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A Study on Working Capital of Servo Packaging Ltd

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ABSTRACT:
This study examines the working capital management practices at Servo Packaging Limited, a leader in the plastic and packaging industry. It highlights the significance of optimizing cash flow, accounts receivable, accounts payable, and inventory to ensure liquidity and financial stability. Through a detailed analysis spanning 2020-2024, the research identifies trends in liquidity ratios, working capital turnover, and inventory management. Findings reveal a decline in the current ratio, stable profit margins, and increasing receivables collection periods, suggesting areas for improvement. Recommendations include adopting just-in-time systems, stricter credit policies, and leveraging technology for efficient capital management. The study underscores the importance of strategic working capital practices for sustaining operational efficiency and competitive advantage.
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Key words: Working Capital Management, Liquidity Ratios, Inventory control.

1. Introduction:

Working capital management is essential for managing a company's current assets and liabilities, ensuring sufficient liquidity to meet short-term obligations and support daily operations. It focuses on optimizing cash management, accounts receivable, accounts payable, and inventory control to balance profitability and liquidity. Effective working capital management enhances financial health by reducing insolvency risks, minimizing borrowing costs, and ensuring operational efficiency. It enables businesses to seize growth opportunities, foster stakeholder trust, and navigate economic uncertainties. In a competitive environment, strategic working capital practices drive efficiency, profitability, and resilience, forming a foundation for long-term success.

Objectives of the Study

- To analyse the net working capital of the business.
- To assess the financial liquidity of the business..

2. REVIEW OF LITERATURE

Balasundaram Nimalathasan (2014) The study highlights the impact of working capital management on the profitability of manufacturing companies. It reveals a negative relationship between the cash conversion cycle (CCC) and return on assets (ROA), indicating that shorter CCC improves profitability.

Farhan et al. (2021) An analysis of working capital management in India The study on Indian pharmaceutical firms highlights that working capital management significantly affects financial performance. Efficient practices, like reducing the cash conversion cycle, improve profitability, while longer periods for receivables and inventory hinder it.

Ranjeet Kumar Mishra (2019) Investigated the relationship between WCM and performance among small and medium-sized enterprises (SMEs) in India. This study found that effective management of working capital components, including inventory and receivables, directly boosts profitability.

MS. Vasavi Pravallika, DR. K.S. Sekhara Rao (2018) This study explored the impact of WCM on the profitability of firms in India, focusing on key components such as the cash conversion cycle, average payment period, and accounts receivable. The results show that firms with more efficient working capital management practices tend to achieve better financial outcomes.

Bhaskar Biswas (2017) Focused on the Indian auto ancillary sector, examining how working capital practices influence profitability. The study found a significant relationship between various working capital components, such as inventory turnover and the accounts payable period, and profitability for firms like Bosch India and Amara Raja Batteries.

Aldubhani Et Al. (2021) The study used multiple regression analysis to explore the relationship between various WCM components—such as receivables collection period, inventory turnover, average payment period, and cash conversion cycle—and profitability measures including operating profit margin (OPM), return on assets (ROA), return on capital employed (ROCE), and return on equity (ROE).

Marc Deloof (2003) The study found that shorter cash conversion cycles (CCC), achieved by reducing accounts receivable and inventory holding periods, significantly enhance gross operating income. It also noted that less profitable firms tended to extend accounts payable periods, which negatively affected performance.

Sorin Gabriel Anton and Anca Elena Afloarei Nucu (2021) This study examined the relationship between working capital management (WCM) and profitability in Polish listed firms over the period 2007–2016. Their findings revealed a non-linear, inverted U-shaped relationship, where profitability increased with WCM up to an optimal point, after which over investment in working capital reduced returns.

Mian Sajid Nazir And Talat Afza (2020) The study explored the effects of aggressive and conservative WCM strategies, with aggressive policies emphasizing lower current assets and greater reliance on short-term liabilities. Their findings revealed that aggressive WCM policies generally enhanced profitability metrics like Return on Assets (ROA) and market valuations such as Tobin's Q.

