



A STUDY ON WORKING CAPITAL MANAGEMENT IN ACC CEMENT INDUSTRY PVT.LTD

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Abstract

Abstract Working capital is considered to be the life force of an economic entity and its efficient management decides the tradeoff between liquidity and profitability. There are several factors that determine the working capital requirement in a firm for ex. growth in sales, performance of the firm, size of the firm etc. This paper tries to identify the factors which determine the working capital requirement in Indian cement industry. A case study is performed on ACC cements, a company listed on both NSE (National Stock Exchange) and BSE (Bombay Stock Exchange) of India. 10 years data (2009-2013) was considered for this study. A regression analysis was performed using WCR (working capital requirement) as dependent variable and growth in sales, size of the firm, performance, operating cash flow, operating efficiency, debt equity ratio, business indicator, price of raw materials as independent variables. It was found that only debt to equity ratio plays a significant role in determining working capital requirement of the firm.

Keywords: Working capital, ACC, CEMENT.

Introduction

Working capital is important for the success of the company efficient management of working capital is one of the basic functions of finance manager. Working capital management makes an efficient use of funds to attain profits by minimizing the risk working capital management means managing the current asset and current liability efficiently. So, it becomes a challenging and a dynamic job.

The working capital meets the short term financial requirements of a business enterprise. The size of working capital measured in relation to the fixed capital if the working capital is high, fixed capital will be low. A proper balance has to be maintained between the two in the initial period business required more working capital but later on as production starts the working capital requirements diminishes.

Traditionally finance was not considered as a separate input until finance theory becomes well develop. Today finance occupies an important place of a business of every economic activity .Finance occupies as the lifeblood of a business enterprise. It is the master key which provides access to all the sources for being employed in manufacturing and merchandising activities. Financial management plays a vital role in a business enterprise.

Statement of Problem

Working capital is the lifeblood and nerve centre of the business just a circulation is essential in human body for maintaining working capital is very to maintain the running business. Every organization irrespective of size and nature of business requires necessary amount of working capital. Working capital is the most crucial factor for maintaining liquidity, survival, solvency and profitability of business. The impact of working capital management on profitability is highly important, because, firms required a balance between risk and efficiency to achieve an optimal level of working capital.

Importance of the Study

This study has several implications for the cement industry in particular and for the corporate sector in general. First it theorizes the behavior of working capital variables of cement companies consequently this helps to understand the structure and utilization of working capital in manufacturing firms

Secondly the findings of the study will help in determining the variables which are responsible for inventory receivable and working capital level for the companies. Thirdly the banking sector would get insights into use of bank borrowings as a source of finance for working capital apart from these the contribution of this research to the academics in the area of working capital management is also very significant.

1.3objectives of Study

- Ñ To evaluate the working capital management of ACC cement factory.
- Ñ To determine the liquidity position of the company.
- Ñ To study the impact of working capital on profitability of the company.
- Ñ To suggest possible solution to company for better working capital management.



Research Methodology

Period of Study

The study analyses the working capital management in ACC cement industry Pvt.ltd. The financial year from 2009-2013.

Sources of Data

The present study is based on secondary data the required data for the ACC cement industry were collected from the corporate database (proWess)

Statistical Tools Used

In this study the statistical tools like **ratio analysis, trend percentage** was used to evaluate and understand the performance of working capital management in ACC CEMENT PVT LTD.

Limitations

- Most of the study is based on secondary data.
- The study is based on the period 2009-2013 and it cannot be generalized for future period.
- Lack of availability to certain data due to confidentially information.
- Started tools used in the study for analysis is subjected to inherent limitation.

REVIEW OF LITERATURE

Title: AN ANALYSIS OF WORKING CAPITAL MANAGEMENT RESULTS ACROSS INDUSTRIES, **Author:** THOMAS M. KRUEGER, UNIVERSITY OF WISCONSIN LACROSSE. Firms are able to reduce financing cost and or increase the funds available for expansion by minimizing asset. We provide insights into the performance of surveyed firms across key components' of working capital management by using the CFO magazines annual working capital management survey. We discover that a significant difference exist between industries in working capital measures across time. In addition we discover that these measures for working capital change significantly within industrial across time.

