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A Study on Working Capital Management in Information Technology Industries.

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ABSTRACT:

The main purpose of the study is to identify the impact of working capital management on profitability of "Information technology Pvt ltd", from the financial year 2018-2023 current ratio, quick ratio, cash ratio, debtors turnover ratio and stock turnover ratios are performed. Results reveals that cash conversion efficiency of the firm is good. In addition debt collection period and stock velocity of the firm is said to be satisfactory. The results suggest to the managers can increase profitability of manufacturing firms by reducing the stock velocity and bills receivables.

Keywords: working capital, capital management, profitability.

Introduction:

Finance is one of the basic foundations of all kinds of economic activities. It is the master key, which provides access to all the sources for being employed. Hence it is rightly said that finance is lifeblood of any enterprise, besides being the scarcest elements, it is also the most indispensable requirement. Without finance neither any business can be started nor successfully run. Provision of sufficient funds at the required time is the key to success of concern. As matter of fact finance may be said to be said to be the circulatory system of economic body, making possible the needed co-operation among many units of the activity.

Finance is the lifeblood of the organisation, irrespective of its size and mission. Management of finance in the organisation has been changing at a rapid pace after the inception of the computers in the fields. In the modern phase the financial managers is not in a passive role of a scorekeeper of accounting information and arranging funds, whenever diversifies to do so. Rather, he is confronted with the various issues and decisions to ensure that the funds are raised economically and canalized with in the most effective manner.

The information of recent economic policies and fiscal policies has further eroded changes in competitiveness of Indian industry.

Definition:

According to BONNEVILE AND DEWEY:

"Financing consists in the rising, Providing and managing of all the money, capital or funds of any kind to be used in connection with the business".

According to HOAGLAND:

"working capital is descriptive of that capital which is not fixed. But the more common use of working capital is to consider it as the difference between the book value of the current assets and the current liabilities."

Types of Working Capital: -

The Working Capital admits the following broad classifications:

1.Gross Working Capital.

2.Net Working Capital.

A .Positive Working Capital.

B. Negative Working Capital.

3.Permanent Working Capital.

4. Temporary Working Capital.
5. Balance Sheet Working Capital.
6. Cash Working Capital.

1. Gross Working Capital:

The term Gross working Capital refers to the total of all current assets. In other words, the firm's investments in total current or circulating accounting year. It represents short securities, sundry debtors, bills receivable, stock (inventories) etc. The Gross concept of working capital is very suited to company organization where ownership is separated from management and control.

Gross working capital= Total current assets

2. Net Working Capital:

The net concept of working capital is qualitative, indicating the firm's ability to meet its operating expenses and current assets and current liabilities. Alternatively, it can be defined as the portion of a firm's current assets which is financed with long term funds.

This concept is commonly used for proprietary organization such as sole trader and partnership firms. Net working capital can be grouped into "Positive Net Working Capital and Negative Net Working Capital". Net working Capital can be expressed as:

Net Working Capital = Current Assets - Current Liabilities

Current Assets = Cash + Marketable Securities + Accounting Receivables +Notes and bills Receivables+ Inventories

Current Liabilities= Accounts Payable + Notes and bills +Outstanding Expenses + Short Term Loans

"Positive Net Working Capital" will arise when the excess of current assets over the current liabilities. On the other hand, where the current liabilities and provisions exceed current assets, the difference is referred to as "negative working capital" and is disastrous for the company.

Review of literature:

Review 1: Samilogu and Demirgunes (2008)

Effective working capital management on the firm produces the profits in accordance with the aim that considers the statistical relationships between firm profitability and paying of the debts. As working capital management evolves around the cash and flow of cash in the firms.

Review 2: Filbeck & Krueger (2005)

Firm’s or sectors focus on the cash conversion while less competitive firm’s focus on minimizing the receivables and the competitive level of receivables is high and this can be control through the effective working capital management.

Review 3: Pratap singh and satish kumar (2013)

To determine the main objective of the management and major option in short term fund payment and credit collection and marketable securities. The effective management can be done to meet the aim and goals of the company.

Review 4: Veda Vinaya gamganesan(2018) Efficiency of working capital management can be negatively associated to the firm’s profitability and liquidity

Review 5: Pedro juangarcia-teruel&pedromartínez- solona (2019)

Effects of working capital management that there is a negative relation between the profitability of the firm and number of days of receivable and inventory

Review 6: Aduda and Morgan (2020)

Explained that working capital orders the liquidity position of the company and can thus be used as a separation for performance sustainability across different sections. The company managing its working capital effectively tends to outshine its peers in profitability and sustainability hence getting a positive review in the capital market.

