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A COMPARATIVE STUDY OF WORKING CAPITAL MANAGEMENT OF Raymond and Vardhman Textiles

Abstract

Working capital management is one of the most important financial decisions in business. The optimal management of working capital will raise the business value. In this study the researcher tried to carry out a comparative analysis on working capital management of Raymond and vardhman textile limited. The aim of this study is to analyze which company's performance is better than other company. For this analysis researcher have use only of secondary data from companies' websites, companies' annual reports and financial websites like money control .com for ten years 2006-2015.for data analysis researcher have selected the technique of ratio analysis.

Key words: working capital management, Ratio analysis

Introduction

Working capital is life blood of several businesses. In the financial management, working capital management is one of the most important and challenging aspect. Firm survival is also depending upon only more efficient and effective management of working capital.

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. In the other words the excess of current assets than current liabilities is called working capital.

Net working capital = Current assets – current liabilities Current assets are short-lived investments that are continually being converted into other assets, while current liabilities are those liabilities which firms are accountable to pay within a year.

Current Assets= Inventories + Trade Debtors + Loans & Advances +Cash & Bank Balance
Current Liabilities=Sundry Creditors +Trade Advances +Short term Borrowings +Provisions.

Management of working capital is an essential task of finance management because it play vital part of any business firm because it is directly affect the firms profitability and liquidity. Liquidity presents the ability of company to pay its short-term debts. Liquidity of a company is connected with the capacity of a firm to perform its short term liabilities. With the help of proper management of working capital firm can build up it's the solvency, improve it's goodwill, and it's also can face out all the business operations smoothly and it's also can be able to face out crisis. So that It is the duty of financial managers to keep an optimal level of current assets to its total assets; because firm profitability can be affected negatively by holding too many current assets while few current assets can create low liquidity and stock out situation for a firm.

So that the aims of Working capital management is at maintaining a balance between liquidity and profitability at the same time as conducting the day to day operations of business

The main purpose of any firm is to maximize profit along with maintaining liquidity. Increasing profits at the cost of liquidity can create serious issues for the firm. Thus, there should be a balance between the two, liquidity and profitability.

In order to properly understand the needs of working capital and its role in textile industries this study has selected two textile industries one is Raymond and second is vardhman textile. Textile industry is leading sector in Indian economy. In India Textile industry is one of biggest revenue earner than all other industrial sectors. This sector provide 45 million people as direct employ and Indian textile sector covers 61% international textile market and 22% of global market. Textile sector contributes 14% in industrial products and 4% to GDP.

In this study the researcher tries to compare between Raymond and Vardhman textiles and its main business is also textile.

For this study researcher applied the method of ratio analysis because Ratio analysis is recognized as one of the most powerful tool of financial analysis. It is a process of establishing and interpreting quantitative relationship between figures and group of figures. Ratios are best indicators of financial strength, soundness, position and weakness of a firm. Ratio can help the management in its basic functions like forecasting, planning, coordinating, control and communication. If ratios are properly analyzed and interpreted the management can rise the value of firm.

- **Literature review**

For the research the researcher has study one research paper and title of that's paper was "trend in working capital management and its impact on firms performance: an analysis of Mauritian small manufacturing firms" this paper was presented by kesseven padachi. in this research he has took 58 small manufacturing companies and covered the period for research 1997 -98 to 2002-03. For the analysis In this research he has adopted the method of correlation analysis and regression analysis. In this research he justify that due to poor performance of management higher amount of capital is engaged in different kinds of assets so that the companies cannot achieves its goal

Another paper was presented by M.A. Zariyawati, M.N. Annuar and A.S. Abdul Rahim .and the title of their research was "Working capital management and corporate performance : case of Malaysian" for the research they have selected panel data of 1828 firms for the period of 1996-2006.for further study they have followed the method of regression analysis. After the whole process of research they have concluded that there was Strong negative significant relationship between CCC and profitability of the firms.

