PREFEACE

Working capital is an important issue during financial decision making since its being a part of investment in asset that requires appropriate financing investment. However, working capital always being disregard in financial decision making since it involve investment and financing in short term period. Further, also act as a restrain in financial performance, since it does not contribute to return on equity. Though, it should be critical for to a firm to sustain their short term investment since it will ensure the ability of firm in longer period.

The crucial part in managing working capital is required maintaining its liquidity in day-to-day operation to ensure it’s smooth running and meets its obligation. Yet, this is not a simple task since managers must make sure that business operation is running in efficient and profitable manner. There are the possibilities of mismatch of current asset and current liability during this process. If this happens and firm’s manager cannot manage it properly then it will affect firm’s growth and profitability. This will further lead to financial distress and finally firms can go bankrupt.

In traditional view of relationship between cash conversion cycle (as measure of working capital management) and profitability is ceteris paribus. The shorter firm cash conversion cycle, the better a firm profitability. This shows that less of time a dollar tied up in current asset and less external financing. While, the longer cash conversion cycle will hurt firm’s probability. The reason is that firm having low liquidity that would affect firm’s risk. However, if firm has higher level of account receivable due to the generous trade credit policy it would result to longer cash conversion cycle. In this case, the longer cash conversion cycle will increase profitability. Thus, the traditional view cannot be applied to all circumstances.

Dilemma in working capital management is to achieve desired trade off between liquidity and profitability. Referring to theory of risk and return, investment with more risk will result to more return. Thus, firms with high liquidity of working capital may have low risk then low profitability. Conversely, firm that has low liquidity of working capital, facing high risk results to high profitability. The issue here is in managing working capital, firm must take into consideration all the items in both accounts and try to balance the risk and return.
The purpose of this study is hopefully to contribute towards a crucial element in financial management which working capital management in Indian Cement Industry because the Indian cement industry is the second largest producer of quality cement, which meets global standards. The cement industry comprises 130 large cement plants and more than 300 mini cement plants. The industry's capacity at the end of the year reached 188.97 million tons which was 166.73 million tons at the end of the year 2006-07. Cement production during April to March 2007-08 was 168.31 million tons as compared to 155.66 million tons during the same period for the year 2006-07. Despatches were 167.67 million tons during April to March 2007-08 whereas 155.26 during the same period. During April-March 2007-08, cement export was 3.65 million tons as compared to 5.89 during the same period. So Indian Cement Industry has a paramount importance in the development of Country. It is almost untouched in India or very little research has been done in this area. Working capital management and its effects on performance is focused in this study. Specific objectives are to analyze the component of working capital over a 6 years period, to establish a relationship between the two objectives of liquidity and profitability of the firms and to investigate the relationship between debt used by the a firm and its profitability.

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