

## EVALUATING DEBTORS' MANAGEMENT PRACTICES: TECHNIQUES FOR OPTIMIZING ACCOUNTS RECEIVABLE AND MINIMIZING BAD DEBTS - ULTRATECH CEMENT

<sup>1</sup>N. Shwetha, <sup>2</sup>Povari Architha

<sup>1</sup> Associate Professor, <sup>2</sup> MBA Student

Department of MBA

Sree Chaitanya College of Engineering, Karimnagar

### ABSTRACT

Debtors' management is a crucial aspect of working capital management that directly influences an organization's liquidity, profitability, and financial stability. Effective management of accounts receivable ensures timely collection of outstanding dues, improves cash flow, and reduces the risk of bad debts. In today's competitive business environment, organizations extend credit facilities to customers to enhance sales and maintain customer relationships; however, inefficient credit management may lead to delayed payments, increased collection costs, and financial losses.

This study evaluates various debtors management practices and techniques used by organizations to optimize accounts receivable and minimize bad debts. It examines credit policies, customer creditworthiness assessment, receivables monitoring systems, collection procedures, aging analysis, and debt recovery mechanisms. The research also highlights the role of technology and automated receivables management systems in improving collection efficiency and reducing credit risk.

The study aims to analyze the effectiveness of existing debtors management strategies and identify best practices that contribute to efficient receivables control. It further explores the relationship between debtor turnover, collection period, and organizational profitability. The findings indicate that firms with strong credit evaluation procedures, regular monitoring of receivables, and proactive collection efforts experience better cash flow management and lower levels of bad debt.

The study concludes that effective debtors management is essential for maintaining financial health and achieving sustainable business growth. Organizations should adopt systematic credit control measures, leverage digital tools, and establish robust collection policies to optimize accounts receivable performance while minimizing the incidence of bad debts. These practices contribute significantly to enhanced operational efficiency, improved liquidity, and long-term organizational success.

### I. INTRODUCTION

#### Meaning of Debtor management

Debtor Management refers to the process of managing and controlling the amounts owed to a business by its customers who have purchased goods or services on credit. It involves planning, monitoring, and collecting outstanding receivables to ensure that payments are received on time and the risk of bad debts is minimized.

The primary objective of debtor management is to maintain an optimal level of accounts receivable while ensuring adequate cash flow for the organization. Effective debtor management includes establishing credit policies, assessing customer creditworthiness, monitoring payment schedules, following up on overdue accounts, and implementing efficient collection procedures.

In simple terms, debtor management is the systematic administration of credit sales and the collection of money due from customers, helping businesses improve liquidity, reduce financial risks, and enhance profitability.

### I. INTRODUCTION

Debtor management is an essential component of working capital management that focuses on the

efficient administration and control of accounts receivable arising from credit sales. In modern business practices, organizations often extend credit facilities to customers to increase sales, attract new customers, and maintain long-term business relationships. While credit sales contribute to revenue growth, they also create receivables that must be collected within a specified period to ensure smooth business operations.

Effective debtor management helps organizations maintain adequate liquidity, improve cash flow, and reduce the risk of bad debts. It involves establishing sound credit policies, evaluating the creditworthiness of customers, monitoring outstanding receivables, and implementing effective collection procedures. Proper management of debtors ensures that funds invested in receivables are recovered promptly, thereby enhancing the efficiency of working capital utilization.

In today's competitive and dynamic business environment, managing debtors has become increasingly important due to rising credit risks and changing customer payment behaviors. Delays in collecting receivables can lead to cash flow shortages, increased borrowing requirements, and reduced profitability. Therefore, organizations must adopt systematic debtor management practices and leverage technology-driven solutions to optimize accounts receivable and minimize financial losses.

This study focuses on evaluating debtor management practices and the various techniques used by organizations to improve receivables management. It examines credit control measures, collection strategies, aging analysis, and debt recovery methods that contribute to efficient management of accounts receivable. The study also highlights the significance of minimizing bad debts and maintaining a balance between sales growth and credit risk management for achieving long-term financial stability and organizational success.

### **Need of the Study**

The management of debtors plays a vital role in maintaining the financial health and liquidity of an organization. As businesses increasingly rely on credit sales to expand their customer base and boost revenue, effective control of accounts receivable becomes essential. Poor debtor management can lead to delayed collections, increased bad debts, cash flow problems, and reduced profitability. Therefore, it is necessary to evaluate debtor management practices to identify effective techniques for optimizing accounts receivable and minimizing credit risk.

