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A STUDY ON WORKING CAPITAL MANAGEMENT AND ITS IMPACT ON THE PROFITABILITY OF SELECTED ORGANISATION

SUGANTHI.R,

M.Phil Scholar, Economics Department, Bharath Institute of Higher Education and Research, Chennai. India.

A.VALARMATHI,

Assistant Professor, Commerce & Economics Department, Bharath Institute of Higher Education and Research, Chennai. India.

ABSTRACT:

Working capital management is a business strategy designed to ensure that a company operates efficiently by monitoring and using its current assets and liabilities to their most effective use. Working capital management requires monitoring a company's assets and liabilities to maintain sufficient cash flow to meet its short-term operating costs and short-term debt obligations. Working capital management involves tracking various ratios, including the working capital ratio, the collection ratio, and the inventory ratio. Working capital management can improve a company's cash flow management and earnings quality by using its resources efficiently. The project is mainly focuses on the industry profile, company profile, SWOT analysis, annual report and about working capital and ratios. This article studies different department at the Arkay water products. The functions of each department and the organization in the company along with it covers the duties and responsibilities of all the staff members type of decision making followed by the mill and it also includes quality policy export oriented unit etc of the mill.

Key words: Current assets, liabilities, turnover ratio

INTRODUCTION:

The primary purpose of working capital management is to enable the company to maintain sufficient cash flow to meet its short-term operating costs and short-term debt obligations. A company's working capital is made up of its current assets minus its current liabilities.

Current assets include anything that can be easily converted into cash within 12 months. These are the company's highly liquid assets. Some current assets include cash, accounts receivable,

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inventory, and short-term investments. Current liabilities are any obligations due within the following 12 months. These include accruals for operating expenses and current portions of long-term debt payments.

REVIEW OF LITERATURE

In light of the 2008 financial crisis, credit-rating scores (CRSs) released by credit-rating agencies have grown in importance (Hung et al. 2017). Credit-rating agencies play a vital role in capital markets by reducing the moral hazard problem. In addition, credit ratings help investors assess the creditworthiness of issuers and the financial securities issued by them (Lee et al. 2021). Furthermore, credit ratings are used as a benchmark based on which investors manage their portfolios. Finally, they play an important monitoring role, as they may require firms with rating deteriorations to take corrective actions to minimize these deteriorations (Huan and Mohamed 2021). Additionally, CRSs have become a crucial tool that helps investors in their investment decision-making process, as they help investors identify risky assets, price their credit, and allocate their capital more efficiently (Amato and Furfine 2004). Investors are highly concerned about borrowers' ability to fulfil their obligations (Haspolat 2015). Moreover, Bauer and Esqueda (2017) point out that banks rely on credit rating scales to compensate for information deficits when making loan decisions. Thus, a considerable amount of literature has been published on the impact of factors such as firm-specific characteristics [Return on Assets (ROA), size, and liquidity], corporate social responsibility (CSR), and operational leanness on the corporate credit rating (Attig et al. 2013; Hung et al. 2013; Bendig et al. 2017; Dong et al. 2021). However, to our knowledge, no previous study has investigated the impact of working capital management (WCM) on a firm's credit rating. A key aspect of a WCM decision is its impact on a firm's risk, return, and valuation (Smith 1980). Many researchers have attempted to investigate the impact of WCM on firms' financial performance (e.g., Aktas et al. 2015; Jose et al. 1996; Shin and Soenen 1998; Deloof 2003; García-Teruel and Martínez-Solano 2007). These studies have mainly focused on the impact of WCM on a firm's profitability performance. The interesting point here is the consensus that maintaining a high level of net working capital (NWC) reduces a firm's risk and profitability.

OBJECTIVES OF THE STUDY:

1) To calculate the operating cycle of an organization.

2) To calculate the working capital of an organization.

3) To study the liquidity position of the company with the help of ratios.

RESEARCH METHODOLOGY

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Research Design

It is a type of research conducted for a problem that has not been clearly defined. Exploratory research helps determine the best research design, data collection method and selection of subjects. It should draw definitive conclusions only with extreme caution. Given its fundamental nature, exploratory research often concludes that a perceived problem does not actually exist. Exploratory research often relies on secondary research such as reviewing available literature and/or data. The data collected throws new sight hence this study is exploratory in nature.

