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RESEARCH ARTICLE OPEN ACCESS

A Study on Working Capital Management in Dora Plastics Private Limited (TIRUPATI)

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Abstract:
Working capital management plays an important role in maintaining the financial stability and operational efficiency of a company. The present study focuses on analysing the working capital management practices of Dora Plastics Private Limited. The main objective of the study is to evaluate how effectively the company manages its current assets and current liabilities to ensure smooth business operations. The study is based on secondary data collected from the company's financial statements for selected years. Various financial ratios such as current ratio, quick ratio, and net working capital ratio are used to analyze the liquidity position and efficiency of working capital management. The analysis helps in understanding the changes in working capital and identifying the factors affecting its increase or decrease. The study also highlights the strengths and weaknesses in the company's working capital management and provides suggestions for improving financial efficiency. Overall, effective working capital management helps Dora Plastics Private Limited maintain liquidity, reduce financial risk and improve profitability.

Key Words: Working capital, Ratio analysis, Statement in working capital.

Introduction:

Working capital is regarded as the lifeblood of a business as it ensures the smooth conduct of day-to-day operations and maintains the firm's liquidity position. The success and growth of an enterprise largely depend on the efficient management of working capital, while its mismanagement can result in reduced profitability and even business failure. Working capital is closely related to the operating cycle, which involves the continuous flow of cash into raw materials, work-in-progress, finished goods, receivables, and back into cash. According to Ralph Kennedy and Steward Mc Muller, inadequacy or mismanagement of working capital is one of the leading causes of business risk associated with current operations in accounting terms, working capital is defined as the difference between current assets and current liabilities, also known as net working capital or net current assets. Gross working capital represents the total investment in current assets, whereas negative working capital arises when current liabilities exceed current assets. At the commencement of a business, funds provided by owners and lenders are partly invested in fixed assets, while the remaining portion is used as working capital to meet routine operational needs such as purchasing raw materials, paying wages, and meeting other short-term expenses. Thus, effective working capital management is a vital function of financial management, contributing significantly to operational efficiency, financial stability, and the long-term success of a business enterprise.

Review of Literature:

Shin, H. H. & Soenen, L. (2017) in their article "Working Capital Management and Firm Value" published in the Journal of Financial Economics examined the relationship between working capital management and firm value. The study concluded that efficient management of working capital improves firm value by reducing financing costs and enhancing operational efficiency.

Deloof, M. (2018) in the article "Working Capital Management and Profitability" published in the Journal of Corporate Finance, analyzed the impact of working capital on corporate profitability. The findings revealed

that shorter cash conversion cycles and efficient control of receivables and inventories lead to higher profitability.

Eljelly, A. M. A. (2019) in the study titled "Liquidity–Profitability Trade-off" published in the International Journal of Financial Economics examined the balance between liquidity and profitability. The study highlighted that excessive liquidity reduces profitability, while inadequate liquidity increases financial risk, emphasizing the need for optimal liquidity management.

Kennedy, R. & Mc Muller, S. (2020) in their article "Working Capital Policies and Business Risk" published in the International Journal of Accounting and Finance explored the effect of working capital policies on business risk. The authors found that improper working capital management is a major cause of operational risk and business failure, while balanced policies enhance financial stability.

Smith, J. & Gerstenberg, C. (2021) through their article "Working Capital Management and Liquidity" published in the Journal of Financial Management, studied the role of working capital in maintaining liquidity. The study concluded that effective management of current assets and current liabilities enables firms to meet short-term obligations and improve operational efficiency.

Deloof, M. (2022) in the article "Working Capital and Firm Profitability" published in the Journal of Corporate Finance further emphasized the importance of optimizing working capital levels. The study reinforced that effective control over inventories and receivables positively influences profitability.

Eljelly, A. M. A. (2023) revisited the concept in the article "Liquidity–Profitability Trade off" published in the International Journal of Financial Economics. The findings confirmed that maintaining an optimal liquidity level is crucial for balancing risk and return in firms.

Sharma, R. & Kumar, P. (2024) in their article "Working Capital Practices and Sustainability" published in the Asian Journal of Accounting Research examined the role of working capital management in business sustainability. The study concluded that efficient working capital practices contribute significantly to long-term profitability and sustainable growth.

