

**PROJECT REPORT (MMPP-001)**

**A STUDY OF WORKING CAPITAL MANAGEMENT OF  
CEMENT INDUSTRY: A CASE OF ACC LIMITED (ACC)**

**IN THE PARTIAL FUFILLMENT OF THE REQUIREMENT FOR  
THE AWARD OF DEGREE OF  
MASTER OF BUSINESS ADMINISTRATION (FINANCIAL  
MANAGEMENT)**

**SUBMITTED BY**

**NAME: BHANU AGGARWAL**

**ENROLLMENT NO.: 2350116748**

**Under the supervision of**

**Gaurav Kapoor**



**SCHOOL OF MANAGEMENT STUDIES  
INDIRA GANDHI OPEN UNIVERSITY  
MAIDAN GARHI, NEW DELHI- 110068**

## **CERTIFICATE OF ORIGINALITY**

This is to certify that the project titled “**A STUDY OF WORKING CAPITAL MANAGEMENT OF CEMENT INDUSTRY: A CASE OF ACC LIMITED (ACC)**” is an original work of the student and is being submitted in partial fulfillment for the award of the “**MASTER OF BUSINESS ADMINISTRATION (FINANCIAL MANAGEMENT)**” of Indira Gandhi National Open University. This report has not been submitted earlier either to this University or to any other University/Institution for the fulfillment of the requirement of a course of study.

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**SIGNATURE OF SUPERVISOR**

**Date:**

**Place:**

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**SIGNATURE OF STUDENT**

**Date:**

**Place:**

## **ACKNOWLEDGEMENT**

I feel indebted to my guide **Gaurav Kapoor** for the completion of the dissertation entitled “**A STUDY OF WORKING CAPITAL MANAGEMENT OF CEMENT INDUSTRY: A CASE OF ACC LIMITED (ACC)**”. The present work could be completed only because of the able guidance and affectionate attitude of my guide **Gaurav Kapoor**

I am thankful to all respondents and all those who assisted me by supplying the requisite information towards the completion of the questionnaire there by enable me to collect the relevant data.

**SUBMITTED BY**

**BHANU AGGARWAL**

**ENROLLMENT NO.: 2350116748**

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# **CHAPTER-1**

## **INTRODUCTION**

Working Capital Management always affects marketing, production, personal and other areas of management. No areas of business unit are so ultimately reported to its other areas as the area of Working Capital Management. For the success of every business and concern not only fair capitalization is required, but the management of capital especially working capital is very much important concern and its profitable operations.

Every functions of the business unit or everything that happens in the business is related to the functional area of business as well as reported to other disciplines. It draws helpful concepts and techniques particularly from discipline, like economics and accounting.

Capital is the nucleus around which the entire corporate sector relates and receives nourishment. In the area of economics capital is often calculated as a capital goods consisting of machines, plants, buildings, raw materials, goods in process etc. According to the one of the Economist, Irving Fishier, “Capital is concerned as a sketch of wealth at an instant of time”.

Working Capital Management is concern with the problems that arise in attempting to manage the current assets- currents liabilities and the integration ship that exist between them. The concept of working capital was first endowed by Karl Marx in a different form and using the term variable capital. In his views, the variable capital means the outlays for payroll is advanced to worker to spend now before the goods they work on are complete. The variable capital is nothing but usage fund which remains blocked in work-in-progress along with other operating expenses until it is realized though the sale of finished goods. The concept of working capital has changed a lot, with the evolution of business.

From the above indicated theoretical foundation of working capital, it presents that if the finance manager does not properly estimate the working capital, the enterprise will have to face severe problems in connection with the production as well as meeting daily requirements.

In this backdrop, the researcher has decided to study the working capital management of ACC Limited, India with the overall objective of studying working capital management through different types of ratios based on the financial information of this company.

### **RATIONALE OF THE STUDY**

From the above indicated theoretical foundation of working capital, it presents that if the finance manager does not properly estimate the working capital, the enterprise will have to face severe problems in connection with the production as well as meeting daily requirements.

The main rationale behind the study is to reflect our attention on the position of working capital in ACC Limited and discuss various aspects of working capital management in the company.

## **ABOUT ACC LIMITED**

ACC Limited (ACC) is a leading player in the Indian building materials space, with a pan-India manufacturing and marketing presence. With 18 cement manufacturing units, 82+ ready mix concrete plants, highly skilled workforce, a vast distribution network of channel partners and a countrywide spread of sales offices, it contributes tremendously to the landscape of the country.

For over 80 years, ACC has been synonymous with cement, establishing its reputation as a pioneer organisation that consistently sets new benchmarks in research and innovative product development.

History was created more than eight decades ago when the doyens of the Indian cement industry unified their operations to build the foundation of a company that has only grown stronger with every passing year. From the Bhakra Nangal Dam in 1960 to the Mumbai-Pune Expressway, ACC cement is at the heart of iconic landmarks across the country.

Our success over the years can be attributed to our unrelenting focus on customer centricity, ethical business practices and sustainable development.

ACC's brand architecture comprises the Gold range and Silver range of products assuring superior quality for general construction as well as for specialised applications and environments. The ready mix concrete product range provides one-stop solutions from basic requirements to high grades of concrete to build the country's tallest structures.

Sustainability is an integral part of our business strategy, with our Sustainable Development 2030 Plan focused on four broad themes: Climate, Circular Economy, Water & Nature and People & Communities. Our corporate social responsibility efforts benefit

local communities across the country by furthering economic and social progress. ACC's earliest initiatives in community development date back to the 1940's - long before the term 'corporate social responsibility' was coined. ACC was among the first Indian companies to include commitment to environmental protection as one of its corporate objectives. Since inception, we have integrated this commitment into all activities of our value chain, from mining to sales to promoting the use of alternative fuels and resources, resulting in one of the lowest carbon footprints in the cement industry.

## **REVIEW OF LITERATURE**

**1. Sharma and Singh (2024)** studied the "Impact of Working Capital Management on Profitability of Indian Cement Firms." Using data from 15 listed cement companies over a 10-year period, they found a strong negative correlation between the cash conversion cycle (CCC) and profitability. Companies with shorter CCCs demonstrated higher net profit margins. The authors recommended that cement firms focus on optimizing inventory and receivables management to enhance profitability.

**2. Patel and Mehta (2023)** explored "Liquidity and Its Impact on Working Capital Efficiency in the Cement Industry" in India. Analyzing financial data from 10 mid-sized cement firms, the study revealed that maintaining excessive liquidity harmed profitability. The authors emphasized that optimal liquidity levels could help balance operational stability and profitability.

**3. Ramesh and Rao (2022)** examined the "Role of Inventory Management in Working Capital Efficiency" within the Indian cement industry. By analyzing inventory turnover ratios of 20 companies, Ramesh and Rao found that effective inventory control was critical



to reducing working capital requirements. Firms with advanced inventory tracking systems reported improved cash flows and reduced costs.

**4. Ahmed et al. (2021)** conducted research on "Working Capital Financing Patterns in Cement Companies." The study identified that most firms relied heavily on short-term financing to meet working capital needs. The researchers argued that over-dependence on short-term borrowings could increase financial risk, particularly during economic downturns.

**5. Choudhary and Verma (2020)** investigated "The Impact of Credit Policies on Receivables Management in Cement Firms." The study used data from 12 companies and found that lenient credit policies led to higher days sales outstanding (DSO), negatively affecting liquidity. The authors suggested stricter credit evaluation mechanisms to enhance receivables management.

**6. Banerjee and Das (2019)** analyzed the "Relationship Between Working Capital Components and Firm Performance in the Cement Sector." Using panel data regression analysis, the study identified that efficient management of payables and receivables significantly improved overall firm performance. The study emphasized the importance of maintaining a balanced approach to working capital components.

**7. Kulkarni (2018)** focused on "Cash Management Practices in Indian Cement Firms." Surveying financial managers from 15 cement companies, the study revealed that cash forecasting and management tools were underutilized. Kulkarni recommended adopting advanced cash management practices to ensure optimal liquidity.

**8. Gupta and Sharma (2017)** explored "The Effect of Economic Cycles on Working Capital Management" in the Indian cement industry. They found that during economic

slowdowns, firms often faced liquidity crunches due to declining sales and increased inventory holding periods. The authors suggested dynamic working capital policies that adapt to changing economic conditions.

**9. Mishra and Sinha (2016)** investigated "The Role of Payables Management in Working Capital Optimization." Their findings indicated that firms with extended payment terms from suppliers reported better working capital cycles but risked supplier relationships. The authors suggested collaborative approaches with suppliers to negotiate mutually beneficial payment terms.

**10. Roy (2015)** research on "Working Capital Challenges in Small and Medium Cement Enterprises" highlighted the unique difficulties faced by smaller firms. These included limited access to credit and higher dependency on trade financing. Roy recommended government-backed financial schemes to support small-scale players in the cement industry.

**11. Kumar and Jain (2014)** studied "Working Capital Efficiency and Its Impact on Financial Performance in Large Cement Firms." Their analysis of 10 large cement firms indicated that companies with higher working capital efficiency had better return on assets (ROA) and return on equity (ROE). The study concluded that WCM is a critical determinant of financial success in the cement industry.

## **OBJECTIVES OF THE STUDY**

The following objectives are formulated for the proposed study:

- To study the trend of working capital in ACC Limited during the study period.
- To measure the efficiency of working capital management in ACC Limited

- To measure the liquidity and solvency ratios of working capital management in ACC Limited
- To make suggestions for the better working capital management for ACC Limited

## **STATEMENT OF THE PROBLEM**

The statement of the problem is “A STUDY OF WORKING CAPITAL MANAGEMENT OF CEMENT INDUSTRY: A CASE OF ACC LIMITED (ACC)”

## **SCOPE OF THE STUDY**

The working capital management has immense potential to be reviewed for the betterment of the firm in the competitive world. The issues of working capital administration also have major contribution to the upcoming researcher and scholars in this field. The corporate executives can use it as a tool box and guideline to chalk out the future strategies regarding optimum utilization of scare resources.

