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An Analytical Study on Working Capital Management at Global Alloys (P) Ltd.

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ABSTRACT

This study explores the working capital management practices at Global Alloys (P) Ltd, with a focus on evaluating how effectively the company manages its current assets and liabilities to ensure financial stability and operational efficiency. The research examines key components such as inventory management, receivables, payables, and cash flow. Through financial ratio analysis and interviews with key personnel, the study identifies strengths and areas for improvement in the company's working capital cycle. The findings suggest that effective working capital management significantly contributes to liquidity and profitability. Recommendations are offered to optimize cash conversion cycles and improve overall financial performance.

Keywords: Working Capital, Financial Efficiency, Liquidity Management, Inventory Control

INTRODUCTION

Global Alloys Private Limited holds a strategic position in the metal and alloy manufacturing industry, especially within India's specialized alloy segment. The company contributes significantly by supplying high-grade alloy products such as ferro alloys, Inconel sheets, and nickel-based alloys, which are essential in industries like automotive, aerospace, power, and construction. With manufacturing facilities in Andhra Pradesh and a distribution base in Chennai, the firm supports the domestic supply chain for critical materials, reducing reliance on imports. Its presence helps meet the growing demand for high-performance metals, making it a reliable player in India's industrial infrastructure development.

This company is incorporated in June 2013 and registered in 2016, India. It is a non govt. company and is registered at Registrar of companies, Chennai. It has gained immense expertise in manufacturing, supplying and trading of Alloy plates, ferro silicon, Inconel sheets. It is a private unlisted company and is classified as company is limited by shares. The authorised share capital is INR 50 lac, and paid-up share capital is INR 50 lac. Global Alloys Private Limited's Annual General Meeting (AGM) was last held on N/A and as per records from Ministry of Corporate Affairs (MCA), its balance sheet was last filed on 31 March 2022. It is involved in Manufacture of Basic Iron & Steel Global Alloys Private Limited (GAPL) is a leading Private Limited Indian Non-Government Company incorporated in India on 07 June 2013 and has a history of Ten years and six months. Its registered office is in Chennai, Tamil Nadu, India. Company's authorized capital stands at Rs 50.0 lakhs and has 100.0% paid-up capital which is Rs 50.0 lakhs. Kalpataru Global Alloys Private Limited last annual general meet (AGM) happened on 30 Sep, 2017. The company last updated its financials on 31 Mar, 2017 as per Ministry of Corporate Affairs (MCA). The Corporate is engaged in the business of manufacturing of ferro silicon, silicon manganese, ferro manganese, and ferro chrome. The Company's status is Active, and it has filed its Annual Returns and Financial Statements up until 31 March 2023. Global Alloys Private Limited is majorly in Manufacturing (Metals & Chemicals, and products thereof) business from last 11 years and currently, company operations are active.

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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.

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.

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.”

According to Hoagland Defined “working capital is descriptive of that capital which is not fixed. But the more common use of working capital is to consider it as the difference between the book value of the current assets and the current liabilities.”

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.

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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.

Components of Working Capital

In a narrow sense, the term working capital refers to the net working capital. Net working capital is the assets over current liabilities. It can be expressed as:

Net Working capital =Current Assets-Current Liabilities

The context of working capital management, current assets typically include sundry debtors, bills receivable, cash and bank balances, and inventories, which are further categorized into raw materials and components, work-in-progress, and finished goods. Additionally, current assets may also comprise accrued or outstanding income and marketable securities. These assets are essential for the day-to-day operations of a business, as they represent the short-term resources available to meet operational needs. On the other hand, current liabilities encompass sundry creditors, bills payable, and advance payments. They also include short-term borrowings, bank overdrafts, dividends payable, and accrued or outstanding expenses. Furthermore, provisions for taxation, declared dividends, and unclaimed acceptances are considered current liabilities. These obligations represent the short-term debts or commitments that must be settled within a financial year. Effective management of the relationship between current assets and current liabilities is crucial for ensuring adequate liquidity and the smooth functioning of a business's operations.

