IMPACT OF RECEIVABLES MANAGEMENT ON PROFITABILITY WITH REFERENCE TO TIFSCO PVT LTD

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INTRODUCTION

Effective receivables management is a cornerstone of financial health for any business. Accounts receivable represent money owed by customers for goods or services delivered, and efficiently collecting these outstanding payments directly impacts a company's profitability. This research project delves into the intricate relationship between receivables management strategies and a firm's bottom line. We aim to explore how practices like credit policies, collection procedures, and credit analysis techniques influence profitability metrics. The core of the investigation lies in understanding how efficiently companies convert credit sales into actual cash flow. A central focus will be on analyzing the impact of receivables management on key profitability ratios, such as return on assets and operating profit margin. We will explore how factors like the speed of collections, measured by days sales outstanding (DSO), affect a company's ability to generate profits. The research will also consider the potential trade-off between stricter credit policies that might reduce bad debts but also limit sales volume. By examining real-world examples from various industries, the project aims to establish a clear understanding of how sound receivables management practices contribute to a company's overall financial success. The findings of this research can provide valuable insights for businesses to optimize their credit and collection strategies, ultimately leading to improved profitability and a more sustainable financial position. During economic slumps, customers might face financial difficulties, leading to delays or defaults on payments, impacting a company's cash flow and profitability. Granting credit to customers with a high risk of default can lead to bad debts and erode profitability. Lengthy and cumbersome collection procedures can delay the inflow of cash and hinder a company's ability to reinvest in growth opportunities. Poor communication with customers regarding payment terms and overdue invoices can lead to misunderstandings and delays in collections.

This research project will not only analyze the positive impact of receivables management but also explore strategies to mitigate these challenges. We will investigate best practices in credit risk assessment, collection techniques, and communication protocols to optimize the efficiency of the receivables management process. Ultimately, the goal is to provide a comprehensive understanding of how companies can leverage effective receivables management as a strategic tool to enhance profitability and achieve long-term financial stability.

Additionally, the research will acknowledge the ongoing debate surrounding the optimal balance between profitability and sales growth within receivables management. Stricter credit policies might decrease bad debt and boost profitability in the short term, but they could also limit sales volume and growth potential. Conversely, looser credit policies might increase sales but lead to higher bad debts and potentially hinder profitability. This project will explore strategies that strike a balance between these competing factors. By examining how companies in different industries navigate this trade-off, the research aims to provide insights into developing a dynamic receivables management approach that optimizes profitability while fostering sustainable sales growth.

OBJECTIVES OF THE STUDY

- To improve the cashflow and maintain working capital.
- To determine the relationship of receivables and sales.
- To find ways to reduce the bad debt expense and improved profitability.
- To evaluate and analyze various financial performance of the company.

NEED FOR THE STUDY

- This study determines that the firm has a set of credit terms and policies under which goods are sold on credit.
- This study helps to identify the factors affecting the credit policy of the firm.
- This study helps the company to know about its financial performance.
- This study analyses the level of investment made in trade debtors.

SCOPE OF THE STUDY

- To know whether the firm achieving growth in sales and also increasing profit.
- To identify the debtors and analyzes outstanding amount of the company.
- To find the effective techniques used to find collecting debt.
- To know whether the existing receivable policies are sufficient for the company.

REVEIW OF LITERATURE

George Okoth Owuor , Nickson Agusioma , Fredrick Wafula (2021)

Accounts receivable refer to the payments expected by an organization in the foreseeable future. Accounts receivable management plays an integral part in the financial performance of higher learning institutions. With several public universities experiencing no or delayed payments from the respective receivable accounts, such institutions have been characterized with financial constraints, struggling to meet their immediate obligations. From reduced government capitation, lack of the module two students (Self-Sponsored), and students' non-compliance on fee payment policy, public universities in Kenya continue to experience poor financial performance due to inefficiency of their accounts receivable management. This study sought to examine the effect of accounts receivable management on the financial performance of chartered public universities in Kenya. The general and specific objective was to determine the effect of accounts receivable management on the financial performance of chartered public universities in Kenya. The study used the Cash Conversion Cycle (CCC) theory. Descriptive and inferential research designs were applied to analyze data. The target population was all the 31 chartered public universities in Kenya, and as such, the census survey method was adopted to collect data. Secondary panel data was extracted from the respective institutions' audited annual reports for 2017, 2018, and 2019. The SPSS Version 25 was applied to analyze descriptive and inferential statistics. The study found that accounts receivable management had an indirect and significant effect on the financial performance of chartered public universities in Kenya ($p= 0.000$, $\beta= -0.875$). The study concluded that accounts receivable management has a substantial effect on the financial performance of chartered public universities in Kenya. The study recommended that in line with the IFRS 5 and IAS 1, respective university managements should develop optimal debts management frameworks to guide their financial management operations to realize sustainable financial performance both in the short and long runs

