



Relationship Between Working Capital Management And Profitability

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Abstract

The present study deals with the relationship between working capital management and profitability to know the performance of the companies during the study period. In this research work the accounting tool of ratio analysis and statistical tool regression model with has been applied to carry out the best result of performance on the basis of available financial reports of last 5 years. Ratios like current ratio, quick ratio, cash margin ratio, current assests to total assests, current asset to sales, return on capital employed, return on net worth are calculated to measure the efficiency level of finance during study period. Using time series analysis regression technique expected data is found. With the help of regression model actual available data is compared by assuming one dependent variable..

Key words: Working Capital Management, Profitability, financialefficiency.

Introduction

Managing a relationship between working capital and profitability is such a crucial thing for the firms. Here portfolio management intended to make on the basis of fundamental and technical analysis of banking industry. The broader objective of this study is to analyze the relationship between working capital management and corporate profitability. In other words, we want to know the effect of working capital management on profitability in



Telecommunication sector. For this purpose, few telecom companies listed on BSE are taken as sample of the study.

There are so many industries contributing to economic development of the nation and modern telecom operations touch almost every sphere of economic activity. They have far reaching consequences on economic development of country. Telecom industry is one of the leading industries in service sector. One of the major problems faced by the telecom industry is the healthy relationship between working capital management and corporate profitability. While taking major decisions, the firm operating in telecom industry need to take into consideration the prevailing and required working capital in its profit.

Objective Of The Study

Any activity done without an objective in a mind cannot turn fruitful. An objective provides a specific direction to an activity. Objectives may range from very general to very specific, but it should be clear enough to point out with reasonable accuracy what researcher wants to achieve through the study and how it will be helpful to the decision maker in solving the problem. Each research study has its own specific purpose.

The objectives of the present study are as follows:

- To know the effect of working capital management on profitability in Indian Telecommunication Sector.
- To know whether there is a significant relationship between working capital and profitability of the corporate.

Scope Of The Study

- Apart from this study one can undertake a research work on profitability analysis a comparative study.
- Apart from that one can also undertake the research work on price index of the firms engaged in telecom sector.
- One can also extent its research work at global level by taking into account the firms that are working in similar industry.



Source Of Data

To know the relation between management of Working Capital and Corporate Profitability SECONDARY source of data has been used. Secondary data is collected from balance sheet and profit and loss account

Data Analysis

The Secondary data were classified and tabulated according to the need of the study and objectives.

The collected data is analyzed by using appropriate and relevant financial techniques, graphs and tables on the basis of the information received through annual report for further analysis.

Period Of The Study

The period of the study is of 5 years. The study period cover the period from year 2008-09 to year 2013-14.

Tools And Techniques For The Analysis

Use of statistical tools has become a normal phenomenon in any type of analysis. The researcher has picked up the tools and techniques to suit their requirements and based on data available to them. Under this research study statistical tools Viz., percentage or ratio, diagrammatic and graphic presentation have used wherever needs.

For the present study following tools and techniques have been used for analyzing the relationship between working capital and profitability.

- Accounting Tools:

Ratio Analysis

- Statistical Tools

Regression model

Null Hypothesis

H₀: there would be no significant relationship between working capital and profitability of the corporate.



H1: there would be a significant relationship between working capital and profitability of the corporate.

Limitations Of The Study

Finance as the core area, which is a vast field, covers many aspects, which is not possible for us to cover. The knowledge, which we have, is quite limited and thus it makes it difficult for us to deal as the practical and the theoretical knowledge has a wide difference within. In spite of all sincere effort in preparing this report, there are certain limitations, which cannot be ignored.

- The first and foremost limitation of the study is that of using the secondary data. Secondary data itself proves to be a limiting factor.
- Another loophole in this study is that no other sector has been considered, thus the study is limited to only one industry that is telecom industry.
- Only few tools are being used that is current ratio, quick ratio etc

Data Analysis And Interpretation

Diff. Vari.	CR	QR	DTR	CPR	CATA	CATS	ROCE	RONW
CR	1.000	0.5752	0.3395	0.2403	0.0788	0.6505	-0.438	-0.4987
QR	0.5752	1.000	-0.1782	0.18	0.1239	0.2414	-0.2519	-0.0278
DTR	0.3395	-0.1782	1.000	0.4583	-0.5798	-0.3906	-0.2362	-0.0774
CPR	0.2403	0.18	0.4583	1.000	-0.6407	-0.2734	-0.3763	-0.5462
CATA	0.0788	0.1239	-0.5798	-0.6407	1.000	0.1867	0.7469	0.6444



CATS	0.6505	0.2414	-0.3906	-0.2734	0.1867	1.000	-0.0071	-0.1903
ROCE	-0.438	-0.2519	-0.2362	-0.3763	0.7469	-0.0071	1.000	0.9205
RONW	-0.4987	-0.0278	-0.0774	-0.5462	0.6444	-0.1903	0.9205	1.000

(SOURCE-Annual Reports of Company)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	5.774	6.101		.946	.414
	CR	-25.413	4.262	-1.304	-5.963	.009
	QR	3.709	1.464	.333	2.534	.085
	DTR	.207	.240	.124	.861	.453
	CASH	.714	.199	.702	3.586	.037
	CATA	74.360	10.818	1.113	6.874	.006
	CATS	17.130	5.125	.615	3.342	.044

(Dependent Variable: ROCE)



Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	7.954	5.905		1.347	.271
	CR	-22.709	4.125	-1.065	-5.505	.012
	QR	-.438	1.416	-.036	-.309	.777
	DTR	.117	.233	.064	.504	.649
	CASH	.660	.193	.594	3.426	.042
	CATA	82.419	10.470	1.128	7.872	.004
	CATS	20.539	4.960	.674	4.141	.026

(Dependent Variable: RONW)

Findings

1. It was found that there is no stable position regarding the profitability of the telecom sector during the study period.
2. It was found that the entire sector is quite progressive during the study period.
3. It was found that there is fluctuating trend among all the ratios.
4. It is also found that the working capital management and profitability is not highly correlated.
5. There is a considerable scope for better and more efficient working capital management.

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