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A Study On Working Capital Management With Ratio Analysis Of Span Pump Pvt Ltd

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ABSTRACT: In this study I try to explore the impact of working capital management on the span pump profitability. One of the leading manufacturing corporations in India. A focus of th0is study to how company mange his working capital on basis of cash, inventory turnover, account receivable, account payable, cash conversion cycle this factors are how it influencing

KEY WORD: Working capital, operating cycle, inventory management, cash conversion.

1.INTRODUCTION

Management of working capital of an organization is very important as it will decide the amount of current asset and current liability that are to be mention in business. Amount of working capital set the various policies in business like purchasing, general operation, financing expansion, and dividend. It shows liquidity position of business for management of short term asset and liability. Company's current asset are more than current liability that Time Company are have enough amount of fund for day to day operation and also satisfy short term depth. Span pump having good amount of working capital for satisfy short term depth for future operation. Current asset are more important than the management of fixed asset.

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1.1. NEED FOR STUDY:

Working capital required when company are newly open his business that time huge amount of working capital required to pay all day to day expenses. Because business are not earning profit. Business need procurement of fixed asset for long term purpose working capital needs. It was need for financial decision making to maximize shareholder wealth. Sales of good in market and recovery of money this required some time for that time working capital required.

1.2. OBJECTIVE OF STUDY:

- To study the various kind of components of current asset and current liability.
- To study financial strength and weaknesses of the span pump ptv. Ltd.
- To analyze financial position of company for last two year.
- To evaluation of account receivable and account payable.
- To evaluation of liquidity position and inventory turnover period.

1.3 RESEARCH METHODOLOGY:

Secondary data that have been already collected and readily available from the other source. Such data are cheaper and quickly obtain than primary data. Secondary data for the study of working capital management as following

- ➢ Annual report of the span pump put. Ltd. For the last two year.
- ➢ Official website of span pump. www.spanpumpsindia.com
- ➢ By published material such as text book which is necessary for this study.

1.6. Time scope:

1. Period under the study is for two year 2018-2019.

1.7. Limitation of the study:

1. Some document is available for top management only because of that all information is not collected.
2. Time is to be one of the measure limitations.
3. Frequently change in company’s financial decision.

2.1. REWIEW OF LITERATURE

Mahum bukhari and Mohammad malik (2014): they are examined working capital management with the some objectives positive and fractional relationship of average

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collection period and profitability while negative and fractional relation between profitability and average age of inventory and also found that relationship between average payment period and profitability is negative and significance.

Bagchi B and kharmrul B. (2012): to understand relationship between working capital management and company profitability. And also identify component of affecting company's profitability. Author also examine the cash conversion cycle and depth are negatively affecting on company's profitability. This are help for organist ion for future panning of working capital management.

3.1. RATIO:

Ratio are measuring overall performance of company and its working capital.

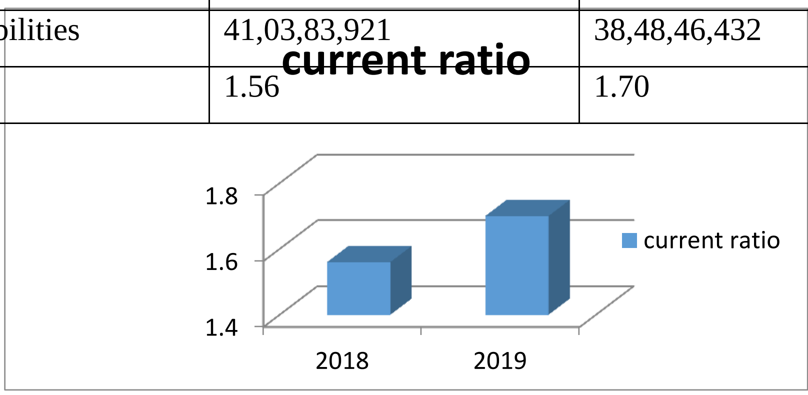
3.2. Current ratio:

It also called working capital ratio it measuring general liquidity and its most used for analysis of short term financial position and liquidity of organization. It shows relationship between current asset and current liability of firm. Standard current ratio is to 2:1.

