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A Study on Working Capital Management in Seg Automotive India Limited Bangalore

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Abstract
While financial risk has indeed surged in recent times, it's crucial to recognize that risk and its management are not new challenges. The contemporary landscape, characterized by ever-expanding global markets, gave notable shift. Risks can now emanate from events occurring often unrelated to domestic market. Moreover, the instantaneous availability of information accelerates the pace of change &succeeding marketing responses.
The economic landscape and financial markets are highly susceptible to swift fluctuations due to shifts into exchanging rates, interest rates. Counterparties can swiftly become sources of concern as a result. Therefore, it is crucial to meticulously identify and effectively manage financial risks. Adequate preparation plays a pivotal role in the realm of risk management.

Keywords: Financial Risk, Economic, Risk Management, Marketing

1. Introduction

Opportunity is rooted in risk, and while the terms "risk" and "exposure" are utilised, they carry nuanced distinctions. Risk pertains to probability of encountering losses, whereas exposure relates to the potential for such losses. It's crucial noticing as risk emerges as a consequence of exposure.
The involvement of organizations in financial markets, whether through direct or indirect means, carries the potential for both risks and rewards. When an organization is exposed to financial markets, it faces the prospect of experiencing losses, but it also opens up opportunities for gains and profits. Such exposure to financial markets might provide strategic advantages or enhance competitiveness.
Risk refers to the potential for financial losses stemming from various events, including fluctuations in market prices. Of particular concern are events with a low likelihood of happening but the potential for substantial losses, mainly because they tend to catch people off guard. To put it differently, risk represents the expected range of returns' variability.

Possible magnitude of a loss	The likelihood of experiencing a negative outcome.
• Significant risk of substantial loss	• Frequent likelihood of happening
• Opportunity for minimal or minor loss.	• Unlikely event

Recognizing that feasible or advantageous to completely eliminate risk, gaining a comprehensive comprehension of it becomes a crucial initial phase in devising effective risk management approaches.

The foundation of a sound financial risk management strategy lies in the identification of vulnerabilities and potential risks.

What are the origins of financial risk?

Financial risk can manifest in a multitude of financial transactions, encompassing activitylike investment and loan transactions, purchasing & sale, etc. This risk can materialize from a wide range of sources, including legal dealings, mergers &attainments, debt finance, energy-related cost factors, & actions taken by management, shareholders, foreign investments, or even unpredictable weather conditions.

Significant fluctuations in financial prices have the potential to escalate expenses, diminish income streams, and exert adverse effects on an organization's overall profitability. These fluctuations can introduce complexities into the processes of strategic planning, budgeting, pricing services&goods, and capital allocation

Financial risk originates from three primary sources:

1. Market-driven financial risk pertains to an organization's vulnerability to variations into market prices, encompassing variables like commodity prices etc.
2. Counterparty-induced financial risks originate from interactions and deals with external entities, including suppliers, customers, involved in derivative transactions.
3. Internally-derived financial risks stem from an organization's own actions or operational shortcomings, specifically related to individuals, procedures, failures etc.

What is financial risk management?

Management of financial risk is methodical strategy for dealing with inherent volatility of global banking system. It entails assessing external financial threats & developing countermeasures in line in established company values and goals. Gaining a competitive advantage & encouraging agreement amongst leadership, operational staff, customers, board of governors on crucial risk-related concerns are also possible results of proactively tackling such financial risks.

To effectively mitigate financial risk, organizations must actively evaluate and makingwell-versed decisions risking they find acceptable & they do not. Adopting a passive approach of inaction essentially means accepting all risks as a default stance.

Organizations employ a range of strategies and financial instruments to manage their exposure to risk. It is crucial to gain a comprehensive understanding of how these tools and strategies operate, as they play a pivotal role in minimizing risk in alignment with the organization's risk tolerance and overarching objectives.

Derivatives are widely traded financial instruments that hold intrinsic value as per underlying asset's price. They encompass various types like futures, forwarding, & swaps and are actively exchanged amongst financial organizations& markets. These derivatives extend their reach across interest rates, exchange rates, fixed incomes etc..

