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A Study on Working Capital of HFIL

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ABSTRACT *The concept of 'working capital' is much confusing in the business circles. The Working Capital refers to that part of the firm's capital, which is required for financing short-term or current assets such a cash marketable securities, debtors and inventories. Surveys indicate that the largest portion of the financial manager time is devoted to the day-to-day operations of the firm, which fall under the heading o working capital management. From the observation it is clear that equity share capital of HERITAGE remained fixed over the years. There is no preference share capital in HERITAGE.Based on the analysis made the total financial position is good.*

KEYWORDS :

Introduction:
The concept of 'working capital' is much confusing in the business circles. It is very unfortunate, there is much disagreement among financiers, accountants, businessmen and economists as to the exact meaning of the term 'working capital'. According to a few, working capital means current assists. For some others it is an excess of current assets over current liabilities. Some authorities prefer to call it circulating capital in place of working capital.

Definition: The Working Capital refers to that part of the firm's capital, which is required for financing short-term or current assets such a cash marketable securities, debtors and inventories. Funds thus, invested in current assets keep revolving fast and are constantly converted into cash and this cash flow out again in exchange for other current assets. Working Capital is also known as revolving or circulating capital or short-term capital.

Determinants: Nature of Industry, Seasonality of Operations, Production Policy, Market Conditions, Conditions of supply, Size of Business, Volume of Sales, Terms of Purchase and Sales , Business Cycle, Growth and Expansion of the firm , Price Level Changes , Operating Efficiency of the firm , Profit Appropriation , Capital Structure of the firm

Statement of the Problem: The present study is titled "problem of working capital management of HERITAGE. In order to study the statement it is necessary to define important terms used in statement of the problem. The term "working capital management" refers to total current assets of HERITAGE. During, a particular period of time current assets is the assets that can be converted into cash within accounting year. The term working capital management implies determination of requirements of working capital, financing the requirements and efficient utilization of working capital in HERITAGE .A study on working capital management is mainly related to adequacy of inventories, recievebles, cash and bank balances and working finance in HERITAGE during the period of under study.

Scope of the Study. The study is confined to HERITAGE ltd and analysis of its financial statements .The study period is 2010-2014**.** The main aim of the study is to assess the proper mgt of current assets & current liabilities. The study concentrates more on the working capital mgt of HERITAGE .Working capital gives only a good basis for quantitative analysis of financial problem.

Objectives of the study
- To study overall position of HERITAGE.
- To examine the changes in working capital of HERITAGE.
- To study existing system of working capital management in HERITAGE.
- To analyze financial performance of company with reference to its working capital components.
- To know the financial position of a company

Limitations:
- In present study the analysis is mainly based on secondary data given in annual audited balance sheets , profit and loss a/c and reports of HERITAGE.
- The study does not touch all the units of HERITAGE.
- Limited span of time is a major limitation of this project.
- The present study cannot be used for inter firm comparision.
- The period of the study of these project of working capital management on HERITAGE is two months.

Tools and Techniques

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Quick ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

$$\text{Cash ratio} = \frac{\text{Cash \& Bank balances}}{\text{Current Liabilities}} * 100$$

$$\text{Working capital turnover ratio} = \frac{\text{sales(turnover)}}{\text{Working capital}}$$

$$\text{Debtors turnover ratio} = \frac{\text{sales(turnover)}}{\text{accounts recieveble}}$$

$$\text{Stock turnover ratio} = \frac{\text{Sales (turnover)}}{\text{inventory}}$$

Company Profile:
The Heritage Group, founded in 1992 by Sri Nara Chandra Babu Naidu, is one of the fastest growing Private Sector Enterprises in India, with four-business divisions viz., Dairy, Retail, Agri, and Bakery under its flagship Company Heritage Foods (India) Limited (HFIL). The annual turnover of Heritage Foods crossed Rs.1096 crores in 2010-11.