This study is needed to understand how organizations manage their debtors, assess the effectiveness of existing credit and collection policies, and identify areas for improvement. It also helps in examining the relationship between debtor management and the overall financial performance of an organization.

### **Scope of the study**

The scope of this study is to evaluate the debtor management practices adopted by organizations and analyze their effectiveness in optimizing accounts receivable and minimizing bad debts. The study focuses on understanding the policies, procedures, and techniques used for managing credit sales and collecting outstanding dues from customers.

The study covers the assessment of credit policies, customer creditworthiness evaluation, receivables monitoring, aging analysis, collection procedures, and debt recovery mechanisms. It also examines key performance indicators such as debtor turnover ratio, average collection period, and bad debt ratio to measure the efficiency of debtor management.

Further, the study explores the impact of debtor management on an organization's liquidity, working capital management, cash flow position, and profitability. It includes an analysis of the challenges faced in receivables management and the strategies adopted to overcome them.

The study is limited to accounts receivable management and does not extensively cover other aspects of working capital management such as

inventory or cash management. However, its findings provide valuable insights for improving credit control systems, reducing credit risk, and enhancing the overall financial performance of organizations.

#### **OBJECTIVES OF THE STUDY:**

To evaluate debtor management practices and identify effective techniques for optimizing accounts receivable and minimizing bad debts.

1. To study the existing debtor management policies and procedures adopted by organizations.
2. To analyze the effectiveness of credit evaluation and credit control systems.
3. To examine the efficiency of accounts receivable management practices.
4. To assess the impact of debtor management on liquidity and working capital.
5. To evaluate the debtor turnover ratio and average collection period.
6. To identify the causes of delayed payments and overdue accounts.
7. To study the effectiveness of collection and recovery techniques in reducing bad debts.
8. To analyze the relationship between debtor management and organizational profitability.
9. To examine the role of technology and automation in receivables management.
10. To suggest suitable measures for improving debtor management and strengthening credit control.
11. To identify strategies for minimizing credit risk and bad debt losses.

#### **II. RESEARCH METHODOLOGY**

The data used for analysis and interpretation from annual reports of the company.

That is secondary forms of data. DDR, ACP, debit ratios and Increase in credit period analysis are the Techniques used for calculation purpose.

The project is presented by using tables, graphs and with their interpretations.

#### **Primary data:**

Primary data is collected from the Execute of the organization

#### **Secondary data:**

Secondary data obtained from the annual reports, books, magazines and websites.

#### **LIMITATIONS**

- The study is limited to the analysis of debtor management practices and does not cover all aspects of working capital management.
- The findings are based on the data collected from selected organizations and may not be applicable to all industries or businesses.
- The accuracy of the study depends on the reliability and completeness of the information provided by the respondents and company records.
- Time constraints may limit the depth and scope of the analysis.
- The study focuses mainly on accounts receivable and bad debt management, excluding other financial management areas.
- Changes in economic conditions, market trends, and customer payment behavior during the study period may influence the results.
- Confidentiality restrictions may limit access to certain financial and credit-related information.
- The study may not fully capture all factors affecting debtor management, such as legal, regulatory, and industry-specific influences.
- The conclusions are based on historical data and may not accurately predict future debtor management performance.
- The recommendations provided are general in nature and may require modification according to the specific needs and circumstances of individual organizations.
- The study does not consider international credit management practices and is

primarily focused on domestic business operations.

- Limited availability of comparative data may affect the comprehensive evaluation of debtor management efficiency.

### III. LITERATURE REVIEW

Company can sell the goods on credit or cash. Cash sale is inflow of cash and it is controlled under cash flow analysis. But credit sale creates sundry debtors. Company has to receive money from them. If company starts to sell on return of cash, then it decreases the level of company's sale and profitability. On the other side, if company promotes credit sale, it can increase the risk of bad debts. So, it is required to control and to manage debtors.

#### Main elements or dimensions of Debtors management

For effective debtor management, following elements should be analyzed

##### 1. Credit policy

Credit policy effects debtor management because it guides management about how to control debtors and how to make balance between liberal and strict credit. If company does not restrict to sell the products on credit after a given limit of sale. This liberated credit policy will increase the amount of sale and profitability. But risk will also increase with increasing of sale. If we sell the good to those debtors whose capability to pay is not good, then it is possible that some amount will become bad debts. Company can increase the time limit for paying by such debtors. On the other hand, if company's credit policy is strict, then it will increase liquidity and security, but decrease the profitability. So, finance manager should make credit policy at **optimum level** where **profitability** and **liquidity** will be equal. We can show it graphically.

