



A Study on the Impact of Working Capital Management in Sri Ramana Enterprises

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ABSTRACT

How to Cite this Article:

Tharun, M. (2026). A Study on the Impact of Working Capital Management in Sri Ramana Enterprises. International Journal of Creative and Open Research in Engineering and Management, 2(8), 1-9.
<https://doi.org/10.55041/ijcope.v2i8.287>

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<https://doi.org/10.55041/ijcope.v2i8.287>

Working capital management sits at the heart of a manufacturing firm's short-term financial health, since it governs whether day-to-day funds are available for production, distribution, and credit administration. This article looks at how Sri Ramana Enterprises, a Chennai-based manufacturer and distributor of polycarbonate roofing sheets and allied building products, has handled its working capital over the five years from 2020-21 to 2024-25. Using a descriptive and analytical design built on secondary data from the company's financial statements, the study applies ratio analysis, trend analysis, and simple correlation analysis to assess liquidity, the efficiency of inventory, receivables and payables management, and the behaviour of the cash conversion cycle.

The findings show a company on a steady upward path: net working capital climbed from 135 lakhs to 240 lakhs, the current ratio edged up from 1.60 to 1.68, the inventory holding period fell from 106 to 97 days, the receivables collection period shortened from 60 to 56 days, and the cash conversion cycle shortened from 91.4 days to 81.7 days even as the quick ratio and absolute cash ratio stayed below textbook benchmarks throughout. The correlation analysis provides directional evidence of the observed improvement in liquidity and efficiency and indicates a strong positive association between net working capital and sales growth.. Overall, the

article concludes that Sri Ramana Enterprises has managed its working capital position reasonably well during the study period and it closes with practical suggestions on inventory optimisation, receivables monitoring, and regular ratio review.

Keywords: Working Capital Management, Liquidity, Manufacturing SME, Ratio Analysis, Cash Conversion Cycle, Sri Ramana Enterprises



1. Introduction

Working capital is simply the gap between a firm's current assets and its current liabilities the pool of funds a business draws on to meet its routine operating expenses. Current assets typically cover cash, inventory, trade receivables, and short-term investments, while current liabilities include trade payables, short-term borrowings, and other obligations due within a year. Managing working capital, then, means planning, controlling, and monitoring these short-term assets and liabilities so that a company stays liquid without giving up profitability along the way.

For a manufacturing enterprise, working capital is really the lifeblood of daily operations. Unlike fixed capital, which stays locked into long-term assets such as plant and machinery, working capital keeps moving through raw materials, work-in-progress, finished goods, receivables, and back to cash again. How well this cycle is managed has a direct bearing on a firm's liquidity, profitability, and overall stability. A slip at any single stage, whether it is excess inventory, slow collections, or supplier terms that do not line up with the business, can tie up funds unnecessarily and put daily operations under strain.

Sri Ramana Enterprises was set up in Chennai in 2006 and is a professionally run manufacturing and marketing company supplying Lexan polycarbonate sheets, multiwall sheets, corrugated sheets, roof ventilators, PUF panels, sealants, and related insulation products to the construction and signage industries. Over nearly two decades it has grown from a regional trading operation in Chennai into a well-recognised supplier across Tamil Nadu, Karnataka, Andhra Pradesh, Telangana, and Kerala, with stock points in Chennai, Bengaluru, Coimbatore, and Hyderabad. As a small and medium manufacturing enterprise in a working-capital-intensive corner of the building materials industry, its financial performance depends heavily on how well it manages inventory, dealer credit, and supplier payments across multiple locations which makes it a fitting and relevant subject for a focused study on working capital management in a growing manufacturing organisation.

Against this background, examining the working capital position of Sri Ramana Enterprises provides an opportunity to understand how a growing manufacturing and distribution enterprise manages its short-term financial resources. The present study therefore focuses on the company's liquidity, inventory, receivables, payables, net working capital and cash conversion cycle over the five-year period from 2020-21 to 2024-25. The analysis seeks to identify major trends in working capital management and to suggest practical measures for improving efficiency while maintaining adequate liquidity.

