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IMPACT OF WORKING CAPITAL MANAGEMENT ON FIRMS PROFITABILITY: AN EMPIRICAL STUDY OF CHOLAMANDALAM FINANCE COMPANY

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ABSTRACT

The efficient management of working capital plays a crucial role in the successful functioning of a firm. Firm should always keep monitoring the liquidity position as it projects the company's credit image. Lack of liquidity can create a bad image among the parties interested in the firms functioning. Also firm must ensure that there should be a proper balance between current assets and current liabilities, as it can affect the profitability of the firm. For making the analysis of Liquidity-profitability relationship of Cholamandalam Finance, ratio analysis techniques of Financial Management have been used. By observation of this it can be seen that even though the profitability position was strong, the liquidity position of Cholamandalam Finance is not up to the ideal level. The short term solvency position of the firm must be strengthened so that it is able to meet its obligations timely. These things facilitate the maximization of the wealth of the firm. From this study it can be concluded that there is a significant difference in the profitability & liquidity position of the company because it has been seen that the profitability position was strong were as the liquidity position was not satisfactory. The risk factor of the firm is high as compared to profitability. The total risk of the firm is also high as compared to the ROCE, which was not worthwhile for the future prospects of the firm.

Key Words: Liquidity, Profitability, Risk, Current ratio, Net Working Capital, ROCE, Risk-return Trade Off

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CHAPTER - I

INTRODUCTION AND DESIGN OF THE STUDY

INTRODUCTION TO THE STUDY

A good number of firms have put sufficient cash in working capital. Working capital management is an important factor of financial management. Debtor, creditor and inventory are the major components of working capital. Large stock and trade credit policy can increase the sales volume. Inventory is the main part of the working capital. Increase in the inventory will give decrease in the risk of stock out. Inventory is done for fulfilling the demand of the public. Inventory is the liability of the company to sell it. The other element of working capital is accounts payable. Firms can check the quality of the products provided by the producer by giving them late payment, whether it is suitable for the firm or not. Late payments create very bad impression of the firm in the market.

Accounts receivable is also the major part of the working capital. Delay in the days of receivable creates more complication for the company. Working capital management is still taken lightly by some companies. It works as a key to free the cash from stock, accounts payable and accounts receivable. To deal with the less important aspects of efficient and effective Working Capital, firms can sharply reduce the out sourcing and they can save the money for future investment or opportunities. This can create more financial flexibility and increase the worth of the firm by reducing capital employed (Buchmann and Jung, 2008).

This study basically focuses on the long run financial decisions, future investments and allocations of funds, dividends and valuation of the firm in the stock market. However, balance sheet components assets and liabilities are significant in short term planning and they need to be carefully analysed by the firm. Short term assets and liabilities are managed carefully by working capital management for the growth of the firm's profitability (Smith, 1980). For creating good worth of the share in front of shareholders, firms have to manage working capital efficiently and effectively. Working capital management process starts from the purchase of raw material up to the sales of the goods. It creates significant impact on the profitability and liquidity of the firms (Shin and Soenen, 1998).

Net working capital and gross working capital are the two major concepts of working capital. The total current assets and working capital can be replaced as a Gross working capital of the firm. By subtracting Current Liabilities from Current Assets, it becomes Net Working Capital. Net working capital can also be used to measure the liquidity but it is not useful when firms are compared with each other regarding performance, but useful in measuring the internal control of the firm. The net working capital helps to

Compare the liquidity of previous record of the firm performance. The main purpose of the working capital management is to make the sustainable level of the working capital which is favourable for the firm. Net working capital is the part of the currents assets which is maintained through funds having maturity life more than one year.

Current assets represent the source of short terms funds. If the firm has less short-term funds, then it is supported by long term funds and sustains the firm value and market share price. This is very useful for the analysis of trade between profitability and risk in the shares of the firm. Positive working capital and Negative Working Capital are the two possible signs.

Positive working capital is the sign of firm healthiness. Positive working capital means that firm have the ability to pay the liabilities which maturity date are less than one year of the firm on due date. Positive working capital is calculated by comparing Current Assets by current liabilities. Negative Working Capital is the sign of firm weakness.

Negative working capital means that company does not have the ability to pay the short-term liabilities. When the Working Capital shows negative sign, it indicates long term funds support the short-term funds and firm can easily pay the obligations on due date and save the value or worth of firm in the market. But in the different case, firm declining means bankruptcy.

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If declining working capital ratio continues for longer period, then it can affect the firm value. If the firm efficiency is more in the operation, the more increase in working capital. It can be analysed by comparing the operation of working capital periodically.

Working capital is raised from profits or outsourcing. Outsourcing means when there are more sales in the season but the firm is not able to invest and produce more products. From outsourcing, more liabilities arise but on the other way from investing more, revenue will generate from more sales and it will increase the assets of the firm. Working Capital Management has its impact on profitability as well as liquidity of the company and the primary goal of a company is to increase the annual revenues.

SCOPE OF THE STUDY

The study has conducted mainly to evaluate the financial strength of The Cholamandalam Investment & Finance Company a period of 5 years from 2019-23 as revealed from the financial data of the company annual report, manuals and accounting records.

- It helps in the analysis of financial operation.
- It helps in proper allocation of funds.
- Helps in the use and changes in working Capital Management.
- It helps in knowing the overall credit worthiness of the firm.
- The company can make managerial decisions, planning, and control regarding the financial management.

SIGNIFICANCE OF THE STUDY

The Impact of working capital management on profitability of Cholamandalam finance company. This study's findings will further reveal how management-employee bilateral relationships can be strengthened while improving workplace productivity.

The findings would be of major importance in working capital management and helps to allocate funds according by through the results from the study. For one thing, the current assets of a typical manufacturing firm account for half of its total assets. For a distribution company, they account for evermore.

