



“A STUDY OF WORKING CAPITAL MANAGEMENT IN GANDEVIKAR SARA GOLD PVT. LTD”

Nevil Modi¹Ruchi Vadnerkar²Samir Thakkar³¹M.B.A. Student²M.B.A. Student³Assistant Professor.

Parul institute of management & Research

Parul University Waghodia, Vadodara, India.

Abstract: Small and Medium Enterprise (SME) are the biggest contributors to the economy of any country and the same goes with Indian economy. SMEs' success much depends upon effective working capital management. This paper deals with working capital management in Gandevikar's Sara Gold Pvt Ltd, which is an Indian Small Enterprise of Vadodara city in the state of Gujarat. It is an private limited jewellers company. In this paper an attempt is made to examine the structure and composition of working capital in the company during the period of study covering three years from 2017-18 to 2019-20. An attempt is also made to analyse is concerned with all the aspect of the firm's financial analysis liquidity, solvency, activity, profitability and overall performance, it enables the interested persons to know the financial and operational characteristics of an organization and take suitable decisions.

Key words: Effectiveness of working capital, Small Enterprise, current ratio, quick ratio and absolute liquid ratios, working capital turnover ratio, debtor's turnover ratio.

1. Introduction:

Working capital management is the life blood for every small scale industry, therefore management of working capital considered as one of the most important area in the field of financial management. Working capital management is the most important area in the field of financial management. Every small scale industry as well as large scale industry requires some amount of fixed capital to get fixed assets like plant and machinery, land and building, furniture, vehicles, loose tools etc. along with the fixed capital. Every small scale industry and large scale industry requires additional capital for financing day to day activities which is known as 'working capital'. Working capital is very important for smooth conduct of business activities. Working capital is very crucial for dictating success or failure of an industry.

Researcher is interested in examining working capital management of small scale industry and to determine management performance in certain small scale industry, the efficiency of working capital management is determined by the efficient administration of its various components like cash management, accounts receivable management, and inventory management.

2. Overview of the Gandevikar Sara Gold Pvt. Ltd.:

Established in the year 1927, Gandevikar Sara Gold Pvt Ltd in Dandia Bazar, Vadodara is a top player in the category Gold Jewellery Showrooms in the Vadodara. This well-known establishment acts as a one-stop destination servicing customers both local and from other parts of Vadodara. Over the course of its journey, this business has established a firm foothold in its industry. The belief that customer satisfaction is as important as their products and services have helped this establishment garner a vast base of customers, which continues to grow by the day. This business employs individuals that are dedicated towards their respective roles and put in a lot of effort to achieve the common vision and larger goals of the company. In the near future, this business aims to expand its line of products and services and cater to a larger client base. In Vadodara, this establishment occupies a prominent location in Dandia Bazar. It is an effortless task in commuting to this establishment as there are various modes of transport readily available. It is at Pratap Road, Opposite Ganesh Mandir, which makes it easy for first-time visitors in locating this establishment. The popularity of this business is evident from the 400+ reviews it has received from Just dial users. It is known to provide top service in the following categories: Gold Jewellery Showrooms, Jewellery Showrooms, Diamond Jewellery Showrooms, Silver Jewellery Showrooms, Gold Jewellery Manufacturers, Gemstone Jewellery Dealers, Gold Plated Jewellery Showrooms, and Platinum Jewellery Showrooms.

3. Objective:

- To study the various components of working capital of the Gandevikar's Sara Gold pvt. Ltd.
- To study the liquidity position through various working capital related ratios.
- To analyse the working capital trend of Gandevikar's Sara Gold pvt. Ltd.
- To appraise the utilization of current asset and current liabilities and find out short comings if any.

4. Research Methodology:

Research methodology is a systematic approach in management research to achieve pre-defined objectives. It helps a researcher to guide during the course of research work. Rules and techniques stated in research methodology save time and labour of the researcher as researcher know how to proceed to conduct the study as per the objective.

Research design: descriptive research design

Source of data: We have got an annual report of the company. We got a balance sheet and profit & loss account of the company.

Data collection method: secondary data

5. Literature review:

1. Working capital management ensures a company has sufficient cash flow in order to meet its short-term debt obligations and operating expenses implementing an effective working capital management system is an excellent way for many companies to improve their earnings. The two main aspects of working capital management are ratio analysis and management of individual components of working capital. A few key performance ratios of a working capital management system are the working capital ratio, inventory turnover and the collection ratio. Ratio analysis will lead management to identify areas of focus such as inventory management, cash management, accounts receivable and payable management (**Smith, 1975; Gitman, 1976**).
2. **Panda (1986)** study of small scale units in the state of Orissa, addresses the issues like optimum investment of funds in current assets, relationship between sales growth and working capital needs, the role of banks in meeting working capital requirements. The study discovered that management of working capital neglected by majority of sample units, which lead to incurrence of loss. It was revealed that long-term funds were highly limited to the firms and therefore majority of small scale industries depended on short-term credit in meeting working capital requirements.

