International Journal of Multidisciplinary Research and Modern Education (IJMRME)
International Peer Reviewed - Refereed Research Journal, Website: www.rdmodernresearch.com
Impact Factor: 7.315, ISSN (Online): 2454 - 6119, Volume 11, Issue 1, January - June, 2025

A STUDY ON WORKING CAPITAL MANAGEMENT WITH REFERENCE TO MICRO POLYESTER LAMINATION

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Cite This Article: Ranganayaki C, Jayasuruthi J & Naveenkumar C, "A Study on Working Capital Management With Reference to Micro Polyester Lamination", International Journal of Multidisciplinary Research and Modern Education, Volume 11, Issue 1, January - June, Page Number 97-101, 2025.

Abstract:

This study aims to analyze the working capital management practices at Micro Polyester Lamination and their impact on the company's financial performance. The methods employed include a detailed review of the company's financial statements, ratios related to working capital management (such as the current ratio, quick ratio, and cash conversion cycle), and comparison with industry benchmarks. The results show that while the company maintains a relatively stable working capital, inefficiencies in inventory management and accounts receivable cycles affect its liquidity and operational flexibility. A strong correlation was found between working capital management practices and profitability, where the efficient management of current assets and liabilities contributed to a better return on assets. The conclusion highlights the need for Micro Polyester Lamination to focus on optimizing inventory turnover and accelerating receivables collection to improve its cash flow and operational efficiency. Additionally, the study suggests that better management of working capital could lead to enhanced profitability and competitiveness in the market.

Key Words: Working Capital Management, Ratios, Current Assets & Current Liabilities

Introduction:

Working capital management is considered to be a vital issue in a firm's overall financial management. Working capital management has both liquidity and profitability insinuations. Favourable working capital management can be achieved by the finance manager of a firm, by trading off between liquidity and profitability in a precise way. It is learnt, that finest management of working capital positively contributes in creating firms' value. Working capital is the firm's circulating capital representing funds required for meeting day to day operations. There exist two concepts of working capital, gross and net. Gross working capital is the sum total of current assets of a firm and Net working capital is the excess of current assets over current liabilities.

Working capital management is a crucial aspect of financial management that ensures a company has sufficient funds to meet its short-term liabilities and operational needs. Efficient working capital management not only influences the liquidity and solvency of an organization but also affects its overall profitability and growth. In today's competitive market, companies need to balance their current assets and liabilities effectively to sustain smooth business operations and avoid financial distress. This is particularly important for manufacturing companies, such as Micro Polyester Lamination, which operate in a sector where the timely procurement of raw materials, managing inventory levels, and maintaining an efficient accounts receivable cycle are critical to ensuring operational continuity and profitability.

Micro Polyester Lamination is a prominent player in the polyester lamination industry, which is highly dependent on raw materials, production processes, and supply chain management. The company's working capital management practices play a significant role in its ability to manage its operational costs, ensure liquidity, and maintain profitability. Despite having a robust market presence, the company faces challenges related to inventory turnover, cash flow, and accounts receivable, which impact its financial performance. This study aims to examine the company's working capital management practices, identify potential areas of improvement, and analyze their effects on its financial position and operational efficiency. By understanding these dynamics, the company can implement more effective strategies to optimize its working capital, thereby boosting profitability and competitiveness within the industry.

Statement of the Problem:

Micro Polyester Lamination, despite its established position in the market, faces challenges in efficiently managing its working capital, which directly affects its liquidity, profitability, and overall financial health. The company struggles with the optimal utilization of its current assets, particularly in terms of inventory management and accounts receivable. These inefficiencies result in extended cash conversion cycles, increased operational costs, and delayed cash inflows, which hinder the company's ability to meet short-term obligations and reinvest in business growth. The lack of a streamlined working capital management strategy may limit the company's potential to improve profitability and sustain competitiveness in a rapidly evolving industry. Therefore, it is essential to explore the specific issues related to working capital management at Micro Polyester Lamination, identify the underlying causes of these inefficiencies, and propose recommendations that could enhance the company's financial performance and operational effectiveness.

Objectives of the Study:

- To assess the significance of working capital by selecting parameters using current ratio, quick ratio, cash ratio.
- To identify the items responsible for changes in working capital using company balance sheet.
- To make item wise analysis of the components of the working capital.
- To study the liquidity position of the company through current asset, debtors to current asset, cash &bank to current asset and loan & advance to current asset.

