

Beyond the Balance Sheet: Dissecting the Impact of WCM on Profitability in India's Business Arena

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Abstract

This research delves into the intricate relationship between working capital management components and various profitability metrics within the Indian corporate sector. Drawing data from 600 companies, the study employs a multifaceted analytical approach, encompassing descriptive analysis, Pearson correlation and multiple regression analyses. Findings underscore the paramount significance of efficient working capital management practices. Particularly, components like days receivable and average inventory emerge as pivotal determinants of profitability metrics, such as return on equity and return on assets. Furthermore, the study identifies distinctive patterns unique to the Indian business landscape, emphasizing the need for bespoke financial strategies tailored to local market dynamics. The research not only augments the existing body of financial literature, but also offers actionable insights for practitioners aiming to optimize profitability through strategic liquidity management. As global business terrains continue to evolve, this study serves as a beacon, guiding fiscal strategies within emerging markets.

Keywords: working capital management, profitability metrics, Indian corporate sector, liquidity management

JEL classification: G31, G32, M41

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1. Introduction

In the dynamic landscape of corporate finance, few domains have garnered as much scholarly attention and debate as working capital management (WCM). Revered as the linchpin of financial management, WCM stands as a testament to a firm's ability to manage its short-term assets and liabilities efficiently, ensuring both liquidity and operational prowess (Dash *et al.*, 2023). As economies evolve and markets become increasingly intricate, the significance of adept WCM practices becomes even more pronounced, influencing not just a firm's solvency, but its overall profitability (Hiran & Sojatia, 2015; Yeo, 2016). Historical treatises trace the genesis of WCM practices to the dawn of organized trade, where merchants and traders grappled with the dual challenges of ensuring product availability and maintaining liquidity. However, the modern-day complexities of WCM,

characterized by global supply chains, digital disruptions and volatile economic conditions, are a far cry from these rudimentary beginnings (Kontuš & Mihanović, 2019). Contemporary literature offers a plethora of strategies and frameworks, emphasizing the importance of optimizing components like accounts receivable, inventory and accounts payable to enhance overall profitability (Aldubhani *et al.*, 2022; Lazarus *et al.*, 2023; Jain, 2023b).

The Indian market, with its unique blend of traditional business ethos and rapid modernization, presents a particularly intriguing backdrop for WCM research. As one of the world's fastest-growing major economies, India is characterized by a vibrant mix of industries, varying scales of operations and diverse market dynamics (Patil & Bagodi, 2021; Mukherjee *et al.*, 2022). Within this context, understanding the nuances of WCM becomes not just an academic pursuit, but a pressing business imperative. Studies like those by Baker *et al.* (2017) have delved into the peculiarities of the Indian market, highlighting the challenges and opportunities that influence WCM practices and their subsequent impact on profitability.

Despite the extensive body of research, gaps remain in our understanding of WCM, particularly in the context of emerging economies. While global perspectives offer valuable insights (Wijaya & Nadya, 2021; Kasiran *et al.*, 2016; Prasad *et al.*, 2019; Chandra *et al.*, 2012), there's a pressing need for context-specific research that takes into account the unique challenges and opportunities presented by markets like India. Furthermore, as global events, from pandemics to technological revolutions, reshape the business landscape, there's a need to revisit and reassess traditional WCM practices, evaluating their relevance and efficacy in the current scenario (Habib & Mourad, 2022; Braimah *et al.*, 2021). The research aims at analysing the intricate relationship between the WCM and profitability of the listed firms. For this, key WCM and profitability ratios of 600 companies listed on the Bombay Stock Exchanges and the National Stock Exchange were used. The study is conducted on the backdrop of the following hypotheses:

- ✓ H1: *There is no significant relationship between WCM represented by accounts receivable, inventory, accounts payable and cash conversion cycle on operating profit margin in the listed companies.*
- ✓ H2: *There is no significant relationship between WCM represented by accounts receivable, inventory, accounts payable and cash conversion cycle on return on assets in the listed companies.*
- ✓ H3: *There is no significant relationship between WCM represented by accounts receivable, inventory, accounts payable and cash conversion cycle on return on capital employed in the listed companies.*
- ✓ H4: *There is no significant relationship between WCM represented by accounts receivable, inventory, accounts payable and cash conversion cycle on return on equity in the listed companies.*
- ✓ H5: *There is no significant relationship between WCM represented by accounts receivable, inventory, accounts payable and cash conversion cycle on net profit margin in the listed companies.*

The paper commences with an introduction, setting the context, elucidating the significance of the study and outlining the research objectives. Following this, the literature review section delves into existing scholarly works, tracing the evolution of theories and empirical findings related to WCM and profitability and identifying gaps that this research aims to address. The methodology section details the research design, including data sources, variables and the analytical techniques employed. Subsequent to this, the results section presents the empirical findings, shedding light on the intricate dynamics between WCM components and profitability metrics. To bridge the gap between theoretical understanding and the study's findings, the theoretical implications section offers academic reflections, while the practical implications section translates these insights into actionable recommendations for corporate practitioners and policymakers. By delving deep into the relationship between WCM and profitability within the Indian context, this study aims to offer fresh insights, guiding businesses and scholars alike in their quest for financial excellence.

This study uniquely situates itself within the realm of working capital management research, by offering a concentrated lens on the Indian corporate sector. While numerous studies have broached the WCM-profitability relationship, our research is particularly tailored to the intricacies of India's dynamic business environment,

informed by its blend of traditional and modern practices. Our methodological approach distinguishes itself by its breadth, encompassing descriptive analysis, Pearson correlation and multiple regression analyses, and by its depth, rooted in data from 600 listed Indian companies. This ensures our findings are both academically rigorous and practically relevant. Furthermore, this study unveils patterns and insights distinctive to the Indian market, emphasizing the requisite for bespoke financial strategies that resonate with local nuances, a study which has never been attempted earlier. An added dimension of innovation is the introduction of the log of market capitalization as a control variable, highlighting the intricate interplay between market valuation and WCM components. In essence, our research not only enriches the academic discourse, but also offers a fresh, localized perspective, pivotal for scholars and practitioners in the Indian context.

2. Literature review

Working capital management, a cornerstone of corporate finance, has long captivated the attention of researchers, academicians and industry professionals. In the vast expanse of financial management literature, WCM emerges as a distinct domain, continually evolving to address the intricate dynamics of managing short-term assets and liabilities (Akbar *et al.*, 2021). The importance of WCM, while universally acknowledged, finds particular resonance in emerging economies like India, where businesses often grapple with unique challenges – be it volatile market conditions, diverse business practices or regulatory nuances. Within this context, understanding the impact of WCM on profitability becomes not just an academic endeavor, but a pressing business imperative. As firms navigate the complex terrains of liquidity and solvency, the strategies and practices underpinning WCM offer valuable insights, guiding businesses towards sustainable growth and financial stability (Cho *et al.*, 2019). This literature review seeks to chart the intellectual journey of WCM, tracing its evolution, dissecting its components and synthesizing the myriad perspectives that have shaped its discourse over the decades. By weaving together historical insights, empirical findings and contemporary debates, this review aims to offer a holistic understanding of WCM and its profound influence on profitability, particularly within the vibrant tapestry of the Indian market.

The odyssey of WCM, as chronicled in academic literature, presents a fascinating tale of evolution. From its nascent conceptualizations in the early 20th century to its modern-day intricacies, the doctrine of WCM has undergone profound transformations, mirroring the broader shifts in the business landscape (Sawarni *et al.*, 2023; Farhan *et al.*, 2021). Historically, the genesis of WCM can be traced back to the rudimentary practices of trade and commerce, where merchants and traders grappled with the challenges of managing inventory, extending credit and ensuring liquidity (Dbouk *et al.*, 2020). As businesses expanded and markets grew in complexity, the need for a structured approach to managing working capital became evident. Early treatises on the subject emphasized the delicate balance between liquidity and profitability – a theme that continues to resonate in contemporary discussions (Abulaila & Alhathlool, 2016). By the mid-20th century, with the advent of modern corporate finance theories and the increasing sophistication of financial markets, WCM began to carve out its distinct niche. Researchers embarked on empirical studies, exploring the determinants of working capital and their impact on firm performance. These early investigations, while foundational, often adopted a broad-brush approach, viewing WCM as a monolithic entity.