Summary: Uses a sample of NSE-listed companies to assess WCM's impact on profitability, reaffirming efficient current asset and liability management's importance in firm financial health and growth.

Objectives of the study:

- To evaluate the effectiveness of cash management practices.
- To examine the efficiency of receivables management.
- To study the inventory management system of the organization.
- To assess the impact of cash, receivables, and inventory management on liquidity and profitability.

Need for the study:

Financial Management is an appendage to the Finance function. With the Creation of complex industry structure, the finance function has grown to very great heights. One cannot think of any business activity in isolation from its financial implication. The company is facing problems with inventory mishandling. Defective credit policy and stock collection period. So there is need to study of working capital management in Dora plastics Pvt.Ltd for giving good solutions for it's problems.

Scope of the study:

The prime objective of the company is to obtain maximum profit thought the business. The amount of profit largely depends up on the magnitude of sales. How ever the sale does not convert into cash instantaneously. There is always a time gap between the sales and their actual realization in cash is technical termed as operating cycle. Additional capital required to have uninterrupted business operations, and the amount will be locked up in the current assets. This study was conducted from 2020-2025.

Research Methodology:

RESEARCH DESIGN

Analytical Tool : Analytical tools are techniques used to analyze information and understand the performance or situation of a business.

SOURCES OF DATA

There are two types of data

1. Primary data
2. Secondary data

PRIMARY DATA:

Collected through the discussions from the executives and other staff members of the company.

SECONDARY DATA:

The main sources of secondary data are:

- ❖ Balance sheet/profit and loss a/c
- ❖ The secondary data collected from the financial reports, previous records, published records and other statements provided by finance department of "DORA PLASTICS PVT LTD.

LIMITATIONS OF THE STUDY:

- The ratios are calculated from past five years financial statement and these are not indicators of future.
- The study is based on only on the past records.
- The short span of the time provides also one of limitation.
- Lack of Availability of accurate financial information and completed up so of the company may limits so the Analysis of the study.

4.1 CURRENT RATIO

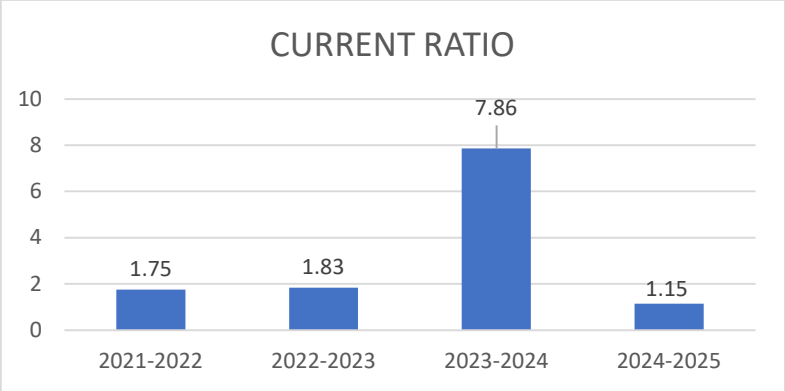
The current ratio measures a firm's short-term solvency by comparing current assets with current liabilities, with an ideal standard of **2:1** indicating a safe margin to meet short-term obligations.

$$current\ ratio = \frac{current\ assets}{current\ liabilities}$$

Table : 4.1 CURRENT RATIO

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
2020-2021	7298225	2212261	1.75
2021-2022	856835	4875235	1.83
2022-2023	17429456	2216073	7.86
2023-2024	6594661	5696773	1.15
2024-2025	8490426	7259690	1.16

Graph4.1 CURRENT RATIO



INTERPRETATION:

The current ratio shows significant fluctuations over the five-year period. It remained at a comfortable level in 2020–21 and 2021–22, indicating adequate short-term solvency. In 2022–23, the ratio increased sharply to 7.86, reflecting excess current assets, mainly high receivables and possible inefficient fund utilization. However, in 2023–24 and 2024–25, the ratio declined to around 1.15–1.16, indicating tight liquidity and a reduced margin of safety, though short-term obligations can still be met.

