

# Working Capital Management in Small Enterprise-A Case Study of Sri Rama Chandra Paper Boards Ltd.

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**Abstract:** Working capital Management is an important decision of Financial Management. It deals with management of current assets and current liabilities. Efficient working capital management is essential for successful running of any Enterprise. In this paper an attempt is made to examine and analyse working capital Management of a small Enterprise in Andhra Pradesh namely Sri Rama Chandra Paper Boards Ltd. which was started in 1996. It is involved in Manufacture of paper and paper products. It is a Manufacturer of writing paper, printing paper, news printing paper distributor and supplier of colour printing paper, offset printing paper. In this paper structure and composition of working capital in the enterprise for a period of ten years is analysed. Current ratio, quick ratio, super quick ratio, gross working capital turnover ratio, net working capital turnover ratio, cash turnover ratio, inventory turnover ratio, debtors turnover ratio and average collection period are calculated for the study period. Hypotheses are tested using chi square test.

**Keywords:** Small Enterprise, working capital, current ratio, working capital turnover, Average collection period

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## I. INTRODUCTION

Efficient working capital management is essential for successful running of any Enterprise. In this paper an attempt is made to examine and analyse working capital Management of a small Enterprise in Andhra Pradesh. Sri Rama Chandra Paper Boards Ltd. is started on 09 January 1996. It is classified as Non-Govt Company and is registered at Registrar of Companies, Hyderabad. It is located at Yeditha and is one of the leading companies in the paper making sector in the Godavari belt of Andhra Pradesh. It is involved in Manufacture of paper and paper products. It is a Manufacturer of writing paper, printing paper, news printing paper distributor and supplier of colour printing paper, offset printing paper. This Small Enterprise has an annual turnover of Rs. 5943.99 lakhs as per 2015-16 annual accounts.

## II. REVIEW OF LITERATURE

Mishra (1975) examined the efficiency of working capital management in six sample public sector units. The study identified that management of various components of working capital in sample units was highly unsatisfactory. Suk, Seung and Rowland (1992) conducted an in-depth survey to analyze the liquidity practices of ninety four sample Japanese companies operating in the United States. Sivarama (1999) studied working capital management in the Indian paper industry, found a close association between profitability and working capital efficiency. Reddy (2000) studied the working capital management in thirty small scale industries in the Cuddapah district of Andhra Pradesh and found that debtor management policy and the collection mechanism to be very unsystematic and highly inefficient that resulted into excess investment in debtors. Ghosh and Maji (2003) had done an empirical study on the relationship between utilization of current assets and operating profitability in the Indian cement and tea industries. Bardia (2004) made a study on the issue pertaining to the relationship between working capital management and profitability of a Navratna steel manufacturing public sector enterprise. Prof. B.P.Singh (2012) examined the relationship between the components of working capital and profitability. He observed that the telecom industry is operating below average so far as working capital is concerned. Pasupathi (2013) had done a comparative study of WCM performance in commercial vehicles, passenger cars and multi utility vehicles and two and three wheelers sectors of Indian automobile industry. Utkarsh Goel et al. (2015) made a study to explore the impact of corporate governance practices on Working capital Management (WCM) in Indian firms. S. Selvanayaki et al. (2015) focused on evaluating the WCM practices adopted by the rice milling firms and analyzed its impact on profitability. Venkateswararao.P, Surya Chandra Rao.D and Hema Venkata Siva Sree.Ch (2017) examined working capital management in PL Plast Pvt Ltd.It was found that there was no study on working capital management in a solvent oil company. Hence, this study is taken up.

### Objectives

The general objective of the study is to examine the working capital management in Sri Rama Chandra Paper Boards Ltd. The specific objectives include the following.

1. To examine the structure and composition of working capital in Sri Rama Chandra Paper Boards Ltd. during the period of study.
2. To analyze the liquidity position of Small Enterprise during the period of study.
3. To find the gross working and networking turnover in the company.
4. To examine the efficiency in cash, debtors and inventory management in the Small Enterprise under study.
5. To offer suggestions for effective working capital management if required.

