

Financial Performance Analytics Using Working Capital Management: Evidence from Indian Private Limited Companies

Ms. M. Vinitha¹, Dr. R. Suyam Praba²

¹Student, ²Professor, School of Management Studies, Karpagam College of Engineering, Coimbatore, Tamil Nadu.

ABSTRACT

Working capital plays a vital role in Facilitating a business operates efficiently, providing the necessary resources to manage day-to-day operations such as cash flow, inventory, and short-term obligations. This study looks at how Hirotec India (P) Ltd., Coimbatore, handles its working capital, using tools like ratio analysis, comparative balance sheets, and common-size statements to see how the company is performing financially and staying stable. The results show a slight drop in the current ratio from 1.48 to 1.42, indicating a small change in liquidity, while the debt ratio fell from 0.14 to 0.08, reflecting stronger financial stability. Organizing production, sales, inventory, and credit collection is essential to keep operations running efficiently. Using an effective information system can further improve coordination and help managers make timely decisions. Credit policies are important for keeping existing customers satisfied and attracting new ones. Better communication between departments reduces credit risk and speeds up debt collection. Careful monitoring of working capital ensures obligations are met on time while supporting profitability. In short, managing working capital well help, strengthen financial health, supports steady growth, and allows facilitates the company to respond quickly to market and operational challenges.

Keywords: *Working Capital Management, Financial Performance, Predictive Analytics, Liquidity, Profitability, Financial Flexibility.*

INTRODUCTION

Working capital management is a vital factor in assessing the financial stability and operational effectiveness of private limited companies. It focuses on managing current assets and current liabilities in a way that supports uninterrupted day-to-day business operations. In the current business environment, the use of financial analytics and predictive techniques has significantly improved the quality of decision-making in this area. Private limited companies in India, especially those operating in manufacturing and service industries, often encounter difficulties in sustaining liquidity, profitability, and operational efficiency. This study concentrates on evaluating key components of working capital, including inventory, receivables, and payables, and examines how they influence overall financial performance. The use of analytical tools enables organizations to utilize resources more effectively and enhance profitability levels. Furthermore, the study emphasizes the need to maintain a proper balance between liquidity and returns for long-term success. Through analyzing current trends and empirical findings, the research offers valuable insights into strengthening working capital efficiency among Indian private sector firms.

REVIEW OF LITERATURE

Deloof (2023): Studied the relationship between working capital and profitability in firms. The study found a negative relationship between cash conversion cycle factors and profitability, suggesting efficiency improvements. Dubey R (2022) Concentrated on influencing Factors in working capital such as sales volume and operational factors. The study established that efficient working capital management is essential for maintaining financial stability. Padachi (2021) examined the connection between working capital and profitability. The study Emphasized the importance of maintaining a proper balance between liquidity and profitability to ensure efficient performance and future orientated success of a firm. Najib H.S. Farhan (2021): Examined working capital aspects in Indian pharmaceutical companies using GMM models. The study Identified significant relationships between inventory, receivables, and profitability indicators. Sorin Gabriel Anton (2021): Investigated working capital and profitability using panel data techniques. The study identified an inverted U-shaped Correlation between working capital and profitability. Umar Nawaz Kayani (2020)

carried out a detailed review of Previous studies on working capital management. His research Examined Multiple trends and identified gaps in earlier studies, Displaying that most research mainly focuses on the relationship between profitability and liquidity. He also pointed out the need for more behavioural and qualitative approaches in future working capital research to gain deeper insights. Appuhami Ranjith (2020) explored how capital expenditure affects working capital by using regression analysis. The study found that capital expenditure plays a significant role in determining working capital needs and has a strong influence on how firms manage their liquidity.

SCOPE OF THE STUDY

The main task of the research is to consider the working capital management of the company during five financial years of 2021-2025. Some of the most important variables discussed in the course of the study include working capital components (current assets, current liabilities, inventory, receivables, payables and cash balances), working capital efficiency ratios (current ratio, quick ratio, inventory turnover ratio, receivables turnover ratio, working capital turnover ratio), liquidity position and profitability indicators. The research is narrowed down to the geographical operations of the company in Coimbatore. The secondary data analysis is done using the financial statements of the selected five-year period. The contribution anticipated of the study is that it will help in understanding the effectiveness of the working capital utilization, strengths and weaknesses of the liquidity and profitability management, and provide practical recommendations to improve the financial efficiency and decision-making in the organization.