4.2 QUICK RATIO

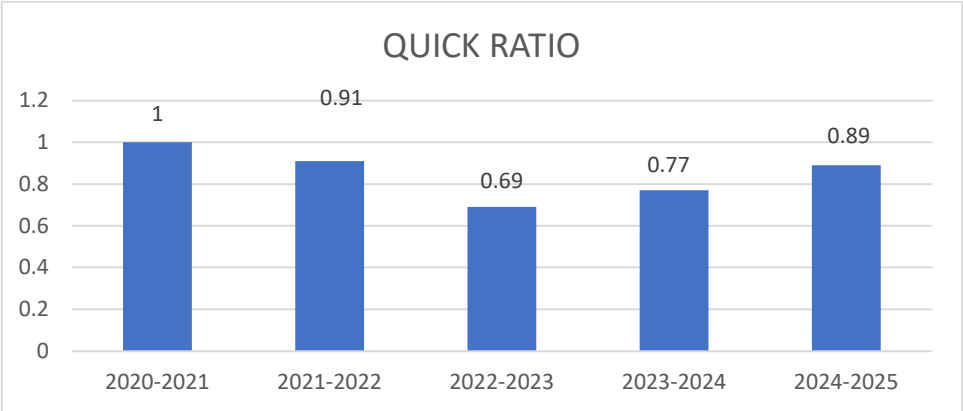
The current ratio measures a firm's ability to meet short-term obligations by comparing current assets to current liabilities, with a satisfactory standard generally considered as 2:1.

$$QUICK\ \ RATIO = \frac{CURRENT\ ASSETS - INVENTORIES}{TOTAL\ CURRENT\ LIABILITIES}$$

TABLENO-4.2 QUICK RATIO

YEAR	CURRENT ASSETS-INVENTORIES	CURRENT LIABILITIES	QUICK RATIO
2020-2021	4880959	4875235	1.00
2021-2022	3107994	3415798	0.91
2022-2023	1538386	2216073	0.69
2023-2024	4393962	5696773	0.77
2024-2025	6448550	7259690	0.89

GRAPHNO-4.2 QUICK RATIO



INTERPRETATION:

The quick ratio shows wide fluctuations during the period. In 2020–21, the ratio was 1.00, indicating just adequate immediate liquidity. It declined in 2021–22 and further in 2023–24 and 2024–25 (below 1), reflecting weak short-term solvency and dependence on inventories or delayed collections. However, in 2022–23, the ratio rose sharply to 6.94, suggesting excess liquid assets, mainly due to a surge in receivables, indicating possible inefficient utilization of funds.

4.3 NETWORKING CAPITAL RATIO (NWC):

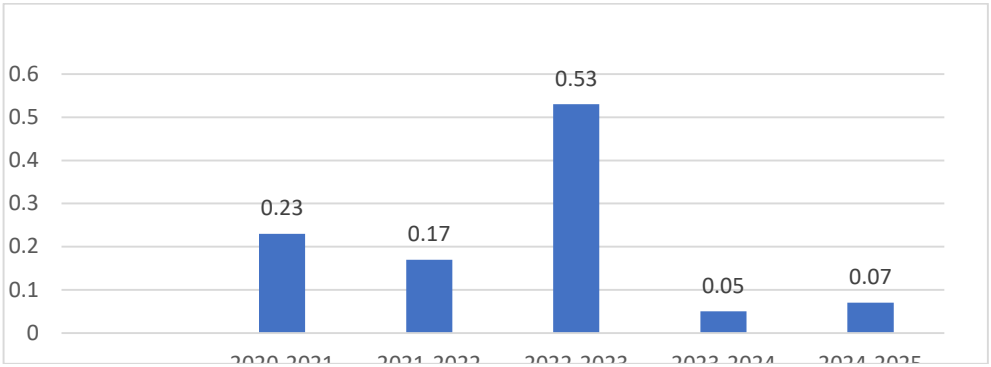
The working capital turnover ratio measures how efficiently a company uses its working capital to generate sales over a given period.

$$NET\ WORKING\ CAPITAL\ RATIO = \frac{NET\ WORKING\ CAPITAL}{NET\ ASSETS}$$

TABLENO:4.3 NET WORKING CAPITAL RATIO

YEAR	NETWORKING CAPITAL	NETASSETS	N.W.C RATIO
2020-2021	3693118	15808403	0.23
2021-2022	2847500	16103210	0.17
2022-2023	15213383	28626173	0.53
2023-2024	897888	15963249	0.05
2024-2025	1230736	17057397	0.07