VISHAL N. SHAH (2020)

In this paper an attempt is made to study the impact of receivable management on Profitability. To accomplish this research objective data have been collected from the annual reports of select printing companies for the period from 2009-10 to 2018-19. The ratios which highlight the liquidity viz., Current ratio, Quick ratio, Debtors to current assets ratio, Sales to total assets, LnTA, Return on total assets etc. have been computed. statistical tools like ANOVA was also used to know the impact on liquidity on profitability. The statistical tools or techniques used in the study are Descriptive statistics, Durbin – Watson correlation and Regression analysis. Profitability was considered as dependent variables. The investigation reveals that the receivables management across selected companies of printing industry is inefficient and showing significant impact on profitability

Dr. Smita Rao, Prof. Hetal Gaglani (2020)

In the world of competition to be in the market is very important for any company. One of the measure to sustain in competition is to provide credit to the customers. The receivables of any company if managed effectively increase the current assets of company which lead to increase in the working capital of the company on the other hand if the company has excess of receivables it increases the costs by blockage of funds of the company. The study conducted on the sample of nine selected textile company for the period of 2004–2013. The result has been obtained by applying ANOVA for identifying the relationship between receivable management and working capital management of company. The study revealed that of all the receivables has significant contribution in current assets, total assets, sales and working capital of companies.

Yayuk Indah Wahyuning Tyas (2020)

This study aims to find out how the results of the analysis of the effectiveness of accounts receivable management in increasing profits through the implementation of policies on the sale of bags on credit at the Vion City Store Probolinggo, productive/profitable or ineffective/unprofitable. This type of research is descriptive research with quantitative methods—primary data sources in the form of interviews and secondary data that is financial statements. Data collection techniques used are observation and data documentation in Vion City Store Probolinggo. The percentage of profit from 2019 until 2019 always decreases to 27.79% in 2019 this is because the average receivables from 2019 to 2019 always increase. Hence, it affects the operating costs (investment), which has grown from the year 2019 until 2019.

S.S. Shakeyev , A.G. Kassymova , L.A. Temirbekova (2018)

The article deals with modern receivables management system, the basic situation of the credit and cash collection enterprise policy provides practical examples of the use of credit conditions as discounts and change the loan terms. The parameters of the state of receivables, such as total sales, and the proportion of it in the implementation of the conditions of the subsequent payment, longer, reducing the requirements for assessing the reliability of the debtors and their impact. The estimation of profit necessary to compensate for the additional investment in receivables in the context of changing the term loan and changes in customer credit limits. The comparison is made possible profit from changes in credit policy to the cost of implementation of these changes. The algorithm method forfeits when dealing with customers, the credit rating of the customer account. The results of credit and cash collection enterprise policy that including decision on the quality of accounts receivable, term of the loan, providing discounts, level of collection costs, as well as reducing the risk of default. The article suggests the best option as a result of which the marginal revenue covers the marginal costs of the company, as well as the best combination of credit standards, terms of credit strategy, discounts, fines and forfeits and special conditions for customers.

RESEACH METHODOLOGY

Research methodology is the specific procedures or techniques used to identify, select, process, and analyze information about a topic. In a research paper, the methodology section allows the reader to critically evaluate a study's overall validity and reliability. In methodology, researcher uses different criteria for solving/searching the given research problem.

RESEARCH DESIGN

Research design is the overall blueprint or strategy for conducting your research project. It outlines the framework for how you'll answer your research question and gather reliable evidence. Here are the key elements of a research design. It is a strategy for answering your research question using empirical data. Creating a research design means making decisions about: Your overall research objectives and approach. Whether you'll rely on primary research or secondary research. Your sampling methods or criteria for selecting subjects. While methodology focuses on the overall approach, research design focuses on the specific methods and tools used in the research.

