A STUDY ON WORKING CAPITAL MANAGEMENTOF HINDUSTAN COCO COLA BEVERAGES PVT LTD

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Abstract: Working capital is an integral part of overall business finance for the smooth operations of a business enterprise. An optimal management of working capital is one of the pre-conditions for the success of an enterprise. Efficient management of working capital ensures that the business operating cycle keeps moving without any hurdles in terms of payment of liabilities and procurement of raw materials. Efficient management of working capital means management of various components of working capital in such a way that adequate amount of working capital and liquidity is maintained for smooth running of an enterprise. The flow of money gets choked, the supplies are interrupted and payments are delayed in the event of inefficient management of working capital. While inadequate working capital has the potential to disrupt production or sales operation and is a disastrous, excessive working capital has an adverse impact on profitability and is a criminal waste. Management of working capital is regarded as an essential tool of business finance focusing on maintaining optimum levels of both the components viz. current assets and current liabilities. Thus there is an imperative need to manage working capital effectively.

Key Words: Working capital, Optimum level, Inadequate, Liquidity, Inefficient, Profitability.

I. Introduction

The working capital is the life-blood and nerve centre of every business enterprise. No business can run effectively without adequate quantity of working capital. Management of working capital is an integral part of overall corporate management. A business enterprise with ample working capital is always in a position to take advantages of any favorable opportunities either to purchase raw-materials or implement a new special order or to wait for enhancing market status. Working capital can be utilized for meeting day-to-day expenses and for maintaining fixed assets that are involved in everyday life of a business enterprise. It is rightly said that the overall success or failure of a business enterprise mainly depends upon how the enterprise manage its working capital. Thus, proper management of working capital has become an essential part every business enterprise because it shows the efficiency and financial strength of an enterprise. In modern financial management, administration of working capital is an important and challenging task due to high proportion of working capital in the business finance. In fact, it is the activity of the finance manager to provide adequate working capital to maintain the balance between liquidity and profitability of a business enterprise. Liquidity and profitability are the two major aspects of corporate business life. If we emphasize on liquidity, it will adversely affect the profitability and similarly if we emphasize more on profitability, it will adversely affect the liquidity. Therefore proper management between the two should be the basic objective of the working capital management. Efficient management of working capital means management of various components of working capital in such a way that an adequate amount of working capital is maintained for smooth running of an enterprise and for fulfillment of objectives of liquidity and profitability. But, it is very difficult for the finance manager to estimate working capital properly because the amount of working capital varies across business enterprises over the periods depending upon the nature of business, raw-materials used, technology, finished products, degree of competition in the market, credit policy, etc. Therefore, effective provision of working capital in the form of different current assets and its proper management has become an essential part of business finance.

II. Business Finance and Working Capital

Every business concern requires money or finance to commence or continue its operations and for the growth or expansion of the business. Business finance is business activity which is concerned with the acquisition and conservation of capital funds in meeting the financial needs and overall objectives of a business enterprise. The finance or capital requirement of a business can be broadly classified into two main categories viz. fixed capital requirements and working capital requirements. The long-term capital or fixed capital is the core of the business, the main bearing around which the short-term or working capital revolves. The former is spent in obtaining fixed assets while later is required as current assets for effective utilization of those fixed assets. The former provides the necessary means of production while the later provides all necessary expenses that are required for day-to-day operations. Thus, finance in business is required to be invested in fixed and current assets in suitable doses so that the business is carried on smoothly without any interruption. Management functions like planning, organizing, directing, coordinating and controlling can not discharged efficiently without adequate finance. Therefore, the success and survival of every business depends not only upon the availability of adequate fixed assets but also on the efficient management of short-term or working capital i.e., Current assets and Current liabilities.

Working capital management policies of a firm has a great importance on its profitability, liquidity and structural health. It is three dimensional in nature as

- It is concerned with the formulation of policies with regard to profitability, liquidity and risk.
- It is concerned with the decisions about the compositions and level of current assets.
- It is concerned with the decisions about the compositions and level of current liabilities.

Guided by the above criteria and policies, the finance manager will use a combination of policies and techniques for the management of working capital as a tool of business finance.

III Company Profile

Hindustan Coca-Cola Beverages Pvt. Ltd, a bottling company was started during the year 1986 in Bangalore due to the humble services by **Mr. S. N. Ladhani**, the **Managing Director** of the company, with and initial capital of Rs. 25 Lac. Hindustan Coca-Cola Beverages Pvt. Ltd has a franchisee agreement with Parle exports for hundred years to manufacture and sell its products.

During November 1993, Parle export sold all its 60 franchises to Coca-Cola in India in order to compete with Pepsi. Each franchisee can cover up **16 districts**. The company is in business of manufacturing and selling Coca Cola and other soft drinks owned by Coca Cola like Thumps up, Limca, Fanta, Mazza, Kinley Soda in area allocated to Bareilly franchisee which covers districts such as Badaun, Moradabad, Rampur, Pilibhit, Shahjahanpur, Lakhimpur Khiri.

