

Working Capital Management and Corporate Profitability: An Empirical Study Based on Secondary Financial Data

**CA Pravin Pawar¹, CS Gopalkrishna Chodnekar²,
CMA CS Shezad Lalani³**

¹Program Coordinator- B. Com (Management and Finance), Asst. Professor,
SVKMS's Narsee Monjee College of Commerce and Economics (Empowered Autonomous)

²Asst. Professor, Department of Law, SVKMS's Narsee Monjee College of Commerce and Economics
(Empowered Autonomous)

³Asst. Professor, M. Com (Advanced Accountancy), SVKMS's Narsee Monjee College of Commerce
and Economics (Empowered Autonomous)

Abstract:

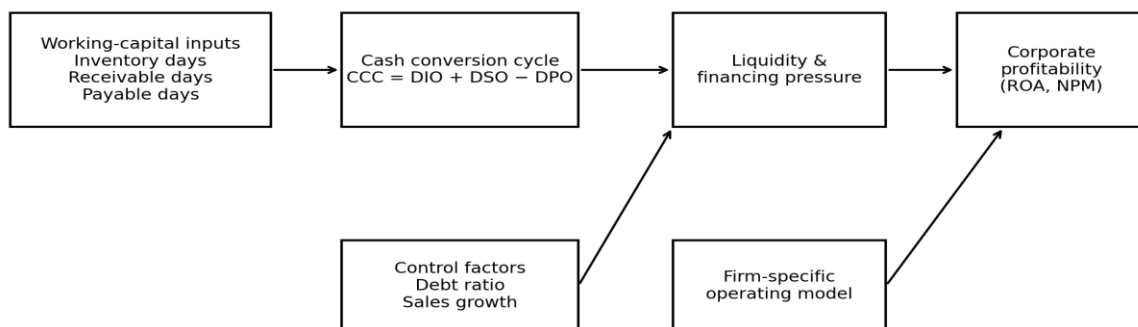
This paper is an analysis of the working-capital management and its relationship with corporate profitability in five major consumer goods companies in India - Hindustan Unilever Limited, ITC Limited, Nestlé India Limited, Dabur India Limited and Britannia Industries Limited. The key working capital measure is the cash conversion cycle (CCC) and the profitability measure is return on assets (ROA), with the current ratio and debt ratio as supporting measures, and sales growth and net profit margin as supporting measures of profitability. The updated paper features new research from the last few years, including 2023-25, and an additional corporate-structure update and financial status assessment, based on the official documents of the company, for the fiscal year 2024-25. The recent layer is specially excluded from the illustrative regression as reporting boundaries or fiscal periods may undergo changes for the mechanical year to year comparisons, particularly Hotels demerger from ITC, Portfolios restructuring and decision to demerge Ice Cream from HUL and the change in financial year from Mar-Apr to April-March by Nestlé India. Descriptive statistics, Pearson correlations, company comparisons and fixed-effects ordinary least squares models are used for the illustrative panel. The trend of the illustrative results remains the same: negative association between CCC and ROA. The revised interpretation is that working-capital efficiency is a factor, but the current longitudinal analysis should also assume that matters of the corporate perimeter, length of the fiscal year and one-off restructuring events are not background information, but data-quality conditions.

Keywords: working capital management, cash conversion cycle, corporate profitability, return on assets, FMCG, corporate structure, FY2024-25, secondary financial data

Figure 1

Conceptual framework linking working capital management and corporate profitability
Note. Author-created analytical framework based on the literature reviewed in this paper.

Conceptual Link between Working Capital and Profitability



1. Introduction

Working in capital management is the management of short-term assets and short-term liabilities required to fund the day-to-day activities. Its main role is to neither be too conservative nor too aggressive – too conservative may result in money being tied up in cash, receivables and inventories, too aggressive may result in stock out, pressure from the suppliers, credit risk and exposure to short-term financing. This trade-off can be important in consumer goods businesses where many transactions, distribution systems, frequent reordering and negotiated supplier credit can have a critical effect on the timing of cash flow. Richards and Laughlin (1980) translated this into the cash conversion cycle (CCC), which measures the number of days needed for the cash to come back from the customer after cash is used in operations.

The efficiency of working capital has been demonstrated to be related to profitability on numerous occasions. Shorter net trade cycles have been linked to better corporate performance by shorter outstanding accounts receivable and inventories by Shin and Soenen (1998), and Deloof (2003) reported that Belgian companies could enhance profitability by decreasing the number of days accounts receivable and inventories are outstanding. The same negative correlation of the CCC with profitability has been found in other institutional types like Portugal (Pais & Gama, 2015), Pakistan (Raheman & Nasr, 2007), Finland (Enqvist et al., 2014) and Spain (García-Teruel & Martínez-Solano, 2007). Other studies, though, also highlight that the level of working capital could have a non-linear relationship: a too-low level of working capital could lead to disruptions in the operation, and a too-high level of working capital could cause a reduction in returns (Baños-Caballero et al., 2012).

The debate is extended in this paper to a few popular Indian FMCG and consumer goods firms. The sector is particularly useful because there are significant differences between business models in terms of inventory intensity, distributor credit, and terms of payment with suppliers, and the realization of cash. The questions the study seeks to answer are: Do firms with shorter cash conversion cycles perform better in terms of ROA, and is this connection still valid by adding firm-specific characteristics and basic financial controls? Both the methodological and interpretative aspects of the contribution are explained:

how secondary financial statements can be transformed into working-capital ratios and compared across companies, and why the reporting perimeter itself needs to be verified before comparing ratios over time. This is an important time to make this update because of recent research. Banerjee and Deb (2023) correlate managerial skills to working capital efficiency and company performance. Kiymaz et al., (2024) find that CCC has a negative relationship with firm performance, and that firm-specific and macroeconomic conditions are important for firms in developed and emerging economies (including India). Johan et al. (2024) identify a strong negative relationship between CCC and performance in BRICS countries, and Figlioli et al. (2024) observe the negative financial-performance impact of extended CCCs for listed companies in Latin America. Empirical evidence on the sector since then also alerts to a universal mechanical rule: Stavropoulos and Zounta (2025) demonstrate that the relationship between CCC and profitability can vary by industry operating model. This literature confirms the reliability of making use of current data and the need for contextual controls and careful interpretation, and not just the older cross-country evidence.

