**Impact of Working capital management on profitability of Unilever Nepal Limited**

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**ABSTRACT -** *Working capital management plays a significant role in improved profitability of company. Company can achieve optimal management of working capital by making the trade-off between profitability and liquidity. This paper analyzes the impact of working capital management on profitability of Unilever Nepal Limited. The main objective of this study is working capital management and profitability of Unilever Nepal Limited. Data analysis has been done using descriptive statistics, Pearson correlation, regression analysis, multicollinearity and F-test, SPSS 21.0 versions. The data used to analyze one (1) samples size, out of three (3) which has found to be covering period 2009-2017 of Bottlers Nepal Limited. The working capital represents the independent variable variables are Cash conversion period (CCP), Inventor Conversion period (ICP), Receivable conversion period (RCP) and dependent variables is Return on Assets (ROA).* *The results revealed that the impact of all four independent variables is tested together on dependent variable (ROA). From the model summary the value of R-square=0.770. It indicates that the four independent variables can explain approximately 77.0% of the proportion of variance of dependent variable. However, it is still left 23.0 % unexplained by these independent variables in this study. This indicates that there is a significant relationship between profitability and RCP, ICP and CCP. It is indicate that there is no significant relationship between profitability and PDP.*

Key words: Working Capital, Management, Profitability, ROA, RCP

**INTRODUCTION**

In this globalized era, each country wants to develop economically. For this, countries search for cheap resources like raw material and labour along with suitable market. Although Nepal is very rich in its natural resources, it has not been so much developed due to lack of infrastructures, low capital formation, lack of efficient manpower and its land-locked structure. At present, Nepal has only 18 listed manufacturing companies, among three multinational manufacturing company. Since, working capital is a life blood for survival of any industry, its management for the Nepalese industries have become a critical issue.

A financial manager in any organization has to play three functions. These functions are: (i) management of long-term assets, (ii) management of long-term capital and (iii) management of short-term assets and liabilities. Management of short term assets and liabilities refers to management of working Capital (Khan, 2012). To produce the best possible returns, firms should keep no unproductive assets and should finance with the cheapest available sources of funds. In general, it is often advantageous for the firm to invest in short-term assets and to finance with short-term liabilities (Scherr, 2007). Management of working capital plays an important role in maintaining the financial health of the firm during the normal course of business.

One of the most important components of finance affairs in companies is working capital management, which has a direct impact on profitability and liquidity of company. Profitability and liquidity are both the same coin. The company that isn’t profitable is patient and even if it continues its activity, it will lose its value in stock market of company, but the company without liquidity is not able to continue his life and is in death. Liquidity shows the ability of company in performing short-term obligations. In other words, company's liquidity is the relationship between the cash that company will have in the short term and the cash that the company will need to perform their obligations (Asadi and Azizi Basir, 2008). Thus, working capital is concerned with the liquidity and profitability of a company.

Business plays a vital role in the capital formation of a country and people consider it as the life blood of a growing economy. Therefore, it is very important to manage business effectively and efficiently. One of the major issues encountered by fund managers today is not just the procurement of funds but also their meaningful deployment to generate maximum returns. Working Capital Management (WCM) is an important corporate financial decision since it directly affects the profitability of the firm. Working capital management efficiency is vital especially for manufacturing firms, where a major part of assets is composed of current assets especially inventory and trade receivables, Arunkmar and Ramanan (2013)

A firm is required to maintain a balance between liquidity and profitability while conducting its day to day operations. Liquidity is a precondition to ensure that firms are able to meet their short-term obligations and their continued flow can be guaranteed for a profitable venture (Padachi, 2006). Working capital management includes maintaining optimum balance of working capital components – receivable, inventory and payables and using the cash efficiently for day-to-day operations. Optimization of working capital balance means minimizing the working capital.

Thus, the overall purpose of this research work is to study and analyze the working capital management of listed manufacturing company and to show its significance. Manufacturing and non-manufacturing companies both contribute a lot for the country’s economic development. Nepal, being a landlocked and developing country, mostly depends on the import of the products and rarely does the export. Even within the country, industries suffer because of the lack of proper working capital management. Therefore, the study on this subject of working capital management will be really useful.

**REVIEW OF LITERATURE**

Bellouma(2018) The results of fixed and random effects models show a negative relationship between corporate profitability and the different working capital components. This reveals that Tunisian export SMEs should shorten their cash conversion cycle by reducing the number of days of accounts receivable and inventories to increase their profitability.

Jana(2018) Revealed that the study finds a significantly positive and negative relationship between profitability and working capital management. Therefore, efficient management of working capital for FMCG Company not only has a positive relationship with profitability but significantly impacts on such firm’s profitability. Working capital management plays a vital role in the success of businesses because of its effect on profitability and liquidity. The purpose of this study is to examine the relationship and the efficiency of the working capital management strategies of FMCG Company in India. The study used secondary data collected from all the fifteen listed FMCG Company covering the period from 2013-2017.

