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Working Capital Performance in Small and Medium-Sized Enterprises (SMEs)

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ABSTRACT

Small and medium-sized enterprises (SMEs) provide employment, support household incomes and keep local markets active, yet most of them operate with very thin cash reserves. For such firms, the routine handling of short-term funds often decides whether the business remains steady or runs into difficulty. This paper studies the working capital performance of M Tek Copper Ltd. (formerly Madhav Copper Ltd.) over the five financial years from 2020–21 to 2024–25, using secondary data published by the company. Net working capital, the current ratio and the quick ratio were worked out from the reported current assets, current liabilities and inventory, and the structure of current assets was examined through inventory, trade receivables and cash. To make the years easier to compare, three of these indicators were also converted into a simple ordinal score from 1 to 5. Net working capital remained positive in every year, increasing from ₹31.58 crore to ₹58.13 crore. The current ratio went up from 1.39 to 12.99, largely because current liabilities came down from ₹80.42 crore to ₹4.85 crore. Cash and bank balances, on the other hand, stayed extremely low throughout, which means the healthy-looking ratios need to be interpreted with caution.

Keywords: working capital, SMEs, liquidity, current ratio, quick ratio, net working capital, secondary data.

1. Introduction

SMEs form the backbone of most economies. They hire a large share of the workforce, cater to local demand and give new entrepreneurs a place to start. Despite this, many of them struggle to stay on a sound financial footing. They work with limited funds, and a minor mistake in day-to-day operations can prove costly.

Much of those day-to-day operations revolve around working capital, which includes cash, stock, amounts due from customers and the short-term bills that have to be paid. When these items are in balance, a firm can purchase raw materials, pay salaries and clear supplier dues without strain. When they are out of balance, the firm may run short of cash, end up with unsold goods, wait too long for customer payments or delay paying its own creditors. Looking closely at working capital is therefore a sensible way to judge the real health of an SME.

This paper takes up the case of one listed small enterprise, M Tek Copper Ltd., using its annual reports and other published financial records. Its purpose is to trace how the company's short-term financial position changed over five years and what this change reveals about its liquidity and stability.

2. Statement of the Problem

SMEs rarely have deep financial reserves to fall back on. When a large part of their money is tied up in stock or in amounts owed by customers, little remains for other needs, and when working capital is too small, even routine payments become difficult. Stock that moves slowly, payments that arrive late and pressure from suppliers can all weaken a small firm over time. It is therefore worth tracking how an SME's short-term assets and liabilities change over time. This study does so for one company, relying on its reported financial figures rather than on opinions collected through a survey.

3. Review of Literature

Working capital management has been a core topic in finance for decades, since it connects a firm's daily operations with its overall financial health. Early writers saw it mainly as a trade-off. Holding more liquid assets protects a firm against being unable to pay its bills on time, but it can also lower profitability, because money that sits idle earns very little (Smith, 1980).

Subsequent studies tested this view using company data. Working with Belgian firms, Deloof (2003) found that longer periods of collecting receivables and holding inventory were associated with lower profitability, and suggested that managers could create value by reducing them. Shin and Soenen (1998), studying listed American companies, likewise reported that a shorter net trade cycle went hand in hand with higher profitability and better stock

returns. Focusing on smaller firms, García-Teruel and Martínez-Solano (2007) showed that Spanish SMEs with a shorter cash conversion cycle earned higher returns, a result they linked to the difficulty small businesses face in obtaining external finance.

Taken together, these studies indicate that the way a firm handles its cash, inventory, receivables and payables can affect both its liquidity and its profitability, and that SMEs are particularly sensitive to this. [Add 4–6 more sources you have personally read, preferably including Indian studies on SME working capital, and cite them here in your own words.]

4. Research Gap

Most previous studies either concentrate on a single component of working capital, such as inventory or receivables, or examine overall financial performance using large samples of firms. Very few follow the reported figures of one small listed company over several years to show how its liquidity structure has changed. This paper attempts to address part of that gap by tracking the net working capital, liquidity ratios and current asset composition of M Tek Copper Ltd. over five consecutive years.

5. Conceptual Framework

The framework adopted in this study connects the way a firm manages its short-term resources with the strength of its short-term financial position. It moves through three stages, as shown in Figure 1.

The first stage consists of the working capital components, namely cash and bank balances, inventory, trade receivables and current liabilities. These are the items a firm deals with every day, and each one is taken directly from the balance sheet.

The second stage contains the indicators calculated from these components. Net working capital, the current ratio, the quick ratio and the cash ratio show the extent to which current assets cover current liabilities, while the shares of inventory, receivables and cash in current assets show what that liquidity is made up of.

