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Working Capital Analysis of Selected Iron & Steel Companies Listed in NSE

KEYWORDS: Iron & Steel companies, Liquid ratio, Ratio analysis, Working Capital Ratio.

Dr. M. Nagamani	T.Priyadharshini
Associate Professor, Department of Commerce, PSGR Krishnammal College for Women, Peelamedu, Coimbatore- 641004, Tamil Nadu, India	Ph.D Research Scholar, Department of Commerce, PSGR Krishnammal College for Women, Peelamedu, Coimbatore- 641004,Tamil Nadu, India

ABSTRACT *Working Capital is important because it affects the day to day performance of a firm. Thus, it is very much imperative that every successful industrial organization must pay adequate consideration for the day to day expenses. Objective of the study is to analyze the working capital position of selected iron and steel companies. For this purpose a sample of two iron and steel companies listed on the National Stock Exchange (NSE) have been selected for the study. The data have been taken for a period of five years from 2009 to 2013; from the official database of Center for Monitoring Indian Economy (CMIE) namely Prowess and company websites. Ratios have been used to analyse the working capital position of the selected companies.*

INTRODUCTION
Working capital management refers to decisions relating to working capital and short term finance. Working capital is the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses.

A managerial accounting strategy maintains efficient levels of both the components of working capital, current assets and current liabilities. In short, working capital is the money which is available to sustain business operations. It is the capital available to purchase inventory, pay employees, keep the lights on and finance other short term expenditures which makes managing working capital a critical business skill.

Working capital has been defined as "the amount of funds necessary to cover the cost of operating enterprises"

Review of Literature
Abdul Reheman and Mohamed Nair (2007)[1]have studied the efficiency of working capital management and profitability over a period of 6 years of Pakistani companies listed on Karachi stock exchange. Different variables of working capital management used in the study are average collection period, inventory turnover in days, average payment period, cash conversion cycle and current ratio. The statistical tools used are Pearson's correlation and regression analysis. The study reveals that there is a strong negative relationship between variables of working capital management and profitability of the firms.

Kesseven Padachi (2006)[2] carried out a study to examine the trends in working capital management and its impact on firm's corporate profitability of 58 Mauritian small manufacturing firms using panel data analysis for the period of 5 years from 1998 to 2003. The regression results have shown that the various components of working capital had a positive impact on its profitability.

Statement of the problem
Working capital represents that part of resources of the business which makes the business work. In the absence of proper management of working capital it would be difficult to achieve the objectives of the business enterprise. Hence the study has been undertaken to analyse the liquidity position and working capital management of selected companies.

Objectives
- To assess the liquidity position of the companies.
- To evaluate the working capital of the companies using accounting ratios.

Scope of study
The present research is to study the management of working capital and liquidity position of the two iron & steel companies namely SURYA ROSHNI and UNI ABEX ALLOY PRODUCTS in India.

Research Methodology
To achieve the above mentioned objectives of the study analytical research is used. A sample of two iron and steel companies namely Surya Roshni and Uni Abex Alloy Products listed in National stock exchange have been selected for the purpose of study. These two companies have been the top two companies listed on NSE under this category. The data have been taken for a continuous period of five years from 2009-2013 from the official database of Center for Monitoring Indian Economy (CMIE) namely Prowess and company websites.

Ratios Used For Analysis
1. Current Ratio
2. Liquid Ratio
3. Absolute Liquid Ratio
4. Inventory Turnover Ratio
5. Current Asset Turnover Ratio
6. Working Capital Turnover Ratio
7. Average Collection Period
8. Average Payment Period.

ANALYSIS AND INTERPRETATION
Current Ratio

Current ratio may be defined as the relationship between current assets and current liabilities. It is a measure of general liquidity and is most widely used to make an analysis of short term financial position or liquidity of a firm. It is calculated by dividing the total of current assets by total of the current liabilities.

