Receivables Management of VIP Industries Ltd

Nayana V.Joshi
Department of Business Administration and Research,
S.S.G.M.C.E. Shegaon.

Nehal M. Gohel
Department of Business Administration and Research,
S.S.G.M.C.E. Shegaon.

Abstract

Working Capital Management plays vital role in keeping the wheels of business running. This paper deals with Working capital component i.e. receivables management of VIP Industries Ltd, Nashik. As VIP Industries is a large scale production unit it needs large Working Capital. So study of receivables management is relevant to this organisation as this is major component of working capital. This paper also measures the efficiency of the company by finding various ratios relating to receivables. The receivables policies of VIP Industries are studied and are compared with industry norms. It was found that receivables policies of VIP Industries are better than industry norms. VIP is able to collect the cash from its debtors in very less time period which is very distinct feature of VIP.

Company Profile

This paper deals with the study conducted at VIP Industries Ltd, which is situated at MIDC,Satpur, Nashik Maharashtra. The mission of the company is Building enriching partnerships, Pride of leadership and Delightful experiences through through innovation in all we do. The values they follow are Entrepreneurship, Innovation, Meritocracy, Youthfulness. Company is a manufacturing unit engages in luggage business and produces items like suitcase, sky bags etc. The objective of this paper is to study the receivables management policies of VIP Industries Ltd, Nashik.

Receivables Management

Accounts receivables constitute a significant portion of the total current assets of the business. They are direct consequence of **"Trade Credit"** which has become an essential marketing tool in modern business. Cash flow can be significantly enhanced if the amounts owing to a business are collected faster.

Accounts Receivables are the debtors or customers who have not yet made payment for the goods or services which the firm has provided. Almost all businesses are required to extend credit to their customers. The objectives of receivables management are to minimize the time gap between completion of sales and receipts of payments.

Debtors due over 90 days (unless within agreed credit terms) should generally demand immediate attention. As per the industrial norms receivables should be collected within 90 days from the date of transaction.

Purpose of receivables:

Achieving growth in sales
Increasing the profits
Meeting competition

The management of accounts receivables consists of followings:

Accounts receivables

Credit policies & terms of sale credit analysis

Receivables Management in VIP industries.

VIP is large manufacturing unit, it sells its product on both on cash basis as well as on credit. Its most of the sales are on cash basis still it is making some sales on credit terms to increase its sales. It is having somewhat liberal credit policies to increase the sales revenue but it is in limited range.

VIP follows the following strategy:
Who owes them money?
How much is owed?
How long it is owing?
For what it is owed?

Credit policy and terms of sales of VIP Industries:

"Credit policy refers to Guidelines that spell out how to decide which customers are sold on open account, the exact payment terms, the limits set on outstanding balances and how to deal with delinquent accounts" it represents the basic criteria for extension of credit to customers. The credit terms refers to the terms under which a firm sells goods on credit to customers.

VIP also considers how much credit it is willing to extend to its customers and under what circumstances. There's no one-size-fits-all credit policy—VIP's policy is based on particular business and cash-flow circumstances, industry standards, current economic conditions, and the degree of risk involved. A credit policy of VIP addresses the following points:

Credit limits: It a limit of credit which is given to customers on the basis of their credit worthiness and the amount of transaction. The creditworthiness of the customers will be decided on the various factors such as analysis of financial status, reputation of customers, records of previous deal with company, quality and character of management.

Credit terms: Credit terms specify the repayments terms required of credit customers. It has three components:

- ✓ **Credit period:** It is the time for which trade credit is extended to customers in the case of credit sales. Normally, company allows credit period of 60 days.
- ✓ **Cash discount:** It is the incentive to customers to make early payments of sum due.
- ✓ **Cash discount period:** The duration of the period during which discount can be availed off.

Credit cards and personal checks: here bank is acts as a guarantor in case of default by customers and for setting the policies for acceptance of personal checks.

