

A Study on Impact of Working Capital Management on Profitability at Kanaech India Private Limited

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ABSTRACT

Working Capital Management (WCM) is a crucial aspect of financial management that directly influences a company's liquidity and profitability. This study examines the impact of working capital management on profitability at Kanaech India Private Limited, an automotive component manufacturing company. The study is based on secondary data collected from financial statements over a five-year period from 2021–22 to 2025–26. The analysis is carried out using ratio analysis, trend analysis, regression analysis, and correlation analysis. The findings reveal a declining trend in profitability indicators such as Net Profit Ratio and Return on Assets (ROA), indicating inefficiencies in managing working capital components like inventory and receivables. Although liquidity ratios remain above minimum standards, a consistent downward trend suggests weakening financial stability. The study recommends improved receivables management, cost control, and efficient utilization of assets to enhance profitability.

Keywords: Working Capital Management, Profitability, Liquidity, ROA, Financial Performance, Ratio Analysis

1. INTRODUCTION

Working capital management refers to the management of short-term assets and liabilities such as cash, inventory, receivables, and payables. It plays a vital role in ensuring smooth business operations and maintaining financial stability. Efficient working capital management helps organizations maintain liquidity, reduce financial risks, and improve profitability. On the other hand, poor management can lead to cash shortages, operational inefficiencies, and reduced profits. This study focuses on Kanaech India Private Limited, an automotive component manufacturing company located in the Oragadam industrial hub. The objective is to analyze how effectively the company manages its working capital and how it

impacts profitability.

Objectives of the Study

The primary objective of the study is to analyze the impact of working capital management on profitability. The specific objectives are: (i) To evaluate liquidity using current ratio and quick ratio (ii) To analyze profitability using Net Profit Ratio and ROA (iii) To study trends in sales, profit, assets, and inventory (iv) To examine the relationship between liquidity and profitability (v) To assess the efficiency of working capital components

2. REVIEW OF LITERATURE

Recent studies highlight the importance of working capital management in improving financial performance. Khan (2025) emphasized that efficient working capital improves operational agility and liquidity. Kukeli (2025) found that an optimal cash conversion cycle maximizes profitability. Kumar (2025) observed that structured working capital planning enhances productivity in SMEs. Ahmad (2024) identified that shorter cash conversion cycles improve profitability, while Panigrahi (2024) found that improper inventory management negatively impacts returns. Enqvist (2023) concluded that efficient working capital practices improve resilience during economic fluctuations. Overall, the literature confirms that effective working capital management significantly influences profitability and financial stability.

RESEARCH METHODOLOGY

This study adopts a **descriptive and analytical research design**.

Data Source

- Secondary data (Annual Reports, Financial Statements)

Period of Study

- 2021–22 to 2025–26

Tools Used

1. Ratio Analysis
2. Trend Analysis
3. Regression Analysis
4. Correlation Analysis
5. Cash Conversion Cycle Analysis

The study is limited to financial data of Kanaech India Private Limited.

3. DATA ANALYSIS AND INTERPRETATION

Liquidity Analysis

The current ratio declined from **1.92 to 1.78**, and the quick ratio declined from **1.42 to 1.28** over the study period.

This indicates that although the company maintains adequate liquidity, there is a gradual weakening trend in its ability to meet short-term obligations.

| Particulars | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|-------------------|----------|----------|----------|----------|----------|
| Current Asset | 6,40,261 | 5,67,376 | 5,81,227 | 5,09,409 | 4,43,824 |
| Current Liability | 3,38,451 | 2,95,297 | 3,10,495 | 2,77,615 | 2,48,678 |
| Current Ratio | 1.89 | 1.92 | 1.87 | 1.83 | 1.78 |

4.2 Profitability Analysis

The Net Profit Ratio decreased sharply from **12.80% to 1.06%**, while ROA declined from **56.49% to 4.58%**.

This shows a significant reduction in profitability and inefficient utilization of resources.

| Particulars | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|------------------|---------|---------|---------|---------|---------|
| (Net Profit) | 361682 | 254203 | 189316 | 95341 | 20310 |
| Sales | 2826214 | 2518364 | 2555876 | 2223612 | 1916907 |
| Net Profit Ratio | 12.80 | 10.09 | 7.41 | 4.29 | 1.06 |

4.3 Trend Analysis

- Sales declined to **67.83%**
- Net Profit declined to **5.62%**
- Total Assets declined to **69.32%**

The overall trend indicates declining financial performance.

| YEAR | SALES | TREND% |
|---------|--------------|--------|
| 2021-22 | 28,26,214.00 | 100 |
| 2022-23 | 25,18,364.00 | 89.11 |
| 2023-24 | 25,55,876.00 | 90.43 |
| 2024-25 | 22,23,612.00 | 78.68 |
| 2025-26 | 19,16,907.00 | 67.83 |

4.4 Regression Analysis

The model shows a strong relationship ($R^2 = 0.893$) between liquidity and profitability, but it is statistically insignificant.

This suggests that liquidity has some influence on profitability, but results are not fully reliable.

4.5 Correlation Analysis

The analysis shows a negative relationship between working capital components and profitability.

This indicates that inefficient management reduces profit levels.

5. SUMMARY OF FINDINGS

(i) Liquidity ratios are above minimum levels but show a declining trend (ii) Profitability has drastically reduced over the years (iii) Sales and asset base are continuously declining (iv) Asset utilization efficiency is weak (v) Working capital management is not effective

6. SUGGESTIONS

- Improve receivables collection system
 - Maintain optimal inventory levels
 - Reduce unnecessary operational costs
 - Focus on increasing sales and revenue
 - Improve asset utilization efficiency
 - Adopt better financial planning
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7. CONCLUSION

The study concludes that working capital management has a significant impact on profitability. Kanaech India Private Limited shows declining profitability due to inefficient management of working capital components.

Although liquidity is maintained at moderate levels, the decreasing trend in financial performance indicates the need for improvement. Effective financial planning, better resource utilization, and optimized working capital management are essential for long-term sustainability and growth.

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