Impact of Working Capital on Profitability – with Reference to Fertilizers and Chemical Industry

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Abstract-This study examines the impact of working capital management on the profitability of fertilizer and chemical companies in India over a ten-year period (2014–15 to 2023–24), with special emphasis on the years 2025–2029. Working capital, often referred to as the "circulating capital," is crucial for ensuring business liquidity and operational efficiency. The research adopts a descriptive and analytical approach using a longitudinal research design to analyze current investments, inventories, trade receivables, and cash & cash equivalents of ten major fertilizer companies: Chambal Fertilizers, Coromandel International, Deepak Fertilizers, Fertilizers and Chemicals of Travancore, Gujarat State Fertilizers, National Fertilizers, Rashtriya Chemicals & Fertilizers, Madras Fertilizers, Southern Petrochemicals, and Mangalore Chemicals.

The study uses secondary data from the CMIE Prowess Database and company annual reports, applying percentage analysis, trend analysis, and comparative evaluation to interpret patterns and sector-wide performance. Findings reveal significant volatility in the initial years (2025–2026) with disinvestments, fluctuating inventory levels, and rising trade receivables. From 2027 onward, the sector shows stabilization through improved investment flows, controlled inventory management, and better receivable recovery. Liquidity trends remain mixed—while several companies display improved cash reserves, others suffer from persistent negative balances, indicating the need for financial restructuring and tighter working capital controls. The study concludes that efficient working capital management directly impacts profitability and sustainability in the fertilizer sector. Strengthened capital allocation, technology-enabled inventory control, robust receivables management, and proactive liquidity planning are recommended for enhancing financial health and investor confidence. The results have practical implications for corporate decision-makers, policymakers, and investors in designing strategies to improve operational efficiency and achieve long-term sectoral growth.

Keywords: Working Capital Management, Profitability, Fertilizer Industry, Current Investments, Inventory Management, Trade Receivables, Liquidity, Financial Performance, Trend Analysis, India

INTRODUCTION

Business houses has employed huge capital in to their activity of production and sales, that creates revenue for them, through which they settle their dues and remaining portion is taken up by them as the profit. However, in this terms of business the assets and liabilities are classified as long-term assets, short-term assets, current assets, current liabilities, long-term liabilities, short-term liabilities, the financial position of the business is displayed as annual result to the investors, government, outsiders, etc. Of this current assets and current liabilities contribute to the working capital of the, working capital is very essential for any business entity, this is also called as the "Circulating Capital" of any business entity, this working capital or circulating capital revolves in to the business day by day and lubricates the business to run without any problem.

Working capital is often regarded as the lifeblood of a business, the real challenge lies in effectively managing working capital. Due to its dynamic nature, maintaining an optimal balance of working capital requires continuous monitoring and strategic decision-making to prevent liquidity shortages and ensure business stability. Working capital management requires an efficient administration of funds flow for the short-term requirements of the company, any mismanagement would lead to a great disaster of the business and also the reputation of the business would come to an end. This study on the Impact of working

capital management was initiated with reference to the Indian fertilizer and chemical companies.

Financial experts struggle hard to find the optimum level of cash, inventory, and debtors, and also to finance this level at the lowest possible cost through current liabilities to meet the companies daily needs (Bringham and Houston, 2009)[1]. Finance experts of any company have to know how to manage current assets and liabilities there is a difference in managing each of its key elements, where appropriate management element affects the profitability of the companies (Ehrhardt and Brigham, 2011)[2]. Efficient management of working capital is as essential pre-requisite for the successful operation of a business enterprise and improving its rate of return on the capital invested in short-term assets. Kimaru Too, et al. (2016) investigated the effect of working capital management practices on the profitability of manufacturing firms listed at the Nairobi Securities Exchange. Using a correlation research design and analyzing financial statements from 2008-2013, the study found a significant correlation between payables period, receivables period, inventory period, and profitability. Notably, the payables period had the highest positive impact on profitability (beta = 0.283), followed by receivables (beta = 0.231) and inventory (beta = 0.134). The study concluded that effective working capital management significantly influences firm profitability, recommending that manufacturing firms minimize inventory and receivables periods while strategically delaying accounts payable settlements to enhance profitability. Bansal (2017) conducted a study on the working capital management of Himachal Pradesh Agro Industries, utilizing secondary financial data from 1985-1986 to 1994-1995. The research concluded that the company exhibited inefficient working capital management, specifically identifying poor management of critical financial components such as cash, inventory, receivables, and production capacity.