### Hypotheses

- H<sub>01</sub>:** Current ratio in Sri Rama Chandra Paper Boards Ltd. is uniform during the period of study.  
**H<sub>02</sub>:** Quick ratio in Sri Rama Chandra Paper Boards Ltd. is uniform during the period of study.  
**H<sub>03</sub>:** Super quick ratio in Sri Rama Chandra Paper Boards Ltd. is uniform during the period of study.  
**H<sub>04</sub>:** Gross working capital turnover ratio in Sri Rama Chandra Paper Boards Ltd. is uniform during the period of study.  
**H<sub>05</sub>:** Net working capital turnover ratio in Sri Rama Chandra Paper Boards Ltd. is uniform during the period of study.  
**H<sub>06</sub>:** Cash turnover ratio in Sri Rama Chandra Paper Boards Ltd. is uniform during the period of study.  
**H<sub>07</sub>:** Inventory turnover ratio in Sri Rama Chandra Paper Boards Ltd. is uniform during the period of study.  
**H<sub>08</sub>:** Debtors turnover ratio in Sri Rama Chandra Paper Boards Ltd. is uniform during the period of study.  
**H<sub>09</sub>:** Average collection period in Sri Rama Chandra Paper Boards Ltd. is uniform during the period of study.

### III. METHODOLOGY

The present study is mainly based on secondary data. The data is taken from the financial statements including balance sheet, trading account and profit and loss account of Sri Rama Chandra Paper Boards Ltd. The period of study is ten years covering the financial years from 2006-07 to 2015-16. The data gathered is analyzed through the technique of percentages and certain appropriate ratios relating to working capital management. The ratios covered includes current ratio, quick ratio, super quick ratio, gross working capital turnover ratio, net working capital turnover ratio, cash turnover ratio, inventory turnover ratio, debtors turnover ratio and average collection period. Chi square test is used for testing the hypotheses formed.

#### Structure and composition of working capital

Working capital structure of Sri Rama Chandra Paper Boards Ltd. is presented in table1. It is observed that percentage of Inventory to total current assets is being reduced gradually from 51.68 during 2007 to 16.91 during 2016. Debtors as a percentage of total current assets varied in between 20.16 during 2015 and 33.08 during 2013. It is also observed that cash and bank balance as a percentage of current assets varied between 4.42 during 2007 and 24.22 during 2014. Loans and advances as a percentage of current assets varied between 15.04 during 2008 and 51.86 during 2016. Other current assets as a percentage of total current assets were nil during the first four years of study, later it varies between 0.31 during 2011 and 5.14 during 2016. Sundry creditors as a percentage of current liabilities varied between 5.08 during 2016 to 38.46 during 2008. Short term provisions as a percentage of total current liabilities occupied major share ie 90.71 during the year 2015. They varied between 45.03 during 2009 and 90.71 during 2015. Short-term borrowings by the firm were made during the years 2011, 2012, 2013 and 2016. Short term borrowings as a percentage of total current liabilities varied between 0.03 during 2013 and 10.45 during 2016. Other current liabilities were maintained during the period of study except 2015. It varies between 1.21 during 2014 and 25.68 during 2009. It is observed that Net Working Capital in the company varied between Rs.488.1 Lakhs during 2007 to Rs.1239.63 Lakhs during 2016. It was maintained at high levels during 2011 and 2016.

**Table1: Working Capital structure of Sri Rama Chandra Paper Boards Ltd. during 2006-2007 to 2015-2016 (Figures in Lakhs)**

Particulars	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Current Assets										
Cash & Bank balances	34.3	145.89	106.47	174.92	146.34	151.84	70.28	344.2	144.2	89.66
% of TCA	4.42	14.57	8.87	12.87	9.79	11.98	5.16	24.22	9.48	5.10
Debtors	183.7	247.57	338.18	283.46	422.63	353.62	450.75	351.1	306.43	369.09

