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WORKING CAPITAL MANAGEMENT OF AMBUJA CEMENT COMPANY

Abstract

Working capital is the most vital part of any business firm. Working capital management is one of the financial decision through which a financial manager manages the working capital. Working capital management involves the decision regarding the composition and amount of current assets and current liabilities. A working capital is the life blood of any corporate. In this study the researcher have selected Ambuja cement company from top ten cement manufacturing companies of India .This study is based only upon secondary data and related data was collected from website of company, company's annual reports, financial websites like money control .com for ten years 2005-2014. For the data analysis the researcher have selected the technique of ratio analysis.

Key words: Working capital management, Ratio Analysis.

Introduction:

For all kinds of organization firm capital is basic requirement. There are two types of capital are necessary one is fixed capital and second is working capital.

In heavy capital intensive industries as like cement fixed capital requirement is much more than working capital but working capital has its own importance because

Working capital to a company is like the blood of human body. It is the most vital ingredient of business.

The working capital meets the sort-term financial requirement of business enterprise. It is trading capital not retained in the business. In a particular form for longer than a year. The money invested in it changes from substance during the normal course of business operations. The need for maintaining an adequate working capital can hardly be questioned. Just as circulation of blood is very necessary in human body to maintain life, the flow of funds is necessary to maintain business. The success of business depends ultimately, on its ability to generate cash flow problems of much small business are exacerbated by poor financial management and in particular the lack of planning cash requirements.

Working capital means it is an amount of short term capital which is used for day to day operation of the company.

The difference between the current assets and current liabilities is known as working capital.

Current assets are the resource which are in cash or will soon be converted into cash in "the ordinary course of business "Current liabilities are commitments which will soon require cash settlements in the ordinary course of business''

Working capital=Current Assets-Current liabilities.

- **Current Assets includes**
  - Bill receivable
  - Inventory

- Sundry debtors
- Cash and Bank balance
- Other current Assets.

- **Current liabilities includes**
  - Sundry creditors
  - Bills payables
  - Bank overdraft
  - Other short term liabilities.

In the production of cement, India is second after china in the world. The cement industries are one of the core industries of the country. Cement is basic need for all kinds of constructions as like housing, bridges, roads, dams; industrial buildings etc cement is very useful in there.

In India 365 small cement manufacturing units and 188 large cement manufacturing units established in cement industries. The total installed capacity of current manufacturing is 165million tones per year.

The large manufacturing units accounts for 94% of the total output of cement.

The role of cement industries in Indian GDP is significant in the economy development of country. The cement company in India is one of the oldest sectors in India.

In order to properly understand the needs of working capital and its role in cement industries this study has selected Ambuja cements limited company from top ten cement companies of India whose main activity is “manufacture of cement” .

Cement industry is one of the benchmark materials which manufacture basic raw materials for industrial production together with steel and petrochemical industries. Cement industry, which is closely linked to the construction industry. Working capital management is very important components of cement industry because it directly affects profitability of industry. Efficient management of working capital is one of the pre conditions for success of an enterprise.

- **Literature review**

This study analyses by vedavinayagam ganesan. He analyses the working capital management efficiency in telecommunication equipment industry. The relationship between working capital management efficiency and profitability is examined using correlation analyses. And he using a sample of 443 annual financial statement of 349 telecommunication equipment companies covering the period 2001-2007, this study found evidence that even though “days working capital” is negatively related to the profitability, it is not significantly impacting the profitability of firms in telecommunication equipment industry.

An attempt was made by onyango kung’s andrew the analysis of working capital management efficiency in sugar industry A case of mumias sugar the analysis was done to find statically evidence to support or reject the two hypothesis done by author turkey it result that into regression that profitably is negative but statically insignificant liquidity is negative and statically significant.

Another paper on relation between working capital management efficiency and ebit plays by Azagalah Ramchandrah, Muraildhran. It was aim and analysis the relationship between working capital management efficiency , and earnings before interest and taxes performance utilization and efficiency of the paper industry in India it performance remarkable well during the period, however, less remarkable profitable firms wait longer to pay their bills. Of peruse a decreases in cash conversion cycle.

Another survey by mehmet sen akdeniz university, faculty of economics and administrative science, Turkey this one of the international journal paper on relation between efficiency level of working capital efficiency and research on total assets in is e .I t was determined the relationship between efficiency level firms being a trade it is found different between indicators efficiency of working capital and its return and total assets it result that both the firms involves in the study and sectors. There is significant negativity relation between cash conversation and net working capital level.

