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A Study on Working Capital with Reference to Asian Paints Hyderabad

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ABSTRACT

An industrial powerhouse in India and beyond, Asian Paints is the subject of this study's examination of working capital management strategies. Proper management of working capital is essential for businesses to keep their operations running smoothly, have enough cash on hand, and turn a profit. Working capital management tactics may be better understood by looking at Asian Paints, a leading company in the sector. This study takes a mixed-method approach, meaning that it uses both quantitative data analysis and qualitative insights from surveys and interviews with key staff engaged in financial decision-making at Asian Paints. In order to measure the effectiveness of working capital management over a certain time frame, financial ratios including the current ratio, quick ratio, and inventory turnover ratio are used. Also included in the report is an analysis of how Asian Paints' working capital management has affected the company's financial performance and competitiveness within the ever-changing business environment.

Introduction—

Working capital reveals a company's short-term financial health and is hence an indicator of its overall efficiency. Subtracting current obligations from current assets yields the current ratio, which is shown on the balance sheet.

The term "current assets" is used to describe liquid assets that can be converted into cash in a short amount of time. Financial obligations that must be paid within a certain time period are called current liabilities. In financial terms, working capital is the sum that remains after paying off a person's debts. What are known as current assets? Well, they include things like cash, receivables, and inventory. Current commitments include things like wages, taxes, and interest.The liquidity of a company's operations may be better understood by looking at its working capital. A larger difference between a company's short-term assets and liabilities indicates financial soundness, in comparison to an individual's situation.

If a company's obligations are more than its assets, it could become bankrupt due to a negative working capital situation. The only purposes of working capital are to finance operations, pay off short-term debt, and maintain a sufficient level of working capital. Regardless of any issues with cash flow, it keeps paying its suppliers and employees to meet other obligations, such taxes and interest. Investing in working capital is another option for a business looking to grow without going into debt. The company's positive working capital makes it easier to qualify for alternative forms of financing, even if it is reluctant to take out a loan.

The primary goals of some financial organizations are: Keeping track of one's funds accurately and having a clear goal in mind Secondly, when working with other businesses, to have enough operational capital to cover all obligations.

The many kinds of working capital may be broadly classified into the following:

Working Capital Gross

Gross working capital is the total value of all current assets. Cash, receivables, and market securities are all examples of current assets because of their short-term nature.

Gross working capital does not include current liabilities. Subtract current liabilities from current assets to get the gross working capital. After paying all of its bills, a business employs its functional capital, which is what's left over after spending.

The Net Working Capital

The difference between a business's short-term assets and short-term liabilities is its net working capital. When an organization's assets surpass its current liabilities, it indicates that it has positive working capital and can meet its obligations.

But if a company's current assets are lower than its current obligations, a condition called negative working capital, then financial problems are imminent. While net working capital can never be negative, gross working capital is positive regardless of the situation. The worth of networking capital, on the other hand, may rise or fall.

Operations Funding for the Long Term

In order to keep the wheels of daily operations turning, a business need a certain amount of permanent working capital. The bare minimum required to keep day-to-day activities running smoothly and effectively is a decent example of continuous working capital.

Regular Access to Working Capital

In order to cover their monthly operating expenses, businesses need a certain amount of working capital. Spending on items like wages, materials, and labor is an example of regular working capital.

Safe Operating Capital

A company may need a certain amount of cash above what is typically needed for operational expenditures in order to cover unforeseen catastrophes. Reserve margin working capital is similar to regular working capital in that it is an amount of money put aside for margin reasons alone. The funds are stored in a separate account to safeguard them against unanticipated events such as hurricanes, floods, and other natural catastrophes.

Money with a Flexible Purpose

Investments made in a business with a time constraint are known as variable working capital. The term "working capital that fluctuates" may also describe this kind of capital.

Research Gap

There is a lack of study on the methods used by Asian Paints and other major multinational firms to maximize their working capital, even though there is a lot of literature on working capital management in general. There has been little research on working capital management in the paints and coatings industry, despite the fact that this sector faces distinct market dynamics due to factors such as seasonality, raw material price volatility, and competitive pressures.

Objectives of the Study

- To know about the working capital of the Organization
- To understand about the financial position of the company with the help of ratios
- To analyse the effect of current assets on working capital

Research Methodology

Secondary data, namely information culled from the company's annual reports, forms the basis of this analysis and interpretation. In order to make calculations, ratio analysis is used. Visual aids like tables, graphs, and descriptions of their importance are used to showcase the project. To assess the efficiency of the company's fixed assets, a survey or observational research is superfluous.