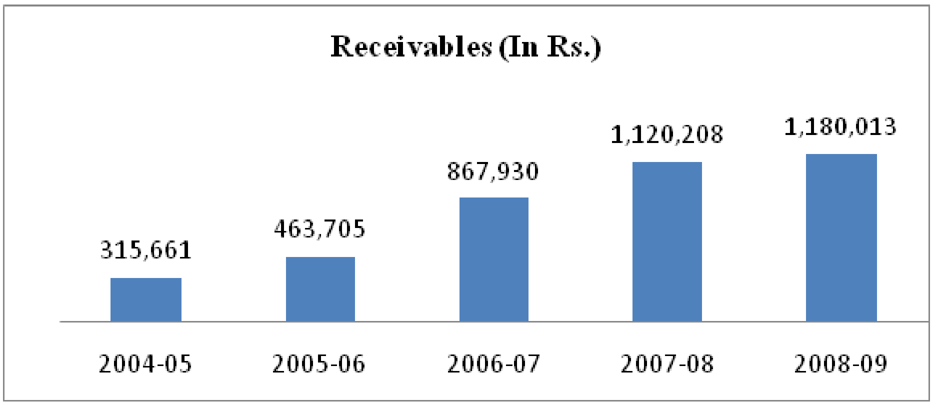
Customer information: Customers' database is maintained on the basis of 5 C's
CHARACTER- Reputation, Track Record
CAPACITY- Ability to repay(earning capacity)
CAPITAL- Financial Position of the customers.
COLLATERAL- The type and kind of assets pledged
CONDITIONS- Economic conditions & competitive factors that may affect the profitability of the customers

Documentation: Credit policy VIP is the design of invoices and statements. The invoice is the document that describes what the customer is being billed for; the statement is the follow-up document that indicates the status of the account. Company is also having documentation which includes sales agreement, credit applications, bill of lading, delivery receipt.

Collection method: For collecting cash from debtors VIP usually takes Steps like Letters, including reminders Telephone call for personal contact Personal visit Help of collection agencies Legal action.

Data analysis: **Receivables**

Years	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Receivables (In Rs.)	**3,15,661**	**4,63,705**	**8,67,930**	**11,20,208**	**11,80,013**



Observations:

The above graph is depicting that there is increase in receivables.

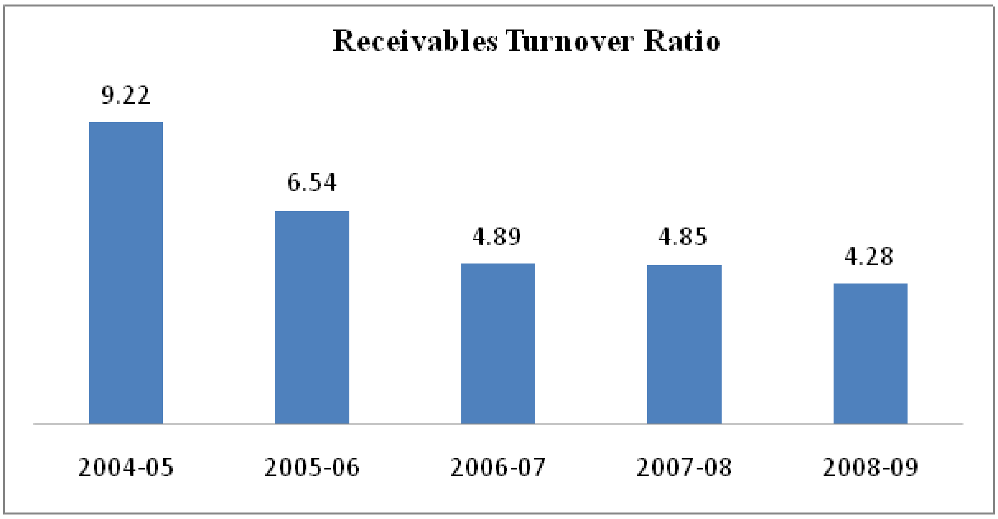
Receivables are increasing because of increase in sales.

Receivables Turnover Ratio: It indicates relationship between net credit sales & receivables. It represents the number of times money owed to a firm on credit is fully collected throughout a year. It shows the efficiency to collect amount due from debtors. A concern may sell its goods on cash as well as on credit to increase its sales. Debtors are expected to be converted into cash within a short period so liquidity position of a concern also depends upon the quality of debtors. Two types of ratio can be calculated to evaluate the quality of debtors.

