

A Study on the Analysis of Working Capital Performance through Ratios

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Abstract

Cooperatives are organized for fulfilling the needs of its members. Urban people also need credit facilities. Urban Cooperative Banks are organized to cater the needs of urban people. They extend various types of loans to them with their owned and borrowed funds. The proper utilization of funds especially the working capital needs to be taken care of for better results. This study is undertaken to analyse the performance of various components of working capital through ratios. The study unit is Periyakulam Urban Cooperative Bank, Theni District, Tamil Nadu. The study used a structured interview schedule to collect the secondary data from the audit reports of the society. The period of study is 10 years starting from 2007-8 to 2016-17. The ratios used in the study are current ratio, quick ratio, cash position ratio, current assets to total assets ratio, debtors to current assets ratio, debtors to total assets ratio, and cash to current asset ratios. The study found that in almost all the ratios, the performance of the UCB seems to be good during the last quarter of the study period.

Key Words: Working Capital Performance, Ratios, Urban Cooperative Banks

Introduction

Urban Cooperative banks are organized to meet the financial requirements of the dwellers of urban areas. They mobilize their funds from its owned funds (share capital and reserves) and borrowed funds (deposits and borrowings). They extend a variety of loan with varied period and interest rate to its members. Since, they deal with funds, they have to be careful in utilizing the funds. A better utilization of the funds will yield better results in terms of more surplus over expenses. The working capital is the fund available for lending and meeting out the obligations. The proper use of working capital is a *sin-qua-none* for the better result. A study is undertaken to analyse the performance of various components of working capital through ratios.

Methodology

This study is analytical in nature carried out with the main objective of analyzing the working capital performance through ratios. The study unit is Periyakulam Urban Cooperative Bank, (UCB) Theni District, Tamil Nadu. The study used a structured interview schedule to collect the secondary data from the audit reports of the society. The period of study is 10 years starting from 2007-8 to 2016-17. The data are presented in tables and figures besides presenting the relevant ratios in it. The working capital consists current assets under gross working capital concept and net working capital is arrived at by deducting current assets from current liabilities. The major ratios used in the study are current ratio, quick ratio, cash position ratio, current assets to total assets ratio, debtors to current assets ratio, debtors to total assets ratio, and cash to current asset ratios.

Result and Discussion

The analysis on the major ratios used in the study such as current ratio, quick ratio, cash position ratio, current assets to total assets ratio, debtors to current assets ratio, debtors to total assets ratio, and cash to current asset ratios are presented here under.

Current Ratio Position of the UCB

Current ratio is the relationship between current assets and current liabilities. It brings out the availability of current assets to meet the obligations of current liabilities. The formula for calculating the current ratio is dividing the current assets by current liabilities.

Table 1: Current Ratio Position of the UCB

(Rs.in Lakhs)

Year	Current Assets	Current Liabilities	Current Ratio
2007-08	38.42	23.58	1.629
2008-09	39.18	25.79	1.519
2009-10	40.78	30.47	1.337
2010-11	46.93	39.51	1.578
2011-12	39.54	29.74	0.132
2012-13	61.32	48.47	1.264
2013-14	70.76	62.50	1.132
2014-15	77.62	67.21	1.155
2015-16	82.61	71.28	1.158
2016-17	88.98	76.32	1.165

Source: audit reports of the society

The current ratio of the UCB is ranged between 0.132:1 and 1:629:1. The average current ratio for the study period is 1.288:1. The trend in the ratio shows downs and ups up to half of the years under study. However, during the last four years, a steady increase is noticed year after year. The UCBs financial position in terms of current ratio indicates volatile during the first half of the years under study and stable during last quarter of the years under study. The UCB maintains an optimum level of current assets to meet the current liabilities especially during the last quarter of the study period. The same current ratio should be maintained by the UCB to manage the current assets as an optimum level.

Quick Ratio Position of the UCB

The purpose of finding out the quick ratio is to test the availability of quick assets to meet the obligation of current liabilities. Quick assets are calculated by deducting inventory from current assets. The formula for calculating the quick ratio is dividing the quick assets by current liabilities.

