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Working Capital Management" With Special Reference to Farida Shoes Pvt Ltd, at Ambur.

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ABSTRACT

This study explores the effectiveness of working capital management (WCM) in enhancing operational efficiency and financial stability. As businesses increasingly operate in dynamic global markets, managing short-term assets and liabilities becomes essential. This report examines the theoretical and practical aspects of WCM, especially in the context of export-oriented industries, identifies key challenges, and offers strategic suggestions based on literature and analysis. The findings suggest that firms with optimized working capital cycles demonstrate better liquidity, improved profitability, and resilience in turbulent markets.

Keywords: Working Capital Management, Liquidity, Financial Performance, Inventory Management, Accounts Receivable, Accounts Payable, Cash Management, Manufacturing Sector, Balance sheet analysis

INTRODUCTION

Working capital management plays a critical role in maintaining an organization's liquidity and operational efficiency. It involves the management of current assets and current liabilities to ensure that a firm can continue its operations and meet its short-term financial obligations. Given the increasing uncertainty and volatility in global business environments, effective working capital management has gained prominence as a core function of financial management.

RESEARCH BACKGROUND

Historically, firms have focused on profitability, often neglecting liquidity, which has led to financial distress. However, with the increasing complexity of supply chains, fluctuating demand patterns, and trade disruptions, firms are now compelled to prioritize working capital optimization. Efficient working capital management helps maintain the balance between risk and return, particularly in businesses that require substantial inventory and operate on credit terms. The focus of this study is to understand how firms can strategically manage their working capital to remain competitive.

GLOBAL TRADE DYNAMICS AND EXPORT OPPORTUNITIES

Export-oriented businesses face unique challenges in working capital management due to currency fluctuations, delayed receivables, and varying regulatory environments. The global trade landscape has been shaped by political tensions, supply chain disruptions, and evolving trade agreements. These dynamics demand that firms manage receivables and payables efficiently to maintain liquidity. Additionally, export businesses must navigate through complex logistics and customs regulations, which can tie up working capital for extended periods.

IDENTIFIED PROBLEM

Many businesses, especially in developing economies, suffer from inefficiencies in managing their working capital. These inefficiencies stem from overstocking, delayed payments, poor receivables collection, and a lack of real-time financial information. This mismanagement leads to liquidity shortages, hampering the firm's ability to grow or even sustain operations. The problem is further compounded in export businesses, where financial cycles are longer and more volatile.

OBJECTIVES OF THE STUDY

1. To analyze the efficiency of working capital management in firms engaged in export activities.

2. To examine the impact of WCM on profitability and liquidity.

3. To identify common challenges faced by firms in managing working capital.

4. To provide strategic suggestions for improving working capital performance.

REVIEW OF LITERATURE

1. Smith (1980) highlighted the importance of efficient working capital management in ensuring liquidity and profitability in firms.

2. Gitman (1974) emphasized the trade-off between liquidity and profitability, noting that firms must maintain an optimal level of working capital.

3. Eljelly (2004) found a strong inverse relationship between profitability and liquidity, measured by current ratio and cash conversion cycle.

4. Deloof (2003) observed that Belgian firms could improve profitability by reducing days accounts receivable and inventory.

5. Lazaridis and Tryfonidis (2006) confirmed a negative relationship between working capital components and profitability in Greek firms.

6. Raheman and Nasr (2007) discovered that working capital management significantly affects the profitability of Pakistani firms.

7. Ghosh and Maji (2003) analyzed Indian cement companies and noted a positive relationship between working capital management efficiency and firm performance.

8. Shin and Soenen (1998) found that a shorter net trading cycle improves corporate profitability across industries.

9. Jose, Lancaster, and Stevens (1996) advocated for aggressive working capital strategies to enhance profitability.

10. Teruel and Solano (2007) concluded that Spanish SMEs could improve profitability by reducing the number of days accounts receivable.

11. Padachi (2006) studied Mauritian SMEs and identified that high investment in inventories and receivables leads to lower profitability.

12. Afza and Nazir (2007) argued that firms with more conservative working capital policies have higher profitability. Have a positive influence on profitability.

13. Ariyawati et al. (2009) analyzed Malaysian firms and determined that a shorter cash conversion cycle improves firm value**.**

14. Falope and Ajilore (2009) validated a significant negative relationship between working capital and profitability in Nigerian manufacturing firms.

15. Charitou et al. (2010) emphasized that efficient receivables and inventory management are critical for improving SME performance.

