CHAPTER – VI

SUMMARY OF FINDINGS
SUGGESTIONS AND CONCLUSION
6. (I). FINDINGS FOR SECONDARY DATA

On the whole the study identifies the issues related to the working capital management undertaken by manufacturing industries through the various questionnaire survey and secondary data analysis. The findings of the sector – wise study based on the secondary data have been discussed below.


From the study it has been found that among the working capital components, inventory turnover period is affecting the Net operating profitability of automobile sector. It has been found that there is a negative relationship exists (i.e) reduction in the inventory days will increase the company’s profitability. So, the automobile firms should concentrate more on reducing the Inventory turnover days. Hence from the study it is evident that inventory plays a major role in automobile sector.


From the study it has been found that there is a negative relationship exists (i.e) the decrease in the period of working capital components such as debtor’s collection period, Inventory turnover period, and Average payment period will increase the profitability of the Electrical Equipment sector. It is also found that increase in the period of cash conversion cycle will increase the Net operating profitability.

6. (I).3. Findings of Pearson correlation co-efficient of the variables of working capital components and liquidity with Net operating profitability for Steel and Aluminium sector for a period of 2006-2012

From the study it has been found that there is a negative relationship exists (i.e) the decrease in the period of working capital components such as Inventory turnover period, and Average payment period will increase the profitability of the Steel & Aluminium sector. The study also found that current ratio and quick ratio had a positive relationship which states increase in the investments of current assets and liquid assets will increase the Net operating profitability.

From the study it has been found that there is a negative relationship exists (i.e) the decrease in the period of working capital components such as Debtors conversion period, Inventory turnover period, Average payment period, and Cash conversion cycle period will increase the Net Operating profitability of the Pharmaceutical sector. The study also found that current ratio and quick ratio had a positive relationship which states increase in the investments of current assets and liquid assets will increase the Net operating profitability.

6.(I).5. Findings of Pearson correlation co-efficient of the variables of working capital components and Liquidity with Net Operating Profitability for Cement sector for a period of 2006-2012

From the study it has been found that there is a negative relationship exists (i.e) the decrease in the period of working capital components such as Debtors conversion period, Average payment period, and Cash conversion cycle period will increase the Net Operating profitability of the Pharmaceutical sector.


From the study it has been found that there is a negative relationship exists (i.e) the decrease in the period of working capital components such as Debtors conversion period, Average payment period, and Cash conversion cycle period will increase the Net Operating profitability of the Consumer Durables sector. The study also found that current ratio and quick ratio had a positive relationship which states increase in the investments of current assets and liquid assets will increase the Net operating profitability.

From the study it has been found that there is a negative relationship exists (i.e) the decrease in the period of working capital components such as Debtors conversion period, Average payment period, and Cash conversion cycle period will increase the Net Operating profitability of the Engineering sector. The study also found that quick ratio had a negative relationship which states increase in the investments of liquid assets will decrease the Net operating profitability or vice versa.


From the study it has been found that there is a negative relationship exists (i.e) the decrease in the period of working capital components such as Debtors conversion period, Average payment period, and Cash conversion cycle period will increase the Net Operating profitability of the Textile sector.


From the study it has been found that there is a negative relationship exists (i.e) the decrease in the period of working capital components such as Debtors conversion period, and Average payment period will increase the Net Operating profitability of the Chemical sector. The study also found that current ratio and quick ratio had a positive relationship which states increase in the investments of current assets and liquid assets will increase the Net operating profitability.

From the study it has been found that there is a negative relationship exists (i.e) the decrease in the period of working capital components such as Debtors conversion period, Inventory turnover period will increase the Net Operating profitability of the tyre sector. The study also found that quick ratio had a positive relationship which states increase in the investments of liquid assets will increase the Net operating profitability.


From the study it has been found that there is a negative relationship exists (i.e) the decrease in the period of working capital components such as Debtors conversion period, Inventory turnover period, Average payment period, and Cash conversion cycle period will increase the Net Operating profitability of the Pump sector.


From the study it has been found that there is a negative relationship exists (i.e) the decrease in the period of working capital components such as Debtors conversion period, Average payment period, and Cash conversion cycle period will increase the Net Operating profitability of the Food sector.


