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A STUDY ON WORKING CAPITAL MANGEMENT OF KOTAK MAHINDRA BANK LTD

[1]P.Sindhu , [2]Ms. Ramya Sree.M

Abstract:

Working capital management is a critical component of business financial management since it has a direct impact on liquidity, profitability, and operational efficiency. This abstract highlights the importance of working capital management as well as notable achievements. Working capital management is the technique of managing a company's current assets and liabilities in order to meet short-term obligations and continue day-to-day operations. It's critical to strike a cautious balance between keeping enough working capital on hand to deal with liquidity concerns and lowering idle cash, which can have a negative impact on profitability. This abstract covers and underlines the significance of working capital components such as cash, inventories, receivables, and payables in working capital administration. It emphasizes the importance of understanding cash flow patterns and forecasting approaches in order to accurately estimate future working capital requirements. Furthermore, the abstract emphasizes critical working capital management techniques. Effective cash flow management, inventory control systems, optimizing receivables and payables cycles, and the use of financial instruments such as credit lines and factoring are among these ways. It also emphasizes the use of technology to streamline working capital procedures, such as automated payment systems and real-time financial reporting tools.

Keywords: working capital., current assets, current liabilities, current ratios, Quick ratio

I. Introduction

A company firm's working capital serves as its heart and brain. Because of better terms on purchased items, lower manufacturing costs as a result of accepting cash discounts, advantageous lending rates, etc., having enough working capital helps a business improve its credit position. A adequate amount of working capital is necessary for every business to operate profitably. Maintaining the proper level of operating capital is essential. The finance manager must determine the precise working capital requirement. A company with sufficient working cash is always able to take advantage of good opportunities, whether it be to purchase raw materials, carry out a specific order, or wait for improved market situation.

[1]P.Sindhu, II-MBA, Malla Reddy Engineering College (Autonomous), Department of MBA, Hyderabad, E-mail:sindhup2025@gmail.com
[2]Ms. Ramya Sree.M, Assistant Professor, Department of MBA, Malla Reddy EngineeringCollege (Autonomous), Hyderabad, E-mail: mramyasree004@gmail.com

For several reasons, it's important to understand how much working capital a business has. The working capital calculation will reveal the company's true performance to both the company and the investors. Additionally, the company's working capital consists of the funds used for a variety of expenses, including the purchase of new machinery and stock lines. Whether you are assessing performance or making expansion predictions, working capital is the single most crucial factor in a firm. It might not be possible for a firm to expand and thrive without the necessary working capital and understanding of how to make a working capital calculation. A corporation cannot advance unless it has the appropriate level of operating capital.

The ACC is a major company. Because of this, a lot of daily activities take place. To fund its present assets, ACC needs a lot of working capital for things like the acquisition of raw materials, stores, and spare parts.

DEFINITION: A business practice called working capital management aids organizations in making efficient use of their existing assets and maximizing cash flow. It is focused on making sure that immediate financial responsibilities and expenditures can be paid while simultaneously advancing longer-term business goals.

Concept of working capital:

The difference between current assets (cash on hand, cash in the bank, debtors, bills receivables, inventories, etc.) and current liabilities (creditors, bills payable, bank overdraft, etc.) is known as working capital. Working capital can be thought of in two ways. The following are what they are: (1) Gross working capital (2) Net working capital.

(1) Gross Working Capital:

This idea states that working capital can be categorized as capital invested in a variety of current assets, including cash, inventories, and accounts receivable.

(2) Net Working capital:

The discrepancy between current assets and current obligations is what it alludes to.It is possible for net working capital to be positive or negative. When current assets are greater than current liabilities, a positive net working capital will result. When current liabilities exceed current assets, a negative working capital situation results. Net working capital can be used to measure the firm's liquidity.

IMPORANCE OF WORKING CAPITAL FOR COMPANY:

- Working capital is a daily requirement for businesses since they need a consistent stream of cash to pay bills on time, cover unforeseen expenses, and buy raw materials for manufacturing products.

- Effective working capital management keeps operations running smoothly and can raise revenue and profitability for the business. Inventory management, accounts receivable and payable management, and working capital management are all included. Maintaining the working capital operating cycle and assuring its orderly functioning, lowering the cost of capital used for working capital, and increasing the return on current asset investments are the major goals of working capital management.

II. Review of literature

Rehman and Nasr (2012) have probed that WCM has a negative correlation with firms' profitability and liquidity. Shaw (2006) Stated WCM is pretty much necessary for the success of any organization. He added that if a firm appropriately manages its WC and keeps a positive balance to meet short term needs, and to take advantages of short terms opportunities, can increase its profitability. For example, discounts from suppliers. It is further argued that Positive balance also enables firm to purchase inputs which are necessary to run business smoothly and to increase firms' performance.