2. Review of Literature

A large body of research connects working capital management to firm profitability and liquidity, though how strong and in which direction this relationship runs tends to vary by industry, time period, and firm characteristics. Deloof (2003) found that cutting the number of days receivables and inventory stay outstanding improves profitability among manufacturing firms, while Raheman and Nasr (2007) reported a significant negative relationship between the cash conversion cycle and net operating profitability suggesting firms can boost returns simply by converting working capital into cash faster. Lazaridis and Tryfonidis (2006) reached a similar conclusion: firms create value for shareholders by managing the cash conversion cycle and each of its components at an appropriate level.

Several studies push back against the idea that 'more working capital' is always better. Banos-Caballero, Garcia-Teruel, and Martinez-Solano (2014) showed that an optimum level of working capital exists, beyond which additional investment actually erodes profitability, and Garg and Meentu (2023) confirmed an inverted U-shaped relationship between working capital investment and profitability among Indian manufacturing firms. Afza and Nazir (2009) added a risk angle, showing that conservative working capital policies reduce risk but also reduce returns, while aggressive policies raise both. Padachi (2006) and Ahangar (2021), looking specifically at small firms, found that both very low and very high working capital levels create difficulties for resource-constrained enterprises reinforcing the case for a



balanced approach in the SME segment that Sri Ramana Enterprises belongs to.

More recent research keeps refining this picture. Panigrahi (2025), studying the Indian cement industry, found that firms improve profitability by shortening the cash conversion cycle, collecting receivables promptly, holding reasonable inventory, and making fuller use of supplier credit insights that translate directly to the building-materials segment. Sethi and Bapat (2025) observed that working capital requirements shift across a firm's life cycle and recommended periodic rather than static policy review. Alcaraz Ochoa, Aviles-Ochoa, and Leon-Castro (2026) and Liana, Putra, Yuliusman, and Olimsar (2026), in their respective reviews, both reaffirm that the effect of working capital on profitability is firm- and industry-specific, and that inventory, receivables, payables, and the cash conversion cycle need to be managed jointly rather than as separate concerns.

Within the Indian context, Garg and Singh (2023, 2024) demonstrated a significant relationship between the cash conversion cycle and profitability in the steel and broader manufacturing sectors, while Kumar and Sharma (2019) noted that small and medium manufacturers, given their limited access to formal credit, lean heavily on trade credit and so need particularly disciplined inventory and receivables management. Pandey (2015) and Chandra (2011) frame working capital management, at a conceptual level, as a balancing act between liquidity and profitability, with ratio analysis remaining the most widely used evaluative tool. Overall, the literature indicates that effective working capital management involves maintaining a balance between liquidity, operational efficiency and profitability. However, the importance of individual working capital components varies according to the nature, size and operating environment of a firm. This provides a basis for examining working capital management in the specific context of Sri Ramana Enterprises.

Research Gap

Taken together, this body of work from classical studies such as Deloof (2003) and Raheman and Nasr (2007) through to the most recent contributions of 2023 to 2026 shows sustained scholarly interest in working capital management among listed companies, large manufacturers, and specific industries such as cement, steel, and automobiles. Comparatively little attention, however, has gone to small and medium manufacturing enterprises operating in the building-materials and polycarbonate roofing segment in India, a segment marked by multi-state distribution, dealer-driven credit, and seasonal construction demand. The literature reviewed for the period 2023–2026 indicates limited research specifically focusing on small and medium-sized enterprises operating in the building-materials and polycarbonate roofing segment in India. This study addresses that gap by evaluating the working capital management practices of Sri Ramana Enterprises, extending the existing body of knowledge to a growing but under-studied part of the Indian manufacturing economy.

3. Research Questions

Building on the research gap identified above, the study is guided by the following questions:

- What is the trend in the composition of current assets and current liabilities of Sri Ramana Enterprises over the study period?
- How has the liquidity position of the company, as measured by the current, quick, and absolute cash ratios, changed over the five years under review?
- How efficiently has the company managed its inventory, receivables, and payables, and how has this efficiency evolved over time?
- What is the trend in the company's net working capital, working capital turnover ratio, and cash conversion cycle?
- What is the relationship between net working capital and net sales of the company during the study period?



4. Objective and Hypothesis

4.1 Primary Objective

To study and evaluate the working capital management practices followed by Sri Ramana Enterprises, a manufacturing company, over the five-year period from **2020-21** to **2024-25**.

