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A STUDY ON WORKING CAPITAL MANAGEMENT

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Financial management is that managerial activity which concerned with planning and controlling of the firm's financial resources. It is of great interest to academicians because the subject is still developing and there are still certain areas where controversies exist for which no unanimous solutions have been reached as yet. The management of working capital is therefore, concerned with the problem that arise in administering of both current assets and current liabilities. In other words, the working capital management involves deciding upon the amount and composition of the basic objective of working capital management, i.e., it is neither inadequate nor redundant. Gross working capital refers to the firm's investment in current assets. Current assets are the assets, which can be converted into cash within an operating cycle time or within an accounting year i.e., within 12 months. This includes cash, short term securities, debtors, bills receivable and inventory. This gross working capital concept is also called "Economic Concept". The gross working capital concept focuses attention on two aspects of current assets management. Net working capital refers to the difference between current assets and current liabilities. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceeds current liabilities. It indicates Permanent working capital is the amount invested in all current assets which is required at all time to carry our minimum level of business activities. It grows with the size of the business. It is permanently needed for the business and therefore is financed out of long-term funds. The need for working capital to run the day to day activities cannot be over emphasized we will hardly find a business firm, which does not require any amount of working capital.

Keywords: Working capital, Gross working capital, Current assets, Current liabilities

INTRODUCTION

Financial management is that managerial activity which concerned with planning and controlling of the firm's financial resources. Though it was a branch of economics till 1890 as a separate activity or discipline, it is of recent origin. It has no unique body of knowledge of its own and draws heavily on economic for its theoretical concepts even today. The subject of financial management is of immense interest to both academicians and practicing managers. It is of great interest to academicians because the subject is still developing and there are still certain areas where controversies exist for which no unanimous solutions have been reached as yet. Practicing managers are interested in this subject because among the most crucial decisions of the firm are those which relate to finance them with conceptual

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and analytical insights to make those decisions successfully.

INDUSTRY PROFILE

The power sector has transited to an era or controlled competitions giving a meaningful role for the private sector and the market to play in the nation's infrastructure building. Reform in the power sector was officially kicked off in September 1991 with the passing of the electricity laws act, allowing the private sector in power generation. This was followed by the center's resolutions in October 1991 that opened up electricity generations, supply and distribution to the private sector. These came soon after the assumption of office by the Sri. P. V. Narasimha Rao Government.

COMPANY PROFILE

The Andhra Pradesh State Elecricity Board is a public utility undertaking. Keeping in view the essential nature of Electricity generation and distribution. The Electricity Board was constituted by the state Government of Andhra Pradesh on 01.04.1959 under section 5 of the Electricity (supply) Act ,1959 the operation of the State Electricity Board are governed by the said Act. The major responsibility of State Electricity Board is to generate, transmit and distribute power to the extent power demand is there consequent to the reforms and restructuring of power sector and the policy decision taken by the Government of Andhra Pradesh, the erstwhile APSEB was unbundled into two corporation as APGENCO and AP TRANSCO on 01.02.1999 to look after the Generation, Transmission and Distribution respectively. The APTRANSCO was further reorganized into 4 Distribution Companies with head quarters at Tirupathi, Visakhapatnam, Hyderabad and warangal with effect from 01.04.2000.

APSPDCL was formed in April 1, 2000 to serve Krishna, Guntur, Prakasam, Nellore, Chittoor and Kadapa districts with a vision to "become an efficient utility supply reliable and quality power, promoting economic developing and being reliant commercially.

As on 31st March 04, SPDCL has rebuts distribution network to cater to customer spread across 81331 sq. km. representing 326 Mandals, 6177 villages and 86 assembly constituencies.

RESEARCH METHODOLOGY

Need for the Study

Working capital management is about management of current assets and current liabilities in a such a way that a satisfactory level of working capital, which maximizes the profits of the firm, is maintained. In adequacy of working capital may lead the firm to insolvency where as excessive working capital implies idle funds which earn no profits.

Therefore efficient management of working capital is an integral part of the over all corporate strategy to improve corporate profitability. But in reality controversy persists on the issue whether the working capital of the firm affects its profitability or not. The issue has been tackled using relevant statistical tools and techniques.

OBJECTIVES OF THE STUDY

- To assess the significant of working capital and identify the items responsible for changes in working capital.
- To study the relationship between current assets and current liabilities of APSPSDCL.

RESEARCH DESIGN

Research design is based on the objectives of the study, descriptive research has been adopted, Descriptive research is one, which is largely used to draw interferences about the possible relationship between variables. It is simplest type of research. It is designed to gather descriptive information and provided information for formulating more sophisticated studies.

SOURCES OF DATA

The data were collected form the annual reports of the Southern Power Distribution – Company Of Andhra Pradesh from the year 2004-2009.

SOURCE OF THE STUDY

- To combined effect of the ratios relating to working capital management of the company.
- Analysis of liquidity position.
- Item wise analysis of components of gross working capital.
- Liquidity ranking.
- Analysis of liquidity ranking.

LIMITATIONS OF THE STUDY

- The information used is taken form historical annual reports available the secondary data is used for calculations.
- The scope is limited to the operations of APSPDCL.
- The balance sheet statement, profit and loss statements are for the last six years time duration is limited to only two months.

WORKING CAPITAL MANAGEMENT

Working capital refers to the excess of current assets over current liabilities. The management of working capital is therefore, concerned with the problem that arise in administering of both current assets and current liabilities. In other words, the working capital management involves deciding upon the amount and composition of current assets and how to finance these assets.

Working capital management is the process of planning and controlling the level and mix of current assets of the firm as well as financing these assets. Specially, working capital management requires financial manager to decide what quantities of cash, other liquid assets. Accounts receivables, and inventories the firm will hold at any pint of time. In addition financial managers must decide how their current assets are to be financed. Financing choices include the mix of current as well as long term liabilities.

By balancing the savings in carrying costs against the cost of shortage and of more frequently procurement, the management of a firm will generally find it profitable to maintain its working capital at level higher than the needed to meet its immediate needs. However the relationship among carrying costs, shortage coasts and procurement costs are such that most firms will find that the economic level of working capital is no more than a few months supply.

The basic objective of working capital management, i.e., it is neither inadequate nor redundant. This is so because both the excess as well as shortage of working capital positions are bad for any concern. Thus the working capital management policies of a firm have a great impact on its profitability, liquidity, and structural management of the organization The financial management of the business firm involves the management of long term assets the management of short term assets and the liabilities. The first of t he tree functions is the capital budgeting. The second is the management of capital structure and the final is working capital management. The management of the working capital is concerned with the management of the assets such as cash, marketable securities, accounts receivable, investors and the prepaid.

DEFINITION OF WORKING CAPITAL

"Study of working capital is of major importance to internal and external analysis because of its close relationship with the current day to day operations of business".

RALPH KENNEDY AND STEWARD MC MULLER

"Working capital is the amount of funds necessary to cover the cost of operating the enterprise"

- SHUBIN

NATURE OF WORKING CAPITAL

The term working capital refers to current assets which may b defined as those which are required to meat day to day operations.

The fixed assets as well as the current assets both require investment of funds. So the management of working capital and of fixed assets apparently seem to involve same types of considerations but it is not so. The management of working capita involvement different concepts and methodology than management.

TYPES OF WORKING CAPITAL

Working capital can be classified into two ways:

1. On the basis of concept
2. On the basis of time

1. On The Basis Of Concept

Working capital is classified as gross working capital and net working capital. On the basis of time, it may be classified as permanent working capital and temporary working capital.

GROSS WORKING CAPITAL

Gross working capital refers to the firm's investment in current assets. Current assets are the assets, which can be converted into cash within an operating cycle time or within an accounting year i.e., within 12 months. This includes cash, short term securities, debtors, bills receivable and inventory. This gross working capital concept is also called "Economic Concept". The gross working capital concept focuses attention on two aspects of current assets management.

a) Optimum investment in current assets; and

b) Financing of current assets.

