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A Study on Working Capital Analysis of Subburaaj Cotton Mill Pvt Limited

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ABSTRACT

This Study explores the working capital management practices of Subburaaj Cotton Mill (P) Limited, Virudhunagar. Working capital management is a vital aspect of financial strategy as it directly influences a firm's liquidity, operational efficiency, and overall financial health. This research highlights the effectiveness of the company's current working capital management system by examining the utilization of current assets and liabilities over a period of five years (2019–2024). The methodology involves ratio analysis, trend percentages, and common-size balance sheet comparisons to assess liquidity, profitability, and solvency. The findings indicate that while the company maintains a consistent growth trajectory, its working capital levels have been steadily decreasing, raising concerns about liquidity. The study concludes with recommendations to strengthen working capital practices for sustaining growth and profitability.

Keywords: Working Capital, Profitability, Credit Policy, Financial Management, Ratio Analysis, Trend Analysis

I. INTRODUCTION

Working capital management is central to a firm’s day-to-day operations and long-term sustainability. It deals with the management of current assets like cash, inventory, and receivables, alongside current liabilities such as payables. Subburaaj Cotton Mill (P) Limited, a prominent yarn producer in Virudhunagar, serves as the focus for this study. In a capital-intensive industry like textiles, where production and supply chains are tightly interwoven, efficient working capital utilization becomes crucial. The importance of this research lies in understanding how Subburaaj Cotton Mill manages its short-term finances to remain competitive and profitable. Working capital that is either excessive or inadequate can hinder a firm’s operations. The study evaluates whether the company maintains optimal working capital, how it handles liquidity crises, and how its working capital strategies align with its growth goals. By evaluating historical financial data and applying analytical tools, this research aims to provide insights into the mill’s operational effectiveness and financial decision-making. It also highlights the importance of scientific and strategic approaches in managing credit policies and enhancing interdepartmental coordination to avoid collection delays and credit risks.

II. REVIEW OF LITERATURE

Francisco Salas-Molina (2024) , studied any currency management models in actual data to improve the balance and profitability control of funds. The goal was to develop a model that accurately reflects the actual distribution of cash flow. This study adhered to the cash management model for data of actual topical studies using probability and linear programming methods. The results showed that even a small data sample is sufficient to develop an effective financial management model. The study has reached a conclusion that if an accident is included in the financial management model, the possibility and efficiency of the actual scenario increases.

In Sardo, F. and Serraskviiro, Z. (2022), this study is to analyze the decision factors of the operating capital of SMEs (SMES), especially fiscal pain, and the impact of the probability of driving capital. Using this panel data model, the author analyzes 3994 SME samples during the 2011 period of 2017. The result shows that SME pursues conservative driving capital management to avoid what it cannot meet the obligations of the creditor. In addition, the positive impact of financial stress on MSP driving capital suggests that it may be more likely that SMEs can invest more in driving capital to avoid failure and financial imbalances.

Yadav and Kumar (2021) surveyed the relationship between operating capital management and the company's efficiency in the Indian SME (SMES). This study aims to evaluate how the components of the driving capital affect profitability. During the 2012 period, the researchers used 250MSP of data, and the researchers used the modeling of the rescue equation. The results showed that effective management of bonds and debt greatly improved the company's efficiency, and excessive reserves had a negative impact. The study has reached a conclusion that SME should focus on optimizing driving capital components to increase profitability.

Singh and Kumar (2021) conducted a meta -analysis of the synthesis of existing research on the relationship between driving capital management and the company's profitability. The goal was to determine the total size of the effect and to determine the potential mediators. The study analyzed 46 empirical studies dealing with various industries and countries. The result showed a significant negative relationship between the cash conversion cycle and the profitability, which indicates that effective management of driving capital increases the company's efficiency. The study recommends that managers will focus on optimizing driving capital components to increase their profitability.