The importance of efficient working capital management (WCM) is indisputable. Working capital is the difference between resources in cash or readily convertible into cash (C.A) and organizational commitments for which cash will soon be required (C.L). the objective of working capital management is to maintain the optimum balance of each of the working capital components business liability relies on the ability to effectively manage receivables, inventories and payables. Firms are able to reduce financing cost and /or increase the funds available for expansion by minimizing the amount of funds tied up in current asset .

Title: IMPACT OF WORKING CAPITAL MANAGEMENT, **Author:** ARUNAKUMAR PANDA, The present study is a humble attempt to collect and review important literature both conceptual and analytically in nature, that the significance of working capital management (WCM) practices to different firms and industries. The studies pertaining to working capital management necessarily discuss about corporate practices in managing individual components of current asset identifying the source of working capital and controlling the cost of managing inventory receivables and payables with the basic motto to have a tradeoff between the liquidity-risk profitability aspects of every organization. The major objectives of having such a literature survey is to understand the importance of the study, to analyze the past research work pertaining to the study area.

Title: WORKING CAPITAL MANAGEMENT OF PAPER MILLS, **Author:** SMITH, A well designed and implemented working capital management has a significant contribution for firm's profitability as well as maintains liquidity powers. The purpose of this study is to assess working capital adequacy and its impact on profitability. To investigate the relationship between profitability and liquidity of firm's working capital refers to the firm's investment in short term assets. The management of working capital is important to the financial health of business of all sizes. The amounts invested in working capital are often high in proportion to the total assets employed and so it is vital that these amounts are used in an efficiency way. The management of working capital affects the liquidity and the profitability of the corporate firm and consequently its net worth working capital management, therefore aims at maintaining a balance between liquidity and profitability while conducting the day to day operations of business concern. In efficient working capital management not only reduces the profitability of business but also ultimately lead to financial crises, the study aims to provide empirical evidence about the effects of in current asset and current liabilities of paper mills ltd.,

Title: AN ANALYSIS OF WORKING CAPITAL MANAGEMENT RESULTS ACROSS INDUSTRIES, **Author:** FILBECK .G



FILBECK.G (2005) investigated the data of 26 industries by taking the data of 970 companies during 1996 to 1999. they found out that firms are able to decrease financing cost and /or argument the funds obtainable for development by reduce the amount of funds attached to the current asset. They revealed that significant different exist between industries in working capital measures across time. In addition we determine that these measures for working capital very 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 UK conversely a positive relationship was seen between debt and firms profitability can be increase by managers if reduction in the days of account receivables and stock occurred. Therefore the companies whose profitability is less opt to take much longer time to pay their bills. The aim of this heading is to discuss the work being done by the researchers and scholars in different industries and firm's so as to reveal the contents or the variables and in their in depth.

Title: WORKING CAPITAL MANAGEMENT: THE EFFECT ON MARKET VALUATION AND PROFITABILITY IN MALAYSIA. **Author:** MOHAMMAD NEAB AND NORIZA BMS (2010) worked on creating the relationship between working capital and performance of firms. For their analysis they choose the Malaysian listed Companies (MLC). They administered the perspective of market valuation and profitability .they used total of 172 listed companies from the database of Bloomberg. They randomly selected 5 years data(2003-2007) this research likewise the researches quoted before studied the impact of dimension of working capital component that is current ratio, current asset to total asset ratio and debts to asset ratio in effect to the firms performance where by firms value dimension was taken as on Tobin Q and profitability that is return on asset and return on invested capital they applied 2 different techniques for analysis the data that are multiple regression and correlation they found that there is a negative relationship between working capital variable and the firms performance.

Title: DETERMINATION OF IMPACT OF WORKING CAPITAL MANAGEMENT ON PROFITABILITY: AN EMPIRICAL STUDY FROM THE CEMENT SECTOR. **Author:** MOBEEN UR REHMAN AND NAVEED ANJUM, empirically examine the effects of working capital management on the profitability of cement industry secondary data was collected from annual reports and the samples of cement companies listed in KSE from 2003-2008. the relationship between working capital management and profitability is examined using statistical tools the result accept the hypothesis that there is a positive relationship between working capital management and profitability on the cement sector.

