

A study on Working Capital Management of Indian Tobacco Company (ITC) Limited

¹Mrs. M. Prema; ²Ms. S. Kowsalya

¹Assistant Professor, Department of Commerce with Computer Applications, Vellalar College for Women, Thindal (India)

²M.Phil Research Scholar, Department of Commerce with Computer Applications, Vellalar College for Women, Thindal (India)

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Corresponding Author

Email: [premadhakshitha\[at\]gmail.com](mailto:premadhakshitha[at]gmail.com)

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. Working Capital Management is the process of planning and controlling the level and mix of current assets of the firm as well as financing these assets. 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.

1. Introduction

The Indian FMCG industry witnessed significant changes through 1990s. By the turn of 20th century, Indian FMCG industries have changed significantly with the liberalization and growth of economy. The realization of the customer's growing interests and the need to meet changing lifestyle required the FMCG producing companies to formulate customer-centric strategies. These changes have positive impact, leading to the rapid growth in the FMCG industry.

The FMCG industry plays a significant role in shaping a country's economy and development. This sector can drive growth, enhance quality of life, create jobs and support penetration of technology. ITC has a diversified presence in Cigarettes, Hotels, Paperboards and Specialty Papers, Packaging, Agri Business, Packaged Foods and Confectionery, Branded Apparel, Greeting Cards, Safety Matches and other FMCG products. The study aims to analyze the working capital issues like liquidity and profitability aspects of the working capital management. It also analyze the various sources of working capital finance

2. Scope of the study

The present study deals with working capital management of ITC Limited. The study provides the management of Fast Moving Consumer Goods (FMCG) companies an idea about the performance of working capital in ITC Limited.

The present study analyses the efficiency of working capital management and its components i.e., inventory, cash and bank balances and various current liabilities.

3. Statement of the problem

A company can be successful only when its financial management is good. In particular its working capital

management should be efficient otherwise its liquidity will be affected, it will give adverse effects to the company.

As a manufacturing firm the profitability of Fast Moving Consumer Goods (FMCG) industry mainly depends on the efficient management of working capital (i.e.,) managing the current assets and current liabilities satisfactorily. The working capital is the most essential issue for maintaining liquidity, continued existence, solvency and profitability of Fast Moving Consumer Goods (FMCG) industry.

This study is designed to show the profitability, working capital position and growth rate of ITC Limited correlation between them and whether the profitability is affected by working capital management.

4. Objectives of the Study

The objectives of the study are as follows:

1. To describe briefly about the profile of ITC Limited.
2. To analyze the working capital position of ITC Limited during the study period of 2012-2013 to 2016-2017.
3. To assess the growth rate of ITC Limited.
4. To analyze the trend and working capital position of ITC Limited.
5. To highlight the findings made through the study and to provide suggestions for the betterment of the company.

5. Research Methodology

Source of data

The data has been collected from the annual reports of ITC Limited. In this study secondary data is collected for analysis. Secondary data of this study is obtained from the published Annual reports of ITC Limited and certain information

is collected from various magazines, journals and company websites.

Period of the study

The study covers a period of five years from 2012-2013 to 2016-2017. The financial year is from 1st April to 31st March.

Tools of analysis

The collected data was analyzed to know the financial position of the company with the help of the following:

- Ratio Analysis
- Growth Rate Analysis
- Working Capital Analysis
- Trend Analysis

6. Limitations of the study

1. The study covers a period of five years from 2012-2013 to 2016-2017. It does not consider changes that have been taken place before and after the period.
2. The figures taken from the financial statement for the analysis were historic in nature and the time value of money is not being considered.

7. Summary of findings

Liquidity Ratio

Current ratio and quick ratio shows an increasing trend during the study period except the period of 2015-2016 and the absolute liquid ratio shows the fluctuating trend during the study period from 2012-2013 to 2015-2016. Hence the liquidity ratio position of the company is quite satisfactory.

Working Capital Ratio

Gross working capital to fixed assets ratio and gross working capital to sales ratio of the company shows an increasing trend during the period 2012-2013 to 2015-2016. So the position of the company is quite satisfactory.

Working capital turnover ratio has the fluctuating trend during the study period which shows the unsatisfactory activity level towards working capital.

Annual Growth Rate Analysis

Operating profit of the company shows a decreasing trend throughout the study period 2012-2013 to 2015-2016. Hence the growth rate of operating profit is not satisfactory.

The growth rate of the shareholders fund has the highest a fluctuating trend throughout the study period. Hence the growth rate position of shareholders fund is quite satisfactory.

Fixed Assets of the company reveals the increasing trend during the study period except in the period of 2014-2015. Hence the growth rate of the fixed assets position is good.

The growth rate of the income shows a fluctuating trend throughout the study period. So the growth rate of the income is not satisfactory.

The sales value of the concern shows a decreasing trend during the study period. It shows the sales position of the company is not good.

Cash, Inventory And Receivable Ratio

Cash Ratio

Cash turnover ratio shows an increasing trend throughout the study period 2012-2013 to 2016-2017 except in the year 2014-2015 which shows decreasing trend. Hence the cash turnover ratio position of the company is quite satisfactory.

Cash to current assets ratio indicates that the capacity of the company to realize liquidity position. And the ratio shows the higher profitability and lower liquidity position during the study period.

Inventory Ratio

Inventory turnover ratio of the company shows an increasing trend during the period except in the period of 2015-2016. Hence it shows the good inventory management of the company.

Inventory to sales ratio of the concern shows an increasing trend throughout the study period except the period 2016-2017 it shows a decreasing trend. Hence the ratio position is good.

Inventory to current asset ratio ranging between 0.46 times and 0.40 times represent the company's efficient inventory management during the study period.

Receivable Ratio

Debtors turnover ratio reveals that the ratio is above the standard norms (6 times) during the study period. So, the ratio position of the company is satisfactory.

Average collection period of the concern shows a fluctuating trend during the study period. This exhibits that the management can take more steps in collection of debts.

Debtors to current assets ratio and Debtors to sales ratio reveals the fluctuating trend throughout the study period. Hence the ratio position is quite satisfactory.

Trend Analysis

During the study period the trend analysis is increasing continuously from 2374.582 to 7069.274. It is also assumed that the trend may be increased in the upcoming year also without any fluctuations. The trend may be increasing in the forth coming year 2018-2020 as 8242.947, 9416.622 and 10590.295 respectively.

8. Suggestions

The following are the suggestions which have been made to improve the efficiency of working capital management of ITC Limited.

- Liquidity position of the company is satisfactory. So the company has to maintain the same in future also.

- Proper techniques should be adopted for planning and control of cash in order to regularize the cash payments and maintain the adequate cash balance.
- The company can introduce the innovative strategies to increase its sales there by the profits of the company is also increases.
- The company should implement innovative technologies in their production process to increase the production.

9. Conclusion

The present business world is more complex because of its dynamic future. ITC Limited is functioning successfully in overall. By analyzing the financial statement, the performance of ITC Limited shows a positive impact on business. Further the performance and efficiency has to be improved by using above mentioned suggestions. During the study period the company's working capital management was quite satisfactory.

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