Deloof (2014) advocated firms attempt to maintain a most favorable level of WC that in turn enhances the wealth of shareholders. The results of this study found that WCM has a negative relation between firms performance. The major part of literature review mentioned above typically focuses on the association of the WCM with firms' FP. Most of the researchers have applied correlation and multiple regression analysis to empirically test the impact of WCM elements on firm's performance.

Sagan (2017) in his paper, perhaps the first theoretical paper on the theory of working capital management, emphasized the need for management of working capital accounts and warned that it could vitally affect the health of the company. Realizing the dearth of pertinent literature on working capital management, walker 1964 made pioneering effort to develop a theory of working capital management by empirically testing, through the partially, three propositions based on risk-return trade-off of working capital management.

Weston and Brigham(2019) Further extended the second proposition suggested by Walker by dividing debt into long term debt and short term debt should be used in place of long term debt whenever their use would lower the average cost of capital to the firm they also suggested that a business would hold short term marketable securities only if there were excess funds after meeting short term debt obligations.

Vanhorne(2018), recognizing working capital management as an area largely lacking in theoretical perspective, attempted to develop a framework in terms of probabilistic cash budget for evaluating decisions concerning the level of liquid assets and the maturity composition of debt involving risk-return trade-off. He proposed calculation of different forecast liquid asset requirements along with the subjective probabilities under different possible assumptions.

Kretlow(2013), the major policy issued encountered in the management of working capitalists related to the level of investment and its financing. According to them firms have two goals liquidity and profitability. working capital management is important for creating value for shareholders according to Shin and soenen in 1998 management of working capital was found to have a significant impact on both profitability and liquidity.

Ray (2015) Felt that in the five decades post nationalization of banks, they have grown substantial in size and asset base but this growth has generated huge amount of non- performing assets. This has adversely impacted the profitability thereby exposing managerial inefficiencies in the system. Faulty credit appraisal by untrained staff is one of the biggest contributor to managerial inefficiency leading to rising delinquencies.

Kaur harsh v. and singh Sukhdev (2020) This article focuses on cash conversion efficiency and setting up the operating cycle days.The study tests the relationship between the working capital attain and profitability calculated by income to current assets and income to average total assets.

III. Need for the study

- Working capital management is one of the most important aspects of financial decision- making since management must ensure that an excessive investment in current assets shields the business from stock-out issues.
- The firm's liquidity status will also be determined by its current assets.
- Working capital management aims to maintain a suitable level of working capital by effectively managing the company's current assets and current obligations
- The company is likely to become insolvent and may possibly be forced into bankruptcy if it is unable to maintain a reasonable level of operating capital.

IV. Objectives of the study:

- To study the existing working capital management system of kotak Mahindra group. (formely kotak Mahindra bank ltd.).
- To assess the viability of the current working capital management system.
- To determine the company's current assets and current liabilities' liquidity positions.
- To comprehend how the business obtains operating capital
- To Analyze the company's financial performance in relation to working capital.
- To make recommendations to the management based on the research made.

V. Scope of the study:

- The study is conducted for the duration of five(5) years from 2017 to 2022.
- The main aim of the study is to assess the proper management of current assets &current liabilities.
- The study concentrates more on the working capital management of Kotak Mahindrabank ltd.
- The main aim of the study is to assess the proper management of current assets andcurrent liabilities.
- The research not only considers historical and contemporary sources, but also those thatwere actively used between 2017 and 2022.

VI. Research methodology:

Working Capital management research is supported by both primary and secondary data. information about. has been gathered via

Data Sources:

Secondary sources: Published firm annual reports for the years 2018–2022.

Data Analysis:

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- The tools of ratio analysis, graphic analysis, and year-year analysis have been used to processthe acquired data.

- These tools aid in the interpretation and comprehension of the capital structure's current scenario.

- The secondary data was taken from the firm's annual reports from 2018 through 2022, numerous books, and the Internet. The primary data was obtained through direct interaction with the company director.

Data analysis tools:

- Ms excel 2010

- Financial Ratios.

VII. Limitations of the study:

Due to constraints of time and resources, the study is likely to suffer from certain limitations. Some of these are mentioned here under so that the findings of the study may be understood in a proper perspective. The limitations of the study are:

- The study is only restricted to analyze the working capital management of only kotak Mahindra bank.

- The secondary data for five years annual reports of the kotak Mahindra bank was considered.

- The ratio of the one company cannot always be compared with the performance of the other firms, hence no conclusive evidence on the practices be made.

- The study is based on the secondary data and the limitation of using secondary data may affect the results.

- Only few financial ratios were computed on the data collected which may not give us a comprehensive idea on financial performance of the firm.

