

A Study on Working Capital Management at Eastern Condiments (P) Ltd

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Abstract: Working capital management is considered to be a crucial element in determining the financial performance of an organization. The primary purpose of this paper is to investigate the relationship between working capital management and financial performance of EASTERN CONDIMENTS PRIVATE LIMITED.

Data were collected from annual reports of sampled firm for the period of 2008 to 2013. Performance was measured in terms of ratio analysis, trend analysis cash conversion cycle were used as measures of working capital management. The study has helped us to find out that the company's needs to reduce its current liabilities and its payables deferral period to an extent. Also the company needs to increase its cash balance as it is the most liquid asset.

I. Introduction

In the current economy, numerous companies are under performing. The major reason for this is underutilization of actual capacity and lack of efficiency in technical and financial management. Efficient management of the working capital is the key to the success of every business. So, for the efficient management of working capital, a firm should have an efficient finance department which carries out its functions in the most effective manner. In this study, an effort is made to analyse the working of the finance department of EASTERN CONDIMENTS PVT LTD. with regards to working capital and its components. Hence it is stated as "A Study to assess the working of the finance department of EASTERN CONDIMENTS PVT LTD with regard to its working capital management." The purpose of the study was to analyse the working capital management of the company, to analyse the liquidity trend at the company, to measure the financial soundness of the company by analysing various ratios.

The Eastern Group of Companies founded by Mr. M.E. MEERAN, started with a dream, making good products available to the common man at the right prices. The Company was established in 1983, is a pioneer in the state to produce packaged curry powders, Masala powders, spices and coffee powder. Eastern Condiments Pvt. Ltd. is a well-established name as Kerala's largest manufacturer of condiments and one of the leading brand among the south India. An expertise and experience collated over a period of 30 years has borne fruit. Nationwide branches, two well-equipped factories situated in the Eastern high range of South India and over two million satisfied household all over stand as solid evidence of its exceptional repute. A name that will hold its own for years to come as the worthwhile manufacturers, distributors and exporters of the quality natural and blended spices powders and spices.

Eastern At A Glance

- ECPL is the largest manufacturer (by volume) of Powdered Spices in the country.
- ECPL provides one of the best grinding and packing facilities in the Industry.
- ECPL currently has the capability to meet additional demand for spice powders and, in lieu of ongoing capacity build-up projects, is geared to enhance manufacturing capacity quickly so as to meet market demands.
- ECPL has one of the best quality testing and microbiological impurity detection labs in the country and has deployed one of the latest and best equipment, based on global standards.
- ECPL is highly conscious of maintaining stringent quality standards in products as well as processes and in addition to having HACCP and ISO 22000 certifications has also initiated procedures for acquiring: ISO 14001, BRC, EREP GAP, NABL and other related certifications.
- ECPL has adequate warehousing and specialized storage facilities and is in the process of enhancing capacity.
- ECPL has a unique logistics set-up and is geared up to quickly acquire further capability to meet increased in market demand.
- ECPL is revamping its business communication process (hectic activity is on-going so as to be fully — operational by end of the current financial year), which would enable highly efficient and transparent business transactions.

Competitors The Company has many competitors in the market. Mainly the competitors are Nirapara, Melam, Brahmins, Double Horse, Priyam, Saras, kaula.

II. Headings

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 Headings
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III. Figures and Tables

Table:1

YEAR	2009	2010	2011	2012	2013
Current assets	7709.33	8492.25	9744.29	10794	10853.7
Current liabilities	1716.24	2697.67	7529.46	9575.29	7809.2
Current ratios	4.49 : 1	3.14 : 1	1.29 : 1	1.12 : 1	1.35 : 1