Nesa and Anthuvan (2017) Revealed that the analyze whether working capital management can affect the company profitability of Automobile sector in India. Some Previous research might have studied the relation between working capital management and profitability, but those research failed to address the Sector wise issues of working capital management. This study aims at fulfilling such gaps by considering the industry specific nature of working capital. This thesis will introduce the reader about diverse techniques used to measure working capital management. Previous studies in this area have used various methods to measure the effectiveness of working capital. This study has been framed to show how efficient working capital management impacts the corporate profitability of 10 leading listed automobile sector in Chennai (India). The main source of secondary data was collected through Government reports, official records, journals, books, websites of Internet and financial statements, such as income statements, balance sheets of S&P CNX top500 companies at NSE were collected for the period of 2006 – 2012 from CMIE Prowess Database.

Azeez(2016) Revealed that ACP and APP are significant determinants of profitability, while ACP has negative effective on firm’s profitability. It was recommended that liquid cash should be judiciously channels towards operational activities with a view to expand business scope and increase profitability and it was recommended that company should sufficient plan and control their working capital combinations with a view to cater for any shortfall and to maintain consistent profitability.

Oner(2016) Conducted that the major findings of the study with respect to the individual components of working capital management reveal that while average collection period and days of inventory outstanding have a significant negative relationship with profitability, average payment period has a significant positive relation. The evidence implies that firms may improve their profitability through efficient working capital management regarding the accounts receivable, inventory and accounts payable policies. This study aims to provide empirical evidence for the relationship between working capital management and profitability of a sample of 110 manufacturing firms listed on Borsa Istanbul during the period of 2005-2014. Accordingly, the impact of working capital management on the firm’s profitability is tested by using panel data methodology. Cash conversion cycle which is used as a comprehensive measure for working capital management is found to have a significant and negative impact on firms’ profitability suggesting that a firm may increase its profitability through minimizing its cash conversion period.

Gama and Pais(2015) Revealed that a reduction in the inventories held and in the number of days that firms take to settle their commercial liabilities and to collect payments from its customers are associated to higher corporate profitability. Similar results are obtained when industry-specific effects are controlled, supporting the robustness of the previous analysis. The relevance of quadratic dependences of the profitability on some variables was also identified and suggests a decreasing trend of return on assets with increasing values of the working capital management characteristic variables. The practice of more aggressive working capital management policies increase firms’ profitability. Moreover, the importance of a good practice in working capital management is stressed by the evidence suggesting the existence of an optimal level for the working capital components. The consensus that SMEs play a crucial role in the development of the national economy, the lack of published industry wide studies of this type for the case of Portugal, justifies the importance of the present study.

Lawal et al.(2015) Concluded that working capital management has significant impact on profitability of manufacturing companies and recommended that companies should manage their cash, accounts receivables, inventories and accounts payable with a view to reducing the cash conversion cycle so as to increase their profitability amongst other things.

Ponsian et.al,(2014) Mentioned Firstly, there exists a positive relationship between cash conversion cycle and profitability of the firm. This means that as the cash conversion cycle increases it will lead to an increase in profitability of the firm, and managers can create a positive value for the shareholders by increasing the cash conversion cycle to a reasonable level; Secondly, there is a negative relationship between liquidity and profitability showing that as liquidity decreases, the profitability also increases; Thirdly, there exists a highly significant negative relationship between average collection period and profitability indicating that a decrease in the number of days a firm receives payment from sales affects the profitability of the firm positively; Fourthly, there is a highly significant positive relationship between average payment period and profitability. This implies that the longer a firm takes to pay its creditors, the more profitable it is.; and Fifthly, there exists a highly significant negative relationship between inventory turnover in days and profitability hinting that firms which maintain sufficiently low inventory levels reduce the cost of storing the inventory which results to higher profitability.

Ademola(2014) Conducted that there is relatively strong positive and significant relationship between Working Capital management and Net Operating Profit and that a positive but insignificant relationship exist between Cash Conversion Cycle and Net Operating Profit. Also, Account Collection Period has significant negative relationship with Net Operating Profit while Inventory conversion Period and Account payment period have insignificant negative relationship with Net operating profit of food and beverages manufacturing companies in Nigeria.

Kajananthan and Sivapalan(2013) Reveled that there is a significant impact of corporate Governance practices on current liabilities to total assets in working capital management. In contrast, the cash conversion cycle and the current assets to total assets are not influenced by the corporate governance practices. Based on the findings, we recommended to the policy makers in the corporate governance practices to establish the models of corporate governance that must be suitable to the manufacturing sector in Sri Lanka to ensure the survival, solvency, and profitability of the business.

