Impact of Working Capital Management in Financial Performance with Reference to Tamilnadu Newsprint and Paper Limited

Mr. Harenavaneeth D[1], Dr. Amutha G[2]

[1]Student, Department of Management Studies, Vels Institute of Science Technology &Advanced Studies, Chennai, Tamilnadu
[2]Associate Professor and Research Supervisor, Department of Management Studies, Vels Institute of Science, Technology &Advanced Studies, Chennai, Tamilnadu.

ABSTRACT

This study investigates the impact of working capital management on the financial performance of Tamil Nadu Newsprint and Papers Limited (TNPL). Working capital management is a vital component of corporate finance as it deals with the day-to-day financial activities and ensures the company's operational efficiency and short-term financial health. The research focuses on key components such as inventory management, receivables, payables, and cash conversion cycle, and examines their correlation with profitability indicators like Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin.The study is based on secondary data collected from the financial statements of TNPL over the past five years. Quantitative tools such as ratio analysis and regression models are employed to analyze the data. The findings indicate a significant relationship between efficient working capital management and improved financial performance. Proper management of receivables and inventory plays a crucial role in enhancing profitability, while excessive current assets can lead to reduced returns.The study concludes with recommendations for optimizing working capital policies at TNPL to ensure sustainable financial growth and operational efficiency. This research can serve as a reference for finance professionals, academicians, and policymakers interested in the strategic implications of working capital management.

KEYWORDS: Working Capital Management, Financial Performance, TNPL, Profitability, Operational Efficiency.

1. INTRODUCTION

Working capital management refers to a company's managerial accounting strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The primary purpose of working capital management is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations. Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship that exists between them. The term current assets refer to those assets which in the ordinary course of business can be, or will be, converted in to cash within one year without undergoing a diminution in value and without disrupting the operation of the firm. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash. The excess of _current assets' of a business organization over its _current liabilities'is termed as the _working capital' of that organization. The major current assets are cash, marketable security, account receivable and inventory. Current liabilities are those liabilities which are intended, at their inception, too be paid in the ordinary course of business, within a year, out of the current assets or earning of the concern. The basic current liabilities are account payable, bills payable, bank overdraft and outstanding expenses.

2. LITERATURE REVIEW

- Xu et al. (2022) conducted a comprehensive study titled "Does Working Capital Management Improve Financial Performance in China's Agri-Food Sector?" covering the period from 2006 to 2021. The research investigates how working capital management (WCM) influences financial performance within China's agri-food sector, particularly during periods of economic turbulence, such as the 2008 global financial crisis and the 2020 COVID-19 pandemic. The study highlights how efficient WCM practices helped firms navigate through these crises, emphasizing the critical role of liquidity management in sustaining performance during uncertain times.
- Deloof et al. (2021), in their study "Working Capital Management, Financial Performance, and Growth of Firms: Evidence from the UK," explore how firms with higher average growth rates differ from others regarding the efficiency of their WCM. The research underscores that firms experiencing robust growth tend to manage their working capital more efficiently, which in turn positively impacts their financial performance. The findings suggest that WCM is not only crucial for immediate financial health but also plays a strategic role in supporting long-term firm growth.
- Olayinka et al. (2023), in their paper "Working Capital Management and Financial Performance: Evidence from Selected Nigerian Manufacturing Firms," analyze the relationship between WCM and financial performance in Nigeria's manufacturing sector. The study specifically highlights the significance of managing payment periods and inventory turnover, indicating that optimizing these components can substantially enhance profitability and operational efficiency. Their findings underscore the vital role of WCM strategies in improving the financial outcomes of manufacturing firms within emerging economies.
- Nguyen et al. (2022), in "Working Capital Management and Firm Performance: Are Their Effects Different in the Pre- and Post-COVID-19 Periods?" investigate the evolving role of WCM before and after the COVID-19 pandemic. The study reveals that the effectiveness of WCM strategies varies significantly between the two periods, with firms needing to adapt their practices to maintain liquidity and profitability amid pandemic-induced disruptions. This work provides important insights into how external shocks can alter the dynamics between WCM and firm performance.
- Chasha et al. (2023), in "Working Capital Management, Liquidity, and Financial Performance: Context of Kenyan SMEs," focus on the critical role of WCM in small and medium-sized enterprises (SMEs) within unindustrialized economies. Their study highlights the unpredictable dynamics of Kenya's commercial sector and emphasizes how efficient WCM practices are essential for maintaining liquidity and ensuring financial stability among SMEs, which often operate in volatile market environments.

