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ANALYSIS OF WORKING CAPITAL MANAGEMENT OF SELECTED INDIAN IT COMPANIES

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Abstract

The two forms of capital, i.e., Fixed Capital and Working Capital, are a must for any form of an organisation to function smoothly. Fixed capital is used to manage expenditures strategic in nature, whereas, working capital is necessary for demands that are for shorter terms. Fixed and Working capitals ultimately shape the efficiency level of business organisation. Working capital, when managed efficiently, assists considerably in elevating profitability levels and profitability is a must to be able to pay returns to the funds of suppliers - specifically, the returns to shareholders. Working capital also shapes the liquidity condition. Achieving effective working capital depends on implementing appropriate supervision on fixed assets, current assets and sale.

Keywords: *Working Capital, IT Companies, India*

INTRODUCTION

Working capital or liquid capital is essentially the oil that keeps the machine running for long time and that too with a smooth functioning of business operations. In a way it assists in revenue maximisation. The role of Financial Manager (FM) is vital in shaping financial decisions pertaining to financing, investing and dividend. A financial manager takes such vital decisions by following an intention of wealth augmentation. With the assistance of various techniques, a FM takes strategically important decisions. A firm has to sustainably maintain an increasing pie of working capital while also bettering sales. It is also supposed to give special attention to managing the necessary working capital by dodging useless block of capital in either forms of current asset while also managing it for the highest advantage of an organisation.

LITERATURE REVIEW

A lot of research has been undertaken for analysing the working capital position of organisations. Vijayakumar (2002) measured the impact of profitability on current ratio, operating expenses to sales ratio and inventory turnover ratio. It came to attention that efficiency in inventory management and current assets are crucial for bettering profitability. Shin and Soenen (1998) mentioned that efficient working capital management is a cornerstone element for generating and maximising shareholders' value. Agarwal (1978) studied the relationship among profitability and total sales of select manufacturing companies in India for the period from 1962 and 1972. Efficient Working capital management assists in gaining better liquidity and profitability standards. Asha (1981) studied the profitability determinants of manufacturing industries in India, via price-cost margin as a profitability measure. Sarvanan (2001) undertook a working capital management study of select non-banking financial companies (NBFCs). The conclusions suggested that the sample firms had attributed much significance to the liquidity aspects as against to the profitability with the assistance of various statistical tools.

IT SECTOR IN INDIA

The IT industry of India rose from the ground to touch the sky with a valuation of $100 billion almost 20 years ago. It is, however, now perceived to be experiencing a tough phase owing to a decline in margins due to global economic uncertainty. The IT and allied services sector of India has scaled and gained prominence via on-time project delivery, in-depth domain expertise, and solidified impression of delivering complex business-centric IT projects. The IT industry of India has gained an exceptional growth trajectory with an estimated $108 billion in 2013 from just $8 billion in 2000. The access to skilled resources at low-cost assisted the IT industry to reach international growth levels. CII report states that new technologies, viz. social media, analytics and cloud

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computing (SMAC) are poised to assist the IT-BPO industry of India to go ahead of $225-billion in revenues by 2020.

RESEARCH METHODOLOGY

Objectives of the study

The main objective of this study is to measure the relationship between the working capital management and profitability of selected IT companies of India.

1. To study the Working capital management efficiency of selected IT companies in India.
2. To analyze the relationship between Working capital and Profitability of selected IT companies of India.
3. To calculate the efficiency, liquidity and turnover ratios of IT companies.

Research design

As we have described impact of working capital management on other financial aspects of the company we have adopted descriptive research design.

Sampling Plan of Research

We have taken top 5 IT companies (ranked by NASSCOM, 2013) of India for our research work study. Our research is based on secondary data. We have obtained financial information from company's annual reports. We have covered time period of five years from the year 2012 to 2018.

Data Analysis Tool

1. Working Capital Ratios in relation to Turn Over and Profitability has been taken into account
2. ANNOVA has been used to know the variance in the means of all various rations of all five companies.
3. Co-relation analysis has been carried out to know relationship between several components of working capital and profitability.

Hypothesis testing

Since the objective of this study is to measure the relationship between Gross working capital to other variables like profit after tax (PAT), total assets and sales following hypotheses were framed

Hypothesis 1:

H0: There is negative relationship among the gross working capital, total assets and sales

H1: There is a significant relationship among the gross working capital, total assets and sales

Hypothesis 2:

H0: There is no significant relationship among the gross working capital, total assets and sales

H1: There is a significant relationship among the gross working capital, total assets and sales

Hypothesis 3:

H0: There is no significant relationship between current assets and profit after tax (PAT)

H1: There is a significant relationship between current assets and profit after tax (PAT)

