A Study of working Capital Management with reference to Dabur India Ltd.

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ABSTRACT

Working Capital management is of one of the important aspect of financial management. Working capital management is very important for day to day management of organisation. A good way to judge a company's cash flow prospects is to look at its Working Capital Management (WCM). 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 make investment decisions. This research report is based on the study of working capital management in Dabur India Ltd. Dabur India limited is the fourth largest fast moving consumer goods (F M C G) company in India. The research also shows comparison of working capital management of Dabur Ltd with other FMGC company.

I. Introduction:

"Working Capital is the Life-Blood and Controlling Nerve Centre of a Business"

The term Working Capital refers to the capital required for day-to-day operations of a business enterprise. It is represented by excess of Current assets over Current Liabilities. It is necessary for any organization to run successfully its affairs, to provide for adequate working capital. Too large investment in Current Assets means blocking the capital that can be used productively elsewhere. On the other hand too little investment can be expensive. For example, insufficient inventory may cause loss of sales to Customers. All this indicates that proper estimation of the Working Capital requirements is a must for running the business efficiently and profitably.

Working capital is therefore:-

WORKING CAPITAL =Current Assets- Current liabilities

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stock +debtors+cash

The importance of having working capital is best understood as 'costs expended before payment received for goods/service provided to the customer'. Therefore, no capital means no production and no customers, which means no capital.

There are basically two concepts of working capital-

- **Gross Working Capital:**

  It is the amount of capital invested in the total Current assets of the enterprise. Current assets are those assets, which in ordinary course of business can be converted into cash within a short period of normally one accounting year.

- **Net Working Capital:**

It refers to the difference between net current assets and liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year. Networking capital can be positive or negative. A positive net working capital will arise when current assets current increase liabilities. A negative working capital will arise when current liabilities are in excess of current assets.

II. Current Assets:

Current assets, sometimes called liquid assets, are those resources of a firm, which are either held in the form of cash or are expected to be converted in cash within the accounting period in one-year duration. The operating cycle is the time taken to convert the raw materials into finished goods and convert receivables (goods sold on credit) into cash. Current Assets include: Cash in hand, Bank balances, Bills Receivables, Sundry Debtors (less provision for bad debts), Short term loans and advances, Inventories of stocks etc.

III. Current Liabilities:

Current Liabilities are debts payable within an accounting period. Current assets are converted to pay current liabilities. Current Liabilities include Bills Payable, Sundry creditors or Accounts Payable, Accrued or Outstanding expenses, Short term loans, Advances or deposits. It is a conventional rule to maintain the level of current assets twice the level of current liabilities. A weak liquidity position poses a threat to the solvency of the company and makes it unsafe and unsound. A negative working capital means a negative liquidity and at times it may prove to be harmful for the company's reputation. Excessive liquidity is also bad. It may be due to mismanagement of current assets. Therefore prompt and timely action should be taken by the management to improve and correct the imbalances in the liquidity position of the firm.

IV. DABOUR India Limited- A Profile Introduction:

Dabur India limited is the fourth largest fast moving consumer goods (F M C G) company in India. Dabur was founded in 1884 by Dr. S K Burman, a physician in West Bengal, to produce and dispense Ayurvedic medicines. Dabur India Ltd. made its beginnings with a small pharmacy, but has continued to learn and grow to a commanding status in the industry. The Company has come a long way in popularising and making easily available a whole range of products based on the traditional science of Ayurveda. And Dabur has set very high standards in developing products and processes that meet stringent quality norms. As it grows even further, Dabur will continue to mark up on major milestones along the way, setting the road for others to follow.

