

Analyzing Working Capital Efficiency, Including Accounts Receivable (Customer Payments) and account s payable

A.Sham¹, Dr R Senthil Kumar²

¹MBA Student, Department of Management Studies, Vels Institute of Science, Technology and Advanced Studies (VISTAS), Pallavaram, Chennai, India.

²Assistant Professor, Department of Management Studies, Vels Institute of Science, Technology and Advanced Studies (VISTAS), Pallavaram, Chennai, India.

ORCHID ID: 0009-0006-7408-1861

Abstract

Working capital management is an essential part of financial management because it helps companies maintain smooth business operations, improve liquidity, and ensure profitability. Proper management of accounts receivable and accounts payable plays a major role in maintaining stable cash flow and uninterrupted production activities. This study examines the working capital efficiency of PMI Engineering Exports Pvt. Ltd., Chennai, with special reference to accounts receivable and accounts payable during the period from 2020–21 to 2024–25.

The study mainly uses secondary financial data collected from annual reports, financial statements, company records, and internal reports. Various financial tools such as Debtors Turnover Ratio, Average Collection Period, Payables Turnover Ratio, Average Payment Period, Working Capital Turnover Ratio, Cash Conversion Cycle, Comparative Statement Analysis, and Trend Analysis were used to evaluate the company's working capital performance.

The findings indicate that the company maintained efficient receivables and payables management practices throughout the study period. The Debtors Turnover Ratio improved from 4.6 times to 4.9 times, while the Average Collection Period reduced from 79 days to 74 days, showing better receivables collection efficiency. Similarly, the Payables Turnover Ratio increased from 6.1 times to 6.5 times, reflecting effective supplier payment management. The Cash Conversion Cycle also improved from 98 days to 96 days, indicating efficient operational cash flow management.

The study concludes that PMI Engineering Exports Pvt. Ltd. maintained sound working capital management practices that contributed to improved liquidity position, operational efficiency, and business growth. The study also suggests strengthening receivables management, inventory control, and cash flow planning for long-term financial sustainability.

Keywords: Working Capital Management, Accounts Receivable, Accounts Payable, Cash Conversion Cycle, Liquidity, Debtors Turnover Ratio, Payables Turnover Ratio, Financial Efficiency, PMI Engineering Exports Pvt. Ltd.

Introduction

Working capital management is one of the most important areas of financial management in any organization. It refers to the management of current assets and current liabilities in order to ensure smooth day-to-day business operations. Efficient working capital management helps organizations

maintain liquidity, profitability, and operational efficiency. In manufacturing industries, proper management of receivables, payables, inventory, and cash flow becomes highly important because of continuous production activities and large operational investments.

Accounts receivable represent the amount owed by customers for credit sales, while accounts payable represent obligations payable to suppliers and creditors. Efficient receivables management helps companies collect payments on time and improve liquidity position. Similarly, effective payables management helps maintain good supplier relationships and supports uninterrupted production activities.

This study focuses on PMI Engineering Exports Pvt. Ltd., a Chennai-based engineering manufacturing company involved in precision machining, fabricated metal products, and export-oriented manufacturing services. Since the company operates in competitive engineering and aerospace sectors, effective working capital management is necessary for maintaining operational continuity and financial stability.

The study analyzes the working capital efficiency of the company during the period from 2020–21 to 2024–25 using different financial ratios and comparative financial statement analysis. The analysis helps understand how effectively the company manages receivables, payables, liquidity, and operational cash flow.

Review of Literature

Several earlier studies have highlighted the importance of working capital management in improving profitability, liquidity, and operational efficiency.

