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A STUDY ON WORKING CAPITAL MANAGEMENT AT

Muthoot Fincorp , Jammalamadugu

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ABSTRACT

This study examines the working capital management practices at Muthoot Fincorp Ltd., one of India's leading Non-Banking Financial Companies (NBFCs). Working capital plays a crucial role in ensuring liquidity, operational efficiency, and financial stability in financial institutions. The primary objective of this research is to analyze the components of working capital, liquidity position, cash management practices, and efficiency of short-term financial management in the company.

The study is based on secondary data collected from annual reports, company records, journals, and financial statements. Tools such as ratio analysis, percentage analysis, and comparative financial statements are used for interpretation.

The findings reveal that effective working capital management has helped the company maintain liquidity, improve operational efficiency, and ensure smooth business operations. However, proper monitoring of receivables and short-term liabilities is necessary to maintain financial balance.

Keywords: Working Capital, NBFC, Liquidity, Current Assets, Current Liabilities, Financial Management, Muthoot Fincorp.

INTRODUCTION

Working Capital

Working Capital Management is one of the most important areas of financial management in any organization. It deals with the management of short-term assets and short-term liabilities to ensure smooth business operations. Working capital refers to the difference between current assets and current liabilities of a company. Proper management of working capital ensures that the firm has sufficient liquidity to meet its day-to-day operational expenses and short-term obligations.

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In simple terms, working capital is the lifeblood of a business. Without adequate working capital, a company may face difficulties in paying salaries, purchasing raw materials, meeting operating expenses, and settling short-term debts. Therefore, effective working capital management is essential to maintain the financial stability and operational efficiency of the organization.

Maintaining adequate liquidity

Avoiding insolvency and financial distress

Improving profitability

Enhancing operational efficiency

Ensuring timely payment of obligations

FORMULAS

1.Working Capital

Working Capital = Current Assets – Current Liablities

2. Net Working Capital

Net Working Capital =Ca-Cl

Where:
Ca =Current Aseets

Cl= Current Liablities

3.Current ratio

Current ratio = current assets -current liablities

Definition:
According to Weston and Brigham, *"Working capital refers to a firm's investment in short-term assets such as cash, accounts receivable, inventory, and marketable securities."*

In NBFCs like Muthoot Fincorp, working capital mainly consists of:

- Cash and Bank Balance
- Short-term Loans & Advances
- Receivables
- Short-term Borrowings
- Operational Expenses

Efficient management ensures:

- Liquidity
- Profitability
- Operational stability
- Business growth

REVIEW OF LITERATURE:

A literature review is a piece of academic writing demonstrating knowledge and understanding of the academic literature on a specific topic placed in context. Here the previous researches related with the present study:

1. Smith (2021) emphasized that efficient working capital management improves profitability and reduces liquidity risk.
2. Sharma & Gupta (2020) concluded that NBFCs require strong liquidity planning due to dependency on short-term borrowings.
3. Reddy & Kumar (2022) found that proper receivables management improves financial stability in lending institutions.
4. Patel (2023) stated that maintaining optimal working capital avoids over-investment and under-investment problems.
5. Jain & Verma (2024) highlighted the importance of digital systems in improving cash flow efficiency in financial institutions.
6. Mehta & Rao (2022) observed that effective risk management practices and assets liablity matching play a crucial role of the liquidity stability in NBFCs
7. Kumar(2023) conclude that regular financial ratio analysis helps institutions NBFCs

NEEDS FOR THE STUDY

The main objective of this study is to analyze the liquidity position of Muthoot Fincorp in order to assess its ability to meet short-term financial obligations. It also aims to evaluate the company's efficiency in managing its short-term assets and liabilities, particularly through effective working capital management. Further, the study seeks to understand the working capital cycle of a Non-Banking Financial Company (NBFC) and how it differs from other business entities.

OBJECTIVES OF THE STUDY

1.To study changes in Working Capital

2. To know the liquidity position in the working capital
3. To know the day to day activities in the working capital
4. To determine the working capital financial policy
5. To know and analyze various sources of working1

RESEARCH METHODOLOGY:

Research Design: Descriptive research design.