Literature Review:

Lakshmi P (2024), an analysis of Indian automobile industry slowdown as an opportunity for development, the automobile industry is one of the largest markets in the world. Nowadays, automobiles have become the necessity for everyone. There is a huge scope for automobiles in India, but nowadays Indian automobile industry is facing a big problem, i.e., slow down. The main purpose of this paper is to discuss the reasons for the slowdown in the automobile industry. It analyses the changing scenario of the automobile industry that influence the purchasing behavior of consumers. It explains the sales analysis of various automobile companies in India. It also gives the scope for the future and highlights the solution with the help of new trends which should be adopted by the automobile companies to capture the market and increase the sales in future. It also throws the light on the new technologies for automobile sectors.

Smita Miglani (2023), The Growth of the Indian Automobile Industry: Analysis of the Roles of Government Policy and Other Enabling Factors, This chapter analyzes the roles of government policy, infrastructure, and other enabling factors in the expansion of the automobile and automotive component sectors of India. Other enabling factors in the growth of the industry include domestic market demand, FDI, JVs, and corporations' competitive strategies. this study tries to evaluate the performance of Indian automobile industry in terms of various financial indicators, sales trend, production trend, export trend etc. for the period of 2003-04 to2009-10.The result suggests that the automobile industry has been passing through turbulent phases characterized by enhanced debt burden, low utilization of assets, and above all, huge liquidity crunch.

Malabika Deo and Rahul P (2022), An analysis of financial health of selected companies in textile industry in India using Altman's Z score, Financial distress is a condition in which corporates face financial problems like inability to pay debts on due dates, reduction in profitability etc. Financial distress may gradually lead companies to bankruptcy and liquidation. Indian textiles industry is a major contributor to the GDP in manufacturing sector. This paper studies the financial health of textile companies using Altman's Z score. The result of the study shows that majority of the textile companies selected for studies were sick for all the three years. It shows the unhealthy condition of textile companies in India.

Jothi, K. & Geethalakshmi, A. (2021), this study tries to evaluate the profitability & financial position of selected companies of Indian automobile industry using statistical tools like, ratio analysis, mean, standard deviation, correlation. The study reveals the positive relationship between profitability, short term and long term capital.

Seth, H., Chadha, S., Ruparel, N., Arora, P. K., & Sharma, S. K. (2020) empirically investigated the relationship between working capital management (WCM) efficiency and exogenous variables of the Indian manufacturing sector along with its sub-industries that are involved in export activities. Panel regression (fixed effects) was used on a sample of 563 Indian manufacturing firms involved in export activities, covering a time period from 2008 to 2018. Industry-wise results showed a significant relation of leverage, net fixed asset ratio, profitability, asset turnover ratio, total asset growth rate and productivity with cash conversion cycle (CCC).

Prabhakaran, G., & Banu, J. N. (2019), A Study on Financial Analysis Of Tata Motors Ltd., this study reveals the prosperity of Tata Motors Company. It can be concluded that inner strength of company is remarkable. Company can further improve its profitability by optimum capital gearing, reduction in administration and financial expenses for the growth of company. The study also covers all the financial analysis of financial ratios of liquidity, profitability liquidity, and profitability.

Research Methodology:

Type of Research:

Analytical Research:

This study adopts an analytical approach to assess the working capital management of Micro Polyester Lamination. It involves analyzing and interpreting secondary financial data, applying financial ratios, and comparing financial statements to evaluate the company's efficiency in managing its working capital.

Data Collection:

Secondary Data:

Data will be collected from secondary sources, such as journals and articles, company balances sheets.

Sampling Method:

Systematic Sampling: A systematic sampling technique will be used to select the data points from the company's financial records. This will involve selecting financial data at regular intervals (i.e., annual financial reports for each year between 2020 and 2024).