Working capital requires continuous day to day supervision. Working capital has the effect on company's risk, return and share prices, There is an inevitable relationship between sales growth and the level of current assets.

The target sales level can be achieved only if supported by adequate working capital Inefficient working capital management may lead to insolvency of the firm if it is not in a position to meet its liabilities and commitments.

OBJECTIVES OF THE STUDY

- To analyze the Working capital position of Cholamandalam investment and finance.
- To analyze the effect of liquidity on profitability
- To analyze the effect of risk on profitability.
- To give suggestions on the basis of findings of the study.
- To study the relationship between profitability and working capital management.
- The main objective of any business is to earn profit and manage the funds efficiently and effectively which has direct impact on profits. So, working capital is the major constituent to measure liquidity. This study examines the association between the profitability and working capital using the data of for the period of 2019 to 2023.

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LIMATATION OF THE STUDY

- The study covers only 5 years period for the Working Capital analysis of Cholamandalam Investment and finance company.
- The secondary data used in this study have been taken from published annual reports only.
- As per the requirement and necessarily some data's have been grouped and sub-grouped.
- For making the analysis of Working Capital position of Cholamandalam Investment and finance company, some ratio analysis techniques of financial management have been used.

CHAPTER - II

REVIEW OF LITERAUTRE

Burgstahler & Dichev (2000) found the evidence that the two components of earnings, viz, cash flow from operations and working capital changes can be used effectively to manage earnings and to increase them. Andrew & Sirkin (2003) highlights the importance of innovating through working capital management and the operations to generate cash rather than simply product development. Ward (2004) calculates the operating capital (cash) is out of reach for use by your business. The speedier your cash– to-cash cycle, the fewer days your cash is available for the use in propelling your value stream. You can use this metric to gauge whether you are operating "lean" with regard cash. Also, good performance on the cash-to-cash measurement has been associated with improved earnings per share.

Gentry et al (2005) innovated on the concept of weighted cash conversion cycle (WCC) which measures the weighted number of days funds are tied up in receivables, inventories, and payables, less the weighted number of day's cash payments are deferred to Suppliers. Arcelus & Srinivasan (1993) integrated the main components of working capital management within a discounted cash low framework. To study the interplay amongst inventory, procurement, cash discounts, accounts payable and accounts receivable. Ball, et at., (1993) has established that the cash lows of the components of working capital are better predictors of growth and future earnings than the traditional cash lows.

Gill, Biger and Mathur (2010) analyzed the relationship between working capital management and profitability of 88 American firms listed on New York Stock Exchange for a period of 3 years from 2005 to 2007 was selected. The data was analyzed using Pearson Bivariate Correlation Analysis and Weighted Least Squares (WLS) Regression techniques. They found statistically significant relationship between the cash conversion cycle and profitability, measured through gross operating profit. It followed that managers can create profits for their companies by handling correctly the cash conversion cycle and by keeping accounts receivables at an optimal level. Bonamyong (2005) highlighted that a company with a lower cash conversion cycle is more efficient because it turns its working capital over more times in a year, which means it generated more sales per unit of money invested in working capital management. Garcia-Teruel and Martinez-Solano (2007) in their Study demonstrated that managers can create value by reducing their inventories and shortening the number of days for which their accounts are outstanding. Gupta (2010) observed that better working capital can significantly help companies improve their growth rates vis-à-vis competitors and ultimately increase the wealth of their shareholders.

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Sharma and Kumar (2011) examined the effect of working capital on profitability of Indian firms. They collected data about a sample of 263 non-financial BSE 500 firms listed at the Bombay Stock (BSE) from 2000 to 2008 and evaluated the data using OLS multiple regression. The results revealed that working capital management and profitability is positively correlated in Indian companies. The study further reveals that inventory of number of days and numbers of day's accounts payable are negatively correlated with a firm's profitability, whereas number of days accounts receivables and cash conversion period exhibit a positive relationship with corporate profitability.

Maniagi, Musiega and Makori (2013) examined the relationships between Working Capital Management and Corporate Performance of manufacturing firms listed on the Nairobi securities exchange. A sample of 20 companies whose data for 5 years from 2007-2011.

Gul S. Khan, M. B. Rehman, S. U., Kahn, M. T., Khan, M., & Khan (2013) investigated the influence of working capital management (WCM) on performance of small medium enterprises (SMEs) in Pakistan. The duration of the study was seven years from 2006 to 2012. The data used in this study was taken from SMEDA, Karachi Stock Exchange, tax offices, company itself and Bloom burgee business week. The dependent variable of the study was Return on Assets (ROA) which was used as a proxy for profitability.
Independent variables were Number of Days Account Receivable (ACP), Number of Day's Inventory Almazari (2013) investigated the relationship between the working capital management (WCM) and the firms' profitability for the Saudi cement manufacturing companies. The sample included 8 Saudi cement manufacturing companies listed in the Saudi Stock Exchange for the period of 5 years from 2008-2012. Pearson Bivariate correlation and regression analysis were used. The study results showed that Saudi cement industry's current ratio was the most important liquidity measure which effected profitability, therefore, the cement firms must set a trade-off between these two objectives so that, neither the liquidity nor profitability suffers. It was also found, as the size of a firm increases, profitability increased. Besides, when the debt financing increased, profitability declined. Linear regression tests confirmed a high degree of association between the working capital management and profitability.

Moss and Stine, (2013) corporate liquidity is examined from two distinct dimensions: static or dynamic views. The static view is based on commonly used traditional ratios such as current ratio and quick ratio, calculated from the balance sheet amounts. These ratios measure liquidity at a given point in time whereas dynamic views measures on going liquidity from the firm`s operations. As a dynamic measures of the time it takes a firm to go from cash outflow to cash inflow which is measured by cash conversation cycle.