Information Sources

This project's data comes from a variety of sources, including the following: There is no Primary data in this research, everything has been secondary data. All theoretical information has been culled from authoritative reference materials and textbooks. The primary sources for financial statistics and information on the firm are its annual reports.

Limitations of the study

- This examination will only cover the dates and material that Asian Paints provided in its annual reports.
- The report may not explicitly state Asian Paints' current assets' status and position, which might vary over time and from situation to situation.
- Going through the disinvestment procedure or the capital market.
- The firm's modifications limit the accounting method and other restrictions, which might lead to variances in the performance of current assets.

Review of Literature

Impact of Working Capital management on Probability: Evidence from listed companies in Qatar by Maad A.Q. Aldubbhani, Jitian Wang, (March 2022): This study aimed to examine whether working capital management practices effect profitability for manufacturing enterprises listed on the Qatar Stock Exchange. The authors compared the working capital management and profitability of all ten manufacturing firms listed on the Qatar Stock Exchange between 2015 and 2019 using a multiple regression analytic technique. To measure profitability, we looked at operating profit margin (OPM), return on assets (ROA), return on capital employed (ROCE), and return on equity (ROE). To measure working capital management, we used proxies such as average payment cycle, average collection period, inventory turnover, and cash conversion cycle. Research shows that companies with shorter receivables collection timeframes and quicker cash conversion cycles are more profitable. Longer payment terms for accounts payable and inventory turnover periods often lead to greater profitability for businesses.

Working Capital Management and its Impact on Probability by Nimalathasan Balasundaram (Jan 2010): The major goal of this study is to analyze the working capital management and profitability of a sample of listed manufacturing companies from 2003 to 2007. We analyzed the data using regression and correlation. Return on assets (ROA) decreases as cash conversion cycle (CCC) increases, according to a very significant negative correlation between the two variables (-0.127 at the 1% significance level). Inventory conversion period (ICP) is essential at the 1% level as well. Increasing the quantity of ICP causes ROA to climb by -0.065 levels. Furthermore, the CCC variable exhibits a negative connection with a p-value of 0.006 and a correlation coefficient of -0.0503. Accordingly, an increase of only one day in the cash conversion cycle is associated with a decrease of 5.03% in ROA. Management may improve manufacturing organizations' bottom lines by reducing accounts receivable and daily inventory levels, according to the research.

An analysis of working capital management in India: An urgent need to refocus by Najib H S Farhan, Fozi Ali Belhaj, (Jan 2021): Examining how working capital affects the bottom lines of Indian pharmaceutical companies is the main goal of this study. The research also plans to look at working capital from various company sizes and see how they stack up. The study analyzes panel data from 82 different pharmaceutical companies and spans the years 2008–2017. A GMM model is used for the estimation of the results. The results show that managing working capital is quite different for large, medium, and small businesses. A shorter collection time, shorter payment term, and shorter inventory holding period all contribute to better financial performance for Indian pharmaceutical companies as measured by ROA and net operating margin. On the other hand, the cash conversion cycle has a negative impact on ROA, NOM, and Tobin's Q.

A Study on Working Capital Management & Impact of Profitability of Electrical Industries in India by Vikas mathapati, Sanatkumar Nirgude, (Oct 2021): By lowering the amount of money invested in existing assets, companies are willing to lower financing rates and increase investment available for growth. We provide insights into the performance of surveyed firms in crucial areas of capital management using data from CFO magazine's annual survey. Capital measurements can show substantial sector-specific variation over time. Also, we commonly see that these operational capital metrics shift a lot across industries over time. Looking at a big sample of people's firms from 2016 to 2020, we examine the worth impact of WCM. The research proves two things: (i) capital policy has a sweet spot, and (ii) companies may improve their stock and operational performance by changing their working capital investments to that sweet spot. Additionally, we point out that investment by businesses is the means via which low-cost WCM leads to improved firm performance. In example, companies may reinvest their spare resources in worthwhile projects, such funding capital expenditures, thanks to economic WCM.

A Study on Working Capital Management Practices by Dayananda Reddy and C S Gowtham, (Oct 2020): Among the numerous well-known firms in the Chennai region is VJ Engineers. Making choices about working capital and short-term finance is what "working capital management" is all about. Here, the manager's job is to keep an eye on how the company's short-term assets and liabilities are interacting with one another. The main goals of managing working capital are to keep operations viable and to pay off short-term debt and future operational expenses. It is quite useful to study working capital management in order to comprehend the liquidity status of the organization. The study is relevant to the firm since it helps them comprehend the day-to-day expenses. The importance of this study lies in the fact that it proposes uses for the current assets. The student may benefit from this study as well, as it provides a reference. If more study is needed, this publication might be useful. Other researchers may use secondary data from this investigation.