TYPE OF RESEARCH

ANALYTICAL STUDY DESIGN

Analytical research is the process of gathering, analyzing, and interpreting information to make inferences and reach conclusions. Depending on the purpose of the research and the data you have access to, you can conduct analytical research using a variety of methods. This study design is a research approach used to investigate relationships between variables in existing data. Unlike experimental designs where you manipulate variables, analytical studies focus on analyzing data to understand "why" or "how" things happen.

DATA COLLECTION METHOD

Secondary Data

Secondary data is the use of data that was collected by someone else for some other purpose. In this case, the researcher poses questions that are addressed through the analysis of a data set that they were not involved in collecting. The data was not collected to answer the researcher's specific research questions and was instead collected for another purpose. The same data set can therefore be a primary data set to one researcher and a secondary data set to a different researcher.

TOOL USED FOR THE STUDY

- AGING SCHEDULE

AGING SCHEDULE

An aging schedule, also sometimes called an accounts receivable aging schedule, is a financial accounting report that categorizes a company's accounts receivable balances based on how long the invoices have been outstanding. It provides a snapshot of the age distribution of a company's customer debts and offers valuable insights into the effectiveness of its credit and collections process.

An aging schedule categorizes a company's total accounts receivable balance into different age groups, typically in increments of 30 days (e.g., 1-30 days, 31-60 days, 60-90 days, over 90 days).

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DATA ANALYSIS AND INTERPRETATION

AGING SCHEDULE FOR THE YEAR ENDING APR 2022 – MAR 2023

PARTY NAME	PENDING AMONT	(<30 DAYS)	30 TO 60 DAYS	60 TO 90 DAYS	90 TO 120 DAYS	(>120 DAYS)
DUNZO	3,000.00	-	3,000.00	-	-	-
HKH Enterprises	5,780.00	-	-	-	5,780.00	-
Kanishq marketing	2,580.00	2,580.00	-	-	-	-
Marican Care mart	960.00	960.00	-	-	-	-
Sri Krishna Enterprises	473.00	473.00	-	-	-	-
Subha Enterprises	1,460.00	-	-	-	-	1,460.00
SWIGGY	87,459.00	-	87,459.00	-	-	-
ZOMATO	1,04,578.00	-	1,04,578.00	-	-	-
Javeed Ahmed	2,000.00	-	-	2,000.00	-	-
Asha Milk center	654.00	-	-	-	654.00	-
Sri Balaji traders	783.00	-	-	783.00	-	-
Sri Sai Marketing	4,690.00	-	-	-	-	4,690.00
MKP Plastics & Essence	2,147.00	-	2,147.00	-	-	-
Murugadoss	4,614.00	-	-	-	4,614.00	-
Partner sales TMC	2,470.00	-	-	2,470.00	-	-
TOTAL	**2,23,648.00**	**4,013.00**	**1,97,184.00**	**5,253.00**	**11,048.00**	**6,150.00**

INTERPRETATION

Based on the aging schedule, most of the outstanding invoices in this case are in the following categories:

Less than 30 days (3 out of 13 invoices)

60 to 90 days (4 out of 13 invoices)

Over 120 days (3 out of 13 invoices)

There are also invoices outstanding in the following categories:

30 to 60 days (2 out of 13 invoices)

90 to 120 days (1 out of 13 invoices)

AGING SCHDULE FOR THE YEAR APRIL 2021 – MARCH 2022

PARTY NAME	PENDING AMONT	(<30 DAYS)	30 TO 60 DAYS	60 TO 90 DAYS	90 TO 120 DAYS	(>120 DAYS)
DUNZO	3,014.00	3,014.00	-	-	-	-
HKH Enterprises	4,872.00	-	-	4,872.00	-	-
Kanishq marketing	1,897.00	-	-	-	-	1,897.00
Marican Care mart	843.00	843.00		-	-	-
Sri Krishna Enterprises	523.00	523.00	-	-	-	-
Subha Enterprises	1,200.00	-	-	-	-	1,200.00
SWIGGY	80,450.00	-	80,450.00	-	-	-
ZOMATO	74,512.00	-	74,512.00	-	-	-
Javeed Ahmed	1,042.00	1,042.00	-		-	-
Asha Milk center	6,410.00	-	-	6,410.00	-	-
Sri Balaji traders	20,147.00	-	-	-	20,147.00	-
Sri Sai Marketing	5,000.00	-	-	-	5,000.00	-
MKP Plastics & Essence	3,514.00	-	-	-	3,514.00	-
Murugadoss	6,000.00	-	-	-	-	6,000.00
Partner sales TMC	5,163.00	-	-	5,163.00	-	-
TOTAL	**2,14,587.00**	**5,422.00**	**1,54,962.00**	**16,445.00**	**28,661.00**	**9,097.00**

