

## Working capital management of Jammu and Kashmir tourism Development Corporation limited: A case study

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### Abstract

Tourism business is no more a layman's job now. Generalist approach towards "Tourism Management" has seized to prevail in view of the crying need for expertise. To address the surging demand for tourism and multitudes of foreign exchange earnings emanating from it, the incorporation of professionalization in tourism has become the Mantra within the corporate circles. Available literature on tourism industry primarily deals with places of interest and their historical significance, importance of tourism as a revenue generator for the economy, and the like. But unfortunately, its managerial aspects have not attracted the due attention of many social scientists, academicians, researchers and professionals. An attempt has been made through this work to bridge this gap of knowledge with a focus on the Working Capital management of Jammu and Kashmir tourism Development Corporation Ltd.

**Keywords:** components of working capital, financing of working capital, working capital policy

### Introduction

Tourism being a service industry has some distinguishing characteristics as compared to manufacturing industries. Hence the requirement of a different set of strategies and their application for its management is imperative.

Discerning the issues involved in managing a corporation business is the foremost objective behind this work, which is based on extensive research. The study aims to familiarize the readers with the different ways of managing the operations short run as well as long of a corporation. It is hoped that work shall prove beneficial to those interested in having an insight in to tourism industry. Every Endeavour is being made to unearth and identify the problems faced by tourism corporation and concrete suggestion are coming fore for raising it to the international standards. As a result many research studies have already appeared with different approaches and perspectives. But the study on Tourism Corporation in Jammu and Kashmir covering its management aspect with a focus on working capital management of the corporation is conspicuous by its absence. The present study is made to make a detailed analysis of working capital management of Jammu and Kashmir tourism Development Corporation.

### Objective of the study

1. To analyze the liquidity and the efficiency of the JKTDC by using a few important parameters.
2. To make a component-wise analysis of working capital of the selected Corporation.
3. To analyze the variation of the working capital of the corporation under study.
4. To estimate the working capital requirement of the selected company and to find out the deviation of the same from its actual working capital.

### Assumptions

In consonance with the aforesaid objectives, the following hypothesis has been developed for verification and confirmation.

1. The liquidity position of the Corporation is very sound.
2. The Corporation manages its working Capital effectively and efficiently.
3. The financial information found out by financial indicators is very helpful

### Research methodology of the study

The study methodology followed towards attainment of the objectives, specifically, outlines the research design, data collection, research validity and reliability, and data analysis.

1. **Sample Design:** The study is based on Jammu and Kashmir tourism Development Corporation. While selecting this corporation in the present study, purposive sampling procedure has been followed.
2. **Collection of Data:** In the present study we have mainly relied on the Secondary sources. For the purpose of the study, secondary data have been collected from Annual reports for different years, budget proposals, Status papers, account manuals and other related literature for making an examination, analysis and interpretation of the problems, as per the requirement of the study.
3. **Analysis of Data:** In order to analyze these data the techniques of financial statement analysis like comparative statements, ratio analysis etc., simple mathematical tools like percentage, average, ratios etc., simple statistical techniques like mean, and statistical techniques , simple regression analysis etc. have been used.

### Limitation of the Study

All the study and researches have their own limitations. It will

be pertinent to mention that the researcher, while working on this paper had many limitations and to mention the major one's are as follows.

1. Due to unrest and Violence in the valley, the researcher had to rely on the secondary data to a large extent. Even the Collection of Secondary data was a big problem because of Lock-outs of government departments, organizations and other establishment for months together and also because of the restricted movement on the roads as a result of state and civil curfews and Crack-downs.
2. Apart from the difficulties in obtaining the financial data, problems were also faced in analyzing the data. This is because of Discrepancies in data in different documents of the organization. Which was due to the absence of regular audit?

**Data Analysis and Discussion of Findings**

In Table 1 for analyzing the management of working capital of Jammu and Kashmir tourism Development Corporation. An attempt has been made to show the volume of working capital and its importance in relation to sales, debtors and inventory of the company.

