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Management of Working Capital in Nature based Industry (A Case Study of Dabur India Limited)

By Dr. Namita Yash

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I. INTRODUCTION

Working capital management play a very important role in financial management. The financial management decisions of companies are concerned with three major areas: Capital structure, Capital budgeting, and Working capital management. Among these major areas, working capital management (WCM) is an area of great significance for every company as it virtually affects its overall profitability and liquidity (Appahami 2008). Efficient working capital management helps to achieve the firm's growth and development and improve the company's earnings and profitability. Management of working capital includes management of inventory, account payable, account receivable, and cash. Proper working capital management positively impacts the profitability of the organization by minimizing the cost of capital spent on the working capital and maximizing the return on current asset investment. The main purpose of working capital management is to provide a proper balance between the three propositions of working capital, they are Liquidity, Profitability. and Risk. This balance is important for the efficient functioning of day to day business operations.

Dabur (India) Limited is one of the most popular names in the nature-based health care industry today. Indian nature-based preparation has a vast demand potential all over the world. In India, the key suppliers of nature-based health care products are Dabur (India) Limited, Baidyanath, Himalaya, Patanjali, Zandu, and Hamdard. Dabur (India) Limited is the first company in India to produce health care products and Fast-Moving Consumer Good (FMCG) using herbs as their basic raw material and applied traditional and scientific tested

methods for preparing them. Dabur (India) Ltd. has a portfolio of over 250 Herbal Ayurvedic products and FMCG product.

The present study is a benign effort to explore and address the core issues belonging to Working Capital Management, Liquidity, and Profitability in Dabur (India) Limited and discover ways to make improvements in it.

II. LITERATURE REVIEW

Many researchers all over the world mainly concentrated on the use of Working Capital Management, Liquidity, and profitability, and discussed in many nations.

Sonem and Shin (1998) used a sample of 58985 firms taking the period 1975 to 1994 to investigate the relationship between net trade life cycle and profitability. The aim of this study was to identify the efficiency of working capital management and corporate profitability. In all cases, they found a strong relative relationship between the length of the firm's net trade cycle and profitability.

Deloof (2003) examined the relationship between working capital management and profitability for a sample of 1009 large Belgium nonfinancial firms taking the period from 1992 to 1996. He had got a negative relationship between the profitability of the firm and the cash conversion cycle as well as account receivable days. He suggested that the firm can increase profitability by reducing the cash conversion cycle and account receivable days.

Lazardis and Tryforidis (2009) have examined the relationship between working capital management and profitability of listed companies in the Athen Stock Exchange. A sample of 131 listed companies for the period of 2001 to 2004 was taken to investigate the relationship. They had found that regression analysis was showing a statically significance profitability and the cash conversion cycle. They suggested that the manager could create value for shareholders by holding efficiently the cash conversion cycle and keeping each different component to an optimal level.

Vishani and Sheh had taken 23 listed companies in the consumer electric industry from 1995 to 2005 to find out the impact on profitability by different

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Working Capital Policies. Their approach was to find out the relationship between profitability (i.e. ROCE) and liquidity (current ratio). They find a weak positive relationship as 9 out of 23 companies showed a negative relationship and therefore concluded that there is no significant relationship between profitability and liquidity.

Singh and Pandey (2008) had investigated the impact of working capital on the profitability of Hindalco Industries Limited for the period from 1990 to 2007 by studying components of working capital. They got the result that the current ratio, liquidity ratio, receivable turnover ratio, and working capital to total asset ratio had a statistically significant impact on the profitability of Hindalco Industries Limited.

III. OBJECTIVE

- To examine the effectiveness of working capital management of Dabur (India) Limited.
- To examine the relationship between liquidity and profitability of the Company.
- To analyse the liquidity position of the company.

IV. RESEARCH METHODOLOGY

Sample Design: The sample for the study has been selected a company named Dabur (India) Limited, which is the world's largest Ayurvedic and Natural Health Care Company.

Data Collection: The study is mainly based on secondary data which is collected from Annual reports and financial statements of Dabur.

