The Impact Of Working Capital Management On Profitability and Market Valuation: A Study Of Supreme Industries Ltd., Pondicherry

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Abstract- *Working capital management (WCM) plays a vital role in ensuring financial stability and profitability of firms by balancing liquidity and operational efficiency. This paper examines the relationship between WCM, profitability, and market valuation at Supreme Industries Ltd., Pondicherry, over the period 2021–2025. The study uses financial ratios, turnover analysis, and trend evaluation to analyze current assets and liabilities. Results reveal consistent improvement in working capital and liquidity until 2024, followed by a decline in 2025 due to higher liabilities and reduced cash holdings. The findings align with global literature and highlight the importance of proactive WCM strategies, such as receivables management and digitalization, for sustaining profitability and enhancing market value.*

Keywords- working capital management, profitability, market valuation, liquidity, financial ratios

I. INTRODUCTION

Working capital management refers to managing short-term assets and liabilities, including cash, receivables, payables, and inventories, to ensure smooth operations and financial stability. In the manufacturing sector, where large investments in raw materials and finished goods are required, efficient WCM ensures profitability and sustained growth. Poor WCM, on the other hand, creates liquidity crunches, increased borrowing, and operational risks.

Profitability, the ability of a firm to generate earnings beyond costs, is deeply connected with WCM efficiency. Firms with optimized working capital cycles reduce idle resources, enhance asset utilization, and improve cash flows. Market valuation, reflected through investor perception and share price performance, is also influenced by liquidity and stability. Investors regard efficient WCM as a signal of strong governance and resilience.

In India, where industrial firms operate in competitive environments, managing working capital effectively has become a strategic necessity. This study focuses on Supreme Industries Ltd., a leader in plastics manufacturing, and evaluates how its WCM practices between 2021 and 2025 affected profitability and market valuation.

II. LITERATURE REVIEW

Synthesis of Literature and Research Gap

The reviewed literature collectively establishes that working capital management is a pivotal determinant of profitability and market valuation. Classical theories (Smith, 1980; Shin & Soenen, 1998) emphasized the liquidity–profitability trade-off, while subsequent empirical studies (Deloof, 2003; Liu et al., 2019) confirmed that efficient management of receivables, inventories, and cash conversion cycles enhances returns. Indian studies (Kumar et al., 2021; Ghosh & Maji, 2022) highlighted the contextual significance of WCM, particularly for manufacturing industries where high working capital intensity demands careful balancing.

Recent works also introduced dimensions of digitalization (Patel & Mehta, 2023; Singh & Kapoor, 2025) and sustainability/ESG considerations (Thomas & Jacob, 2023; Narayanan & Das, 2025), showing that WCM practices are evolving beyond traditional liquidity management toward integrated financial, technological, and ethical strategies. Additionally, post-pandemic research (Rao et al., 2024; Abbas & Rahman, 2025) reinforced the role of adaptive and flexible WCM in sustaining profitability under uncertain market conditions.

Despite these insights, several gaps remain. First, most existing studies have been conducted either at a cross-sectional level (across firms) or using large industry samples, with limited firm-level longitudinal analyses. Second, few studies explicitly connect working capital management practices with market valuation outcomes in the Indian manufacturing context. Third, while digitalization and ESG-linked WCM are acknowledged as significant, empirical case studies exploring their impact on medium-sized industrial firms remain scarce.

This research addresses these gaps by conducting a five-year firm-specific study of Supreme Industries Ltd., Pondicherry, a leader in plastics manufacturing. By analyzing audited financial data (2021–2025) and linking WCM efficiency with profitability and market valuation, this study not only validates global findings in an Indian context but also provides actionable insights for industry practitioners and investors.

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III. STATEMENT OF THE PROBLEM

Efficient working capital management is vital for maintaining a balance between liquidity and profitability. Poor management can tie up funds, increase costs, and reduce earnings, while underinvestment may disrupt operations and damage the company’s reputation. Since market valuation depends on both profitability and financial stability, it is essential to examine how working capital decisions affect overall firm performance. In the case of Supreme Limited, Pondicherry, the main problem is to analyze how working capital practices influence profitability and, ultimately, the firm’s market valuation.

IV. OBJECTIVES OF THE STUDY

Primary Objective

1. To study the impact of working capital management on profitability and market valuation at supreme limited.

Secondary Objectives

1. To study the relationship between working capital components and profitability.
2. To evaluate the effect of the cash conversion cycle on both profitability and market valuation.
3. To determine the combined effect of working capital efficiency and liquidity management on market capitalization.
4. To assess the impact of working capital turnover on the firm’s return on investment and earnings performance.

SCOPE OF THE STUDY

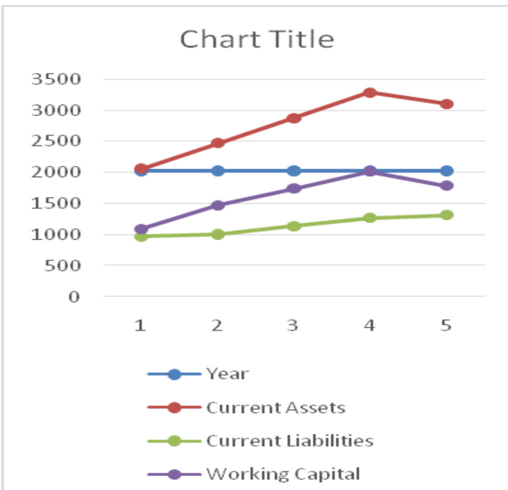
1. The study covers Supreme Ltd., Pondicherry’s financial performance from 2021 to 2025.
2. It examines how working capital components affect profitability and market value.
3. The study provides recommendations for better liquidity and shareholder value.
4. Emphasizes the role of working capital management in growth and competitiveness.
5. Analyzes working capital ratios and cycles on profitability and market

Data Analysis and Interpretation

Table 1. Working Capital Trend (₹ Cr.)

