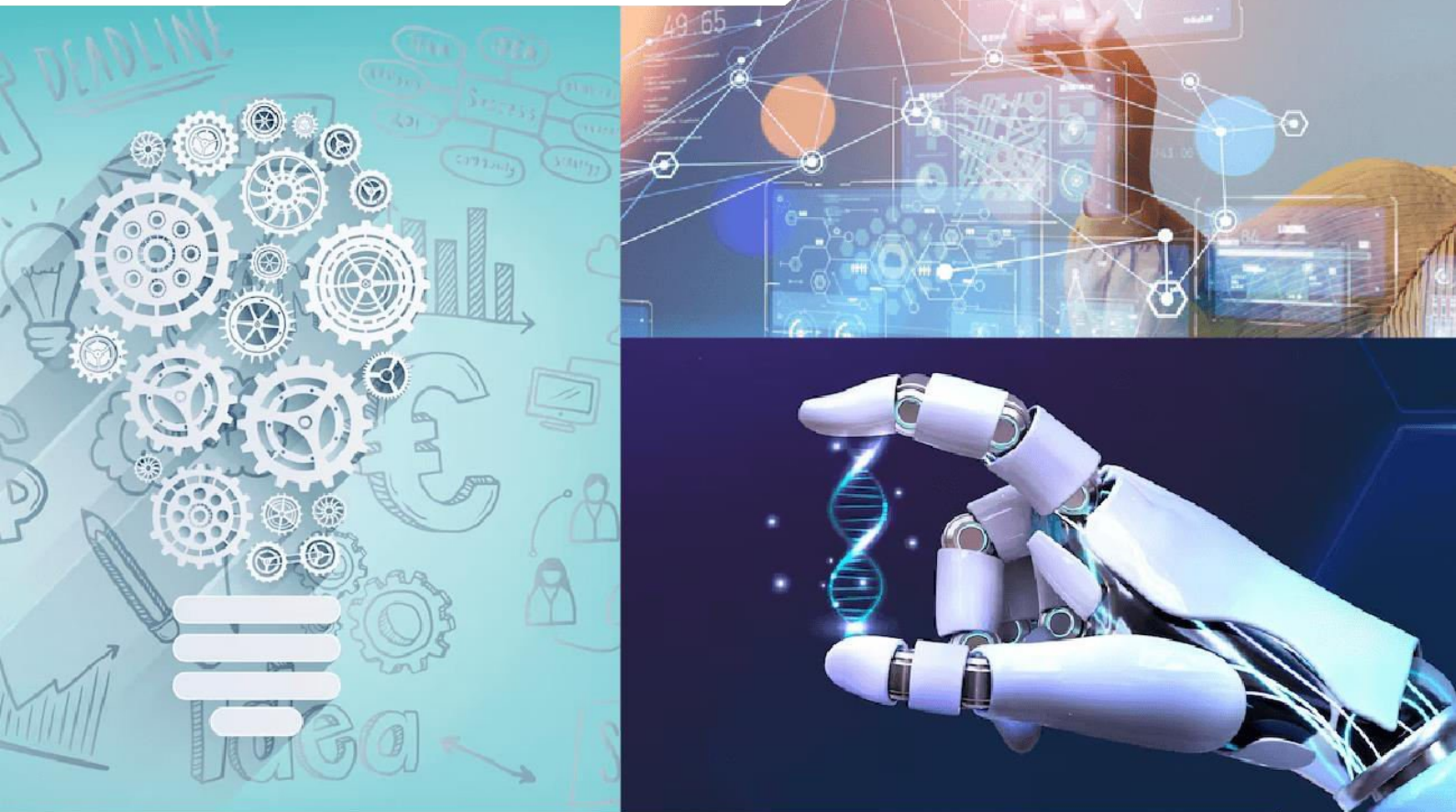




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A Study on Analysis of Working Capital Management Practices in SMEs

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ABSTRACT: Working capital management plays a critical role in ensuring the financial stability and operational efficiency of Small and Medium Enterprises (SMEs). This study examines how SMEs manage their short-term financial resources, including cash, inventory, receivables, and payables. The research is based on primary data collected from 120 respondents and supported by secondary financial data. The findings indicate a gradual decline in liquidity ratios and highlight issues such as delayed receivables and irregular financial planning. The study suggests that effective monitoring, improved credit policies, and adoption of digital tools are essential for enhancing working capital efficiency and ensuring long-term sustainability.

