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A STUDY ON WORKING CAPITAL MANAGEMENT WITH ALF ENGINEERING PVT LTD, SRI CITY,TADA FROM 2020-24

*G. Sravanthi[1], and Dr. B. Ankaiah[2]

Department of Management Studies, Narayan Engineering College (Autonomous), Gudur

ABSTRACT

This study analyzes the working capital management practices of ALF Engineering Pvt. Ltd., located in Sri City, Tada, during the period 2020–2024. Effective working capital management is crucial for maintaining liquidity, ensuring operational efficiency, and enhancing overall financial performance. The research evaluates key components such as inventory management, accounts receivable, accounts payable, and cash conversion cycles. Data was collected from company financial reports and interviews with finance personnel. Findings indicate that strategic adjustments in inventory and receivable policies significantly improved liquidity and reduced financial strain during the post-pandemic recovery period. The study concludes with recommendations for optimizing working capital processes to enhance long-term sustainability and profitability.

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

INTRODUCTION

ALF Engineering Pvt. Ltd., founded in 1980 and based in Nashik, Maharashtra, is a leading manufacturer of automotive components in India. The company specializes in chassis systems, hydroformed parts, suspension assemblies, and hot-stamped components. It operates 14 manufacturing units across India and produces over 1,700 chassis frames daily. ALF also has a cutting-edge hydroforming and hot-stamping facility near Pune. With around 587 employees and estimated annual revenue of $32.3 million, the company is a key supplier to major vehicle manufacturers.

ALF Engineering Pvt. Ltd. is a significant player in India's automotive manufacturing sector, known primarily for its expertise in producing chassis systems and suspension assemblies. Established in 1980 in suburban Mumbai, the company has grown to become a trusted supplier to major automotive OEMs such as Mahindra & Mahindra, Tata Motors, Ashok Leyland, Isuzu Motors, and Daimler India. Its relevance lies in its large-scale production capabilities, with more than 1,700 chassis frames manufactured daily across 14 plants in India. ALF Engineering has also embraced innovation through the establishment of a centralized hydroforming facility in Nasik and the recent development of a hot-stamped parts manufacturing unit in Khed City near Pune. These initiatives demonstrate the company's commitment to advanced manufacturing techniques and the evolving needs of the automotive industry, including the electric vehicle segment.

ALF Engineering Pvt. Ltd., established in 1980 and based in Nashik, Maharashtra, is a key player in India's automotive component industry. The company manufactures chassis frames, suspension parts, and hydroformed components for major OEMs like Mahindra, Tata Motors, and Ashok

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Leyland. It operates 14 plants across India, producing over 1,700 frames daily. ALF is a pioneer in hydroforming technology and has advanced facilities for hot stamping and robotic assembly. All plants are certified with IATF 16949, ISO 14001, and ISO 45001. In FY 2023, the company saw a 42% rise in revenue and over 110% profit growth, highlighting its strong market presence and performance.

Working capital management is a critical aspect of financial management that involves the administration of a company's short-term assets and liabilities. Effective working capital management is essential for maintaining liquidity, reducing costs, and improving profitability. It involves managing accounts receivable, accounts payable, inventory, and cash flow to ensure that a company has sufficient funds to meet its short-term obligations. Working capital management is crucial for businesses of all sizes, as it can impact their ability to invest in growth opportunities, pay bills on time, and maintain a positive reputation.

REVIEW OF LITERATURE

Garg, A., & Meentu. (2022).This study examines how cash conversion cycles, inventory management, and receivables turnover affect profitability in Indian manufacturing firms. Chakraborty, S., & Kumari, R. (2021).This paper analyzes working capital strategies in major Indian automotive companies, including Tata Motors and Mahindra & Mahindra. Khanna, T., & Sood, V. (2023) study the impact of corporate governance on working capital management in Indian companies. Their findings indicate that strong corporate governance practices lead to better working capital management. The paper highlights the importance of governance in improving financial health.

