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A STUDY ON ADMINISTRATION OF WORKING CAPITAL WITH REFERENCE TO HEMADRI CEMENTS LIMITED VEDADRI , JAGGAYAPETA, AP INDIA

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KEYWORDS: Working Capital, Liquidity, Current asset management.

ABSTRACT
This paper is making you sure about the prerequisite of working capital administration; this study has done at HEMADRI CEMENTS LIMITED vedadri, jaggayapeta, AP India. Working capital is a part of capital, which is meant for funding day to day operations of organization. We can simply define working capital importance as a richest person does not have cash in his/her wallet. It means a person is having number of fixed assets but he/she does not have currency in their wallet so he/she cannot purchase anything i.e., purchasing power is zero even they have no of fixed assets and he/she can't able to satisfy their short term needs because of poor maintenance of current assets. Similarly an organization position is also same like above a firm might strong in fixed assets but if they are not concentrating on current assets i.e., working capital administration; they may also face different situations and smooth functioning of business is not possible moreover sustaining in the market is also biggest challenge to them. Inefficient working capital management not only pulling down the profitability of business but also ultimately show the way to financial disaster. Upholding more liquidity is another trouble i.e., excessive working capital means inoperative money won't generate profit for the business and hence the business can't earn a proper rate of return. Adequate working capital plays vital role in the success as well as growth of the business. Hence HEMADRI CEMENTS LIMITED has been maintaining proper working capital and it leads to became profitable one.

INTRODUCTION
WORKING CAPITAL MANAGEMENT
One of the most important areas in the day to day Management of the firms is the management of working capital. Working capital Management is the functional area of finance that covers all the current accounts of the firms. It is concerned with management of the level of individual current assets as well as the management of total working capital. Generally financial management means procurement of funds and effective utilization of these. Procurement of funds procurement of funds is firstly concerned for financing working capital requirement of the firm and secondly for financing fixed assets.

Both Current assets and Current liabilities constitute the components of working Capital. Working Capital Management refers to the control of both current assets and current liabilities, which is regarded as Working Capital management. It involves control of the components of current assets such as cash, inventories, accounts receivables, marketable securities, and current liabilities such as short - term debt, creditors, and bank loans, etc. Management and control of Working Capital has been treated as the vital function of financial management in modern business. It is highly flexible in nature and polices and to be framed depending upon the market conditions prevailing in the economy. If controlling of Working Capital components is improved or reduced by one percent, it will make so much difference and the firms making profits will turn out to be losing and firms incurring losses will become profitable.

Working Capital constitutes an integral part of the business. If fixed assets have long – term implications, working capital contains short – term and current significance.

DEFINITION:
According to **GENESTENBERG** "Circulating capital means current assets of a company that are changed in the ordinary course of business from one form to another, as for example, from cash to inventories, inventories to receivables, receivables into cash."

In the words, "Working Capital is the amount of funds necessary to cover the cost of operating the enterprise."

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OBJECTIVES OF THE STUDY

Working capital is the most widely used and powerful technique of financial analysis. The principal objective of the study is to know the financial strength of the company.

1. To investigate working capital position of the HEMADRI cements limited.
2. To evaluate the financial performance of the company
3. To know the liquidity status of the Hemadri Cements Limited for the period of 2012 - 2015
4. To look at feasibility of present system of managing working capital.
5. The capability to illustrate the cash conversion cycle & to explain its worth to working capital management.
6. To know the working capital management procedure in Hemadri Cements Limited, vedadri.
7. To know about the current assets management in Hemadri Cements Limited.
8. To find out the working capital policy of Hemadri Cements Limited, vedadri.

RESEARCH METHODOLOGY OF THE STUDY

The study has been conducted in the organization to examine Working Capital Management in order to enquire into the issues like liquidity, and Material Management. Methodology is a systematic procedure of collecting raw data in order to analyze and make it as information. The collection of data is done by two principle sources, Viz.

