Analysis of Working Capital Position of Markfed

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ABSTRACT
Every business firm requires funds for its day to day operations. Funds are of two type's long term funds and short term fund s, long term funds are required for purchasing assets for production. Short term funds are needed to purchase raw materials, payment of wages, any other day to day expenses. In other words we can say working capital means short term finance required for current assets cash, marketable securities, debtors and inventories. The position of working capital of Markfed in starting year of study is quiet satisfactory but after two years of study period it becomes unsatisfactory.

Key word:- Working Capital, Current Assets ,Current Liabilities, Liquid Assets

I INTRODUCTION

(a) Concept of Working Capital - Every business firm requires funds for its day to day operations. Funds are of two type's long term funds and short term fund s, long term funds are required for purchasing assets for production. Short term funds are needed to purchase raw materials, payment of wages, any other day to day expenses. In other words we can say working capital means short term finance required for current assets cash, marketable securities, debtors and inventories. Therefore it is also known as revolving or circulating capital.

(b) Types of Working Capital - Working capital is categories in many different types on the basis of its concept and time. Theoretically working capital is firstly categories as gross working capital and Net working capital. Gross working capital is the total amount of funds invested in current assets of the firm.Net working capital is when, current assets deducted from current liabilities. On the basis of time working capital is divided as permanent and temporary working capital. Fixed working capital is the fixed minimum capital required for fixed facilities, further it is divided as regular and reserve working capital. Temporary is a variable working capital required for seasonal demands and for any special exigencies, further it is divided as seasonal and special working capital.

(c) Importance of Analysis of Working capital

(i) To know the solvency of the business by providing continue flawless flow of production.
(ii) To know about the payment mechanism to stake holders.
(iii) For credit worthiness of the business.
(iv) Ability to exploit favourable market conditions.
(v) To know about the ability to face business crisis.
(vi) Efficiency to convert quick and regular return on investments.
(vii) To know the overall efficiency of business due to adequacy of working capital.

(d) Company Profile :Markfed

Markfed is one of the largest channelizing agency of Agriculture related products in Madhya Pradesh. MP Markfed was setup with the object to promote Co-operative marketing of agriculture produce to benefits the farmers. Institution is involved in the purchase, sale and distribution of agriculture related commodities like fertilizer, seed, pesticide, agriculture machineries and procurement of food grains under minimum price support schemes from primary agriculture credit co-operative societies, marketing cooperative societies and farmers in the remote areas. Markfed has a vast marketing network comprising of 7 zonal offices, 41 district offices and 426 distribution centers at 244 different locations and supported by 280 Marketing Societies and 4526 Primary Agricultural Credit Co-operative Societies. Today, Markfed has attained a leadership position in the agri-product business in the state. It has emerged as a very stable organization, committed to the services of farmer community of the state of Madhya Pradesh.

II OBJECTIVES OF THE STUDY

The following are the specific objectives of the study.

(a) To analyse the current assets position of Markfed
(b) To analyse the liquid assets position of Markfed
(c) To analyse the absolute Liquid assets position of Markfed.
(d) To analyse the net working capital position of Markfed.

III SCOPE OF THE STUDY

The present study aims at assessing the working capital position of Markfed. The study could help the company as well as the investors to understand its financial efficiency. It aims to help the management to find out the position of current assets and current liabilities of cooperation as well as the working capital.

IV SOURCES OF DATA

Secondary data is used for the study. The required data for the study is collected and compiled from published financial annual report of Markfed for the period of six years from 2012-2013 to 2017-2018 which is a reliable and empowered corporate database. In addition to this, supportive data is collected from books, journals, annual reports and various news-papers.

V RESEARCH METHODOLOGY

The methodology adopted to analyse is through ratio analysis, and interpret general financial statements to assess the working capital position. Further a comprehensive analysis is carried by applying statistical techniques namely mean, standard deviation, co-efficient of variance.

