A STUDY ON DEBTORS MANAGEMENT AT NIPPON PAINTS PVT LTD, CHENNAI

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Abstract

The requirement for working capital and a company's growth are directly related. The company must invest more in inventories and debtors as sales increase. Determining the quantities and makeup of present assets will aid in the smooth operation of the company. Working capital includes a number of key components, including accounts receivable. Credit sales have a direct impact on receivables. An integral component of a market economy that is competitive is the sale of goods on credit. Insofar as a formal financial instrument is not used to formally recognise the debt obligation, credit sales are often done on an open account. Credit extension entails risk and expense. The goal of credit management is to "promote sales and profit until that point is reached" when the return on investment for additional funding of receivables is less than the expense of raising cash to finance that extra credit.

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1. INTRODUCTION

The amount owed by clients (book debts) or debtors as a result of selling items on credit is represented by accounts receivable. The term "debtors" is defined as "debt" that customers owe the company as a result of purchases made in the regular course of business. The premise and requirement for effective receivables management are explained by the three features of receivables—the element of risk, economic value, and futurity. It is important to analyse risk thoroughly. Cash sales are completely risk-free, while credit sales are not because the latter haven't been given yet.

While the seller anticipates receiving an equivalent value in the future, the buyer experiences the economic worth of the goods and services instantly at the time of sale. The buyer will make the cash payment for the products and services obtained at a later time. Customers who owe future receivables or book debts to the business are referred to as trade debtors, and they stand in for the company's claim to assets. Receivables management, which is also known as credit management, entails the creation of a credit policy that can be either liberal or restricted with regard to the credit standard and credit period, the discount provided for early payment, and the collection strategy and processes implemented.

This is done in a way that, when these policy variables are all considered, they may be used to estimate the optimal level of investment in receivables, where the firm will receive the most return on investment. A business firm will often prolong a credit period of 15 to 60 days. The seller's books are changed when goods are sold on credit, turning finished goods into accounts receivable (trade debtors). Accounts payable (trade creditors) is how the buyer's books classify the obligation resulting from the credit purchase.

The total amount of credit provided by a business to its customers is known as accounts receivable. The amount of sales made on credit and the length of time it takes to recover receivables determine how much an organisation invests in accounts receivable. After plant and equipment and inventories, accounts receivable (or various debtors) is the third most significant asset category for a company firm. It is also the second most significant current asset category for a commercial firm after inventories.

LITERATURE REVIEW:

There are two main ways for a corporate organisation to generate accounts receivable. On the one hand, the company may make advance payments to inventories' suppliers to guarantee timely supply, particularly when the supplier holds a monopolistic position, when materials are scarce, when a company wants to build up a captive supply base, or for immediate financial and profit considerations. On the other hand, a company that sells its goods on credit, also known as various debtors, generates accounts receivable. Customers' and sellers' tastes are influenced by trade credit. Setting credit conditions, choosing creditworthy customers, putting in place a proper collection and monitoring system, and financing the receivables are all anticipated outcomes of accounts receivable management functions (Bhattacharya, 2006).

Preve and SarriaAllende (2010) state that businesses invest in financing customers when their primary business is unrelated to lending money or offering financial services for a number of different reasons. Gaining a competitive edge, redistribution—where firms with greater access to financing redistribute the available capital to customers facing credit constraints—and information asymmetry—where suppliers with close customer relationships have an advantage over financial creditors in learning about their clients' credit worthiness because they can watch their orders and payments, among other things. Due to this informational advantage, suppliers are more ready to fund clients because their credit risk is reduced. Also, suppliers frequently grant credit because they desire to keep enduring business relationships with their customers.

Accounts receivable management, according to Kontus (2013), entails developing a credit and collection policy. Smaller accounts receivable percentages may signify that the company's credit policy is too strict and that the average investment in accounts receivable is inappropriate. Due to the company's failure to capitalise on the potential for profit through sales to consumers in higher risk classifications, this could result in business loss. The cost of capital entailed in those receivables is represented by investment in accounts receivable. A corporation must therefore balance the risk involved in selling to more marginal clients with the possibility of profit. The profitability of more sales must be weighed against the likelihood of more bad debts, higher investment and collection costs, and the lost opportunity cost of keeping money in receivables for a longer time.

