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Case Study NJOBM

Working Capital Management of Aditya Birla Capital Ltd. at Jabalpur

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Abstract

The main objective of this paper is to study working capital management at Aditya Birla Capital Ltd. and strategy to maintain the liquidity along with different ratios regarding working capital management. Throughout the study, secondary data is used, namely data from the past 5 years are taken from annual reports. Various components are used in this study, such as cash and cash equivalents, receivables, payables, current assets, current liabilities, and other liabilities. This article not only talks about the financial condition of the company, but also helps to identify problems and offer suggestions to improve the company's operations.

Keywords: Ratio analysis, liquidity, profitability, operations, Aditya Birla, working capital

INTRODUCTION

Aditya Birla Capital Ltd.

Aditya Birla Group Ltd. (ABCL) is linked up with financial services which are being provided for the better financial management among people [1].

Companies of ABCL are having significant presence in different areas such as financing, investing, and protecting. It is considered to be a group which offers broader range of services in the financial segment for meeting the client's needs who are at a different stage of life. It is having its presence in different locations, channel partners, agents, many employees and they are having a presence which is statewide [2].

Vision and Values

"To be a leader and a role model in an integrated, broad-based financial services business."

WORKING CAPITAL MANAGEMENT

The amount of capital that is immediately available to an organization is referred to as working capital. Working capital management [WCM] is said to be a study based on short-term assets and liabilities. It is important for a company to continue their operations and also have ability for paying debt in short term and also bear the operational expenses. Management of inventory, accounts payable and receivable, and also cash flow as per the requirement for working capital [3].

WCM takes place at specifically two levels [4]:

1. Ratio analysis can be used to track overall working capital trends and pinpoint areas that need to be managed.
2. Different techniques and strategies can be used to efficiently manage the various parts of working capital.

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RATIO ANALYSIS

A common tool for financial analysis is ratio analysis. One of the most effective and widely used techniques for analyzing financial statements is ratio analysis [5]. Ratio analysis aids in assessing the performance of the business in terms of profitability, effectiveness, and risk. It is a tool for analyzing and deciphering a company's financial position. In ratio analysis, we compare figures taken from financial statements [6]. A ratio is a numerical or arithmetical relationship between two numbers. It enables users such as shareholders, investors, creditors, board, and analysts etc. to better understand the financial statements [4].

ADVANTAGES OF RATIO ANALYSIS [6]

- Ratio analysis shows how effectively a firm is operating.
- Ratio analysis makes it possible to compare businesses within the same sector over a period of years in order to determine profitability [7].
- With the help of ratio analysis, the financial health of a company could be evaluated and also insurance companies, banks, and various companies rely on ratio analysis for their study [8].
- It helps in establishment of trends, since results need to be analyzed over a period of time [9].

RESEARCH METHODOLOGY

The term "research" should only be used in a technical meaning because it refers to an academic activity. Research methodology is a technique that directs a researcher in formulating responses to the research questions, and survey is used in this research.

Research Design

- Aditya Birla Ltd has been selected for the study.
- Financial statements of the following period have been considered for comparing performance: 2017–2018, 2018–2019, 2019–2020, 2020–2021, 2021–2022.
- The method used for research is descriptive.

Sample Size

Aditya Birla Capital Ltd. has been selected.

Period of Study

The sources of data are from the 5-year reports of the company from the years 2017–2018, 2018–2019, 2019–2020, 2020–2021, 2021–2022.

Tools for Data Analysis

Ratio analysis

Tools for Presentation

a. Bar graph
b. Charts
c. Tables

Data Collection

Secondary sources:

- Websites
- Annual financial reports

Research Location

Aditya Birla Capital Pvt. Ltd in Jabalpur.

ANALYSIS AND INTERPRETATION OF DATA

Interpretation

Figure 1 shows that the sales of the company has been increasing. This results in increase in receivables or highest receivables. In 2021–2022, the highest receivables was Rs 658.5 crore compared to other years (2018–2022). For purchases, the business has been successful in recovering cash payments for credit purchases. This results in decrease in receivables or lowest receivables. In 2018–2019 the receivables were Rs 374.39 crore compared to other years (2018–2022) (Table 1).

