A STUDY ON WORKING CAPITAL MANAGEMENT IN DEVAKI CASHEW INTERNATIONAL EXPORTS AND IMPORTS

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Abstract- **The project work entitled "A Study on Working Capital Management" is done with special reference to Devaki International Cashew Exports and Imports". The study is conducted with the objectives to identify the efficient way of managing the components of working capital management. The working capital is most important factor in a manufacturing concern for their day-to-day operation. Hence this study is conducted with an objective to analyse the various components of current assets and current liabilities. In this study the data was collected from 2017 to 2022 from the annual report of the firm. Thus, suitable suggestions are given according to the analysis and interpretation of the result obtained. This happens because customer pays in advance and so quickly, the business enjoys cash transactions; products are delivered and sold to the customer before the company even pays their suppliers and creditors. Negative Working capital doesn't always mean bad financial condition; it indicates that most of the day-to-day activities are funded by customers rather than company's own working capital. Some latest examples arc movie theatres - customers are paying first and distributors are normally paid later on; Schools/ educational institutions fees paid in advance by the students annually, whereas faculties arc getting salary after on month. When an organization uses supplier's credit and customers' advance to fulfil their day-to-day needs, it leads to a situation of lower or negative working capital. Banks, financial institutions, distributors, retailers with cash business or advance payment contract have negative working capital. Normally, when we analyse working capital, it always refers to normal or positive working capital (excess or current assets over current liabilities).**

Keywords: Working Capital, Asset, Liability, Ratio, Test.

INTRODUCTION OF THE STUDY

The Working Capital Management is concerned with the management of the Current Assets and Current liabilities and the interrelation that exists between them, so to minimize the risk of insolvency and to maximize the return on assets. The ultimate objective of working capital management is to ensure that a firm is able to continue its operations and it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses.

Working Capital management calls for addressing two basic issues how much of current assets an organization should hold and how to finance the investment in them. In the present scenario some companies are using negative capital is considered as a risk of insolvency of the organizations but at present negative working capital is a sign of managerial efficiency in a business. Earlier it was considered that the companies should avoid under- investment in working capital if they wanted higher profits margins. Negative working capital is a reverse situation as compared to normal working capital. It is a situation in which current assets are lower as compared to current liabilities.

A negative working capital is an indication of managerial efficiency in a business with low inventory and account receivables.

This happens because customer pays in advance and so quickly, the business enjoys cash transactions; products are delivered and sold to the customer before the company even pays their suppliers and creditors. Negative Working capital doesn't always mean bad financial condition; it indicates that most of the day-to-day activities are funded by customers rather than company's own working capital. Some latest examples arc movie theatres - customers are paying first and distributors are normally paid later on; Schools/ educational institutions fees paid in advance by the students annually, whereas faculties arc getting salary after on month.

When an organization uses supplier's credit and customers' advance to fulfil their day-to-day needs, it leads to a situation of lower or negative working capital. Banks, financial institutions, distributors, retailers with cash business or advance payment contract have negative working capital. Normally, when we analyse working capital, it always refers to normal or positive working capital (excess or current assets over current liabilities).

However, there are certain situations in which working capital is in negative form (excess of current liabilities over current assets). In that situation, how can a company manage liquidity.

It indicates operational efficiency of a corporate. That means without having or with low current assets the firm is managing day to day operations in an efficient manner. Eventually, it reduces cost of working capital and maximum earnings for the shareholders, which is the ultimate goal of the financial management.

Concept of negative working capital is important to analyse liquidity position of corporate. When current assets are lower than current liabilities, what about the liquidity position of the corporate, how are they discharging current obligations in the short period. Traditionally, liquidity ratios are the measurement of liquidity of a firm with the ideal standard of 2:1. Negative working capital indicates lower cost of working capital (another way is higher profitability), but at the same time, it indicates poor liquidity (worried situation for the creditors, etc.) or we can say company is overburdened with current liabilities, which is not good for any situation (specially in a period of recession, etc).

Another important impact of negative working capital is cash recovery or realization situation.

