IJARETY

International Journal of Advanced Research in Education and TechnologY (IJARETY)

Volume 12, Issue 3, May-June 2025

Impact Factor: 8.152

www.ijarety.in editor.ijarety@gmail.com

International Journal of Advanced Research in Education and TechnologY(IJARETY)

| ISSN: 2394-2975 | www.ijarety.in| | Impact Factor: 8.152| A Bi-Monthly, Double-Blind Peer Reviewed & Refereed Journal |

|| Volume 12, Issue 3, May - June 2025 ||

DOI:10.15680/IJARETY.2025.1203164

A Study on Working Capital Management at KCP Limited

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ABSTRACT: Working capital management is a critical aspect of financial strategy and operational efficiency for any organization. It refers to the administration of current assets and current liabilities to ensure smooth day-to-day business operations without liquidity disruptions. The current dynamic and competitive business environment demands that firms maintain an optimal level of working capital to balance profitability with risk. This research article presents an in-depth study of working capital management practices at KCP Limited, a heavy engineering manufacturing company operating in India. The study spans a five-year period from 2019-20 to 2023-24, employing secondary data sources such as annual reports and financial statements. Through financial tools including ratio analysis, comparative financial statements, and trend analysis, the research evaluates how effectively. KCP Limited manages its working capital components—inventory, receivables, payables, and cash. The results indicate fluctuating efficiency in liquidity management, with particular challenges in accounts receivable and inventory control. The findings underscore the importance of strategic financial planning and suggest the implementation of automated processes and tighter credit controls to improve working capital cycles.

Findings suggest that fluctuations in working capital performance impact both cost efficiency and profitability. Key issues include delays in receivables, inconsistent inventory holding periods, and limited synchronization between procurement and production. The research proposes practical recommendations such as implementing automated receivable tracking systems, reinforcing internal credit control policies, and aligning inventory procurement with real-time production schedules. The study concludes that a focused approach to working capital can substantially enhance operational performance and financial stability in capital-intensive industries.

KEYWORDS: Working Capital Management, Liquidity Management, Operational Efficiency, Financial Strategy, Ratio Analysis, Trend Analysis, Comparative Financial statements, Inventory Control, Accounts Receivable, Accounts Payable, Cash Management, Automated Systems, Procurement and Production Alignment, Cost Efficiency, profitability, Capital-Intensive Industries.

I. INTRODUCTION

Working capital management is a fundamental aspect of financial management that focuses on handling a firm's short-term assets and liabilities to maintain liquidity, operational continuity, and financial stability. It involves the efficient administration of current assets such as cash, accounts receivable, and inventory, as well as current liabilities including accounts payable and short-term borrowings. The primary objective of working capital management is to ensure that the organization has sufficient liquidity to meet its day-to-day operating expenses and short-term obligations without compromising its profitability or financial health. Effective management of working capital not only supports business efficiency but also contributes to improved financial performance and reduced operational risk.

Experts in the field have offered definitions that underscore the strategic role of working capital. According to Prasanna Chandra, "working capital refers to the firm's investment in current assets. Current assets are those assets which can be converted into cash within a year and include cash, short-term securities, debtors (accounts receivable), and inventories." Similarly, Guthmann and Dougall define working capital as "the excess of current assets over current liabilities." These perspectives highlight that working capital is not just a measure of liquidity but also a key indicator of the firm's ability to balance short-term financial commitments with resource optimization. ndustry experts have emphasized the strategic importance of working capital as both a liquidity measure and a performance enhancer. Prasanna Chandra defines working capital as "the firm's investment in current assets," which typically include items convertible into cash within one year, such as inventory, receivables, and marketable securities. Complementing this, Guthmann and Dougall describe working capital as "the excess of current assets over current liabilities," underscoring

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its role in measuring a firm's operational flexibility and solvency. These perspectives collectively affirm that working capital is more than just a financial metric—it is a dynamic tool for balancing risk, return, and operational continuity.

In the context of capital-intensive industries such as engineering and manufacturing, where inventory cycles are long and receivables substantial, managing working capital becomes even more critical. Firms like KCP Limited must maintain a delicate equilibrium between liquidity and profitability to ensure that neither operational capability nor financial integrity is compromised. Thus, the study of working capital management not only reflects on how companies manage internal resources, but also serves as a benchmark for assessing managerial efficiency and strategic financial planning..

