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A STUDY ON THE EFFECT OF RECEIVABLES MANAGEMENT ON WORKING CAPITAL OF VKS FABRICS

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Abstract: The project examined the impact of the management of accounts receivable on working capital of VKS Fabrics. To accomplish this research objective, data have been collected from the financial reports for the period from 2014-2015 to 2018-2019. The study used ratio analysis and trend analysis as tools to find out that the efficiency of receivables management during the study period. The ratios were Receivables to Current Assets Ratio, Receivables to Total Assets Ratio, Receivables to Sales Ratio, Receivables Turnover Ratio, Average Collection Period, and Working Capital Ratio, have been computed to show the impact on working capital. Data was analyzed using descriptive research to give results. Charts, tables and graphs were used to report findings. The study concluded that, accounts receivable management as practiced in VKS Fabrics was adequate. Recommendations were made to better enhance accounts receivable management in VKS Fabrics. Findings of the study are only related to the financial statements of VKS Fabrics.

Index Terms* - *Receivables Management, Trend analysis, Ratio, working capital.

I. INTRODUCTION

Management of trade credit is usually referred to as Management of Receivables. Receivables is one amongst the three primary components of working capital, the other two being inventory and cash. Receivables occupy second important place after inventories and thereby constitute a considerable portion of current assets in several firms. The capital invested in receivables is nearly of the identical as that of the investment made in cash and inventories. Receivables thus, form about one third of current assets in India. "Accounts receivables are amounts owed to the business enterprise, usually by its customers. Sometimes it is broken down into trade accounts receivables; the former refers to amounts owed by customers, and the latter refers to amounts owed by employees and others". The receivables of any company if managed effectively increase the current assets of company which lead to increase in the working capital of the company on the other hand if the company has excess of receivables it increases the costs by blockage of funds of the company. Thus it is important to have proper account receivable by having reasonable collection period. Receivables management is a complex process. Prevention, as part of receivables management, can be considered as the most important phase, which would help to prevent the emergence of outstanding receivables or bad debts, thereby significantly reduce costs that relate to the process of recovery.

Objectives

Primary

To analyze the credit management in VKS Fabrics.

Secondary

1. To find out the efficiency of Receivables Management.
2. To examine the financial performance of the company.
3. To ascertain the impact of accounts receivable ratio on working capital.

Need of the Study

The purpose of this study is to determine ways of finding an optional accounts receivable level along with making optimum use of different credit policies in order to achieve a maximum return at an acceptable level of risk.

Scope of the Study

The study aimed at understanding the effect of receivables management on working capital of VKS Fabrics.

Limitations

1. The study is confined to five years of balance sheet.
2. The study is only related to VKS Fabrics, Karur.
3. This analysis is based on the information given by the company.

Period

The study covers the time period of four months with the five years data.

II. REVIEW OF LITERATURE

Okpe Innocent Ikechukwu and Duru Anastesia Nwakaego (2015) analyzed the effect of Receivable Management on the Profitability of Building Materials/Chemical and Paint Manufacturing Firms In Nigeria. The hypotheses were tested using multiple regression technique. At the end of the study, the results showed that accounts receivable had positive and significant effects with the profitability ratio at 1% levels of significance. This means that unit increase in the variables shall bring about corresponding increase in the profitability ratio.

Divya Jindal and Simran Jain (2017) undergone a study on effect of receivables management on profitability: a study of commercial vehicle industry in India. This study empirically examines the effect of efficiency of receivables management, measured by debtor's turnover ratio, in the commercial vehicle industry in India on the firm's profitability. Profitability was measured using Return on Capital Employed.

Smita Rao and Hetal Gaglani (2014) studied the impact of receivables management on working capital: a study on select cement companies. The result has been obtained by applying ANOVA for identifying the relationship between receivable management and working capital management of company. The study revealed that of all the receivables has significant contribution in current assets, total assets, sales and working capital of companies.

