
# Working Capital Management
# of United Power Generation Limited

Internship Report

On

# Working Capital Management of United Power Generation Limited

**Submitted to:**

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Program: BBA

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# Letter of Transmittal

December 28, 2024

Mr. Muhammad Enamul Haque
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**Subject:** Submission of Internship Report on " Working Capital Management of United Power Generation Limited"

Dear Sir,

I want to take this opportunity to thank you for your significant contributions in compiling the Project paper report on the topic of "Working Capital Management of United Power Generation Limited". This internship report was prepared as the requirement of the BBA program. Working under your leadership was a delightful and prestigious experience. I am deeply grateful for the opportunity given to me and for the invaluable support and guidance provided in conducting the analysis and completing the study.

Throughout the preparation of the report, I have made sincere efforts to include all the necessary aspects to fulfill your expectations. I humbly request your compassion and forgiveness regarding any possible shortcomings in this work.

Sincerely yours

Mahir Abid
ID: 111 151 161
United International University

# Acknowledgement

First and foremost, I would like to thank almighty Allah for giving me the power & capability to prepare and finish the internship with an extended time frame. I am eternally grateful & will express my sincere gratitude to my highly regarded supervisor, Muhammad Enamul Haque, Assistant Professor, United International University. His invaluable guidance, instructions, and recommendations about the design and revision of the study on the chosen topic have played a crucial role in its development. Additionally, I would want to commend my department for offering crucial chances, tools, and assistance. These factors were crucial in successfully completing the regular courses of the BBA program and the corresponding report.

# Executive Summary

The purpose of this study is to give a comprehensive examination of the working capital management at United Power Generation from the years 2019 to 2023. Both the current ratio and the quick ratio provided evidence that the company's liquidity saw considerable shifts over the course of a period of five years. After reaching their highest point in the year 2020, both ratios saw a drop because of temporary liquidity issues.

An upward trend in the inventory turnover ratio is indicative of greater inventory management and more sales from inventory, both of which are favorable indicators of the efficiency of the operations. The swings that occurred in the accounts receivable turnover ratio were evidence that the organization was able to collect receivables in an effective manner. Additionally, the accounts payable turnover ratio shifted in response to the organization's payment procedures and the connections it maintained with its suppliers. The ups and downs seen in United Power Generation's cash conversion cycle indicate that the firm may benefit from examining its day-to-day activities to improve its financial management.

While the rising current liability ratio indicated higher short-term debts, negative working capital to debt ratios expressed worries about satisfying short-term obligations. A more effective financial management of daily operations is indicated by variations in the cash conversion cycle.

In summary, the analysis highlights the importance of efficient working capital management for maintaining United Power Generation's financial stability. The analysis focuses on identifying strengths and areas for improvement in managing short-term liquidity and operational efficiency.

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# CHAPTER 1: INTRODUCTION

# INTRODUCTION

For every organization, managing short-term assets and obligations is essential to ensuring stable finances and efficient operations. This is known as working capital management. Management of a company's working capital that is effective is essential since it has a direct influence on the liquidity, profitability, and overall financial health of the business.

This chapter introduces the importance of working capital management and its applicability to the financial performance of businesses. In addition to providing an overview of United Power Generation, a significant participant in the energy industry, it emphasizes the significance of conducting an analysis of the organization's practices regarding the management of its working capital.

## 1.1 Origin of the Report

This study was conducted under the supervision of Mr. Muhammad Enamul Haque, who instructed a complete financial analysis of working capital management of United Power Generation & Distribution Company Ltd. (UPGDCL) for the previous five years. The purpose is to assess the company's financial performance in light of current market conditions and industry developments. This thesis report seeks to give a detailed assessment of UPGDCL's financial health, identifying areas of strength and potential improvement to aid strategic planning and decision-making to maintain long-term growth and competitiveness in the power generating and distribution industry.

## 1.2 Objective of the Report

The key goal of this study is to examine how United Power Generation handles its short-term working capital throughout the course of a period of five years, beginning in 2019 and ending in 2023. Through the use of a wide variety of financial metrics and performance indicators, the purpose of this investigation is to achieve the aim of evaluating the liquidity, efficiency, and overall financial well-being of the organization.

## 1.3 Methodology of the Report

As part of the study, financial data from has been collected and analyzed from the annual reports and financial statements of United Power Generation & Distribution Company Ltd. In addition, qualitative analysis has also been conducted to provide context to the quantitative data and present a comprehensive view of the company's working capital management processes.

## 1.4 Limitations of the Report

It is crucial to recognize certain limitations that come with this report. These limitations may involve the availability of data, the accuracy of financial statements, and the challenges of managing working capital in a dynamic business environment. In addition, the analysis may be influenced by other factors such as changes in regulations, market dynamics, and economic volatility. Despite these problems, attempts will be made to make sure that the study results are reliable and valid.

# CHAPTER 2: OVERVIEW OF THE COMPANY

# OVERVIEW OF THE COMPANY

United electricity Generation & Distribution Company Limited (UPGDCL) is a major operator in Bangladesh's electricity generation and distribution industry. Established with the goal of meeting the country's growing energy demands, UPGDCL has achieved immense success in expanding its capacity and assuring a consistent supply of electricity to both industrial and residential customers. The corporation operates various power plants that are strategically positioned to service vital industrial zones and urban areas, so contributing significantly to the nation's economic development.

UPGDCL's primary business is the generation and distribution of electricity. To maintain high power production standards, the organization relies on innovative technology and effective operational processes. By using its strong infrastructure and professional workers, UPGDCL has achieved a high degree of operational efficiency, assuring a consistent and reliable supply of electricity. The company's distribution network is intended to reduce transmission losses while increasing the reliability of electricity delivery to end users.

Over the last five years, UPGDCL has shown good financial performance, with sustained sales growth and profitability. The company's financial health is supported by smart investments in infrastructure, technology, and human capital. UPGDCL's financial statements show a healthy balance sheet with significant assets and manageable liabilities, demonstrating a good ability to meet both short- and long-term obligations. The company's financial management processes have been designed to ensure liquidity, optimize capital structure, and increase shareholder value.

UPGDCL has launched many strategic initiatives aimed at increasing its operational capabilities and market reach. These projects include the construction of new power plants, upgrades to existing facilities, and the implementation of cutting-edge technologies to boost efficiency and sustainability. Furthermore, the company has focused on diversifying its energy sources, including the exploration of renewable energy solutions, in order to lower its carbon footprint and improve environmental sustainability.

UPGDCL has undertaken numerous strategic initiatives targeted at expanding its operational capabilities and market reach. These initiatives include building new power plants, upgrading existing facilities, and implementing cutting-edge technology to improve efficiency and sustainability. Furthermore, the company has concentrated on diversifying its energy sources,

including the investigation of renewable energy solutions, in order to reduce its carbon footprint and promote environmental sustainability.

In conclusion, UPGDCL's strong business strategy, strong financial performance, and commitment to corporate governance and sustainability highlight its importance as a vital participant in Bangladesh's energy sector, pushing progress and encouraging economic growth.

# CHAPTER 3: ANALYSIS AND FINDINGS

# ANALYSIS AND FINDINGS

United Power Generation & Distribution Company Ltd.'s (UPGDCL) five-year financial performance has been analyzed in this part. This investigation will examine UPGDCL's working capital management, which affects its financial health. Working capital management financial measures can reveal UPGDCL's liquidity, resource efficiency, and capacity to handle the changing economy. The investigation will reveal the company's ability to meet short-term financial obligations including supplier payments and debt repayments. UPGDCL's efficiency in managing short-term assets and liabilities will also be assessed to determine its operational performance and financial resilience in the face of market uncertainty.

This report will guide stakeholders' financial decisions and provide useful insights into UPGDCL's trajectory.

The ratios that have been used to analyze the company’s working capital managements are given below:

1. Current Ratio
2. Quick Ratio
3. Working Capital Turnover Ratio
4. Inventory Turnover Ratio
5. Accounts Receivable Turnover Ratio
6. Accounts Payable Turnover Ratio
7. Days Inventory Outstanding (DIO)
8. Days Sales Outstanding (DSO)
9. Days Payable Outstanding (DPO)
10. Cash Conversion Cycle (CCC)
11. Working Capital to Debt Ratio
12. Current Liability Ratio
13. Defensive Interval Ratio

## 3.1 Current Ratio

As a liquidity ratio, the current ratio assesses the capacity of an organization to settle its immediate obligations using its short-term assets. It offers an assessment of the immediate financial well-being of a company and its capacity to fulfill immediate financial commitments. The current ratio of an organization can be calculated by dividing its current assets by its current liabilities.

