



Article Title: A Study on Working Capital Management Kerala Automobiles Limited Aaralumoodu, Neyyattinkara

A Study on Working Capital Management Kerala Automobiles Limited Aaralumoodu, Neyyattinkara

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ABSTRACT

In this project title “A Study on working capital management at Kerala Automobiles Limited”. The study aims to analyses the liquidity profitability and solvency position of the firm using the financial tools. The study’s made based on financial statement for the past five years of KAL using financial tools such as ratio analysis, comparative balance sheet analysis, and working capital analysis. By combining these tools it enabled to determine the results in effective’s manner. The study is made to evaluate the working capital get operational results as well as to known the future progress of business concern. This study not only focus on the working capital management of the firm but also serves as a stepping stone to make remedial measures ensuring future business prospectus of KAL. To analyses the overall business activities, financial statement of the company for the past five years from 2017-2022 was taken into consideration. The firm having effective infrastructure facilities and skilled personal and its effective utilization could result into better attainment of business goals and thereby in attaining the good will of the company.

1 Introduction

Working capital refers to that portion of an organization’s capital that is required in the short-run to finance current assets such as cash, bank balance, debtors, marketable securities, bills receivable and inventories. Working capital is the capital required for meeting the needs of current operations. Working capital management involves efficient management of different elements or components of working capital such as cash, inventories, accounts receivable and accounts payable. It should result in determining the optimum level of investment in each of working capital. The basic objectives of financial management is to maximize the shareholder’s wealth. This is possible by the extent of performance of an organization is turnover/sales. Sales are not converted into cash instantaneously. This is on account of credit extended by firms to customers. There is time lag between sale of goods and receipt of cash. If adequate working capital is not available during the period, the firm may not be in a position to pay wages, purchase raw materials, and pay for other expenses required for manufacturing the goods to be sold.



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1.1 Meaning of Working Capital

Working capital refers to that part of firm's capital, which is required for financing short term or current assets such as cash, marketable securities, debtors and inventories.

1.2 Concept of Working Capital

There are two concepts of working capital

- Gross working capital

It refers to the firm's investment in total current or circulating assets.

- Networking capital

The term "Net working capital" has been in two different ways:

It is the excess of current assets over current liabilities. This is, as a matter of fact, the most commonly accepted definition. Some people define it as only the difference between current assets and current liabilities. The former seems to be a better definition as compared to the later.

It is portion of a firms current assets which is financed by long term funds

1.3 Importance of Working Capital Management

Working capital management is important due to many reason. Working capital management is a very important component of the corporate finance because it directly affect the liquidity and profitability of the company. The topline(sales)of company might have grown for a company, but the bottom line(net profit)could have been weighed down by various factors like rising inventory levels, higher accounts receivables, resulting in more borrowings, and hence, higher interest payments. From a shareholders point of view, the most important aspects is the effective management of working capital by a company, Prudent and effective management of working capital becomes necessary as neither does it come free nor does it come cheap. There is an opportunity cost attached to management of working capital besides the inevitable interest burden that comes due to short term bank borrowings. The cost of working capital can be especially high during times of economic slowdowns as inventories and receivables would rise, bloating the current assets considerably. In addition, current liabilities would not keep pace with current assets, as creditors would shy away in such cases. With wide gap building up between current assets and current liabilities, it becomes more expensive to finance working capital, the result is a huge hit on the profitability.

1.4 Need for Working Capital Management

Management of working capital is necessary for every company. It directly affects the liquidity and profitability of the company. Working capital management include both the management of current assets and current liabilities. Current assets include cash, inventory, debtors, etc. Whereas current liabilities include creditors, short term loan etc. Both current



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assets and current liabilities are necessary for proper running of the organization. So the finance manager has to manage the working capital in such a way as to maximize profitability without impairing its liquidity. This call for setting an optimal level of working capital. Thus the availability of working capital is a prerequisite to run the affairs of the company.

1.4.1 Mission

“To provide value added service and product to the customers and to earn reasonable profit.”

1.4.2 VISION

“TO become a top automobile manufacture of three wheelers in 10 years.”

2 Quality Policy

The management and employees of KAL are committed develop, manufacture, market and service three wheelers enhancing customer satisfaction through a process of continuous improvement of its quality management system.

2.1 Scope of Study

The study focuses on the working capital management of Kerala Automobile limited Aaralumoodu.

