A STUDY ON ACCOUNTS RECEIVABLES MANAGEMENT AT AMARA RAJA POWER SYSTEMS LIMITED

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ABSTRACT

Efficient Accounts Receivables Management (ARM) is crucial for maintaining liquidity and financial stability in any organization. This study examines the receivables management practices of Amara Raja Power Systems Limited, focusing on credit policies, collection efficiency, and their impact on the company's cash flow. The research evaluates key financial indicators such as days' sales outstanding (DSO), aging analysis, and bad debt ratios to understand the effectiveness of their receivables management. Through data analysis and industry benchmarking, the study identifies the strengths and weaknesses of the current system, highlighting areas for improvement. The findings suggest that optimizing credit terms and collection strategies can enhance cash flow efficiency and reduce financial risks. The study concludes with recommendations for improving credit risk assessment, accelerating collections, and implementing digital solutions to streamline receivables management at Amara Raja Power Systems Limited.

I. 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.

II. 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.

III. 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.

IV. 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

V. REVIEW OF LITERATURE

Amara Raja Power Systems Limited (ARPSL) Financial Performance: In 2023, ARPSL underwent significant restructuring, including the transfer of its Home UPS business to Amara Raja Electronics Ltd and its EPC/projects business to Amara Raja Infra Pvt Ltd. Despite these changes, the company experienced a 37% revenue growth in the first nine months of fiscal 2023, driven by increased traction in the Electric Vehicle (EV) and railways sectors. This growth highlights the company's adaptability and effective management of receivables in new business segments. India Infoline+3CRISIL+3Crisil Ratings+3.

a. **Acquisition by Amara Raja Batteries Limited (ARBL)**: In May 2023, ARBL announced the acquisition of 100% stake in ARPSL, aiming to enhance its new energy business vertical, including lithium-ion cells and battery packs, as well as EV chargers. This strategic move is expected to bolster ARPSL's financial stability and receivables management through integration with ARBL's robust financial framework. CRISIL+2Crisil Ratings+2MarketScreener India+2
b. **Impact of Intense Competition**: ARPSL faces intense competition in the EPC business, particularly in executing lower voltage projects. This competitive environment can lead to pricing pressures and potentially affect the company's receivables management, emphasizing the need for efficient credit policies and collection procedures. CRISIL 3
c. **Liquidity Position**: As of May 2020, ARPSL maintained adequate liquidity with access to unutilized bank lines of Rs 60 crore, sufficient to fund monthly fixed expenses of around Rs 4 crore. Such liquidity

positions are vital for managing accounts receivables effectively, ensuring operational stability even amidst financial restructuring. CRISIL+1Crisil Ratings+1

d. **Technological Advancements in AR Management**: The adoption of automation and AI-driven platforms has revolutionized AR management by streamlining invoicing, enhancing customer self-service, and improving cash flow. Businesses leveraging these technologies have reported reduced manual efforts and operational costs, leading to more efficient receivables management.

e. **Case Study in the Pharmaceutical Sector**: A global pharmaceutical leader in India successfully reduced its outstanding AR balance by INR 500 crore through the implementation of an advanced AR tracking system and the First-In, First-Out (FIFO) accounting method. This case exemplifies the effectiveness of strategic AR management practices in improving cash flow and financial stability.

f. **Financial Performance Post-Acquisition**: Following its acquisition by ARBL, ARPSL reported a sub-spatial reduction in revenue and profitability in 2023. Total revenue decreased by 67.71%, and profit declined by 23.14%. These figures underscore the challenges associated with financial restructuring and the importance of effective receivables management during such transitions. Company Check+1MarketScreener India+1.

g. **Future Outlook on AR Management**: By 2025, accounts receivable management is expected to evolve into a fully automated, data-driven process. Businesses are anticipated to leverage AI-powered systems for predictive analytics, forecasting payment behaviors, and suggesting proactive actions to maintain smooth cash flow. NC RI

h. **Integration of Self-Service Portals**: The implementation of self-service portals allows customers to manage their accounts in real-time, offering an intuitive and hassle-free experience. This approach not only enhances customer satisfaction but also contributes to more efficient receivables management.

i. **Adoption of Predictive Analytics**: Utilizing AI-driven predictive analytics helps businesses forecast payment behaviors and identify potential risks, enabling informed decision-making and proactive management of accounts receivables.

j. **Focus on Customer Experience**: Enhancing the customer experience through personalized payment options and automated reminders can lead to improved engagement and reduced delinquencies, thereby optimizing receivables management.

k. **Operational Efficiency through Automation**: Automation in AR processes has been shown to reduce manual efforts by up to 70%, leading to faster payment cycles and enhanced cash flow management. NC RI

