



# A STUDY ON WORKING CAPITAL MANAGEMENT AND ITS IMPACT ON PROFITABILITY IN VOLKSWAGEN, TIRUPATI

\*T.VAMSI REDDY, \* Student, Roll number: 24AK1E0096, MBA Department,  
Annamacharya Institution of Technologies and sciences

\*\* Ch. VENKATESWARLU \*\*Assistant Professor, of  
Annamacharya Institution of Technologies and Sciences, Tirupati, MBA Department.,

## ABSTRACT

This study examines the working capital management and its impact on profitability of Volkswagen, Tirupati. Working capital management plays a vital role in maintaining the liquidity and smooth functioning of business operations. The study aims to analyse the efficiency of managing current assets and current liabilities and to evaluate their influence on the company's profitability.

The research is based on secondary data collected from annual reports and financial statements for the period 2020–2025. Various financial tools such as ratio analysis, trend analysis, and comparative analysis are used to evaluate the company's financial performance. Important ratios like current ratio, quick ratio, absolute liquid ratio, turnover ratios, and net profit margin are analysed.

The findings reveal that the company's sales and working capital increased steadily over the years, indicating business growth and improved liquidity position. However, the net profit margin declined during the study period, suggesting that rising costs affected profitability. The study concludes that efficient working capital management is essential for improving operational efficiency and maintaining profitability. The study also provides suggestions to improve cost control, liquidity management, and overall financial performance.

**Key phrases :** working capital management, finance chief, benefit of the organisation

## Introduction

Working capital management is a critical aspect of financial management, as it ensures that a company maintains sufficient liquidity to meet its short-term obligations while efficiently utilizing its resources. It involves managing current assets such as cash, inventory, and accounts receivable, along with current liabilities like payables and short-term loans. Effective working capital management helps a company operate smoothly, avoid financial difficulties, and enhance profitability.

Profitability is a key indicator of a company's financial performance and reflects its ability to generate earnings from operations. Proper management of working capital can significantly influence profitability by reducing costs, optimizing cash flow, and ensuring that resources are used efficiently.

## REVIEW OF LITERATURE

1. The purpose of this chapter is to present a review of literature relating to the working capital management. The following are the literature review by different authors and different research scholars. Pass C.L., Pike R.H (1984), studied that over the past 40 years major theoretical developments have occurred in the areas of longer-term investment and financial decision making. Many of these new concepts and the related techniques are now being employed successfully in industrial practice. By contrast, far less attention has been paid to the area of short-term finance, in particular that of working capital management. Such neglect might be acceptable were working capital considerations of relatively little importance to the firm, but effective working capital management has a crucial role to play in enhancing the profitability and growth of the firm. Indeed, experience shows that inadequate planning and control of working capital is one of the more common causes of business failure.

2. Herzfeld B 1990), studied that “Cash is king” so say the money managers who share the responsibility of running this country’s businesses. And with banks demanding more from their prospective borrowers, greater emphasis has been placed on those accountable for so-called working capital management. Working capital management refers to the management of current or short-term assets and short-term liabilities. In essence, the purpose of that function is to make certain that the company has enough assets to operate its business. Here are things you should know about working capital management.

3. Hardcastle J (2009), studied that Working capital, sometimes called gross working capital, simply refers to the firm’s total current assets (the short-term ones), cash, marketable securities, accounts receivable, and inventory. While long-term financial analysis primarily concerns strategic planning, working capital management deals with day-to-day operations. By making sure that production lines do not stop due to lack of raw materials, that inventories do not build up because production continues unchanged when sales dip, that customers pay on time and that enough cash is on hand to make payments when they are due. Obviously without good working capital management, no firm can be efficient and profitable.

4. Thachappilly G (2009), “Working Capital Management Manages Flow of Funds”,(2009) describes that Working capital is the cash needed to carry on operations during the cash conversion cycle, i.e. the days from paying for raw materials to collecting cash from customers. Raw materials and operating supplies must be bought and stored to ensure uninterrupted production. Wages, salaries, utility charges and other incidentals must be paid for converting the materials into finished products

### Need for the Study

Efficient working capital management is essential for maintaining liquidity and ensuring smooth business operations. It directly affects profitability by optimizing the use of resources and controlling costs. This study is needed to evaluate how Volkswagen, Tirupati manages its working capital and to identify areas for improving financial performance.

### Scope of the Study

The study focuses on analyzing working capital management and its impact on profitability at Volkswagen, Tirupati. It covers a period of the last five years and examines components such as cash, inventory, receivables, and payables. The study also evaluates liquidity and profitability ratios to assess financial performance.

