

**MANAGEMENT OF CURRENT ASSETS IN KSE LTD  
IRINJALAKKUDA, THRISSUR**

by

**JITHIN N P  
(2016-31-004)**

**MAJOR PROJECT REPORT**

Submitted in partial fulfilment of the  
requirements for the Post Graduate degree of

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**COLEGE OF CO-OPERATION BANKING AND MANAGEMENT**

**VELLANIKKARA, THRISSUR- 680656**

**KERALA, INDIA.**

**2018**

**DECLARATION**

## DECLARATION

I, hereby declare that this project report entitled “**MANAGEMENT OF CURRENT ASSETS IN KSE LTD IRINJALAKKUDA, THRISSUR**” is a bonafide record of work done by me during the course of project work and that it has not previously formed the basis for the award to me for any degree/diploma, associateship, fellowship or another similar title of any other University or Society.

Place: Vellanikkara

Date:



JITHIN N P

2016-31-004

**CERTIFICATE**



## CERTIFICATE

Certified that this project report entitled “**MANAGEMENT OF CURRENT ASSETS IN KSE LTD IRINJALAKKUDA, THRISSUR**” is a record of project work done independently by Mr. Jithin N P under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship, or associateship or other similar title to him.



Dr. Gopinathan P.

Associate Professor (Retd.),

Sree Krishna College, Guruvayur

Place: Vellanikkara

Date:





S.PRJ/2018- 000513

19.12.2018

**TO WHOMSOEVER IT MAY CONCERN**

*This is to certify that **MR. JITHIN N.P (Reg No 2016-31-004)** 4<sup>th</sup> Semester **MBA (ABM)** student of **COLLEGE OF CO-OPERATION, BANKING & MANAGEMENT, KERALA AGRICULTURAL UNIVERSITY, VELLANIKKARA** has successfully completed Project work on "**Management of Current Assets in KSE Limited**" during the period from **13.08.2018 to 17.10.2018** as part of the curriculum. He was found to be sincere and enthusiastic in collecting various information and data required for the project work. We wish all success in his future endeavors.*



For **KSE Limited**

M.D Johny  
Chief Personnel Manager

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*For any errors or inadequacies that may remain in this work, of course the responsibility is entirely my own*

**JITHIN N P**

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***Design of the study***

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## CHAPTER-1

### DESIGN OF THE STUDY

#### 1.1 Introduction

Capital is what makes or breaks a business and no business can run successfully without enough capital to cover both short term and long term needs. Maintaining sufficient level of short term capital is constantly ongoing challenge in this turbulent financial environment. The financial management of business firm involves the management of long-term assets, the management of long-term capital and the management of short-term assets and liabilities. The first of three functions is capital budgeting, the second is the management of capital structure and the final is current assets or working capital management.

Management of current assets is the process of planning and controlling the level and mix of the current assets of the firms as well as financing these assets. Specifically, management of current assets requires the financial manager to decide what volume of cash; other liquid assets, account receivables, and inventories the firm will hold at any point of time. In addition, financial managers must decide how their current assets are to be financed. The main aim of the study is to find whether the company is efficiently managing its current assets. The effective management of current assets necessitates careful handling of current assets to ensure short-term liquidity and solvency of the business as well as the optimum utilization of the sources of finance of current assets, the current liabilities.

Keeping in view the pragmatic importance of current assets management as a gray area of corporate finance function, an attempt has been made to examine changes in working capital, position of current assets and financial performance of the firm. This study will benefit the firm way too big to find the various problems in the financial aspects with the help of relevant accounting ratios and statistical tools.



## **1.2 Statement of problem**

The small scale and large scale companies generally face a situation of either excess of working capital or scarce of working capital. It is most essential fact that the companies shall maintain optimum working capital in all the periods. The working capital is excess of current assets over current liabilities. To maintain optimum level of working capital the management of current assets is highly essential. The current assets management implies the inventory management, cash management, receivables management. If all these three different portfolio of current assets are efficiently management one can say that the company's working capital management is highly proper and efficient. Therefore the finance manager of any business must give maximum significant to the management of working capital.

The current assets are most important player in working capital management. These sources for acquiring current assets are different current liabilities. Therefore current assets management implies management of current liabilities also. If both of these elements of working capital are properly addressed, it is same that the company can maintain optimum level of working capital. The simple characteristic feature of financial management, managing current assets and current liabilities is therefore regarded as significant problem. A humble step is taken here for analysing the management of current assets in KSE Ltd in this study.

## **1.3 Objective of the study**

- To evaluate profitability, liquidity and position of current assets and working capital of Kse Ltd.
- To study the changes in working capital of Kse Ltd.

## **1.4 Methodology**

### **1.4.1 Organization of the study**

The study was conducted in KSE Ltd Irinjalakkuda, Thrissur in kerala

### **1.4.2 Methods of data collection**

The analysis of financial condition and performance of the enterprise necessitates accurate and reliable data. The study was based on only secondary data.

### **1.4.2.1 Secondary data**

The major source of data for the project were collected through annual reports, profit and loss account of 10-years period from 2009-2018 and some more information collected from internet and text resources.

### **1.4.3 Sampling Design**

Sampling unit	: KSE Ltd Irinjalakuda, Thrissur.
Sampling Size	: Last ten years financial statement starting from 2009-2018
Tools used	: Ratio analysis, Trend analysis, Statement of change in working capital and Fund flow statements.

### **1.4.4 Variables of the study**

- Current Assets
- Current Liability
- Gross Profit
- Cost of goods sold
- Operating Profit
- Operating expense
- Sales
- Net profit
- Working capital

### **1.5 Scope of the study**

The study was expected to conduct over a period of twelve weeks entitled “Management of current asset in KSE Ltd.”. In order to accomplish the aim, historical research has been taken as the researcher has to rely on past data to measure and he must find adequate methods for measuring it.

The management of current asset plays an important role in maintaining the financial health of the firm during the normal course of business. It portrays the flow of resources through



the firm. Through this study we can determine whether the firms able to carry its operations. To ascertain the liquidity position of the firm, to evaluate the financial performance of the firm and to identify the factor that affecting management of current asset. This analysis will help to show the strength and weakness regarding various aspects of the firm's liquidity and management of current assets.

### **1.6 Limitations of the study**

- It was unable to compare the performance of company with industry, due to unavailability of industry average.

*Review of literature*

## CHAPTER-2

### REVIEW OF LITERATURE

The previous chapter has discussed about the significance and scope of the study, the objective of study and detailed research methodology. The objectives set have to be analysed after conducting a detailed study of the previous literature in the related topics. Many research papers and thesis were followed as part of literature study. The review of the literature enabled to conduct study effectively. The entire literature received can be classified into following categories.

- Working capital management
- Profitability

#### **2.1 The following literature are reviewed under Working capital management**

Kishor (1978) in his paper “Working Capital Policy - A general Frame Work of Analysis” attempted to give a general frame work to analyze working capital policy issues in both public and private enterprises. Firstly he analyzed the financing of current asset. The alternatives of long term tests and current liabilities have been evaluated on the basis of cost and risk. He made an attempt to incorporate subjective publishers of risk free rates, so that expected interest after a time period could be established, which would then enable an organization to make decision regarding the liability policy ie. Whether a conservative, aggressive or moderate. A similar exercise was then repeated for the current assets; finally, two exercises would be merged together so that an interpreted policy decision for both current assets and current liabilities can be emerged.

Natarajan (1980) has opinion that working capital is important at both, the national and the corporate level. Control on working capital at the national level is exercised primarily through credit controls. In operational terms, efficient working capital consists of determining the optimum level of working capital, financing it imaginatively and exercising control over it. He concludes that at the corporate level investment in working capital is as important as investment in fixed assets. And especially for a company which is not growing, survival will be possible

only so long as it can match increase in operational cost with improved operational efficiency, one of the most important aspects of which is management of working capital.

Venkatchalam and Dakshinamoorthy (1983) in their paper working capital trends in Indian private corporate sector analysed the working capital trends in the medium and large public limited companies in India over 1973 and 1983. The study was based on the RBI data. In this study in the context of the quantum of current assets is investment. The distribution of gross working capital – current assets investment among its different components, each components being both in absolute terms and percentages and analysed for an appraisal of the behavior of each component over the period finally the form of financing gross working capital, that is current assets investment was traced. It was observed that current liabilities and equally long term loan had been the major forms of financing current assets, investment in the public limited companies accounting for a minimum of 87 percent to a maximum of 99.5 percent.

The Study of Panigrahi (1990) was on overall working capital analysis of large Indian companies during the period 1970 to 1987. The study also looked into the fact whether the working capital has any impact on profitability. The study showed that liquidity position of the large Indian companies is not satisfactory during the study period of seven years. All the liquidity ratios namely current ratio, quick ratio and absolute liquid ratio remained below the standard norms throughout the period of study. It led to the conclusion that a large Indian Industries have been suffering for lack of liquidity. Among the ratios, the co-efficient of correlation between profitability ratio and debtor's turnover ratio was found to be significant at 5 per cent level. On the other hand, ratios like quick ratio, inventory turnover ratio, and averages collection period have negative co-efficient of correlation with profitability ratio.

Surendra et. al (2001) had studied the corporate practices related to management of working capital in India, Singapore and Thailand. In this paper the authors have tried to understand the working capital management, current assets and current liabilities, and their inter-relation. Further the study shows an aggregative analysis of current assets and current liabilities in terms of major liquidity ratios. It also states working capital position in terms of these ratios pertaining to various industries. The inference from the study is that, the available data in respect of the sample companies from the three countries confirm the wide inter-industry variations in liquidity ratios. Towards the end, the authors suggest that serious consideration needs to be given by the



respective governments as well as industry groups in these three countries in order to take corrective measures to take care of and rectify the areas of concern.

Filbeck and Krueger (2005) investigated the data of 26 industries by taking the data of 970 companies during 1996 to 1999. It was found that firms are able to decrease financing cost and/or augment the funds obtainable for development by reduce the amount of funds attached to the current assets. The study reveals that significant difference exist between industries in working capital measures across time. In addition, the study determines that these measures for working capital vary extensively with in industry with the passage of time. It is concluded that negative relationship was also found out between profitability and liquidity of companies of United Kingdom. Conversely a positive relationship was seen between debt and firm's profitability. The researchers proposed that profitability can be increased by managers if reduction in the days of accounts receivable and inventories occurred. Therefore the companies whose profitability is less opt to take much longer time to pay their bills.

Ramachandran and Janakiraman (2006) had conducted a study on the relationship between working capital management efficiency and earnings before interest and tax of the Paper Industry in India for the period of 1997 -98 to 2005-06. The study concluded that negative relationship between Earnings Before Interest and Tax (EBIT) and Cash Conversion Cycle (CCC). The study used CCC as parameter to dictate how to manage working capital of the firm. Study found that lower gross EBIT is associated with an increase in Average Payable Days. The study also gave a positive relationship between Average Receivables Days and EBIT which suggests that in order to reduce cash gap in CCC, less profitable forms pursue decrease of Average Receivables Days. Overall they give highly.

Pirvutoiu and Popescu (2010) had conducted an analysis of net working capital – a basic tool in Business financing. The paper aimed to analyse net working capital, considered to be a basic tool in business financing. The data collected for the period 2005-2007 from Balance Sheet and Profit and Loss Account of an agricultural company dealing with cereal production were used to determine specifications. Net working capital statement reached a critical point in the year 2005. The managerial decisions have improved the financial performances. In 2006 and 2007, the company was able to face short term debt and upcoming operational expenses; because Working Capital had a positive value and its specific ratios registered corresponding level. The study

concludes that Net working Capital was determined by Current Assets including stocks of raw materials, work in progress, finished goods, trade debtors, prepayments and cash and equivalents and other current assets and Current Liabilities, consisting of : trade creditors and short-term borrowings. Decision making in agricultural companies has to take into account not only the increase of vegetal or animal production, but also the additional costs related to higher stocks, work in progress, in a word, additional current assets.

Agarwal and Gupta (2011) conducted a study on working capital management in respect of automobiles industry in India. The authors made an attempt to examine the practice in working capital management especially profitability ratios, traditional liquidity ratios and cash flow based ratios of the seven selected automobile companies which are large manufacturing and trading public limited companies in the private sector in India. This paper made use of secondary data procured from annual reports of selected Indian automobile companies for the financial year 2008-09. Supplementary information has also been collected from different newspapers, journals, reference books, articles and concerning websites. Statistics was used to analyze the efficiency of the various liquidity measures such as arithmetic mean, standard deviation, correlation, related factors matrix, transformation matrix and canonical discriminant functions. The study is based on hypothesis, which is tested by the factor analysis of all three sets of ratios. The result of the study reveals that cash flow based ratios have a better predictive power than other traditional financial ratios.

Diana and Cristina (2011) studied on the increasing importance of working capital in the conditions of current economic crisis. The study reveals that the economic crisis that comprised the whole world didn't leave the Romanian companies unaffected. The policy of working capital adopted by the companies might prevent or diminish the negative effects of the crisis, improving the liquidity and the cash-flow of the companies. From the result of the conducted analysis regarding the influence of the economic crisis on the companies from the pharmaceutical industry, which we assumed they were unprepared in terms of working capital strategy adopted, we could really see how they have been badly affected primarily because they used the resources attracted as main source of financing the operating cycle, so an aggressive policy of working capital. Among those affected were the pharmacies that used favorable gaps between receipts



and payments for financing their operating cycle. The study concluded that the companies should revise their funding strategies and implement a proper policy of the working capital adapted to special conditions from the economic and financial crisis periods and thus prevent a situation where they may become victims of this crisis.

Bashar (2012) on his study on the topic Working Capital Management of Small Scale Industries in Rajasthan had described about the working capital management in small scale industries. In the state of Rajasthan Small scale Industries are so common. From this study, it has been found that the working capital management is to decide the pattern of financing of the current assets, which is one of the biggest problems of working capital management. The SSIs has to decide about the sources of funds which can be avail to make investment in the current assets. The problem of working capital management of small-scale industries is not new.

Harsh and Sukhdev (2013) found that efficient management of working capital is an important indicator of sound health of an organization. The management of various components of working capital in such a way that an adequate amount of working capital is maintained for smooth running of a firm and for fulfillment of twin objectives of liquidity and profitability.

Vineet (2014) had observed the Efficient Management Of Working Capital: A Study Of Healthcare Sector In India and came up with the findings that Efficient management of working capital means management of various components of working capital in such a way that an adequate amount of working capital is maintained for smooth running of a firm and for fulfillment of twin objectives of liquidity and profitability. Also it is the most crucial factor for survival and solvency of a concern. The paper had attempted to measure the efficiency of working capital of firms in Healthcare Sector in India. The study reveals that most of the firms of this sector have efficiently managed their current assets for the purpose of generation of sales. Further more efficient management of working capital has a positive effect on Income to Average total assets.

Laura Adriana (2014) discussed on the consideration regarding current assets in the construction entities. The study leads to the idea that accounting for current assets mainly aims to obtain useful information on the management of their best in order to make management decisions. Counting efficiency of these assets, their importance, provides improved performance of the

entity. In the paper they have studied the degree of implementation of policies and accounting treatments on the current assets in the specific construction economic entities, the problems of implementation and thus better addressing their theoretical and procedural to improve the information provided by financial statements. Due to the importance of proper conduct of business owned entities, accounting current assets should result in optimal and efficient control of current assets.

Praveena and Mahendran (2015) had conducted a research on Working capital management efficiency of sugar sector in India. The study summarises that the Sugar mills performance is varying based on its cane availability. The inventory level will be varying among the industries. Efficient working capital management is important for the corporate strategy. Firms try to keep the average level of working capital that maximizes their value. This present study attempted to evaluate the efficiency of working capital management of sugar sector in India for the period 2007-2012. Instead of employing the financial ratios, working capital efficiency has been measured in terms of utilization index, performance index and total efficiency index. Findings of the study indicate that the sugar sector as a whole is performing well during the study period.