NET WORKING CAPITAL

Net working capital refers to the difference between current assets and current liabilities. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceeds current liabilities. It indicates permanent sources of funds.

Net working capital concept also covers the question of the liquidity position of the firm and suggests the extent to which working capital needs may be financed by permanent source of funds.

Net working capital concept also covers the question of judicious mix of long term and short term funds for financing current assets. The level of NWC has a bearing on the company's profitability as well as the risk in the sense that it affects the ability or otherwise of the firm to meet its obligations as and when they become due. Therefore, a trade off between profitability and risk is an important, element in evaluation of the level


OPERATING CYCLE
SALES
Long-term financing
Financing
Short term financing
Spontaneous
Finance Institutions
Debentures
Expenses
Short-term credits
Loan from Banks
Commercial Papers
Factoring
Trade creditors
Outstanding
Public Deposits
Shares

of NWC. In general, the higher the NWC, the lower the risk and profitability and vice versa.

Net working capital = Current assets – Current liabilities

PERMANENT WORKING CAPITAL

Permanent working capital is the amount invested in all current assets which is required at all time to carry our minimum level of business activities. It grows with the size of the business. It is permanently needed for the business and therefore is financed out of long-term funds.

VARIABLE WORKING CAPITAL

Variable working capital is the excessive amount over permanent working capital. This keeps on fluctuating from time on the business activities. It is further divided into

a) Seasonal Working Capital

b) Special Working Capital

Seasonal working capital is required to meet the seasonal demands of busy periods occurring at stated intervals. Whereas special working capital is required to meet extraordinary needs for contingencies

APPROACHES FOR FINANCING WORKING CAPITAL

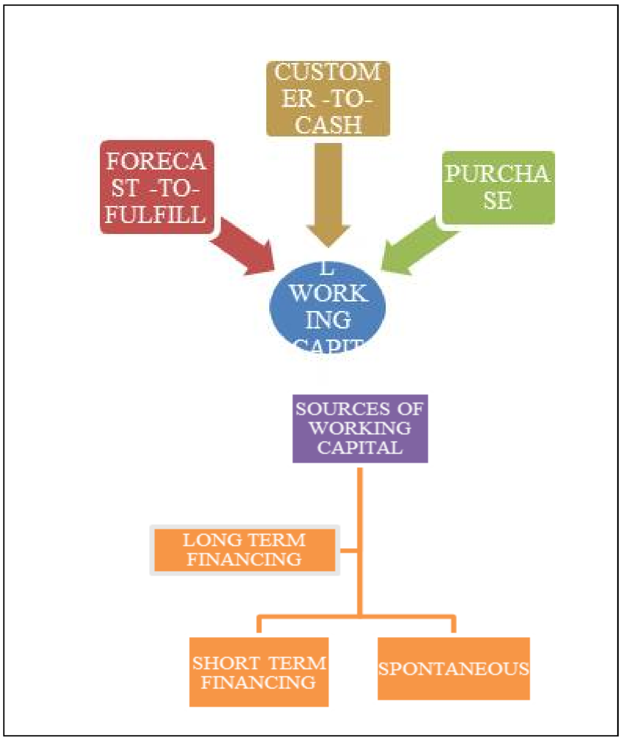
There are two sources of financing working capital requirements

1) Long term sources such as share capital, debentures, public deposits, loans from financial institutions, and

2) Short term sources such as commercial banks, indigenous bankers, trade credits, installment credit, advances, and accounts.

Working capital may be regarded as the life blood of a business. Its effective provisions can do much to ensure the success of business, which its inefficient management can lead not only to loss of projects but also the ultimate downfall of what otherwise, might be considered as promising concern. Thus, its management is considered as one of the most important aspects of firm's Financial Management.

The term working capital stands for the part of the capital which is required for the financial working of the company in simple words, we can say that working capital is the investment needed for carrying out day to day operations of the business smoothly.



Working capital refers to a firm's investment in short term assest, viz., cash short-term securities. Accounts receivable (debtors) and inventories of raw materials, work in progress and finished goods.

It can be regarded as that portion of the firm's total capital, which is, employed in short-term operations. Funds thus invested in current assets keep revolving false and are being constantly concerted into cash and this cash flow out again in exchange for other currect assets. Hence, it is also known as revolving or circulating capital.

According to gene Stenberg, "Circulating capital means current assets of a company that are changed in the ordinary course of business form one form to another, as for example form each to inventories to receivables, receivable into cash".

These are invariable a time lag between the sale of goods and receipts for cash. There is therefore need for working capital in the form of current assets to deal with the problem arising out of lack of immediate realization of cash against good sold. Therefore sufficient working capital is necessary to sustain sales activity.

Concepts of working Capital:

1) Gross working capital
2) Net working capital.

Gross working capital

The gross working capital refers to the firm's investment in the total current assets of the enterprise. The current assets are those assets with in the ordinary course of business can converted into cash with in the short period of normally one accounting year.

Networking Capital

The net working capital can be defined into two ways the most common definition of working capital is difference between current assets and current liabilities.

Net working capital can also be defined as that portion of firm's current assets which are financed with long-term funds.

Kinds of working Capital:

1) Permanent or fixed working capital.
2) Temporary or variable working capital.

Permanent Working capital

Permanent working capital is the minimum amount or minimum level of current assets. Which is continuously required by the enterprise to carry out its normal business operation ? For e.g., every enterprise has to maintain a minimum level of raw materials. Work-in-progress, finished goods and cash balance for paying wages, salaries, rent, etc., during the year.

This minimum level of current assets is called permanent or fixed working capital as this part of capital is permanently blocked in current assets. Regular working capita is the amount of working capital needed for the continuous operations of the businees of the company without any breakage.

Temporary Working Capital

Temporary working capital is the amount of working capital, which is required to meet the seasonal and special needs of the business.

1) Seasonal working capital refers to that financial requirement that crop up during a particular season behind the regular working capital most businesses require at stated intervals large amount of current assets to fill the demands of the seasonal busy periods.

2) Special working capital refers to that part of the working capital, which is required to meet special extengencies such as launching of extensive marketing campaigns of conducting research, etc.

Need for Working Capital

The need for working capital to run the day to day activities cannot be over emphasized we will hardly find a business firm, which does not require any amount of working capital. Indeed every firm differs in these requirements of the working capital.

The main objectives of financial decision making is to maximize shareholders wealth and to endeavor this firm, should earn sufficient returns requires a successful sales activity. For a successful sales activity the firm has to invest sufficient funds in current assets. Current assets are needs because sales don not concert into case instantaneously. There is always an "operating cycle" involved in the conversion of sales into cash.

