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A STUDY ON WORKING CAPITAL MANAGEMENT AND FINANCIAL PERFORMANCE

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Abstract - **Efficient working capital management entails planning and controlling current assets and current liabilities in a way that eliminates the risk of being unable to meet short-term obligations and avoiding excessive investment in current assets. The study's objective is to investigate aavin Products working capital management and financial performance To achieve the objective of the study, this study used data covering the period from 2018–2022. The study's primary data source is secondary data. The study's techniques include ratios, net working capital, comparative, common and trend analysis. On the basis the interpretations are given. The study finds that gross profit, receivables turnover, payable turnover, and working capital turnover affect the financial performance of the manufacturing firms, finally there are some suggestions given that the company should consider in order building them stronger.**

Keywords: **Assets, Financial Performance, Working Capital.**

I. INTRODUCTION

Every company, no matter how big, how small, or in between, needs money to keep running and achieve its objectives. In the modern world, capital is so important that it is rightly called an organization's "lifeblood." Every business needs money for two things: to start up and to maintain daily operations. As a result, the analysis of working capital management, which is necessary to conduct daily operations, is the main focus of this project. A business process called working capital management aids organizations in making efficient use of their current assets and maximising cash flow. Since As a result, working capital can be simply defined as "capital invested in current assets". It is focused on achieving both long-term corporate goals as well as short-term financial obligations and expenses. Every financial manager places a high priority on managing working capital effectively because it is crucial to the health of every business and can boost operational efficiency. However, doing so requires striking a balance between various factors. The working capital situation affects the company's overall success. It takes working capital to run a business on a daily basis. Effective working capital management is required given the current competitive market environment. It is impossible to overstate the significance of working capital in any industry. Because no business can run effectively without it, working capital is one of the most important corporate management functions.Working capital management is one of finance's most dynamic areas, requiring regular interaction between finance and other functional managers. The goal of working capital management is to maximise operational efficiency, and it is essential for businesses because it is used to generate additional returns for stockholders. Companies can free up cash that would otherwise be trapped on their balance sheets by improving how they manage working capital. As a result, they might be able to lessen the requirement for outside borrowing, promote growth, finance mergers and acquisitions, or make R&D investments. A company with sufficient working capital is always able to take advantage of favourable opportunities, whether they are waiting for better market conditions or purchasing raw materials. It can be used to make sure that business operations go smoothly. Working capital management is highly important to firms as it is used to generate further return to stakeholders.

II. REVIEW OF LITERATURE

1. **GbengaOlogbon (2023)-**The main objective of this paper is to determine the impact of capital management on organization performance. Specifically to work out the effect of capital management on organization efficiency and profitability of producing companies. Data were sourced from secondary data making used of annual reports and financial statements of 4 quoted manufacturing companies in Nigeria. It analyzed using multiple correlation analyses. It had been discovered that each stage within the production process needs adequate capital which there's relationship between working capital management, efficiency and profitability of producing companies in Nigeria. Therefore it was recommended that an optimum level of debtors should be sought by organization through an efficient debtors' management which stock should be efficiently managed.
2. **Santiago Hernandez, DavideMigliaro, Pablo Suarezm, ArnaldoArnaldi (2022)-** This study focuses to examine the relationship between working capital and profitability in the context of an emerging economy, such as the Chilean one. For this analysis, they collected and analyzed data from a sample of manufacturing companies in the Santiago metropolitan region. The results of this study be seen that the relationship between the single determinants of working capital and profitability is not linear, suggesting that, until the optimal size is reached, the relationship between working capital and profitability is positive.
3. **Luca Sensini and Maria Vazquez (2021)-**The main impartial of this study was to evaluate the influence of working capital management policies on Argentine agro-industrial firms' profitability. The data was collected through a structured questionnaire. The results of the variables (DSI, DPO and CCC) be seen a negative relationship with firms' profitability, revealing that investing in inventory and requesting greater extensions from suppliers leads to additional costs that cannot offset the resulting benefits. The results of this study help entrepreneurs and managers of agro-industrial SMEs define and implement their working capital management policies.
4. **Juan Gallegos Mardones(2021)-**Working capital management is one of the foremost important decisions that affect an organization's financial performance. Despite the

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importance of this subject, the empirical evidence for emerging economies is scarce; therefore, this research attempts to estimate and compare how investment in capital impacts the financial performance of companies that are listed on the stock exchanges in Mexico, Peru, Chile and Brazil for the years 2000 to 2018. This study uses panel data methodology, and thus the results show the existence of a positive and significant but non-linear relationship between investments in capital and firm performance. However, there are mixed results for various countries and industries that might be explained by macroeconomic variables that favour access to financing for such investments.

