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A STUDY OF WORKING CAPITAL MANAGEMENT OF BIRLA CORPORATION LIMITED



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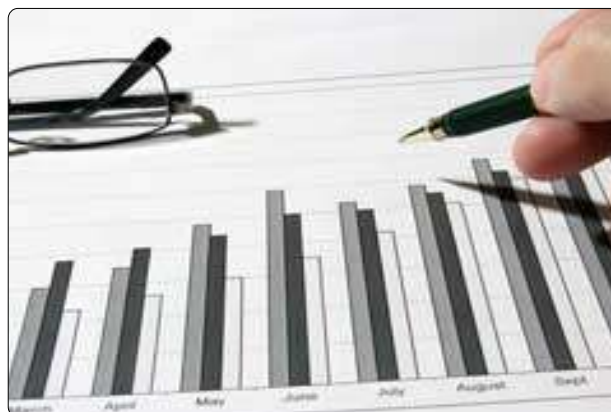
ABSTRACT:

The prime objective of this paper is to study the Working Capital Management of Birla Corporation Limited. Working Capital is important for any firm or organization. No firm can run successfully without adequate Working Capital. Various Working Capital ratios are calculated for this study. In this study secondary data are collected for 10 years from 2005-06 to 2014-15.

KEYWORDS: Working Capital, Current Assets, Current Liabilities, Net Sales, Debtors, BCL (Birla Corporation Ltd.)

INTRODUCTION:

Working capital is the blood of every business entity. Business firm cannot make progress without adequate working capital. Working capital is the capital available for conducting the day-to-day operations of a firm; normally the excess of current assets over current liabilities. Working capital management is the management of all aspects of both current assets and current liabilities, to minimize the risk of insolvency while maximizing the return on assets. Financial managers identify adequate working capital for survival of firm. It is required by a firm to maintain its liquidity, solvency and profitability.



OBJECTIVE OF THE STUDY:

The main objective of this study is to study working capital management of selected unit.

1. To find out working capital ratios of Birla Corporation Limited.
2. To analyze the working capital management of Birla Corporation Limited.

DATA COLLECTION:

Secondary data are collected for this study. Data are collected from annual reports of Birla Corporation Limited. Data are collected for 10 years from 2005-06 to 2014-15.

SIGNIFICANT OF STUDY:

The study findings will help the management through improving on its working capital management. It will be useful to future researchers to widen their understanding in matters of working capital management as a tool for career development. The findings will be also useful to students, companies and other interested parties who may need to understand more about working capital management.

LIMITATION OF THE STUDY:

1. Secondary data are collected for the study. Secondary data has its own limitations.
2. Data are collected for only ten years.
3. This study included only one company. Hence its finding may not significantly apply to other firms of cement industry.

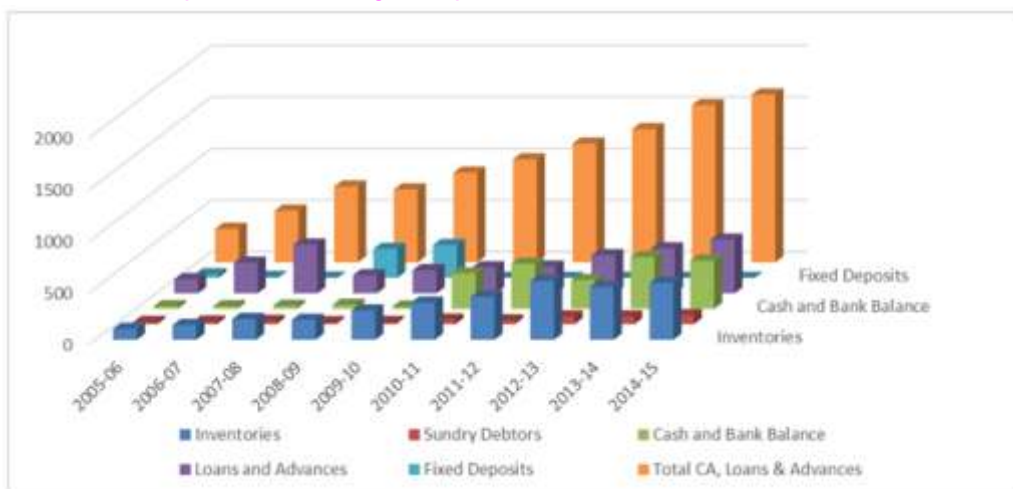
DATA ANALYSIS OF BCL:

CURRENT ASSETS OF BCL:

Table No. - 1 Showing Components of Current Assets of BCL (Rs. In Cr.)

