

CHAPTER I

INTRODUCTION & RESEARCH METHODOLOGY

INTRODUCTION & RESEARCH METHODOLOGY

- 1.1 Introduction
- 1.2 Definition Of Working Capital :
 - The current assets
 - The Current liabilities
- 1.3 The Concept of Working Capital :
 - Gross Working Capital
 - Net Working Capital
- 1.4 Components of Working Capital :
 - Permanent Working Capital
 - Temporary Working Capital
- 1.5 Cash Cycle:
 - Measures to Operate Cycle
 - Operating Cycle in Manufacturing Unit
 - Operating Cycle in Trading Concern
 - Operating Cycle in Service Sector
 - Characteristics of Operating Cycle
- 1.6 Importance of Working Capital Management
- 1.7 Research Methodology :
 - Rationale of the study
 - Objectives of the study
 - Hypothesis of the study
 - Research Design
- 1.8 Chapter Scheme

DR. B. B. KHARDEKAR LIBRARY
M. S. UNIVERSITY, RAJGIRI

CHAPTER I

INTRODUCTION & RESEARCH METHODOLOGY

1.1 Introduction :

Every organization makes investment considering the two major aspects of financial management. One is financial outlay required for acquisition of fixed assets, viz. machinery, building, other fixed assets and second is working capital to run the business and expand the activities.

Working Capital is imperative factor to keep the organization operative. Management of Working Capital decides the success of the organization. To study, analyze and plan the strategies for working capital management is indispensable for every organization as impact of working capital is deep and of long tenure. Every national and international organization, Indian and Foreign Governments felt need to study on their working capital trend for future financial planning of Working Capital Management –

Working Capital Management involves –

- i) Maintaining level of cash
- ii) Maintaining level of bank balance
- iii) Maintaining level of inventory
- iv) Deciding periodicity of debtors
- v) Decision on suppliers' payment
- vi) Decision on availing short term finance
- vii) Decision on withholding cash outflow for certain time
- viii) Decision on controlling the controllable expenses
- ix) Decision on investing funds for long term
- x) Decision on maintaining level of working capital

1.2 Definition of Working Capital :

Working Capital is defined as the excess of current assets over current liabilities. That means net current assets. It represents investment of organization in such assets which are expected to realize within a year or within an operating cycle.

There are three main current assets, viz. stock, debtors and cash. These assets are funded by short term finance i.e. current liabilities. In current assets, portion of permanent or core current assets is funded by medium and long term finance.

Working Capital is also known as 'Circulating Capital', Fluctuating Capital or Revolving Capital. Because the short term assets are financed by way of short term finance and it keeps the circulation / velocity continuous.

1.2.1 The current assets includes –

- (i) Cash and bank balance
- (ii) Receivables
- (iii) Inventory
- (iv) Prepaid Expenses
- (v) Short term advances
- (vi) Temporary Investment

1.2.2 Current Liabilities includes –

- (i) Creditors
- (ii) Outstanding Expenses
- (iii) Advance received against sales
- (iv) Taxes and dividend payable
- (v) Other liabilities maturing within a year

1.3 Concept of Working Capital :

Working Capital has its significance in two different views which is also called 'Balance Sheet Approach' of the working capital. In this approach working capital is looked as Gross Working Capital or Net Working Capital.

1.3.1 Gross Working Capital -

The current assets are assets which are supposed to convert into cash within a year or within an operating cycle. Gross Working Capital refers to total of all the current assets of the organization. It is investment of an organization in current assets. According to authors like Archer, Bogen, Mead, Baker there is no difference in total current assets and working capital.

1.3.2 Net Working Capital –

It refers to excess of current assets over current liabilities. This concept is generally adopted because in long term surplus of current assets over current liabilities gains importance. Authors like Smith Guthmann, Dongall are believer of this concept.

