



## A STUDY ON THE COMPOSITION OF WORKING CAPITAL: A CASE STUDY OF NESTLE INDIA LTD.

### Commerce

**Dr. Binoy Arickal**

Assistant Professor, HOD ( Department of Commerce), The Bhopal School Of Social Sciences. (BSSS) Bhopal

### ABSTRACT

The term working capital refers to current assets which may be defined as those assets which is either in form of cash or which can be easily convertible in form of cash or equivalents within a period of one year and which is used to meet the day to day operations of the business. The working capital ratio transforms the working capital calculation into a comparison between current assets and current liabilities. This also means the organisation has enough capital to work. The working capital ratio helps in measuring the firm's ability to pay off the current liabilities with their current assets. The suppliers & the creditors expects timely payments hence the working capital plays a very important role as current liabilities are best paid with current assets like cash or cash equivalents & marketable securities. The current assets can be easily converted into cash so more likely the short term debts can be paid.

Better working capital ensures the success of the business where as if the working capital is not properly managed then that results to the downfall of the organization. The reason for having working capital arises due to the time gap between production & realization of cash from sales. The requirement of working capital varies from firm to firm and it depends upon the nature and type of the business that they carry. In this study we have tried to evaluate the Working capital position of Nestle India Ltd for the years 2011-12 to 2015-16. The working capital position of Nestle India Ltd has been analyzed on the basis of current ratio, quick ratio, absolute liquid ratio, working capital turnover ratio etc as well as the statement showing composition of current assets & current liabilities.

### KEYWORDS

Working capital, Current Assets, Current liabilities

#### Introduction:

The word capital in case of a business enterprise can be categorised under two main categories i.e. Fixed Capital and Working Capital. Capital is always considered as life of a business. A business organisation cannot survive without money which is termed as capital. Every business organization requires money basically for two main reasons i.e for the establishment of the organization and secondly to carry out its day to day functioning and its operations. An operating cycle of the business involves the sale & realization of cash. This operating cycle is has a time gap in the purchase of raw materials & converting it into finished goods, then the finished good are sold and there is also a time gap between selling the finished goods and converting it in form of cash. The necessity for having the adequate working capital are for the purchase of raw materials, to meet out the day to day expenses, to pay the indirect expenses like Administrative expenses, selling & distribution expenses etc, for providing the credit facilities for credit sales, to have the stock of raw materials, work in progress, stores & spares and finished goods, to pay the sales promotional expenses & advertisement expenses, to pay the financial expenses like bank charges, interest on capital, interest on loan etc, to pay all the direct expenses which are involved in production etc. This research paper i.e. **A study on the composition of working capital: A case study of NESTLE INDIA Ltd.** is aimed at assessing and judging the working capital position of this organisation as well as this paper enables us to examine the factors responsible for significant changes in working capital during the study period from the year 2011-12 to 2015-16.

#### JUSTIFICATION OF THE TOPIC:

Analysis of working capital analysis covers a wide area and is of huge practical importance. Hence keeping this in view working capital analysis we have carried out the research work titled "a study on the composition of the working capital position: a case study of NESTLE INDIA LTD. helps in identifying the financial strengths and weaknesses of working capital position of this organisation as well as it helps in finding the short term solvency position as well as the potential growth of the organisation. This paper helps in finding out whether this organisation has sufficient funds for the procurement of raw materials, for meeting out the day to day expenses as well as to find whether the organisation can provide the credit facilities for credit sales etc. This topic helps us in measuring the short term liquidity position as well as it would indicate the composition & utilization of the current assets and utilization of the working capital.

#### REVIEW OF LITERATURE:

The performance levels of businesses have been traditionally correlated to managerial factors such functioning of manufacturing

dept, marketing dept and operations, hence working capital management may have a very important impact on small business survival and its growth (Kargar and Blumenthal, 1994).

