

A Study on Working Capital Management

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Abstract

This paper focuses on analyzing the Working Capital Management of the credit institution from 2020-2024. Working Capital Management is very important to maintain a liquidity and it ensure smooth functioning of the organization. This Study is based on the secondary data which is collected from the annual report and internal records. The study applies various financial tools including ratio analysis, working capital analysis, and comparative balance sheet analysis over five years (2020-2024) to evaluate liquidity, solvency, and profitability. The results shows varying patterns in liquidity ratios and a steady rise in working capital over the past few years. The study offers insightful information about how to use resources best and cash flows in rural lending organizations. There are recommendations made to preserve financial stability and lessen reliance on borrowing.

Keywords: Working Capital, Liquidity, Financial Management, Ratio Analysis.

Introduction

The main goal is to ensure that the company has adequate cash on hand to cover its immediate debts and future operating costs. Every organization's operational and financial success depends on its ability to manage working capital effectively. Effective working capital management preserves operational effectiveness and financial discipline while guaranteeing that funds are easily accessible to satisfy members' credit demands. Understanding the financial procedures and control systems used in daily financial management is made easier by this research. It also provides information about how working capital keeps credit institutions operating smoothly. The goal of the study is to present a thorough understanding of how working capital management contributes to the organization's financial stability.

Research Methodology

A research methodology explains the strategies and processes used to gather, analyze, and interpret information related to a research topic.

Research Design

Analytical study designs involve quantifying the relationships between different variables, providing a clear structure for the research process to be executed effectively.

Data Collection Method

Secondary data: Annual Reports and Internal Records

Tools Used

Ratio Analysis, Working Capital Analysis and Comparative Balance Sheet Analysis.

Data Analysis and Interpretation

Ratio Analysis: Ratio Analysis is a tool which is used to measure the financial performance of the business by comparing various figures from the financial statements.

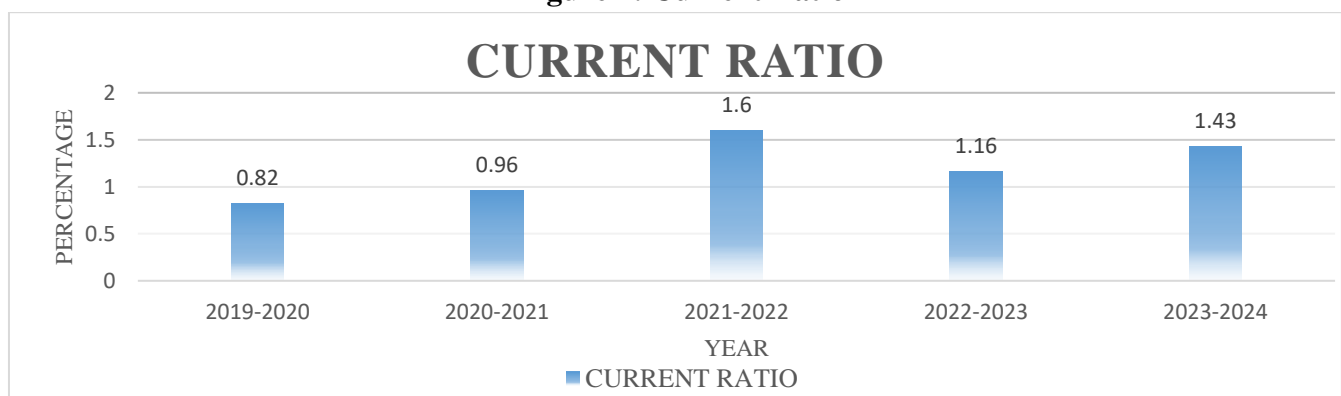
Current Ratio

Table 1: Calculation of Current Ratio
(Rs. In lakhs)

Parameters	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Current Asset	59.62	43.19	93.99	75.58	94.20
Current Liability	72.51	44.93	58.85	65.00	65.72
Current Ratio	0.82	0.96	1.60	1.16	1.43

The above data is pictured in the next graph.

Figure 1: Current Ratio



Inference: From the above table, it shows that the current ratio goes high during the period of 2021-2022 by 1.6 and low during the period of 2019-2020 by 0.82.

