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A Study on Working Capital Management of MSL Enterprises

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ABSTRACT

Working capital management becomes a necessity in order to keep the operations stable and financially sound, especially for manufacturing firms wherein huge amounts of capital are more than likely going to be locked up in working assets. In this study, the working capital management of Chennai-based MSL Enterprises Pvt. Ltd., engaged in the process automation industry, is analyzed over the period between 2019 and 2024. It aims to assess the efficiency with which the firm manages short-term assets and liabilities and how much impact these have on its liquidity, profitability, and financial health.

Through the application of a combination of ratio analysis and year-to-year statements of working capital variation, the research determines trends in such important financial indicators as current ratio, quick ratio, inventory turnover, and debt-to-equity ratio. Although MSL has managed to demonstrate a rising gross profit margin, as well as improved operating efficiency, analysis also discovers liquidity volatility, declining inventory efficiency, and rising reliance for debt financing.

The study concludes that MSL can enhance its financial performance through strategic improvements in receivables collection, inventory management, and capital structure management. The study offers practical suggestions for small and medium-sized manufacturing firms seeking to enhance their short-term financial management and achieve long-term sustainability in a competitive industry.

Keywords: Working Capital, Liquidity, Profitability, Financial Performance, Ratio Analysis, Manufacturing, MSL Enterprises.

I. INTRODUCTION

Working capital management is a critical area of financial management that enables a company to sustain adequate liquidity to cover short-term obligations in a manner that maximizes profitability and operational effectiveness. This paper analyzes the working capital operations of MSL Enterprises Private Limited, a process control and automation solutions company, between 2019 and 2024. Through the application of ratio analysis and working capital statement changes, this study analyzes the company's capability to manage current assets and current liabilities. The aim is to determine the company's success in balancing profitability and liquidity, detecting financial trends, and determining areas for improvement. The learning derived is meant to inform financial decision-making and quality financial health and performance of comparable enterprises.

II. STATEMENT OF PROBLEM

Effective working capital management is vital to the financial well-being and operational sustainability of any company, particularly small and medium-sized firms such as MSL Enterprises Private Limited. However, due to the dynamic nature of market environments, uncertain cash flows, and ineffective financial planning, most firms cannot attain the best balance between profitability and liquidity. In the case of MSL Enterprises, it is necessary to evaluate whether the working capital management practices of the firm from 2019 to 2024 have been effective in addressing its operational needs and financial goals. This study seeks to identify the specific issues, inefficiencies, and financial risks arising from the company's current practices and to analyze how effective working capital management can result in enhanced financial performance and long-term sustainability.

III. SCOPE OF THE STUDY

The scope of the study is restricted to analyzing the working capital management of MSL Enterprises Private Limited for the period from 2019 to 2024. The study analyzes the financial performance of the company through important ratio analyses such as liquidity, profitability, turnover, and solvency ratios, as well as statements of changes in working capital. The study is intended to measure the effectiveness of short-term asset and liability management in supporting day-to-day operations and ensuring long-term financial viability. The study relies on secondary data from the company's annual financial reports and is restricted to financial considerations alone and not non-financial or operational considerations. The results of the study are intended to make actionable recommendations to improve financial planning and decision-making in comparable small to medium-sized businesses.

IV. OBJECTIVE OF THE STUDY

- To analyze the liquidity and financial position of MSL Enterprises using ratio analysis.
- To determine how effectively the company handles its working capital elements.
- In order to comprehend the relationship between profitability and working capital practices.
- To compare the five consecutive financial years' financial performance (2019–2024).
- To offer pragmatic recommendations to enhance working capital management.

V. REVIEW OF LITERATURE

P. R. Mishra (2015) in "Working Capital Management Practices in Indian Retail Sector" explored how retail companies manage their working capital. Mishra found that the retail sector in India faced unique challenges due to rapid inventory turnover and high accounts payable, which could impact profitability if not managed properly. The study emphasized that adopting efficient working capital practices, particularly in inventory and receivables management, was crucial for improving liquidity and profitability in the retail sector.