Fig:1

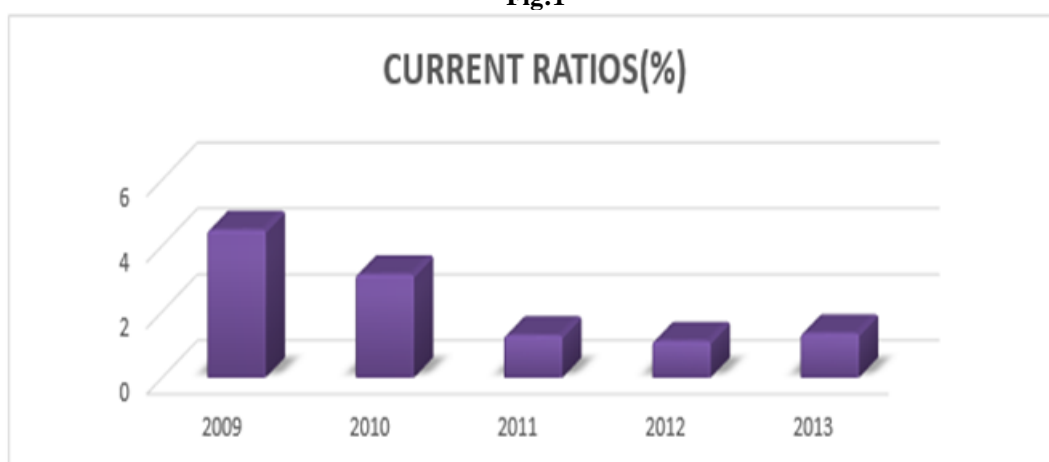


Table:2

YEARS	2009	2010	2011	2012	2013
Quick assets	5572.75	4821.4	3260.72	3749.22	3354.78
Current liabilities	1716.24	2697.67	7529.46	9575.29	7810.2
Quick ratios	3.24	1.78	0.43	0.39	0.42