VI. DATA ANALYSIS AND DISCUSSION

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
Annual credit sales		31,590.46	29,021.15	32,605.16	39,689.62	39,789.62
Outstanding debtors	1,639.27	1,838.11	3,109.72	2,467.39	1,383.35	1043.79
Amount collected against receivables		**31,391.62**	**27,749.54**	**33,247.49**	**40,773.66**	**40,129.18**
Annual credit purchases		1,075.42	155.08	1,574.49	3,288.27	3,388.27
Outstanding creditors	3,108.67	3,557.46	3,827.41	3,381.69	3,758.62	3,858.62
Amount paid to the creditors		**4,184.09**	**-114.87**	**2,020.21**	**2,911.34**	**3,288.27**
Balance		**27,207.53**	**27,864.41**	**31,227.28**	**37,862.32**	**36,840.91**

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 – 4.1.2. CASH COLLECTED AGAINST RECEIVABLES

(In lakhs)

Year	Annual credit sales	Debtors at the beginning of the year	Debtors at the end of the year	Cash realised against receivables	Percentage of outstanding debtors
2020-2021	31,590.46	1,639.27	1,838.11	31,391.62	0.63
2021-2022	29,021.15	1,838.11	3,109.72	27,749.54	4.38
2022-2023	32,605.16	3,109.72	2,467.39	33,247.49	-1.97
2023-2024	39,689.62	2,467.39	1,383.35	40,773.66	-2.73
2024-2025	39,789.62	1,383.35	1043.79	40,129.18	-0.85

INTERPRETATION; - The above table shows that the cash realized against receivables was steadily increasing from the year 2021-2022 to 2024-2025 the value is (27749.54, 33247.49, and 40773.66). The percentage of outstanding debtors showed fluctuating trend. The percentage of outstanding debtors was high in the year 2021-2022 (4.38). But in the next year 2022-2023 (-1.97) this percentage has been decreased at negative percentage.

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TABLE NO – 4.1.3 DEBTORS TURN OVER RATIO / RECEIVABLES TURNOVER RATIO (In lakhs)

Year	Annual credit sales	Average trade debtors	Debtors turnover ratio(times)
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

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.

TABLE NO – 4.1.4. RECEIVABLES TO WORKING CAPITAL **(In lakhs)**

Year	Receivables	Working capital	Ratio(times)
2020-2021	1,838.11	4,291.90	42.83
2021-2022	3,109.72	5,001.66	62.17
2022-2023	2,467.39	4,657.91	52.97
2023-2024	1,383.35	6,803.46	20.33
2024-2025	1043.79	7,003.46	14.90

INTERPRETATION; - From the above table it is inferred that in all the year a major portion of the working capital was occupied by receivables. The ratio of receivables to working capital has shown an increase (42.83, 62.17) from the year 2020-2021 to 2021-2022. Then it has decreased (52.97, 20.33) from the year 2022-2023 to 2023-2024. 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.

TABLE NO – 4.1.5.RECEIVABLES TO CURRENT ASSETS: (In lakhs)

Year	Receivables	Current assets	Ratio(times)
2020-2021	1,838.11	7,885.65	0.23
2021-2022	3,109.72	8,879.50	0.35
2022-2023	2,467.39	8,167.50	0.30
2023-2024	1,383.35	10,725.94	0.13
2024-2025	1043.79	11,125.94	0.09

INTERPRETATION; - From the above table it is inferred that certain portion of the current assets was occupied by receivables. The ratio of receivables to current assets has shown an increase from 2020-2021 to 2021-2022. Then it decreased from the year 2022-2023 to 2023-2024. It shows that 0.09 is very least during the year 2024-2024.

TABLE NO – 4.1.6.GROWTH OF CREDIT SALES AND RECEIVABLES: (In lakhs)

Year	Credit sales	Growth rate in annual sales	Receivables	Growth rate in annual receivables
2020-2021	31,590.46	-	1,838.11	-
2021-2022	29,021.15	91.87	3,109.72	169.18
2022-2023	32,605.16	112.35	2,467.39	79.34
2023-2024	39,689.62	121.73	1,383.35	56.06
2024-2025	39,789.62	100.25	1043.79	75.45

INTERPRETATION; - The above table shows that the growth rate of the both net sales and receivables has fluctuating during the study period. The annual sales marked a higher growth rate of 121.73% in the year 2023-2024. The receivables showed higher growth rate 169.18% in the year 2021- 2022. The growth rate in annual receivables was in decreasing trend from the study period.

VII. FINDINGS AND RECOMMENDATIONS

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 2020-20121to 2024-2025.

VIII. RECOMMENDATIONS

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 c 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.

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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 finds 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.

IX. CONCLUSION

During the project study period, major department are covered. The receivable management is the key area of the working capital management. The main purpose of the project is to analysis 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 datas 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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