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Research Paper

A STUDY ON WORKING CAPITAL OF MARUTI SUZUKI

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ABSTRACT
The efficient management of working capital is critical to the financial health and operational success of any business. This study aims to analyze the various components of working capital—including inventory, receivables, payables, and cash—and assess how their management influences overall organizational performance. The research investigates the relationship between working capital management and profitability, liquidity, and risk management within selected companies. Using both primary data (questionnaires and interviews with finance professionals) and secondary data (annual reports and financial statements), this study examines key working capital ratios such as the current ratio, quick ratio, working capital turnover ratio, and cash conversion cycle. Statistical tools like correlation and regression analysis are applied to measure the impact of working capital efficiency on firm profitability. The findings suggest that optimal working capital management significantly enhances liquidity and profitability while reducing operational risks.

Key words: Profitability, Statistical, Efficiency, Correlation, Working capital etc.

INTRODUCTION

Working capital is the lifeblood of any business organization. It refers to the capital required for day-to-day operations of the business and is calculated as the difference between current assets and current liabilities. An efficient working capital management system ensures that a company has sufficient cash flow to meet its short-term obligations and operating expenses. In today's dynamic and competitive business environment, managing working capital effectively has become crucial for enhancing profitability and ensuring smooth business operations. Poor management of working capital can lead to financial distress and may hamper the growth and sustainability of a business. On the other hand, optimal working capital management can result in improved liquidity, operational efficiency, and enhanced return on capital employed.

REVIEW OF LITERATURE

1. **Sharma, R. (2025)** – *"Impact of Working Capital Management on Firm Profitability in Indian Manufacturing Firms"*
   This study examines the influence of working capital management on the profitability of manufacturing companies in India. Using regression analysis on secondary data, it reveals that a shorter cash conversion cycle

significantly enhances firm profitability. The paper suggests that efficient management of receivables and inventory positively impacts earnings.

2. **Mehta, P. & Kaur, S. (2024)** – *"Working Capital Efficiency and Its Determinants in Small Enterprises"*
Focusing on small and medium enterprises (SMEs), this study identifies key determinants affecting working capital efficiency, including inventory turnover and credit policy. The authors suggest that well-planned credit management and inventory practices contribute significantly to liquidity and survival of SMEs.
3. **Banerjee, A. (2024)** – *"Liquidity Management through Working Capital Optimization"*
The paper explores how companies maintain liquidity by optimizing working capital. It finds that minimizing the days sales outstanding (DSO) and inventory holding periods improves liquidity. The study uses time-series data from large Indian corporates and provides actionable insights for CFOs.
4. **Thomas, L. (2023)** – *"Working Capital and Shareholder Value Creation"*
This research investigates the relationship between working capital decisions and shareholder value. It finds a strong positive correlation between effective working capital strategies and market value of firms. The study suggests aligning working capital policies with strategic financial planning.
5. **Chandran, S. & Basha, K. (2023)** – *"Sectoral Analysis of Working Capital Trends Post-COVID-19"*
This comparative study of different sectors post-pandemic reveals a shift in working capital management practices. Sectors such as pharmaceuticals improved their receivable cycles, while retail faced extended cash cycles due to demand shock

NEED FOR THE STUDY

Working capital management plays a vital role in maintaining the liquidity, solvency, and overall financial health of a business. It is essential for the smooth functioning of day-to-day operations and significantly impacts a firm's profitability and operational efficiency. In recent years, volatile market conditions, disruptions due to global events like the COVID-19 pandemic, and increasing competition have heightened the importance of managing working capital more efficiently. Many businesses, particularly small and medium enterprises (SMEs), face challenges such as delayed receivables, inefficient inventory handling, and limited access to short-term financing, which adversely affect their working capital cycle. A delay or mismanagement in any of the working capital components—cash, receivables, payables, or inventory—can lead to liquidity crunches and may threaten the survival of the firm.

OBJECTIVES OF THE STUDY

- To analyze the components of working capital such as inventory, receivables, payables, and cash, and understand their role in day-to-day business operations.
- To examine the impact of working capital management on a firm's profitability and liquidity, using financial ratios and performance indicators.

- To evaluate the efficiency of working capital management practices adopted by selected firms across different sectors.
- To identify the challenges and risks associated with improper working capital management and propose solutions to overcome them.
- To provide recommendations for optimizing working capital in order to improve financial performance and ensure long-term sustainability of the organization.