Sampling Technique

For survey, the sampling frame was identified as customer: no: 122 probability convenient sampling technique.

Sampling Size and Population

- The sample size was 122 and out of this probability convenient sampling technique was used

DATA ANALYSIS

<u>ANNUALLY PERFORMANCE OF ARKAY WATER PRODUCTS PRIVATE LIMITED</u>

YEAR	2020	2019	2018	2017
CURRENT RATIO	1.29:1	1.32:1	2.73:1	1.68:1

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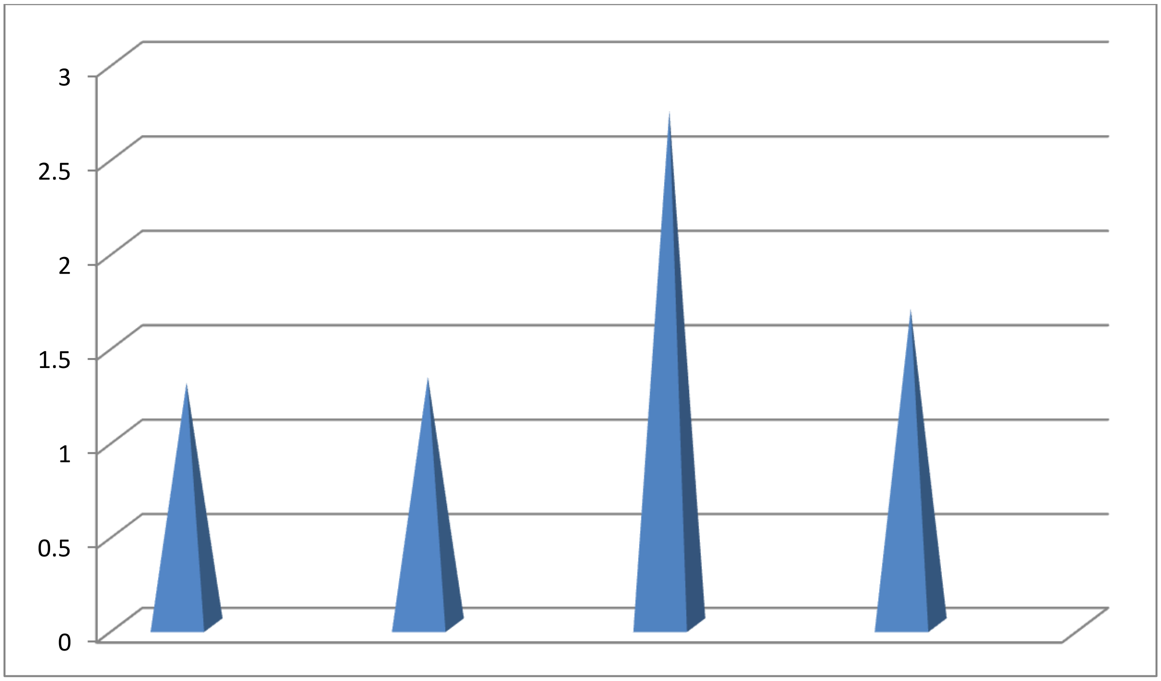

COMMENT: Current ratio defines the short term financial position of a firm. In 2017 current ratio of Arkay was 1.68:1, which increase to 2018 massive increment was found 2.73:1 .That represents the volume of current assets gradually increased, but 2019 volume of current assets again fall to 1.32:1 and 2014 it also fall at 1.29:1, it means the amount of current assets decreased in those year 2020 and 2012. But according to modern concept current ratio of Arkayis no doubt good.