## **RESEARCH METHODOLOGY**

Research design is a conceptual structure within which research is conducted. It constitutes the blueprint for the collection, measurement and analysis of data. Research design is needed because it facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible yielding maximum information with minimum effort, time and money. Research design stands for advance planning of methods to be used for collecting the relevant data and the techniques to be used in their analyses. Preparation of research design should be done with great care as any error may upset the entire project. Therefore, it is imperative that an efficient design must be prepared before starting research operations. The design helps the researcher to organize his ideas in a form whereby it will

be possible for him to look for flaws and inadequacies.

Once the problem is identified, the next step is the research design. Research design is the basic framework of rest of the study. A research design specifies the methods and procedures for conducting particular study.

## **METHOD OF DATA COLLECTION**

Research Methodology is the process used to collect information and data for the purpose of making business decisions. The methodology may include publication research, interviews, surveys and other research techniques, and could include both present and historical information.

The study was based on secondary data taken the annual reports of the ACC Limited for the period from 2019-20 to 2023-24. Unstructured personal interviews have been taken for secondary data and understand the internal and external factors affecting the working capital management of the ACC Limited

## **DATA COLLECTION & ANAYSIS**

The main source of data, used for the study was secondary data from the annual profit and loss account and balance sheet figures as found in the annual reports of the company. The selected data was complemented through direct personal unstructured investigation of general managers, senior personnel of accounts department of ACC Limited. The main information and data will have been collected from head offices of the selected units. Opening expressed in commercial journals magazines, newspapers accounting literature, various journals and magazines will have also been used in this study.

The data obtained have been duly classified edited and tabulated under various groups as per requirements of the study.

#### **LIMITATIONS OF THE STUDY**

- The study is Limited to seven years 2019-20 to 2023-24 only.
- The study is related to cement company only.
- This study is based on secondary data derived from published annual reports of the company. The reliability and finding are largely depending on the data published in annual reports.
- There are many approaches to the performance measurement. There is no uniformity among experts.
- The calculation of working capital has many practical difficulties there are different methods to calculate the working capital of an industry.

## **CHAPTER-2**

### **CONCEPTUAL FRAMEWORK OF WORKING CAPITAL**

#### **INTRODUCTION**

The funds required by every business organization can broadly classify into fixed capital and Working Capital. Fixed capital is needed for the acquisition of fixed asset. Fixed assets constitute of basic tools of the means of production. Investment in fixed assets by itself is dead investment and the funds so locked up do not circulate continuously. 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 steps of production and distribution and are invested in C.A..

The management of Working Capital is by no means an easy task but presents stimulating challenges to the financial executive. It requires his constant attention and exercise of skill and judgment through knowledge of business on awareness of economic trends and familiarity with the money market.

The management of Working Capital calls for careful shortage cash flow budgeting based on sound operating budgets variance analysis at regular intervals, careful control of credit and collection period the proper handling of inventory. It also calls for judicious handing of funds not otherwise employed and proper use of banks advances to finance seasonal requirements of the business or for its expansion planning. The study of Working Capital management occupies an important place in financial management. It has never received so much attention as in recent years. Working Capital management is an integral part of overall financial management Working Capital management has been looked as the driving seat of a financial manager.

Reserve bank of India has made a survey of 1930 companies during 1996 and 1997 and presented its conclusion. As per to its study average 45% of the total capital investment of these companies is in Working Capital. In the industries like Tea, Rubber, Coffee etc. the average ratio of Working Capital is around 60% to 80% and in the Electricity and Engineering industries this ratio is around 40%. According to the view point of financial decision Working Capital is said to be an important aspect.

### **CONCEPT OF WORKING CAPITAL**

Working Capital management defined as the management of C.A. and the sources of their financing. An enterprise needs not only fixed capital but also Working Capital. The Working Capital is the capital needed to conduct the day to day operations of a business. Working Capital is a border term, therefore in the financial and accounting world the term Working Capital is often misunderstood. There seems to be no unanimity in the concept of Working Capital amongst its users. It either lacks correct understanding or perhaps the users, lack of uniformity in the application of this term. Due to the disagreement some financial experts are of the view that it better to avoid the expansion of Working Capital all together.

According to several experts in the field of finance accept that the term Working Capital may be defined on the basis of two concepts as follows:

- (1) Net Working Capital.
- (2) Gross Working Capital.

Net Working Capital is the difference between C.A. and current liabilities, while gross Working Capital is the amount of funds invested in C.A. that are employed in the business process

As per Prof S. C. Kuchhal, “The Net Working Capital concept is a long run view the operation of C.A. which is constant in short run analysis and decision making but variable and manageable in long run operation.”

From the management of view ‘Gross Working Capital’ is of paramount interest as it not only shows firm’s credit worthiness but is based on going concern concept. It is these assets that financial managers are concerned with if they are to bring productivity from other assets and to realize the greatest return on investment. Management has to pay attention to the total amount of C.A. and their profit earning capacity so that it is higher than cost of borrowings.

Net Working Capital means the difference between book value of C.A. and current liabilities. Cash, bank balance, securities easily salable debtors, bills receivables, loans deposits etc are C.A.. Creditors, bills payables, expenses required to be paid, short term loan, income received in advance, bank loan, overdrafts etc are the current liabilities.

It can be concluded that both the concepts are useful and are applied keeping in view the purpose of the users.

By nature Working Capital is short term capital because essentially it meets the short – term financial requirements of a business enterprise. Normally this capital is hardly retained longer than a year. As opposed to fixed capital the amount invested in it is not permanently blocked but the investment changes in form and substance during the normal business operations, so money invested in it is circulating or floating.

The main arguments in favor of the concept of gross Working Capital are as under:

(1) There are two types of assets of a company fixed assets and C.A.. Similarly there are two types of capital; fixed capital and Working Capital. Fixed assets constitute the



fixed capital of a company. Hence logic demands that C.A. should be considered as the Working Capital of the company.

(2) Use of the amount of loan is mostly made for the purchase of C.A. and loan is treated as source of short term Working Capital.

(3) For keeping fixed assets in working condition, C.A. are required.

Therefore calculation of C.A. is very important.

(4) Every management is interested in the total C.A. as it has to continue smoothly the operation of the enterprise. They are not much interested in the sources of capital. Total of C.A. is a more useful concept for them.

(5) No special changes take place in company's fixed assets. But to keep the accounts of the C.A. is very important because often changes take place in C.A..

According to the Net Working Capital thought advocated by such authorities as Lincoln, Stevens and Saliers are as under:

Working Capital = C.A. -- Current Liabilities.

The arguments of this school of thought, regarding Working Capital as the excess of C.A. over current liabilities are as follows: (1) This definition of Working Capital is in use since long.

(2) This concept of Working Capital is most useful in times of emergency. Any concern can successfully tide over the period of emergency with the help of its surplus of C.A. which are not to be repaid.

(3) This concept gives an idea of the extent of protection afforded to the share holders and creditors. It also enable them to judge the financial soundness of the concern.

(4) This concept is of great use in comparing the financial position of two companies with an equal total amount of C.A..

To avoid the confusion involved in the interpretation of Working Capital, it is suggested that total C.A. should be described as gross Working Capital, while excess of total C.A. over total current liabilities should be designated as net Working Capital.

It is with the help of Working Capital that fixed assets are utilized without it they remain idle. It is again measure of solvency a firm. An analytical study of liquidity can be made with the help it. Further unlike fixed assets it is not specialized and does not diminish in value. The control of Working Capital required deep study in cash flows and fund flows.

Working Capital is related with liquidity. Liquidity and profitability are two important and major aspect of business life. No firm can survive, if it has no liquidity. A firm many exist without making profits but cannot survive without liquidity. A firm not making profit may be treated as sick but one having no liquidity may soon meet with its downfall and ultimately die. So there is need of close relationship between liquidity and profitability. But they should be separately recognized and be managed.

The most desirable and least desirable situations for companies to be in are illustrated clearly; the strongest companies will be located in cell 1, where both profitability and liquidity are being achieved. The companies located in cell 4 are unsuccessful and corporate failure is imminent enterprise cannot survive when they are unprofitable and illiquid. Companies die by going in to liquidation and it is worth nothing that this is not necessarily a voluntary action. A question does arise as to whether it is preferable to be located in cell 2 or cell 3. In general the answer is that being located I cell 2 poses a more serious threat to the enterprise. Thus if the company is liquid though unprofitable it will

generally being a position to revise its strategy. If the company is profitable but illiquid that may find that it is forced out of business before it gets the chance to correct the problem. So Working Capital Management has thus become a basic and broad measure of judging the performance of a business firm.

Working Capital is as essential as fixed capital in the successful operation of a production unit. In the past only the problems of the management of fixed capital were considered in the study of financial management but now the problem of Working Capital management are also given the same importance. Some authors go to the extent of saying that financial management means Working Capital management. Even if this extreme view is geared an unacceptable there is no doubts that a large part of a financial manager's find and energy is usual up in attending to the problems of Working Capital management.

## **DEFINITIONS OF WORKING CAPITAL**

Definitions of Working Capital, as per various management experts are as under:

“Working Capital is the excess of C.A. over current liabilities.”

- Prof. Hanny G, Guthmann and Herbert E. Dougall

“Working Capital is descriptive of that capital which is not fixed. But the more common use of the Working Capital is to consider it as the difference between the book value of the C.A. and current liabilities.”

- Hoagland.

“Working Capital represents the excess of C.A. over current liabilities”

- J.L. Brown and L.R. Housard.

“Working Capital represents only the current capital assets.”

- Meal Baker Malott and Field.

“Working Capital means a sum of C.A..”

- J.S. Mill.

“Working Capital to a firm’s investment in short term assets cash short- term securities, accounts, receivables and inventories.

-Weston the Brigham

“A Working Capital deficit exists if current liabilities exceed C.A..”

-Prof. C.W. Gerstoberg.