Akoto, Awunyo- Vitor and Angmor (2013) analyzed the relationship between working capital management practices and profitability of listed manufacturing firms in Ghana. The study used data collected from annual reports of all the 13 listed manufacturing firms in Ghana covering the period from 2005-2009. Using panel data methodology and regression analysis, the study found a significant negative relationship between Profitability and Accounts Receivable Days. However, the firms' Cash Conversion Cycle, Current Asset Ratio, Size, and Current Asset Turnover significantly positively influence profitability. The study suggests that managers can create value for their shareholders by creating incentives to reduce their accounts receivable to 30 days. It is further recommended that, enactments of local laws that protect indigenous firms and restrict the activities of importers are eminent to promote increase demand for locally manufactured goods both in the short and long runs in Ghana. Omesa, Maniagi,

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Raheman, Afza, Qayyum and Bodla (2018) analyzed the impact of working capital management on firm's performance in Pakistan for the period 2010 to 2017. For this purpose, balanced panel data of 204 manufacturing firms was used which are listed on Karachi Stock Exchange. The results indicate that the cash conversion cycle, net trade cycle and inventory turnover in days are significantly affecting the performance of the firms. They concluded that manufacturing firms were in general facing problems with their collection and payment policies. Moreover, financial leverage, sales growth and firm size also had significant effect on the firm's profitability.

They study recommended that effective policies must be formulated for the individual components of working capital. Mathuva (2018) in his study on the influence of working capital management on corporate profitability found that there exists a highly significant negative relationship between the time it takes for firms to collect cash from their customers and profitability. He explained that the more profitable firms take the shortest time to collect cash from the customers.

The study further revealed that there exist a highly significant positive relationship between the inventory conversion period and profitability. It was explained that firms, which maintain sufficiently high inventory levels reduce costs of possible interruptions in the production process and loss of business due to scarcity and products. Finally, the study established that there exists a highly significant positive significant positive relationship between the average payment period and profitability. He held that the longer a firm takes to pay its creditors, the more profitable it is. In this study, a sample of 30 firms listed on Nairobi Stock Exchange for the periods 1993 to 2008 was used. Both the ported OLS and the fixed effects regression models were used.

CHAPTER - III
RESEARCH METHODOLOGY

INTRODUCTION

In this study the sample company named Cholamandalam Investment and Finance Company has been taken for analysis of Working Capital position. Present study is based on secondary data i.e. published annual reports of the company. These financial data's are edited, classified and tabulated as per the requirements of the study.

This study has covered 5 years data's from 2019 to 2023 for analyzing the Working Capital position of Cholamandalam Investment and Finance Company. The Liquidity and Profitability position have been measured to analyze the Working Capital position of Cholamandalam Investment and Finance Company. The collected data have been analyzed by the various ratios for finding liquidity and profitability.

DATA COLLECTION METHOD

The analysis of financial condition and performance of the enterprise necessitates with reliable
Data therefore the data for the present study is collected with the help of secondary data.

RESEARCH DESIGN

"A Research Design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with the economy in procedure". In fact, the research design is the conceptual structure with in which research is conducted.

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ANALYTICAL TOOLS USED FOR TOOLS THE STUDY

The secondary data collected from various sources were analysed with the help of suitable statistical tools and techniques such as percentage, standard deviation, ratios, CAGR, etc. to draw conclusion. Financial performance of companies can be examined either as absolute performance in terms of scale of operations or relative performance in terms of financial ratio. Ratios are a relationship between different pieces of financial information and facilitate comparison between companies and allow us to examine Cholamandalam Investment and Finance Company performance. We include the four different types of financial ratio in our analysis profitability, working capital, efficiency and liquidity for a total of 9 specific ratios. In addition to these we also report measures of various items from the balance sheet and income statement. We include six balance sheet and income statement items to examine the performance of Cholamandalam Investment and Finance Company: total assets, total liabilities, equity, turnover, net income and retained earnings.

- Ratio Analysis
- Working capital position
- Correlation
- Comparative statement analysis
- T-test

CHAPTER - IV

DATA ANALYSIS AND INTERPERTATION

Analysis of Working Capital Management of Cholamandalam Investment and Finance Company Liquidity

Working Capital Position

Gross Working Capital and Net Working Capital. The former means the firm's investment in current assets and later the excess of current assets over the current liabilities. The excess of current assets over the current liabilities provides measures of safety margin available against uncertainty in realization of current assets and flow of funds.

Table-4.1
Statement Showing Net Working Capital Position

(₹in Lakhs)			
YEAR	**CURRENT ASSETS**	**CURRENT LIABILITIES**	**NET WORKING CAPITAL**
2018-2019	56626.54	556.84	56626.23
2019-2020	63020.96	43987.89	19033.07
2020-2021	73365.12	48296.97	25068.15
2021-2022	81080.87	53361.19	27719.68
2022-2023	112075.45	74862.59	62787.14
Arithmetic Mean	68233.99	50643.59	31705.05
Standard Deviation	21666.98	16833.47	4833.51

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Source: Annual Reports of Cholamandalam Investment & finance