Need and importance of working capital

Working capital plays a critical role in the smooth functioning of any business, as it is essential for meeting short-term operational expenses and maintaining the continuity of business activities. One of the primary needs for working capital is to ensure uninterrupted operations, allowing businesses to manage day-to-day expenses such as salaries, rent, and utility payments. Adequate working capital also enables companies to meet their financial obligations, including the timely payment of dividends to shareholders and the repayment of long-term loans, which in turn enhances the financial stability of the organization.

Moreover, sufficient working capital strengthens a company's creditworthiness, making it easier to secure financing from banks and other financial institutions. It also contributes to increased efficiency and productivity by ensuring that resources are readily available when needed. In

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competitive markets, having adequate working capital allows businesses to respond quickly to market demands and adapt to changes, giving them a strategic advantage. Furthermore, maintaining healthy working capital can improve a company's reputation and goodwill in the market, fostering trust among customers, suppliers, and stakeholders. Overall, the effective management of working capital is vital for sustaining business growth and financial health.

LITERATURE REVIEW

Chiou, Cheng, & Wu (2006) This study investigates the key determinants of working capital management using data from listed firms. It finds that firm size, growth opportunities, and leverage significantly influence WCM practices. The researchers employ regression analysis to identify factors affecting working capital levels. Results suggest a conservative approach to WCM is common among Taiwanese firms. The paper emphasizes the importance of firm-specific characteristics. It concludes that tailored WCM strategies enhance firm value and operational efficiency.

Ajibolade & Sankay (2013) This research explores the joint effects of working capital management and financing decisions on corporate profitability. Data from Nigerian companies is analyzed using multiple regression models. Findings show a synergetic relationship between WCM practices and financing structures. Efficient WCM, when aligned with appropriate financing decisions, boosts profitability. The study highlights cash conversion cycle as a critical factor in performance. It calls for integrated financial strategies in managing working capital and financing.

Kazimoto (2016) Kazimoto assesses the impact of WCM on the financial performance of companies in Kampala. Primary data is collected through questionnaires distributed to finance managers. Findings indicate that effective inventory and receivables management enhance profitability. The study stresses the importance of balancing liquidity and operational needs.

It recommends that firms continuously monitor and adjust WCM strategies. Efficient WCM is seen as a critical tool for financial health in developing markets.

Mansoori & Muhammad (2012) This paper analyzes how WCM influences firm profitability in Singapore. Using panel data regression, the study finds a negative relationship between cash conversion cycle and profitability. It suggests that minimizing the time between cash outflows and inflows is essential. The results support the view that efficient WCM leads to improved financial outcomes. It provides practical insights for managers in emerging Asian economies.

The research underscores liquidity management as a key to sustainable growth.

Narender, Menon, & Shwetha (2008) The study focuses on determinants of WCM in India's cement industry. It identifies firm size, sales growth, and operating cycle as influential factors. Quantitative analysis is used to understand industry-specific WCM practices. The research highlights the capital-intensive nature of the cement sector. It concludes that optimal WCM is necessary for maintaining operational continuity. Recommendations are made for adopting flexible and responsive WCM systems.

Nazir & Afza (2009) This paper explores the relationship between aggressive WCM policies and profitability. It finds that aggressive investment and financing strategies in WCM reduce firm profitability. The study uses data from Pakistani firms and applies panel regression techniques. It cautions against extreme aggressiveness in managing current assets and liabilities. Conservative

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policies are associated with more stable financial performance. It suggests aligning WCM policy with risk tolerance and industry norms.

Nyamao et al. (2012) The study examines WCM practices in small enterprises in Kenya's Kisii South District. It reveals that practices like cash budgeting and credit management influence financial performance. Surveys and interviews form the basis of data collection. The study finds that limited financial literacy hampers effective WCM. It recommends capacity building and training for SMEs. WCM is linked to profitability and sustainability in small businesses.

Singh & Kumar (2014) This is a literature review identifying trends and gaps in WCM research. It synthesizes past studies to propose a future research agenda. The review categorizes WCM into cash, receivables, payables, and inventory management. It notes inconsistencies in results across industries and regions. Recommendations include more longitudinal and cross-country studies. The paper serves as a guide for academics and practitioners.

