IJCRM
International Journal of Contemporary Research In Multidisciplinary

Research Article

A Study on Working Capital Management of SEPC Limited

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DOI: https://doi.org/10.5281/zenodo.15230808

Abstract

Working capital management plays a crucial role in the day-to-day operations and overall financial health of any company. It refers to the funds a business uses to manage its short-term assets and liabilities, ensuring it has enough liquidity to cover its operational expenses and short-term debts. Effective working capital management is vital for sustaining a company's growth, profitability. This project focuses on studying the working capital arrangement of SEPC Limited, a prominent player in the engineering, procurement, and construction (EPC) industry.

Manuscript Information

- **ISSN No:** 2583-7397
- **Received:** 21-02-2025
- **Accepted:** 19-03-2025
- **Published:** 16-04-2025
- **IJCRM:**4(2); 2025: 195-199

- **Plagiarism Checked:** Yes
- **Peer Review Process:** Yes

How to Cite this Article

SuryaSuresh, Muthumani S, Senthilnathan N. A study on working capital management of SEPC Limited. Int J Contemp Res Multidiscip. 2025;4(2):195-199.

Access this Article Online

www.multiarticlesjournal.com

KEYWORDS: Working Capital, Efficiency, Stability, Ratios

1. INTRODUCTION

SEPC Limited is one of the country's leading service providers of relating to water and wastewater management and distribution systems, Process and Metallurgy, Mines and Mineral Processing. The study aims to analyze the current working capital structure of SEPC Limited, evaluate its liquidity management practices, and assess the effectiveness of its working capital policies.

Working capital indicates a company's ability to meet its short-term obligations and maintain operations. Positive working capital suggests a company has sufficient resources to cover its immediate needs, while negative working capital might indicate potential cash flow issues.

2. OBJECTIVES OF THE STUDY

Primary objective: To study on working capital management of SEPC Limited.

Secondary objectives

1. To understand the planning and management of the working capital structure of SEPC Company.
2. To examine the solvency position and profitability of the company.
3. To examine the liquidity position of the company.

Scope of the Study

- This study on working capital is based on tools like ratio analysis, which helps to analyze the changes in working capital
- This study helps to analyze financial health by evaluating solvency ratios and their ability to meet long-term debts
- This study helps to identify the potential risk affecting financial stability

Need For the Study

Financial Stability: Helps assess the company's ability to meet long-term obligations and determine financial health.

Accurate Forecasting: Provides insights for better future planning and resource allocation.

Optimized Working Capital: Ensures effective management of working capital to maintain liquidity and minimize financing costs.

Limitations Of the Study

- This study is based only on secondary data, like annual reports, financial statements.
- Data Dependency.
- The present study is confined only to the financial aspects of the study unit.

3. REVIEW OF LITERATURE

Divyani Vitthal Sayam (2023). This project is about the working capital management of MSSK LTD. This is the sugar industry. This study says the factory has been experiencing challenges in managing it working capital effectively. Although working capital is typically high in seasonal industries like sugar production, the factory has managed to reduce its working capital during these three years. However, to further improve working capital, adopting modern strategies and approaches is essential. The factory needs to focus on boosting sales, maintaining production efficiency, and staying aligned with market conditions and government policies to improve overall financial performance. Akash B. Selkari and Omdeo Ghyar (2019) conducted a "Study on Working Capital of Mahindra and Mahindra Ltd" for 3 years from 2015-18. To study the working capital of the company, the ratio analysis technique was used. They concluded that the working capital of the company was satisfactory because of the maintenance of proper inventory levels, cash, and other current assets, and a decrease in the current liabilities and provisions.

Data Collection Method

The data was collected from secondary data. (2019-2024)

The study relies on financial statements, including Balance sheets, Profit and loss statements, and Annual reports of SEPC Limited.