Presently Heritage's milk products have market presence in Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Maharashtra and Orissa and its retail stores across Bangalore, Chennai and Hyderabad. Integrated agri operations are in Chittoor and Medak Districts and these are backbone to retail operations and the state of art Bakery division at Uppal, Hyderabad, AndhraPradesh.

In the year 1994, HFIL went to Public Issue to raise resources, which was oversubscribed 54 times and its shares are listed under B1 Category on BSE (Stock Code: 519552) and NSE (Stock Code: HERITGFOOD).

STATEMENT OF WORKING CAPITAL FOR 2010-2014 (Rupees in lakhs)

Year	Current assets	Current liabilities	Working Capital	N et Working Capital	
				Increase	Decrease
2010-11 2011-12 2012-13 2013-14	247639.25 272451.78 260668.92 289357.15	118776.14 115710.51 150181.58 202529.67	128863.11 156741.27 110487.34 86827.48	46253.93 23659.86	18635.24 27878.16

Interpretation:

- For the periods the net working capital is decreased due to high of current assets and current liabilities .
- For the periods increase in working capital due to remaining year figures, because in these 2 years current assets are high and current liabilities are low.
- In the years 2010-12 the current liabilities are very low & current assets are high ,so the working capital is increased.

COMPARISION OF INCREASE AND DECREASE OF WORKING CAPITAL

Year	N et Working Capital Increase /Decrease
2010-11	(-)18635.24
2011-12	(-)27878.16
2012-13	(+)46253.93
2013-14	(+)23659.86

Interpretation:

For the periods the net working capital is decreased due to lower investments in acquisition of fixed assets and making less payments to the payables

For the periods increase in working capital leads to major investments in fixed assets as well as capital expenditure.

Calculation of Current Ratio:

Principle	2010-11	2011-12	2012-13	2013-14
Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{247639.25}{118776.14}$ =2.104	$\frac{272451.78}{115710.51}$ =2.354	$\frac{260668.92}{150181.58}$ =1.735	$\frac{289357.15}{202529.67}$ =1.428

Interpretation:

- Variance of current ratio in the year shows that increase in current assets as well as decrease in current liabilities when compare to figures.For the year the current ratio has been declined due to increase in current liabilities and decrease in current assets.
- The above ratio clearly indicates that for the period the current ratio is below 2 hence it indicates that the firm has not maintaining sufficient current assets to meet current liabilitie.

Calculation of Quick Ratio:

Principle	2010-11	2011-12	2012-13	2013-14
Quick Ratio = $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$	$\frac{224807.56}{118776.14}$ =1.892	$\frac{243566.30}{115710.51}$ =2.104	$\frac{234429.47}{150181.58}$ =1.560	$\frac{249968.66}{202529.67}$ =1.234

Interpretation:

- For the years the firm has maintained sufficient current assets (excluding inventory of stock) in order to meet its current liabilities.
- Due to the increase in current liabilities for the year it leads to decrease in Quick ratios when compare to figures

Calculation of Cash Ratio:

Principle	2010-11	2011-12	2012-13	2013-14
Cash Ratio = $\frac{\text{Cash \& Bank balances}}{\text{Current Liabilities}}$	$\frac{1681.45}{118776.14}$ =0.014	$\frac{7072.47}{115710.51}$ =0.061	$\frac{3710.39}{150181.58}$ =0.024	$\frac{3982.41}{202529.67}$ =0.019

Interpretation:

- The cash ratio of the organization clearly indicates that the firm has maintaining moderate cash balances to meet its current liability obligations
- In order to maintain sufficient cash balance the firm has to maintain control over its credit sales (Debtors) and making payments to the suppliers

Calculation of Working Capital Turn Over Ratio:

Principle	2010-11	2011-12	2012-13	2013-14
Working Capital Turn Over Ratio = $\frac{\text{Sales (Turn Over)}}{\text{Working Capital}}$	$\frac{417255.56}{128863.11}$ =3.237	$\frac{388868.06}{156741.27}$ =2.480	$\frac{419999.51}{110487.34}$ =3.801	$\frac{461703.22}{86827.48}$ =5.317

Interpretation:

- The overall position of the working capital turn over ratio is positive
- For the year there is a substantial growth in sales turn over due to this the firm has huge working capital turn over ratio for the above said periods
- For the period the sales turn over of the firm has been decreased when compare to figures due to this the working capital turn over ratio is declined.