However, as the business environment grew in complexity, fueled by globalization, technological advancements and evolving market dynamics, the tenets of WCM, too, began to adapt. The latter half of the 20th century witnessed a surge in research that sought to dissect the various components of WCM – be it inventory management, accounts receivable or cash conversion cycles (Yousaf *et al.*, 2021; Fernández-López *et al.*, 2020). Scholars began to recognize that each component, while interlinked, presented its unique challenges and opportunities, requiring specialized strategies and practices.

The dawn of the 21st century brought forth new challenges for WCM. With the rapid digitalization of markets, the rise of e-commerce and the increasing volatility of global economies, firms found themselves navigating uncharted terrains. Contemporary literature began to reflect these shifts, with researchers exploring

the implications of digital transformations on WCM practices, the challenges of managing working capital in an increasingly interconnected global economy, and the strategies to harness technological advancements for optimizing working capital (Peng & Zhou, 2019). As the discourse around WCM matured, scholars and practitioners alike began to recognize its multifaceted nature. Delving beneath the surface, a tapestry of interconnected components emerged, each with its unique significance and challenges.

Accounts receivable (AR), often perceived as a testament to a firm's market trust and creditworthiness, holds a pivotal place in the WCM matrix. Historically, businesses extended credit as a gesture of goodwill, fostering long-term relationships with clients (Kumar, 1999). However, as markets expanded and competition intensified, the dynamics of AR evolved. Modern literature emphasizes the dual role of AR: while it can enhance sales and market penetration, it also ties up funds, potentially affecting liquidity. Empirical studies have further explored the optimal credit policies, seeking to strike a balance between fostering client relationships and ensuring financial health. Notably, the nuances of AR management vary across industries and geographies, influenced by market norms, regulatory frameworks and economic conditions (Surikova *et al.*, 2022).

The annals of WCM literature resonate with the significance of inventory management. From ancient trading hubs where merchants stocked goods awaiting caravans, to modern e-commerce giants leveraging sophisticated algorithms for inventory optimization, the essence of inventory management remains unchanged: ensuring product availability while minimizing holding costs (Bătcă-Dumitru *et al.*, 2023). Contemporary research offers a plethora of strategies, from just-in-time systems that prioritize lean inventory to safety stock models that hedge against supply chain uncertainties. Yet, the optimal inventory level remains elusive, varying based on industry dynamics, market demand and technological advancements.

In the orchestra of WCM, accounts payable (AP) plays a nuanced tune. Historically perceived merely as financial obligations, modern interpretations of AP underscore its strategic significance (Nam & Uchida, 2019). By astutely managing payment cycles, firms can optimize their cash flows, potentially leveraging AP as an interest-free financing source. However, this strategy isn't devoid of challenges. Extending payment durations excessively might strain supplier relationships or result in missed early payment discounts. As with other WCM components, the nuances of AP management are influenced by industry norms, contractual obligations and economic conditions.

The cash conversion cycle (CCC), a holistic measure encapsulating the temporal journey of a firm's working capital, has garnered significant attention in recent literature (Karim *et al.*, 2023). Conceptualized as the duration between a firm's expenditure on raw materials and the receipt of payment for finished goods, the CCC serves as a barometer of operational efficiency and liquidity management. While a shorter CCC implies swift conversion of resources into cash, suggesting efficient operations, it's not without challenges. Firms may grapple with pressures on AR and AP to artificially reduce the CCC, potentially straining business relationships or compromising operational efficiency.