- **Fidelis Anake Atseye, James Ike Ugwu & Samuel Takon (2015)** explained that efficient management of receivables, payables, and inventory significantly improves operational performance and firm value.
- **Yusuf Aminu & Nasruddin Zainudin (2015)** emphasized that proper management of the cash conversion cycle improves liquidity and organizational stability.
- **Altaf & Shah (2016)** found that maintaining optimum working capital improves profitability and reduces financial risk in business organizations.
- **Pais & Gama (2016)** concluded that efficient receivables and payables management positively influence profitability and business sustainability.
- **Ahmed & Malik (2023)** studied export-oriented manufacturing firms and found that effective working capital management improves operational efficiency and competitiveness in global markets.
- **Rajesh & Kumar (2024)** explained that proper management of current assets and liabilities improves financial stability and operational efficiency in engineering manufacturing companies.
- **Suresh & Nandakumar (2025)** concluded that shorter collection periods and balanced payment periods support long-term financial sustainability and profitability.

Most of the previous studies indicate that efficient management of receivables, payables, inventory, and cash flow positively affects organizational performance and profitability. However, only a

limited number of studies focus specifically on export-oriented engineering companies in Chennai, which forms the basis for the present study.

Objectives of the Study

Primary Objective

- To analyze the working capital efficiency of PMI Engineering Exports Pvt. Ltd. with special reference to accounts receivable and accounts payable.

Secondary Objectives

- To study accounts receivable management practices.
- To evaluate accounts payable management efficiency.
- To analyze working capital turnover efficiency.
- To assess liquidity and operational performance.
- To evaluate the cash conversion cycle of the company.
- To provide suggestions for improving working capital management.

Research Methodology

The study adopted an analytical and descriptive research design. The analysis was mainly based on secondary financial data collected from company records and financial statements for the period from 2020–21 to 2024–25.

Sources of Data

Primary Data

- Discussions with finance and accounts department employees.
- Personal interaction with company officials.
- Observation of financial management practices.

Secondary Data

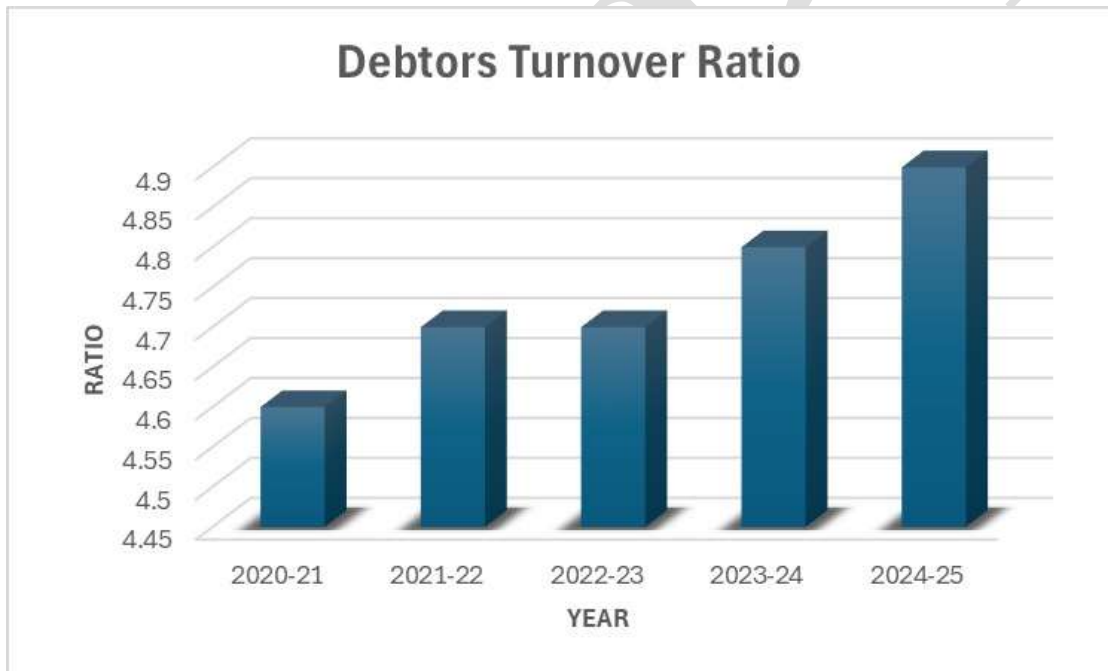
- Annual reports of the company.
- Financial statements and accounting records.
- Internal company reports.
- Journals, books, and research articles.

