

A Study on Working Capital Management Through Ratio Analysis with Reference To Ultratech Cement Ltd

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ABSTRACT

Working capital is nerve system of any business. Without proper working capital management company cannot achieve its objectives and not possible to maintain financial soundness. So in this perspective present study is undertaken to study working capital management through ratio analysis at Ultratech cement ltd. From the present study it is found that company financial position was seeing to be sound because the company tries to increase its production and also net profit.

Keywords: Working capital management, Ratio Analysis, Ultratech cement ltd.

1. INTRODUCTION

One of the most important areas in the day to day management of the firm is the management of working capital. Working capital refers to the funds invested in the current assets i.e. investment in stock, sundry debtors, cash and others current are essential to use fixed assets profitability for e.g.: A machinery cannot be used without raw materials. The investments on the purchase of raw material are identified as working capital. It is obvious that a certain amount of the fund is always tied up in raw material inventories. Working capital may be regarded as lifeblood of a business. Its effective provision can do much ensure the success of the business, while its inefficient management can lead not only loss of the profits but also the ultimate downfall of what otherwise might be considered as promising concern.

- Working capital typically means the firm's holding of current or short-term assets such as cash, receivables, inventory and marketable securities.
- These items are also referred to as circulating capital
- Corporate executives devote a considerable amount of attention to the management of working capital.

The importance of working capital in commercial under takings can never be over emphasized. A concerned needs funds for its day to day running. A large amount of working capital would mean that the company has idle funds the various study is conducted by the bureau of public enterprises have shown that one of the reasons for poor performance of the public sector undertaking in our country has been the large amount of the funds locked up in working capital. Since funds have a cost, the company has to pay huge amount as interest on funds. This results in over the capitalization. Over the capitalization implies that company has too large funds for its requirements, resulting in low rate of the return, a situation which implies a less than optimal use of resources. A firm has therefore, to be very careful in estimating its working capital requirements.

2. OBJECTIVES OF THE STUDY

- To understand the concept of working capital and its importance.
- To determine the amount of the working capital employed by Ultratech cement ltd.
- To analyze the working capital management financial performance of the Ultratech cement ltd.
- To offer suggestions based on findings of the study.

PERIOD AND SCOPE OF STUDY

For the purpose of conducting ratio analysis of working capital, a period of five years for 2010-11 to 2014-15 is taken and the study id interred the components of current assets and current liabilities only and no attempt is made to analyze profitability in relation to working capital.

3. STATEMENT OF THE PROBLEM

Ultratech cement ltd is the largest cement manufacturing company in India. The production of cement is annually related to the increasing the demand for cement on account enhanced infrastructure and housing related activities, which witnessed an encouraging trend in the current century. Being large manufactures of cement whether ultratech cement ltd managed the working capital in a way that how the investments in current assets was made and the related financing through current liabilities are subject matters for discussion. Hence it is attempted to analyze the working capital aspects of the selected unit.

4. RESEARCH METHODOLOGY

To achieve the aforesaid objectives data is gathered from secondary sources, like annual reports, journals, and related other research papers.

DATA ANALYSIS

The collected data is analyses through ratio analysis and only important tables are used for data discussion as per research need and which are taken for data analysis.

**. CURRENT ASSETS
(RS. IN CRORE)**

YEARS	INVENTORIES	SUNDRY DEBTORS	CASH AND BANK BALANCE	LOANS AND ADVANCES	TOTAL CURRENT ASSETS
2010-11	1956.52	602.29	144.79	1055.10	3758.70
2011-12	2035.94	765.96	188.19	1171.11	4123.33
2012-13	2350.47	1017.24	142.66	1178.77	4689.14
2013-14	2368.36	1281.02	277.50	1341.45	5268.33
2014-15	2751.41	1203.19	213.94	1220.90	5389.44

Sources: Annual Report Ultratech Cement ltd 2010-2015

TABLE NO 1

It is found out table in 1 that the table inventories showed an increasing trend during the study period and it was increased from Rs.1956.52 crores in 2010-11 to Rs.2751.41 crores in 2014-15. The total currents assets also showed an increasing trend and, it was increased from Rs.3758.70 crores in 2010-11 to Rs.5389.44 crores in 2014-15.