Year	Current Assets	Growth Rate (%)	Current Liabilities	Growth Rate (%)	Net W.C
2021-22	17701.69	100	12844.57	100	4857.12
2020-21	17766.01	100.3634	15064.09	117.2798	2701.92
2019-20	23075.31	129.8846	24270.24	161.1132	-1194.93
2018-19	31800.29	137.8109	23803.06	98.07509	7997.23
2017-18	41713.78	131.1742	29197.75	122.6639	12516.03

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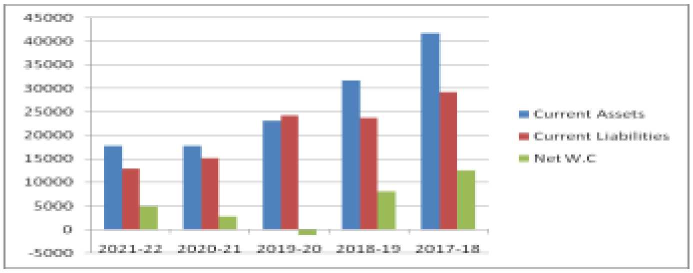
Empirical Results: A sample of data analysis results are presented in this section below,

Tabular representation of size and growth of current assets and liabilities of KotakMahindra during the period 2017-22



Graphical representation of size and growth of current assets and liabilities of Kotak Mahindra 2017-2022

Kotak Mahindra's current assets and current liabilities are both growing, however in the fiscal year 2017-18, they contracted since current liabilities grew by 131.17 percent. Similarly, the net working capital is showing signs of expansion. Similar ratios were computed for assessing the working capital management practices of kotak bank. And all of them indicated as satisfactory levels of working capital.

VIII. Findings, Suggestions and Conclusion

Findings:

- Kotak Mahindra's current assets and current liabilities both increase during the 2017-18 fiscal year, but current liabilities increase at a faster rate (131.17 percent) and cause current assets to decrease by year's end. Furthermore, the net working capital is expanding.
- The debtors turnover ratio measures how quickly accounts receivable are turned over in relation to sales. A high ratio of new debtors or a short time until debt is collected characterizes a successful credit management approach.
- The above data shows that Kotak Mahindra has a healthy turnover ratio. The company has projected a maximum ratio of 14.95 for fiscal year 2020-21, up from a predicted maximum ratio of 12.74 for fiscal year 2017-18. Based on the data presented above, we can deduce that the ratio will increase from 13.21 in 2020-2021 to 14.95 in 2021-2022, before declining to

  12.74 in 2017-2018. It's good news for the company's future.
- Although there is an upward trend in Kotak Mahindra's current rationing, the company's liquidity status is good. The new ratio, which will be in effect from 2020-21, is 1.33. In contrast, it fell in 2019–20 as current liabilities increased, and it fell further as early as 2019– 20 as 0.95. As long as the ratio improves, the company will be able to meet its financial commitments.
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  ratio improves, the company will be able to meet its financial commitments. The breakdown of current assets is shown graphically below. The Sundry Debtors are high, Cash and Balance with RBI are high, Advances are high, Bank Balance is high, and Sundry Debtors are high when comparing 2017 and 2018 to 2022. The Sundry Debtors, Cash, and Balance with RBI are all high in 2022 compared to 2017 and 2018.

- Kotak Mahindra's current assets and liabilities, as well as its financial position or performance, have all increased, resulting in a rise in the company's networking capital to 60377.11 Cr.

- Kotak Mahindra's network capital is now at 45737.60 Cr, thanks to the company's recent investments. The company's present assets and liabilities have also increased in value, and its financial status or performance has improved.

- Kotak Mahindra's networking capital increased to 39936.21Cr, and the company's financial position, performance, current assets, and liabilities, and overall financial health all improved.

- Kotak Mahindra's net worth, performance, and current assets and liabilities have all increased, resulting in a rise in the company's networking capital to 25667.32 Cr.

Suggestions

- Money set aside to improve position should be spent wisely.

- It is proposed that sales be increased by raising customer awareness.

- Mechanisms for reducing expenses can be implemented.

- The production process can be improved upon.

- Spending on raw materials must be done in accordance with needs. Funding constraints could be caused by unnecessary investment.

- The industry's earnings and liquidity position will not be negatively impacted by either a high or low inventory turnover ratio. A healthy middle ground should be found between maximizing profitability and maintaining cash flow.

- The raw materials must be purchased from a reliable vendor at a fair price for the quality they provide.

- Modifying the current purchasing procedure at Kotak Mahindra Group can help speed up product delivery without sacrificing quality by making better use of resources like manpower and machinery.

Conclusion

Kotak Mahindra's 2016-2017 net profit ratio is positive. The fall in Net Profit Ratio seen over the past two years makes this development predictable. The rising cost of providing banking services has resulted in a decline in Kotak Mahindra's profit margin. Kotak Mahindra's Net Working Capital Ratio meets expectations. In 2016-2017, Kotak Mahindra's return on total assets ratio was negative. Kotak Mahindra's Operating Ratio has risen every year since 2016–17, and it will continue to do so until 2020–21.Because of this, the business must cut its operating expenses.

Kotak Mahindra has an acceptable operating ratio. This ratio is dropping as production costs rise. Therefore, it is imperative that the cut back on administrative costs.

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