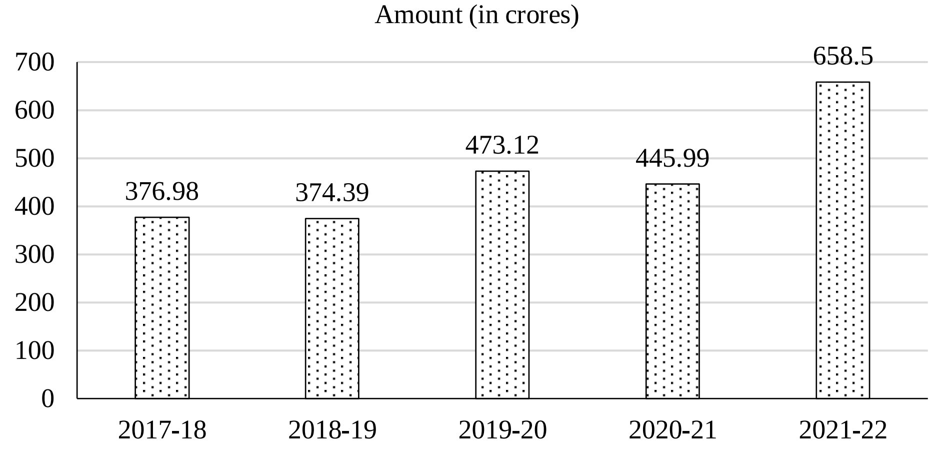

Figure 1. Receivables graph.

Table 1. Receivables.

Years	2017-18	2018-19	2019-20	2020-21	2021-22
Amount (in crores)	376.98	374.39	473.12	445.99	658.50

Interpretation

According to the chart in Figure 2, the payables continuously increased during 2018, 2019, 2020, 2021, and 2022 as compared to previous years. The main reason for increment of company’s payables is due to increase in claim of insurance by the insured (customers). The advantage of highest payables is building of good image of company among the customer as the company is known for insurance as well as investing (Table 2).

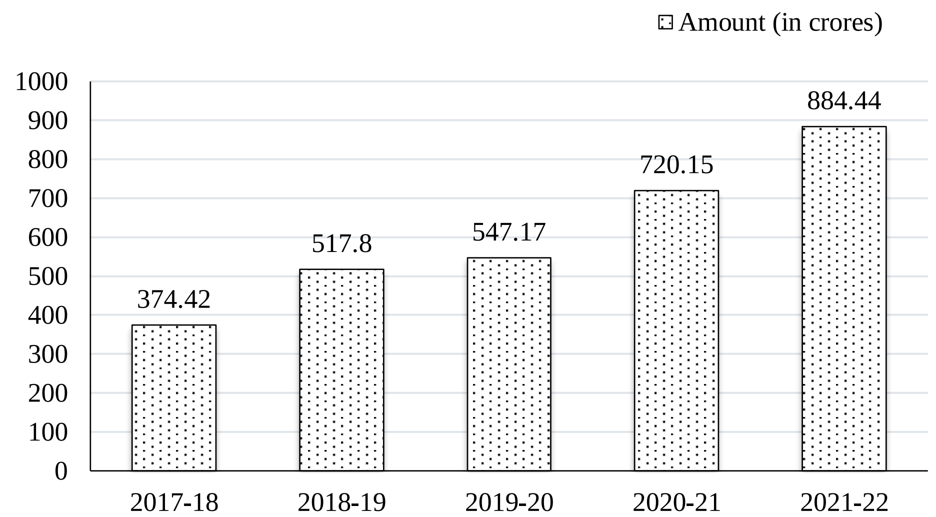

Figure 2. Payables graph.

Table 2. Payables.

Years	2017-18	2018-19	2019-20	2020-21	2021-22
Amount (in crores)	374.42	517.85	547.17	720.15	884.44

Interpretation

According to Figure 3, the cash and cash equivalents increased during 2018, 2019, and 2020 compared to other years. The company is able to satisfy its short-term loan obligations on time.

