



## A study on working capital analysis of hindalco industries limited

S Velvizhi

Assistant Professor, Department of Commerce, Vellalar College for Women, Erode, Tamilnadu, India

### Abstract

Working Capital is the lifeblood of any company. Working capital management and short-term financial management are the subject area of a research. Working capital is the portion of the company's capital that is needed to finance current assets on the short term basis; it is continuously and quickly converted to cash. As a result, this study examines the company's financial stability, organizational design and use of working capital during a five year 2018-19 to 22-23. The primary source of data for the study is the secondary data. Ratio analysis was employed to determine how well the working capital was being utilized. It was decided that a company's working capital plays a crucial impact on its operations.

**Keywords:** Working capital, liquidity, current assets, current liabilities

### Introduction

Working capital is a useful instrument for assessing a company's effectiveness and short-term financial position. Working capital is the difference between current assets and liabilities. Working capital management is a critical aspect in corporate finance, with a direct beneficial impact on the company's profitability and liquidity position. Liquid position and profitability are the two sides of the same coin. An optimal level of liquidity indicates a company's ability to satisfy its short-term funding requirements, and a profitable company can assure optimal fund flow management. Liquid position demonstrates the company's ability to satisfy its short-term obligations.

When undertaking regular business activities, a company must try to optimize its liquid position and profitability. Working capital management entails maintaining a better balance of working capital components such as debtors, inventories, and payables, as well as efficiently using cash for day-to-day business operations.

The basic goal of any company is to maximize profits. However, maintaining the company's liquidity is an important goal. The difficulty is that increasing earnings at the expense of liquidity might cause significant and effective challenges for the company. Therefore, there must be a healthy balance between these two is the main aims of the business. The purpose of working capital management is to ensure that the firm can continue to operate and that it has the ability to cover both short-term funding requirements and increasing operational expenses. Working capital management entails keeping track of goods, receivable and payable accounts, and cash.

### Statement of the Problem

The ultimate goal of every business is to maximize profits. However, preserving the company's liquidity is also a vital goal, and good management of the various components of working capital aids in this endeavor. Managers' ability to efficiently manage the different components that comprise working capital is the issue. This problem arises because most managers strive to increase inventory turnover in order to increase profitability without considering the need to shorten the debtor collection period and delay creditor payment periods as much as possible in order to provide the

funds required to keep the cycle moving. This reduces the company's liquidity position and, as a result, its profitability. For this objective, the current study, titled "A Study on Working Capital Analysis of "HINDALCO INDUSTRIES LTD" was conducted.

### Review of Literature

Arpita Naskar and Prasanta Guha's (2016) study has concluded that all components of working capital have strong impact on profitability. Singh and Asres (2011) [2] have reported that well organized Working Capital Management, has a considerable participation on performance and short term solvency of firms. Nwankwo and Osho (2010) [3] added that Working Capital Management involves the adequate mixture of CA and CL for keeping the business run efficiently particularly in terms of energy, goodwill and time. No doubt, the efficient Working Capital Management will help in generating the shareholders wealth which is main objective of survival of business.

### Objective of the Study

- To analyze various working capital ratios for last five years starting from 2017-2018 to 2022-2023.
- To highlight the findings made in the study and to offer valuable suggestions for the betterment of the company.

### Methodology

This study is based on Analytical research. The research has to use the information and facts already available. The study is based on secondary data obtained from the published annual report of Hindalco Industries Limited includes text books, journals and internet sources have been referred extensively to collect various information relating to the topic. The tool of analysis of working capital management has been made with the help of accounting ratios such as Working Capital Ratios, Cash Ratios, Inventory Ratios, Receivables Ratios. The study covers a period of five years from 2017 – 2018 to 2022 – 2023. The financial year is from 1<sup>st</sup> April to 31<sup>st</sup> March.

