

A Study on Working Capital Management and Its Impact on Profitability of Sri Lakshmi Auto Enterprises India Pvt. Ltd.

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DOI: <https://doi.org/10.5281/zenodo.19681476>

Published Date: 21-April-2026

Abstract: Working capital management plays a crucial role in ensuring the financial efficiency and profitability of business organizations by maintaining an optimal balance between current assets and current liabilities. The present study focuses on analyzing working capital management practices and their impact on profitability with special reference to Sri Lakshmi Auto Enterprises India Pvt. Ltd. The primary objective of the study is to examine how effectively the organization manages its working capital components such as cash, receivables, inventory, and payables, and how these practices influence its profitability. The study is based on primary data collected from 385 respondents using a structured questionnaire and employs descriptive statistical tools such as percentage analysis and mean score analysis. The findings reveal that the organization maintains a satisfactory level of working capital management practices, particularly in cash management, payables management, and credit policy implementation. However, certain areas such as inventory management and receivables collection require further improvement.

The profitability impact analysis indicates a strong positive relationship between efficient working capital management and profitability. Respondents strongly agree that timely receivables collection, reduced inventory holding costs, and effective cash and payables management significantly enhance profit margins. The overall results confirm that better working capital management leads to improved liquidity, operational efficiency, and profitability. The study concludes that Sri Lakshmi Auto Enterprises India Pvt. Ltd. can further strengthen its financial performance by optimizing its working capital components. Effective management of working capital not only improves profitability but also ensures long-term financial stability and sustainability in a competitive business environment.

Keywords: Working Capital Management, Profitability, Cash Management, Receivables Management, Inventory Management, Payables Management, Liquidity, Financial Performance, Cash Conversion Cycle, Auto Enterprises.

1. INTRODUCTION

1.1 Introduction:

Working Capital Management refers to the process of planning, organizing, and controlling a firm's current assets and current liabilities in an efficient manner to ensure smooth day-to-day business operations. It focuses on maintaining an optimal balance between liquidity and profitability, so that the organization can meet its short-term obligations while also maximizing returns on its investments. Working capital is the difference between current assets such as cash, accounts receivable, and inventory, and current liabilities such as accounts payable and short-term borrowings. Efficient working

capital management is essential for the financial health of a business, as it directly influences operational efficiency, liquidity position, and overall profitability. If a firm maintains excessive working capital, it may lead to underutilization of resources and lower profitability. On the other hand, inadequate working capital may result in liquidity problems, inability to meet short-term obligations, and disruptions in production and sales activities.

The main components of working capital management include cash management, inventory management, receivables management, and payables management. Each of these components plays a crucial role in ensuring that the business operates smoothly without financial constraints. Effective cash management ensures availability of funds for daily expenses, inventory management avoids overstocking or stock outs, receivables management ensures timely collection from customers, and payables management helps maintain good relationships with suppliers while optimizing cash outflows. In modern business environments, working capital management has become more critical due to increasing competition, fluctuating market conditions, and rising operational costs. Organizations are increasingly adopting advanced financial tools and techniques to optimize working capital and improve financial performance. Therefore, effective working capital management is considered a key determinant of profitability, liquidity, and long-term sustainability of a business enterprise.

1.2 Review of Literature:

Alcaraz-Ochoa, Avilés-Ochoa & León-Castro (2026) this systematic literature review analyzed studies on working capital management and corporate profitability using data from Scopus and Web of Science. The study found that most empirical research confirms a negative relationship between the cash conversion cycle and profitability, indicating that firms can enhance profits by efficiently managing receivables, inventory, and payables. The review also highlighted methodological differences across studies and emphasized the importance of optimal working capital levels for financial performance.

Pratap (2023) this study reviewed global research from 1960 to 2021 and concluded that efficient management of working capital components significantly improves firm profitability. The review emphasized that the cash conversion cycle is the most widely used measure of working capital efficiency and consistently shows a strong link with financial performance across industries.

Díaz Ortega et al. (2025) this bibliometric analysis examined 501 research articles on working capital and profitability. The study found that India is one of the leading contributors in this research area and that the main themes include profitability, liquidity management, and cash conversion cycle. The review concluded that research in this field is increasingly focused on optimizing financial decision-making through working capital efficiency.

1.3 Objective of the Study:

The Main objective of the study is to analyse the Working Capital Management and Its Impact on Profitability of Sri Lakshmi Auto Enterprises India Pvt. Ltd.

1.4 Research Methodology:

Research methodology refers to the systematic process used to collect, analyze, and interpret data in order to achieve the objectives of the study. It provides a clear framework for conducting the research in a structured and scientific manner. The present study on “**Working Capital Management and Its Impact on Profitability of Sri Lakshmi Auto Enterprises India Pvt. Ltd.**” adopts a well-defined methodology to ensure accuracy and reliability of findings.

