An Analysis on Working Capital Management with Reference to Diamond Engineering Private Limited (Chennai)

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Abstract— Working capital Management is significant in financial management. It plays a vital role in keeping the wheel of the business running. Every business requires capital, without it can't be promoted. Investment decisions. Is concerned with investment in current assets and fixed assets. Working capital plays a key role in a business enterprise just as the role of heart in human body. It acts as grease to run the wheels of fixed assets. Its effective provision can ensure the success of business while its inefficient management can lead not only to loss but also to the ultimate downfall of what otherwise might be considered as a promising concern. Efficiency of a business enterprise depends largely on its ability facts of affirms overall financial management. Analytical Research Design, the researcher has to use facts or information already available and analyze them to make a critical evaluation of available information in an attempt to explain complex phenomenon. The secondary data collection are used. The project is based secondary data collected through 6 years annual reports. Financial tools used for the Analysis, Statement showing changes in working capital, ratio analysis, trend analysis that the company's working capital and profit is increasing every year. So it indicates and good sign for the company. Its helps to conduct the study in an easy way and it is reveal the performance.

Keywords: Working capital Management, Gross working capital

I. Introduction

Working capital is the amount of funds required for meeting day-to-day expenses of the business. The firm starts with cash. It buys raw materials, employs, workers and spends on expenditures like adverting etc. working capital means the funds available for day- to-day operation of an enterprise.

Working capital=Current Asset-Current Liabilities

A. *Concept of Working Capital:*

The concept of working capital includes current assets and current liabilities both. There are two type of working capital they are gross and net working capital.

1) *Gross working capital:*

Gross working capital refers to the firm's investment in current assets. current assets are the assets, which can be converted into cash within an accounting year or operating cycle. It includes cash, short term securities, debtors (account receivables or book debts), bills receivables and stock inventory.

2) *Net working capital:*

Net working capital refers to the difference between current assets and liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year. It includes creditors or accounts payables bills payables and outstanding expenses.

II. Need for the Study

The study is made to know about the financial assistance needed to meet the day to day operations of the Diamond Engineering Private limited. It is required to know the optimum level of current assets and current liabilities to be maintained in Diamond Engineering Private limited. It is also needed to know about the working capital requirements of the firm and has to be maintained properly or else shortage of working capital affect in case of day to day operation of the because firm, and excess in working capital funds become idle and affect the financial soundness of the firm

III. Objectives of the Study

A. *Primary Objective:*

- To analyze about the working capital management of Diamond Engineering Private Limited.

B. *Secondary Objectives:*

- To analyze the level of current asset and current liabilities of Diamond Engineering Private limited.
- To identify the liquidity position through Ratio Analysis of Diamond Engineering Private limited.
- To identify the future working capital requirements of Diamond Engineering Private limited.

IV. Scope of the Study

The study is conducted on working capital management helps to know about liquid position of the firm. It helps to know about changes in working capital for different years. It is also helps to know about future working capital Requirements and to be maintained properly pure way for future growth of the Diamond Engineering Private limited and helps in achieve its objectives.

V. Literature Review

A. Himanshu Seth, Saurabh Chadha,Namita Ruparel, paneet kumar Arora, Satyendra Kumar Shar," Assessing working capital management efficiency of Indian manufacturing exporters", Managerial Finance, ISSN:0307-4358, Vol.10.1108, No.02.2019, 2020:

