

Working Capital Management in Sujala Pipes Private Limited, Nandyal, Kurnool District



Commerce

KEYWORDS :

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1. INTRODUCTION

Plastic has become synonymous with modern living. Undoubtedly it is a great product which has penetrated extensively in to the common man life. This versatile material with its superior qualities such as light weight, easy process ability, energy conservation etc. may substitute to a large extent many conventional and costly industrial material like jute, wood, metal, glass, leather etc.,. The plastic industry is growing significantly all over the world. Plastic is used in all sectors of the economy like infrastructure, construction, agriculture, consumer goods, telecommunication and packaging.

This article concentrate on Sujala Pipes Pvt. Limited located at Nandyal, a town in Rayalaseema, Andhra Pradesh in 1977. The companies faced so many problems at initial years, and with the financial assistance by local commercial banks help a lot to overcome the problems and to run company smoothly. In earlier day tools used for water flow was very ineffective with high percentage of wastage of water. To counter, this has been the mission of Sujala Pipes Pvt. Limited. The major irritants in agriculture practices like lack of rainfall, ground water lifting, water transports with in the fields have provided magnificent thrust of PVC pipe market. These factors helped Sujala Pipes Pvt. Limited to record an excellent growth since 1977 onwards. Well equipped laboratory and quality control office looks after the quality of the products. The company always tries to improve the quality.

The company not only improving the brand name but also undertook competent brands. In 1977 the company takeover the SAGAR brand PVC pipe company located at Medak district and in 1999 the company takeover another main competitor brand MONARCH PVC Pipes Limited Lies at Ananthpur. Companies are turned to opportunities to the brand image of these brands are improved. At present Sujala Pipes Pvt. Limited stands at market leader position, the major competitor to the company is Sudhakar pipes, Finolex Pipes. Sujala Pipes Pvt. Limited covers national level market but the main targeted areas are Karnataka, Tamilnadu, Karala, Maharashtra and Bihar.

Every business concern, whether big, medium or small needs capital to carry on its business activities to achieve its objectives. The success of the business concern to a larger extent depends upon the estimation of total capital requirements. The capital requirements are divided into fixed capital and working capital. The firm capital which is blocked on a permanent or fixed basis is called fixed capital. The amount of funds necessary to cover the cost of operating enterprise is known as working capital. The working capital means difference between current assets and current liabilities. Irrespective of nature every firm needs working capital management leads the firm success. Inefficient working capital management causes the various problems like reduce liquidity position of the firm, loosing of profits and utility that leads to winding up of company.

2. STATEMENT OF THE PROBLEM

Raw material storage has always been a problem to be reckoned with by the plastic industry. Recently the situation has slightly improved the step raised in the raw material prices a result of the imposition of duties and taxes poses another problem to plastic industry. On account of this, the domestic prices of the finished products are very high compared to rest of the world. At present the machinery used is worn and outdated in plastic industries. Owing to this, the cost of production is also higher. So they have to be replaced immediately. Mobilizations of funds are another problem to replacement of new machinery for plastic pipe industry. Due to these causes plastic pipe industry suffering from losses continuously. The industry failed to retain more profits. That indicates unbalancing capital structure of plastic pipe industry it reflects on the maintained of liquidity position.

3. NEED FOR THE STUDY

In India, a plethora of human and natural resources are available but the capital resources are highly restricted. The plastic pipe industry has been facing the problems like supply of raw material, lack of new material, lack of new technology, limited financial resources, lack of systematic working capital management etc. To overcome above problems, a thorough understanding of financial management practices is necessary to utilize the limited mobilized capital resources efficiently and effectively. In order to evolve norms for sound financial management practices in various organizations, the present study is undertaken to analyse the working capital performance in Sujala Pipes Pvt Limited in Nandyal, Kurnool District.

4. OBJECTIVES

- i) To study the status and structure of current assets and current liabilities.
- ii) To analyze the working capital management in Sujala Pipes Pvt.Limited.

