EVALUATING DEBTORS MANAGEMENT PRACTICES: TECHNIQUES FOR OPTIMIZING ACCOUNTS RECEIVABLE AND MINIMIZING BAD DEBTS WITH REFERENCE TO ULTRATECH CEMENT

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ABSTRACT

Working capital management would be incomplete without debtors management, which entails keeping tabs on and regulating client credit in order to guarantee prompt receivables collection. The effects of good debtors management on a company's liquidity, profitability, and financial stability are the focus of this research. Creditworthiness evaluation, collection processes, receivables turnover analysis, and credit policy design are essential parts.

In order to assess the efficacy of debtor management, the study examines a number of performance indicators, including average collection periods, debtor turnover ratios, and ageing schedules. It delves further into the difficulties of bad debts, delinquent accounts, and finding a balance between increasing credit sales and credit risk. Case studies and real-world data show how important it is to keep receivables at the right level to boost sales without sacrificing cash flow.

According to the research, a company's bottom line and operational efficiency may benefit from improved debtors management practices, which boost cash flow, lower credit risk, and fortify customer relationships.

I. INTRODUCTION

Meaning of Debtor management

Debtor management means the process of decisions relating to the investment in business debtors. In credit selling, it is certain that we have to pay the cost of getting money from debtors and to take some risk of loss due to bad debts. To minimize the loss due to not receiving money from debtors is the main aim of debtor management.

Debtors are people or businesses who owe you money. Proper management of your debtors will help you get paid faster and prevent bad debts. Prompt collection of debtors' accounts will also help you maintain a healthy cash flow.

Giving your customer an invoice or bill after they have supplied a product or service is a way of offering credit, since you have to wait for the payment. By giving your customers time to pay for goods or services already delivered, you are making it easier for them to make purchases. This will increase sales, but will reduce the cash flow critical to your business.

Managing debtors is often referred to as credit management, and includes:

- Collecting debts on time
- Setting credit limits and payment terms
- Making credit applications and credit checks
- Enforcing a clear credit policy
- Considering debtor finance.

Debt management also involves keeping debtor records - this is a legal tax requirement. There are also laws governing how you are allowed to follow up debts with your customers.

Debtor management is central to the effective cash flow of your business. Without an effective debtor control system, you leave your finances vulnerable.

Small-to-medium enterprises are often guilty of failing to establish an appropriate debtor management system. Even if a company simply started with tallying debtor days, it's an important first step in the right direction and a key performance indicator that, ideally, businesses should monitor monthly.

The following guidelines will also help to establish an effective debt management system:

- Ensure all payment arrangements with debtors are always confirmed in writing
- For overdue payments, contact the debtor promptly to confirm they received their invoice
- Create a monthly debtors aged analysis
- Make sure your invoices meet your customers' format requirements
- Create a debtors day outstanding chart to identify potential cash flow improvements if your business could minimize overdue payments

In addition to being proactive about debt management relating to existing clients, it's important for businesses of all sizes to investigate the financial history of prospective clients to ensure they are not high credit risks. Business Credit Express can help. Our industry-leading credit reports can flag poor payment history, which may allow you to offer alternative low-risk payment options, such as upfront payment rather than 30-day credit.

Business Credit Express is a part of Veda (formerly Baycorp Advantage). We utilise Veda's consumer and business information database - the largest of its kind in Australia - in addition to public record data and government information in order to compile our world-class reports.

Need and importance of the study

Debtor's management is one of the key areas of financial decision-making. It is significant because, the management must see that an excessive investment in current assets should protect the company from the problems of stock-out. Current assets will also determine the liquidity position of the firm.

The goal of Debtor's management is to manage the firm current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. If the firm cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may be even forced into bankruptcy.

Scope of the study

The scope of the study is limited to collecting financial data published in the annual reports of the company every year. The analysis is done to suggest the possible solutions. The study is carried out for 5 years .

Debtor's risk is the risk arising from the uncertainty of an obligor's ability to perform its contractual obligations. Credit risk could stem from both on- and off-balance sheet transactions. An institution is also exposed to credit risk from diverse financial instruments such as trade finance products and acceptances, foreign exchange, financial futures, swaps, bonds, options, commitments and guarantees.