Table 2: Quick Ratio Position of the UCB

(Rs.in Lakhs)

Year	Quick Assets	Current Liabilities	Quick Ratio
2007-08	36.21	23.58	1.536
2008-09	37.34	25.79	1.448
2009-10	33.25	30.47	1.091
2010-11	41.22	39.51	1.043
2011-12	32.71	29.74	1.100
2012-13	44.32	48.47	0.914
2013-14	51.25	62.50	0.820
2014-15	62.23	67.21	0.926
2015-16	52.34	71.28	0.734
2016-17	34.33	76.32	0.450

Source: audit reports of the society

The quick ratio of the UCB shows that it is ranged between 0.450:1 and 1.536:1. The trend in the ratio clearly depicts a declining trend starting from the first year to the last year under study. A meagre ups and downs in the trend is also seen. This shows that the UCB is able to maintain lesser and lesser quantum of quick assets to meet the obligation of current liabilities. The UCB need to find out the optimum level of quick assets and maintain that level.

Status of Cash Position Ratio of the UCB

The main objective of calculating the cash position ratio is to find out the availability of cash to meet the obligations of current liabilities. The formula for calculating the cash position ratio is dividing the cash by current liabilities.

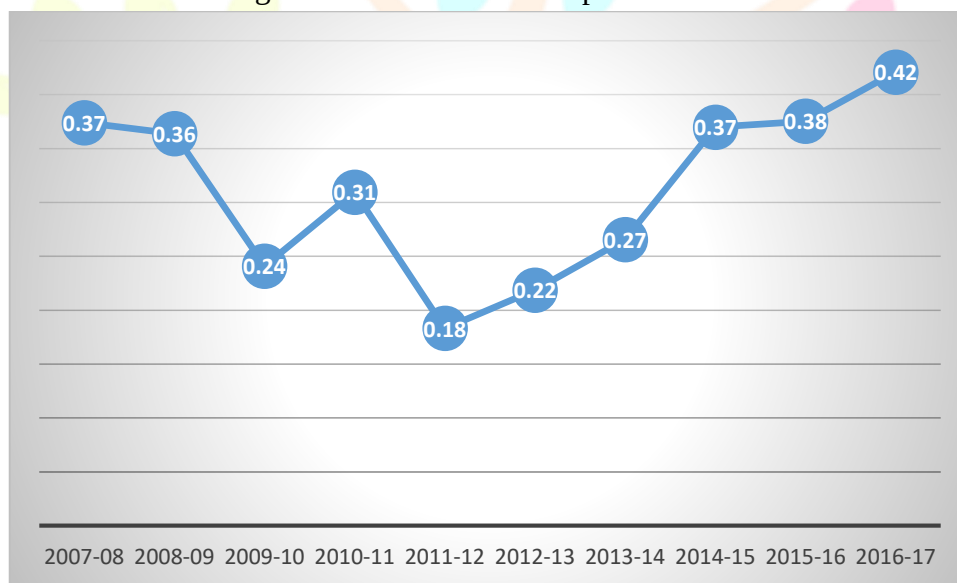
Table 3: Status of Cash Position Ratio of the UCB

(Rs.in Lakhs)

Year	Cash	Current Liabilities	Cash Position Ratio
2007-08	8.82	23.58	0.37
2008-09	9.38	25.79	0.36
2009-10	7.34	30.47	0.24
2010-11	12.23	39.51	0.31
2011-12	5.45	29.74	0.18
2012-13	10.60	48.47	0.22
2013-14	16.60	62.50	0.27
2014-15	24.86	67.21	0.37
2015-16	26.76	71.28	0.38
2016-17	32.13	76.32	0.42

Source: audit reports of the society

Figure 1: the Trend in cash position ratio



The availability of cash shows an increasing trend except during 2011-12. Similarly the current liabilities also depicts the same trend as of cash. However, the cash position ratio shows a different picture. The trend started from 0.37:1 during 2007-08 decreased and touched 0.24:1 level and an upward movement is found at 0.31:1 and then touched the study's lowest position of 0.18:1 and then it increases year after year and touched the peak of 0.42:1 at the last year under study. Thus, the cash position ratio shows an increasing trend from the middle of the year up to the last year under study. This indicates that the society is locking more cash to meet out the obligations in the recent years. The UCB has to frame an optimum level of cash to be maintained to meet the obligations. If more cash is available, that can be converted or utilised in revenue generating assets such as extending a short duration loans and advances and introduce novel lending options.

