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A study on working capital management in Pallava granites private limited

Shaik shoukath ali[1] *& D. Sudha rani* [2]

Department of management studies, Narayana college of Engineering(A) Gudur.
Mail :shaikshoukath630@gmail.com, Mobile : 7702442262

ABSTRACT:

Working Capital Management is a continuous That involves managing company short term assets and liabilities to ensure it has enough cash flow to meet its short term debt obligations And operating expenses The goal of working capital management is ensure operational efficiency by maintaining balance between growth, profitability, and liquidity. The main purpose of the study is to identify the impact of working capital management on profitability of "Pallava granites Pvt ltd", from the financial year 2018-2023 current ratio, quick ratio, cash ratio, debtors turnover ratio and stock turnover ratios are performed. Results reveals that cash conversion efficiency of the firm is good. In addition debt collection period and stock velocity of the firm is said to be satisfactory. The results suggest to the managers can increase profitability of manufacturing firms by reducing the stock velocity and bills receivables.

Key Words Velocity, ratios, cashflow, working capital, capital management, profitability

Introduction:

Finance is one of the basic foundations of all kinds of economic activities. It is the master key, which provides access to all the sources for being employed. Hence it is rightly said that finance is lifeblood of any enterprise, besides being the scarcest elements, it is also the most indispensable requirement. Without finance neither any business can be started nor successfully run. When facing volatile economic Conditions it is still importance for companiesto enhance shareholders value, but this is difficult to achieve in periods of near zero growth. By re-engineering their internal process to increase the efficiency of working capital, corporations can achieve significant results that will get their shareholders happy. The viability of every business activity rest on daily changes in receivables, inventory and payable. It's the life hood of the business and every manager's primary task is to keep it moving and put shareholders capital effectively and efficiently. Lack of working capital may lead a business to
"Technical Insolvency" and ultimately liquidation. The faster a business expands the more cash it will need for working capital and investment. Good managementof working capital will generate cash, help to improve profits solidify relationshipswith suppliers and customers and reduce risks when it comes to managing working capital. If you can get money to move faster speed the cash conversion cycle, by say reducing the amount of money tied up in inventory or accounts receivables the liquidity of the business increases the internal cash flow can be generated. Likewise, the business may be able to reduce its debit and interest expenses if one can negotiate improved terms with suppliers. Capital requirementof the business can be divided into two main categories viz.

- Fixed Capital Requirement.
- Working Capital Requirement

The capital which is required for the acquisition of the fixed assets is known as "Fixed Working Capital", Where as the capital which is required to meetday to day obligations is known as Working Capital.

Concept of Working Capital:

On the basis of concept, Working Capital can be classified into two types as under.

- Gross Working Capital
- Net Working Capital

Gross Working Capital:

It refers to the firm's investment in total current assets.

Net Working Capital:

It represents excess of current assets over current liabilities. The extent to which sum of current assets exceeds to the sum of current liabilities is known as "Net Working Capital".
On the basis of gross concept the working capital is to be either positive or zero. But on the basis of net concept, working capital is to be either positive or negative.

Definition:
According to BONNEVILE AND DEWEY:
"Financing consists in the rising, Providing and managing of all the money, capital or funds of any kind to be used in connection with the business".
According to HOAGLAND:
"Working capital is descriptive of that capital which is not fixed. But the more common use of working capital is to consider it as the difference between the book value of the current assets and the current liabilities."

Types of Working Capital: -
The Working Capital admits the following broad classifications:
1.Gross Working Capital.
2.Net Working Capital.

1. Gross Working Capital:
The term Gross working Capital refers to the total of all current assets. In other words, the firm's investments in total current or circulating accounting year. It represents short securities, sundry debtors, bills receivable, stock (inventories) etc. The Gross concept of working capital is very suited to company organization where ownership is separated from management and control.

