



## **"Understanding Impact of Mismanagement of W.C. – Case study of Euro Ceramics Ltd."**

### **Abstract:**

*The study based on working capital management of Euro Ceramics Ltd. Researcher has taken data of 10 years of Euro Ceramics Ltd. Researcher has used the various ratio regarding Liquidity and Profitability. Researcher has used Liquidity ratio like, Current ratio, Liquid ratio, Debtors ratio, Creditors ratio, Stock turnover ratio etc. and Profitability ratio like, Gross profit ratio and Net profit ratio. In this paper, researcher has used the secondary data from the moneycontrol.com and web page of Euro Ceramics Ltd, which is posted by the Euro Ceramics Ltd. First researcher has taken Balance sheets and Profit and loss Statements of 2008 to 2017 and processed for various ratio, then drafted findings and conclusion. Its Share holder's fund is in negative value from last 5 years, it can be said that there may be a mismanagement of working capital in Euro Ceramics Ltd.*

### **Introduction:**

Working capital management of any company is a basement of the whole operating activities. Most of the viewers focus on the capital assets, which is useful for manufacturing process of the particular product. But, when can be production possible? When can be sales made? How can be performing operating activities? If raw material will introduced, if manpower or/and machine power will implement for the production. It's all are the role of working capital management. Generally, maximum profitability depends on working capital management and working capital management depend on skill and experience of the owners or finance manager of the firm or any company. It was seen in Euro Ceramics Ltd and the researcher has set the following objectives and hypothesis for qualitative result.

### **Objectives:**

To know the working capital management of Euro Ceramics Ltd

To identify effectiveness of management of working capital

### **Importance:**

Present study will help to managers or/and owners of the firms or companies to manage their business using expert knowledge of skilled person to improve earning capacity. Research paper will also helpful to other researcher to study in working capital management in future. Euro Ceramics Ltd. will also take good decision for batter working capital management.

### **Aria of study:**

Research paper is based on secondary data of 10 years (2008-2017) of Euro Ceramics Ltd, which is taken from www.moneycontrol.com and also from the annual report of the company.

### **Limitation of Study:**

Study is based on secondary data, only of 10 years and only of the Euro Ceramics Ltd. Study has not presented with the comparison with other similar company.

## Methodology:

Researcher has used net working capital, current ratio, quick ratio, debtor ratio, creditor ratio, stock turnover ratio, gross profit ratio and net profit ratio for analysis. Data is presented using tabulation of the ratios whereas comparison is presented using charts.

## Review of Literature:

**Parmar K.S. (2012)** wrote an article on cash management in business with brief explanation using definition, factors, important and cash budget. Researcher concluded that a good cash management is related with the decision taken by the management, whether it for short term or long term. It's related with the expertness of owner/management.

**Barot Mukti (2015)** studied on working capital management of Ambuja Cement Company using secondary data of 10 years (2005-2014) from Moneycontrol.com and annual reports of the company. Researcher has used current ratio, quick ratio, debtor's ratio and cash turnover ratio. Researcher has concluded that the company's financial position is strong and investors got high benefit in investment cause of the good working capital management.

**Barot Mukti (2016)** studied on a comparative study of working capital management of Raymond and Vardhaman Textiles using secondary data of ten years (2006-2015) from Moneycontrol.com and annual reports of the companies. Researcher has used Liquid and Activities ratios for the study and presented by the charts. Researcher has founded that the Raymond company is in strong position of working capital whereas the Vardhman company has mix trend. Raymond company has healthy financial position.

**Diwahaar and other (2017)** studied on an empirical study and analysis of the capital structure and working capital of Indian textile industry using secondary data of the top listed companies on Bombay Stock Exchange for the period of 2006-07 to 2015-16. Researcher has conclude that the Indian textile sector require efficient, effective and economic working capital management strongly.

**Dr. Pravin Patel (2018)** studied on the analysis of management of working capital of selected cement companies with the secondary data of seven years (2008-09 to 2014-15) using the current ratio, quick ratio and debtors ratio. Researcher has used ANOVA test as a statistical tools for analysis and represented data with use of tables and Charts. Researcher founded that the Ambuja Cement Company and Ultra Tech cement are in good position of working capital whereas Binani Cement Company is not in good position of working capital.

## Euro Ceramic Ltd (ECL):

ECL was established in 2002 but, it has commenced operation in October 2003. It is situated in a sprawling 285 acres in Kutch district of Gujarat (including plants and infrastructure facilities). Company produced material through modern technology in various designs and shades. The present capacity of the company is 79971 MTPA (Metric Tonnes Per Annum). Up to 2006, company got 19 awards and certificates in different business exhibitions and other. Company is operated by 9 managing directors including 2 full time directors and 7 independent directors. Company have a chief executive officer, a chief financial officer, a compliance officer, a statutory auditor, a secretarial auditor and 5 bankers to operate business in India. Company borrowed money from Zero Coupon Bonds, Deposits, and Loans from Banks and Other persons. In annual report-2017, company explained SWOT analysis. It has presented 2 major weaknesses.....