The story of Dabur begin with a small, but visionary endeavour by Dr. S.K. Burman, a physician from Bengal. His mission was to provide effective and affordable cure for ordinary people in far-flung villages. With missionary zeal and fervour, Dr. Burman undertook the task of preparing natural cures for the killer diseases of those days, like Cholera, Malaria, and plague. Soon the news of his medicines travelled and he came to be known as the trusted “DAKTAR” or doctor who came up with effective’s cures. And that is how his venture Dabur got its name derived from Devanagiri rendition of Dr. Burman. Dr. Burman’s commitment and efforts resulted in the company growing from a fledging medicine manufacturer in a small Calcutta house, to a household name that at ones evokes, trust and reliability

V. Objectives of the Study:

To attain the main objective, the following objectives are sought to be achieved:

- To understand concept of working capital
- To examine the working capital performance of the selected company i.e. Dabur India ltd.
- To analyse the financial position of DABUR INDIA LTD.

VI. Literature Review:

Deloof (2003) found a significant negative relationship between gross operating income and the number of days accounts receivable, inventories and accounts payable of Belgian firms and on basis of these results he suggested that managers could create value for their shareholders by reducing the number of days’ accounts receivable and inventories to a reasonable minimum. **Shin and Soenen (1998),** highlighted that efficient Working Capital Management (WCM) was very important for creating value for the shareholders. The way working capital was managed had a significant impact on both profitability and liquidity. **Aminu, Yusuf (2012)** in his study ‘ A nexus between liquidity and profitability trade offs for working capital in Nizerias manufacturing sector’ concluded that profitability / liquidity trade off has always been in conducive . the motive to strategy and practical existing circumstances, are always critical factors that must be considered in maintaining a balance liquidity and profitability.

VII. Research Methodology:

In this research, researcher used secondary data which is collected from various books, websites as well as newspapers. The research is related to study of working capital performance of Dabur India Ltd. It is one of the leading company in India.

Data Source

The data required for the study has been collected from the published annual reports of the selected company.

Study Period

We have chosen the study period ranging from 2009-10 to 2013-14.

Tools and Techniques of Data Analysis

The data collected from the published annual reports of the selected company for the five years period have been suitably arranged, classified and tabulated as per requirement for the study.

Working Capital Performance of the Selected Sample Company

To analyze the working capital performance of the selected company, the technique of ratio analysis has been used. The ratios which are taken into consideration are as follows:

DIFFERENT RATIOS WHICH ARE TAKEN INTO CONSIDERATION TO ANALYZE THE WORKING CAPITAL PERFORMANCE OF THE SAMPLE COMPANY

Name of the ratios	Measures
Current ratio	Current asset/current liability
Quick ratio	(current asset- stock)/(current liability- bank over draft)
Inventory turnover ratio	(in times) (sale – gross profit)/ closing stock
Inventory turnover	(in days) 365/inventory turnover(in times)
Debtors turnover ratio	(in time) Net sales/ closing debtors
Working capital turnover ratio	Net sales / working capital
Debtors turnover ratio	(in days) 365/ debtors turn over in times
Current asset turnover	ratio Sales / current assets

Balance Sheet of Dabur India ------------------- in Rs. Cr. -------------------

	Mar '14	Mar '13	Mar '12	Mar '11	Mar '10
	12 mths	12 mths	12 mths	12 mths	12 mths
Sources Of Funds					
Total Share Capital	174.38	174.29	174.21	174.07	86.76
Equity Share Capital	174.38	174.29	174.21	174.07	86.76
Application Money	0.00	0.00	0.00	0.00	0.14
Preference Share Capital	0.00	0.00	0.00	0.00	0.00
Reserves	1,727.96	1,420.49	1,128.28	927.09	662.48
Networth	**1,902.34**	**1,594.78**	**1,302.49**	**1,101.16**	**749.38**
Secured Loans	17.79	22.47	19.12	17.57	24.27
Unsecured Loans	26.50	219.11	254.15	235.78	81.80
Total Debt	**44.29**	**241.58**	**273.27**	**253.35**	**106.07**
Total Liabilities	**1,946.63**	**1,836.36**	**1,575.76**	**1,354.51**	**855.45**

