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A Research on Working Capital Management Efficiency and Performance in Indian Industries

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Abstract – Efficient management of working capital is a fundamental part of the overall corporate strategy in creating the shareholders' value. Today the management of Working Capital is one of the most important and challenging aspect of the overall financial management. Optimization of working capital balance means minimizing the working capital requirements and realizing maximum possible revenues. Efficient WCM increases firms' free cash flow, which in turn increases the firms' growth opportunities and return to shareholders. Even though firms traditionally are focused on long term capital budgeting and capital structure, the recent trend is that many companies across different industries focus on WCM efficiency.

Financing decision of an entity bears relation with working capital management. It is a part of short term financing. The study of corporate finance is also linked with Working capital management. Thus, this study sought to examine the effect of working capital management on profitability of select companies listed in BSE The study used a sample of 53 companies. The study used secondary data for a period of 5 years from 2011 – 2015. The data have been analysed using the Pearson correlation and the multivariate regression analysis. The study has revealed that the all components of working capital namely Receivable days(RD), Payable days(PD), Inventory holding periods (ID), Current ratio (CR) and Quick ratio (QR) have strong impact on profitability. Cash conversion cycle (CCC) is negatively related with the profitability, Firm size is also linked with working capital. If firm size increases, the need of working capital will be more. It has been found that the firm size has also significant impact on EBIT but insignificant impact on ROA and ROE.

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INTRODUCTION

Working capital management acts as a decisive steering in the hands of managers to deliberately draw a financial management decision (**Shajar, S.N. 2017)**. Working capital management is of paramount significance in a financial decision-making since it is a part of the investment in asset and hence it directly influences the firm's profitability and liquidity **(Sarbapriya, 2012)**. The efficient working capital management is a very climacteric factor in maintaining survival, liquidity, solvency, and profitability of any business organization. Moreover, an optimal working capital management positively contributes to the value of every concern. Hence, it is a strenuous task for the companies to overcome competition in a very complex and dynamic environment and to optimize their working capital as a real competitive advantage to leverage profit. (**Nyoike, K. 2015)** explains that, a well-designed and effective working capital management has a significant contribution to the profitability and liquidity position of firms. In the words of the management of current assets (investments decisions) and current liabilities and equity (financing decisions), in the long-term and the short-term are basically dealt in corporate finance, which can further be subdivided into long-term and short-term finance. Wherein capital budgeting, dividend policy, and capital structure come under the purview of long-term finance. On the other hand, Short-term finance is related to the performance of firms influenced by the judicious application of working capital management within a year. In the words of**,** long-term capital decisions are of critical importance to the going-concern of a firm.

However, working capital management has direct consequences on the liquidity and ultimate profitability of a firm. Working capital management includes cash management, inventory management, accounts receivable management, and accounts payable management. Greater the quantum of working capital, less the financial crunches a firm experiences, but too much working capital also results in idle assets and excess liquidity. In his study explains that the efficient management of working capital is a pre-requisite from the point of view of liquidity (risk) and profitability as well as firm value, as poor management of working capital results in inadequate investment in current assets. Due to lack of proper experience, management of new enterprises is confronted with the problem of optimizing the available resources judiciously. Since capital is the limited productive resource in developing economies and appropriate utilization of the resources promotes the growth rate of firm's, brings down production cost and improves the overall efficiency of the productive system. Hence, in his paper emphasis on the deliberate management of working capital and suggests the firm's to determine its optimal investment in the working capital, as optimal management of working capital have a positive effect on the returns, profitability and the firm's value.

On the other hand manufacturing sector in a developing economy like India remains one of the most powerful engines for economic growth of the country. In the competitive era of the 21st century, this sector has become an important means for the nation to derived benefit from globalization and bridge the income inequalities with the industrialized world (**Amakom, 2012**). Moreover, it plays a catalytic role to transform the economic structure of country from slow growing and low-value activities to more dynamic and productive economies. The productive economic activities are steered by technology and therefore enjoy great margins. Thus the above factors clearly highlight the vital importance of working capital management in the manufacturing sector of Indian economy and suggests the researcher to explore the inevitable dimensions of working capital management concerning with select Indian manufacturing firms.

