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A STUDY ON WORKING CAPITAL – HERO

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ABSTRACT

A business's working capital might be considered its most crucial component. Its efficient use and availability may significantly contribute to a business's success.

However, effective management may ultimately result in the demonstrated collapse of an organisation that was once seen to be promising in addition to the loss of projects. Because working capital is closely related to a business's present day-to-day operations, research on the topic is very important.

The term "team working capital" refers to the kind of money needed to meet the company's immediate financial needs. Typically, it is used to finance the purchase of raw materials, completed items, accounts receivable, and marketable securities. Planning and managing current assets, such as cash and marketable securities, accounts receivable and inventory, as well as managing current obligations, are typical components of working capital management.

One of the most crucial components of total financial management is working capital management, often known as current asset management. It addresses the issue that comes up while trying to manage the available resources. the present obligations as well as the connections between them. Inventory, debtors, bill receivable, and cash short-term securities are examples of current assets that may be turned into cash within an accounting year.

Current liabilities are external claims, such as unpaid bills from creditors and unpaid costs, that are anticipated to mature for payment during an accounting year. In order to guarantee that current assets are acquired and used as efficiently as possible, working capital management aims to manage the company's current assets and current liabilities in a manner that is sufficient to satisfy its current obligations

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I. INTRODUCTION

Cash is the lifeline of a company. If this lifeline deteriorates, the company's ability to fund operations, reinvest and meet capital requirements and payments also deteriorate. Understanding a company's cash flow health is essential for making investment decisions. A good way to judge a company's cash flow prospects is to look at its working capital management (WCM).Working capital of a company reveals more about the financial condition of a business than almost any other calculation. It tells you what would be left if a company raised all of its short term resources, and used them to pay off its short term liabilities. The more working capital, the less financial strain a company experiences.

Working capital also gives investors an idea of the company's underlying operational efficiency. Money that is tied up in inventory or money that

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customers still owe to the company can't be used to pay off any of its obligations. So, if a company is not operating in the most efficient manner (slow collection) it will show up in the working capital. This can be seen by comparing the working capital from one period of time to another; slow collection may signal an underlying problem in the company's operations

A firm may exist without making profits but cannot survive without liquidity. The function of working capital management organization is similar that of heart in a human body. Also it is an important function of financial management. The financial manager must determine the satisfactory level of working capital funds and also the optimum mix of current assets and current liabilities. He must ensure that the appropriate sources of funds are used to finance working capital and should also see that short term obligation of the business are met well in time.

A number of companies for the past few years have been finding it difficult to solve the increasing problems of adopting seriously the management of working capital. Business concerns intent on developing their business have to use to the utmost, their available resources for the improvement and development of the business there by enabling them to increase their profits. Working Capital and change in working capital, especially in inventories, which is one of the components of working capital form a very important part of the total gross-capital formation in the paper companies. Efficient and the optimal utilization of fixed assets is very closely related to the proper management of working capital. The present research attempts to recognize initially the importance of working capital as a part of the total capital. It further goals to recognize the factors influencing the working capital, its volume, and in the process try to suggest remedial measures which might help in optimizing the use of working capital. It also considers as to how precisely "financing working capital" and further more what should be mix of different components of working capital

OBJECTIVES OF THE STUDY:

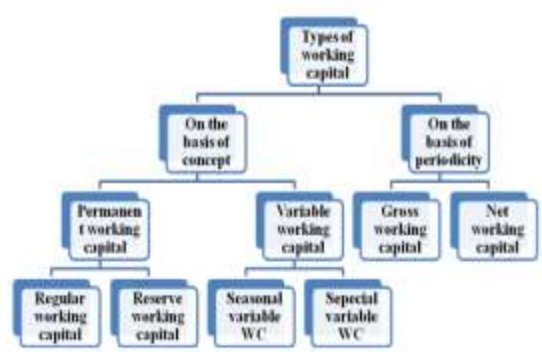
- To study the existing working capital management system of company.
- To find the liquidity position of the current assets and current liabilities of the company.
- To examine feasibility of present system of managing working capital.
- To understand how the company finances its working capital
- To analyze the financial performance of the company with reference to working capital.
- To give some suggestions to the management based on the information studied.