	Mar '14	Mar '13	Mar '12	Mar '11	Mar '10
	12 mths	12 mths	12 mths	12 mths	12 mths
Application Of Funds					
Gross Block	1,017.04	937.70	883.23	766.88	687.23
Less: Revaluation Reserves	0.00	0.00	0.78	0.00	0.00
Less: Accum. Depreciation	363.39	321.12	297.90	269.32	236.28
Net Block	**653.65**	**616.58**	**584.55**	**497.56**	**450.95**
Capital Work in Progress	16.73	17.07	25.12	11.92	23.31
Investments	**1,118.42**	**729.41**	**552.72**	**519.23**	**348.51**
Inventories	558.20	499.74	528.57	460.58	298.44
Sundry Debtors	323.12	255.32	224.17	202.46	130.48
Cash and Bank Balance	297.47	319.40	261.20	26.08	48.80
Total Current Assets	1,178.79	1,074.46	1,013.94	689.12	477.72
Loans and Advances	154.21	390.37	603.61	461.81	348.94
Fixed Deposits	0.00	0.00	30.09	166.33	115.11
Total CA, Loans & Advances	1,333.00	1,464.83	1,647.64	1,317.26	941.77
Deferred Credit	0.00	0.00	0.00	0.00	0.00
Current Liabilities	894.61	771.96	695.70	539.05	471.73
Provisions	280.56	219.57	592.40	535.36	440.10
Total CL & Provisions	1,175.17	991.53	1,288.10	1,074.41	911.83
Net Current Assets	**157.83**	**473.30**	**359.54**	**242.85**	**29.94**
Miscellaneous Expenses	0.00	0.00	53.83	82.95	2.74

Total Assets	**1,946.63**	**1,836.36**	**1,575.76**	**1,354.51**	**855.45**
Contingent Liabilities	1,338.05	1,719.07	1,337.82	1,075.89	173.48
Book Value (Rs)	10.91	9.15	7.48	6.33	8.64

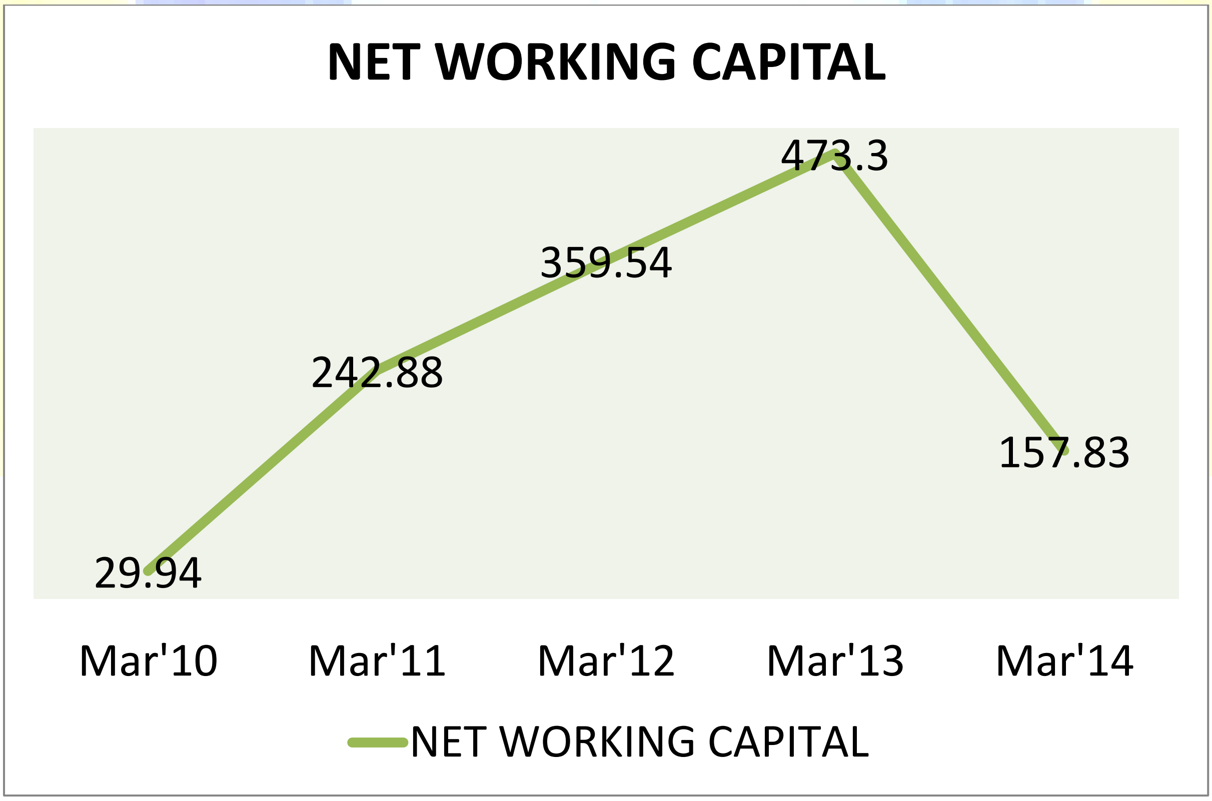
Table 1: **COMPARISON OF WORKING CAPITALS OF LAST 5 YEARS**