Another paper was presented by Vedavinayagam Ganesan (2007) and the title of his research was "An Analysis of working capital management efficiency in telecommunication equipment industry" in this research he took 349 telecommunication equipment companies as sample and covering the period 2001-2007 and for the research he adopted the method of Anova,correlation and regression analyses. The conclusion of his research was that days working capital negatively affect firms profitability.

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 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 as a sample 263 nonfinancial firm from 500 firms listed at the Bombay Stock (BSE) and covering the period 2000 to 2008.for the analysis they adopted the method OLS multiple regression. The findings of their study was 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.

Another survey by B. Bagchi, B Khamrui and the title of their study was "relationship between working capital management and profitability: A study of selected FMCG companies in India". in this research they have selected ten FMCG companies from India and covered data from 2000-2001 to 2009-2010. For the analysis they have adopted The method of correlation multiple regression analysis and t test. After following all the method they have conclude that among these companies there was absent of positive relationship between firms profitability and variables of the working capital management.

OBJECTIVES OF THE STUDY

The specific objectives of the study are:

- To analysis the concept and importance of working capital and the concept of ratio, utility of ratio analysis.
- To calculate the financial performance through Ratio Analysis of Raymond textile and Vardhman textile ltd, on comparative basis in terms of short term.

RESEARCH METHODOLOGY

SCOPE OF THE STUDY

The present study is restricted to a comparative analysis between two textiles industries

DATA COLLECTION

To attain the aforementioned objectives data is collected from secondary sources, like annual reports, journals, and related other research papers

DATA ANALYSIS

The gathered data is analyses through ratio analysis and only important tables are used for data discussion as per research need and which are taken for data analysis.

3.1. Measurement of Variables
Ratio Analyses: Ratio analysis is one of the most important and widely used tools of analyzing the working capital and its management.
The various ratios that will be calculated are as follows:

1) Liquidity Ratios: These ratios threw light on the liquidity position of the concern. The following ratios were calculated:

i. Current Ratio: Current Ratio = Current Assets/ Current Liabilities
ii. Quick Ratio: Quick Ratio = Current Assets – Inventory/ Current Liabilities

2) Activity Ratios: These ratios measure the effectiveness with which an organization manages its resources on assets.

They are also called the turnover ratios because they indicate the speed with which assets are converted or turned over into sales. The various ratios calculated are as follows:
a) Debtors Turnover Ratio: = Total Sales/Average Debtors
b) Average Collection Period: = 365/Debtors Turnover Ratio
c) Inventory Turnover in days: = Inventory/cost of goods sold*365
3) Others:
a) Working capital Turnover Ratio= Net sales/ Net Working capital
b) Current Asset to Total Asset Ratio= Current assets/Total Asset