STATEMENT OF THE PROBLEM

Management of working capital is very crucial in the stability of a financial organization and in the smooth running of the organization. Poor use of the working capital may cause some of these problems, which include liquidity crunches, stock build up, slow receivables and poor use of the current assets and current liabilities. Most organizations have difficulties in sustaining the most suitable ratio between the current assets and current liabilities, which may adversely impact their efficiency and profitability of operations. Ineffective working capital management can lead to higher borrowing rates, decrease creditworthiness and failure to pay short-term debts. Also, poor cash flows and inventory management may interfere with production schedules, as well as customer satisfaction. Insufficiency of effective mechanisms of controlling receivables and payables can cause unwarranted financial pressure and reduce the growth prospects. The purpose of the study is to reveal the most crucial problems and issues related to the working capital management and learn about their effect on the organizational performance. Evaluating these inefficiencies, the research is aimed to offer effective recommendations on how to maximize the working capital, increase the liquidity and overall operational efficiency. The end result is that this study will help organizations practice effective working capital, lessen financial risks, and sustain long-term growth.

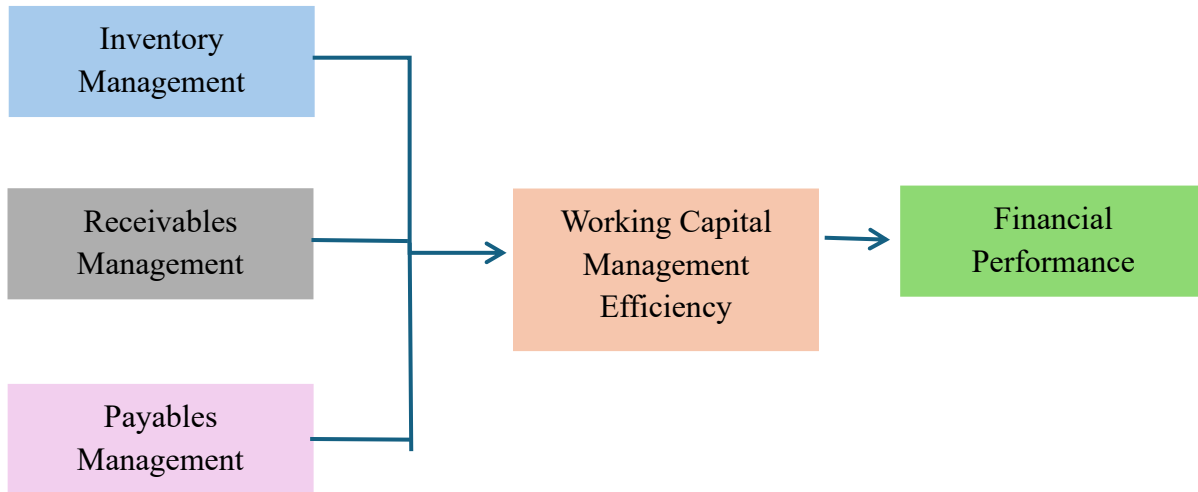
RESEARCH OBJECTIVES :

- To examine the effect of inventory management in working capital management in improving the use of funds.
- To analyze the influence of liquidity position on working capital management in ensuring smooth day-to-day operations.
- To evaluate the effect of operating efficiency and cash management practices on working capital management in optimizing the use of current assets and liabilities.
- To assess the influence solvency position on working capital management in maintaining long-term financial stability and ensuring a balanced capital structure.
- To study the association between profitability and working capital management in maintaining a balance between liquidity and return.

CONCEPTUAL FRAMEWORK:

The Structural model of this study is centered on understanding how different factors of working capital are connected to a company's financial performance. It mainly looks at key areas such as inventory management, receivables management, and payables management, and how they affect both liquidity and profitability. When these components

are managed effectively, organizations can make better use of their resources and improve their overall operational efficiency. Moreover, the approach brings in the use of predictive analytics to help future forecast financial outcomes and support better decision-making. This approach enables companies to plan ahead, reduce uncertainties, and address issues more effectively to the financial challenges. All things considered, it helps organizations maintain a healthy balance between risk and return while strengthening their financial performance and long-term stability.



