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E: ISSN NO.: 2455-0817 Remarking An Analisation

Financial Appraisal of Working Capital of Textiles Companies in India

Abstract

Working capital represent a large portion of the total investment in every textile company. In times of raising capital cost and scarcity of funds the area of working capital management assumes added importance. A textile companies profitability and liquidity are deeply influenced by the way its working capital is managed. The main aim of working capital management is to arrange the needed funds adequately from the proper sources.

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Introduction

In financial management, two important decisions are very vital and crucial they are decision regarding fixed assets and capital decision regarding working capital/ current assets both are important and firm always analyses they are effect to final impact upon profit ability and risk. Working capital is just like a heart of business. The object of working capital management is to manage firm current assets and liability in such a way that satisfactory level of working capital.

Objective of the Study

The main aim of study working capital is to measure of firms efficiency and its current financial health. It also object of working capital its to ensure smooth working operating cycle of business. The superior objective of financial management is wealth maximization and profit maximization of companies.

Meaning and Definition of Working Capital

The funds needed for financing and operating cycle in a business are known as working capital. Kulshrestha remarks that "working capital is just like the heart of business. If it becomes week the business can hardly prospher and survive, sooner or later it will be topple down". Working capital is most commonly defined as the excess of current assest of a business over current liabilities owned to employees and others.

1. Net Working capital
2. Gross working capital

Objective of Working Capital

1. Smooth working capital operating cycle – this implies that operating cycle is that the cycle starting from acquisition of row material to its conversion to cash should be smooth.
2. Lowest working capital – working capital here refresh to the current assets less current liabilities. Its should be optimized because higher working capital means higher interest cost and lower working capital means risk of disturbance of operating cycle.
3. Minimize rate of interest: cost can be minimize by utilizing long terms funds but in a proper mix.
4. Optimal return on capital assets investment: the return on the investment made in current assets should be more weighted average cost of capital so as to ensure wealth maximization of the owner.

Concept of Working Capital

The term working capital is one of the main understood terms in modern accounting terminology. There seems to be no unanimity as regards the concept amongst its users. According to this concept working capital includes fixed tangible and intangible assets to the extent of next year depreciations or amortization. Based on this concept some authority on the subject have argued that the assets side of balance sheet should be reclassified by splitting the amount traditionally shown under fixed assets into working and nonworking category. Every textile company wants to know the real value or positions of debt paying capacity or liquidity positions. Thus:-

1. Net concept enables the creditors and investors to judge the financial soundness of textile company.

2. The current financial positions of textile company having the same amount of current assets with the help of this concept.
3. The excess of current assets over current liabilities is the amount can be realized upon to meet contingencies and emergencies.
4. In the long run the matter is the surplus of current assets over current liabilities.

Cycle of Working Capital

There is an urgent need for working capital in the form of current assets to deal with the problem of cash against goods sold. In this modern era it is must to have funds to operate the business of the textile company due to credit sales and purchases. It is also necessary to keep sufficient amount of working capital to run the business of textile company efficiently it is known working capital cycle or operating cycle or cash cycle.

Following are some important stages of working capital cycle

1. Conversion of cash into raw material.
2. Conversion of raw material into work in progress.
3. Conversion of work in progress into finished goods.
4. Conversion of finished goods into debtors and bills receivable through sales.
5. Conversion of receivables into cash.

Factors Affecting of Working Capital

Every textile company needs working capital to operate its functions smoothly. Thus working capital is called backbone of every type of business concern. In the absence of proper planning of working capital textile company may have at one time inadequately working capital and other time excess working capital therefore working capital must be in sufficient at quantity in relation to current assets of textile company to provide against the danger arising from shrinkage in the value of current assets now it is clear for effective management of working capital, financial manager of each textile company spends lot of his time in managing current assets because lack of working capital draws his attention towards the profit or loss textile company.

1. Size and location of textile company
2. Credit policy of textile company
3. Activity of textile company
4. Realization from sundry debtors
5. Nature of textile companies business
6. Profit planning and control
7. Attitude towards risk
8. Change in technology
9. Inventory turnover
10. Cash requirement

Reasons for Maintaining Adequate Working Capital

1. Currents funds may be invested in non current assets
2. It enables a textile company to extend favourable credit terms to customers
3. To pay all current liabilities soon and to take benefit of cash discount
4. Management may fail to obtain funds from sources for purposes of expansion
5. It protects a textile company from adversed effects of shrinkage in the value of currents assets

Working Capital Analysis in Actual Practice

Current Ratio

	Kesoram Industries	Arvind Mills	Raymond Textile	Grasim Textile	Bombay Dyeing	Alok Industries
17-Mar	1.08	0.81	1.1	0.63	1.47	0.69
16-Mar	1.3	0.83	1.2	0.85	1.6	0.91
15-Mar	1.14	0.85	1.18	1.13	1.22	0.98
14-Mar	1.16	0.75	0.83	1.25	1.42	0.98
13-Mar	1.3	0.67	0.95	0.77	1.59	0.77