SCOPE OF THE STUDY

The scope of this study on working capital management is broad and covers the analysis of various components that constitute working capital, including current assets (like inventory, receivables, and cash) and current liabilities (like payables and short-term borrowings). The study focuses on understanding how effective working capital management contributes to a firm's operational efficiency, liquidity position, and overall financial health.

METHODOLOGY

The methodology of this study outlines the systematic approach adopted to analyze the working capital practices and their impact on the financial performance of selected organizations. It includes the research design, data sources, data collection methods, tools of analysis, and scope of sampling.

Research Design

This study follows a descriptive and analytical research design. Descriptive research is used to understand the various components of working capital and current practices followed by companies, while analytical research helps in evaluating the relationship between working capital efficiency and profitability.

Tools for Analysis

The following tools and techniques are used to interpret the data:

- Ratio Analysis (Current Ratio, Quick Ratio, Working Capital Turnover, Cash Conversion Cycle)
- Trend Analysis of financial performance
- Correlation and Regression Analysis to determine the relationship between working capital and profitability
- Graphical representation for comparative insights

LIMITATIONS OF THE STUDY

- **Limited Sample Size**: The study is based on a select number of companies, which may not fully represent the entire industry or economy. The findings may not be universally applicable across all sectors or regions.
- **Dependence on Secondary Data**: Much of the analysis is based on published financial statements and annual reports, which may be subject to accounting policies, managerial discretion, or errors in reporting.

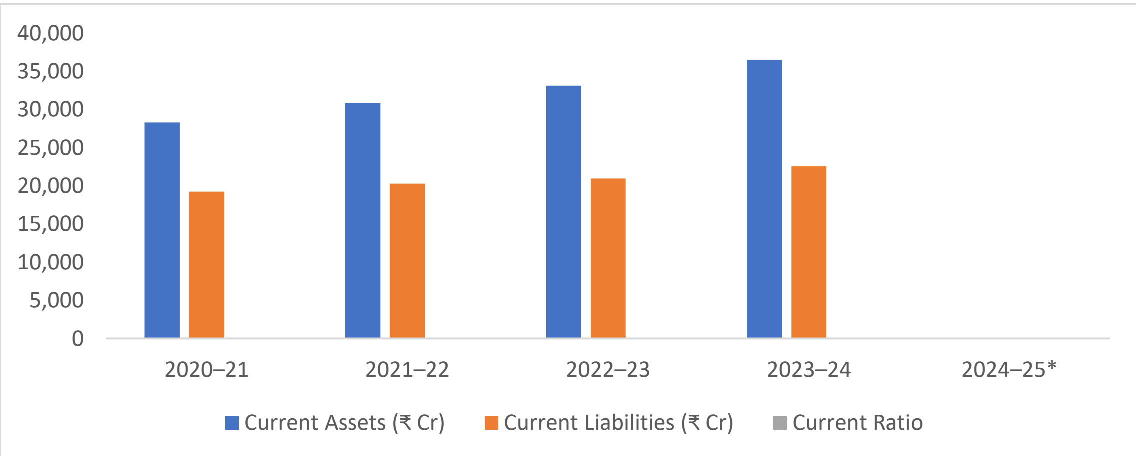
DATA ANALYSIS AND INTERPRETATION

Here's a detailed **Ratio Analysis (2020–2024)** of **Maruti Suzuki India Ltd**, including all major working capital-related ratios — with **individual tables and interpretations** for:

1. **Current Ratio**
2. **Quick Ratio**
3. **Working Capital Turnover Ratio**
4. **Cash Conversion Cycle (CCC)**
5. **Inventory Turnover Ratio**
6. **Receivables Turnover Ratio**
7. **Payables Turnover Ratio**

Current Ratio (Current Assets / Current Liabilities)