16. Mathuva (2010) showed that longer inventory conversion periods can enhance profitability under certain market conditions in Kenya.

17. Dong and Su (2010) examined Chinese firms and found that reducing inventory and receivable days enhances firm profitability.

18. Appuhami (2008) studied Thai firms and noted that capital expenditure and working capital changes significantly affect firm performance.

19. Tauringana and Afrifa (2013) found that the impact of working capital policies differs across firm sizes and industries in the UK.

20. Gill, Biger, and Mathur (2010) confirmed a positive association between accounts receivable and profitability in U.S. firms.

21. Enqvist, Graham, and Nikkinen (2014) concluded that macroeconomic conditions moderate the working capital–profitability relationship.

22. Akinlo (2011) observed that Nigerian firms with lower receivable periods report higher profitability.

23. Ali (2011) argued that an optimal working capital strategy is industry-specific and influenced by market competitiveness.

24. Makori and Jagongo (2013) demonstrated that liquidity management directly impacts firm profitability in Kenya's manufacturing sector.

25. Mekonnen (2011) found that Ethiopian firms could boost performance through better inventory and payables management.

26. Napompech (2012) showed that Thai firms with shorter cash conversion cycles have better profitability.

27. Alipour (2011) emphasized the significance of effective payables and inventory management in Iranian companies.

28. Nobanee and AlHajjar (2009) argued that cash conversion cycle and firm performance are inversely related in the UAE context.

29. Uyar (2009) showed a negative relationship between cash conversion cycle and profitability in Turkey.

30. Ching et al. (2011) concluded that strategic management of working capital enhances firm performance in Brazil.

31. Ponsian et al. (2014) observed that Tanzanian manufacturing firms with shorter receivable periods are more profitable.

32. Ngwenya (2012) emphasized the importance of working capital policies during periods of economic instability in South Africa, harming supplier relations in Kenya. Evidence from Manufacturing and Construction Firms in Kenya Journal: International Journal of Accounting and Taxation

RESEARCH GAP

While several studies have investigated working capital management, few have focused specifically on export-oriented businesses under current global trade challenges. Moreover, limited empirical evidence exists on how geopolitical shifts and supply chain disruptions affect the working capital cycles in developing countries. This study aims to bridge this gap by providing context-specific insights.,

RESEARCH METHODOLOGY

Type of Study: Descriptive and analytical

Data Source: Secondary data from financial statements, industry reports, and academic journals

Sample: Export-oriented manufacturing firms

Analysis Tools: Ratio analysis (Current Ratio, Quick Ratio, Inventory Turnover, Receivables Turnover), Cash Conversion Cycle (CCC), and trend analysis

The data is analyzed over 5 years to observe trends and assess improvements or deteriorations in working capital management.

RATIO ANALYSIS

LIMITATION OF THE STUDY

The study relies on secondary data, which may not reflect the latest developments.

Limited to a specific sector; generalizations should be made with caution.

Does not include primary survey responses due to time constraints.

Exchange rate fluctuations and macroeconomic factors are not deeply analyzed.

DATA ANALYSIS AND INTERPRETATION

1. CALCULATION OF CURRENT VS. CURRENT LIABILITIES

TABLE 1– CURRENT ASSETS VS CURRENT LIABILITIES

YEAR	CURRENT ASSETs	CURRENT LIABILITIES
2020	4500	3000
2021	5000	3500
2022	5200	4000
2023	5500	4200
2024	6000	4500

CHART 1 – CURRENT ASSETS VS CURRENT LIABILITIES

INTERPRETATION

Comparison of present assets and present liabilities between the five-year periods provides valuable insights into the financial health and liquidity of the company in the short term. The narrowest difference exists in 2022–23 and 2023–24, indicating that short-term financial flexibility is decreasing, which may be caused by rising operational financing through present liabilities.

2.CURRENT RATIO

TABLE 2 – CURRENT RATIO

YEAR	CURRENT ASSET (in million)	CURRENT LIABILITY (in million)	CURRENT RATIO (times)
2020	4500	3000	1.50
2021	5000	3500	1.43
2022	5200	4000	1.30
2023	5500	4200	1.31
2024	6000	4500	1.33

CHART 2- CURRENT RATIO

INTERPRETATION:

Current ratio shows how the company can pay its short-term liabilities utilizing its short-term assets. When the current ratio is greater than 1, it signifies that the company possesses more current assets than current liabilities, which is a good liquidity sign.