Sunil Kumar Ritesh Srivastava and Praveen Srivastava (2015) studied the study on receivables management of Indian pharmaceutical industry and its impact on profitability. In this study, they used panel data regression for the investigation of the results. The panel data regression shows that the highly involvement in receivables are associated with highly profitability.

Francis Kakeeto, Timbirimu Micheal, Kiizah Pastor, Olutayo K. Osunsan (2016) studied Accounts Receivable Management and Organizational Profitability as a Function of Employee Perception in Gumutindo Coffee Cooperative Enterprise Limited (GCCE), Mbale District Uganda. Likert type scale questionnaires were used to collect data from the respondents in terms of the two variables. The findings revealed that revealed that accounts receivable management positively affected organizational profitability (adjusted R2 =0.90; p<.01), thus the hypothesis was accepted.

Siekelova A., Kliestik T., Svabova L., Androniceanu A., Schönfeld J (2017) examined the Receivables Management: the importance of financial indicators in assessing the creditworthiness. They tested the existence of a statistically significant relationship between the quick ratio and selected financial indicators.

Hitesh and Shukla J (2007) examined the Receivable Management of sample companies using working capital ratios and ANOVA test. The authors found that there was significant relationship between and within the groups of the sample companies. The study found that the pharmacy industries were efficient in managing their Receivables.

Paul, Pinku (2014) study the receivable management in select companies of Indian automobile industry with the help of sample of three companies. The study concluded that the performance of the companies in the Automobile Industry in respect of Receivables Management was satisfactory. The study used four ratios and two way ANOVA test to analyze the receivable management.

Kontus, (2013) studied the Management of Accounts Receivable in a Company. The study is to analyze accounts receivable and to demonstrate a correlation between the accounts receivable level and profitability expressed in terms of Retun on Assets (ROA) of sample companies.

N.Venkata Ramana, K.Ramakrishnaiah (2013) showed the significant impact of receivable management on profitability and working capital management. The study used Ratio Analysis and ANOVA

III. RESEARCH METHODOLOGY

Research comprises defining and redefining problems, formulating hypothesis or suggested solutions; collecting, organizing and evaluating data; making deductions and reaching conclusions; and at last carefully testing the conclusions to determine whether they fit the formulating hypothesis.

Research Type

Descriptive research is used in the study.

Data Collection

For the present study secondary data have been compiled from the financial statements provided by VKS Fabrics.

Tools used

Financial tools like Ratios and Trend analysis have been used to analyze the data.

IV. DATA ANALYSIS

RATIO ANALYSIS

CURRENT RATIO

The current assets consist of cash and assets that can easily be turned into cash and the current liabilities consist of payments that a company expects to make in the near future. Thus, the ratio of the current assets to the current liabilities measures the margin of liquidity. It is known as the current ratio. The current ratio is probably the best known and most often used of the liquidity ratios.

Current Ratio = Current Assets / Current Liabilities

Year	Current Assets	Current Liabilities	Ratio
2014-15	1,26,68,613.78	1,22,45,860.15	1.03
2015-16	91,95,434.24	1,25,07,768.79	0.73
2016-17	1,04,65,194.73	1,36,95,198.24	0.76
2017-18	1,40,83,529.8	1,77,06,363.09	0.79
2018-19	1,50,80,160.53	2,19,65,874.14	0.68

Sources: Secondary Data

Interpretation

The above table shows that the current ratio for the period from 2014-2019. The Current ratio was high in the year of 2014-2015 as 1.03 and low to 0.68 in the year of 2018-2019.

QUICK RATIO

It measures liquidity by considering only quick assets. Differences in structure of assets may require calculating the quick ratio. The quick ratio provides, in a sense, a check on the liquidity of a company as shown by its current ratio. The quick ratio is a more rigorous and penetrating test of the liquidity position of a company.