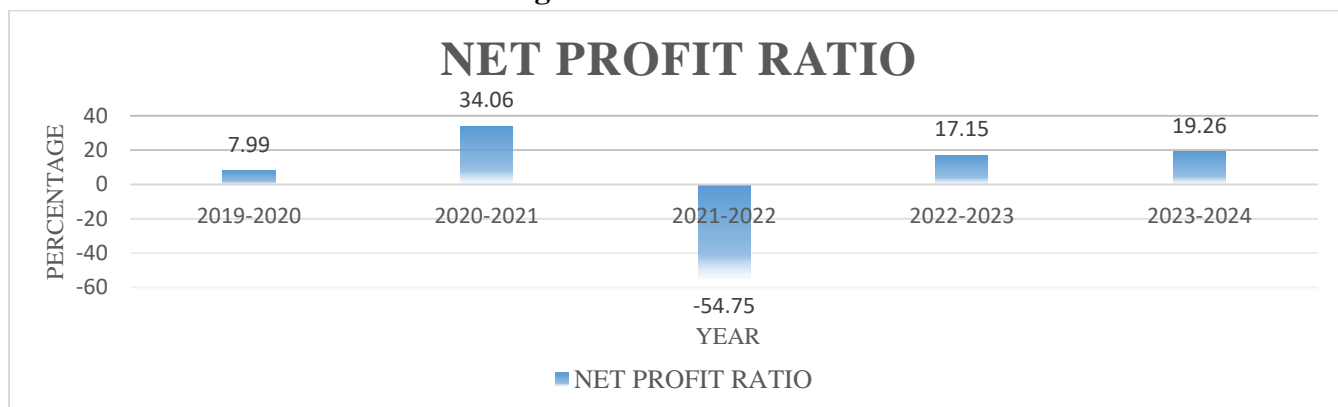
Net Profit Ratio

Table 2: Calculation of Net Profit Ratio
(Rs. In lakhs)

Parameters	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Net profit	6.84	24.81	-46.42	14.53	14.55
Net Sales	85.54	72.84	84.78	84.72	75.55
Net Profit Ratio	7.99	34.06	-54.75	17.15	19.26

The above data is pictured in the next graph.

Figure 2: Net Profit Ratio



Inference: From the above table, it shows that the net profit ratio was high during the period of 2020-2021 by 34.06 and low during the period of 2021-2022 by -54.75.

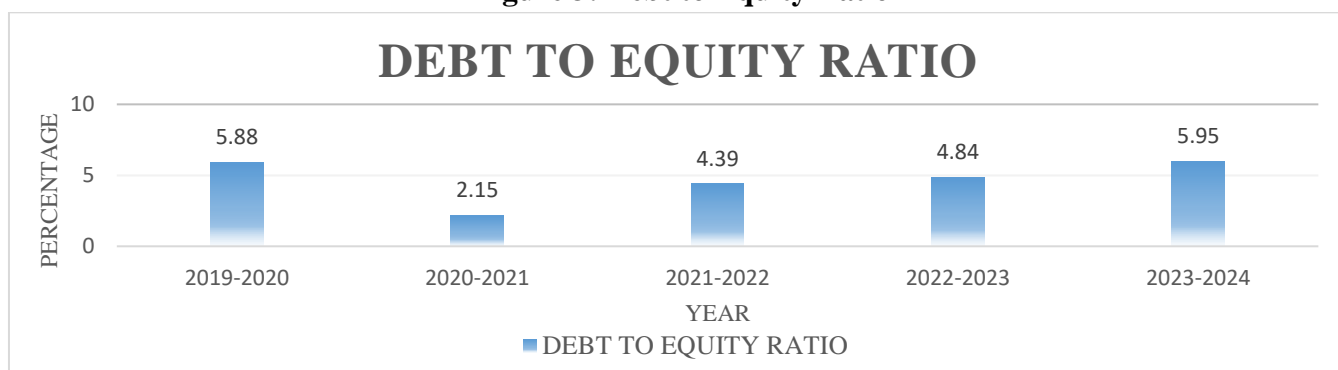
Debt to Equity Ratio

Table 3: Calculation of Debt to Equity Ratio
(Rs. In lakhs)

Parameters	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Total Debt	694.71	286.37	832.73	1009.27	1356.87
Shareholders' Equity	118.08	132.95	189.82	208.32	228.00
Debt - Equity Ratio	5.88	2.15	4.39	4.84	5.95

The above data is pictured in the next graph.

Figure 3: Debt to Equity Ratio



Inference: Debt- Equity ratio was increased in 2023-2024 by 5.95 which shows that it has more debt than equity.