(a) Period of Study- The study covers a period of six years from the financial year 2012-2013 to 2017-2018

(b) Limitations of the Study
- (i) The study is confined to six years data only,
- (ii) The study is based on secondary data collected from the Annual reports of Markfed.

(c) Working capital Position Ratio or Turnover Ratio
- (i) Current Ratio
- (ii) Liquid Ratio
- (iii) Absolute Liquid Ratio
- (iv) Net Working Capital Turnover Ratio

(d) Working capital Position Ratio of Markfed: - Adequate working capital is very important for every organisation as good as the position of working capital the flow or availability of finance is good for the efficient working. Through various ratios under working capital position, current assets as well as current liabilities position easily define which reflects the Markfed financial position during the study period.

(e) Current Ratio - Current ratio is also known as working capital ratio. It shows the relationship between current assets and current liabilities. The ratio measures the liquidity of the firm and provides information for the short term analysis of financial position or liquidity of a firm. It represents the margin of safety available to the creditors and other current liabilities.

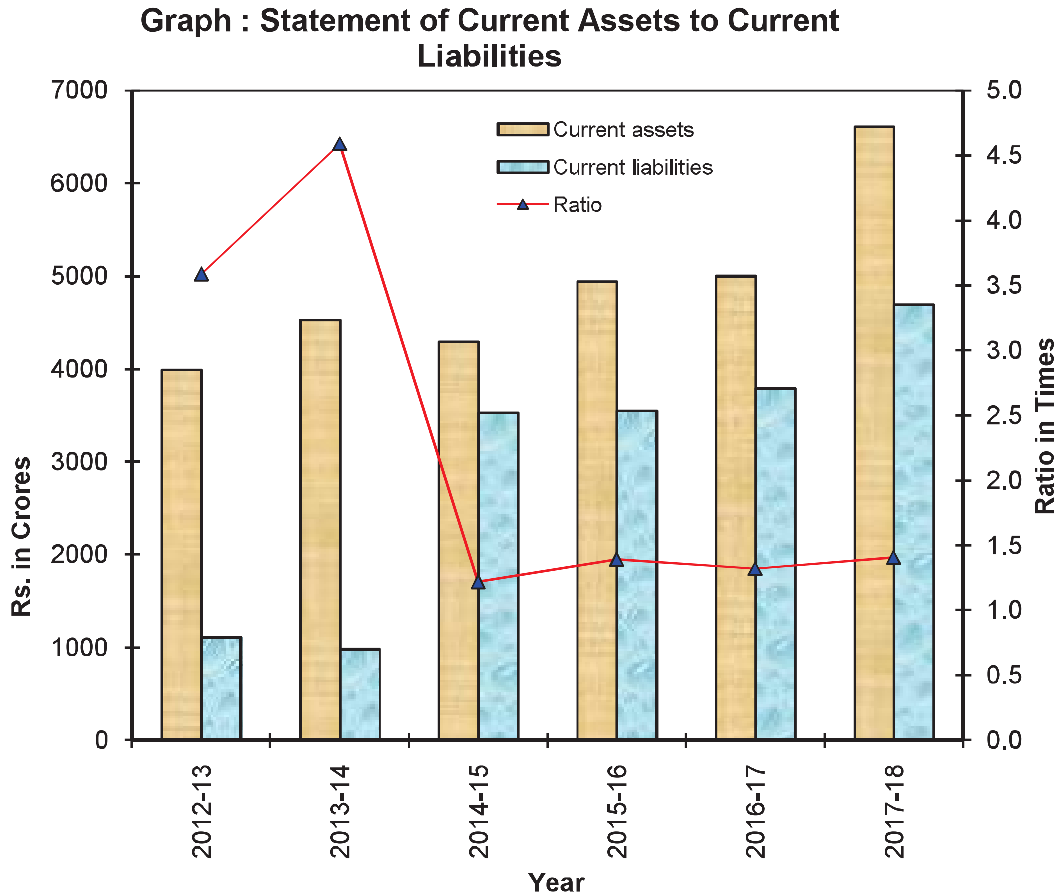
$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Ratio