(Fig. in Cr.)

	Mar' 14	Mar' 13	Mar'12	Mar'11	Mar'10
CURRENT ASSETS	1,333.00	1,464.83	1,647.64	1,317.26	941.77
CURRENT LIABILITY	1,175.17	991.53	1,288.10	1,074.41	911.83
NET WORKING CAPITAL	157.83	473.3	359.54	242.88	29.94

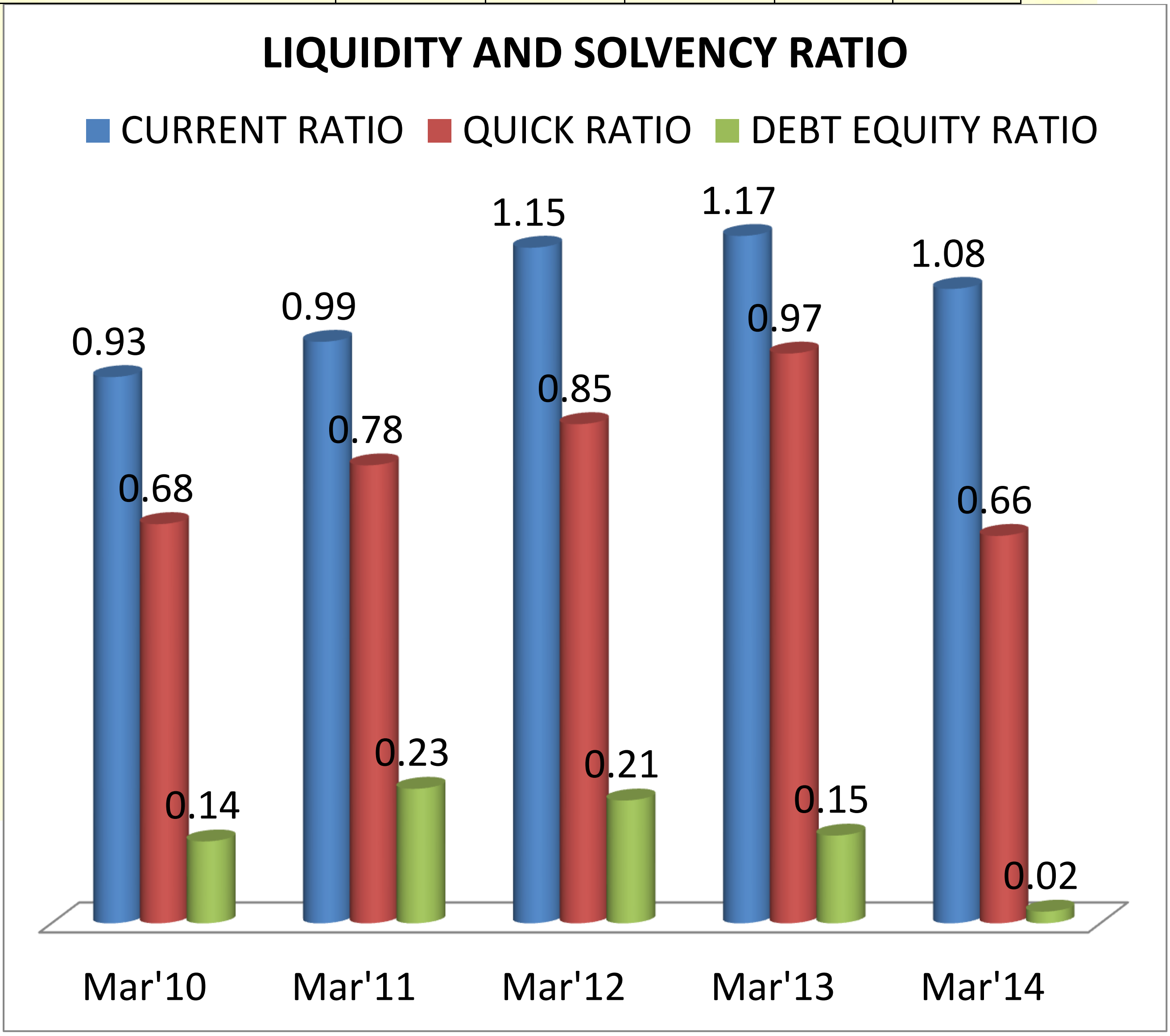