Review 7: Suhail Alnuaimi & Haitham Nobanee (2020)

Said working capital is the assets that are detained by the company to guarantee its day-to-day activities are well met, and its goals are well accomplished. It evaluates how these working capitals can be well managed and what is the importance of their management.

Review 8: Novak, Marco Della (2021)

Stated the individual determinants of working capital were used as independent variables, while leverage represented the control variable. Empirical findings suggests that longer extensions to customers do not affect profitability.

Objectives of the study:

To determine the net working capital of the company

To assess the procured information whatsoever means from different places of carrying the convenience

To analyse the accuracy of services and adequacy of the firm

To analyse the debts of the firm by balancing the working capital

Scope of the study:

The scope of the study is defined below in terms of concepts adopted and period under focuses. First, the study of working capital management and profitability are concepts only to the ACUTESOFT SOLUTIONS PVT LTD. Secondary, the concept of working capital management and profitability performance and also to arrive at objectives to the study. To estimate working capital requirements.

Need of the Study:

To manage the liquidity of the company

To manage the accounts payable in the organisation

To balance the Short term debt management in the company

To manage the accounts receivables in the Organisations.

Limitations of the study

Studying the deals of the available without judging the business firm in general

This study extensively uses the data provided in the financial reports of the firm’s limited perspectives.

Analysis made on the particular period of time of the current assets and current liabilities and changes in other time.

Research methodology and design:

Methodology refers to systematic procedure of collecting information in order to analyse and verify phenomena.

Primary Data:

The primary data comprises information obtained by the candidate during discussions with Heads of Department and from the meeting with officials and staff.

Secondary Data:

The secondary data has been collected from information through Annual Reports, Public Report, Bulleting and other printed Materials supplied by the company.

Data analysis and interpretation:

1. ***CURRENT RATIOS:***

The current ratio is calculated by dividing current assets by current liabilities. The current ratio is computed by dividing current assets by current liabilities. Current assets normally include cash, marketable securities, accounts receivables and inventories. Generally a current ratio of 2:1 (current assets twice of current liabilities) is considered to be satisfactory.

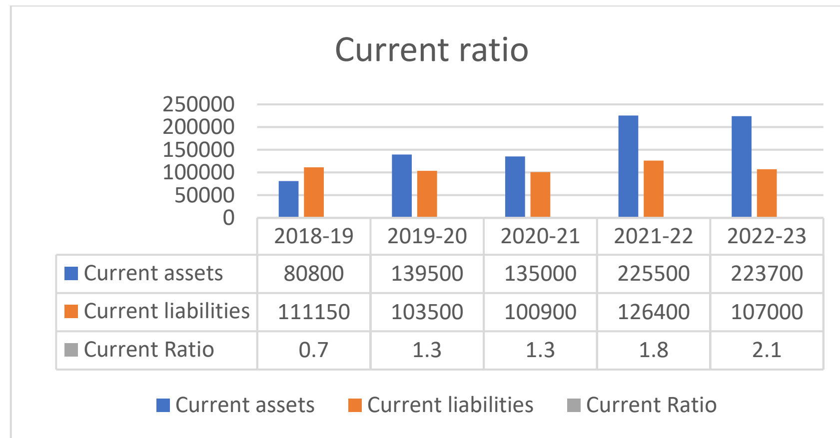
Current Ratio = Current assets – Current liabilities

Table 4:1 CURRENT RATIOS

Year	Current assets	Current liabilities	Current Ratio
2018-19	80800	111150	0.7
2019-20	139500	103500	1.3

2020-21	**135000**	**100900**	**1.3**
2021-22	**225500**	**126400**	**1.8**
2022-23	**223700**	**107000**	**2.1**

4:1 **CURRENT RATIOS**



INFERENCE:

It starts at 0.7 in 2018-19, indicating potential difficulty meeting short-term obligation

It then rises to 1.3 in 2019-20 and 2020-21, suggesting improved liquidity.

By 2021-22, the ratio jumps to 1.8, signaling a significant enhancement in liquidity.

Finally, in 2022-23, it reaches 2.1, indicating a robust ability to cover short-term liabilities.

During 2018-19 the current ratio of company was 0.7,1.3,1.3,1.8 and 2.0. The highest during the year 2022-23 that is 2.1. the lowest position during the year 2018-19 that is 0.7.

