

# CHAPTER IV

## **MANGEMENT STRATEGIES OF WORKING CAPITAL IN SHREEM CAPACITORS PVT. LTD.**

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## CHAPTER IV

### MANGEMENT STRATEGIES OF WORKING CAPITAL IN SHREEM CAPACITORS PVT. LTD.

#### DATA ANALYSIS AND INTERPRETATION

##### A) Current Assets:

Table No.4.1 Table showing various Current Assets

(Rs. In lakh)

Year	Inventories	Debtors	Cash & Bank	Loans & Advances	Total
2004-2005	100.18	2601.75	486.58	640.05	3828.56
2005-2006	122.40	3771.83	687.57	806.32	5388.12
2006-2007	161.52	4958.70	1071.24	-	6191.46
2007-2008	410.15	10569.74	1301.84	2708.20	14989.93
2008-2009	463.53	12726.98	2859.18	2430.15	18479.84

- **Analysis :**

**In above table, inventories , cash and bank and loans and advances are shown from the year 2004-05 to 2008-09.**

**In total current assets have raised largely in given period.**

**Table No.4.1a Table showing percentage of each component with  
Total Current Assets**

(Rs. In lakh)

<b>Year</b>	<b>Inventories</b>	<b>Debtors</b>	<b>Cash &amp; Bank</b>	<b>Loans &amp; Advances</b>
2004-2005	2.61	67.96	12.71	16.72
2005-2006	2.27	70.00	12.76	14.97
2006-2007	2.61	80.09	17.30	-
2007-2008	2.74	70.51	8.68	18.07
2008-2009	2.51	68.87	15.47	13.15

**In above table current assets are presented in percentage during the period 2004-05 to 2008-09**

**Interpretation:**

The above Table no.4.1 shows increasing trend in current assets. Current Assets in the year 2008-09 are Rs.18479.84 lakh and the same were Rs.3828.56 lakh in the year 2004-05. The increase does not find abnormal and unexpected. It is not in any particular component but almost all the components are increased in proportion.

To study the proportion and relation of each component with Total Current Assets Table No.4.1a is presented. The inventory level is at same

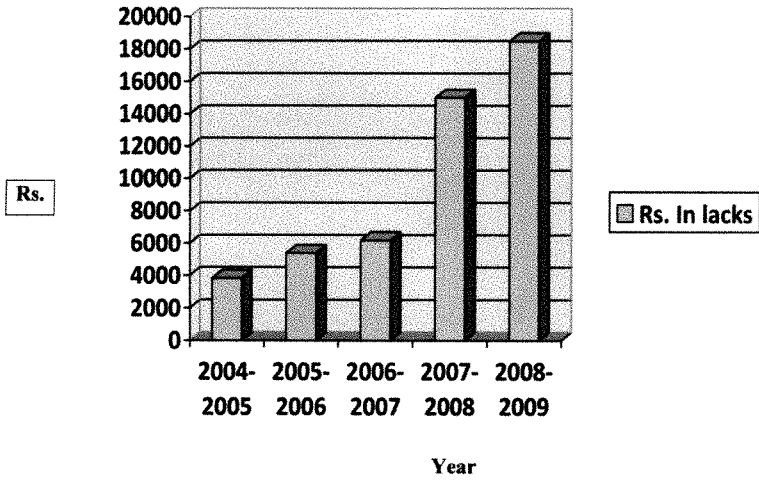
level and revolves around 2% to 3% of Total Current Assets. It is good sign of Inventory Management.

Though the amount in Debtors is increased it is to be noted that percentage of debtor's component is coming down. In the year 2006-2007 it touched to 80% which was signal of high risk. But gradually it came down.

Cash and Bank Balance is noticed around 12% to 17%. In the year 2007-2008 it was mere 8.68% which seems improved in year 2008-2009 15.47% of Total Current Assets. The liquidity is maintained at comfortable level with transaction motive.

Loan and Advances comprises of Advance to Suppliers, Advance to Employees, TDS, and Preliminary Expense etc. Some components are mandatory and blockage of funds in those components is inevitable. And other components are also variable and dependable on scale of business. As number of employees is increased investment in that component is also increased. Loans and Advances have never touched 20% of Total Current Assets. 20% can be treated as benchmark and company has not crossed the benchmark which is good sign.

