

# A Study On Accounts Recievables Management At Amara Raja Power Systems Limited

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## ABSTRACT

*Receivable management is a critical aspect of working capital management, significantly impacting a company's liquidity and financial performance. This study focuses on receivable management practices at Amara Raja Batteries Limited (ARBL), a leading manufacturer of automotive and industrial batteries in India. The primary objective is to analyze how effectively ARBL manages its accounts receivable, including credit policies, collection procedures, and aging of receivables. The research involves the examination of financial statements, receivable turnover ratios, and days sales outstanding (DSO) over a five-year period to assess trends and efficiency. The study also explores the challenges faced by ARBL in receivable management, especially in dealing with institutional clients, dealers, and fluctuations in demand. Based on the analysis, the paper highlights areas for improvement, such as stricter credit controls, enhanced monitoring systems, and use of digital tools for faster collections. The findings suggest that although ARBL maintains a reasonably efficient receivable cycle, there is scope for tightening credit terms and reducing overdue accounts to further improve cash flow and profitability. Effective receivable management can significantly enhance operational efficiency and support sustainable business growth for the company.*

## 1.1 INTRODUCTION

In any business, **Accounts Receivables Management (ARM)** plays a vital role in maintaining financial stability and operational efficiency. It refers to the process of managing credit sales, tracking outstanding payments, and ensuring timely collection from customers. Effective receivables management helps companies maintain liquidity, minimize bad debts, and optimize working capital.

**Amara Raja Power Systems Limited (ARPSL)**, a leading player in the power solutions industry, deals with large-scale projects and transactions involving extended credit periods. Managing receivables efficiently is crucial for sustaining its cash flow and overall financial health. Delayed payments or high receivable turnover can impact the company's profitability and operational sustainability.

This study aims to analyze the **credit policies, collection efficiency, and financial impact** of receivables management at ARPSL. It explores key metrics such as **Days Sales Outstanding (DSO), aging analysis, bad debt ratios, and collection trends** to assess the company's receivables performance. By identifying strengths and weaknesses in the existing system, the study provides insights into best practices and recommendations for improvement.

### 1.2 NEED FOR THE STUDY

Efficient **Accounts Receivables Management (ARM)** is essential for any organization to ensure steady cash flow and financial stability. **Amara Raja Power Systems Limited (ARPSL)**, being a key player in the power solutions industry, engages in large-scale projects that often involve extended credit terms. Managing receivables effectively is crucial to avoid liquidity issues and financial risks.

The need for this study arises due to the following reasons:

1. **Cash Flow Optimization** – Delayed payments can disrupt the working capital cycle, affecting daily operations and financial planning. The study helps in identifying ways to accelerate cash inflows.
2. **Minimizing Bad Debts** – Ineffective receivables management can lead to higher instances of bad debts. Analysing the company's credit policies and collection strategies helps in reducing defaults.
3. **Assessing Collection Efficiency** – Evaluating **Days Sales Outstanding (DSO)**, **aging analysis**, and **collection trends** can provide insights into how effectively ARPSL collects payments from customers.

### 1.3. OBJECTIVES OF THE STUDY

- 1) To analyse the effectiveness of receivables management – Evaluate the company's credit policies, collection procedures, and overall efficiency in managing outstanding payments.
- 2) To assess the impact of receivables on cash flow and profitability – Study how delayed payments affect working capital, liquidity, and financial performance.
- 3) To evaluate key financial metrics – Examine indicators such as Days Sales Outstanding (DSO), aging analysis, bad debt ratio, and receivables turnover to measure collection efficiency.
- 4) To identify challenges in receivables management – Recognize issues such as late payments, credit risks, and bad debts, and analyse their impact on business operations.
- 5) To suggest strategies for improvement – Provide recommendations to enhance receivables management, optimize credit policies, and implement better collection techniques for improved financial stability.

### 1.3 HYPOTHESIS

- 1) **Null Hypothesis (H<sub>0</sub>):** There is no significant impact of accounts receivables management on the cash flow of Amara Raja Power Systems Limited.
- 2) **Alternative Hypothesis (H<sub>1</sub>):** There is significant impact of accounts receivables management on the cash flow of Amara Raja Power Systems Limited.

