



IMPACT OF WORKING CAPITAL MANAGEMENT ON PROFITABILITY: INDIAN STEEL INDUSTRY

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ABSTRACT

This paper studies the impact of working capital management on the profitability of Indian Steel Industry. Study period of this paper is fourteen years i.e. 2000 to 2013. Dependent and independent variables along with control variables are used for study. The data is collected primarily from PROWESS data base of CMIE (Centre for Monitoring Indian Economy) and annual reports of Steel companies' placed on their websites. Pooled ordinary least square regression type panel data analysis has been used to see the impact of working capital management on profitability of Steel Industry. Statistical Package for Social Science 16 (SPSS), E-views and EXCEL software are used for data processing and statistical tests. Results indicate that Steel companies are generating high profits for their owners. Also increase in proportion of current assets as well as current liabilities in total assets adversely affect profitability of Steel industry.

Key Words: Working Capital Management, Profitability, Steel Industry, Indian

INTRODUCTION

Working Capital Management is an important component of financial management. It includes both current assets as well as current liabilities. The portion of current assets which have not been supplied by current and short term creditors in an organization is termed as working capital [1]. Main consideration of such analysis is to explore that at what extent Steel industry was influenced and controlled by the components of working capital. Management of working capital is a crucial task for every industry, especially for manufacturing concerns, because half of the capital of these concerns is used as working capital [2]. Various research studies on this subject have contended that ineffective management of working capital not only reduces profitability of the firm but may also cause industrial sickness; therefore, firms should maintain an optimum level of working capital in order to maximize their value [3].

Main objective of financial decision making in all organizations is to maximize the shareholders wealth. To achieve such objective, it is necessary to engender sufficient profits, which in turn depend upon amount of sales but sales cannot be converted into cash. That is why; need arises for working capital in the terms of current assets to deal with the problem