The study states that the working capital components and liquidity is not related to Net operating profitability of the Sugar sector. It is found that in the sugar sector profitability is not affected by working capital variables for the study period.

The study found that current ratio and quick ratio had a positive relationship which states increase in the investments of current assets and liquid assets will increase the Net operating profitability of the trading sector. In trading sector liquidity plays a major role in maximizing the profitability.


From the study it has been found that there is a negative relationship exists (i.e) the decrease in the period of working capital components such as Debtors conversion period, and Inventory Turnover period then the same will increase the Net Operating profitability of the Construction sector.

6(II). SUMMARY OF FINDINGS BASED ON VARIABLES

INDEPENDENT VARIABLES (Debtors Collection Period, Inventory Turnover period, Average Payment period, cash conversion cycle, Current Ratio, Quick ratio, Firm Size, Fixed Assets to Total Assets, Debt Ratio) WITH DEPENDENT VARIABLE (Net Operating Profitability)


From the analysis it has been found that there is negative correlation exists between debtor’s collection period and Net operating profitability. This result has been consistent for the sectors such as Electrical and Equipment, Pharmaceutical, Cement, Consumer Durable, Engineering, Textile, Tyre, Pump, and Food. The inference stated when the debtor’s collection period increased by one day, the net operating profit of the firm tends to decrease or vice versa. Thus this findings are consistent and in line with Kaddumi and Ramaan (2012), Bieniasz and Golas (2011). But the theoretically, if the day’s collection period is increased customers have good
opportunity for acquiring more goods for longer credit period. As a consequence, the sales of the company tend to increase, which results in increased profitability.

6.(II).(B). Findings for the Inventory Turnover Period and the Net Operating Profitability for all the selected sectors for a period of 2006 to 2012.

From the analysis it has been found that there is negative correlation exists between Inventory Turnover Period and Net Operating Profitability. This result has been consistent for the sectors such as Automobile, Electrical and Equipment, Steel and Aluminium, Pharmaceutical, Cement, Tyre, Pump, and Construction. The Inference stated that an increase in the number of Inventory turnover days (i.e) if inventory takes more days to sell then it results in decrease in profitability or vice versa. Thus the storage and insurance cost can be increased and as a result the profitability may decrease. Highly expensive Inventories’ tied up in the firm may cause severe lose in the business. So the study states that decrease in the inventory days will increase the profitability. The results for the Inventory turnover period are consistent with the studies of Kaddumi and Ramadan (2012), Ganesan (2007), Khamrui (2012), Bieniasz&Golas (2011).

6.(II).(C). Findings for the Average Payment Period and the Net Operating Profitability for all the selected sectors for a period of 2006 to 2012.

From the analysis it has been found that there is negative correlation exists between Average payment Period and Net Operating Profitability. This result has been consistent for the sectors such as Electrical and Equipment, Steel and Aluminium, Pharmaceutical, Cement, Consumer Durable, Engineering, Textile, Chemical, Pump, Food and Construction. The study implies that lengthening the average payment period may negatively impact profitability. One the other side shortening average payment period, will increase the profitability. The cause for negative relationship would be that more profitable firms are shortening their payment periods in order to sustain the good suppliers. Further the firms should keep better relations with their suppliers and try to maintain optimal Working capital management.

There is a positive correlation for Average payment period and Net Operating profitability in construction sectors, which indicates that companies withhold their payments to their creditors to take advantage of cash available for their working capital needs (Mathuwa, 2010). Thereby the firms can invest their additional funds in short-term assets to increase profits. These results are in
line with the theory of corporate finance which states that greater the payment period of a firm, greater will be its profitability.

6.(II) (D). Findings for the Cash conversion cycle Period and the Net Operating Profitability for all the selected sectors for a period of 2006 to 2012.

From the analysis it has been found that there is negative correlation exists between the combined effect of all the three variables is analyzed by estimating the relationship of Cash conversion cycle Period and Net Operating Profitability. This result has been consistent for the sectors such as Pharmaceutical, Cement, Consumer Durable, Engineering, Textile, Pump, Food. It implies that if the cash conversion cycle increases profitability will be decreased. However, increase in the days of cash conversion cycle means that delay in money inflows. Therefore, it leads to unbalancing in cash holdings and tie up of liquidity. This will have a negative impact on profits. Thus the results are in line with Nilson (2010), Shin and Sonen (1998), Ogundipe (2012).

