



**A STUDY ON WORKING CAPITAL MANAGEMENT ON TECH  
ANUGRAHA GROUPS, CHENNAI**

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**Abstract:**

A shift in focus from growing revenues towards managing working capital could be observed in many companies in the recession that followed the financial crisis of 2008. This thesis therefore investigates the relation between working capital management (WCM) and revenue growth by examining 36 Swedish companies within the IT & Telecom, Wholesale, and Manufacturing industries. The results show that there currently is a general gap between the perceived and actual performance regarding WCM and the effects on revenue growth. The studied companies report a belief that no trade-off between WCM and revenue growth exists. However, the actual performance in the studied industries indicates that increases in revenues often are not justifiable in proportion to the increases in net working capital (NWC). The study also shows that responsibility for WCM and implementation of WCM decisions are to a high extent assigned to a centralized organizational level. Recommendations derived from this study are that while companies need a centralized responsibility for WCM decisions, the responsibility also needs to be decentralized for successful implementation. Furthermore, the NWC development in relation to revenue growth needs to be continually monitored.

**Key Words:** Working Capital, Working Capital Management (WCM), Management Attention, Revenue Growth, Current Assets, Current Liabilities, Cash Conversion Cycle.

**Introduction:**

Working capital management is essential for maintaining a company's liquidity, operational efficiency, and profitability. It involves managing short-term assets, such as cash, accounts receivable, inventory, and prepaid expenses, alongside short-term liabilities like accounts payable, short-term debt, and accrued liabilities. The goal is to ensure the company can meet its short-term obligations and continue operations smoothly. Effective strategies include optimizing cash flow through accurate forecasting, implementing robust credit policies to manage receivables, using inventory management techniques like Just-in-Time (JIT), and negotiating favorable payment terms with suppliers. Key metrics such as the working capital ratio, quick ratio, and cash conversion cycle help monitor the efficiency of working capital management. Challenges include economic fluctuations, supply chain disruptions, and customer credit risks. By addressing these challenges and maintaining a balanced approach to managing current assets and liabilities, companies can enhance their financial stability and support long-term growth.

**Meaning of the Working Capital Management:**

Working capital management refers to the strategic management of a company's short-term assets and liabilities to ensure efficient operation and maximize profitability. It involves overseeing the balance between a company's current assets and liabilities to maintain adequate liquidity while optimizing financial performance.

**Here are Some Key Aspects and Meanings of Working Capital Management:**

**Optimizing Liquidity:**

Working capital management focuses on ensuring that a company has sufficient liquidity to meet its short-term obligations as they come due. This involves maintaining an appropriate level of cash, receivables, and inventory to cover operating expenses, debt payments, and other liabilities.

**Minimizing Costs:**

Effective working capital management seeks to minimize the costs associated with holding and financing current assets. This may involve reducing excess inventory, optimizing accounts receivable collection processes to shorten the cash conversion cycle, and negotiating favorable payment terms with suppliers to extend payment periods.

**Maximizing Efficiency:**

By streamlining processes and improving operational efficiency, working capital management aims to optimize the use of resources and reduce idle cash or inventory. This can lead to improved profitability.

and return on investment.

**Managing Risks:**

Working capital management involves identifying and mitigating risks associated with liquidity shortages, such as potential cash flow disruptions, supplier failures, or sudden changes in market conditions. Strategies may include maintaining reserves, diversifying suppliers, and implementing effective hedging or risk management techniques.

**Supporting Growth:**

Effective working capital management is essential for supporting business growth and expansion initiatives. By ensuring that sufficient funds are available to finance day-to-day operations and strategic investments, companies can seize growth opportunities without compromising financial stability.

**Balancing Trade-Offs:**

Working capital management requires striking a balance between conflicting objectives, such as maintaining adequate liquidity versus maximizing profitability. Decisions regarding the level of investment in current assets, the use of short-term financing, and the timing of cash flows must be carefully evaluated to optimize overall performance.

**Continuous Monitoring and Adjustment:**

Working capital management is an ongoing process that requires regular monitoring and adjustment in response to changing market conditions, business dynamics, and financial performance. By continuously evaluating key metrics and performance indicators, companies can adapt their strategies to optimize working capital efficiency over time. In essence, working capital management is about effectively managing the financial resources necessary to support day-to-day operations while maximizing profitability, minimizing risks, and facilitating sustainable growth. It plays a critical role in ensuring the financial health and success of a business in both the short and long term.

