

**“A study on working capital Management of ITC Ltd”.**

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**Abstract:**

Working capital is essential to maintain the smooth running of business. Every business concern is needed adequate working capital to run its business. Adequate working capital is maintained the solvency and creating the goodwill of the company. It creates the environment security, confidence, and high morale and overall efficiency of the business. Working capital management of a firm has a great effect in its profitability, liquidity and structural health of the organization .Proper management of working capital is essential for every business. This paper focuses on the study of working capital management of ITC Ltd and analyse its efficiency in performance.

**Key words:** *Working capital management of ITC Ltd. Performance Index (PI) Utilization Index (UI) Efficiency Index (EI) as product of PI and UI.*

**Part 1**

**1.1 Introduction**

Finance is the lifeblood and nerve center of a business. It is the crucial factor in the establishment and success of any concern. Every business needs funds for two purposes -for its establishment and to carry out its day to day operations. The most effective utilization of capital requires the establishment of sound and consistent management policies. Capital required for a concern can be classified in two, fixed capital and working capital. Fixed capital allows production capacity. Funds that are invested in current assets are known as working capital. Working capital refers to that part of the firm capital, which is required for financing short term or current assets such as cash, receivables and inventories. The need for working capital arises due to the time gap between production and realization of cash from sales.

Working capital management is concerned with management of current assets. One aspects of the working capital management is the tradeoff between profitability and risk. If the firm does not have adequate working capital, it may become illiquid and constantly may not have the ability to meet its current obligations. Current assets and current liabilities are adversely affected in the profitability. Ensure a tradeoff between profitability and liquidity is one of the major dimensions of working capital management. Adequate and appropriate working capital financing ensures that the firm has sufficient cash flows to pay its bills, as if a waits the full collection of revenue. Working capital is the light of any industry. Working capital should be optimum to run the business operation in most effective manner. The excess or shortage of working capital would be dangerous to any business. The excessive working capital can be result into reduce profits, unnecessary purchasing, accumulation of inventories, defective debtors, defective credit policy and lesser efficiency in organization. Inadequate working capital result in difficulty for the firm to exploit favorable market condition and it also leads to inefficiencies, increased cost, reduced profits etc. The availability of adequate working capital is must for every business. It is enhance the liquidity, solvency and credit worthiness of the concern. It is possible to meet the unseen contingencies and utilize the fixed assets. It also increases the profitability of the business. Here an attempt is made to analyse the efficiency in the working capital management of ITC Ltd.

## **1.2 Objectives of the study**

1.2.1 To Analyze the working capital position of ITC Ltd.

1.2.2 To Analyze the efficiency of working capital management of ITC Ltd.

## **1.3 Scope and significance of the study**

This study about ITC Ltd. Mainly focuses on the working capital management of the company for the last 5 years (2010-2011 to 2014-2015). The study can bring to the light into the effectiveness of working capital management. It is really significant because the proper working capital management is must for the survival of the business company. This gives an idea to the public about liquidity and efficiency of the company.

## **1.4 Research Design**

### **1.4.1 Nature of study**

The study is both descriptive and analytical nature. It is an attempt to evaluate the working capital management of the company, through the secondary sources data. Data was collected from [www.itclimited.com](http://www.itclimited.com).

### **1.4.2 Sources of data**

Secondary sources are the main source of used for the present study. Data was collected from [www.itclimited.com](http://www.itclimited.com) and books and journals.

### **1.5 Period of the study**

The present study analyze the working capital of ITC Ltd over a period of five years from 2010-2011 to 2014-2015.

### **1.6 Tool for analysis and interpretation**

The main tool used for analysis are schedule of changes in working capital , trend analysis, ratio analysis.

## **Part II**

ITC was incorporated on August 24, 1910 under the name Imperial Tobacco Company of India Limited. As the company's ownership progressively Indianised, the name of the company was changed from Tobacco Company of India Limited to India Tobacco Company Limited in 1970 and then to ITC Limited 1974. In recognition of the company's multi business portfolio encompassing a wide range of business- Fast moving consumer Goods comprising Foods, personal care, Cigarettes and Cigars. Branded Apparel, Education and Stationery products, Incense Sticks and Safety Matches, Hotels, Paperboards and Specialty Papers, Packaging, Agri-Business and Information Technology –the full stops in the company's name were removed effective September 18, 2001. The company now stands rechristened 'ITC Limited', where ITC is today no longer an acronym or an initialized form.