INTERPRETATION

The aging schedule breaks down the outstanding invoices into six categories:

Less than 30 days

30 to 60 days

60 to 90 days

90 to 120 days

Over 120 days

The aging schedule shows that Sri Krishna Enterprises owes the company ₹523 for a single invoice. The invoice is in the 90 to 120 days category, which means that it has been outstanding for between 90 and 120 days.

AGING SCHDULE FOR THE YEAR APRIL 2020 – MARCH 2021

PARTY NAME	PENDING AMONT	(<30 DAYS)	30 TO 60 DAYS	60 TO 90 DAYS	90 TO 120 DAYS	(>120 DAYS)
DUNZO	1,489.00	-	1,489.00	-	-	-
HKH Enterprises	4,981.00	-	-	-	-	4,981.00
Kanishq marketing	1,912.00	-	-	1,912.00	-	-
Marican Care mart	249.00	249.00	-	-	-	-
Sri Krishna Enterprises	547.00	547.00	-	-	-	-
Subha Enterprises	1,257.00	-	-	-	1,257.00	-
SWIGGY	57,462.00	-	57,462.00	-	-	-
ZOMATO	49,751.00	-	49,751.00	-	-	-
Javeed Ahmed	1,465.00	1,465.00	-	-	-	-
Asha Milk center	2,546.00	-	-	2,546.00	-	-

Sri Balaji traders	14,632.00	-	-	-	-	14,632.00
Sri Sai Marketing	4,610.00	-	-	-	4,610.00	-
MKP Plastics & Essence	1,698.00	-	-	-	1,698.00	-
Murugadoss	4,000.00		-	-	4,000.00	-
Partner sales TMC	6,217.00	-	-	6,217.00	-	-
TOTAL	**1,52,816.00**	**2,261.00**	**1,08,702.00**	**10,675.00**	**11,565.00**	**19,613.00**

INTERPRETATION

Based on the aging schedule, most of the outstanding invoices in this case are in the following categories:

Less than 30 days (1 out of 13 invoices)

Over 120 days (6 out of 13 invoices)

There are also invoices outstanding in the following categories:

30 to 60 days (2 out of 13 invoices)

60 to 90 days (2 out of 13 invoices)

90 to 120 days (2 out of 13 invoices)

AGING SCHEDULE FOR THE YEAR APRIL 2019 - MARCH 2020

PARTY NAME	PENDING AMONT	(<30 DAYS)	30 TO 60 DAYS	60 TO 90 DAYS	90 TO 120 DAYS	(>120 DAYS)
DUNZO	2,347.00	-	2,347.00	-	-	-
HKH Enterprises	4,519.00	-	-	-	-	4,519.00
Kanishq marketing	1,974.00	-	-	1,974.00	-	-
Marican Care mart	367.00	367.00	-	-	-	-
Sri Krishna Enterprises	458.00	458.00	-	-	-	-
Subha Enterprises	3,657.00	-	-	-	3,657.00	-
SWIGGY	76,894.00	-	76,894.00	-	-	-
ZOMATO	1,00,458.00	-	1,00,458.00	-	-	-
Javeed Ahmed	4,210.00	4,210.00	-	-	-	-
Asha Milk center	987.00	-	-	987.00	-	-
Sri Balaji traders	3,679.00	-	-	-	3,679.00	-
Sri Sai Marketing	1,247.00	-	-	-	1,247.00	-
MKP Plastics & Essence	5,206.00	-	-	-	-	5,206.00
Murugadoss	4,000.00	-	-	4,000.00	-	-
Partner sales TMC	7,541.00	7,541.00	-	-	-	-
TOTAL	**2,17,544.00**	**12,576.00**	**1,79,699.00**	**6,961.00**	**8,583.00**	**9,725.00**

INTERPRETATION

Based on the aging schedule, most of the outstanding invoices in this case are in the following categories:

Less than 30 days (1 out of 13 invoices)