3.2. CURRENT RATIO:

Current ratio: current asset / current liabilities

Particular	2018	2019
Current asset	64,02,08,915	65,67,79,006
Current liabilities	41,03,83,921	38,48,46,432
Ratio	1.56	1.70



Interpretation:

Normally expected that the current ratio is between 1.5-2.0 it shows efficient management of working capital. If current ratio goes down e.g. 1.0 it shows scarcity of cash. If current ratio is high it shows too much of working capital. Current ratio was improved because current

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liability pays off

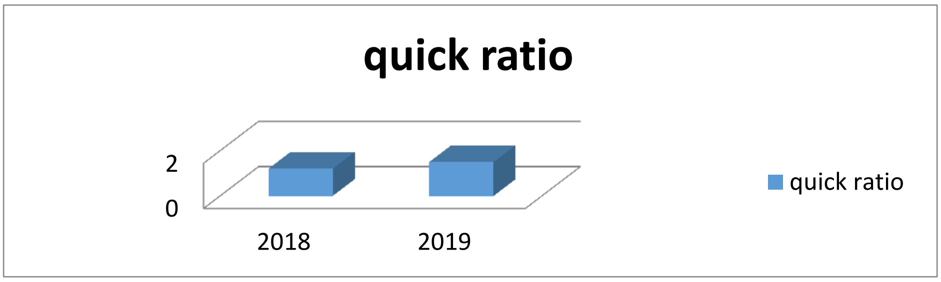
3.2. Quick ratio:

3.2. Quick ratio: Quick ratio: liquid current asset / liquid current liabilities

This ratio defines relationship between liquid asset and liquid liability. An asset is said to be quick convert in to cash without losing value. It shows that company has ability to meet current liability. Standard quick ratio is 1:1.

Particular	2018	2019

Interpretation:



Particular	2018	2019
Liquid current asset	49,27,75,239	60,43,31,449
Liquid current liabilities	41,03,83,921	38,48,46,432
Ratio	1.20	1.50

Quick ratio it was ideal is 1:1. It shows firm has ability to meet short term liability. But we will see in 2019 quick ratio was increased because of it shows company have too much cash in reserve. It means company has improving his cash collection or bills receivable period.

3.3. Account receivable ratio:

This ratio indicating that how many times any company turn its account receivable in to cash short period is better for organization it will reduce bad depths.

3.3. Account receivable ratio: Account receivable ratio: net sales / trade receivable

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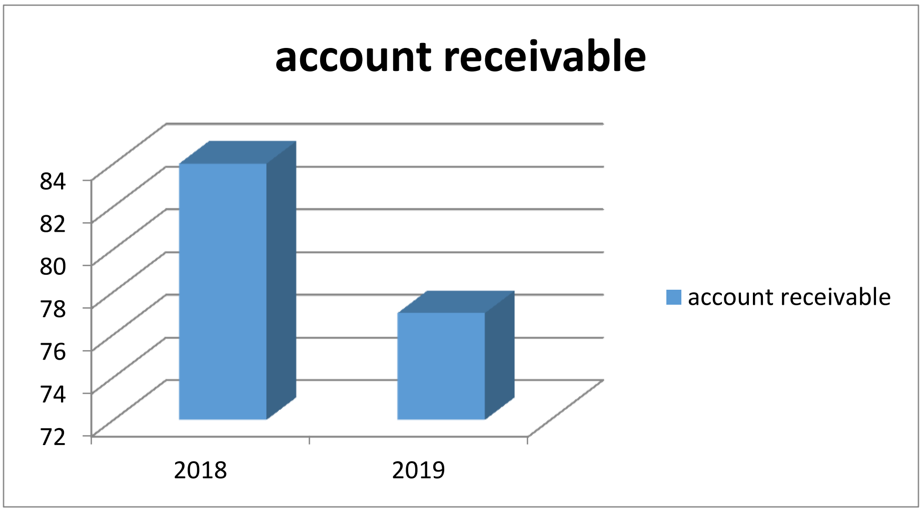
Net sales	118,25,29,862	115,25,29,862
Trade receivable	41,33,43,593	45,33,43,593
Ratio	2.8 x 30 = 84 days	2.5 x 30 = 77 days