Quick Ratio = Liquid Assets / Current Liabilities

Year	Liquid Assets	Current Liabilities	Ratio
2014-15	1,02,71,638.78	1,22,45,860.15	0.83
2015-16	85,4,957.93	1,25,07,768.79	0.06
2016-17	1,02,83,408.08	1,36,95,198.24	0.75
2017-18	1,52,11,717.08	1,77,06,363.09	0.85
2018-19	1,72,13,996.22	2,19,65,874.14	0.78

Sources: Secondary Data Interpretation

The above table shows that the Quick ratio for the period from 2014-2019. The Quick ratio was high in the year of 2017-2018 as 0.85 and low in the year of 2015-2016 as 0.06.

ABSOLUTE LIQUID RATIO

Absolute Liquid Ratio is a type of liquidity ratios that is calculated to analyze the short term solvency or financial position of the firm.

Absolute Liquid Ratio = Absolute Liquid Assets / Current Liabilities

Year	Absolute Liquid Assets	Current Liabilities	Ratio
2014-15	9,22,633.78	1,22,45,860.15	0.75
2015-16	1,53,510.93	1,25,07,768.79	0.01
2016-17	96,22,394.73	1,36,95,198.24	0.70
2017-18	1,31,33,829.8	1,77,06,363.09	0.74
2018-19	1,40,23,760.53	2,19,65,874.14	0.63

Sources: Secondary Data

Interpretation

The above table shows that the Absolute Liquid Ratio for the period from 2014-2019. The Absolute Liquid ratio was high in the year of 2014-2015 as 0.75 and low to 0.01 in the year of 2015-2016.

RECEIVABLES TO CURRENT ASSET RATIO

This ratio reveal the size of receivables in current assets, higher the ratio, higher the cost of carrying the receivables. Therefore every firm needs to carry least percentage of receivables without affecting the sales volume.

Receivables to Current Asset Ratio = Receivables / Current Assets × 100

Year	Receivables	Current Assets	Ratio
2014-15	10,45,325	1,26,68,613.78	8.25
2015-16	7,01,447	91,95,434.24	7.62
2016-17	6,61,013.35	1,04,65,194.73	6.31
2017-18	20,77,887.28	1,40,83,529.80	14.75
2018-19	31,90,235.69	1,50,80,160.53	21.15

Sources: Secondary Data

Interpretation

The above table shows that the Receivables to Current Asset Ratio for the period from 2014-2019. The Receivables to Current Asset Ratio was high in the year of 2018-2019 as 21.15 and low in the year of 2016-2017 as 6.31.

RECEIVABLES TO TOTAL ASSET RATIO

It is also one of the indicators to find out whether management of receivables effective or not by using the following formula:

Receivables to Total Asset Ratio = Receivables / Total Assets × 100

Year	Receivables	Total Assets	Ratio
2014-15	10,45,325	1,41,21,684.78	7.40
2015-16	7,01,447	1,53,55,561.24	4.56
2016-17	6,61,013.35	1,69,81,384.08	3.89
2017-18	20,77,887.28	2,13,81,940.08	9.71
2018-19	31,90,235.69	2,68,13,108.27	11.89

Sources: Secondary DataInterpretation

The above table shows that the Receivables to Total Asset Ratio for the period from 2014-2019. The Receivables to Total Asset Ratio was high in the year of 2018-2019 as 11.89 and low in the year of 2016-2017 as 3.89.

RECEIVABLES TO SALES RATIO

This ratio indicates the amount of receivables held by the company as a percentage of sales during a given period of time. The efficiency of receivable of management is inversely related to this ratio. Lower ratio reflects the firm's ability in doing larger business with lesser debtors. Increase the sales and decreases in debtors indicate the company's effective collection mechanism.

Receivables to Sales Ratio = Receivables / Sales × 100

Year	Receivables	Sales	Ratio
2014-15	10,45,325	1,73,06,953	6.03
2015-16	7,01,447	1,50,61,158	4.65
2016-17	6,61,013.35	1,62,14,236	4.07
2017-18	20,77,887.28	1,55,23,024	13.40
2018-19	31,90,235.69	1,43,51,234	22.22

Source: Secondary Data

Interpretation

The above table shows that the Receivables to Sales Ratio for the period from 2014-2019. The Receivables to Sales Ratio was high in the year of 2018-2019 as 22.22 and low in the year of 2016-2017 as 4.07.

