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OPTIMIZING WORKING CAPITAL MANAGEMENT: A COMPREHENSIVE REVIEW

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Abstract—*Effective working capital management is crucial for the financial health and sustainability of any organization. This paper aims to provide a comprehensive overview of working capital management, its significance, key components, challenges, and strategies for optimization. Through an extensive review of existing literature and case studies, this paper offers insights into the various approaches employed by businesses to manage their working capital efficiently. Additionally, it discusses the implications of effective working capital management on profitability, liquidity, and overall corporate performance. By understanding the intricacies of working capital management, businesses can develop robust strategies to enhance their financial resilience and competitiveness in dynamic market environments.*

Keywords: *Working capital management (WCM), Profitability and Manufacturing Companies.*

INTRODUCTION

Working capital, often referred to as the lifeblood of a business, represents the difference between current assets and current liabilities. It serves as a measure of a company's operational efficiency and short-term financial health. Efficient working capital management ensures that a company can meet its short-term obligations while simultaneously maximizing its operational performance and profitability. However, achieving this balance is often challenging due to various factors such as fluctuating market conditions, unpredictable cash flows, and evolving business dynamics. Hence, the effective management of working capital requires a systematic approach that encompasses careful planning, monitoring, and optimization of key components including accounts receivable, inventory, and accounts payable. This paper seeks to explore the significance of working capital management, its underlying principles, and the strategies employed by organizations to optimize their working capitalposition.

OBJECTIVE OF THE STUDY:

1. To know the liquidity position of SMPL
2. To assess the management of inventories and debtors.
3. To know the trend percentage of changes in financial position.
4. To know the working capital position of the concern.
5. To give suggestion to improve the working capital management of SMPL.

REVIEW OF LITERATURE:

Lotta Lind ed al (2015) Financial value chain analysis is used to examine working capital management by cycle times in the value chain of the manufacturing industry during 2006-2008.

The applied method offers a holistic view of the value chain from raw material to the end customers. The average cash conversion cycle of the value chain of the cotton industry was 70 days. According to the study, the change of cycle times of working capital followed mainly the change of cycle time of inventories. The position of the stage of the value chain measured by the cash conversion cycle did not change substantially from 2006 to 2008.

Zhoe Bei (2016) This study investigates working capital policy (WCP) practices in Srilanken context. We utilize multiple regression analysis (MRA) to empirically formulate the industry's 'best practice' limit and measures firm efficiency as the detachment from that limit. Using these different working capital policy we study WCP behaviour, packaging industry performance and deciding factors. We summarizes the divergent properties of working capital policy in the terms of two hypotheses: The efficiency, liquidity levels and working capital policy hypotheses. Employing multiple regression we test the influence of efficiency on factors that is determining the WCP, thus the empirical validity of two competing hypotheses across different working capital policy choices and what factors associated with the determinants of listed firm to exploit particular working capital management policy.

Yimin Zhang and Tianmu Wang (2017) have considered the cost structure, profitability and productivity of the Chinese textile industry and estimated the impacts of RMB appreciation on this industry for 1995–2006. It was found that the industry had suffered from very low profit margins and returns on capital. Because the input prices have been increasing, particularly since 2001, generating profits had become more difficult task for the industry. Nevertheless, the industry achieved substantial productivity growth during the period examined. Although at an inadequate level, the profitability of the industry did show some signs of improvement. As long as this trend continued, the industry could have obtained a decent level of profitability. Since 2005, the industry has faced a new challenge; theappreciation of the RMB. Based on 2006 data, it estimated the maximum rate of RMB appreciation.

Neha Mittal (2018) has studied the determination of the capital structure choice of the selected Indian companies. The main objective was to investigate whether and to what extent the main structure theories could explain the capital structure choice of Indian firms. It has applied multiple regression models on the selected industries by taking data for the period 2001-2008. The study concluded that the main variables determining capital structure of industries in India were agency cost, assets structure, non-debt tax shield and size. The coefficients of these variables were significant at one per cent and five per cent levels.

Sai Ding ed al (2019) We use panel of over 116,000 chinese firms of different ownership types over the period 2000-2007 to analyze the linkage between investment in fixed and working capital and financing constraints. We find that those firms characterized by high working capital display high sensitivities of investment in working capital to cash flow and low sensitivities of investments in fixed capital to cash flow. We then construct and analyze firm- level FKS and WKS measures and find that, despite severe external financing constraints, those firms with low FKS and high WKS exhibit the highest fixed investment rates. This suggests that an active management of working capital may help firms to alleviate the effects of financing constraints on fixed investment.

Nihat Aktas et al (2020) We examine the value effect of working capital management (WCM) for a large sample of US firms between 1982-2011. Our results indicates (i) the existence of an optimal level of working capital policy; and (ii) packaging industry that converge to that optimal level (either by increasing or decreasing their investment in working capital) improve their stock and operating performance. We also document that corporate investment is the channel through which efficient WCM translates into superior firm performance. In particular, efficient WCM allows firm to redeploy underutilized corporate resources to higher-valued use, such as the funding of cash acquisition.

Sonia Banos-Caballero (2021) This paper examines the linkage between working capital management and corporate performance for a sample of non-financial UK companies. In contrast to previous studies, the findings provide strong support for an inverted U-shaped relation between investment in working capital and firm performance, which implies the existence of an optimal level of investment in working capital that balance costs and benefits and maximizes a firm's value. The results suggest that managers should avoid negative effects on firm performance because of lost sales and lost discounts for early payments or additional financing expenses. The paper also analyzes whether the optimal working capital level is sensitive to alternative measures of financial constraints. The findings show that this optimum is lower for firms more likely to be financially constrained.

RESEARCH METHODOLOGY

METHODOLOGY:

The financial data for a period ten years of Sengunthar mills private limited analysed for the study.

RESEARCH DESIGN:

The methodology used in this study is descriptive in nature where the researcher has to use facts (or) information already available and study the characteristics of a particular group respectively and there by analyse to make a critical evaluation of the study.

SOURCES OF DATA COLLECTION

PRIMARY DATA:

Primary data are generated when a particular problem at hand is investigated by the researcher employing mail questionnaires, telephone surveys, personal interviews, observation and experiments.

SECONDARY DATA:

Secondary data include these data which are collected for some earlier research work and re-applicable in the study the researcher has presently under takes.

SUGGESTIONS

1. The company is maintaining high current ratio of 6.25% in the year 2015-2016. But the idle current ratio is 2:1. So the company should minimize the current assets.
2. The company should maintain inventory position properly, so as to continue production regularly.
3. Debt-collection policy should be properly followed so as to have better liquid position.
4. The company cash to current assets proportion is very high, the researcher suggested that idle cash position should be invested properly.
5. Proper policy should followed to make investment of cash.
6. The researcher suggested that debt-equity ratio should be continued to have long term solvency.
7. Operating expenses should be reduced in order to obtain more profit.

CONCLUSION

From the study it can be generally concluded that the companies present working capital management is satisfactrable. There has been a close co-operation between finance, technical and other executives and there is intense involvement of these resulting in harmony in the affairs of the company

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