

IMPACT ON WORKING CAPITAL MANAGEMENT ON THE PROFITABILITY IN LAKSHMI VILAS BANK LTD

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Abstract—*In India Non- performing assets are one of the major concerns for banks. NPA is the best indicator for the health of the banking industry. NPAs reflect the performances of banks; NPAs are the primary indicators of credit risk. NPAs are an inevitable burden on the banking industry. Hence the success of a bank depends upon methods of managing NPAs. The public sector banks have shown very good performance over the private sector banks as far as the financial operations are concerned. The public sector banks have also shown comparatively good results. The research period taken is 5 years i.e, 2012-13 to 2016-17. This study is based on both primary and secondary data. The objectives are taken in consideration for the study, to know and study about the non-performing assets in KVB; to examine level of NPA in KVB; to assess the current asset and current liability level; to make appropriate suggestions to avoid future NPAs and to manage existing NPAs in KVB.*

Working capital is one of the most essential part of business. As it explains, the capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities. In this paper concentrates on the impact on working capital management on the profitability in Lakshmi Vilas Bank Ltd. The research period taken is 10 years i.e, 2006-07 to 2016-17 in which both direct and indirect variables are used. This study is based on both primary and secondary data. The objectives are taken in consideration for the study,

- a) To study about the working capital management.*
- b) To examine the profitability position of LVB.*
- c) To known the impact on working capital with total income.*

Variables used in this study includes Return on assets (ROA) to measure the profitability, total income, deposits, advances, capital employed and return on capital employed (ROCE). Thus, the result shows the working capital has positive relationship with total income, deposit, advances and ROCE with profitability and working capital shows negative relationship with capital employed.

Keywords—*Capital Employed, Deposit, Profitability, ROCE, Working Capital.*

INTRODUCTION

Working Capital Management is an important component of Financial Management. It is the relationship between current assets and current liabilities. Management of working capital is important to carry the routine activities of a bank. The objective behind working capital management is to ensure continuity in the operations of a bank and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses. It mainly involves management of inventories, accounts receivables, accounts payables and cash. The basic theme of working capital management is to provide adequate support for smooth and efficient functioning of day to day business operations by striking a trade between the three proportions of working capital.

Working capital management and profitability have some relationship with each other. Many research works are available on this relationship in different sectors of India. But selected sector i.e. Lakshmi Vilas Bank Limited has not been under much consideration regarding the working capital management. So, much literature is not available in this sector in Indian context. Working capital management is very important part of business activities of any firms. Thus, working capital management is very important for LVB as well. The main aim of this paper is to find out “Does the working capital management have any impact on the profitability of LVB?” and also the purpose of this research is to contribute important aspect towards a financial management known as working capital management with reference to Lakshmi Vilas Bank Ltd.

Working Capital Management

Working capital may be regarded as life blood of a business. Working capital management is a process of planning and controlling the level and mix of the current assets of the firm as well as financing these assets. A study of working capital is of major importance to internal and external analysis because of its close relationship with the day-to-day operation of a business.

The goal of working capital management is to manage each of the firm’s current assets and current liabilities. Working capital is also known as circulating capital or current capital or revolving capital.

Capital required for a business can be classified under two main categories viz;

- Fixed capital
- Working capital

Every business need fund for two purposes for its establishment and carrying out its day-to-day operations.

Long-term funds are required to create production facilities such as purchase of plant, machinery, land, building, furniture’s, etc., Investment in these assets represent that part of the firm’s capital which is permanently blocked and it is called as fixed capital.

Funds are also needed for short-term purpose for the purchase of raw materials, payment of wages and other day-to-day expenses. These funds are known as working capital.

The working capital may rightly to be called as the circulating or revolving capital, because current asset keeps revolving fast and are being constantly converted into cash and this cash flows out again in exchange for other current assets.

OBJECTIVES

- To study about the Working Capital Management.
- To know the impact of working capital with total income.
- To examine the profitability position of Lakshmi Vilas Bank.

RESEARCH METHODOLOGY

Research Methodology is a way through which systematically we solve the research problem. It is understood as a science of studying how research is dined scientifically. It is necessary for the researcher to know not only the research methods and techniques but also methodology.

RESEARCH DESIGN

Research design is the conceptual structure within which research is conducted. It constitutes the blue print for collection, measurement and analysis of data. As the study aims at narration of existing facts and figures regarding working capital management on profitability of the bank, the research design adopted in the study has been descriptive in nature.

SAMPLE DESIGN:

The sample for the study has been selected a company named Lakshmi Vilas Bank LTD.

HYPOTHESIS:

H₁: A significant relationship exists between Advances and Working capital.

H₂: A significant relationship exists between Capital Employed and Working capital.

H₃: A significant relationship exists between Deposits and Working capital.