Taani (2012) Taani examines how WCM policy and financial leverage impact financial performance in Jordanian firms. It shows that aggressive WCM negatively affects profitability.

The study also finds a significant effect of leverage on financial outcomes. Recommendations include adopting balanced WCM strategies. Data is sourced from Amman Stock Exchange-listed companies. The study emphasizes the interplay between WCM and capital structure decisions.

Uchenna, Mary, & Ugwunta (2012) This paper studies the top five global beer breweries to assess WCM's effect on profitability. Using secondary data, the study finds a strong inverse relationship between cash conversion cycle and profitability. It suggests that managing receivables and inventories efficiently improves margins. Large multinational firms are shown to benefit from streamlined WCM. The study emphasizes global best practices in WCM. It concludes that WCM efficiency is vital in high-volume, low-margin industries.

Wire (2015) Wire investigates how WCM affects SMEs' financial performance in Nairobi.

Data collected via questionnaires reveals inconsistent WCM practices among SMEs. The study finds a strong correlation between good WCM and profitability. It points out that access to credit and poor cash flow forecasting are common issues. Recommendations include financial training and better planning tools for SMEs. The research contributes insights specific to urban African manufacturing firms.

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.

RESEARCH METHODOLOGY

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

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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.

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.

Objectives

- 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.

RESEARCH DESIGN

In preparing this project the information collected from the following sources. The Primary data has been collected from personal interaction with finance manager and other staff members. The Major source of data for this project was collected through annual reports, profit &loss account of 5-year period from 2019-2024 & some more information collected from internet and text sources. Financial Statements of the Last five years were considered for the study. The following were the data collection methods used in the study

- Financial Statements.
- Annual reports.
- Interviews.
- Credit reports
- Market Research
- Bank statements.
- Inventory Turnover Data.

The collected financial data will be analyzed using various financial tools and techniques

a. Ratio analysis
b. Schedule of change in working capital.
c. Cash flow statements.

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DATA ANALYSIS AND INTERPRETATION

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
2020	31,200	54,250	0.575
2021	42500	56,700	0.75
2022	58,000	53,500	1.084
2023	1,05,000	64,600	1.625
2024	1,30,500	66,000	1.977

Source: Secondary Data

From the above table 1 and figure 1, the current ratio from the year 2020-2024 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 2022-2025 the current ratio is equal to the standard ratio 2:1.

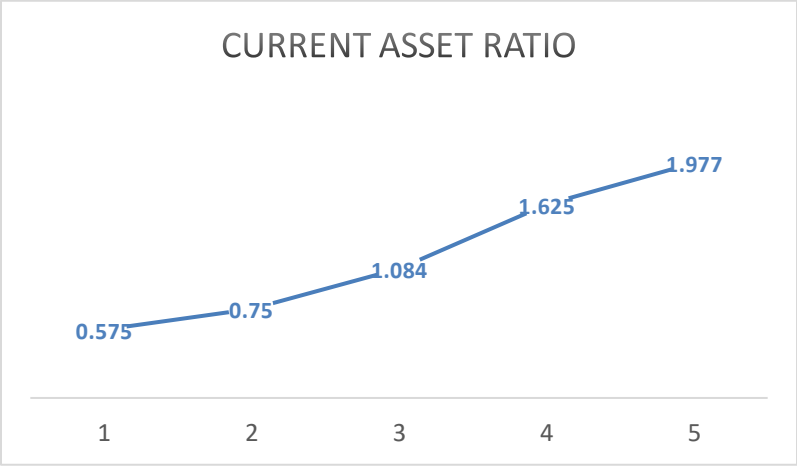

Figure 1 Showing Current Assets Ratio

It is inferred from the table that from 2019-2020 onwards current ratio is in increasing stage from 2023-2024. In this we can know that current ratio at global alloys is at Satisfactory level.

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

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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
2020	1000	54,250	0.0184
2021	2500	56,700	0.0441
2022	4000	53,500	0.0748
2023	5000	64,600	0.0774
2024	8500	66,000	0.1288

Source: Secondary Data

From the table 2 and figure 2, the Cash ratio from the year 2020-2024 are 0.0184, 0.0441, 0.0748, 0.0774, 0.1288.It is inferred from the table that from 2019-2018 onwards cash ratio is in increasing stage from 2023-2024. The company's cash ratio is less than 1, there are more current liabilities than cash and cash equivalents.

