

A Study on Working Capital Management in Automotive chassis Manufacturing Pvt Ltd

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ABSTRACT

The effective management of working capital is crucial for all companies. Key elements of working capital management include days sales outstanding (DSO), days inventory outstanding (DIO), days payable outstanding (DPO), and cash conversion cycle (CCC). A study conducted on 332 Czech companies, 20 of which were certified by the EFQM (European Foundation for Quality Management) Model, investigated how these components of working capital management impact a company's profitability. Two regression models were utilized for testing - pooled regression and maximum likelihood estimation (MLE). The results indicated that all components of working capital management have a negative effect on profitability. Interestingly, the interaction between EFQM certified companies and working capital components had a positive impact on profitability, suggesting a beneficial relationship between these components and profitability for certified firms. However, it was found that receiving a quality certificate/award from the EFQM Excellence Model actually decreased a company's profitability.

Keywords

Working capital, Firm profitability CCC, EFQM, Czech firms

1.Introdetion

Finance is one the basic foundations of all kinds of economic activities. It is the master key, which provides access to all the sources for being employed in manufacturing. Hence it is rightly said that finance is lifeblood of any enterprise, besides being the scarcest elements, it is also the most indispensable requirement. Without finance neither any business can be started nor successfully run. Provision of sufficient funds at the required time is the key to success of concern. As matter of fact finance may be said to be the circulatory system of economic body, making possible the needed co-operation among many units of the activity.

Financial is the lifeblood of the organization, irrespective of its size and mission. Management of finance in the organization has been changing at a rapid pace after the inception of the computers in the fields.

In the modern phase the financial managers is not in a passive role of a scorekeeper of accounting information and arranging funds, whenever diversified to do so. Rather, he is confronted with the various issues and decisions to ensure that the funds are raised economically and canalized with in the most effective manner.

The information of recent economic policies and fiscal policies has further eroded changes in competitiveness of Indian industry.

2.Definition:

According to BONNEVILLE AND DEWEY:

“Financing consists in the rising, providing and managing of all the money, capital or funds of any kind to be used in connection with the business.”

3.Review of literature

Veda Vinaya gamganesan 2018Efficiency of working capital management can be negatively associated to the firm’s profitability and liquidity **Pedro juangarcia-teruel&pedromartínez- solona** 2019 Effects of working capital management that there is a negative relation between the profitability of the firm and number of days Of receivable and inventory **MOHAMMAD** 2020 Compared to more and less profitable firms. the firm’s bills are pay early by the more profitable firms then of less profitable firms. There is an negative ration between average pay period and firm’s profitability.

4. RESEARCH GAP

- My Topic WORKING CAPITAL MANAGEMENT Performing In Automotive chassis engineering pvt ltd.
- There is no clear and concise information about working capital management in that organization. So I selected this particular topic in that particular company.

5.OBJECTIVES OF THE STUDY

- To study the financial soundness of the company.
- To analyze the working capital of Automotive chassis engineering pvt ltd.
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- TO study schedule of change in working capital.

6.SCOPE OF THE STUDY

- The scope of the study is defined below in terms of concepts adopted and period under focuses. First, the study of working capital management and profitability are confined only to the Automotive chassis engineering pvt ltd.. Secondary, the concepts of working capital and profitability i.e., Gross and Net is used in measuring the working capital management and profitability performance and also to arrive at objectives of the study. To estimate working capital requirements.

7.Need of the study

- Management of working capital is an important function of finance department of a corporate organization.
- While managing current assets two important factors that are considered is liquidity and profitability.
- The excess working capital results in deterioration in profits and inadequate working capital results in liquidity risk.
- So this study is undertaken to know to what extend the successful in trade-off liquidity and profitability

8. Limitations of the study

- The ratios are calculated using the past financial statements and they may not the right indicators for the future performance of the company.
- The data in the study have been taken from only published annual reports of Automotive chassis engineering pvt ltd. There is very less scope of gathering confidential data.
- Time is also one of the major constraints.

9. RESEARCH METHODOLOGY AND DESIGN

Methodology refers to systematic procedure of collecting information in order to analyze and verify phenomena.

Primary Data

- The primary data comprises information obtained by the candidate during discussions with Heads of Departments and from the meeting with officials and staff.

