

IMPACT OF DELAYED CUSTOMER PAYMENTS ON BUSINESS LIQUIDITY:

A Case Study of An Ancillary Manufacturer Around Coimbatore

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ABSTRACT

This study investigates the impact of delayed customer payments on the business liquidity of a leading automobile ancillary manufacturer based in Coimbatore, one of India's prominent players in dashboard instruments. Using secondary data drawn from the company's annual reports for the period 2021 to 2025, the study employs a descriptive research design with financial tools including ratio analysis, mean, standard deviation, and coefficient of variance. Key profitability ratios (gross profit, net profit, operating profit), turnover ratios (debtors' turnover, working capital turnover, fixed assets turnover), liquidity ratios (current ratio, quick ratio), and solvency ratios (proprietary ratio, fixed assets to net worth) were computed and analysed. Findings reveal a fluctuating but generally improving trend in profitability, with the gross profit ratio rising from 24.80% in 2022 to 36.55% in 2025, and the debtor's turnover ratio indicating variable receivables collection efficiency. The study concludes that effective receivables management and well-defined credit policies are critical for sustaining liquidity and operational stability in the competitive automobile components sector.

Keywords: Business Liquidity, Delayed Payments, Receivables Management, Ratio Analysis, Working Capital, Automobile Ancillary Industry

1. INTRODUCTION

In the contemporary business landscape, maintaining adequate liquidity is a prerequisite for organizational survival and growth. Liquidity enables a firm to meet its short-term obligations, sustain day-to-day operations, and respond dynamically to market changes. Among the various factors that undermine corporate liquidity, delayed customer payments have emerged as one of the most pervasive and damaging challenges. When customers defer payment, the working capital cycle is disrupted, leading to difficulties in settling dues to suppliers and servicing debt.

The subject company, established in 1972, is a prominent automobile ancillary manufacturer in India, commanding approximately 50% of the Indian market for dashboard instruments. This study analyses five years of financial data (2021–2025) to evaluate how receivables management practices and customer payment patterns influence the company's liquidity and operational efficiency.

2. REVIEW OF LITERATURE

Scholarship confirms the centrality of ratio analysis as an instrument for evaluating liquidity and profitability. Previous studies (Judith Priya & Suki Thangam, 2025; Pathade, 2022) emphasize that effective financial analysis provides reliable signals for investment decisions and long-term viability. Authors such as Venkatachalam and Rajaanjali (2016) recommend maintaining adequate liquid asset buffers to meet short-term obligations, a finding that forms the methodological foundation for this investigation.

3. RESEARCH METHODOLOGY

3.1 Data Source and Period:

Secondary data sourced from the company's annual reports (2021–2025).

3.2 Research Design:

Descriptive research design.

3.3 Analytical Tools:

Ratio Analysis (Profitability, Turnover, Liquidity, Solvency) and Statistical Measures (Mean, SD, CV).

4. DATA ANALYSIS AND INTERPRETATION

4.1 Profitability Ratios

Profitability ratios measure the firm's capacity to generate earnings relative to its revenues and capital base.

Table 1: Gross Profit Ratio (2021–2025)

Year	Gross Profit (₹ Lakhs)	Sales (₹ Lakhs)	Ratio (%)
2021	5,462.6	18,292.00	29.86
2022	5,567.2	22,406.08	24.80
2023	6,839.73	23,044.84	29.68
2024	9,238.25	29,275.68	31.55
2025	14,054.5	38,858.54	36.55
Mean			30.49
SD			4.22
CV (%)			13.85

The gross profit ratio displays a fluctuating but upward trajectory, declining from 29.86% in 2021 to a trough of 24.80% in 2022 before recovering steadily to reach 36.55% in 2025 — the highest in the study period. A coefficient of variance of 13.85% reflects moderate variability, suggesting that while the company's cost management improved significantly over the period, external pressures likely caused the 2022 dip. The rising trend from 2023 onwards indicates strengthening cost efficiency and improved pricing power.

Table 2: Net Profit Ratio (2021–2025)

Year	Net Profit (₹ Lakhs)	Sales (₹ Lakhs)	Ratio (%)
2021	4,501.6	18,292.00	24.60
2022	4,649.5	22,406.08	20.75
2023	5,498.07	23,044.84	23.85
2024	7,509.78	29,275.68	25.65
2025	10,975.98	38,858.54	28.24
Mean			24.63
SD			2.73
CV (%)			11.08

The net profit ratio follows a comparable pattern, falling to a low of 20.75% in 2022 and recovering to 28.24% by 2025. The relatively low CV of 11.08% indicates a stable underlying profitability trend with limited volatility, reflecting prudent overhead and interest cost management. The consistent improvement from 2023 to 2025 aligns with the broader sales growth trajectory, suggesting that revenue expansion was not achieved at the cost of margins.