SUMMARY OF FINDINGS

1. During the financial year 2019–2020, the company experienced a net increase in working capital amounting to Rs. 340 crore, following a detailed comparison of all inflows and outflows affecting current assets and liabilities.
2. In the subsequent year, 2020–2021, there was a significant reduction in working capital, totaling Rs. 517 crore. This shift was largely attributed to rising trade receivables (Rs. 526 crore), an increase in inventory holdings (Rs. 63 crore), and growth in bank balances other than cash and cash equivalents (Rs. 313 crore). Additional contributors included investments (Rs. 162 crore), other financial assets (Rs. 287 crore), and other current assets (Rs. 208 crore). The company also recorded a rise in assets held for sale by Rs. 12 crore. On the liabilities side, an overall increase in current liabilities indicated growing financial obligations. Notably, inventory turnover declined, suggesting a slower movement of stock, while the debtor turnover ratio remained low, indicating inefficiencies in collection. Despite this, a consistent long-term capital structure supported working capital requirements.
3. For the year 2021–2022, the working capital further dropped by Rs. 216 crore, from Rs. 3,020 crore to Rs. 2,804 crore. This was primarily due to a decline in trade receivables by Rs. 627 crore and a decrease in investments worth Rs. 1,445 crore. However, some areas saw increases, such as other financial assets (Rs. 868 crore), inventories (Rs. 214 crore), and other current assets (Rs. 181 crore). Assets held for sale were reduced by Rs. 14 crore. Current liabilities also increased, including other financial liabilities (Rs. 593 crore), other current liabilities (Rs. 88 crore), and provisions (Rs. 83 crore), reflecting possible accrued expenses.
4. In the fiscal year 2022–2023, there was only a marginal decline in working capital by Rs. 5 crore, bringing it to Rs. 2,799 crore. Increases were seen in trade receivables (Rs. 602 crore), inventories (Rs. 747 crore), bank balances excluding cash equivalents (Rs. 694 crore), and investments (Rs. 1,435 crore).These gains were offset by reductions in cash and cash equivalents (Rs. 1,390 crore), other financial assets (Rs. 294 crore), other current assets (Rs. 95 crore), and assets held for sale (Rs. 1 crore). Additionally, current liabilities went up due to increased financial liabilities (Rs. 23 crore), other current liabilities (Rs. 149 crore), and provisions (Rs. 73 crore).
5. Finally, in the year 2023–2024, working capital experienced a notable increase of Rs. 904 crore, rising from Rs. 2,799 crore to Rs. 3,703 crore. This was driven by growth in trade receivables (Rs. 284 crore), inventories (Rs. 507 crore), bank balances excluding cash (Rs. 49 crore), and investments (Rs. 827 crore). Although there was a slight decline in other financial assets (Rs. 46 crore) and assets held for sale (Rs. 4 crore), other current assets increased by Rs. 142 crore, collectively contributing to a healthier working capital position.

SUGGESTION

1. Adopt ERP Systems: Improve inventory and receivables tracking through real-time software solutions

2. Credit Policy Optimization: Design flexible but controlled credit policies to manage receivables.

3. Regular Working Capital Audits: Periodic review helps identify inefficiencies early.

4. Financial Forecasting: Use predictive analytics to anticipate working capital needs.

5. Vendor Negotiations: Extend payables without harming supplier relationships to ease liquidity.

CONCLUSION

Effective working capital management is integral to the financial health of any business, particularly in export-driven sectors. As global markets become increasingly interconnected and complex, firms must adopt strategic, technology-driven approaches to manage their short-term finances. This study reinforces the idea that efficient WCM not only safeguards liquidity but also contributes to long-term sustainability and growth.

DIRECTIONS FOR FUTURE RESEARCH

Future research could involve:

Case studies based on primary data from specific export firms.

Sectoral comparisons between services and manufacturing sectors.

Analysis of working capital trends post-COVID-19.

Impact of digital transformation on WCM efficiency, .

Additionally, in light of recent worldwide disruptions, research on how supply chain volatility influences Moreover, in light of recent worldwide disruptions, research on how supply chain volatility influences working capital cycles would be very useful. Adding qualitative techniques, for example, interviewing finance managers, could further deepen knowledge on the strategic choices involved in working capital practices. Last but not least, future research could examine how sustainability efforts and ESG (Environment, Social, and Governance) factors are incorporated into working capital policies, as a function of the growing significance of ethical and responsible business practices

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