1) **Current assets to total assets ratio (CATA):** Current assets to total assets ratio explains the relationship between current assets and the total amount of fund invested in assets. The business firm should manage its current assets efficiently and effectively so that it can manage its liquidity as well as can accrue profit regularly. Table 1 shows that on an average 40.53 per cent of total assets

were current assets. It signifies that during this period apparently equal portion of the total investment of the company was made for the working capital purpose. Table I shows that the share of current assets in total assets which was 44.01 per cent in 2011 rapidly decreased to 39.05 per cent in 2015. During the period 2013, 2014, 2015 the share of working capital to total in total assets decreases except the year 2012, showing low rate of investment in current assets than fixed assets. It is observed that although this ratio has decrease in the last three years of the study period, except in the year 2012. The decline in CATA ratio during the study period mentioned above might have been due to expansion/ modernization plan.

- 2) **Sales assets to Current assets ratio (SCAR):** It indicates the efficiency of the management of working capital. The lower the ratio, the higher the efficiency of the WCM. From Table- I it is clear that the SCAR of the company fluctuated during the period of the study. During the years 2011, 2012, 2013, 2014 and 2015 this ratio increases. On an average it was 94.82 percent.
- 3) **Sales to Inventor ratio (SIR):** This ratio shows the efficiency of the inventory management. The lower the ratio, the better is the inventory management of the company and vice-versa. Table I depicts that the ratio goes on increase. On an average, the ratio was 97.68 percent. Definite conclusion cannot be made unless the ratios are calculated product wise. But still larger fluctuation portrays the poor control of the company over its inventory.

**Table 1:** Selected ratio relating to working capital management.

Particulars	In Thousands					Average
	2011	2012	2013	2014	2015	
Gross working capital	332513	362580	408645	372295	509234	397053.4
Sales to current assets (%)	81.71%	91.70%	89.19%	108.86%	102.66%	94.82
Current assets to total assets (%)	44.01%	43.17%	41.72%	34.73%	39.05%	40.53
Sales to inventory	83.16	85.74	105.70	102.2	111.6	97.68

Source: Annual accounts of JKTDC, Ltd.

**Components of working capital**

In Table II a component wise analysis of working capital has been made in order to find out the factors responsible for significant changes in working capital during the period under study. Out of four components of working capital, Inventories, sundry debtors and other current assets including loans and advances contributed 0.996, 39.69, and 8.18 per cent respectively towards gross working capital. Cash and bank contributed the highest i.e. 51.3 per cent towards the gross working capital. During the study period a very remarkable

change in the share of different components of working capital took place. The share of other current assets including loans & advances goes on increasing. The share of cash & bank balance also goes on increasing. The share of inventories shows fluctuation. Similarly, sundry debtors go on decreasing. The most noticeable outcome of the analysis is that during the study period more than 50 per cent of total investment in working capital was made for cash and bank while, on less than 1 per cent was blocked up in inventories.

**Table 2:** Components of working capital with respective percentage of JKTDC (□ in thousands).

Particulars	2011	2012	2013	2014	2015	Average
Inventories	3267 (0.99%)	3878 (1.07%)	3448 (0.84%)	3965 (1.08%)	4682 (1%)	1.00
Sundry debtors	187941 (56.52%)	189763 (52.34%)	190695 (46.67%)	106570 (28.62%)	72864 (14.30%)	14.30
Cash & bank	125674 (37.79%)	148940 (41.07%)	187241 (45.81%)	220056 (59.10%)	366341 (71.9%)	71.9
Other current assets including loans and advance	15631 (4.70%)	19999 (5.52%)	27261 (6.685%)	417.04 (11.20%)	65347 (12.8%)	12.8
Working Capital	332513 (100%)	362580 (100%)	408645 (100%)	3772295 (100%)	5092.34 (100%)	100

Source: Annual accounts of JKTDC, Ltd.