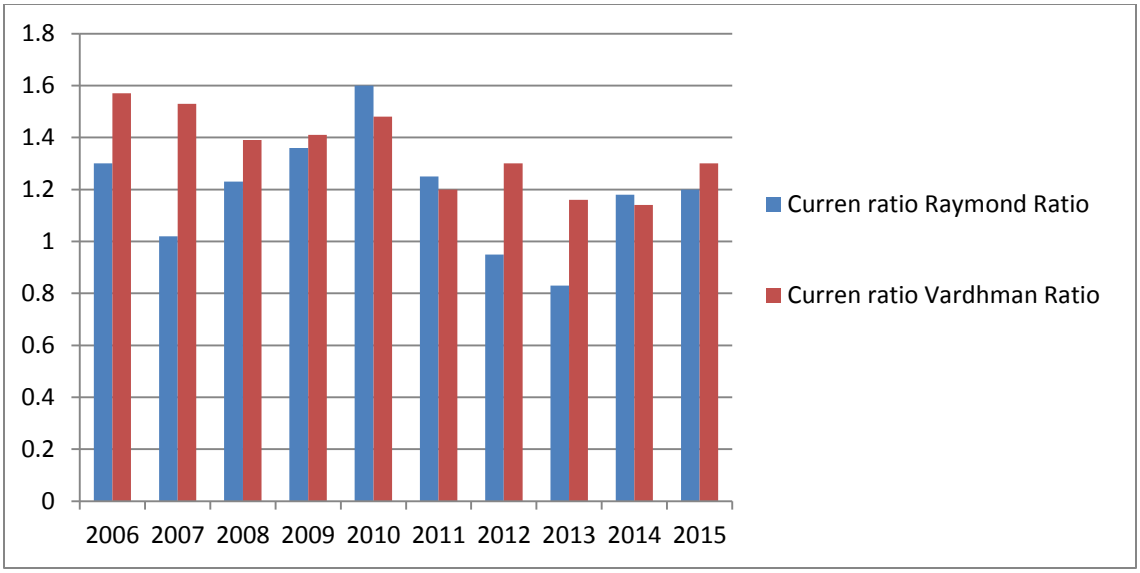

Figure 1. Raymond and Vardhman Current Ratio

From the above graph, it can be seen that Raymond recorded the highest Current Ratio in 2010 whereas in 2006, Raymond had the highest Current Ratio. Also the Current Ratio for Vardhaman has been constantly above 1 for all the years, whereas; Raymond has two occasions where its Current Ratio was below 1 and that's for the years 2012 and 2013.

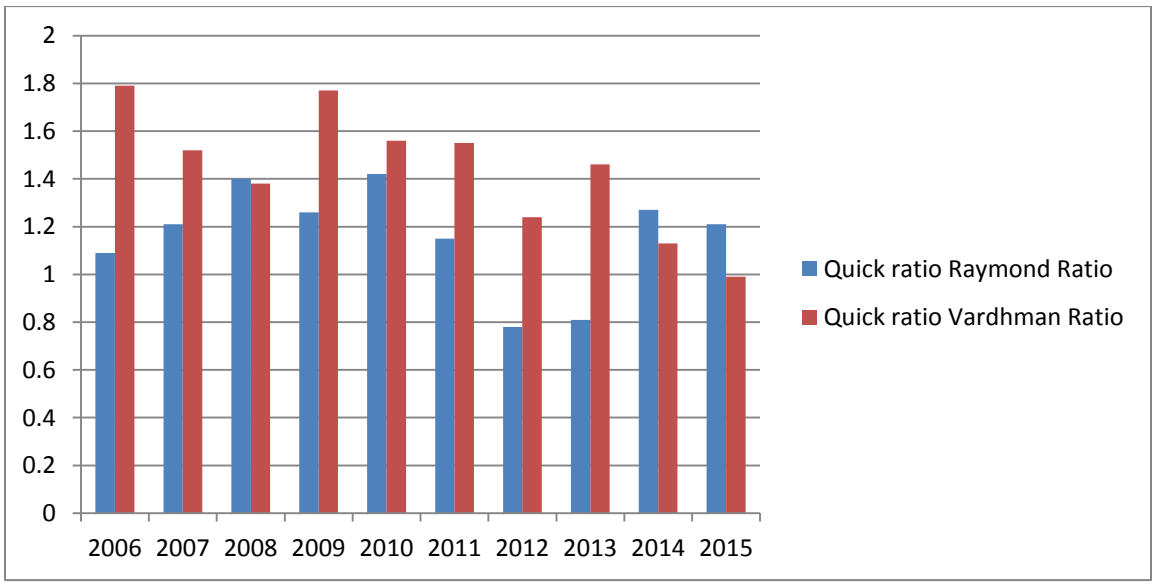

Figure 2. Raymond and Vardhman Quick Ratio

The above chart displays that the Quick Ratio for Vardhaman has been the highest in the years 2006 and 2009. The lowest was in 2015 which is below 1. We can also see that it was the lowest for Raymond for 2 consecutive years, 2012 and 2013.

