



**EMPIRICAL RESEARCH ON
RELATIONSHIP BETWEEN WORKING CAPITAL AND
PROFITABILITY- A CASE STUDY OF PRICOT MERIDIAN LTD,
COIMBATORE**

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ABSTRACT

Maintaining the smooth and continuous flow of organization is the challenging task for each organization, for this management needs the availability of each and every component of four M^s i.e. Man, Machine, Money and Material. Day to day management of these four components is known as “Working Capital Management”. Working capital management is an important activity for any organization as it maintains the continuous flow. Purchase of fixed assets decisions are taken once and it continues for a longer period of time but the decisions relating to the working capital are taken on each day based on the circumstances. Working capital is very important component of corporate finance because it directly affects the liquidity and profitability of the company. Working capital is the base for any organization especially for manufacturing organization.

The success of a firm depends ultimately, on its ability to generate cash receipts in excess of disbursements. The cash flow problems of many small businesses are exacerbated by poor financial management and in particular the lack of planning cash requirements (Jarvis et al, 1996). Excessive levels of current assets can easily result in a firm’s realizing a substandard return on investment. However firms with too few current assets may incur shortages and difficulties in maintaining smooth operations (Home and Wachowicz, 2000) The Working Capital Management of a firm in part affects its profitability. The ultimate objective of any firm is to maximize the profit. But, preserving liquidity of the firm is an important objective too.

KEYWORDS: *Working capital, Profitability, Return on capital employed, liquidity analysis and Mottals Test.*