% of TCA	23.67	24.72	28.16	20.86	28.29	27.90	33.08	24.70	20.16	20.99
Loans & Advances	156.9	150.65	206.1	569.94	548.59	298.43	420.88	330.94	769.76	912.02
% of TCA	20.22	15.04	17.16	41.94	36.72	23.54	30.89	23.28	50.63	51.86
Other Current Assets	0	0	0	0	4.69	5.87	6.79	6.85	6.57	90.43
% of TCA	0.00	0.00	0.00	0.00	0.31	0.46	0.50	0.48	0.43	5.14
Inventory	401.04	457.48	550.16	330.5	371.79	457.85	413.94	388.3	293.38	297.4
% of TCA	51.68	45.68	45.81	24.32	24.88	36.12	30.38	27.32	19.30	16.91
Total Current Assets (TCA)	775.94	1001.59	1200.91	1358.82	1494.04	1267.61	1362.64	1421.39	1520.34	1758.61
Current Liabilities										
Sundry Creditors	62.18	73.27	87.27	53.02	58.48	54.37	99.97	38.2	35.29	26.38
% of TCL	21.60	38.46	29.29	23.42	18.93	23.46	37.91	13.75	9.29	5.08
Other current liabilities	23.11	25.51	76.53	57.4	45.74	23.91	10.09	3.35	0	14.4
% of TCL	8.03	13.39	25.68	25.36	14.81	10.32	3.83	1.21	0.00	2.77
Short term borrowings	0	0	0	0	4.49	25.03	0.09	0	0	54.24
% of TCL	0.00	0.00	0.00	0.00	1.45	10.80	0.03	0.00	0.00	10.45
Short term provisions	202.55	91.75	134.17	115.94	200.16	128.43	153.52	236.17	344.38	423.96
% of TCL	70.37	48.16	45.03	51.22	64.81	55.42	58.22	85.04	90.71	81.69
Total Current Liabilities (TCL)	287.84	190.53	297.97	226.36	308.86	231.74	263.67	277.72	379.67	518.98
NWC	488.1	811.06	902.94	1132.46	1185.18	1035.87	1098.97	1143.67	1140.67	1239.63

Source: Annual Reports of Sri Rama Chandra Paper Boards Ltd. from 2006-07 to 2015-2016

### Current Ratio

The current ratio in the company was maintained at higher level in the company. It has varied between 2.70 during 2007 and 6.00 during 2010 was shown in the table 2. It is found in the significance test that current ratio is uniform during the period of study.

**Table2: Current Ratio (Figures in Lakhs)**

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Current Assets	775.94	1001.59	1200.91	1358.82	1494.04	1267.61	1362.64	1421.39	1520.34	1758.61
Current Liabilities	287.84	190.53	297.97	226.36	308.86	231.74	263.67	277.72	379.67	518.98
Current ratio	2.70	5.26	4.03	6.00	4.84	5.47	5.17	5.12	4.00	3.39

Source: Annual Reports of Sri Rama Chandra Paper Boards Ltd. from 2006-07 to 2015-2016

Calculated value of  $\chi^2$  for current ratio = 2.080113.

The Critical value of  $\chi^2$  at 9 degrees of freedom at 5% level of Significance is 16.919

Calculated value is less than Critical Value i.e.,  $2.080113 < 16.919$ .  $H_0$  is accepted

### Quick Ratio

The quick ratio of the company as shown in table 3 has varied between 1.30 during 2007 to 4.54 during 2010. It is found in the significance test that quick ratio is uniform during the period of study.

**Table3: Quick Ratio (Figures in lakhs)**

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Liquid Assets	374.9	544.11	650.75	1028.32	1122.25	809.76	948.7	1033.09	1226.96	1461.21
Current	287.84	190.53	297.97	226.36	308.86	231.74	263.67	277.72	379.67	518.98

Liabilities										
Quick ratio	1.30	2.86	2.18	4.54	3.63	3.49	3.60	3.72	3.23	2.82

Source: Annual Reports of Sri Rama Chandra Paper Boards Ltd. from 2006-07 to 2015-2016

Calculated value of  $\chi^2$  for Quick ratio = 2.348298.

The Critical value of  $\chi^2$  at 9 degrees of freedom at 5% level of Significance is 16.919

Calculated value is less than Critical Value i.e., 2.348298 < 16.919, Hence,  $H_{02}$  is accepted.

