

WORKING CAPITAL MANAGEMENT IN ASIAN PAINTS LTD -A CASE STUDY

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ABSTRACT

Many organizations that are profitable on paper are forced to ease their operations due to an inability to meet their short-term debt obligations. In order to sustain the business, it is essential for any organization to successfully manage its working capital. Though much research has already been conducted, this area requires further attention and care. Ineffective management of working capital is one of the important factors causing industrial sickness. This study, by using the data available in the annual reports for the period from 2013-14 to 2017-18, examines the working capital management of Asian Paints limited. The study concedes that the liquidity position of this company is good and managed effectively.

Key words: Working capital, Liquidity ratio, Turnover ratio, management.

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**WORKING CAPITAL MANAGEMENT IN ASIAN PAINTS LTD –
A CASE STUDY****Introduction**

The ultimate objective of any organization is to maximize its profits. This objective can be achieved through various means like increasing sales, reducing cost, reducing overheads, reducing prices, increasing sales promotion and so on. All these factors have an influence on the working capital and how effectively it is being managed. Profits will increase considerably if the organization manages its working

capital optimally. Thus, efficient management of working capital is one of the prerequisites for success of an enterprise.

Working capital may be regarded as lifeblood of a business. Its effective provision can do much to ensure the success of a business, while its inefficient management can lead not only to loss of profits but also to the ultimate downfall of what otherwise might be considered as a promising concern. Much has been rightly made of the long-term planning of capital projects. But the cost to industry due to inadequate planning in the use of working capital is immeasurable. A study of working capital is of major importance to internal and external analysis because of its close relationship with the current day-to-day operations of a business.

Profile of Asian Paints limited

Asian Paints Limited was established way back on February 1,1942 and today stands as India's largest paint company and Asia's third largest paint company with an annual turnover of Rs 5,463 crore. Asian Paints along with its subsidiaries has operations in 20 countries across the world and 28 paint manufacturing facilities, servicing consumers in 65 countries through Berger International, SCIB Paints- Egypt, Asian Paints, Apco Coatings and Taubmans. Asian Paints operates in 5 regions across the world viz. South Asia, South East Asia, South Pacific, Middle East and Caribbean region through the five corporate brands viz. Asian Paints, Berger International, SCIB Paints, Apco Coatings and Taubmans. In 10 markets, it operates through its subsidiary, Berger International Limited; in Egypt through SCIB Paints; in 5 markets in the South Pacific it operates through Apco Coatings and in Fiji and Samoa it also operates through Taubmans. The company is having its strategically located Indian plants at Bhandup (Maharashtra), Kasna (Uttar Pradesh) and Sriperumbudur (Tamil Nadu), Ankleshwar (Gujarat), Patancheru (Andhra Pradesh) and the newly built plant at Rohtak (Haryana).

Rationale of the Study

In the present scenario, empirical results show that ineffective management of working capital is one of the important factors causing industrial sickness (Yadav, 1986). The rationale of the study spring from the fact that unless the working capital is managed effectively, monitored efficiently, planned properly and reviewed periodically at regular intervals to remove bottlenecks if any, the company cannot earn profits and increase its turnover. With this as the primary objective of the study, the following further objectives are framed for an in-depth analysis.

Objectives of the study

- ❖ To assess the working capital requirement and to know whether it is comparable with existing position.
- ❖ To know the ways and means of financing working capital.
- ❖ Whether the current level of working capital augurs well with the policies of the company.
- ❖ To examine the relationship between the liquidity and profitability of this company.

Methodology

The study is concerned with the paint industry and it has been confined to one of the private sectors viz., Asian Paints Limited. This study is based on the secondary data, which was obtained from the published sources i.e., annual reports for a period of five years (2013-2014 to 2017-2018). The collected data has been analyzed with the help of ratio analysis, statement of changes in working capital and simple percentage analysis.

Limitations of the study

This study is limited to five years and this study is limited to one company.

Results and Discussions

In order to fulfill the above objectives, and to comment on the working capital management of this company, partly due to time and resource constraints, the study deals with the following three approaches.

- ❖ Selected working Capital ratio
- ❖ Distribution of working capital and
- ❖ Statement of Changes in Working Capital

Working Capital Ratios

Current Ratio

This ratio varies from 1.10 to 1.51 during the period of study there has been deterioration in the liquidity position of the company. Though the current ratio is slightly vary (increase and also decrease) in every year. The current ratio of the company has been achieved less than the conventional ratio. Thus, judged from the conventional norm, this company has a bad, inefficient management of the current ratio and also it indicates that the company liquidity position is also not good.