Singh, V., & Kapoor, S. (2021) examine the impact of working capital management on corporate profitability in Indian SMEs. The research finds that efficient working capital management improves profitability in SMEs. The study suggests that SMEs should adopt better working capital strategies for financial success. Mishra, A., & Raghavan, P. (2022) explore the relationship between inventory management efficiency and financial performance in India’s retail sector. They find that improved inventory management practices enhance profitability. The study stresses the importance of optimizing inventory turnover in the retail sector. Kumar, R., & Nair, S. (2020) study the role of short-term financing in improving working capital efficiency in Indian food processing companies. Their findings suggest that short-term financing can enhance liquidity and profitability. The paper recommends using short-term financing to optimize working capital.

Rao, A., & Chandra, R. (2023) apply predictive analysis using machine learning to working capital management in Indian pharmaceutical firms. The study shows that machine learning tools improve working capital forecasting and cash flow management. The research emphasizes the role of technology in improving working capital efficiency. Bhatia, S., & Malhotra, A. (2021) investigate how ERP systems optimize liquidity and working capital management in the Indian automotive industry. Their findings suggest that ERP systems significantly improve financial performance by streamlining working capital. The study recommends adopting ERP systems for better liquidity management.

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Sharma, N., & Roy, D. (2020) examine the effects of working capital on profitability in Indian manufacturing companies. The study reveals that efficient working capital management leads to higher profitability. The paper suggests focusing on inventory and receivables management to boost company performance. Kumar, P., & Sharma, V. (2022) assess the impact of digital tools on working capital management in Indian pharma firms. They find that digital tools like AI and cloud-based systems improve working capital efficiency. The study emphasizes the importance of digitalization in optimizing financial processes. Gupta, S., & Kumar, S. (2020) evaluate the effect of working capital management on profitability in the Indian steel industry. The research shows that managing working capital efficiently boosts profitability. The paper suggests that steel companies focus on improving receivables and inventory management for better financial outcomes.

Chauhan, P., & Patil, D. (2021) explore the effectiveness of working capital management in the Indian construction sector. The study concludes that efficient management of working capital improves profitability in construction firms. It recommends optimizing cash flow, receivables, and inventory for financial growth. Chaudhary & Jain (2023). focused on profitability ratios in manufacturing companies, finding that Return on Equity (ROE) is a strong predictor of a firm's ability to generate profit for shareholders, and is crucial for investors evaluating the long-term viability of firms like Alf Engineering Pvt. Ltd. Singh, R., & Gupta, K. (2024). This study examines how AI-based forecasting tools enhance cash flow management and reduce working capital risks.

The studies reviewed focus on the impact of working capital management on profitability across various sectors in India, including manufacturing, automotive, pharmaceuticals, FMCG, and more. They highlight the importance of efficient management of key components such as cash conversion cycles, inventory turnover, receivables, and liquidity ratios in improving profitability. Many studies emphasize the role of technology, such as AI and ERP systems, in enhancing working capital efficiency. Overall, the research suggests that firms can achieve better financial performance by optimizing working capital strategies, improving liquidity management, and adopting advanced forecasting tools.

RESEARCH METHODOLOGY

The effective management of working capital is a crucial responsibility of the finance department within a corporate organization. In managing current assets, two essential factors—liquidity and profitability—must be carefully balanced. Excessive working capital can lead to diminished profitability, while insufficient working capital poses liquidity risks. This study is therefore undertaken to examine the extent to which organizations succeed in achieving the optimal trade-off between liquidity and profitability, ensuring sustainable financial performance.

The scope of the study is defined below in terms of concepts adopted and period under focus. First, the study of working capital management and profitability are confined only to ALF ENGINEERING PVT LTD Secondary, the concepts of working capital and profitability i.e., Gross and Net is used in measuring the working capital management and profitability performance and also to arrive at objectives of the study. Thirdly, the study is based on the annual reports of

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the company for a period of 5 years from 2019-2024. Due to time constraint the study period is restricted. The purpose of the project is to analyse the past and present performance of the company on various financial areas.

