

A Study of Role of Working Capital Management in Sambhar Salts Ltd.

*Dr. Anju lata Joshi

ABSTRACT

Working is an intergral part of overall financial management and has a bearing on the objective of maximizing of the owner's wealth. To a financial manager, the sphere of working capital throws a welcome challenge and opportunity.

Salt is commonly used throughout the world and is perhaps the best – know commodity to the entire human race since man started eating salt and it is one of the important articles of human consumption and industries use. The present study attempts to examine of working capital management of salt industry in reference of sambhar salt Ltd.

Keywords : *Rato Analysis , Fund Flow Analysis , Net Working Capital, Cost Volume Profit Analysis, Trend Analysis*

INTRODUCTION

A business with an adequate level of working capital has more options available to it, and can make its own choice as to when working capital will be used and how it will be used on the other hand ? if a firm is short of working capital , it may be forced to limit its business operations , extension of credit to customers and the amount that its invests in inventory.

MEANING OF WORKING CAPITAL MANAGEMENT

Working capital management has been looked upon as the driving seat of a financial manger moves and actions in the operating fields of production procurement , marking and services are ultimately interpreted and viewed in financial terms ; hence, the pre- occupation with the financial implication of the management of working capital and its segments.

Working capital management is concerned with obtaining economic fund using them in a profitable manner and controlling them to maintain economy and profitability . Working Capital Management establishes a proper balance among risk ,liquidity and profitability.

CONCERT OF WORKING CAPITAL

A study of working capital is of a major importance to internal and external analysts because of its close relationship with the current day to day operations of a business. There are two concepts of working capital "Gross Concept" and "Net Concept" Gross concept is firm's investment in current assents "Gross working capital" It is also known as circulating capital or current capital concept working capital.

Net concept working capital is defined as the excess of current assets over current liabilities and provisions. In other words, it is "net current assets or net working capital".

A positive net working capital will arise when current assets exceed current liabilities. A negative working capital occur when current liabilities are in excess of current assets. The two concepts of working capital gross and net are not exclusive rather they have equal significance from management point of view.

It may be emphasized that both gross and net concepts of working capital are equally important for the efficient management of working capital.

Both the concepts of working capital have their own uses. If the objective is to measure the size and extent to which current assets are being used to optimize Productivity of the concern, gross concept is useful, whereas in evaluating the liquidity position of an undertaking, 'Net concept' becomes pertinent and preferable.

CIRCULATION SYSTEM OF WORKING CAPITAL

The current assets and current liability flow round in business like an electric current. However, the working capital plays the same role in the business as the rate of heart beat in the human body, just as the heart gets blood and circulates the same in the body, the working capital funds are generated and then circulated in the business.

There is always a circulation system involved in the conversion of sales into cash.

Cash –Creditors for Goods – Material—Wages—Overhead Expenses—Finished Goods – Sales – Debtors for Goods–Cash....

TYPES OF WORKING CAPITAL

The working capital can be conveniently classified into permanent or regular working capital and variable can further be sub divided in the seasonal and Special working capital.

1. Fixed, Regular or Permanent working capital
2. Negative working capital
3. Cash working capital
4. Net working capital
5. Variable seasonal temporary working capital
6. Balance sheet working capital
7. Gross working capital

Working Capital Management of SAMBHAR SALTS LTD

Salt is commonly used throughout the world and is perhaps the best-known commodity to the entire human race since man started eating salt and it is one of the important articles of human consumption and industrial use. Salt is a mineral of universal distribution. Nature seems to have

been generous in the supply of this unique mineral . It is available in plenty in sea, springs, lakes, mines and spread out on swamps in the varied parts of the World .

Hindustan Salts Limited [HST] was incorporated on 12th of April,1958 as a company fully owned by the Government of India to take over the salt sources at sambhar, Did wana and kharaghoda earlier managed by the salt Department, Government of India. Sambhar salts Limited [SST] was incorporated on 30.09.1964 as a subsidiary company of Hindustan Salts Limited by transferring the salt sources at sambhar subsequently, The sambhar lake salt sources were transferred to a newly formed subsidiary, company , sambhar salts limited in terms of V.K.krishnamachari Award. The equity of sambhar salts ltd. In owened 60% Government of India through Hindustan Salts Limited and 40% by government of Rajasthan in terms of V.T.Krishnamachari Award. Sambhar salts Limited has been made a subsidiary company which is having over 90 sq. miles of production area at sambhar and nawa . SSL has recently diversified the business o many courts and considerable infrastructure has been added to produce various varieties of high quality salt. Therefore depending on the order, we can process and send any type and quality a of salt.

