



Capital Management & Profitability Impact Across Different Sectors

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ABSTRACT

The success of an organization depends on its profit. Capital management plays an important role in the success of a running business. Good management of capital is important for companies to avoid extra investment in not much long term assets for gaining maximum profit. Capital management is very important decision that plays important role in an organisation's financial performance. Despite the importance of this topic, the empirical evidence for emerging economies is scarce; Working capital refers to that part of firm's capital which is required for short-term financing current asset, this keeps revolving fast and constantly converted to cash. This Poster Presentation talks about Working Capital Management Impact on Profitability .

Key words: Profit, Business management, short term finance, working capital

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I. INTRODUCTION

The working capital should be maintained at a desired level depending upon the size of the firm, excessive working capital leads to the unnecessary accumulation of inventories causing losses and wastages. Excessive borrowers represent an imperfect credit policy that can lead to bad debt. On the other hand, lack of working capital prevents the company from repaying its short-term debt. The companies can't pay day-to-day expenses, which can lead to inefficiency and diminished revenue. .

The success of any business depends on its profitability, liquidity and solvency. Liquidity plays an important role in the success of a business. A financial manager's most important function to ensure a company's liquidity is to be able to meet short-term obligations that the company may not be able to survive. Working capital composed of current assets and current liabilities, which measures liquidity, was selected as a major independent variable to explore its relationship with profitability.

Payback period, payment period, inventory days, and cash conversion cycle were used as measures of working capital. Given the above scenarios, this study is designed to determine the direct impact of working capital on profitability by selecting collection date, settlement date, inventory converted to sales, and finally cash conversion cycle.

II. LITERATURE OVERVIEW

It deals with all the aspects of working capital of which in depth study has been carried out as discussed below

Gajdosikova et al. (2022) studied the impact of the COVID-19 situation on 12 financial representatoters of the construction sector, using a data of 2000 companies. They found that the global health crisis was affecting adversely in particular firms' profitability, inventory turnover period, receivables collection period as well as accounts payable period

2020 Nguyen et al. (2020) investigated the relationship between WC and profitability (ROA) and market performance (Tobin sq.) in a sample of 119 industrial enterprises in Vietnam from 2010 to 2018. In the same year, Sensini (2020) investigated the relationship between WC and profitability (gross margin) in a sample of 112 SMEs from Italian agro-industrial estates during the period 2010-2016. Their results are consistent with most previous studies, showing a negative relationship between profitability and all WC components. Nguyen also identified the negative impact of WC on market value.

According to the Financial Reporting Framework, profitability is a measure of a company's performance and performance. A business cannot function without having to gain profit. That is why generating revenue is one of the main goals of any company. High yields allow companies to sustain themselves, invest more in expanding operations, and ultimately reward shareholders with higher returns on their investments (Tamulyavichene, 2016; Alaroussi and Alkhaderi, 2018; Valaskova et al., 2021). For this reason, the topic of profitability has attracted the attention of many researchers over the years.

CASE STUDIES

Working Capital Management Impact on Profitability-Pre-Pandemic and Pandemic Evidence from the European Automotive Industry: A case study done by Rezart Demiraj, Suzan Dsouza and Mohammad Abiad (2022) Study aimed to investigate the impact of WCM on the profitability of European listed firms in the automotive industry using panel data regression for the pre-pandemic and pandemic periods. The data consisted of 108 and 109 companies (before and after pandemic periods, respectively) from the European continent. Data was collected for the periods 2010–2019 and 2020–2021

The relationship between working capital management and profitability A sample of 67 companies is used for a period of ten years (2007–2016). Quantitative method using multiple linear regression and pooled data set is used for analysis. The study examines the relation between capital management and profitability in non-financial organizations listed in the Saudi Stock Exchange. The results shows a positive link between capital management with respect to profitability.

Working capital management in Indian oil and gas industry—A case study of Reliance Industries Ltd. [11]: Sankar Thappa has used liquidity ratios to assess the significance of working capital for a period of ten years 2004–2013. The analysis of liquidity ratios, liquidity position, item-wise analysis of components of gross working capital and liquidity ranking have been done. The results showed that the coefficient of correlation between the profitability ratio compared to the current ratio, working capital turnover ratio, and inventory turnover ratio indicates the low degree of positive correlation whereas the coefficient of correlation between profitability ratio compared to the quick ratio (liquid ratio) and absolute liquid ratio indicates that there is a low degree of negative correlation. The general condition of working capital is not very satisfactory.

Working capital management in the beverage Industry- A case study by K. Sai Sudhakar, 2015-2017 Carefully executed working capital management is expected to positively contribute to the company's value creation. The purpose of this project is to study trends in working capital management and their impact on the performance of Pearl Bottling Pvt. Ltd

This project aims to explore the different aspects of working capital management at PBPL by examining the day-to-day operations of the company.

STUDY OBJECTIVE

Considers the elements of working capital and their importance for the activities of organizations in various sectors.

Examines the relationship between sectoral profitability and working capital management. We understand the need to focus on working capital in different sectors

SCOPE/AREA OF STUDY

This study provides insight into a company's working capital performance. Working capital management refers to managing current assets, current liabilities and the relationship between them.

