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# A Study on Working Capital Management and Its Impact on Profitability of the Organizations in Chennai City (WITH SPECIAL REFERENCE TO LANDZONE PRIVATE LIMITED)

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**Abstract**
Decisions relating to working capital and short-term financing are referred to as working capital management. These involve managing the relationship between a firm's short-term assets and its short-term liabilities. The goal of Working capital management is to ensure that the firm is able to continue its operations and that it has sufficient money flow to satisfy both maturing short-term debt and upcoming operational expenses. The study of working capital management is very helpful for the organisation to know its liquidity position. The study is relevant to the organization to know the day-to-day expenditure. This study is relevant to give an idea to utilise the current assets. This study is also relevant to the student as they can use it as a reference. This report will help in conducting further research.

**Keywords**-working capital-short-term assets-short-term liabilities-liquidity.

## 1. Introduction

Working capital plays an important role, as the company needs capital for its day to day expenditure. Thousands of companies fail each year due to poor working capital management practices. Entrepreneurs often don't account for short term disruptions to cash flow and are forced to close their operations. In simple term, working capital is an excess of current assets over the current liabilities. Good working capital management reveals higher returns of current assets than the current liabilities to maintain a steady liquidity position of a company. Otherwise, working capital is a requirement of funds to meet the day to day working expenses.

So a proper way of management of working capital is highly essential to ensure a dynamic stability of the financial position of an organization. Seeing the good opportunity to study financial systems and practices of VJ Engineers, it is relatively important take up internship assignment on 'Working Capital Management in VJ Engineers'. During the project work, it is being analyzed the working capital position of this organization. Decisions relating to working capital and short term financing are referred to as working capital management. These involve managing the relationship between a firm's short-term assets and its short-term liabilities. The goal of Working capital management is to ensure that the firm is able to continue its operations and that it has sufficient money flow to satisfy both maturing short-term debt and upcoming operational expenses. Working capital management deals with maintaining the levels of working capital to optimum, because if a concern has inadequate opportunities and if the working capital is more than required then the concern will lose money in the form of interest on the blocked funds. Therefore, working capital management plays a very important role in the profitability of a company. And also due to heavy competitions among different organization's it is now compulsory to look after working capital.

## 2. RESEARCH METHODOLOGY

The study of Management of working capital is based on primary as well as secondary data.

**Primary data:**

Primary data is the data, which has been collected directly from the people of the organization. It is also called as first hand data.

The primary data is collected by discussion with the functional managers, officers, staff and other members of the organization.

**Secondary data:**

The secondary data are those which have been already collected by some agency and which have been processed.

The secondary data is the obtained from annual report and financial statement that is balance sheet and profit and loss account, annual reports, journals and other informational publications of the organization and from the test books of financial management. However in the study all theoretical information is obtained from primary data and all financial information is obtained from Land Zone

## 3. NEED AND SCOPE OF THE STUDY

The concept of working capital has gained vital role that is the business activity of any form. It is difficult to find a firm without any amount of working capital. However, the composition of working capital may vary for different firms. It is the base for the company to earn sufficient sales activity. The study is confined to examine the inventory management, receivables management. Working capital management in Land Zone Infrastructures & Projects Limited.

## 4. OBJECTIVES OF THE STUDY

- To study the existing system of working capital management in Land Zone.
- To examine the present system of managing cash, debtors and inventory in Land Zone.
- To analyze the financial performance of the company with reference to its working capital components.
- Suggesting a better way if any for improving management for Working capital

## 5. LIMITATIONS

The study is based on the information available in the latest balance sheets of the company, these balance sheets suffers a few limitations.

1. The study is based on the working capital analysis only.
2. The source of the study is limited to 5 years from 2020-21 to 2024-25.

3. The information collected through personal interaction with the management is strictly confined to their views.
4. The study of working capital does not reflect the whole financial position of the organization.

**Review of Literature**

**Prasanna Chandra(2023),** studied that over the past 40 years major theoretical developments have occurred in the areas of longer-term investment and financial decision making. Many of these new concepts and the related techniques are now being employed successfully in industrial practice. By contrast, far less attention has been paid to the area of short-term finance, in particular that of working capital management. Such neglect might be acceptable were working capital considerations of relatively little importance to the firm, but effective working capital management has a crucial role to play in enhancing the profitability and growth of the firm. Indeed, experience shows that inadequate planning and control of working capital is one of the more common causes of business failure.

**Jeyaraj.T(2023),** studied that "Cash is king" so say the money managers who share the responsibility of running this country's businesses. And with banks demanding more from their prospective borrowers, greater emphasis has been placed on those accountable for so-called working capital management. Working capital management refers to the management of current or short-term assets and short-term liabilities. In essence, the purpose of that function is to make certain that the company has enough assets to operate its business. Here are things you should know about working capital management.

**Kanishkar.J (2023),** studied that Working capital, sometimes called gross working capital, simply refers to the firm's total current assets (the short-term ones), cash, marketable securities, accounts receivable, and inventory. While long-term financial analysis primarily concerns strategic planning, working capital management deals with day-to-day operations. By making sure that production lines do not stop due to lack of raw materials, that inventories do not build up because production continues unchanged when sales dip, that customers pay on time and that enough cash is on hand to make payments when they are due. Obviously without good working capital management, no firm can be efficient and profitable.