OBJECTIVES OF THE STUDY:

- To analysis the Debtor's management of UltraTech Cement Limited
- To find out debtor turnover ratio and average collection period.
- To find out whether it is profitable to extend credit period or reduce credit Period.
- To suggest measures to increase profits.
- How all areas of business are influenced by Credit Risk/ Debtor's management?
- How to manage information to create a volume driven business.

RESEARCH METHODOLOGY

The data used for analysis and interpretation from annual reports of the company.

That is secondary forms of data. DDR, ACP, debit ratios and Increase in credit period analysis are the Techniques used for calculation purpose.

The project is presented by using tables, graphs and with their interpretations.

Primary data:

Primary data is collected from the Execute of the organization

Secondary data:

Secondary data obtained from the annual reports, books, magazines and websites.

LIMITATIONS

- The study is based on only secondary data.
- The period of study was 2020-24 financial years only.
- Another limitation is that of standard ratio with which the actual ratios may be compared generally there is no such ratio, which may be treated as standard for the purpose of comparison because conditions of one concern differ significantly from those of another concern.
- The accuracy and correctness of ratios are totally dependent upon the reliability of the data contained in financial statements on the basis of which ratios are calculated.

II. LITERATURE REVIEW

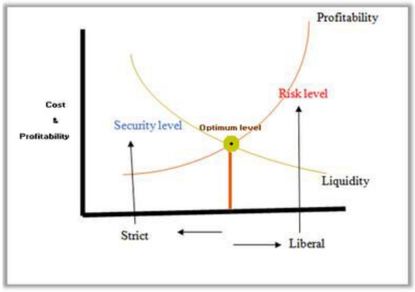
Company can sell the goods on credit or cash. Cash sale is inflow of cash and it is controlled under cash flow analysis. But credit sale creates sundry debtors. Company has to receive money from them. If company starts to sell on return of cash, then it decreases the level of company's sale and profitability. On the other side, if company promotes credit sale, it can increase the risk of bad debts. So, it is required to control and to manage debtors.

Main elements or dimensions of Debtors management

For effective debtor management, following elements should be analyzed

1. Credit policy

Credit policy effects debtor management because it guides management about how to control debtors and how to make balance between liberal and strict credit. If company does not restrict to sell the products on credit after a given limit of sale. This liberated credit policy will increase the amount of sale and profitability. But risk will also increase with increasing of sale. If we sell the good to those debtors whose capability to pay is not good, then it is possible that some amount will become bad debts. Company can increase the time limit for paying by such debtors. On the other hand, if company's credit policy is strict, then it will increase liquidity and security, but decrease the profitability. So, finance manager should make credit policy at **optimum level** where **profitability** and **liquidity** will be equal. We can show it graphically.



Sub part of credit policy

(a) Length of Credit period

Length of credit period is also an element that affects decisions of finance manager relating to manage debtors. It is the time which allows to debtor to pay his debt for purchasing goods on credit from vendor. Finance manager can increase the length of 2credit period according to reputation of customers.

(b) Cash discount

Cash discount is technique to get money fastly from debtors. It is cost of investment in credit sale.

2. Credit policy analysis

It means decision relating to analysis of credit policy. Evaluation and analysis of credit policy is based on following factors.

a) Collection of debtor's information

For analysis the financial position of debtors, we have to collect the information relating to debtors. This information can be obtained from customer's financial statements of previous years, bank reports, and information given by credit rating agencies. These information will be useful for deciding where debtors will our debt or not. It will also be useful for knowing capability to pay the debt.

b) Credit Decisions

After collection and analysis the debtor's information, manager has to decide whether company should facilitate to sell goods on credit or not. If company sells the goods on credit to particular debtor, then at what level it will be sold after seeing his position. For this manager can fix the standard for providing goods on credit. If a particular debtor is below than given standard, then he should not accept his proposal of buying goods on credit.