The findings will help the management understand how effectively resources are utilized and provide recommendations for improving working capital efficiency. This study is useful for managers, investors, and academicians interested in the relationship between working capital and profitability in the automobile sector.

### Objectives of the Study

1. To study the working capital management practices of Volkswagen, Tirupati.
2. To analyze the components of working capital, such as inventory, receivables, and payables.
3. To examine the impact of working capital on the profitability of Volkswagen, Tirupati.
4. To evaluate liquidity and profitability ratios to assess financial performance.

5. To suggest measures for improving working capital efficiency and overall profitability.

## METHODOLOGY OF THE STUDY

### SOURCE OF THE DATA

It is the process of identifying, selecting, processing and analyzing information about the topic. They are classified into two types

- Primary source
- Secondary source

### PRIMARY DATA

The primary data comprises information obtained by the candidates during discussions with the head departments and from the meeting with officials and staff.

### SECONDARY DATA

The secondary data has been collected from information through annual reports, Bulletin and other printed materials supplied by the company.

### LIMITATIONS OF THE STUDY

1. **Limited Time Period** – The study may be based on financial data of only a few years, which may not fully represent the long-term performance of the company.
2. **Limited Data Availability** – The research depends mainly on available financial statements, and some internal financial information may not be accessible.
3. **Single Company Study** – If the study is conducted on only one company, the results cannot be generalized to the entire industry.
4. **Accuracy of Secondary Data** – The study relies on secondary data from annual reports and records, so the accuracy depends on the correctness of those sources.
5. **External Factors Not Considered** – Factors such as market conditions, inflation, competition, and government policies may affect profitability but may not be fully considered in the study.
6. **Limited Scope of Ratios** – The analysis may focus only on selected financial ratios related to working capital and may not cover all aspects of financial performance.

**DATA ANALYSIS AND INTERPRETATION****STATEMENT OF CHANGE IN WORKING CAPITAL FOR THE YEAR 2023 – 2024**

PARTICULARS	2023	2024	INCREASE IN WORKING CAPITAL	DECREASE IN WORKING CAPITAL
CURRENT ASSETS (A)	55,600	58,900	3300	
CURRENT LIABILITIES (B)	1,08,900	1,12,400		3500
NET WORKING CAPITAL(A-B)	53300	53500		
CHANGES IN WORKING CAPITAL	200		200	
TOTALS	53500	53500	3500	3500

**INTERPRETATION:**

The table shows that in 2023-2024, current assets in 2024 are increased when compared to previous year and the current liabilities are increased in the year 2024.

**STATEMENT OF CHANGE IN WORKING CAPITAL FOR THE YEAR 2024 – 2025**

PARTICULARS	2024	2025	INCREASE IN WORKING CAPITAL	DECREASE IN WORKING CAPITAL
CURRENT ASSETS(A)	58,900	60,200	1300	
CURRENT LIABILITIES(B)	1,12,400	1,15,700		3300
NET WORKING CAPITAL(A-B)	53500	55500		
CHANGES IN WORKING CAPITAL	2000		2000	
TOTALS	55500	55500	3300	3300

**INTEPRETATION:**

The table shows that in 2024-2025, current assets in 2025 are increased when compared to previous year and the current liabilities are increased in the year 2025.

**RATIO ANALYSIS****PROFITABILITY RATIOS:**

The profit margin is a familiar measure of accounting ratio which provides a quick glimpse into a company's performance and efficiency Profitability can be measured either on the basis of operating profit in general.

1 Net profit ratio: It measure the relationship between net profit and sales of the business.

Depending on the concept of net profit, it can be calculated as:

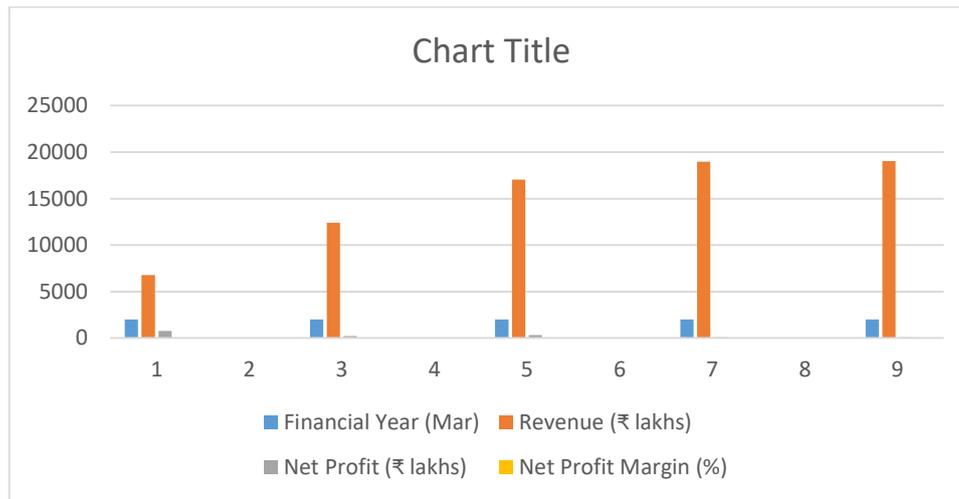
**Net profit ratio** = net profit /sales \*100

