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A COMPARATIVE STUDY ON WORKING CAPITAL MANAGEMENT WITH REFERENCE TO VITAL PAPERS PRODUCTS PVT LTD, CHERIVI

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ABSTRACT

Working capital management is a critical aspect of financial management that ensures the smooth functioning of a company's day-to-day operations. This study focuses on analyzing the working capital management practices at Vital Papers Products Pvt. Ltd., a leading player in the paper industry. The research evaluates the company's approach to managing its current assets and liabilities, including inventory, accounts receivable, accounts payable, and cash management. Working capital management is concerned with the problems that a raise in attempting to manage the current assets, the current liabilities and interrelation that exist between them. Financial management is that managerial activity which is concerned with the planning and control of the firm's financial resources. It was a branch of economics till 1890, and as a separate discipline, it is of recent origin.

Keywords: Working Capital, Current Liabilities, Net Working capital, Liquidity, solvency.

INTRODUCTION

Financial Management is that managerial activity which is concerned with the planning and controlling of the firm's finance. Finance is one of the foundations of all kinds of economic activities. Finance is the life-blood of a business. The financial management study deals with the process of procuring necessary financial resource and their judicious use with a view to maximizing the value of the firm and there by the value of the owners i.e. equity shareholders in a company. Practicing managers are interest in this subject because among the most crucial decisions of the firm are those which relate to finance, and an understanding of the theory of financial management provides them with conceptual and analytical insights to make those decisions skilfully. Vital Paper Products Pvt. Ltd. plays a crucial role in promoting sustainable packaging and quality stationery production in India. By offering eco-friendly corrugated packaging and exporting custom stationery to over 30 countries, the company supports global trade while boosting the local economy in Andhra Pradesh. Its adoption of advanced technology and commitment to quality make it a key player in the paper products industry, contributing to both environmental sustainability and industrial growth. The paper and packaging industry, represented by companies like Vital Paper Products Pvt. Ltd., holds significant importance for economic development. It supports multiple sectors such as FMCG, e-commerce, education, and logistics by providing essential packaging and stationery solutions. The industry's focus on sustainable, recyclable materials promotes eco-friendly practices, while its export potential boosts foreign exchange earnings. Additionally, it creates employment opportunities, encourages technological advancements, and drives infrastructure development, making it a vital contributor to both regional and national economic growth.

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The manufacturing industry plays a vital role in economic development by creating jobs, boosting exports, and increasing industrial output. It drives infrastructure growth, encourages technological innovation, and supports other sectors like transportation and services. By strengthening domestic production and reducing import dependence, manufacturing helps build a more self-reliant and resilient economy.

REVIEW OF LITERATURE

Khandelwal et al. (2024) examine how climate change affects public health and nutrition security, emphasizing the cascading effects of environmental disruptions on food systems and vulnerable populations. The study stresses the need for integrated policy approaches and sustainable development practices.

Lazaridis & Tryfonidis (2006) analyze the relationship between working capital management and profitability among firms listed on the Athens Stock Exchange. They find a significant correlation, indicating that efficient working capital practices can positively impact firm profitability.

Gupta & Mehta (2024) conduct a systematic review and meta-analysis on the use of data mining techniques in detecting financial statement fraud. Their study identifies key indicators and effective algorithms, highlighting the potential of predictive models in distinguishing fraudulent from non-fraudulent companies.

Mukherjee, Dutta, & Sen (2023) explore the mediating role of capital structure in the relationship between stock liquidity and firm value. The study reveals that enhanced liquidity can improve firm value when balanced with optimal capital structuring.

Padachi (2006) investigates working capital trends in small Mauritian manufacturing firms and finds that inefficient working capital management often leads to lower profitability. The study recommends regular monitoring and strategic planning for better financial outcomes.

Shin & Soenen (1998) provide early evidence on the link between working capital efficiency and corporate profitability. They argue that firms with shorter cash conversion cycles tend to perform better financially, laying the groundwork for future research in this area.

Vural, Sökmen, & Çetenak (2012) focus on Turkish firms and demonstrate that good working capital management significantly enhances firm performance. The paper suggests that managing inventory and receivables effectively is crucial for sustaining profitability.

Iyer & Malhotra (2025) discuss diversity and inclusion strategies in UAE family-owned businesses. Their case study-based research points to the cultural nuances and leadership dynamics necessary for successful diversity management in such organizations.

