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# **Research Paper**

## Management



Working Capital Management with Special Reference to English Indian Clays Limited, Thiruvananthapuram (Eicl)

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## ABSTRACT

This paper emphasis on an empirical study on working capital management with special reference to ENGLISH INDIAN CLAYS LTD, THIRUVANANTHAPURAM, KERELA, INDIA. The determinants that may have effect on working capital derived from the literature of Ratio analysis and Correlation analysis.

Working capital Management is the process of planning and controlling the level and mix of the current assets o0f the firm as well as financing these assets. Working capital management requires that the financial manager to decide what quantities of cash, receivables, inventories and other liquid assets the firm will hold at any point in time. The financial manager should also decide that in what way the current assets to be financed. According to Guttmann & Dougall the Net working capital is the "Excess of current assets over current liabilities".

# Keywords :

#### INTRODUCTION

Working Capital Management is concerned with the problems that arise in attempting to manage the current Assets, current liabilities and the inter-relationship that exists between them. The aim of working capital management is to manage the concern's current assets and current liabilities in such a way that an adequate working capital is maintained. An adequate level of working capital provides a business with operational flexibility.

A company can be endowed with assets and profitability but short of liquidity if its assets cannot readily be converted into cash. Positive working capital is required to ensure that a firm is able to continue its operations and that it has sufficient funds to satisfy both maturing short term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash

Emerson has very rightly observed that, "business with an adequate level of working capital has more option available to it, and can make its own choice as to when working capital will be used. On the other hand, if a firm is short of working capital, it may be forced to limit business operations, extension of credit to customers and the amount that it invests in inventory. This will adversely affect production as well as sales which in turn will affect profitability of a concern."

According to Guttmann & Dougall the Net working capital is the "Excess of current assets over current liabilities".

A managerial accounting strategy focusing on maintaining efficient levels of both components of working capital, current assets and current liabilities, in respect to each other. Working capital management ensures a company has sufficient cash flow in order to meet its short-term debt obligations and operating expenses.

### STATEMENT OF THE PROBLEM

The present study seeks to collect in depth information of the

working capital management of ENGLISH INDIAN CLAYS LTD, THIRUVANANTHAPURAM, with special emphasis on an examination of the management performance in regard to financial management. The present study is made specially to find out the Co-efficient Correlation between Liquidity Ratios and Activity or Efficiency Ratios.

#### **1.3. OBJECTIVE OF THE STUDY**

- To study the working capital management of ENGLISH INDIAN CLAYS LTD, THIRUVANANTHAPURAM by analyzing the liquidity position of the company.
- To examine the effective utilization of working capital.
- To evaluate the operating efficiency of ENGLISH INDIAN CLAYS LTD, THIRUVANANTHAPURAM.
- To know the overall operational efficiency and performance as well as liquidity position of ENGLISH INDIAN CLAYS LTD, THIRUVANANTHAPURAM, and correlating them with each other by using Karl's Pearson Co-efficient correlation

#### 2.1. RESEARCH DESIGN

Research is an organized activity focused on specific objective with the support of data collection involving tools for analysis deriving logically sound inferences

Research Design is purely and simply the framework or plan for a study that guides the collection and analysis of data. The function of researcher is to ensure that requires the data collected or accurate and economically.

# 2.2. TOOLS AND TECHNIQUES FOR COLLECTION OF DATA

- Ratio analysis
- Correlation analysis

#### 3. DATA ANALYSIS AND INTERPRETATION 3.1. COMPONENTS OF CURRENT ASSETS

The composition of Current Assets enables one to examine in which the working capital fund have been locked. A large tie

up of funds in inventories affects the profitability of the business. The major portion of current assets is made up of cash alone, then the profitability will be decreased because cash is non earning assets.

