

Working Capital Management in it Companies



Management

KEYWORDS : Working Capital Management, Cash Management, Receivable Management, Inventory Management, Financial Performance, Ratio Analysis.

Bhavesh Chadamiya

Research Scholar of Karpagam University

Dr. Vijay Pithadia

Research Guide of Karpagam University

ABSTRACT

In the modern industrial world, the problem of efficient financial management has prime importance. The efficiency of an organization is measured in terms of certain parameters such as profit/ earnings, management of working capital and payments made to investors in the form of dividend etc., the giant structure of any Industry including IT sector industry can only be built on a sound financial base, which ultimately depends upon the availability of adequate finance in the form of working capital. For bright success of any enterprise the management of working capital and earnings is a significant function of finance manager because it affects the price of shares in the stock market and return (i.e., dividends) to the share holders

1 INTRODUCTION:-

Working capital is the lifeblood and nerve centre of a business. Just as a circulation of blood is essential in the human body for maintaining life, working capital is very essential to maintain the smooth running of a business. No business, no undertakings, no enterprise can bring a sound solvency to the business. It also enables an undertaking in creating and maintaining goodwill. It also enables a business undertaking to pay off its current dues and also provides regular supply of raw materials. Adequate working capital provides inherent strength to the business undertaking and ability to face crisis. Working capital extremely essential for meeting the daily requirements of an organization. No organization can thrive even for a single day without adequate working capital. It is evident from the words of Accounting standards boards guidance which states working capital as " the funds available for conducting day to day operation of an enterprise.

1.2 MOTIVES BEHIND WORKING CAPITAL MANAGEMENT:-

The main objectives behind Working Capital Management may be highlighted as under:

- ❖ The firm should manage its current assets in such a way that the marginal return on investment in these assets is not less than the cost of capital employed to finance the current assets.
- ❖ The second important objective of working capital management is that the company should always be in a position to meet its current obligations which should properly be supported by the current assets available with the firm, but maintaining excess funds in working capital means locking of fund without return.
- ❖ By optimizing the investments in current assets and by reducing the level of current liabilities, the company can reduce the locking up of funds in working capital thereby; it can improve the return on capital employed in the business.
- ❖ The firm should maintain proper balance between current assets and current liabilities to enable the firm to meet its day to day financial obligations.
- ❖ For the purchase of inventories, components and spares.
- ❖ To overcome day-to-day expenses and overheads cost.
- ❖ To pay wages and salaries to the employees.
- ❖ To provide the credit facilities to the customers.
- ❖ To meet the selling expenses i.e. packing, advertising, etc.

1.3 TYPES OF WORKING CAPITAL:-

Working capital can be classified in two ways:

1.3.1. On the basis of concept.

1) Gross working capital:

According to this concept, the total current assets are termed as the gross working capital. In other words, the gross working capital is the capital invested in total current assets of the enterprise. Current assets are those assets which in the ordinary courses of business can be converted into cash within a short term period of normally one year. This concept helps in making optimum investment in current assets and their financing.

2) Net working capital:

As per this concept the excess of current assets over current liabilities represents net working capital. Net working capital represents the amount of the current assets, which would remain after all the current liabilities are paid. It may be positive or negative. It will be positive if current assets exceed the current liabilities and negative if the current liabilities are in excess of current assets. This concept measures the liquidity and also suggests the extent to which working capital needs may be financed by the permanent source of funds.

1.3.2. On the basis of time.

1) Permanent or fixed working capital:

Permanent working capital is the minimum investment kept in the form of inventory of raw materials, work in progress, finished goods, stores & spares and book debts to facilitate uninterrupted operation of a firm. In other words, permanent or fixed working capital is the minimum amount which is required to ensure effective utilization of fixed facilities and for maintain the circulation of current assets. This minimum level of current assets is called permanent or fixed working capital as this part of capital is permanently blocked in current assets. As the business grows, the requirements of permanent working capital also increase due to the increase due to the increase in current assets. It can be further sub divided in two parts:

❖ Regular working capital:

The minimum level of current assets maintained to perform various business activities on a continuous manner is usually known as regular working capital. It is required to maintain regular stocks of raw materials, work in progress and also of the finished goods, payment of wages and salaries etc.

❖ Reserve working capital:

In business units additional capital is also required other than regular capital to meet various contingencies. Reserve working capital is the excess amount over the regular requirements of working capital which may be provided for contingencies that may arise at unspecified period such as strikes, rise in prices, depression etc.

2) Temporary or variable working capital:

A firm is required to maintain additional current assets temporarily over and above permanent working capital to satisfy cyclical demands. Any additional capital apart from permanent working capital required to support the changing production and sales activities is referred to as temporary or variable working capital. In other words, an amount over and above the permanent level of working capital is temporary, fluctuating or variable working capital. It can be further sub divided in two parts:

❖ Seasonal working capital:

The capital required to meet the seasonal needs of the enterprise is called seasonal working capital. Some business enterprises require additional working capital during a particular season. For example, firm manufacturing umbrella, having demand mostly in monsoon season, so required more working capital in monsoon than any other season. This is called season-

al working capital. In short, seasonal working capital is required to meet the seasonal liquidity of the business.

❖ Special working capital:

In all business, some unforeseen events do occurs when extra funds are needed to tide over such situation. Special working capital is that part of working capital which is required to meet special exigencies such as launching or extensive marketing campaign, conducting research to innovate new products etc.

