**A Study On Working Capital Management**

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**Abstract:**

Working Capital is the required for carrying out day to day business operations. The present day competitive market environment calls for an efficient management of working capital. Proper management of working capital is essential to a company’s fundamental financial health and operational success as a business. A hallmark of good business management is the ability to utilize working capital management to maintain a solid balance between growth, profitability and liquidity. The Project titled ‘A Study of Working Capital Management in Mahindra & Mahindra Motors aims to study the various aspects of Working Capital Management. This study is based on Mahindra & Mahindra Motors, which is a pump manufacturing company involved in engineering and manufacture of systems for fluid management. The period considered for the study is five years i.e from Financial year 2018-19 to 2022-23. The research methodology adopted for this study is secondary source of data which include annual reports and other proprietary reports of Mahindra & Mahindra Motors. This project tries to evaluate how the management of working capital is done in Mahindra & Mahindra Motors through Intra Firm Ratio Analysis and Comparative Statement Analysis. The study of working capital management has shown that Mahindra & Mahindra Motors has a fairly strong working capital position. The Company is also enjoying reasonable profits.

**Keywords:** Working Capital, efficient management, proprietary reports, Ratio Analysis

**INTRODUCTION:**

**MEANING OF WORKING CAPITAL MANAGEMENT:**

Working capital management is the management of current assets and current liabilities. The term working capital is used for the capital required for day-to-day working activities in a business concern. Such as for purchasing of raw-materializes for meeting day to day expenditure on salaries wages, rent and rates, advertising etc.

The term current assets refers to those assets which in the ordinary course of business can be or will be turned in to cash within one year without undergoing a dimension in value disrupting the operations of the first. The current assets consist of cash in hand, bank balance, marketable securities, accounts receivables, loans and advances and prepaid expenses.

Current liabilities are those liabilities, which are accounts payable, bills payable, bank over draft and outstanding expenses.

A firm maintained a satisfactory level of working capital. This is so because if the firm cant maintain a satisfactory level of working capital, it is likely to become insolvent and may even be forced in to bankruptcy.

The performance measurement of business enterprises is assuring greater importance as it provides certain useful insights into the operational efficiency. Practicing the concept of public sector with a view to ensure social justice tic various section of the society is very much in mixed economy of India. There is a vital role to be played by the public sector to live up to expectations of chef people. The role could be accessed through a systematic and scientific tools and techniques of analysis. Public sector undertakings, in recent times are being criticized for their poor performance. Hence, there is a need to measure the performance of public sector undertakings.

Public sector undertakings occupy an important place in the national economy of India. Most of these enterprises are operating in the key sectors of our industrial economy such as Iron and Steel, Heavy Engineering, Coal Mining, Petroleum Refining, Industrial Chemicals, Fertilizers, etc., and provide the basic inputs to other industries. As such the health of the corporate sector in India and a major part of our industrial economy has come to depend on well government companies are operating and managing their finances. The funds for investment in these enterprises have been reduced by issuing shares and accepting loans, deposits from various parties including central government, financial institutions etc.

The aspect of financial decision making with reference to short term finance (current assets) is popularly termed as working capital management. Working capital is the amount of capital required for the smooth and uninterrupted functioning of the normal business operations of a company ranging from the procurement of raw materials, converting the same product into finished products for sale and releasing cash along with profit from the accounts receivables that arise from the sale of finished goods on credit.

**REVIEW OF LITERATURE:**

**ARTICLE: 1**

**Tile:** An analysis of working capital management in India: An urgent needs to refocus

**Author:** Najib H.S. Farhan1, Fozi Ali Belhaj2, Waleed M. Al-ahdal3 and Faozi A. Almaqtar

**Source:** **Farhan et al., Cogent Business & Management (2021), 8: 1924930**

The current study aims to evaluate the impact of working capital components on the financial performance of Indian pharmaceutical companies. Moreover, it aims to analyze working capital among small, medium and large firms. The study uses a panel data of 82 pharmaceutical companies for the period from 2008 to 2017. Generalized Method of Moment (GMM) model is used for estimating the results. Findings show that there is a significant dif-ference in managing working capital among small, medium and large firms. Furthermore, it is found that number of days’ collection period, number of days’ payable period and number of days’ inventory holding period positively impact the financial performance of Indian pharmaceutical company’s mea-sured by return on assets and net operating margin. Whereas, cash conversion cycle has a negative impact on return on assets, net operating margin and Tobin’s Q.