Fig:2

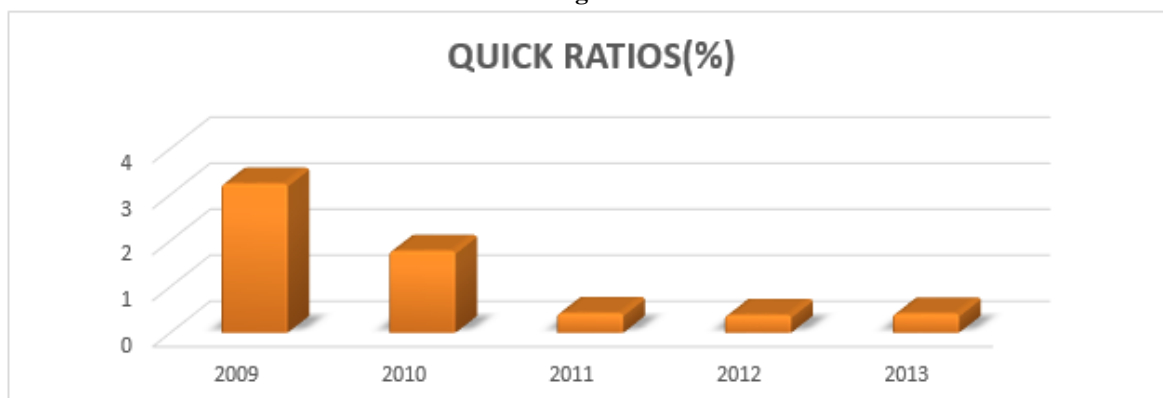


Table:3

YEAR	2009	2010	2011	2012	2013
CASH AND BANK BALANCES	1185.30	281.05	552.52	907.01	299.49

Fig:3

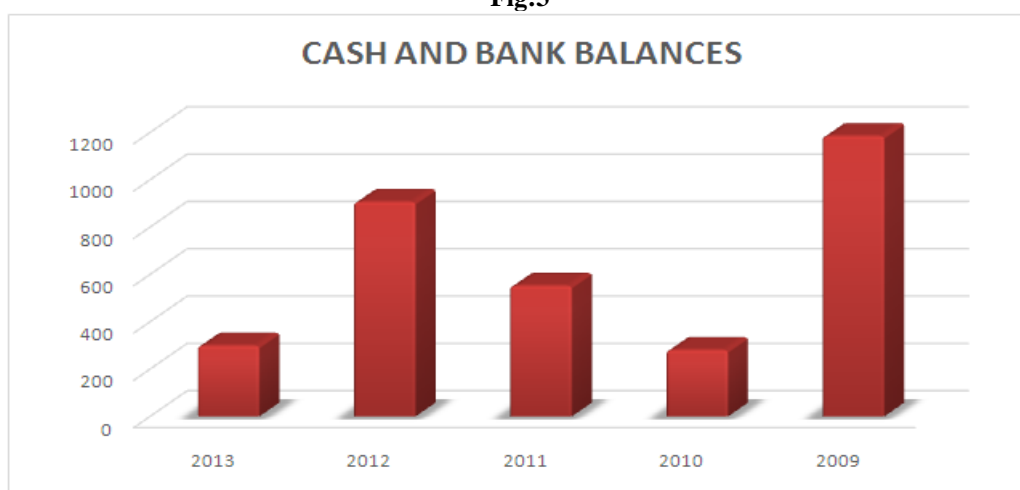


Table:4

YEAR	2009	2010	2011	2012	2013
SALES	27502.45	32025.17	38075.16	46804.44	44515.92

Fig:4



Table:5

YEARS	2009	2010	2011	2012	2013
COST OF GOODS SOLD	18675.02	20399.22	24225.93	31773.22	27148.12
AVERAGE INVENTORIES	2349.54	2903.81	5077.31	6764.17	7271.85
INVENTORY TURNOVER RATIO	7.94	7.02	4.77	4.69	3.73

Fig:5

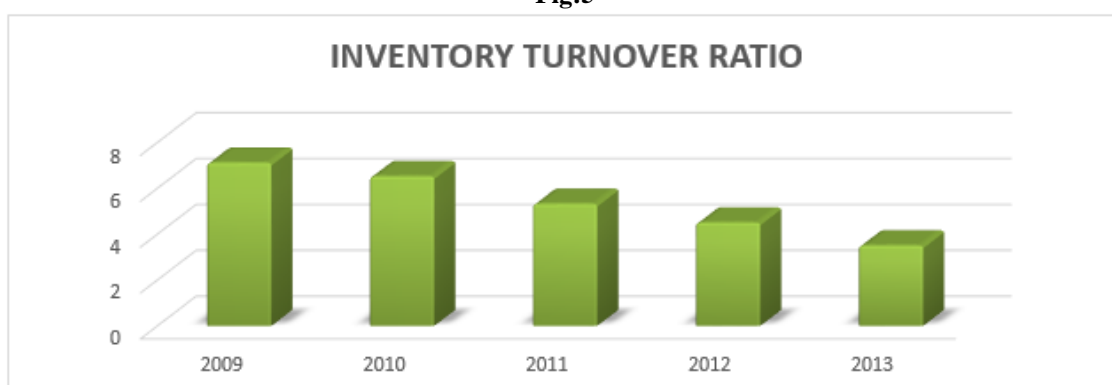


Table:6

YEAR	NET SALES	WORKING CAPITAL	WORKING CAPITAL TURNOVER RATIO
2008-09	27514.45	5993.09	4.59
2009-10	32025.17	5794.84	5.52
2010-11	38075.16	2214.83	17.19
2011-12	46804.44	1218.71	38.40
2012-13	44515.92	3043.5	14.62

Fig:6



Table:7

YEAR	GROSS PROFIT	NET SALES	G/P RATIO IN %
2009 - 08	8839.43	27514.45	32.12 %
2010 - 09	11625.95	32025.17	36.30 %
2011 - 10	13849.23	38075.16	36.37 %
2012 - 11	15031.22	46804.44	32.11 %
2013 - 12	17367.89	44515.92	39.01%