Within this diverse landscape, the strategies employed for risk management closely mirror those utilized by speculators seeking to amplify leverage and embrace higher risk. While some argue that the widespread use of derivatives can heighten overall financial risk, it's essential to acknowledge that derivatives also serve as a conduit for risk transfer. Those looking to mitigate risk can effectively pass it on to individuals and entities actively seeking exposure to risk and its attendant opportunities.

Estimating the probability of financial losses is a highly sought-after skill, yet traditional probability theories often fall short when applied to the intricate realm of financial markets. Financial risks rarely exist in isolation; they frequently emerge from the complex interplay of various exposures. Understanding how these risks materialize could be challenging task, as they are influenced by human behavior, that could be unpredictable.

Financial risk management is an ongoing, dynamic process. It necessitates the constant adaptation of strategies to accommodate market fluctuations and evolving requirements. These adjustments may be driven by shifting expectations related to market interest rates, alterations into business landscape, or changes in international political conditions. In essence, the process can be summarized as:

- Assess and analyze potential risks.
- Recognize and rank primary financial risks.
- Establish an acceptable risk threshold.
- Execute a risk management plan aligned with established policies.
- Gauge, communicate, oversee, and adjust as necessary.

2. LITERATURE REVIEW

1. Shehzad L.mian,(1997)

Findings of this study provide concrete insights hedging decisions made by organizations.. It explores these decisions as of financial reporting requirements, with a particular limitations imposed on corporations engaging in anticipatory hedging. Corporations face uncertainties related to various price fluctuations, and as a response, they engage in two primary activities to mitigate the potential adverse effects on their value.The study collected data on hedging directly from the annual reports of 3,022 firms for the year 1992. One notable benefit is it avoids the non-response bias commonly encountered in survey-based samples. Consequently, outcomes of research apply broader spectrum of firms.This research contributes to our understanding of the models underlying corporate hedging decisions. Furthermore, it assesses whether the evidence remains consistent when categorizing all users of derivatives as either hedgers or speculators. Among the 3,022 firms in the sample, 543 firms openly disclose their hedging activities or related information. Additionally, 228 firms disclose their use of derivatives but do not explicitly state their involvement in hedging activities. Importantly, the conclusions drawn regarding the factors influencing hedging decisions hold up well regardless of how these 228 derivative users are classified, whether as hedgers or speculators.

2. Ghose. T.P. (1998)

A study was conducted on the assessment of Value at Risk (VAR) in as of market risk, which involves two distinct steps. The initial step entails the computation of daily Earnings at Risk (EAR), while the subsequent step aim upon calculation of VAR. Research explored the measurement of price sensitivity, highlighting two approaches: modified duration &cash flow analysis.Within the study, a comprehensive examination of numerous kinds of risks was undertaken, particularly in relation to different types of institutions. It noticed as management of risk varies significantly among banks, financial institutions, non-banking financial companies, and manufacturing firms. In case of manufacturing companies, risk is traditionally categorized into two primary forms: business risk and financial risk.For banks, financial institutions, and non-banking financial companies, the landscape of risk management is multifaceted, encompassing several vital categories of risk.

3. Susheela Subramanya (1998)

In her assessment of banks' risk management processes, she highlighted the importance of banks undertaking a thorough risk identification process. This involves categorizing risks and acquiring the requisite technical and managerial expertise to effectively manage them. By adopting scientifically grounded risk management practices, banks can enhance not only their profitability and credit management but also foster mutually advantageous relationships with their customers. Her conclusion emphasized that a robust risk information and control system allows banks to prudently assume higher levels of risk while remaining profitable.

4. George Allayannis (1998)

The researcher conducted an analysis on the usage of foreign currency derivatives by non-financial firms within the S&P 500 in 1993. They observed a strong positive correlation between a firm's exposure to exchange rate fluctuations and the proportion of foreign sales to total sales, while a negative term ratio of foreign currency derivatives to total assets. These associations held true across various time periods, exchange rate indices, and estimation techniques, highlighting the robustness of the results. In summary, the evidence strongly supports the notion that firms utilize foreign currency derivatives primarily rather than for speculative trading in foreign exchange markets.