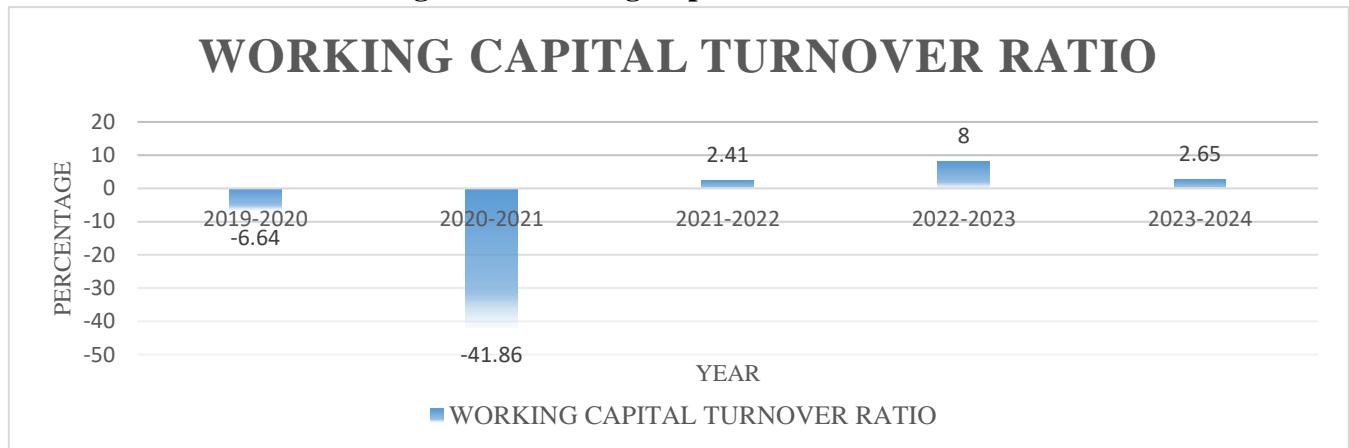
Working Capital Turnover Ratio

Table 4: Calculation of Working Capital Turnover Ratio
(Rs. In lakhs)

Parameters	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Net sales	85.54	72.84	84.78	84.72	75.55
Working capital	-12.89	-1.74	35.14	10.59	28.47
Working Capital Turnover	-6.64	-41.86	2.41	8.00	2.65

The above data is pictured in the next graph.

Figure 4: Working Capital Turnover Ratio



Inference: The above table shows that the working capital turnover ratio was negative until 2020-2021 and increased to 8 in 2022-2023 and decreased in the period of 2022-2023 by 2.65.

Working Capital Analysis: Working capital analysis guarantees a company's operational effectiveness and helps assess whether it meets its short-term obligations.

Working Capital = Current Assets – Current Liabilities

Statement of Changes in Working Capital for the Year 2020-2021

Table 5: Working Capital Statement 2020-2021

(Rs. In lakhs)

Particular	2020	2021	Effects of Working Capital	
			Increase	Decrease
A.ASSETS				
Current Assets				
(a) Closing Stock of Inventories	7.90	10.39	2.49	-
(b) Financial Assets				
(i) Sundry Debtors Considered good	4.75	-	-	4.75
(ii) Cash and Cash Equivalents	30.36	16.04	-	14.32
(c) Other Current Assets	16.62	16.75	0.13	-
Total Current Assets (A)	59.62	43.19		
B. LIABILITIES				
Current Liabilities				
(a) Liabilities	56.74	27.60	29.14	-
(b) Provisions	15.77	17.33	-	1.56
Total Current Liabilities (B)	72.51	44.93		
			31.76	20.63
Working Capital (A-B)	-12.89	-1.74	-	11.15
Net Increase or Decrease in Working Capital	11.15	-		

TOTAL	-1.74	-1.74	31.76	31.78
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Inference: From the above table, it shows that net working capital has increased as Rs. 11.15 Lakhs in the year 2021 when compared to 2020.

Statement of Changes in Working Capital for the Year 2021-2022

Table 6: Working Capital Statement 2021-2022

(Rs. In lakhs)

Particular	2021	2022	Effects of Working Capital	
			Increase	Decrease
A.ASSETS				
Current Assets				
(a) Closing Stock of Inventories	10.39	8.71	-	1.68
(b) Financial Assets				
(i) Sundry Debtors Considered good	-	45.73	45.73	-
(ii) Cash and Cash Equivalents	16.04	15.00	-	1.04
(c) Other Current Assets	16.75	24.55	7.8	-
Total Current Assets (A)	43.19	93.99		
B. LIABILITIES				
Current Liabilities				
(a) Liabilities	27.60	38.28	-	10.68
(b) Provisions	17.33	20.57	-	3.24
Total Current Liabilities (B)	44.93	58.85		
			53.53	16.64
Working Capital (A-B)	-1.74	35.14	-	36.88
Net Increase or Decrease in Working Capital	36.88	-		
TOTAL	35.14	35.14	53.53	53.52

Inference: From the above table, it shows that net working capital has increased as Rs. 36.89 Lakhs in the year 2022 when compared to 2021.

