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A project report on working capital management with the reference to Zuari Cements Limited

(yerraguntla branch)

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ABSTRACT

A study on working capital management of ZUARI CEMENT LIMITED in YERRAGUNTLA. working capital management is concerned with the problem that arises in an attempting to manage the current assets current liabilities and the interrelationship that exists between them. the study is all about the current assets of company that changed in the ordinary course of business from one form to another, as for example, from cash inventories ,investors to receivables, receivables into cash.

Key words:

INTRODUCTION

Capital required for business can be classified under two main categories

1) Fixed capital

2)Working capital

Every firm needs funds for two purposes for its establishment and to carry out its day-to-day operations . Long term funds are required to create production facilities to purchase of fixed assets such as plant, machinery, buildings etc, investments in these assets represent that a part of prompts capital which is blocked on a permanent or fixed basis and is called “fixed capital”. Sansar also needed for short term purpose for the purpose of raw materials payment of wages and other day to day expenses etc., these funds are known as “working capital”.

In simple words working capital refers to that part of the firm’s capital which is required financing short term or current assets such as cash marketable securities debtors and investors.

Funds invested in current assets keep revolving fast and buyer being constantly converted into cash and these cash flow out again in exchange as other current assets. Hence it is also known as “revolving or circulating capital” or “short term capital”.

In WhatsApp subbling, “Working capital is the amount of funds necessary to cover the cost of operating the enterprise”.

Definitions:

“Circulating capital means current assets of company that changed in the ordinary course of business from one to another, as for the example, from inventors, investors to receivables, into cash”.

The “WORKING CAPITAL” is excess of current assets over current liabilities.

-Guthman and Doug

The “WORKING CAPITAL” is an amount of funds necessary to cover the cost of operating the enterprises.

-Shubin

The capital refers to the firm’s investment in shorter current assets and short-term securities accounting receivables and inventory. **-Weston and brig ham**

Working capital management is concerned with the problem that arise in attempting to manage the current liabilities and them interrelationships them arise between them.

CONCEPTS OF WORKING CAPITAL:-

There are two concepts of working capital gross working capital and net working capital the tongue draws working capital also referred to as working capital means the total current assets the term networking capital can be defined into two ways (1) The differences between current assets & current liabilities.

The position of a firm’s current assets which financial with a long term funds the main task of the financial managers in managing working capital efficiently is to ensure sufficient liquidity.

In the operation of the enterprise the liquidity of business firm is measured by its ability to satisfy short term obligations as they become due. The 3 basic measures of from overall liquidity are

1.The current ratio

2.The acid test ratio

3.Net working capital ratio

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 NWC helps in comparing liquidity of the same from

overtime. In other words, the goal of NWC is to management the current assets and current liabilities in such a way that an acceptable level of NWC is maintained.

The GWC concept is financial or going concern concept, whereas NWC concept is an accounting concept of working capital . There are 2 concepts of working capital are not exclusive, rather both have their own merits. The gross working capital concept is sometimes referred to the concept of working capital for the following reasons.

1. It enables the enterprise to provide correct amount of working capital at the right time.

2. Every management is more interested in the total current assets with which it has to Operate than in the sources from where it is made available.

3. The 'gross' concept takes into consideration the fact that every increase in the funds of The enterprise would increase its working capital.

4.the 'gross' concept of working capital is more useful in deterring of return on Investments in working capital.

The networking capital concept however is also important for the following reasons.

1.It is a qualitative concept which indicates the firm's ability to meet its operating expenses And a short-term liabilities.

2.it indicates the martin of protection available to the short-term creditors i.e., the excess of Current assets over current liabilities.

3.It is an indicator of the financial soundness of an enterprise.

4.It suggests the need for financing a part of the working capital requirements out of the Permanent sources of fund.

To conclude it may be said that both gross and networking capital concepts of working capital are important aspects of working capital management.