4.2 Secondary Objectives

- To analyse the composition and trend of current assets and current liabilities of the company.
- To measure the liquidity position using the current ratio, quick ratio, and absolute cash ratio.
- To evaluate the efficiency of inventory, receivables, and payables management using turnover ratios.
- To examine the trend in net working capital and the working capital turnover ratio.
- To study the operating cycle and cash conversion cycle and identify areas for improvement.
- To provide practical recommendations for improving working capital management at Sri Ramana Enterprises

4.3 Analytical Hypotheses

To provide an analytical basis for examining the relationships and trends observed during the study period, the following null hypotheses are formulated:

- **H01:** There is no positive association between the year of study and the current ratio of Sri Ramana Enterprises.
- **H02:** There is no significant relationship between net working capital and net sales of Sri Ramana Enterprises.
- **H03:** There is no negative association between the year of study and the cash conversion cycle of Sri Ramana Enterprises.

Since the analysis is based on only five annual observations, the correlation results are interpreted primarily as directional evidence rather than as formal statistical significance tests.

5. Research Methodology

Research methodology refers to the systematic procedure used to collect, organise, analyse, and interpret data relevant to a research problem. This section sets out the design, period, data sources, and analytical tools used in the present study.

5.1 Research Design

The study is both descriptive and analytical. It is descriptive because it lays out the composition, trend, and behaviour of Sri Ramana Enterprises' working capital components, and analytical because it applies financial ratios, trend analysis, and correlation analysis to the secondary data collected in order to draw meaningful conclusions.



5.2 Period and Sampling

The study covers five financial years, from **2020-21** to **2024-25** a period chosen because it offers a recent, continuous run of data that captures the company's working capital position during and after a phase of business disruption and recovery. Since the study rests on the financial statements of a single organisation, a purposive (judgmental) sampling technique was used, with Sri Ramana Enterprises selected as the unit of study.

5.3 Sources and Methods of Data Collection

The study relies mainly on secondary data the balance sheets and statements of profit and loss of Sri Ramana Enterprises for **2020-21** to **2024-25** together with internal records on inventory, receivables, and payables. This was supplemented with primary information gathered through informal discussions with the company's finance and accounts personnel on credit policy, inventory practices, and supplier payment terms. A structured data collection format was used to systematically record current asset and current liability figures, along with the corresponding sales and purchase figures needed to compute turnover ratios.

5.4 Tools Used for Analysis

The study draws on ratio analysis (current ratio, quick ratio, absolute cash ratio, and inventory, debtors, creditors, and working capital turnover ratios), trend analysis of net working capital and key indicators over the five-year period, a statement of changes in working capital, operating cycle and cash conversion cycle analysis, and Pearson correlation analysis to test the hypotheses stated in Section 4.3. Microsoft Excel was used for tabulation and computation.

5.5 Limitations of the Study

The study is confined to a single manufacturing company, so its findings cannot be generalised to the entire building-materials industry. The five-year period, while enough to identify short-term trends, limits the number of observations available for correlation analysis. Therefore, the correlation results should be interpreted as indicative evidence of the direction and strength of association rather than as formal tests of statistical significance. The study relies on ratio analysis, which does not capture qualitative aspects such as supplier relationships, and it does not factor in external influences such as inflation or raw material price volatility.

6. Data Analysis and Interpretation

All figures below are expressed in ₹ lakhs unless stated otherwise and are drawn from the balance sheets of Sri Ramana Enterprises for the five years under study.

6.1 Current Assets, Current Liabilities, and Net Working Capital

Particulars	2020-21	2021-22	2022-23	2023-24	2024-25
Total Current Assets	360	418	473	527	592
Total Current Liabilities	225	258	293	323	352
Net Working Capital	135	160	180	204	240

Table 1: Current Assets, Current Liabilities, and Net Working Capital (₹ Lakhs)

- Total current assets grew from ₹360 lakhs to ₹592 lakhs, a rise of about 64 per cent, driven mainly by rising inventory and trade receivables as the company pushed into new markets.



- Current liabilities grew at a somewhat slower pace, from ₹225 lakhs to ₹352 lakhs.
- As a result, net working capital rose steadily from ₹135 lakhs to ₹240 lakhs, indicating that the company's net working capital position strengthened over the study period.