A Study on Working Capital Management by Ms. Arshathy. A., Dr. Palani A (May 2021): The management of working capital is one of the most critical tasks for corporate executives. Organizations of all sizes and types, for-profit or not-for-profit, and engaged in a wide range of activities need a sufficient amount of working capital. The competency with which a business handles its working capital determines its viability, liquidity, solvency, and success. Obtaining raw supplies, paying regular operational costs, and meeting other short-term financial responsibilities all fall under the umbrella phrase "working capital" for businesses.

Data Analysis and Interpretation

Statement of Changes in Working Capital Requirements for the year 2021-22 to 2022-23

Particulars	**2022-23**	**2021-2022**	**Increase**	**Decrease**
A. CURRENT ASSETS				
Current Investments	2,597.37	2,164.34	433.03	
Inventories	5,321.79	5,277.61	44.18	
Trade Receivables	3,462.61	2,915.77	546.84	

Cash And Cash Equivalents	362.88	308.57	54.31	
Short Term Loans And Advances	0	0	0.00	
Other Current Assets	2,131.08	2,081.63	49.45	
TOTAL CURRENT ASSETS	**13,875.73**	**12,747.92**		
B. CURRENT LIABILITIES				
Short Term Borrowings	0	0		
Trade Payables	3,045.86	3,497.29	451.43	
Other Current Liabilities	2,739.25	2,112.07		627.18
Short Term Provisions	46.35	38.08		8.27
TOTAL CURRENT LIABILITIES	**5,831.46**	**5,647.44**		
Working Capital = (Currents Assets - Current Liabilities	**8,044.27**	**7,100.48**		
Net Decrease In The Working Capital		**943.79**		943.79
Grand Total	**8,044.27**	**8,044.27**	1,579.24	1579.24

Interpretation

From the above calculations we can state that, working capital for the year 2020-21 to 2021-22 as net increase in the working capital i.e. 943.79 due to the current assets decreased.

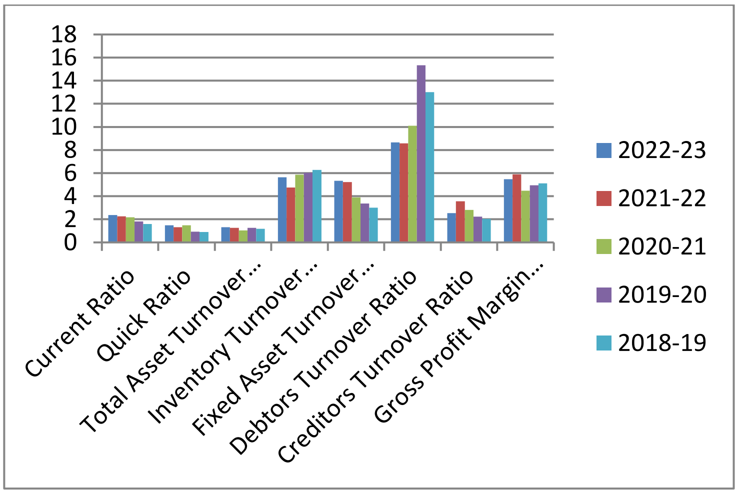
To analyses the current assets impact on working capital the following ratios to be analyzed

1. Liquidity Ratio
    a. Current Ratio
    b. Quick Ratio
2. Net Working Capital Ratio
3. Total Assets Turnover Ratio
4. Inventory Turnover Ratio
5. Fixed Assets Turnover ratio
6. Creditors Turnover Ratio
7. Creditors Collection Period
8. Debtors Turnover Ratio
9. Debtors Collection Period
10. Gross Profit Margin Ratio

Comparison of all the Ratios

Year	**2022-23**	**2021-22**	**2020-21**	**2019-20**	**2018-19**
Current Ratio	2.38	2.26	2.18	1.82	1.58
Quick Ratio	1.47	1.32	1.49	0.94	0.90
Net Working Capital	8,044.27	7,100.48	5,381.21	2,630.65	2,211.94