Kumar et al. (2022) examine profitability determinants in Indian public-private partnership (PPP) infrastructure projects. Their empirical analysis identifies financial structuring, risk allocation, and political support as key profitability factors.

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

López (2023) analyzes how sovereign wealth funds (SWFs) adapted during the COVID-19 pandemic, marking the emergence of "SWF 3.0." The study describes strategic shifts in investment, governance, and risk management that have redefined the global role of SWFs.

METHODOLOGY

Efficient working capital management is crucial for maintaining liquidity, ensuring operational efficiency, and enhancing profitability. This study is needed to analyze how well a firm manages its short-term assets and liabilities, identify potential inefficiencies, and recommend strategies for improving cash flow and financial performance, especially in dynamic and competitive industries.

The study focuses on analyzing the components of working capital—inventory, receivables, payables, and cash management. It aims to evaluate their impact on the firm's liquidity and profitability. The scope includes identifying inefficiencies, assessing the cash conversion cycle, and suggesting improvements in WCM practices within a defined time frame and industry context.

OBJECTIVES OF THE STUDY

- To find out Support Operational Efficiency: Facilitate the smooth functioning of day-to-day operations by managing current assets (like inventory and receivables) and liabilities (like payables).
- To evaluate Enhance Profitability: Optimize the use of working capital to minimize costs, avoid over investment in current assets, and improve the overall return on investment.
- To study Mitigate Risks: Reduce financial risks such as insolvency or disruptions in open Mitigate rations due to insufficient working capital.
- To Maximize organizational Stakeholder Value: Ensure the business remains solvent and capable of generating value for stakeholders while minimizing the cost of capital.

The study follows a descriptive and analytical research design focused on evaluating the working capital management practices at Vital Paper Products Pvt. Ltd. It involves analyzing financial data related to inventory, receivables, payables, and cash flow over a selected time period. Secondary data such as balance sheets and profit & loss statements will be used to assess the efficiency of the cash conversion cycle and its impact on the firm's liquidity and profitability.

Thus, project is based on secondary information collected through six years annual report of the company, supported by various books and internet sites. The data collection was aimed at study of working capital management of the company.

The Following were the data sources used:

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

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

As there are ratios to be calculated for knowing the working capital in the company

- Current ratio = current assets/ current liabilities
- Quick ratio = quick assets / quick liabilities
- Net working capital = net working capital / net assets
- Net assets turnover ratio = sales/net assets

ANALYSIS AND INTERPRETATION

Current Ratio

Table 1 Current Ratio

Years	Ratios
2019-2020	0.67
2020-2021	0.65
2021-2022	0.97
2022-2023	0.58
2023-2024	0.73

Source: Secondary Data

The Current Ratio establishes the relationship between Current Assets and Current Liabilities. The objective of computing this Ratio is to measure the ability of the firm. It indicates the availability of Current Assets in Rupees for every Rupee of Current Liability. The Satisfactory Current Ratio is 2:1. The Current Ratio is calculated by dividing Current Assets by Current liabilities. A Ratio of greater than one means that the firm has more Current assets than Current claims against them.

$$\textbf{Current ratio} = \frac{\textbf{Current Assets}}{\textbf{Current Liabilities}}$$

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

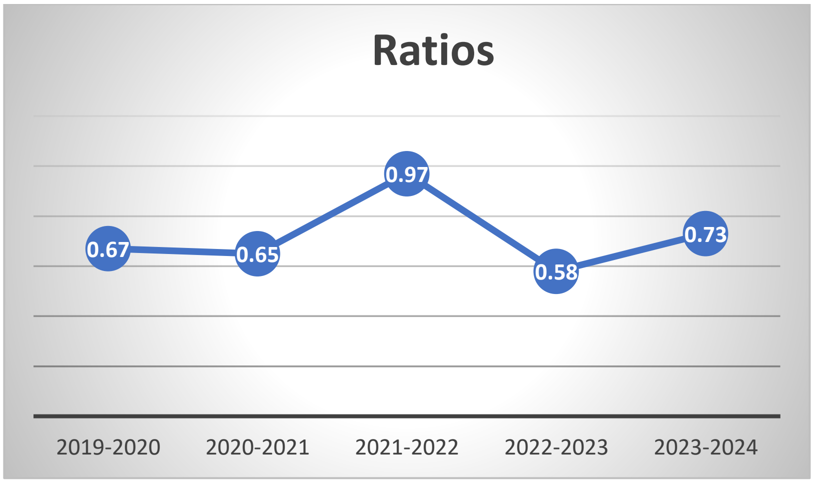

Figure 1 Current ratio

The ratios show poor liquidity, as all values are below 1. The company improved slightly in 2023–2024, but overall, it faces challenges in managing short-term obligations.

