



EVALUATION OF FINANCIAL PERFORMANCE – CONCEPTUAL IMPLICATIONS OF WORKING CAPITAL MANAGEMENT (WITH SPECIAL REFERENCE TO IT INDUSTRY)

ABSTRACT

M.Martha Sucharitha¹

¹Department of Business
Managemen,
Sri Krishna Devaraya
University
Anantapur, Andhrapradesh
India

Working Capital is what makes or breaks a business, and no business can run successfully without enough capital to cover short needs. Maintaining sufficient levels of short-term capital is a constant challenge, and in today's turbulent financial markets and uncertain business climate external financing has become both harder and more costly to obtain. The purpose of this study is to investigate the proportion between Current Assets and Current Liabilities of three top Multinational companies in India over the past 5 year period from 2010 to 2014. The data has been analyzed by using conceptual tools to find out the association between the variables. The study is extended with the usage of few ratios to have a comprehensive relationship between Current Assets and Current Liabilities of MNC's as they are the fast growing industries in India with a good proportion of GDP in the economy.

KEY WORDS: Assets, Liabilities, Solvency, Liquidity, Current Ratio, Multinational companies.

1. INTRODUCTION

Working capital is a financial metric of operating liquidity which describes the amount of cash tied up in operations and defines the short term condition of a company. A positive working capital position is required for the continuous running of a company's operations, i.e. to pay short term debt obligations and to cover operational expenses. A company with a negative working capital balance is unable to cover its short-term liabilities with its current assets.

Concept of working capital is broadly of two methods.

Gross working capital (*Total Current Assets*): The gross working capital, simply called as working capital refers to the firm's investment in current assets. Current assets are the assets, which can be converted into cash within an accounting year or operating cycle. Thus, Gross working capital, is the total of all current assets including,

- ◇ Inventories (Raw materials and Components, Work-in-Progress, Finished Goods, Others)
- ◇ current investments
- ◇ sundry debtors
- ◇ cash and bank
- ◇ other current assets
- ◇ short term loans and advances

Net Working Capital (*Total Current Assets – Total Current Liabilities*): Net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year. Net working capital may be positive or negative. It includes,

- ◇ Trade payables
- ◇ Other current liabilities
- ◇ Short term borrowings,
- ◇ Short term provision
- ◇ Bank Overdraft

2. OBJECTIVES

1. To make a comparative evaluation of variation in Working Capital management at select firms.
2. To examine Working Capital Turnover at select firms.
3. To measure the level of current ratio at select firms.

3. METHODOLOGY

To produce the above mentioned research objective, the data for this study was gathered from the financial statements as published by Business Companies. In addition, another source of data was through reference to the review of different articles, papers, and relevant previous studies. All firms are taken for the study representing the period of 2010-2014.

4. RESULTS

From table 1 it is identified that the Working capital level (difference between current assets and current liabilities) for select firms is in an increasing trend, And the increasing rate of variation in the research speak of high operating liquidity which is observed only for Infosys and decreasing rate of variation is registered for TCS and Wipro in two different periods.

Table 2 finds the relationship between Sales and working capital. It is observed from the study that the working capital turnover is positive throughout the research period which confirms a higher level of sales against the working capital used. Increasing rate of variation registered for Infosys and Wipro in two different periods speak of high operating efficiency and decreasing rate of variation is registered for TCS in two different periods.

The study from table 3 shows the level of current assets over current liabilities. The absolute norm for current ratio is 2:1. The absolute norm is not maintained

throughout the research period by select firms. Increasing rate of variation speak of high short term solvency position for TCS excluding one period and decreasing rate of variation is registered for Infosys and Wipro in two and three different periods.

5. SUGGESTIONS

The researcher has experiencing the ability to provide suggestion and recommendation for further researcher to gain more worthy if any research will be conducted by them in this field. Some of the suggestions and recommendations are given below,

- ✧ In order to maintain operating liquidity TCS and Wipro are suggested to increase the proportion of current assets.
- ✧ Every Company should maintain solvency position in order to clear off their liabilities. Poor Solvency registered for Infosys and Wipro should be increased by increasing the level of working capital.
- ✧ Only secondary data are collected to analysis to do this research. Further researchers may use secondary data by visiting to every company.