SCOPE OF THE STUDY

This study focuses on the financial performance and working capital management of Subburaaj Cotton Mill over a five-year period from 2019–2024. It evaluates balance sheets and profit and loss statements to determine how current assets and liabilities have been managed. The analysis includes key financial ratios like current ratio, quick ratio, inventory turnover, and debtor turnover. The scope is limited to secondary data, drawn from the company's annual reports. While this provides a focused and in-depth analysis, it also restricts the study to publicly available financial information without qualitative insights from internal stakeholders. Despite these limitations, the study offers a valuable benchmark for other textile firms and serves as a financial roadmap for improving operational sustainability.

STATEMENT OF THE PROBLEM

Despite the importance of efficient working capital management, many firms face challenges in maintaining the right balance between current assets and liabilities. Subburaaj Cotton Mill, though operationally successful, exhibits a declining working capital ratio over five years. This could potentially signal liquidity issues that may affect the company's ability to meet short-term obligations.

The study identifies gaps in the utilization of available resources, inefficiencies in credit collection, and delayed payments to suppliers. Additionally, the inconsistent inventory turnover raises concerns about storage, production planning, and sales synchronization. These issues, if unresolved, can disrupt cash flows, strain supplier relations, and reduce profitability.

LIMITATIONS OF THE STUDY

- The study is based solely on secondary data, such as annual reports and financial statements.
- Only five financial years have been considered, which may not reflect long-term financial behavior.
- Lack of primary data like employee interviews or managerial insights may limit qualitative depth.
- External factors such as market volatility or policy changes are not directly accounted for.
- Findings may not be generalizable to all textile industries due to unique operational setups.

RESEARCH OBJECTIVES

Primary Objective:

- To assess the working capital management practices of Subburaaj Cotton Mill (P) Limited.

Secondary Objectives:

- To analyze the company's short-term liquidity position.
- To evaluate the effectiveness of its credit and inventory management.
- To measure profitability in relation to working capital deployment.
- To investigate trends in key financial ratios over five years.
- To recommend strategies for improving working capital efficiency.

III. RESEARCH METHODOLOGY

This study follows a quantitative research design to systematically analyze the financial performance of Subburaaj Cotton Mill (P) Limited, Virudhunagar. The research is based solely on secondary data obtained from the company's audited financial reports, including balance sheets and profit and loss statements covering the period from 2019 to 2024. The firm was selected due to its importance in the textile sector and its critical dependence on working capital management for smooth operations. A non-probability purposive sampling technique was used to focus specifically on this single organization. The sample comprises financial data spanning five consecutive years, chosen for its relevance and ability to reveal consistent trends in working capital performance. Ratio analysis was employed as the primary analytical tool, allowing for a comparative evaluation of liquidity, solvency, efficiency, and profitability across the study period. This method enabled structured interpretation of the firm's financial health using standardized financial indicators.

IV. ANALYSIS AND INTERPRETATION

WORKING CAPITAL RATIO ANALYSIS

The working capital ratio, also called the current ratio, is a liquidity ratio that measures a firm's ability to pay off its current liabilities with current assets.

WORKING CAPITAL RATIO			
Year	**Net working capital**	**Net assets**	**Ratio**
2019-2020	22.91	117.92	0.19
2020-2021	22.72	127.80	0.18
2021-2022	11.92	124.38	0.10
2022-2023	12.46	133.73	0.09
2023-2024	1.83	132.51	0.01

The working capital ratio is important to creditors because it shows the liquidity of the company.

$$\text{Working capital ratio} = \frac{\text{Net working capital}}{\text{Net assets}}$$

