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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS
- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

WORKING CAPITAL PERFORMANCE: A CASE STUDY ON DABUR INDIA LTD.

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ABSTRACT

Among all the problems of financial management, the problems of working capital management have probably been recognized as the most crucial one. It is because of the fact that working capital always helps a business concern to gain and strength. The objective of the study is to examine the working capital performance of Dabur India Ltd. during the period 2003-04 to 2010-11.Inventory turnover ratio, Working capital turnover ratio, and current asset turnover ratio and debtors turnover ratio shows satisfactory performance of the company but in terms of current ratio and the liquidity position of the company are not satisfactory. The Correlation Co-efficient between Liquidity and Profitability of the selected company is observed to be (–) 0.3. It is statistically significant at 5% level. Different financial ratios and statistical techniques are also applied for measuring the working capital efficiency.

KEYWORDS

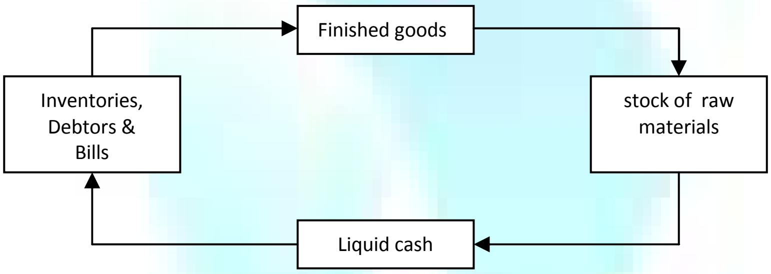
Liquidity, Profitability, Ratio, Working Capital Management.

INTRODUCTION

Working capital refers to the firm's investment in short term assets like accounts receivables, accounts payables, inventory and others including cash or cash equivalent and marketable securities. Therefore, working capital means the amount of capital which is required for day to day normal operation of an organization. It is used for running the main operating activities of the concern. for maintaining continuity in main operating activities , a firm has to invest a part of its capital in current assets. It has also to use another part of capital for paying of its current liabilities. It helps by creating income of the firm in an accounting period by means of a recurring rotation of the current assets and current liabilities.

For this reason it is also known as income generating capital. Someone uses it as circulating capital.

There are two concepts of working capital. They are balance sheet concept and operating cycle concept. According to the balance sheet concept working capital is meant by gross working capital (i.e. sum of current assets) and net working capital (I.e. the difference between total current assets and total current liabilities). Again net working capital may be positive working capital, negative working capital and zero working capital. On the other hand, operating cycle is a particular set of correlated activities that starts from the procurement of raw materials or trading goods and ends with realization of sales. The following diagram depicts the functioning of the working capital:



Two vital aspects involving working capital management of a firm are liquidity and profitability. The well accepted objective of working capital management is to maintain a good liquidity position by not surrendering to the profitability aspect. Therefore a conflict comes between the terms liquidity and profitability. Increasing liquidity are against high profitability and increasing profitability are help full for reducing liquidity. The following ratios are used to measure profitability also supports this relation.

Profitability = profit/capital employed
= profit/ (fixed assets + working capital)

If the profit and investment in fixed assets are remain unchanged and working capital is increased, profitability will come down and vice- versa.

It can also be analyzed from risk and return concept. Investment of capital in fixed assets and circulating current assets is more risky and more profitable. In such case liquidity suffers because of low investment in cash and cash equivalent assets. On the contrary, holding of more liquid assets by making a low investment in fixed and circulating current assets is less risky and less profitable. In this case, liquidity is not at all a problem. Therefore, drawing up a balance between liquidity and profitability depends a lot on the expertise of the managerial staff and it speaks of the efficiency of management in managing finance.

DABOUR INDIA LIMITED- A PROFILE

Dabur india limited is the fourth largest first moving consumer goods (F M C G) company in India. It is established in 1884. It produces many products for cardio vascular system, digestive system, metabolic disorder, musculo-skeletal system, respiratory system, urinary system and so on.