The third stage is the outcome. The indicators are used to assess the company's liquidity position, and a healthy liquidity position is treated as an indication of financial stability. The underlying assumption is that the balance an SME keeps between its short-term assets and obligations decides how easily it can pay its dues and keep operating.

Profitability measures, such as return on assets and net profit margin, are shown with a dashed border because the data set used here does not include profit or total asset figures. They are kept in the framework as a direction for future research, where the link between working capital and financial performance could be tested with more firms and fuller data.

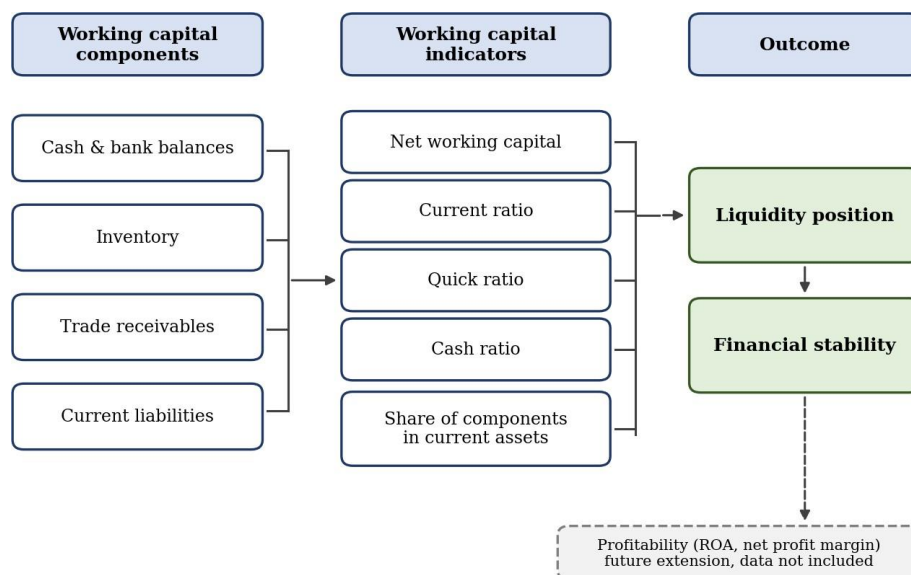


Figure 1: Conceptual Framework of the Study

6. Objectives of the Study

- To examine the working capital position of M Tek Copper Ltd. over the period 2020–21 to 2024–25.
- To evaluate the company's liquidity through net working capital, the current ratio and the quick ratio.
- To analyse the contribution of inventory, trade receivables and cash to the company's current assets.

- To understand how changes in current liabilities influenced the company's liquidity and stability.

7. Research Methodology

7.1 Research design

The study is descriptive and analytical. It describes the working capital position of the chosen company and analyses how this position changed from one year to the next. As only secondary data are used, there are no survey respondents.

7.2 Sample and period

This is a single-company case study of M Tek Copper Ltd. (formerly Madhav Copper Ltd.). The company was selected purposively because its financial information for five consecutive years was available in the public domain. The period of study covers the financial years 2020–21 to 2024–25.

7.3 Data source

Data were collected from the company's annual reports and other publicly available financial records. The variables are revenue, current assets, current liabilities, inventory, trade receivables, and cash and bank balances, all stated in ₹ crore and rounded off.

7.4 Tools of analysis

Ratio analysis and trend analysis are used to study the data. The following measures are applied:

- Net working capital = Current assets – Current liabilities
- Current ratio = Current assets ÷ Current liabilities
- Quick ratio = (Current assets – Inventory) ÷ Current liabilities
- Cash ratio = Cash and bank balances ÷ Current liabilities
- Share of each component = Inventory (or receivables, or cash) ÷ Current assets × 100

7.5 Ordinal scoring of ratios

To make the five years easier to compare, the current ratio, the quick ratio and net working capital are each scored on a five-point ordinal scale, where 1 means very low and 5 means very high. The researcher fixed the score bands, which are listed below Table 5. This is a coding of reported figures, not a survey-based Likert scale, so every score can be traced to a figure in the company's financial statements.

7.6 Scope

The analysis rests on only five observations from one company, so regression and correlation tests are not used, as they would give unreliable results with so few data points. The paper reports patterns and interpretations only and does not claim statistical proof of any relationship.