3. Working capital management assumes greater significance in Small Scale Industrial (SSI) Units as most of these have weak financial base and limited accessibility to financial markets. In fact, efficient working capital management decides the success or otherwise of a unit. The working capital practices in small scale industries are more owners centric than professionally managed (**Reddy and Reddy, 2007**)
4. **M. M. Rahman (Published 2011)** Textiles Industry plays a vital role in the socio-economic development of Bangladesh. But the profitability of this industry is not satisfactory. This study is designed to show the Profitability and Working Capital position of Textiles Industries, correlation between them and whether the profitability is affected by Working Capital Management. Ratio Analysis, Correlation Matrix and Regression Analysis have been used to show Profitability, Working Capital position, correlation between them and the impact of Working Capital on Profitability respectively.
5. **Chander and Kumar (2004)** study on small scale textile industry in Punjab found that the selected units by and large have used percentage method, need based method and sales percentage methods of working capital determination. However, among all the three methods, need based method was the most popular method in determining the working capital requirements. The study also revealed that bank finance was the most widely used method next to own funds. The study also brought out that while financing working capital requirements the banks heavily depended on periodical financial performance statements.

6. Data analysis:

Components of Current Ratio, Quick Ratio and Absolute Liquid Ratios

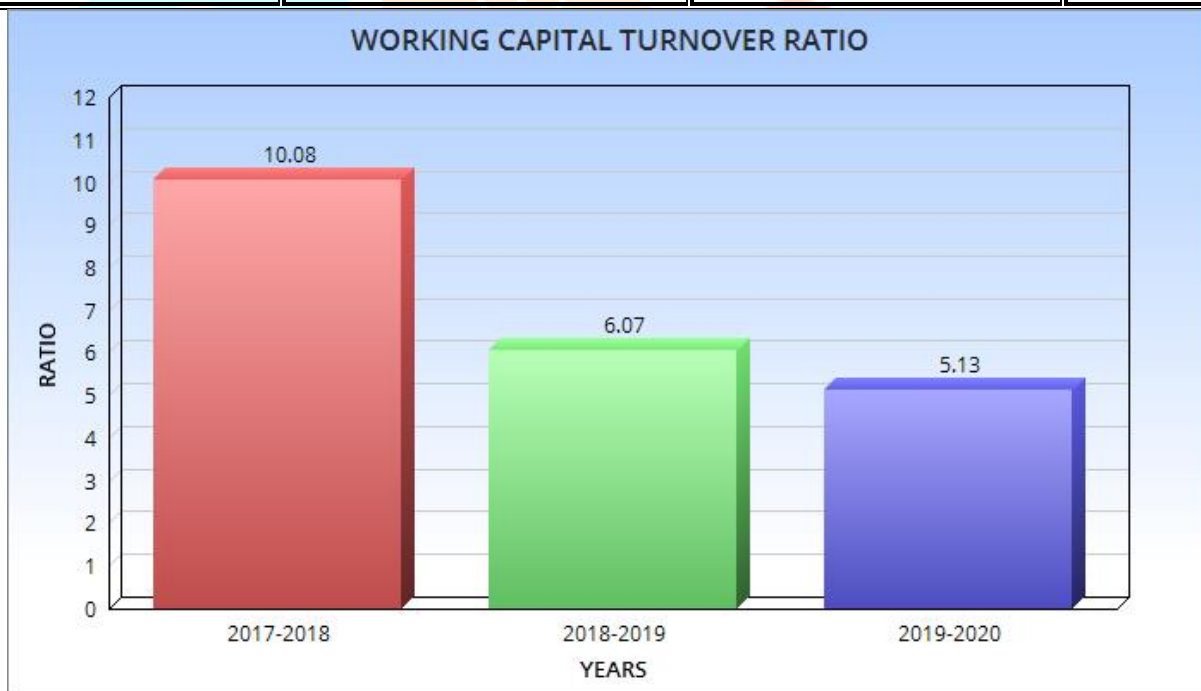
	2017-2018	2018-2019	2019-2020
Current Ratio	6.64:1	6.41:1	11.23:1
Quick Ratio	0.44:1	0.99:1	0.81:1
Absolute Liquid Ratio	0.09:1	0.54:1	0.05:1
SK/CA	0.93	0.84	0.93
CA/TA	0.89	0.97	0.98
CL/TA	0.13	0.15	0.09
CCC(cash conversion cycle)			
Inventory Turnover Ratio	4.69	4.12	3.36
Debtor turnover days	2.56 days	0.88 days	1.03 days
Creditors turnover days	4 days	10 days	10 days

1. The current ratio was 6.64:1 in 2017-2018 and decreased to 6.41:1 in 2018-2019 and increased in the year 2019-2020 to 11.23:1.
2. The quick ratio was 0.44:1 in 2017-2018 and increased to 0.99:1 in 2018-2019 and decreased in the year 2019-2020 to 0.81:1.
3. In the year 2017-2018 the Absolute Liquid Ratio is found to be 0.09:1. In the year 2018-2019 is found to be 0.54:1. The absolute liquid ratio of the firm financial year 2019-2020 is found to be 0.05:1.