**Financing of working capital**

In Table III an analysis regarding variation of working capital during the period of study has been shown whereas in Table IV an attempt has been made to explain the relative importance of long term and short-term debts in financing working capital. Table III shows that out of two sources of working capital, short term debt dominated the overall picture. Table IV shows that the percentage of long term funds used for financing working capital occupied a very negligible portion during the period of study. Such trend reflects the

decreasing dependence on long-term funds as a source of working capital than the short-term funds. The increasing dependence on short-term funds in financing working capital of JKTDC, Ltd. reveals the better performance of the company regarding working capital management. Although, no comparison between the respective costs of long-term and short-term debts has been made for the sake of simplicity, generally, we know that the long-term debts are more costly than the short-term debts.

**Table 3:** Statement of variation of working capital of JKTDC, Ltd

Particulars	2011	2012	2013	2014	2015
<b>Application of funds</b>					
Inventories	3267	3878	3448	3965	4682
Debtors	189763	187941	190695	106570	72864
Cash & Bank	125674	148940	187241	220056	363341
Loan & advances	2377	2478	4302	65347	417004
Other current assets	13254	17521	22959		
Total current assets	332513	362580	408645	372295	509234
<b>Sources of fund</b>					
Long term debt	42600	42600	42600	42600	42600
Short term fund	68617	97702	153113	149141	354927
Net worth	644289	699475	783571	880096	906346
	75506	839777	979284	491337	1303873
Net fixed assets	(422993)	(477197)	(570639)	(699542)	(794639)
Total assets	332513	362580	408645	372235	509234

Source: Annual accounts of JKTDC, Ltd.

**Table 4:** Financing of working capital of JK TDC (□ in thousands)

Particulars	2011	2012	2013	2014	2015
Working capital	332513	362580	408645	372295	509234
Sources of working capital: a. short-term funds	68617	97702	153113	149141	354927
b. long term funds	263896	264878	255532	223154	154307
Total long term funds(Net worth+long term debt)	686889	742075	826171	922696	948946
Net fixed assets and other assets(Investments)	422993	477197	570639	99542	794639
Percentage of long term fund used for financing working capital(2b as % of 3)	61.59%	64.30%	69.07%	75.82%	84%
Percentage of long term fund used for financing fixed assets and investments	38.41%	35.70%	30.93%	24.18%	16%

Source: Annual accounts of JKTDC, Ltd.

**Estimation of working capital requirement and the resultant variation**

An estimation of working capital requirements of the company with the help of simple regression equation has been made in Table V. The difference between actual working capital and estimated working capital has been found out. The linear regression line used in this analysis is  $Y = a + bx$ , where, Y= working capital, x= sales, b=rate of growth in working capital and a= intercept of the line on the Y axis i.e. the amount of working capital required when sales are nil. Regression was done @ 5% level of significance where a =constant 140534.22

,b= 0.676. Table V shows that in the years 20011, 2012, 2013, 2014, and 2015 the actual working capital was greater than the estimated working capital. It signifies the inefficient management of working capital due to under utilization of fund in these years whereas in the years 2011, 2012, 2013, 2014, and 2015 there was a shortage of working capital. These shortages indicate the over utilization of fund. Proper attention should, therefore, be given on the working capital management of the company under study due to the risk of over and under utilization of its working capital funds.

**Table 5:** Estimation of working capital requirement of JKTDC, LTD. (With the help of regression equation  $y=a + bx$ ) [≠ In thousands]

Year	Actual working capital (O)	Estimated working capital ( E)	Excess working capital	Shortage of working capital
2011	332513	200582.13		131931
2012	362580	214019.81		148560.186
2013	408645	221083.195		187561.805
2014	372295	230107.067		142187.933
2015	509234	256077.44		253156.53

Source: Annual accounts of JKTDC, Ltd.

### Working capital policy

In Table VI an attempt has been made to test the overall working capital policy adopted by the corporation and to assess the relationship between the policy of the corporation and its profitability. Generally, it is expected that the lower the current assets, the higher the sales to gross working capital ratio, the higher the risk and aggressiveness, the higher the profitability of the company and vice versa. The company adopted conservative working capital policy by applying lower level of gross working capital in relation to sales throughout the study period. The sales to gross working capital ratio of the company was 0.81 in 2011. It increases to 0.91 in 2012. Then it decrease to 0.89 in 2013. But it again

increases to 1.088 in 2014, and again decreases to 1.026 in 2015. Ultimately average ratio reached 0.94 signifying investment in current assets as compared to investment in fixed assets. Adoption of aggressive working capital policy throughout the study period except in the year 2011, the profitability (i.e. EBIT / Total Assets of the concern) massively decrease from 3.29 per cent in 2012 to 0.71 per cent in 2015. Therefore the company throughout the study period got the reward of taking lower risk. Only in the year 2011 the company converted its working capital policy from aggressive to conservative policy by increasing the level of current assets in relation to sales.