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
2018-19	31,31,12,005	8,62,29,274	3.63
2019-20	34,31,23,264	7,99,38,108	4.29
2020-21	27,72,03,371	13,32,80,414	2.08
2021-22	30,19,24,932	13,00,61,660	2.32
2022-23	33,74,91,265	12,96,20,400	2.6

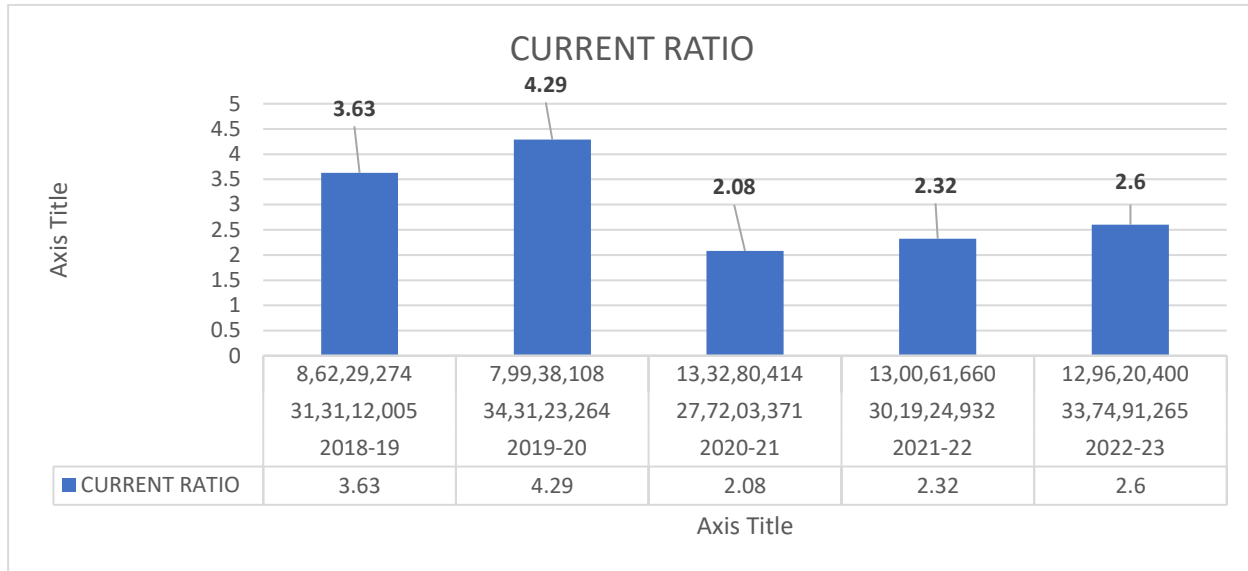
Secondary Data

- The secondary data has been collected from information through Annual Reports, Public Report, Bulleting and other Printed Materials supplied by the Company

10. DATA ANALYSIS AND INTERPRETATION**1. CURRENT RATIOS**

The current ratio is calculated by dividing current assets by current liabilities. The current ratio is computed by dividing current assets by current liabilities. Current assets normally include cash, marketable securities, accounts receivables and inventories. Generally, a current ratio of 2:1 (current assets twice of current liabilities) is considered to be satisfactory.

Current Ratio = current assets/current liabilities



Interpretation:

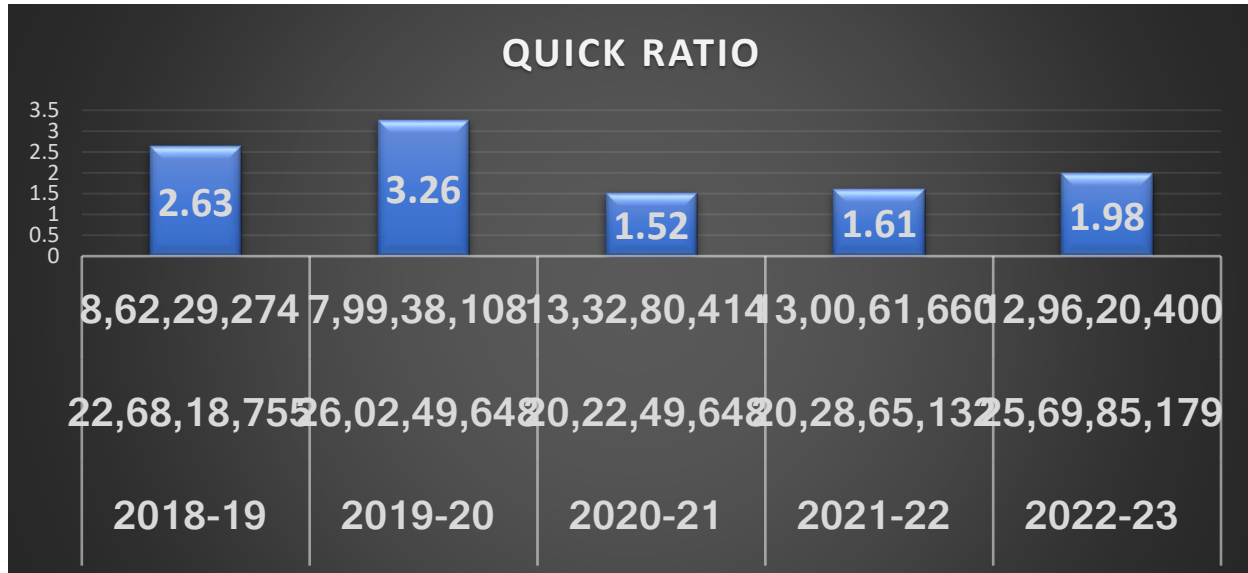
During 2018-19 the current ratio of the company was 3.63, 4.29, 2.08, 2.32 and 2.60. The highest during the year 2019-20 that is 4.29, the lowest position during the year 2020-21 that is 2.08.