2. DEBTORS TURNOVER RATIO:

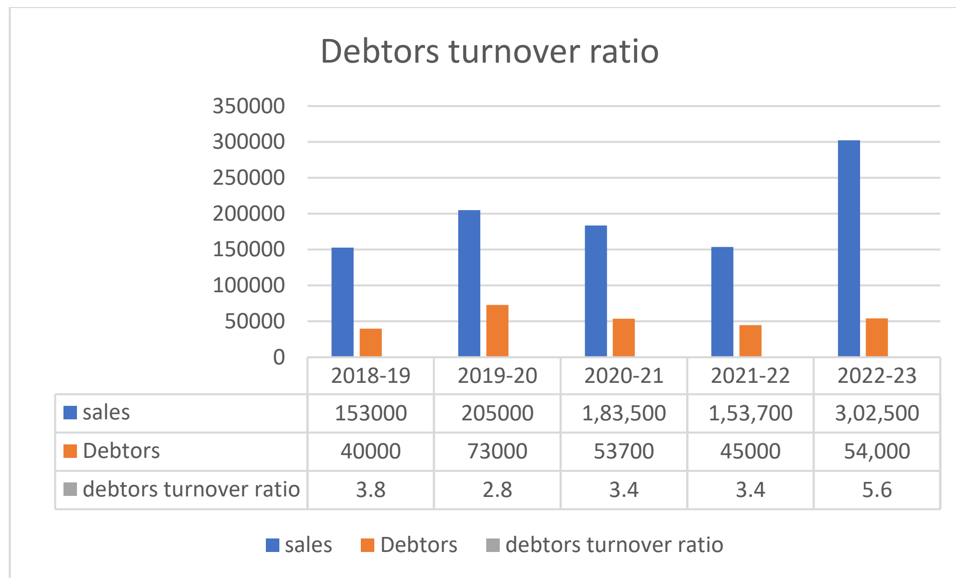
The calculation of the Debtors turnover ratio is an important financial metric that helps businesses understand their ability to collect outstanding debts. This ratio is calculated by dividing the Net Working sales by the average account receivable.

Debtors turnover ratio = sales / debtors

Table 4:2 DEBTORS TURNOVER RATIO

Year	**Sales**	**Debtors**	**Debtors turnover ratio**
2018-19	**153000**	**40000**	**3.8**
2019-20	**205000**	**73000**	**2.8**
2020-21	**1,83,500**	**53700**	**3.4**
2021-22	**1,53,700**	**45000**	**3.4**
2022-23	**3,02,500**	**54,000**	**5.6**

Graph 4. :2 DEBTORS TURNOVER RATIO



INFERENCE:

In 2018-19, the ratio was 3.8, indicating a good turnover rate.

It dropped to 2.8 in 2019-20.

In 2020-21 and 2021-22, it remained stable at 3.4.

Then, in 2022-23, it surged to 5.6, signaling a significant improvement in collecting payments efficiently.

The Debtors turnover ratio was the highest during the year 2022-23 that is 5.6. The lowest position during the year 2019-20 that is 2.8.

3. NET PROFIT MARGIN:

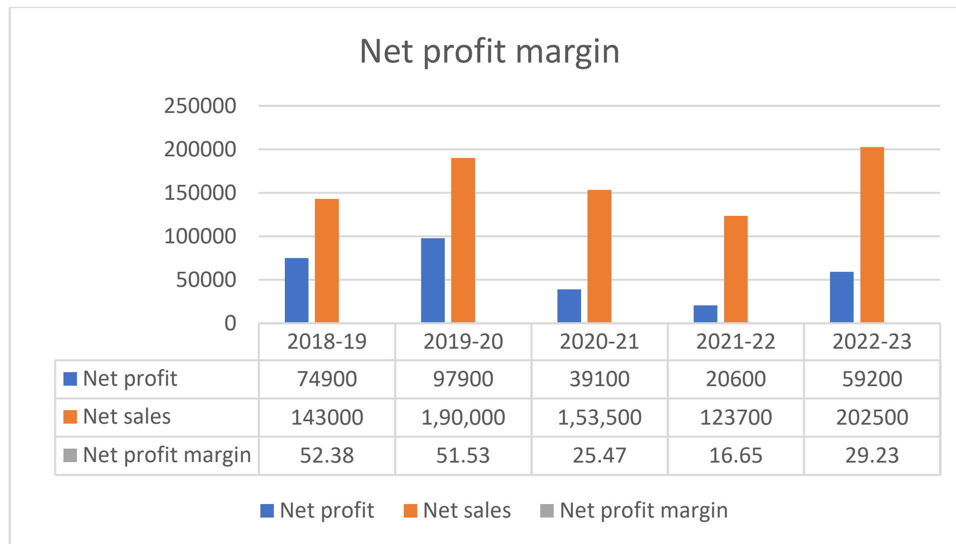
Net profit is calculated by deducting all company expenses from its total revenue. The result of the profit margin calculation is a percentage – for example, a 10% profit margin means for each $1 of revenue the company earns $0.10 in net profit.

