



# Role of working capital management in sustainable growth of Indian enterprises: a comparative perspective with SBI and HDFC bank

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## Abstract

Liquidation, efficiency and sustainable growth of Indian enterprises in the emerging markets are crucially dependent on the Working Capital Management (WCM). The research investigates the impact of WCM on sustainable growth of enterprise in India and also compares the facilities of financial assistance for both the banks like State Bank of India and HDFC Bank.

This study is descriptive-analytical with the secondary data sources which are the policy and banking documents, and existing literature. It evaluates the implications of working capital financing using various methods such as cash credit, overdraft, bill discounting, supply chain financing, and their advantages in cash flow management and enhancing business operations. The research demonstrates that the State Bank of India has a crucial function in promoting inclusive growth by providing credit facilities at affordable prices to MSMEs and rural businesses while also HDFC Bank's emphasis on efficiency and innovation, with its technology-driven financial services and its commitment to faster credit disbursement processes.

The study reveals that efficient WCM combined with robust banking support enhances liquidity, financial stability, resource allocation and profitability, which in turn, ensures sustainability. However, credit factors like cost of credit, credit delay and availability of credit are restraining as far as effective management of working capital is concerned. The research suggests that a holistic approach with a mix of effective internal WCM and dynamic and innovative banking support is crucial for sustainable growth of enterprises in India.

**Keywords:** Working capital management, Sustainable growth, Indian enterprises, Banking sector, MSMEs, Financial performance

## Introduction

Working Capital Management is a crucial area of financial management that involves the efficient management of short-term assets and liabilities to ensure the company's financial stability and liquidity. It involves the control of cash, receivables, inventories and payables, balance between returns and risks. In the rapidly evolving world of business, having a WCM that is not just a business survival tool, but one that can also improve financial results and sustainability is essential.

Sustainable growth is when companies can grow without compromising financial health and their reliance on an excessive amount of outside financing. A vital element of achieving sustainable growth via the improvement of cash flow, cost of finance and efficiency is good WCM. But WCM can turn inefficient and also lead to cash flow problems,

heavy loans, financial instability and the like, thus restricting growth.

For India, WCM is especially important given the prominence of the MSME sector, accounting for almost 30% of GDP and 45% of exports. It is an important factor of economic development, but there are issues with delayed payments, and lack of access to institutional credit as well as financial management. This makes bank credit an important component of the working capital of MSMEs. The latest figures show that bank credit growth continued to be robust at 12-14% in 2024-2025, indicating an increased need for short-term finance in the economy.

## Comparative overview: working capital perspective (2024–2025)

Basis	State Bank of India	HDFC Bank
Total Advances	~₹42 lakh crore	~₹26 lakh crore
Credit Growth	~12–14% (higher expansion)	~8–12% (moderate growth)
Net Interest Margin (NIM)	~2.9–3.0%	~3.3–3.5%
Return on Assets (ROA)	~1.1%	~1.9%
Gross NPA	~1.8–2.0%	~1.3%
Customer Base	50+ crore	9+ crore
Branch Network	23,000+	9,000+
Working Capital Focus	Credit accessibility & inclusion	Efficiency & optimization
Lending Approach	Broad-based (MSME, rural, priority sectors)	Selective, risk-based, tech-driven

The above comparison shows that the SBI's Working Capital Facilities (WCF) to the vast business community leads to inclusive growth whereas HDFC Bank's thrust is on working capital management with innovative financial solutions and risk management systems. Both the strategies are essential for promoting economic growth in India and in the long run.

It is the case with banks when they are dealing with credit products like cash credit, overdraft, trade finance and supply chain finance that their working capital financing is important. State Bank of India and HDFC Bank are the two leading banks in India, which have unique approaches to working capital management. SBI is more pro-poor, banker for financial inclusion and HDFC bank is more pro-efficiency, pro-technology and risk based approach.

Moreover, the nature of the working capital financing has been transformed by the latest e-banking, fintech incorporation and AI credit scoring innovations. This has resulted in improved credit access, lower transaction costs and improved transparency. However, availability of credit facilities for small businesses, financial inclusion and high interest rate are the weak points that hinder efficient use of working capital facilities.

The present study aims to analyse the working capital management process and find out the path of sustainable growth of the enterprise in India with comparative analysis of SBI and HDFC Bank. The aim of this study is to provide a comprehensive picture on the role of working capital management supported by a banking system in sustainable growth by analyzing the financial ratios, credit practices and institutional factors.

