"A STUDY OF WORKING CAPITAL MANAGEMENT SPECIAL REFERENCE TO NAGARJUNA HERBAL CONCENTRATES LTD, ALAKODE"

PROJECT REPORT

Submitted to Mahatma Gandhi University in partial fulfillment

of the requirements for the award of the Degree of

MASTER OF BUSINESS ADMINISTRATION

Submitted by

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Accredited by NAAC with 'A' Grade

DEPARTMENT OF MANAGEMENT STUDIES

MAR ATHANASIOS COLLEGE FOR ADVANCED STUDIES

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CERTIFICATE

This is to certify that the project report entitled **"A STUDY OF WORKING CAPITAL MANAGEMENT SPECIAL REFERENCE TO NAGARJUNA HERBAL CONCENTRATES LTD, ALAKODE"** *is a bonafide report of the project work undertaken by* **NIDHIN RAJU**, *fourth semester MBA student of our college during a period of 8 weeks commencing from 1st April to 30th May,2021.*

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DECLARATION

I hereby declare that this project report entitled **"A STUDY OF WORKING CAPITAL MANAGEMENT SPECIAL REFERENCE TO NAGARJUNA HERBAL CONCENTRATES LTD, ALAKODE"** is a *bonafide* report of the study undertaken by me, under the guidance of **Dr. Jeemon Joseph** Department of Management Studies, MACFAST, Tiruvalla.

I also declare that this project report has not been submitted to any other University or Institute for the award of any degree or diploma.

Place : Tiruvalla
Date : 31/05/2021

NIDHIN RAJU

ACKNOWLEDGEMENT

"There are times when silence speaks so much more loudly than the words of praise to only as a belittle a person, whose words do not express, but only put a veneer over true feelings, which are of gratitude at this point of time".

First of all, I firmly believe that everything in the world is happening as per the plan and will of the almighty GOD. I thank him for all the care he showed on me and continue showering his grace and blessing till the end.

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NIDHIN RAJU

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ABBREVIATIONS

WCC	: Working Capital Cycle
NHCL	: Nagarjuna Herbal Concentrates Ltd
FMCG	: Fast Moving Consumer Goods
GST	: Goods Service Tax
BPC	: Beauty Personal Care
HUL	: Hindustan Unilever Ltd
BOGOF	: Buy One Get One Free
GDP	: Gross Domestic Product

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CHAPTER- 1

INTRODUCTION

1. INTRODUCTION

In business point of view working capital is money or money value is used in business regardless of the source of obtaining it. The term working means the circulation of capital in one form or another during the day-to- day operations of business. Working capital is defined as the annual survey of the industries to include stock of material, stores, fuel, semi-finished goods including working progress and finished by products, cash in hand and algebraic sum of sundry creditors.

“Capital invested in the Working or current asset with in the business is called circulating capital or revolving capital”. Working capital stands for the part of the capital, which is required for the financial or Working or current need of the company.
The goal of working capital management is to manage the firm’s current liabilities in such a way that satisfactory level of working capital management is maintained. Working capital management policies of a firm has a great effect on its profitability, liquidity and structural health.

The working capital cycle (WCC) is the amount of time it takes to turn the net current assets and current liabilities into cash. The longer the cycle is, the longer a business is tying up capital in its working capital without earning a return on it. Therefore, companies strive to reduce their working capital cycle by collecting receivables quicker or sometimes stretching accounts payable.

Decisions relating to working capital and short-term financing are referred to as working capital management. These involve managing the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses.

A managerial accounting strategy focusing on maintaining efficient levels of both components of working capital, current assets and current liabilities, in respect to each other. Working capital management ensures a company has sufficient cash flow in order to meet its short-term debt obligations and operating expenses.

1.1 BACKGROUND OF THE STUDY

It is necessary for any organization to provide adequate working capital in order to run successfully the major trust of working capital management of current assets, as it is understandable, that current liabilities arise the context of current asset. If the size of such asset is relatively large, the liquidity position will improve and profitability will be adversely affected, as funds will remain idle.

Conversely if holding of such asset are small the overall profitability will no doubt increase. But it will have an adverse effect on the liquidity position and make the firm more risky. If the firm cannot maintain a satisfactory level of working capital it is likely to become insolvent.

The area of working capital management intimately links the functioning of every department in a business concern. The policy governing the working capital has got a snow-ball effect on other department like personnel, production, marketing and so on. That it can be deducted that working capital management has a crucial role to play in the survival of any business unit and working capital management is an integral part of the overall corporate management.

The importance of maintaining adequate amount of working capital is as follows:

1. Solvency of the business
2. Goodwill
3. Easy loans
4. Cash discounts
5. Regular supply of Raw-materials
6. Regular payment of salaries, wages and other day-to-day commitments
7. Exploitation of favourable market conditions
8. Ability to face crisis
9. Quick and regular return on investments
10. High morale

From the discussions with the company executives, it was identified that the company has got opportunity to improve the above said essentials.

1.2 STATEMENT OF THE PROBLEM

The problem of working capital management involves the problem of decision making regarding investment in various current assets with an objective of maintaining the liquidity of funds of the firm to meet its obligations promptly and efficiently. The problem for which the study has been undertaken to analyze the working capital management.

1.3 RELEVANCE &SCOPE OF THE STUDY

The significance of the study is evaluating the working capital position of the NHCL Ltd. The study provides conceptual understanding of working capital. It also provides deep insights into fundamentals of working capital and various forces influencing the level of working capital Requirement.

The working capital management study has been carried out to determine whether the company is in a position to raise the cash needed to meet the daily activities. The study reviews the performance of the company for the period of 5 years from 2013 to 2018, as revealed by the annual reports and other accounting records of NHCL. The study also provides suggestions based upon findings. They may serve as for drawing cut the future plans for future.

1.4 OBJECTIVES OF THE STUDY

The need for working capital cannot be over emphasized. Every business need some amount of working capital. Working capital arises due to the time gap between production and realization of cash from sales.

- To study the current assets and current liability position of the company
- To analyze impact of profitability on working capital
- To analyze financial position of the company
- To analyze the determination of working capital

CHAPTER- 2

INDUSTRY PROFILE

2.1 BUSINESS PROCESS OF THE INDUSTRY

Fast Moving consumer goods or FMCGs leverage a strong position in the global economy. As the name suggests, FMCGs are those products who have a short shelf life and will sell quickly. If done correctly, FMCG holds a great business opportunity. FMCG caters a wide array of products ,ranging from beauty, soft drinks, food etc. Starting an FMCG distribution business can be an exciting and lucrative business venture.

Decide Niche: FMCG is composed of various products. Before venturing into this business, plan for the FMCG products want to distribute. Focus on a specific product or offer a variety of items. Decision could be based on a passion or on a product that is hard to find in own personal experience.

Business Plan: Business plan is the foundation of any successful business. Design a business plan that lays out the full vision of FMCG distribution business. It allows following a direction and helps in managing business. Make sure business plan includes the type of distributor will be, the target customer, management strategy, marketing plans etc.
Licensing Registration: It is of utmost importance to get business registered first. Make business official through registering it and gaining r license. Check with state regulations for the documents to get business registered. Also check, if need to create an operating agreement or another type of founding document.

Location: Location is another important factor which will decide the success of distribution business. The size of the space need to hold inventory will be determined by the size of product and delivery method (don't need inventory space for drop-shipping). Should consider starting off small as business builds a reputation. As business grows, can move into larger facilities that can accommodate inventory needs, such as a distribution warehouse.

2.2 MARKET DEMAND AND SUPPLY- CONTRIBUTION TO GDP OF FMCG INDUSTRY- REVENUE GENERATION

Consumer goods makers say demand for everything from chocolates and biscuits to shampoos and toothpastes has revived after the economy stumbled from a cash purge to a uniform sales tax. That's just half the story. Demand has stayed stagnant since demonetisation and companies are pushing goods into the supply chain to meet their targets. Prime Minister Narendra Modi scrapped 86 percent of the currency in circulation in November 2016. The resultant cash crunch hurt demand for everything from household goods to real estate. As the economy was recovering from the impact, the government rolled out the Goods and Services Tax in July last year. The only time inventories were thin, was ahead of the GST implementation when distributors cut stock fearing losses due to a change in rates and tax refund rules. But consumer goods makers began fore casting an early revival.

Hindustan Unilever Ltd., India's largest consumer goods company, told investors that demand was stable as it reported higher volumes and revenues in the quarter ended September. Likewise, Godrej Consumer Products Ltd. in its analysts call said the demand had improved. Even the manufacturing activity, as reflected by Nikkei India Manufacturing Purchasing Managers' Index, has improved since July, rising at its fastest pace in five months in December. These numbers reflect primary sales from the companies to distributors. The picture isn't that rosy in terms of demand from consumers, said stockists for companies like Hindustan Unilever, Godrej Consumer, Wipro Consumer Care & Lightning, Mondelez India, Britannia Industries Ltd. and Dabur India Ltd. Uttrakhand-based Nitin Sharma reiterated it. Demand hasn't improved in the last one year while companies continue to push their goods down, hesaid. Andthat's pushed up the days for which Shyam Prasad Menon from Kerala holds inventory to 15 compared to 7-10 earlier— at times it goes up to 30.Menon said the consumption pattern has also changed. Instead of buying bigger packs, customers opt for small erones. The frequency of buying has increased but the overall demand hasn't gone up, he said. Impulse purchases like chocolates are among the worst it.

CONTRIBUTION TO GDP OF FMCG INDUSTRY

The Indian cosmetics and beauty products segment has been witnessing steady growth of late. It is primarily categorized into five major categories-body care, face care, hair care, hand care and colour cosmetics. Indian beauty and personal care (BPC) industry is estimated to be worth USD 8 billion. India's per capita spend on beauty and personal care is it is growing in line with it.

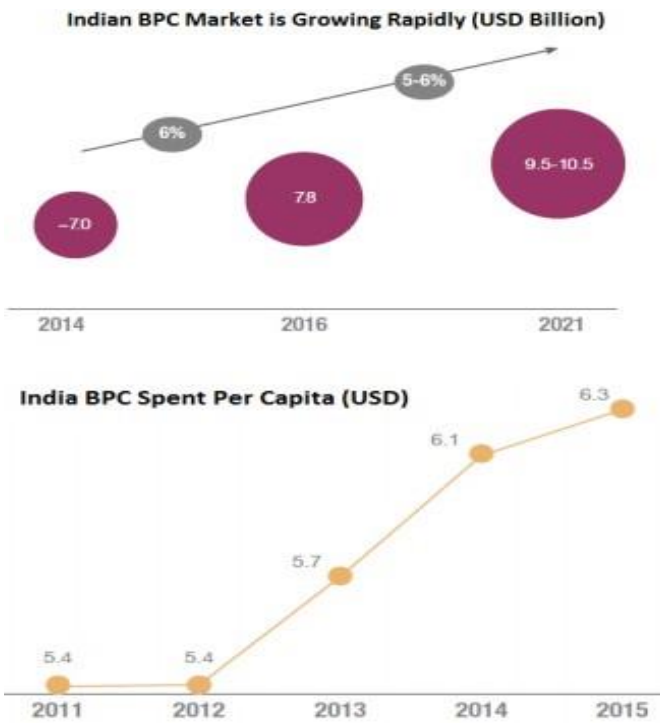

Fig 2.1 GDP

REVENUE GENERATION

Rural consumption has increased, led by a combination of increasing incomes and higher aspiration levels; there is an increased demand for branded products in rural India. The rural FMCG market in India is expected to grow to US$ 220 billion by 2025 from US$ 23.6 billion in FY18. In FY18, FMCG's rural segment contributed an estimated 10 percent of the total income and it is forecasted to contribute 15-16 per cent in FY19.FMCG sector is forecasted to grow at 12-13 per cent between April-June2019.