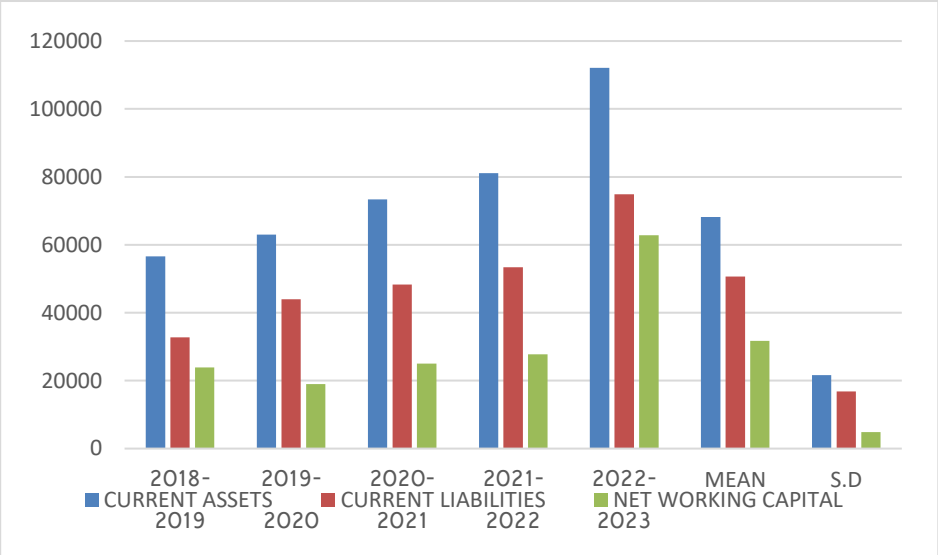

Chart 4.1 Working Capital Position

Interpretation

Table 1 Shows the working capital position of the concern. During the period of study working capital showed a fluctuating tendency. The highest value of working capital 62787 lakhs was in last year 2022-23 and least of 19033.3 lakhs in 2019-20. The Gross Working capital of the firm had a mean value of 68233.99. Gross Working Capital was highest in 2022-23 and least in 2019-20 with values of 19033.07 lakhs and 56626.54 lakhs. The Current liability of the firm was highest in 2013-14 with ` 556.84 lakhs and least in 2018-19 with `2130.51 lakhs. The Gross working capital had an average annual growth rate of 44.62% and standard deviation of 5758.82. The Net working capital of the firm had an average annual growth rate of 68.85% and a high standard deviation of 4833.51.

Current Ratio

Liquidity ratio is defined as the ratio if current assets to current liabilities. It is an index of technical solvency and an index of the strength of the working capital. A high current ratio is an assurance that a firm will have adequate funds to pay current liabilities and other current payments. It can be calculated as follows:

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$$

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Table – 4.2

Statement Showing Current Ratio

(₹in Lakhs)			
YEAR	**CURRENT ASSETS**	**CURRENT LIABILITIES**	**CURRENT RATIO (Times)**
2018-2019	56626.54	556.84	101.74
2019-2020	63020.96	43987.89	1.43
2020-2021	73365.12	48296.97	1.52
2021-2022	81080.87	53361.19	1.52
2022-2023	112075.45	74862.59	1.50
Arithmetic Mean	68233.99	50643.59	31705.05
Standard Deviation	21666.98	16833.47	4833.51

Source: Annual Reports of Cholamandalam Investment & finance

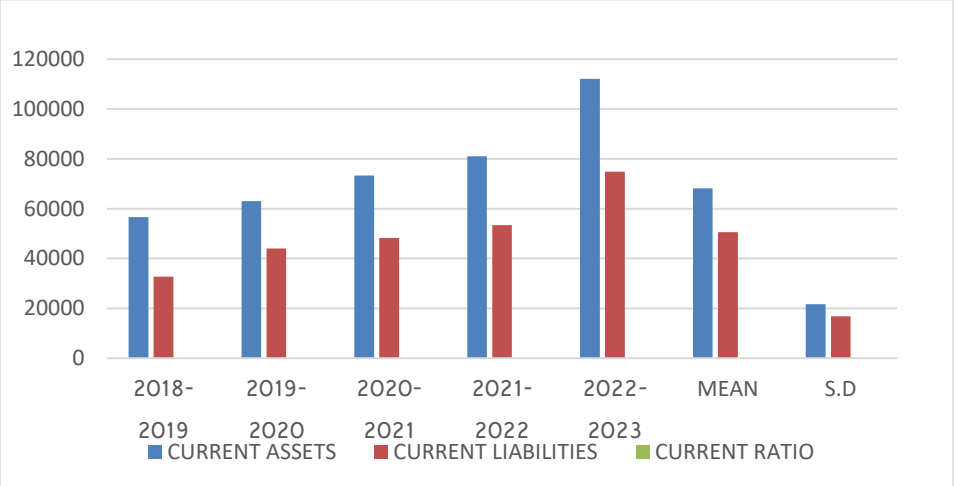

Chart – 4.2 Statement Showing Current Ratio

Interpretation

Table 2 Shows the current ratio as a measure of liquidity position. During the period of study, it was observed that current ratio had a current ratio of above 1, The Highest ratio of 101.74 times was observed in the year 2019-20 and the least of 1.43 in the 2019-2020. The current assets and current liabilities showed an increasing trend throughout the study.

The Average annual Growth rate of Current assets and Current liabilities was 44.62% and 33.84% respectively. The Current Ratio showed an increasing trend with an average ratio of 1.43 times with an average annual growth rate of 2.03%. The standard deviation of the ratio was low with a value of Rs. 0.28.

