

IMPACT OF WORKING CAPITAL MANAGEMENT ON PROFITABILITY (A STUDY WITH SPECIAL REFERENCE TO JSW STEELS PVT LTD.TORANAGALLU.)

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Abstract

The present paper examines the correlation between working capital and net profit of JSW PVT LTD.TORANAGALLU during the period 2011-12 to 2015-16. Descriptive statistics has been used to calculate the mean and standard deviation of the data and Pearson correlation co-efficient has been used to analyse the correlation at 95% level of significance using Statistic calculator android application. The findings reveal significant highly positive correlation between working capital and net profit. Finally, there exists significant positive relationship between liquidity and profitability, which indicates that JSW PVT LTD.TORANAGALLU has maintained highly excessive level of liquidity during the period under study.

Key Words: working capital, net profit ,mean, standard deviation, Jsw Pvt. Ltd.Toranagallu.

Introduction

Working capital is meant to support the day to day normal operations of an enterprise. The maintenance of working capital efficiently and effectively at the economic meltdown is very difficult. At this stage cash has become a very expensive resource to borrow. Therefore each and every company should not forget the fact that most of the cash are tied in the working capital (WC) components. So it is very important to bring in a new strategy to manage the cash flow effectively without affecting key suppliers relationship. Hence working capital management is given higher priority by the managers.

Objective Of The Research

1. The main objective of the research is to identify the relation of WC on profitability with special reference to JSW PVT LTD.TORANAGALLU .

Hypothesis

H0: There is no relationship between the working capital and the profitability.

H1: There is relationship between the working capital and the profitability

Need Of The Research

Our study will be useful in many ways. Firstly this will add to the existing knowledge in terms of WCM and profitability. Further if we can identify, how the components of WC are affecting the profitability, the management can strike a balance between those components to maximize the share holders wealth. Finally the current economic situation is not in a healthy position. The findings of our research can be used not only by manufacturing organizations but also by other organizations to improve their financial performance and financial crisis of the country.

Literature Review

Shin and Soenen, (1998): highlighted that efficient Working Capital Management was very important for creating value for the shareholders. The way working capital was managed had a significant impact on both profitability and liquidity. The relationship between the length of Net Trading Cycle, corporate profitability and risk adjusted stock

return was examined using correlation and regression analysis, by industry and capital intensity. They found a strong negative relationship between lengths of the firm’s net-trading Cycle and its profitability. In addition, shorter net trade cycles were associated with higher risk adjusted stock returns.

Ganeshan, (2007) emphasized that Working Capital Management (WCM) is a key part of corporate strategy and the way it is managed can have a significant impact on the liquidity and the profitability of the company. The profitability of the firms can be increased through efficient management of WC.

Raheman & Nasr (2007) studied the effect of different variables of working capital management on the net operating profitability. As the result of study they showed that there was a negative relationship among the variables of working capital management including the average collection period, inventory turnover in days, average collection period, cash conversion cycle and profitability. Besides, they also indicated that the size of a firm, measured by a natural logarithm of sales, and its profitability had a positive relationship

Eljelly, (2004) elucidated that efficient liquidity management involves planning and controlling current assets and current liabilities in such a manner that eliminates the risk of inability to

meet due short-term obligations and avoids excessive investment in these assets.

Vishnani & Shah (2007) emphasized that each and every company has to be careful when investing huge amount of funds in WC, this is because it can reduce the profitability of the company significantly.

Ching, Novazzi, & Gerab (2011) identified that WCM is equally important for both the WC intensive and fixed capital intensive companies. From the above studies it’s very clear WC is playing an important role in enhancing the shareholders wealth and it is given higher priority by the finance managers.

Research Methodology

The following research methodology has been framed to analysed the relationship of WC and profitability.

Statistical Methods

➤ **Descriptive analysis**

For clear understanding of the data collected and the pattern over the years descriptive statistics like minimum, maximum, mean and standard deviation are used. In order to analyse the collected data for our variables, the IBM SPSS Statistics 22 software is used.

➤ **Quantitative analysis**

Quantitative analysis means the statistical analysis used to study the pattern of the collected data. Here we have used Pearson correlation analysis.

VARIABLES

Table-1

Dependent Variable & Independent Variable

Dependent Variable	
Net profit	Net profit after tax
Independent Variable	
Current assets	Cash on hand, Bank balance, Debtors, short-term, investments, inventory, accounts receivable, prepaid expense, advances to be received
Current liabilities	Account payable, accrued exp., unclaimed dividend, security deposits, bank over draft, provision for taxation, short-term loans, cash credit, and bank loan.

❖ **Hypothesis testing :**

➤ **Test of association**

To evaluate the relationship between the two variables i.e. the working capital and profitability Correlation analysis is used. It

measures the strength of the relationship between the profitability and the WC. The coefficient lies between the -1 to +1. If the coefficient is 0, means there is no association between the two variables. The positive sign indicates increase in one variable will increase the other variable. On the other hand a negative sign means increases in one variable will reduce the other variable.

❖ Sources of data collection

Secondary data from the published annual reports of the company and from the website has been used in the research study.

❖ Sample Selection

JSW PVT. LTD.TORANAGALLU as a sample has been selected working under the IRON AND STEEL sector of industry. JSW PVT LTD.TORANAGALLU is one of the major contributors as private company in INDIAN IRON AND STEEL INDUSTRY.