On the other hand, with the share of unorganised market in the FMCG sector falling, the organised sector growth is expected to rise with increased level of brand consciousness, also augmented by the growth in modern retail.

An other major factor propelling the demand for food services in India is the growing youth population, primarily in the country's urban regions. India has a large base of young consumers who form the majority of the workforce and, due to time constraints, barely get time for cooking.

Online portals are expected to play a key role for companies trying to enter the hinterlands. The Inter this contributed in a big way, facilitating ache a per and more convenient means to increase a company's reach. It is estimated that 40 per cent of all FMCG consumption in India will be online by 2020. The online FMCG market is forecasted to reach US$ 45 billion in 2020 from US$ 20 billion in2017.

It is estimated that India will gain US$ 15 billion a year by implementing the Goods and Services Tax. GST and demonetisation are expected to drive demand, both in the rural and urban areas, and economic growth in a structured manner in the long term and improve performance of companies within the sector.

F.M.C.G. industry provides a wide range of consumables and accordingly the amount of money circulated against F.M.C.G. products is also very high. The competition among F.M.C.G. manufacturers is also growing and as a result of this, investment in F.M.C.G. industry is also increasing, specifically in India, where F.M.C.G. industry is regarded as the fourth largest sector with total market size of US$20.1 billion. F.M.C.G. Sector in India is estimated to grow 60% by 2011. F.M.C.G. industry is regarded as the largest sector in New Zealand which accounts for 5% of Gross Domestic Product (GDP).

2.3 LEVELS AND TYPES OF COMPETITION – FIRMS OPERATING IN THE FMCG INDUSTRY

Personal care or cosmetic products in India, being a kind of consumer oriented business, constantly try to cope with the modern and latest requirements of the inhabitants of the country. This industry mainly concentrates on the manufacturing of products related to personal hygiene and beautification.

During the past few years, India’s cosmetic industry has witnessed a remarkable growth because of the growing hygiene awareness, increasing income level and mass media penetration. Being one of the chief FMCG (Fast Moving Consumer Goods) constituents, these products include cosmetics, soaps, hair care products, skin care products, shampoos, perfumes, oral care products and many more.

To meet the daily requirements of the huge population of the country, many national as well as multi-national companies are involved in the manufacturing and marketing of variedpersonalcareproducts.Theycontendeachothertoprovidethebestqualityproducts to their customers at an affordable price. Following are some of the best cosmetic brands.

ITC Limited:

Based in Kolkata, one of the major metropolitan cities of the country, this Indian conglomerate has been growing rapidly in the national market of personal care products. Manufacturing of varied kinds of personal care goods is a part of their business though. The name of this company features in the Forbes 2000 list.

Johnson and Johnson:

With its name shown in the Fortune 500 list, this American company is known for manufacturing different kinds of baby care products. Being a pharmaceutical company, Johnson and Johns on even manufactures several types of medical goods and devices, which are packed for people's consumption. This top most reputed manufacturer of personal care products in the world is famous for manufacturing products like baby powders, face washes, first aid products, contact lenses, baby powders, diapers, cream, oil, shampoo and numerous other personal care as well as baby care products. Apart from this country, this brand name is stretched over fifty six other countries.

Procter and Gamble:

This is one of the top most personal care brands in India. With a huge array of personal care goods, Procter and Gamble provides a huge array of personal care goods, among which a customer can easily choose his or her required products. Gillete is one of the well- known brands of this company that has got products like razors and numerous other kinds of products related to personal hygiene. To name a few more products of this company are Ariel, Head & Shoulders, Tide, Pantene, Vicks etc.

Colgate Palmolive India:

Based in Mumbai, this personal care brand manufactures products like toothbrushes, toothpastes, tooth whitener, shower gel, fluoride therapy and varied other products for the treatment of skin as well as mouth ulcers.

Godrej Consumer Products Limited:

Known for several types of personal care items like hair colour, toilet soaps, liquid detergentsetc.GodrejoperatesmainlyfromMumbai.Theymanufacturesoapsoncontract as well. To name a few of their popular brands are Cinthol, Ezee, Fairglow, Nupur and many more.

Hindustan Unilever Limited:

Headquartered in the city of Mumbai, HUL or Hindustan Unilever Limited is the manufacturer of personal care goods like soaps, detergents, cosmetics etc. Some of the mostly used products of one of India's biggest exporter are Lakme beauty care products, Lux.

Marico:

This Mumbai based company has got many personal care brands, which are quite famous in India. Some of the popular personal care products manufactured by them are Aromatic, Hair & Care, Kaya, Mediker, Nihar, Parachute, Revive, Saffola, Shanti, Sundari, Sweekar etc.

Besides the brand names mentioned above, some of the other popular personal care or cosmetic brands in India are as follows:

- Dabur India
- L'OrealIndia
- Maybelline
- Nirma
- Revlon

2.4 PRICING STRATEGIES OF THE INDUSTRY

Fig 2.2 Pricing Strategies

Premium Pricing

Use a high price where there is a uniqueness about the product or service. This approach is used where a substantial competitive advantage exists. Such high prices are charge for luxuries such as Cunard Cruises, Savoy Hotel rooms, and Concorde flights.

Penetration Pricing

The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased. This approach was used by France Telecom.

Economy Pricing

This is an of rills low price. The cost of marketing and manufacture are kept at a minimum. Supermarkets often have economy brands for soups, spaghetti, etc.

Price Skimming

Charge a high price because you have a substantial competitive advantage. However, the advantage is not sustainable. The high price tends to attract new competitors into the market, and the price inevitably falls due to increased supply. Manufacturers of digital watches used a skimming approach in the 1970s. Once other manufacturers were tempted into the market and the watches were produced at a lower unit cost, other marketing strategies and pricing approaches are implemented.

Premium pricing, penetration pricing, economy pricing, and price skimming are the four main pricing policies/strategies. They form the bases for the exercise. However there are other important approaches to pricing.

Psychological Pricing

This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis. For example 'price point perspective' 99 cents not one dollar.

Product Line Pricing

Where there is a range of product or services the pricing reflect the benefits of parts of the range. For example car washes. Basic wash could be $2, wash and wax $4, and the whole package$6.

Optional Product Pricing

Companies will attempt to increase the amount customer spend once they start to buy. Optional 'extras' increase the overall price of the product or service. For example airlines will charge for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other.

Captive Product Pricing

Where products have complements, companies will charge a premium price where the consumeriscaptured.Forexamplearazormanufacturerwillchargealowpriceandrecoup its margin (and more) from the sale of the only design of blades which fit the razor.

Product Bundle Pricing

Here sellers combine several products in the same package. This also serves to move old stock. Videos and CDs are often sold using the bundle approach.

Promotional Pricing

Pricing to promote a product is a very common application. There are many examples of promotional pricing including approaches such as BOGOF (Buy One Get One Free).

Geographical Pricing

Geographical pricing is evident where there are variations in price in different parts of the world. For example rarity value, or where shipping costs increase price.

Value Pricing

This approach is used where external factors such as recession or increased competition force companies to provide 'value' products and services to retain sales e.g. value meals at McDonalds.

2.5 PROSPECTS AND CHALLENGES OF THE INDUSTRY

With the presence of 12.2% of the world population in the villages of India, the Indian rural F.M.C.G. market is something no one can overlook. Increased focus on farm sector will boost rural incomes, hence providing better growth prospects to the F.M.C.G. companies. Better infrastructure facilities will improve their supply chain. F.M.C.G. Sectors so likely to benefit from growing demand in the market. Because of the low per capita consumption for almost all the products in the country, F.M. C.G. companies have immense possibilities for growth. And if the companies are able to change the mindset of the consumers, i.e. if they are able to take the consumers to branded products and offer new generation products, they would be able to generate higher growth in the near future.

It is expected that the rural income will rise in future, boosting purchasing power in the countryside. However, the demand in urban areas would be the key growth driver over the long term. Also, increase in the urban population, along with increase in income levels and the availability of new categories, would help the urban areas maintain their position in terms of consumption. At present, urban India accounts for 66% of total F.M.C.G. consumption, with rural India accounting for the remaining 34%. However, rural India accounts for more than 40% consumption in major F.M.C.G. categories such as personal care, fabric care, and hot beverages. In urban areas, home and personal care category, including skin care, household care and feminine hygiene, will keep growing at relatively attractive rates. Within the foods segment, it is estimated that processed foods, bakery, and dairy are long-term growth categories in both rural and urban areas.

The swift growth of the beauty us inners has not only impacted Indian firms to encourage competition in the space, but has also lur ednumerous international brands to the country. To give an instance, today, India has very few professional make-up lines that can cater to the wide range of salons and professional make-up artists across the country. This gives an opportunity to international professional make-up lines to penetrate into the market.

Similarly, the skincare segment in the Indian market is flooded with natural ingredients based products at present. Demands are high for products that are formulated using key ingredients like seaweed extracts and sea salts and other mineral-rich elements. Since these ingredients being exotic are found majorly in premium skincare segment, international players can seek to occupy a large share of the total space in the premium mass segment in the future.

The key factors to successfully enter the beauty and cosmetics market in India include careful understanding and adaptation of Indian skin types and tones and customize products accordingly. During the initial years of entering the market, the volumes of sales are likely to be low while the cost of operations is observed to be high. Gradually the scenario will change as sales are expected to increase.

2.6 KEY DRIVERS OF THE INDUSTRY

- Increased population of working women
- Increased disposable income and growing per capita expenditure
- Increased purchasing power of the customers
- Increased awareness of online shopping
- Higher brand recognition and consciousness
- Constant change in consumer preference
- Banking policies and government's regulations
- Growing interest for foreign investors
- Shift towards mental and physical well-being through use of natural, organic, anti-fatigue, antipollution, anti-ageing products.
- Increased adoption of men’s grooming products.
- Higher spending on holistic bridal solutions such as year-long skin care regimes.
- Increasing use of beauty devices and technology infused products and services.
- Consumers opting for at-home services, online buying.
- Heightened sense of individualism in purchase and choice among Millennials.
- Interest and willingness to trade-up, increased use, bigger repertoire of products.
- Growing importance of peer feedback and product reviews in purchase decision.

CHAPTER 3

REVIEW OF LITERATURE

3.1 BRIEF THEORETICAL CONSTRUCT RELATED TO THE PROBLEM

WORKING CAPITAL

The funds required by every business organization can be broadly classified in to fixed capital and working capital. Fixed capital is need for the acquisition of fixed assets. Fixed assets constitute the basic tools or the means of production. Investment in fixed assets by itself is dead investment and the funds so locked up do not circulate. In the same every business organization requires some funds to carry on its operations and to produce goods for sale to earn profit. These funds, which are represented by the current capital used through the various stages of production and distribution, are invested in current assets.

"Working Capital" is the capital invested in different items of current assets needed for the business, Viz, inventory, debtors, cash and other current assets such as loans & advances to third parties. Those current assets are essential for smooth business operations and proper utilization of fixed assets. The firm should maintain sufficient level of working capital to produce up to a given capacity and maximize the return on investment in fixed assets. Shortage of working capital leads to lower capacity utilization, lower turnover and hence lower profits. Working capital, in excess of the amount required to produce to full capacity, is idle and consequently leads to decline in profits. Hence the dictum "Adequacy is a virtue, surfeit is not".