LITERATURE REVIEW

Grablowsky, B. J. (1976)[3] examined the mismanagement of accounts receivables by small business and found that there is a significant relationship between various success measures and the employment of formal working capital policies and procedures. Walker, E and Petty, W(1978)[10] examined the financial differences between large and small firms and found that managing cash flow cash conversion cycle is a critical component of overall financial management for all firms especially those who are capital controlled and more reliant on short term sources of finance. Smith K, V (1973)[8] examined the state of the art of working capital management and identified eight major theoretical approaches taken towards the management of the working capital. He stressed the need for the development of a viable model with the duel financial goals of profitability and liquidity, and argues that only such models will assist practicing financial managers in their day to day decision making. Refuse M. E. (1996)[7] refocused on urgent need on working capital management. He found that the idea of delaying payment to the creditors as a strategy of improving capital. Instead he proposed that the companies should strategize more on stock management based on lean supply chain techniques. Deloof, M (2003)[2] evaluated the effects of working capital management on profitability of Belgian firms. He analyzed that most firm had a large amount of cash invested in working capital. It can therefore be expected that the way in which working capital is managed will have a significant impact on the profitability of those firms. Using correlation and regression test he found that a significant negative relationship between gross operating income and the no. of days account receivables, inventories and account payables of Belgian firms.

On the basis of this result he suggested that managers could create value for their shareholders by reducing the no of days account receivables and inventories to a reasonable minimum. The negative relationship between accounts payable and profitability is consistent with the view that the less less profitable firms wait longer to pay their bills.
Lazaridis, I. Tryfonidis, D, (2006)[5] studied the relationship between working capital management and profitability of companies listed in the Athens stock exchange. The result from regression analysis showed that there was a statistical significance between profitability measured through gross operating profit and cash conversion cycle. From those results they claimed that the managers could create value for shareholders by handling correctly the cash conversion cycle and keeping each different component to an optimum level.
Aminu, Yusuf (2012) in his study ‘ A nexus between liquidity and profitability trade offs for working capital in Nizerias manufacturing sector’ concluded that profitability / liquidity trade off has always been in conducive . the motive to strategy and practical existing circumstances, are always critical factors that must be considered in maintaining a balance liquidity and profitability.

RESEARCH GAP
Although several studies have been studied in the area of working capital management, a few studies have been carried out in the pharmaceutical industry. More over no comprehensive indices were formed to examine the relationship between liquidity and profitability. Hence, the present study is an attempt to contribute to the existing literature.

OBJECTIVES OF THE STUDY
The main objective of the study is to examine the working capital management of the selected companies.
To attain the main objective, the following objectives are sought to be achieved:
i) To examine the working capital performance of the selected company.
ii) To study the liquidity position of the selected company.
iii) To examine the relationship between liquidity and profitability of the selected company.

HYPOTHESIS
i) Working capital performance of the selected company is Healthy.
ii) There is a significant negative relationship between liquidity and profitability

METHODOLOGY
To carry out the present study, Dabur India limited has been selected purposively based on secondary data. It is one of the leading company in India.

DATA SOURCE

The data required for the study has been collected from the published annual reports of the selected company.

STUDY PERIOD

We have chosen the study period ranging from 2003-04 to 2010-11.

TOOLS AND TECHNIQUES OF DATA ANALYSIS

The data collected from the published annual reports of the selected company for the eight years period have been suitably arranged, classified and tabulated as per requirement for the study.

WORKING CAPITAL PERFORMANCE OF THE SELECTED SAMPLE COMPANY
To analyze the working capital performance of the selected company, the technique of ratio analysis has been used. The ratios which are taken into consideration are as follows:

TABLE 1: DIFFERENT RATIOS WHICH ARE TAKEN INTO CONSIDERATION TO ANALYZE THE WORKING CAPITAL PERFORMANCE OF THE SAMPLE COMPANY

Name of the ratios	Measures
Current ratio	Current asset/current liability
Quick ratio	(current asset- stock)/(current liability- bank over draft)
Absolute liquid ratio	(cash and bank balance+ marketable securities)/(current liabilities – bank over draft)
Inventory turnover ratio(in times)	(sale – gross profit)/ closing stock
Inventory turnover (in days)	365/inventory turnover(in times)
Debtors turnover ratio(in time)	Net sales/ closing debtors
Working capital turnover ratio	Net sales / working capital
Debtors turnover ratio (in days)	365/ debtors turn over in times
Current asset turnover ratio	Sales / current assets

ANALYSIS OF THE LIQUIDITY POSITION BY MOTAALS COMPREHENSIVE TEST

In this test the following ratios are taken into consideration. Each of the ratios are expressed as percentage
I) Inventory / current asset
II) Debtors / current assets
III) Cash & bank / current assets.
For i) the lower the ratio the more favorable is the position and ranking has been done in that order. For ii), iii), & iv) the higher the ratio, the more favorable is the position and thus ranking has been done in that order. Ultimate ranking has been done on the principle that lower the points scored the more favorable are the position and vice- versa.

