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A Study on Working Capital Management in APGENCO Ltd., Muddanoor, Kadapa (D)

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***Abstract:** Working capital management plays a significant role in better performance of business entities. This study analyzes the influence of working capital management on RTPP Ltd. The manufacturing firms are in general facing problems with their collection and payment policies. Moreover, the financial leverage, ratio of current asset to current liability and firm size also have significant effect on the firm's profitability. The effective policies must be formulated for the individual components of working capital. Furthermore, efficient management and financing of working capital (current assets and current liabilities) can increase the operating profitability of manufacturing firms. For efficient working capital management, specialized persons in the fields of finance should be hired by the firms for expert advice on working capital management in the production sector.*

***Keywords:** Working Capital Management, Profitability.*

I. INTRODUCTION

WORKING CAPITAL

If a firm wants to increase its profitability, it must also increase its risk. If it is to decrease risk, it must decrease its profitability. The tradeoff between these variables is that regardless of how the firm increases its profitability through the manipulation of working capital. The consequence is a corresponding increase in risk as measured by the level of working capital.

Working capital in simple terms is the amount of funds which business concerns have to finance its day-to-day operations. It can also be regarded as that proportion of company's total capital which is employed in short-term operations.

CONCEPTS OF WORKING CAPITAL

Working capital can be defined through its two concepts, namely:

(a) Gross working capital (b) Net working capital.

GROSS WORKING CAPITAL

Gross working capital refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year and include cash, short term securities, debtors, (accounts receivable or book debts) bills receivable and stock (inventory).

NET WORKING CAPITAL

Net working capital refers to the difference between current assets and current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year and include creditors (accounts payable), bills payable, and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets.

II. REVIEW OF LITERATURE

1. Bhatt V. V. (1972) widely touches upon a method of appraising working capital finance applications of large manufacturing concerns. It states that similar methods need to be devised for other sectors such as agriculture, trade etc. The author is of the view that banks while providing short-term finance, concentrate their attention on adequacy of security and repayment capacity. On being satisfied with these two criteria they do not generally carry out any detail appraisal of the working of the concerns.

2. Smith Keith V. (1973) believes that Research which concerns shorter range or working capital decision making would appear to have been less productive. The inability of financial managers to plan and control properly the current assets and current

liabilities of their respective firms has been the probable cause of business failure in recent years. Current assets collectively represent the single largest investment for many firms, while current liabilities account for a major part of total financing in many instances. This paper covers eight distinct approaches to working capital management. The first three - aggregate guidelines, constraints set and cost balancing are partial models; two other approaches - probability models and portfolio theory, emphasize future 94 uncertainty and interdepencies while the remaining three approaches - mathematical programming, multiple goals and financial simulation have a wider systematic focus.

III.SCOPE OF THE STUDY

The basis scope of the study is to understand & determine working Capital management adopted by the department. The study also includes an observation of different year's working capital of APGENCO & its financial position.

OBJECTIVES OF THE STUDY

1. To know the efficiency of the company in investing the funds in the current assets to perform the day –to- day operations smoothly.
2. To study the changes in Net working capital position..
3. To evaluate the working capital position and its management in the company through computing and analyzing the financial ratios.

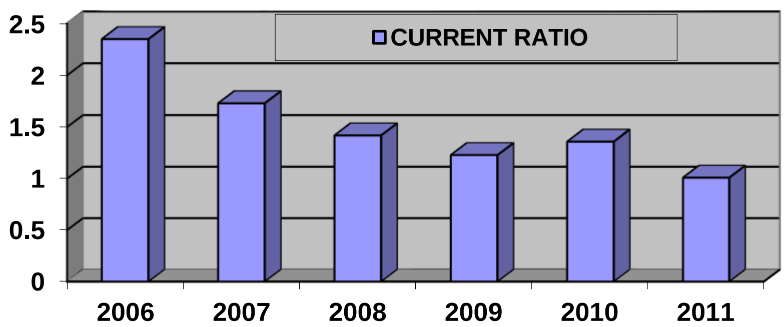
LIQUID RATIOS

Year	Current assets	Current liabilities	Current Ratio
2006	272451.78	115710.51	2.35
2007	260668.92	150181.58	1.73
2008	289357.15	202529.67	1.42
2009	347341.01	274725.41	1.23
2010	413088.46	302356.99	1.36
2011	409947.10	404399.46	1.01

1. Current ratio

The current ratio compares the total current asset with the total current liabilities. A relative high ratio is an indication that the company is having high liquidity position and has the ability to pay its current obligation in time as and when they became due. The current assets include cash, stock, work in progress, marketable securities and accounts receivable. On other hand current liabilities includes account payable, sundry creditors, accrued income taxes, proposed dividends and borrowings from financial institutions.

