Working Capital Management At Hmt Machine Tools Ltd, Kalamassery

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Abstract- *Working capital management is a crucial aspect of financial management that ensures a company maintains an optimal balance between its current assets and liabilities. It involves managing inventories, receivables, payables, and cash to ensure a business can continue its operations and meet its short-term obligations. Efficient working capital management is vital for sustaining liquidity, profitability, and overall business performance. It examines HMT Limited's liquidity over five years using secondary data like liquidity ratios, activity ratios, schedule of Changes in Working Capital common common size balance sheets. Results show small companies have better liquidity than large ones, with negative growth rates in key working capital ratios indicating unsound positions. Aggressive working capital management can lead to higher returns but increases the risk of default and bankruptcy. The study highlights HMT Limited Kalamassery's liquidity using their financial statements..*

Keywords- Working Capital, Current Assets, Current Liabilities, Liquidity ratio, working capital ratio, net working capital, Inventory turover .

I. INTRODUCTION

The success or failure of any business ultimately depends on cash flow. Even a company that is losing money can survive if it has enough cash. On the other hand, a profitable business can still fail if it doesn't have enough cash to cover its expenses. That's why efficient cash management is crucial. A well- planned and timely cash budget helps a business maintain the right amount of working capital, manage cash shortages, and invest surplus funds wisely for growth.
Many businesses focus on increasing profits but often overlook the importance of managing their working capital. Poor working capital management is one of the biggest reasons companies fail— not because they aren't making money, but because they can't pay their bills on time

Ratio Analysis can be used to monitor overall trends in working capital and to identify areas requiring management. To understand the working capital position of HMT

The individual components of working capital can be effectively managed by using various techniques and strategies. When considering these techniques and strategies, the company needs to recognize that each department has a unique mix of working capital components..

II. REVIEW OF LITERATURE

- **Asare et al. (2023)** conducted a systematic literature review focusing on WCM within the construction industry. Their findings highlighted a scarcity of dedicated research in this sector, underscoring the need for more in-depth studies to understand and improve WCM practices in construction.
- **Sawarni, Narayanasamy, and Ayyalusamy (2021)** examined the impact of WCM efficiency on the performance of Indian non-financial firms. They discovered that efficient management of working capital components significantly enhances firm value and profitability, with the nature of the firm's business influencing this relationship.
- **Baker, Kumar, and Singh (2019)** investigated WCM practices among Indian SMEs, revealing an informal approach to WCM. These firms primarily relied on internal funding and lines of credit to meet working capital needs, highlighting a need for more structured financial strategies.
- **Sukhov et al. (2020)** analyzed the effects of WCM on firm performance in the retail sector during economic downturns. The study found that firms with proactive WCM strategies were better positioned to maintain liquidity and profitability during crises..

III. OBJECTIVES OF THE STUDY

PRIMARY OBJECTIVE

To analyse the performance of working capital management on profitability of the firm

SECONDARY OBJECTIVES

- To understand the working capital position of HMT
- To evaluate the liquidity and solvency of the firm

IV. RESEARCH METHODOLOGY

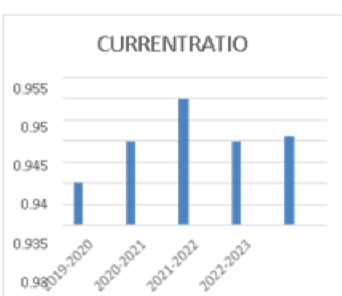
This study is Analytical Research design. Analytical research is methodical approach to investigating complex topics, aiming to understand them through detailed examination and interpretation of their components and interactions. This process involves scrutinizing data, facts, and information to derive significant conclusions, detect patterns, and acquire insights. It relies on diverse methodologies like statistical analysis, data modeling, and experimentation to unveil fundamental principles and facilitate informed decision- making. Analytical research finds application across scientific,academic, business, and policy realms, serving to address challenges, optimize procedures, and deepen comprehension by rigorously analyzing and interpreting data and evidence..

V. DATA ANALYSIS

RATIO ANALYSIS CURRENT RATIO

- **Current Ratio = Current Assets /Current Liabilities**

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
2019 – 2020	96,97,30,415	1,03,19,44,329	0.93
2020 – 2021	1,09,21,69,390	1,15,91,32,755	0.94
2021 – 2022	1,18,98,33,561	1,25,12,84,071	0.95
2022 – 2023	1,30,63,21,123	1,37,89,15,760	0.94
2023–2024	869924295	924185932	0.941



INTERPRETATION

The ratio below 1 signals potential liquidity problems. From 2019-2020 to 2023-2024, the company's current ratio hovers slightly below 1, indicating it consistently has fewer current assets than current liabilities. This can be concerning as it suggests the company might struggle to meet its short-term obligations. Despite an increase in both current assets and current liabilities over the years, the ratio has remained relatively stable around 0.94 to 0.95, showing that while the company's scale has grown, its liquidity position has not improved significantly..