5. **YarongChen , Enrique Diaz, Luca Sensini, and Maria Vazquez (2020)-**In this study aimed to look into the impact of quality management systems on working capital management of manufacturing SMEs. The findings of this study be relieved that companies using quality management systems have more efficient management of working capital, collect credits faster and pay debts faster. The results of this study give to the literature, providing empirical evidence of the positive impact that quality management systems have on working capital management in the context of an emerging economy.
6. **KienXuan PHAM, QuangNgqc NGUYEN, Cong Van NGUYEN (2020) -** This study examines the influence of working capital management (WCM) factors on the profitability of steel companies listed on the Stock Exchange of Vietnam. Research results from companies in the steel industry in Vietnam during this period indicate that WCM has a strong impact on the profitability of business.

III. NEED OF THE STUDY

The study is required to evaluate the financial analysis of the company's creditworthiness, profitability, and ability to generate wealth.It is primarily used to discover trends and links between financial statement items and the preparation of such statements, which aid in forecasting the future and preparing budgets and estimations. It is also helpful to comprehend a firm's short-term liquidity position in relation to its working capital position, as well as its long-term liquidity and solvency position.Working capital management is required because of the time lag between manufacturing and cash realization from sales. It greatly contributes to the business's capacity to maintain a proper balance of profitability, risk, and liquidity.

IV. OBJECTIVES OF THE STUDY

1. To determine whether the components of working capital are well managed
2. To analyse the working capital condition of firm based on past performance
3. To evaluate the company’s financial performance using comparative & common size
4. To examine the company’s profitability, liquidity, solvency & efficiency relating to it
5. To provide suggestions for improving working capital & financial position in the company

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V. RESEARCH METHODOLOGY

ANALYTICAL RESEARCH

Analytical research means the research which has to use facts or information already available &analyse them to make a critical evaluation of the material .it involves the in-depth study & evaluation of available information in an attempt to explain complex phenomenon. It concerned with testing hypothesis and specifying and interpreting relationships, by analysing the facts or information already available.

1. CURRENT RATIO:

Current Ratio = $\frac{\text{current assets}}{\text{current liability}}$

TABLE SHOWING CURRENT RATIO(In crores)

YEAR	CURRENT ASSET	CURRENT LIABILITY	CURRENT RATIO
2018	762.52	828.74	0.92
2019	614.23	628.93	0.98
2020	550.66	688.69	0.8
2021	664.06	660.94	1
2022	3111.13	821.75	3.79

(Source : Secondary data)

INTERPRETATION:

Hence it is inferred that the current ratio of the company showed an increasing trend from 2018-2019. But in 2020 it decreased to 0.8. In 2021-2022 it increased and reached a maximum of 3.79. Generally 2:1 is treated as the ideal ratio current ratio is less than 2 in the financial year 2018-2021. Here the ratio of it is not satisfactory this shows the company is not enjoying its credit worthiness. And only the year 2022 is satisfactory.

2. CASH RATIO:

Cash Ratio=$\frac{\text{Cash \& } \mathit{Cash\ equivalent}}{\text{Current liability}}$

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TABLE SHOWING CASH RATIO (In crores)

YEAR	CASH & CASH EQUIVALENT	CURRENT LIABILITIES	CASH RATIO
2018	1.95	828.74	0
2019	3.25	628.93	0.01
2020	52.45	688.69	0.08
2021	48.85	660.94	0.07
2022	2398.44	821.75	2.92

(Source : Secondary data)

INTERPRETATION:

Hence it is inferred that the cash ratio of the company showed an increasing trend from 2018-2020 and decreased to 0.7 in the year 2021 and increased in 2022 and reached to 2.92. generally the ideal ratio for cash ratio is 1:1 therefore we conclude the cash ratio is in desired standard only in the year 2022

3. DEBT – EQUITY RATIO:

Debt-equity ratio $=\frac{\text{long term debt}}{\text{shareholders fund}}$

TABLE SHOWING DEBT-EQUITY RATIO(In crores)

YEAR	LONG TERM DEBT	SHAREHOLDERS FUND	DEBT-EQUITY RATIO
2018	278.07	664	0.42
2019	383.64	688.7	0.56
2020	247.75	594.44	0.42
2021	354.61	715.88	0.5
2022	434.86	2900.36	0.15

(Source : Secondary data)

INTERPRETATION:

Hence it is inferred that the debt-equity ratio of the company showed an increasing trend from 2018-2019 and decreased to 0.42 in the year 2020 and increased to 0.5 in the year 2021 and again decreased to 0.15 in the year 2022.It means the ratio is fluctuating from year to year and we indicate that the debt-equity ratio is in the desired standard