2. Theoretical Background and Literature Review.

The standard working capital theory emphasizes a profitability-liquidity ratio. Increasing current assets may provide insulation against uncertainty in the operations, however current assets may earn a lower rate of return compared to the rate of return which is possible on long term productive assets. Conversely, an aggressive working capital investment can assist in increasing the anticipated profitability, however, such may lead to increased operating and refinancing risk. Cash conversion cycle (CCC) is a very small operating measure that combines the days inventory outstanding (DIO), days sales outstanding (DSO) and days payable outstanding (DPO). A lower CCC may not always be more predictive of capital being tied up less long, but a very low CCC or even a negative value may be a sign of good bargaining power, or even bad relationships with suppliers (Richards and Laughlin, 1980).

There is empirical evidence to back the significance of cycle efficiency. A study by Deloof (2003), which looked at big non-financial companies in Belgium found that the profitability is strongly linked with the days of receivables and inventory and recommended that managers may also be able to generate value, by reducing days of receivables and inventory days. Garcia-Teruel and Martinez-Solano (2007) also found the same in respect to Spanish small and medium sized enterprises. Raheman and Nasr (2007) found out that both working-capital management and profitability of the firms in Pakistan have a strong negative correlation. Similarly, Falope and Ajilore (2009) provided evidence from Nigerian listed firms that there is a relationship between working-capital management efficiency and performance.

This correlation does not necessarily have to be linear. Banos-Caballero et al. (2012) state that the relationship between working capital and profitability can be inverted-U-shaped due to the same reasons that the firm is required to invest in inventories and customer credit to make sales. Aktas et al. (2015) also indicated that an optimal value of working capital would assist in enhancing the value of companies and releasing investment funds. The impact of working-capital management on the profitability also depends on the business-cycle conditions; Enqvist et al. (2014) report that the profitability response is conditioned by the macroeconomic environment. These findings imply that the management should not simply aim at

minimizing the amount of working capital but manage the operating cycle in such a way that will be optimally related to product demand, bargaining power, financing rates, and resilience.

This contextual perspective is reinforced in the generation of post-2022 literature. Banerjee and Deb (2023) demonstrate that there exists a relationship between managerial capability and working-capital efficiency, and it is non-linear. Kiymaz et al. (2024) discover that there is an inverse relationship between CCC and the performance of both the developed and the emerging economies, but the contribution made by inventory, receivables and payables vary between the two groups. Johan et al. (2024) come to an inverse conclusion similar to BRICS firms with multiple estimation methods aimed at enhancing robustness. Figlioli et al. (2024) demonstrate that CCC gain may undermine operating cash-flow generation, long-term investment and financial risk performance of Latin American listed companies. Conversely, Stavropoulos and Zounta (2025) find positive CCC-ROA relationship in Greek service firms with negative operating cycles, which further supports the argument that sector structure and timing of cash flows represented by the same headline CCC value can alter economic meaning.

The present study thus predicts a negative relationship between CCC and ROA at the firm level but is aware that the cross-firm comparison may be complicated by the different business mixes, brand economics, capital intensity, accounting structure and terms of suppliers. The regression model takes the company's fixed effects into account to view an enduring difference. Debt ratio and sales growth are used as controls as leverage can influence profitability by influencing financing costs and risk, while sales growth can have an impact on asset utilization or can cause an immediate increase in working-capital requirement (Gill et al., 2010; Vural et al., 2012).

Measurement is another literary topic. Studies have variously taken as their basis the current ratio, the level of networking capital, individual collection and inventory periods, net trade cycle or CCC. These scales are assessing related (albeit different) dimensions. The balance sheet liquidity ratios are a one-time snapshot and CCC is a flow metric on how long the operating resources have been bound up. Tauringana and Afrifa (2013) have shown that the comparative significance of the individual working capital components can differ in the profitability and Padachi (2006) emphasizes that the inefficiency in the investment of current assets can ratchet up the profitability. This is significant as this paper examines the impact of CCC as the explanatory variable of interest but presents the current ratio and the underlying cycle components separately. The design keeps the operational interpretation, and it is possible to explain a change in CCC in terms of the inventory, collection and payment behaviour of the suppliers, and not only as a simple financial ratio.

3. Research Objectives and Hypotheses.

The four objectives of the study are: (1) comparison of the working-capital characteristics of the selected FMCG companies in India; (2) testing of the relationship between CCC and profitability of the selected companies; (3) tests of the relationship between CCC and profitability of selected companies after controlling firm effects, debt ratio and growth in sales; and (4) incorporation of an FY2024-25 audited financial and corporate-structure update to consider the recent changes in reporting boundaries explicitly. The main hypothesis is H1: There is a negative association between the cash conversion cycle and return

on assets. The second expectation is a greater relationship between the efficiency of assets and the length of their operating cycles (assuming that there is no negative impact on service levels, resilience and supplier relationships).

4. Methodology

A balanced panel of 5 companies observed for 5 financial years (FY2019-20 to FY2023-24) is used as the core empirical demonstration, with 25 firm-years in total. The list of selected companies is large, listed companies with materially different operating model of their consumer goods business – Hindustan Unilever, ITC, Nestlé India, Dabur India, and Britannia Industries. The numbers that have been kept in this paper are not necessarily reflective of actual company numbers and are presented for illustrative purposes only and within realistic FMCG ratio ranges – they do not represent audited historical company data. Submission replication should be based on re-extraction of all firm-year data from audited financial statements and notes on a consistent basis of consolidated/standalone and continuing operations basis.