3. Formulation Collection Policy

For getting fund fastly from debtor, the following steps will be taken under formulation of collection policy.

a) Send reminding letter for paying debt

b) Take the help of debt collection agency for getting bad debt.

c) To do legal action against bad debtors.

d) To request personally to debtor to pay his dues on mobile or email.

e) Finance manager should monitor collection position through average collection period from past sundry debtor and their turnover ratio.

f) To make ageing schedule. Sample of Ageing schedule is given below.

Good risk management at a strategic level helps protect an organization's reputation, safeguard against financial loss, minimize disruption to services and increase the likelihood of achieving business objectives successfully.

This also gives assurance on how an organization's business is managed and at the same time will satisfy any compliance requirements of the organization, where an internal control mechanism is established. Internal control includes:

- The establishment of clear business objectives, standards, processes and procedures
- Clear definition of responsibilities
- Measurement of inputs, outputs and performance outcomes in relation to objectives
- Performance Management
- Financial controls over expenditure and budget.

CONTROL ON CREDIT MANAGEMENT

The investment in accounts should be within accepted level. To achieve this, control measures are needed so that when actual fall outside the prescribed range, corrective actions can be taken. In controlling accounts receivables certain techniques are adopted. Three such techniques are described below. These are Debtor's turnover ratio(DTR) Debtors turnover ratio refers to ratio of sales to accounts receivable (sundry debtors plus bills receivables). The accounts receivables may be closing figure, or average of year beginning and year-end figures or average of monthly opening and closing figures. An acceptable range for the ratio is within this band, is all right. if the actual DTR is less than 5 , it means more money is locked up in accounts receivables. Either sales have slumped relative to size of debtors, or debtors have risen to sales. If the ratio exceeds the upper hand, it means customers promptly pay willingly or buy over force. It is good.

Debtor's velocity:

Debtors velocity refers to how much many days sales are outstanding with the customers. This is given by: accounts receivables/ per day credit sales. If fact, debtors velocity Indicates the average collection period allowed, everything is fine. If it exceeds the Credit period allowed, which should be corrected. If ACP is less than credit allowed, it Can be considered as good, debtors velocity can be computed ,this vary also, that: number of working days in the year/DTR.

Age of debtors :

Age of debtors refers how long debts are outstanding. Say 10% of accounts receivables is 6 months old,15% is 5 months old,25% is 4 months old,25% is 3% months old,15% is 2 months i.e., 15% is 2 months old and 10% is 1 month old. The average age of debtors comes to: 6+75+100+75+3+1=3.5 months. An ideal break up of accounts receivables can be establishes and actual position is monitored accordingly. The idle average age and actual average age of accounts receivables can be compared and control is exercised on accounts receivables.

CREDIT ANALYSIS

It is the method by which one calculates the creditworthiness of a business or organization. The audited financial statements of a large company might be analyzed when it issues or has issued bonds. Or, a bank may analyze the financial statements of a small business before making or renewing a commercial loan. The term refers to either case, whether the business is large or small.Credit analysis involves a wide variety of financial analysis techniques, including ratio and trend analysis as well as the creation of projections and a detailed analysis of cash flows. Credit analysis also includes an examination of collateral and other sources of repayment as well as credit history and management ability.Before approving a commercial loan, a bank will look at all of these factors with the primary emphasis being the cash flow of the borrower. A typical measurement of repayment ability is the debt service coverage ratio. A credit analyst at a bank will measure the cash generated by a business (before interest expense and excluding Depreciation and any other non-cash or extraordinary expenses). The debt service coverage ratio divides this cash flow amount by the debt service (both principal and interest payments on all loans) that will be required to be met. Bankers like to see debt service coverage of at least 120 percent. In other words, the debt service coverage ratio should be 1.2 or higher to show that an extra cushion exists and that the business can afford its debt requirements.

CREDIT CONTROL

Policies aimed at serving the dual purpose of (1) increasing sales revenue by extending credit to customers who are deemed a good credit risk, and (2) minimizing risk of loss from bad debts by restricting or denying credit to customers who are not a good credit risk. Effectiveness of credit control lies in procedures employed for judging a prospect's creditworthiness, rather than in procedures used in extracting the owed money. Also called credit management. People have become increasingly dependent on credit. Therefore, it's crucial that you understand personal credit reports and your credit rating (or score). Here we'll explore what a credit score is, how it is determined, why it is important and, finally, some tips to acquire and maintain good credit.

