

WORKING CAPITAL MANAGEMENT AND FINANCIAL PERFORMANCE OF KAJARIA CERAMICS LIMITED: A FINANCIAL ANALYSIS

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ABSTRACT

Working capital management is an important component of financial management because it influences liquidity, operational efficiency and profitability. The ceramic industry requires substantial investment in inventories, trade receivables and other short-term assets because manufacturing and distribution activities involve continuous production, storage and credit sales. The present study analyses the working capital position and financial efficiency of Kajaria Ceramics Limited using secondary data obtained from published annual reports and financial statements. The analysis covers current ratio, inventory turnover ratio, trade receivables turnover ratio, trade payables turnover ratio, net capital turnover ratio and working capital cycle. The findings show that the company maintained a comfortable liquidity position, while inventory and receivables turnover improved in 2024–25. The reported working capital cycle also shortened. However, profitability-related indicators declined, highlighting the need to balance liquidity and profitability. The study concludes that disciplined working capital management is essential for sustainable financial efficiency in the ceramic industry.

Keywords: Working Capital, Liquidity, Financial Performance, Current Ratio, Inventory Turnover, Receivables Turnover, Ceramic Industry, Kajaria Ceramics.

1. INTRODUCTION

Working capital represents the funds invested in short-term assets required for the regular functioning of a business. It includes cash, inventories, trade receivables and other current assets considered against current liabilities. Effective working capital management ensures that a firm has adequate resources to meet short-term obligations without keeping excessive funds blocked in non-productive current assets. For manufacturing companies, working capital management is particularly important because production requires

continuous expenditure on raw materials, labour, energy, inventories and distribution. In the ceramic industry, manufacturers must maintain adequate stocks of raw materials and finished products while credit sales can create substantial trade receivables. Thus, inventory, receivables, payables and cash management are important financial decisions.

Kajaria Ceramics Limited is selected for the present study because its published annual reports provide audited financial statements and key financial ratios. The study examines the company's working capital position from a financial-management perspective.

2. STATEMENT OF THE PROBLEM

A high level of current assets may indicate strong liquidity but may also show excessive funds blocked in inventories and receivables. Inadequate working capital, on the other hand, may create difficulty in meeting short-term obligations and maintaining uninterrupted production. Ceramic manufacturers face these challenges because they require continuous inventories and often operate through credit sales. Therefore, measuring the amount of working capital alone is insufficient; its efficiency must also be evaluated. The present study analyses the working capital management of Kajaria Ceramics Limited and identifies major financial trends associated with liquidity and utilisation of short-term resources.

3. OBJECTIVES OF THE STUDY

1. To examine the working capital position of Kajaria Ceramics Limited.
2. To analyse the liquidity position of the company.
3. To evaluate inventory management efficiency.
4. To examine the efficiency of trade receivables management.
5. To analyse trade payables management.
6. To study the net capital turnover of the company.
7. To examine the movement of the working capital cycle.
8. To identify the major financial implications of working capital management.
9. To provide suggestions for improving working capital efficiency.

4. RESEARCH METHODOLOGY

Research Design: Descriptive and analytical research design. Nature of Data: Secondary data. Sources: Published annual reports and financial statements of Kajaria Ceramics Limited. Period: Detailed comparative analysis of 2023–24 and 2024–25. Tools: Current Ratio, Inventory Turnover Ratio, Trade Receivables Turnover Ratio, Trade Payables Turnover Ratio, Net Capital Turnover Ratio, Working Capital Cycle and comparative percentage analysis.

5. PROFILE OF KAJARIA CERAMICS LIMITED

Kajaria Ceramics Limited is an Indian ceramic and tile manufacturer and a significant participant in India's tile market. The company's investor-relations disclosures provide annual reports and audited financial information. The FY2024–25 report provides current assets, current liabilities, inventory, trade receivables and key financial ratios required for working capital analysis.

6. CONCEPT OF WORKING CAPITAL

Gross Working Capital refers to the total investment in current assets. Net Working Capital represents the excess of current assets over current liabilities.

Concept	Formula
Gross Working Capital	Total Current Assets
Net Working Capital	Current Assets – Current Liabilities

Positive net working capital generally indicates that current assets exceed current liabilities. However, excessive working capital may indicate inefficient utilisation of short-term funds.

7. MAJOR COMPONENTS OF WORKING CAPITAL

Component	Financial significance
Cash and Cash Equivalents	Provides immediate liquidity for routine payments and short-term requirements.
Inventory	Includes raw materials, work-in-progress and finished goods; efficient control reduces carrying costs.
Trade Receivables	Represents credit sales; timely collection prevents funds from remaining blocked.
Trade Payables	Represents supplier obligations; appropriate credit terms can support short-term liquidity.

8. FINANCIAL RATIO ANALYSIS

The following ratios are used to assess liquidity and working capital efficiency. The comparative figures are based on the company's published annual reports.

Ratio	2023–24	2024–25	Change
Current Ratio	3.03	2.82	-6.86%
Inventory Turnover Ratio	7.67	8.16	+6.29%
Trade Receivables Turnover Ratio	7.79	8.27	+6.12%
Trade Payables Turnover Ratio	12.53	11.55	-7.80%
Net Capital Turnover Ratio	4.21	4.45	+5.80%
Net Profit Ratio	9.31%	4.84%	-47.96%

ROE	15.60%	7.88%	-49.46%
ROCE	19.97%	12.49%	Declined

Source: Compiled from Kajaria Ceramics Limited Annual Reports 2023–24 and 2024–25.

