Impact of Working Capital Management on Profitability
With special reference to ITC Company in India

Shubham Bansal, Ekta Arora
Assistant Professor, Department of Commerce and Management Studies, Aryabhotta Group of Institutes, Barnala
Assistant Professor, Department of Commerce, SDP College for Women, Ludhiana

Abstract-
The Present study is based on secondary data, which have been collected from annual reports of ITC Company for the period of 2011-12 to 2015-16. The main objective of this study is to examine the Impact of working Capital Management on Profitability with special reference to ITC Company in India. In this study, we use Dependent and Independent variables to achieve the objective of our study. In Dependent variable, we use Return on capital employed (ROCE) to measure the profitability of a company and in the Independent variable, we use Inventory Turnover Ratio (ITO), Current Ratio (CR), and Working Capital Turnover Ratio (WTO) as working capital management criteria. The statistical tools like Descriptive Statistics, Correlation Analysis, and Regression Analysis has been used for the analysis of collected data. In Correlation analysis the result shows that ROCE has a positive relationship with WTO and negative relationship with ITO and CR. In Regression Analysis, there is no significant impact of ITO, CR, and WTO on ROCE because p-value is more than 0.05, which mean null hypothesis is accepted. In addition, the adjusted r square (r²) shows that the above-mentioned independent variables affect the dependent variable by 38 percent (38%).

Keywords- Working Capital Management, Profitability, ITC, ROCE, Annual Reports

I. INTRODUCTION
Working Capital Ratios are the useful tools for appraising the financial strength of a company. A firm is required to maintain a balance between liquidity and profitability while conducting its day-to-day operation. Liquidity is an effective tool to ensure that the firms are able to meet its short-term obligation. Total capital of the firms will be invested in two assets such as fixed and current asset. The Fixed asset will help to earn income but the current asset is important to run daily operation of the business. Working Capital Management and Profitability have some relationship with each other. Many research works are available in this relationship in different sectors of India. Proper working capital management ensures that the company increases its profitability. Effective Working Capital Management is very important due to its significant impact on the profitability of a company. If a firm minimizes its investment in the current asset, the resulting funds can invest in value creating profitable projects, so that it can be increased the firm growth opportunities and shareholder’s return. Three basic policies of working capital management are namely aggressive working capital management policy, conservative working capital management policy, and moderate working capital management policy. An aggressive investment policy with a low-level investment in current assets may generate more profits for a firm. On the other hand, it has also accompanied a risk of insufficient funds for daily operations and payment of short-term debts. A conservative investment policy is opposite to it with more-level investment in current assets attracts higher interest cost, which in turn reduces profitability. A moderate investment policy contains the balance between both the liquidity as well as the risk and it is maintained to stay somewhere in between aggressive and conservative investment policy. For financing of working capital, aggressive policy implies that current liabilities are maintained in a greater portion as compared to long-term debts. High level of current liabilities requires more resources in liquid form to pay debts earlier. However, current payouts bear less rate of interest and hence can cause more savings. In the Conservative Working Capital, Financing Policy has a high portion of long-term debts to use in contrast to current liabilities. The main aim of this study is to find out “Does the working capital management have any impact on the profitability of Indian Tobacco Company (ITC)”. 
II. REVIEW OF LITERATURE

1. Kulkanya Napompech, (2012) Study shows that there is an inverse relationship between the operating profit and inventory conversion period and the receivables collection period. However, there are no effects on profitability by extending the payables deferral period.

2. L. Moorthy and R. Rajarathana, (2013) Result shows that Tata Motors and M&M Ltd have an insignificant relationship with profitability. Although cash conversion cycle of both the co. had a positive relationship with profitability but average collection period and average payment period of both the co. proved to be in a negative relationship with the profitability.

3. Hina Agha, (2014) Result found that there is a positive relationship between Debtor Turnover Ratio and Return on Asset, between Inventory Turnover Ratio and Return on Asset and between Creditor Turnover Ratio and Return on Asset, but there is no significant relationship between Current Ratio and Return on Asset, so the null hypothesis have been rejected.

4. Kruti A. Patel, (2015) study shows that there is a significant negative correlation b/w Working Capital Management and Net Profit and it indicates that there is negative relationship b/w Liquidity and Profitability.

5. Iqbal, Nasir, and Nadeem, (2015) found that Working Capital and Firm size has a significant relationship with Firms Profitability and Debt of the firm has a negative relationship with profitability.

6. Syed Noorul Shajar and Saleem Akhtar Farooqi, (2016) found that DTO in the case of Maruti Suzuki India Ltd and CR in case of Tata Motors Ltd are positively related to the profitability and their impact is also found to be significant and the remaining independent proxy variable in each company are found to be positively but less correlated with the dependent variable of ROCE.

7. Poonam Gautam Sharma and Preet Kaur, (2016) found that there are significant negative relationship b/w liquidity and profitability of the company and it reveals that Quick Ratio, ITO, and DTO of the company shows satisfactory performance and Current Ratio of Company was found not satisfactory.

