

A Study on Working Capital Management of Uralungal Labour Contract Co-Operative Society (ULCCS) Ltd

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Abstract - This study analyses the working capital management of ULCCS Ltd. for a period of five financial years from 2011-2012 to 2015-2016. The study proceeds with the objectives to study the working capital management of Uralungal Labour Contract Co-Operative Society (ULCCS) Ltd. and analyse the financial performance of the society. The financial as well as statistical tools like financial ratio analysis, trend analysis, schedule of changes in working capital and common size balance sheet etc. have been used to analyze the data. It is revealed that the working capital efficiency of the society is good during the study period.

Key words: ULCCS, working capital, trend analysis, ratio analysis

JEL Classifications: G31, M10, M41, P13

Introduction

Every business wants funds for its establishment and to carry out its day to day operations. A part of the capital is blocked for the procurement and maintenance of fixed assets while another portion is held in the short term operations viz., the purchase of raw materials and other day to day expenses otherwise called as working capital. Thus working capital refers to that part of capital which is required for financing short term or current assets. Working capital management is an integral part of overall corporate management. The efficient management of working capital has a direct impact on the profitability and efficiency of a business because it ensures the sufficient cash flow in order to meet the short term debt obligations and operating expenses. Implementing an effective working capital management system makes every business to improve their earnings.

Uralungal Labour Contract Co-operative society (ULCCS) Ltd. is established in 1925 and registered under co-operatives societies Act. The society has to its credit long 91 years of meritorious survival and tops the list of best working labour contract co-operative in India. Thus this study analyses the working capital management of ULCCS Ltd. and also its financial efficiency.

Review of Literature

Depali Gajanan Bankapure¹ has studied the management of working capital among the 3 star, 4 star, 5star and deluxe hotels in Pune, commented that the main components of working capitals are receivables, inventory, cash and debtors which increases hotels liquidity profitability and firm's credibility in the Market.

Saravanan² who made a study on working capital management in Ten Nonbanking financial companies, concluded that the sample firm had placed more importance upon the liquidity aspect compared to that of profitability.

Afza and Nazir³ had investigated the relationship between the aggressive conservative working capital policies for industrial groups with a large sample of 263 public limited companies listed at Karachi Bombay stock exchange during the period of 1998 to 2003. The study found significant difference among their working capital investment and financing policies of different industries. They also found out that there is a negative relationship between profitability measures of firm and degree of aggressiveness of working capital investment and financing policies.

Statement of the Problem

Working capital regarded as the one of the significant factor that affects the operations of every business. A good working capital policy can robust the business operations compared to those having poor working capital policy. It is very relevant that the funds blocked in the inventories inversely affect the working capital and thereby overall capital structure of a business. Hence, it is very important to ensure that the working capital policies are revised in timely manner to cope up with the dynamic situations. Thus this study analyses the working capital management of ULCCS Ltd. along with its financial performance and financial position.

Methodology

The study uses both primary and secondary data. The primary data collected through personal discussion of the financial officials in the society while the secondary data has been collected from annual reports of the society which consists of five financial years ranging from 2011-12 to 2015-16 and other journals.

Analysis and Discussions

Table No. 1: Ratio Analysis of ULCCS Ltd. for the Period 2011-12 to 2015-16

Ratios	Year				
	2011-12	2012-13	2013-14	2014-15	2015-16
Current Ratio	1.96	1.18	1.19	1.67	2.59
Quick Ratio	1.95	1.18	1.18	1.67	2.59
Absolute Liquid Ratio	0.3	0.076	0.101	0.02	0.04
Net Working Capital Ratio	0.192	0.057	0.061	0.181	0.033
Cash To Current Assets Ratio	0.151	0.063	0.085	0.012	0.015
Cash To Working Capital Ratio	0.306	0.403	0.532	0.03	0.255
Inventory To Networking Capital Ratio	0.011	0.028	0.017	0.011	0.048
Current Assets To proprietors Fund Ratio	261.8	86.2	96.2	13.5	1994.9
Current Assets To Fixed Assets Ratio	0.861	0.86	0.938	1.28	2.11
Working Capital Turnover Ratio	2.37	9.57	9.6	3.66	20.91
Fixed Assets Turnover Ratio	1.08	1.31	1.44	1.9	2.72
Current Assets Turnover Ratio	1.17	1.51	1.53	1.48	1.28
Total Assets Turnover Ratio	0.542	0.701	0.745	0.833	0.872
Inventory To Current Assets Ratio	0.003	0.005	0.002	0.004	0.006
Gross Profit Ratio	0.17	0.16	0.13	0.1	0.11
Net Profit Ratio	0.001	0.0013	0.0014	0.001	0.0011
Cash To Sales Ratio	0.02	0.07	0.08	0.08	0.2
Inventory To Sales Ratio	0.007	0.005	0.002	0.03	0.004
Inventory To Turnover	200.77	34.36	367.69	169.26	13.03
Inventory Holding Period	0.9	0.07	0.03	0.3	0.05
Gross Profit Margin Ratio	275	33	20	100	25
Gross Working Capital To Sales Ratio	1.34	1.31	0.96	6.46	1.65

Source: Computed from annual report of ULCCS Ltd

The above table 1 shows the results of various financial ratios. The current ratio of the society is good which is helpful for the society to meet its current obligations. The liquidity position of the society is good and stable. It is clear that the society has taken a conservative policy in current assets which means greater liquidity and lower risk. The table reveals that the working capital is effectively utilized in all the years except 2011 and 2013. The overall financial performance of the societies is satisfactory.