Current assets from the year 2004-05 to 2008-09



## B) Current Liabilities:

**Table No.4.2 Statement showing various Current Liabilities**

(Rs. In lakh)

<b>Year</b>	<b>Creditors</b>	<b>Advances from Customers</b>	<b>Tax Provisions</b>	<b>Total</b>
2004-2005	1364.58	-	8.00	1372.58
2005-2006	1832.70	-	10.00	1842.70
2006-2007	2188.95	10.51	109.00	2308.46
2007-2008	7124.40	315.92	445.00	7885.32
2008-2009	6175.14	1946.36	37.18	8158.68

**\* Analysis -**

In above table , various current liabilities such as, creditors , advances from customers and tax provisions are shown during the period 2004-09.

In total , current liabilities have increased in large extent in the given period.

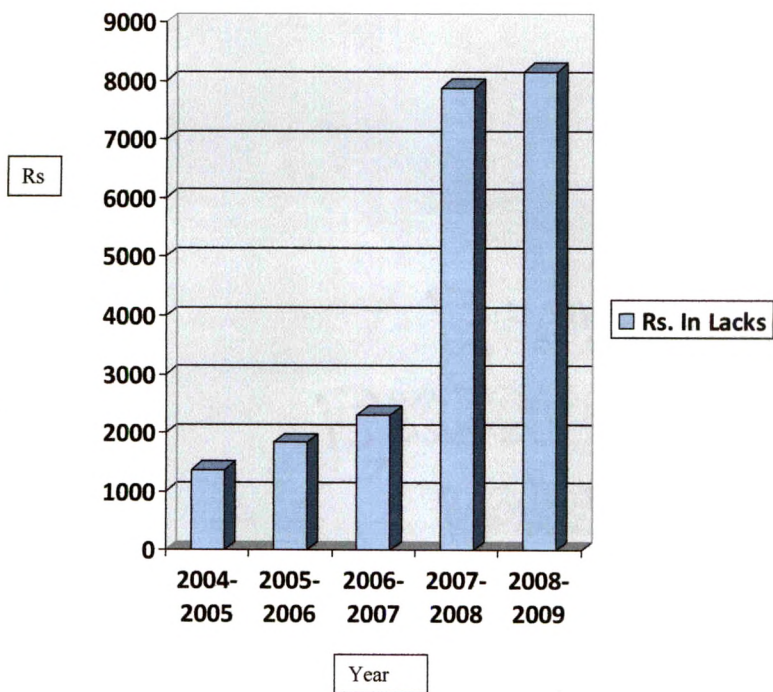
**Table No.4.2a Statement showing percentage of each component with  
Total Current Liabilities**

(Rs. In lakh)

<b>Year</b>	<b>Creditors</b>	<b>Advances from Customers</b>	<b>Tax Provisions</b>
2004-2005	99.41	-	0.58
2005-2006	99.46	-	0.54
2006-2007	94.82	0.45	4.72
2007-2008	90.35	4.00	5.65
2008-2009	75.68	23.86	0.46

Here, current liabilities are presented in percentage for the years 2004-05 to 2008-09.

### Current Liabilities from the year 2004-05 to 2008-09





## **Interpretation:**

The amount of current liabilities increased from Rs.1372.58 lakh to Rs.8158.68 lakh during year 2004-2005 to year 2008-2009. The increase in amount of current liabilities is an impact of increase in amount of creditors and Advance from customers.

The amount of Creditors is increased gradually during the years under our study except last year. In the year 2004-2005 the creditors were Rs.1364.58 lakh and in year 2007-2008 it is Rs.7124.40 lakh. But in year 2008-2009 the same is dwindled to Rs.6175.14 lakh. Apparently the decrease in amount of creditors seems as an impact of prevailing market situation during that year.

During the year 2004-2005 and year 2005-2006 there were no Advances from customers. It seems that the company has adopted the practice of accepting Advance from Customers from year 2006-2007.

Thus it is very clear from above table that the market allowed us to become creditors for our buyers but it compelled us to reduce the level of our creditors.

Table 4.2a shows the percentage of each component with total current liabilities. It is noted that creditor's component is major component of current liabilities. Creditors' portion is always remained above 90% of Total current liabilities except year 2008-2009. The Advances from Customers is highly fluctuating and has gone up from 0.45% to 23.86% of Total Current Liabilities. Provision for taxation is also of fluctuating nature but since it is mandatory the company cannot control / curtail it.