Fig:7

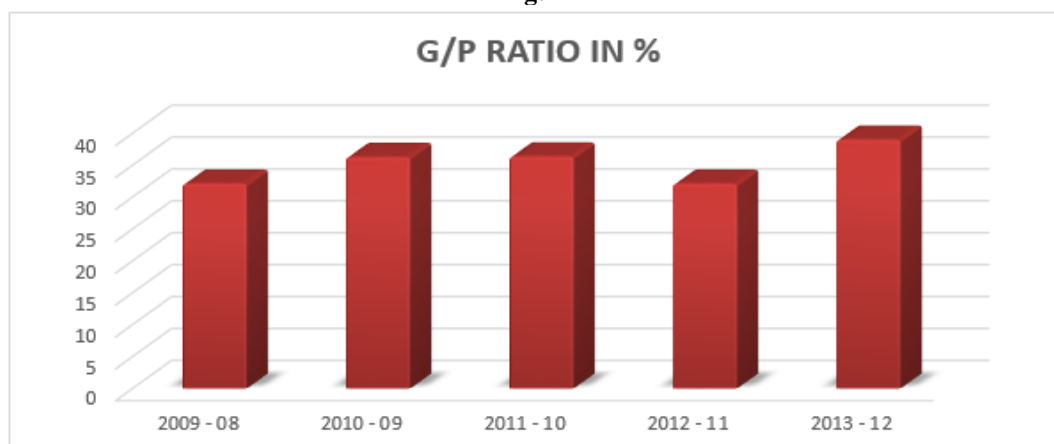


Table:8

ITEMS	As On 31 MARCH 2009	As On 31 MARCH 2010	As On 31 MARCH 2011	As On 31 MARCH 2012	As On 31 MARCH 2013
RAW MATERIALS	697.66	1532.36	3150.8	3473	3970
WORK -IN - PROGRESS	318.64	479.02	893	821.08	944.56
FINISHED GOODS	636.69	1015.45	1300.7	1716	1605.29
STOCK IN TRADE	0	13.53	94.1	115.12	109.91
OTHERS(PACKING)	479.17	627.94	1032.2	927.5	878.69
FUEL	4.42	3.35	12.77	0	0
TOTAL	2136.58	3671.65	6483.57	7044.78	7498.92

Fig:8

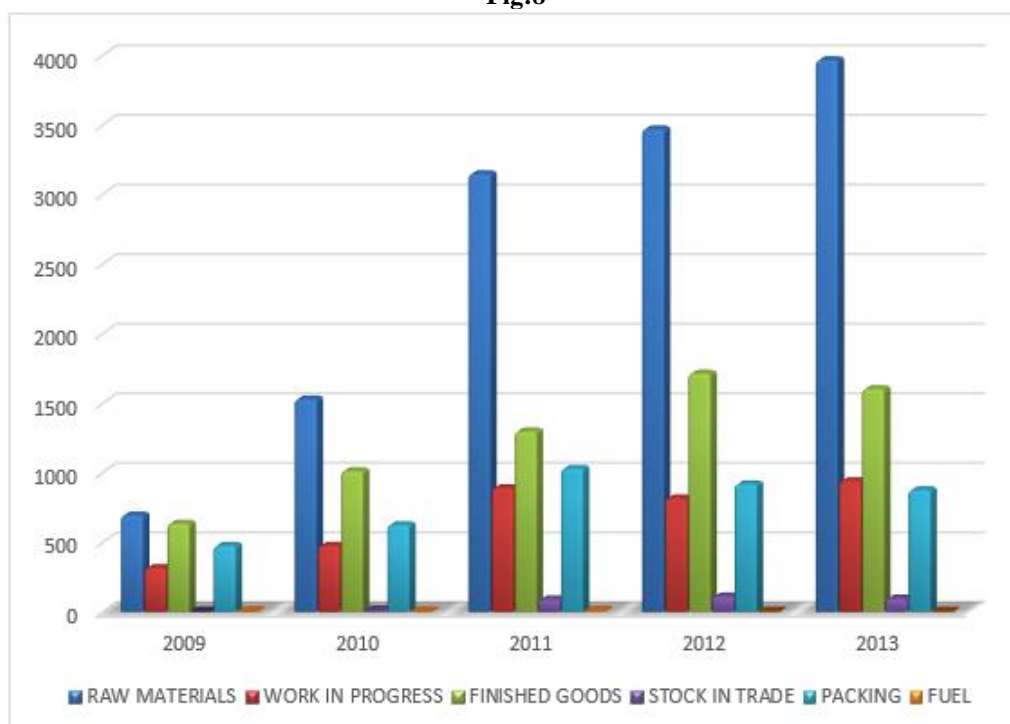


Table:9

YEAR	2009	2010	2011	2012	2013
Average Accounts Receivable	1781.92	1826.5	2071.8	2155.8	2394.6
Annual Sales	27512.5	32025.2	38075.2	46804.44	44515.9
Days	365	365	365	365	365
Receivables Collection Period (DAYS)	23	21	20	17	20

