



International Journal of Multidisciplinary Research and Growth Evaluation



International Journal of Multidisciplinary Research and Growth Evaluation

ISSN: 2582-7138

Received: 15-08-2021; Accepted: 01-09-2021

www.allmultidisciplinaryjournal.com

Volume 2; Issue 5; September-October 2021; Page No. 296-298

Working capital management in food processing industry in India

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Abstract

Working capital is the funds available for day to day operations of an organization. It represents the excess of current assets over current liability. It indicates the liquidity level of the companies for managing the daily expenses like trade payables, cash, inventory cost and short term debt.

Working capital plays an important role in the food manufacturing sector. This sector needs to meet its expenses faster as it has to deliver the products on its due date without

failing or else it will lose customers. It has been found that food industries with shortest working capital cycle has relatively higher rate of profitability. The food sector has undergone lot of change, growth, operation, and risk handling. One of the key factors is working capital management. In the food sector the two important indicators of financial strengths are profitability and cash flow efficiency.

Keywords: inventory, debt, short term liability, cash flow efficiency

Introduction

Working capital plays an important role in shaping the future of the company. It helps in maintaining solvency of the business by providing uninterrupted flow of production. It helps to meet its customers on time and not lose them.

It helps in creating goodwill by making payments timely.

It helps in procuring loans easily. All financial institutes looks at the high solvency and credit standings, if it is suitable to the needs it provides loan easily. Timely payments helps in getting great discounts and offers. It also helps in getting regular supply of raw materials.

It helps in exploitation of favorable market conditions such as purchasing its requirement in bulk when the prices are lower.

Every investor wants a quick and regular returns on his investments. Sufficient working capital enables the concerns to pay quickly and regular dividends to its investors. This helps in gaining the confidence of investors and provides funds in future.

To maintain smooth working capital cycle by maintaining right amount of raw material, selling the finished goods on time, collecting the cash receivable on time and by paying the bills on time without interest.

- Optimum working capital should be maintained in order to save the organization from the adversities of high or low working capital. High working capital leads to higher interest cost and lower working capital leads to risk of stoppage in operation.
- Minimize rate of interest or cost of capital .The cost of acquiring capital should be minimized by using the long term funds in proper mix. The capital mix should be such that will provide more rate of return compared to the rate of interest or cost of capital.

Optimal returns on current asset investment

Objectives of Study

- To study the working capital management in the food processing industry in India
- To understand the role of the management of different components of working capital as inventory management, receivables management and cash management

Indian food processing industries

The Indian food industry faces a massive growth and constantly increasing the production. India produces around 32% of the world's food production. The government through ministry of food processing industries is making all efforts to promote investment in the business producing food.

The Indian food and grocery market is the sixth largest in the world. It contributes 8.80% and 8.39% of gross value added in manufacturing and agriculture respectively.

According to the data provided by the department of industrial policies and promotion the food processing sector in India has received around US\$ 7.54 billion worth of FDI. The top Indian food manufacturers are Amul, Parle, Vadilal, Balaji, Kissan and Emami.

Literature reviews

There are many research works on working capital management in different sectors. One of the most important sectors in India is food industry. As we all know the food industry of India has witnessed drastic changes over the year. It has emerged as a high growth and high profitable sector. The Indian food sector is the world's sixth largest. India is ranked fifth in terms of production, consumption, export and expected growth. The online food ordering business in India is facing good growth. Indian food sector requires a huge amount of investment. The Economic Times mentions that the ability to manage its working capital in all sectors influences the market growth.

Research Methodology

The two main sources by which the data is collected are:

- Primary sources-this is the data collected on first hand basis which is original in basis

Interviews of different food manufactures.

- Secondary sources-recorded stored report.

Annual report of company, reference books, books of ICWAI in financial accounting, some more information collected from internet and various websites.

Data Analysis and Interpretation

The data has been collected from thirty respondents, all from different walks of life.

- Do you think that working capital plays an important role in the food manufacturing industry?

Yes-30

No-0

Interpretation-all found that working capital plays an important role in shaping the future of the company. Adequate working capital helps in gaining advantages over the competitors.

- If a food manufacturer has excess of working capital then it is _____ at handling the capital

Efficient-2

Inefficient-28

Interpretation-we all know that working capital management is important food industry and if it is not managed properly than can lead to various problems, excess working capital means no profit earned on the capital that is kept idle.

- Does inadequate working capital stagnates growth

Yes-5

No-25

Interpretation-yes it surely stagnates growth as the scarcity of the capital stops the normal flow of the work. The amount of quantity required to be produced is not produced on the specific period.

- The length of working capital cycle should be

Short-30

Long-0

Interpretation-all companies aim to have a short working capital cycle as they all aim to get back the money that is involved in producing the goods and services.

- Do you consider inventory and cash management to be important aspect in working capital management?

Yes-28

No-2

Interpretation-without cash and inventory management things can't go as planned and will lead to drastic effects. Cash management is important so that required cash is available at hand to meet all kinds of expenditure. The inventory management is also important as it helps in smooth flow of operations.

- Which is the best sources of working capital for a food manufacturing company?

Share - 4

Debenture - 4

Ploughing back of profit -6

Bank loan - 6

Deferred loan -5

Bank overdraft -5

Interpretation-the working policies of the company will decide which source of working capital is of more important and providing more benefit.

- Do you think the food manufacturing company should manage the receivable or else will be less competitive?

Yes -30

No-0

Interpretation-the company should manage the receivable very effectively or else will have to bear negative consequences. The time gap within which the money is received and the product is sold out should be less as far as possible.

Finding and Suggestions

- The study reveals that working capital has both effects negative as well as positive. The usage of it determines the impact.
- The working capital has to be utilized to its fullest to grab the advantages.
- The working capital should be sufficient.
- The current ratio should be such that the current liabilities should be easily paid off. The respondents are aware of the benefits and compare the working capital of the previous years to have knowledge of the working capital management.

Conclusion

The study of working capital management by the food industry show how the industry has emerged as the most powerful industry, the way it is utilizing the resources effectively and still has chances to improve. The help of government is always there. It can work in better way definitely over the years. On the whole the Indian food industry can work better compared to the present situation.

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