In the realm of financial analysis, profitability metrics serve as the North Star, guiding stakeholders from investors to managers. These metrics, while seemingly straightforward, are underpinned by a rich history of financial theory and practical insights. The gross profit margin, for instance, offers a snapshot of a firm's operational efficiency, stripping away the influence of financial and tax considerations. In contrast, metrics like return on assets (ROA) or return on capital employed (ROCE) encapsulate a firm's efficiency in leveraging its assets or capital to generate profits (Jain, 2023a). The evolution of these metrics reflects the evolving needs of stakeholders, from shareholders seeking returns on investments to managers aiming for operational excellence. As firms navigate the intricate terrains of WCM, these profitability metrics offer valuable benchmarks, elucidating the impact of WCM practices on financial performance.

A vast corpus of literature delves into the interplay between working capital management and profitability, striving to elucidate the intricate dynamics that bind them. Predominantly, empirical studies converge on the finding that a more streamlined WCM augments profitability. This sentiment is echoed in the research by Kiyamaz

(2023), which discerns that a contraction in the cash conversion cycle invariably presages an uptick in profitability. This is further buttressed by the findings of [Jaworski and Czerwonka \(2022\)](#), who identify a significant inverse relationship between CCC and return on assets. Similarly, [Thuraisingam \(2020\)](#) observed that firms parading lower CCCs invariably boast elevated ROA and return on equity (ROE) metrics. Yet, the academic discourse isn't monolithic. There are contrarian views ([Yazdanfar & Öhman, 2014](#)) present, a departure from the prevailing narrative, unveiling a positive nexus between CCC and ROA, specifically within the context of the Indian retail sector.

While the overarching academic consensus tilts towards a negative relationship between WCM and profitability, it's imperative to recognize that this linkage isn't immutable. Variables such as industry specificity, firm dimensions and other exogenous factors can modulate the strength and trajectory of this relationship ([Kiyamaz et al., 2023](#)).

3. Methodology

The methodology section elucidates the procedures and techniques employed in the study to examine the relationship between working capital management and profitability in the Indian context. Given the intricate nature of this relationship, the study utilized a blend of descriptive statistics, correlation analysis and multiple regression analysis.

3.1. Data collection and sample selection

The study sourced financial data from a sample of 600 companies. These companies were selected to represent a cross-section of the Indian corporate landscape, ensuring varied industrial segments and scales of operation were included. The data were primarily extracted from Thomson Reuters database, ensuring the reliability and authenticity of the information.

3.2. Variables defined

■ Working capital management variables

- ✓ **TR (Trade receivables):** Amounts due from customers arising from the sale of goods or services in the ordinary course of business.
- ✓ **DR (Days receivable):** Calculated by dividing the average accounts receivable by net credit sales and multiplying by the number of days in the period. It signifies the average number of days taken to collect outstanding.
- ✓ **Inv (Average inventory):** Represents the average amount of inventory held over a period, providing insights into inventory management practices.
- ✓ **AP (Accounts payable):** Amounts owed to suppliers for goods or services purchased on credit.
- ✓ **DP (Days payable):** Calculated by dividing average accounts payable by cost of goods sold and multiplying by the number of days in the period. It reflects the average duration taken to settle payables.
- ✓ **CC (Cash cycle):** Represents the total days taken from spending cash on raw materials to receiving cash from sales. It's a comprehensive measure of a firm's efficiency in managing its working capital.

■ Profitability ratios

- ✓ **OPM (Operating profit margin):** Represents the proportion of revenue left after deducting operating expenses. It's a measure of operational efficiency.
- ✓ **ROA (Return on assets):** Indicates how effectively a company's assets are being used to generate profits.
- ✓ **ROCE (Return on capital employed):** Provides insights into a firm's ability to generate returns from its total available capital.
- ✓ **ROE (Return on equity):** Shows how much profit a company generates from its shareholders' equity.

✓ **NPM (Net profit margin)**: Denotes the percentage of revenue that exceeds all the company's expenses, providing a clear picture of overall profitability.

■ **Control variable**

m log (Log of market capitalization): Used to control for the firm's size, given that size can influence both WCM practices and profitability outcomes.

3.3. Analytical techniques

■ **Descriptive analysis**

Before delving into inferential statistics, a preliminary descriptive analysis was performed. This provided an overview of the central tendencies, dispersions and overall distribution of the data.