Goel and Sharma (2015) studied the working capital management (WCM) efficiency of firms belonging to the Indian manufacturing sector. The authors studied sample of 1200 firms over the period of ten years ie.2004 to 2013. They divided these firms into 11 major industries and studied the influence of several exogenous firm specific and macroeconomic factors on WCM efficiency. The study reveals that WCM efficiency has undergone considerable changes during the past ten years and there has been effect of the financial crisis to some extent. It was found that firm specific factors like debt ratio, proportion of net fixed assets to total assets, profitability, sales growth, size and age of firm do affect WCM efficiency of firms whereas, there is an insignificant effect of macroeconomic factors. The study reveals new evidences for better understanding of the short term financial behaviour of firms in developing economies like India.

## **2.2 The following literature are reviewed under Profitability**

The working capital problems, in the iron and steel industry in India, were studied by Varma (1989). The study observed that the basic problem of working capital in this industry was the



surplus investments in current assets rather than inadequacies. The surplus investment is mainly found in the inventory and receivables components. As far as cash management is concerned, no systematic policy has found in this industry and therefore, the firms have excessively depended upon basic borrowings to meet the working capital requirements among the industries studied by Varma, Tata Iron and Steel Company (TISCO) achieved tradeoff between liquidity and profitability. The main objectives of working capital management in the findings of this study were that the private sector in the industry had an edge over the public sector as far as management is concerned.

Ching et. al (2011) had conducted a research on relationship between working capital management and profitability in Brazilian listed companies. The objectives of the article were, To investigate if there is any difference between corporate profitability and working capital management in two separate groups of companies: working capital intensive and fixed capital intensive and to identify the variables that most affect profitability. Return on sales (ROS), Return on asset (ROA) and Return on equity (ROE) were used to measure the profitability. Multiple linear regressions has identified that, as far as ROS and ROA are concerned, to manage working capital properly is equally relevant for the two groups of companies. However the impact of debt ratio and days of working capital are relevant in the company profitability in the fixed capital group as opposed to the working capital group. From ANOVA it is evident that days inventory has negative relationship with ROS and ROA but has no statistical evidence in ROE improvement in working capital intensive group. It has also identified days of working capital as the variable that influences ROS in the second group (positive relationship) while debt ratio is the only variable that affects ROA (negative relationship). These results of the research article showed that regardless the type of company, whether working capital or fixed capital intensive, managing working capital properly is equally important. Moreover, managing inventory as well as cash conversion efficiency to an optimum level will yield more profit in the working capital intensive type of company, while two other different variables create more profit in the fixed capital intensive type of company.

Jagongo et.al (2013) studied the role of working capital management in improving the profitability of five Kenyan firms listed Nairobi Stock Exchange for the period of 2003 to 2012.

Using Pearson's correlation and OLS regression they found profitability has a negative relationship with cash conversion cycle and account receivable days, inventory days, and number of days account payable. The findings revealed that firms shall increase their inventory to an optimal level. Furthermore profitability can be enhanced by delaying payments to creditors as long as it does not affect the business relationship. Thus a careful reduction of cash conversion cycle by finance managers can increase the profitability of firms and add to shareholder's wealth maximization.

Thorsten and Arnt (2013) had studied the Working capital management and firm profitability and the article reveals that managing a firm's current assets and liabilities (working capital management) is highly relevant to the success of that firm. While the short-term liquidity effects of working capital management are straightforward to derive, it is an empirical question how it affects firm profitability. This short survey paper had consolidated the empirical literature on the association between working capital management and firm profitability. The analysis had provided evidence of positive effects of accounts receivable management and inventory management on profitability. Finally, the paper highlights critical aspects of prior research and points to avenues for future research.

Sung and Soo Cheong (2015) conducted study on working capital, cash holding, and profitability of restaurant firms. The study suggests that efficient working capital management is important for restaurant firms coping with weak financial conditions and increased economic uncertainty. The study throws light on the impact of restaurant firms' working capital on their profitability and the effects of firms' cash levels on the relationship between working capital and profitability. The findings ascertain a strong inverted U-shape relationship between working capital and a firm's profitability, which indicates the existence of an optimal working capital level for restaurant firms. The study also reveals that a firm's cash level is an important factor for efficient working capital management. The results suggest that interactive effects exist among working capital, cash levels, and profitability.

Abdussalam (2017) on his work exploring the Relationship between Working Capital Management, Profitability and Capital Structure had explored through the relationship between working capital management (WCM), profitability and capital structure. The study suggests that even though WCM is targeted for the short-term decisions it has effect on the firm for the long-

run. The final findings of the study are that the Companies need to use working capital policy and procedures in order to navigate performance. Emphasizing on WCM would lead to formal cost controls and performance together with firm's growth and productivity. The framework has helped the financial manager of the firms to balance the costs and benefits of debt and equity and reduce common obstacles on managing cash flows for long-term fixed investment.



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***Industry and company profile***

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## CHAPTER-3

### INDUSTRY AND COMPANY PROFILE

Various literatures in the area of working capital and management of current assets and management of current liabilities were discussed in the previous chapter. The third chapter aims to conduct a detailed study of the industry and company profile. As the study is related to KSE Ltd Irinjalakkuda, this chapter explains the growth and development of cattle feed industry. This discussion is conducted by taking into consideration the growth of industry in the world, India and Kerala.

#### 3.1 Global scenario

According to FAO and other institutions the global production and consumption of meat will rise from 233 million tons to 300 million tons, milk from 568 to 700 million tons and egg production will increase by 30 percent by 2020. These predictions depict the huge demand for animal protein in the near future. However, much of the growth has been taking place in a relatively small number of countries like China, Brazil and India. Including these countries, the per capita meat consumption in the developing countries went up from 11 to 23 kg in the two decades to the mid-1990. In other countries it went up from 11kg to only 15kg.

#### 3.1.1 Growth in world animal feed industry

As reported by FAO (Year 2004) around 1000 million tons of animal feeds produced globally every year, including 600 million tons of compound feed (FAO). As of 2004, more than 80 percent of this feed was produced by 3800 feed mills, and 60 percent of the world total was from 10 countries (FAO 2004). The growth in demand for livestock products suggests that there will be a consequent rise in demand for animal feed also. It is possible to make broad calculations based on assumptions concerning the use of feed for pigs, poultry, dairy cows and other ruminants. The demand for animal feed can then be projected after making following assumptions.

- Broilers convert at 2:1 and have a 70 percent carcass yield.
- Egg production has a 2:1 food conversion ratio.
- Pigs convert at 3:1 and have a 60 percent carcass yield.



- 3 liters of milk is produced per kilogram of cow feed.

It is impossible to calculate the feed use of other ruminants and this is done here simply to account for the known additional feeds that are used. Such a calculation may be more reasonable at predicting the future trends, given that growth will be mainly in intensive systems. This is a limitation.

### **3.1.2 Key drivers of animal feed industry**

India has largest livestock population in the world. There lies a challenge in converting the unorganized traditional raw material feed users to compound animal feeds. India is the largest producer of milk globally and the fifth largest producer of poultry and shrimp, hence there is a tremendous growth potential in the animal feed market. The present animal feeds capacity looks puny when compared with the latent market that exists. The demand for feed additives is related to animal feed production, which in turn is dependent on the steady demand for the milk, meat and poultry.

Consumers demand for safe foods. This forces the industry to comply with industry standards and produce quality foods. Since animals reared for their meat require superior feed with optimum balance of different nutrients. The increased demand for naturally reared meat often results in the expansion of livestock production, which would, in turn increase production of intermediate products such as animal feed and feed additives. This requirement for meat is likely to improve the sale of grains and protein meals.

## **3.2 Indian scenario**

### **3.2.1 Indian animal feed industry**

In India, the term “compound feed” refers to feed that is nutritionally balanced and has been manufactured using the facilities of an analytical laboratory and under the supervision of nutritionists. There are also a large number of small-scale feed mixers who produce feed for local consumption. Such feed is termed “self—mixed feed” or “home-mixed feed”.

The feed manufacturing on a commercial and scientific basis in India started around 1965 with the setting up of medium-sized feed plants in northern and western India. Feed was



produced mainly to cater to the needs of dairy cattle as the poultry sector was not developed to that extent at that time, but in this present scenario both sectors are getting importance. The Indian feed industry was worth approximately Rs.45 billion (2002). The Indian livestock feed industry is quite old; it is still in a Very primitive stage, supplying only about 8.33 percent of cattle feed and 40 percent of poultry feeds for the country (Year 2005). According to the association, the bulk of that feed is being produced in large part by home and custom mixers. It sees feeding animals with compound feeds as a route to improve efficient use of the ingredients available.

### **3.2.2 Market potential of Indian feed industry:**

India has a very large population of livestock comprising of 222 million cattle, 98 million buffaloes, 124 million goats, 61 million sheep and 489 million poultry (Livestock census 2003). The estimates of Indian Livestock Industry Report 2005 of CLFMA (Compound Livestock Feed Manufacturers Association) show that the compound feed produced by members of CLFMA and non-members of CLFMA is about 5 MMT. The total estimated requirement of compound feed is about 60 MMT. This clearly indicates the gap between requirement and availability.

Dairying in India has emerged as an important sub-sector accounting for nearly two thirds of the total livestock contribution to GDP with an encouraging growth rate of almost 8-9 per cent. A very large population of dairy animals is either grazed or stall-fed on dry roughage of uncertain quality. Availability of sufficient feed resources both in quantitative and qualitative terms is the key factor for the growth and sustenance of the livestock and poultry sector in India. This dairy sector offers a tremendous opportunity to feed manufacturers and marketing professionals to popularize the concept of using balanced Compound feed. Based on the number of productive dairy animals and their current milk production, the estimated compound feed requirement is 45 MMT (Sector Study: Animal Feed Industry) considering feeding compound feed at 50 percent of milk production. The current estimated demand for poultry industry is about 15 MMT.

Unlike many developed dairying countries where large mechanized farms predominant, in India landless, small and marginal farmers with limited resources account for 65 percent of the total milk production in the country. The poultry sector in India is one of the fastest growing

sectors in the country. India is the fourth largest producer of eggs and eighth largest producer of broilers in the world. India's broiler industry is well organized in the South. In the egg production industry, thirty per cent is still in the hands of small producers. It is suggested that the Indian poultry sector has the potential to grow at 20 percent per annum over the next 10 years.

This confidence arises from the fact that even developing neighbors, such as Pakistan, China and Thailand have annual per capita poultry consumption levels of 2.3 kg and 9 kg respectively, less than 1 kg when compared with India. Developed country like the United States has an annual consumption of 44 kg per head. A similar situation exists for the egg industry. With the advent of fast-food chains and growing dependence on convenience foods, the processed foods sector, and particularly that of poultry, is expected to have growth rate in double figures.

### **3.3 Scenario in Kerala**

The sufficient availability of cattle feed in the State was a vital factor in achieving the government's goal of self-sufficiency in milk production. The cattle feed unit is coming up at a cost of Rs. 52 crore and will have the potential to provide direct employment to over 350 people and indirect employment to at least 1,000 people. Attaining self-sufficiency in milk production is an important aspect of the food security programmed and animal husbandry is vital in bringing about major changes in the agriculture sector as part of the food security programmed.

The price of milk would come down if production were increased. In fact, from the three hi-tech dairy farms of Kerala Livestock Development Board that is coming up in the State, the government intended to directly market milk on a no-loss, no-profit basis. It is noted that 85 per cent of cattle-feed production in the country was in the private sector. Farmers were not satisfied with the quality of most brands. While the daily demand for cattle feed in the State was 3,500 tonnes, only about 2,500 tonnes was available in the market.

### **3.4 Company profile**

In the Indian economy cattle plays a crucial role. Majorities of Indian cattle are seriously underfed particularly cows in rural areas. This makes the cattle feed industry vital in India. KSE Limited was established in 25 September 1963, as 'Kerala Solvent Extractions Ltd.', now known



as KSE Ltd. Entered the Solvent Extraction Industry, setting up the very first solvent extraction plant in Kerala in 1972.

KSE Limited is a public limited company having around 4500 shareholders. The shares are listed in BSE & NSE. In the Indian market they are the largest manufacturer of compound cattle feed in Private sector. The last three decades have seen KSE emerging as a leader in solvent extraction and ready mixed cattle feed in the country. Today KSE commands the resources, expertise and infrastructure to manufacture a range of livestock feed in high volumes, coconut oil from coconut oil cake and refined edible oil. Driven by a commitment to high standards of quality, KSE has not only won customer confidence but also national recognition through several awards and accolades. With modern manufacturing facilities spread over three states, KSE caters to the vast belt stretching across Southern India and enjoys significant presence in export market too. Since the early days, KSE has endeavored to supply its products to customers through an extensive network of dealers and retailers, which in turn created a dedicated force behind the success of KSE.

### **3.4.1 History**

In 1963, KSE limited was established according to Indian companies Act, 1956. It was registered as a public limited company on 25 Sep 1963. The former roasting of the company was held on 20th Oct 1963 its former production was started in 1972 with a capacity of 40 tons per day. Solvent extraction commenced operation at Swaminathapuram, Dildigul if district of Tamil Nadu in 1988 and 1989 respectively.

The third cattle feed plant of the company started operation at Vedagiri in Kottayam district of Kerala in 1996. The plant at Irinjalakuda and Vedagiri are fully automatic and key manufacturing operations are controlled by microprocessors. Vedagiri project costing around Rs.6 core was fully financed out of internal sources of company. Company put-up a vegetable oil refining plant at Irinjalakuda at a cost of 1 core in 1995. This project was also fully financed from internal accruals. The company is refining solvent extracted coconut oil and expeller sunflower oil in the refinery plant. Oil millers of Thrissur are the promoters of the company. KSE Limited is a product-oriented company. Cattle feed is the main product of the company. The other products are oil cake, de-oiled cake, Milk, Ice creamed etc. De-oiled cake is marketed

under the brand name "JERSEY". Ice cream marketed under the brand name "Vesta", is well accepted in the market. Now they are trying to expand their milk products. In the early stages, the company faced financial difficulties, but was assisted by K.S.I.D.C. (Kerala State Industrial Development Corporation) by subscribing to its twenty five percent-equity capital and I.F.C.I. (Industrial Finance Corporation of India). KSE had computerized its operations way back.

#### **3.4.2 Kse limited units in Kerala**

- Irinjalakuda unit
- Vedagiri unit
- Palakkad unit
- Edayar unit
- Kochuveli unit

#### **3.4.3 Dairy units**

- Konikkara units.
- Vedagiri unit

#### **3.4.4 Units in Tamilnadu**

- Swaminathapuram unit
- Thalayuthu Unit (Dairy)

#### **3.4.5 Management of the company**

KSE Ltd is a public limited company having around 9000 shareholders. The shareholders elect board of directors. The company has 11 directors, 10 of these are elected by the shareholders at the Annual General Meeting as per the rules of the Companies Act 1956. Every year one third of them are liable to retire on rotation basis. Mr. P.V Devassy was the chairman of the company during the starting period.

The Articles of Association of the company empowers the Board of Directors to appoint one of them as Managing Director at Executive Directors. They are responsible for the day-to-

day affairs of the company. The Whole Time Director looks after the affairs of Plain feeds and extractions.

Major decisions of the company are taken by an Executive body emulation of MD, Executive Director, Finance Manager, Nutritionist, Marketing Manager, Plant Manager and Purchase Manager. All their executives are professionally qualified and competent persons. Usually they meet once in a fortnight to discuss and evaluate matters internal and external to the company. Immediate actions are taken whenever required. The relation between management and employees remain cordial throughout the year. Company has been following the tradition of reaching at conclusions after a thorough discussion on every matter which of course is the norm of a democratic set up. The managing director, executive director and the Whole time director gives dynamic leadership to a team of personal managers. While a committee of directors operate a unique system of management. The executive meet at least once in a fortnight to discuss matters internal and external to the company. They evaluate performance and take necessary actions whenever required.

