MANAGEMENT OF WORKING CAPITAL AND ITS IMPACT ON THE FINANCIAL PERFORMANCE: AN EMPIRICAL STUDY OF SOME SELECTED STEEL COMPANIES IN INDIA (2001-2012)

SYNOPSIS

By

LALIT KUMAR JOSHI

Department of Commerce with Farm Management

VIDYASAGAR UNIVERSITY

West Bengal, India

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Synopsis

Indian Steel industry which has been selected for investigation in our study is a strong indicator of the industrial performance in the country. Thus, management of working capital plays a vital role in ensuring optimum level of working capital which will provide proper trade-off between liquidity and profitability. In this context, the present study is an attempt to examine the management of working capital with a view to measuring the impact of financial recession on working capital in steel industry for the growth and development of the Indian economy.

The study which is based on secondary data has been carried out for a sample of 20 companies during the period 2000-01 to 2011-12. To arrive at a meaningful conclusion, accounting as well as statistical and econometric techniques have been employed in the study.

The empirical findings of the study reveal significant annual trend growth rate for majority of the sample companies with respect to selected performance indicators during the entire study period as well as in the two sub-periods. From Kinked exponential trend equation, it is observed that financial recession has significant negative impact on the growth rate of the selected performance indicators for good number of companies. Further, mean difference test (i.e., average performance between the two sub-periods) corroborate to the above findings of negative impact of financial recession (except net working capital).

The results of panel data analysis indicate that financing policy pursued by the companies, in general, does not have statistically significant effect on ROA while the investing policy does not have any significant impact on the ROE. But, interestingly, GDP growth rate has highly significant impact on both the ROA and ROE. Thus, irrespective of any policy regarding investing and financing, aggressive or conservative, GDP growth rate, i.e., the economic environment obtaining in the country plays a very important role in the growth of the companies in terms of both profitability and shareholders' interests.Further, from panel data analysis, it may be said that liquidity has significant impact upon the profitability of the company and shareholders' wealth. But, regression results of all the models show that the external factors like

GDP plays much significant role than the working capital management practices in terms of investing and financing policies and in terms of different liquidity measures (except net working capital).

In general, it can be concluded that though the impact of financial recession on working capital performance has been negative for most of the companies under study, the impact of liquidity management on profitabilityof the companies has been significant for the companies as a whole.