OBJECTIVES OF THE STUDY

- This study is mainly focused to examine the short-term financial viability of ALF ENGINEERING PVT LTD stated below.
- To study the financial soundness of the company.
- To study schedule of change in working capital.
- To estimate working capital requirements.
- To examine the existing system and give suggestion for better management of working capital.

RESEARCH DESIGN

The research follows a descriptive and analytical design. The descriptive aspect involves presenting the financial condition of selected firms using historical data, while the analytical component focuses on interpreting financial ratios to assess performance, efficiency, and stability. The study is comparative in nature, examining multiple firms within a particular industry over a specific time frame (usually 3 to 5 years) to identify patterns and differences in financial performance.The study relies entirely on secondary data sources to ensure a comprehensive analysis. Key sources include annual reports of organizations, company websites, and financial platforms like Money control and Screener, which provide essential financial insights. Additionally, publications from regulatory authorities such as the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI) are utilized to gather accurate and relevant information. These sources collectively form the foundation for the study's data collection method.

DATA ANALYSIS AND INTERPRETATION:

CURRENT RATIO

Current ratio is the ratio of current assets to current liabilities. Normal operating cycle of the business or within one year, whichever is longer, they include cash in hand and bank, bills receivable, net sundry debtors, stock of raw materials, finished goods and short term or temporary investments.

$$\text{CURRENT RATIO} = \frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$$

The analysis of the current ratio from 2019-20 to 2023-24 reveals notable fluctuations in the company's short-term liquidity position. In the financial year 2019-20, the current ratio stood at 3.63, indicating a strong ability to cover current liabilities with current assets. This strength improved further in 2020-21, where the current ratio increased to 4.29, suggesting an even more comfortable liquidity position. However, a sharp decline was observed in 2021-22, with the current ratio falling to 2.08 due to a significant decrease in current assets and a rise in current

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liabilities. Although the ratio slightly recovered to 2.32 in 2022-23 and further to 2.6 in 2023-24, it remained below the levels seen in the earlier years of the study.

Table 1 Current Ratio

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
2019-20	31,31,12,005	8,62,29,274	3.63
2020-21	34,31,23,264	7,99,38,108	4.29
2021-22	27,72,03,371	13,32,80,414	2.08
2022-23	30,19,24,932	13,00,61,660	2.32
2023-24	33,74,91,265	12,96,20,400	2.6

Source: secondary data

Overall, while the company has consistently maintained a current ratio above the benchmark of 2:1, which is generally considered healthy, the downward trend from 2020-21 onwards indicates the need for management to monitor working capital closely and ensure continued financial stability.

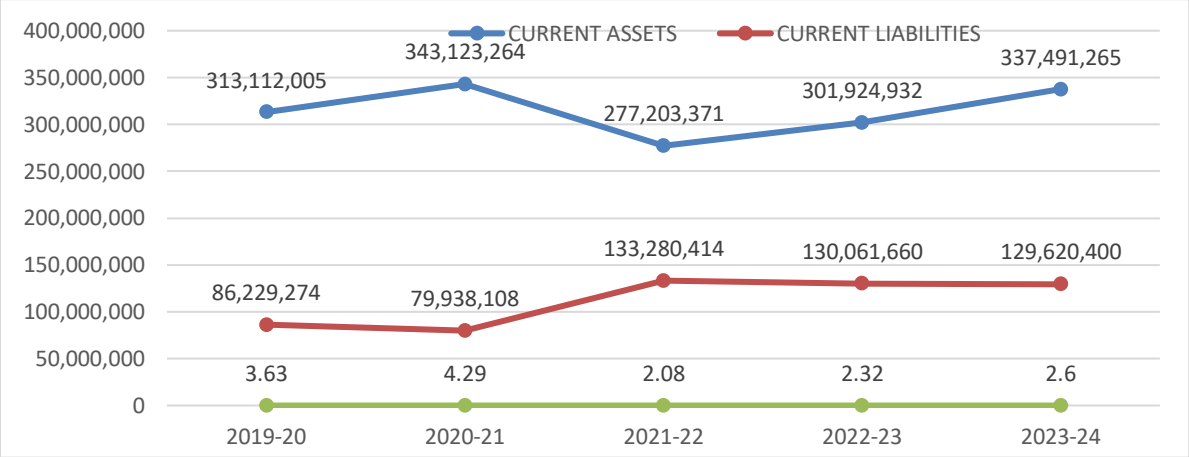

Figure 1 Current Ratio

During 2019-20 the current ratio of the company was 3.63,4.29,2.08,2.32and 2.60 . The highest during the year 2020-21 that is 4.29.the lowest position during the year 2020-21 that is 2.08.