**Victor Emmanuel(2023),** "Working Capital Management Manages Flow of Funds",(2009) describes that Working capital is the cash needed to carry on operations during the cash conversion cycle, i.e. the days from paying for raw materials to collecting cash from customers.Raw materials and operating supplies must be bought and stored to ensure uninterrupted production. Wages, salaries, utility charges and other incidentals must be paid for converting the materials into finished products.

**Data Analysis and Interpretation**

- **CURRENT RATIO**

$$\text{Current ratio} = \frac{\text{current assets}}{\text{Current liabilities}}$$

**CURRENT RATIO:**

**TABLE NO-1**

Rs. In million

| Year | Current assets | Current liabilities | ratio |
|---|---|---|---|
| 2020-2021 | 2980.70 | 1411.34 | 2.11:1 |
| 2021-2022 | 5650.27 | 2457.14 | 2.29:1 |
| 2022-2023 | 11629.43 | 6369.68 | 1.82:1 |
| 2023-2024 | 13002.89 | 5543.28 | 2.34:1 |
| 2024-2025 | 21550.28 | 8182.60 | 2.63:1 |

**INTERPRETATION:**

The current ratio of a firm measures its ability to meet short -term obligations or in other words it measures the short -term solvency of a firm. The current ratio of 2:1 is considered satisfactory. If Current ratio is less than 2, it indicates that the business does not enjoy adequate liquidity. In context of the study unit the current ratio is more than standard. It is in increasing trend from 2020-2021 to 2011-2012, except in 2022-2023 it is not satisfactory because it doesn't meet with the ideal ratio.

**ACID – TEST OF QUICK RATIO:**

$$\text{Acid test ratio} = \frac{\text{quick assets}}{\text{Current liabilities}}$$

**QUICK RATIO:**

**TABLE NO. 2**

Rs. In million

| Year | Quick assets | Current liabilities | Ratio |
|---|---|---|---|
| 2020-2021 | 2727.09 | 1411.34 | 1.93 |
| 2021-2022 | 5465.49 | 2457.14 | 1.22 |
| 2022-2023 | 11451.25 | 6369.68 | 1.79 |
| 2023-2024 | 12717.36 | 5543.28 | 2.29 |
| 2024-2025 | 21124.92 | 8182.60 | 2.53 |

**INTERPRETATION:**

Quick ratio is referred to as a measurement of a firm's ability to convert assets quickly into cash in order to meet its current liabilities. Thus, it is a measure of quick liquidity. The quick ratio is a rigorous measure of a firm's ability to service short term liabilities. Generally a quick ratio of 1:1 is considered satisfactory as a firm can easily meet all current claims. A quick ratio of less than 1 is indicative of inadequate liquidity of the business. A very high ratio is also not advisable, as funds can be more profitably, employed. In context of study unit the quick ratio is not up to the standard in the years 2020-21& 2022- 23. But it was above the standard in the remaining years. 2023-24& 2024-25which is not advisable.

**TURNOVER RATIOS:**
**INVENTORY TURNOVER RATIO:**

$$\text{Inventory turnover ratio} = \frac{\text{sales}}{\text{Inventory}}$$

**INVENTORY TURNOVER RATIO:**
**TABLE NO.3**

Rs. In million

| Year | Turnover | Inventory | Ratio |
|---|---|---|---|
| 2020-2021 | 4407.49 | 253.65 | 17.36 |
| 2021-2022 | 7734.53 | 184.78 | 41.85 |
| 2022-2023 | 10947.33 | 178.18 | 59.19 |
| 2023-2024 | 15214.23 | 285.53 | 53.28 |
| 2024-2025 | 23464.57 | 825.36 | 28.42 |

**Interpretation:**

The inventory turnover ratio measures how quickly the inventory is sold. It is a test of efficient inventory management. In general, a high inventory ratio is better than a low ratio. A high ratio implies good inventory management. Similarly a very low inventory turnover ratio is dangerous. It signifies excessive inventory or over investment in inventory. Thus, a firm should have neither too high nor too low inventory turnover ratio so as to avoid both stock out costs associated with a high ratio and the cost of carrying excessive inventory with a low ratio. The inventory turnover ratio is very good, as it is increasing year by year. This shows fast conversion of inventory into cash. The ratio is very high in the year 2022- 23.

