



A Study on the Impact of Working Capital Management on the Profitability of Selected Indian Companies

Owner: Shruti Sadanand Patil,

Co-owner: Dr. Vinod Sayankar

¹ Zeal Institute of Business Administration, Computer Application & Research Pune

² Zeal Institute of Management & Computer Application, Pune
Savitribai Phule Pune University

Abstract – Working capital management, measured through components such as cash conversion cycle (CCC), accounts receivable, inventory holding period and accounts payable, plays a critical role in determining a company's liquidity and profitability. The primary objectives of earlier studies are to analyze the relationship between WCM components and profitability, examine industry differences, and identify effective working capital practices. Most studies show that shorter CCCs and effective accounts receivable and inventory management have a positive impact on profitability measures such as return on assets (ROA) and return on equity (ROE). However, issues such as small sample size, short study period, limited coverage, and methodological constraints reduce the reliability and generalizability of the results. The main research gaps are the lack of comprehensive cross-industry research on Indian companies and the limited use of advanced panel data techniques. To fill this gap, this study uses a quantitative research method using panel data analysis. Secondary data is collected from reliable annual reports and financial databases. The study concludes that effective working capital management significantly enhances profitability, though its impact varies across industries and firm size.

Keywords – Working Capital Management, Profitability, Cash Conversion Cycle, Indian Companies, Liquidity Management.

I. INTRODUCTION

Working capital management (WCM) plays a critical role in determining a company's financial health and operational performance. It refers to the management of short-term assets and liabilities that ensures that a company maintains sufficient liquidity to carry out its day-to-day operations while maximizing profitability.

Effective working capital management ensures a balance between liquidity and profitability, which is important for business sustainability and growth.

In emerging economies like India, where companies operate in a dynamic and competitive environment, the importance of effective working capital management becomes even more apparent. Indian businesses, especially in sectors such as manufacturing, FMCG, and pharmaceuticals, face challenges related to demand fluctuations, credit policies, inventory management, and cash flow constraints.

Improper working capital management can lead to liquidity crises, increased borrowing costs, and ultimately reduced profitability.

The relationship between working capital management and profitability has been the subject of extensive research in the field of financial management.

Key elements of working capital, such as accounts receivable and payable, inventory levels, and cash conversion cycles, directly impact a company's profitability.

For example, shorter cash conversion cycles mean more efficient resource management, which can lead to higher profitability. Conversely, over-investing in liquid assets can reduce risk, but may also lead to lower returns due to idle funds.

In recent years, the rise of globalization, technological advances, and economic reforms in India have forced companies to adopt more effective financial management techniques. The introduction of policies such as the Goods and Services Tax (GST) is also impacting the working capital cycle, changing tax structures and supply chain efficiency. Therefore, it is relevant and necessary to analyze the impact of working capital management on the profitability of the Indian corporate sector.

The objective of this study is to investigate the relationship between working capital management and profitability of selected Indian companies.

This study aims to determine whether and to what extent effective working capital management contributes positively to profitability by analyzing financial data and key performance indicators. The results of this study will help financial managers, investors, and policy makers make informed decisions and improve business performance.



II. LITERATURE REVIEW

1.Kumar and Timmaya (2016)

Working Capital Management - Impact on Liquidity and Profitability: A Study by Coal India Ltd.

This article examines the relationship between working capital and profitability for Coal India Limited. The results show a low correlation and negative relationship between liquidity and profitability, indicating that working capital decisions have complex implications.

2.Shin and Kaur (2017)

Working Capital Management and Profitability: Evidence from Selected Steel Companies in India.

The study examines the components of working capital (inventories, accounts receivable, cash conversion cycle) and finds that they significantly profitability influence ratios such as net profit and return on assets in the steel sector.

3. Nesa Kumari and Antuvan (2017)

A study on the impact of working capital management on profitability of major Indian automobile companies (2006-2012)

This sector analysis highlights the impact of working capital practices on the profitability of India's leading automakers, thereby reinforcing the role of effective current asset/liability management.