1 .Receivables Turnover Ratio 2.Average Collection Period

Receivables Turnover Ratio = Total sales\ Average Debtors

Years	2004-05	2005-06	2006-07	2007-08	2008-09
Sales	29,10,606	30,35,579	42,50,547	54,33,270	50,56,134
Receivables	3,15,661	4,63,705	8,67,930	11,20,208	11,80,013
Receivables Turnover Ratio	9.22	6.54	4.89	4.85	4.28



Observations:

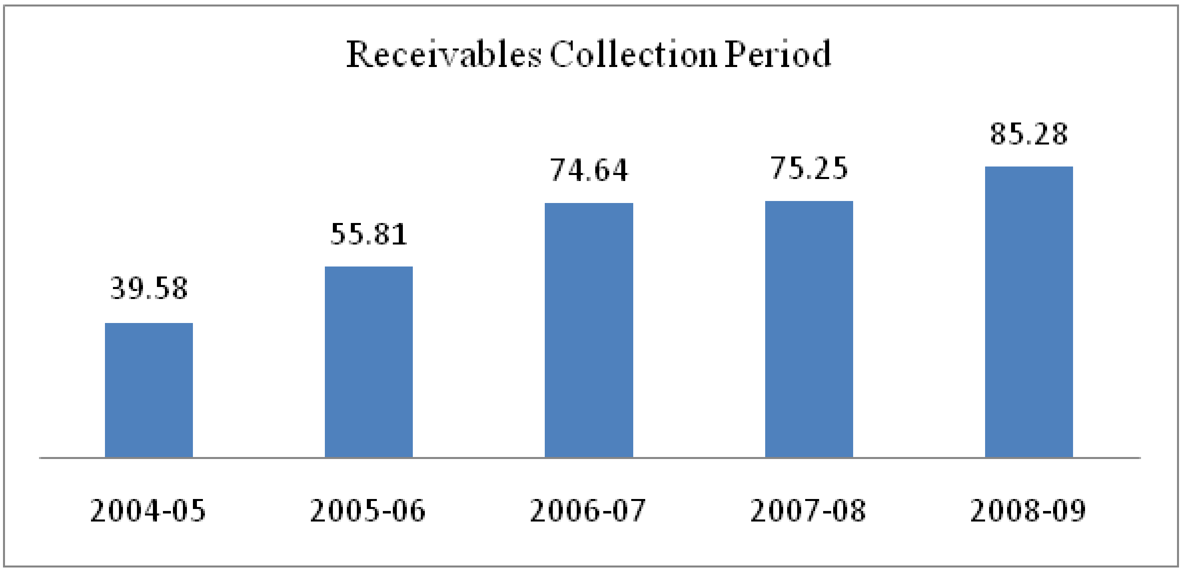
Here the receivables turnover ratio is decreasing over the years. It indicates that business is carried out mostly on cash basis.

There is less credit sales.

Receivables Collection Period: It is a period over which debtors are collected. It shows rapidity or slowness with which money is collected from debtors. It measures the quality of debtors. Generally, shorter the average collection period the better is the quality of debtors as a short collection period implies quick payment by debtors. As industry norms for receivables collection period is 90 days.

Receivables Collection Period (In days) =No of working days\ Debtors Turnover Ratio

Years	2004-05	2005-06	2006-07	2007-08	2008-09
Days	365	365	365	365	365
Receivables Turnover Ratio	9.22	6.54	4.89	4.85	4.28
Average Collection Period	39.58	55.81	74.64	75.25	85.28



Observations:

Collection is made within the 90 days.

Here collection period is increasing over the years.

Findings

Receivables are increasing over the years as sales are increasing. But the proportion of increase in receivables is less than the proportion of increase in sales. Because Debtors of VIP in the form of dealers and these are limited in numbers.

Receivables turnover ratio is decreasing in spite of increase in sales. Receivables are increasing in terms of its volume not in terms of numbers.

Receivables collection period is increasing. But it is within the industry norms because VIP has strong recovery system for receivables. VIP follows the practices like system checks, monthly follow up, documentation and credit limit.

Because of limited credit sales company is able to reduce cost of maintaining debtors like capital cost which is the cost on the use of additional capital to support credit sales which alternatively could have been employed elsewhere and collection cost which is the administrative costs incurred in collecting the accounts receivable. Costs of additional steps to increase the chances for eventful payment.

As there is a limited credit sales and limited debtors so the chances of bad debts are less or negligible because company is following strict and effective credit policies. Ultimately bad debt expenses are also reduced.

Conclusions:

Company is having efficient receivables management policies.

The framework of analysis of all decisions area in receivables management is to secure a trade-off between the costs and benefits off the measurable effects on the sales volume, capital costs due to change in investment in debtors, collection costs, bad debts and so on. The firm should select the alternative which has potentials of more benefits than the cost.

References:

Annual reports of VIP