On the other hand, the cash conversion cycle is having a significant and positive relationship with profitability for Electrical Equipment sector alone. The relationship is consistent with the view that increase in cash conversion cycle positively impacts the profitability while a decrease in cash conversion cycle will have an negative effect on profitability. Also it indicates that firms earning high profits are less motivated to manage their cash conversion cycle. Relaxed credit terms resulting in greater level of receivables, longer cash conversion cycle and operating cycle results in increased profits (Sharma &Kumar, 2011). Moreover more profitable firms are less motivated to manage cash conversion cycle (Abuzayed, 2012), (Gill, Biger & Mathur, 2010).


Working capital management has traditionally used the current ratio and quick ratio to measure the liquidity position of a company. In this analysis the current ratio has a significant positive relationship with net operating profitability. The relationship states that increase in current assets positively impacts the profitability while a decrease in current ratio will have a negatively effect on profitability. It indicates that the two objectives of liquidity and profitability have been achieved by Steel and Aluminum, Pharmaceutical, Consumer durables, Chemical, Trading sectors as well.
And, from the analysis it has been inferred that the remaining sectors such as Automobile, electrical, Cement, Engineering, Textile, Tyre, Pump food and construction sectors has to maintain a balance or trade-off between these two measures, since the study states that there is no relationship exists between them.

6.(II).(F). Effect of Liquidity (Quick Ratio) on Net Operating Profitability

In this analysis the Quick ratio has a significant positive relationship with net operating profitability. The relationship states that increase in Quick assets positively impacts the profitability while a decrease in Quick ratio will have a negatively effect on profitability. It indicates that the two objectives of liquidity and profitability have been achieved by Steel and Aluminum, Pharmaceutical, Consumer durables, Engineering, Chemical, Tyre, Trading sectors as well. And, from the analysis it has been inferred that the remaining sectors such as Automobile, electrical, Cement, Textile, Pump, food and construction sectors has to maintain a balance or trade-off between these two measures, since the study states that there is no relationship exists between them.

Effect of all the control variables (Firm Size, Fixed Assets to total Assets and Debt to Equity Ratio) on Net Operating Profitability

6.(II). (G). Findings for the Effect of Firm Size on Net Operating Profitability

The study includes Firm Size, debt ratio, and fixed asset ratio as control variables. The analysis of chi-square for all the control variables states Size of the firm is insignificant (ie) not related with Profitability. Natural logarithm of sales is used as a proxy of firm size. The insignificant relation shows that an increase or Decrease in size of the firm has not affected profitability in all the 15 study sectors such as Automobile, Electrical Equipment, Steel & Aluminum, Pharmaceutical, Cement, Consumer Durables, Engineering, Textile, Chemical, Tyre, Pump, Food, Trading, and Construction. Generally a firm with greater size will also have greater profitability. These findings are inconsistent with that of Raheman and Nasr (2007), Raheman et al. (2010) and Padachi (2006).
6.(II). (H). Findings for the Effect of the Fixed assets to total assets Ratio on the Net Operating Profitability

Fixed assets are main source of investments, intended to contribute to the activities of the firm that holds them, by establishing a lasting and specific relation and loans that were granted with the same purpose. For some firms such assets are a significant part of total assets. The study states that there is no relationship exists between Fixed Assets to Total Assets Ratio and Net operating Profitability for all the 14 Sectors except Tyre. The positive significance in the tyre sector implies that increase in the investment in fixed assets results in the increase in Net Operating Profitability of the sector.

