ANALYSIS OF WORKING CAPITAL MANAGEMENT PRACTICES OF KOTAK MAHINDRA BANK LIMITED

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Abstract

A study on working capital is of major importance, because of its close relationship with current day-today operations of a business. Its effective provision and utilization can do much to ensure the success of a business. While the efficient management may not only lead to loss of projects but also to the ultimate shown fall of what otherwise would be considered as promising concern. A study on working capital is of major importance, because of its close relationship with current day-today operations of a business. Working capital is usually invested in raw material ,work in progress ,finished goods accounts, receivable and saleable securities. Management of working capital usually involves planning and controlling current assets, namely cash and marketable securities, assets receivable and inventories and also administration of current liabilities. Working Capital or current assets management is one of the most important aspect of the over all financial management. It is concerned with the problem that arises in attempting to manage the current assets. The current liabilities and the inter relationships that exists between them. Current assets are the assets, which can be converted into cash with in an Accounting year and includes cash short-term securities, debtors, bill receivable and inventories. Current liabilities are that claim of outside, which are expected to mature for payment with in an Accounting year and includes creditor's bill payable and outstanding expenses. The paper is attempted to analyze the working capital management of the firms considering current assets and current liabilities and managing the funds in such a way that they are enough to cover its current liabilities in a best possible way.

Keywords: Working Capital Management, Current Assets, Current Liabilities, Inventories, Ratio Analysis.

I. Introduction

Cash is the lifeline of a company. If this lifeline deteriorates, the company's ability to fund operations, reinvest and meet capital requirements and payments also deteriorate. Understanding a company's cash flow health is essential for making investment decisions. A good way to judge a company's cash flow prospects is to look at its working capital management (WCM).Working capital of a company reveals more about the financial condition of a business than almost any other calculation. It tells you what would be left if a company raised all of its short term resources, and used them to pay off its short term liabilities. The more working capital, the less financial strain a company experiences. Working capital also gives investors an idea of the company's underlying operational efficiency. Money that is tied up in inventory or money that customers still owe to the company can't be used to pay off any of its obligations. So, if a company is not operating in the most efficient manner (slow collection) it will show up in the working capital. This can be seen by comparing the working capital from one period of time to another; slow collection may signal an underlying problem in the company's operations. Working capital is that it is the difference between an organization's current assets and its current liabilities. Of more importance is its function which is primarily to support the day-to-day financial operations of an organization, including the purchase of stock, the payment of salaries, wages and other business expenses, and the financing of credit sales. It's a measure of both a company's efficiency and its short-term financial health. The better a company manages its working capital, the less the company needs to borrow. Even companies with cash surpluses need to manage working capital to ensure that those surpluses are invested in ways that will generate suitable returns for investors.

Current Assets - Current Liabilities = Working Capital

II. Review of literature:

Seth et al. (2021) argue that human capital, structural capital, and productivity do not affect the efficiency of working capital management and business performance. These findings contribute to effective solutions in working capital management.

Prsa (2020) explains that working capital management has an impact on a company's wealth. Businesses investing more in working capital can expect lower business risk but adverse effects on profitability and vice versa.

Prasad et al. (2019) present the working capital efficiency multiplier (WCEM) as a direct profitability measurement in working capital management. WCEM represents financial performance variables such as return on assets, invested capital, equity return, gross operating income, and net operating income. WCEM reflects the part of WACC that the company invests in working capital management. As mentioned above, the lower WCEM indicates higher efficiency of working capital.

Korent and Orsag (2018) examine the impact of working capital management on profitability in Croatian software companies using descriptive statistics, correlation, and regression analysis. The results suggest that there is a nonlinear concave relationship between net working capital and return on assets. These results indicate that there is an optimal level of net working capital.

Venkatachalam (2017) argues that large working capital can lead to increased costs and reduced profits. Their paper examines the relationship between profitability and various components of current assets based on the Pearson correlation.

Khan (2017) claims that working capital management is a very important part of corporate finance, especially in the manufacturing sector, due to its direct impact on the company's liquidity and profitability.