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Inventories	105.72	142.59	200.45	192.88	283.71	359.6	417.1	570.14	515.11	552.11
Sundry Debtors	22.48	27.22	31.71	20	22.15	44.07	37.25	74.96	74.71	88.13
Cash And Bank Balance	25	24.96	28.94	38.73	21.09	343.38	438.57	278.63	501.08	466.77
Loans And Advances	137.43	297.89	473.54	175.73	225.56	252.72	259.72	369.62	435.71	521.09
Fixed Deposits	34.23	9.43	2.42	280.99	318.19	0	0	0	0	0
Total CA, Loans & Advances	324.86	502.09	737.06	708.33	870.7	999.77	1,152.64	1,293.35	1,526.61	1,628.10

Graph - 1 Showing Components of Current Assets of BCL



The above table no.1 shows components of current assets of BCL from 2005-06 to 2014-15. Total current assets include inventory, sundry debtors, cash and bank balance, loans and advances and fix deposits .Total current assets are increased to 1628.10 in 2014-15 from 324.86 in 2005-06. From above table it can observed that current assets are highly increased from 2005-06 to 2014-15. It shows increasing trend in current assets during study period.

CURRENT RATIO OF BCL:

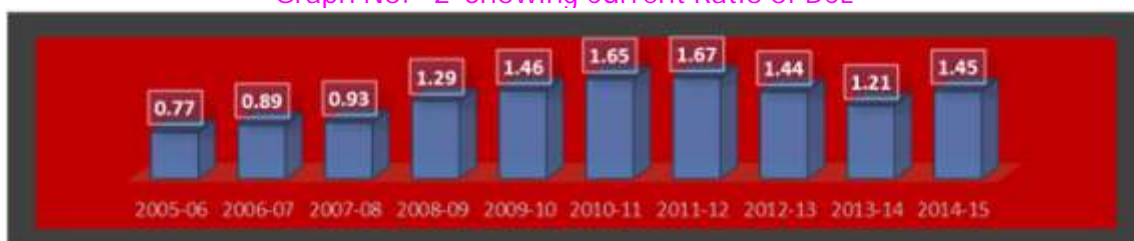
Current Ratio = Current Assets, Loans & Advances / Current Liabilities & Provisions A current ratio 2:1 indicates a highly solvent position. A current ratio of 1.33:1 is considered by banks as the minimum acceptable level for providing working capital finance. A very high current ratio will have adverse impact on the profitability of the firm. A high current ratio due to the piling up of inventory, inefficiency in collection of debtors, high balances in cash and bank accounts without proper investment.

Table No. - 2 Showing current ratio of BCL

(Rs. in Cr.)

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total CA	324.86	502.09	737.06	708.33	870.7	999.77	1,152.64	1,293.35	1,526.61	1,628.10
Total CL	422.04	562.57	788.5	547.05	597.01	607.43	691.89	900.16	1,261.63	1,124.54
Current Ratio	0.77	0.89	0.93	1.29	1.46	1.65	1.67	1.44	1.21	1.45

Graph No. - 2 Showing Current Ratio of BCL



The above table no.2 showing current ratio of BCL from 2005-06 to 2014-15. Current Ratio was lowest in 2005-06 and it was highest in 2011-12 during study period. Current ratio shows increasing trend during 2005-06 to 2011-12. It shows fluctuating trend during the last three years of study.

WORKING CAPITAL TURNOVER RATIO OF BCL

Working Capital Turnover ratio = Sales/ Working Capital

This ratio helps to measure the efficiency of the utilization of net working capital. It signifies that for an amount of sales, a relative amount of working capital is needed. If any increase in sales is contemplated, working capital should be adequate. This ratio helps management to maintain the adequate level of working capital.

Table No. - 3 Showing networking capital turnover ratio of BCL (Rs. in Cr.)

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net Sales	1,218.44	1,571.04	1,730.82	1,802.85	2,171.74	2,153.85	2,286.90	2,602.96	3,016.35	3,209.89
Net Working Capital	-97.18	-60.48	-51.44	161.28	273.69	392.34	460.75	393.19	264.98	503.56
Working Capital Turnover Ratio	-12.54	-25.97	-33.64	11.18	7.94	5.49	4.96	6.62	11.38	6.37

Graph No. - 3 showing networking capital ratio of BCL



The above table no.3 showing networking capital ratio of BCL from 2005-06 to 2014-15. First three years of study period this ratio was negative. This ratio showed highly fluctuating trend during the study period. It was highest in 2013-14 and lowest in 2007-08.