1. Liquidity crunch and shortage of working capital.
2. Low capacity utilization affecting the cost.

As per cash flow statement, company refunded Rs.5.33Crore and above for long term and short term borrowing, for the refund of borrowing (short and long term) company has used Rs.115.36Crore, which is earn from discontinuing operation and exceptional item to maintain cash flow.

### Data Analysis:

**Table 1: Ratios and statistical analysis of ECL**

Year	NWC (Rs. In Crore)	CR (In Proportion)	LR (In Proportion)	C'R (In Days)	D'R (In Days)	STR (In Times)	GP	NP
2008	69.80	1.67	1.05	50.77	70.20	2.00	48.71%	12.41%
2009	-9.79	0.96	0.60	83.60	126.46	1.69	38.53%	-11.20%
2010	-38.88	0.85	0.49	98.29	120.64	1.51	32.62%	-20.57%
2011	-9.98	0.96	0.62	158.82	62.87	1.76	59.76%	7.86%
2012	4.46	1.02	0.71	417.30	93.50	1.28	44.68%	-52.46%
2013	-80.70	0.63	0.45	1207.73	74.42	0.92	47.45%	-119.05%
2014	-405.20	0.25	0.19	296.92	64.80	1.50	29.79%	-45.37%
2015	-437.78	0.18	0.12	437.97	88.34	0.79	48.94%	-53.35%
2016	-438.43	0.19	0.13	474.45	110.19	1.07	38.98%	-21.92%
2017	-225.63	0.31	0.22	929.53	592.31	0.35	-4.02%	179.42%
Average	-157.21	0.70	0.46	416.00	140.00	1.29	38.54%	-12.42%
SD	201.36	0.48	0.30	382.91	160.43	0.51	17.33%	77.26%
Maximum	69.80	1.67	1.05	1207.73	592.31	2.00	59.76%	179.42%
Minimum	-438.43	0.18	0.12	50.77	62.87	0.35	-4.02%	-119.05%
CV	-1.28	0.69	0.66	0.92	1.14	0.39	0.45	-6.22

Net Working Capital of the ECL is fluctuated in researcher period. In most of year net working capital is in negative value. Except 2008 and 2012, company's Current ratio is less than 1 and whereas Liquidity ratio is also less than 1 except 2008. The company's liquidity is very poor. Creditor ratio is in very bad condition, it shows average 416 days, which is higher than 365 days of the year. Debtor ratio is also higher than normally accepted parameters, it is average 140 days. Average stock is sold in year is 1.29 times shows bad selling policy.

If we compare Gross Profit to Net Profit, there is big gap seems. It suggested that the company's operating expenses are very high so net loss occurred. In the last year, Profit and loss account show gross loss but, there are one exceptional item of Rs.50.04Crore and one profit from discontinuing operation of Rs.33Crore added.

