



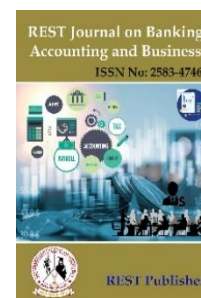
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A Study on Debtors Management and Financial Performance in Cement Industry with Reference to Ultratech Cement

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Abstract: Debtor's management is one of the key areas of financial decision-making. It is significant because, the management must see that an excessive investment in current assets should protect the company from the problems of stock-out. Current assets will also determine the liquidity position of the firm. The goal of Debtor's management is to manage the firm current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. If the firm cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may be even forced into bankruptcy

Keywords: Debtors, currensnt assets, working capital, stock, liquidity position

1. INTRODUCTION

Debtors are people or businesses who owe you money. Proper management of your debtors will help you get paid faster and prevent bad debts. Prompt collection of debtors' accounts will also help you maintain a healthy cash flow. Giving your customer an invoice or bill after they have supplied a product or service is a way of offering credit, since you have to wait for the payment. By giving your customers time to pay for goods or services already delivered, you are making it easier for them to make purchases. This will increase sales, but will reduce the cash flow critical to your business.

Managing debtors is often referred to as credit management, and includes:

- collecting debts on time
- setting credit limits and payment terms
- making credit applications and credit checks
- enforcing a clear credit policy
- Considering debtor finance.

2. REVIEW OF LITERATURE

The complete market approach to government debt management argues that a portfolio of non-contingent bonds at different maturities should be chosen so that fluctuations in market value offset changes in expected future deficits. However, this approach recommends huge fluctuations in positions, enormous changes in portfolios for minor changes in maturities and no presumption it is always optimal to issue long and invest short term in a wide array of model specifications. These extreme, volatile and unstable features are undesirable for two reasons. Firstly

fragility of portfolios to small changes in assumptions means that it is often better to follow a balanced budget rather than issue the optimal debt portfolio under some possibly mis specified model. Secondly for even miniscule transaction costs, governments prefer a balanced budget rather than the large positions complete markets recommends. The complete market recommendations conflict with a number of features we believe are integral to bond market incompleteness, e.g. transaction costs, liquidity effects, robustness, etc. and which need to be explicitly incorporated into the portfolio problem.

Elisa Faraglia

4. SCOPE OF THE STUDY

The scope of the study is limited to collecting financial data published in the annual reports of the company every year. The analysis is done to suggest the possible solutions. The study is carried out for 5 years

Debtor's risk is the risk arising from the uncertainty of an obligor's ability to perform its contractual obligations. Credit risk could stem from both on- and off-balance sheet transactions. An institution is also exposed to credit risk from diverse financial instruments such as trade finance products and acceptances, foreign exchange, financial futures, swaps, bonds, options, commitments and guarantees.

5. OBJECTIVES OF THE STUDY

To analysis the Debtor's management of HDFC

To find out debtor turnover ratio and average collection period.

To find out whether it is profitable to extend credit period or reduce credit period

To study the position of business affecting by credit risk/debtors management.

To analysis the important financial aspect of managing the business.

6. METHODOLOGY OF THE STUDY

Meaning of Research: The method and technique that are used for conducting the research. Research Methodology is a systematic way of solving research problem this methodology includes all the stages of research such as research process, research design, sampling design, data collection, data analysis, data interpretation and data presentation.

Primary Data: Data that has been collected from first-hand-experience is known as primary data. Primary data has not been published yet and is more reliable, authentic and objective. Primary data has not been changed or altered by human beings; therefore its validity is greater than secondary data.

Secondary Data: Data collected from a source that has already been published in any form is called as secondary data. The review of literature in any research is based on secondary data mostly from books, journals and periodicals

Source Of Data

The primary source of data for the project is collected from the annual reports, books, magazines and websites

The data used for analysis and interpretation from annual reports of the company.

That is secondary forms of data. DDR, ACP, debit ratios and Increase in credit period analysis are the Techniques used for calculation purpose.

The project is presented by using tables, graphs and with their interpretations.