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Liquid Ratio or quick ratio

It is the ratio which shows the relationship between liquid assets and current liabilities. It firm's capacity to pay its obligation at time of emergency situation. The ideal ratio is 1:1 Times. The ratio can be expressed as given below:

= Liquid Assets Current Liabilities Where Liquid Assets= Current Assets - (Stock +Prepaid Expenses)

TABLE – 4.3

Statement of Liquid Assets to Current liabilities

(₹in Lakhs)			
YEAR	**LIQUID ASSETS**	**CURRENT LIABILITIES**	**LIQUID RATIO (Times)**
2018-2019	1897.34	2130.51	10.74
2019-2020	2235.51	2720.38	12.4
2020-2021	1951.14	3532.71	5.52
2021-2022	1536.3	3033.82	8.12
2022-2023	2525.61	3578.07	1.69
Arithmetic Mean	68233.99	50643.59	31705.05
Standard Deviation	21666.98	16833.47	4833.51

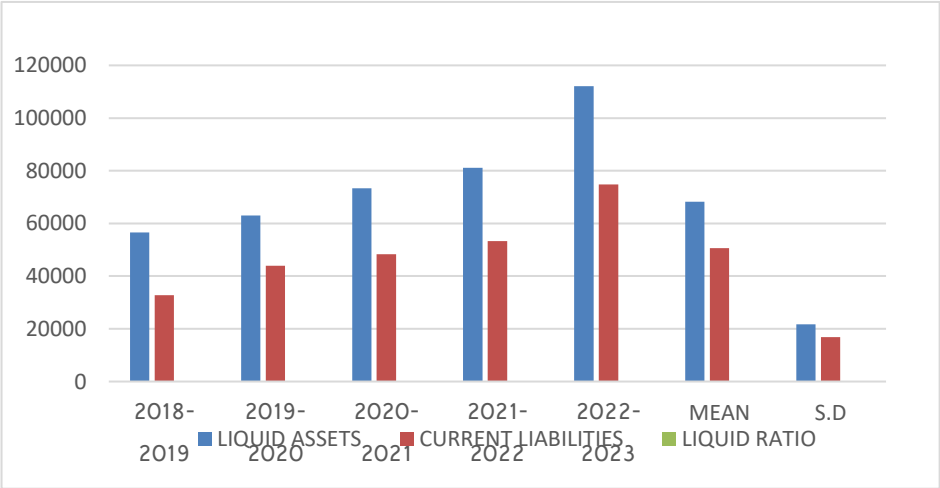

Chart – 4.3 Liquid Asset to Current Asset

Interpretation

The Above table shows the liquidity ratio of the firm during the period of study. The ratio had the highest value of 12.04 times in the year 2019-20 and the least of 0.44 times in 2020-21. During the period of study this ratio also observed a fluctuating tendency. The liquid assets of the firm were highest in 2022-23 and least in 2021-22 with values of `13569.19 Lakhs and `1536.30 Lakhs respectively. The liquid assets had an average value of `4728.71

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Lakhs with an average annual growth rate of 47.32%. The liquidity ratio had an average value of 0.76 times with an average annual growth rate of 2.50%. The standard deviation of the ratio was very low with a value of 0.22.

Cash Position Ratio.

It shows how much of total assets is kept in the form of cash is revealed through this ratio. How much per rupee of total assets is kept in the form of cash. Higher the ratio shows less risk, but lower rate of return as cash by itself does not earn profit. The ratio can be denoted as given below:

Cash position ratio = Cash + Cash Equivalents Total Assets.

Table – 4.4

Statement of Cash to Total Assets

(₹in Lakhs)			
YEAR	**CASH & EQUIVALENTS**	**TOTAL ASSETS**	**CASH POSITION RATIO (Times)**
2018-2019	1126.28	23006.18	0.088
2019-2020	2245.21	25433.82	0.097
2020-2021	2801.93	28988.2	0.103
2021-2022	3615	34017.43	0.08
2022-2023	3289.37	39229.39	0.05
Arithmetic Mean	1304.96	19805.75	0.15
Standard Deviation	2161.00	9865.03	0.03

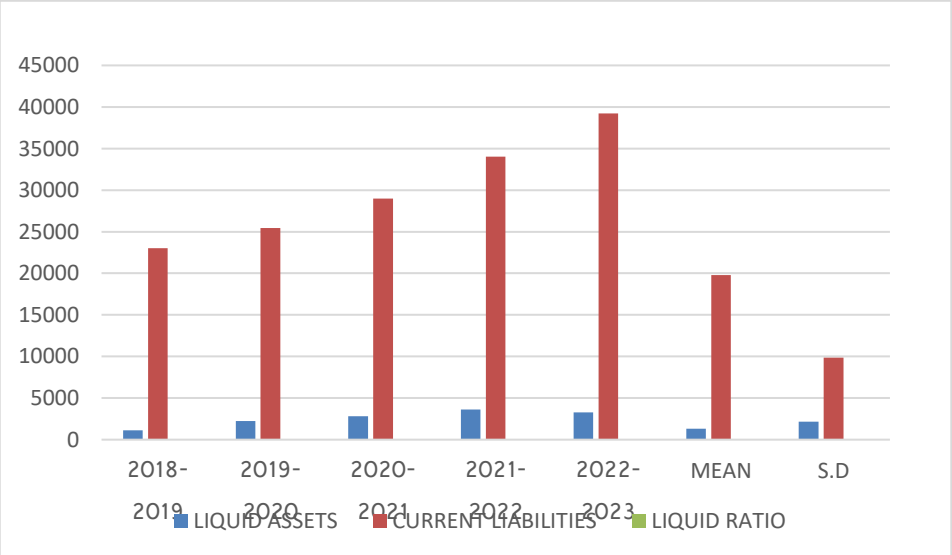

Chart – 4.4 Cash to Total Cash

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Interpretation

The above table shows the cash generating capacity of the total assets of the firm. Cash position ratio also showed similar fluctuating tendency like the above ratios. It had a mean value of 0.05 times with an average annual growth rate of 131.17%. The highest ratio of 0.106 times was observed in 2020-21 and least of 0.002 in 2022-23. The firm maintained the highest cash of `3289.37 Lakhs in 2020-21 and the least of `34.04 in 2022-23.

Cash had an average value of `1304.94 Lakhs with an average annual growth rate of 564.64%. The Total Assets of the firm had a mean value of `19805.75 Lakhs with an average annual growth rate of 35.64%. Total Assets of the firm was highest in 2022-23 and least in 2018-19 with values of `39229.39 lakhs and `6964.49 Lakhs. The ratio had a very low degree of standard deviation with value of 0.03.