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

First of all, the total current assets, and current liabilities of the company over the last five years have been collected. Then using this, current ratios for each year have been calculated.

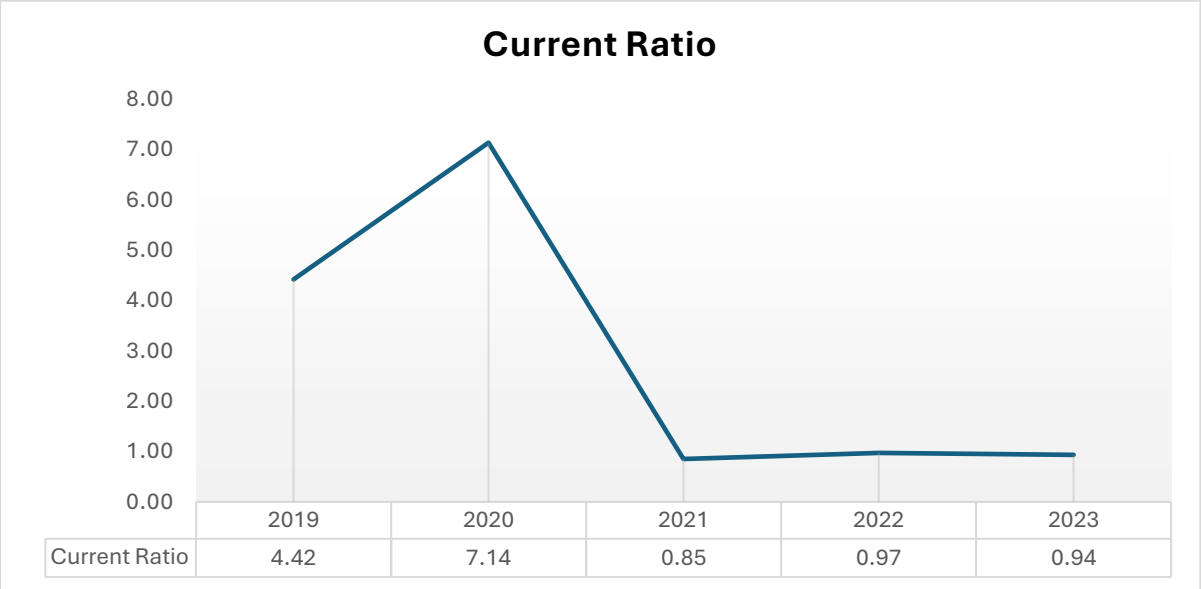



*Figure 1: Current Ratio*

According to the given statistics, United Power Generation & Distribution Company Ltd. (UPGDCL) had varying current ratios over the five-year period. In 2020, the ratio reached its highest point and then decreased, suggesting fluctuations in the company's immediate ability to meet its financial obligations. The sharp decrease can be the result of taking a huge amount of short-term loans in the year 2021. Additional examination is required to comprehend the elements that are causing these variations and to evaluate the company's capacity to properly fulfill its immediate responsibilities.

## 3.2 Quick Ratio

A liquidity ratio that assesses a company's capacity to pay its short-term commitments with its most liquid assets is called the quick ratio. This ratio is sometimes referred to as the acid-test ratio. Inventory is not included in the calculation of current assets in the quick ratio, in contrast to the current ratio. This is due to the fact that inventory may not be readily turned into cash in the short term. Prepaid expenses are also not included for the same reason.

$$Quick\ Ratio = \frac{Current\ Assets - (Inventory + Prepaid\ expenses)}{Current\ Liabilities}$$

Let us investigate the quick ratios of the company for the last five years:

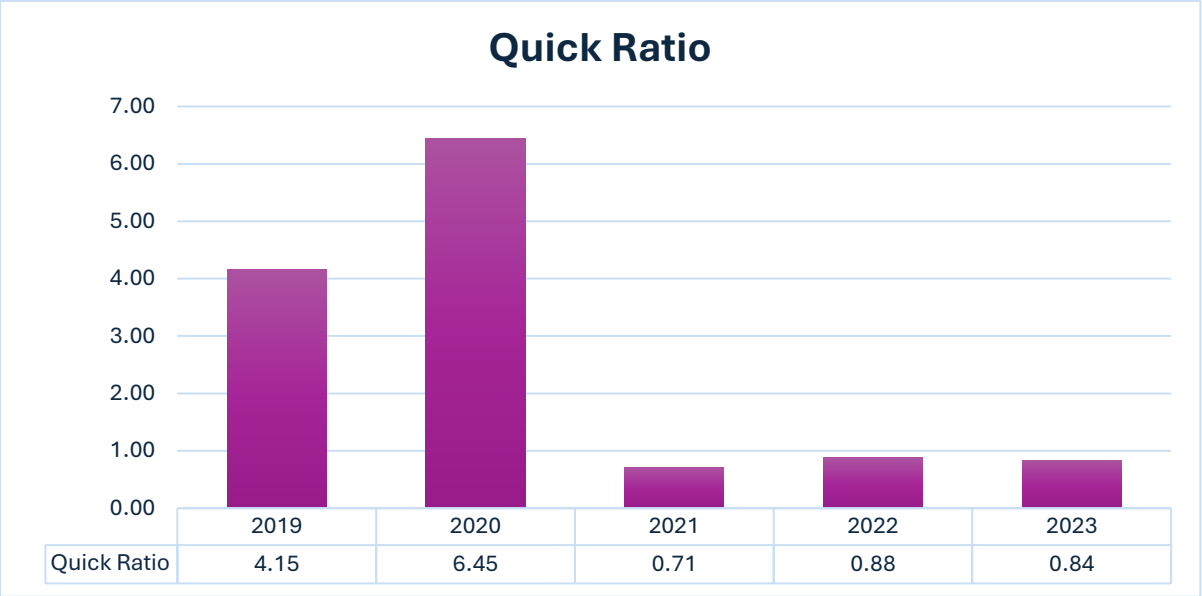



*Figure 2: Quick Ratio*

By looking at UPGDCL's quick ratio over the last five years, we can see how the company's capacity to cover its short-term debts with its liquid assets has changed. Nevertheless, though it was doing fairly good in the first 2 years, there was a decrease in the ratio in the years that followed, which might indicate difficulties in sustaining short-term liquidity independent of inventories.

## 3.3 Working Capital Turnover Ratio

The working capital turnover ratio is a metric that identify how well a firm is able to convert its working capital into revenue from sales. In respect to the operations of the company's sales department, this indicator demonstrates how well the company is managing its working capital.

Working capital is defined as the difference between a company's current assets and current liabilities over a specific period of time. This difference is referred to as the average working capital.

$$Working\ Capital\ Turnover\ Ratio = \frac{Net\ Sales}{Average\ Working\ Capital}$$

The given figure shows the working capital turnover ratio of the company for the last five years:

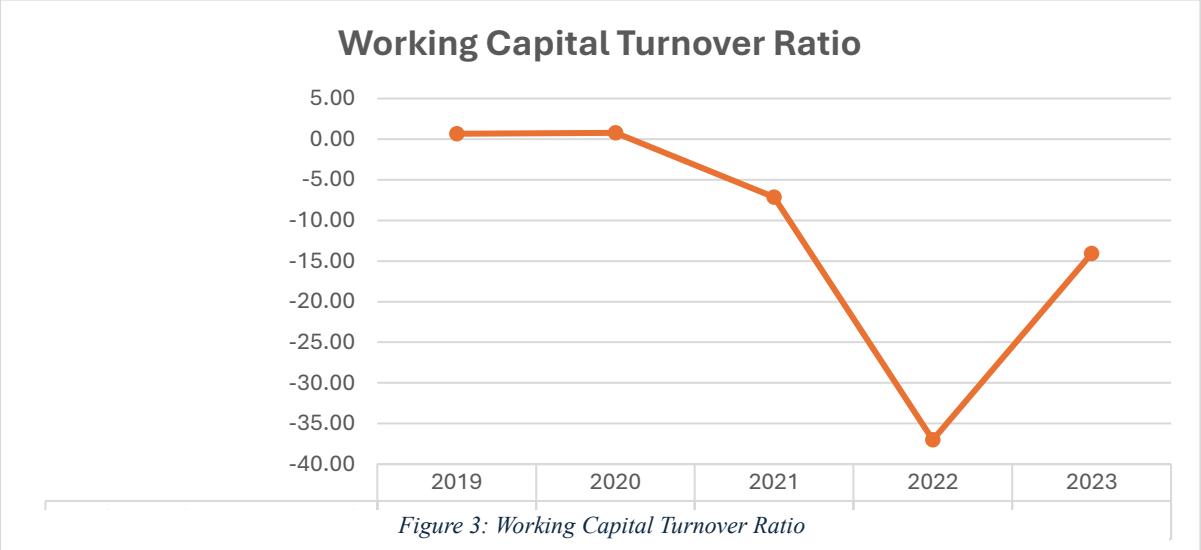



*Figure 3: Working Capital Turnover Ratio*

An examination of the working capital turnover ratio of United Power Generation & Distribution Company Ltd. (UPGDCL) during the previous five years unveils an unstable journey. The ratio increased from 0.67 in 2019 to 0.78 in 2020 and then declines to -7.15 in 2021, suggesting possible inefficiencies in the utilization of working capital. Subsequent years, however, witnessed an improvement, as the ratio rebounded to -37.02 in 2022 & -14.05 in 2023. The fluctuating nature of this trend highlights the criticality for UPGDCL to confront fundamental concerns that affect its working capital management to guarantee long-term financial viability and operational effectiveness.

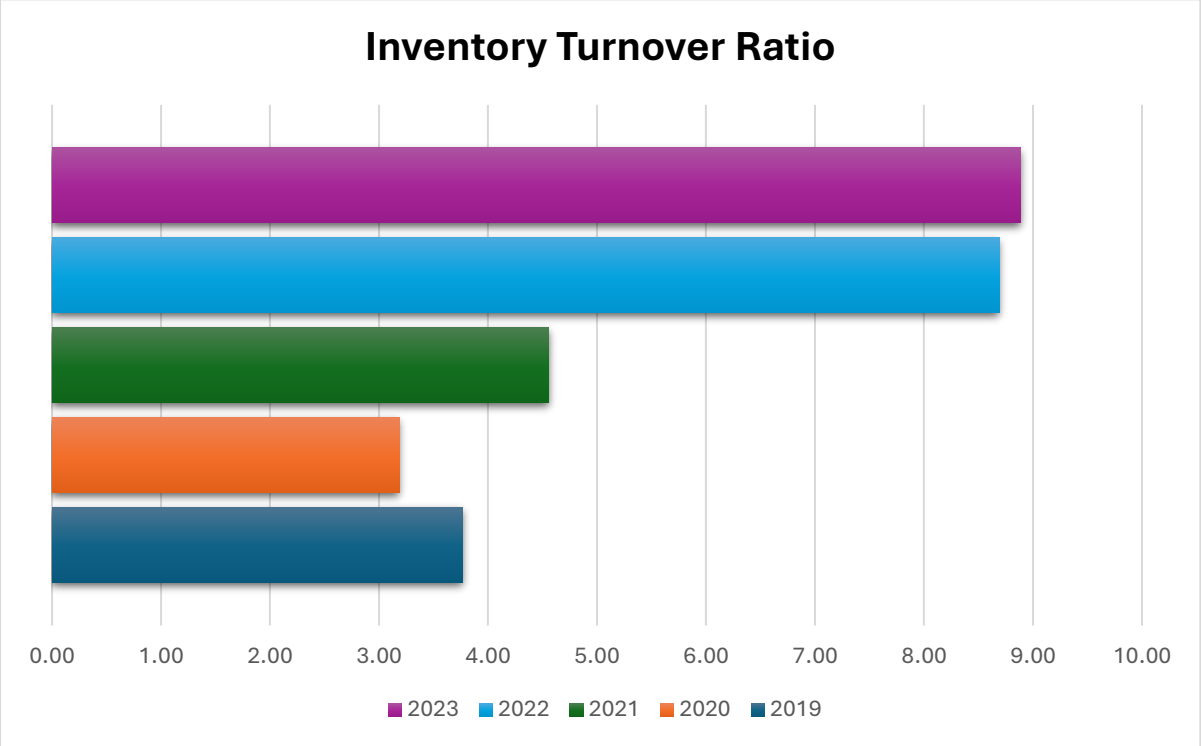
## 3.4 Inventory Turnover Ratio

By determining total no. which a company sells and replaces its inventory within a specified time frame, "the inventory turnover ratio" is able to analyze how effectively a company manages its stock of goods. It gives an indication of the rate at which inventory is sold and supplied, which provides insights into the efficiency of inventory management.

The calculation of the average inventory is often accomplished by dividing the total of the beginning and ending inventory by two.

$$Inventory\ Turnover\ Ratio = \frac{Cost\ of\ Goods\ Sold}{Average\ Inventory}$$

The inventory turnover ratio of UPGDCL demonstrates an increasing trend over the years.




Though it decreased slightly in 2020, it has been increasing in the following years. A greater ratio indicates quick turnover, implying efficient management, whereas a lower ratio indicates slow turnover, potentially resulting in capital trapped in surplus stock. Over the course of several years, the inventory turnover ratio has demonstrated a pattern of growth, which is indicative of better efficiency in the management of inventory levels and the generation of sales from inventory.

*Figure 4: Inventory Turnover Ratio*

## 3.5 Accounts Receivable Turnover Ratio

“The accounts receivable turnover ratio” is a measurement that determines how effectively a firm is able to collect payments from its respective clients for credit sales during a given time period.

When calculating the account receivable turnover ratio, the net credit sales are divided by the average accounts receivable balance over a certain period. This is the definition of the process.

$$Account\ Receivable\ Turnover\ Ratio = \frac{Net\ Credit\ Sales}{Average\ Account\ Receivable}$$

