A STUDY ON WORKING CAPITAL MANAGEMENT IN LOTUS TVS INDUSTRIES PRIVATE LTD, COIMBATORE

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ABSTRACT

Working capital management is part of the financial considerations that a finance manager needs to determine and plays an important role in determining the profitability of the firms. In view of its importance, this study aims to investigate on the effect of working capital management components and working capital management policy towards profitability of firms in services and manufacturing sector in Malaysia for five years period from 2006 to 2010, which also coincides with the implementation of the Ninth Malaysia Plan and Third Industrial Master Plan. Financial management refers to the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. It is the specialized function directly associated with the top management. The significance of this function is not seen in the 'Line' but also in the capacity of the 'Staff' in overall of a company. It has been defined differently by different experts in the field.

The term typically applies to an organization or company's financial strategy, while personal finance or financial life management refers to an individual's management strategy. It includes how to raise the capital and how to allocate capital, i.e. capital budgeting. Not only for long term budgeting, but also how to allocate the short term resources like current liabilities. It also deals with the dividend policies of the share holders.

1. INTRODUCTION

1.1. Functions of Financial Management

A. **Estimation of capital requirements** A finance manager has to make estimation with regards to capital requirements of the company. This will depend upon expected costs and profits and future programmes and policies of a concern. Estimations have to be made in an adequate manner which increases earning capacity of enterprise.

B. **Determination of capital composition** Once the estimation have been made, the capital structure have to be decided. This involves short- term and long- term debt equity analysis. This will depend upon the proportion of equity capital a company is possessing and additional funds which have to be raised from outside parties.

C. **Choice of sources of funds** For additional funds to be procured, a company has many choices like-
   a. Issue of shares and debentures
   b. Loans to be taken from banks and financial institutions
   c. Public deposits to be drawn like in form of bonds.

   Choice of factor will depend on relative merits and demerits of each source and period of financing.

D. **Investment of funds** The finance manager has to decide to allocate funds into profitable ventures so that there is safety on investment and regular returns is possible.

E. **Disposal of surplus** The net profits decision have to be made by the finance manager. This can be done in two ways
   a. Dividend declaration - It includes identifying the rate of dividends and other benefits like bonus.
   b. Retained profits - The volume has to be decided which will depend upon expansional, innovational, diversification plans of the company.

1.2. Objectives of Financial Management

The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

- To ensure regular and adequate supply of funds to the concern.
- To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.
- To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
- To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
- To plan a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.

2. LITERATURE REVIEW

I. **Rammohan Rao and misra (2011)** in his study on "capital markets in India" were competitive their study examined the decision about internal and external finance as inter related consequent upon a choice of the structure of current and fixed assets. Secondly they analyzed the earning pattern of different types of funds to see if the competitiveness hypothesis can be substantiated.

II. **Sathyanarayan rao (2012)** in his article expressed some view on the corporate tax effect on capital structure. The data for this study were taken from the bulletins. The study converged period of the 19 year from the financial year .provided frame work foresting the hypothesis higher the corporate income tax rate greater will be the preference share capital. The simple correlation analysis was used to find out the nature of relationship and the movement between debt capital on the one hand and corporate tax rate equity divided rate, cost of debt and demand for capital s obtained from the growth in fixed assets on the other.

III. **Darrel Hulsey (2013)** A-Study Steps to Effectively Financial Ratio Analysis As stated by **Darrel Hulsey**, the basics of financial analysis usually mean calculating different financial ratios and then coming to conclusions and clarification regarding on how the company is financially performing in business activities. There are certain things that must be considered before too many conclusions are drawn. Firstly, understand what comprise different financial ratios before start analyzing company's data. Must take into consideration all financial ratios numbers derived from financial statement comprise of balance sheet and income statement.

3. FINANCIAL STATEMENT ANALYSIS

Financial analysis can be classified in to different categories depending upon.

(a) The material used

(b) The modus operand of analysis

On the basis of materials used. According to this basis financial analysis can be of two types.

a) External Analysis

Those who are outsider for the business do this analysis. The outsiders include investors, credit agencies. government agencies and other creditors who have no access to the internal records of the company. These persons mainly depends upon, the published financial statements. Their analysis serves only a limited purpose

b) Internal analysis

This analysis is done by persons who have access to the books of account and other information to the books of accounts related to the business., Executives and employees of the organization or by officers appointed for this purpose by the government or the court under powers vested in them can therefore do such an analysis. On the basis of modus operandi according to this, financial analysis can also be two types.

a) Horizontal Analysis

b) Vertical Analysis

Users of Financial Statement Analysis

- Management
- Trade creditors
- Investors
- Government
- Others

Management

Management of the firm would be interested in every aspect of the financial analysis. It is their overall responsibility to see that the resources of the firm are used most effectively and efficiently and that the firm's condition is sound.

Trade Creditors

The trade creditors are to be paid in a short term solvency of the concern. The current ratio and acid test ratio will enable the creditors to assets the short term solvency position of the concern.