**The Term Working Capital Management Generally Refers to the Basis Statements:**

- The balance sheet

**Balance Sheet:**

Marketable Securities (if classified as current) Creating a working capital statement from a balance sheet involves analyzing the components of current assets and current liabilities to determine the company's liquidity position. Here's a step-by-step guide on how to derive a working capital statement from a balance sheet:

**Gather Financial Statements:**

Obtain the company's balance sheet for the relevant accounting period. Ensure that the balance sheet provides detailed information on current assets and current liabilities.

**Identify Current Assets:**

Look for items on the balance sheet that represent assets expected to be converted into cash or used up within one year. Typical current assets include:

- Cash and Cash Equivalents
- Accounts Receivable
- Inventory Prepaid Expenses

Note down the balances of each current asset category.

**Calculate Total Current Assets:**

Add up the balances of all current assets to determine the total current assets for the period.

**Identify Current Liabilities:**

Identify liabilities that are due for payment within one year. Common current liabilities include:

- Accounts Payable
- Short-term Loans or Lines of Credit
- Accrued Expenses Current Portion of Long-term Debt

Record the balances of each current liability category.

**Calculate Total Current Liabilities:**

Add up the balances of all current liabilities to determine the total current liabilities for the period.

**Compute Working Capital:**

Subtract the total current liabilities from the total current assets.

$$\text{Working Capital} = \text{Total Current Assets} - \text{Total Current Liabilities}$$

**Interpret Working Capital:**

- A positive working capital indicates that the company has more short-term assets than short-term liabilities, suggesting good liquidity.
- A negative working capital implies that the company may have difficulty meeting its short-term obligations with its current assets alone, which could indicate potential liquidity issues.

**Analyze Ratios (Optional):**

Calculate ratios such as the current ratio and quick ratio for additional insights into the company's liquidity position.

$$\text{Current Ratio} = \frac{\text{Total current assets}}{\text{Total current liabilities}}$$
$$\text{Quick ratio} = \frac{(\text{Total current assets} - \text{Inventory})}{\text{Total current liabilities}}$$

**Review and Interpret Findings:**

Analyze the working capital position in the context of the company's industry, historical trends, and future projections. Consider any significant changes or trends in working capital over time and their implications for the company's financial health and performance. By following these steps, you can derive a working capital statement from a balance sheet and gain valuable insights into the company's liquidity position and short-term financial health.

**Working Capital Statement Analysis:**

Working capital management analysis involves assessing how effectively a company manages its short-term assets and liabilities to ensure liquidity, optimize operational efficiency, and enhance profitability. Here's a detailed breakdown of how to conduct a comprehensive analysis:

**Working Capital Components Review:**

Begin by examining the individual components of current assets and current liabilities listed on the balance sheet. Assess the composition, trends, and changes in each category over time.

**Liquidity Assessment:**

Calculate liquidity ratios such as the current ratio and quick ratio to gauge the company's ability to meet its short-term obligations. Compare these ratios with industry benchmarks and historical data to assess liquidity trends.

**Operating Cycle Analysis:**

Analyze the company's operating cycle, which includes the time it takes to convert inventory into cash through sales and accounts receivable collection. Identify any inefficiencies or delays in the operating cycle that may tie up working capital unnecessarily.

**Cash Conversion Cycle (CCC):**

Calculate the cash conversion cycle, which measures the time it takes for a company to convert its investments in inventory and other resources into cash flows from sales. A shorter CCC indicates better efficiency in working capital management.

**Inventory Management:**

Evaluate inventory turnover ratios and days' sales of inventory to assess how efficiently the company manages its inventory levels. Identify slow-moving or obsolete inventory that may be tying up working capital.

**Accounts Receivable Management:**

Review accounts receivable turnover ratios and days' sales outstanding (DSO) to evaluate the effectiveness of credit and collection policies. Identify any overdue accounts or patterns of late payments that may impact cash flow.