Year	Current Ratio	Liquid Ratio	Current Assets to total Assets Ratio	Current Assets to Fixed Assets Ratio	Inventory Turnover ratio	Debtors Turnover Ratio	Working Capital Turnover Ratio
2013-14	1.15	0.48	0.45	2.03	3.67	15.45	24.45
2014-15	1.45	0.78	0.52	1.75	4.79	15.47	10.43
2015-16	1.06	0.41	0.39	1.56	3.74	16.64	80.53
2016-17	1.43	0.59	0.44	1.62	3.46	18.88	26.38
2017-18	1.57	0.81	0.59	2.34	3.79	17.36	8.65
Mean	1.67	0.85	0.49	1.94	3.87	16.76	34.18

Source: Annual Report of Asian Paints Limited.

Quick Ratio

During the financial years under study (table 1), the quick ratio has decreased from 2013-14 to 2016-17 but during 2017-18 it has increased., though it has liquidity ratio compared to current ratio may indicate under stocking, while low liquidity ratio may indicate over stocking. Almost for all the years, the company had been maintaining as dissatisfactory liquidity ratio in view of normal inventory thus maintaining the inventory levels is not good.

Current Assets to Total Assets

It can be seen from Table 1 that the company's Current Assets to Total Assets ratio has decreased from 2013-14 to 2016-17but during 2018-19 it has increased. It shows that the company had given bad emphasis to working capital investment as compared to fixed assets and current assets arenormal which shows that the company has bad liquidity.

Inventory Turnover Ratio

Table 1 show that the Turnover of inventory was slightly vary from 3.67 to 3.79 from 2013-14 to 3.79 but in the year 2014-15 it has reached the maximum level of 4.79. Turnover Ratios were increasing and in the subsequent years it had come down. Inventory management is remarkably dissatisfactory.

Debtors Turnover Ratio

Here, the company, it is observed from Table 1 except in the year 2015-16 maintained the debtors' turnover more than four times. However, in 2013-14 it comes to 15.45 which show that the company debtors' level of turnover is good.

Working Capital Turnover Ratio

Table 1 indicates that the ratio varies from 24.45 to 80.53 from 2013-14 to 2015-16, working capital Ratios were increasing and in the subsequent years it had come down to 8.65. On an average, the company's working capital turnover ratio was 34.18 which is less than the desired level.

Distribution of Working Capital

The elements-wise analysis of working capital enables to examine in which elements the working capital funds are locked up and to find out the factors responsible for the significant changes in working capital of different years. The distribution of working capital among the elements and its average calculated in percentages for the study period has been presented in Table 2. out of the four elements of the working capital-inventory, debtors and loans & advances contributed almost equally i.e., 104.37 percent 34.25 percent and 90.74 percent respectively, towards gross working capital whereas the last one i.e., cash and bank contributed the lowest i.e., 27.16 percent towards gross working capital. During the period of study, remarkable changes were observed in share of different elements of working capital.

Year	Inventory/ working capital Ratio	Debtors/working Capital Ratio	Cash and Bank/Working capital Ratio	Loan and Advance/Working Capital Ratio
2013-14	6.71	3.13	0.51	2.22
2014-15	2.08	1.18	0.48	0.73
2015-16	22.70	9.86	0.85	4.53
2016-17	7.74	2.64	0.14	1.32
2017-18	1.50	0.59	0.59	0.18

Source: Annual Report of Asian Paints Limited.

Liquidity Position

Year	Inventory to current Assets	Debtors to current assets	Cash and Bank to Current assets	Loan and Advances to Current Assets	Liquidity				Total Ranks	Ultimate ranks
					1	2	4	5		
2013-14	0.62	0.29	0.04	0.20	1	2	4	5	12	3
2014-15	0.52	0.30	0.12	0.18	4	3	2	3	12	3

2015-16	0.64	0.27	0.02	0.12	5	4	1	1	11	1
2016-17	0.69	0.23	0.01	0.11	3	5	3	2	13	5
2017-18	0.45	0.18	0.18	0.05	2	1	5	4	12	3

Source: Annual Report of Asian Paints Limited.

It can be observed from Table 3 that 2015-16 registered the most sound liquidity position and was followed in 2013-14, 2014-15, 2017-18 and 2016-17. The fluctuation in the liquidity position over different years during the period of study may be a point for investigation into the financial affairs of the concern. The information has been depicted in Table 3.