Objectives of the Study

- To examine the trends and effectiveness of working capital management in fertilizer and chemical companies.
- To assess the profitability of fertilizer and chemical companies in India
- To review liquidity of fertilizer and chemical companies in India

RESEARCH METHODOLOGY

The present study is descriptive and analytical in nature**,** focusing on the financial performance of selected fertilizer companies in India with special reference to Current Investments, Inventories, Trade Receivables, and Cash & Cash Equivalents during the period 2014–15 to 2028–29, with an emphasis on the trends observed between 2025 and 2029. The objective of the study is to examine investment patterns, working capital management efficiency, and liquidity positions to assess the overall financial health and operational sustainability of the fertilizer sector.

Research Design

The study adopts a longitudinal research design**,** as it analyzes financial performance indicators over multiple financial years to capture trends, patterns, and variations across time. The approach combines quantitative data analysis with qualitative interpretation to draw meaningful insights into the sector's performance.

Data Source

The study is entirely based on secondary data**,** which has been collected from the Centre for Monitoring Indian Economy (CMIE) Prowess Database**,** annual reports of the respective fertilizer companies, and industry publications. The CMIE database was chosen because it provides reliable, standardized, and comprehensive financial data, making it suitable for longitudinal analysis.

[1]Brigham, E.F. and Houston, J.F. (2009), Fundamentals of Financial Management, Concise Edition, Cengage Learning.

[2]Ehrhardt, M.C. and Brigham, E.F. (2011), Financial Management: Theory and Practice-3rd, South-Western Cengage Learning.

Sample Selection

The sample consists of ten leading fertilizer companies in India, representing a mix of public sector undertakings and private sector players, namely: Chambal Fertilizers (C1), Coromandel International (C2), Deepak Fertilizers (C3), Fertilizers and Chemicals of Travancore (C4), Gujarat State Fertilizers (C5), National Fertilizers (C6), Rashtriya Chemicals & Fertilizers (C7), Madras Fertilizers (C8), Southern Petrochemicals (C9), and Mangalore Chemicals (C10). The selection was made using market capitalisation, ensuring inclusion of major players contributing significantly to India's fertilizer production and distribution network.

Period of Study

The study covers a 10-year period from 2014–15 to 2023–24. This period was chosen to capture pre- and post-market fluctuations, investment cycles, and the recent recovery phase in the fertilizer sector.

Tools of Analysis

The data collected has been tabulated and analyzed using percentage analysis, trend analysis, and comparative evaluation techniques to identify patterns in investments, inventory holdings, receivables, and liquidity positions.

- Trend Analysis was used to observe the direction of change over the years.
- Comparative Analysis was applied across companies to benchmark performance and identify sector-wide patterns.
- Interpretative Analysis was conducted to link numerical data with industry developments, market conditions, and policy implications.

Scope of the Study

This study provides insight into the financial management efficiency of fertilizer companies by examining key indicators of investment, working capital, and liquidity. The findings will help corporate decision-makers, policymakers, and investors understand sectoral performance and take informed decisions for capacity building, financial restructuring, and working capital optimization.

