

SUMMER INTERNSHIP PROJECT REPORT

On

**“Impact of Working Capital Management on Profitability
of NM Financiers Pvt. Ltd.”**

**Submitted in partial fulfillment of the requirements for the award of the
degree**

of

BACHELOR OF BUSINESS ADMINISTRATION

BY

Akshat Jhalani

2016BBA002



Under Supervision of

Mr. Manish Bachhawat

Dr. Richa Mishra

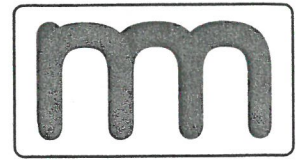
Institute of Management

JK Lakshmipat University, Jaipur

July/2018

NM FINANCIERS PVT. LTD.

CIN : U65991RJ2008PTC026285



NM FINANCIERS

CERTIFICATE

It is certified that the summer internship report on
**"Impact of Working Management on Profitability of NM Financiers
Pvt. Ltd."**

Submitted by **Akshat Jhalani (2016BBA002)** student of BBA from
Institute of Management JK Lakshmipat University, Jaipur is an
original piece of research work carried out by the
candidate under my supervision.

For NM Financiers Private Limited


Mr. Nishant Jain

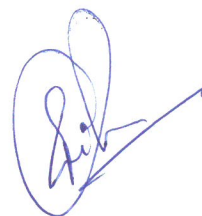
Director/Authorised Signatory

Director

19/07/2018

CERTIFICATE

This is to certify that Akshat Jhalani, student of BBA, Institute of Management, JK Lakshmipat University has undertaken his summer internship at NM Financiers Pvt. Ltd. The topic titled “Impact of Working Capital Management on Profitability of NM Financiers Pvt. Ltd.” His summer internship report is original piece of work out by the candidate under my guidance.

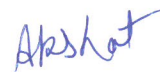


DR. RICHA MISHRA

(Faculty Guide)

DECLARATION

I hereby declare that the project work entitled “Impact of Working Capital Management on Profitability of NM Financiers Pvt. Ltd.” submitted to JK Lakshmipat University, Jaipur is recorded of an original work done by me. This project work is submitted in partial fulfilment of requirements for award of degree of BBA. It is not produced or published anywhere else for award or any degree.



AKSHAT JHALANI

2016BBA002

ACKNOWLEDGEMENT

I wish to express my sincere gratitude to Mr. Manish Bachhawat, CEO NMFinanciers Pvt. Ltd. for providing me an opportunity to do my internship and project work in NM Financiers Pvt. Ltd. Jaipur.

I would like to acknowledge the support and help of my faculty mentor, Dr. Richa Mishra & Dr. Loknath Mishra, Professor at JK Lakshmipat University. They continually and convincingly conveyed a spirit of adventure in regard to this project. Without their guidance and persistent help, this project would not have been possible.

I am highly indebted to the staff members of NM Financiers Pvt. Ltd. who helped me overcoming the daily challenges and made me learn new things every day.

AKSHAT JHALANI

2016BBA002

INDEX

S.No.	Contents	Page Number
1.	Introduction	7
2.	Characteristics of Industry	8
3.	Non Banking Financial Company	8
4.	Classification of NBFC	8-9
5.	ABOUT NM FINANCIERS PVT. LTD.	9-10
6.	Working Capital Management & Profitability	11
7.	Classification of Working Capital Management	12
8.	Financing of Working Capital Management	13
9.	Background of the Study	14
10.	Scope of the Study	14
11.	Objectives of the Study	14
12.	Methodology	15
13.	Analysis	16-23
14.	Observations and Discussions	24