6.(II).(I). Findings for the Effect of Debt ratio on Net Operating Profitability

Debt ratio is used as proxy of leverage. Literature states that when leverage increases, then it will negatively affect the profitability. The results of the chi-square analysis states that there is no relationship exists between the Debt ratio and Profitability for all the selected sectors such as Automobile, Electrical Equipment, Steel and Aluminum. Pharmaceutical, Cement, Consumer Durables, Engineering, Textile, Chemical, Tyre, Pump, Food, Trading, and Construction. It implies that short term debts will not affect the performance of the leading industrial sectors. The findings of the study are inconsistent with some previous researchers such as Raheman and Nasr (2007), Mohamad and Saad (2010), Gill et al. (2010) and Ching et al. (2011).
6. (III). 1. SUMMARY OF FINDINGS, FOR PRIMARY DATA

This section explains the findings of the questionnaire survey carried out in the various industrial units at Chennai. The discussed findings reveal the factors which are considered to be important in increasing the organisational performance (i.e) of the selected industrial units at Chennai.

- 26% of the industrial units selected for the study were established from the year 1971-1980.
- 85% of the industries drawn for the study are private Ltd.
- 29% of the respondents were from Automobile sector, whereas 22% are from pharmaceutical sector.
- It has been found that the primary Data covers 29% of Automobile firms in Chennai.
- It is clear from the questionnaire survey that most of the firms about 68% of them had a turnover of about 21 to 30 million.
- From the survey it has been found that 19 units had training programs, which implies a fair improvement in the working capital performance.
- The study found that 41 percentage of industries place a highest level of importance on working capital, which helps in maintaining their profits.
- It has been found that 50% percentage of surveyed industries, utilize their working capital resources effectively which earns them more profit, hence they are best in class among their peer groups.
- The surveyed industrial units allow about 15-45 days for collecting their accounts receivables. But the industries take more than 45-90 days to pay for its creditors.
- Thus it is found that the surveyed firms take more time to pay for their creditors, and allows less time to collect their receivables. This policy helps in meeting the operational expenses, and also helps in increasing the profit.
- The study found that 44% of the surveyed firms take about 45-90 days for their inventory
conversion period.

- It has been observed that 50% of the surveyed firms take more than 90 days to convert their stock into cash cycle.

- The study identified that a balanced trading cycle adopted by surveyed firms, which enhance their profits.

- It has been analysed that 79% of the surveyed firms follow a bills discounting procedure, which increases the effectiveness of profits in the organisation.

- The survey attempted to study the practice of remainder procedure, and it has been found that 29% of companies are sending the remainders 1 week before the due date.

- It has also been observed 30-40% of the payments were received only after sending the remainders, which means the organisation should follow an effective remainder procedure in order to increase the percentage of payments which results in increased profits.

- It has been found that 19 industrial firms have adopted specific inventory model. Among the various inventory models JIT, EOQ and FSN found to be more frequently used inventory models in the surveyed firms.

- From the four inventory models adopted in the various industries. EOQ seems to be more reliable model used by the surveyed firms.

- It has been found from the study that to ensure sufficient cash flow cash management practices, budgeting of cash and determination of cash balances were considered to be the most important practices to meet the cash requirements in the surveyed industrial units.

- From the questionnaire survey it is found that receivables management practices such as setting up of credit guidelines, selling products on credit and review of levels of receivables to be the most important and useful strategies in order to increase the organisational performance.

- It is found that frequent assessment of review of inventory levels will help in increasing
the profitability.

➢ It is found from the survey that most of the companies will go for stock replacement orders once in 3 months frequently.

➢ It has been found that the surveyed organisations were tremendously increasing their profits and growth by their sales and assets performance which is increases the organizations efficiency year by year.

➢ In order to meet the working capital financing the surveyed firms adopted working capital term loans and credit/overdraft facilities as their basic activity to facilitate the operational requirements which results in the increased efficiency.

➢ 44% (15) of industries take working capital term loans as their major source of external financing for working capital requirements.

➢ The study found some issues with reference to the importance on training and education on use of computer spread sheets, were lacking to maintain an appropriate credit control and collection policies.

➢ The study identified the lack of qualified accounting staff and suitable accounting software as the motivation for effective working capital management practices.

➢ The study revealed that the operation of the firms possess limited formal education, weak managerial and financial management skills within the firm. Owners/Directors were found to act as barriers for efficient usage of working capital management practices. Hence operational level officers could not adopt policies to meet the standards expected by industries.
6. (IV).1.RECOMMENDATIONS TO THE COMPANY (AT OPERATIONAL LEVEL)

✓ The industrial sectors are suggested to take up the electronic money system in order to speed up the cash inflows and outflow.