QUICK RATIO

Quick Ratio is used as a measure of the company's ability to meet its current obligations since bank overdraft is secured by the inventories, the other current assets must be sufficient to meet other current liabilities. It indicates whether the firm is in a position to pay its current liabilities within a month or immediately Liquid Assets includes: (a) Cash in hand (b) Cash at Bank (c) Short-term investments.

$$\text{QUICK RATIO} = \frac{\text{LIQUID ASSETS}}{\text{CURRENT LIABILITY}}$$

The quick ratio of the company demonstrates fluctuations in liquidity over the years. In 2019-20, the quick ratio was 2.63, indicating strong liquidity. It improved further to 3.26 in 2020-21,

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suggesting the company had ample liquid assets to cover its current liabilities. However, the ratio decreased in 2021-22 to 1.52, signaling a potential tightening of liquidity.

Table 2 Quick Ratio

YEAR	QUICK ASSETS	CURRENT LIABILITY	QUICK RATIO
2019-20	22,68,18,755	8,62,29,274	2.63
2020-21	26,02,49,648	7,99,38,108	3.26
2021-22	20,22,49,648	13,32,80,414	1.52
2022-23	20,28,65,132	13,00,61,660	1.61
2023-24	25,69,85,179	12,96,20,400	1.98

Source: secondary data

The ratio slightly recovered in 2022-23, reaching 1.61, and improved further to 1.98 in 2023-24, showing that the company regained its ability to meet short-term obligations without relying heavily on inventory. Although the ratio is below the ideal benchmark of 1, the overall trend reflects a return to a more balanced liquidity position.

