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ANALYSIS OF WORKING CAPITAL MANAGEMENT OF SELECTED INDIAN IT COMPANIES

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ABSTRACT:

Any type of business organization requires two types of capital namely fixed capital and Working capital. Fixed capital is required to meet long term expenditure and working capital is required for short term demands. Both capitals determine efficiency level of business organization. Better working capital management helps in increasing profitability position and profitability is essential to pay returns to the supplier's funds, majorly returns to shareholders. It also determines liquidity position. Effective working capital management can be achieved through appropriate supervision over fixed assets, current assets and sale.

KEYWORDS: *Working Capital, IT Companies, India.*

INTRODUCTION

Working capital is also known as liquid capital and it acts as a lubricant in smooth functioning of business operations. In turns it helps in maximization of revenue. Financial Manager plays a vital role in taking financial decisions like financing, investing and dividend. He takes these decisions by considering an objective of wealth maximization. With the help of different techniques he takes effective decisions. Firm has to maintain more working capital with improvement in sales. It has to take special attention in managing required working capital by avoiding unnecessary block of capital in any form of current asset and at the same time to mange it for the maximum benefit of an organization.

LITERATURE REVIEW

Considerable number of research has been made to analyse the working capital position of the organizations. Vijayakumar (2002) measured the effect of profitability on current ratio, operating expenses to sales ratio and inventory turnover ratio, it was stated that efficiency in inventory management and current assets are essential to improving profitability. Shin and Soenen (1998) stated that efficient working capital management is an essential element in creating and maximizing value of shareholders. Agarwal (1978) examined the relationship between profitability and total sales of selected Indian manufacturing companies for a period between1962 and 1972. Efficient Working capital management helps in achieving better liquidity and profitability position. Asha (1981) studied the determinants of profitability of India manufacturing industries, using price-cost margin as a measure of profitability. Sarvanan (2001) conducted a study on working capital management of selected nonbanking financial companies. He concluded that the sample firms had placed more importance upon the liquidity aspect compared to that of the profitability with the help of several statistical tools.

IT SECTOR IN INDIA

India's IT industry which grew from nothing to $100 billion in 20 years ago, is perceived to be passing through a tough phase given the declining margins amid global economic uncertainty. The IT and allied services sector, has gained scale and prominence through on-time project delivery, deep domain knowledge, and solidified reputation for delivery of complex business-centric IT projects.

The Indian IT industry has achieved an exceptional growth of an estimated $ 108 billion in 2013 from an $8 billion in 2000. Availability of skilled resources at low cost helped IT industry to grow at international level.

CII report says that latest technologies like social media, analytics and cloud computing (SMAC) will help India's IT-BPO industry cross $225-billion-mark in revenues by 2020.

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.
3. To calculate the efficiency, liquidity and turnover ratios of IT companies.

RESEARCH DESIGN

Top 5 IT companies (ranked by NASSCOM, 2013) of India have been selected for this study. Secondary data has been taken from company's annual reports from the year 2012 to 2018.

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 negative relationship among the liquidity ratios, management efficiency ratios and assets turnover ratio
H1: There is a significant relationship among the liquidity ratios, management efficiency ratios and assets turnover ratio

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

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**
2012-13	81.05	50.45	38.90	87.38	76.95	37.32	77.27	60.91	22.00
2013-14	83.09	54.28	44.34	76.02	80.08	33.99	75.51	56.74	22.08
2014-15	87.01	58.62	41.44	92.17	89.60	28.33	59.98	26.27	39.84
2015-16	55.80	47.17	45.15	79.48	91.08	29.76	43.01	31.67	51.79
2016-17	60.41	50.13	44.07	76.09	89.05	27.85	54.10	50.86	46.79
2017-18	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**
2012-13	76.78	85.54	28.98	61.09	39.86	58.41
2013-14	71.82	94.37	27.77	36.20	47.65	32.79
2014-15	70.81	95.06	26.25	33.51	40.86	31.75
2015-16	61.90	101.77	21.90	32.02	42.35	49.33
2016-17	69.73	102.84	21.62	34.41	51.50	41.66
2017-18	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

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. Means nul hypotheses can be rejected and alternate hypotheses 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 Showing Correlation Analysis

	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, which means nul hypotheses can be rejected and alternate hypotheses can be accepted. And can be concluded that efficient management of working capital results in positive profitability position.

CONCLUSION

The study helped in analyzing 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.

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