Calculation of debtors Turn Over Ratio:

Principle	2010-11	2011-12	2012-13	2013-14
Debtors Turn Over Ratio = $\frac{\text{Sales (Turn Over)}}{\text{Accounts recieveble}}$	$\frac{417255.56}{203161.62}$ = 2.053	$\frac{388868.06}{197944.41}$ = 1.964	$\frac{419999.51}{165665.88}$ = 2.535	$\frac{461703.22}{148917.78}$ = 3.100

- Account recieveble includes sundry debtors and bills recieveble

Interpretation:

- The debtors turn over ratio of the firm is ideal for the year
- There is substantial decrease in sundry debtors for the year due to this the debtors turn over ratio is decreased when compare to and remaining years figures .
- For the year the firm has maintained sufficient debtors turn over ratio.

Calculation of stock or inventory Turn Over Ratio:

Principle	2010-11	2011-12	2012-13	2013-14
Stock Turn Over Ratio = $\frac{\text{Sales (Turn Over)}}{\text{inventory}}$	$\frac{417255.56}{22831.69} = 18.275$	$\frac{388868.06}{28885.48} = 13.462$	$\frac{419999.51}{26239.45} = 16.006$	$\frac{461703.22}{39388.49} = 11.721$

Interpretation:

- The stock turn over ratio of the firm is ideal for the year
- There is substantial decrease in stock for the year due to this the stock turn over ratio is decreased in when compare to and remaining years figures .
- In the year the firm has maintained sufficient stock turn over ratio.

Findings:

1. The profits are in the increasing trend. There is a drastic improvement in profit from the year 2011-12 to 2011-2012where the profit is almost doubled. This indicates the good financial soundness of the company.
2. Sundry Debtors have been reduced which indicates increase in realisation of amount from debtors which indicates higher liquidity of the business.
3. Sundry Creditors showed a fluctuating trend. Concentrating on the last two years we can see that though the profit have been increasing, creditors have decreased indicating more cash purchases than credit purchases.
4. It is obvious that as the net profit ie., profit before tax is increased the tax paid are also shown an increasing trend.
5. The working capital has increased for the first three years. But working capital reduced, though the net profit is increased during the years. This shows that more of cash transactions have taken place and cash if available in excess is the least productive asset.

Suggestions:

1. As the working capital has been reduced in though the profit has increased, the company is advised to take all necessary steps to find out the reasons for reduction in the working capital.
2. High availability ensuring minimum cost of generation
3. To add generating capacity, with in prescribed time and cost
4. To maintain the financial soundness of HERITAGE
5. Managing financial operations in accordance with good commercial utility practices
6. To develop R&D for achieving improved plant reliability
7. In order to increase the working capital, discount should be given to debtors and see that the average collection period reduces.
8. Reference to **Andhra Pradesh gazette**, the generating company and distribution license may actually agree to a maximum rebate of 2% on bill amount. these provisions in the act may utilize by HERITAGE .

Conclusions:

The efficiency of management at financial position of HERITAGE is good. From the analysis it is clear that the share capital remained intact during the five years upto 2011-2012and the reserves and surplus reached to 19763.59 Lakhs. From the observation it is clear that capital expenditure on fixed assets is increased gradually over the period of time which might be due to construction and commission of new thermal and hydel projects.Company inventories observed an increment except in the year. From the observation it is clear that equity share capital of HERITAGE remained fixed over the years. There is no preference share capital in HERITAGE. Based on the analysis made the total financial position is good.

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