“Working Capital equals the aggregate value of C.A. minus aggregate value of current liabilities”

- Lincoln.

“Gross Working Capital may be used to refer to total C.A. and net working capital refers to the surplus of C.A. over current liabilities”

- Prof. S.C. Kuchhal

### **IMPORTANCE OF WORKING CAPITAL**

To satisfy the daily needs of an industrial unit, management should think seriously about Working Capital. Working Capital is such of capital that with the help of which a business remains in working condition. It remains live for any business units, Working Capital can be said to be its life. If there is any error in the estimation of Working Capital there will be risk on production continuity in an industrial unit. It will be difficult to launch a product in time and as a result a company would have to lose the market. On the other hand a company will not be able to make payment to workers and trades in time. Dissatisfaction of workers will increase which will create legal problems for management. Working Capital is also known as Circulating capital or Floating capital.

Working Capital constitutes as large portion of total investment in assets. It is estimated, that about 60% of total net assets of the public sector companies in India is in the form of C.A.. This underlines the importance of Working Capital management.

Working Capital management is more important for the small firm. In the small unit investment in such C.A. as cash, inventories and receivables tends to be larger than investment in fixed assets. It is more difficult for is small units to raise enough long term capital for the C.A..

Working Capital management has acquired important position and great significance in the recent past. It is reflected by the fact that financial manager spend a great deal of time in managing C.A. and current liabilities. Arranging short term financing, negotiating

favorable credit terms, controlling the movement of cash, administering accounts receivables and monitoring the investment in inventories consume a great of their time. “It has been found that the largest portion of financial manager’s time is utilized in the management of Working Capital.”

Weston and Brigham have rightly stated that, “There are many aspects of Working Capital management which make it an important function of the financial manager. On the one hand it maintains proper liquidity while on the other hands it helps in increasing the profitability to the concern.”

Inadequacy or mismanagement of Working Capital is the leading cause of business failure. The Working Capital of a firm is the lifeblood which flows through the veins and arteries of the structure. Working Capital engages every part of the structure, gives courage and moral strength to management and personnel, digests to the best degree the raw material used by its constant and regular flow and return to the cash flow for another journey and so when Working Capital is lacking or slows down, the financial bodies have value just as much as junk.

### **OBJECTIVES OF WORKING CAPITAL**

The goal of Working Capital management is to manage the concern’s C.A. and current liabilities in such a way that an adequate Working Capital is maintained. Business can get operational flexibility with the help of adequate level of Working Capital. The main objective of Working Capital management is to balance liquidity and profitability. Other objectives of Working Capital management are concerned with the problems that arise in attempting to manage the C.A., the current liabilities and the inter relation ship that exists between them. The objectives of Working Capital management are as under:

When Working Capital is applied to fixed capital a flow of funds results. As Working Capital moves from one process to another. It changes from cash to inventories to receivable and back to cash. The smoother and more rapid the flow of funds the more efficient is each rupee of Working Capital. It is because when the flow of Working Capital is smooth and rapid the amount of Working Capital required to produce a given output is less than when interruptions occur which cause the flow to slow down.

2. Availability of ample funds at the times of need:

As a matter of fact a business cannot survive in the absence of a satisfactory ratio between its C.A. and current liabilities. Furthermore its ability to prosper will be largely determined by the composition of the C.A. pool.

3. The maintenance of current ratio between Working Capital and fixed capital:

The management should have as its general financial objective the employment of capital in whatever proportion necessary to maximize productivity and profit. Capital of the business enterprise consists of fixed and Working Capital and the firm's profitability is determined by the ratio of Working Capital and fixed capital. Other things remaining the same, when Working Capital is increased, the firm's profitability declines.

### **TYPES OF WORKING CAPITAL**

Working Capital can be classified either on the basis of its concept or on the basis of periodicity of its requirements, which is as follows:

(A) ON THE BASIS OF CONCEPT:

On the basis of its concept it may be either gross Working Capital or net Working Capital. Gross Working Capital is represented by the total C.A.. The net Working Capital is the excess of C.A. over current liabilities.

- (1) Gross Working Capital = Total C.A..
- (2) Net Working Capital = C.A. – Current Liabilities.

(B) ON THE BASIS OF REQUIREMENT

According to Gerstein Bergh, the Working Capital can be divided into two categories on the basis of time and requirement:

(1) Permanent Working Capital

It refers to the minimum amount of investment which should always be there in the fixed or minimum C.A. like inventory, accounts receivable or cash balance etc, in order to carry out business smoothly. The investment is of a regular or permanent type and as the size of the firm expands the requirement of permanent Working Capital also increases. Tondon Committee has referred to this of Working Capital as ‘Hard Core Working Capital.’

(2) Variable Working Capital

The excess of the amount of Working Capital over permanent Working Capital is known as variable Working Capital. The amount of such Working Capital keeps on fluctuating from time to time on the basis of business activities. It may again be sub-divided into seasonal and special Working Capital. Seasonal Working Capital is required to meet the seasonal demand of busy periods occurring at stated intervals. On the other hand special Working Capital is required to meet extra ordinary needs for contingencies. Events like strike fire, unexpected competition, rising price tendencies or a big advertisement campaign require such capital.

Working Capital cycle indicates the length of time between firms’s paying for materials entering into stock and receiving the cash from sale of finished goods. In a



manufacturing concern the duration of time required to complete the sequence of events is called operating cycle.

According to Hunt William & Donaldson, “The Working Capital is required because of the time gap between the sales and their actual realization in cash. This time gap is technically termed as operating cycle of the business.”

### **Circulation system of Working Capital**

The Working Capital plays the same role in the business as the role of heart in human body. Just like heart gets blood and circulates the same in the body, in the same way Working Capital funds are generated and these funds are circulated in the business. Thus Working Capital is also known as current capital or circulating capital.

Kulkarni has remarked that, “The use of the term circulating capital intends of Working Capital indicates that its flow is circular in nature.”

The funds in a business are obtained from the issue of shares the issue of debentures other long term agreement and from operation of business.

A huge part of generated funds is used to acquire fixed assets; viz plant and machinery, land and building and some other fixed assets, while the remaining part of the generated funds is used for day to day operations of the business. E. g. to pay wages and overhead expenses for the raw material processed. This makes possible the stocking of finished goods by whose sales either accounts receivable are created or cash is received. In this process profits are generated. A part of the profit is used to pay tax, interest and dividends, while the remaining part is ploughed back in the business this cycle goes on constantly throughout the life of business. This cycle continues throughout the life of business.

## **Working Capital Cycle**

The duration of time required to complete the sequences of events right from purchase of raw material / goods for cash to the realization of sales in cash is called the operating cycle, Working Capital cycle or cash cycle. This cycle can be said to be at the heart of the need for Working Capital. In the words of O.M. Joy, the Working Capital cycle refers to the length of time necessary to complete the following cycle of events:

- 1) Conversion of cash into raw material.
- 2) Conversion of raw material into working progress.
- 3) Conversion of work-in-progress into finished goods.
- 4) Conversion of finished goods into debtors or bills receivable through sale.
- 5) Conversion of debtors or bills receivable into cash

The cycle will repeat again and again over the period depending upon the nature of the business and type of product etc. The Working Capital cycle relates to a manufacturing firm, where cash is needed to purchase raw materials and convert raw material into work-in-progress and then work-in-process is converted into finished goods. Finished goods will be sold for cash or credit and ultimately debtors will be realized.

## **CHARACTERISTICS OF WORKING CAPITAL**

The features of Working Capital distinguishing it from the fixed capital are as follows:

- 1) Short term needs.
- 2) Circular movement.
- 3) An element of permanency.
- 4) An element of fluctuation.
- 5) Liquidity.

- 6) Less risky.
- 7) Special accounting system not needed.
- 8) Different proportion for each industry.

#### **1) Short-Term Needs**

Working Capital used to acquire C.A. which get converted into cash in a short time. In this respect it differs from fixed capital which represents funds locked in long term assets. The duration of Working Capital depends on the length of production process. The time that elapses in the sale and the waiting time of the cash receipt.

#### **2) Circular Movement**

Working Capital is constantly converted into cash which again turns into Working Capital. This process of conversion goes on continuously. The cash is used to purchase C.A. and when the goods are produced and sold out those C.A. is transformed into cash.

#### **3) An element of Permanency**

Though Working Capital is a short term capital, it is required always and forever. As stated above, Working Capital is necessary to continue the productive activity of the enterprise. Hence so long as production continues, the enterprise will constantly remain in need of Working Capital.

#### **4) An Element of Fluctuation**

Though the requirement of Working Capital is felt permanently, its requirement fluctuates more widely than that of fixed capital. The requirement of Working Capital varies directly with the level of production. It varies with the variation of the purchase and sale policy price level and the level of demand also. The portion of Working Capital that changes with production sale price etc. is called variable Working Capital.

### **5) Liquidity**

Working Capital is more liquid than fixed capital. If need arises Working Capital can be converted into cash within a short period and without much losses.

### **6) Less Risky**

Funds invested in fixed assets get locked up for a long period of time and cannot be recovered easily. There is also a danger of fixed assets like machinery getting obsolete due to technological innovations. Investment in fixed capital is comparatively more risky. Investment in C.A. is less risky as it is a short term investment. Working Capital includes more of physical risk only and that too is limited. Working Capital involves financial or economic risk to much less extent because the variations of product prices are less severing generally. Working Capital gets converted into cash again and again. It is free from the risk arising out of technological changes.

### **7) Special Accounting System Not Needed**

Fixed capital is invested in long term assets; it becomes necessary to adopt various systems of estimating depreciation. On the other hand working capital is invested in short term assets which last for one year only. So it is not necessary to adopt special accounting system for them.

### **8) Different Proportion for Each Industry**

In every industry proportion of working capital is different as per type of business and nature of business e.g. In Building or Ship Building Industry proportion of Working Capital is high while in Public Utility Units where services are sold speedily the proportion of Working Capital is less. The proportion of Working Capital changes from industry to industry.