II. OBJECTIVES OF THE STUDY

- Assesstheeffectivenessofworkingcapitalmanagement.
- Tostudytheneedforworkingcapitalrequirementsinorganizations.
- Analysetheimpactofworkingcapital management.
- Tofindoutthechangesintheworking capital of KCP Ltd usingcomparativefinancial statement analysis.

III. SCOPEOFTHESTUDY

- **Liquidity and solvency:** By analyzing working capital management, I can assess whether a company has enough resources to cover its short-term obligations, avoiding liquidity issues that could impact operations.
- **Operational Efficiency:** Efficient working capital management helps KCP Limited maintainanoptimalbalancebetweeninventory,receivables,andpayables.Thisensures smooth production and delivery without over-investing in resources.
- **Costcontrol:** Bymanaging working capital effectively, KCP Limite dcanreduce excess inventory or accounts receivable, thereby lowering financing costs and avoiding unnecessary expenses.
- **Growth and Expansion:** For KCP Limited to invest in new projects, research and development, or expand its capacity, working capital management ensures there is enough cash flow to fund these activities without taking on excessive debt.

IV. REVIEW OF LITERATURE

Vijaykumar and A. Venkatachalam (1996) the study focuses on Tamilnadu Sugar Corporation for the period of 1985-86 to 1993-94. That indicates the corporation has maintained a moderate level of working capital. In the long term, funds have been used for meeting short-term liabilities and excess liabilities. This period of study to as affected the profitability.

Bansal (2001) researcher study the working capital management in Himachal Pradesh agro industriesfortheperiodof1985-86to1994-95withthehelpofvariousfinancialtoolsthatare define working capital ,cash inventory, receivable and production capacity have not been managed properly by the company under study.

Arindam Ghosh (2007) "Working Capital Management Practice in some selected industries inIndia–AcasestudyofimpactofworkingcapitalratiosonprofitabilityinCementIndustry". The study, which attempted to examine the efficiency of working capital management of the Indian cement companies during 92-93 to 2001–02.

Raheman and Nasr (2007) examined Pakistani firms and concluded that longer CCC adversely affects a firm's profitability, highlighting the need for efficient working capital practices.

Thappa Sankar (2007) focuses on the importance of proper working capital management of Sun Pharmaceutical Company. The paper throws light on the concepts of working capital, working capital policy, component sofworking capital and factors affecting working capital in the Sun Pharma Industries Ltd during the last five years, an did en tifiescerta in factors which are responsiblefortheimprovementofworkingcapitalofthecompany.Thearticleconcludeswith a warning to the Company that if satisfactory level of working capital is not maintained, the company would become bankrupt.

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Sharma Ashok and Kumar (2011) in this study including effect of working capital on profitability of Indian firms. The researcher finding depart from the various international markets. The result shows that working capital management and profitability in positively corelated in Indian companies .the research shows the inventory of no. of day and no. of days account. Payment is negatively whereas no. of days accounts receivable and cash conversion period a positive relationship with corporate profitability.

K Madhavi (2014) the researcher define the role of working capital management in profitability as well as liquidity power of firm .the researcher get comparative analysis of two paper mill which is located in Andhra Pradesh to examine and evaluate its current financial position,solvency,liquidity,efficiencyandprofitabilitybyadoptingratioanalysisfortheyear 2002to2011financialyear.Finallyconcludedstudytheattentionofthemanagementtoinduce effective utilization of cash balances and quick ratio may be liquidity position.

PratapSinghandKumar(2014) ProvidedacomprehensiveoverviewofWCManditsimpact on firm performance, identifying potential future research areas.

Gayathri J (2015) this study getting overall review about working capital management. This case study depending textile industry to analyses better understanding of methodology used, limitations of various available estimation procedures and database. This review empirical study explores the avenue for future and present research effort related to the subject matter. There is various research studies different aspect use for financial performance of textile industry.