### C) Statement showing analysis of Current Assets:

i) **Inventory** – Inventory holding and handling seems satisfactory, refer Table No.4.1 & 4.1a. It is observed that Inventory Management is satisfactory. Hence, analysis of Inventory holding pattern is not undertaken.

ii) **Loans & Advances** –Loans and advances includes Advance to suppliers, Advance to employees, Sundry Deposits, TDS, Preliminary expenses etc. It is noted that all these components are remained almost at same level during years under study and there is no unexpected / unknown component. Hence, analysis of holding pattern of Loan and Advances is not undertaken.

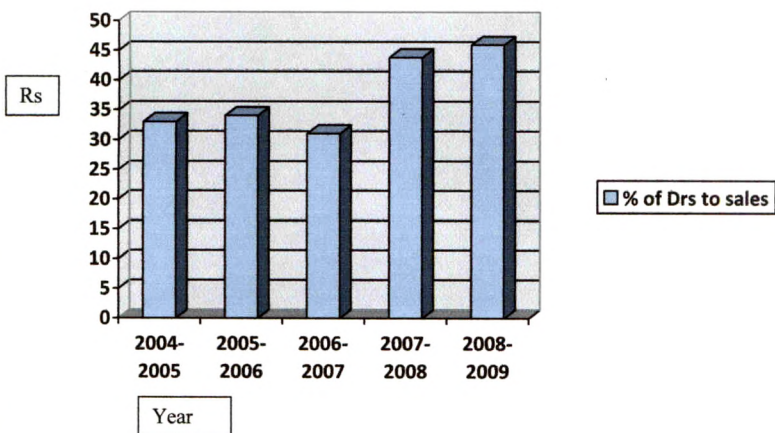
#### iii) Debtors –

**Table No.4.3 Statement showing percentage of Debtors to Sales**

(Rs. In lakh)

Year	Debtors	Sales	% of Debtors to Sales
2004-2005	2601.75	7875.22	33.03
2005-2006	3771.83	11073.91	34.06
2006-2007	4958.70	15972.41	31.05
2007-2008	10569.74	24118.88	43.82
2008-2009	12726.98	27711.31	45.93

### Percentage of Debtors to Sales from the year 2004-05 to 2008-09



## **Interpretation:**

Table 4.3 shows the co-relation between debtors and sales. It was kept maximum 34% upto year 2006-2007. And during year 2007-2008 and 2008-2009 it is above 40% but below 50%. The trend of debtors is raising trend. Sales are increasing year after year. Debtors are directly related with sales. The increased level of debtors is an impact of company's customer retention policy. But if the level of debtors is above 40% it is alarming. The company should try to maintain debtors at maximum 40% of sales.

The year 2007-2008 and year 2008-2009 were affected by world wide recession. The market situation is now improving slowly. During those years the company had increased the debtors just to retain their customers and keep the growth in sales. It has been informed that though the debtors were above 40% company had sold on credit to valued and old clients only. So risk in the high level debtors was comparatively less. In other words the Finance Manager opined that the customer retention policy made them to take calculated risk.

**C) Statement showing analysis of Current Assets:**

**iv) Cash & Bank -**

**Table No.4.4 Statement showing holding pattern of Cash & Cash at Bank**

(Rs. In lakhs)

Year	Cash in hand	Cash at Bank in Current Account	Cash at Bank in Fixed Deposits (charged for LC/BG)	Total Cash & Cash at Bank	Total of Cash & Balance in Current Account	% of cash to Total Current Assets	% of balance in Current A/c with total Current Assets	% of Cash & Current Account with total Current Assets
1	2	3	4	5=(2+3+4)	6=(2+3)	2/Current Assets.	3/Current Assets	6/Current Assets
04-05	6.97	17.88	461.73	486.58	24.85	0.18	0.47	0.65
05-06	0.61	3.28	683.68	687.57	3.89	0.01	0.06	0.07
06-07	14.72	202.80	853.72	1071.24	217.52	0.24	3.27	3.51
07-08	20.07	7.43	1274.34	1301.84	27.50	0.18	8.50	8.68
08-09	24.11	82.41	2752.65	2859.17	106.52	0.57	14.90	15.47

(Fixed deposits are charged for LG/BG facility and hence considered as Current Assets. But it is not taken into account for purpose of study of holding pattern of cash and cash at bank.).

### **Interpretation:**

Cash holding seems highly fluctuating. It was 0.18% in year 2004-2005 and subsequently it was reduced to 0.01% in year 2005-06. Again in year 2008-2009 it went upto to 57% from 0.24% in year 2004-2005.

