Vidhyayana - ISSN 2454-8596
An International Multidisciplinary Peer-Reviewed E-Journal
www.j.vidhyayanaejournal.org
Indexed in: ROAD & Google Scholar

An analytical study of Working Capital Management & Profitability: A Case study of Sayaji Hotels company limited

Hingu kajal Gunvantray

Master of Philosophy

Department of Commerce & Business Administration

Saurashtra University

Rajkot

Guide: Alok Chakrawal

Abstract :

Working capital management is one of the most important financial decisions in corporate.The optimum management of working capital will increase the corporate value, so the primary goal of this research is evaluating relationship between working capital management and corporate performance. We used factors such as Current Ratio, Quick Ratio, Inventory turnover ratio and Cash Ratio for analysis of Working Capital Management and used Return On Equity, Return On Capital Employed and Net Profit Margin for analysis of Profitability. We used the trend analysis to analyse the Working Capital Management and Profitability during the 2015-16 to 2019-20.

Working Capital Management :

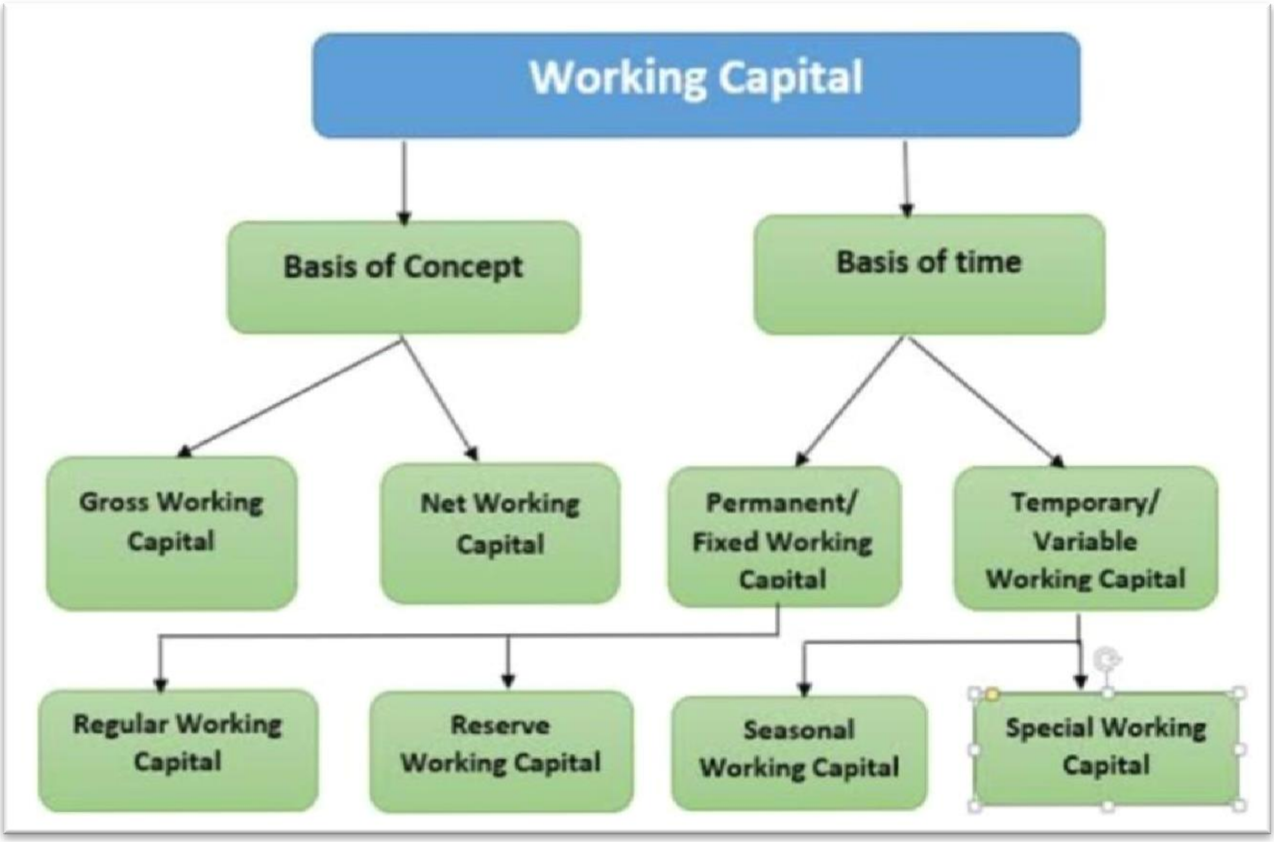
Working capital means working + capital its means that for running the enterprise every firm have to maintain adequate capital is called working capital. Funds are needed for short term purposes for the purchase of raw materials, payment of wages and for meeting routine expenses.