### Objectives of the study

- To study the importance of Working Capital Management for the liquidity, profitability and efficient working of Indian industries.
- To examine the role of working capital management on sustainable growth of the listed firms of Indian context.
- To assess the contribution of banking sector in source of working capital finance in different credit instruments.
- To compare the performance of State Bank of India and HDFC Bank in terms of working capital financing and efficiency.
- To suggest the measures to enhance the working capital management in order to achieve sustainable growth in Indian enterprises.

### Literature review

Smith (1980) highlighted the importance of proper Working Capital Management (WCM) in the company as it should be linked with the liquidity and profitability of the company. The companies will be able to maintain financial stability and efficiency by managing their current assets and current liabilities, according to Smith.

It is important to manage a firm's short assets correctly and in concert with its short-term liabilities, as done by Weston and Brigham (1981), for a proper business operation and long-term financial health. Their study underlined the importance of

working capital management in the financial management in general.

It was ensured that cash conversion cycle and profitability have a strong negative relationship based on the Deloof (2003) research. The study revealed that those companies that were able to recover faster cash from the receivables and inventory management were more profitable.

The researchers Dong and Su (2010) also agreed that company's management working capital positively is associated with the profit performance and working efficiency and it reduces the requirement of external financing.

Sharma and Kumar (2011) have studied the Indian companies and found that there is a negative correlation between cash conversion and profit. They found that companies with efficient working capital cycle have better financial performance in an Indian corporate environment.

Kaur and Singh (2013) observed that the net worth ratio & days sales outstanding (DSO) of manufacturing companies in India has a significant impact on the profitability. They proved that inventory and receivables management (IRM) is one of the key factors that can contribute to the maximization of working capital efficiency.

Yet, effective and efficient working capital policies could benefit the firm value in emerging economies as Nazir and Afza (2013) demonstrated. They identified the relationship between risks, liquidity and profitability.

Public sector banks are very important in mitigating credit constraints and enhancing financial inclusion in developing economies, as explained by Banerjee and Duflo (2014). Their study pointed out the significance of institutional credit in the case of Small Businesses and MSMEs.

Enqvist et al. (2014) emphasized that during times of economic downturns, working capital acts as a buffer in the economy and thus has even more significance during the periods of uncertainty and crisis.

Banos-Caballero et al. (2014) conclude that there is a non-linear relationship between working capital and profitability. The study has suggested that there should be an optimum level of working capital in the companies as the working capital increases, that is the current assets, a decrease in the profitability is observed.

Pandey (2015) mentioned the poor cash flow planning and late payments by customers are one of the working capital inefficiencies experienced by Indian businesses. Indian enterprises faced the problems with regard to liquidity management was highlighted in the study.

Tran, Abbott and Jin (2017) have determined that businesses with good WCP can create more value in the future and perform better. They also identified a positive relationship between working capital efficiency and companies' sustainability.

Singhania and Mehta (2017) pointed out that the serious issue of liquidity constraint is witnessed in Indian MSMEs due to low access to formal credit and lack of bargaining power in their value chains.

Chaklader and Shrivastava (2018) also suggest that lack of institutional credit will affect the sustainability and growth prospects of MSMEs in India.

Based on the above, Aktas et al. (2018) found that the companies that have a tight working capital policy, have less risk of financial distress and are more sustainable companies in the long-term.

Rajan and Zingales (1998) propose a framework to tackle the current credit availability problem that small businesses in developing countries such as India are facing, thus suggesting the financial constraints framework. Their framework is still very relevant when it comes to comprehend the financial constraints in MSME financing.

According to Kumar and Sharma (2019) private sector banks are more profitable than public sector banks in India and also asset quality and risk management efficiency of private sector banks is better.

Verma and Gupta (2020) also found that operational efficiency and discipline of credit of private sector banks is better compared to that of public sector banks.

Arora and Kaur (2021) pointed out that digital lending platforms and AI-driven credit scoring tools have greatly enhanced the availability of liquidity to businesses and boosted the efficiency of working capital financing.

Fintech, chain financing and invoice financing have shrunk the working capital period which has helped the firms to manage their cash flow better, said Ghosh (2022).