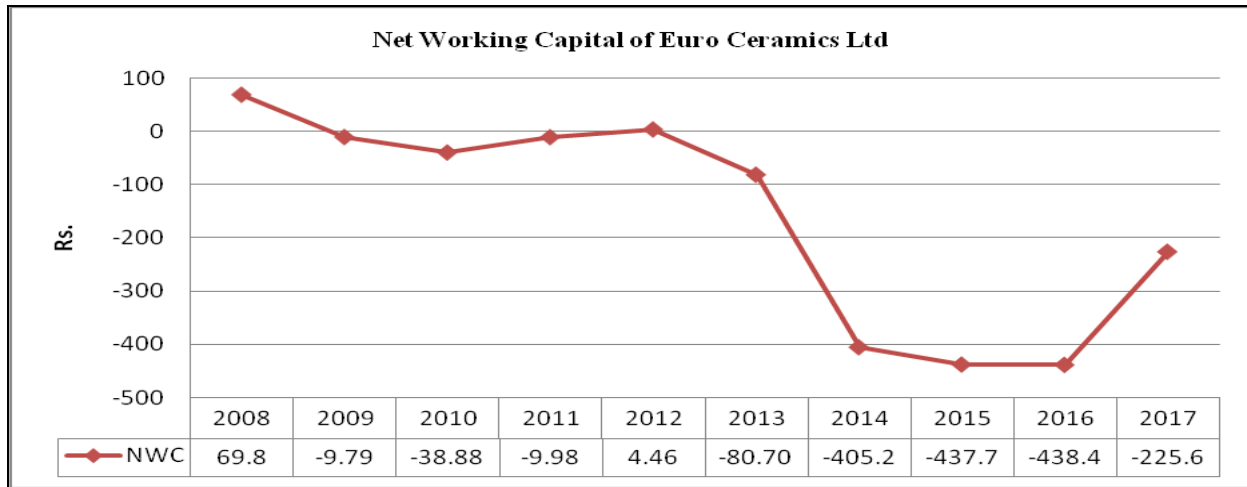
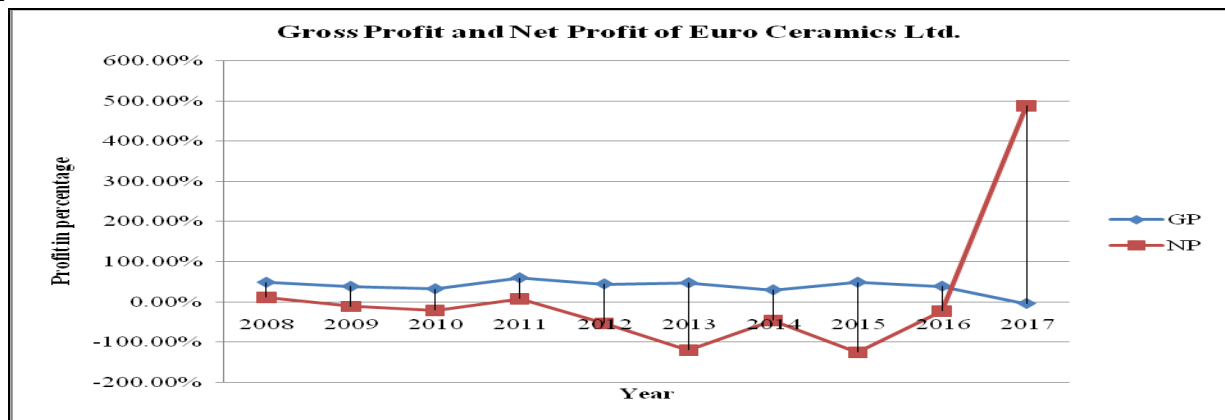
**Chart 1****Chart 2**

Chart 1 shows that the working capital of the company declines between 2008 to 2016 and goes up in 2017. But, still in negative values. Where chart 2 shows Profitability, company earns gross profit but net loss being observed in most of the research period. It seems in chart 1 and chart 2, likely relation may be between working capital and profitability. In 2017, Profit and loss Statement shows gross loss but there is exceptional item of more than Rs.50.04 Crore and profit from discontinuing operation increased the Net Profit. Otherwise company occurred net loss from operating activities. In 2017, Company's Production was increased but sales was not increase as requirement to remove losses. It decreased to less than 50% in comparison of 2016. Therefore, the large amount of stock unsold seems in balance sheet and it result positive working capital. Due to exceptional item and profit from discontinuing operation increased net earning and its EPS increased to Rs.15.44 in year 2017.

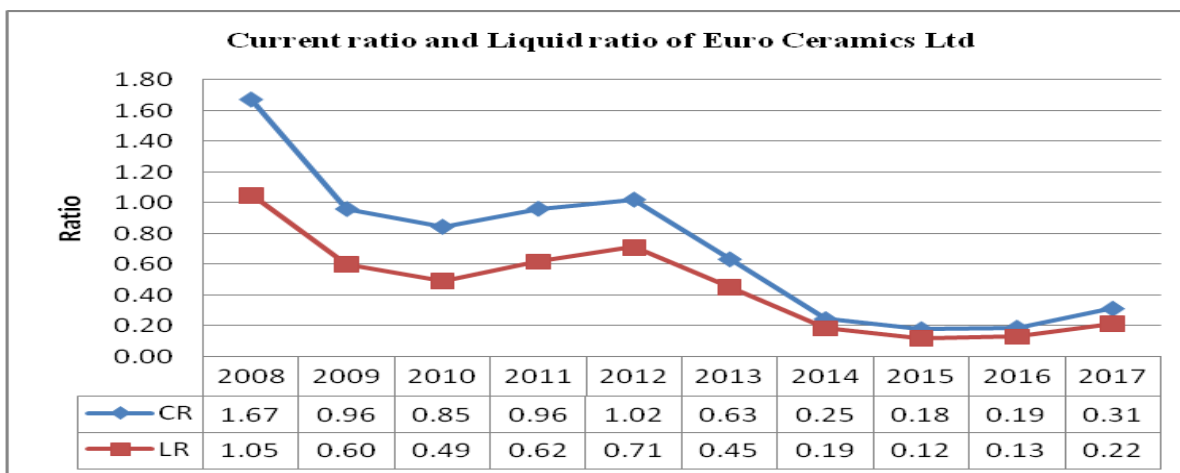
**Chart 3**

Chart 3 present current ratios and Liquid ratios of the research period. Both ratio have close positive relation. But non of above has standard ratio<sup>1</sup> just like in other similar companies have 2:1. There was big gap between 2008 to 2012, later it reduces and little goes up up to the year 2017.

