



WC Efficiency and Profitability in SSIs: An Empirical Study of Delhi

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ABSTRACT

WCM is critical in defining financial performance and sustainability of the Small Scale Industries (SSIs). Nowadays, in large cities like Delhi, small businesses have to live within the conditions of liquidity constraint, slower payment bonds, and reduced access to formal funds, which is why effective liquidity management of assets and liabilities is paramount. This paper is an empirical research investigating the correlation between WC efficiency and profitability of 210 SSIs in Delhi. The results indicate that there is a strong unfavorable correlation between WC 'Cash Conversion Cycle (CCC)' and profitability, which means that cash cycles with a short length have a favorable impact on financial performance. Inventory Turnover Ratio (ITR) and Receivables Turnover Ratio (RTR) are favorable and statistically significant impacts on profitability. The regression model accounts for 58% of the variation in Return on Assets (ROA), implying a significant amount of explanatory strength. Surplus liquidity, indicated by a high Current Ratio (CR), exhibits a unfavorable impact on returns but at a mild degree. The research finds that the best and not excessive liquidity management is a key productive way of enhancing profitability. The best inventory control and credit management techniques play a critical role in maintaining financial performance within SSIs.

Keywords: WC efficiency, Profitability, SSIs, Liquidity Management

INTRODUCTION

SSIs represent an important component of the Indian economy. They play a major role in creating job opportunities, local industrialisation, and entrepreneurship. Small-scale entrepreneurship in manufacturing, trading, and service industries exists in Delhi, which is a vital workforce of the city's industry. Nevertheless, such businesses are also characterised by financial difficulties, e.g. delayed customer payments, reliance on trade credit, limited institutional financing and increased operational expenses. WC is the amount of money one needs to run the day-to-day activities in business. It contains cash, stock, and accounts receivable that are required to maintain production and sales. The slick running of these elements is possible through effective management, which minimizes the chances of liquidity crises. Conversely, poor management could lead to a lack of cash, high cost of borrowing, and reduced profits.

The balance between liquidity and profitability is particularly critical for small firms. Maintaining excessive CAs may ensure safety but reduce returns, while inadequate WC may disrupt operations. Therefore, understanding the impact of WC efficiency on profitability is essential for strategic decision-making. This study aims to empirically examine this relationship among SSIs operating in Delhi and provide insights into financial management practices that enhance firm performance.

Research Objectives

1. To investigate the correlation between WC efficiency and profitability among SSIs in Delhi.
2. To examine the impacts of the main WC indicators, including CCC, ITR, RTR, and CR, on firm profitability.

LITERATURE REVIEW

A prominent focus of financial management research has been the impact of WC management on firm profitability. The research consistently indicates that sound working-capital procedures enhance a firm's performance by maximizing liquidity and minimizing excessive investment in CAs. Empirical research indicate that inventory management and receivables control are crucial for improving financial performance. Companies that use structured credit practices and maintain minimal inventory levels generate more robust cash flows than those with extended collection and holding periods. The research demonstrates that receivables and ITR rates favorably influence profitability rates (Ahmeti et al., 2022).

WC practices may differ depending on the size of businesses and the state of the economy, according to further data on international contexts. In Belgium (Deloof, 2003), India (Sharma and Kumar, 2011), and emerging markets (Bahai, 2025), among other situations, the effectiveness of WC profitability is crucial. According to the research, there is an optimal level of WC beyond which excessive investment in CAs may reduce profitability, resulting in an inverse U-shaped link between WC and some organisations' performance. Despite the fact that many studies have looked at the connection between WCM and corporate profitability, the majority of the literature frequently restates studies that concentrate on big publicly traded companies or the manufacturing industries in developed countries. Empirical studies on accessible water closets in urban India's slum settlements, especially in Delhi, are scarce. By providing an empirical examination of the relationship between WC efficiency and profitability among SSIs in Delhi, this study fills this knowledge vacuum.

