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# A Study on Working Capital Management at Mailam Enterprises

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**ABSTRACT:** Working capital management to the operating investment of a firm and the way manager choose to finance it. This topic mostly ignored by academics for year is now gaining important as we realize that financial market are not as efficient as they were assumed to be, especially as firm expand outside the developed economies. This topic is framed that help to understand working capital in a comprehensive approach linking operating decision to their financial implication and to the overall business strategy. Working capital management involves managing a company's current assets and liabilities to ensure its financial health and operational efficiency. This abstract aims to provide an overview of working capital management, its importance, and its impact on businesses profitability and liquidity, turnover, solvency. The abstract highlights the significance of working capital management in various areas.

**KEY WORDS:** Financial markets, Current assets, Current liabilities, Liquidity management, Cash flow management, Profitability, Financial efficiency, Ratio analysis, Correlation, Financial statement analysis, Business strategy, Operational efficiency, Risk management.

## I. INTRODUCTION

In Business point of view working capital is money or money value is used in business regardless of the source of obtaining it. The term working means the circulation of capital in one form or another during the day-to-day operations of business. Working capital is defined as the annual survey of the industries to include stock of material, stores, fuel, semi-finished goods including working progress and finished by products, cash in hand and algebraic sum of sundry creditors. "Capital invested in the Working or current asset with in the business is called circulating capital or revolving capital". Working capital stands for the part of the capital, which is required for the financial or Working or current need of the company. The goal of working capital management is to manage the firm's current liabilities in such a way that satisfactory level of working capital management is maintained. Working capital management policies of a firm has a great effect on its profitability, liquidity and structural health. The working capital cycle is the amount of time it takes to turn the net current assets and current liabilities into cash. The longer the cycle is, the longer a business is tying up capital in its working capital without earning a return on it. Therefore, companies strive to reduce their working capital cycle by collecting receivables quicker or sometimes stretching.

- The researcher aims to find out the liquidity and profitability position of the company. This study is concerned with problems involved in working capital like estimation of working capital and provision of working capital at the time it is needed.
- Working capital represents that part of resources of the business, which makes the business work. In the absence of proper management of working capital it would be difficult to achieve the requirement of the company.
- Most of the firms do not hold the right amount of stocks, debtors, cash and other components of working capital. Due to this reason, the firm is unable to meet its maturing short term obligations and its upcoming operational needs.

## OBJECTIVES OF THE STUDY

- To study on Working Capital Management.
- To examine the effectiveness of working capital management polices with the help of accounting ratio.
- To study liquidity position of the company by taking various measurements.

- To evaluation the financial performance of the company.
- To make suggestion for policy makers for effective management of working capital.

#### SCOPE OF THE STUDY

- The study on working capital management helps to identify the financial strength of the organization.
- This study reveals the working capital and financial health of the organization.
- It helps to evaluate the asset and liabilities in order to identify the profitability of the organization.
- The study is concentrated more in analyzing the company liquidity position as well as the financial position.

#### II. REVIEW OF LITERATURE

**Vibhav Pratap (2023)** An analysis of working capital and working capital management (WCM) is the purpose of this study.

**ABINAYA.R (2022)** Decisions with reference to capital involve managing relationship between a firm's short assets and liabilities to make sure a firm is in a position to continue its operations.

**Najib H.S. Farhan (2021)** The current study aims to evaluate the impact of working capital components on the financial performance of Indian pharmaceutical companies.

**Kumar sanjay swarnai (2020)**-impact of the efficiency of working capital management (WCM) on the performance of a sample of Indian companies and explore how the nature of the firm's business influences the significance.

**Monica Singhania (2019)**- Excessive working capital or paucity of the same can impair the profits and health of an organization.

**Natarajan Sundar (2018)** - has been given view on working capital is having huge important at both, the nationalized as well business level.

**Chakraborty S. K. (2017)**- difference among cash working capital v/s balance sheet working capital. And research is based on two dimensions.

**Misra (2016)**- To identify the problems of working capital in six public enterprises for the period of 1960. significance and answer are here under.

**Smith Keith V. (2015)**- Research has been given focused on the short term finance need to be given more concentration for the success of the personality firm.