Gross working capital= Total current assets

2. Net Working Capital:
The net concept of working capital is qualitative, indicating the firm's ability to meet its operating expenses and current assets and current liabilities. Alternatively, it can be defined as the portion of a firm's current assets which is financed with long term funds.
This concept is commonly used for proprietary organization such as sole trader and partnership firms. Net working capital can be grouped into "Positive Net Working Capital and Negative Net Working Capital". Net working Capital can be expressed as:
Net Working Capital = Current Assets - Current Liabilities
Current Assets = Cash + Marketable Securities + Accounting Receivables +Notes and bills Receivables+ Inventories
Current Liabilities= Accounts Payable + Notes and bills +Outstanding Expenses + Short Term Loans
"Positive Net Working Capital" will arise when the excess of current assets over the current liabilities. On the other hand, where the current liabilities and provisions exceed current assets, the difference is referred to as "negative working capital" and is disastrous for the company.

Review of literature:

Review 1: **Rao Govinda D.** (1999)
As per the study management of working capital is constant process. So that proper observation on various components is needed. At the end relationship between different components are needed. This provides proper direction.
Review 2: **Kaur Harsh V. and Singh Sukhdev (2013)**
This article focuses on cash conversion efficiency and setting up the operating cycle days. The study tests the relationship between the working capital attain and profitability calculated by income to current assets and income to average total assets.
Review 3: Aduda and Morgan (2020)
Explained that working capital orders the liquidity position of the company and can thus be used as a separation for performance sustainability across different sections. The company managing its working capital effectively tends to outshine its peers in profitability and sustainability hence getting a positive review in the capital market.
Review 4: Suhail Alnuaimi & Haitham Nobanee (2020)
Said working capital is the assets that are detained by the company to guarantee its day-to-day activities are well met, and its goals are well accomplished. It evaluates how these working capitals can be well managed and what is the importance of their management.
Review 5: Novak, Marco Della (2021)
Stated the individual determinants of working capital were used as independent variables, while leverage represented the control variable. Empirical findings suggests that longer extensions to customers do not affect profitability.

Objectives of the study:

To determine the net working capital of the company
To assess the procured information whatsoever means from different places of carrying the convenience
To analyse the accuracy of services and adequacy of the firm

To analyse the debts of the firm by balancing the working capital
To study the changes in Net Working Capital during the study period.
To study the impact on Liquidity Management on the Shareholders profitability.

To give viable suggestions based on the findings to improve the Liquidityprogress of Pallava granites Pvt ltd

Scope of the study:

The contents of the total evaluation of current assets and current liabilities and their percentage contribution to the total turnover. They early increase or decrease of current assets or current liabilities in the budget of Pallava Granites Pvt Ltd is being reviewed. This project greately deals with the working capital requirements of Pallava granites Pvt ltd and emphasizes on the yearly composition of working capital in the total turnover of the company.

Need of the Study:

To manage the liquidity of the company
It is helpful in financial as it focuses on daily cash flows management and funds flow management in the organization.
Finance plans are central instruments for directing and co- ordination the financial effort. Every business needs some amount of working capital.
There are time gaps in purchase of raw material and production, production and sales, and realization of cash and this process is called operating cycle.

Limitations of the study

Studying the deals of the available without judging the business firm in general
This study extensively uses the data provided in the financial reports of the firm's limited perspectives.
Analysis made on the particular period of time of the current assets and current liabilities and changes in other time.

Research methodology and design:

Methodology refers to systematic procedure of collecting information in order to analyse and verify phenomena.
Primary Data:
The primary data comprises information obtained by the candidate during discussions with Heads of Department and from the meeting with officials and staff.
Secondary Data:
The secondary data has been collected from information through Annual Reports, Public Report, Bulleting and other printed Materials supplied by the company.