GRAPH NO-4.3 NET WORKING CAPITAL RATIO



INTERPRETATION:

The Net Working Capital to Net Assets ratio remained low and fluctuating throughout the period. It declined from 0.23 in 2020–21 to 0.17 in 2021–22, indicating reduced investment in working capital. In 2022–23, the ratio increased sharply to 0.53, showing a higher proportion of funds tied up in working capital. However, in 2023–24 and 2024–25, the ratio dropped steeply to 0.05 and 0.07, reflecting a very weak liquidity position and minimal cushion for day-to-day operations.

4.4 FIXED ASSETS TURN OVER RATIO (FAT):

Itshowshowthecompanyusesitsfixedassetstoachievesales.Theformulaisas follows:

$$FIXED\ ASSETS\ TURNOVER\ RATIO = \frac{SALES}{NET\ FIXED\ ASSETS}$$

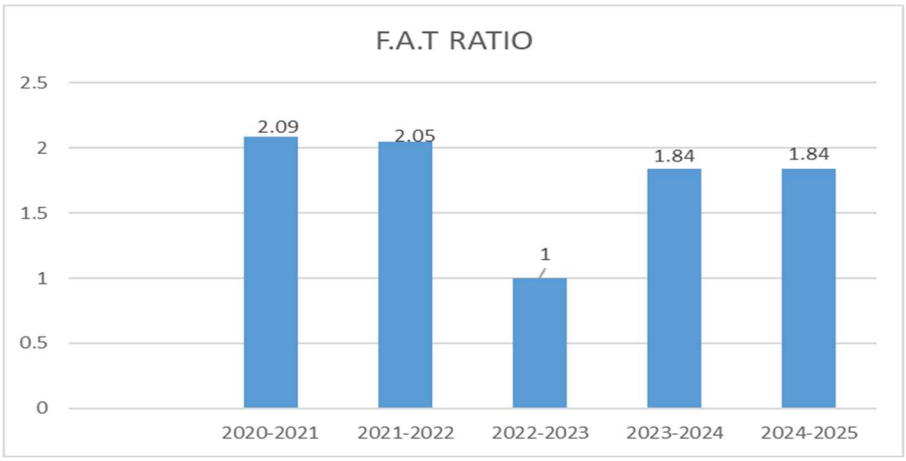
SALES = GROSSSALES

NETFIXEDASSETS = NETBLOCK

TABLE NO:4.4 FXED ASSETS TURN OVER RATIO

YEAR	SALES	NETFIXED ASSETS	F.A.T RATIO
2020-2021	33182207	15808403	2.09
2021-2022	33149158	16103210	2.05
2022-2023	28717072	28626173	1.00
2023-2024	29455716	15963249	1.84
2024-2025	31546070	17057397	1.84

GRAPH NO:4.4 FIXED ASSETS TURN OVER RATIO



INTERPRETATION:

The Fixed Assets Turnover Ratio was stable and efficient in 2020–21 and 2021–22 at around 2.05–2.09, indicating good utilization of fixed assets to generate sales. In 2022–23, the ratio dropped sharply to 1.00, showing under-utilization of fixed assets during that year. However, in 2023–24 and 2024–25, the ratio improved to 1.84, reflecting better and more efficient use of fixed assets in generating sales.

4.5 GROSS PROFIT RATIO:

Thisratioestablishestherelationshipbetweennetprofitandsales.Thisratio indicates the portion remaining out of every rupee worth of sales after all operating costs and expenses have been met. Higher the ratio, the better it is.