The payment of sums owed to the company's suppliers, banks, or the government for previous transactions or events led to a continuing decline in cash and cash equivalents after the year 2020. The advantage of continuously decreasing cash and cash equivalents is liabilities of companies are decreasing by the payments made to institutions and government (Table 3).

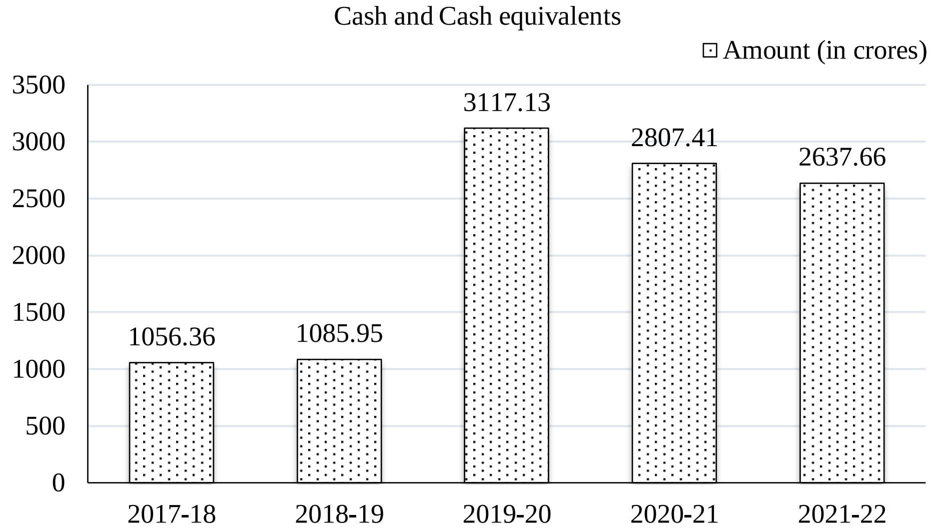

Figure 3. Cash and cash equivalents graph.

Table 3. Cash and cash equivalents.

Year	2017-18	2018-19	2019-20	2020-21	2021-22
Amount (in crores)	1056.36	1085.95	3117.13	2807.41	2637.66

Interpretation

According to Figure 4, total current assets increased during 2018, 2019, 2020, 2021, and 2022 as compared to previous year. The main reason for increment is that the company’s owners, and some investors too, invested additional cash in the company. Current obligations will not rise as a result of the company's cash flow, but current assets would.

From Table 4, we found growth of total current assets from 2018 to 2019 is 17.36%, then further 2019 to 2020 is 3.63%, from 2020 to 2021 it is 9.20%, then from 2021 to 2022 it is 13.52%.

The highest growth is in 2019 compared to other years (Table 4).

Table 4. Current assets (Amount in Rs. Crores).

Year	2017-18	2018-19	2019-20	2020-21	2021-22
Amount (in crores)	91181.66	107011.19	110900.74	121109.92	137494.73
Rate of Growth	-	17.36%	3.63%	9.20%	13.52%

