



## An Analysis of Working Capital Ratios of Selected Companies: A Comparative Study

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**Abstract** The study mainly focused on comparison of various working capital ratios (current ratio, acid test ratio and net working ratio) for GNFC and GSFC. Statistical tools (Descriptive statistic, Index and parametric test) used for analysis and found that all selected ratios were highest in GSFC in the study.

**Key Word:** Current Ratio, Acid Test Ratio, Net Working Capital Ratio

### Introduction

Working capital, also known as net working capital, is the difference between a company's current assets, like cash, accounts receivable (customers' unpaid bills) and inventories of raw materials and finished goods, and current liabilities, like accounts payable.

Working Capital = Current Assets - Current Liabilities

Working capital is a measure of both a company's operational efficiency and its short-term financial health. The working capital ratio (current assets/current liabilities) or current ratio, indicates whether a company has enough short-term assets to cover its short-term debt. A good working capital ratio is considered anything between 1.2 and 2.0. A ratio of less than 1.0 indicates negative working capital, with potential liquidity problems, while a ratio above 2.0 might indicate that a company is not using its excess assets effectively to generate maximum possible revenue. If a company's current assets do not exceed its current liabilities, then it may have trouble paying back creditors or go bankrupt. A declining working capital ratio is a red flag for financial analysts. They might also look at the quick ratio, which is more of an acid test of short-term liquidity because it only includes cash and cash-equivalents, marketable investments and accounts receivable.

### Review of Literature

Mansavi Gumber & Surender Kumar (2012) compared working capital

turnover ratio, debtors turnover ratio, inventory turnover ratio, current ratio and quick ratio of 5 fertilizer companies of public and co-operative sector. The researcher used Kruskal-Wallis/H-test for analysis and found that the co-operative sector possessed more amounts of working capital than the public sector and the former's working capital need grew at a rate which was almost double the rate of the public sector. A solution that the public sector is much more efficient in the management of cash as compared to the co-operative sector which is lagging in this regard and was way behind it. It was observed and concluded that the co-operative sector was better off than the public sector as regard liquidity and payment to creditors as their credit period were much shorter than the public sector.

Parmar Shaileshkumar J. (2010) in his study titled, "A Study of Current Assets-Liabilities Management of Fertilizer Industry of Gujarat State", founded that the performance of GNFC was better in current assets ratio, quick ratio, inventory turnover ratio, debtors' ratio, cash turnover while the performance of GSFC was better in current assets to total assets and working capital to sales ratio. The overall performance of GNFS was better. GSFC should try to reduce the debtors' turnover ratio by reducing the credit period allowed to customers. GNFC should reduce the level of cash which remains unproductive.

Jani, Virendra C. (2007) conducted an important research on Working Capital Management of Fertilizer Industry of Gujarat in order to find out liquidity management of fertilizer units as well the problems in liquidity management of fertilizer units. The study was based on secondary data taken from published annual reports of the sample units for the period from 1996-97 to 2004-05. The researcher used ratio as accounting tool and index number, analysis of variance, measurement of centre tendency etc used as statistical techniques like for the study and reported that the combined industrial average of net working capital turnover ratio was worked out at 4.11 and combined industrial average current ratio was 2.29 in the study which was favorable ratio because the standard level of current ratio is 2:1. Finally concluded that the liquidity management of fertilizer units were satisfactory, however he suggested some units to increase their current assets and to decrease the creditors.

### **Research Methodology**

The study mainly based on secondary data and this data is collected from annual report of the selected companies namely GNFC and GSFC. The study period is starting from 2010-11 to 2015-16. The data consist of ratio like Current ratio, Acid test ratio and Net working capital and analysed by parametric test like F test, t test and index and descriptive statistics have been used.

### **Objectives of the study**

Objective of the study is as under:

- To compare current ratio of selected companies
- To compare acid test ratio of selected companies
- To compare net working capital ratio of selected companies

- To examine growth of current ratio, acid test ratio all ratio

**Hypothesis of the study**

- $H_0$ : There is no significant difference in Current ratios of selected Companies.
- $H_0$ : There is no significant difference in acid test ratios of selected Companies.
- $H_0$ : There is no significant difference in net working capital ratios of selected Companies.