H₄: A significant relationship exists between Total Income and Working capital.

H₅: A significant relationship exists between Working Capital and Profitability.

H₆: A significant relationship exists between Profitability and ROCE.

DATA COLLECTION:

The study is mainly based secondary data, collected from the annual reports and accounts of LVB.

TIME PERIOD:

The study covers the data from 2007-2008 to 2016-17. i.e. ten years and being collected to analyze the working capital management on profitability.

TOOLS AND TECHNIQUES

In order to analysis the working capital management on profitability of the bank the following statistical tools were used.

- Ratio analysis
- Profitability analysis

LIMITATION OF THE STUDY

- The figures are purely based on the annual report of the bank.
- The data used for the study is secondary data which is said to be historical in nature.
- The period of study is restricted for only ten years.

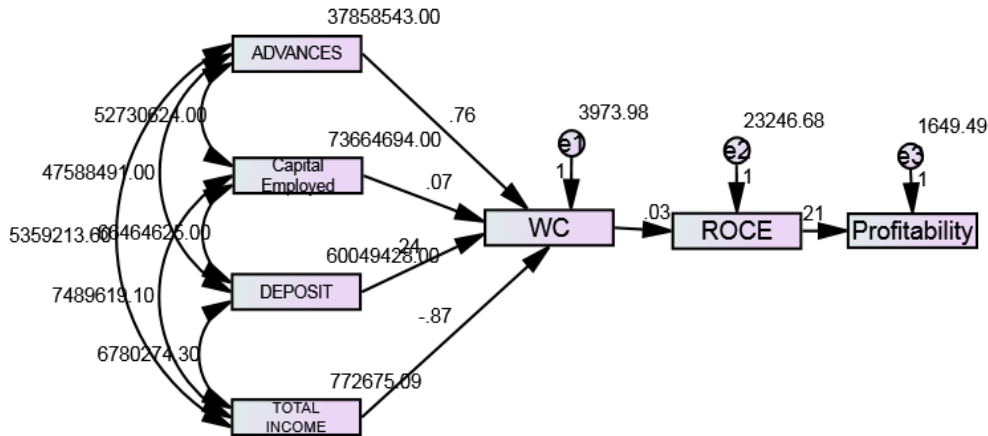
**TABLE 1
RELATIONSHIP BETWEEN DIRECT AND INDIRECT VARIABLES**

			Estimate	S.E.	C.R.	P	Hypothesis	Result
Working Capital	<---	Total Income	-.868	.310	-2.799	.005	H ₄ (5%)	Supported
Working Capital	<---	Deposit	.243	.116	2.097	.036	H ₃ (5%)	Supported
Working Capital	<---	Advances	.762	.065	11.770	***	H ₁ (1%)	Supported
Working Capital	<---	Capital employed	.071	.085	.832	.406	H ₂	Rejected
Return on capital employed	<---	Working capital	.033	.008	4.132	***	H ₅ (1%)	Supported
Profitability	<---	Return on capital employed	.210	.052	4.035	***	H ₆ (1%)	Supported

Source: Calculated value

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	19	24.584	9	.003	2.732

PROFITABILITY ANALYSIS



- H₁: A significant relationship exists between Advances and Working capital.
- H₂: A significant relationship exists between Capital Employed and Working capital.
- H₃: A significant relationship exists between Deposits and Working capital.
- H₄: A significant relationship exists between Total Income and Working capital.
- H₅: A significant relationship exists between Working Capital and ROCE.
- H₆: A significant relationship exists between ROCE and Profitability.

GOODNESS OF THE FIT INDEX FOR MEASUREMENT MODEL

Parameters	Model values	Suggested values
CMIN/DF	2.732	≤ 3
GFI	0.914	0.9
AGFI	0.862	0.8
CFI	0.941	0.9
RMSEA	0.092	<0.10

SUGGESTIONS:

The profitability of the concern is mostly fluctuating year by year. The management should reduce the expenses and increase the investment which helps to raise the profitability of the concern.

The management should take effect in Capital Employed sector.

There are several research areas for further research purpose. One of research area to be focused on how corporations can optimize the capital mix as to ensure maximum liquidity. Another area where we can do is in other sectors of Banks. Also details study about the specific topic working capital management could add more value for the research.

CONCLUSION:

Working capital management on profitability of Lakshmi Vilas Bank Ltd has been studied for the period of 10 years. Favorable liquidity ratios over the years have helped the bank for running business an effective manner. The bank has a

good liquidity position. The bank has a sound cash flow over the year. This helps in designing working capital planning, control, monitoring, utilization and productive maintenance of optimum net current assets.

It can be concluded that the bank has performed well over past 10 years and improved its working capital management. This shows that the overall management has well place the bank in the direction of growth and performance.

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