■ **Pearson correlation analysis**

This bivariate analysis was used to ascertain the linear relationships between the WCM variables and profitability ratios. The Pearson coefficients offered insights into the strength and direction of these relationships.

■ **Multiple regression analysis**

A stepwise regression approach was employed, wherein the profitability ratios served as dependent variables, while the WCM components were the independent variables. The log of market capitalization was incorporated as a control variable. This analytical technique facilitated the examination of the collective impact of WCM variables on profitability, while accounting for the influence of firm size.

4. Results

The analyses conducted sought to uncover the intricate relationships between working capital management components and profitability metrics within the Indian corporate landscape. The results, derived from the statistical exploration, offer a blend of anticipated outcomes, reinforced by existing literature, and unique insights specific to the context of the study.

Table 1. Descriptive analysis

	Valid	Missing	Mean	Standard deviation	Minimum	Maximum
OPM	600	0	21.011	15.028	-5.04	86.22
ROA	600	0	11.604	11.131	-89.16	203.43
ROCE	600	0	24.684	20.064	11.27	377.00
ROE	600	6	22.717	22.051	-5.42	304.24
NPM	600	0	14.538	39.973	-103.78	948.17
TR	600	0	1,192.527	3,670.313	0	499.54
DR	600	0	53.075	39.562	0	307.87
Inv	600	0	8.065	29.496	-1.06	409.48
AP	600	0	1,296.076	4,083.805	0	49,784.12
DP	600	0	110.125	120.463	1.44	1.594.72
CC	600	0	82.209	178.602	-1,458.95	2.520.29
m log	600	0	9.294	1.268	7.607	14.028

The foundational analysis, the descriptive statistics displayed in Table 1, paints a nuanced picture of the sample. For instance, the operating profit margin (OPM %) averaged around 21.011%, with companies exhibiting

a standard deviation of 15.028%. Such variations in OPM % underscore the diversity in operational efficiencies and market conditions faced by the companies in the sample. These descriptive statistics serve as a critical baseline, setting the stage for more intricate analyses.

The Pearson correlation matrix, as shown in Table 2, unveils several noteworthy associations. The positive correlation of 0.226 ($p < 0.01$) between OPM % and ROA 12M % signifies that firms with higher operational margins tend to exhibit better returns on their assets.

Table 2. Pearson correlation matrix

Variable	OPM	ROA	ROCE	ROE	NPM	TR	DR	Inv	AP	DP	CC	m log
OPM	-											
ROA	0.226***	-										
ROCE	0.179***	0.796***	-									
ROE	0.143***	0.475***	0.609***	-								
NPM	-0.071	0.048	-0.036	0.085	-							
TR	-0.033	-0.017	0.003	-0.007	-0.023	-						
DR	-0.049	-0.037	-0.071	-0.103*	-0.042	0.116**	-					
Inv	-0.058	0.045	0.048	0.054	-0.014	0.001	-0.016	-				
AP	-0.083*	-0.103*	-0.036	-0.034	-0.045	0.641***	-0.066	0.009	-			
DP	0.242***	-0.066	0.085	0.032	0.208***	0.103	0.291***	-0.018	0.084	-		
CC	-0.01	-0.029	-0.104*	-0.093*	-0.015	-0.047	0.216***	-0.123**	-0.104*	-0.413***	-	
m log	0.092*	-0.010	0.049	0.022	0.074	0.457***	-0.16***	0.08	0.436***	0.084	-0.118**	-

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

Another intriguing observation is the significant positive association between OPM % and days payable, standing at 0.242 ($p < 0.01$).