Data Analysis and Interpretation

Debtors Turnover Ratio

Calculation Table

Year	Sales (₹ Lakhs)	Debtors (₹ Lakhs)	Calculation	Ratio
2020–21	5,06,000	1,10,000	$5,06,000 \div 1,10,000$	4.6
2021–22	7,52,000	1,60,000	$7,52,000 \div 1,60,000$	4.7
2022–23	11,28,000	2,40,000	$11,28,000 \div 2,40,000$	4.7
2023–24	15,36,000	3,20,000	$15,36,000 \div 3,20,000$	4.8
2024–25	20,58,000	4,20,000	$20,58,000 \div 4,20,000$	4.9

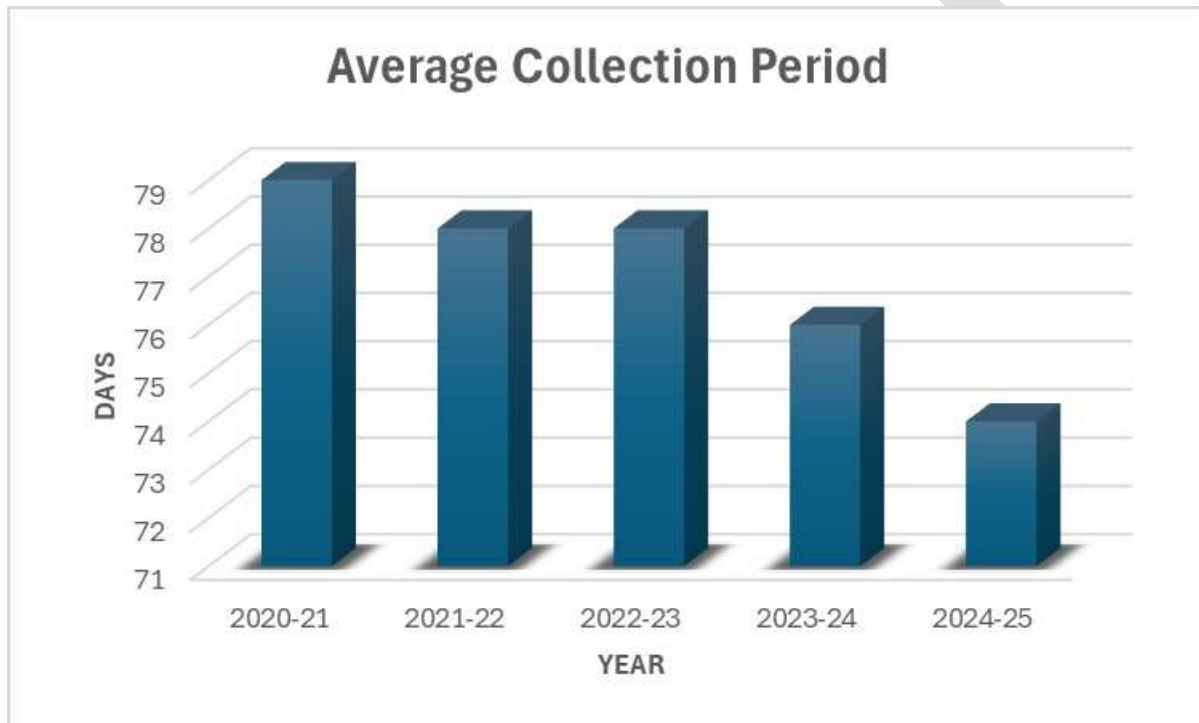


The Debtors Turnover Ratio increased from 4.6 times in 2020–21 to 4.9 times in 2024–25. This indicates improvement in receivables collection efficiency and better customer payment management. Faster recovery of receivables improved the company’s liquidity position and reduced the possibility of bad debts.