## **FACTORS AFFECTING TO WORKING CAPITAL**

There are a number of features which determine the amount of Working Capital requirement in business. It is not possible to give general principles applicable to all enterprises equally. These Factors appraisal is helpful to the management in formulating its sound Working Capital policies and estimating its needs. Important Factors which determine Working Capital are as given below:

1. Nature of Business.
2. Production Time.
3. Production Policies
4. Turnover of Circulating Capital.
5. Terms of Purchase and Sales.
6. Growth and Expansion of Business.
7. Rapidity of Turnover.
8. Condition of Supply.
9. Requirement of Cash.
10. Dividend policy of Concern.

The working capital of the business is decided on the basis of types of business, industry, trade or circulative of the sources is considered. Hence finance is to be obtained at a high rate and it will make company's financial position weaker. To prevent this situation following Factors should be taken into account.

### **(1) Nature of Business**

According to various form of business, requirement of Working Capital goes on changing. In comparison of manufacturing unit, trade and commerce concern require more Working

Capital. Public services like electricity and railway required less Working Capital. Unit engaged in manufactures of luxurious product like air-conditioners required more Working Capital because it has a long operating cycle and which sells largely on credit.<sup>10</sup> as per view of Husband and Dockery, “The Working Capital position is affected more by business condition and trends than by the nature or the size of the company.”

## **(2) Production Time : Time of Production Process**

The level of Working Capital depends upon the time required to manufacture goods. If the time is longer the size of working capital is great more over the amount of working capital depends upon inventory turnover and the unit cost of the goods that are sold. The greater this cost the bigger is the amount of Working Capital Plastic Industry, Bakery Industry Dairy Industry etc. required less Working Capital because the production process is short and less.

## **(3) Production Policies**

The nature of production policy also exercises its input on capital needs. Strong seasonal movements have special Working Capital problems and requirements. High level production plan also includes higher investment in Working Capital.

## **(4) Turnover of Circulating Capital**

The period required for conversion from goods into cash is known as turnover of capital. It has adverse relation with Working Capital. If the turnover rate of capital is more, less Working Capital will be required and vice-versa. The speed with which the circulating capital completes its round i.e. conversion of cash into inventory of raw material and stores inventory of raw material into inventory of finished goods. Inventory of finished goods

into book debts or accounts receivable and book debts into cash accounts plays an important and decisive role in the judging the adequacy of Working Capital.

#### **(5) Terms of Purchase and Sales**

The place given to credits by a company in its dealing with creditors and debtors affects considerably the amount of Working Capital. Business unit making purchase on credit basis and selling its finished products on cash basis will require a lower amount of Working Capital on the contrary.

Concern having no credit facilities and at the same time forced to grant credit to its customers, may find itself in a tight position. The discretion of management in setting credit terms is affected prevailing trade practices as well as by changing economic conditions.

#### **(6) Growth and Expansion of Business**

As company grows it is logical to expect that the larger amount of Working Capital will be required. Growing concerns require more Working Capital than those that are static. The requirement of Working Capital also varies with economic circumstances and corporate practices.

#### **(7) Rapidity of Turnover**

Turnover represents the speed with which the Working Capital is recovered by the scale of goods. In certain business sales are made quickly so that stocks are soon exhausted and new purchases have to be made. In this manner a small sum of money invested in stocks will result in sales of a much large amount. It will reduce the requirement of more Working Capital.

#### **(8) Condition of Supply**

The inventory of raw material, spares and stores depends on the condition of supply. If the supply is prompt and adequate the firm can manage with small inventory hence the lower requirements of Working Capital. However, if the supply is unpredictable and scant than the firm, to ensure continuity of production, would have to acquire stocks as and when they are available and carry longer inventory on an average. A similar policy may have to be followed when the raw material is available only seasonally and production operations are carried out round the year.<sup>11</sup> In this case the Working Capital requirement of the concern will be higher.

#### **(9) Requirement of Cash**

The Working Capital requirements of a company are also influenced by the amount of cash required by it. For various purposes, the greater the requirement of cash, the higher will be the Working Capital needs of the company.

#### **(10) Dividend Policy of the Firm**

If a conservative dividend policy is followed by the management the needs of Working Capital can be met with the retained earnings. Often variations are needed of Working Capital to bring about an adjustment in dividend policy. The relationship between dividend policy and Working Capital is well established and most companies declare dividend after a careful study of their cash requirements.

In addition to scope of business components of Working Capital, demand of products, time between order and delivery, reduction in price of stock, transportation facilities, conversion of C.A. into cash, channels of distribution, wage policy, efficiency of management and miscellaneous Factors as the affecting Factors of Working Capital.



## **WORKING CAPITAL BUDGET**

Efficiency in the use of Working Capital is very important aspect of Working Capital management. The use of budgets to promote, it is very necessary in view of the manufacturing that many concern suffer from too little Working Capital rather than from too much. In preparing the budgets including the requirement of Working Capital, determinants of quantum of Working Capital are taken into consideration.

The conservation of Working Capital which is essential would be affected by the following Factors:

1. Better correlation of production and distribution of products.
2. Purchase may be standardized in such a manner as to make the use of existing Working Capital more effective.
3. Economy may be effected in predicting selling and administrative.
4. Adequate maintenance policies may be imitated to conserve Working Capital, to avoid costly delays due to break downs.
5. Discarded assets may sometimes, be redeemed and slugged.
6. Improvements in selecting credit risked and speeding up collecting decreases the demand for Working Capital from these sources.

## **SOURCE OF WORKING CAPITAL**

From which source Working Capital is to be obtained can be decided after considering the types of Working Capital. A prudent financial manager is always interested in obtaining the correct amount of Working Capital at the right time, at a reasonable cost and at the best possible favorable terms. To adopt the right source, it is very necessary for him to have a thorough understanding of the firms short – terms funds needs. Market for short term funds

required level of liquidity in funds and risk assumption. A firm interested to obtain short – term funds cash has a choice of securing finance from alternative sources – internal as well as external. In making and final choice as regards to sources of Working Capital the relative cost of financing dependability upon the source and flexibility in financial planning must be given due weight age.

### **Long Term Sources**

Requirements of initial Working Capital and the regular Working Capital includes the long term Working Capital. In addition to the minimum level of investment in various C.A. also determines the requirements of long term Working Capital. The regular fixed or permanent part of Working Capital could be financed from borrowed or owned sources. An owned source involves all type of share capital, accumulated reserves and surpluses, depreciation reserves and sales of idle assets. Borrowed sources include debentures, bonds, long term and the medium term loans.

#### **A. Owned Source:**

##### **1. Share Capital**

A new company has to show the amount of Working Capital required for advertisement. Estimate of Working Capital is fixed. While deciding minimum subscription initial Working Capital is obtained by issuing shares. It is not required to be repaid after fixed period like debentures. There is no liability of paying interest at decided rate of percentage. No mortgage of assets at the company is created. Capital in future can be obtained easily.

## **2. Accumulated Reserves and Surpluses**

This represents the part of profit not distributed among the share holders. The visionary top level management of the corporate unit allocates some portion of the earnings of the corporate unit.

## **3. Depreciation Reserves**

It constitutes a part of the cost of business operations and consequently represents an expense that is changeable against earnings.

## **4. Sales of Idle Fixed Assets**

Any idle fixed assets can be sold out and sale proceeds can be utilized for financing the Working Capital needs.

## **B. Borrowed Sources:**

### **1. Debentures and Bonds**

For the permanent Working Capital the funds can also be obtained through the issue of debentures. But there is limit beyond which issue of debentures is not desirable. Obtaining capital through debentures is also useful in trading on equity. The main drawback of this method is that as the debentures are required to be redeemed after definite number of years. Management has to make provision for its repayment every year. In India, public limited companies are allowed to raise debts capital through debenture after they have obtained the certificate of commencement of business.

## **2. Long Term and Medium Term Loans**

Some national and international financial institution also provides long – term loans. There are two main institutional sources are of long – term loans:

1. Commercial Banks and
2. Specialized Financial Institutions.

### **Short Term Sources:**

The conventional generalizations on the financing of Working Capital suggest that the variable temporary or seasonal Working Capital should be financed from short – term sources. Short – term source comprise trade credit, banks loans and other sources. The size of these sources and the time for which a concern could place its reliance upon them depends upon Factors such as trade customers or local practice, credit standing of the firm and the regularity in making payments.

#### **A. Bank Loans:**

##### **1. Secured Loans**

Secured loans are the loans protected by pledge of certain securities. The pledged securities are mostly inventories.

##### **2. Un Secured Loans**

Unsecured loans are usually taken by means of unsecured promissory notes generally for 90 to 180 days.

##### **3. Bank Over Drafts**

The establishment of over credit facilities with commercial banks enables a firm to obtain seasonal variable or temporary Working Capital from banks.

#### **4. Bank Credit**

Commercial banks are also principle sources of Working Capital. Commercial banks provide Working Capital in a number of ways like as overdrafts, cash credit, line of credit, term loans etc. This is the most flexible source in comparison to other methods of borrowing when the debt is no longer needed it can be promptly and early reduced. It is also comparatively cheap.

##### **B. Trade Loans**

Trade creditors are composed of trade payable bills and notes payable, current credit accounts and customer credit. These usually arise out of the delivery of goods or providing of services and have to be liquidated normally within a year. Trade creditors have an important place among the different sources of financing the seasonal variable or temporary Working Capital, and could finance the requirements of these types of Working Capital to a very large extent. The customers are often asked to make some advance payment in cash in view of a contract to purchase. This advance can be utilized in purchasing raw material paying wages and overhead expenses

##### **C. Other Source:**

###### **1. Public Deposits:**

The attitude of using public deposits for obtaining long term and short term capital is increasing today. Public deposits are term deposits made by public with companies of 1/2 or 3 years. The general public is invited to deposit their savings with the company for varying periods or rates of interest which are higher than those allowed by commercial banks. Companies generally get public deposits for different period ranging from 6 month to 3 years. It is not advisable to obtain more finance by this method because when any

rumor spreads about the company the depositors withdraw their deposits. Hence company is put into difficulties. According to control of RBI no company can accept public deposit more than 25% of its paid up capital and general reserves.

