



## **Working Capital Management in Textile Industries- A Study of Select Units**

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### **Abstract**

For running day-to-day operations efficiently, any company requires sufficient amount of capital. The amount required for running day-to-day operations is known as working capital. The quantum of working capital available will decide the production quantity and also delivery of the product on scheduled time. Hence, working capital plays a key role in any business especially production oriented business. In this article an attempt is made to study the working capital management practices in textile industries.

### **Introduction**

Working capital can be used as a measure of a company's short-term financial health and operational efficiency. A company can grow and will have a capacity for expansion if it has a positive working capital. Similarly if a company has negative working capital i.e. if a company's current assets do not exceed its current liabilities, then it may have trouble growing or paying back creditors and it might even go bankrupt. Based on the type of industry the quantum of required working capital will depend. The industries which have longer production cycles may require higher working capital needs as they don't have the quick inventory turnover to generate cash on demand. Alternatively, the industries which have shorter production cycles may require lesser working capital needs as they have the quick inventory turnover to generate cash on demand. For example, retail companies that interact with thousands of customers a day can often raise short-term funds much faster and require lower working capital requirements.

### **Components of Working Capital**

- All components of working capital can be found on a company's balance sheet.
- Current assets listed include cash, accounts receivable, inventory, and other assets that are expected to be liquidated or turned into cash in less than one year.

- Current liabilities include accounts payable, wages, taxes payable, and the current portion of long-term debt that's due within one year.

## Objectives of the Study

1. To understand the concept of working capital management
2. To evaluate the working capital management practices in Bombay Dyeing and Vijay Textiles.

## Period of Study

The current study is made for the period 2017-18 to 2021-22.

## Data Analysis & Interpretation

### Current Ratio:

The current ratio is a measure of a company's ability to pay off the obligations within the next twelve months. This ratio is used by creditors to evaluate whether a company can be offered short term debts. It also provides information about the company's operating cycle. It is also popularly known as Working capital ratio. It is obtained by dividing the current assets with current liabilities.

$$\text{CurrentRatio} = \frac{\text{CurrentAssets}}{\text{CurrentLiabilities}}$$

A higher current ratio around two (2) is suggested to be ideal for most of the industries while a lower value (less than 1) is indicative of a firm having difficulty in meeting its current liabilities.

### Interpretation

**Bombay Dyeing:** From Table-1 it is clear that the average current ratio is 1.88 with standard deviation of 0.48. The highest annual growth rate with respect to current assets is 41.63 per cent is recorded in the year 2018-19 and lowest annual growth rate with -12.16 per cent in the year 2021-22. The highest annual growth rate with respect to current liabilities is 66.14 per cent is recorded in the year 2020-21 and lowest annual growth rate with -21.44 per cent in the year 2021-22.

**Vijay Textiles:** The average current ratio is 2.28 with standard deviation of 0.23. The highest annual growth rate with respect to current assets is 22.67 per cent is recorded in the year 2018-19 and lowest annual growth rate with -18.39 per cent in the year 2020-21. The highest annual growth rate with respect to current liabilities is 13.93 per cent is recorded in the year 2020-21 and lowest annual growth rate with -17.75 per cent in the year 2021-22.

**Table 1: Current Ratio**

(Amount in Rs. Crores)

Year	Bombay Dyeing			Vijay Textiles		
	Current Assets	Current Liabilities	Current Ratio	Current Assets	Current Liabilities	Current Ratio
2017-18	2451.83	1166.10	2.10	276.83	112.36	2.46
2018-19	3472.42 (41.63)	1602.83 (37.45)	2.17	299.50 (22.67)	121.78 (8.38)	2.46
2019-20	3318.21 (-4.44)	1389.93 (-13.28)	2.39	303.92 (4.42)	132.06 (8.44)	2.30
2020-21	2981.75 (-10.14)	2309.21 (66.14)	1.29	285.53 (-18.39)	150.46 (13.93)	1.90
2021-22	2619.06 (-12.16)	1814.12 (-21.44)	1.44	284.65 (-0.88)	123.76 (-17.75)	2.30
Average	2968.65	1656.44	1.88	290.09	128.08	2.28
Standard Deviation	437.45	437.41	0.48	11.25	14.34	0.23

Source: Annual Reports

### Quick Ratio or Acid Test Ratio

Quick ratio is also known as Acid test ratio is used to determine whether a company or a business has enough liquid assets which are able to be instantly converted into cash to meet short term dues. It is calculated by dividing the liquid current assets by the current liabilities

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

The ideal quick ratio should be one(1) for a financially stable company.