IMPORTANCE OF ADEQUATE WORKING CAPITAL

The importance of adequate working capital in commercial undertakings can never be over emphasized. A concern needs funds for its day-to-day running. Adequacy or inadequacy of these funds would determine the efficiency with which the daily business may be carried on. Management of working capital is an essential task of the finance manager. He has to ensure that the amount of working capital available with his concern is neither too large nor too small for its requirements. A large amount of working capital would mean that the company has idle funds. Since funds have a cost, the company has to pay huge amount as interest on such funds. The various studies conducted by the Bureau of Public Enterprises have shown that one of the reasons for the poor performance of public sector undertaking in our country has been the large amount of funds locked up in working capital. This results in over capitalization. Over capitalization implies that a company has too large funds for its requirements, resulting in a low rate of return a situation which implies a less than optimal use of resources. A firm has, therefore, to be very careful in estimating its working capital requirements.

If the firm has inadequate working capital, it is said to be under-utilized. Such a firm runs the risk of insolvency. This is because; paucity of working capital may lead to a situation where the firm may not be able to meet its liabilities. It is interesting to note that may firms which are otherwise prosperous (having good demand for their products and enjoying profitable marketing conditions) may fail because of lack of liquid resources.

CLASSIFICATION OF WORKING CAPITAL

Concept of Working Capital

There are two concepts of working capital:

a) Gross working capital.

b) Net working capital.

Gross Working Capital

In the broad sense, the term working capital refers to the gross working capital and represents the amount of funds invested in current assets. Thus, the gross working capital is the capital invested in total current assets of the enterprise. Current assets are those assets which in the ordinary course of business can be converted into cash within a short period of normally one accounting year.

Net Working Capital

In a narrow sense, the term working capital refers to the net working capital. Net working capital is the excess of current assets over current liabilities. It is broader and more useful concept, as working capital management is concerned with the problems that crop up in managing the interrelationship between current assets and current liabilities. It is also a useful concept for determining the ability of the concern to meet future needs.

Net Working Capital = Current assets – Current liabilities

Net working capital may be positive or negative. When the current assets exceed the current liabilities, the working capital is positive and the negative working capital results when the current liabilities are more than the current assets.

The task of the financial manager in managing working capital efficiently is to ensure sufficient liquidity in the operations of the enterprise. The liquidity of a business firm is measured by its ability to satisfy short term obligations as they become due. Net working capital as a measure of liquidity is not very useful for comparing the performance of different firms, but it is quite useful for internal control. The net working capital helps in comparing the liquidity of the same firm overtime. For purpose of working capital management, therefore, net working capital can be said to measure the liquidity of the firm. In other words, the goal of working capital management is to manage the current assets and liabilities in such a way that an acceptance level of net working capital is maintained.

Another classification of working capital;

a) Permanent working capital

The working capital which is permanent in nature is permanent working capital. They cannot be varied due to variation in sales. It is the minimum level of current assets kept by the organization required always for business operation even if there is fluctuation in sales. Normally it consists of low level of inventory cash, bill receivable, and material in process, finished goods. These can be obtained any day of the year because it is permanent in nature. Amount of such investment is called as Permanent Working Capital. Permanent Working Capital is also known as fixed or regulating Working Capital. This amount varies year-to-year depending upon the growth and stage of business cycle in which it operates.

b) Variable working capital

It is required during the most active seasons of the year. It is most suited to the business, which is seasonal and cyclical in nature. It represents as additional asset required for normal functioning of business in favourable seasons. It changes according to variation in sales.

c) Temporary Working Capital

Total Current Assets - Permanent Current Assets. It changes according to change in operational activity. This is also known as Temporary, Seasonal or Special Working Capital. The Permanent is constant and temporary is fluctuating according to seasonal demand.

Nature of Working Capital

Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship that exists between them. The term current assets refer to those assets which in the ordinary course of business can be, or will be, converted into cash within one year without undergoing a diminution in value and without disrupting the operations of the firm. The major current assets are cash, marketable securities, accounts receivable and inventory. Current liabilities are those liabilities which are intended, at their inception, to be paid in the ordinary course of business, within a year, out of the current assets or earnings of the concern. The basic current liabilities are accounts payable, bills payable, bank overdraft, and outstanding expenses.

The goal of working capital management is to manage the firm's current assets and liabilities in such a way that a satisfactory level of working capital is maintained. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of safety. Each of the short term sources of financing must be continuously managed to ensure that they are obtained and used in the best possible way. The interaction between current asset and current liabilities is, therefore, the best main theme of the theory of working capital management.

Working capital is very essential to maintain the smooth running of a business. No business can run successfully without an adequate amount of working capital. Working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities and the inter-relationship that exists between them. In other words, it refers to all aspects of administration of both current assets and current liabilities.

Source of Working Capital

The sources of working capital can be divided as Long-term source of working capital and Short- term source of working capital. Long-term funds are required to create production facilities through purchase of fixed assets such as plant and machinery, land and building, etc.

Investments in these assets represent that part of firm's capital is blocked on a permanent or fixed basis and is called fixed capital. Short-term funds are needed to manage the day-to-day operations of the organization. It is a temporary working capital.
Working capital for the long-term purposes can be obtained by several ways. There are different sources of long-term working capital:

1. Issue of shares.
2. Issue of debentures
3. Retained earnings
4. Sale of fixed assets
5. Security from employee and from customers.

Sources of Short-term Working Capital are:

1. Trade credit.
2. Credit paper.
3. Bank credit.
4. Public deposits.
5. Government assistance
6. Customer credit

DETERMINANTS OF WORKING CAPITAL

The need of working capital varies from month to month, year to year. For determining the working capital needed by a business unit there is no set of rules to formulate. In order to determine the proper or optimum amount of working capital of a business unit various factors should be considered carefully as each of them having own importance and the importance of various factors changes for a business unit overtime. The main factors that determine the working capital requirements of the organization are as follows:

a) General nature of business
b) Size of business operations/scale of operations
c) Production cycle
d) Business cycle
e) Production policy
f) Credit policy
g) Growth and expansion

h) Vagaries and availability of raw material

i) Profit level

j) Terms of purchase and sales

k) Depreciation policy.

a) General nature of business

The working capital requirements of an enterprise are basically related to the conduct of the business. Enterprises fall into some board categories depending on the nature of their business. For instance, public utilities have certain features which have a bearing on their working capital needs. The two important features are (1) cash sales and (2) sale of services rather than commodities.

b) Size of business operations/scale of operations

The size of business has also an important impact on its working capital needs. Size of a business unit may be measured in terms of a scale of operation. Bigger the size of business unit, the larger will be the amount of working capital required as because the larger business units are required to maintain huge inventories and also spend more in carrying out the business operations smoothly. A business unit carrying on activities on a small scale needs less working capital.

c) Production cycle

It refers to the time involved in the manufacture of goods. It covers the time-span between the procurement of raw materials and the completion of the manufacturing process leading to the production of finished goods. Funds have to be necessarily tied up during the process of manufacture, necessitating enhanced working capital. The longer the time-span the larger will be the tied-up and therefore the larger is the working capital needed and vice versa.

d) Business cycle

The working capital requirements are also determined by the nature of business cycle. Business fluctuations leads to a cyclical and seasonal changes that, in turn cause a shift in the working capital position, particularly for temporary working capital requirements. The variations in business conditions may be in two directions; Upward phase: When boom conditions prevail, Downswing phase: When economic activity is marked by a decline. During in the upswing of business activity, the need for working capital is likely to grow to cover the lag between increased sales and receipt of cash as well as to finance purchase of additional material to cater to the expansion of the level of activity.

d) Production policy

The quantum of working capital is also determined by the production policy. The case of certain lines of business, the demand for the product is seasonal. In such a case there are two options: either they confine their production only to periods when goods are purchased or they follow a steady production policy throughout the year and produce goods at a level to meet the peak demand. The former option is inconvenient. The second option would require a sufficient amount of working capital.

e) Credit policy

The credit policy relating to sales and purchases also affects the working capital. The credit policy influences the requirements of working capital in two ways.

(1) Through credit items granted by the firm to its customers.

(2) The credit term available to the firm from its creditors.

g) Growth and expansion

As a company grows, the working capital requirements will be more. It is very difficult to determine the relationship between the volume of business of a company and the increase in its working capital. The composition of working capital in a growing company also shifts with economic circumstances and corporate practices. Other things being equal, growing industries require more working capital than those that are static.

h) Vagaries and availability of raw material

The availability or otherwise of certain raw materials on a continuous basis without interruption would sometimes affect the requirement of working capital. There may be some raw materials which can't be procured easily either because of their sources are few or they are irregular. To sustain smooth production, therefore, the firm might be compelled to purchase and stock them far in excess of genuine production needs. This will result in an excessive inventory of such materials. Hence the volume of working capital to be kept will be increased.

i) Profit Level

The level of profits earned differs from enterprise. Higher profit margin would improve the prospects of generating more internal funds thereby contributing to the working capital pool. The net profit is source of working capital to the extent that it has been earned in cash.

j) Terms of purchase and sales

Terms of purchase and sales [cash or credit] also affect the amount of working capital. If a company purchases all goods in cash and sells its finished products on credit, then the company will require larger amount of working capital. On the other hand, a company purchasing all goods on credit and allowing no credit to its customers will require lesser amount of working capital. The length of period of period credit has also a bearing on working capital.

k) Depreciation policy

The depreciation policy through its effect on tax liability and retained earnings has an influence on working capital. Depreciation is tax deductible. Higher the amount of depreciation the lower the tax liability and more the cash profit. Similarly, the amount of net profits will be less if higher depreciation is charged. If the dividend policy is linked with net profits, the firm can pay fewer dividends by providing for more depreciation. Thus, depreciation is an indirect way of retaining profits and preserving the firm's working capital position.

WORKING CAPITAL MANAGEMENT

Working Capital Management is a strategy framed and adopted by business managers to monitor working capital (working capital means current assets and current liabilities) of the business. It is a fundamental concept which calculates and assesses a company's financial and operational health. It is often regarded as a metric for the performance of a business.

A working capital management deal with controlling the free credit period offered to the accounts receivables, monitors the effective implementation of credit policy, keeps the optimum stocks and cash levels. It speeds up the working capital cycle of a company and eases the liquidity position. The managers also try and extend the credit available from the accounts payables and thereby avails trade credit which is normally considered a free working capital up to a certain period.

Working Capital Management is an easily understandable concept which can be linked to an individual's household. It's like how an individual collects cash from his income and how he plans to expend it on his needs.

ADVANTAGES OF WORKING CAPITAL MANAGEMENT

- ENSURES LIQUIDITY

Businesses often get in trouble due to lack of cash needed for operations and to repay short-term debts. It happens because of an ineffective or no working capital management policy in the enterprise. Working capital management ensures liquidity by monitoring of account receivables, account payable, stock management and debt management. It assists in keeping sufficient liquid cash in the business at any point of time to pay operational costs and short-term debts. Thus, it helps in allocating the resources in an optimum manner.

- EVADES INTERRUPTIONS IN OPERATIONS

Working capital management involves the use of ratio analysis. Ratios like working capital ratio, quick ratio, accounts receivables turnover ratio, etc. are calculated and interpreted so as to provide information to management. Such information helps managers in planning and executing business operations in the most efficient way. Optimum use of working capital management evades any future hindrances in business operations. Instances like delay in paying accounts payable, lack of production would minimize by a substantial amount. This would give the business a competitive edge over its competitors.