**DEBTORS TURNOVER RATIO**

$$\text{Debtors turnover ratio} = \frac{\text{net credit sales}}{\text{Average debtors}}$$

**DEBTORS TURNOVER RATIO:**

**TABLE NO.4**

Rs. In million

| Year | Turnover | Average debtors | Ratio |
|---|---|---|---|
| 2020-2021 | 4407.49 | 1137.73 | 4.01 |
| 2021-2022 | 7734.53 | 1486.09 | 5.20 |
| 2022-2023 | 10947.33 | 2408.99 | 4.38 |
| 2023-2024 | 15214.23 | 3915.51 | 3.88 |
| 2024-2025 | 23464.57 | 5459.40 | 4.29 |

**Interpretation:**

This ratio indicates the speed with which accounts receivable are being collected. The higher the turn over ratio and the shorter the average collection period, the better is the trade credit management and the better is the liquidity of the debtors, as short collection period and high Turn over ratio imply prompt payment on the part of debtors. On the other hand, low Turn over Ratio and long collection period reflect delay payment by debtors. Receivables of the study unit was high in the year 2021-22 but there is sudden fall in the successive years due to debtors are not able to pay the amount back so proper care should be taken in case of debtors. In the projected year it is decreased where compared to preceding years.

**CREDITORS TURN OVER RATIO:**

$$\text{Creditors Turn over Ratio} = \frac{\text{Net credit Purchases}}{\text{Average creditors}}$$

**CREDITORS TURN OVER RATIO**

**TABLE NO.5**

Rs. In million

| Year | Purchases | Average creditors | Ratio |
|---|---|---|---|
| 2020-2021 | 3712.21 | 1081.72 | 3.55 |
| 2021-2022 | 6711.48 | 1559.74 | 4.30 |
| 2022-2023 | 9138.58 | 2721.80 | 3.35 |
| 2023-2024 | 12963.80 | 3654.76 | 3.54 |
| 2024-2025 | 19497.61 | 4530.64 | 4.30 |

**Interpretation:**

A low turnover ratio reflects liberal credit terms granted by suppliers, while a high ratio shows that accounts are to be settled rapidly. The creditors turn Over Ratio is an important tool of analysis as a form can reduce its requirement of current assets by relying on supplier's credit. Here the creditors turnover ratio was at 4.30 in 2021-22, but has decreased to 3.54 in 2023-24and again increased to 4.30 in the preceding years. From this we can say the management is making efficient use of Working Capital by extending the payment to the creditors.

**DEBT COLLECTION PERIOD:**

$$= \frac{\text{Number of days in a year}}{\text{Debtorturnover ratio}}$$

**TABLE NO.6:**

| Year | days | Debtors turnover ratio | Collection period |
|---|---|---|---|
| 2021 | 365 | 4.01 | 91 |
| 2022 | 365 | 5.20 | 70 |
| 2023 | 365 | 4.38 | 83 |
| 2024 | 365 | 3.88 | 94 |
| 2015 | 365 | 4.29 | 85 |

**INTERPRETATION**

The above diagram shows that the debt collection period is 91 days in 2021, but in the next year debt is collected in 70 days which is good sign to reduce working capital. Effective debtor management will minimize the days. In 2023& 2025 again the collection period has increased, this shows ineffective debtor management which increases the no. of days for collecting debt.

**WORKING CAPITAL TURNOVER RATIO:**

$$= \frac{\text{Sales}}{\text{Net Working Capital}}$$

**TABLE NO: 7**

| **Year** | **Sales** | **Net working capital** | **Ratio** |
|---|---|---|---|
| 2020-2021 | 4407.49 | 1569.36 | 2.8 |
| 2021-2022 | 7734.53 | 3193.13 | 2.42 |
| 2022-2023 | 10947.33 | 5259.75 | 2.0 |
| 2023-2024 | 15214.23 | 7459.61 | 2.08 |
| 2024-2025 | 23464.57 | 13367.68 | 1.76 |

**INTERPRETATION:**

A high percentage means that working capital needs are high relative to your sales. Thus from the above table from 2021-2025, which clearly shows the decrease in the working capital ratio.

**FINDINGS**

A. On observing the changes in WC from the years 2020-2021to 2024-25, it has been noticed that all years the working capital of the company was increasing year by year

B. The current ratio reveals that the company can make its short term obligations at any given point of time. Through the ratio of 2:1 is considered satisfactory, the survey reveals that the company current ratio is above the standard.

C. It has been observed from the survey that quick ratio had been above the standard.

D. As per the debtors turnover ratio it is observe that the cash is collecting rapidly in the debtors in the years 2020-2021to 2024-25compared to the other years.

E. It has been observed that the creditors are paid rapidly in the year 2020-2021to 2024-25. In otherPrecedingyears the creditors are maintained a steady payment period.

F. The operating profit ratio indicates that the operating profit has been constantly increasing year by year.

G. Inventory management reveals that most of the stock is in the form of raw materials and finished goods. It means that the raw materials are converted into finished goods.

## 6. Conclusion

The recommendations have been put forward to management for its consideration. Even though the recommendations are done based on the projections of the historical data available for the books of accounts, the Management of Land Zone Private Ltd has to take efforts to implement the necessary steps by looking into the financial performance of the previous year. Actually speaking, a successful financial executive is interested not in maintaining a good current ratio but in maintaining an adjustable account of current assets so that the business may operate smoothly. Thus the working capital concepts are more important to the management in order to maintain the current assets and current liabilities.. Cash and bank balances are high. The company should maintain this level in the successive years. To end with, if the company takes the above actions suggested, the company would sustain as the leader in industry, with its past records.

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