Period: This study has data from 2005-06 to 2019-20. The period of data is 15 years to analyse the performance of the company.

Study Technique used: For the analysis of working capital management and liquidity position of company and relationship between profitability and liquidity, the technique of ratio analysis, Motaal's comprehensive rank test, statistical techniques like averages, standard deviation, co-efficient variations, Pearson correlation coefficient, etc. have been used in this study.

V. ANALYSIS OF WORKING CAPITAL OF DABUR (INDIA) LIMITED

❖ Size and Trend Indices of Working Capital in Dabur (India) Limited

Determination of the size of working capital is a pre-requisite for its effective control. The firm can adopt various methods to determine the level of working capital, viz.

- By proper estimation of various components of working capital.
- A certain percentage of fixed capital and
- Equivalent to the cost of production of several months.

The present study indicates that the company determines the various components of working capital requirements by making detailed estimates of various components of working capital such as cash, receivables, and inventory because it is a more reliable and better technique than intuition and rule of thumb. This also provides a basis for effective control over working capital, Companies get sufficient time to take corrective measures whenever necessary.

Table 1: Size and Trend Indices of Current Assets and Current Liabilities and net Working Capital of Dabur (India) Limited

Year	Current Asset Rs. In Cr.		Current Liabilities Rs. In Cr.		Net Working Capital Rs. In Cr.	
2005-2006	471.32	100	489.70	100	-18.38	---
2006-2007	640.96	135.99	562.91	114.94	78.05	100
2007-2008	773.90	164.19	819.89	167.42	-45.96	-58.88
2008-2009	950.80	201.73	900.00	183.78	50.80	86.69
2009-2010	1,105.76	234.60	1,083.33	221.22	22.43	28.73
2010-2011	1949.08	413.53	1,213.76	247.85	735.32	942.11
2011-2012	2315.30	491.23	1,519.88	310.36	195.42	250.37
2012-2013	2603.04	552.28	1,974.52	403.21	628.52	805.27

2013-2014	3055.57	648.30	2,293.70	468.38	762.17	976.51
2014-2015	2730.57	579.34	2,418.49	493.87	312.08	399.84
2015-2016	3215.66	682.26	2,253.48	460.17	962.18	1232.77
2016-2017	3114.47	660.79	2,224.54	454.26	889.93	1140.20
2017-2018	3439.75	729.81	2,43,4.44	497.12	1005.31	1288.03
2018-2019	3586.23	760.89	2,660.31	543.25	925.95	1186.35
2019-2020	4880.26	1035.44	2463.88	503.14	2418.88	3099.14
AVERAGE	2322.18		1687.52		594.85	

Source: Extract from Annual Reports from Dabur (India) Limited.

From Table (1) we can say a current asset is increasing steadily from the year 2005 -6 to 2019-20 except in the year 2014-15 and 2016-2017, where we can see a very slight decrease in the current asset.

Current liabilities also have been increased continuously from the year 2005-6 to 2019-20 except in the year 2015-16 and 2019-20 with a slight decrease in the current asset.

While the net working capital was showing fluctuation throughout the period under study.

Table 1 also shows that the year 2005-06 has been taken as the base year for the period under review for the current asset and current liability. However, 2006 -07 is taken as the base year for working capital due to negative working capital of the year 2005-2006.

It is evident from the figures in the table that the current asset has been showing an increasing trend throughout the period except for the year 2014-15 and 2016-17.

The increase in the current asset is due to an increase in all components of working capital especially Raw material and Receivables. The indices of the current assets recorded a maximum increase in 2020 when the current asset was Rs. 4480.26 crores.

The indices of current liabilities in the company reveal an increasing trend through the period of study except in the year 2015-16, year 2016-2017, and 2019-20.

The indices of working capital in DIL showing fluctuation with an increase proceeding decrease in every next year. This trend is showing throughout the period. In the year 2005 -06 and 2007-08, the index of working capital reached a negative level. Table 1 shows that the current liabilities had exceeded current assets in the year 2005-6 and 2007-08.

It can be inferred from the above analysis the volume of business has increased manifold from the year 2005-6 to 2019-2020.