#### **3.4.6 Industrial relations**

The company has 889 employees on its rolls as on 31.03.2017. The company is an exception to the adverse labor conditions existing in Kerala. There were no serious labour issues, in any of the units of the company during the year 2016-2017. The long-term settlements for a period three years have been signed with the employees of Irinjalakuda, Konikkara and Thalayuthu units effective from 1 April 2016, from 1 June 2015 and from 1 Aug 2015 respectively. Negotiation with unions for similar long-term settlement is in progress or has fallen due in relation to Swaminathapuram, Vedagiri, and Palakad, Koratty unions from 01-05-2017, 01-04-2017, and 01-08-2016, 01-01-2017 respectively. The management is confident that amicable settlement can be arrived at in all these negotiations. The management continues to maintain cordial industrial relation with its employees in all units and is attending to their grievances with an open mind.

#### **3.4.7 Growth and development of the organization**

In the animal feed division, the cost of ingredients for animal feed was in a fluctuating manner. Despite the ups and down, the demand for the feed is growing and they are arranging to



meet the additional demands. Prudent purchase policy, fine turning of selling price, trimming of overheads, etc. helped the company to recover cost and avoid losses.

In the oil cake processing division, the price of coconut oil during 2016-2017 showed a rising trend. The company could import the sizable quantity of copra cake at competitive rates during the year under report. The local arrival of copra cake was severely affected due to fall in yield of coconut in Kerala and Tamil Nadu. However, the local price of copra cake was under control with the help of imports at reasonable rates. The cake processing division performed well through the year with reasonable margin. In dairy division though company could improve the volume of milk and ice cream, the margins on both front were under severe strain. In FEB 2017, the milk price has been increased by 1000 by the government of Kerala, which assumes slight relief for the time being. The company is taking all steps to further improve sales volume of ice cream and is taking steps to cut short the sale of unprofitable varieties on a continues basis. By improving sales volume of ice cream, the company aim to increase the capacity utilization. New markets for ice cream are explored by appointing new dealers at nearby towns, which has started yielding results.

#### **3.4.8 Production process of cattle feed**

Solvent extraction process is a method of extracting maximum oil from copra cake or any other oil-bearing materials. Solvent process is the most modern process adopted to recover even the 7-9 percent residual oil in the coconut cake. Coconut cake, which is the raw material of the solvent process is purchased from the various oil mills, raw material is fed to the extractor from the go down through conveyor belt. If cakes are of considerable thickness, they are passed through a cake breaker. A bed of cake is built up in the extractor over a slow moving band conveyor. As the band moves, hexane (solvent) is sprayed at various stages. The entire process is conducted under controlled temperature and pressure. This solvent, which percolates through the bed of cakes, extracts its oil contents, forming micelle (mixture of oil and solvent).

The bed of materials reaches the other end of the extractor where molasses is sprayed to the required quantity and mixed thoroughly. From these the finished products are stitched and conveyed to go down through slot conveyor. Materials to be pelleted is taken to the pelletize bin

where the feed is pre conditioned with steam, and then it is pelletized using the pellet mill. The hot product is cooled by using the blowed cooler, conveyed to the bagging bin, and bagged.

### **3.4.9 CSR (corporate social responsibility) Activities**

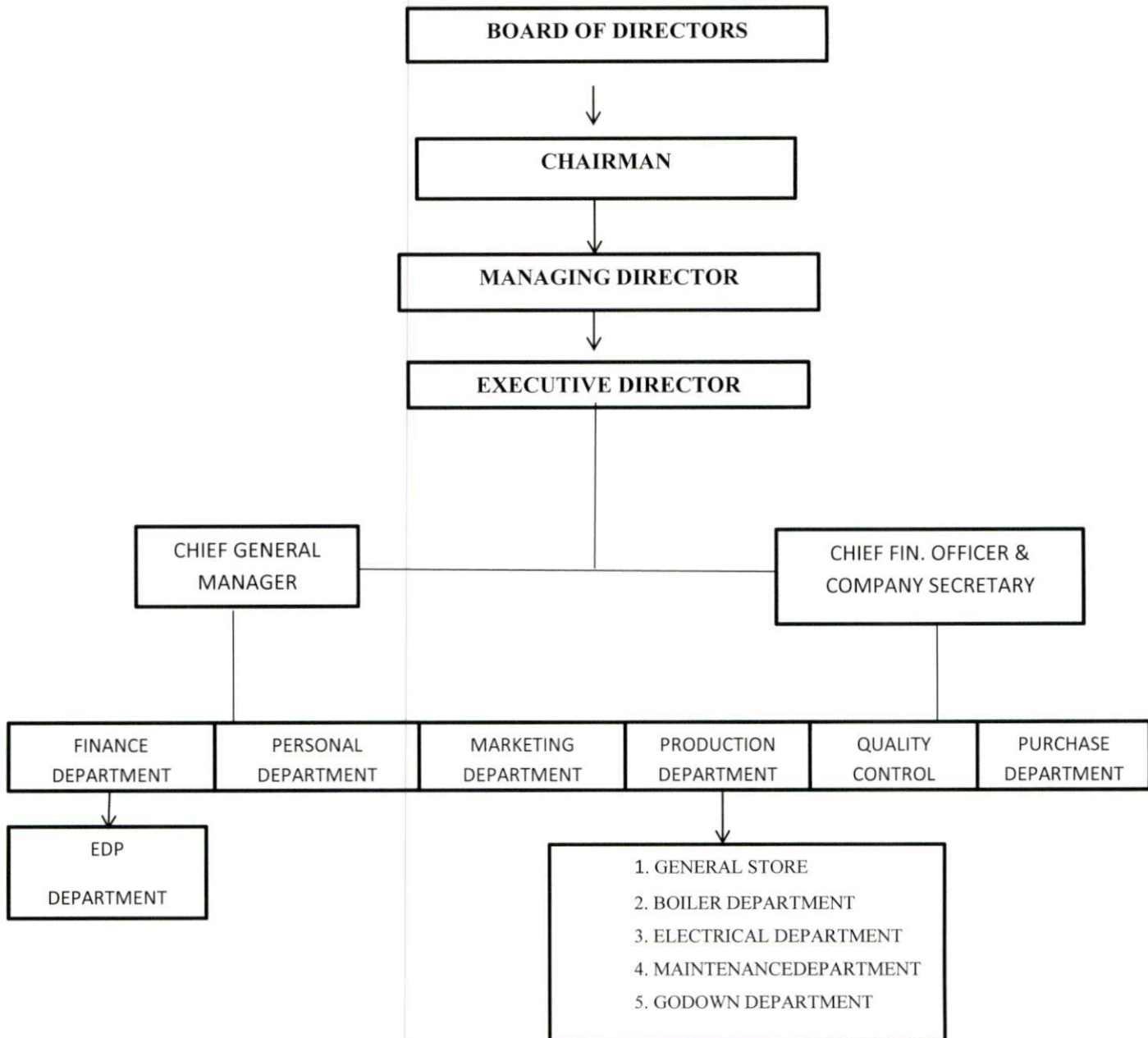
The CSR policy of KSE LTD incorporates the company's philosophy for giving back to the society as a corporate citizen and lays down the guidelines and mechanism for undertaking socially useful program for the welfare and sustainable development of the community at large. The main objective of the policy is to establish the basic principles and the general framework of action for the management to undertake and fulfill its corporate social responsibility. Under the policy, the company is committed to spend in every financial year at least 2 percent of its average profits for three immediately preceding financial years in some of the identified activities.

### **3.4.10 Department profile**

The company is giving greater emphasis to each of its departments. The departmentation helps in the specialization of work in each field. It helps in better concentration in the particular work handled by a particular department; the various departments in KSE Ltd are as follows:

- Finance department
- EDP department
- Personal department
- Marketing department
- Purchase department
- Quality control department
- Production department

**Figure 3.1 Organization structure of KSE Ltd**





## ***Theoretical framework***

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## **CHAPTER-4**

### **THEORITICAL FRAME WORK**

The previous chapter had given an idea about the industry and company profile which discloses position of the cattle feed industry in World, India and Kerala. The foregoing chapter designs a theoretical framework of management of current asset and working capital. This will help to have an idea about the influence of current assets and current liability on the cash management and working capital management. This chapter provides information about the type, feature and management of current asset. It also shows various components of working capital and significance of working capital management.

#### **4.1 Current Asset**

The management of current assets is a very important part of the management of working capital, and under inflationary conditions, it become of utmost importance.

After examining the composition, liquidity and adequacy of working capital and deciding the various tools for the working capital management, it becomes necessary to discuss the management of current assets.

Current assets are held primarily for the purpose of ensuring proper conduct of current operations of any business. Changes in the activities of a business specially rise or fall in the sales volume leads to changes in the total composition of current assets. Therefore, an efficient management of working capital would require changes in current assets that are in tune with the overall business activity reflected generally by the changing sales volume. Growth in current assets uncoupled with a parallel growth in the sales activity would mean inefficient management of current assets.

##### **4.1.1 Characteristic of current assets**

There are two characteristics of current assets:

#### **4.1.1.1 Short life span**

Current assets have a short life span. Cash balances may be held idle for a week or two, accounts receivables may have a life span of 30 to 90 days, and inventories may be held for 1 to 60 days. The life span of current assets depends upon the time required in the activities of procurement, production, sales, and collection and the degree of synchronisation among them.

#### **4.1.1.2 Swift transformation into other assets forms**

Each current asset is swiftly transformed into other asset forms. Cash is used for acquiring raw materials, raw material are transformed into finished goods (this transformation may involve several stages of (work-in-process) finished goods, generally sold on credit, are converted into account receivable (book debt);and, finally, account receivable, on realization, generate cash.

#### **4.1.2 Level of current assets**

Important working capital policy decision is concerned with the level of investment in current assets. Under flexible policy (also referred to as a conservative policy'), the investment in current asset high. This means that the firm maintains a huge balance of cash and marketable securities, carries large amounts of inventories, and grants generous terms of credit to customers which leads to a high level of debtors. Under restrictive policy (also referred to as an aggressive policy) the investment in current assets low. This means that the firm keeps a small balance of cash and marketable securities, manage with small amounts of inventories, and offers stiff terms of credit which leads to a low level of debtors.

The consequences of flexible and restrictive policies are flexible policy result in fewer production stoppages (on account of inventory shortages), ensures quick deliveries to customers, and stimulates sales because liberal credit is granted to customers of course, these benefits come at the cost of higher investment in current assets. A restrictive current asset policy, on the other hand, may lead to frequent production stoppages, delayed deliveries to customers, her hand, may lead to frequent production stoppages, delayed deliveries to customers and loss of sales, These are the costs that the firm may have to bear to keep its investment in current assets low Determining the optimal level of current assets involves a tradeoff between costs that rise with

current assets and costs that fall with current assets. The former are referred to as carrying costs and the latter as shortage costs. Carrying costs are mainly in the nature of the cost of financing a higher level of current assets. Shortage costs are mainly in the form of disruption in production schedule, loss of sales, and loss of customer goodwill. The optimal level of current assets is denoted by CA, as the total costs (the sum of carrying costs and shortage costs) are minimised at that level. Often, the total cost curve is fairly flat around the optimal level. Hence it may be difficult to precisely identify the optimal level. The financial manager must be satisfied if the level of current assets is in a range close to the optimal point.

### **4.1.3 Effective management of current assets**

Current assets are very volatile. Stock may become obsolete or deteriorate. Debtors may not be able to pay and idle cash bank balances have an opportunity cost, as they could either be earning interest or be invested in the business. The more effectively a firm can use its current assets, the greater its profitability. The amount of capital tied up in stock, debtors and cash needs to be constantly monitored to ensure that the highest return on capital can be achieved. Current assets are of a circulating nature. Unlike fixed assets they are constantly changing and it is by using these assets effectively that profit will be made. They are recorded in the balance sheet according to how quickly they can be turned into cash. The quicker an asset can be turned into cash the more liquid it is said to be. Stock is the most illiquid and so it is shown first. Debtors are shown next, followed by bank and cash balances. The current asset management means management of current asset efficiently and effectively so that the short term financial requirement of company can be timely met without result any kind of loss. The management of current asset includes

#### **4.1.3.1 Management of cash**

Cash management simply refers to management of cash, i.e., cash inflows and cash outflows. It is the process of forecasting, collecting, disbursing, investing and planning for the cash a company needs to operate its business smoothly. Good cash management can improve financial results. But it cannot make a weak business strong. On the other hand, bad cash management can make a strong company weak to the point of failure.



A firm receives no return on the cash retained in the business. Hence it is desirable to operate with as little cash as possible. At the same time the firm has to maintain liquidity by keeping more cash reserves. This facilitates to pay the bills in time, take appropriate discounts, meet, emergencies and Cash in on opportunities. The objective of cash management is to strike a balance between too little cash and too much cash. A good cash management minimizes the amount of cash, but at the same time assures there is enough cash available to operate efficiently. Thus the basic objectives of cash management are two-fold: (a) to meet the cash outflows (payments), and (b) to minimize cash balance. These two objectives are contradictory. The firm must have sufficient liquidity even at the cost of reducing profitability. But the objective of minimum cash balance affects the liquidity and thereby increasing the profitability. Hence the financial manager has to achieve a tradeoff between the two objectives. He has to ensure that the minimum cash balance being maintained by the firm is not affecting the payments and meeting all disbursement needs. However, meeting payment needs is more important than minimizing the cash balance.

The other objectives of cash management are: to prevent insolvency or bankruptcy, to maintain a good relation with creditors, suppliers etc., to ensure strong credit rating, to take advantage of favorable business opportunities.

#### **4.1.3.2 Management of Marketable Securities**

Apart from maintaining liquid cash, firms invest their money in marketable securities. Marketable securities are slightly less liquid than cash. But these earn a small return. Marketable securities are short-term highly liquid investments in money market instruments like treasury bills, commercial papers etc. The word 'marketable' implies that the securities can be sold quickly. Marketable securities can be easily converted into cash in a couple of days. For example, treasury bills can be sold within a day. Thus marketable securities can be converted into cash very quickly. Marketable securities are also known as near cash or cash equivalent.

We know that there is no balancing of inflow and outflow of cash. Sometimes more payments are to be made than cash is received. Sometimes more cash is received than payments are to be made. This results either in surplus cash or in cash shortage. If surplus cash is kept as idle, it will earn no return. Hence excess cash should be invested. Where to invest? It should be invested in marketable securities. It is so because marketable securities can be sold very easily whenever

need for cash arises. Besides, the firm can earn some interest on investment in marketable securities. Now two relevant questions arise. One is how much cash should be invested in marketable securities. The other is in what securities cash is to be invested. The answers to these questions are found out by cash management of the firm.

#### **4.1.3.3 Management of inventory**

Inventories constitute a major component in current assets. It constitutes around 60 percent in the public companies in India. For the smooth running, every enterprise needs inventory. Generally inventories form about 20 to 30 percent of the total assets of a manufacturing enterprise. If the inventories are too big, they become a strain on the resources. If they are too small, the firm may lose the sale. Therefore the firm must have an optimum level of inventory for this, an efficient management of inventory is essential. Large scale industries, inventory requires large capital investment. If inventory is not properly managed, it may affect the production, marketing and finance departments. Ultimately this may affect the existence and growth of the business. A firm carries too much inventory, it will run out of cash. Its capital will be unnecessarily tied up in excess inventory. This is so because inventory is illiquid. It brings no return. Rather it brings certain disadvantages. At the same time, if a firm carries too little inventory, it may result in stock outs. The firm may lose sales. It may lose future customers as well. This is because stock-outs result in customer dissatisfaction. So inventories require proper management and control. Inventory management simply refers to management of inventory. Inventory management is the sum total of those activities needed for the acquisition, storage and usage of materials. Although the finance department does not itself manage the firm's inventory, it has a responsibility to ensure that the inventory is being managed effectively and efficiently.

