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THE ROLE OF LIQUIDITY MANAGEMENT IN DRIVING FINANCIAL PERFORMANCE: A STUDY OF PUNE'S JEWELLERY FIRMS

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ABSTRACT

The gems and jewellery business holds a key position in India's economic framework, serving as a substantial contributor to exports, employment generation, and domestic consumption. This pilot study evaluates the financial performance attained through liquidity management strategies utilised by 60 prominent jewellers in Pune over the past 14 years. This research primarily observes changes in liquidity management. It applies the paired sample t-tests and correlation analysis to assess hypotheses on the impact of liquidity on profitability. The findings of the study clearly indicate that effective liquidity management has a favourable and significant effect on profitability. The findings offer important input for jewellery firms and financial planners, highlighting the significance of strong liquidity management to guarantee financial flexibility and profitability.

Keywords: Liquidity Management, Jewellery Firms, Financial Performance, Profitability

1. INTRODUCTION

India's gold sector is scattered and unorganised, with heavy import duties, fragmented regulations, and inadequate linkage with the formal financial system. Indian Govt. has planned a comprehensive proposal to address these issues and promote the Indian gold market into a well-organized and globally competitive sector. The Govt. is endorsing domestic production and exports under the "Make in India" initiative. Integrating gold into the financial system, simplifying taxation to reduce smuggling, establishing regulatory framework, and improving industry standards by generating employment and skill building are the key steps of the vision. This vision is expected to increase gold exports three-fold, attract foreign investment, and enhance India's employment rate and economy considerably, if implemented successfully (NitiAyog Govt of India Report, 2018).

The gems and jewelry industry plays a vital role in Indian economy by heavily impacting exports, employment, and consumption. Pune, being a fast-developing urban center in western India, has experienced an encouraging business environment in the jewelry sector, despite of sharp competition, shifting consumer preferences, and rising operational challenges. With such a capital-intensive industry, these firms are required to maintain a fine balance between liquidity and solvency. The longitudinal study examines the influence of liquidity management on profitability describing whether strong liquidity positions are consistent with enhanced financial results.

The study employs paired sample t-tests and correlation analysis, to assess these objectives for 14 years (FY 2009–10 to 2022–23). Hypotheses are tested to identify trends in liquidity management. Findings validate the role of liquidity on profitability. Findings are significant for jewellers, financial planners, and policymakers to consolidate the financial foundation of small and medium enterprises within the industry. The research emphasises the important role of -strategic financial planning and policy-driven liquidity solutions for long-term prosperity.

2. LITERATURE REVIEW

Research on Gujarat public sector enterprises discovered a poor positive correlation between liquidity and profitability. The research, which was based on secondary data covering the period 2001-02 to 2012-13, advised companies to concentrate on working capital management, efficient utilization of resources, and generation of profits for long-term existence, emphasizing the necessity of effective financial management (Patel, 2017).

In research on Cement Corporation of India Ltd.'s financial performance, it was found that the profitability of the company was highly affected by all ratios, particularly by current ratios. Suggestions were to keep ratios near standard norms and efficient management to enhance the financial performance of the company (Ajmal, 2018).

Gupta (2018) observed that the current ratio and quick ratio are essential in evaluating the financial health of jewelry businesses. The current ratio determines the ability of a jeweller to pay short-term obligations, and the quick ratio determines liquidity. These ratios give insights into the ability of a jeweller to fulfil financial obligations and manage working capital efficiently, essential in a highly changing market.

Sharma R. G. (2016) ventured into working capital management in the jewelry industry, offering perspectives into jewellers' responses to minimize cash conversion cycles, controlling inventory, and negotiating terms of trade credit. It offered a rich understanding of financial relationships and empowers jewellers with insight to manage complexities, making them financially robust and opening opportunities for growth in a competitive marketplace.

Efficiency ratios give a complete analysis of jewellers' operational management of resources, especially turnover of inventory and receivables. Efficiency ratios give insights on how jewellers can turn inventory into sales as well as receivables into cash, giving invaluable views regarding operational efficiency and cash flow management strategies, leading to a complete analysis of their financial condition (Mehra, 2019).

Kumar (2017) examined the effect of macroeconomic variables on the financial performance of jewellers, presenting the interdependence of economic patterns with overall industry financial well-being.

Krishnan (2011) underscored the significance of certain research on Pune, a distinctive market within the broader jewelry sector, to discern jewellers' needs and conditions.

