



A STUDY ON WORKING CAPITAL MANAGEMENT PRACTICES IN INDIA WITH REFERENCE TO ACC LIMITED

Dr. S. Muruganandam

Professor

Dept. of Commerce,
Dr. N.G.P. Arts and Science College,
Coimbatore, Tamil Nadu, India

Dr. A.R. Kanagaraj

Professor

Dept. of Corporate Secretaryship
Dr. N.G.P. Arts and Science College,
Coimbatore, Tamil Nadu, India

Abstract:

Working capital is the pulse of business, which includes the day to day activities of the company. The working capital management decides the financial health of an organisation. Working capital shows the strength of the financial soundness of the company. A Sound management of working capital is the basic of overall corporate management performance and creating the value of the company. To manage the working capital is one of the important and challenging tasks of overall financial management. An effective working capital management reveals a steady firm liquidity position of a company. This paper is to reveal the relationship between the effective working capital management with the sustainability of the company, by taking ACC Ltd., from the year 2014 to 2018.

Keywords: Working Capital Management, Sustainability, Cement companies.

INTRODUCTION:

ACC Ltd is India's foremost manufacturer of cement and concrete. The company is engaged in the manufacture and selling of cement and ready-mixed concrete. They manufacture a range of Portland cement for general construction and special applications. In addition they also offer two products namely; bulk cement and ready mix concrete. The company's operations are spread throughout the country with 17 modern cement factories more than 57 Ready mix concrete plants 21 sales offices several zonal offices and a vast distribution network of over 11000 dealers. Their subsidiaries include ACC Concrete Ltd Bulk Cement Corporation (India) Ltd ACC Mineral Resources Ltd Lucky Minmat Ltd National Limestone Co Pvt. Ltd and Encore Cements & Additives Pvt Ltd. ACC Ltd was incorporated on August 1 1996 as The Associated Cement Companies Ltd.

SIGNIFICANCE OF THE STUDY:

The working capital management is also an ultimate determinant of a company's success. The maintenance of efficiency in working capital management will determine the level or timely success of a company tend to reach the profit. So in that way, the process of maintaining the efficiency of working capital management is very important. In the same way, the working capital management paves the way for the profitability of an industry which actually paves way for the sustainability of an industry. So, in that case, this paper tries to bring out the ultimate relationship between the working capital management and the sustainability of the company.

OBJECTIVE OF THE STUDY:**PRIMARY OBJECTIVE:**

To find out the relationship between the working capital management with the sustainability of the company.

SECONDARY OBJECTIVE:

1. To analyse the performance of the selected ACC Ltd.,
2. To analyse the efficiency of the working capital management of the company in order to find, how it supports the sustainability.
3. To find out the various ratios in order to reach the main objective.

SCOPE OF THE STUDY:

To Reveal, the relationship between the working capital management and the sustainability of the company.

LIMITATION OF THE STUDY:

1. The study is only limited to the ACC Ltd.,
2. The result is only applicable to the ACC Ltd., in cement industry.
3. Due to the limited period available in the Balance sheet, the study has been confined for the period 2014 – 2018.

REVIEW OF LITERATURE:**APPUHAMI (2008)**

Working capital management is one of the crucial decisions to be dealt by managers as it impacts the liquidity and profitability of the firm.

PADACHI ET AL (2012)

Working capital is the life blood of a business enterprise and if not managed properly, it may result in the failure of business.

MULLINS AND KOMISAR(2009)

Account receivables, inventory, accounts payable are the major components operational or non cash portion of working capital of a firm.

FILBECK AND KRUEGER(2005)

Success of the firm is determined by the ability of the finance manager in dealing with those(above) variables in an optimal manner.

RESEARCH METHODOLOGY:

The sample selected for this study is ACC Limited. The study covers five years period from 2004-05 to 2014-18. This study is based on secondary data which is collected from annual reports of the company and various studies made available through library books. The collected data has been tabulated, analyzed and interpreted with the help of different financial ratios and tool like comparative statement.

1. Comparative Size Balance Sheet Analysis**2. Ratio Analysis****1. COMPARATIVE SIZE BALANCE SHEET ANALYSIS:**

Through the use of this methodology, the balance sheet of ACC limited of various selected years have been compared with each other to analyse the performance of the company in various selected years.

2. RATIO ANALYSIS:

The methodology of ratio analysis have been used to find the various aspects of performance of the industry with the selected years. For example the liquidity position of the company.

