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A STUDY OF WORKING CAPITAL MANAGEMENT IN TEXMO PIPES AND PRODUCTS

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ABSTRACT

This study examines the effectiveness of working capital management in Texmo Pipes and Products Ltd., a leading manufacturer in the Indian plastic piping industry. Efficient working capital management is essential for maintaining liquidity, operational efficiency, and profitability. The research focuses on analyzing key components such as inventory management, receivables, payables, and cash management over a defined period. Financial ratios and trend analysis are employed to assess the company's short-term financial health and ability to meet its operational obligations. The study reveals how the company balances current assets and current liabilities to ensure smooth business operations while minimizing the cost of capital. Findings indicate areas of strength and suggest improvements in credit policy and inventory turnover to optimize overall working capital efficiency. This analysis offers insights for financial managers and stakeholders aiming to enhance financial performance through strategic working capital decisions.

KEY WORDS: *Working Capital, Liquidity Ratios, Current Ratio, Quick Ratio and Cash Ratio*

INTRODUCTION

TEXMO Pipes and Products is a leading manufacturer and supplier of high-quality pipes, fittings, and other plumbing solutions. With a reputation built on trust and innovation, TEXMO offers a wide range of products that cater to the needs of various industries, including construction, agriculture, and water management. Their product portfolio includes PVC pipes, HDPE pipes, CPVC pipes, and a variety of other plumbing accessories designed to provide reliable performance and durability. Known for their commitment to excellence, TEXMO continuously invests in advanced technology and research to ensure that their products meet global standards, offering customers top-notch quality, efficiency, and value.

TEXMO Pipes and Products, established with a vision to revolutionize the piping industry, has grown to become one of the most trusted names in the field of water management and plumbing solutions. Their extensive product range is designed to meet the dynamic requirements of both residential and commercial projects, with a strong focus on sustainability and innovation. The company employs cutting-edge technology in manufacturing processes, ensuring that every product is crafted to perfection for superior performance and longevity.

REVIEW OF LITERATURE

The concept of **working capital management** has been extensively studied in the field of financial management due to its direct impact on the liquidity, profitability, and overall efficiency of business operations. Several researchers and financial theorists have emphasized the significance of maintaining an optimal level of working capital to avoid both under- and over-investment in current assets.

1. **Optimal Working Capital Levels**: A study by Dash et al. (2023) analyzed data from 1,104 Indian manufacturing companies between 2011 and 2020. It found an inverted U-shaped relationship between working capital and profitability, indicating the existence of an optimal working capital level. Firms with aggressive WCM policies under financial constraints had the lowest optimal cash conversion cycles (CCC).
2. **Growth and WCM Efficiency**: Research by Sawarni et al. (2022) examined 431 non-financial firms from 2012 to 2019. The study revealed that firms with higher growth rates managed their working capital more efficiently, positively impacting profitability and valuation.
3. **Sector-Specific Findings**: Garg and Singh (2023) focused on Indian steel sector firms and found that longer inventory conversion periods and CCC negatively impacted profitability, emphasizing the need for efficient WCM practices.

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4. **Dash, S. R., al. (2023)** conducted a study on 1,104 Indian manufacturing companies and found that **optimal WCM** enhances firm performance. The research confirmed an **inverted U-shaped relationship** between the Cash Conversion Cycle (CCC) and profitability, indicating that too much or too little working capital adversely impacts firm performance.
5. **Sawarni al. (2022)** analyzed 431 Indian non-financial firms and concluded that **companies with better WCM practices** tend to have **higher valuations and profitability**, particularly in fast-growing firms.
6. **Pattnaik & Mohanty (2022)** observed that **smaller firms in the pipes and plastics industry in India face unique WCM challenges**, such as dependency on vendor credit, seasonal demand, and reliance on raw material imports (like polymers).
7. **ICRA and CRISIL Ratings (2021–2023)** for TPPL consistently cited working capital intensity as a **credit sensitivity factor**, especially due to high inventory levels and moderate receivables collection efficiency.