9. CURRENT RATIO ANALYSIS

Formula: Current Ratio = Current Assets / Current Liabilities. Kajaria Ceramics reported a current ratio of 3.03 in 2023–24 and 2.82 in 2024–25, a decline of approximately 6.86%. Interpretation: Although the ratio declined, 2.82 indicates that current assets remained substantially higher than current liabilities. The short-term liquidity position therefore remained comfortable, but the trend should be monitored.

10. INVENTORY TURNOVER RATIO

Formula: Inventory Turnover Ratio = Cost of Goods Sold / Average Inventory. The ratio increased from 7.67 in 2023–24 to 8.16 in 2024–25, an increase of approximately 6.29%. Interpretation: The improvement indicates faster utilisation of inventory and better operating efficiency. This is significant for a ceramic manufacturer because inventory involves storage and carrying costs.

11. TRADE RECEIVABLES TURNOVER RATIO

Formula: Trade Receivables Turnover Ratio = Sales / Average Trade Receivables. The ratio increased from 7.79 to 8.27, showing growth of approximately 6.12%. Interpretation: The increase indicates improved efficiency in converting credit sales into collections and may reduce funds blocked in customer accounts.

12. TRADE PAYABLES TURNOVER RATIO

Formula: Trade Payables Turnover Ratio = Net Credit Purchases / Average Trade Payables. The ratio declined from 12.53 to 11.55, a reduction of approximately 7.80%. Interpretation: The slower turnover indicates relatively slower settlement of supplier obligations. This may support short-term liquidity, provided contractual payment terms and supplier relationships are maintained.

13. NET CAPITAL TURNOVER RATIO

Formula: Net Capital Turnover Ratio = Net Sales / Working Capital. The ratio improved from 4.21 to 4.45, representing an increase of 5.80%. Interpretation: The improvement indicates more effective utilisation of working capital in generating sales.

14. WORKING CAPITAL CYCLE

Particulars	2023–24	2024–25	Change
Working Capital Cycle	58 days	51 days	-7 days

Interpretation: The seven-day reduction indicates that funds remained tied up in the operating cycle for a shorter period. A shorter cycle can reduce financing requirements and strengthen liquidity.

15. INVENTORY AND RECEIVABLES POSITION

Particulars	2023–24 (₹ crore)	2024–25 (₹ crore)
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Inventory	532.19	618.13
Trade Receivables	619.43	570.18
Total of above two	1,151.62	1,188.31

Source: Kajaria Ceramics Limited Annual Report 2024–25. Interpretation: Consolidated inventory increased while trade receivables declined. The increase in inventory should be interpreted together with the improvement in inventory turnover rather than in isolation.

16. PROFITABILITY AND WORKING CAPITAL

Working capital management should be assessed alongside profitability. Kajaria Ceramics' standalone net profit ratio declined from 9.31% in 2023–24 to 4.84% in 2024–25, while ROE declined from 15.60% to 7.88% and ROCE from 19.97% to 12.49%. The improvement in several working capital indicators therefore did not prevent a decline in profitability. Profitability is also affected by sales volume, pricing, input costs, energy costs, operating expenses and competition.

17. FINDINGS OF THE STUDY

1. The company maintained a strong short-term liquidity position.
2. Current ratio declined from 3.03 to 2.82 but remained comfortable.
3. Inventory turnover improved from 7.67 to 8.16.
4. Trade receivables turnover improved from 7.79 to 8.27.
5. Trade payables turnover declined from 12.53 to 11.55.
6. Net capital turnover improved from 4.21 to 4.45.
7. The reported working capital cycle decreased from 58 days to 51 days.
8. Consolidated inventory increased while consolidated trade receivables declined.
9. Profitability-related ratios declined despite improvement in several working capital indicators.
10. Liquidity and efficiency should therefore be managed together with profitability.

18. SUGGESTIONS

1. Maintain optimum liquidity while avoiding excessive idle current assets.
2. Match inventory levels with demand forecasts to reduce carrying costs.
3. Continue timely invoicing and systematic receivables collection.
4. Optimise trade credit without weakening supplier relationships.
5. Continue efforts to shorten the working capital cycle.
6. Balance liquidity and profitability when determining the optimum working capital level.
7. Strengthen cash-flow forecasting to identify potential surpluses and shortages in advance.

19. CONCLUSION

Working capital management is essential in the ceramic industry because manufacturing and distribution require continuous investment in inventories, receivables and other short-term resources. The study shows that Kajaria Ceramics maintained a comfortable liquidity position, while inventory turnover, trade receivables turnover and

net capital turnover improved in 2024–25. The reported working capital cycle also shortened from 58 days to 51 days. However, profitability indicators declined. The evidence therefore highlights the need to maintain an optimum balance between liquidity, efficiency and profitability. Continued attention to inventory optimisation, collection efficiency, supplier-credit management and cash-flow planning can strengthen the company's financial position.

20. LIMITATIONS OF THE STUDY

1. The study is based entirely on secondary data.
2. The analysis is restricted to information disclosed by the company.
3. The study focuses primarily on Kajaria Ceramics Limited and cannot automatically be generalised to every ceramic manufacturer.
4. Financial ratios may be influenced by accounting policies and changes in business conditions.
5. Working capital efficiency is affected by external factors not fully captured by ratio analysis.

21. SCOPE FOR FURTHER RESEARCH

Future studies may compare Kajaria Ceramics with other ceramic manufacturers, extend the analysis to 5–10 years, examine the relationship between working capital and profitability through correlation and regression, study the cash conversion cycle, and compare working capital efficiency among large and medium-sized ceramic companies.

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