LITERATURE OF REVIEW:-

Deloof(2003) Discussed that most firms had a large amount of cash invested in working capital. It can therefore be expected that the way in which working capital is managed will have a significant impact on profitability of those firms. Using correlation and regression tests hr found a significant negative relationship between gross operating income and the number of day's accounts receivable, inventories and

payable. On the basis of these results, he suggested that many managers could create value for their shareholders by reducing the number of days accounts receivable and inventories to a reasonable minimum. The negative relationship between accounts payable and profitability is consistent with the view that profitable firms wait longer to pay their bills.

Ghosh and Maji (2003) For measuring the efficiency of working capital management, performance, utilisation, and overall efficiency indices were calculated instead of using some common working capital management ratios. Setting industry norms as target efficiency levels of the individual firms, this paper also tested the speed of achieving the target level of efficiency by an individual firm during the period of study.

Elielly (2004) Elucidated that efficient liquidity management involves planning and controlling current assets and current liabilities in such a manner that eliminates the risk of inability to meet due short-term obligations and avoids excessive investments in these assets. The relation between profitability and liquidity was examined, as measured by current ratio and cash gap (cash conversion cycle). The study found that the cash conversion cycle was of importance as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have a significant effect on profitability at the industry level. The results were stable and had important implications for liquidity management in various companies. First, it was clear that there was a negative relationship between profitability and liquidity indicators such as, current ratio, Quick ratio and ABSLR, Gross profit ratio etc.,

Smith and Begemann (1997) emphasised that those who promoted working capital theory shared that profitability and liquidity comprised silent goals of working capital management. The problem arises because the maximization of funds returns could seriously threaten its liquidity, and the pursuit of liquidity had a tendency to delete returns. India Cements evaluated the association between traditional and alternative working capital measures and return on investment (ROI). The problem under investigation was to establish whether the most recently developed alternative working capital concept showed improved association with return on investment to that of traditional working capital ratios or not. Results indicated that there were no significant differences amongst the years with respect to the independent variables. The results of their stepwise regression corroborated that the total current liabilities divided by funds flow accounted for most of the variable in return-on-investment ROI. The statistical test results showed that traditional working leverage ratio (current liabilities divided by funds flow) displayed the greatest associations with return on investment. Well-known liquidity concepts such as the current and quick ratios registered as significant.

Brigham and Houston (2009) Working capital management concepts help in finding the optimum level of inventories, cash and debtors, also financing this level at the lowest possible cost through current liabilities to meet the companies' daily needs.

OBJECTIVES OF THE STUDY:-

- ❖ To study the position of working capital of the company.

- ❖ To find the financial performance of the company with the reference to its changing working capital.
- ❖ To maximize the operational efficiency.
- ❖ It helps to take decisions and day-to-day fund requirements.

IMPORTANCE OF ADEQUATE WORKING CAPITAL:-

Working capital is the life blood never a centre of a business. Working capital is very essential to maintain the smooth running of a business. The main advantages of maintaining adequate amount of working capital.

- 1.SOLVENCY OF BUSINESS:- By providing uninterrupted flow of production.
- 2.GOOD WILL:- By making prompt payments.
- 3.EASY LOANS:- Hi solvency and a good credit standing can arrange loans from banks and other on easy and favourable terms.
- 4.CASH DISCOUNT:- By getting cash discounts on purchases, it can reduce cost.
- 5.Regular supply of raw materials.
- 6.Regular payments of salaries, Wages and other day to day commitments.
- 7.Exploitation of favourable market conditions.
- 8.Ability to faces crises.
- 9.Quick and regular return on investments.
- 10.High morale.

RESEARCH METHODOLOGY OF THE STUDY

The study is descriptive in nature and this attempt is made to evaluate the performance of the company through the financial data which are disclosed in accounting policies.

3.4 METHODOLOGY OF THE STUDY

- Research design : Analytical Design
- Sources of data : Secondary data
- Secondary Data : Company annual reports, company websites, internet.
- Duration of study : 5Years Balance Sheet on 2018-2019 to 2022-2023.

3.5 LIMITATIONS OF THE STUDY

To study has its own limitations and the study is also not an exception for this. The study is based on the company's annual report and directors report hence it is only a post mortem of the financial statement.