Commercial banks are an important player in enterprise sustainability and economic growth as highlighted by the Reserve Bank of India (RBI, 2024) in the context of working capital credit which is one of the important components of commercial bank credit and one of the major sources of credit for MSMEs.

The results of the research studies reviewed indicate that good Working Capital Management (WCM) is good for profitability, liquidity, operational efficiency and sustainable growth. It has also been observed that public sector banks like State Bank of India are more inclined towards financial inclusion, easy availability of financial facilities while private sector banks like HDFC Bank are more inclined towards technology based banking, efficient and risk centric financial services. But there is huge research gap to develop insight into how such banking practices affects the working capital efficiency of Indian enterprises with an emphasis on MSME's and sustainable growth of enterprises.

### Research methodology

The present study is based on descriptive type of research method and analytical type of research, in analyzing sustainable growth of Indian enterprises with respect to implementation of WCM and comparative study of State bank of India and HDFC Bank. The study mainly carried out the use of secondary data sources which include reports of SBI, HDFC bank, Reports of RBI, Research Journals, articles, banking Publications and financial documents. The key issues in working capital management problems are Cash management, Receivables, Inventories, Payables and short-term financing. It

also deals with different banking products and services like cash credit, over-draft, discounting of Bills, trade finance and financing of the supply chain which helps the businesses to meet their day-to-day requirements and needs in terms of liquidity. The banks have been compared based on the following: Comparative Analysis, Ratio analysis and Trend analysis (Total Advances, Credit growth, Net Interest margin, Return on Assets, Gross NPA, number of customers, working capital lending approach). This study aims at exploring the contribution of effective working capital management and banking support towards improving the liquidity and profitability of the Indian enterprises, specifically MSMEs and their sustainable growth, financial stability and stability in the working capital. The study also explores the impact of digitization of banking, fintech and AI credit system on the working capital financing model in India.

### Findings of the study

- The study concludes that, a good WCM is crucial in ensuring the development of liquidity, profitability, efficiency and sustainable growth of Indian enterprises. With the appropriate cash, receivables, inventories and payables, the business will have cash flow, less need for extra financing, optimum utilization of assets and financial stability in the competitive business environment. Businesses with proper management of their working capital can manage economic uncertainties and can grow and develop the business well in the long term with ease.
- From the Comparative Analysis, it is concluded that SBI has been making a significant contribution towards financial inclusion and credit accessibility of the country. SBI is the biggest institution and offers huge working capital finance to the various priority sectors, rural businesses, agriculture and MSMEs with a total disbursement of ₹42 lakh crore, as many as 23 crore branches and more than 50 crore customers. It has a wide-ranging lending policy and offers credit facilities which facilitate inclusive economic growth, but are somewhat less efficient than that of private sector banks and have a comparatively longer turnaround.
- The study also uncovers the working capital financing system which is technology oriented and efficient in the usage of working capital in HDFC Bank. The "total advances" of the HDFC Bank are nearly ₹26 lakh crore, Gross NPA levels have been reduced, ROA is good and its Net Interest Margin (NIM) is good, which signifies its operational efficiency and profitability. The bank emphasises the excellent quality of the customer services such as risk-based lending, digital banking services, AI-based credit assessment and the speed of disbursal that improves the efficiency of credit management.
- The research points out that India's working capital financing has been profoundly impacted by advances in technology, including digital banking, integration with fintech, e-banking, credit scoring with AI, online payment systems, invoice discounting, and supply chain financing. Such innovations have contributed to greater transparency

in financial transactions, reduced transaction costs, accelerated the credit provision process and increased financial resources for working capital financing available to enterprises, especially in the context of the evolution of digital financial services over the past few years.

- The study reveals that though the support from the banks and technological developments has grown more, some issues have remained which need to be solved in order to have effective working capital management. Delayed receivables, high borrowing rates, low institutional credit availability for MSMEs, increase in financial risk and financial management issues etc. continue to impact MSMEs and other businesses. Therefore the study suggests that, India's enterprises can sustain their growth and financial stability in long run with the effective utilization of working capital, effective banking system and innovative and technology driven banking system.