Negative working capital indicates quick realization of cash recourses (conversion of debtors in to cash) or one can say working capital cycle is shorter (for a day or maybe less than that). At the same time, payable policy of the company is to take longer time for payment against creditor. It indicates significant variations in the credit policy towards suppliers and customers.
To analyse, explain and focus on all these situations, a study of negative working capital and its impact on liquidity, profit earning capacity and overall impact on shareholders' value creation is important in the contemporary scenario.

STATEMENT OF THE PROBLEM

DEVAKI INTERNATIONAL CASHEWS EXPORTS AND IMPORTS is the one of the biggest cashew industries in the India. Hence it has a continuously increasing turnover. cashew industries operating cycle is long and the working capital requirements are high. so, the management should workout the optimum level of working capital, which gives a balance between the risk, return and profitability. The short-term solvency of the firm depends upon proper management of working capital. This study is conducted to analyse the working capital management in Devaki International Cashew Exports and Imports.

OBJECTIVE OF THE STUDY

Primary Objectives:

- To study the working capital Position of Devaki International Cashews Exports and Imports.
- To maintaining the working capital operating cycle and ensuring its ordered operation.

Secondary Objectives:

- To analyse the relationship between working capital and liquidity position of Devaki International Cashews Exports and Imports
- To examine the profitability condition of the Devaki International Cashews Exports and Imports.
- To analyse liquidity on profitability of Devaki international Cashews Exports and Imports.

Scope Of Study

- Working Capital Management enables business in continuing their activities uninterrupted.
- Business managing their working capital efficiently are able to maintain proper liquidity. It will improve their cash management and will improve their cash management and will reduce their dependency on external financing as large a,ount of funds is tied up inworking capital.
- Efficiently management of working capital enables business in facing emergency situations such as depression. It ensures proper availability of funds at all times so that business can easily face time so that business can easily face time of crisis or peak demand where they need to boost up their production
- Improving the business value and position in market is another important advantage of working capital management. Business having sound working capital position enjoy better liquidity and credit rating.

Management of working capital leads to better relations with supplier and all creditors. It enables business in paying all dues to suppliers or trade creditors on time through always maintain sufficient amount of funds

LIMITATIONS OF THE STUDY

- The study is limited for a period of 5years only.
- The period of study is limited, it is possible to make only the inter firm comparison.
- The entire analysis applies only to DEVAKI INTERNATIONAL CASHEW EXPORTS AND IMPORTS.
- The project study is mainly based on the secondary data given in Annual report of DEVAKI INTERNATIONAL CASHEW EXPORTS AND IMPORTS.

REVIEW OF LITERATURE

R. ASHOK KUMAR PANIGRAHI 2013Though there are too many researches has been conducted on the topic working capital management and its impact on profitability, but there is no major research has been done for the negative working capital and its impact on profitability. All the studies on working capital generally states that for the improvement in profitability we should manage our working capital effectively and most of the studies recommended to have good amount of working on this topic conclude that the companies should avoid under-investment in working capital if they want higher profit margins. With this paper we made an attempt to study the profitability of organizations which generally operates with low or in the negative working capital zone and tried to find out whether it has any negative impact on the profitability or not. With negative working capital there can be a danger of insolvency but it is not true forever. If the company is having a good image in the market and good relation with their creditors it earns get the benefit from the negative working capital also. The present study is an analysis office top Indian cement companies' working capital and their profitability structure over a period of ten years. The result shows that though there is a positive relationship between working capital and profitability, yet it does not hold good for all the cases and that too always. We have seen companies generating good profit with a negative working capital in the organization. All the researches as well as companies not able to generate good profit even with having good amount of positive working capital. However, it can be said that negative working capital indicates nonliquidity or less liquidity within the firm which is not desirable at each and every stage of business.
ASHA SINGH 2013 Working capital is that part of capital which is required to meet the day to day needs in running the business. This paper concentrates on the factors such as understanding the concept of working capital correctly, analysing the importance and need thereof and determination of its adequacy keeping the influencing factors in to consideration. Adequacy of working capital not only meets the operational need for appropriate functioning o business but also happens to be the key factor in creating the value for Shareholder/investors of the company.