Working capital decisions normally provide a classic example of risk-return trade-off of financial decision making practice. Efforts to increase a firm's net working capital, *i.e*., current assets less current liabilities, reduce the risk of a firm not being able to pay its outstanding bills on time. This, at the same time, reduces the overall profitability of the firm. Working capital management (WCM) involves a risk-return trade-off: by not taking additional risks unless and until it is well-compensated with additional assured returns. The existence of a firm largely depends on its ability to efficiently and effectively manage its working capital. WCM involves the process of converting investment into inventories and accounts receivables into liquid cash for the firm to use in paying its operational bills. WCM is at the heart of every firm's day-to-day operating environment, and thereby improving corporate profitability.

Decisions relating to working capital involve managing the relationship between a firm's short-term assets and liabilities to ensure that a firm is able to continue its operations with sufficient cash flows to satisfy both maturing short-term debts and upcoming operational expenses at a minimal cost, thereby increasing corporate profitability. Working capital decisions provide a classic example of the risk-return trade-off of financial decision-making. Increasing a firm's net working capital -current assets less current liabilities - reduces the risk of a firm not being able to pay its bills on time. This, at the same time, reduces the overall profitability of the firm. Working capital management involves a risk-return trade-off: not taking additional risk unless compensated with additional returns. The existence of a firm depends on its ability to manage its working capital. Working capital management involves the process of converting investment into inventories and accounts receivables into cash for the firm to use in paying its operational bills. As such, working capital management is, thus, at the very heart of the firm's day-today operating environment, and improving corporate profitability.

An important part of managing working capital is maintaining liquidity in day-to-day operations to ensure smooth running of the firm and meeting its obligations, as well as to ensure that the business is earning sufficient profits for its survival and growth. There are chances of mismatch in current assets and current liabilities during this process, which could affect the growth and profitability of the business. A popular measure of working capital management [WCM] is the cash conversion cycle, that is, the time lag between the expenditure for purchase of raw materials and the collection from sales of finished goods. The longer this time lag, the larger the investment in working capital. A longer cash conversion cycle however, might increase profitability because it leads to higher sales. On the other hand, corporate profitability might also decrease with a longer cash conversion cycle if the costs of higher investment in working capital rise faster than the benefits of holding inventory or granting more trade credit to customers. Many research studies like Shin and Soenen [1998] have highlighted the importance of shortening the cash conversion cycle (*CCC*), as managers can create value for their shareholders by reducing the cycle to a reasonable minimum.

A firm may adopt an aggressive working capital management policy with a low level of current assets or it may use a conservative working capital management policy where it may use working capital to finance a high level of current assets as a percentage of total assets. Wang (2002) points out that if a firm follows an aggressive credit cycle policy and the inventory levels are reduced significantly, the firm risks losing any appreciation in sales. Also, a significant reduction in trade credits granted may provoke a reduction in sales from customers requiring credit. In fact, opportunity costs may rise, depending on the discount percentage and discount period granted. On the other hand, investing heavily in working capital or using a conservative credit cycle policy may also result in higher profitability. Maintaining a high inventory level reduces the cost of possible interruptions and loss of business due to scarcity of products, reduces supply costs and can protect against price fluctuations. However, such benefits have to offset the reduction in profitability due to an increase in investment in current assets.

All the studies on working capital generally states that for the improvement in profitability we should manage our working capital effectively and most of the studies recommended to have good amount of working capital in the organization. All the researches on this topic conclude that the companies should avoid under-investment in working capital if they want higher profit margins. With negative working capital there can be a danger of insolvency but it is not true forever. If the company is having a good image in the market and good relation with their creditors it can get the benefit from the negative working capital also. Hence, the question arises that having negative working capital is good for an organization or not and if a company is earning profit continuously with having negative working capital, can we say that it is a sign of managerial efficiency or there might be the chances of possible bankruptcy of the company? Keeping these views in mind, this research article explains the conceptual background of the negative working capital and how it affects profitability of the corporate.