5. George W brown(2000)

This study delves into the foreign exchange of HDG, a leading manufacturer of durable equipment operating in over 50 countries. The research is grounded in a comprehensive three-month field study conducted within HDG's treasury department, encompassing an in-depth analysis of the factors influencing the firm's approach to managing foreign exchange exposure. This investigation draws insights from internal documentation, interviews with company managers, and an extensive dataset comprising 3,110 foreign exchange derivative transactions spanning three and a half years. The findings challenge conventional reasons often attributed to corporate hedging practices and reveal that HDG's primary motivation for its centers around its strong preference for put options. This preference is largely driven by favorable accounting treatment and competitive pricing considerations. Additionally, the study explores the stock market approach as a potential tool for identifying and quantifying exchange rate exposures.

6. Petia Topalova (2004)

This analysis utilizes firm-level data spanning from 1989 to assess the performance and financial vulnerabilities of India's non-financial corporate sector. It offers insights into the sector's size, composition, regulatory framework, and recent reforms up to 2002, relying on a database provided by the Centre for Monitoring the Indian Economy, a private Indian company. The study's findings reveal that despite recent weaknesses in the corporate sector, most key indicators remain within comfortable ranges. Additionally, there are positive signs of improvement in these indicators noted for the year 2002, the final year in the sample, and into 2003, attributed to a favorable interest rate environment and ongoing economic recovery. Furthermore, stress tests suggest that the corporate sector's financial health would experience only moderate adverse impacts from interest rate shocks..

3. RESEARCH DESIGN

SECONDARY DATA:

- From Internet
- Government Publications

- Company’s official website
- Recorded reports

- **PROBLEMSTATEMENT**

Assesses profitability&liquidity status of firm, focusing on challenges, including its estimation and timely provision. Working capital is crucial for a business's operational functionality, and without it, meeting the company's demands becomes precarious. Essentially, this research delves into the intricacies of finance management, addressing its significance in sustaining business operations and financial health.

- **NEED OF STUDY**

1. Their design is helpful in knowing the company's position of finances conservation and setting the norms for financial force situations current rate position quick rate current quantum development position and web development situations.
2. This design is obliging to the operation for expanding the dualism and the design viability and present vacuity of finances.
2. Project is also useful as it companies the present time data with the former time data and thereby it shows the trend analysis that's adding fund or dwindling fund
3. The design is done entirely it'll give overall perception of association and it's useful in farther expansion decision to be taken by operation.

OBJECTIVE OF THE STUDY

1. Assessing the efficiency of working capital management through utilization rate analysis.
2. Analyzing the company's liquidity position using diverse metrics.
3. Evaluating efficacy of organization.
4. Providing recommendations to policymakers to enhance working capital management practices.

SCOPE OFSTUDY

1. Aim is providing insight &illustrate it through practical examples of working capital operations. Additionally, this study aims to shed light on client preferences and their role as competitors in the market.Working capital serves as the financial resource utilized for producing goods and facilitating sales. The less working capital required to facilitate sales, the higher the potential ROI. Working Capital Management encompasses the commercial and financial aspects related to inventory, credit, purchasing, marketing, and administrative and investment policies.

2. The positioning of current assets can fluctuate rapidly as with sales. Therefore, it is crucial to analyze both the size and composition of working capital and assess whether investing in it will lead to business growth over time. Once the current financial conditions are understood, amongst key responsibilities of financial director is to select various suitable sources of funding for working capital. The efficient utilization of finances holds significant importance within an organization. This project aims to examine the effective utilization of working capital. The project document focuses on addressing the various ways in which the financial strengths and weaknesses of the glass plant are managed, with an eye toward its growth over a specific period. Hence, we offer recommendations for optimizing the working capital position, contributing to the future success of the organization.

HYPOTHESIS FRAMEWORK

H0: The DWC is negatively pertaining withcompany'sprofitability.
H1:The DWC is pertaining withcompany'sprofitability.