- The period of the study is limited to 5 years that is 2018-19 TO2022-2023.
- The value of inventory is based on the book value it doesn't consider the effect of inflation, obsolescence, ext..., under this cause the value to increase or decrease.
- Mainly secondary data where used. Limitation of secondary data too high.

DATA ANALYSIS AND INTERPRETATION

Order to extract a meaningful inference from data collected, the data analysis and introduction is carried out. This analysis is basically aimed at ginning inference association of differences between the various variables present in the research. The analysis is conducted by using simple tools like ratio analysis and schedule of changes in working capital of "ZUARI CEMENT LIMITED".

Statement of changes in working capital of zuari cements in the year 2019–2020:

Statement of schedule changes in working capital from 2019–2020				
Particulars	2019	2020	Increases	Decreases
current assets				
Current investment	7, 00, 00, 000. 98	6, 00, 00, 000. 16	–	1, 00, 00, 000. 82
Inventories	1, 01, 65, 000. 38	1, 02, 70, 000. 76	1, 05, 000. 43	–
Trade receivables	1, 00, 40, 000. 32	1, 00, 60, 000. 89	20, 000. 57	–
Cash and cash Equivalents	4, 05, 00, 000. 26	9, 00, 70, 000. 32	4, 95, 70, 000. 06	–
Short term loans And advances	1, 00, 70, 000. 96	2, 00, 10, 000. 39	99, 39, 999. 43	–
Other current assets	2, 07, 00, 000. 66	1, 59, 00, 000. 40	–	–
Total current Assets (A)	16, 14, 75, 003. 50	20, 63, 10, 002. 90		
Current liabilities				
Short term borrowings	3, 00, 90, 000. 39	3, 04, 00, 000. 07	–	3, 09, 999. 75
Trade payables	3, 09, 60, 000. 46	4, 08, 60, 000. 86	–	99, 00, 000. 40
Other current liabilities	4, 02, 00, 000. 33	5, 01, 60, 000. 35	–	99, 60, 000. 02
Short term provisions	2, 00, 60, 000. 86	1, 00, 60, 000. 97	99, 99, 999. 89	–
Total current Liabilities (A)	12, 13, 10, 002	13, 14, 80, 002. 25		
Total working Capital (A–B)	4, 01, 65, 001. 50	7, 48, 30, 000. 65		
Net increases in Working capital	3, 46, 64, 999. 13			
Total net working Capital	7, 48, 30, 000. 65	7, 48, 30, 000. 65	6, 96, 35, 000. 38	6, 96, 35, 000. 38

Statement of changes in working capital of zuari cements in the year 2020–2021:

Statement of schedule changes in working capital 2020-2019

Particulars	2020	2021	Increases	Decreases
Current assets				
Current investments	6,00,00,000.16	2,50,00,000.19	-	3,49,99,999.97
Inventories	1,02,70,000.76	1,23,00,000.07	20,29,999.31	-
Trade receivables	10,06,00,000.89	9,10,00,000.12	8,09,39,999.23	-
Cash and cash equivalents	9,00,70,000.32	1,48,00,000.67	-	7,52,70,000.32
Short term loans and advances	2,00,10,000.39	1,80,00,000.95	-	20,09,999.44
Other current assets	1,59,00,000.40	1,74,00,000.42	15,00,000.02	-
Total current Assets (A)	20,63,10,002.90	17,85,00,002.40		
Current liabilities				
Short term borrowings	3,04,00,000.07	3,58,00,000.22	-	54,00,000.15
Trade payables	4,08,60,000.86	3,70,00,000.09	38,60,000.77	
Other current liabilities	5,01,60,000.35	5,60,00,000.38	-	58,40,000.03
Short term provisions	1,00,60,000.97	1,70,00,000.21	-	69,39,999.24
Total current Liabilities (B)	14,58,00,001	1,56,80,001.40		
Total working capital (A-B)	6,05,10,002.10	16,28,20,001.20		
Net increases in working capital	5,71,13,000.18			5,71,13,000.18
Total net working capital	16,28,20,001.20	16,28,20,001.20	8,83,29,999.23	8,83,29,999.23