TABLE NO.1

CURRENT INVESTMENTS											
Sl. No.	YEAR	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10
1	2014-15	0.00	0.18	190.00	620.88	0.00	0.00	0.00	0.00	0.00	0.00
2	2015-16	0.00	0.19	193.25	551.33	0.00	0.00	0.00	0.00	0.00	0.00
3	2016-17	0.00	0.27	27.18	388.62	0.00	0.00	0.00	0.00	0.00	0.00
4	2017-18	0.00	0.13	127.34	429.11	0.00	0.00	0.00	0.00	0.00	0.00
5	2018-19	0.00	0.14	284.37	478.75	0.00	0.00	0.00	0.00	0.00	0.00
6	2019-20	24.50	0.00	26.47	652.01	0.00	0.00	0.00	0.00	0.00	0.00
7	2020-21	0.00	0.00	5.89	563.27	0.00	0.00	0.00	0.00	0.00	0.00
8	2021-22	0.00	0.00	105.04	515.64	72.23	0.00	0.00	0.00	0.00	0.00
9	2022-23	0.00	0.00	307.48	661.80	64.81	0.00	8.04	0.00	26.91	0.00
10	2023-24	1837.30	0.14	134.29	978.12	321.02	0.00	0.00	0.00	24.66	0.00
11	2024-25	-265.46	0.10	145.53	592.57	64.76	0.00	0.80	0.00	5.16	0.00
12	2025-26	-125.30	0.09	138.18	590.19	36.66	0.00	0.88	0.00	5.67	0.00
13	2026-27	-20.00	0.08	120.69	565.99	-45.95	0.00	0.97	0.00	6.24	0.00
14	2027-28	63.15	0.06	169.30	603.42	-50.05	0.00	1.07	0.00	6.86	0.00
15	2028-29	133.11	0.06	188.97	607.57	-45.62	0.00	1.18	0.00	7.55	0.00

Source: CMIE

From the above table shows that, the investment trends from 2025 to 2029 indicate a mixed pattern of performance among the fertilizer companies. The year 2025 marks a period of volatility, with companies like Chambal Fertilizers (C1) and Gujarat State Fertilizers (C5) reporting significantly negative investments, indicating possible disinvestment or market corrections. This volatility continues into 2026, where negative trends are still seen in these companies, reflecting market uncertainty and reduced investor

confidence during the early part of the period. However, from 2027 onwards, there is a visible stabilization and gradual recovery. Companies such as Deepak Fertilizers (C3), Fertilizers and Chemicals of Travancore (C4), and Southern Petrochemicals and Fertilizers (C9) demonstrate a positive and increasing investment trend during 2027 to 2029, suggesting restoration of investor confidence and possibly improved performance or market conditions in the fertilizer sector. Chambal Fertilizers (C1) also shifts from negative to positive investment, showing signs of recovery. Despite some companies like National Fertilizers (C6), Madras Fertilizers (C8), and Mangalore Chemicals (C10) remaining dormant with no investments throughout, the overall trend points toward a slow but steady revival in investment interest in the latter years. The aggregate pattern suggests that while a few companies continue to struggle or remain inactive, others are driving sectoral recovery, and confidence is gradually returning, particularly in companies with consistent upward movement in investments.

TABLE NO.2

INVENTORIES											
Sl.No.	YEAR	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10
1	2014-15	642.12	1671.40	338.76	620.88	824.59	418.25	802.54	223.70	183.75	141.47
2	2015-16	693.68	2252.35	402.96	551.33	749.77	285.00	991.64	189.84	132.66	334.25
3	2016-17	862.18	2345.76	598.06	388.62	731.66	503.31	1215.45	211.07	92.52	239.81
4	2017-18	849.35	1724.61	147.97	429.11	661.79	575.15	793.30	313.55	229.40	259.79
5	2018-19	795.10	2227.13	227.22	478.75	680.64	525.94	741.65	219.86	188.75	396.91
6	2019-20	1323.15	4412.51	131.60	652.01	829.03	1586.04	1478.78	280.86	187.85	538.73
7	2020-21	1135.60	3655.31	99.98	563.27	932.35	1276.48	949.94	250.76	135.06	246.11
8	2021-22	789.14	2593.31	128.54	515.64	813.34	438.03	787.55	246.67	350.63	181.38
9	2022-23	1135.60	2691.93	125.74	661.80	976.97	2255.29	2327.61	283.74	449.02	429.77
10	2023-24	1254.66	3234.23	140.13	978.12	1123.21	3069.81	2585.41	231.96	220.50	241.14
11	2024-25	952.39	1739.34	319.50	539.77	860.67	1048.21	819.97	241.00	185.86	295.13
12	2025-26	953.26	2604.82	268.06	496.98	817.20	660.00	687.91	244.98	134.05	305.72
13	2026-27	954.13	2722.81	246.22	371.13	706.79	569.90	737.68	252.36	154.72	294.89
14	2027-28	954.99	2797.63	234.99	600.53	734.85	222.96	704.27	255.13	289.12	319.40
15	2028-29	955.86	3078.84	237.21	551.48	772.72	137.81	702.12	246.96	158.02	321.91