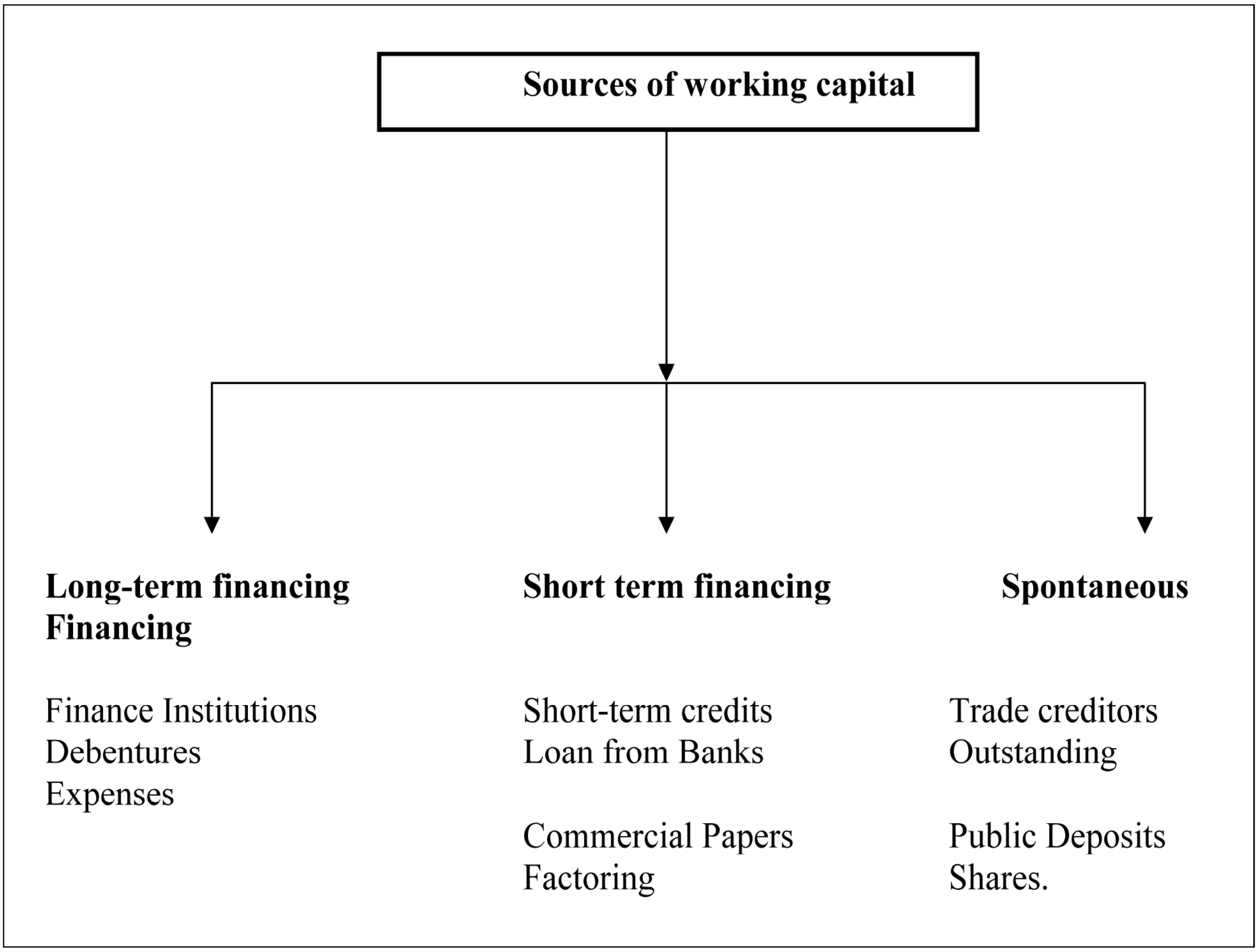
The various sources of financing of working capital are as follows:

Composition of Working Capital

The individual composite items of working capital consist of current asset and current liabilities.

Current Assets

Current assets are those which can be converted into cash within one year without effecting the



operations of the firm.

List of current assets:

1) Cash in hand and bank balance.
2) Bills receivables.
3) Sundry debtors
4) Short term loans and advances.
5) Investments.
a) Government other trustee securities.
b) Fixed deposits with the banks.
6) Inventories of stock.
a) Raw materials
b) Work in progress
c) Stores and spares
d) Finished goods.
7) Prepaid expenses
8) Accrued income.

Current Liabilities

Current liabilities are those, which are intended to be paid in the ordinary course of business within a short period of normally one year out of the current assets or the income of business.

List of Current Liabilities:

1) Bills payable.
2) Sundry creditors or accounts payable.
3) Short term borrowings.
a) Banks
b) Others.
4) Dividends payable
5) Bank Overdraft.
6) Accrued or outstanding expenses.
7) Provision for taxation.

Theme of Working Capital

Working capital management is considered as one of the most important aspects of firm's financial management. The goal of working capital management is to manage the firm's current assets and current liabilities in such a way that the satisfactory level of working capital is maintained.

Each of the current assets should be managed efficiently in order to maintain the liquidity the firm while not keeping too high a level of any one of them.

The success of business concerns among other things depends upon the manner in which its working capital is managed. The interaction between the current assets and current liabilities is therefore the main theme of the theory of working capital.

It is a task of financial manager to maintain an appropriate level of working capital i.e. enough current assets neither to payoff current liabilities, either excess not less because in either cases the result could be the failure of the business, Excessive working capital impairs firm's profitability, as ideal investment earns nothing. On the other hand, inadequate amount of working capital can threaten the solvency of the firm because of its inability to meet its current obligations.

Optimum Working Capital Position

The firm should maintain a sound working capital position. It should have adequate working capital to run its business operations. Both excessive as well as inadequate working capital positions are dangerous from the firm's point of view. Excessive working capital means idle funds, which earn no profit for the firm. Paucity of working capital not only impairs the firm's profitability but also results in production interruption and inefficiencies.

TOOLS OF ANALYSIS

Working Capital Ratios

Ratio analysis is the most widely used method for analysis of financial statement. Financial statement no doubt contain the items (figures) relating to the profit or loss and the financial position of the concern. Ratio analysis is the technique of the calculation of a number of according ratios form the data or figures found in the previous years or with those of other concerns engaged in similar line of activities of with those of standard or ideal ratios and the interpretation of the comparison.

- Ratio analysis is an invaluable of aid to the management in the efficient discharge of its basic functions of forecasting, planning communication, control etc.,
- Raito analysis is an instrument for diagnosing the financial health or condition of the business.
- Ratio analysis is helpful in establishing standard costing system & budgetary control.
- Ratio analysis is useful not only to the insiders, but also to out outsiders like creditors, investors, etc.,

The following ratios have been calculated and tabulated for comparison on a yearly basis. The following set of tables and the accompanying explanations give a fair review of the interpretations derived.

LIQUIDITY RATIOS

Current Ratio

The current ratio is the ratio that expresses the relationship between current assets and current liabilities. Current assets refer to all those assets hats change into cash within a year. Current liabilities refer to all short-term loans or liabilities that are required to be repaid within a period of one year out of the current assets. The current ratio indicates the liquidity or the short-term solvency of a concern. It is also a measure of the working capital available at any time. The standard or ideal current ratio is 2:1. The current ratio is generally expressed as a pure ratio. It can be calculated by using the following formula.

Current Ratio

= Current Assets/Current Liabilities

Quick Ratio

The liquid ratio expresses the relationship between absolute liquid assets and current liabilities. Absolute liquid assets refer to cash and near assets. They include cash in hand, cash at bank and readily mark able securities. Quick liabilities refer to all current liabilities expect bank over cash credit. The standard or ideal liquid ratio is generally expressed as a pure ratio. It can be calculated by using the following.

Quick Ratio = Quick Assets/Current Liabilities

Components of Gross Working Capital Ratios

An element wise analysis of gross working capital enables one to examine the element in which the gross working capital funds are looked up and to find out the factor responsible for the significant changes in working capital of different years.

Inventory to Gross Working Capital = Inventory / Gross working capital

Receivable to Gross working Capital

= Receivable / Gross working Capital

Inventory to Gross Working Capital

= Inventory / Gross working capital

Cash and bank balances to Gross working

capital = Absolute Quick Assets/ GWC

Loan and Advances to Gross working Capital

= Loan and Advances / GWC

COMPONENTS OF CURRENT ASSETS RATIOS

The liquidity position of a firm is largely affected by the composition of working capital in as much any considerable shifts from the relatively more current assets to the relatively less current or vice versa, will materially affect a firms stability to pay its current debts prompt. Therefore to determine the liquidity position of the APSDCL more precisely, a comprehensive test has been made.

