Working Capital Trend Analysis In Zinc Industry In India

*Dr. Manoj Sain

"Working Capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the inter-relationship that exists between them."The term current assets refers to those assets, which in the ordinary course of business can be or will be turned into cash within one year without undergoing a diminution in value and without disrupting the operations of the firm. The goal of working capital management is to manage the firms current assets and current liabilities in such a way that a satisfactory level of working capital is maintained.

The management of working capital is very important to the successful operation of a firm. Working capital is defined as the difference between current assets and current liabilities. Working Capital reflects directly the firms liquidity i.e. the firms ability to pay its bills.

In the words of Prof.H.G.Guthman, "Working Capital is excess of current assets over current liabilities."

According to Charles W.Gerstenberg, "Working Capital is circulating capital means all current assets of a company that are changed from one form to another in the ordinary course of business."

The two concepts of Working Capital: gross and net are not exclusive; rather they have equal significance from management point of view. The gross working capital concept focuses attention on two aspects of current assets management, (a) optimum investment in current assets and (b) financing current assets. Another aspect of the gross working capital points to the need of arranging funds to finance current assets.

The net working capital, being the difference between current assets and current liabilities is a qualitative concept. It indicates (a) the liquidity position of the firm and (b) suggests the extent to which working capital need may be financed by sufficiently in excess of current liabilities, to constitute a margin or buffer for maturing obligations with in the ordinary operating cycle of a business.

Working Capital Trend

Working capital is an important field of financial management. In financial analysis, the direction of change over a period of time is of crucial importance. It is therefore, very essential for an analyst to make a study about the trend and direction of working capital. This analysis will provide a base to judge whether the practice and prevailing policy of the management with regard to the working capital is good enough or an improvement is to be made in managing the working capital funds. Further, an upward trend in sales would usually reflect an unfavorable situation. An upward trend of current assets, inventories, account receivables, cash and bank balances and other current assets in concert with a downward trend, if current liabilities, would usually be viewed favorably and vice-versa. All such conclusions throw light on one or more aspects of the working capital position and have to be reconciled with those from other aspects.

Year	Actual Value of Working Capital (Rs. in crore) (a)	Indices 2007-08=100	Yc or Trend Value (Rs. in crore) (b)	Statistical Measure
2007-08	494.31	100.00	340.65	
2008-09	325.87	65.92	360.63	Chi-Square $(x^2)=$ 118.38 between a & b
2009-10	298.33	60.35	380.75	
2010-11	456.40	92.33	400.79	
2011-12	328.63	66.48	420.72	

Yc stands for computed value of working capital based on the least square equation of Yc=a+bxwhere the equation comes to Yc= 320.47+20.08x, (Origin of x: 2007-08).

The linear least square trend values of working capital in HZL have been shown in the table 1. The trend values of working capital differed materially from actual values of working capital during the study period. While the deviations were positive in the year 2008-09, 2009-10, and 2000-01 were negative in the years 2007-08 and 2010-11. To test the significance between the difference of actual value and trend value of working capital in HZL, Chi-Square test has been applied. It can be observed that the table value of x^2at 5% level of significance is 11.07 while the calculated value of x^2 is 118.38. As the calculated value of x^2 is more than the table value, it shows that the difference between the actual value and the trend value of working capital was significant.

Actual and Trend Values of Working Capital ofBinani Zinc Ltd.

Year	Actual Value of Working Capital (Rs. in crore) (a)	Indices 2007-08=100	Yc or Trend Value (Rs. in crore) (b)	Statistical Measure
2007-08	16.65	100.00	74.99	
2008-09	313.64	1883.72	78.06	Chi-Square (x^2)=889.29 between a & b
2009-10	45.10	270.87	81.11	
2010-11	19.81	118.97	84.17	
2011-12	87.23	523.90	87.23	

Yc stands for computed value of working capital based on the least square equation of Yc=a+bxwhere the equation comes to Yc= 71.93+3.06x, (Origin of x: 2007-08).

The linear least square trend value of working capital in BZL has been shown in the Table 2. The trend value of working capital differed materially from actual value of working capital during the study period except the year 2000-01, while the deviations were positive in the year 2007-08, 2009-10 and 2010-11. The deviation was negative in the year 2008-09 only. To test the significance between the difference of trend value of working capital and actual value in BZL, Chi-square test has been applied. It can be observed that the table value of x^2 at 5% level of significance is 11.07 while the calculated value of x^2 is 889.29. As the calculated value of x^2 is more than the table value, it shows that the difference between the actual value and the trend value of working capital were highly significant.

Actual and Trend Values of Working Capital of Rose Zinc Ltd.

Year	Actual Value of Working Capital (Rs. in crore) (a)	Indices 2007-08=100	Yc or Trend Value (Rs. in crore) (b)	Statistical Measure
2007-08	2.57	100.00	2.18	
2008-09	3.12	121.40	3.22	
2009-10	3.42	133.07	4.26	Chi-Square (x^2)=0.28 between a & b
2010-11	5.80	225.68	5.32	
2011-12	6.41	249.42	6.34	

Yc stands for computed value of working capital based on the least square equation of Yc=a+bxwhere the equation comes to Yc= 1.14+1.04x, (Origin of x: 2007-08).

The linear least square trend values of working capital in RZL have been shown in the Table 6.9. The deviations were negative in the years 2007-08 and 2010-11, while the deviations were positive in the remaining years. To test the significance between the differences of actual value and trend value of working capital in RZL, Chi-Square test has been applied. It can be observed that the table value of x^2 at 5% level of significance is 11.07 while the calculated value of x^2 is 0.28. As the calculated value of x^2 is less than the table value; it shows that the differences between the actual value and the trend value of working capital were not significant and the working capital, which existed in the company, was adequate to carry on its business smoothly.

*Principal
Tilak P.G. Collage Jaipur

Reference

1. K.V. Smith, Management of Working Capital, (New York, West Publishing Company, 1974), p.7.

2. Guthman, Hurry, G. and Douall, Herbest, E. Corporate Financial Policy (New Delhi Printice Hall. 1955), p.387.

3. W. Gerstenberg Charles, Financial Organisation and Management or Business (Bombay: Asia Publishing House, 1st Ed. Reprint 1962), p.291.

4. M.Y. Khan and P.K. Jain Financial Management (New Delhi: Tata Mcgraw Hill Publishing Company Ltd. 1986), p.605.

5. P.V. Kulkarni, Financial Management (New Delhi, Himalaya Publishing House, Ed. 1983), p.399.