Shajar and Farooqi (2016) demonstrate that effective working capital management is the most important factor in maintaining a company's survival, liquidity, solvency, and profitability. Optimal working capital management contributes positively to the company's value.

III. Need for the study:

- Working capital management is one of the key areas of financial decision-making.
- Working capital and efficient management of the same will help the business's fixed assets to be utilised efficiently and effectively.
- The financial manager need to understand how to develop effective working capital policies to ensure growth ,profitability , and long-term success for their firms.
- To increase the profitability of a concern , increase in total revenues is must, and to increase revenue , adequate working capital is much needed. TShus adequate working capital contributes in profit making.

IV. Scope of the study:

- The study is confined to five years (i.e) 2017-2021.
- For the study data collection is done at Kotak Mahindra bank Ltd**.,** Hyderabad area.
- Ratio analysis- Current ratio, Quick ratio, turnover ratio are computed on the data.
- The sample data comprises of five years balance sheets of Kotak Mahindra Bank Ltd.

V. Objectives of the Study:

- To study the existing working capital management system of **Kotak Mahindra Group**. (Formerly Kotak Mahindra bank Ltd.).
- To find the liquidity position of the current assets and current liabilities of the company.
- To examine feasibility of present system of managing working capital.
- To understand how the company finances its working capital

VI. Research Methodology

The study of Working Capital management is based on primary as well as secondary data.

Source of the data collected:

- Secondary data sources.

Secondary data:

Secondary data refer to those data that have already been collected by some other person.The secondary data was collected from company's previous annual reports , various books and Internet.

- The required data was sourced from the database and existing documents with Kotak Mahindra Bank Limited including the current process flow of Working Capital Finance.
- Data was also collected from a few websites, company annual reports, Articles, RBI website.

VII. Limitations of the Study:

- The study is mainly on secondary data.
- The lack of sufficient time and resource is another limitation of the study .
- The study is purely based on information given in the annual report.
- Some information is confidential those information may not be made available in the report.

VIII. Empirical Results:

Analysis of working capital performance through ratio analysis

Ratio analysis:

The ratio analysis is one of the most powerful tools of financial analysis. it is the process of establishing and interpreting various ratios (Quantities relationship between figures and groups of figures).it is with the help of ratios that the financial statements can be analysis more clearly and decision are made from such analyses.

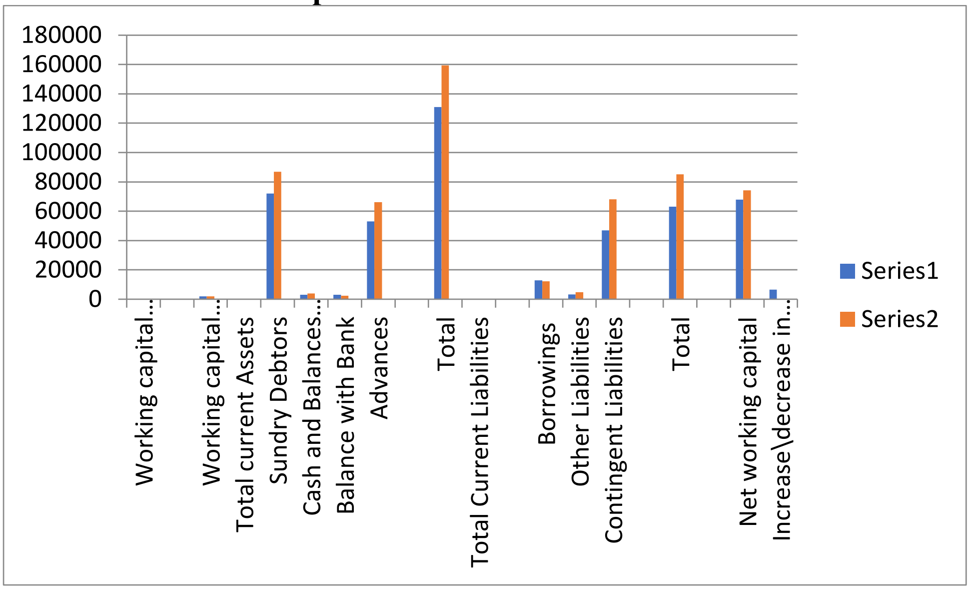
A ratio is simple arithmetic expression of the relationship of one to another. According to accountants Handbooks by Ixen and Bedford a ratio is an expression of the quantities relationship between two numbers.