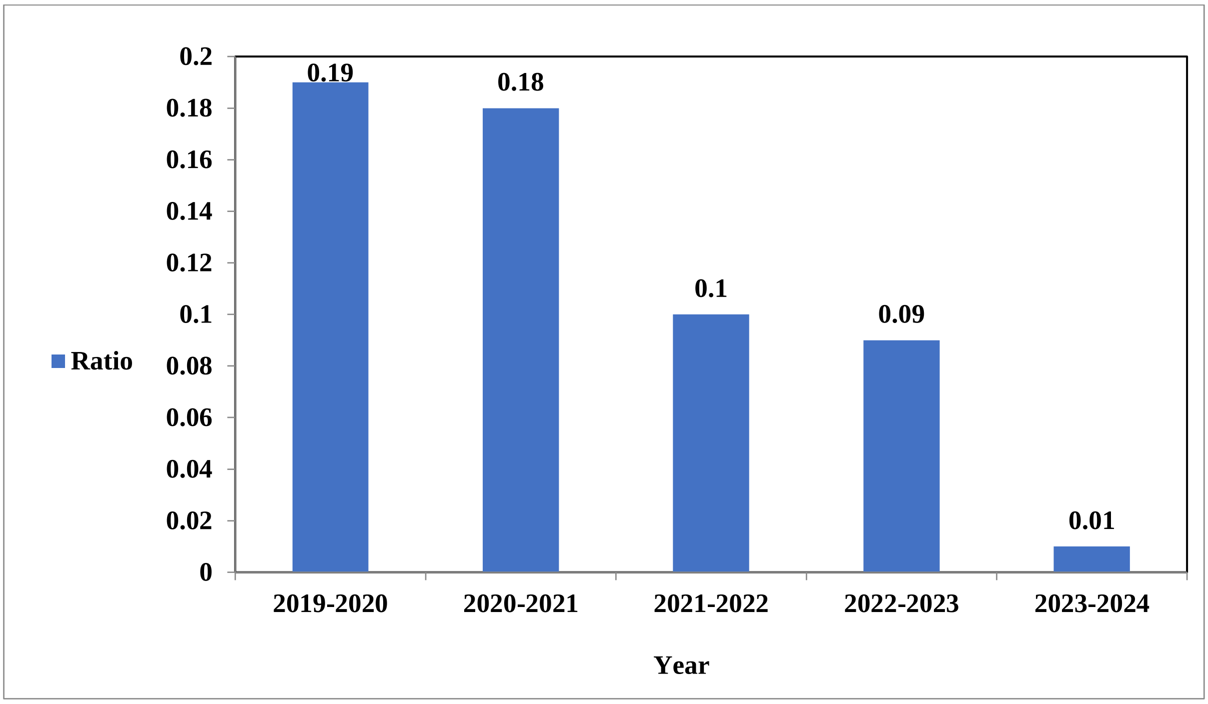
Table 4.1.1

Interpretation

The above table 4.1.1 indicates that the Working capital ratio is 0.19 in the year of 2019-20. It has decreased to 0.18 in the year of 2020-21. It has decreased to 0.10 in the year of 2021-22. It has further decreased to 0.09 and 0.01in the year of 2022-23 and 2023-24 respectively

Chart No: 4.1.1

WORKING CAPITAL RATIO



RETURN ON INVESTMENT RATIO -ANALYSIS

The term in investment may refer to total assets or net assets. The conventional approach of calculating return on investment is to divide profit after tax by investment.

$$\text{Return on investments} = \frac{\text{Operating profit}}{\text{Capital employed}}$$