Net Profit Margin = Net profit / Net sales x 100

Table 4:3 NET PROFIT MARGIN:

year	Net profit	Net sales	Net profit margin
2018-19	74900	143000	52.38
2019-20	97900	1,90,000	51.53
2020-21	39100	1,53,500	25.47
2021-22	20600	123700	16.65
2022-23	59200	202500	29.23

Graph 4:3 **NET PROFIT MARGIN**



INFERENCE:

In 2018-19 and 2019-20, the margin was high, indicating strong profitability.

It dropped significantly in 2020-21, suggesting challenges or increased costs.

Further decline occurred in 2021-22.

There was a rebound in 2022-23, although not to the levels of 2018-19 and 2019-20.

The Net profit margin ratio was the highest during year 2018-19 that is 52.38. The lowest position during the year 2021-22 that is 16.65.

4. COLLECTION RATIO:

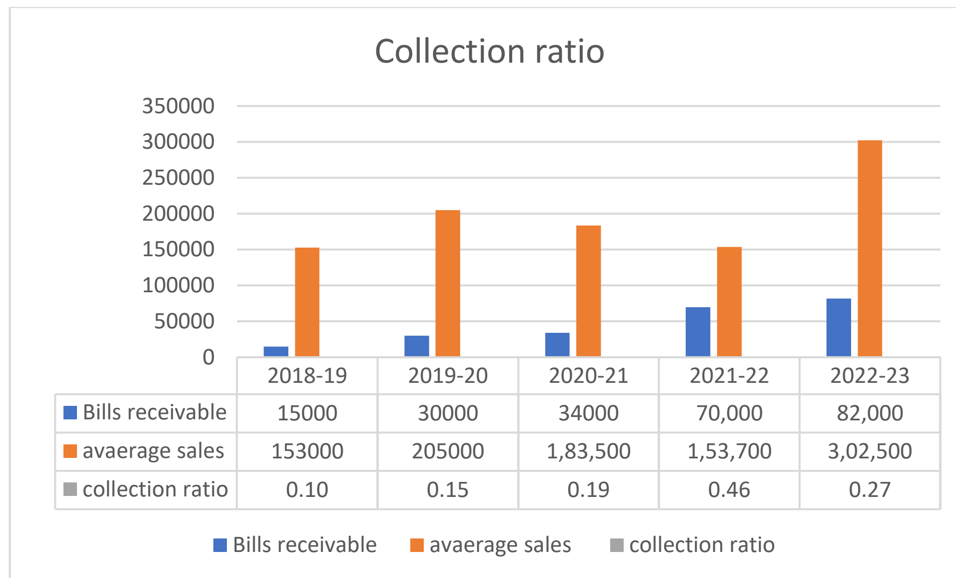
The collection ratio is usually expressed in days and represents the average number of days it takes for a company to collect payment from its customers after a sale has been made on credit terms

Collection ratio = bills receivable/ Average sales

Table 4:4 COLLECTION RATIO

Year	**Bills receivable**	**Average sales**	**Collection ratio**
2018-19	**15000**	**153000**	**0.10**
2019-20	**30000**	**205000**	**0.15**
2020-21	**34000**	**1,83,500**	**0.19**
2021-22	**70,000**	**1,53,700**	**0.46**
2022-23	**82,000**	**3,02,500**	**0.27**

Graph 4:4 COLLECTION RATIO



INFERENCE:

In 2018-19, the ratio was 0.10, indicating a slower collection process.

It improved to 0.15 in 2019-20 and further to 0.19 in 2020-21.

In 2021-22, there was a significant jump to 0.46, suggesting a substantial improvement in collection efficiency.

Although it decreased slightly to 0.27 in 2022-23, it remained higher compared to earlier years, indicating continued efficiency in collecting payments.