V. K. Gupta and S. R. Joshi (2017) in "The Role of Working Capital in Profitability of Indian Firms" studied how efficient working capital management affects profitability in various Indian industries. The study found that firms with optimized working capital practices—particularly in managing current liabilities and assets— were more profitable. The research concluded that efficient working capital management was essential for financial stability and growth, particularly in capital intensive industries like steel and automotive.

M. P. Deshmukh (2018) in "Impact of Working Capital Management on Profitability of Indian Manufacturing Companies" analyzed the relationship between working capital management and profitability in Indian manufacturing firms. Deshmukh's study found that poor management of inventories and receivables negatively affected firms' profitability and cash flow. The research suggested that firms needed to adopt better inventory control practices and improve collections to enhance profitability and operational efficiency.

VI. METHODOLOGY OF THE STUDY

A Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure" The research design followed to study the working capital management in MSL Enterprises is Descriptive and Analytical Research Design.

Tools and techniques:

Ratio Analysis: Includes liquidity ratios (current ratio, quick ratio), profitability ratios (gross and net profit ratios), turnover ratios (debtor, inventory turnover), and solvency ratios (debt-to-equity).

Statements Showing Changes in Working Capital: Used to compare year-on-year changes in current assets and liabilities to identify trends in liquidity and operational performance.

VII. DATA ANALYSIS AND INTERPRETATION

TABLE -1

TABLE SHOWING CURRENT RATIO

Year	Current Assets	Current Liabilities	Ratios (%)
2020	1,43,64,844.71	77,56,837.39	1.8
2021	1,48,59,854.67	13,82,331.40	10.74
2022	2,42,93,813.00	63,82,000.00	3.8
2023	3,01,00,609.00	67,95,063.00	4.42
2024	2,99,01,469.00	19,03,337.00	15.71

INTERPRETATION:

The current ratio fluctuates significantly, from 1.8 in 2020 to a high of 10.74 in 2021, then decreasing to 3.8 by 2022 and 4.42 in 2023, before rising sharply to 15.71 in 2024. These variations suggest inconsistent short-term liquidity management. While generally above standard norms, such volatility can impact efficiency and profitability.

TABLE -2

TABLE SHOWING QUICK RATIO

Year	Quick Assets	Current Liabilities	Ratios (%)
2020	1,40,12,181.71	77,56,837.39	1.8
2021	95,36,424.67	13,82,331.40	6.89
2022	1,43,06,188.00	63,82,000.00	2.24
2023	1,49,23,655.00	67,95,063.00	2.19
2024	1,35,80,439.00	19,03,337.00	7.13

INTERPRETATION:

Similar to the current ratio, the quick ratio shows a sharp increase from 1.8 in 2020 to 6.89 in 2021, followed by a decrease to 2.24 in 2022 and 2.19 in 2023, then rising to 7.13 in 2024. This indicates fluctuating short-term liquidity, excluding inventory. The company's ability to meet immediate obligations without relying on inventory has varied.

TABLE -3

TABLE SHOWING GROSS PROFIT RATIO

Year	Gross Profit	Total Sales	Ratios (%)
2020	53,83,457.28	3,41,19,771.00	15.77
2021	50,05,363.39	2,12,43,265.99	23.56
2022	65,16,195.00	2,69,27,625.00	24.19
2023	76,93,005.00	3,12,56,319.00	24.61
2024	62,63,941.00	2,35,98,421.00	26.54

INTERPRETATION:

The gross profit ratio consistently increases, from 15.77% in 2020 to 23.56% in 2021, 24.19% in 2022, 24.61% in 2023, and 26.54% in 2024. This indicates improving profitability from core operations. The company is becoming more efficient in managing its cost of goods sold.