CREDIT POLICY

What kinds of terms should I offer? Standard terms are usually payment within 7, 14, or 30 days after the invoice date. Don't be afraid to set your own terms, such as 50% deposit upfront or COD. Other ideas might be discounts for payment upfront, pay on invoice date etc.

The longer the term gives more reasons for invoices to go missing or be forgotten. Shorten your trading terms. Remember also to include your payment terms when quoting or attempting to make a sale. The more you mention this point, the more likely you will be paid on time.

How would I like to be paid? Your business should make all payments available or importantly, offer the ways in which your customer wants to pay. When considering this, be sure to keep up to speed with the bank fees and charges for transactions such as credit cards, surcharges may have to be included for some. For larger bills look into finance options. We use premium funding to allow our clients to spread our invoices over a longer period of time to releive their cash burden.

Always include all the available payment methods on the invoice. Bank account details for direct debit, include an area where customers can place their credit card details and return.

How should I deal with late payments? Try to be, within reason, as accommodating as possible. Your policy should be clear to all customers and staff. Consequences should be metered out when deserved and a set time frame for legal action for delinquent debtors. This may take the form of withholding goods/services, not processing orders and in some cases, legal action.

The objectives of the debt management policy are to:

Increase the level of compliance in the payment of debt by limiting the total value of debt, the number of debtors and ageing of debt outstanding.

Maximise debt resolution by the pursuit of debt in a sensible, cost efficient, effective and timely manner. Ensure all debt is managed, inclusive of debts is sourced by virtue of a service level agreement, is adequately monitored, reported and controlled. Maintain high standards of client service.

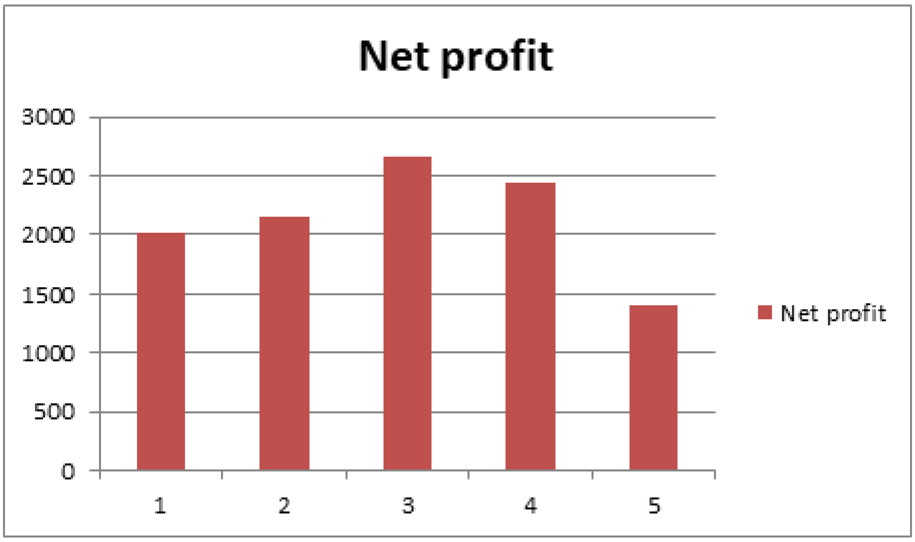
The key principle of debt management is the early detection, reporting and pursuit of all debt.

The policy is to be applied consistently across all fees& charges, maintaining ethical, fair and sensible credit administration.