1. Primary data
2. Secondary data

Primary data:
It is the information collected directly without any references. We approached officers and staff through interviews either individually or collectively. A quantity of the data were verified and known through personal observation.

Secondary data:
Secondary data is that data which have been already collected by some agency and which is processed. The secondary data is obtained from annual report and financial statement that is balance sheet and profit and loss account, annual reports, journals, and other informational publications of the organization and from the text books of financial management.

REVIEW OF LITERATURE

Hemadri Cements Limited Incorporated in the year 1981 it manufactures cement and clinker at Vedadri in Andhra Pradesh. Hemadri Cements Ltd (H.C.L) is the flag ship company of Hemadri Cements Group, a well-known company.

As a part of my study, I found the working capital policy of Hemadri Cements Limited that is matching approach

Matching approach
It refers to the adoption of a financial plan, which matches the expected life of the assets with the expected life of the source of funds to finance assets. In this approach the long-term financing is used to finance the fixed assets and permanent current assets. The short-term financing will be used if the firm has the need of only temporary current assets.

Hemadri Cements Limited has been trying to maintain optimum working capital for every year. The following information will give clarity about optimum working capital.

Optimum level of working capital
Optimum level of working capital means maintaining either more neither less working capital why because both of them will show the way of expensive. So, exact amount of working capital required to make profitable. From the following two points we can find that exact amount of working capital.

Cost of liquidity: Current assets yield almost nil returns. If more funds are tied up in cash, debtors and stock, loss of opportunity cost like interest is more. Cost of liquidity increases with more investment in current assets.

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Cost of illiquidity: It is the cost of holding inadequate current assets. Then firm has to borrow at high rates of interest. The cost increase when current assets decrease. The balance of these two costs is shown in the diagram.

DATA ANALYSIS AND INTERPRETATION

TABLE: 1 Statement of Changes in Working Capital for the Year 2012-2013

Particulars	2012 (Rs in Lakhs)	2013 (Rs in Lakhs)	Changes in WC(Rs in Lakhs)	
			Increase	Decrease
Current assets:				
Inventories	2693.46	2281.92	-	411.54
Sundry Debtors	1838.11	3109.72	1271.61	-
Cash & bank	1371.05	1716.40	345.35	-
Loans & Advances	1983.03	1771.46	-	211.57
A:	7885.65	8879.50		
Current Liabilities:				
Current liabilities	2664.13	3827.41	-	1163.28
Provisions	36.29	50.42	-	14.14
B:	2700.42	3877.84		
A-B:	5185.23	5001.66		
Decrease in Working Capital:	-	183.57	183.57	-
	5185.23	5185.23	1800.53	1800.53

Interpretation:
From the above table /statements it was found that W.C was decreased by 183.57 from 2012 to 2013. This was mainly because of the following aspects

- Increase in sundry debtors by 1271.61
- Increase in cash and bank balance 345.35
- Decrease in inventories and loans and advances by 411.54 and 211.57 respectively.
- Decrease in current liabilities and provision by 1163.28 and 14.14 respectively.

For the year 2012 the current ratio is 2.19 and for the year 2013 it was 2.28 where there was an increase in the current ratio. That is as per the thumb rule the current ratio should be 2:1, for both years the company gave maintained near to the normal ratio. Hence even though there was total decrease in the working capital, there was an increase in the current ratio, which is good sign for the company

TABLE: 2 Statement of Changes in Working Capital for the Year 2013-2014

Particulars	2013 (Rs in Lakhs)	2014 (Rs in Lakhs)	Changes in WC (Rs in Lakhs)	
			Increase	Decrease
Current assets:				
Inventories	2281.92	2503.20	221.28	-
Sundry Debtors	3109.72	2467.39	-	642.33
Cash & bank	1716.40	1290.71	-	425.69
Loans & Advances	1771.46	1906.20	134.74	-
A:	8879.50	8167.50		
Current Liabilities:				
Current liabilities	3827.41	3381.69	445.72	-
Provisions	50.43	127.90	-	77.47
B:	3877.84	3509.59		
A-B:	5001.66	4657.91		
Decrease in Working Capital:	-	343.75	343.75	-
	5001.66	5001.66	1145.49	1145.49

