

A STUDY ON WORKING CAPITAL MANAGEMENT IN SINTECH

PRECISION PROUCT LTD

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ABSTRACT

This article is based on the study of working capital management in Sintech Precision Product Ltd. An insight view of the project will encompass – what it is all about, what it aims to achieve, what is its purpose and scope, the various methods used for collecting data and their sources, including literature survey done, further specifying the limitations of our study and in the last, drawing inferences from the learning so far.

Sintech Precision Products Ltd., founded in 1986, by an enterprising technocrat Mr. N.C.Dhingra is recognized as one of the largest pumping solutions provider today in India. Sintech is an advanced pumping solution provider for water intensive heavy industries. With a very diverse product portfolio, Sintech provides solutions for multifarious applications like clear water, process, slurry, liquid with suspended solids, sewage, acids, alkalies, seawater and many more. Sintech has branch offices and dealership network in throughout the nation as well as catering the international market.

The working capital management refers to the management of working capital, or precisely to the management of current assets. A firm's working capital consists of its investments in current assets, which includes short-term assets—cash and bank balance, inventories, receivable and marketable securities. This article tries to evaluate how the management of working capital is done in Sintech through inventory ratios, working capital ratios, trends, computation of cash, inventory and working capital, and short term financing.

KEYWORDS: Working Capital Management in Sintech Precision Prouct Ltd.

INTRODUCTION

This article undertaken is on “WORKING CAPITAL MANAGEMENT IN SINTECH PRECISION PROUCT LTD”. It describes about how the company manages its working capital and the various steps that are required in the management of working capital.

Cash is the lifeline of a company. If this lifeline deteriorates, so does the company's ability to fund operations, reinvest and meet capital requirements and payments. Understanding a company's cash flow health is essential to making investment decisions. A good way to judge a company's cash flow prospects is to look at its working capital management (WCM).

Working capital refers to the cash a business requires for day-to-day operations or, more specifically, for financing the conversion of raw materials into finished goods, which the company sells for payment. Among the most

important items of working capital are levels of inventory, accounts receivable, and accounts payable. Analysts look at these items for signs of a company's efficiency and financial strength.

The working capital is an important yardstick to measure the company's operational and financial efficiency. Any company should have a right amount of cash and lines of credit for its business needs at all times.

The Problems

In the management of working capital, the firm is faced with two key problems:

- First, given the level of sales and the relevant cost considerations, what are the optimal amounts of cash, accounts receivable and inventories that a firm should choose to maintain?
- Second, given these optimal amounts, what is the most economical way to finance these working capital investments? To produce the best possible results, firms should keep no unproductive assets and should finance with the cheapest available sources of funds. Why? In general, it is quite advantageous for the firm to invest in short term assets and to finance short-term liabilities.

Purpose of Study

The objectives of this article were mainly to study the inventory, cash and receivable at SINTECH PRECISION PRODUCT LTD., but there are some more and they are -

- The main purpose of our study is to render a better understanding of the concept "Working Capital Management".
- To understand the planning and management of working capital at SINTECH.
- To measure the financial soundness of the company by analyzing various ratios.
- To suggest ways for better management and control of working capital at the concern.

RESEARCH METHODOLOGY

- This article requires a detailed understanding of the concept – "Working Capital Management". Therefore, firstly we need to have a clear idea of what is working capital, how it is managed in SINTECH, what are the different ways in which the financing of working capital is done in the company.
- The management of working capital involves managing inventories, accounts receivable and payable and cash. Therefore one also needs to have a sound knowledge about cash management, inventory management and receivables management.
- Then comes the financing of working capital requirement, i.e. how the working capital is financed, what are the various sources through which it is done.
- And, in the end, suggestions and recommendations on ways for better management and control of working capital are provided.

Scope of the Study

This article is vital to me in a significant way. It does have some importance for the company too. These are as follows

- It will be a learning device for the finance student.
- It will be a learning of planning and financing working capital.
- This article would also be an effective tool for credit policies of the companies.