- ENHANCE PROFITABILITY

Proper application of working capital management strategy would enhance the company's profitability in the long run. The policy properly manages inventory so as to avoid any operational failures. Collection from trade receivables would be on time as receivables management is a key part of working capital management. There would be no cases of default in paying the trade payable on due date because of proper management and allocation of cash.

- IMPROVES FINANCIAL HEALTH

Working capital management basically deals with the management of cash in an enterprise. It assesses the sources of cash inflows and determines the outflow of cash in best possible manner. Proper allocation of cash makes a scope for the investment of remaining cash or in repaying short-term debts. It allows the business to be financially solvent at most of the times and thus evading any legal troubles that could have arisen due to lack of working capital. Higher profitability would imply higher return on capital employed. This, in turn, would attract more capital from prospective investors leading to the unlocking of further capacities.

- VALUE ADDITION

As explained earlier, working capital enhances company's financial health and operational success. It makes the company a standout amongst its peers. A sense of respect emerges in the market for the business. This all, in turn, leads to value addition for the entity.

DISADVANTAGES OF WORKING CAPITAL MANAGEMENT

- ONLY MONETARY FACTORS

This strategy takes only monetary factors into account. Monetary items like the value of debts receivables, the value of finished goods etc. are the basic determinants while implementing the strategy. Non monetary factors like recession, unsatisfied workers, change in government's policy towards the industry etc. are not considered or hold no relevance in this policy.

- NON-SITUATIONAL

Another disadvantage of working capital management policy is that it's not situational in nature. The strategy does not acknowledge sudden changes in the market conditions as it is based on past events and figures. The time taken to respond to certain recent events is significant to impact business operations and profitability.

- ❖ BASED ON DATA

Working capital management operates around data. It is the key soul of any working capital management strategy. Data would include every minute detail about the components of working capital. For example, in trade receivables, it would require the date of sale, the period of credit, number of grace days allowed, a penalty in case of non-fulfilment of payment etc. Without data, this strategy holds no relevance in the practical world.

- ❖ PROBLEM IN INTERPRETATION

Working capital management involves techniques of ratio analysis. Ratios are just a number which allows a user to interpret the result. In most cases, it is unclear to a user whether a particular ratio is favourable to the company or not. For example, in case of currents assets ratio, it is advisable that a ratio which is higher than 1:1 is favourable. But on the other hand, it is also advisable that ratios bigger than 2:1 are unfavourable, keeping the business conditions and trade cycle in mind. Now, if a business has a bigger trade receivables cycle than the industry's average, the business would not be able to interpret the ratio accurately.

TOOLS FOR ANALYSING WORKING CAPITAL MANAGEMENT

1. RATIO ANALYSIS

- Liquidity Ratios
- Profitability Ratios
- Turnover Ratios
- Solvency Ratios

2. STATEMENT OF CHANGES IN WORKING CAPITAL

3.2 AN OVERVIEW OF EARLIER STUDIES

This section deals with the conclusion of studies already conducted and the theoretical perspectives based on the study. A literature review is a critical and in-depth evaluation of previous research. It is a summary and synopsis of a particular area of research. A literature review discusses published information in a particular subject area. Literature review can be just a simple summary of the sources, but it usually has an organizational pattern and combines both summary and synthesis.

Chadda (1964) conducted a study on inventory management practices of Indian companies and found that the management of individual components of inventory very scattered. The study suggested for the usage of modern tools like operations research in ensuring the efficient management of working capital.

Mishra (1975) study among six public sector units in India discovered that there were fundamentally four basic problem areas concerned with cash, debtors, inventory and financing of working capital in the sample companies. It was due to these chronic problems that the sample companies unsuccessful miserably in achieving the effective management of working capital. The study has addressed the terrible need for efficient and effective usage of funds in order to attain efficient Working Capital Management.

Lal (1981) conducted his study on Modi Steels Ltd with an objective of analyzing inventory management. He found that the company did not take into account the price variable in inventory management whereas Mr. Lal developed a model which included the price variable. The study strongly suggested concrete policies, which should take care of both internal and external factors into account, for efficient management of working capital.

Khandelwal (1985) carried on half-complete empirical research initiated by late N.M.Agarwal, among 40 small scale industries in Jodhpur industrial estate. The study attempted to examine into Working Capital Management process and practices among the selected units between the years 1975-80. The study discovered that the sample firms held more investments in inventories that required and management of receivable was found to be highly unmanageable. It was found that bills receivables constituted as much as 50% of total current assets. Highlighting the sickness in Jodhpur Industrial estate the study attributed the main reason to ineffective management of working capital. Based on findings the study recommended that the entrepreneurs need to be educated about the basic concepts and efficient way of Working Capital Management.

Swami (1987) in his study on "Materials Management in Public Sector Undertakings" took five central public sector enterprises in the state of Rajasthan. The study discovered that the inventory along constituted by 61% of total current assets during the study period (1977-82). The growth of inventories during the period found to be very high representing no control. The

study completed that the materials management in select companies was not satisfactory and recommended for improvement through continuous monitoring and necessary action.
Oppedahl and Richard (1990) essay revealed capital budgeting projects consume much of the time of a firm's management group to the detriment of the quality of the working capital decisions. It emphasized that the business executives mush become more cognizant of the working capital decisions that their firms face every day. The stress in this essay has been laid on two most important components of working capital called accounts receivables and marketable securities. The essay discovered that the managers have to be very careful in accounts receivables and marketable securities decisions.

Jain (1993) studied seven paper companies in India to evaluate the basic components of working capital. The study discovered that the current ratio in public sector undertakings during the study period was found to be highly inconsistent while the same in private sector undertakings registered continuous decrease. As far as the inventory was concerned the study discovered that it was highly unplanned in public sector undertaking units when compared to private sector units. The study contributed much in terms of realizing the importance of effective management of working capital.

Joshi (1999) in his article examined the importance of maintaining fair degree on the levels of inventory based on sound management practices and principles. He concluded that it was worthwhile to make inventory control a part of production control in order to maintain a flow of materials needed for the efficient and continuous operation of the production line in this connection, the author recommended for coherence and coordination with the production programmes. Sarma and Chary (1999) study on VST Industries Ltd. discovered that Working Capital Management in the sample unit was inefficient. A proportionate investment in current asset in relation to sales resulted in declining working capital turnover ratio. The company did not follow any constant policy with respect to investment and financing of working capital. Though there existed many opportunities to make use of trading on equity and edging for appropriate management of working capital, the company newer made use of the same. Having analyzed working capital in

terms of current ratio, quick ratio, working capital turnover ratio, inventory turnover ratio, debtor's turnover ratio and average collection period, the study revealed that the company unsuccessful to manage inventory efficiently which in turn has resulted the lower profitability.

Sivarama (1999) conducted a study on Working Capital Management in Indian paper industry highlighting on individual current assets like cash, receivable and inventory. The study discovered that the working capital formed 47.2% the total net assets during 1984-93. The rate of return on current assets was negative or insignificant in all selected paper mills representing inefficient management of working capital. The results of correlation analysis indicated a close relationship between profitability and working capital efficiency emphasizing the need to exercise improved control over working capital. Applegate (2001), a syndicated columnist, expressed that the banks play a key role in effective Working Capital Management in small business of Merrill Lynch, a US based financial institution focusing on deposits revealed that due focus to improve the Working Capital Management account is pivot through which small business can manage their assets. It also showed that banks play a vital role in achieving the efficient Working Capital Management.

Singh (2004) study conducted on working capital in Lupin Laboratories ltd. He attempted to assess the significance of management of working capital through working capital ratios and operating cycle. Having analysed seven years data (1995-2002), he indicated that the liquidity position of the company was good, means percentage of current assets was very high when compared to the percentage of net fixed assets and the operating cycle showed declining trend. The element wise analysis of working capital also revealed that trade debtors constituted the highest percentage of current assets followed by loans and advances, inventories and cash and bank balances. The study brought out the need for efficient management of debtors, the percentage of which was the highest. It is clear from the above references that various authors have viewed that maintaining proper liquidity together with its efficient handling have optimistic effects on long run returns and it determines the survival or demise of an organization. Further, financial strength of the company is sustained when its credit reputation is maintained.

3.3 UNIQUENESS OF RESEARCH STUDY

- This study focuses of company working capital Management
- Research Study is completely based on secondary data
- Data collected from reliable sources

CHAPTER 4
METHODOLOGY OF THE STUDY

4.1 RESEARCH APPROACH AND DESIGN

Research is the systematic process of collecting and analyzing data in order to increase our understanding of the phenomenon about which we are concerned or interested. It is the in depth search for knowledge. It is a careful investigation or inquiry especially through search for new facts in any branch of knowledge. The study exhibits both descriptive and analytical character. Regarding the theoretical concept it is descriptive since it interprets and analysis the secondary data in order to arrive at appropriate conclusion, it is also analytical in character. The interpretation of data is done based on ratio and percentage.

Research Design is the strategy for the study and the plan by which the strategy is to be carried out. It is the set of decisions that make up the master plan specifying the methods and procedures for the collection, measurement and analysis of data. Research has used descriptive research. Descriptive studies are fact finding investigation with adequate interpretation. It focuses on particular aspects of in the study. It is designed to gather descriptive information and provides information for formulating more sophisticated studies.

4.2 SOURCES OF ONLINE DATA

The data collection for the study is mainly from the secondary sources. Like

- Online reports
- Books
- Journal
- Web sites

Data has been obtained from published reports like the annual reports of the company, balance sheets, and profit and loss account, booklets, records such as files, reports maintained by the company. Mainly the annual report consists of two parts;

1) Profit and Loss Account
2) Balance Sheet

Profit and loss account reveals the income and expenditure of the company. Balance Sheet reveals the financial position of the organization. Those two statements are prepared by the highly qualified and experts with the help of available information or data.

4.3 DATA ANALYSIS TOOLS

The tools used for analyzing working capital management are;

RATIO ANALYSIS

- Liquidity Ratios

  Current Ratio

  Quick Ratio
- Profitability Ratios

  Gross Profit

  Net Profit

  Operating Profit
- Turnover Ratios

  Working Capital Turnover Ratio

  Inventory Turnover Ratio

  Debtors Turnover Ratio

  Creditors Turnover Ratio
- Solvency Ratios

  Proprietary Ratio

  Debt Equity Ratio

  Capital Gearing Ratio

STATEMENT OF CHANGES IN WORKING CAPITAL

4.4 REPORT STRUCTURE

The report is presented in seven chapters as given below;

Chapter 1 – Introduction

Chapter 2 – Industry profile

Chapter 3 – Review of literature

Chapter 4 – Methodology of the study

Chapter 5 – Data analysis, interpretation and inferences

Chapter 6 – Findings of the study

Chapter 7 – Conclusion

4.5 LIMITATIONS OF THE STUDY

1. The study is purely based on the information contained in the annual reports and company website, so the study is limited to the data collected from that.
2. Since it is a big concern, it was impossible to cover all areas of operation of the organisation.
3. The reliability and accuracy of the calculation depends very much on the information found in the financial statements and its reliability.
4. Limited interaction with the concerned heads.

CHAPTER 5

DATA ANALYSIS, INTERPRETATION AND INFERENCES

1. LIQUIDITY RATIOS

5.1.1 CURRENT RATIO

Current ratio establishes the relationship between the current assets and current liabilities. Conventional rule, idle current ratio should be 2:1.

Current Ratio = Current Assets / Current Liabilities.

