Impact of Working Capital Management on Profitability: A study on Textile companies of India

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Abstract
In the face of rapidly-changing business models and disruption, cash and working capital are fundamentals that businesses can easily lose sight of. Harnessing the power of digital presents a singular opportunity to take back control, addressing the challenges presented by organisational silos, complex systems and conflicting targets.
Management of short-term assets & liabilities play a vital role in generating profit in business sector. In the light of that textile sector from all over the world is also emphasizing to maintain optimal working capital to generate more profit. Many researchers have done lot of work on; how to maintain working capital in optimal level. Like that in India textile sector has concentrated to ensure efficient working capital management. The objective of the study is to examine the impact of different components of working capital management on profitability of the India textile companies.
The main purpose of this study was to investigate the working capital management and its impact on firms' financial performance. The efficiency of working capital management was investigated through the cash conversion cycle. The research problem focused that what extent the working capital management influences on financial performance of the trading firms? A strong significant relationship between working capital management and profitability has been identified in previous research. It was assumed that the efficient working capital management has strong impact on financial performance. Here 6 years data taken from the time period of 2013-2018 of 6 textile companies which is listed in BSE.
The findings of the study showed that, there is statistically significant relationship between working capital management & profitability of the Indian textile companies. More specifically this study revealed that current ratio & current liabilities to total asset has most significant impact on profitability of textile companies in India.
Keywords: Working Capital management; profitability; textile sector; India.

I. INTRODUCTION

Every business whether big, medium or small, needs finance to carry on its operations and to achieve its target. In fact, finance is so indispensable today that it is rightly said to be the lifeblood of an enterprise. Without adequate finance, no enterprise can possibly accomplish its objectives. So this chapter deals with studying various aspects of working capital management that is necessary to carry out the day-today operations. The term working capital refers to that part of firm's capital which is required for financing short term or current assets such as cash, marketable securities, debtors and inventories funds invested in current assets keep revolving fast and are being constantly converted in to cash and this cash flows out again in exchange for other current assets. Hence it is known as revolving or circulating capital. On the whole, Working Capital Management performs a key function and is of top priority for every finance manager. All managers must, however, keep in mind that their pursuit to liquidity, they should not lose sight of their basic goal of profitability. They should be able to attain a judicious mix of liquidity and profitability while managing their working capital. In our present day economy, finance is defined as the provision of money at time when it is required. Every business whether big, medium or small, needs finance to carry on its operations and to achieve its target. In fact, finance is so indispensable today that it's rightly said to be the lifeblood of an enterprise. Without adequate finance, no enterprise can possibly accomplish its objectives. A firm is required to maintain a balance between liquidity and profitability while conducting its day to day operations .The importance of cash as an indicator of continuing financial health should not be surprising in view of its crucial role within the business. This requires that business must be run both efficiently and profitably. In the process, an asset-liability mismatch may occur which may increase firm's profitability in the short run but at a risk of its insolvency. On the other hand, too much focus on liquidity will be at the expense of profitability. Thus, the manager of a business entity is in a dilemma of achieving desired tradeoff between liquidity and profitability in order to maximize the value of a firm Working capital management deals with the most dynamic fields in finance, which needs constant interaction between finance and other functional managers. The finance manager acting alone cannot improve the working capital situation. In recent times a few case studies regarding management of working capital in selected companies have been in order to make in-depth analysis of the several experts of working capital management, The finding of such studies not only throws new lights on the technical loopholes of management activities of the concerned companies, but also helps the scholars and researchers to develop new ideas, techniques and methods for effective management of working capital.

II. OBJECTIVES:-

Following objectives are taken for the study.
1. To identify the relationship between WCM and Profitability.
2. To recognize the profitability.

III. RESEARCH METHODOLOGY:-

Research is the systematic process of collecting and analyzing data in order to increase our understanding of the phenomenon about which we are concerned or interested. It is the in depth search for knowledge. It is a careful investigation or inquiry especially through search for new facts in any branch of knowledge. The study exhibits both descriptive and analytical character. Regarding the theoretical concept it is descriptive since it interprets and analysis the secondary data in order to arrive at appropriate conclusion, it is also analytical in character. The interpretation of data is done based on ratio and percentage.

RESEARCH DESIGN

Research Design is the strategy for the study and the plan by which the strategy is to be carried out. It is the set of decisions that make up the master plan specifying the methods and procedures for the collection, measurement and analysis of data. Research has used descriptive research. Descriptive studies are fact finding investigation with adequate interpretation. It focuses on particular aspects of in the study. It is designed to gather descriptive information and provides information for formulating more sophisticated studies.

