A STUDY ON WORKING CAPITAL AT TIRUMALA MILK PRODUCTS PVT. LTD

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ABSTRACT

The study tries to explore the impact of working capital management on profitability of Tirumala Milk Products Pvt ltd at Kadivedu [AP].

Working Capital Management is also known as short term financial Management, which is concerned with the decision relating to current assets & current liabilities. The key difference between long-term financial management & Working capital Management is in terms of timing of cash long term financial decisions like buying equipment or issuing debentures involve cash flows over an extended period (5 to 15 years or even more), while short term financial decisions typically involve cash flows within a year or within the operating cycle of the firm.

KEY WORDS

Working Capital, Capital Management, Financial management.

INTRODUCTION

Financial Management is that specialized function of general management, which is related to the procurement of finance and its effective utilization for the achievement of common goal of the organization.

In our present-day economy, finance is defined as the provision of money at the time when it is required. Finance may be defined as the art and sciences of managing money. Finance holds key to all human activity. No business activity can ever be pursued without financial support.

DEFINITION

Financial Management is an area of financial decision-making harmonizing individual motives and enterprise goals."- Weston and Brigham.

"Financial Management is the operational activity of a business that is responsible forobtaining and effectively, utilizing the funds necessary for efficient operations."- Joseph and Massie.

REVIEW OF LITERATURE

Guru Murthy N. and Reddy Jayachandra K. (2014) have conducted a study on the working capital management of four pharmaceutical companies APSPDCL, APEPDCL, APNPDCL and APCPDCL and have conclude that the existing system of working capital management was not up to the mark and needed to be improved.

Akoto Richard K., Vitor DadsonA. and Angmor Peter L. (2013) closely study the relationship between working capital management policies and profitability of the thirteen listed manufacturing firms in Ghana. At the end of the study, a significantly negative relationship between profitability and accounts receivable days is found to exist. Profitability is significantly positively influenced by the firm's cash conversion cycle (CCC), current assets ratio and current asset turnover. It is also suggested that managers can create value for the shareholders by creating incentives to reduce their accounts receivable to 30 days

Singh Moirangthem B. and Singh Tejmani N. (2013) emphasize on the efficient management of working capital. According to them, it means proper management of various components of working capital due to which

adequate amount of working capital and liquidity is maintained in the larger interest of successful running of an enterprise. At the end he offers the following suggestions:
The industry should try to maintain proper level of net working capital by trying to control the growth rate of current assets as compared to current liabilities to some extent
The industry should also try to maintain balance between liquidity and profitability position by improving current ratio and quick ratio.

RESEARCH METHODOLOGY

The Present projects cook covers a period of five years from 2018-2022 The project work is based on the data collected from primary and secondary sources.
There are two type Techniques:
1. Primary data
2. Secondary data

Primary data:
Dealers, supervisors, managers and holding discussions with all parties concerned, collect the primary data.

Secondary data:
The secondary data collected from published and unpublished manuals records Broachers files etc., of the organization and books, journals, reports etc.
Managers and supervisors of the organization have also been interviewed to elicit necessary information based on structural schedules the secondary information was collected from the company's manuals and office records pertaining to production, marketing, personal and financial position.

PLAN OF ANALYSIS:

Working capital analysis is used to determine the liquidity and sufficiency of current assets in comparison to current liabilities. This information is needed to determine whether an organization needs additional long-term funding for its operations, or whether it should plan to shift excess cash into longer-term investment vehicles.

FORMULAS USED IN ANALYSIS:
Working Capital = Current Assets – Current Liabilities
Net Working Capital = Accounts Receivable + Inventory – Accounts Payable
Current ratio = current assets/ current liabilities
Quick Ratio = quick assets/current liabilities

LIQUIDITY RATIO: -

CurrentRatio: -

The Current Ratio establishes the relationship between Current Assets and Current Liabilities. The objective of computing this Ratio is to measure the ability of the firm. It indicates the availability of Current Assets in Rupees for every Rupee of Current Liability. The Satisfactory Current Ratio is 2:1. The Current Ratio is calculated by dividing Current Assets by Current liabilities. A Ratio of greater than one means that the firm has more Current assets than Current claims against them.

