



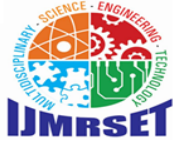
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A Study on Working Capital Management and Its Impact on Corporate Profitability

Ms.Janaranjani, M¹, Mr. Raam Singh R²

Assistant Professor, Sri Krishna Arts and Science College, Coimbatore, Tamil Nadu, India¹

Student, Sri Krishna Arts and Science College, Coimbatore, Tamil Nadu, India²

ABSTRACT: Working capital management is a critical determinant of a firm's short-term financial health and long-term profitability. This study investigates the relationship between working capital practices and corporate profitability with reference to Maruti Suzuki India Limited. Using secondary data collected from the company's published financial statements over five financial years, the research evaluates liquidity position, operational efficiency, and financial stability. Key indicators such as current ratio, quick ratio, inventory turnover ratio, debtor turnover ratio, and working capital turnover ratio were analyzed. Trend analysis and cash flow evaluation were also applied to understand year-to-year financial movements. The results indicate a consistent contraction in current assets, total assets, and shareholders' funds, reflecting a decline in operational scale. While the company reduced its long-term liabilities, liquidity pressures and shrinking cash reserves highlight the need for stronger working capital controls. The study concludes that maintaining an optimal balance between liquidity and profitability is essential for sustaining competitive advantage and financial resilience in the automobile sector.

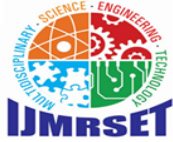
KEYWORDS: Working Capital Management, Corporate Profitability, Liquidity Management, Cash Conversion Cycle, Inventory Management, Receivables Management, Financial Performance, Ratio Analysis, Trend Analysis, Maruti Suzuki India Limited, Automobile Industry, Operational Efficiency.

I. INTRODUCTION

Working Capital Management is a fundamental component of financial management that focuses on the effective administration of a company's short-term assets and liabilities. It ensures that a firm maintains sufficient liquidity to carry out its day-to-day operations smoothly while simultaneously striving to enhance profitability. Working capital represents the difference between current assets and current liabilities and includes elements such as cash, inventories, trade receivables, and trade payables. Proper management of these components enables a company to maintain operational continuity, avoid financial distress, and minimize the cost of short-term financing. In today's highly competitive and dynamic business environment, efficient working capital management has become increasingly important. Companies must carefully balance liquidity and profitability because excessive investment in current assets may reduce returns, while inadequate liquidity may result in insolvency risk. Therefore, maintaining an optimal level of working capital is crucial for sustaining business growth and improving shareholder value.

The manufacturing sector, particularly the automobile industry, requires substantial investment in raw materials, production processes, distribution networks, and credit facilities. As a result, a significant portion of funds is locked in inventories and receivables. Inefficient management of these components can lead to increased holding costs, delayed cash inflows, and higher borrowing requirements, ultimately affecting profitability. Maruti Suzuki India Limited, a leading automobile manufacturer in India, operates in a capital-intensive and competitive market. Its large-scale production system, extensive dealer network, and supplier relationships make working capital management a critical financial function. The company's ability to efficiently manage its short-term assets and liabilities directly influences its operational efficiency, liquidity position, and overall financial performance.

This study aims to analyse the working capital management practices of Maruti Suzuki India Limited and examine their impact on corporate profitability. By evaluating liquidity ratios, efficiency ratios, solvency indicators, and cash flow patterns over a selected period, the research seeks to understand whether effective working capital management contributes to improved financial performance and long-term sustainability. In addition to liquidity maintenance, working capital management plays a strategic role in enhancing operational efficiency. Efficient control over inventory



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ensures uninterrupted production while avoiding excessive stock accumulation and carrying costs. Similarly, effective receivables management accelerates cash inflows and reduces the risk of bad debts, while proper payables management helps maintain strong supplier relationships without straining cash resources. Thus, each component of working capital contributes significantly to the overall financial structure of the firm.

The relationship between working capital management and profitability has been widely discussed in financial literature. Many studies suggest that a shorter cash conversion cycle improves profitability by reducing the time funds are tied up in operations. However, an overly aggressive working capital policy may also increase risk by reducing liquidity buffers. Therefore, companies must adopt a balanced approach that aligns working capital policies with business objectives, market conditions, and industry characteristics.

In the context of the Indian automobile industry, fluctuations in demand, supply chain disruptions, raw material price changes, and credit sales practices further increase the importance of efficient working capital planning. For a market leader like Maruti Suzuki India Limited, maintaining financial flexibility is essential to withstand economic uncertainties and competitive pressures.