Cash with Bank was of raising trend during the years under study except year 2005-2006. In year 2004-2005 it was 0.47% and the same seems increased gradually upto year 2008-2009. The company's policy of maintaining cash at bank is good.

The company maintains the cash and cash at bank for transaction motive.

### **D) Statement showing analysis of Current Liabilities:**

**i) Advance from Customers** – The Company is not hard and fast in observing policy in respect of Advance from customers. Refer Table No. 4.2. Figures of Advance from customers show negligible presence in Total Current Liability except for last year i.e. 2008-2009. Hence separate analysis of this component is not undertaken. However, it has been reported by the company that during 2008-2009 the company had to give substantial amount to its suppliers and consequently it has taken advance from customers to meet the short term requirement.

**ii) Tax Provision** – Tax provision is mandatory. It is to be made based on anticipated profit. No company has control over this component. Hence separate analysis is not undertaken.

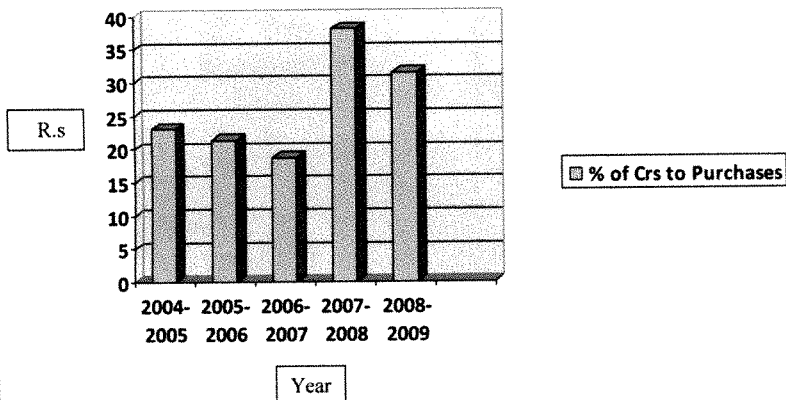
**iii) Creditors –**

**Table No.4.5 Statement showing percentage of Creditors to Purchases**

(Rs. In lakh)

<b>Year</b>	<b>Creditors</b>	<b>Purchases</b>	<b>% of Creditors to Purchases</b>
2004-2005	1364.58	5923.69	23.03
2005-2006	1832.70	8623.10	21.25
2006-2007	2188.95	11750.13	18.62
2007-2008	7124.40	18736.77	38.02
2008-2009	6175.14	19625.68	31.46

Percentage of Creditors Purchases from the year 2004-05 to 2008-09



### Interpretation:

Table 4.5 shows the co-relation between creditors and sales. It was 23.03% in year 2004-2005 which is reduced gradually to 18.62% upto year 2006-2007. In year 2007-2008 it was 38.02% and again reduced to 31.46%. The trend of creditors is fluctuating trend. Purchases are increasing year after year. Creditors are directly related with purchases. The increased level of creditors is an impact of supplier's dominance policy. But if the level of creditors is above 30% it is alarming. The company should try to maintain creditors at maximum 30%.

The year 2007-2008 and year 2008-2009 were affected by world wide recession. The market situation is now improving slowly. During those years the company had compelled to increase the creditors just to retain their existing supplier who is supplying without interruption and at comparatively cheaper rate. It has been informed that though the creditors were above 30% company had bought on credit from faithful and old suppliers only. So risk in the high level creditors was comparatively less. In other words the Finance Manager opined that the retention policy of existing suppliers made them to block money and take calculated risk.



### E) Net Working Capital:

**Net Working Capital = Current Asset – Current Liabilities**

**Table No.4.6 Statement showing Net Working Capital**

(Rs. In lakh)

Year	Current Assets	Current Liabilities	Net Working Capital
2004-2005	3828.56	1372.58	2455.98
2005-2006	5388.12	1842.70	3545.42
2006-2007	6191.46	2308.46	3883.00
2007-2008	14989.93	7885.32	7104.61
2008-2009	18479.84	8158.68	10321.16

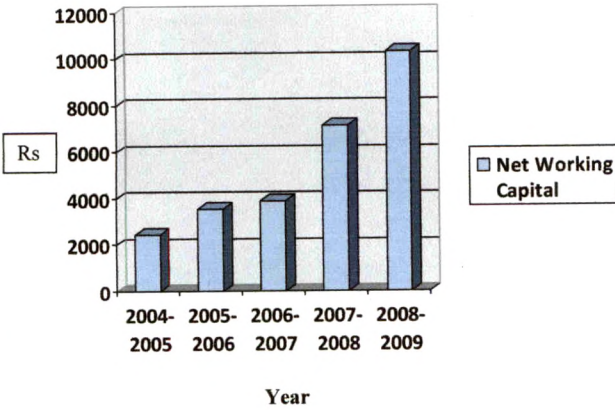
**Table No.4.6a Statement showing growth in Net Working Capital**