#### **4.1.3.4 Management of Receivables**

Receivables management is an important aspect of working capital management. It is the major component of credit management. The other major component is payables management. Receivables management is one of the 'big three' of cash management. Others are payable management and inventory management. Receivables management simply refers to management of receivables. It refers to planning and control of receivables of a firm. It is the process of making decisions relating to investment in trade debtors. In short, receivable management is a process to minimise the risk (of bad debts) maximise the returns on receivables.

The basic goal of receivables management is to achieve a trade-off between liquidity and



profitability. When the firm sells goods on credit, its receivables will increase. Then sales tend to go up. This increases profit. But selling on credit is expensive. It requires more staff and more cash to service accounts receivables. Further, there is always the risk of bad debts. Thus selling on credit has advantages as well as disadvantages. When the firm does not sell goods on credit, there will be no receivables. But sales will fall. Profits also fall. At the same time there are no additional expenses and losses on account of bad debts. Thus decrease in receivables has both benefits and costs. In short, when the receivables increase profitability increases, but liquidity weakens and when receivables decrease, profitability decreases, but liquidity strengthens. Thus there is a need for a trade-off between liquidity and profitability. The goal of receivables management is to achieve a balance between liquidity and profitability. Therefore, the firm should manage its receivables in such a manner that the receivables should not be too much and these should not be too less; these must be kept at optimum size.

#### **4.2 Management of current liabilities**

The source of current assets is current liabilities so management of current liabilities is also important in every organisation.

##### **4.2.1 Management of payables**

There is an old saying in business that if you can buy well then you can sell well. Management of your creditors and suppliers is just as important as the management of your debtors. Trade creditor is a spontaneous source of finance in the sense that it arises from ordinary business transaction. But it is also important to look after your creditors – slow payment by you may create ill feeling and your supplies could be disrupted and also create a bad image for your company.

Creditors are a vital part of effective cash management and should be managed carefully to enhance the cash position.

#### **4.3 Working capital**

Working capital is the capital required for the day to day working of an enterprise. It is required for the purchase of raw material and for meeting the day to day expenditure on salaries, wages, rents, advertising etc.

In other words “working capital is the amount of funds necessary to cover the cost of operating the enterprise”

Working capital is the difference between inflow and outflow of funds. It means it is the net cash inflow. It is the net cash inflow. It is the assets and liabilities required to operate a business on day to day basis.

#### **4.3.1 Definition of working capital**

working capital is defined to include “Stocks of materials, fuels, semi-finished goods including work-in-progress and finished goods and byproducts; cash in hand and bank and the algebraic sum of sundry creditors as represented by (a) outstanding factory payments e.g. rent, wages, interest and dividend; b) purchase of goods and services; c) short-term loans and advances and sundry debtors comprising amounts due to the factory on account of sale of goods and services and advances towards tax payments”

#### **4.3.2 Components of working capital**

There are two components of working capital.

##### **4.3.2.1 Current Assets**

Current assets are those assets which can be converted into cash in the normal course of activity of a firm usually one year. Examples of current assets include cash, short term investment, bank balance, B/R, stock of raw material, stock of work in progress, stock of finished goods, sundry debtors, prepaid expenses, advance payment of tax etc.

##### **4.3.2.2 Current Liabilities**

Current liabilities are those liabilities which are repayable during short period usually within a year. Examples of current liabilities include short term borrowings, sundry creditors, B/P; advance payment from customers, outstanding expenses, provision for taxation, dividends payable etc.



### **4.3.3 Concept of working capital**

#### **4.3.3.1 Gross Concept**

According to gross concept working capital refers to the amount of funds invested in current assets. Thus working capital is equal to total current assets. The working capital as per gross concept is called gross working capital. This concept is used by the management to evaluate the current working capital position and to ensure the optimum investment in individual current assets. Gross concept is a quantitative concept.

#### **4.3.3.2 Net Concept**

According to net concept, working capital refers to excess of current assets over current liabilities. To be more clearly, working capital is equal to total Current assets minus total current liabilities. Thus working capital refers to net current asset. The working capital as per net concept is called networking capital. The net concept is a qualitative concept because it establishes a relationship between current assets and current liabilities.

### **4.3.4 Types of working capital**

#### **4.3.4.1 Permanent working capital**

There is always a minimum amount of working capital which is continuously required by the enterprise to carry out its normal business operations. This is usually called as permanent or fixed working capital. Thus, fixed working capital (hard core element of working capital) is the minimum amount of working capital required to ensure effective utilization of fixed assets and support the normal operation of the business. It is that part of capital which is permanently blocked in current assets. Permanent working capital is again divided into three-initial working capital, regular working capital and cushion working capital.

#### **4.3.4.2 Variable Working Capital**

Any amount over and above the permanent working capital is variable or temporary working capital. It is the working capital which varies with volume of business. This is the additional capital needed to meet seasonal and special needs Thus, variable working capital is that part of total working capital which is required by a business over and above the permanent

working capital. Variable working capital is again divided into two seasonal working capital and special working capital.

#### 4.3.4.3 Other Types of Working Capital

Apart from the above, there are some other types of working capital. They are balance sheet working capital and cash working capital.

- **Balance Sheet Working Capital:** This is calculated from the items appearing in the balance sheet. Both gross working capital and net working capital are the examples of the balance sheet working capital.
- **Cash Working Capital:** Cash working capital is required to make payments to its suppliers, to ' pay day to day expenses and to pay salaries, wages, interests and dividends. The items of cash working capital appear in the P/L A/c. Cash working capital shows the impact of various transactions on cash position of a firm.

#### 4.3.5 Importance of Working Capital (Need/Role)

Working capital is just like heart of business. If the heart is weak, it cannot pump blood and human beings cannot work and survive for long Likewise, if the working capital position is weak, a firm cannot work smoothly although there is large investment in fixed assets. Fixed assets can be effectively utilised only if there is adequate working capital. The need for working capital arises because sales do not convert into cash immediately. There is a time lag between the sale of and receipt of cash. Therefore, there is a need for working capital in the form of current assets to deal with the problem arising out of the lack of immediate realisation of cash against goods sold without working capital; a firm cannot operate its business. It is a must for the purchase of raw material, and for meeting the day-to-day expenditure on salaries, wages, rents, advertising, lighting etc. The fate of large scale investment is determined by a relatively small amount of current assets Both excessive and inadequate working capital positions are harmful. Excessive working capital results in idle funds on which no profit is earned. Meanwhile insufficiency of working capital results in interruption of production and inefficiencies which adversely affect the profit of the firm. Fixed assets once acquired, create no recurring problems except those relating to their proper maintenance. But the management of working capital is an endless process which involves constant vigil and watch of flow of funds during an operating cycle. A company's profitability is in one way determined by the management of its working capital. Hence financial managers spend a great deal of time on working capital management.

There is nothing wrong in saying that the working capital management is a constant head ache of financial manager.

#### **4.3.6 Dangers of Deficiency of Working Capital**

Every business unit should have adequate working capital to run the business. A firm should neither have excess or redundant working capital nor inadequate or shortage of working capital. Both excess as well as short working capital position are bad for any business. However, out of the two, it is the in adequacy of working capital which is more dangerous from the point of view of the firm.

The following are the dangers of deficiency of working capital.

- It may lead to business failure
- The firm cannot take advantage of new opportunities or adapt to changes
- Trade discounts will be lost
- Cash discounts will be lost
- Financial reputation is lost. Creditors may co-operate in times of difficulty because of the loss of creditworthiness.
- Creditors may apply to court for winding up
- Rate of return on investment falls
- It affects dividend policy adversely
- The company cannot utilise its fixed assets properly

#### **4.3.7 Dangers of excessive working capital**

- Excessive working capital means idle funds which gives no profit. Thus the rate of return fall
- The value of shares may fall due to lower rate of return on investment
- Efficiency of management may deteriorate
- It may encourage speculation.
- Liberal dividend policy may be encouraged
- Inefficiency may be encouraged. There may be increased waste and loss due to bad debts.



#### 4.3.8 Advantages of Adequate Working Capital

- The firm can avail of the cash discount facilities offered by the supplier.
- It enhances the liquidity, solvency and creditworthiness of the concern.
- It is possible to meet unseen contingencies and successfully sail through the periods of crisis
- It improves the morale of the executives
- Good relations with banks can be maintained
- It is possible to utilise fixed assets fully
- It enables to undertake research, innovation and expansion programmes
- It increases profitability of the business
- It ensures regular supply of raw materials and continuous production
- It can make regular payment of day-to-day expenses

#### 4.3.9 Operating Cycle Concept

A new concept which is gaining more and more importance in recent years is the 'Operating cycle concept' of working capital, Operating cycle refers to the average time elapses between the purchase of raw materials and the final cash realisation According to Hunt, William and Donaldson "The working capital is required because of the time gap between the sale and their actual realisation in cash. This time gap is technically termed as 'Operating Cycle' of the business Cash is used to buy raw materials and other stores, then the raw materials and stores are issued to the production department. Wages are paid and other expenses are incurred in the process and work in progress comes into existence. After sometimes the work-in process becomes finished goods, finished goods are sold to customers on credit, In the course of time these customers pay cash. Cash is realised and the cycle is completed. Thus the cash is converted into raw materials which are converted into work in progress, These work-in progress become finished goods which are converted into debtors and bills (when the goods are sold on credit). Finally cash is realised from debtors and bills. This time period is simply known as operating or cash or working capital cycle. Thus, operating cycle is the period of time which a firm requires to manufacture and sell the products and collect cash. In case of a manufacturing company, the operating cycle is the length of time necessary to complete the following cycle of events:

- Conversion of cash into raw materials
- Conversion of raw materials into work in progress

- Conversion of work in progress into finished goods.
- Conversion of finished goods into accounts receivables (debtors and bills)
- Conversion of accounts receivable into cash

#### 4.3.10 Factors Determining Working Capital Requirement

There is a set of universally applicable rules to ascertain working capital needs of a business organization. The factors which influence the need level are as follows:

- **Nature of Business:** If we look at the balance sheet of any trading organization, we find major parts of the resources are deployed on current assets, particularly stock-in-trade. Whereas in case of a transport organization major part of funds would be locked up in fixed assets like motor vehicles, spares and work shed etc. And the working capital component would be negligible. The service organization or public utilities need lesser working capital than trading and financial organizations. Therefore, the requirement of working capital depends upon the nature of business carried by the organization.
- **Manufacturing Cycle:** Time span required for conversion of raw materials into finished goods is a block period. The period in reality extends a little before and after the work-in-progress. This cycle determines the need of working capital.
- **Business Cycle Fluctuations:** This is another factor which determines the need level. Barring exceptional cases, there are variations in the demand for goods or services handled by any organization. Economic boom or recession etc., have their influence on the transitions and consequently on the quantum of working capital required.
- **Seasonal Variations:** Variation a part, seasonality factor creates production or even storage problem mustard and many other oil seeds are Rabi crops, These are to be purchases in a season to ensure continuous operation of oil plant. Further there are woolen garments which have demand during winter only. But manufacturing operation has to be conducted during the whole year resulting in working capital blockage during off season.
- **Credit Policy:** In good many cases, account receivables are sterile and sticky and thereby they have forfeited the right to be classified as current assets. In view of such situation in ascertaining quick ratio instead of deducting stock in trade we find it worthwhile to deduct sundry debtors. The component is credit policy of the suppliers, their terms and conditions of credit. Trade credit has its historical presence in the trading world.



Availability of normal credit supplies as well as trade credit facilitates working capital supply and reduces the need for bank finance. Credit policy of the business organization includes to whom, when and to what extent credit may be allowed. Amount of money locked up in account receivables has its impact on working capital.

- **Accessibility To Credit:** Credit worthiness is the precondition for assured accessibility to credit. Accessibility in banks depends on the flow of credit, i.e., the level of working capital.
- **Growth And Diversification Of Business:** Growth and diversification of business call for larger volume of working fund. The need for increased working capital does not follow the growth of business operations but precedes it. Working capital need is fact assessed in advance in reference to the business plan
- **Supply Situation:** In easy and stable supply situation no contingency plan is necessary and precautionary steps in inventory investment can be avoided. But in case of supply uncertainties, lead time may be longer necessitating larger basic inventory, higher carrying cost and working capital need for the purpose, No aggressive approach can gain foothold in such situation.

#### 4.3.11 Management of working capital

Proper management is needed for working capital. Working capital management simply refers to management of working capital. In other words, it is the management of current assets and current liabilities. It involves the problem of decision making regarding investment in various current assets for maintaining the liquidity of funds. According to Smith, "Working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities and the interrelationships that exist between them". It involves both formulating working capital policy and carrying out that policy in day-to day operations. The objectives of working capital management are twofold:

- maintenance of working capital
- availability of sufficient funds at the time of need

#### **4.3.11 Importance of Working Capital Management**

The importance of the sound and proper management of working capital may be studied from the following facts

- About 50 percent to 70 percent capital of a manufacturing firm is invested in its current assets. In capital budgeting, we consider about fixed investment in very detail that is nearly 30 percent to 50 percent of the total funds. Hence the management of current assets should get proper attention of the management
- Fixed assets can be acquired even on lease but there is no alternative for current assets. There is no way of avoiding the investment in inventory and in receivable
- There is a positive correlation between the sale of a firm and its current assets. With an increase in sales a corresponding increase in current asset is also required. As a result, their proper administration too becomes important
- Working capital requirements are generally financed through outside sources. So a continuous effort is necessary to utilise them in the best way. Surveys indicate that most of the part of the finance manager's time is devoted to the management of current assets and current liabilities (i.e., working capital management)
- Working capital management is particularly important for small firms. A small firm has relatively limited access to the long term capital markets. Therefore, it must depend heavily on short-term bank loans and trade credit (i.e., current liabilities)

#### **4.3.12 Determination of Working Capital Management**

Working capital is the life blood and the controlling nerve centre of a business. No business can be successfully run without adequate amount of working capital. Hence it becomes essential to forecast the required amount of working capital in the future so that there is no difficulty in procuring the working capital. But it is not easy to estimate the working capital requirement. A large number of factors will have to be considered while estimating the working capital required. In case of a manufacturing company, the following factors should be taken into consideration:

- Total cost incurred on material, wages and overheads
- The length of time for which raw materials are to remain in stores before they are issued for production

- The length of the production cycle or work in progress (i.e, the time taken for the conversion of raw materials into finished goods)
- The length of the sales cycle during which finished goods are to be kept waiting for sale
- The average period of credit allowed to customers
- The amount of cash required to meet the day-to-day expenses.
- The average amount of cash required to make advance payments, If any
- Time lag in payment of wages and other expenses
- The average period of credit allowed by suppliers
- Amount to be provided for contingencies

#### **4.3.12 Methods of Estimating Working Capital Requirement**

##### **4.3.12.1 Net Current Asset Forecast Method**

This is the most practical and widely used method of estimating working capital requirement. Under this method, first of all, value of each current asset is estimated. After this an estimate of current liabilities is made. Difference between the total estimated amount of current assets and current liabilities gives the net working capital requirement of the firm. To this amount some extra amount (or safety margin) by way of provision for contingency is added. This is generally calculated as a fixed percentage of working capital.

##### **4.3.12.2 Operating Cycle Method**

Operating cycle is the duration of time within which one cycle of business operation is completed. Business operations involve a number of stages. The first stage begins with a cash outflow (when purchase of raw material is made). Subsequently, it passes through various stages such as work in progress, finished goods, credit sales, book debts or B/R etc. Finally it ends with cash inflow as a result of recovery from debtors or realisation of B/R. A series of such operating cycles recur one after another and chain continues till the end of the operating period. In this way the entire operating period has a number of operating cycles. Shorter the operating cycle period, lower will be the requirement of working capital and vice versa.