RECEIVABLES TURNOVER RATIO

The ratio is used to measure how effective a company is at extending credits and collecting debts.

Receivables Turnover Ratio = Sales / Average Receivable

Year	Sales	Average Receivable	Ratio
2014-15	1,73,06,953	5,22,662.5	33.11
2015-16	1,50,61,158	3,50,723.5	42.943
2016-17	1,62,14,236	3,30,506.67	49.05
2017-18	1,55,23,024	6,92,629.1	22.411
2018-19	1,43,51,234	7,97,558.92	17.99

Sources: Secondary Data

Interpretation

The above table shows that the Receivables Turnover Ratio for the period from 2014 - 2019. The Receivables Turnover Ratio was high in the year of 2015-2016 as 42.943 and low in the year of 2018-2019 as 17.99.

AVERAGE COLLECTION PERIOD

It measures the liquidity of debtors of a firm and measures the number of times of receivables are rotated in a year in terms of sales. It is important to maintain a reasonable quantitative relationship between receivables and sales. The average collection period indicates the average time lag (in days) between sales and collection.

Average Collection Period = 365 / Sales

Year	Sales	Collection Period
2014-15	1,73,06,953	11.023
2015-16	1,50,61,158	8.499
2016-17	1,62,14,236	7.44
2017-18	1,55,23,024	16.28
2018-19	1,43,51,234	20.28

Sources: Secondary Data

Interpretation

The above table shows that the Average Collection period for the period from 2014-2019. The Average Collection Period was high in the year of 2018-2019 as 20.28 and low in the year of 2016-2017 as 7.44.

WORKING CAPITAL OVER TOTAL ASSETS RATIO

The ratio is used to measures a company's ability to cover its short term financial obligations. It can provide some insight as to the liquidity of the company.

Working Capital over Total Assets Ratio = Working Capital / Total Assets

Year	Working Capital	Total Asset	Ratio
2014-15	4,22,753.63	1,41,21,684.78	0.03
2015-16	-33,12,334.55	1,53,55,561.24	-0.21
2016-17	-32,30,003.51	1,69,81,384.08	-0.19
2017-18	-36,22,833.29	2,13,81,940.08	-0.16
2018-19	-68,85,713.61	2,68,13,108.27	-0.25

Sources: Secondary Data

Interpretation

The above table shows that the Working Capital over Total Assets Ratio for the period from 2014-2019. The Working Capital over Total Assets Ratio was positive in the year of 2014- 2015 as 0.03.

WORKING CAPITAL TURNOVER RATIO

It measures how well a company is utilizing it working capital to support a given level of sales. A high turnover ratio indicates that management is being extremely efficient in using a firm's short term assets and liabilities to support sales.

Working Capital Turnover Ratio = Sales / Working Capital

Year	Sales	Working Capital	Ratio
2014-15	1,73,06,953	4,22,753.63	40.93
2015-16	1,50,61,158	-33,12,334.55	- 4.54
2016-17	1,62,14,236	-32,30,003.51	-5.02
2017-18	1,55,23,024	-36,22,833.29	- 4.28
2018-19	1,43,51,234	-68,85,713.61	- 2.08

Source: Secondary Data

Interpretation

The above table shows that the Working Capital Turnover Ratio for the period from 2014-2019. The Working Capital Turnover Ratio was positive in the year of 2014-2015 as 40.93.

TREND ANALYSIS

TREND ANALYSIS FOR CURRENT ASSETS

Year	Current Assets	Trend value
2014-15	1,26,68,613.78	100
2015-16	91,95,434.24	72.58
2016-17	1,04,65,194.73	83
2017-18	1,40,83,529.8	111
2018-19	1,50,80,160.53	119

Source: Secondary Data

Interpretation

The above table shows that the trend percentage analysis value for the current assets for the period from 2014-2019. It was 100% in the year of 2014 and the trend value increased to 119 in the year 2019.