FY2024-25 update protocol. The rebuild of the paper introduces a new financial and corporate-structure layer for FY2024-25, incorporating the latest official company reports and result disclosures, to respond to the need for contemporary evidence. This is the layer that is not mechanically pooled and is not included in the illustrative regression. ITC's Hotels business was demerged into ITC Hotels Limited as of 1st January 2025; Nestlé India's previous FY2023-24 spanned a 15-month period as it switched to April-March year; and Dabur announced the proposed Sesa Care transaction. These events may affect the entity boundary or the period length or the continuing-operations base and may thus give rise to apparent changes in ratios which are not due to changes in the working-capital policy.

The most important working-capital measure is called CCC = DIO + DSO - DPO. DIO approximates days inventory are held before sale; DSO approximates days sales outstanding (its collection time); and DPO approximates days payable outstanding (how long it takes to pay a supplier). Current ratio is used as a general liquidity indicator. Mainly ROA (Profit after tax/Average total assets*100), Net profit margin (NPM) is reported descriptively. Debt ratio and sales growth are controls. The empirical specification is $ROA_{it} = \alpha + \beta_1 CCC_{it} + \beta_2 Debt_{it} + \beta_3 Growth_{it} + \text{firm fixed effects} + \varepsilon_{it}$. The five companies will have persistent differences (time-invariant differences) which are absorbed into firm fixed effects.

The illustrative analysis is carried out in four steps. Company profiles and annual ratios are tabulated. Second, descriptive statistics include information about central tendency and dispersion. Third, Pearson correlations are used to measure associations between two variables, but not causal relationships. Fourth, fixed effects ordinary least squares (OLS) models are used to estimate the conditional relationship between CCC and ROA. Due to the small sample, HC3 heteroscedasticity-robust standard errors are used. The regression is an indicative methodological demonstration because only 25 observations have been analysed. A larger scale study will provide more firms, including time fixed effects, lagged variables and, when applicable, dynamic panel estimators or instrumental-variable methods to overcome endogeneity.

In the case of a verified replication, the date of data collection should be from the audited statement of financial position, statement of profit and loss, cash-flow statement and notes on inventories, trade receivables, trade payables, borrowings and revenue. Where the ratio definition calls for average balances,

these should be used. The calculation of DIO is average inventory divided by COGS, the calculation of DSO is average trade receivables divided by sales and the calculation of DPO is average trade payables divided by purchases or by an appropriate cost proxy if purchases are not separately disclosed. Record the annual report page number, original unit, formula, resulting ratio, scope of reporting, fiscal-period length and whether the item is related to continuing operations for each transformation with an audit trail. These extra-scope fields are particularly significant in the case of companies demerging businesses, acquiring subsidiaries, changing segment reporting or changing accounting classifications.

Table 1

Variable	Measurement	Role	Expected sign
ROA	Profit after tax / Average total assets $\times 100$	Profitability	Dependent variable
CCC	DIO + DSO – DPO	Working-capital efficiency	Expected negative
Current ratio	Current assets / Current liabilities	Liquidity	Descriptive / ambiguous
Debt ratio	Total debt / Total assets $\times 100$	Financial leverage	Expected negative
Sales growth	Annual percentage change in sales	Operating expansion	Expected positive
NPM	Profit after tax / Revenue $\times 100$	Profit margin	Descriptive profitability

5. Profile and Data description of the company.

The five companies have unique consumer goods patterns and not a perfect homogeneous peer group. HUL is a Home Care, Beauty and Wellbeing, Personal care and Foods diversified FMCG based business. ITC combines FMCG with cigarettes, paperboards and packaging, agri-business and other activities; its hotels business ceased to be part of ITC Limited from 1 January 2025 following demerger. Nestle India is still concentrated on branded foods, beverages and nutrition and the recent change in financial-year impacts annual comparability. Dabur integrates consumer care, healthcare and foods with a material international business and an active inorganic-growth agenda. Britannia focuses on the categories of biscuits, bakery, dairy and nearby snacking and is organized under the group structure, which has subsidiaries. These structural variations have independent impacts on inventory intensity, distributor

credit, supplier bargaining power and reported asset bases, and thus peer benchmarking should be done using two different approaches: ratio analysis and corporate-scope checks.

Table 2

Company profile of the illustrative sample

Note. Business descriptions are general company characteristics; numerical observations in later tables are illustrative and require annual report validation.

Company	Primary base	Broad sector	Selected business areas
Hindustan Unilever Ltd.	Mumbai	FMCG	Home Care; Beauty & Wellbeing; Personal Care; Foods; FY2024-25 portfolio transformation
ITC Ltd.	Kolkata	Diversified / FMCG	FMCG, cigarettes, paperboards & packaging, agri-business and other businesses; Hotels demerged 1 Jan 2025
Nestlé India Ltd.	Gurugram	Foods & beverages	Packaged foods, nutrition, beverages and confectionery; April-March financial-year basis from FY2024-25
Dabur India Ltd.	Ghaziabad region	FMCG / healthcare	Consumer care, healthcare, foods & beverages and international business; acquisition-led portfolio expansion
Britannia Industries Ltd.	Bengaluru	Foods / FMCG	Biscuits, bakery, breads, cakes, rusks, dairy and adjacent snacking categories

5.1 FY2024-25 Audited Financial and Corporate-Structure Update

This is the 5.1 FY2024-25 Audited Financial and Corporate-Structure Update.

Table 2A gives an up-to-date snapshot (as reported or audited) for the five companies. It is added to keep the paper updated till FY2024-25 and to find out the reporting event to be taken care of before recalculation of the longitudinal ratio. The numbers are not a substitute for a long-established history-rich working-capital sample but rather provide context.