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Interpretation:
From the above table /statements it was found that W.C was decreased by 343.75 from 2013 to 2014. This was mainly because of the following aspects

- Increase in inventories 221.28
- Increase in loans and advances 134.74
- Decrease in sundry debtors and cash & bank balance by 642.33 and 425.69 respectively.
- Increase in current liabilities 445.72
- Decrease in provisions 77.47

For the year 2013 the current ratio is 2.28 and for the year 2014 it was 2.32 where there was an increase in the current ratio. That is as per the thumb rule the current ratio should be 2:1, for both years the company have maintained near to the normal ratio. Hence even though there was total decrease in the working capital, there was an increase in the current ratio, which is good sign for the company.

TABLE: 3 Statement of Changes in Working Capital for the Year 2014-2015

Particulars	2014 (Rs in Lakhs)	2015 (Rs in Lakhs)	Changes in WC (Rs in Lakhs)	
			Increase	Decrease
Current assets:				
Inventories	2503.20	3114.57	611.37	-
Sundry Debtors	2467.39	943.79	-	1523.6
Cash & bank	1290.71	1383.35	92.64	-
Loans & Advances	1906.20	5284.23	3378.03	-
A:	8167.50	10725.94		
Current Liabilities:				
Current liabilities	3381.69	3758.62	-	376.93
Provisions	127.90	163.86	-	35.96
B:	3509.59	3922.48		
A-B:	4657.91	6803.46		
Increase in Working Capital:	2145.55	-	-	2145.55
	6803.46	6803.46	4082.04	4082.04

Interpretation:
From the above table /statements it was found that W.C was increased by 2145.55 from 2014 to 2015. This was mainly because of the following aspects

- Increase in inventories by 611.37
- Increase in cash & bank balances and loans and advances by 92.64 and 3378.03 respectively.
- Decrease in current liabilities and provisions by 376.93 and 35.96 respectively.

For the year 2014 the current ratio is 2.32 and for the year 2015 it was 2.76 where there was an increase in the current ratios. That is as per the thumb rule the current ratio should be 2:1, for both years the company have maintained near to the normal ratio. Hence even though there was total increase in the working capital, there was an increase in the current ratio, which is good sign for the company.

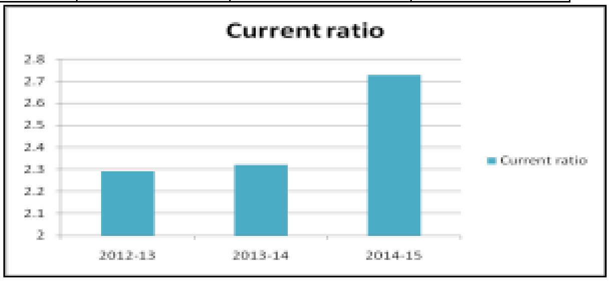
CURRENT RATIO

The Ratio Is a Barometer of General Measure of Liquidity and State of Trading Current Ratio Show The Firm's Commitment to Meet Its Short-Term Liabilities. It Expresses The Relationship Between Current Assets And Current Liabilities.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liability}}$$

Graph: 1 Current ratio

Year	**Current assets** (Rs in Lakhs)	**Current liabilities** (Rs in Lakhs)	**Current ratio**
2012-13	8879.50	3877.84	2.29
2013-14	8167.50	3509.59	2.32
2014-15	10725.94	3922.48	2.73



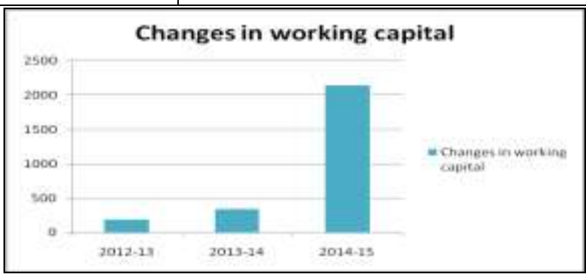
Interpretation:
From the above chart it is clear that the current ratio of the company has been gradually increasing from 2012 to 2015. The company is always trying to maintain ideal current ratio i.e., 2:1 which makes sound & strong current position.