INTERPRITATION: Trade receivable period for organization is good up to 30 days. But in 2018 and 2019 it's above more than 30 days. It shows company have bad credit policy firm face liquidity crunch it need to be reduce collection period.

3.4. Account payable ratio:

Amount paid by the organization after some time period under 30 days e.g. Business purchase good on credit. Period of this should moderate for goodwill creation.

3.4. ACCOUNT PAYABLE RATIO:

Account payable ratio: trade payable / cost of goods sold x 365 days

Particular	2018	2019
Trade payable	12,09,07,525	14,46,87,723
Cost of goods sold	105,22,05,934	108,38,92,059
Ratio	41 days	48 days

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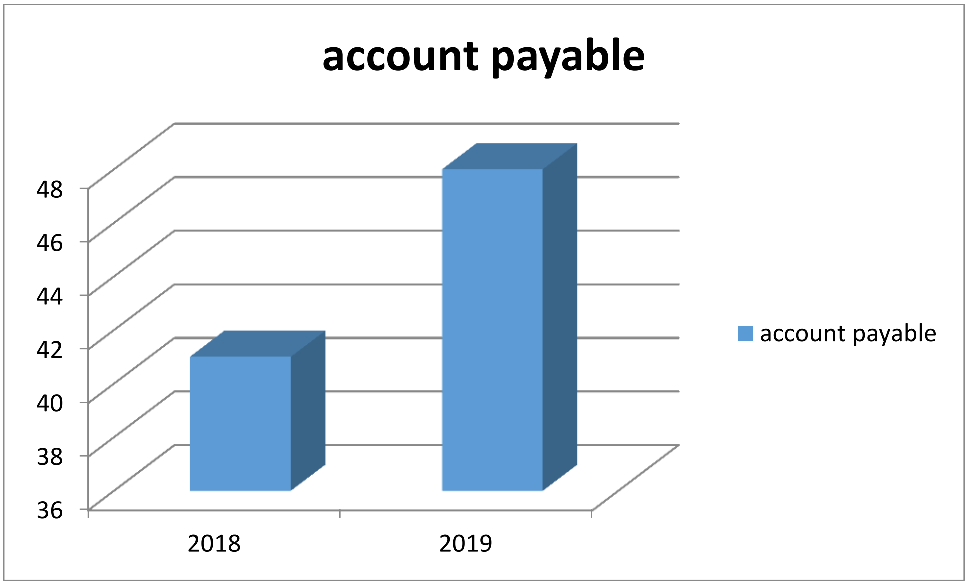

INTERPRETATION:

It shows that the account payable ratio is high, payment of creditors is quite promptly. Usually, vendors give time for payment up to 15, 30, 45 days. Its impacts on the company's current ratio company are pay off his liability.

3.5. Fixed asset turnover ratio:

This ratio measuring efficiency and profit earning capacity of the organization. Higher ratio it shows grater utilization of fixed asset. The lower ratio shows the underutilization of assets.

