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A Study on Impact of Working Capital Management on Organisational Profitability

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ABSTRACT

This project examines the impact of working capital management on organizational profitability. Spanning five years from 2017-2018 to 2021-2022, the analysis utilizes secondary data from annual reports. Employing tools such as ratio analysis, comparative balance sheets, and trend analysis, it reveals fluctuations in working capital but overall growth. The company demonstrates efficient inventory management, converting it into sales effectively. While effective working capital management is shown to positively influence profitability, the study emphasizes the importance of considering other contributing factors.

INTRODUCTION

Financial management can be divided into two broad areas of responsibility as the management of long-term capital and the management of short-term funds or working capital. Working capital means the funds available and used for day-to-day operations of an enterprise. It consists broadly of that portion of assets of a business which are used in or related to its current operations. Efficient management of working capital is an essential pre–requisite for the successful operation of a business enterprise and improving its rate of return on the capital invested in short-term assets.

In simple term, working capital is an excess of current asset over the current liabilities, good working capital management reveals higher return of current asset than the current liabilities to maintain a steady liquidity position of a company. Otherwise working capital is requirement of funds to meet the day to day working expenses. So a proper way of management of working capital is highly essential to ensure a dynamic stability of a financial position of an organization.

REVIEW OF LITERATURE

B. Saritha and M. R. Kumar (2021) analyzed the impact of working capital management on the profitability of Indian automobile firms using ratio analysis. The study employs ratio analysis to investigate the relationship between working capital management and profitability. **S. V. Reddy, B. Venkateswara Rao, and P. Vinod Kumar (2021)** investigates the impact of working capital management on the profitability of Indian pharmaceutical firms. The study is based on secondary data collected from the annual reports of 18 Indian pharmaceutical firms for a period of 10 years from 2010 to 2019. **K. Prakash and M. V. Raju (2021).** "Working Capital Management and Profitability: Evidence from Indian Manufacturing Firms." Journal of Business and Finance Management Research, 3(1), 7-13. the study aimed to investigate the relationship between working capital management and profitability in Indian manufacturing firms. **S. S. S. S. Kumar and T. Anand (2021).** "Impact of Working Capital Management on Financial Performance: Evidence from Indian Textile Industry." International Journal of Research in Engineering, Science and Management, 4(5), 373-380. **A. K. Jha and N. Goyal (2020)** analyzed the impact of working capital management on the financial performance of Indian pharmaceutical firms using trend analysis. To analyze the relationship between working capital management and financial performance, the study employed trend analysis, which involved analyzing the changes in working capital components over time and their impact on financial performance. **S. Aravindan and S. S. Sindhu (2020)** investigated the impact of working capital management on the financial performance of Indian manufacturing firms using ratio analysis. **S. M. Jani and M. A. Ansari (2019)** conducted a study on the impact of working capital management on the profitability of Indian cement companies. The study used the multiple regression model to analyze the impact of working capital management on profitability. **V. Vijayalakshmi and V. Venkatesan (2019)** conducted a study on the impact of working capital management on the profitability of select Indian pharmaceutical companies. The study used a sample of 8 Indian pharmaceutical companies for the period of 2012-2016 and employed various ratios such as current ratio, quick ratio, inventory turnover ratio, debtors turnover ratio, creditors turnover ratio, and cash conversion cycle to measure working capital management efficiency. **Alam, M., and M. A. Rahim (2018)** conducted a study to investigate the impact of working capital management on the performance of firms in the Gulf Cooperation Council (GCC) countries.

Bansal (2017) The study conducted by Bansal in 2017 focused on the working capital management of agro-industries in Himachal Pradesh for a period of 10 years from 1985-86 to 1994-95. The researcher used various financial tools to assess the working capital management of the companies under study.

OBJECTIVES OF THE STUDY

- To analyze the working capital condition of the firm based on past performance.
- To identify the impact of the net working capital on firm’s profitability.
- To study the liquidity position through various working capital related ratios.
- To access the financial trend of the company based on the past performance.
- To make suggestions based on the findings of the study.

NEED OF THE STUDY

Working capital management is important because it helps ensure that a company has sufficient cash flow to meet its short-term obligations, such as paying suppliers and employees. The working capital is the decisive factor for the carrying out of the day-to-day activities. To maintain a proper level of working capital, the firm must decide the current asset and current liabilities level. The firm financial position is said to be healthy when current asset level of the firm is greater than the current liabilities level. Effective working capital management can also help the firm to maximize profitability by reducing cost associated with carrying excess inventory. The firm also needs to manage working capital to mitigate risk associated with fluctuations in cash flow, economic downturn and changes in customer behavior.

SCOPE OF THE STUDY

The study will deeply explore how safety measures at work affect how satisfied employees feel. This involves understanding what employees think about current safety rules, how well they know them, and how the company responds to safety issues. It also looks at how safety measures impact employees' overall well-being, stress levels, and how they balance work and life. By doing this, the study aims to give a clear picture of how effective safety practices are and how they affect employee happiness at work. It will also look at how new technologies and trends in the industry might change safety practices and employee satisfaction in the future, so the findings can stay useful over time.