Average Collection Period

Year	Debtors Turnover Ratio	Calculation	Days
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Year	Debtors Turnover Ratio	Calculation	Days
2020–21	4.6	$365 \div 4.6$	79
2021–22	4.7	$365 \div 4.7$	78
2022–23	4.7	$365 \div 4.7$	78
2023–24	4.8	$365 \div 4.8$	76
2024–25	4.9	$365 \div 4.9$	74



The Average Collection Period decreased from 79 days to 74 days during the study period. This shows that the company improved its receivables collection process and strengthened its credit management practices.

Trend Analysis

Particulars	2020-21	2021-22	2022-23	2023-24	2024-25	2021-22 %	2022-23 %	2023-24 %	2024-25 %
Cash & Cash Equivalents	80,000	1,20,000	1,90,000	2,70,000	3,50,000	150	238	338	438
Receivables	1,10,000	1,60,000	2,40,000	3,20,000	4,20,000	145	218	291	382
Inventory	1,40,000	1,90,000	2,40,000	3,00,000	3,80,000	136	171	214	271
Other Current Assets	90,000	1,10,000	95,000	1,10,000	1,30,000	122	106	122	144
Total Current Assets (A)	4,20,000	5,80,000	7,65,000	9,00,000	11,80,000	138	182	214	281
Plant & Machinery	3,00,000	4,00,000	5,20,000	6,80,000	8,50,000	133	173	227	283
Furniture	50,000	80,000	90,000	1,10,000	1,40,000	160	180	220	280
Total Fixed Assets (B)	3,50,000	4,80,000	6,10,000	7,90,000	9,90,000	137	174	226	283

Total Assets (C=A+B)	7,70,000	10,60,000	13,75,000	16,90,000	21,70,000	138	179	220	282
Shareholder Capital	5,50,000	7,50,000	9,50,000	11,80,000	14,50,000	136	173	215	264
Current Liabilities	2,20,000	3,10,000	4,25,000	5,10,000	7,20,000	141	193	232	327
Total Liabilities	7,70,000	10,60,000	13,75,000	16,90,000	21,70,000	138	179	220	282

The trend analysis shows that PMI Engineering Exports Pvt. Ltd. experienced steady financial growth and expansion during the period from 2020–21 to 2024–25. The continuous increase in Current Assets, Fixed Assets, and Shareholder Capital indicates strong operational performance, improved liquidity position, and effective investment in business expansion activities. Growth in inventory, receivables, and plant & machinery reflects increased production capacity and higher sales operations. Overall, the company maintained healthy financial stability and efficient resource utilization throughout the study period.

Findings of the Study

1. The company showed improvement in receivables collection efficiency during the study period.
2. The Average Collection Period reduced steadily, indicating better liquidity management.
3. Working Capital Turnover Ratio increased, showing efficient utilization of working capital resources.
4. The Cash Conversion Cycle improved, indicating effective operational cash flow management.
5. Total Current Assets and Fixed Assets increased continuously, reflecting business expansion and operational growth.

Suggestions

1. The company should strengthen receivables collection policies to improve cash flow efficiency.
2. Regular monitoring of working capital ratios should be implemented for early identification of financial issues.
3. Optimum inventory levels should be maintained to reduce carrying costs and avoid operational interruptions.

4. Cash flow forecasting and budgeting practices should be strengthened for better liquidity management.

Conclusion

The study analyzed the working capital efficiency of PMI Engineering Exports Pvt. Ltd. during the period from 2020–21 to 2024–25 with special reference to accounts receivable and accounts payable. The findings showed that the company maintained effective working capital management practices, which improved liquidity position, operational efficiency, and overall financial performance. Improvements in Debtors Turnover Ratio, Payables Turnover Ratio, and Working Capital Turnover Ratio indicate sound financial management practices followed by the company.

The study also revealed continuous growth in current assets, fixed assets, sales, and shareholder capital, reflecting steady business expansion and operational development. Overall, the company maintained healthy financial stability and efficient utilization of working capital resources throughout the study period. Effective management of receivables and payables played an important role in supporting the company's long-term sustainability and growth.

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