8. Data Presentation

Table 1: Five-Year Financial Data of M Tek Copper Ltd. (₹ crore)

Financial year	Revenue	Current assets	Current liabilities	Inventory	Trade receivables	Cash & bank	Net working capital
2020–21	383.00	112.00	80.42	49.47	36.30	0.32	31.58
2021–22	122.00	97.61	62.15	34.62	36.50	0.38	35.46
2022–23	0.00*	88.86	62.34	33.66	28.86	0.22	26.52
2023–24	35.50	50.62	9.63	30.72	5.14	0.27	40.99
2024–25	124.67	62.98	4.85	35.82	10.89	0.29	58.13

Source: Annual reports of the company and other publicly available financial records. *The 2022–23 revenue figure has not yet been verified against the audited annual report, so revenue is excluded from the ratio analysis.

8. Data Analysis and Interpretation

8.1 Net working capital

Table 2: Net Working Capital (₹ crore)

Financial year	Current assets	Current liabilities	Net working capital	Observation
2020–21	112.00	80.42	31.58	Positive position
2021–22	97.61	62.15	35.46	Slight increase
2022–23	88.86	62.34	26.52	Lowest of the period
2023–24	50.62	9.63	40.99	Sharp recovery
2024–25	62.98	4.85	58.13	Highest of the period

Source: Compiled from the annual reports of M Tek Copper Ltd.

Net working capital remained positive in all five years, meaning that current assets were higher than current liabilities throughout the period. It was ₹31.58 crore in 2020–21 and ₹35.46 crore in 2021–22, fell to ₹26.52 crore in 2022–23, and then climbed to ₹40.99 crore and ₹58.13 crore in the final two years. Over the full period it increased by about 84 per cent. What is notable is that this increase did not come from a larger base of current assets. In fact, current assets declined by roughly 44 per cent, from ₹112.00 crore to ₹62.98 crore. The improvement occurred because current liabilities fell much faster, by about 94 per cent.

8.2 Current ratio

Table 3: Current Ratio and Quick Ratio

Financial year	Current ratio	Quick ratio	Cash ratio
2020–21	1.39	0.78	0.004
2021–22	1.57	1.01	0.006
2022–23	1.43	0.89	0.004
2023–24	5.26	2.07	0.028
2024–25	12.99	5.60	0.060

Source: Calculated from Table 1.

During the first three years, the current ratio stayed within a narrow band of 1.39 to 1.57, which indicates a moderate and fairly steady position. It then rose sharply to 5.26 in 2023–24 and to 12.99 in 2024–25. Nearly all of this increase is explained by the steep drop in current liabilities, from ₹62.34 crore in 2022–23 to ₹9.63 crore in 2023–24, a fall of around 85 per cent within a single year. A ratio this high does not by itself mean that operations became stronger. It simply shows that the company had very few short-term obligations relative to the current assets it held.

8.3 Quick ratio

The quick ratio, which leaves inventory out of current assets, moved in the same direction. It stood at 0.78 in 2020–21, increased to 1.01 in 2021–22, eased to 0.89 in 2022–23 and then rose to 2.07 and 5.60. Because it was below 1 in 2020–21 and 2022–23, the company could not have met all its current liabilities from liquid assets alone in those years without selling part of its inventory. From 2023–24 onwards this concern no longer applies, once again because current liabilities had become so small.

8.4 Composition of current assets

Table 4: Share of Components in Current Assets (per cent)

Financial year	Inventory	Trade receivables	Cash & bank
2020–21	44.2	32.4	0.3
2021–22	35.5	37.4	0.4

Financial year	Inventory	Trade receivables	Cash & bank
2022–23	37.9	32.5	0.2
2023–24	60.7	10.2	0.5
2024–25	56.9	17.3	0.5

Source: Calculated from Table 1. The rest of current assets consists of other current assets that are not shown separately in Table 1.

Two points stand out from Table 4. First, trade receivables declined steeply, from ₹36.30 crore in 2020–21 to ₹10.89 crore in 2024–25, and their share in current assets came down from about 32 per cent to 17 per cent. In 2023–24 they amounted to just ₹5.14 crore, against ₹28.86 crore in the previous year. This could indicate faster collection from customers, but it could equally be the result of lower credit sales, so it cannot be described as an improvement without examining sales data. Second, inventory remained between ₹30 crore and ₹50 crore throughout the period and accounted for more than half of current assets by 2023–24. As the other items became smaller, the company's liquidity came to rely increasingly on its stock.

Cash and bank balances were very low in every year, never exceeding ₹0.40 crore, and the cash ratio stayed below 0.07 even in its best year. Thus, although the current ratio was close to 13 in 2024–25, the company held very little actual cash against its short-term obligations.

