

An Analysis of Working Capital Management of Hardware Distributors in Yavatmal

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ABSTRACT: Working capital management is an important aspect of financial management that ensures smooth day-to-day operations of a business. This study analyzes the working capital practices of hardware distributors in Yavatmal using secondary data collected for five years (2021–2025). A sample of five distributors is considered, with detailed analysis of one firm. The study uses tools such as working capital analysis, current ratio, and trend analysis to evaluate liquidity and performance. The findings reveal that the firm maintains a strong liquidity position with continuously increasing working capital and current assets. However, the high current ratio and increasing investment in current assets indicate that funds may not be utilized efficiently. The study concludes that while the firm is financially stable, there is a need to maintain an optimal balance between liquidity and profitability for better financial performance.

KEYWORDS: Working Capital Management, Current Ratio, Trend Analysis

I. INTRODUCTION

Working capital management is a crucial component of financial management that deals with the administration of a firm's short-term assets and liabilities. It ensures that a business has sufficient liquidity to carry out its day-to-day operations without financial interruptions. In simple terms, working capital is defined as the difference between current assets and current liabilities, and it reflects the short-term financial health of a firm (Pandey, 2010). Efficient working capital management helps in maintaining a balance between liquidity and profitability, which is essential for the sustainability of any business.

In trading sectors such as hardware distribution, working capital assumes even greater importance due to the nature of operations. These businesses require continuous investment in inventory and often extend credit to customers, resulting in delayed cash inflows. At the same time, they need to make timely payments to suppliers and meet other operational expenses. This mismatch between inflows and outflows makes effective working capital management essential. Poor management of working capital can lead to liquidity crises, reduced profitability, and even business failure (Deloof, 2003).

In the context of Yavatmal, hardware distributors operate in a semi-organized and competitive environment where credit sales and inventory management play a vital role. Many distributors face challenges such as delayed receivables, overstocking, and lack of structured financial planning. These issues directly impact their liquidity position and operational efficiency. Despite the importance of working capital, limited research has been conducted specifically on small hardware distributors in regional markets like Yavatmal.

Therefore, this study aims to analyze the working capital management practices of hardware distributors in Yavatmal. The study includes five distributors to provide an overview of the sector, while detailed financial analysis is carried out on one selected distributor. By examining key financial ratios and trends, the study seeks to identify existing practices, evaluate efficiency, and suggest improvements. The findings of this study will contribute to a better understanding of working capital management in small trading businesses and provide practical insights for improving financial performance

Objectives of the Study

- To understand how hardware distributors in Yavatmal manage their working capital.
- To check their liquidity by comparing current assets and liabilities.
- To study how they manage inventory, customer dues, and supplier payments.
- To see how working capital affects their profits and performance.

II. REVIEW OF LITERATURE

Working capital management is an important area of financial management that directly influences a firm's liquidity, profitability, and overall efficiency. Many researchers have studied the impact of managing current assets and current liabilities on business performance.

Deloof (2003) examined Belgian firms and concluded that there is a negative relationship between working capital components such as receivables, inventory, and payables with profitability. The study suggested that reducing the time taken to collect receivables and manage inventory can enhance a firm's financial performance.

Lazaridis and Tryfonidis (2006) analyzed firms listed on the Athens Stock Exchange and found a strong relationship between working capital management and profitability. Their findings indicated that proper control over receivables, inventory, and payables helps in improving business efficiency.

Raheman and Nasr (2007) studied working capital management in Pakistani firms and concluded that it has a significant impact on both liquidity and profitability. They emphasized that maintaining an optimal level of working capital is essential for avoiding financial difficulties.

Afrifa and Padachi (2016) focused on small and medium enterprises and found that both excessive and insufficient working capital can negatively affect profitability. Their study suggested that firms should maintain a balanced level of working capital to achieve better financial performance.

Overall, the review of literature clearly indicates that effective working capital management is essential for improving profitability, maintaining liquidity, and ensuring smooth business operations. These studies provide a strong theoretical base for analyzing working capital practices among hardware distributors in Yavatmal.

III. RESEARCH METHODOLOGY

The study is based on descriptive and analytical research design. Secondary data has been collected from financial statements such as balance sheets and profit and loss accounts.

A sample of five hardware distributors from Yavatmal district has been considered. However, detailed analysis has been conducted only on Shiv Hardware Distributors, due to availability of complete data. Other distributors are used for general comparison.

Problem Statement:

Payments from retailers and contractors are often delayed, which affects the distributor's cash flow.

Maintaining a wide variety of stock increases storage costs and blocks a large amount of funds.

Suppliers expect timely payments, creating financial pressure on distributors.

Sales fluctuate due to seasonal construction and agricultural activities, leading to irregular income.

Sampling Design:

Five hardware distributors from Yavatmal are selected to understand the overall working capital practices.

A detailed case study is done on one firm, Gandhewar Agencies Yavatmal, because complete financial data is available.