Table No 2: Trend Analysis of ULCCS Ltd. for the Period 2011-12 to 2015-16

Trend	Year				
	2011-12	2012-13	2013-14	2014-15	2015-16
Current Assets	100	105	121	175	304
Working Capital	100	34	39	144	38
Stock	100	81	59	143	158
Quick Assets	100	105	121	175	304

Source: Computed from annual report of ULCCS Ltd

The table 2 shows the trend analysis of ULCCS Ltd. regarding its current assets, working capital, stock and quick assets. Under this analysis the base year is 2011-2012. It is clear that the current assets, stocks and the quick assets show an increasing trend. The working capital shows fluctuating trend during the study period and has a negative trend in the last year.

Table No 3: Schedule of Changes in Working Capital of ULCCS Ltd. for the Period 2011-12 to 2014-15

	2011-2012		2012-2013		2013-2014		2014-2015	
	Increase in WC	Decrease in WC	Increase in WC	Decrease in WC	Increase in WC	Decrease in WC	Increase in WC	Decrease in WC
Current Assets								
Cash & Bank Balance	.....	101163418	43602414	.....	.....	9849789	31671973	.....
Stock	.....	1281138	.....	1532685	5756770	.....	1075365	.....
Loans & Advances	166387527	.....	146201507	.....	739894454	.....	1487471847	.....
Deposits	.....	5807485	6054185	.....	1499107	.....	31326793	.....
Current Liabilities & Provision	.....	451159654	.....	160968624	.....	30031792	.....	153235368
Net WC		393024168		33356797	618597750		1398310610	

Source: Computed from annual report of ULCCS Ltd

The above table shows that the schedule of changes in working capital of ULCCS Ltd. during the year 2011-12 and 2012-13 had a decrease while for the years 2013-14 and 2014-15, there is an increase in the working capital.

Table No. 4: Common Size Balance Sheet of ULCCS Ltd. for the Period 2011-12 to 2015-16

Particulars	31-3-2011		31-3-2012		31-3-2013		31-3-2014		31-3-2015	
	In Rs.	%	In Rs.	%	In Rs.	%	In Rs.	%	In Rs.	%
Assets										
Fixed asset	139848935 2	45	146806022 1	42	155342123 9	41	164497412 0	35	173331041 2	26
Investment	268329700	9	413208242	12	635813400	17	773387300	16	106158020 0	16
Current assets										
Stock	6921544	0.2 2	5640406	0.1 6	4107721	0.1	9864491	0.2	10939856	0.1 6
Loans & Advances	100500221 0	32	117138973 7	34	131759124 4	35	205748569 8	44	354495754 5	53
Deposits	11187845	.36	5380359	0.1 5	11434544	0.3	12933651	0.2 7	44260444	0.6 7
Cash and bank balances	181984744	6	80821326	2	124423740	3	25932951	0.5 5	57604942	0.8 7
Subsidiary Unit	208991395	7	325215749	9	152326808	4	182456970	4	184094978	3
Total assets	308090679 0	100	346971604 0	100	379929648 2	10 0	470703518 2	100	663674841 3	100
Capital and liabilities										
Share Capital	345339915	11	317883815	9	305753830	8	294753845	6	268287905	4
Reserve and Surplus	114938205 0	37	114675216 8	33	120925104 8	32	126513326 8	27	156506766 2	24
Loan and Deposits	974324203	32	942059782	27	106030270 5	28	189309737 8	40	339610678 7	5
Current Liabilities	611860621	20	106302027 5	31	122398889 9	32	125405069 1	27	140728605 9	21
Total Liabilities	308090679 0	100	346971604 0	100	379929648 2	10 0	470703518 2	100	663674841 3	100

Source: Computed from annual report of ULCCS Ltd

The table 4 shows the common size statement of ULCCS Ltd for the period 2011-12 to 2015-16. For the study period, the fixed asset forms the major share in the total assets, followed by investments and current assets. In capital and liabilities, reserves and

surpluses forms the major share in most of the years except in 2013-14, which is constituted by loans and deposits followed by other categories.

Conclusion

Working capital management is the relationship between a firm's short-term assets and liabilities. The goal of working capital management is to ensure the smooth operation of a business with an ability to satisfy both maturing short-term debts and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash. The study analysed the working capital management of Uralungal Labour Contract Cooperative Society (ULCCS) Ltd. for the five financial years. The study revealed that the society's working capital efficiency and liquidity position is good where its cash management is not satisfactory during the study period.

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