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Current Ratio
Table 1

YEAR	SURYA ROSHNI (Rs.in.crores)	UNI ABEX ALLOY PRODUCTS (Rs.in.crores)
2009	1.68	1.25
2010	1.50	1.58
2011	1.99	3.04
2012	1.52	4.61
2013	1.61	3.55
AVERAGE	1.66	2.806

Source: computed

From the above table it is found that Surya Roshni's average current ratio is less than the standard norm 2:1 and the current assets have to be increased or current liabilities reduced to meet with the norm. Uni Abex has current ratio more than the standard norm 2:1 and it has sufficient current assets to pay off the current liability and its liquidity position is adequate.

Liquid Ratio
The term liquidity refers to the ability of a firm to pay its short term obligations as and when they become due. In calculating this ratio, inventories and prepaid expenses are excluded from the current assets because they cannot be converted into cash immediately. This ratio is calculated by dividing the liquid assets by current liabilities.

Liquid Ratio
Table 2

YEAR	SURYA ROSHNI(Rs. in.crores)	UNI ABEX ALLOY PRODUCTS(Rs. in.crores)
2009	0.70	0.96
2010	0.68	1.10
2011	0.86	1.30
2012	0.75	1.34
2013	0.79	1.33
AVERAGE	0.756	1.206

Source: computed

It is found that the Surya Roshni company's average liquid ratio is less than the standard norm of 1:1,which implies that there is no sufficient liquid assets to pay off the current liabilities. Uni Abex alloy product has an average liquid ratio of 1.206 which is above the standard norm implying that there is sufficient liquid assets to pay off the current liabilities.

Absolute Liquid Ratio
The debtors and bills receivable may sometimes not be recovered easily. So these should be excluded from the liquid assets in order to derive at absolute liquid assets. Thus the ratio is calculated by dividing the absolute liquid assets by current liabilities.

Absolute Liquid Ratio
Table 3

YEAR	SURYA ROSHNI(Rs. in.crores)	UNI ABEX ALLOY PRODUCTS(Rs.in.crores)
2009	0.073	0.009
2010	0.058	0.67
2011	0.10	0.72
2012	0.077	1.49
2013	0.060	1.77
AVERGE	0.0736	0.9318

Source: computed

It is found that the Surya Roshni Company's Absolute liquid ratio is less than the standard norm of 0.5:1 and it has no sufficient Absolute liquid Assets to pay off the Current Liability. Uni Abex Alloy Products company's ratio is more than the standard norm 0.5:1 and it has sufficient Absolute liquid assets to pay off the current liabilities.

Inventory Turnover Ratio
Inventory turnover ratio indicates whether inventory has been efficiently used by the firm or not. The purpose is to see whether only the required minimum funds have been locked up in inventory. Inventory turnover ratio indicates the number of times the stock has been turned over during the period and evaluates the efficiency with which the firm is able to manage its inventory. The ratio is calculated by dividing cost of goods sold by average inventory at cost.

Inventory Turnover Ratio
Table 4

YEAR	SURYA ROSHNI	UNI ABEX ALLOY PRODUCTS
2009	9.41times	5.09 times
2010	7.56times	4.31 times
2011	7.07times	7.71 times
2012	7.18times	6.25 times
2013	7.78times	4.08 times
AVERAGE	7.8times	5.488times

Source: computed

From the above table it is found that Average Inventory turnover ratio of Surya Roshni has been 7.8 times and for Uni Abex Alloy Products it has been 5.448 on an average during a year. Higher the Inventory Turnover Ratio, lower is the Working capital required and Vice Versa. Incase of both the companies the Inventory Turnover Ratio is good.

Current Assets Turnover Ratio
A high current asset ratio indicates the capability of the organization to achieve maximum sales with the minimum investment in current asset. Higher the current ratio better will be the situation.

