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A Study on Working Capital Management Practices at Global Alloys (p) Ltd

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ABSTRACT

The Research aims to evaluate the impact of working Capital Management Practices on the Financial performances of Global Alloys (P) Ltd.

Working Capital Management is a business process that helps companies make effective use of their Current assets and Optimize Cash flow. It's Oriented around ensuring Short-term Financial Obligations and expenses can be met, while also contributing towards longer-term business objectives.

This research aims to evaluate financial viability and using of working capital in the organization is being compared for five years from (2019-2023). The research is very helpful for the organization to analyse its current assets and liabilities, and also tells the organization about its daily expenditure they spent on daily expenses.

The Major source for this research is secondary data, based on that data various ratios, and statement of changes in Working capital were Performed. The interpretations, conclusions, suggestions, Findings were drawn through them.

Key Words: - Working Capital, Financial Viability, Secondary Data.

Introduction

A study of working capital is of a major importance of internal and external analysis because of its close relationship with the current day to day operation of a business. Funds, collected from the different sources are invested in the business for the acquisition of assets. These assets are employed for earning revenue. Thus, working capital management is concerned with the problems that arise in attempting to discuss in details determining optimum level of working capital.

Meaning: -

In order to maintain flow of revenue from operation, every firm needs certain amount of current assets. For example, funds required either to pay for expenses or to meet obligations for service received or goods purchased etc by a firm. These funds are known as working Capital.

Definition: -

Working capital is defined as the "excess of current assets over current liabilities and provisions". That is the amount of surplus of current assets which remain after deducting current liabilities from total current assets which is equal to the amount invested in working capital consisting of work-is-progress, raw materials and component stocks, consumable items amount owing by customers and cash at the or bank in hand.

According to Shubin Defined "working capital is the amount of funds necessary for the cost of operating the enterprise. Working capital in a going concern is a revolving funds, it consists of cash receipts from sales which are used to cover the cost of operation."

Types of Working Capital: -

The Working Capital admits the following broad classifications:

1. Gross Working Capital.
2. Net Working Capital.

a) Positive Working Capital.

b) Negative 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

Kesteven (2006) Specified that high savings in stakeholders and receivables were related to lesser profitability and a significant relationship between working capital management and profitability.

Divya P. Solanki (2017) Most of the existing reveal with different measurement technique to analyse financial performance is yet to develop. The different researchers have done the research with different industries as well different methods and with different factors which are related to working capital management and profitability of the corporate areas.

Saravanan, palanisamy & chattopadhya, subir (2018) described, that immediate action is authoritative so that the working capital of the firm can be improved. It is important to know the consequences of poor wcm of a company.

T. poojitha (2019) stated that the administration putting efforts to identify the effects and increases inefficient working capital management policy, the ratio of current assets is a low difference or it contrasts between the higher ratio of current assets to total assets is a low difference or a higher ratio of current liabilities to total liabilities.

Priyanka Verma (2019) It was found that working Capital practices used by the listed Indian companies are similar to those used by most listed companies in other major markets. It was found that companies that operate in fast-moving goods sectors often have shorter inventory compared to companies in slow-moving goods.

Kayani, Nawaz & De silva, Tracy-Anne& Gan, Christopher (2019) Expressed that financial officers have a simple observation regarding working capital. They believe it to be a firm's ability to manage the difference between short-term assets and liabilities.

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.

Alvarez, Sensini, and Vazquez (2021) specify that working capital management is even more important in developing economies, where the unstable conditions of the financial markets and uncertainties linked to economic situation led to severe turmoil and general price instability.

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.

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.

Minhas, Ahsan, and Umar Draz (2021) stated that wcm is a lively concept. The financial managers need to regulate the wcm practices in response to the environment. The company must try to reach an optimal working capital level to boost financial performance.

Research Gap

Although many studies have examined the Working capital Management Practices in “GLOBAL ALLOYS (P) LTD.

There is a lack of research on how different types of Working Capital Management Practices influence different aspects of Financial Platforms. This research limits our understanding of how Working Capital can optimize their financial aspects and cope with potential risks.

Therefore, this study aims to explore how Working Capital Management Practices affect the Profits and losses of the Organization, and help us to Understand Current Position of the Company in the Market.