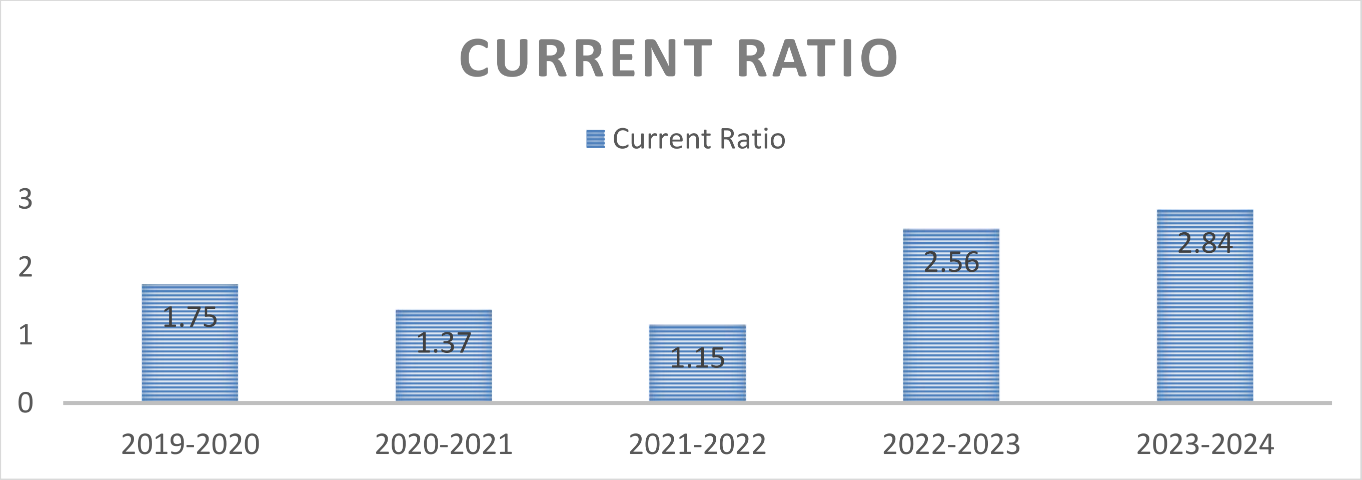
Tools For Analysis

This study uses Ratio Analysis as a primary tool: Current Ratio, Return on Equity, Debt Equity Ratio, Working Capital Efficiency Analysis, Working Capital Turnover Ratio.

Data Analysis and Interpretation

Current Ratio Formula: Current Ratio = Total Current Assets /Total Current Liabilities

Year	Total Current Assets	Total Current Liabilities	Current Ratio
2019-2020	148,060.40	84,224.73	1.75
2020-2021	134630.25	97,818.55	1.37
2021-2022	1,23,885.41	1,07,385.14	1.15
2022-2023	1,13,268.85	44150.45	2.56
2023-2024	1,32,776.14	46,745.31	2.84



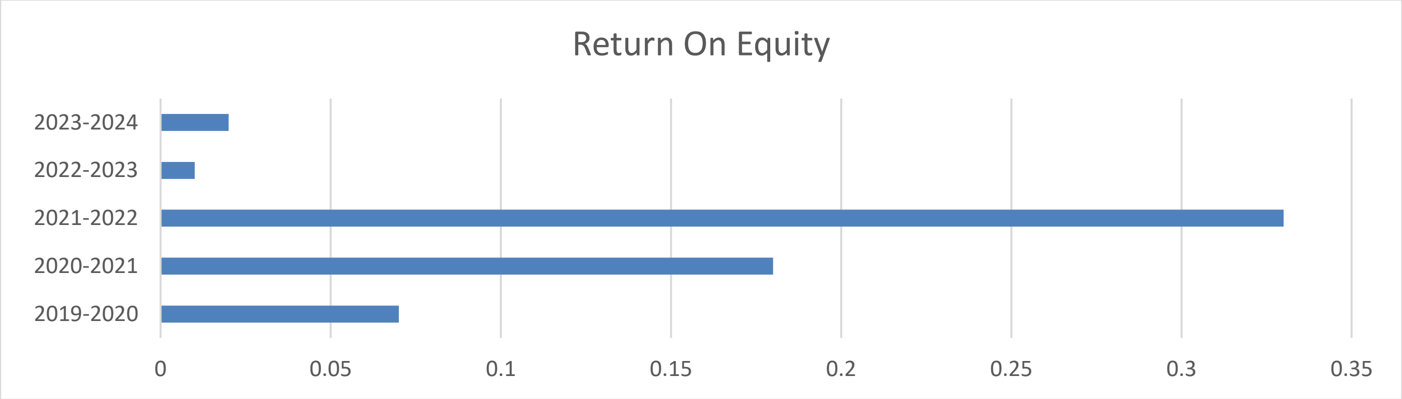
INFERENCE

From the above table and chart, it is observed that the company's liquidity position declined from 1.75 in 2019-2020 to 1.15 in 2021-2022, indicating increased financial strain. A significant improvement was observed in 2022-2023 (2.56) and 2023-2024 (2.84), reflecting better working capital management. The recent rise suggests a strong ability to meet short-term obligations and improved financial stability.