**Table 2: Quick Ratio**

(Amount in Rs. Crores)

Year	Bombay Dyeing			Vijay Textiles		
	Quick Assets	Current Liabilities	Quick Ratio	Quick Assets	Current Liabilities	Quick Ratio
2017-18	2042.83	1166.10	1.75	145.84	112.36	1.30
2018-19	1271.90 (-37.74)	1602.83 (37.45)	0.79	159.70 (13.86)	121.78 (8.38)	1.31
2019-20	894.41 (-29.68)	1389.93 (-13.28)	0.64	176.39 (16.69)	132.06 (8.44)	1.34
2020-21	938.61 (4.94)	2309.21 (66.14)	0.41	171.62 (-4.77)	150.46 (13.93)	1.14
2021-22	804.53 (-14.28)	1814.12 (-21.44)	0.44	174.41 (2.79)	123.76 (-17.75)	1.41
Average	1190.46	1656.44	0.81	165.59	128.08	1.30
Standard Deviation	508.23	437.41	0.55	12.80	14.34	0.10

Source: Annual Reports

## Interpretation

**Bombay Dyeing:** From Table-2 it is observed that the average quick ratio is 0.81 with standard deviation of 0.55. The highest annual growth rate with respect to quick assets is 4.94 per cent is recorded in the year 2020-21 and lowest annual growth rate with -37.74 per cent in the year 2018-19. The highest annual growth rate with respect to current liabilities is 66.14 per cent is recorded in the year 2020-21 and lowest annual growth rate with -21.44 per cent in the year 2021-22.

**Vijay Textiles:** The average quick ratio is 1.30 with standard deviation of 0.10. The highest annual growth rate with respect to quick assets is 16.69 per cent is recorded in the year 2019-20 and lowest annual growth rate with -4.77 per cent in the year 2020-21. The highest annual growth rate with respect to current liabilities is 13.93 per cent is recorded in the year 2020-21 and lowest annual growth rate with -17.75 per cent in the year 2021-22.

## Cash Ratio

A liquidity ratio that measures a company's ability to pay off short-term liabilities with highly liquid assets. The cash ratio, sometimes referred to as the cash asset ratio, is a liquidity metric that indicates a company's capacity to pay off short-term debt obligations with its cash and cash equivalents. Compared to other liquidity ratios such as the current ratio and quick ratio, the cash ratio is a stricter, more conservative measure because only cash and cash equivalents – a company's most liquid assets – are used in the calculation.

$$\text{Cash Ratio} = \frac{\text{Cash and Cash Equivalents}}{\text{CurrentLiabilities}}$$

## Interpretation

**Bombay Dyeing:** From Table-3 it can be said that the average cash ratio is 0.07 with standard deviation of 0.09. The highest annual growth rate with respect to cash is 11278.68 per cent is recorded in the year 2020-21 and lowest annual growth rate with -95.23 per cent in the year 2019-20. The highest annual growth rate with respect to current liabilities is 66.14 per cent is recorded in the year 2020-21 and lowest annual growth rate with -21.44 per cent in the year 2021-22.

**Vijay Textiles:** The average cash ratio is 0.00426 with standard deviation of 0.00378. The highest annual growth rate with respect to cash is 453.33 per cent is recorded in the year 2020-21 and lowest annual growth rate with -31.82 per cent in the year 2019-20. The highest annual growth rate with respect to current liabilities is 13.93 per cent is recorded in the year 2020-21 and lowest annual growth rate with -17.75 per cent in the year 2021-22.

