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A STUDY ON WORKING CAPITAL MANAGEMENT IN TI CYCLES OF INDIA PVT. LTD.

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1. Introduction

The term working capital is commonly used for the capital required for day-to-day working in a business concern, such as for purchasing raw material, for, meeting day-to-day expenditure on salaries, wages, rents and rates, advertising etc.Definition of Working Capital by Various Experts According to Weston & Brigham- "Working Capital refers to a firm's investment in short term assets, such as cash amounts receivables, Inventories etc." "Working capital means the funds available for day-to-day operations of an enterprise. It also represents the excess of current assets over current liabilities including short-term loans".

1.1 Objective of the study

The study is conducted with reference to The main objective of the study is to have an idea of the practical application of the working capital management whose theoretical aspect is knownP[1-6].

- To determine the managerial aspects of working capital in Tube Investments of India Limited..
- To understand how efficiently the working capital is being managed in TI-India
- To understand the short-term solvency as well as the effectiveness of working capital in the operation of business.

2. Research Methodology

Scope of the study:

The scope of this project work is confined to the Working Capital Management Practices at TI INDIA, the study has been taken to learn in detail the policies and strategies used in maintaining working capital at TI INDIA[7-9].

Research Design:

In view of the objective of the study listed above, a descriptive research design has been adopted. Plan of Analysis**.**The data is collected and analyzed and interpreted with the help of ratios related to working capital. Tables and graphs are prepared to compare the performance of the company from one year to another.
Ratio Analysis: Focuses on working capital policy[10-15], working capital structure and other relevant information.

Limitation of the Study:

1. Time restriction was only two months of project work in the organization.
2. The finding and suggestion cannot be generalized.
3. The study covered a wide concept hence wide collection and coverage of information was not easily.
4. The study is just for 5 years.

Working capital management (amount incrores/rs.)

Particulars	**2010-11**	**2011-12**	**2012-13**
CURRENT ASSETS			
Inventories	387.69	409.51	356.77
Sundry Debtors	373.37	435.85	394.40
Cash and Cash Equivalents	13.64	85.92	33.27
Short term loans and advances*	47.54	49.10	39.42
Gross Working Capital	**840.29**	**980.38**	**23.86**

CURRENT LIABILITIES AND PROVISIONS			
Trade Payables	515.77	550.40	485.41
Other Current Liabilities (+)	47.34	50.92	76.93
Short term Provision	49.48	54.33	43.93
Current Liabilities*(for WC assessment)	**612.59**	**655.65**	**606.27**
Net working capital	**227.70**	**324.73**	**217.59**

Limitation for three years was taken because the old balance sheet was not as per revised Schedule VI and its loans and advances are not classified as short term and long term to make a correct assessment of working capital. Long term advance was ignored while calculating working capital[16-17].

(+) other current liabilities have not included long term borrowings having current maturities but includes sales deferral.

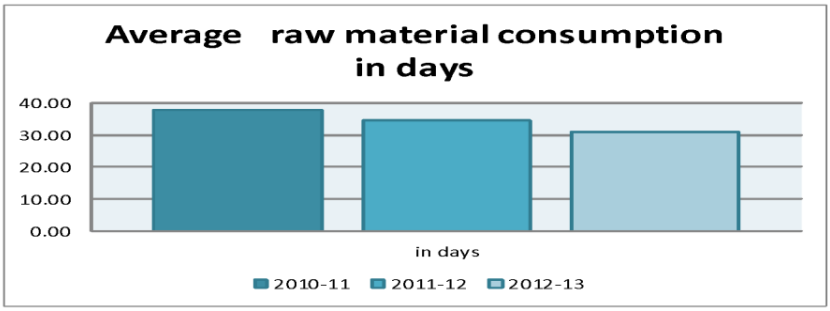
Particulars	**2010-11**	**2011-12**	**2012-13**
Gross Working Capital	**840.29**	**980.38**	**823.86**

Average raw material consumption in days

Particulars	**2010-11**	**2011-12**	**2012-13**
Raw materials consumption	1,704.90	2,013.73	1,945.24
Opening Stock +	153.77	199.34	180.54
Closing Stock +	199.34	180.54	149.48
Average Stock	176.56	189.94	165.01
in times	9.66	10.60	11.79
in days (DSO)	37.80	34.43	30.96

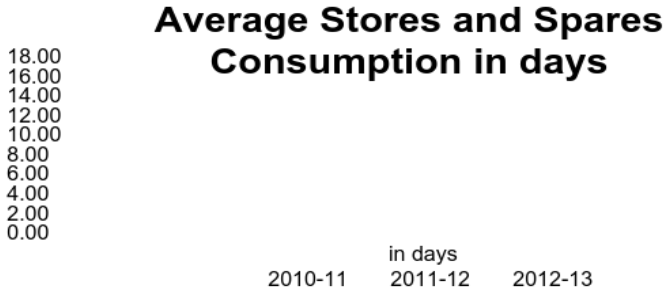
+-Includes goods in transit.

Note: Much detail was not given in relation to finished goods, WIP etc so average goods consumed for total products is taken[18-21]. As the data is taken from the balance sheet it will not contain storage cost in inventories as this was a major thing where management has to **optimize the cost of carry in stores** for efficient working capital management.