COMPARITIVE SIZE BALANCESHEET ANALYSIS

LIABILITIES

Formula:

Change= Current year – Base year

% = Changes / Base Year * 100

Particulars	2014-2015	2015-2016	2016-2017	2017-2018
Total share capital	0	0.02	0	0
Total Reserves and surplus	2.53	2.68	8.45	12.83
Total share holders fund	2.48	2.62	8.27	12.57
Total non current liabilities	-10.14	17.07	0.48	17.36
Total current liabilities	-0.48	7.01	18.3	-1.8
Total capital and liabilities	0.93	4.58	0.83	8.15

ASSETS

Particulars	2014-2015	2015-2016	2016-2017	2017-2018
Fixed assets	1.38	0.44	-2.93	-0.84
Total non- current asset	4.37	-0.85	-1.35	1.97
Total current assets	-7.47	19.58	38.95	18.21
Total assets	0.93	4.58	10.9	8.15

Interpretation:

ACC Ltd., equity share capital changes occur during the year 2015-16 and it remained the same for the remaining years. Total reserves and surplus and total shareholder's fund experienced inclination throughout the four financial years from 2014-15 to 2017-18. Total non-current liability proceeded with decline and reached a growth of 17.36% during the financial year 2017-18. Total current liabilities experienced both growth and decline. Together all the total capital and liabilities fluctuated and during financial years 2017-18 the growth had been made up to 8.15% Fixed assets is in a decreasing trend. Total non-current assets initially faced growth then it declined and again started to grow during the financial year 2017-18. Total current asset declined in the year 2014-2015, and started to increase from the year 2015-2018. In aggregate the total assets increased and during 2017-2018 it decreased up to 8.15%.

RATIO ANALYSIS

LIQUIDITY RATIOS:

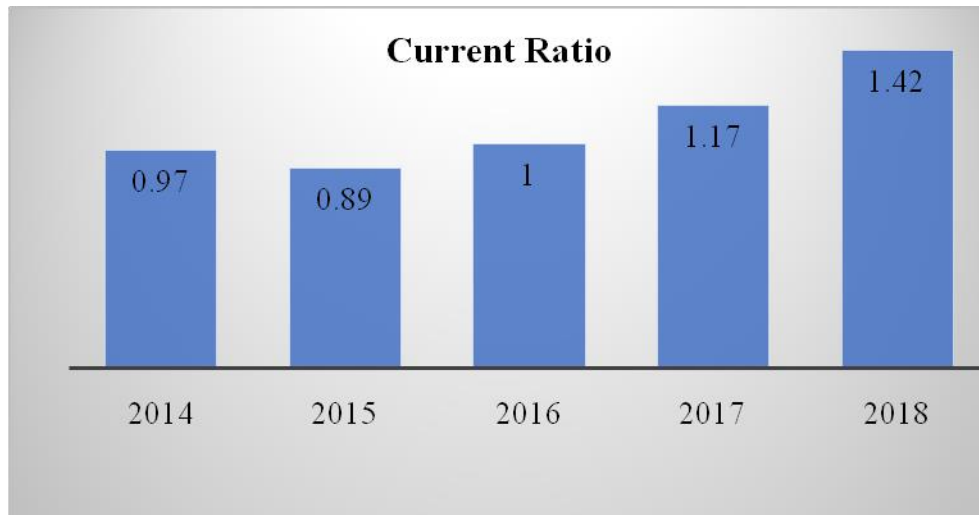
Current Ratio

The current ratio indicates a company's ability to pay its current liabilities from its current assets. This ratio is one used to quickly measure the liquidity of a company.

Formula:

$$\text{Current Ratio} = \text{Current Asset} / \text{Current Liabilities}$$

Year	Current Ratio
2014	0.97
2015	0.89
2016	1.00
2017	1.17
2018	1.42

**Interpretation:**

From the above table, it is understood that the current ratio of the company ranges from the lowest of 0.89 during the year 2015, increased to the value of 1.42 during the year 2018. The ideal norm is 2:1 of current ratio which means that one rupees of current liability is approximately covered by two rupee of current assets, and it also depicts a more consistency level.