Objectives of the study

To know the financial position of the firm by analyzing the working capital through schedule changing in working capital.

To analyze the position of the current assets and current liabilities of global alloys (P) LTD.

To analyze the trends of net working capital that is being maintained by the firm for a period of 5 years.

To analyze the Performance of the organization through ratios.

Scope of the Study

The Scope of the study is identified after and during the study is Conducted. The main scope of the study was to put into Practical the theoretical aspect of the study into real life work experience. The study of working Capital is based on tools like Ratio Analysis, Statement of Changes in working Capital. Further the study is based on last 5 years Annual reports of global alloys (p) ltd.

Need of the study

Working Capital Management Plays a vital role in any organization and one should have a clear knowledge about the working Capital Position.

In View of this Context, I have undertaken this study and it would be a great advantage to the company also to know its working capital position.

The out sourcing can be made for the finds by the study. The study helps in estimating the assets and liabilities of an organization.

This Project work is an attempt to get acquainted with various facts of short-term finance management.

Far from the routine academic exercise, it is an opportunity to go through the Practical management where adequacy at the needy hour is the touchstone for efficiency.

The project is useful in further expansion decision to be taken by Management.

Research Methodology & Design

In preparing this project the information collected from the following sources.

Primary data:

The Primary data has been collected from personal interaction with finance manager and other staff members.

Secondary data:

The Major source of data for this project was collected through annual reports, profit &loss account of 5-year period from 2019-2023 & some more information collected from internet and text sources.

Sampling Design

Sampling Unit: Financial Statements.

Sampling Size: Last five years Financial Statements.

Limitations of the Study

The following are the various limitations involved in the study.

This study in conducted within a short period. During the limited period the study may not be retailed, full-fledged and utilization in all aspects.

Financial accounting does not take into account the price level changes.

Future plans of the company will not be disclosed to us.

Lastly, due to shortage of time it is not possible to cover all the factors and details regarding the subject of study.

Data Analysis and Interpretation

1. Current Assets Ratio

Current ratio- A firm's total Current assets are divided by its total Current Liabilities. It Shows the Ability of a firm to meets its current Liabilities with Current assets.

Current Assets Ratio= Current assets/ Current Liabilities

Table-1. Showing Current Assets Ratio

Years	Current assets	current liabilities	Ratios
2019	31,200	54,250	0.575
2020	42500	56,700	0.75
2021	58,000	53,500	1.084
2022	1,05,000	64,600	1.625
2023	1,30,500	66,000	1.977

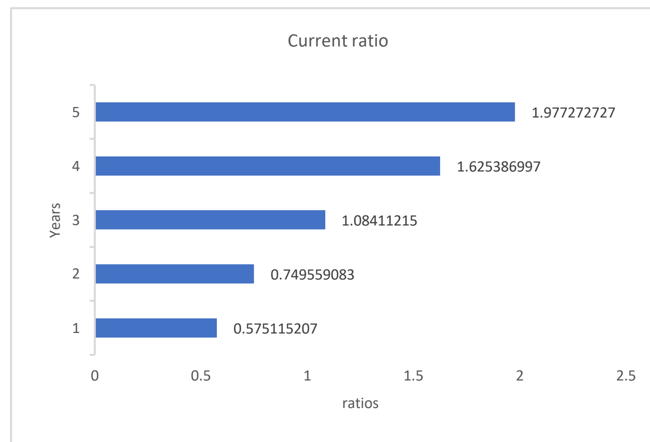

Fig 1: Showing Current Assets Ratio

Interpretation:

It is clear from the above table and graph, the current ratio from the year 2019-2023 are 0.575, 0.75, 1.084, 1.625,1.977.

It interprets that for the year 2019 & 2020 the current Ratio is below the standard ratio of 2:1. Which means that the company did not have enough liquid assets to cover its short-term Liabilities.

For the year 2021-2023 the current ratio is equal to the standard ratio 2:1.

Inference:

It is inferred from the table that from 2018-2019 onwards current ratio is in increasing stage from 2022-2023. In this we can know that current ratio at global alloys is at Satisfactory level.