**Guru murthy N. and Reddy Jaya chandra k. (2014)** have conducted a study on the working capital management of four pharmaceutical working capital management was not up to the mark and needed to be improved.

**Turan M. S., Bamal Sucheta, Vashist Babita and Turan Nidhi (2013)** the research for the period from 2002 to 2011. At the end of the analysis it was concluded that in spite of similar nature of both the industries in the manufacturing sector.

**Ray Sarbapriya (2012)** studies the relationship between liquidity and profitability in the manufacturing industry. The writer has taken as a sample 311 manufacturing firms for a period of 14 years.

**Haq Ikram Ul, Sohail Muhammad, Zaman Khalid and Alam Zaheer, (2011)** examine the relationship between working capital management and profitability by using data of 14 companies

#### III. RESEARCH METHODOLOGY

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying new research is done systematically. In that various steps, those are generally adopted by a researcher in studying his problem along with the logic behind them. Research design is the arrangement of condition for collective and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The study design used in this project is analytical in nature the procedure using, which researcher has to use facts or information already available, and analysis these to make a critical evaluation of the performance. The research design is a systematically planning, organizing and executing a research project within specific time limit and resource allocation.

- The secondary data are those which have already collected and stored. Secondary data easily get those secondary data from records, annual reports of the company etc. It will save the time, money and efforts to collect the data.
- Usually published data are available in various publication of the central, state, local government, also in technical and trade journals, books, magazines and newspaper, report and publication of various association connected with business and industry, banks, stock exchanges report prepared by scholar's universities in different fields.

- Secondary data are collected from profit and loss accounts balance sheet over a period of 5 years (i.e.) from 2019 – 2023 also data were collected from official's records.

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- Changes of working capital management
- Correlation analysis
- Regression analysis
- The study is mostly based on the data presented in annual reports of the company.
- The financial position reflected in the annual report of the company is related the last day the accounting year and is not relevant for the remaining part of the year.
- The study was limited to a short period of time.

#### IV. DATA ANALYSIS AND INTERPRETATION LIQUIDITY RATIO

During the year 2020 the Current Ratio was 1.47, During the year 2021 ratio has increased to 1.53. During the year 2021 the ratio was 1.45, after the current ratio decreasing year by year. An ideal current ratio is 2:1.

During the year 2020 the quick ratio was 0.98, after the next year 2021 increased ratio of 1.01. after wards next 2 year decreased year by year, last year 2024 was slightly increased ratio of 0.87. Generally, a quick ratio of 1:1 is considered to be satisfactory.

The company has achieved a satisfactory quick ratio in the year 2022. Year 2021, 2022, 2023, 2024 the quick ratio is satisfactory. This shows that the company may find itself in serious financial difficulties.

During the year 2020 the absolute liquid ratio was 0.27, during the year 2021 it was increased by 0.34, in the year 2022 it was 0.31 decreased. During the next also falling, in 2023 ratio was 0.23 improved compare to 2023. This shows the absolute liquid ratio was ups and downs are there in every year due to increases in current liability. Hence it shows the absolute liquid ratio is not meet the absolute ideal ratio.

During the year 2020 debt to equity ratio was 4.36, in the year 2021 ratio was 4.09, during the year 2022 the debt to equity ratio was 4.01. This shows every year company ratio is decreases. In the year 2023 debt to equity ratio was 4.15, and in the year 2024 ratio was 3.48. Hence the company is not meet the ideal ratio.

During the year 2020 the proprietary ratio was 0.18, in the year 2021 the ratio was 0.19, and in the year 2022 the proprietary ratio was 0.19, in the year 2023 ratio was 0.19, in the year 2024 the proprietary ratio was 0.22. This shows increases the ratio year by year. but does not match with ideal ratio. Here, the shareholders fund is less compared to the total asset. So the company should try to increase the shareholders fund by issuing more number of shares.

#### Interpretation

During the year 2020 the inventory turnover ratio was 3.25, in the year 2021 the ratio was 2.55, and in the year 2022 the inventory turnover ratio was 2.52, in the year 2023 ratio was 2.54, in the year 2024 the asset turnover ratio.