##### **4.3.12.3 Projected Balance Sheet Method**

Under this method, estimates of different assets (excluding cash) and liabilities are made taking into consideration the transactions in the ensuing period. Thereafter, a balance sheet is prepared on the basis of these forecasted assets and liabilities. It is called Projected Balance Sheet. The difference between the total assets and total liabilities of projected balance sheet is



treated as shortage or surplus of cash of that period. If the total liability side is more than the total asset side, it represents excess cash which is not required by the firm. The management may plan for its investment. If, on the other hand, the total asset side is more than the total liability side, it indicates deficiency of working capital which is to be arranged either by way of bank overdraft or from other sources

#### **4.3.12.4 Adjusted Profit and Loss Method**

Under this method, estimated profit is calculated on the basis of transactions of the ensuing period. Thereafter, increase or decrease in working capital is computed adjusting the estimated profit by cash inflows and cash outflows. It is like cash flow statement

#### **4.3.12.5 Cash Forecasting Method**

In this method, estimate is made of cash receipts and payments in the ensuing period. The difference of these receipts and payments indicates surplus or deficiency of cash. It is like cash budget.

#### **4.3.12.6 Regression Analysis Method**

This is a statistical technique for forecasting working capital requirements. It helps in making working capital requirement projections after establishing the average relationship between sales and working capital and its various components in the past years. The method of least squares is used in this regard.

#### **4.3.13 Sources of Working Capital**

Working capital is financed through the following sources:

##### **4.3.13.1 Long term sources:**

These provide funds for a relatively long period. The main long term sources are share capital, debentures, long term borrowings, retained earnings etc.

##### **4.3.13.2 Short term sources:**

These usually provide funds for a short period says up to one year or so. The main short term sources are bank credit (commercial banks and indigenous banks), public deposit, commercial papers, factoring etc.

##### **4.3.13.3 Transactionary sources:**

These provide funds to a business through the normal business operation. These are automatic sources of short term funds. These are also called spontaneous sources of finance.

These are cost free trade credit (credit allowed) by suppliers, outstanding, expenses, tax liabilities, depreciation etc. fall in this category.

#### **4.4 Tools and techniques used in this study**

- Ratio analysis
- Trend Analysis
- Funds Flow Statement
- Cash Flow Statement

##### **4.4.1 Ratio analysis**

Ratio analysis is one of the most powerful tools of financial analysis. Ratio analysis was most probably the first financial tool developed to analyse and interpret the financial statements and is still used widely for this purpose. It is the process of determining and interpreting various ratios for helping in making certain decisions

Ratio analysis is the interpretation of financial statements with the help of accounting ratios arrived from the balance sheet and profit and loss account. It involves the comparison of existing ratios against standard established. The standard may be set by management as goals expressed in the past or may be figures reflecting the performance of the companies. Accounting ratio can be classified in several ways. In general, accounting ratio may be classified on the following basis:-

##### **4.4.1.1 Liquidity ratio**

The term liquidity refers to the firm's ability to pay its current liabilities out of its current assets. Liquidity ratios are used to measure the liquidity position or short term financial position of a firm. These ratios are used to assess the short term debt paying ability of a firm. These ratios are highly useful to creditors and commercial banks that provide short term credit. Important liquidity ratios are current ratio, quick ratio, super quick ratio etc.

##### **4.4.1.1.1 Current ratio**

Current ratio is one of the oldest of all financial ratios. It is the most common ratio for analysing liquidity or short term financial position. Current ratio is defined as the ratio of current asset to current liabilities. It shows the relationship between total current assets to total current liabilities. Current ratio is also known as working capital ratio or banker's ratio. The objective of computing this ratio is to measure the ability of a firm to pay off its obligations in



time. Generally a current ratio of 2 : 1 is considered as ideal. current ratio is an index of the strength of working capital. It is calculated as follows :

$$\text{Current ratio} = \text{Current Assets} / \text{Current Liabilities}$$

#### **4.4.1.1.2 Quick Ratio or Liquid Ratio**

Liquid ratio is the ratio of liquid liabilities. It establishes between quick assets and current liabilities. It is based on those current assets which are highly liquid-inventories are excluded from the numerator of this ratio because inventories are deemed to be the least liquid component of current assets. An asset is liquid if it can be converted into cash immediately or reasonable soon without a loss value. Quick ratio of 1:1 is considered to be satisfactory as a firm can easily meet all its current liabilities.

$$\text{Quick ratio} = \text{Quick assets} / \text{Current liabilities}$$

#### **4.4.1.1.3 Super quick ratio**

The ratio establishes the relationship between super quick asset and quick liabilities. But for calculation purposes, it is taken as the ratio of super quick assets and current liabilities. Super quick assets or absolutely liquid assets include cash in hand, cash at bank, marketable securities or short term investments. The super quick ratio is also known as absolute liquid ratio or cash ratio. The desirable standard ratio is 0.5:1. The formula for calculate the ratio is:

$$\text{Super quick ratio} = \text{Super quick assets} / \text{Current liabilities}$$

#### **4.4.1.2 Profitability ratios**

Profitability reflects the final result of business operations. There are two types of profitability ratios profit margins ratios and rate of return ratios. Profit margin ratios show the relationship between profit and sales since profit can be measured at different stages, there are several measures of profit margin. The most popular profit margin ratios: are gross profit, margin ratio, operating profit, margin ratio, and net profit margin ratio. Rate of return ratios reflect the relationship between profit and investment. The important rate of return measure are return on assets, earning power, return on capital employed, and return on equity.

##### **4.4.1.2.1 Net profit ratio**

It is the ratio of net profit earned by a business and its net sales. It measures overall profitability. Net profit can be calculated in two ways. One is to take Profit before Tax (PBT). The other is to take Profit after Tax (PAT). The objective of calculating this ratio is to measure the overall profitability. The ideal net profit ratio is 5 percent to 10 percent. Net profit indicates

efficiency as well as profitability of a business. It determines the returns to the owners. Higher the ratio better is the profitability. This means returns to shareholders.

$$\text{Net profit ratio} = \text{Net profit} / \text{Net sales}$$

#### **4.4.1.2.2 Gross profit ratio**

This is the ratio of gross profit to sales expressed as a percentage. It is also known as gross margin. The ideal ratio is 20 percent and 25 percent. A high gross profit ratio is a sign of efficient production or purchase management.

$$\text{Gross profit ratio} = \text{Gross profit} / \text{Net sales}$$

#### **4.4.1.2.3 Operating Ratio**

Operating ratio indicates the relationship between operating cost and sales. It indicates the overall efficiency in operating the business. The equation for computing operating ratio is as follows

$$\text{Operating Ratio} = (\text{Cost of Goods Sold} + \text{Operating Expenses}) / \text{Net Sales} * 100$$

#### **4.4.1.2.4 Operating Profit Ratio**

Operating profit ratio explains the relationship between operating profit and net sales. This ratio is expressed in percentage. The two components of operating profit ratio are operating profit and net sales. Operating profit means profit from normal business operations. It is the profit before adjusting non-operating expenses, purely financial charges like interest on loan and debenture and non-operating incomes. Non-operating incomes include dividend received, profit on sale of fixed asset, interest on deposit etc.

$$\text{Operating profit ratio} = \text{Operating Profit} / \text{Net sales}$$

#### **4.4.1.3 Working capital ratio**

##### **4.4.1.3.1 Net working capital ratio**

This ratio shows the liquidity of the firm. High amount of working capital increases the liquidity of the firm and low net working capital decrease the liquidity position. It is calculated by dividing the net working capital by net asset.

$$\text{Net working capital ratio} = \text{Net working capital} / \text{Net Assets}$$

##### **4.4.1.3.2 Current Asset to Working Capital Ratio**

The ratio shows the relationship between current asset and working capital. In this very high and low ratio is not good, because that shows more working capital or less working capital is contained in the current assets.

Current Asset to Working Capital Ratio = Current Asset / Net working Capital

#### **4.4.1.3.3 Current Liability to Working Capital Ratio**

The ratio shows the relationship between the current liabilities to net working capital. In this, very high and low ratio is not a good sign, because it shows more working capital or less working capital is contained in the current liabilities.

Current Liability to Working Capital Ratio = Current Liabilities / Net working capital

#### **4.4.1.4 Activity Ratio**

Activity ratios show how effectively a firm uses its available resources or assets. These ratios indicate efficiency in asset management. These ratios are also known as efficiency ratios or performance ratios or assets utilisation ratios. These ratios indicate the cash elasticity of current assets. In other words, these ratios indicate the speed with which the resources are turned over or converted into cash. That is why these ratios are called turnover ratios. Higher turnover ratio means better use of resources. This further means higher profitability.

##### **4.4.1.4.1 Working Capital Turnover Ratio**

Current assets will change with change in sales. This means working capital is related with sales. The relation between sales and working capital is called working capital turnover ratio. This ratio shows how many times the working capital is turned over to produce sales. Working capital turnover ratio computed by the following equation.

Working Capital Turnover Ratio = Net Sales / Working Capital

#### **4.4.2 Trend Analysis**

An aspect of technical analysis that tries to predict the future movement of a stock based on past data. Trend analysis is based on the idea that what has happened in the past gives an idea of what will happen in the future. There are three main types of trends—short, intermediate, and long term—comparing the past data over a period of time with a base year is called trend analysis. Trend analysis means analyzing general tendencies in each item of the financial statements on the basis of the data of the base year. In short, comparing the past data over a period of time with a base year is called trend analysis. Under this technique, information for a number of years is taken up and one year (usually the first year) is taken as base year. Each item of the base year is taken as 100 and on that basis the percentages for other years are calculated.



#### **4.4.3 Statement of Changes in Working Capital**

The statement of changes in working capital shows the changes in individual items of current assets and current liabilities between two years, and their effect on working capital. Working capital for the previous year is calculated by taking out the difference between total current assets and total current liabilities of the previous year. In the same manner, working capital for the year is calculated. By comparing the working capital of the previous year and that current year, increase or decrease in working capital is calculated. The net increase in working capital is taken as use of fund and the net decrease in working capital is taken as source of fund in the funds flow statement.

#### **4.4.4 Funds Flow Statement**

Fund flow statement measures the changes that have taken place in the financial position of a firm between two balance sheet dates. According to Anthony, "The fund flow statement describes the sources from which additional funds were derived and the uses to which these sources were put" In the words of R.A. Foulke, "A statement of sources and applications of funds is a device designed to analyse the changes in financial condition of a business enterprise between two dates" Almond Coleman defines fund flow statement as, "a statement summarising the significant financial changes which have occurred between the beginning and the end of accounting period" Fund flow statement is a statement of flows (inflows and outflows) of fund It is a statement showing movement of funds between two dates. In short, it is a statement of sources and uses of fund. Funds flow statement is also known as "Where got and where gone statement" or "Statement of changes in financial position In India, it is not compulsory to prepare a fund flow statement. But it is desirable to prepare and present it along with annual accounts.



***Data analysis and interpretation***

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## CHAPTER-5

### DATA ANALYSIS AND INTERPRETATION

The previous chapter has thrown light on the theoretical framework of management of current asset and working capital. This chapter focuses on the analysis and interpretation of financial data collected from KSE Ltd, Irinjakkuda. Various statistical tools like ratio analysis, trend analysis, schedule of working capital and fund flow statement are used for data analysis.

#### 5.1 Ratio Analysis

Ratio analysis is a widely used technique of analysing financial statements. An analysis of financial statements with the help of ratios is termed as ratio analysis. It is a systematic use of accounting ratios to interpret the financial statement for studying the current asset and working capital position of the company.

##### 5.1.1 Liquidity Ratios

Liquidity refers to the ability of a firm to meet its obligations in the short run, usually one year. Liquidity ratios are generally based on the relationship between current assets (the sources for meeting short term obligations) and current liabilities (the obligations which will mature in the short run). The important liquidity ratios are:

- Current ratio
- Quick ratio
- Super quick ratio.

### 5.1.1.1 Current Ratio

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

Table 5.1 Analysis of Current Ratio

Year	Current Assets	Current Liabilities	Current Ratio
2008-09	3270.91	1142.61	2.86
2009-10	3277.43	1259.56	2.60
2010-11	3843.90	3212.23	1.20
2011-12	4979.92	3738.82	1.33
2012-13	5481.94	4574.09	1.20
2013-14	5794.31	3847.88	1.51
2014-15	10917.54	6038.41	1.81
2015-16	8802.19	3725.38	2.36
2016-17	12563.57	6215.84	2.02
2017-18	20029.79	7925.30	2.53

Source: compiled from annual reports of the company (In lakhs)

#### Interpretation:

Table 5.1 depicts a clear picture of the current ratio. Current ratio is calculated with the help of equation current assets divided by current liabilities. Generally a current ratio of 2:1 is considered as ideal. This means that current assets shall be twice of current liabilities. During the years 2008-09 and 2009-10 the company has an ideal current ratio. Then the current ratio shows a declining trend during the years 2011-12, 2012-13, 2013-14 and 2014-15. The reason behind the declining trend was increase in the short term borrowings of the company during the period 2011-12, 2012-13. In the year 2013-14 is current ratio decrease due to increase in short term provisions and other current liabilities of the company. In the year 2014-15 the current ratio declined due to increase in trade payables and other current liabilities. In the last three years company have satisfactory current ratio. Changes in current ratio during in the year 2015-16 decrease in all current liabilities. During the years 2016-17 and 2017-18 there recorded high increase in current assets.

### 5.1.1.2 Quick / Acid Test Ratio / Liquid Ratio

$$\text{Quick Ratio} = \text{Quick Assets} / \text{Current Liabilities}$$

Table 5.2 Analysis of Quick Ratio

Year	Quick Assets	Current Liabilities	Quick Ratio
2008-09	801.05	1142.61	0.70
2009-10	1194.81	1259.56	0.95
2010-11	582.70	3212.23	0.18
2011-12	831.59	3738.82	0.22
2012-13	744.79	4574.09	0.16
2013-14	824.41	3847.88	0.21
2014-15	4316.88	6038.41	0.71
2015-16	1502.47	3725.38	0.40
2016-17	5131.57	6215.84	0.83
2017-18	10977.90	7925.30	1.39

Source: compiled from annual reports of the company (In lakhs)

#### Interpretation:

Table 5.2 shows a clear image of the quick ratio. Quick asset means the current assets other than inventories and prepaid expenses. The ideal quick ratio is 1:1. From 2008-09 to 2016-17 the quick ratios of the company were not satisfactory. But except for two years 2009-10 and 2016-17 firms have much better quick ratios. Generally firm invest lesser amounts on quick assets. It is reason for the company having quick ratio less than one. During these periods the company has no ability to meet current or liquid liabilities on time. But the company has achieved satisfactory quick ratio in the year 2017-18, due to company making large deposits in short term investments.



### 5.1.1.3 Absolute Quick Ratio

Absolute Liquidity Ratio = (Cash + Marketable Securities) / Current Liabilities

Table 5.3 Analysis of Absolute Quick Ratio

Year	Super Quick Assets	Current Liabilities	Super Quick Ratio
2008-09	439.04	1142.61	0.38
2009-10	860.31	1259.56	0.68
2010-11	348.07	3212.23	0.11
2011-12	583.33	3738.82	0.16
2012-13	375.78	4574.09	0.08
2013-14	314.41	3847.88	0.08
2014-15	3777.75	6038.41	0.63
2015-16	1043.97	3725.38	0.28
2016-17	1139.68	6215.84	0.18
2017-18	2073.76	7925.30	0.26

Source: compiled from annual reports of the company (In lakhs)

#### Interpretation:

Table 5.3 depicts clear picture of absolute liquidity ratios of the company's. Absolute quick ratio shows the relationship between absolute quick asset and current liability. Absolute liquid ratio includes cash, bank balances and marketable securities. Absolute quick ratio of 0.50:1 considered as favorable. The ratio indicates the company's ability to pay its short term obligations using super quick assets say cash and cash equivalents. In the years 2009-10 and 2014-15 the company has achieved favorable absolute quick ratio. Both the year company has maintained larger amounts of cash and cash equivalents. During the remaining eight years the absolute liquid ratio was far below than ideal level. The phenomenal is not favorable for the company.