Research Design

The study is based on a **descriptive research design**, as it aims to describe the existing working capital management practices and analyze their impact on profitability. This design helps in understanding the current financial practices of the organization without manipulating any variables.

Sources of Data

The study uses both:

- **Primary Data:** Collected through a structured questionnaire distributed to employees and financial personnel of Sri Lakshmi Auto Enterprises India Pvt. Ltd.
- **Secondary Data:** Collected from company reports, journals, articles, books, and relevant websites.

Sample Size

The sample size of the study is **385 respondents**, selected from different departments of the organization to ensure a comprehensive understanding of working capital practices.

Sampling Technique

The study adopts a **convenience sampling technique**, where respondents are selected based on their availability and willingness to participate in the survey.

Data Collection Instrument:

A structured questionnaire with a 5-point Likert scale (Strongly Agree to Strongly Disagree) is used to collect responses related to working capital management practices and profitability impact.

Tools for Analysis

The collected data is analyzed using:

- Percentage Analysis
- Mean Score Analysis
- Descriptive Statistics

1.5 Data Analysis and Interpretation:

Table 1.1 Demographic Profile of the Respondents

Particulars	Category	Frequency	Percentage (%)
Years of Experience	Below 2 years	82	21.30
	2–5 years	128	33.20
	5–10 years	110	28.60
	Above 10 years	65	16.90
	Total	385	100
Educational Qualification	Diploma	58	15.10
	Undergraduate	142	36.90
	Postgraduate	125	32.50
	Professional (CA/ICWA/MBA)	60	15.60
	Total	385	100

Source: Primary Data

The table shows that most respondents (33.2%) belong to the 2–5 years experience group, indicating a moderately experienced workforce within Sri Lakshmi Auto Enterprises India Pvt. Ltd. Similarly, the educational qualification analysis reveals that the majority of employees are undergraduates (36.9%) and postgraduates (32.5%), suggesting a well-educated workforce. The presence of professional qualifications (15.6%) further strengthens the financial and managerial capability of the organization. Overall, the results indicate that the company has a balanced mix of experience and educational qualifications, which is essential for effective working capital management and improved profitability.

Table 1.2 Working Capital Management Practices

Statements	Mean Score	Rank
The company maintains adequate working capital for daily operations.	4.12	1
Cash management is effectively monitored in the organization.	4.05	2
Receivables are collected within the stipulated credit period.	3.89	5
Inventory is managed efficiently without overstocking or shortage.	3.78	6
The company follows a proper credit policy for customers.	3.95	4
Payables are managed in a way that maintains good supplier relationships.	4.08	3

Source: Primary Data

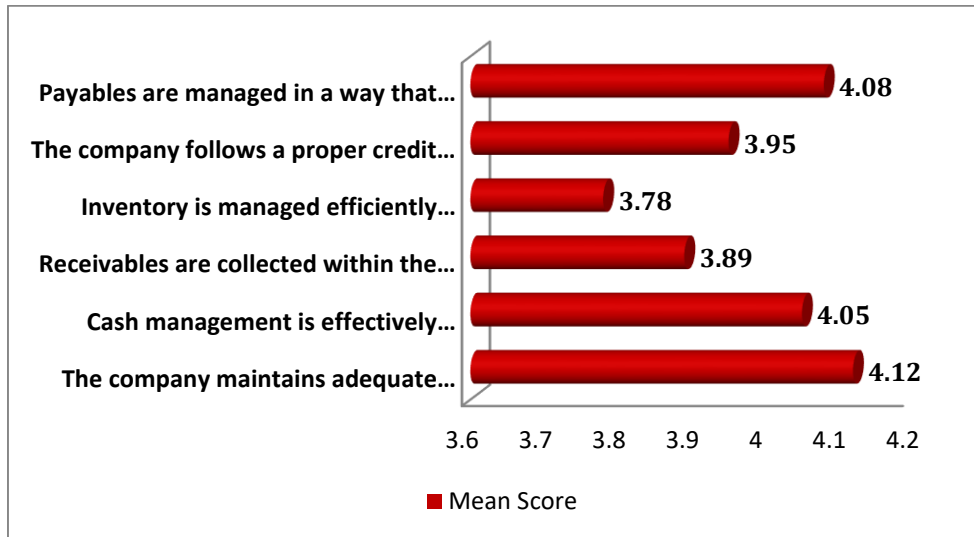


Figure 1.1 Working Capital Management Practices

The mean score analysis of working capital management practices indicates that all the statements fall under the “Agree” category, showing that respondents have a positive perception of working capital management in Sri Lakshmi Auto Enterprises India Pvt. Ltd. The highest mean score (4.12) is observed for the statement that the company maintains adequate working capital for daily operations, indicating strong liquidity management in the organization. This is followed by payables management (4.08) and cash management (4.05), which suggests that the company efficiently manages its short-term obligations and cash flows. Receivables management (3.89) and credit policy (3.95) also show satisfactory performance, indicating that credit and collection processes are reasonably effective, though there is still scope for improvement. Inventory management records the lowest mean score (3.78), suggesting that inventory control is relatively weaker compared to other components and may require better optimization to avoid overstocking or stock shortages. Overall, the weighted mean score of 3.98 indicates that the company maintains **good working capital management practices**, which positively supports operational efficiency and contributes to profitability, although minor improvements in inventory and receivables management can further strengthen financial performance.

