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A STUDY ON WORKING CAPTIAL MANAGEMENT OF INDIAN TOBACCO COMPANY LTD

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ABSTRACT

A well designed and implemented working capital management has a significant contribution for firm's profitability as well as to maintain liquidity powers. The purpose of this study is to assess working capital adequacy and its impact on profitability; to investigate the relationship between profitability and liquidity of firms. The management of short term assets and liabilities refers to the management of working capital. Working capital means the amount of funds that a company requires for financing its day-to-day operations. Working Capital includes the current assets and current liabilities areas of the balance sheet. The main objectives of this study are to examine and evaluate the working capital management in Fast Moving Consumer goods industry, examine the management pattern of inventory, liquidity position and receivables management. This also finds the relationship between Working Capital Efficiency and Profitability.

Introduction

Finance is the life blood of a business circulation of blood is necessary for maintaining like in human body. In the same way, finance is absolutely necessary for the survival and smooth running of a business. Finance is necessary to promote a business, purchase fixed assets buy raw materials produce goods and market them. Every business activity requires finance without finance; the business would come to a halt. Therefore finance is the fundamental requirements for any business enterprise, to carry an operations and achieve the goals. It has been rightly stated that business needs money to make more money.

Finance may be defined as the provision of adequate amount of money when it is required. As a management function, it has a wide meaning; finance function is concerned with the procurement of funds and their effective utilization.

Financial Management

"Financial Management is an area of financial decision-making harmonizing individual motives and enterprises goals." - Waston Brigham.

Thus financial management is mainly concerned with the effective funds management is the business. In simple words, financial management as practiced by business firms can be called corporation finance / business finance.

Financial Management, According to Solomon and Pringle, is concerned with the efficient use of important economic resource, namely capital funds; the emphasis of this definition is on effective and optimal utilization of source resource of finance. Waston & Brigham defines financial management on the basis of functions and responsibilities of financial managers.

Objectives of Financial Management

Financial management is concern with the raising of funds and their effective utilization. The firm has to procure the funds at the minimum possible cost to use them effectively. For this purpose the following decision are to be made.

- Investment decisions
- Financial decisions
- Dividend decisions

In orders to make these financial decision rationally, the firm should have a clear objectives. Two important objectives profit maximum and wealth maximum.

Investment Decisions:

Investment decisions include investment in fixed assets (called as Capital budgeting). Investments in current assets are also a part of investment decisions called as Working Capital Decisions.

Financial Decisions:

They related to the raising of finance from various resources which will depend upon decision on type of source, period of financing, cost of financing and the returns thereby.

Dividend Decisions:

The finance manager has to take decision with regards to the net profit distribution. Net profits are generally divided into two:

a) Dividend Shareholders – Dividend and the rate of it has to be decided.

b) Retained profits – Amount of retained profits has finalized which will depend upon expansion and diversification plans of the enterprise.

In order to make these financial decision rationally, the firm should have a clear objective.

Approaches of Financial Management

Approaches to financial management can be discussed under two major heads.

- Traditional Approach
- Modern Approach

Traditional Approach:

This approach is concerned with rising of funds used in organizations. It composes,

a) Instruments, institutions and practices through which funds are augmented.
b) The legal and accounting relationship between a company and its source of funds.

Modern Approach:

This approach is concerned not only with the rising of funds, but their administration also.

This approach encompasses,

- Determination of the sum total amount of funds to employ in the firm.
- Allocation of resources efficiency to various assets.

Statement of the Problem

Tobacco companies are one of the oldest companies in India. Tobacco contributes major percentage of the total value of commercial crops in India generating huge socio-economic benefits in terms of agriculture employment, yarn incomes, revenue generation and foreign exchange earnings. Tobacco growing is highly labour intensive, yet remunerative compared to food crops. In recent years, major changes have taken place in the profile of the tobacco companies.

Objectives of the Study

- To know the working capital of Indian Tobacco Company Ltd (ITC Ltd).
- To analyze the efficiency of working capital management of ITC Ltd.
- To analyze the profit maximization of the firm.
- To summaries findings of the study and offer suggestion for betterment.

Scope of the Study

- This study is about ITC Ltd. Which mainly focuses on the working capital management of the company for the last 5years (2016-2021).

- The study can being to the light into the effectiveness of working capital management.
- It is really significant because the proper working capital management is must for the survival of the business company.
- This gives an idea to the public about liquidity and efficiency of the company.