**Analysis**

Year	Current Ratio				Acid Test Ratio				Net Working Capital Ratio			
	GNFC	Index	GSFC	Index	GNFC	Index	GSFC	Index	GNFC	Index	GSFC	Index
2010-11	1.09	100.0	1.94	100.0	1.04	100.0	2.21	100.0	4.74	100.0	36.39	100.0
2011-12	0.88	80.7	1.93	99.5	0.76	73.2	2.48	111.9	-9.73	-205.3	42.46	116.7
2012-13	1.03	116.9	1.72	89.2	1.39	182.0	3.16	127.5	2.54	-26.1	41.93	98.8
2013-14	1.02	99.3	1.93	112.5	1.68	121.0	2.22	70.2	2.57	100.9	37.20	88.7
2014-15	1.05	102.0	2.23	115.5	1.81	107.7	2.79	126.0	5.39	210.1	39.29	105.6
2015-16	1.08	103.4	1.86	83.1	1.71	94.3	3.17	113.5	8.26	153.2	33.79	86.0
Average	1.03	100.4	1.93	100.0	1.40	113.0	2.67	108.2	2.29	55.5	38.51	99.3
SD	0.08	11.6	0.17	12.6	0.42	37.3	0.44	21.2	6.26	149.8	3.36	11.2
F test	0.05		Accept		0.46		Accept		0.10		Accept	
t test	0.00		Reject		0.00		Reject		0.00		Rejected	
Source: Computed from Annual report of GSFC & GNFC												

The analysis revealed that current ratio was 1.09 in year 2010-11 for GNFC which is decreased in 2011-12 and became 0.88. In the year 2012-13, this ratio was increased by high growth rate and this growth rate was 116.9. This growth rate was nearly 100 for remaining years. The average and SD of current ratio were 1.03 and 0.08 respectively for the study. This ratio was 1.94 in year 2010-11 for GSFC but next two year, it was decreased and became 1.93 and 1.72 respectively. In year 2014-15, this ratio was 2.23 which was the highest for study in GSFC. After parametric test we concluded that GSFC current ratio was higher than GNFC current ratio.

GNFC acid test ratio was 1.04 in initial period of the study. Next year, it was going down and became 0.76. It was increasing for remaining year and became almost 1.5. the average and SD of acid test ratio was 1.40 and 0.42 respectively. The highest ratio was 1.81 in 2014-15 in GNFC. GSFC’s acid test ratio was 2.21 in initial year. Next 2 years, it was increasing and became 2.48 and 3.16 respectively. The highest acid test ratio was 3.17 in 2015-16 for GSFC. The average and SD of acid test ratio were 2.67 and 0.44 respectively in GSFC.

Net working Capital Ratio was 4.74 and 36.39 respectively in GNFC and GSFC for initial year 2010-11. This ratio was decreased for GNFC whereas it was increased in GSFC in following year. in year 2015-16, the net working capital ratio was 8.26 and 33.79 respectively in GNFC and GSFC. The average of net working capital ratio was 2.29 and 38.51 in GNFC and GSFC respectively and the SD of net working capital ratio was 6.26 and 3.36 in GNFC and GSFC respectively.

### **Conclusion:**

All ratios performed well in GSFC compare to GNFC during study period. Standard current ratio is 2. From above analysis we conclude that GSFC current ratio was near to standard current ratio whereas current ratio was near to 1 in GNFC during study period. After test, we conclude that there is significant different in current ratio of GNFC and GSFC. Acid test ratio should be more than 1 and we show that both companies' this ratio almost more than 1 during study period. But GSFC's acid test ratio was more than double to GNFC's acid test ratio during study period and test also show that there is significant different in acid test ratio of both companies. When we compare net working capital ratio it was highest in GSFC during the period and test also show that there is significant different in net working capital ratio of both companies .

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