Working Capital Turnover ratio

This ratio reveals the overall picture of the operational capital necessary for maintaining a level of its sales. Higher ratio indicates quick conversion of working capital into sales.

Also greater the ratio, shorter is the working capital cycle and better is working capital management. It can be expressed as follows:

$$\text{Working capital turnover ratio} = \frac{\text{Annual Sales}}{\text{Average Working Capital}}$$

Table: 4.5

Statements of Annual Sales to Working Capital

(₹in Lakhs)			
YEAR	**AVG ANNUAL SALES**	**WORKING CAPITAL**	**WORKING CAPITAL TURNOVER RATIO**
2018-2019	16670.65	345.10	212.72
2019-2020	19660.39	1621.19	12.13
2020-2021	22983.01	5341.41	18.4
02021-2022	2722.01	11504.3	3.75
2022-2023	15770.56	2926.03	2.86
Arithmetic Mean	1465.23	2926.03	8.29
Standard Deviation	8308.42	338.40	81.28

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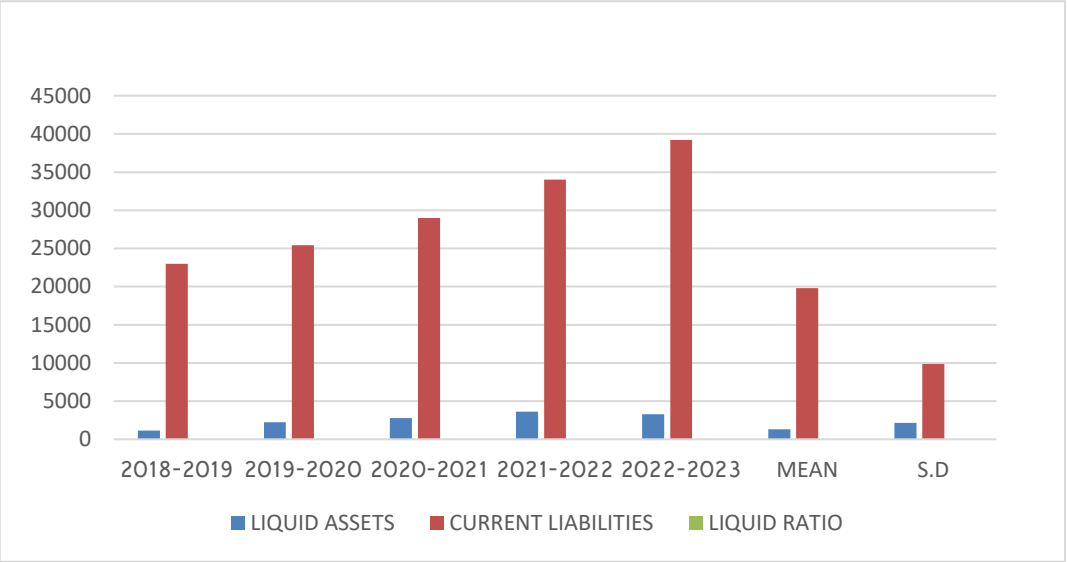

Chart – 4.5 Annual Sales to Working Capital

Interpretation

The above table shows the sales generated per amount of working capital of the firm. This Ratio also showed a fluctuating tendency during the period of study. The Ratio had an average value of 8.29 times with a negative average annual growth rate of 5.44%. Net Working Capital turnover ratio observed the highest value of 212.72 times in 2018-19 and least of 2.86 times in 2022-23. The highest average sales of 22983.01 Lakhs was in 2020-21 and the least of `8714.99 Lakhs in 2005-06. Average annual sales had a mean value of `15770.56 Lakhs with an average annual growth rate of 19.63%. The Ratio had a high standard deviation of 81.28.

ANALYSIS OF LIQUIDITY, PROFITABILITY AND RISK USING SPEARMAN'S RANK CORRELATION AND STUDENT T-TEST

Spearman's rank correlation is the relationship between different rankings of the same set of items. A rank correlation coefficient measures the degree of similarity between two rankings, and can be used to assess its significance.

$r = 1 - 6\sum D^2 / n (n^2-1)$, Where D= R1-R2, R= Rank

Student t – Distribution is a small test used for testing of hypotheses of sample size less than 30. If the calculated value of t is less than the table value. The null hypotheses will be accepted and vice-verse; for a given significance level. It can be calculated as follow:

$t = \frac{r}{} \times \sqrt{n-2} \sqrt{1-r2}$, Where r = Spearman's Rank Coefficient of Correlation

n = No. Observation

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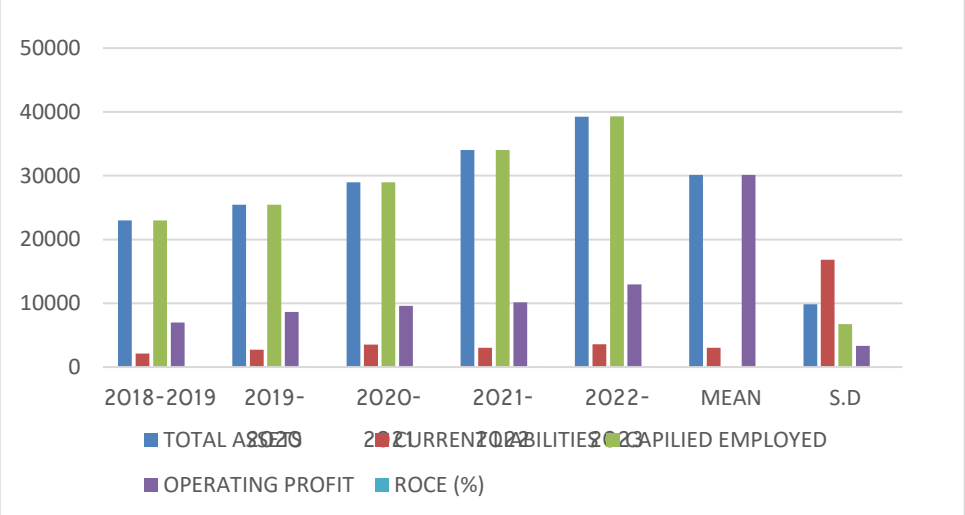
Liquidity & Profitability Analysis of CHOLAMANDALAM FINANCE using Student t-test Profitability