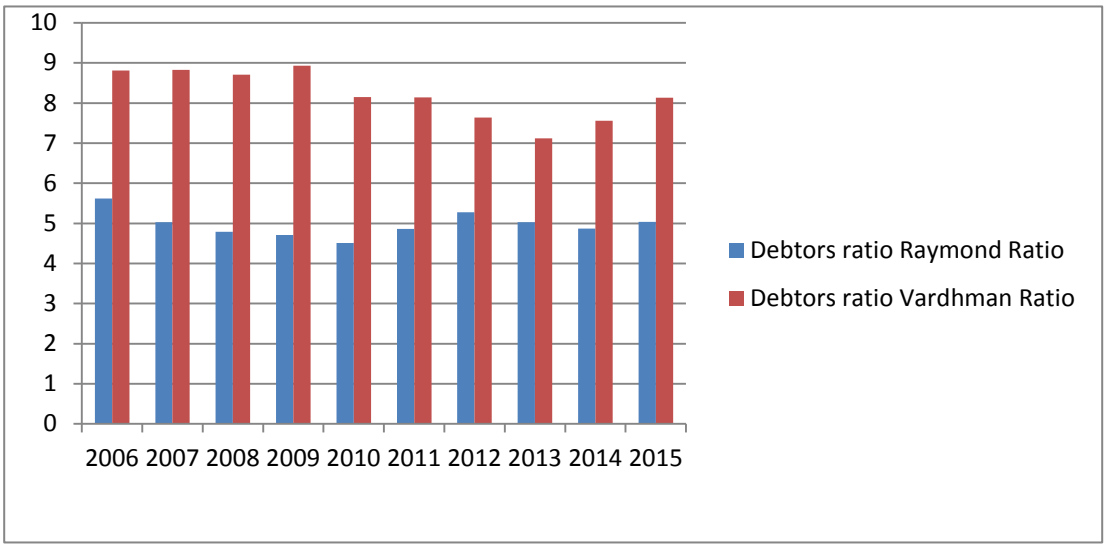

Figure 3. Raymond and Vardhman Debtors Turnover Ratio

We can see that the Debtors Turnover Ratio for Vardhaman has been the highest since 2006 compared to that of Raymond. Raymond has the ratio below 6 for all the years and on the other hand Vardhaman has a ratio of over 7 for all the years

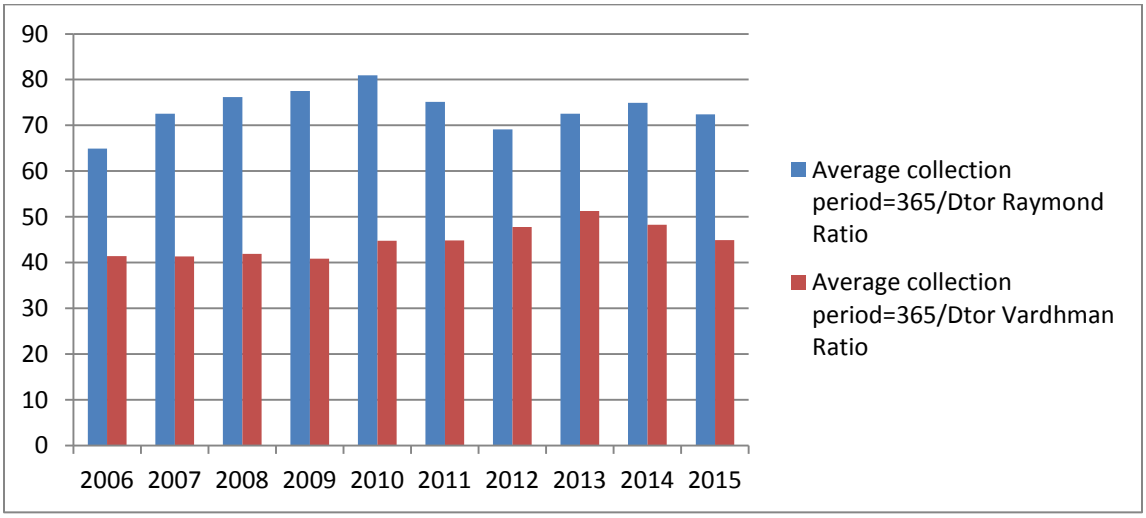

Figure 4. Raymond and Vardhman Average Collection Period

The Average collection period chart above shows that Raymond has the highest average compared to Vardhaman for all the years. The highest average collection period for went above 80 in the year 2010. The average collection period for Vardhaman has been lesser than 50 for all the years.