In case of business organisations, an efficient working capital management plays a vital role towards the success and survival which includes both profitability position and liquidity position. They have also emphasised that the efficient management of working capital, and good credit management practice plays pivotal role to the health and performance of the business organisations. (Peel and Wilson, 1996).

Business organisation's success depends on its ability to generate cash receipts in excess of its payments. The cash flow problems of many business organisation are generally due to poor financial management and in especially due to the lack of planning cash requirements (Jarvis et al, 1996).

As per the study undertaken by (Peel et al., 2000) emphasised that small business organisations generally have high proportion of current assets, less liquidity, and they reflect volatile cash flows, and a high dependence on short-term debts.

Narasimhan and Murty (2001) emphasised on the need for many business enterprises to improve their return on capital employed (ROCE) by stressing on some important areas such as curtailment of cost, reducing investment in working capital and improving working capital efficiency.

Howorth and Westhead (2003), states that small business organisations generally to focus on those areas of working capital management so that they can improve improve marginal returns.

#### OBJECTIVES OF STUDY:

The study helps in fulfilling the following objectives:

- To study the changes in the current assets, current liabilities and liquid assets of the working capital analysis of Nestle India Ltd.
- To find the items responsible for changes in working capital position of Working capital analysis of Nestle India Ltd.

#### HYPOTHESIS:

The following null hypothesis is framed for testing & fulfilling the above objectives:

Ho: There is no significant difference in the Working capital position of Nestle India Ltd during the period of study.

#### LIMITATIONS:

The following are some of the limitations with regard to the study:

- The working capital position of the corporation is shown just for

the last five years, ending 2016. Hence if there are any uneven changes before or beyond the set period will be the limitations of the study.

- (ii) Only monetary information is considered the non monetary information are ignored.
- (iii) For this study some data have been grouped and sub grouped,
- (iv) Non-availability of sufficient data & literature is also a limitation of this study.
- (v) This study is based on the published annual reports hence there is no primary collection of data.

### Research Design:

The research design is very essential for the smooth conduction of various research operations so that maximum information could be taken out effectively & efficiently to carry out the research study. Research design is such an arrangement whereby the collection and analyses of data is done in such manner that aims to achieve the research purpose. Hence, a research design specifies the methods and procedures for acquiring the information which is needed for conducting the study. In this study research design includes the statement showing the composition of working capital as well as various liquidity ratios that helps in assessing the working capital analysis. This research design helps in judging the working capital position & liquidity position of this organization. Working capital analysis of Nestle India Ltd is based on figures that are taken from the organization's annual report which contains Annual Balance Sheet, Profit & Loss Account and other published documents. The required information is taken from the annual report which has been tabulated for further making our calculations easy. During this study reasonable care is taken to avoid personal bias while interpreting the ratios. For the analysis we have taken various statistical tools such as mean, standard deviation, coefficient of variation, correlation & t-test so that the calculated information is in accordance with predefined standard of accuracy.

### 1. Statement Showing Composition Of Current Assets:

This statement enables us to examine the factors responsible for the significant changes in working capital of the past 5 years. This statement also highlights the percentage change in the items of current assets to the total of current assets.

**Table No. 1: Statement Of Composition Of Current Assets (rs. In Millions)**

YEAR	Current Investments	Inventories	Trade receivables	Cash and Bank balance	Short term loans	Other current assets	Total current assets
2011-12	3648.6	7455.8	875.7	2369.6	541.5	10.0	14901.2
Percentage	24.48	50.03	5.8	15.90	3.63	.06	100
2012-13	6269.6	7359.3	842.7	7493.6	1013.6	38.4	23017.2
Percentage	27.23	31.97	3.66	32.55	4.40	0.16	100
2013-14	5073.6	8441.0	991.0	4458.2	520.7	152.2	19636.7
Percentage	25.83	42.98	5.04	22.70	2.65	0.77	100
2014-15	9831.4	8208.1	784.2	4995.5	829.7	147.2	24796.1
Percentage	39.64	33.10	3.16	20.14	3.34	0.59	100
2015-16	12750.4	9431.8	979.3	8800.0	570.2	258.2	32789.9
Percentage	38.88	28.76	2.98	26.83	1.73	0.78	100

