WORKING CAPITAL ANALYSIS OF FERTILIZER COMPANIES IN INDIA

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ABSTRACT

India is an agricultural country and from the point of view of the largest population, India is at the forefront in consumption of food grains. India has a long history of fertilizers, which are widely used in agriculture, and has been continuously changing and developing. A financial ratio can represent the relative importance of a set of quantifiable numbers obtained from the financial statements of a corporation. Fertilizer technology advanced greatly as a result of the discovery of the chemical requirements for plant growth, which were first used by ancient farmers. Farms are able to maintain a high level of production thanks to fertilizers. People must understand the foundations of various fertilizers and how to use them in order to succeed in agriculture. All crop production techniques require the use of fertilizers in order to achieve yield levels that are worth the work of cultivating the crop. The market of fertilizer is also very large in India. Like blood is to the human body, working capital is to a corporation. It will ensure the health of a company if it is done well, quickly, and regularly. Consequently, a business's ability to survive depends on its ability to handle working capital effectively. With reference to any fertilizer company's, the goal of this study is to advance working capital management, a crucial component of financial management. In this paper, we will understand the working capital of the Fertilizer Company of India and understand its growth sequence.

KEYWORDS: *Inventory Management, Working Capital Correlation, Financial Ratios*

INTRODUCTION

Nobody can deny the importance of funds in a business unit, whether it is a retail store or a large manufacturing unit. The only factor that all units have in common is money. As a result, money management, also known as financial management, is essential. Invested capital in a business must be managed effectively for effective financial management to occur. Every company unit needs money for two things: first, its establishment and second is ongoing operations. By acquiring fixed assets like equipment, land, buildings, furniture, and other similar items, productivity must be supported by long-term funds. Additionally, research and development, plant and machinery renovation or modernization, and corporate diversification and expansion are all examples of acceptable uses. The percentage of a company's capital that is set aside on an ongoing or fixed basis is known as fixed capital. The acquisition of raw materials, the payment of wages, and the satisfaction of recurring expenses all call for short-term capital. There is a restriction on selling all products produced in a specific time frame. As a result, some goods, such as raw materials, semi-finished goods, and finished marketable goods, remain in stock. These resources are referred to as working capital. Marketable securities, debtors, and inventories are examples of short-term or current assets that are financed using the working capital portion of a company's capital. In other words, it pertains to every aspect of existing assets and responsibilities. Just as important as managing long-term investments is managing working capital.

So far, our discussion has focused on fixed asset management and long-term financing. The management of current assets will be discussed in this section. Current asset management is similar to fixed asset management in that both involve the firm analyzing the effects on its return and risk. However, the management of fixed and current assets differs in three significant ways: First, time is an important factor in managing fixed assets; as a result, discounting and compounding techniques play a significant role in capital budgeting and a minor role in current asset management. Second, while a large holding of current assets, particularly cash, strengthens the firm's liquidity position (and reduces riskiness), it also reduces overall profitability.

Working capital

Estimates of working capital are derived from the assets and liabilities on a corporate balance sheet. A company can better understand its liquidity in the near future by only looking at immediate debts and offsetting them with the most liquid assets. Working capital can also be used to evaluate a company's short-term financial stability and operational effectiveness. A corporation may be able to invest in growth and expansion if it has a sizable positive NWC. A corporation may find it difficult to expand or pay back creditors if its current assets do not surpass its total liabilities. In fact, it might file for bankruptcy.

Working capital is classified as follows: Working capital is divided into two concepts: • Gross Concept

Net Concept. Gross working capital, or the company's investment in current assets, is the term used in this context to describe working capital. Current liabilities are not regarded as being deducted from current assets in the gross definition of working capital. Thus, capital invested equals capital less gross working capital. Each of the firm's current assets are those which can be transformed into cash in less than one financial year in which doing business as usual. Cash on hand and at the bank, different debtors (less an allowance for bad loans), payments receivable, narrow advances and loans share inventories like raw goods, perform, warehouses as well as spares, finished products, and temporary investments of excess cash are also all examples of current assets.

- prepaid expenses
- Accumulated earnings

According to proponents of the gross working capital concept, the firm can provide current working capital at the appropriate time.

• Management is more concerned with the total present assets that must be managed than with the sources from which those assets are derived.

• The return rate on working infrastructure investments can be determined using this notion more effectively.

Net Working Capital: The sum of the current liabilities less the current assets is the net working capital.

Net Working Capital =Current Assets - Current Liabilities

Debts owed to other parties that are anticipated to become due for payment within a certain accounting year are referred to as current liabilities. Gross working capital is feasible in any scenario. When current assets are more than current liabilities, working capital is positive; conversely, it is negative when the reverse is true. The working capital of the company grows in tandem with the overall investment.