#### CONTROL ON CREDIT MANAGEMENT

The investment in accounts should be within accepted level. To achieve this, control measures are needed so that when actual fall outside the prescribed range, corrective actions can be taken. In controlling accounts receivables

certain techniques are adopted. Three such techniques are described below. These are Debtor's turnover ratio(DTR) Debtors turnover ratio refers to ratio of sales to accounts receivable (sundry debtors plus bills receivables). The accounts receivables may be closing figure, or average of year beginning and year-end figures or average of monthly opening and closing figures. An acceptable range for the ratio is within this band, is all right. if the actual DTR is less than 5 , it means more money is locked up in accounts receivables. Either sales have slumped relative to size of debtors, or debtors have risen to sales. If the ratio exceeds the upper hand, it means customers promptly pay willingly or buy over force. It is good.

#### CREDIT ANALYSIS

It is the method by which one calculates the creditworthiness of a business or organization. The audited financial statements of a large company might be analyzed when it issues or has issued bonds. Or, a bank may analyze the financial statements of a small business before making or renewing a commercial loan. The term refers to either case, whether the business is large or small. Credit analysis involves a wide variety of financial analysis techniques, including ratio and trend analysis as well as the creation of projections and a detailed analysis of cash flows. Credit analysis also includes an examination of collateral and other sources of repayment as well as credit history and management ability. Before approving a commercial loan, a bank will look at all of these factors with the primary emphasis being the cash flow of the borrower. A typical measurement of repayment ability is the debt service coverage ratio. A credit analyst at a bank will measure the cash generated by a business (before interest expense and excluding Depreciation and any other non-cash or extraordinary expenses). The debt service coverage ratio divides this cash flow amount by the debt service (both principal and interest payments on all loans) that will be required to be met. Bankers like to see debt service coverage of at least 120 percent. In other words,

the debt service coverage ratio should be 1.2 or higher to show that an extra cushion exists and that the business can afford its debt requirements.

### **CREDIT CONTROL**

Policies aimed at serving the dual purpose of (1) increasing sales revenue by extending credit to customers who are deemed a good credit risk, and (2) minimizing risk of loss from bad debts by restricting or denying credit to customers who are not a good credit risk. Effectiveness of credit control lies in procedures employed for judging a prospect's creditworthiness, rather than in procedures used in extracting the owed money. Also called credit management. People have become increasingly dependent on credit. Therefore, it's crucial that you understand personal credit reports and your credit rating (or score). Here we'll explore what a credit score is, how it is determined, why it is important and, finally, some tips to acquire and maintain good credit.

The financial crisis means that businesses must take control of their debtors to ensure they don't end up in difficulties.

Falling turnover due to a slowing economy are indicators of trouble for any business. If your customers are having these types of problems, there's a chance that they will be unable to meet their financial obligations to you.

Setting up credit controls and better managing debtors will improve your chances of payment when things go wrong for customers. If they know you mean business, and if you take the appropriate steps in a disciplined manner, they are more likely to pay on time.

Many business owners are concerned about taking a disciplined approach to debt collection as they are afraid of losing the customer. But if customers are not meeting their payment obligations, they are not worth having.

### **CREDIT POLICY**

What kinds of terms should I offer? Standard terms are usually payment within 7, 14, or 30 days after the invoice date. Don't be afraid to set your own terms, such as 50% deposit upfront

or COD. Other ideas might be discounts for payment upfront, pay on invoice date etc.

The longer the term gives more reasons for invoices to go missing or be forgotten. Shorten your trading terms. Remember also to include your payment terms when quoting or attempting to make a sale. The more you mention this point, the more likely you will be paid on time.

How would I like to be paid? Your business should make all payments available or importantly, offer the ways in which your customer wants to pay. When considering this, be sure to keep up to speed with the bank fees and charges for transactions such as credit cards, surcharges may have to be included for some. For larger bills look into finance options. We use premium funding to allow our clients to spread our invoices over a longer period of time to relieve their cash burden.

Always include all the available payment methods on the invoice. Bank account details for direct debit, include an area where customers can place their credit card details and return.

How should I deal with late payments? Try to be, within reason, as accommodating as possible. Your policy should be clear to all customers and staff. Consequences should be metered out when deserved and a set time frame for legal action for delinquent debtors. This may take the form of withholding goods/services, not processing orders and in some cases, legal action. The objectives of the debt management policy are to:

Increase the level of compliance in the payment of debt by limiting the total value of debt, the number of debtors and ageing of debt outstanding.