Rehman and Anjum(2013) Reveled that the association between working capital management and profitability is examined with correlation; regression analysis the result proved that there is inverse and positive association between working capital management and profitability in cement industry of Pakistan.

Ahmadi et al.(2012) Examined that there is a reverse relationship between the variables of working capital management and profitability. It is found out that increasing collection cycle, debt payment period, inventory turnover and cash conversion cycle leads to decreasing profitability in the companies. According to the research findings, managers can create a positive value for stockholders by decreasing collection cycle, debt payment period, inventory turnover and cash conversion cycle to the lowest possible level.

Datin and Muhammad,(2012) They found that firms with more profitability have longer cash conversion cycle. Finally, we did not find any significant relationship between cash conversion cycle and debt ratio. The firm size, operation cash flow to sales, and capital expenditures to total sales are correlated to the cash conversion cycle negatively. Surprisingly, we found that gross domestic product is inversely correlated to the working capital management. Moreover, the results show positive relationship between the firm’s profitability and the length of cash conversion cycle. Finally, we did not find any significant relationship between cash conversion cycle and debt ratio.

Afeef(2011) Described that effect of working capital management was determined on profitability of a sample of 40 Pakistani small and medium enterprises (SME’s) listed in Karachi Stock Exchange for a period of six years from 2003 to 2008 which led to a total of 240 firm-year observations. Findings from the analyses suggested that indicators of working capital management had a perceptible impact on profitability of firms under study.

Chhapra and Naqvi (2010) Revealed that a strong positive significant relationship between WCM and firm’s profitability in Pakistan’s textile sector. In case of control variables, it is found that there is a significant relationship between working capital, fixed assets’ cost, cost of production, and size (capital) and profitability. However, results show a significant. negative relationship between debt used by the firm and its profitability. The findings enhance the knowledge base of WCM and will help companies to manage working capital efficiently. Moreover, it will help the policy makers and decision making authorities to better orient themselves towards considering and adopting efficient ways of managing working capital.

**CONCEPTUAL FRAMEWORK**

Below presents schematic conceptual framework of the relationship between working capital management measures and profitability of Unilever NepalLimited:

**RESEARCH METHODOLOGY**

Secondary data were used in the study. The data were collected from one (1) Listed multinational manufacturing company of Nepal. Among the three listed multinational manufacturing company of Nepal, one has taken as a sample size. Descriptive and causal comarative methods were used to analyze the data collected from one company.

The data collected is analyzed using the computer software known as Statistical Package for Service Solution (SPSS) version 21.0. Descriptive, correlations and regression analysis was applied to study and compare the effect of independent variables on the dependent variable.

**Data Presentation and Analysis**

The analyzes of the study findings of the investigation on the working capital management and its impact on Profitability Unilever Nepal between the years 2009 to 2017. In the study variables which were included are Return on Assets (ROA), Inventory conversion period, Receivable conversion period, Cash conversion ratio (CCR) and Payable deferred ratio (PDR)*.*  This study analyses the variables involved:

 **Table No. 1**

 **Variables:**

|  |  |
| --- | --- |
| **Explained Variables** | **Description** |
| ROA | Return on Assets |
| **Explanatory Variables:** |  |
| **Variables** | **Description** |
| ICP | Inventory conversion period |
| RCP | Receivable conversion period |  |  |
| CCP | Cash Conversion period |  |  |
| PDR | Payable deferred ratio |  |  |

**Data Analysis**

The dependent variables used in this research Return on Assets (ROA). Inventor Conversion ratio (ICR), Receivable conversion Period (RCP), Cash conversion ratio (CCR) and Payable deferred ratio (PDR). Based on the dependent variable, multiple regression models have been formulated as follows:

ROA = αi + β1ICP + β2 RCP + β3CCP + β4PDP + β5CR + €it

**Data Analysis**

The collected data has been analyzed by descriptive statistics and inferential statistics. Firstly, data are analyzed by descriptive statistics. Mean and standard deviation is used in the descriptive statistics.

**Descriptive Statistics and Correlation Statistics**

The descriptive and correlative statistics of the explanatory and explained variable in this study are presented in table. It is based on a panel data set organized from Unilever Nepal Limited in Nepalese financial market during the period from 2009 to 2017. Looking at them, Generally, the statistics indicators of impact of working capital management on profitability of Unilever Nepal Limited.