1.4 Components of Working Capital –

In working capital, investment in current assets is required on continuing basis. But, in view of time / periodicity as basis of classification, working capital is classified as -

1.4.1 Permanent Working Capital -

Practically, part of working capital is of permanent nature. The investment in current assets viz. inventory, cash, bank balance, book debts etc. at certain level always remains fixed. Such part of current assets is called as 'Core Current Assets'. Core Current Assets are also known as 'Hard Core Working Capital.' Core Current Assets are normally financed by long term source.

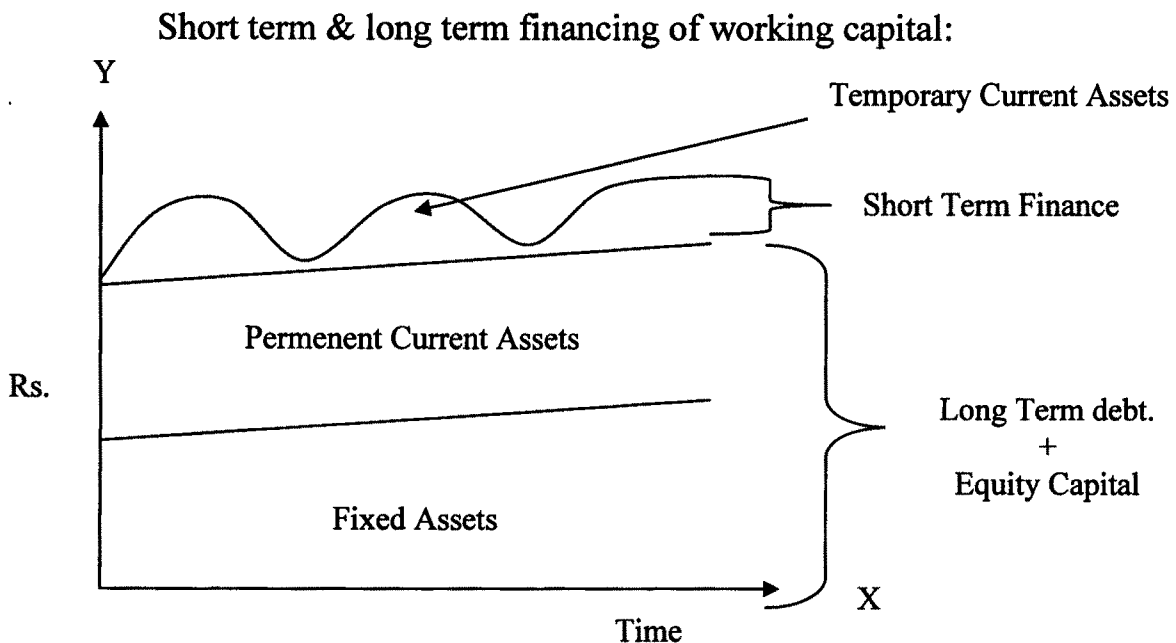
The minimum investment that is required for uninterrupted operating cycle is called as Permanent Working Capital.

1.4.2 Temporary / Variable Working Capital –

Temporary Working Capital is an additional investment in current assets which is compulsory requirement for successful completion of operating cycle. The investment in Temporary Working Capital is variable in nature. Such investment is required to cope up with the business fluctuations. It is always financed by way of short term finance. Temporary Working Capital is also known as Transitory Working Capital. Additional investment in current assets at required level for uninterrupted operating cycle is called as Temporary Working Capital.

The following diagram shows co-relation between Working Capital and pattern of financing.

Figure 1.1



There are two types of working capital -:

'Permanent & Temporary'. Permanent working capital represents the assets required on continuing basis over the entire year. Temporary working capital represents additional asset required at different items during the operation of the year.

The management of working capital is concerned with maximizing the return to share holders. The suppliers of permanent working capital look for long term return on funds invested. The suppliers of temporary working capital will look for immediate return and the cost of such financing will also be costlier than the cost of permanent funds used for working capital.