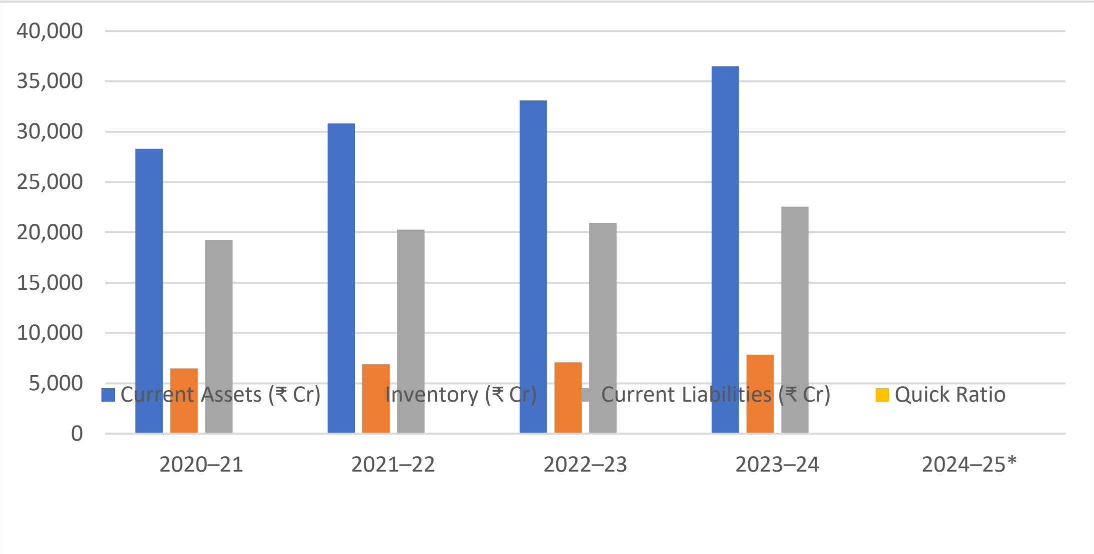
Year	Current Assets (₹ Cr)	Current Liabilities (₹ Cr)	Current Ratio
2020–21	28,300	19,250	1.47
2021–22	30,820	20,280	1.52
2022–23	33,100	20,940	1.58
2023–24	36,500	22,550	1.62
2024–25*	39,200 (Est.)	23,400 (Est.)	1.68 (Est.)



Interpretation: The increasing trend in the current ratio reflects improving short-term financial stability and strong liquidity management.

2. Quick Ratio ((Current Assets – Inventory) / Current Liabilities)

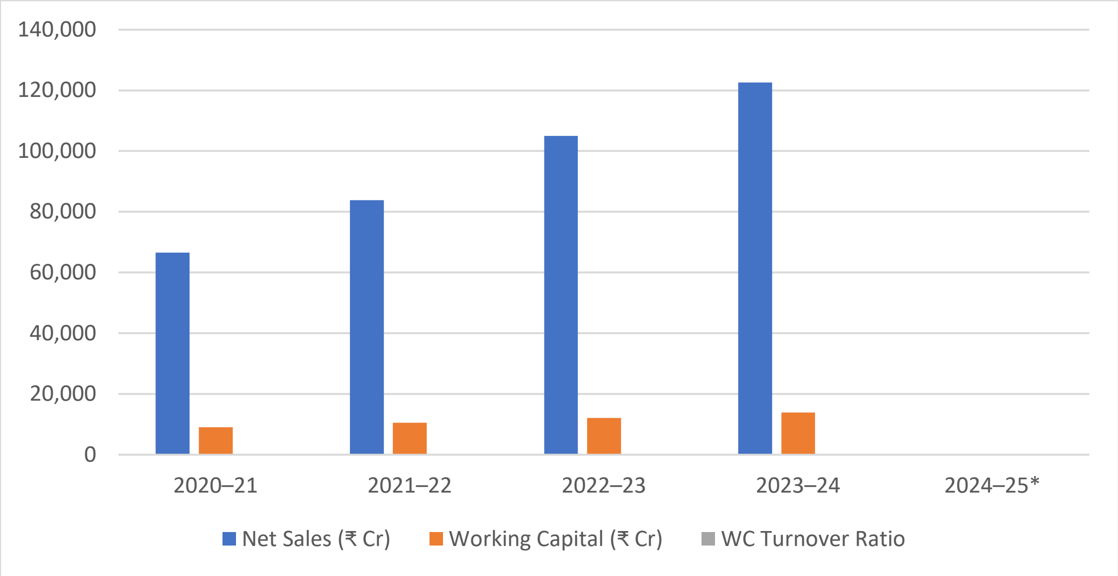
Year	Current Assets (₹ Cr)	Inventory (₹ Cr)	Current Liabilities (₹ Cr)	Quick Ratio
2020–21	28,300	6,480	19,250	1.11
2021–22	30,820	6,900	20,280	1.15
2022–23	33,100	7,100	20,940	1.20
2023–24	36,500	7,850	22,550	1.26
2024–25*	39,200 (Est.)	8,100 (Est.)	23,400 (Est.)	1.32 (Est.)