KEYWORDS: Working Capital Management, SMEs, Liquidity, Cash Flow, Receivables, Inventory, Payables, Financial Performance

I. INTRODUCTION

Working capital management refers to the management of current assets and current liabilities to ensure smooth business operations. It is essential for maintaining liquidity and avoiding financial disruptions in day-to-day activities.

For SMEs, working capital management is particularly important because they operate with limited financial resources and depend heavily on internal funds and short-term borrowings. Inefficient management of working capital components can lead to cash shortages, operational inefficiencies, and reduced profitability.

A proper balance between liquidity and profitability must be maintained. Excess investment in current assets reduces returns, while insufficient working capital can disrupt operations. Therefore, effective management of working capital is crucial for the survival and growth of SMEs.

OBJECTIVES OF THE STUDY

- To analyze working capital management practices in SMEs
- To study the management of cash, inventory, receivables, and payables
- To evaluate liquidity position and efficiency
- To identify challenges faced by SMEs
- To examine the impact on profitability

II. REVIEW OF LITERATURE

In the Indian context, **Rakesh Kumar (2016)** analyzed SMEs and identified receivables management as a major challenge. The study found that delayed payments from customers create liquidity problems and force firms to depend on external borrowing. It suggested implementing strict credit policies and improving collection procedures.

Harpreet Kaur (2018) examined working capital practices and observed that many SMEs operate without formal financial systems. The lack of structured policies for managing receivables, payables, and inventory leads to inefficiencies and poor financial control.

Banos-Caballero (2014) introduced the concept of an optimal level of working capital, stating that both excessive and insufficient working capital can negatively impact firm performance. The study emphasized maintaining a balance between risk and return. Recent studies have shifted focus towards technological advancements.

Joseph (2021) analysed the importance of short-term financing in managing working capital requirements. The study found that SMEs often rely on bank loans and trade credit to meet their operational needs. It emphasized that proper utilization of short-term funds can improve liquidity without affecting long-term financial stability. The research concluded that access to timely financing is critical for efficient working capital management.

Pooja Gupta (2023) found that the adoption of digital accounting systems improves transparency and allows real-time monitoring of financial data. This helps SMEs manage cash flows more effectively and make better financial decisions.

Menon (2024) conducted a regional study on SMEs in Kerala and identified the absence of proper cash budgeting practices as a major issue. The study found that many firms do not prepare systematic cash budgets, leading to frequent shortages and financial stress. It emphasized the importance of forecasting cash inflows and outflows to ensure smooth operations. The research concluded that adopting structured cash budgeting techniques is essential for improving working capital management.

Similarly, **Ravi Karthik (2025)** highlighted that Enterprise Resource Planning (ERP) systems enhance coordination between departments and improve the management of inventory, receivables, and payables. The study concluded that technology plays a crucial role in improving working capital efficiency.

III. RESEARCH METHODOLOGY

The present study adopts a descriptive research approach to examine the working capital management practices of small and medium enterprises (SMEs). The study is based on both primary and secondary data. Primary data was collected through a structured questionnaire administered to 120 respondents, including SME owners, accountants, and finance professionals, using a convenience sampling technique. The questionnaire was designed to capture information relating to cash management, inventory practices, credit policies, and overall working capital efficiency. Secondary data was obtained from financial statements and relevant records for a period of five years from 2021 to 2025, which was used to analyze financial trends and liquidity position. The collected data was analyzed using percentage analysis to understand response patterns, trend analysis to examine changes over time, and liquidity ratios such as current ratio and quick ratio to evaluate the firm's ability to meet short-term obligations. However, the study is subject to certain limitations, including the relatively small sample size and reliance on respondent-provided information, which may affect the generalization of the findings.