Meaning:

In an ordinary sense, working capital denotes the amount of funds needed for meeting day-to-day operations of a concern. This is related to short-term assets and short-term sources of financing. Hence it deals with both, assets and liabilities—in the sense of managing working capital it is the excess of current assets over current liabilities.

Types of Working Capital :

Vidhyayana - ISSN 2454-8596
An International Multidisciplinary Peer-Reviewed E-Journal
www.j.vidhyayanaejournal.org
Indexed in: ROAD & Google Scholar



Nature of Working Capital:

The nature of working capital is as discussed below:

- It is used for purchase of raw materials, payment of wages and expenses.
- It changes form constantly to keep the wheels of business moving.
- Working capital enhances liquidity, solvency, creditworthiness and reputation of the enterprise.
- It generates the elements of cost namely: Materials, wages and expenses.
- It enables the enterprise to avail the cash discount facilities offered by its suppliers.
- It helps improve the morale of business executives and their efficiency reaches at the highest climax.
- vii. It facilitates expansion programmes of the enterprise and helps in maintaining operational efficiency of fixed assets.

Need of Working Capital :

The needs for working capital are as given below:

- Adequate working capital is needed to maintain a regular supply of raw materials, which in turn facilitates smoother running of production process.
- Working capital ensures the regular and timely payment of wages and salaries, thereby improving the morale and efficiency of employees.
- Working capital is needed for the efficient use of fixed assets.
- In order to enhance goodwill a healthy level of working capital is needed. It is necessary to build a good reputation and to make payments to creditors in time.
- Working capital helps avoid the possibility of under-capitalization.
- It is needed to pick up stock of raw materials even during economic depression.
- Working capital is needed in order to pay fair rate of dividend and interest in time, which increases the confidence of the investors in the firm.

Importance of Working Capital:

It is said that working capital is the lifeblood of a business. Every business needs funds in order to run its day-to-day activities.

The importance of working capital can be better understood by the following:

- It helps measure profitability of an enterprise. In its absence, there would be neither production nor profit.
- Without adequate working capital an entity cannot meet its short-term liabilities in time.
- A firm having a healthy working capital position can get loans easily from the market due to its high reputation or goodwill.
- Sufficient working capital helps maintain an uninterrupted flow of production by supplying raw materials and payment of wages.
- Sound working capital helps maintain optimum level of investment in current assets.
- It enhances liquidity, solvency, credit worthiness and reputation of enterprise.

- It provides necessary funds to meet unforeseen contingencies and thus helps the enterprise run successfully during periods of crisis.

Components of Working Capital

Working capital is composed of various current assets and current liabilities, which are as follows:

(A) Current Assets:

These assets are generally realized within a short period of time, i.e. within one year.

Current assets include:

(a) Inventories or Stocks

(i) Raw materials

(ii) Work in progress

(iii) Consumable Stores

(iv) Finished goods

(b) Sundry Debtors

(c) Bills Receivable

(d) Pre-payments

(e) Short-term Investments

(f) Accrued Income and

(g) Cash and Bank Balances

(B) Current Liabilities:

Current liabilities are those which are generally paid in the ordinary course of business within a short period of time, i.e. one year.

Current liabilities include:

(a) Sundry Creditors

(b) Bills Payable

(c) Accrued Expenses

(d) Bank Overdrafts

(e) Bank Loans (short-term)

(f) Proposed Dividends

(g) Short-term Loans

(h) Tax Payments Due

Profitability :

Definition:

Profitability is ability of a company to use its resources to generate revenues in excess of its expenses. In other words, this is a company's capability of generating profits from its operations.