5. METHODOLOGY

The present study is confined to one plastics pipe industry i.e. Sujala Pipes Pvt. Limited, Nandyal. The study covers the important aspects of like current assets and current liabilities and various ratios relating to working capital. . The present study mainly depends upon secondary data collected from annual reports of Sujala Pipes Pvt. Limited. The data has been analyzed with the help of financial and statistical tools like ratio analyses, averages. Graphs and diagrams are presented to illuminate the facts and figures.

6. CURRENT ASSETS AND CURRENT LIABILITIES OF SUJALA PIPES PVT LIMITED.

a) CURRENT ASSETS

The assets are those which are easily converted into cash. The details of current assets for the period 2009-10 to 2013-14 are presented in Table-1.

S.No	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14	Total	Average
1	Inventory	1014.18 (52.93)	1005.42 (51.29)	1032.02 (51.98)	1827.09 (76.90)	1892.48 (84.51)	6771.19 (64.52)	1354.23 (64.52)
2	Sundry Debtors	634.07 (33.09)	613.55 (31.30)	705.16 (35.58)	335.77 (14.08)	173.37 (17.74)	2461.92 (23.44)	492.38 (23.44)
3	cash & Bank	10.73 (0.57)	12.89 (0.66)	15.33 (0.77)	13.33 (0.55)	135.21 (0.03)	187.49 (1.78)	37.98 (1.78)
4	Deposits & advances	212.62 (11.09)	273.78 (13.97)	186.93 (9.38)	0.00 (0.00)	0.00 (0.00)	673.33 (6.41)	134.66 (6.41)
5	Income tax advances	24.18 (1.27)	27.5 (1.40)	32.89 (1.65)	208.91 (8.78)	38.24 (1.70)	331.72 (3.16)	66.34 (3.16)
6	others	20.23 (1.95)	26.96 (1.38)	20.49 (1.03)	0.00 (0.00)	0.00 (0.00)	67.68 (0.66)	13.53 (0.66)
	Total	1916.01	1960.1	1992.82	2385.1	38.24	10493.3	2098.66

Source - Annual reports of Sujala Pipes Pvt Limited.
 It can be inferred from Table 1, investment in inventory playing a vital role in the total current assets. On an average, the firm proportion of inventory to its current assets stood at 64.52 per cent. The proportion of average debtors at 23.46 and they play next role in current assets. Deposits & advances, other current assets and Income tax & advances have their contribution in current assets at 6.41 per cent 3.1 per cent and 0.06 per cent respectively.

a) CURRENT LIABILITIES

The liabilities are those which are payable short period. The details of current liabilities for the period 2009-10 to 2013-14 are shown in Table 2.

S.No	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14	Total	Average
1	Trade Payables	813.72 (100.00)	788.71 (55.65)	410.27 (65.85)	946.39 (52.95)	744.61 (46.34)	3703.70 (58.99)	820.74 (58.99)
2	Short Term Borrowings	0.00 (0.00)	628.37 (44.35)	212.74 (4.01)	799.09 (43.09)	799.69 (49.77)	3438.89 (38.86)	587.97 (38.86)
3	Other Current liabilities	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	72.71 (4.01)	62.36 (3.89)	135.10 (2.15)	111.32 (2.15)
	Total	813.72	1417.1	623.01	1818.2	1606.66	6278.69	1520.03

Source - Annual reports of Sujala Pipes Pvt Limited.
 It is evident from Table 2 that the average trade creditor occupies first place in current liabilities at 58.99 per cent, short term borrowing at 38.86 per cent took next place; rest 1.32 per cent is the contribution from other current liabilities.