4. "How does working capital management affect the profitability of Indian companies?" (2018)

This paper uses GMM methodology to demonstrate an inverted U-shaped relationship between working capital management and profitability in a large sample of Indian companies and suggests optimal working capital levels for profit maximization.

5. Rastogi and Kumar (2018)

The relationship between working capital and profitability: The case of Dr. Reddy's laboratory. This case study shows how working capital decisions impact profitability metrics such as return on assets and net income in the pharmaceutical industry.

Data Analysis

1.Years of Experience

Below 2 years	2-5 years	5-10 years	Above 10 years
20.80%	26.40%	33%	19.80%

Most respondents (33%) have 5–10 years of experience, followed by 2–5 years (26.40%). Fewer respondents fall in below 2 years (20.80%) and above 10 years (19.80%), showing a focus on mid-level experience.

2. .Effective Cash management improves daily business operations

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
5%	6%	22%	47%	26%

Most respondents agree that effective cash management improves daily business operations, with 47% agreeing and 26% strongly agreeing. Only a small portion disagrees (11%), while 22% remain neutral, indicating an overall positive perception.

3. A shorter cash conversion cycle improves company profitability

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
9%	9%	27%	37%	24%

Most respondents believe that a shorter cash conversion cycle improves profitability, with 37% agreeing and 24% strongly agreeing. However, 27% are neutral and 18% disagree, indicating moderate but not unanimous support.

4. Efficient payables management contributes to better profitability.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
6%	11%	28%	38%	23%

Most respondents agree that efficient payables management improves profitability, with 38% agreeing and 23% strongly agreeing. However, 28% are neutral and 17% disagree, showing moderate overall support.



III. RESEARCH METHODOLOGY

Research design

This study uses a descriptive and analytical research design to investigate the impact of working capital management on the profitability of selected Indian companies. This study integrates both primary and secondary data to provide a comprehensive and balanced analysis of the relationship between working capital components and profitability.

Data source

This study is based on both primary and secondary data sources.

Primary data:

Primary data was collected through a structured questionnaire administered to 100 respondents. Respondents include finance students, professionals, and people with basic knowledge of financial management.

Secondary data:

Secondary data were obtained from publicly available and reliable sources such as annual reports, financial statements, and official databases such as Reserve Bank of India, National Stock Exchange, and Bombay Stock Exchange.

These sources provide the relevant financial information needed to support your research.

selective design

Sample size: 106 respondents

Sampling method: convenience sampling

Target group: Individuals with knowledge or understanding of financial and management practices, including students and working adults.

Study period

The study covered a five-year period (i.e., 2019 to 2024) for secondary data analysis, and the primary data were collected during the final period of the study.

Variables of the Study

Independent Variables (Working Capital Management Factors):

Inventory Management, Receivables Management, Payables Management, and Cash Management

Dependent Variable:

Profitability (measured through respondents' perception and supported by financial indicators such as Return on Assets and Net Profit Margin)

Tools and Techniques of Data Analysis

To achieve the objectives of the study, the following statistical tools and techniques have been used:

Percentage Analysis:

Used to summarize and interpret questionnaire responses through charts and graphs.

Descriptive Statistics:

Mean and standard deviation are calculated to understand the central tendency and dispersion of responses.

Hypothesis testing (Z test):

Z-test is applied to test the statistical significance of the relationship between working capital management and profitability considering the large sample size ($n = 106$).

IV. DISCUSSION

This study combines primary and secondary data to investigate the impact of working capital management (WCM) on the profitability of selected Indian companies. The findings support the theoretical premise that effective working capital management is essential to improve a company's financial performance.

Results obtained from primary data indicate that respondents generally agree that effective management of components such as inventory, accounts receivable, and payables has a significant impact on profitability.

This recognition is consistent with established financial theory, which suggests that optimal utilization of current assets and liabilities ensures smooth business operations and minimizes unnecessary costs.

In particular, effective accounts receivable management helps improve cash flow, and managing inventory levels reduces holding and obsolescence costs. From the perspective of secondary data and financial analysis, this study highlights that companies that maintain shorter cash conversion cycles tend to exhibit higher profitability.