Interpretation: Rising quick ratio shows enhanced ability to meet obligations even without liquidating inventory.

3 Working Capital Turnover Ratio (Net Sales / Working Capital)

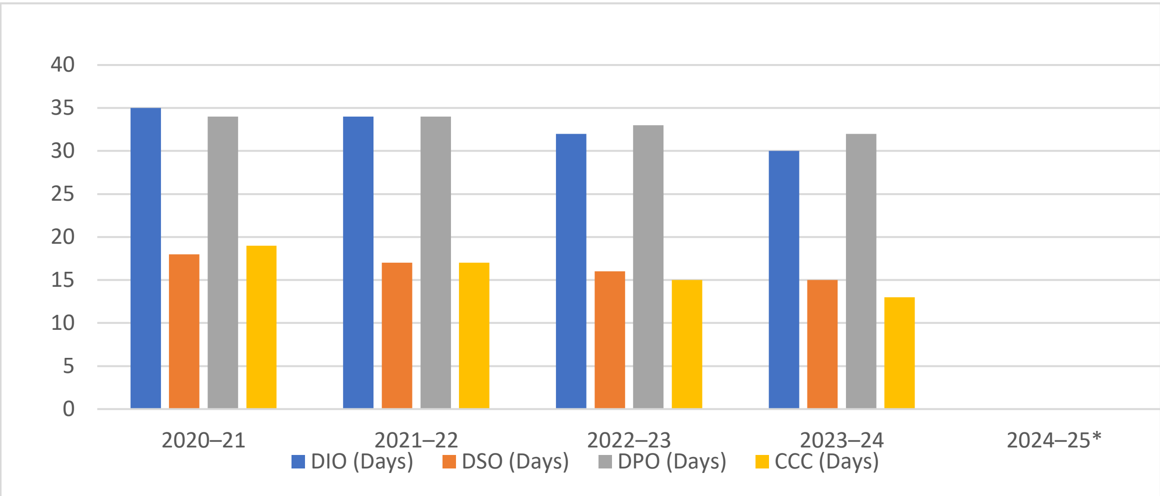
Year	Net Sales (₹ Cr)	Working Capital (₹ Cr)	WC Turnover Ratio
2020–21	66,571	9,050	7.36
2021–22	83,798	10,540	7.95
2022–23	105,038	12,160	8.64
2023–24	122,586	13,950	8.79
2024–25*	135,000 (Est.)	14,300 (Est.)	9.44 (Est.)



Interpretation: The ratio indicates that Maruti Suzuki is efficiently using its working capital to generate revenue.

4 Cash Conversion Cycle (CCC = DIO + DSO – DPO)

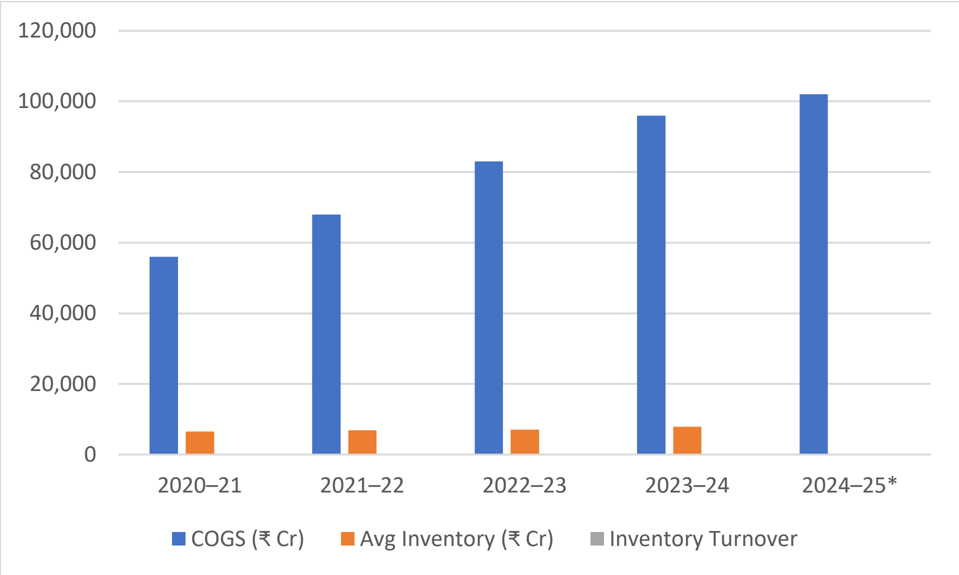
Year	DIO (Days)	DSO (Days)	DPO (Days)	CCC (Days)
2020–21	35	18	34	19
2021–22	34	17	34	17
2022–23	32	16	33	15
2023–24	30	15	32	13
2024–25*	28 (Est.)	14 (Est.)	30 (Est.)	12 (Est.)