STATEMENT OF CHANGES IN WORKING CAPITAL
Working capital (2023-2024)

PARTICULARS	**2023**	**2024**	**INCREASE IN WC**	**DECREASE IN WC**
CURRENT ASSETS (a)				
Inventories	264365481	307291868	42926084	
Trade receivables	838684488	343289654		495394834
Cash and cash equivalents	45216	59885	14669	
Bank balance other than cash & cash equivalents	9523835	8497789		1026046
Other assets	193702123	210785120	17082997	
TOTALASSETS	1306321123	869924295		
CURRENT LIABILITIES (b)				
Borrowings	79369938	38939341	40430597	
Trade payable	224828773	252565755		27736982
Other financial liabilities	742664123	798051133		55387010
Trade payable	22482877	2525657		27736982

	3	5 5		
Other financial liabilities	74266412 3	7980511 3 3		55387010
Provisions for employee benefits	23318463	1582519 8	7493265	
Provision for warranty	1355980	1109467	246513	
TOTAL LIABILITIES	13789157 6 0	9241859 3 2		
Net working capital (a-b)	- 72594637	- 5426163 7		

INTERPRETATION

This signifies that the company's current liabilities exceed its current assets, indicating potential liquidity challenges. While this is a concern, the data also shows a notable improvement in the working capital position from 2023 to 2024. The net working capital improved by $18.3 million, moving from -$72.6 million in 2023 to -$54.3 million in 2024

COMMON SIZE BALANCESHEET

(a)Provisions (Employee Benefits)	47,023,514	4.84%	41,043,7 40	2.89%
Sub Total (Noncurrent)	47,023,514	4.84%	41,043,74 0	2.89%
3. C.L				
(a) Financial Liabilities:				
(i)Borrowings	291,505,716	29.99%	304,198,6 11	21.42%
ii) Trade	798,051,133	82.19%	724,664,1	51.02%
Payables			23	
(iii)Other	-	-	307,378,4	21.65%
Financial	182,304,962	18.77%	83	
Liabilities				
Provisions(Emplo	16,209,467	1.67%	34,576,6	2.43%
yee &Warranty)			83	
SubTotal (Current)	924,185,93 2	95.07 %	1,378,91 7,500	97.09%
TOTAL LIABILITIES	971,209,44 6	100.00 %	1,419,95 9,500	100.00%

INTERPRETATION

The common size balance sheet of HMT Machine Tools Limited for the years ended 31st March 2024 and 31st March 2023 reveals significant shifts in the company's financial structure. In 2024, current assets made up the majority of total assets at 89.57%, a slight decrease from 91.99% in 2023. This segment was largely driven by a substantial increase in cash and cash equivalents, which rose to 35.34% of total assets from almost negligible levels in the previous year. Additionally, other financial assets emerged prominently, contributing 21.70% in 2024, while trade receivables and loans saw a significant decline. Non-current assets increased marginally as a percentage of total assets, mainly due to property, plant, and equipment, although capital work in progress reduced. On the liabilities side, the company reported no equity, indicating a lack of shareholder funds or erosion of net worth. Non-current liabilities rose modestly due to increased employee benefit provisions. However, the majority of the company's funding came from current liabilities, particularly trade payables, which surged to 82.19% in 2024 from 51.02% in 2023. Interestingly, other financial liabilities turned negative, possibly due to adjustments or reversals. Overall, the balance sheet reflects a company with high liquidity but a potentially concerning solvency position due to its dependence on short-term liabilities and absence of equity

V. CONCLUSION

Based on my analysis, I understood that the financial position of the firm is unsound and they were facing a severe net loss during the period of study. There is an ineffective working capital management done in the company and the study shows a significant negative relationship between working capital and profitability of the firm. So, the company has to put much concentration on their working capital management and adopt appropriate strategies for the wellbeing of the company. The company has shown mixed performance over the years. While improvements in liquid ratios and inventory turnover were noted initially, challenges such as declining receivables turnover and increasing working capital deficits indicate ongoing liquidity management issues requiring focused attention for sustainable financial health.

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