Sources of Data:

- Primary Data: Not applicable
- Secondary Data: Annual reports, financial statements, company records

Sampling Method: Financial statement analysis

Statistical Tools Used:

- Current Ratio
- Quick Ratio
- Working Capital Ratio
- Comparative Statements
- Percentage Analysis

DATA ANALYSIS & INTERPRETATION

Format of Working Capital Statement

Particulars	Previous Year (₹)	Current Year (₹)	Increase (₹)	Decrease (₹)
Current Assets	XXX	XXX	XXX	XXX
Cash and Bank Balance	XXX	XXX	XXX	XXX
Debtors	XXX	XXX	XXX	XXX
Inventory	XXX	XXX	XXX	XXX
Bills Receivable	XXX	XXX	XXX	XXX

Short-term Investments	XXX	XXX	XXX	XXX
Other Current Assets	XXX	XXX	XXX	XXX
Total Current Assets (A)	XXX	XXX	XXX	XXX
Current Liabilities Creditors	XXX	XXX	XXX	XXX
Bills Payable	XXX	XXX	XXX	XXX
Bank Overdraft	XXX	XXX	XXX	XXX
Outstanding Expenses	XXX	XXX	XXX	XXX

Proforma of Adjusted Profit and Loss Account

(This is used to calculate Funds from Operations)

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Depreciation	xxx	By Balance b/d	xxx
To Transfer to General Reserve	xxx	By Funds from Operations	xxx
To Provision for Tax	xxx		xxx
To Proposed Dividend	xxx		xxx
To Balance c/d	xxx		xxx
Total	xxx	**Total**	xxx

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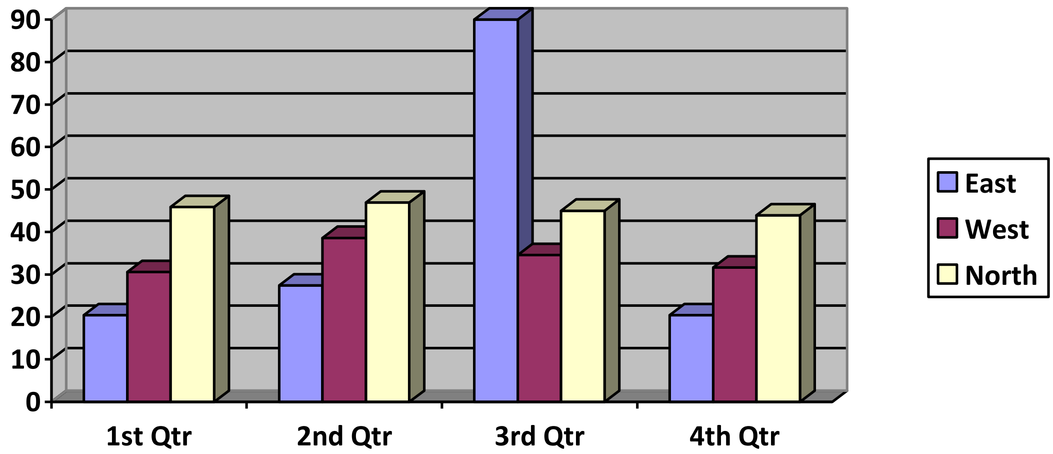
Working Capital Change Statement

Particulars	2021	2022	2023	2024	2025
Cash	20,000	25,000	5,000	–	25,000
Debtors	40,000	45,000	5,000	–	30,000
Inventory	30,000	35,000	5,000	–	15,000
Total Current Assets	90,000	105,000	15,000	–	25,000
Creditors	25,000	30,000	–	5,000	5,000
Bills Payable	15,000	20,000	–	5,000	30,000
Total Current Liabilities	40,000	50,000	–	10,000	10,000
Working Capital	50,000	55,000	5,000	–	55,000

Interpretation

The working capital increased by ₹5,000, indicating improvement in the company's liquidity position.