Data analysis and interpretation:

1. CURRENT RATIOS:

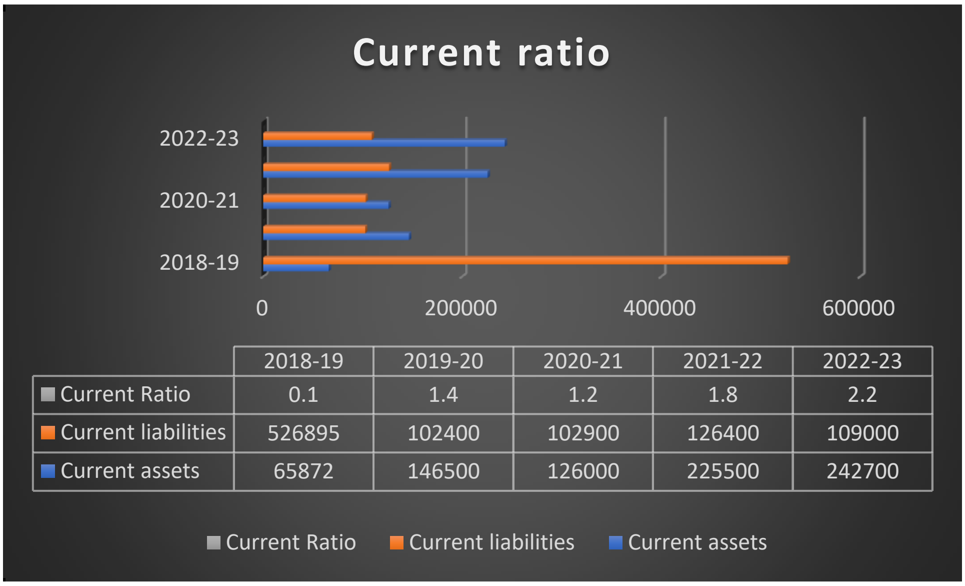
The current ratio is calculated by dividing current assets by current liabilities. The current ratio is computed by dividing current assets by current liabilities. Current assets normally include cash, marketable securities, accounts receivables and inventories. Generally a current ratio of 2:1 (current assets twice of current liabilities) is considered to be satisfactory.

Current Ratio = Current assets – Current liabilities

Table 4:1 CURRENT RATIOS

Year	Current assets	Current liabilities	Current Ratio
2018-19	**65872**	**526895**	**0.1**
2019-20	**146500**	**102400**	**1.4**
2020-21	**126000**	**102900**	**1.2**
2021-22	**225500**	**126400**	**1.8**
2022-23	**242700**	**109000**	**2.2**

4:1 **CURRENT RATIOS**



INFERENCE:

It starts at 0.1 in 2018-19, indicating potential difficulty meeting short-term obligation
It then rises to 1.4 in 2019-20 and 2020-21, suggesting improved liquidity.
By 2021-22, the ratio jumps to 1.8, signaling a significant enhancement in liquidity.
Finally, in 2022-23, it reaches 2.2, indicating a robust ability to cover short-term liabilities.
During 2018-19 the current ratio of company was 0.1,1.4,1.8, and 2.2. The highest during the year 2022-23 that is 2.2. the lowest position during the year 2018-19 that is 0.1