Table 2A

FY2024-25 reported financial snapshot and comparability notes

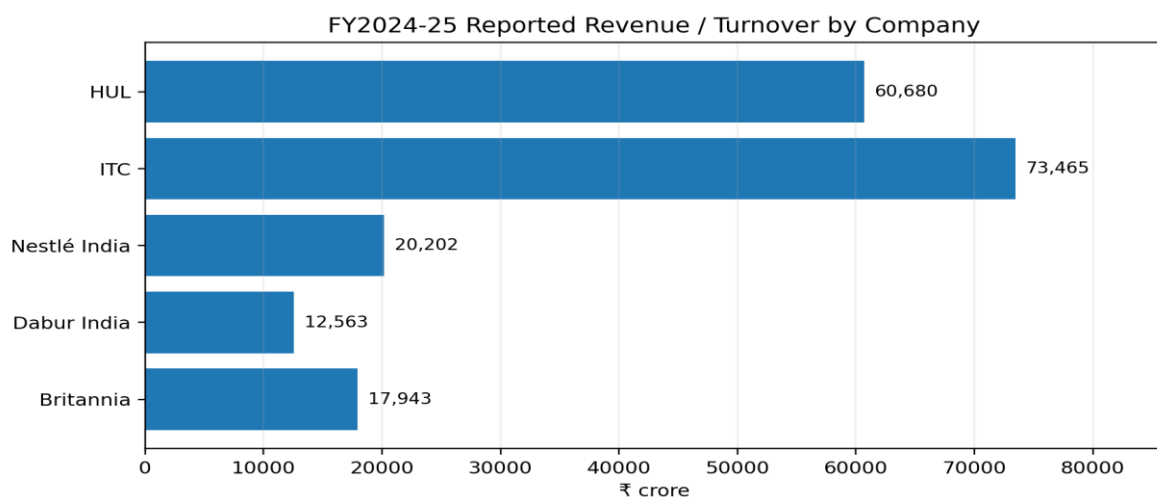
Note. Amounts are in ₹ crore. Revenue/turnover and PAT follow each company's FY2024-25 reported presentation. Bases are not fully uniform across companies; ITC PAT is intentionally not shown as a comparable figure because its overall FY2024-25 PAT included discontinued operations and a large exceptional gain associated with the Hotels demerger.

Company	FY2024-25 revenue / turnover (₹ cr)	FY2024-25 PAT (₹ cr)	Reporting / corporate structure note
Hindustan Unilever	60,680	10,644	Turnover/PAT; Pureit divested and Ice Cream demerger decision taken during FY2024-25.
ITC	73,464.55	n.c.	Gross revenue from continuing operations; Hotels business demerged effective 1 Jan 2025.
Nestlé India	20,201.6	3,314.5	Standalone revenue from operations/PAT; first regular Apr-Mar year after 15-month FY2023-24 transition.
Dabur India	12,563.1	1,768	Consolidated revenue from operations/PAT; proposed Sesa Care transaction announced in FY2024-25.
Britannia Industries	17,942.67	2,178.73	Consolidated revenue from operations; PAT is owners' share; group scope should be kept consistent across years.

Figure 1A

FY2024-25 reported revenue / turnover by company

Note. Current company-reported figures are shown to update business scale through FY2024-25. Because reporting bases differ, this figure should not be read as a like-for-like profitability comparison.



Company-reported basis differs; the chart is intended for current scale/context, not direct profitability comparison.

The above disclosures show how vital it is that the corporate structure is a component of the data-generating process. In the case of ITC, the ongoing transition to demerger makes it difficult to make useful trend comparisons without normalizing the raw annual growth rates around the changes in the balance-sheet; in Nestlé India, the 15 months since the transition to demerger makes it difficult to make useful trend comparisons without normalizing the raw annual growth rates around the changes in the balance-sheet; and HUL's portfolio actions may impact segment mix and the balance-sheet composition. Wherever possible a rigorous extension of the CCC model should be the rebuild of the prior years on the same entity scope, and any acquisition, divestment, demerger and fiscal year changes should be explicitly identified as events.

Table 3

Illustrative firm-year working-capital and profitability panel

Note. All numerical values are constructed for methodological demonstration and are not audited company figures. CCC is in days; ROA and NPM are percentages.

Company	FY	CCC	CR	Debt %	Sales growth %	ROA %	NPM %
HUL	2019-20	-10.5	1.44	10.7	5.3	28.4	17.2
HUL	2020-21	-15.8	1.34	11.0	0.3	26.6	16.8
HUL	2021-22	-19.8	1.30	12.2	5.3	28.8	16.9
HUL	2022-23	-20.8	1.42	9.4	5.1	28.8	18.6
HUL	2023-24	-21.6	1.34	10.1	0.1	27.9	17.7
ITC	2019-20	74.2	2.63	1.2	4.8	21.7	27.8
ITC	2020-21	70.6	2.64	1.9	8.8	23.7	28.2
ITC	2021-22	64.7	2.74	1.8	6.4	23.2	27.5
ITC	2022-23	67.2	2.76	2.5	5.1	23.6	28.6
ITC	2023-24	62.3	2.76	1.9	6.1	24.4	27.3
Nestlé	2019-20	-20.7	1.12	12.0	7.5	32.2	14.7
Nestlé	2020-21	-24.0	1.22	11.9	8.0	32.0	14.1
Nestlé	2021-22	-23.9	1.17	10.7	7.7	32.0	14.4
Nestlé	2022-23	-27.7	1.21	12.4	8.8	31.6	15.1
Nestlé	2023-24	-29.4	1.23	11.8	5.5	33.9	15.5