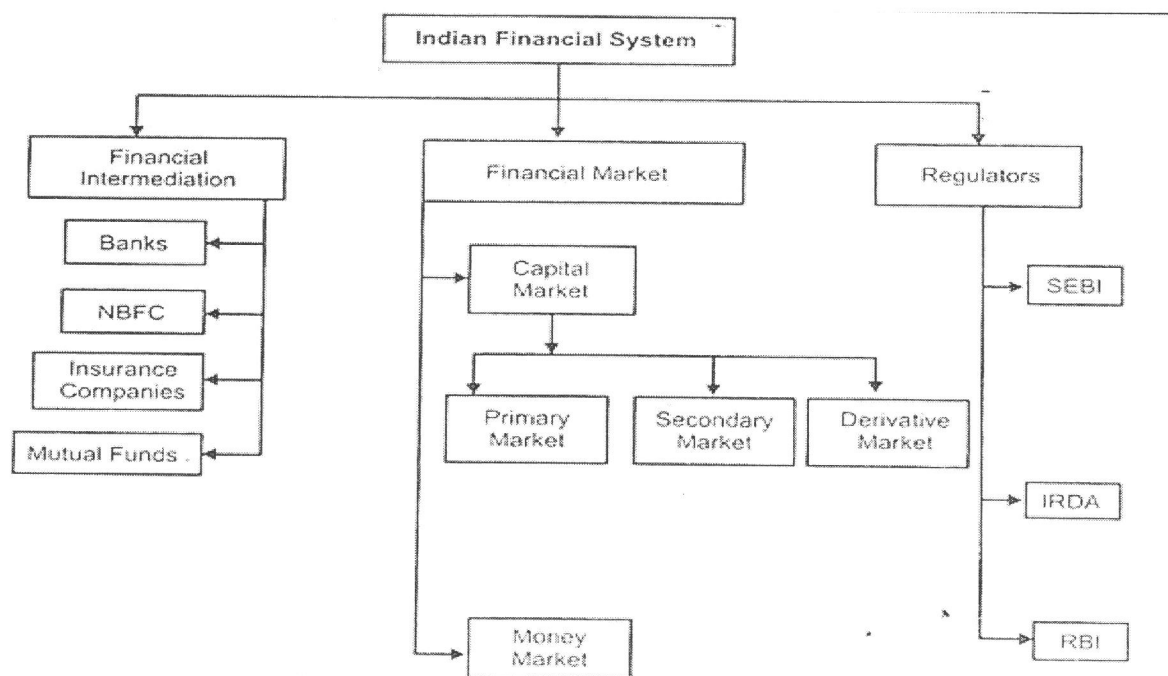
15.	Suggestions and Recommendations	25
16.	References	26

INTRODUCTION

1. FINANCE INDUSTRY

The Indian money market is classified into: the organised sector (comprising private, public and foreign owned commercial banks and cooperative banks, together known as scheduled banks); and the unorganised sector (comprising individual or family owned indigenous bankers or money lenders and non-banking financial companies (NBFCs). The unorganised sector and microcredit are still preferred over traditional banks in rural and sub-urban areas, especially for non-productive purposes, like ceremonies and short duration loans.

Any financial system of world comprises of three intermediaries :



2. CHARACTERISTICS OF INDUSTRY

➤ Low Risk

The financial intermediation should ensure low risk for supply of funds in the economy. However, if financial intermediation provides only for low risk opportunities for the use of fund, there will be very few takers of there service after sometime, as the returns will reduce. Hence, they should diversify the risk in as many financial instruments as possible, so that the fund providers have a balanced growth of their saving at the end of the process.

➤ Convenience

Financial intermediation should provide convenience for mobilizing saving to be converted into investment, in this regard, means that the avenues to save should be such, that they are affordable, should involve less paper work and should be very transparent in terms of legal contract.

3. NON BANK FINANCIAL COMPANY

Non-Bank financial institution (NBFI) or non-bank financial company (NBFC) is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency. NBFI facilitate bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering.

4. CLASSIFICATION OF NBFC

NBFC are classified into three categories:

➤ **Asset finance company:**

Asset Finance Company is a company which involves in financing physical assets for productive / economic activity such as automobiles, material handling equipment and industrial machines supporting economic activity. Asset Finance Company is playing complementary role to the other financial institutions such as banks in meeting the funding requirements of the economy.

➤ **Investment finance company:**

An investment company is a company whose main business is holding & managing securities for investment purposes. Investment companies invest money on behalf of their clients who, in return, share in the profits and losses.