Data Sources

The following sources have been sought for the preparation report:

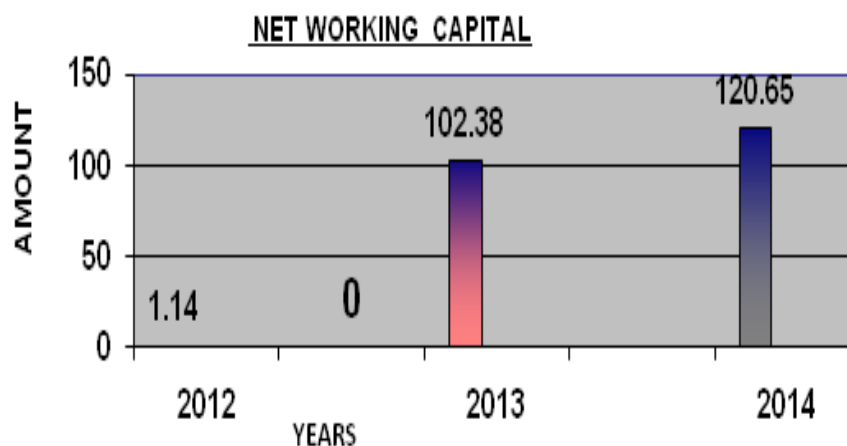
- Primary sources such as business magazines, current annual reports, book on Financial Management by various authors and internet websites the imp amongst them being: www.sintechpumps.com, www.indiainfoline.com, www.studyfinance.com.
- Secondary sources like previous year's annual reports, CMA Data, reports on working capital for research, analysis and comparison of the data gathered.
- Also, various text books on financial management like Khan & Jain, Prasanna Chandra and I.M.Pandey were consulted to equip ourselves with the topic.

Limitations of the Study

- We cannot do comparisons with other companies unless and until we have the data of other companies on the same subject.
- Only the printed data about the company will be available and not the back-end details.
- Future plans of the company will not be disclosed to the trainees.
- Lastly, due to shortage of time it is not possible to cover all the factors and details regarding the subject of study.
- The latest financial data could not be reported as the company's websites have not been updated.

Working Capital Position Analysis in Sintech Precision Product LimitedNet working Capital (CURRENT ASSETS – CURRENT LIABILITIES)

YEAR	(Rs.in lacks)		
	<u>31.03.12</u>	<u>31.03.13</u>	<u>31.03.14</u>
<u>CURRENT ASSETS</u>			
INVENTORIES	180.26	291.13	653.95
SUNDRY DEBTORS	114.33	390.84	219.79
CASH AND BANK	10.81	34.30	28.22
OTHER CURRENT ASSETS	6.67	28.08	21.99
LOANS & ADVANCES	21.44	78.74	83.92
TOTAL CURRENT ASSETS	333.51	823.09	1008.67
LESS:-			
<u>CURRENT LIABILITIES AND PROVISIONS</u>			
Short term borrowing	94.54	336.70	315.76
Sundry creditors	159.49	256.33	305.99
Advanced received	25.30	18.16	59.88
Provisions	21.56	59.05	64.05
Instalments of term loan	14.66	21.11	72.00
Other current liabilities	16.82	29.36	70.34
TOTAL CURRENT LIABILITIES	332.37	720.71	888.02
NET WORKING CAPITAL	1.14	102.38	120.65

**Interpretation**

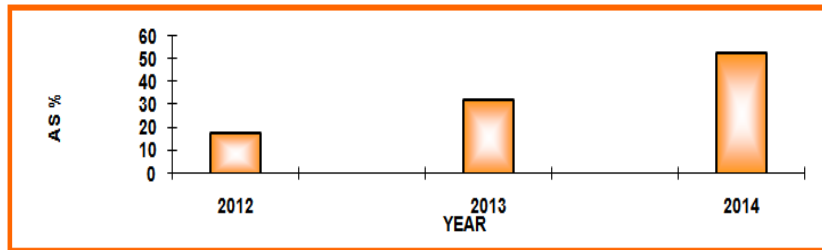
If we analysis the three years working capital position of the company, we find out that company has sufficient working capital to meets its short term liability, it is good indicator for the company but in 2013, working capital is increased by 102.38 lacs which shows that a sufficient amount has been blocked in working capital which could be used for some other more beneficial purpose.