An empirical survey of working capital management efficiency by Mary f. lumeri from school of graduate studies Strathmore University Nairobi.

In her research work efficient working capital management is one of the preconditions for the continued existence of organization .Its examined the sample of 8 out of 31 universities in Tanzania from the period of 2005 to 2009 from its research work the regression result appreciated return on assets has significant positive associations with working capital management efficiency

The positive relationship supports hypotheses one which states us the positive relation this result shows that returns on assets has statically significant positive relationship with working capital management efficiency Aggressive working capital management reflects in law management in current assets influences income positivity.

An another survey was presented by Barnali chaklader, Neharika shrivastava.In this study The researcher studied relationship of working capital management with firm's profitability during the period of global slowdown, the purpose of this study is to find out the effect of working capital management policies on the profitability of manufacturing firms listed in Bombay stock exchange 500.there are several studies that are conducted to find out the level of profitability and the components of working capital management but there is no study manufacturing firms during the period starting of global slowdown. The researcher had conducted a similar kind of study taking the sample of non financial firms. It was therefore intended by us to make an attempt to conduct this study taking manufacturing firms as our sample. The period of study was from2008-2011.for these research 169 firms were finally selected as complete information from 2008 onward was available for these firms. Return on capital was taken as a measure of profitability and average inventory turnover days, average collection period, average payable period, cash conversion cycle and the ratio of current assets to total assets were taken as various exogenous variables.multicolinearity check was done and hausman test was conducted,results of hausman test indicated that random effect model is true. Panel data regression was run through random effect in method.

An another paper was made by Goal,Sandeep these was research article on topic of working capital management efficiency and firm profitability: A study of Indian Retail industry .In this paper the researchers analyze the working capital management in Indian retail industry not only in totally but also in segmental performance as far as possible. The present study evaluates the various components of working capital, appraise the utilization of current assets and find out the relationship between working capital efficiency and profitability in units under study. The results of this study showed that proper working capital management helps in efficient utilization of resources, as evident by regression analysis results also.

Another paper was presented by Asghar ali and syed atif ali and the title of their study was working capital management is it really affects the profitability? Evidence from Pakistan the study showed a positive impact of working capital management on profitability, working capital on total assets and impact of total assets on profitability of 15 companies of 3 different sectors of Pakistan.

Considering the results it is evident that efficient management of working capital can lead a firm towards profitability. The firms should improve their receivables and other currents assets components for sufficient working capital. Efficient management of inventories enhances the profitability of firms. It is concluded that firms with higher working capital have higher ratio of profitability and firms with higher total assets also have higher ratio of profitability. The firms having sufficient working capital also have enough total assets. So it is observed that firms having sufficient proportion of working capital have positive effect on total assets and profitability of the firms.

A.k Sharma and corresponding author satish Kumar had presented another research paper on topic of the effect of working capital management on firm profitability: Empirical evidence from India. The main aim of this article is to examine the effect of working capital on profitability of Indian firms. Researchers collected data about a sample of 263 nonfinancial BSE 500 firms listed at the Bombay Stock (BSE) from 2000 to 2008 and evaluated the data using OLS multiple regression. The findings of our study significantly depart from the various international studies conducted in different markets. The results reveal that working capital management and profitability is positively correlated in Indian companies. The study further reveals that inventory of number of days and number of day's accounts payable is negatively correlated with a firm's profitability, whereas number of days accounts receivables and cash conversion period exhibit a positive relationship with corporate profitability. The present study contributes to the existing literature by examining the effect of working capital management on profitability in the context of an emerging capital market such as India.

RESEARCH OBJECTIVES

- The main objective of the study is to examine and evaluate the working capital management of the Ambuja cements ltd.
- To attain this main objective, the following secondary objectives are required to be achieved:
- i. To examine the trend growth of selected performance indicators.
- ii. To examine the working capital performance of the Ambuja cements ltd.
- iii. To examine the relationship between liquidity and profitability.

Research methodology

- Sources of Data:

  Secondary sources of data will be utilized for this research study. Secondary data have been collected from Ambuja cements limited company's annual reports, company's website.

- Universe:

  In the research study the researcher have selected one cement company from top ten Cement Company of India which name is Ambuja cements limited

- Period of data coverage

  Ten years of financial statements will be analyses for cement companies taken under study. Working capital measures from 2005 to 2014 will be studied to analyses latest trends and performance of Ambuja cements limited.