LITERATURE REVIEW

1. Joshi and sharma (2002) analyzed the the trend of working capitals and its management of salt industry concerned with SSL. The study was bound to the time period of year 1994-1999. researcher observed and declared that the profitability and liquidity of the company suffered due to the inefficient management of working capital. researcher should suggested to improve the condition of current liabilities and current assets favourable to the company. The current study is an attempt to check out the present position of SSL. in relation to working capital management after a gape of approx. 15 years, Researcher wants to check whether the company is following same pattern towards working capital management or has improve itself with the help of suggestions and recommendations given by Sharma and Joshi in year 2012.ration
2. Agha Hina (2014) found that creditors' turnover ratio, and debtors turnover ratio inventory turnover ratio have a positive significant impact on return on assets and there is no significant impact of current ratio on return on assets.
3. Haresh Barot (2012) expressed in his study that a negative relationship between accounts receivable and corporate profitable and a positive relationship between accounts payable and profitability.He concludes that firms should properly manage their cash, accounts receivables , accounts payables, and inventories in proper way, will ultimately increase profitability of the firm.

RESEARCH METHODOLOGY

The study is based on secondary data. The required information is collected from various past studies and other sources like magazines , newspaper , reports and websites which are qualified as reliable.

OBJECTIVE OF STUDY

1. To study about various techniques of Working Capital Management for the profitability, liquidity, solvency of sambhar salt Ltd.
2. To aware readers and public about the various techniques of working capital management.

TECHNIQUES OF WORKING CAPITAL ANALIYAS

"A study of the causes of changes that takes place in the working capital balances from time to time is necessary". This involves the basic approach to working capital analysis changes in working capital balance, can be measured in rupee amounts and also in percentages by comparing current assets, current liabilities and working capital over a given period.

There are so many techniques to analyse the working capital in an enterprise. Technique of working capital analysis can help to understand the causes of variation. There may be many reasons for which the analysis of working capital management is very essential.

1. Ratio Analysis

The Ratio analysis is a powerful tool of financial analysis. A ratio is defined as the relationship between two or more things. The relationship of one item to another expressed in a simple mathematical form is known as the ratio. A ratio is used as a benchmark for evaluating the financial position and performance of a firm.

2 Net Working Capital

The difference between current assents and current liabilities. The concept of net working capital enables a firm to determine how much amount is left for operational requirements.

3 Fund-Flow Statement Analysis

This is the most useful statement, which indicates changes in working capital. It is a financial operational statement, which reveals the methods by which a business financed and the used to which it has applied its funds over a period of time. "The funds statement is a statement summarising the significant financial change which have accrued between the beginning and the end of a company's accounting period. The analysis is an effective management tool to study how funds have been procured for the business and how they have been employed.

4 Cost-vollume Profit Analiysis

The object of the price- volume study is an attempt to forecast the elasticity of demand for each of the main products of a company so as to determine size. A break-even analysis is basically an analytical test for the study of the relationship between operating leverage and established relationship between costs and revenues. It is a device for determining the point at which sales will cover the total costs.

5 Working Capital Budget

The working capital budget is an important phase of an overall financial budgeting. The budget discloses all the financial requirements of an enterprise including funds for the fixed assets repayment of long term loans and similar items. The working capital budget also measures permanent and variable working capital requirements and assure that they are duly provided for.

6 Trend Analysis

Trend analysis makes it easy to understand the changes in an item or a group of items over a period of time and to draw conclusions regarding the change in data. This method of analysis indicates the direction in which a concern is going and on this basis forecast for future can be made.

7 Other Techniques

Several other techniques like statistical cash flow analysis, break-even analysis are also some times used for financial analysis.

CONCLUSION

The research study concluded that when Sambhar Salts Ltd does not have enough working capital to cover its obligation, financial insolvency can result and lead to legal trouble, liquidation of assets and potential bankruptcy. Thus, it is vital to all business to have adequate management of working capital.

**Lecturer, Department of Commerce, EAFM
S. S. Jain Subodh P.G. Mahila Mahavidyalaya, Jaipur**

REFERENCES

1. Barot Haresh (2012), Working Capital Management and Profitability: Evidence from India- An Empirical Study, GFJMR, Vol.5, 1-9
2. Mahum Bukhari and Mohammad Shaukat Malik (2014), The Working Capital Management on Corporate Performance: A study of firms in Cement, Chemical and Engineering Sector of Pakistan, Pakistan Journal of Commerce and Social Sciences, 2014, vol.8(1), 134-148
3. Hina Agha (2014), Impact of working capital management on Profitability, European Scientific Journal, vol.10(1), 374-381.
4. Biswajit Bose (2013), The impact of working capital management practices on firms profitability, International Journal of Applied Research Studies, Vol.2 (6), 1-16