

A Study on Working Capital Management And Its Impact on Profitability At Prasanna Precision Tools

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Abstract- The study titled “A Study on Working Capital Management and Its Impact on Profitability” focuses on analyzing the efficiency of working capital management and its influence on the profitability of Prasanna Precision Tools, Puducherry. The research is based on secondary data collected from the company’s financial statements for a five-year period. Analytical tools such as ratio analysis and regression analysis were applied to examine the relationship between liquidity and profitability. The results reveal that inventories and receivables constitute the major portion of current assets, while cash balances remain consistently low. Liquidity ratios such as the current ratio and quick ratio show a declining trend, indicating a gradual reduction in the firm’s ability to meet short-term obligations. Despite this, profitability ratios such as gross profit margin and net profit margin remained stable, showing efficient cost control. The regression analysis indicates a strong relationship between working capital and profitability, though excessive liquidity was found to negatively impact returns. The study concludes that effective working capital management is essential for balancing liquidity and profitability. It recommends improving receivable collections, optimizing inventory levels, and reducing reliance on short-term borrowings to strengthen financial stability and ensure sustainable profitability.

Keywords- Working Capital Management, Return OnAseet, Profitability.

I. INTRODUCTION

Working capital management is a cornerstone of financial management, ensuring the efficient use of a company's short-term resources. It involves managing current assets such as cash, receivables, and inventories, along side current liabilities such as payables and short-term debts. Effective working capital management is essential for maintaining a company’s liquidity and operational efficiency while minimizing risks associated with financial constraints. It acts as a key determinant of a company’s profitability and overall financial health. This research seeks to estimate working capital requirements, analyze its components, and assess its impact on profitability. By exploring these

dimensions, the study aims to provide actionable insights into optimizing financial operations.

OBJECTIVE OF THE STUDY

- To study the components of gross working capital.
- To analyze the Networking capital of Prasanna Precision Tools
- To examine the profitability position of Prasanna Precision Tools.
- To analyze the working capital and its impacton profitability.

II. REVIEW OF LITERATURE

Raheman and Nasr (2020)

Conducted on 94 Pakistani firms listed on the Karachi Stock Exchange, this study explored the effect of working capital management on profitability. The results indicated that the cash conversion cycle, inventory turnover, and current ratio have a significant negative relationship with profitability. The study suggested that firms with shorter CCC and effective asset management perform better financially. It emphasized balancing current assets and liabilities to avoid liquidity crises.

Altaf and Shah (2019)

In their study of Indian manufacturing firms, the authors found that efficient working capital management significantly enhances profitability. The research identified that a shorter cash conversion cycleimproves return on assets and equity. The study recommended that firms reduce receivable and inventory days to boost profitability. The findings supported the belief that strong financial control improves business performance.

Vural, Sökmen, and Çetenak (2012)

The study investigated 75 Turkish manufacturing firms from 2002 to 2009 to determine how working capital

management affects profitability. The findings revealed a negative relationship between the cash conversion cycle and firm profitability. The research emphasized that there efficient management of current assets reduces financing needs and enhances firm value. It highlighted that better receivable and inventory management helps firms maintain liquidity without sacrificing profits. The authors also suggested that industrial differences influence WCM efficiency.

Mathuva (2010)

Mathuva analyzed firms listed on the Nairobi Stock Exchange to determine how WCM components affect profitability. The study found that the average collection period and inventory conversion period positively affect profitability, while the average payment period has a negative effect. It suggested that allowing customers reasonable credit periods can improve profitability through better sales performance.

Lazaridis and Tryfonidis (2006)

This study examined 131 listed firms on the Athens Stock Exchange between 2001 and 2004 to assess the relationship between WCM and profitability. The findings revealed that gross operating profit is negatively related to receivables, inventory, and payables periods. The study concluded that managers could improve profitability by efficiently handling these components. It emphasized the importance of monitoring liquidity to maintain business stability

IV. RESEARCH METHODOLOGY

Research Design: This research uses the analytical research design.

Data Collection:

Secondary Data: Secondary data are those which have already been collected by someone else and which have already been passed through the statistical process. The research detailed about on Secondary Data, collected from the balance sheet and profit and loss account of Prasanna Precision Tools for the five-year period of 2021-2025.

Tools For Analysis:

The collected data was analysed using the following financial tools such as follows they are,

- Components of Gross working capital

- Ratio Analysis
- Regression

V. DATA ANALYSIS AND INTERPRETATION

1. Components of Gross Working Capital

Gross working capital represents the total current assets of a company.

CUURRENT ASSETS	2021	2022	2023	2024	2025
Inventories	1,85,23,355 (51.53%)	1,99,24,355 (51.36%)	2,26,24,255 (52.64%)	2,31,05,665 (51.93%)	2,61,33,395 (52.25%)
Trade Receivables	1,37,10,115 (38.14%)	1,45,10,115 (37.40%)	1,55,10,115 (36.08%)	1,60,41,566 (36.05%)	1,80,57,111 (36.10%)
CashAndCash Equivalents	2,75,852 (0.76%)	2,90,560 (0.74%)	3,10,452 (0.72%)	3,18,452 (0.71%)	2,44,418 (0.48%)
OtherCurrent Assets	34,32,198 (9.54%)	40,66,592 (10.48%)	45,32,198 (10.54%)	50,25,961 (11.29%)	55,74,301 (11.14%)
Total	3,59,41,520	3,87,91,622	4,29,77,020	4,44,91,644	5,00,09,225

INTERPRETATION:

From 2021 to 2025, the composition of current assets remained largely consistent, with inventories contributing the highest share (around 51–53%) followed by trade receivables (36–38%). Other current assets gradually increased, while cash and cash equivalents stayed very low, declining to just 0.48% in 2025. This indicates the company is heavily invested in stock and credit sales, with limited cash on hand.

