

**A STUDY ON ANALYSIS OF WORKING CAPITAL MANAGEMENT IN
JYOTHY LABORATORIES PVT LIMITED AT PONDICHERRY**

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Abstract

Working capital may be regarded as life blood of a business. Working capital management is a process of planning and controlling the level and mix of the current assets of the firm as well as financing these assets. A study of working capital is of major importance to internal and external analysis because of its close relationship with the day-to-day operation of a business. Even in a well-established business with a long history of successful operation, careful attention to the management of working capital results in greater profitability. Funds which are needed for short term purpose for the purchase of raw materials, payment of wages and other day-to-day expenses are known as working capital. Long-term funds are required to create production facilities such as purchase of plant, machinery, land, building, furniture's, etc., Investment in these assets represent that part of the firm's capital which is permanently blocked and it is called as fixed capital. Funds are also needed for short-term purpose for the purchase of raw materials, payment of wages and other day-to-day expenses. The working capital may rightly to be called as the circulating or revolving capital, because current asset keep revolving fast and are being constantly converted into cash and this cash flows out again in exchange for other current assets.

INTRODUCTION:

Long-term funds are required to create production facilities such as purchase of plant, machinery, land, building, furniture's, etc., Investment in these assets represent that part of the firm's capital which is permanently blocked and it is called as fixed capital. Funds are also needed for short-term purpose for the purchase of raw materials, payment of wages and other day-to-day expenses. These funds are known as working capital. The working capital may rightly to be called as the circulating or revolving capital, because current asset keep revolving fast and are being constantly converted into cash and this cash flows out again in exchange for other current assets. According to Genestenberg "Circulating capital means current assets of a company that are changed in the ordinary course of business from one from to another". According to the Institute of Chartered Accountant of India "Working capital means the funds available from day-to-day operations of an enterprise". In the words of Shubin, "Working capital is the amounts of funds necessary to cover the cost of operating the enterprise".

COMPANY PROFILE

JYOTHY LABORATORIES was founded in 1983 by a promising entrepreneur MP Ramachandran in Thrissur, Kerala. He began his dream project, JYOTHY LABORATORIES with Rs. 5000 and a vision to create an impact by touching people's lives. What began as a proprietary concern that manufactured and sold a single product in a single district has grown to become a multi-brand, multi-product company with operations all over the country. Today, with a group turnover of Rs. 1600 Crores, it is hailed as one of the most trusted brands. It is known for its products that are reasonably priced, conveniently packaged, extensively distributed and supported by strategic communication JYOTHY LABORATORIES continues research and development, these insights help in

offering innovative products while ensuring enhanced value from existing brands. The fact that each brand from the Jyothy portfolio makes a positive difference to the lives of millions is our greatest inspiration –egging to do more.

STATEMENT OF THE PROBLEM

The chief finance officers of most companies spend most of their time and effort on day-to-day working capital management. Still, due to the inability of financial managers to properly plan and control the current assets and current liabilities of their companies, the failure of a large number of businesses can be attributed to the inefficient working capital management in-adequate working capital leads the company to bank raptly. On the other hand, too much working capital results in wasting cash and ultimately the decrease in profitability. This is another modest contribution to bridge the research gap in the working capital management and profitability of breweries in Jyothy Laboratories Limited using more recent data.

OBJECTIVES OF STUDY

- To know the overall operational efficiency and performance of the Jyothy laboratories limited.
- To interpret the financial position of the company of is appropriate or not.
- To asses long term financial viability of the company to know whether the management is constantly concerned about the overall profitability of the company or not.
- To disclose to the extent possible other information related to the financial statement users.

SCOPE OF THE STUDY

The scope of the present study on composes within its fold a theoretical frame work of working capital management. In general, analysis of working capital trends, relationship of working capital to sales, liquidity of working capital, analysis of management of components of working capital and the management of working capital finance in the select unit. The period covered by the study in five years from 2015 to 2019.

RESEARCH METHODOLOGY

Research methodology is a systematic way of solving the problem. It includes the overall research design, the sampling procedure, data collection method and analysis procedure. The researcher is analyzing the past data and predicts the future trend, it is naturally comes under analytical research design. This study contains the working capital analysis for the period of five years from 2014-2015 to 2018-2019. The accounting year is starting from 1st April to 31st March. The following tools and techniques of financial analysis are used as a measure of judging the degree of efficiency of financial performance analysis of the company. Ratio analysis, trend analysis and correlation

DATA ANALYSIS AND INTERPRETATION

a) CURRENT RATIO

Current ratio is defined as the ratio of current asset to current liabilities. The objective of computing this ratio is to measure the ability of obligations in time. The current ratio of 2:1 is considered satisfactory or ideal.

$$\text{Current ratio} = \frac{\text{Current asset}}{\text{Current liabilities}}$$

TABLE 1:

(Rs.in crores)

Year	Current Assets	Current Liabilities	Ratio
2014-2015	10381.25	9167.99	1.13
2015-2016	13300.99	9406.97	1.41
2016-2017	13630.86	11273.77	1.21
2017-2018	19707.36	14580.37	1.35
2018-2019	15288.42	12831.31	1.19

Source: Annual report of Jyothy Laboratories Limited.