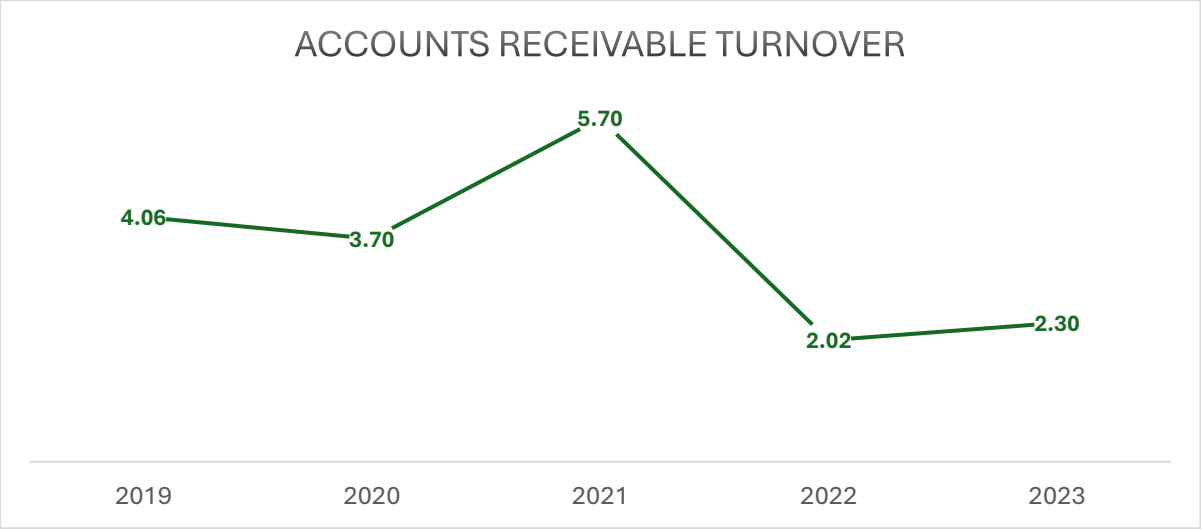



*Figure 5: Accounts Receivable Turnover*

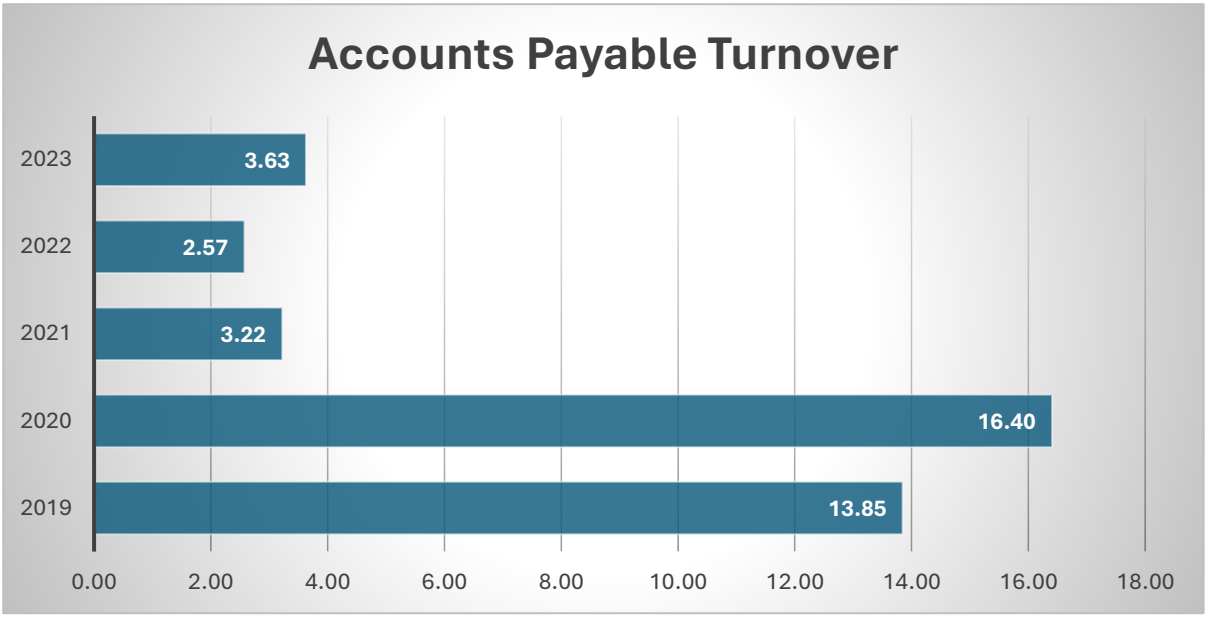
From 2019 to 2023, the Company's accounts receivable turnover ratio exhibited a consistent decline. The ratio shown a decline from 4.06 in 2019 to 2.30 in 2023, signifying a gradual degradation in the company's promptness in collecting payments from clients. The declining ratio indicates that UPGDCL experienced a longer duration in collecting payments from credit sales over time, resulting in higher accounts receivable balances and probable difficulties in managing cash flow. The decrease in collections is worrisome because it indicates potential issues with the company's credit management policies and ability to efficiently collect payments.

## 3.6 Accounts Payable Turnover Ratio

"The account payable turnover ratio" quantifies the effectiveness of a company's management of payments to suppliers and vendors. The metric represents the average frequency at which the company settles its debts with suppliers and refreshes its outstanding payments within a given timeframe.

The account payable turnover ratio is determined by dividing the aggregate purchases from suppliers by the mean accounts payable balance over a specific time frame.

$$Account\ Payable\ Turnover\ Ratio = \frac{Net\ Credit\ Purchase}{Average\ Account\ Payable}$$




UPGDCL's accounts payable turnover ratio shown variability over the course of five years.

*Figure 6: Accounts Payable Turnover*

The ratio experienced an increase from 13.85 in 2019 to 16.40 in 2020, suggesting a higher frequency of turnover for accounts payable during this time frame. Nevertheless, the ratio experienced a substantial decrease to 3.22 in 2021, followed by a minor recovery to 3.63 in 2023. Fluctuations in the ratio may indicate alterations in UPGDCL's payment terms with suppliers, fluctuations in purchasing habits, or changes in business operations.

## 3.7 Days Inventory Outstanding

One way to evaluate how quickly a business can move its stock is by looking at its Days Inventory Outstanding (DIO) ratio. Evaluating the rate of inventory conversion into sales provides insight into the efficacy of inventory management. When the DIO is low, it means that inventory is moving quickly; when it is high, it can mean that there is too much inventory or that working capital is being tied up, which in turn increases holding costs.

$$Days\ Inventory\ Outstanding = \frac{Average\ Inventory}{Cost\ of\ Goods\ Sold} * Number\ of\ Days$$

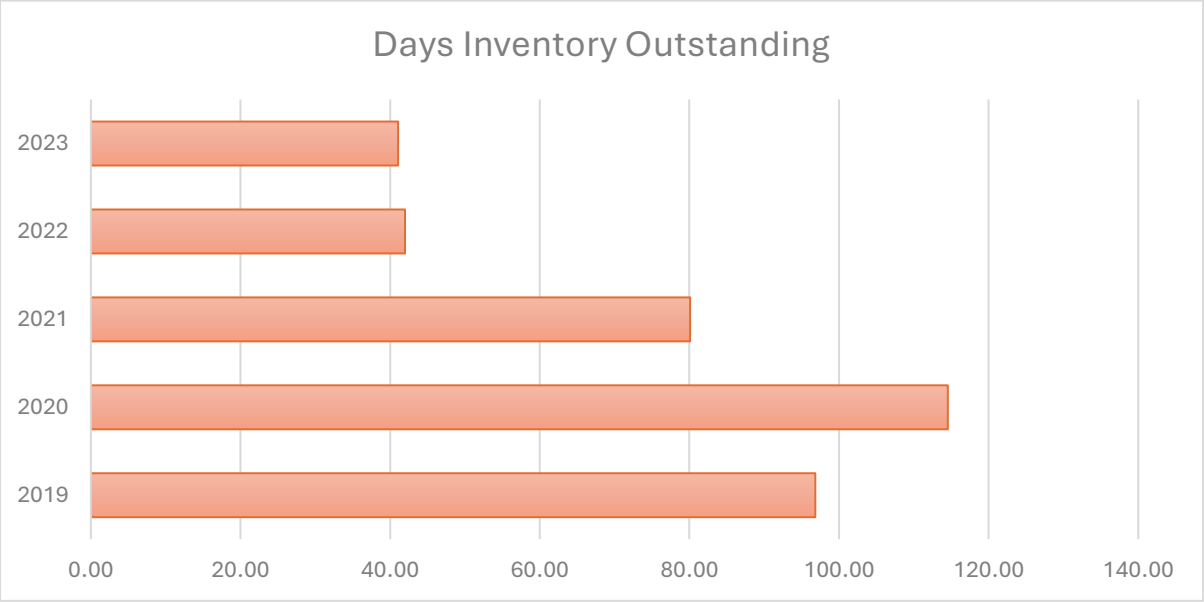



*Figure 7: Days Inventory Outstanding*

Over the course of the past five years, the DIO ratio of UPGDCL has demonstrated a downward tendency, which is indicative of improvements in the efficiency of inventory management. This indicates that the company has been successful in selling its goods at a faster rate, which can assist in lowering holding costs and freeing up working capital. The fluctuations in the ratio, on the other hand, need to be closely watched in order to guarantee that inventory management procedures will continue to maximize efficiency.

## 3.8 Days Sales Outstanding

The DSO ratio is something which tells us how long it typically takes for a company to receive payment from its customers following a sale. It shows how fast a company turns its "accounts receivable" into cash, which gives insight into how efficient its credit and collection processes are.

$$Days\ Sales\ Outstanding = \frac{Average\ Receivable}{Net\ Credit\ Sales} * Number\ of\ Days$$

Where:

The sum of all money that clients owe the business is known as accounts receivable. The second metric is net credit sales, which are the proceeds from credit sales minus allowances and returns. Third, the Number of Days specifies the time frame (a year, a quarter, etc.) that the computation is carried out.