Tools Used for Analysis:

- Comparative Balance Sheet
- Liquidity Ratios
- Activity Ratios
- Profitability Ratios

Analysis and Interpretation:

Working Capital:

Particulars	2020-2021	Percentage
Current Assets, Loans and Advances		
Inventory	623.39	42.51
Sundry Debtors	52829	36.02
Cash & Bank Balance	105.58	7.19
Other Current Assets	5837	3.38
Loans and Advances	150.77	10.3
Gross Working Capital (A)	1466.4	100
Current Liabilities & Provision		

Current Liabilities	411.21	87.06
Provision	61.9	12.94
Total Current Liabilities and Provisions(B)	472.03	100
Net Working Capital (A-B)	994.1	

The total current assets, including inventory, sundry debtors, cash & bank balance, other current assets, and loans & advances, amount to 623.39, representing 42.51% of the gross working capital. Among these, inventory accounts for the largest share at 36.02%, followed by sundry debtors at 7.19%. The cash & bank balance and other current assets together contribute 3.38% and 10.30%, respectively. The company's gross working capital is 1466.40, fully utilized across the various asset categories, indicating a robust allocation toward current operations.

On the liabilities side, current liabilities and provisions total 472.03, with current liabilities making up 87.06% of this figure, and provisions accounting for 12.94%. The net working capital, calculated as the difference between current assets and current liabilities (A-B), stands at 994.10, reflecting a positive liquidity position.

Changes in Working Capital:

Particulars	**Balance**		**Changes In Working Capital**	
	2020	**2021**	**Increase**	**Decrease**
Current Assets				
Inventories	623.39	706.99	83.6	--
Sundry Debtors	528.29	543.83	15.53	--
Cash & Bank Balance	105.87	154.9	49.03	--
Other Current Assets	58.37	54.77	--	3.59
Loans And Advances	150.77	71.63	--	79.14
Total (A)	1466.71	1532.14		
Current Liabilities				
Current Liabilities	411.21	423.23	--	12.21
Provision	61.09	88.65	--	27.55
Total (B)	472.31	512.08	--	--
Working Capital				
(A-B)	994.4	1020.05	--	--
Increasing In Working Capital	25.65	--	--	25.65
Total	1020.05	102.05	148.16	148.16

For current assets, there is an increase in inventories, sundry debtors, and cash & bank balances, with notable increases in inventories (+83.60) and sundry debtors (+15.53). However, there is no change in other current assets or loans and advances. The total current assets (A) have increased from 1466.71 in 2020 to 1532.14 in 2021, reflecting an overall growth in the company's short-term asset base.

On the current liabilities side, current liabilities increased by 12.21, from 411.21 in 2020 to 423.23 in 2021. Provisions also increased by 27.55, moving from 61.09 to 88.65. As a result, the total current liabilities and provisions (B) rose from 472.31 to 512.08.

Working capital, calculated as the difference between current assets and current liabilities (A-B), increased from 994.40 to 1020.05, indicating a growth of 25.65 in working capital. This reflects an improvement in the company's liquidity position, as it has more resources available to cover its short-term obligations.

Liquidity Ratio:

Current Ratio:

Year	**Current Assets**	**Current Liabilities**	**Ratio**
2019-2020	1468	472.31	3.11
2020-2021	1533	512.08	2.99
2021-2022	1995	730.57	2.73
2022-2023	2390	878.23	2.72
2023-2024	1994.4	677.73	2.94

In 2019-2020, the company had current assets of 1468 and current liabilities of 472.31, resulting in a current ratio of 3.11. In 2020-2021, the ratio decreased to 2.99, despite an increase in both current assets (1533) and current liabilities (512.08). This downward trend continued in the following years, with the ratio falling to 2.73 in 2021-2022 and 2.72 in 2022-2023, reflecting a decline in liquidity, though still above the commonly acceptable threshold of 2. The current ratio slightly improved to 2.94 in 2023-2024, with current assets at 1994.4 and current liabilities at 677.73, showing a mild recovery in liquidity. Overall, while the company still maintains a healthy liquidity position, the decreasing trend in the current ratio over the years warrants monitoring for potential future challenges in meeting short-term obligations.

Inventory Turn Over Ratio:

Year	**Cost of Goods Sold**	**Average Stock**	**Ratio**
2019-2020	2939	547.74	5.36
2020-2021	3955.18	556	7.11
2021-2022	5207.7	704	7.39
2022-2023	7034.89	1023.21	6.88
2023-2024	1812.89	1101.72	1.64

In 2019-2020, the company had a COGS of 2939 and an average stock of 547.74, resulting in a stock turnover ratio of 5.36. The ratio increased in the following years, reaching 7.11 in 2020-2021 and 7.39 in 2021-2022, indicating improved efficiency in inventory management and faster inventory turnover. However, in 2022-2023, the ratio decreased slightly to 6.88, reflecting a slower turnover rate, despite a significant rise in COGS (7034.89) and average stock (1023.21). In 2023-2024, there was a sharp decline in the stock turnover ratio to 1.64, with COGS dropping significantly to 1812.89 and average stock increasing to 1101.72. This sharp drop in the ratio suggests that the company is holding onto more inventory relative to its sales, which may indicate inefficiencies or a slowdown in sales or production.