2. QUICK RATIO (OR) ACID TEST RATIO

Quick ratio establishes a relationship between quick, or liquid, assets and current Liabilities. Generally, a quick ratio of 1:1 is considered to represent a satisfactory current financial condition. A Quick ratio of 1:1 or more does not necessarily imply a sound liquidity position.

$$\text{Quick Ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$

YEAR	QUICK ASSETS	CURRENT LIABILITY	QUICK RATIO
2018-19	22,68,18,755	8,62,29,274	2.63
2019-20	26,02,49,648	7,99,38,108	3.26
2020-21	20,22,49,648	13,32,80,414	1.52
2021-22	20,28,65,132	13,00,61,660	1.61
2022-23	25,69,85,179	12,96,20,400	1.98



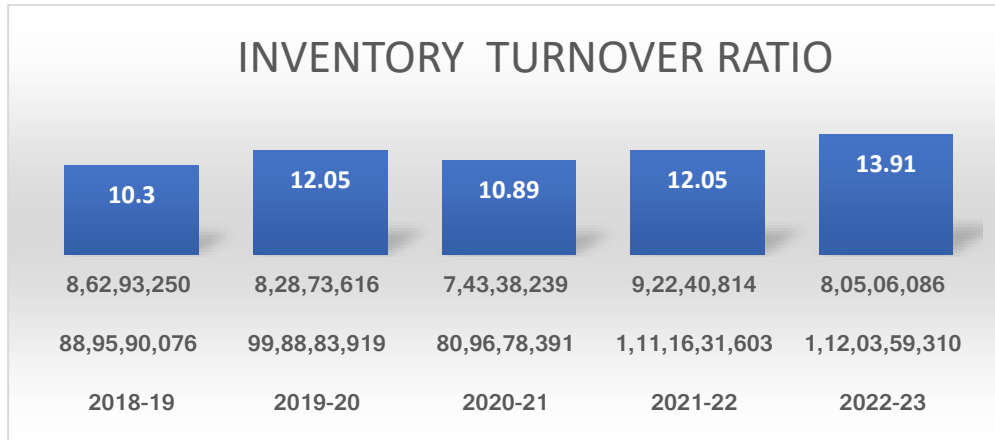
Interpretation : The quick ratio was The highest during the year 2019-20 that is 3.26.the lowest position during the year 2020-21 that is 1.52

INVENTORY TURNOVER RATIO

(STOCK TURNOVER RATIO) It indicates whether inventory is efficiently used or not the purpose is to see whether only the required minimum funds have been locked up to in inventory. A low inefficient management of inventory over investment in inventories, debt business, poor quality of goods, stock accumulation and low profit as compared to total investment.