It indicates the percentage of return in the business. A high Return on Investment shows the company is having a higher rate of profit as percentage of capital employed. It is calculated as follows: = Operating Profit / Capital Employed x 100

Table – 4.6 Statement Showing Profitability

(₹in Lakhs)					
YEAR	**TOTAL ASSETS**	**CURRENT LIABILITIES**	**CAPITAL EMPLOYED**	**OPERATING PROFIT**	**ROCE (%)**
2018-2019	23006.18	2130.51	23006.18	6992.64	38.30
2019-2020	25433.82	2720.38	25433.82	8652.89	37.71
2020-2021	28988.2	3532.71	28988.2	9575.56	40.71
02021-2022	34017.43	3033.82	34017.43	10138.77	32.84
2022-2023	39229.39	3578.07	39299.39	12977.98	31.95
Arithmetic Mean	30135.75	2999.059	8.29	30135	0.88
Standard Deviation	9865.03	16833.47	6754.28	3307.89	6.81

Chart – 4.6 Statement Showing Profitability



Interpretation

During the period of study, the operating profit ratio showed an increasing tendency except in the first two years. The operating profit ratio had the highest value of 12977.98 in 2022-23 and the least of 6992.64 in 2018-19. The operating profit ratio had a mean value of 37.16 % with an average annual growth rate of 1.56%. The Standard Deviation of the ratio was moderate with a value of 0.88. The firm employed the highest amount of capital 39299.39 Lakhs in 2022-23 and least of 23006.18 Lakhs in 2018-19. The Capital employed of the firm had a mean value of Rs. 13995.05 Lakhs with an average annual growth rate of 36.43%.

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Relation between Liquidity and Profitability

Testing of 1st Null Hypothesis

Table: 4.7

Statement for Calculation of Correlation

YEAR	CURRENT RATIO	R1	ROEC	R2	D=(R1-R2)	D^2
2018-2019	101.74	8	38.30	6	2	4
2019-2020	1.43	9	37.71	7	2	4
2020-2021	1.52	13	40.71	13	0	0
2021-2022	1.52	11	32.84	12	1	1
2022-2023	1.50	7	31.95	10	3	9

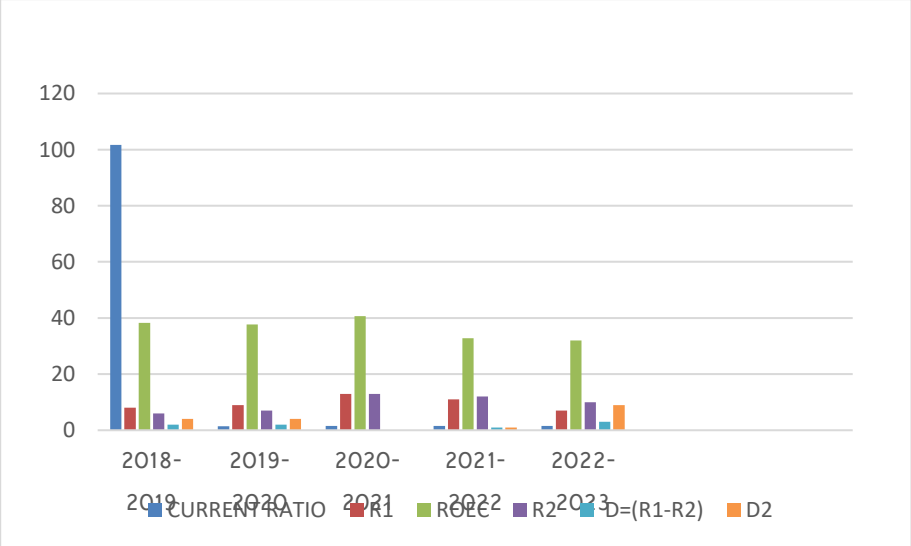

Chart – 4.7 Correlation

Interpretation

The current ratio is used as an indicator of liquidity and ROCE as for measuring profitability. The Spearman's rank coefficient of correlation(r) between Current Ratio and ROCE has been shown for which the relevant formula has been used. The test used for determining significance of r is "t" test. The Spearman's rank coefficient of correlation (r) between ROCE & Risk Factor has been calculated. The "t" test is applied for determining significance of r. Then computed value of 't' has been compared with the tabulated value of 't'. In the above table r= 0.24 and value of t =

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0.895. The table value of 't' at 5% level of significance for 11 degrees of freedom (Where n=13) is equal to 2.22. Since the computed value of t is less than the table value the null hypothesis (Ho) is accepted.

Profitability & Risk analysis of Cholamandalam Investment and Finance

The risk associated with the concern can be calculated by the following method:

R k = (E+ LTL) - FA / CA

Where Risk = risk

E = Equity + Reserve % Surplus

L = Long term loan

FA= Fixed Assets

CA= Current assets

In the aggressive approach the current assets are financed by short term sources and in case of conservative approach the current assets are financed by both long term and short-term sources. The risk faced by the firm can be measured with the above formula.