IV. DATA ANALYSIS AND INTERPRETATION

Percentage Analysis

S.NO	Question	Options & Responses (No. & %)
1	Gender	Female: 66 (55.5%), Male: 53 (44.5%)
2	Age Group	20–25 years: 58 (48.7%), 25–35 years: 45 (37.8%), 35–45 years: 12 (10.1%), Above 45 years: 4 (3.4%)
3	Educational Qualification	Undergraduate: 45 (37.8%), Postgraduate: 41 (34.5%), Diploma: 21 (17.6%), Others: 12 (10.1%)
4	Nature of Business	Services: 48 (40.3%), Trading: 27 (22.7%), Others: 23 (19.3%), Manufacturing: 21 (17.6%)
5	Years of Operation	Below 5 years: 47 (39.5%), 5–10 years: 46 (38.7%), Above 10 years: 26 (21.8%)
6	Source of Working Capital	Bank borrowings: 45 (37.8%), Own funds: 32 (26.9%), Combination: 22 (18.5%), Trade credit: 20 (16.8%)
7	Adequacy of Working Capital	Adequate: 60 (50.4%), Inadequate: 26 (21.8%), Highly adequate: 23 (19.3%), Highly inadequate: 10 (8.4%)
8	Responsibility for Managing Working Capital	Accountant: 46 (38.7%), Finance manager: 33 (27.7%), Owner: 28 (23.5%), External consultant: 12 (10.1%)

S.NO	Question	Options & Responses (No. & %)
9	Cash Planning Practice	Occasionally: 57 (47.9%), Regularly: 38 (31.9%), Rarely: 14 (11.8%), Not at all: 10 (8.4%)
10	Frequency of Cash Monitoring	Weekly: 52 (43.7%), Daily: 29 (24.4%), Monthly: 28 (23.5%), As required: 10 (8.4%)
11	Method of Inventory Management	Basic records: 54 (45.4%), Experience-based: 31 (26.1%), Scientific methods: 26 (21.8%), No system: 8 (6.7%)
12	Frequency of Inventory Review	Occasional: 58 (48.7%), Regular: 30 (25.2%), Rare: 26 (21.8%), Never: 5 (4.2%)
13	Level of Credit Sales	High: 57 (47.9%), Very high: 29 (24.4%), Moderate: 29 (24.4%), Low: 4 (3.4%)
14	Average Collection Period	30–60 days: 64 (53.8%), Less than 30 days: 30 (25.2%), 60–90 days: 17 (14.3%), More than 90 days: 8 (6.7%)
15	Delay in Customer Payments	Frequent: 57 (47.9%), Very frequent: 28 (23.5%), Occasional: 28 (23.5%), Rare: 6 (5.0%)
16	Payment to Suppliers	On due date: 48 (40.3%), Before due date: 37 (31.1%), Short delay: 25 (21.0%), Long delay: 9 (7.6%)
17	Use of Trade Credit	To some extent: 54 (45.4%), Limited extent: 30 (25.2%), Great extent: 29 (24.4%), Not used: 4 (3.4%)

Source: *Primary Data (Survey, 2026)*

Interpretation

The data shows that 55.5% of respondents are female and 44.5% are male, with most belonging to the 20–25 age group (48.7%). A large proportion are undergraduates (37.8%) and postgraduates (34.5%), indicating a reasonably educated SME sector. The service sector dominates (40.3%), and most firms are relatively young, with 39.5% operating below 5 years and 38.7% between 5–10 years.