Investors

The Investors are interested their money in the firms shares, are not concerned about the firms earnings. They restore more confidence in those firms that show steady growth in earnings. As such, they concentrate on the analysis of the firms present and future profitability. They are also interested in the firm's financial structure to the extent it influences the firms earning ability and risk.

Government

The financial statements are used to asses tax liability of business enterprise. These statements enable the government to find out whether the business is following various regulations or not.

Others

Trade associations, stock exchange and public at may also analyze the financial statements to judge the financial position of different concerns.

Ratio Analysis

Ratio Analysis is widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. The term ratio refers to the numerical or quantitative relationship between two items/ Variable. This relation can be expressed as.

Nature of Ratio Analysis

A Financial ratio is a relationship between tow accounting numbers. ratios help to make a qualitative judgment about the firm's financial performance.

Financial Ratio

Financial Ratio is a relationship between two financial variables. It helps to ascertain the financial condition of a firm.

3.1. Manufacturing Excellence

- ***Driven by the Five Pillars of TQM***

  The management philosophy is based on Five Pillars of TQM (Total Quality Management) - Management Commitment, Customer Focus, Quality Costs, Quality Systems and Continuous Improvement - which rests on the foundation of the Total Employee Involvement Program, Daily Management and Kaizen.

- ***The Total Employee Involvement Program***

The Total Employee Involvement Program ensures that responsibility for the company's performance is the shared responsibility of employees at all levels. It provides the employees with the opportunity to be involved in breakthrough activities and other improvements, over and above their daily routine.

- ***Daily Work Management***

Daily work management consists of defining and monitoring key processes, ensuring that they meet set targets, detecting abnormalities and preventing their recurrence. Lotus TVS encourages continuous improvement in all aspects of work, using Cross Functional Teams (CFT), Supervisory Improvement Teams (SIT) Quality Control Circles (QCC) and suggestion schemes.

- ***What about Kaizen?***

The five pillars start with policy management, which is used to arrive at the annual breakthrough objectives. There are generally not more than three company objectives, arrived at after a detailed exercise, which are deployed and reviewed periodically.

The company conducts an exhaustive range of training programs, utilising both in-house skills and consultants from all over the world. The programs are conducted for employees across levels.

4. RESEARCH DESIGN

4.1. RESEARCH METHODOLOGY

Research is a process in which the researcher wishes to find out the end result for a given problem and thus the solution helps in future course of action. The research has been defined as "A careful investigation or enquiry especially through search for new facts in branch of knowledge"

4.2. RESEARCH DESIGN

The research design used in this project is Analytical in nature the procedure using, which researcher has to use facts or information already available, and analyze these to make a critical evaluation of the performance. Secondary data is used in this project. The collected data were presented in tables and these tables were analyzed systematically. Ratio analysis, the vital financial tool was used to study the financial performance of The Royal Enfield Bullet. A chart and various diagrams are used to explain the analysis clearly. It is an undisputed truth that graphs and diagrams render any complicated discussion and any intricate subject, very simple to any casual reader of the thesis.

Common size financial statement is a tool to assess, in which figures reported are converted into percentages to some common base. Trend percentages are also taken as a tool which is immensely helpful in making a comparative study of the financial statement for several years. The method of calculating trend percentages involves the calculation of percentage relationship that each item bears to the same item in the base year.

4.3. STATEMENT OF THE PROBLEM

The study has been conducted for gaining practical knowledge about Working Capital Management & activities of Lotus TVS. Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long term forecasting and growth can be identified with the help of financial performance analysis.The dictionary meaning of 'analysis' is to resolve or separate a thing in to its element or components parts for tracing their relation to the things as whole and to each other.The analysis of financial statement is a process of evaluating the relationship between the component parts of financial statement to obtain a better understanding of the firm's position and performace.This analysis can be undertaken by management of the firm or by parties outside the namely, owners,creditors,investors.

4.4. TOOLS AND TECHNIQUES USED

To analyze and interpret the financial statements of the study unit the following tools are used in the study.

1. Ratio Analysis.

The interpretations are also printed graphically using trend line graphs and sub-dividing bar diagram.

4.5. CHAPTERISATION

- In the first chapter Introduction, study about the financial statement and working capital management.
- The second chapter deals with Review of Literature ,profile of the study and company profile.
- The fourth chapter the Financial Statement of TVS company were Data analyzed and interpretation.
- Finally in the fifth chapter findings, suggestions & Conclusion are discussed.

5. DATA ANALYSIS

Working capital is the capital available for conducting the day-to-day operations of an organization; normally the excess of current assets over current liabilities. Working capital management is the management of all aspects of both current assets and current liabilities, to minimise the risk of insolvency while maximising the return on assets. The main objective of working capital management is to get the balance of current assets and current liabilities right. Working capital management techniques such as intersection of carrying cost and shortage cost, working capital financing policy, cash budgeting, EOQ and JIT are applied to manage different components of working capital like cash, inventories, debtors, financing of working capital etc. These effective techniques mainly manage different components of current assets.