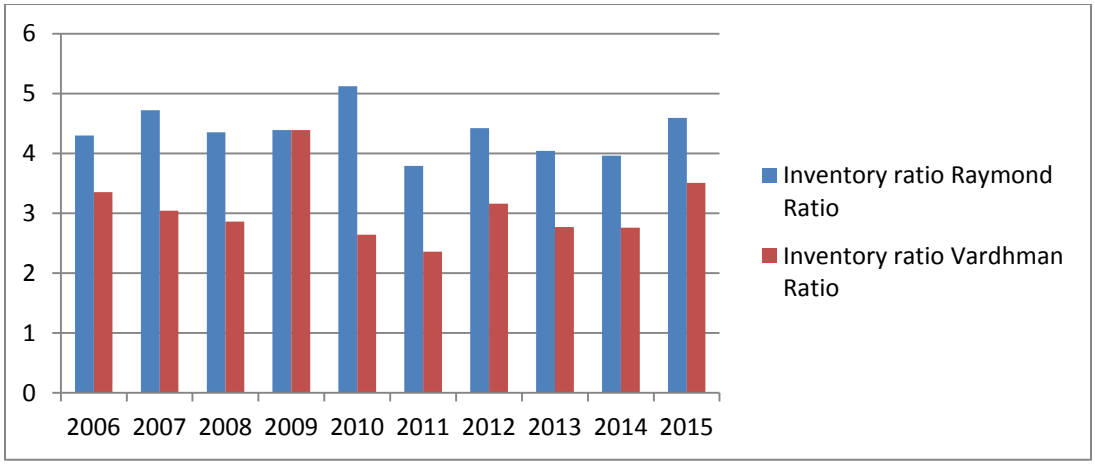

Figure 5. Raymond and Vardhman Inventory Turnover Ratio(in days)

As per the above figure, it can be clearly seen that Raymond has a higher Inventory Turnover Ratio when compared to Vardhaman for all the years except for the year 2009. Both the companies where at equilibrium for the year 2009..

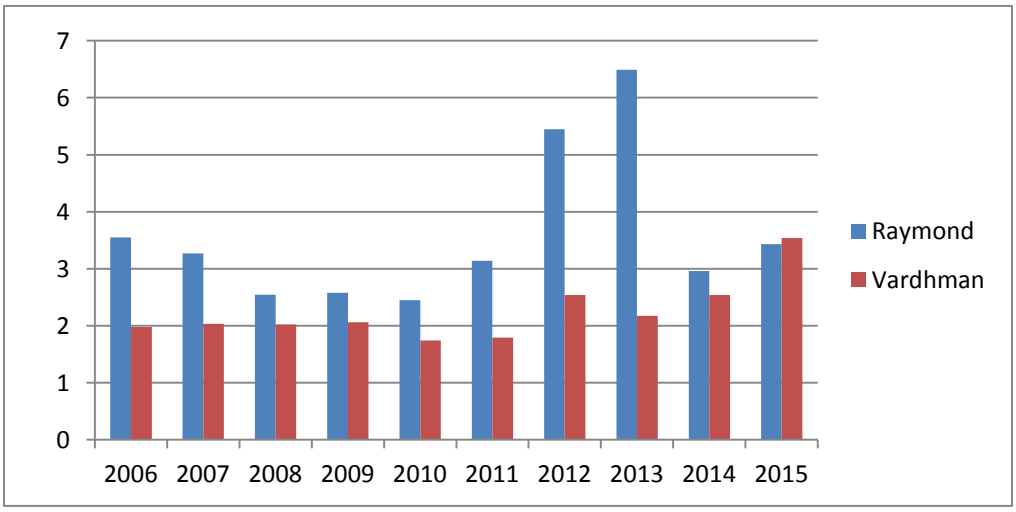

Figure 6. Raymond and Vardhman Working capital turnover Ratio

The above figure shows that the working capital turnover has been the highest for Raymond for all the years except for the year 2015 where Vardhaman had a higher ration than Raymond. Also, Raymond had the highest ratios for the years 2012 and 2013 and years 2010 and 2011 had lesser ratios for Vardhaman.