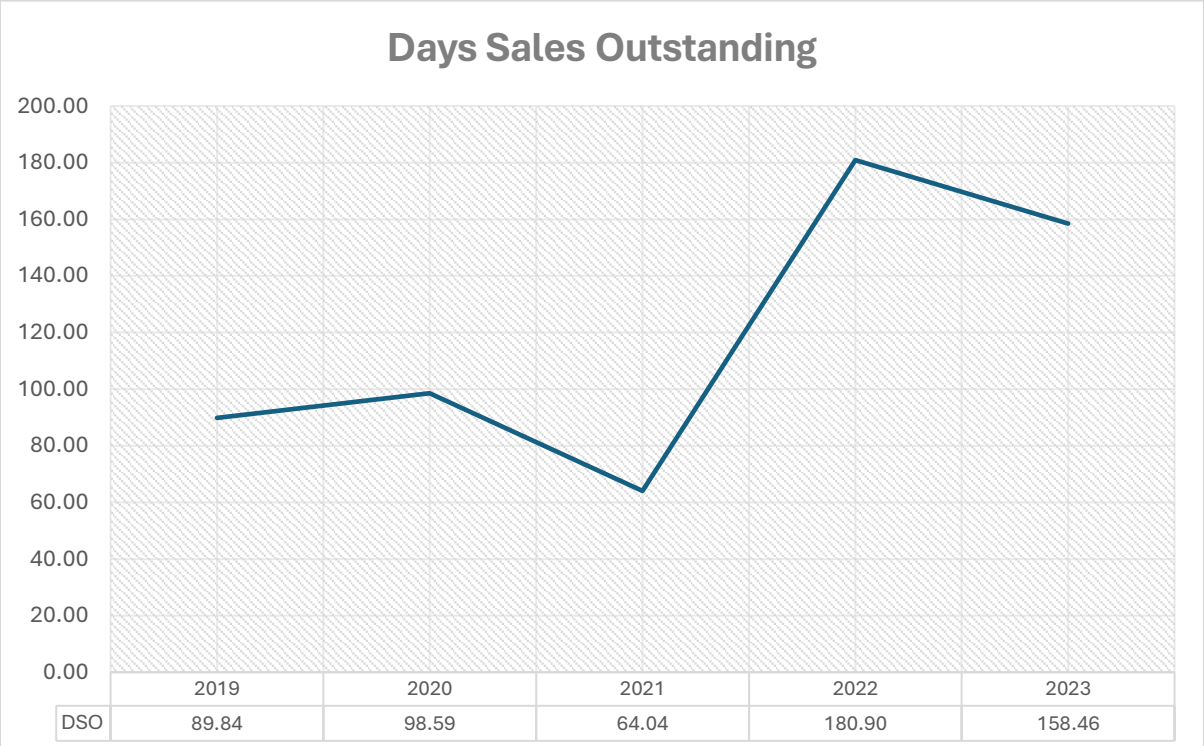



*Figure 8: Days Sales Outstanding*

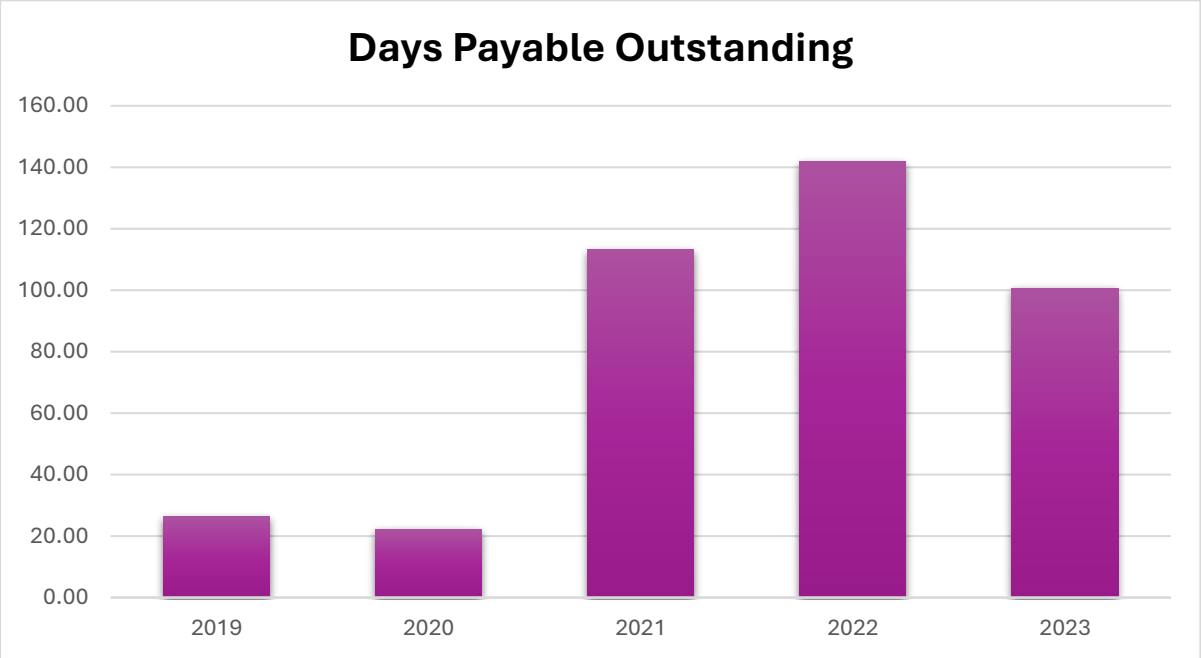
Days Sales Outstanding (DSO) ratios the company tend to rise steadily from 2019 through 2023. It took longer for UPGDCL to receive payments from its clients over the years, as seen by the rising trend. The length of time it takes to collect payments could be an indication of problems with managing credit and the collection process, which could have an effect on liquidity and cash flow.

## 3.9 Days Payable Outstanding

The DPO ratio is a measure of how long it typically takes a corporation to pay its "suppliers" for credit purchases. It gives a sense of how well the business manages its trade credit and how efficient its payment procedures are.

$$Days\ Payable\ Outstanding = \frac{Average\ Payable}{Cost\ of\ Goods\ Sold} * Number\ of\ Days$$

Everything that needs paying back to vendors for products and services that were bought on credit is represented in Accounts Payable. The immediate expenses incurred in making and providing a service or item are reflected in the "cost of goods sold" (COGS). Number of Days denotes the duration of the computation (e.g., a year, a quarter, etc.).




The Days Payable Outstanding (DPO) for UPGDCL have fluctuated during the last five years.

*Figure 9: Days Payable Outstanding*

Due payment terms and supplier agreements varied throughout the years, with the DPO ratio ranging from 26.36 days in 2019 to 100.59 days in 2023. An increase in DPO may indicate that UPGDCL is being prudent with its cash flow and working capital by delaying payments to suppliers. Having to wait too long to pay can put a damper on relationships with suppliers, which in turn can affect future credit terms and the dependability of the supply chain.

## 3.10 Cash Conversion Cycle

"The Cash Conversion Cycle (CCC)" is a measurement that determines how long it takes for a company to convert the cash flows from sales into the cash flows that are generated from investments in inventories and other resources. It evaluates the effectiveness of a company's working capital management, which encompasses the management of inventory, accounts receivable, and accounts payable operations.

$$CCC = Days\ Inventory\ Outstanding\ (DIO) + Days\ Sales\ Outstanding\ (DSO) - Days\ Payable\ Outstanding\ (DPO)$$

Where:

- "Days Inventory Outstanding (DIO)" is a metric that measures the average duration it takes for inventory to be sold or turned into sales.
- Days Sales Outstanding (DSO) is a metric that measures the average duration it takes for a company to receive payment from its customers.
- Days Payable Outstanding (DPO) is a metric that measures the average time it takes for a company to settle its payments with suppliers.

