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A Study on the Management of Working Capital of Hindustan Life Care Ltd.

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I. Introduction

Most of the PSUs in Kerala are loss making units. Only 32 units are making profit. Various units such as Kerala Garments Ltd., Scooters Kerala Limited etc. are practically non-functional. As per CAG report, Kerala PSU lack accountability, and there is a great scope for imbibing professionalism and efficiency.

Losses in PSUs were due to poor management, planning & implementation Indian(Express). Kerala Government have chosen to restructure the loss making units instead of privatization. The reports suggest that many PSUs in Kerala have improved their performance. In 2005-06 there were only 12 profit making units. In 2012-13 there were 45 profit making units. However 31 PSU units had made losses as per CAG report tabled in state assembly

This study was conducted on Hindustan Life Care Limited, a public sector enterprise under the ministry of health and family welfare. The current business portfolio of HLL includes manufacture and marketing of contraceptive products like condoms, copper-T, and Oral contraceptive pills.

Hindustan Latex Limited had stood out as a rare success story among public sector undertakings (PSUs) in Kerala. Over the years, this Central PSU, the leading manufacturer of contraceptives, registered an impressive growth and diversified into other products such as intra-uterine devices (IUDs), oral contraceptive pills, surgical gloves and blood bags.

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II. Statement of the Problem

The enterprise, Hindustan Life Care Limited at the time of formation attaches great importance to fixed assets management. It was due to the policy adopted at the time of investment decision-making. Discussions with the Finance manager suggest that the current assets were given lesser importance. Since the profit showed a steady declined during 2010-14, it is necessary to discuss the issue of working capital management of the firm

Objectives Of The Study

- To understand the nature of company's working capital management
- To find out the liquidity position of the company
- To suggest ways for better management and control of working capital at the concern.

III. Research Methodology

The research design is partially descriptive and partially analytical. Descriptive research is the designed to provide further insight into the research problem by describing the various variables of interest. The major purpose of descriptive research is the descriptions of the state of affairs as it exist at present. Analytical research is to study the causes of the problems

Data Sources

The data for the study has been collected form primary as well as data sources.

<u>Primary data</u>

- Primary data was collected by conducting interviews with employees.

<u>Secondary data</u>

- The study is basically depended to the secondary data collected from the author's report, balance sheet and profit and loss account.

Tools For Analysis - Ratio analysis and Trend analysis

IV. Literature Review

The following are some of the briefly reviews of scholarly works conducted in India in respect of working capital management. Vanhorne (1969), Welter, (1970) , Warren and Shelton (1971) in their study, recognizing working capital management as an area largely lacking in theoretical perspective, attempted to develop a framework in terms of probabilistic cash budget for evaluating decisions concerning the level of liquid assets and the maturity composition of debt involving risk-return trade-off. They proposed the calculation of different forecasted liquid asset requirements along with their subjective probabilities under different possible assumptions of sales, receivables, payables and other related receipts and disbursements. It throws light into nature of working capital management which is necessary for the success of the performance of business.

Appavadhanulu (1971) recognizing the lack of attention being given to investment in working capital, analysed working capital management by examining the impact of method of production on investment in working capital. His study could not show significant relationship between choice of technique and working capital. So it is important to understand the nature of management of working capital.

Misra(1975) studied the problems of working capital with special reference to six selected public sector undertakings in India over the period 1960-61 to 1967-68. Analysis of financial ratios and responses to a questionnaire revealed the composition and utilization of working capital. In all the selected enterprises, inventory constituted the more important element of working capital.The points towards the need to find out whether other components of working capital are also equally important.

Kamta Prasad Singh, Anil Kumar Sinha and Subas Chandra Singh (1986), Verma(1989) and Vijaykumar and Venkatachalam (1995) examined various aspects of working capital management in manufacturing industry in India during the period 1978-79 to 1982-93. Their study showed that demand for working capital and its components was a function of both sales and carrying costs. So it gives the idea to investigate to understand the nature of working capital management in public sector undertakings.

V. Data Analysis & Interpretation

Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Calculation of Current Ratio						
Year	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Current Assets	5600909.06	43706902.57	22986301.22	133764381.1	56884493.96	136179946.4
Current Liabilities	23320234.37	31961675.81	19317457.59	48413531.03	144299431.5	215631836.7
Current Ratio	**2.401737957**	**1.36747844**	**1.189923732**	**2.762954452**	**0.39421149**	**0.631539148**

Table 1

Inference

As we know that ideal current ratio for any firm is 2:1. If we see the current ratio of the company for last five years it has decreased from 2008 to 2010. In 2011 it increased, but then it decreased in 2012. The current ratio of company is less than the ideal ratio. This depicts that company's liquidity position is not satisfactory. Its current assets are less than its current liabilities.

Quick Ratio

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Calculation Of Quick Ratio						
Year	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Quick assets	12830707.31	35249435.05	12644602.77	107678966.3	6430674.16	116721853.5
Current liabilities	23320234.37	31961675.81	19317457.59	48413531.03	144299431.5	215631836.7
Quick ratio	**0.550196328**	**1.102865671**	**0.654568683**	**2.224150232**	**0.044564792**	**0.541301578**

Table 2

Inference

A quick ratio is an indication that the firm is liquid and has the ability to meet its current liabilities in time. The ideal quick ratio is 1:1. Company's quick ratio is less than ideal ratio. This shows company has strong liquidity problems with regard to cash management.