#### Interpretation:

During the year 2020 the fixed asset turnover ratio was 4.16, in the year 2020 the ratio was 3.36, and in the year 2021 the fixed asset turnover ratio was 4.21, in the year 2022 ratio was 4.94, in the year 2023.

During the year 2020 the net ratio was 12%, in the year 2021 the ratio was 7.69%, in shows decreasing the ratio and in the year 2022 the net profit ratio was 13.47%, in the year 2023 ratio was 11.8%, in the year 2024 the net profit ratio was 16.1%. In 2021 net profit was so bad. 10% to 20 % considered average profit. Company should improve the revenue.

#### Interpretation:

This shows that there is Increase of \$1054 in the amount of working capital during the period of 2022-2023.

This shows that there is Increase of \$333 in the amount of working capital during the period of 2022-2023.

### **V. FINDINGS OF THE STUDY**

- The current Ratio of the company from 2020 to 2021 increases and 2022, 2023, 2024 decreases. The current ratio is below the ideal ratio 2:1.
- The Quick ratio of the company from 2020 to 2021 increases, in 2022 to 2023 decrease, in 2024 increases quick ratio is not adequate to the ideal ratio 1:1.
- The Absolute Liquid ratio from 2020 to 2021 is increases and 2022 to 2023 decreases and again 2024 increases. Hence the absolute liquid ratio is not meet the ideal ratio.
- The Debt Equity ratio of the company from 2020 to 2021 decreases every year, and 2023 increases to 4.15 and in 2023 decreases. Hence the company is not adequate to the ideal ratio.
- The proprietary ratio of the company in 2020 is 0.18, from 2021 to 2022 same ratio as maintained, in 2024 the proprietary ratio increased to 0.22 does not match with ideal ratio.
- The asset turnover ratio of the company in 2020 is 0.68 and 2021 is decreases and next year 2021 increasing from 2021 to 2024 ratio is increasing but this not satisfy the ideal ratio
- The Inventory / Stock turnover ratio of the company in 2020 is 3.25 and from 2021 to 2022 decreases and from 2023 to 2024 increases but this not better for the company.
- The Fixed Assets turnover ratio of the company in 2020 is 4.16 and in 2021 decreases and from 2022 to 2024 increases. A higher ratio implies that management is using its fixed assets more effectively.
- The Gross profit ratio of the company from 2020 is 28.4% and in 2021 is decreases, from 2022 to 2024 the G.P ratio is increases to 37.3%. The company aims to generate higher gross profit margins.

### **VI. SUGGESTIONS**

- Improve liquidity by managing current liabilities and increasing current assets. This can be achieved through better inventory management, quicker receivables collection, or reducing short-term debt.
- Focus on reducing inventory levels and improving the collection of accounts receivable. Additionally, consider refinancing short-term debt to improve liquidity.
- Increase cash and cash equivalents while reducing immediate liabilities. This could involve better cash management practices and ensuring sufficient liquid reserves.
- Reduce reliance on debt by exploring equity financing options or retaining earnings to strengthen the equity base. Aim for a more balanced capital structure to mitigate financial risk.
- Enhance equity financing and retain profits to improve the proprietary ratio. A stronger equity base will improve finance and reduce dependency on debt.
- Improve asset utilization through better management and investment in high-return assets. Streamline operations to enhance efficiency and productivity.

### **VII. CONCLUSION**

The study has undertaken the tile of “A STUDY ON WORKING CAPITAL MANAGEMENT IN MAILAM ENTERPRISES” The analysis is mainly based on the secondary data. The analysis is done using ratio analysis, changes in working capital, Correlation and regression analysis. This study mainly aims to analyze the financial performance of the company. The company is effective in managing the working capital in recent years. The firm has to improve the liquidity position for the effective management of working capital. The company financial performance shows mixed results of positive and negative trends. While the profitability ratios and fixed assets turnover ratio have improved, the liquidity ratios and debt-equity ratio suggest potential areas of concern. The company should closely monitor its financial ratios and take appropriate actions to address any weaknesses to ensure long-term financial stability and growth. The company can aim this to achieve more stable and favorable financial ratios, contributing to overall financial health and sustainability for the future period. Thus the working capital concept is more important to the management in order to maintain the current asset and current liabilities.

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