LIMITATIONS

- Time was limited.
- The finance department related information's are credential.
- The research relied exclusively on secondary data sources, with limited information available because of company's stringent rules and policies.
- Financing management was conducted solely using the company's annual reports, both in hard copy and on their official website

4.DATA ANALYSIS AND INTERPRETATION

- This metric, often referred to as the "working capital ratio," assesses a business's short-term financial resilience by indicating its ability to fulfill current obligations as they come due.
- **Current Assets** Assets encompass items readily converted into cash or possess inherent liquidity,
- , current liabilities encompass obligations assumed to be settled within a year, maturing in the current year. In essence, current liabilities encompass all financial commitments due in the short term.

  Current ratio serves as a key indicator of a company's short-term financial stability. It quantifies the availability of current assets in relation to current liabilities, with the general guideline being that the current ratio should ideally be equal to or slightly greater than 1. This whether a company is in a strong or weak financial position.

  For year:

$$2020 - 21 = \frac{\text{Rs. } 58746.07}{\text{Rs. } 35756.98} = 1.61:1$$

$$2019 - 20 = \frac{\text{Rs. } 51488.87}{\text{Rs. } 23417.51} = 2.19:1$$

$$2018 - 19 = \frac{\text{Rs. } 29913.35}{\text{Rs. } 16865.53} = 1.77:1$$

$$2017 – 18 = \frac{\text{Rs. } 24574.45}{\text{Rs. } 12563.50} = 1.96:1$$

$$2016 – 17 = \frac{\text{Rs. } 28452.51}{\text{Rs. } 13283.95} = 2.14:1$$

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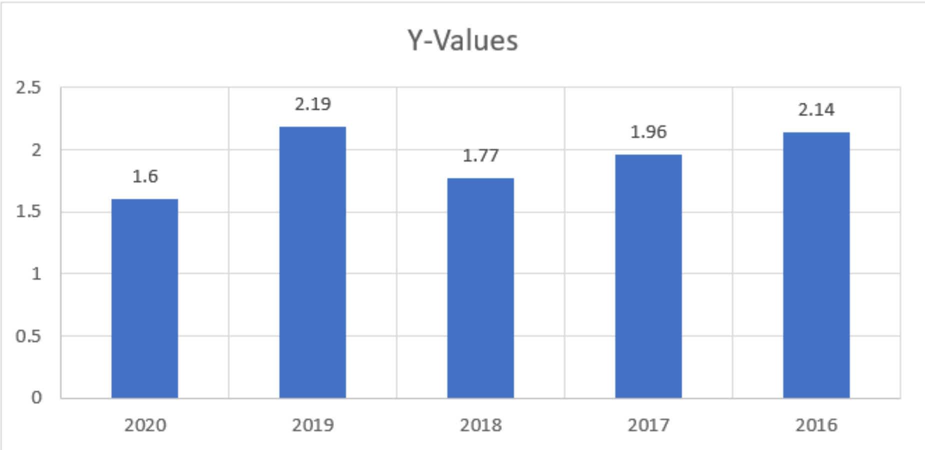
YEARS	CURRENT RATIO
2020 - 21	1.61:1
2019 - 20	2.19:1
2018 - 19	1.77:1
2017 – 18	1.96:1
2016 – 17	2.14:1

CURRENT RATIO



YEARS

INTERPRETATION:

The conventional wisdom suggests that a 2:1 ratio signifies a healthy working capital position, a recommendation also endorsed by the Tandon Committee commissioned by RBI. Firm consistently maintained and even improved upon this ratio over the years. However, incurrent year, the current ratio stands at 1.61, while in other years, it hovers closer to 1:2. Despite this slight deviation, we can still state company maintains a satisfactory working capital position.

ACID-TEST RATIO

Absolute liquidity can be analysed by considering cash, bank balances, and ratio of 1.50:1 serves as a benchmark for evaluating liquidity according to the established standards.1.50:1.