RELATIONSHIP BETWEEN LIQUIDITY AND PROFITABILITY

To analyze the relationship between liquidity and profitability, spearman’s Rank correlation has been used. For this purpose spearman’s rank correlation coefficient is computed as below.
R= cov(x,y)/sd(x).sd(y)
Where, cov(x,y)= covariance of x and y.
S.d(x)= standard deviation of x
s.d(y)=standard deviation of y
To test the significance of the relationship between liquidity and profitability, found out by way of correlation coefficient, t test has been applied.
The t statistic is given below
$t = \frac{R\sqrt{n-2}}{\sqrt{1-R^2}}$ Where R = Rank Correlation coefficient, n= No. of observations
In addition to the above simple statistical measured like mean S.D, coefficient of variation have been used in this study.

ANALYSIS OF WORKING CAPITAL PERFORMANCE OF DABUR INDIA LTD.

Selected ratios of Working Capital in Dabur India Ltd, during 2003-04 to 2010-11

TABLE 2: DISTRIBUTION OF DIFFERENT RATIOS OF DABUR INDIA LTD. DURING, 2003 TO 2010-11

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	mean	Standard deviation	Coefficient of variation (%)
C. Ratio	1.15	1.02	1.08	1.41	1.05	1.18	1.2	1.27	1.17	0.12761549	10.90
Quick Ratio	0.64	0.51	0.59	0.85	0.5	0.86	0.87	0.96	0.7225	0.18218907	25.21
Absolute Liquid Ratio	0.09	0.04	0.19	0.17	0.21	0.43	0.37	0.38	0.235	0.14302847	60.86
Inventory Turn Over Ratio (times)	5.28	5.91	6.84	6.36	9.71	8.84	5.95	11	7.48625	2.08814297	27.89
Inventory Turn Over Ratio (days)	69	62	53	57	38	41	61	33	51.75	12.947697	
Debtors Turn Over Ratio (times)	17.16	18.64	23.42	14.64	23.96	25.07	26.07	20.24	21.15	4.10661835	19.41
Debtors Turn Over Ratio (days)	22	20	16	25	15	15	14	18	18.125	3.90741054	21.55
Net working capital turn over(time)	2.68	1.77	5.02	1.1	5.70	1.94	1.83	1.04	2.63	1.65	62.64
Current assets turn over	3.63	3.47	3.73	3.25	3.09	2.98	3.08	2.21	3.18	0.47704447	15

The Current Ratios of the company in several years are ranging from 1.02 to 1.41 with a mean 1.17 and standard deviation .127. It is observed that neither of the years the company's current ratio at standard norms 2 : 1. The coefficient of variation is 10.90%. The quick ration in several years are found to be below 1 : 1 being the standard. The mean of quick ratio is not conformity with the standard. If we analyze the absolute liquidity position of the company it is observed that neither of the years is at or above the standard (.5 : 1) under the study period. However the company's inventory turnover ratios, debtor's turnover ratios and net working capital turn over ratios are much healthy under the study period. The trend of all the ratios is shown in a graph chart here.