Source: Compiled from Annual report of the Nestle India Limited

### Interpretations:

As per table no. 1 it was found that in the year 2011-12, it is the inventories which has the maximum contribution towards the total current assets as it is more than 50% followed by current investments which was at 24.48%. In the year 2012-13 there is an increase in cash and bank balances due to which its percentage is highest at 32.55% followed by inventories at 31.97%. In the year 2013-14 the inventories is the major contributor towards the current assets followed by current investments at 25.83%. Year 2014-15 shows current investments at the highest 39.64% whereas an inventory was at 33.10%. In the last year of the study period again it is the current investment which has the maximum contribution at 38.88% whereas inventory stood at 28.76%. The study reflects that the inventory is always a major contributor towards the composition of current assets on a consistent basis.

### 2. Statement Showing Composition Of Current Liabilities:

This statement enables us to examine the factors responsible for the

significant changes in working capital of the past 5 years. This statement also highlights the percentage change in the items of current liabilities to the total current liabilities.

**Table No.2: Statement Of Composition Of Current Liabilities (rs. In Millions)**

YEAR	Short term borrowings	Trade payables	Payable to micro enterprise	Other payables	Other current liabilities	Short term provisions	Total current liabilities
2011-12	2.4	5394.0	-	-	5580.3	307.6	11284.3
Percentage	0.02	47.80	-	-	49.45	2.72	100
2012-13	-	6330.4	-	-	5002.5	2138.8	13471.8
Percentage	-	46.99	-	-	37.13	15.87	100
2013-14	41.1	7287.1	-	-	4095.7	2130.6	13554.5
Percentage	0.30	53.76	-	-	30.21	15.71	100
2014-15	9.4	-	37.5	7397.9	4659.3	2653.2	14757.3
Percentage	-	-	-	50.13	31.57	17.97	100
2015-16	-	-	48.8	7942.8	5128.4	3207.0	16327.0
Percentage	-	-	0.29	48.64	31.41	19.64	100

Source: Compiled from Annual report of the Nestle India Limited.

### Interpretations:

As per table no. 2 it was found that in the year 2011-12, it is the other current liabilities which has the maximum contribution towards the total current liabilities as it has the highest percentage at 49.45% followed by trade payables which was at 47.8%. In the year 2012-13 there is an increase in the trade payables balances due to which its percentage is highest at 46.99% followed by other current liabilities at 37.13%. In the year 2013-14 the trade payables is the major contributor towards the current liabilities followed by other current liabilities at 30.21%. Year 2014-15 shows other payables at the highest at 50.13% whereas other current liabilities was at 31.57%. In the last year of the study period again it is the other payables which has the maximum contribution at 48.64% whereas other current liabilities stood at 31.48%.

### 3. Current Ratio:

The Current ratio measures the firm's short term solvency and it indicates the availability of current assets in rupees for every one rupee of current liability. A greater ratio indicates that the firm has more current assets than current claims & the ideal ratio is considered as 2:1. On the other hand if this ratio is low then it represents the liquidity position of the firm is not good.

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

**Table No. 3: Statement Showing Current Ratio (rs. In Millions)**

YEAR	Current Assets	Current Liabilities	Ratio
2011-12	14901.2	11284.3	1.32
2012-13	23017.2	13471.8	1.70
2013-14	19636.7	13554.5	1.44
2014-15	24796.1	14757.3	1.68
2015-16	32789.9	16327.0	2.008
Mean	115141.1	69394.9	
SD	92303.7	55540.7	
CV	80.16	80.03	
Growth %	120.04	44.68	

Source: Compiled from Annual report of the Nestle India Limited.

