AN ANALYSIS OF WORKING CAPITAL MANAGEMENT OF NAHAR SPINNING MILLS LTD.

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ABSTRACT:

This study has been conducted to take a glance at working capital management of the company and analyse it to judge the performance of the company financially for the purpose of the study we have conducted an analytical study on working capital management of Nahar spinning Mills Ltd. For the last five years, which has been satisfactory

Key Words: Working Capital Management, Nahar Spinning Mills Ltd

INTRODUCTION

Working capital

Funds which are needed for short term purpose for example, for the purchase of raw materials, payment of wages and to meet out other day to day expenses etc. known as working capital.

In simple words working Capital refers to that part of firms Capital which is required for financing short term or current assets such as cash, marketable securities, debtors and inventories. It is also known as revolving or circulating capital or short-term Capital because it is invested in current assets, which can easily be converted into cash, and again this cash can be used in exchange of other current assets.

Thus, Capital which is used for the establishment of the business is known as fixed capital.
On the other hand, Capital which are is used to meet out day to day expenses and which is necessary for further surviving of the business is known as working Capital.

Working capital also known as net working capital in a financial metric which represents the amount of day to day operating liquidity available to a business. Along with feed assets such as plant and equipments, working capital is considered a part of operating capital. It is calculated as current assets minus current liabilities. A company can be endowed with assets and profitability, but short of liquidity, it these assets cannot readily be converted into cash.

Current assets and current liabilities include three amounts which are of special importance. These accounts represents the areas of business where managers have the most direct impact.

- Accounts receivable (Current assets)
- Inventory (Current assets) and
- Account payable (current liability)

In a situation where a company carries more cash than the minimum amount needed to maintain operations, the excess portion is usually excluded from working capital.

In addition the current (payable within 12 months) potion of debt is crucial because current assets, common types of short term debt are bank loans and lines of credit.

**OBJECTIVE OF THE STUDY:**

The following objective are framed for conduction of the study:

- To examine the working Capital position of Nahar spinning Mills Ltd,
- To analyze the cash position of Nahar spinning Mills Ltd.
- To examine the inventory position of Nahar spinning Mills Ltd.
- To analyze the management of Loan & advance of Nahar spinning Mills.
To give suggestions on the basis of findings and conclusion of this study.

**HYPOTHESIS OF THE STUDY:**

- Hypothesis concept is a tentative generalization the validity of which remain to be tested. In its elementary stage it is just an imaginative idea, which became the basis for action or investigation or research.

  The following hypothesis are framed for conduction of the study:

  i) The Company have sound position of working Capital in their business.

  ii) The Cash level of the organization is not upto the mark.

  iii) There is a positive relation between current assets and current liabilities.

No observation and research is possible if we do not have some hypothesis in our mind. The function of a hypothesis is direct our research for analysis order among facts

**RESEARCH METHODOLOGY**

The study is by and large an emericel investigation of a micro nature and is thus not a "Same on secondary data. The data has been mainly collected from the annual accounts, Balance Sheet, Profit and Loss a/c, annual reports audit report, sources and uses of funds of Nahar spinning Mills Ltd. The statistical techniques of averages, percentages, co-efficient of variation and co-efficient of correlation have been deployed at appropriate place to analyze the data and derive meaningful results. Different tools of financial accounting have also been used in the study.

**SAMPLING DESIGN:** Here to conduct research upon the analysis of working Capital of Nahar spinning Mills Ltd., dates has been collected for the period of 5 years from 2003-04 to 2007-08..
DATACOLLECTION: The task of data collection begins after a research problem has been
defined and research design planned out

There are two types of data, namely:

i) Primary data

ii) Secondary data

The entire research of working Capital analysis of Nahar spinning Mills Ltd. is based on
secondary data collected.

The sources these secondary data are- Annual reports of Nahar Spinning Mills. Ltd. data
has also been collected from the company its website www.owmnahar.com.

