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**A STUDY ON WORKING CAPITAL MANAGEMENT PRACTICES WITH
SPECIAL RERANCE TO THE LAKSHMI MILLS COMPANY LIMITED AT
KOVILPATT, THOOTHUKUDI DISTI**

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Keywords

Abstract

This study focuses on analysing the working capital management of Lakshmi Mills Company Limited, Kovilpatti, a leading textile manufacturer in South India. The research aims to evaluate the efficiency of managing current assets and liabilities and their impact on the company's liquidity and profitability. The study uses secondary data from annual reports and financial statements for a five-year period, employing tools such as ratio analysis, trend analysis, and comparative statements. Findings reveal fluctuating trends in liquidity ratios, with declining current and quick ratios indicating insufficient short-term solvency. The company shows moderate performance in inventory and asset turnover, but profitability ratios reflect a downward trend in recent years. The analysis highlights that improper control of receivables and high current liabilities have strained liquidity. However, efficient cash and inventory management during certain years improved operational performance. The study suggests adopting tighter credit policies, modernizing production processes, and enhancing financial planning for better working capital utilization. Overall, the research emphasizes that effective working capital management is essential for sustaining financial stability and ensuring long-term profitability in the textile sector.



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1. INTRODUCTION

Working capital is an important element in the long-term viability and sustainability of any company. Many businesses are forced to close their doors due to an inability to fulfil short-term obligations on time. To stay in business, a company must effectively manage its working capital. Working capital management improves a company's cash and financial health while lowering risk. You will be introduced to the idea of working capital and working capital management in this course. The course will look at the need for working capital management and identify important factors that influence the amount of working capital required. This course will also cover financial planning ideas to help you estimate your working capital needs. Finally, you will be introduced to the idea of working capital and working capital management in this course. The course will look at the need for working capital management and identify important factors that influence the amount of working capital required. This course will also cover financial planning ideas to help you estimate your working capital needs. Finally, this training will go over some of the most important strategies for financing working capital. Working capital management and control is critical for businesses, and it is a significant workload function for the finance manager and accountant. Working capital, the generally accepted descriptive term for these resources, refers to the company's investment in short-term assets; Traditionally, these pertain to balance-sheet items classified as current assets. (Of course, in practice, all capital, whether invested in fixed or current assets, is working). Working capital includes inventories (stocks), accounts due (debtors), short-term investments, and cash balances. (The words in brackets indicate alternative asset descriptions; These terms are used interchangeably throughout this work.) The finance manager will be concerned with the financing of these assets in addition to their efficient administration and control. In this case, the financial manager will be confronted with numerous short-term and long-term alternative sources. Short-term financing is typically recorded as current liabilities and contains items such as bank overdrafts and credit from suppliers.

2. SCOPE OF STUDY

- The study focuses on Lakshmi Mills Pvt. Ltd., Kovilpatti, a major unit involved in the production of cotton, polyester, and blended yarns.
- It covers a detailed analysis of the company's working capital management practices and financial performance over a period of five years.
- The scope includes examining current assets, current liabilities, and key financial ratios such as the current ratio, quick ratio, and working capital turnover ratio.
- It evaluates how effectively the company utilizes its financial and operational resources to maintain liquidity and profitability.
- The study also analyses the trend of financial growth, identifying patterns in asset management, sales, and cost control.



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- It provides insights into the strengths, weaknesses, opportunities, and threats (SWOT analysis) of the company to assess its market position.
- The scope extends to exploring the impact of modernization, technology adoption, and sustainability practices on operational efficiency.
- Findings from the study will help management make informed decisions and assist investors, researchers, and policymakers in understanding the financial dynamics of the textile industry.

3. REVIEW OF LITERATURE

The review of literature provides a comprehensive understanding of previous studies and research findings related to working capital management and financial performance in the textile industry. It helps identify the key factors influencing liquidity, profitability, and operational efficiency. Through examining various academic papers, rating reports, and company analyses, this section highlights the trends, challenges, and strategies adopted by Lakshmi Mills and other textile firms. It also serves as a foundation for the present study by identifying research gaps and supporting the need for improved financial management practices. The literature reviewed offers valuable insights into how effective working capital utilization enhances business stability and competitiveness in a dynamic market environment.