### Interpretation:

As per the above table no.3, it is found that the current ratio is not satisfactory during the study period as in all years except in the year 2015-16 the current ratio is less than 2:1. The current ratio is showing an increasing trend as it was 1.32 :1 in the year 2011-12 and it got increased to 1.68 by 2014-15. However there was a good increase in the year 2015-16 as it reached to 2.008 :1.

The coefficient of variance is of the current assets was 80.16% and of the current liabilities is at 80.03%. The growth percentage current assets were at 120.04%.

### 4. Liquid Ratio:

The liquid ratio or Quick ratio refers to the ability of the firm to pay its short term obligation as and when they become due. The liquid assets should not include stock & prepaid expenses which cannot be converted into cash within a short period. The ideal ratio is considered

as 1:1. It measures the firm's capacity to pay off current obligations immediately and it is a more rigorous test of liquidity than current ratio. It is used as complementary ratio to the current ratio.

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

Liquid assets = Current assets – (Stock + Prepaid expense)

**Table No. 4: Statement Showing Quick Ratio (rs. In Millions)**

YEAR	Quick Assets	Current Liabilities	Ratio
2011-12	7445.4	11284.3	0.65
2012-13	15657.9	13471.8	1.16
2013-14	11195.7	13554.5	0.82
2014-15	16588.0	14757.3	1.12
2015-16	23358.1	16327.0	1.43
Mean	74245.1	69394.9	
SD	59638.43	55540.7	
CV	80.32	80.03	
Growth %	213.72	44.68	

Source: Compiled from Annual report of the Nesle India Limited.

#### INTERPRETATION:

As per the above table no.4, it is found that the quick ratio is satisfactory during the study period as it was more than 1:1 for almost all years. The quick ratio is showing an increasing trend as it was 0.65:1 in the year 2011-12 and it got increased to 1.12 by 2014-15. However there was a further increase in the year 2015-16 as it reached to 1.43:1.

The coefficient of variance is of the current assets was 80.32% and of the current liabilities is at 80.03%. The growth percentage assets were at 213.72%.

#### 5. Absolute Liquid Ratio or Cash Ratio:

The absolute liquid ratio is more rigorous than current ratio and quick ratio. This ratio is calculated to find out the firm's capacity to pay current obligations very immediately. The absolute liquid ratio is calculated by dividing absolute liquid asset by liquid liabilities. The absolute liquid asset includes cash in hand, cash at bank and marketable securities. The acceptable norm for this ratio is .5:1.

$$\text{Absolute Liquid Ratio} = \frac{\text{Absolute Liquid Assets}}{\text{Current Liabilities}}$$

Absolute liquid assets = Cash in hand+ Bank balance+ Marketable securities.

**Table No. 5 : Statement Showing Absolute Liquid Ratio (rs. In Millions)**

YEAR	Absolute Liquid Assets	Current Liabilities	Absolute Liquid Ratio
2011-12	6659.7	11284.3	0.59
2012-13	14776.8	13471.8	1.09
2013-14	10052.5	13554.5	0.74
2014-15	15656.6	14757.3	1.06
2015-16	22120.6	16327.0	1.35
Mean	69266.2	69394.9	
SD	55662.6	55540.7	
CV	80.36	80.03	
Growth %	232.15	44.68	

Source : Compiled from Annual report of the Nesle India Limited.

#### INTERPRETATION:

As per the above table no.5, it is found that the quick ratio is satisfactory during the study period as it was more than 0.5:1 for almost all years. The quick ratio is showing an increasing trend as it was at 0.59:1 in the year 2011-12 and it got increased to 1.06 by 2014-15. However there was a further increase in the year 2015-16 as it reached to 1.35:1. The coefficient of variance is of the current assets was 80.36% and of the current liabilities is at 80.03%. The growth percentage assets were at 232.15%.

#### TESTING OF HYPOTHESIS:

In this study the hypothesis has been analyzed by t-test as the significance of data can be analyzed by means of statistical tools. Hence correlation & t-test have been applied in this study.