### Part III

#### Data Analysis

Working capital is the amount of fund used for financing the day to day operation in a business concern such as for purchasing raw material, meeting expenditure on salaries, wages, rates, advertisements etc. It is the part of total capital which is used for carrying out the routing or regular business operations. This section is considered to be the core part of this paper. It is mainly indented to examine the liquidity, profitability and financial leverage of the company for the last five years. For the purpose of analyzing the financial statement by using tools are ratio analysis, trend analysis and statement showing changes in working capital.

Performance index is used to measure the working capital performance of the company. It is calculated as:-

t =current year

t-1 =previous year

Is =sales index= $St/St-1$

Wi = individual group of current assets group  $i=1, 2...N$

N= no of current assets.

In this study, the current assets are debtors, loans and advances, deposits, closing stock, cash and bank balances and other current assets and bills receivables/trade receivables, The index is more than 1.it indicates efficient management.

#### Performance index (Rs in crores)

Year	$Is=St/St-1$	$Wi(t-1)/Wi$	$PI=Is \sum_{i=1}^n wi(t-1)/wi$
2010-2011	1.15	3.47	0.99
2011-2012	1.17	3.59	1.05
2012-2013	1.18	3.09	0.91
2013-2014	1.11	3.38	0.93
2014-2015	1.09	4	1.09

Source: compiled from annual reports

Table 3.1 shows the performance index of working capital management. The performance index ratios are 0.99, 1.05, 0.91, 0.93 and 1.09 respectively. It is also evident that the performance index of the company almost equal to the standard 1. So it indicates the efficiency of working capital management.

### Utilization Index of Working Capital Management

This ratio is used for degree of utilization of current assets .current assets are closing stock, cash and bank balance, debtors, loans and advances, bills receivables and other current assets. Value of utilization index greater than one is desired.

t =current year

t-1 =previous year

A =current assets/sale

Ulwcm=At-1/At

### Utilization Index

(Rs in crores)

Year	At-1	At	Ulwcm=At-1/At
2010-2011	.45	.47	.95
2011-2012	.47	.44	1.06
2012-2013	.44	.47	.93
2013-2014	.47	.48	.97
2014-2015	.48	.53	.90

Source: compiled from annual reports

Table 3.2 shows the utilization index of working capital management. Utilization index of the company is almost same to the standard 1.It indicates the efficient utilization of current assets.

### Efficiency Index of Working Capital Management

This ratio is used for understanding the efficiency of the working capital management. It is a combination of the performance index and utilization index.

$$EI=PIwcm*Ulwcm$$

EI = Efficiency index

PI=Performance index

UI=Utilisation index

### Efficiency Index Ratio

(Rs in crore)

Year	Plwcm	Ulwcm	El=Plwcm*Ulwcm
2010-2011	.99	.95	.94
2011-2012	1.05	1.06	1.11
2012-2013	0.91	.93	.84
2013-2014	0.93	.97	.90
2014-2015	1.09	.90	.98

Source: compiled from annual reports

Table 3.3 reveals the efficiency ratio of the company. As the performance index and utilization index is desirable. So the efficiency index of the working capital management is also desired and of the optimum level.

#### Part IV Findings and conclusion

- The working capital position of ITC Ltd. Shows an increasing trend.
- The schedule of changes in working capital shows increase in working capital during the period 2010-2011 to 2014-2015. It indicates source of fund.
- The current ratio is less than standard norm 2:1. It shows an increasing trend. It indicates that the company is not able to pay its current liabilities in time without facing any difficulties.
- During the study period liquid ratio is less than standard of 1:1. This was due to the increase in inventories in current assets.
- From the study it reveals that the absolute liquid ratio shows a fluctuating trend. Company maintained the satisfactory liquidity position.
- Working capital turnover ratio of the company is above the standard except in the year 2014-2015. It indicates the over trading.
- Inventory turnover ratio of the company is below the standard ratio. So the company over investment in inventories, accumulation of huge stock.
- Fixed asset turnover ratio of the company is almost same for the last 5 years. The ratio is below the standard ratio. It indicates better utilization of fixed assets.
- Debtor's turnover ratio of the company is satisfactory. It indicates the liquidity and quality of debtors.



## Conclusion

This paper deals with study on working capital management of ITC Ltd. It concentrates on the analysis of working capital management in the company during the period 2010-2011 to 2014-2015. The study revealed that liquidity position of the company is not satisfactory, the company is not in a position to repay its short term obligations in time. Performance index ratio, utilization ratio and efficiency index ratio are also satisfactory and it indicates efficient management of working capital. Company's turnover ratios show a satisfactory position except inventory turnover ratio. So company should provide more consideration for management of inventory. Therefore the overall working capital position is satisfactory.

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