Research Methodology

Research methodology means provide valuable guidelines to do the project systematically. In other words, it indicates way to collecting, analyzing and

interpreting the data. Data collection is important step in any project and success of project will be largely depend upon how much accurate. It will be able to collect that how much time money and effort will be required to collect that necessary data. This also important step data collection plays an important role in research works.

Period of the Study

This study covers a period of 5 years from 2016-2021.

Types of Data Collection

Primary Data:

The primary data is that data which is collected fresh or first hand and for first time which is original in nature primary data can collect through personal interview, questionnaire etc, to support the support the secondary data.

Secondary Data:

This researcher has collected the secondary data in the last 5 years balance sheet (2016-2021) derived from the annual reports of ITC Ltd. The secondary data are those which have already collected and stored. Secondary data can be easily get from records, journals, annual reports of the company etc.

Analytical Tools

The researcher used major tools to analyze the financial performance of the firm.

- Schedule of changes in working capital.
- Working capital ratio analysis.

Limitations of the Study

- The study relates only to Indian Tobacco Company Ltd., and inference drawn can never be generalizes.
- The period is limited to 5 years 2016-2021.
- The project is confined to the secondary data and annual reports of the company.
- This research is mainly based on working capital management and tools to certain extend.

Review of Literature

Sharma Ashok and Kumar (2011) In this study including effect of working capital on profitability of Indian firms. The researcher finding depart from the various international markets. The result shows that working capital management and profitability in positively correlated in Indian companies. The research shows the inventory of number of day and number of days account payment is negatively whereas number of days accounts receivable and cash corporate profitability.

Saravanan (2012) A research on working capital management in non- banking finance companies. He observes that, medium and large size non- banking companies have efficiently made use of bank credit to finance their working capital requirements.

Smith K.V (2013) In other words, working capital management is concerned with the problem that arise on attempting to manage the current assets and the current liabilities and the interrelationships that exist between them.

K. Madhavi (2014) The researcher defines the ride of working capital management in profitability as well as liquidity power of firm. The researcher get comparative analysis of two paper mill which is located in Andhra Pradesh to examine and evaluate its current financial position, solvency, liquidity, efficiency and profitability by adopting ratio analysis for the year 2002 to 2011 financial year. Finally concluded the study the attention of the management to induce effective utilization of cash balance and quick ratio may be liquidity position.

George (2015) A cross section analysis of balance sheet data of 52 public limited companies for the period 1967-70. Accelerator, internal and external finance variables were considered in the equations for raw materials including goods-in-process and total inventories.

Financial Statement Analysis of Indian Tobacco Company Limited

Ratio Analysis

The analysis of the financial statements and interpretation of financial results of a particular period of operations with the help of 'radio' is termed as "Ratio Analysis" involves process of computing, determining and presenting the relationship of items or group of items of financial statements.

Ratio Analysis is used to determine the financial soundness of a business concern. The term 'Ratio' refers to the mathematical relationship between any two inter-related variables. In other words, it establishes relationship between two items expressed in quantitative form.

Ratio can be defined as 'Relationship expressed in a quantitative terms, between figures which have cause and effect relation or which are connected with each other in some manner or the other'.

Current Ratio

Current ratio may be defined as the relationship between current assets and current liabilities. This ratio is also known as "Working Capital Ratio". It is measure of general liquidity and is most widely used o make the analysis for short term financial position or liquidity of a firm. It is calculated by dividing the total of the current assets by total of the current liabilities.

Current Assets

Current Ratio =

Current Liabilities

Table No. 1

Current Ratio

Year	Current Assets	Current Liabilities	Ratio
2016 - 17	26,269.10	7,121.01	3.69
2017 - 18	26,393.62	9,250.15	2.85
2018 - 19	31,747.27	10,011.99	3.17
2019 - 20	39,505.35	9,559.77	4.13
2020 - 21	34,991.99	10,689.68	3.27

Inference:

The above described the relationship between current assets and current liabilities. In the above table, the ratio was highest as 3.69 in the year 2016 – 17 and lowest as 3.17 in the year 2018 – 19. In the period 2020 – 21, the current liabilities amount was Rs. 10,689.68 increased in the study period. In the period 2020 – 21 the current asset was Rs. 34, 991.99 decreased and increased was in the year 2019 – 20 as Rs. 39,505.35.

Quick Ratio

It is the ratio between quick assets and current liabilities. It is used for measuring short term liquidity or solvency. Quick ratio is useful to verify the trend indicated by the current ratio is verified through the quick or liquid ratio. For this reason liquid ratio is also called as side test ratio.

