

# A Study on the Working Capital Management and Financial Performance of Roots Industries India Private Limited

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**Abstract:** *This study examines the working capital management and financial performance of Roots Industries India Private Limited over a five-year period from 2020–2021 to 2024–2025. Working capital plays a vital role in maintaining the liquidity and operational efficiency of a firm, making its effective management essential for achieving profitability and sustainability. The primary objective of this research is to analyze the efficiency of working capital management, evaluate liquidity and profitability positions, and assess the capital structure of the company. The study is based on secondary data collected from the company's annual reports and relevant online sources. Various analytical tools such as ratio analysis, trend analysis, schedule of changes in working capital, and leverage analysis are employed to interpret financial performance. The findings reveal that while the company maintains a satisfactory debt-equity structure and shows an increasing trend in working capital, its liquidity position remains below standard norms. Profitability ratios indicate fluctuations, reflecting instability in earnings over the study period. Additionally, inefficiencies in inventory and debtor management are observed, leading to delays in conversion cycles. Trend analysis highlights a steady growth in working capital, with positive future projections. Leverage analysis indicates low financial and operational risk, suggesting a strong margin of safety. The study concludes that although the company demonstrates a stable capital structure and growth potential, improvements are required in liquidity management and operational efficiency. The findings provide useful insights for enhancing working capital policies and strengthening overall financial performance in the future.*

**Keywords:** *Working Capital Management, Financial Performance, Liquidity, Profitability, Capital Structure, Ratio Analysis, Trend Analysis, Leverage Analysis.*

## I. INTRODUCTION

Finance is the core structure of the business, as managerial activities are centred on Finance; Financial Management is an appendage of the finance function as it provides a framework for selecting a proper course of action and deciding viable commercial strategy. It is applicable to every type of business irrespective of the kind, size or nature. Financial Management is concerned with the planning and controlling of firm's financial resources both long term and short term. The study focuses on short-term Financial Management, that is, Working Capital Management.

Finance is an important integral part of modern economic life. Financing decision plays a vital role. It involves raising funds for the company. It is concerned with the designing of Capital Structure. The financial decision should be shaped in such a way it should support the company's Capital Structure. Capital Structure should be examined from the viewpoint of its impact on the value of the firm. The firm should select the financing – mix in such a way that it maximizes the shareholder's wealth. The combination of debt and equity determines it. If the company opts for more debt, they may trigger off a high Interest burden, devour profits and depress earnings per share and, above all, endanger the very survival of the firm. On the other hand, a conservative policy may deprive the company of its advantage in



terms of magnifying the rate of return to its equity owners as higher equity component results in low earnings per share. The finance manager should consider various factors while deciding the choice of debt and equity. Apart from risk return financial considerations, the financial manager also considers non – financial factors. When equity shareholders are more in numbers; they have access to control the company. But when debts Owings are more than equity, finance manager’s consideration is more on debt then equity. Financial crisis may arise in the firm due to two main reasons. They are:

- Unexpected decline in operating profit.
- Requirement for increased funds.

Non-payment of interest or principal amount to lenders at specified time will have to be recovered through liquidations in the company. At the same time the non – use of debt prevents the firm from availing an opportunity to have the advantage on rate of return to its shareholders. The financial manager would always try to maximize the wealth of shareholders. Hence the credit of the financial manger lies on how he settles Disputes, overcome difficulties with help of optimum mix of debts and equity, which would satisfy both the shareholders and creditors. He must make a risk return transaction between these two sources in such a way that it earns maximum benefits to the company. When the finance manager cannot provide benefits to the company he needs to redefine capital structure.

## **II. STATEMENT OF THE PROBLEM**

To run and manage a company, Funds are needed. Right from the promotional stage up to end, finance plays an important role in company life. If funds are adequate or inadequate the business suffers. Therefore, it is necessary that correct estimate of the current and future need of capital is to be made.

Capital structure helps to find the proportion of debt and equity and in which way it affects the value of the firm. Capital structure leads to maximum market valuation and to minimum cost of capital. The company is in need to maintain a proper balance between profitability and liquidity and these allow smooth operation of the firm as well as perfect the interest of the creditors and investors. That is why it is necessary for the company to evaluate from time to time the liquidity and profitability position. Adequate Working Capital is the life blood and nerve centre of any business.

