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## MANAGEMENT OF WORKING CAPITAL IN SMALL AND MEDIUM ENTERPRISES IN SPSR NELLORE DISTRICT, AP

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### ABSTRACT

*The District Industrial Centre (DICs) programme was started by the central government in 1978 with the objective of providing a focal point for promoting small and medium industries in a particular area and to make available to them all necessary services and facilities at one place in SPSR Nellore District, DIC was started on 13<sup>th</sup> February 1981 with the main aim of providing all services to the entrepreneurs and artisans for the development of small scale industries. The DIC is playing a major role in promoting small and medium Industrial units, increasing their investment level and generating employment opportunities by utilizing local resources.*

### KEYWORDS

management of working capital, small and medium enterprises.

### INTRODUCTION

Small and Medium enterprises (SMES) play an important role in the Indian economy in creating income and employment opportunities the key link in the process of socio-economic transformation of under-developed social structure. It is a significant segment of the Indian economy because it generates production at low capital cost, uses local raw material, utilizes local skills, widens entrepreneurial base, facilitates balanced regional growth, prevents the migration of labour force to the metropolitan areas by creating employment in rural areas and their import intensity is far less and export capability more. SMES sector includes such socio-economic goals as the decentralization and dispersal of manufacturing activities from the metropolitan to the non-metropolitan and rural areas, the reduction of regional economic imbalances within a country and the diffusion of entrepreneurial and managerial abilities and skills as well as of technology throughout the country.

Small and medium enterprises have been considered as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the SME sector is much higher than that of the large enterprises. The role of small and medium enterprises in the economic and social development of the country is well established.

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The need to main effective working capital management within Small and Medium Scale Enterprises (SMEs) remain pivotal to solvency and liquidity of SMES. Most SMES do not care about their working capital position, most have only little regard for their working capital position and most do not even have standard credit policy. Many do not care about their financial position, they only run business, and they mostly focus on cash receipt and what their bank account position is. For the purpose of this study, Standard working capital ratios were used to measure the effectiveness of working capital in the selected firms. The firms selected show signs of overtrading and illiquidity, concerns were on profit maximization without taken cognizance of payment of creditors. The firms exhibit low debt recovery over credit payment. It is recommended that for SMEs to survive within Nigeria economy they must design a standard credit policy and ensure good financial report and control system. They must give adequate cognizance to the management of their working capital to ensure continuity, growth and solvency.

### SMES IN VARIOUS INDUSTRIAL ESTATES OF SPSR NELLORE

#### Potential for Micro, Small, Medium and Large Scale Industries:

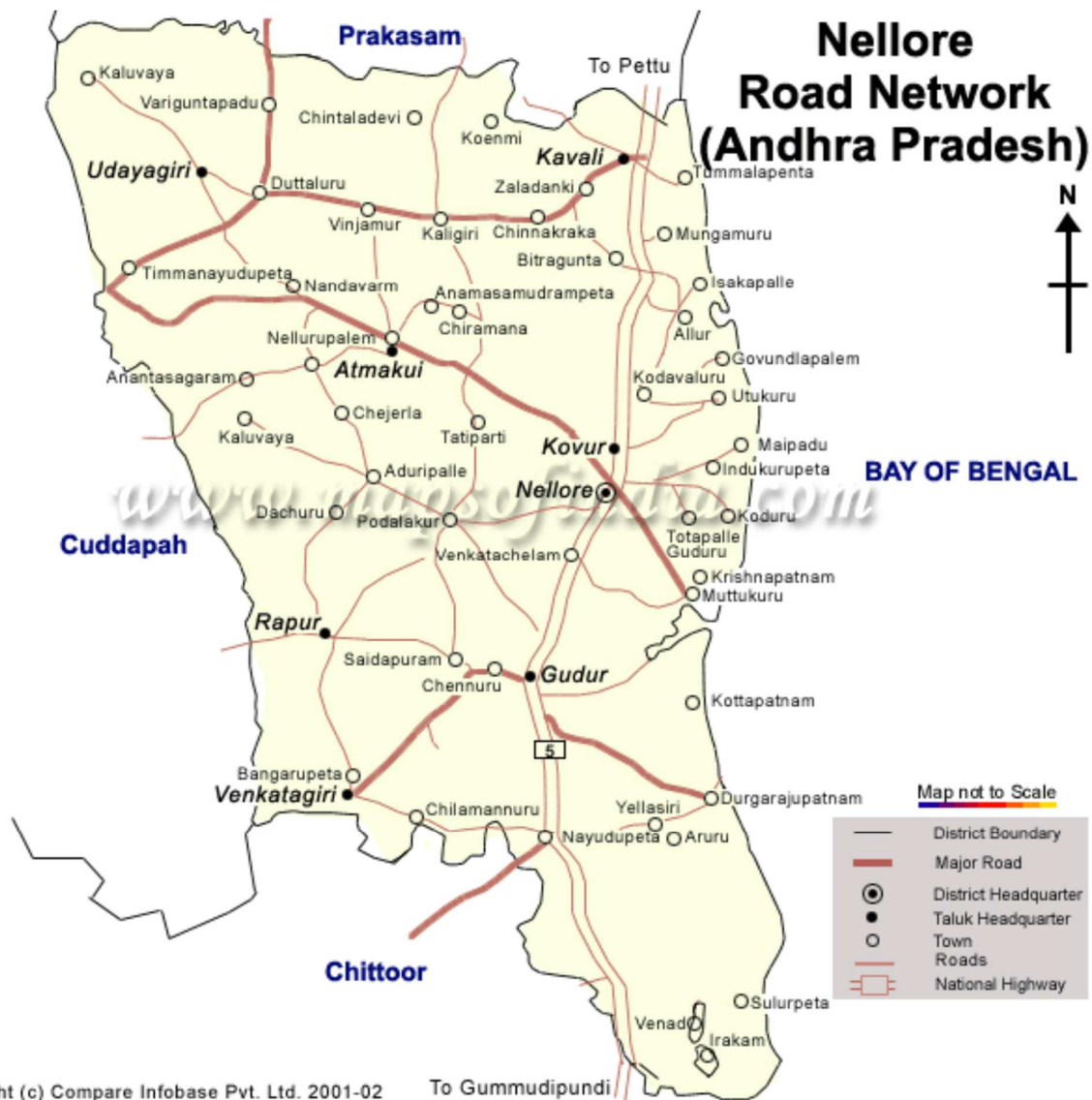
1. Rice milling
2. Rice bran Oil
3. Cashew Kernels
4. Mineral Pulverizing and processing
5. Modern bricks
6. Dairy, Milk processing and milk products
6. Fish and Prawn Processing industries
7. Drugs and Pharmaceutical industries
8. Tourism based industries
9. Jute based industries
10. Coir based industries
11. Salt based industries
12. Textile and readymade Garments.