For year:

$$2020\text{-}21 = \frac{\text{Rs. } 58746.07 - 20109.61}{\text{Rs.}35756.98} = 1.08:1$$

$$2019 - 20 = \frac{\text{Rs. } 51488.87 - 19126.14}{\text{Rs.}23417.51} = 2.19:1$$

$$2018 - 19 = \frac{\text{Rs. } 29913.35 - 12136.51}{\text{Rs.}16865.53} = 1.38:1$$

$$2017 - 18 = \frac{\text{Rs. } 24574.45 - 10119.82}{\text{Rs. } 12563.50} = 1.15:1$$

$$2020\text{- }21 = \frac{\text{Rs. } 28452.51 - 7412.88}{\text{Rs. } 13283.95} = 1.58:1$$

YEARS	ACID-TEST RATIO
2020 - 21	1.08:1
2019 - 20	1.38:1
2018 - 19	1.05:1
2017 – 18	1.15:1
2016 – 17	1.58:1

INTERPRETATION:

The acid-test ratio for the current year stands at 1.08, a decline from the previous year's 1.38. Looking at the five-year trend, the company has consistently maintained a favorable acid-test ratio. Therefore, it could be inferred that Bata India Ltd's absolute liquidity remains strong.

DEBTORS TURNOVER RATIO

It reflects relationshipamongst sales & average receivables, serving as a gauge for assessing the effectiveness of a company's accounts receivable management. A lower ratio suggests a more favorable position for the firm, indicating efficient collection practices, while a higher ratio implies a weaker collection policy.

D T R = C R/ A R

For the year:

2020-21 = Rs. 151224.01 = 31.21:1

Rs. 4844.97

2019 - 20= Rs. 137146.66 = 22.60:1

Rs. 6068.30

2018 - 19= Rs. 111692.72 = 29.92:1

Rs. 3732.42

2017 – 18 = Rs. 81211.33 = 19.50:1

Rs. 4163.62

2016 – 17 = Rs. 66051.30 = 16.82:1

Rs. 3927.81

YEARS	DEBTORS TURNOVER RATIO
2020 - 21	31.21:1
2019 - 20	22.60:1
2018 - 19	29.92:1
2017 – 18	19.50:1
2016 – 17	16.82:1

INTERPRETATION:

An elevated Debtor's unfavorable for the company's financial health. In the fiscal year 2020-21, the ratio stood at 31.21:1, indicating an increase with year's 22.60:1. Thus, there'sclear need for improvement in this regard.

CREDITOR'S TURNOVER RATIO:

The creditor's turnover ratio reflects relationshipamongst company's purchases & days it takes to settle its accounts payable. This ratio can serve as a gauge for evaluating how efficiently a company manages its creditor payments.

If the creditor's turnover ratio is higher, it suggests asfirm might need to assess whether it is meeting its payment obligations within the specified credit period. If payments are consistently made before the due date, it implies as firmisn't fully utilizing the available credit period. Conversely, if payments are consistently delayed beyond the agreed-upon period, it pertains ascompanyisn't taking advantage of any discounts offered for prompt payments.

CTR =C P/ A P

For the year:

2020 - 21= Rs. 118961.16 = 3.33:1

Rs. 35756.98

2019 - 20= Rs. 108270 = 4.62:1

Rs. 23417.51

2018 - 19 = Rs. 92301.09 = 5.47:1

Rs. 16835.53

2017 - 18 = Rs. 69043.43 = 5.49:1

Rs. 12563.50

2016 - 17 = Rs. 52715.92 = 3.96:1

Rs. 13283.95

YEARS	CREDITOR'S TURNOVER RATIO
2020 - 21	3.33:1
2019 - 20	4.62:1
2018 - 19	5.47:1
2017 – 18	5.49:1
2016 – 17	3.96:1

CREDITORS TURNOVER RATIO

INTERPRETATION:
A higher creditor turnover ratio compels the company to meticulously monitor if payments are made within the designated credit period. In 2020-21, the creditors' turnover ratio stood at 3.33, which is lower than the 4.62 ratio recorded in 2019-20, indicating a notable decrease compared to previous years.