2. DEBTORS TURNOVER RATIO:

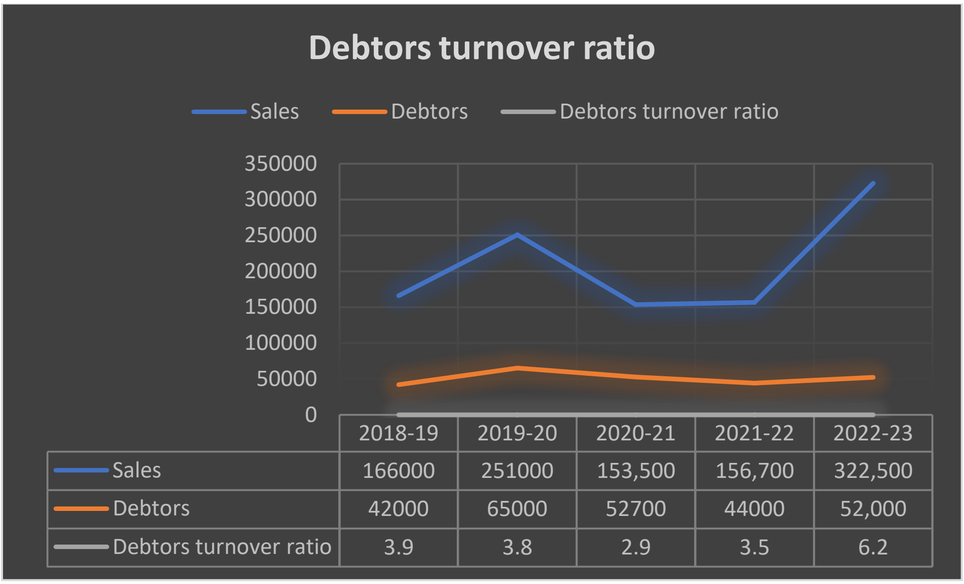
The calculation of the Debtors turnover ratio is an important financial metric that helps businesses understand their ability to collect outstanding debts. This ratio is calculated by dividing the Net Working sales by the average account receivable.

Debtors turnover ratio = sales / debtors

Table 4:2 DEBTORS TURNOVER RATIO

Year	Sales	Debtors	Debtors turnover ratio
2018-19	166000	42000	3.9
2019-20	251000	65000	3.8
2020-21	1,53,500	52700	2.9
2021-22	1,56,700	44000	3.5
2022-23	3,22,500	52,000	6.2

Graph 4. :2 DEBTORS TURNOVER RATIO



INFERENCE:

In 2018-19, the ratio was 3.9, indicating a good turnover rate.
It dropped to 3.8 in 2019-20.
In 2020-21 and 2021-22, it remained stable at 3.5.
Then, in 2022-23, it surged to 6.2, signaling a significant improvement in collecting payments efficiently.
The Debtors turnover ratio was the highest during the year 2022-23 that is 6.2.

3. NET PROFIT MARGIN:

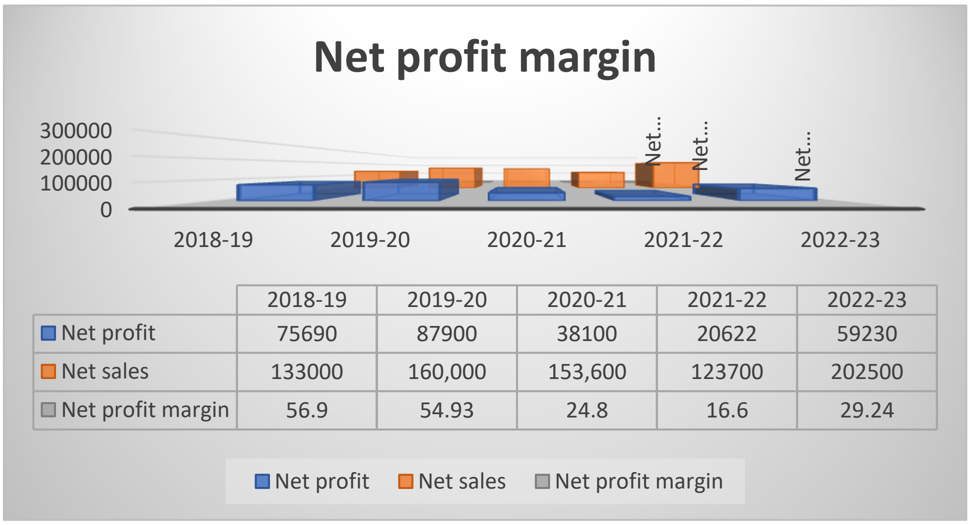
Net profit is calculated by deducting all company expenses from its total revenue. The result of the profit margin calculation is a percentage – for example, a 10% profit margin means for each $1 of revenue the company earns $0.10 in net profit.