4. Stock to current asset is 0.93, 0.84 and 0.93 in respective years.
5. Current assets to total assets ratio came 0.89, 0.97 and 0.98 in the year 2017-2018, 2018-2019 and 2019-2020.
6. Current liabilities to total assets came 0.13 in 2017-2018 and in 2018-2019 it came 0.15. And in 2019-2020 it came 0.09.
7. Cash Conversion ratio for inventory came 5days, 4days and 3days.
8. Cash conversion for debtors comes 2.56 days in 2017-2018, and it reduces to 0.88 days and 1.03 days in 2018-2019 and 2019-2020.

WORKING CAPITAL TURN OVER RATIO (SALES/N.W.C)

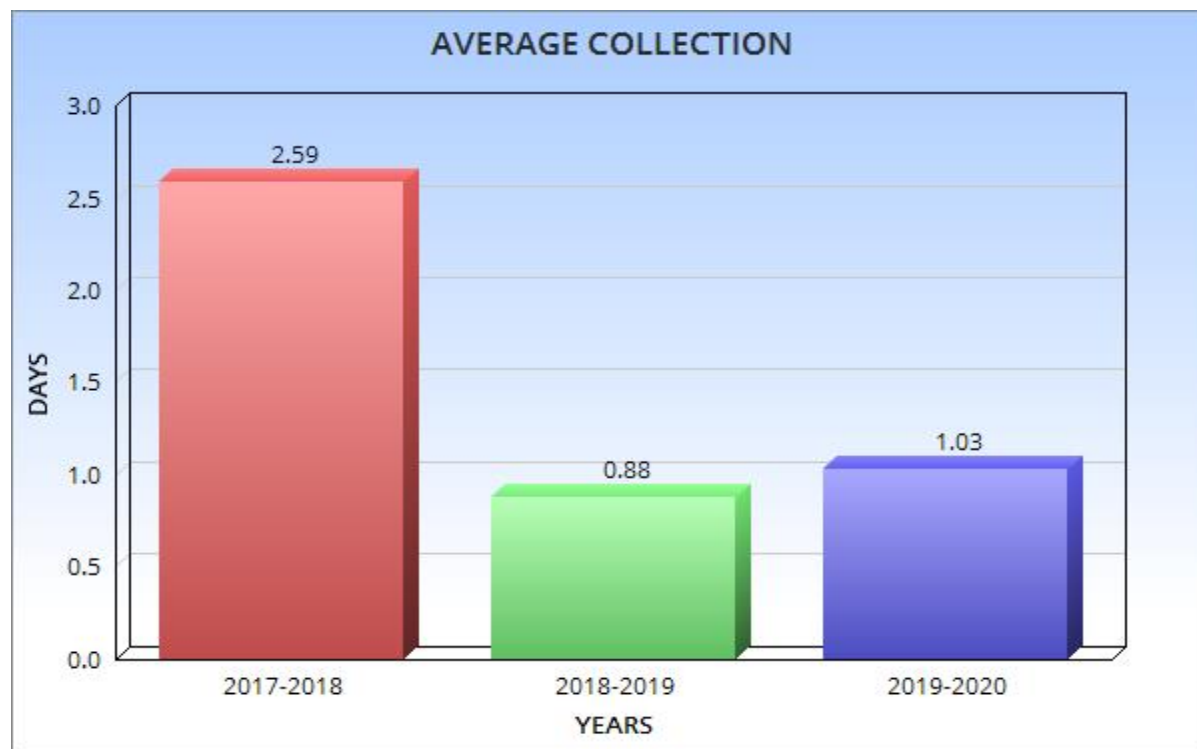
<u>Working capital turnover ratio</u>			
<u>YEAR</u>	<u>Cost of Sales</u>	<u>Net working capital</u>	<u>Ratio</u>
2017-2018	1,43,59,55,472.37	14,24,87,992.45	10.08times
2018-2019	1,66,55,51,943.74	27,45,90,854.06	6.07times
2019-2020	2,09,89,99,108.31	40,89,00,381.98	5.13times



1. In the year 2017-2018, there was an increased in working capital turnover ratio to 10.08.
2. However, in the year 2018-2019, it was 6.07 which indicate there was a decrease in net current assets due to increase in current liabilities.
3. In the year 2019-2020, it was 5.13 which indicate there was a decrease in net current assets due to increase in current liabilities.