✓ If the delays in payments are taking place for the first time, a direct contact with the customer is required to know the reasons behind the unusual delay or a remainder letter or mail is suggested.

✓ If the days past due is more than 60 days, the situation is serious. Hence the top management should be contacted and future processes should be stopped. The credit manager should have patience and try to find out the causes for the delay.

✓ If the payment is due for more than 90 days, all deliveries should be stopped. The account may be on the brink of becoming bad debt. It has to be closely monitored with a view of collecting as much payment as possible.

✓ The goal must be that all priority outflows be met fully out of operating cash flows while all discretionary outflows are met with the balance in conjunction with the financial flows.

✓ A Mismatch between the current receipts and current payments should be reduced as much as possible.

✓ Managers should take special care with regard to the lengthening of payable deferral since it might harm the corporation's credit reputation and as a result it will decrease the profitability in long-run horizon.

✓ Companies must set a trade-off between profitability and liquidity so that neither the liquidity nor profitability suffers, managing working capital in more efficient ways, enhances and develops models that detect liquidity problem.

✓ This study indicates that firms must have adequate current assets in order to keep daily business operations in work, which does not affect profits.
6. (IV).2. RECOMMENDATIONS TO THE COMPANY (AT MANAGEMENT LEVEL)

✓ From the questionnaire survey it is analysed that it’s not the responsibility of the finance department alone. Companies should implement a proper cash-focused management system.

✓ The cash-focused management system should be reviewed using the key performance indicators (KPIs) on working capital in order to meet the operational level successfully in the surveyed firms.

✓ The surveyed firms should provide “Awareness training Program at management level” and “Activity training Program on new processes” at operational level.

✓ Most of the surveyed firms in Chennai consider loans and overdrafts as their only source of working capital financing. Funds should be raised by turning to asset-based finance such as invoice discounting, and harnessing the power of the web to raise finance etc.

✓ The surveyed firms should avoid holding unnecessary levels of stock. This can be one of the biggest benefits on working capital. Often stock problems result in a lack of communication among different departments, so it should be reviewed properly. Hence it is recommended to adopt JIT model of inventory management to avoid overstocking.

✓ The study suggests that the organization should adopt accurate invoices as a key performance measure for receivables to avoid unnecessary delays and to maintain effective payment process within their customer.

✓ The study suggests that both companies and policymakers should devise strategies to promote and train the managers to take decisions regarding the working capital.

✓ Even in certain period Adequate working capital can be used by the surveyed firms to enhance their profitability and international competitiveness.

✓ The study states proper record keeping system can be adopted to monitor the proper flow of their working capital which also facilitates the customer management system.

✓ In general the aim of the business should be to educate staff to consider the trade-offs between various working capital assets when negotiating with customers and suppliers.
6. (V) SECTOR-WISE SUMMARY AND CONCLUSION

Efficient management of working capital has been recognized as one of the basic function of finance for successful conduct of business operation. This strategy not only influences profit earning capacity of business undertakings, but also includes the content of operation. The management of working capital is concerned with the management of current assets and current liabilities.

The present study pertaining to working capital management is an attempt to examine the structure of working capital in such a way to assess the performance of inventory management, investigate the credit periods, to examine the utilization of cash resources, to verify the liquidity position and to identify to what extent working capital management impacts the profitability of selected industrial sectors at India (Chennai).

The sample consists of top 162 S&P CNX 500 firms which comes under 15 sectors such as Automobile, Electrical Equipment, Steel and Aluminum, Pharmaceutical, Cement, Consumer Durables, Engineering, Textile, Chemical, Tyre, Pump, Food, Trading, Sugar and Construction to determined the objectives for the present study. The data collected for the study includes both primary and secondary sources. The collected data were analysed using various financial tools and techniques with application of certain statistical methods such as SPSS.

The study brought to light certain facts and facets about the working capital management in India (Chennai). This chapter will state the sector-wise conclusions based on the empirical analysis made and has been briefly summarized.