Table 3. Multiple regression analysis

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
	ROA	OPM	ROCE	ROE	NPM
Intercept	22.421 ($< .001$)***	17.362 ($< .001$)***	22.355 ($< .001$)***	20.447 ($< .001$)***	10.207 ($< .001$)***
Trade receivable	0.159 (0.873)	-0.019 (0.985)	-0.442 (0.659)	-0.282 (0.778)	0.192 (0.848)
Days receivable	-1.294 (0.196)	0.881 (0.379)	-1.668 (0.096)	-2.454 (0.015)**	-0.078 (0.938)
Average inventory	1.943 (0.050)*	-0.216 (0.829)	2.020 (0.044)*	2.384 (0.018)**	0.485 (0.628)
Accounts payable	-2.215 (0.027)**	-1.240 (0.216)	-0.862 (0.389)	-0.927 (0.354)	-1.525 (0.128)
Days payable	-1.064 (0.288)	6.384 ($< .001$)***	1.387 (0.166)	0.818 (0.414)	5.390 ($< .001$)***
Cash cycle	1.308 (0.192)	4.635 ($< .001$)***	-2.107 (0.036)*	-1.677 (0.094)	3.309 (0.001)***
m log	0.073 (0.400)*	-0.054 (0.388)	-0.066 (0.624)	0.51 (0.760)	0.77 (0.096)
R ²	0	0	0	0	0
Adjusted R ²	0	0	0	0	0
F-value	4.492	11.597	4.277	4.320	7.172

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

The multiple regression analysis as depicted in Table 3 brings forth the multifaceted influence of WCM components on profitability metrics and tests hypothesis 1. In the model with ROA as the dependent variable (Model 1), the significant positive coefficient of 1.943 ($p = 0.05$) for average inventory insinuates that firms

holding larger inventories might be benefiting from economies of scale or perhaps better positioned to meet market demand swiftly, thereby enhancing their return on assets. Conversely, the negative coefficient of -2.215 ($p = 0.027$) for accounts payable suggests that firms with larger outstanding payables may face challenges in efficiently converting their assets into profit. Hypothesis 1 is partially validated, as there are significant relationships between some components of WCM (days payable and cash cycle) and OPM. However, not all WCM components showed a significant relationship.

The findings for Model 2, with OPM as the focus, are particularly captivating, testing the hypothesis 2. The days payable coefficient of 6.384 ($p < 0.01$) indicates that longer payable periods are associated with higher operational margins. This could be a manifestation of firms effectively utilizing extended credit terms, thereby optimizing their operational costs. Concurrently, the cash cycle's positive coefficient of 4.635 ($p < 0.01$) suggests that firms with extended cash cycles – those taking longer to convert their inventories into cash – might be reaping benefits in the form of higher operational margins, possibly due to strategic inventory management or premium pricing strategies. Hypothesis 2 is partially validated with some components of WCM (average inventory and accounts payable) that show a significant relationship with ROA.

Model 3 tests hypothesis 3 with the significant coefficient for trade receivable of -0.442 (although with a p-value of 0.659, rendering it non-significant) might suggest that higher trade receivables, in some instances, could be associated with decreased efficiency in capital employment. However, the non-significance indicates that this relationship isn't consistent across the sampled firms. On the other hand, days receivable with a coefficient of -1.668 ($p = 0.096$) portrays a near-significant trend. This could be interpreted as companies that take longer to collect payments, potentially experiencing reduced efficiency in their capital employment. The delay in converting credit sales into cash might be tying up funds that could otherwise be effectively utilized. Hypothesis 3 is validated, as most components of WCM do not show a significant relationship with ROCE.

Model 4 forecasts the trade receivable coefficient of -0.282 ($p = 0.778$) suggests a non-significant negative relationship with ROE further testing hypothesis 4. It could indicate that companies with larger trade receivables aren't necessarily deriving enhanced returns on their equity. However, due to the non-significant nature of this relationship, it's imperative to approach this finding with caution. For days receivable, the significant negative coefficient of -2.454 ($p = 0.015$) elucidates that extended collection periods might be hampering the returns on equity. This could be attributed to inefficiencies in credit policies, prolonged sales cycles or specific market dynamics which prevent companies from swiftly converting their credit sales into tangible equity returns. Hypothesis 4 is partially validated, with most components of WCM not having a significant relationship with ROE, except for days receivables.

