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A STUDY ON WORKING CAPITAL MANAGEMENT AND FINANCIAL STATEMENTS ANALYSIS OF SUGAR COMPANY

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Abstract: **The project work is an outcome of "A study on working capital and financial performance of sugar company". The main objective of this study is to examine performance of working capital and measure the financial efficiency. The study was carried out for the period of four years (2015-16 to 2018-19) annual data (profit & loss account and balance sheet) to analyse working capital and financial performance of company. The current study used ratio analysis, comparative analysis, common-size financial statement analysis and trend analysis techniques. This study investing that how different factors such as current ratio, inventory turnover ratio, gross profit ratio, current asset turnover ratio are affecting working capital in company and how their relationship with profitability is affected. The study found that overall performance of the company is increasing but at decreasing growth comparing to the year 2015-16 performance.**

Keywords: **working capital, financial statements, profitability, performance.**

1. INTRODUCTION

Working capital management deals with the current assets and current liabilities and therefore WCM has a significant impact on the firm profitability. The working capital is descriptive of that capital which is not fixed. But, the more common use of the working capital is to consider it as the difference between the book value of the current assets and current liabilities. Positive working capital is required to ensure that a firm is able to continue its operations and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses. Financial statements are prepared primarily for decision-making. Financial statements analysis refers to the process of determine financial strength and weakness of the firm by properly establishing strategic relationship between the items of the balance sheet and profit and loss account. High financial performance reflects management effectiveness and efficiency in making use of company's resources, and is often expressed in terms of growth of sales, turnover, employment, or stock prices. According to Dong (2010), the firm's financial performance is affected by working capital management practices. Based on empirical findings, Chatterjee (2010) defends the importance of fixed and current assets in the successful running of any organization. He recognizes a common phenomenon observed in the business cycle that most of the business entities increase their margin for the profits and losses because of shrinking of the size of working capital relative to sales.

2. REVIEW OF LITERATURE

Muhammad Aleem and Dr. Abid Usman (2017) the study analysed that current ratio and inventory turnover has a significant and positive relationship with the firm profitability while quick ratio and trade debt has no significant association with the firm profitability.

Melita Stephanou Charitou, Maria Elfani & Petros Lois (December, 2010) the results of this study should be of great importance to executives and major stakeholders, such as investors, financial analysts, and bankers. Efficient utilization of the firm's resources leads to increased profitability and reduces volatility, which leads to the reduction in default risk and thus improves the firm's value.

Mr. B. Sudhakar Reddy and Ms. G. Pragna Choudhary (April,2019) this study examines that there was an increase in net profit of the organization and there was an increase in return on net worth but there was a decrease in capital adequacy ratio.

Dr. P. Mohan Sundaram (April,2015) analysed that the profitability performance of Dhampur Sugar Mills Ltd and Sakthi Sugars Ltd is not satisfactory. They may enhance their profitability through procuring raw materials at cheap rate, acquiring debt at low interest and effective cost control.

Dr. S. Poongavanam, (October,2017) identified that the working capital management of the company seems to be satisfactory. But in certain years there is decrease in working capital, which is due to higher amount of current liabilities especially, increasing in provision for dividend and taxation and creditors.

3. RESEARCH METHODOLOGY

Descriptive study is used to this problem. The data set in this research was obtained from annual reports from the year 2015-16 to 2018-19. The data were analysed using the ratio analysis, statement of changes in working capital, trend analysis & comparative analysis. The main scope of the study was to put into practical and theoretical aspects of the study into real life work experience.

Objectives:

- To Examine performance of working capital management and measure the financial efficiency.
- To identify the firm's performance by using ratio analysis of the company.
- To find out the effects of different components of working capital management on profitability.
- To study the overall financial position of the company.

4. DATA ANALYSIS

1. Ratio Analysis:

Type of Ratio	Ratio	2016-17	2017-18	2018-19
Profitability Ratio	Return on Assets	2.87%	(0.68%)	2.15%
	Gross Profit Ratio	4.38%	1.27%	3.585%
	Net profit Ratio	3.0081%	(0.857%)	0.00032%
	Operating Profit Ratio	5.73%	1.655%	6.648%
Solvency Ratio	Interest Coverage Ratio	2.49	0.44	1.23
Liquidity Ratio	Current Ratio	1.13	1.08	1.22
Turnover Ratio	Inventory Turnover Ratio	1.64 times	1.39 times	1.29 times
	Current asset Turnover Ratio	1.208 times	1.05 times	0.963 times

Interpretation:

➢ Profitability ratios represents final performance of company. In year 2018-19 average profitability ratio are 3.096% has down compare to the year 2016-17, because in this year average profitability ratio are 3.99%.

➢ Higher or strong solvency ratio indicates financial strength of company, or lower ratio indicate financial struggles in the future. Comparing to the previous year ratio, company's ratio is lower so we can say that company would increase their solvency ratio otherwise they faced the financial struggles in future.

➢ Liquidity ratio of 2:1 or higher is considered satisfactory for most of the companies but analyst should be very careful while interpreting it. In this all three years ratios are between 1.0-1.5 and it shows the lower efficient management of working capital.

➢ In year 2018-19 average turnover ratio has 1.77 times its lower compare to year 2016-17. It's indicates the company is not using its assets as efficiently.