This study will help understand the primary purpose of working capital, which is critical to any business operation. A good manufacturing company needs fixed capital to produce goods before selling them.

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WORKFLOW / METHODOLOGY OF STUDY

This study used panel data regression. Panel data was used because of the advantages it provides. It provides more information and variance, can control collinearity, and is more efficient. Variable selection for this study included dependent variables, independent variables, and some control variables.

The dependent variable is the variable affected by the experiment, and profitability is considered as the dependent variable, i.e. net profit, in this study. An independent variable is a variable that affects the dependent variable. Average payback period, cash conversion cycle, average payment period, inventory turnover ratio, current ratio, liquidity ratio, etc.

The independent variables in this study are average payback period, average payment period, number of days of inventory rotation, and cash conversion cycle. The purpose of this study is to identify the relationship between variables through various statistical analyses.

Data interpretation

Data interpretation for Working Capital performance of different sector (2019-2020).

Sl no.	Sector	% age of company-wise CTC improved (2019-2020)	% age of company-wise CTC deteriorated (2019-2020)
1.	Energy/Power	22	78
2.	Pharmaceuticals	28	72
3.	Automotive	75	25
4.	Chemicals	53	47
5.	Technology	63	37
6.	Retail & Consumer Goods	53	47
7.	Metals & Metallurgical Mining	38	62
8.	Cement & Cement Building Materials	63	37
9.	Automotive Parts	46	54
10.	Oil & Oil Gas	11	89
11.	Utilities	62	38
12.	Engineering & EPC Services	40	60

Source : secondary data

Working capital management is the efficient management of the current assets and current liabilities. The term working capital is used for the capital required for day to day working activities in a business concern.

Importance of Working capital

Good will: Sufficient working capital enables a business concern to make prompt payments and hence helps in creating and maintaining good will.

Easy loan: Sufficient working capital enables a business concern to make prompt payments and hence helps in creating and maintaining good will.

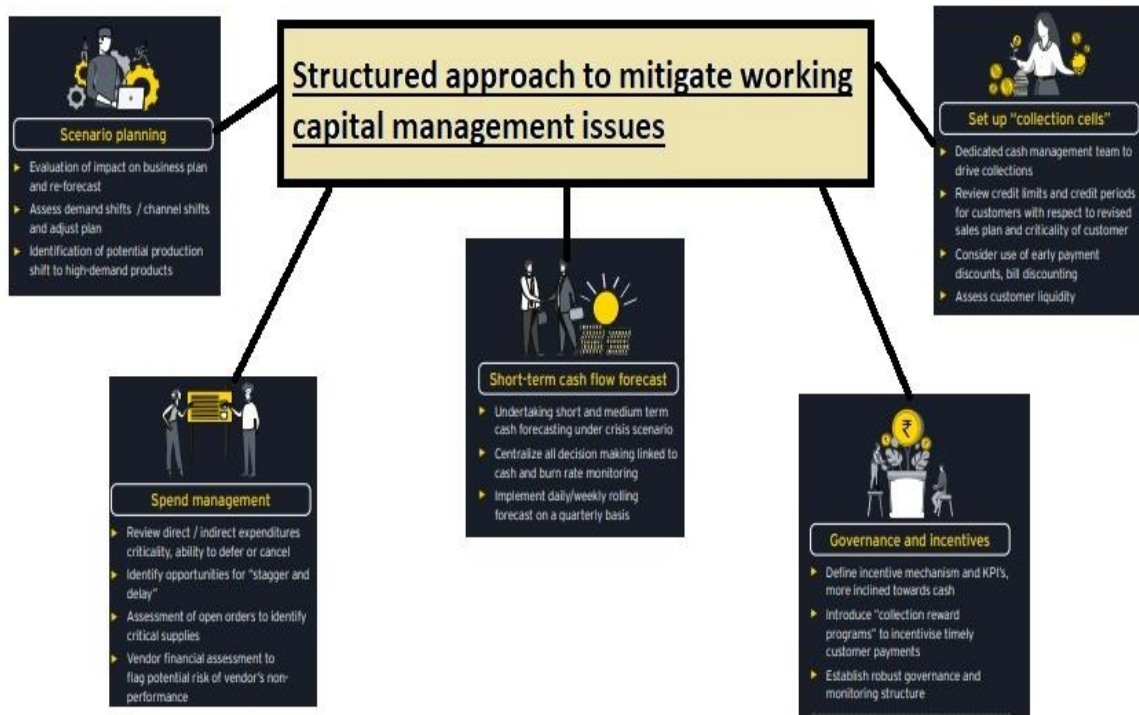
Cash Discount: Adequate working capital also enables a concern avail discounts on the purchases and hence it reduces costs.

Regular supply of raw materials: Sufficient working capital ensures regular supply of raw materials and continuous production.

Regular payment of Salaries: Companies with the Working Capital pattern are able to pay payroll and other day-to-day duties, which increases employee morale, increases efficiency, reduces wastage cost and increases production and profits.

CONCLUDED OUTCOMES/BOTTOM LINE HIGHLIGHTS OF STUDY

Companies must have a structured approach to mitigating working capital management challenges, especially in times of general economic crisis.



Source : secondary data

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