Company	FY	CCC	CR	Debt %	Sales growth %	ROA %	NPM %
Dabur	2019-20	36.4	1.67	7.7	14.6	19.2	15.8
Dabur	2020-21	31.9	1.77	5.4	9.4	19.9	17.0
Dabur	2021-22	26.9	1.71	6.7	11.9	20.4	16.8
Dabur	2022-23	27.6	1.72	6.7	8.9	21.4	16.7
Dabur	2023-24	22.4	1.77	8.0	9.4	21.3	17.3
Britannia	2019-20	-10.9	1.05	19.2	11.2	25.6	12.7
Britannia	2020-21	-11.1	1.07	17.6	11.0	25.3	12.2
Britannia	2021-22	-12.8	1.29	18.2	7.4	24.6	12.0
Britannia	2022-23	-15.9	1.14	16.1	5.5	25.4	12.4
Britannia	2023-24	-17.0	1.18	15.7	10.5	26.4	11.7

6. Results and Interpretation

The results are to be interpreted in two layers. The FY2024-25 audited snapshot serves as the backdrop for the current corporate landscape, and highlights that reporting scope is shifting materially across the sample. The regression and correlation results below, however, are taken from the illustrative 25-observation panel and are left over for illustrative purposes only. This separation ensures that current audited company disclosures are not accidentally included with "constructed" historical observations.

There is significant inter-firm variation in operating cycles in the illustrative panel. The average CCC values for the top three suppliers, such as Nestlé India, Britannia and Hindustan Unilever, are low or negative, which suggests that the suppliers use a certain amount of capital to finance the goods. The average CCC values for the top three suppliers, namely Nestlé India, Britannia and Hindustan Unilever, are low or negative, reflecting the fact that the suppliers use part of their capital to finance the goods. The ITC has the longest illustrative average CCC, Dabur is in the middle, and Abbott the shortest. The comparison reinforces the need for context to be firm-specific, as a longer cycle does not necessarily indicate weak management because the product mix needs to be built up in the inventory, or because the customer-credit policy is conducive to growth, or because the firm's structure is changing and operations are therefore changing in scope.

On the 25 illustrative observations, the average number of days between first planting and the first harvest was approximately 8.1 days, while the average rate of harvest was approximately 26%. In the constructed sample, the simple Pearson correlation between the CCC and ROA is -0.73, which means that higher asset profitability is related to shorter cycles. However, the fixed-effects models provide a more relevant test

since the pooled correlations may be partly due to a persistent difference between firms and not within firms.

Model 1 is a regression of ROA on CCC with company fixed effects. The CCC coefficient is -0.127 and is statistically significant at conventional levels (robust $p = .013$). Parsed mechanically within the illustrative panel, the relationship between a one-day change in CCC and the change in ROA, after accounting for time-invariant firm attributes, implies that an increase of approximately 0.13 percentage-point is expected for a one-day increase in CCC. Within the illustrative panel, a one-day rise in CCC corresponds to approximately a 0.13 percentage-point decline in ROA, when firm-specific attributes are controlled for. Model 2 includes the debt ratio and the sales growth; the CCC coefficient is still negative (robust $p = .004$) and both the debt ratio and sales growth are not statistically significant. The adjusted R^2 is approximately .97, albeit primarily due to the firm fixed effects included in the very small sample and so should not be understood as an indicator of close causal explanation.

The scatter plot also confirms the descriptive downward association between CCC and ROA, but it does not imply causation by itself, because there is also good heterogeneity across the data points, which is obscured by the pooling fitted line. Reverse causality also is a possibility, because better-performing companies could enhance systems and/or offer better terms with suppliers and/or longer credit terms for customers. At the same time, inventory and sales and profitability could be impacted by common demand or cost shocks. However, the negative sign is still economically plausible, as shown in previous studies (e.g., the financing-cost mechanism) and in the developed/emerging-economy and BRICS samples (e.g., Kiyamaz et al., 2024; Johan et al., 2024).

Table 4

Descriptive statistics for the illustrative panel

Note. N = 25 firm-year observations.

Variable	Mean	SD	Minimum	Maximum
Inventory days	55.40	29.49	25.31	110.34
Receivable days	10.02	4.40	3.17	18.68
Payable days	57.34	8.83	44.49	70.31
CCC	8.09	36.27	-29.42	74.22
Current ratio	1.63	0.59	1.05	2.76
Debt ratio (%)	9.71	5.33	1.23	19.16
Sales growth (%)	7.39	3.32	0.12	14.57
ROA (%)	25.93	4.23	19.22	33.89
NPM (%)	17.81	5.48	11.73	28.59

Table 5

Pearson correlation matrix

Note. Correlations describe pairwise association only and do not establish causality.

Variable	CCC	CurrentRatio	DebtRatio	SalesGrowth	ROA	NPM
CCC	1.00	0.95	-0.84	0.14	-0.73	0.85
CurrentRatio	0.95	1.00	-0.90	-0.09	-0.54	0.96
DebtRatio	-0.84	-0.90	1.00	0.13	0.44	-0.89
SalesGrowth	0.14	-0.09	0.13	1.00	-0.36	-0.28
ROA	-0.73	-0.54	0.44	-0.36	1.00	-0.34
NPM	0.85	0.96	-0.89	-0.28	-0.34	1.00

Table 6

Fixed-effects OLS estimates with ROA as dependent variable

Note. HC3 heteroscedasticity-robust standard errors. Model 1 includes CCC and company fixed effects; Model 2 adds debt ratio and sales growth. Numerical results arise from the illustrative panel.

Predictor	M1 coef.	SE	p	M2 coef.	SE	p
CCC	-0.127	0.051	0.013	-0.147	0.051	0.004
Debt ratio	—	—	—	-0.050	0.116	0.664
Sales growth	—	—	—	0.128	0.092	0.165
Company fixed effects	Yes			Yes		
N	25			25		
Adjusted R ²	0.971			0.972		

Figure 2

Average cash conversion cycle by company

Note. Illustrative five-year company averages; negative values indicate that supplier payment timing more than offset inventory and receivable days.