2. Ratio Analysis

Profitability Ratios

These measure a company's ability to generate profit relative to its revenue, assets, or equity.

Ratios	2021	2022	2023	2024	2025
Gross Profit Margin	52.93%	52.27%	54.29%	52.45%	55.31%
Net Profit	30.50%	27.71%	29.82%	30.13%	31.29%

Margin					
Operating Profit Margin	34.12 %	32.34 %	32.19 %	30.08 %	31.19%
Return on Assets	41.65 %	28.43 %	30.84 %	31.14 %	26.55%
Return on Equity	100%	100%	100%	100%	100%
Earnings Per Share	285.24	224.24	260.24	291.24	280.62
Return on Capital Employed	67.25 %	43.01 %	45.80 %	45.48 %	43.55%

INTERPRETATION:

Overall, the company is financially strong and profitable, as seen from the high gross profit, net profit, and earnings per share. However, the declining ROA and ROCE show that the company's efficiency in using its assets and capital is reducing over time. The constant 100% ROE suggests heavy reliance on debt, which increases financial risk. In summary, the company is earning good profits but needs to improve operational efficiency and reduce dependence on borrowed funds for long-term stability.

Working Capital Ratios

These assess a company's operational efficiency and short-term financial health.

Ratios	2021	2022	2023	2024	2025
Current Ratio	1.43	1.08	1.19	1.18	0.85
Quick Ratio	0.69	0.53	0.56	0.57	0.40
Working Capital Turnover Ratio	8.67	27.44	12.69	14.09	(10.04)

INTERPRETATION:

The liquidity position of the company is weakening over the five years. The Current Ratio and Quick Ratio both show a continuous decline, especially in 2025, indicating that

the company may face difficulty in meeting its short-term obligations. The Working Capital Turnover Ratio fluctuates sharply and becomes negative in 2025, showing poor working capital management and possible shortage of current assets. Overall, the company's short-term financial health is declining, and it needs to improve liquidity and working capital efficiency.

3. Regression

Regression is a statistical measurement used in finance, investing and other disciplines that attempts to determine the strength of the relationship between one dependent variable (usually denoted y) and a series of other changing variable (known as independent variables).

$$Y = a + bX$$

VI. FINDINGS

- The company's current assets increased consistently from ₹3.59 crores in 2021 to ₹5.00 crores in 2025, showing overall asset growth.
- The working capital position fluctuated and became negative in 2025 due to a sharp rise in current liabilities, especially short-term borrowings.
- The current ratio decreased from 1.43 in 2021 to 0.85 in 2025, showing a decline in the company's ability to meet short-term obligations.
- The quick ratio declined from 0.69 to 0.40, indicating dependence on inventory to meet liabilities and insufficient liquid assets.
- The gross profit margin remained steady between 52% and 55%, showing effective control over production and operating costs.
- The net profit margin improved slightly, reaching 31.29% in 2025, signifying consistent profitability despite variations in revenue.
- The Return on Assets (ROA) declined from 41.65% to 26.55%, implying reduced efficiency in using assets to generate profits.
- The Return on Capital Employed (ROCE) fell from 67.25% to 43.55%, indicating declining capital utilization efficiency.
- Regression analysis revealed a strong relationship between working capital management and profitability, with the current ratio showing a negative impact on ROA, meaning excess liquidity reduces profit levels.

VII. SUGGESTIONS

- The company should improve its liquidity by increasing cash reserves and reducing over-reliance on inventory for meeting short-term obligations.
- Trade receivables should be collected faster by enforcing stricter credit policies and offering early-payment discounts.
- Inventory levels should be optimized using techniques like EOQ, ABC analysis, and JIT to avoid excess stock and reduce holding costs.
- The company should reduce dependence on short-term borrowings and explore long-term financing options to ease liquidity pressure.
- Regular monitoring of the working capital cycle is needed to maintain an optimal balance between current assets and current liabilities.
- Cash management must be strengthened by preparing a monthly cash budget and investing idle funds.
- Operating expenses should be controlled through cost-saving measures, lean production, and efficient utilization of resources.
- The company should improve capital utilization to increase ROA and ROCE by avoiding investment in low-return or non-productive assets.
- Adoption of modern financial tools such as ERP systems can help track inventory, payables, and receivables more efficiently.
- Supplier relations should be improved to negotiate better credit terms and reduce immediate payable pressure.
- The company should periodically review its credit policy to balance sales growth with timely collection.
- A separate working capital management team or committee can be formed to monitor liquidity regularly and ensure better financial control.

VIII. CONCLUSION

The study concludes that working capital management has a direct and significant impact on the profitability of Prasanna Precision Tools, Puducherry. While the company maintained stable profit margins over the five-year period, its declining liquidity ratios and negative working capital in 2025 indicate inefficiencies in managing short-term assets and liabilities. Effective working capital management ensures that the company can meet its short-term obligations while maintaining sufficient liquidity to support day-to-day operations. The regression results confirm that poor liquidity management adversely affects profitability, emphasizing the need for a balanced approach. To sustain profitability and financial stability, Prasanna Precision Tools must focus on

improving liquidity, optimizing inventory, accelerating receivable collections, and reducing dependence on short-term financing. With better financial planning and continuous monitoring, the company can strengthen its working capital efficiency, enhance profitability, and ensure long-term business sustainability.

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