IMPACT OF LIQUIDITY AND WORKING CAPITAL MANAGEMENT ON PROFITABILITY: EVIDENCE FROM INDIAN FMCG AND MANUFACTURING COMPANIES

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ABSTRACT

The main aim of this paper is to identify the impact of liquidity ratios and the components of working capital management on the profitability measures of Indian companies. The study has been performed for thirty FMCG and thirty manufacturing companies listed under NSE and BSE. The study duration is for a period of ten years (2009-2019). The techniques used for the analysis are scatter plot, Pearson correlation, descriptive statistics, panel data regression analysis and fixed effects model. The paper analyses both within and between variation among the selected companies. It also highlights the difference in the behavior of the two study groups.

The results suggest that the factors affecting the profitability of the FMCG companies are quite contrary to that of the manufacturing companies. In case of FMCG companies Debtors Conversion Period , Cash Conversion Period and Cash Conversion Cycle are the most influential factors affecting the profitability whereas for manufacturing companies Inventory Conversion Period and Cash Conversion Cycle are most influential. Similarly, the liquidity measures i.e Current Ratio, Quick Ratio and Inventory Turnover Ratio have no impact on the profitability measure of FMCG companies but are highly significant for the manufacturing companies. Indicating that there is a dire need for the manufacturing companies to maintain a certain level of liquidity in order to enhance its profits.

Jel Codes: A12, C12, C33, G31, G33

Keywords: Working Capital Management, Profitability, Operating Cycle, Liquidity, Correlation.