

# “A Study on financial Performance of Working Capital Management”

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## Abstract:

The entitlement of this paper is “A Study on financial Performance of Working Capital Management at Aurobindo Pharmacy” provides the importance working capital management in firm’s financial management decision. Working capital management is an important part of the company's financial management decision. The main aim of management of working capital may face the performance of the company, which is essential for a smooth flow of better working capital. The Aurobindo Company is developing drastically every year and it is felt that there is the need to study the role of working capital to improve the company’s profitability or capital.

**Key Words:** Inventory turnover, financial performance, current assets.

## I Introduction

Working capital is the life blood and nervous system of life. Because the human body requires blood circulation in the body to continue life, working capital requires a lot of work capacity to handle the business smoothly. The business cannot be successfully implemented without adequate capital. Working capital management is usually operating capital management, such as current assets and short-term liabilities. The need and use of resources from different sources in all kinds of results. Effectual working capital management is said to be no exaggeration that this is a need for some long-term achievement.

## Need of the Study

The company's financial comfort and profitability depend on the company's capital management. If the lack of working capital affects the day-to-day operation of the business day, if the working capital is high, then the fund will be silent and this will also affect the company's financial flexibility.

## Objectives of the Study

- To evaluate the inventory turnover ratio of the Aurobindo pharma company.
- To determine the debtors turnover ratio and creditors turn over ratio of the company.
- To evaluate the statement of net working capital from 2013-14 to 2017-18 and to find out the expansion or diminish the working capital.

## Scope of the Study

The scope of the study is to realize the realistic performance of the study as a real life work practice. The working capital study depends on tools such as the ratio analysis, showing the change in working capital. This study is analyzed based on the five-year’s annual reports of the Aurobindo Pharmacy.

## Research Methodology

### Sources of Data

Generally, we can collect information from both primary and secondary sources. Data obtained by setting attributes or questionnaire review data obtained in a non-controlled situation.

## Secondary Data

The main source of the project is gathering from balance sheets, profit and loss account over a five-year period, 2013-14 to 2017-18, and gathering information from the Internet and text sources.

## II Review of Literature

The term working capital is commonly used for the Current assets are purchased in the form of daily working capital, such as raw materials, salaries, wages, rentals, advertising, etc. There are many differences between the various financial officers (economists, accountants, businessmen and economists) regarding the exact meaning of working capital.

Working capital may be defined by various authors as follows:

Working capital means current assets. —Mead, Baker and Malott

“The sum of the current assets is the working capital of the business” —J.S. Mill.

According to my perception working capital management is managing the current assets of the firm. It refers to the circulating capital required to meet the day to day operations of a business firm. It also helps to the management for taking the decisions relating to financial position of the firm.

## III Data Analysis & Interpretations

### INVENTORY TURNOVER RATIO

$$\text{InventoryTurnoverRatio} = \frac{\text{NetSales}}{\text{ClosingInventory}}$$

Year	Net Sales	Average inventory	Inventory Turnover ratio
2013-14	71855.1	15717.7	4.57 Times
2014-15	81623.2	19284.3	4.23 Times
2015-16	140623.5	38497	3.65 Times
2016-17	99171.6	22883.25	4.33 Times
2017-18	103838.0	29214.25	3.55 Times

### Interpretation

This analysis shows the inventory turnover ratio is high in 2013-14 i.e. 4.57. In 2016-17 the ratio is 4.33 and it was decreased in 2017-18 by 0.78 times. From the above table clearly understood the inventory turnover ratio is decreased from 2014-15 and increased in 2016-17 and again decreases in 2017-18.