6.2 Liquidity Ratios

Ratio	2020-21	2021-22	2022-23	2023-24	2024-25
Current Ratio (times)	1.60	1.62	1.61	1.63	1.68
Quick Ratio (times)	0.80	0.83	0.81	0.83	0.86
Absolute Cash Ratio (times)	0.11	0.12	0.10	0.11	0.12

Table 2: Current Ratio, Quick Ratio, and Absolute Cash Ratio

- The current ratio held fairly steady between 1.60 and 1.68 below the conventional 2:1 benchmark, but relatively stable throughout the study period.
- The quick ratio stayed within 0.80 to 0.86, below the ideal 1:1 norm, indicating that a considerable portion of the company's current assets is represented by inventory
- The absolute cash ratio remained low and steady at around 0.10 to 0.12, showing that the company leans on converting inventory and receivables, rather than cash reserves, to meet its short-term obligations.

6.3 Efficiency Ratios

Efficiency Measure	2020-21	2021-22	2022-23	2023-24	2024-25
Inventory Turnover (times)	3.44	3.71	3.68	3.76	3.78
Inventory Holding Period (days)	106.1	98.4	99.2	97.1	96.6
Debtors Turnover (times)	6.07	6.43	6.31	6.45	6.52
Collection Period (days)	60.1	56.8	57.8	56.6	56.0
Creditors Turnover (times)	4.88	5.21	5.14	5.14	5.15
Payment Period (days)	74.8	70.1	71.0	71.0	70.9

Table 3: Inventory, Debtors, and Creditors Turnover and Related Periods

- Inventory turnover improved from 3.44 to 3.78 times, with the holding period falling from about 106 to 97 days - a sign of better stock management across locations.
- Debtors turnover improved from 6.07 to 6.52 times, with the collection period falling from 60 to 56 days, reflecting stronger credit control over the dealer network.
- Creditors turnover settled at around 5.1 to 5.2 times after rising from 4.88 in the base year, with the payment period holding near 70 to 71 days - a fairly consistent credit relationship with suppliers of polycarbonate resin and allied raw material.



6.4 Working Capital Turnover Ratio and Cash Conversion Cycle

Measure	2020-21	2021-22	2022-23	2023-24	2024-25
Working Capital Turnover (times)	6.30	6.12	6.22	6.32	6.04
Cash Conversion Cycle (days)	91.4	85.1	86.0	82.7	81.7

Table 4: Working Capital Turnover Ratio and Cash Conversion Cycle

- The working capital turnover ratio stayed within a narrow band of 6.04 to 6.32 times, showing that working capital growth has kept pace closely with sales growth.
- The cash conversion cycle improved from about 91 days to 82 days, reflecting a shorter inventory holding period and faster collections, even as the payment period to creditors also shortened slightly.
- Because the payment period to creditors (around 70 days) has consistently exceeded the collection period from debtors (around 56 to 60 days), the payment period to creditors remained longer than the collection period from debtors, which contributed to the reduction in the cash conversion cycle.

6.5 Hypothesis Testing

To test the hypotheses framed in Section 4.3, Pearson correlation coefficients were computed between the relevant variables across the five years of the study.

Hypothesis	Variables Correlated	Pearson r	Direction	Decision
H01	Year vs. Current Ratio	+0.86	Strong positive	Directional evidence of improvement
H02	Net Working Capital vs. Net Sales	+0.996	Very strong positive	Strong positive association observed
H03	Year vs. Cash Conversion Cycle	-0.91	Strong negative	Directional evidence of reduction

Table 5: Summary of Correlation Analysis

- Year and the current ratio show a strongly positive correlation ($r = 0.86$), pointing to a consistent, if gradual, improvement in liquidity over the study period — H01 is therefore rejected -- The result indicates a strong positive association between year and the current ratio, suggesting a gradual improvement in liquidity over the study period.
- Net working capital and net sales show a very strongly positive correlation ($r = 0.996$), confirming that working capital has expanded almost in lockstep with sales growth — H02 is therefore rejected.
- Year and the cash conversion cycle show a strongly negative correlation ($r = -0.91$), confirming a steady shortening of the cycle over time — H03 is therefore rejected.



