REVIEW OF RESEARCH

WORKING CAPITAL MANAGEMENT OF I STEEL COMPANY: A STUDY

Sivakumar S.[1] **and Dr. M. Pitchaimani**[2]

[1] Ph.D. Research Scholar, PG & Research Department of Commerce, Srimad Andavan Arts & Science College (Autonomous), Tiruchirappalli, Tamil Nadu.
[2] Research Advisor & Dean of Commerce & Management, Srimad Andavan Arts & Science College (Autonomous), Tiruchirappalli, Tamil Nadu.

ISSN: 2249-894X
IMPACT FACTOR : 5.7631(UIF)
UGC APPROVED JOURNAL NO. 48514
VOLUME - 8 | ISSUE - 8 | MAY - 2019

ABSTRACT:

In the world of competition to be in the market is very important for any company. One of the measures to sustain in competition is to provide credit to the customers. The receivables of any company if managed effectively increase the current assets of company which lead to increase in the working capital of the company on the other hand if the company has excess of receivables it increases the costs by blockage of funds of the company. The study conducted on the sample of I steel company for the period of 2014-2018. The result has been obtained for identifying the relationship between receivable management and working capital management of company. The study revealed that of all the receivables has significant contribution in current assets, total assets, sales and working capital of this company.

KEYWORDS: *Working Capital Management, Steel Company.*

INTRODUCTION

When business gets start, mainly two type of capital is needed, one is fixed capital and another is working capital. Both of them plays important role in the business and provide financial support to business. Fixed capital use to purchase long term assets and invested in long term projects whereas working capital use to meet day to day financial requirements of the business. In some cases, business may survive without fixed capital but does not without the working capital, reason behind that is, when firm fail to meet its daily financial requirement, routine work of business get disturb and ultimately results into freeze of all activity. Reason why firm must have sufficient working capital to run the business smoothly. Different component of current assets and current liabilities are taken into consideration to have good working capital management. In other words, the excess of current assets over current liabilities is considered as Working Capital. In this study, researcher tries to measure the impact of working capital on the profitability of the selected steel companies. Mohammad Morshedur Rahman (2011) observed unsatisfactory position of profitability and working capital management in his research which was conducted on selected steel companies in Bangladesh. Study includes 9 (nine) steel companies in Bangladesh of A&B category. From 2005-06 to 2007-08 primary and secondary both type of data used in this study. For analysis of this data, financial ratios, statistical tools like mean, standard deviation, correlation coefficient etc. were used. Apart from this SPSS, correlation matrix and regression analysis were also workout. From his point view poor performance or poor profitability position is caused by poor management of working capital under the study period of selected company. Dr. T.N.R. Kavitha and N. Manimuthu

(2013) found in their research that working capital management was satisfactory of Birla Corporation Cement Ltd. Kolkata for the period of 2009 to 2013. This exploratory research used both primary and secondary data and this data were analyzed with the help of ratio analysis. They found good position of liquidity as well. Walter Gachira et al. (2014) conducted a research on non-financial firms listed on the Zimbabwe Stock Exchange (ZSE) with objective to examine the impact of working capital management on the profitability.

OBJECTIVE OF THE STUDY

- To know about working capital management and its various elements.
- To measure the impact of Quick Ratio on Profitability.
- To measure the impact of Current Ratio on the profitability

SCOPE AND LIMITATION OF THE STUDY

The study is limited to five years projected performance of the company. The data used in this study have been extracted from the annual report of the company. As per the requirement and necessary some data are grouped and sub grouped. For making a clear cut opinion, ratio technique of financial management has been used.

METHODOLOGY

I steel for the five years used in this study have been taken from company. Editing, classification and tabulation of the financial data, which are collected from the above mentioned sources, have been done as per the requirement of the study.

DATA ANALYSIS AND INTERPRETATION

Table 1: Current Ratio

Year	Current asset	Current liabilities	Ratio
2014	711.31	1021.36	0.70
2015	565.87	1151.55	0.49
2016	674.31	1312.01	0.51
2017	955.06	1475.59	0.65
2018	819.42	1385.22	0.59

Table-1 shows that the current ratio of I Steel for the study periods from 2014-2018. In the year 2013-14 was 0.70 and then it decreases to 0.49 in the year 2014-15 and in the year 2015-16 further it moved up to 0.51 again in the year 2016-17 it moved to 0.65 but in the year 2017-18 it moved down to 0.59. The normal current ratio is 2:1.

Table-1 also depicts that the current ratio of less than the ideal ratio of 2% in all the years except the years. This shows that the company is not enjoying credit worthiness.

Table 2: Liquid Ratio

Year	Liquid assets	Liquid liabilities	Ratio
2014	383.64	1021.36	0.38
2015	301.45	1151.55	0.26
2016	388.95	1312.01	0.30
2017	521.69	1475.59	0.35
2018	431.99	1385.22	0.31

Table-2 reveals that the liquid ratio of I Steel for the study period of 2014-2018. In the year 2013-14 the liquid ratio was 0.38 and 2014-15 it was 0.26 and it was 0.30 in the year 2015-16 and it has been increasing trend in next year onwards. The ideal liquid ratio is 1:1 but the above table shows higher liquid ratio. Hence the firm is controlling its stock position because there linear relationship between current ratio and liquid ratio.