Current Liabilities



INTERPRETATION

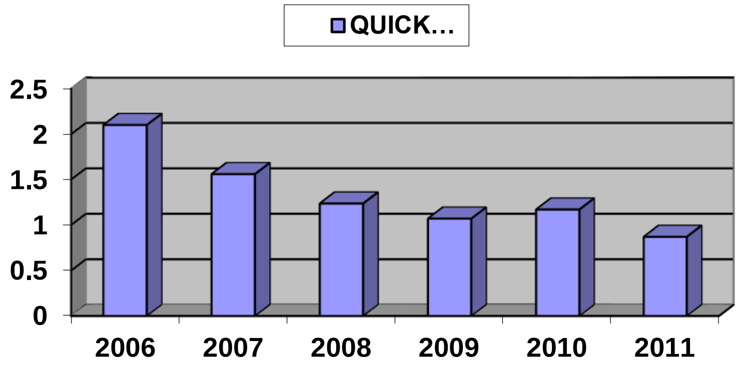
Generally 2:1 is considered ideal for the concern ratio. Current assets should be two times the current liabilities. But this was not ideal for port trust because A.P GENCO is a service oriented organization. From the above table and Chart, it can be known that the current ratio is constantly decreasing from 2006-09. The current ratio increased in the year 2010 and then decreased in 2011.

2 QUICK RATIOS

The quick ratio is calculated by deducting inventories from current assets and dividing the remainder by current liabilities. Inventories are typically the least liquid of a firm's current assets and assets on which losses are most likely to occur in the event of liquidation. Therefore, this measure of the firm's ability to payoff short-term obligations without relying on the scale of inventories is important. The term quick assets refer to current assets, which can be converted into cash immediately or at a short notice without diminution in value. Included in this category of current assets are

Quick ratio Table: V.1.2

Year	Quick Assets	Current Liabilities	Quick Ratio
2006	241139.56	115710.51	2.101
2007	233892.88	150181.58	1.56
2008	249039.63	202529.67	1.236
2009	304246.66	274725.41	1.07
2010	355371.21	302356.99	1.17
2011	353628.27	404399.46	0.87



FINDINGS

- Net working capital ratio has decreased from 0.405 to 0.120 from the year 2006 to 2009 respectively and later in 2009 and 2010 the ratio has increased to 0.120 and 0.192. All the years of Net Working Capital show in the following table.

YEARS	2006	2007	2008	2009	2010
RATIO	0.405	0.280	0.193	0.120	0.192

- Current ratio has increased from 2.37 to 1.28 .From 2006 to 2007, 2008 and 2009 the current ratio has been decreased. The ideal ratio of current ratio 2:1 All the years of Current ratio show in the following table.

YEARS	2006	2007	2008	2009	2010
RATIO	2.37	1.82	1.44	1.28	1.43

- The quick ratio has decreased from 2.10 to 1.12, from 2006 to 2009. From 2009 and 2010 the quick ratio has been increased. All the years of Quick ratio show in the following table.

YEARS	2006	2007	2008	2009	2010
RATIO	2.10	1.64	1.24	1.12	1.23

- The debtor’s turnover ratio has increased from 2006 to 2009. It increased. All the years of debtor s turnover ratio show in the following table.

YEARS	2006	2007	2008	2009	2010
RATIO	1.91	2.31	2.94	3.91	3.01

- Inventory stock turnover ratio has increased from 7.95 to 9.05 in the year 2006 to 2009. next year 2009 to 2010 it is decreased. All the years of inventory stock turnover ratio show in the following table.

YEARS	2006	2007	2008	2009	2010
RATIO	7.95	7.99	7.59	9.05	7.38

- Average collection period from 2006 to 2009, decreased. All the years of Average collection period show in the following table.

YEARS	2006	2007	2008	2009	2010
RATIO	188	158	125	93	121

- The Net profit Ratio is 3.959 in the year 2009. The nest year 4.486 in the year 2010. All the years of Nest profit ratio show in the following table.

YEARS	2006	2007	2008	2009	2010
RATIO	1.621	3.595	4.280	3.959	4.486

- The gross profit ratio has decreased from 2006 to 2009. All the years of gross profit ratio show in the following table.

YEARS	2006	2007	2008	2009	2010
RATIO	47.10	47.50	46.00	40.10	42.2

- Working capital turnover ratio has increased from 2.465 to 8.579 from the year 2006 to 2009, the working capital turnover ratio has been decreased2009 to 2010. All the years of Working capital turnover ratio show in the following table.

YEARS	2006	2007	2008	2009	2010
RATIO	2.465	3.563	5.185	8.579	5.810

- There is a fluctuation in cash ratio of RTPP from 2006 to 2010 continuously. All the years of cash ratio shown in the following table.

YEARS	2006	2007	2008	2009	2010
RATIO	0.0559	0.0059	0.0025	0.0021	0.0019

CONCLUSIONS

The working capital management system followed by *RTPP* shows "adequate working capital" in last three financial years, the study also under takes to establish a cause and effect, relationship between variables to aid the management in making effective forecasts, various crucial areas that need attention were identified and practical suggestions were given to improve performance.

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