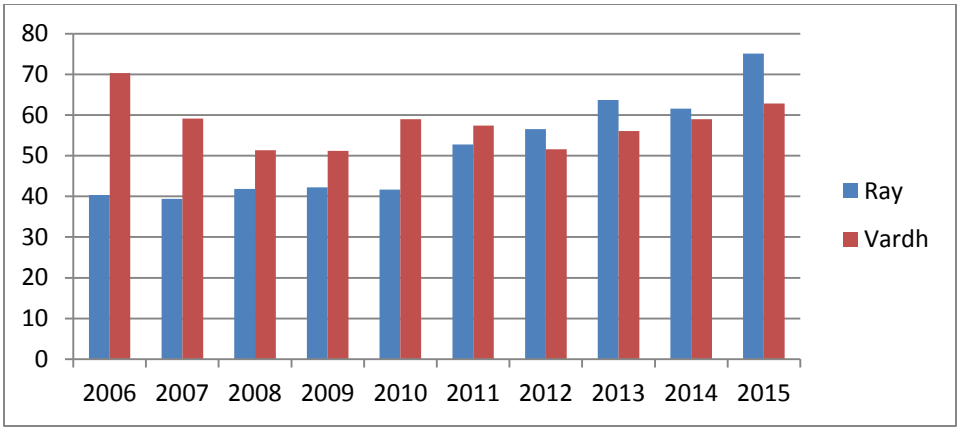

Figure 7. Raymond and Vardhman Current Asset to total asset Ratio

It can be seen that until 2009, the current asset to the total asset ratio for Vardhaman kept on decreasing and in 2010 it took a small jump and then again decreased for another two years 2011 and 2012 and since then it has increased. Raymond on the other hand Raymond's current asset to total asset ratio was somewhat constant until 2010 and then jumped up for the next three years and again dipped a little in 2014 and went high in 2015.

Limitations of the study

The ratios have been calculated, analyses and interpreted for the period under study i.e.2006 to 2015. Ratios are calculated on the basis of historical financial statements.
Therefore, future performance of the manufacturing units not reflected. The financial statements are subject to window-dressing. It will affect the results in the process of analysis. The absolute figures may prove decorative as ratio analysis is primarily quantitative analysis and not qualitative analysis. Many people may interpret the results in different ways as ratio is not an end by itself. Anyhow, every effort has been made to draw conclusions to all firms facing similar situations. But non- availability of certain financial data makes difficulty on comparative analysis.

Conclusion

Working capital management is one of the most important aspect for financial decisions in any business unit. The researcher had tried to carry out a comparative analysis on working capital management. The graph of current ratio of Raymond Ltd. Has registered mix trend during the ;last ten years, which was highest in 2006 and lowest in 2014, where as current ratio of Vardhman Ltd. Was strong and sound in comparison of Raymond Ltd. It is seen in the graph of debtors' ratio that Raymond Ltd. Has less recovery time than that of Vardhman Ltd. It also indicated that Raymond company has no more risk from debtors in compared with Vardhman. Inventory ratio indicated that Raymond Ltd has faster turnover of raw material than that of Vardhman. Turnover ratio of Raymond Ltd had remained stable during the study period, where as Vardhman Ltd showed mix trend in relation to inventory ratio which indicated that Raymond Ltd has continuous production and sales of its products.From above discussion, it can be concluded that Raymond Ltd has sound and more effective working capital system than Vardhman Ltd has. Raymond Ltd has maintained all ideal level of working capital and constant increase is sign of healthy position of business from the view
point of capital.

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