 **Table No. 2**

|  |
| --- |
| **Correlations** |
|  Mean S.D. | ROA | RCP | ICP | PDP | CCP |
| ROA |  |  |  |   |   |   |   |
| .6789 | .22605 |  1 |   |   |   |   |
| RCP |  |  |  |  |  |   |   |
| 23.9519 | 10.09215 | -0.522\*  | 1  |   |   |   |
| ICP |  |  |  |  |  |  |   |
| 90.2488 | 21.13677 | -.596\*  |  .282 | 1  |   |   |
| PDP | 89.9282 | 47.43675 | -.877\*\* | .611 | .693\* | 1 |   |
| CCP |  |  |  |  |  |  |  |
| 24.2725 | 30.73344 | .762\* | -.420 | -.289 | -.866\*\* | 1 |
| \*. Correlation is significant at the 0.05 level (2-tailed). |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). |

Descriptive statistics is presented in above table no. 2. It shows that on average company’s earn a net profit before interest and tax of 66.89% with standard deviation of 0.22605, whereas company’s take average 90.2488 days to convert inventory into final goods with standard deviation of 21.13677. Company’s delay their payables for 89.9282 days with standard deviation of 47.43675 and average collection period for company’s is 23.9519 days with standard deviation of 10.09215. On average firms’ cash conversion cycle is 24.2725 days with standard deviation of 30.73344.

From table we can easily find the relationship between profitability and components of working capital. It shows the net profit after interest and tax is negatively correlated with receivable conversion period and inventory conversion period, which shows that any increase in any of these factors will reduce profitability of company. It shows that payment period has a negative significant relationship with profitability, which means if company’s delay their payments they will earn less profits; the reason behind this is that firms can take the advantage of discounts by paying soon. It shows that cash conversion period has a positive significant relationship with profitability.

The above table describes about correlation matrix between variables under investigation. There is no significant relationship between ROA and RCP (r=-0.522, p>0.05). There is significant negative relationship between ROA and ICP(r=-0.596, p<0.05). There is significant negative relationship between ROA and PDP(r=-0.877, p<0.05) and there is significant positive relationship between ROA and CCP(r=-0.762, p<0.05).

**Regression Analysis**

The R-square is measure of the goodness of fit of the working capital management variables in explaining the variations in profitability of Unilever Nepal Limited. The regression analysis of ROA on working capital management has been separately analyzed below:

 **Table no. 3**

|  |
| --- |
| **Coefficientsa** |
| Model | Unstandardized Coefficients | Standardized Coefficients | T | Sig. |
|  B |  Std. Error |  Beta |
| 1 | (Constant) | 1.050 | .258 |  | 4.074 | .010 |
| RCP | -.005 | .005 | -.208 | -.864 | .427 |
| ICP | -.004 | .002 | -.374 | -1.638 | .162 |
| CCP | .004 | .002 | .567 | 2.348 | .066 |
|  | PDP | .001 | .000 |  |  | 0.000 |
| a. Dependent Variable: ROA |

The results are the findings of the research on the basis of observations and analysis. Regression analysis includes the major results extracted from the analysis of data to determine the impact of working capital management on profitability of Unilever Nepal Limited from 2009 to 2017.

The findings of the analysis is based on the significant level (alfa) of 0.05, degree of freedom(df) of 4 and two-tail test indicated. The impact of all four independent variables is tested together on dependent variable (ROA). From the model summary the value of R-square=0.770. It indicates that the four independent variables can explain approximately 77.0% of the proportion of variance of dependent variable. However, it is still left 23.0 % unexplained by these independent variables in this study.

From the ANOVA table, the estimated regression model is statistically significant (F = 5.565, p = .047). Four independent variables (ICP, RCP, CCP and PDP) have been good predictors for ROA.

Above table describes about the multiple regression analysis, four variables i.e. RCP (b = -0.05, p>0.005), ICP (b = -0.004, p>0.05) CCP (b = 0.004, p < 0.05), and PDP (b = 0.001 , p < 0.05) have significant impact on ROA. This indicates that there is a significant relationship between profitability and RCP, ICP and CCP. It is indicate that there is no significant relationship between profitability and PDP.

**CONCLUSION**

Working capital management is of importance in company’s financial management. It is therefore vital to manage the trade- off between profitability and working capital management. The purpose of this study was to investigate the impact of working capital management on profitability of Unilever Nepal Limited. This would assist firms to understand the nature and extent of the impact of working capital components on company’s profitability. Such an understanding is essential for managers as they try to enhance company’s profitability and ultimately its value. The results revealed that the impact of all four independent variables is tested together on dependent variable (ROA). From the model summary the value of R-square=0.770. It indicates that the four independent variables can explain approximately 77.0% of the proportion of variance of dependent variable. However, it is still left 23.0 % unexplained by these independent variables in this study. This indicates that there is a significant relationship between profitability and RCP, ICP and CCP. It is indicate that there is no significant relationship between profitability and PDP.

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