Interpretation

The table shows that the current ratio of Jyothy Laboratories Limited. As a conventional rule a current ratio of 2:1 or more is considered to be the best. Here the company is maintaining an average of 1.26 which is not ideal. The highest ratio is in the year 2017-2018 (1.35) and lowest in the year 2014 – 2015 (1.13). In 2018 current assets are decreased to 15288.42. The performance of the market and the changes in the price of automotive parts and vehicles were greatly affected the current asset of the company. The ratio shows that current assets are more than the current liabilities indicate the company's ability to pay its current obligations.

b) INVENTORY TURNOVER RATIO

Inventory means stock of raw materials, working progress and finished goods. This ratio is used to measure whether the investment in stock in trade is effectively utilized or not. Stock turnover ratio indicates the number of times the stock has been turned over in business during a particular period.

$$\text{Inventory turnover ratio} = \frac{\text{Net sales}}{\text{Inventories}}$$

TABLE 2: (Rs.in crores)

Year	Sales	Inventory	Ratio
2014-2015	58969.99	6258.56	9.42
2015-2016	77035.92	9044.77	8.52
2016-2017	97560.22	8661.26	11.26
2017-2018	110546.76	10603.84	10.43
2018-2019	135237.70	6823.92	19.82

Source: Annual report of Jyothy Laboratories Limited

Interpretation

Table shows the inventory turnover ratio of Jyothy Laboratories Limited. The ratio shows the fluctuating trend in entire study period. In 2019 the ratio was very high due to increase in sales. During the year 2018 - 2019 retail sales of the company grew over the previous year. The growth in sales can be partly attributed to the fact that competitors had reduced their production.

c) WORKING CAPITAL TURNOVER RATIO

Current assets will change with change in sales. This means working capital is related with sales. The relation between sales and working capital is called working capital turnover ratio. This ratio shows how many times the working capital is turned over to produce sales. Working capital turnover ratio is computed by the following formula:

$$\text{Working capital turnover ratio} = \frac{\text{Net sales}}{\text{Working capital}}$$

TABLE 3: (Rs.in crores)

Year	Sales	Working Capital	Ratio
2014-2015	58969.99	1213.26	48.60
2015-2016	77035.92	3894.02	19.78
2016-2017	97560.22	2357.09	41.39
2017-2018	110546.76	5126.99	21.56
2018-2019	135237.70	2457.11	55.04

Source: Annual report of Jyothy Laboratories Limited

Interpretation

The above table shows that the working capital turnover ratio of Jyothy Laboratories Limited. The highest ratio was 55.03 in the year 2018– 2019 and lowest ratio 19.78 in 2015 – 2016. The working capital position of the company shows increasing trend and it indicates that the company is generating a list of sales compared to the money it uses to fund the sales.

d) CURRENT ASSET TURNOVER RATIO

This ratio shows the relationship between sales and current asset of the company. It indicates the number of times current asset turnover in the business to generate sales volume and also for analyzing the efficiency with which the current asset of the company are used in the business. High ratio indicates the efficient use of inventories and receivables to increase sales volume.

Net sales

Current asset turnover ratio= _____

Current asset

TABLE 4:

(Rs.in crores)

Year	Sales	Current Asset	Ratio
2014-2015	58969.99	10381.25	5.68
2015-2016	77035.92	13300.99	5.79
2016-2017	97560.22	13630.86	7.16
2017-2018	110546.76	19707.36	5.61
2018-2019	135237.70	15288.42	8.85

Source: Annual report of Jyothy Laboratories Limited

Interpretation

The table shows that the current asset turnover ratio of Jyothy Laboratories Limited. The table of current asset turnover ratio ranging from 5.68 to 8.85. It is highest in the year 2018 – 2019 and lowest in the year 2017-2018. The basic reason for this was decreased loans and advances outstanding. After that decrease in ratio is because of increase in sales and decrease in current asset.

e) CURRENT ASSET TO TOTAL ASSET RATIO

This ratio shows the relationship between current assets and total assets indicating number of times the current asset utilized from total assets. The effect of the level of current asset on profitability risk trade off can be shown by using this ratio.

Current asset

Current asset to total asset ratio = -----

Total asset

TABLE 5:

(Rs.in crores)

Year	Current Asset	Total Asset	Ratio
2014-2015	10381.25	17381.37	0.60
2015-2016	13300.99	23218.36	0.57
2016-2017	13630.86	24611.90	0.55
2017-2018	19707.36	31676.03	0.62
2018-2019	15288.42	27254.21	0.56

Source: Annual report of Jyothy Laboratories Limited

Interpretation

The table shows that the current asset to total asset ratio of Jyothy Laboratories Limited. In the table the ratio is ranging from 0.60 to 0.56. The ratio which is highest in the year 2017 – 2018 and lowest in the year 2016 – 2017. In 2018 – 2019 the ratio shows that decreasing trend. In 2018 – 2019 current asset and total asset of the company also shows decreasing trend. Decrease in ratio shows an increase in profitability as well as the risk

f) TREND ANALYSIS

Trend percentages are similar to horizontal analysis except that comparisons are made to a selected base year or period. Trend percentages are useful for comparing financial statements over several years because they disclose changes and trends occurring through time.