Many research has been conducted in the area of long term financing decisions viz. investment decisions , capital structure and business valuation etc. In comparison to that limited study has been extended in the field of working capital management. Working capital is the fund required to meet daily expenses in a business organization. It is the amount invested in the current assets and can easily be converted into cash without changing the value of the business (Mohanty, 2013). It can be expressed technically as excess of current assets over current liabilities. Positive working capital reflects the capacity to pay short term obligation while the negative working capital reflects the weakness of inability to pay the same. Besides the negative working capital, excess is also not desirable. Insolvency may cause due to inadequate working capital (Singh and Asress, 2010).

Working capital management ensures the proper balancing of different components say debtors, receivable, cash balance, inventory, payables etc. The balance can be achieved by minimizing the working capital requirement and maximizing the earning. Such balancing draws two concepts, liquidity and profitability. Liquidity gives strength to meet short term obligation on the other hand firm's ability to earn profit is reflected by profitability quotient. It acts as a measure of firm performance. Effective working capital management provides a firm to increase profitability along with the solution of optimum liquidity (Uchenna et al., 2012).

REVIEW OF LITERATURE

Researchers have concentrated in the different areas of appropriate application of working capital management. Working capital is just a fuel to a business named car. Extra penny invested in the working capital would result to the decrease in value of the firm . The prime question comes to the mind of the authors about the volume of working capital. To understand the requirement of working capital , cash conversion cycle need to be understood. This concept was first conceived by Richards and Laughlin (1980). Cash conversion cycle (CCC) is the summation of material procurement time, raw material conversion period , inventory holding period and receivable days reduced by payable periods. Raw materials conversion means to production time. More of production time will increase CCC. More of finished goods holding period will cause to stretch the CCC. Similarly, receivable days or periods refers to the time of goods sold on credit to collection from customers. More the lengthy time to receive payments from debtors , more will be the CCC. Payable days can be explained as the time to purchase the goods from suppliers to pay the dues to suppliers. The management part lies in managing the time. Shorter the time period of CCC or an increase in payable days , will require less amount of working capital. Increase in payable days may apparently benefits the organization by arranging less amount of working capital but in the long run it affects the goodwill of the organization.

Agha (2014) studied the same on a firm listed in Karachi stock exchange. The study revealed that a firm can increase its profitability by minimizing the inventory turnover, account receivables ratio and by decreasing creditors turnover ratios but there is no significant effect of increasing or decreasing the current ration profitability. So, the results indicate that through proper working capital management the company can increase its profitability. The results derived from this research signify that A firm is able to raise its profits by diminishing the time period for the debtors and inventories so that the time period for payables would increase. Discussing the same Makori and Jagongo (2013) find a negative relationship between profitability and number of day's accounts receivable and cash conversion cycle, but a positive relationship between profitability and number of days of inventory and number of day's payable. Moreover, the financial leverage, sales growth, current ratio and firm size also have significant effects on the firm's profitability.

There is sufficient evidence in existing financial literature that presents the significance of WCM. Results of empirical analysis show that there is statistical evidence of a strong relationship between a firm's profitability and its WCM efficiency. However, many earlier studies undertaken on WCM efficiency reveal that measures of WCM efficiency basically differ across different companies. Those studies also clearly emphasize significant evidence that issues of WCM are different for different industries and firms from different industry sectors, as they adopt different approaches to their working capital management. Firms follow an appropriate working capital management approach that is quite favourable to them. A firm that faces lesser competition normally focuses on minimizing receivables to increase future possibilities of cash flows. For firms with large numbers of suppliers of materials, the prime focus is always on maximizing the payables.

Previous studies have, to some extent, studied the correlation between efficient working capital management and profitability during a period of time. These have found a strong and significant correlation between profitability and working capital management, but they don't indicate in which industries the effect is most prevalent. The present research work aims to fulfill such gaps and intends to provide a meaningful and empirical result on the relationship between WCM and profitability.