8. S.A Jude Leon, (2013) found that working capital has a significant impact on the profitability of the sector. Therefore significant indicates that close relationship between working capital and profitability. It may be positive or negative.

III. DATA AND METHODOLOGY

The Present study is based on secondary data, which has been collected from published annual reports from the period of 2011-12 to 2015-16 of Indian ITC Company. In this study, we use Dependent and Independent variables to achieve our objective of the study. In Dependent variable, we use Return on capital employed to measure the profitability of the company and in Independent variable, we use Inventory Turnover Ratio, Current Ratio, and Working Capital Turnover Ratio as working capital management criteria. Some statistical tools like-Descriptive Statistics, Correlation Analysis and Regression Analysis used for analysis. The 17 version of SPSS has been used to analyze the collected data. For measuring the profitability calculation of variables, it is done by using different formulas, which are tabulated below:

| VARIABLES FORMULAS AND ABBREVIATIONS |
|--------------------------------------|
| Variables                           | Abbreviations     | Measurement                      |
| Dependent Variable                  |                    |                                  |
| Return on Capital Employed          | ROCE              | NPBIT/Capital Employed *100      |
| Independent Variable                |                    |                                  |
| Inventory Turnover Ratio            | ITO               | COGS/Avg Stock                   |
| Current Ratio                       | CR                | Current Asset/Current Liabilities|
| Working Capital Turnover Ratio      | WTO               | Net Sale/NWC                     |
IV. DATA ANALYSIS AND INTERPRETATION

Table 1: Descriptive Statistics

|          | ROCE | ITO | CR | WTO |
|----------|------|-----|----|-----|
| Mean     | 40.12| 1.98| 1.75| 3.79|
| Median   | 40.99| 1.83| 1.70| 3.82|
| Minimum  | 37.86| 1.63| 1.58| 2.94|
| Maximum  | 41.70| 2.87| 2.05| 4.64|
| Standard Deviation | 1.79 | 0.50 | 0.18 | 0.63 |
| Observation | 5     | 5   | 5   | 5   |

a) **ROCE** - It is the measure for to find out how efficiently the long-term funds supplied by Creditors and Shareholders are being used.

Table-1 Study reveals that the mean value of ROCE is 40.12, which shows average firm ability to generate profit per 100 rupees of long-term investment in Capital Employed. The minimum value is 37.86, the maximum value is 41.70 and Standard Deviation value is 1.79.

b) **ITO** - It is the measure for to ascertain the efficiency with which the inventory is utilized.

The Study reveals that the mean value of ITO is 1.98, which show the average speed of inventory is converted into a sale. The minimum value is 1.63, the maximum value is 2.87 and Standard Deviation value is 0.50.

c) **CR** - It is the measure for to know the capacity of the firm to pay its short-term liabilities and to ascertain the short-term financial strength of the business.

The Study reveals that the mean value of CR is 1.75, the minimum value is 1.58, the maximum value is 2.05 and Standard Deviation value is 0.18.

d) **WTO** - It is the measure of the number of times the working capital result in sales.

The Study reveals that the mean value of WTO is 3.79, which indicate the firm ability to generate sale per rupee of working capital. The minimum value is 2.94, the maximum value is 4.64 and Standard Deviation value is 0.63.

Table 2: Correlation Analysis

|        | ROCE | ITO  | CR  | WTO  |
|--------|------|------|-----|------|
| ROCE   | 1    | -0.328| -0.283| 0.421|
| ITO    | -0.328| 1    | 0.929| -0.764|
| CR     | -0.283| 0.929| 1   | -0.931|
| WTO    | 0.421| -0.764| -0.931| 1    |

Table-2 Study reveals that ROCE is the positive relationship with WTO because the value is 0.421 and negative correlation with ITO value is -0.328 and CR value is -0.283.

**Table 3: Regression Analysis**

**H0:** There is no significant impact of Independent variables on Dependent variables

**H1:** There is significant impact of Independent variables on Dependent variables
Table 3 Study reveals that there is no significant impact of ITO, CR, and WTO on ROCE because p-value is more than 0.05, which means that null hypothesis is accepted. In addition, the adjusted r square ($r^2$) is showing that the above-mentioned independent variables affect the dependent variable by 38 percent (38%).

V. CONCLUSION

The Present study is based on secondary data, which has been collected from published annual reports from the period of 2011-12 to 2015-16 of Indian ITC Company. The mean value of ROCE is 40.12, which shows average firm ability to generate profit per 100 rupees of long-term investment in the Capital Employed. The mean value of ITO is 1.98, which shows the average speed with which the inventory is converted into sales. The mean value of CR is 1.75. The mean value of WTO is 3.79, which indicates the firm ability to generate sale per rupee of working capital. In the Correlation Analysis, ROCE is a positive relationship with WTO because the value is 0.421 and negative correlation with ITO value is -0.328 and CR value is -0.283. There is no significant impact of ITO, CR, and WTO on ROCE because p-value is more than 0.05 that means null hypothesis is accepted. In addition, the adjusted r square ($r^2$) is showing that the above-mentioned independent variables affect the dependent variable by 38 percent (38%).

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