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A Study of Working Capital Management at Neptune Automation Corporate Office, Erode

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ABSTRACT: Decisions with reference to capital involve managing relationships between a firm's short assets and liabilities to make sure A firm is in a position to continue its operations, and have sufficient money flows to satisfy each maturing short debts and Future operational expenses at lowest prices, increasing firm's gain. The capitals noticeably go along with the operative Cycle. A poring over of the operative cycle reveals that funds endowed within the operation area unit recycled back in to Money. The shorter the amount of operative cycle the larger are going to be the turnover of the funds endowed in varied Functions. The shorter amount of operative cycle shows higher potency of a firm. The potency of assets management are Often determined by the in operation cycle of the firm. This paper aims at analyzing the potency of assets management Through the connection between in operation cycle amount and profitableness of Neptune Automation and solution. To measure the capital Management potency, operative cycle has been calculated and therefore the relationship is formed with margin quantitative Relation.

I. INTRODUCTION

Working capital (abbreviated WC) is a financial metric which represents operating liquidity available to a business, organization or other entity, including governmental entity. Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital. Gross working capital equals to current assets. Net Working If current assets are less than current liabilities

Working capital (WC) is calculated as currentassets minus current liabilities.Current assets such as cash, account receivable, inventory, etc. And current liabilities such as creditor, expenses paid etc.

The liquidity position of the business is depend on the investment in current assets, the more the better Where as the role of fixed assets as far as liquidity is concerned, negligible.

Working capital management involved not only managing the different component of current assets but also managing the current liabilities. Working capital can be define in simple words as that part of total capital which is required and necessary for daily working of business.

The term working capital is also defined as excess of current assets over current liabilities. The concept of working capital is useful to know whether the current assets are sufficient or not to meet the current liabilities. It also indicates that whether solvency of the business.

There are two aspect of working capital and these are follows:

- 1) **Gross working capital.**
- 2) **Net working capital.**

1) **Gross working capital:**

Gross working capital refer to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year and include cash, short term securities, debtors, bills receivable and stock.

2) **Net working capital:**

Net working capital refer to the difference between current assets and current liabilities. Current liabilities are those claim outsider claims which are expected to mature for payment within an accounting year and include creditors (account payable), bills payable, and outstanding expenses.

Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are excess of current assets.

II. OBJECTIVE

- To study the working capital of Neptune Automation.

III. SCOPE OF THE STUDY

1. The project is helpful in knowing the company's position of funds maintenance and setting the standards for working capital inventory levels, quick ratio current amount turnover level and web torn turnover level.
2. This project is helpful to the management for expending the dualism and the project viability and present availability of funds.
3. This project is also useful as it compares the present year data with the previous year data and there by it show the trend analysis i.e. increasing fund or decreasing fund.
4. The project is useful in further expansion decision to be taken by management.

IV. LIMITATION OF THE STUDY

The following are the various aspects involved in the analysis of the study.

1. Study us limited to the accounting year 2020-2022
2. Study is based on information provided by the company

Study the working capital management does not take in to account the price level changes

V. REVIEW OF LITRATURE

The purpose of this paper is to review research on working capital management (WCM) and to identify gaps in the current body of knowledge, which justify future research directions. WCM has attracted serious research attention in the recent past, especially after the financial crisis of 2014.

Using systematic literature review (SLR) method, the present study reviews 126 articles from referred journal and international conferences published on WCM.

Detailed content analysis reveals that most of the research work is empirical and focuses mainly on two aspects, impact of working capital on profitability of firm and working capital practices. Major research work has concluded that WCM is essential for corporate profitability. The major issues with prior literature are lack of



survey-based approach and lack of systematic theory development study, which opens all new areas for future research. The future research directions proposed in this paper may help develop a greater understanding of determinants and practices of WCM.

VI. RESEARCH METHODOLOGY

When we talk about research methodology, we not only talk of the research methods but also the comparison of the logic behind the methods, we used in this context of our research study and explain why we are using a particular method or technique and why using the others. Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done systematically. In this, we study the various steps that are generally adopted by researcher in studying his research problem along with the logic behind them. As the study is analyzing probing in nature, thus, it is based on the secondary data gathered through the financial data provided by account department of the Neptune automation. Therefore it provides a historical prescriptive of decision.

Area of the research:

Finance.

Topic of the Research:

Working Capital Management.

Period of Research:

2018-2019 2020-2021.

DATA COLLECTION:

Primary Data:

By visiting concern department in the company. This also helped to know the operating cycle in the company.

Secondary Data:

This project is based on primary data collected through personal interview of head of account department of Neptune automation.

But primary data collection had limitation such as matter confidential information thus project is based on secondary information collected through three years financial statements of the company, supported by various books and internet sides. The data collection was aimed at study of working capital management of the company.

Working Capital Turnover Ratio :

The ratio compares the net sales with net working capital. The indication given by this ratio is the number of times working capital is turned around in a particular period. It measures the efficiency with which working capital is being used by firm. A higher ratio indicates better use of working capital.