Year	Current assets	Current liabilities	Ratio
2015-2016	225385396	164365312	1.37
2016-2017	259261308	209933945	1.23

2017-2018	236273282	189236447	1.25
2018-2019	267601022	218463723	1.22
2019-2020	227232963	167906765	1.35

Table 5.1.1 Current Ratio

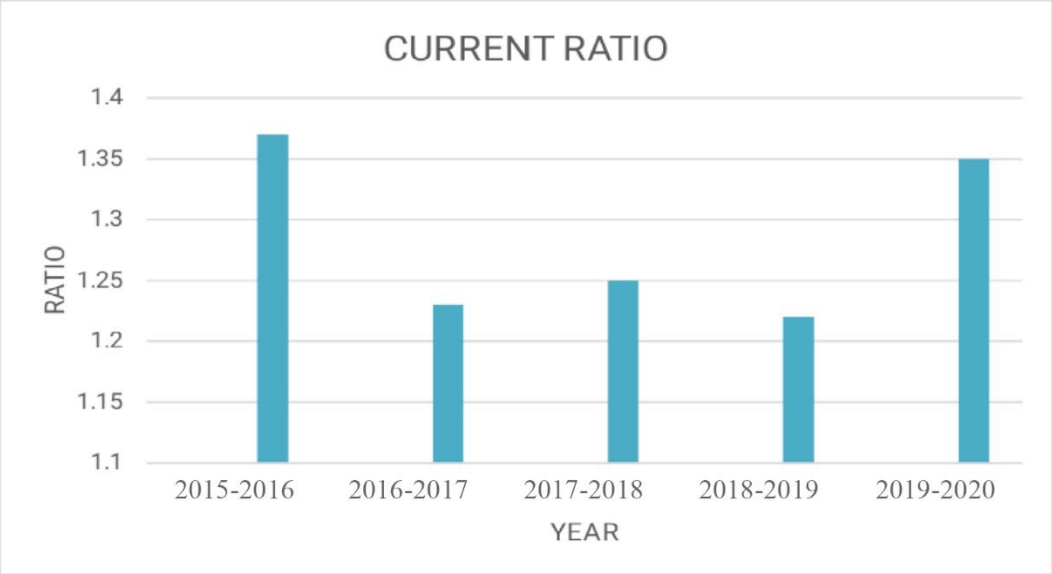

Fig 5.1.1 Current Ratio

INTERPRETATION

An ideal current ratio is 2:1. Here the current ratio of NHCL is less than 2 in all five years. So the current ratio of the concern is not good, the liquid position of NHCL is not satisfactory. Either it should increase current assets or it should decrease the current liability

5.1.2 QUICK RATIO

It is determined by dividing Quick Assets by Quick liabilities. Quick Ratio shows the ability of a business to meet its immediate financial commitments. An Acid Test Ratio of 1:1 is considered satisfactory as a firm can easily meet all its current liabilities.

Quick ratio = Quick assets / Quick liability

Where; Quick assets= Current Assets– (Inventories+ prepaid expenses) Quick liability = Current Liabilities - Bank over Draft

Years	Quick Asset	Quick Liabilities	Ratio
2015-2016	78952035	59126321	1.34

2016-2017	88055028	158977996	0.55
2017-2018	11055653	190014584	0.06
2018-2019	157859931	218463723	0.72
2019-2020	104219368	167906765	0.62

Table 5.1.2 Quick Ratio

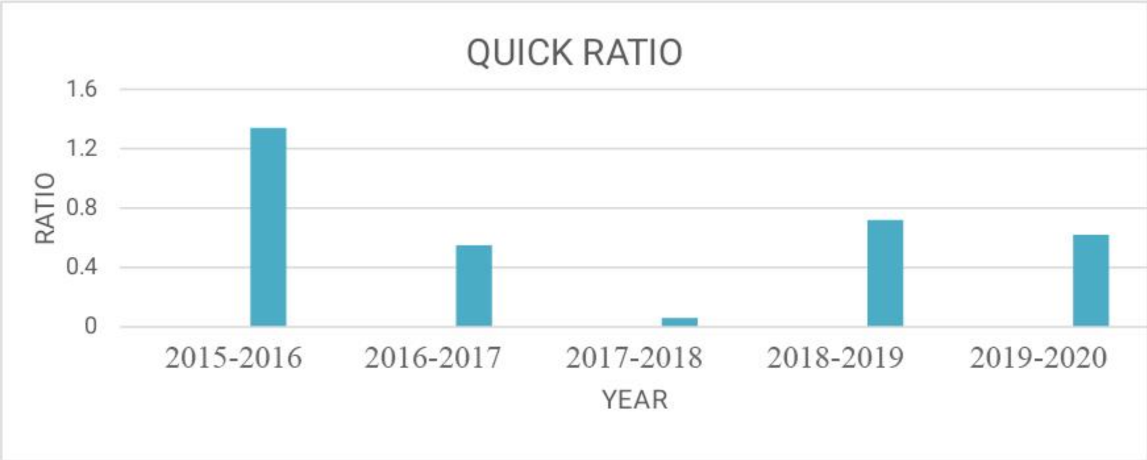

Fig 5.1.2 Quick Ratio

INTERPRETATION

Generally a quick ratio of 1:1 is considered to be satisfactory. The company has achieved a satisfactory quick ratio in the year 2015-2016.From 2016-2018, the quick ratio is not satisfactory.

This shows that the company may find itself in serious financial difficulties.

2. PROFITABILITY RATIO

5.2.1 GROSS PROFIT RATIO

Gross Profit Ratio expresses the relationship between gross profit and sales.

Gross Profit Ratio = Gross Profit / Net sales

Year	Gross Profit	Net Sales	Ratio
2015-2016	494006308	483472831	1.02
2016-2017	543650265	532042508	1.02

2017-2018	560939310	549190676	1.02
2018-2019	597931836	584750408	1.02
2019-2020	608617780	609125112	0.99

Table 5.2.1 Gross Profit Ratio

Fig 5.2.1 Gross Profit Ratio

INTERPRETATION

From 2015-2016 to 2018-2019 ,the company maintains a constant ratio. But in 20119- 2020 a low gross profit ratio is shown. A low gross profit ratio may indicate a higher costs of goods sold due to higher cost of production. It may also be due to low selling prices.

5.2.2 NET PROFIT RATIO

Net profit ratio establishes the relationship between net profit and sales. It indicates the efficiency of management in manufacturing, selling, administrative and other activities of the concern.

Net Profit Ratio = Net Profit / Net Sales

Year	Net profit	Net Sales	Ratio
2015-2016	8062795	483472831	0.016
2016-2017	1615879	532042508	0.003
2017-2018	2398478	549190676	0.004
2018-2019	3838286	584750408	0.006
2019-2020	6313508	609125112	0.010

Table 5.2.2 Net Profit Ratio

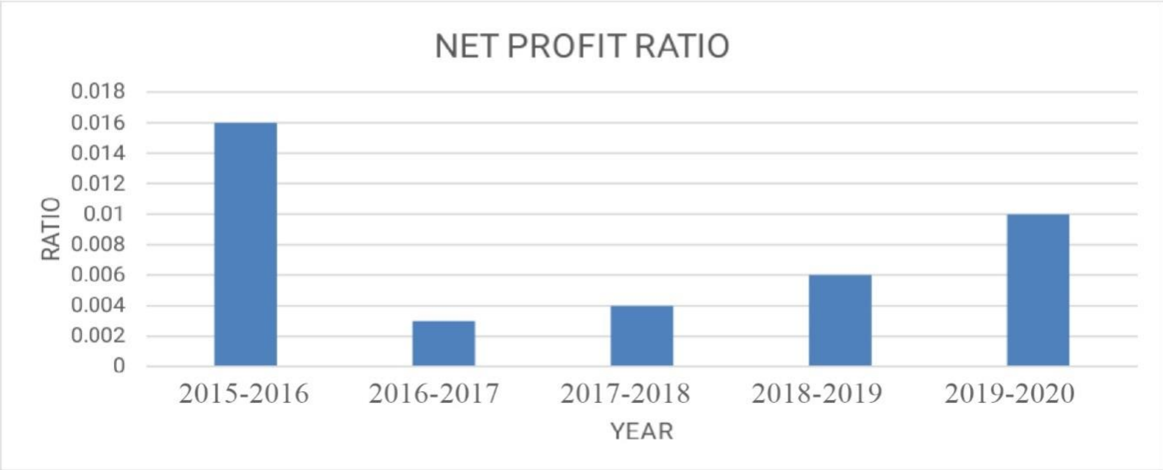

Fig 5.2.2 Net Profit Ratio

INTERPRETATION

The lower ratio indicates that the concern has a large amount of manufacturing expenses. The company should try to reduce their manufacturing selling and distribution expenses so that they can improve their net profit.

5.2.3 OPERATING RATIO

Operating ratio explains the relationship between cost of goods sold and operating expenses on the one hand and net sales on the other.

Operating ratio = Cost of goods sold + Operating expenses/ Net sales *100

Year	Cost of goods sold + Operating expenses	Net Sales	Ratio
2015-2016	473120026	483472831	0.98
2016-2017	529847948	532042508	0.99
2017-2018	545458258	549190676	0.99
2018-2019	578886497	584750408	0.98
2019-2020	599055281	609125112	0.98

Table 5.2.3 Operating Ratio

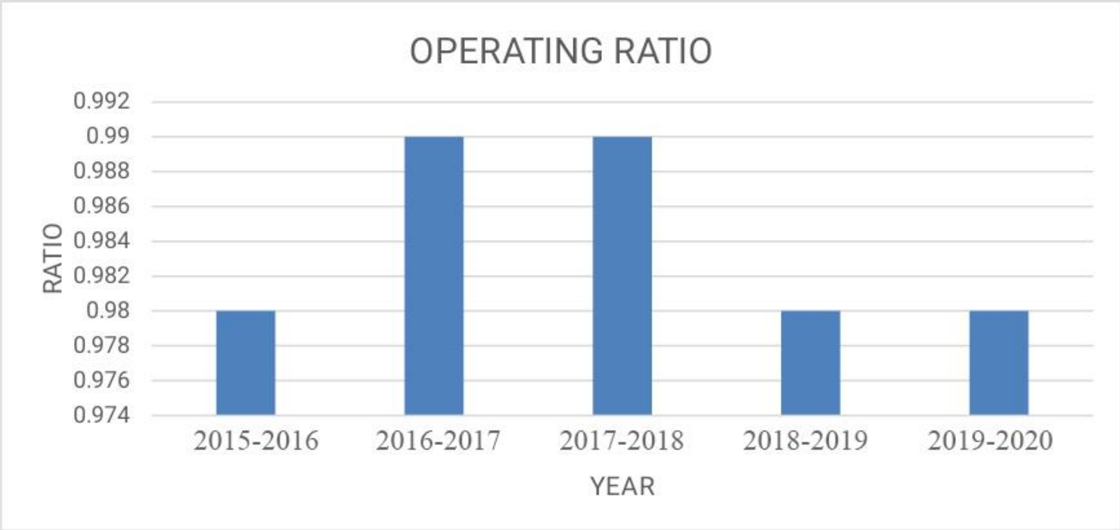

Fig 5.2.3 Operating Ratio

INTERPRETATION

Here the firms operating ratio is maintain almost similar in every year. The operating ratio is yardstick to measure the efficiency with which a business is operated.

5.3 TURNOVER RATIOS

5.3.1 WORKING CAPITAL TURNOVERRATIO

Working capital turnover ratio indicates the number of times the working capital is turned over in the course of a year. It measures the efficiency with which the working capital is being used by a firm.