Average Stores and spares consumption in days

Particulars	**2010-11**	**2011-12**	**2012-13**
Stores and spares consumption	123.05	144.30	145.72
Opening Stock	3.95	4.16	6.99
Closing Stock	4.16	6.99	5.70
Average Stock	4.06	5.58	6.35
in times	**30.35**	**25.88**	**22.97**
in days	**12.03**	**14.10**	**15.89**



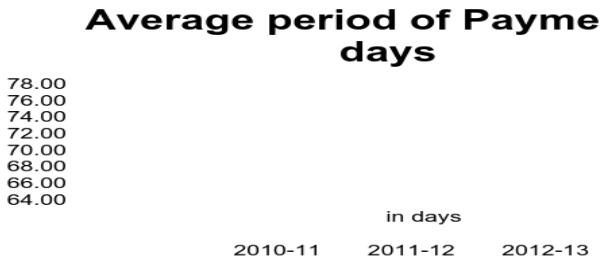
In order of limitation of data available in regards to % of completion of various components of cost like material, labour/Directly apportioned employees and Operating Expenses it was calculated on cost of Production-100%

Average Movement of Finished goods in days

Particulars	**2010-11**	**2011-12**	**2012-13**
Cost of Sales (Finished goods)*	2,413.58	2,891.64	2,931.51
Opening Stock	85.12	91.78	93.82
Closing Stock *	91.78	93.82	97.22
Average Stock	88.45	92.80	95.52
in times	**27.29**	**31.16**	**30.69**
in days	**13.38**	**11.71**	**11.89**
Note In 2010-11 b/s there is no classification of stock in trade or traded goods so 2010-11 above was not accurate calculation			

As the data is taken from balance sheet finished goods in stock will not include administrative overhead and selling overhead and storage cost as per AS-2 so the cost of sales was calculated on same basis if administrative and storage cost is included it will not give a correct picture of movement of stock.

Particulars	**2010-11**	**2011-12**	**2012-13**
Cost of Sales *	166.64	171.67	153.81
Opening Stock	51.55	28.03	42.18
Closing Stock	28.03	42.18	22.44
Average Stock	39.79	35.11	32.31
in times	**4.19**	**4.89**	**4.76**
in days	**87.15**	**74.64**	**76.67**



Cash Management:

Calculation of Cash Conversion Cycle or Operation Cycle

Particulars	**2010-11**	**2011-12**	**2012-13**
Cash Conversion Cycle	130.99	109.81	111.61

Cash conversion cycle - Inventory turnover in days (Rawmaterial consumption + WIP Movement + Finished goods Movement + stock in trade sales movement) + debtors collection period - Creditors Payment periods

Interpretation:

As cash conversion cycle became lesser its operational efficiency in managing the current assets in making earlier conversion for increasing operation performance and profit.

3. Findings

Current ratio is less than 1 about 0.91 in 2012-13 and 2010-11 its states that substantial amount was locked in noncurrent assets, that reduces liquidity of the company. But in the year 2011-12 it is about 1.09. Correct position of the current assets should be 2 of 1 part consists of current liabilities. It is hard for repaying the current liabilities as there was a liquid crunch[22-27].

In order to find the working capital efficiency of the firm it is needed assess the **net working capital turnover ratio** and it is satisfactory

The company follows aggressive financing policy in 2010-11 and 2012-13 so the return in relation to total assets was higher as most of the short term funds are used of financing permanent current assets and seasonal current assets. The % of EBIT to total assets on 2010/11, 11-12 and 12-13 are 12.93, 12.17, and 8.13 respectively. In 2011-12 it follows to moderate financing policy as the ratio short term borrowings to net working capital is 1.04 in 2010-11, 0.83 and 1.37 in 2011-12 and 12-13 respectively as it was more than tandon committee recommendation of financing the working capital. But even with low liquidity the advantage is of getting more profitability and the problem of its liquidity if faces lot of problems in repayment of debts. It is necessary for the company to follow the tradeoff between liquidity and profitability. That will help the company to easy payment of debt and its name among the people sanctioning credit will be worthy and it also achieve in a long run even though it profitability is higher and it increases the shareholders value it will be only for the short run on long run the operation of business will become difficult for getting finance for the operations[28-30].

4. Suggestions

- As the liquidity position is very lower it is hard to sanction finance, but it holds major position of shares in cholamandalam finance it can better use the factoring services if available with the company provided it should not influence its profits by giving lesser rental payments for its services and can reduce the bad debts and making the debt collection period much lesser.
- As it should maintain its liquidity position at least 1:1 rather than investing more amounts of short term borrowings in the long term investments and making it hard for getting the working capital finance from the banks.
- As this company using the system of commercial paper to fund its working capital it was more efficient in working capital management, only thing is to suggest is its liquidity position and using of factoring service if available with subsidiaries or from outsiders will help reducing cash conversion cycles further.
- As the company was diversified in different angles other than cycles like precision so the comparison between only cycles manufactures like hero and atlas wont be a perfect comparison.
- Creditors payment period is good as it purchasing department was doing good in convincing the suppliers for better payments for supplies so there is no suggestion can be made and its policies towards getting credit from the creditors are good.
- It is good of making adequate cash in investment as for earning interest or dividends but as it is not a finance company it mainly dealing with manufacturing it should it affects its liquidity on payment of the creditors and short term borrowings and it will affect the name of the company to get much credit further

5. Conclusion

- As this company using the system of commercial paper to fund its working capital it was more efficient in working capital management, only thing is to suggest is its liquidity position and using of factoring service if available with subsidiaries or from outsiders will help reducing cash conversion cycles further.
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