The fluctuating position of working capital is showing an increase and decrease in every alternate year. It shows liquidity position is not steady throughout the year.

❖ Circulation of Working Capital of Dabur (India) Limited

The effectiveness of working capital management is determined by the rate of circulation of working capital in Dabur (India) Limited. An analysis of the circulation of working capital highlights the efficiency with which it is being utilized. The analysis has been made based on certain turnover ratios, which reflect upon the efficiency in the use of working capital and its components. Generally, the higher the level of these turnover ratios, the more efficient is the use and the smaller amount would be the requirement of working capital of a firm. These ratios included working capital turnover ratio (WTR), inventory turnover ratio (ITR), receivables turnover ratio (RTR), and cash turnover ratio (CTR).

Table 2: Statistical Values of Ratios Relating to Circulation of Working Capital in Dabur (India) Limited

Year	Inventory Turnover Ratio	Receivable Turnover Ratio	Cash Turnover Ratio	Working Capital Turnover Ratio
2005-2006	11.57	24.90	36.83	4.04
2006-2007	10.16	18.95	34.39	3.26
2007-2008	9.74	15.10	31.46	3.11
2008-2009	9.08	16.10	19.19	3.00
2009-2010	9.59	22.87	17.83	3.10
2010-2011	5.79	17.27	14.64	2.11
2011-2012	6.49	12.99	12.78	2.31
2012-2013	7.32	13.06	12.04	2.37
2013-2014	7.36	12.24	13.77	2.34
2014-2015	8.12	11.29	28.64	2.90
2015-2016	7.18	10.55	35.80	2.45
2016-2017	6.96	10.55	25.67	2.47
2017-2018	6.17	11.39	25.32	2.25
2018-2019	6.56	11.06	26.00	2.38
2019-2020	6.31	10.54	10.73	1.78
AVERAGE	7.89	14.57	23.00	2.658
STANDARD DEVIATION	1.67	4.46	8.86	0.57
C.V.	21%	30%	38%	21%

Source: Computed from Annual Report of Dabur (India) Limited.

To judge the effectiveness of working capital management of Dabur (India) limited following ratios – ratios-ITR, RTR, CTR, and WTR have been calculated and various statistical values e.g. Mean, Standard Deviation and Coefficient of Variation are presented in TABLE -1

VI. INVENTORY TURNOVER RATIO (ITR)

Inventory which leads to an increase in profit of a firm. But beyond a certain point of high inventory turnover Generally, it is believed that a high inventory turnover implies more efficient management of may signal problems because it may lead to a large number

of stock outs, leading to a loss of sales. The good inventory ratio is between 5 to 10, which indicate that a firm sells and restock its inventory every 1 to 2 months. This ratio strikes a good balance between having enough inventory on hand and not having reorder too frequently.

As table 2 exhibits that the inventory turnover is ranging from 5 (5.79 in the year 2010-11) to 10 (10.16 in the year 2006-07) except in the year 2005-06, where its value is 11.57. The average value of the inventory turnover ratio is 7.98 times. This good and higher value of the average inventory turnover ratio indicates that Dabur (India) Limited had been able to manage its

inventory very impressively. The C.V. value (21%) of I.T.R. over the entire period was minimum as compared to other components of current assets, it indicates DIL had better control over the raw material than other components of working capital during the period under study.

VII. RECEIVABLES TURNOVER RATIO: (RTR)

This ratio shows the efficiency achieved in using the funds invested in debtors. A higher RTR implies a quicker collection of debtors and enables the company to transact a large volume of business without a corresponding increase in the investment.

It is observed from Table 2 that the receivables turnover ratio has an overall downward trend in the company except in the year 2008-09, 2009-10, 2012-13, and 2017-18. The table further shows that the RTR ranged from 10.35 (in the year 2015-16) to 24.90 (in the year 2005-06), this indicates about the half time decrease over this period. During the initial years, RTR was higher than the overall average which is indicative of decreasing performance. Although the average of RTR over the period is 14.57, which confirms that the performance of credit management of Dabur (India) Limited was satisfactory, as the collection period is about 30 days. The C.V. value (30%) of RTR over the entire period is showed that DIL had moderate control over the receivables.