### Super Quick Ratio

The super quick ratio of the company as shown in the table 4 has varied between 0.12 during 2007 and 1.23 during 2014. It is found in the significance test that super quick ratio is not uniform during the period of study.

**Table 4: Super Quick Ratio (Figures in Lakhs)**

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Cash	34.3	145.89	106.47	174.92	146.34	151.84	70.28	344.2	144.2	89.66
Current Liabilities	287.84	190.53	297.97	226.36	308.86	231.74	263.67	277.72	379.67	518.98
Super Quick ratio	0.12	0.76	0.35	0.77	0.47	0.65	0.26	1.23	0.37	0.17

Source: Annual Reports of Sri Rama Chandra Paper Boards Ltd. from 2006-07 to 2015-2016

Calculated value of  $\chi^2$  for Super Quick ratio = 2.028835.

The Critical value of  $\chi^2$  at 9 degrees of freedom at 5% level of Significance is 16.919.

Calculated value is less than Critical Value i.e., 2.028835 < 16.919, Hence,  $H_{03}$  is accepted.

### Gross Working capital Ratio

The Gross working capital turnover ratio of the company as shown in the table has varied between 2.62 during 2010 and 4.73 during 2014. It is found in the significance test that net working capital turnover ratio is uniform during the period of study.

**Table5: Gross Working Capital turnover Ratio (Figures in Lakhs)**

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales	3284.40	3372.34	4461.15	3568.33	4799.73	5362.17	3887.47	6732.81	6535.55	5943.99
Gross working capital	775.94	1001.59	1200.91	1358.82	1494.04	1267.61	1362.64	1421.39	1520.34	1758.61
Ratio	4.23	3.36	3.71	2.62	3.21	4.23	2.85	4.73	4.29	3.37

Source: Annual Reports of Sri Rama Chandra Paper Boards Ltd. from 2006-07 to 2015-2016

Calculated value of  $\chi^2$  for Gross Working Capital turnover ratio = 1.177158.

The Critical value of  $\chi^2$  at 9 degrees of freedom at 5% level of Significance is 16.919

Calculated value is less than Critical Value i.e., 1.177158 < 16.919, Hence,  $H_{04}$  is accepted.

### Net working capital turnover ratio

The net working capital turnover ratio of the company as shown in the table has varied between 3.15 during 2010 and 6.73 during 2007. It is found in the significance test that net working capital turnover ratio is uniform during the period of study.

**Table 6: Net Working Capital Turnover Ratio (Figures In lakhs)**

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales	3284.4	3372.3	4461.2	3568.3	4799.7	5362.2	3887.5	6732.8	6535.6	5944
Net Working Capital	488.1	811.06	902.94	1132.5	1185.2	1035.9	1099	1143.6	1140.7	1239.6
Ratio	6.73	4.15	4.94	3.15	4.04	5.17	3.53	5.88	5.72	4.79

Source: Annual Reports of Sri Rama Chandra Paper Boards Ltd. from 2006-07 to 2015-2016

Calculated value of  $\chi^2$  for Net Working capital turnover ratio = 2.33447.

The Critical value of  $\chi^2$  at 9 degrees of freedom at 5% level of Significance is 16.919

Calculated value is less than Critical Value i.e., 2.33447 < 16.919, Hence,  $H_{05}$  is accepted.

### Cash Turnover Ratio

The cash turnover ratio of the company as shown in the table 8 has varied between 25.36 during 2010 and 61.16 during 2007. It is found in the significance test that cash turnover ratio is not uniform during the period of study.

**Table7: Cash Turnover Ratio (Figures In lakhs)**

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales	3284.4	3372.3	4461.2	3568.3	4799.7	5362.2	3887.5	6732.8	6535.6	5944
Average Cash	53.7	90.095	126.18	140.69	160.63	149.09	111.06	207.24	244.2	116.93

Balance										
Cash Turnover Ratio	61.16	37.43	35.35	25.36	29.88	35.96	35.00	32.48	26.76	50.83

Source: Annual Reports of Sri Rama Chandra Paper Boards Ltd. from 2006-07 to 2015-2016

Calculated value of  $\chi^2$  for Cash turnover ratio =29.56244.