Rs. in crores

Years	Current Assets	Current Liabilities	Ratio in Times
2012-13	3993.04	1113.22	3.59
2013-14	4526.08	985.94	4.59
2014-15	4296.07	3529.49	1.22
2015-16	4945.47	3552.22	1.39
2016-17	5002.71	3794.86	1.32
2017-18	6607.87	4695.2	1.41
Mean	**4895.21**	**3311.54**	**1.99**
AGR	**10.9141**	**53.6279**	**-13.87**
SD	**922.65**	**1529.00**	**1.46**
CV	**18.848**	**46.172**	**73.47**
Correlation	**0.729**		

Source: Compiled from Annual Report of Markfed from 2012-2017



(f) Interpretation - Current ratio is 3.59 times more than its current liabilities which are an indication of good short term solvency position of the position. The ratio is very complicated to understand but it is because of large amount of cash in hand & at bank is available with the company which has increased its current assets at this level. In the year 2013 the ratio is increased depicts the higher current assets than its current liabilities but in very next year 2014 it decreases as compare to its previous year to 1.22 shows low current assets as compare to liabilities. After 2014 every year current ratio is decreased but has always maintained a good solvency position as the ideal current ratio is 2:1 and company is able to maintain the ideal ratio only in the year 2012 & 2013 and in other remaining year it is decreased.

(g) Liquid Ratio - It is also known as quick ratio or acid test ratio. The ratio is calculated to know the liquidity position of a firm. Liquidity refers to the ability of a firm to pay its short term obligations, when it becomes due. This ratio indicates the relationship between liquid assets and current liabilities. Liquid ratio or quick ratio is a more stringent test of liquidity than the current ratio. It measures the firm's capacity to pay off its current obligations immediately. Liquid ratio is used as complementary ratio to the current ratio.

Formula:

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

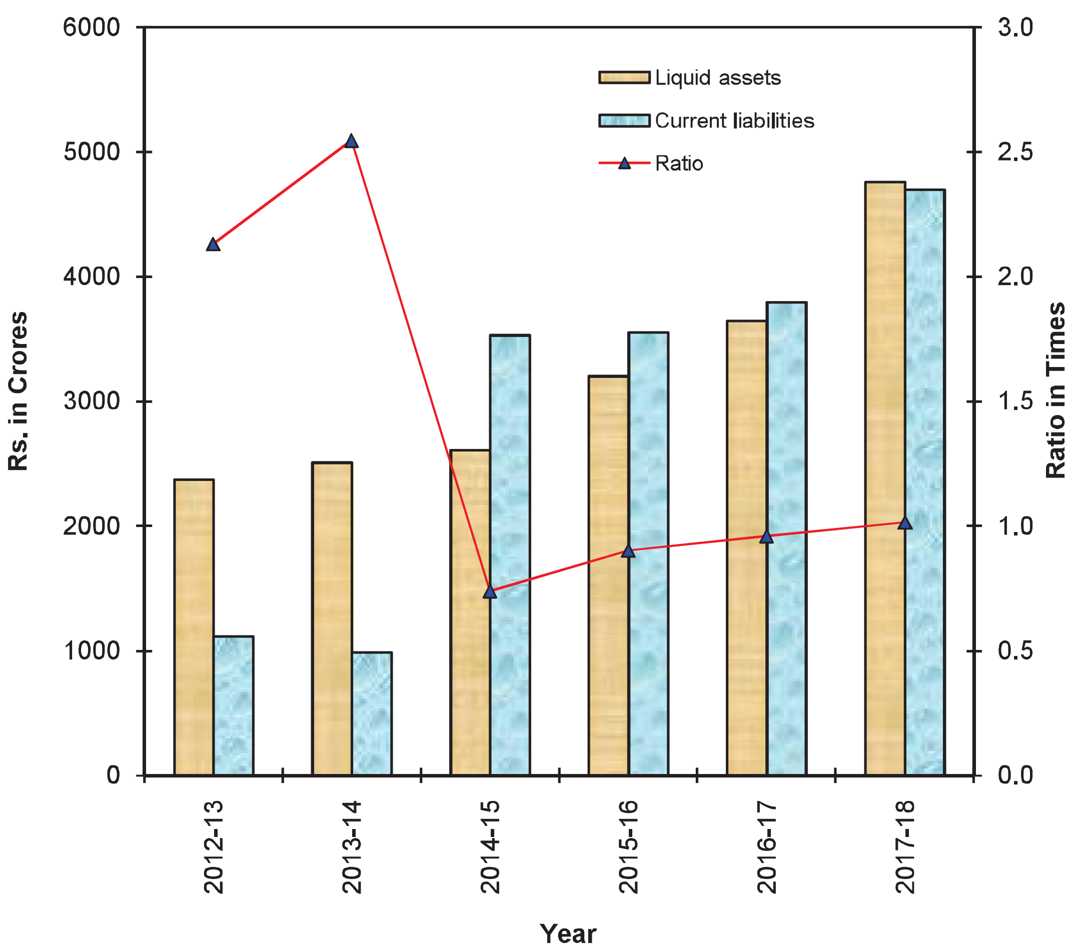
Table
Liquid Ratio

Rs. in crores

Years	Liquid Assets	Current Liabilities	Ratio in Times
2012-13	2371.83	1113.22	2.13
2013-14	2510.32	985.94	2.55
2014-15	2610.41	3529.49	0.74
2015-16	3203.51	3552.22	0.90
2016-17	3647.08	3794.86	0.96
2017-18	4763.65	4695.2	1.01
Mean	**3184.47**	**3311.54**	**1.23**
AGR	**16.8071**	**53.6279**	**-12.03**
SD	**911.33**	**1529.00**	**0.74**
CV	**28.618**	**46.172**	**60.15**
Correlation	**0.810**		

Source: Compiled from Annual Report of Markfed from 2012-2017

Graph : Statement of Liquid Assets to Current Liabilities



(h) Interpretation - In the year 2012 , the ratio is 2.13:1 times which indicates good liquid assets over current liabilities. In the year 2013 it is increased to 2.55 :1 which indicates that liquid assets is more than its current liabilities shows good and satisfactory liquidity position of the company. But from the year 2014 to 2017 the ratio is decreased that means organization have not enough liquid assets to pay their liquid liabilities within short period of time as the ideal ratio is 1:1 & during these years the ratio is below 1:1. In the year 2018 ratio is increased to

1.01:1 which means company is able to pay its short term liabilities. The mean is positive & AGR is negative that is -12.03 it does not show the satisfactory position. The SD & CV is 0.74 & 60.15 the correlation is 0.81.Low liquid ratio does not indicate the unsatisfactory position towards liquidity.

(i) **Absolute Liquid Ratio or Cash Ratio -** It is a liquidity ratio which is calculated to know the ability of an organisation ability to repay its current liabilities with only by cash & cash equivalents. It is calculated along with current ratio and liquid ratio to know the absolute value of liquid assets excluding receivables from current assets.