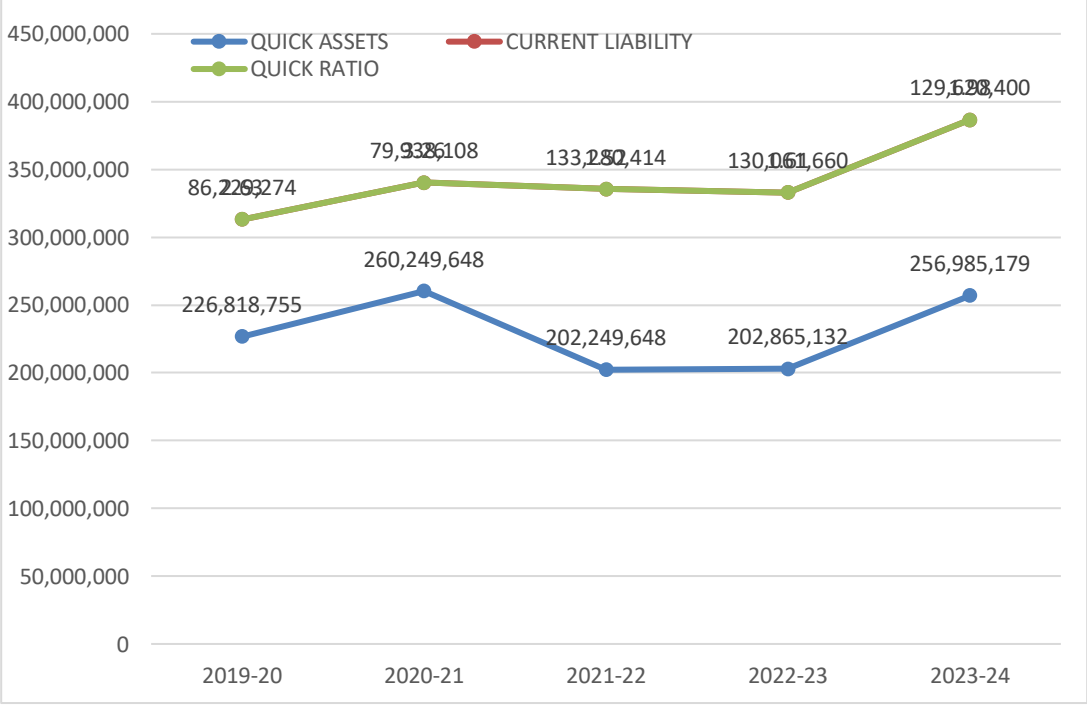

Figure 2 Quick Ratio

The quick ratio was the highest during the year 2020-21 that is 3.26.the lowest position during the year 2021-22 that is 1.52.

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INVENTORY TURNOVER RATIO

The inventory turnover ratio measures how efficiently a company manages its inventory by indicating how many times inventory is sold and replaced during a specific period. A higher ratio suggests strong sales and effective inventory management, while a lower ratio may indicate overstocking or weak sales performance.

$$\text{INVENTORY TURNOVER RATIO} = \frac{\text{SALES}}{\text{INVENTORY}}$$

Table 3 Inventory Turnover Ratio

YEARS	SALES	INVENTORY	TURNOVER RATIO
2019-20	88,95,90,076	8,62,93,250	10.3
2020-21	99,88,83,919	8,28,73,616	12.05
2021-22	80,96,78,391	7,43,38,239	10.89
2022-23	1,11,16,31,603	9,22,40,814	12.05
2023-24	1,12,03,59,310	8,05,06,086	13.91

Source: secondary data

The inventory turnover ratio of the company shows a positive trend over the years, indicating improved efficiency in managing inventory. In 2019-20, the ratio was 10.3, which increased to 12.05 in 2020-21, suggesting better sales in relation to inventory.

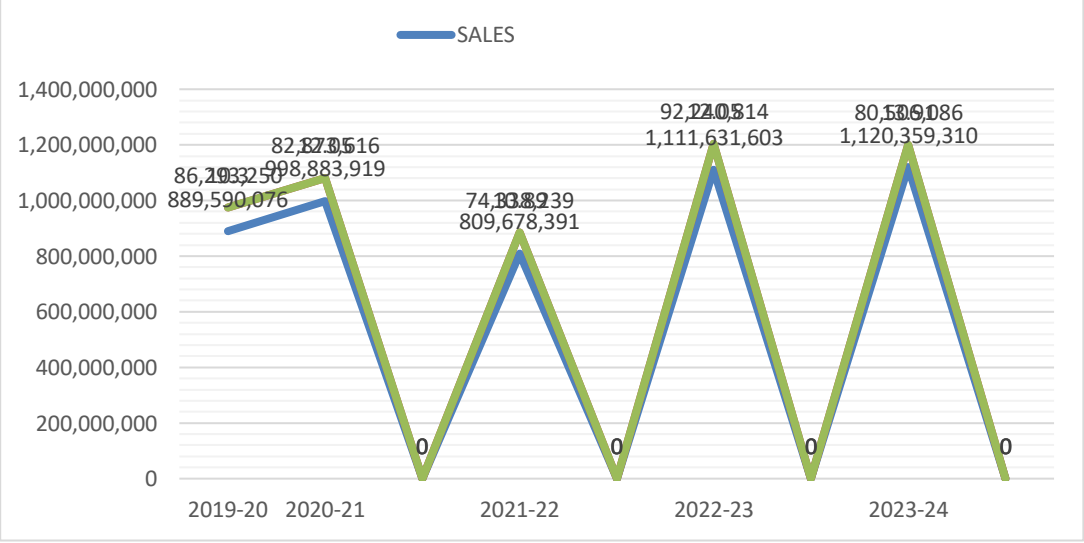

Figure 3 inventory turnover ratio

The ratio remained stable at 10.89 in 2021-22 before rising again to 12.05 in 2022-23, reflecting consistent inventory management. In 2023-24, the ratio reached its highest point at 13.91, showing that the company was able to efficiently convert its inventory into sales. Overall, the steady increase

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in the inventory turnover ratio suggests effective inventory management and improved operational efficiency. The inventory turnover ratio was the highest during the year 2023-24 that is 13.91 .the lowest position during the year 2019-20 that is 10.3.