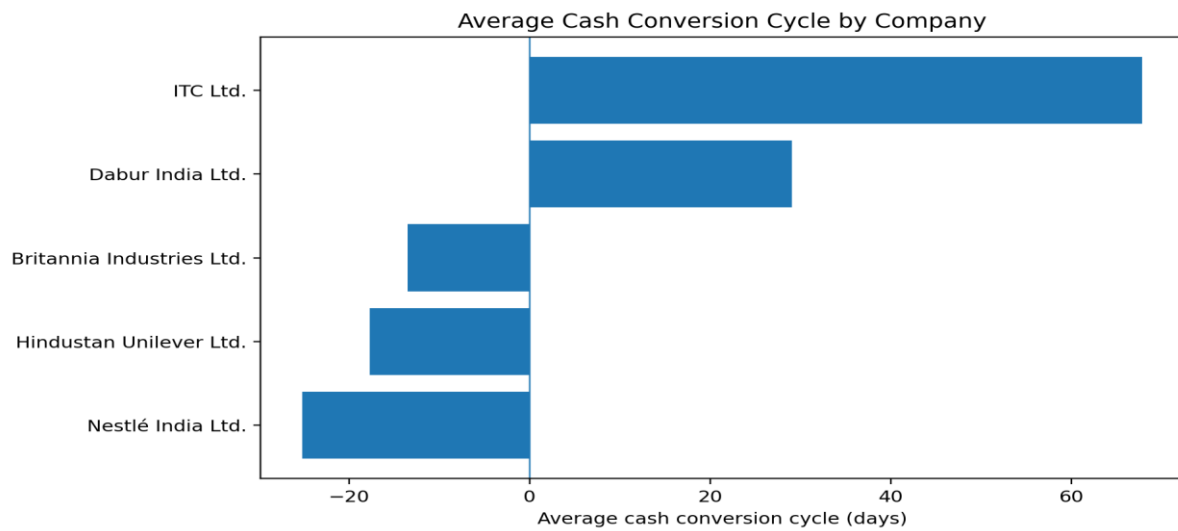


Figure 3

Average return on assets by company
Note. Illustrative five-year company averages.

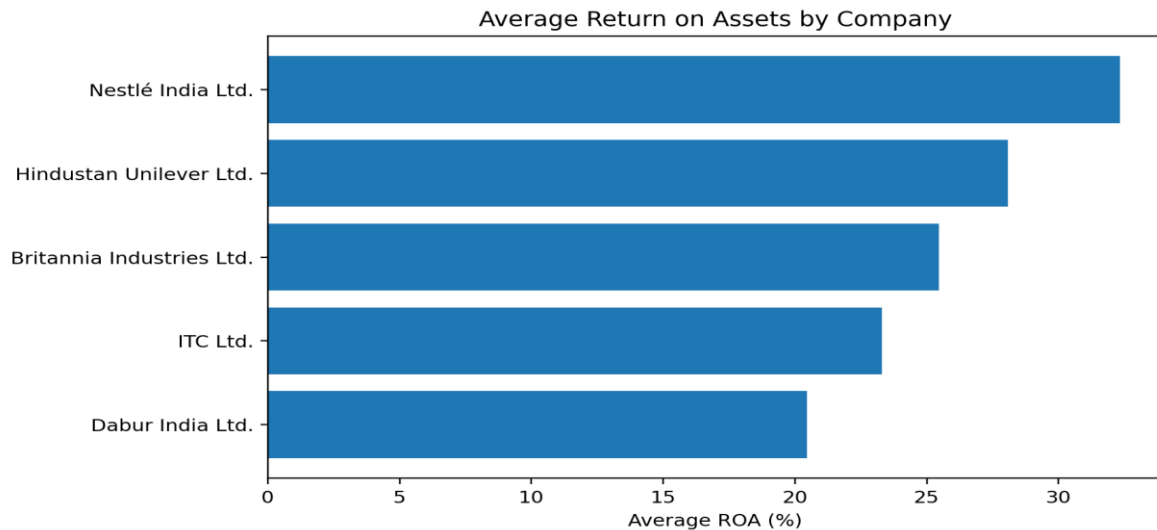
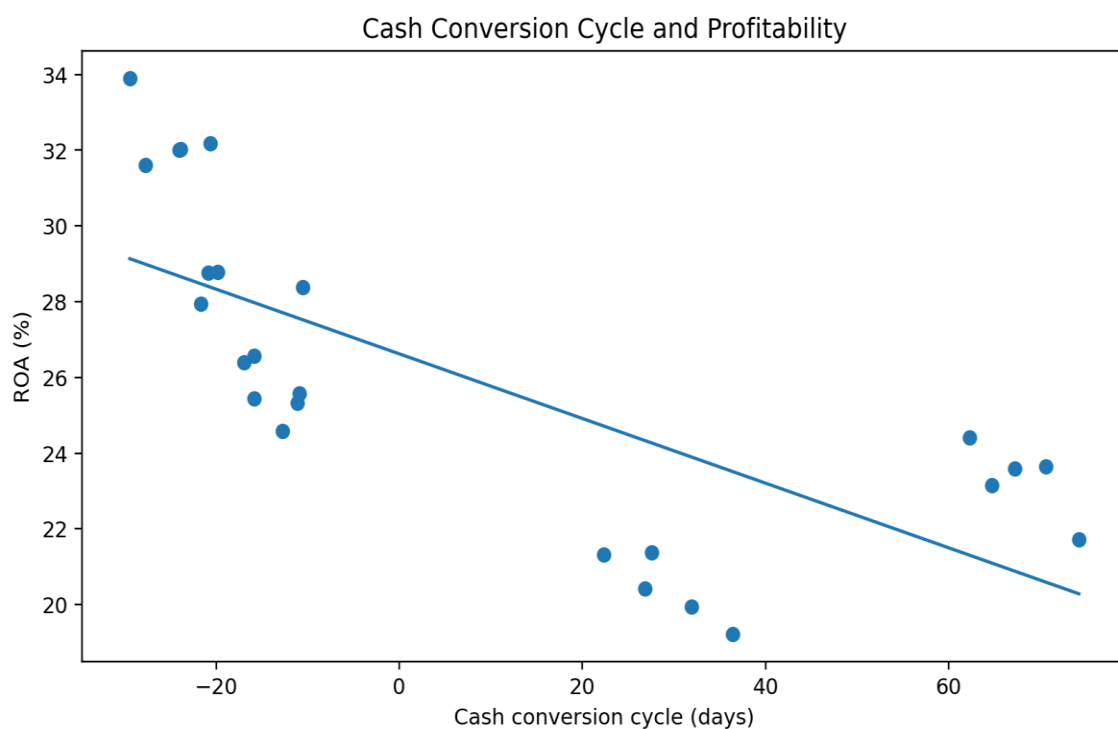