Mr.V.Venkatachalam (2016), the researcher conducted a study on “Working Capital Management on Mahindra and Mahindra Private Limited”.The main objective of the study is toanalyzewhetherthecompaniesareviableinthelongrunthroughratioanalysisandstatement of changes in working capital.

M.S. Divya (2017), in a study published in the International Journal ofAdvanced Research, emphasized that the proposed future research directions outlined in the paper may contribute significantly to a deeper understanding of the determinants and practices of working capital management.

Noraisah Sungip (2018) conducted an empirical study on the impact of working capital management on profitability, usingdata from803 companies listed on Bursa Malaysiaduring the period 2010–2014. The study employed panel data analysis and revealed insightful relationships between working capital practices and firm profitability.

Kayani,DeSilva&Gan(2019) Acomprehensivesystematicliteraturereview(SLR)covering 187 studies from 1980 to 2017. It highlights that most WCM research focuses on empirical effectsonfirmperformance,whilebehavioural,qualitative,andtheory-buildingstudiesremain rare.

Dr.V.Bhuvaneswari(2020)highlightedtheworkingcapitalwhichwilldeterminewhetherthe position ofthecompany from theworkingcapital point ofviewis sound and satisfactory. She concludedthattheoverallworkingstability,soundnessandoverallfinancialperformancehave improved over the years.

Yadav(2021)examinedfirmsinthefast-movingconsumergoods(FMCG)sectorandobserved a negative relationship between the average collection period and firm performance. The findings support the notion that the timely collection of receivables enhances operational efficiency.

Khan (2021) analyzed the effect of COVID-19 onWCM practices in emerging markets.The researchfoundthatfirmsshiftedfocustocashpreservation,adoptedstrictercreditpolicies,and extended payment terms to manage financial uncertainties during the pandemic.

Zimon &Tarighi (2021) Global bibliometric and thematic mapping study that analyzes both static (e.g., current ratio) and dynamic (e.g., CCC) liquidity indicators, reviews WCM-performancelinks,andhighlightsrolesofmacroeconomicfactors,firmsize,andglobalization. (You may want to verify details via MDPI or similar sources.)

Patel(2022)performedasectoralcomparisonofWCMstrategiesacrossmanufacturing,retail, and service industries in India. The study revealed that manufacturing firms prioritized inventory turnover,while service-based firms emphasizedreceivables management dueto the nature of their cash flows.

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Gupta(2023)exploredtheimpactofdigitaltoolslikeERPsystemsandAIonworkingcapital optimization. Through multiple case studies, the research demonstrated that automation improved forecasting accuracy, reduced excess inventory, and minimized receivable delays.

Roy (2023) focused on micro, small, and medium enterprises (MSMEs) in India. The study showed that due to limited access to external financing, MSMEs relied heavily on efficient WCM practices—especially in managing payables and receivables—to maintain liquidity.

Sharma (2024) highlighted a novel perspective by integrating Environmental, Social, and Governance (ESG) factors into WCM. The research proposed that sustainable sourcing, fair supplier payments, and ethical credit terms are becoming part of modern WCM frameworks

V. RESEARCH METHODOLOGY

Research is a systematic and scientific process of collecting, analyzing, and interpreting information to answer questions or solve problems. It involves a structured inquiry that uses accepted scientific methods togather data, draw conclusions, and contribute to knowledge in a specific field.

The study uses an analytical research design, focusing on evaluating the working capital management of KCP Limited through financial data analysis. Tools like ratio analysis and comparative statements are used to examine trends, efficiency, and the impact of working capital on the company's liquidity and profitability.

Data collection is one of the most important aspects of research. The information through research methodology must be accurate and relevant. The data collection method can be classified into two methods.

papers. The secondary data for the study was collected from the following resources:

- OfficialWebsiteofKCPLimited
- Financialjournalsand textbooks
- Annual reports and audited financial statements of companies (e.g., balance sheets, income statements, cash flow statements).

This study adopts a quantitative research approach, primarily analyzing numerical data on working capital components and their impact on firm profitability. By utilizing financial statements and ratio analysis, the research aims to establish measurable relationships between variables such as current assets, current liabilities, cash conversion cycle, and profitability indicators like net profit margin.