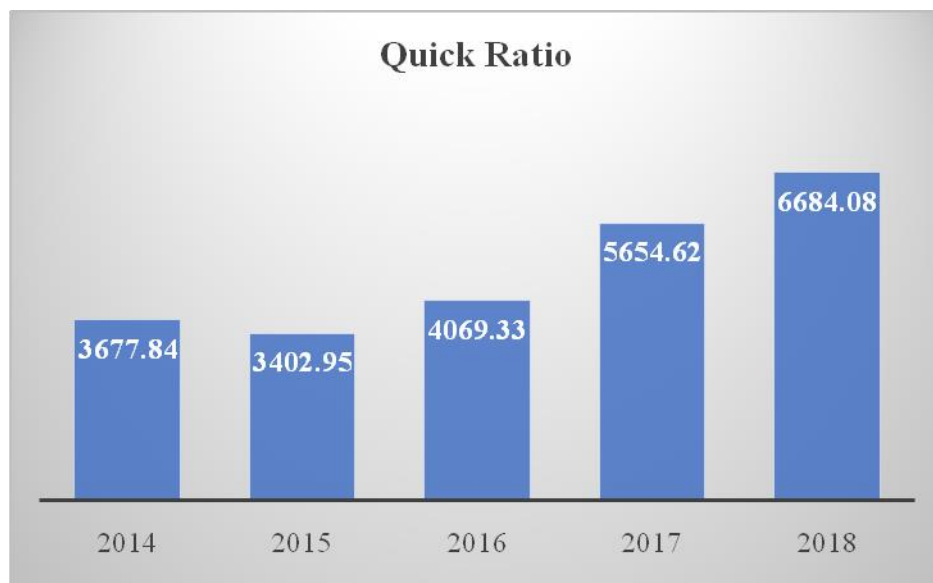
Quick Ratio

Quick Ratio, also known as Acid Test Ratio, shows the ratio of cash and other liquid resources of an organization in comparison to its current liabilities.

Formula:

$$\text{Quick Ratio} = \text{Current Assets - Inventory} / \text{Current Liabilities}$$

Year	Quick Ratio
2014	3677.84
2015	3402.95
2016	4069.33
2017	5654.62
2018	6684.08



Interpretation:

From the above table, it is understood that the quick ratio of the company ranges from the lowest of 3402.95 during the year 2015, increased to the value of 6684.08 during the year 2018. The ideal norms of quick ratio is 1:1 which means that one rupee of current liability is approximately covered by the one rupee of liquid asset, and it also depicts more consistency level.

PROFITABILITY RATIO:

Gross Profit Ratio

Gross Profit Margin Ratio is the ratio of gross profit of a business to its revenue. It is a profitability ratio measuring, that the proportion of revenue is converted into gross profit (revenue less cost of goods sold).

Formula:

$$\text{Gross Profit Ratio} = (\text{Gross Profit} / \text{Net Sales}) * 100$$

Year	Gross Profit Ratio
2014	40.42
2015	41.09
2016	41.88
2017	36.39
2018	36.99



Interpretation:

From the above table, it is understood that the gross profit of the company ranges from the lowest of 36.39 during the year 2017, increased to the value of 41.88 during the year 2016. And also the mean value is positive which marks good satisfactory level. And it also depicts more consistency level.

Net Profit Ratio

The net profit margin formula looks that the company's revenue are kept as net income. The net profit margin is generally expressed as a percentage. Both income and revenue can be found on a company's income statement.

Formula:

$$\text{Net Profit Ratio} = (\text{Net Profit (Before Tax)} / \text{Net Sales}) * 100$$

Year	Net Profit Ratio
2014	9.53
2015	6.48
2016	7.21
2017	9.06
2018	10.13

**Interpretation:**

From the above table, it is understood that the net profit of the company ranges from the lowest of 6.48 during the year 2015, increased to the value of 10.13 during the year 2018. And also, the mean value is positive which marks good satisfactory level. And it also depicts more consistency level.