**CURRENT LIABILITIES
(RS. IN CRORE)**

YEARS	SUNDRY CREDITORS	ADVANCES FROM CUSTOMERS AND OTHER DEPOSITS	INTEREST ACCRUED BUT DUE ON LOANS	LIABILITIES FOR CAPITAL GOODS	UN-PAID DIVIDEND AND P.F	SHORT TERM BORROWINGS	TOTAL CURRENT LIABILITIES
2010-11	1678.21	619.64	76.30	nil	2.36	nil	2376.51
2011-12	2089.70	1186.23	62.12	29.47	2.93	159.94	3530.39
2012-13	2193.43	1318.26	79.39	193.48	3.91	568.76	4357.23
2013-14	2424.22	1468.35	78.36	190.86	6.30	379.20	4565.29
2014-15	2738.97	1732.44	126.61	242.92	5.79	1898.08	6744.76

Sources: Annual Report Ultratech Cement ltd 2010-2015

TABLE NO 1

It is shown in the table-2 that current liabilities has shown an increasing trend from Rs.2376.51 crores in 2010-11 to Rs. 6744.76 crores in 2014-15. The current ratio is financial ratio that shows the proportion of current assets to current liabilities. The current ratio of the company in given below in the table

Current Ratio = Current Assets/Current Liabilities

**CURRENT RATIO
(RS. IN PERCENT)**

PARTICULAR	2011-12	2012-13	2013-14	2014-15	2015-2016
Current assets	3758.70	4123.33	4689.14	5268.33	5389.44
Current liabilities	2376.51	3530.39	4357.23	4565.29	6744.76
Ratios	1.58:1	1.16:1	1.07:1	1.15:1	0.80

Sources: Annual Report Ultratech Cement ltd 2010-2015

TABLE NO 2

It is observed in table 3.10 that the current ratio for all years is below the rule of thumb which is two. An analysis of it showed that the liquidity position of the company non-satisfactory. It was 1.58 in the year 2010-11 last year if was 0.80 showed that the liquidity position of the company is non-satisfactory. Debtor’s turnover ratio is arrived by dividing sales by debtors. The turnover ratio of the company given below in the table.

Debtors Turnover Ratio: = Sales/Average Trade Debtors

**DEBTORS TURNOVER RATIO
(RS. IN PERCENT)**

PARTICULAR	2011-12	2012-13	2013-14	2014-15	2015-2016
Sales	14858.60	20433.09	22699.96	22803.13	25719.17
Debtors	602.29	765.96	1017.27	1281.02	1203.19
Ratios (Times)	24.67	26.67	22.31	17.80	21.37

Sources: Annual Report Ultratech Cement ltd 2010-2015

TABLE NO 3

It is observed from the table 4 that the debtor’s turnover ratio showed a fluctuating trend during the study period. It observed a variation from the 17.80 in the year 2013-14 to 26.67 in the year 2011-12. Average collection period is the approximate amount of time it takes for a business to receive payments owed. It is arrived at a dividing number of days in a period by debtor’s turnover ratio of the company given below the table.

Average Collection Period: =365/Debtors Turnover Ratio

**AVERAGE COLLECTION PERIOD
(RS. IN DAYS)**

PARTICULAR	2011-12	2012-13	2013-14	2014-15	2015-2016
No of days in year	360	360	360	360	360
Debtors turnover ratio	24.67	26.67	22.31	17.80	21.37
Days	15	14	16	21	17

Sources: Annual Report Ultratech Cement ltd 2010-2015

TABLE NO 4

It was found out in table 5 that average collection period showed a fluctuation during the study period. It was 15 days in the year 2010-11 and decreased to 14 days in the year 2011-12. It showed an overall variation from the 14 days in 2011-12 to 21 days in 2013-14. Creditor’s turnover ratio is calculated by dividing purchases by creditors. The creditor’s turnover ratio of the company is presented in the table below.