2.2 Objectives of the Study

- To know about current working capital position of KAL.
- To analyses the liquidity position of the company.
- To find out the profitability position.
- To find out the changes in networking capital position of the company.

2.3 Tools Used For Analysis of Data

- Ratio analysis
- Statement of changes in working capital management
- Comparative balance sheet

3 Ratio Analysis

Ratio analysis is one of the most powerful tools of financial statements. It is a technique of analysis and interpretation of financial statements. It is the process of establishing and interpreting various ratios for helping in making various decisions. Ratio analysis is a method of analyzing data to determine the overall financial strength and weakness of a firm. A ratio is the relationship between two financial data. In financial analysis ratio is used as the basis for evaluating the financial position and performance of firm. Ratio analysis is an important and



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widely used tool for financial statement.

3.1 Current Ratio

Current ratio is the most common ratio for measuring liquidating being related to working capital analysis it is also the working capital ratio. Current ratio express relationship between current assets and current liabilities.

$$\text{Ratio} = \frac{\text{Current}}{\text{Current liabilities}}$$

3.2 Quick Ratio

Quick ratio is also known as liquid ratio. It is the ratio between quick or liquid assets and quick liabilities. As appointed out the current ratio in the study of solvency may be sometimes is leading due to high ratio of stock to current asset.

$$\text{Quick ratio} = \frac{\text{Liquid asset}}{\text{Current liabilities}}$$

4 Working Capital Turn Over

4.1 Ratio

It is taken as one of the primary indicators of the short term solvency of the business. It establishes the relationship with net sales. This ratio represent the number of times the working capital is turned over in the course of year.

$$\text{Working capital turnover ratio} = \frac{\text{Net sales}}{\text{Net working capital}}$$

4.2 Inventory Turnover Ratio

This ratio is relationship between the cost of the goods sold during a particular period of time and the cost of average inventory during a period. It is expressed in number of times. Stock turnover ratio indicates the number of times the stock has been turned over during the period and evaluated the efficiency with which a firm is able to manage its inventory.

$$\text{Inventory turnover ratio} = \frac{\text{Net sales}}{\text{Inventory}}$$

4.3 Net Profit Ratio

Net profit ratio is used to measure the overall profitability and hence it is very useful to proprietors. This ratio is very useful as if the net profit is not sufficient, the firm shall not be able to achieve a satisfactory return on its investment.



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$$\text{Net profit ratio} = \frac{\text{Net profit}}{\text{Sales}} \times 100$$

4.4 Debt Equity ratio

Debt Equity ratio is based on liability. It measures the relationship of the debt with equity of the firm. The debt to equity ratio may be calculated as,

$$\text{Equity ratio} = \frac{\text{Total Debt}}{\text{Shareholder's Equity}}$$

5 Formatting Tables Ratio Analysis

5.1 Current

Ratio Ideal Norm: 2.1

Year	Current Assets	Current Liabilities	Ratio
2017-2018	89,579,682	233,646,448	0.38
2018-2019	81,659,102	266,131,900	0.306
2019-2020	93,694,211	251,326,768	0.37
2020-2021	94,439,264	249,366,264	0.37
2021-2022	90,555,762	280,207,667	0.323

5.2 Quick Ratio

Ideal Norm: 1:1

Year	Liquid Assets	Current Liability	Ratio
2017-2018	8,898,291	233,646,448	0.038
2018-2019	3,619,870	266,131,900	0.013
2019-2020	22,378,114	251,326,768	0.089
2020-2021	7,917,463	249,366,264	0.031
2021-2022	4,359,051	280,207,667	0.015



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5.3 Working Capital Turnover Ratio

Year	Net sales	Net working capital	Ratio
2017-2018	97,803,213	144,066,766	0.67
2018-2019	61,718,358	184,472,798	0.334
2019-2020	20,878,771	157,632,557	0.132
2020-2021	29,289,191	156,927,000	0.18
2021-2022	27,666,243	189,651,905	0.145

5.4 Inventory Turnover Ratio

Year	Net Sales	Inventory	Ratio
2017-2018	97,803,213	37099174	2.63
2018-2019	61,718,358	36,279,314	1.70
2019-2020	20,878,771	32,555,222	0.64
2020-2021	29,289,191	34,455,909	0.85
2021-2022	27,666,243	35,986,629	0.76