II. TYPES OF WORKING CAPITAL

Following diagram clear the classification of working capital Accoding to the needs of business, the working capital may be classified into following two basis:

1) On the basis of periodicity

2) On the basis of concept



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WORKING CAPITAL MANAGEMENT INVENT0RY MANAGEMENT

Inventories are lists of stocks-raw materials, work in progress or finished goods-waiting to be consumed in production or to be sold.

The total balance of inventory is the sum of the value of each individual stock line. Stock records are needed:

- To provide an account of activity within each stock line;
- As evidence to support the balances used in financial reports.

A department also needs a system of internal controls to efficiently manage stocks and to ensure that stock records provide reliable information.

Departmental financial reports show only the total inventory balance. Analysts from outside the department can examine this balance by using ratio analysis or other techniques. However, this gives only a limited assessment of inventory management and is not adequate for internal management. Good financial management necessitates the careful analysis of individual inventory lines.

Inventory Management involves the control of assets being produced for the purposes of sale in the normal course of the company's operations. The goal of effective inventory management is to minimize the total costs - direct and indirect - that are associated with holding inventories. However, the importance of inventory management to the company depends upon the extent of investment in inventory.

The task of inventory planning can be highly complex in manufacturing environments. At the same time, it rests on fundamental principles. The system used for inventory must tie into the operations of the firm. Inventory planning and management must be responsive to the needs of the firm. The firm should design systems, including reports that allow it to make proper business decisions

CASH MANAGEMENT

Good cash management can have a major impact on overall working capital management.

The key elements of cash management are:

- Cash forecasting;
- Balance management;
- Administration;
- Internal control.

III. WORKING CAPITAL CYCLE

The way working capital moves around the business is modeled by the **working capital cycle**. This shows the cash coming into the business, what happens to it while the business has it and then where it goes.

The working capital cycle shows the movement of cash into and out of the business. The components of working capital cycle are the debtors, creditors, raw materials and cash.

The cycle starts with buying of raw materials on credit from the suppliers. These suppliers become the creditors of the company. The raw materials undergo through different value addition stages and are converted into finished goods. The finished goods are sold to the customers on credit who become the debtors of the company. At the end of the credit period the company gets the cash from the debtors whom they pay to the creditors and the cycle goes on.

It is must for any company to have an ideal working capital cycle. It should neither be too long nor too short. If the cycle is too long the funds get stuck up with the debtors and prompt payment to the creditors cannot be made.

A simple working capital cycle may look something like:

IV. RESEARCH METHODOLOGY

- The study of Working Capital management is based on primary as well as secondary data.

Data relating to. Has been collected through

SECONDARY SOURCES:

Published annual reports of the company for the year 2012-17.

PRIMARY SOURCES:

Detailed discussions with Vice-President (finance department).

Discussions with the Finance manager and other members of the Finance department.

V. CONCLUSION

The current assets to fixed assets ratio indicates how liquid the firm's asset structure is in comparison. The company will be less lucrative and less dangerous the higher this ratio is, and vice versa. In a similar vein, the short-term financing to total financing ratio may be used to gauge the relative liquidity of the company's financial structure. The company will be less lucrative and riskier the lower this ratio is, and vice versa. The company should consider these two factors when developing its working capital policy: the relative financing and asset liquidity of the working capital management. If a company combines a high level of long-term funding with a high level of current assets, it will be operating under relatively conservative working policies. Such a strategy would be less lucrative and not at all dangerous. Conversely, a proactive company would combine a high degree of long-term funding with a low amount of current assets.Both the danger and the profitability of this will be significant. In order to combat its more illiquid asset structure in actuality, the company may really adhere to a cautious financing approach. All of this points to the need of asset and finance mix considerations for working capital management.

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