6. (V). 1. Automobile sector

The present study states that inventory plays a major role in the automobile sector. From the analysis it has been found that among the working capital components, inventory turnover period has got a significant impact on Net operating profitability. So, the automobile firms should focus more on managing and reducing the Inventory turnover days in order to maximize profitability.
and to withstand the competitive environment.

6. (V). 2. Electrical Equipment

The study on the electrical equipment sector stated that working capital management components (Inventory, debtors, payments and cash) plays a major role in increasing the organizational performance. So investment in working capital components should be devised properly. The study stated effective utilization of working capital resources will increase the profitability of the electrical equipment sector.

6. (V).3. Steel and Aluminium sector

Steel sector in India is one of the fastest growing and it ranked fifth among the steel production units in the world. The study on steel and aluminium sector stated that working capital components such as Inventory turnover period, and Average payment period should be kept in minimum hence to realize the increased profitability of the Steel and Aluminum sector. The study also found that current ratio and quick ratio should be maximized (i.e) which states increase in the investments of current assets and liquid assets will increase the profitability of the sector.


The study on the electrical equipment sector stated that working capital management components such as (Inventory, debtors, payments and cash) plays a crucial role in increasing the organizational performance. It is evident that working capital management affects the pharmaceutical companies in India. Thus the sector needs close co-ordination between these working capital components. The study also states that increase in the investments of current assets and liquid assets will increase the Net operating profitability.


From the study it has been evident that the working capital component affects the Net operating profitability of Cement sector. The study stated that decrease in the period of working capital components such as Debtors conversion period, Average payment period, and Cash conversion cycle period will increase the Net operating profitability of the sector. So, the cements sector should collect the debts as soon as possible, early conversion cash cycle and payment periods
should be decreased in order to increase the profits.


The study on consumer durables sector initiated that maintaining the minimum period of working capital components such as Debtors conversion period, Average payment period, and Cash conversion cycle period will increase the Net operating profitability of the sector. At the same time the study insist current ratio and quick ratio should be maximized, which states increase in the investments of current assets and liquid assets will increase the Net operating profitability. Thus the study states that profitability of consumer durables sector is affected by the working capital management and liquidity factors.


From the study it has been found that there is a significant negative relationship exists between working capital components and profitability of engineering sector. The study states that the decrease in the period of working capital components such as Debtors conversion period, Average payment period, and Cash conversion cycle period will increase the Net operating profitability of the Engineering sector. The study also found that quick ratio had a negative relationship which states decrease in the investments of liquid assets will decrease the Net operating profitability or vice versa.

6. (V).8. Textile sector

It has been evident from the analysis that the Net operating profitability is affected by working capital components of textile sector. The study reveals that decrease in the period of working capital components such as Debtors conversion period, Average payment period, and Cash conversion cycle period will increase the Net operating profitability of the Textile sector. Hence the period of working capital components should be minimized in textile sector. Furthermore the study stated working capital management plays a vital role in textile sector too.


The study stated that Net operating profitability of chemical sector is affected by working capital components of chemical sector. It reveals that the decrease in the period of working capital
components such as Debtors conversion period, and Average payment period will increase the Net Operating profitability of the Chemical sector. It is found that in chemical sector receivables and payments periods should be minimized in order to increase the profits. So, proper coordination in debtors and payments periods are required. The study also found that current ratio and quick ratio had a positive relationship which states increase in the investments of current assets and liquid assets will increase the Net operating profitability.

6. (V).10. Tyre sector

The study on tyre sector revealed that debtors and inventory plays a major role. The analysis stated that decrease in the period of working capital components such as Debtors conversion period, Inventory turnover period will increase the Net operating profitability of the tyre sector. The study also found that increase in the investments of liquid assets will increase the Net operating profitability. So it is evident from the above statement that tyre sector had a significant impact on Net operating profitability by working capital components.


It is clear from the study that there is a significant relationship exists between working capital components and Net operating profitability of pump sector. The analysis stated that the decrease in the period of working capital components such as Debtors conversion period, Inventory turnover period, Average payment period, and Cash conversion cycle period will increase the Net operating profitability of the Pump sector. Hence it is evident that the pump sector also had significant impact on profitability by working capital components.