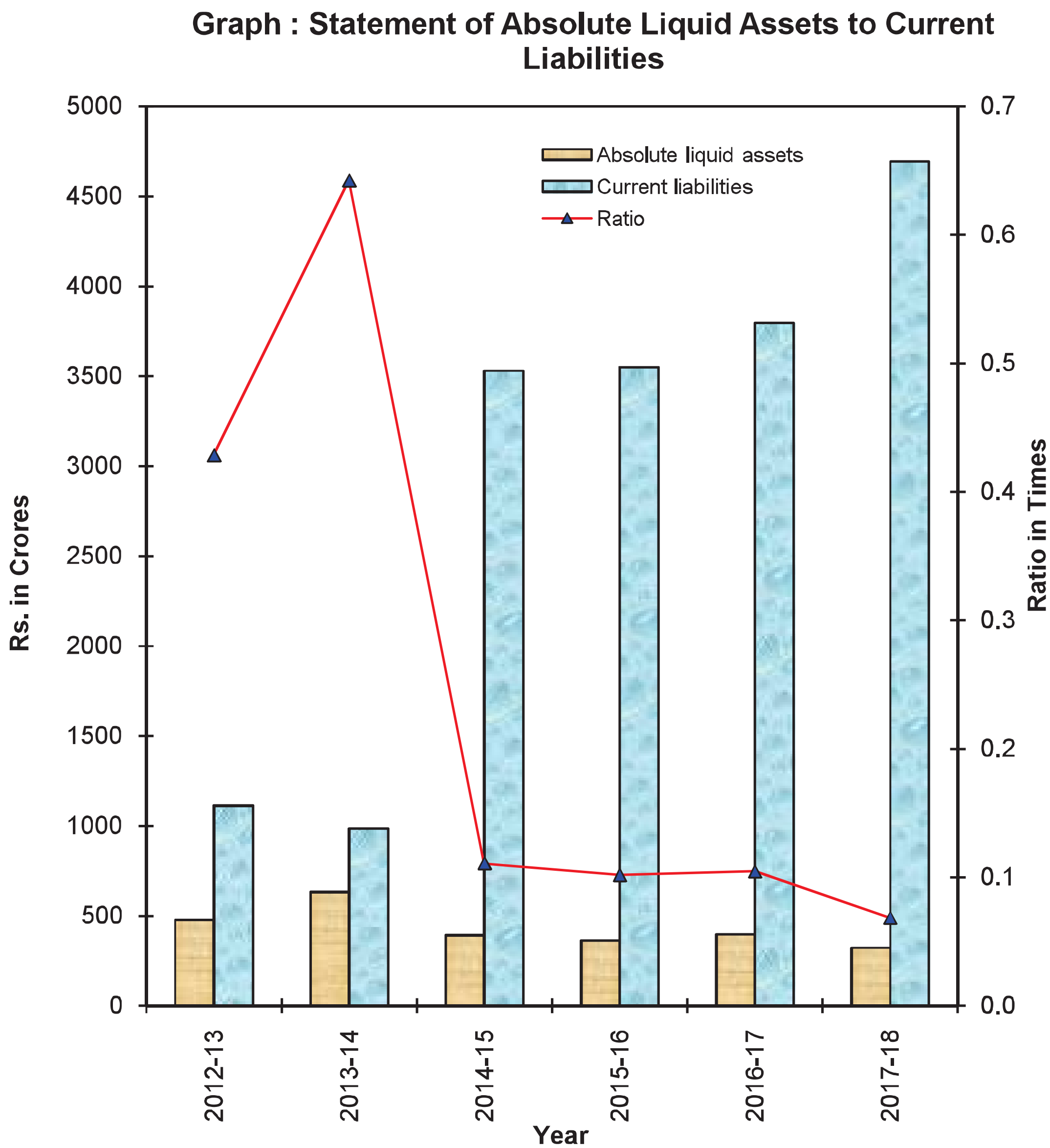
Formula:-

$$\text{Absolute liquid Ratio} = \frac{\text{Absolute liquid ratio}}{\text{Total Current Liabilities}}$$

Table
Absolute liquid Ratio
Rs. in crores

Years	Absolute liquid Assets	Current Liabilities	Ratio in Times
2012-13	477.11	1113.22	0.43
2013-14	633.43	985.94	0.64
2014-15	392.06	3529.49	0.11
2015-16	362.16	3552.22	0.10
2016-17	397.87	3794.86	0.10
2017-18	321.67	4695.2	0.07
Mean	**430.72**	**3311.54**	**0.21**
AGR	**-5.4299**	**53.6279**	**-17.87**
SD	**111.72**	**1529.00**	**0.24**
CV	**25.939**	**46.172**	**118.91**
Correlation	**-0.896**		

Source: Compiled from Annual Report of Markfed from 2012-2017



(j) Interpretation - In the year 2012 the absolute liquid ratio is 0.43:1 shows that company has not enough cash balance to pay its current liabilities as the ideal liquid ratio is 1:2 which means 50% worth of absolute liquid assets or cash are adequate to pay 100% current liabilities. In the year the ratio is 0.64 which means company generated some cash but from very next year it started decreasing every year from 0.11 to 0.07 . The mean of the ratio is 0.24 which is very low. The AGR indicates negative effect of ratio -17.87 that is it is not reflect satisfactory position of cash & cash equivalent. The SD & CV also not satisfactory. The Correlation is -0.896 indicates the negative or low level of liquid position of company.

