

A Study of Working Capital Management with Special Reference to Escorts Kubota Limited

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Abstract: *Escorts Kubota limited was formerly known as Escorts Limited. It is an Indian multinational company. It operates in agricultural machinery sector and many more sectors like construction machinery, material handling and railway equipment. It has its headquarters at Haryana and Faridabad. The Research study was conducted to study the working capital management in Escorts Kubota limited. The study is divided into three sections. The first section of the study gives the introduction, which includes the overview of Working capital management, objectives of the study, significance of the study and the limitations of the study. Second section of the study deals with the analyses of the data and in the third section findings and conclusions are given.*

Keywords: Working Capital Management, Escorts Kubota limited, Liquidity, Financial position.

I. INTRODUCTION

Working capital management an overview:

In simple words the term working capital management refers to all the activities that are performed by an organization in order to have enough resources so that it can meet its day-to-day expenses. Adequate working capital management improves the company's cash flow management and ensures the short-term liquidity of the company which further helps the company in investing in a productive way.

There are two folds of the management of working capital.

1. Maintenance of working capital at appropriate level.
2. Availability of ample funds as and when they are needed.

Company's background:

India's long term economic prospectus event today depend to a large extend on the agricultural sector which contributes a quarter to the gross domestic project Android livelihood to 23rd of the population a gradual and perceptible shift from subsistence farming to enterprise farming is harbinger of modernisation of agriculture economy and this will increase the contribution of agriculture sector to the overall GDP in the time to come the central government as well said government.

Escorts Kubota limited was formerly known as Escorts Limited. It is an Indian multinational company. It operates in agricultural machinery sector and many more sectors like construction machinery, material handling and railway equipment. It has its headquarters at Haryana and Faridabad.

A tractor is a product which has maximum utility in the agricultural sector. The tractor industry is segmented on the basis of the power of the tractor engine measured in terms of horsepower HP. The maximum consumption is of 31 to 40 HP tractors. With the increase in the availability of low-cost finance for longer tenure it is expected to go up. The tractor industry in India has passed through various hazes before reaching where it is today. During 1945 to 1960 demand was met entirely through imports. There were 37000 tractors by 1960. Production begins in 1861 with 5 manufacturers producing a total of 880 units per year. By 1965 it increases to over 5000 units per year and by 1970 annual production rose to more than 20000 units. In 1971 escorts also started local manufacturing of Ford tractors in collaboration with Ford, U.K. During 1990 annual production rose to 1,40,000 making India and exporter mainly to countries in Africa. After De-licencing of tractor industry, production exceeded to 2,55,000 units in 1997. The growth of the industry over the last decades resulted in the entry of several new entrants including many major manufacturers.

II. RESEARCH METHODOLOGY

The research is descriptive in nature. The study is based mainly on secondary data. For primary information the data is collected by interaction with the staff. Financial statements, balance sheets and annual reports of the firm, information from internet are used.

2.1 Objectives of the Study

The present study in escorts Kubota limited has the following objectives-

- To access the requirement of working capital of the company.
- To prepare the statement of working capital of the concern from 2020-2021 to 2023-2024.
- To evaluate current assets and current liabilities to find out liquidity position of the company
- To access the changes in working capital needs over the years.
- To access how management of working capital affect the financial position of the company.

2.2. Significance of the Study

- Significance to the organisation.
- Significance to the researcher

2.3 Scope of the Study

The scope of the present study is limited to escorts Kubota limited.

2.4 Research Design

The research is descriptive in nature. The study is based mainly on secondary data. For primary information the data is collected by interaction with the staff. Financial statements, balance sheets and annual reports of the firm, information from internet are used.

2.5 Limitations of the study

Though every effort has been made to collect the relevant information, still there are some limitations as follows-

- Limitation of time was one of the constraints. This study is based on the short period from 2019-20 to 2023-24.
- Restrictions to visit some specific areas of the company.
- As some figures have not been disclosed by the company on account of confidential report. Moreover, in some cases separate accounts of divisions are not separately maintained they're by leading to restrictions in analysis.

III. DATA ANALYSIS

Table-1 Statement of working capital of Escorts Kubota limited from 2019-2020to 2023-2024. The figure shown in the table are in Rs. Crore.

Particulars	2019-20	2020-21	2021-22	2022-23	2023-24
Current Assets					
Current investments	638.28	1,651.56	4,584.60	1,794.93	2,090.19
Inventories	822.20	674.46	803.57	1,159.04	1,158.12
Trade receivables	756.52	698.40	827.56	1,207.56	1,208.57
Cash and cash equivalents	318.48	1,316.52	258.46	468.46	1,164.67
Short term loans and advance	16.81	10.44	0.00	0.00	0.00
Other current assets	300.53	243.47	315.62	237.48	221.22
Total current assets (a)	2,852.82	4,594.85	6,789.81	4,867.47	5,842.77
Current Liabilities	1,718.26	1,656.00	1,337.04	1,686.66	1,849.05

Short term borrowings	6.60	0.00	0.00	0.00	0.00
Trade payables	1,263.93	1,187.13	877.65	1,232.87	1,189.29
Other current liabilities	322.14	368.07	362.22	350.17	545.30
Short term provisions	125.59	100.80	97.17	103.62	114.46
Total current liabilities (b)	1,718.26	1,656.00	1,337.04	1,686.66	1,849.05
Net working Capital(a-b)	1134.56	2938.85	5452.77	3180.81	3993.72

Source: Website of Escorts Kubota limited.