### 5.1.2 Profitability Ratios

The term profitability refers to the ability of a firm to earn maximum profit from best utilisation of its resources. The profitability of a firm can be easily measured by its profitability ratios. Profitability ratios measure the ability of the firm to earn an adequate return on sales, total assets and invested capital. There are two types of profitability ratios. First, profitability ratios based on sales and second, profitability ratios based on investment.

#### 5.1.2.1 Net Profit Ratio

$$\text{Net Profit Ratio} = \text{Net Profit} / \text{Net Sales} * 100$$

Table 5.4 Analysis of Net Profit Ratio

Year	Net Profit	Net sales	Net Profit Ratio
2008-09	320.54	35007.87	0.92
2009-10	827.27	37094.19	2.23
2010-11	449.81	45368.03	0.99
2011-12	1044.93	54222.00	1.93
2012-13	465.30	69717.71	0.67
2013-14	1537.36	80630.33	1.91
2014-15	4363.41	89970.05	4.85
2015-16	758.07	92493.46	0.82
2016-17	1636.02	104724.53	1.56
2017-18	6962.71	130417.33	5.34

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

Table 5.4 shows a picture of net profit ratio of the company. The higher net profit ratio shows better profitability and higher return to shareholders. The ideal net profit ratio is 5 to 10 percent. In 2014-15 and 2017-18 the company has good net profit ratio; 4.85 percent and 5.34 percent respectively. In the year 2017-18 only the company achieved the ideal net profit ratio. In this year company has high profitability and it could offer high return to shareholders. In the years 2008-09, 2010-11, 2012-13 and 2015-16 the company has insignificant net profit ratio. In this period the company very has low profitability.



### 5.1.2.2 Gross Profit Ratio

$$\text{Gross Profit Ratio} = \text{Gross Profit} / \text{Net Sales} * 100$$

Table 5.5 Analysis of Gross Profit Ratio

Year	Gross Profit	Net sales	Net Gross profit Ratio
2008-09	6073.28	35007.87	17.35
2009-10	7280.97	37094.19	19.63
2010-11	7307.95	45368.03	16.11
2011-12	9195.46	54222.00	16.96
2012-13	9243.37	69717.71	13.26
2013-14	11508.70	80630.33	14.27
2014-15	15950.78	89970.05	17.73
2015-16	12343.26	92493.46	13.35
2016-17	14539.87	104724.53	13.88
2017-18	34060.67	130417.33	26.12

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

Table 5.5 explains the relationships between gross profit and net sales of the company. The satisfactory or ideal gross profit ratio is 20- 25 percent. A high gross profit ratio is a sign of efficient production or purchase management and low gross profit ratio is a danger situation. In 2008-09 to 2011-12 the gross profit ratio is between 15-20 percent. In 2012-13, 2013-14, 2015-16 and 2016-17 the gross profit ratio where less than 15 percent. But the company achieved ideal or satisfactory gross profit ratio in the year 2017-18. In that year the gross profit ratio has reached above 25 percent. From this table clear that now the company has efficient production and purchase management system.

### 5.1.2.3 Operating Ratio

$$\text{Operating Ratio} = (\text{Cost of Goods Sold} + \text{Operating Expenses}) / \text{Net sales} * 100$$

Table 5.6 Analysis of Operating Ratio

Year	Cost of Goods sold	Operating Expense	Net sales	Operating Ratio
2008-09	28934.59	5718.35	35007.87	98.99
2009-10	29813.23	5739.15	37094.19	95.84
2010-11	38060.08	6708.68	45368.03	98.68
2011-12	45026.54	7722.70	54222.00	97.28
2012-13	60474.34	8685.46	69717.71	99.20
2013-14	69121.63	9254.61	80630.33	97.20
2014-15	74019.27	10770.67	89970.05	94.24
2015-16	80150.20	11347.17	92493.46	98.92
2016-17	90184.66	12161.04	104724.53	97.73
2017-18	96357.14	13159.50	130417.33	83.97

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

Table 5.6 depicts clear picture of operating ratio of the company. It shows the general profitability of an enterprise and finds the operational efficiency. The ideal or satisfactory operating ratio for manufacturing concern is 75 – 85 percent. The company has achieved the satisfactory operating ratio in the 2017-18 and it favorable to the business condition. The remaining nine years the operating ratios more than ideal.



#### 5.1.2.4 Operating Profit Ratio

$$\text{Operating Profit Ratio} = \text{Operating Profit} / \text{Net Sales} * 100$$

Table 5.7 Analysis of Operating Profit Ratio

Year	Operating Profit	Net sales	Operating profit Ratio
2008-09	354.93	35007.87	1.01
2009-10	1541.81	37094.19	4.16
2010-11	599.27	45368.03	1.32
2011-12	1472.76	54222.00	2.72
2012-13	557.91	69717.71	0.80
2013-14	2254.09	80630.33	2.80
2014-15	5180.11	89970.05	5.76
2015-16	996.09	92493.46	1.08
2016-17	2378.83	104724.53	2.27
2017-18	20900.69	130417.33	16.03

Source: compiled from annual reports of the company (In lakhs)

#### Interpretation:

Table 5.7 explains the relationship between operating ratio and net sales. The operating ratio and operating profit ratio are the interconnect ratio. Hundred minus operating ratio will give the operating profit ratio and hundred minus operating profit ratio will give operating ratio. The results of operating ratio and operating profit ratio will be the reverse. If any year the operating ratio is high, the operating profit ratio is low and vice versa. The reason increase or decrease in operating profit ratio will be the result the increase or decrease in cost of goods and operating expense of the company. In the last year only recorded a better operating profit ratio. Remaining nine years the operating profit ratios less than 6 percent.

### 5.1.3 Working Capital Ratios

#### 5.1.3.1 Net Working Capital Ratios

$$\text{Net Working Capital Ratios} = \text{Net Working Capital} / \text{Net Assets}$$

Table 5.8 Analysis of Net Working Capital Ratios

Year	Net Working Capital	Net Assets	Net Working Capital Ratio
2008-09	2128.30	5714.18	0.37
2009-10	2017.87	6035.26	0.33
2010-11	631.67	7254.61	0.09
2011-12	1241.10	8178.02	0.15
2012-13	907.85	9110.20	0.10
2013-14	1946.43	9174.52	0.21
2014-15	4879.13	13166.35	0.37
2015-16	5076.81	11058.03	0.46
2016-17	6347.73	15299.77	0.41
2017-18	12104.49	22612.46	0.54

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

Table 5.8 introduces the relationship between net working capital and net asset of the company. This ratio shows the liquidity of the company. High amount of working capital increases the liquidity of the company and low net working capital decreases the liquidity position. In the year 2017-18 company has the good net working capital ratio. In that Year Company invested large amount of money in current assets. In the years 2010-11 to 2013-14 the company has lower net working capital ratio. However the position has improved year after year and reached to a good ratio of working capital during the year 2017-2018.

### 5.1.3.2 Current Assets to Working Capital Ratio

Current Assets to Working Capital Ratio = Current Assets / Net Working Capital

Table 5.9 Analysis of Current Assets to Working Capital Ratio

Year	Current Asset	Net Working Capital	Current Assets to Working Capital Ratio
2008-09	3270.91	2128.30	1.54
2009-10	3277.43	2017.87	1.62
2010-11	3843.90	631.67	6.09
2011-12	4979.92	1241.10	4.01
2012-13	5481.94	907.85	6.04
2013-14	5794.31	1946.43	2.98
2014-15	10917.54	4879.13	2.24
2015-16	8802.19	5076.81	1.73
2016-17	12563.57	6347.73	1.98
2017-18	20029.79	12104.49	1.65

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

Table 5.9 states the current asset to working capital ratio of the company. The ratio shows the relationship between current asset and working capital. As regard to this ratio a too much high ratio or a too small ratio are not commendable. Since this will lead to excess working capital or scarce working capital. In the years 2010-11 and 2012-13 the company has high current asset to working capital ratio; 6.09 and 6.04 respectively. In the years 2011-12, 2013-14 and 2014-15 the current assets to working capital ratio are between 2 and 4. The first two years and last three years in the table showing the current asset to working capital ratio less than two.

### 5.1.3.3 Current Liabilities to Working Capital Ratios

Current Liabilities to Working Capital Ratios = Current Liabilities / Net Working Capital

Table 5.10 Analysis of Current Liabilities to Working Capital Ratios

Year	Current Liabilities	Net Working Capital	Current Liabilities to Working Capital Ratio
2008-09	1142.61	2128.30	0.54
2009-10	1259.56	2017.87	0.62
2010-11	3212.23	631.67	5.09
2011-12	3738.82	1241.10	3.01
2012-13	4574.09	907.85	5.04
2013-14	3847.88	1946.43	1.98
2014-15	6038.41	4879.13	1.24
2015-16	3725.38	5076.81	0.73
2016-17	6215.84	6347.73	0.98
2017-18	7925.30	12104.49	0.65

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

Table 5.10 explains the company's current liabilities to working capital ratio. The ratio depicts the relationship between the current liabilities to net working capital. In this, very high and low ratio is not a good sign, because it shows excess working capital or scarce working capital. In the years 2010-11 and 2012-13 the company has high current liabilities to working capital ratio; 5.09 and 5.04 respectively. In the years 2011-12, 2013-14 and 2014-15 the current liabilities to working capital ratio is between 1 and 3. In the first two years and last three years the table shows that the current asset to working capital ratio is less than one.



### 5.1.4 Efficiency Ratios / Turnover Ratios

Turnover ratios, also referred to as activity ratios or asset management ratios, measure how efficiently the assets are employed by a firm. These ratios are based on the relationship between the level of activity, represented by sales or cost of goods sold, and the level of various assets.

#### 5.1.4.1 Working Capital Turnover Ratio

Working Capital Turnover Ratio = Net Sales / Net Working Capital

Table 5.11 Analysis of Working Capital Turnover Ratio

Year	Net sales	Working Capital	Working Capital Turnover Ratio
2008-09	35007.87	2128.30	16.45
2009-10	37094.19	2017.87	18.38
2010-11	45368.03	631.67	71.82
2011-12	54222.00	1241.10	43.69
2012-13	69717.71	907.85	76.79
2013-14	80630.33	1946.43	41.42
2014-15	89970.05	4879.13	18.44
2015-16	92493.46	5076.81	18.22
2016-17	104724.53	6347.73	16.50
2017-18	130417.33	12104.49	10.77

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

Table 5.11 indicates the relationship between the net sales and working capital of the company. The standard or ideal working capital turnover ratio is 7 or 8 times. The table shows working capital turnover ratio more than ideal. In the years 2010-11 and 2012-13 the working capital turnover ratios are 71 and 76. The very high ratios indicate overtrading. This means there is inadequacy of working capital to support the increasing volume of sales. From 2012-13 onwards there is a decrease in working capital turnover ratio. It is positive sigh to the company. In 2017-18 the company has better working capital turnover ratio. This ratio is greater than ideal. Compared to previous years, working capital turnover ratio is better during last year.

## 5.2 Trend Analysis

Trend analysis is a financial Statement analysis is technique that show change in the amounts of corresponding financial statement items over a period of time. The earliest period is usually used as the base period and the items on the statements for all later period are compared with the items on the statement of the base period.

$$\text{Trend Ratio} = \text{Current year's figure} / \text{Base year's figure}$$

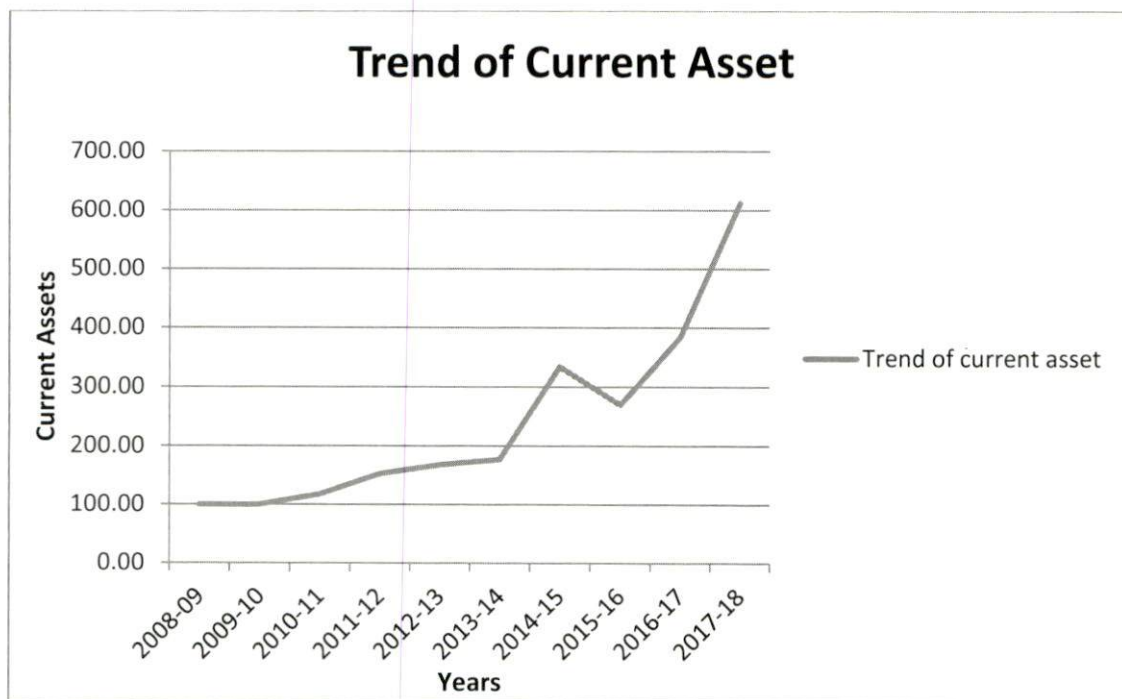
### 5.2.1 Trend of Current Asset

Table 5.12 Trend of Current Asset

Year	Current Asset	Trend of current asset
2008-09	3270.90	100.00
2009-10	3277.43	100.20
2010-11	3843.90	117.52
2011-12	4979.92	152.25
2012-13	5481.94	167.60
2013-14	5794.31	177.15
2014-15	10917.54	333.78
2015-16	8802.19	269.11
2016-17	12563.57	384.10
2017-18	20029.79	612.36

Source: compiled from annual reports of the company (In lakhs)

Figure 5.1 Trend of current assets



Interpretation:

- For the years 2008-09 to 2014-15 the current assets showing an increasing trend.
- In the year 2014-15, there is increase cash and cash equivalents and inventories. This resulted in increase in the amount of current asset.
- In the year 2015-16 the current assets decreased to 269.11 percent, due to decrease in cash and cash equivalents.
- Last two years the current assets showing an increasing trend recording 384.11 percent and 612.36 percent in 2016-17 and 2017-18 respectively. In these two years the company started to invest their money in short term investments.

