



Working Capital Management of Food Processing Units

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1. Introduction

In business, one of the most important decisions is the investment decision. Investment decision is concerned with the investment in current assets and fixed assets. Hence, the required capital can be divided into two categories, i.e. fixed capital and working capital. Fixed capital is a capital which is required for establishment of a business. In other words, it refers to the funds required for the investment in fixed or permanent assets like land, building, plants, machinery etc. Conversely, working capital refers to the capital which is required to meet day-to-day expenses of the noitasinagro and which is employed in the current assets like raw-materials, debtors, bills-receivables etc. Thus, fixed capital is required for the establishment of business whereas working capital is required to utilize fixed assets.

Working capital plays a very important role in business. It acts as a lubricant to run the wheels of fixed assets. Its effective provision and utilization can lead to success of the business while its inefficient management leads to heavy losses and ultimate downfall of the noitasinagro. In short, the success and efficiency of business noitasinagro depends fundamentally on its ability to manage its working capital and that is why working capital management holds a very important place in firm's overall financial management.

The food processing industry in India is a sunrise sector that has gained prominence in recent years. Availability of raw materials, changing lifestyles and relaxation in policies has given a considerable push to the industry's growth. This sector is among the few that serves as a vital link between the agriculture and industrial segments of the economy. Strengthening this link is of critical importance to improve the value of agricultural produce; ensure remunerative prices to farmers and at the same time create favourable demand for Indian agricultural products in the world market. A thrust to the food processing sector implies significant development of the agriculture sector and ensures value addition to it.

2. Objectives

1. To study the concept of working capital management of selected companies.
2. To examine the nature and scope of the food processing industrial activity.
3. Identify the future prospects for the food processing industry.
4. To monitor the degree of efficiency and effectiveness with which food
5. Processing units carry out their activities.
6. To make comparative study of Financial Statement Analysis of selected Food Processing Industries.
7. To examine Liquidity Ratios of selected Food Processing companies.

3. Hypotheses of the study

1. Null Hypothesis: H₀: The difference between CURRENT RATIO of difference companies is insignificant.
- Alternate Hypothesis: H₁: The difference between CURRENT RATIO of difference companies is significant.

2 Null Hypothesis: H₀: The difference between QUICK RATIO of difference companies is insignificant.

- Alternate Hypothesis: H₁: The difference between QUICK RATIO of difference companies is significant.

4. Research Methodology

In this study in the initial stage two types of analysis used to examine financial performance of selected food processing units.

(1) Accounting Techniques

- Current ratio
- Quick ratio

(2) Statistical Techniques

4.1 Tools and techniques for the analysis

4.1.1 Average

Average is most commonly used tool for analysis also known as arithmetic mean, briefly refereed as mean. The average can be found by adding the values of all the variables and dividing at by total number of variables.

4.2 Analysis of Variance

Prof. R. A. Fisher was the first man to use the term, variance and in fact, it was he who developed a very elaborate theory concerning ANOVA explaining its usefulness in practical field. ANOVA is essentially a procedure for testing the difference among different groups of data for homogeneity. There may be variation between samples and also within sample items. ANOVA consists in splitting the variance for analytical purpose. Hence it is a method of analyzing the variance to which response is subject into its various components corresponding to various sources of variation.

4.3 Selected Units

(1) Nestle India

(2) Britannia Industries

4.4 Data Collection

This research is based on secondary data. The collection of secondary data related to production was undertaken by referring to the published information of government, both Gujarat and Government of India. Relevant data was also collected from published articles and research papers. The relevant data was segregated and classified for study and analysis in view of the objectives of the study.

5. Period of the Study

This research study covered the data of the last 10 years of the functioning of the selected food processing company. The present research study covered the statistical information of the period of last 10 years from 2006-07 to 2015-16.

6. Significance of the Study

Food Processing Industry is of enormous significance for India's development because of the vital linkages and synergies that it promotes between the two pillars of the economy, namely Industry and Agriculture. The growth potential of this sector is enormous and it is expected that the food production will double in the next 10 years and the consumption of the value added food products will grow at a fast pace. It is also important to encourage the food processing industry in the country to minimize huge losses to the farmers due to the lack of adequate post-harvest storage capabilities on one hand and perishable nature of a number of crops, particularly fruits and vegetables. If adequate food processing

facilities of appropriate nature are provided to the farmers in rural areas, linking these with marketing inputs, these will not only provide a lot of employment but also boost agricultural economy by saving the losses particularly from perishable crops, besides adding value to these crops. This growth of the food processing Industry will bring immense benefits to the economy, raising agricultural yields, reducing losses, creating employment and raising the standard of living of a very large number of people throughout the country, specially, in the rural areas. Economic liberalization and rising consumer prosperity is opening up new opportunities for diversification in food processing sector. Liberalization of world trade will open up new vistas for growth. Food processing involves many types of value addition to the agricultural produce starting at the post-harvest level. It includes even primary processing like grading, sorting, cutting, seeding, shelling packaging etc.