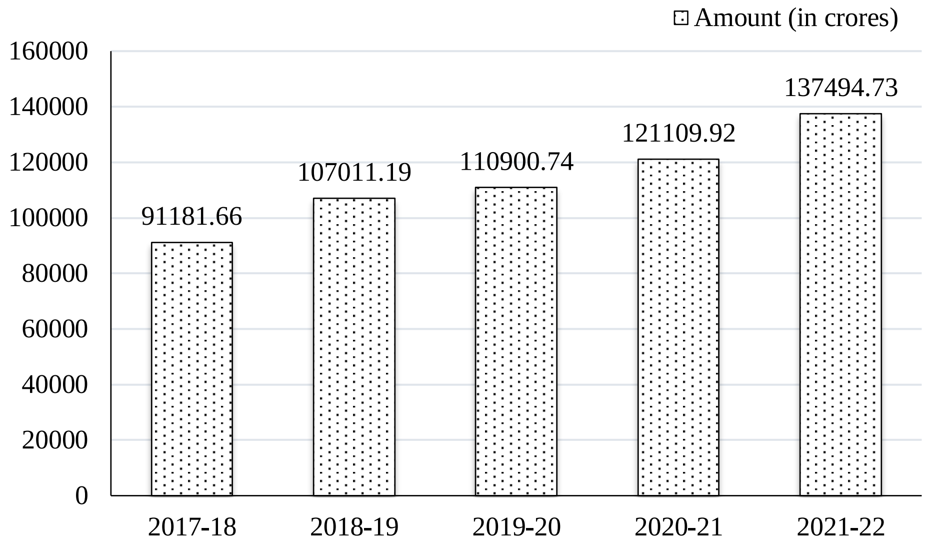

Figure 4. Current assets graph.

Interpretation

- *Investments:* As shown in Table 5, the maximum part of current asset is covered by investments. Investments are continuously increasing year by year. It helps the company to maintain liquidity.
- *Sundry Debtors:* Current assets are partially covered by various borrowers. Debtors fluctuated during the years and the highest debtors were in 2021–2022 (658.50 crores), resulting in highest payables. On the other hand, the lowest debtors were in 2018–2019 (374.39 crores), And this results in lowest payables to the company.
- *Cash and Banks:* In the year 2017–2018, the cash and banks are lowest in comparison to other years. On the other hand, in 2019–2020, the cash and banks are highest in comparison to other years. It helps the company to regulate the day-to-day operations smoothly.
- *Loans and Advances:* Loans and advances make up the majority of the remaining current assets after the investment. The amount of loans and advances help the company to expand and compete with the peers. In 2022, loans and advances were highest at 66198.14 crores compared to other years and, in 2018, they were the lowest at 50469.32 crores compared with other years (Table 5).

Table 5. Separated current assets (Amount in Rs. crores).

Year	2017-18	2018-19	2019-20	2020-21	2021-22	Total
Investments	38980.99	18153.35	24904.29	28854.04	36085.40	146978.07
Inventories	.00	.00	.00	.00	.00	.00
Sundry debtors	376.98	374.39	473.12	445.99	658.50	2328.98
Cash and banks	1056.36	1085.95	3117.13	2807.41	2637.66	10704.51
Loans and advances	50469.32	61888.26	58355.36	59725.61	66198.14	296636.69
Other current assets	298.01	25509.24	24050.84	29276.87	31915.03	111049.99
Total	91181.66	107011.19	110900.74	121109.92	137494.73	

Interpretation

According to Table 6, the highest current labilities in 2021 was Rs 39825.00 crores compared to the other years. But in the past 2 years the current liabilities decreased continuously. The reason behind it is the use of cash and the decrease in cash flows from operations.

After 2019, current liabilities increased from 29462.99 crores to 35141.09 crores. The reason for increasing current liabilities is increasing in other current liabilities.

In year 2017–2018, the current liabilities are decreased at 2264.66 crores, and the reason behind this decrease is decrease in in trade payables in 2017–2018 (Figure 5).

Table 6. Current liabilities (Amount in Rs. Cr).

Year	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Current liabilities	2264.66	29462.99	35141.09	33931.00	39825.00