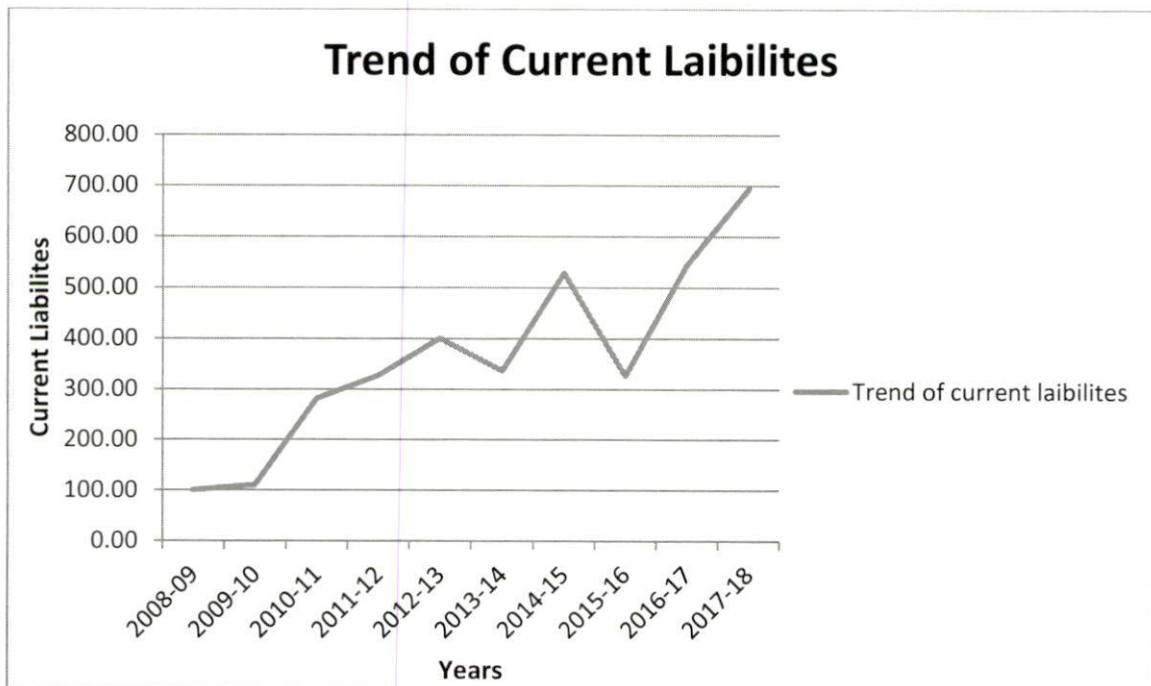
## 5.2.2 Trend of Current Liabilities

Table 5.13 Trend of Current Liabilities

Year	Current Liabilities	Trend of current liabilities
2008-09	1142.60	100.00
2009-10	1259.56	110.24
2010-11	3212.23	281.13
2011-12	3738.82	327.22
2012-13	4574.09	400.32
2013-14	3847.88	336.77
2014-15	6038.41	528.48
2015-16	3725.38	326.04
2016-17	6215.84	544.01
2017-18	7925.30	693.62

Source: compiled from annual reports of the company (In lakhs)

Figure 5.2 Trend current liabilities





### Interpretation:

- During the period 2008-09 to 2012-13 shows an increasing trend in current liabilities due to increase in short term borrowings and other current liabilities.
- In the year 2013-14 there is a downfall in current liabilities because the company's short term borrowings reduced.
- In the year 2014-15 there registered high increase in current liabilities. Due to increase in trade payable, short term provisions and other current liabilities.
- The year 2015-16 shows a declining trend in current liabilities due to decrease in in all the current liabilities.
- Increase in current liabilities in the years 2016-17 and 2017-18 due to Increase in short term borrowings and short term provisions.

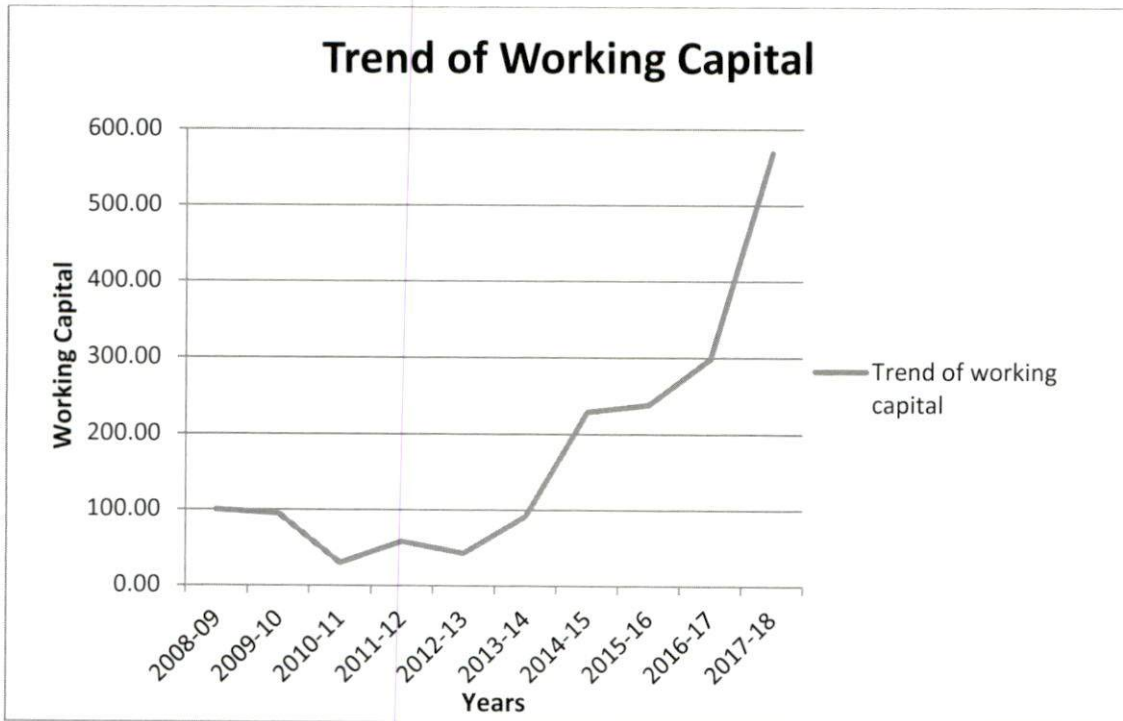
### 5.2.3 Trend of Working Capital

Table 5.14 Trend of Working Capital

Year	Working capital	Trend of working capital
2008-09	2128.31	100.00
2009-10	2017.87	94.81
2010-11	631.67	29.68
2011-12	1241.10	58.31
2012-13	907.85	42.66
2013-14	1946.43	91.45
2014-15	4879.13	229.25
2015-16	5076.81	238.54
2016-17	6347.73	298.25
2017-18	12104.49	568.74

Source: compiled from annual reports of the company (In lakhs)

Figure 5.3 Trend of working capital



Interpretation:

- The beginning years of study the company's working capital shows a decreasing trend.
- The amount of working capital is lowest in the year 2010-11 due to increase in short term borrowings, short term provisions and other current liabilities.
- In the year 2011-12 there is an increase in working capital, the reason for the increase is hike in inventories and cash and cash equivalents.
- In the year 2012-13 there is a slight decrease in working capital due to decrease in cash and cash equivalents and increase in trade payable and other current liabilities.
- From the year 2012-13 to 2017-18 the trend of working capital is an increasing trend.
- The reasons behind the increasing trend are decrease in short term borrowings and increase in inventories and short term loans and advances.
- In the year 2014-15 the reason for increase in working capital due to increase in current assets.
- For last two years of study the company started to invest in short term investment, which resulted in increase in working capital of the company.

### 5.3 Statement of Changes in Working Capital

The statement of change in working capital shows the changes in individual items of current assets and current liabilities between two years, and their effect on working capital.

#### 5.3.1 Statement of Changes in Working Capital 2008-09 to 2009-10

Table 5.15 Statement of Changes in Working Capital 2008-09 to 2009-10

Particulars	2008-09	2009-10	Changes in Working Capital	
			Increase	Decrease
Current Assets				
Inventories	2469.86	2082.62		387.24
Trade Receivables	31.70	32.22	0.51	
Cash and cash equivalents	439.04	860.31	421.27	
Short-term loans and advances	322.79	298.37		24.42
Other current assets	7.51	3.91		3.60
Total (a)	3270.91	3277.43		
Current Liabilities				
Short-term borrowings	272.66	262.44	10.22	
Trade payables	557.82	451.95	105.88	
Other Current liabilities	106.93	148.90		41.97
Short-term provisions	205.19	396.28		191.09
Total (b)	1142.61	1259.56		
Working Capital (a-b)	2128.30	2017.87		
Decrease in working capital		110.43	110.43	
Total	2128.30	2128.30	648.31	648.32

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

- Cash and cash equivalents increased by 400 lakhs and inventories decreased by 380 lakhs.
- There is an increase in short term provisions and other current liabilities. And decrease in trade payables and short term borrowings.
- Current liability increased by 110 lakhs
- There has been decrease in working capital of 110 lakhs in total

### 5.3.2 Statement of Changes in Working Capital 2009-10 to 2010-11

Table 5.16 Statement of Changes in Working Capital 2009-10 to 2010-11

Particulars	2009-10	2010-11	Changes in Working Capital	
			Increase	Decrease
Current Assets				
Inventories	2082.62	3261.20	1178.58	
Trade Receivables	32.22	22.76		9.46
Cash and cash equivalents	860.31	348.07		512.24
Short-term loans and advances	298.37	207.99		90.38
Other current assets	3.91	3.88		0.03
Total (a)	3277.43	3843.90		
Current Liabilities				
Short-term borrowings	262.44	1447.80		1185.36
Trade payables	451.95	375.80	76.15	
Other Current liabilities	148.90	766.85		617.95
Short-term provisions	396.28	621.90		225.62
Total (b)	1259.56	3212.35		
Working Capital (a-b)	2017.87	631.55		
Decrease in working capital		1386.32	1386.32	
Total	2017.87	2017.87	2641.05	2641.05

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

- Inventories show a high increase. Remaining items on the current assets side is showing a decreasing trend.
- Short term borrowings, other current liabilities and short term provisions show an increasing trend.
- Due to this, the working capital has been decreased in 2011 when compare to 2010.



### 5.3.3 Statement of Changes in Working Capital 2010-11 to 2011-12

Table 5.17 Statement of Changes in Working Capital 2010-11 to 2011-12

Particulars	2010-11	2011-12	Changes in Working Capital	
			Increase	Decrease
Current Assets				
Inventories	3261.20	4148.33	887.13	
Trade Receivables	22.76	16.79		5.97
Cash and cash equivalents	348.07	583.33	235.26	
Short-term loans and advances	207.99	220.43	12.44	
Other current assets	3.88	11.04	7.16	
Total (a)	3843.90	4979.92		
Current Liabilities				
Short-term borrowings	1447.80	1763.56		315.76
Trade payables	375.80	355.35	20.45	
Other Current liabilities	766.85	856.77		89.92
Short-term provisions	621.90	763.14		141.24
Total (b)	3212.35	3738.82		
Working Capital (a-b)	631.55	1241.10		
Increase in working capital	609.55			609.55
Total	1241.10	1241.10	1162.44	1162.44

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

- Inventories, cash and cash equivalents, short term loans and advances and other current assets have increased.
- In current liability side short term borrowings, other current liabilities and short term provisions have increased.
- All these results in an increasing trend in working capital, high increase in current assets.

### 5.3.4 Statement of Changes in Working Capital 2011-12 to 2012-13

Table 5.18 Statement of Changes in Working Capital 2011-12 to 2012-13

Particulars	2011-12	2012-13	Changes in Working Capital	
			Increase	Decrease
Current Assets				
Inventories	4148.33	4737.15	588.82	
Trade Receivables	16.79	29.26	12.47	
Cash and cash equivalents	583.33	375.78		207.55
Short-term loans and advances	220.43	330.63	110.20	
Other current assets	11.04	9.12		1.92
Total (a)	4979.92	5481.94		
Current Liabilities				
Short-term borrowings	1763.56	1945.59		182.03
Trade payables	355.35	913.87		558.52
Other Current liabilities	856.77	1292.99		436.22
Short-term provisions	763.14	421.64	341.50	
Total (b)	3738.82	4574.09		
Working Capital (a-b)	1241.10	907.85		
Decrease in working capital		333.25	333.25	
Total	1241.10	1241.10	1386.24	1386.24

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

- Total current assets show an increase trend.
- Cash and cash equivalents and other current assets show a considerable reduction.
- Short term borrowings, trade payables and other current liabilities show some rate of increase.
- Increase in overall current liabilities which lead to decrease in working capital.

### 5.3.5 Statement of Changes in Working Capital 2012-13 to 2013-14

Table 5.19 Statement of Changes in Working Capital 2012-13 to 2013-14

Particulars	2012-13	2013-14	Changes in Working Capital	
			Increase	Decrease
Current Assets				
Inventories	4737.15	4969.90	232.75	
Trade Receivables	29.26	16.99		12.27
Cash and cash equivalents	375.78	314.41		61.37
Short-term loans and advances	330.63	483.94	153.31	
Other current assets	9.12	9.07		0.05
Total (a)	5481.94	5794.31		
Current Liabilities				
Short-term borrowings	1945.59	728.90	1216.69	
Trade payables	913.87	865.64	48.23	
Other Current liabilities	1292.99	1475.54		182.55
Short-term provisions	421.64	777.80		356.16
Total (b)	4574.09	3847.88		
Working Capital (a-b)	907.85	1946.43		
Increase in working capital	1038.58			1038.58
Total	1946.43	1946.43	1650.98	1650.98

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

- An increase in inventories and short term loans and advances in current asset side.
- High rate of decrease in short term borrowings and slight decrease in trade payables.
- Decrease in the overall current liabilities that enhanced high rate of increase in the working capital

### 5.3.6 Statement of Changes in Working Capital 2013-14 to 2014-15

Table 5.20 Statement of Changes in Working Capital 2013-14 to 2014-15

Particulars	2013-14	2014-15	Changes in Working Capital	
			Increase	Decrease
Current Assets				
Inventories	4969.90	6600.66	1630.76	
Trade Receivables	16.99	28.71	11.72	
Cash and cash equivalents	314.41	3777.75	3463.34	
Short-term loans and advances	483.94	496.29	12.35	
Other current assets	9.07	14.13	5.06	
Total (a)	5794.31	10917.54		
Current Liabilities				
Short-term borrowings	728.90	831.60		102.70
Trade payables	865.64	1633.16		767.52
Other Current liabilities	1475.54	2550.05		1074.51
Short-term provisions	777.80	1023.60		245.80
Total (b)	3847.88	6038.41		
Working Capital (a-b)	1946.43	4879.13		
Increase in working capital	2932.70			2932.70
Total	4879.13	4879.13	5123.23	5123.23

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

- Increased both the current assets and current liabilities of the company.
- Current assets increased almost double. In current assets cash and cash equivalents shows a high rate of growth. Cash and cash equivalents increased to 314 lakh to 3777 lakhs
- Because of high rate of increase in current asset shows an increase in working capital of the company.



### 5.3.7 Statement of Changes in Working Capital 2014-15 to 2015-16

Table 5.21 Statement of Changes in Working Capital 2014-15 to 2015-16

Particulars	2014-15	2015-16	Changes in Working Capital	
			Increase	Decrease
Current Assets				
Inventories	6600.66	7299.72	699.06	
Trade Receivables	28.71	8.92		19.79
Cash and cash equivalents	3777.75	1043.97		2733.78
Short-term loans and advances	496.29	437.76		58.53
Other current assets	14.13	11.82		2.31
Total (a)	10917.54	8802.19		
Current Liabilities				
Short-term borrowings	831.60	243.87	587.73	
Trade payables	1633.16	802.10	831.06	
Other Current liabilities	2550.05	1839.97	710.08	
Short-term provisions	1023.60	839.44	184.16	
Total (b)	6038.41	3725.38		
Working Capital (a-b)	4879.13	5076.81		
Increase in working capital	197.68			197.68
Total	5076.81	5076.81	3012.09	3012.09

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

- All the items in the current liabilities side show a decreasing trend.
- Except inventories remaining items in current assets side shows a decreasing trend.
- Decreased both the current asset and current liabilities of the company.
- The working capital shows an increase as a whole.