3.5. Fixed asset turnover ratio:

Fixed asset turnover ratio: cost of goods sold / net fixed asset

Particular	2018	2019
Cost of goods sold	108,38,92,059	105,22,05,934
Net fixed asset	5,53,79,138	5,13,77,644
Ratio	19.57	20.47

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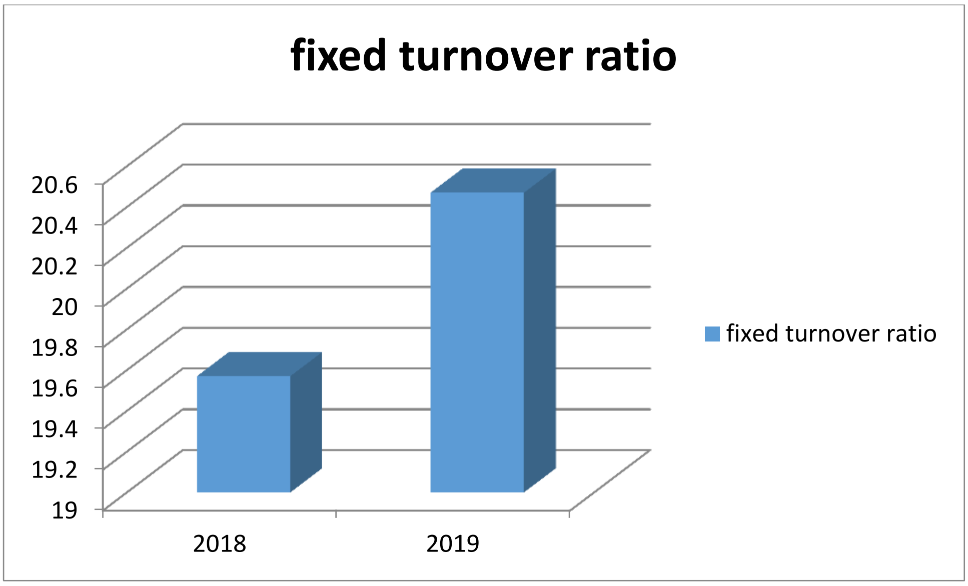

INTERPRETATION:

This ratio is important for the manufacturing industry. It will show the utilization of fixed assets. In year of 2018 & 2019 ratio is higher amount indicate sales generated per rupee invested in fixed asset.

3.6. Networking capital ratio:

Networking capital ratio measuring the firm's potential reserve for the fund. It shows the availability of the working capital in relation to the capital employed. It should not too excessive or not too less. It should optimum.

3.6.NETWORKING CAPITAL TURNOVER RATIO:

NETWORKING CAPITAL TURNOVER RATIO: NET SALE / NETWORKING CAPITAL

Particular	2018	2019
Net sale	118,25,29,862	115,88,51,169
Net working capital	22,98,24,994	27,19,32,574
Ratio	5.14	4.34

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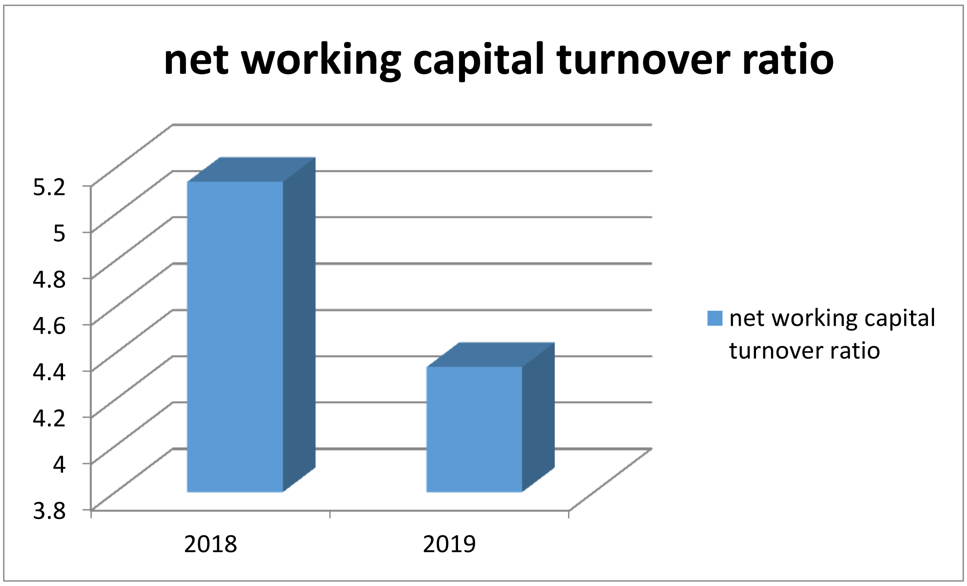