Position of Working Capital Ratio in Sintech Precision Product Limited

$$\text{WORKING CAPITAL RATIO (AS \% OF SALES)} = \frac{\text{INVENTORY + RECIVEABLE - PAYABLE}}{\text{SALES}}$$

YEAR	<u>31.03.12</u>	<u>31.03.13</u>	<u>31.03.14</u>
WORKING CAPITAL RATIO	18	32	53

Analysis through Chart:



Interpretation

This ratio indicates whether the investments in current assets or net current assets (i.e., working capital) have been properly utilized. In order words it shows the relationship between sales and working capital. Higher the ratio lower is the investment in working capital and higher is the profitability. But too high ratio indicates over trading.

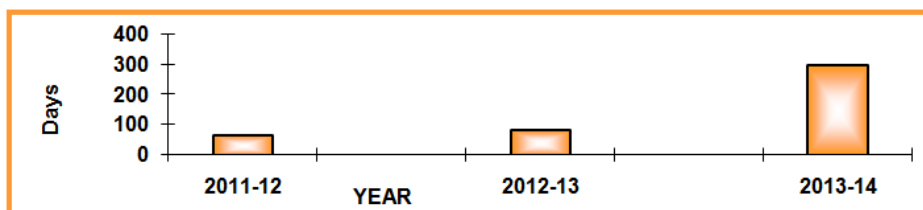
Position of Operating Cycle in Sintech Precision Product Limited

$$O. C = \text{Inventory Conversion Period} + \text{Receivable Conversion Period} - \text{Deferral Period}$$

Calculation of Operating Cycle at Sintech:- (All Figures in Days)

Particulars	2011-12	2012-13	2013-14
ICP	104	79	227
RCP	54	70	104
Gross Operating Cycle	158	149	431
DP	92	69	135
Net OP	66	80	296

Analysis through Chart



Interpretation

When a company has lower d/e ratio, it means that company is utilizing its own funds and reserves rather than taking loans from outsiders. Company has an uneven trend in d/e ratio. In the year 2012 it was 1.02 but in the year 2014 it is declined to .55 so we can say that now company is using more its fund as compare to previous year, but still the ratio is high. Company has to reduce the ratio.

MAJOR FINDINGS

Statement Showing Difference from Previous Year

			(Amt. in Lacks)	
Particulars			2012-13	2013-14
Working Capital			102 ↑ by 5000%	121 ↑ by 19%
Sales			1323 ↑ by 72%	-1069 ↓ by 19.10%
Current Assets				
Sundry Debtors	391 ↑ by 243%	220 ↓ by 44%	823 ↑ by 146%	1009 ↑ by 23%
Inventories	291 ↑ by 62%	654 ↑ by 125%		
Cash & Bank	34 ↑ by 209%	-29 ↓ by 15%		
Bank Loan and Advances	107 ↑ by 269%	106 ↓ by .93		
Current Liabilities				
Sundry Creditors	256 ↓ by 42%	306 ↑ by 19.53%	721 ↑ by 117%	888 ↑ by 23%
Bank Loan and Advances	355 ↑ by 196%	376 ↑ by 6%		
Provisions & Deposits	80.16 ↑ by 121.31%	136 ↑ by 70%		
Other Liabilities	29.36 ↓ by 74.55%	70.34 ↑ by 139.5%		

Suggestions

The management of working capital plays a vital role in running of a successful business. So, things should go with a proper understanding for managing cash, receivables and inventory.

Sintech Precision Product Ltd. is managing its working capital in a good manner, but still there is some scope for improvement in its management. This can help the company in raising its profit level by making less investment in accounts receivables and stocks etc. This will ultimately improve the efficiency of its operations.

Recommendations

- The business runs successfully with adequate amount of the working capital but the company should see to it that the cash should not be tied up in excessive amount of working capital.
- The over purchasing function should be avoided as it could lead to liquidity problems.
- The investment of cash in marketable securities should be increased, as it is very profitable for the company.

Concluding Anaysis

- The working capital position of the company is sound and the various sources through which it is funded are optimal.
- The company has used its purchasing, financing and investment decisions to good effect can be seen from the inferences made earlier in the project.
- Sintech Precision Product Ltd. has reached a position where the default costs are as low as negligible and where they can readily factor their accounts receivables for availing finance is noteworthy.

REFERENCES

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2. www.scribd.com
3. www.indianpumpsindustry.com
4. I.M.Pandey
5. Khan and Jain