DEBTOR TURNOVER RATIO (SALES/AVERAGE DEBTORS)

YEAR	Net Sales	Average Debtors	Ratio	Average Collection Period (365/DTR)days
2017-2018	1,43,59,55,472.37	1,02,12,880.00	140.60	2.59
2018-2019	1,66,55,51,943.74	40,49,294.00	411.32	0.88
2019-2020	2,09,89,99,108.31	59,01,348.00	355.68	1.03



1. In the year 2017-2018 the debtor turnover ratio is 140.60 times and the average collection period is found to be 2.59 days. This year, there is a lower value of debtor's turnover and a shorter average collection period in comparison to that of previous year.
2. In the year 2018-2019 the debtor's turnover ratio is 411.32 times and average collection period is 0.88 days. This year, the value of debtor's turnover is higher than the previous year due to decrease in average debtors and an increase in net sales.
3. In the year 2019-2020 the debtor's turnover ratio is 355.68 times and the average collection period is 1.03 days. This year, the value of debtor's turnover is lower than the previous year.

7. Findings of the study:

1. The standard current ratio is 2:1. And for Gandevikar's Sara Gold Pvt. Ltd. It is satisfactory. The reason behind such result is that the current assets exceed current liabilities. The standard current ratio for all years 2017-2018, 2018-2019 and 2019-2020 its all are satisfactory. It is a good sign for the organization.
2. The standard quick ratio is 1:1. And for Gandevikar's Sara Gold Pvt. Ltd. It is not satisfactory. The reason behind Gandevikar did not achieve the rule of thumb in 2017-2018. The current liabilities exceed the liquid assets. The standard quick ratio is not satisfactory in 2017-2018 but it is satisfactory in year 2018-2019 and 2019-2020. It is a manageable situation of the organization.
3. Absolute liquid test ratio is below 1:2, which are worries for Gandevikar's. The reason is that liquid assets fall very short than current liabilities. The current liabilities again exceed the absolute liquid assets. There is normal increase in absolute current assets like cash and bank balance from 2017-2018 to 2019-2020.
4. Debtors of the organization were high in 2017-2018 later they are decreasing year by year, so no more funds were blocked in debtor. As the organization selling the sundry debtors and the cash is immediately received some amount of cash. It is a good sight of the organization.
5. The current assets trend is continually increased from all years 2017-2018, 2018-2019 and 2019-2020. The current assets like inventories increased in every year. Sundry debtors decreased from every year, so it is good for the organization.
6. The current liabilities trend increasing at a speed which is worried thing for the organization. Current liabilities like sundry creditors, loans, duties and taxes increased from 2017-2018 to 2019-2020.
7. Debtors turnover ratio improved from 2017-2018 to 2019-2020 and so number of collection period decreases. In 2017-2018 average collection periods is 3 days than it decreased in 2018-2019 and 2019-2020 it is 0.88 days and 1.03 days respectively.
8. Current assets ratio decrease throughout the year. It was 4.38 in 2017-2018 then it decreased to 3.48 in 2018-2019 and 3.12 in 2019-2020 respectively.
9. Working capital turnover ratio was positive in 2017-2018; it became decreased in 2018-2019 and 2019-2020. It was 10.08 times in 2017-2018 then it is decreased and it was 6.07 times and 5.13 times in 2018-2019 and 2019-2020 respectively.

8. Conclusion:

On the basis of data analysis on working capital management in Gandevikar Sara Pvt. Ltd., the following conclusions arrived.

1. The company has gross profit for the past three years (2017-2018, 2018-2019 and 2019-2020) in positive and the current assets are increasing in comparison to current liabilities position. Hence, it is good sign for the smooth working capital management.
2. The Gandevikar's didn't manage the liquidity position of the organization. The liquidity position was is not good condition and in every year, it was also not satisfactory.
3. During the year 2017-2018, 2018-2019 and 2019-2020 the company's liquid assets were not satisfactory.
4. The average collection periods of the organization during the year 2017-2018 is 3 days, it is reduce to 0.88 days in 2018-2019 and normal increased to 1 days in 2019-2020.3
5. Though the net working capital of the company is increased, still the company is in good positions and the company's present status of maintaining current assets and current liabilities are satisfactory.
6. They are unable to manage their cash, funds and debts.
7. By adapting better management practices, the company may attain a sound financial position in future and able to manage its working capital efficiently.

9. Reference:

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