Return on equity

Formula: Return on equity = Profit After Tax/ Total Equity

Year	Profit After Tax	Total Equity	Return on equity
2019-2020	8099	117719.9	0.07
2020-2021	18289	99451.02	0.18
2021-2022	24,901.02	74,604.62	0.33
2022-2023	1,132.24	108404.21	0.01
2023-2024	2,267.13	120739.12	0.02



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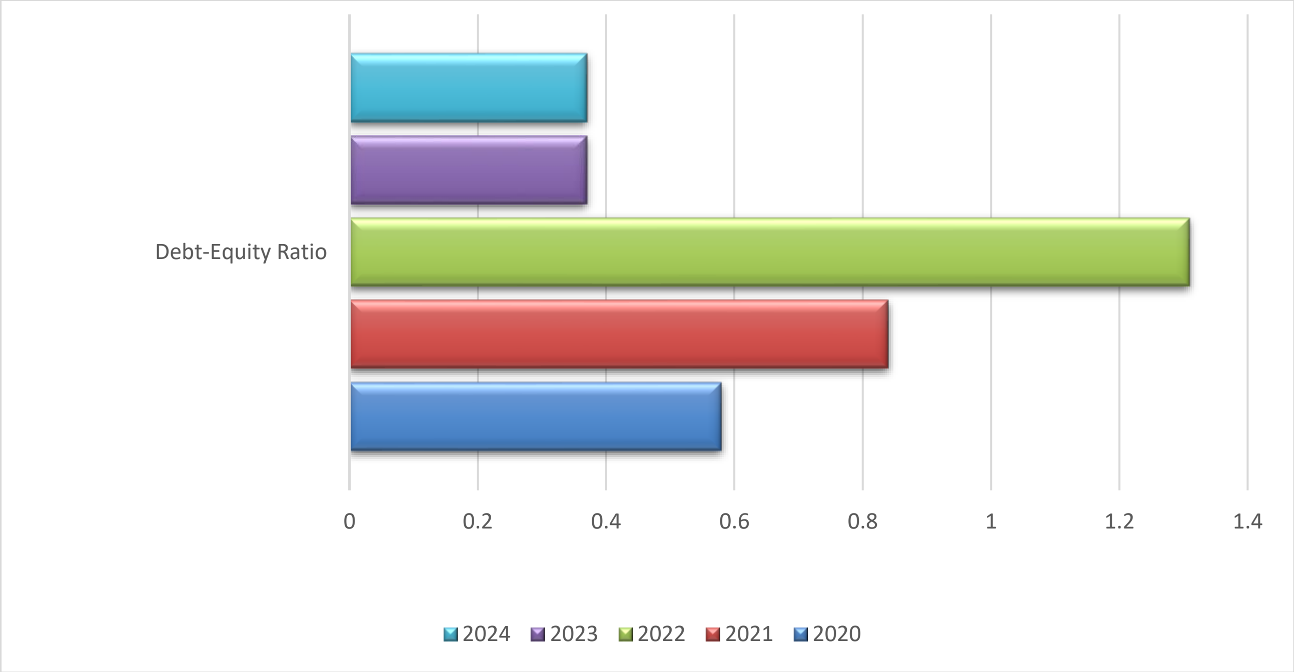
ROE improved from 7% in 2019-2020 to a peak of 33% in 2021-2022, indicating strong profitability. A sharp decline followed in 2022-2023 (1%) and 2023-2024 (2%), reflecting reduced efficiency in generating returns. Despite an increase in equity, the company's recent performance shows lower returns for shareholders. The company experienced fluctuating profitability, with a notable decline in recent years.

Debt Equity Ratio

Formula: Debt equity ratio = Total debts / Total equity

Financial Year	Debt	Total Equity	Debt-Equity Ratio
2020	68,410.12	117,719.90	0.58
2021	83,588.65	99,451.02	0.84
2022	97,827.44	74,604.62	1.31
2023	40,583.22	1,08,404.21	0.37
2024	45,213.91	1,20,739.12	0.37



INFERENCE

The debt-equity ratio increased from 0.58 in 2020 to a peak of 1.31 in 2022, indicating higher financial risk. A significant reduction occurred in 2023, reflecting improved financial stability. The ratio remained stable at 0.37 in 2024, suggesting a balanced and low-risk capital structure.

