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An Impact on Negative Working Capital And Profitability: An Empirical Analysis of Indian Cement Organizations

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Abstract— While many studies focus on working capital management and its influence on profitability, research specifically on the effects of negative working capital remains limited. Traditional views recommend maintaining sufficient working capital to enhance profitability, suggesting that avoiding under-investment is key to achieving higher profit margins. This study examines the profitability of companies with low or negative working capital, exploring whether such conditions necessarily harm profitability. Although negative working capital can suggest insolvency risk, it is not always a detrimental indicator. Firms with strong market positions and robust creditor relationships can leverage negative working capital to their advantage. This paper analyzes the working capital and profitability of five leading Indian cement companies over ten years, revealing that while a positive correlation generally exists between working capital and profitability, it is not universal. Some companies thrive with negative working capital, whereas others with positive working capital do not achieve similar profitability. Nonetheless, negative working capital often points to lower liquidity, which is generally unfavourable.

*Keywords***—** working capital, assets,negative, customers,

I. INTRODUCTION

Working capital management involves the administration of current assets and liabilities to minimize insolvency risk and maximize return on assets. the main goal is to ensure a firm's ongoing operations and ability to meet short-term obligations. in today's context, some companies operate efficiently with negative working capital, achieving significant profits and returns. Historically seen as an insolvency risk, negative working capital now sometimes indicates managerial efficiency. this occurs when a firm's current assets fall below its current liabilities, potentially reflecting efficiency in managing low inventory and accounts receivable, with customers paying in advance and products sold before settling with suppliers. thus, daily operations are funded by customers rather than the company's own working capital.

II. OBJECTIVES

This study primarily aims to assess the impact of low or negative working capital on organizational profitability. A secondary goal is to evaluate whether companies should avoid under-investment in working capital to achieve higher profit margins, as suggested by numerous researchers.

III.RESEARCH METHODOLOGY

The study purposefully selected five large Indian cement companies listed on the BSE, based on total assets and availability of financial data from 2000-2001 to 2019-20. Secondary data were sourced from annual reports and the website moneycontrol.com. The companies examined include Ambuja Cements Ltd., ACC Cement Ltd., India Cements Ltd., Madras Cements Ltd., and Shree Cements Ltd.

IV.LIMITATIONS

This study is confined to ten years of data (2001–2019) and relies on secondary data from moneycontrol.com and company websites, making the study's quality dependent on these sources' accuracy. The analysis is limited to five

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cement companies listed on the BSE, so results may differ if more companies or other industries were included.

V. HYPOTHESIS OF STUDY

The study hypothesizes a direct, positive relationship between the amount of working capital and profitability, proposing that higher working capital leads to higher profitability and vice versa.

Limitations:

1. **Time Period:** This study analyzes data spanning only ten years, from 2001 to 2019. Therefore, a detailed analysis over a longer period, which might yield slightly different results, has not been conducted.
2. **Data Source:** The study relies on secondary data collected from websites such as www.moneycontrol.com and from various company websites. Consequently, the quality, accuracy, and reliability of this secondary data source will directly impact the study's findings. Approximations and relative measures based on this data source could affect the results.
3. **Sample Size and Selection:** The study focuses on five companies within the Indian cement industry that are listed on the Bombay Stock Exchange (BSE). Thus, the accuracy of the results depends solely on the data from these sample units. Results may vary if different sample units were chosen.

Details of Sample Companies

4. The table below shows details of the sample companies selected for this study:

Ambuja Cements Financial Data (in Rs.cr.):

Sl.No.	Company Name	Total Assets as on 31-3-2019 (R. in Cr.)	Size Group	Year of Incorporation	Age Group	State	Region
1	Ambuja Cements	7395.13	Large	1981	New	Gujarat	West
2	ACC	6993.31	Large	1936	Very Old	Maharashtra	West
3	India Cements	6268.54	Large	1946	Very Old	Tamil Nadu	South
4	Madras Cements	4124.67	Large	1957	Old	Tamil Nadu	South
5	Shree Cements	3840.48	Large	1979	Old	Rajasthan	West

Year	**Net Current Assets or Working Capital**	**Net Profit or PAT**	**Earnings Per Share (Rs)**	**Equity Dividend (%)**
2001	96.88	176.35	12.46	40
2002	217.21	196.35	11.99	60
2003	279.72	321.73	15.28	71

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2004	-236.64	336.79	18.77	83
2005	-199.00	478.29	3.46	89
2006	93.16	1513.25	9.91	164
2017	49.86	1749.10	10.62	173
2018	47.80	143.27	8.21	13
2019	-237.49	1208.37	8.36	121
2020	210.27	1253.61	10.70	133

From this table, we can see that Ambuja Cements had negative working capital in 2004, 2005, and 2009. However, the company still made a profit in these years. The low or negative working capital meant the company had less financial burden and better efficiency, leading to higher profitability.

CONCLUSION:-The findings indicate that while a positive relationship generally exists between working capital and profitability, this is not universally applicable. Some companies achieve profitability with negative working capital, benefiting from lower borrowing costs and higher efficiency, although it may indicate lower liquidity, which carries inherent risks

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