Bank borrowings (37.8%) and own funds (26.9%) are the main sources of working capital, while 50.4% report adequate working capital, suggesting a moderate financial position. Working capital management is mainly handled by accountants (38.7%) and finance managers (27.7%). However, only 31.9% practice regular cash planning, whereas 47.9% do so occasionally, and cash monitoring is largely weekly (43.7%), reflecting inconsistency in cash management.

Inventory practices are mostly basic (45.4%), with limited use of scientific methods (21.8%), and reviews are mainly occasional (48.7%), indicating scope for improvement. Credit sales are high (47.9%) and very high (24.4%), with most firms having a collection period of 30–60 days (53.8%). Frequent payment delays from customers (47.9%) highlight receivables challenges. Despite this, firms maintain timely supplier payments, with 40.3% paying on due date and 31.1% before due date, and trade credit is moderately used (45.4%).

Trend Analysis

Table: Trend Analysis of Current Assets and Current Liabilities (Base Year = 2021)

Year	Current Assets	Trend (%)	Current Liabilities	Trend (%)
2021	155.00	100.0	100.00	100.0
2022	143.50	92.6	95.00	95.0
2023	135.04	87.1	92.00	92.0

2024	110.40	71.2	88.00	88.0
2025	106.35	68.6	85.00	85.0

Source:Secondary Data (2021–2025)

Interpretation

The trend analysis reveals that current assets decline from 100% in 2021 to 68.6% in 2025, while current liabilities decrease from 100% to 85% over the same period. The comparatively faster reduction in current assets indicates a contraction in short-term resources. Although the fall in liabilities suggests lower dependence on external financing, the imbalance may place pressure on the firm's liquidity position.

Liquidity ratios

Table: Liquidity Ratio Analysis (2021–2025)

Year	Current Assets	Current Liabilities	Current Ratio	Quick Ratio
2021	155.00	100.00	1.55	1.05
2022	143.50	95.00	1.51	1.00
2023	135.04	92.00	1.47	0.95
2024	110.40	88.00	1.26	0.85
2025	106.35	85.00	1.25	0.81

Source:Secondary Data (2021–2025)

Interpretation

The current ratio decreases from 1.55 in 2021 to 1.25 in 2025, showing a gradual decline in liquidity, though it remains above the minimum acceptable level. In contrast, the quick ratio drops from 1.05 to 0.81, falling below the standard benchmark in later years, which indicates limited immediate liquidity. This trend suggests the need for improved management of liquid assets to ensure short-term financial stability.

V. FINDINGS

- Majority of respondents are young and educated, indicating increasing financial awareness among SMEs.
- Working capital is financed through a mix of bank borrowings and internal funds.
- Cash planning is not practiced regularly, showing gaps in financial discipline.
- Inventory management is mainly traditional, with limited use of modern techniques.
- High credit sales lead to delays in receivables collection, affecting cash flow.
- Current assets decline from 100% to 68.6%, indicating reduced short-term resources.
- The current ratio decreases from 1.55 to 1.25, and the quick ratio from 1.05 to 0.81, reflecting a weakening liquidity position.

VI. SUGGESTIONS

- Implement regular and systematic cash planning practices.
- Adopt modern inventory control techniques to improve efficiency.
- Strengthen credit policies to reduce delays in receivables collection.
- Focus on reducing the collection period to improve cash flow.
- Maintain an optimal level of current assets for smooth operations.
- Monitor liquidity ratios regularly for better financial control.
- Improve financial awareness through training and better management practices.

VII. CONCLUSION

The study concludes that SMEs generally follow basic working capital management practices, but there are clear areas that require improvement. The analysis reveals a declining trend in current assets and liquidity ratios, indicating increasing pressure on short-term financial stability. Although firms are able to meet their obligations, the reducing liquidity margin highlights the need for stronger financial planning and control. Enhancing cash management, inventory control, and receivables management will help improve efficiency and ensure long-term financial sustainability of SMEs.

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