NIRMAL CHAKRABORTY 2013 Among all the problems of financial management, ne problems of working capital management have probably been recognized as the most 23 crucial one. It is because of the fact that working capital always helps a business concern gain and strength. The objective of the study is to examine the working capital to performance of Dabur India Ltd. during the period 2003-04 to 2010-11. Inventory turnover ratio, Working capital turnover ratio, and current asset turnover ratio and debtors turnover ratio shows satisfactory performance of the company but in terms of current ratio and the liquidity position of the company are not satisfactory. The Correlation Coefficient between Liquidity and Profitability of the selected company is observed to be (-)0.3. It is statistically significant at 5% level. Different financial ratios and statistical techniques are also applied for measuring the working capital efficiency

Theoretical concepts

Very often the point of difference in opinion of various economists comes up for discussion as to what should reasonably be understood from the term working capital. At this stage we should better understand the working capital concepts for proper appreciation the appropriate views on working capital. These concepts are balance sheet concepts and operating cycle concepts. These are briefly discussed in nutshell as under.

Balance sheet concept: It is represented by the excess of current assets over current liabilities and is the amount normally available to finance current operations.

But some time working capital is also used as synonym for gross or total current assets.

Economists like Mead, Malott, Backet and Field support the latter views of working capital. They feel that the current assets should be considered as working capital as the whole of it earns profits and the management is more concerned with the total current assets as they constitute the total funds available for operational purposes.

On the other hand, economists like Lincoln and Salves uphold the former views. They argue that

- In the long run what matters is the surplus of current assets over current liabilities?
- It is this concept which helps creditors and investors to judge the financial soundness of the enterprise.
- What can always be relied upon to meet the contingencies, is the excess of current assets over current liabilities since this amount is not to be returned.
- This definition helps to find the correct financial position of companies having the same amount of current assets.

Even the Institute of Chartered Accountants of India while suggesting a vertical 1orm of balance sheet endorsed the former view of working capital when it described the net current assets as the difference between current assets and current liabilities (Mehta, D.R., 1974).

RESEARCH METHODOLOGY

Research methodology is the process of systematic investigation of any management problem is deals with research design, data collection method, sampling plan, and statistical data.

Research is a process in which the researcher wishes to find out the end result for a given problem and thus the solution helps in future course of action. The research has been defined as "A careful investigation or enquiry especially through search for new facts in branch of knowledge"

RESEARCH DESIGN

The research design used in this project is Analytical in nature the procedure using, which researcher has to use facts or information already available, and analyse these to make a eristical evaluation of the performance.

- **Schedule of changes in working capital**
- **Ratio analyses**
- **correlation**

The excess of current assets over current liabilities is referred to as the company's working capital. The difference between the working capital for two given reporting periods is called the schedule of changes in working capital. A change in Working Capital is the net change in current assets and current liabilities.

Increase in current assets, increase in current liabilities.

Decrease in current assets, decrease in current liabilities.

Increase in current liabilities, decrease in current assets.

Decrease in current liabilities, increase in current assets.

SOURCES OF DATA COLLECTION

Primary Source

- Primary Sources interviews and discussion with
- Data collected through personal are Finance Manager & executives.
- Data are collected through personal interviews and discussion with Purchase & Stores Deputy Manager & executives.

Secondary Sources

- The data are collected from the reports maintained by the company for the past five year from 2017to 2022 through company annual reports.
- Data are collected from the company's website.

SAMPLING METHOD

SCHDULE OF CHANGES IN WORKING CAPITAL

The excess of current assets over current liabilities is referred to as the company's working capital. The difference between the working capital for two given reporting periods is called the schedule of changes in working capital. A change in Working Capital is the net change in current assets and current liabilities.

FORMULA

- Increase in current assets, increase in current liabilities.
- Decrease in current assets, decrease in current liabilities.
- Increase in current liabilities, decrease in current assets.
- Decrease in current liabilities, increase in current assets.

DATA ANALYSIS TECHNIQUES

RATIO ANALYSIS

Analysis and interpretation of financial statement with the help of ratios' is termed as 'ratio analysis". Ratio analysis involves the process of computing determining and presenting the relationship of items or groups of items of financial statements. A ratio is a mathematical relationship between two items expressed in a quantitative form. Ratios can be defined as "Relationship expressed in quantitative terms, between figures which have cause and effect relationships or which are connected with each other in some which manner or the other" CURRENT RATIO: Current assets include cash and those assets which can be converted in to cash within a year, such marketable securities, debtors and inventories. All obligations within a year are include in current liabilities. Current liabilities include creditors, bills payable accrued expenses, short term bank loan income tax liabilities and long-term debt maturing in the current year. Current ratio indicates the availability of current assets in rupees for every rupee of current liability

Current ratio=Current Assets / Current Liabilities.

