

# A Study on Efficient Utilization of Working Capital Management

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## Abstract

*The management of working capital is key to both the operation and financial success of any company. To remain with perfect liquidity, minimise financial risk and maximise profitability, this study examines the manner in which businesses manage current assets and liabilities. The study purpose is to develop an analysis of the effectiveness of working capital regulations to improve the operational efficiency and financial stability of a firm. Other important aspects such as cash management, accounts payable, accounts receivable, and inventory management have been referenced in the research. Financial statements, industry benchmarking, and interviews with financial management are among the main and secondary sources of data that were consulted. The working capital cycle examination and ratio analysis were the tools that were used to determine the efficiency. The research has found strong working capital procedures are linked to better management of cash flows, reduced cost of borrowing, and increased returns on investments. Reiterating that financial planning should be aligned with daily operations, the report ends with recommendations which lead towards the adoption of proactive working capital strategies based on industry-specific needs.*

**Keywords:** *coordinating, industry benchmarking.*

## 1. Introduction of study

To ensure that the money is sent as daily remittances, any company needs to have the best working capital. No business can grow without having an adequate level of working capital. There might be a shortage of resources due to a lack of operating cash in the company. But it must be borne in mind that excess of working capital can also cause unnecessary costs. Therefore, the management of a firm should seek an optimal working capital. The amount of working capital must not exceed the amount required to meet current commitments.

The management of the company should ensure that the returns on investment of the money incurred in structuring the working capital should at least be equivalent to the returns on other investment opportunities. Due to the significant effect of working capital management on the liquidity and profitability of the business, it is all the more important and significant in those cases when the financial means are scarce, and capital costs are to be raised accordingly.(1)

The main aim of managing working capital is to avoid excesses or underinvesting in current assets as these two extremes are both detrimental. The cost of capital can lead to subpar profitability as a result of over investment in current assets. Considering that in real-life scenarios a large part of funds would be held up in current assets, working capital management can be considered as one of the most important financial functions. Poor working cash management may lead to the death of the business.

The term working capital may be applied to net working capital or gross working capital. Gross working capital is what is called current assets. Net Working Capital = current Assets - Current Liabilities. Working Capital is Net Working Capital except as indicated. Thus, the proper management of current assets and current liabilities is called the working capital management.

Current assets are those assets that in the short term, say a year, can be consumed either by normal business operations or converted into cash without loss of value. The current assets are dynamic in their shape. The current assets of the company are treated as the blood of life and ensure smooth and fluid business operations. The manufacturing company can have cash and bank balances, receivables, stocks and other loans and advances as its current assets. (2)

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The term current liabilities refers to debts that can be paid off in a period of one year or below as the business continues to run. It is meant that they will be insured by the profits or current assets of the company.

### **2. Objectives of the study:**

Working capital management is one of the most important aspects of finance, and that is why it is possible to analyze the methods of working capital management in more detail. Each organisation estimates the working capital requirements differently.

#### **Primary objective:**

- To estimate the effective use of Working Capital Management in KAG India Pvt Ltd.

#### **Secondary objectives:**

- To establish the effectiveness of the working capital;
- To determine level of necessity and adequacy of the working capital in the firm.
- To evaluate or gauge the financial discipline and fiscal health of the organization.
- To determine the liquidity position of the company.
- To determine the change in the working capital.
- To check whether elements of working capital are being maintained in an appropriate way.
- To determine the working capital requirements.

#### **Need & purpose of the study:**

- To acquire the field experience.
- To learn concept of working capital management.
- To find the financial output
- To pay up the existing demands of a business enterprise like the purchases of services, raw material etc. working capital is needed.

#### **Scope of the study:**

1. The overall objective of the study was to apply practical and theoretical aspect of the study into work life.
2. The working capital study is founded on such tools as Ratio analysis statement of change in working capital. In addition to that, the study is founded on last 5-year Annual Report of KAG India Private Limited.
3. Capital intensive infrastructure firm must have huge circulating capital.
4. The main task of analysis was to examine the means of funding project financing of Tiles firm.
5. The operating cycle of an infrastructure firm is long and therefore it is accountable to either the banks or NBFCs financing sources.

#### **Limitations of the study:**

1. The needless accumulation of stockpiles is the limitation of the study.
2. Excessive working capital implies excessive debtors, and an inappropriate credit policy, which may cause an increase in bad debts.
3. It may cause overall inefficiency of the organization.
4. The company cannot achieve an adequate rate of return on investments and consequently the worth of its shares can decline.

### **3. Research methodology**

One method of solving the research problem methodically is research methodology. It is the science of investigation of the way research is carried out scientifically to obtain appropriate information on a given topic plus the one behind it.(3)

#### **Meaning of Research:**

In simple words research can be defined as a search of knowledge. It is merely a process of coming up with solutions of a problem based on the situational factors which have been studied and analysed.

#### **Preparation of report**

The analysis and interpretation, suggestions and conclusions were presented based on the information gathered in the form of a report.

**Research Methodology that is used in the study:**

Since the researches concerning working capital management of KAG India Pvt Ltd private limited have been conducted through the assistance of primary data, secondary data and facts or information that is already in existence to draw up an important analysis. Chose Financial Year 2013-2014 as a base year out of 5 consecutive years according to which data of other years were compared.

**4. Research design:**

The research design is the preparation of the research project or the research problem as it is commonly referred to. A research design is the set-up of the circumstances under which data are collected and analyzed in such a way that both is relevant to the research purpose and economical in procedure.

Analytical study:

This kind of study involves the use of already existing facts or information, then analysed to give a critical analysis of the subject matter. The investigator uses already existing information to conduct his study. The analysis is based on the material which has been collected or released.(4)

**Tools used:**

The next thing that follows are the different tools the financial performance analysis can use:

Working capital management schedule of changes.