Over 120 days (6 out of 13 invoices)

There are also invoices outstanding in the following categories:

30 to 60 days (2 out of 13 invoices)

60 to 90 days (2 out of 13 invoices)

90 to 120 days (2 out of 13 invoices)

AGING SCHEDULE FOR THE YEAR APRIL 2018 - MARCH 2019

DATE	PARTY NAME	PENDING AMONT	(<30 DAYS)	30 TO 60 DAYS	60 TO 90 DAYS	90 TO 120 DAYS	(>120 DAYS)
26-04-2018	DUNZO	2,340.00	-	2,340.00	-	-	-
10-05-2018	HKH Enterprises	1,247.00	-	-	-	-	1,247.00
14-06-2018	Kanishq marketing	758.00	758.00	-	-	-	-
07-07-2018	Marican Care mart	254.00	254.00	-	-	-	-
05-08-2018	Sri Krishna Enterprises	698.00	698.00	-	-	-	-
09-09-2018	Subha Enterprises	1,479.00	-	-	-	1,479.00	-
04-04-2018	SWIGGY	87,410.00	-	87,410.00	-	-	-
15-05-2018	ZOMATO	75,841.00	-	75,841.00	-	-	-
11-10-2018	Javeed Ahmed	2,009.00	2,009.00	-	-	-	-
07-06-2018	Asha Milk center	1,247.00	-	-	1,247.00	-	-
20-11-2018	Sri Balaji traders	1,007.00	-	-	1,007.00	-	-
24-12-2018	Sri Sai Marketing	1,079.00	-	-	-	1,079.00	-
10-01-2019	MKP Plastics & Essence	2,547.00	-	-	-	-	2,547.00
08-02-2019	Murugadoss	4,000.00	4,000.00	-	-	-	-
10-03-2019	Partner sales TMC	2,357.00	-	-	-	2,357.00	-
	TOTAL	**1,84,273.00**	**7,719.00**	**1,65,591.00**	**2,254.00**	**4,915.00**	**3,794.00**

INTERPRETATION

Based on the aging schedule, most of the outstanding invoices in this case are in the following category:

Over 120 days (Swiggy - ₹87,410 & Zomato - ₹75,841)

There are also invoices outstanding in the following categories:

Less than 30 days (Dunzo - ₹2,340)

30 to 60 days (Kanishq Marketing - ₹758)

60 to 90 days (Marican Care Mart - ₹254 & Sri Krishna Enterprises - ₹698)

90 to 120 days (Subha Enterprises - ₹1,479)

CONCLUSION

The company faces pressing challenges regarding its receivables management, profitability, cost control, liquidity, and growth strategy. The consistent increase in debtors and rising average collection period indicate a need to review credit policies and implement stricter credit checks or adjusted payment terms. Moreover, proactive measures such as regular reminders, incentives for early payment, and penalties for late payments should be employed to expedite collection and reduce aging schedules. These steps will not only enhance cash flow but also minimize bad debts and improve the company's financial health. Furthermore, declining gross and net profit ratios signal potential operational inefficiencies that require immediate attention. A thorough analysis of cost structures and operational processes is necessary to identify areas for improvement. Streamlining workflows, negotiating better supplier contracts, and investing in technology can enhance productivity and reduce costs, thereby bolstering profitability. Additionally, closely monitoring expenses and implementing cost-control measures such as budgeting and regular reviews will ensure expenses are aligned with revenue generation and business objectives. Moreover, the company must focus on optimizing short-term asset management to address declining liquidity ratios. Reviewing inventory levels, accounts receivable, and cash reserves is essential to ensure adequate liquidity to meet short-term obligations. Strategies such as inventory optimization, tighter receivables management, and debt restructuring can improve liquidity and strengthen financial resilience. In addition to addressing operational and liquidity concerns, the company should leverage existing customer relationships to drive sales growth. Understanding customer profitability and future potential can guide targeted marketing efforts and foster customer loyalty. Providing extended credit periods for customers and setting up collection centers can accelerate cash flows and reduce outstanding amounts. Overall, by implementing these suggestions and closely monitoring financial performance, the company can overcome current challenges, improve operational efficiency, and position itself for sustainable growth and profitability in the long term. Establishing robust financial monitoring and reporting systems, coupled with transparency and accountability in financial management, will be crucial for making informed decisions and driving the company's success.

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