**Accounts Payable Management:**

Assess accounts payable turnover ratios and days' payable outstanding (DPO) to understand the company's payment practices with suppliers. Determine if the company takes advantage of favorable payment terms without jeopardizing supplier relationships.

**Optimization Strategies:**

Identify opportunities for optimizing working capital through strategies such as:

- Tightening credit terms to accelerate receivables collection.
- Negotiating extended payment terms with suppliers to preserve cash.
- Streamlining inventory management processes to reduce carrying costs.
- Implementing cash flow forecasting tools to better anticipate liquidity needs.

**Risk Management:**

Evaluate risks associated with working capital management, such as:

- Insufficient liquidity to cover short-term obligations.
- Overreliance on short-term financing sources.
- Exposure to supply chain disruptions or customer defaults.

**Integration with Financial Planning:**

Integrate working capital management analysis with the company's broader financial planning and budgeting processes. Align working capital strategies with overall business objectives and growth plans.

**Benchmarking and Best Practices:**

Benchmark the company's working capital performance against industry peers and best practices. Identify areas for improvement and adopt strategies used by top performers to enhance working capital efficiency.

### **Continuous Monitoring and Improvement:**

Establish mechanisms for ongoing monitoring of working capital metrics and performance indicators. Implement regular reviews and adjustments to optimize working capital management strategies over time.

### **Objective of the Study:**

The basic objective of studying the ratios of the company is to know the Working Capital Management of the company.

- To understand the concept of Working Capital Management.
- To analyze the efficiency of working capital management in Tech Anugraha.
- To find out the changes in working capital of Tech Anugraha Chennai.
- To analyze the liquidity position through various working capital related ratios.

### **Need of the Study:**

The study on working capital management in Tech Anugraha is imperative due to several critical factors. Firstly, it is essential for maintaining the financial health of the company. Effective management of current assets and liabilities ensures that Tech Anugraha has sufficient liquidity to meet its short-term obligations, thereby safeguarding its financial stability. Additionally, operational efficiency is greatly enhanced through optimized working capital management. By minimizing idle cash, reducing excess inventory, and streamlining accounts receivable and payable processes, Tech Anugraha can operate more efficiently, allocating resources more effectively towards growth and development initiatives. Moreover, in today's competitive market landscape, effective working capital management is a source of competitive advantage. By studying its practices, Tech Anugraha can identify areas for improvement, capitalize on strengths, and ultimately differentiate itself from competitors. Furthermore, sound working capital management is vital for risk mitigation.

### **Scope of the Study:**

The scope of study in working capital management for small businesses encompasses a comprehensive analysis of the financial strategies and practices employed to efficiently manage short-term assets and liabilities. This includes examining cash flow management, inventory control, accounts receivable and payable management, as well as short-term financing options. The study aims to identify optimal practices tailored to the specific needs and constraints of small businesses, considering factors such as industry dynamics, market conditions, and managerial capabilities. By delving into these aspects, the scope extends to offering insights and recommendations to enhance liquidity, profitability, and overall financial health for small enterprises.

### **Research Design:**

The research design for studying working capital management in small businesses typically involves a mix of quantitative and qualitative methods. Quantitative analysis may include financial ratio analysis, trend analysis, and statistical modeling to examine the relationships between various working capital components and business performance metrics. Qualitative methods such as interviews, surveys, and case studies can provide deeper insights into the specific challenges, strategies, and decision-making processes of small business owners or managers regarding working capital management.

### **Research Methodology:**

The research methodology for studying working capital management in small businesses typically involves a multi-faceted approach that integrates both quantitative and qualitative methods. Quantitative methods allow for the analysis of numerical data related to financial statements, such as balance sheets, income statements, and cash flow statements. This may include techniques like ratio analysis, trend analysis, and regression analysis to examine the relationships between working capital components and business performance metrics. Qualitative methods, on the other hand, enable researchers to gain deeper insights into the underlying reasons, motivations, and decision-making processes behind working capital management practices in small businesses.

### **Analytical Tools for the Study:**

The data collected were categorized and tabulated. Various aspects of the them as under study and the observations made from the data were discussed in detail.