Year	Net Working Capital Rs. in lakh	Growth in %
2004-2005	2455.98	-
2005-2006	3545.42	44.35
2006-2007	3883.00	9.52
2007-2008	7104.61	82.95
2008-2009	10321.16	45.27

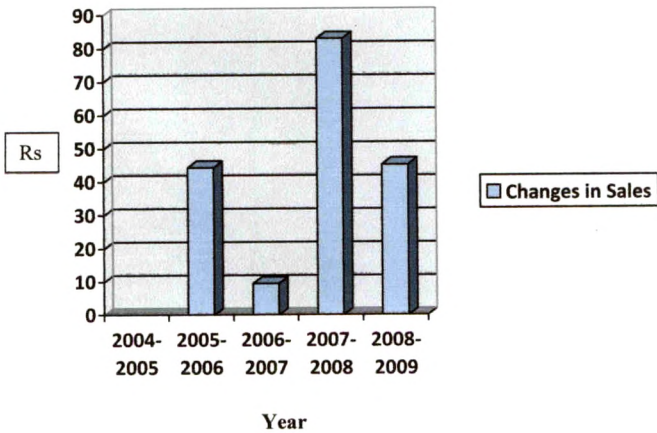
**Table No.4.6b Statement showing Net Working Capital to Sales**

Year	Net Working Capital Rs. in lakh	Sales in Rs.	NWC to Sales %
2004-2005	2455.98	7875.22	31.19
2005-2006	3545.42	11073.91	31.11
2006-2007	3883.00	15972.41	24.31
2007-2008	7104.61	24118.88	29.46
2008-2009	10321.16	27711.31	37.24

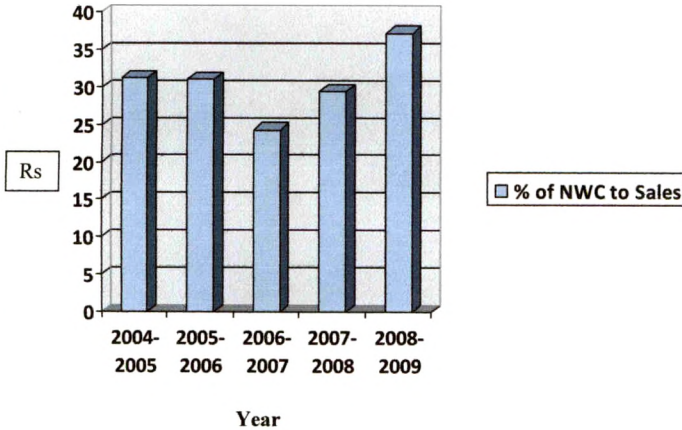
### Net working capital from the year 2004-05 to 2008-09



### Changes in sales from the year 2004-05 to 2008-09



**Percentage of net working capital and sales from the year 2004-05 to 2008-09**



**Interpretation:**

Table No. 4.6 shows the net working capital. It is increased every year. In the year 2004-2005 it was Rs.2455.98 lakh that amount is raised to Rs.10321.16 lakh in the year 2008-2009. The growth in amount of Net Working Capital is liked with expanded business activities and sales turnover.

Table No. 4.6a shows the growth rate of Net Working Capital. The growth rate is continuous but not at specific rate. It is fluctuating. In the year 2005-2006 the growth rate was 44.35% which came down to 9.52% in year 2006-2007. In year 2007-2008 the growth rate was highest and it was 82.95% but it again came down to 45.27%. The increase is continuous and commensurate with scale of transactions.

The growth rate table shows fluctuations in rising trend of Net Working Capital. It's a cumulative effect of variations in current assets and current liabilities.

During years under study it ranges between 24% to 37%. It is comfortable and the company is eligible to avail 20% of projected sales as working capital finance. The company has at better position to avail working capital finance.