Figure 4

Cash conversion cycle and return on assets
Note. Each point is an illustrative firm-year observation. The fitted line is descriptive and should not be interpreted causally.



7. Discussion

The exemplary results agree with a general literature that considers working-capital efficiency to be a predictor of profitability. Previous research by Deloof (2003), Raheman and Nasr (2007) and Pais and Gama (2015) gives a connection between shorter working-capital cycles or their components and good performance. The current evidence seems to keep the issue up to date: Kiymaz et al. (2024) report that the CCC-performance relationship is inversely related in both developed and emerging economies, and the study by Johan et al. (2024) reveals a strong inverse relationship in BRICS countries. Figlioli et al. (2024) also indicate that longer CCCs may undermine the generation of operating cash-flows and long-term investment. Economically, too much inventory increases holding and obsolescence expenses, sluggish receivables postpone cash and inappropriately controlled payables may either withhold supplier credit or ruin supply connections. Successful CCC management thus balances the three components as opposed to optimizing one of them in isolation.

In the case of FMCG companies, negative working capital may be tactically beneficial in cases where customers or distributors are quick to pay and the supplier offers credit. The negative correlation must not be taken to mean that the payables are meant to be stretched to limitless lengths or that inventories are to be reduced irrespective of the level of service. The concept of an optimal but not minimal working-capital position is backed by Baanos-Caballero et al. (2012) and Aktas et al. (2015), and Banerjee and Deb (2023) demonstrate that working-capital efficiency is also influenced by the managerial ability. Another reminder of the same CCC value possibly carrying different implications in business models with structurally negative operating cycles is the 2025 evidence of Stavropoulos and Zounta. An FMCG company can have a rational stock of safety stock just before a season, temporarily increase distributor credit as the channel is broadening, or hold a strategic inventory under the condition that the marginal marginal revenue plus resiliency value is greater than the cost of financing.

The FY2024-25 update also demonstrates why peer benchmarking must have an express corp-structure controls. The continuing-operations perimeter of ITC Hotels will change on 1 January 2025. The 15-month FY2023-24 transition period of Nestle India alters the denominator of comparisons of annual growths of the company. The choices of HUL to divest and demerge change the composition of a portfolio, and the acquisition agenda of Dabur may shift the boundaries of consolidations. They do not constitute cosmetic disclosure issues: they may have an impact on sales, inventories, receivables, payables, assets and profit at the same time. Managers and researchers ought to thus monitor the absolute cycle, and the components of the cycle and compare them with the operating goals of the segment and normalize corporate scope and then attribute the changes in the ratios to the policy of working capital.

Statistical interpretation must also be restrained. The large, adjusted R-square of the fixed-effects models does not mean that CCC is the cause of nearly all the fluctuations in profitability. Much of the variation that is explained is due to the enduring firm differences like brand strength, product mix, pricing power, asset structure and accounting characteristics. Decisions about the working capital can also be endogenous: profitable firms can be able to negotiate better terms with suppliers, invest in inventory systems or selectively extend credit to customers. Regression does not represent a causal estimate but is a support of a theoretically coherent association with much literature. A validated future model must include

year effects and explicit restructuring-event controls and must check the stability of results when observations that are influenced by demergers, acquisitions or changes in period length are handled differently.

8. Managerial Implications

There are five managerial implications. To start with, CCC must be a joint finance-and-operations performance indicator, instead of a treasury-only performance measure. Second, inventory objectives must be based on demand variability, shelf life, service sensitivity and robustness instead of blanket cuts. Third, credit scoring, the incentives of distributors, and electronic collections and exception monitoring must be incorporated into receivables management. Fourth, the terms with suppliers should be streamlined in collaboration with procurement and supply-chain departments; the longer DPO can free up cash, yet habitual late payment can affect reliability and bargaining relationships. Fifth, dashboards must differentiate the operating improvement and structural accounting change by indicating acquisitions, divestments, demergers, discontinued operations and fiscal-year changes and DIO, DSO, DPO, gross margin, stock-outs, sales growth and ROA. This renders the working-capital dashboard more useful in a business setting where the boundaries of portfolios may shift rapidly.

9. Limitations and Future Research.

The main weakness is the status of data: the historical panel applied in regression is illustrative and cannot replace the extraction of independent verification of audited annual reports. The FY2024-25 figures which are now included in this revision are audited/company-reported contextual figures but are not blended with the constructed panel. A submission-grade study ought to rebuild the entire panel using FY2024-25 definitions of annual-report data, average balances, and a stable consolidated/standalone scope and continuing-operations data where possible. It must also capture corporate actions using event indicators, normalize non-standard reporting periods, test non-linear CCC specifications, and analyze DIO/DSO/DPO individually, employing robustness methods like lagged regressors, generalized method of moments or instrumental variables where appropriate. The sample of Indian listed consumer-goods companies should also be extended to include more companies to achieve better statistical power and finding industry-specific optimal working-capital ranges.