1.5 Cash Cycle –

In recent years concept of Operating Cycle is gaining importance. The operating cycle refers to average time elapses between the holding of raw material and the final cash realization. In other words it is length of time that takes between the outflow of cash on raw materials and other expenditures and inflow of cash from the sale of goods. On some occasions operating cycle is also called as 'Cash Cycle.'

This is an important concept of cash management or working capital management. Longer the operating cycle more the need of cash. And shorten the operating cycle lessen the need of cash.

Operating cycle is depended on type of organization. Operating cycle in manufacturing industry is different. Operating cycle in trading unit is different and operating cycle in service sector is different. The operating cycle concept gives idea about requirement of cash working capital to meet operating expenses on ongoing basis.

The application of operating cycle concept is prominently useful to determine optimum level of working capital. Every organization either aims to reduce the length of operating cycle or to reduce the number of operating cycles in a year.

1.5.1 Measures to operate Cycle:-

The following measures are recommended to keep the operating cycle at optimum level.

Purchase management

Production management

Marketing management

Discreet credit and collection policies

Careful monitoring of external environment viz. Govt. policies, Fiscal/Exim policies etc.

These measures help the organization in long way in managing operating cycle viz. a viz. managing working capital of the organization.

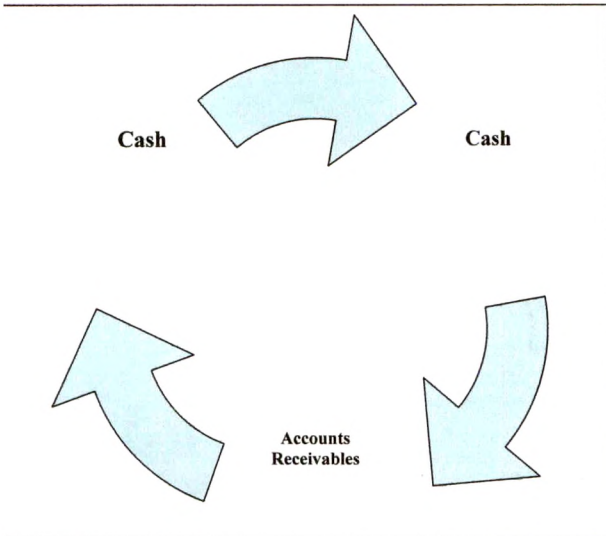
1.5.2 Operating Cycle in Manufacturing Unit -

In manufacturing unit, first of all cash converts in raw material as it is used for purchase of raw materials. The raw materials put in manufacturing process and thus it converts in work in process. Work in Process becomes finished goods. Finished goods are sold to customers on credit and converted in debtors / account receivables. On collection of account receivable cash retrieves in its original form and cycle completes. Thus operating cycle in manufacturing unit consists of four stages.

I	II	III
Cash (buying) –	Raw materials (Work in process) –	Finished Goods (Credit Sales) –
IV		
Account Receivables (Collection) --	Cash	

Figure 1.4

Cycle in Service Sector :



1.5.5 Characteristics of operating cycle :

- a. Short span – components of working capital have little span.
- b. Swift Transformation and Conversion – Each component swiftly transforms into other component.
- c. Synchronization – Each component remains in its form till it synchronizes in another component.

Working Capital requirement is totally depended upon length and size of operating cycle. Planning of working capital is to be done after taking into account operating cycle of that particular unit. Planning of working capital is broadly categorized in following types –

- a. Short term planning
- b. Medium term planning
- c. Long term planning

Cash budget, Industry Norm Approach, CVP Analysis, Fund flow etc. are the techniques used for planning of working capital management. Cash budget and Fund flow are widely accepted techniques for forecasting and planning working capital.

1.6 Importance of working capital management –

Working capital management is significant in Financial Management. It is related with short term financial decisions. Shortage of funds for working capital may ruin business. Lack of adequate working capital may retard the growth of business. Inadequate working capital makes unable to grab new opportunities in business. Adequate working capital and effective utilization of working capital gives high rate of return and reduces chances of failure of business. Thus need for wise working capital management is important.