1. Report junction / Industry snapshot (2012) This industry report analyses structural challenges in Tamil Nadu textile mills, including Lakshmi Mills. The study highlights raw cotton price volatility, high inventory levels, and working-capital pressures that impacted liquidity. Findings indicate that many mills faced recurring cash-flow constraints due to operational inefficiencies. The report emphasises the importance of strategic stock management and operational restructuring. It also discusses sector-wide trends such as energy costs and labour productivity. The insights provide a baseline for understanding the historical financial environment of Lakshmi Mills.
2. Nirmala & Remya Cheriyan (2014) The authors conducted a five-year feasibility study on Lakshmi Mills in Coimbatore, focusing on solvency, profitability, and operational efficiency. The study uses ratio and trend analysis to assess liquidity, debt management, and revenue growth. Findings suggest periods of financial stress were mitigated by effective inventory and receivables management. The authors highlight that proactive working-capital control significantly enhances cash-flow stability. Recommendations include implementing tighter credit policies and optimising stock turnover. This research contributes to understanding mid-sized textile firm financial practices.
3. CRISIL Rating Rationale (2015) This rating rationale evaluates Lakshmi Mills' credit profile and operational framework. It details manufacturing locations, product portfolio, and banking arrangements, emphasizing working-capital requirements. Findings indicate that external factors, such as raw material price fluctuations and intermittent power supply, affected liquidity and operational stability. The study stresses strong financial governance



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and timely disclosure to maintain creditworthiness. Recommendations include regular review of cash flows and prudent debt management. The rationale provides historical context on credit evaluation for textile firms in Tamil Nadu.

4. Marimuthu K.N. (2015) This conference paper examines the impact of working-capital management on profitability at Lakshmi Mills. Using secondary financial data, the author analyses liquidity, turnover, and profitability ratios over five years. Findings suggest that efficient inventory and receivables management are critical for maintaining healthy cash flows. The study concludes that tighter control of inventory levels and prompt collection of receivables can significantly improve liquidity. Recommendations include adopting systematic credit and stock monitoring procedures. This work is valuable for understanding financial efficiency in textile operations.
5. CRISIL (2015) This report documents the suspension of Lakshmi Mills' credit ratings due to limited information availability. It highlights challenges in assessing mid-2010s operations and creditworthiness. Findings indicate that inadequate reporting can affect the perceived risk profile of a company. The study underscores the importance of accurate and timely financial disclosures in rating evaluations. Recommendations include improved transparency and regular financial audits. This report contributes to knowledge of regulatory oversight and market assessment practices in textile firms.
6. Annual Report (2022–23) The audited annual report presents detailed financial statements, management discussion, and operational commentary. Findings indicate a stable revenue trend with moderate growth in profitability. The report emphasises working-capital efficiency and highlights initiatives in inventory management and receivables collection. Recommendations include continuous improvement in operational processes and strategic resource allocation. Insights from the report are essential for evaluating the company's financial health and planning long-term business strategies. The study provides primary data for research on financial performance trends.
7. Equity master (2023) Equity research on Lakshmi Mills analyses FY23 performance, focusing on revenue growth, profit margins, and cash-flow trends. Findings indicate that operational efficiency improved due to better inventory management and receivables control. The study highlights challenges posed by market fluctuations and raw material costs. Recommendations include maintaining liquidity buffers and improving capital utilisation. Insights contribute to investor-oriented evaluations and financial planning. The research 20 emphasises the role of strategic financial management in sustaining profitability for textile companies.
8. The Lakshmi Mills Company Ltd. — Annual Report (2023–24) The annual report provides audited financials, segmental performance, and management commentary for FY23–24. Findings indicate improved liquidity and working-capital utilisation compared to previous years. The report highlights operational initiatives for inventory management, receivables



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collection, and cost control. Recommendations focus on maintaining efficiency in resource allocation and strengthening corporate governance. Insights support strategic planning and risk management for future operations. This primary source is essential for understanding contemporary financial performance and management practices.

9. Lakshmi Mills Annual Report (2024) This report presents detailed financials, CSR activities, and management discussion for FY23–24. Findings indicate that working capital management and operational efficiency contributed to moderate profitability. Recommendations include optimising receivables collection and inventory turnover for sustained liquidity. The report highlights modernisation initiatives and strategic investments in production processes. Insights from this report provide a comprehensive view of operational and financial strategies in the textile sector. The study reinforces the importance of governance and transparency in company performance.
10. JET / conference preprints (2024–2025) Conference preprints analyse financial and operational data from Lakshmi Mills, emphasising liquidity, efficiency, and working capital management. Findings suggest moderate efficiency with scope for improvement in receivables and inventory control. Recommendations include adoption of process improvements and monitoring systems. Insights contribute to methodology development in financial performance evaluation. The study reinforces the role of quantitative analysis in strategic planning. It provides academic evidence for operational benchmarking.