Current Assets to Total Assets Ratio Position of the UCB

The current assets are considered as the gross working capital of the UCB. The current assets to total assets ratio reveals the proportion of the availability of current assets over total assets. It is calculated by dividing the current assets by total assets and expressed in percentage form. The higher the proportion, the higher the availability of funds for working capital.

Table 4: Current Assets to Total Assets Ratio Position of the UCB

(Rs.in Lakhs)

Year	Current Assets	Total Assets	Current Assets to Total Assets Ratio (in %)
2007-08	38.42	67.46	56.95
2008-09	39.18	71.26	54.98
2009-10	40.78	73.45	55.52
2010-11	46.93	81.38	57.67
2011-12	39.54	82.30	48.04
2012-13	61.32	103.70	59.13
2013-14	70.76	115.80	61.11
2014-15	77.62	123.10	63.05
2015-16	82.61	134.80	61.28
2016-17	88.98	144.80	61.45

Source: audit reports of the society

The proportion of current assets to total assets of the UCB for the years under study is ranged between 54.98 per cent and 63.05 per cent. On an average, the UCB maintains the current assets to the tune of 57.92 percentage of the total assets which shows that more funds are available as working capital. The trend in the ratio shows that during the first half of the years under study the UCB is in a position to maintain almost near the average ratio. However, during the second half of the years under study it is more than 60 per cent. Thus, the UCB is maintaining more current assets in the total assets during the second half of the years under study. The UCB has to continue the same increasing trend in regard to current assets to total assets ratio in the years to come so as to have more working capital.

Debtors to Current Assets Ratio Position of the UCB

The main motto of calculating the debtors to current assets ratio is to know how much proportion of the debtors are available under current assets. On the one way it indicates the proportion of income earning asset over the current assets. It presumed that the higher the proportion higher will be the advantages in terms of having income generating assets.

Table 5: Debtors to Current Assets Ratio

(Rs.in Lakhs)

Year	Sundry Debtors	Current Assets	Debtors to Current Assets Ratio (in %)
2007-08	29.60	38.42	77.04
2008-09	29.80	39.18	76.06
2009-10	33.44	40.78	82.00
2010-11	34.70	46.93	73.94
2011-12	34.09	39.54	86.22
2012-13	50.72	61.32	82.71
2013-14	54.16	70.76	76.54
2014-15	52.76	77.62	67.97
2015-16	55.85	82.61	67.61
2016-17	56.85	88.98	63.89

Source: audit reports of the society

The debtors to current asset ratios of the UCB is ranged between 63.89 per cent and 86.22 per cent. The average ratio is around three fourths (75.40 per cent) for the years under study. It is observed that above the average ratio is found almost during the first three quarters of the study period. While the last quarter period of the study, it is below the average level and shows a decreasing trend. Thus, the society is good at maintaining the debtors' proportion during the initial period whereas it becomes weak during the last quarter of the study period. Therefore the UCB is to take efforts to increase the proportion of debtors by converting the other components of the current assets so as to get the advantage of having more income generating asset.

Debtors to Total Assets Ratio Position of the UCB

The ratio on debtors to total assets is calculated to know the proportion of debtors available on the total assets. In other words, knowing how much income earning asset namely debtors is available against the total assets and explore the possibility of converting other assets into debtors are the outcome for calculating the debtors to total assets ratio. Higher the proportion better the performance of working capital. It is calculated by dividing the sundry debtors by total assets and expressed in percentages.