WORKING CAPITAL OF FERTILIZER COMPANY

In India, the fertilizer market has expanded significantly during the previous 30 years periods. The government wants to make sure that farmers in remote and difficult terrain have access to fertilizer. The deregulation of phosphate and potosic fertilizer costs, availability, and mobility has been decided. An increase in the availability of non-chemical fertilizers at fair pricing has been ensured through the implementation of measures. In the nation, 53 laboratories for fertilizer quality control exist. The federal government is implementing a National Project on Use of Bio-fertilizers and its Development, because they are thought to be an efficient, affordable, and renewable alternative to chemical fertilizers. For the purpose of organizing training, demonstration programs, and conducting quality tests on bio-fertilizers, one national and six regional centers have been established.

The utilization of organic material, in contrast to fertilizers, has not significantly increased over the last two to three decades. Approximately 5 million tons of accessible nutrients (NPK) are contributed annually from organic sources, with a potential rise to 7.75 million tones by 2025. As a result, the supply of nutrients benefits greatly from the use of organic manures. Additional and complementary applications of organic manure increases the efficacy of mineral fertilizer use in addition to increasing the physio-chemical characteristics of the soil.

A company's health is guaranteed by effective working capital management. Its main focus is on managing current assets and liabilities. Working capital is important for a company's liquidity situation since the percentage of current assets that make up working capital influences the company's liquidity status. The sum of money utilized to satisfy a company's immediate financial requirements is known as working capital. Its form and content are continually changing over the usual course of business.

Raw materials, semi-finished products, finished items, receivables, marketable securities, and cash are typically where a corporation invests its working capital. All of these companies continually turn the capital they have invested into cash, which is subsequently distributed as other current assets. As a result, it is always in motion. A company's liquidity is defined as its capacity to meet its short-term liabilities when they become due. Because the percentage of current assets in working capital has an impact on the company's liquidity situation, the working capital structure has an impact on a firm's liquidity. In order to establish a sound liquidity position and, ultimately, an ideal level of working capital, it is important to thoroughly examine the variables that influence the needs for working capital and various components of current assets.

Chambal Fertilizers and Chemicals Ltd-: An Indian Company called Chambal Fertilizers and Chemicals Ltd. In addition to making urea, the business operates a joint venture in Morocco that makes phosphoric acid. Additionally, the business sells software, exports, and makes synthetic and cotton yarn. The company is broken up into four sectors: trading, textile, shipping, and its own line of fertilizer. The production and sale of urea are included in the category of fertilizer that are exclusively made by the company. The price and distribution of urea are partially regulated by the Indian government. Fertilizers and other farm products are purchased and sold as part of the trading segment. Manufacture and retail of synthetic and cotton yarn are included in the textile industry. Petroleum and other liquid products are transported using boats that the Shipping section owns or charters. The subsidiaries of the firm are India Steamship Pvt. Ltd., CFCL Overseas Ltd., and Chambal Infrastructure Ventures Ltd.

Nagarjuna Fertilizers and Chemicals Ltd:- India is the base of operations for Nagarjuna Fertilizers and Chemicals Ltd. Plant nutrient production and distribution are the company's primary activities in India. Solutions for nutrition and micro irrigation are included in the company's range of goods and services. Both micro and macro fertilizer as well as farm management services are examples of nutrition solutions. Irrigation water solutions, which comprise professional services and full project management, offer knowledge for the management of chemical processing plants. The business is divided into three divisions: Nagarjuna Management Services. Jaiprakash Engineering & Steel Co. Limited, Straight Nutrition Business; Nutrition Solutions Business; and Kakinada Fertilizers Limited, and Nagarjuna Oil Corporation Limited are a few of the industry's subsidiaries. On December 15, 2009, the Company fully acquired Kakinada Fertilizers Limited's equity capital.

National Fertilizers Ltd.:- Under the brand name Kisan Urea, National Fertilizers Ltd. develops and markets products sell nitrogenous fertilizers in India. It offers nutrients that can be used in numerous kinds of crops, including horticulture, cash crops, vegetables, oil seeds, and food grains. The business also produces and sells bio fertilizers, such as azeto-bactor, phosphate-solubilizing bacteria, and rhizobium, which are used to augment chemical fertilizers. A variety of industrial goods are also produced and sold by the company, including off-grade methanol, diluted nitric acid, ammonium nitrate, sulphur, industrial grade urea, liquid oxygen, liquid nitrogen, carbon slurry, liquid carbon dioxide, and liquid argon. The company also offers a variety of specialized services in the areas of plant operation, program management, and servicing. National Fertilizers Limited was founded in 1974 and has its company offices in Noida, India.