A representative analysis carried out is presented in table 1.1 and figure 1.1(a).

Particulars	**2020**	**2021**
Total current Assets		
Sundry Debtors	71967.91	87010.02
Cash and Balances with RBI	2,948.23	3928.3
Balance with Bank	3,031.66	2334.06
Advances	53,027.63	66160.71
Total	130975.43	159433.09
Total Current Liabilities		
Borrowings	12,895.58	12149.71
Other Liabilities	3,333.82	4857.97
Contingent Liabilities	46,903.54	68092.15

Total	63,132.94	85099.83
Net working capital	67842.49	74333.26
Increase\decrease in net working capital	6490.77	

Table No: 1.1 Statement of changes in working capital 2020-21
Source: Author's Compilation



Graph No: 1.1.a Statement of changes in working capital 2020-21
Source: Author's Compilation.

The networking capital of Kotak Mahindra has been increased to 6490.77 Cr the financial position i.e. the performance of Kotak Mahindra has increased and the current assets defects its current liability. In the year of 2019-20 networking capital has been increased to 9562.86 Cr the financial position i.e. the performance of Kotak Mahindra has increased and the current assets defects its current liability. In the year of 2018-19 networking capital has been increased to 2097.48 Cr the financial position i.e. the performance of Kotak Mahindra has increased and the current assets defects its current liability.

The company noted a maximum ratio of 14.12 in the year 2019-20 and the minimum ratio in the year of 2016-17 is 11.73. present year i.e on 2019-20 is 13.50.The ratio is increasing the year 2016-17 is 11.73 in the year , but it is decreased in the year 2018-19. It shows a good sign for the company. The current ratio increased slightly up to 2017-18 is 1.42. But in 2016-17 it declined because of increase in current liabilities, and then it started to decrease further in 2016-17 as 0.33. if the company maintains to increase the ratio it can meet obligations. The current ratio increased slightly up to 2016-17 is 1.33. But in 2016-17 it declined because of increase in current liabilities, and then it started to decrease further in 2020-21 as 1.07. if the company maintains to increase the ratio it can meet obligations.

XI. Findings, Suggestions and Conclusion:

Findings:

- The Kotak Mahindra net working capital is satisfactory between the years 2020-21 since it shows increasing trend.
- The Net working capital is increased by the previous year working capital.
- Fixed assets turnover ratio of Kotak Mahindra increased. The company has to maintain this.

- Total Assets turnover ratio of Kotak Mahindra is not satisfactory because it is always below one, except in the year 2019-20 .
- Return on investment is not satisfactory. This indicates that the company's funds are not being utilized in a better way.

Suggestions:

- Improve position funds should be utilized properly.
- Better Awareness to increase the sales is suggested.
- Cost cut down mechanics can be employed.
- Better production technique can be employed.
- The investment on raw material should be made as per the requirement. Unnecessary investment may block up the funds.
- The process that was being used by **Kotak Mahindra Group** 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.

Conclusion:

Banking has become one of the most important tools for the success of any country. It has become a backbone of any countries growing economy. Banking over the year, in India has seen lots of ups and downs. Today due to liberalization of the economy, more and more sectors are becoming more and more competitive. Banking is no different. Bank like kotak Mahindra and others banks in India are doing terrifies job in banking sector handling better human resources, adopt new technology, and bring new concept and managing standard. Banking sector has seen a lot of transformation in the past post liberalization period, it has became very important for bank to give services best to their capabilities. If the customer are not satisfied with the service provided by the bank, they will transfer their account to some other bank. Result is loss of revenue for the bank and the loss of goodwill. New technology needs to be introduction in the banking sector it is utmost clear that people are not only expecting normal banking services but they want to be as their business partners and help accordingly.

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