Inventory Turnover Ratio = sales/ inventory cost

YEARS	SALES	INVENTORY	INVENTORY
	Rs	Rs	TURNOVER RATIO
2018-19	88,95,90,076	8,62,93,250	10.3
2019-20	99,88,83,919	8,28,73,616	12.05
2020-21	80,96,78,391	7,43,38,239	10.89
2021-22	1,11,16,31,603	9,22,40,814	12.05
2022-23	1,12,03,59,310	8,05,06,086	13.91



Interpretation

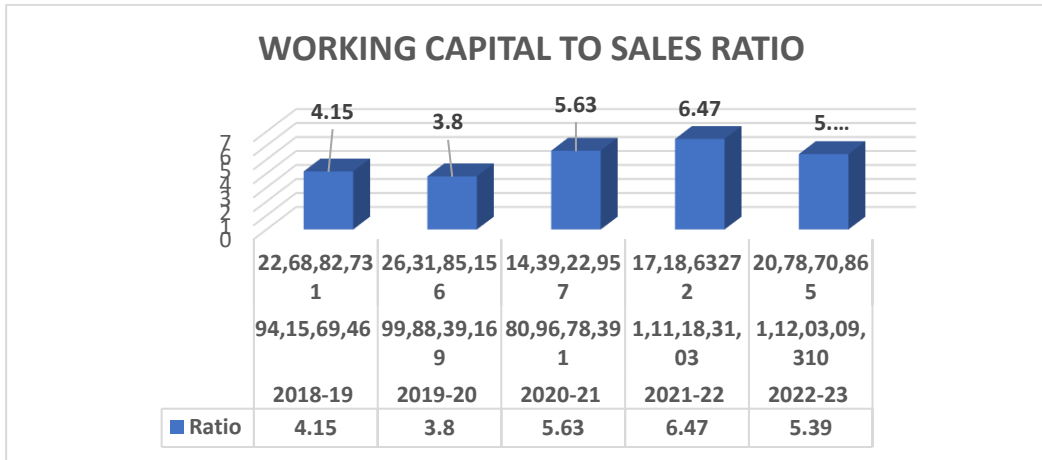
The inventory turnover ratio was The highest during the year 2022-23 that is 13.91 .the lowest position during the year 2018-19 that is 10.3

4. WORKING CAPITAL TO SALES RATIO

The working capital turnover ratio is the ratio of working capital of sale. This ratio indicates how many times that the sales on working capital. If this is high the liquidity is good, if it is less the liquidity of the firm is not good. The generally accepted principle is

Net Current Assets Turnover = Sales / Net working capital

Years	Net Sales	Working capital	Ratio
2018-19	94,15,69,46	22,68,82,731	4.15
2019-20	99,88,39,169	26,31,85,156	3.8
2020-21	80,96,78,391	14,39,22,957	5.63
2021-22	1,11,18,31,03	17,18,63272	6.47
2022-23	1,12,03,09,310	20,78,70,865	5.39



Interpretation

The Working capital to sales ratio was The highest during the year 2021-22 that is 6.47 .the lowest position during the year 2019-20 that is 3.8

11. Findings : After proper analysis of the financial position of the Automotive chassis engineering pvt ltd. with the help of tools of financial analysis, the following are things are found during the study.

- ☐ In the years 2018-19 to 2022-23 the company inventory turnover ratio is highly increasing. That is 0.69, 1.37, 3.80, 13.89, and 26.26.
- ☐ In the years 2018-19 to 2022-23 the current ratio is nearly 1 from 2019-20 is 2 to 1 from year onwards the current ratio is gradually decreasing and Increasing from 2022-23 it represents the firm's inability to meet its obligations.
- ☐ The debtor's turnover ratio is low due to huge increase in debtors and decrease in the sales.

12. Suggestions

- The profitability of the company is affected due to unnecessary administration expenses incurred by the company. It is better to reduce it to increase the profit.
- The company must maintain its operating expenses in manner and improve the operating nature.
- It is suggested to take measures for collecting dues from the debtors, by allowing discount and reduce bad debts.
- It is suggested to pay the dues to the creditors as earlier as possible, because delay increases more interest charges and damage the credibility.
- It is suggested to put promotional/advertisements efforts for increasing the sales of the company.

It is suggested to make additions/ introduce new technology in the production for better quality of output and for increasing the portion of fixed assets on total application of fund

Conclusion

The of study reveals that the working capital position Automotive chassis manufacturing pvt ltd is good as it remained a bit above the standard norms throughout the period of the study .On the Whole, it can be conclude that the working capital management and profitability efficiency has been increasing every year. It needs to be maintained and increasing further by effective utilization and control of current assets especial cash and bank balance.

From the study it is noticed that the working capital is fluctuating i.e., increasing and decreasing from year to year with slight variations. So, it is necessary to reduce variations in working capital & profitability to invest more in fixed assets to maintain the company in a better position for a long run.

13.Reference

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