

# A Study on Working Capital Policy towards Anbu Biscuit Company at Namakkal

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**Abstract - Working capital policy is one of the financial considerations that a finance manager must make and plays an important role in determining a firm's profitability. Given its significance, the purpose of this research is to look into the impact of working capital management components and working capital management policies on the profitability of firms in the services and manufacturing sectors. Efficient working capital management is critical to an enterprise's success. Working Capital is being given more attention at the moment. So, in this paper, I attempt to investigate the working capital policy of the chosen unit, ANBU BISCUIT COMPANY. Capital, in a general sense, can be divided into two groups in terms of financial management: fixed capital and working capital.**

**Index Terms - Working Capital Policy, Ratio Analysis, Trend Analysis.**

## I.INTRODUCTION

Almost all types of business operations include the collection and use of funds, either directly or indirectly. Other roles are influenced by the financial aspects of raising and using capital. The accounting system keeps track of a business. It suggests potential actions in the event that they are needed. Accounting data is used by a wide range of stakeholders, including shareholders, administrators, creditors, potential buyers, staff, and the government. Financial analysis is the method of determining a company's financial strength and weakness by maintaining a proper relationship between the balance sheet products and the profit and loss account. Comparative accounts, schedules of adjustments in working capital, common size ratios, fund flow statements, and ratio analyses are some of the tools used to analyse financial statements. This ratio analysis was used to examine the liquidity and profitability of a business.

A financial appraisal is a scientific assessment of a company's performance and financial power. It is the process of applying financial statement analysis

techniques to make a technically correct, critical, and comparative assessment of a company's profitability and financial health.

From appraisal of financial statements, we assess the earning capacity of the company

Financial resources of the company

Financial performance is performed by professionals who prepare reports using ratios that make use of information taken from the financial statement and other reports.

These reports are often provided to top management as one of their primary sources of information when making business decisions. Management may:

- Continue or discontinue its main activity or part of its business based on these reports;
- Acquire or rent/lease some machinery & equipment for the production of its goods;
- Decide whether to spend or lend capital;
- Issue stocks or negotiate for a bank loan to raise its working capital;

The financial statements are analysed and interpreted are they useful and meaningful. As with the preparation of these documents, the scientific method must be used to evaluate and interpret these statements.

## II.OBJECTIVES OF THE STUDY

Primary

To investigate this company's working capital policy

Secondary

1. To learn about the company's liquidity position
2. To learn about the company's receivable management
3. Identifying the factors that influence the firm's profitability and liquidity

SCOPE OF THE STUDY

Every company's working capital is very important because it affects not only the day-to-day operations but also strategic decisions regarding funding.

#### NEED OF THE STUDY

The working capital policy is beneficial in understanding the company's financial situation and establishing expectations for working capital inventory levels.

### III REVIEW OF LITERATURE

Thakur (2015) also examined the relationship between CCC and firm performance as measured by ROA and to bins combination of an accounting-based and market-based measure of performance among bangaladeshi firms. Firm growth was determined to be a moderating variable. The results indicated a negative relationship between CCC and ROA, but the model of not found to be significant.

Radasanu (2015) explains that working capital management is closely related to sustainable growth. An effective working capital management helps firms maintain their liquidity that enables them to have sufficient cash flows to repay mature short-term liabilities and to acquire lower cost capital. further, previous studies of amouz-esh et al. (2011) and fonseka et al. (2012) find that liquidity affects sustainable growth. Besides, effective work-ing capital helps firms reduce the stockout risk and aquire sufficient financing sources to operate.

Vintila and Nenu (2016) added that resources such as cash, overdraft and liabilities are used to cover the variable and fixed costs of the production process and to purchase the stock for resale operations. Profitability is the relationship between revenue expenses and how well the company is performing and the potential future growth of the company and how it managers its working capital.

Moussa (2018) examines the impact of working capital management on the performance of 68 industrial firms from egypt for the period of 2000-2010 and documents a positive relationship between working capital management (measured by the cash conversion cycle) and firm profitability. The author points out that stock markets in less developed economics do not realize the optimum efficiency of their WCM.

Nguyen and Nguyen (2018) analyze the relationship between working capital management and corporate profitability and document a positive nexus between working capital management and the performance of Vietnamese listed firms over the period of 2008-2014. Listed manufacturing firms in Ghana exhibit a positive relationship between different components of working capital and profitability.

### IV. RESEARCH METHODOLOGY

The project assesses the company's financial results using the most effective financial analysis methods, such as ratio analysis and adjustments in the working capital statement. As a result, it's simply a fact-finding task.