Interpretation

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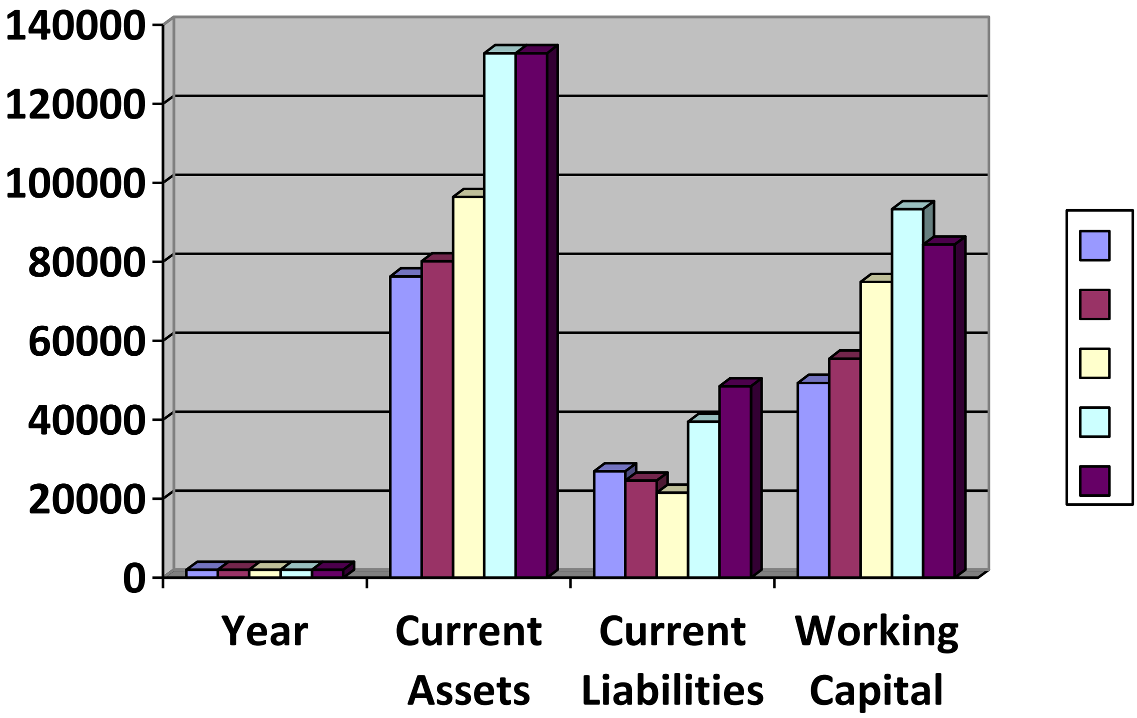
The working capital increased by ₹5,000, indicating improvement in the company's liquidity position.

Working Capital Formula

Working\ Capital = Current\ Assets - Current\ Liabilities

Year-to-Year Working Capital Statement (₹ in Crores)

Year	Current Assets	Current Liabilities	Working Capital
2021	76,316	26,960	49,356
2022	80,149	24,633	55,516
2023	96,469	21,547	74,922
2024	1,32,859	39,498	93,361
2025	1,32,860	48,475	84,385



