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A study on working capital management at Sethumadai primary agricultural cooperative credit society, Pollachi

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Abstract

The study titled 'A Study on Working Capital Management at Primary Agricultural Cooperative Credit Society (PACS)' aims to examine the efficiency and effectiveness of managing short-term assets and liabilities in cooperative societies. Working capital management plays a crucial role in maintaining liquidity, ensuring profitability, and achieving financial sustainability. The research focuses on analyzing cash flow, receivables, payables, and inventory control to evaluate how PACS balances its financial obligations and supports rural development through credit delivery. The study identifies the determinants, challenges, and opportunities related to working capital management, highlighting the importance of financial discipline, loan recovery efficiency, and government support in sustaining cooperative credit institutions.

Keyword: Working capital management, Liquidity management, Cooperative credit society, PACS, Cash flow management, Receivables and payables, Inventory control, Financial sustainability

Introduction

Working capital management plays a crucial role in ensuring the liquidity and smooth functioning of any organization. In Primary Agricultural Cooperative Credit Societies (PACS), efficient working capital management is especially important because these societies provide short-term and medium-term credit to farmers and rural communities. PACS operate at the village level and support agricultural production and rural development. Effective management of current assets and liabilities, including cash, loans, inventories, and borrowings, helps these societies maintain financial stability and meet members' credit needs. However, PACS often face challenges such as irregular loan recoveries, seasonal credit demand, and dependence on higher cooperative banks for funding. Therefore, evaluating working capital practices is essential to improve performance and sustainability. This study examines the working capital management of Sethumadai Primary Agricultural Cooperative Credit Society, Pollachi, to assess its financial efficiency and suggest necessary improvements.

Objectives

- Greater access to credit and other services for small and marginal farmers; reduction in dependence on informal sources.
- Reduction in post-harvest losses due to better storage and processing capacity.
- More stable income streams for PACS due to diversification (non-credit services) and better infrastructure.
- Enhanced transparency, trust and efficiency via computerization and digital solutions.
- Stronger cooperative credit network, which could support rural development, agricultural supply chains, food security.

Limitations of the Study

- Dependence on secondary data may restrict the depth of findings.
- The study period may not capture long-term financial performance trends.

- Differences in management practices among PACS may influence results.
- External factors like government policies and subsidies are not fully controllable.
- Seasonal variations in agriculture can affect the accuracy of analysis.

Review of Literature

Singh and Pandey (2008)^[3]

Examined the impact of working capital management on profitability of Hindalco Industries Ltd. The study highlighted that efficient utilization of current assets and liabilities has a direct and positive impact on profitability.

Raheman and Nasr (2007)

Studied firms listed on the Karachi Stock Exchange and found a significant relationship between working capital management and firm profitability. The results suggested that reducing the cash conversion cycle enhances profitability.

Gill, Biger, and Mathur (2010)

Investigated the effect of working capital management on profitability of U.S. firms. Their study indicated that a well-managed receivables policy significantly improves profitability.

Chakraborty (2011)

Analyzed Indian manufacturing firms and emphasized that working capital requirements differ across industries due to variations in operating cycles, seasonality, and demand patterns.

Vural, Sokmen, and Cetenak (2012)

Examined Turkish companies and found that accounts receivable and inventory periods had negative impacts on profitability, while accounts payable period showed a positive influence.

Sharma and Kumar (2011)

Conducted research on Indian firms and concluded that efficient working capital management practices are crucial for both large and small organizations to maintain liquidity without compromising profitability.

Almazari (2014)

Studied Saudi cement companies and found that working capital management significantly influenced liquidity and profitability, highlighting the importance of maintaining adequate current assets.

Talreja (2020)

Provided a systematic literature review and concluded that most empirical studies show a trade-off: firms must balance between holding too much working capital (reducing profitability) and too little (risking liquidity).

Research Methodology

Research is a systematic investigation and study of materials and sources in order to establish facts and reach new conclusions. Research basically aims at expanding the depth of knowledge and solutions for problems. It addresses fundamental questions and

also provides specific alternative solutions for them. Thus, research is carried out for solving problems and guiding specific decisions. In various steps, those are generally adopted by a researcher in studying his problem along with the logic behind them. It is important for research to know not only the research method but also the methodology. The procedures by which researchers go about their work of describing, explaining, and predicting phenomena are called methodology.

Research Design

The study will adopt a descriptive and analytical research design to analyze the working capital management practices followed by Primary Agricultural Cooperative Credit Societies (PACS). This design is suitable because it explains the financial practices, identifies gaps, and evaluates the efficiency of working capital utilization.

Data Collection Method

- **Secondary Data:** Annual reports, financial statements, audit reports, government records, NABARD reports, and published literature.
- **Population:** All PACS operating in the selected district/state.
- **Sampling Technique:** Purposive and stratified random sampling to ensure representation of different sizes and categories of PACS.
- **Sample Size:** A set of 5-10 PACS (depending on scope) to analyze financial data for at least 3-5 years.

Findings

1. The Primary Agricultural Cooperative Credit Society effectively mobilizes funds from member deposits, share capital, and borrowings from District Central Cooperative Banks.
2. Liquidity management is a critical challenge due to seasonal variations in agricultural activities affecting cash flow.
3. Loan recovery rates fluctuate with agricultural output and monsoon conditions, leading to delayed repayments.
4. The society maintains adequate inventory of fertilizers, seeds, and other inputs, but excess stock occasionally locks up working capital.
5. Dependence on external funding sources increases during peak agricultural seasons, reflecting limited internal liquidity reserves.
6. The existing credit management system ensures moderate recovery performance but needs technological improvements for tracking.
7. Financial performance depends largely on efficient utilization of working capital and timely disbursement of credit.

Suggestions

- Introduce computerized accounting and ERP systems to enhance transparency and accuracy in working capital management.
- Strengthen loan recovery mechanisms by implementing reminder systems and linking repayments to crop cycles.
- Maintain an optimal balance between liquidity and profitability by adopting better cash flow forecasting techniques.
- Diversify income sources through allied rural business activities to reduce dependence on external borrowings.

- Organize regular financial management training for staff to improve operational efficiency.
- Monitor inventory turnover closely to avoid overstocking and ensure better fund utilization.
- Collaborate with District Central Cooperative Banks for timely refinancing and liquidity support.

Conclusion

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