Rashtriya Chemicals and Fertilizers Ltd.:- A corporation established in India that manufactures chemicals is called Rashtriya Chemicals and Fertilizers Ltd. Products offered by the company include methanol, methylamines and their compounds, ammonium nitrate, sodium nitrate/nitrite, ammonium bicarbonate, as well as formic acid. Rajasthan Rashtriya Chemicals & Fertilizers Ltd. is a company that is a subsidiary of the Company. The Company manufactured 1.19 lakh metric tons of different industrial chemical products in its fiscal year that ended on March 31, 2010 (fiscal 2010).

Study's goals were as follows: The research's goals are as follows:

• To assess the fertilizer industry's working capital management.

• Analyze the impact of working capital management on liquidity.

• To assess the rank correlation of the link between profitability and liquidity.

Analysis and Control of Working Capital:

The human body needs have blood circulation in order to be alive. A business's working capital, which is its lifeblood, is crucial for its efficient and successful operation. A certain quantity of working capital is necessary for every business to operate. However. Additionally, it should be recognized that working capital is a means, not a goal, to a successful operation of the company. A business unit typically has a positive working capital balance, or the excess of current assets over current liabilities, although occasionally additional uses of working capital lead to a negative working capital balance. It can be paid for following other transactions in the subsequent period. In order to assess the effectiveness with which working capital is used in a corporation, it is now important to monitor the changes in its sources and uses. It makes working capital analysis necessary. Budgeting, ratio analysis, and money flow analysis are tools for working capital analysis.

Ratio Analysis: A ratio uses straightforward math to depict the connection between two integers. Ratio analysis is a technique that can be used to gauge a company's short-term capital liquidity, or working capital status. For this reason, the ratios shown below can be calculated.

II Current ratio
III Acid test ratio
IIII Absolute liquid ratio,
IIV Cash position ratio
IV Inventory turnover ratio
IVI Receivables turnover ratio
IVII Payables turnover ratio
IVIII Working capital ratio
IIX Working capital leverage
IX Ratio of current liabilities to tangible net worth.

Funds Flow Analysis: A technique called "money flow analysis" compares the total inflow of funds over the course of an accounting period to the total outflow of funds over the same period. It is a useful tool for analyzing changes in a company's financial situation between the dates of its beginning and ending financial statements.

• Creating a timeline for working capital changes and

• including a statement of the sources and uses of cash in a funds flow analysis.

Budgeting: Budgeting is the practice of making predictions about the costs that will arise throughout the upcoming fiscal year. It is a statement of the business strategies that will be employed during the coming years. Working capital is prepared as part of a company's overall budgeting process for both long-term and short-term working capital requirements. This is done by looking at the market's sources and matching them to the needs of the company. Then, the

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budgeted amounts and actual performance are compared to determine any variances, if any, and any necessary corrective actions can be taken moving forward. The objective of a working capital budgeting plan is identical to the objective of overall budgeting, for the business process, for instance to guarantee that money will be available as and when needed and to guarantee effective usage of these resources.

Working capital of Indian Fertilizer Company

Cooperative organizations or government-owned companies inside the public sector like IFFCO and KRIBHCO, and private sector companies are the three main stakeholders in India's fertilizer market. N and NP/NPK fertilizers are being produced in the nation by roughly 33 large companies. To ensure that the nation attained a respectable level of food grain production self-sufficiency, the fertilizer sector given fertilizer subsidy offered by the Indian government has been well utilized by India. Through the Fertilizer Association of India, the fertilizer industry has set itself up to work in tandem with the Indian government to meet macroeconomic goals pertaining to the agriculture sector and to offer other services.

The making of important fertilizers (Annual report of department of fertilizer 2021-2022). A total of 246.03 LMT of urea and 130.95 LMT of DAP and Complex fertilizer were produced in 2020–2021. In comparison to the previous year, the expected output of urea for the two-year period 2021–2022 would be 263.74 LMT and that of DAP Complex fertilizers would be 133.42 LMT. The table below shows the sector-specific output of urea, DAP, and complex fertilizer in 2020–21 and the expected production in 2021–2022-

S. No	Sector	2020-21			2021-22 (Estimated)		
		Urea	DAP	Complex fertilizers	Urea	DAP	Complex fertilizers
1.	Public Sector	66.63		14.54	64.88		14.37
2.	Cooperative Sector	69.98	19.24	23.48	67.62	22.87	20.95
3.	Private Sector	109.42	18.50	55.19	131.24	16.81	58.42
Total		246.03	37.74	93.21	263.74	39.68	93.74

Contribution of Fertilizer industry in the Indian Economy:

The growth of the Indian economy is positively impacted by the fertiliser sector. Its contribution may be seen in the following points.

- Agricultural development: India's agricultural development was made possible with the aid of the fertiliser industry. It was essential to the green revolution and to the places where the fertility of the soil was low.