DEBTORS TURNOVER RATIO OF BCL

Debtors Turnover Ratio = Credit Sales/ Average Debtors

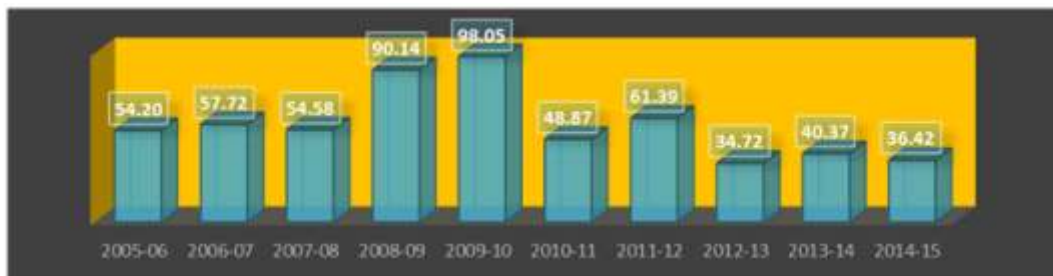
This ratio shows the extent of trade credit granted and the efficiency in the collection of debts. The lower the debtors to sales ratio, the better trade credit management and better the liquidity of debtors.

Table No. - 4 Showing debtors turnover ratio of BCL

(Rs. in Cr.)

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Sales	1,218.44	1,571.04	1,730.82	1,802.85	2,171.74	2,153.85	2,286.90	2,602.96	3,016.35	3,209.89
Sundry Debtors	22.48	27.22	31.71	20	22.15	44.07	37.25	74.96	74.71	88.13
Debtors turnover Ratio	54.20	57.72	54.58	90.14	98.05	48.87	61.39	34.72	40.37	36.42

Graph No. - 4 Showing debtor turnover ratio of BCL



The above table no.4 showing debtors turnover ratio of BCL from 2005-06 to 2014-15. The ratio was highest in 2009-10 and it was lowest in 2012-13. This ratio showed fluctuating trend during the study period.

DEBTORS COLLECTION PERIOD OF BCL

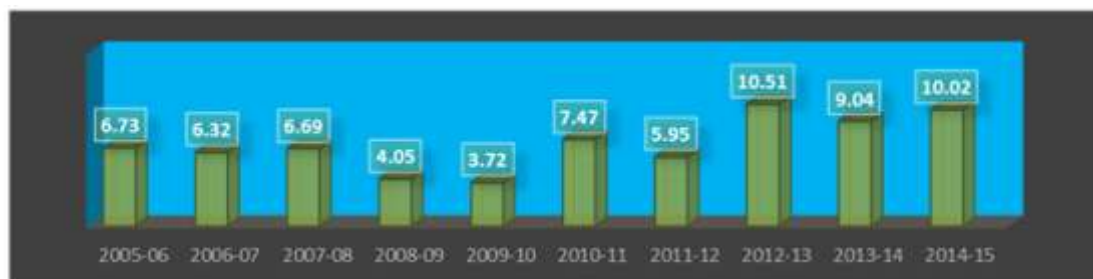
Debtors collection period = Debtors/sales * 365 or debtors turnover ratio * 365

It measures how long it take to collect amount from debtors. The actual collection period can be compared with the stated credit terms of the company. If it is longer than those terms, then this indicates some insufficiency in the procedures for collecting debts.

Table No. - 5 Showing debtor's collection period of BCL

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Average No. Of Working Days	365	365	365	365	365	365	365	365	365	365
Debtors Turnover Ratio	54.2	57.72	54.58	90.14	98.05	48.87	61.39	34.72	40.37	36.42
Average Collection Period	6.73	6.32	6.69	4.05	3.72	7.47	5.95	10.51	9.04	10.02

Graph No. - 5 Showing Average Debtors Collection period of BCL



The above table no.5 showing average collection period of BCL from 2005-06 to 2014-15. Collection period were very low during the study period. It was highest in 2012-13 and lowest in 2009-10. It showed fluctuating trend during study period.