III. DATA ANALYSIS AND INTERPRETATION

DTR from 2020 to 2024 are :-

Year	DTR
2020	21.92
2021	23.85
2022	19.83
2023	15.83
2024	19.06

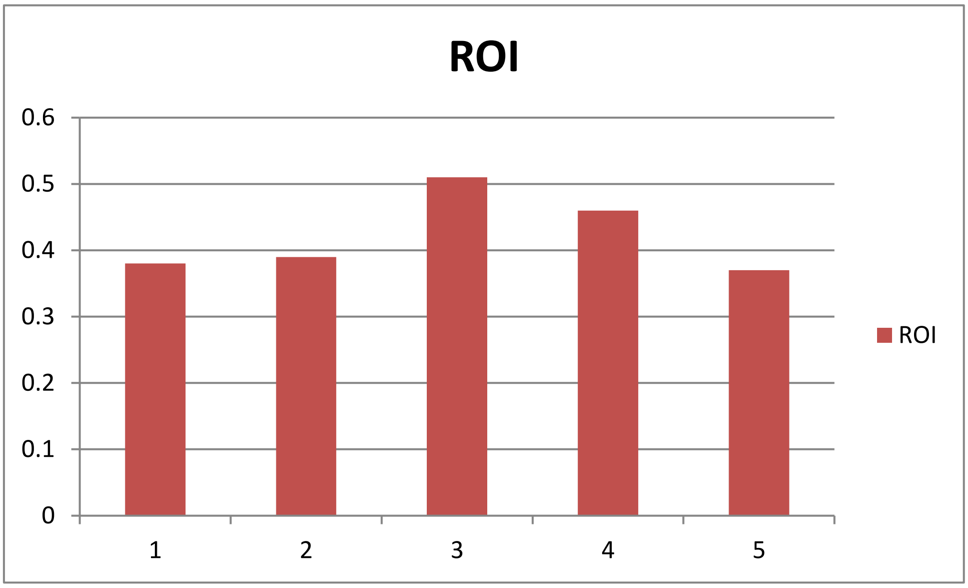


Interpretation:

The Debtors turnover ratio of **Ultratech cements** is in the fluctuation stage because the increase and decreased in debtors to the total sales. In the current year i.e. 2024 the ratio is 19.06.

ACP from 2020 to 2024 are :-

Year	ACP
2020	16.41
2021	15.09
2022	18.15
2023	22.74
2024	18.88



Interpretation:

The Average collection period of Ultratech cements in the year 2020 was very high as compared with all the years. As compared with the credit sales to the ratio in the year 2024 was 18.88.

CALCULATION OF INCREASE IN CREDIT PERIOD: -

Calculation for 2020: -

Statement of increase in credit period

PARTICULARS	EXISTING	DAYS (+15%)	DAYS (-10%)
A) Credit period	90	100	80
B) Annual sales	427,752,546.23	641,628,810.935	427,752,540.623
C) Levels of receivables (at sales value) (Ax)	106,938,136.557	178,230,225.272	99,056,120.138
D) Incremental investment in receivables (C-133,741,255.862)	-	71,292,088.715	(78,820,160.419)
E) Assume incremental profit @ 20% (0.20x D)	-	14,258,417.743	(15,764,032.083)

Calculation for 2021: -

Statement of increase in credit period

PARTICULARS	EXISTING	DAYS (+15%)	DAYS (-10%)
A) Credit period	90	100	80
B) Annual sales	18270.69	21011.29	427,752,540.623

C) Levels of receivables (at sales value) (Ax)	4567.67	5836.47	3654.13
D) Incremental investment in receivables (C-133,741,255.862)	-	1268.80	(913.53)
E) Assume incremental profit @ 20% (0.20x D)	-	253.76	(182.70)

Calculation for 2022: -

Statement of increase in credit period

PARTICULARS	EXISTING	DAYS (+15%)	DAYS (-10%)
A) Credit period	90	100	80
B) Annual sales	20174.94	23201.18	18157.45
C) Levels of receivables (at sales value) (Ax)	5043.73	6444.77	4034.98
D) Incremental investment in receivables (C-5043.73)	-	1401.04	(1008.75)
E) Assume incremental profit @ 20% (0.20x D)	-	280.20	(201.75)

