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WORKING CAPITAL MANAGEMENT IN INFORMATION TECHNOLOGY COMPANIES IN INDIA:

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Abstract:

Today's financial management, specifically the management of and control of working capital, needs huge attention and it is a difficult task due to the existence of a high portion of working capital in a business. The administration of current assets which has an accounting year to convert into cash and current liabilities which is payable within a year and the relationship among the two may be considered as working capital management.

Proper implementation of financial management specifically working capital management is vital for the success of firms. Inefficiency in the financial management of a given firm may harm its performance current liabilities and assets. Previously, many studies were made on the impact of working capital management on the company's performance in different sectors; however, its impact on the performance of firms that are engaged in IT activities was not given any consideration and this particular study has attempted to investigate the fundamental impact of working capital management on the export firm's performance

Key words: financial management in IT companies, Working Capital, Profitability

Introduction

This is a study conducted to focus on the short term financial management or working capital management. Working capital refers to that partof the firm's capital which required for financing short term or current asset. Adequate amount of working capital is required by the firm in the form of different activities to continue uninterrupted and to tackle problems that may arise. Financial viability structure and utilization of working capital in the company is analyzed.

The study is mainly based on the secondary data. Ratios and statement of changes in working capital are the tools used for the study. The interpretations are summarized and suggestions are provided based on it.

Working Capital Management is an important component of Corporate Financial Management. It is the relationship between current assets and current liabilities. Management of working capital is important to carry the routine activities of a firm. The objective behind working capital management is to ensure continuity in the operations of a firm and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses. It mainly involves management of inventories, accounts receivables, accounts payables and cash. The basic theme of working capital management is to provide adequate support for smooth and efficient functioning of day to day business operations by striking a trade between the three proportions of working capital. They are liquidity, profitability and risk.

Need for the Study:

In today's business environment, firms needed an adequate resource to assure the going concern of their business activities, and the resources are optimally employed to improve the overall performance impact of working capital management on the performance of firms has been investigated by many investigators.

Review of Literature:

Working capital management refers to a company's managerial accounting strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The primary purpose of working capital management is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.

Working Capital Management (WCM) is considered to be one of the most important areas of financial management which has attracted the attention of financial managers, academicians and researchers to investigate its impact on firm's performance (e.g., Abuzayed, 2012; Deloof, 2003;

Raheman et al., 2010; Raheman & Nasr, 2007; Ukaegbu, 2014; Vural et al., 2012). WCM is essential to all companies operating in developed and developing countries. Efficient working capital management enables firms to react quickly and appropriately to unexpected market changes.

Objectives of the Study:

The main objective of this empirical study is to examine the impact of working capital management on the performance of selected IT companies in India. Considering the main objective, the following are the specific objectives for this investigation:

(i) To examine the working capital management on the performance of selected IT companies in India

(ii) To examine the impact of the cash conversion cycle on IT firms' performance

(iii) To examine the impact of Current ratios on IT firms' performance

(iv) To examine the impact of Working capital on IT firms performance

Hypothesis:

Ho: there is no impact of account working capital management on the performance of selected IT companies in India on firms' performance

H1: there is no impact of account working capital management on the performance of selected IT companies in India on firms' performance

Research Methodology:

The initial sample consists of selected IT companies drawn from Prowess IQ database. Financial firms and other nonmanufacturing firms were not included in the initial sample because they have a different capital structure. The following criterion is set for any company to be included in the sample:

- A company must belong to the IT sector.
- A company must belong to a state that is represented by enough number of companies for running the analysis.

CALCULATION OF WORKING CAPITAL

The net working capital formula is calculated by subtracting the current liabilities from the current assets. Here is what the basic equation looks like**:**

- **Net working capital = current assets - current liabilities**

Concepts based working capital

1. **Gross Working Capital**: It refers to the firm's investment in total current orcirculating assets.
2. **Net Working Capital**: The term –Net Working Capital‖ has been defined in two different ways:

1) It is the excess of current assets over current liabilities. This is, as a matter offact, the most commonly accepted definition. Some people define it as only the difference between current assets and current liabilities.
2) Alternate definition of net working capital is that portion of a firm's currentassets which is financed by long-term funds.