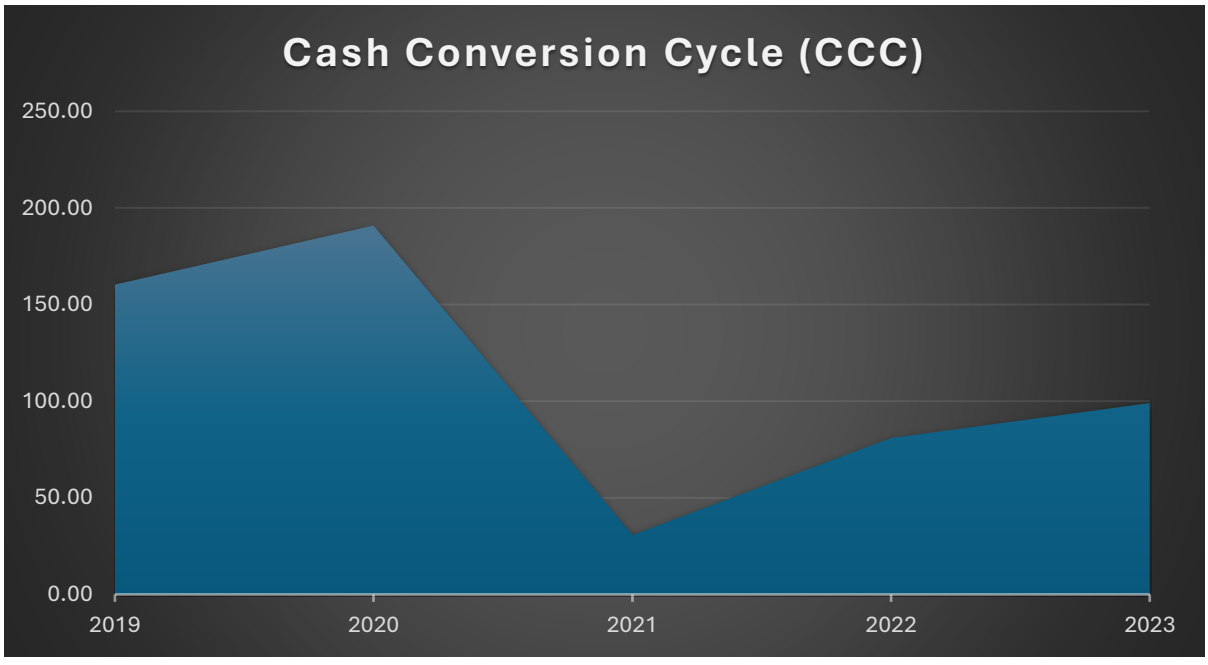



*Figure 10: Cash Conversion Cycle*

“The Cash Conversion Cycle (CCC)” ratio exhibited a range of 30.81 days in 2021 to 190.88 days in 2020, signifying fluctuations in the company's effectiveness in transforming investments into cash flows.

A reduced Cash Conversion Cycle (CCC) indicates that UPGDCL is adept at effectively managing its working capital and transforming its assets into cash flows. Conversely, a prolonged CCC may indicate deficiencies in inventory management, collection, or payment procedures. The shifting trend in the Cash Conversion Cycle (CCC) indicates changes in UPGDCL's effectiveness in managing its working capital over the last five years.

## 3.11 Working Capital to Debt Ratio

A company's capacity to service its long-term debt can be gauged by looking at its working capital to debt ratio. It shows how much of a cushion a corporation has in the short term to pay down its long-term debts.

$$Working\ Capital\ to\ Debt\ Ratio = \frac{(Current\ Assets\ -\ Current\ Liabilities)}{Long\ term\ Debt}$$

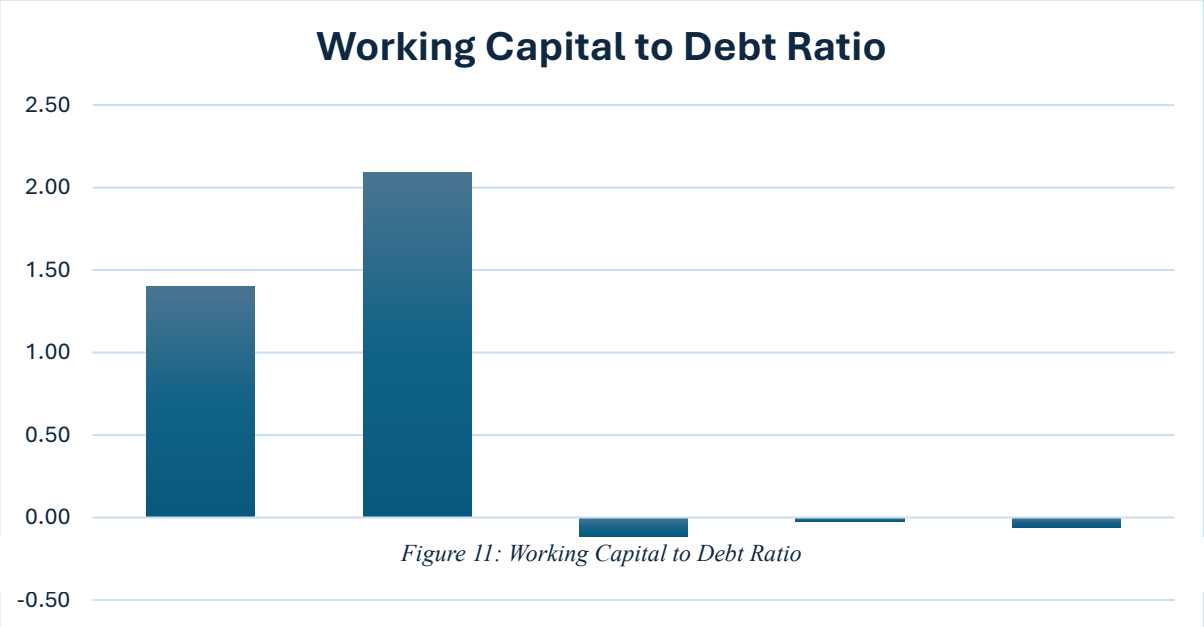



*Figure 11: Working Capital to Debt Ratio*

The working capital to debt ratio measures the company's capacity to use its short-term assets to pay down its long-term debt. If the ratio is above 1, it means that the firm has enough working capital to pay off its long-term debt. On the other hand, if the ratio is below 1, it signifies that the company may face challenges in meeting its long-term debt commitments using only its current assets. The ratio of UPGDCL demonstrates a favorable trajectory from 2019 to 2020, suggesting enhanced liquidity and debt coverage. Starting in 2021, the ratio turns negative, indicating possible difficulties in using only the existing working capital to fulfill long-term debt responsibilities. This necessitates additional examination of the company's ability to manage its cash and repay its debts.

## 3.12 Current Liability Ratio

“The current liability ratio” is a financial measure that assesses a relationship between the current liabilities of a business and its overall liabilities. The current liability ratio quantifies the importance of short-term liabilities in proportion to the overall financial responsibilities of the organization, by representing this relationship as a percentage. This aids stakeholders in comprehending the relevance of these short-term liabilities.

$$Current\ Liability\ Ratio = \frac{Average\ Payable}{Cost\ of\ Goods\ Sold} * Number\ of\ Days$$

A higher current liability ratio may indicate liquidity concerns and financial strain since it shows that short-term obligations constitute a larger proportion of total liabilities. From 2019 through 2023, UPGDCL's current obligation ratio rises at an alarming rate, suggesting an increasing dependence on short-term funding and possible liquidity issues..

## 3.13 Defensive Interval Ratio

“The defensive interval ratio” is a measurement that determines the number of days that a company may continue to function by utilizing its liquid assets to cover its operating expenses without producing any new revenue. A determination is made regarding the capacity of the

organization to survive monetary challenges or disruptions in cash flow. For liquid assets, cash & cash equivalents, marketable securities, and receivables are considered. Then we need to divide this by daily average operating expenses.

$$Defensive\ Interval\ Ratio = \frac{Cash\ +\ Receivables\ +\ Marketable\ Securities}{Average\ Daily\ Operating\ Expenses}$$