5.5 Net Profit Ratio

Year	Net profit	Net sales	Ratio
2017-2018	60,348,016	97,803,213	61.70
2018-2019	51,515,990	61,718,358	83.46
2019-2020	55,241,379	20,878,771	26.58
2020-2021	50,382,140	29,289,191	17.01
2021-2022	909,963,340	27,666,234	32.90



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5.6 Dept Equity Ratio

Year	Total Debt	Shareholders' Equity	Ratio
2017-2018	148,176,068	103,241,869	1.43
2018-2019	314,958,154	94,194,108	3.34
2019-2020	313,745,081	105,429,050	2.97
2020-2021	294,039,689	135,605,518	2.16
2021-2022	320,908,514	145,413,114	2.20

5.7 Statement of Changes in Working Capital Management

Statement changes in working capital for the year 2017-2018

Particulars	As at 31 st march 2017	As at 31 st march 2018	Increase	Decrease
A. Current assets				
Inventories	44,563,514	37,099,174		7,464,340
Trade Receivable	12,430,950	11,823,206		607,744
Cash	23,386,816	8,898,291		14,488,525
Short-term L&A	30,549,217	31,748,481	1,199,264	
Others	10,530	10,530		
Total current Assets	110,941,027	89,579,682		
B. Current Liabilities				
Short Term Borrowing	62,723,507	57,325,880	5,397,627	



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Trade payable	12,696,839	21,050,594		8,353,755
Other Current Liabilities	130,504,040	140,181,189		9,677,149
Short Term Provision	18,459,407	15,088,785	3,370,622	
Total current Liabilities	224,383,793	233,646,448		
Working Capital (A-B)	- 113,442,766	- 144,066,766	9,967,513	40,591,513
Decrease in working Capital	-30,624,000			-30,624,000
Total	- 144,066,766	- 144,066,766	9,967,513	9,967,513

5.8 Statement of Changes in Working Capital Management

Statement changes in working capital for the year 2018-2019.

Particulars	As at 31 st march 2018	As at 31 st march 2019	Increase	Decrease
A. Current Assets				
Inventories	37,099,174	36,279,314		819860
Trade Receivable	11,823,206	10,476,676		1346530
Cash	8,898,291	3,619,870		5278421
Short-term L&A	31,748,481	31,272,712		475769
Others	10530	10530		
Total Current Assets	89,579,682	81659102		



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B.Current Liabilities				
Short Term Borrowing	56381708	57325880	944172	
Trade payable	24802539	21050594		3751945
Other Current liabilities	160504773	140181189		20323584
Short Term Provision	24442880	15088785		9354095
Total current liabilities	266131900	233646448		
Working Capital(A-B)	-184472798	-144066766	944172	41350204
Decrease in working capital		-40406032		-40406032
Total	-184472798	-184472798	944172	944172

5.9 Statement changes in working capital for the year 2019-2020

Particulars	As at 31 st march 2019	As at 31 st march 2020	Increase	Decrease
A.Current Assets				
Inventories	36279314	32555222		3724092
Trade Receivable	10476676	7809987		2666689
Cash	3619870	22378114	18758244	
Short –Term L&A	31272712	30940358		332354
Others	10530	10530		



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Total Current Assets	81659102	93694211		
B.Current Liabilities				
Short term Borrowing	56381708	54188774	2192934	
Trade payable	24802539	19452041	5350498	
Other Current Liabilities	160504773	151585794		
Short term Provision	24442880	21100159		1657279
Total Current Liabilities	266131900	251326768		
Working capital(A-B)	-184472798	- 157632557	35220655	8380414
Decrease in working capital	26840241		26840241	26840241
Total	-157632557	- 157632557	35220655	35220655

5.10 Statement of changes in working capital for the year 2020-2021.

Particulars	As at 31 st march 2020	As At 31st march 2021	Increase	Decrease
A.Current Assets				
Inventories	32555222	34455909	1900687	
Trade Receivable	7809987	10747456	2937469	



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Cash	22378114	7917463		14460651
Short-Term L&A	30940358	39307906	8367548	
Others	10530	10530		
Total Current Assets	93694211	92439264		
B.Current Liabilities				
Short Term Borrowing	54188774	72353536		18164762
Trade Payable	19452041	23484139		4032098
Other current Liabilities	151585794	146749077	4836717	
Short term Provision	26100159	6779512	19320647	
Total current liabilities	251326768	249366264		
Working capital(A-B)	-157632557	-156927000	37363068	36657511
Decrease Working capital	705557			705557
capital				
Total	-156927000	-156927000	37363068	37363068

