

WORKING CAPITAL ANALYSIS IN FERTILIZERS INDUSTRY: AN OVERVIEW

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ABSTRACT

Fertilizer will be defined as a chemical or natural substance wont to make soil or land more fertile. First employed by ancient farmers, fertilizer technology developed significantly because the chemical needs of growing plants were discovered. Through fertilizers, farms get enable to provide a sustained high level of production. To achieve success in agriculture, people have to know the fundamentals of various fertilizers and their usage. Fertilizers must be applied to all or any forms of crop production systems so as to realize yield levels which make the hassle of cropping worthwhile. A financial ratio could be a relatively significance of selected measurable values taken from a company's financial statements. Working Capital to the corporate is just like the blood to body. If it's applied effectively, efficiently and consistently, which assure the health of a company? Therefore, effective management of assets is vital for the survival of a business. The aim of this research is to contribute towards a lawfully important aspect of monetary management called assets management with regard to two Indian Fertilizer Industries. Here a trial has been made to research the financial results supported the financial statements for a period of 5 years from 2015-2016 to 2019-2020 and also the researcher attempts to require results of comparison between two such industries. Two ratios are selected for measuring the financial performance i.e. Current Ratio, Cash Ratio. The result shows that there's still a necessity of effective capital policy to run the business of the businesses under study.

KEYWORDS: *Inventory Management, Working Capital Correlation, Financial Ratios.*

Introduction

Working Capital could also be thought to be the lifeblood of a business. It means the capital available for meeting the working expenses of a business after acquisition of its fixed assets. Every business needs funds for 2 purposes. Future funds are required to form production facilities through purchase of fixed assets like plants & machinery, land, buildings etc. These funds are called capital. It's said the surplus of current assets over current liabilities. Therefore, management of assets refers to the management and control of every component of current assets and current liabilities. Again, liquidity of a firm is set by the ratio of Current Assets to Current Liabilities and other relevant ratios. The fertilizer industry in India is within the core sector and second to steel in terms of investment. Fertilizer is a necessary component of recent agriculture. Rashtriya Chemicals and Fertilizers Limited (a Government of India undertaking), was established in 1978 consequent to the reorganization of Fertilizer Corporation of India. RCF manufactures Urea and sophisticated fertilizers (NPK) together with a large range of commercial Chemicals. The Fertilizers & Chemicals Travancore Ltd is also engaged in manufacturing of various kinds of complex fertilizers and ammonium sulfate including petrochemicals and others.

Objectives of Study

The specific objectives of the study are:

- To understand the financial position of the fertilizer companies in India
- To live the capital efficiency of the fertilizer companies in India
- To review the importance of assets management and income analysis practices under study area.
- To review the financial performance through Ratio Analysis and income Analysis.
- To supply findings and suggestions and conclusions of this study

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Review of Literature

Peter Hess & Murray McBride stated as "There are far more toxic metals on the table than what they obvious to manage. In line with him they regulate only nine metals with known health risks plus lead, cadmium and arsenic. And metals are just the start.

R.Sylvester – Bradley, D.T. Stokes and R.K. Scott stated as on reventive soils within the UK, SNS in early spring was an honest gauge of N availability throughout growth of unfertilized wheat, because the N excess arising from previous fertilizer mineralized before analysis still persist largely within root range. The later process of grain filling was assist by continued N uptake likewise as from sources not associated with previous fertilizer use significant net mineralization was apparent in some subsoils.

Raheman, Afza, Qayyum, and Bodla (2010) analysed the capital management practices and their impact on corporate performance. They took a sample of 204 manufacturing firms of Karachi exchange for the quantity 1998–2007 and located cash conversion cycle, net fluctuation and inventory turnover affecting the performance of the firms significantly.

It was analysed by **Van Horne and Wachowicz (2004)** that excessive level of current assets may have a negative impact on a firm's profitability.

Ghosh (2007) analysed in his study capital management practice in four different industries: (a) National Fertilizer Limited (b) Textile Industry (c) Cement Industry and (d) Pharmaceutical industry; and included the objectives wish to control source and size of assets with a review made in 98 small-scale textile firms of Punjab. The study concluded aside from the own capital, bank loans are the foremost projecting source of assets among most of the chosen units.

It was examined by **Bose (2013)** that the assets management impacts on firms' profitability. It had been found within the study that within the electric equipment sector source of the capital management components widely vary.

Kaur and Singh (2013) study examined that the efficiency and profitability will be managed through capital management. Their findings were in support to the sooner studies that efficient management of capital significantly impacts profitability.

Kumar and Ramanan (2013) supported that there has been a control of capital management on profitability of producing firms.