Sources:-money control.com

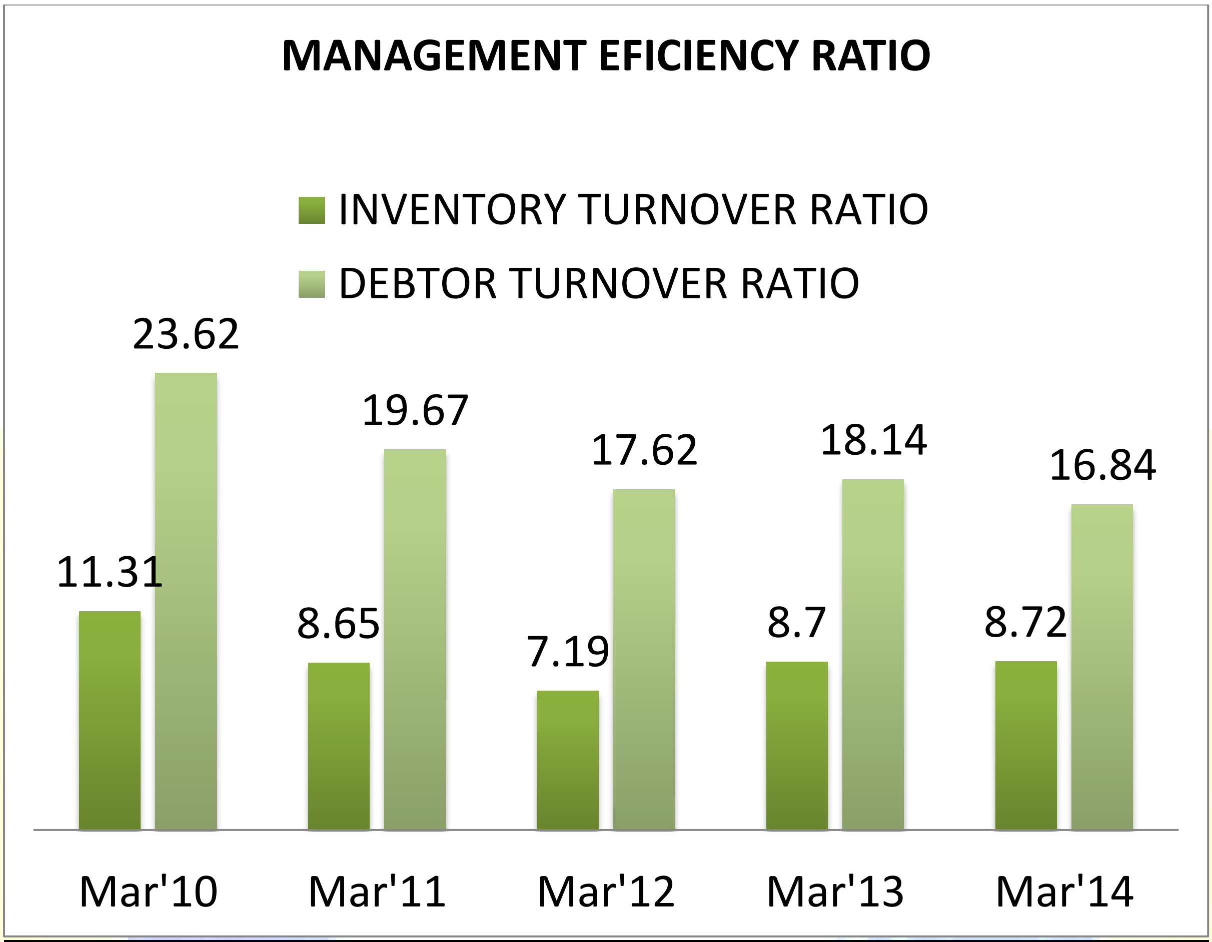
In table 1. The comparison of working capital of last 5 years clearly indicates that net working capital position of Dabur India Ltd. Was increasing from march 2010 till March 2013.however in 2014 it decline drastically.