Quick Ratio

Quick Ratio also known as Acid Test Ratio or liquid Ratio is mare rigorous test of liquidity than the Current Ratio. This Ratio establishes a relationship between quick or Liquid Assets and Current Liabilities. An asset is liquid if it can be converted into cash immediately, reasonably soon without a loss of value. Cash is the most liquid and included in quick assets are book debts and marketable Securities. Generally a Quick Ratio is of 1:1 is considered to represent a Satisfactory Ratio.

$$\textbf{Quick Ratio} = \frac{\textbf{Quick Assets}}{\textbf{Current liabilities}}$$

Table-2: Quick Ratio

Year	Ratios
2019-2020	0.23
2020-2021	0.3
2021-2022	0.55

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

2022-2023	0.21
2023-2024	0.28

Source: Secondary Data

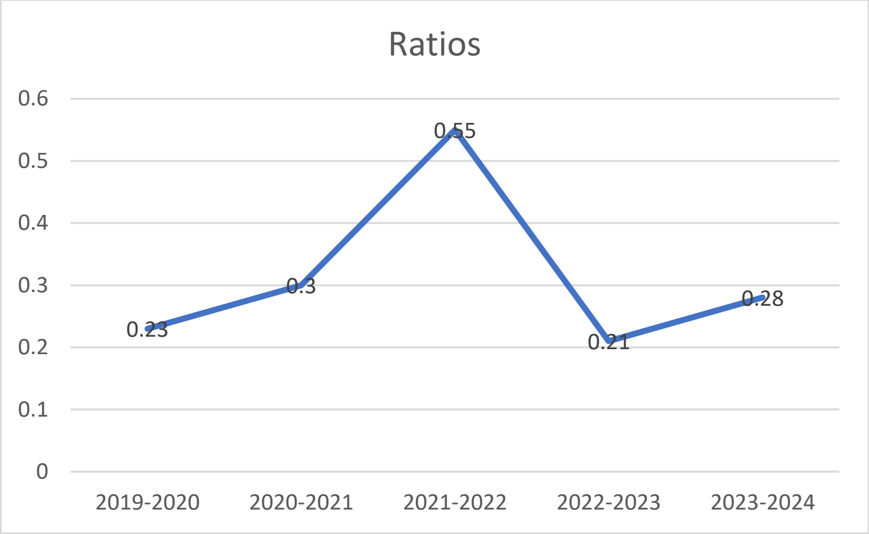

Figure 2 Quick Ratio

The highest ratio was 0.55 in 2021–2022, showing slight improvement, but it declined again in 2022–2023 to 0.21, the lowest point. Overall, the data reflects poor liquidity and weak financial stability over the five-year period.

Inventory Turnover Ratio

The Inventory turnover ratio is a financial ratio showing how many times a company turned over its inventory. Relative to its cost of goods sold (cogs) in a given period. A company can then divide the days in the period.

The inventory turnover ratio can help businesses make better decisions on pricing, Manufacturing, Marketing, and purchasing. It is one of the efficiency ratios (or) activity ratio measures how effectively a company uses its assets.

$$\textbf{Inventory Turnover} = \frac{\textbf{Cost of Goods sold}}{\textbf{Average Inventory}}$$

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

Table 3 Inventory Turnover Ratio

Year	ITR
2019-2020	2.07
2020-2021	0.87
2021-2022	0.82
2022-2023	1.2
2023-2024	0.57