7. LIMITATIONS OF THE STUDY

- The study is based on only secondary data.
- The accuracy and correctness of ratios are totally dependent upon the reliability of the data contained in financial statements on the basis of which ratios are calculated.

Data Analysis: -

The calculations using in Data analysis are –

- 1) DTR (Debtor’s turnover ratio)
 - 2) ACP (Average collection period)
- Calculation of DTR :-

This measures a relationship between debtor’s and sales.

$$DTR(Crs) = \frac{\text{credit sales (or) sales}}{\text{Debtors}}$$

Calculation for: 2022:-

$$DTR = \frac{20184.94}{1017.24} = 19.83$$

Calculation for: 2021:-

$$DTR = \frac{18270.69}{765.96} = 23.85$$

Calculation for: 2020:-

$$DTR = \frac{13205.64}{602.29} = 21.92$$

Calculation for: 2019:-

$$DTR = \frac{7042.82}{215.83} = 32.63$$

Calculation for: 2018:-

$$DTR = \frac{6385.50}{186.18} = 34.29$$

216.61

DTR from 2019 to 2023 are :-

Year	DTR
2022-2023	34.29
2021-2022	32.63
2020-2021	21.92
2019-2020	23.85
2018-2019	19.83

Interpretation:

The Debtors turnover ratio HDFC is in the fluctuation stage because the increase and decreased in debtors to the total sales. In the current year i.e. 2022 the ratio is 34.29.

Calculation of ACP: -

The ACP calculation is compared with the firm’s stated credit period to judge The collection efficiency. The ACP measures the quantity of receivables. Since, it indicates the speed of their collect ability.

$$ACP(Crs) = \frac{\text{Debtors}}{\text{Credit sales}} \times 360 \quad (\text{or}) \quad \frac{360}{DTR}$$

Calculation for: 2022:-

$$ACP = \frac{360}{19.83} = 18.15$$

Calculation for: 2021:-

$$\text{ACP} = \frac{360}{23.85} = 15.09$$

Calculation for: 2020:-

$$\text{ACP} = \frac{360}{21.92} = 16.41$$

Calculation for: 2019:-

$$\text{ACP} = \frac{360}{32.63} = 11.03$$

Calculation for: 2018:-

$$\text{ACP} = \frac{360}{34.29} = 10.49$$

ACP from 2018 to 2022is:-

Year	ACP
2022-2023	10.49
2021-2022	11.03
2020-2021	16.41
2019-2020	15.09
2018-2019	18.15

Interpretation:

The Average collection period of HDFC cements in the year 2020 was very high as compared with all the years. As compared with the credit sales to the ratio in the year 2022 was 10.49.

A SCENARIO ANALYSIS: -

Suppose credit period is extended to 100 days.

Then sales may increase by 15%.

If credit period is decreased to 80 days.

Then sales decreases by 10%.

The cost of financing is 11%.

Calculation Of Increase In Credit Period: -

Calculations for 2018:-

Statement of increase in credit period

PARTICULARS	EXISTING	DAYS (+ 15 %)	DAYS (-10 %)
A) Credit period	90	100	80
B) Annual sales	452789444.86	520,707,861.589	407,510,500.375
C) Level of receivables (at sales value) (AxB/360)	113,197,361.215	144,641,072.663	90,557,888.9719
D) Incremental investment in receivables (C- 113,197,361.215)	-	31,443,711.448	(22,639,472.244)
E) Assume incremental profit @ 20% (0.20 x D)	-	6,288,742.2896	(4,527,894.4488)