The Critical value of  $\chi^2$  at 9 degrees of freedom at 5% level of Significance is 16.919

Calculated value is greater than Critical Value i.e. 29.56244>16.919, Hence,  $H_{06}$  is rejected.

#### Inventory Turnover Ratio

The inventory turnover ratio of the company as shown in table has varied between 8.10 during 2010 to 20.12 during 2016. It is found in the significance test that Inventory turnover ratio is uniform during the period of study.

**Table8: Inventory Turnover Ratio (Figures In lakhs)**

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales	3284.40	3372.34	4461.15	3568.33	4799.73	5362.17	3887.47	6732.81	6535.55	5943.99
Average Inventory	349.13	429.26	503.82	440.33	351.145	414.82	435.895	401.12	340.84	295.39
Ratio	9.40	7.85	8.85	8.10	13.66	12.92	8.91	16.78	19.17	20.12

Source: Annual Reports of Sri Rama Chandra Paper Boards Ltd. from 2006-07 to 2015-2016

Calculated value of  $\chi^2$  for Inventory turnover ratio =15.83485.

The Critical value of  $\chi^2$  at 9 degrees of freedom at 5% level of Significance is 16.919 Calculated value is less than Critical Value i.e. 15.83485<16.919, Hence,  $H_{07}$  is accepted.

#### Debtors Turnover Ratio

The debtor's turnover ratio of the company as shown in table has varied between 9.66 during 2013 to 21.78 during 2007. It is found in the significance test that Debtors turnover ratio is uniform during the period of study.

**Table9: Debtors Turnover Ratio (Figures in lakhs)**

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales	3284.40	3372.34	4461.15	3568.33	4799.73	5362.17	3887.47	6732.81	6535.55	5943.99
Average Debtors	150.77	215.635	292.875	310.82	353.045	388.125	402.185	400.925	328.765	337.76
Ratio	21.78	15.63	15.23	11.48	13.59	13.81	9.66	16.79	19.87	17.59

Source: Annual Reports of Sri Rama Chandra Paper Boards Ltd. from 2006-07 to 2015-2016

Calculated value of  $\chi^2$  for Debtors turnover ratio =7.81117.

The Critical value of  $\chi^2$  at 9 degrees of freedom at 5% level of Significance is 16.919

Calculated value is less than Critical Value i.e., 7.81117<16.919, Hence,  $H_{08}$  is accepted.

#### Average collection period

The average collection period as shown in table has varied between 17 days during 2007 to 38 days during 2013. It is found in the significance test that Average collection period is uniform during the period of study.

**Table10: Average Collection Period (Figures In lakhs)**

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Days in a year	365	365	365	365	365	365	365	365	365	365
Debtors Turnover Ratio	21.78	15.63	15.23	11.48	13.59	13.81	9.66	16.79	19.87	17.59
Average Collection Period	17	23	24	32	27	26	38	22	18	21

Source: Annual Reports of Sri Rama Chandra Paper Boards Ltd. from 2006-07 to 2015-2016

Calculated value of  $\chi^2$  for Average collection period =14.74194.

The Critical value of  $\chi^2$  at 9 degrees of freedom at 5% level of Significance is 16.919

Calculated value is less than Critical Value i.e. 14.74194<16.919, Hence,  $H_{09}$  is accepted.

### IV. CONCLUSION

It is clear that inventory occupied major share as a percentage of current assets during the first three years of study. Sundry creditors of the company are being reduced over the period of study. Current ratio of the company is high which indicates that the company is more likely to meet its current liabilities. Debtors' turnover ratio is high during the period of study which signifies speedy and effective collection. Cash turnover ratio is not uniform during the period of study and showed wide fluctuations. Cash utilization was poorly done in the company during the period of study. Current ratio, Quick ratio, super quick ratio, Gross working turnover ratio, Net working capital turnover ratio Inventory turnover and debtor turnover ratios, average collection periods are uniform during the period of study.

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