1.Working Capital Analysis of Muthoot Fincorp Ltd.*(₹ in Crores)*

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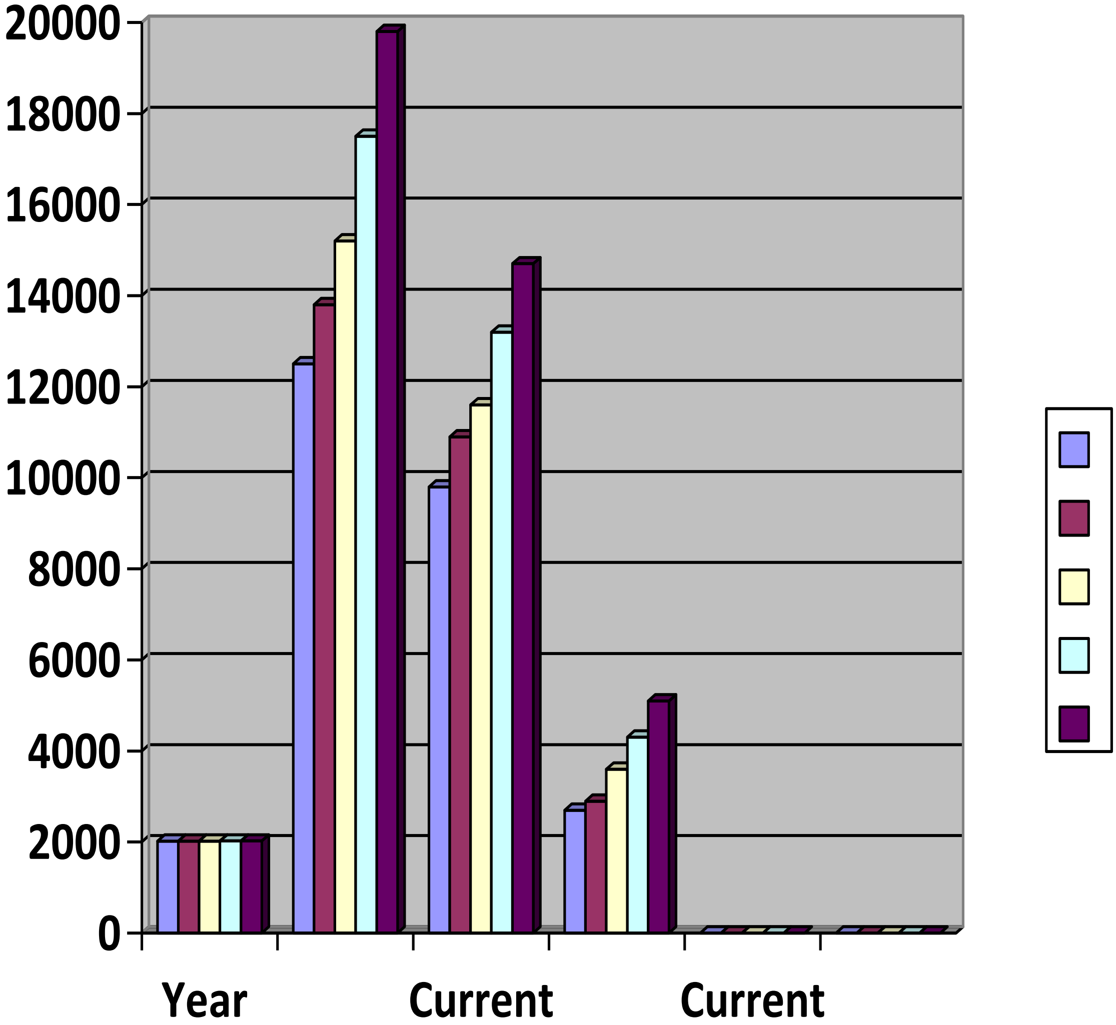
Year	Current Assets	Current Liabilities	Net Working Capital	Current Ratio	Quick Ratio
2021	12,500	9,800	2,700	1.28	1.10
2022	13,800	10,900	2,900	1.27	1.08
2023	15,200	11,600	3,600	1.31	1.15
2024	17,500	13,200	4,300	1.33	1.18
2025	19,800	14,700	5,100	1.35	1.22