Given the limited number of annual observations ($n = 5$), these correlations are best read as clear directional evidence of the trends discussed above, rather than as formal tests of statistical significance.

7. Discussion

Taken together, the findings indicate that Sri Ramana Enterprises expanded its operations during the study period while maintaining a relatively stable working capital position of a manufacturing SME that has scaled up its operations while keeping its working capital position under reasonable control. The steady rise in net working capital, mirrored almost exactly by the rise in net sales, suggests that the company's finance function has scaled its investment in current assets in a disciplined way rather than letting inventory or receivables pile up disproportionately. The stability of the working capital turnover ratio backs this up it would have drifted noticeably had working capital grown faster or slower than sales.

At the same time, the quick ratio and absolute cash ratio point to a structural feature common among manufacturing and distribution businesses that stock building materials across several states: a large share of funds stays tied up in inventory rather than in more liquid assets. This lines up with the findings of Padachi (2006) and Ahangar (2021) on SME working capital behaviour, and it explains why the company's immediate liquidity measured strictly by cash and bank balances remains modest even though its overall current ratio looks comfortable.

The improving trend in the inventory holding period, collection period, and cash conversion cycle fits with the findings of Deloof (2003), Raheman and Nasr (2007), and, more recently, Panigrahi (2025), all of whom link a shorter cash conversion cycle to stronger working capital efficiency. For Sri Ramana Enterprises, the fact that the payment period to suppliers has consistently exceeded the collection period from dealers is a particularly favourable feature it means the company is, in effect, partly financed by supplier credit rather than relying solely on its own funds or short-term borrowings to bridge its operating cycle.

8. Practical Implementation

The findings of this study carry several practical implications for the management of Sri Ramana Enterprises, and for similarly placed manufacturing SMEs in the building-materials segment.

- Since the quick ratio remains below the ideal benchmark, management should review inventory policy at each stock point to avoid holding excess or slow-moving stock, particularly of less popular product variants, and may consider techniques such as ABC analysis or economic order quantity to reduce holding periods further.
- Although the collection period has improved, the company should continue to track dealer-wise ageing of receivables so that long-outstanding dues from any particular region or dealer do not build up unnoticed.
- The company could explore more structured credit terms with key raw material suppliers to optimise its payment period further without straining supplier relationships.
- Given the low absolute cash ratio, maintaining a minimum cash buffer would help the company handle unforeseen short-term obligations, particularly during seasonal troughs in dealer collections.
- As the company continues to expand into new markets and stock points, working capital requirements should be reviewed periodically ideally quarterly rather than only annually so management can spot and address adverse trends promptly.
- For the broader industry, the study suggests that manufacturing SMEs distributing through multi-state dealer networks stand to benefit from treating inventory, receivables, and payables as one jointly managed system rather than as separate line items, in line with the recommendation of Lyngstadaas (2020).

9. CONCLUSION

This study looked at how Sri Ramana Enterprises, a Chennai-based manufacturer of polycarbonate roofing and allied building products, has managed its working capital over the five financial years from 2020-21 to 2024-25. The analysis



shows a company that has handled its working capital in a reasonably efficient and balanced way: net working capital has grown steadily and in close step with sales, the current ratio has improved mildly, inventory and receivables efficiency have both strengthened, and the cash conversion cycle has shortened meaningfully. Correlation analysis carried out to test the study's hypotheses backs up each of these trends, rejecting the null hypotheses of no improvement in liquidity, no relationship between working capital and sales, and no improvement in the cash conversion cycle.

At the same time, the persistently low quick ratio and absolute cash ratio show that a significant share of the company's funds remains tied up in inventory, which underscores why disciplined stock management will keep mattering as the company expands further. Overall, the study concludes that Sri Ramana Enterprises has supported its multi-state growth without running into liquidity strain, and that continued attention to inventory optimisation, receivables monitoring, and periodic review of working capital ratios as suggested above would help the company strengthen its financial position and sustain long-term growth in a competitive manufacturing industry. This article also adds to the limited body of research on working capital management in the Indian building-materials SME segment, and future studies could extend the analysis to a larger sample of firms in this segment or to a longer time series.

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