➤ **Loan finance company:**

The loan company is a financial institution principally engaged in the business of providing finance to public, whether by making loans or advances or otherwise, for any activity other than its own (excludes equipment leasing and hire-purchase activities).

ABOUT NM FINANCIERS PVT. LTD.

NM Finance was incorporated on 04 April 2008 as a partnership firm later on acquired by NM Financiers Private Limited. It is a private limited company and is registered at Registrar of Companies, Jaipur. Its authorized share capital is Rs. 2,000,000 and its paid up capital is Rs. 2,000,000. It is involved in vehicle financing. It has a base of over 8000 clients across the state of Rajasthan and growing day by day. It has a network of more than 40 agents working across the different districts of state. It has established its name in rural areas of Rajasthan due to its less cumbersome financing at affordable interest rates.

It was started by **Mr. Nishant Jain** and **Mr. Manish Bachhawat** as a partnership firm and when in year 2016 **NM FINANCIERS PVT. LTD.** got its NBFC licence from RBI they transferred the financing business to this company. **Mr. Manish Bachhawat** is guiding the

company as **CEO** and has a vision of establishing the company as one of the major vehicle financing company in rural and sub-urban areas.

1. VISION

To strengthen our position as a leading player in the financing industry.

2. MISSION

The company has a vision of increasing its client base from current 10,000 to 20,000 in near future and diversifying its financial products from vehicle financing to consumer credit and personal loans.

3. SWOT ANALYSIS

Strength

- Well defined network of agents and dealers.
- Fast approval of vehicle loans.
- Dedicated and well trained recovery staff.

Weakness

- Low check on credibility of clients.
- Less diversified product portfolio.

Opportunity

- Establishing clients in urban areas.
- Providing more dynamic financial products.

Threats

- New entrants
- Increasing loan disbursements in rural areas by banking finance companies.

WORKING CAPITAL MANAGEMENT

Working capital sometimes called gross working capital refers to current assets used in operations. Working capital management (WCM) is the management of short-term financing requirements of a firm, and involves finding the optimal levels for cash, marketable securities, accounts receivable, and then financing that working capital for the least cost. Optimization of working capital balance means minimizing the working capital requirement and realizing maximum possible revenues.