TABLE 3.1: COMPONENTS OF CURRENT ASSETS (Rs. in Lakhs)

Particulars	2007- 08	2008- 09	2009- 10	2010- 11	2011- 12
INVENTORIES SUNDRY DEBT- ORS	220.92 169.16	241.52 198.76	350.29 271.09	348.51 308.09	277.47 311.53
CASH & BANK BALANCES OTHER CURRENT ASSETS	51.09 30.60	142.31 4.74	57.92 .92	69.28 1.02	51.71 1.36
LOANS AND AD- VANCES TOTAL	81.12 552.90	256.05 843.39	113.82 794.04	133.63 860.53	149.35 791.42

#### 3.2. COMPONENTS OF CURRENT LIABILITIES

Current liabilities means that the liabilities which have to meet in the current year. It includes sundry creditors whose payment is in due but not yet paid. It also includes short term loan, bank overdraft etc.

TABLE 3.2: COMPONENTS OF CURRENT LIABILITIES (Rs. in Lakhs)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
CURRENT LIABILITIES	213.69	215.39	314.02	332.95	335.75
PROVISIONS	80.07	115.95	156.96	191.99	153.44
TOTAL	293.76	331.34	470.98	524.94	489.19

#### 3.3. CORRELATION ANALYSIS Meaning

Statistical measure of the linear relationship (correlation) between a dependent variable and an independent variable. The Pearson correlation coefficient indicates the strength of a linear relationship between two variables, but its value generally does not completely characterize their relationship. It is denoted by "r", and its value varies between -1 and +1. If r is exactly one, it is called Perfect correlation, and if r is exactly minus one, then it is called negative correlation and if the r value is zero, then it is called No correlation.

#### Definition

Pearson's correlation coefficient between two variables is defined as the covariance of the two variables divided by the product of their standard deviations. The form of the definition involves a "product moment", that is, the mean (the first moment about the origin) of the product of the mean-adjusted random variables; hence the modifier *product-moment* in the name

The interpretation of a correlation coefficient depends on the context and purposes. A correlation of 0.8 may be very low if one is verifying a physical law using high-quality instruments, but may be regarded as very high in the social sciences where there may be a greater contribution from complicating factors.

#### FORMULA

r

	$\Sigma x^2 y^2$
=	
	$\sqrt{\Sigma x^2 v^2}$

#### TABLE 3.3.1: CORRELATION BETWEEN WORKING CAP-ITAL TURNOVER RATIO AND CURRENT RATIO

Year	Working capital turnover ratio X	<u>x</u> =X-X	X <sup>2</sup>	Current Ratio Y	<u>γ</u> = Υ-Υ	y²	xy
2007- 08	6.21	- 0.73	.53	1.88	.01	0	-0.01
2008- 09	3.82	- 3.12	9.73	2.54	.68	.46	-2.12
2009- 10	7.42	0.48	.23	1.68	-0.19	.04	-0.09
2010- 11	7.93	0.99	.98	1.63	-0.24	.06	-0.24
2011- 12	9.31	2.37	5.62	1.61	-0.26	.07	-0.62
Total	34.69	0.00	17.09	9.34	0.00	0.63	-3.08

-3.08 r = -----

3.28

r = - 0.94

In ENGLISH INDIAN CLAYS LTD, the Correlation coefficient r is a Negative correlation, and there is a negative relationship between WORKING CAPITAL TURNOVER RATIO AND CURRENT RATIO.

TABLE	3.3.2:	CORREL	ATION	BETWEEN	RECIEVA	<b>3LES</b>
TURNO	VER R	ATIO AN	D ABSC	LUTE LIQU	ID RATIO	

Year	Receivables turnover ratio X	<u>X-X=</u>	X <sup>2</sup>	Absolute Liquid Ratio Y	y = Y-Y	y²	xy
2007-08	10.06	0.44	0.19	0.17	-0.02	0.00	-0.01
2008-09	10.43	0.81	0.65	0.42	0.023	0.05	0.19
2009-10	9.31	-0.31	0.10	0.12	-0.07	0.00	0.02
2010-11	9.01	-0.61	0.38	0.13	-0.07	0.00	0.04
2011-12	9.31	-0.31	0.10	0.10	-0.09	0.01	0.03
Total	48.12	0.00	1.41	0.95	0.00	0.07	0.26

0.26

r = ------0.31

r = 0.842

In ENGLISH INDIAN CLAYS LTD, the Correlation coefficient r is a Positive correlation, and there is a relationship between RECEIVABLE TURNOVER RATIO AND ABSOLUTE LIQUID RATIO.