Year	Current Assets	Current Liabilities	Working Capital
2021	2,063.92	968.57	1,095.35
2022	2,473.81	1,001.27	1,472.54
2023	2,877.10	1,136.63	1,740.47
2024	3,285.87	1,272.32	2,013.55
2025	3,105.38	1,313.75	1,791.63

Figure 1. Working Capital Trend (2021–2025)



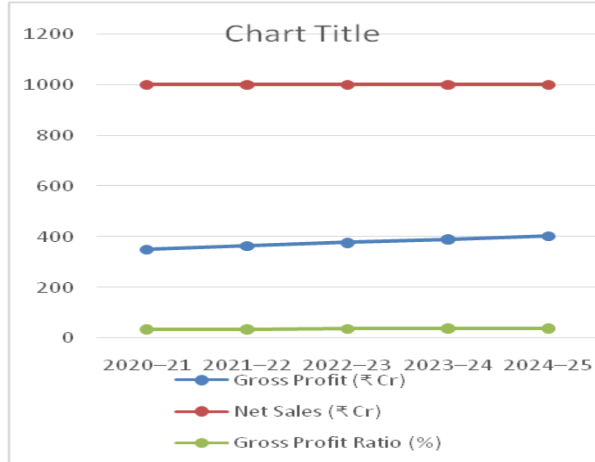
Interpretation: Working capital increased steadily until 2024, indicating robust liquidity, but fell in 2025 due to rising liabilities and declining cash reserves.

Figure 2. Gross Profit Ratio (GPR)

Table 1. gross profit ratio (₹ Cr)

Year	Gross Profit (₹ Cr)	NetSales	Gross Profit Ratio (%)
2020–21	352	1000	35.2
2021–22	365	1000	36.5
2022–23	378	1000	37.8
2023–24	391	1000	39.1
2024–25	403	1000	40.3

Figure 1. Gross Profit Ratio (2021–2025)



Interpretation: The gross profit ratio rose from 35.2% to 40.3% over five years, showing improved cost efficiency and stronger pricing power. This indicates better margin management and enhanced overall profitability.

Findings and Discussion

1. Working capital grew until 2024, reflecting strong liquidity, but declined in 2025 due to rising liabilities.
2. Liquidity ratios remained above standard benchmarks, suggesting solvency despite fluctuations.
3. Turnover ratios weakened, indicating inefficient utilization of working capital.
4. Rising receivables imply higher credit sales but slower collections, which can strain cash flow.
5. Cash holdings fluctuated, highlighting inconsistent cash management practices.

V. CONCLUSION AND SUGGESTIONS

Supreme Industries Ltd. has demonstrated a generally robust financial performance over the five-year period, maintaining healthy liquidity ratios until 2024. This financial stability has supported consistent profitability and fostered investor confidence, reflecting the company's ability to efficiently manage its short-term obligations while funding operations. The period under review highlights the company's strengths in working capital management and operational efficiency.

The noticeable decline in liquidity in 2025 serves as a cautionary signal. It indicates potential inefficiencies in accounts receivable management, inventory control, and cash utilization. If left unaddressed, these issues could adversely affect operational flexibility, strain supplier relationships, and limit the company's ability to capitalize on growth opportunities. Additionally, the evolving business environment emphasizes the need for digital integration to streamline financial processes and enhance responsiveness to market dynamics.

Recommendations

1) **Adopt Scientific Inventory Management Models:**

Implement models such as Economic Order Quantity (EOQ) and Just-in-Time (JIT) to optimize stock levels, reduce carrying costs, and prevent overstocking or stockouts.
Regularly review inventory turnover ratios to identify slow-moving or obsolete stock and adjust procurement strategies accordingly.

2) **Strengthen Receivable Collection Policies:**

Revise credit policies to ensure timely collection of outstanding receivables.
Introduce incentive-based early payment schemes and automated reminders to reduce the Average Collection Period (ACP).
Monitor customer creditworthiness periodically to minimize the risk of defaults.

3) **Maintain Optimal Cash Reserves:**

Establish a cash reserve policy that balances operational liquidity needs with investment opportunities.
Conduct periodic cash flow forecasting to anticipate short-term liquidity gaps and prevent potential financial bottlenecks.

4) **Leverage Digital Tools for Working Capital Efficiency:**

Adopt e-invoicing, automated receivables tracking, and inventory management software to reduce manual errors and improve transaction speed.
Utilize analytics tools to gain insights into cash conversion cycles and identify areas for improvement.

5) **Enhance Strategic Financial Planning:**

Conduct regular scenario analysis to evaluate the impact of market fluctuations, raw material price changes, and demand variability on working capital.
Integrate working capital optimization into the broader financial strategy to ensure sustainable growth and profitability.

By implementing these strategic adjustments, Supreme Industries Ltd. can **strengthen liquidity, accelerate turnover, and improve overall operational efficiency**. Over the long term, these measures will contribute to enhanced profitability, a stronger market position, and increased shareholder value. Proactive management of working capital, coupled with digital adoption and data-driven decision-making, will enable the company to navigate financial challenges while sustaining its competitive advantage.

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