CHANGES IN WORKING CAPITAL

$$\boxed{\text{Working capital} = \text{current assets - current liabilities}}$$

Graph: 2 Changes in Working Capital

Year	**Changes in working capital** (Rs in Lakhs)
2012-13	183.57
2013-14	343.75
2014-15	2145.55



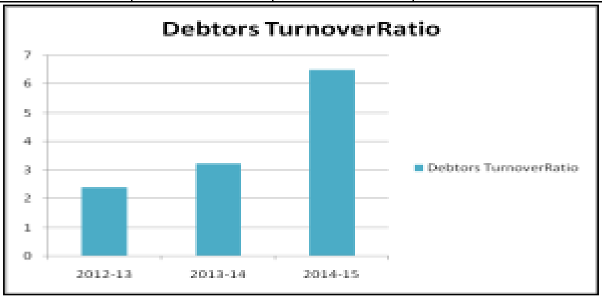
Interpretation:
From the above chart we can say a great change in working capital in 2014-2015. It is increased by 2145.55 but in 2012-2013 it is decreased to 183.57.

DEBTORS RATIO:

$$\text{Debtor turnover ratio} = \frac{\text{Sales}}{\text{Debtors}}$$

Graph: 3 Debtors ratio

Year	Sales (Rs in Lakhs)	Debtors (Rs in Lakhs)	Ratio
2012-13	7409.78	3109.72	2.382780443
2013-14	7982.9	2467.39	3.235362063
2014-15	6132.93	943.79	6.498193454

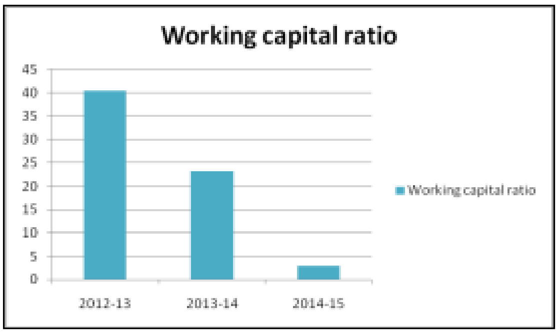


Interpretation:
From above chart shows the continuously increasing debtors ratio from the year 2012-13 it was 2.3, 2013-14 3.2 & it was boost up the value is 6.498193454 in the year 2014-15.

WORKING CAPITAL TURNOVER RATIO

Graph: 4 Working Capital Turnover Ratios

Year	Sales (Rs in Lakhs)	Working capital (Rs in Lakhs)	Working capital ratio
2012-13	7409.78	183.57	40.36487443
2013-14	7982.9	343.75	23.2228182
2014-15	6132.93	2145.55	2.858441891



Interpretation:
From above the table it is found that thought there was a tremendous decrease in working capital ratio from 2012 to 2015. It tells liquidity position of the company is good.

CONCLUSION

This analysis is from top to bottom discussing about administration of working capital in HEMADRI CEMENTS LIMITED vedadri , jaggayapeta, AP India. As everyone knows that working capital is very important to every business irrespective to size & nature. Number of experts has given different instances about working capital like it is a backbone to business; life blood & nerve system in human body etc, although their intention is same. In HEMADRI CEMENTS LIMITED working capital administration & current assets management both were good. The company's liquidity position was satisfactory in all years. They were maintaining ideal ratios in current assets management. We found lot of data, from working capital policy to working capital management.

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