Calculation for 2023: -

Statement of increase in credit period

PARTICULARS	EXISTING	DAYS (+15%)	DAYS (-10%)
A) Credit period	90	100	80
B) Annual sales	20279.80	23321.77	18251.82
C) Levels of receivables (at sales value) (Ax)	5069.95	5633.27	4506.62
D) Incremental investment in receivables (C-5069.95)	-	563.32	(563.33)
E) Assume incremental profit @ 20% (0.20x D)	-	112.66	(112.68)

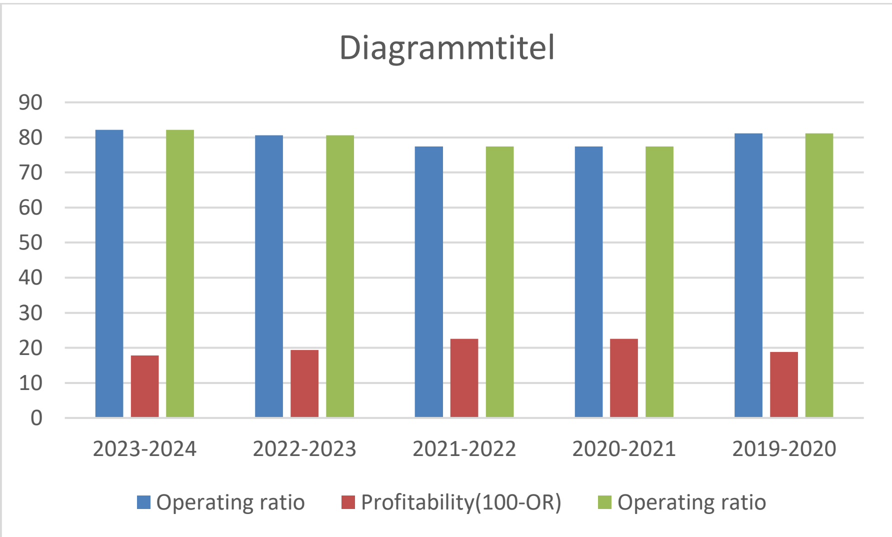
Calculation for 2024: -

Statement of increase in credit period

PARTICULARS	EXISTING	DAYS (+15%)	DAYS (-10%)
A) Credit period	90	100	80
B) Annual sales	22936.17	26376.59	20642.55
C) Levels of receivables (at sales value) (Ax)	5734.04	6371.15	5096.92
D) Incremental investment in receivables (C-5734.04)	-	636.75	(637.12)
E) Assume incremental profit @ 20% (0.20x D)	-	127.35	(127.42)

Net profit \net sales

Year	Net profit	Net sales	Net profit ratio
2023-2024	**2015.73**	**22936.17**	**8.7840733**
2022-2023	**2144.47**	**20279.80**	**10.5744139**
2021-2022	**2655.43**	**20174.94**	**13.1620217**
2020-2021	**2446.19**	**18270.69**	**13.3886022**
2019-2020	**1404.23**	**13205.64**	**10.6335626**