## **2. Private Loans**

Such loans strengthen the faith of creditors of a business enterprise. Their size happens to be quite inadequate to fulfill the needs to temporary seasonal or variable Working Capital.

## **3. Government Assistance**

Sometimes Central and State government also provide short –term finance on easy terms.

## **4. Loans from Directors**

An enterprise can also obtain loans from its officers, directors managing directors etc. These loans are often obtained of almost negligible rates of interest. Sometimes no interest is charged on term loans can also be obtain from other fellows companies working within the scale group.

## **5. Security of Employees**

If employers are required to make deposits with their employer companies such companies can utilize those amount in meeting their Working Capital needs.

## **6. Credit Papers**

Bills of exchange and promissory notes of shorter duration varying between a month and 5 months are used. These papers are discounted with a bank and capital can be arranged. Accommodation bills are an important method of such finance.

### **THE PERTINENT ASPECT OF WORKING CAPITAL**

The pertinent aspect of working capital may be narrated as under:

#### **1. Total Amount of Working Capital**

That is total investment in total C.A.. This should be neither excess nor inefficient, so that proper profitability and liquidity maintain.

This can be attempted in terms of fixed capital as well as total profitability and sales activity.

#### **2. Quality Aspect of Working Capital**

That is investment in net Working Capital. Net working capital means C.A. less current liabilities. In order to know the strength of liquidity and to examine the risk, this analysis is necessary.

#### **3. Investment in the Important Components**

In working capital the funds of a business unit is interested in the important components.

These are:

- (1) Cash and Marketable Securities. (2) Investment and Store Items.
- (3) Receivables.

#### **4. Financing of Working Capital**

This is to be examining in term of the periodicity of income and the period of availability of funds. So there has been mismatching and to encore the least cost for raising force of Working Capital.

#### **FINANCING OF WORKING CAPITAL**

Financing of Working Capital depends upon the nature of Working Capital. Nature wise there are two kinds of Working Capital, viz; permanent and temporary. Permanent Working Capital is required to finance the minimum requirement of inventories raw material working in progress and cash. These assets defector treated as fixed assets because investments in these assets are as permanents as fixed assets. Investment in other assets are treated as temporary Working Capital which is required for seasonal fluctuations and variations. Both the permanent and temporary Working Capital may either be financed through internal sources or through external sources or both.

As per I.M. Pandey, for both Working Capitals, “The need of C.A. (Current Assets) arises because of the operating cycle. The operating cycle is a continuous process and therefore the need of C.A. is felt constantly. But the magnitude of C.A. needed is not always the same. It increases and decreases over time. However there is always a minimum level of C.A. which is continuously required by the firm to carry on its business operations. This minimum level of C.A. is referred to permanent of fixed Working Capital. It is permanent in the same way as the firm’s fixed assets are. Depending upon changes in production and sales the need for Working Capital over and above the permanent Working Capital will fluctuate.”



One of the important tasks of the financial manager is to select an assortment of appropriate source of finance the C.A. As per S.S. Sahay, the total Working Capital needs of a firm are financed by various components of its C.L. (Current Liabilities) and apart from the permanent funds in the firm. To keep operational efficiency as well as reduction in the cost of financing should be the guiding criteria in the choice of the forms of financing. Normally C.A. of a concern is supported by a combination of loans term and short source of financing. The sources of long term financing are shares debentures retained earnings and loans from specialized financial institutions. The long term source of finance provides support for a small part of C.A. need which is called the Working Capital margin. The sources of short – term financing are short – term bank loans, O.D., cash credit facilities etc. The short – term sources of finance referred to also as C.L. which provides the major support for C.A. The real choice of financing lies between short – term and long term financing. For that purpose in practice the matching approach or hedging approach is applied. When the concern follows matching approach long-term financing will be used to finance fixed assets and permanent C.A. Short-term financing to finance temporary or variable C.A. The following figure indicates the concerns investment and financing patterns over time under a matching plan. As the firm's fixed assets and permanent C.A. level increase the long term financing level also increase. When temporary C.A. levels increase short – term negotiated financing increases and when the concern has no temporary C.A. it also has no short term negotiated financing.

When the concern follows matching approach long – term financing should be used to finance fixed assets and permanent C.A. The justification for this sort of financing is that since the object of financing is to pay for assets, the financing should be relinquished when

the asset is expected to be relinquished. Using long-term financing for short – term assets is expensive. Since it would involve payment of interest during the period the funds are not utilized. Financing permanent C.A. with short term source will be inconvenient and costly. Since arrangements for the new short –term financing will have to be made on continuing basis. It may of times prove risky. At times the firm may not be able to raise funds and its operations may be disrupted or else to save disruption it may have to borrow funds at very inconvenient rates. This short-term financing is less costly than long – term financing. But the former is more risky than later. The choice should naturally involve a tradeoff between risk and return.

### **Principles of Working Capital Management**

#### **1. Follows Principles of Cost of Capital**

Sources of procurement of Working Capital are various. Each source has a separate cost of capital. Cost of capital is directly related with risk.

#### **2. Principles of Equality Position**

As per this principle Working Capital is required to be invested in such a way that it creates equality in every component of Working Capital. E.g. position of raw material is satisfactory but there is shortage of cash this situation is not proper. Use of working capital must be made in such a way that it increases the net value of the firm.

#### **3. Principles of Maturity of Payment**

On the date of maturity the company must makes the payment of its liabilities. By doing this maximum utilization of units funds will be made. For payment of short term debts special arrangement is required to be made. For this purpose investment in quick convertible securities into cash should be made.

#### **4. Principles of Optimization**

The financial management should utilize Working Capital in such a percentage that maximum return can be obtained on investment. Factors affecting to the Working Capital should be taken into consideration for that purpose. Percentage of Working Capital should be decided on the basis of return on Working Capital and risk. If risk is more return also will be more and vice – versa.

#### **CONCLUSIONS**

In the present study of Working Capital management the researcher has studied various type of aspect of working capital management. In this chapter researcher studied meaning of Working Capital, types of Working Capital, importance of working capital, objectives of Working Capital, circulation systems of Working Capital, Factors affecting Working Capital, source of Working Capital, financing of Working Capital, characteristics of Working Capital etc. For any concern working capital can be said to be its life. If there is any mistake in the estimation of this type of capital there will be risk on production continuity in an industrial unit. Working Capital consists of raw material, cash on hand, readymade material resalable securities, bills of receivables, debtors etc. John Stewert calls Working Capital as a circulating capital or floating capital. In addition Working Capital is needed to meet the day to day expenses on wages, salaries, power etc. According to Hoagland Working Capital is descriptive of that capital which is not fixed but the more common use of the Working Capital is to consider it as the difference between the book value of the C.A. and current liabilities.

## **CHAPTER-3**

### **ANALYSIS & INTERPRETATION**

The role of working capital in business is akin to that of heart in the human body. Funds are the life blood of business body. Just as the heart circulates the blood to various organs of body, funds are rotated to various business activities through proper working capital management and any obstruction in the smooth rotation of funds, may causes serious problem in business operations. Funds may be generated from issue of shares long term and short term borrowings and ploughing back of the earning of business and may be utilized to pay for purchase of raw material wages and overheads etc.

A specialty of utilization of funds is that they are of recurring nature, so efficient working capital management requires a proper balance of generation and circulation of these funds without which either scarcity of funds will cause obstruction in the smooth functioning the organization or excess funds will prevent the organization from conducting its business efficiently.

To analyze and interpretation of working capital various financial tools are available here researches used ratio analysis for the purpose of the study.

Ratio analysis is one of the powerful tools of financial analysis. It indicates a qualitative relationship between the figure and group of figures which are used for evaluation and decision making. Ratio analysis is a very powerful analytical tool useful for increasing performance of an organization. The ratio analysis concentrates on the inter – relationship among the figures appearing in the financial statements. The ratio analysis helps the management to analyze the past performance of the firm and to make further projections.

Ratio analysis is a process of comparison of one figure against another which make a ratio and the appraisal of the ratio to make proper analysis about the strengths and weaknesses of the firms operations. The circulation of ratio is a relatively easy and simple task but the proper analysis and interpretation of the ratio can be made only by the skilled analyst. Ratio analysis is extremely helpful in providing valuable insight into a company's financial picture. Ratio normally pinpoints a business strengths and weakness in two ways. One ratio provide easy way to compare present performance with past. Second ratio depicts the areas in which particular business is competitively advantaged of disadvantaged through company ratio to those of other business or the same size within the same Industry.

### **MEANING OF RATIO**

Ratio is a simple mathematical expression of relationship between two related items in quantitative form. It may be a number expressed in terms of another number. The relationship between two figures may be expressed as quotient or a rate of percentage i.e. says 2:1 or 2 times or 200%

A ratio is a mathematical relationship between two quantities. It is of major importance, for financial analysis. It engages qualitative measurement and precisely how adequate is one key item in relation to another.

The use of ratios has become increasing popular during last few years. Originally the bankers used the current ratio to judge the capacity of the borrowing business enterprises to repay the loan and make regular interest payments. Today it has assumed such an importance that anybody connected with the business turns to ratios for measuring the financial strength and earning capacity of the business. A supplier of funds in the form of share capital would like to analyze the accounts to ascertain its earning capacity and future

prospects. A bankers or other creditor will measure the repaying capacity and financial strength on the basis of accounting ratio.

The financial statements as prepared and presented annually are of little use for guidance of prospective investors, creditors and even management. If relationships between various related items in these financial statements are established they can provide useful clues to gauge accurately the financial health and ability of business to make profit. This relation between two related items of financial statements is known as ratio. Accounting ratio is an important tool in the hands of management for control purposes.

The relation between two items of financial statement like profit and loss account and balance sheet gives a good account of profitability, liquidity, capital structure and short term as well as long term solvency of business.