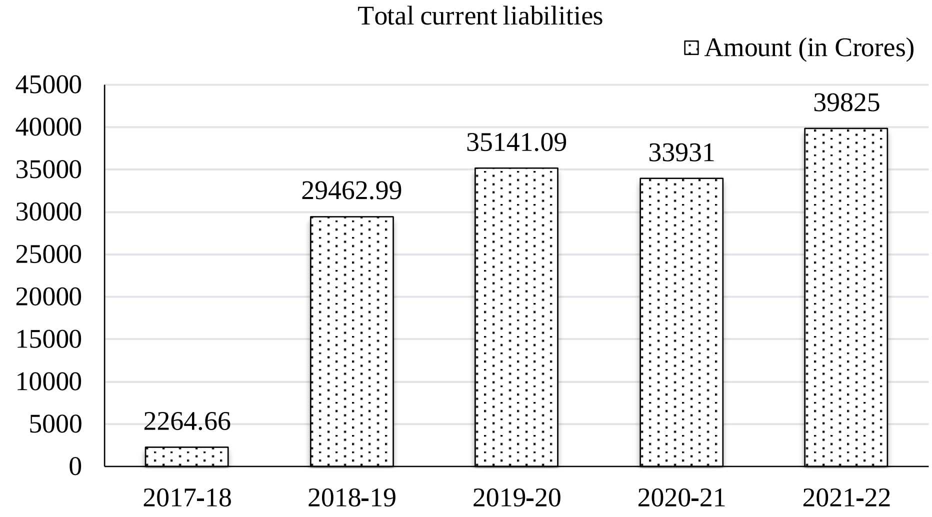

Figure 5. Current liabilities graph.

Interpretation

- *Trade payables:* As per Table 7, the highest trade payables or creditors in 2022 was 884.44 crores compared to the other years but in past few years, trade payables are decreased. From 2018 to 2022, trade payables continuously increased. The lowest trade payables or creditors was in 2017 at 374.42 crores.
- *Other current liabilities:* As per Table 7, the highest other current liabilities in 2022 was 3009.19 crores compared to other years. But in 2020, the other current liabilities were the lowest compared to other years. As we know liabilities cannot be constant; thus the company has several chances to improve its profits or growth (Table 7).

Table 7. Separated current liabilities (Amount in Rs. crores).

Year	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**TOTAL**
Short-term borrowings	0.00	27768.76	33030.30	31131.63	35931.37	127862.06
Trade payables	374.42	517.85	547.17	720.15	884.44	3044.03
Other current liabilities	1890.24	1176.38	1563.62	2080.18	3009.19	9719.61
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00
Total	2264.66	29462.99	35141.09	33931.00	39825.00	

ANALYSIS OF WORKING CAPITAL THROUGH DIFFERENT RATIOS

Interpretation

The current ratio shows how quickly a firm or business can pay its current liabilities. A rise in the current ratio suggests an improvement in the firm's liquidity situation, whereas a fall in the current ratio shows a decline (Table 8).

The significant ratio of current ratio is 2:1 times.

Current ratio indicates that it would help the company in meeting their short-term requirements during past five years from 2018 to 2022. The highest current ratio in 2018 was 40.26 times in comparison to other years (Figure 6).

Table 8. Current ratio.

Year	Current Assets	Current Liabilities	Ratios
2017-18	91181.66	2264.66	40.26:1
2018-19	107011.19	29462.99	3.63:1
2019-20	110900.74	35141.09	3.16:1
2020-21	121109.92	33931.00	3.57:1
2021-22	137494.73	39825.00	3.45:1

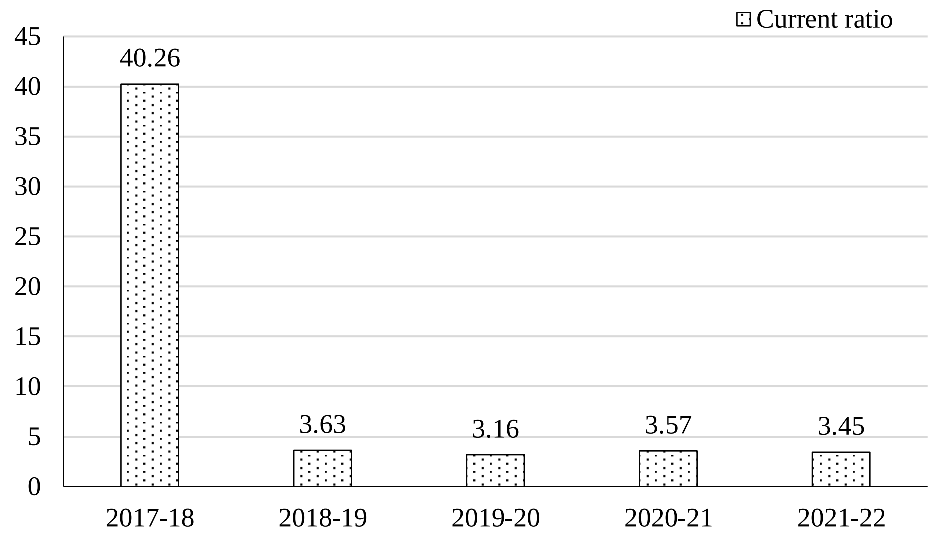

Figure 6. Current ratio graph.