Source Table: Secondary Data

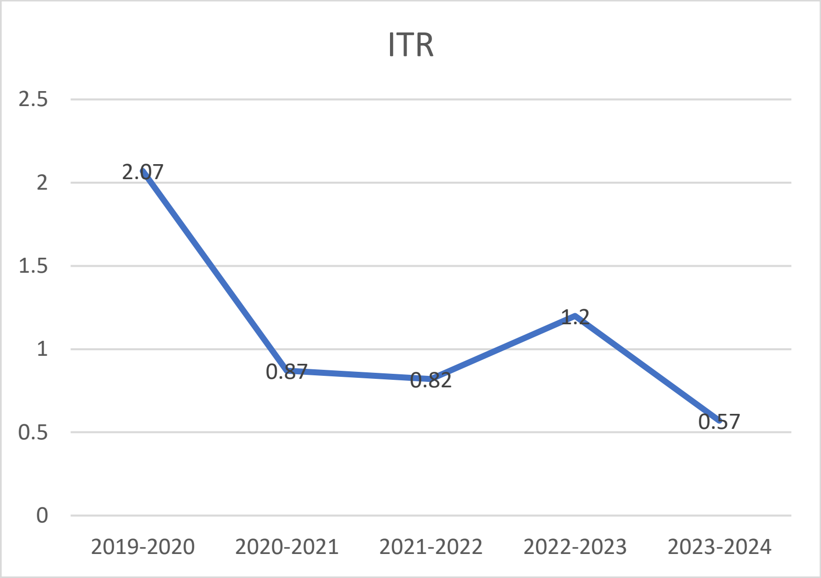

Figure 3 Inventory turnover Ratio

The ITR (Inventory Turnover Ratio) in the table shows how efficiently the company is managing its inventory. A higher ITR (2.07 in 2019–2020) indicates better inventory movement, while the lower ITRs in later years (especially 0.57 in 2023–2024) suggest slow-moving inventory, possible overstocking, or declining sales efficiency.

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.

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

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

Net credit Sales

Debtor's Turnover Ratio = ------------------------------------

Debtors

Table 4 Debtor's Turnover Ratio

Years	Ratios
2019-2020	3.59
2020-2021	2.57
2021-2022	2.88
2022-2023	2.73
2023-2024	3.77

Source Table: Secondary Data

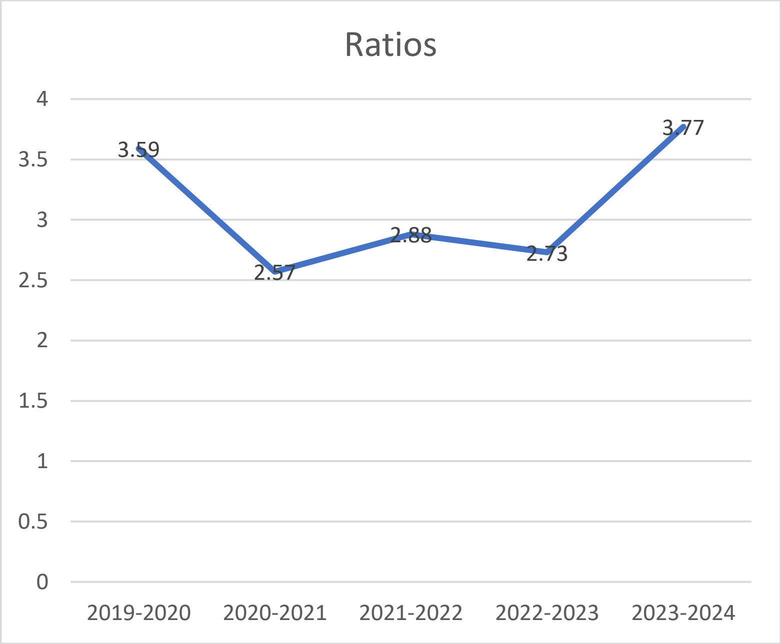

Figure 4 Debtors turnover Ratio

The given data shows an overall improvement in the company's performance. The ratio dropped to 2.57 in 2020–2021, then steadily increased, reaching 3.77 in 2023–2024. This indicates enhanced efficiency, better asset utilization, or improved profitability over time.

ISSN: 2583-276X (Online)
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ANALYSIS OF FINDINGS

The current ratio is in increasing stage from 2019-2024. In this we can know that current ratio at global alloys is at Satisfactory level. 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 2019-2024. Sales of the company has some fluctuations which shows some decreased sales in the year 2022 &2023. The company has some good inventory levels.