5.11 Statement of changes in working capital for the year 2021-2022.



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Particulars	As at 31 st march2021	As at 31 st march 2022	Increase	Decrease
A.Current Assets				
Inventories	34455909	35986629	1530720	
Trade Receivable	10747456	18617762	7870306	
Cash	7917463	4359051		3558412
Short-Term L&A	39307906	31581790		7726116
Others	10530	10530		
Total Current Assets	92439264	90555762		
B.CurrentLiabilities				
Short term Borrowing	57890501	55926879	1963622	
Trade payable	23484139	37298406		13814267
Other current Liabilities	146749077	176378734		29629657
Short Term Provision	6779512	10603649		3824137
Total current Liabilities	234903229	280207668	1963622	47268061
Working capital(A-B)	-142463965	-189651906	13328270	105820650

Decrease in working capital	-47187941			-92492380
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Total	-189651906	-189651906	13328270	13328270
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5.12 Comparative Statement Analysis

Comparative Balance Sheet of Kerala Automobiles Ltd.

Particular	2017-2018	2018-2019	Increase Decrease	Percentage
Assets				
Fixed Asset	13,662,188	12,535,005	1,127,183	-8.25
Current asset	233646448	81659102	151987346	65.05
Total	247308636	94194107	153114529	61.91
Liabilities				
Capital	102281500	102281500	0	
Reserves & surplus	589892751	641408741	-51515990	-8.73
Long Ter Liabilities	349712671	35965450	-9982779	-2.85
Current Liabilities	89579682	266131900	-176552218	19.08

5.13 Comparative Balance sheet of Kerala Automobiles Ltd.

Particular	2018-2019	2019-2020	Increase /Decrease	Percentage
Assets				
Fixed asset	12535005	11734840	800165	6.38



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CurrentAsset	81659102	93439264	11780162	14.42
Total	94194107	105174104	10979997	11.65
Liabilities				
Capital	102281500	109775500	-7494000	-7.32
Reserves Surplus	641408741	696650120	- 55241379	-8.61
Long Ter Liabilities	359695480	440976902	81281452	22.59
Current Liabilities	266131900	251326769	14805131	5.56
Total	1369517591	1498729291	-129211700	-9.43

5.14 Comparative Balance sheet of Kerala Automobiles Ltd.

Particular	2019-2020	2020-2021	Increase/Decrease	Percentage
Assets				
Fixed Assets	11734840	43166253	-31431413	-37,33
CurrentAssets	93439264	92439264	1000000	1.07
Total	105174104	135605517	-30431413	-28.93
Liabilities				
Capital	109775500	109775500	0	0
Reserves &Surplus	696650120	747032260	-50382140	-7.23



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Long Term Liabilities	440976902	523496013	82519111	18.71
Current liabilities	251326769	249366264	1960505	0.78
Total	149872929	162967003	-130940746	-8.73
	1	7		

Comparative Balance sheet of Kerala Automobiles Ltd

Particulars	2020-2021	2021-2022	Increased/Decreased	Percentage
Assets				
Fixed Asset	43166253	54855735	-505391099	-8.54
Current Assets	92439264	90555762	1883502	2.03
Total	13560551	63911311	-503507597	-26.93
	7	4		
Liabilities				
Capital	109775500	109775500	0	0
Reserves & Surplus	74703226	83802860	0.891416188	1.19
	0	0		
Long Term Liabilities	52349601	59345855	-5411089534	-9.67
	3	47		
Current Liabilities	24936626	28020766	-30841404	-12.36
	4	8		
Total	16296700	71625973	-5532927278	-29.45
	37	15		



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6 Conclusion

The study conducted on Kerala Automobiles Ltd on the topic A Study on working capital management at KAL was to analyse the profitability, liquidity, financial performance, of the firm for the past five years commencing from 2017-2022. The working capital analysis was done by using the financial tools such as ratio analysis, comparative balance sheet analysis, and working capital analysis. Working capital management is an important part in KAL financial management decision. The optimal of working capital management is achieved by KAL that manages the tradeoff between profitability and liquidity. The efficient management of working capital plays a crucial role in the successful functioning of a company. The management of working capital may have both negative and positive impact on the company's profitability, which in turn, has negative and positive impact on the company. The working capital facilitates not only the utilization of capacities created by fixed capital, but also often accounts for a major portion of total investment in the business enterprises.

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