10. Conclusion

The current paper exemplifies an empirical method to the connection between working-capital management and corporate profitability and recontextualizes the topic with FY2024-25. In the panel of five firms constructed, the shorter the cash conversion cycles, the greater the returns on the assets and the coefficient of CCC after including the company fixed effects, the debt ratio, and sales growth is negative. This trend is widely aligned with recent cross-country and BRICS data, but the management implication is optimization and not blind minimization. The second conclusion of the FY2024-25 company update is that corporate structure and reporting boundaries themselves are the key to a reliable longitudinal analysis. Even when operating policy is the same, both working-capital and profitability measures can shift due to

demergers, divestments, acquisitions, discontinued operation and changes in fiscal-year. The second step to an Indian study of submission quality is then to substitute the illustrative historical panel with a fully audited FY2020-21 to FY2024-25 data designed to run on a consistent reporting perimeter and to rerun the model with time and restructuring controls.

REFERENCES:

1. Aktas, N., Croci, E., & Petmezas, D. (2015). Is working capital management value-enhancing? Evidence from firm performance and investments. *Journal of Corporate Finance*, 30, 98-113. <https://doi.org/10.1016/j.jcorpfin.2014.12.008>
2. Banerjee, P., & Deb, S. G. (2023). Working capital management efficiency, managerial ability, and firm performance: New insights. *Applied Economics*, 56(33), 4001-4018. <https://doi.org/10.1080/00036846.2023.2208857>
3. Baños-Caballero, S., García-Teruel, P. J., & Martínez-Solano, P. (2012). How does working capital management affect the profitability of Spanish SMEs? *Small Business Economics*, 39(2), 517-529. <https://doi.org/10.1007/s11187-011-9317-8>
4. Britannia Industries Limited. (2025). 106th Annual Report 2024-25. Britannia Industries Limited.
5. Dabur India Limited. (2025). Annual Report 2024-25. Dabur India Limited.
6. Deloof, M. (2003). Does working capital management affect profitability of Belgian firms? *Journal of Business Finance & Accounting*, 30(3-4), 573-588. <https://doi.org/10.1111/1468-5957.00008>
7. Enqvist, J., Graham, M., & Nikkinen, J. (2014). The impact of working capital management on firm profitability in different business cycles: Evidence from Finland. *Research in International Business and Finance*, 32, 36-49. <https://doi.org/10.1016/j.ribaf.2014.03.005>
8. 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*, 3(3), 73-84.
9. Figlioli, B., Antônio, R. M., Gatsios, R. C., & Lima, F. G. (2024). Influence of the cash conversion cycle on firm's financial performance: Evidence from publicly traded firms in the Latin American context. *Accounting & Finance*, 64(3), 2375-2401. <https://doi.org/10.1111/acfi.13220>
10. García-Teruel, P. J., & Martínez-Solano, P. (2007). Effects of working capital management on SME profitability. *International Journal of Managerial Finance*, 3(2), 164-177. <https://doi.org/10.1108/17439130710738718>
11. Gill, A., Biger, N., & Mathur, N. (2010). The relationship between working capital management and profitability: Evidence from the United States. *Business and Economics Journal*, 2010, 1-9.
12. Hindustan Unilever Limited. (2025). Annual Report 2024-25. Hindustan Unilever Limited.
13. ITC Limited. (2025). Report and Accounts 2025. ITC Limited.

14. Johan, S., Kayani, U. N., Naeem, M. A., & Karim, S. (2024). How effective is the cash conversion cycle in improving firm performance? Evidence from BRICS. *Emerging Markets Review*, 59, 101114. <https://doi.org/10.1016/j.ememar.2024.101114>
15. Kiyamaz, H., Haque, S., & Choudhury, A. A. (2024). Working capital management and firm performance: A comparative analysis of developed and emerging economies. *Borsa Istanbul Review*, 24(3), 634-642. <https://doi.org/10.1016/j.bir.2024.03.004>
16. Lazaridis, I., & Tryfonidis, D. (2006). Relationship between working capital management and profitability of listed companies in the Athens Stock Exchange. *Journal of Financial Management and Analysis*, 19(1), 26-35.
17. Nestlé India Limited. (2025). Annual Report 2024-25. Nestlé India Limited.
18. Padachi, K. (2006). Trends in working capital management and its impact on firms' performance: An analysis of Mauritian small manufacturing firms. *International Review of Business Research Papers*, 2(2), 45-58.
19. Pais, M. A., & Gama, P. M. (2015). Working capital management and SMEs profitability: Portuguese evidence. *International Journal of Managerial Finance*, 11(3), 341-358. <https://doi.org/10.1108/IJMF-11-2014-0170>
20. Raheman, A., & Nasr, M. (2007). Working capital management and profitability: Case of Pakistani firms. *International Review of Business Research Papers*, 3(1), 279-300.
21. Richards, V. D., & Laughlin, E. J. (1980). A cash conversion cycle approach to liquidity analysis. *Financial Management*, 9(1), 32-38. <https://doi.org/10.2307/3665310>
22. Shin, H.-H., & Soenen, L. (1998). Efficiency of working capital management and corporate profitability. *Financial Practice and Education*, 8(2), 37-45.
23. Stavropoulos, A.-S., & Zounta, S. (2025). Cash conversion cycle and profitability: Evidence from Greek service firms. *Journal of Risk and Financial Management*, 18(4), 208. <https://doi.org/10.3390/jrfm18040208>
24. Tauringana, V., & Afrifa, G. A. (2013). The relative importance of working capital management and its components to SMEs' profitability. *Journal of Small Business and Enterprise Development*, 20(3), 453-469.
25. Vural, G., Sökmen, A. G., & Çetenak, E. H. (2012). Affects of working capital management on firm's performance: Evidence from Turkey. *International Journal of Economics and Financial Issues*, 2(4), 488-495.