### **Tools for Analysis:**

- Working Capital Analysis
- Ratio Analysis

### **Period of the Study:**

The period of study was conducted from March to June 2024

### **Area of the Study:**

The area of study in working capital management for small businesses encompasses a vital aspect of financial management, focusing on the efficient utilization and control of short-term assets and liabilities. It delves into strategies for managing cash flow, inventory, accounts receivable, and accounts payable to ensure liquidity, profitability, and operational continuity. This area explores the unique challenges faced by small businesses, such as limited access to financing, fluctuating cash flows, and

resource constraints, while also identifying tailored solutions to optimize working capital management practices. By understanding and addressing these challenges, small businesses can enhance their financial stability, agility, and long-term sustainability in dynamic market environments.

#### Company Profile:

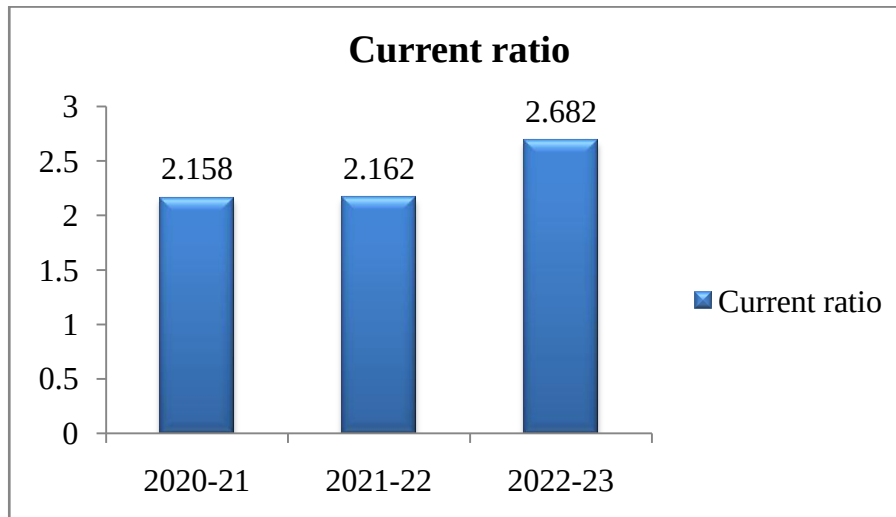
Tech Anugraha is a global technology solution company with highly experienced professionals with futuristic business approach. We provides software outsourcing services for different sectors. With our experience and skills in providing IT solutions we have contributed to the success of many business organizations. We work closely with our customers to ensure the software, web applications are delivered on time, every time to exact standards. Software developments for application development are in .NET, HTML, XML, Java, SQL Server, PHP and Mobile platform. Tech Anugraha group guides the Clients in designing a web based application based on usability and user experience.

#### Services:

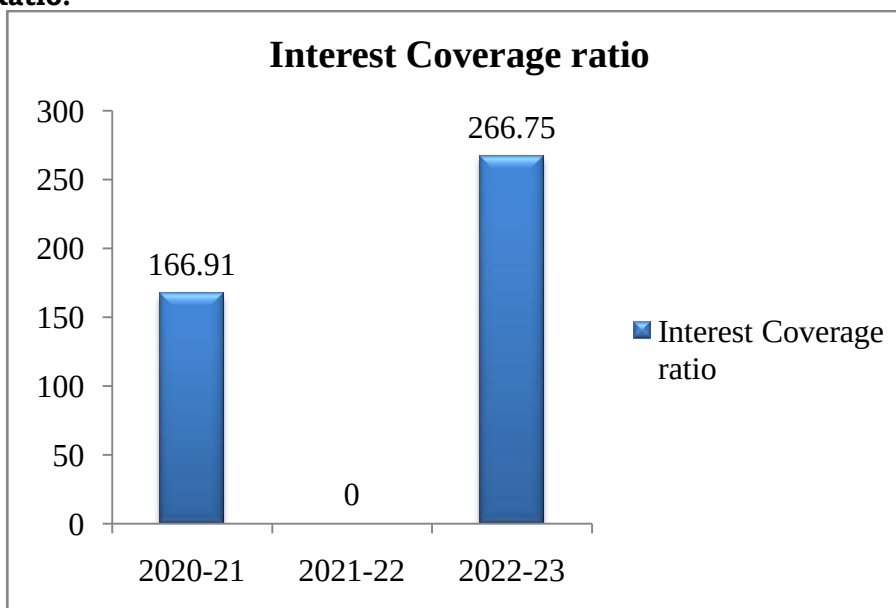
- Application development
- Software development
- Financial services
- IT solutions
- Recruiting solutions
- Software outsourcing services
- Web Based applications