Total Asset Turnover Ratio	1.33	1.26	1.04	1.25	1.18
Inventory Turnover Ratio	5.63	4.74	5.85	6.02	6.27
Fixed Asset Turnover Ratio	5.33	5.23	3.88	3.36	3.00
Debtors Turnover Ratio	8.65	8.57	10.10	15.35	13.02
Debtors Collection Period	42.19	42.57	36.14	23.78	28.03
Creditors Turnover Ratio	2.54	3.55	2.80	2.24	2.03
Creditor Collection Period	144	103	130	163	180
Gross Profit Margin Ratio	5.46	5.89	4.47	4.94	5.11



Findings

- Working capital for the year 2018-19 to 2019-20 as net increase in the working capital i.e. 418.71 due to the current assets decreased.
- Working capital for the year 2019-20 to 2020-21 as net increase in the working capital i.e. 2750.56 due to the current assets decreased.
- Working capital for the year 2020-21 to 2021-22 as net increase in the working capital i.e. 1719.27 due to the current assets decreased.
- Working capital for the year 2020-21 to 2021-22 as net increase in the working capital i.e. 943.79 due to the current assets decreased.

- Current Ratio for the year 2018-19 & 2019-20 shows the below the standard value i.e 1.58 & 1.82 resectively is less than the 2:1, so in this years the liquidity position is weak. Where as in the years 2020-21, 2021-22, 2022-23 the calculated value shows 2:1 i.e 2.18, 2.26, 2.38 respectively which is more than the standard value 2:1, so the companies liqidity position in these years are strong.
- Quick Ratio for the year 2018-19 & 2019-20 shows the below the standard value i.e 0.90 & 0.94 resectively is less than the 1:1, so in this years the liquidity position is weak. Where as in the years 2020-21, 2021-22, 2022-23 the calculated value shows 1.49, 1.32, 1.47 respectively which is more than the standard value 1:1, so the companies liqidity position in these years are strong.
- Total Asset turnover ratio is more in the year 2022-23 i.e 1.33 which is 133% and lowest in the year 2020-21 i.e 1.04 which is 104%
- Inventory Turnover ratio is Highest in the year 2018-19 i.e 6.27 amd lowest in the year 2021-22 i.e 4.74
- Fixed Asset Turnover ratio is highest in the year 2022-23 i.e 5.33 and lowest in the year 2018-19 i.e 3
- Debtors Turn over ratio is highest in the year 2019-20 i.e 15.35 and lowest in the year 2021-22 i.e 8.57
- Debtors collection period is highest in the year 2021-22 i.e 43 days and lowest in the year 2019-20 i.e. 24 days
- Gross Profit Margin Ratio is highest in the year 2021-22 i.e. 5.89 and lowest in the yar 2020-21 i.e. 4.47

Suggestions

- Proper management of working capital is critical to a company's sustainability and financial well-being in the long run.
- Regularly forecast your financial flows so you may be ready for both plenty and shortage. Always have just the right quantity of merchandise on hand to prevent shortages or surpluses.
- Clear credit regulations are essential for successful client credit management. Keep an eye on receivables and collect them as quickly as you can to lower Days Sales Outstanding (DSO).
- Negotiate favourable payment terms with suppliers while keeping good relationships with them. Pay in advance to take advantage of the discount.
- Building strong relationships with key suppliers might help you negotiate better rates. Consider vendor-managed inventory (VMI) agreements if you would want your suppliers to handle inventory management. A line of credit or a small loan can be an option to consider.
- Maximize the benefits of supplier financing and trade credit. Streamline your inventory management, payment processing, and billing with the help of technology solutions.
- Automating your financial activities may make them more efficient and error-free. Key performance indicators (KPIs) pertaining to working capital should be monitored often. Adjust strategies as needed to meet changing business needs and market conditions.
- Make sure to make realistic and accurate budgets to aid in financial decision-making. Pay close attention to any expenses that exceed the budget and adjust accordingly.
- To protect working capital against economic downturns and supply chain disruptions, it is important to identify and mitigate these risks. Distribute your providers so you aren't putting yourself at danger by depending on just one.

Conclusion

A company's health and profitability depend on working capital management. With the correct techniques, organizations can manage assets and liabilities and preserve ideal liquidity. The principles improve working capital efficiency by forecasting cash flows, controlling inventories, optimizing accounts receivable and payable, and integrating technology. Vigilance and flexibility are crucial. Businesses must analyze market and economic trends to update working capital management plans. Businesses should build strong supplier connections, embrace technology, and promote efficiency to prepare for challenges and possibilities. Well-managed working capital cycles help companies invest in growth, adjust to market swings, and weather economic uncertainty. Long-term financial performance hinges on a company's working capital management.

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