Rational of Study

In India, agriculture is that the largest sector of economic activity. It provides food, raw materials and particularly, the utilization to a awfully large proportion of population. The national output depends on the output in agriculture, because it is one amongst the foremost dominating sectors in India. Agriculture accounts for nearly one-fourth of India's GDP and more importantly about two-third of the country's population depends on agriculture and allied activities for his or her livelihood. India has inherited an expensive and flourishing civilization spanning over thousands of years. Over 70% of the population is trying to find agriculture, for his or her sustenance. It provides food to various people and raw materials to our industries. Indian fertilizer industry's main objective is to make sure the provision of primary and secondary nutrients within the required quantities. The Indian Fertilizer Industry is that the most energy intensive sectors per the context of environmental discussions. As there's increasing productivity through the implementation of competent and pollution free technologies within the manufacturing sector it might be desirable in combining economic, environmental and social development objectives. Today the Indian fertilizer industry within the past 50 years has grown in size and stature because it ranks third within the world. Main objective of the study is to research financial position of sample companies for period 2015-16 to 2019-20. However, a comparative logical study has been undertaken wherever it's feasible for better conclusions.

Hypothesis for Study

- H₀** There is no any significant difference in financial performance in between years and in - between companies under study.
- H₁** There is significant difference in financial performance in between years and in - between companies under study

Research Methodology

Research methodology is also said as systematic procedures adopted by the researcher for conducting the research starting right from recognition of the matter till its final deductions and solutions. Research methodology may be systematic thanks to solve an issue i.e. it describes how the research is to be dispensed. Its aim is to offer the work plan of research. The study of research methodology provides the mandatory guidance in selecting the methods, materials, scientific tools pertinent to the matter chosen and also the logic behind selecting them.

- **Sample Design:** The study has been administered by selecting a two company namely Rashtriya Chemicals & Fertilizers Ltd. and Fertilizers & Chemicals Travancore Ltd, which are leading companies within the Indian Fertilizer Industries.
- **Data Source:** the information required to complete the study has been collected from the published consolidated annual reports of the 2 companies.
- **Study Period:** The study has been conducted over a awfully limited period of 5 years only i.e. 2015-2016 to 2019-2020
- **Tools and Techniques of Data Analysis:** the info collected from the published annual reports of the 2 companies and various websites for the five year period are suitably rearranged, classified and tabulated as per requirements of the study.

Results and Analysis

Ratio analysis is that the most generally used tool to interpret quantitative relationship between two variables of the corporate. It becomes a necessity to live the short-term solvency or liquidity position of the corporate by the management yet because the external interested parties before taking a call.

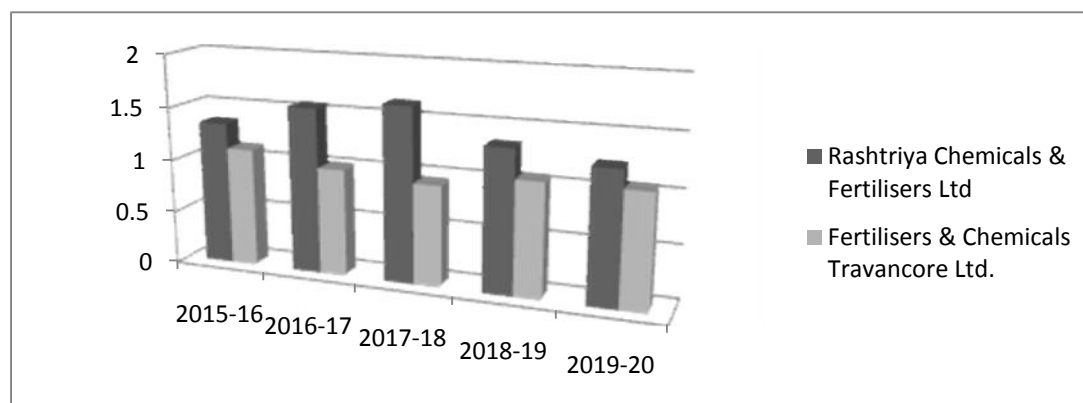
Current Ratio

The most used ratio as a measure of liquidity is that the Current Ratio. It's calculated by taking current asset as numerator and current liabilities as denominator. The upper is that the current ratio, the larger the number of current asset per rupee of current liabilities, the more the farm's ability to fulfill current obligations and vice-versa. The current ratio is calculated as current assets divided bu Current Liabilities

**Ratio of Current Assets and Current Liabilities of
Rashtriya Chemicals & Fertilizers Ltd. and Fertilizers & Chemicals Travancore Ltd.**

Year	Rashtriya Chemicals & Fertilisers Ltd			Fertilisers & Chemicals Travancore Ltd.		
	Current Asset	Current Liabilities	Ratio	Current Asset	Current Liabilities	Ratio
2015-16	5,622.31	4,157.28	1.35	1,327.79	1,181.70	1.12
2016-17	4,501.00	2,893.62	1.56	1,192.34	1,181.45	1.01
2017-18	3,9868.41	2,424.36	1.64	1,433.15	1,515.18	.95
2018-19	6310.94	4705.10	1.34	1933.04	1813.30	1.07
2019-20	7249.76	5833.04	1.24	2131.21	1998.87	1.07
Average	-	-	1.43	-	-	1.044

