtor within 15 days.

Current Ratio: The ideal current ratio is 2: 1, in this study for all 5 years below the ideal level with an average of 0.76 with a very low standard deviation of 0.03 and coefficient variation of 4.20%.

Quick Ratio: In case of quick ratio ideal ratio is 1:1, in the present study it is always below this level with an average of only 0.47 with a very low standard deviation of 0.03 and coefficient of variation of 6.07%.

Working Capital Turnover Ratio: Higher working capital turnover is indicate that the company is generating good sales compared to the funds invested in operations in the present study for all 5 years it is negative with an overall average of 17.45 and standard deviation of 4.26 and very high coefficient of variation of 24.39%.

Return on Capital Employed: Return on capital employed indicates the percentage of return on capital employed in the business and it can used to show the overall profitability and efficiency of the business in the present study it has a decreasing Trend throughout the period of study an overall average of 143.09 with a low standard deviation of 27.69 and low coefficient of variation 19.35%.

Profit Before Interest and Tax Margin: this indicator gives information in a company's earnings the higher earnings before interest and tax margin results demo efficient cost management or the more profitable business in the present study there is no uniform Trend the average profit before interest and tax is 15.74% with low standard deviation 1.32 and negative low coefficient of variation of 24.39%.

Table-3: Correlation and T-Value

S.NO	CORRELATION BETWEEN	CORRELATION (r)	T-VALUE
1	Net working capital to net profit	-0.331	0.669
2	Net working capital to net sales	-0.340	0.660

3	Net working capital to operating profit	-0.265	0.735
4	Net working capital to return on capital employed	0.955	0.045
5	Current ratio to net profit	-0.124	0.876
6	Liquid ratio to net profit	0.653	0.347
7	Inventory to net profit	0.738	0.262
8	Number of days in working capital to net profit	0.911	0.089

- The correlation between net working capital and net profit was negative i.e. $r = -0.331$ with t-value of $0.669 > 0.05$, the test was not significant at 5% level. That is there was no significant correlation exists between net working capital and net profit.
- The correlation between net working capital and net sales was negative i.e. $r = -0.340$ with t-value of $0.660 > 0.05$, the test was no significant at 5% level. That is there was no significant correlation exists between net working capital and net sales.
- The correlation between net working capital and operating profit was negative i.e. $r = -0.265$ with t-value of $0.735 > 0.05$, the test was no significant at 5% level. That is there was no significant correlation exists between net working capital and operating profit.
- The correlation between net working capital and return on capital employed was positive i.e. $r = 0.955$ with t-value of $0.045 < 0.05$, the test was significant at 5% level. That is there was significant positive correlation exist between net working capital and operating profit.
- The correlation between current ratios and net profit was negative i.e. $r = -0.124$ with t-value of $0.876 > 0.05$, the test was not significant at 5% level. That is there was no significant correlation exists between current ratio and net profit.
- The correlation between liquidity ratio and net profit was positive i.e. $r = 0.653$ with t-value of $0.347 < 0.05$, the test was significant at 5% level. That is there is significant positive correlation exist between liquidity ratio and net profit.
- The correlation between inventory and net profit was positive i.e. $r = 0.738$ with t-value of $0.262 < 0.05$, the test was significant at 5% level. That is there is significant positive correlation exist between inventory and net profit.
- The correlation between number of days in working capital and net profit was positive i.e. $r = 0.911$ with t-value of $0.089 < 0.05$, the test was significant at 5% level. That is there is significant positive correlation exists between number of days in working capital and net profit.

FINDINGS

1. It has been observed that the net working capital of HUL during the study period was not satisfying on it showed fluctuations in its value and also negative for all 5 years of study, which is dangerous for the firm.
2. Liquidity position of the HUL was not adequate because average .Average value of current ratio was only 0.76 times which is below the ideal ratio of 2:1 times, which indicates that firm can meet its short term obligations. So that firm must in case the position of its current ratio to maintain at least the ideal value.
3. Liquid ratio of firm was also not up to the level. Average value of liquidity ratio was 0.47 times which is below the ideal value of 1:1 times. So that firm should maintain portion of liquid assets to stabilize the short solvency position.
4. Working capital turnover ratio of the firm was not satisfactory due to average times the amount of working capital employed. So company should increase its sales turnover.
5. Debt collection period is very low that is only 15 days which show the efficiency of the company in case of collecting its debt.
6. Return on capital employed is showing a decreasing trend, which is not good for the company.
7. Correlation between net working capital to net profits showing negative relationship which indicate both are moving different directions i.e. negative working capital generate profit.
8. Correlation between return on capital employed, liquid ratio and inventory to net profit is positive relationship which indicates company is maintaining planned liquid assets and inventory and also provide good return on capital.

CONCLUSION

On the basis of present research we can concludes that the companies managing its negative working capital effectively due to improved inventory turnover, current assets and liquid assets are maintained with well planned in company's working capital management cycle. The companies balancing receipt and payments in time, the research is showing negative relationship of net working capital to net profit which clearly indicate that opposite direction relationship, means negative working capital is also generating profit. Inventory and liquid assets of The Company shows positive relations and also made good return and capital employed. Overall company managing its negative working capital effectively by making high profit.

LIMITATIONS

The analysis and interpretation of study are based on secondary data which is published in annual report of Hindustan uniliver and money control website. Due to the limited time available the study confined for a period of five years only. In this study for analysis and interpretation few selected tools are used namely standard deviation, ratios and correlation

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