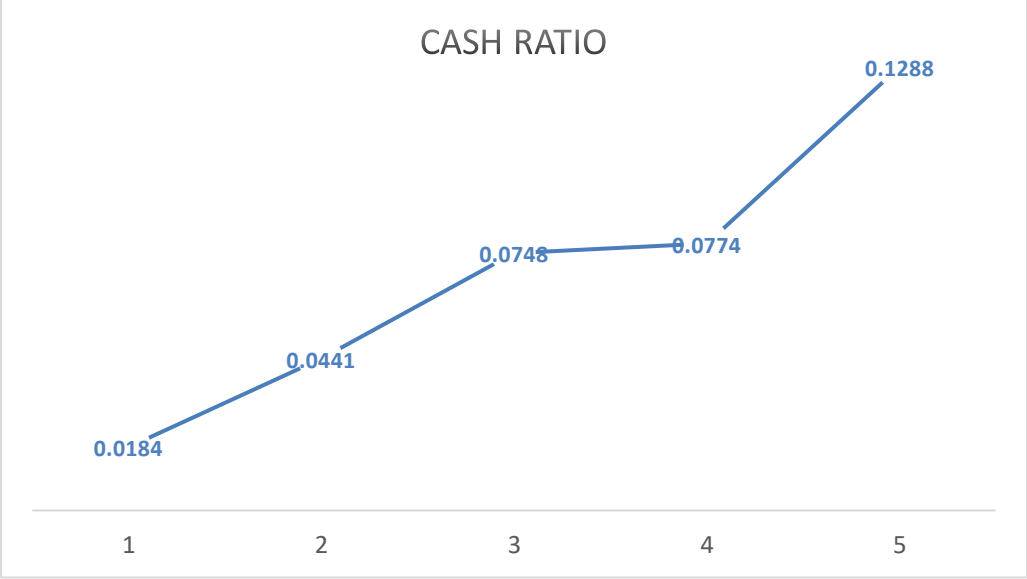

Figure 2 Showing Cash Ratio

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.

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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

Where, Quick asserts=current asserts-inventory

Table 3 Showing Quick Ratio

Years	Current assets	Inventory	quick assets	Quick Liabilities	Ratio
2020	31,200	14,000	17,200	54,250	0.317
2021	42,500	20,000	22,500	56,700	0.397
2022	58,000	30,000	28,000	53,500	0.523
2023	1,05,000	40,000	65,000	64,600	1.006
2024	1,30,500	60,000	70,500	66,000	1.068

Source: Secondary Data

From the table 3 and figure 3, the Quick ratio from the year 2020-2024 are 0.317, 0.397, 0.523, 1.00, 1.06. It is inferred from the table that from 2019-2020 onwards quick ratio is in increasing stage from 2023-2024.

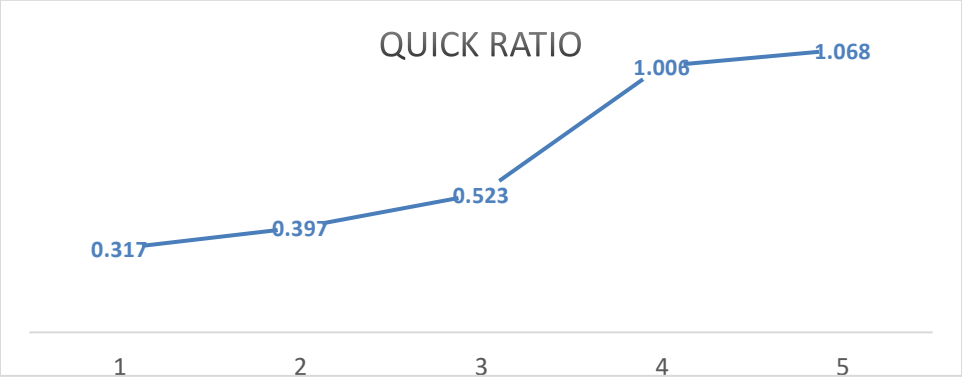

Figure 3 Showing Quick Ratio

As it has been in increasing stage from 2020-2024. But, from the year 2020-2022 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 2023-2024 which indicates company can instantly get rid of its current liabilities. As a result of 1 is considered to be the normal quick ratio.