❖ Transforming data in to information

Microsoft Excel 2007 and Statistic calculator android application have been used to analyse the data.

DATA ANALYSIS AND INTERPRETATION

Table-2

Table showing Net Working Capital of five years of JSW PVT LTD.TORANAGALLU

(Rs. In Crores)

Years	2011-12	2012-13	2013-14	2014-15	2015-16
Current Assets					
Current Investments	201.22	140.45	68.01	-	6775.50
Inventories	5179.08	4799.10	8155.12	8584.74	2510.71
Trade receivables	1362.02	1862.20	2292.44	2026.83	596.31
Cash equivalent	2956.02	1401.79	662.92	1795.06	596.31
Sundry debtors	1284.62	1862.20	2218.74	2026.83	2510.71
Cash & bank balance	2956.02	1401.79	465.72	1795.06	1913.25
Short term Loans & advances	4648.23	6118.88	4271.73	6617.33	3625.83
Total Current Assets(A)	18587.21	17586.41	18134.68	22845.85	18528.62
Current Liabilities					
Short term borrowings	774.13	1109.56	4887.09	264.34	2069.90
Trade payables	9254.25	9274.36	11699.32	12515.39	10997.66
Other current liabilities	7182.52	4873.98	8790.03	7278.11	8414.42
Short term provisions	226.92	302.05	362.46	353.60	251.78
Total current liabilities(B)	17437.82	15559.92	25738.90	20411.44	21733.76
Net working capital (C=A-B)	1149.39	2026.49	-7604.22	2434.41	-3205.14

Source: Annual reports of jsw pvt.ltd. website. Calculated by own.

Here total current assets, loans and advances and total current liabilities with provisions has been found for the respective 5 years. With the help of these data the Net working capital has been calculated, which is the excess of current assets over current liabilities.

Table-3

Net working capital and net profit of five years

(Rs. In Crores)

Years	2011-12	2012-13	2013-14	2014-15	2015-16
Net working capital (C=A-B)	1,149.39	2,026.49	-7604.22	2434.41	-3205.14
NP	1625.86	1801.22	451.95	2166.66	3,498.28

Source: Annual reports form jsw pvt.ltd website. Calculated by own. NWC and NP presented of the five years research period, which is in fluctuating manner.

Table-4

Table showing Descriptive Statistics

This table shows the mean and standard deviation of NWC and NP of JSW PVT LTD.TORANAGALLU

	Mean	Std.Deviation	N
NWC	-1039.814	4302.4739	5
NP	1908.794	1096.24118	5

Source: Statistic calculator android app . Calculated by own.

Table-5

Table showing Correlation between NWC and NP of JSW PVT LTD.TORANAGALLU

		NWC	NP
NWC	Pearson Correlation	1	0.322
	Sig.(2-tailed)	0.59	0.59
	N	5	5
NP	Pearson Correlation	0.322	1
	Sig.(2-tailed)	0.59	
	N	5	5

*Correlation is significant at the 0.05 level (2-tailed).

Result :

The correlation co-efficient between WC and NP of the JSW PVT LTD.TORANAGALLU is observed to be highly positive correlated i.e. 0.322 which is nearer to 1. The significance value p i.e. 0.59 which is more than 0.05 (95% level of significant). Thus, we accept the null hypothesis. Which conclude that there is no relation between working capital and profitability of the JSW PVT LTD.TORANAGALLU . it indicates that JSW PVT LTD.TORANAGALLU does not have optimal level of liquidity.

Limitations

1. The study is limited to five years 2011-112 to 2015-16 only.
2. This study is based on secondary data. Therefore, the quality of study depends purely upon the accuracy, reliability and quality of the secondary data source.
3. The performance of Working capital management is also affected by other factors like inflation, market change etc. have not been covered by this study.
4. Different tools used to analyse the data, have own limitation that applies to this study

5. The relationship between the return on equity, return on investment and return on sales and Working Capital components are not being evaluated in our research.

Summary Of Finding

1. The cash in hand and bank in the year2015-16 (1913.25 amt. in cr.) is lesser than that of the year 2011-12, (2956.02 amt. in cr.)The decrease in holding of cash, the working capital that leads to maximizing the profitability of the firm.
2. The mean and standard deviation of NWC is - 1039.814 and 4302.4739. NP is 1908.794 and 1096.24118 Crs respectively.
3. Pearson correlation coefficient is -0.312 which is highly positive correlated as it is very near to 1. The decreasing in WC leads to increasing in profitability of the firm.
4. The sig. (p) value is 0.59 which is more than significant value 0.05 states that we accept the null hypothesis (H0). This clearly indicated that there no relation between working capital and profitability.
5. It indicates that JSW PVT LTD.TORANAGALLU has not optimal level of liquidity thereby creating a positive impact on profitability during the study period.

Conclusion

Adequacy of working capital is an essential part for achieving organisational objectives. The importance of adequate working capital in the concern can never be over emphasised. Just like little food leads to starvation and excess food in human body is very dangerous. The excess working capital leads to inflation and inadequate working capital leads to deflation. Excessive working capital means idle funds in the business concern which adds cost to the capital but earns no contribution to the profit of the concern. A business concern may enjoy high liquidity and at the same time, suffer from low profitability.

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