### Discussion

The outcomes of the study clearly reflect that the Working Capital Management is an integral part of maintaining the liquidity, profitability and sustainable growth of Indian enterprises. A good short-term asset management and short-term liability management will ensure that companies have a good control over their cash flow, minimize financial risk and boost the performance of companies. The results obtained by the present study are similar with the results gained by Deloof (2003), Sharma and Kumar (2011) and Nazir and Afza (2013) who had found that working capital efficiency is positively related to firm's profitability. A good control of the management of receivables, inventory, cash and payables can lead to a long-term financial stability and expansion of a well-managed enterprise.

The study also uncovers that with bank financing, funding of working capital requirement of Indian enterprises and MSME's has been gaining importance. SBI now has a major role to play in financial inclusion by disbursal of credit facilities to the various priority sectors in an accessible and affordable manner to the agricultural and MSME sector of the rural population. It has a broad network of branches and a broad lending policy which makes it possible for businesses that may be less likely to be able to access institutional finance. This is in keeping with the developmental function of the public sector banks in inclusive economic growth in India. Meanwhile, the banking system has been one of the efficient ones and has proved to be a technology savvy one that is helping the public. Higher profitability, improved asset quality, reduced Gross NPA and quicker credit disbursement are indications of better operating efficiency and better risk management practices. The bank's digital banking service boosts transparency, speed and convenience of working capital financing with AI-powered integration with fintech systems and credit evaluation. The results reveal that the concept of innovation and technological advancements is gaining more significance in the banking sector.

The discussion also shows that the Indian banking sector has drastically changed from 2012 to 2025 with the digitalization

and advancement of fintech. The transaction cost of e-banking and online payment systems, supply chain financing, digital lending platforms are lowered and credit is made more accessible. The developments have come in handy especially for the business with regard to speedy and improved financial transactions and liquidity management. Although these enhancements have been made, there are still a number of structural problems.

The study reveals that the delayed receivables, high interest rate charged on borrowings, limited access to credit and poor financial management practices are the biggest challenges encountered by proper working capital management particularly for the MSMEs. Many small businesses are still making substantial use of short-term borrowing facilities which are readily available and at a high rate. The credit facilities are still not readily available at the institutional level to accelerate the credit facilities. This has an impact on their efficiency in operation and on their possibilities for sustainable growth.

Last but not the least, effective working capital management and financing from the banking system would ensure sustainable growth of Indian enterprises. SBI brings in a contribution in Financial Inclusion and access to large scale credit while the HDFC Bank brings in contribution of efficiency, innovation and financial services with technology. Both play a key role in the development of the Indian economy and of enterprise growth in the changing financial landscape in the longer term.

### Limitations of the study

- It is a secondary study as information is derived from annual reports, RBI publications, journals and published sources and the accuracy of the study would depend on the reliability of the sources from where the information is being taken.
- It is the study of only two banks; State Bank of India and HDFC bank may not be able to give an accurate picture of the overall banking sector in India.
- The outcome of this research could be applicable to future periods, but could be subject to economic changes, banking policy and financial regulation in the future.
- The research mainly covers the overall level indicators of working capital management and banking performance, without detailed primary information of the enterprises or MSMEs on the level of the firm.
- Other determinants, including inflationary pressures, fluctuations in the market, the government policy, the state of the economy on a global scale, and technology can also impact working capital management and sustainable growth but are not explored in this study.

### Conclusion

The study revealed that the role of Working Capital Management is significant in order to attain liquidity, profitability, operational efficiency and sustainability to the Indian enterprises. Effective controlling of cash, receivables and inventories and payables ensures that companies can keep

cash flow smooth, minimise financial risk and enhance long term financial stability. In India, working capital management is important for MSMEs because they have a high dependence on short-term loans for their operations, expansion, and other short-term requirements. Analysts also conclude that the technological advancements in working capital finance like digital banking, integration of fintech, increasing the use of AI in credit assessment and supply chain finance have made significant improvements in the access to working capital finance and efficiency in banking operations.

On comparing the State Bank of India and the HDFC Bank, it is noted that both of the banks contribute towards the sustainable growth in various ways. While SBI has financial inclusion as a critical priority in terms of providing higher credit access, priority sector lending and MSMEs and rural business support, HDFC Bank has optimisation, technology, speed and efficiency while providing credit as a priority with improved risk management practices. But problems like delayed receivables, higher lending rates and less availability of institutional credit still impact the effective management of working capital. Therefore, for sustainable growth and long term financial stability of Indian enterprises, an ideal combination of effective internal financial control and banking innovation is essential, on which this study has recommended.

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