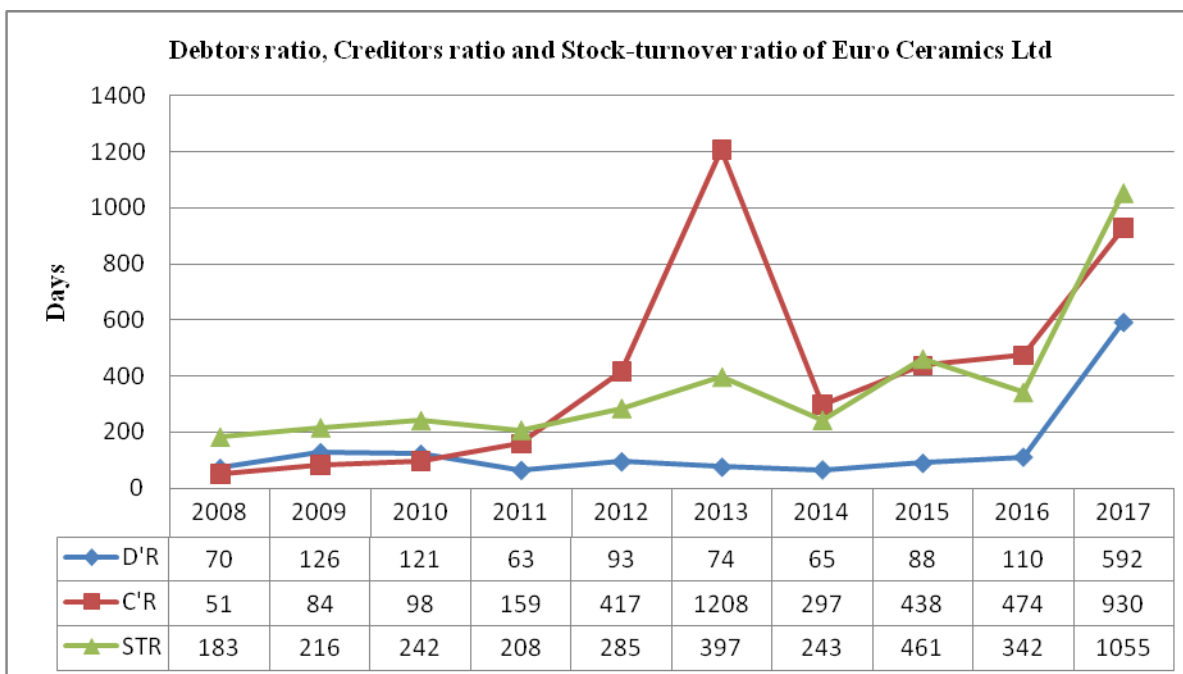
**Chart 4**

Chart 4 presents Debtor ratio, Creditor ratio and Stock-turnover ratio in days form. Normally, collection and payment periods within month are expected but, company's collection and payment period is very high. Debtors are not payment in proper time, so payment is delayed and business condition goes down.

<sup>1</sup> Normally, expectation of the company for current ratio is 2:1.

**Findings:**

- ❖ Operators of the company are fails to increase in Sales.
- ❖ Gross profit occurred in 2008 to 2016 but, during this period Net loss being due to the operating expenses seems very high.
- ❖ Company shows exceptional item and profit from discontinuing operation in Profit and Loss statement, which changed financial status of 2017 year. It is a key factor for changes of financial result.
- ❖ Debtors and Creditors period and stock turnover ratio shows bad business operating policy.
- ❖ Company's Directors have taken some steps to improve financial position so, positive results seems in 2017 with comparison of 2008 to 2016.

**Conclusion:**

In 2008 and 2012, working capital of the company is in positive values and the remaining period shows negative values results. Current ratio for 2008 and 2012 are 1.67:1 and 1.02:1 respectively, whereas unexpected result seems for the remaining period. Liquid ratio for 2008 is 1.05:1, whereas unexpected result seems for the remaining period. This shows bad financial management policy. Debtors collection made in average 140 days and Creditors payment made in average 416 Days, which shows collection and payment policy. Stock turnover ratio also shows poor selling policy. Gross profit earns by the company in research period but, Net loss occurred in every year except 2017. Up to the year 2016, no single action is taken for improve financial result. But, in 2017, operators have taken an action to solve this problem. Overall it is clarifies that the mismanagement of working capital impact on profitability and financial position of the company.

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