**About the company**

Hindalco Industries Limited is Aditya Birla Group's metals flagship firm. It is one of Asia's top primary aluminium manufacturers (excluding China) and, through its subsidiary Novelis, a global leader in flat rolled goods and the world's largest aluminium recycler. Hindalco is India's leading aluminum downstream business, offering bespoke solutions in flat rolled goods and extruded aluminium. Hindalco is India's largest copper producer, meeting a considerable portion of the country's domestic refined copper requirements. Its copper complex in India includes a world-class smelter, downstream infrastructure, and a captive jetty. Hindalco's global presence currently includes 17 manufacturing units and 21 mining operations in India, as well as 33 abroad units spread over nine countries. With a diverse staff of over 65,500, the company prioritizes value-enhancing growth and strong ESG commitments to create a productive and adaptable work environment.

**Statement of Working Capital**

Statement of Working capital is prepared to find out the changes in the working capital. It represents the excess of the current assets over current liabilities. This statement is prepared with the help of current assets and current liabilities appearing in the balancesheet. The statement shows the changes in individual items of current liabilities and current assets and their effect of the working capital.

The total increase and total decrease in the end is compared and the difference of total increases and total decreases shows the net increases or net decreases in the working capital.

**Table 1: Statement of Working Capital from 2017-18 to 2022-23**

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Current Assets</b>					
Inventories	11,394.46	11,225	15,989	20,948	20,186
Sundry debtors	2,124.88	2,093	1,602	2,671	2,610
Cash & Bank balance	1,579.87	3,280	1,019	6,420	1,789
Loans & Advances	6,403.52	4,171	3,507	5,482	7,481
<b>Total Current Assets</b>	<b>21,502.73</b>	<b>20,769</b>	<b>22,117</b>	<b>35,521</b>	<b>32,066</b>
<b>Current Liabilities</b>					
Provisions	1,119.68	1,425	1,252	1,480	1,190
Total current liabilities	13,415.56	11,520	18,419	25,550	26,125
<b>Net Working Capital</b>	<b>8,087</b>	<b>9,249</b>	<b>3,698</b>	<b>9,971</b>	<b>5,941</b>

From the above table the net working capital shows fluctuating trend. It was increasing from the year 2021-22 (Rs.9,971) and it was decreasing from the year 2022-23 (Rs.5,941). This is because of the components of current assets reducing and the current liabilities increasing during this period.

**Table 2: Analysis**

	2018-19	2019-20	2020-21	2021-22	2022-23
Current Ratio	1.75	2.06	1.29	1.48	1.29
Quick Ratio	0.82	0.94	0.36	0.61	0.48
Absolute Liquid Ratio	0.13	0.32	0.06	0.27	0.07
Gross Working Capital to Fixed asset Ratio	0.45	0.50	0.57	0.93	0.77
Gross working capital to Sales Ratio	0.33	0.41	0.44	0.45	0.32
Sales to Networking capital Ratio	4.97	3.77	8.63	5.91	12.94
Networking capital to Net worth Ratio	0.19	0.23	0.10	0.21	0.10
Networking Capital to Current Liabilities Ratio	0.75	1.06	0.29	0.48	0.24
Gross working capital to Total Assets Ratio	0.19	0.21	0.21	0.30	0.25
Net sales to Net worth ratio	0.94	0.88	0.85	1.24	1.31
Cash Turnover Ratio	28.96	12.27	41.90	10.54	42.97
Cash to Current Assets Ratio	0.07	0.16	0.05	0.18	0.06
Inventory Turnover Ratio	4.02	3.59	2.67	3.23	3.81
Inventory to Sales Ratio	0.12	0.14	0.19	0.15	0.27
Inventory to Current Assets Ratio	0.26	0.27	0.36	0.29	0.64
Inventory to Networking Capital Ratio	1.24	1.05	3.23	1.83	3.40
Debtors Turnover Ratio	21.53	19.23	26.65	25.33	29.45
Average Collection Period	16.95	18.98	13.70	14.41	12
Debtors to Current Assets Ratio	0.10	0.10	0.07	0.08	0.08
Debtors to Sales Ratio	0.05	0.05	0.04	0.04	0.03

**Findings**

**Liquidity Ratios**

- Current Ratio shows a fluctuating trend throughout the study period. The standard norm of current ratio is 2:1 which was satisfied only in the year 2019 - 2020. Hence, the current ratio is unsatisfactory.
- Liquid Ratio or Quick Ratio shows a fluctuating trend throughout the period. The standard norm of liquid ratio is 1:1 which was not satisfied during the study period. Hence, the liquid ratio is unsatisfactory.
- Absolute Liquid Ratio shows a fluctuating trend throughout the period. At the same time this ratio fails to satisfy the standard norm of 0.5:1.