Working Capital Efficiency Analysis

Formula: Working Capital = Current Assets- Current Liabilities

Year	Total Current Assets	Total Current Liabilities	Working Capital
2019-2020	148,060.40	84,224.73	63,835.67
2020-2021	134630.25	97,818.55	36,811.70
2021-2022	123885.41	107385.14	16,500.27
2022-2023	113268.85	44150.45	69,118.40
2023-2024	132776.14	46,745.31	86,030.83

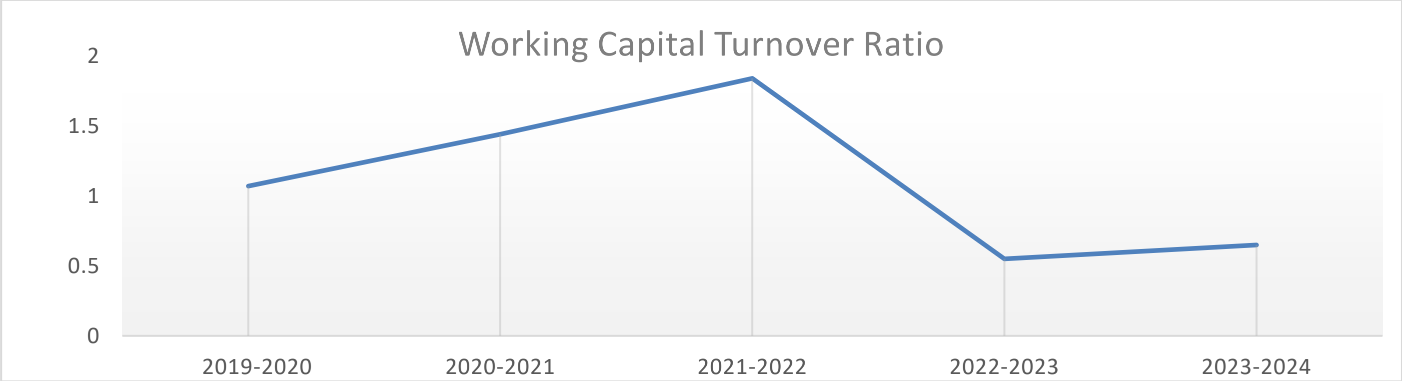
INFERENCE

Working capital declined from ₹63,835.67 lakhs in 2019–20 to ₹16,500.27 lakhs in 2021–22, indicating reduced liquidity and potential short-term financial strain. From 2022–23 onward, there was a strong recovery in working capital, reaching ₹86,030.83 lakhs in 2023–24 due to a significant drop in current liabilities. The increase in working capital in recent years reflects improved liquidity and a stronger ability to meet short-term obligations.

Working Capital Turnover Ratio

Formula: Working Capital Turnover Ratio = Net Sales/Working Capital

Year	sales	Working Capital	Working Capital Turnover Ratio
2019-2020	68105.2	63,835.67	1.07
2020-2021	53193.33	36,811.70	1.44
2021-2022	30278.64	16,500.27	1.84
2022-2023	37,884.66	69,118.40	0.55
2023-2024	56,098.28	86,030.83	0.65



INFERENCE

The ratio improved from 1.07 in 2019-2020 to a peak of 1.84 in 2021-2022, reflecting better utilization of working capital. A sharp decline occurred in 2022-2023 (0.55), indicating reduced efficiency in generating sales. The ratio remained low at 0.65 in 2023-2024, suggesting continued underutilization of working capital.

4. FINDINGS

The current ratio showed a decline from 1.75 in 2019-2020 to 1.15 in 2021-2022, indicating increasing liquidity stress. However, it significantly improved to 2.56 in 2022-2023 and further increased to 2.84 in 2023-2024, reflecting a strong position to meet short-term liabilities. The return on equity improved from 0.07 in 2019-2020 to 0.33 in 2021-2022, indicating better shareholder returns. However, it sharply declined to 0.01 in 2022-2023, with only a slight recovery to 0.02 in 2023-2024, reflecting continued low profitability. The debt-equity ratio increased from 0.58 in 2019-2020 to 1.31 in 2021-2022, indicating higher dependency on debt financing. However, it significantly dropped to 0.37 in 2022-2023 and remained stable at that level in 2023-2024, reflecting reduced financial risk. The working capital declined from 2019–20 to 2021–22, indicating liquidity stress during that period. A strong recovery was observed from 2022–23 onwards, mainly due to a sharp reduction in current liabilities. This improvement reflects better short-term financial management. The working capital turnover ratio improved from 1.07 in 2019-2020 to 1.84 in 2021-2022, indicating optimal use of working capital. However, it sharply declined to 0.55 in 2022-2023 and slightly improved to 0.65 in 2023-2024, reflecting continued inefficiency

5. SUGGESTIONS

Maintain a balanced debt-equity ratio to reduce financial risk and avoid excessive debt reliance. Maintain an optimal balance of current assets and liabilities to prevent liquidity stress. Reduce dependence on short-term liabilities by exploring alternative financing options. Reduce the cash conversion cycle and negotiate better credit terms with suppliers and customers, which helps to boost working capital efficiency. Regularly review and update financial policies to adapt to changing market conditions.

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