NEEDS FOR WORKING CAPITAL

Working capital is needed till a firm gets cash on sale of finishedproducts. It depends on two factors:

1. Manufacturing cycle i.e. time required for converting the raw material intofinished product.
2 Credit policy i.e. credit period given to Customers and credit periodallowed by creditors.

Thus, the sum total of these times is called an –Operating cycle‖ and it consists of the following six steps:

a. Conversion of cash into raw materials.
b. Conversion of raw materials into work-in-process.
c. Conversion of work-in-process into finished products.
d. Time for sale of finished goods—cash sales and credit sales.
e. Time for realization from debtors and Bills receivables into cash.
f. Credit period allowed by creditors for credit purchase of raw materials,inventory and creditors for wages and overheads.

DETERMINANTS OF WORKING CAPITAL

The factors influencing the working capital decisions of a firm may beclassified as two groups, such as

I. Internal factors
II. External factors

The internal factors include

1. Nature of business size of business,
2. Firm‘s product policy
3. Firm‘s credit policy
4. Availability of credit

Financial ratio analysis groups the ratio into categories which tell us about different facets of a company‘s finances. Some ratios which are most importance are listed below

1. Liquidity Ratio.
2. Leverage Ratio
3. Profitability Ratio.
4. Activity Ratio

LIQUIDITY RATIO

Liquidity refers to the ability of the concern to meet its current obligationsas and when they become due. These ratios are calculated to comment upon the short term paying capacity of the concern or the firm‘s ability to meet its currentobligations. Much insight could be obtained into the present cash solvency of the firm and its ability to remain solvent in the event of emergent i.e. the firm should ensure that it does not suffer from any lack of liquidity and also that it is necessary to strike a proper balance between high liquidity and lack of liquidity.

The various liquidity ratios are:

- **Current Ratio**

Current ratio may be defined as the relationship between current assets and current liabilities. This ratio is also known as working capital ratio, is a measure of general liquidity and is most widely used to make the analysis of a short term financial position or liquidity of a firm. It is calculated by dividingthe total of current assets to the total of current liabilities.

Current Ratio = Current Assets / Current Liabilities

- **Liquid Ratio**

It is also known as acid test ratio. Liquid ratio is more rigorous test of liquidity than the current ratio. The term liquidity refers to the ability of a firmto pay its short term obligations as and when they become due. An asset is said to be liquid if it can be converted into cash within a short period without loss of value. Liquid ratio may be defined as the relationship between liquid assets and current liabilities.

Liquid Ratio = Liquid Assets / Current Liabilities

- **Absolute Liquid ratio**

Some authors are of the opinion that the absolute liquid ratio should also be calculated together with current ratio and acid test ratio so as to exclude even receivables from the current assets and find out the absolute liquid assets.

Absolute Liquid Ratio = Absolute Liquid Assets / Current Liabilities

LEVERAGE RATIOS

The short term creditors like the bankers and the suppliers of the raw materials are more concerned with the firm‘s current debt paying ability. On the other hand long-term creditors like debenture holders, financial institutions, etc are more concerned with the firm‘s long term financial position. To judge the long term financial position of the firm, financial leverage or capital structure ratio is used. The shareholders, debenture holders and other long term creditors like financial institutions are more interested in the long term financial position or long term solvency of the firm. Leverage or solvency ratios are used to analyze the capital structure of a company; it is also known as capital structure ratios. The term solvency generally refers to the firm‘s ability to pay the interest regularly and repay the principal amount of debt on due date.

Accordingly, there are two types of leverage ratios. The first type of leverage ratio is based on the relationship between owned capital and borrowed capital. These ratios are calculated from the balance items. The second type of leverage ratio is coverage ratio. These are computed from profit and loss account.

- **Debt-equity ratio**

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Debt-equity ratio is also known as external-internal equity ratio. It is calculated to measure the relative claims of outsiders and the owners against the firm's assets. This ratio indicates the relationship between the external equities or the outsiders fund and the internal equities or shareholders fund.