FIGURE -1

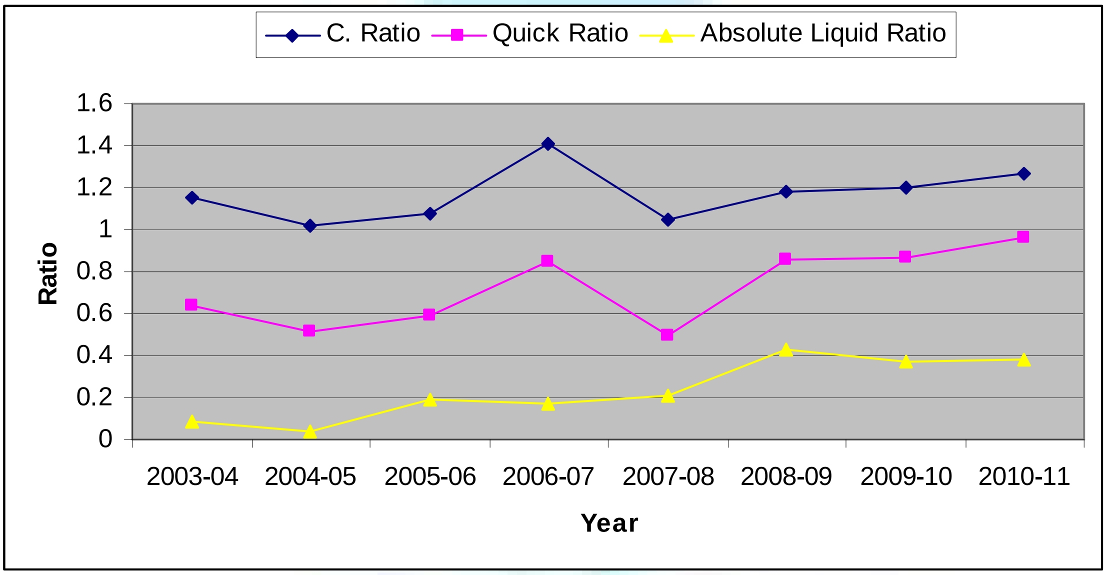


FIGURE -2

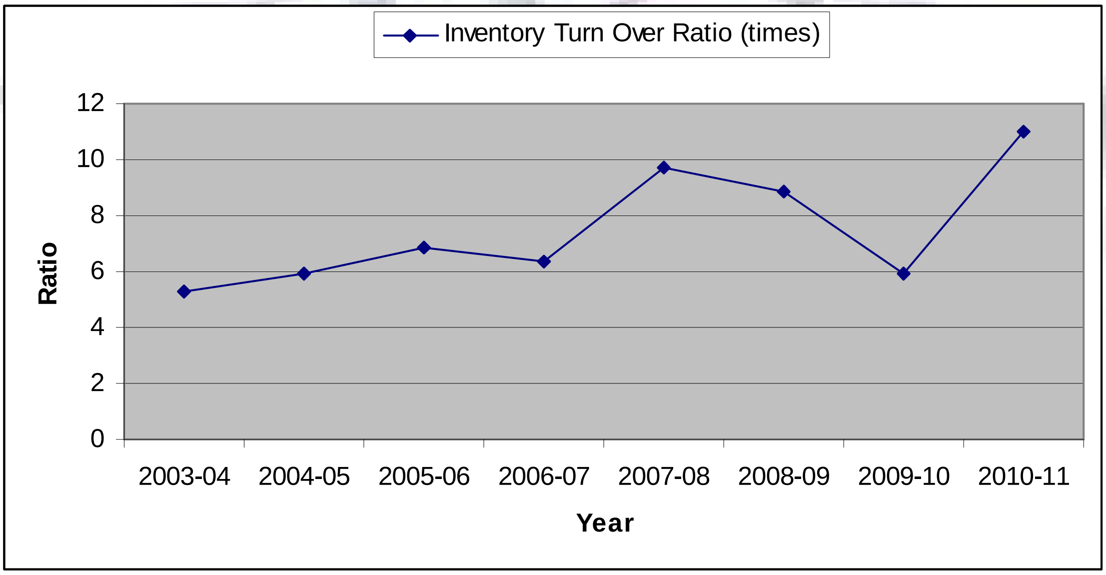
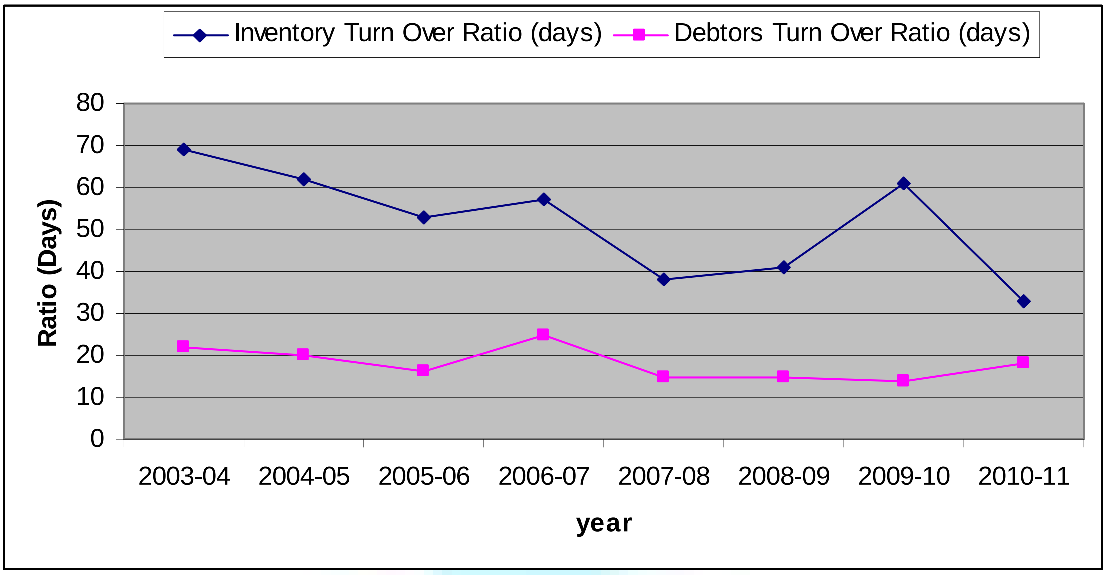