Table No: 4.2.1

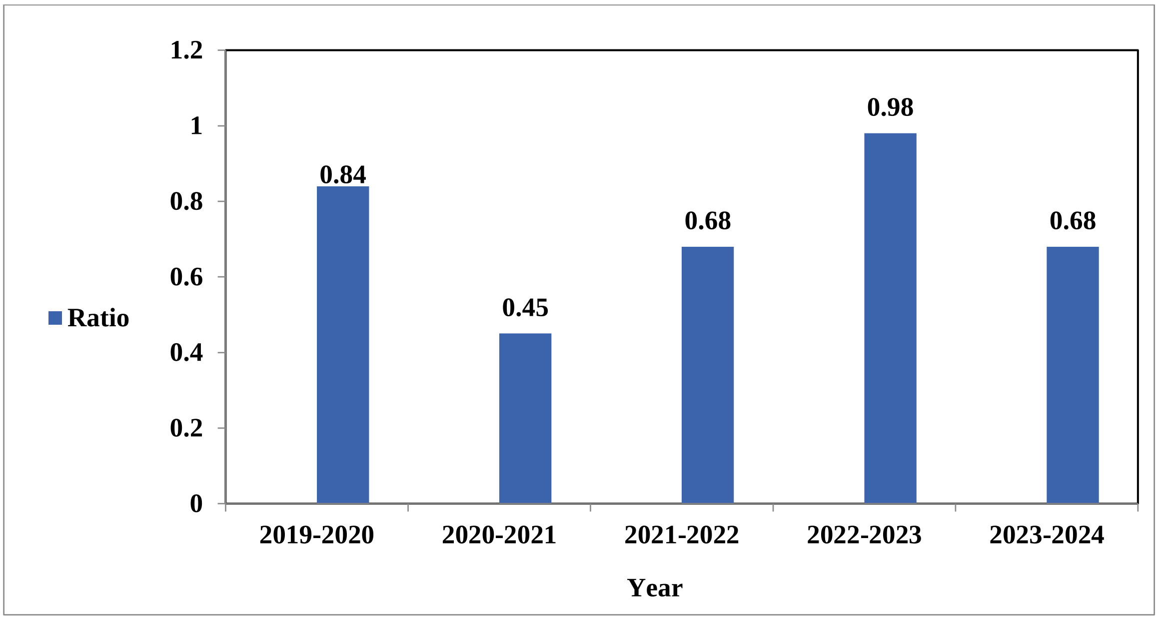
RETURN ON INVESTMENT			
Year	**Operating profit**	**Capital employed**	**Ratio**
2019-2020	34.11	40.85	0.84
2020-2021	22.81	50.77	0.45
2021-2022	26.81	39.27	0.68
2022-2023	38.26	38.91	0.98
2023-2024	38.66	57.11	0.68

Interpretation

The above Table 4.2.1 indicates that the return on investment ratio is 0.84 in the year of 2019-20. It has decreased to 0.45 in the year of 2020-21. It has increased to 0.68 in the year of 2021-22. It has further increased to 0.98 in the year of 2022-23. It has decreased to 0.68 in the year of 2023-24.

Chart No: 4.2.1

RETURN ON INVESTMENT



V. FINDINGS

WORKING CAPITAL RATIO

The working capital ratio stood at 0.19 in the financial year 2021–22, indicating a modest liquidity position. In 2022–23, the ratio slightly declined to 0.18, suggesting a marginal tightening in short-term financial stability. This downward movement reflects a need for improved current asset management to meet short-term liabilities.

RETURN ON INVESTMENT RATIO

The return on investment (ROI) ratio demonstrated notable improvement during the period. It increased to 0.68 in 2021–22, showing a positive return on capital employed. The upward trend continued in 2022–23, reaching 0.98, reflecting enhanced efficiency in generating profits from investments and signaling stronger overall financial performance.

VI. SUGGESTIONS

- Liquidity ratio here reflects the firm ability to meet short term current obligation. An analysis of these ratio revealed that the liquidity position have been satisfactory.
- Turnover ratio indicates the turnover position of the company .here ratio reflects high turnover on the basis of five years is good.
- The financial performance of the company is good, so this company capture high market share and growth.

- There should be close co-ordination between production, sales, inventory and credit collection .it should back by an efficient information system.
- Fund is proper allocated to fixed assets and current assets. it should possible for the company to carry on the work smoothly without paucity.

VII. CONCLUSION

The working capital analysis of Subburaaj Cotton Mill (P) Limited reveals critical insights into the operational and financial management practices of the firm. While the company has shown strength in receivables management, its overall liquidity position has weakened over the last five years. Inventory inefficiencies and low working capital ratios underscore the urgent need for improved financial discipline and strategic planning. Proper utilization and control over current assets and liabilities can significantly enhance the company's ability to fund its operations without relying excessively on external borrowing. Financial indicators, when regularly monitored, can act as a compass for business stability and strategic growth. In conclusion, the firm must prioritize scientific working capital management methods, improve coordination among key departments, and adopt data-driven financial strategies. These changes will help ensure long-term solvency, better stakeholder value, and sustainable competitiveness in the textile industry.

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