### 5.3.8 Statement of Changes in Working Capital 2015-16 to 2016-17

Table 5.22 Statement of Changes in Working Capital 2015-16 to 2016-17

Particulars	2015-16	2016-17	Changes in Working Capital	
			Increase	Decrease
Investments		3510.33	3510.33	
Inventories	7299.72	7432	132.28	
Trade Receivables	8.92	10.83	1.91	
Cash and cash equivalents	1043.97	1139.68	95.71	
Short-term loans and advances	437.76	460.12	22.36	
Other current assets	11.82	10.61		1.21
Total (a)	8802.19	12563.6		
Current Liabilities				
Short-term borrowings	243.87	3021.86		2777.99
Trade payables	802.1	751.39	50.71	
Other Current liabilities	1839.97	1292.57	547.4	
Short-term provisions	839.44	1150		310.56
Total (b)	3725.38	6215.82		
Working Capital (a-b)	5076.81	6347.75		
Increase in working capital	1270.94			1270.94
Total	6347.75	6347.75	4360.7	4360.7

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

- In 2017 the company started investing money on short term investments.
- Inventories, trade payables, cash and cash equivalents and short term loans and advances also increased.
- Overall increase in the total current liabilities.
- High rate of increase in the short term borrowings of the company.
- There has been an increase in working capital where reached to 1270.

### 5.3.9 Statement of Changes in Working Capital 2016-17 to 2017-18

Table 5.23 Statement of Changes in Working Capital 2016-17 to 2017-18

Particulars	2016-17	2017-18	Changes in Working Capital	
			Increase	Decrease
Current Assets				
Investments	3510.33	8333.13	4822.8	
Inventories	7432	9051.89	1619.89	
Trade Receivables	10.83	17.2	6.37	
Cash and cash equivalents	1139.68	2073.76	934.08	
Short-term loans and advances	460.12	537.08	76.96	
Other current assets	10.61	16.73	6.12	
Total (a)	12563.6	20029.8		
Current Liabilities				
Short-term borrowings	3021.86	3461.88		440.02
Trade payables	751.39	1512.23		760.84
Other Current liabilities	1292.57	1273.23	19.34	
Short-term provisions	1150	1677.96		527.96
Total (b)	6215.82	7925.3		
Working Capital (a-b)	6347.75	12104.5		
Increase in working capital	5756.74			5756.74
Total	12104.5	12104.5	7485.56	7485.56

Source: compiled from annual reports of the company (In lakhs)

#### Interpretation:

- In current liabilities side short term borrowings, trade payables and short term provisions also increased
- High rate of increases in investments.
- Over all high rate of increase in total current assets.
- The working capital has been increased in 2018 when compared to 2017.

## 5.4 Fund Flow Statement

Fund flow statement is a statement of flows (inflows and outflows) of fund. It is a statement showing movement of funds between two dates. In short, it is a statement of sources and uses of fund. Fund flow statement is also known as where got and where gone statement or statement of changes in financial positions.

### 5.4.1 Fund Flow Statement 2008-09 to 2009-10

Table 5.24 Fund Flow Statement 2008-09 to 2009-10

Source	Amount	Application	Amount
Fund from operation	838.43	Repayment of secured loans	307.23
Increase in deferred tax liability	68.14	Purchase of fixed assets	1441.93
Increase in unsecured loans- Fixed deposits	231.33	Investments	400.11
Sale of fixed assets	900.93		
Decrease in working capital	110.43		
	2149.27		2149.27

Source: compiled from annual reports of the company (In lakhs)

#### Interpretation:

Fund flow statement shows a decrease in working capital the main reason for this is the acquisition of fixed assets. Moreover 400 crores of money spends in investments. This investment in the future will produce more earnings. Purchase fixed assets is set off by the sale of fixed assets to a certain extent and raising fund to short term loans.



#### 5.4.2 Fund Flow Statement 2009-10 to 2010-11

Table 5.25 Fund Flow Statement 2009-10 to 2010-11

Source	Amount	Application	Amount
Fund from operation	533.46	Purchase of Tangible asset	245.76
Increase in long term provision	22.04	Long term loans and advances	75.28
Capital work in progress	8.71	Repayment of long term borrowings	1987.37
Sale of investment	400.11	Purchase of Intangible asset under development	8.49
Decrease in working capital	1386.32	Payment of deferred tax	33.92
	2350.82		2350.82

Source: compiled from annual reports of the company (In lakhs)

#### Interpretation:

Fund flow statement depicts that decrease in working capital. The main reason behind decrease in working capital is repayment of long term borrowings and purchase of tangible asset. The repayment of long term borrowings reduces the liabilities of the company. The company main source of fund is fund from operation and sale of investments.

#### 5.4.3 Fund Flow Statement 2010-11 to 2011-12

Table 5.26 Fund Flow Statement 2010-11 to 2011-12

Source	Amount	Application	Amount
Fund from operation	1095.30	Repayment of borrowings	218.45
Capital work in progress	17.00	Deferred tax payments	22.48
Sale of intangible assets under development	8.49	Purchase of tangible assets	222.85
Increase in long term provisions	5.54	Purchase of intangible assets	61.73
Increase in long term loans and advances	8.61	Increase in working capital	609.55
	1134.94		1134.94

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

Fund flow statement indicates an increase in working due to high operating profit. Mainly company spend fund for the purchase of tangible assets and repayment of borrowings. Both activities will lead to better financial positioning of the company. The repayment of borrowings decreases overall liability of the company and the purchase tangible assets increases the overall assets of the company.

#### 5.4.4 Fund Flow Statement 2011-12 to 2012-13

Table 5.27 Fund Flow Statement 2011-12 to 2012-13

Source	Amount	Application	Amount
Fund from operation	520.42	Repayment of long term borrowings	29.07
Capital work in progress	39.61	Deferred liability tax payments	12.25
Increase in long term provisions	2.54	purchase of tangible assets	814.72
Decrease in working capital	333.25	Purchase of intangible assets	8.04
		Long term loans and advances	31.74
	895.82		895.82

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

The fund flow statement shows decrease in working capital. The main reason behind that decrease in working capital is purchase of tangible assets during the period. The purchase of assets will be beneficial for the company in future. Decreasing the operating profit in this period it is another reason for decrease in working capital.

#### 5.4.5 Fund Flow Statement 2012-13 to 2013-14

Table 5.28 Fund Flow Statement 2012-13 to 2013-14

Source	Amount	Application	Amount
Fund from operation	1164.36	Repayment of borrowings	39.05
Capital work in progress	4.55	Deferred tax payments	14.97
Increase in long term loans advances	3.61	Purchase of intangible assets	0.16
Increase in long term provisions	9.63	Purchase of tangible assets	89.75
		Increase in working capital	1038.58
	1182.15		1182.15

Source: compiled from annual reports of the company (In lakhs)

Interpretation:

Fund flow statement states that increase in working capital. The main reason behind that is high operating profit that period and the application of funds less in that year. It is another reason for increase in working capital.

#### 5.4.6 Fund Flow Statement 2013-14 to 2014-15

Table 5.29 Fund Flow Statement 2013-14 to 2014-15

Source	Amount	Application	Amount
Fund from operation	2959.17	Repayment of long term borrowings	120.77
Increase in long term provisions	14.83	Deferred tax liability payments	155.32
Sale of tangible assets	256.57	Long term loans and advances	17.57
Capital work in progress	15.61	Deferred tax assets	24.82
Sale of non-current investments	5.00	Increase in working capital	2932.70
	3251.18		3251.18

Source: compiled from annual reports of the company (In lakhs)

Interpretation

Fund flow statement shows high fund from operation in that year. So it results in increase working capital in that year. And company raising fund through sale of tangible assets. During this period mainly fund used for repayment long term borrowings and deferred tax liability payments.



### 5.4.7 Fund Flow Statement 2014-15 to 2015-16

Table 5.30 Fund Flow Statement 2014-15 to 2015-16

Source	Amount	Application	Amount
Fund from operation	414.66	Repayment of long term provisions	7.33
Increase in long term borrowings	88.83	Purchase of tangible assets	191.68
		purchase capital work in progress	16.98
		Deferred tax asset	49.06
		Long term loans and advances	40.76
		Increase in working capital	197.68
	503.49		503.49

Source: compiled from annual reports of the company (In lakhs)

#### Interpretation:

Fund flow statement depicts an increase in working capital. The main reason behind the increase in working capital is fund from operations and increases the long term borrowings of the company. In this periods fund mainly used for purchase of tangible assets.

### 5.4.8 Fund Flow Statement 2015-16 to 2016-17

Table 5.31 Fund Flow Statement 2015-16 to 2016-17

Source	Amount	Application	Amount
Fund from operation	1834.47	Purchase of tangible assets	718.69
Increase in long term borrowings	52.52	Purchase of intangible assets	1.14
Increase in long term provisions	10.44	Increase in working capital	1270.9
Increase in deferred tax liability	49.67		
Capital work in progress	27.37		
Long term loans and advances	16.09		
	1990.80		1990.80

Source: compiled from annual reports of the company (In lakhs)

#### Interpretation

Fund flow statement indicates high operating profit which leads to increase in working capital. During the period funds mainly used for purchase of tangible assets. In this period company get a lot of funds from different sources and the application of funds is less.



#### 5.4.9 Fund Flow Statement 2016-17 to 2017-18

Table 5.32 Fund Flow Statement 2016-17 to 2017-18

Source	Amount	Application	Amount
Fund from operation	6151.15	Repayment of long term borrowings	108.16
Increase in deferred tax liabilities	80.41	Repayment of long term provision	57.69
Increase in long term loans and advances	2.56	Purchase of tangible assets	188.05
Increase in deferred tax liabilities	81.41	Purchase of capital work in progress	11.37
		Purchase of intangible assets	0.01
		Purchase of other financial assets	0.71
		Purchase of other current assets	25.39
		Repayment of long term borrowings	108.16
		Repayment of long term provision	57.69
		Increase in working capital	5756.74
	6313.97		6313.97

Source: compiled from annual reports of the company (In lakhs)

#### Interpretation:

Fund flow statement shows high increase in working capital due to high increase in operating profit. Mainly funds used for repayment of long term borrowings, purchase of long term assets and repayment of long term provision etc.

*Summary of findings suggestions and  
conclusion*

## CHAPTER-6

### SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

The project titled 'Management of current assets in KSE Ltd Irinjalakkuda, Thrissur'. The study aims to evaluate the profitability, liquidity, position of current assets and working capital of the company and changes in working capital of the company.

In the previous chapter, analysis and interpretation of the collected financial data was discussed. Based on the analysis conducted in the study, it was able to come up with various findings and suggestions. The findings of the study, conclusion of the study and suggestions given to KSE Ltd. are discussed in this chapter.

#### 6.1 FINDINGS

Following are the findings that are made throughout the study:

##### 6.1.1 The ratio analysis of study states the following findings.

- In the years 2015-16, 2016-17 and 2017-18 company have satisfactory current ratio; 2.36, 2.02 and 2.53 respectively.
- Company has achieved satisfactory quick ratio in the year 2017-18, due to company making large deposits in short term investments.
- In the years 2009-10 and 2014-15 the company has achieved favourable absolute quick ratio. Both the year company has maintained larger amounts of cash and cash equivalents.
- During the remaining eight years the absolute liquid ratio was far below than ideal level.
- During the year 2017-18 only the company achieved the ideal net profit ratio. In this year company has high profitability and it could offer high return to shareholders. In the years 2008-09, 2010-11, 2012-13 and 2015-16 the company has net highly insignificant profit ratio.
- The company achieved ideal or satisfactory gross profit ratio in the year 2017-18 only. In that year the gross profit ratio has reached above 25 percent.

- The company has achieved the satisfactory operating ratio in the 2017-18 and it favourable to the business condition.
- During the last year of analysis only recorded a better operating profit ratio.
- In the years 2010-11 to 2013-14 the company has lower net working capital ratio. However the position has improved year after year and reached to a good ratio of working capital during the year 2017-2018.
- In the years 2010-11 and 2012-13 the company has high current asset to working capital ratio; 6.09 and 6.04 respectively.
- In the years 2010-11 and 2012-13 the company has high current liabilities to working capital ratio; 5.09 and 5.04 respectively.
- From 2012-13 onwards there is a decrease in working capital turnover ratio. It is positive sigh to the company. In 2017-18 the company has better working capital turnover ratio. This ratio is greater than ideal. Compared to previous years, working capital turnover ratio is better during the last year.

#### **6.1.2 The trend analysis of study indicates the following findings.**

- In the years 2016-17 and 2017-18 the current assets showing an increasing trend recording 384.11 percent and 612.36 percent. In these two years the company started to invest their money in short term investments.
- In the year 2014-15 there registered high increase in current liabilities. Due to increase in trade payable, short term provisions and other current liabilities.
- The year 2015-16 shows a declining trend in current liabilities due to decrease in in all the current liabilities.
- Due to increase in short term borrowings and short term provisions current liabilities shoot up during the periods 2016-17, 2017-18.
- From the year 2012-13 to 2017-18 the working capital showed an increasing trend. Due to decrease in short term borrowings and increase in inventories and short term loans and advances.
- For last two years of study the company started to invest in short term investment, which resulted in increase in working capital of the company.



### 6.1.3 The Fund flow statement analysis of study reveals the following findings.

- The working capital was found to be an increasing trend during the years of 2010-11 to 2011-12, 2012-13 to 2013-14, 2013-14 to 2014-15, 2014-15 to 2015-16, 2015-16 to 2016-17, and 2016-17 to 2017-18. It registered a decreasing trend during the years of 2008-09 to 2009-10, 2009-10 to 2010-11, 2011-12 to 2012-13.
- The current assets showed an increasing trend during the years 2008-09 to 2009-10, 2009-10 to 2010-11, 2010-11 to 2011-12, 2011-12 to 2012-13, 2012-13 to 2013-14, 2013-14 to 2014-15, 2015-16 to 2016-17 and 2016-17 to 2017-18. It recorded a decreasing trend during the year 2014-15 to 2015-16 only.
- The current liabilities indicates an increasing trend during the years 2008-09 to 2009-10, 2009-10 to 2010-11, 2010-11 to 2011-12, 2011-12 to 2012-13, 2013-14 to 2014-15, 2015-16 to 2016-17 and 2016-17 to 2017-18. It expressed a decreasing trend during the years 2012-13 to 2013-14 and 2014-15 to 2015-16.
- During the year 2008-09 to 2009-10 the fund mainly used for purchase of fixed assets.
- During the year 2009-10 to 2010-11 the fund utilised for purchase of fixed assets, repayment of long term borrowings.
- The main source of fund during the period 2010-11 to 2011-12 was fund from operation.
- Fund flow analysis of 2011-12 to 2012-13 emphasizes upon purchase of tangible assets.
- During the period 2012-13 to 2013-14 the main source of fund was fund from operation.
- The fund flow analysis of 2013-14 to 2014-15 indicates the company have large amounts of fund from operations.
- During the period 2014-15 to 2015-16 the main source of fund were fund from operation. The fund mainly used for purchase of tangible assets.
- Fund flow analysis of 2015-16 to 2016-17 depicts high operating profit. During the period fund mainly used for purchase of fixed assets.
- During the period 2016-17 to 2017-18 the main source of fund was fund from operation. The fund mainly used for repayment of long term borrowings, purchase of long term assets and repayment of long term provisions.

## 6.2 SUGGESTIONS

Working capital is very essential to maintain smooth running of a business. Followings are the suggestions to improve the efficiency of current assets and working capital management.

- The company can increase the investments in current assets especially in liquid assets like cash and cash equivalents So that the company does not face any difficulty to pay current liabilities.
- The current liabilities show an increasing trend, which is not good for the company. So company should try to reduce the current liabilities.
- The company should try to maintain optimum working capital to meet day to day affairs of the company.
- The company can try to reduce the expenses. Otherwise, it will affect the net profit of the company.

## 6.3 CONCLUSION

KSE Ltd is one of the top ranking industrial houses in the state of Kerala and recognized industry in south India. The company is characterized by diversification in products.

The study conducted on management of current assets in KSE Ltd. The study reveals that the company has sound financial positions. The working capital management of the company is very much satisfactory. The company keep proper amount of cash and cash equivalents, inventory, receivables and payables. The company follows the system of receiving the full amount as advance along with the orders. This considerably reduces the burden of working capital.



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