Debt-equity ratio = Outsider's fund / Shareholders fund

Primarily Interpretation of this ratio depends upon the financial policy of the firm and the firm's nature of business. A ratio of 1:1 may be usually considered to be satisfactory ratio although there cannot be any rule of thumb or standard norm for all types of business.

Data Analysis:

Table. 1 Variable Formulas and Abbreviations:

Variables	Abbreviation	Measurement
Dependent Variable		
Return on Assets	ROA	Net income/ Total Assets
Independent Variable		
Average Collection Period	ACP	(Account Receivables/Net Sale)* 365
Inventory Conversion Period	ICP	(Inventory/ Costof Sales)*365
Average Payment Period	APP	(Account Payables/Cost of Sales)*365
Cash Conversion Cycle	CCC	ACP+ICP-APP
Debt Ratio	DR	Total Liabilities/Total Assets
Current Ratio	CR	Current Assets/Current Liabilities
Control Variable		
Firm Size	Size	Natural Logarithm(Total Assets)
Sales Growth	Growth	(Sales t – Salest-1)/ Salest-1

For evaluation of profitability and working capital management of the selected companies the different statistical tools such as, Regression analysis, multiple regression analysis, Correlation analysis, T test, F test and analysis of variance (ANOVA) and Descriptive Analysis are used. Working capital plays a vital role in the organization's operations and requires the efficient management. The management of working capital concerns the management of money, inventories, accounts receivable and accounts payable. It is necessary for an organization to monitor its working capital properly and maintain its balance at appropriate level. Shortage of working capital may lead to lack of liquidity as well as loss of production and sales.

Table. 2 Descriptive Analysis

Variable	Mean	Median	SD	Min	Max
ROA	0.074	0.075	0.077	-0.107	0.258
ACP	142	115	118	11	452
ICP	106	88	92	0	501
APP	21	13	24	0	93
CCC	226	205	151	15	618
Debt Ratio	0.24	0.20	0.18	0	0.60
Current Ratio	1.23	1.26	1.03	0.098	4.03
Firm Size	3.06	2.60	1.11	1.86	4.33

As per the above table, mean value of firms return on assets is 7.44 percent of total assets with median value 7.95 percent and standard deviation value is 7.75 percent. It implies that estimation of productivity can fluctuate from intend to both sides by 7.44 percent. Its minimum value is -10.75 percent while maximum is 25.85 percent. Average Collection Period (ACP) is use for a measurement of collection policy. ACP average value is averaged to 142.08 days for the sampled firms. The interpretation for the average of the Average

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Collection Period is that, organizations in the sample wait 142.08 days on average to collect cash from credit sales. The minimum and the maximum value of ACP for the sampled firms are 11.05 and 452.47 days respectively.The Inventory conversion period is use as proxy for inventory policy. The average value of inventory conversion period is 105.69 days. This means, firms in the sample needs on average 105.69 days to sell inventory. As it is demonstrate in the above table, the standard deviation of inventory holding period is 92.27 days. To the sample firms the inventory holding time frame ranges between zero and 501.37 days as minimum and maximum values respectively.