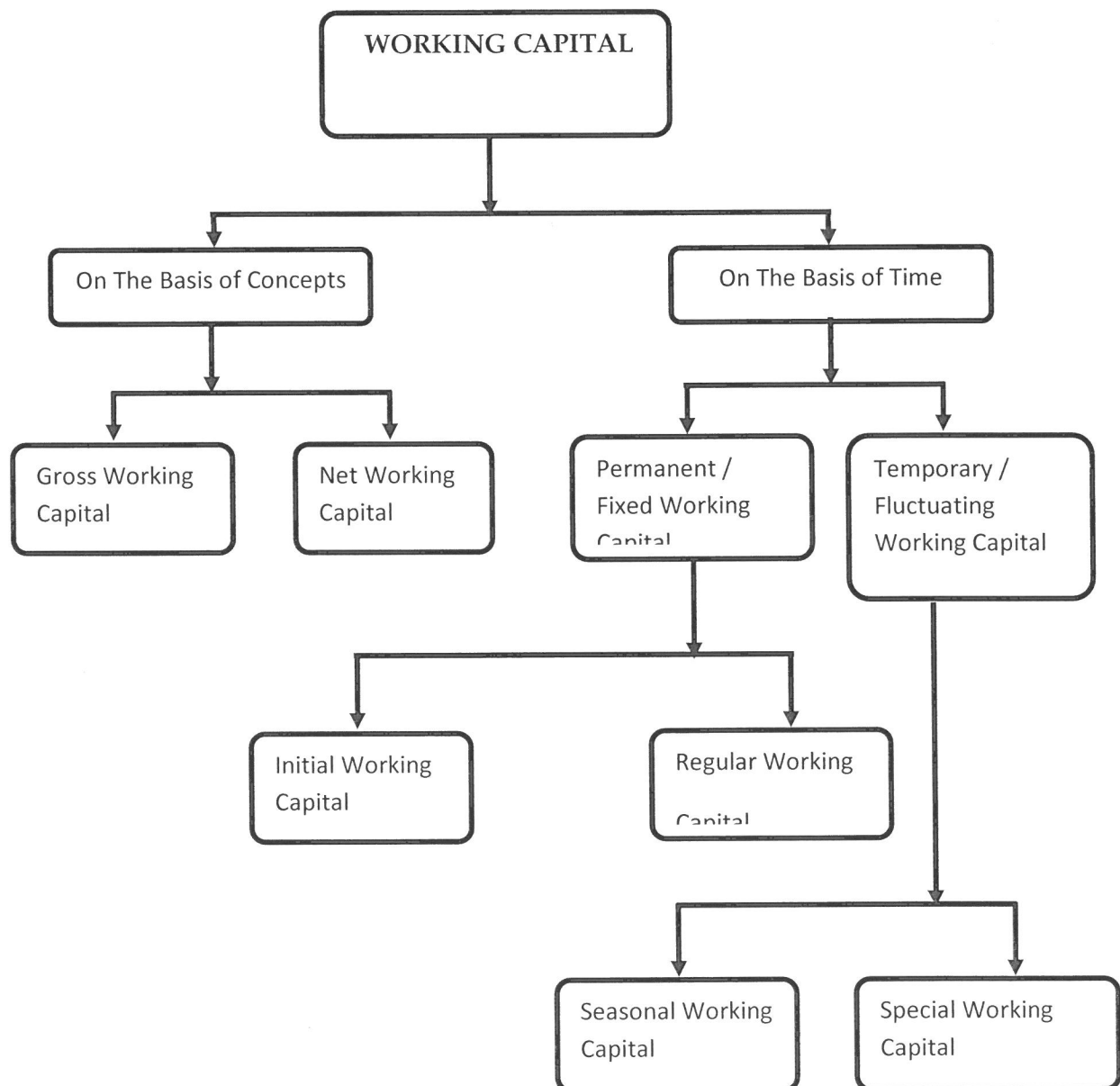
PROFITABILITY

Profitability is a widely used financial measure of performance and is the ultimate goal of every business entity. All the strategies designed and activities performed thereof are meant to realize this grand objective, this does not mean that they have no other goals, since the business could also have additional social and economic goals. However, the intention of this study is related to the first objective, profitability.

1. WORKING CAPITAL MANAGEMENT AND PROFITABILITY

Working Capital management is important because of its effects on the firm's profitability, risk and consequently its value. Efficient working capital management practices involves planning and controlling current assets and liabilities so as to eliminate the risk of inability to meet short term obligations as they fall due and avoid excessive investment in these assets . The term profitability refers to the ability of a firm to yield a financial gain. There is a strong linear relationship between profitability of the firm and its working capital efficiency.

2. CLASSIFICATION OF WORKING CAPITAL



FINANCING OF WORKING CAPITAL IN NM FINANCIERS PVT. LTD.

In NM Financiers Pvt. Ltd. financing of working capital is done from the below mentioned sources. They are

BANK CREDIT:

Commercial banks play an important role in financing the trade & industry Bank provides short-term, medium term & long term finance to an industrialist or a business man.

NM Financiers Pvt. Ltd. has taken credit from the commercial bank for working capital requirement for a certain period at certain interest rate.

EMI COLLECTION:

Agents of NM Financiers Pvt. Ltd. collect EMI from clients which help in financing working capital requirement.

BACKGROUND OF THE STUDY

In financial affairs of every firm, working capital management is a very important factor, and it has a direct positive effect on profitability. Proper optimization of working capital balance means minimizing the working capital requirement and realizing maximum possible revenues. If a firm minimizes its investment in current assets, the resulting funds can be invested in value creating profitable projects, so it can increase the firm's growth opportunities and shareholders return. The ability of financial managers to effectively and efficiently manage their receivables, and payables has a significant impact on the success of the business and on profitability as well.