4. RESEARCH METHODOLOGY

➤ RESEARCH DESIGN

- This study will adopt a descriptive research design because the objective is to analyze, evaluate, and interpret the existing working capital management practices of Lakshmi Mills Company Limited.
- Descriptive research is suitable as it helps in obtaining an accurate profile of the current financial position and working capital trends of the company

➤ TYPE OF RESEARCH

- Applied Research –since the study focuses on applying financial analysis techniques to solve a practical problem (optimizing working capital).
- Quantitative in nature – as it involves numerical data analysis of financial statements and ratios.

➤ DATA SOURCE

- The study will rely primarily on secondary data, collected from: Annual Reports of Lakshmi Mills Company Limited (last 5 years).
- Published financial statements (Balance Sheet, Profit & Loss Account, Cash Flow Statement). Official company website.
- Industry reports and textile sector analysis. Articles, journals, and financial databases.



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➤ DATA COLLECTION METHOD:

- Secondary Data Collection: Extracting information from financial documents, official publications, and authentic online databases.

➤ TOOLS FOR ANALYSIS:

- Ratio Analysis (Current Ratio, Quick Ratio, Inventory Turnover Ratio) Working
- Comparative Statement
- Trend analysis

➤ DATA ANALYSIS AND INTERPRITATION

CURRENT RATIO

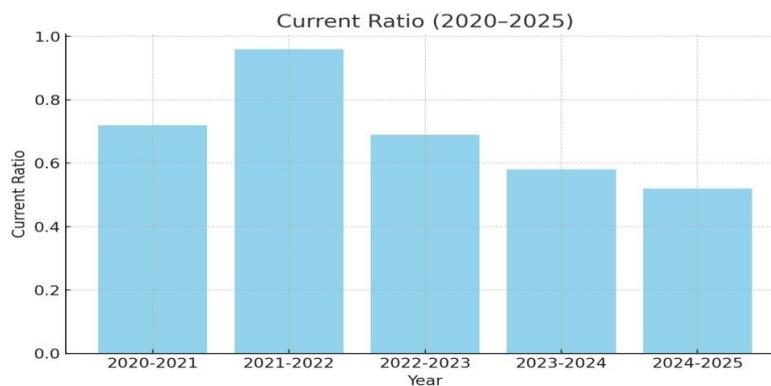
The Current Ratio is a key liquidity ratio that measures a company's ability to meet its short-term obligations with its short-term assets.

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liability}}$$

TABLE SHOWING CURRENT RATIO

year	Current asset (₹ in lakhs)	Current liability (₹in lakhs)	Current ratio
2020-2021	6194.37	8587.00	0.72:1
2021-2022	9315.53	9674.25	0.96:1
2022-2023	6563.83	9543.17	0.69:1
2023-2024	6464.34	11106.31	0.58:1
2024-2025	6255.34	12094.33	0.52:1

CHART SHOWING CURRENT RATIO



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Interpretation:

The current ratio of the company has shown a fluctuating but overall declining trend from 2020–2021 to 2024–2025. In 2020–2021, the ratio stood at 0.72:1, which slightly improved to 0.96:1 in 2021–2022, indicating a better liquidity position during that period. However, in the following years, the ratio consistently declined to 0.69:1, 0.58:1, and finally 0.52:1 in 2024–2025. Since the ideal current ratio is generally considered to be 2:1, the company’s current ratio throughout these years indicates insufficient short-term liquidity and a possible inability to meet current obligations promptly. This trend suggests that the company may need to improve its working capital management and reduce its dependence on short-term liabilities to strengthen its liquidity position.