According to Pandey and Jaiswal (2011), the average time required to convert debtors into cash, indicated by the average collection period, is the accounts receivable conversion period.It is determined by dividing the sum of credit sales over 365 days by the amount of accounts receivable. Finance managers must take into account three primary factors when designing a credit policy: credit standards and analysis, credit terms, and collection policy and methods (Pandey, 2007). The selection of clients deserving of credit extension must adhere to credit standards. The three Cs—Customer character, financial capability, and the state of the economy—are crucial factors. Credit terms specify the terms under which the business sells to clients on credit. The credit limit, the credit period, and the cash discount are all specified. Last but not least, businesses should adhere to a well-documented policy and procedure for collecting debts from clients. For instance, if the credit period has ended and the client has not yet paid, the business may send a considerate letter to remind the customer to do so, send increasingly stern letters followed by telephone reminders if the consumer deliberately ignores the letters, or take legal action

NEED FOR THE STUDY

Business activity has a dynamic nature and is highly fluctuating. The majority of businesses use account receivables as a marketing strategy to boost profits and sales. Every company has a set of credit conditions and policies that govern the sale of items on credit, and each policy has costs and benefits. This study looks at ways to enhance the company's account receivables management and its effects. Sometimes businesses in a competitive climate are forced to implement lax credit practises, and other times they choose to do so in order to increase sales, and factoring has been done. Therefore, a thorough understanding of the many aspects of credit policy is necessary. Given that the company's number of receivables days has marginally increased in recent years, the research's findings might influence a credit appraisal.

OBJECTIVES OF THE STUDY

- To investigate the credit policy, method, and current accounts receivable system.
- To maintain investment in the form of receivables at an optimal level.
- To assess the company's future trends.
- Topromotesales andprofitofthe company.
- To limit the cost of credit and keep it as low as possible.
- To achieve an optimal, rather than the largest, volume of sales.

2. RESEARCHMETHODOLOGY

The process through which researchers must perform their research is known as research methodology. It demonstrates how researchers develop their problem and purpose as well as how they present their findings based on the information gathered throughout the research period. The goal of research technique is to accomplish the goals and objectives set forth by the researcher in the study plan. The suggested study will only use secondary data for its foundation. The information will be gathered from the company's annual reports (for the years 2018 through 2022) as well as from textbooks, reference books, journals, articles, periodicals, and the internet. The research would provide the researcher with a lot of information.It is a quantitative analysis of financial data, and the essential information will be gathered from reputable websites and business sites. Ratio analysis has been used to assess the obtained data, in addition to the use of statistical methods like mean, standard deviation, and straightforward percentage analysis.

DATA ANALYSIS AND INTERPRETATION

YEAR	CR	LR	DER	DTR	WCTR	STR
2017-2018	1.6	0.9	0.25	5.1	5.3	8.0
2018-2019	1.8	1.1	0.22	5.0	4.6	7.8
2019-2020	2.3	1.4	0.11	5.3	3.7	8.6
2020-2021	2.7	1.7	0.08	5.4	3.1	10.3
2021-2022	3.2	1.8	0.05	5.3	2.9	11.7
MEAN	11.6	6.9	0.71	26.1	19.6	46.4
STANDARD DEVIATION	3.833	2.279	0.244	8.525	6.465	15.227

CURRENT RATIO (CR):- It compares the current assets with current liabilities. Standard current ratio 2:1. A higher ratio of 2:1 or higher indicates healthy solvency. A margin of safety for the creditors is represented by the current ratio. Lower ratios signify insufficient working capital. In 2021–2022, the ratio will be at its highest, and in 2017–2018, it will be at its lowest.

LIQUID RATIO (LR):- It is the relationship between Quick or liquid asset and current liabilities. Liquid ratio is obtained by liquid asset to current liability. The standard limit of liquid ratio is 1:1.The liquid ratio is lower in 2017–2018, which suggests that the corporation would have trouble meeting its short-term obligations. The liquid ratio is high from the years 2018–2019 through 2021–2022, and it can be used in various sectors.