SCOPE OF THE STUDY

The scope of the study is identified after and during the study is conducted. The main scope of the study was to put into practical the theoretical aspect of the study into real life work experience. The study of working capital is based on tools like Ratio Analysis, Statement of changes in working capital. Further the study is based on last 5 years Annual Reports of NM Financiers Pvt. Ltd.

OBJECTIVES OF THE STUDY

- To study the impact of working capital management on profitability of NM Financiers Pvt. Ltd.
- To study whether working capital management plays a crucial role in success of NM Financiers Pvt. Ltd. or not.
- To study the liquidity position of NM Financiers Pvt. Ltd. through the help of various working capital related ratios.

METHODOLOGY

- **Type of Study :** Descriptive Study
- **Unit of Study :** NM Financiers Pvt. Ltd.
- **Tools Used for Analysis :** Tables & Graphs
- **Source of Data Collection :** Secondary Data

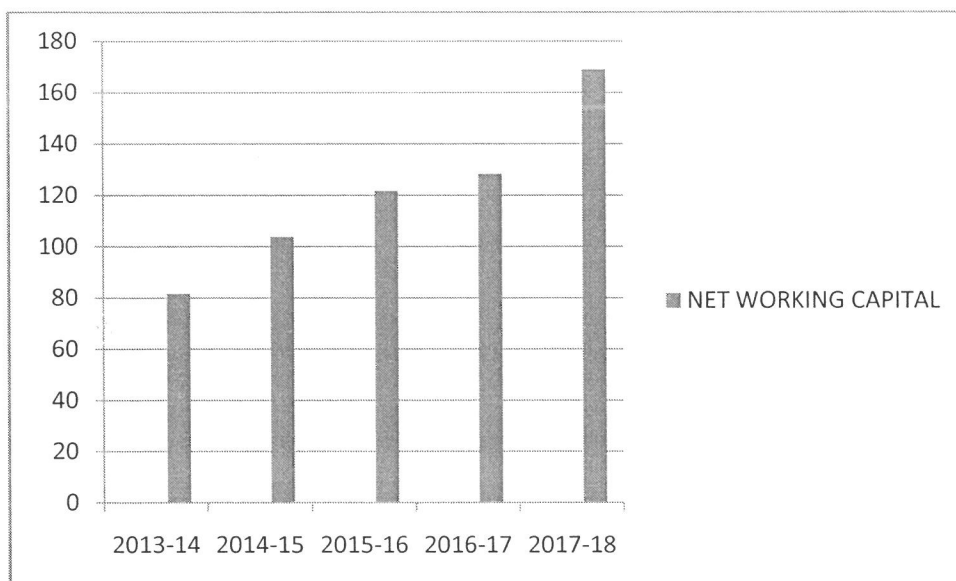
ANALYSIS

NET WORKING CAPITAL

The success or failure of a business is heavily dependent on that business' ability to use its assets effectively. Net working capital is calculated by subtracting total current liabilities from total current assets.

An analysis of the net working capital will be very help full for knowing the operational efficiency of the company. The following table provides the data relating to the net working capital of NM Financiers Pvt. Ltd.

YEARS	CURRENT ASSTES	CURRENT LIABILITIES	NET WORKING CAPITAL
2013-14	179.55	97.937	81.613
2014-15	210.05	106.215	103.835
2015-16	224.39	102.778	121.612
2016-17	267.32	139.09	128.23
2017-18	275.73	106.768	168.962



INTERPRETATION

The above chart shows that there has been a continuous increase in net working capital(NWC) of NM Financiers Pvt. Ltd. In the year 2013-14, the NWC of NM Financiers Pvt. Ltd. was 81.613. While in the year 2014-15, the net working capital of NM Financiers Pvt. Ltd. increased to 103.835. In the year 2017-18, the net working capital increased to 168.962. From 2013-14 to year 2017-18, the net working capital increased from 81.613 to 168.962. This means that the net working capital of NM Financiers Pvt. Ltd. doubled in last 5 years which is a very good sign. This means that the company is in a positive position & NWC has improved very fast as compared to the previous year's which show liquidity Position of NM Financiers Pvt. Ltd. has always more & sufficient working capital available to pay off its current liabilities.