TREND ANALYSIS FOR CURRENT LIABILITIES

Year	Current Liabilities	Trend value
2014-15	1,22,45,860.15	100
2015-16	1,25,07,768.79	102
2016-17	1,36,95,198.24	112
2017-18	1,77,06,363.09	145
2018-19	2,19,65,874.14	179

Source: Secondary Data

Interpretation

The above table shows that the trend percentage analysis value for the current liabilities for the period from 2014-2019. It was 100% in the year of 2014 and the trend value increased to 179 in the year 2019.

TREND ANALYSIS FOR SALES

Year	Sales	Trend value
2014-15	1,73,06,953	100
2015-16	1,50,61,158	87
2016-17	1,62,14,236	94
2017-18	1,55,23,024	90
2018-19	1,43,51,234	83

Source: Secondary Data

Interpretation

The above table shows that the trend percentage analysis value for the sales for the period from 2014-2019. It was 100% in the year of 2014 and the trend value decreased to 83 in the year 2019.

V. Results and discussion

RESULTS

1. The current ratio in the year 2015 is 1.03, and in the year 2016, 2017, 2018 and 2019 was 0.73, 0.76, 0.79 and 0.68.
2. Quick Ratio is in the year 2015 is 0.84, and in the year 2016, 2017, 2018 and 2019 was 0.07, 0.75, 0.85 and 0.78.
3. Absolute liquid ratio was high on 2015 as 0.75 and it reduced to 0.012 in the year 2016.
4. Receivable to Current Asset Ratio was high on the year 2018 and 2019. Higher the ratio, higher the cost of carrying the receivables.
5. Receivable to Total Asset Ratio was gradually increased in the year 2018 and 2019.
6. Receivables to Sales Ratio should be lesser. From the year 2015-2017 this ratio was lesser. But in the year 2018 and 2019, the ratio increased.
7. The average collection period maintained was high in the year 2019 with 20% as there was heavy demand for the product, the credit sales was made more than compared to cash sales. The average collection period was low with 7.44% in the year 2016.
8. Receivable turnover ratio was decreased in the year 2018 and 2019 as 22.41 and 17.99.
9. Working Capital over Total Assets Ratio was good in the year 2015 and the ratio gradually decreased.
10. Working capital turnover ratio was high in the year 2015 as 40.93 and gradually decreased to -2.08 in the year 2019.
11. Trend analysis for Current assets and current liabilities were gradually increased in the 2014-2019.
12. The sales trend of the company was witnessing an increasing and decreasing trend throughout the Five years. The table shows that the company's performance was slightly good.

SUGGESTIONS

1. The current assets and liabilities have positive results. The current ratio position of the company is tested and concluded that the Liquidity position is satisfactory.
2. Receivables to Current Asset Ratio reveal the size of receivables in current assets, higher the ratio, higher the cost of carrying the receivables. The ratio increased in the year 2018 and 2019, hence the cost of carrying the receivables were high.
3. Receivables to Total Asset Ratio concluded that the management of receivables were effective.
4. The Debt capital is not utilized effectively and efficiently. So the company can extend its debt capital.
5. On an average, the company was maintaining the credit period of 20 days; the collection effort of this company was satisfactory.
6. There was increase in trend in the net profit. Hence the company net profit was satisfactory.

CONCLUSION

It could be inferred from the above analysis that, the efficiency of the receivables management of this company was satisfactory. The competition is a major challenge that every finance manager encounters during their working capital decision making process for optimum utilization of scarce resources. To examine the effects of receivables management, it is important to note the difference between liberalized credit period and the profitability. It is the change in the investments in receivables level and costs involved in that creates crucial difference between these two. Therefore, after a deep analysis of textile industry at VKS Fabrics with the past five years Financial Statements, it revealed that the performances are not consistent.

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