6. CONCLUSION

The study was undertaken to analyze the working capital management of IT Companies in India; Based on this analysis proper conclusion has been given, regarding the working capital position of the companies. It can be conclude that overall working capital efficiency is satisfactory. The researcher has found that the companies suffers from certain weakness and has given some suggestions to overcome it. If the suggestions are implemented, the companies can increase its working capital and overall performance at the right time.

7. FIGURE, TABLES AND REFERENCES
 Table.1.1. Shows the Amount of Working Capital

Particulars	Standalone (Rs. in Crores)														
	TCS					INFOSYS					WIPRO				
	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010
Current Assets	34,834.81	23,230.54	16,535.79	15,428.04	10,783.95	39,237.00	32,738.00	26,465.00	21,869.00	16,329.00	32,604.20	28,394.80	25,458.20	18,455.50	16,678.70
Current Liabilities	12,265.70	9,498.81	8,835.48	6,353.18	7,239.25	10,256.00	6,793.00	6,037.00	4,328.00	13,131.00	14,915.60	16,124.60	11,740.60	8,054.80	7,105.00
Working Capital	22,569.11	13,831.73	7,700.31	9,074.86	3,544.70	28,981.00	25,945.00	20,428.00	17,541.00	3,798.00	17,688.60	12,260.20	13,717.60	10,400.70	9,573.70
Variation	8,737.38	6,131.42	-1,374.55	5,530.16	3,036.00	3,517.00	4,897.00	13,743.00			5,428.40	-1,457.40	3,316.90	827.00	
Variation Rate	63.17%	79.63%	-15.15%	156.01%	11.70%	15.68%	27.86%	361.85%			44.28%	-10.62%	31.85%	8.64%	

Source: Annual Reports

Fig.1: Working Capital of TCS, INFOSYS, WIPRO

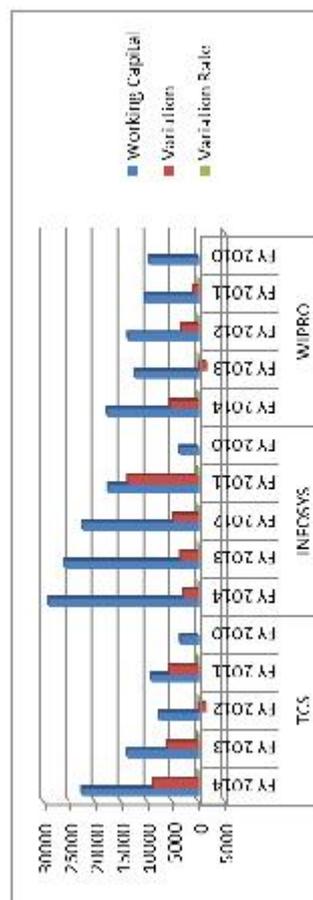


Table.1.2. Shows Working Capital Turnover Ratio

Particulars	Standalone (Rs. in Crores)														
	TCS					INFOSYS					WIPRO				
	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010
Sales	64,672.93	48,426.14	38,858.54	29,275.41	23,044.45	44,341.00	36,765.00	31,254.00	25,385.00	21,140.00	38,757.20	33,226.50	31,682.90	26,300.50	22,922.00
Working Capital	22569.11	13831.73	7700.31	9074.86	3544.7	28981	25945	22428	17541	3798	17688.6	12260.2	13717.6	10400.7	9573.7
Working Capital Turnover	2.87	3.50	5.05	3.23	6.50	1.53	1.42	1.39	1.45	5.57	2.19	2.71	2.31	2.53	2.39
Variation	-0.64	-1.55	1.82	-3.28		0.11	0.02	-0.05	-4.12		-0.52	0.40	-0.22	0.13	
Variation Rate	-18.15	-30.62	56.43	-50.38		7.97	1.69	-3.71	-74.00		-19.15	17.34	-8.66	5.62	