Analysis Year Amount – Base Year Amount

$$\text{Trend Percentage} = \frac{\text{Analysis Year Amount} - \text{Base Year Amount}}{\text{Base Year Amount}} \times 100$$

TABLE TREND PERCENTAGE OF WORKING CAPITAL

Year	Working Capital (in crores)	Trend percentage
2014-2015	1213.26	100
2015-2016	3894.02	320.95
2016-2017	2357.09	194.28
2017-2018	5126.99	422.58
2018-2019	2457.11	202.52

Source: Annual report of Jyothy Laboratories Limited

The table shows that the trend percentage analysis for the working capital of the Jyothy Laboratories Limited. The ratio which shows decreasing trend in the last year because in the last year the company shows decreasing trend in the current asset and current liabilities. The highest ratio was in the year 2017 – 2018 and lowest ratio was in the year 2016 – 2017. The performance of the market and the changes in the price level of automotive parts greatly affected the current asset of the company.

PEARSON CORRELATION COEFFICIENT

Pearson correlation coefficient is a very helpful statistical formula that measures the strength between variables and relationships. In the field of statistics, this formula is often referred to as the Pearson R test. When conducting a statistical test between two variables, it is a good idea to conduct a Pearson correlation coefficient value to determine just how strong that relationship is between those two variables.

CORRELATION BETWEEN CURRENT ASSET AND CURRENT LIABILITIES

YEAR	CURRENT ASSET (X)	CURRENT LIABILITY(Y)	X ²	Y ²	XY
2014-2015	10381.25	9167.99	107770352	84052041	95175196
2015-2016	13300.99	9406.97	176916335	88491085	125122014
2016-2017	13630.86	11273.77	185800344	127097890	153671181
2017-2018	19707.36	14580.37	388380038	212587189	287340601
2018-2019	15288.42	12831.31	233735786	164642516	196170456
TOTAL	72308.88	57260.41	1092602855	676870721	857479448

$$r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{[n(\sum x^2) - (\sum x)^2] [n(\sum y^2) - (\sum y)^2]}}$$

$$R = \frac{4287397240 - 4140436115}{\sqrt{(5463014275 - 5228574127) (3384353605 - 3278754553)}}$$

$$R = \frac{146961124.6}{157342484}$$

$$R = 0.93402062$$

CORRELATION CONCLUSION

It is found that there is a high positive correlation between current assets and current liabilities of the concern. The correlation would negative or positive would depend upon the direction of changes of variables like current assets and current liabilities. The variables are varying in the same direction that is either increasing or decreasing is said to be positive correlation. In the table both the current asset and current liabilities are showing increasing trend but in the last year the company shows decreasing trend in current assets and current liabilities.

FINDINGS FROM THE STUDY

- In the case of current ratio, the company has maintained an average of 1.26:1 which is not ideal for a growing company because the standard ratio is 2:1
- The inventory turnover ratio which shows increasing trend in 2018 – 2019.

- Working capital turnover shows increasing trend in 2018 – 2019. It indicates that the company is generating a lot of sales compared to the money it uses to fund the sales.
- In current asset turnover ratio the company shows increasing trend in 2018 – 2019. The basic reason for this was decreased loans and advances outstanding.
- In 2018 – 2019 current asset to total asset of the company also shows decreasing trend. Decrease in ratio shows an increase in profitability as well as the risk.
- It is found that the trend percentage of current asset shows increasing trend but in the last year it shows decreasing trend.
- It is found that there is a positive correlation exist between current asset and current liabilities.

SUGGESTIONS AND RECOMMENDATIONS

On the basis of above findings, the following suggestions have been put forward to improve working capital management of Jyothy Laboratories Limited.

- Production plant modernizes its activities as per the requirement of the statutory bodies, but due to heavy competition in market by emerging new similar automobile spare supply industries will reduce the demand for at least few of the Jyothy Laboratories Limited products. Hence the industry should give more importance to find new areas of market and research of new product of great demand to sustain in the long run.
- The working capital turnover ratio which shows a decreasing trend in 2017 – 2018, then it shows increasing trend in 2018 - 2019 which is in favor of the company. Thus this has to be maintained.
- As the current ratio of the company is not ideal the company should improve its liquidity position by improving its current asset.

- The management should take necessary step to maintain the liquidity position in coming years.
- The working capital has to be utilized efficiently by preparing working capital budgets so that long term and short term working capital needs can be properly estimated.
- The company should make a wide investment plan which yields them higher return.

CONCLUSION

During the period of study, it is observed that the company's financial position has to be improved. The working capital turnover ratio which shows increasing trend in 2018-2019 because of increase in sales and it indicates that the company is generating a list of sales compared to the money it uses to fund the sales.

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