Source: MoneyControl.Com

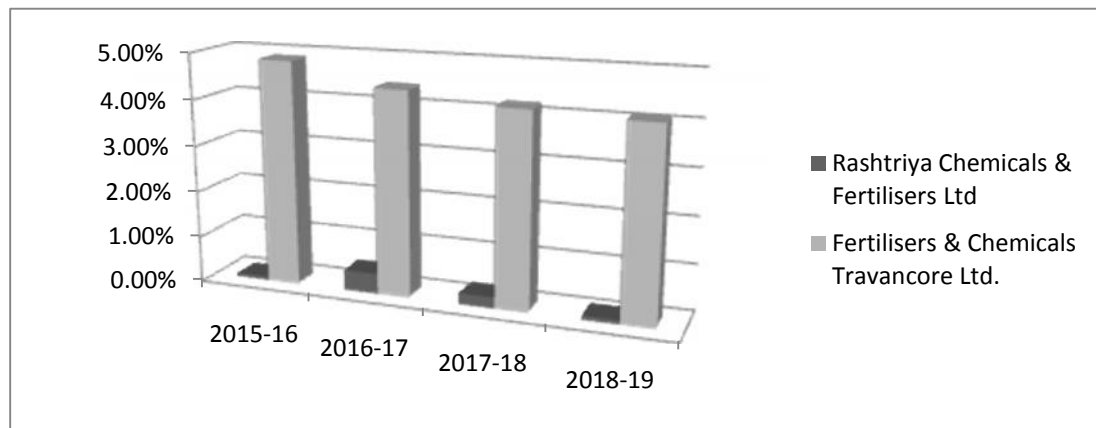


It is generally taken as 2:1 ratio as an ideal ratio of current assets and current liabilities. This means that short term liabilities can be met approximately twice over by existing short term sources of fund. The current ratio of Rashtriya Chemicals & Fertilizers Ltd is lower than the acceptable norms during the years, which is greater than the ratio of 1:1 by applying 'Just in Time'(JIT) principle of current asset management. In case of Fertilizers & Chemicals Travancore Ltd is lower than the ideal 1:1 during the study period of 2017-18 but in other years it has been found as greater than 1:1 which is a good sign. Generally the liquidity position of Fertilizers & Chemicals Travancore Ltd is comparatively is not so good which is below all the ratios throughout the year.

**Ratio of Cash & Bank Balance and Current Liabilities of
Rashtriya Chemicals & Fertilizers Ltd. and Fertilizers & Chemicals Travancore Ltd.**

Year	Rashtriya Chemicals & Fertilisers Ltd			Fertilisers & Chemicals Travancore Ltd.		
	Cash and Cash Equivalents	Current Liabilities	Ratio	Cash and Cash Equivalents	Current Liabilities	Ratio
2015-16	3.15	4,157.28	.08%	57.57	1,181.70	4.87%
2016-17	13.01	2,893.62	.45%	52.18	1,181.45	4.42%
2017-18	5.95	2,424.36	.25%	63.65	1,515.18	4.20%
2018-19	4.86	4705.10	.10%	74.67	1813.30	4.12%
2019-20	3.36	5833.04	.06%	667.17	1998.87	33.37%
Average	-	-	0.18%	-	-	10.20%

Source: MoneyControl.Com



It is established rule that the cash ratio should be at least .50:1. It is also regarded as an absolute liquid ratio. The absolute liquid ratio of both the Company remained below the acceptable standard norm during all the years of the study. The performance of the Rashtriya Chemicals & Fertilizers Ltd. in terms of liquidity position is very weak throughout the all year. It can be observed that the liquidity position of the 1st Company is lower in comparison to the 2nd Company. This means very short-term liquidity position is very dangerous. It must be improved.

Conclusion and Recommendations

The financial performance analysis shows the strength and weakness of every concern. This study is done out to investigate the financial performance of fertilizer companies in India. The fertilizer industry presents one in all the foremost energetic sectors within the Indian economy. The varied varieties of profitability ratios, short term and future solvency ratios are used and lending suggestions to enhance the financial position of the corporate. The Indian fertilizer industry will have an honest future but more efforts are required by the industry to satisfy out financial obligations. Generally the co-operative fertilizer sector is far better than public sector. On the full, fertilizer industry possessed hefty amounts of capital especially within the later years of study. The capital showed an increasing trend for the industry. The identical scenario was observed for current assets and current liabilities. Also the assets ratio was seen to be not satisfactory. Largely, inverse relationship between liquidity and profitability was observed for the fertilizer industry. Inventories formed the biggest portion of current

assets and showed a growing trend throughout the study period. Inventory turnover was good because the inventories were being converted in but two months. The companies take an attempt to cut back debt burden by way of accelerating owned fund. It's automatically reducing financial charges. Few suggestion are here below given to make working capital more better

- The companies allot more funds for brief term obligations to take care of its liquidity position.
- The FACT pay more attention in capital budgeting because they made investment in fixed assets than equity.
- Both the businesses mat made a shot to extend sales and profit.
- The companies encourage the farmers to shop for the fertilizers through co- operative societies only.

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