Many previous research studies have indicated the relationship between working capital management and profitability of a company under different changing environments and possibilities. Some of these discussions are as follows:

Rehman (2006) has studied the impact of different variables of WCM including average collection period, inventory turnover in days, average payment period and cash conversion cycle on the net operating profitability of firms, and concluded by indicating that there was a strong negative relationship between these working capital financial ratios and profitability of firms. Furthermore, the study also revealed that managers of the firms can create a positive value for the shareholders by reducing the cash conversion cycle up to an optimal level. Chakraborty and Bandopadhyay (2007) have studied strategic working capital management, and its role in corporate strategy development, ultimately ensuring the survival of the firm. They have highlighted how strategic decisions on current assets and current liabilities have a multi-dimensional impact on the performance of a company Raheman and Nasr (2007) have selected a sample of 94 Pakistani firms listed on Karachi Stock Exchange for a period of 6 years from 1999-2004 to study the effect of different variables of WCM on the net operating profitability. From the results of the study, they have proven that there is a negative relationship between variables of WCM including the average collection period, inventory turnover (in days), cash conversion cycle and profitability.

Besides, they have also indicated that size of the firm measured by natural logarithm of sales has a positive relationship with profitability. Chakraborty (2008) has evaluated the relationship between working capital and profitability of Indian pharmaceutical companies. He has pointed out that there are two distinct schools of thought on this issue: according to one school of thought, size of working capital is not a factor of improving profitability and there may be a negative relationship between profitability and investment in working capital, while according to the other school of thought, investment in working capital plays a vital role to improve corporate profitability, and unless there is a minimum level of investment of working capital, output and sales cannot be maintained; in fact, the inadequacy of working capital keeps fixed assets inoperative. Samiloglu and Demiraunes (2008) have analyzed the effect of working capital management on profitability of firms.

Bardia S C, Shweta Kastiya and Garima Bardia (2011) have conducted a study on pharmaceutical companies and used ratio analysis in conjunction with the techniques of inferential statistics to draw inferences regarding short-term solvency of companies. In addition, statistical tools like Mean, Standard Deviation, Coefficient of Variation (CV), Analysis of Variation (ANOVA) and student's t-test of hypothesis testing have been applied. The study offers some meaningful suggestions in order to improve the short-term solvency of pharmaceutical companies selected for this study. Sharma Asha (2013) has examined the impact of working capital on liquidity as well as profitability. The impact of working capital on liquidity and profitability is tested by measuring the fluctuation in fixed assets, current assets and sales. For this purpose, a study of five years' data from 2008 to 2012 of two major companies in the public and private sector of the steel industry - Steel Authority of India and Tata Steel Ltd. - was undertaken. The study has found that there is a significant negative relationship between liquidity and profitability.

In this study, efforts are made to find out whether these ratios remain unchanged for any industry or vary from one industry to another. There was perfect correlation between the fixed and current ratio, and with its liquidity and profitability in case of SAIL and Tata Steel. Keeping in view the minimal amount of finance literature, particularly with respect to profitability, liquidity and working capital, the present study investigates the relationship of the aggressive and conservative financial performance analysis and financial policies, and its impact on profitability. It further examines the efficiency of working capital utilization among working capital practices of firms across different industries. Mobeen Ur Rehman and Naveed Anjum (2013) empirically examine the effects of WCM on the profitability of the Pakistan cement industry. Secondary data has been collected from Annual Reports of 10 Pakistan Cement Companies listed on Karachi Stock Exchange from 2003 to 2008. The relationship between WCM and profitability is examined using appropriate statistical tools.