Makori, D., & Jagongo, A. (2013) The study covered 2003 to 2012 and highlighted the importance of shorter accounts receivable cycles and efficient inventory management in improving firm profitability. Using regression analysis, the research demonstrated that optimizing cash conversion cycles and aligning working capital policies with operational needs enhances financial performance, offering actionable insights for Kenyan firms.

3. RESEARCH METHODOLOGY

Research methodology systematically addresses research problems by defining issues, formulating hypotheses, collecting data, analyzing facts, and drawing conclusions. This study employs a descriptive research design to provide factual and systematic insights into organizational situations without establishing causality. Data collection includes primary data for specific objectives and secondary data, such as balance sheets and profit/loss accounts. Key analytical tools include the Schedule of Changes in Working Capital, which evaluates net changes in working capital (*Working Capital = Current Assets - Current Liabilities*), and Ratio Analysis, which assesses financial health through liquidity and efficiency metrics. Liquidity ratios like the Current Ratio (*Current Assets / Current Liabilities*) and Quick Ratio (*Quick Assets / Current Liabilities*) measure short-term obligations, while efficiency ratios such as Inventory Turnover (*Cost of Goods Sold / Average Inventory*), Cash Turnover (*Revenue / Cash & Cash Equivalents*), and Working Capital Turnover (*Sales / [Current Assets - Current Liabilities]*) evaluate operational and financial performance.

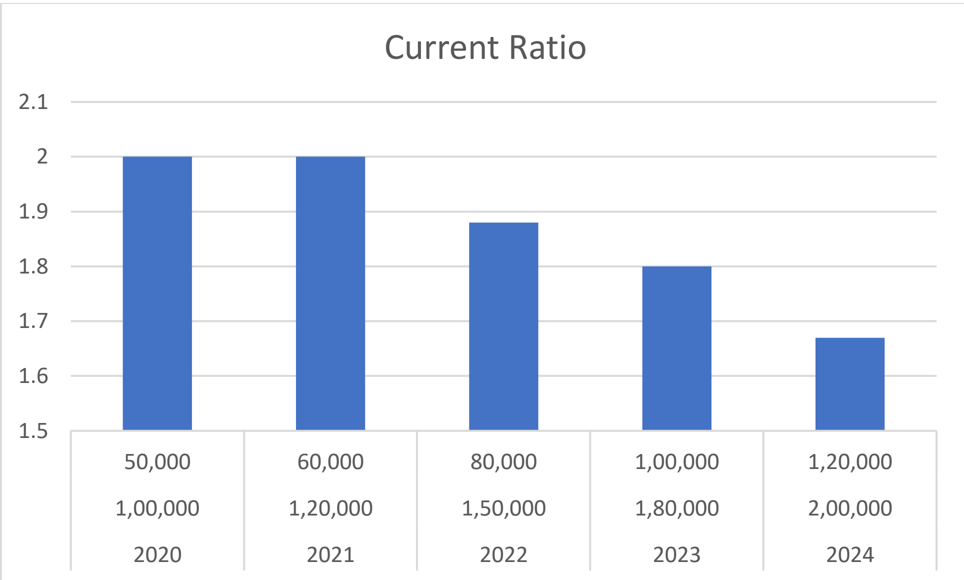
4. DATA ANALYSIS AND INTERPRETATION

RATIO ANALYSIS:

CURRENT RATIO

Current Ratio= Current Asset/Current Liabilities

Year	Current Assets	Current Liabilities	Current Ratio
2020	100,000	50,000	2
2021	120,000	60,000	2
2022	150,000	80,000	1.88
2023	180,000	100,000	1.8
2024	200,000	120,000	1.67

