



## A study on impact of working capital on profitability select cement companies in India

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### Abstract

Working capital is the lifeblood and nerve center of a business. It is the blood circulation in the human body that is necessary for sustaining life, working capital is very essential for maintaining the smooth running of the business. No business will go into business and no business can bring good solvency to business. It also enables the business to generate and maintain goodwill, pay its current charges and also ensure regular supply of raw materials. Adequate working capital provides a business enterprise with its own strength and ability to face crises.

Working capital is extremely important to meet the day-to-day requirements of an organization. No organization can thrive for a single day without adequate working capital. That's according to the Accounting Standards Board, which lists working capital as well as funds available for the day-to-day operations of a company. There are many cement companies in India but due to word limitation it is possible to cover only the performance of two companies namely ultratech cement and ACC Cement.

**Keywords:** Management of working capital, financial performance, profitability ratio, ratio analysis

### Introduction

In the modern industrial world, the problem of effective financial management is of paramount importance. The efficiency of an organization is measured on the basis of certain parameters like profit/earnings, working capital management and payment to investors in the form of dividends etc., the giant structure of any industry including cement industry can only be built on a sound financial foundation which ultimately depends on availability corresponding finance in the form of working capital. For the clear success of any business, the management of working capital and profits is an important function of a financial manager because it affects the price of shares in the stock market and the return (ie dividends) to shareholders.

Meaning Working capital is defined as the excess of current assets over current liabilities, current assets are those assets that will be converted into cash in the current accounting period or during the next year as a result of the normal operations of the company, they are cash or near cash resources, these include cash and bank balances, receivables, inventories (raw materials, warehouses and spare parts, work in progress, finished goods and costs of future periods.

Working Capital Position Analysis decided to try to study the working capital position of both the companies.

### Review of Literature

Singh *et al.* (2013) <sup>[4]</sup> found that the majority of firms in the sample did not seem to have "over-invested" in WC. In short, investing in WC (as part of WC management) is commendable.

Nandi Chandra Kartik (2012) <sup>[3]</sup> in his article "Trends in liquidity management and their impact on profitability: a case study" attempts to evaluate the trends in liquidity management and their impact on profitability. An attempt was made to establish a linear relationship between liquidity and profitability using a multiple regression model. Based on the overall analysis, it is therefore important to state that

the selected company always tries to maintain an adequate amount of net working capital in relation to short-term liabilities in order to maintain good liquidity throughout the study period.

Brahma (2011) conducted a study to investigate and evaluate the importance of liquidity management for profitability as a factor responsible for poor financial performance in the private sector steel industry in India.

Sherin (2010) in his article "Liquidity v/s Profitability - Finding the Right Balance" writes about the implications of liquidity and profitability in a pharmaceutical company. A firm must maintain a balance between liquidity and profitability while conducting its day-to-day operations. Investments in current assets are inevitable to ensure the supply of goods or services to end customers. Proper management of the same could result in the desired impact on profitability or liquidity.

Singh and Pandey (2008) <sup>[2]</sup> suggested that fixed and current assets play a vital role in the successful functioning of any business organization and that working capital management is essential as it has a direct impact on profitability and liquidity. They studied the components of working capital and found a significant impact of working capital management on the profitability of Hindalco Industries Limited.

### Need for the study

Through many research studies have been undertaken in the field of Working capital. Very few studies are undertaken to study the impact of working capital on profitability select companies.

### Objectives of the study

1. To assess the management of working capital and profitability Ratio of select companies
2. To study association between working capital Ratio on profitability of select companies

**Hypothesis**

**Ho:** There is no association between working capital ratio and profitability

**Ha:** There is a association between working capital ratio and profitability

**Data Analysis and Interpretation**

**Table 1:** Descriptive Statistics of selected Ratios of pharmaceutical companies in India

	Year	2023	2022	2021	2020	2019	AVG	SD	CV
	Ultratech	Working Capital	0.98	0.99	1.17	1.03	0.87	1.01	0.11
Net Profit Margin		8.01	13.9	12.4	13.4	6	10.75	3.52	33%
Return on Networth / Equity		9.28	14.3	12.3	14.2	8.6	11.76	2.69	23%
Return on Capital Employed		12.4	14.8	15.3	12	9.6	12.82	2.31	18%
Return on Assets		5.65	8.76	6.64	7.59	3.5	6.42	2.01	31%
ACC	Working Capital	1.44	1.71	1.74	1.58	1.4	1.57	0.15	10%
	Net Profit Margin	8.01	13.9	12.4	13.4	6	10.75	3.52	33%
	Return on Networth / Equity	9.28	14.3	12.3	14.2	8.6	11.76	2.69	23%
	Return on Capital Employed	12.4	14.8	15.3	12	9.6	12.82	2.31	18%
	Return on Assets	5.65	8.76	6.64	7.59	3.5	6.42	2.01	31%

**Table 2:** Results of Regression of the selected WC and ROI (Profitability) of Pharmaceutical Industry in India during 2019 – 2023

Coefficients <sup>a</sup>						
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	-6.777	.853		-7.941	.001
	RON	1.118	.113	.854	9.899	.000
	ROCE	.357	.075	.233	4.745	.005
	ROA	-.039	.180	-.022	-.216	.837
	WC	.041	.325	.004	.126	.904

a. Dependent Variable: NP

The above table shows the confidents of the independent variables in regression model. Thus the predictor’s equation becomes as follows. NP= -6.777+1.118RON+0.357ROCE+-0.039ROA=0.041WC

**Table 3:** Results of correlation of the selected WC and ROI (Profitability) of Pharmaceutical Industry in India during 2019 – 2023

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.998 <sup>a</sup>	.996	.992	.29463

a. Predictors: (Constant), WC, ROA, ROCE, RON

The above table shows that the association between working capital ratio and profitability ratios summary of model correlation of 0.996 (99.8%). The table reveals that r swaure value is 0.996 (99.8%). The model seems to be a good fit for the currency rate.

**Conclusion**

The cement industry is strongly advised to take the following measures to tevival and overcome the working capital crisis including operational malaise. Identify and locate companies' underutilized assets and dispose of them at competitive prices to meet the company's working capital needs. The position of organizations to strengthen sales marketing and quick collection of receivables from borrowers, the credit period for borrowers should be the

**Research methodology**

Present study is based on secondary data. The following tools are used for analyzing the data the data. Descriptive Statistics such as mean, standard deviation, co efficient of variance. Further financial ratios are used as statistical analysis such as regression, and correlation.

smallest and form lenders; it should be the most credit flows are mined to a greater extent.

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