Investment in fixed assets alone is not sufficient business. Investment in Current Assets or Working Capital is a must for the purchase of Raw Materials, for meeting the day - to - day expenditure on salaries, wages, rent, taxes, and for maintaining the Fixed Assets. If the Working Capital is weak in a Company, the business cannot survive. The objective of the Working Capital management is to ensure liquidity and enhance profitability. These two objectives are crucial in all Working Capital Management decisions.

One could observe that both are complementary to one another. The efficiency in management of each Current Asset contributes to ultimate profitability of the enterprise. Hence with the view to understanding the efficiency in management of Current Assets and the Current Liabilities, this study has been undertaken.

Whether the profitability and liquidity of the Concern is satisfactory or not?

Whether there are many variations in Working Capital or not?

## **III. OBJECTIVES OF THE STUDY**

- To analyze the efficiency of Working Capital Management and assess the Capital Structure of the Company.
- To analyze the liquidity and profitability position of the Firm.
- To assess the change in proportion of debt and equity.
- To offer suggestions in framing the Capital Structure and in the improvement of Working Capital Management in Roots Industries India Limited.



#### IV. METHODOLOGY

The data used is Secondary in nature. The data are gathered from annual reports of the Company, and the data are collected from the Company Website and Net Sources. Following are the tools used for analysis Ratio Analysis, Schedule for Changes in Working Capital, Trend Analysis and Leverage Analysis

#### V. ANALYSIS AND INTERPRETATION

**Table 1: Profitability, Liquidity and Solvency Ratio**

Year	Current Ratio (Proportion)	Quick Ratio (Proportion)	Absolute Liquid Ratio (Proportion)	Gross Profit Ratio (%)	Net Profit Ratio (%)	Inventory Turnover Ratio (times)	Inventory Conversion Period (Days)	Debtors' Turnover Ratio (Times)	Average Collection Period (Days)
2020 – 2021	1.61	1.28	0.06	11.11	6.92	9.22	40	4.32	84
2021 – 2022	1.52	1.21	0.05	16.60	11.21	8.89	41	4.12	89
2022 – 2023	1.51	1.13	0.03	13.79	9.73	8.33	44	4.41	83
2023 – 2024	1.55	1.19	0.03	10.34	7.11	8.77	42	3.79	96
2024 – 2025	1.66	1.25	0.02	8.25	5.78	8.66	42	3.08	119

Source: Annual Report

**Table 2: Working Capital Ratios**

Year	Working Capital Turnover Ratio (times)	Debt – Equity Ratio	Ratio of Fixed Assets to Funded Debt	Proprietary Ratio
2020 – 2021	4.99	0.53	1.55	0.61
2021 – 2022	5.21	0.08	6.91	0.88
2022 – 2023	4.89	0.11	4.26	0.86
2023 – 2024	5.95	0.14	2.91	0.50
2024 – 2025	5.17	0.15	3.10	0.53

Source: Annual Report

**Table 3: Schedule of Changes in Working Capital (2020-2022)**

PARTICULARS	YEAR			WORKING CAPITAL			
	2020 (Rs. In Lakhs)	2021 (Rs. In Lakhs)	2022 (Rs. In Lakhs)	Increase (Rs. In Lakhs)	Decrease (Rs. In Lakhs)	Increase (Rs. In Lakhs)	Decrease (Rs. In Lakhs)
<b>CURRENT ASSETS:</b>							
Inventories	1033.39	1051.29	1080.83	17.9		29.54	
Sundry Debtors	2038.08	2412.11	2196.23	374.03			215.88
Cash & Bank Balances	58.83	201.66	182.12	142.83			19.54