Interpretation

A greater ratio denotes effective working capital use, whereas a lower ratio denotes ineffective working capital use throughout the course of the year.

A working capital turnover ratio of less than 1 is typically seen as a sign of potential future liquidity issues, whereas a ratio of 1.5 to 2 is interpreted as a sign that a company is in good financial standing with regard to liquidity.

From the above research we have found that the working capital ratio is less than 1 in all previous years and same in two consecutive fiscal years which indicates that during five years' company facing so many liquidity problems, due to the ratios of previous years which were less than 1 (Table 9 and Figure 7).

Table 9. Working capital turnover ratio (Amount in Rs. crores).

Year	Return on Sales	Working Capital	Ratio
2017-18	11523.88	88917	0.129
2018-19	15163.51	77548.2	0.195
2019-20	16691.18	75759.65	0.220
2020-21	19247.79	87178.92	0.220
2021-22	22229.91	97669.73	0.227

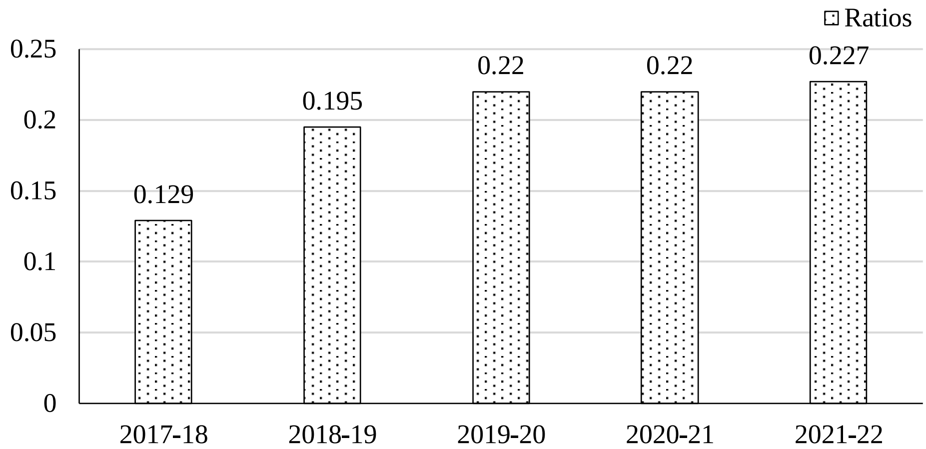

Figure 7. Working capital turnover ratio graph.

Interpretation

The current asset turnover ratio shows that current assets are sold more frequently than other types of assets. A high current assets turnover ratio demonstrates an organization's capacity to maximize sales while putting the least amount of money into current assets. The position will be more attractive the higher the current ratio, and less favorable the lower the current asset ratio.

From the above research we have interpreted that during 5 years the company was not able to maximize the sales with minimum investments due to ratio were less than 1 during all previous years that we have taken (Table 10 and Figure 8).

Table 10. Current asset turnover ratio (Amount in Rs. crores).