#### TYPE OF RESEARCH

There are several different forms of study, and not all of them are appropriate for a dissertation. Analytical analysis entails defining characteristics, as well as analysing and explaining whether or how something occurs. As a result, analytical analysis attempts to comprehend phenomena by identifying and quantifying causal relationships between them.

#### Data collection

The information gathered for this analysis was derived from secondary sources.

#### Secondary data

Secondary data is a review of the whole company's records and balance sheet under which the project work was completed. A variety of reference books, papers, and studies were also used to develop the study's theoretical model. Some knowledge was also gleaned from the internet.

#### TOOLS USED FOR ANALYSIS:

1. Ratio analysis
2. Trend analysis

### V. DATA ANALYSIS AND INTERPRETATION

#### RATIO ANALYSIS

The most important financial analysis method is ratio analysis. It is one of the most important financial analysis methods, in which ratios are used as a yardstick for measuring a company's financial position and results.

**CURRENT RATIO**

A comparison of current assets and current liabilities can reveal the company's financial position. The current ratio is a term used to describe such a ratio. Any liability that is due for payment within one year is considered as a current liability for the purposes of calculation. Similarly, all assets that are expected to be converted into cash within a year are classified as current assets.

Current Ratio = Current Assets/ Current Liabilities

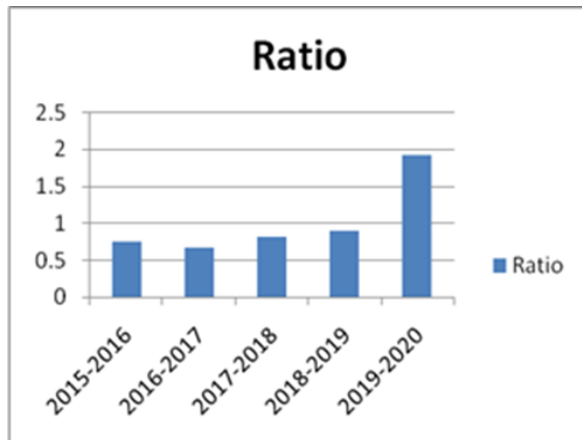
**TABLE SHOWING CURRENT RATIO**

Year	Current Assets (Rs.in.Lakhs)	Current Liabilities (Rs.in.Lakhs)	Ratio
2015-2016	182762578	244527119	0.75
2016-2017	183385356	274171547	0.67
2017-2018	309834436	380188158	0.81
2018-2019	304091780	337555689	0.90
2019-2020	486709962	251612130	1.93

**INTERPRETATION**

From the above table it can be inferred that, during the year 2016-2017, the current ratio of the company being is low as 0.67. In the year 2018-2019 the current ratio of the company is high to 0.90. It is evident that the year 2019-2020 the company has high to 1.93 and it is to maintain the standard position in current ratio due to increase in current assets compare to previous years but the company must reduce its current liabilities.

**CHART SHOWING CURRENT RATIO**



**MANAGEMENT IMPLICATION**

The company performance during the year 2015-2020 is fluctuating in trend. In the year 2016-2017 labour strike affects the production and inventory position and its results the current ratio position is low and in the year 2019-2020, the ratio has increased due to investment in current assets in form of cash and bank and make a generation of more sales.

**PROPRIETARY RATIO**

A variant of the debt to equity ratio is the proprietary ratio which shows the relationship between shareholders' funds and total tangible assets. This ratio is worked out as follows

Proprietary ratio = Shareholder funds/ Total assets

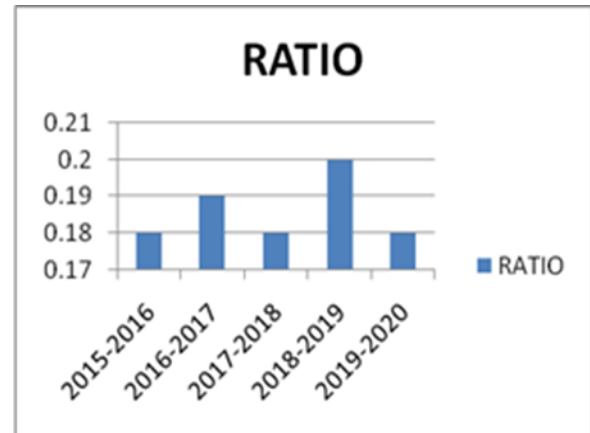
**TABLE SHOWING PROPRIETARY RATIO**

YEAR	SHAREHOLDER FUND	TOTAL ASSETS	RATIO
2015-2016	166500000	896767618	0.18
2016-2017	176892430	921852526	0.19
2017-2018	186407743	1022631153	0.18
2018-2019	194379133	962805192	0.20
2019-2020	201133389	1106856445	0.18

**INTERPRETATION:**

From the above table it can be inferred that, during the year 2015-2016, the shareholder funds are low at 0.18. On the other hand, the ratio can booming in the year of 2018-19 is 0.20. In the year 2019-2020, the ratio can reduce to 0.18.