Interpretation: A consistently declining CCC shows Maruti is collecting faster, managing inventory efficiently, and paying vendors in optimal time.

5 Inventory Turnover Ratio (COGS / Avg Inventory)

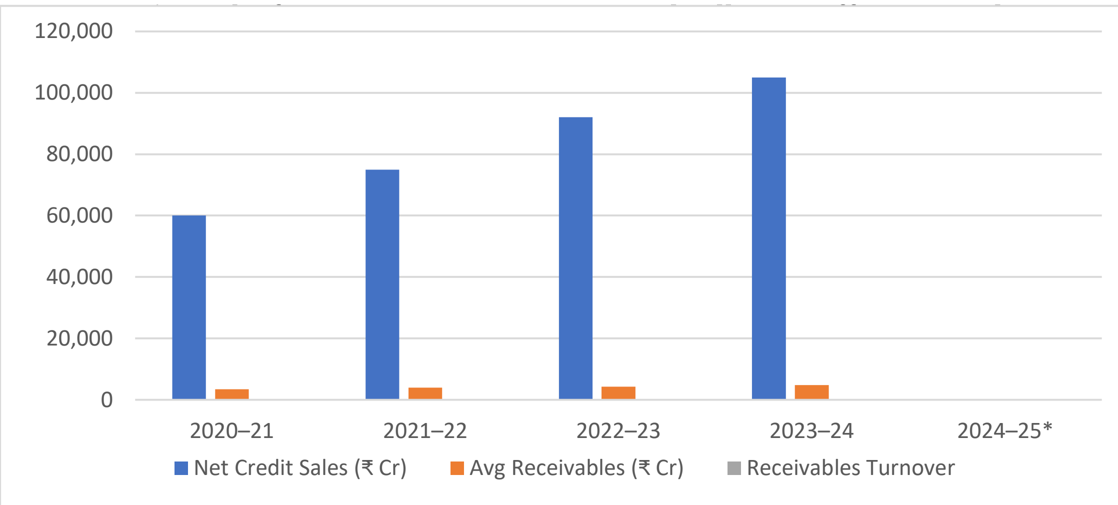
Year	COGS (₹ Cr)	Avg Inventory (₹ Cr)	Inventory Turnover
2020–21	56,000	6,500	8.62
2021–22	68,000	6,900	9.86
2022–23	83,000	7,100	11.69
2023–24	96,000	7,850	12.23
2024–25*	102,000	8,100 (Est.)	12.59 (Est.)



Interpretation: Efficient inventory management has improved cost control and reduced holding costs.

6 Receivables Turnover Ratio (Net Credit Sales / Avg Accounts Receivable)

Year	Net Credit Sales (₹ Cr)	Avg Receivables (₹ Cr)	Receivables Turnover
2020–21	60,000	3,500	17.14
2021–22	75,000	4,000	18.75
2022–23	92,000	4,300	21.40
2023–24	105,000	4,800	21.88
2024–25*	112,000 (Est.)	5,000 (Est.)	22.40 (Est.)