II. OBJECTIVE

- To examine the structure and components of working capital management in Maruti Suzuki India Limited.
- To analyse the liquidity position of the company using key ratios such as Current Ratio and Quick Ratio.
- To evaluate the efficiency of working capital components including inventory, receivables, and payables through turnover ratios.
- To assess the relationship between working capital management and profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE).
- To suggest suitable measures for improving working capital efficiency to enhance overall financial performance and sustainability.

III. SCOPE OF THE STUDY

The present study focuses on analysing the working capital management practices of Maruti Suzuki India Limited and examining their impact on corporate profitability. The scope is confined to a detailed evaluation of short-term financial management using secondary data collected from the published annual reports and financial statements of the company. The study covers a period of five financial years (FY1 to FY5), which enables the analysis of trends and year-to-year changes in current assets, current liabilities, and overall working capital position. It includes the assessment of major working capital components such as cash and cash equivalents, inventories, trade receivables, and trade payables. The research evaluates liquidity, efficiency, solvency, and profitability through tools such as ratio analysis, trend analysis, working capital analysis, and cash flow analysis.

IV. STATEMENT OF THE PROBLEM

In a competitive and capital-intensive industry like automobile manufacturing, efficient working capital management is essential for maintaining liquidity and ensuring profitability. Working capital represents the funds invested in current assets such as cash, inventories, and receivables, which are necessary for the smooth functioning of daily business operations. If not managed properly, it may lead to liquidity shortages, increased borrowing costs, and reduced profitability.

The financial analysis of Maruti Suzuki India Limited over the selected five-year period indicates a continuous decline in current assets, total assets, shareholders' funds, and cash position. Although current and non-current liabilities have also reduced, the contraction in the overall financial base suggests weakening liquidity and operational scale. The shrinking working capital and declining asset structure raise concerns about the company's short-term financial strength and long-term sustainability.



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V. RESEARCH METHODOLOGY

A. Data Source

The present study adopts a descriptive and analytical research design to examine the impact of working capital management on corporate profitability with reference to Maruti Suzuki India Limited. The research is quantitative in nature, as it is based on numerical financial data and systematic evaluation of financial statements. The study covers a period of five financial years (FY1 to FY5), enabling the analysis of trends and variations in working capital components, liquidity position, and profitability over time. The methodology focuses on examining current assets, current liabilities, inventories, trade receivables, trade payables, and cash balances to understand their influence on financial performance. The study relies entirely on secondary data sources. The primary data for analysis has been collected from the published annual reports, audited balance sheets, profit and loss accounts, and cash flow statements of Maruti Suzuki India Limited for the selected period. Additional supporting information has been obtained from academic textbooks, peer-reviewed journals, research articles, and credible financial publications related to working capital management and corporate profitability. For analysis, various financial tools and techniques have been applied, including ratio analysis, trend analysis, solvency analysis, and cash flow analysis.

B. Tools used

The study uses various financial tools and techniques to analyse the impact of working capital management on corporate profitability. Ratio analysis is one of the primary tools applied to evaluate liquidity, efficiency, solvency, and profitability. Liquidity ratios such as the Current Ratio and Quick Ratio are used to assess the company's ability to meet short-term obligations. Efficiency ratios including Inventory Turnover Ratio, Debtors Turnover Ratio, and Working Capital Turnover Ratio help measure how effectively the company manages its working capital components. Solvency ratios such as Debt-Equity Ratio, Debt to Total Assets Ratio, and Proprietary Ratio are used to evaluate long-term financial stability, while profitability indicators like Return on Assets (ROA) and Return on Equity (ROE) are analysed to understand overall performance. Furthermore, percentage analysis has been applied to measure the overall growth or decline in major financial components during the study period. This method helps in understanding the magnitude of change in working capital, assets, liabilities, and equity from the beginning to the end of the period.

C. Techniques

The study employs several financial and analytical techniques to evaluate the impact of working capital management on corporate profitability. Ratio analysis is used as a key technique to measure liquidity, efficiency, solvency, and profitability through financial ratios such as Current Ratio, Quick Ratio, Inventory Turnover Ratio, Debtors Turnover Ratio, Working Capital Turnover Ratio, Return on Assets (ROA), and Return on Equity (ROE). Trend analysis is applied to examine year-to-year changes in financial components and to identify patterns of growth or decline over the five-year period. Working capital analysis is conducted by calculating the difference between current assets and current liabilities to assess short-term financial stability. Cash flow analysis is also used to evaluate operating cash flow, cash flow to net profit ratio, and cash flow to total debt ratio, which help in understanding liquidity management. Additionally, percentage analysis and comparative analysis are employed to measure overall financial changes and performance variations across the study period.