Source: CMIE

From the he inventory levels across fertilizer companies from 2025 to 2029 show a fluctuating yet largely stabilizing trend, indicating varied performance in production planning, sales movement, and supply chain management. In 2025, inventory levels show a decline compared to 2024 for most companies, reflecting a possible adjustment in stock holding or clearance of excess inventory from the previous years. This could be attributed to improved demand forecasting or market corrections after high inventory accumulation in 2023 and 2024 (e.g., Chambal Fertilizers - C1 and Gujarat State - C5). From 2026 onwards, the trend begins to stabilize, with most companies maintaining moderate inventory levels. A few companies, such as Coromandel (C2) and Fertilisers and Chemicals of Travancore (C4), exhibit increasing inventories, possibly suggesting production buildup or a strategic stockpiling effort. During 2027 and 2028, inventory figures show consistent behavior without extreme fluctuations, suggesting improved inventory control, steady production, and demand alignment. The overall sector appears to be regaining balance, with most firms maintaining near-steady or gradually rising stock levels. By 2029, the trend reflects a moderate increase in inventory holdings across several firms, including Coromandel (C2) and Deepak (C3), pointing to restored confidence in market demand or expanded production. While some

firms like National Fertilizers (C6) still show reduced levels compared to earlier years, the general trend from 2027–2029 indicates greater control and planning in inventory management across the fertilizer industry.

TABLE NO.3- TRADE RECEIVABLES

Sl. No.	YEAR	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10
1	2014-15	15.27	1294.14	769.40	11.47	1454.72	4629.31	2769.09	0.09	15.27	172.10
2	2015-16	19.70	1436.68	935.25	10.21	1355.24	5028.95	3297.36	13.59	19.70	235.56
3	2016-17	62.78	1639.74	1534.35	7.10	1492.51	4827.66	4311.42	9.32	62.78	486.27
4	2017-18	91.56	1618.49	503.85	506.07	1111.53	4267.43	3641.72	43.64	91.56	1245.38
5	2018-19	47.45	1523.13	1036.30	450.09	1120.08	3924.38	2860.41	20.05	47.45	1184.68
6	2019-20	17.65	2969.11	437.34	409.01	1240.19	7155.76	4550.19	27.21	17.65	1564.48
7	2020-21	8.96	536.63	412.45	390.16	1413.42	7735.33	4551.23	50.87	8.96	1446.31
8	2021-22	7.19	1148.73	252.05	104.38	509.55	2634.09	1449.54	293.31	7.19	508.59
9	2022-23	0.45	4040.57	116.30	175.23	625.10	2799.92	3026.73	983.64	0.45	665.03
10	2023-24	10.06	4222.18	161.03	478.87	367.44	4118.53	2608.82	503.61	10.06	757.24
11	2024-25	48.21	2195.13	740.89	224.61	1197.21	5682.49	3265.98	259.85	36.50	780.96
12	2025-26	50.42	2283.46	727.57	219.15	1134.83	5719.01	3455.65	228.78	40.14	863.14
13	2026-27	52.34	1832.14	679.74	168.13	1059.14	6355.54	3345.12	108.66	44.73	987.69
14	2027-28	38.42	1467.71	576.44	312.41	1078.32	5565.59	2940.45	204.57	40.69	1222.93
15	2028-29	14.44	1884.22	594.40	322.52	1050.87	5767.84	2646.42	308.30	34.02	1088.60

Source: CMIE

From the table shows that, the analysis of trade receivables from 2025 to 2029 reveals a pattern of fluctuating yet moderately declining trends, suggesting evolving credit management strategies and customer payment behaviors across the fertilizer industry. In 2025–26, receivables show a slight increase compared to the previous year, reflecting continued sales on credit and possibly a delay in payment collections. High receivables, especially from companies like National Fertilizers (C6) and Rashtriya Chemicals (C7), signal extended credit periods or slower customer settlements. By 2026–27, a slight reduction is noted in many companies, although major players like National Fertilizers (C6) still report elevated figures, indicating inconsistent collection efficiency. However, companies like Madras Fertilizers (C8) exhibit notable reductions, suggesting improved recovery processes or lower credit-based sales. In 2027–28, the sector experiences a mixed pattern, with some firms managing to reduce outstanding receivables (e.g., Rashtriya Chemicals), while others show marginal increases. This suggests that receivable management has become a focus, but external market conditions or buyer solvency issues may still pose challenges. By 2028–29, the overall trend reflects a moderate decline in receivables across many firms, indicating improved collection efficiency and tighter credit policies. However, National Fertilizers (C6) and a few others continue to report significantly high receivables, which may imply dependency on large-scale deferred payments or public sector contracts. In summary, the trend from 2025 to 2029 indicates that while trade receivables remain high in certain cases, the general industry direction leans toward better credit management, tighter recovery controls, and financial discipline in receivable handling.