Statement of Changes in Working Capital for the Year 2022-2023

Table 7: Working Capital Statement 2022-2023

(Rs. In lakhs)

Particular	2022	2023	Effects of Working Capital	
			Increase	Decrease
A.ASSETS				
Current Assets				
(a) Closing Stock of Inventories	8.71	8.24	-	0.47
(b) Financial Assets				
(i) Sundry Debtors Considered good	45.73	6.78	-	38.95
(ii) Cash and Cash Equivalents	15.00	37.94	22.94	-
(c) Other Current Assets	24.55	22.62	-	1.93
Total Current Assets (A)	93.99	75.58		

B. LIABILITIES				
Current Liabilities				
(a) Liabilities	38.28	40.69	-	2.41
(b) Provisions	20.57	24.31	-	3.74
Total Current Liabilities (B)	58.85	65.00		
			22.94	47.5
Working Capital (A-B)	35.14	10.58	24.56	-
Net Increase or Decrease in Working Capital	-	24.56		
TOTAL	35.14	35.14	47.50	47.50

Inference: From the above table, it shows that net working capital has decreased as Rs. 24.56 Lakhs in the year 2023 when compared to 2022.

Statement of Changes in Working Capital for the Year 2023-2024

Table 8: Working Capital Statement 2023-2024
(Rs. In lakhs)

Particular	2023	2024	Effects of Working Capital	
			Increase	Decrease
A.ASSETS				
Current Assets				
(a) Closing Stock of Inventories	8.24	6.40	-	1.84
(b) Financial Assets				
(i) Sundry Debtors Considered good	6.78	5.24	-	1.54
(ii) Cash and Cash Equivalents	37.94	41.42	3.48	-
(c) Other Current Assets	22.62	41.13	18.51	-
Total Current Assets (A)	75.58	94.20		
B. LIABILITIES				
Current Liabilities				
(a) Liabilities	40.69	37.65	3.04	-
(b) Provisions	24.31	28.08	-	3.77
Total Current Liabilities (B)	65.00	65.72		
			25.03	7.15
Working Capital (A-B)	10.58	28.48	-	17.90
Net Increase or Decrease in Working Capital	17.90	-		
TOTAL	28.48	28.48	25.03	25.05

Inference: From the above table, it shows that net working capital has increased as Rs. 17.90 Lakhs in the year 2024 when compared to 2023.

Findings

Ratio Analysis

- Current ratio was fluctuated from 0.82 to 1.43 during the year 2020-2024, shows high liquidity.
- Net profit ratio was negative in the year 2021-2022 by -54.75 and turned positive in 2022-2023(17.15%) and further improved in 2023-2024 (19.26%).

- Debt-equity ratio was increased in 2023-2024 by 5.95 which shows that it has more debt than equity.
- Working capital turnover ratio was negative until 2020-2021 and increased to 8 in 2022-2023 and decreased in the period of 2022-2023 by 2.65.

Working Capital Analysis

- Net Working Capital has increased as Rs.11.15 Lakhs in the year 2021 when compared to 2020.
- Net Working Capital has increased as Rs.36.89 Lakhs in the year 2022 when compared to 2021.
- Net Working Capital has decreased as Rs.24.56 Lakhs in the year 2023 when compared to 2022.
- Net Working Capital has increased as Rs.17.90 Lakhs in the year 2024 when compared to 2023.

Comparative Balance Sheet Analysis

- Comparative Balance Sheet shows that during the year 2020-2021 the total capital and liabilities value decreased from 168.20 Lakhs to 86.81 Lakhs due to decline in DCCB borrowings and loans to members.
- Comparative Balance Sheet shows that during the year 2021-2022 the total capital and liabilities value increased from 86.81 Lakhs to 211.87 Lakhs due to increase in share capital and reserves.
- Comparative Balance Sheet shows that during the year 2022-2023 the total capital and liabilities value increased from 211.87 Lakhs to 252.24 Lakhs, though cash and bank balances reduced.
- Comparative Balance Sheet shows that during the year 2023-2024 the total capital and liabilities value increased from 252.24 Lakhs to 328.33 Lakhs due to increase in investments and loans advanced.

Suggestions

- The current and quick ratios have reached satisfactory levels. It is important to maintain these standards to ensure the liquidity position remains strong.
- They must aim to consistently improve its profitability and efficiency ratios by reducing operational costs and increasing income-generating activities.
- The debt levels are relatively high, hence they should reduce dependency on external borrowings to improve its solvency ratios.
- Working capital has been fluctuating but shows a positive trend in recent years. They have should maintain this upward trajectory to ensure operational efficiency.
- It has shown consistent growth in capital and liabilities in recent years. It should continue this trend by efficiently utilizing its funds and further strengthening internal sources like reserves and surplus to ensure long-term financial stability.

Conclusion

The study reveals that it has been making significant improvements in short-term financial health. Through ratio analysis, working capital trends, and comparative balance sheet review, it shows that the liquidity and operational capacity have improved, despite certain fluctuations in profitability and debt dependency. The findings suggest a stronger grip on managing current assets and liabilities, while recommendations focus on sustaining financial growth and reducing financial risk. Working capital optimization shows it is well-positioned for enhanced financial stability and long-term sustainability.

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