- Analysis of data

  Tables, diagrams and statistical results will be derived with the help of statistical calculate Microsoft excel tools.

  Data will be analyze by working capital ratios and study of fund flow statement and cash flow statement of Ambuja cements limited.

Analysis of data

Table-1 Table showing Current ratio of Ambuja cement

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Mean

Ratio	0.76	1.08	1.03	1.26	0.89	1.07	1.17	1.22	1.28	1.27	1.10
% of Mean	68.90	97.91	93.38	114.23	80.68	97.00	106.07	110.60	116.04	115.14	

Interpretation:

This ratio is establishes a relationship between current assets and current liabilities. It is indictors of firm's capability to rapidly meet its short team liabilities the current ratio for ten years from 2005 to 2014 are calculated and presented in the above table. From the above table it is analyzed that the current ratio position in the company is very poor during the study period. In the year 2005 and 2009 company's current ratio is very poor than others years.

Table-2 Table showing Quick ratio of Ambuja cement

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Mean
Ratio	0.35	0.7	0.64	0.74	0.57	0.75	0.9	0.95	1.01	1.04	0.76
% of Mean	45.75	91.50	83.66	96.73	74.50	98.03	117.64	124.18	132.02	135.94	

Interpretation:

This ratio is a better indicator of firm's liquidity position as it takes into consideration only the liquid assets like cash and debtors leaving aside the inventories. From the above table it is clear that the quick ratio has an increased from year 2011 to 2014, i.e., 0.90 to 1.04. From the present table researcher analyzed that all of the research period excepts of year 2013 and 2014 other years liquidity position is poor.

Table-3 Table showing Inventory ratio of Ambuja cement

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Mean
Ratio	8.28	15.41	9.96	7.54	11.36	9.19	10.41	11.17	9.81	11.23	10.43
% of Mean	79.34	147.66	95.43	72.24	108.85	88.06	99.75	107.03	94.00	107.60	

Interpretation:

Inventory turnover is calculated by dividing the cost of goods sold by the average inventory. This ratio indicates the efficiency of the firm in producing and selling its product, by indicating the number of times the inventory has been converted into sales during the period. From the above table it is analyzed that the inventory ratio of year 2005 is 8.28 an after than this ratio is increased to 15.4 in 2006. After this period the result indicates that there is fluctuation in inventory turnover.

Table-4 Table showing Debtors ratio of Ambuja cement

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Mean
Ratio	58.66	91.7	48.14	33.39	37.6	52.58	46.36	42.84	41.18	43.43	49.58
% of Mean	118.29	184.92	97.07	67.33	75.82	106.03	93.49	86.39	83.04	87.58	

Interpretation:

Debtors' turnover is found by dividing credit sales by average debtors. When a company makes its sale on credit, debtors or account receivables are created. Debtors turnover imply the number of times debtors turnover each year.genrally, the higher the value of debtors turnover, the more efficient the management of the company. The above table present the company's debt turnover ratio, in the begging debtors' turnover ratio is increased to 91.7 in 2006 from 58.66 in 2005. For the rest of the years the ratio was never constant and was low.

Table-5 Table showing Average collection Period of Ambuja cement

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Mean
Ratio	6.22	3.98	7.58	10.93	9.70	6.94	7.87	8.52	8.86	8.40	7.90
% of mean	78.73	50.36	95.94	138.32	122.83	87.84	99.62	107.81	112.15	106.34	

Interpretation:

This is found out by dividing 365 by the debtors' turnover ratio and it gives information about the time taken to realize cash from the debtors. It can be seen that the highest collection time was in 2008 and 2009. The lowest was in 2006

Table-6 Table showing Debtors to current assets ratio of Ambuja cement

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Mean
Ratio	7.71	7.55	9.01	9.48	7.57	4.00	6.014	4.86	5.23	4.73	6.62
% of Mean	116.45	114.16	136.22	143.24	114.42	60.47	90.83	73.46	79.12	71.56	

Interpretation:

This ratio indicates the amount of debtors that constitute the current assets of the firm. The debtors to the current assets ratio as we can see are minimal for all the years from 2005 to 2014.