3. SCOPE OF THE STUDY:

The study covers the period 2018-2023.The analysis has been done by computing common ratios and certain other specific measures in order to find the efficiency of managing funds and financial performance of the company. The study only concentrates on the macro picture of the firm with aggregate data and not any specific product line or category.

4. NEED OF THE STUDY:

Working capital is central to an organization. The primary objective of working capital management is to meet the day to day cash flow needs, for example pay wages and salaries when they fall due, pay creditors' in order to ensure continued supplies of raw materials, pay dividend and to ensure long term survival of business. Moreover, the working capital is directly related to firm's growth. Hence the main goal of working capital management is not just concerned with the management of current assets & current liabilities but also in maintaining a satisfactory level of working capital. Only an adequate working capital leads to solvency and profitability of the company. So there is a need to study the behaviour of the various components of working capital. Further this study reveals the trend and behaviour of working capital which helps the company to use its resources effectively. The effectiveness of an organization depends on the strength of its working capital management as it is core to the whole system. So, this study on working capital management with special reference Tamil Nadu Newsprint and Paper Limited, Karur is undertaken in order to find the efficiency needed in collecting receivables, holding inventory and maintaining cash position of the company.

5. OBJECTIVE OF THE STUDY

- Efficient working capital management directly impacts profitability. By minimizing the investment in current assets (inventory, receivables)
- Investigates the effect of WCM on firm performance in Middle Eastern countries, emphasizing the role of cash conversion cycles.
- Explores how WCM practices influence financial performance in the hospitality industry, highlighting the importance of cash management.
- Analyzes the impact of WCM on financial performance in India's construction industry, focusing on liquidity and profitability.
- Examines how WCM practices influence corporate performance in South African firms, focusing on liquidity and profitability metrics.

6. RESEARCH METHODOLOGY

The study is based on secondary data collected from TNPL’s annual reports, financial statements, and industry publications. Analytical tools such as ratio analysis, trend analysis, and comparative analysis are used to evaluate the company’s working capital management practices. The findings are interpreted to provide actionable insights and recommendations.

7. FINIDING AND RECOMMENDATIONS

- The numerical data discloses that in the five years Current ratio 0.7 from 2018-2019 to 2020-2021. However there`s a slight decrease in 2021-2022 to 0.5 and a subsequent increase to 0.6 in 2022-2023. This indicate some fluctuations in liquidity position over the year.

- The liquid ratio is 0.3 from 2018-2019 to 2020-2021. However, there`s significant increase in 2021-2022 to 2.7, followed by notable decrease to 0.2 in 2022-2023. This indicates significant fluctuations in liquidity position over the years.
- The networking capital ratio is - 0.2 in the year 2019-2020 it has been maintains the same value of -0.2 in the year 2020-2021 it has been decreased by -0.3 in the year 2021-2022 indicating a relatively larger deficit in networking capital compared to net sales, potentially signaling increased financial strain. 2022-2023 the ratio returns to -0.2 similar to previous year, but still indicating insufficient networking capital relative to net sales.
- The cash turnover ratio is 787.0 in the year 2019-2020 it has increase by indicating robust cash utilization efficiency. But dropped significantly in 2022-2023 to 45.2, suggesting a decrease in the efficiency of cash utilization or change in business operation.
- The net profit ratio in 2018-2019, it was 5.6 indicating a healthy profit margin. However, it dropped significantly in the following years, even turning negative in 2020-2021. There was a slight recovery in the most recent year, reaching 0.1 in 2022-2023.
- The working capital showed a negative trend from 2018-2019 to 2022-2023 indicating potential financial strain and challenges in meeting short term obligation throughout this period. This suggests the company may have faced difficulties in managing its current asset and liabilities efficiently, which could impact its overall financial health and operational performance.
- Improve current ratio above 1 by boosting current assets and refinancing short-term liabilities.
- Reduce short-term debts and enhance inventory turnover to improve working capital position.
- Restructure liabilities and build cash reserves to better meet short-term obligations.

8. CONCLUSION:

TNPL has demonstrated strong financial performance, operational efficiency, and a commitment to sustainability, making it a key player in the paper manufacturing industry. To ensure long-term growth, the company must focus on technological advancements, market expansion, and financial optimization. Strengthening customer engagement, employee development, and strategic partnerships will enhance TNPL's competitiveness and brand value. By continuously investing in research and development, sustainability, and digital transformation, TNPL can maintain its leadership position in the industry while adapting to evolving market demands and environmental challenges.

9. REFERENCES:

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