The management of working capital reduces liquidity risk and other business risks. It makes the business position robust and healthy. Working capital management is at the helm of every affairs of the business.

In the days of cut throat competition working capital management is gaining lot of importance and finance managers / consultants / students felt need to study Working Capital Management of the business organization.

In view of this I have chosen subject as “WORKING CAPITAL MANAGEMENT IN SHREEM CAPACITORS PVT. LTD.”

1.7 Research Methodology :-

1.7.1 Rationale of the study :

Shreem Capacitors Pvt. Ltd. is a company in industrial estate at Jaysingpur, which is in a developing stage. It is a private limited company and in view of its capital structure it is 'closely held' company. The company is managed by its expert hands having experience in the same industry line. Our study topic is 'Working Capital Management' which is based on historical data of the company and based on assumptions and postulates of working capital presented and accepted world wide. The concept and perception of working capital which is accepted in general is taken into account for our research purpose. The work is undertaken using established tools and techniques for research purpose.

1.7.2 Objectives of study:

The present study has following objectives –

- a) To understand the meaning, importance and role of working capital in Shreem Capacitors Pvt. Ltd.
- b) To study the trends in working capital during last 5 years in the company.
- c) To analyze the approach of the company in determining the working capital needs.
- d) To examine the various factors influencing Operating Cycle of the company.
- e) To study the various ratios like liquidity and profitability.
- f) To study the various components in the financial management ; such as current assets, current liabilities, receivables, cash, marketable securities, inventory and payables etc.
- g) To find out deficiencies in working capital management, if any.

1.7.3 Hypothesis of the study:

The hypotheses for present study are:-

- a. To find out that profit margin achieved by the company is satisfactory.
- b. To check available resources are used to the optimum level.
- c. The production of capacitors is essential to meet need of growing electrification of rural and urban area.

1.7.4 Research Design :

This research work is coming under the case study method, which is exploring and analyzing in detail information about Shreem Capacitors. Pvt. Ltd.

a. Types of data :

The research literature and necessary data is collected through library research and field work respectively.

b. Techniques of data :

The techniques used for Library Research are –

- i) Recorded notes
- ii) Data analysis and interpretation
- iii) Comparison of analyzed contents with general policies of another companies in same industry.

For Field Research the techniques used as –

- i) Personal interview of Finance Manager, for understanding theoretical background company and also to find out the conclusion.
- ii) Group interviews of staff of Accounts and finance Deptt.

c. Collection of data:

The present study is based on primary and secondary data.

i) Primary Data –

Primary data is collected from various shareholders of Shreem Capacitors Pv. Ltd., through the opinion survey. The questionnaire was prepared as –

1. How the shareholders trust and invest in the company?
2. Are the shareholders satisfied with dividend?
3. Are shareholders anticipate more returns from the company?
4. Are the shareholders have right of information?

The respective questions are asked to the concerned authorities. The interview and observation method is also used.

ii) Secondary Data:

The secondary data used for the research are- annual reports of the company, various policies of the company. As all annual reports are audited and published, the data is treated as true and fair data with utmost accuracy.

d. Time and scope of the study:

The comparison of information of years 2004-09 is analyzed in comparative schedule of changes.

e. The study is in the area of Working Capital Management and includes study of various elements of current assets and current liabilities of Shreem Capacitors Pvt. Ltd., Jaysingpur.

f. The scope of study extends to discuss on working capital approach and working capital trend.

SARV BHASANEK KHARDEKAR LIBRARY
SHIVAJI UNIVERSITY, KOLHAPUR.

1.8 Chapter Scheme-

1. The first chapter deals the introduction and research methodology. It includes concept of working capital, cash cycle, and importance of working capital management. The concept of Research Methodology is explained as , rational of the study, objectives ,hypothesis of the study and the research design.
2. The Second chapter is Company Profile including history and background of the company, its management profile, infrastructure and products
3. The third chapter deals with theoretical background of working capital in the company.
4. In the fourth chapter management strategies of working capital are explained.