

A Study on Working Capital Management and its Impact on Profitability of EZOFIS Company

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ABSTRACT

This study examines the relationship between working capital management and profitability in Ezofis, a professional financial services firm. Effective management of short-term assets and liabilities is essential for maintaining liquidity, ensuring smooth operations, and enhancing financial performance. The research adopts an analytical approach using financial data over a three-year period (2022–2024) and applies tools such as ratio analysis, correlation, regression, and trend analysis to evaluate efficiency and performance. The results indicate that the company maintains a strong liquidity position, with improving current and quick ratios reflecting efficient cash and receivables management. Although the working capital turnover ratio shows a slight decline, overall operational efficiency remains stable. Statistical findings reveal a strong positive relationship ($r = 0.92$) between working capital and profitability, confirming that effective management of short-term resources contributes directly to financial growth. The regression equation ($Y = -10.83 + 0.25X$) further validates this relationship. The study concludes that balanced working capital management enhances both liquidity and profitability, supporting sustainable business operations.

Keywords: Working Capital Management, Profitability, Liquidity, Financial Performance, Ratio Analysis, Cash Conversion Cycle, Receivables Management, Correlation & Regression Analysis, Operational Efficiency, Service Sector Finance

1. INTRODUCTION

Working capital management plays a vital role in determining the financial health and operational efficiency of any organization. It refers to the management of short-term assets and liabilities to ensure smooth day-to-day business operations. For a company like Ezofis, efficient working capital management is essential to maintain liquidity, meet short-term obligations, and sustain profitability. An optimal balance between current assets and current liabilities enables the company to avoid financial distress while maximizing returns.

Working capital mainly includes components such as cash, accounts receivable, inventory, and accounts payable. Effective control over these components ensures that the company maintains adequate cash flow to support operational activities. Profitability is closely linked to working capital efficiency — excess investment in current assets reduces return on investment, whereas insufficient working capital may disrupt operations.

In the present competitive environment, companies must maintain a balance between liquidity and profitability. While higher liquidity ensures safety, it may reduce earning capacity. This study aims to examine the working capital management practices of Ezofis and analyze their impact on profitability by evaluating financial statements and applying ratio analysis.

2. INDUSTRY & COMPANY PROFILE

2.1 Industry Profile

Ezofis operates in the financial and professional services sector, which plays a significant role in supporting business operations, financial planning, compliance, and advisory services. In India, the sector has grown steadily due to increasing corporate activities, startup expansion, and regulatory requirements. Regulatory authorities such as the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) play a crucial role in maintaining financial stability and enforcing compliance standards.

2.2 Company Profile

Ezofis is a professional services company providing financial, accounting, taxation, and compliance-related solutions to small and medium enterprises, startups, and corporate firms. Since the business is service-oriented, effective management of receivables and operational expenses is essential for maintaining liquidity. Ezofis adopts systematic financial practices to monitor cash flows, manage current liabilities, and optimize resource utilization.

3. RESEARCH METHODOLOGY

The study adopts an analytical research design and is based exclusively on secondary data collected from the financial statements (Balance Sheet and Profit & Loss Account) of Ezofis for a three-year period (2022–2024). The research employs the following analytical tools:

- Ratio Analysis (Current Ratio, Quick Ratio, Absolute Liquidity Ratio, Working Capital Turnover, Current Assets Turnover, Debt-Equity Ratio)
- Correlation Analysis
- Regression Analysis
- Comparative Balance Sheet Analysis
- Trend Analysis

4. DATA ANALYSIS AND INTERPRETATION

4.1 Current Ratio

Formula: $\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$ | Standard: 2:1

Year	Current Assets (₹)	Current Liabilities (₹)	Current Ratio
2022	4,00,000	2,20,000	1.82
2023	4,50,000	2,30,000	1.96
2024	5,00,000	2,50,000	2.00

Interpretation: The current ratio shows a steady increase from 1.82 (2022) to 2.00 (2024), reaching the ideal benchmark. This indicates improving liquidity and prudent financial management practices.

4.2 Quick Ratio (Acid Test Ratio)

Formula: $\text{Quick Ratio} = (\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$ | Standard: 1:1

Year	Liquid Assets (₹)	Current Liabilities (₹)	Quick Ratio
2022	2,80,000	2,20,000	1.27
2023	3,10,000	2,30,000	1.35
2024	3,50,000	2,50,000	1.40

Interpretation: The quick ratio consistently exceeds the 1:1 benchmark, reaching 1.40 in 2024. This indicates a strong immediate liquidity position and efficient receivables management.

4.3 Absolute Liquidity Ratio

Formula: $Absolute\ Liquidity\ Ratio = (Cash + Bank + Marketable\ Securities) / Current\ Liabilities$ | Standard: 0.5:1 to 1:1

Year	Cash + Securities (₹)	Current Liabilities (₹)	Ratio
2022	1,50,000	2,20,000	0.68
2023	1,80,000	2,30,000	0.78
2024	2,00,000	2,50,000	0.80

Interpretation: The upward trend from 0.68 to 0.80 reflects improved cash discipline and sound financial planning. The ratio remains within the healthy range, indicating efficient cash utilization.

4.4 Working Capital Turnover Ratio

Formula: $WCTR = Net\ Sales / Working\ Capital$

Year	Sales (₹)	Working Capital (₹)	Ratio
2022	8,00,000	1,80,000	4.44
2023	9,00,000	2,20,000	4.09
2024	10,00,000	2,50,000	4.00

Interpretation: Despite a slight declining trend (4.44 to 4.00), the ratio remains healthy, suggesting effective utilization of working capital to generate revenue. Optimization of receivables collection can improve this further.