Table 3: Absolute Liquid Ratio

Year	Cash, Bank and Securities	Current Liabilities	Ratio
2014	363.90	1021.36	0.36
2015	276.94	1151.55	0.24
2016	376.74	1312.01	0.29
2017	501.36	1475.59	0.34
2018	415.78	1385.22	0.30

Table-3 indicates that the absolute ratio for the study period 2013-14 to 2017-18. There is fluctuation in the absolute ratio. It was 0.36 in the year 2013-14. It was 0.24 in 2014-15 and it was 0.29 in 2015-16 again it moved to 0.34. It was 0.34 in 2016-17.

Table 4: Debt Equity Ratio

Year	Outsider's funds	Proprietor's funds	Ratio
2014	1434.25	970.69	1.48
2015	1153.14	1035.48	1.11
2016	1087.39	1145.98	0.95
2017	1844.45	1201.64	1.53
2018	2459.12	1445.55	1.70

Table-4 depicts that the debt equity relationship of the company during the study period. It was 1.48 in the year 2013-14 and then reached to 1.11 in the year 2014-15 then in the year 2015-16 it further moved down to 0.95. In the year 2016-17 again it moved up to 1.53 and in the year 2017-18 it has reached to up to 1.70 which was the highest in the study periods. In all the years the equity is nearly equal when compared with borrowings. Hence the company is maintaining its debt position.

Table 5: Proprietary Ratio

Year	Proprietor's funds	Total assets	Ratio
2014	970.69	383.64	2.53
2015	1035.48	301.45	3.43
2016	1145.98	388.95	2.95
2017	1201.64	521.69	2.30
2018	1445.55	431.99	3.35

From Table-5, the proprietary ratio during the study period. In all the years the owner's contribution to the total assets was more and appropriate hence they are maintaining their share in the company's assets.

$$\text{Stock turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Average stock}}$$

$$\text{Average stock} = \frac{\text{Opening Stock + Closing Stock}}{2}$$

Table 6: Stock Turnover Ratio

Year	Cost of goods sold	Average stock	Ratio
2014	275.66	240.33	1.15
2015	353.39	314.53	1.12
2016	531.13	392.51	1.35
2017	557.53	544.58	1.02
2018	446.89	502.21	0.89

Table-6 indicates that the relationship between costs of goods sold and average stock. During the year 2013-14 the stock turnover ratio was 1.15. In the year 2014-15 the ratio was 1.12 and 2015-16 it was 1.35 but in the year 2016-17 it was 1.02 again it went to 0.89 in the year 2017-18. Hence it shows normal position of cost of goods sold. In the years of study it is shown above that the cost of goods sold are almost 1 time of the average stock.

FINDINGS

- The current ratio is more than 2% in all the years. This shows that the company is not enjoying credit worthiness.
- The firm is controlling its stock position because there is linear relationship between current ratio and liquid ratio.
- There is fluctuation in the absolute ratio for all the years.
- In all the years the debt equity is nearly equal when compared with borrowings. Hence the company is maintaining its debt position.
- In the entire year owner's contribution to the total assets was more and appropriate they are maintaining their share in the company's assets.
- The cost of goods sold is almost 1time less than of the average stock.
- In the study period the net sales value increased a lot and which shows that there is additions made to the fixed assets.
- During the study periods the net sales have been increasing while the net working capital shows negative ratios.

SUGGESTIONS

- Current assets should be increased to maximize the current ratio and enjoy credit worthiness among the creditors.
- Liquid ratio shows higher ratio than ideal ratio hence the firm is controlling its stock position.
- Absolute liquid ratio is fluctuating and show low ratios during study periods. This means the firm does not have sufficient liquid assets like cash, investment in securities to meet its debt in emergency situation.
- In all the years the equity is more when compared with borrowings. Hence the company is maintaining its debt position.
- Owner's contribution to the total assets was not appropriate and it should be increased further to meet its debt.
- Cost of goods sold are very high it should be checked to minimize otherwise it will lead to incur loss or minimize profit.
- Net sales have been increasing however the ratio should be increased by minimizing the price of the product or service and minimizing non-value expenditure,
- Working capital shows negative due to less current assets hence current assets should be increased to maintain required working capital.
- The sales are higher than the total assets.

- In all the years sales are higher than the proprietor's funds.

CONCLUSION

Working capital management is important aspect of financial management. The study of working capital management of I Steel for a period of five years from 2013-14 to 2017-18, reveals that the current ratio is better. Overall the company has good liquidity position and sufficient funds to repayment of liabilities. Company has accepted conservative financial policy and thus maintaining more current assets balance. Company is increasing sales volume per year which supported to the company for sustain in the number one position in India. From this research I found that the overall working capital of I Steel Company is increased by more than 100 percent in the last five years which are significant trend and this trend is giving a good sound for the health of the company.

REFERENCES

1. Bhat, I. (1997). Cases in Financial Management. TATA McGraw-Hill Publishing Co. Ltd.
2. Gachira, W. (2014). WCM and the profitability of non-financial firms listed on the Zimbabwe Stock Exchange (ZSE), European Journal of Business & Economics, 12-15.
3. Khamrui, B.B. (2012). Relationship between working capital management and profitability: A study of selected FMCG companies in India. BEJ, 1-10.
4. Manimuthu, D.T. (2013). A study of working capital management. IOSR-JBM, pp.1-4.
5. Tulsian P.C. (2009). Financial Management (A self study text book), S.Chand & Co. Ltd.
6. Rahman, M. M. (2011). WCM and profitability: A study on textiles industry. ASA University review.
7. Wanjiku, K. l. (2013). The effect of working capital management practices on the financial performance of small and medium enterprises in Kenya. Nairobi.