Absolute Liquidity Ratio

$$\text{Absolute Liquid Ratio} = \frac{\text{Absolute Liquid Assets}}{\text{Current Liabilities}}$$

Table 3

Calculation Of Absolute Liquidity Ratio						
Year	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
absolute assets	201147.19	7478221.77	1791268.57	725368.06	1605936.56	301723.56
current liabilities	23320234.37	31961675.81	19317457.59	48413531.03	144299431.5	215631836.7
absolute liquid ratio	**0.008625436**	**0.233974646**	**0.092727967**	**0.014982755**	**0.011129195**	**0.001399253**

Inference

These ratio shows that company carries a small amount of cash. But there is nothing to be worried about the lack of cash because company has reserve, borrowing power & long term investment.

Net Working Capital Turnover Ratio

Net Working Capital Turnover Ratios					
Year	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Sales	49920546	103089704.8	93020114	122120818.9	168125409.6
Working capital	32688857.9	11745226.76	3668843.63	85350850.07	-87414937.53
Net working capital turnover ratios	1.527142556	8.777157466	25.35406885	1.430809638	-1.923302977

Table 4

Inference

The net working capital is positive from the year 2008 to 2012. But in 2012-2013 it shows negative ratio. Because In 2012-2013, the current asset was less than current liabilities as compared to previous years.

Net Profitability Ratio

$$\text{Net profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} * 100$$

Net Profitability Ratio					
Year	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Net Profit	12462529.87	-11060239	30199096.54	-5706683.7	-13714643
Sales	49920546	103089705	93020114	122120819	168125410
NET PROFITABILITY RATIO	**24.96473069**	**-10.728752**	**32.46512527**	**-4.6729819**	**-8.1573884**

Table 5

Inferences

The net profit of the company is fluctuating every year. The company earns higher net profit in the year 2010-2011 because of increased sale. Due to heavy operating cost loss is increasing .

Debtors Turnover Ratio

$$\text{Average Debtors} = \frac{\text{Opening Debtor + Closing Debtors}}{2}$$

Table 6

Debtors Turnover Ratio					
Year	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Sales	49920546	103089704.8	93020114	122120818.9	168125409.6
average debtors	11212031.85	25860143.12	8145698.87	37261369.36	14748197.77
DEBTORS TURNOVER RATIO	4.452408508	3.986432104	11.41953754	3.277410921	11.39972573

Inferences
Debtors' turnover ratio shows the debtors converting period. The ratio was fluctuating every year due

Creditors Turnover Ratio

$$\text{Creditors Turnover Ratio} = \frac{\text{Net purchase}}{\text{Average payables}}$$

Year	Net purchase	Accounts payable	Creditors turnover ratio
2009-2010	24,805,628.00	30,179,207.65	0.82194431
2010-2011	12647337.3	12141009.32	1.041703945
2011-2012	32030849.76	37261369.36	0.859626211
2012-2013	15876519.75	14748197.77	1.076505753
2013-2014	9819908.56	17284207.49	0.568143409

Table 8

Inference

This ratio signifies that the creditors are being paid promptly thus boosting up the credit worthiness of the firm. The graph shows that the credit turnover ratio is fluctuating from year to year. It signifies that the firm is not taking full advantages of credit facilities allowed by the creditors.

Gross working capital

Gross working capital= Current Assets+ Loans and Advances

Year	Current assets	Loans and Advances	Gross Working Capital
2008-2009	54620837.79	1388254.27	56009092.06
2009-2010	43517844.41	189058.16	43706902.57
2010-2011	20417899.93	2568401.29	22986301.22
2011-2012	132162003.7	1605919.33	133767923
2012-2013	55688614.68	1195879.28	56884493.96
2013-2014	91535883.05	3642675.44	95178558.49

Table 10

Inference

The gross working capital is the sum of the total investment in current assets. The gross working capital of the company was fluctuating from year to year because the current assets and loans and advances are fluctuating. The reason for fluctuation in working capital is the variation in the sales of the company.

Net Working Capital

Net Working capital= Current Assets- Current liabilities

Year	Current assets	Current liability	Net Working Capital
2008-2009	56009092.06	23320234.37	32688857.69
2009-2010	43706902.57	31961675.81	11745226.76
2010-2011	22986301.22	19317457.59	3668843.63
2011-2012	133767923	69873664.76	63894258.23
2012-2013	56884493.96	144299431.5	-87414937.53
2013-2014	95178558.49	170230572.7	-75052014.19

Table 11

Interface
Here the net working capital is fluctuating. The initial two years it is decreasing at a decreasing rate. Then it starts increasing in the next year. Again in the year of 2011-2014 it is decreasing.

VI. Findings

The net profit of the company is decreasing and the company's liquidity position is not satisfactory which indicates distress signs in financial condition of the company.

The net working capital is sound but the firm is not taking full advantages of credit facilities allowed by the creditors. Company should raise funds through short term sources for short term requirement of funds which comparatively economical as compare to long term funds.

VII. Suggestions

Company should take control on debtor's collection period which is major part of current assets. Company has take control on cash balance because cash is non earning assets and increasing cost of funds. The current assets should be managed more effectively so as to avoid unnecessary blocking of capital that could be used for other purposes. Internal check system is desirable to control cost. Credit facilities can be given to dealers for getting competitive edge in the market

VIII. Conclusion

The analysis of 5 years reveals that the various factors affect the overall performance and their positive and negative involvement in financial and non financial aspects of the company. It can be concluded that the working capital position of the company is fluctuating stage by stage and the company has to take necessary steps for the improvement of financial strength of the company.

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