Inventory to Current Assets = Inventory / Current assets

Receivable to Current Assets = Receivable / Current assets

Cash and bank balances to Current Assets = Absolute Quick Assets/ Current assets

Loan and Advance to Current Assets = Loan and Advances/ Current assets.

Sundry Debtors to Current Assets = Sundry Debtors / Current assets.

WORKING CAPITAL TURNOVER RATIO

The working capital turnover ratio is the ratio that expresses the relationship between working capital and net sales. Working capital is the excess of current assets and current liabilities. This ratio indicates the efficient of inefficient utilization of working capital of an enterprise. There is no ideal or standard working capital ratio is generally expressed as a proportion and can be calculated using the following formula:

Working Capital Turnover Ratio

= Cost of Goods sold/Net Working Capital

INVENTORY TURNOVER RATIO

This ratio tells the time in which the purchased or produced goods are sold on an average. If the turnover is more (i.e., the time is less) it is said to be very satisfactory otherwise some sales promotion precautionary steps should be taken-up by the management. This turnover can be expressed in terms of months or days if needed in weeks also, and then it is called as inventory conversion period. Acceptabe ratio may be 6 times. The formula is mentioned below.

Inventory Turnover Ratio

= Cost of goods sold/Average Inventory

TREND ANALYSIS

The method of least squares may be used either to fit a straight line trend is represented by the equation.

$yc = a+bx$

In order to determine the values of the constants a and b the following to normal equations are to be solved.

$y = na + bx$

$xy = ax + bx^2$

CORRELATION

Coefficient of correlation is independent of change of scale and origin of the variable x and y. By change of origin mean subtracting some constant from every given value of x and y by change of scale. We can divide or multiply every value of x and y by some constant.

$$r = \frac{\sum (x-\bar{x})(y-\bar{y})}{\sqrt{\sum (x-\bar{x})^2}\sqrt{\sum (y-\bar{y})^2}}$$

DATA ANALYSIS AND INTERPRETATION

Findings

A. The liquidity position of the APSPDCL is observed that the current assets has been increased from 2004 (94945.25) to 2009 (313484.99 lakhs). The liquid assets are also simultaneously increases during the study period. Working capital showed it was simultaneously increased from 2005 (23541.47) to2009(9154078.96 lakhs), because increasing the current assets that compare higher than the current liabilities.

B. The share of each element has been calculated separately for each of the year out of four element of working capital. The inventory to gross working capital. The inventory to gross working capital has been increased from 2005 (0.072) to 2006 (0.075) and simultaneously decreasing to 2009 (0.032). It was highest (0.075%) in the year 2006 and lowest (0.032%) in the year 2009. The receivable to gross working capital was highest in 2009 (0.482) and lowest in 2008 (0.287). The cash and bank balances and loans and advances are in the simultaneously changes. The table shows that the company maintains less cash and bank balances through the study period and this adversely affect the profitability position of the company.

C. The liquidity position of APSPDCL, a process ranking has been used to arrive at a more comprehensive measure of liquidity, in which 5 factors namely-inventory, receivables, cash and bank balances, loans and advances and sundry debtors to current assets. The above shows that the year 2004 registers the more sound liquidity position and then 2005, 2007, 2009, 2006, 2008 years respectively in the order. It is useful for the investigation into the financial efforts of the concern.

D. The ideal standard of current ratio is 2:1 the current ratio decreased from the year 2004 (1.32) to 2006 (1.2) and it has been increased from the year 2007 (1.27) to 2009 (1.96). The company is having sufficient liquidity position in the 2009. But in remaining years it was moderate. The current ratio was very low (1.2) in the year 2006.

E. The acid test ratio was satisfactory. In the year 2009 the ratio was 1.9% which is the highest ratio during the study period and lowest was 1.11% in the year 2006. it has seen that after 2007, the ratio was continuously increased.

F. Current assets to sales ratio. It helps to assess the importance of current assets of a concern. The ratio varies from 0.117 to 0.262 during the study period. It was highest in the year 2009, i.e., 0.262 because of increasing current assets that compare higher than the sales value, and it was lowest in the year 2004, i.e., 0.117.

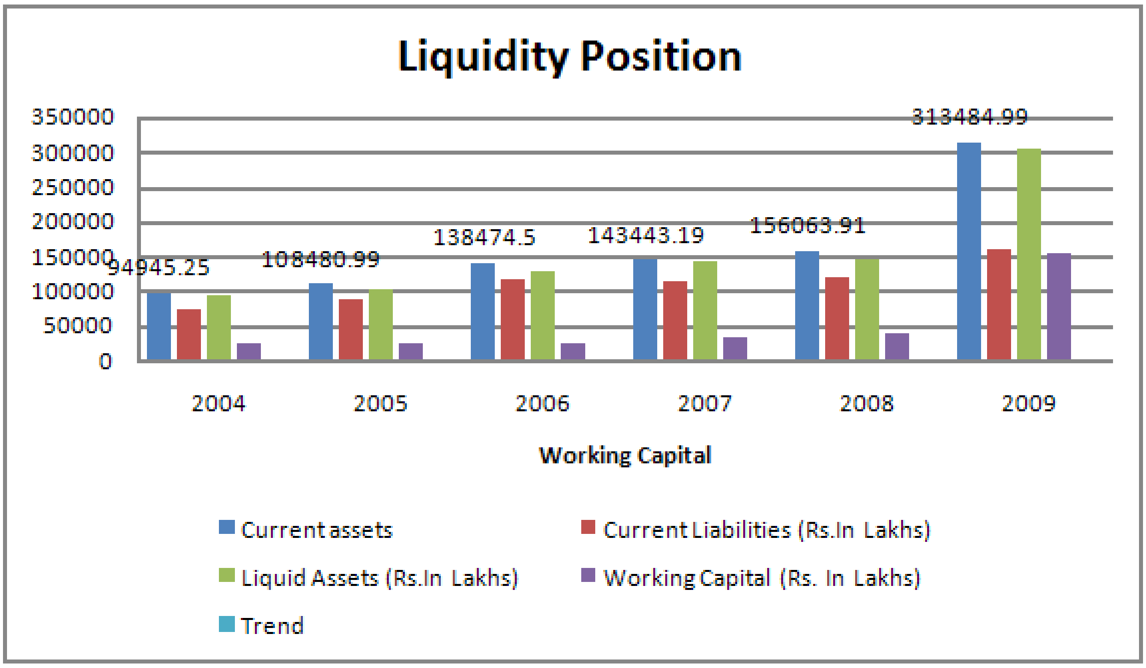
G. The working capital turnover ratio of APSPDCL shows a very good position. It indicates efficient utilization of working capital. It was highest in the year 2005 (41.6), because of increasing the cost of goods sold to compare the net working capital and lowest in the year

Table 1: Liquidity Position of Apspdcl

Working Capital = Current Assests - Current Liabilities
Liquid Assets = Current Assets - (Stock + Prepaid Expenses)

Years	Current Assets (Rs. in Lakhs)	Current Liabilities (Rs.In Lakhs)	Liquid Assets (Rs.In Lakhs)	Working Capital (Rs.In Lakhs)	Trend
2004	94945.25	71403.78	91439.01	23541.47	–
2005	108480.99	86715	100628.89	21765.44	Decrease
2006	138474.5	115329.35	128069.8	23145.15	Increase
2007	143443.19	112360.9	142396.39	31082.29	Increase
2008	156063.91	118943.66	145204.01	37120.25	Increase
2009	313484.99	159406.03	303239.77	154078.96	Increase