DATAANALYSIS

The entire research pertaining to analyzing the working Capital management of Nahar
spinning Mills Ltd. has been done with the help of making comparative analysis. Here,

comparation is done about the change in different financial aspects of working Capital,
Mainly Cash debtors, inventories and loans & advances along with the other balance sheet items
so as to determine the relationship between them. Ibis comparision has been facilitated by doing
ratio analysis trend analysis and also through other financial analysis. Then after the analyzed
data is presented though EDP (Electronic Data Processing) methods to enable the reader to
access and understand the made analysis easily.

ABOUTTHECOMPANY

Spinning a web of pure enchantment seems to be the aim and objective of NAHAR
SPINNING, reckoned to be the blue-chip in the NAHAR firmament.

Starting out as a tiny worsted spinning & hosiery unit in Ludhiana, it was incorporated as
Private Limited company in December 1980 & became a Public Limited company in 1983. The
steady growth in manufacture & export of woolen/cotton hosiery, knitwears & woolen textiles
enabled the company to earn the recognition as an “Export House” followed by a “Recognized Trading House” by the Government of India in a short span of 8 years. Its turbo-charged performance brought them a host of fresh laurels... they include the “National Export Trophy” by the Apparel Export Promotion Council. The latest is the prestigious Status of “Golden Trading House* in recognition of its continuously outstanding performance accorded by the Government of India.

In 1992, as a measure of backward integration, the company diversified into the Spinning Industry. Today it has an installed spindlage of 335000 spindles.

Simultaneously the company also established an ultra modern facility to manufacture 12.5 Million pieces of Hosiery Garments. Today Nahar Spinning’s T-shirts are being exported to reputed international brands such as GAP, Arrow, Old Navy, Pierre Cardin, Philips Van Heusen, Izod, Quicksilver, Price Cost.

As a measure of further value addition Nahar Spinning has put up a plant for the manufacture of fine count mercerized yarn & fabrics catering to both, the domestic hosiery garment market as well as export markets.

To make use of the emerging opportunities on the Global Textile Scenario and also to have a focused business approach, the company went in for the Scheme of demerger and arrangement to restructure its business. The Scheme has already been approved by the Hon’ble Punjab 85 Haryana High Court vide its Order dt. 21st December, 2006. As per the scheme, company’s Investment Activities stand demerged and transferred to Nahar Capital and Financial Services Limited. This has drawn a visible line between two segment i.e., One Industrial (Textile) business and Secondly Investment and Financial Activities.

Further as per the scheme “Textiles Business” of Nahar Exports Limited stand demerged and transferred to the company (post demerger of investment business) in accordance with the terms of the scheme. Thus upon implementation of the Scheme the spindlage capacity of the company stand increased to 3.35 Lacs spindles.
FINDING

i. Current ratio of the company may be satisfactory because current assets are increasing more as current liabilities. But the company should try to improve more in order to improve its short term financial soundness.

ii. In comparison of cash to current assets pose that cash position is not satisfactory in the company, it having too much fluctuation and cash balance is very crude in all the years.

iii. Current Liabilities are continuously increasing and when it is compared to cash it is showing very low %, which is not a good sign, it means that the company is not having sufficient fund to pay off its current liabilities.

iv. In comparison of cash to liquid assets it pression that cash put up in 2004-05 but it dwindle non stop in its two years and company put effect to build up to 3.77 in 2007-08 but it is not also up to the mark.

v. When debtor are compared with current assets it vet out that debtor are too much in the company, it means that company has given very much goods on credit. So it is affecting the working capital of the company.

vi. More number of Debtors are affecting current liabilities reversely, because money is blocked in debtors and the payment of current liabilities may not be able to made easily.

vii. Liquidity of the company easing off because of large number of debtors. The company may not be able to perform the day to day activities easily.

viii. Working capital's comparison with debtors are showing very much ups and down because debtors are not within the limit.