Ratio Analysis

Regression Analysis

Comparative Balance Sheet.

Operating Cycle period

**Table:** schedules of changes in working capital from 2014-2015 to 2015-2016

Particulars	Absolute amount		Changes in working capital	
	2015	2016	Increase	Decrease
<b>Current assets :</b>				
Inventories	1,546,462	4,074,681	2,528,219	---
Trade receivables	23,242,612	24,397,941	1,155,329	---
Cash in Hand	8,23,624	4,783,964	---	3,960,340
Short term loans and advances	16,254,420	5,771,820	-----	10,482,600
<b>Total (a)</b>	<b>41,867,118</b>	<b>39,028,406</b>		
<b>Current liabilities:</b>				
Short term borrowings	5,511,358	9,738,160	---	4,226,802
Trade payables	8,656,051	13,038,303	---	4,382,252
Other current liabilities	5,648,434	5,813,059	---	1,64,625
Short term provisions	15,972,092	5,681,158	10,290,934	----
<b>Total (b)</b>	<b>35,787,935</b>	<b>34,270,680</b>		
<b>(A-b)</b>	<b>6,079,183</b>	<b>4,757,726</b>		
<b>Decrease in working capital</b>	<b>----</b>	<b>1,321,457</b>	<b>1,321,457</b>	
<b>Grand total</b>	<b>6,079,183</b>	<b>6,079,183</b>	<b>23,216,619</b>	<b>23,216,619</b>

## 5. Sources: Annual Reports of KAG India Pvt Ltd.

### Interpretation:

When compare to 2015-2016 is negative (i.e. -6,079,183 and -4,757, 726) working capital is net decreasing in 2015-2016 when compare to 2015-2016 is negative as short term borrowing and trade payable is decreasing are treated as current liabilities.

### Operating cycle period

$$\bullet \text{ Debtors' collection period} = \frac{\text{Number of days in a year}}{\text{Debtors' turnover ratio}}$$

$$\bullet \text{ Inventory Turnover period} = \frac{\text{Number of days in a year}}{\text{Inventory turnover ratio}}$$

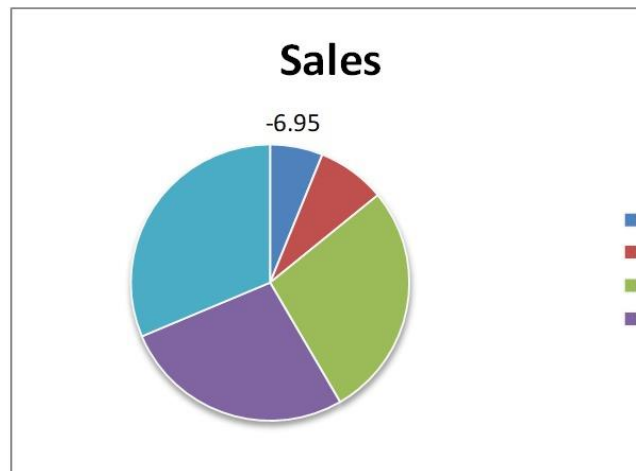
Inventories = Raw materials + work-in-progress + finished goods

As of collection period for inventories Rawmaterials and work-in-progress are taken, finished goods are not considered.

$$\bullet \text{ Creditors payment period} = \frac{\text{Number of days in a year}}{\text{Creditors turnover ratio}}$$

**Table operating cycle period (days)**

YEAR	DCP	ITP	CPP	OCP
2014	83.33	12.54	102.82	-6.95
2015	77.16	11.23	79.35	9.04
2016	77.00	16.10	61.86	31.24
2017	91.02	23.76	84.10	30.68
2018	99.18	26.99	90.57	35.6

**CHART****6. Sources: Annual Reports of KAGIndia Pvt Ltd.****Interpretation:**

The operating cycle is negative (i.e., -6.95) in 2014, and is highest in 2018 (i.e., 35.6). As shown in the statistics, the Operating Cycle time has been increasing over time, with its highest point observed in 2018 (i.e., 35.6) in 2013-2014.

**Findings:**

The net working capital of the year 2015 and 2016 of the company is negative (i.e. Rs-6,079,183 and Rs-4,757,726) it is having a Decreasing working capital of Rs-1,321,457 company not well maintaining current liabilities is treated short term borrowing and trade payable is decreasing.(5)

Out of which, the operating cycle of the year 2014 is negative (i.e. -6.95) and the maximum of the year 2018 i.e. (35.6).

**Suggestions:**

The Change in working capital 2014-2018 is continuing to keep the constantly current asset increasing and the current liabilities is using trade receivables and cash at bank continuing to maintain well and reduce short period loan and trade payable.

Operating Cycle of the Company = 33 Days, i.e the company is taking 33 days to sell their product and receive money to the customers. Another fundamental aspect of the company is that Totally the Company is undergoing 10 Operating Cycles in one year and this is the reason why they take so long to obtain the raw materials and initiate their production process hence offering Finished Goods to their customers when they manufacture the goods and collect their money on the sales of the goods and then once more proceed with their production process by acquiring materials through the suppliers.

**7. Conclusion:**

The working capital management of KAG INDIA PVT LTD was evaluated based on secondary information collected via the companies different reports. Some of the ratio analyses used in the study include the current ratio, quick ratio, inventory turnover ratio, working capital turnover ratio, debtor turnover ratio and creditors turnover ratio. The working capital statement, regression analysis, and operational cycle period are used to analyse the working capital management of KAG India Pvt Ltd.

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**Conflicts of interest**

The authors have no conflicts of interest to declare

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