Management of Working Capital in Fertilizer Industry: A Comparative Study

Abstract

Significance of fertilizer industry to the agriculture dominated economy of the nation in no manner can be underestimated or uncared for. With the gigantic growth in the domestic manufacturing competence, India has come out as the third biggest producer of Nitrogenous and Phosphotic Fertilizers in the world, next only to China and USA. Fertilizer industry done marvellous hard works to make the country self-dependent in fertilizer manufacturing and has succeeded to a great extent in bringing down the import of fertilizers.

Working capital is both life-blood and spirit of a company, just as flow of blood is indispensable to the human body for maintaining life, working capital is equally vital to maintain the smooth functioning of a business, without which no organization can bring a sound solvency to the business. It enables a company in creating and maintaining benevolence. It also enables a business undertaking to pay off its current dues and also provides much needed supply of raw materials. Adequate working capital provides vigor to the company and capability to countenance disaster. Working capital is tremendously crucial for meeting the daily necessities of a company. No business can flourish without working capital.

The study of management of working capital in Fertilizer Industry of India essentially has been undertaken to evaluate the management of working capital in fertilizer industry of India.

24 companies (big players of the Fertilizer Industry of India) which consists of 7 in the public sector, 15 in the private sector and 2 in the cooperative sector were included in the universe. The universe was stratified into three strata for the purpose of selecting the sample i.e. cooperative, public and private sector. Sample for the present study has been chosen from the population
formulated for the purpose of study of management of working capital. Out of 24 companies in the universe, a sample of 10 companies was selected. Four companies are chosen out of seven companies in the public sector, while four companies have been selected out of fifteen companies in the private sector were randomly selected and to facilitate within sector comparison both of companies from co-operative sector have also been selected, completing the sample size.

Keeping in mind the objectives of the present study, secondary data have been extracted from the annual reports of the selected companies. Published annual reports from 1999-2000 to 2008-2009 were collected from the library of Fertilizer Association of India, New Delhi. In this empirical study, statistical techniques i.e. Arithmetic Mean, Standard Deviation, Coefficient of Variation and Correlation have been used for descriptive analysis. Financial Ratio such as Current Ratio, Profit before Tax Ratio, Quick Ratio, Return on Total Assets, Inventory Turnover Ratio, Receivable Turnover Ratio and Payable Turnover Ratio have been utilized for financial analysis.

On the whole present study reveals that management of working capital needs a lot of improvement for the entire industry, especially in the field of inventory and receivables as these constitute major components of working capital. These require special attention so as to abstain from ill effects associated with their imbalance, such as bad debts and inventory carrying costs. Sound financial performance of companies under study can only be improved by managing working capital efficiently and effectively.