Current Assets Turnover Ratio
Table 5

YEAR	SURYA ROSHNI(Rs. in.crores)	UNI ABEX ALLOY PRODUCTS(Rs.in.crores)
2009	5.45	2.74
2010	5.0	2.22
2011	4.18	1.41
2012	4.19	1.56
2013	5.17	1.60
AVERAGE	4.992	1.906

Source: computed

From the above table it is found that average Current Assets turnover ratio for Surya Roshni is high when compared to Uni Abex. Hence it is found Surya Roshni is capable of achieving maximum sales with minimum investment in current Assets.

Working Capital Turnover Ratio
Working capital turnover ratio indicates the velocity of the utilization of net working capital. This ratio indicates the number of times the working capital is turned over in the

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course of a year. This ratio measures the efficiency with which the working capital is being used by the firm. It is calculated by dividing cost of sales by average working capital.

Working Capital Turnover Ratio
Table -6

YEAR	SURYA ROSHNI(Rs. in.crores)	UNI ABEX ALLOY PRODUCTS(Rs.in.crores)
2009	5.45	3.68
2010	5.12	2.87
2011	4.18	2.31
2012	4.92	1.62
2013	5.17	1.73
AVERAGE	5.206	2.406

Source: computed

From the above table it is found that the average working capital turnover of Surya Roshni company has been better than Uni Abex company implying that the former has utilized Working capital more efficiently.

Average Collection Period
The average collection period represents the average number of days for which a firm has to wait before its receivables are converted into cash. The ratio is calculated by dividing the number of working days by debtor's turnover ratio.

Average Collection Period
Table -8

YEAR	SURYA ROSHNI(Rs. in.crores)	UNI ABEX ALLOY PRODUCTS(Rs.in.crores)
2009	34 days	69 days
2010	33 days	57 days
2011	37 days	67 days
2012	43 days	103 days
2013	46 days	90 days
AVERAGE	31days	77days

Source: computed

From above table it is found that the average collection period of Surya Roshni is shorter compared to Uni Abex. It implies quick payment by debtors and efficient collection performance.

Average Payment Period
The average payment period represents the average number of days a firm takes to pay its creditors. The ratio is calculated by dividing the number of working days by creditor's turnover ratio.

Average Payment Period
Table-9

YEAR	SURYA ROSHNI(Rs. in.crores)	UNI ABEX ALLOY PRODUCTS(Rs.in.crores)
2009	39days	71 days
2010	47 days	83 days
2011	52 days	47 days
2012	50 days	58 days
2013	47 days	89 days
AVERAGE	47days	70days

Source: computed

From above table it is found that the average payment period of Surya Roshni is shorter compared to Uni Abex. It implies quick payment by creditors and efficient payment performance.

FINDINGS

- ✓ Surya Roshni's current ratio is less than the standard norm and Uni Abex company has current assets sufficient to pay off the current liabilities.
- ✓ Surya Roshni's liquid ratio is less than the standard norm and Uni Abex Company's liquid assets are sufficient to pay off the current liabilities.
- ✓ Surya Roshni's absolute liquid ratio is very low where as Uni Abex Company has sufficient absolute liquid assets to meet with the current liabilities
- ✓ Inventory Turnover ratio of both the company's are good.
- ✓ Current Assets Turnover of Surya Roshni's is better than Uni Abex.
- ✓ Surya Roshni has utilized its Working Capital very efficiently.
- ✓ Average collection period is short and the payment period is long for Surya Roshni Company which is a good sign of cash conversion.
- ✓ Average collection period is long and the payment period is short For Surya Roshni Company

CONCLUSION

The Present study on working capital management of selected iron and steel company has helped to get Practical knowledge about the application of financial tools and its usefulness in the real time business. It also has given a clear idea about the liquidity and solvency the company. The study has revealed that the liquidity and working capital position are satisfactory during the study period.

The companies can overcome obstacles in earning high profit through proper management of expenditure and budgeting system and by proper utilization of available resources. Those steps would increase the profit margin of the company.

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