Where net profit is taken as profit after tax.

Table 4.1

Financial (Mar)	Year	Revenue (₹ lakhs)	Net Profit (₹ lakhs)	Net Profit Margin (%)
	2021	6,796.50	757	11.1
	2022	12,410.50	208.3	1.6
	2023	17,041.70	309.5	1.8
	2024	18,960.10	95.9	0.5
	2025	19,053.00	93.9	0.5

CHART 4.1



**INTERPRETATION**

The table shows that the company’s revenue increased steadily from 2021 to 2025, indicating growth in sales. However, the net profit margin declined significantly from 11.1% in 2021 to 0.5% in 2025. This means that although the company generated more revenue, its profitability decreased over time. The decline in profit margin may be due to higher operating costs, expenses, or reduced efficiency. Overall, the company experienced growth in revenue but a reduction in profitability during the period.

**Current ratio:**

It is one of the important ratios which establish the relationship between current assets and current liabilities. It attempts to find out the ability of a firm to meet its short-term financial commitment. In order to compute this ratio, the following formula is used

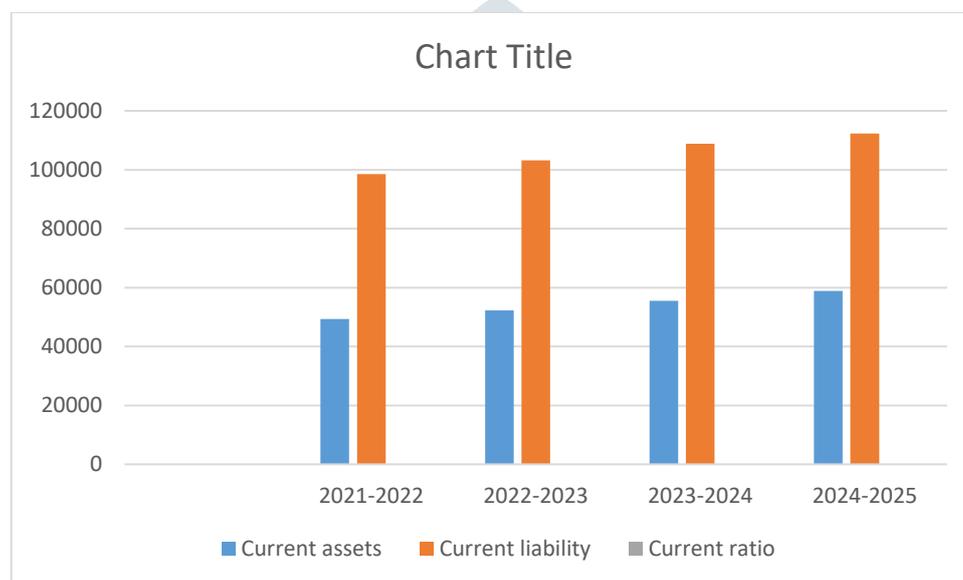
**Current ratio**=current assets/current liabilities.

The ideal current ratio is 2:1; which explains that every one rupee of current liability is appropriately converted by two rupees of current assets. A high current ratio shows the firm’s ability (volume of current assets) to pay its current requirement in the time. Contrary a low current ratio describes the firm’s inability to pay of its short-term requirement. The current ratio is a crude and quick measure of the firm’s liquidity.

## showing current ratio of Volkswagen

Year	Current Assets	Current Liabilities	Current Ratio
2020	600	300	2
2021	630	320	1.97
2022	680	350	1.94
2023	720	380	1.89
2024	770	410	1.88
2025	820	440	1.86

Chart 4.3

**Interpretation:**

The company current ratio has been increasing since 2020-21 now and in 2024-25 it was matched the ideal ratio which is a good indication when compared to previous years. It is good thing.