QUICK RATIO OR ACID TEST

Quick ratios establish the relationship between quick or liquid assets and liabilities. An asset is liquid if it can be converting in to cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. Other assets which are consider to be relatively liquid and include in quick assets are debtors and bills receivable and marketable securities. Inventories are considered as less liquid. Inventory normally required some time for realizing into cash. Their value also is tendency to fluctuate. The quick ratio is found out by dividing quick assets by current liabilities.

Quick Ratio =Quick Assets / Current liabilities

DEBTORS TURNOVERRATIO

Debtor's turnover ratio is also called Account receivable ratio or Debtor’s velocity. Debtor's sale This ratio shows the efficiency of credit collection and credit policy. Turnover ratio indicates the number of times the receivable is rotated in a year in terms of sales. This ratio shows the efficiency of credit and credit policy.

Debtor Turnover ratio= Net Credit sales/Average receivable

Debt collection period = Months or Days / Debtors Turnover.

CREDITORS TURNOVER RATIO

Creditor's turnover ratio is also called as Account Payable or creditor's velocity. A firm usually purchases raw materials, services and goods on credit. Creditor's turnover ratio indicates the number of times the payable rotate in a year. The account payable includes sundry creditors and bills payable.

Creditors Turnover Ratio = Net Credit Purchase/ Average Creditors

Creditor Collection period - Month or Day/ Creditors Turnover Ratio.

STOCK TURNOVER RATIO

This ratio is also called Stock Velocity ratio. It is calculated to ascertain the efficiency of inventory management in terms of capital investment. It shows the relation between the cost of goods sold and the amount of average inventory.

Stock turnover ratio=Cost of Goods Sold/Average Inventory.

WORKING CAPITAL TURNOVER RATIO

This ratio indicates the number of times the utilization of working capital in the process of doing business. The higher is the ratio, the lower is the investment in working capital and the greater are the profits. However, a very high turnover indicates a sign of over-trading and puts the firm in financial difficulties. A low working capital turnover ratio indicates that the working capital has not been used efficiently.

Working capital Turnover Ratio = Net Sales/Net working capital.

- **CASH POSITION RATIO**

This ratio is also called Absolute Liquidity ratio or Super Quick ratio. This ratio measures This raw liquidity in terms of cash and near cash items and short term current 1liabilities. Cash C Position

Ratio=Cash and Bank Balances + Marketable Securities/Current liabilities.

- **RETURN ON CAPITAL EMPLOYED**

This ratio is also called Return on Investment. It measures the sufficiency or otherwise of profit in relation to capital employed.
Return on Capital Employed= Operating Profit/Capital Employed*100

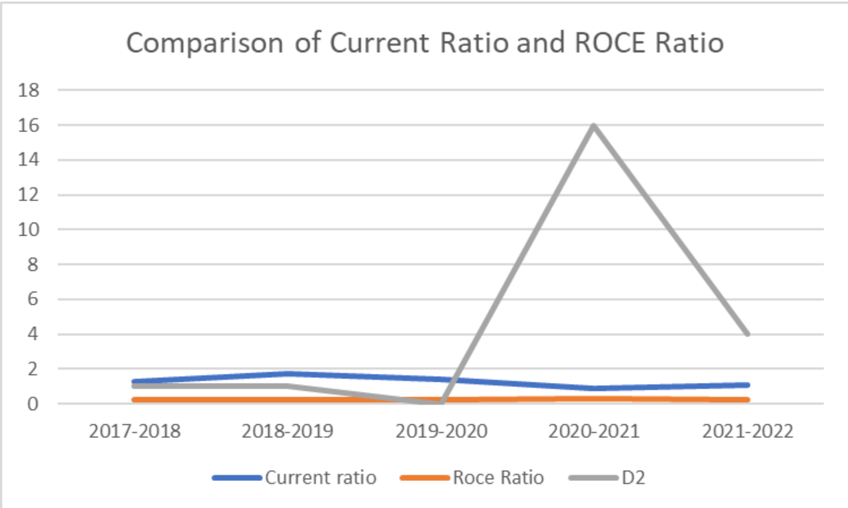
CORRELATION

Correlation refers to any of a broad class of statistical relationships involving dependence. Correlations are useful because they can indicate a predictive relationship that can be exploited in practice. For example, an electrical utility may produce less power on a mild day based on the correlation between electricity demand and weather. In this example there is a causal relationship, because extreme weather causes people to use more electricity for heating or cooling; however, statistical dependence is not sufficient to demonstrate the presence of such a causal relationship.