INVENTORY TO WORKING CAPITAL RATIO OF BCL

This ratio indicates firm's operation efficiency. A high ratio means that a firm is carrying too much inventory in stock. A low ratio means firm has insufficient inventories.

Table No.6 showing inventory to working capital ratio of BCL

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Inventory	105.72	142.59	200.45	192.88	283.71	359.6	417.1	570.14	515.11	552.11
Net working capital	-97.18	-60.48	-51.44	161.28	273.69	392.34	460.75	393.19	264.98	503.56
inventory to working capital ratio	-1.09	-2.36	-3.90	1.20	1.04	0.92	0.91	1.45	1.94	1.10

Graph no.6 showing inventory to working capital ratio of BCL



The above table no.6 showing inventory to working capital ratio of BCL from 2005-06 to 2014-15. First three years of the study this ratio was negative. This ratio was highest in 2013-14 and lowest in 2007-08. This ratio also showed fluctuating trend during study period.

CURRENT ASSETS TURNOVER RATIO OF BCL

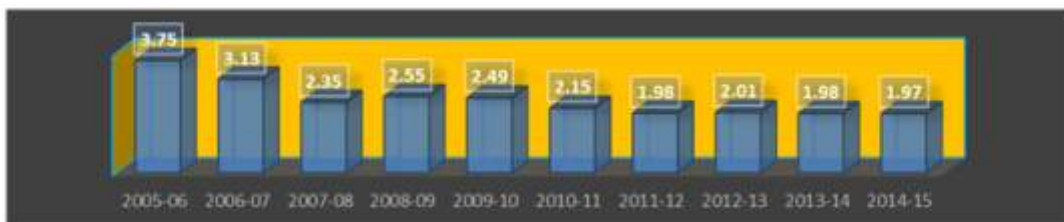
Current assets turnover ratio= sales/current assets

This ratio indicates the efficiency with which current assets turn into sales. A higher ratio implies by and large a more efficient use of funds. Thus a high turnover rate indicates reduced lock-up of funds in current assets. An analysis of this ratio over a period of time reflects working capital management of a firm.

Table no.7 Showing current assets turnover ratio of BCL

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Sales	1,218.44	1,571.04	1,730.82	1,802.85	2,171.74	2,153.85	2,286.90	2,602.96	3,016.35	3,209.89
Total CA	324.86	502.09	737.06	708.33	870.7	999.77	1,152.64	1,293.35	1,526.61	1,628.10
current assets turnover ratio	3.75	3.13	2.35	2.55	2.49	2.15	1.98	2.01	1.98	1.97

Graph no.7 Showing current assets turnover ratio of BCL



The above table no.7 showing current assets turnover ratio of BCL from 2005-06 to 2014-15. Inventory to current assets ratio was highest in 2012-13 and it was lowest in 2007-08 and in 2008-09. This ratio was fluctuated during the study period.

INVENTORY TURNOVER RATIO OF BCL

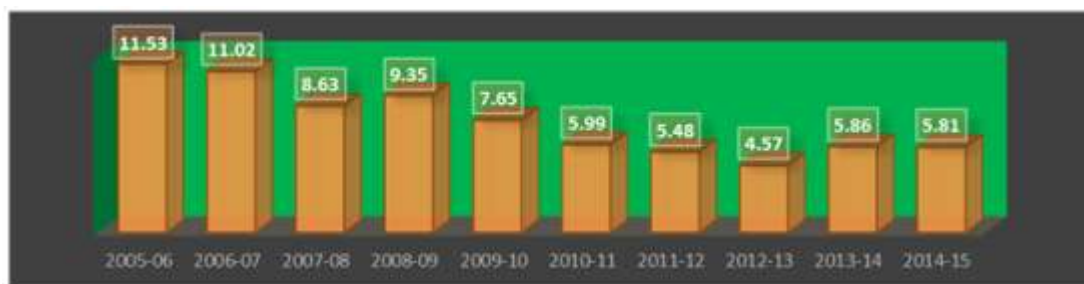
Inventory turnover ratio= sales/inventory

This ratio indicates the effectiveness and efficiency of the inventory management. This ratio shows how speedily the inventory is turned into account receivable through sales. The higher the ratio shows efficiency in inventory management.