Delving into Model 5 and testing hypothesis 5, the trade receivable metric, the positive coefficient of 0.192 ($p = 0.848$) provides an inkling of a non-significant relationship with net profitability. Such a trend might hint at the notion that the magnitude of trade receivables doesn't have a pronounced influence on the net profit margins of firms in the sample. Further, days receivable with its minimal coefficient of -0.078 ($p = 0.938$) underscores this lack of a profound relationship. It suggests that the timeframe firms take to collect their dues doesn't significantly sway their net profitability. Whether firms collect quickly or allow extended credit terms, their net profit margins remain relatively unaffected. Hypothesis 5 is validated, as no components of WCM show a significant relation with net profit margins.

5. Theoretical implications

The exploration into the nuanced relationship between working capital management elements and profitability metrics in the Indian corporate sector has broadened the theoretical horizons of financial research. This study not only aligns with some of the prevailing academic understandings, but also introduces fresh perspectives, especially within the unique contours of the Indian business environment. The multifaceted approach,

encompassing a range of profitability metrics, underscores the complexity of financial interactions in real-world scenarios. It challenges the conventional, often oversimplified, academic models, by demonstrating that the dynamics of WCM in emerging markets like India are distinct and multifarious. Furthermore, the incorporation of the log of market capitalization as a control variable introduces a novel dimension to the analysis, potentially setting a precedent for future empirical research. This study, therefore, serves as both a validation and a critique of existing financial theories, encouraging scholars to revisit and revise established paradigms.

6. Practical implications

For corporate leaders, financial managers and industry stakeholders, the findings of this research hold tangible implications. The evident correlation between WCM components and profitability underlines the strategic importance of efficient liquidity management. It is clear that the tactical handling of receivables, judicious inventory management and astute payables negotiations can have pronounced impacts on a firm's bottom line. The significant influence of variables like days receivable on profitability suggests that firms might need to refine their credit policies, balancing market competitiveness with fiscal prudence. Additionally, the insights on inventory management reiterate the significance of aligning stock levels with market demand, ensuring operational responsiveness without compromising liquidity. On a broader canvas, these findings serve as a guidepost for firms operating on the Indian market, emphasizing the need for a harmonized approach that melds global best practices with localized strategies to navigate the unique challenges and opportunities presented by the Indian corporate landscape.

7. Conclusion

The intricate dance between working capital management and profitability is one that has long intrigued scholars and practitioners alike. Through this research, we have ventured into this complex terrain, focusing on the dynamic Indian corporate sector, seeking to unravel the multifaceted relationships and the subtleties therein.

Our findings underscore the indomitable significance of efficient WCM practices. By examining a range of profitability metrics, this study elucidates that the management of receivables, inventory and payables is not merely a routine financial exercise, but a strategic endeavor with profound implications on a firm's bottom line. Such insights resonate with a broader academic consensus, yet the unique patterns and relationships observed within the Indian context add a fresh dimension to the discourse.

The significant relationships observed between certain WCM components and profitability metrics, such as days receivable and ROE, bring to the fore the importance of strategic credit and inventory management. These insights serve as a clarion call for firms to recalibrate their operational strategies, ensuring alignment with market dynamics and fiscal prudence. Furthermore, the nuanced interplay of variables like days payable with profitability metrics underscores the strategic potential of astute supplier relationship management in the Indian corporate milieu. Beyond these empirical findings, this research contributes to a broader understanding. It reaffirms the belief that financial strategies and practices cannot be uniformly applied across geographies and markets. The Indian market, with its unique challenges and opportunities, requires bespoke strategies, ones that meld global best practices with localized nuances.

While this study has shed light on many aspects of the WCM-profitability nexus, it also paves the way for further research. The introduction of other macroeconomic variables, a deeper dive into sector-specific dynamics or comparative studies contrasting the Indian landscape with other emerging markets could be potential future directions. In essence, this research not only adds a valuable chapter to the annals of financial scholarship, but also provides actionable insights for practitioners navigating the vibrant, yet challenging waters of the Indian corporate sector. As the global business landscape continues to evolve, studies like these serve as both compass and beacon, guiding firms in their quest for fiscal excellence and sustainable growth.

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