- Capital investment: The fertiliser business has received more than Rs. 5700 Cr in investments over the past few years, making it one of the key sectors of the economy.
- Corporate development: Over the past 34 years, this industry has started to organize itself. One of the distinctive features of the development of the industry in the country is the creation of several joint ventures, international corporations, and cooperatives.
- Regional development: The states with the most fertilizer manufacturing facilities include Chhattisgarh, Maharashtra, Punjab, Uttar Pradesh, Andhra, Assam, Bangal, Rajasthan, and Bihar.

The economic impact of fertilizer businesses is significant in these states.

Current Situation with Some Fertilizer Plants' Reconstruction Four fertilizer facilities owned by Fertilizer Corporation of India Limited (FCIL) in Talcher, Ramagundam, Gorakhpur, and Sindri, as well as one by Hindustan Fertilizer Corporation Ltd. (HFCL) in Barauni, are being revived by the government. This is accomplished by constructing new ammonia-urea facilities with an annual capacity of 12.7 LMT (Lakh Metric Tons). The government anticipates that the commissioning or start-up of the aforementioned facilities will enable it to greatly expand domestic urea production, which will result in a considerable decrease in imports and enable India to become self-sufficient in the years to come. - Up till November 2020, Ramagundam Fertilizers and Chemicals Limited (RFCL) has already made 99.79% of its physical progress. Pre-commissioning and commissioning are the current stages of the project. - Fertilizer production at the plants in Gorakhpur, Sindri, and Barauni has progressed by 85.4%, 80.7%, and 79.8%, respectively (up to November 2020). - The Talcher Fertilizer Plant in Odisha is now progressing on schedule overall at a 7.77% rate. After all of the aforementioned plants are put into operation, the local indigenous urea production is expected to rise by at least 63.5 LMT/year, which will result in a 70% decrease in urea imports (assuming FY20 level of imports).

CONCLUSION

Forecast for FY21 Despite the coronavirus pandemic and financial uncertainty, the vibrancy of rural demand and markets has been quite encouraging, which has translated into improving the underlying dynamics for the Indian fertilizer industry. Agriculture has been a shining area, expanding thanks to a bountiful Rabi harvest and a favorable Kharif monsoon. The demand for the purchase of fertilizers has been encouraging up to this point due to excess reservoir levels, record-high kharif crop sowing, and an abundance of rainfall throughout the monsoon season. Sales have grown significantly by 22.5% over the course of 8M-FY21, and moving forward, thanks to farmers' enhanced liquidity and favorable soil moisture levels, we anticipate a very successful Rabi season.

In light of this, the demand for fertilizers for the remainder of FY21 appears positive. With two years in a row of above-average rainfall, the rural economy is still doing well. In addition, the government has approved an increase in MSP ahead for the Rabi crops with the aim of giving farmers returns on their investment of at least 50%.
Working capital management includes managing finances, inventories, accounts receivable, accounts payable, various debtors, various creditors, etc. Through ratio analysis, the study

examined the financial performance of Fertilizers & Chemicals Travancore Ltd. and Rashtriya Chemicals & Fertilizers Ltd. The preceding study's findings show that the current ratio, liquid ratio (acceptable in the case of the first company), and cash ratio are not all satisfying. However, aside from ITR, the DTR and FATR of the second company are superior to the first company. The businesses must adopt a sensible working capital management strategy.

- The following points can be made: • In light of the study's findings, it is recommended that certain standards for a quicker flow of funds via debtors be put in place to limit the current ratio. Since making early creditor payments can result in discount and interest cost savings, doing so will directly affect the company's earnings.
- Throughout the research period, it ought to be ensured that now the company's quick ratio consistently exceeded the norm of 1:1. To enhance the quick ratio, sell unneeded assets or purchase merchandise with lengthy financing instead of utilising cash on hand.
- In accordance with the cash ratio, the appropriate amount of cash, bank account, and brief investment in current assets must be maintained. By reinvesting profits, try to lower current liabilities while raising reserves.
- A low stock turnover ratio suggests that the company is keeping its stock levels excessively high, which could lead to an overstocking issue. Without compromising the consumers' experience in any way, this stock must be minimized.
- A low debtor turnover rate suggests a lengthy loan tenure or a poor rate of debtor realization, both of which could indicate major financial issues for the organization. As it should be changed its credit policy in order to expedite the collection of debtors in time.
- A low ratio shows that fixed assets are not being used effectively. The standards should be upheld in accordance with the conditions.
- Negative cash flow might result from poor management, theft-related money leakage, or actual loss. The typical solution for temporary mismatch is to set up an overdraft facility. As a business expands, it have a mixed cash flow that includes both positive and negative cash flows from financing activities and operating and investing businesses. A mature company could have a negative balance in its investing activities but a positive cash flow from operational activities.

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