This is none companies has been able to maintain ideal current assets ratio 2:1 bombay dyeing and kesoram and Raymond has been in position to maintain there current assets above there current liabilities but in rest of companies current liabilities more current assets

Return of Capital Employed (%)

	Kesoram Industries	Arvind Mills	Raymond Textile	Garden Silk Textile	Bombay Dyeing	Alok Industries
17-Mar	16.97	14.2	10.93	3.84	8.16	-15.27
16-Mar	12.94	16.33	11.5	3.32	14.47	20.38
15-Mar	18.38	15.64	9.31	-1.69	14.58	21.92
14-Mar	12.53	13.29	7.32	-0.11	8.08	21.92
13-Mar	6.61	15.19	8.97	2.04	20.82	12.91

Bombay dyeing, arvind mills, alok industries are over avarge industry retain while that Raymond and garden textile is below average industry return.

Net Profit Margin (%)

	Kesoram Industries	Arvind Mills	Raymond Textile	Garden Silk Textile	Bombay Dyeing	Alok Industries
17-Mar	11.68	5.89	2.93	-5.91	-4.62	-31.67
16-Mar	6.25	7.22	3.78	-5.4	1.03	1.57
15-Mar	12.6	7.56	4.73	-4.7	0.91	4.6
14-Mar	7.78	6.91	-2.35	-2.72	3.24	4.61
13-Mar	2.79	12.42	2.99	-2.24	2.77	4.27

Arvind textile have average net profit margin above industry retain while rest of companies has net profit margin below the average industry net profit margin.

Debt Equity Ratio

	Kesoram Industries	Arvind Mills	Raymond Textile	Garden Silk Textile	Bombay Dyeing	Alok Industries
17-Mar	0.53	0.97	0.95		5.4	11.29
16-Mar	0.58	0.97	0.93	9.64	2.82	2.45
15-Mar	0.97	0.95	1.13	4.85	2.27	2.7
14-Mar	1.2	0.97	0.98	3.3	2.06	2.7
13-Mar	1.22	0.93	0.91	2.57	1.96	3.05

That garden silk, alok industry and Bombay deyeing has leveraged their port folio by including more of debts along with equities. Arvind textile and Raymond textile and involved of debts that equities.

Review of Literature

Kumar neeraj and kaur kuldip (2016) made an attempt to test the size and profitability relationship in textile industry. For profitability analysis two different measures have been used first ratio of net profit to total sales turn over. Second ratio net income to net assets + working capital

Mathur shivam & agarwal krati (2017) ratio are an excellent and scientific way to analyzed the financial performance of a any firm this indicators help the investors to invest right company for excpeted profit

Jothi.k. & geethalakshmi A (2016) this study tries to financial position of selected textile company using statistical tools like ratio, mean.

Demirguesk (2015) intend to analyse the effect of working capital on firms profitability to considered statistically significant relationship between firm profitability and component of case conversion cycle

Ranudujanaki p. (2016) attempted to analysed both concept and research based studies. Working capital may be regared as the life blood of any business unit. Its effectively management can do much more to the success of business

Prof. Roland Smith,(2017) Say that "Working capital is usually defined as excess of current assets over current liabilities and is calculated as Current Assets minus Current Liabilities in the balance sheet. If current assets are more than current liabilities, this is a surplus figure and, if less, a negative figure".

Criscent Ike Eya (2016) "This study examined the impact of working capital management on firm performance using Nestle Food Nigeria plc as a case study. The study was anchored on Behavioral Finance Theory.Economic Order Quantity (EOQ) Model and Theory of Capital Movement".

Mawutor (2014) and Kodithu wakku (2015) on manufacturing companies of Ghana (2006-2010) and manufacturing companies listed on Columbia Stock Exchange (2008-2012) respectively presented a similar view. The results showed that the working capital management had significantly negative influence on the profitability. Further, it was also shown in the analysis that the variables like growth, the size of the company and debt-equity ratio also had a strong influence on the profitability apart from the working capital management.

Oladipupo and Okafor (2013) examined the implications of a firm's working capital management practice on its profitability and dividend payout ratio. The study focused on the extent of the effects of working capital management on the Profitability and Dividend payout Ratio.

Conclusion

Working capital is the backbone of business concern working capital has two concept gross working capital and net working capital working capital is the number of dollars worth of current assets not earmarked required other for payment of current liabilities it also covers the question of judicious mix of long term and short term funds for financing current assets for every textile company there is a minimum amount of net working capital which is permanent in nature working capital represent a large portion of total in every textile company the main aim of working capital management is to arrange needed funds adequately from proper source and for the time period involved so that trade of between liquidity and profitability may be realized.

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