2. Trend Analysis & Interpretation

Net Working Capital Trend

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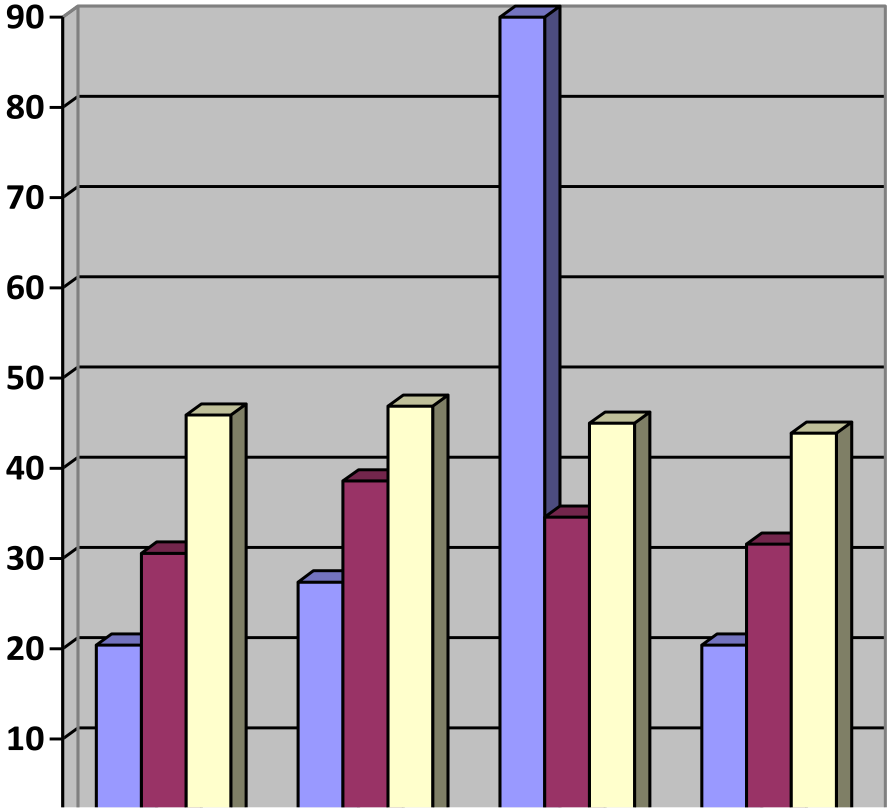
YEAR	CURRENT ASSETS	CURRENT LIABLITIES	NET WORKING CAPITAL	CURRENT RATIO	QUICK RATIO
2021	12500	9800	2700	1.28	1.10
2022	13800	10900	2900	1.27	1.08
2023	15200	11600	3600	1.31	1.15
2024	17500	13200	4300	1.33	1.18
2025	19700	14700	5100	1.35	1.22



Interpretation:

Net Working Capital shows a steady increase over five years. This indicates:

- Improvement in liquidity position
- Better short-term financial management

The continuous rise from ₹2,700 Cr to ₹5,100 Cr reflects sound working capital planning.

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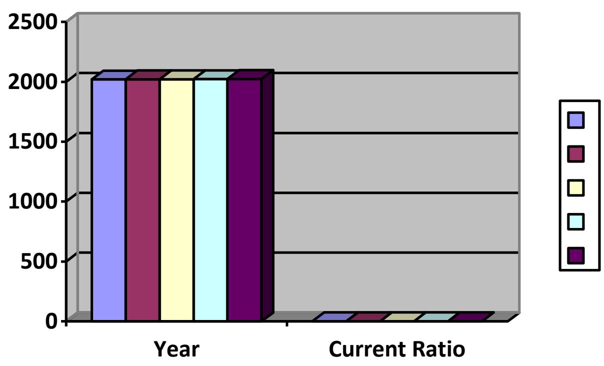
Current Ratio Analysis

Current Ratio = Current Assets / Current Liabilities

Year	Current Ratio
2021	1.28
2022	1.27
2023	1.31
2024	1.33
2025	1.35



Interpretation:

- Ideal ratio is 2:1, but in NBFC sector, 1.2 to 1.5 is acceptable.
- The ratio slightly dipped in 2021 but gradually improved.
- By 2024, it reached 1.35, showing improved short-term solvency.

This suggests that Muthoot Fincorp Ltd. maintains sufficient current assets to meet short-term liabilities.