Tools Used:

Working Capital Finance

Ratio Analysis

Trend and Comparative Analysis

Limitations of the Study:

It is based on secondary data for a period of five years, so the findings may not be applicable to all businesses or regions.

The study is limited to five hardware distributors in Yavatmal, with detailed analysis of only one firm due to data sensitivity and confidentiality constraints.

IV. DATA ANALYSIS AND INTERPRETATION

Change in Working Capital

Table 1 Change in Working Capital

Year	Change in Working Capital
	Increase in Working Capital
2021-2022	2.5
2022-2023	3.35
2023-2024	2.2
2024-2025	2.5

Interpretation

The working capital of the firm shows a generally increasing trend during the study period. It was ₹2.5 crore in 2021–22 and increased to ₹3.35 crore in 2022–23, indicating strong growth in current assets. In 2023–24, it slightly declined to ₹2.2 crore, but again improved to ₹2.5 crore in 2024–25. This overall positive trend shows that the firm maintains sufficient funds to manage its day-to-day operations effectively.

Ratio Analysis

Table 2 Current Ratio

Year	CURRENT RATIO				
	Rs. Crore				
	Current Assets	Current Assets	Current Liabilities	Current Liabilities	Current Ratio
20220-2021		2.7		0.6	4.5
2021-2022	Inventory	5.8	Sundry Creditors Short-Term Borrowings	1.2	4.83
2022-2023	Sundry Debtors Other Current Assets	9.73		1.78	5.47
2023-2024	Cash in Hand Cash at Bank	11.63		1.48	7.86
2024-2025		14.31		1.66	8.62

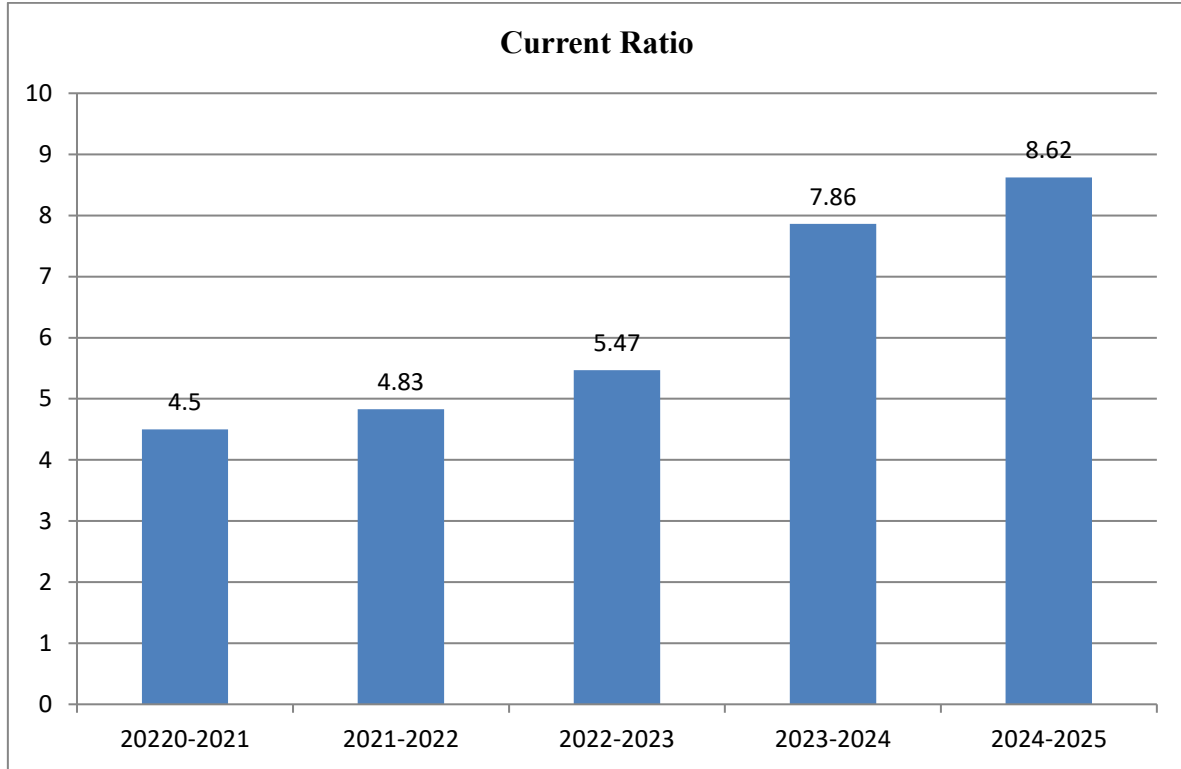


Fig 1 Current Ratio

Interpretation:

The current ratio of the company is consistently much higher than the standard norm of 2:1. It increased from 4.50 in 2020–21 to 4.83 in 2021–22, then to 5.47 in 2022–23. It further rose significantly to 7.86 in 2023–24 and reached 8.62 in 2024–25. This clearly indicates that the firm has a strong ability to meet its short-term liabilities. However, such a high ratio also suggests that excess funds are tied up in current assets, which may reduce profitability.