The collection ratio was the highest during the year 2021-22 that is 0.46. The lowest position during the year 2018-19 that is 0.10.

5. CASH RATIO:

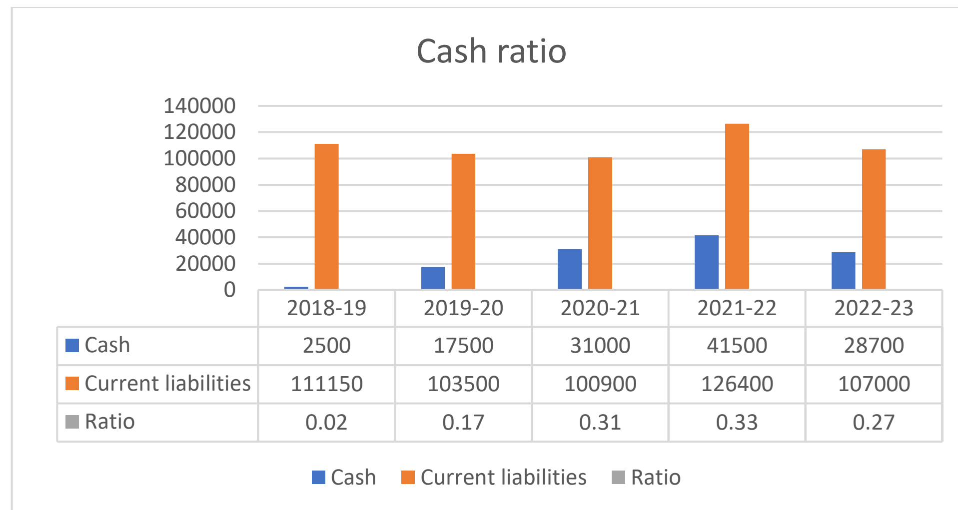
The Cash ratio is a liquidity measure that shows a company's ability to cover its short-term obligations using only Cash and Cash equivalents. The Cash ratio is derived by adding a company's total reserves a cash and near-cash securities and dividing that sum by its total current liabilities.

Cash ratio = Cash / Current liabilities

Table 4:5 . CASH RATIO

Year	Cash	Current liabilities	Ratio
2018-19	2500	111150	0.02
2019-20	17500	103500	0.17
2020-21	31000	100900	0.31
2021-22	41500	126400	0.33
2022-23	28700	107000	0.27

Graph 4:5 CASH RATIO



	2018-19	2019-20	2020-21	2021-22	2022-23
Cash	2500	17500	31000	41500	28700
Current liabilities	111150	103500	100900	126400	107000
Ratio	0.02	0.17	0.31	0.33	0.27

INFERENCE:

In 2018-19, the ratio was very low at 0.02, indicating minimal cash reserves.

It improved significantly to 0.17 in 2019-20, showing better liquidity.

The ratio increased further to 0.31 in 2020-21 and 0.33 in 2021-22, indicating continued improvement.

Although it decreased slightly to 0.27 in 2022-23, it remained relatively high, signaling continued stability in covering short-term obligations with cash.

The cash ratio was the highest during the year 2021-22 that is 0.33. the lowest position during the year 2018-19 that is 0.02.

FINDINGS:

After proper analysis of the financial position of the ACUTESOFT SOLUTIONS with the help of tools of financial analysis, the following analysis, the following things are found during the study.

- In the year 2018-19 to 2022-23 the company current ratio is increased. That is 0.7, 1.3, 1.3, 1.8 and 2.1.
- In the years 2018-19 the Debtors turnover ratio is increased that is 3.8, 2.8, 3.4, 3.4 and 5.6.
- In the years 2018-19 the Net profit margin ratio is decreased that is 52.38, 51.53, 25.47, 16.65 and 29.23.

SUGGESTIONS:

- The profitability of the company is affected due to unnecessary administration expenses incurred by the company. It is better to reduce it to increase the profit.
- The company must maintain its operating expenses in manner and improve the operating nature.
- It is suggested to take measures for collecting dues from the debtors, by allowing discount and reduce bad debts.
- It is suggested to pay the dues to the creditors as earlier as possible, because delay increases more interest charges and damage the credibility.

CONCLUSION:

Effectively managing working Capital is must for financial stability and for the success of the business. By strategically managing current assets and liabilities, Companies can ensure they have the necessary liquidity to meet short-term obligations, invest in growth opportunities, and navigate unexpected financial challenges. The Current assets of the company are increasing year by year which impact a better financial position.

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