### LOCATION & GEOGRAPHICAL AREA

The district is located between 13.30- 15.6 Northern latitude and 70.5-80.16 eastern longitude. The geographical area is 1307600 Hectares.



MAP 1



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There are 110 large scale units in the state. Of these nearly one thirds (35Nos) are engaged in the manufacture of processed/ preserved sea food like shrimps, prawns and fish. These are concentrated along the coast in the district. The other major product groups are Dairy products, granite slabs, pharmaceuticals etc.

**MAJOR EXPORTABLE ITEMS**

Processed fish, prawns, lobsters and other sea food items, granite slabs and monuments, steel, etc

**WORKING CAPITAL STRUCTURE IN NELLORE (D.T)**

The analysis of the structure of working capital enables to understand the working capital condition in selected small and medium enterprises. The structure of working capital comprises both current assets and current liabilities. The components of current assets in the sample industries include inventory, short term investments, trade debtors, cash and bank balances and others such as advance payment to suppliers and prepaid expenses. The current liabilities constitute the short term bank loans, non-bank loans, trade creditors and others like outstanding wages and salaries. Tax and advances from customers. Each component of current assets and current liabilities is expressed as a percentage of total assets and total liabilities respectively. Further, indices of current assets, current liabilities and net working capital are computed in order to examine the inter-relationships that exist among these financial variables.

**IMPORTANCE OF WORKING CAPITAL**

Just as circulation of blood is very necessary in the human body to save life, the flow of working funds is needed to sustain and maintain a business enterprise. The presence of adequate amount of working capital in a business is indicating of its liquidity. In other words, it is the extent of cushion or margin of safety available to meet the current obligation in the ordinary course of business without any difficulty. Working capital management is to manage the firm's current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. This is so because if the concern cannot maintain satisfactory level of working capital, sooner or later it will topple down. The efficiency of a business enterprise to earn profits depends largely on its ability to manage working capital. Working capital management has acquired paramount importance in the recent past, especially in view of tight money conditions prevailing in the economy. Proper management of working capital is very importance for the success of an enterprise. It aims at protecting the purchasing power of assets and maximizing the return on investment. Management is required to be vigilant in maintaining appropriate levels in the various working capital accounts. The management of working capital is concerned with the determination of relevant level of current assets and their efficient use as well as the choice of the financing mix for raising the current resources. Thus, working capital plays a crucial role in earning a reasonable rate of return. Pragmatic outlook towards working capital management is essential. Hence, working capital has to be effective planned, systematically controlled and optimally utilized.

**NEED FOR WORKING CAPITAL FINANCE**

The need for working capital to run the day-to-day business activities need not be over-emphasized. An industrial enterprise requires working capital to maintain its business activities of production and sale of its products. Funds are generally needed to fulfill the following purposes:

- i. To purchase and stock necessary quantities of raw material and stores
- ii. To make advances for goods and services
- iii. To carry the finished goods till sales are made
- iv. To meet all incidental expenses related to production and
- v. Sometimes sales have to be made on credit basis, thus creating debtors. The funds would be required to carry the debtors also as sales do not convert into cash instantaneously.

**TYPES OF WORKING CAPITAL**

The types of working capital can be made either based on its concept or on the need to maintain current assets either permanently and / or temporarily. Generally, an enterprise requires two types of working capital: 1. Fixed, regular or permanent and 2. Variable or temporary. The working capital can be conveniently classified into permanent working capital and variable working capital (Gerestenberg). The working capital can be conveniently classified into permanent working capital and variable working capital. The variable working capital can further be subdivided into seasonal and special working capital.

The importance of working capital management is reflected in the fact that financial managers spend a great deal of time managing current assets and current liabilities. Working capital management is extremely important in small and medium business since it is relatively more important in small companies than in large companies. The management of working capital also helps the management in evaluating various existing or proposed financial constraints and financial offerings. Working capital management has emerged as a major factor in the profitability of business.

**CONCLUSION**

The management of working capital assumes greater significance in respect of Small and Medium Enterprise units in India as most of these firms have financial base, limited accessibility to financial markets to support their scarce resources and low risk bearing capacity. In fact, it is the quality of the management of working capital that decides the success or otherwise of the unit. The sample units practiced differing procedures, methods and systems of working capital based on convenience, suitability and capability of the entrepreneur.

The SME managers should invest their cash surpluses in ventures that yield high returns such as treasury bills rather than in current accounts and make use of computerized accounting packages to help improve their efficiency in working capital management.

The study also found out that efficient working capital management practices have a significant influence on the financial performance of SMEs and recommends that SMEs embrace efficient working capital management practices as a strategy to improve their financial performance and gaining competitive advantage over other competitors.

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