Fig:9



Table:10

YEARS	2009	2010	2011	2012	2013
Sales	27512.5	32025.2	38075.2	46804.44	44515.9
Average Accounts Payable	496.09	828.93	879.4	1130.94	1544.5
Accounts Payable Deferral Period	6.58	9.44	8.43	8.83	12.66

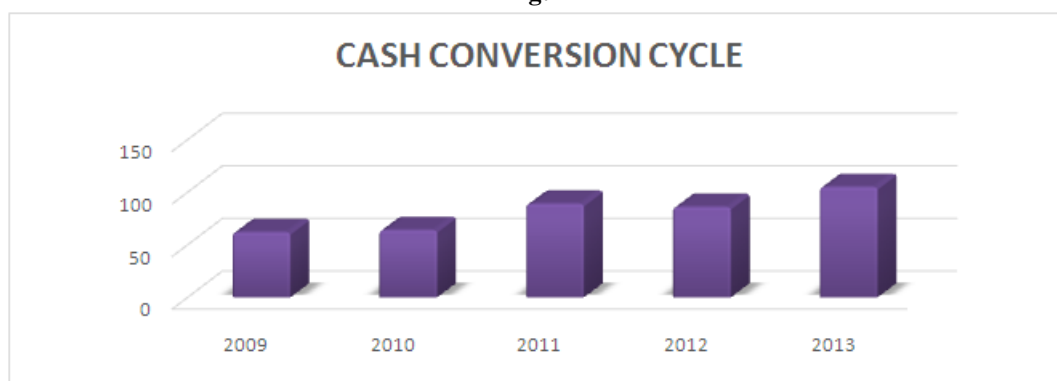
Fig:10



Table:11

YEAR	2009	2010	2011	2012	2013
Sales	27514.5	32026.2	38075.4	46805.44	44535
Cost of goods sold	18675	20399.2	24225.9	31773.22	27148.1
Inventories	2349.54	2903.81	5077.31	6764.17	7271.85
Average accounts receivables	1781.92	1826.5	2071.87	2155.82	2394.61
Average accounts payables	496.09	828.93	879.4	1130.94	1544.5
Days / Year	365	365	365	365	365
Inventory conversion period (DAYS)	46	52	77	78	98
Receivables collection period (DAYS)	23	21	20	17	20
Payables deferral period(DAYS)	7	9	8	9	13
CASH CONVERSION CYCLE	62	64	89	86	105

Fig:11



Findings

- The current ratio has been unstable & the company hasn't been able to maintain the ideal ratio of 2:1.
- The current liabilities of the company are growing at a faster rate than the current assets of the company.
- The company's quick assets are not sufficient to overcome the current liabilities which are a bad sign of the company.
- The cash and bank balances have been showing an inconsistent trend.
- The sales of the company has been increasing and fell in the last year.
- Inventories have been increasing through the years of study and raw materials constitute a major portion of the inventories.
- The receivables collection period has been decreasing through the year which is a good sign of the company.
- The payables deferral period shows rising trend from 6.58 in the year 2009 to 12.66 in the year 2013
- Cash conversion cycle is showing an increasing trend which is unfavourable for the company, as it implies that the company takes longer time to convert raw materials into cash and so money is tied up in these inventories.

IV. Conclusion

The study titled “A STUDY ON WORKING CAPITAL MANAGEMENT AT EASTERN CONDIMENTS PRIVATE LIMITED” has been conducted to analyze the financial strength and weakness of the firm, and the analysis shows that the working capital was unstable and quite unfavorable to the firm, as it is showing a decreasing trend from 2008-09 to 2011-12 and rose in the final year (2013-12).the company should improve its working capital along with current assets and must decrease its current liabilities. The company should keep their inventories under control, collect their debts in time, increasing their payables deferral period to a permissible limit and increase sales for a better financial position.

The findings of the study are explained in this project. Based on the study some suggestions are made. The researcher is sure that by implementing these suggestion, company can enhance the present condition.

Acknowledgements

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