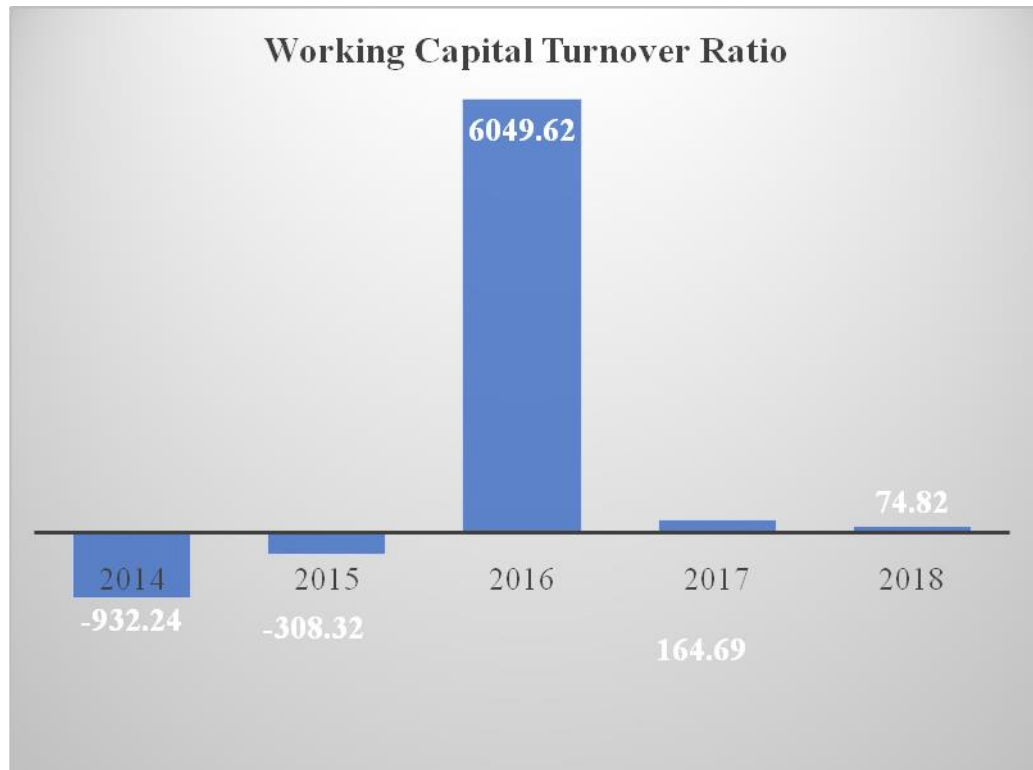
TURNOVER RATIO:**Working Capital Turnover Ratio**

Working Capital Turnover ratio indicates the velocity of the utilization of net working capital. This ratio indicates the no of times the working capital is turned over in the course of a year.

Formula:

$$\text{Working Capital Turnover Ratio} = \text{Net Sales} / \text{Working Capital}$$

Year	Working Capital Turnover Ratio
2014	-932.24
2015	-308.32
2016	6049.62
2017	164.69
2018	74.82

**Interpretation:**

From the above table, it is understood that the working capital turnover ratio of the company ranges from the lowest of 74.82 during the year 2018, increased to the value of 6049.62 during the year 2016. During the study period, the working capital shows a decreasing trend from (932.24) and (-308.32) in the year of 2014 and 2015.

FINDINGS:

- Reserves surplus increased in an increasing trend.
- Shareholder's fund increased in an increasing trend.
- Short term provisions are in decreasing trend.
- Fixed assets are fluctuating.
- Cash & equivalents decreased in increasing way.
- Total assets increased from 2014 to 2017 but decreased during 2017-18.
- The current ratio is not in an optimal level.
- The quick ratio begins with the decrease, but, ended in increase.
- The gross profit begins with an increase, and ended with decrease.
- The level of net profit fluctuates, and ended with an increase.
- The working capital begins with negative, and increased in a point, and ended with decline.

CONCLUSION:

The analysis of financial performance and the working capital management of ACC Ltd., is performed in this paper. The liquidity position of the company is satisfactory, hence, the company can meet out its short term liabilities. The company may improve its profitability by measures like cost reduction, cost control and modernization of the production. Overall the ACC Ltd., is efficient as far as per the performance. The firm should consolidate to become strong. Although the gross profit of the company had been declined, the net profit of the company had been increased. The company should work efficiently in maintaining the working capital management as it was not in such stable increasing. So, when the company started to work towards working capital management, the sustainability of the company will become stronger for the upcoming years.

References :

- [1] Kesseven Padachi."Trends in Working Capital Management and its Impact on Firms' Performance: An Analysis of Mauritian Small Manufacturing Firms". International Review of Business Research Papers Vo.2 No. 2, 2006, Pp. 45 -58, 2006.
- [2] Jasmine Kaur."Working Capital Management in Indian Tyre Industry".International Research Journal of Finance and Economics ISSN 1450-2887 Issue 46, 2010
- [3] Panday, I.M."Financial Management" New Delhi: Vikash Publications House, 1990.
- [4] J. C. Van Home. J. M Wachowicz (JR). "Fundamental of Financial Management". Prentice Hall of India (PHI).
- [5] [Online] Available : www.acclimited.com