Concept :

Profitability is one of four building blocks for analysing financial statement and company performance as a whole. The other three are efficiency, solvency, and market prospects. Investors, creditors, and managers use these key concepts to analyse how well a company is doing and the future potential it could have if operations were managed properly.

The two key aspects of profitability are revenues and expenses. Revenues are the business income. This is the amount of money earned from customers by selling products or providing services. Generating income isn't free, however. Businesses must use their resources in order to produce these products and provide these services.

Vidhyayana - ISSN 2454-8596
An International Multidisciplinary Peer-Reviewed E-Journal
www.j.vidhyayanaejournal.org
Indexed in: ROAD & Google Scholar

Resources, like cash, are used to pay for expenses like employee payroll, rent, utilities, and other necessities in the production process. Profitability looks at the relationship between the revenues and expenses to see how well a company is performing and the future potential growth a company might have.

Company Profile :

Overview

Sayaji Hotels Ltd. Company Profile, Address and Other Details	
Industry Name	Hotels, Resorts & Restaurants
Business Group Name	Dhanani Group
Incorporation Date	1982-04-05 00:00:00
ISIN Code	INE318C01014

Address Descriptor	Registered Office
Address	F1 C2 Sivavel Apartment, 2 Alagappa Nagar, Zamin Pallavaram,
City	Chennai (Madras)
State	Tamil Nadu
Country	India
Pincode	600117
Telephone	29871174
Email	Cs@sayajigroup.com

Website	Http://www.sayajihotels.com

History

In the year 1987, the Chairman, Mr. Abdul Razak Dhanani came up with the first Sayaji Hotel in the city of Vadodara. The Sayaji group was founded by Late Mr. Sajid Razak Dhanani (the Ex. Managing Director), who always had a consistent vision – "Our purpose is to make people happy – The Guests, Our Employees, suppliers and all stakeholders.

Sayaji Inspiration – Sayaji Logo

Sayaji Logo "The Banyan Tree"

The name was decided on the name of Vadodara wherein the "Vad" means Banyan Tree in Hindi. Sayaji follows the aim of forever is your " The Banyan Tree of Hospitality," a place where everyone is welcome, special and truly important. In a short span of time, Sayaji have created a chain of hospitality possessions in the heart of India, i.e., Madhya Pradesh, Maharashtra & Gujarat.

Objective of the study :

- To analyse the Working Capital Management of the company.
- To analyse the performance of the company through profitability.
- To analyse the impact of the Working Capital Management on Profitability.

Method of data collection :

Collection of data is blood vain for any type of research. The kind of data collected and the method used to collect the data is a very important aspect of research. There are two basic types of data collection first is primary data collection and second is secondary data collection.

We are used here secondary data collection method from company's website, particular topic site/ book, and literature review.

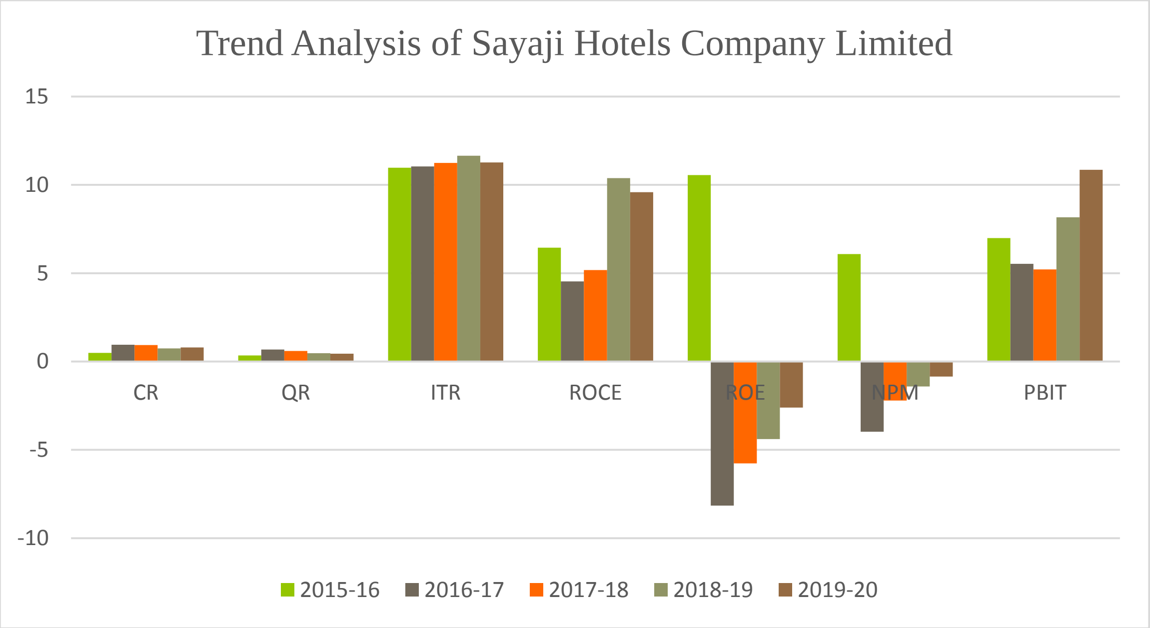
Period of the study :