Researchers make use of financial indicators such as profitability ratios, liquidity ratios, and efficiency ratios to examine financial performance (Amanda, 2019).

Research was carried out by Sharma M. L. (2015) on five gems and jewellery companies from 2009-10 to 2013-14 based on their history, development, impact of marginal costing, application of standard costing, activity-based costing, and emerging cost management concepts. The research findings indicated that the studied companies lacked an appropriate cost management system, implemented standard cost systems, and complied with cost standards. Flexible raw material was the largest cost component, and no considerable difference in the cost per unit existed. Recommendations were to enhance profit to sales ratio, average operating profit ratio control, direct labor cost variance control, developing a standard costing system for comparison, and developing cost standards for all the chosen firms.

Effective management of working capital is crucial in the jewellery sector for efficient operations and exploiting growth opportunities (Bowersox, 2013).

A well-rounded knowledge of a jeweller's operational effectiveness, profitability, and liquidity status could be established through an integrated approach considering multiple financial parameters to make a better judgment regarding their financial position (Pandey, 2010).

The weighted average cost method ensures stability in volatile material prices, whereas the FIFO method guarantees accurate representation of value and inventory turnover, as preferred by the industry to account for older jewellery pieces before newer ones, as is the natural course of jewellery businesses (Garrison, 2019). The Weighted Average Cost method is a balanced method of calculating the cost of inventory, particularly in the jewellery industry where the costs of precious metals and gemstones vary (Drury, 2013).

3. RESEARCH OBJECTIVE

To analyze the impact of liquidity management practices on jewellers' financial performance.

4. RESEARCH SIGNIFICANCE

This study is critical to determine the role of liquidity management in financial performance within the jewellery business of Pune, being one of the major centers of trade and craftsmanship. This study offers significant contribution to financial performance of jewellers in highly capitalized and competitive business by investigating their liquidity management systems. With respect to the observation that access to formal finance, credit discipline, and effective structuring of short-term assets are the benchmarks towards sustainability and growth. The findings of this study can assist jewellers in making financially sound decisions. It can assist financial institutions and policymakers in designing short-term innovative credit schemes & financial products appropriate for the industry's changing needs. The importance of this study is the examination of the position of liquidity management as a catalyst for profitability and financial soundness. The research examines the link between successful liquidity methods and better financial performance.

5. RESEARCH HYPOTHESIS

H0: Efficient liquidity management has no significant influence on the profitability of jewellers.

H1: Efficient liquidity management positively influences the profitability of jewellers.

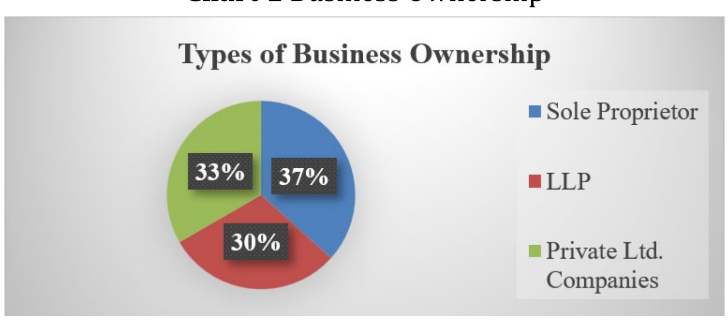
6. RESEARCH METHODOLOGY

- **Type of Research:** Descriptive Research
- **Data Collection:** The secondary data, based on annual financial statements and audit reports, is employed for the study. The Govt. of India, Niti Ayog, IBEF reports, and other research reports and several research papers and articles are also taken into consideration for the present study.
- **Sample Size:** 60 Leading Jewellers across Pune City.
- **Sampling Technique:** Stratified Random Sampling
- **Statistical Test and Software:** Paired Sample T Test, Correlation Analysis, and Descriptive Statistics are employed through SPSS and MS Excel.