FIGURE -3



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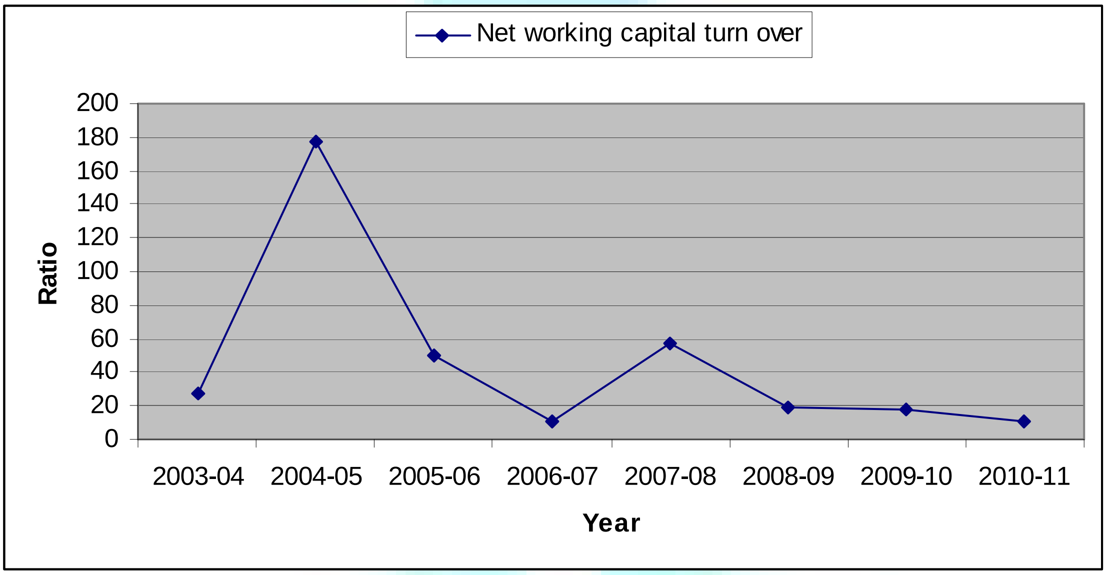
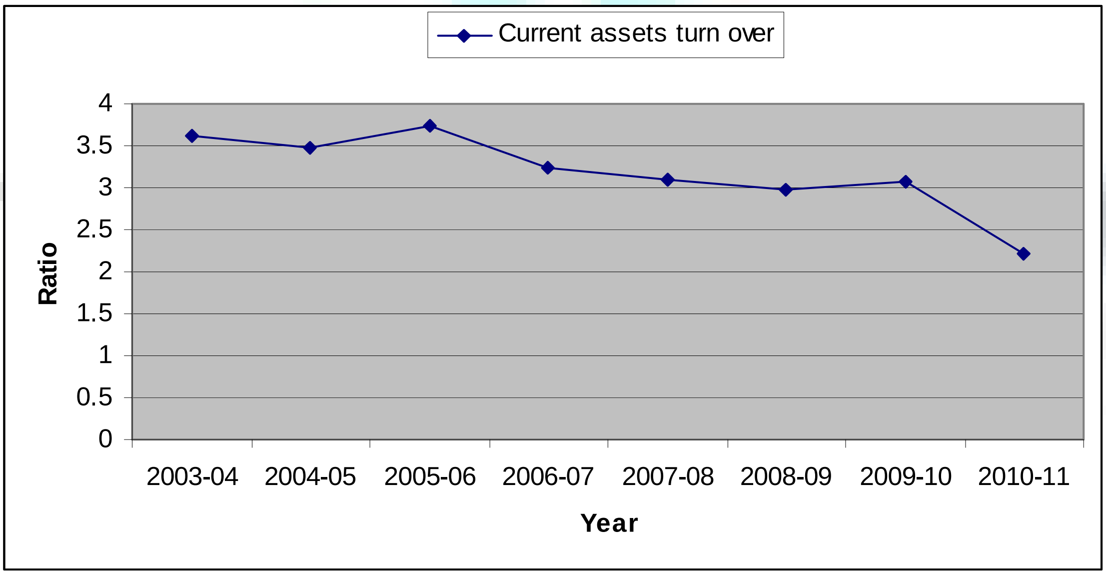