Correlation

		Current Ratio	**ROCE**
Current Ratio	Pearson Correlation Sig. (2-Tailed) N	1 5	-0.693 0.194 5
ROCE Ratio	Pearson Correlation Sig. (2-Tailed) N	-0.693 0.194 5	1 5

Year	**Current Ratio**	**R1**	**ROCE Ratio**	**R2**	**D**	**D^2**
2017-2018	1.3	3	0.2	2	1	1
2018-2019	1.7	1	0.2	2	-1	1
2019-2020	1.4	2	0.2	2	0	0
2020-2021	0.9	5	0.3	1	4	16
2021-2022	1.09	4	0.2	2	2	4



INFERENCE

The above table infers that the impact of ratio on ROCE of limited, are shown with the help of co-efficient analysis. There is negative correlation. H_0 is accepted and hence there is significant relationship between current ratio and roce which proves it is positively correlated.

FINDINGS FROM THE STUDY

The main focus of working capital management study at any organisation is to identify the efficient way of managing the working capital components of current assets and current liabilities. Ina manufacturing concern the working capital is a important factor for their day to day operation. So, the management should workout the optimum level of working capital which gives a balance between the risk, return and profitability. The following are finding from the study conducted in DEVAKI INGTERNATIONAL CASHEW IMPORTS AND EXPORTS.

- The company has increasing trend of net working capital of Rs. 2456 in the year 2018-2019.
- The company has decreasing trend of networking capital worth of Rs. 1246.8 in the year 2019-2020.
- The company has decreasing trend of net working capital worth Rs. 4872.6. In the year 2020-2021 current liabilities exceeds over current asset in the company. This condition is not good sign to the company.

- The company has increasing trend of net working capital worth Rs. 1956.04 in the year 2021-2022.
- The current ratio was very low in the year 2020-2021 but in the year 2021-2022 current ratio position was increased. The company has to maintain the normal level of current ratio.
- The liquidity position in the year 2020-2021 to 2021-2022, 0.01:1. The highest cash position ratio in the year 2017-2018, 0.7:1. Now, the cash position is low the company tries to increase cash position.
- Stock turnover ratio gradually increase in the year 2019-2020 and then it was decreasing trend.
- The working capital turnover is lowest in the year 2018-2019 to 2019-2020. But in the year 2020-2021 it goes negative. And in the year 2021-2021 it was increased to 25.5.
- The gross profit ratio was11.2 in the year 2017-2018 and then it was decreasing in the year 2018-2019. And then it was increasing in the year 2019-2020. Then it was gradually decreasing trend.
- The net profit ratio was 2.6 in the year 2017-2018 and then it was decreasing trend. In the year 2020-2021 it was increasing trend. Then it was gradually decreasing.
- The creditor's turnover ratio is gradually increased 13.3 in the year 2018-2019 and the lowest ratio is 2.5 in the year 2020-2021. The company tries to decrease the turnover ratio.
- That the debtor's turnover ratio was 6.6 in the year 2017-2018 and then it was decreasing trend. Again, it was increasing trend in the year 2021-2022.

SUGGESTIONS AND RECOMMENDATIONS

- The concern must increase the current ratio to the standard norm (2:1) because the ratio indicates the current asset is less that the current liabilities.

- The liquid ratio of the company is not effective. The concern can increase the liquid ratio because the standard norm is (1:1).
- The concern must maintain the working capital turnover ratio to get effective utilization of working capital.
- The concern must minimize the fluctuations in the current assets and current liabilities, the fluctuations affect the working capital.
- The concern must maintain their working capital in order to utilize funds for day-to-day activities.
- The concern has not planned their working capital requirements properly. It must maintain adequate amount of working capital.

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