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Research Paper Commerce

A Study on Working Capital Management of Cement Companies with Special Reference to the Associated Cement Companies Limited and Chettinad Cement Corporation

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ABSTRACT

The process of managing activities and processes related to working capital. This level of management serves as a check and balances system to ensure that the amount of cash flowing into the business is enough to sustain the company's operations. This is an ongoing process that must be evaluated using the current level of assets and liabilities. Working capital management may involve implementing short-term decisions that may or may not carry over from one earnings period to the next.

KEYWORDS : working capital, Current assets, current liabilities.

PREAMBLE

The Commercial area is characterized by considerable amount of uncertainty regarding demand, market price and availability of suppliers. There are transaction costs for purchasing or selling goods or securities. Information is costly to obtain and is not evenly distributed. There are spreads between the borrowing and lending rates for investments and financing of equal risk. Similarly, each organization is faced with its own limits on the production capacity, and technology it can employ. There are fixed as well as variable costs associated with producing goods. The above mentioned problems necessitate the requirement of working capital.

STATEMENT OF THE PROBLEM

Every organization irrespective of size and nature of business requires necessary amount of working capital. Working capital is the most crucial factor for maintaining liquidity, survival, solvency and profitability of business. The impact of working capital management on profitability is highly important, because, firms required a balance between risk and efficiency to achieve an optimal level of working capital.

OBJECTIVES OF THE STUDY

1. To evaluate the working capital management of ACC and Chettinad Cement Corporation cement companies.
2. With the help of the above results to make appropriate recommendations, to improve the financial performance of the companies.

METHODOLOGY OF STUDY

NATURE OF DATA

Analytical methods were adopted for carrying out the study. Both primary data and Secondary data were used for the study. This secondary data was collected from the published Annual Report of Associated Cement Companies Limited and Chettinad Corporation.

PERIOD OF THE STUDY

The period of the study covers 10 years from 2003-2004 and 2011-2012. The required data for the past 10 years were collected from the Annual Report of the companies.

LIMITATIONS OF THE STUDY

1. As the study is only for the particular concern inter-firm comparison is impossible,
2. The study covers the period from 2003 to 2012. The changes that took place before and after this period were not taken into consideration,
3. The data are secondary in nature and any bias in them is reflected in the analysis and the conclusion of the study.

REVIEW OF LITERATURE

1. The study of Ashraf Mohammad Salem Alrojoub and Ahmad Mustafa Alrawashdesh (2012) made an attempt to investigate the working capital management in cement units in Rajasthan on a sample of four companies, for a period of 5 years from 2006 – 2010. 1) It was noticed that selected cement companies have huge cash amount in their accounts which could be used for further expansions, 2) The working capital of these companies increased drastically which indicated that proper working capital management should be improved in time, 3) The current ratio of the companies indicated more than twice can be borne by the current assets and so the company can confidently expand their operations, and 4) The inventory turnover ratio for the selected cement was increasing.

2. According to Asha (2011), the capital structure of a firm should be a balanced one and suitable to the company's operations. As a general rule, no investment project should be accepted where the rate of return was less than the Cost of Capital. As far as cement industry in India was concerned, because of higher growth rate and higher profitability, internally generated resources proved to be the major source of finance. Taking the above said advantage, the industry as a whole had also tried to minimize the debt ratio in its total capital structure. This should be one of the major reasons for recession, having a short run impact on cement industry.

3. Sayeda Tahmina Quayyum (2011) made an attempt to investigate the effects of working capital management efficiency as well as maintaining liquidity on the profitability of corporations. For this purpose, corporations enlisted with the cement industry of Dhaka Stock Exchange had been selected and the analysis covered the time period from 2005 to 2009. The purpose of this article was to establish a relationship which was statistically significant. The other purpose was to explain the necessity of firms optimizing their level of working capital management and maintaining enough liquidity as it affected profitability. The result of this study clearly showed significant level of relationship between the profitability indices and various liquidity indices as well as working capital components.

