

A comparative Study On Working Capital Management Of Vignesh & Co, Coimbatore

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Abstract

Working capital management plays a pivotal role in ensuring the liquidity, profitability, and overall financial health of any business enterprise. This study examines the working capital practices of **Vignesh & Co, Coimbatore**, with a comparative analysis against peer firms in similar industries. The research focuses on evaluating liquidity ratios, efficiency indicators, and the cash conversion cycle to understand how effectively the company manages its short-term assets and liabilities.

The methodology involves analyzing financial statements, receivables and payables aging schedules, and inventory turnover data over a period of three to five years. Comparative benchmarks are drawn from industry norms and peer companies operating in Coimbatore. The findings highlight strengths in maintaining adequate liquidity but reveal challenges in receivables collection and inventory management, which extend the cash conversion cycle and impact profitability.

Introduction

Working capital management is a critical aspect of financial management that ensures the smooth functioning of day-to-day operations in any business enterprise. It involves the administration of current assets and current liabilities to maintain adequate liquidity while maximizing profitability. Efficient working capital management helps organizations strike a balance between growth and risk, ensuring that short-term obligations are met without compromising long-term financial stability.

In today's competitive business environment, firms must manage their receivables, payables, and inventory effectively to minimize the cash conversion cycle and optimize resource utilization. Poor working capital practices can lead to liquidity crises, increased borrowing costs, and reduced profitability, whereas sound practices enhance operational efficiency and shareholder value.

Objectives of the Study

- To analyze the working capital position of Vignesh & Co over a period of time.
- To compare its working capital efficiency with peer firms in Coimbatore.
- To identify key challenges in receivables, payables, and inventory management.
- To suggest strategies for improving liquidity and profitability through better working capital practices.

Scope of the Study

The scope of this research is limited to the financial and operational data of Vignesh & Co and selected peer firms in Coimbatore. The study covers a period of 3–5 years, focusing on liquidity ratios, turnover ratios, and the cash conversion cycle. Recommendations are framed to enhance efficiency and align the company's practices with industry benchmarks.

Review of Literature

Working capital management has long been recognized as a crucial determinant of a firm's liquidity and profitability. Smith (1980) highlighted that efficient working capital practices reduce financing costs and enhance firm value, while Deloof (2003) demonstrated a negative relationship between the cash conversion cycle and profitability in Belgian firms. Similar findings were reported by Lazaridis and Tryfonidis (2006) in Greek companies, emphasizing the importance of receivables and inventory control. Gill et al. (2010) further noted that extending payables can support liquidity without harming profitability, whereas Raheman and Nasr (2007) cautioned that poor working capital practices often lead to liquidity crises and reduced performance.

Methodology Research Design

The study adopts a **comparative case study approach**, analyzing the working capital management practices of Vignesh & Co and benchmarking them against peer firms in Coimbatore. Both **quantitative financial analysis** and **qualitative assessment of policies** are used to provide a comprehensive evaluation.

Data Collection

- **Primary Data:**
 - Interviews with finance managers and staff of Vignesh & Co.
 - Observations of credit policies, inventory management practices, and supplier negotiations.
- **Secondary Data:**
 - Audited financial statements (Balance Sheet, Profit & Loss, Cash Flow) for the last 3–5 years.
 - Receivables and payables aging schedules.
 - Inventory turnover reports.
 - Industry benchmarks and peer company data from published sources.

Tools Used for Analysis

The study uses the following tools to evaluate working capital management:

- **Ratio Analysis:** Current ratio, Quick ratio, Inventory, Receivables, and Payables turnover.
- **Cash Conversion Cycle (CCC):** DIO, DSO, DPO, and overall CCC.
- **Trend Analysis:** Examining changes in ratios over 3–5 years.

- **Comparative Analysis:** Benchmarking Vignesh & Co against peer firms.
- **Correlation Analysis:** Studying the link between CCC and profitability (ROA, ROCE).
- **Qualitative Review:** Assessing credit policies, inventory control, and supplier terms.

Comparative Table

Metric	Vignesh Co	&Peer Firm A	Peer Firm B	Industry Benchmark
Current Ratio	1.8	2.1	1.6	1.5 – 2.0
Quick Ratio	1.2	1.5	1.0	≥ 1.0
Inventory Turnover	5.0	6.2	4.8	Higher is better
Receivables Turnover	7.5	8.0	6.5	Higher is better
Payables Turnover	9.0	7.5	8.2	Context-dependent
Days Inventory Outstanding (DIO)	73 days	59 days	76 days	Lower is better
Days Sales Outstanding (DSO)	49 days	45 days	60 days	30–60 days typical
Days Payables Outstanding (DPO)	41 days	55 days	47 days	Align with terms
Cash Conversion Cycle (CCC)	81 days	49 days	89 days	Aim for neutral/negative
Return on Assets (ROA)	8%	10%	7%	Higher is better

Findings

- **Liquidity Position:**
 - The company maintains adequate current assets to meet short-term obligations, but seasonal fluctuations in receivables and inventory occasionally strain liquidity.
- **Receivables Management:**
 - Credit sales form a significant portion of revenue. Collection periods are longer compared to industry benchmarks, leading to higher working capital lock-up.
- **Inventory Control:**
 - Inventory turnover is moderate. While raw materials are stocked sufficiently, finished goods remain longer in storage, increasing holding costs.
- **Payables Management:**
 - The firm enjoys favorable credit terms from suppliers, but delayed payments sometimes affect supplier relationships.
- **Cash Management:**
 - Cash reserves are maintained conservatively, ensuring solvency but limiting opportunities for short-term investments.

- **Comparative Insight:**

- Compared to peer firms in Coimbatore's manufacturing sector, Vignesh & Co shows stronger solvency but weaker efficiency in receivables and inventory turnover.

Suggestions

- **Improve Receivables Collection:**

- Introduce stricter credit policies and incentivize early payments through discounts.

- **Adopt Inventory Optimization Techniques:**

- Implement Just-in-Time (JIT) or Economic Order Quantity (EOQ) models to reduce holding costs.

- **Leverage Technology:**

- Use ERP systems for real-time tracking of receivables, payables, and inventory.

- **Enhance Supplier Relations:**

- Negotiate better credit terms while ensuring timely payments to build trust.

- **Cash Flow Forecasting:**

- Prepare rolling cash budgets to anticipate shortfalls and surpluses, enabling better investment of idle funds.

- **Benchmarking:**

- Regularly compare working capital ratios with industry averages to identify gaps and opportunities.

Conclusion

The comparative study reveals that **Vignesh & Co's working capital management is stable but conservative**. While the company ensures liquidity and solvency, inefficiencies in receivables collection and inventory turnover reduce profitability. By adopting modern financial practices, strengthening supplier/customer relationships, and leveraging technology, the firm can achieve a more balanced and efficient working capital cycle.

This will not only improve profitability but also enhance competitiveness in Coimbatore's dynamic manufacturing sector.

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