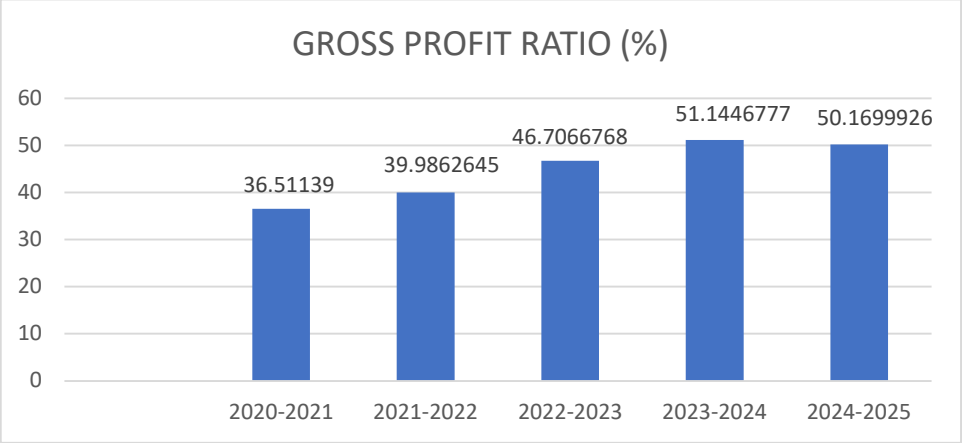
$$GROSS\ PROFIT\ RATIO = \frac{GROSS\ PROFIT}{SALE}$$

TABLE NO-4.5: GROSS PROFIT RATIO

YEARS	GROSSPROFIT RATIO	SALES	GROSS PROFIT RATIO (%)
2020-2021	12115285	33182207	36.51139
2021-2022	13255110	33149158	39.9862645
2022-2023	13412790	28717072	46.7066768
2023-2024	15065031	29455716	51.1446777

2024-2025	15826661	31546070	50.1699926

GRAPH NO 4.5: GROSS PROFIT RATIO



INTERPRETATION:

The Gross Profit Ratio shows a consistent upward trend over the five years. It increased from 36.51% in 2020–21 to over 50% in 2023–24 and 2024–25, indicating improved cost control and higher profitability on sales. The steady rise suggests better pricing policy, efficient production, or reduced cost of goods sold. Overall, the company's gross earning capacity has strengthened significantly during the period.

FINDINGS

1. The organization exhibits instability in maintaining an optimal level of working capital, indicating ineffective management of short-term financial resources and potential challenges in sustaining operational liquidity.
2. The current ratio demonstrates considerable fluctuations across the study period, reflecting inconsistency in the firm's ability to efficiently meet short-term liabilities using its current assets.
3. The quick ratio shows a gradual increase primarily due to the expansion of quick assets, suggesting an improvement in the firm's immediate liquidity and capacity to satisfy short-term obligations.
4. The cash position ratio indicates a declining trend during the analysis period, highlighting a reduction in cash availability and a weakening ability to cover current liabilities promptly.
5. The company demonstrates relative inefficiency in the utilization of working capital resources, which may adversely influence operational performance and limit the effectiveness of short-term financial management.
6. The value of fixed assets fluctuates across the years, indicating irregular investment patterns in long-term assets and reflecting variability in the firm's capital expenditure strategy

SUGGESTIONS

1. The organization should implement effective working capital management practices to maintain optimal liquidity and ensure smooth operational and financial stability.
2. The firm should strengthen current asset and liability management to maintain a stable current ratio and improve short-term solvency position.
3. The company should efficiently manage quick assets to sustain adequate liquidity while ensuring their productive utilization in operational activities.
4. The organization should enhance cash management practices and maintain sufficient cash reserves to ensure timely settlement of short-term obligations.
5. The firm should improve inventory control, receivables management, and cash flow planning to enhance efficiency in working capital utilization.

6. The company should adopt a systematic capital investment strategy to ensure consistent fixed asset allocation and support long-term operational growth.

CONCLUSION

The study analyzed the working capital management of the organization and its effect on liquidity and operational efficiency. The results show fluctuations in current assets, current liabilities, and liquidity ratios during the study period, indicating inconsistency in managing short-term financial resources.

Although the firm was able to meet its short-term obligations in some years, the overall liquidity position was not stable. Variations in receivables, inventories, and other current assets significantly influenced the working capital position.

The study concludes that effective management of working capital components such as cash, receivables, and inventories is essential to maintain financial stability and improve operational efficiency. Proper control and planning of working capital will help the organization strengthen its liquidity position and support sustainable growth.

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https://www.doraindustries.com/