Net sales

Working capital = _____

Working capital

TABLE NO. 1 Working capital Turnover Ratio(in Rs.)

Year	Net Sales	Working Capital	Turnover Ratio
2018-19	5,230,820,000	249,453,805	20.96
2019-20	6,341,540,000	501,81,3347	12.63
2020-21	8,609,250.00	648,897,203	13.26

Interpretation: A higher ratio will indicate number of times working capital is turned into net sales. For the given period working capital turnover ratio is highest in the year 2018-19 due to increase in the sales., Ratio is less in period 2019-2020. This has happened because of increase in the net sales is not proportionate with increase in the working capital. So company needs to pay attention to increase the sales.

Payables Management :

The company follows the policy of purchasing raw material on credit basis. They follow policy of making its payment at the right time as and when it's become due. The credit period falls between 30 to 45 days. They obtain funds through commercial paper and commercial bank loan.

1) **Creditors- Turnover Ratio :**

This ratio is also known as creditor's velocity or account payable ratio. It indicates credit period allowed to firm by its creditors. The high turnover ratio indicates that payment to creditors is prompt but it also indicates firm is not taking full advantage of credit facility given by its creditors.

purchases

Creditor turnover ratio= _____

creditors



Creditors Turnover Ratio (in Rs.)

Year	Purchase	Creditors	Cash to Current
2018-19	93,852,555	16,325,317	5.748
2019-20	65,359,162	99,302,950	0.658
2020-21	37,361,207	25,737,871	1.451

Generally credit purchase amount is used to calculate this ratio, but because of non-availability all purchase as credit purchase.

Interpretation:

In the year 2018-19 the creditor's turnover ratio was so high. It indicates firm paid to creditors very promptly & did not use credit facility efficiently. From the year 2019-2020 to 2020-2021 the creditor's turnover ratio is satisfactory.

V. FINDINGS

1. Working capital position of the firm has increased from the period 2018 to 2021. It must be result of increase in current assets and decrease of current liability.
2. In the year 2019-20 the company has high current ratio. Need to reduce the inventory and debtors
3. Working capital turnover ratio is satisfactory in year 2019-20 & 2020-21, because ratio is highest in these two years.
4. Firm has maintained small amount of cash profit (ratio), compare to net sales volume.
5. In the year 2018-19 the creditor's turnover ratio was so high. It indicates firm paid to creditors very promptly & did not use credit facility efficiently.
6. In the year 2020-21 large proportion of total assets is blocked in inventory, which may have bad impact on profitability.
7. In the year 2018-19 & 2020-2021 inventory turnover ratio is low, indicates that management of inventory is not satisfactory in these two year.
8. Inventory holding period was very high in the year 2018-19 .due to size of inventory is high
9. Average collection period was good in all the years; it indicates good quality of debtors.
10. Absolute liquid ratios are below the standard in year 2019-20 and it is average in the year 2018-19 & 2020-21.
11. Every year company has managed to earn good percentage of gross profit& it is increasing every year.
12. As compare to gross profit ratio Net profit ratio of the firm is very low in all years, which indicates inefficient management in areas like selling, distribution and administration.
13. The year 2018-19 shows very low return on the capital employed i.e. 175.09 due to net loss in this year.



SUGGESTION:

Management should pay more attention towards the management of current assets. Company holds very high amount of current assets as compare to current liabilities. This severely affects the profitability of the company. Inventory holding period in few years was very high. It implies that management should try to eliminate inventory holding period & increase inventory turnover ratio. For few years proportion of inventory as compare to current assets is very high. This high amount should be reduced to fair amount. Though sales position & gross profit ratio of the firm is good. It has managed to earn very small percentage of net profit. It clearly indicates firm should pay attention in managing selling, distribution & administration department. The company should concentrate on cash management, because ratio has shown irregular or non-specific trend in cash holding. The firm should efficiently use credit facility given by creditors, in order to have good creditor's turnover ratio. To increase the inventory turnover ratio and working capital turnover ratio efficiency of production and selling department should be increased. Cash profit ratio of the company is not satisfactory, cash profit of company is depend on net profit so in order to have good cash profit ratio firm should manage to have good net profit.

VI. CONCLUSION

Working capital management of Neptune automation and solution is not effective as it fails in increasing profitability. Working capital cycle period is much fluctuation. Though, liquidation position is good but surplus amount is involved to finance working capital. Company ignores the motives of holding cash. Turnover ratios are not finance working capital. Company ignores the motives of holding cash. Turnover ratios are not much effective. The overall correlation and regression results are not satisfactory, which shows that working capital management of Neptune automation and solution is not effective to increase its level of prodigality at different basis. It is hence suggested to Neptune automation and solution to control the length of the operating cycle so that company should ignore the excess finance in current assets so that their efficiency can be increased. Company should focus on proper management of its liquidity to increase the profitability.

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