From the study it has been found that there is a significant relationship exists between working capital components and profitability of food sector. It is evident that decrease in the period of working capital components such as Debtors conversion period, Average payment period, and Cash conversion cycle period will increase the Net Operating profitability of the Food sector. So, it is clear that profitability of food sector also affected by the working capital management.

The study states that there is no relationship exists between working capital components and Net operating profitability of the Sugar sector. Even the liquidity factors were not impacting the profitability. This maybe because of government undertaking in selling the products at public distribution system. Thus the sector does not impact the working capital components on profitability. It is found that in the sugar sector profitability is not affected by working capital variables but there may be some other factors which impact the profits in the sugar sector.


The study stated that there is no relationship exists between working capital components and profitability of trading sector. But the analysis found that current ratio and quick ratio had a significant impact which means the increase in the investments of current assets and liquid assets will increase the Net operating profitability of the trading sector. Hence, in trading sector liquidity plays a major role in maximizing the profitability.


From the study it has been found that there is a significant relationship exists between working capital components and profitability of construction sector. The study stated that decrease in the period of working capital components such as Debtors conversion period, and Inventory Turnover period will increase the Net operating profitability of the Construction sector. The sector should concentrate more on receivables and Inventory. This may be due to volatility in the prices of the products connected to construction sector. The sectors are advised to have an effective inventory model, so as to maximize the efficiency of the organization performance. Further, the study states that working capital management had a significant impact on profitability. Whereas liquidity does not have a significant impact on profits during the study period in construction sector.

Conclusion

Working capital is an important source of fund for the company in the absence of which, the company may not fulfill its obligations on time. Therefore, it should be given due importance and treated as an integral part of overall corporate management functions. It is also very
important to evaluate the cause and effect relationship of every activity of the management to assess its impact on working capital. During the course of study, the impact of various causes has been observed. The questionnaire survey indicates the external factors such as the Inventory, cash, receivables, payables, policies, remainder procedures, and effectiveness of administrative strategies, operational cycle periods etc, that affect the working capital of a company. Some organizations are not following the policies and practices but consider the policies to be an important factor.

Management can control the cost to some extent to support additional sales growth and investments by negotiating with their vendors and to attain effective working capital management. The managers of selected industrial units should avail themselves with the various training program organized by government and other bodies like government- sponsored business support services such as the Chamber of Commerce and Industries, to polish their knowledge in financial management and other managerial topics. This will help to improve their trading activities as well as to decrease the poor managerial skills.

The Industries will have to venture into many projects of the government, which will increase the goodwill of the company. The study identified most of the company is following a conservative policy in maintaining its current assets and it can be said that the overall performance of the company is satisfactory with an effective working capital management being an integral part of its system.

On reflecting on the research work it can be said the aim and objectives have been achieved. Thus the study have tried to investigate into the working capital management components, liquidity, solvency and determinants of the sample S&P CNX 162 top companies and came out with some convincing findings to identify some factors which could be contributed to the efficient usage of working capital resources. The study found some positive and negative relationships which reflect on profitability. Suggestions have also been drawn based on the findings to various industries. Among the 15 selected sectors, the study found that the sugar and trading sectors were not affected by working capital components. Where the other 13 sectors such as Automobile, Electrical Equipment, Steel and Aluminium, Pharmaceutical, Cement, consumer durables, Engineering, Textile, Chemicals, Tyre, Pumps, Food, and Construction firms seems to have significant and strongly related with working capital components, liquidity and profitability. As stated in earlier part of the study, this is an empirical study, the prime objective
of which is to reflect on components, liquidity and solvency factors which have an impact on profitability.

**Scope for Future Research**

The Present study investigated the impact of working capital management on profitability considering the various parameters such as working capital components, Liquidity, solvency and profitability. The research was undertaken in 15 sectors, and the industries considered for the study falls under S&P CNX 500 companies alone. The area working capital is Vibrant and has its significance not only in top performing firms, but also in Small and medium sized firms. The idea or the framework adopted for the study can be applied to SME’s as well as Distressed firms, to find out their performance in working capital management and also to test their significance. This framework will be helpful for future researchers to find out the issues relating to profitability associated with management of working capital and liquidity in detail and also by exploring more variables in various sectors.