VIII. CASH TURNOVER RATIO: (CTR)

The cash turnover ratio is calculated by dividing sales by the amount of cash. The CTR indicates the number of times the average cash balance is turned over during the year. The study of CTR provides a deep insight into the cash balances held by a company. Ideal CTR differs from industry to industry. It can be observed from table 2 that the CTR has a fluctuation trend in the Dabur (India) Limited during the period under study. Initially, it has decreased from 36.83 in the year 2005-06 to 12.04 2012-13 and started increase from 12.6 in the year 2012-13 to 35.80 in the year 2015-16, again showing a decreasing trend till 10.73 in the year 2019-20, except in the year 2018-19 where it slightly increased from 25.32 in the year 2017-18 to 26.00 in the year 2018-19. It is observed from the above analysis that the

average of this ratio in the DIL was much larger than other components of the working capital.

Further, C.V. is as high as 38% indicating that DIL has unable to exercise better control over the cash during the period under study.

IX. WORKING CAPITAL TURN OVER RATIO: (WCTR)

Working capital turnover ratio is the relationship between net sales and net working capital. The overall efficiency with which working capital funds are used can be measured by WCTR. It is known that the faster the working capital turnover, the lower is the investment and the greater the profits.

Table 2 showing a decreasing trend in the working capital turnover ratio during the period of study, except in the year 2011-12, 2012-13, 2014-15, 2016-17, and 2018-19, but these increases are very slight.

As the average of WCTR is 2.65 over the period, indicate that the overall performance of working capital management was satisfactory to DIL .

The C.V. value (21%) of WCTR over the period was low, which indicates DIL had good control over the working capital during the period under study.

a) *The Impact of Working Capital Management on the Profitability of Dil*

In table - 3 an attempt has been made to measure the impact of Working Capital Management of Dabur (India) Limited on its profitability by calculating the Working Capital Leverage (WCL) of all the years under study. For this study given formula is used:

$$\text{Working Capital Leverage (WCL)} = \text{GWC} / \text{TA} + \text{GWC}$$

Where, TA = Total Asset Investment and GWC = Gross Working Capital + GWC = Change in Gross Working Capital

In computing the WCL it has been assumed that the change in GWC in the last year will be maintained in the next year also. The higher degree of WCL, the greater the risk, at the same time it increases the possibility of making a higher profit. So, we can say Working Capital Leverage expresses the relation of efficiency of Working Capital Management with the Profitability of the Organization.

Table 3: Statement Showing Analysis of Working Capital Leverage

Year	Gross Working Capital (Gwc) (Rs. In Crore)	Total Assets (T.A.) (Rs. In Crore)	Working Capital Leverage
2005-06	471.32	1,060.10	-----
2006-07	640.96	1,121.59	0.67
2007-08	773.90	1,480.84	0.57

2008-09	950.80	1,889.11	0.55
2009-10	1,105.76	2,075.67	0.57
2010-11	1,949.08	3,922.94	0.63
2011-12	2,315.30	4,200.33	0.60
2012-13	2,603.04	4,736.41	0.58
2013-14	3,055.87	5,311.78	0.62
2014-15	2,730.57	6,106.28	0.47
2015-16	3,215.66	6,932.30	0.49
2016-17	3,114.47	7,732.24	0.40
2017-18	3,439.75	8,701.63	0.41

2018-19	3,586.23	8,436.64	0.43
2019-20	4,880.26	9,354.01	0.60

Source: Computed from Annual Reports of Dabur (India) Limited

Table -3 discloses that the WCL of DIL in the year 2006-07 was the highest among all the years under study which worked out to be 0.67. The higher WCL is also representing the maximum sensitivity of Return on Investment (ROI) due to the change in the level of GWC.

In the year 2017-18 WCL of DIL was the lowest which was 0.41 showing the least sensitivity of ROI due to variability in the level of GWC.

