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A Study on Working Capital Management for Madras Rubber Factory

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ABSTRACT

The role of manufacturing sector is very crucial for a developing nation like India. India is going through a phase of rapid development and growth. The Indian Tire Industry plays a key role in national economy by generating substantial revenue for the state and central government. The industry is highly fragmented with a number of players of global standard. In terms of quantity, productivity and efficiency standard, it competes with foreign industries. This study mainly focuses on Working Capital Management of selected tire companies in India. The study attempts to review the origin and growth of selected tire company. Profit and Loss account, Balance sheet and some of the important key ratios are taken for working capital management analysis.

KEYWORDS : Working Capital, Factory, Management

INTRODUCTION

In India, there are 39 tire companies and 60 tire plants. The annual turnover is about Rs. 43,000 Crores, its exports Rs. 4,800 Crores. The industry concentration in turnover is about 10 large company's contribution. The contribution made by the manufacturing sector in India's real gross domestic product has increased over the years. However, the rate of growth has not been at par with expectations. In the planning process of India's economic development a lot of emphasis was given on the heavy industries and this led to greater expectations from the manufacturing sector.

STATEMENT OF THE PROBLEM

Working capital decisions provide a classic example of the risk-return nature of financial decision making. Increasing a firm's net working capital, current assets less current liabilities, reduces the risk of a firm not being able to pay its bills on time. This at the same time reduces the overall profitability of the firm. Working capital management involves the risk-return trade-off: not taking additional risk unless compensated with additional returns. The existence of a firm depends on the ability of its management to manage the firm's working capital. Working capital management involves the process of converting investment in inventories and accounts receivables into cash for the firm to use in paying its operational bills. On this background the researcher has made an attempt to analyse the working capital management of MRF tires which was the leading tire manufacturing company in India.

OBJECTIVES OF THE STUDY

- This study is undertaken with the following objectives;
- To overview the profile of Madras Rubber Factory
- To study and analyse the changes in Working Capital of the study unit
- To study the Liquidity and profitability position of the study unit
- To forecast the trend in Working Capital, Net Profit, Sales, Current Asset.
- To study the comparative Balance Sheet and Profit and Loss account of study unit.

METHODOLOGY OF THE STUDY

Research Design:

The researcher has used Analytical Research Design for the study.

Nature and Source of Data:

The study is based on secondary data. Data related to profit and loss account, balance sheet and other key ratios were collected from the published annual reports of selected tire company. The data has been collected from the website of the selected study unit.

Tools for analysis:

Ratio Analysis

Statement of changes in Working Capital

Simple Index Number

Trend Analysis

ANOVA

LIMITATIONS OF THE STUDY

The study is based on the financial statement of the company for the past five years. Hence it is limited to the details available in the financial report.

Time value of money was not considered for the analysis.

There are various divisions under this organisation and the profitability statements of each division could not be obtained, as it is a tedious process.

The study is mainly carried out based on the secondary data provided in the financial statement.

This study is based on the historical data and information provided in the annual reports therefore it may not be a future indicator.

There may be some fractional difference in the calculated ratios.

Findings of the study are based on the information retrieved by the selected unit.

ANALYSIS AND INTERPRETATION

Table 1

Current Ratio of the MRF Tyres

Year	Current assets (Rs.)	Current liabilities (Rs.)	Current ratio
2008	2003.71	1039.90	1.93
2009	1695.98	966.41	1.75
2010	2117.25	1202.25	1.76
2011	3160.49	2318.22	1.36
2012	3459.11	2488.51	1.39

Interpretation:

The ideal current ratio is 2:1. The MRF Tire Company is approximately maintaining ideal current ratio from 2008 to 2010. But the company's current ratio decreased in the last two years because of increased current liabilities. The highest current ratio was 1.93 in the year 2009. A high current ratio is an assurance that the firm will have adequate funds to pay current liabilities

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Table 2
Quick Ratio of the MRF Tires

Year	Quick assets (Rs.)	Current liabilities (Rs.)	Quick Ratio
2008	1019.43	1039.90	0.98
2009	1045.22	966.41	1.08
2010	1006.05	1202.25	0.84
2011	1633.21	2318.22	0.70
2012	1813.52	2488.51	0.72

Interpretation:
The Idle quick asset ratio is 1:1. The above table shows that the MRF tire company approximately maintaining in the year 2008 and 2009. In the last three years the company has decreased quick ratio because of increased current liabilities. It means quick assets are less than current liabilities.

Table 3
Net Working Capital Ratio of the MRF Tires

Year	Sales (Rs.)	Net working capital **(Rs.)**	**Ratio (times)**
2008	5060.81	656.49	7.71
2009	5679.57	323.69	17.55
2010	7462.74	772.19	9.66
2011	9716.54	571.87	16.99
2012	11850.68	627.27	18.89

Interpretation:
The above table shows the MRF Tire Company's working capital turnover ratio. In 2008 and 2010 the company has very low working capital ratio; it indicates lower utilisation of working capital. In the year 2012 the company has higher woking capital ratio it means the company well utilization of working capital.