**Null hypothesis  $H_0$**  There is no significant difference in the working

capital position of NESTLE INDIA LTD. during the study period 2011-12 to 2015-16.

#### Interpretation of t-test:

$$t = 12.16, t_{0.05} = 2.77, t > t_{0.05}$$

#### Interpretation:

Since the calculated value is more than the table value hence we reject the null hypothesis which means that there is a significant difference in the working capital position of NESTLE INDIA LTD. during the study period 2011-12 to 2015-16.

#### Suggestions:

- The Nestle India Ltd should try to improve the composition of the inventories and current investment in particular.
- The Nestle India Ltd should try to reduce the trade payables and other current liabilities in order to maintain the current ratio
- Steps should be taken by the NESTLE INDIA Limited to maintain the current ratio at an ideal standard of 2:1 as the working capital position was not satisfactory as it crossed the ideal ratio only in the year 2015-16.
- The Nestle India Ltd should try to reduce its composition of current liabilities to have better short term solvency position.
- The current assets of the Nestle India Ltd were not effectively utilized as the current assets was low during the study period hence should try to utilize its current assets efficiently.
- The Nestle India Ltd should try to effectively utilize its inventories hence the organisation should have better policies to reduce its inventories.
- The working capital of the Nestle India Ltd was not properly utilized hence the organisation should try to utilize its working capital efficiently by reducing the cost of goods sold.

#### REFERENCES:

- Agrwal, N.P: Analysis of Financial Statement, New Delhi: National publishing House, 1981.
- Amey Lieyed, R and Egginton, Doz A: Management Accounting –A Conceptual Approach, Longman Group Ltd., 1985.
- Anthony, Robert, N: Management Accounting- Text and Cases, Homewood: Illionis : Richard : D Irwin Inc., 1984.
- Balby J : Management Accounting : London : Mc Donald and Evans Ltd., 1975.
- Duck, R.E.W. and Jervis, F.R.J: Management Accounting: London George G. Harvop and company Ltd. 1994.
- Grewal T.S. Grewal G.S. and Grewal H.S: Analysis of Financial Statement: New Delhi: Sultan Chand & Sons 1999.
- Gupta R.L. 7 Radhaswami: Advanced Accountancy, Vol I: New Delhi: Sultan Chand & Sons 1985.
- Gupta S.P. Statistical Method: New Delhi: Sultan Chand & Sons, 1994.
- Kapila R. Kapila U: India's Banking and Financial Sector in the new millennium Vol., Academic Foundation, Ghaziabad.
- Kaura N. Mohindra: Management planning and control system in commercial Banking, Vani Educational Books, New Delhi 1983.
- Kothari C.R: Research Methodology methods & techniques, Wishwa Prakashan Delhi 1990.
- Kuchhal, S.C: "Financial Management", Chaitanya Publishing House, Allahabad, 1996.
- Mamoria C.B: Personnel Management Himalaya Publishing House, Bombay, 1993.
- Myer John N: "Financial Statement Analysis", P. Hall of India, New Delhi, 1972.
- Noor N.S: Analysis of Balance sheet, Sky land Publication, New Delhi 1990.
- Pandey I.M: Financial Management: New Delhi: Vikas Publishing House Pvt. Ltd., 1983.
- Pearce. D.W. and Nash, C.A: The Social Appraisal of Projects: A Text in Cost- Benefit Analysis, Macmillan, London, 1981.
- Sharma D.D: Research Methodology, Kalyani Publications, 2003.
- Sharma M.K: Financial Appraisal of Industrial Corporation of India, Prateeksha Publication, Jaipur, 1996.
- Sharma R.K. and Gupta S.K: Management Accounting – Principles and Practice: Lundhiana Kalyani Publishers, 2003.
- Shrinivasan: Management Accounting: New Delhi Sterling Publication Pvt. Ltd. 1986.