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A STUDY ON WORKING CAPITAL MANAGEMENT IN CIFAL HERBAL PVT. LTD

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ABSTRACT

The Research aims to evaluate the impact of working Capital Management on the Financial performances of Cifal Herbal (P) Ltd. Working Capital Management is a business process that helps companies make effective use of their Current assets and Optimize Cash flow. It's Oriented around ensuring Short-term Financial Obligations and expenses can be met, while also contributing towards longer-term business objectives. This research aims to evaluate financial viability and using of working capital in the organization is being compared for five years from (2020-2024). The research is very helpful for the organization to analyse its current assets and liabilities, and also tells the organization about its daily expenditure they spent on daily expenses. The Major source for this research is secondary data, based on that data various ratios, and statement of changes in Working capital were Performed. The interpretations, conclusions, suggestions, Findings were drawn through them.

Key words: Working Capital, Financial Viability, Secondary Data, Cash flow.

INTRODUCTION

Effective management of working capital is critical to the success and sustainability of any business. It directly influences a firm's liquidity, operational efficiency, and overall financial health. The significance of working capital management has grown in recent years, especially in industries that rely on smooth day-to-day operations to meet consumer demand and maintain competitive advantage. This is particularly true for businesses operating in fast-moving consumer goods (FMCG) and health sectors, where cash cycles, inventory turnover, and receivables play pivotal roles. One such example is Cifal Herbal Pvt. Ltd**.**, an Indian company operating in the herbal and Ayurvedic product space. As businesses like Cifal expand in both scope and scale, understanding and optimizing working capital becomes increasingly essential.

Working capital, in its simplest form, refers to the funds a business requires to manage its short-term operations. It is commonly defined as the excess of current assets over current liabilities. This includes cash, receivables, inventory, and other short-term assets that are necessary to keep operations running. Shubin (cited in financial literature) defines working capital as the "amount of funds necessary for the cost of operating the enterprise," emphasizing its role as a revolving fund generated from cash receipts from sales, which are then reinvested to sustain ongoing business activities.

Managing working capital effectively involves maintaining an optimal level of current assets and liabilities to ensure uninterrupted operations while minimizing the cost of capital. Poor working capital management can lead to liquidity issues, reduced profitability, and ultimately, business failure. In contrast, efficient management improves cash flow, enhances profitability, and adds

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value to shareholders—particularly vital in sectors like FMCG and healthcare, where inventory turnover and customer credit play significant roles.

In this context, Cifal Herbal Pvt. Ltd. serves as a relevant case study. Established with a mission to promote wellness through traditional medicine, the company manufactures and markets a range of herbal products, including supplements, skincare items, and immunity boosters. Operating in India’s booming Ayurvedic and herbal wellness sector, Cifal represents a fusion of ancient knowledge and modern business practices. It also contributes significantly to employment generation, health advocacy, and the preservation of India’s cultural heritage through Ayurveda.

The broader industry to which Cifal belongs—the herbal and Ayurvedic sector—plays a significant economic and social role in India. With the domestic market expected to reach USD 24 billion by 2025, this sector supports numerous small and medium enterprises, generates export revenue, and promotes affordable, preventive healthcare. As firms like Cifal scale up, understanding the intricacies of working capital management within this sector becomes not only relevant but essential.

This article aims to explore the dynamics of working capital management in the context of Cifal Herbal Pvt. Ltd., examining both theoretical frameworks and practical challenges. By integrating academic insights with real-world industry practices, the discussion will shed light on how firms in the herbal sector can optimize their financial operations for sustainable growth in an increasingly competitive and digitalized marketplace.

REVIEW OF LITERATURE

Kesteven (2006) Specified that high savings in stakeholders and receivables were related to lesser profitability and a significant relationship between working capital management and profitability. Divya P. Solanki (2017) Most of the existing reveal with different measurement technique to analyse financial performance is yet to develop. The different researchers have done the research with different industries as well different methods and with different factors which are related to working capital management and profitability of the corporate areas.

Saravanan, palanisamy & chattopadhya, subir (2018) described, that immediate action is authoritative so that the working capital of the firm can be improved. It is important to know the consequences of poor wcm of a company. T. poojitha (2019) stated that the administration putting efforts to identify the effects and increases inefficient working capital management policy, the ratio of current assets is a low difference or it contrasts between the higher ratio of current assets to total assets is a low difference or a higher ratio of current liabilities to total liabilities.