Table: 3 Current Ratio

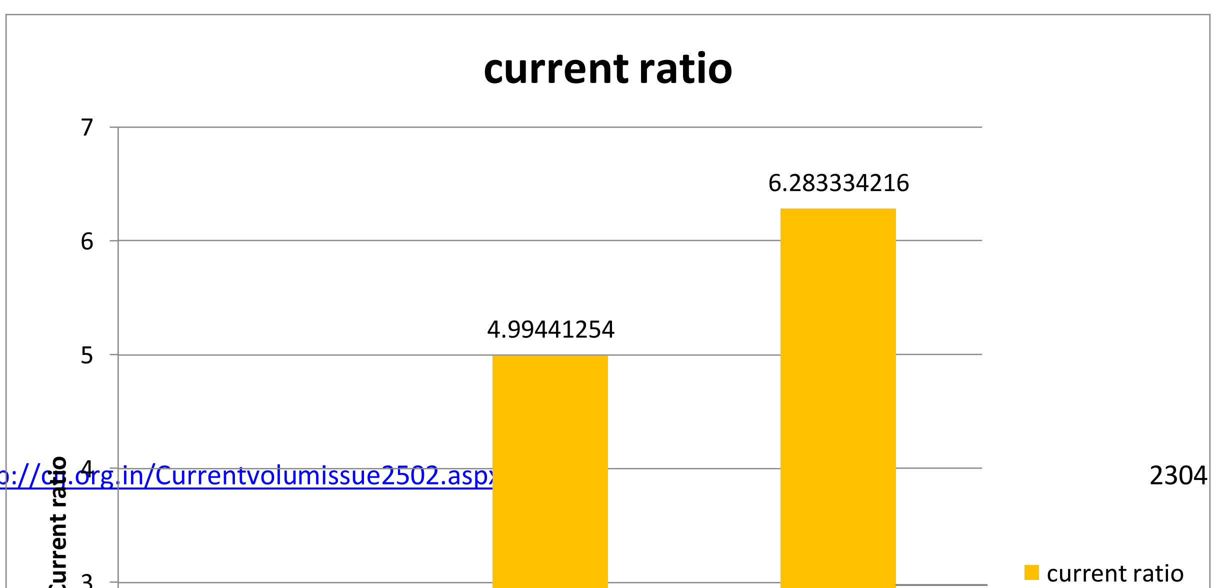
Year	Current assets	Current liabilities	Current ratio
2018-19	1220002	504148.9	2.41
2019-20	1307987	261890	4.99
2020-21	2089140	332489	6.28

Source: balance sheet of Company

ANALYSIS

From the above table, we can observed that current ratio in 2018-2019 it is 2.41,in 2019-2020 it is 4.99, in 2020-2021 it is 6.28. This is higher than ideal ratio. The ideal value of current ratio is 2:1

CHART NO: 1 CURRENT RATIO



INTERPRETATION

The chart shows that current ratio in 2018-2019 is 2.41, in 2019-2020 it is 4.99 and in 2020-2021 it is 6.28. The current ratio of all the above three years is above the standard, so the society can meet its short term obligation. Thecompany is able to generate enough from operations to pay for its current obligations with current assets.

Table: 4 Net profit ratio

Year	Net Profit	Net sales	NP ratio
2018-19	624187.8	1293793	48.24%
2019-20	713099	1474486	48.36%
2020-21	967525.8	1717079	56.34%

Source: balance sheet of the Company

ANALYSIS

From the above table, we can observed Net profit ratio in 2018-2019 it is 48.24%, in 2019-2020 it is increase to 48.36%, and in 2020-2021 again it is increase to 56.34% . From this study it is concluded that maintaining efficient level of working capital is very important not only for telecom sector for all other sector as well. The result of study shows that there is significant relationship between profitability and working capital management.

CONCLUSION

The study conducted on working capital management Skillmate Pvt Ltd gives a view of assessing the performance of working capital management of the society by analyzing the financial data with the help of ratio analysis.

During the period of study, there were a few up and downs in the working capital and ratio analysis it will affect the operations of the society but it is observed that the overall financial position is good. The Skillmate Pvt Ltd. resources utilization has been very low. The society has totake necessary steps to utilize current asset for improve profitability. It is anticipated that the profitability will improve in the coming years. Based on the analysis and interpretation I tried to give my findings and suggestions for the company as per my best knowledge.

The company should concentrate on the current ratio by utilizing current asset for productive purpose in order to achieve the standard ratio.

The society should take necessary steps to make use of the quick asset for the development of the society and should balance with the standard ratio.

Current assets turnover ratio is fluctuating. It‘s not good for society so in orderto increase the current assets turnover ratio a society need to increase its sales.

Gross profit ratio is not stable. So in order to increase the gross profit the companywants to increase the production.

The working capital turnover ratio is decreasing year by year. It is not good for the society so in order to increase the working capital turnover the society needsto increase its sales.

There are several research areas for further research purpose. One of research area is to focus on the financing or working capital and how to corporations can optimize the capital mix to ensure maximal liquidity. Another topic we can do surveyis to study non listed companies as well other sectors of companies. Also details study about the specific topic working capital management couldadd more value.

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