**Table 6:** Test of working capital policy (Aggressive/Conservative) of JKTDC, LTD. (□ in Thousands)

Particulars	2011	2012	2013	2014	2015	Average
Sales	271710	332514	364475	405307	522820	
EBIT	34092	27690	2604	5216	13661	
Total assets	75506	839777	979284	1072375	1897892	
Working capital	332513	362580	408645	372295	509234	397053.40
EBIT/Total assets (%)	4.51%	3.29%	0.26%	0.48%	0.71%	1.85
Sales/ working capital	0.81	0.91	0.89	1.088	1.026	0.94

*Source:* Annual accounts of JKTDC, Ltd.

### Working capital leverage

The working capital leverage of the company has been calculated in Table VII, in order to measure the sensitivity of return on investment (ROI) to changes in the level of current assets. It should be kept in mind that the changes in working capital in last year will be maintained in the next year in calculating the working capital leverage. In the year 2015 the working capital leverage of the concern was 1.691 which was

the highest among all the years under study showing the maximum sensitivity of ROI changes in the level of current assets. On the other hand in 2013 the working capital leverage of the company was the lowest which was 0.073 which was the least, signifying the minimum sensitivity of ROI changes in the level of current assets. Therefore, changes in current assets were maximum sensitive in 2015 and minimum sensitive in 2014 in increasing the profitability of the concern.

**Table 7:** Working capital leverage of JKTDC (□ in thousands)

Particulars	2011	2012	2013	2014	2015
Current assets	332513	362580	408654	372833	509234
Total assets	422993	477197	570639	699542	794639
Working capital leverage		0.625	0.073	1.689	1.691

*Source:* Annual accounts of JKTDC, LTD.

### Conclusion and Recommendations

The analysis done so far reveals that management of working capital is one of the important aspects of this company. During the study period gross working capital of the company has rapidly increased and heavily relied on current assets rather than fixed assets. The company's debtors as a percentage of sales were 69.84 per cent in 2011 and it sharply decreased to 13.93 per cent in 2015, means that the corporation restricted its debtors and at the same time increased its turnovers. Analysis of variation of working capital of the company during our study period depicted a very interesting story. Most of the time of our study period, the long-term financing has dominated the picture. It speaks about the increasing dependence on long-term fund as a source of working capital than short-term fund. Increasing dependence on long-term sources means the company has not managed its working capital properly. Out of four components of working capital cash and bank balance were contributed the highest followed by sundry debtors, other current assets including loans & advances, and inventories respectively.

The company adopted conservative working capital policy by applying lower level of gross working capital in relation to

sales throughout the study period. The sales to gross working capital ratio of the company was 0.81 in 2011. It increases to 0.91 in 2012. Then it decrease to 0.89 in 2013. But it again increases to 1.088 in 2014, and again decreases to 1.026 in 2015. Ultimately average ratio reached 0.94 signifying investment in current assets as compared to investment in fixed assets. Adoption of aggressive working capital policy throughout the study period except in the year 2011, the profitability (i.e. EBIT / Total Assets of the concern) massively decrease from 3.29 per cent in 2012 to 0.71 per cent in 2015. Therefore the company throughout the study period got the reward of taking lower risk.

Working capital is considered an essential input towards realization of company profitability. This idealism contrasted the case of JKTDC, LTD. The company's misguided working capital management practices which were more conservative had a significant bearing on the dismal financial performance. The study found that JKTDC, LTD' receivable periods were longer than the payables period. This partly meant that the companies' acceleration techniques were deficient in mobbing-up receivables to the required profitability levels.

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