Graph 1: Liquidity Position of Apspdcl



Interpretation

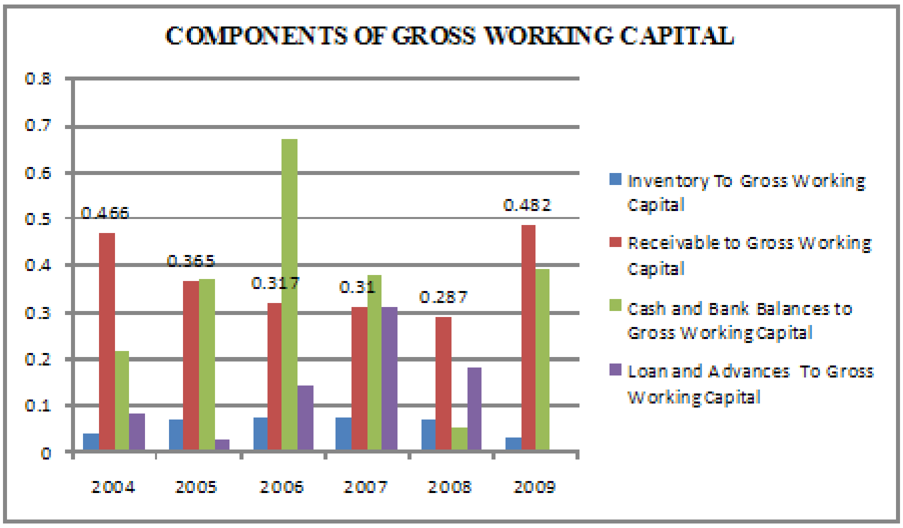
The Liquidity position of the APSPDCL is represented in table No: 1. It is observed from the table the current assets has been increasedfrom 2004(94945.25) to 2009 (313484.99 lakhs).The Liquid assets are also simultaneously increases during the study period. Working capital showed it was simultaneously increased from 2005(23541.47) to 2009 (154078.96 lakhs).because increasing the current assets that compare higher than the current liabilities.

Table 2: Components of Gross Working Capital

Inventory to Gross Working Capital = Inventory/ Gross Working Capital
Receivable to Gross Working Capital = Receivable / Gross Working Capital
Cash and bank balamces to Gross Working Capital = Absolute Quick Assets/GWC
Loans and Advance to Gross Working Capital = Loan and Advances/GWC

Years	Inventory To Gross Working Capital	Receivable To Gross Working Capital	Cash And Bank Balances To Gross Working Capital	Loans And Advances To Gross Working Capital
2004	0.036	0.466	0.217	0.08
2005	0.072	0.365	0.368	0.026
2006	0.075	0.317	0.67	0.141
2007	0.073	0.310	0.378	0.308
2008	0.069	0.287	0.05	0.179
2009	0.032	0.482	0.39	0.125

Graph 2: Liquidity Position of Apspdcl



Interpretation

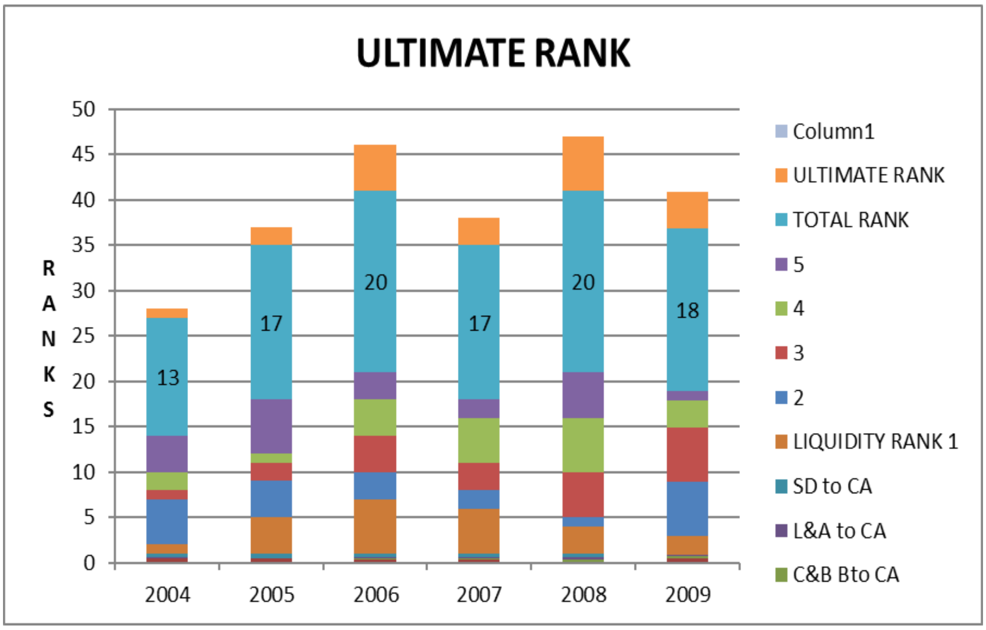
In the above table the share of each element has been calculated separately for each of the year out of the four elements of working capital.The inventory to gross working capital has been increased from 2005(0.075) and simultaneously decreasing to 2009(0.032).It was highest (0.075%) in the year 2006 and lowest (0.032%) in the year 2009. The receivables to gross working capital was highest in 2009(0.482) and lowest in 2008(0.287). The cash and bank balances and loans & advances are in the simultaneously changes. The table shows that the company maintains less cash and bank balances through the study period and this adversely affect the profitability position of the company

Table 3: Statement of Liquidity Ranking of APSPDCL

Inventory to Current Assets = Inventory/ Current assets
Receivable to Current Asset = Receivable / Current Assets
Cash and bank balances to Current Assets = Absolute Quick Assets/ Current Assets
Loans and Advance to Current Assets = Loan and Advances/ Current Assets
Sundry Debtors to Current Assets = Sundry Debtors /Current Assets

Years	1 to CA	R to CA	C&B BtoCA	L&A to CA	SD to CA	Liquidity Rank					Total Rank	Ultimate Rank
						1	2	3	4	5		
2004	0.0369	0.4664	0.053	0.083	0.359	1	5	1	2	4	13	1
2005	0.072	0.36	0.073	0.025	0.47	4	4	2	1	6	17	2
2006	0.075	0.325	0.11	0.14	0.35	6	3	4	4	3	20	5
2007	0.073	0.31	0.08	0/208	0.326	5	2	3	5	2	17	3
2008	0.06	0.09	0.19	0.24	0.42	3	1	5	6	5	20	6
2009	0.037	0.48	0.2	0.125	0.06	2	6	6	3	1	18	4

Graph 3: Statement of Liquidity Ranking of Apspdcl



Interpretation

The Liquidity position of APSPDCL ,a process ranking has been used to arrive at a more comrehensive measure of liquidity,in which 5 factors namely - inventory,receivebles,cash & bank balances,loans &advances and sundary debtors to current assests. The above shows that the year registers the more sound liquidity positions and then 2005, 2007, 2009, 2006, 2008 year respectively in the rank order.It is useful for the investigation into financial efforts of the concern.