RESEARCH METHODOLOGY

Research involves a systematic search for pertinent information on a specific topic, including defining and redefining problems and formulating hypotheses. Methodology refers to the study methods imposed on research by the subject matter's nature. Research methods are chosen based on their suitability for the study and are explained to ensure the evaluation of research results. Research design encompasses the framework of methods and techniques chosen by a researcher. It serves as the blueprint for data collection, measurement, and analysis. Analytical research, a critical type of research, involves evaluating facts and information relative to the study's objectives. It relies on critical thinking skills to form assumptions and support hypotheses. Secondary data collection involves utilizing information already available, such as from publications or official records. Analytical tools used in the study include ratio analysis, working capital analysis, and trend analysis. Ratio analysis examines various factors of a business, such as profitability, liquidity, solvency, and efficiency. Liquidity ratios assess the company's ability to meet debt obligations, while profitability ratios evaluate profit generation compared to expenses. Turnover ratios measure efficiency in resource utilization, and solvency ratios determine long-term viability. The schedule of change in working capital tracks fluctuations in current assets and liabilities over time. Working capital is calculated as current assets minus current liabilities. Trend analysis evaluates financial information over time to predict future movements based on historical data.

DATA ANALYSIS AND INTERPRETATION

CURRENT RATIO

CURRENT RATIO = CURRENT ASSETS / CURRENT LIABILITIES

CALCULATION OF CURRENT RATIO

S.NO	YEAR	CURRENT ASSETS (IN RS. CR.)	CURRENT LIABILITIES (IN RS. CR.)	CURRENT RATIO
1	2017-2018	485.45	318.69	1.5233
2	2018-2019	515.65	275.69	1.8704

3	2019-2020	521.32	266.38	1.9571
4	2020-2021	507.13	375.89	1.3491
5	2021-2022	636.11	372.45	1.7079

INTERPRETATION:

From the above analysis it is found that the Current Ratio of TEMPEL PRECISION METAL PRODUCTS INDIA PRIVATE LIMITED has fluctuated over the years. In 2017-2018, the current ratio was 1.5233, which increased to 1.8704 in 2018- 2019 and further increased to 1.9571 in 2019-2020. However, in 2020-2021, the current ratio decreased to 1.3491. in 2021- 2022, the Current Ratio increased to 1.7079. The company's currentratio has fluctuated over the years, which could suggest changes in the company's operations or financial management. Overall, the current ratio of 1.7079 in 2021-2022 suggests that the companyhas a moderate ability to pay its short-term obligation.

LIQUID RATIO

LIQUID RATIO = LIQUID ASSETS / CURRENT LIABILITIES LIQUID ASSETS = CURRENT ASSETS – STOCK & PREPAID

CALCULATION OF LIQUID RATIO

S.NO	**YEAR**	**LIQUID ASSETS (IN RS. CR.)**	**CURRENT LIABILITIES (IN RS. CR.)**	**LIQUID RATIO**
1	2017-2018	349.68	318.69	1.0972
2	2018-2019	360.94	275.69	1.3092
3	2019-2020	387.88	266.38	1.4561
4	2020-2021	374.65	375.89	0.9967
5	2021-2022	445.30	372.45	1.1956

INTERPRETATION:

From the above analysis, we can observe that TEMPEL PRECISION METAL PRODUCTS INDIA PRIVATE LIMITED had a fluctuating trend in liquid asset and liquid ratio over the past 5 years. The liquid assets increased from 349.68 in 2017-2018 to 445.30 in 2021-2022. The current liabilities also increased from 318.69 in 2017-2018 to 372.45 in 2021-2022. However, the liquid ratio decreased from 1.0972 in 2017-2018 to 0.9967 in 2020-2021 and then increased to 1.1956 in 2021-2022. Overall, the trend in the company's liquid ratio indicates that the company has been able to maintain a sufficient level of liquid assets to meet its short-term obligations over the past five years.

FINDINGS

The financial analysis over the past five years indicates fluctuating yet generally healthy liquidity positions, as evidenced by variations in the current and liquid ratios. Despite a dip in 2020-2021, profitability remained stable, with slight improvements in net and operating profit ratios in 2021-2022. Efficient inventory and working capital management contributed to stable turnover ratios, while an upward trend in fixed asset turnover suggests improved efficiency in generating sales. Debt management remained stable, but vigilance is necessary to sustain growth. Overall, the study demonstrated resilience and improvement in financial performance, underscored by an increasing trend in working capital and current assets over the period.

SUGGESTIONS

To improve the company's liquidity, it should implement efficient cash management policies and procedures for managing cash inflows and outflows. Profitability can be increased by adopting new technologies and developing a cost-effective supply chain to reduce raw material and transportation costs. The firm should enhance current assets by boosting sales and cutting expenses, and decrease current liabilities by renegotiating loans and improving collections to reduce outstanding accounts receivable. Efficiency ratios can be improved by optimizing inventory levels, as excessive inventory ties up working capital and lowers inventory turnover. Additionally, optimizing accounts receivable management through credit policies can reduce collection times and enhance cash flow. Monitoring progress over time through regular tracking of key performance indicators and trend analysis is crucial to ensure that improvement strategies are effective.

CONCLUSION

Effective working capital management is crucial to a company's financial health because it ensures that the company can maintain its daily operations and meet its short-term obligations. The study was focused to evaluate the financial performance by using various analytical tools. The overall performance of the company is found to be efficient. The study has highlighted the importance of managing working capital efficiently. Effective working capital management not only ensures that a company has enough liquidity to meet its short-term obligations but also creates opportunities for growth and profitability. By optimizing working capital, businesses can reduce financing costs, improve cash flow, and make strategic investments in new products or markets.

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