

## **Working Capital Management and Profitability: Evidence from Select Sugar Factories Under Private Sector in Tamil Nadu**

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### **ABSTRACT**

Working capital supports the day to day operation of the firm. The working capital is required for the operational activities of the companies. Empirical studies show that ineffective management of working capital becomes the major cause of factories sickness. The working capital management is very much essential to increase the efficiency of the firm and to achieve the desired goal. The research has also presented descriptive analysis on working capital with the help of some important ratios including to current ratio, quick ratio, inventory turnover ratio, Debtors turnover ratio, Creditors turnover ratio and working capital turnover ratio. The private sugar factories working in different parts of Tamil Nadu are selected as sample units for the present study Viz., Rajshree Sugars and Chemical Ltd, Sakthi Sugars Ltd, Kothari Sugars and Chemical Ltd, Thiru Arooran Sugars Ltd, Bannari Amman Sugar Mills Ltd for the period of ten years from 2008-2009 to 2017-2018. The secondary data were collected from annual reports of companies. The study results revealed that sugar factories included in the present study are need to improve their liquidity, profitability and showed concentrate on working capital management. The results of correlation provided that there is a positive relationship between Return on Asset and Firm Size ( turnover) in Thiru Arooran Sugars Ltd., and between ROA and debt ratio in case of Bannari Amman Sugar Mills Ltd. The multiple regression analysis revealed that the maximum of 94.5 percent in Sakthi Sugars Ltd, the working capital management influences the net profit.

### **INTRODUCTION**

Every business need funds to carryout day to day operations apart from its establishments needs. The need for working capital rises due to the time gap between production and comprehension of cash from sales. The need of working capital in a business varies with situations such as a new concern, as a concern and concerns achieved maturity. The volume of working capital needed goes on increasing with the growth and extension of business till it attains maturity.

The basic goal of working capital management is to be able to the current asset and current liabilities of a firm in such a way that a adequate level of working capital is maintained, i.e., it is neither insufficient nor extreme. This is so since both insufficient as well as excessive working capital positions are depraved for any business. Inadequacy of working capital may lead the firm to liquidation and excessive working capital indicates idle funds which earn no profits for the business. Working capital management strategies of a firm have a great consequence on its profitability, liquidity and organizational health. Inline this aspect, a study is conducted with the select sugar factories in Tamil Nadu.

## **SAMPLE SUGAR COMPANIES UNDER STUDY**

Rajshree Sugars and Chemicals

Kothari Sugars and Chemicals Limited

Sakthi Sugars Limited

Thiru Arooran Sugars Limited

Bannari Amman Sugars Mills Limited

## **STATEMENT OF THE PROBLEM**

The sugar companies are facing many financial problems. Most of the sugar companies are operationally feasible but suffer from poor working capital management. The amount of working capital needed goes on increasing with the growth and expansion of business still it attains maturity. Hence it is the need to analyze the working capital management and profitability and improve the firm's growth opportunities and return to shareholders. Therefore, the present study is made an attempt to analyze the working capital management and its impact on profitability with evidence the of select sugar factories under private sector in Tamil Nadu.

## **OBJECTIVE OF THE STUDY**

To analyze the relationship between working capital management and Profitability of select sugar factories.

## **HYPOTHESIS OF THE STUDY**

$H_0$  : Working capital management does not have an impact on the profitability of select sugar factories.

## **LIMITATIONS OF THE STUDY**

The present study was conducted subject to the following limitations.

- The present study was conducted with five sample sugar factories only calculated.



is insignificant at 1 percent level of significant or at 5 percent level of significance.  $R^2$ Value, it is .294. So Independent variables influence the NP with 29.4 percent.

**TABLE – 2**

**Results of Multiple Regression Analysis of Kothari sugars and chemical limited**

Variables	Multiple Regression Coefficients	T-Value	P- Value
CCC	.008	.012	.991
ACP	-.176	-.451	.675
ITR	-1.032	-1.405	.233
DR	.923	1.754	.154
FZ	.063	.164	.878

Source : Computed Values

Significant at 1% level significant at 5%level

**R = .735**

**R<sup>2</sup> = .540**

**F-Value = .938**

**Sig - .540**

According to Table -29, the independent variables considered here like CCC, ACP, ITR, DR and FZ do not influence the General profitability (NP) of the firm since the P value is insignificant at 1 percent level of significant or at 5 percent level of significance. So, the null hypothesis is accepted with to  $R^2$ Value, it is .540. So Independent variables influence the NP with 54 percent only.

**TABLE – 3**

**Results of Multiple Regression Analysis of Sakthi sugars limited**

Variables	Multiple Regression Coefficients	T-Value	P- Value
CCC	.012	.039	.971
ACP	.115	.485	.653
ITR	-.539	-1.935	.125
DR	-.832	-2.257	.087
FZ	.603	1.474	.214

Source : Computed Values

Significant at 1% level significant at 5%level

**R = .972**

**R<sup>2</sup> = .945**

**F-Value =13.813**

**Sig = .012**

According to Table -30, the independent variables considered here like CCC, ACP, ITR, DR and FZ do not influence the General profitability (NP) of the firm since the P value is insignificant at 1 percent level of significant or at 5 percent level of significance.  $R^2$ Value, it is .945. So independent variables influence the NP with 94.5 percent.

**TABLE -4**

**Results of Multiple Regression Analysis of Thiru Arooran Sugars Limited**

Variables	Multiple Regression Coefficients	T-Value	P- Value
CCC	.370	1.088	.338
ACP	-.035	-.111	.917
ITR	-.408	-1.011	.369
DR	-.487	-.617	.571
FZ	.100	.143	.893

Source : Computed Values Significant at 1% level significant at 5%level

**R = .870      R<sup>2</sup> = .756      F-Value = 2.479      Sig = .200**

According to Table -31, the independent variables considered here like CCC, ACP, ITR, DR and FZ do not influence the General profitability (NP) of the firm since the P value is insignificant at 1 percent level of significant or at 5 percent level of significance. R<sup>2</sup>Value, it is .756. So independent variables influence the NP with 75.6 percent.

**TABLE - 5**

**Multiple Regression Analysis of Bannari Amman sugar mills Limited**

Variables	Multiple Regression Coefficients	T-Value	P- Value
CCC	-2.569	-1.837	.140
ACP	.564	2.571	.062
ITR	1.685	1.039	.357
DR	-.075	-.178	.867
FZ	-.043	-.171	.872

Source : Computed Values Significant at 1% level significant at 5%level

**R = .959      R<sup>2</sup> = .920      F-Value = 9.231      Sig = .026**

According to Table -32, the independent variables considered here like CCC, ACP, ITR, DR and FZ do not influence the General profitability (NP) of the firm since the P value is insignificant at 1 percent level of significant or at 5 percent level of significance. R<sup>2</sup>Value, it is .920. So independent variables influence the NP with 92 percent.

**CONCLUSION:**

Efficient working capital management will improve the efficiency of the operational activities of the company. That is the reason, researchers undertake studies to assess the relationship between undertake studies to assess the relationship between working capital management and profitability of the firms. In this way the present study was undertaken up to

examine the efficiency of working capital management five Sugar Factories under private sector in Tamil Nadu. The study results say that all the sugar factories under the study are need to improve their liquidity, profitability and working capital management. Bannari Amman sugar is comparatively better in their efficiency of working capital management. When analyzing the relationship between working capital management and profitability, there is a relationship between this profitability and working capital management.

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