

The Impact of Working Capital Management on The Profitability: An Observational Research of Mahindra & Mahindra

OPEN ACCESS

Volume: 13

Special Issue: 1

Month: March

Year: 2025

E-ISSN: 2582-6190

Citation:

Priya, G. "The Impact of Working Capital Management on The Profitability: An Observational Research of Mahindra & Mahindra." *ComFin Research*, vol. 13, no. S1-i2, 2025, pp. 31–36.

DOI:

<https://doi.org/10.34293/commerce.v13iS1-i2.8729>

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Abstract

The impact of working capital administration on the benefit of Mahindra & Mahindra, a Major car producer in India. Capable administration of working capital is viable for keeping up asset optimization and budgetary quality, especially in an amazingly competitive showcase. This investigate is based on auxiliary information and the desired data has been from the annually money related reports of the chosen company. The inquire about applying a quantitative strategy to analyzing the budgetary data from the past five year information. The investigate concentration on current proportion, stock turnover and normal receivable collection period. This inquire about finding that chosen company with viable working capital administration effectively related with the expanded benefit edges, by the driving to progress return on resource (ROA) and benefit edge proportion. Net working capital administration performing an basic portion in M&M, money related strategies upgrades the liquidity and creating a money related execution. Recommendation for the moving forward working capital administration to support the kept up to benefit within the creating vehicle businesses.

Keywords: Automobile Industry, Profitability, Working Capital Management, Ratio, Strategy.

Introduction

The Indian car industry is one of the greatest businesses in India. The Indian car segment analyzed a one of the supporters the financial development of India. This segment advanced as a dawn division within the India. Within the display day vehicle divisions requires a sound of working capital to obtain keeping up both cash flow and profit. As India's best player within the car company is M&M. this company's valuation of presently a day differing challenges and worth able capacities, highlighting emphasize esteem of vital monetary execution. A company's execution proficiency and money related security are expeditiously affected the working capital administration which is the variety between current asset and current liabilities. Over the past few a long time the car segment features a fast development, grasping changes in shopper buying designs, expanding in taken a toll of crude fabric and

overwhelming competition. These components are accentuation on working capital methodology. In this inquire about M&M Company's assessing working capital administration can working on to showcase flow, there by creating their generally budgetary methodology.

Review of Literature

Vaishnavi vakudre(2021)has done the ponder to degree that affect of working capital to relate that inner variables of working cash stream development with the industry level of financial development and movement. The result concluded the car company productivity related with the working capitaladministration.

Awalakkimanjunath(2020)In their consider analyzing the affect of working capital organization on the car industry, investigators found that distinctive components related to working capital organization influence firm execution, progress shareholder regard, and contribute to extended efficiency.

Vishal vyas(2020)The consider studied and concluded that working capital organization in vehicle companies is influenced by the relationship between current assets and current liabilities. The revelations highlight the centrality of finishing an perfect alter among working capital components to overhaul the budgetary capability of vehicle firms.

Scope of the Study

The show ponder centers on the affect of working capital administration on the benefit of Mahindra & Mahindra, one of India's biggest vehicle companies. This investigate assesses key angles of working capital administration, counting stock control, exchange receivables, and cash stream administration, over the ponder period.

Statement of Problem

Management of profitability is evaluating to relate the significant challenges focuses on the working capital management. Ineffective stock m management can face to either over stock,heavy holding cost, inadequate inventory and loss of sales. Outstanding the good value is imperative to for achieving process efficiency and financial strength.

Cash flow issues related to the late trading receivable, which can interfere with the company's capability to investment wealth and adapt to market needs. Mahindra & Mahindra automobile company faced on continues to average receivable period can limited liquidity, evaluating challenges for financial needs and keep operations running smoothly.

Cash flow management is a very important role in automobile industries. Return on Asset and Net profit margins with restrict on how to working capital factors impact on profitability, M&M liability reduces lagging of market guideline. The main focus on this study challenges by researching the interaction between working capital and profitability of M&M.

Objectives of the Study

1. To evaluate the relationship between the working capital administration and advantage.
2. To assess the influence of working capital administration on advantage of M & M company.