Maximise debt resolution by the pursuit of debt in a sensible, cost efficient, effective and timely manner. Ensure all debt is managed, inclusive of debts is sourced by virtue of a service level agreement, is adequately monitored, reported and controlled.

Maintain high standards of client service.

The key principle of debt management is the early detection, reporting and pursuit of all debt.

The policy is to be applied consistently across all fees & charges, maintaining ethical, fair and sensible credit administration.

**IV. DATA ANALYSIS AND INTERPRETATION**

**DATA ANALYSIS: -**

The calculations using in Data analysis are –

- 1) DTR ( Debtor’s turnover ratio )
- 2) ACP ( Average collection period )

- Calculation of DTR :-

This measures a relationship between debtor’s and sales.

$$\text{DTR(Crs)} = \frac{\text{credit sales (or) sales}}{\text{Debtors}}$$

Calculation for: 2025:-

$$\text{DTR} = \frac{22936.17}{1203.19} = 19.06$$

Calculation for: 2024:-

$$\text{DTR} = \frac{20279.80}{1281.02} = 15.83$$

Calculation for: 2023:-

$$\text{DTR} = \frac{20174.94}{1017.24} = 19.83$$

Calculation for: 2022:-

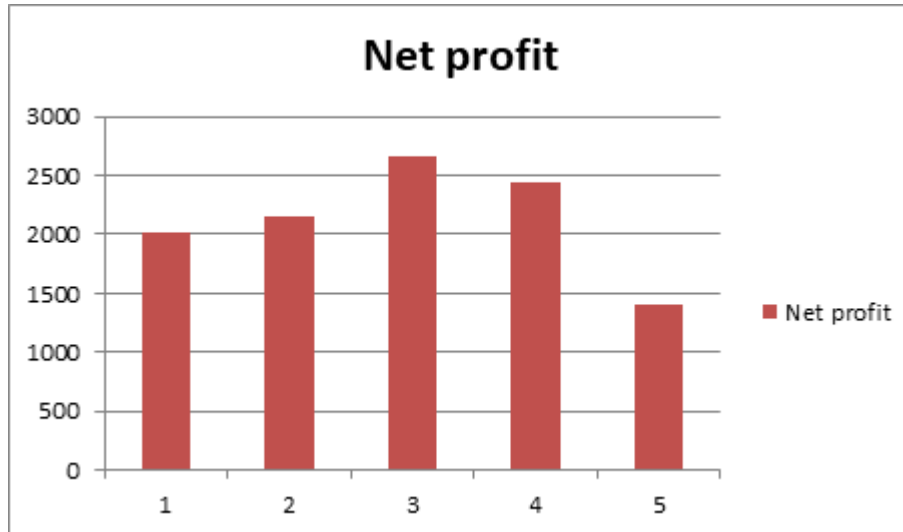
$$\text{DTR} = \frac{18270.69}{765.96} = 23.85$$

Calculation for: 2021:-

$$\text{DTR} = \frac{13205.64}{602.29} = 21.92$$

**DTR from 2021 to 2025 are :-**

Year	DTR
2021	21.92
2022	23.85
2023	19.83
2024	15.83
2025	19.06



**Interpretation:**

The Debtors turnover ratio of **Ultratech cements** is in the fluctuation stage because the increase and decreased in debtors to the total sales. In the current year i.e. 2025 the ratio is 19.06.

**Calculation of ACP:-**

The ACP calculation is compared with the firm's stated credit period to judge the collection efficiency. The ACP measures the quantity of receivables. Since, it indicates the speed of their collect ability.

$$\text{ACP(Crs)} = \frac{\text{Debtors}}{\text{Credit sales}} \times 360 \quad (\text{or}) \quad \frac{360}{\text{DTR}}$$

