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A STUDY ON WORKING CAPITAL MANAGEMENT WITH REFERENCE TO LOTTE INDIA CORPORATION LIMITED, CHENNAI

E. Deepak¹

¹MBA Student,
Department of MBA,
Prince Shri Venkateshwara Padmavathy
Engineering College,
Chennai,
India

D. Praveena²

²Assistant Professor,
Department of MBA,
Prince Shri Venkateshwara Padmavathy
Engineering College,
Chennai,
India

ABSTRACT

The management of working capital affects the liquidity and the profitability of the corporate firm and consequently its net worth. Lotte India Corporation Limited manufactures and markets various confectionery and related products in India. The company was incorporated in 1954 and is headquartered in Chennai, India. The research is based on through secondary data of five years annual report of Lotte India Corporation Ltd. The objectives of the study achieved by using Statement changes in working capital, Ratio Analysis, Trend Analysis of five years annual report of Lotte India Corporation Ltd. Further the study including literature survey and specifying the limitations of our study. The findings of the study were arrived at based on the analysis conducted. The study is been concluded that the performance of Lotte India Corporation Ltd is excellent in working capital management and their increasing in profit every year indicates the good sign for the company.

1. INTRODUCTION

Working capital plays the same role in the business as the role of heart in the human body. Just like heart gets blood and circulates the same in the body, in the same way the working capital, funds are generated and then circulated in the business. As and when this circulations stops the business becomes lifeless.

Working capital is essential for the smooth running of any business. In the absence of adequate working capital, fixed assets cannot be utilized properly. Inadequate working capital leads to an

interruption in the production on the one hand, and inability to pay current obligations in time on the other. It has been viewed by many that business failure takes place due to lack of working capital and inadequate working capital is a business ailment. If a firm maintains an adequate working capital; it not only enjoys good credit rating, but also receives cash discount on its prompt payments.

COMPANY PROFILE:

Lotte India Corporation Limited manufactures and markets various confectionery and related products

in India. It offers various confectionery products, including gums under the BooProo and Spout brands; candies under the Coffy Bite, Lacto King, Caramilk, and Eclairs brands; and snacks under the Choco Pie brand. The company was incorporated in 1954 and is headquartered in Chennai, India. Lotte India Corporation Limited is a subsidiary of Lotte Confectionery Company Limited.

NEED FOR THE STUDY

The study is made to know about the financial assistance needed to meet the day to day operation of Lotte India Corporation Limited. Working Capital is the amount also needed to meet Current liabilities and short term debt. It is required to know the optimum level of current assets and current liabilities of the Lotte India Corporation Limited. It is very much needed to know about Working Capital requirements of the firm, and to be maintained properly. If there is a shortage of Working Capital it affects the day-day operation of the business firm and excess of Working capital fund become idle and affects the financial soundness of the firm.

2. OBJECTIVES OF THE STUDY

PRIMARY OBJECTIVE:

- To analyze the working capital management of Lotte India Corporation Limited.

SECONDARY OBJECTIVES:

- To analyse the optimum level of current assets and current liabilities of the Lotte India Corporation Ltd.
- To identify the liquidity position through ratio analysis of Lotte India Corporation Ltd..
- To study the working capital component such as receivables accounts, cash management & inventory management.
- To identify the future working capital requirements of the Lotte India Corporation Ltd.

SCOPE OF THE STUDY

The scope of the study is to check the management of working capital (current asset and current liabilities) in Lotte India Corporation Limited. This study is made to know the financial soundness required to meet the day-to-day operations of Lotte India Corporation Limited. Further the study is based on last 5 years Annual Reports of the Lotte India Corporation Limited. It helps to measure the future growth of the firm which helps in achieving the organizational goals.

3. REVIEW OF LITERATURE

Dubey .R(2015) ' describes that The working capital in a firm generally arises out of four basic factors like sales volume, technological changes, seasonal , cyclical changes and policies of the firm. The strength of the firm is dependent on the working

capital as discussed earlier but this working capital is dependent on the level of sales volume of the firm.

The firm requires current assets to support and maintain operational or functional activities. By current assets we mean the assets which can be converted readily into cash say within a year such as receivables, inventories and liquid cash. If the level of sales is stable and towards growth the level of cash, receivables and stock will also be on the high.

Dong (2010) Working capital management in his analysis affects the firms' profitability and liquidity. Pooled data are selected for carrying out the research for the era of 2006-2008 for assessing the companies listed in stock market of Vietnam.

He focused on the variables that include profitability, conversion cycle and its related elements and the relationship that exists between them. From his research, it was found that the relationships among these variables are strongly negative. This denotes that decrease in the profitability occurs due to increase in cash conversion cycle. It is also found that if the number of days of account receivable and inventories are diminished then the profitability will increase. Numbers of days of accounts receivable and inventories.

Eljelly (2004) Identified the relation between profitability and liquidity which was examined, as measured by current ratio and cash gap (cash conversion cycle) on an example of joint stock firms in Saudi Arabia. The study found that the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have significant effect on profitability at the industry level.

The results were stable and had important implications for liquidity management in various Saudi firms. First, it was clear that there was a negative relationship between profitability and liquidity indicators such as current ratio and cash gap in the Saudi sample examined. Second, the study also revealed that there was great variation among industries with respect to the significant measure of liquidity.

Gass D: How To Improve Working Capital Management' (2016) is an often repeated maxim amongst financial managers. Working capital management refers to the management of current or short-term assets and short-term liabilities.

Components of short-term assets include inventories, loans and advances, debtors, investments and cash and bank balances. Short-term liabilities include creditors, trade advances, borrowings and provisions. The major emphasis is, however, on short-term assets, since short-term liabilities arise in the context of short-term assets. It is important that

companies minimize risk by prudent working capital management.