Kumar, *et. al.* (2015) in their paper have delve into examining the fact that whether the negative working capital of cement company impact its profitability. For this purpose three large Indian cement companies listed on Indian stock exchange namely, ACC limited, Ultratech cement and Madras cement have been taken into consideration. The study covers a period of ten years ranging from 2005 to 2014. After analysing the data of all the selected companies, it was found that the selected companies are running their business smoothly without having sufficient working capital in the day to day activities. The study further concluded a positive relationship between the negative working capital and profitability and it leads to positive growth in earning per share & Equity dividend rate of the companies. Pal, (2015) in his paper has made an attempt to get the analytical view of financial performance of Tata motors India ltd an Indian automobile company for the period of 15 years ranging from 2000-2014. The study have used descriptive statistics such as mean, standard deviation, maximum and minimum to interpret the data. While Pearson Correlation is used to explore the relationship between explained and explanatory variables in the present study, and multiple regression analysis is adopted in the study to know the impact of liquidity ratios on the profitability. ROCE (Return on capital employed) is used as explained variable in the study, whereas explanatory variable used in the study are current ratio, quick ratio, debt-equity ratio, interest coverage ratio and net working capital respectively. Analysis part of the data shows that all the independent variable other than Debt-Equity ratio is having a positive relationship with dependent variable ROCE, although Quick-Ratio and Net-working capital are having an insignificant positive relationship with ROCE. Ahmad, (2016) in his paper measures the relationship between liquidity and profitability of 116 branches of standard chartered bank Pakistan for the period of 10 years ranging from 2004-13. The data are longitudinal in nature as it is taken at different point of time. The study have used Current ratio, Quick ratio and Net working capital ratios to measure the liquidity, whereas for profitability Gross profit ratio, Net profit ratio are used. The findings of the correlation analysis shows that there exist a positive relationship between profitability and liquidity, quick ratio, and net working capital, whereas profitability remains in negative relationship with current ratio. It is also concluded from the study that the mean of liquidity is negative which is primarily due to the large negative figure of net-working capital. And the negative figure of net working capital shows that current liabilities in the sector is more than the current assets used during the study period.

WORKING CAPITAL MANAGEMENT: AN OVERVIEW

Working Capital management is concerned with the issues that arise in managing the current assets and current liabilities of a business concern and the interrelationship that exist in its management. The management of Working Capital comprises of Inventories management, Accounts receivable management, Accounts payable management and Cash management. It can also be explained as a financial metric which represents the available liquidity with a business concern for its day to day operations. The primary aim of effective Working Capital management is to ensure that the Company maintains sufficient cash flows to meet short-term operating costs and short-term debt obligations.

Working Capital Management (WCM) is a tool, which is used to immunize the corporations suffering from financial turbulence and manages them strategically to improve competitive position and profitability of firms. On the contrary, the inefficient management of Working Capital impedes the firm's profitability and interrupts normal operations of a business resulting in financial crisis and bankruptcy. Hence, the prime focus of Working Capital management is to ensure that, the firms are capable of continuing their operations and they have adequate capacity to satisfy the short-term debt and the operational expenses, through managing of inventories, accounts receivable, accounts payable and cash strategically. According to (Banos, et.al. 2014) Working Capital management has become one of the most important issues in the organizations where the financial executives are striving to identify the determinants of basic Working Capital and the appropriate level of Working Capital management. In the words of , managing the Working Capital tactfully results into material savings and ensures optimum financial return on the minimum amount of capital employed.

in his study highlights that a large number of business have suffered in the past due to the inability of the financial manager to plan and control the Working Capital of their respective firms. As per the study of**,** the importance of efficient Working Capital management are considered as a vital corporate technique in creating shareholders' value. Therefore the firms should manage an ideal Working Capital level which could result in value maximisation. Working Capital assets and the short-term liabilities influences firms' profitability and liquidity (risk) as well as market values of shares. Expediting the cash conversion cycle through reducing the receivable period and delaying in payable management could improve the firm's profitability and liquidity. Moreover, efficient management of the inventory is also a critical factor to improve the liquidity and profitability in many of the firms. Whereas corroborates from the earlier study asserting that importance of Working Capital is unquestionable as it directly impacts the liquidity and profitability of firms.

However both excessive and inadequate Working Capital is harmful to a business. In addition, the pertinence of Working Capital management could be seen from the viewpoint of how financial managers of firms spend a great deal of time in the management of short-term assets. This is apparent in the areas of regulating of accounts receivable, arranging credit terms, controlling the movement of cash and orchestrating short-term financing. Although Working Capital management is vital for all sort of firms irrespective of their nature, size and types. But the inevitability of Working Capital is like a lifeblood for the manufacturing sectors, as it has to optimise their investment to balance a trade-off between liquidity and profitability. Therefore, the present study entitled "Working Capital Management in India- A study of select industries" have been pursued keeping in mind, the much relevance and less academic evidence of Working Capital management in the manufacturing sector in the Indian context.