**ARTICLE: 2**

**Tile:** Effects of working capital management on firm performance: Evidence from the EFQM certified firms

**Author:** Muhammad Yousaf1\* and Petr Bris

**Source:** **Farhan et al., Cogent Business & Management (2021), 8: 1924930.**

The main aim of the current study is to explore the relationship between working capital (WC) and firm performance. We chose a sample of 326 Czech firms, including 20 certified firms from the EFQM (European Foundation for Quality Management) Excellence Model from the Albertina database. The sample of the Czech firms was taken from three sectors: manufacturing, automobile, and con-struction. We employed a two-step system generalized method of moment (GMM) technique to determine the results. The study results revealed a negative impact of WC on firm performance; moreover, the firms having a quality certificate from the EFQM Excellence Model perform better. The findings of previous research, which were held globally, and the current study results will encourage the directors, managers, and leaders of the Czech firms to participate in the quality award.

**ARTICLE: 3**

**Tile:** Working Capital Management and Its Impact on Profitability

**Author:** Nimalathasan Balasundaram

University of Jaffna

**Source:** **Journal of Emerging Technologies and Innovative Research (JETIR) www.jetir.org**

Main purpose of the study is to identify the impact of working capital management on profitability of selected listed manufacturing companies from financial year 2003-2007. Correlation and regression analysis were performed. Results reveals that cash conversion cycle (CCC) and return on assets (ROA) are negatively correlated the value of -0.127 which is highly significant at 1 percent level of significance, which means that as the cash conversion cycle increases ROA decreases. In addition inventory conversion period (ICP) is highly significant at 1 percent level. It indicates that with increasing level of ICP, ROA will be increased -0.065 levels. Further the coefficient of the CCC variable is negative at a value of -0.0503 and p value is 0.006. This implies that an increase in the number of day’s cash conversion cycle by 1 day is associated with a decline in ROA by 5.03%. The results suggest that managers can increase profitability of manufacturing firms by reducing the number of day’s inventories and accounts receivable.

.**RESEARCH GAP:**

This project results suggest that managers can increase profitability of manufacturing firms by reducing the number of day’s inventories and accounts receivable.

**OBJECTIVES:**

1. To project in the accept of financial management of Mahindra & Mahindra tractors with a particular emphasis on working capital.
2. To find out the present and future working capital passion.
3. To find and understand the trend in working capital passion.
4. To access the performance of working capital of the Mahindra & Mahindra tractor by selecting and accounting rights.

**RESEARCH METHODOLOGY:**

**Need For The Study**

The financial performance of undertaking deals with the evaluation of the company’s financial health at a particular point of time during its life period and also it involves the determination of the efficiency of the management in utilizing and managing the funds provided for the business. The financial performance of the company is to be evaluated from time to time and detect any faults in the financial policy and take the remedial action at the appropriate time.

**Scope Of The Study:**

The study is confined to “Mahindra & Mahindra Tractors. The study is totally confined to analysis of profitability of Mahindra, with profitability ratios. As a tool of financial analysis the ratios are of immense significance the importance of ratio analysis lies in fact that it presents facts on a comparative basis. Ratios are used in credit analysis to judge ability. Firm’s liquidity or debt paying ability, which is very useful to the creditors. Working Capital Management is concerned with the problems that arise in attempting to manage the Current Assets, the Current Liabilities and the inter-relationship that exists between them.

**Methodology**

Methodology is a systematic procedure of collecting information in order to analysis and verity a phenomenon. The collection is done through two principle sources viz.

1. Primary data.

2. Secondary data.

**PRIMARY DATA:**

It is the information collected directly without any reference. In this study, it was mainly interviews with concerned officers and staff, either individually or collectively. Some of the information had been verified or supplemented conducting personal with personal observations.

**SECONDARY DATA:**

The secondary data was collecting from already published source such as, pamphlets, Annual reports, returns and internal records.

**DATA ANALYSIS & INTERPRETATION:**

**CURRENT RATIO**

 **Calculation of current ratio**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEAR** | **CURRENT ASSETS** | **CURRENT LIABILITIES** | **RATIO** |
| 2018-2019 | 14,89,50,609 | 3,94,22,079 | 3.78:1 |
| 2019-2020 | 14,71,35,854 | 3,93,88,227 | 3.74:1 |
| 2020-2021 | 15,56,30,485 | 4,13,17,913 | 3.77:1 |
| 2021-2022 | 17,17,72,052 | 4,15,45,861 | 4.13:1 |
| 2022-2023 | 17,88,07,779 | 2,54,12,444 | 7.04:1 |

**Interpretation:**

From the above table, it can be observed that

1. In the year 2018-19 the current ratio was 3.78:1, due to more funds in current assets.
2. From 2018-19 to 2019-20 the current ratio was decreased to 3.74:1 due to decrease in current assets.
3. From 2019-20 to 2021-22 the current ratio was increased due to increase in current assets.
4. The average current ratio was 4.49:1 which was above the standard ratio. so the liquidity position of the company is satisfactory, but it should reduce investments in current assets.