Findings:

- The company’s total current assets amount to 623.39, representing 42.51% of the gross working capital of 1466.40. Inventory holds the largest share at 36.02%, followed by sundry debtors at 7.19%. Cash & bank balances and other current assets contribute 3.38% and 10.30%, respectively. Current liabilities and provisions total 472.03, with current liabilities comprising 87.06% and provisions 12.94%. The net working capital, which is the difference between current assets and liabilities, stands at 994.10, indicating a positive liquidity position.
- The company experienced a positive shift in its financial position from 2020 to 2021, as evidenced by an increase in total current assets from 1466.71 to 1532.14. Notably, inventories saw a significant rise of 83.60, followed by sundry debtors, which increased by 15.53, contributing to the overall growth in current assets. However, cash and bank balances also saw a moderate increase of 49.03, while other current assets and loans and advances remained unchanged. On the liabilities side, current liabilities and provisions increased from 472.31 to 512.08, driven by a rise in both current liabilities (+12.21) and provisions (+27.55).
- The company's current ratio has gradually decreased from 3.11 in 2019-2020 to 2.72 in 2022-2023, despite increases in both current assets and liabilities. While still above the acceptable threshold of 2, the declining trend in liquidity suggests potential future challenges in meeting short-term obligations. However, the current ratio slightly improved to 2.94 in 2023-2024, indicating a mild recovery in liquidity. The company maintains a generally healthy liquidity position, but the decreasing trend should be monitored closely.
- The company's stock turnover ratio increased from 5.36 in 2019-2020 to 7.39 in 2021-2022, indicating improved inventory management and faster turnover. However, the ratio slightly decreased to 6.88 in 2022-2023, despite a rise in both COGS and average stock. In 2023-2024, the ratio sharply dropped to 1.64, suggesting that the company is holding more inventory relative to its sales. This significant decline may indicate inefficiencies or a slowdown in sales or production.

Suggestions:

- It is essential for the company to focus on optimizing its inventory management. This could involve better forecasting of demand, streamlining the production process, or implementing just-in-time inventory practices to reduce the amount of unsold stock.
- The company should also consider periodically reviewing inventory levels to avoid excess stock and ensure that inventory turnover remains efficient.
- Implementing stricter credit policies, offering early payment discounts, or improving follow-up on overdue accounts could help reduce the amount of capital tied up in receivables and improve cash flow.
- The company should focus on improving cash flow management by ensuring faster conversion of inventory and receivables into cash. Tightening control over current liabilities, such as negotiating longer payment terms with suppliers, could also help manage liquidity better.
- The increase in COGS, combined with a drop in stock turnover, could suggest inefficiencies in production or an increase in raw material costs. Conducting a detailed review of the cost structure and looking for opportunities to optimize operational costs could help improve profitability.

Conclusions:

Working capital management plays a crucial role in maintaining the liquidity and operational efficiency of Micro Polyester Lamination. The company's ability to manage its current assets and liabilities effectively is integral to sustaining its short-term financial health and supporting its growth. Despite experiencing a positive shift in its financial position from 2020 to 2021, with increases in both current assets and liabilities, the company’s current ratio has been gradually declining. This trend suggests a potential risk to liquidity in the future if not addressed, even though it remains above the acceptable threshold of 2.

The company’s inventory turnover, which improved in earlier years, showed a significant decline in 2023-2024, indicating inefficiencies in inventory management. This decline, alongside an increase in both inventory and sundry debtors, points to the need for more effective management strategies to optimize working capital. A focus on reducing excess inventory, improving receivables collection, and ensuring faster inventory turnover would be key to improving liquidity and profitability.

Furthermore, while the net working capital has remained positive, it is essential for Micro Polyester Lamination to closely monitor its working capital components and make adjustments to its current asset and liability structure. Streamlining operations, negotiating better payment terms with suppliers, and adopting more efficient inventory management practices would enhance the company’s ability to meet short-term obligations while boosting profitability. Overall, proactive management of working capital, including inventory, receivables, and cash flow, will be critical for the long-term sustainability and financial stability of the company.

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