Working Capital Turnover Ratio = Cost of Sales / Net Working Capital Table

Year	Cost of sales	Net Working Capital	Ratio
2015-2016	483472831	61020084	7.92
2016-2017	532042508	49327363	10.79
2017-2018	549190676	47036835	11.66
2018-2019	584750408	49137299	11.90
2019-2020	609125112	59326198	10.28

Table 5.3.1 Working Capital Turnover Ratio

Fig 5.3.1 Working Capital Turnover Ratio

INTERPRETATION

From the above table we can understand that company shows a better working capital turnover ratio, which indicates efficiency or effectiveness with which the concern utilizes its resources. In 2018-2019 the company shows greater working capital turnover ratio.

5.3.2 INVENTORY TURNOVER RATIO

Inventory Turnover Ratio is calculated by diving the cost of goods sold by average inventory. This ratio shows the rate at which stocks are converted into sales and then into cash.

Inventory Turnover Ratio = Net Sales / Inventory

Year	Net Sales	Inventory	Ratio
2015-2016	482992990	115773884	4.17
2016-2017	531326412	120250327	4.42
2017-2018	548674125	106759330	5.14
2018-2019	584349898	109741091	5.32
2019 – 2020	608512737	123013595	4.95

Table 5.3.2 Inventory Turnover Ratio

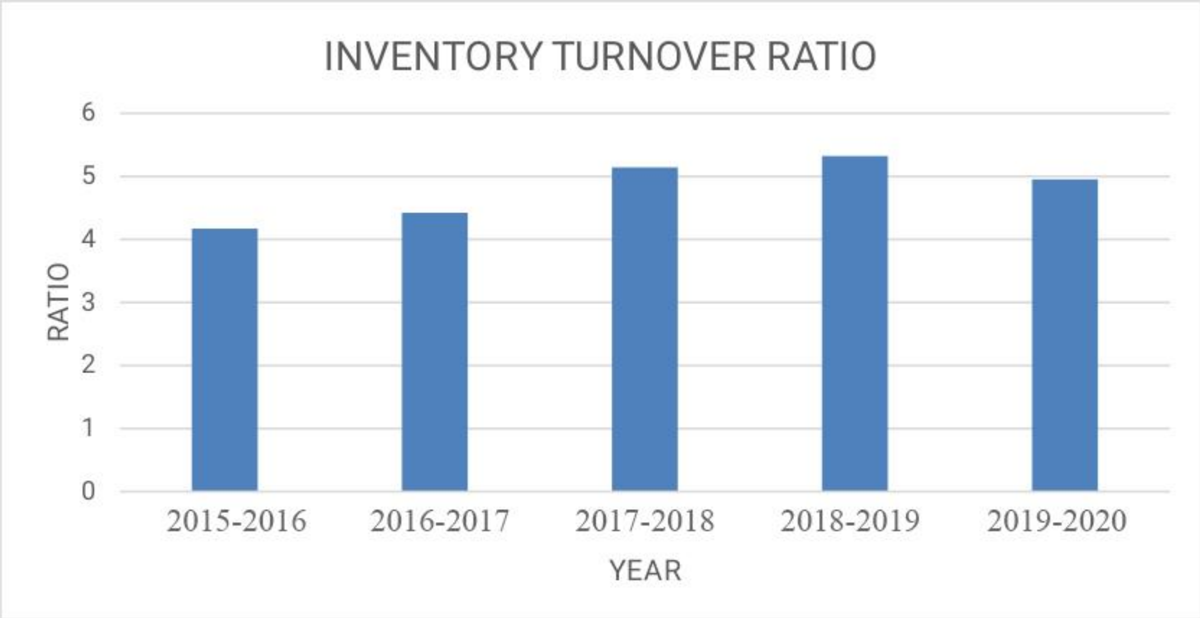

Fig 5.3.2 Inventory Turnover Ratio

INTERPRETATION

A high inventory turnover ratio is considered better as it indicates that more sales are being produced by each rupee of investment in stock. In 2018-2019 is the highest and 2015-2016 is the lowest inventory turnover ratio.

5.3.3 INVENTORY HOLDING PERIOD

The given below shows the inventory holding period of the company for a period ranging from 2015- 2016 to 2019-2020. The formula for computing inventory holding period as follows:

Inventory holding period=days in a year/ inventory turn over ratio.

Table 5.3.3 Inventory Holding Ratio

Year	Days in a year	Inventory turnover ratio	Ratio
2015-2016	365	4.17	87.52
2016-2017	365	4.42	82.57
2017-2018	365	5.14	71.01
2018-2019	365	5.32	68.60
2019-2020	365	4.95	73.73

Fig 5.3.3 Inventory Holding Ratio

INTERPRETATION

Inventory holding period means the time taken to clear the stock from the firm. From the above it is clear that inventory conversion period is showing a fluctuating trend. Currently it is increasing

5.3.4 DEBTORS TURNOVER RATIO

Debtors turn over ratio= Net sales/ Debtors Table

Year	Net sales	Debtors	Ratio
2015-2016	482992990	88927236	5.43
2016-2017	531326412	101653719	5.22
2017-2018	548674125	99659440	5.50
2018-2019	584349898	106768677	5.47
2019-2020	608512737	92707814	6.56

Table 5.3.4 Debtors Turnover Ratio

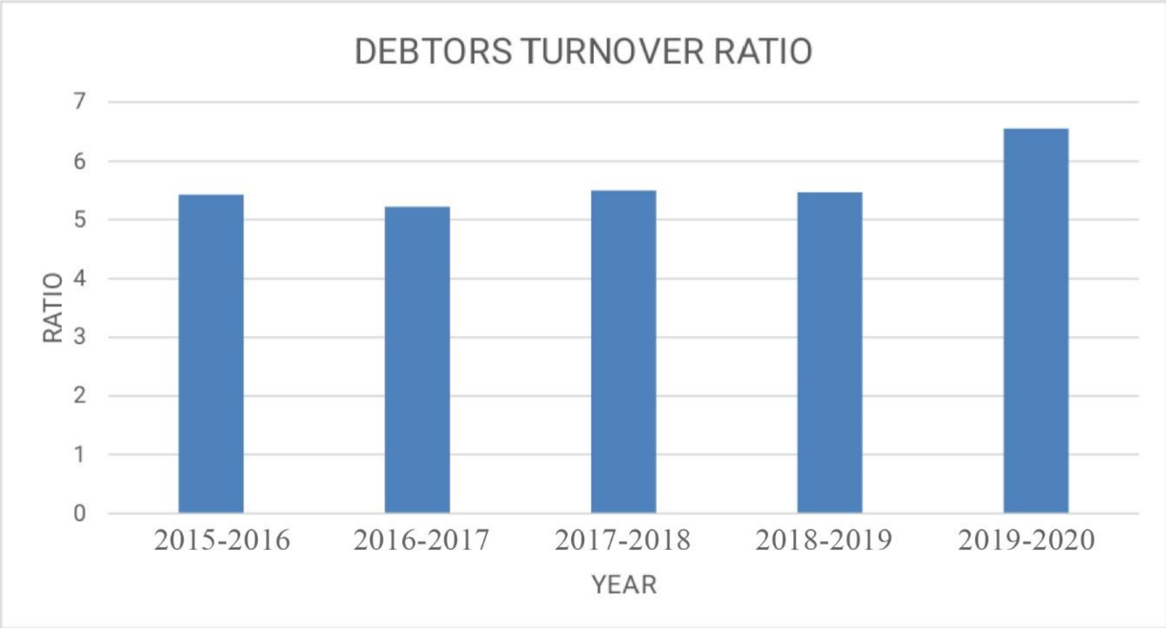

Fig 5.3.4 Debtors Turnover Ratio

INTERPRETATION
From the above we can understand that the debtors turnover ratio shows an up and down trend. The highest debtors turnover ratio in the year 2019-2020.

5.3.5 AVERAGE PAYMENT PERIOD

Average payment period = Days in a Year / Debtors turnover ratio

Year	Days in a year	Debtors turnover ratio	Average payment period
2015-2016	365	5.43	67
2016-2017	365	5.22	69
2017-2018	365	5.50	66
2018-2019	365	5.47	66
2019-2020	365	6.56	55

Table 5.3.5 Average Payment Period

Fig 5.3.5 Average Payment Period

INTERPRETATION

The average payment period is too high. It effect the organization function. In the last year it is decreased to 58 days.

5.3.6 CREDITORS TURNOVER RATIO

Creditors turnover ratio = Net credit purchase / Average creditors including bills Payable

Year	Purchases	Creditors	Ratio
2015-2016	239977054	57294445	4.20
2016-2017	264498861	60989989	4.34
2017-2018	261990446	61034317	4.01
2018-2019	303932403	70720344	4.29
2019-2020	281218951	88380174	3.18

Table 5.3.6 Creditors Turnover Ratio

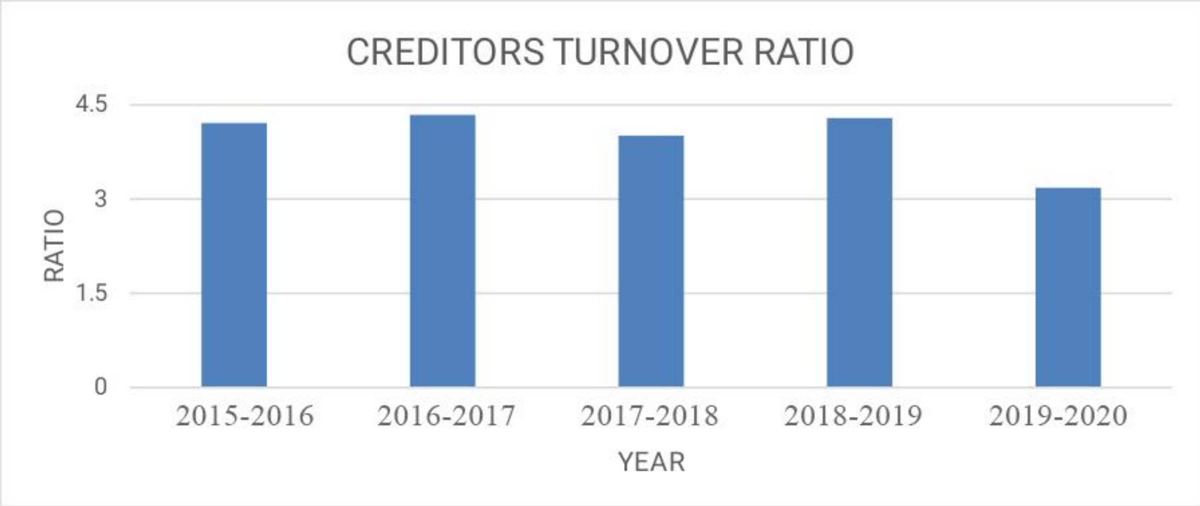

Table 5.3.6 Creditors Turnover Ratio

INTERPRETATION

It is clear from table that the creditor's turnover ratio shows the relationship between purchases and creditors including bills payable. It reveals that creditor turnover ratio is fluctuating year after year, the ratio is higher in 2016 – 2017. It indicates that the creditors are being paid promptly, thus enhancing the credit worthiness of the company.