In addition, graphical representation techniques such as bar charts are used to visually present financial trends and variations. Comparative statement analysis is applied to examine changes in financial position between the beginning and end of the study period. These techniques collectively enhance clarity, accuracy, and interpretation of the financial performance results.



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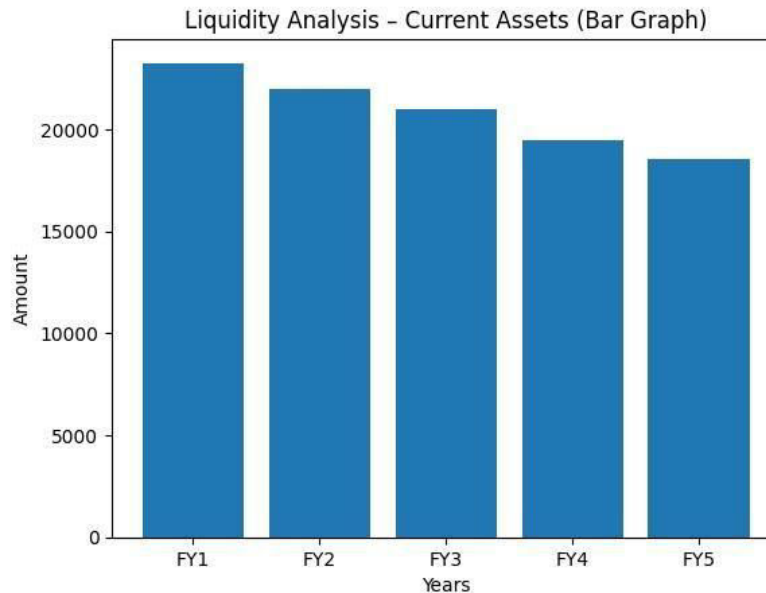


Chart 1.

D. Analysis and Interpretation

The liquidity ratio chart indicates that both current assets and current liabilities have shown a gradual decline over the five-year period. However, the reduction in current liabilities suggests that the company has been actively managing and settling its short-term obligations. The controlled level of current assets, along with reduced liabilities, reflects disciplined working capital management. The company appears to be optimizing its resources rather than maintaining excess idle funds.

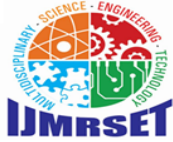
The declining trend in liquidity components can be viewed positively as it indicates improved efficiency in managing short-term resources. The company may be reducing unnecessary inventory levels and accelerating receivables collection, thereby avoiding excess funds being tied up in current assets. At the same time, the reduction in liabilities suggests lower short-term financial pressure. Overall, the liquidity position reflects a more streamlined and controlled working capital structure, which can contribute to better financial discipline and improved operational efficiency in the long run.

VI. FINDINGS

- The study reveals a continuous decrease in current assets from FY1 to FY5, indicating a reduction in liquid resources such as cash, inventories, and receivables.
- Current liabilities have also declined over the study period, suggesting that the company has reduced its short-term obligations and maintained better control over payables.
- The findings indicate that changes in working capital components have a direct impact on profitability and financial stability.
- Non-current liabilities have declined, showing that the company has reduced its long-term debt burden and maintained lower financial risk.
- The findings indicate that changes in working capital components have a direct impact on profitability and financial stability.

VII. SUGGESTIONS

- The company should maintain an optimal level of current assets to ensure smooth day-to-day operations. Proper monitoring of working capital components will help avoid liquidity stress.
- Preparation of rolling cash budgets and periodic cash flow reviews will help maintain adequate cash reserves and avoid unexpected financial pressure.



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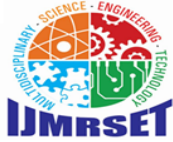
- Management should regularly review working capital strategies and set performance benchmarks for liquidity and efficiency ratios to ensure continuous improvement.
- The company should aim to maintain a proper balance between holding sufficient liquidity and generating higher returns, ensuring long-term financial sustainability.
- The company should use better demand forecasting and inventory control techniques to prevent overstocking or stock shortages. Efficient inventory management will reduce holding costs and improve profitability.

VIII. CONCLUSION

The study concludes that working capital management plays a crucial role in determining the liquidity position and overall financial performance of Maruti Suzuki India Limited. The analysis over the five-year period shows a declining trend in current assets, total assets, and shareholders' funds, indicating a contraction in the company's financial scale. Although current and non-current liabilities have reduced, reflecting lower financial obligations, the decrease in liquid resources highlights the need for stronger short-term financial planning.

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