### 1.4 SCOPE OF THE STUDY

The study on **Accounts Receivables Management at Amara Raja Power Systems Limited (ARPSL)** focuses on evaluating the efficiency of credit policies, collection processes, and their impact on the company's financial health. The scope of the study includes:

**Time Frame** – The study covers the receivables data for a specific period (e.g., the last 3-5 financial years) to analyze trends and patterns in credit management.

**Key Financial Metrics** – It examines important financial indicators such as **Days Sales Outstanding (DSO)**, **accounts aging analysis**, **bad debt ratio**, and **receivables turnover** to assess the company's collection efficiency.

**Credit Policies and Risk Assessment** – The study evaluates ARPSL's **credit approval process**, **payment terms**, and **risk management strategies** to understand how the company mitigates credit default risks.

**Industry Comparison** – The research includes a comparison with industry benchmarks and best practices to determine how ARPSL's receivables management aligns with competitors and market standards.

## 1.5 METHODOLOGY

The methodology of this study on **Accounts Receivables Management at Amara Raja Power Systems Limited (ARPSL)** involves a structured approach to data collection, analysis, and interpretation. The study employs both **quantitative and qualitative research methods** to assess the effectiveness of receivables management.

### 1. Research Design

The study follows a **descriptive research design**, aiming to analyze the company's credit policies, collection efficiency, and financial impact of accounts receivables.

### 2. Data Collection Methods

The study relies on both **primary and secondary data sources**:

#### Primary Data:

Interviews with finance managers, accounts executives, and credit control personnel.

Surveys or questionnaires to understand the receivables management challenges and strategies.

#### Secondary Data:

Annual reports, financial statements, and balance sheets of ARPSL.

Industry reports, journal articles, and case studies on receivables management. Internal records such as accounts aging reports, credit policies, and collection procedures.

### 3. Data Analysis Techniques

The study involves both **quantitative and qualitative analysis**, including:

**Ratio Analysis:** Examining key financial metrics like **Days Sales Outstanding (DSO), receivables turnover ratio, aging analysis, and bad debt ratio.**

**Trend Analysis:** Evaluating changes in receivables over multiple years to identify patterns and risks.

**Comparative Analysis:** Benchmarking ARPSL’s receivables performance with industry standards.

#### 1.6 LIMITATIONS OF THE STUDY

- 1) Limited Data Availability – The study is based on historical financial records and company reports, which may not fully reflect recent or real-time changes in receivables management.
- 2) External Economic Factors – The research does not extensively analyze macroeconomic conditions, market fluctuations, or industry-wide credit risks, which could impact ARPSL’s receivables performance.
- 3) Company-Specific Focus – The study is limited to Amara Raja Power Systems Limited and does not provide a broad comparison across multiple companies in the power sector.
- 4) Reliance on Secondary Data – A significant portion of the study is based on secondary data sources like annual reports, which may not capture all internal operational challenges.
- 5) Time Constraints – The study covers a specific time period (e.g., last 3-5 years), and findings may not be applicable to future financial conditions or policy changes.

### DATA ANALYSIS & INTERPRETATION

#### ANALYSIS AND INTERPRETATION:

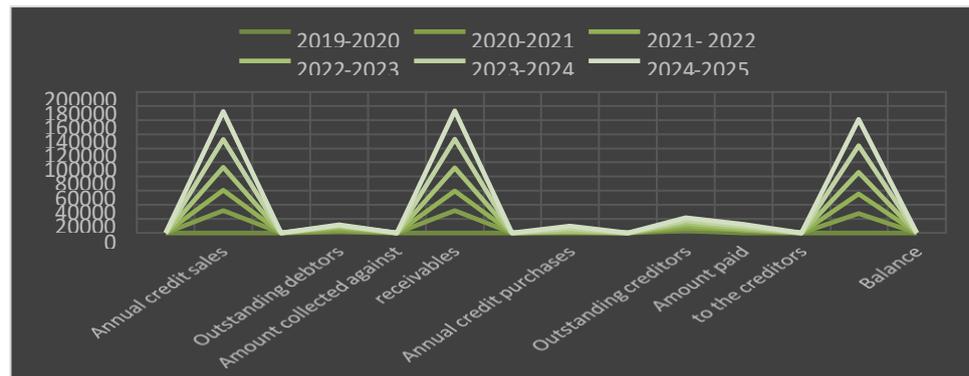
TABLE NO 4.1.1. STATEMENT OF CASH COLLECTION AND PAYMENTS