Table 3: Debtors Turnover Ratio (2021–2025)

Year	Credit Sales (₹ Lakhs)	Debtors (₹ Lakhs)	Ratio (Times)
2021	18,293.00	3,747.00	4.88
2022	22,406.08	3,732.78	6.00
2023	23,044.84	3,332.30	6.91
2024	29,275.68	4,806.67	6.09
2025	38,858.54	9,107.72	4.26
Mean			5.63
SD			1.05
CV (%)			18.69

The debtors turnover ratio, a key indicator of receivables collection efficiency, reveals a notable inverted U-shaped pattern. The ratio improved from 4.88 in 2021 to a peak of 6.91 in 2023, reflecting tightening credit controls and more aggressive collections. However, it declined sharply to 4.26 in 2025 — the lowest in the study period — despite record-high sales of ₹38,858.54 lakhs. This deterioration is attributable to the disproportionate growth in debtors (from ₹4,806.67 lakhs in 2024 to ₹9,107.72 lakhs in 2025), suggesting that rapid revenue expansion was accompanied by increased credit extension to customers, thereby elevating the risk of payment delays. A CV of 18.69% is the highest among all turnover ratios analyzed, underscoring the volatility in receivables management.

Table 4: Current Ratio (2021–2025)

Year	Current Assets (₹ Lakhs)	Current Liabilities (₹ Lakhs)	Ratio
2021	7,330.00	3,592.00	2.04
2022	9,139.32	4,842.85	1.88
2023	10,784.00	7,239.20	1.48
2024	15,428.00	6,353.15	2.42
2025	15,997.55	8,835.48	1.81
Mean			1.93
SD			0.34
CV (%)			17.83

The current ratio, a measure of short-term liquidity, remained above the conventional benchmark of 2:1 in only two of the five years — 2021 (2.04) and 2024 (2.42). The ratio dropped to its lowest point of 1.48 in 2023, a year when current liabilities grew faster than current assets due to increased short-term borrowings, likely induced by delayed receivables collections. Although the ratio recovered in 2024, it declined again to 1.81 in 2025, coinciding with the sharp rise in debtor balances. The mean ratio of 1.93 and CV of 17.83% suggest that while overall liquidity is adequate, it remains susceptible to the volatility introduced by customer payment behaviour.

Table 5: Working Capital Turnover Ratio (2021–2025)

Year	Net Sales (₹ Lakhs)	Working Capital (₹ Lakhs)	Ratio (Times)
2021	18,293.00	3,738.00	4.89
2022	22,406.08	4,296.50	5.21
2023	23,044.84	3,544.80	6.50
2024	29,275.68	9,074.85	3.22
2025	38,858.54	7,162.07	5.42
Mean			5.05
SD			1.19
CV (%)			23.52

The working capital turnover ratio exhibited the highest variability of all ratios analyzed, with a CV of 23.52%. Peaking at 6.50 in 2023, it fell sharply to 3.22 in 2024 as working capital more than doubled owing to a significant buildup in current assets. This high variability reflects the direct sensitivity of working capital efficiency to receivables management practices and customer payment patterns.

5. FINDINGS

- Profitability showed a broadly improving trajectory, with Net Profit reaching 28.24% in 2025.
- Liquidity was strained in 2023 with a current ratio of 1.48, below the 2:1 benchmark.
- The sharp increase in debtor balances (89% growth in 2025) points to a potential loosening of credit terms.
- Working capital utilization is the dimension most sensitive to fluctuations in customer payment behaviour (CV: 23.52%).

6. SUGGESTIONS

- Strengthen Credit Appraisal: Institute systematic creditworthiness evaluations before extending credit.
- Ageing Analysis: Maintain monthly reviews with defined escalation protocols for overdue accounts.
- Incentives & Penalties: Offer 1-2% discounts for early settlement and apply interest on overdue receivables.
- Digital Infrastructure: Accelerate transition to electronic payment platforms to eliminate processing delays.
- Liquidity Buffer: Maintain a revolving credit facility to bridge gaps during periods of elevated payment delays.

7. CONCLUSION

This study has demonstrated that delayed customer payments exert a tangible and material impact on the liquidity and financial performance of the subject company. The sharp rise in debtor balances in 2025 — the highest in the study period — despite record revenues, signals a critical inflection point that demands proactive receivables management intervention. While the company's profitability indicators are on a positive trajectory, liquidity ratios reveal an underlying vulnerability attributable to the mismatch between revenue recognition and cash collection.

The study affirms that effective receivables management — encompassing robust credit appraisal, systematic monitoring, incentive-aligned payment terms, and digital infrastructure — is not merely an operational imperative but a strategic necessity for sustaining financial stability in the automobile ancillary sector. Future research may profitably extend this analysis by incorporating primary data from credit managers and customers, applying panel data regression to quantify the causal relationship between debtors turnover and liquidity ratios, or undertaking a cross-firm comparison within the Indian automobile components industry.

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