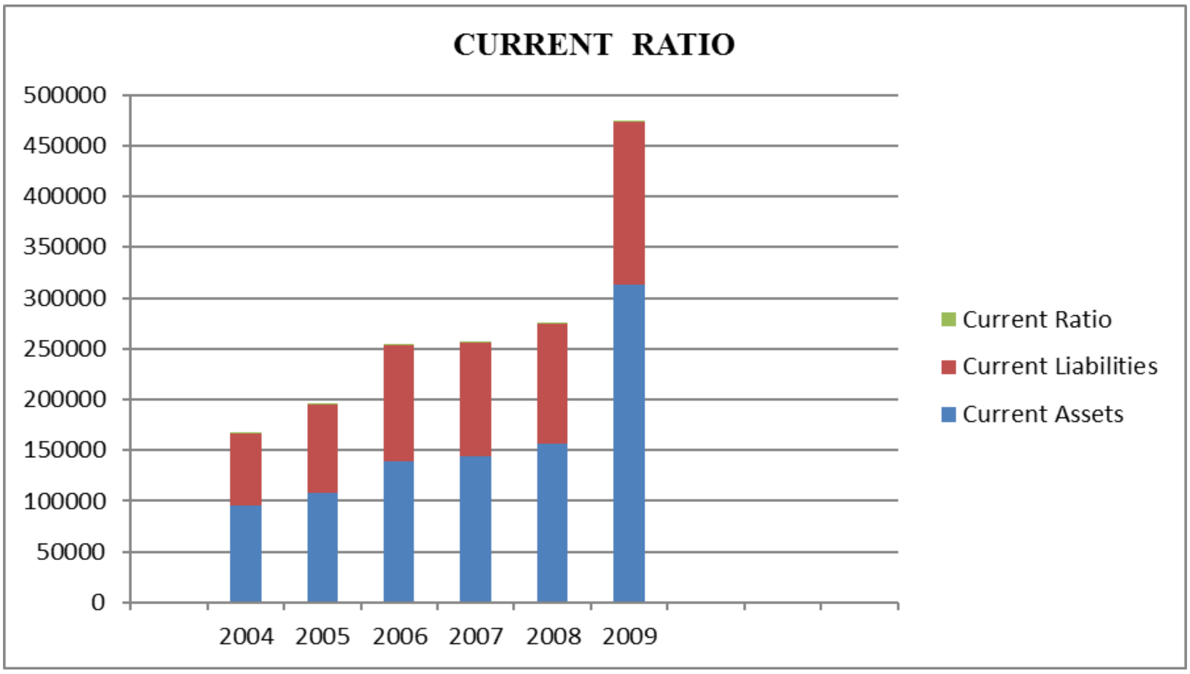
Table 4: Current Ratio

This is the ratio in between current assets and current liabilities. This ratio indicates the firm's commitment to meet its short - term liabilities.An ideal current ratio is 2:1.The current ratio is expressed as follows.

Current Ratio = Current Assets/Current Liabilities

Years	Current Assets (Rs.In Lakhs)	Current Liabilities (Rs.In Lakhs)	Current Ratio (2:1)
2004	94945.25	71403.78	1.32
2005	108480.99	86715	1.25
2006	138474.5	115329.35	1.2
2007	143443.19	112360.9	1.27
2008	156063.91	118943.66	1.31
2009	313484.99	159406.03	1.96

Graph 4: Current Ratio



Interpretation

The Ideal standard of current ratio is 2:1 from the above table it has been observed that the current ratio decreased from the year 2004(1.32)to 2006 (1.2) and it has been increased from the year 2007(1.27)to 2009(1.96).The company is having sufficient liquidity position in the 2009. But in remaining years it was moderate.The current ratio was very low(1.2) in the year 2006.

Table 5 : Acid Test Ratio

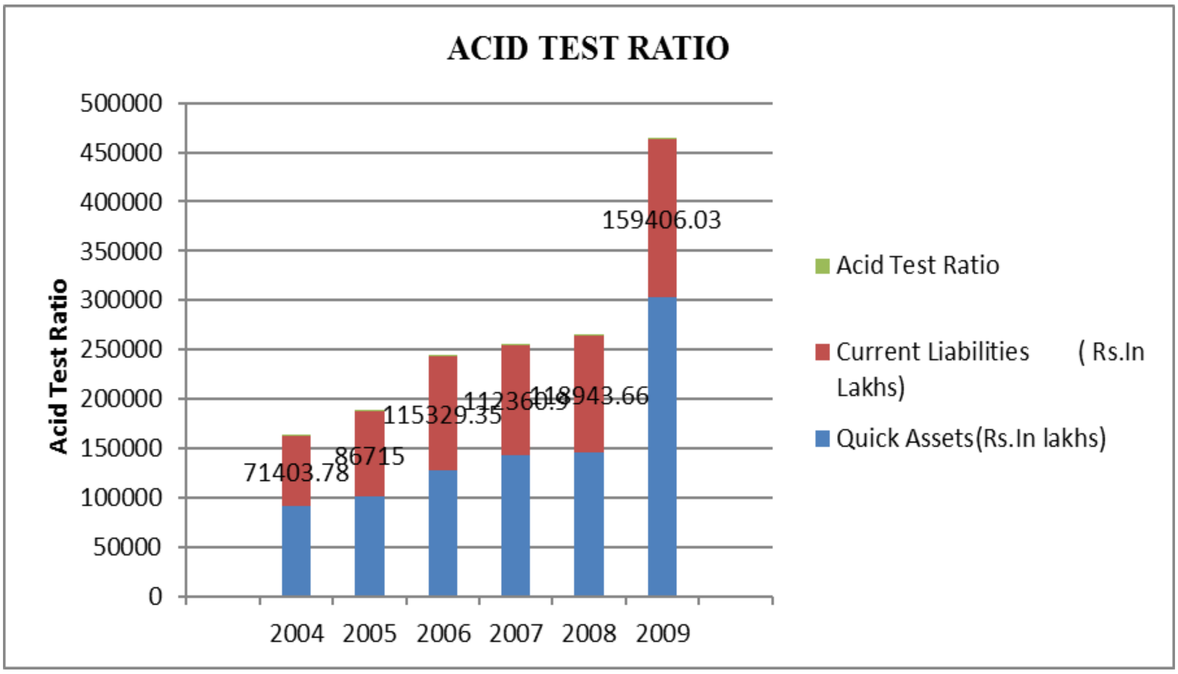
A more conservative measure of liquidity is the quick ratio. another name for this ratio is acid test ratio. This ratio is ascertained by comparing the liquid assets to current liabilities.This ratio may be expressed as:

Quick Ratio= Quick Assets/Current Liabilities

Liquid Assets= Current assests- Closing stock and prepaid expense

Years	Quick Assets (Rs.In lakhs)	Current Liabilities (Rs.In Lakhs)	Acid Test Ratio(1:1)
2004	91439.01	71403.78	1.28
2005	100628.89	86715	1.16
2006	128069.8	115329.35	1.11
2007	142396.39	112360.9	1.26
2008	145204.01	118943.66	1.22
2009	303239.77	159406.03	1.9

