A STUDY ON WORKING CAPITAL MANAGEMENT
– With special reference to HDFC Ltd.

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1. ABSTRACT

Working capital management is an integral part of overall corporate management. Many finance managers, who are quite at home and competent in dealing with long term decisions, such as capital investments experience difficulties when they have to scout for funds to meet the day to day working needs. With bank finance getting increasingly scare, regulated and expensive the emphasis has shifted to closer attention to internal generation of funds and the development of the enterprises ability to raise funds in the market.

Working capital is one of the most important requirements of any business concern. Working capital can be compared with the blood of human beings. As human ca't survive without blood in the same way any business concern can't survive without working capital.

2. INTRODUCTION

Working capital includes not only cash but also need cash assets like receivable and inventory which are in the process of moving towards cash in a short span of time out production investment in securities receivables and quarter of cash that is to be maintained are known as working capital.

The capital requirements of a business are divided into two main categories, fixed capital requirements and Working capital requirements.

3. SCOPE OF THE STUDY

The HDFC Bank is the present study however was able to cover HDFC Bank financing services. Moreover it is a case study about HDFC Bank the financing activities at HDFC Bank level were covered.

4. OBJECTIVES OF THE STUDY

- The objective of the study is to know the short term financial position of the HDFC Bank with Working Capital Management.
- To, identify the limitations in management of the HDFC Bank and suggestions to overcome those limitations.
- To provide a conceptual frame work and theoretical perception about the performance of HDFC Bank.
- To provide credit facilities to the customers
- To pay wages and salaries to the employees working in the organization.

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- To know the day-to-day expenses.

5. BANKS IN INDIA

In India the banks are being segregated in different groups. Each group has their own benefits and limitations in operating in India. Each has their own dedicated target market. Few of them only work in rural sector while others in both rural as well as urban. Many even are only catering in cities. Some are of Indian origin and some are foreign players.

All these details and many more is discussed over here. The banks and its relation with the customers, their mode of operation, the names of banks under different groups and other such useful information"s are talked about.

One more section has been taken note of is the upcoming foreign banks in India. The RBI has shown certain interest to involve more of foreign banks than the existing one recently. This step has paved a way for few more foreign banks to start business in India.

BANKING STRUCTURE IN INDIA SCHEDULED BANKS IN INDIA

(1) Scheduled Commercial Banks

Public Sector Banks	Private Sector Banks	Foreign Banks In India	Regional Rural Banks
26	25	29	95
✓ Nationalized Bank ✓ Other Public Sector Banks (IDBI) ✓ SBI And Its Associates	✓ Old Private Banks ✓ New Private Banks		

6. WORKING CAPITAL MANAGEMENT AND POLICY

Working capital can be defined as the amount at funds, which a Company must have to finance its day-to-day operations. It can also be regarded as that proportion of the companies" total capital, which is employed in "current liabilities" which are short term assets that are normally expected to get converted into cash within a year. Current liabilities are short term liabilities maturing for the payment within a short period say one year, and they partly support the investment in current assets. In other words they serve as a source of working capital.

- Net working capital is defined as the difference between current assets and current liabilities, and represents the extent to which current assets arefinanced by long-term funds.

- Working capital management is the process of administration of current assets and Current liabilities within the policy guidelines of the company.
- Working capital policy is concerned with basic policy decisions regarding.
- The target levels each category of current assets.
- The methods of financing the current assets.

Current assets in many cases constitute more than half of the total Assets employed In business and therefore, it is essential to evolve an appropriate working capital policy to suit the specific needs of the firm an manage its working capital accordingly.

Current liabilities that are specifically financing current assets come under the preview of working capital policy. These are distinct from current liabilities which are consequences of past long term financing decisions, such as current maturates of long term debt or those in nature of temporary financing of capital projects which will be subsequently funded by long term sources off finance.

The aim in working capital management and policy is to maintain a proper balance between the magnitude of working capital and the general scale of operations of the company and to determine, with reference therefore, the appropriate levels of components of current assets to be maintained and the pattern of financing them.