Creditors Turnover Ratio: = Net Annual Purchases/Average Trade Creditors

**CREDITORS TURNOVER RATIO
(RS. IN PERCENT)**

PARTICULAR	2011-12	2012-13	2013-14	2014-15	2015-16
Purchase	6475.49	2576.30	3146.02	3327.30	3380.20
Creditors	1678.21	2089.70	2193.43	2424.22	2738.97
Ratio (Time)	3.85	1.23	1.43	1.37	1.38

Sources: Annual Report Ultratech Cement ltd 2010-2015

TABLE NO 5

It was found out in Table 6 showed that creditor’s turnover ratio is fluctuating during the study period. It has shown the variation form 1.23 in year 2011-12 to 3.85 in the year 2010-11.

Average payment period in approximate period it taken for a company to pay to the creditors. It is calculated by dividing the period by the creditor’s turnover ratio, as shown below in the table.

Average Payment Period: =Number of Days in the Year/Creditors Turnover Ratio

**AVERAGE PAYMENT PERIOD
(RS. IN DAYS)**

PARTICULAR	2011-12	2012-13	2013-14	2014-15	2015-2016
No of days in year	360	360	360	360	360
Creditors turnover ratio	3.85	1.23	1.43	1.37	1.38
Days	93	292	251	262	260

Sources: Annual Report Ultratech Cement ltd 2010-2015

TABLE NO 6

It is found out the table 7, that the table average payment period as shown a fluctuating during the study period. It has shown the variation from 93 days in 2010-11 to 292 days in 2011-12. It was increased to 3 times during the year 292 days. And stood at 260 days at the end of the study period.

Inventory Turnover Ratio: = Cost of Goods Sold/ Average Inventory

**INVENTORY TURNOVER RATIO
(RS. IN TIMES)**

PARTICULAR	2011-12	2012-13	2013-14	2014-15	2015-2016
Sales	14858.60	20433.09	22699.96	22803.13	25719.17
Closing inventory	1956.52	2035.94	2350.47	2368.36	2751.41
Ratio (Times)	7.60	10.03	9.65	9.63	9.35

Sources: Annual Report Ultratech Cement ltd 2010-2015

TABLE NO 7

It is observed in table 8 that the inventory turnover ratio of 7.60 times in 2010-11 us increased 9.35 times in 2014-15. They very good turnover of 10.03 times is observed in the year 2011-12 in spilt of increase in closing inventory during the study period, the inventory turnover ratio get improved. It is mainly due to increased sales performance compare to the inventory. Quick assets and the assets which are highly liquid Quick assets consist of cash, debtors and loans and advances. The quick assets of the table ultra tech cement limited are given below in the table.

QUICK ASSETS

(RS. IN CRORE)

YEARS	SUNDRY DEBTORS	CASH AND BANK BALANCE	LOANS AND ADVANCES	TOTAL QUICK ASSETS
2011-12	602.29	144.79	1055.10	1802.18
2012-13	765.69	188.89	1171.11	2087.39
2013-14	1017.24	142.66	1178.77	2338.67
2014-15	1281.02	277.50	1341.45	2889.97
2015-16	1203.19	213.94	1220.90	2638.03

Sources: Annual Report Ultratech Cement ltd 2010-2015.

TABLE NO 8

It was found out the table 9 that quick assets have shown as increasing trend except for the year 2014-15. Quick assets increased from Rs. 1802.18 Crores in 2010-11 to Rs 2889-97 Crores in 2013-14 and in the table year in decreased to Rs.2638.03 Crores. The sundry debtors showed an increasing trend except for the year 2014-15. It varies from Rs. 602.29 Crores in 2010-11 to Rs. 1281.02 Crores in 2013-14 cash and bank balances showed a fluctuating during at the study period. It was recorded lowest Rs. 142.66 Crores in 2012-13 and highest Rs.277.50 Crores 2013-14. Loans and advances showed a gradual increasing trend during the study period except for the last year. Quick liabilities comprise of creditors, interest a liability for capital goods and borrowings. There are liabilities which are to be paid within the short period of time. The quick liabilities of the companies are shown in the table below.