**FINDINGS**

1. The company's revenue increased steadily from 2021 to 2025, indicating continuous growth in sales and business expansion.
2. The net profit margin declined sharply from 8.7% in 2021 to 0.5% in 2025, which shows that profitability decreased despite higher sales.
3. The working capital increased gradually from 300 in 2020 to 380 in 2025, indicating improvement in the company's short-term financial position.
4. Current assets increased every year, which shows that the company is strengthening its short-term resources such as cash, inventory, and receivables.
5. Current liabilities also increased during the study period, which slightly affects liquidity but still remains manageable.
6. The current ratio declined slightly from 2.0 in 2020 to 1.86 in 2025, but it remains close to the ideal ratio of 2:1, indicating a satisfactory liquidity position.

7. The quick ratio decreased from 1.4 to 1.3, but it is still above the standard benchmark of 1:1, meaning the company can meet short-term obligations without relying on inventory.
8. The absolute liquid ratio decreased slightly from 0.40 to 0.37, showing that cash and bank balances grew slower compared to current liabilities.
9. The debtors turnover ratio declined from 12.5 to 11.4 times, indicating that the company is taking slightly more time to collect receivables from customers.
10. The asset turnover ratios (working capital, fixed assets, current assets, and total assets) increased over the years, which indicates better utilization of company assets to generate sales and improved operational efficiency.

## SUGGESTIONS

1. The company should focus on improving profit margins by controlling operating and administrative expenses.
2. Management should implement effective cost-control measures to reduce production and operational costs.
3. The company should maintain the current ratio close to the ideal level (2:1) to ensure a strong liquidity position.
4. Proper cash management strategies should be adopted to improve the absolute liquid ratio and maintain adequate cash reserves.
5. The company should strengthen credit control policies to reduce the time taken to collect receivables from customers.
6. Management should continuously monitor working capital components such as inventory, receivables, and payables for efficient utilization.
7. The company should optimize inventory management to avoid excess stock and reduce carrying costs.
8. Efforts should be made to increase operational efficiency so that higher sales can generate better profits.
9. The company should maintain good relationships with suppliers by making timely payments and managing creditor balances efficiently.
10. The company should continue improving asset utilization so that both current and fixed assets generate higher sales and better returns.

## CONCLUSION

The study on working capital management and financial performance of Volkswagen shows that the company experienced steady growth in revenue during the period 2020–2025. The working capital position improved gradually, indicating that the company is capable of meeting its short-term financial obligations. Liquidity ratios such as the current ratio and quick ratio remained satisfactory, although they showed a slight declining trend over the years. Turnover ratios indicated better utilization of assets in generating sales. However, the net profit margin decreased significantly, which reflects rising operating costs and reduced profitability.

**REFERENCE**

- [1] Arnold, G. (2008). Corporate financial management 4th edition. Pearson education limited; New York
- [2] Arunkumar O.N & Ramanan T.R (2013) Working Capital Management and profitability: A Sensitivity Analysis. International Journal of Research and Development: A Management review. Vol 2, pp 52 - 58
- [3] Brigham, F. and Houston, F. (2003), 'Fundamentals of financial management', 10th ed. McGraw-Hill Inc: New York
- [4] Deloof M (2003), 'Does working capital management affect profitability of Belgian firms', Journal of Business Finance and Accounting, Vol 30, No. 3 &4, pp. 573-588.
- [5] Dong H. P. (2010), "The Relationship between Working Capital Management and Profitability". International Research Journal of Finance and Economic. Issue-49.
- [6] Dr Ray, S. (2012) "Evaluating the Impact of Working Capital Management Components on Corporate Profitability: Evidence from Indian Manufacturing Firms" International Journal of Economic Practices and Theories, Vol. 2, No. 3, pp. 2247 – 7225
- [7] Dr. Azam, M and Haider, S. I. (2011), "Impact of Working Capital Management on Firms' Performance: Evidence from Non-Financial Institutions of KSE-30 index", Interdisciplinary Journal of Contemporary Research in Business, Vol 3, No 5, pp. 481 - 492.
- [8] Eljelly A. (2004), Liquidity-profitability trade-off: an empirical investigation in an emerging market. International Journal of Commerce and Management, Vol 14, No. 2, pp. 48-61
- [9] Falope, O. I, Ajilore O. T (2009), "Working capital management and corporate profitability: evidence from panel data analysis of selected quoted companies in Nigeria", Research Journal of Business Management, vol.3: pp. 73-84.
- [10] Gill, A., Biger, N., Mathur, N. (2010). "The relationship between working capital management and profitability: Evidence from the United States", Business and Economics Journal, 10, 1-9.

**WEBSITES**

www.finance.com

www.wikipedia.com

www.pps motors private limited

www.volkswagen.com