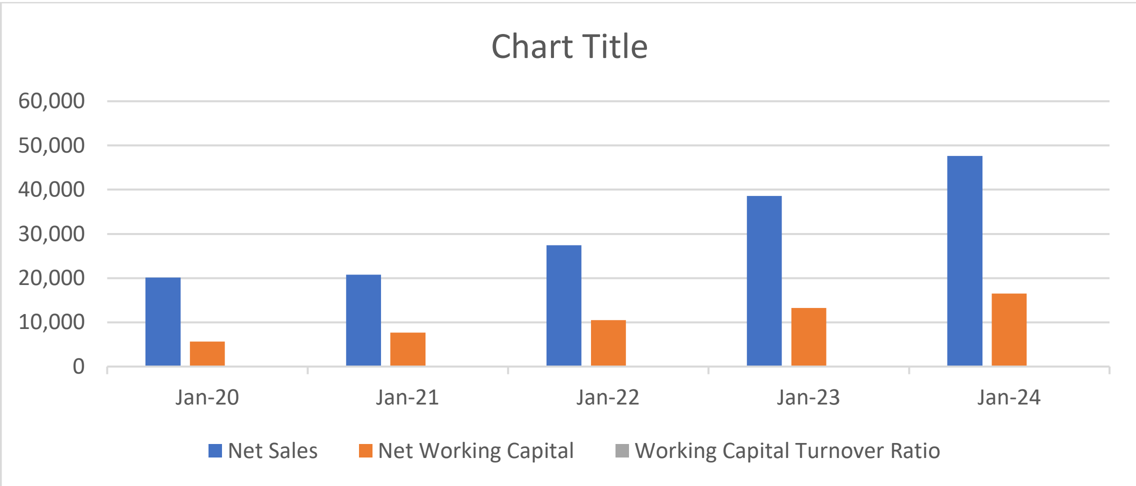


INTERPRETATION

The chart displays the current ratio of a company over the years 2020 to 2024. The current ratio, calculated by dividing current assets by current liabilities, measures the company's ability to meet its short-term obligations. While the current ratio has generally remained above 1, indicating a healthy liquidity position, it has shown a declining trend from 2020 to 2024. This suggests a potential decrease in the company's short-term financial strength, although the exact reasons would require further analysis.

WORKING CAPITAL TURNOVER RATIO

Year	Net Sales	Net Working Capital	Working Capital Turnover Ratio
Mar 24	47,624	16,529	2.88
Mar 23	38,569	13,264	2.91
Mar 22	27,456	10,512	2.61
Mar 21	20,783	7,714	2.69
Mar 20	20,150	5,626.55	3.58



INTERPRETATION

The chart displays the working capital turnover ratio of a company over the years March 20 to March 24. The objective of this study is to evaluate how effectively a company utilizes its working capital to drive sales generation.. A higher ratio indicates better efficiency. While the company has generally maintained a good working capital turnover ratio, it has experienced a slight decline from March 22 to March 23. This could suggest a potential decrease in operational efficiency, but further analysis is needed to pinpoint the exact causes.

5. FINDINGS

RATIO ANALYSIS: The chart displays the current ratio of a company over the years 2020 to 2024. The current ratio, calculated by dividing current assets by current liabilities, measures the company's ability to meet its short-term obligations. While the current ratio has generally remained above 1, indicating a healthy liquidity position, it has shown a declining trend from 2020 to 2024. This suggests a potential decrease in the company's short-term financial strength, although the exact reasons would require further analysis.

WORKING CAPITAL: The chart displays the working capital turnover ratio of a company over the years March 20 to March 24 This ratio evaluates a company's efficiency in utilizing its working capital to drive sales. A higher ratio indicates better efficiency. While the company has generally maintained a good working capital turnover ratio, it has experienced a slight decline from March 22 to March 23. This could suggest a potential decrease in operational efficiency, but further analysis is needed to pinpoint the exact causes.

CONCLUSION

The study highlights the importance of efficient working capital management for Servo Packaging Limited. Despite consistent growth in working capital and stable profitability, there are areas that need immediate attention, such as declining current ratios, rising inventories, and delayed receivables collection. By optimizing inventory, improving collection efficiency, and monitoring liabilities, the company can enhance its liquidity position and overall financial performance. Proactive measures, including leveraging technology and cost control, will ensure sustained growth and operational efficiency in the competitive market environment.

REFERENCE

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3. Farhan et al. (2021): "Analysis of Working Capital Management in India," which focuses on the practices of working capital management in Indian pharmaceutical firms, emphasizing cash conversion cycles and profitability relationships.