Working Notes:-

1) Annual sales :-

$$90 \text{ days} = 452789444.86$$

$$100 \text{ days} = 452789444.86 + (452789444.86 \times 15\%)$$

$$= 520,707,861.589$$

$$80 \text{ days} = 452789444.86 - (452789444.86 \times 10\%)$$

$$= 407,510,500.374$$

2) Level of receivables (at sales value) :-

$$Ax / 360$$

$$90 \text{ days} = 90 \times 452789444.86 / 360 = 113,197,361.215$$

$$100 \text{ days} = 100 \times 520,707,861.589 / 360 = 144,641,072.663$$

$$80 \text{ days} = 80 \times 407,510,500.374 / 360 = 90,557,888.9719$$

3) Incremental investment in receivables :-

$$(C - 113,197,361.215)$$

$$90 \text{ days} = 0$$

$$100 \text{ days} = 144641072.663 - 113197361.215 = 31,443,711.448$$

$$80 \text{ days} = 90557888.9719 - 113197361.215 = (22,639,472.244)$$

4) Assume incremental profit @ 20% (0.20x D) :-

$$90 \text{ days} = 0$$

$$100 \text{ days} = 31443711.448 \times 20\% = 6,288,742.2896$$

$$80 \text{ days} = (22,639,472.244 \times 20\%) = 4,527,894.4488$$

Calculation for 2019: -

Statement of increase in credit period

PARTICULARS	EXISTING	DAYS (+15%)	DAYS (-10%)
A) Credit period	90	100	80
B) Annual sales	534,965,023.45	615,209,776.967	481,468,521.105
C) Levels of receivables (at sales value) (Ax)	133,741,255.862	170,891,604.713	106,993,004.69
D) Incremental investment in receivables (C-133,741,255.862)	-	37,150,348.851	(26,748,251.172)
E) Assume incremental profit @ 20% (0.20x D)	-	7,430,069.7702	7,349,650.2344

Working Notes: -

1) Annual sales :-

$$100 \text{ days} = 534,965,023.45 + (534,965,023.45 \times 15\%)$$

$$= 615,209,776.967$$

$$80 \text{ days} = 534,965,023.45 - (534,965,023.45 \times 10\%)$$

$$= 481,468,521.105$$

2) Level of receivables (at sales value) :-

$$(Ax) / 360$$

$$90 \text{ days} = 90 \times \frac{534,965,023.45}{360} = 133,741,255.862$$

$$100 \text{ days} = 100 \times \frac{615,209,776.967}{360} = 170,891,604.713$$

$$80 \text{ days} = 80 \times \frac{481,468,521.105}{360} = 106,993,004.69$$

3) Incremental investment in receivables :-

$$(C - 133,741,255.862)$$

$$90 \text{ days} = 0$$

$$100 \text{ days} = 170,891,604.713 - 133,741,255.862$$

$$= 37,150,348.851$$

$$80 \text{ days} = 106,993,004.69 - 133,741,255.862$$

$$= (26,748,251.172)$$

4) Assumed incremental profit @ 20% (0.2 x D) :-

$$90 \text{ days} = 0$$

$$100 \text{ days} = 37,150,348.851 \times 20\% \\ = 7,430,069.7702$$

$$80 \text{ days} = (26,748,251.172) \times 20\% \\ = (7,349,650.2344)$$

Calculation for 2020: -

Statement of increase in credit period

PARTICULARS	EXISTING	DAYS (+15%)	DAYS (-10%)
A) Credit period	90	100	80
B) Annual sales	427,752,546.23	641,628,810.935	427,752,540.623
C) Levels of receivables (at sales value) (Ax)	106,938,136.557	178,230,225.272	99,056,120.138
D) Incremental investment in receivables (C-133,741,255.862)	-	71,292,088.715	(78,820,160.419)
E) Assume incremental profit @ 20% (0.20x D)	-	14,258,417.743	(15,764,032.083)

Working Notes: -

1) Annual sales :-

$$100 \text{ days} = 427,752,546.23 + (427,752,546.23 \times 15\%) \\ = 641,628,810.935$$

$$80 \text{ days} = 427,752,546.23 - (427,752,546.23 \times 10\%) \\ = 427,752,540.623$$