Table 6: Debtors to Total Assets Ratio Position of the UCB

(Rs.in Lakhs)

Year	Sundry Debtors	Total Assets	Debtors to Total Assets Ratio (in %)
2007-08	29.60	67.46	43.88
2008-09	29.80	71.26	41.82
2009-10	33.44	73.45	45.53
2010-11	34.70	81.38	42.64
2011-12	34.09	82.30	41.42
2012-13	50.72	103.70	48.91
2013-14	54.16	115.80	46.77
2014-15	52.76	123.10	42.86
2015-16	55.85	134.80	41.43
2016-17	56.85	144.80	39.26

Source: audit reports of the society

The calculated debtors to total asset ratio of the UCB is ranged between 39.29 per cent (the lowest per cent) and 48.91 per cent. The average ratio for the years under study is 43.45 per cent. It is inferred that on an average the UCB is maintaining the debtors in the total assets to tune of 43.45 per cent and the ratio is not crossing the half of the total assets. The UCB has to make necessary steps to increase the current proportion of debtors in the total assets to more than 50 per cent and maintain even more percentage in the years to come.

Cash to Current Assets Ratio Position of the UCB

There are two purposes for which this cash to current assets ratios are calculated. The first purpose is to find out the proportion of cash is maintained against the current assets. The second purpose is to know how much proportion of the cash is available to be converted into income generating asset (debtors). The formula for calculating this ratio is dividing the cash by current assets.

Cash to Current Assets Ratio Position of the UCB

(Rs.in Lakhs)

Year	cash	Current Assets	Cash to Current Assets Ratio (in %)
2007-08	8.82	38.42	22.96
2008-09	9.38	39.18	23.94
2009-10	7.34	40.78	18.00
2010-11	12.23	46.93	26.06
2011-12	5.45	39.54	13.78
2012-13	10.60	61.32	17.29
2013-14	16.60	70.76	23.46
2014-15	24.86	77.62	32.03
2015-16	26.76	82.61	32.39
2016-17	32.13	88.98	36.11

Source: audit reports of the society

The cash to current assets ratio of the UCB is ranged between 12.78 per cent and 36.11 per cent during the assessment period. The average ratio is 24.60 per cent. It is observed that during the first three fourths of the years under study i.e, from 2007-08 to 2012-13 the calculated ratio is below the average ratio except in the year 2010-11 it is 26.06 per cent. The remaining last quarter of the assessment period the cash to current ratio is much higher (32 to 26 per cent) than the average in is on increasing trend. Thus, the UCB is in good position as far as the cash to current assets ratio is concerned during the first three fourths of the years under study. However, the UCB is unnecessarily maintained more cash instead of using it for income earning purposes. Therefore, the UCB has to initiate steps to convert the cash locked unnecessarily into income generating asset viz., debtors.

Findings

The UCB maintains an optimum level of current assets to meet the current liabilities especially during the last quarter of the study period.

The UCB is able to maintain lesser and lesser quantum of quick assets to meet the obligation of current liabilities.

The cash position ratio shows an increasing trend from the middle of the year up to the last year under study. This indicates that the society is locking more cash to meet out the obligations in the recent years.

The UCB is maintaining more current assets in the total assets during the second half of the years under study.

The UCB is good at maintaining the debtors' proportion during the initial period whereas it becomes weak during the last quarter of the study period.

On an average the UCB is maintaining the debtors in the total assets to tune of 43.45 per cent and the ratio is not crossing the half of the total assets.

The UCB is in good position as far as the cash to current assets ratio is concerned during the first three fourths of the years under study. However, the UCB is unnecessarily maintained more cash instead of using it for income earning purposes.

Suggestions

The same current ratio as of the last quarter of the years under study should be maintained by the UCB to manage the current assets as an optimum level.

The UCB need to find out the optimum level of quick assets and maintain that level.

The UCB has to frame an optimum level of cash to be maintained to meet the obligations. If more cash is available, that can be converted or utilised in revenue generating assets such as extending a short duration loans and advances and introduce novel lending options.

The UCB has to continue the same increasing trend in regard to current assets to total assets ratio in the years to come so as to have more working capital.

The UCB is to take efforts to increase the proportion of debtors by converting the other components of the current assets so as to get the advantage of having more income generating asset.

The UCB has to make necessary steps to increase the current proportion of debtors in the total assets to more than 50 per cent and maintain even more percentage in the years to come.

The UCB has to initiate steps to convert the cash locked unnecessarily into income generating asset viz., debtors.