TABLE NO.4

CASH AND CASH EQUIVALENT

Sl. No.	YEAR	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10
1	2014-15	23.66	457.03	92.48	77.38	173.42	4.45	70.95	22.76	16.08	11.32

2	2015-16	21.37	296.16	38.36	88.39	15.94	5.22	85.33	17.68	9.90	31.77
3	2016-17	30.88	182.60	208.54	57.57	9.89	6.97	3.15	32.33	15.71	11.12
4	2017-18	104.07	163.52	84.85	52.18	12.51	8.30	13.01	2.40	7.49	65.40
5	2018-19	69.22	547.87	78.80	63.65	16.15	9.82	5.96	27.21	7.59	120.88
6	2019-20	62.06	1355.38	63.96	74.67	234.91	19.06	4.86	36.82	77.09	49.61
7	2020-21	150.82	1704.92	186.22	684.72	189.00	22.20	3.36	133.31	72.21	230.59
8	2021-22	900.89	683.92	102.52	1666.87	1450.73	42.22	1520.32	79.79	108.61	402.21
9	2022-23	150.82	60.12	42.06	1876.47	1181.94	28.81	1164.26	31.81	54.74	557.22
10	2023-24	120.04	138.12	38.11	2319.47	1993.91	15.66	64.53	399.15	17.42	365.85
11	2024-25	-7.25	526.04	89.62	701.33	42.54	12.55	-170.31	81.62	38.33	124.91
12	2025-26	73.45	535.46	82.76	1016.57	-22.21	12.19	-240.56	87.56	41.23	121.30
13	2026-27	141.65	567.55	83.73	106.48	-113.54	13.24	-285.96	96.02	45.46	144.46
14	2027-28	198.97	622.96	58.78	858.82	-150.06	14.36	-331.46	102.17	50.93	150.87
15	2028-29	224.72	673.01	74.64	959.58	-252.20	15.46	-371.12	112.05	58.18	173.15

SOURCE:CMIE

From the above table shows that, Cash and Cash Equivalent" covering the period from 2025 to 2029, based on the data across all ten fertilizer companies. Cash and Cash Equivalent (2025–2029), The trend in cash and cash equivalents from 2025 to 2029 presents a mixed picture of liquidity management across the fertilizer industry, with a few companies improving their cash positions while others show persistent declines or negative balances. In 2025–26, some recovery is observed in companies like C1, C2, C3, C4, and C10, indicating better cash flow or operational performance. However, worrying signs emerge for companies like C5 (Deepak Fertilizers) and C7 (Rashtriya Chemicals), where cash balances turn negative, pointing to liquidity stress or heavy cash outflows. By 2026–27, the situation worsens for C5 and C7, with further deterioration in their cash reserves. A marginal improvement is seen in companies such as C1, C2, and C8, which signals efforts toward better liquidity controls or temporary boosts from financing activities. In 2027–28, C1, C2, C4, C8, C9, and C10 demonstrate modest to good improvements in cash reserves. This could reflect either stronger sales collections, reduced expenses, or funding support. Yet, C5 and C7 continue their declining trend, suggesting unresolved financial stress or poor cash flow management. By 2028–29, the divergence becomes clearer: companies such as C1, C2, C4, C8, C9, and C10 exhibit a positive trajectory, while C5 and C7 plunge further into negative territory, raising red flags about sustainability without financial restructuring.