RECOMMENDATIONS

Managers

Managers at Vital Paper Products Pvt. Ltd. should focus on tightening control over receivables by setting clear credit policies and actively following up on overdue accounts to reduce the average collection period. Implementing demand-driven inventory management systems, such as EOQ (Economic Order Quantity) and JIT (Just-in-Time), can help lower holding costs and avoid overstocking. To improve liquidity, managers should also negotiate better payment terms with suppliers and explore short-term financing options like invoice discounting or working capital loans. Regular cash flow forecasting and budget reviews will ensure timely identification of funding gaps. Lastly, adopting digital tools such as ERP software can enhance real-time tracking of payables, receivables, and inventory, leading to more informed and agile financial.

Policymakers

To support effective working capital management at Vital Paper Products Pvt. Ltd., policymakers should prioritize access to affordable short-term financing, particularly through subsidized working capital loans and flexible credit schemes tailored for manufacturing SMEs. Simplifying tax compliance and expediting GST refunds will also help reduce the strain on cash flows. Moreover, regulatory frameworks should promote timely payments in B2B transactions by enforcing stricter penalties for payment delays, especially from large buyers. Policymakers can also encourage digital adoption by offering incentives for the use of ERP systems and automated financial tools, which improve accuracy and transparency in managing inventory, receivables, and payables. Finally, capacity-building initiatives such as training programs in financial literacy and working capital optimization will empower businesses like Vital Paper Products Pvt. Ltd. to enhance operational efficiency and financial resilience.

Industry Development

To drive industry development at Vital Paper Products Pvt. Ltd., a strategic focus on optimizing working capital management is essential. The company should adopt modern inventory control techniques like ABC analysis and demand forecasting to reduce excess stock and free up cash. Strengthening the receivables management process through credit risk assessment and automated billing systems can improve cash inflows. Partnering with fintech platforms for supply chain financing can ease working capital pressure while enhancing relationships with vendors. Benchmarking against industry best practices and collaborating with industry associations can help identify new trends and technological solutions. Furthermore, investing in staff training on financial planning, liquidity management, and ERP tools will ensure the workforce is equipped to

ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

manage working capital efficiently, ultimately contributing to the company's scalability and competitiveness in the paper products industry.

Scholarly Contribution

Vital Paper Products Pvt. Ltd. can enhance its scholarly contribution by documenting and sharing its working capital management practices through collaboration with academic institutions and research bodies. Conducting case studies on topics such as inventory optimization, receivables control, and cash flow planning can provide valuable insights for both industry and academia. The company should encourage finance professionals and managers to publish articles in journals, attend conferences, and contribute to white papers that explore practical applications of financial strategies in the paper manufacturing sector. By partnering with universities for joint research, internships, and data analysis projects, Vital Paper Products can help bridge the gap between theory and practice. Such initiatives not only advance academic understanding but also position the company as a knowledge leader in financial and operational efficiency within its industry.

Scope for further study

There is considerable scope for further study in working capital management at Vital Paper Products Pvt. Ltd., particularly given the evolving challenges of the manufacturing and packaging sector. Future research can focus on analyzing the impact of raw material price fluctuations on inventory strategies and cash flow cycles. Additionally, studying the effectiveness of digital tools such as ERP and automated invoicing in managing receivables and payables can offer actionable insights. Comparative studies between Vital and similar firms could help identify industry best practices and gaps in current processes. Furthermore, exploring the relationship between working capital efficiency and firm performance metrics like return on assets (ROA) or profitability could contribute to strategic decision-making. Longitudinal studies assessing how economic shifts or policy changes affect working capital practices at the firm level would also enrich the academic and practical understanding of financial resilience in the paper industry.

Limitations

Vital Paper Products Pvt. Ltd. faces several limitations in its working capital management. The company consistently shows low liquidity ratios, indicating difficulty in meeting short-term obligations. Fluctuating inventory turnover reflects inefficiencies in inventory handling, while delayed receivables affect cash flow. Poor planning and limited use of technology further hamper effective working capital control, leading to operational and financial challenges.

CONCLUSION

Working Capital management aims at more efficient use of a company's resources by monitoring and optimizing the use of current assets and liabilities. The goal is to maintain sufficient cash flow to meet its short-term operating costs and short-term debt obligations while maximizing its profitability. Effectively managing working Capital is must for financial stability and for the success of the business.

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Volume: 4, Issue: 1, Jan -March, 2025

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