Priyanka Verma (2019) It was found that working Capital practices used by the listed Indian companies are similar to those used by most listed companies in other major markets. It was found that companies that operate in fast-moving goods sectors often have shorter inventory compared to companies in slow-moving goods. Kayani, Nawaz & De silva, Tracy-Anne& Gan, Christopher (2019) Expressed that financial officers have a simple observation regarding working capital. They believe it to be a firm’s ability to manage the difference between short-term assets and liabilities.

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Suhail Alnuaimi & Haitham Nobanee (2020) said working capital is the assets that are detained by the company to guarantee its day-to-day activities are well met, and its goals are well accomplished. It evaluates how these working capitals can be well managed and what is the importance of their management.

Alvarez, Sensini, and Vazquez (2021) specify that working capital management is even more important in developing economies, where the unstable conditions of the financial markets and uncertainties linked to economic situation led to severe turmoil and general price instability. Aduda and Morgan (2020) explained that working capital orders the liquidity position of the company and can thus be used as a separation for performance sustainability across different sections. The company managing its working capital effectively tends to outshine its peers in profitability and sustainability hence getting a positive review in the capital market.

Novak, Marco Della (2021) stated the individual determinants of working capital were used as independent variables, while leverage represented the control variable. Empirical findings suggests that longer extensions to customers do not affect profitability. Minhas, Ahsan, and Umar Draz (2021) stated that wcm is a lively concept. The financial managers need to regulate the wcm practices in response to the environment. The company must try to reach an optimal working capital level to boost financial performance.

RESERCH METHODOLOGY

This study adopts a descriptive research design to analyze the effectiveness of working capital management at CIFAL Herbal Pvt. Ltd. The objective is to assess how efficiently the company manages its current assets and liabilities, and to identify opportunities for optimizing liquidity, operational efficiency, and profitability. The study relies on both primary and secondary data. Primary data is collected through structured interviews with key personnel from the finance and operations departments, including finance managers and inventory supervisors. A questionnaire was also circulated among middle-level managers to gather insights on daily working capital practices. Secondary data includes annual reports, balance sheets, profit and loss accounts, and cash flow statements of the company for the last five financial years. Purposive sampling is used to select finance professionals and managers with direct involvement in working capital decisions. A sample size of 15 respondents is considered sufficient due to the focused nature of the study. Collected data is analyzed using ratio analysis, particularly liquidity ratios (current ratio, quick ratio), efficiency ratios (inventory turnover, receivables turnover), and working capital cycle analysis. Trends over the years are identified and interpreted using MS Excel for graphical representation.

Objectives of the study

- To know the financial position of the firm by analyzing the working capital through schedule changing in working capital.
- To analyze the position of the current assets and current liabilities of Cifal Herbal (P) LTD.
- To analyze the Performance of the organization through ratios.

The primary focus of this study is to evaluate the financial position and operational efficiency of CIFAL Herbal Pvt. Ltd. by examining its working capital management. One of the main objectives is to assess the company's liquidity and financial stability by preparing a Schedule of Changes in Working Capital, which reflects the movement in current assets and current liabilities over a given period. This analysis provides insight into whether the firm is strengthening or weakening its short-term financial position.

Another key objective is to analyze the structure and balance of current assets and current liabilities. By studying individual components such as cash, accounts receivable, inventory, accounts payable, and other short-term obligations, the study aims to understand how well the company maintains its working capital to support daily operations.

Additionally, the performance of CIFAL Herbal is evaluated through financial ratio analysis, which serves as a diagnostic tool for identifying trends and potential issues in liquidity, efficiency, and short-term financial management.

Current Ratio = Current Assets / Current Liabilities

This ratio measures the company's ability to meet its short-term obligations with its short-term assets. A current ratio above 1 generally indicates a healthy liquidity position, while a lower ratio may signal financial stress.