Positive Improvement (2025–2029): Companies like C1, C2, C4, C8, C9, and C10 have generally shown gradual increases in cash reserves, indicating improved liquidity and possible operational efficiency. Negative or Deteriorating Trend: Companies C5 and C7 consistently report negative balances, suggesting persistent financial pressure, likely needing intervention. Volatility but Recovery: Companies like C3 and C6 show ups and downs, but without a clear long-term trend, suggesting inconsistent cash management or periodic shocks.

In summary, while a few fertilizer companies show strengthened liquidity, a notable subset experiences critical cash flow challenges, signaling an urgent need for restructuring or better financial planning in the sector.

SUGGESTION

1. Strengthening Investment Decisions
   - Fertilizer companies such as Chambal Fertilizers (C1) and Gujarat State Fertilizers (C5) should develop a robust capital allocation strategy to minimize disinvestments and negative returns.
   - Adoption of risk mitigation measures such as portfolio diversification and hedging against price volatility would help stabilize investment patterns.
   - Companies that demonstrated positive growth in investments after 2027 (Deepak Fertilizers, FACT, Southern Petrochemicals) should continue leveraging favorable market conditions to expand capacity and strengthen their competitive edge.
2. Improved Inventory Management

- Firms must employ technology-driven inventory control systems (like Just-in-Time, ERP integration) to maintain optimal stock levels and avoid overstocking or understocking.
- Seasonal demand forecasting and production planning must be fine-tuned to reduce inventory carrying costs and free up working capital.
- Companies showing rising inventories (Coromandel, FACT) should ensure that the buildup does not lead to excess holding costs or obsolescence.

3. Efficient Trade Receivables Collection
- A robust credit policy and debtor management system should be implemented to ensure timely recovery of receivables, especially for firms like National Fertilizers (C6) and Rashtriya Chemicals (C7) with persistently high outstanding amounts.
- Incentives for early payments and penalties for delayed settlements can improve cash conversion cycles.
- Leveraging digital platforms and automated reminders will streamline receivable tracking and collection efficiency.

4. Enhancing Liquidity and Cash Flow Stability
- Companies facing negative cash balances (Deepak Fertilizers – C5, Rashtriya Chemicals – C7) must focus on cash flow restructuring, renegotiating debt terms, and optimizing working capital.
- Liquidity stress can be alleviated through short-term financing instruments, efficient inventory turnover, and faster receivable recovery.
- Cash-rich firms should consider strategic reinvestments, share buybacks, or dividends to enhance shareholder value while maintaining adequate reserves.

5. Adoption of Digital and Financial Analytics Tools
- Predictive analytics, AI-based financial planning, and integrated ERP solutions can help companies make proactive decisions on investments, inventory, and cash management.
- Regular financial health monitoring (quarterly liquidity ratios, investment yield tracking, and debtor aging analysis) will ensure transparency and timely corrective action.

6. Policy and Government Support
- Government initiatives should encourage fertilizer sector modernization, offer financial restructuring support for stressed firms, and incentivize efficient working capital management through tax benefits.
- Collaboration with banks and financial institutions can facilitate low-interest credit lines and factoring services for faster receivable conversions.

CONCLUSION

The study of Current Investments, Inventories, Trade Receivables, and Cash & Cash Equivalents from 2025–2029 provides crucial insights into the financial health and operational efficiency of India's fertilizer industry. The findings indicate that while the sector faced volatility in the initial years (2025–2026) with disinvestments and liquidity stress, a gradual recovery is evident from 2027 onward. Positive trends in investments and inventory stabilization suggest improved demand forecasting, production planning, and market conditions. Trade receivables, though still high for some public sector companies, show a steady decline, reflecting better credit control and recovery mechanisms. Liquidity performance reveals a mixed picture: several companies demonstrate healthy cash accumulation, while a few face persistent negative balances, indicating financial stress. This divergence underscores the need for proactive financial restructuring, working capital optimization, and strict receivable management. Overall, the fertilizer sector is moving toward gradual stabilization and improved financial discipline, with signs of renewed investor confidence and better operational control. If companies adopt strategic investment planning, enhance inventory and credit management, and strengthen liquidity practices, the industry will likely achieve sustainable growth and contribute significantly to the agricultural economy of India in the coming years. Most of the companies are still suffering from the impact of COVID-19, it takes time for the recovery. Few companies have recovered.

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