Graph 1: Net Working CapitalTable 3: ratio analyis of dabur india ltd

Ratio	Mar’ 14	Mar’ 13	Mar’12	Mar’11	Mar’10
Liquidity solvency ratios					
Current Ratio	1.08	1.17	1.15	0.99	0.93
Quick Ratio	0.66	0.97	0.85	0.78	0.68
Debt Equity Ratio	0.02	0.15	0.21	0.23	0.14
Management Efficiency ratios					
Inventory Turnover Ratio	8.72	8.70	7.19	8.65	11.31
Debtors Turnover Ratio	16.84	18.14	17.62	19.67	23.62





VIII. Findings:

- From 2010 to 2013, working capital has been increased i.e, from 29.94 to 473.3.
- Compared to 2010, the percentage of increasing working capital in 2013 is 1580%, i.e, 15.8 times more than working capital of 2010. It shows, long term fund invested in working capital is continuously increasing.
- In 2013, the current liabilities was decreased as compared with 2012 amt -1288.10, hence, more amount was needed for working capital.
- In 2014, current liabilities were increased to 1175.17 Crs and the current assets were 1333 Crs. So the investment in working capital is 157.83 Crs only.
- Compared to 2013, working capital management of 2014 is good because of that investment in working capital was reduced considerably.
- In 2014, working capital investment was reduced by 66.67%.

IX. Suggestions:

There was a drastic change in 2013, it shows that this company did not utilise its credit facility properly. But in 2014, it was better, so the company continuously has to do the efficient management in working capital otherwise it will affect its operating activities.

X. Limitations:

The accuracy and authenticity of the data collected and conclusions drawn largely depends upon the corresponding accuracy and authenticity of the information supplied by the concerned websites, books, and journals

XI. Conclusion:

Every concern should adopt some new tread management strategies that will help in greater productivity, inventory optimization and also better working capital management. So, it is noted that working capital is a means to run business smoothly and profitability. Thus, the concept of working capital has its own important in a going concern. Good management of working capital is part of good finance management effective use of working capital will contribute to the operational efficiency of a department; optimum use will help to generate maximum return.

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