5.3.7 AVERAGE PAYMENT PERIOD

Average payment period = Days in a Year/ Creditors turnover ratio

Year	Days in a year	Creditors turnover ratio	Payment period
2015-2016	365	4.20	86
2016-2017	365	4.34	84
2017-2018	365	4.01	91
2018-2019	365	4.29	85
2019-2020	365	3.18	114

Table 5.3.7 Average Payment Ratio

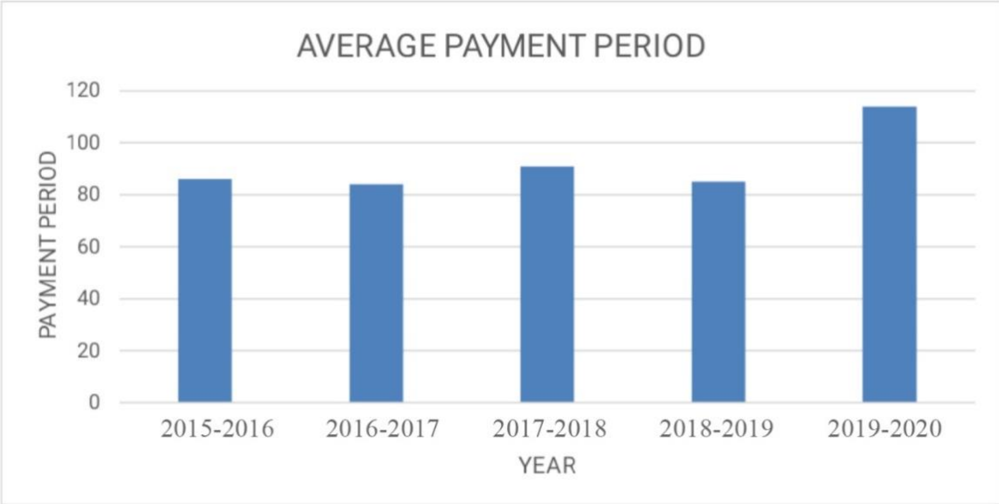

Fig 5.3.7 Average Payment Ratio

INTERPRETATION

The diagram shows average payment period of creditors. The least payment period was in 2016- 2017 i.e. 84 days. In the year 2019-2020 it is 114 days.

5.4 SOLVENCY RATIO

5.4.1 PROPRIETARY RATIO

Proprietary ratio is also known as equity ratio. It shows relationship between shareholders fund to total assets of the concern. The shareholders funds are equity share capital, preference share capital, undistributed profits, reserves and surpluses.

Proprietary Ratio= Shareholders Fund/Total Assets

Year	Shareholders fund	Total assets	Ratio
2015-2016	26480000	74560653	0.36
2016-2017	26480000	75043890	0.35
2017-2018	26480000	74560653	0.36
2018-2019	26480000	99095049	0.27
2019-2020	26480000	95190882	0.28

Table 5.4.1 Proprietary Ratio

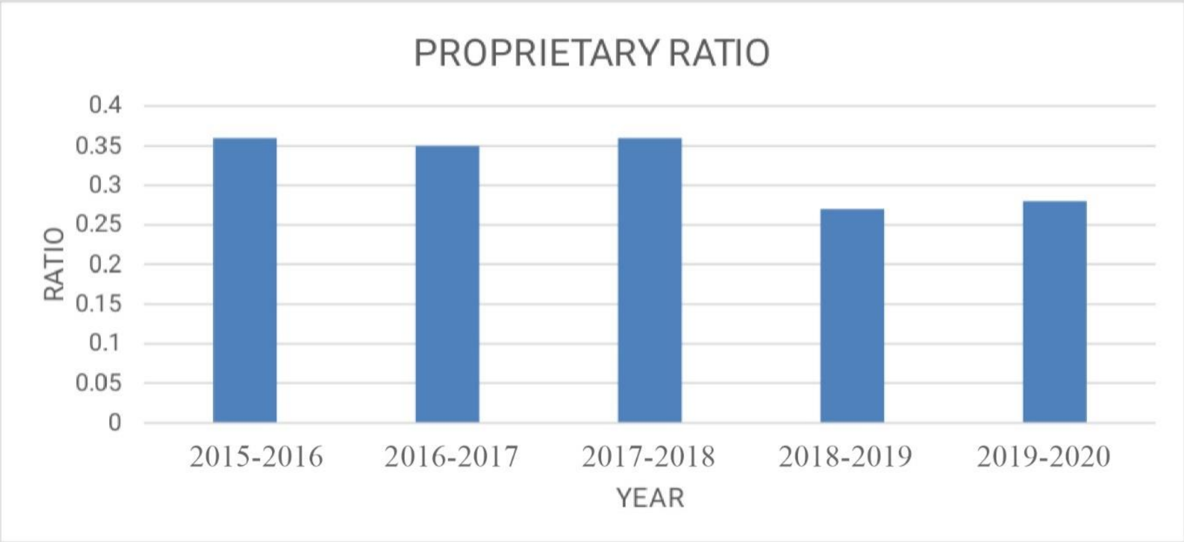

Fig 5.4.1 Proprietary Ratio

INTERPRETATION

The higher the ratio the better the long term solvency of the company will be. Here the ratios are less than one, the long term solvency not so better. Here, the shareholders fund is less compared to the total asset. So the company should try to increase the shareholders fund by issuing more number of shares.

5.4.2 DEBT EQUITY RATIO

Debt equity ratio is determined to measure the soundness of the long term financial policies of the concern. It measures ultimate solvency of a concern. An appropriate debt -equity ratio is 0.33.

Debt Equity Ratio = Long Term Debts/ Shareholders Fund

Year	Long Term Debts	Shareholders Fund	Ratio
2015-2016	17464712	26480000	0.66
2016-2017	17553075	26480000	0.66
2017-2018	2583273	26480000	0.09

2018-2019	2224500	26480000	0.08
2019-2020	2253570	26480000	0.09

Table 5.4.2 Debt Equity Ratio

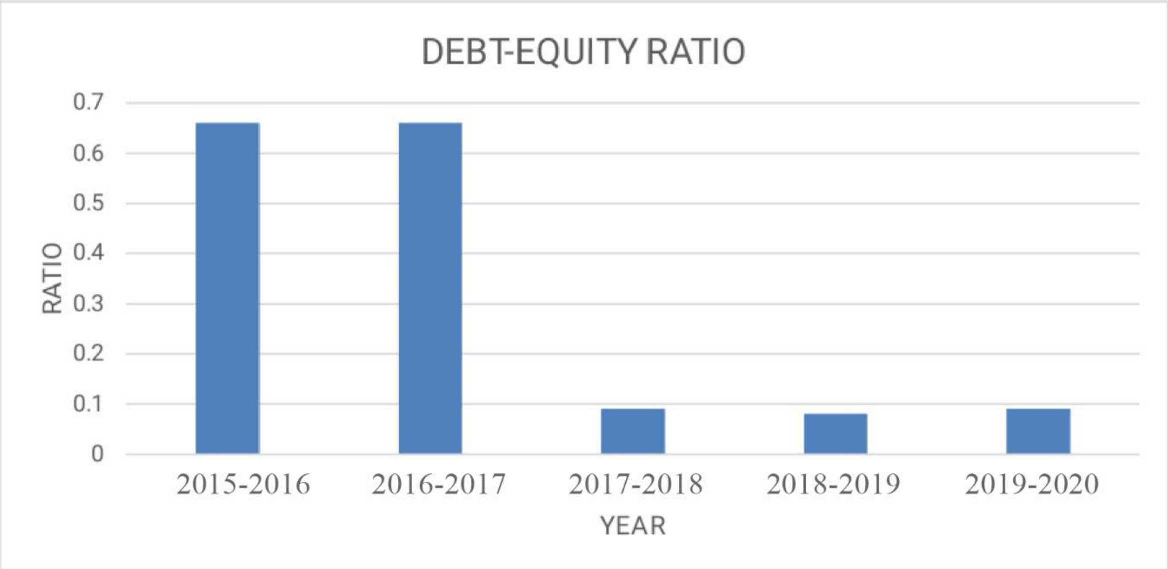

Fig 5.4.2 Debt Equity Ratio

INTERPRETATION

An appropriated debt equity ratio is 0.33. A ratio higher than this is an indication of risky financial policies. In first two years debt equity ratio of NHCL is greater than 0.33, this shows that claims of the creditors are greater than those of owners. From 2017- 2018, the company shows low ratio than 0.33.

5.4.3 RATIO OF CURRENT ASSETS TO PROPRIETORS FUND (CAPITAL GEARING RATIO)

Ratio of current assets to proprietors fund establishes the relationship between the current assets and shareholders fund. This ratio indicates the extend to which proprietors funds are invested in current assets.

Ratio of Current Assets to Proprietors Funds = Current Assets/ Shareholders Fund

Year	Current assets	Shareholders fund	Ratio
2015-2016	225385396	26480000	8.51
2016-2017	259261308	26480000	9.79

2017-2018	236273282	26480000	8.92
2018-2019	267601022	26480000	10.10
2019-2020	227232963	26480000	8.58

Table 5.4.3 Capital Gearing Ratio

Fig 5.4.3 Capital Gearing Ratio

INTERPRETATION

Here higher ratio indicates, the involvement of proprietors fund is good in current assets. The ratio of NHCL is greater than 1. The involvement of proprietors fund is less in NHCL.

5.5 STATEMENT OF CHANGES IN WORKING CAPITAL

5.5.1 Working Capital (2015-2016)

Particulars	2015	2016	Increase in WC	Decrease in WC

CURRENT ASSETS (a)				
Inventories	112067439	115773884		3706445
Trade Receivables	88443336	88927236		483900
Cash & bank	12668850	4274119	8394731	
Loans & Advances	8348108	16370589		8022481
Other Current Assets	595339	39567	555772	
TOTAL	222123074	225385396		3262322
CURRENT LIABILITIES(b)				
Short Term Borrowings	103353875	64919124	96934751	
Trade Payables	63837694	57294445	6543249	
Other Current Liabilities	22701601	40925745		18224144
Short Term Provisions	121413	1225997		1104584
TOTAL	190014584	164365312	25649272	
NETWORKINGCAPITAL(a–b)	32108490	61020084		
NET INCREASE IN WORKING CAPITAL	28911594			28911594

Table 5.5.1 Working Capital(2015-2016)

INTERPRETATION

This shows that there is decrease of Rs 28911594 in the amount of working capital during the period of 2015-2016.

5.5.2 Working Capital (2016-2017)

Particulars	2016	2017	Increase in WC	Decrease in WC
CURRENT ASSETS (a)				

Inventories	115773884	120250327		4476443
Trade Receivables	88927236	101653719		12726483
Cash & bank	4274119	24746874		20472755
Loans & Advances	16370589	15920257	450332	
Other Current Assets	39567	30898	8669	
TOTAL	225385396	236273282		213734686
CURRENT LIABILITIES(b)				
Short Term Borrowings	64919124	100267089		35347965
Trade Payables	57294445	61064317		55334872
Other Current Liabilities	40925745	26501326	14424419	
Short Term Provisions	1225997	1433714		207717
TOTAL	164365312	189236447		24871135
NETWORKINGCAPITAL(a–b)	61020084	47036835		
NET INCREASE IN WORKING CAPITAL	13983249		13983249	

Table 5.5.2 Working Capital (2016-2017)

INTERPRETATION

This shows that there is increase of Rs 13983249 in the amount of working capital during the period of 2016-2017.