M/s Hindustan Coca Cola Beverages Pvt. Ltd has its production unit having capacity of 600 bottles per minute, located at Parsakhera Industrial Estate, 12 Kilometer away from Bareilly town on Delhi highway. In state of Uttaranchal the company establish a sales depot at Kichha.

As the product of company is sold in returnable containers (Glass bottles in plastic Shells) large area is required for storage of empty glass bottles as well as filled glass bottles. Company has maintained huge storage capacity in respect of bottles, which is located adjacent to the production unit. Hindustan Coca Cola Beverages Pvt. Ltd is owned by Ladhani Group which owns three more bottling plants located at Baranbanki, Faizabad, and Hathras having head office located at Bangalore.

IV. Literature Review

National Council of Applied Economic Research (NCAER), in 1966 conducted a study entitled “Structure of working capital” with special reference to three industries, namely fertilizers, cement and sugar. This study was mainly devoted to the analysis of composition of working capital in these industries for the period 1959 to 1963. However, NCAER failed to put into sharp focus the various components of working capital.

Ram Kumar Mishra (1975) made a study at the University of Rajasthan under the title "Problem of working capital" with special reference to public enterprises during the period 1960-61 to 1967-68. No doubt, the basic issues outlined in Dr. Mishra‟s study and finding therein are relevant to many of the units in the public sector even today, but due to the functional and structural changes that public enterprises have witnessed in the post-1968 era, a repeated effort on a different sample is called for to bring the prescriptions up to date.

Dr. N.K. Agrawal (1977) made a study at the University of Delhi on the "Management of Working Capital" in respect of certain large manufacturing and trading public limited companies. The sample of this study covered 34 companies in all and related to the period 1966-67 to 1973-74. Dr. Agrawal observed that although most of the companies were making use of modern techniques in the areas of inventory, receivables and cash management, there appeared a sufficient scope for reduction in investments in almost all the segments of working capital.

A study conducted by Vijayasaradhi and Rao (1978) on the "problem of working capital management in public enterprises" revealed that the management of working capital played a key role in the success of the business. The study indicated that increasing trends in the investment of current assets resulted in higher carrying cost which, in turn, negatively affected the profitability position of the company.

Jain, Yadav and Surendra made a study on working capital management practices of public sector enterprises in India. This study was based on an analysis of 13-year period data from 1991 to 2003 of 137 public sector enterprises and stated that, a business organization has to be conscious that inadequate working capital can disrupt its operations and may lead to illiquidity. At the same time excessive working capital is also not desirable since it adversely affects profitability.

Deloof, M. (2003) posits that managers can increase profitability by reducing the number of days of accounts receivables and inventories. Banomyong (2005) highlighted that a company with a lower cash conversion cycle is more efficient because it turns its working capital over a greater number of times in a year, which means that it generated more sales per unit of money invested in working capital management.

Gupta (2010) highlighted that better working capital management can significantly help companies to improve their growth rates vis-à-vis competitors and ultimately increase the wealth of their shareholders.

All the above studies provide us a solid base and give an idea regarding working capital management and its components. They also give us the results and conclusions of those researches conducted on the same area for different countries and environment from different aspects. Therefore, the present study has been taken up for research since no studies has been conducted so far in such industries.

V. Objective of the Study

Keeping in view the importance of working capital management in business finance, an attempt is made to study the contribution towards a crucial element in financial management. The specific objective of this article is to have a comprehensive analysis of working capital decisions and practices followed by Hindustan Coco Cola Beverages Pvt Ltd over the past five years through a study of working capital trend, liquidity ratios and efficiency ratios related to utilization of current assets. The study will help to highlight the relative importance of working capital management as an essential tool of business finance.

VI. Research Methodology

For this study, one of the leading **Beverages**industries in India namely **Hindustan Coco Cola Beverages Pvt Ltd**has been purposively selected. The period of study covers five years, from 2013-14 to 2018-2019. The study covers mainly the Working capital trend and analysis, Efficiency of working capital and Test of liquidity and profitability.

The data for the study was collected from the annual reports of the selected company. Various techniques of ratio analysis namely Current Ratio, Quick Ratio, Working Capital Turnover Ratio, Return On Capital Employed (ROCE), Current Assets to Total Assets Ratio etc. are used for analyzing the data. Analysis is based on secondary data. Secondary data sources are Balance Sheets and Profit and Loss Accounts for the past five years which are extracted from the annual reports of the company. The key financial ratios have been computed for all working capital decisions.