DATA ANALYSIS

Comparing Averages of Selected Ratios

Table-1 Level of Current Assets

	TCS			Infosys			HCL		
Years	**CA/TA**	**CA/TS**	**PAT/CA**	**CA/TA**	**CA/TS**	**PAT/CA**	**CA/TA**	**CA/TS**	**PAT/CA**
2013-14	81.05	50.45	38.90	87.38	76.95	37.32	77.27	60.91	22.00
2014-15	83.09	54.28	44.34	76.02	80.08	33.99	75.51	56.74	22.08
2015-16	87.01	58.62	41.44	92.17	89.60	28.33	59.98	26.27	39.84
2016-17	55.80	47.17	45.15	79.48	91.08	29.76	43.01	31.67	51.79
2017-18	60.41	50.13	44.07	76.09	89.05	27.85	54.10	50.86	46.79
2018-19	63.90	52.44	44.67	74.44	88.49	25.98	53.11	57.14	62.47
AVG	71.82	52.13	43.14	80.93	85.87	30.54	60.50	47.26	40.83

	Wipro			Tech Mahindra		
Years	**CA/TA**	**CA/TS**	**PAT/CA**	**CA/TA**	**CA/TS**	**PAT/CA**
2013-14	76.78	85.54	28.98	61.09	39.86	58.41
2014-15	71.82	94.37	27.77	36.20	47.65	32.79
2015-16	70.81	95.06	26.25	33.51	40.86	31.75
2016-17	61.90	101.77	21.90	32.02	42.35	49.33
2017-18	69.73	102.84	21.62	34.41	51.50	41.66
2018-19	71.29	99.22	23.91	66.62	64.73	28.72
AVG	70.39	95.92	25.30	43.90	47.83	40.44

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Hypothesis 1:
H0: There is negative relationship among the gross working capital, total assets and sales
H1: There is a significant relationship among the gross working capital, total assets and sales
Above table shows that IT companies maintain major portion of their total assets in the form of Current Assets. First two ratios can be considered for measuring efficiency level of companies and later one can be considered for profitability.
Current assets to total assets are decreased in case of TCS and Gross Working Capital position is more consistent in Infosys compared to other IT companies. Table is also showing that companies have efficient financial team in managing the working capital which in turn leads to improvement in their sales. In this scenario Wipro's performance is good and consistent compared to other companies. Secondly it shows relation between profitability and working capital. It is good and showing positive sign in all the years for all the companies. Profit and working capital ratio is increased from year to year and the ratio is more consistent in TCS and Tech Mahindra.

Comparing Means of various Rations Based on Sales and Current Assets
Hypothesis 2:
H0: There is no significant relationship among the gross working capital, total assets and sales
H1: There is a significant relationship among the gross working capital, total assets and sales
We can conclude that H0 can be rejected and H1 can be accepted by saying that there is a significant relationship among gross working capital, total assets and sales ratios. And efficient management of working capital results in positive profitability position.

Table-2 ANNOVA analysis

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	35004.34	12.00	2917.03	29.59	**0.00**	1.90
Within Groups	6408.03	65.00	98.59			
Total	41412.37	77.00				

As p value of ANNOVA analysis is less than 0.05 we can conclude that there is significant difference in variance in means or ratios rating to current assets amongst Sample Company. Thus we can conclude that H0 is rejected. We further conclude that though working capital management practice is similar in sample companies but there is different impact of working capital on efficiency of the company and profitability of the company.
Correlation Analysis
Hypothesis 3:
H0: There is no significant relationship between current assets and profit after tax (PAT)
H1: There is a significant relationship between current assets and profit after tax (PAT)

Table - 3 Correlation Analyses

Relationship of Various aspects of Current Assets	**TCS**	**Infosys**	**HCL**	**Wipro**	**Tech Mahindra**
Sales to Assets	0.995	0.995	0.784	0.962	0.940
Sales to CA	0.989	0.995	**0.481**	0.994	0.999
TA to CA	0.970	0.989	0.855	0.982	0.942
Profit to CA	0.998	0.985	0.879	0.962	0.976

This table shows positive relationship between dependent and independent variables.
Pearson's correlation is used to measure the relation between two variables i.e. Gross working capital and total assets, Gross working capital and total sales and Gross working capital and Profit After Tax (PAT).
Asset turnover ratio is more in all companies except in HCL, which shows their effective utilization of available assets in improving sales. And also shows positive co-relation. Sales to currents assets correlation shows companies capacity in effective utilization of current assets.
Services industry like IT companies usually includes short term investment, trade receivables, short term loans and advances, cash and bank balances as their current assets. And it is the responsibility of financial manger to cautiously control components of current assets.
Apart from HCL all the companies result shows the significant relationship between sales and current assets. Positive relationship can be observed even in profit to current assets in all the companies
Thus we can conclude that Ho can be rejected and H1 can be accepted.
It can be concluded that efficient management of working capital results in positive profitability position.

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CONCLUSION

The study helped in analysing the liquidity, efficiency and profitability relationship of selected IT companies in India. Important ratios are used to measure their efficiency level. This study clearly shows that how effectively IT service industry is managing their working capital position. Efficient working capital management is essential irrespective of the nature of the industry.

Even though the practices of the IT companies for working capital management are similar in nature the average ratios of different IT companies under sample showing significant difference. So we can conclude that impact of working capital management on different companies is different.

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