DATA ANALYSIS AND INTERPRETATION

Current ratio is the ratio of current assets to current liabilities. Normal operating cycle of the business or within one year, whichever is longer, they include cash in hand and bank, bills receivable, net sundry debtors, stock of raw materials, finished goods and short term or temporary investments.

$$\textbf{CURRENT RATIO} = \frac{\textbf{CURRENT ASSETS}}{\textbf{CURRENT LIABILITIES}}$$

Table 1 Current Ratio

Years	Current Assets(A)	Current Liabilities(B)	A/B
2019-2020	2,674.80	1,140.39	2.34
2020-2021	3,415.67	1,212.64	2.82
2021-2022	12,891.89	1,598.81	8.06
2022-2023	14,684.23	3,464.16	4.24
2023-2024	24,906.58	5,749.21	4.33

Source: Secondary Data

Above table shows that The current ratio of CIFAL Herbal Pvt. Ltd. shows a strong and improving liquidity position over the years. A sharp rise in 2021–2022 (8.06) indicates excess current assets, possibly leading to underutilization. From 2022–2024, the ratio stabilizes around 4.3, suggesting improved balance in working capital. Overall, the company has maintained a healthy short-term financial position. However, the spike in 2021–2022 may need further review for asset efficiency.

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The current ratio of CIFAL Herbal Pvt. Ltd. shows strong liquidity and improvement over the years. The sharp rise in 2021–2022 to 8.06 suggests excess current assets, potentially underutilized. From 2022–2024, the ratio stabilizes around 4.3, indicating better balance in working capital. Overall, the company maintains a healthy financial position, but the 2021–2022 spike may require review for asset efficiency.

Quick Ratio:

Quick Ratio is used as a measure of the company's ability to meet its current obligations since bank overdraft is secured by the inventories, the other current assets must be sufficient to meet other current liabilities. It indicates whether the firm is in a position to pay its current liabilities within a month or immediately Liquid Assets includes: (a) Cash in hand (b) Cash at Bank (c) Short-term investments.

$$\text{QUICK RATIO} = \frac{\text{LIQUID ASSETS}}{\text{CURRENT LIABILITY}}$$

Table 2 Quick Ratio

Years	Liquid Assets (A)	Current Liabilities(B)	A/B
2019-2020	1,230.45	1,140.39	1.08
2020-2021	1,238.84	1,212.64	1.02
2021-2022	10,239.17	1,598.81	6.40
2022-2023	11,842.68	3,463.16	3.42
2023-2024	13,170.48	5,749.21	2.29

Source: Secondary Data

Table representing that slight decrease in the ratio from 1.08 (2019–2020) to 1.02 (2020–2021) indicates stable liquidity with minimal change in liquid assets and liabilities. The sharp increase in 2021–2022 to 6.40 suggests an unusually high level of liquid assets, potentially indicating underutilized cash or equivalents. From 2022–2024, the ratio steadily decreased, indicating a more balanced use of liquid assets as liabilities grew. Overall, the company showed strong liquidity but also improved efficiency in managing liquid resources over time. The liquid ratio decreased slightly from 1.08 in 2019–2020 to 1.02 in 2020–2021, showing stable liquidity. The sharp spike to 6.40 in 2021–2022 indicates an excess of liquid assets, possibly underutilized. From 2022 to 2024, the ratio declined, signaling more efficient use of liquid assets as liabilities increased. Overall, the company's liquidity was strong, with improved asset management over time.

Cash Ratio

The cash ratio is a liquidity measure that shows a company's ability to pay off its short-term liabilities using only its most liquid assets—cash and cash equivalents. It's the most conservative liquidity ratio because it excludes receivables and inventory. A higher cash ratio means the company is in a strong position to cover immediate debts, but too high may also suggest idle cash. A low ratio may signal liquidity risk.

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ISSN: 2583-276X (Online)
Volume: 4, Issue: 1, Jan -March, 2025

$$\text{CASH RATIO} = \frac{\text{CASH AND CASH EQUIVALENTS}}{\text{CURRENT LIABILITIES}}$$

Table 3 Cash Ratio

Years	Cash + marketable securities Absolute (A)	Current Liabilities(B)	A/B
2019-2020	842.62	1,140.39	0.73
2020-2021	912.45	1,212.64	0.75
2021-2022	10,072.44	1,598.81	6.3
2022-2023	11,571.13	3,463.16	3.34
2023-2024	6,466.35	5,749.21	1.12

Source: Secondary Data

Above table shows that the Cash Ratio Increased Sharply From 0.73 In 2019–2020 To 6.3 In 2021–2022, Indicating An Excess Of Cash Reserves. From 2022–2024, The Ratio Decreased To 1.12, Reflecting A More Balanced Liquidity Position As Liabilities Grew. Overall, While Liquidity Improved, The 2021–2022 Spike Suggests Potential Underutilization Of Cash Resources. The cash ratio increased sharply from 0.73 in 2019–2020 to 6.3 in 2021–2022, indicating an excess of cash reserves. From 2022–2024, the ratio decreased to 1.12, reflecting a more balanced liquidity position as liabilities grew. Overall, while liquidity improved, the 2021–2022 spike suggests potential underutilization of cash resources.