### DEBTORS TURNOVER RATIO

$$\text{DebtorsTurnoverRatio} = \frac{\text{NetSales}}{\text{AverageDebtors}}$$

Year	Net Sales	Average Debtors	Debtors Turnover Ratio
2013-14	71855.1	23503.55	3.05Times
2014-15	81623.5	33395.3	2.44 Times
2015-16	140623.5	38555.45	3.64Times
2016-17	99171.6	40772.65	2.43 Times
2017-18	103838.0	41255.35	2.51Times

### Interpretation

This ratio fluctuates over the years. This is 3.05 times in 2013-14. This was a 2.44 times, decrease in 2014-15, and 3.64 times higher in 2015-16 and 2.43 times in 2016-17, 2.51 times in 2017-18. This analysis shows that the firm is not collecting a quick loan.

### CREDITORSTURNOVER RATIO

$$\text{CreditorsTurnoverRatio} = \frac{\text{NetPurchases}}{\text{AverageCreditors}}$$

Year	Net Purchases	Average Creditors	Creditors Turnover Ratio
2013-14	34223.4	106870.15	3.20Times
2014-15	39203.3	1191.1	32.91 Times
2015-16	48249.0	22889.5	2.10Times
2016-17	46041.9	12731.85	3.61Times
2017-18	48932.7	14255	3.43Times

### Interpretation

The ratio of creditor turnover varies over the years. This is 3.20 times in 2013-14. This was 32.91times higher in 2014-15, the creditor turnover ratio decreased 2.10 times in 2015-16 and increased in by 3.61 times in 2016-17 and 3.43 times in 2017-18. He made immediate payments to the creditors.

## Statement of Net Working Capital of Aurobindo pharmacy from the year 2013-14 to 2017-18

(Rs in lakhs)

Particulars	2017-18	2016-17	2015-16	2014-15	2013-14
<b>CURRENT ASSETS</b>					
Inventories	34092.3	24336.2	24316	21450.5	17118.1
Sundry debtors	44774.4	37736.3	43809.7	38137.9	29701.2
Cash & Bank balance	2459	336.4	3308.1	111.3	97.2
Other current assets	8399.2	6356.1	6157.2	4722.3	747.7
Loans and Advances	97.6	102.5	94.8	88.9	3147.3
Investments	0.2	0.2	0.2	196.4	0.3
Other financial assets	30.9	165.8	59	22	0
<b>(A)Total Current Assets</b>	<b>89853.6</b>	<b>69033.5</b>	<b>77745</b>	<b>64729.3</b>	<b>50811.8</b>
<b>CURRENT LIABILITIES</b>					
Sundry creditors	16334	12176	12786.7	11460.4	12361.6
Borrowings	36538.3	27512.7	34171.5	23142.2	17825.5
Other financial liabilities	2526.5	3364.6	5638.7	4853.3	0
Provisions	745.4	615	569.5	508.8	1061.8
other current liabilities	1439.2	801.4	270.5	194.3	1923.9
<b>(B)Total Current Liabilities</b>	<b>57583.4</b>	<b>44469.7</b>	<b>53436.9</b>	<b>40159</b>	<b>33172.8</b>
<b>(A)-(B) Net Working Capital</b>	<b>32270.2</b>	<b>24563.8</b>	<b>24308.1</b>	<b>24570.3</b>	<b>17639</b>

### Interpretation

From the above analysis it clearly shows that the net working capital is increased from 2016-17 to 2017-18. In the year 2013-14 the net working capital is very low. In the year 2017-18 the net working capital is increased by 7706.00 lakhs compared to 2016-17.

### IV Findings

Inventory turnover is lower in 2017-18. In 2016-17 it increased by 0.68 times between years 2015 and 2016 and 2016-17. Debtor turnover is highest in 2015-16. In 2016-17, it dropped 1.21 times compared to the 2015-16 period. The net working capital is very low in the year 2013-14.

### V Suggestions

The company's working capital is growing year by year. Profits are growing every year and this is a good sign for the company. This should be done more efficiently for the long-term operation of the business. The Aurobindo Pharma's is in satisfactory and continued their business.

### VI Conclusion

After studying the working capital performance of Aurobindo Pharmacy for analyzing the company's financial performance. The financial performance of Aurobindo Pharma Company is good. From the last five years the firm inventory turnover expanded, which is a positive sign for the company. Overall, the company has good working capital management.

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