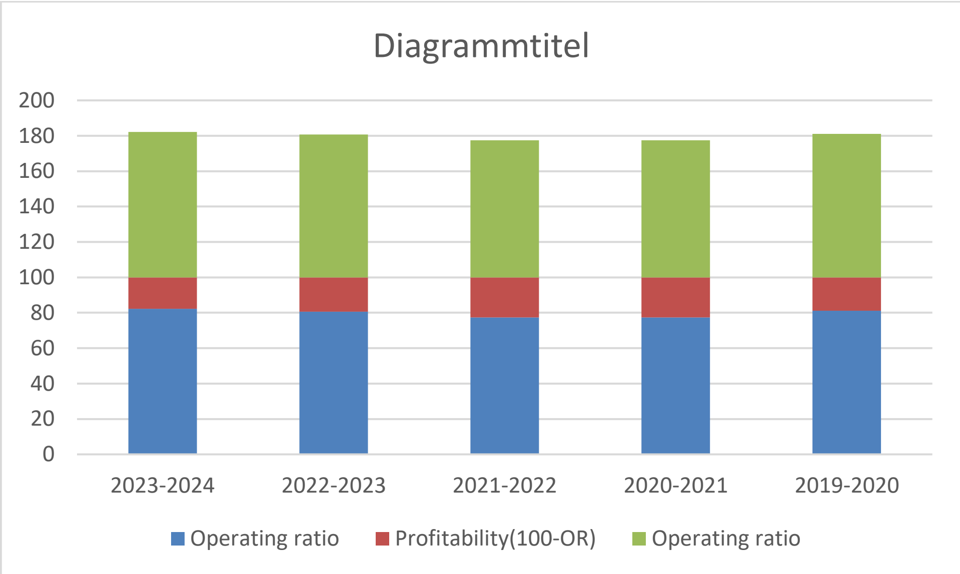


Interpretation:

The net profit of the company is in the decreasing position because of the expenses in the industry are increased the net profit will be in decreasing position in the yare 2019-2020.

Operating ratio:
Operating expenses\Net sales

Year	Operating Expenses	Net sales	Operating ratio
2023-2024	18851.20	22936.17	82.18
2022-2023	16354.92	20279.80	80.64
2021-2022	15617.65	20174.94	77.42
2020-2021	14144.45	18270.69	77.41
2019-2020	10718.55	13205.64	81.16

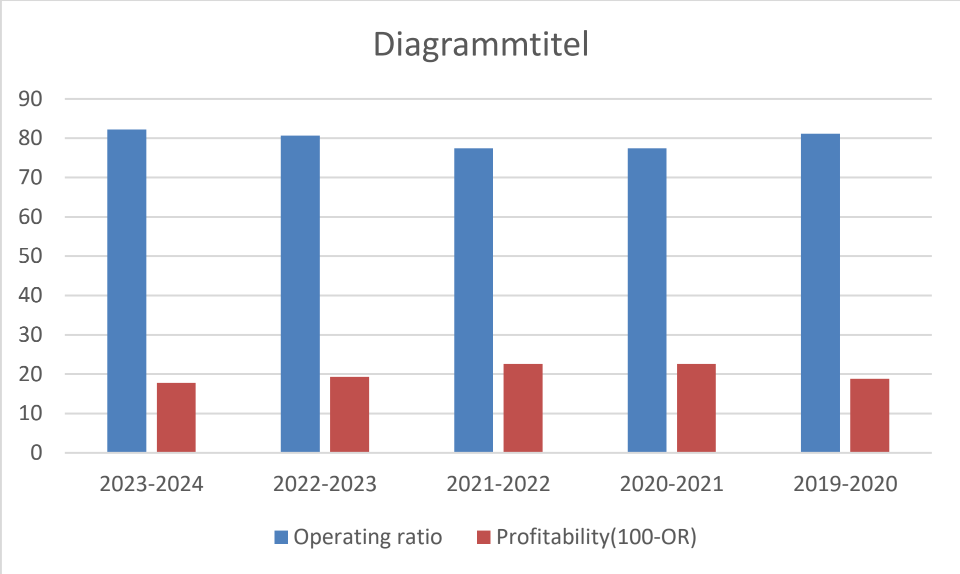


Interpretation:

The **operating ratio** is a financial term defined as a company's operating expenses as a percentage of revenue. This financial ratio is most commonly used for industries which require a large percentage of revenues to maintain operations in the year 2020-2024.

Profitability = (100-Operating ratio %)

Year	Operating ratio	Profitability(100-OR)
2023-2024	82.18	17.81
2022-2023	80.64	19.36
2021-2022	77.42	22.58
2020-2021	77.41	22.59
2019-2020	81.16	18.84