RATIO ANALYSIS

Ratio Analysis is a process of comparison of one figure against other, which makes a ratio and the appraisal of the ratios to make proper analysis about the strengths and weakness of the firm's operations.

Various working capital ratios used by me are as follows:

1. LIQUIDITY RATIOS:

Liquidity refers to the ability of a firm to meet its current obligations as and when these become due. The short-term obligations are met by realizing amounts from current, floating or circulating assets.

Following are the ratios which can help to assess the ability of a firm to meet its current liabilities.

- I. Current ratio

2. TURNOVER/ACTIVITY RATIOS:

These are the ratios which indicate the speed with which assets are converted or turned over into sales.

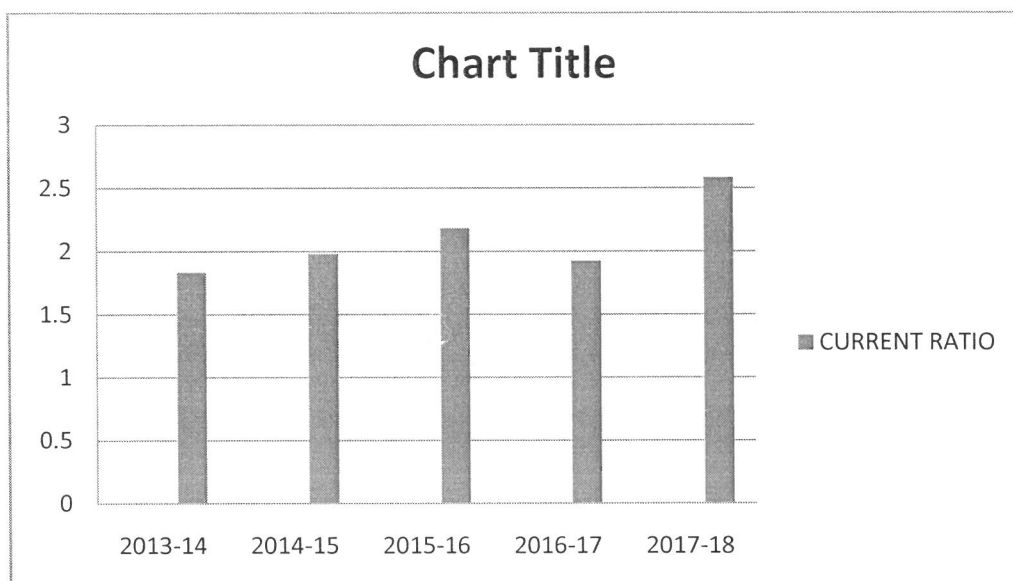
- I. Debtors/ Accounts receivables Turnover Ratio.
- II. Creditors/ Accounts payable Turnover Ratio.

CURRENT RATIO

It is a ratio, which express the relationship between the total current Assets and current liabilities. It measures the firm's ability to meet its current liabilities. It indicates the availability of current assets in rupees for every one rupee of current liabilities. A ratio of greater than one means that the firm has more current assets than current liabilities claims against them. A standard ratio between them is 2:1.

$$\text{CURRENT RATIO} = \text{CURRENT ASSETS} / \text{CURRENT LIABILITIES}$$

YEARS	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
2013-14	179.55	97.937	1.83332142
2014-15	210.05	106.22	1.97759262
2015-16	224.39	102.78	2.18324933
2016-17	267.32	139.09	1.92192106
2017-18	275.73	106.77	2.58251536



INTERPRETATION

It can be seen from the above chart that the current ratio in year 2013-14 is 1.83. During the year 2014-15, it was 1.98 and in the year 2015-16, it was 2.18. this shows that current ratio increases every year but in the year 2016-17, the current ratio decreased from 2.18 to 1.93 due to increase in current liabilities. In the year 2017-18, the current ratio again increased to 2.58. The current ratio in each year is almost close to the standard ratio of 2:1. Hence, it can be said that there are enough current assets in NM F Financiers Pvt. Ltd. to meet the current liabilities.