(k) Working capital Turnover Ratio - This ratio is calculated to know the position of current assets & liabilities of an organization. It measures the ability of an organization with which capacity it utilizes its net working capital. Working capital of an organization is directly connected with sales as current assets increases or decreases with the change in the sales.

Working capital = Current assets – Current liabilities

$$\text{Working capital Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Working capital}}$$

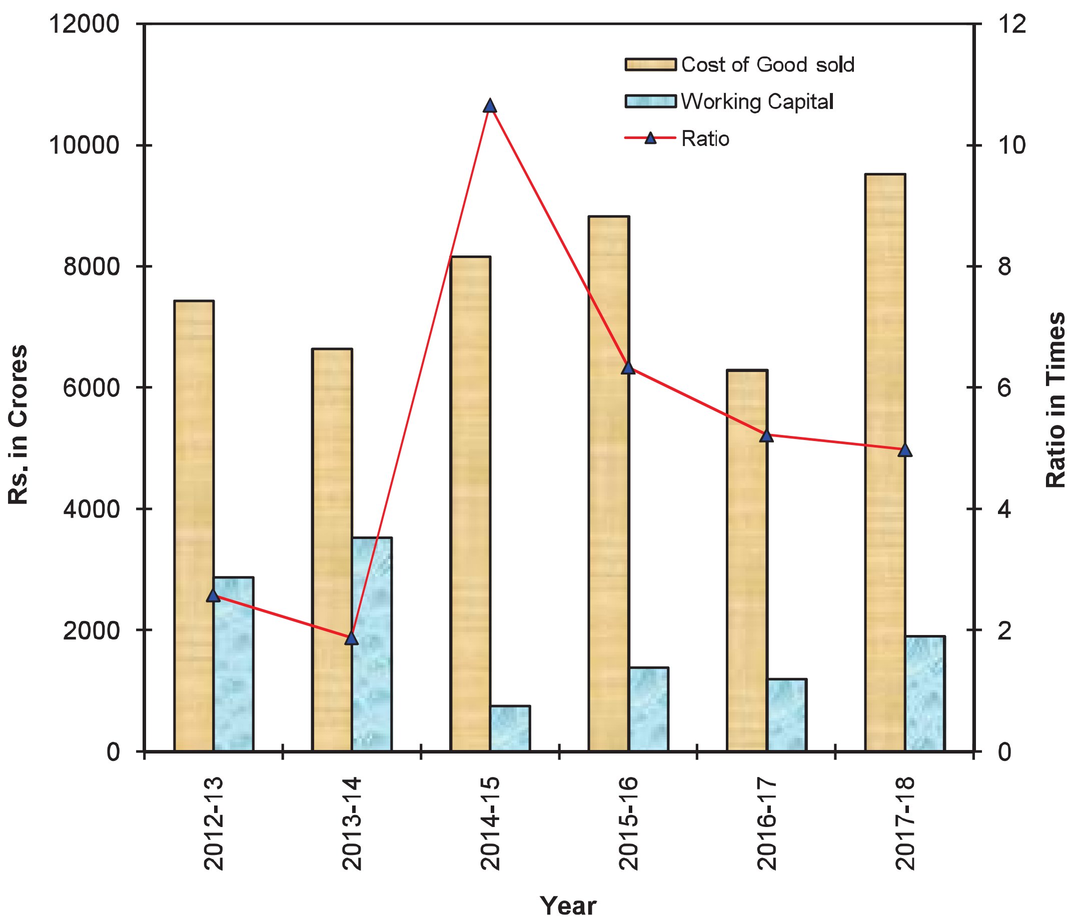
Table
Working Capital Turnover Ratio

Rs. in crores

Years	Cost of Goods Sold	Working Capital	Ratio in Times
2012-13	7437.13	2879.82	2.58
2013-14	6647.15	3540.14	1.88
2014-15	8169.47	766.58	10.66
2015-16	8832.15	1393.25	6.34
2016-17	6299.68	1207.85	5.22
2017-18	9534.15	1912.67	4.98
Mean	**7819.96**	**1764.10**	**5.81**
AGR	**4.6994**	**-5.5973**	**33.10**
SD	**1258.45**	**1063.55**	**3.17**
CV	**16.093**	**60.289**	**54.57**
Correlation	**-0.319**		

Source: Compiled from Annual Report of Markfed from 2012-2017

Graph : Statement of Cost of Goods Sold to Working Capital



(I) Interpretation - The working capital turnover ratio depicts the position of floating capital of the company, the ratio is fluctuating every year of study period and shows increase & decrease because of changes in working capital every year. in the year 2012-13 it is 2.58, fallowed the decrease trend of 1.88 and very next year that is 2015-16 it increases with 10.66 & once again it decreases by 6.34 & fallowed the decreasing trend of 5.22 in the year 2016-17 & also decrease in the year 2017-18 by 4.98. A decreasing trend of ratio indicate that unfavourable conditions for the enrichment of the financial position of the company. The Mean & AGR of the ratio is positive but there is major difference between them that is 5.81 & 33.10 respectively also SD & CV of the ratio is 3.17 & 54.57 there is also very big difference between them. The Correlation between them shows the negative that is -0.319.

VI FINDINGS

(a) The company which is having high current ratio may not be able to pay its current liabilities in specified period because the large portion of its current assets are obsolete inventories or remaining slow moving inventories. On the other hand, if the company has low current ratio, it may be able to pay its current obligations as they become due because of the availability of the large portion of current assets which consists of highly liquid assets to pay off current obligations if they become