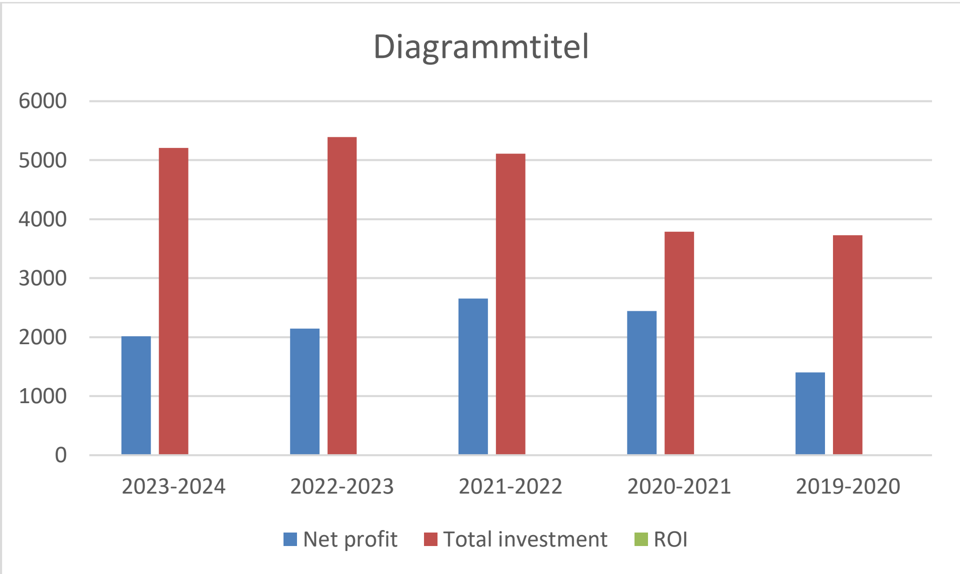
Interpretation:

Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important and it is high in **Ultratech cements limited**.

Return on investment:

Net profit/Total investment

Year	Net profit	Total investment	ROI
2023-2024	2015.73	5208.75	0.38
2022-2023	2144.47	5391.67	0.39
2021-2022	2655.43	5108.72	0.51
2020-2021	2446.19	3788.77	0.46
2019-2020	1404.23	3730.32	0.37



Interpretation:

A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment has been increased to 2020-2024.

FINDINGS

1. The **Ultratech cements limited** net capital is satisfactory between the years 2022-23 since it shows decreasing trend; but after that it is in declining position.
2. The current ratio of **Ultratech cements limited** is satisfactory during the period of study 2019-2020 to 2022-23. It is increased but after that it is declining.
3. Debtor's turnover ratio increasing every year from 2020-2024.
4. Average collection period decreasing every year from 2020-2024.
5. The scenario analysis was conducted assuming credit period to be 80 days and 100 days. The result should that while credit period is 100 days the company is getting profits. When the credit period is 80 days the company is getting losses.
6. Assets turnover ratio of **Ultratech cements limited** increased. The company has to maintain this.
7. Average collection period decreasing every year from 2020-2024.
8. Based on the report it is concluded that credit policies are decided by zonal manager so, powers are centralized.
9. Credit standards are determined based on economic conditions.
10. Credit is 90 days and if credit is paid before that period the company will give cash discount.

SUGGESTIONS

- It is suggested to management to increase credit period to 100 days. So that
- company can earn profits.
- It is suggested to management to offer more incentives for prompt payment of
- credit. So that receivables are paid promptly by dealers.
- In management can be little ie bit liberal in credit policies so that more profits are
- achieved.
- Relaxing credit standards will enable to increases the customers.
- The process that was being used by **Ultratech cements limited** with the purchasing department should undergo changes; so that, it seeks enhance the celerity of the delivery of a product without compromising its quality by improving the utilization of materials, labor and equipment.

CONCLUSIONS

Credit risk management is still a new field, but it has developed quickly. The best defence against credit risk losses is a combination of thorough credit risk rules and better methods of measuring and reporting risk. Legal and operational risk management strategies are superior, with collateral offering the most effective financial risk reduction. Financial protection against default is available via credit insurance and credit default swaps, but the costs of these options should be weighed against the advantages of decreasing the risk they are designed to minimise.

We think a new strategy is required, and it should consist of two halves, due to these limits. We propose that the regulatory capital regime should first aim to determine the regulatory equity at risk, a measure of a company's earnings susceptibility to stress losses, and then set a capital requirement high enough to guarantee the company can weather a stress event and stay solvent during the work out period. Secondly, we contend that the business's liquidity management mechanisms need greater direct regulatory supervision, since they, and not capital, are the principal defence against stress events that can impact the firm.

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