Research Methodology

The study is evaluated in secondary data for the purpose calculation and approached based on yearly report. The initial sources of secondary data M&M company yearly reports and financial summary has assessed covered the financial year 2019-2020 to 2023-2024. The data includes the balance sheet, income statement and cash inflow and outflow to analysis the accounting components. The research study is evaluated by the various analytical tools using such as mean, proportion,

compound annual growth rate (CAGR), Average annual growth rate, correlation and regression analysis.

Company Profile

Indian multinational automobile producing corporation is most leading industry is Mahindra & Mahindra limited industry. This industry headquarters located in Mumbai and Maharashtra. The company was started in 1945. The producer of tractors manufacturing in the world M&M is a biggest automobile industry. It different models produces expansive and little vehicles cars. Mahindra & Mahindra may be a openly traded company recorded on both the Bombay Stock Exchange (BSE) and the National Stock Trade (NSE) underneath the ISIN INE101A01026. Working inside the car industry, the company is headquartered in Mumbai, Maharashtra, India. Set up on October 2, 1945, Mahindra & Mahindra was built up by J. C. Mahindra, K. C. Mahindra, and Malik Ghulam Muhammad. Over the a long time, the company has amplified its closeness generally, serving markets around the world. It is known for creating a distinctive run of things, tallying automobiles, commercial vehicles, tractors, and bicycles.

Data Analysis and interpretation

Table No. 1 Profitability Ratio

Year	Net Profit Ratio	Return on Networth	Return on Capital Employed	Return on Asset
2019-20	2.82	9.77	14.01	275.12
2020-21	0.58	11.48	13.2	275.48
2021-22	8.29	13.27	14.66	311.6
2022-23	7.48	18.51	20.48	346.57
2023-24	10.41	20.61	25.29	417.99
Mean	5.916	14.728	17.528	325.352
SD	4.072	4.641	5.203	59.648
CV (%)	68.84	31.51	29.69	18.33
AGR (%)	319.82	20.98	17.12	11.27
CAGR (%)	38.61	20.52	15.91	11.02

Source: Money control

The profitability ratios show a good trend over the years, with strong growth in the Net Profit Ratio, which has an AGR of 319.82% and a CAGR of 38.61%. This reflects big improvement in profitability. RONW and ROCE have also gone up steadily, showing good use of capital. ROA shows a fair increase, with a CAGR of 11.02%, pointing to better asset utilization. The CV is highest for Net Profit Ratio (68.84%), showing risk, while ROA has the lowest CV (18.33%), indicating calmness. The SD values back up this idea of variability in the ratios. On the whole, the firm's profit has gotten much better, with rising returns on investment and assets, even with some ups and downs in margins.

Table No. 2 Working Capital Ratio

YEAR	CR	QR	IT R
2019-20	1.08	0.97	13.38
2020-21	1.14	0.92	11.39

2021-22	0.96	0.76	9.76
2022-23	0.89	0.72	9.57
2023-24	1.05	0.77	10.39
Mean	1.024	0.828	10.898
SD	0.101	0.112	1.429
CV (%)	9.86	13.55	13.11
AGR (%)	-2.78	-20.62	-22.34
CAGR (%)	-0.57	-5.45	-6.66

Source: Money control

The working capital ratios, as indicated, reflect a declining trend over the years with regard to the negative values of AGR and CAGR. The Current Ratio has experienced a slight decline, registering a CAGR of -0.57%, which can be interpreted as a small decrease in liquidity. The Quick Ratio footage reflects a more significant decline at the short-term liquidity level with a CAGR of -5.45%. The Inventory Turnover Ratio (ITR) has experienced the most considerable drop (CAGR of -6.66%), implying that inventory movement is slower and will therefore affect efficiency in other regards. The coefficients of variation (CV) values are highest for the Quick Ratio at 13.55% meaning more fluctuation but Current Ratio at 9.86% is more stable. These standard deviation (SD) values therefore confirm the variability in these ratios. In general terms, the liquidity position of the company has been deteriorating and as such, there is a need for improved management of working capital to secure financial stability.