1.4 TITLE OF THE PROBLEM:

After going through existing literature in the library and after thorough and deep discussion with the guide, the researcher has selected this topic.

This topic has been selected after considering the availability of time, information, existing literature, tools & techniques and other related sources. The title of the problem is as under:

"A study on Management of Working Capital in select IT companies IN India"

1.5 DATA COLLECTION:

The study is based on the secondary data taken from the annual reports of selected units. And all the data relating to history, growth and development of selected Industries, it will be collected mainly from the books and magazine relating to the industry and published papers, reports, articles and from the various newspapers, bulletins and other journals like Chartered Secretary, Management Account, and Chartered Account.

1.6 SELECTION OF SAMPLE:

At present there are many units engaged in producing IT Products in INDIA. Universe of the study is IT Companies of India. But it is not possible to make comparative study of all the IT Companies. So that, I select Four Companies which growth is higher than other companies. Company who where established before ten years and whose data are available for the selected period following Four Companies have been selected for the present research work.

- 1) Infosys limited
- 2) Wipro limited
- 3) Tata Consultancy Services Limited
- 4) Satyam Computer Services Limited

1.7 TOOLS OF ANALYSIS:

The collected data was suitably classified and tabulated in the form of simple tables and the data was objectively analyzed and conclusions were drawn on the basis of Anova tests at 5% level of significance with the help of statistical technique like analysis of variance, Mean, Standard Deviation and Anova Test.

Ratio analysis made on the basis of ten years data and the relevant test statistics, is calculated from the sample data and then compared with its problem value based on Table value at a specified 5% level of significance for concerning degrees of freedom for accepting or rejecting the Null Hypothesis.

1.8 OBJECTIVE OF THE STUDY:

The Objectives of the research is to discover answers of the following question through the application on scientific procedures. The main objective of the research is to understand the Working Capital Management of IT Sector Units as well the problems in Working Capital Management of these Companies. This broader objective is classified into:

- (i) To study working capital position in the selected units.
- (ii) To examine the efficiency of Receivable Management of selected units.
- (iii) To examine the efficiency of Inventory Management of selected units.
- (iv) To examine the efficiency of Cash Management of selected units.

1.9 THESIS CHAPTER PLAN:-

- 1) Introduction
- 2) Review of Literature
- 3) A Brief Profile of Information Technology Industries
- 4) Analysis and interpretation of Data
- 5) Summary, Finding and Suggestions

1.10 HYPOTHESIS:-

On the basis of data collection, the researcher identified the following broader hypothesis for the study:

Null Hypothesis:-

- 1) There is no significant difference in means score of Working Capital Management related ratio in selected units.
- 2) There is no significant difference in means score of Cash Flow related Ratio in selected units.

Alternate Hypothesis:-

- 1) There is significant difference in means score of Working Capital Management related ratio in selected units.
- 2) There is significant difference in means score of Cash Flow related Ratio in selected units.

1.11 LIMITATIONS OF THE STUDY:-

Every live and non-alive factor has its own limitations, which restrict the usability of that factor. The same rule applies to this research work. The major limitations of this study are as under:

1. This study is mainly based on secondary data derived from the annual reports of industry. The reliability and the finding are contingent upon the data published in annual report.
2. There are many approaches for evaluation Cash. There are no common views among experts.
3. The study is limited to Ten years only.
4. The present study is largely based on ratio analysis and ratio has own limitation which also applied to the study.
5. The studied is restricted to only Four units as compare to the population the sample size is small hence, on the basis of conclusion of this study , generalization cannot be made.

REFERENCE

- 1) Natrajan Sunder – Working Capital Management and Financial, Economic and Political Weekly, Vol. XV/1998 issue 9. | 2) Working Capital and choice of techniques, Indian Economic journal, volume 19 (1971) issue 1. | 3) Prakash OM., Ratio Analysis for Management in new Perspective, New Delhi. 2001 | 4) Chandra Prasana, "Financial Management", Tata McGraw Hill Publishing Co. Ltd.- New Delhi – 1984. | 5) Hingorani N. L., Ramnathan A. R. and Grewal T. S. "Management Accounting" Sultan Chand and Sons, New Delhi – 1980. | 6) Khan M. Y. and Jain P. K. "Financial Management" Third Reprint, Tata McGraw Hill Publishing Co. Ltd.- New Delhi. | 7) Kulami P.V. : Financial Management, Himalaya Publishing House, Third Edition – 1985. | 8) Maheswary S. N. "Management Accounting and Financial Control", Sultan Chand & Company, New Delhi sixth edition – 1988. | 9) Pandey I. M. "Financial Management", Vikash Publishing House Pvt., Third Edition.1998 | 10) Kothari C. R., Research Methodology (Methods and Techniques), Wishwa Prakashan, New Delhi.1998 | 11) Sharma K. R., Research Methodology, National Publishing House, Jaipur.2000. | 12) R. K. Sharma and S. K. Gupta, "Management Accounting", Published by Kalyani Publishers, New Delhi.2003 | 13) Bhalla V.K., Working Capital Management, published by J.L. Kumar for Anmol Publications Pvt. Ltd., New Delhi. | 14) Jain N. K., Working Capital Financing by Indian Banks, Journal Management Accounting & Research Volume 3., April-June 2000. | 15) Forager, Edward J., Factoring Accounting Receivables, journal of cash management, (March-April, 1996). |