INTERPRETATION:

This ratio shows a comparison between net sales with net working capital. How any company uses his working capital for increasing sale. The firm should compare this ratio with another firm in the same industry to find out his position. Working capital ratio is reducing in 2019 because of the company hold high current asset because of cash at bank and account receivable is high.

3.7. Fixed asset turnover ratio:

This ratio measuring efficiency and profit earning capacity of the organization. Higher ratio it shows grater utilization of fixed asset. The lower ratio shows the underutilization of assets.

3.7. Fixed asset turnover ratio:

Fixed asset turnover ratio: cost of goods sold / net fixed asset

Particular	2018	2019
Cost of goods sold	108,38,92,059	105,22,05,934
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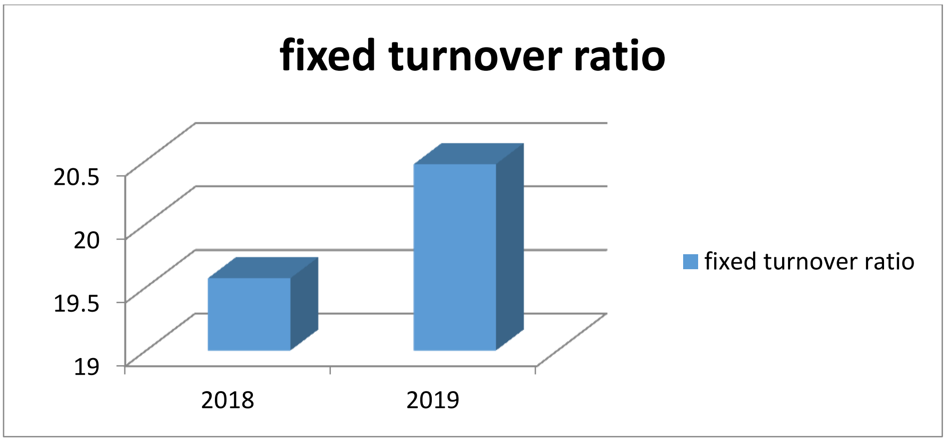

INTERPRETATION:

This ratio is important for the manufacturing industry. It will show the utilization of fixed assets. In year of 2018 & 2019 ratio is higher amount indicate sales generated per rupee invested in fixed asset.

3.8. Sales to capital employed:

It indicates a better utilization of capital employed, which will result in a higher amount of turnover. Lower ratio indicates that lower utilization of capital employed.

3.8. Sales to capital employed:

Sales to capital employed: net sales / capital employed

Particular	2018	2019
Net sales	118,25,29,862	115,88,51,169
Capital employed	29,06,79,870	34,06,06,731
Ratio	4.06	3.40

INTERPRETATION:

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It indicates better utilization of capital employed for making sales. Which will results in a higher amount of turnover? And a lower ratio indicates a lower utilization of capital employed.