Graph 5: Acid Test Ratio



Interpretation

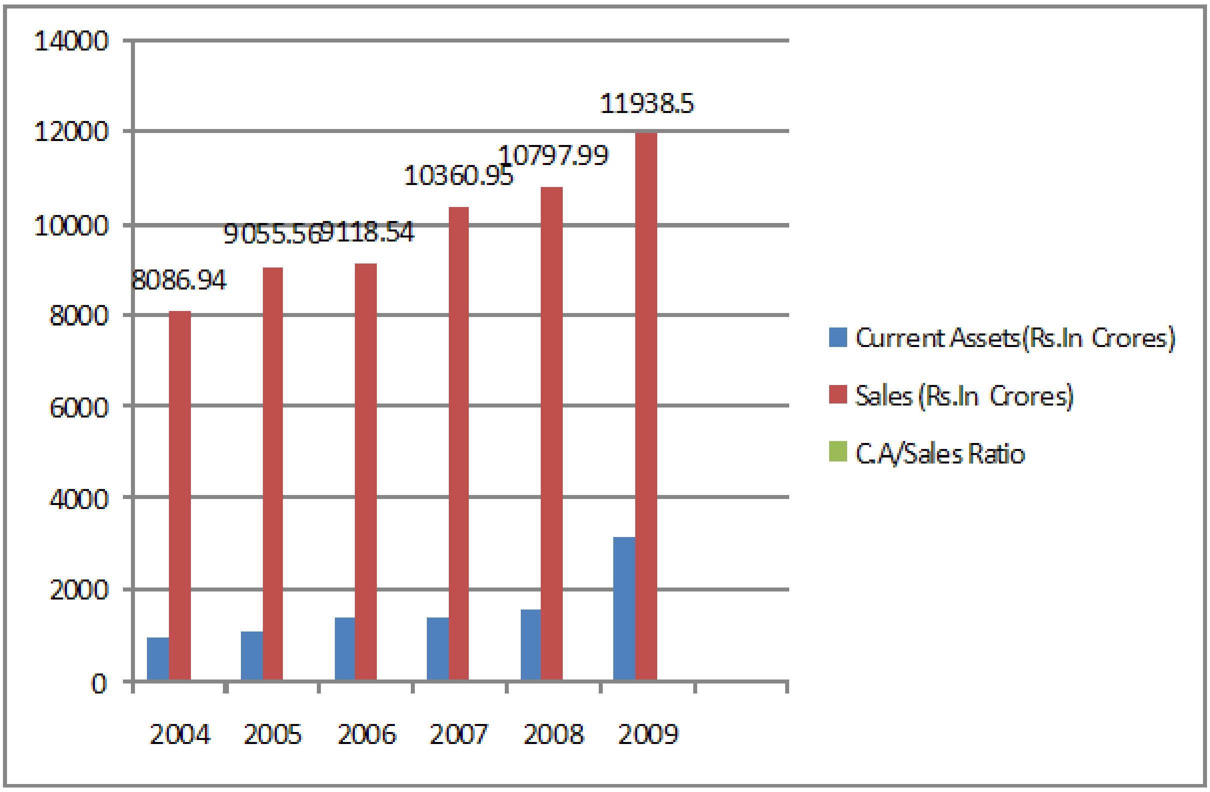
As per the table 5,The acid test ratio was satisfactory.In the year 2009 the ratio was 1.9% which is the highest ratio during the study period and lowest was 1.11% in the year 2006.It has seen that after 2007,the ratio was continuosly increased.Because of increasing the quick assests that compare higher than the currentliabilities.

Table 6: Current Assets to Sales Ratio

CURRENT ASSETS TO SALES RATIO = Current Assets/Sales

Years	Current Assets(Rs.In Crores)	Sales (Rs.In Crores)	C.A/Sales Ratio
2004	949.45	8086.94	0.117
2005	1084.80	9055.56	0.119
2006	1384.74	9118.54	0.152
2007	1434.43	10360.95	0.138
2008	1560.63	10797.99	0.144
2009	3134.84	11938.5	0.262

Graph 6: Current Assets to Sales Ratio



Interpretation

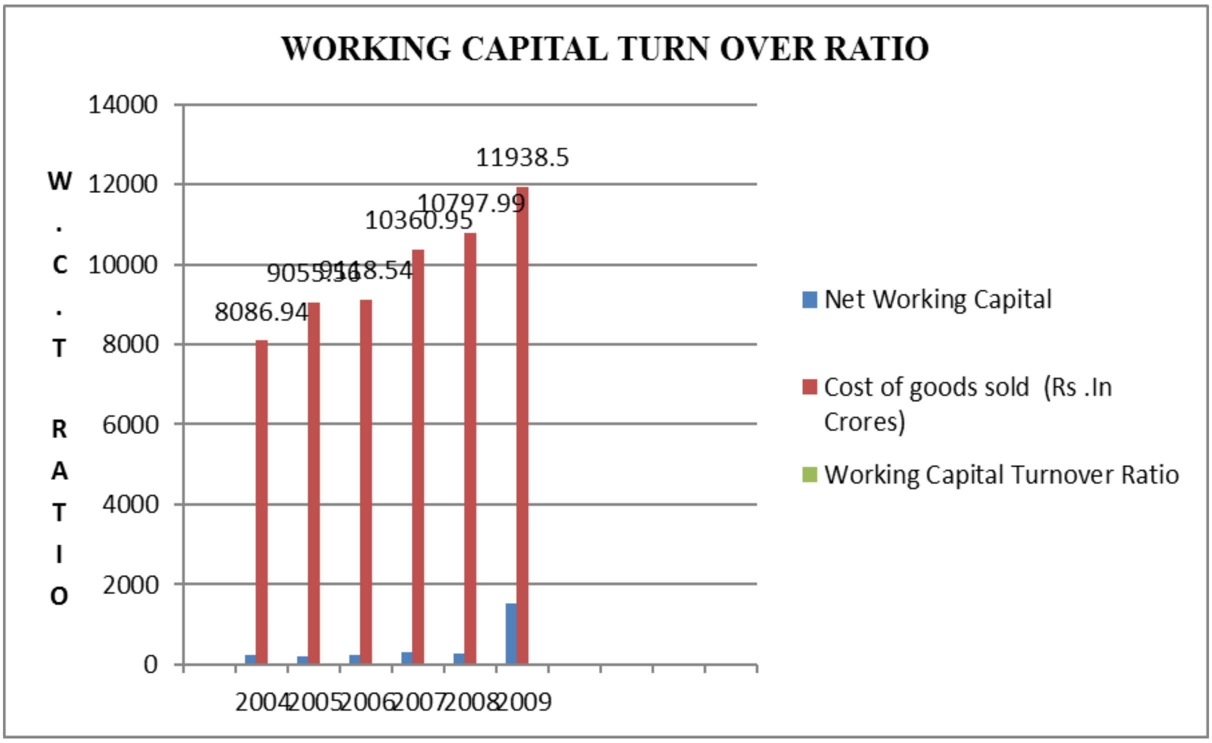
The above table indicates current assets to sales ratio.It helps to assests the importance of current assets of a concern.The ratio various from 0.117 to 0.262 during the study period.It was highest in the year 2009.i.e.,0.262 because of increasingcurrent assets that compare rather than the sales value,and it was lowest in the year 2004 i,e.,0.117.

Table 7 :Working Capital Turnover Ratio

Working capital turn over ratio establishes a relationship between net sales and working capital.This ratio measures the efficiency of utilization of working capital.

Years	Net Working Capital (Rs.In Crores)	Cost of goods sold (Rs .In Crores)	Working Capital Turnover Ratio
2004	235.41	8086.94	34.35
2005	217.65	9055.56	41.6
2006	231.45	9118.54	39.39
2007	310.82	10360.95	33.33
2008	271.2	10797.99	29.08
2009	1540.78	11938.5	7.74