7. Limitation

Following were the limitation of the study:

1. This study depends upon secondary data collected from different sources.
2. The availability of required data and; its collection may be limitation in terms of time required.
3. This study covers the processed food commodities, which are branded and packaged articles. Therefore, the scope of the study is limited to these products only.
4. There was no scope for gathering sufficient financial information as it is confidential.
5. The quantitative analysis is based on secondary data collected from various sources; there are some discrepancies in the data from different sources of the data. International agencies provide data on calendar year basis, in India, most data are available on financial year basis, though every attempt was made to collect data in uniform manner, in certain cases, and this has to be relaxed. Both published and unpublished data from various agencies have been collected.

8. Data Analysis

8.1 Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short-term and long-term obligations. To gauge this ability, the current ratio considers the current total assets of a company (both liquid and illiquid) relative to that company's current total liabilities.

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

CURRENT RATIO	16-Mar	15-Mar	14-Mar	13-Mar	12-Mar	11-Mar	10-Mar	9-Mar	8-Mar	7-Mar
Key Financial Ratios of Nestle India	1.78	1.68	1.45	1.71	1.31	0.88	0.63	0.6	0.67	0.66
Key Financial Ratios of Britannia Industries	1.06	1.19	0.9	0.82	0.88	1.54	1.07	1.3	1.22	1.17

8.2 Quick ratio

The quick ratio is a measure of how well a company can meet its short-term financial liabilities. Also known as the acid-test ratio, it can be calculated as follows: (Cash + Marketable Securities + Accounts Receivable) / Current Liabilities.

$$\text{Quick Ratio} = \frac{\text{Total Current Assets} - \text{Inventory} - \text{Prepaid Expenses}}{\text{Current Liabilities}}$$

QUICK RATIO	16-Mar	15-Mar	14-Mar	13-Mar	12-Mar	11-Mar	10-Mar	9-Mar	8-Mar	7-Mar
Key Financial Ratios of Nestle India	1.199	1.12	0.83	1.16	0.65	0.38	0.28	0.25	0.31	0.25
Key Financial Ratios of Britannia Industries	0.77	0.9	0.51	0.44	0.49	0.86	0.52	0.69	0.56	0.51

CURRENT RATIO			
Company	Mean	N	Std. Deviation
Nestle India	1.14	10	0.50
Britannia Industries	1.12	10	0.22

QUICK RATIO			
Company	Mean	N	Std. Deviation
Nestle India	0.64	10	0.40
Britannia Industries	0.63	10	0.17

9. ANOVA Test

- Null Hypothesis: H_0 : The difference between CURRENT RATIO of difference companies is insignificant.
- Alternate Hypothesis: H_1 : The difference between CURRENT RATIO of difference companies is significant.

CURRENT RATIO	Between Companies	14.152	9	1.572	8.478	.000
	Within Companies	16.693	90	.185		
	Total	30.845	99			

9.1 Conclusion

At 5% level of Significance and 9 degrees of freedom the value F-Statistic is 8.48 which is Significant, therefore reject the null hypothesis.

- Null Hypothesis: H_0 : The difference between QUICK RATIO of difference companies is insignificant.
- Alternate Hypothesis: H_1 : The difference between QUICK RATIO of difference companies is significant.

		Sum of Squares	df	Mean Square	F	Sig.
QUICK RATIO	Between Companies	14.766	9	1.641	26.180	.000
	Within Companies	5.640	90	.063		
	Total	20.406	99			

9.2 Conclusion

At 5% level of Significance and 9 degrees of freedom the value F-Statistic is 26.18 which is Significant, therefore reject the null hypothesis.

10. Findings, Conclusions and suggestions

1. Average current ratio for the Nestle India is 1.14 which is greater than 1 thus the performance of the company is better and company does not have problems in paying bills in time. However it can be seen that this improvement started 2012 and onwards, before that the situation was not so good.
2. Average current ratio for the Britannia Industries is 1.12 which is greater than 1 thus the performance of the company is better and company does not have problems in paying bills in time.
3. Average Quick Ratio for the Nestle India is 0.64 which is less than 1 thus the quick ratio lesser than 1:1 indicates that the business cannot meet its current financial obligations with the available quick funds on hand. However the situation has improved 2015 onwards only.
4. Average Quick Ratio for the Britannia Industries is 0.63 which is less than 1 thus the quick ratio lesser than 1:1 indicates that the business cannot meet its current financial obligations with the available quick funds on hand. This situation has remained same throughout the tenure of study.

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