Source: Annual Reports

Fig.2: Working Capital Turnover Ratio of TCS, INFOSYS, WIPRO

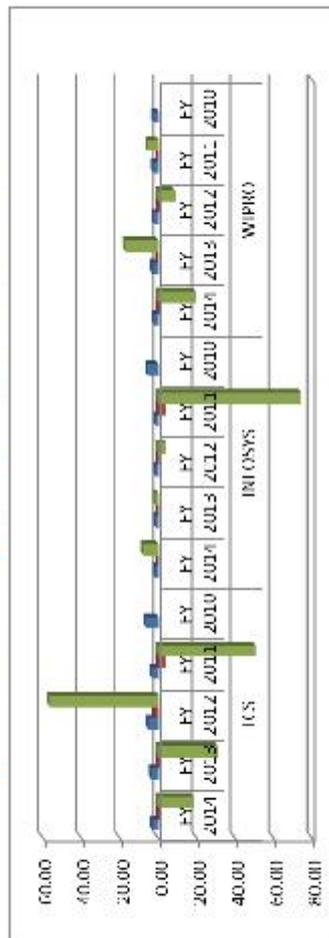
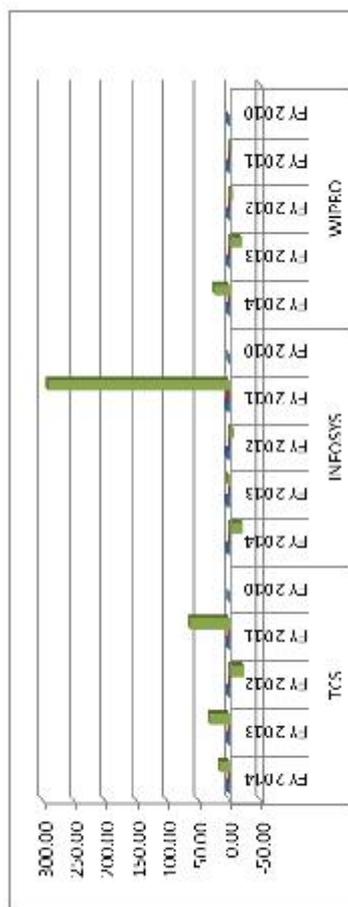


Table.1.3. Shows the Level of CURRENT RATIO

Standalone (Rs. in Crores)																			
Particulars	TCS						INFOSYS						WIPRO						
	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009
Current Assets	34,834.81	23,330.54	16,535.79	15,428.04	10,783.95	39,237.00	32,738.00	28,445.00	21,869.00	16,929.00	16,929.00	16,929.00	16,929.00	32,604.20	28,384.80	25,458.20	18,455.50	16,678.70	16,678.70
Current Liabilities	12,265.70	9,498.81	8,835.48	6,353.18	7,239.25	10,256.00	6,793.00	6,037.00	4,328.00	13,131.00	13,131.00	13,131.00	13,131.00	14,915.60	16,124.60	11,740.60	8,054.80	7,105.00	7,105.00
Current Ratio	2.84	2.46	1.87	2.43	1.49	3.83	4.82	4.72	5.05	1.29	1.29	1.29	1.29	2.19	1.76	2.17	2.29	2.35	2.35
Variation	0.38	0.58	-0.56	0.94		-0.99	0.10	-0.34	3.76					0.63	-0.41	-0.12	-0.06		
Variation Rate	15.63%	31.24%	-27.93%	63.02%		-20.62%	2.21%	-6.69%	291.93%					24.18%	-18.82%	-5.36%	-2.39%		

Fig.3: Current Ratio of TCS, INFOSYS, WIPRO



REFERENCES

1. "Finaical Management" by I.M.Pandey Professor of Delhi School of Commerce, tenth Edition from vikas publishing..p.p.648
2. Modigliani/Miller (1958), p. 261-297; Myers (1984). p. 575.
3. Eppen/Fama (1968), p. 94; Eppen/Fama (1969), p. 119.
4. Kallberg/White/Ziamba (1982), p. 670-682; Kim/Mauer/ Sherman (1998), p. 335.
5. Amir Shah, S.M. & Sana, A. 2006, "Impact of working capital management on the profitability of oil and gas sector of Pakistan", *European Journal of Scientific Research*, vol. 15, no. 3, pp. 301-307.
6. Hill, M.D., Kelly, G.W. & Highfield, M.J. 2010, " Net Operating Working Capital Behavior: A First Look", *Financial Management*, Summer 2010, pp. 783-805