6.1 IMPROTANCE OF WORKING CAPITAL MANAGEMENT

The importance of working capital management can be traced to the following main considerations.

- Current assets constitute the dominant segment of the total assets employed in most business and, therefore, require more intense and careful managerial attention.
- The investment in current assets and level of current liabilities are very sensitive to changes in sale and the funds requirements shifts rapidly, demanding quick short-term decisions to sustain smooth operations.
- Through profitability and proper selection of investments are essential for the long fun prosperity of the business, its short-term survival depends on its liquidity or ability to meet short-term obligations fully and promptly.
- The precondition for liquidity is efficient management of the elements of working capital and the ability to raise sufficient short and long-term finance.

6.2 DETERMINANTS OF WORKING CAPITAL

In determining the working capital requirements of a concern, the following are to be considered.

1. Nature and size of Business
2. Manufacturing cycle
3. Sales Growth
4. Production Policy
5. Price Level Changes
6. Firms Credit Policy
7. Availability of Credit

7. ANALYSIS

7.1 STATEMENT SHOWING THE CHANGES IN WORKING CAPITAL

(In Lakhs)

PARTICULARS	2012	2013	INCREASE Rs.	DECREASE Rs.	CHANGE In %
Current Assets					
Advance	1,25,753	1,34,977	9,224		73.3
Stock	35,902	54,276	18,374		51.17
Receivables	18,830	28,730	9,900		52.57
Cash	414	563	149		35.99
Debtors	1,28,464	1,10,603		17861	13.9
Bank	2,732	5,346	2614		95.68
Total (a)	**3,12,095**	**3,34,495**			
Current Liabilities					
Borrowing	20,000	37,464		17464	87.32
Payables	12,388	12,545		157	1.26
Surplus	10,155	9,813	342		3.36
Dividends	2,544	2,731		187	7.35
Total(b)	**45,087**	**62,553**			
Networking Capital	**2,67,088**	**2,71,942**			
Increase in Working Capital	**4,854**				
Total	**271,942**	**271,942**	**40,603**	**40,603**	

7.2 STATEMENT SHOWING THE CHANGES IN WORKING CAPITAL

(In Lakhs)

PARTICULARS	2012	2013	INCREASE Rs.	DECREASE Rs.	CHANGE In %
Current Assets					
Advance	1,34,977	1,46,047	11,070		8.2
Stock	54,276	57,676	3,400		6,026
Receivables	28,730	52,759	24,029		83.63
Cash	563	1,382	819		145.47
Debtors	1,10,603	1,30,622	20,019		21.71
Bank	5,346	5,961	615		11.5
Total (a)	**3,34,495**	**3,94,447**			
Current Liabilities					
Borrowing	37,464	53,858		16,394	43.75
Payables	12,545	12,658		513	1.36
Surplus	9,813	10,555		742	7.56
Dividends	2,731	2,924		193	7.03
Total(b)	**62,553**	**79,995**			
Networking Capital	**2,71,942**	**3,14,452**			
Increase in Working Capital	**42,510**			**42,510**	
Total:	**3,14,452**	**3,14,452**	**59,952**	**59,952**	

7.3 STATEMENT SHOWING THE CHANGES IN WORKING CAPITAL

(In Lakhs)

PARTICULARS	2012	2013	INCREASE Rs.	DECREASE Rs.	CHANGE In %
Current Assets					
Advance	1,46,047	1,68,135	22,088		15.12
Stock	57,676	81,341	23,665		41.03
Receivables	52,759	77,171	24,412		46.27
Cash	1,382	448		934	67.58
Debtors	1,30,622	2,09,649	79,027		60.5
Bank	5,961	4,630		1,331	22.33
Total(a)	**3,94,447**	**5,41,374**			
Current Liabilities					
Borrowing	53,858	1,60,694		1,06,836	198.36
Payables	12,658	21,544		8,886	70.2
Surplus	10,555	10,973		418	3.96
Dividends	2,924	3,329		405	13.89