## E) Statement of Changes in Working Capital:

Table No.4.7 Statement of changes in Working Capital as on 31<sup>st</sup> March 2005

(Rs. in lakh)

Particulars	2003-2004	2004-2005	Increase	Decrease
<b>A) Current Assets</b>	<b>3110.34</b>	<b>3828.56</b>		
i) Inventory	86.20	100.18	13.98	
ii) Debtors	2293.92	2601.75	307.83	
iii) Cash & Bank	442.55	486.58	44.03	
iv) Loans & Advances	287.67	640.05	352.38	
<b>B) Current Liabilities</b>	<b>1137.31</b>	<b>1372.58</b>		
i) Creditors	1105.67	1364.58		258.91
ii) Advance from Customers	-	-		-
iii) Tax Provision	31.64	8.00	23.64	
<b>Net Working Capital</b>	<b>1973.03</b>	<b>2455.98</b>		
Increase in W.C.	<b>482.95</b>			<b>482.95</b>
	<b>2455.98</b>		<b>741.86</b>	<b>741.86</b>

### Interpretation:

The above Table shows that Net Working Capital is increased from Rs.1973.03 lakh to Rs.2455.98 lakh. The actual rise in Net Working Capital is of Rs.482.95 lakh.

Net Working Capital is increased due to increase in all components of current assets viz. Inventory, Debtors, Cash & Bank and Loans & Advances and reduction in Tax provision.

In Table 4.6b we have noted that the Net Working Capital is 31.19% of Sales Turnover of year 2004-2005.

## F) Statement of Changes in Working Capital:

Table No.4.8 Statement of changes in Working Capital as on 31<sup>st</sup> March 2006

(Rs. in lakh)

Particulars	2004-2005	2005-2006	Increase	Decrease
<b>A) Current Assets</b>	<b>3828.56</b>	<b>5388.12</b>		
i) Inventory	100.18	122.40	22.22	
ii) Debtors	2601.75	3771.83	1170.08	
iii) Cash & Bank	486.58	687.57	200.99	
iv) Loans & Advances	640.05	806.32	166.27	
<b>B) Current Liabilities</b>	<b>1372.58</b>	<b>1842.70</b>		
i) Creditors	1364.58	1832.70		468.12
ii) Advance from Customers	-	-		-
iii) Tax Provision	8.00	10.00		2.00
<b>Net Working Capital</b>	<b>2455.98</b>	<b>3545.42</b>		
Increase in W.C.	<b>1089.44</b>			<b>1089.44</b>
	<b>3545.42</b>		<b>1559.56</b>	<b>1559.56</b>

### Interpretation:

The above Table shows that Net Working Capital is increased from Rs.2455.98 lakh to Rs.3545.42 lakh. The actual rise in Net Working Capital is of Rs.1089.44 lakh.

Net Working Capital is increased due to increase in all components of current assets viz. Inventory, Debtors, Cash & Bank and Loans & Advances.

In Table 4.6b we have noted that the Net Working Capital is 31.11% of Sales Turnover of year 2005-2006.

**G) Statement of Changes in Working Capital:**

**Table No.4.9 Statement of changes in Working Capital as on 31<sup>st</sup>  
March 2007**

(Rs. in lakh)

Particulars	2005-2006	2006-2007	Increase	Decrease
<b>A) Current Assets</b>	<b>5388.12</b>	<b>6191.46</b>		
i) Inventory	122.40	161.52	39.12	
ii) Debtors	3771.83	4958.70	1186.87	
iii) Cash & Bank	687.57	1071.24	383.67	
iv) Loans & Advances	806.32	-		806.32
<b>B) Current Liabilities</b>	<b>1842.70</b>	<b>2308.46</b>		
i) Creditors	1832.70	2188.95		356.25
ii) Advance from Customers	-	10.51		10.51
iii) Tax Provision	10.00	109.00		99.00
<b>Net Working Capital</b>	<b>3545.42</b>	<b>3883.00</b>		
Increase in W.C.	<b>337.58</b>			<b>337.58</b>
	<b>3883.00</b>		<b>1609.66</b>	<b>1609.66</b>

**Interpretation:**

The above Table shows that Net Working Capital is increased from Rs.3545.42 lakh to Rs.3883.00 lakh. The actual rise in Net Working Capital is of Rs.337.58 lakh.

Net Working Capital is increased due to increase in all components of current assets except Loans & Advances. That was repaid and seems zero during year 2006-2007. The company informs that the loans and advances were repaid on demand but later not raised from that source during that year.

In Table 4.6b we have noted that the Net Working Capital is 24.31% of Sales Turnover of year 2006-2007.