Net Profit Margin = Net profit / Net sales x 100

Table 4:3 NET PROFIT MARGIN:

year	Net profit	Net sales	Net profit margin
2018-19	75690	133000	56.90
2019-20	87900	1,60,000	54.93
2020-21	38100	1,53,600	24.80
2021-22	20622	123700	16.6
2022-23	59230	202500	29.24

Graph 4:3 NET PROFIT MARGIN



INFERENCE:

In 2018-19 and 2019-20, the margin was high, indicating strong profitability.
It dropped significantly in 2020-21, suggesting challenges or increased costs.
Further decline occurred in 2021-22.
There was a rebound in 2022-23, although not to the levels of 2018-19 and 2019-20.
The Net profit margin ratio was the highest during year 2018-19 that is 56.9. The lowest position during the year 2021-22 that is 16.6.

4. COLLECTION RATIO:

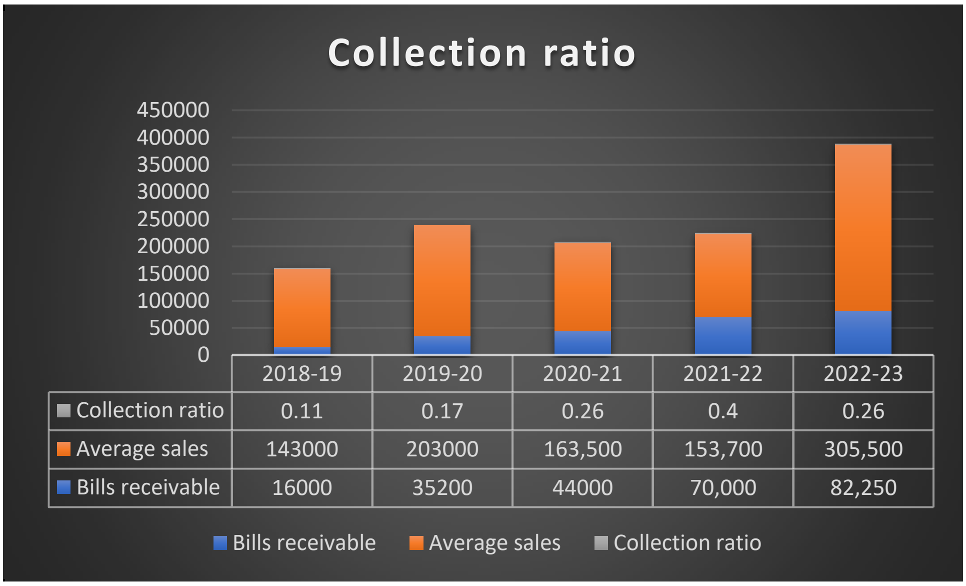
The collection ratio is usually expressed in days and represents the average number of days it takes for a company to collect payment from its customers after a sale has been made on credit terms

Collection ratio = bills receivable/ Average sales

Table 4:4 COLLECTION RATIO

Year	Bills receivable	Average sales	Collection ratio
2018-19	16000	143000	0.11
2019-20	35200	203000	0.17
2020-21	44000	1,63,500	0.26
2021-22	70,000	1,53,700	0.4
2022-23	82,250	3,05,500	0.26

Graph 4:4 COLLECTION RATIO



INFERENCE:

In 2018-19, the ratio was 0.11, indicating a slower collection process.
It improved to 0.17 in 2019-20 and further to 0.26 in 2020-21.
In 2021-22, there was a significant jump to 0.4, suggesting a substantial improvement in collection efficiency.
Although it decreased slightly to 0.26 in 2022-23, it remained higher compared to earlier years, indicating continued efficiency in collecting payments.