RESULTS AND DISCUSSIONS
Ratio Analysis:
From the study, it is found that in the Financial Year 2009 the highest Current Ratio is 1.93. The lowest value is 1.36 in the year 2011.

In the Financial Year 2009 the highest value of Quick Ratio is 1.08. The Lowest value is 0.70 in the year 2011.

In the Financial Year 2009 the highest value of Debtors Turnover Ratio is 9.79. The Lowest value is 7.43 in the year 2011.

In the Financial Year 2010 the highest value of Current Asset Turnover Ratio is 3.52. The Lowest value is 2.53 in the year 2008.

In the Financial Year 2012 the highest value of Working capital Turnover Ratio is 18.89. The Lowest value is 7.71 in the year 2008.

In the Financial Year 2009 the highest value of Fixed Asset Ratio is 6.08. The Lowest value is 4.07 in the year 2012.

In the Financial Year 2008 the highest value of Debit-Equity Ratio is 0.86. The Lowest value is 0.22 in the year 2009.

In the Financial Year 2009 the highest value of Operating Profit Ratio is 12.42. The Lowest value is 8.37 in the year 2011.

In the Financial Year 2011 the highest value of Net Profit Ratio is 6.37. The Lowest value is 2.81 in the year 2008.

In the Financial Year 2009 the highest value of Expenses Ratio is 8.24. The Lowest value is 6.19 in the year 2012.

Statement of changing in Working Capital:

The Net Decrease in Working Capital of Rs.418.35crores in the year 2009 when compared with the year 2008.

The Net Increase in Working Capital of Rs.453.03crores in the year 2010 when compared with the year 2009.

The Net Decrease in Working Capital of Rs.104.16crores in the year 2011 when compared with the year 2010.

The Net Increase in Working Capital of Rs101.36crores in the year 2012 when compared with the year 2011.

Simple Index Number:

Simple index number for current asset increase in the year 2012 is 172.63% compared with the all previous year.

Simple index number for inventories increase in the year 2012 is 167% and decrease is 66% in the year 2009.

Simple index number for sundry debtors increase in the year 2012 is 238.36% and decrease is 95.08% in the year 2009.

Simple index number for Working Capital increase in the year 2010 is 117.62% and decrease is 49.31% in the year 2009.

Simple index number for Sales increase in the year 2012 is 234% and decrease is 112% in the year 2009.

Simple index number for Profit before tax increase in the year 2012 is 416% and decrease is 199% in the year 2009.

Trend Analysis:
Future projection of trend Analysis for current asset is increased to Rs.3799.90crores.

Future projection of trend Analysis for sales is increased to Rs.13239.08crores.

Future projection of trend Analysis for Working Capital is increased to Rs.647.22crores.

Future projection of trend Analysis for Net profit is increased to Rs.755.97crores.

ANOVA:
The current ratio of the MRF Tire Company is greater than the Apollo Tire Company's Current ratio compare with the five year current ratio.

The Net profit ratio of the MRF Tire Company is little more than the Apollo Tire Company's Net profit ratio comparing with the five year Net profit ratio.

The MRF Tire Company and Apollo Tire Company's Debit-equity ratio is same in the five year Debit equity ratio.

The Working Capital ratio of MRF Tire Company and Apollo Tire Company's is same in the five year working capital ratio.

SUGGESTIONS
- To improve corporate profitability through efficient management of working capital, MRF Tyres Ltd. should:
- Optimize working capital investments to avoid over investment with its attendant inventory costs, lost returns on excess cash holdings and receivables; and under investment with its attendant stock-out, liquidity and bad debts costs;
- Appraise investments in working capital using capital investment models, determining ahead the viability of such investment;
- Ascertain and compare working capital costs and benefits to determine the existence of gains if any before investment in the proposed working capital;
- Update their information on accounts payables and receivables as a reminder to ensure prompt payments for bills when due eliminating additional financial costs;
- Concentrate working capital decisions to optimize investments in them and ensure proper planning /forecasting and control;
- Focus on cash flows, quick collection systems and discounts to improve on their working capital positions and operational efficiency;
- Periodically evaluate receivables and liquidity management processes to determine their effectiveness and efficiency, and

where necessary changes put in place; and

- Base working capital decisions on the net effects of such decisions on cash flow and profitability of the firm for optimal decision making.

CONCLUSION

Working Capital Management is important part firm in financial management decision. The present study point out that the overall position of the working capital of MRF Tyres Ltd is satisfactory, but there is a need for improvement in certain factors. The major portion of the current assets is in the firm of Inventory. The investment in current assets should consider liquidity profitability and solvency. The companies should also try to maintain adequate quantum of liquidity all the times by keeping considerable proportion of various components of the working capital in relation to the overall current assets. It is very important to trade-off between liquidity and profitability by properly arranging the needed funds at right time, period and source.

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