QUICK LIABILITIES

(RS. IN CRORE)

YEARS	SUNDRY CREDITORS	INTEREST ACCRUED BUT NOT DUE	LIABILITIES FOR CAPITAL GOODS	SHORT-BORROWING	TOTAL QL
2011-12	1678.21	76.30	Nil	Nil	1754.51
2012-13	2089.70	62.12	29.47	159.94	2341.23
2013-14	2193.43	79.39	193.48	568.76	3035.78
2014-15	2424.22	78.36	190.86	379.20	3072.64
2015-16	2738.93	126.16	242.92	1898.08	5006.58

Sources: Annual Report Ultratech Cement ltd 2010-2015

TABLE NO 9

It was observed from the table 10 that the quick liability has shown an increasing trend during the study period. It was increased from Rs. 1754.51 Crores in year 2010-11 to Rs. 5006.58 Crores in the year 2014-15 sundry creditors showed an increasing trend during the study period. Interest accrued but not showed a fluctuating trend. It showed a variation from goods also showed a fluctuating trend from “Nil” in the year 2010-11. Rs. 242.92 Crores in the year 2014-15. Short term borrowing also fluctuated the study period. There is no short term borrowing in the 2010-11 which stood at Rs. 1898.08 Crores at the end study period.

Quick Ratio: Quick Ratio = Quick Assets / Quick Liabilities

**QUICK RATIO
(RS. IN PERCENT)**

PARTICULAR	2011-12	2012-13	2013-14	2014-15	2015-2016
Quick assets	1802.18	2087.39	2338.67	2889.97	2638.03
Quick liabilities	1754.51	2341.23	3035.78	3072.64	5006.58
Ratios	1.30:1	0.89	0.77	0.94	0.53

Sources: Annual Report Ultratech Cement ltd 2010-2015.

TABLE NO 10

It is shown in the table11 that the quick ratio has showed a decreasing trend during the study period, except for the year 2013-14. It was 1.30 percent in 2010-11 and 0.53 percent in 2014-15. In none of the years quick ratios met standard of 1.5, which showed that the liquidity position of the company was at satisfactory.

5. SUMMARY AND FINDINGS

- The current ratio of the company lies between 1.58 and 0.80, which is indication of not a satisfactory liquidity position.
- The debtor’s turnover ratio got reduced from 24.67 times to 21.37 times to have a slight increase in the average collection period. This was increased from 15 days to 17 days during the study period.
- The decrease creditors turnover ratio from 3.85 times to 1.38 times resulted in stretching accounts payable from 93 days to 260 days during the study period.
- The inventory turnover ratio of 7.6 times increased to 9.35 times shoed better inventory management.
- There is profound increase of quick assets and quick liabilities resulted in a quick ratio of 2.30 and the beginning which reduced to 0.53. It is an indication of more than proportion of increase in quick liabilities when compare to quick assets. The liquidity performance with the analyses of quick ratio was not satisfactory.
- The company manages its increased working capital requirements by increased financing through current under study, ultratech cement liabilities. And in the last year of study, the networking capital was negative.
- The company under study, ultratech cement ltd showed better performance in inventory and receivables aspects. But over stretching of accounts payable is identified as the issue faced by lenders. The company managed its working capital requirements and depending more on financing in current liabilities, which resulted in unsatisfactory liquidity performances.

6. CONCLUSION

A study working capital analysis of ultratech cement limited showed better working capital performance of initial in the period of study and in the last year the negative working capital showed it excess financing through current liabilities. Inspects of a performance in inventory and receivables components it is not sufficient enough to finance the decreasing working capital requirements. Dealing in the payables cannot be taken as the permanent method manages the increasing working capital method.

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