DEBT-EQUITY RATIO (DER):-This ratio, also known as the external and internal equity ratio, is used to assess a company's long-term solvency status. The debt-to-equity ratio demonstrates the connection between the company's debt and owner capital. The ratio of debt to equity in 2019–2020 was quite low. Debt was 0.11 times owner's fund, demonstrating the company's ability to remain solvent over the long run. The year 2017–2018 has the greatest debt (i.e., 0.25). And it falls in the years 2021–2022, when the business needs to take the essential actions to improve long-term solvency.

DEBTORS TURNOVER RATIO (DTR):- The ratio between sales and average receivables is displayed. It demonstrates the effectiveness of the company's collection strategy. The firm's situation is less satisfactory the higher the ratio. Higher ratios are a sign of the company's lax collection practises. The efficiency with which a corporation has repaid credit it has issued to clients is indicated by the debtors turnover ratio. The high debtor turnover ratio in 2020–2021 indicates that the accounts receivable are operating effectively. Due to bad credit rules and uncreditworthy individuals, the ratio decreased in 2018–2019.

WORKING CAPITAL TURNOVER RATIO (WCTR):- It shows how frequently working capital is turned over each year. A high ratio indicates efficient working capital use. The higher ratio for the financial year 2017–2018 shows that the company's working capital situation is better. The difference between the years 2021 and 2022 in terms of working capital is attributable to a decrease in net working capital, which indicates that the company invested excess cash to earn a greater rate of return.

STOCK TURNOVER RATIO (STR):- The stock turnover ratio reveals how effectively a company produces and sells its goods. It is the number of times in a year that the stock has changed hands. A high stock turnover ratio suggests that the company is managing its inventory well. The stock turnover ratio is lower in 2017–2018, which reflects poorer revenues and declining demand for the company's stock. The stock turnover ratio increased from the years 2018–2019 to 2021–2022, indicating that the company is selling its products swiftly and that demand is rising.

FINDINGS & SUGGESTIONS

FINDINGS

- The research shows that the current ratio rises in the years 2021–2022, which suggests healthy solvency, and falls in the years 2017–2018, which shows insufficient working capital.
- In order for the corporation to meet its short-term obligations, the liquid ratio declined in the years 2017–2018, and then climbed from 2018–2019 through 2021–2022.
- A high debt-to-equity ratio in 2017–2018 that falls from 2018–2019 to 2021–2022; the corporation should take action to improve long-term solvency.
- In the years 2021–2022, when the corporation invested surplus cash, the working capital turnover ratio decreased; nevertheless, it was high in the years 2017–2018, indicating improved working capital.
- The stock turnover ratio increased between the years 2018–2019 and 2021–2022, indicating that the company is selling its products swiftly and that there is a high demand for stocks, however there was a decline in stock during the previous year.

- In 2021–2022, the debtor turnover ratio is high, indicating that the accounts receivable is well-managed.

SUGGESTIONS

- In the beginning, the business should establish some stringent credit requirements, credit conditions, and credit policies governing the credit to its various types of clients.
- Before granting credit facilities, the business must first assess the credit worthiness of its clients.
- To pay off current liabilities in a timely manner and prevent their accumulation in order to improve working capital position, the company can use its resources more effectively.
- The business can control its inventory, resulting in a quicker and greater flow of cash.
- Following the provision of credit to its clients, the business must take remedial action to collect the debt in order to increase profitability.
- The business should take the essential actions to improve long-term solvency.
- The departments of production, sales, and finance ought to work together more effectively.

3. CONCLUSION

The corporation is in a strong position overall. Due to an improvement in the position from the previous year, the current year's position is particularly strong when compared to prior years. Because in the current market environment it is beneficial for the business to diversify the money among several sectors.

The company's financial performance is excellent, and they plan to grow their business by adding new branches each year. When analyzing a company's financial performance over time, ratio analysis is extremely important. The profit margin or turnover ratios of a corporation are impacted by decisions impacting product prices, per-unit costs, volume, or efficiency.

The process of analysing financial statements involves assessing the relationships between their component elements in order to have a better knowledge of the situation and performance of the company.

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