Graph 7: Working Capital Turnover Ratio



Interpretation

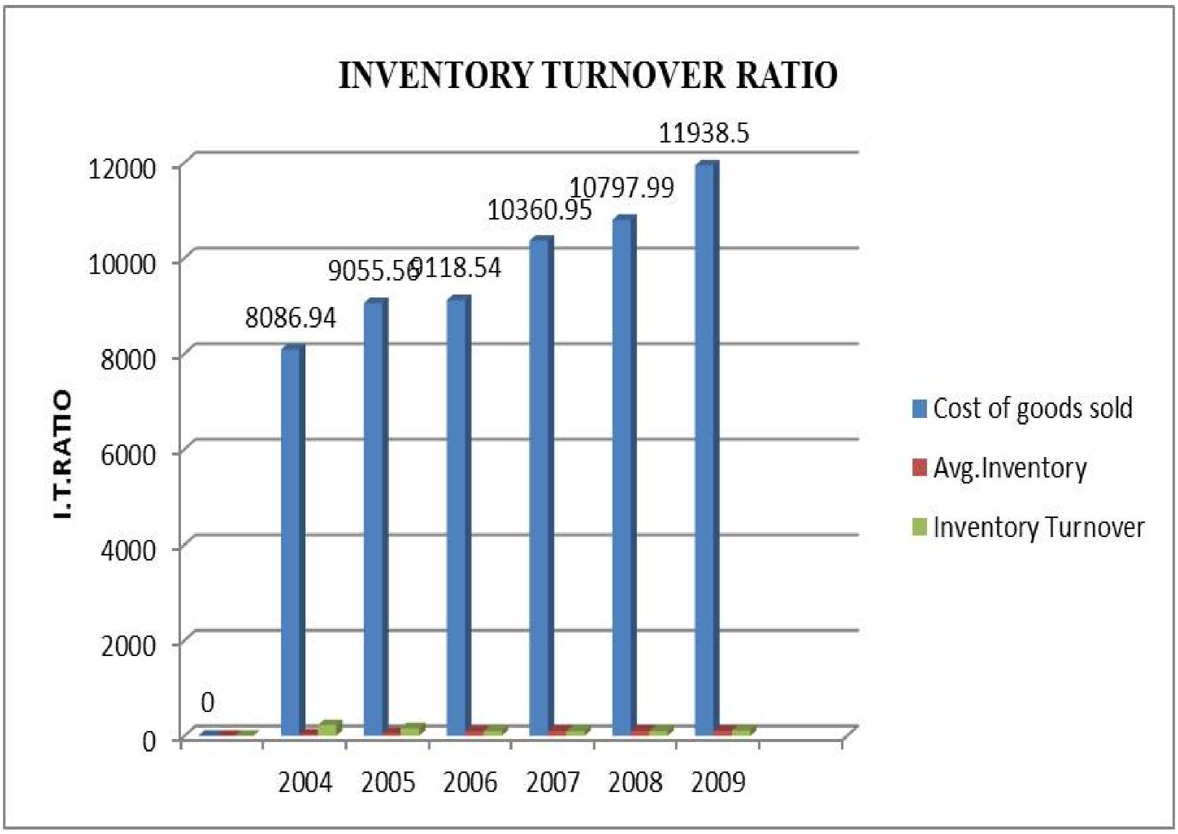
The working capital turnover ratio of APSPDCL. Shows a very good position it indicates efficient utilization of working capital.It was higher in the year 2005(41.6) because of increasing the cost of goods sold to compared the net working capital and lowest in the year 2009(7.74) because of increasing the net working capital that compare higher than the cost of goods sold.

Table 8: Inventory Turnover Ratio

It is also called stock turnover ratio.It indicates the number of times the average stock is being sold during a given accounting period.

Years	Cost of goods sold(Rs.In crores)	Avg.Inventory(Rs.In crores)	Inventory TurnoverRatio(No.of Times)
2004	8086.94	36.12	223.87
2005	9055.56	57.01	158.84
2006	9118.54	91.79	99.34
2007	10360.95	104.64	99
2008	10797.99	106.63	101.26
2009	11938.5	105.52	113.13

Graph 8: Inventory Turnover Ratio



Interpretation

As per table - 8 the inventory turnover ratio ranges from 99 times to 223.87times. It was highest in the year 2004 and lowest in the year 2007.A high inventory turnover ratio may be the result of a very low level of inventory in storage of goods in relation to demand,it indicates efficient management of inventory.

Table 9: Trend Analysis on Working Capital

The method of least squares may be used either to fit a straight line trend is represented by the equation. $yc = a + bx$

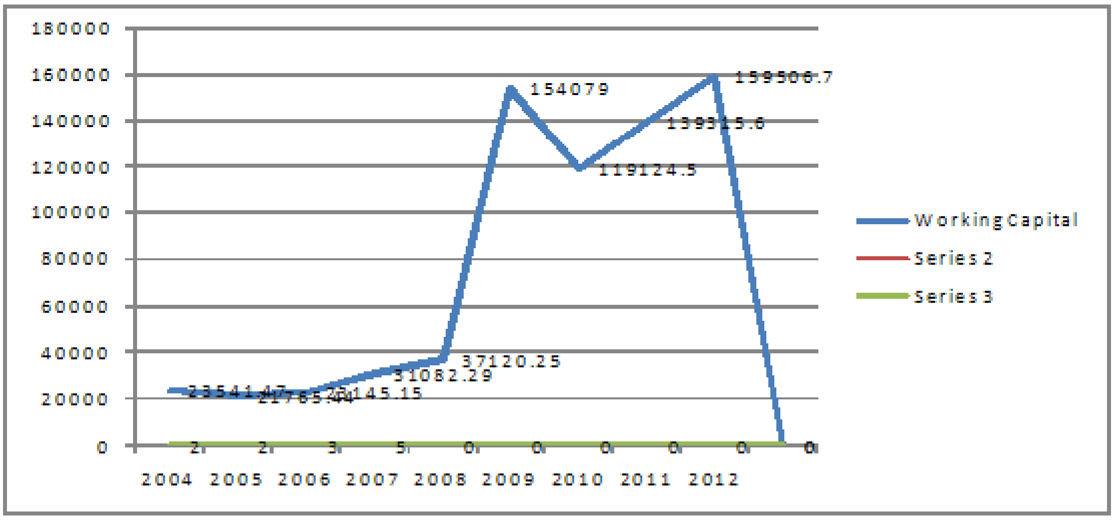
In order to determine the value of the constants a and b the following to normal equations are to be solved. $yc = na + b€$

$€xy = a€x + b€x^2$

(Amount Rs.In Lakhs)

Years	Working Capital
2004	23541.47
2005	21765.44
2006	23145.15
2007	31082.29
2008	37120.25
2009	154079
2010	119124.5
2011	139315.6
2012	159506.7

Graph 9: Trend Analysis on Working Capital



Note: * Indicates trend values

Interpretation

The estimated Working capital value for 2010:119124.5 lakhs

The estimated Working capital value for 2011:139315.6 lakhs

The estimated Working capital value for 2012: 159506.7 lakhs

Table 10: Correlation Between Current Assets and Current Liabilities

Coefficient of correlation is independent of change of scale and origin of the variable X and Y. By charge origin mean subtracting some constant from every given value of X and Y by change of scale.We can divide or multiply every value of X and Y by some constant

(Amount Rs. In lakhs)

Years	Current Assests	Current liabilities
2004	94945.25	71403.78
2005	108480.99	86715
2006	138474.5	115329.35
2007	143443.19	112360.9
2008	156063.91	118943.66
2009	313484.99	159406.03
	r =0.928	

Interpretation

From the above table it has been observed that the coefficient ofcorrelation between the current assets and current liabilities is 92.8% positive relation.

2009(7.74), because of increasing the net working capital that compare higher than the cost of goods sold.

H. The inventory turnover ratio ranges from 99 times to 223.87 times. It was highest in the year 2004 and lowest in the year 2007. A high inventory turnover ratio may be the result of a very low level of inventory in storage of goods in relation to demand, it indicates efficient management of inventory.

I. The estimated working capital value for 2010 is 119124.5 lakhs and the estimated value for 2011, 2012 is 139315.6, 159506.07 lakhs. The estimated working capital value from 2010 to 2012 increasing because of increasing the current assets that compare higher than the current liabilities.

J. The Coefficient of correlation between the current assets and current liabilities is 92.8% positive relation.

SUGGESTIONS

- APSPDCL should improve their currents assets position so that they can easily meet our their short term obligations. In this regard, APSPDCL should increase cash and bank balances.
- It is suggested to company to maintain current assets by increasing the investments in marketable securities. It will helps for better working capital management. It is suggested to company to maintain optimum capital structure.
- It will help the company to provide better returns to share holders.
- APSPDCL should maintain the adequate amount of inventory for regular power distribution.

CONCLUSION

Working capital position of APSPDCL is analyzed by ratio analysis technique and it was found of that the position of current ratio is not satisfactory because this ratio is not up to the standard bench mark. Which result in interruption of short term solvency due to adverse of the ratio.

It was also the second objective of the study was to identify that there is a positive relationship between current assets and current liabilities. It has +0.928 correlation among them, which indicates that current assets and current liabilities have been going in same direction.

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