The above Table1 shows the Statement of working capital of Escorts Kubota limited from 2019-2020 to 2023-2024. The figure shown in the table are in Rs. Crore. In order to analyse the data, statement of working capital is prepared for a period of five years from 2019-2020 to 2023-2024. The above table shows the Current Assets and Current Liabilities of Escorts Kubota limited. Total current assets of the company in the year 2019-20 was 2,852.82 crore while the total liabilities during this period was 1,718.26 crore. In the year 2023-24 current assets of the company rose to 5,842.77 crore while the current liabilities of the company in the year 2023-24 rose to 1,849.05 crore. This shows that the company is able to fulfil its short-term liabilities with ease in simple terms it can be said that the short -term financial position of the company is satisfactory.

ANALYSIS OF RATIOS

Table-2

Particulars	2019-20	2020-21	2021-22	2022-23	2023-24
Liquidity ratios					
Current Ratio	1.66	2.77	5.08	2.89	3.16
Quick Ratio	1.18	2.37	4.48	2.20	2.53
Dividend Payout Ratio (NP) (%)	4.41	2.80	9.63	12.56	7.36
Dividend Payout Ratio (CP) (%)	3.63	2.47	8.23	10.09	6.34
Earnings Retention Ratio (%)	95.59	97.20	90.37	87.44	92.64
Cash Earnings Retention Ratio (%)	96.37	97.53	91.77	89.91	93.66

IV. FINDINGS AND CONCLUSION

The above table shows Liquidity Ratios of the company for the last five years i.e. from 2019-20 to 2023-24. The table shows the Current Ratio, Quick Ratio, Dividend Payout Ratio (NP) (%), Dividend Payout Ratio (CP) (%), Earnings Retention Ratio (%) and the Cash Earnings Retention Ratio (%). The analyses of the above ratios are as follows-

1.Current Ratio

In order to analyse the data, statement of working capital is prepared for a period of five years from 2019-2020 to 2023-2024. The above table shows the Current Assets and Current Liabilities of Escorts Kubota limited. Total current assets of the company in the year 2019-20 was 2,852.82 crore while the total liabilities during this period was 1,718.26 crore. From the above table-2 it can be interpreted that there are variations in the current liquidity position of the firm. In the year 2019-20 the current ratio of the company was 1.66 which increases continuously in 2020-21 and in the year 2021-22, then there is fall in the ratio in the year 2022-23. It comes down to 2.89 and again rises to 3.16 which indicates fluctuations in the liquidity position of the company. As a convention rule a current ratio of 2:1 or more is considered satisfactory because in a worse situation even if the value of current assets become half, the firm will be able to meet it obligation. Current ratio refers a margin of safety for creditors therefore higher the current ratio the greater the margin of safety. Overall, it can be said that the short-term financial position of the company is satisfactory.

2. Quick Ratio

The company's Quick Ratio was 1.18 in 2019-20 which increased to 2.37 in the year 2020-21 and in the year 2021-22 it became 4.48 which was more than double of the year 2020-21. Then there is fall in the year 2022-23 and again a rise from 2.20 to 2.53 in the year 2023-24. As the quick ratio of the company shows the extent to which an organization can

meet its short-term obligations. It can be said precisely that the company's position is sound although there are fluctuations in the quick ratio.

3. Dividend Payout Ratio

The above table shows that the company's Dividend Payout Ratio (NP) (%) was 4.41 in the year 2019-20 which falls to 2.80 in 2020-21 then there was heavy jump in the next two consecutive years i.e. in 2021-22 the ratio rises to 9.63 and become 12.56 in the year 2022-23. In the year 2023-24 the Dividend Payout Ratio falls to 7.36. The Dividend Payout Ratio (NP) (%) is calculated by the use of net income while Dividend Payout Ratio (CP) (%) is calculated by using the free cash flow of a company. The company's Dividend Payout Ratio shows the earnings of the company which is paid out as the dividends to the shareholders of the company. The company dividend payout is fluctuating in both Dividend Payout Ratio (NP) (%) as well as in Dividend Payout Ratio (CP) (%). The company's Dividend Payout Ratio (NP) (%) in the year 2023-24 is low in comparison to the year 2022-23 similarly the company's Dividend Payout Ratio (CP) (%) is low in the year 2023-24 as compared to the year 2022-23. The low Dividend Payout ratio of the company shows that the company is reinvesting its earnings in order to expand the operations.

4. Retention Ratio

This ratio shows that portion of earnings of the company which is not paid to the shareholders as dividend but is kept by the company in order to grow the business. The company's retention ratio helps the investors in determining the amount of money a company will reinvest for further expanding the business. The above table shows that the company's Earnings Retention Ratio was 95.59 in the year 2019-20 which rises to 97.20 in the year 2020-21. But there is decline in this ratio in the next two consecutive years i.e. in the year 2021-22 and 2022-23. which shows that the share of earnings the company distributed among the shareholders was more in these two years. While in the year 2023-24 the retention ratio of the company rises to 92.64 which is an indication that the company during this period decided to reinvest more in order to expand the business.

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