2. Common size financial statements analysis:

Profit & Loss Account

Particulars	2018-19	2017-18	2016-17
Income			
Gross Profit Brought Forward	33.73869	25.27467	50.27479
Member's Dhiran Interest Income	14.5848	46.27853	39.2782
F.D. Interest Income	4.317963	6.044867	3.885155
Expenditure			
Administrative Expenses	29.52054	28.88446	27.56425
Interest Expenses	47.84908	42.56231	47.62934
Bonus Expenses	7.988342	10.2794	10.39481
Price stabilization fund	10.91949	12.37751	9.38904

Interpretation:

In 2018-19 33.74% income generate from gross profit, which is increase in previous year. The company spend 47.87% money for interest expense. So, company's share prices are going to high and company create positive image in market. Company spent 7.98% for bonus expense and this expense are benefited to the company, because employees are motivated and their capacity increases.

Balance Sheet

Particulars	2018-19	2017-18	2016-17
Liabilities			
Reserve & Surplus Funds	32.07621	37.16262	37.90641
Secured & un-secured Loans	36.73607	23.20325	20.32638
Current & Other Liabilities	29.89074	38.00396	39.99939
Assets			
Investments	7.756732	6.616366	5.90478
Loans & Advances	6.928299	4.696129	7.205372
Fixed Assets	44.987	43.46551	42.5992

Interpretation:

In balance sheet, compare to last three years out of 100%, 32.07% proportion are spent in reserve & surplus fund and it is less comparing to the last year, it is helpful for the company because, company spend less amount to payable their debts and at last their profit are increase so their share prices are improve. The highest amount company spend 36.74% to pays secured and unsecured loans, so their debt ratio is reduced.

3. Comparative Analysis:

Profit & Loss Account

Income	Increase/Decrease (Amt.)	Increase/ Decrease (%)
Gross Profit Brought Forward	64594519.14	208.7613
F.D. Interest Income	4826724.21	65.22373
Misc. Sales Income	-441640	-76.6856
Scrap Sales Income	5364631	1163.694
Expenditure		
Interest Expense	29769425.67	48.94318
Loss sale of vehicle	263358	266.6403
Bio-composed division expenses	-2720906.39	-70.7715

Interpretation:

Comparative analysis is the comparison between last two years amount and it also comparison of percentage. The higher change in income is scrap sales income 1163.69% scrap sales income is helps to recover the loss and earn the profit. Then, the gross profit brought forward 208.76%. So, we can say that production and sell of sugar are increase compare to last year. To increase the gross profit other factors are also influenced like govt. policies, company's strategies and etc.

Balance Sheet

Liabilities	**Increase/Decrease (Amt.)**	**Increase/ Decrease (%)**
Reserve & Surplus Funds	135429427.1	8.4867358
Secured & un-secured Loans	986350615.8	98.995713
Assets		
Investments	134534491.4	47.353064
Loans & Advances	172278284.5	85.432761
Fixed Assets	561597512	30.089452

Interpretation:

In balance sheet, the highest comparative change in liability side was 98.99% secured and unsecured loans and 8.486% of reserve and surplus funds. In assets side, company faced 85.43% in loans and advances compare to the previous year.

4. Trend Analysis:

Profit & Loss Account

Particulars	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Income				
Gross Profit Brought Forward	1	0.733673	0.195689	0.604212
F.D. Interest Income	1	6.849922	5.654482	9.342547
Misc. Sales Income	1	1.113672	4.706301	1.097246
R.E.C. Income	1	2.270353	5.920905	3.779901
Expenditure				
Interest expense	1	0.562193	0.475148	0.7077
Employees gratuity expenses	1	1.369309	1.907498	2.65707
Bio-composed division expenses	1	3.4178	3.569494	1.043309

Interpretation:

In this study 2015-16 data are considering as a base year (1), i.e., in FD Interest income company earn 9.34 in the year 2018-19 which was improve compare to previous year. Company generate 3.78 in Rural Electrification Corporation (R.E.C.) in the year 2018-19 which was less to the previous year. The total income was 1.188 which was improved for last two years, and also company spent 1.159 in administrative expenses which was higher compare to the last three years.

Balance Sheet

Liabilities	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Reserve & Surplus Funds	1	1.104035	1.173767	1.273382
Secured & un-secured Loans	1	0.58677	0.726378	1.44546
Assets				
Investments	1	18.72871	22.75775	33.53424
Loans & Advances	1	0.496615	0.351002	0.650872
Fixed Assets	1	1.001971	1.108675	1.442269

Interpretation:

In balance sheet, company invest 33.53 in investment which was also increase compare to last years. And compare to last three years performance company's current assets and current liabilities was increase and we shown the improvement of company's performance in the year 2018-19.

5. CONCLUSION

The study investigated that how different factors such as current ratio, net profit ratio, gross profit ratio, inventory turnover are affecting working capital management in Sugar Company & how their relationship with Profitability is affected. The overall working capital management and profitability of the company is good but not highly satisfactory. The analysis has shown the fluctuations and have both good and bad sides during four years data. The performance of the company seems to be in increase every year because of the increase in sales but the efficient management of adapting to changes is needed to run towards success. The company is having good reserves and reputation, which will lead to excellent progress in the fore coming years. The financial information of this study will also help the management in setting up plans and financial strategies. From an academic point of view, this research provides a new perspective in evaluating the financial performance of leading sugar companies as well as the findings of this study can be added to the present literature and it can help researchers in their future studies.

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