Statement of schedule changes in working capital from 2021-2022

particulars	2021	2022	Increase	Decrease
Current assets				
Current investments	2, 50, 00, 000. 19	1, 50, 00, 000. 96	-	99, 99, 999. 23
Inventories	1, 23, 00, 000. 12	1, 25, 00, 000. 86	2, 80, 000. 79	
Trade receivables	9, 10, 00, 000. 12	7, 20, 00, 000. 59	-	1, 89, 99, 999. 53
Cash and cash equivalents	1, 48, 00, 000. 67	3, 23, 00, 000. 45	1, 74, 99, 999. 78	-
Short term loans and advances	1, 80, 00, 000. 95	8, 40, 00, 000. 06	6, 59, 99, 999. 11	-
Other current assets	1, 74, 00, 000. 42	1, 64, 00, 000. 70	-	9, 99, 999. 72
Total current Assets (A)	17, 85, 00, 002. 40	23, 22, 80, 003. 70		
Current liabilities				
Short term borrowings	3, 58, 00, 000. 22	7, 28, 00, 000. 06	-	3, 69, 99, 999. 84
Trade payables	3, 70, 00, 000. 09	3, 45, 00, 000. 20	24, 99, 999. 89	
Other current liabilities	5, 60, 00, 000. 38	3, 35, 00, 000. 38	2, 25, 00, 000	-
Short term provision	1, 70, 00, 000. 21	1, 60, 00, 000. 73	9, 99, 999. 48	-
Total current Liabilities (B)	14, 58, 00, 001. 40	1, 56, 80, 001. 40		
Total working capital (A-B)	3, 27, 00, 001. 60			
Net increase in Working capital	4, 27, 00, 000. 78			4, 27, 00, 000. 78
Total net working capital	7, 54, 80, 002. 30	7, 54, 80, 002. 30	10, 97, 79, 999. 10	10, 97, 79, 999. 10

Statement of schedule changes in working capital from 2022-

2023

Particulars	2022	2023	Increase	Decrease
current assets				
Current investments	1, 50, 00, 000. 96	1, 10, 00, 000. 93	-	40, 00, 000. 30
Inventories	1, 25, 80, 000. 86	1, 10, 00, 000. 47	-	15, 80, 000. 39
Trade receivables	7, 20, 00, 000. 59	8, 00, 00, 000. 87	79, 99, 999. 41	-
Cash and cash equivalents	3, 23, 00, 000. 45	6, 26, 00, 000. 87	3, 03, 00, 000. 42	-
Short term loans And advances	8, 40, 00, 000. 06	4, 42, 00, 000. 63	-	3, 97, 99, 999. 43
Other current assets	1, 64, 00, 000. 70	1, 55, 00, 000. 43	-	9, 00, 000. 27
Total current Assets (A)	23, 22, 80, 003. 00	22, 43, 00, 003. 30		
Current liabilities				
Short term borrowings	7, 28, 00, 000. 06	8, 46, 00, 000. 13	-	1, 18, 00, 000. 07
Trade payables	3, 45, 00, 000. 20	2, 50, 00, 000. 18	95, 00, 000. 02	-
Other current liabilities	3, 35, 00, 000. 38	4, 99, 00, 000. 44	-	1, 64, 00, 000. 06
Short term provisions	1, 60, 00, 000. 73	5, 00, 00, 000. 23	-	3, 39, 99, 999. 50
Total current Liabilities (B)	15, 68, 00, 001	20, 95, 00, 001. 00		
Total working Capital (A-B)	7, 54, 80, 002. 30	1, 48, 00, 002. 30		
Net decrease in Working capital		6, 06, 79, 999. 95	6, 06, 79, 999. 95	
Total net working capital	7, 54, 80, 002. 25	7, 54, 80, 002. 25	10, 84, 79, 999. 80	10, 84, 79, 999. 80

Conclusion: A study is made on the Working Capital Management for the ZUARI CEMENT LIMITED.,yerraguntla . The effective utilization of working capital was analysed and it brought into light the various problems faced by the company. The factory limited is on a compulsion to increase , its working capital in order to improve its sales.

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