TABLE	3.3.3:	CORRELATION	BETWEEN	INVENTORY
TURNO	VER RA	TIO AND QUICK	RATIO	

Year	Inventory turnover ratio X	X-X= X	X <sup>2</sup>	Quick Ratio Y	<u>y</u> = Y-Y	y²	xy
2007-08	7.29	-0.72	0.52	0.74	-0.04	0.00	0.03
2008-09	8.11	0.10	0.01	1.02	024	0.06	0.02
2009-10	6.85	-1.16	1.35	0.69	-0.09	0.01	1.04
2010-11	7.64	-0.37	0.14	0.71	-0.07	0.00	0.03
2011-12	10.15	2.14	4.58	0.74	-0.04	0.00	-0.09
Total	40.04	0.00	6.6	3.9	0.00	0.07	1.03

In ENGLISH INDIAN CLAYS LTD, the Correlation coefficient r is a High Positive correlation, and there is a strong relationship between INVENTORY TURNOVER RATIO AND QUICK RATIO.

#### TABLE 3.3.4: CORRELATION BETWEEN CURRENT RA-TIO AND QUICK RATIO

Year	Current ratio X	<u>x</u> =x-X	X <sup>2</sup>	Quick Ratio Y	$\overline{y} = \gamma - \gamma$	y²	xy
2007-08	1.88	0.01	0.00	0.74	-0.04	0.00	0.00
2008-09	2.54	0.67	0.45	1.02	024	0.06	0.16
2009-10	1.68	-0.19	0.04	0.69	-0.09	0.01	0.02
2010-11	1.63	-0.24	0.06	0.71	-0.07	0.00	0.02
2011-12	1.61	-0.26	0.07	0.74	-0.04	0.00	0.01
Total	9.34	0.00	0.61	3.90	0.00	0.07	0.20

<sup>0.20</sup> 

r = 0.964

In ENGLISH INDIAN CLAYS LTD, the Correlation coefficient r is a Positive correlation, and there is a strong relationship between CURRENT RATIO AND QUICK RATIO.

#### 4.1. SUMMARY AND FINDINGS

- Increase in the working capital turnover ratio indicates that the firm is efficiently utilizing the working capital.
- Inventories forms the least part in the composition of current assets which indicates the fund locked in inventories or in a lesser amount.

- The coefficient correlation between working capital turnover ratio and current ratio is a Negative sign and there is no relation between them.
- The coefficient correlation between Receivables' turnover ratio and Absolute liquid ratio is a positive sign and there is relation between them.
- The coefficient correlation between Inventory turnover ratio and Quick ratio is a High positive sign and there is a strong relation between them.
- The coefficient correlation between Current ratio and Quick ratio is a positive sign and there is a relation between them.

#### 4.2. SUGGESTION

- The company should raise funds through short term sources comparatively with long term funds.
- The credit policy given can also be reviewed so that considerable amount of funds may not lock up in debtors. This will result in increase of cash balances of the company.
- The company can take control on cash balances since cash is not an earning asset and increasing cost of fund.
- The solvency position of the company can be further improved by arresting the borrowings made by the company. If these steps are not taken, that may affect the long-term credit interest of the company.
- The company has to reduce the operational cost and increase the sales.
- The company should make necessary control measures with regard to management of inventory.

#### 5. CONCLUSION

It is concluded that the working capital management is an important factor of financial management. It requires that the financial manager should hold cash, liquid assets, receivables' and inventories at any point of time. In this study it was found that the Working capital management of EICL Ltd is found to be better and it can further be enhanced in a better way to achieve the heights.

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r = ------0.21