



# A Study on Working Capital Management of V.K.S.M. Cotton Mills and Shree Balaji Spinning Mills - Coimbatore

M. Dhilsath Begam, Banu Priya. B

Assistant Professor, Department of BBA CA, III BBA CA, Department of BBA CA  
Sri Krishna Arts and Science College

**Abstract** -The working capital management refers to the management of working capital, or precisely to the management of current assets. A firm's working capital consists of its investments in current assets, which includes short-term assets—cash and bank balance, inventories, receivable and marketable securities. This finance project report on working capital management is based on the study of working capital management in V.K.S.M. Cotton Mills and Shree Balaji Spinning Mills. An insight view of the project will encompass – what it is all about, what it aims to achieve, what is its purpose and scope, the various methods used for collecting data and their sources, including literature survey done, further specifying the limitations of our study and in the last, drawing inferences from the learning so far.

**Key Terms:** finance project on working capital management, Factors

## INTRODUCTION ABOUT THE STUDY WORKING CAPITAL

Working capital is the money needed to fund the normal, day to day operations of the business. It ensures the business to have enough cash to pay the debts and expenses as they fall due, particularly during your start-up period. Very few new businesses are profitable as soon as they open their doors. It takes time to reach the breakeven point and start making a profit.

### DEFINITION OF WORKING CAPITAL

The cash available for day to day operation of organization and speaking one borrows cash (and not working capital) to be able to buy assets or to pay for obligation. Also called current capital

It can be calculated by net liquid asset computed by deducting current liabilities from current assets. The amount of available working capital is a measure of a firm's ability to meet its short term obligation

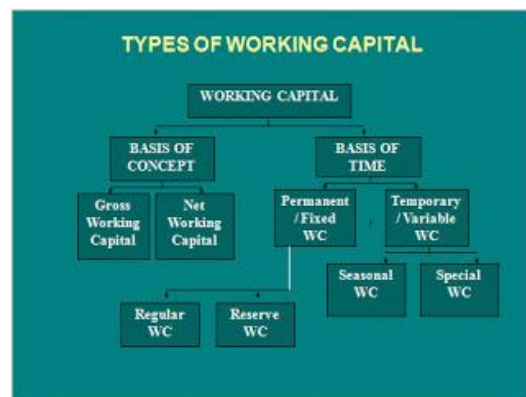
### SOURCES OF WORKING CAPTIAL:

- (1) Short-Term Loans
- (2) Line of Credit
- (3) Asset-Based Financing

- (4) Trade Credit

Ample working capital allows management to take advantage of unexpected opportunities, and to qualify for bank loan and favorable trade credit terms. In the normal trade cycle of a company, working capital equals working assets. Also called net current assets.

### TYPES OF WORKING CAPITAL



The working capital in certain enterprise may be classified into the following kinds.

- (1) Initial working capital.
- (2) Regular working capital.
- (3) Fluctuating working capital.
- (4) Reserve Margin working capital.

### PROFILE OF THE COMPANY SHREE BALAJI SPINNING MILLS

SHREE BALAJI SPINNING MILLS PRIVATE LIMITED is a company incorporated under companies' act 1956, on 25<sup>th</sup> January 2005 with authorized capital of Rs.2.5 crores. Later the Authorized Share Capital has been enhanced to 15 crores. The company will carry out main business of manufacturing of cotton yarn and any other type of yarn. In addition, the company is having windmill for power generation. The company at present is having 16,064 spindles capacity. The production capacity will be increased by adding another 12000 spindles of all new modern machineries form the

coming month of June 2007 onwards. TIIC has sanctioned fresh machinery term loan of Rs.1750 lakhs for this purpose. The total area of the land available is around 6.67 acres.

**V.K.S.M.COTTON MILLS**

V.K.S.M. Cotton Mills, established in 1.2.1992 has a capacity of more than 20,732 spindles. The mill has a complete range of state of the art spinning equipment from Blow room to Spinning departments, Schlafhorst-338 model autoconers for yarn production.

Since inception the company have evolved to be a leader in cotton yarn spinning in South India, Commanding a premium in the market for our products. The spinning division and the weaving divisions located in Coimbatore, Tamil Nadu, has an installation of 75 Sulzer projectile wider width Looms, in a working space of .75 lakh sq feet. The Company now also has a technical textile division comprising of coating, flocking and lamination units.

The latest generation of Blow Room lines connected to the cards with Chute Feed System, Auto Leveller Draw Frames and Spinning Frames with Ring Data System, Blow Room, Cards and Combers fitted with automatic waste collection systems are available.

**OBJECTIVES OF THE STUDY**

- To study about the Working capital of V.K.S.M. Cotton Mills and Shree Balaji Spinning Mills
- To find the source for working capital of the companies
- To know about the operating effectiveness and financial strength of the companies
- To compare the efficiency of working capital management in textile companies
- To determine the efficiency of working capital by using Ratio Analysis

**TYPES OF RESEARCH**

The following are the financial tools, which are used in this study.