5. CASH RATIO:

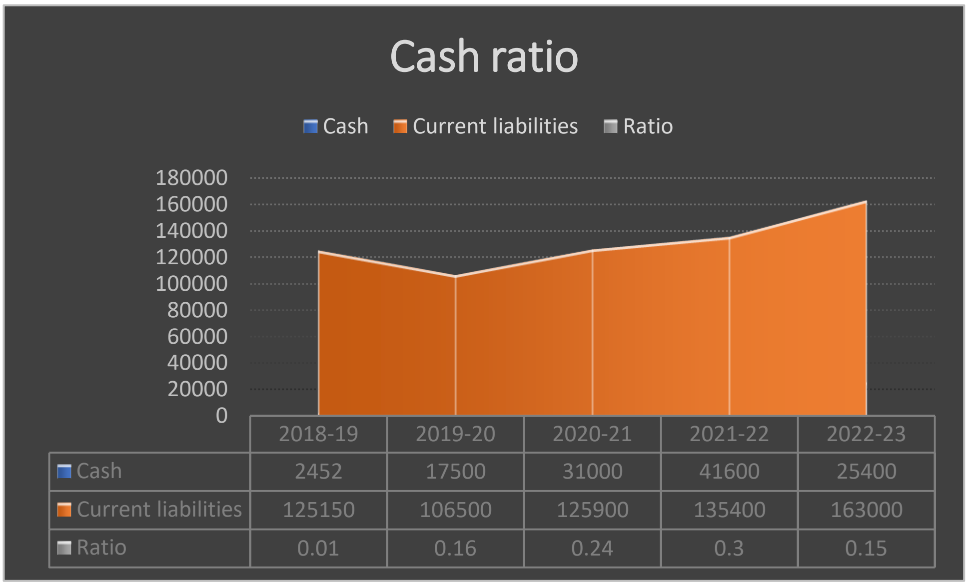
The Cash ratio is a liquidity measure that shows a company's ability to cover its short-term obligations using only Cash and Cash equivalents. The Cash ratio is derived by adding a company's total reserves a cash and near-cash securities and dividing that sum by its total current liabilities.

Cash ratio = Cash / Current liabilities

Table 4:5 . CASH RATIO

Year	Cash	Current liabilities	Ratio
2018-19	2452	125150	0.01
2019-20	17500	106500	0.16
2020-21	31000	125900	0.24
2021-22	41600	135400	0.30
2022-23	25400	163000	0.15

Graph 4:5 CASH RATIO



INFERENCE:

In 2018-19, the ratio was very low at 0.01, indicating minimal cash reserves.

It improved significantly to 0.16 in 2019-20, showing better liquidity.

The ratio increased further to 0.24 in 2020-21 and 0.33 in 2021-22, indicating continued improvement.

Although it decreased slightly to 0.15 in 2022-23, it remained relatively high, signaling continued stability in covering short-term obligations with cash.

FINDINGS:

After proper analysis of the financial position of the ACUTESOFT SOLUTIONS with the help of tools of financial analysis, the following analysis, the following things are found during the study.

- In the year 2018-19 to 2022-23 the company current ratio is increased. That is 0.1, 1.4, 1.2, 1.8, 2.2.
- In the years 2018-19 the Debtors turnover ratio is increased that is 3.9, 3.8, 2.9, 3.5, 6.2.
- In the years 2018-19 the Net profit margin ratio is decreased that is 56.90, 54.93, 24.80, 16.6, 29.24

SUGGESTIONS:

- The profitability of the company is affected due to unnecessary administration expenses incurred by the company. It is better to reduce it to increase the profit.
- The company must maintain its operating expenses in manner and improve the operating nature.
- It is suggested to take measures for collecting dues from the debtors, by allowing discount and reduce bad debts.
- It is suggested to pay the dues to the creditors as earlier as possible, because delay increases more interest charges and damage the credibility.

CONCLUSION:

Effectively managing working Capital is must for financial stability and for the success of the business. By strategically managing current assets and liabilities, Companies can ensure they have the necessary liquidity to meet short-term obligations, invest in growth opportunities, and navigate unexpected financial challenges. The Current assets of the company are increasing year by year which impact a better financial position.

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