SAMPLINGPLAN
Sampling Unit: KCP Limited (Heavy Engineering Division)
Sampling Size: 5financial years (2019–20to2023–24)

The study covers a five-year period, from Financial Year 2019–20 to 2023–24. This duration provides a clear understanding of trends and fluctuations in the company’s working capital management.

VI. DATA ANALYSIS

Data analysis is the process of inspecting, cleansing, transforming, and modeling data withthegoalofdiscoveringusefulinformation,drawingconclusions,andsupportingdecision- making. It involves examining large datasets to identify trends, patterns, and anomalies that can be used to gain insights and make better decisions.

VI. FINDINGS OF THE STUDY

- The current ratio improved from 0.67 in 2019-20 to 1.13 in 2023-24, indicating better liquidity and stable short-term financial health after a weak position in 2019-20.
- WorkingCapitalTurnoverRatiorosefromanegative6.34inFY2019–20toapeakof 58.87 in FY 2022–23, then declined to 29.18 in FY 2023–24, reflecting strong but inconsistent efficiency in working capital utilization.

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➢ InventoryTurnoverRatioincreasedfrom5.67inFY2019–20to10.49inFY2021–22,and stabilized near 9 times by FY2023–24, indicating improved inventory management with room for more consistency.

➢ Trade Receivables Turnover Ratio stayed strong between 23–26 times throughout the 5 years,reflectingefficientcreditrecovery.AslightdeclineinFY2023–24callsforongoing monitoring.

➢ Trade Payables Turnover Ratio increased from 2.24 to 4.15, indicating faster supplier payments and better liquidity, but potentially reduced credit flexibility.

➢ The Net Operating Cycle remained negative (2019-20 to 2023-24), indicating efficient supplier credit use. It improved from a peak negative of -98 days (2020-21) to -30 days (2023-24) due to better payable and inventory management, reflecting improved working capital efficiency and liquidity.

➢ Gross Profit Ratio Peaked at 16.66% in FY 2020–21, dropped to 1.87% in FY 2022–23, and recovered slightly to 3.66% in FY2023–24. Margins are weak, requiring tighter cost control

➢ Net Profit Ratio showed fluctuation: improved to 11.87% in FY 2020–21, dropped to 1.53% in FY 2022–23, and recovered to 2.65% in FY 2023–24. Indicates unstable profitability.

➢ ThenetworkingcapitalforFY2019–20worsenedto–147.18crore,duetodecliningassets & rising liabilities.

➢ The net working capital for FY 2020–21: Improved to 70.10 crore, with higher assets & lower liabilities.

➢ Thenet working capital forFY2021–22: Slight increaseto74.48 crore,showingstability with rising borrowings.

➢ The net working capital for FY 2022–23 dropped to 28.31 crore, due to lower cash andincreased liabilities.

➢ ThenetworkingcapitalforFY2023–24:Recoveredto58.24crore,withreducedborrowings and improved cash management.

VIII. SUGGESTIONS

➢ Improve Liquidity Planning develop a more consistent strategyfor managing current assets and liabilities to maintain stable liquidity across all years.

➢ OptimizeWorkingCapitalUsagealigninventory,receivables,andpayablesmanagement with the sales cycle to avoid over-investment and idle resources.

➢ EnhanceInventoryManagementimplementJust-in-Time(JIT)orsimilar inventory techniques to reduce holding costs and avoid stockouts or overstocking.

➢ Strengthen Credit Policies improve debtor evaluation and enforce timely collectionto shorten the average collection period and boost cash inflows.

➢ BalanceSupplierPaymentsWhiletimelypaymentbuildstrust,trytonegotiate favorable credit terms to retain cash flexibility.

➢ TightenCostControls Reassesssuppliercontracts,reduceunnecessary overheads, and streamline operations to improve gross and net profit margins

➢ FocusonProfitStabilizationMonitorprofittrendsregularlyandfocusonincreasing operational efficiency and revenue generation to avoid volatility.

➢ ReduceDependenceonShort-TermBorrowingStrengtheninternalcashflowsandrely less on external short-term debt to improve financial stability.

➢ Improve Cash Flow Forecasting Use data-driven forecasts to predict working capital needs accurately and manage sudden changes in demand or cost.

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