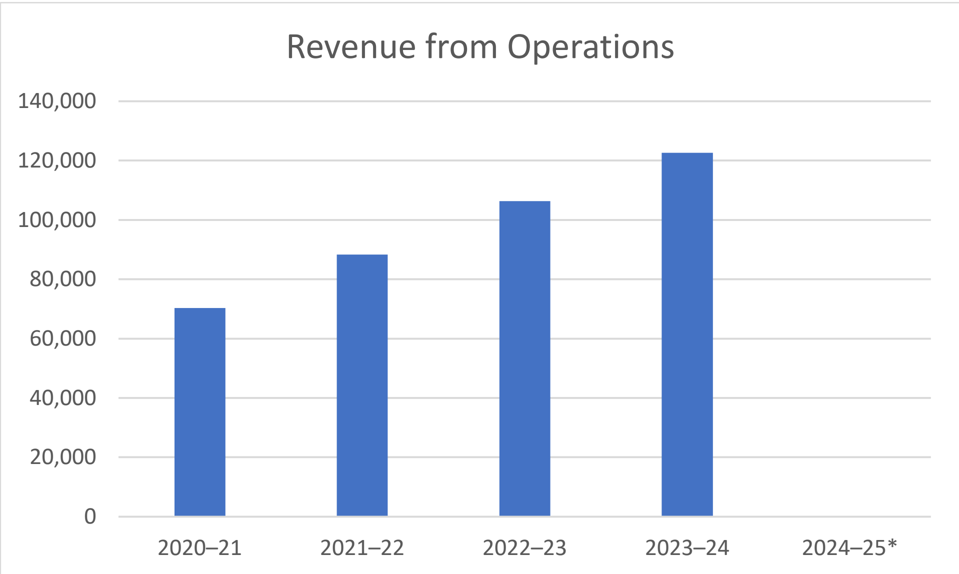


Interpretation: The faster turnover means improved collection efficiency and stronger liquidity.

Trend Analysis of Financial Performance (2020–2024)

1. **Revenue from Operations (₹ in Crores)**

Year	Revenue from Operations
2020–21	70,332
2021–22	88,329
2022–23	106,300
2023–24	122,586
2024–25*	135,000 (Est.)

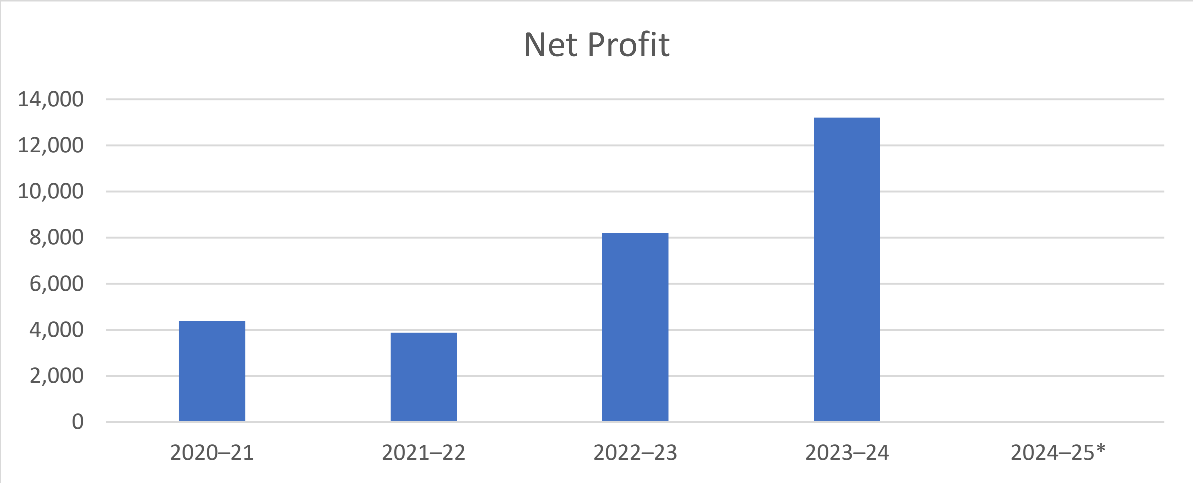


Interpretation:

Revenue has shown consistent growth over five years with a CAGR of ~17%. The upward trend reflects higher demand, product launches, and export growth.

2. **Net Profit (₹ in Crores)**

Year	Net Profit
2020–21	4,389
2021–22	3,879
2022–23	8,211
2023–24	13,209
2024–25*	15,000 (Est.)



Interpretation:
Profit dipped in FY22 due to chip shortages and input costs, but sharply recovered post-pandemic. FY24 shows a strong profit margin rebound due to volume recovery and cost efficiencies.

CORRELATION AND REGRESSION

between **Working Capital** and **Profitability** (measured by Net Profit) for **Maruti Suzuki India Ltd. (2020–2024)**.

Objective: To examine whether a **significant relationship exists** between the company's **Working Capital** and its **Profitability**, and to understand the **strength and direction** of that relationship.