FIGURE - 5



LIQUIDITY RANKING ANALYSIS BY MOTAALS TEST

Liquidity refers to the firm's ability to pay its current debts. The liquidity position of a firm is largely affected by the composition of working capital. Therefore, to determine the liquidity position of the company is much important. In my study the liquidity position is tested by a comprehensive test, known as Motaals test which is shown below:

TABLE 3: DISTRIBUTION OF RESULTS OF MOTAALS TEST

Year	Inventory to Current Asset (%)	Debtors to Current Asset (%)	Cash & Bank to Current Asset (%)	Loans & Adv. & Other Current Asset to Current Asset (%)	Liquidity Rank				Total Rank	Ultimate Rank
	1	2	3	4	1	2	3	4		
2004	44.97	20.93	5.95	28.15	6	1	7	7	21	6
2005	49.84	18.62	3.62	27.92	8	2	8	8	26	8
2006	45.15	15.77	10.85	28.23	7	4	6	6	23	7
2007	39.70	15.38	12.68	32.24	5	6	4	4	19	5
2008	36.38	18.17	12.34	33.09	4	3	5	3	15	3
2009	35.12	15.08	19.29	30.51	2	8	1	5	16	4
2010	32.51	14.21	17.86	35.42	1	7	2	1	11	1
2011	35.54	15.62	14.85	33.99	3	5	3	2	13	2

From the above table, it is observed that the company's liquidity position in 2010 is the best followed by 2011,2008 and so on under the study period.

RELATIONSHIP BETWEEN LIQUIDITY AND PROFITABILITY

For estimating relationship between Liquidity and Profitability, the two main ratios namely current ratio (current asset to current liability) is taken for measuring liquidity and return on capital employed is taken for profitability analysis. The above two ratios are computed from the figures taken from annual reports of the company under the study period and thereby to obtain the relationship between these two, Karl Pearson Correlation Co-efficient has been calculated.

The Correlation Co-efficient between Liquidity and Profitability of the selected company is observed to be (–).30. It is statistically significant at 5% level (2 tailed), since the calculated value of t (.77) is not greater than the table value of t (2.37). Thus it clears that the company has not maintained post optimal liquidity, thereby creating negative impact on profitability during the study period. This leads to acceptance of the second hypothesis of the study.

FINDINGS AND CONCLUSIONS

1. Current ration of the company is always below the standard norm 2: 1 under the study period. Therefore, performance of the company in terms of current ratio is not satisfactory.
2. The performance of the Quick ratio is also not satisfactory except in 2010-11 as the ratio remain below 1: 1 during the study period.
3. Absolute Liquid ratio is also below the standard norm 0.5: 1 during the study period except 2008-09. Therefore, the ratio cannot satisfy the company's liquidity position.
4. Inventory turnover ratio and debtors turnover ratio shows satisfactory performance during the study period.
5. Liquidity position of the firm is not satisfactory during all the years of the study period.
6. The Karl Pearson Correlation Co-efficient between liquidity and profitability of the company is observed to be negative but it is much below (–) 1. This indicates that the company has not maintained sufficient liquidity level during the study period.
7. Working capital turnover ratio and current asset turnover ratio shows a satisfactory position of the firm during the study period.
8. The Correlation Co-efficient between Liquidity and Profitability of the selected company is observed to be (–).30 it is statistically significant at 5% level.

It may conclude that the working capital management of Dabur India Ltd. is not satisfactory during all the years under the study period.

LIMITATION OF THE STUDY

1. The study has been conducted over a limited period of eight years only.
2. The study is mainly based on secondary data.
3. The study is limited to a single company only.
4. The study is based on consolidated financial statement, which may lead to some errors and assumptions.
5. For finding the relation between liquidity and profitability only current ratio and PAT margin has been consider which is one of the major limitation of the study.
6. Gross profit has been deducted from the sales for computing cost of goods sold which is used for determining inventory turnover ratio

The present study is limited to a single company and based on many assumptions. Hence further research may be conducted to reflect the overall view of Working Capital Management of the company like Dabur India Ltd.

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