2) Level of receivables (at sales value):-

$$(Ax) / 360$$

$$90 \text{ days} = \frac{90 \times 427,752,546.23}{360} = 106,938,136.557$$

$$100 \text{ days} = \frac{100 \times 641,628,810.935}{360} = 178,230,225.272$$

$$80 \text{ days} = \frac{80 \times 427,752,540.623}{360} = 99,056,120.138$$

3) Incremental investment in receivables: -

$$(C - 133,741,255.862)$$

$$90 \text{ days} = 0$$

$$100 \text{ days} = 178,230,225.272 - 106,938,136.557$$

$$= 71,292,088.715$$

$$80 \text{ days} = 99,056,120.138 - 106,938,136.557 -$$

$$= (78,820,160.419)$$

4) Assumed incremental profit @ 20% (0.2 x D): -

$$90 \text{ days} = 0$$

$$100 \text{ days} = 71,292,088.715 \times 20\%$$

$$= 14,258,417.743$$

$$80 \text{ days} = (78,820,160.419) \times 20\%$$

$$= (15,764,032.083)$$

Calculation for 2021: -

Statement of increase in credit period

PARTICULARS	EXISTING	DAYS (+15%)	DAYS (-10%)
A) Credit period	90	100	80
B) Annual sales	18270.69	21011.29	427,752,540.623
C) Levels of receivables (at sales value) (Ax)	4567.67	5836.47	3654.13
D) Incremental investment in receivables (C-133,741,255.862)	-	1268.80	(913.53)
E) Assume incremental profit @ 20% (0.20x D)	-	253.76	(182.70)

Working Notes: -

1) Annual sales (Cr):-

$$100 \text{ days} = 18270.69 + (18270.69 \times 15\%)$$

$$= 21011.29 \text{ cr}$$

$$80 \text{ days} = 18270.69 - (18270.69 \times 10\%)$$

$$= 16443.62$$

2) Level of receivables (at sales value) :-

$$(Ax) / 360$$

$$90 \text{ days} = \frac{90 \times 18270.69}{360} = 4567.67$$

$$100 \text{ days} = \frac{100 \times 21011.29}{360} = 5836.47$$

$$80 \text{ days} = \frac{80 \times 16443.62}{360} = 3654.13$$

3) Incremental investment in receivables : -

$$(C - 4567.67)$$

$$90 \text{ days} = 0$$

$$100 \text{ days} = 5836.47 - 4567.67$$

$$= 1268.80$$

$$80 \text{ days} = 3654.13 - 4567.67$$

$$= (913.53)$$

4) Assumed incremental profit @ 20% (0.2 x D) : -

$$90 \text{ days} = 0$$

$$100 \text{ days} = 1268.80 \times 20\%$$

$$= 253.76$$

$$80 \text{ days} = (913.53) \times 20\%$$

$$= (182.70)$$

Calculation for 2022: -

Statement of increase in credit period

PARTICULARS	EXISTING	DAYS (+15%)	DAYS (-10%)
A) Credit period	90	100	80
B) Annual sales	20184.94	23201.18	18157.45
C) Levels of receivables (at sales value) (Ax)	5043.73	6444.77	4034.98
D) Incremental investment in receivables (C-5043.73)	-	1401.04	(1008.75)
E) Assume incremental profit @ 20% (0.20x D)	-	280.20	(201.75)

4.7 table

Working Notes: -

1) Annual sales (Cr):-

$$100 \text{ days} = 20184.94 + (20184.94 \times 15 \%)$$

$$= 23201.18 \text{ cr}$$

$$80 \text{ days} = 20184.94 - (20184.94 \times 10 \%)$$

$$= 18157.45$$

2) Level of receivables (at sales value) :-

$$\begin{aligned} & (Ax) / 360 \\ 90 \text{ days} & = \frac{90 \times 20184.94}{360} = 5043.73 \\ 100 \text{ days} & = \frac{100 \times 20184.94}{360} = 6444.77 \\ 80 \text{ days} & = \frac{80 \times 20184.94}{360} = 4034.98 \end{aligned}$$

3) Incremental investment in receivables : -

$$\begin{aligned} & (C - 5043.73) \\ 90 \text{ days} & = 0 \\ 100 \text{ days} & = 6444.77 - 5043.73 \\ & = 1401.04 \\ 80 \text{ days} & = 4034.98 - 5043.73 \\ & = (1008.75) \end{aligned}$$

4) Assumed incremental profit @ 20% (0.2 x D) : -

$$\begin{aligned} 90 \text{ days} & = 0 \\ 100 \text{ days} & = 1401.04 \times 20\% \\ & = 280.20 \\ 80 \text{ days} & = (1008.75) \times 20\% \\ & = (201.75) \end{aligned}$$