A shorter cash conversion cycle reflects a company's ability to quickly convert investments in inventory and accounts receivable into cash, thereby increasing liquidity and reducing dependence on external financing.

Conversely, poor working capital practices, such as excess inventory or delinquent accounts receivable, can negatively impact profitability by increasing operating costs and reducing cash availability.

Statistical analysis, including hypothesis testing using Z-test, confirms the existence of a significant relationship between working capital management and profitability. In the Indian context, where companies operate in a rapidly



changing economic environment characterized by intense competition, regulatory reforms and evolving market dynamics, the importance of effective working capital management becomes even more evident. Factors such as credit policy changes, supply chain disruptions, and tax reform will impact working capital requirements and thus profitability. Despite these results, certain limitations are recognized in this study.

Primary data is based on the perceptions of respondents, which may lead to subjective bias. In addition, sample size and convenience sampling technique may limit the generalizability of the results. Therefore, future studies may expand the scope and provide a better understanding by including larger sample sizes, different sectors, and advanced statistical tools such as regression analysis.

V. CONCLUSION

This study investigated the impact of working capital management on the profitability of selected Indian companies by integrating primary and secondary data analysis.

The results show that effective management of working capital items such as inventory, accounts receivable, payables, and cash flow plays a critical role in influencing the profitability and overall financial performance of a business.

After analyzing primary data collected from 100 respondents, we found that the majority of respondents recognized effective working capital management as an essential element for profitability.

Proper management of accounts receivable ensures prompt cash flow, and effective inventory management reduces warehousing costs.

Similarly, optimal management of accounts payable allows you to maintain liquidity without impacting supplier relationships.

These elements work together to help improve operational efficiency and profitability.

The results of the statistical analysis, including hypothesis testing, suggest that there is a significant relationship between working capital management and profitability, leading to the rejection of the null hypothesis.

This means that companies with effective working capital strategies are more likely to achieve better financial results than poorly managed companies.

Moreover, in a developing economy like India, where companies face dynamic market conditions and financial constraints, the importance of effective working capital management becomes even more important. Companies must focus on maintaining an optimal balance between

liquidity and profitability to ensure long-term sustainability and competitiveness.

In conclusion, this study highlights that working capital management is not just a short-term financial activity, but a strategic tool that directly impacts profitability. Management must adopt sound policies and continuously monitor working capital items to improve performance.

REFERENCES

1. Deloof Marc (2003). Does Working Capital Management Affect Profitability of Belgian Firms? *Journal of Business Finance & Accounting*, 30(3–4), 573–588.
2. Shin Hyun-Han & Soenen Luc (1998). Efficiency of Working Capital Management and Corporate Profitability. *Financial Practice and Education*, 8(2), 37–45.
3. Raheman Abdul & Nasr Mohamed (2007). Working Capital Management and Profitability – Case of Pakistani Firms. *International Review of Business Research Papers*, 3(1), 279–300.
4. Lazaridis Ioannis & Tryfonidis Dimitrios (2006). Relationship between Working Capital Management and Profitability of Listed Companies. *Journal of Financial Management and Analysis*, 19(1), 26–35.
5. Padachi Kesseven (2006). Trends in Working Capital Management and its Impact on Firms' Performance. *International Review of Business Research Papers*, 2(2), 45–58.
6. Kaur Harpreet & Singh Satnam (2013). Managing Efficiency of Working Capital and Profitability. *Global Business Review*, 14(1), 173–185.
7. Reserve Bank of India (2023). Annual Report. Retrieved from <https://www.rbi.org.in>
8. National Stock Exchange (2024). Financial Data and Reports. Retrieved from <https://www.nseindia.com>
9. Bombay Stock Exchange (2024). Company Financial Statements. Retrieved from <https://www.bseindia.com>
10. Pandey I.M. *Financial Management* (2015). Financial Management (11th ed.). Vikas Publishing House.
11. Khan and Jain *Financial Management* (2017). *Financial Management: Text and Problems*. McGraw Hill Education.