#### H) Statement of Changes in Working Capital:

**Table No.4.10 Statement of changes in Working Capital as on 31<sup>st</sup> March 2008**

(Rs. in lakh)

Particulars	2006-2007	2007-2008	Increase	Decrease
<b>A) Current Assets</b>	<b>6191.46</b>	<b>14989.93</b>		
i) Inventory	161.52	410.15	248.63	
ii) Debtors	4958.70	10569.74	5611.04	
iii) Cash & Bank	1071.24	1301.84	230.60	
iv) Loans & Advances	-	2708.20	2708.20	
<b>B) Current Liabilities</b>	<b>2308.46</b>	<b>7885.32</b>		
i) Creditors	2188.95	7124.40		4935.44
ii) Advance from Customers	10.51	315.92		305.41
iii) Tax Provision	109.00	445.00		336
<b>Net Working Capital</b>	<b>3883.00</b>	<b>7104.61</b>		
Increase in W.C.	<b>3221.61</b>			<b>3221.62</b>
	<b>7104.61</b>		<b>8798.47</b>	<b>8798.47</b>



**Interpretation:**

The above Table shows that Net Working Capital is increased from Rs.3883.00 lakh to Rs.7104.61 lakh. The actual rise in Net Working Capital is of Rs.3221.61 lakh.

Net Working Capital is increased due to increase in all components of current assets viz. Inventory, Debtors, Cash & Bank and Loans & Advances.

In Table 4.6b we have noted that the Net Working Capital is 29.46% of Sales Turnover of year 2007-2008.

**D) Statement of Changes in Working Capital:**

**Table No.4.11 Statement of changes in Working Capital as on 31<sup>st</sup> March 2009**

(Rs. in lakh)

Particulars	2007-2008	2008-2009	Increase	Decrease
<b>A) Current Assets</b>	<b>14989.93</b>	<b>18479.84</b>		
i) Inventory	410.15	463.53	53.38	
ii) Debtors	10569.74	12726.98	2157.24	
iii) Cash & Bank	1301.84	2859.18	1557.34	
iv) Loans & Advances	2708.20	2430.15		278.05
<b>B) Current Liabilities</b>	<b>7885.32</b>	<b>8158.68</b>		
i) Creditors	7124.40	6175.14	949.26	
ii) Advance from Customers	315.92	1946.36		1630.44
iii) Tax Provision	445.00	37.18	407.82	
<b>Net Working Capital</b>	<b>7104.61</b>	<b>10321.16</b>		
Increase in W.C.	<b>3216.55</b>			<b>3216.55</b>
	<b>10321.16</b>		<b>5125.04</b>	<b>5125.04</b>

**Interpretation:**

The above Table shows that Net Working Capital is increased from Rs.7104.61 lakh to Rs.10321.16 lakh. The actual rise in Net Working Capital is of Rs.3216.55 lakh.

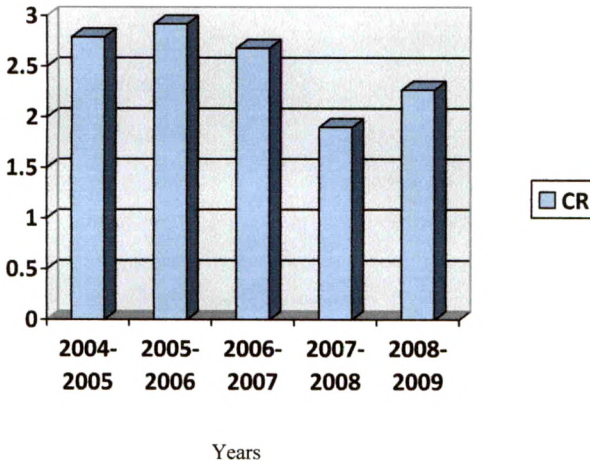
Net Working Capital is increased due to increase in all components of current assets viz. Inventory, Debtors, Cash & Bank and reduction in Loans & Advances and Creditors. We have already discussed that reduction in loans and advances and creditors is an impact of prevailing market situation at that time. The situation is improved later.

In Table 4.6b we have noted that the Net Working Capital is 37.24% of Sales Turnover of year 2008-2009.