4. **ACCOUNT PAYABLE TURNOVER RATIO:**

Creditors turnover Ratio = $\frac{\text{Credit Purchase}}{\text{Average Account payable}}$

Creditors holding period = $\frac{\text{Days in a year ie 365}}{\text{trade payable ratio}}$

TABLE SHOWING ACCOUNT PAYABLE TURNOVER RATIO(In crores)

YEAR	NET CREDIT PURCHASE	AVERAGE ACCOUNT PAYABLE	TRADE PAYABLE RATIO	HOLDING PERIOD
2018	863.53	278.73	3.1	117.81
2019	922.62	298.405	3.09	118.05
2020	577.09	199.085	2.9	125.92
2021	573.37	226.37	2.53	144.1
2022	942.43	314.495	3	121.8

(Source : Secondary data)

INTERPRETATION:

Hence it is inferred that the trade payable turnover ratioof the company showed an decreasing trend from 2018-2021 and increased to 3 in the year 2022.the company shows a fluctuating creditors turnover ratio from the past 5 years

5. FIXED ASSET TURNOVER RATIO:

Fixed Assets Turnover Ratio = $\frac{\text{Cost of goods sold}}{\text{Net fixed Assets}}$

TABLE SHOWING FIXED ASSET TURNOVER RATIO (In crores)

YEAR	SALES	NET FIXED ASSET	FIXED ASSET TURNOVER RATIO

2018	1672.29	699.87	2.39
2019	1833.07	760.54	2.41
2020	1324.34	746.16	1.77
2021	1176.91	724.97	1.62
2022	1743.27	680.09	2.56

(Source : Secondary data)

INTERPRETATION:

Hence it is inferred that the fixed asset turnover ratio of the company showed an increasing trend from 2018-2029 and decreased in 2020-2021and increased to 2.56 in the year 2022.

VI. SUMMARY OF FINDINGS

- The current ratio of the company showed an increasing trend from 2018-2019. But in 2020 it decreased to 0.8. In 2021-2022 it increased and reached a maximum of 3.79. Generally 2:1 is treated as the ideal ratio current ratio is less than 2 in the financial year 2018-2021. Here the ratio of it is not satisfactory this shows the company is not enjoying its credit worthiness. And only the year 2022 is satisfactory.
- The cash ratio of the company showed an increasing trend from 2018-2020 and decreased to 0.7 in the year 2021 and increased in 2022 and reached to 2.92. generally the ideal ratio for cash ratio is 1:1 therefore we conclude the cash ratio is in desired standard only in the year 2022
- The debt-equity ratio of the company showed an increasing trend from 2018-2019 and decreased to 0.42 in the year 2020 and increased to 0.5 in the year 2021 and again decreased to 0.15 in the year 2022. It means the ratio is fluctuating from year to year Generally the ideal ratio for debt-equity ratio is 1:1. and we indicate that the debt-equity ratio is below the desired standard
- The trade payable turnover ratio of the company showed an decreasing trend from 2018-2021 and increased to 3 in the year 2022. the company shows a fluctuating creditors turnover ratio from the past 5 years
- The fixed asset turnover ratio of the company showed an increasing trend from 2018-2029 and decreased in 2020-2021and increased to 2.56 in the year 2022.

VII. SUGGESTIONS

- The company has achieved the ideal liquidity ratios in the year 2022if the company tries to maintain the same level in the upcoming year it can achieve the optimum manner
- The company should take precautions to increase accounts receivable collections as they are low.
- The average payment period for all years is more than 90 days, indicating that the organization is unable to make timely payments. As a result, the organization should take steps to ensure timely payment.
- In order to improve working capital turnover, the company must take the necessary actions to lower the amount of money invested in inventory to support sales, which results in obsolete inventory.
- Organization needs to reduce the cogs in order to improve the level of gross profit.
- Management should take initiative steps for the proper utilization of the resources for the improvement of working capital and financial performance in the future.

VIII. CONCLUSION

The majority of the study is based on secondary data. The analysis is done using ratio analysis, working capital, comparative, common statement and trend analysis. This study mainly aims to analyze the financial performance of the company. The study reveals that company is effective in managing the working capital but it's still need to be more effective than usual. The company has to take appropriate steps to control the cost, increase the volume of sales and profit in the future years. The company has to avoid which the funds are locked in the inventory in the future years. The firm has to improve and maintain the liquidity position for the effective management of working capital. Other than this the company financial performance is good and they will increase their business year by year.

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