**CHART SHOWING PROPRIETARY RATIO:**



VI.TREND ANALYSIS

Trend analysis is a comparative analysis of a company’s ratios over time. It tries to predict the future movement based on past data. Trend analysis is based on an idea of what is happened in past and given the idea of what would happen in past. In trend analysis, industry ratios are compared over time, typically years. Year-to-year comparisons can highlight trends and point up the need for action. Trend analysis works best with five years of ratios. “With the past, we can see trajectories into the future – both catastrophic and creative projections.”

The Trend Analysis module allows plotting aggregated response data over time. This is especially valuable on the basis of five-year data and a result of a long survey. The following data points can be measured (Y-Axis)

1. Mean and Mean Percentile
2. Standard Deviation and Variance
3. Ratio

The “Time Factor” (X-Axis) can have the following granularity

1. Daily
2. Weekly
3. Monthly
4. Quarterly (Jan-Mar, Apr-Jun, Jul-Sept, Oct-Dec)
5. Yearly

CHART SHOWING TREND ANALYSIS FOR CURRENT ANALYSIS

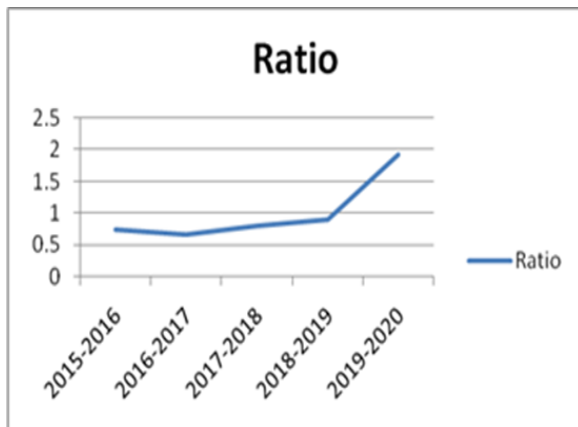
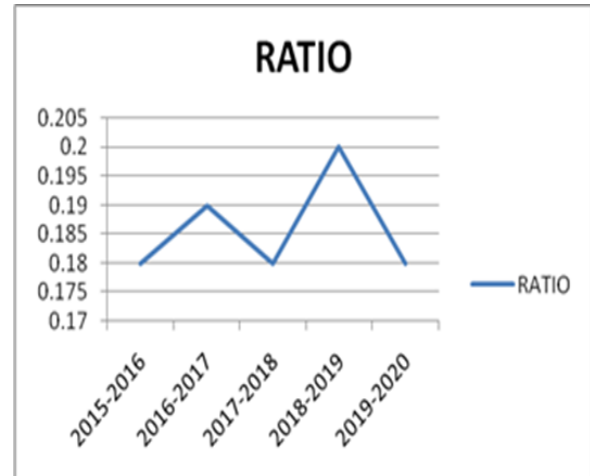


CHART SHOWING TREND ANALYSIS FOR PROPRIETARY RATIOS



VII.FINDINGS

- The current ratio indicates greater margin of safety. Therefore, the company has to improve its current assets and maintain minimum balance of current finished goods for further years.
- The liquid ratio was satisfactory only after the period of 2019-2020.
- The gross profit was increasing in trend because of decreasing in cost of goods sold.
- The net profit ratio was fluctuating in trend because increase in sales turnover. In order to increase the net profit ratio, company has to increase its selling price and decrease the operating expenses.
- Inventory turnover ratio was satisfactory. As the company has sufficient stock it can convert it into finished good.
- Fixed asset turnover ratio was increased in trend that will favourable to management.
- Working capital turnover ratio was decreased in due to increase of net working capital in the succeeding years.
- Schedule of changes in working capital shows each succeeding year is increasing and decreasing in current liabilities as compared with its previous year during the period of 2016-2020.

VIII.CONCLUSION

The analysis of the company’s profitability and liquidity position for the year 2016-2020 are revealed. The study will enable the company to plan for future

financial analysis of the company's profitability over a period of five years. The company is in a situation to maintain a balance working capital because excess capital will result in unnecessary accumulation of inventories, defectives credit policy, etc., and inadequate working capital will affect the growth and the net profit of the organization. It is very clear that the study will be very helpful to the organization for improving the liquidity and profitability and to achieve its competitive advantage.

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