RESEARCH METHODOLOGY

This study looks at how working capital—cash, receivables, payables, and inventory—to see how efficiently it operates and maintains profitability. An analytical approach is used to study the company’s financial practices without affecting them, allowing a clear view of trends and patterns. Information comes from existing sources like annual reports, financial statements, and trusted online publications for the years 2021–2025. Financial statements that were convenient to obtain and relevant to the study were used to ensure smooth and practical data collection. Five years of financial records (2021–2025) were analysed, covering balance sheets, income statements, and cash flow statements, to capture changes over time and overall trends. Analytical Tools and Methods such as (i) Ratio Analysis: Assesses how efficiently the company manages short-term obligations, utilizes resources, and preserves steady profitability. (ii) Comparative Balance Sheets: Reviews how the company’s assets, liabilities, and equity have progressed over the years to highlight significant trends and shifts. (iii) Trend Analysis: Observes fluctuations in cash, inventory, and receivables over the years to provide practical insights for better financial management.

ANALYSIS AND INTERPRETATION

Table No. 1: Current Ratio			
Year	Current assets	Current liabilities	Ratio
2020-2021	424.01	287.45	1.48
2021-2022	481.53	339.4	1.42
2022-2023	563.98	341.34	1.65
2023-2024	479.04	301.32	1.59
2024-2025	702.92	387.49	1.81

(Source: secondary data)

Interpretation: It shows that the current ratio has decreased from 1.48 to 1.42 in the year of 2020 – 2021 and 2021 – 2022. It has increased to 1.65 in the year of 2022 – 2023. It has decreased to 1.59 in the year of 2023 – 2024. It has increased to 1.81 in the year of 2024 - 2025.

Year	Quick assets	Current liabilities	Ratio
2020-2021	205.97	287.45	0.72
2021-2022	240.25	339.4	0.71
2022-2023	274.43	341.34	0.80
2023-2024	209.91	301.32	0.70
2024-2025	414.65	387.49	1.07

(Source: secondary data)

Interpretation:

It shows that the quick ratio has decreased from 0.72 to 0.71 in the year of 2020 – 2021 to 2021 – 2022. It has increased to 0.80 in the year of 2022 – 2023. It has decreased to 0.70 in the year of 2023 – 2024. It has increased to 1.07 in the year of 2024 – 2025.

Year	Cash	Current liabilities	Ratio
2020-2021	13.85	287.45	0.05
2021-2022	8.58	339.4	0.03
2022-2023	9.23	341.34	0.03
2023-2024	3.98	301.32	0.01
2024-2025	144.31	387.49	0.37

(Source: secondary data)

Interpretation:

It shows that the cash ratio has decreased from 0.05 to 0.03 in the year of 2020 – 2021 and 2021 – 2022. It remains stable in the year of 2022 – 2023. It has decreased to 0.01 in the year of 2023 – 2024. It has increased to 0.37 in the year of 2024 – 2025.

Year	Net profit	Trend
2020-2021	66.05	100
2021-2022	80.1	121.27
2022-2023	96.65	146.32
2023-2024	101.83	154.17
2024-2025	148.21	224.39

(Source: secondary data)

Interpretation:

It shows that the trend percentage of net profit has increased from 100 to 121.27 in the year of 2020 – 2021 to 2021 – 2022. It has again increased to 146.32 and 154.17 in the year of 2022 – 2023 and 2023 – 2024 respectively. It has further increased to 224.39 in the year of 2024 – 2025.