Particular	2018	2019
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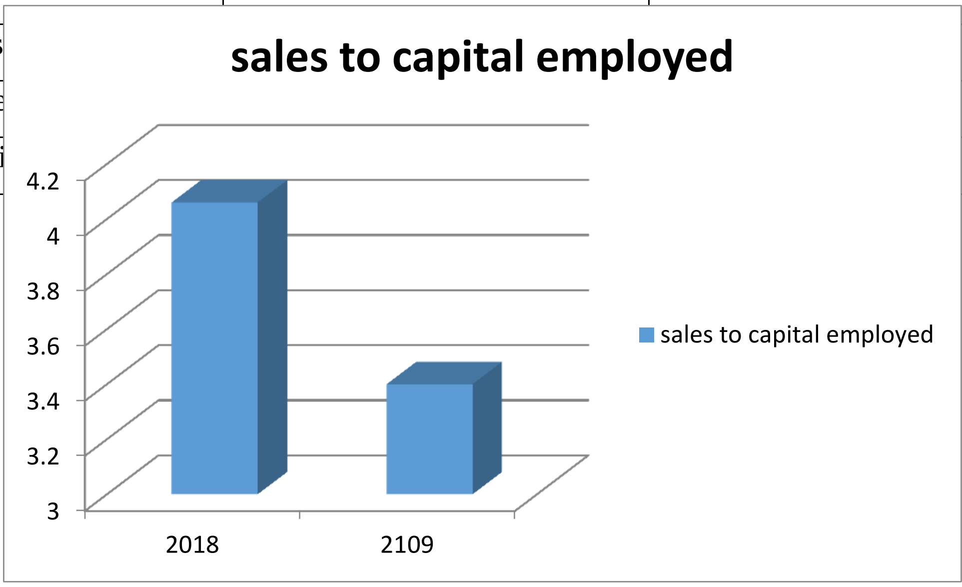
Ave		
Rati		



3.9. Inventory turnover ratio:

It indicates that the number of times the finished stock is turnover during a given accounting period. A high ratio indicates that a rapid turnover of stock and lower ratio show slow-moving inventory.

3.9. INVENTORY TURNOVER RATIO:

Inventory turnover ratio: cost of goods sold / average inventory

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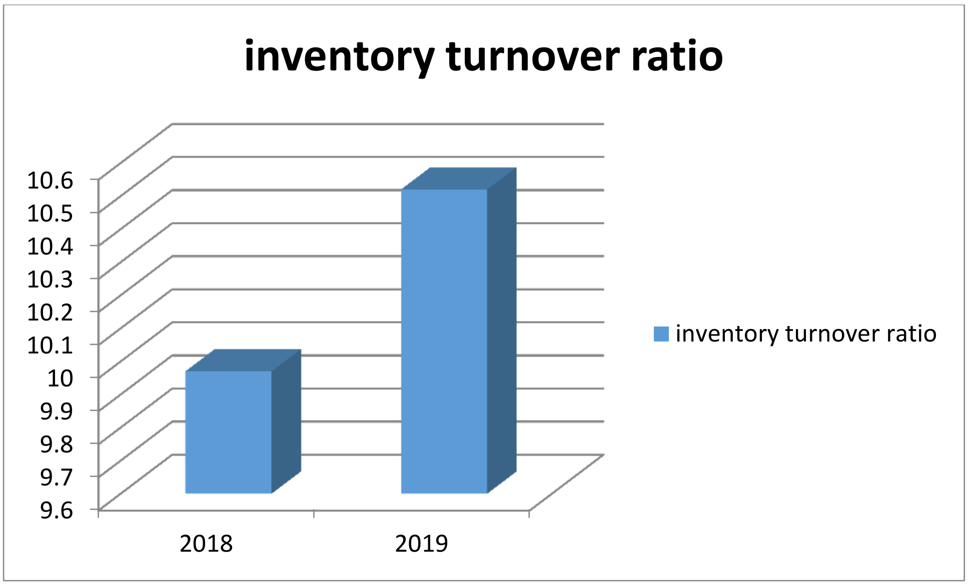

INTERPRETATION:

It shows that a number of times finished stock is turnover during the year in the accounting period. If it is high it will show a rapid turnover of stock. Turnover of inventory is generated by demand. Company adopting a low price strategy for high inventory turnover and increase customer base.