Year	Sales	Current Asset	Ratio
2017-18	11523.88	91,181.66	0.126
2018-19	15163.51	107,011.19	0.141
2019-20	16691.18	110,900.74	0.150
2020-21	19247.79	121,109.92	0.158
2021-22	22229.91	137,494.73	0.162

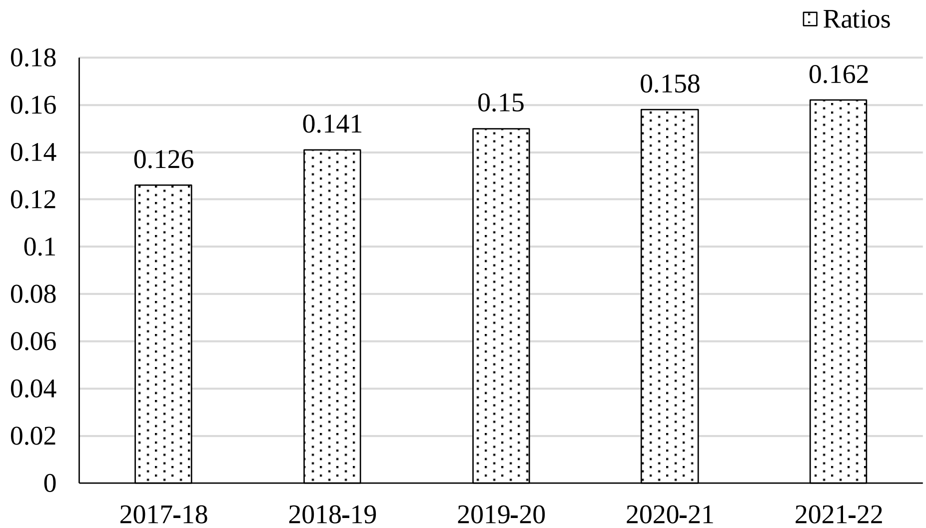

Figure 8. Current asset turnover ratio graph.

However, the ratios were less but they were showing increasing trend as depicted in Figure 8, which indicates that slowly company is achieving growth of sales with minimum investment.

FINDINGS

From the research conducted we have found that

- The receivables of the ABCL Company are decreasing in every second year.
- The payables of ABCL Company are increasing year on year.
- The current assets of ABCL Company are continuously increasing year on year.
- The investors invest the money in company to make the profits.
- The company's cash and cash equivalents were sufficient for day-to-day operations, but its current obligations rose from 2018 to 2022.
- The working capital turnover ratios are less but they have shown an increasing trend.
- The ratios were less but they were showing increasing trend, which indicates that slowly company is achieving growth of sales with minimum investment.

SUGGESTION

After analyzing the above data, the following recommendation or suggestion are made for the expansion and growth of the company.

- The company should formulate the strategy to use the current asset more effectively to generate more revenue.
- The current asset turnover ratios were less than 1 during all previous year that we have taken. As a result, it symbolizes an inadequate selling. The ABCL Company should maintain its sales while being mindful of the market and governmental policies.
- The working capital ratio is less than 1 in all previous years and same in two consecutive fiscal years, which indicates that during 5 years, company faced many liquidity problems, due to the ratios of previous years which were less than 1.
- ABCL Company must get an external advice for balancing the working capital.
- ABCL Company must perform credit checks on new customers to improve the payables.
- To improve the receivables ABCL Company must pay vendors on time and manage debtors effectively.
- Company must use the amount of loans and advances in expansion or compete with peers wisely by using appropriate strategy.

CONCLUSION

Insurance is a legal contract between two parties in which one party get good the loss suffered by the other in return of a regular payment called premium. The contract of insurance is known as insurance policy. There are different types of insurance which are divide into three broader categories: traditional plan, ULIP plans, life insurance plans.

In India, there are 25 life insurance firms. Aditya Birla is one of the top leading insurance companies in India, For which we took the financial statements and performed a ratio analysis.

The performance of the company is not stable in first two fiscal years which we have taken. After that from 2019–2021 the performance of the company is stable, but there is sudden rise in performance of company in 2020-2021. The current assets were highest in the fiscal year 2021–2022 as well as company’s current labilities is also highest. Higher current assets are always favorable as it indicates investment are increasing, which helps to maintain the liquidity. As we have notice current asset ratio of company tremendously decrease in the consecutive year, which means that the company was unable to meet its short-term debt obligation. Even though the company's net working capital has reduced, it is still in a more manageable position and is now keeping its current assets and current liabilities in a suitable manner. The company may achieve sound financial position in the future and be able to manage its working capital effectively by using better management practices.

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