ix. Inventory to current assets is showing a good position. There is an average increment of inventory in the company. It means that the company is investing cash in manufacturing of goods.

x. Inventory is reversely affecting current liabilities because the ratio is very much, which means that there is too much unsold stock is thore in the company. 

xi. Liquidity of the company is lowering because of too much inventory. So the sales and
manufacturing of goods should be balance, xii. Working capital’s ratio inventory is not upto the mark because most of the working capital is covered by inventory, xiii. The condition of loans & advances is not satisfactory because they are very much in number and the company should try to fix the limit of loans 85 advances xiv. Debtors turnover ratio is showing fluctuation every year and they are increasing more as compare to sales, which is not good.

ANALYSIS OF HYPOTHESIS

i) Analysis Null Hypothesis through ratio

This study fulfill the following null hypothesis.

The working capital position of Nahar Spinning mills Ltd. is not satisfactory.

<table>
<thead>
<tr>
<th>Year</th>
<th>Current assets</th>
<th>Current liabilities</th>
<th>Ratio</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>223.17</td>
<td>68.9</td>
<td>3.2</td>
<td>320</td>
</tr>
<tr>
<td>2004-05</td>
<td>217.24</td>
<td>80.89</td>
<td>2.69</td>
<td>269</td>
</tr>
<tr>
<td>2005-06</td>
<td>253.64</td>
<td>80.82</td>
<td>3.14</td>
<td>314</td>
</tr>
<tr>
<td>2006.07</td>
<td>507.48</td>
<td>146.46</td>
<td>3.46</td>
<td>346</td>
</tr>
<tr>
<td>2007-08</td>
<td>633.23</td>
<td>136.35</td>
<td>4.64</td>
<td>464</td>
</tr>
</tbody>
</table>

Source - Annual reports of Nahar Spinning Mills Ltd.

The above tables shows that working capital of the company is good. Therefore, the hypothesis is rejected.

Alternative

It is proved from the above tables that the company is having good working capital. Thus, the management of working capital of Nahar Spinning Mills Ltd. is satisfactory. Hence, the alternative is accepted.
ii) Analysis Null Hypothesis through T-test

In this study null hypothesis of current assets to current liabilities it Nahar Spinning Mills Ltd. is not satisfactory.

The position of current assets and current liabilities is analyzed by the value of 'r'. It is tested by T distribution, whether the value of 'r' significant or not.

Value of

\[ r = .936 \]

\[ tc = 4.6 \]

The value of 'r' is .936 & value of 't' is 4.6 85 the critical value of 't' at 5% is 3.128 which indicate less then the calculated value. Hence value of V is significant and hypothesis is rejected.

Alternative

Current Assets to Current Liabilities position is satisfactory as per table number 6, it is clear that critical value is less than the calculated value. Hence alternative hypothesis is accepted. Value of 'r' is significant.

CONCLUSION

This study has been conducted to take a glance at the working capital. Management of the company & analysis it to judge the performance of the company financially for the purpose of the study we have conducted an analytical study on working capital management of Nahar spinning Mills Ltd. For the last five years, which has been satisfactory.

In comparison of cash to working capital the ratio is not satisfactory because out of total working capital very less cash in there in the company to perform the routine activities.

Current ratio of the company may be satisfactory because current assets are increasing more as current liabilities .but the company should try to improve more in order to improve its short term financial soundness More number of Debtors are affecting current liabilities reversely,
because money is blocked in debtors and the payment of current liabilities may not be able to 
made easily Inventory is reversely affecting current liabilities because the ratio is very much, 
which means that there is too much unsold stock is there in the company.

Nahar Spinning Mills Limited is serving our economy by maintaining proper working capital. 
It can extend its working capital management to enable proper functioning in day to day trading 
or it can invest in short term securities to enhance its financial position these are some options 
open for that company, overall its performance is efficient and in the interest of the country.

REFERENCES

Books


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