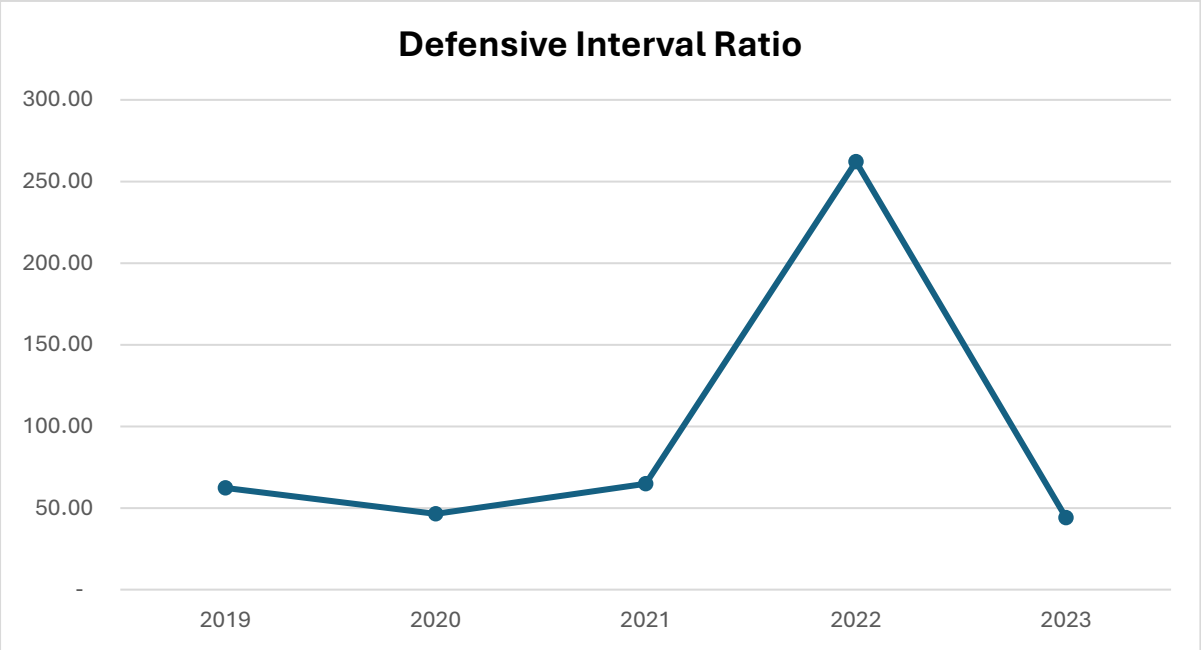



*Figure 12: Defensive Interval Ratio*

"The defensive interval ratio" shows how many days a business can use its liquid assets to pay for operating expenses. A larger percentage denotes increased liquidity and financial resilience, demonstrating the company's capacity to overcome transient financial difficulties without bringing in new business. The defensive interval ratio for UPGDCL varies significantly during the five years, from 44.10 days to 262.12 days. While the fall in the years that followed raises questions about the company's capacity to sustain acceptable liquidity levels to meet operating expenses without extra revenue growth, the substantial rebound in 2022 suggests increased liquidity and financial stability.

## 3.14 Current Asset investment policy analysis

A company's strategic approach to managing and allocating its “current assets”, which include cash, marketable securities, “accounts receivable”, and inventories, is known as the current asset investment policy. The policy establishes the equilibrium between profitability and liquidity, providing guidance on the appropriate amount of investment in current assets to sustain continuous operations and fulfill immediate obligations.

Current Asset Investment Policies generally fall into two categories:

**Aggressive policy:** Maintaining prominent levels of current assets in relation to current liabilities is part of an aggressive policy. Aggressive policy companies put a high priority on liquidity and strive to always have enough cash on hand to take advantage of opportunities, cover unforeseen costs, or finance quick expansion. Although this method increases flexibility, it could also lead to increased carrying costs and decreased asset returns. In this case, an organization has:

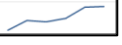
- Lower Current Ratio
- Lower Quick Ratio
- Higher Working Capital Turnover Ratio
- Higher Inventory Turnover Ratio

**Conservative Policy:** On the other hand, a conservative approach maintains a smaller ratio of current assets to current liabilities. Conservatively minded businesses put profitability first and strive to reduce carrying expenses and idle assets. This strategy lowers the possibility of cash shortages, but it can make it more difficult for the business to react swiftly to opportunities or unforeseen costs. In this policy, a business usually has:

- Higher Current Ratio
- Higher Quick Ratio
- Lower Working Capital Turnover Ratio
- Lower Inventory Turnover Ratio

The decision between an aggressive and conservative policy is based on several variables, such as the company's financial goals, growth prospects, industry dynamics, and risk tolerance. Businesses may modify their present asset investment strategy over time in response to shifting performance targets, corporate plans, and market conditions.

Let us look at the different ratios of United Power Generation & Distribution Company Ltd. over the last five years:

| No. | Ratio | 2019 | 2020 | 2021 | 2022 | 2023 | Trend |
|---|---|---|---|---|---|---|---|
| 1 | Current Ratio | 4.42 | 7.14 | 0.85 | 0.97 | 0.94 |  |
| 2 | Quick Ratio | 4.15 | 6.45 | 0.71 | 0.88 | 0.84 |  |
| 3 | Working Capital Turnover Ratio | 0.67 | 0.78 | -7.15 | -37.02 | -14.05 |  |
| 4 | Inventory Turnover Ratio | 3.77 | 3.19 | 4.56 | 8.69 | 8.89 |  |

- **Current Ratio:**
  - In 2019 and 2020, the current ratio exhibited a sustained upward trend, suggesting the adoption of a more ***Conservative or Restrictive*** current asset investment strategy.
  - Conversely, a substantial decline was observed in 2021, 2022, and 2023, indicating a transition towards a more ***Aggressive*** approach to investment strategy.
- **Quick Ratio:**
  - In both 2019 and 2020, the quick ratio remained persistently high, suggesting a more "***Conservative"*** stance, similar to the "current ratio".
  - But it fell sharply in 2021, 2022, and 2023, indicating a change to an ***Aggressive*** stance.
- **Woking Capital Turnover Ratio:**
  - A higher ratio reflects a more ***Aggressive*** investment strategy because the company generates more revenue per unit of working capital. The ratio rose dramatically in 2021, signaling a change toward a more aggressive investment strategy, but then stayed reasonably constant in 2022 and 2023.
- **Inventory Turnover Ratio:**
  - A higher "inventory turnover ratio" shows a more aggressive investment strategy, as merchandise is being sold off more quickly. The ratio rose dramatically in 2021, 2022, and 2023, indicating a change to a more ***Aggressive*** investment strategy.

Based on the ratios calculated from the financial data of United Power Generation & Distribution Company Ltd, the company has adopted ***"Aggressive Current Investment Policy,"*** as the company is focusing less on the liquidity position, rather it is going for the increase of profitability.

## 3.15 Financial Performance Analysis

By summarizing the results from the study, we can have a comprehensive idea about the working capital management system of United Power Generation & Distribution Company Ltd:

**Current Ratio:** The current ratio continues to be declining over time, even after the company had a great start to 2019. This suggests that short-term liquidity may be deteriorating and raises questions about the company's capacity to pay short-term obligations.

**Quick Ratio:** Although it was initially strong, the quick ratio has recently exhibited a declining trend, indicating that the company may not be able to meet its short-term obligations as much without using inventory, which may indicate liquidity issues.

**Working Capital Turnover Ratio:** The downward trend in recent years suggests that working capital is not being used effectively to create sales, which makes it difficult to maximize operational effectiveness and may have an effect on profitability.

**Inventory Turnover Ratio:** Consistently improving over time, this trend indicates improved inventory management efficiency and quicker turnover, which benefits cash flow and liquidity.

**Account Receivable Turnover Ratio:** The ratio of accounts receivable to turnover has remained reasonably stable despite variations. This may be attributed to regular receivables collection and excellent credit management methods, both of which have contributed to the maintenance of liquidity.

**Accounts Payable Turnover Ratio:** Although volatile, this ratio shows how well the business handles its payables, making sure suppliers are paid on time—a critical aspect of preserving goodwill and liquidity.

**Days Inventory Outstanding (DIO):** The declining trend over time shows greater cash flow management and inventory control, which both reduce the length of time that inventory is held on hand and increase liquidity.

**Days Sales Outstanding (DSO):** It showed a consistent collection of accounts receivable and effective credit practices, supporting liquidity, even with a minor increase in recent years. DSO also stayed within a reasonable range.

**Days Payable Outstanding (DPO):** The declining trend points to better payables management, which may lengthen payment terms and boost cash flow, both of which are advantageous for liquidity.

**Cash Conversion Cycle (CCC):** Although it varies, the CCC has been trending lower recently, suggesting that inventory and receivables are being converted into cash more efficiently, which has a beneficial effect on liquidity and operational performance.

**Working Capital to Debt Ratio:** Showing liquidity issues, the ratio's negative values in recent years suggest possible worries about the company's capacity to meet short-term obligations using its available working capital in relation to debt.

**Current Liability Ratio:** A significant rise in recent years indicates that a larger percentage of the company's overall liabilities are short-term debts, which may necessitate cautious liquidity management to prevent cash flow issues.

**Defensive Interval Ratio:** Showing a shorter timeframe within which the business can meet costs without taking on extra capital, the ratio's sharp decline in the last year suggests that there may be liquidity issues that require immediate attention.

# CHAPTER 4: CONCLUSION

The purpose of this report is to find out how United Power Generation & Distribution Company Ltd. is managing its short-term working capital. Based in different data, different ratios are being analyzed and organized. For making the report, the objective was to use only relevant data. The financial statements of United Power Generation & Distribution Company Ltd. over the course of the past five years reveals a number of fascinating trends. When compared to the previous years, both current and quick ratios were strong, which indicates that the liquidity situation was strong. The fact that they have recently decreased, indicates that there may be difficulties in satisfying short-term responsibilities. Both the turnover of inventory and the turnover of accounts receivable have seen relatively slight change over the course of time, which speaks to consistent performance. On the other hand, during the course of the years, there has been a significant amount of volatility in the cash conversion cycle, which is a major concern for the company. While the company has demonstrated capabilities in inventory management and accounts receivable turnover, swift action is required to address liquidity issues declining current and quick ratios, and cash conversion cycle instability to improve financial stability. Through the implementation of strategic initiatives that are based on the findings of this inquiry, United Power Generation & Distribution Company Ltd. can grab the opportunity to improve both its operational efficiency and the management of its working capital.