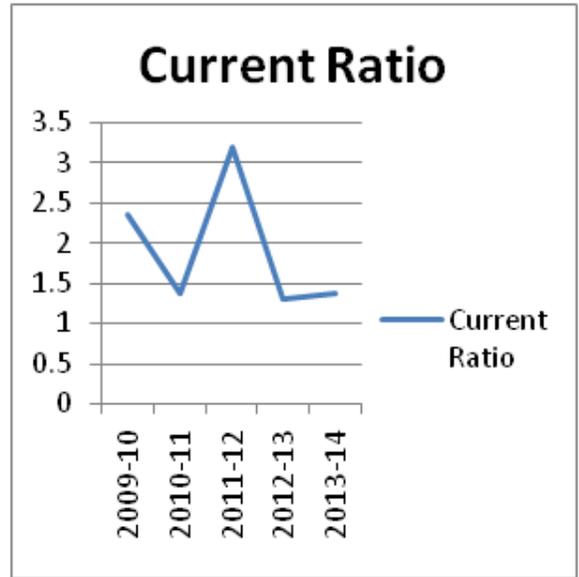
7. WORKING CAPITAL RATIOS

a) Current Ratio

To judge the short term financial strength of an enterprise, the current asset ratio is computed. Current ratio indicates the firm's ability to pay its current liabilities. The standard norm for such ratio is 2:1. The details are given in Table 3.

S.No	Year	Current Assets	Current Liabilities	Current Ratio
1	2009-10	1916.01	813.72	2.35
2	2010-11	1960.1	1417.08	1.38
3	2011-12	1992.82	623.01	3.19
4	2012-13	2385.1	1818.19	1.31
5	2013-14	2239.3	1606.66	1.39

Source - Annual reports of Sujala Pipes Pvt Limited.



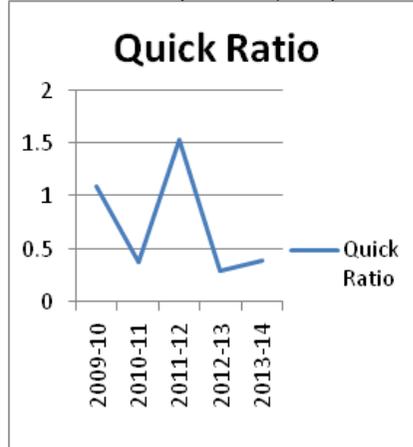
The table 3 indicates that the current ratio has been fluctuating during the study period. The current ratio varied from 3.19 to 1.31 with an average of 1.92. But the firm not maintained standard norms. It can be concluded that the overall position is good but the firm has to maintain enough current assets to meet the current obligations.

b) Quick Ratio

It is the ratio between quick assets and current liabilities. The standard norm for such ratio is taken to be 1:1 as a tool for the assessment of liquidity position of a firm. The quick ratios for 5 years shown in Table 4.

S.No	Year	Quick Assets	Current Liabilities	Quick Ratio
1	2009-10	901.83	813.72	1.10
2	2010-11	543.02	1417.08	0.38
3	2011-12	960.8	623.01	1.54
4	2012-13	558.01	1818.19	0.30
5	2013-14	632.64	1606.66	0.39

Source - Annual reports of Sujala Pipes Pvt Limited.



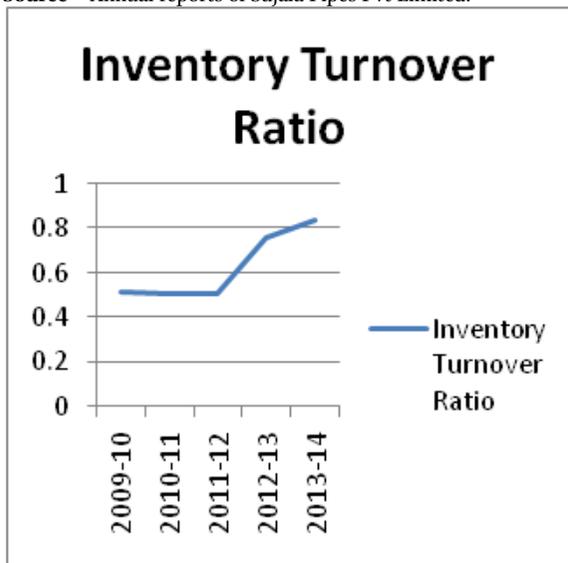
The table 4 reveals that quick ratio of the firm varied from 0.30 to 1.54 with an average ratio of 0.74, which is below the standard norm of 1.1. So the firm has to maintain proper liquidity position through maintaining the necessary liquid assets.

c) Inventory to Current Asset Ratio

This ratio expresses the relationship between inventories to current assets. It highlights how much amount is in the form of stock in current Assets. The higher is the value of this ratio, the poorer shall be the efficiency of current assets. Details are given in Table 5.