- Ratio analysis
- Statement of changes in working capital

**Ratio Analysis**

Ratio analysis is one of the techniques of financial analysis to evaluate the financial condition and performance of a business concern. Simply, ratio means the comparison of one figure to other relevant figure or figures.

The following ratios are applied to analyze the company's working capital position.

- Liquidity ratios

- Working capital ratios
- Cash management ratios
- Receivables management ratios
- Inventory management ratios

**ANALYSIS**

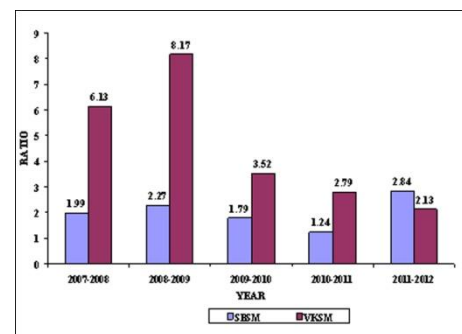
**Liquidity Ratios:**

**1. Current Ratio:**

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

**CURRENT RATIO**

Year	Current Ratio (No. of times)	
	SBSM	VKSM
2007-2008	1.99	6.13
2008-2009	2.27	8.17
2009-2010	1.79	3.52
2010-2011	1.24	2.79
2011-2012	2.84	2.13
Average	2.02	4.54

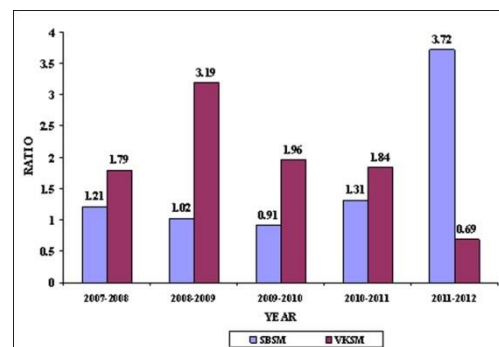


**2. Quick Ratio:**

$$\text{Liquid/ Quick ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

**QUICK RATIO**

Year	Quick Ratio (No. of times)	
	SBSM	VKSM
2007-2008	1.21	1.79
2008-2009	1.02	3.19
2009-2010	0.91	1.96
2010-2011	1.31	1.84
2011-2012	3.72	0.69
Average	1.63	1.89

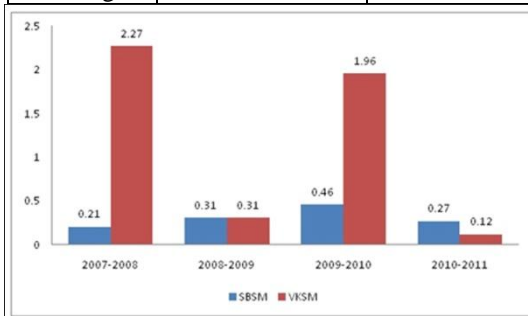


3. Gross Working Capital To Sales Ratio:

$$\text{Gross Working Capital to Sales} = \frac{\text{Gross Working Capital}}{\text{Sales}}$$

GROSS WORKING CAPITAL

Year	Gross Working Capital To Sales Ratio (No. of times)	
	SBSM	VKSM
2007-2008	0.21	2.27
2008-2009	0.31	0.31
2009-2010	0.46	1.96
2010-2011	0.27	0.12
2011-2012	0.31	0.23
Average	0.31	0.97



FINDINGS

- Shree Balaji Spinning Mill’s current ratio increased high level in 2011-2012. By average it keeps the ratio position to 2.02 which shows the company is able to meet its current obligation.
- VKSM Cotton Mill’s current ratio increased in 2008-09 as 8.17. The average ratio is 4.54 which shows it maintains above the bench mark level of 2:1
- Shree Balaji Spinning Mill’s Quick ratio increased in the year 2011-2012 with 3.72. The average ratio is 1.6 more than the bench mark level 1:1



indicating the concerns capacity to pay of current obligations immediately.

- VKSM Cotton Mill’s quick ratio increased in the year of 2008-2009 as 3.19. The average quick ratio is 1.89 which is above the benchmark level 1:1 indicating a satisfactory position.
- Shree Balaji Spinning Mill’s gross working capital to sales ratio was high in the year 2009-2010 with 0.46. The average gross working capital to sales ratio is 0.31.
- VKSM Cotton Mill’s gross working capital to sales ratio was high in the year 2007-2008 with 2.27. The average gross working capital to sales ratio is 0.97 and it indicates that the company is efficiently utilizing the current assets.

CONCLUSION

This present study concerned about the working capital management of Shree Balaji Spinning Mills and VKSM Cotton Mills was undertaken with objective of assessing the performance of working capital management in terms of the existing system of inventory, receivables and payables management of the companies by analysis the financial data with help of ratio analysis and schedules of changes in working capital. It is observed from the analysis that the working capital of the companies is efficiently managed throughout the study period. It is also observed that over all the working capital management of the companies is found to be satisfactory.

REFERENCES:

[1] Financial management- I.M. Pandy  
 [2] Financial Statement analysis-Dr. Anjan Bhattacharya