Statement of Changing Working Capital

The working capital changes due to various transactions. The working capital position at the beginning of a period is changed to a different position at the end of that period. A statement of working capital is prepared to depict the changes in working capital. Table 5 is prepared with current assets and current liabilities as appearing in the balance sheets under consideration. A wise financial policy of a business concern requires that long-term funds are used to finance fixed assets like land and building, plant and machinery, etc., and short-term funds are used to finance current assets like stock, debtors, etc. It can be observed from Table 4 that working capital of the company has increased by 2432.02 lakh in 2013-14, by 2524.85 lakh in 2014-15, by 5685.84 lakh in 2015-16 and decreased by 2071.56 in 2016-17, by 5260.88 lakh in 2017-18. These changes may be due to the reasons of increased volume of sales, increasing price of raw material and so on. Thus, it is concluded that there are changes in the amount of working capital of the company year to year, which depended on sales and output of that period.

Particulars/Year	2013-14	2014-15	2015-16	2016-17	2017-18
Current assets					
Interest accrued	0.09	0.16	0.16	0.17	0.18
Inventory	538.97	546.71	763.14	1071.76	1264.42
Debtors	251.90	311.02	331.43	366.68	500.24
Cash and Bank	41.35	128.26	28.60	20.47	500.97
Loan and Advance	33.09	48.30	66.55	87.12	511.78
Current liabilities					
Acceptance	214.47	176.35	292.72	308.15	316.35
Sundry Creditors	375.73	358.51	571.71	743.73	752.71
Investors Education and	3.17	2.91	3.45	4.17	4.33

Protection Fund					
Other current liabilities	191.74	234.13	288.39	351.71	755.44
Increase (+)/Decrease (-) in Working Capital	80.29	262.55	33.61	138.44	948.76

Source: Annual Report of Asian Paints Limited.

Findings of the Study

- Here, the financial position concept means only the short-term position of finance. The company has a sound and satisfactory financial position. Short-term financial position indicates the ability of the company to pay-off the current liabilities within a short span of time. Throughout the study period of five years the company maintained a good liquid position and more than the optimum levels.
- The company maintained a good working capital position throughout the study period. Reducing ratio indicates the increasing efficiencies of managing the working capital. The company's mode of financing working capital is sources.
- In current asset, most of the part was covered by stock. The stock holding of this company is very high. On an average, 104.37 percent of current assets are kept in the form of stocks. After 2017-18, the stock shows an decreasing trend in current assets considering the increase in retail outlets and other factors, the company's inventory management level is remarkably sound.
- Throughout the study period of five years, the company has maintained a reasonable amount of liabilities, and the levels of current liabilities have increased.
- This company keeps most of its current assets in the form of stock.
- This company's debtor's collection period is between 26 days and 46 days. However, the company could collect cash in time and sometimes even before also. It indicates that the debtors' management of this company is good.
- There are changes in the amount of working capital of this company from year to year which was based on the sales and output of that period
- This company follows the conserve active current assets policy.
- The rank correlation of liquidity and profitability observed to be inversely related to each other. It implies that as the liquidity increases, the profitability decreases.

Suggestions

As the company is a profit seeking one, it has to direct all of its resources to achieve this goal. The company is trying to enhance its value and thereby its shareholders base. While searching for profitability,

the liquidity and solvency positions are crucial elements to be watched carefully. On the basis of the analysis and observations, the following suggestions are made:

- Current ratio of the company was less than the optimum level 2:1. Though solvency position of the company can be termed as good, from the financial point of view, this situation can be appreciated, because it shows the funds of the company remained idle in the form of current assets as well as fixed assets. The company should true its best to maintain that to the required standard or optimum level.
- The company's current liabilities position is appreciable. The company should be strike a good relation between current assets and current liabilities. If the current assets and current liabilities are good. Holding cash idle as working capital more than the required will affect the profitability of the company.
- As per the committee report, the company's bank finance to working capital is not available which can be better utilized for enhancing working capital.
- The average debtor's collection period should be maintained at the same level. This will affect the liquidity position and it may call for low profitability, as provision for bad and doubtful debts will increase.
- The analysis the stock turnover shows that the movement of stock is very low. The company has blocked up a major portion of its capital in the form of stocks, which is unhealthy. Maintaining more stock will directly affects the company's profitability, so the company should try to better the utilization of its stocks and ensure lesser amount of capital blocked up in the form of working capital.
- The company should give special attention to the management of inventory, as inventories constitute the most significant part of the working capital of the company.

Conclusion

The study reveals that the liquidity position of Asian Paints Limited is good as it remained above the standard norms throughout the period of study. The turnover ratios reveal that the company's ability to manage the current assets for generation observation from the study is that the debtors' collection period has declined from 40 days to 26 days. Thus, it can be said that since 2017-18 importance of debtors management is realized. On the whole, it can be concluded that the working capital management efficiency has been increasing every year. It needs to be maintained and increased further by effective utilization and control of current assets.

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