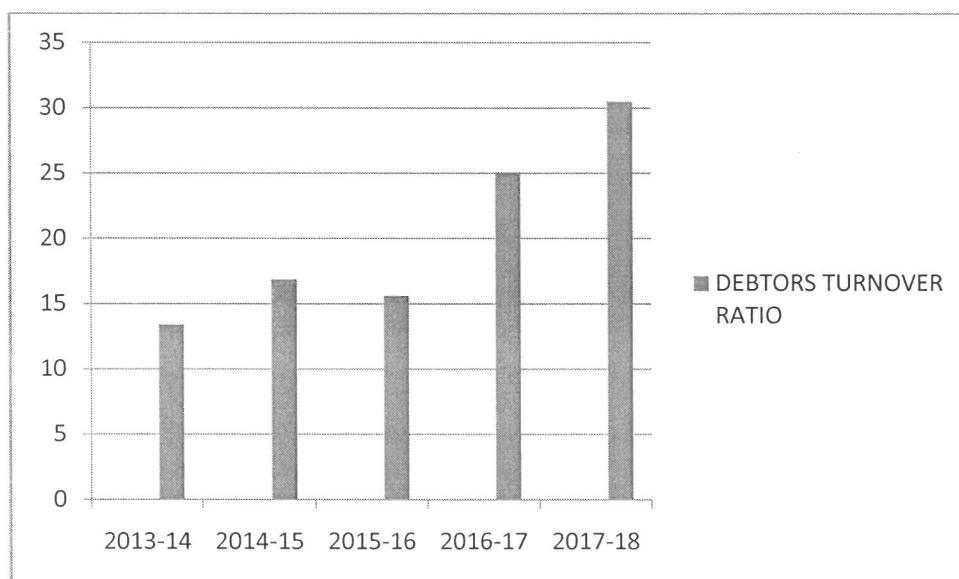
DEBTORS TURNOVER RATIO

Debtor's turnover ratio indicates the speed of debt collection of the firm. This ratio computes the number of times debtors (receivables) has been turned over during the particular period.

$$\text{DEBTORS TURNOVER RATIO} = \frac{\text{NET SALES}}{\text{AVERAGE DEBTORS}}$$

NOTE: In NM F Financiers Pvt. Ltd. I have taken total net revenues instead of sales for the purpose of calculation of debtors turnover ratio.

YEAR	NET REVENUE	AVERAGE DEBTORS	DEBTORS TURNOVER RATIO
2013-14	389.69	29.11	13.39
2014-15	592.91	35.23	16.83
2015-16	611.8	39.19	15.61
2016-17	692.55	27.61	25.08
2017-18	1173.60	38.53	30.46



INTERPRETATION

Since the receivables turnover ratio measures a business' ability to efficiently collect its receivables, it only makes sense that a higher ratio would be more favourable. Higher ratios mean that companies are collecting their receivables more frequently throughout the year. In the year 2013-14, the debtors turnover ratio is 13.39. It increased to 16.8 in year 2014-15. However, in 2015-16, the debtors turnover ratio reduced to 15.61. In year 2016-17 and 2017-18, the debtors turnover ratio increased to 25.08 days and 30.46 respectively. This shows that the company is collecting its receivables more frequently which is a good sign for the

company as this money would lead to increase in working capital and the effectiveness and efficiency of company will increase.