due, within short period. Current asset ratio is the back bone of any organization. The current ratio of the Markfed in starting years of the study was average and current assets are enough to pay off its short term debt obligations of the corporation but from the year 2014 the current assets are not enough to pay off the liabilities of corporation and decreasing year by year which indicates that the Markfed current assets are not enough to pay its short term debt. A higher current ratio depicts the strong solvency position.

(b) The liquid assets is measured more consistent test of short term solvency as compared to current ratio. Liquid asset ratio depicts how fast an asset convert in cash whenever required and ability to pay its short term debt quickly. MARKFED liquid assets in starting year of study is more liquid but afterwards it start downfall and corporation has not enough liquid assets to turn into cash so that's why the cash value in balance sheet is less and average is in negative.

(c) The absolute liquid ratio is very helpful only when used in conjunction with current and quick ratio. This ratio indicates high liquidity position of corporation which means to pay one current liabilities need one current assets to pay off and the corporation has not enough liquid assets to pay off its current liabilities and averagely it shows negative growth.

(d) After analysing the net working capital turnover ratio it was found that MARKFED working capital if fluctuating during the study and reflects that corporation is inefficiently utilising its working capital during the period of study and in starting it is low and then high and immediately downfall in next year indicates not sufficient quantity of working capital . Average working capital turnover ratio is favourable very high ratio may also indicates the insufficient quantity of working capital.

VII CONCLUSION

The ratio of working capital depicts the position of non fixed assets and it is clear from above findings that in the starting year of the study Markfed have sufficient current assets to meet its current obligations. Although it is depicts increase and decrease every year of study but after 2014 it is found that the position of working capital position downfalls. The ideal current ratio is 2:1, Liquid ratio is 1:1 and the absolute liquid ratio is 0.5:1 and comparing with the ideal it is found that the ratios are almost near to ideal but not matched completely so the Markfed is not maintaining its working capital position.

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