Loans & Advances	964.60	1417.90	1855.69	453.30		437.79	
<b>Current Assets –Total</b>	<b>4094.90</b>	<b>5082.96</b>	<b>5314.87</b>				
<b>CURRENT LIABILITIES:</b>							
Current Liabilities & Provision	2190.69	3156.82	3495.09		966.13		338.27
<b>Current Liabilities – Total</b>	<b>2190.69</b>	<b>3156.82</b>	<b>3495.09</b>				
<b>WORKING CAPITAL (CA – CL)</b>	<b>1904.21</b>	<b>1926.14</b>	<b>1819.78</b>				
NET INCREASE IN WORKING CAPITAL	21.93		106.36		21.93	106.36	
<b>TOTAL</b>	<b>1926.14</b>	<b>1926.14</b>	<b>1926.14</b>	<b>988.06</b>	<b>988.06</b>	<b>573.69</b>	<b>573.69</b>

(Source: Secondary Data)

**Table 4: Schedule of Changes in Working Capital (2023-2024)**

Particulars	Year			Working Capital			
	2022 (Rs. In Lakhs)	2023 (Rs. In Lakhs)	2024 (Rs. In Lakhs)	Increase (Rs. In Lakhs)	Decrease (Rs. In Lakhs)	Increase (Rs. In Lakhs)	Decrease (Rs. In Lakhs)
<b>CURRENT ASSETS:</b>							
Inventories	1080.83	1839.76	1690.65	758.93			149.11
Sundry Debtors	2196.23	3316.79	4855.18	1120.56		1538.39	
Cash & Bank Balances	182.11	149.85	123.76		32.26		26.1
Loans & Advances	1855.69	2080.45	452.03	224.76		19.01	
<b>Current Assets –Total</b>	<b>5314.87</b>	<b>7386.86</b>	162.11			45.65	
<b>CURRENT LIABILITIES:</b>			<b>7283.73</b>				
Current Liabilities & Provision	3495.09	4899.93			1404.84		
<b>Current Liabilities – Total</b>	<b>3495.09</b>	<b>4899.93</b>	1334.70				929.60
<b>WORKING CAPITAL (CA – CL)</b>	<b>1819.78</b>	<b>2486.93</b>	2009.72			327.08	
NET INCREASE IN WORKING CAPITAL	667.15		492.29		667.15		151.02
<b>TOTAL</b>	<b>2486.93</b>	<b>2486.93</b>	849.55	<b>2104.25</b>	<b>2104.25</b>		32.12

(Source: Annual Report)

**Table 5: Trend Analysis For Working Capital**

Year	Y	Deviation from X- 2010.5	X <sup>2</sup>	XY	Trend Value Y <sub>t</sub> = a + bx
2020 – 2021	1926.14	-2	4	-3852.28	1783.982
2021 – 2022	1819.78	-1	1	-1819.78	2073.523
2022 – 2023	2486.93	0	0	0	2363.064
2023 – 2024	2597.47	1	1	2597.47	2652.605
2024 – 2025	2985	2	4	5970	2942.146
N=5	∑Y=11815.32	∑X=0	∑X <sup>2</sup> =10	∑XY=2895.41	

Source: Annual Report

$$Y_t = a + bx$$

$$a = \frac{\sum Y}{N}$$



$$b = \frac{\sum XY}{X^2}$$

$$a = 11815.32 / 5 = 2363.064$$

$$b = 2895.41 / 10 = 289.541$$

Table 6: Projection For Future Working Capital

YEAR	Y = a + bx
2025 – 2026	3231.687
2026 – 2027	3521.228
2027 – 2028	3810.769
2028 – 2029	4100.310
2029 – 2030	4389.851

### Leverage Analysis

#### Financial Leverage

Table 7

Year	Financial Leverage	Operating Leverage	Composite Leverage
2020 – 2021	1.37	0.46	0.63
2021 – 2022	1.23	0.56	0.69
2022 – 2023	1.20	0.31	0.37
2023 – 2024	1.36	0.57	0.78
2024 – 2025	1.62	0.56	0.91

Source: Primary Data

## VI. FINDINGS OF THE STUDY

### Findings through Ratio Analysis:

#### Liquidity Ratios:

The Current Ratio of Roots Industries India Limited is not satisfactory since it does not meet the standard norm. The Quick Ratio of the Company is to the norm, so the Company has the capacity to meet its current obligation. The Company's Absolute Liquid Ratio is not sufficient for the requirements.