3.1O. Cash conversion:

It will show how cash moving to Words Company order of goods to cash receivable to company cash pay to supplier. It is a continuous process

3.10. Cash conversion cycle:

Cash conversion cycle: (inventory period + account receivable period) - account payable period

Particular	2018	2019
Inventory period	49	18
Account receivable period	110	136
Account payable period	48	41
Cash conversion period	111 day	106 day

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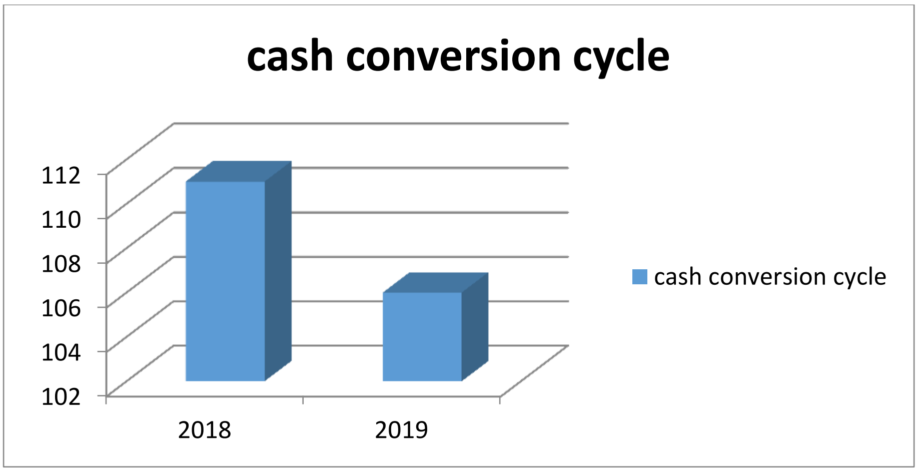

INTERPRETATION:

It will show how cash moving to words company order of goods to cash receivable to company cash pay to supplier. It take too much longer period because of that it will increasing in working capital.

4.1. FINDINGS

After conducting this project by using different ratio and evaluation of the effect of working capital on span pump. Many findings found in this project some positive and some negative.

1. The firm doesn't have an effective fund collection system the collection of bills receivable. It takes too much time 84 to 77 days for bills receivable.
2. The account payable period is low as compare to bills receivable.
3. Firm's quick ratio was increased as compared to 2018 & 2019
4. Span pump has good financial position current ration raise gradually in 2018 is 1.56 and in 2019 it raises up to 1.70
5. Sales of span pump are increasing because of good inventory management.
6. The cash conversion cycle has an impact on the company's profitability.
7. Account receivable period are reducing in 2019 and inventory management have a positive impact on the company's profitability.
8. The company makes prompt payments to his supplier. Goodwill of the company has well in the market.

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5.1. SUGGESTION:

1. To improve credit policy for the collection of bills receivable.
2. To reduce the account receivable period it was not up to the mark. It will reduce working capital and improvement in the company's profitability.
3. The quick ratio improved company hold too much of bill receivable and cash in hand company have too much of working capital company have to reduce it.
4. Make improvements in the cash conversion cycle for reducing working capital.
5. The company has extended payment of suppliers for controlling working capital.

6.1. CONCLUSTION:

If you want to understand or judge a company's cash flow health to look management of working capital of any organization. The better position company using his working capital lowers as possible.

The company manages its working capital company has a lot of scope for development. Credit management policy of a company wants to improve. The project is very much profitable but they have to improve their bill collection period. They have no difficulty in the management of current assets and liability. The liquidity position of the organization was satisfactory because the turnover of inventory and cash has been improved. The amount of borrowing has been reducing in 2019 because of collection period of depth is improved.

Working capital management was very important to any organization. Organizations have a lot of challenges in maintaining working capital like credit management. The organization has to improve in all sectors for the development of organization working capital is one of them.

7.1REFRANCE:

DR. N. M. VECHALEKAR FINANCIAL MANAGEMENT.
ANNUAL REPORT OF SPAN PUMP.
WWW.SPANPUMP INDIA.COM