# CHAPTER 5: REFERENCE

# REFERENCE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# APPENDIX

| Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Property, plant, and equipment** | 20,242,083,450 | 19,097,479,899 | 40,804,081,092 | 38,553,574,856 | 36,387,094,719 |
| **Capital Work in Progress (CWIP)** | 199,341,333 | 1,615,721,811 | 1,638,575,574 | 1,804,307,075 | 2,003,363,856 |
| **Right of use assets** | - | 224,133,730 | 202,444,023 | 183,790,779 | 161,088,918 |
| **Non-current assets** | **20,441,424,783** | **20,937,335,440** | **42,645,100,689** | **40,541,672,710** | **38,551,547,493** |
| **Inventories** | 1,096,323,223 | 1,331,234,455 | 4,118,391,067 | 4,265,343,282 | 3,449,474,931 |
| **Trade and other receivables** | 2,769,811,250 | 2,726,449,063 | 5,365,772,394 | 24,501,517,713 | 17,933,527,471 |
| **Receivable from related parties** | 14,060,279,622 | 10,417,707,665 | 13,760,155,755 | 15,343,171,161 | 18,712,224,278 |
| **Advances, deposits, and prepayments** | 221,576,887 | 139,556,570 | 145,308,271 | 173,724,377 | 891,960,800 |
| **Investment in marketable securities** | 126,872,487 | 92,817,221 | 151,883,809 | 148,085,596 | 137,876,106 |
| **Advance income tax** | 16,677,644 | 15,459,522 | 3,993,966 | 6,664,589 | 9,147,670 |
| **Cash and cash equivalents** | 3,299,042,119 | 417,010,048 | 1,482,743,529 | 1,230,174,686 | 1,501,799,518 |
| **Current assets** | **21,590,583,232** | **15,140,234,544** | **25,028,248,791** | **45,668,681,404** | **42,636,010,774** |
| **Total assets** | **42,032,008,015** | **36,077,569,984** | **67,673,349,480** | **86,210,354,114** | **81,187,558,267** |
| | | | | | |
| **Equity** | | | | | |
| **Share capital** | 4,790,870,000 | 5,269,957,000 | 5,796,952,700 | 5,796,952,700 | 5,796,952,700 |
| **Share premium** | 2,046,000,000 | 2,046,000,000 | 2,046,000,000 | 2,046,000,000 | 2,046,000,000 |
| **Revaluation reserve** | 58,131,275 | 57,459,283 | 56,787,291 | 56,115,299 | 55,443,307 |
| **Retained earnings** | 22,704,577,678 | 21,933,085,610 | 24,666,183,710 | 24,786,447,118 | 22,951,409,252 |
| **Equity attributable to the owner of the Company** | 29,599,578,953 | 29,306,501,893 | 32,565,923,701 | 32,685,515,117 | 30,849,805,259 |
| **Non-controlling interests** | 488,158,794 | 544,709,204 | 525,075,969 | 512,166,162 | 503,021,021 |
| **Total equity** | **30,087,737,747** | **29,851,211,097** | **33,090,999,670** | **33,197,681,279** | **31,352,826,280** |
| **Liabilities** | | | | | |
| **Preference Share Capital** | - | - | 1,500,000,000 | 2,100,000,000 | 1,200,000,000 |
| **Long term loan** | 7,061,776,681 | 4,081,869,702 | 3,750,946,968 | 3,883,160,052 | 3,020,168,488 |
| **Security money received** | 700,000 | 700,000 | 700,000 | 700,000 | 15,700,000 |
| **Land lease Liability** | - | 24,449,893 | 23,489,811 | 24,677,455 | 22,545,443 |
| **Non-current liabilities** | **7,062,476,681** | **4,107,019,595** | **5,275,136,779** | **6,008,537,507** | **4,258,413,931** |
| **Deferred revenue** | - | 263,191,682 | 477,756,223 | 234,267,429 | 190,480,383 |
| **Trade and other payables** | 298,470,517 | 258,600,242 | 5,827,211,311 | 14,411,833,578 | 8,448,367,534 |
| **Unclaimed dividend** | - | 9,676,552 | 13,155,151 | 13,322,090 | 12,944,121 |
| **Accrued expenses** | 66,930,430 | 24,187,065 | 51,370,373 | 119,105,149 | 155,924,417 |
| **Long term loan - Current portion** | 1,071,451,367 | 782,948,179 | 2,058,335,238 | 1,266,361,806 | 1,343,970,681 |
| **Short term loan** | - | - | 2,486,321,103 | 6,210,000,000 | 5,496,172,222 |
| **Preference Share Capital** | - | - | - | 900,000,000 | 400,000,000 |
| **Land lease Liability** | - | 905,739 | 960,083 | 1,980,622 | 2,132,012 |
| **Payable to related parties** | 3,260,790,726 | 750,470,660 | 18,389,214,028 | 23,845,523,399 | 29,520,486,041 |
| **Current Tax liability** | 184,150,547 | 29,359,173 | 2,889,521 | 1,741,255 | 5,840,645 |
| **Current liabilities** | **4,881,793,587** | **2,119,339,292** | **29,307,213,031** | **47,004,135,328** | **45,576,318,056** |

| | | | | | |
|---|---|---|---|---|---|
| **Total liabilities** | **11,944,270,268** | **6,226,358,887** | **34,582,349,810** | **53,012,672,835** | **49,834,731,987** |
| **Total equity and liabilities** | **42,032,008,015** | **36,077,569,984** | **67,673,349,480** | **86,210,354,114** | **81,187,558,267** |
| | | | | | |
| **Revenue** | 11,253,361,366 | 10,094,032,945 | 30,580,520,521 | 49,435,163,297 | 41,309,112,151 |
| **Cost of Sales** | 4,132,336,855 | 4,241,892,046 | 18,767,741,083 | 37,079,389,766 | 30,656,188,645 |
| **Gross Profit** | 7,121,024,511 | 5,852,140,899 | 11,812,779,438 | 12,355,773,531 | 10,652,923,506 |
| **Operating Expense** | 99,346,659 | 69,812,431 | 107,849,592 | 98,733,440 | 443,815,489 |
| **Operating Profit** | 7,832,271,258 | 5,786,302,648 | 11,680,372,544 | 12,352,172,955 | 10,363,800,740 |
| **Net Profit After Tax** | 7,855,028,025 | 6,078,787,549 | 11,114,175,008 | 10,155,296,398 | 8,242,305,791 |

| No. | Ratio | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| **1** | Current Ratio | 4.42 | 7.14 | 0.85 | 0.97 | 0.94 |
| **2** | Quick Ratio | 4.15 | 6.45 | 0.71 | 0.88 | 0.84 |
| **3** | Working Capital Turnover Ratio | 0.67 | 0.78 | -7.15 | -37.02 | -14.05 |
| **4** | Inventory Turnover Ratio | 3.77 | 3.19 | 4.56 | 8.69 | 8.89 |
| **5** | Accounts Receivable Turnover | 4.06 | 3.70 | 5.70 | 2.02 | 2.30 |
| **6** | Accounts Payable Turnover | 13.85 | 16.40 | 3.22 | 2.57 | 3.63 |
| **7** | DIO | 96.84 | 114.55 | 80.10 | 41.99 | 41.07 |
| **8** | DSO | 89.84 | 98.59 | 64.04 | 180.90 | 158.46 |
| **9** | DPO | 26.36 | 22.25 | 113.33 | 141.87 | 100.59 |
| **10** | Cash Conversion Cycle (CCC) | 160.31 | 190.88 | 30.81 | 81.03 | 98.94 |
| **11** | Working Capital to Debt Ratio | 1.40 | 2.09 | -0.12 | -0.03 | -0.06 |
| **12** | Current Liability Ratio | 41% | 34% | 85% | 89% | 91% |
| **13** | Defensive Interval Ratio | 62.36 | 46.36 | 64.91 | 262.12 | 44.10 |