(In lakhs)

Year	2019-2020	2020-2021	2021- 2022	2022-2023	2023-2024	2024-2025
<b>Annual credit sales</b>		31,590.46	29,021.15	32,605.16	39,689.62	39,789.62
<b>Outstanding debtors</b>	1,639.27	1,838.11	3,109.72	2,467.39	1,383.35	1043.79

<b>Amount collected against receivables</b>		<b>31,391.62</b>	<b>27,749.54</b>	<b>33,247.49</b>	<b>40,773.66</b>	<b>40,129.18</b>
<b>Annual credit purchases</b>		1,075.42	155.08	1,574.49	3,288.27	3,388.27
<b>Outstanding creditors</b>	3,108.67	3,557.46	3,827.41	3,381.69	3,758.62	3,858.62
<b>Amount paid to the creditors</b>		<b>4,184.09</b>	<b>-114.87</b>	<b>2,020.21</b>	<b>2,911.34</b>	<b>3,288.27</b>
<b>Balance</b>		<b>27,207.53</b>	<b>27,864.41</b>	<b>31,227.28</b>	<b>37,862.32</b>	<b>36,840.91</b>

**CHART NO - 4.1.1.STATEMENT OF CASH COLLECTION AND PAYMENT:**



**INTERPRETATION:**

The above table shows that the amount of money collected Rs. 40,773.66 against the receivables was high in the year 2023-2024 and the amount paid to the creditors Rs. 4,184.09 was high in the year 2020-2021. In the year 2021-2022 the amount of money collected was low. The balance remained after making the payment to the creditors showed an increasing in 2023-2024.

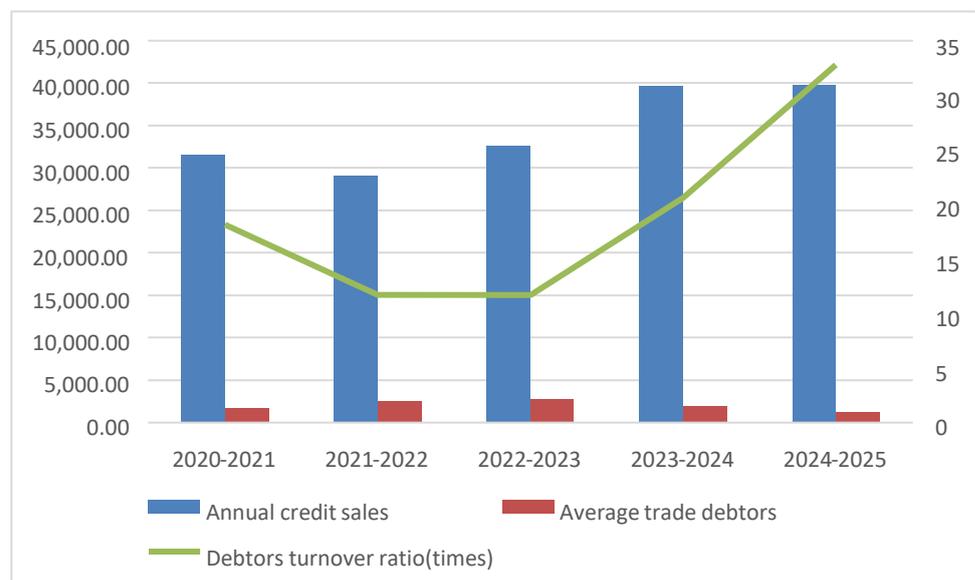
**TABLE NO – 4.1.3 DEBTORS TURN OVER RATIO / RECEIVABLES TURNOVER RATIO**