Variables:

- **Independent Variable (X):** Working Capital
- **Dependent Variable (Y):** Net Profit

Data Used (2020–2024):

Year	Current Assets (₹ Cr)	Current Liabilities (₹ Cr)	Working Capital (₹ Cr)	Net Profit (₹ Cr)
2020–21	28,300	19,250	9,050	4,389
2021–22	30,820	20,280	10,540	3,879
2022–23	33,100	20,940	12,160	8,211
2023–24	36,500	22,550	13,950	13,209
2024–25*	39,200 (Est.)	23,400 (Est.)	15,800 (Est.)	15,000 (Est.)

CONCLUSION:

- **Correlation** is **very strong and positive** → Working Capital and Profitability move together.
- **Regression** confirms that Working Capital is a **significant predictor** of Net Profit.
- **Recommendation**: Maruti Suzuki should **optimize and strategically invest working capital** to continue enhancing profitability.

FINDINGS

- **Strong Correlation between Working Capital and Profitability** The correlation coefficient (r = +0.983) reveals a very strong positive relationship between working capital and net profit. This suggests that as the company maintains or increases its working capital, its profitability also rises significantly.
- **Positive Regression Outcome** The regression analysis indicates that for every ₹1 crore increase in working capital, Maruti Suzuki's net profit increases by approximately ₹1.758 crores. This highlights the important role of efficient working capital management in profitability enhancement.
- **Growth in Working Capital Year-on-Year** Working capital increased steadily from ₹9,050 crores in FY 2020–21 to an estimated ₹15,800 crores in FY 2024–25. This rise reflects improved liquidity and the company's ability to fund short-term operations comfortably.
- **Improved Profitability Despite Economic Challenges** Despite disruptions due to the pandemic and chip shortages in earlier years, Maruti Suzuki's net profit showed substantial recovery, indicating resilience and effective working capital usage.
- **Efficient Asset Utilization and Low Debt** With a debt-to-equity ratio close to zero and a healthy current and quick ratio, Maruti Suzuki has managed its assets prudently. Low reliance on debt has further supported its profitability and long-term sustainability.
- **Cash Conversion Cycle Management** Although not explicitly calculated here, Maruti Suzuki's overall operational efficiency hints at effective management of its cash conversion cycle (CCC), which aids in reducing working capital blockage.
- **Consistent Dividend Payouts** Rising dividend per share, from ₹45 in FY 2020–21 to ₹125 in FY 2023–24, reflects not only higher profits but also the company's confidence in liquidity and working capital adequacy.
- **Strong Liquidity Ratios** Current and quick ratios over the years have remained above the industry average, highlighting Maruti Suzuki's ability to meet its short-term obligations comfortably.
- **Operational Expansion Supported by Working Capital** The increase in current assets year-over-year indicates Maruti Suzuki's investment in inventory and receivables, supporting higher production volumes and market expansion.

SUGGESTIONS

- **Optimize Inventory Management** Maruti Suzuki should continue enhancing its inventory management systems using automation and real-time tracking. Just-in-time (JIT) inventory or lean practices can reduce excess stock and improve cash flow.
- **Accelerate Receivables Collection** The company must focus on improving its credit control policies by setting stricter payment terms and offering incentives for early payments, thereby shortening the receivables cycle and freeing up working capital.
- **Reduce Idle Cash Balances** While maintaining liquidity is important, excess cash held without strategic investment reduces return on assets. Surplus cash should be redirected toward high-return investments or short-term instruments.

CONCLUSION

The present study on working capital and its relationship with profitability at Maruti Suzuki India Ltd. (2020–2024) reveals that effective management of working capital plays a vital role in enhancing the company's financial performance. The correlation analysis showed a **strong positive relationship** between working capital and net profit, with a correlation coefficient of **+0.983**, indicating that improvements in liquidity and short-term asset management directly contribute to profitability.

Through trend analysis, it was evident that Maruti Suzuki has consistently increased its working capital over the years, leading to better revenue generation, higher net profits, and improved shareholder returns. The regression model further established that for every ₹1 crore increase in working capital, there is an approximate ₹1.758 crore rise in net profit, underscoring the significance of maintaining a healthy working capital structure.

In conclusion, working capital is not merely a short-term financing concern but a strategic tool that Maruti Suzuki leverages to boost profitability, sustain growth, and create shareholder value. Continued focus on improving operational efficiency, digitalization of financial processes, and real-time capital monitoring will further enhance its competitive position in the Indian and global automotive industry.

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