FINANCIAL STATEMENT ANALYSIS AND INTERPRETATION

TABLE: 1 WORKING CAPITAL OF ACC LTD

Particular	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Current Assets										
Sundry Debtors	260.41	178.28	203.7	310.17	289.29	213.96	199.17	190.54	182.37	182.09

Cash and Bank	1,652.56	980.03	746.38	984.24	743.48	620.17	102.79	57.32	64.97	34.82
Loans And Advances	605.27	680.06	527.1	671.95	439.41	462.98	518.25	423.47	414.77	328.57
Total Current Assets(1)	2518.24	1838.37	1477.18	1966.36	1472.18	1297.11	820.21	671.33	662.11	545.48
Current Liabilities										
Current Liabilities And Provisions	2,610.36	2,250.55	1,963.91	1,801.79	1,555.02	1,025.01	914.1	774.38	681.6	598.1
Total Current Liabilities (2)	2,610.36	2,250.55	1,963.91	1,801.79	1,555.02	1,025.01	914.1	774.38	681.6	598.1
Working Capital (1)-(2)	-92.12	-412.18	-486.73	164.57	-82.84	272.10	-93.89	-103.05	-19.49	-52.62
Total Increase/ Decrease	-92.12	320.06	74.55	-651.3	247.41	-354.94	365.99	9.16	-83.56	33.13

Source: Annual Report

INTERPRETATION

From the Table (1) it is understood that in current assets, cash & bank and sundry debtor's balance have increased when compared to previous year 2003 to 2012.

Loans and advances balances in 2003 have increased Rs. 328.57 thousands from Rs. 605.27 thousands in 2002.

The current liabilities have increased from Rs. 598.1 thousands during 2003 to Rs. 2,610.36 thousands during 2012.

The working capital of Rs.33.33 has decreased to a negative working capital of Rs.92.12 thousands in 2012.

TABLE: 2
WORKING CAPITAL OF CHETTI NAD CEMENT CORPORATION LTD

Particular	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Current Assets										
Sundry Debtors	173.91	106.57	72.51	38.7	14.87	16.99	17.44	19.07	15.05	19.85
Cash and Bank	1.94	20.73	73.07	42.99	25.85	28.25	21.49	17.09	13.95	10.75
Loans and Advances	83.96	102.54	381.76	329.84	197.8	94.38	40.76	29.22	24.92	14.91
Total Current Assets(1)	259.81	229.84	527.34	411.53	238.52	139.62	79.69	65.38	53.92	45.51
Current Liabilities										
Other Liabilities And Provisions	274.66	195.14	143.24	146.2	156.4	74.57	77.59	58.39	60.83	54.25
Total Current Liabilities (2)	123.00	195.14	143.24	146.2	156.4	74.57	77.59	58.39	60.83	54.25
Working Capital (1)-(2)	136.81	34.7	384.1	265.33	82.12	65.05	2.1	6.99	-6.91	-8.74
Total Increase/Decreae	136.81	102.11	-349.4	118.77	183.21	17.07	62.95	-4.89	13.9	1.83

Source: *Annual Report*

INTERPRETATION

From the Table (2) it is found that current assets, has increased in 2012 when compared to financial year 2003.

Loans and advances in 2012 was Rs.83.96 thousands as against Rs.14.91 thousands in 2002. There is an increase of around to folds.

The current liabilities have been increased from Rs. 54.25 thousands i.e., 2003 to Rs. 274.66 thousands i.e., 2012.

This increase has reflected in the decrease of working capital by Rs.220.41 thousands.

FINDINGS

ASSOCIATED CEMENT COMPANIES

Working capital of the company zigzag trend during the study period.

CHETTINAD CEMENT CORPORANTION

Working capital of the company during study period is negative position.

SUGGESTIONS

The working capital Performance of Cement Companies during the period of study was found for some minor weaknesses.

The following are the suggestions offered:-

The working capital measures how well a company is utilizing its working capital to support a given level of sales. Working capital is current assets minus current liabilities. The high working capital indicates that management is being extremely efficient in using a firm's short-term assets and liabilities to support sales. Conversely, a low indicates that a business is investing in too many accounts receivable and inventory assets to support its sales; in the analysis the researcher is found that both the companies are considered to manage the working capital.

CONCLUSION

The study was undertaken to analyze the working capital performance of The Associated Cement Companies Limited and Chettinad Cement Corporation**,** Based on this analysis proper conclusion has been given, regarding the working capital position of the companies.

It can be conclude that overall working capital efficiency is satisfactory. The researcher has found that the companies suffers from certain weakness and has given some suggestions to overcome it. If the suggestions are implemented, the companies can increase its working capital and overall performance at the right time.

Finally **"**The poor performance doesn't get more rewards than the good performance**."** From the above statements, the companies should identify the possible ways to control and increase overall working capital efficiency checks at different level which will contribute to the overall growth of the companies.

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