Quick Assets

Quick Ratio = ------------------------------

Quick Liabilities

Quick Assets = Trade Receivables + Cash & Cash Equivalents

Table No. 2

Quick Ratio

Year	Quick Assets	Current Liabilities	Ratio
2016 – 17	2,814.14	7,121.01	0.39
2017 – 18	2,841.20	9,250.15	0.30
2018 – 19	4,359.84	10,011.99	0.43
2019 – 20	3,219.16	9,559.77	0.33
2020 – 21	2,795.59	10,689.68	0.26

Inference:

From the above table, it describes the relationship between quick assets and current liabilities. In the table the quick ratio was highest as 0.43 in the year 2018 – 19 and has the lowest as 0.26 in the year 2020 – 21. In the period of 2020 – 21, the current liabilities amount was Rs. 10,689.68 increased in the study period. During the study period the quick asset was increased as Rs.

4,359.16 in the year 2018 – 19.

Absolute Liquidity Ratio

This ratio is also called as 'Cash Position Ratio' or 'Cash Ratio' or 'Super Quick Ratio'. This ratio established relationship between absolute liquid assets and current liabilities. Absolute liquid assets include cash, bank and immediately realizable assets.

Cash + Bank Balance Absolute Liquidity Ratio =

Quick Liabilities

Table No. 3

Absolute Liquidity Ratio

Year	Cash + Bank balance	Quick Liabilities	Ratio
2016 - 17	2,967.40	7,121.01	0.42
2017 – 18	2,899.60	9,250.15	0.31
2018 - 19	3,952.03	10,011.99	0.39
2019 - 20	7,277.34	9,559.77	0.76
2020 - 21	4,659.02	10,689.68	0.44

Inference:

The above table shows the relationship between cash with the bank balance and quick liabilities. It is known that in the year 2019 – 20, the absolute liquidity ratio has the highest as 0.76. During the study period the cash with the bank balance is increased in the year 2019 -20 as Rs. 7,277.34. It is the current liability has the increase in the year 2020 – 21 as Rs. 10,689.68.

Net Profit Ratio

This ratio is also known as the "The Net Profit Ratio" (or) "Net Profit Margin". It measures the rate of the profit per unit of sales. It is determined by dividing the net profit of the net sales for the period.

Net Profit

Net Profit = --100

Net Sales

Table No. 4

Net Profit Ratio

Year	Net Profit	Net Sales	Ratio
2016 - 17	10,519.58	58,731.52	17.9
2017 - 18	11,890.78	47,688.55	24.9
2018 - 19	18,162.30	49,862.11	26.3
2019 - 20	14,122.81	51,393.47	27.4
2020 - 21	13,589.79	53,155.12	25.5

Inference:

The above table describes the relationship between net profit and net sales. In 2019 – 20, the ratio has the highest as 27.4. The net profit was increased as Rs. 18,162.30 in the year 2018 – 19 during the period. And the net sales was decreased in the year of the study period as Rs. 47,688.55.

Findings

From the analysis of the study, the following are made by the researcher. With reference to the working capital study of India Tobacco Company Limited. Quantity of working capital is short same of finance.

- ✓ It is found that the current ratio is dissatisfied.
- ✓ It is found that the quick ratio is dissatisfied.
- ✓ It is found that the absolute liquidity ratio is dissatisfied.
- ✓ It is found that the net profit ratio is dissatisfied.
- ✓ In order to achieve the goals of the organization as whole achievement of performance appraisal techniques as very useful.
- ✓ The company has been maintained sufficient amount of working capital in all the years.

Suggestion

The following are the suggestions were by the researcher to the ITC Ltd. to promote its services.

- ✓ The company spend reasonable amount on inventory so that it should be followed.
- ✓ The current ratio is maintained at dissatisfied level. So that company pursues this much of current assets to meet the objectives of the firm.
- ✓ Company is maintained high current assets overcome current liabilities for better results.
- ✓ The company's management should motivate the workers to make large number of sales and make profit.
- ✓ The company should plan to maintain proper cash and bank balance of meet out day-to-day expenses.

Conclusion

Tobacco companies is one of the oldest companies contributes major percentage of total value of commercial crops in India. The Tobacco Company plays a vital role in enhancement of economic growth in which India is second largest tobacco producer & exporter in the world. It's annual turnover earned at US $35 billion. However per any organization increasing the profitability will be the main objective. It is the same for this company too. This study gave the importance and usefulness of financial tool in real time business.

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