Table 1.3 Mean Score Analysis of Working Capital Management Practices

Statements	Mean Score	Mean Score Rank
Efficient working capital management improves profitability.	4.21	1
Reduction in inventory holding cost increases profit margins.	4.06	3
Faster receivables collection positively impacts profitability.	4.18	2
Delay in payables affects business profitability negatively.	3.97	4

Source: Primary Data

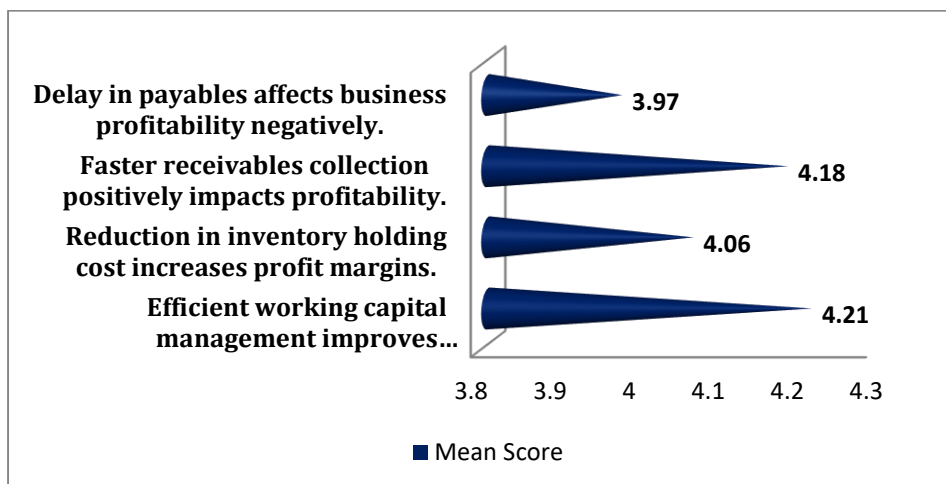


Figure 1.2 Working Capital Management Practices

The mean score analysis of profitability impact indicates that respondents strongly acknowledge the relationship between working capital management and profitability in Sri Lakshmi Auto Enterprises India Pvt. Ltd. The highest mean score of 4.21 is observed for the statement that efficient working capital management improves profitability, indicating a strong consensus that proper management of current assets and liabilities directly enhances financial performance.

The statement relating to faster receivables collection also records a high mean score of 4.18, suggesting that timely collection of receivables significantly contributes to improved cash flow and profitability. Similarly, reduction in inventory holding cost (4.06) shows that efficient inventory management positively influences profit margins by reducing unnecessary storage and carrying costs.

The statement regarding delay in payables affecting profitability shows a mean score of 3.97, which still falls under the agreement level. This indicates that respondents recognize that inefficient payables management can negatively impact financial stability and profitability due to possible penalties, loss of supplier trust, or missed discounts.

Overall, the weighted mean score of 4.10 reflects a **strong positive perception** that effective working capital management has a direct and significant impact on profitability. This confirms that improving liquidity management practices can enhance the financial performance of the organization.

2. CONCLUSION

The present study on **Working Capital Management and Its Impact on Profitability of Sri Lakshmi Auto Enterprises India Pvt. Ltd.** reveals that working capital management plays a vital role in ensuring the financial efficiency and profitability of the organization. The findings of the study clearly indicate that the company maintains a satisfactory level of working capital management practices, particularly in cash management, payables management, and credit policy implementation. The analysis also shows that efficient management of working capital components such as receivables, inventory, and cash directly contributes to improved profitability. Respondents strongly agree that faster receivables collection, reduced inventory holding costs, and effective control of cash and payables enhance the overall profit margins of the organization. However, the study also identifies certain areas that require improvement, especially in inventory management and receivables collection efficiency. Overall, it can be concluded that there exists a strong positive relationship between working capital management and profitability. Effective working capital management not only ensures smooth day-to-day operations but also strengthens liquidity and financial stability. Therefore, by further optimizing its working capital practices, Sri Lakshmi Auto Enterprises India Pvt. Ltd. can enhance its profitability and achieve long-term sustainable growth in a competitive business environment.

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