DETERMINANTS OF WORKING CAPITAL

There are no specific rules to determine the requirements of Working Capital for the firm's. It depends upon the various factors, each factor having its own relevance and influence on the Working Capital need of the firm's. However the finance manager's tries to keep a vigil over these factors in order to maintain and accelerate the smooth functioning and growth of business. Here are some of the factors which generally influences the Working Capital requirements of firms, hence these should be considered deliberately while estimating the Working Capital need of business.

- **Nature of business:** It is one of the important factor for determining the quantum of Working Capital needed by firms. Generally the requirement of Working Capital differs across industries depending upon their asset structure, on the one hand where trading or manufacturing concerns requires greater amount of Working Capital in investment of stock, raw materials and finished products. Conversely Public utilities companies require least amount of Working Capital as compare to fixed capital. Similarly, industries engaged in the manufacture of producer's goods usually have lesser proportion of Working Capital than industries producing consumer goods.

- **Size of business:** Working Capital of a firm is very much influenced by the size of its operation. Bigger organizations need more Working Capital than the small businesses. Therefore, the size of organization is an important factor in determining Working Capital.

- **Credit period:** Credit period allowed to customers by the firms are also one of the major factors which influence the requirement of Working Capital. If the firms allow longer credit period to the customer, it requires more investment in debtors and hence more Working Capital is needed. On the Contrary, the firms allowing less credit period to customers' needs less Working Capital.

Therefore, firms should follow a judgemental credit policy after examining the creditworthiness of existing and prospective customers.

- **Length of Manufacturing period:** is also an important factor in determining the Working Capital for a business concern. If a business takes lesser time to produce the finished product, the required Working Capital will be lower. As the manufacturing cycle starts with procurement of raw materials and ends up with production of the finished goods. Hence, longer is the production cycle, the larger quantum of Working Capital will be the tied up and vice versa.

- **Growth and Expansion:** As a company grows at a rapid rate, it is expected to increase its investments in inventories. However it is difficult to determine accurately the relationship between the growth in the volume of a business and increase in its Working Capital. In practice, Current assets have to be employed by the firms before the growth takes place. On the contrary, if a business starts shrinking, its Working Capital requirements will also decline, which spins off excess cash. Therefore, it is very inevitable to make advance planning of Working Capital for the firms which are growing on a continuous basis.

- **Price Level Changes:** The changing shifts in price level creates difficulty for the financial manager. As rising price requires a firm to maintain higher amount of Working Capital for maintaining an existing level of activity, which normally influences the firm's liquidity position. However, the companies which can raise their prices proportionately can manage the situations easily during inflationary periods, although the implications of price level changes on Working Capital position differs across the firm's depending on the nature of their operations.

- **Operating Efficiency:** The operating efficiency of the firm implies the optimum utilization of all the resources of firm's at minimum cost. The efficiency of firms in controlling of operating costs and utilizing of current assets and fixed assets contributes to a sound Working Capital position through operating efficiency. Although it is not possible for the management to control the rise in prices of materials or wages of labour. However, it can ensure the better utilisation of available resources by eliminating waste, improving coordination among employees etc. Thus proper utilisation of resources releases the pressure on Working Capital by improving profitability and helping in generating the funds from internal resources.

- **Dividend Policy:** The cash dividend payment leads to greater amount of cash outflows from the organisation and therefore affect its Working Capital. On the contrary, if the firm retains the profit for further investment, it helps in generating the liquidity to the firms. However, the theoretical suggestions conveys that a firm should retain profits to maximise cash resources, conversely it must pay the dividends to satisfy the expectations of investors. Hence, dividend policy is a significant element in deciding the level of Working Capital in an organisation.