VII. Trend of Working Capital

The working capital trend plays the most important part in determining the level of operational activities of a business. It involves two respective aspects viz. level of investment in working capital and structure of working capital. The position of Hindustan Coco Cola Beverages Pvt Ltdis explained with the help of figures given in Table 1.1. From this analysis, it is clear that the level of investment in working capital has registered an increasing trend from 2006-07 onwards. It has increased from Rs. 13.69 crores in 2013-14 to Rs. 21.89 crores in 2018- 2019. It dropped marginally from Rs. 20.26 crores in 2014-15 to 20.05 crores in 2016-2017.The share of current assets in the total assets as depicted by the CA/TA ratio has been on the fluctuating trend, decreasing one year and then increasing next year. It has fluctuated between 69.40 per cent in 2016-17to 96.58 per cent in 2018-19 with an average of 83.18 per cent during the period. It shows an investment level above 50 per cent of total assets of the concern. It also clearly indicates that over investment in current assets is there which, too, not a good sign is for the company.

On an average, the short term solvency position of the company, as far as the availability of current assets is concerned, seems to be more than enough. There is still much scope in improving the investment level of current assets to avoid any over or under-investment in current assets

VIII. Test of Liquidity or Solvency

An analysis of the liquidity of working capital is useful both to short-term creditors and internal management of a concern. To the internal management it indicates whether the working capital is sufficient or not and to what extent the concern has over or under invested cash in its operating cycle. Thus the liquidity of working capital can be judged in terms of its relation with firm"s debts. The following ratios may be used for this purpose.

I. Current Ratio = Current Assets/ Current Liabilities

II. Quick Ratio = Current Assets- Inventory/ Current Liabilities

These two ratios are the index of solvency of a firm. It indicates the ability of an enterprise in regard to meeting its current liabilities and the ratio shows the number of times the current assets are able to pay current liabilities.

If the conventional liquidity of 2:1 is considered as a norm, the working capital of **Hindustan Coco Cola Beverages Pvt Ltd** is observed to be excess. The liquidity position appears to be very high during most of the period under study. Maintenance of adequate liquidity without interrupting the profitability is the foremost requirement of sound and efficient working capital management. From this perspective, it may be undesirable on the part of companies as such funds are either non-earning or earn very little. Thus excessive liquidity may be the indication of lack of management practices

The conventional standard of quick ratio is 1:1. The quick ratio of **Hindustan Coco Cola Beverages Pvt Ltd** is ranging from 1.68 in 2013- 14 to 3.39 in 2014-15. The mean of this ratio is 2.48 and during most of the year of study the ratio marked higher than the standard ratio 1:1 except in the in 2013-14. It is evident that the quick ratio of **Hindustan Coco Cola Beverages Pvt Ltd** is more than satisfactory and liquidity was very strong during the study period

IX. Test of Profitability

The profitability position of Hindustan **Coco Cola Beverages Pvt Ltd**with the help of Return On Capital Employed (ROCE). It indicates that profitability of HCCBPL has increased more than two times in a span of 5 years. It has increased from 7.32% in 2013-14 to 16.27% in 2014-2015. But a fluctuation is observed in the last year of study. In this year, the ROCE has decreased marginally from 19.25% in 2017-2018 to 16.27 in 2018-2019.

XI. Conclusions and Suggestions

From the entire foregoing analysis of working capital management of **Hindustan Coco Cola Beverages Pvt Ltd**, the following observations are made in brief as conclusions:

1. The overall size of net working capital of sample unit had maintained a raising trend throughout the period under study except in the year 2018-2019. The amount of net working capital was Rs.13.69 crores in 2006-07 and gradually increased to Rs. 21.89 in

2018-2019. The increase in net working capital is attributed to the faster rise in the size of current assets.

2. The size of current assets and current liabilities were increased during the study period due to increase in sales or activities. 3. Inventories and Sundry debtors were the major and key components of current assets in the sample unit.

4. The suggested ideal or standard current ratio and quick ratio were not found even for a single year of study in the sample unit. The current ratio has been well above 2:1 throughout the period under study. It is true that the higher the current ratio, the more the firm's ability to meet current obligations but such a high ratio is not considered very good for the concern. It indicates slack management practices of the concern.

5. The average working capital turnover ratio was very low during the period of study, which probably shows the excess of working capital during these periods. It shows that the current assets were not effectively utilized due to poor management of working capital.

From the above conclusions, the following suggestions can be made for improving the management of working capital in the private sector enterprise. It can prosper the industries not only to their own expectations but also to that of Government, Consumers, Investors and Employees.

1. The industry should try to control the growth rate of current assets as compared to current liabilities to some extent as per the industry needs and situations to maintain proper level of net working capital.

2. The industry should try to maintain a balance between liquidity and profitability position by improving current ratio and quick ratio. For this purpose the industry should develop some ideal standard of these ratios and try to maintain this standard ratio. The management must follow the ideal norm of 2:1 and try to maintain its ratio around it.

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