(In lakhs)

<b>Year</b>	<b>Annual credit sales</b>	<b>Average trade debtors</b>	<b>Debtors turnover ratio(times)</b>
2020-2021	31,590.46	1738.69	18.17

2021-2022	29,021.15	2473.91	11.73
2022-2023	32,605.16	2788.55	11.69
2023-2024	39,689.62	1925.37	20.61
2024-2025	39,789.62	1213.57	32.78

CHART NO – 4.1.3. DEBTORS TURN OVER RATIO / RECEIVABLES TURNOVER RATIO



**INTERPRETATION:**

From the above table, it can be inferred that the debtor turnover ratio of the firm was decreased (18.17, 11.73, 11.69) from the year 2020-2021 to 2022-2023. Then the ratio was increased (20.61, 32.78) from the year 2023-2024 to 2024-2025. The ratio shows a fluctuating trend.

**5.1 FINDINGS**

- 1) The amount of money collected Rs. 40,773.66 against the receivables was high in the year 2023-2024 and the amount paid to the creditors Rs. 4,184.09 was high in the year 2020-2021.
- 2) The percentage of outstanding debtors Rs. 3,109.72 was high in the year 2021-2022. But in the next year this percentage has been decreased -1.97 at negative percentage.
- 3) The debtor turnover ratio of the firm was decreased (18.17 to 11.69) from the year 2020-2021 to 2022-2025.
- 4) The ratio of receivables to working capital is very low 14.90 in the year 2024- 2025. It shows that the concern utilized its working capital for necessary needs.

- 5) The ratio of receivables to current assets has shown an increase 0.23 to 0.35 from 2020-2021 to 2021-2022.
- 6) The annual sales marked a higher growth rate of 121.73 % in the year 2023- 2024.
- 7) The least collection period was 11 days during the year 2021-2022 which implied the better quality of receivables.
- 8) There was decreasing trend in percentage of bad debts losses (0.56 to 0.13) from the year 2022- 2023 to 2024-2025.
- 9) The return on total assets ratio was in increasing trend (12.80 to 20.17) from the year 2020-2021 to 2024-2025.
- 10) There is fluctuating trend in creditor's turnover ratio during the study period (0.32 to 0.89) from 2020-2021 to 2024-2025.

### 5.2 SUGGESTIONS

- 1) The company must match its receivable with the payment. It must speed up its receivables in order to meet its payables to its creditors.
- 2) The company must take all the efforts to collect the debt amount from debtors. Its outstanding debtor's amount must be reduced as well as it must not be losing its customers. The company must ensure to avoid the bad debts.
- 3) When it reduces its debtor's volume, it can reduce its bad debts position. The management must focus to reduce the 11 days debtors' collection period or it needs to maintain the debtor's collection period.
- 4) The debtors' collection period must not be increased. As the cash collection against the receivables helps in meeting the short term obligations, the collection system of the company should be maintained in an effective manner.
- 5) A private collection agency may be appointed for looking after the collection of the receivables. If the terms are found suitable, as the credit sale of the firm is increasing at a high rate. This would help in reducing the work burden of the company's people and to improve the efficiency of managing the receivables.

### 5.3 CONCLUSION

During the project study period, major departments are covered. The receivable management is the key area of the working capital management. The main purpose of the project is to analyze the financial performance of the company. The detailed observations are presented in the form of analysis in the previous chapter.

The major financial performance indicators of AMARA RAJA POWER SYSTEMS LIMITED for the five year period in terms of ratios like liquidity ratios, creditor's turnover ratio, debtors turnover ratio of the company and so many data used in this project work. The company should take most care in case of new and risky customers. The credit terms offered by the firm differ from the customer to customer depending upon their past dealings.

The working capital trends of the firm in relation to the receivable position shoes an increase which helps in improving the solvency position of the firm. The study concludes by saying that the performance of the overall Receivable Management has improved when compared to the previous year. It is found from the survey that the company's credit management is not very strict

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