Calculation for: 2025:-

$$\text{ACP} = \frac{360}{19.06} = 18.88$$

Calculation for: 2024:-

$$\text{ACP} = \frac{360}{15.83} = 22.74$$

Calculation for: 2023:-

$$\text{ACP} = \frac{360}{19.83} = 18.15$$

Calculation for: 2022:-

$$\text{ACP} = \frac{360}{15.09} = 23.85$$

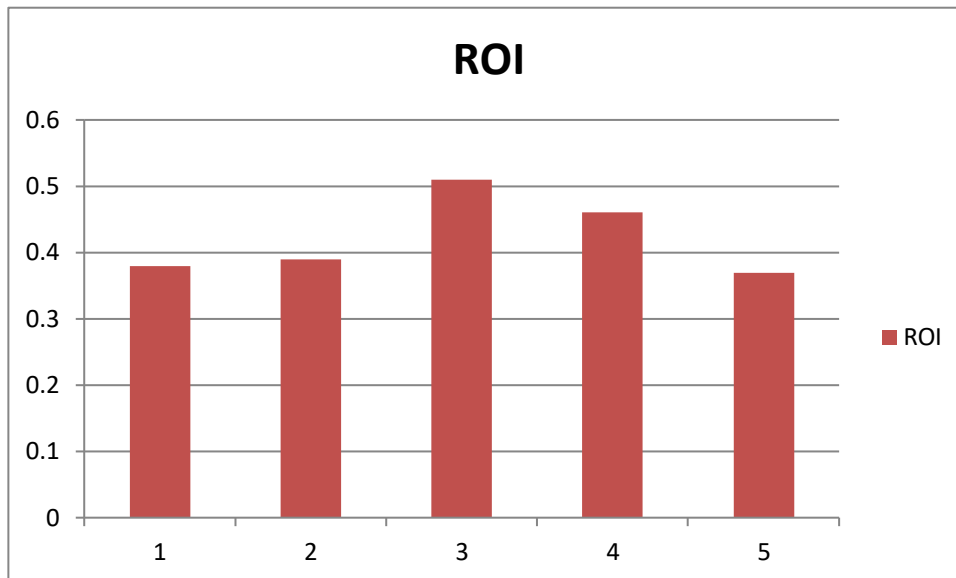
23.85

Calculation for: 2021:-

$$\text{ACP} = \frac{360}{21.92} = 16.41$$

ACP from 2021 to 2025 are :-

Year	ACP
2021	16.41
2022	15.09
2023	18.15
2024	22.74
2025	18.88



**Interpretation:**

The Average collection period of Ultratech cements in the year 2021 was very high as compared with all the years. As compared with the credit sales to the ratio in the year 2025 was 18.88.

**A SCENARIO ANALYSIS: -**

Suppose credit period is extended to 100 days.

Then sales may increase by 15%.

If credit period is decreased to 80 days.

Then sales decreases by 10%.

The cost of financing is 11%.

**V. FINDINGS**

1. The **Ultratech cements limited** net capital is satisfactory between the years 2023-24 since it shows decreasing trend; but after that it is in declining position.
2. The current ratio of **Ultratech cements limited** is satisfactory during the period of study 2020-2021 to 2023-24. It is increased but after that it is declining.
3. Debtor's turnover ratio increasing every year from 2021-2025.

4. Average collection period decreasing every year from 2021-2025.
5. The scenario analysis was conducted assuming credit period to be 80 days and 100 days. The result should that while credit period is 100 days the company is getting profits. When the credit period is 80 days the company is getting losses.
6. Assets turnover ratio of **Ultratech cements limited** increased. The company has to maintain this.
7. Average collection period decreasing every year from 2021-2025.
8. Based on the report it is concluded that credit policies are decided by zonal manager so, powers are centralized.
9. Credit standards are determined based on economic conditions.
10. Credit is 90 days and if credit is paid before that period the company will give cash discount.

#### VI. SUGGESTIONS

- It is suggested to management to increase credit period to 100 days. So that
- company can earn profits.
- It is suggested to management to offer more incentives for prompt payment of credit. So that receivables are paid promptly by dealers.
- In management can be little ie bit liberal in credit policies so that more profits are achieved.
- Relaxing credit standards will enable to increases the customers.
- The process that was being used by **Ultratech cements limited** with the purchasing department should undergo changes; so that, it seeks enhance the celerity of the delivery of a product without compromising its quality by improving the utilization of materials, labor and equipment.

#### VII. CONCLUSIONS

Although a relatively young discipline, credit risk management has matured rapidly. Improved risk measurement and reporting techniques paired with comprehensive credit risk policies can provide extremely effective protection against credit risk losses. The best risk management techniques are operational and legal, with collateral providing the best financial risk mitigation. Credit insurance and credit default swaps offer financial protection against default, but each at its own cost—which must be compared to the benefits of reducing the specific risk it is intended to mitigate.

In view of these limitations, we believe that an alternative approach is now needed which should have two components. First we believe that the regulatory capital regime should seek directly to assess the extent to which a firm's earnings are vulnerable to stress losses of any type - a measure we refer to as regulatory equity at risk - and should then establish a capital requirement which is sufficient to provide a high level of assurance that the firm could survive such a stress event and still remain solvent during a work out period. Secondly we argue that there needs to be much more explicit regulatory oversight of the liquidity management arrangements in place at the firm, since effective liquidity management arrangements rather than capital provide the primary protection against any stress events affecting the firm

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