SCOPE OF THE STUDY:-

The study is on working capital management of selected Public enterprises. The study furnishes the management of idea about the performance of working capital of the company. Management of working capital refers to management of current assets, current liabilities and relationship between them. The basic goal of working capital is to maintain the satisfactory level of working capital. A sound working capital policy ensures higher profitability and proper liquidity of a firm. Every business needs funds for two purposes: for its establishment and to carry out its day to day operations. For this purpose it is important for the company to manage its short term assets and liability. Working capital is quite essential for the working of any business. For a good manufacturing company, some basic capital for producing the goods is required before it starts selling them. It has to take care of production expenses, administration expenses as well as selling expenses. Moreover, since business is usually done on credit, there is a time lag between the date of sale and date of receipt of revenues, which can be as high as 90 days at times. Considering all these, it is essential that a company has sufficient capital to keep it going before it coverts its purchases into goods and then finally into cash. Each and every study has its own scope. This project intends to study the working capital position of the Public enterprises. This study helps to identify the areas that could be improved. Further suggestions were quoted which the company could use it in the future program.

1) Structure and utilization of working capital

There are studies on Working Capital Management which deals exclusively with Structure and utilization of Working Capital Management in the context of Indian Industries and as well as abroad industries. The major findings of these approaches are presented briefly in this section.

The first and foremost formal study conducted and collected on work capital

Management in India was by National Council of Applied Economic Research (NCAER) in 1966. The Council published a report on "Structure capital with special reference to Fertilizers, Cement and Sugar industries. The prime objective of the study was to study as to what extent these the industries controlled and utilized the components of working capital.

The study discovered that Working Capital Management practices were high spontaneous and hence the establishment of suitable accounting policies, cost systems and inventory controlling techniques in the above-mentioned industries. This study highlights the significance of suitable and appropriate Working Capital Management policies in the success of the business.

2) Empirical studies on Working Capital Management by using ratios

Management of working capital is crucial for the success of an organization. The adequacy of current assets, together with their efficient handling, virtually determines the survival (liquidity) of business concern. Working capital is said to be crucial for an organization.

A theorist in (1964) conducted a study on inventory management practices of Indian companies and found that the management of individual components of inventory very scattered. The study suggested for the usage of modern tools like operations research in ensuring the efficient management of working capital. financial strength of the company is sustained when its credit reputation is maintained.

3) Impact of working capital on Profitability

In one way or another, the major inference of most studies concerning the approaches to working capital decision making centres around profitability. One of the theorist in (1979) in his study established the relationship between liquid ratio, debtors' turnover ratio, creditors' turnover ratio and the movement of overdraft. The study established that when the liquid ratio was below the norm, debtors' turnover ratio and creditors turnover ratios were high while the movement of overdraft showed declining trend. Banerjee confirmed how turnover ratios would affect the financial performance of a given company. The study concluded that the management of working capital was not satisfactory.

4) Working Capital Management practices

While designing the survey questionnaire, the following articles published in National and international Journals, were reviewed. A theorist (2001) study of 28 medium and large spinning mills in Coimbatore industrial area (Tamil Nadu) discovered the effective Working Capital Management is still most crucial in organization success. The study discovered that most of the industries (10) mills depend on production plans in working capital planning leaving all norms aside. The budgetary control was found to be the widely applied criterion working capital control. When the researchers interviewed the Chief Executive Officer of the sample companies, it has come out that every Chief Executive Officer spent majority of the time on Working Capital Management, which in turn highlights importance of Working Capital Management.

1. Working Capital is the next value driver

Improvements in returns have mostly come through EBIT. Some of the value created has, however, been offset by stalling NWC performance, restraining the improvement in ROIC. Addressing excess working capital would lift overall ROIC by up to 30bps (basis points).

2. Working Capital is finally improving

While net working capital increased by €360bn in 2018 (up 9.4% on 2017), relative performance in terms of days has improved marginally by 0.1 days.

3. As predicted, Payables Days have been unsustainable

For the second successive year we have seen a decrease in Days Payable Outstanding (DPO), underlining that the use of DPO as a quick fix is no longer a sustainable working capital management strategy.

4. Receivables and Inventory are major sources of opportunity

Companies have finally started to achieve significant improvements in both DSO and DIO. This has been much needed in light of the downward pressure on DPO. DSO has shown its first improvement in five years as companies have begun to tap into the asset side of the balance sheet.

5. The need for cash is increasing

While revenues are up 10% on last year, this year we've seen operating cash flows (OCF) decline as a proportion of sales. Companies are facing operational challenges in converting revenue into cash. During the same period, CAPEX (as a percentage of revenues) has continued to decline, which could suggest that companies are managing cash levels by limiting investment.

IV. CONCLUSION:-

From the study conducted, it is clear that the company is doing a good job in managing the changes brought in the organization.

As there is a tight competition going on in the industry, the company should keep its strategies and policies in an orderly manner so that the employees are always motivated, and by this the company can assure employees have a high morale towards the company. Company should watch on its strategic alliance or it should improve its policies in order to compete with its competitors. A good stand in the market will ensure a higher motivation and morale towards the company from the employee's side.