The purpose of this paper is to empirically investigate the relationship between working capital management (WCM) efficiency and exogenous variables of the Indian manufacturing sector along with its sub-industries that are involved in export activities. Panel regressions (fixed effects) was used on a sample of 563 Indian Manufacturing firms involved in export activities, covering a time period from 2008-2018.Industry-wise results showed a significant relation of leverage, net fixed assets ratio, profitability, assets turnover ratio, total asset growth rate and productivity with cash conversion cycle(CCC). First, having taken a sample from a developing, economy. The results of our study may be generalizable only among developing contexts. Secondly, the time period taken in this study (2008-2018) has withnessed several economic fluctuations such as recession and demonetization which might differ for the firms or countries in normal conditions. An improved working capital model could advance the firms performance by reducing the Cash conversion cycle (CCC) of the firm, thereby working capital management in addition, the results of this study could be helpful for many stakeholders such as working capital managers, debt holders, investors, financial consultants and others for monitoring the firms. This study contributes to the existing literature in the relation between working capital management efficiency and exogenous variables of the Indian manufacturing firms engaged in the export activities. Moreover, this study is one of the few research studies to investigate this relationship among Indian export firms in different industries, thus filling the gap in similar work done in other countries.

B. Fahmida Laghari, Ye Chengang, "Investment in working capital and financial constraints: Empirical evidence on corporate Performance", International Journal of managerial finance, ISSN: 1743-9132.Vol.15,No.2pp.164-190,2019:

The purpose of this paper is to investigate the relationship between working capital management and corporate performance with financial constraints. This study uses large panel sample of Chinese listed firms over the period 2005-2015 using system generalized method of moments (GMM) estimator that controls unobserved heterogeneity of individual firms well and GMIM methodology is robust to address endogeneity issues. Empirical evidence finds inverted U-shapes relationship between Working capital corporate performance and exhibits similar evidence for financially constrained firms. Discounts on early payments at low level of working capital and dominance of opportunity cost of external finance at high level of working capital. This paper is among few that complement the existing literature by providing evidence that inverted u-shaped relationship between working capital management and corporate performance also exists in the context of Chinese listed non- financial firms. Exclusively, the relationship of working capital and corporate performance with linkage of financial constraints is scant in the context of Chinese listed non-financial firms.

VI. RESEARCH METHODOLOGY

Research design is the strategy for the study and the plan by which the strategy is to be carried out. It is the set of decisions that make up the master plan specifying the methods and procedures for the collection, measurement and analysis of data. This project is based secondary data collected through 5 years annual report of the Diamond Engineering Private limited. The following financial tools used for analysis. Statement showing changes in working capital, Ratio analysis, Trend analysis.

VII. LIMITATIONS OF THE STUDY

- The quantitative aspects have been taken into account for the study whereas qualitative aspects haven't considered.
- Authorities were reluctant to reveal the information.

A. Data Analysis and Interpretation

Current Ratio = Current Assets \ Current Liabilities						
Years	DEC 31 2012	DEC 31 2013	DEC 31 2014	MAR 31 2016	MAR 31 2017	MAR 31 2018
Current Assets	9613.75	7316.48	9095.96	15207	13738.01	11517.29
Current Liabilities	6615.37	5058.3	5475.18	11270.21	13214.31	14185.56
Ratio	1.45	1.44	1.66	1.35	1.04	0.81

Table 1: Table Showing Current Ratio for Diamond Engineering Private Ltd from Dec 2012 to March 2018:

1) Interpretation:

The Current Ratio measures the ability of the firm to meet its Current Liabilities. The standard norms of Current Ratio are 2:1 From the above table it can be inferred that the Current Ratio of Diamond Engineering Private Limited Shows in the year 2018 (i.e.) 0.81. The company is having a good current ratio as the liabilities of the company has been in declining position and the sundry debtors for the current year has been reduced.

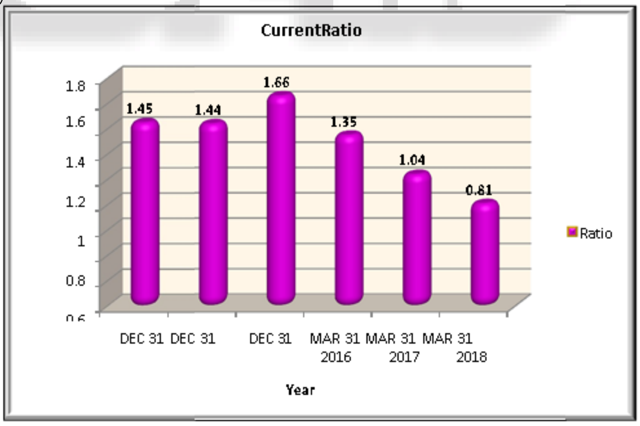

Chart 1.1(a): Table Showing Current Ratio for Diamond Engineering Private Limited from Dec 2012 to March2018:

Quick Ratio = Quick Assets / Quick Liabilities						
YEARS	DEC 31 2012	DEC 31 2013	DEC 31 2014	MAR 31 2016	MAR 31 2017	MAR 31 2018
Quick Assets	9613.75	7234.3	8865.83	14757.9 8	13335.4	11318.2
Current Liabilities	6615.37	5058.3	5475.18	11270.2 1	13214.31	14185.56
Ratio	1.45	1.43	1.62	1.31	1.01	0.80

Table 2: Table Showing Quick Ratio for Diamond Engineering Private Limited from Dec 2012 to March 2018:

2) Interpretation:

The Quick Ratio (or) Liquidity ratio gives a measure of Liquidity the expected industry standard is 1:1. From the above table it can be inferred that the Quick Ratio of Diamond Engineering Private Limited fluctuating in trend from the year 2013 to 2017. The ratio has been decreased in the current year due to higher current liabilities.

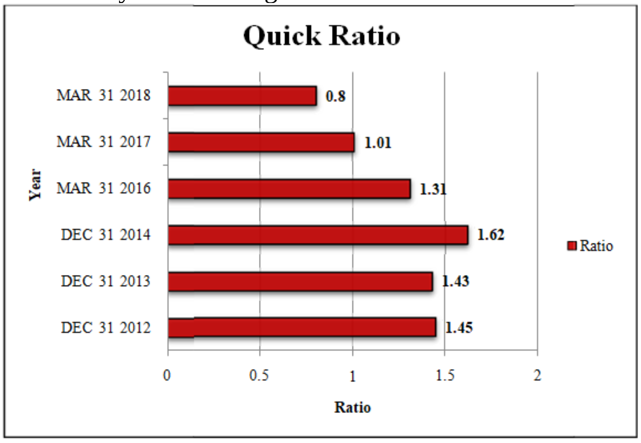

Chart 2.1(a): Chart Showing Quick Ratio for Diamond Engineering Private Limited from Dec 2012 to March2 018:

VIII. FINDING

- It is found that, 2013,2014,2016 and 2017 shows increase in working capital. this indicates that the company has ability of payment of short-term liability.
- It is found that the company's current ratio and quick ratio shows an increasing trend in 2016-17.
- It is found liabilities of diamond engineering Private limited shows increase trend in last 5 year, so the company wants to develop its business to reduce its liabilities.
- The company has no accumulated losses at the end of the five financial years.
- The trend analysis shows that the current asset of the financial year is increased from 2012-13 to 2015-16 and then it decreased from 2017-18. It shows insufficient liquidity position of the company.

IX. SUGGESTIONS

- The company can have adequate cash and cash equivalents in order to process the raw material and store in order to utilize whenever is required.
- The company can maintain good liquidity position to pay the vendors during urgency situation.
- The investment of cash in marketable securities shall be increased, as it is very profitable for the company.
- Stock Turnover Ratio shall be maintained at the constant level.
- Holding of excessive and insufficient stock must be avoided as it creates a burden on the cash resources of a business and results
- In lost sales, delays for customers, etc.

X. CONCLUSION

The study is concluded that the company liquidity and profitability position is not a satisfactory level in upcoming financial years. The company has sufficient working capital which it is utilizing the short-term capital in a efficient manner so it is helpful to increase the turnover of Diamond Engineering Private limited. On the overall, it can be concluded that the company's working capital and profit is increasing every year, so it indicates and good sign for the company. Its helps to conduct the study in an easy way and it is reveal the performance.

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