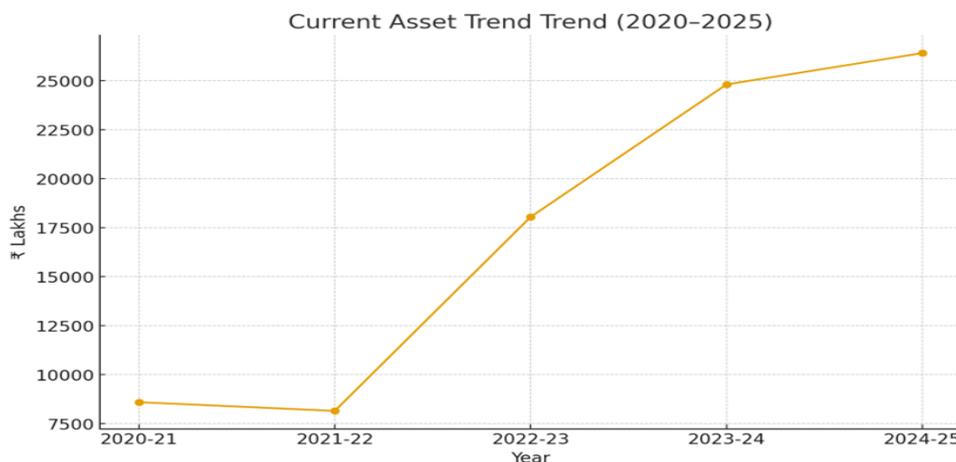
➤ TREND ANALYSIS

TREND ANALYSIS FOR CURRENT ASSET

Table Showing the Trend Analysis for Current Asset

YEAR	Current Asset Trend	TREND VALUE / RATIO
2020-21	8,597.00	100.00
2021-22	8,154.00	94.85
2022-23	18,051.73	209.98
2023-24	24,815.30	288.65
2024-25	26,415.91	307.27

Chart Showing the Trend Analysis for Current Asset



Interpretation:

The current assets of Lakshmi Mills show an overall upward movement from 2021 to 2025. In 2021, current assets were ₹8,597 lakhs, serving as the base year. The value dipped slightly in 2022 before nearly doubling in 2023, suggesting strong liquidity inflows. Continued growth through 2024 and 2025 reflects improved short-term solvency and better asset management practices.



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5. FINDINGS, SUGGESTIONS & CONCLUSION

FINDINGS

Current Asset Trend:

The company's current assets showed a steady upward trend from FY 2021 to FY 2025, reflecting improved liquidity and growth in short-term resources. However, the increase is not uniform, indicating fluctuations in cash flow and working capital requirements during the period.

Quick Ratio:

The quick ratio remained within a healthy range (0.83–0.92), signifying that the company maintained sufficient liquid assets to meet immediate obligations. The slight decline after 2023 indicates marginal dependence on inventory for short-term solvency.

Net Working Capital Ratio:

The ratio consistently stayed above 1, showing that the company's current assets exceeded current liabilities throughout the five years. This demonstrates a comfortable liquidity position and effective short-term financial management.

Cash Turnover Ratio:

Cash turnover ranged between 6.2 and 6.8 times, highlighting efficient utilization of cash resources to generate revenue. The stable ratio shows that the company effectively managed its cash flow and operational efficiency.

Net Profit Ratio:

The profitability ratio exhibited a moderate decline after FY 2022, falling from 8.4% to 6.3% in FY 2025. This suggests rising costs or competitive market pressures impacting margins, though the firm maintained consistent profitability above 6%.

6. SUGGESTIONS

Enhance Liquidity Control:

The company should adopt stronger cash flow forecasting and liquidity planning to reduce fluctuations in current assets. Maintaining an optimal balance between liquidity and profitability will ensure steady operations.

Improve Cost Management:

To strengthen profitability, the company should focus on cost optimization through better inventory management, energy efficiency, and supply chain control.

Diversify Revenue Streams:

Expanding product lines or exploring export markets could stabilize revenue and reduce dependency on a single segment, thereby improving net profit margins.

Maintain Optimal Working Capital:

While the working capital position is strong, periodic reviews of receivables, payables, and inventory turnover will prevent excess funds from being tied up in current assets.

Leverage Technology for Financial Efficiency:



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Implementing digital accounting and real-time monitoring tools can enhance financial decision-making, allowing better management of liquidity, expenses, and profitability.

7. CONCLUSION

The overall financial analysis of the company reveals a sound and balanced financial position across the five-year period from FY 2021 to FY 2025. The company has demonstrated consistent growth in its current assets, indicating improved liquidity and an ability to meet short-term obligations effectively. Despite minor fluctuations in the asset trend, the firm has managed to maintain stability in its working capital and solvency ratios, reflecting efficient management of resources and operational control.

The quick ratio and net working capital ratio signify that the company is capable of meeting its short-term liabilities without financial strain. Although there was a slight decline in the quick ratio after FY 2023, the overall liquidity position remained healthy. The company's ability to sustain a positive working capital ratio throughout the period suggests a wellmanaged balance between current assets and current liabilities, ensuring smooth business operations and uninterrupted financial flow.

8. AUTHOR(S) CONTRIBUTION

The writers affirm that they have no connections to, or engagement with, any group or body That provides financial or non-financial assistance for the topics or resources covered in this Manuscript.

9. CONFLICTS OF INTEREST

The authors declared no potential conflicts of interest with respect to the research, authorship, And/or publication of this article.

10. PLAGIARISM POLICY

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N Ilango, Divya Dharshini N (2026). *A Study on Working Capital Management Practices with Special Rerance to the Lakshmi Mills Company Limited at Kovilpatt, Thoothukudi Disti. International Journal of Multidisciplinary Research & Reviews*, 5(S11), 170-179.

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WEBLINKS

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