2. *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-2. Showing Cash Ratio

Years	Cash	Current liabilities	Ratio

2019	1000	54,250	0.0184
2020	2500	56,700	0.0441
2021	4000	53,500	0.0748
2022	5000	64,600	0.0774
2023	8500	66,000	0.1288

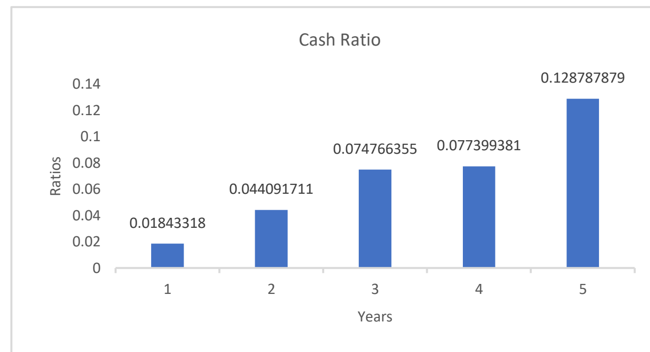

Fig 2: Showing Cash Ratio

Interpretation:

It is Clear from the above table and graph, the Cash ratio from the year 2019-2023 are 0.0184, 0.0441, 0.0748, 0.0774, 0.1288.

Inference:

It is inferred from the table that from 2018-2019 onwards cash ratio is in increasing stage from 2022-2023.

The company's cash ratio is less than 1, there are more current liabilities than cash and cash equivalents.

It shows insufficient cash on the hands of the company to pay of short-term debts. This may not be bad if the company has conditions that skew its balance sheets such as long credit terms with its suppliers, efficiently managed inventory, and very little credit extended to its customers.

3. *Quick Ratio*

Quick ratio, also known as acid-test ratio. An indicator of a company's short-term liquidity position and measures a company's ability to meet its short-term obligations with its most liquid asserts.

Quick ratio=Quick asserts/Quick liabilities

Were,

Quick asserts=current asserts-inventory

Table-3. Showing Quick Ratio

Years	Current assets	Inventory	quick assets	Quick Liabilities	Ratio
2019	31,200	14,000	17,200	54,250	0.317
2020	42,500	20,000	22,500	56,700	0.397
2021	58,000	30,000	28,000	53,500	0.523
2022	1,05,000	40,000	65,000	64,600	1.006
2023	1,30,500	60,000	70,500	66,000	1.068

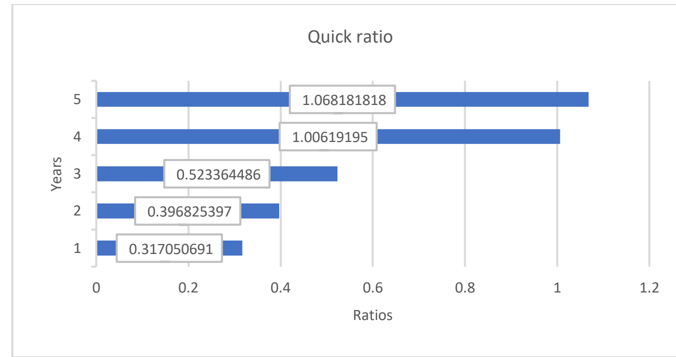

Fig 3: Showing Quick Ratio

Interpretation:

It is clear from the above table and graph, the Quick ratio from the year 2019-2023 are 0.317, 0.397, 0.523, 1.00, 1.06.

Inference:

It is inferred from the table that from 2018-2019 onwards quick ratio is in increasing stage from 2022-2023.

As it has been in increasing stage from 2019-2023. But, from the year 2019-2021 quick ratio is lesser than 1 which indicates the company may not be able to fully pay of its current liabilities in the short-term, while the company having quick ratio equal to and higher than 1 in the years 2022-2023 which indicates company can instantly get rid of its current liabilities. As a result of 1 is considered to be the normal quick ratio.

4. Debtors Turnover Ratio

Debtors' turnover ratio or accounts receivables turnover ratio indicates the total number of times debtors are changed into cash during one financial year. 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 credit sales by the average accounts receivables.