Title: IMPACT OF WORKING CAPITAL, **Authors:** JP SINGH, SHISHIR PANDEY, The successful working capital of any business organization fixed and current asset play a vital role management of working capital is essential as it has a direct impact on profitability and liquidity an attempt has been made in this paper to study the working capital management on profitability of company ltd., the paper also, makes an attempt study correlation between liquidity, profitability and profit before tax of Hidalgo particular company for the period 1998-2007. The ratio analysis percentage method and co-efficient of correlation have been used to analysis the data, multiple, regression were used to check the significant impact on the profitability of Hidalgo.

Company Profile

ACC LTD is India's foremost manufacturing of cement and ready mixed concrete with a counter wide network of factories and sales offices, established in 1936. ACC is acknowledgement as a pioneer and trend setter in cement and concrete technology among the first companies in India to include environment protection as a corporate commitment ACC, regularly wins for best practices in environment management at its plants and mines and for demonstrating good corporate citizenship. The quality of its product and customer services makes ACC the most preferred brand in the Indian Cement Industry ACC LTD is part of the world wide Holcum group.

- Ñ Corporate profile
- Ñ Human resource
- Ñ Corporate governance
- Ñ Miles tong
- Ñ Our vision
- Ñ Achievements/recognition
- Ñ Corporate milestone



Analysis and Interpretation

Ratio Analysis

Introduction

- This chapter gives analysis and interpretation of data with use of ratios to know the working capital of ACC Cements.
- Ratio is the numerical or a relationship between two figures. Accounting ratios show inter relationship, which exist among various accounting data.
- Ratio analysis helps to have an ideal of the working of a concern and diagnose the working capital analysis by evaluating, liquidity, solvency, profit etc.,

Current Ratio

It indicates the relationship between current asset and current liabilities. It also known also as working capital ratio. It is mostly used to make analysis of short term liability position. It is calculated as follows.

$$\text{CURRENT RATIO} = \frac{\text{CURRENT ASSET}}{\text{CURRENT LIABILITIES}}$$

**TABLE -3.1CURRENT RATIO
 RS IN CRORES**

YEARS	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
2009	2294.47	3152.22	0.73
2010	2763.03	3867.42	0.71
2011	3617.94	3664.38	0.99
2012	4826.35	3403.18	1.42
2013	4418.14	3265.64	1.35
AVERAGE			1.04

Interpretation

This ratio indicates the amount of current asset available for each amount of current liabilities.The ideal position of this ratio is 2:1.

The company’s current ratio was fluctuating and not consistent but it shown an average of 1.04:1. However according to the ideal positions the firm’s current ratio was satisfactory.

Liquid Ratio

This ratio is also known as the “Acid test ratio” or “Quick ratio” “the near money ratio”.It explains the relationship between quick asset and current liabilities.The formula for calculating the ratio is:

$$\text{LIQUID RATIO} = \frac{\text{LIQUID ASSET}}{\text{CURRENT LIABILITIES}}$$

**TABLE - 2LIQUID RATIO
 RS IN CRORES**

YEARS	LIQUID ASSET	CURRENT LIABILITY	LIQUID RATIO
2009	1515.49	3152.22	0.48
2010	1837.13	3867.42	0.48
2011	3357.53	3664.38	0.92
2012	3692.8	3403.18	1.09
2013	3296.67	3265.64	1.01
AVERAGE			0.79



Interpretation

The standard norm for the liquid ratio is 01:01 but in the company's liquid ratio was fluctuating and not consistent. The table shows that there is a decrease in quick ratio from the year 2012-2013. This is due to the increase in creditors, due to this there is a raise in current liabilities this makes the liquid ratio to decline, below the average (0.79).