5.5.3 Working Capital (2017-2018)

Table 5.5.3 Working capital)2017-2018)

Particulars	2017	2018	Increase in WC	Decrease in WC
CURRENT ASSETS (a)				
Inventories	120250327	106759330	13490997	
Trade Receivables	101653719	99659440	1994279	
Cash & bank	24746874	13903355	10843519	
Loans & Advances	12579489	15920257		3340768
Other Current Assets	30898	30898		
TOTAL	259261308	236273282	22988026	
CURRENT LIABILITIES(b)				
Short Term Borrowings	112874425	100267089	12607336	
Trade Payables	60989989	61064317		74328
Other Current Liabilities	34969427	26501326	8468101	
Short Term Provisions	1100103	1433714		333611
TOTAL	209933945	189236447	20697498	
NETWORKINGCAPITAL(a–b)	49327363	47036835		
NET INCREASE IN WORKING CAPITAL	2290528		2290528	

INTERPRETATION

This shows that there is increase of Rs 2290528 in the amount of working capital during the period of 2017-2018.

5.5.4 Working Capital (2018-2019)

Table 5.5.4 Working Capital (2018-2019)

Particulars	2018	2019	Increase in WC	Decrease in WC
CURRENT ASSETS (a)				
Inventories	106759330	109741091		2981761
Trade Receivables	99659440	106768677		7109237
Cash & bank	13903355	35810994		21907639
Loans & Advances	15920257	15249359	670898	
Other Current Assets	30898	30898		
TOTAL	236273282	267601022		31327740
CURRENT LIABILITIES(b)				
Short Term Borrowings	100267089	109502896		9235807
Trade Payables	61064317	59203519	1860798	
Other Current Liabilities	26501326	36388997		9887671
Short Term Provisions	1433714	1851485		417771
TOTAL	189236447	218463723		29227276
NETWORKINGCAPITAL(a–b)	47036835	49137299		
NET INCREASE IN WORKING CAPITAL	2100464			2100464

INTERPRETATION

This shows that there is decrease of Rs 21004649 in the amount of working capital during the period of 2018-2019.

5.5.5 Working Capital (2019-2020)

Table 5.5.5 Working Capital (2019-2020)

Particulars	2019	2020	Increase in WC	Decrease in WC
CURRENT ASSETS (a)				
Inventories	109741091	123013595		13272504
Trade Receivables	106768677	92707814	14060863	
Cash & bank	35810994	4562383	31248611	
Loans & Advances	15249359	6893774	8355585	
Other Current Assets	30898	55397		24499
TOTAL	267601022	227232963	40368059	
CURRENT LIABILITIES(b)				
Short Term Borrowings	109502896	60512902	48989994	
Trade Payables	59203519	70720344		11516825
Other Current Liabilities	36388997	37734806		1345809
Short Term Provisions	1851485	10455536		8604051
TOTAL	218463723	167906765	50556958	
NETWORKINGCAPITAL(a–b)	49137299	59326198		
NET INCREASE IN WORKING CAPITAL	10188899			10188899

INTERPRETATION

This shows that there is decrease of Rs 10188899 in the amount of working capital during the period of 2017-2018.

CHAPTER- 6
FINDINGS OF THE STUDY

FINDINGS

- The study highlighted that the current ratio of NHCL is not good during the period of the study. The liquidity position of NHCL is not satisfactory.
- The company has achieved a satisfactory quick ratio in the years 2015- 2016. After that the company fails to achieve a ideal ratio 1:1 . This shows that the company find serious financial difficulties .
- Gross profit is constant from 2015 to 2018.In 2019-2020 the ratio is decreased due to low selling prices.
- Net profit ratio of the NHCL is very low. So the lower ratio indicates that the concern has a large amount of manufacturing expense.
- Return on capital employed ratio indicates whether the proprietors fund have been used properly or not. NHCL shows a increase in return on capital employed ratio.
- Net worth ratio is shows fluctuating trend in the period of analysis. In the year 2015-2016 , a high rate of return on equity shareholders favoured by investors.
- Working capital turn over ratio measures efficiency with which the working capital is being used by a firm. In the year 2018-2019 company shows a higher ratio among period of analysis.
- Fixed asset turnover ratio is good .This shows efficient utilization of fixed assets in generating sales.
- The proprietary ratio of the company is not so good. Here the shareholders fund is less compared to the total assets.
- An appropriate debt equity ratio is 0.33. From 2017-2018 debt equity ratio of NHCL is less than 0.33
- The fixed asset to net worth ratio of NHCL is more than 100 percent. It shows owners funds are not sufficient to finance fixed assets.
- The ratio of current assets to proprietors fund of NHCL is greater than 1. The involvement of proprietors fund is high in NHCL.
- The net working capital of the company decreased by Rs 28911594 in the year 2015-2016.
- The net working capital of the company increased by Rs 13983249 in the year 2016-2017.

- The net working capital of the company increased by Rs 2290528 in the year 2017-2018.
- The net working capital of the company decreased by Rs 2100464 in the year 2018-2019.
- The net working capital of the company decreased by Rs 10188899 in the year 2019-2020.

CHAPTER 7
CONCLUSION

CONCLUSION

The Nagarjuna Herbal Concentrates Ltd is a ayurvedic products manufacturing company. It is situated in Thodupuzha, Kerala and the required data for the study is collected from there. The main objective of the study is to evaluate the working capital position and the working capital management of the company. Working capital is essential for the smooth running of the business. This study helps to find out the whether the NHCL has achieved working capital or not. The tools used for the study was ratio analysis and statement of changes in working capital. The study has helped to have a clear understanding of the working capital management and also arrived at the following conclusion:

- The current asset ratio of the company was more than the current liabilities.
- The company shows a positive working capital in last two years. So the management of working capital in the company is need to maintain this
- From the findings of the study it is clear that, the working capital management of the firm is currently good, it helps the in the efficient working of the firm so, in the era of liberalization, the efficient financial management will enable the company to face the competition from competitors.

CHAPTER- 8
BIBLIOGRAPHY

- Annual reports of the company 2016-2020.
- www.moneycontrol.com
- www.indiatimes.com
- www.wikipedia.com

ANNEXURES

BALANCE SHEET AS AT 31 MARCH 2016

Sources of Funds	**Sch.Nos**	**2016**
Share Holders Fund		
Share capital reserve	3	26480000.00
Surplus	4	48086277.12
		74566277.12
Non current liabilities		
Long term borrowings deferred	5	57816603.02
Tax liability(net)	6	4657900.00
Other long term liability	7	8806700.00
Provisions	8	7197970.00
		78479173.87
Current liabilities		
Short term borrowings	9	64919124.29
Trade payables	10	57294445.55
Other current liabilities	11	40925745.26
Short term provisions	12	1225997.00
Total		**164365312.10**
		317410763.00
Assets		
Non current assets:		
Fixed assets	13	64422028.24
Tangible asset	13	1579695.50
Intangible asset	14	8558930.00
Non current investments-long term loan& advances	15	17464712.39
		92025366.13
Current assets:		11577388424
Inventories	16	88927236.40
Trade receivables	17	4274119.75
Cash and bank balance	18	4274119.75
Short term loans & advances	19	16370589.32
Other current assets	20	39567.50
		225385396.97
Total		**317410763.10**

BALANCE SHEET AS AT 31 MARCH 2017

Sources of Funds	**Sch.Nos**	**2017**
Share Holders Fund		
Share capital reserve	3	26480000.00
Surplus	4	48299301.49
Non current liabilities		***74779301.49***
Long term borrowings	5	46732107.11
deferred		3195700.00
	6	8881700.00
Tax liability(net)	7	8335521.00
Other long term liability	8	
Provisions		
		67145028.11
Current liabilities		
Short term borrowings	9	112874425.91
Trade payables	10	60989989.1 0
Other current liabilities	11	34969427.63
Short term provisions	12	1100103.00
Total		**209933945.64**
		351858275.14
Assets		
Non current assets:		
	13	
Fixed assets	13	66222460.89
Tangible asset	14	
Intangible asset		0.00
Non current investments-	15	8821430.00
long term loan& advances		17553075.74
		92596966.63
		120250327.00
Current assets:		
	16	101653719.12
Inventories	17	
Trade receivables	18	24746874.34
Cash and bank balance	19	
Short term loans & advances	20	12579489.55
Other current assets		30898.50
		259261308.51
Total		**351858275.14**

BALANCE SHEET AS AT 31 MARCH 2018

Sources of Funds	**Sch.Nos**	**2018**
<u>Share Holders Fund</u>		
Share capital reserve	3	26480000.00
Surplus	4	50697779.50
		77177779.50
<u>Non current liabilities</u>		
Long term borrowings deferred	5	42895427.65
		2917900.00
	6	8458700.00
Tax liability(net)	7	7619813.00
Other long term liability	8	
Provisions		**61891840.65**
<u>Current liabilities</u>		
Short term borrowings	9	100267089.50
Trade payables	10	61034317.53
Other current liabilities	11	26501326.72
Short term provisions	12	1433714.00
Total		**189236447.75**
		328306067.90
<u>Assets</u>		
Non current assets:		
	13	79229966.89
Fixed assets	13	1398095.18
Tangible asset	14	8821430.00
Intangible asset		2583273.54
Non current investments-long term loan& advances	15	
		92032785.58
Current assets:		106759330.14
	16	99659440.48
Inventories	17	13903355.89
Trade receivables	18	15920257.31
Cash and bank balance	19	30898.50
Short term loans & advances	20	
Other current assets		
		236273282.32
Total		**328306067.90**

BALANCE SHEET AS AT 31 MARCH 2019

Sources of Funds	Sch.Nos	2019
Share Holders Fund		
Share capital reserve	3	26480000.00
Surplus	4	545306.18
		81016066.18
Non current liabilities		
Long term borrowings	5	43301061.35
deferred Tax liability(net)	6	2718000.00
Other long term liability	7	8373700.00
Provisions	8	7581898.36
		62320098.42
Current liabilities		
Short term borrowings	9	60512902.60
Trade payables	10	70720344.89
Other current liabilities	11	36388997.43
Short term provisions	12	1851485.00
Total		**218463723.54**
		361454449.44
Assets		
Non current assets:		
Fixed assets		
Tangible asset	13	81718782.67
Intangible asset	13	1088714.18
Non current investments-	14	8821430.00
long term loan& advances	15	2224500.54
		93853427.39
Current assets:		
Inventories	16	1097411091.00
Trade receivables	17	106768677.87
Cash and bank balance	18	35810994.84
Short term loans & advances	19	15249359.84
Other current assets	20	30898.56
		267601022.05
Total		**36145449.44**

BALANCE SHEET AS AT 31 MARCH 2020

Sources of Funds	**Sch.Nos**	**2020**
<u>Share Holders Fund</u>		
Share capital reserve	3	26480000.00
Surplus	4	60849574.69
		87329574.69
<u>Non current liabilities</u>		
Long term borrowings	5	36095783.57
deferred Tax liability(net)	6	1552400.00
Other long term liability	7	8242700.00
Provisions	8	16429214.85
		62320098.42
<u>Current liabilities</u>		
Short term borrowings	9	60512902.60
Trade payables	10	59203520.38
Other current liabilities	11	37734806.00
Short term provisions	12	10455536.00
		167906765..41
Total		**317556438.52**
<u>Assets</u>		
Non current assets:		
Fixed assets	13	
Tangible asset	13	77046871.82
Intangible asset	14	2201602.39
Non current investments-		8821430.00
long term loan& advances	15	2253570.54
		90323474.75
Current assets:		
Inventories	16	123013595.11
Trade receivables	17	92707814.11
Cash and bank balance	18	4562383.02
Short term loans & advances	19	6893774.53
Other current assets	20	55397.00
		267601022.05
Total		**36145449.44**