WORKING CAPITAL TO SALES RATIO

The Working Capital to Sales Ratio is a financial metric that measures the proportion of a company's net working capital (current assets minus current liabilities) relative to its net sales. It helps assess how efficiently a company is using its working capital to generate sales.

Table 4 working capital to sales ratio

Years	Net Sales	Working capital	Ratio
2019-20	94,15,69,46	22,68,82,731	4.15
2020-21	99,88,39,169	26,31,85,156	3.8
2021-22	80,96,78,391	14,39,22,957	5.63
2022-23	1,11,18,31,03	17,18,63272	6.47
2023-24	1,12,03,09,310	20,78,70,865	5.39

Source: secondary data

The working capital ratio of the company shows some fluctuations over the years, reflecting changes in its short-term financial health. In 2019-20, the ratio stood at 4.15, indicating a good balance between net sales and working capital. It declined to 3.8 in 2020-21, but then increased significantly to 5.63 in 2021-22, suggesting improved working capital management. The ratio continued to rise to 6.47 in 2022-23, reaching its peak, but then slightly decreased to 5.39 in 2023-24.

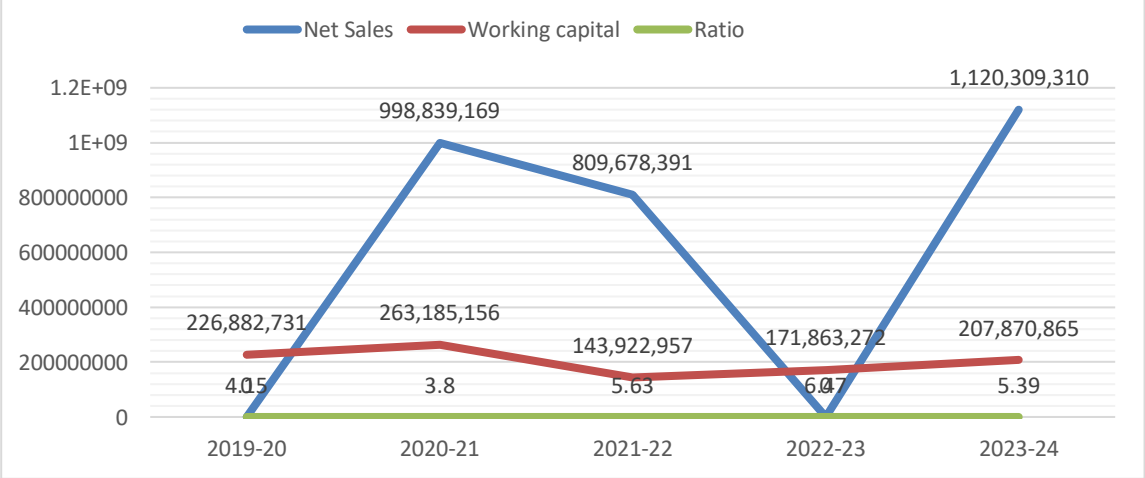

Figure 4 working capital to sales ratio

The Working capital to sales ratio was The highest during the year 2022-23 that is 6.47 .the lowest position during the year 2020-21 that is 3.8.