7. DATA ANALYSIS AND HYPOTHESIS TESTING

7.1. DEMOGRAPHIC ANALYSIS

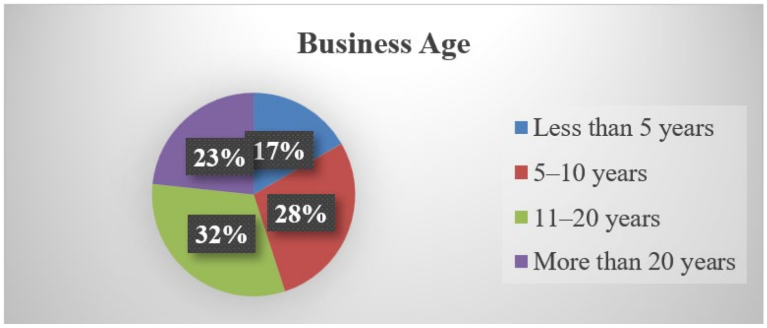
Chart 1 Business Ownership



Source Primary Data

The chart indicates a balanced composition of ownership structures, with sole proprietors remaining in the lead but with increasingly visible LLPs and Private Limited Companies. This is indicative of a slow professionalization and formalization of the jewelry sector in Pune as jewellers require stronger governance systems, protection against liabilities, and better capital access.

Chart 2 Business Age



Source Primary Data

The distribution shows a good mix of both new and established companies, most of which have been in business for more than five years. This suggests that the jewellery industry in Pune is stable and resilient.

7.2. HYPOTHESIS TESTING

H1: Efficient liquidity management positively influences the profitability of jewellers.

Table 1 Hypothesis 1: Test Statistics

Paired Samples Test							
Sr. No.	Paired Sample of Independent Variables (V1 & V2) (Weighted Avg. Values)	Paired Differences			t	Correlation	Sig. (2-tailed)
		Mean Difference (V1-V2)	95% Confidence Interval of the Difference				
			Lower	Upper			
1	Current Assets Weighted Avg. (FY 2010-11 to 2022-23) AND Net Profit After Tax Weighted Avg. (FY 2010-11 to 2022-23)	75824763.51	-71862507.27	2023512034.30	2.107	0.743 Strong Positive Correlation	.004

Source Researchers' Own Analysis on SPSS

The average disparity of ₹7.58 crore signifies that jewellers, on average, possess a substantially greater volume of current assets relative to their net profit after tax. This study suggests that robust liquidity reserves may furnish the financial foundation essential for sustaining profitability, particularly in a capital-intensive sector such as jewellery.

The robust positive correlation ($r = 0.743$) indicates a persistent and significant relationship between liquidity & profit outcomes across the 14-years span. The p-value of 0.004 indicates statistical significance at the 5% level, underscoring the criticality of effective liquidity management.

Since $p < 0.05$, the null hypothesis is rejected, therefore corroborating the study hypothesis. This affirms that effective liquidity management substantially and positively impacts the profitability of jewellers. Maintaining sufficient current assets facilitates working capital management, alleviates financial strain, and enhances long-term financial results.

Jewellers with superior liquidity, evidenced by elevated current assets, generally exhibit more profitability. The statistically significant mean difference and significant association underscore the importance of liquidity efficiency in influencing profitability in the jewellery sector of Pune.

7.3. SUMMARY OF HYPOTHESIS TESTING

Table2 Summary of Hypothesis Testing

Sr. No.	Objectives	Hypothesis	Test Applied	Hypothesis Testing Result
1	To examine the influence of liquidity management practices on the financial performance of jewellers.	Efficient liquidity management positively influences the profitability of jewellers.	Paired Sample T Test (Pre and Post Periodic Analysis of Mean Vs. Weighted Average Means) & Bivariate Pearson Correlation	H1 Supported

Source Researchers' Own Compiled

8. FINDINGS

The hypothesis testing results revealed that efficient liquidity management positively affects profitability. The jewellery firms with well-balanced current assets demonstrates good financial performance, indicating a strong association between liquidity efficiency and profitability.

9. DISCUSSIONS

Effective liquidity management performance was closely related with improved profitability indicating the role of well-managed working capital as a key determinant of financial performance. However, maintaining additional current assets does not necessarily reflect into financial security unless and until it is supported by systematic approach. In addition, it was observed that poor liquidity management leads to increased dependence on short-term borrowings which further results in probable financial risk.

10. CONCLUSION

Research finds that as jewellery firms transform in the face of a difficult economic environment; long-term stability is depends on prudent financial decisions. The key drivers of financial strength are liquidity policies and less dependence on short-term borrowings. These findings have practical implications for jewellers, financial advisors, and policymakers interested in promoting the gem and jewellery industry in Pune and other regional economies.

CONFLICT OF INTERESTS

None.

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