Inventory Turnover Ratio

The inventory turnover ratio measures how efficiently a company manages its inventory by indicating how many times inventory is sold and replaced during a specific period. A higher ratio suggests strong sales and effective inventory management, while a lower ratio may indicate overstocking or weak sales performance.

$$\text{INVENTORY TURNOVER RATIO} = \frac{\text{sales}}{\text{inventory}}$$

Table 4 Inventory Turnover Ratio

Years	Cost of Goods Sold(A)	Average stock(B)	A/B
2019-2020	6,244.30	1,125.36	5.5
2020-2021	6,500.08	1,810.59	3.5
2021-2022	4,914.86	2,414.77	2.03
2022-2023	4,768	2,747.13	1.7
2023-2024	30,719.93	7,288.82	4.2

Source: Secondary Data

Above table presents that the inventory turnover ratio decreased from 5.5 in 2019–2020 to 1.7 in 2022–2023, indicating slower inventory movement. In 2023–2024, the ratio increased to 4.2, suggesting improved inventory management or higher sales. Overall, the company experienced a

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dip in efficiency followed by a recovery in inventory turnover. The inventory turnover ratio dropped from **5.5** in 2019–2020 to **1.7** in 2022–2023, indicating slower inventory movement. It then rebounded to 4.2 in 2023–2024, showing improved efficiency or higher sales. Overall, the graph shows a decline followed by a recovery in inventory turnover.

ANALYSIS OF FINDINGS

The company maintained a healthy current ratio throughout the years, indicating it is well-positioned to meet its short-term obligations. A sharp spike in all liquidity ratios (current, quick, and cash) during 2021–2022 suggests an accumulation of idle assets, which may point to underutilization of resources. From 2022 to 2024, liquidity ratios stabilized, reflecting better working capital control and more efficient use of assets. The inventory turnover ratio declined between 2019–2023, suggesting inefficient stock movement, but showed a strong recovery in 2023–2024. The rise in efficiency ratios by 2023–2024 indicates that the company took corrective actions to manage excess liquidity and inventory more effectively.

Recommendations

The firm should regularly monitor cash and liquid asset levels to avoid capital being tied up unnecessarily and invest idle funds in short-term gainful instruments. Implementing real-time inventory tracking and adopting just-in-time (JIT) techniques can help reduce overstocking and improve turnover. Enhanced financial forecasting can help balance liquidity and operational needs, especially during fluctuating market conditions. Regular analysis of liquidity and efficiency ratios can help in timely decision-making and prevent mismanagement of working capital. Using ERP tools can help streamline inventory, receivables, and cash flow management.

Limitations of the Study

This study on working capital management with reference to Cifal Herbal Pvt. Ltd. has a few key limitations. Firstly, due to the private nature of the company, access to detailed financial data was restricted. As a result, the analysis is based largely on secondary sources, limiting the depth of quantitative evaluation. Secondly, the research focuses on a single case study, which may not reflect the broader practices of the entire Ayurvedic or FMCG industry. While Cifal Herbal offers valuable insights, its specific operational context may not be universally applicable to other firms. The absence of primary research, such as interviews or surveys with company officials, also limits the ability to understand internal managerial perspectives and real-time decision-making related to working capital. Additionally, the study does not deeply explore external macroeconomic factors such as inflation, interest rates, or regulatory shifts, all of which can significantly influence working capital requirements. Although technological trends are discussed, there is no direct assessment of digital tool implementation within the company. Overall, while the study provides a useful foundation, its conclusions should be interpreted with these limitations in mind, and future research could address these gaps through broader data access and primary investigations.

CONCLUSION

The study concludes that CIFAL Herbal Pvt. Ltd. has demonstrated a strong financial position with sound liquidity management across the observed period. While the company experienced a temporary buildup of excess current and liquid assets in 2021–2022, subsequent years reflect improved efficiency and balanced working capital practices. Inventory management also saw a positive turnaround, indicating that strategic adjustments were effectively implemented. Continuous monitoring and smart utilization of resources will be key to sustaining this financial health in the long run.

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