**J) Ratio Analysis:****A) Liquidity Ratio:****I) Current Ratio:****Table No. 4.12 Statement showing Current Ratio**

<b>Year</b>	<b>Current Assets Rs. in lakh</b>	<b>Current Liabilities Rs. in lakh</b>	<b>Current Ratio</b>
2004-2005	3828.56	1372.58	2.79
2005-2006	5388.12	1842.70	2.92
2006-2007	6191.46	2308.46	2.68
2007-2008	14989.93	7885.32	1.90
2008-2009	18479.84	8158.68	2.27

### Current ratio from the year 2004-05 to 2008-09



#### Interpretation:

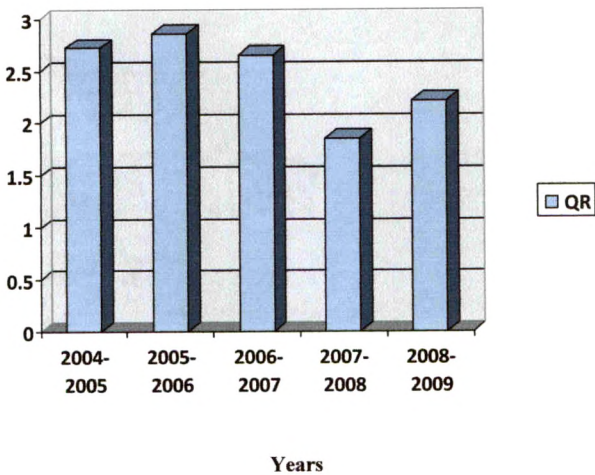
The study on current ratio shows that Current Ratio is above benchmark of 2:1 and remained satisfactory during years under study except year 2007-2008. Current ratio was maintained above 2:1. In the year 2007-2008 the upsurge in creditors increased the level of current liabilities and consequently reduction in current ratio. In Table 4.6 we have noted that in year 2007-2008 creditors were 38.02% of total sales turnover and it was highest increase in level of creditors.

## II) Quick Ratio:

Table No. 4.13 Statement showing Quick Ratio

Year	Quick Assets Rs. in lakh	Current Liabilities Rs. in lakh	Quick Ratio
2004-2005	3728.38	1372.58	2.72
2005-2006	5265.72	1842.70	2.86
2006-2007	6029.94	2308.46	2.61
2007-2008	14579.78	7885.32	1.85
2008-2009	18016.31	8158.68	2.21

Quick ratio from the year 2004-05 to 2008-09



### **Interpretation:**

Quick Assets are Total Current Assets except Inventory. The study on Quick ratio shows that it is satisfactory during years under study. Quick ratio was at comfortable level. However, in year 2007-2008 it was slightly come down to 1.85 but it had not affected adversely on liquidity position of the company.

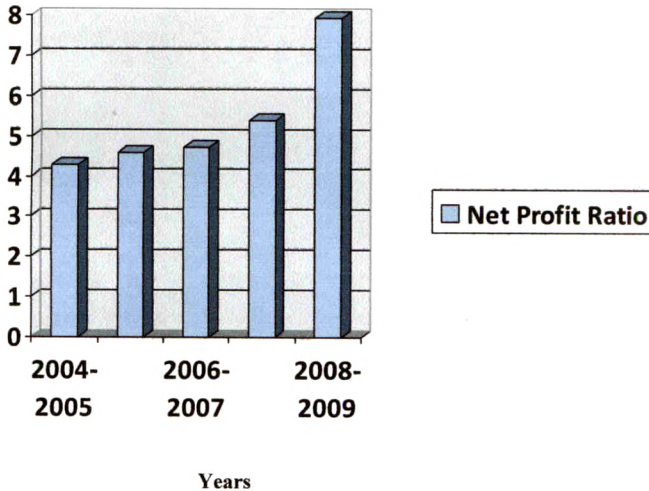
### **B) Efficiency Ratio:**

### **I) Net Profit Ratio:**

**Table No. 4.14 Statement showing Net Profit Ratio**

<b>Year</b>	<b>Net Profit Rs. in lakh</b>	<b>Sales Rs. in lakh</b>	<b>Net Profit Ratio</b>
2004-2005	336.15	7875.22	4.27
2005-2006	508.61	11073.91	4.59
2006-2007	751.52	15972.41	4.71
2007-2008	1281.74	23761.52	5.40
2008-2009	2195.98	27711.31	7.92

### Net profit ratio from the year 2004-05 to 2008-09



#### **Interpretation:**

Net Profit Ratio has been increased every year. The company has earned profit every year. Net Profit Ratio does not have direct link with Working Capital Management. But it is proved during passage of time that effective and efficient working capital management can increase the profitability of the organization. Thus increasing net profit ratio is one of the sign of good working capital management of the company.