A STUDY ON WORKING CAPITAL MANAGEMENT WITH REFERENCE TO KOTAK

[1]POLU AKHILA, [2]S. PRIYANKA
[1]MBA STUDENT, [2]ASSISTANT PROFESSOR
DEPARTMENT OF MBA
Sree Chaitanya College of Engineering, KARIMNAGAR

ABSTRACT

Working Capital may be regarded as the most important factor of a business. Its effective provision and utilization can do much to ensure the success of a business.

While the efficient management may not only lead to loss of projects but also to the ultimate shown fall of what otherwise would be considered as promising concern. A study on working capital is of major importance, because of its close relationship with current day-today operations of a business.

The team working capital stands for that form of capital which is required for the financially of working or current need of the company. It is usually invested in raw material work in progress finished goods accounts receivable and saleable securities. Management of working capital usually involves planning and controlling current assets, namely cash and marketable securities, assets receivable and inventories and also administration of current liabilities.

Working Capital or current assets management is one of the most important aspect of the overall financial management. It is concerned with the problem that arises in attempting to manage the current assets. The current liabilities and the inter relationships that exists between them. Current assets are the assets, which can be converted into cash with in an Accounting year and includes cash short-term securities, debtors, bill receivable and inventories.

Current liabilities are that claim of outside, which are expected to mature for payment with in an Accounting year and includes creditor's bill payable and outstanding expenses. The goal of working capital management is to manage the firms current assets and current liabilities in such a way enough to cover its current liabilities in order to ensure that they are obtained and used in the best possible way.

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 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:

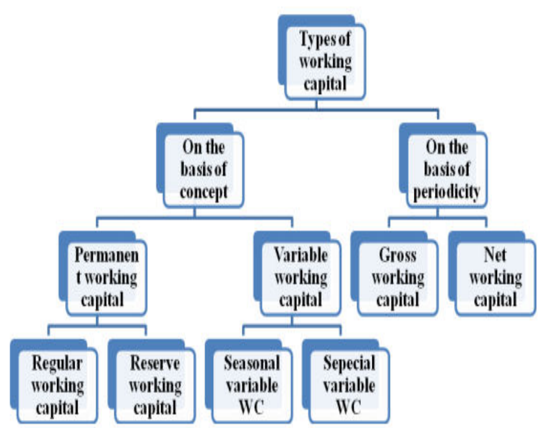
- To study the existing working capital management system of company.
- To find the liquidity position of the current assets and current liabilities of the company.
- To examine feasibility of present system of managing working capital.
- To understand how the company finances its working capital
- To 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



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

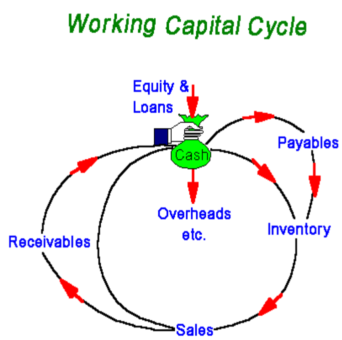
The way working capital moves around the business is modeled by the **working capital cycle**. This shows the cash coming into the business, what happens to it while the business has it and then where it goes.

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 relative liquidity of the firm's assets structure is measured by the current assets to fixed assets ratio. The greater this ratio, the less risky as well as less profitable will be the firm and vice versa. Similarly, the relative liquidity of the firm's financial structure can be measured by the short-term financing to total financing ratio. The lower this ratio, the less risky as well as less profitable will be the firm and vice versa. In shaping its working capital policy, the firm should keep in mind these two dimensions – relative asset liquidity and relative financing liquidity of the working capital management. A firm will be following a very conservative working policy if it combines a high level of current assets with a high level of long-term financing. Such a policy will not be risky at all and would be less profitable. An aggressive firm, on the other hand, would combine low level of current assets with a high level of long-term financing. .This will have high profitability and high risk. In fact, the firm may follow a conservative financing policy to counter its relatively illiquid assets structure in practice. The conclusion of all this it that the considerations of assets and financing mixes are crucial to the working capital management.

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