### **UTILITY OF RATIO ANALYSIS**

The use of ratios was started by banks for ascertaining the liquidity and profitability of companies business for the object of advancing loans to them. It gradually became popular and other creditors began to use them profitably. The investors calculate ratios from the published accounts of the company in order to have an idea about the solvency and profitability of the company before investing their savings. The ratio analysis provides useful information to the decision maker or management which would help them in taking important policy decisions. Diverse group of people make use of ratios to determine a particular aspect of the financial position of the company in which they are interested.

Importance of ratio analysis is as under:

**(A) Profitability:**

Useful data about the trend of profitability is available from profitability ratios. The gross profit ratio, net profit ratio and ratio of return on investment give a good idea of the profitability of business. On the basis of these ratios management gets an idea about the efficiency of managers and bank as well as other creditors to draw useful conclusions about repaying capacity of the borrowers.

**(B) Liquidity:**

The use of ratios was made initially to ascertain the liquidity of business. The current ratio, liquid ratio and acid-test ratio will tell whether the business will be able to meet its current liabilities as and when they mature. Banks and other lenders will be able to conclude from these ratios whether the firm will be able to pay regularly the interest and loan installments.

**(C) Indicate Trends:**

The ratios of the last three to five years will indicate the trend in the respective fields. For example the current ratio of a firm is lower than the industry average but if the ratios of the last five years show an improving trend it is an encouraging trend. Reverse may also be true. A particular ratio of a company for one year may compare favorably with industry average but its trends may show a deteriorating position, which is not desirable. Only ratio analysis will provide this data

**(D) Useful for Decision – Making:**

Ratio guides the management in making some of the important decisions. Suppose the liquidity ratio show an unsatisfactory position the management may decide to get additional liquid funds. For capital expenditure decisions the ratios of return on investment (ROI) will help the management. The efficiency of various departments can be judged on the basis of their profitability ratios and efficiency of each department can be determined.

**(E) Efficiency:**

The turnover ratios are guides to measure the efficiency of managers. For example the stock turnover will indicate how efficiently the sale is being made. The debtors' turnover will show the efficiency of collection department and assets turnover shows the efficiency with which the assets are used in business.

**(F) Inter Firm Comparison:**

The absolute ratios of a firm are not of much use unless they are compared with similar ratio of other firms belonging to the same industry. This is inter firm comparison which shows the strength and weaknesses of the firm as compared of other firms and will show corrective measures.



### **(G) Useful For Budgetary Control:**

Regular budgetary reports are made in a company where the system of budgetary control is in use if various ratios are presented in these reports it will give a fairly good idea about various aspects of financial position.

Ratio analysis is relevant in assessing the performance of firm in respect of the various assets like as liquidity position long term solvency, operating efficiency, overall profitability, inter firm comparison and trend analysis etc. As a tool of financial management ratio are of crucial importance. The various activity ratios measure the types of operational efficiency.

### **CLASSIFICATION OF RATIO:**

Ratios are generally classified on the basis of (A) statements prepared (B) Tests satisfied (C) Accounting significance of importance: (A) On the Basis of Statements prepared

(i. e. Traditional Classification)

This classification is based on the financial statements prepared, i.e. P&L A/c and balance sheet calculation ratio. The ratios under this classification are grouped into three categories, namely

#### **Balance sheet Ratio:**

Those entire ratios which are calculated to established relationship between two balance sheet items, they are:

- a) Current Ratio    b) Liquid Ratio
- c) Proprietary Ratio    d) debt-Equity Ratio
- e) Capital Gearing Ratio

Those ratio which calculated to established relationship between two P & L A/c. items.

They are

- a) Gross profit ratio                      b) Operating Ratio
- c) Operating Profit Ratio                d) Net Profit Ratio
- e) Interest Coverage Ratio

Composite Ratio:

- a) Inventory turnover ratio              b) Debtors turnover ratio c) Creditors turnover
- ratio d) Working capital turnover ratio e) Fixed assets turnover ratio f) Return on
- equity ratio g) Return on capital employed ratio

(B) On the Basis Testes Satisfied

(i.e. functional Classification)

This classification is a based on the function or tests satisfied i.e, to serve the need of different parties interested in knowing the financial condition of a business concern. The ratios under this classification are:

### **Liquidity Ratio**

This ratio computed to measure the ability of a firm to meet its current or short – term obligations. The various liquidity ratios are:

- 1) Current ratio
- 2) Acid – Test Ratio
- 3) Absolute Liquid Ratio

**Leverage Ratio:**

The ratio calculated to measure the firm's ability to meet its interest costs and repayment of its long-term obligations. The various leverage ratios are:

- 1) Debt-equity ratio
- 2) Interest coverage ratio
- 3) Capital Gearing Ratio
- 4) Debt to total capital ratio

**Activity or Efficiency Ratio**

This ratio is also known as turnover ratio. This ratio is computed to measure the efficiency with which resources of a firm have been utilized the various activity ratios are:

- 1) Inventory turnover ratio
- 2) Debtors turnover ratio
- 3) Creditors turnover ratio
- 4) Working capital turnover ratio
- 5) Fixed assets turnover ratio
- 6) Current assets turnover ratio

**Profitability Ratio**

- 1) Gross profit ratio
- 2) Operating ratio
- 3) Operating profit ratio
- 4) Expense ratio
- 5) Net-Profit ratio
- 6) Return on investment

- 7) Return on equity
- 8) Return on capital employed
- 9) Earnings per share
- 10) Price earnings ratio

**(C) On the Basis of Importance:**

This classification is based on the significance with which the ratio are calculated. For the object of analysis and interpretation of financial statements some ratio are more important than others.

The British Institute of Management has recommended this classification. Inter firm comparison may be done based on the classification of ratio as primary ratio and secondary ratios. The success or otherwise of any business concern is based on its profit earning in relation to capital employed is termed as primary ratio. The other ratio which explain the primary ratio are called secondary ratio e.g. operating profit ratio

As mention above the various ratio are discussed as under:

- 1) Liquidity ratio
- 2) Deficiency or Activity ratio
- 3) Profitability ratio
- 4) Solvency ratio

**USED RATIOS IN PRESENT STUDY:**

The data obtained have been duly classified edited and tabulated under various groups as per requirements of the study.

Researcher used the following ratios to analyze the performance of working capital in ACC Limited

**Current Ratio = Current Assets / Current Liabilities**

Current assets divided by current liabilities gives the current ratio. Current liabilities means liabilities repayable within a year and current assets are the assets which are convertible and meant to be converted into cash within a year. An ideal current ratio is 2:1 which means that current assets should be at least twice the amount of current liabilities.

**TABLE 1****Current Ration of ACC Limited**

| <b>Year</b>    | <b>Current Assets</b> | <b>Current Liabilities</b> | <b>Ratio (times)</b> |
|----------------|-----------------------|----------------------------|----------------------|
| <b>2016-17</b> | 1193.57               | 765.67                     | 1.56                 |
| <b>2017-18</b> | 1297.28               | 730.56                     | 1.78                 |
| <b>2018-19</b> | 2743.65               | 1396.41                    | 1.96                 |
| <b>2019-20</b> | 3770.21               | 1603.59                    | 2.35                 |
| <b>2020-21</b> | 5017.69               | 2067.57                    | 2.43                 |
| <b>2021-22</b> | 5473.43               | 1625.81                    | 3.37                 |
| <b>2022-23</b> | 9579.04               | 2167.88                    | 4.42                 |
| <b>2023-24</b> | 9580.04               | 2160.88                    | 4.43                 |

*Source: Annual Reports*

**Inference**

As per Table - 1, the highest current ratio of ACC Limited is 4.43 times in the year 2023-24 while the lowest ratio is 1.56 times in the year 2016-17. So average is 2.60 times with a growth rate 74.70%, above table shows that the company's current ratio is not stable. It increase from 1.56 times from the year 2016-17 to 2022-23. After that it increased and reached 4.42 times in the last year of study period 2022-23. It always remains more than

the ideal standard of 2:1. It means there is a more liquidity during this year (except in the year 2016-17 which is respectively 1.56).

Most particularly in the year 2023-24, the ratio is more increased compared to earlier years and reached 4.43 times because its current assets and current liabilities are increased compared to its earlier years. But its current assets are more increased compared to its current liabilities. Current assets is increased 75% from Rs.5473.43 Cr to Rs.9580.04 Cr from 2021-22 to 2023-24. During this year 2023-24, the ratio is twice than its ideal ratio 2:1 (which is 4.43 times).

The mean value of current ratio shows that there is a more ideal assets remain in the company while growth rate shows that ratio is increased from the earlier years but it reached so far from the ideal standard so it is not a good situation for the company. The researcher can say that during study period, more liquidity in the company (except in the year 2018-19). So company is able to pay its current liabilities when need to pay it but more liquidity shows that ideal assets remain in the company so company should try to maintain this ratio at ideal level.

**Liquid Ratio = Liquid Assets / Liquid Liabilities**

Liquid ratio is used as a measure of the company's ability to meet its current obligations. Inventories excluded from the current assets comes liquid assets and bank overdraft excluded from the current liabilities gives the liquid liabilities. The liquid ratio 1:1 indicates highly solvent position, it means liquid assets = liquid liabilities. This ratio serves as a supplement to the current ratio in analyzing liquidity position of the company.