**QUICK RATIO:**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEAR** | **QUICK ASSETS** | **CURRENT LIABILITIES** | **RATIO** |
| 2018-2019 | 10,66,94,650 | 3,94,22,079 | 2.70:1 |
| 2019-2020 | 10,09,71,156 | 3,93,88,227 | 2.56:1 |
| 2020-2021 | 11,03,29,369 | 4,13,17,913 | 2.67:1 |
| 2021-2022 | 10,99,56,085 | 4,15,45,861 | 2.65:1 |
| 2022-2023 | 11,87,41,101 | 2,54,12,444 | 4.67:1 |

**Interpretation:**

1. In the year 2018-19 the quick ratio was 2.71:1 due to more funds in quick assets.
2. From the year 2018-19 to 2019-20 the ratio decreased to 2.56:1 due to decrease in quick assets.
3. From the year 2019-20 to 2020- 21 the ratio was increased to 2.67:1 due to increase in quick assets.
4. From the year 2020-21 to 2020-18 the ratio was decreased to 2.65:1 due to decrease in quick assets.
5. From the year 2020-21 to2021-22 the ratio was increased to 4.67:1 due to increase in quick assets.
6. The average ratio was 3.05:1, which was above the standard ratio, so the liquidity position of the company is satisfactory.

**PROPRIETARY RATIO OR EQUITY RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEAR** | **SHAREHOLDERS FUNDS** | **TOTAL ASSETS** | **TIMES** |
| 2018-2019 | 7,33,44,532 | 10,95,37,080 | 0.67 |
| 2019-2020 | 7,21,56,530 | 10,95,37,080 | 0.67 |
| 2020-2021 | 7,54,64,898 | 10,95,37,080 | 0.66 |
| 2021-2022 | 7,81,55,643 | 10,95,37,080 | 0.60 |
| 2022-2023 | 7,57,43,613 | 10,95,37,080 | 0.49 |

 **INTERPRETATION:**

1. In the year 2018 - 2019 and 2019 – 2020 the equity or proprietary ratio is 0.67 times as

the shareholders funds are less compared to total assets which represents the relationship

of owners funds to total assets is low but compared to later years there was a growth in equity ratio in times.

1. In the year 2020 - 2021 the equity or proprietary ratio is 0.66 times as the share of the shareholders in the total capital is less than the total assets which represents the low equity ratio compared to previous years.

**SOLVENCY RATIO OR THE RATIO OF TOTAL LIABILITIES TO TOTAL ASSETS**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEAR** | **TOTAL LIABILITIES TO OUTSIDERS** | **TOTAL ASSETS** | **TIMES** |
| 2018-2019 | 3,61,92,548 | 10,95,37,080 | 0.33 |
| 2019-2020 | 3,55,98,988 | 10,95,37,080 | 0.33 |
| 2020-2021 | 3,88,57,374 | 10,95,37,080 | 0.34 |
| 2021-2022 | 5,20,82,408 | 10,95,37,080 | 0.34 |
| 2022-2023 | 7,76,64,312 | 10,95,37,080 | 0.51 |

**INTERPRETATION:**

1. In the year 2018– 2019 and 2019-2020 the solvency ratio is 0.33 times due to low total liabilities to outsiders.
2. In the year 2020 – 2021 and 2020-2021 the solvency ratio is 0.34 times due to low total liabilities to outsiders.
3. In the year 2022 - 2023 the solvency ratio is 0.51 times due to low total liabilities to utsiders but comparing with the previous years the ratio was gradually increased as there is a gradual increase in total liabilities to outsiders.

**CONCLUSIONS**

1. The following conclusions are drawn after analyzing the financial performance of the company through working capital management.
2. The company’s inventory is increased during the period of 2018-19 to 2020-21. But later in 2021-22, it is decreased.
3. There is a continuous increase in the sundry debtors from the year 2018-19 to the year 2022-23.
4. Cash and company balances are decreased initially and later on increased.
5. The company’s loans and advances have been increased from the year 2018-19 to 2022-23.
6. Overall current liabilities are decreased during the period of study.
7. Overall net working capital is increased.
8. According to the current ratio, the liquidity position of the company is Satisfactory.

**REFFERRED WEBSITES**

www.mahindraswarj.com

WWW.accontingfor management.com

www.google.com