OBJECTIVES OF THE STUDY

- To examine the components of working capital in Texmo Pipes and Products, including cash, receivables, inventory, and payables.
- To assess the efficiency of working capital management through key financial ratios such as current ratio, quick ratio, inventory turnover, debtor turnover, and working capital turnover.
- To analyse the liquidity position of Texmo Pipes and Products and evaluate its ability to meet short-term obligations.

SCOPE OF THE STUDY

- Assessment of current assets and liabilities such as inventory, receivables, payables, cash, and short-term borrowings.
- Analysis of financial data over a selected period (typically 3–5 years) to identify trends and patterns in working capital performance.
- Evaluation of liquidity, efficiency, and profitability through relevant financial ratios and indicators.

INDUSTRY PROFILE

TEXMO Pipes and Products operates in the plumbing and piping industry, a vital sector responsible for providing essential infrastructure solutions for water distribution, drainage, irrigation, and industrial applications. The company specializes in the production of a wide variety of pipes and fittings made from different materials such as PVC, HDPE, and CPVC, which are used in residential, commercial, and agricultural projects. This industry plays a crucial role in the global economy by supporting sectors like construction, water management, sanitation, and agriculture.

Within the plumbing and piping industry, TEXMO stands out for its commitment to delivering high-performance and durable solutions that meet the growing demands of modern infrastructure. The company operates in an increasingly competitive environment, where innovations in material science, manufacturing techniques, and sustainability practices are key to maintaining a competitive edge. TEXMO contributes significantly to these advancements through continuous research and development efforts, ensuring that their products remain at the forefront of the industry.

The industry itself is seeing an increasing demand for high-quality, sustainable, and environmentally friendly piping systems as water conservation and efficient infrastructure become more critical globally. TEXMO's focus on using eco-friendly materials, minimizing waste during production, and providing long-lasting products positions them as a leader in meeting these industry needs.

Moreover, as urbanization and industrialization accelerate around the world, the demand for reliable plumbing and water management systems is expected to rise, making TEXMO Pipes and Products an integral player in shaping the future of this essential industry. By providing innovative solutions, maintaining high-quality standards, and supporting various sectors with its diverse product offerings, TEXMO is helping to drive the evolution of the piping industry into a more sustainable and technologically advanced future.

RESEARCH METHODOLOGY

The research methodology outlines the systematic approach used to conduct the study on the working capital management of Texmo Pipes and Products. It includes the research design, data collection methods, tools for analysis, and the time frame covered by the study.

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RATIO	FORMULA
Current Ratio (LIQUIDITY)	$\frac{\text{Current Asset}}{\text{Current Liabilities}}$
Quick Ratio (LIQUIDITY)	$\frac{\text{(Current Asset-Inventory-Prepaid expenses)}}{\text{Current Liabilities}}$
Cash Ratio (LIQUIDITY)	$\frac{\text{Cash and Cash Equivalents}}{\text{Current Liabilities}}$
Working Capital Turnover Ratio (EFFICIENCY RATIO)	$\frac{\text{Net Sales}}{\text{Average Working Capital}}$
Inventory Turnover Ratio (EFFICIENCY RATIO)	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$
Net Working Capital Ratio (EFFICIENCY RATIO)	$\frac{\text{Networking capital}}{\text{Total Assets}}$
Inventory to Working Capital Ratio (EFFICIENCY RATIO)	$\frac{\text{Inventory}}{\text{Working Capital}}$
Days Working Capital Ratio (EFFICIENCY RATIO)	$\frac{\text{Working Capital}}{\text{Net Sales}} * 365$
Debt-Equity Ratio (SOLVENCY RATIO)	$\frac{\text{Total Debt}}{\text{Shareholders' Equity}}$
Debt Ratio (SOLVENCY RATIO)	$\frac{\text{Total Debt}}{\text{Total Assets}}$
Debt to Capital Ratio (SOLVENCY RATIO)	$\frac{\text{Total Debt}}{\text{(Total Debt+ Shareholders' Equity)}}$