KEY FINDINGS

Current ratio has decreased from 1.48 to 1.42 in the year of 2020-2021 and 2021-22, the decrease in the current ratio suggests a slight dip in the company’s short-term strength. However, the company still appears able to meet its regular obligations without much difficulty. Quick ratio has increased to 0.80 in the year of 2022-21. It has decreased to 0.70 in the year of 2023-24, The rise in the beginning shows the company had better capacity to meet short-term liabilities. But the drop later suggests slight strain on immediate liquidity. Cash ratio has increased to 0.37 in the year of 2024-25, this strengthens its ability to settle short-term obligations promptly. An improved cash ratio shows that the company is keeping more cash readily accessible for its operations. Trend percentage of annual sales has again increased to 137.88 in the year of 2023-24, The rising sales trend shows consistent growth in the business. It shows increased demand and

improved performance in the market. Trend percentage of net profit has further increased to 224.39 in the year of 2024-25, An shows in net profit shows improved profit levels for the company. It suggests controlled spending and improved financial performance.

SUGGESTIONS

The liquidity ratios show that the company is able to fulfill its short-term financial commitments. Based on the analysis, it is possible to explain that the firm is in a good liquidity position that allows it to manage current liabilities. Adequate coordination of the production, sales, inventory control, and credit collection is critical to the smooth running of business. An effective information system should facilitate this coordination in order to make decisions fast. Generally, it can be stated that the financial performance of the company is relatively good and it can expand its market share and lead to a stable growth in the industry.

CONCLUSION

Effective working capital management plays a crucial role in determining a company's success. Working capital management is strong, according to the report. Effective working capital management plays a key role in a company's success, and the report suggests that the company has a solid approach in place. Working capital management is in excellent shape, according to the corporation, and profit levels are on the rise. However, in order to provide a better commercial outcome, management may focus on using a more scientific technique to manage working capital. Before modifying credit policy variables, a thorough examination of sales growth and sales levels should be conducted. Credit policy aids in the retention of existing customers as well as the acquisition of new customers by luring them away from rivals. Better coordination across departments (such as sales, manufacturing, and purchasing) is critical since it helps to eliminate credit risk and reduces debt collection days.

BIBLIOGRAPHY

- Anton, S. G. (2021). The impact of temperature increase on firm profitability: Empirical evidence from the European energy and gas sectors. *Applied Energy*, 295, 117051.
- Appuhami, R., Sitepu, E. M. P., & Su, S. (2020). How does interactive use of budgets affect creativity? *Pacific Accounting Review*, 32(2), 197–215.
- Deloof, M., Manigart, S., Ooghe, H., & Van Hulle, C. (2023). *Corporate finance*. Intersentia.
- Dubey, R., & Chandani, A. (2022). Application of machine learning in banking and finance: A bibliometric analysis. *International Journal of Data Analysis Techniques and Strategies*, 14(3), 219–243.
- Farhan, N. H. S., Almaqtari, F. A., Al-Matari, E. M., Senan, N. A. M., Alahdal, W. M., & Hazaea, S. A. (2021). Working capital management policies in Indian listed firms: A state-wise analysis. *Sustainability*, 13(8), 4516.
- Herzfeld, M. (2025). 2024 Erwin N. Griswold lecture before the American College of Tax Counsel: Globalization and its fallout—Ten years of international tax tumult. *Tax Lawyer*, 78(2).
- Kayani, U. N., De Silva, T. A., & Gan, C. (2020). Working capital management and firm performance relationship: An empirical investigation of Australasian firms. *Review of Pacific Basin Financial Markets and Policies*, 23(3), 2050026.
- Padachi, K., Boolaky, A., & Mauree-Narrainen, D. (2021). Financial literacy of young professionals in the context of financial technology developments in Mauritius. *Journal of Social Economics Research*, 8(2), 119–134.
- Shin, H. H., & Soenen, L. (2024). The relationship between sales growth, profitability, and tax avoidance. *Innovative Marketing*, 20(1), 113–120.
- Suganthi, P., Praba, R. S., Mythili, D., Smitha, V., & Arnold, K. (2025, November). AI-Driven Credit Decisioning for Robust Model Selection and Quantitative Performance Benchmarking. (ICINVENTS) (Vol. 1, pp. 1-6).
- Khodakarami, M., Yazdifar, H., Khaledi, A. F., Kheirabadi, S. B., & Sarlak, A. (2024). The level of Islamic religiosity of the local community and corporate environmental responsibility disclosure: Evidence from Iran. *Journal of Business Ethics*, 190(2), 483–512.