Net profit \net sales

Year	Net profit	Net sales	Net profit ratio
2022-2023	2655.43	20184.94	13.1620227
2021-2022	2446.19	18270.69	13.3886022
2020-2021	1404.23	13205.64	10.6335626
2019-2020	1093.24	7042.82	15.5227593
2018-2019	977.02	6383.50	15.3053967

Interpretation:

The net profit of the company is in the increasing position because of the expenses in the industry are increased the net profit will be in decreasing position in the year 2021-2022

Operating ratio:

Operating Expenses\Net Sales

Year	Operating Expenses	Net sales	Operating ratio
2022-2023	15617.65	20184.94	77.42
2021-2022	14144.45	18270.69	77.41
2020-2021	10718.55	13205.64	81.16
2019-2020	5069.77	7042.82	71.98
2018-2019	4728.64	6383.50	74.05

Interpretation:

The **operating ratio** is a financial term defined as a company's operating expenses as a percentage of revenue. This financial ratio is most commonly used for industries which require a large percentage of revenues to maintain operations in the year 2017-2021

$$\text{Profitability} = (100 - \text{Operating ratio} \%)$$

Year	Operating ratio	Profitability(100-OR)
2022-2023	77.42	22.58
2021-2022	77.41	22.59
2020-2021	81.16	18.84
2019-2020	71.98	28.02
2018-2019	74.05	25.95

Interpretation:

Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important and it is high in Ultratech cements limited.

Return on Investment:

Net profit/Total investment

Year	Net profit	Total investment	ROI
2022-2023	2655.43	5108.72	0.51
2021-2022	2446.19	3788.77	0.46
2020-2021	1404.23	3730.32	0.37
2019-2020	1093.24	1669.55	0.65
2018-2019	977.02	1034.80	0.94

Interpretation:

A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment has been increased to 2019-2023.

FINDINGS

1. The **Ultratech cements limited** net capital is satisfactory between the years 2021-14 since it shows increasing trend; but after that it is in declining position.
2. The current ratio is satisfactory during the period of study 2017-18 to 2021-22. It is increased but after that it is declining.
3. The average quick ratio is not good though the quick ratio is showing maximum value of 13.54 in the year 2017-18 and then it is inclining to be deal.
4. Assets turnover ratio increased. The company has to maintain this.
5. Average collection period decreasing every year from 2018 to 2022.
6. The scenario analysis was conducted assuming credit period to be 80 days and 100 days. The result should that while credit period is 100 days the company is getting profits. When the credit period is 80 days the company is getting losses.
7. Based on the report it is concluded that credit policies are decided by zonal manager so, powers are centralized.
8. Credit standards are determined based on economic conditions.
9. Credit is 90 days and if credit is paid before that period the company will give cash discount

SUGGESTIONS

- It is suggested to management to increase credit period to 100 days. So that company can earn profits.
- It is suggested to management to offer more incentives for prompt payment of credit. So that receivables are paid promptly by dealers.
- In management can be little bit liberal in credit policies so that more profits are achieved.
- Relaxing credit standards will enable to increase the customers.

- The process that was being used by Ultratech cements limited 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

6. CONCLUSION

Although a relatively young discipline, credit risk management has matured rapidly. Improved risk measurement and reporting techniques paired with comprehensive credit risk policies can provide extremely effective protection against credit risk losses. The best risk management techniques are operational and legal, with collateral providing the best financial risk mitigation. Credit insurance and credit default swaps offer financial protection against default, but each at its own cost—which must be compared to the benefits of reducing the specific risk it is intended to mitigate. In view of these limitations, we believe that an alternative approach is now needed which should have two components. First we believe that the regulatory capital regime should seek directly to assess the extent to which a firm's earnings are vulnerable to stress losses of any type - a measure we refer to as regulatory equity at risk - and should then establish a capital requirement which is sufficient to provide a high level of assurance that the firm could survive such a stress event and still remain solvent during a work out period. Secondly we argue that there needs to be much more explicit regulatory oversight of the liquidity management arrangements in place at the firm, since effective liquidity management arrangements rather than capital provide the primary protection against any stress events affecting the firm

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