Trend Analysis

Table 3 Trend Analysis

Year	Current Assets	Trend % (Base 2021=100)
2021	2.7	100
2022	5.8	214.81
2023	9.73	360.37
2024	11.63	430.74
2025	14.31	530

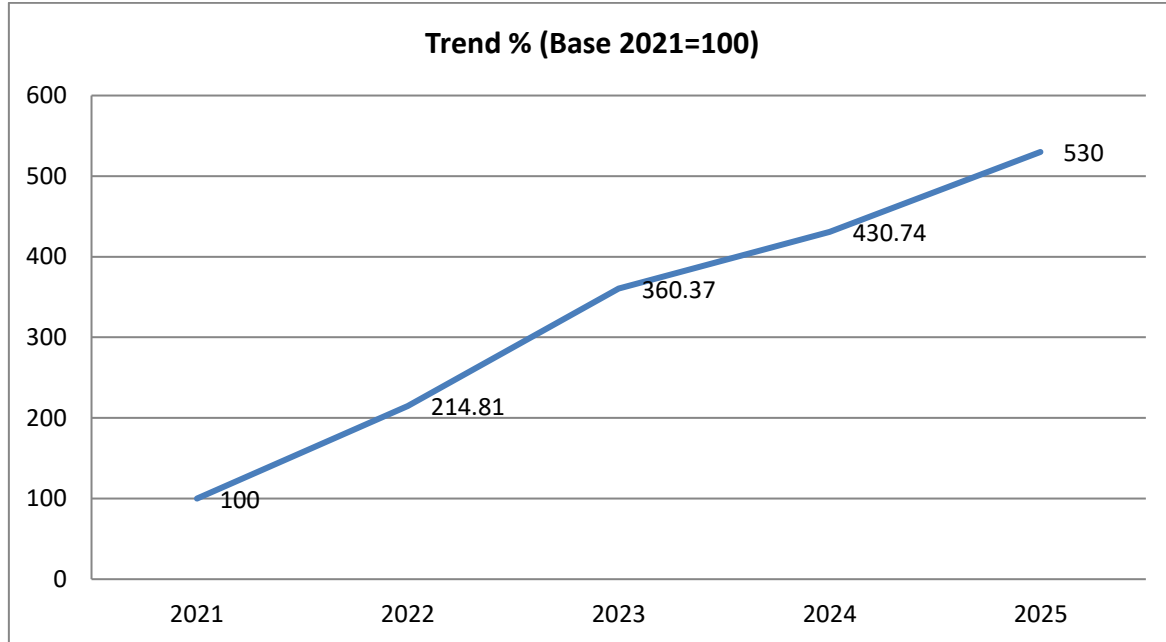


Fig 1 Trend Analysis

Interpretation:

The trend analysis of current assets shows a sharp and continuous increase over the years. Taking 2021 as the base year (100%), the trend percentage increased to 214.81% in 2022, 360.37% in 2023, 430.74% in 2024, and reached 530% in 2025. This significant growth reflects expansion in business activities and increased investment in current assets like inventory and receivables.

V. FINDINGS

- The working capital of the firm shows a continuous increasing trend during the study period, indicating good liquidity management.
- The company maintains positive working capital every year, ensuring smooth business operations.
- The current ratio is consistently higher than the standard norm (2:1), reflecting strong short-term solvency.
- The trend analysis shows a sharp increase in current assets, indicating business expansion and growth.
- A large portion of funds is invested in inventory and receivables, which may block liquidity.
- The firm relies on credit sales, which leads to delayed cash inflows and affects cash flow.
- Short-term borrowings fluctuate, indicating inconsistency in managing short-term finance.
- Overall, the firm is financially stable but may face inefficiency due to excess working capital.

VI. SUGGESTIONS

1. The firm should reduce excessive investment in inventory to avoid blocking funds unnecessarily.
2. Proper credit control measures should be adopted to reduce delays in collecting payments from customers.
3. The company should try to maintain an optimal current ratio instead of keeping it excessively high.
4. Better inventory management techniques should be used to improve efficiency.
5. The firm should balance liquidity and profitability by using funds more effectively.
6. Financial planning and monitoring should be improved for better working capital control.
7. The company can adopt modern accounting and inventory systems for better decision-making.
8. The study concludes that working capital management plays a vital role in maintaining the financial stability and smooth operations of hardware distributors in Yavatmal. The analysis shows that the firm has a strong liquidity position with consistently increasing working capital and current assets over the five-year period.

9. However, the high current ratio and excessive investment in current assets indicate inefficient utilization of funds, which may impact profitability. Therefore, it is important for the firm to maintain a proper balance between liquidity and profitability by improving the management of inventory, receivables, and overall financial planning. Effective working capital practices will help the business achieve better efficiency, profitability, and long-term growth.

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