**Table-3: Cash Ratio**

(Amount in Rs. Crores)

Year	Cash	Current Liabilities	Cash Ratio	Cash	Current Liabilities	Cash Ratio
2017-18	14.15	1166.1	0.01	0.26	112.36	0.00231
2018-19	28.49 -101.34	1602.83 -37.45	0.02	0.22 (-15.38)	121.78 -8.38	0.00181
2019-20	1.36 (-95.23)	1389.93 (-13.28)	0	0.15 (-31.82)	132.06 -8.44	0.00114
2020-21	154.75 -11279	2309.21 -66.14	0.07	0.83 -453.33	150.46 -13.93	0.00552
2021-22	414.86 -168.08	1814.12 (-21.44)	0.23	1.27 -53.01	123.76 (-17.75)	0.01026
Average	122.72	1656.44	0.07	0.55	128.08	0.00426
Standard Deviation	174.48	437.41	0.09	0.49	14.34	0.00378

Source: Annual Reports

## Working Capital

Working capital, also known as net working capital (NWC), is the difference between a company's current assets—such as cash, accounts receivable/customers' unpaid bills, and inventories of raw materials and finished goods—and its current liabilities, such as accounts payable and debts. It's a commonly used measurement to gauge the short-term health of an organization. A company has negative working capital if its ratio of current assets to liabilities is less than one (or if it has more current liabilities than current assets). Positive working capital indicates that a company can fund its current operations and invest in future activities and growth. High working capital isn't always a good thing. It might indicate that the business has too much inventory, not investing its excess cash, or not capitalizing on low-expense debt opportunities.

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

**Table 4: Working Capital**

(Amount in Rs. Crores)

Year	Bombay Dyeing			Vijay Textiles		
	Current Assets	Current Liabilities	Working Capital	Current Assets	Current Liabilities	Working Capital
2017-18	2451.83	1166.10	1285.73	276.83	112.36	164.47
2018-19	3472.42 (41.63)	1602.83 (37.45)	1869.59	299.50 (22.67)	121.78 (8.38)	177.72
2019-20	3318.21 (-4.44)	1389.93 (13.28)	1928.28	303.92 (4.42)	132.06 (8.44)	171.86
2020-21	2981.75 (-10.14)	2309.21 (66.14)	672.54	285.53 (-18.39)	150.46 (13.93)	135.07
2021-22	2619.06	1814.12	804.94	284.65	123.76	160.89

	(-12.16)	(-21.44)		(-0.88)	(-17.75)	
Average	2968.65	1656.44	1312.22	290.09	128.08	162.00
Standard Deviation	437.45	437.41	582.54	11.25	14.34	16.41

Source: Annual Reports

## Interpretation

**Bombay Dyeing:** From Table-4 it is clear that the average working capital is Rs. 1312.22 crores with standard deviation of Rs. 582.54 crores. The highest annual growth rate with respect to current assets is 41.63 per cent is recorded in the year 2018-19 and lowest annual growth rate with -12.16 per cent in the year 2021-22. The highest annual growth rate with respect to current liabilities is 66.14 per cent is recorded in the year 2020-21 and lowest annual growth rate with -21.44 per cent in the year 2021-22.

**Vijay Textiles:** The average working capital is Rs. 162 crores with standard deviation of Rs. 16.41 crores. The highest annual growth rate with respect to current assets is 22.67 per cent is recorded in the year 2018-19 and lowest annual growth rate with -18.39 per cent in the year 2020-21. The highest annual growth rate with respect to current liabilities is 13.93 per cent is recorded in the year 2020-21 and lowest annual growth rate with -17.75 per cent in the year 2021-22.

## Conclusion

There are many industries or sectors in India which contribute to country's GDP and Textile sector is one among them. Indian Textile Industry consists of Cotton, Synthetic, Wool, Jute, and Silk textiles. The selected textiles units were found to have correct concept of working capital components. The position regarding the conceptual clarity about working capital in selected samples appears to be highly satisfactory.

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