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DEBTORS TURNOVER RATIO

The Debtors Turnover Ratio, also known as the Receivables Turnover Ratio, is a financial metric used to measure how efficiently a company collects its outstanding credit sales from customers. It indicates how many times, on average, the company collects its receivables during a specific period, usually a year. This ratio helps assess the effectiveness of a company's credit policies and collection efforts. A higher ratio implies that the company is efficient in collecting its dues, while a lower ratio may suggest issues in credit policy or collection delays.

$$\text{Debtors Turnover Ratio} = \frac{\textit{Net Credit Sales}}{\textit{Average Accounts ReceivableNet}}$$

Table 5 Debtors Turnover Ratio

YEAR	NET SALES	DEBTORS	RATIO
2019-20	94,15,69,646	12,13,45,982	7.76
2020-21	99,88,39,169	12,52,08,797	7.98
2021-22	80,96,78,391	10,00,98,882	8.09
2022-23	1,11,18,31,603	10,88,81,625	10.21
2023-24	1,12,03,59,310	97,54,277	11.45

Source: secondary data

The debtor turnover ratio shows a consistent improvement over the years, indicating the company's increasing efficiency in collecting receivables. In 2019-20, the ratio was 7.76, and it increased gradually to 7.98 in 2020-21, reflecting better management of outstanding receivables. The ratio further improved to 8.09 in 2021-22, and saw a more significant rise to 10.21 in 2022-23, signaling more effective credit control and quicker collections. In 2023-24, the ratio reached its peak at 11.45, suggesting that the company became even more efficient at converting its receivables into cash.

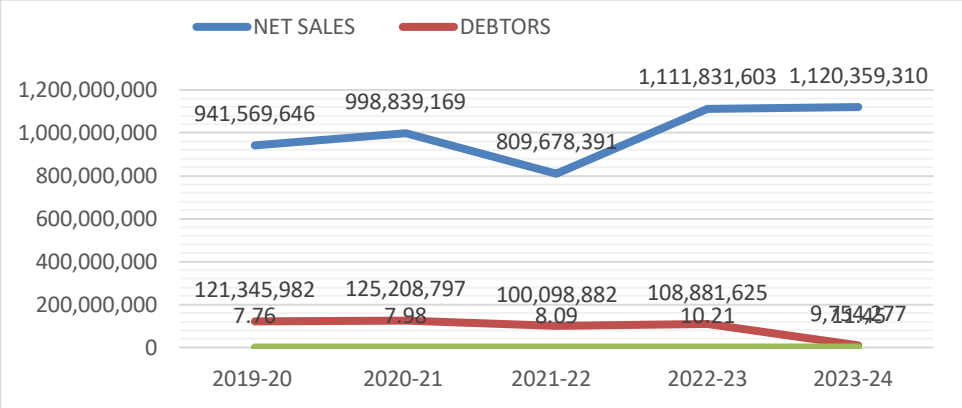

Figure 5 Debtors turnover ratio

From the above table and figure, debtors turnover indicates the number of times debtor turnover each year. Generally, the higher the value of debtor's turnover, the more efficient is the

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management of credit. From the year 2019-20 to 2021-2022 the debtor's turnover ratio is 7.76, 7.98, 8.09, 10.21 and 11.45. It Represent the debtors turnover ratio is increasing. The company is ability efficient in the management of credit.

ANALYSIS OF FINDINGS

After proper analysis of the financial position of the **ALF ENGINEERING PVT LTD** with the help of tools of financial analysis, the following are things are found during the study. In the years 2019-20 to 2023-24 the company inventory turnover ratio is highly increasing. That is 0.69, 1.37, 3.80, 13.89, and26.26. In the years 2019-20 to 2023-24 the current ratio is nearly 1 from 2020-21 is 2 to 1 from year onwards the current ratio is gradually decreasing and Increasing from 2023-24 it represents the firm's inability to meet its obligations. The debtor's turnover ratio is low due to huge increase in debtors and decrease in the sales. Creditor's payment was not done regularly which indicating that the company is not paying the debts correctly. It is found that the company is getting good percentage of gross profit on sales this is due low cost of production. The part of long-term debt is more in capital structure this will affect solvency the position of the company. In the year 2019-2020 our company sales has been increases. The cash and bank balances shows increased trend but had come down marginally in the year 2021.In the year 2019-2020 sales has been decreased because of in efficient raw materials. In the 2019-2024 our sales has increased to 10 cores shares. Turnover of the company is increasing from year to year because of efficient in the cash management