**Working Capital Ratios**

- Gross Working Capital to Fixed Asset Ratio shows an increasing trend from the year 2018-19 to 2021-22. The highest ratio was achieved in the year 2019-20 (0.94 times). This ratio shows the good financial policy.
- Gross Working Capital to Sales Ratio shows an increased trend from the year 2018-19 to 2021-22. In 2022-23 it decreases to 0.32 times. It reveals that the management of working capital is efficient during the study period.
- Sales to Net Working Capital Ratio show a fluctuating trend throughout the year. The highest ratio was recorded in the year 2022-23 at 12.94 times.

- Net Working Capital to Net worth Ratio shows a fluctuating trend throughout the study period. Hence, the liquidity position is not good.
- Net Working Capital to Current Liabilities Ratio shows a fluctuating trend throughout the study period.
- Gross Working Capital to Total Assets Ratio shows an increasing trend from the year 2018-19 to 2021-22. The highest ratio was achieved in the year 2021-22 at 030 times.
- Net Sales to Net worth Ratio shows a fluctuating trend throughout the study period. The highest ratio was recorded in the year 2022-23 at 1.31 times

#### Cash Ratios

- Cash Turnover Ratio shows a fluctuating trend throughout the study period. The highest ratio was recorded in the year 2022-23 at 42.97 times.
- Cash to Current Asset Ratio shows a fluctuating trend throughout the study period. This ratio was quite low. The company has to maintain liquid cash.

#### Inventory Ratios

- Inventory Turnover Ratio denotes inefficient management of inventory. This ratio shows an increasing trend from the year 2020-21 to 2022-23.
- Inventory to Sales Ratio denotes that it successfully manage its inventory. This ratio shows an increasing trend throughout the study period.
- Inventory to Current Assets Ratio indicates an increasing trend throughout the study period. It indicates the better management of inventory and current assets.
- Inventory to Net Working Capital Ratio shows a fluctuating trend throughout the study period.

#### Receivables Ratios

- Debtors Turnover Ratio shows a fluctuating trend throughout the study period. It reveals that the efficiency of Hindalco Industries Limited in debtor's turnover ratio is not up to the satisfaction.
- Average Collection Period shows a fluctuating trend throughout the study period. In 2022-23 the company's debt collection period is 12 days.
- Debtors to Current Assets Ratio show a fluctuating trend throughout the study period.
- Debtors to Sales Ratio show decreasing trend throughout the study period.

#### Suggestions

The analysis suggests the following ways to improve the company's working capital position,

- The company should improve its liquidity position by raising investment in current assets or reducing its current liabilities.
- The company must take appropriate actions to maintain cash balance. The cash balance is maintained in the following ways: Monitoring cash balances and optimizing cash inflows and expenditures to guarantee that the company has sufficient funds to pay its obligations.
- The company prioritize inventory in working capital management because it is potentially the most problematic part of the working capital management.

They are able to sell the inventory rapidly, improving its inventory position.

- To improve working capital, company should manage their receivables properly. This includes administering the company's credit policy, tracking consumer payments, and improving collection processes.

#### Conclusion

The Working Capital position of the Hindalco Industries Limited is analysed with the help of Liquidity Ratios, Working Capital Ratios, Cash Ratios, Inventory Ratios and Receivables Ratios. The liquidity position of the company shows unsatisfactory. The Working Capital position of the company is not satisfactory. The management has to take necessary steps for the betterment of its working capital. The company has to take the above suggestions for the improvement of its working capital position.

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