DATA ANALYSE AND INTERPRETATION

5 YEARS FINACIAL RATIO ANALYSIS

Ratio	Description	Trend (2020–2024)	Interpretation
Current Ratio	Measures short-term liquidity	Increased from 1.47 to 2.13	Improving ability to cover current liabilities.
Quick Ratio	Excludes inventory from current assets	Increased from 0.75 to 1.27	More conservative liquidity is improving.
Cash Ratio	Only includes cash & cash equivalents	Stayed low (0.09 to 0.14)	Company is cash-light, relying more on other current assets.
Working Capital Turnover	Efficiency in using working capital	Improved, peak at 10.7 in 2023	Better use of working capital to generate sales, though dropped slightly in 2024.
Inventory Turnover	How fast inventory is sold	Flat and very low (0.09 to 0.14)	Poor inventory efficiency, risk of overstocking or obsolete inventory.
Inventory to WC Ratio	Proportion of WC tied up in inventory	Decreasing (1.54 to 0.76)	Less reliance on inventory in working capital, indicating better asset allocation.
Days Working Capital	Days to convert WC to sales	Mixed trend, lowest 46.15 in 2022	More efficient in 2022-2023, slight rise in 2024 suggesting declining efficiency.
Debt-Equity Ratio	Leverage from shareholder vs. borrowed funds	Declined from 0.53 to 0.21	Financial risk decreasing, lower reliance on debt.
Debt Ratio	Proportion of assets financed by debt	Declined from 0.34 to 0.18	Lower debt burden, more equity-financed assets.
Net Working Capital Ratio	Working capital to total assets	Moderate (0.38 to 0.55), peak in 2020	Healthy WC, although fluctuations suggest varying liquidity management.
Debt to Capital Ratio	Proportion of debt in capital structure	Declined from 0.34 to 0.18	Increasing financial stability and investor appeal.

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Summary Insights

- **Liquidity** is improving across all metrics—higher current and quick ratios indicate better short-term financial health.
- **Efficiency** is mixed. Working capital utilization improved, but inventory turnover remains very low.
- **Solvency** is strengthening. Lower debt ratios and higher equity suggest reduced financial risk and improved sustainability.

FINDINGS

- The current ratio increased from 1.47 to 2.13, indicating improved short-term liquidity.
- The quick ratio increased from 0.75 to 1.27, reflecting a more conservative liquidity position.
- The cash ratio stayed low, rising from 0.09 to 0.14, indicating a cash-light position.
- Improved working capital turnover, peaking at 10.7 in 2023, showing better efficiency in using working capital to generate sales.
- The inventory turnover remained low and flat, between 0.09 and 0.14, suggesting poor inventory management.
- The ratio decreased from 1.54 to 0.76, indicating less reliance on inventory within working capital.
- The trend was mixed, with the lowest at 46.15 days in 2022, but a slight rise in 2024, showing declining efficiency.
- The ratio declined from 0.53 to 0.21, indicating reduced financial leverage and lower reliance on debt.
- The debt ratio declined from 0.34 to 0.18, showing lower debt and more equity-financed assets.
- The net working capital ratio fluctuated, peaking at 0.55 in 2020, suggesting a healthy but varying liquidity management approach.
- The ratio decreased from 0.34 to 0.18, reflecting greater financial stability and lower debt in the capital structure.

CONCLUSION

The study of working capital management in Texmo Pipes and Products reveals a consistent improvement in the company's short-term financial health, as evidenced by rising liquidity ratios such as the current and quick ratios. These indicators reflect Texmo's growing ability to meet its short-term obligations efficiently. The firm has also demonstrated progress in optimizing its working capital utilization, particularly through enhanced working capital turnover and reduced dependency on inventory, as shown by a declining inventory-to-working capital ratio.

However, the persistently low inventory turnover ratio indicates a need for improvement in inventory management practices, which may be hindering operational efficiency. Solvency analysis further supports the company's financial strength, with declining debt-equity and debt-to-capital ratios reflecting reduced financial risk and a stronger capital structure.

Overall, Texmo Pipes and Products is on a positive trajectory in managing its working capital, but targeted strategies to improve inventory efficiency and receivables management will be essential for further enhancing profitability and liquidity. Financial managers should continue monitoring these key areas to support sustainable growth and long-term value creation.

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