Current ratio = current assets/ current liabilities

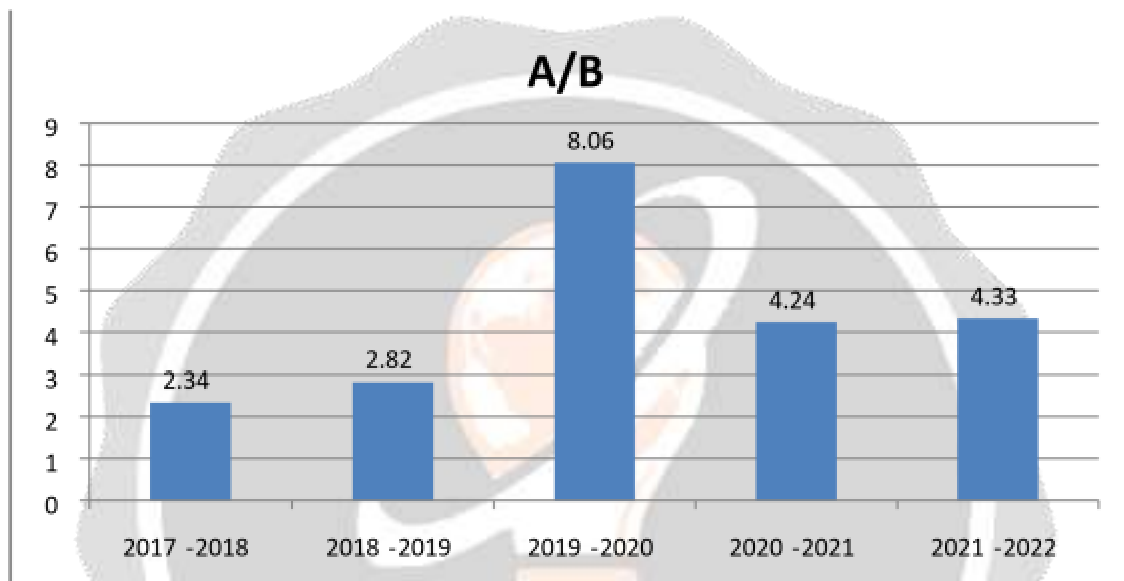
TABLE-5.1

(Rs.in"000)

Years	Current Assets(A)	Current Liabilities(B)	A/B
2017-2018	2,674.80	1,140.39	2.34
2018-2019	3,415.67	1,212.64	2.82

2019-2020	12,891.89	1,598.81	8.06
2020-2021	14,684.23	3,464.16	4.24
2021-2022	24,906.58	5,749.21	4.33

CHART-5.1



INTERPRETATION:

From the above table it shows that the current ratio has increased during 2019-2020 i.e., 8.06 due to increase in current assets. This ratio is decreased in 2021-2022 i.e., 4.33 due to increase in current liabilities

Quick Ratio: -

Quick Ratio also known as Acid Test Ratio or liquid Ratio is mare rigorous test of liquidity than the Current Ratio. This Ratio establishes a relationship between quick or Liquid Assets and Current Liabilities. An asset is liquid if it can be converted into cash immediately, reasonably soon without a loss of value. Cash is the most liquid and included in quick assets are book debts and marketable Securities. Generally, a Quick Ratio is of 1:1 is considered to represent a Satisfactory Ratio. It is often referred to a Quick Ratio because it is a measurement of a firm's ability to convert its Current assets quickly into cash in order to meet its Current liabilities. Current Liabilities find out the Quick Ratio but dividing Quick Assets.

Quick ratio = quick assets/ current liabilities

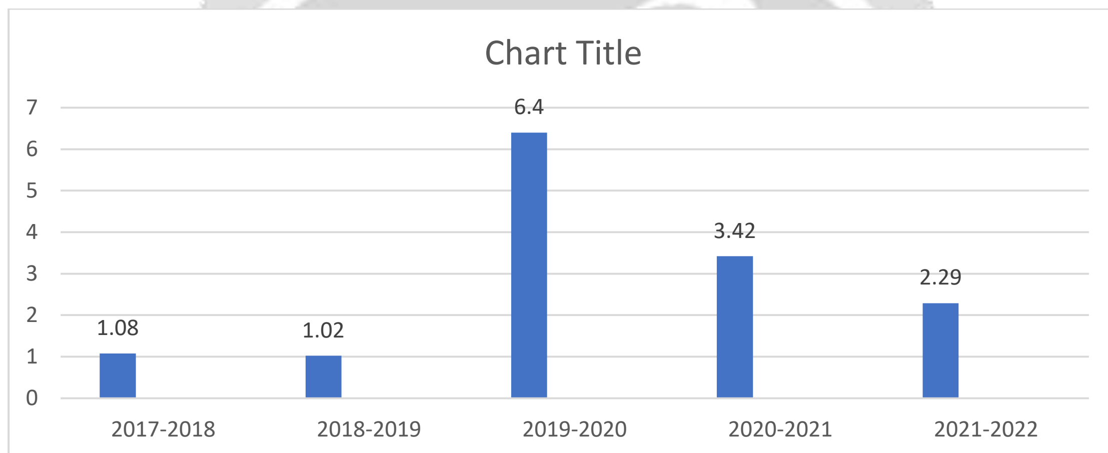
TABLE-5.2

(Rs.in"000)

Years	Liquid Assets (A)	Current Liabilities(B)	A/B

2017-2018	1,230.45	1,140.39	1.08
2018-2019	1,238.84	1,212.64	1.02
2019-2020	10,239.17	1,598.81	6.40
2020-2021	11,842.68	3,463.16	3.42
2021-2022	13,170.48	5,749.21	2.29

CHART-5.2



INTERPRETATION:

From the above table, it shows that the quick ratio has increased during 2019-2020 i.e., 6.40 due to increase in quick asset. This ratio is decreased in 2021-2022 i.e., 2.29 due to increase in current liabilities

FINDINGS

- The current ratio has increased during 2018-2019 i.e., 8.06 due to increase in current asset. This ratio is decreased in 2020-2021 i.e.,4.33 due to increase in current liabilities
- The quick ratio has increased during 2018-2019 i.e., 6.40 due to increase in quick asset. This ratio is decreased in 2020-2021 i.e.,2.29 due to increase in current liabilities

CONCLUSION

Current ratio of the company is satisfactory. There is a drastic increase in 2017-18 that is 4.01. In the years 2017-18 and 2018-19 the ratio has been increasing that shows that improvement in the liquidity position of the firm. This also implies that the large part of the current assets being idle. This can be utilized by investing in other constructive projects.

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