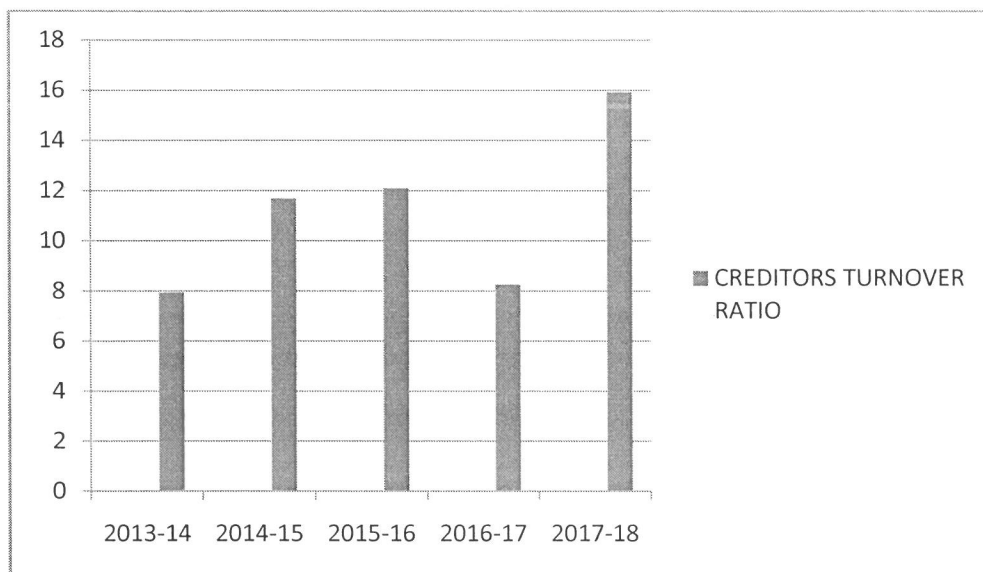
CREDITORS TURNOVER RATIO

Creditor's turnover ratio is the ratio, which indicates the number of times the debts are paid in the year. This ratio is calculated as follows.

$$\text{CREDITORS TURNOVER RATIO} = \frac{\text{NET PURCHASES}}{\text{AVERAGE CREDITORS}}$$

NOTE: I have considered total payments instead of credit purchases as the company deal in vehicle financing, for financing vehicle they also take finance from banks. This finance from banks is considered as purchase in this case.

YEAR	PAYMENTS	CREDITORS	CREDITORS TURNOVER RATIO
2013-14	140.97	17.78	7.93
2014-15	219.31	18.77	11.68
2015-16	205.56	17	12.09
2016-17	217.85	26.39	8.26
2017-18	529.57	33.27	15.92



INTERPRETATION

It is clear from the above chart that the creditors turnover ratio is changing over the years. In the year 2013-14, it was 7.93 and then it increased to 11.68 in year 2014-15. It decreased to 8.26 in year 2016-17. This shows that the company is making prompt payment to the creditors. But in year 2017-18, the ratio increases to 15.92. This is because company take more loans from banks to provide more finance to its clients or to expand its business to earn more profits.

OBSERVATIONS AND DISCUSSIONS

- There has been a continuous increase in net working capital of NM Financiers Pvt. Ltd. It doubled in last 5 years which is a good sign for the company.
- Liquidity position of NM Financiers Pvt. Ltd. is satisfactory & has sufficient working capital to pay off its current liabilities.
- There are enough current assets in NM Financiers Pvt. Ltd. to meet the current liabilities.
- The increasing debtors turnover ratio indicates that the company is collecting its receivables more frequently which is a good sign as this money would lead to increase in working capital.
- The debtors turnover ratio is more than creditors turnover ratio which means company is collecting its receivables more frequently then paying to its creditors which shows companies credibility in the market so they have excess cash which they further provide vehicle loans to their clients and it helps in increasing companies profitability.
- The working capital management of company is good because they use all their resources and excess working capital for further business expansion to earn more profits.
- To know how NM Financiers Pvt. Ltd. deal with their clients and agents.
- To know how communication takes place in the organisation.
- Maintaining EMI collection & Payment of EMI in their erp system "DITTI".

SUGGESTIONS AND RECOMMENDATIONS

- They should also start some other finances (i.e. House loan, Personal loan, Mortgage loan).
- They also focus on expanding their business in urban areas also.
- In 2017-18, the current ratio went up to 2.58. this indicates that company is not efficiently using its current assets. Company should utilize cash in an effective manner so that there are no problems in managing working capital

REFERENCES

www.wikipedia.com

www.investopedia.com

www.nmfinance.net

Financial Statements of NM Financiers Pvt. Ltd.

Chandra. P (1990) **Fundamentals of financial management**. McGraw-Hill Education.