Hence, variability in GWC was most helpful in 2006-07 and least helpful in 2017-18 in increasing profitability of DIL. It is also revealed that the change in ROI was less than the change in GWC investment in all the years under study as the value of WCL was less than unity.

b) Liquidity and Profitability Analysis of (India Dabur) Limited

Generally, it is assumed that there is always a negative relationship between liquidity and profitability. But it cannot be denied that up to a certain level increase in liquidity through the investment of current assets is essential to increase output, sales, and profitability. By keeping this short-run position secure by maintaining liquidity the Finance Manager can plan for profitability in long run. To establish a definite relationship between liquidity and profitability, Karl Pearson's correlation of co-efficient can be applied.

Table 4: Liquidity and Profitability Ratio in Dabur (India) Limited.

Year	Return on net Worth Ratio	Liquidity Ratio
2005-06	0.4328	0.53
2006-07	0.5874	0.68
2007-08	0.5391	0.57
2008-09	0.4769	0.64
2009-10	0.5384	0.63
2010-11	0.4087	1.02
2011-12	0.3755	0.98

2012-13	0.3593	0.89
2013-14	0.3441	0.91
2014-15	0.3177	0.73
2015-16	0.2999	0.94
2016-17	0.2634	0.90
2017-18	0.2373	0.90
2018-19	0.2561	0.86
2019-20	0.2187	1.42
AVERAGE	0.3769	0.84
Co-Efficient of Correlation		-0.6957

Source: Computed from Annual Report of Dabur India Limited

It is evident from the table 4. that liquidity and profitability were adversely correlated because the co-efficient of correlation relating to variables was -0.6957. A negative correlation indicates that the change of liquidity had an opposite effect on profitability i.e. decrease in liquidity increased profitability and vice-versa. It shows that in the company growth in liquidity has a reverse impact on profitability. Thus, it approves that proposition that the higher the liquidity lower the profitability.

c) *Analysis of The Liquidity Position of Dabur (India) Limited*

i. *Mootal's Comprehensive Test for Analysing Liquidity Position of Dil*

Mootal's Comprehensive Test method of ranking has been applied to reach a more comprehensive assessment of liquidity. For this

purpose, four different ratios as- Net Working Capital to Current Ratio, Inventory to Current Asset Ratio, Debtors (Trade Receivable) to Current Ratio, Cash to Current Asset Ratio and Loan and Advances and others to Current Asset Ratio have been computed and combined in a point score. A high value of Net Working capital to Current Asset, Trade Receivable to Current Ratio, and Cash to Current Ratio show greater liquidity, and accordingly ranking has been done in that order. On the other hand, a low Inventory to Current Asset Ratio or loan and Advances to Current Asset Ratio indicates a more favorable liquidity position and, therefore, the ranking has been done in that order.

The ultimate ranking has further been done on the basis that the lower the total of individual ranks the more favorable is the liquidity position of DIL and vice versa.

Table 5: Motal's Comprehensive Test of Liquidity

Year	Net Working Capital to Current Asset Ratio	Rank A	Invent Ory to Curre Nt Asset	Rank B	Debt Ors to Current Asset Ratio	Rankc	Cash To Current Asset Ratio	Rank D	Loans & Advances And Others	Ranke	Total Rank A+B+C+ D+E	Total Ultimate
200 5-06	-0.040	14	0.45	14	0.157	14	0.109	8	0.282	11	61	14
200 6-07	0.12	10	0.40	13	0.221	5	0.094	12	0.281	10	50	11
200 7-08	-0.06	15	0.391	11	0.222	4	0.098	10	0.287	12	52	12
200 8-09	0.05	12	0.394	12	0.186	10	0.156	6	0.261	9	49	10