Table no.8 showing inventory turnover ratio of BCL

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net Sales	1,218.44	1,571.04	1,730.82	1,802.85	2,171.74	2,153.85	2,286.90	2,602.96	3,016.35	3,209.89
Inventory	105.72	142.59	200.45	192.88	283.71	359.6	417.1	570.14	515.11	552.11
inventory turnover ratio	11.53	11.02	8.63	9.35	7.65	5.99	5.48	4.57	5.86	5.81

Graph no.8 Showing inventory ratio of BCL



The above table no.8 showing inventory ratio of BCL from 2005-06 to 2014-15. This ratio was highest in 2005-06 and it was lowest in 2012-13. This ratio was not stable during the study period and showed fluctuating trend.

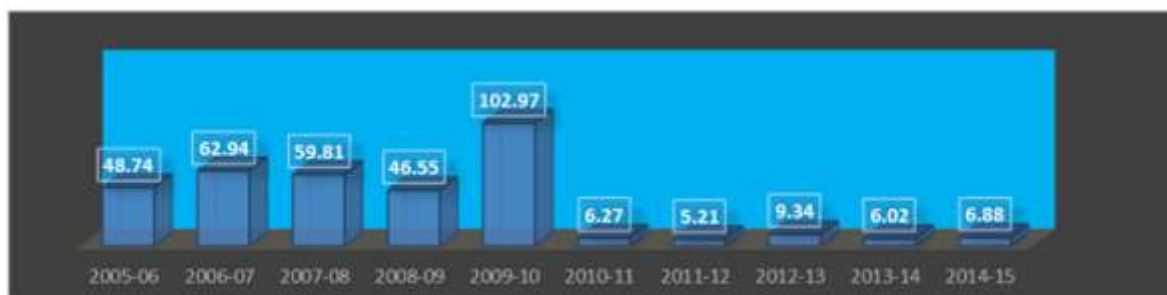
CASH TURNOVER RATIO OF BCL

This ratio indicates that how effective a company is utilizing its cash. Higher cash turnover ratio is better than lower one. It measure how many time per year it replenishes its cash with sales.

Table No.9 Showing cash turnover ratio of BCL

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net Sales	1,218.44	1,571.04	1,730.82	1,802.85	2,171.74	2,153.85	2,286.90	2,602.96	3,016.35	3,209.89
Cash and Bank Balance	25	24.96	28.94	38.73	21.09	343.38	438.57	278.63	501.08	466.77
cash turnover ratio	48.74	62.94	59.81	46.55	102.97	6.27	5.21	9.34	6.02	6.88

Graph no.9 showing Cash turnover ratio of BCL



The table no.9 showing cash turnover ratio of BCL form 2005-06 to 2014-15. This ratio was highly fluctuated during the study period. It was highest in 2009-10 and lowest in 2011-12.

FINDINGS OF THE STUDY

1. Total Current assets continuously increased during the study period. Total current assets are increased 501 percentage from 2005-06 to 2014-15, which indicates extensive growth of BCL. Sundry debtors are very low in total current assets, which is good for firm.
2. Current ratio 2:1 indicates a highly solvent position of firm. A current ratio of 1.33:1 is considered by banks as the minimum acceptable level for providing working capital finance. During study period we found that current ratio was not up to 2:1. Which shows BCL was not in highly solvent position during study period. First three years of the study total current liabilities are higher than current assets which means it's hard for the company to meet its liabilities in time as when they are due.
3. First three years of the study period working capital turnover ratio was negative which indicate inefficiency of management in working capital. In 2008-09 and 2013-14, this ratio is high related to other years of study period which indicate efficiency of the utilization of working capital.
4. Debtors' turnover ratio was good during the last three years of the study, which show efficiency in collection of debts during this three years.
5. Debtors collection period are very low during the study period, which is very good sign for BCL. The collection period raging between 3.72 to 10.51. This ratio indicates efficiency in collection of debtors.
6. Inventory to working capital ratio is quite stable during the last seven years of study. First three years of study this ratio was negative which indicate inefficiency in management of inventory comparing other years of study period.
7. Current assets turnover ratio shows efficiency with which current assets turn into sales. In 2005-06 BCL is very efficient in turn current assets in to sales.
8. Inventory turnover ratio is good during the study period. In the year 2005-06 and 2006-07 it was

quite good comparing other years of study period.

9. Cash turnover ratio is raging between 5.21 to 102.97. It is highly fluctuated during the study period. First five years of the study period it is quite impressive for BCL and it is very in last five year of study.

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