INVENTORY TURNOVER RATIO
It is commonly referred to as the "stock turnover ratio." Stock turnover represents the frequency with which median stock is replenished throughout the year. This calculation is achieved with division of total sales with inventory value. This ratio holds significance as it serves as a key indicator of a company's management efficiency in managing its inventory turnover.
ITR =N S / A I S P
For year:

2020 - 21 = Rs. 151224.01 = 7.51 times
Rs. 20109.61

2019 - 20 = Rs. 137146.66 = 7.17 times
Rs. 19126.14

2018 - 19 = Rs. 111692.72 = 9.20 times
Rs. 12136.51

2017 - 18 = Rs. 81211.33 = 8 times
Rs. 10119.82

2016- 17 = Rs. 66051.30 = 8.91 times
Rs. 7412.88

YEARS	INVENTORY TURNOVER RATIO
2020-21	7.51 times
2019- 20	7.17 times
2018 - 19	9.20 times
2017 - 18	8.00 times
2016- 17	8.91 times

INTERPRETATION:

A higher ratio offer more profit for a business and reflects the management's effectiveness in managing their stock. In the fiscal year 2018-19, the inventory turnover ratio reached its peak at 9.20 compared to other years. However, in the current year, it has slightly decreased to 7.51. It's worth noting that heavy industries typically exhibit lower ratios comparing with fast-moving consumer goods (FMCG) sector.

NET WORKING CAPITAL TURNOVER RATIO

It is deliberated using dividing sales by the net working capital, which represents the surplus of firmsassets over its current liabilities. This metric serves as a key indicator of a firm's liquidity and its ability to generate additional funds for potential use.

NWCTR=AS/AWC

For y ear:

2020 - 21 = Rs. 151224.01 = 5.83 times

Rs. 19874.06

2019 - 20 = Rs. 137146.66 = 5.57 times

Rs. 24622.18

2010 - 11 = Rs. 111692.72 = 9.85 times

Rs. 11334.95

2009 - 10 = Rs. 81211.33 = 10 times

Rs. 8119.97

2008 - 09 = Rs. 66051.30 = 5.83 times

Rs. 11320

5 SUMMARY OF FINDINGS, SUGGESTIONS,AND CONCLUSIONS

findings of working Capital Management of seg automotive IndiaLTD

- Seg Automotive Limited enjoys a healthy working capital position.
- The company exhibits favorable levels of absolute liquidity.
- Its collection policy is highly effective.
- In Cortana 1020 21 creditors turnover ratio is 3.33, so it's lower than ratio of 4.62 in 2019 20.
- In comparison to earlier years, inventory turnover problem is most severe in 2019–20 EAST (9.20), but it is only slightly less severe this year (7.51), and it is clear as Heavy Industries like a seg automobile India restricted has lower ratios than others.
- Company's working capital ratio improves to more favorable 10 times in 2000-18-19 from 7.60 in 2020-21 & 5.57 times in 2019-20.

SUGGEISTIONS

1. To enhance the standing of SEG Automotive India Limited within its inventory management, it can optimize stock levels by implementing a just-in-time production approach. This entails producing goods in accordance with current demand and efficiently managing unserviceable inventory through disposal or recycling processes..
2. The company should implement specific measures to reduce the working capital cycle, such as improving inventory management.
3. Seg Automotive India Limited is advised to ensure a harmonious balance in capacity management while synchronizing availability of various inputs, especially for materials or components that may pose challenges in procurement.
4. We should aim for minimizing duration of short-term credit periods utilized and expedite the settlement of outstanding amounts with our sundry creditors..
5. It should aim to maintain inventory at an optimal level instead of an excessively optimistic one
6. Reduce material requisition processing procurement to minimize lead times
   SEG Automotive India Limited may explore the option of engaging in discussions with its creditors to extend the debt repayment timeline, with payments scheduled for just credit's expiration

CONCLUSION

Our study, I am conducting an analysis of the Working Capital Management practices within SEG Automotive India Ltd. The study encompasses both practical and conceptual perspectives on decisions related to various current assets, such as cash, bank balances, raw materials, finished goods, sundry debtors, loans and advances, as well as other current assets. It also delves into the realm of current liabilities, including sundry creditors, securities, other deposits by SEG Pvt Ltd.

The primary objective of this analysis is to optimize entire net profit of the company by ensuring completing synchronization and coordination among parts of working capital. Each of these components important part in achieving highest level of operational efficiency, profitability, and the overall enhancement of the company's value. It is imperative to avoid mismanagement of any of these components, as such missteps can be detrimental to the company's objectives of efficient operations, profitability, and the maximization of its overall value.

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