2009-10	0.02	13	0.385	10	0.108	15	0.173	3	0.332	13	54	13
2010-11	0.38	2	0.363	7	0.182	12	0.143	7	0.096	3	31	5
2011-12	0.33	3	0.355	5	0.199	9	0.180	2	0.094	2	21	1
2012-13	0.24	9	0.324	3	0.185	11	0.197	1	0.100	5	29	4
2013-14	0.25	8	0.318	2	0.220	6	0.160	5	0.084	1	22	2
2014-15	0.11	11	0.356	6	0.260	1	0.101	9	0.133	8	35	7
2015-16	0.30	4	0.340	4	0.251	2	0.068	15	0.124	7	32	6
2016-17	0.28	6	0.355	5	0.208	7	0.097	11	0.111	6	35	7
2017-18	0.29	5	0.365	9	0.205	8	0.088	14	0.133	8	44	9
2018-19	0.26	7	0.362	8	0.232	3	0.091	13	0.111	6	36	8
2019-20	0.50	1	0.282	1	0.166	13	0.166	4	0.099	4	23	3

Source: Derived from Annual Reports of Dabur (India) Limited.

Based on Motaal's test ultimate ranking it can be said that the liquid position was most sound in the year 2011-12 followed by the years 2013-14 and 2019-20 which were also showing the sound liquid position in DIL, these were again followed by 2012-13, 2010-2011, 2015-16, 2014-15, 2016-17, 2018-19 and 2017-18 as moderate liquid years. While the years 2008-09, 2006-07, 2007-08, and 2009-10 were showing the consequently low liquid position in DIL. The year 2005-06 had shown the least liquid position in DIL.

X. CONCLUSIONS

From the analysis of the above study following conclusions has been drawn —

- During the period under study, we can notice from the study of trend indices that the size of Current Assets has been increased ten times, while the size of liabilities increased five times. During the initial years, net working capital was negative, it shows that DIL had adopted an aggressive strategy of working capital by financing its long-term financing needs through short run sources. However, during last years DIL has adopted the moderate strategy by using part of long-term fund in its current asset,

as in the year 2019-20 Current Asset was two times of Current Liabilities. Current Assets and Current liabilities are showing an increasing trend through out the period under study, which represents that DIL has shown stability in the case of Current Assets. While net working capital has shown fluctuation throughout the period under study.

- The inventory turnover Ratio has shown that DIL had done efficient and proper management of Inventory. The average RTR has shown satisfactory management of Receivables. But the decrease in Receivables turnover during the period under study showing that the credit policy of DIL has been not as good as it should be. The average Cash turnover Ratio in DIL which was much larger than another component of Working Capital has shown that it is good for business. But CTR has also shown a high fluctuation during the period under study, which reveals that DIL Has unable to exercise proper control over the cash. Average of Working Capital Turnover over the period has shown that the efficiency of Working Capital Management of DIL was satisfactory during the period under study.

- The impact of working capital management on the profitability of DIL has been measured by calculating Working Capital Leverage. The highest value of WCL in the year 2006-07 has shown maximum sensitivity of Return on Investment by the efficiency of working capital management, while least value of WCL in the year 2016-17 has shown minimum sensitivity of Return on Investment by the efficiency of working capital management. As the values of WCL were less than unity during the period under study revealed that change in ROI was less than proportionate to change in GWC investment in all the years under study.
- Liquidity and profitability were adversely correlated because the coefficient of correlation relating to the variable was negative. It shows that in the DIL growth in liquidity has a reverse impact on profitability. Thus, it approves the proposition that the higher the liquidity lower the profitability.
- Motaal's comprehensive test has shown a more comprehensive assessment of the liquidity position of DIL. The result of Motaal's test indicates that the liquidity position in DIL is more or less improvement over the period. As the year 2005-06 had shown the least liquid position and the year 2011-12 had shown the soundest liquid position in DIL. Further from the year 2012-13 till the year 2019-20, DIL has shown a sound to the moderate sound liquid position.

XI. SUGGESTIONS

- Management of working capital fluctuation is necessary to maintain the liquidity of the company and to enhance the profitability of the company. A correct estimate of working capital should be made that having fluctuation in the quantity of working capital can be avoided. For correct estimation of working capital requirement, sales force must be logical and realistic.
- There is a need to exercise tight control over excessive investments in Receivables. Receivables amount can be reduced by framing proper credit policies based on credit terms and credit rating customers.
- There is a need to streamline the liquidity structure in the company by formulating plans for exercising control over cash by regularizing cash inflows and outflows.

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