8.5 Ordinal scoring of the ratios

Table 5: Ordinal Scores (1 = very low, 5 = very high)

Financial year	Current ratio	Score	Quick ratio	Score	NWC (₹ cr)	Score	Total (out of 15)
2020–21	1.39	3	0.78	2	31.58	3	8
2021–22	1.57	3	1.01	4	35.46	3	10
2022–23	1.43	3	0.89	3	26.52	2	8
2023–24	5.26	5	2.07	5	40.99	4	14
2024–25	12.99	5	5.60	5	58.13	5	15

Score bands set by the researcher. Current ratio: below 1.0 = 1; 1.0–1.33 = 2; 1.33–1.66 = 3; 1.66–2.0 = 4; above 2.0 = 5. Quick ratio: below 0.5 = 1; 0.5–0.8 = 2; 0.8–1.0 = 3; 1.0–1.5 = 4; above 1.5 = 5. Net working capital (₹ crore): below 20 = 1; 20–30 = 2; 30–40 = 3; 40–50 = 4; above 50 = 5.

The total score was 8 in 2020–21, rose to 10 in 2021–22, fell back to 8 in 2022–23 and then reached 14 and 15 in the last two years. This pattern agrees with the ratio analysis, showing a modest start, a dip in 2022–23 and a clear improvement in the final two years. Since the scores are based on only three indicators and on bands chosen by the researcher, they should be seen as a summary aid rather than a precise measure of performance.

9. Findings and Discussion

- Net working capital was positive throughout the five years and reached its highest level of ₹58.13 crore in 2024–25.
- The current ratio remained between 1.39 and 1.57 for the first three years and then increased to 5.26 and 12.99, well above the levels generally considered adequate.
- The quick ratio increased from 0.78 to 5.60, although it was below 1 in 2020–21 and 2022–23.
- The improvement in liquidity was driven mainly by a decline of about 94 per cent in current liabilities, even though current assets themselves fell.
- Inventory became the largest component of current assets in the later years, whereas cash and bank balances remained very low throughout.
- Trade receivables declined by about 70 per cent over the study period.

On paper, therefore, the company moved from a moderate liquidity position to a very comfortable one. Such a high ratio, however, is not necessarily a sign of good management. Very high liquidity may mean that funds are lying idle, and a sudden drop in liabilities could be due to the repayment of loans or dues, the settlement of obligations, a change in the scale of operations or a change in the way items are classified. The financial statements alone, without the notes to accounts, cannot reveal which of these explanations applies. This is a limitation of the available data and not a judgement on the company.

These results are also consistent with the wider view in the literature that liquidity must be weighed against the productive use of funds (Smith, 1980). The company seems to have reduced its short-term obligations considerably, yet it held very little cash, which leaves its liquidity heavily dependent on the sale of inventory.

10. Limitations of the Study

- The study covers only one company over five years, so its findings cannot be generalised to all SMEs.
- Because of the small number of observations, regression and correlation analysis were not attempted.
- Revenue figures, particularly for 2022–23, are yet to be verified against the audited reports, so sales-based measures such as receivables turnover and sales growth have not been calculated.
- The data set does not include cost of goods sold, net profit or total assets, so inventory turnover, the cash conversion cycle, return on assets and net profit margin could not be worked out.
- The ordinal scores depend on score bands chosen by the researcher.

11. Suggestions and Recommendations

On the basis of the analysis, the following suggestions are offered for the company and for SMEs in a similar position:

- Maintain a healthier cash balance, since cash and bank balances were very low even in years when the current ratio was very high.
- Monitor inventory carefully, as it now makes up more than half of current assets, and avoid holding slow-moving stock.
- Examine whether the very high liquidity of recent years could be used more productively, for instance for expansion or modernisation, without affecting the ability to meet short-term obligations.
- Review receivables at regular intervals and document the reasons for any sharp change, so that a genuine improvement in collections can be distinguished from a fall in sales.
- Prepare cash budgets and review working capital ratios every year on the basis of up-to-date financial records.

Future studies could extend this work by covering more SMEs, gathering data on cost of goods sold, net profit and total assets, and testing the relationship between working capital and profitability through regression analysis.

12. Conclusion

Working capital is what keeps an SME going from day to day, and the way it is managed has a direct bearing on the firm's liquidity and stability. This study analysed M Tek Copper Ltd. Over five financial years using secondary data. Net working capital stayed positive and was at its highest in 2024–25, and both the current and quick ratios rose sharply in the last two years. This was mainly the result of a steep decline in current liabilities rather than any growth in current assets. At the same time, the company held very little cash, and its liquidity came to depend more and more on inventory.

The study concludes that the company's liquidity improved substantially over the period, but the quality of this liquidity needs to be assessed together with cash availability, inventory movement and sales. A study covering more firms and fuller financial data would make it possible to test the link between working capital and profitability properly.

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