Debtors' turnover ratio= sales/debtors

Table-4. Showing Debtors Turnover Ratio

Years	Sales	Debtors	Ratio
2019	1,40,000	39,000	3.59
2020	1,85,000	72,000	2.57
2021	1,50,000	52,000	2.88
2022	1,20,000	44,000	2.73
2023	2,00,000	53,000	3.77

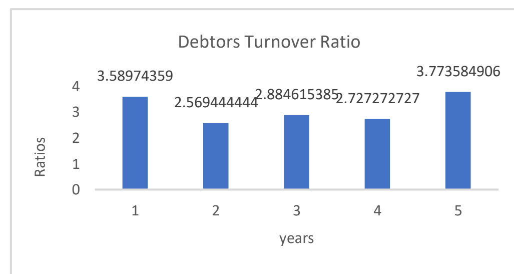

Fig 4: Showing Debtors Turnover Ratio

Interpretation:

It is clear from the above table and graph, the debtor's turnover ratio from the year 2019-2023 are 3.59, 2.57, 2.88, 2.73, 3.77.

Inference:

It is inferred from the table that for the year 2019 debtor's turnover ratio is 3.9 again it was decreased to 2.57 in the year 2020 and, for the year 2021 it was increased to 2.88 and again it was decreased to 2.73 in the year 2022 and again increased to 3.77 in the year 2023.

As there are fluctuations in debtor's turnover ratio from the year 2019-2023. It indicates debtor's turnover ratio is higher than 1 which indicates a highly receivables turnover ratio is earned by the company. It indicates that collections of account receivables are efficient and that it has a high proportion of quality customers who paid their debts quickly.

5. Gross profit ratio

The Gross profit ratio (G p ratio) is a financial ratio that measures the profitability of a company by dividing its gross profit by net sales. The gross profit ratio is a percentage-based metric that shows how efficiently a company generates profit from its core business operations.

Gross Profit Ratio= gross profit/ Net sales*100

Table-5. Showing Gross profit Ratio

Years	Gross Profit	Net Sales	Ratio
2019	95,300	1,40,000	68.07
2020	1,20,300	1,85,000	65.03
2021	59,300	1,50,000	39.53
2022	38,000	1,20,000	31.67
2023	78,000	2,00,000	39

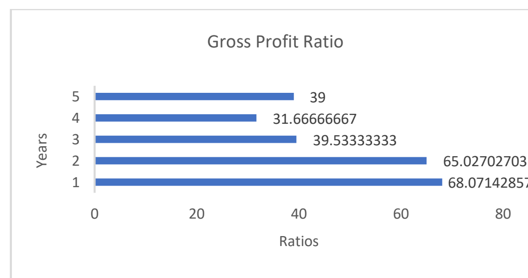

Fig 5: Showing Gross Profit Ratio

Interpretation:

It is clear from the above table and graph, the Gross profit ratio from the year 2019-2023 are 68.07, 65.02, 39.53, 31.66, 39.

Inference:

It is inferred from the table that the Gross profit ratio is decreasing from 2019 to 2022, and again increased from 31.67 to 39 in the year 2023.

Normally, Good profit ratio should be 50 to 70%. Considering that, the Company for the year 2019 and 2020 company strived high profit margin that indicate greater degree of profitability.

On the other hand, A lower gross profit margin has been secured by the company in the year 2021 to 2023 which can impact the company's bottom line and means there are areas that can be improved.

Findings and Suggestions

The current ratio is in increasing stage from 2019-2023. In this we can know that current ratio at global alloys is at Satisfactory level.

Cash reserves also being properly maintained by the company.

The company's cash ratio is less than 1, Therefore the company should maintain long credit terms with its suppliers, efficiently managed inventory, and very little credit extended to its customers.

The Current assets of the company are also been increasing from 2019-2023.

Sales of the company has some fluctuations which shows some decreased sales in the year 2021 &2022.

The company has some good inventory levels.

The company should reduce inventory and increase inventory turnover.

High degree of profitability is maintained by the company in the year 2019 &2020.

Quick ratio earned by the company in the year 2022 & 2023 are satisfactory.

The Company should collect invoice payments on time.

The Company should invent methods to decrease liabilities and improve assets.

The Company should Retain earnings and increasing cash flows.

The Company need to manage its working capital optimally, ensuring sufficient cash flow to meet its short-term obligations and fund its daily operations.

The Company should make smart investment decisions and make partnership with technology- Focused providers.

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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