Quick Ratio Analysis

Quick Ratio = (Current Assets – Inventory) / Current Liabilities

Year	Quick Ratio

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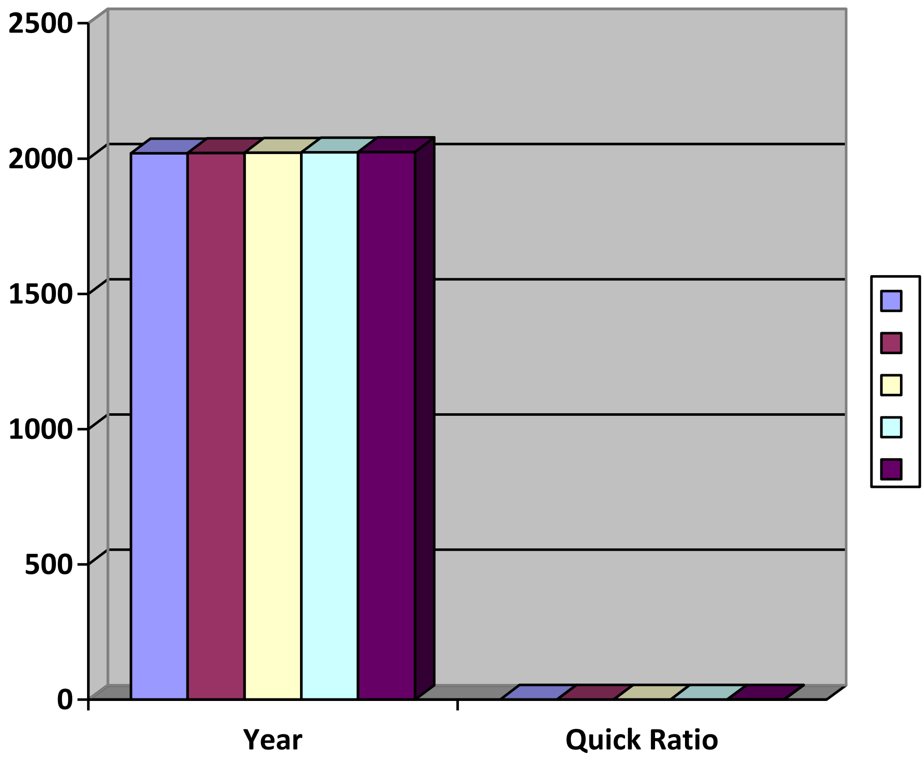
2021	1.10
2022	1.08
2023	1.15
2024	1.18
2025	1.22



Interpretation:

- Quick Ratio above 1 indicates strong liquidity.
- Slight dip in 2021 due to increased liabilities.
- Continuous improvement from 2022 onwards shows

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- Strong cash & receivables management
- Reduced liquidity risk

RESEARCH FINDINGS:

1. Current Assets increased steadily from ₹12,500 Cr to ₹19,800 Cr.
2. Current Liabilities also increased but at a controlled rate.
3. Net Working Capital nearly doubled over five years.
4. Liquidity ratios show a consistent upward trend.
5. The company maintains a healthy working capital structure.

SUGGESTIONS:

1.Maintain Optimum Level of Current Assets.

2. Control Growth of Current Liabilities

3.Effective Utilization of Net Working Capital

4. Strengthen Receivables Management

5. Maintain Balanced Liquidity Position

CONCLUSION:

The study on Working Capital Management reveals that the company has maintained a strong and stable working capital position during the study period. Current Assets have shown steady growth, indicating expansion in business operations and improved asset management. Although Current Liabilities have also increased, they have grown at a controlled rate, ensuring financial stability.

The Net Working Capital has nearly doubled over five years, which reflects the company's improved liquidity position and better financial planning. The upward trend in liquidity ratios further confirms that the company is capable of meeting its short-term obligations effectively without facing financial stress.

Overall, the company maintains a healthy working capital structure, balancing liquidity and profitability efficiently. Proper management of current assets and liabilities has helped the organization ensure smooth day-to-day operations and financial soundness.

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