Absolute Liquid Ratio

This ratio is also called "cash position ratio" or cash ratio. This ratio establishes relationship between absolute liquid asset and current liabilities. The formula for calculating the ratio is:

$$\text{ABSOLUTE LIQUID RATIO} = \frac{\text{ABSOLUTE LIQUID ASSET}}{\text{CURRENT LIABILITIES}}$$

TABLE -3.3 ABSOLUTE LIQUID RATIO

YEARS	LIQUID ASSET	CURRENT LIABILITY	ABSOLUTE LIQUID RATIO
2009	1311.79	3152.22	0.42
2010	1587.73	3867.42	0.41
2011	3097.12	3664.38	0.85
2012	3389.35	3403.18	0.99
2013	2899.45	3265.64	0.89
AVERAGE			0.71

Interpretation

The standard norm for the absolute liquid ratio is 0.75:1, but in the company's ratio was fluctuating and not consistent. But it shown an average of 0.72:1, however according to the ideal position the firm's absolute liquid ratio was satisfactory.

Trend Percentage

The term 'trend' refers to any 'general tendency'. Analysis of these general tendencies is called "trend analysis" like comparative financial statements trend analysis is also a horizontal type of analysis of financial statements. Every item in the base year's financial statements is taken as equipment to 100. This trend percentage can be computed by dividing each amount in the other financial statements with the corresponding item found in the base financial statements.

Trend Analysis For Sales

YEAR	SALES	X	X ²	XY	PERCENTAGE
2009	8027.2	-2	4	-16054.4	100
2010	8258.77	-1	1	-8258.77	102.88
2012	9438.66	0	0	0	114.28
2013	11357.96	1	1	11357.96	120.33
2014	11168.94	2	4	22337.88	98.34
TOTAL	48251.53		10	9382.67	107.166

Interpretation

From the above table concluded that the sale of the company has been continuously increased from 2009-2012. The highest growth rate of sales is 120.33%, during 2012 when compared with the base year. So, the company's sales position was satisfied.



Trend Percentage :Inventory,Table -2inventory

Years	Inventory	
	Amount	Percentage
2009	203.7	100
2010	249.4	122.43
2011	260.71	104.41
2012	303.45	116.53
2013	397.22	130.90

Interpretation

From the above table shows that inventories of the company has been contiguously increased from 2009-2012.The highest growth rate of sales is 130.90%, during 2013 when compared with the base year. So, that the company’s inventories position was satisfied. But the company should have a control over the stock flow since it shows increasing trend in the 5 years.

Findings Suggestions and Conclusion

This chapter gives summary of findings and suggestion of data with use of working capital analysis of ACC Cement Industries. The summary of findings and suggestion is the numerical or arithmetical relationship between ratio analysis and trend analysis is according this chapter shows inter relationship which exists among various chapter.

This chapter helps to have an ideal of the working of a concern and diagnose the working capital management by evaluating summary of findings and suggestion. This chapter deals with working capital and analysis of a company. A number of financial tools are used as regard this project. The summary of findings and suggestion is given.

4.1 Findings

- During the year current asset ratio was decreased when compared to the proceeding years it decrease from 0.73, 0.71, 0.99 ,1.42 and1.35 from the year 2009 to 2013.The current ratio of the company had satisfactory in all the year excluding the year 2012.
- The ratio of thumb of liquid ratio is 1:1.The liquid ration of ACC is more than one in 2010, 2011, 2012; 2013.In the year of 2010 is very low. It indicates that the liquidity position is not satisfaction.

4.2 Sugession

- The current ratio of the company was below their standard current ratio which implies that the liquidity position of the company was not satisfactory. Hence the company should improve their liquidity position without affecting their profitability.
- Cash and bank balance of the company is very low and it is advisable for the company that it should maintain a minimum balance to meet their day to day needs.
- Trend percentage of sales is satisfactory; Hence the company should increase good level in future.

Conclusion

Working capital is a capital required to manage day to day operation of a business. Management adequate working capital is essential as it has direct impact on profitability and liquidity. The performance of the company during the period under study was encouraging sundry debtors are these major components of current asset in determining the size of working capital. The company was managing its inventory and receivables. The liquidity and profitability ratio of the company shows that the relationship between liquidity and profitability position is negative.

Considering the liquidity and operational efficiency ratio which were more or less uniform shows that the liquidity position of the company has to be improved. The overall performance of the company with respect to working capital is satisfactory as the company is efficiently utilizing their working capital. The overall performance of the company with respect to trend analysis is satisfactory as the company is efficiently utilizing their working capital.

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