Table-7 Table showing Inventory to current assets ratio of Ambuja cement

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Mean
Ratio	53.32	34.35	36.00	39.68	34.01	28.17	23.09	22.43	21.13	18.46	31.06
% of mean	171.62	110.58	115.89	127.72	109.47	90.68	74.34	72.19	68.02	59.43	

Interpretation:

This ratio indicates the portion of inventory in the current assets. The above table shows that the inventory to current assets ratio was a little higher in 2005 and since 2008 it has constantly decreased.

Table-8 Table showing Inventory management ratio of Ambuja cement

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Mean
Ratio	-1.67	4.43	14.59	1.93	-2.75	4.28	1.60	1.22	0.96	0.86	2.54
% of Mean	-65.82	174.10	572.66	76.06	-108.30	168.33	63.17	48.18	37.83	33.77	

Interpretation:

For the years 2005 and 2009, the inventory management ratio went extremely low. It can be seen that it was way higher in the year 2007. Since 2010 it kept on decreasing.

Table-9 Table showing Working capital turnover ratio of Ambuja cement

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Mean
Ratio	-13.74	67.55	142.28	12.74	-28.60	35.05	14.88	12.14	9.45	9.66	26.14
% of Mean	-52.55	258.40	544.21	48.76	-109.42	134.08	56.93	46.44	36.16	36.96	

Interpretation:

Both excessive and inadequate working capital for the firm is harmful. Excessive working capital means the company is holding excess idle funds which earn add no value to firm. Inadequate working capital means not lower funds available to meet operational needs of the firm.
The year 2006 and 2007 recorded the highest working capita turnover ratio i.e., 67.55 and 142.28. It went from 35.05 in 2010 to 9.66 in 2014.

Table-10 Table showing Current liabilities to net worth ratio of Ambuja cement

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Mean
Ratio	-0.24	0.08	0.02	0.25	-0.10	0.07	0.16	0.22	0.28	0.27	0.10
% of Mean	-233.92	81.40	24.53	249.69	-106.40	68.18	162.47	216.75	272.31	264.95	

Interpretation:

Desirable level for this Ratio is 1/3s.It can be seen that the ratio was negative for the years 2005 and 2009. Rest of the years the ratio was somewhat constant. The above table depicts the CL to Net worth ratio of the company is very poor. It means it is very good performance to obtain long-term funds from any financial institutions.

Table-11 Table showing Cash turnover ratio of Ambuja cement

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Mean
Ratio	30.10	36.12	49.34	49.96	60.72	37.15	4.13	4.31	3.91	4.05	27.98
% of Mean	107.57	129.08	176.32	178.54	217.00	132.77	14.77	15.42	13.98	14.50	

Interpretation:

The cash turnover was better and increased since 2005 until 2009. It was the highest in 2009 i.e., 60.72 and since then it decreased drastically and ended at 4.05 in 2014.

Table-12 Table showing Return on total assets of Ambuja cement

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Mean
Ratio	16.07	22.96	30.58	37.23	42.45	47.9	52.59	57.09	61.36	65.19	43.34

% of Mean	37.07	52.97	70.55	85.89	97.94	110.51	121.33	131.71	141.57	150.40

Interpretation:

This ratio is found out by dividing net profit by total assets of the company. It is clearly visible from the above table that the return on the total assets has continuously increased from 2005 to 2014. It was 16.07 in 2005 and kept on increasing and it was 65.19 in 2014.

Limitation of study:

1: The study is only of the selected unit of cement companies working in India.
2: The present study is based on ratio analysis and it has its own limitation that applies to this study also.
3: The present study will depend upon the data obtain from annual reports of selected cement company working in India.
4: It is true that deep knowledge is required for interpretation of some ratio and this study may be lacking in this matter.
5: It was not easy for researcher to cover all concepts of working capital management and therefore, some concepts may not be including in the study.

Conclusion

Cement industry is one of the most developing industries in India. Ambuja Cement is one of them. Its growth during past ten years is eye catching; therefore the investigator has undertaken a study on working capital management of Ambuja Cement. Current ratio of Ambuja Cement has registered constant increasing trends starting from 2005 which indicates that the company's current assets condition is sound and strong.
Inventory ratio also has continuously increased during the study period which indicates that stock executes fast during all this time which indicates its sound sales in the market. Debtors ratio has downward trend which indicates that company has not increased debtors during the study period and it has effective recovery system working in this business unit.
Mostly, all ratios registered upward and positive trend which indicates that company's working capital position is strong and its working capital system and policy works efficiently. Company is in the position to manage cash and liquidity well in this business.

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Mukti R. Barot
Shah C.K.Municipal Commerce College,
Kalol