RESEARCH METHODOLOGY

The design adopted in this study is quantitative and descriptive in nature, exploring the correlation between WC efficiency and profitability of the SSIs in Delhi. Convenience sampling was used to choose a sample of 210 firms in different industrial regions within the city. Structured questionnaires were used to gather primary data, and these data were supported by the financial statements submitted by the firms.

CCC, CR, ITR and RTR were applied to measure performance on WC efficiency. The profitability was measured in terms of ROA and Net Profit Margin. The data were summarized using descriptive statistics. An analysis of correlation was done to analyses the relationship among variables, and multiple regression was done to find out the effects of WC components on profitability. Statistical analysis was applied to the data to make the results accurate and reliable.

RESULTS AND DISCUSSION

Table 1. Correlation Matrix between WC Variables and Profitability.

Variables	ROA	NPM	CCC	ITR	RTR	CR
ROA	1					
Net Profit Margin	0.62	1				
CCC	-0.48	-0.41	1			
ITR	0.53	0.47	-0.36	1		
RTR	0.49	0.44	-0.39	0.42	1	
CR	0.18	0.12	0.21	-0.15	-0.09	1

Interpretation

The table indicates a moderate unfavorable correlation between CCC and profitability measures. Inventory and RTR show favorable associations with profitability, supporting the argument that operational efficiency enhances financial performance.

Table 2. Regression Results Showing Impact of WC Efficiency on ROA.

Variables	Beta Coefficient	t Value	Significance
Constant	2.31	3.12	0.002
CCC	-0.27	-3.85	0.000
ITR	0.34	4.21	0.000
RTR	0.29	3.67	0.001
CR	-0.14	-2.05	0.042
R Square	0.58		
F Statistic	26.47		0.000

Interpretation

According to the regression findings, CCC unfavorably affects ROA significantly. ITR and RTR have a favorable impact on profitability. The model explains 58% of the variation in profitability, indicating strong explanatory power. CR implies excess liquidity, which has a light unfavorable impact on returns.

Descriptive Statistics and Liquidity Position.

It was found that the average CCC of the sampled firms was about seventy days. This portrays an average degree of efficiency in receiving investments into cash flows. There was a mean CR of 1.8, indicating acceptable levels of liquidity. Nonetheless, the

variability was found to be between firms, where others held superfluous CAs. These were moderately profitable with an average ROA of 8.5%.

Correlation Relationship between WC Efficiency and Profitability.

Correlation analysis showed that there is a unfavorable relationship between CCC and ROA. Companies with a shorter cash cycle had better profitability. There were favorable correlations between ITR and RTR and profitability, indicating that effective use of stock and credit improves financial performance. The CR did not show a strong correlation with profitability, which is why liquidity is not necessarily required to get higher returns.

Regression Analysis and Interpretation.

The outcomes of the regression validated that CCC has substantial unfavorable effects on profitability. ITR and RTR were reported to be of significant favorable impact. The over-liquidity levels had a unfavorable impact on returns, which means that inactive resources decrease efficiency. The results indicate that maximum profitability is achieved with optimal WCM and not maximum liquidity. All in all, the findings highlight the fact that SSIs in Delhi need to concentrate on minimizing collection times, improving inventory, and sustaining balanced liquidity to boost financial performance.

CONCLUSION

The research paper looked into the effects of WC efficiency on profitability in SSIs in Delhi. The results support the hypothesis that effective inventory and receivable management is a significant contributor to profitability, and a long cash conversion lifespan unfavorably affects financial performance. Liquidity excess was identified as a factor that adversely affects returns, which means that financial strategies should be balanced.

The paper concludes that the profitability of small enterprises depends heavily on WC performance. To enable the optimum financial performance, managers are advised to take a systematic credit policy, establish efficient inventory management, and continuously review liquidity ratios. The policymakers can also assist small firms by providing them with better access to affordable credit and financial management training initiatives. The existence of the SSIs and their capacity to deal with WC in an efficient and strategic manner are critical to sustainable growth.

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