WORKING CAPITAL MANAGEMENT POLICIES

Generally, Working Capital Management Policies and Working Capital Management strategies (approaches) are used interchangeably. Although there is a thin line of difference between these two. Working Capital management policy deals with the amount to invest in Current Assets to derive the targeted revenue. Whereas, Working Capital management strategies deal with looking the appropriate way that how the Current Asset Investment should be financed i.e. the mix of long and short-term finance. Working Capital investment policies are classified as Restricted, Moderate and Relaxed policy, whereas the Working Capital strategies (Financing policy) are classified as an Aggressive, Conservative and Hedging approach.

Current Assets Investment Policies -

Working Capital policies have been classified into three types based on the attitude of the finance manager towards liquidity, risk and profitability.

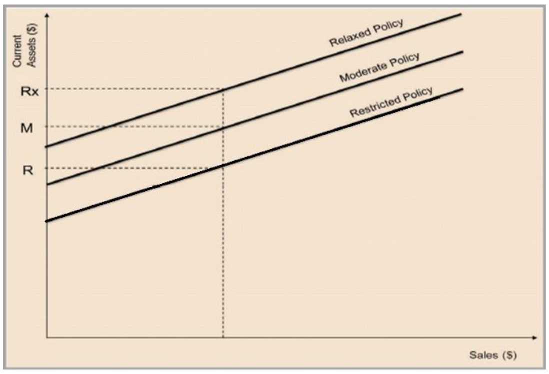

Figure 1 : Working Capital Management Policies

Restricted policy: deals in estimating the current assets for achieving targeted revenue without considering for any provisions and contingencies for any unforeseen event. Point R in figure 1 represents the restricted policy which attains the same level of revenue by employing lowest current assets among three. Lower Working Capital is required in this policy due to the lower level of current assets, which in turn gives the higher return on investment to companies. It is also known as an aggressive Working Capital policy.

Relaxed Policy: deals in the estimation of current assets for achieving the desired revenue after consideration of provision for uncertain events. It represents the point Rx in the above-mentioned figure 1, which employs the highest level of current assets for the same amount of sales output. The companies having relaxed Working Capital policies assume an advantage of almost no risk or low risk. This policy is an opposite of restricted policy and known as a conservative Working Capital policy.

Moderate Policy: is a balance between the two policies i.e. restricted policy and relaxed policy. The moderate policy assumes a balanced risk of lower than restricted and higher than conservative policy to strike a balance between the mentioned two policies. Point M in figure 1 represents the moderate policy with a moderate investment of current assets resulting in the same level of sales output.

CONCLUSION

Working capital management (WCM) is the functional area of finance that covers all current accounts of the firm. It involves the relationship between a firm's short-term assets and its short-term liabilities. A firm is required to maintain a balance between liquidity and profitability while conducting its day-to-day operations. Liquidity is a prerequisite condition to ensure that a firm is able to meet its short-term obligations and its continued flow can also be guaranteed from a profitable venture. The importance of cash as an indicator of continuing financial health should not be surprising in view of its crucial role within the business organisation. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has the ability to satisfy both maturing short-term debt and upcoming operational expenses. So, the management of working capital involves managing inventories, accounts receivable, accounts payable and cash.

The efficient working capital management is a very indispensable factor in maintaining survival, liquidity, solvency, and profitability of any business organization. Working capital management also plays a pivotal role in maximizing the profitability and market value of the manufacturing industries, as forming part of the assets of the manufacturing firms are in the form of current assets. While current liabilities are also one of the main sources of external finance for the firms. The study made it possible to establish a relation between working capital management and firm's profitability. With the rigorous analysis , the study has concluded that all components of working capital namely Receivable days(RD), Payable days(PD), Inventory holding periods (ID), Current ratio (CR) and Quick ratio (QR) have strong impact on profitability and the result is substantiated by the early researches. RD and ID have negative correlation with the profitability (Mansoori & Muhammad, 2012). Cash conversion cycle (CCC) is negatively related with profitability, Firm size is also linked with working capital. If firm size increases, the need of working capital will be more. It has been found that the firm size has also significant impact on EBIT but insignificant impact on ROA and ROE. Discussion.

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