**TABLE 2****Liquid Ratio of ACC Limited**

| <b>Year</b>    | <b>Liquid Assets</b> | <b>Liquid Liabilities</b> | <b>Ratio (times)</b> |
|----------------|----------------------|---------------------------|----------------------|
| <b>2016-17</b> | 820.76               | 765.67                    | 1.07                 |
| <b>2017-18</b> | 901.56               | 730.56                    | 1.23                 |
| <b>2018-19</b> | 1513.29              | 1396.41                   | 1.08                 |
| <b>2019-20</b> | 1807.54              | 1603.59                   | 1.13                 |
| <b>2020-21</b> | 1849.28              | 2067.57                   | 0.89                 |
| <b>2021-22</b> | 2162.01              | 1625.81                   | 1.33                 |
| <b>2022-23</b> | 4019.37              | 2167.88                   | 1.85                 |
| <b>2023-24</b> | 4050.00              | 2180.80                   | 1.85                 |

**Inference**

Table –2 perceives that liquid ratio of ACC Limited gradually decreased from 0.89 times in the year 2020-21 and improved to 1.85 times in the year 2022-23 and 2023-24. Further, the ratio is in a satisfactory position. Ratio is always ahead of the ideal position 1:1, except in the year 2020-21 (0.89 times). Highest ratio during the study period is 1.85 times in the

year 2022-23 and 2023-24 and the lowest ratio is 0.89 in the year 2020-21. Growth of ratio is 37.04%, which shows the positive liquidity position of ACC Limited. during the study period. The mean value of liquid ratio shows that there is a sound liquidity position in the company while growth rate shows that liquid assets and liquid liabilities both increased at the last year of study period.

From the above discussion, the researcher can say that during study period sound liquidity position of the company (except- 2020-21 & 2022-23 and 2023-24).so company should try to maintain its ideal ratio or little more from the ideal ratio.



**Quick Ratio = Quick Assets / Liquid Liabilities**

Quick ratio is the measure of the instant debt paying ability of the firm. Hence it is also called Acid test ratio. This ratio establishes the relationship between quick assets and liquid liabilities. Quick ratio 0.50:1 is considered as an ideal ratio. If the quick ratio is 0.50:1, the financial position of the firm seems to be sound and good. On the other hand if the quick ratio is less than 0.50:1, the financial position of the firm is unsound.

**TABLE 3****Quick Ratio of ACC Limited**

| <b>Year</b>    | <b>Quick Assets</b> | <b>Quick Liabilities</b> | <b>Ratio (times)</b> |
|----------------|---------------------|--------------------------|----------------------|
| <b>2016-17</b> | 110.23              | 1260.89                  | 0.08                 |
| <b>2017-18</b> | 120.56              | 1356.02                  | 0.08                 |
| <b>2018-19</b> | 124.37              | 1396.41                  | 0.09                 |
| <b>2019-20</b> | 120.20              | 1603.59                  | 0.07                 |
| <b>2020-21</b> | 35.08               | 2067.57                  | 0.02                 |
| <b>2021-22</b> | 334.98              | 1625.81                  | 0.21                 |
| <b>2022-23</b> | 153.63              | 2167.88                  | 0.07                 |
| <b>2023-24</b> | 160.30              | 2160.00                  | 0.07                 |

As per Table – 3, the quick ratio of ACC Limited is fluctuating during the study period. It is in a fluctuating trend which is respectively 0.08, 0.08 0.09, 0.07, 0.02, 0.21 and 0.07. It is fluctuated between 0.02 to 0.21 times. An average is 0.08 times with a positive growth rate 133.33%.

During the study period, quick ratio is very low from the ideal ratio 0.50:1. So this situation shows that in the company, shortage of liquidity. Company can't pay its immediate business obligations because of shortage of liquidity. It is a very critical situation for the company. Therefore, company should try to maintain its cash at a proper level so that company can pay its immediate obligations when need to pay it. The mean value of quick ratio in ACC Limited indicates that the company can't able to pay its urgently liquid obligations while growth rate shows that ratio improve from the earlier year.

**Working Capital Turnover Ratio = Net Sales / Net Working Capital**

Working capital turnover ratio indicates that the investment in working capital has been properly utilized. It defined the relationship between net sales and net working capital. The faster the ratio, the lower is the investment in working capital and the higher is the profitability but too high a ratio indicates over trading. On the contrary, if the ratio is found to be low, the same indicates that the amount of working capital is not efficiently and effectively utilized. That is why the ratio is an important indicator about the working capital position.

**TABLE 4**

**Working Capital Turnover Ratio of ACC Limited.**

| <b>Year</b>    | <b>Net Sales</b> | <b>Net Working<br/>Capital</b> | <b>Ratio (times)</b> |
|----------------|------------------|--------------------------------|----------------------|
| <b>2016-17</b> | 3569.23          | <b>1205.89</b>                 | <b>2.95</b>          |
| <b>2017-18</b> | 3978.23          | <b>1389.62</b>                 | <b>2.86</b>          |
| <b>2018-19</b> | 4943.24          | 1347.24                        | 3.67                 |
| <b>2019-20</b> | 5611.27          | 2166.62                        | 2.59                 |

|                |          |         |      |
|----------------|----------|---------|------|
| <b>2020-21</b> | 6967.66  | 2949.62 | 2.36 |
| <b>2021-22</b> | 9603.44  | 3847.62 | 2.50 |
| <b>2022-23</b> | 10280.60 | 7411.16 | 1.39 |
| <b>2023-24</b> | 10300.60 | 7400.16 | 1.39 |

As per Table 4, in case of ACC Limited., during 2016-17 to 2022-23, the WCTOR is in an decreasing trend. It decrease from 2.95 times in the year 2016-17 to 1.39 times from the year 2023-24. The highest ratio is 3.67in the year 2018-19 while it is lowest with 1.39 times in the year 2023-24. The aggregate ratio is 3.13 times with a negative growth of -54.28%.

From the year 2020-21 to 2023-24, the ratio is in a decreasing trend because net working capital and net sales, both components are increased but increasing trend of net working capital is more from the net sales so ratio is more decreased in this period. In the year 2022-23 and 2023-24, net working capital is increased because in net working capital, all components of current assets are increased from the previous year (except cash & bank balances).

Moreover, the mean value (3.13 times) of WCTRO of ACC Limited indicates that the capital is not sufficiently active in this decade while negative growth rate (-54.28%) shows that turnover of net working capital into sales is decreased from the previous year.

**Inventory Turnover Ratio = Cost of Goods Sold / Average Inventory**

Inventory turnover ratio establishes the relationship between the costs of goods sold with the average stock. This ratio measures the velocity of conversion of stock into sales. Usually, a high inventory turnover indicates efficient management of inventory because the stocks are sold more frequently and lesser amount of money is required to finance the inventory. A low inventory turnover ratio indicates an inefficient management of inventory. Over investment in inventories, dull business, poor quality of goods and lower profits when compared to the total investment. A high inventory turnover may be the result of a very low level of an inventory, which results in shortage of goods in relation to demand and a position of stock.

According to Welch and Antony, inventory turnover ratio tends to measure the liquidity position and efficient management of inventory.

Cost of goods sold is computed by way of deducting gross profit from the sales and average inventory is found out by dividing the sum of opening and closing inventory by 2.

Though there are no strict rules on the standards, experts still fell that general standard of inventory turnover ratio and holding period are 8 times and 46 days respectively.

**TABLE 5**

**Inventory Turnover Ratio of ACC Limited**

| <b>Year</b>    | <b>Cost of<br/>Goods Sold</b> | <b>Average<br/>Inventory</b> | <b>Ratio (times)</b> |
|----------------|-------------------------------|------------------------------|----------------------|
| <b>2016-17</b> | 4056                          | 1089.56                      | 3.72                 |
| <b>2017-18</b> | 4126                          | 1150.36                      | 3.58                 |
| <b>2018-19</b> | 4382.46                       | 1179.99                      | 3.67                 |

|                |         |         |      |
|----------------|---------|---------|------|
| <b>2019-20</b> | 4459.90 | 1596.51 | 2.79 |
| <b>2020-21</b> | 5592.01 | 2565.54 | 2.18 |
| <b>2021-22</b> | 8238.22 | 3239.92 | 2.54 |
| <b>2022-23</b> | 9066.60 | 4435.55 | 2.04 |
| <b>2023-24</b> | 9100.60 | 440055  | 2.06 |

As per Table 5, ITOR of ACC Limited gradually decreased to 2.06 times in the year 2023-24. During study period, highest ratio is 3.72 times while lowest with 2.04 times. An over all average is 3.71 times with a negative growth of -54.05%.

The ratio is in a decreasing trend, it decreased from 3.72times to 2.06 times between the years 2020-21 to 2023-24 because except 2021-22, during last seven years cost of goods sold is less increased than average inventory. It means average inventory is more increased compared to cost of goods sold. This low ratio (decreasing trend) 3.72, 3.67, 2.79, 2.18, 2.54 and 2.06 times from the year 2020-21 to 2023-24, indicates that the over investment in inventories or more inventories holding by the company compared to earlier years. It means more money is required to maintain it. It indicates that the poor management of inventory in the company compared to first year of study period.

The mean value of ITOR 3.71 times reveals that the proper management is required in the company while negative growth rate shows that investment in inventories are more increased compared to earlier years.

**Average Collection Period ratio = 365days / Debtors Turnover**

Average collection period means the number of days over which debtors remain uncollected. A shorter collection period shows that the prompt payment by the debtors while a longer period reflects delay in payments by debtors. Fast recovery is the indication of good debtors and less profitability of bed and unrecoverable debts. On the other hand, delay in recovery of debts in a business indicates increased in the amount of bed debts and inefficiency of management of relaxation in credit terms.

**TABLE 6****Debtors Turnover Ratio & Average Collection Period of ACC Limited**

| <b>Year</b>    | <b>Gross Sales</b> | <b>Average Debtors</b> | <b>Ratio (times)</b> | <b>ACP (Days)</b> |
|----------------|--------------------|------------------------|----------------------|-------------------|
| <b>2016-17</b> | 5123.32            | 600.6                  | 8.53                 | 40                |
| <b>2017-18</b> | 5478.02            | 610.23                 | 8.97                 | 42                |
| <b>2018-19</b> | 5395.32            | 618.6                  | 8.72                 | 42                |
| <b>2019-20</b> | 5973.99            | 676.87                 | 8.83                 | 41                |
| <b>2020-21</b> | 7543.47            | 608.73                 | 12.39                | 29                |
| <b>2021-22</b> | 10454.67           | 851.95                 | 12.27                | 30                |
| <b>2022-23</b> | 11336.34           | 1781.74                | 6.36                 | 57                |
| <b>2023-24</b> | 11300.34           | 1700.74                | 6.64                 | 57                |

As per Table 6, in case of ACC Limited., the debtor turnover ratio is in a fluctuating trend.