5.1. EOQ

Economic Order Quantity (EOQ) model is a famous model for managing the inventories. It helps the inventory manager know how to find the right quantity that should be ordered considering other factors like cost of ordering, carrying costs, purchase price and annual sales. The formula used for finding EOQ is as follows:

$$EOQ = \sqrt{ (2 * A * O) / (P * C)}$$

A – Annual Sales　　O – Cost per Order

P – Purchase price per unit　　C – Carrying Cost

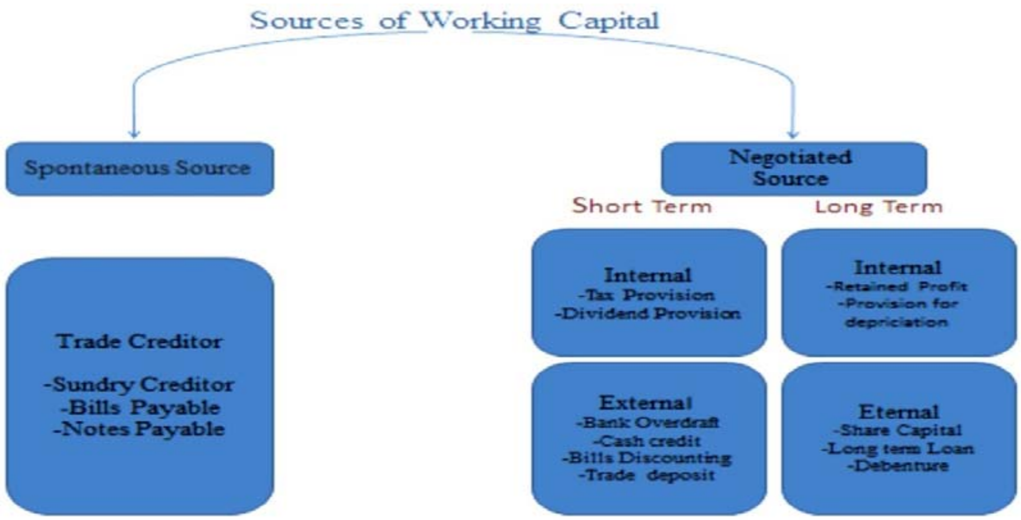


Fig.1. Sources of Working Capital

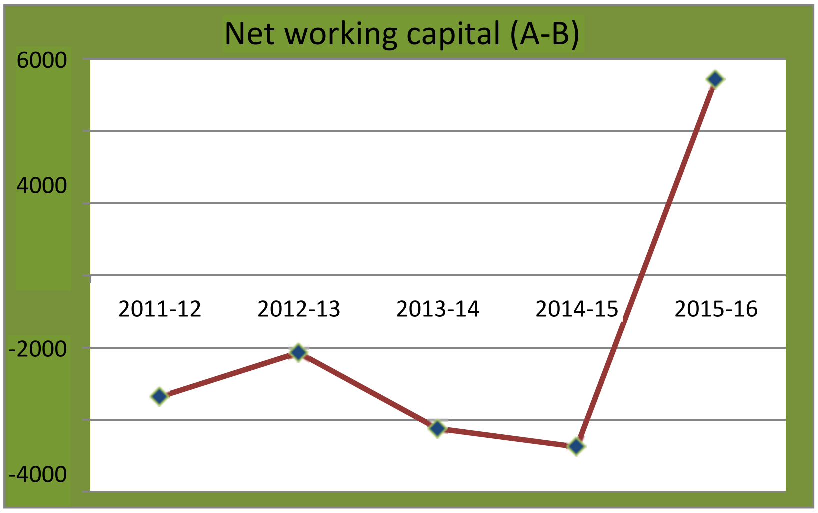
5.2. Current ratio

Measures how much of the total current assets are financed by current liabilities.

$$\frac{\text{Current Assets}}{\text{Current Liability}}$$

NET WORKING CAPITAL=CURRENT ASSTES- CURRENT LIABILITY					
Current Assets	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
INVENTORIES	5255	6185	6592	6728	9071
DEBTORS	4049	8377	5903	3520	5090
CASH & BANK	138	157	81	179	476
OTHER C.A	4	8	0	1	501
LOAN & ADV	8340	2817	1799	2313	1998
TOTAL C.A (A)	**17786**	**17544**	**14375**	**12741**	**17136**
Current Liabilities	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
CURRENT LIABILITIES	13486	16619	14833	14343	8298
PROVISIONS	7660	3062	3781	3142	3398
TOTAL C.L (B)	**21146**	**19681**	**18614**	**17485**	**11696**
Net working capital (A-B)	**-3360**	**-2137**	**-4239**	**-4744**	**5440**

TABLE 1. Net Working Capital Block (TVS A/c)



6. CONCLUSION

TVS maintains sound position interns for working capital. Its efficiency in receivables and deferral management is reflected in the constantly decreasing operating cycle. The company has primarily been operating on cash drawn from the market and reaping full benefits of its brand name. Management of inventory which constitutes an important component of working capital in a steel manufacturing company has to be improved. So, the conversion period of raw material needs to be worked upon. The company has a well build supply chain and all its process of inventory maintenance are SAP linked. It has a competent control system in place for managing stores, spares and finished goods. Nevertheless there is a scope for improvement in raw material management.

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