Table: 4.8

Statement Showing Risk

YEAR	EQUITY+RESERVE & SURPLUS	LOANTERM LOAN	FIXED ASSETS	CURRENT ASSETS	RISK
2018-2019	4413.98	284.54	56626.54	23006.18	68.42
2019-2020	5365.62	116.98	63020.96	25433.82	52.13
2020-2021	6410.06	200.88	73365.12	28988.2	81.23
2021-2022	7865.61	86.58	81080.87	34017.43	57.38
2022-2023	12075.13	13.52	112075.45	39229.39	75.23
Arithmetic Mean	8576.74	28.05	68233.99	19805.75	80.16
Standard Deviation	5758.82	3216.82	21666.98	9865.03	16.78

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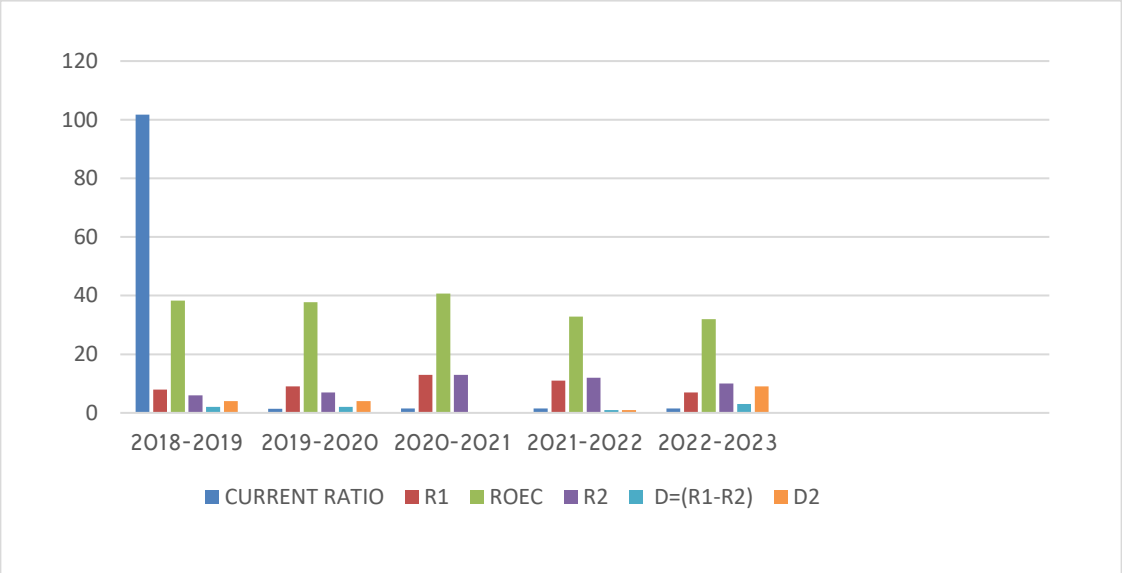
Chart – 4.8 Showing Risk



Interpretation

Table 5 shows the measure of liquidity. During the period of Study concern's highest risk of 118.39% generated a return of 31.95% and the least risk of 63.35% generated a return of 45.47%. The risk taken by the company showed a decreasing tendency from 2019-20 onwards. The average risk taken by the company was 80.61% with a negative average annual growth rate of -1.24. The standard deviation of the risk taken by firm during the period of the study was 16.78.

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CHAPTER - V

FINDINGS, SUGGESTION AND CONCLUSION

FINDINGS AND SUGGESTIONS

- The Net working Capital of Cholamandalam finance during the period of study was not satisfactory as it showed frequent fluctuations in its values. It even turned negative during the period of study, which is dangerous for the firm.
- Cholamandalam finance must try to keep regular check, whether its current liabilities are exceeding the gross working capital of the firm.
- Liquidity position of the firm was not adequate because the average value of this Current Ratio was only 1.43 times which is well below the ideal ratio of 2:1 times. Which indicates that, even though it is in a position to meet its short term obligations with the existing current assets, but it is in the verge of break even. So the firm must increase the position of its current assets to maintain a current ratio of at least the ideal value.
- The Liquid ratio of the firm was also not up to the level due to a lower amount of liquid assets during the period of study. The arithmetic mean of the liquid ratio was 0.76 times which is well below the ideal value of 1:1 times. So the firm should increase the portion of the liquid assets to stabilize the short solvency position.
- The cash position ratio of the firm was also not satisfactory as it was not able to generate adequate amount of cash from its assets.
- The average value of the ratio was only 0.05 times. The firm must try to keep regular check on its assets to identify whether they are staying idle or obsolete. Only the liquid cash will help the firm to face any uncertainties at the times of depressions.
- Working capital turnover ratio of the firm was satisfactory as it was able to generate on an average 8.29 times the amount of working capital deployed. It should try to at least maintain this situation or to increase its sales turnover.
- The profitability position of the firm was satisfactory because it operating profitability position was 37.16 % of its turnover, which is well above the risk free bank rate. The capital employed in the firm was appropriately used. It should maintain and stabilize the present profitability position.
- Applying of T-test between Current Ratio and ROCE showed that the calculated value of t is less than the table value of t. Hence the null hypothesis was accepted and alternate hypothesis was rejected. It says that there was no significant difference between liquidity and profitability of the firm during the period of research study.

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CONCLUSION

I can say that there should be an efficient financial management system in the Company. It should overcome the adverse condition and minimize its losses and protect firm from facing the negative condition of liquidity.

In tomorrow's economy the world will belong to those who are open to creative, imaginative and flexible to changes, having open mindless, strength of taking risk and an innovative spirit. These entire characteristics can lead the Company on a successful path.

Based on this study the major findings are that from the overall finance point of view, Amarajothi spinning mill is performing to a very high degree level of achievement.

This study indicates that in order to improve the overall performance of Company the management must take all possible steps to review and modify various policies, cash budgets, inventory status by using sound information management system. This will enable the management to have a close control Budgetary Control

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