TABLE -4

TABLE SHOWING NET PROFIT RATIO

Year	Net Profit	Total Sales	Ratios (%)
2020	12,20,169.59	3,41,19,771.00	3.57
2021	10,74,389.80	2,12,43,265.99	5.05
2022	10,75,000.00	2,69,27,625.00	3.99
2023	10,21,930.00	3,12,56,319.00	3.26
2024	13,12,096.00	2,35,98,421.00	5.56

INTERPRETATION:

The net profit ratio fluctuates, starting at 3.57% in 2020, increasing to 5.05% in 2021, decreasing to 3.99% in 2022 and 3.26% in 2023, before rising to 5.56% in 2024. This shows variability in overall profitability. The company's net profitability is influenced by factors beyond the cost of goods sold.

TABLE -5

TABLE SHOWING INVENTORY TURNOVER RATIO

Year	COGS	Average Inventory	Ratios (%)
2020	2,87,36,313.72	2,97,939.50	96.45
2021	16,23,790.26	28,38,046.50	0.57
2022	2,04,11,450.00	76,55,527.50	2.66
2023	2,35,63,313.00	1,25,82,289.50	1.87
2024	1,73,34,481.00	1,57,48,992.00	1.1

INTERPRETATION:

The inventory turnover ratio shows significant decline, from a high of 96.45 in 2020 to 0.57 in 2021, improving to 2.66 in 2022 but decreasing to 1.87 in 2023 and 1.1 in 2024.
The initial high ratio suggests efficient inventory management, but the subsequent decline indicates growing inefficiency. This trend points to challenges in managing inventory effectively.

TABLE -6

TABLE SHOWING CHANGES IN WORKING CAPITAL MANAGEMENT 2019 – 2024

Year	Increase in W.C.	Decrease in W.C.
2019 - 2020	-	1,16,379.57
2020 - 2021	66,69,515.95	-
2021 - 2022	44,34,289.73	-
2022 - 2023	53,93,732	-
2023 - 2024	46,92,547	-

VIII. FINDINGS

The current ratio increased significantly over the years, peaking at **15.71 in 2024**, indicating a strong short-term liquidity position.

The quick ratio rose to 7.13 in 2024, reflecting the company's ability to meet short-term obligations without relying on inventory.

The gross profit ratio steadily improved, reaching 26.54% in 2024, showing enhanced cost efficiency and profitability from core operations.

The net profit ratio fluctuated but ended at 5.56% in 2024, indicating an overall improvement in net earnings after expenses.

The inventory turnover ratio dropped sharply from 96.45 in 2020 to 1.1 in 2024, suggesting declining efficiency in inventory management.

Working capital increased consistently each year, reflecting improved liquidity and the company's growing capacity to meet short-term obligations

IX. SUGGESTIONS

- Stabilize the liquidity ratios by maintaining an optimal amount of assets and current liabilities.
- Enhance the inventory turnovers by streamlining stock management and demand planning.
- Enhance cost effectiveness to sustain and improve profit margins.
- Regularly monitor working capital to maintain effective short-term financial planning.
- Enhance credit and collection processes to propel receivables and improve cash flow.

X. CONCLUSION

The study of MSL Enterprises Private Limited working capital management between 2019 and 2024 shows the necessity of efficient short-term financial management in keeping the company liquid and profitable. The analysis of key ratios such as current ratio, quick ratio, gross profit ratio, net profit ratio, and inventory turnover ratio shows mixed trends, pointing towards areas of strength and weakness. While the company was well-lit in terms of liquidity towards the end of the period, high readings in some years show possible underutilization of resources. The consistent improvement in gross and net profit ratios shows good operating practices, while the declining inventory turnover ratio shows inefficiencies in inventory management that can affect overall working capital flow.

The statement of changes in working capital guarantees a steady increase year after year, indicating a better capacity to meet short-term obligations. This can be maintained, however, with effective financial planning, timely realization of receivables, and effective inventory management. Overall, the study emphasizes the importance of maintaining liquidity and profitability through effective working capital management. With the correction of identified inefficiencies and the implementation of prudent financial practices, MSL Enterprises can further enhance the efficiency of its operations, attain long-term sustainability, and remain competitive in a dynamic business environment.

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