



A STUDY ON WORKING CAPITAL MANAGEMENT OF BAJAJ HINDUSTAN LTD.

Commerce

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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 Bajaj Hindustan Ltd for the years 2012-13 to 2016-17. The working capital position of Bajaj Hindustan 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

Capital is always considered as life line of a business enterprise. A business organisation cannot survive in the competitive world without adequate capital. A Business enterprise is required to maintain a balance between liquidity and profitability while conducting its day to day business operations. Every business organization requires money for the establishment of the organization and as well as to carry out its day to day functioning and its operations. Liquidity is a precondition to ensure that the business enterprise is able to meet its short-term obligations and if it is continued it contributes to its profitability position as well. An operating cycle of the business involves the sale & realization of cash. The operating cycle 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 titled A Study On Working Capital Management Of Bajaj Hindustan 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 2012-13 to 2016-17.

JUSTIFICATION OF THE TOPIC

The working capital management of a business enterprise plays a very dominant role in surviving in the competitive market. This research paper titled "A Study On Working Capital Management Of Bajaj Hindustan Ltd." helps in finding out the positives & negatives as regards the working capital position of this organisation.

The research paper also helps in assessing the short term solvency position as well as the potential growth of the organisation. This paper helps in judging whether the organisation has sufficient funds for the purchase 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 research paper is also aimed assessing the credit worthiness of this organisation well as measuring the short term liquidity position.

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).

Peel and Wilson (1996) have stressed the efficient management of working capital, and more recently good credit management practice as being pivotal to the health and performance of the small firm sector. 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 analyse the changes in current assets, current liabilities and liquid assets of Bajaj Hindustan Ltd.
- To identify the items responsible for changes in working capital position of Bajaj Hindustan Ltd.

HYPOTHESIS

In order to fulfill the above objective the following null hypothesis is framed

Ho: There is no significant difference in the Working capital position of Bajaj Hindustan Ltd. during the study period 2012-13 to 2016-17

LIMITATIONS

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

- Any uneven changes before or beyond the set period will be the limitations of the study as this paper is concerned with last five years ending 2017.
- For this study some data have been grouped and sub grouped,
- There is Non-availability of sufficient data & literature.
- There is no primary collection of data as it is based on the annual report of the organisation.

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 application of liquidity ratios that helps in assessing the working capital position. This research design helps in judging the working capital position & liquidity position of this organization. Working capital analysis of **Bajaj Hindustan 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, coefficient of variation, correlation & t-test so that the calculated information is in accordance with predefined standard of accuracy.

1. 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. 1: Statement Showing Current Ratio (Rs. In crores)

YEAR	Current Assets	Current Liabilities	Ratio
2012-13	31917	26704	1.1952142
2013-14	34537	28140	1.227327647
2014-15	42267	32649	1.294587889
2015-16	44376	34071	1.302456635
2016-17	60223	53058	1.135040899
Total	213320	174622	
Mean	42664	34924.4	
CV	26.02023811	30.31398112	

Source: Compiled from Annual report of the Bajaj Hindustan Ltd.

Interpretation

As per the above table no.1, it is found that the current ratio is not satisfactory during the study period. During the study period the current ratio is increasing except for the last year which shows that the increasing trend was broken and it has reached to the lowest 1.13:1 in the year 2016-17. The coefficient of variance is of the current assets was 26.02% and of the current liabilities was at 30.31%.

2 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. 2: Statement Showing Quick Ratio (Rs. In crores)

YEAR	Quick Assets	Current Liabilities	Ratio
2012-13	19781	26704	0.740750449
2013-14	20862	28140	0.741364606
2014-15	26910	32649	0.824221263
2015-16	29864	34071	0.876522556
2016-17	42186	53058	0.795092163
Total	139603	174622	
Mean	27920.6	34924.4	
CV	32.25299628	30.31398112	

Source: Compiled from Annual report of the Bajaj Hindustan Ltd.

INTERPRETATION

As per the above table no.2, it was found that the quick ratio is not satisfactory during the study period as it was less than 1:1 for almost all years. The quick ratio is showing an increasing trend till 2015-16 however it reduced to 0.79: 1 in the year 2016-17. The coefficient of variance is of the current assets was 32.25% and of the current liabilities is at 30.31%.

3 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 firms 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. 3 : Statement Showing Absolute Liquid Ratio (Rs. In crores)

YEAR	Absolute Liquid Assets	Current Liabilities	Absolute Liquid Ratio
2012-13	5838	26704	0.218618933
2013-14	5488	28140	0.195024876
2014-15	6699	32649	0.205182395
2015-16	6953	34071	0.204073846
2016-17	15435	53058	0.290908063
Total	40413	174622	
Mean	8082.6	34924.4	
CV	51.39265752	30.31398112	

Source : Compiled from Annual report of the Bajaj Hindustan Ltd.

INTERPRETATION

As per the above table no.3, it is found that the quick ratio was unsatisfactory during the study period as it was less than the ideal ratio of 0.5:1. The quick ratio was the lowest at 0.19 : 1 in the year 2013-14. The coefficient of variance is of the current assets was 51.39% and of the current liabilities is at 30.31%.

WORKING CAPITAL TURNOVER RATIO

This ratio indicates the velocity of the utilization of working capital. It Indicates the number of times the working Capital is rotated in the course of a year. It also measures the efficiency with which the working capital is being utilized. A higher ratio indicates efficient utilization of working capital and low ratio indicates vice versa.

$$\text{Working capital turnover ratio} = \frac{\text{Cost of good sold or Net Sales}}{\text{Working capital}}$$

TABLE NO. 4: Statement Showing Working capital turnover Ratio (Rs. In crores)

YEAR	Cost of Goods Sold	Working Capital	Ratio
2012-13	3921.68	5213	0.755
2013-14	3915.44	6397	0.612
2014-15	4896.14	9618	0.509
2015-16	4434.16	10305	0.430

2016-17	1216.70	7165	0.169
Total	18384.12	38698	
Mean	3676.82	7739.6	
CV	39.01	27.88	

Source: Compiled from Annual report of the Bajaj Hindustan Ltd.

INTERPRETATION

This ratio indicates that the working capital is not properly utilised as this is reflecting a downward trend. In the last year of the study period this ratio was the least at 0.169 times. During the year 2012-13 this ratio was at the highest at 0.755 times and thereafter it started decreasing in every year.

The coefficient of variance of the cost of goods was at 39.01% and of the working capital is at 27.88%.

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 B. during the study period 2012-13 to 2016-17

Interpretation of t-test

$$t = 10.20, t_{0.05} = 2.77 \quad t > t_{0.05}$$

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 **Bajaj Hindustan Ltd.** during the study period 2011-12 to 2015-16

SUGGESTIONS

- The Bajaj Hindustan Ltd. should try to improve the composition of the working capital
- The Bajaj Hindustan Ltd. should try to have better book debt policies & better inventory policies
- Steps should be taken by Bajaj Hindustan Ltd. to improve the current ratio at an ideal standard of 2:1
- The Bajaj Hindustan Ltd. should try to reduce its composition of current liabilities.
- The current assets of the Bajaj Hindustan 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 Bajaj Hindustan Ltd. should try to effectively utilize its working capital as the working capital ratio is reflecting downward trend.

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