S.No	Year	Inventory	Current Assets	Inventory Turnover Ratio
1	2009-10	1014.18	1916.01	0.52
2	2010-11	1005.42	1960.1	0.51
3	2011-12	1032.02	1992.82	0.51
4	2012-13	1827.09	2385.1	0.76
5	2013-14	1892.48	2239.3	0.84

Source – Annual reports of Sujala Pipes Pvt Limited.



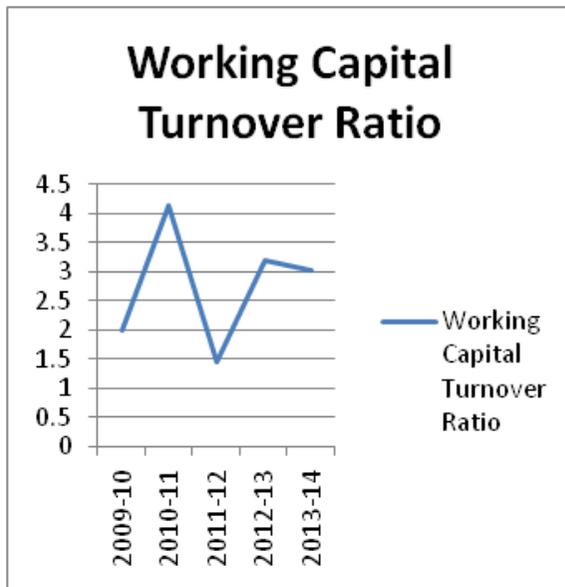
It is evident from Table 5 more than 50 per cent of the current assets consists inventory. The firm has continuous increase in inventory during the study period. But it is not good sign to liquidity position and the firm has to maintain Economic Order Quantity.

d) Working Capital turnover Ratio

The ratio indicates the velocity of the utilization of Net Working Capital. This ratio indicates the number of times the Working Capital in the course of year. This ratio measures the efficiency with which the working capital being used by the firm. A higher ratio indicates efficient utilization. Working Capital ratios are shown in Table 6.

S.No	Year	Net Sales	Net Working Capital	Working Capital Turnover Ratio
1	2009-10	2215.6	1102.29	2.01
2	2010-11	2248.1	543.02	4.14
3	2011-12	2013.62	1369.81	1.47
4	2012-13	1817.45	566.91	3.2
5	2013-14	1917.25	632.64	3.03

Source – Annual reports of Sujala Pipes Pvt Limited.



It is evident from the Table 6 that working capital turnover ratio varies between 1.47 and 4.14 throughout the study period, it shows the fluctuating trend. The average working capital is 2.77 during the study period. It indicates that the firm could not accelerate the sales volume in proportion to the increased investment in working capital. On other hand, it is evidenced that the excess of working capital due to non utilization of inventory.

8. Findings and Suggestions

Based on the analysis, the following suggestions were made.

- The company is concentrating more on inventory by utilizing funds for maintenance, which leads to ineffective capital.
- By minimizing the investment of more funds in inventory company can keep more cash and bank balance to meet day to day expenses without any difficulty.
- In order to maintain optimum liquidity, the company has to improve its current ratio to the standard mark by way of the contribution from the long term sources.
- As far as the average quick ratio is concerned, it is poor due to more current liabilities. Therefore, company should reduce inventory level by adopting scientific inventory management techniques.
- With regard the average of inventory to Current Assets Ratio, company has reached more than standard norms. It is more enough to maintain inventory levels, but excess of standard norms leads to improper allocation of financial resources.
- High working capital turnover ratio confirms the excellent performance and has a positive influence on operational profitability. Therefore, the company is having less than the standard norms. It should achieve more working capital turnover by strengthening timely collection and by maintaining proper amount of current assets and current liabilities.

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