#### Profitability Ratios:

There is instability in the Gross Profit Ratio of Roots Industries India Limited during the study period. During the study period, the Net Profit Ratio of the Company is not stable.

#### Activity Ratios:

The Inventory Turnover Ratio of the Company shows a declining trend; this shows that the Stock is easily converted to Sales.

The Inventory Conversion period is higher during the study period.

The Debtors Turnover Ratio of Roots Industries India Limited shows a fluctuating trend, since there is inefficiency in the debt management.

There is a lag in the collection of the debts during the study period.

The Working Capital Turnover Ratio is declining during the period of study since there is inefficient management of Working Capital.



*Capital Structure or Leverage Ratios:*

The Debt – Equity Ratio is satisfactory during the study period, since the ratio is up to the norms.

The Ratio of Fixed Assets to Funded Debts reveals a fluctuating trend in the period of study; the higher ratio indicates least utilization of debts.

The Company's Proprietary Ratio shows a declining trend during the period of study.

During the study period, the Capital Gearing Ratio of Roots Industries India Limited shows a gradual decrease, which means low gear, whereby the Company would be able to maintain a steady dividend.

*Findings through Schedule of Changes in Working Capital:*

The Overall Working Capital Position of Roots Industries India Limited shows an increasing trend. The Company has increased the funds towards covering its immediate obligations.

*Findings through Trend Analysis:*

Trend Analysis of Working Capital of Roots Industries India Limited shows an increasing trend during the study period. It has increased from Rs.1783.982 Lakhs in 2020 – 2021 to Rs.2942.146 Lakhs in 2024 – 2025. The projection for future trend from 2025 – 2026 to 2029 – 2030 indicates that there is an increasing trend in the Working Capital. The Working Capital during 2029 – 2030 will be Rs.4389.851 Lakhs.

*Findings through Leverage Analysis:*

The Financial Leverage Ratio of Roots Industries India Limited shows an increasing trend during the study period.

The trend of Operating Leverage Ratio fluctuates. The Operating Leverage is low, indicating higher margin of safety for the Company.

The Composite Leverage is a combination of Financial Leverage and the Operating Leverage. The Composite Leverage of the Company during the study period is low which implies low risk.

## VII. SUGGESTIONS

The analysis states that the liquidity position of the Company is unfavorable. The Company has to increase the amount of funds towards liquidity to cover the immediate requirements.

The Profitability ratios clearly show that there is no stability in the Profits during the study period. The Company should reduce the operating expenses without affecting the Sales.

The Company should investigate the effective and efficient use of the Working Capital which is not satisfactory according to the Activity or Turnover ratios.

The ratios on the analysis of capital structure or leverage states that the Company's position is satisfactory with regard to Debt – Equity Ratio, Ratio of Fixed Assets to Funded Debt, Proprietary Ratio, Capital Gearing Ratio. A consistent behavior towards the Capital Structure is required.

The Schedule of Changes in Working Capital shows that there is an increase in the funds that are invested for current obligations. The Company should have an eye on the maintenance of Working Capital position in the coming years to meet the immediate obligations.

The Leverage Analysis shows that the Company has a higher margin of safety which in turn means low risk. To have high margin of safety, the Company should maintain the Capital Structure at the optimum level.

## VIII. CONCLUSION

The success of every business concern depends upon the usage of Working Capital in an efficient manner. The study was conducted to analyze the Working Capital Management of Roots Industries India Limited for a five years period. The annual report of the Company is analyzed and interpreted to evaluate the performance of the Company regarding liquidity. It was found that the Working Capital position of the Company is not very satisfactory. The Company has to



take necessary steps to improve their performance. This study is found to be useful to the organization for developing the Company's Working Capital policies and profitability position in the forthcoming years. Leverage analysis of the company states that both financial and operating risk associated with the company is less and they are very efficient in using the operating cost. The financial performance of the company is also good and they are maintaining it. Capital structure decisions are dynamic for every year. Overall, the company's capital structure is optimum. The study suggests the company earn higher returns in future.

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