RECOMMENDATIONS

MANAGERS

Managers should focus on enhancing receivables management to reduce the collection period and improve cash flow. While the debtor turnover ratio has improved, further reduction in the receivables cycle will benefit the company's liquidity position. Adopting stricter credit policies or leveraging advanced technologies, such as AI for tracking payments, could help in minimizing the risk of delayed collections. Additionally, optimizing working capital by managing inventory levels more effectively is crucial. Maintaining an ideal working capital ratio is necessary, and efforts should be made to align inventory levels with sales projections to reduce holding costs and enhance overall efficiency. Furthermore, liquidity management is an area requiring attention. The current low quick and cash ratios suggest that the company should consider diversifying liquid assets or exploring short-term financing options to ensure a stable liquidity position.

POLICY MAKERS

To support businesses, especially small and medium enterprises, policymakers should focus on encouraging the adoption of financial technologies such as AI, machine learning, and ERP systems. These tools can enhance working capital management by improving cash flow forecasting, receivables tracking, and inventory control. Additionally, improving access to credit facilities for working capital requirements would enable firms to maintain liquidity during economic slowdowns, fostering stability in the industry. Policymakers should also consider

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providing incentives for firms that demonstrate effective working capital management practices, as this could lead to greater financial health across various sectors.

INDUSTRY DEVELOPMENT

For the manufacturing industry, it is crucial to adopt modern practices for working capital management, including the use of financial technology to enhance operational efficiency. The industry should also focus on streamlining supply chains and reducing inventory holding costs through better forecasting techniques. To support sustainable growth, manufacturing firms should invest in automation and technology to reduce the reliance on manual processes and enhance cash flow management. Additionally, industry leaders should collaborate to share best practices and innovate together, particularly in areas like inventory management and receivables collection.

SCHOLARLY CONTRIBUTION

From a scholarly perspective, future research should delve deeper into how financial technologies, such as blockchain and AI, influence working capital management in various sectors, including manufacturing and retail. A focus on the financial health of SMEs and their ability to leverage these technologies for working capital optimization will be valuable. Moreover, exploring the relationship between liquidity ratios and firm profitability in different economic conditions will offer insights into how businesses can navigate financial challenges. It would also be beneficial to study the impact of government policies on improving access to working capital for SMEs in emerging markets.

Scope for further study

Further studies can explore the impact of external factors, such as economic recessions or pandemics, on working capital management and financial ratios. It would also be insightful to examine the role of artificial intelligence and automation in transforming working capital management practices across industries. Research on the long-term effects of financial policy reforms, particularly those aimed at improving liquidity and credit access, on the stability and growth of manufacturing firms can provide valuable perspectives. Additionally, comparative studies of working capital management across different countries or industries could highlight the most effective strategies for enhancing financial performance.

LIMITATIONS

The present study on working capital management at ALF Engineering Pvt. Ltd. (2020–2024) is subject to certain limitations. Firstly, it is confined to a five-year time frame, which may not fully reflect long-term financial trends or structural changes. The analysis is based solely on one company, making it difficult to generalize the findings across the broader industry. The study also relies on secondary data sourced from published financial statements, which may carry the risk of inaccuracies or omissions. Additionally, the influence of external factors such as economic fluctuations, policy changes, and disruptions like the COVID-19 pandemic were not individually assessed, though they may have significantly impacted working capital performance. Moreover, the study focuses primarily on quantitative data, excluding qualitative elements like managerial

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efficiency or supplier relationships. Finally, the absence of comparative benchmarking limits the ability to evaluate the company's practices relative to industry standards.

CONCLUSION

The of study reveals that the working capital position "ALF ENGINEERING PVT LTD is good as it remained a bit above the standard norms throughout the period of the study .On the Whole, it can be conclude that the working capital management and profitability efficiency has been increasing every year. It needs to be maintained and increasing further by effective utilization and control of current assets especial cash and bank balance.

From the study it is noticed that the working capital is fluctuating i.e., increasing and decreasing from year to year with slight variations. So, it is necessary to reduce variations in working capital & profitability to invest more in fixed assets to maintain the company in a better position for a long run.

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