

Working Capital Management of Steel Authority of India Limited Salem

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Abstract: *This paper investigates on working capital management with special reference to Steel Authority of India Ltd Salem. Circulating capital represent the current asset of a company that are changed in the ordinary course of business from one form to another. The regression and 't' test are used to analyze the relationship between the inventory and current assets, sales and working capital. It reveals that major part of the liquidity depends upon the inventory. Cash in major portion so that the working capital is run smoothly. The networking capital is not depending upon the sales. It purely depends on current assets. The operating cost in an independent factors. The quick ratio is reveals the liquidity position of the company is satisfactory.*

Introduction

Working capital Management is concerned with the Management of the firm's current accounts which include current assets and current liabilities. Efficiency in this access of working capital management is necessary in order to assure the firm's long term success and to achieve its overall goal – the maximization of the owner's wealth. If the financial manager cannot manage the firm's working capital efficiently these long run considerations becomes irrelevant. Short-term survival is its pre- requisite to long run success. It is quite obvious that if these individual components of current assets are managed efficiently and economically, there will be neither idle funds nor paucity of funds. No area of business is so intimately related to its other areas as the area of working capital Management. Working capital policies affect marketing personnel, production and other functions. Almost every activity of business or everything that happens in the business is related to working capital decisions.

Working capital plays an important role in the function of management. It represents a large portion of the total investment in assets and therefore its optimum use has to be ensured. Planning working capital from appropriate source is a difficult task and it requires much of the financial manager's time. For normal growth or expansion programme adequate amount of working capital should be made available. All these demand a proper planning and control of working capital.

Working capital is defined in the Annual Survey of Industries (2013-14) Stocks of materials, stores, fuel, semi-finished goods including work in progress and finished goods and by-products; cash on hand and bank and the algebraic sum of sundry creditors as represented by a) Outstanding factor payment, b) Purchase of goods and services c) Short term loans and advances and sundry debtors comprising amount due to the factory on account of sale of goods and services and advances towards tax payments".

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Working capital management is concerned with all decisions and acts that influence the size and effectiveness of working capital. It is concerned with the determination of the appropriate levels of current assets and their efficient use as well as the choice of the financing mix for raising the current resources.

Review of literature

Suleiman M. Abbadi Rasha T. Abbadi (2011) found the variables that determine the working capital in Swiss chemical and pharmaceutical industries. They analyzed 18 companies listed on the six Swiss exchanges and compared them with their European and American competitors. We used working capital as the endogenous variable and some financial and economic variables such as cash conversion cycle, operating cash flow, leverage, firm size, return on assets, interest rate on loans and economic growth rate as exogenous variables. They found that there was a huge potential for improvement especially in the area of maintaining short term obligations in the Swiss industries.

Research methodology

The study is empirical in nature with focus on assessing the working capital management of the steel company from the point of view of liquidity and working capital performance. Steel authority of India Limited has been selected for this study. Data are collected from CMIE data Prowess from KSR Thiruchencode. Collected data was analyzed and interpreted to highlight the divergent activities related to the working capital management of Steel authority of India Limited. Ratio analysis and 'F' test are used to analysis and interpret the data.

Need for the study

Working Capital Management is a very important task for every manufacturing concern. Management of working capital is more important and a challenging task to the efforts of the finance manager. This study would point out the broad working capital policy followed by the SAIL SALEM. The problem of managing working capital has got the recognition of separate entity. So study of working capital management is of major importance to both internal and external analyst to judge the current position of the SAIL SALEM.

Statement of problem

The present study is intended to analyze the practices in working capital management and examine management performance in this segment of financial management. This study is composed of the following elements,

- a) To study the working capital management of steel authority of India ltd by analyzing the liquidity position of the company.
- b) To examine working capital performance of the company in the area of working capital during 2010 to 2014.

Table 1: Relationship between Quick Assets & Liquidity

Year	Quick Assets	Quick Liabilities	Quick Ratio
1	28367	17428.13	1.62
2	24143	18376.08	1.31
3	13451	18789.53	0.715
4	10809	20104.82	0.537
5	10824	22237.09	0.487

Table 1.1: F-Test Two-Sample for Variances

Mean	3	0.9338
Variance	2.5	0.2543377
Observations	5	5
df	4	4
F	9.829451159	
P(F<=f) one-tail	0.024005714	
F Critical one-tail	6.388232909	

From table 1, the quick ratio found to be below standard level of 1. It indicates the poor management of the quick assets such as cash ,debtors etc., and in table 1.1 the calculated 'F' values is(9.8) higher than the table value(6.38) and there is no significant relationship between two variables . Hence, the hypothesis has been rejected

Table 2: Relationship between Current Assets & Inventory

Year	Current Assets	Inventory
1	37396.8	9030.09
2	35445.8	11303.19
3	27193.49	13742.77
4	26817.3	16008.47
5	26025.11	15201.08

Table2.1: F-Test Two-Sample for Variances

	<i>Variable 1</i>	<i>Variable 2</i>
Mean	30575.7	13057.12
Variance	29129516	8267597.073
Observations	5	5
Df	4	4
F	3.523335	
P(F<=f) one-tail	0.125014	
F Critical one-tail	6.388233	

There is no significant relationship between current assets and inventory.

The current asset and inventory is always co- related factors because if the inventory increases Current assets are also increases. The table 2 shows the relationship between the current asset and inventory value. It was found that current assets falls from first year to last year, since inventory value has risen during the study.

Table 2.1 reveals that the calculated value 'F' is 3.52, it is less than the table value of the 'F' is 6.38.Hence the hypothesis is accepted and it can be concluded that there is a significant relationship between the current asset and inventory.

Table 3: Relationship between the Sales & Net Working Capital

Year	Sales	Net working capital	Ratio
1	44059.72	19867.25	2.22
2	47339.32	15400.86	3.07
3	50734.08	10060.03	5.04
4	49611.14	8179.87	6.07
5	52142.43	2868.21	18.18

Table3.1: F-Test Two-Sample for Variances

	<i>Variable 1</i>	<i>Variable 2</i>
Mean	48777.338	11275.244
Variance	10042931.14	43144895.11
Observations	5	5
df	4	4
F	0.232772177	
P(F<=f) one-tail	0.093495081	
F Critical one-tail	0.156537812	

There is no significant relationship between sales and working capital. The sales and working capital is dependent factors. If one factor is changed it reflects on the other directly. In table 3 the sales networking ratio have increased tendency during the period. The table 3 .1shows that the calculated value of 'F' is 0.23 and the table value of 'F' is 0.15. The calculated value higher than the table value, hence the hypothesis is rejected. It can be concluded that opinion about the sales and working capital of the company is insignificant.

Results and Discussion

The study focused that the administration of current assets and current liabilities will determine the success or failure of the business. In most of circumstance the failure of business is due to shortage of working capital. By adopting two-tail 'F' test, it has been noted that

- From table 1.1 it is noted that there is insignificant relationship among the quick assets and liquidity position of company.
- The table 2.1 shows that there is a moderate relationship between the current asset and inventory. Hence the company has concentrate on stock level.
- From table 3.1 reveals that sales and working capital of the company are not coincide with proportional level and indicates the company has to maintain sufficient level of working capital.

The business concern has maintained efficiency of working capital to meet their short term obligation.

Conclusion

The study intended to prove the working capital requirements of the firm. By adopting 'F' test the significant relationship among variables has been analyzed and interpret to know have go efficiency measure to maintain its short term liquidity position.

Authors' Note

This manuscript is the authors' original work, has not been published and is not under consideration for publication elsewhere.

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