Total(b)	**79,995**	**1,96,540**			
Networking Woriking Capital	**3,14,452**	**3,44,834**			
Increase in Working Capital	**30,382**			**30,382**	
Total:	**3,44,834**	**3,44,834**	**1,49,192**	**1,49,192**	

7.4 STATEMENT SHOWING THE CHANGES IN WORKING CAPITAL

PARTICULARS	2012	2013	INCREASE Rs.	DECREASE Rs.	CHANGE In %
Current Assets					
Advance	1,68,135	2,09,200	41,065		15.12
Stock	81,341	1,36,935	55,594		41.03
Receivables	77,171	54,219		22,952	46.27
Cash	448	1,210	762		67.58
Debtors	2,09,649	3,20,344	1,10,695		60.5
Bank	4630	11,919	7288		157.41
Total(a)	**5,41,374**	**7,33,827**			
Current Liabilities					
Borrowing	1,60,694	2,08,818		48,124	198.36
Payables	21,544	21,053	491		70.2
Surplus	10,973	10,431	542		3.96
Dividends	3,329	3,571		242	7.27
Total(b)	**1,96,540**	**2,43,873**			
Networking Capital	**3,44,834**	**4,89,953**			
Increase in Working Capital	**1,45,119**			**1,45,119**	
Total:	**4,89,954**	**4,89,953**	**2,16,437**	**2,16,437**	

7.5 STATEMENT SHOWING THE CHANGES IN WORKING CAPITAL

PARTICULARS	2012	2013	INCREASE Rs.	DECREASE Rs.	CHANGE In %
Current Assets					
Advance	2,09,200	2,38,435	29,235		13.97
Stock	1,36,935	69,104		67,831	49.54
Receivables	54,219	41,016		13,203	24.35
Cash	1210	1,557	347		28.68
Debtors	3,20,344	3,06,167		14,177	4.43

Bank	11,919	33,565	21,646		81.63
Total(a)	**7,33,827**	**6,89,844**			
Current Liabilities					
Borrowing	2,08,818	1,98,968	9,850		4.72
Payables	21,053	24,057		3004	14.27
Surplus	10,431	12,113		1,682	16.12
Dividends	3,571	4,200		629	17.61
Total(b)	**2,43,873**	**2,39,338**			
Networking Capital	**4,89,954**	**4,50,506**			
Increase in Working Capital		**39,448**		**39,448**	
Total	**4,89,953**	**4,89,953**	**1,00,526**	**1,00,526**	

8. FINDINGS

1. An increase in current ratios represents the improvement in the liquidity position of a company while a decrease in current ratio indicated that there has been deterioration in the liquidity position of company as a convention. The current ratio of 2:1 is considered to be satisfactory. But in case of firms in India this is about 1.3:1 is rather than 2:1 during too strict monetary policy of Reserve Bank of India.
2. Current Assets from Rs. 3,34,495 in the year 2013 to Rs. 3,94,447 in year 2014 showing an overall increase. And Current Liabilities increased from 45,087 in year 2015 to Rs. 62,553 in year 2016 to Rs. 79,995 in the year 2017 showing an overall increase. Understudy of above table working capital overall increase 42,510 in 2015-2016
3. Current Assets from Rs. 5, 41,374 in the year 2016 to Rs. 7, 33,826 in year 2017 showing an overall increase. And Current Liabilities increased from 1, 96,540 in year 2016 to Rs. 2,43,873 in year 2017 showing an overall increase. Understudy of above table working capital overall increase 1,45,119 in 2016-2017
4. The year 2012-10 the debt equity ratio is 0.02, which is decreased to 0.017 in the year 2014-12. In the year2012-14 it is decreased to 0.008, in 2014-16 it is 0.011, in the year 2016-14 it is increased to 0.04.
5. Absolute cash ratio is decreased compared to 2013-14 to 2014-15 is 0.941 to 0.801, in the year 2015-16 is 0.507 which is decreased to 0.497 in 2016-17.

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