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.

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This ratio is calculated by dividing the net credit sales by the average accounts receivables.

Debtors' turnover ratio= sales/debtors

Table 4 Debtors Turnover Ratio

Years	Sales	Debtors	Ratio
2020	1,40,000	39,000	3.59
2021	1,85,000	72,000	2.57
2022	1,50,000	52,000	2.88
2023	1,20,000	44,000	2.73
2024	2,00,000	53,000	3.77

Source: Secondary Data

From the table 4 and graph 4, the debtor's turnover ratio from the year 2020-2024 are 3.59, 2.57, 2.88, 2.73, 3.77. It is inferred from the table that for the year 2020 debtor's turnover ratio is 3.9 again it was decreased to 2.57 in the year 2021 and, for the year 2022 it was increased to 2.88 and again it was decreased to 2.73 in the year 2023 and again increased to 3.77 in the year 2024.

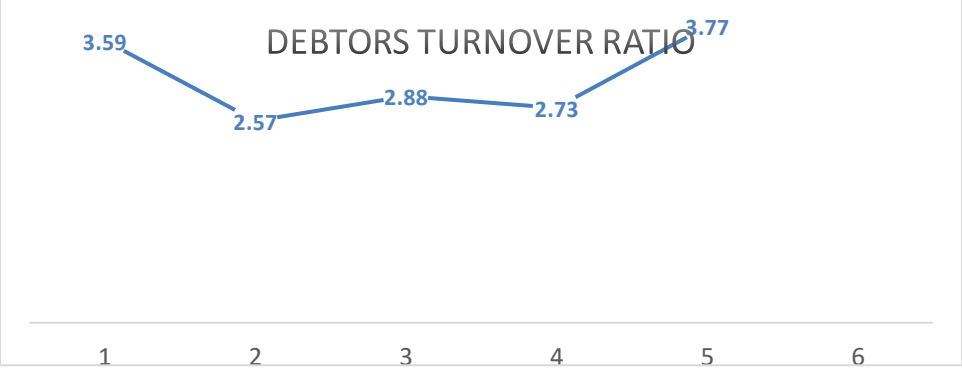

Figure 4 Debtors Turnover Ratio

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.

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

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Years	Gross Profit	Net Sales	Ratio
2020	95,300	1,40,000	68.07
2021	1,20,300	1,85,000	65.03
2022	59,300	1,50,000	39.53
2023	38,000	1,20,000	31.67
2024	78,000	2,00,000	39

Source: Secondary Data

From the above table and figure, the Gross profit ratio from the year 2020-2024 are 68.07, 65.02, 39.53, 31.66, 39. It is inferred from the table that the Gross profit ratio is decreasing from 2020 to 2023, and again increased from 31.67 to 39 in the year 2024.

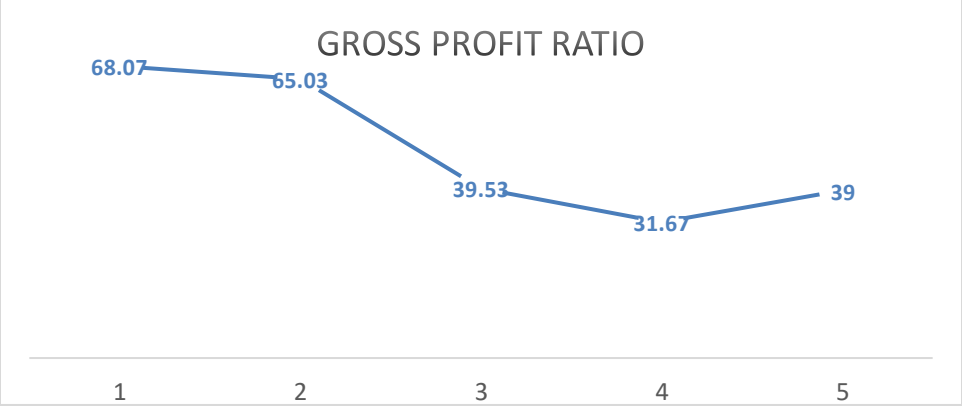

Figure 5 Showing Gross Profit Ratio

Normally, Good profit ratio should be 50 to 70%. Considering that, the Company for the year 2020 and 2021 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 2022 to 2024 which can impact the company's bottom line and means there are areas that can be improved.