Table No. 3 Relationships Among Liquidity, Efficiency, and Profitability Ratios

		CR	QR	ITR	ROA
CR	Pearson’s Coefficient	1	0.825	0.701	-0.345
	Sig. (2-tailed)		0.086	0.187	0.570
QR	Pearson’s Coefficient	0.825	1	0.946*	-0.704
	Sig. (2-tailed)	0.086		0.015	0.185
ITR	Pearson’s Coefficient	0.701	0.946*	1	-0.561
	Sig. (2-tailed)	0.187	0.015		0.325
ROA	Pearson’s Coefficient	-0.345	-0.704	-0.561	1
	Sig. (2-tailed)	0.570	0.185	0.325	
*. Correlation is significant at the 0.05 level (2-tailed).					

Source: Calculated

The correlation examination for Mahindra and Mahindra uncovers key connections among budgetary proportions. The current ratio (CR) and fast ratio (QR) appear a solid positive relationship (0.825), showing that both liquidity measures move within the same direction. QR too contains a noteworthy positive relationship (0.946) with the inventory turnover ratio (ITR), proposing that efficient stock administration upgrades short-term liquidity. Be that as it may, return on assets (ROA) features a negative relationship with CR (-0.345), QR (-0.704), and ITR (-0.561), suggesting that higher liquidity and stock turnover may not essentially progress productivity. The negative relationship between ROA and QR (-0.704) is moderately solid, in spite of the fact that not measurably noteworthy. Whereas a few relationships are eminent, as it were the relationship between QR and ITR is noteworthy at the 5% level. Generally, the investigation proposes a trade-off between liquidity and productivity in Mahindra and Mahindra’s budgetary execution.

Table No. 4 Regression Analysis

Variables	Coefficient	't' value	Sig
(Constant)	361.611	3.740	0.166
CR	725.547	4.150	0.151
QR	-1896.080	-5.469	0.115
ITR	72.558	3.744	0.166
R	989		
R2	978		
Adjusted R Square	912		
F Value	14.82		

Source: Calculated

The regression analysis for Mahindra & Mahindra demonstrates a strong association between the independent variables (Current Ratio, Quick Ratio, and Inventory Turnover Ratio) and the dependent variable. The R^2 value of 0.978 indicates that 97.8% of the variations in the dependent variable are accounted for by these predictors. The Current Ratio has a positive coefficient (725.547), suggesting a direct relationship, though its statistical insignificance ($p = 0.151$) weakens its impact. The Quick Ratio exhibits a negative coefficient (-1896.080), implying an inverse effect, but with a p -value of 0.115, its reliability is limited. Similarly, the Inventory Turnover Ratio shows a minor positive effect (72.558), but its statistical insignificance ($p = 0.166$) diminishes its predictive strength. The overall model's high F -value (14.82) supports its validity, yet the individual predictors do not significantly influence the dependent variable at a meaningful level.

Findings

1. The profitability ratios exhibit substantial growth, particularly the Net Profit Ratio, but show high variability, indicating potential risk.
2. Liquidity ratios, including the Current and Quick Ratios, have declined over time, signaling weaker short-term financial health.
3. The Inventory Turnover Ratio has consistently decreased, reflecting inefficiencies in inventory management and slower stock movement.
4. Correlation analysis highlights a trade-off between liquidity and profitability, where higher liquidity does not necessarily improve return on assets.
5. Regression results suggest that while liquidity and inventory turnover impact financial performance, their individual significance remains weak.

Suggestions

1. Strengthen cost management strategies to sustain profitability while mitigating financial risk.
2. Improve working capital efficiency by optimizing inventory management and maintaining balanced liquidity.
3. Implement strategic policies to enhance short-term financial stability without compromising overall profitability.
4. Focus on efficient asset utilization to improve return on assets while maintaining liquidity.
5. Conduct further analysis to refine financial decision-making and identify key drivers of performance improvement.

Conclusion

The financial assessment of Mahindra & Mahindra highlights notable profitability improvements, though liquidity constraints persist. Declining working capital ratios indicate a need for enhanced financial prudence and operational efficiency. The correlation findings reveal a delicate equilibrium between liquidity and profitability, necessitating strategic balance. Regression results suggest that while financial indicators influence performance, their individual predictive power remains limited. Strengthening financial controls and optimizing resource allocation will be crucial for long-term sustainability and growth.

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