Period of the study is 5 years. From 2015-16 to 2019-20.

Data Analysis :

In this study we use trend analysis for the study of Working Capital Management Ratio and Profitability Ratio of Sayaji Hotels company limited.

Year/Ratio	Current Ratio	Quick Ratio	Inventory turnover Ratio	ROCE	Return on Equity	Net Profit Margin	PBIT
2015-16	0.49	0.34	10.97	6.44	10.55	6.08	6.99
2016-17	0.95	0.68	11.04	4.53	-8.16	-3.97	5.53
2017-18	0.93	0.60	11.24	5.18	-5.77	-2.21	5.21
2018-19	0.74	0.46	11.65	10.38	-4.39	-1.41	8.16
2019-20	0.80	0.44	11.27	9.58	-2.61	-0.85	10.85



Current ratio of the company highest 0.95 in 2016-17. And lowest was 0.49 in 2015-16.

Quick Ratio of the company highest 0.68 in 2016-17. And lowest was 0.34 in 2015-16.

Inventory turnover Ratio of the company highest 11.65 in 11.65. And lowest was 10.97 in 2015-16.

Return on Capital Employed Of the company highest 10.38 in 2018-18. And lowest was 4.53 in 2016-17.

Return on Equity of the company highest 10.55 in 2015-16. And lowest was -8.16 in 2016-17.

Net Profit Margin Ratio of the company highest 6.08 in 2015-16. And lowest was -3.97 in 2016-16.

Profit Before Interest and Tax of the company highest 10.85 in 2019-20. And lowest was 5.21 in 2017-18.

Vidhyayana - ISSN 2454-8596
An International Multidisciplinary Peer-Reviewed E-Journal
www.j.vidhyayanaejournal.org
Indexed in: ROAD & Google Scholar

Finding :

Working Capital Management Ratio of Company is so poor Current Ratio is not standard level because Current Ratio should be 2:1 .

Quick Ratio of Company is also not satisfy the standard level. Quick Ratio should be 1:1.

Inventory turnover Ratio of Company is also low it should be high.

Return on Capital Employed is good. It is not so high but is not so poor

Return on Equity of Company 10.55 in year 2015-15 is good. But last four years its negative so it not good. It shows poor Financial condition of the company.

Net Profit Margin Ratio of the company also negative in last four years. It sounds so poor Financial Performance of the company.

Profit Before Interest and Tax of the company is good.

But after the payment of interest and tax it’s goes into negative so According to that Company should decrease the liabilities because it’s so costly and due to this company’s Financial Performance sounds so poor. Last four years due to some reason Company’s performance is so poor so, they have to find it and take some steps for Growth of the Company.

Working Capital Management Ratio of the Company has not satisfy the standard level. Company should maintain it.

References :

https://www.moneycontrol.com/financials/sayajihotels/ratiosVI/sh02

https://www.goodreturns.in/company/sayaji-hotels/history.html

https://www.google.com/amp/s/sayajihotels.wordpress.com/2016/07/08/__trashed/amp/

https://www.goodreturns.in/company/sayaji-hotels/profile.html https://www.investopedia.com/terms/w/workingcapitalmanagement.asp

https://www.myaccountingcourse.com/accounting-dictionary/profitability

https://www.yourarticlelibrary.com/financial-management/working-capital/working-capital-meaning-concept-nature-explained/44081