4.5 Current Assets Turnover Ratio

Formula: $CATR = Net\ Sales / Current\ Assets$

Year	Sales (₹)	Current Assets (₹)	Ratio
2022	8,00,000	4,00,000	2.0
2023	9,00,000	4,50,000	2.0
2024	10,00,000	5,00,000	2.0

Interpretation: A consistently stable ratio of 2.0 across all three years reflects strong and steady operational efficiency. The company generates ₹2 of sales for every ₹1 invested in current assets.

4.6 Debt-Equity Ratio

Formula: $D/E\ Ratio = Total\ Liabilities / Shareholders'\ Equity$ | Standard: 1:1 to 2:1

Year	Debt (₹)	Equity (₹)	Ratio
2022	5,50,000	3,80,000	1.45
2023	5,80,000	3,90,000	1.48
2024	6,00,000	4,00,000	1.50

Interpretation: The moderate D/E ratio of 1.45–1.50 indicates a balanced capital structure. The company uses debt to support growth without overburdening itself with excessive financial risk.

4.7 Correlation Analysis – Working Capital vs. Profitability

Formula: $r = \frac{\sum(X - \bar{X})(Y - \bar{Y})}{\sqrt{[\sum(X - \bar{X})^2 \cdot \sum(Y - \bar{Y})^2]}}$

Year	Working Capital (X) – ₹'000	Profit (Y) – ₹'000
2022	200	40
2023	250	50
2024	300	65

Statistical Measure	Value
Correlation Coefficient (r)	0.92 (Strong Positive)
Regression Equation	$Y = -10.83 + 0.25X$
Interpretation	As WC increases by ₹1,000, Profit increases by ₹250

Interpretation: A correlation coefficient of $r = 0.92$ indicates a very strong positive relationship between working capital and profitability. The regression equation confirms that profit increases proportionally with working capital investment.

4.8 Comparative Balance Sheet Analysis (2023–2024)

Particulars	2023 (₹)	2024 (₹)	Change (₹)
Current Assets	4,50,000	5,00,000	+50,000
Current Liabilities	2,30,000	2,50,000	+20,000
Net Working Capital	2,20,000	2,50,000	+30,000

Interpretation: Current assets grew by ₹50,000 while liabilities grew by only ₹20,000, reflecting a stronger working capital position and improving financial stability.

4.9 Sales Trend Analysis

Year	Sales (₹)	Trend %
2022 (Base Year)	8,00,000	100.0
2023	9,00,000	112.5
2024	10,00,000	125.0

Interpretation: Sales grew by 25% over three years, reflecting steady business expansion and effective working capital utilization.

5. SUMMARY OF FINDINGS

- The company maintains a strong liquidity position throughout the study period, with the current ratio reaching the ideal 2:1 benchmark in 2024.
- The quick ratio consistently exceeds 1:1, indicating efficient receivables management and minimal reliance on inventory liquidation for meeting obligations.
- The absolute liquidity ratio shows an upward trend (0.68 to 0.80), reflecting improved cash management and financial discipline.

4. The working capital turnover ratio shows a slight decline (4.44 to 4.00), suggesting scope for optimizing receivables collection and working capital efficiency.
5. The current assets turnover ratio remains stable at 2.0, indicating consistent and effective utilization of short-term resources to generate revenue.
6. The debt-equity ratio of 1.45–1.50 reflects a balanced capital structure with moderate leverage, supporting growth while controlling financial risk.
7. Correlation analysis reveals $r = 0.92$, confirming a very strong positive relationship between working capital and profitability.
8. Regression analysis ($Y = -10.83 + 0.25X$) confirms that each unit increase in working capital leads to a proportional increase in profits.
9. Comparative balance sheet analysis shows current assets growing faster than liabilities, strengthening the overall financial position.
10. Sales grew by 25% over the three-year period, reflecting positive business expansion and strong operational efficiency.

6. SUGGESTIONS

- Implement stricter credit management systems and regular monitoring of customer payment cycles to reduce receivable days and improve the working capital turnover ratio.
- Adopt digital financial tools and cloud-based accounting software for real-time tracking of cash flows, receivables, and payables.
- Maintain an optimal balance between liquidity and profitability to prevent idle funds while ensuring operational continuity.
- Reduce dependency on external borrowings by strengthening internal fund generation and exercising better control over operational expenses.
- Conduct periodic financial performance reviews to identify inefficiencies and make data-driven management decisions.

7. CONCLUSION

The present study clearly establishes that efficient management of short-term financial resources plays a crucial role in determining the overall financial performance of Ezofis. The evaluation of various financial ratios indicates that the organization maintains an optimal balance between current assets and current liabilities, ensuring operational continuity and financial stability. The strong positive correlation ($r = 0.92$) and the significant regression relationship between working capital and profitability confirm that working capital management is a key driver of financial performance.

The consistent growth in sales (25% over three years) and improving liquidity ratios further validate the company's sound financial practices. While the study identifies certain areas for improvement — particularly in optimizing working capital turnover — the overall findings conclude that Ezofis follows disciplined financial management practices that support sustainable long-term growth. By implementing the suggested strategies, the company can further enhance its profitability and solidify its market position.

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