Working Capital Turnover Ratio

Working capital turnover is a ratio that measures how efficiently a company is using its working capital to support sales and growth. Also known as net sales to working capital, working capital turnover measures the relationship between the funds used to finance a company's operations and the revenues a company generates to continue operations and turn a profit. Working capital turnover measures how effective a business is at generating sales for every dollar of working capital put to use. A higher working capital turnover ratio is better, and indicates that a company is able to generate a larger number of sales. However, if working

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capital turnover rises too high, it could suggest that a company needs to raise additional capital to support future growth. It is calculated by dividing net sales by average working capital.

Working Capital Turnover Ratio= Net sales/ average working capital

Where, Average working capital = current assets- current liabilities

Table 6 Working capital Turnover Ratio

Years	sales	Working Capital	Ratio
2019	1,40,000	23050	6.07
2020	1,85,000	14200	13
2021	1,50,000	4500	33.3
2022	1,20,000	40400	2.97
2023	2,00,000	64500	3.1

Source: Secondary Data

From thetable 6 and figure 6, the fixed asset turnover ratio from the year 2020-2024 are 6.07, 13, 33.3, 2.97, 3.1. It is inferred from the table that for the year 2020 to 2022 Working capital turnover ratio has been gradually increasing and again in the year 2023 it was decreased to 2.97, and again in the year 2024 it was increased from 2.97 to 3.1.

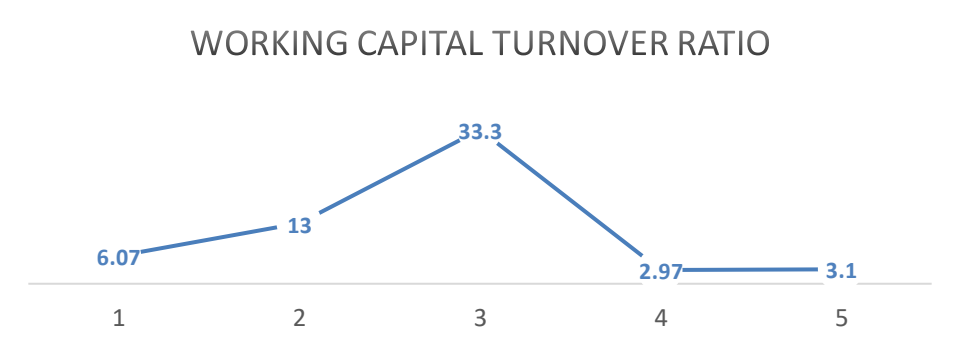

Figure 6 Showing Working capital Turnover Ratio

From the above table and figure, the fixed asset turnover ratio from the year 2020-2024 are 6.07, 13, 33.3, 2.97, 3.1. It is inferred from the table that for the year 2020 to 2022 Working capital turnover ratio has been gradually increasing and again in the year 2023 it was decreased to 2.97, and again in the year 2024 it was increased from 2.97 to 3.1.

Now, it tells that the higher working capital turnover ratio from the year 2020 to 2022 shows that management is being very efficient in using a company's short-term assets and liabilities for supporting sales. In another words it is generating a higher number of sales for every amount of working capital used.

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In contrast, a low ratio in the year 2023-2024 indicates that a business is investing in too many accounts receivable and inventory to support its sales, which could lead to an excessive number of bad debts (or) obsolete inventory.

ANALYSIS OF FINDINGS AND RECOMMENDATIONS

The current ratio is in increasing stage from 2020-2024. 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 2020-2024.Sales of the company has some fluctuations which shows some decreased sales in the year 2022 &2023. 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 2020 &2021.Quick ratio earned by company in the year 2023 & 2024 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.

Limitations

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.

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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