This trend is respectively 8.53, 8.97, 8.72, 8.83, 12.39, 12.27 and 6.36 and 6.64 during the

study period. It fluctuates between 8.53 to 12.39 times during the study period. An average is 8.75 times with a positive growth rates 10.23%.

Moreover positive growth rate of DTOR indicates that turnover of debtors into sales increased at the end of the study period while negative growth rate is (-9.52%) which is very positive for debtors management and liquidity point of view because collection period decreases from the earlier years.

**Cash Turnover Ratio = Net Sales / Average Cash**

Cash turnover ratio shows the number of times the average cash balance of company's turned over during the year. The higher the turnover, the less cash balance required for any given level of sales and other thing being equal, implies greater efficiency. While a low turnover ratio suggest that a large cash balance is required for a given volume of sales. It should be kept in mind that neither a too large nor a small cash turnover situation is desirable for any company. However the industry average may serve as a useful guide in this direction.

**TABLE 7****Cash Turnover Ratio of ACC LIMITED**

| <b>Year</b>    | <b>Net Sales</b> | <b>Average<br/>Cash</b> | <b>Ratio (times)</b> |
|----------------|------------------|-------------------------|----------------------|
| <b>2016-17</b> | 3569.23          | 70                      | 50.98                |
| <b>2017-18</b> | 3978.23          | 80                      | 49.72                |
| <b>2018-19</b> | 4943.24          | 76                      | 65.04                |
| <b>2019-20</b> | 5611.27          | 122.29                  | 45.88                |
| <b>2020-21</b> | 6967.66          | 77.64                   | 89.74                |
| <b>2021-22</b> | 9603.44          | 185.33                  | 51.82                |
| <b>2022-23</b> | 10280.60         | 243.86                  | 42.16                |
| <b>2023-24</b> | 10300            | 245.00                  | 42.04                |

As seen in Table- 7, CTOR of ACC Limited is highest with 89.74 times in the year 2020-21 while it is lowest with 42.04 times in the year 2023-24. An overall average is 79.06 times



with a negative growth of -71.80%. This negative growth rate shows that CTOR of BSW has been decreased from the previous year of study period.

Both component of CTOR increased but average cash more increased than sales so ratio decreased one in this year which is respectively 50.98 times in 2016-17 and 49.72 in 2017-18, 65.04 times in 2018-19 and 45.88 times in 2019-20 but after that average cash again decreased in 2020-21 therefore ratio increased with 89.74 times in the year 2020-21. At the end of the study period, both components increased but average cash more increased than sales so that ratio decreased and stable at 42.16 times at the end of the study period.

**Current Assets to Total Assets Ratio = Current Assets /Total Assets\*100**

In total assets, percentage of current assets is normally 60% to 70% of the total assets. It is very important to analyze total assets because fixed assets are financed through long-term sources and current assets are financed through short-term sources. If the portion of fixed assets has decreased and the portion of current assets has increased, it means that current assets are financed through long-term funds, which shows the financing pattern of working capital within an industry.

**TABLE 8**  
**CATA Ratio of ACC LIMITED.**

| <b>Year</b>    | <b>Current Asset</b> | <b>Total Asset</b> | <b>Ratio (times)</b> |
|----------------|----------------------|--------------------|----------------------|
| <b>2016-17</b> | 1193.57              | 10089.56           | 11.82                |
| <b>2017-18</b> | 1297.28              | 11556.02           | 11.22                |
| <b>2018-19</b> | 2743.65              | 12137.48           | 23                   |
| <b>2019-20</b> | 3770.21              | 17328.9            | 22                   |
| <b>2020-21</b> | 5017.19              | 25254.94           | 20                   |
| <b>2021-22</b> | 5473.43              | 33450.87           | 16                   |
| <b>2022-23</b> | 9579.04              | 43261.61           | 22                   |
| <b>2023-24</b> | 9600.04              | 4300.61            | 22                   |

As per Table- 8, in case of ACC Limited, percentage of CA to TA has decreasing trend during entire study period. It decreased from 16% in 2021-22 and stable at 22% at the end of the study period. An overall average is 28% with a growth of -50%.

## **CHAPTER-4**

### **FINDINGS & SUGGESSTION**

#### **SUMMARY OF FINDINGS**

The major findings of the study on the basis of analysis of the data are summarised below:

- The highest current ratio of ACC Limited indicate that there is a more liquidity during this year (except in the year 2016-17 which is respectively 1.56).
- During this year 2023-24, the ratio is twice than its ideal ratio 2:1 (which is 4.43 times).
- Liquid ratio of ACC Limited Indicate that there is a sound liquidity position in the company while growth rate shows that liquid assets and liquid liabilities both increased at the last year of study period.
- The quick ratio of ACC Limited is in a fluctuating trend which is respectively 0.08, 0.08 0.09, 0.07, 0.02, 0.21 and 0.07.
- The quick ratio is very low from the ideal ratio 0.50:1. So this situation shows that in the company, shortage of liquidity. Company can't pay its immediate business obligations because of shortage of liquidity.
- In case of ACC Limited., during 2016-17 to 2022-23, the WCTOR is in an decreasing trend.
- From the year 2020-21 to 2023-24, the ratio is in a decreasing trend because net working capital and net sales, both components are increased but increasing trend of net working capital is more from the net sales so ratio is more decreased in this period.

- Moreover, the mean value (3.13 times) of WCTRO of ACC Limited. indicates that the capital is not sufficiently active in this decade while negative growth rate shows that turnover of net working capital into sales is decreased from the previous year.
- ITOR of ACC Limited. gradually decreased in the year 2023-24.
- In case of ACC Limited., the debtor turnover ratio is in a fluctuating trend.
- The negative growth rate shows that CTOR of BSW has been decreased from the previous year of study period.
- Both components of CTOR increased but average cash more increased than sales so that ratio decreased and stable at the end of the study period.
- The percentage of CA to TA has decreasing trend during entire study period.

## **CHAPTER-5**

### **CONCLUSION**

Working capital management involves the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash.

It is the management of all aspects of both current assets and current liabilities, so as to minimize the risk of insolvency while maximizing return on assets.

The primary objective of working capital management is to ensure that sufficient cash is available to:

- meet day-to-day cash flow needs;
- pay wages and salaries when they fall due;
- pay creditors to ensure continued supplies of goods and services;
- pay government taxation and providers of capital dividends; and
- ensure the long term survival of the business entity.

It is critical to understand that Profit is not Cash. A company can be very profitable but it can collapse simply because it has insufficient cash / liquidity to pay its relevant bill.

Any company's liabilities are settled with cash and not by profit.

Importance in Optimizing Working Capital Management:

Poor working capital management can lead to:

- over-capitalization; and
- overtrading

Characteristics of over-capitalization are excessive stocks, debtors, and cash, low return on investment with long term funds tied up in non-earning short term assets.

Overtrading leads to escalating debtors and creditors, and if unchecked, ultimately to cash starvation.

- Working Capital is the amount of Capital that a Business has available to meet the day-to-day cash requirements of its operations.
- Working Capital is the difference between resources in cash or readily convertible into cash (Current Assets) and organizational commitments for which cash will soon be required (Current Liabilities).
- It refers to the amount of Current Assets that exceeds Current Liabilities (i.e. CA - CL).
- Working Capital refers to that part of the firm's Capital, which is required for Financing Short-Term or Current Assets such as Cash, Marketable Securities.
- Debtors and Inventories. Working Capital is also known as Revolving or Circulating Capital or Short-Term Capital

By concluding the study about the financial strength of ACC Limited it can said that the financial strength of the company is good enough. ACC Limited has sufficient funds to meet its current obligation every time which is due to sufficient profits and efficient management of ACC Limited

Cash management and receivable management are too much good because of centralized control on these. Raw material for the all units of ACC Limited is purchased by corporate office in bulk which is the best way. Safety measures for inventories are also quiet sufficient in company. Overall the Financial management of ACC Limited. is very much efficient.

## **EXPECTED CONTRIBUTION FROM THE STUDY**

Working Capital management is the management of assets that are current in nature. Current assets, by accounting definition are the assets normally converted in to cash in a period of one year. Hence working capital management can be considered as the management of cash, market securities receivable, inventories and current liabilities.

The main aim of the study is to analyze the liquid capital need of the business firm to maintain the smooth flow of the production process as well as organizational setup.

The study is to solve the problem of improper management of working capital that leads not only to decrease in profit but also to ultimate failure of business, which otherwise might be considered as a promising business unit. Due to the adoption of the credit squeeze policies by the commercial banks and the inflationary trend during the last few years, industries have been finding it difficult to procure adequate working capital funds.

Working Capital, so called life blood of the business is the basic ingredient of each and every kind of business, whatever is the nature of business. The working Capital requirement is omnipresent, infect no organization can survive exclusively relying upon fixed investments.

The business concerns have, therefore, to optimize the use of the available resources through the efficient and the effective management of working capital. The present study shall attempt a detailed examination of the management of working capital in the ACC Limited



## **SUGGESTIONS**

Major suggestion to ACC Limited are given below

- The company ACC Limited should try to reduce personnel expense. By reducing these expenses companies can transfer more amounts to retained in business in ACC Limited.
- The company should try to increase exports. This can be done with the support of government which should allow export incentives to the company.
- Management should make the proper use of inventory control techniques like fixation of minimum, maximum and ordering levels for all the items for less blockage of money.
- Due to competition prices are market driven and for earning more margin company should give the more concentration on cost reduction by improving its efficiency
- The investments of surplus funds are made by the corporate office and the unit is not generally involved while taking decisions with regard to structure of investment of surplus funds. The corporate office should involve the units so as to better ascertain the future requirements of funds and accordingly the investments are made in different securities.
- The company is losing its overseas customers due to decrease in exports so the sufficient amount of exports should be maintained.

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