Hardcastle(2016) Studied that Working capital, sometimes called gross working capital, simply refers to the firms total current assets (the short-term ones), cash, marketable securities, accounts receivable, and inventory. While long-term financial analysis primarily concerns strategic planning, working capital management deals with day-to-day operations.

By making sure that production lines do not stop due to lack of raw materials, that inventories do not build up because production continues unchanged when sales dip, that customers pay on time and that enough cash is on hand to make payments when they are due. Obviously without good working capital management, no firm can be efficient and profitable.

Lazaridis and Tryfonidis 2006, have explored the relationship between corporate profitability and WCM in the Athens Stock Exchange. The finding of results shows a negative relationship between profitability and working capital indicators like days of accounts receivable, account payable and cash conversion cycle. They concluded that firms could create profits by effectively handling each component of the cash conversion cycle.

McClure B 2008 'Working Capital Works' describes that Cash is the life line of a company. If this lifeline deteriorates, so does the company's ability to fund operations, reinvest and meet capital requirements and payments. Understanding a company's cash flow health is essential to making investment decisions.

A good way to judge a company's cash flow prospects is to look at its working capital management (WCM). Cash is king, especially at a time when fundraising is harder than ever. Letting it slip away is an oversight that investors should not forgive. Analysing a company's working capital can provide excellent insight into how well a company handles its cash, and whether it is likely to have any on hand to fund growth and contribute to shareholder value.

Mohammad Neab and Noriza BMS (2010) worked on crating the relationship between Working Capital Management (WCM) and performance of firms. For their analysis, they chose the Malaysian listed companies. They administered the perspective of market valuation and profitability. They used 172 listed companies from the databases of Bloomberg. They randomly selected five-year data (2003-2007). A research likewise the researches quoted before studied the impact of the dimensions of working capital component.

4. RESEARCH METHODOLOGY

Research is the systematic process of collecting and analysing data in order to increase our understanding of the phenomenon about which we are concerned or interested. It is the indepth search for knowledge.

RESEARCH DESIGN

The research design followed to study the working capital management in Lotte India Corporation Ltd is analytical research design. Analytical Research Design, the researcher has to use facts or information already available, and analyze them to make a critical evaluation of the material. It involves the in-depth study and evaluation of available information in an attempt to explain complex phenomenon.

SOURCES OF DATA COLLECTION:

1. Secondary Data Collection

SECONDARY DATA COLLECTION

The secondary data those which have already collected and stored. Secondary data easily get those secondary data from records, journals annual reports of the company etc. It will save the time, money and efforts to collect the data. Secondary data also made available through trade magazines, annual reports, books etc

FINANCIAL TOOLS USED FOR THE ANALYSIS

- 1.Statement showing changes in working capital
- 2.Ratio Analysis
- 3.Trend Analysis

LIMITATIONS OF THE STUDY

- Due to the inadequate time of research it is not possible to analyze all respects to the study.
- The quantitative aspects have been taken into account for the study whereas qualitative aspects haven't considered.
- Authorities were reluctant to reveal the information.

5. DATA ANALYSIS AND INTERPRETAION

Statement Showing Changes In Working Capital For The Lotte India Corporation From March 31, 2017 To March 31, 2018

PARTICULARS	BALANCE (Rs)		CHANGES IN WORKING CAPITAL (Rs)	
	MARCH 31,2017	MARCH 31,2018	INCREASE	DECREASE
CURRENT ASSETS				
Inventories	4,521.86	4,929.95	408.09	-
Trade receivables	2,044.92	1,939.89	-	105.03
Cash and bank balance	3,039.73	4,337.31	1,297.58	-
Short term loans & advances	1,702.28	2,302.64	600.36	-
Other current asset	208.50	228.22	19.72	-
TOTAL CURRENT ASSETS	11,517.29	13,738.01	-	-
LESS: CURRENT LIABILITIES				
Short-term borrowings	36.73	108.87	-	72.14
Trade payables	6,169.80	6,113.93	55.87	-
Other current liabilities	7,964.80	6,978.29	986.51	-
Short-term provisions	14.23	13.22	1.01	-
TOTAL CURRENT LIABILITIES	14,185.56	13,214.31		
NET WORKING CAPITAL(CA-CL)	-2,668.27	523.70	-	-
INCREASE IN WORKING CAPITAL	3191.97		-	3191.97
TOTAL	523.70	523.70	3,369.14	3,369.14

INTERPRETATION:

The company has an increased level in the year 2018. This is due to the control on creditors. In addition, increase in the inventory and loans. Moreover, the company has to take a special attention over this varying working capital.

6. SUGGESTIONS

➤ Working capital of the company has increasing every year and it shows the overall financial position of the Lotte India Corporation Ltd is normal but it is required to be improved from the point of view of profitability.

➤ The current and quick ratios are almost up to the standard requirement. So the working capital management of Lotte India Corporation Ltd is satisfactory and it has to maintain it further, to run the long term business.

➤ Liabilities of the company shows in increasing trend and it is suggest to develop the business to reduce liabilities and also purchase raw material on the credit basis.

7. CONCLUSION

The study is conducted to analyse the financial position of the company. The company financial position is analysed by using the tool of annual reports from 2013 to 2018. The financial status of Lotte India Corporation Ltd is good. In the five year it has increased inventory level, that shows the good sign of the company. The company liquidity and profitability position is not a satisfactory level, so the company wants to concentrate in increasing the satisfactory level in upcoming financial years. On the overall, it can be concluded that the company's working capital and profit is increasing every year, so it is indicates the good sign for the company. For conducting the project work that the authorities of the company have given full support and better co-operation for me. Its helps to conduct the study in an easy way and it is reveal the performance.

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