ANNUALLY PERFORMANCE OF ARKAY WATER PRODUCTS PRIVATE LIMITED

YEAR	2020	2019	2018	2017
NET PROFIT RATIO	7.70%	12.46%	13.63%	21.8%

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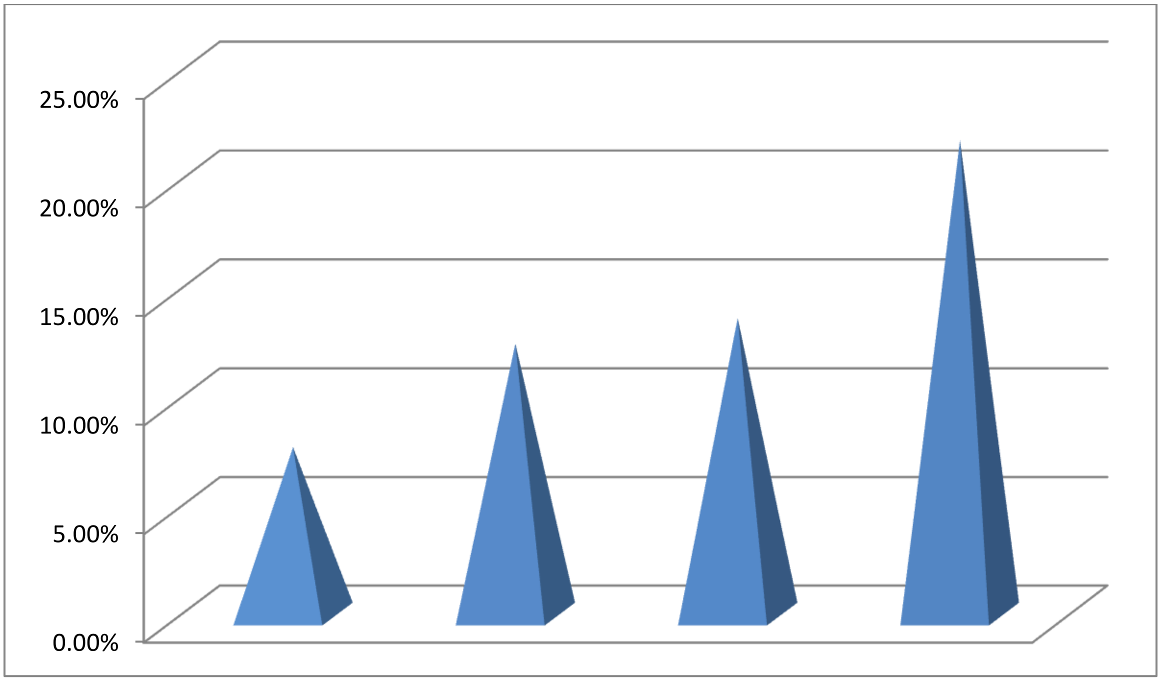

COMMENT: - According to this chart we followed that the profit earning capability of Arkay become lower compare to previous year. In the year 2017 Arkay did the great job. But the year 2020 he net profit ratio curve becomes decline. Arkay must improve their managerial capability & reduce the excessive expenses to get the higher profit.

FINDINGS

- The stores and spares of Arkay and the number of holding days were continuously growing up than the previous year. This is not a good indication for an organization.
- Semi-finished/finished goods of Arkay were not in a suitable position, because the number of holding day was higher than the other water production company ltd. Current ratio of Arkay was in a better position than the previous year which is a good indication for an organization.
- Quick ratio of Arkay was also better than the other water production company ltd. That indicates the liquidity position of Arkay was better.
- The profit margin ratio of Arkay was indicates the profit capability of Arkay was lower, compare to previous year.
- The interest coverage ratio of Arkay was very weak as compare to other water production company ltd. That is a not good sign for an organization.

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CONCLUSION

Empirical evidence shows that WCM has garnered substantial interest in accounting and finance research. It shows that inadequate WC decisions are responsible for a considerable portion of business failures, and that WCM affects a firm's profitability. This is striking because an ineffective WCM strategy creates a large share of past firm insolvencies .As WC significantly influences a firm's operational and financial security, the literature confirms that it is necessary to develop a good strategy for a firm's WCM .

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SUGGESTION

- The company can also adopt the combined inventory management techniques in order to have a control on the inventory.
- Company is partly computerized. Proper training on various packages which are necessary for the advancement in accounting records should be adopted.
- The company can reduce the debt collection period to recover the debt promptly from the customer. And also give some discounts to the large quantity buying.

This leading engineering company is getting on a good track. The total turnover of the company registered a growth over the past five years. The total turn over the company increased from 412.68 to 917.40. It is the profit making company among the units through the efficient management. The inventory system followed by the instrumentation is satisfactory which is mainly depends upon the efficiency of employees. The current study helped me to study the current inventory control practiced by the company. The cordial and corporate relationship between management employees in the secret behind the success of this public sector company.