#### Data Analysis and Interpretation:

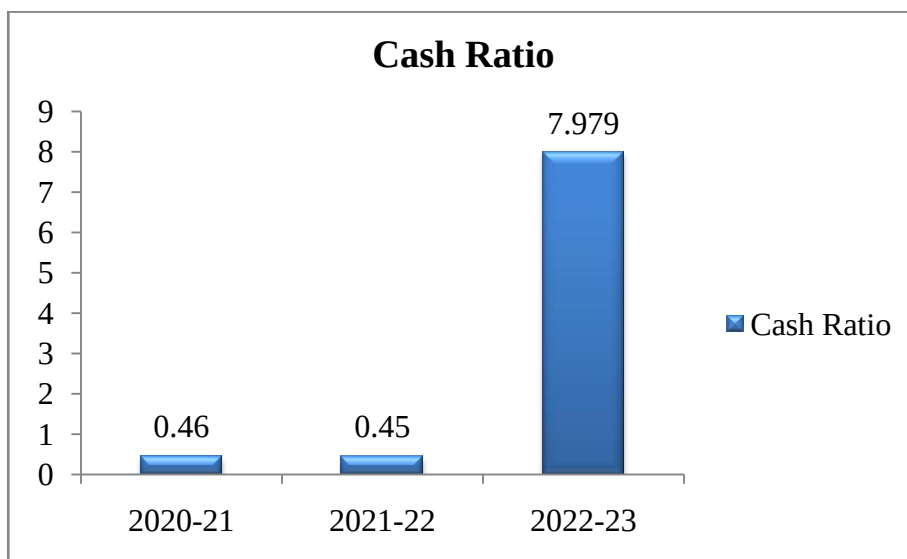
##### Current Ratio:



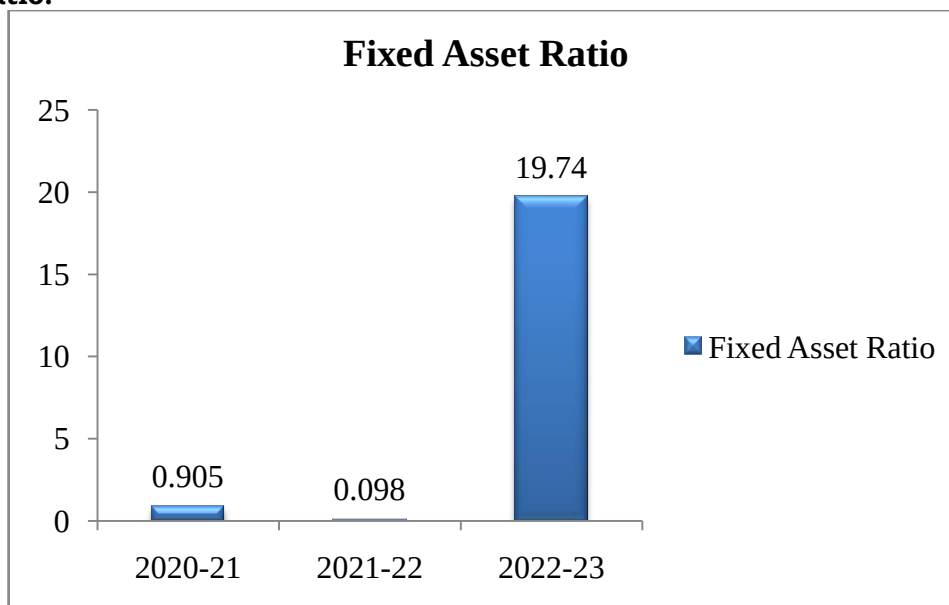
##### Interest Cover Ratio:



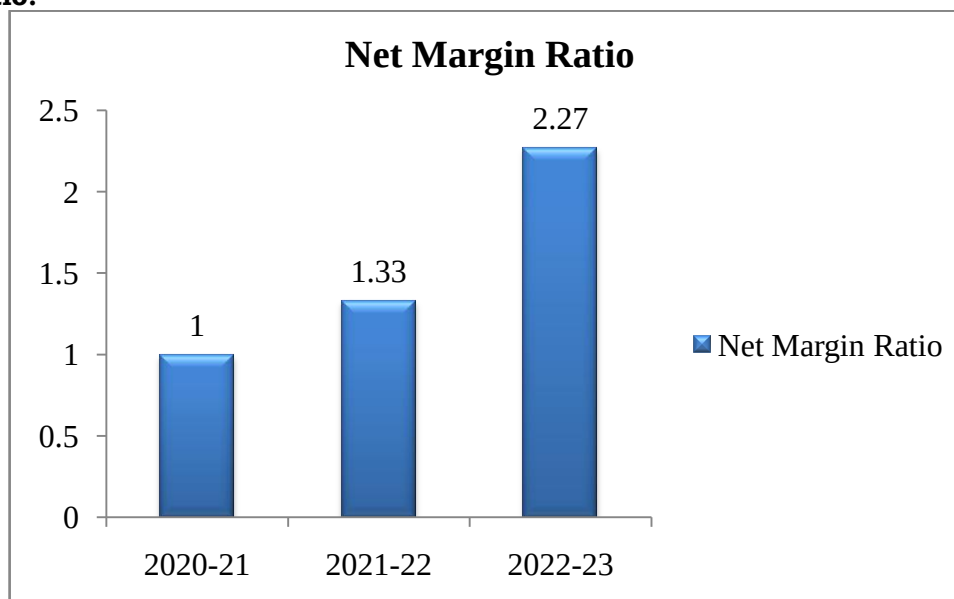
**Cash Ratio:**



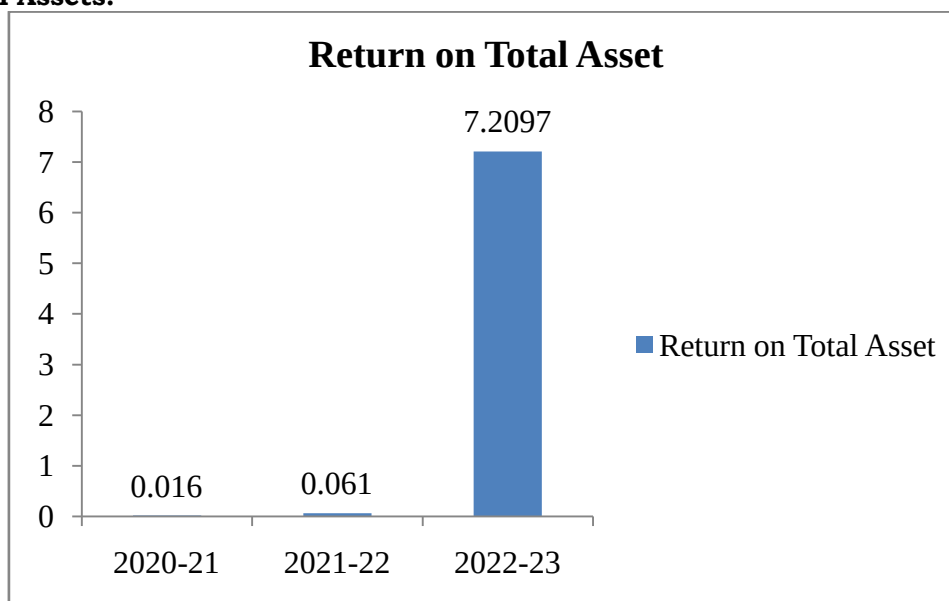
**Fixed Assets Ratio:**



**Net Margin Ratio:**



**Return on Total Assets:**



**Suggestions:**

- There searchers recommend the company to make rationally is regularly and the company should have standard ratio (industry average) or the management should set for the purpose of comparison.
- In order to improve the turning of inventory problem in to receivables through sales, the company should design and implement some techniques like making reasonable discount on the price of the product (work more on marketing), setting the maximum inventory holding period at the head office level and use Just in time delivery method for purchasing activity.
- Liquidity ratio of the firm is not better liquidity position in over the three years. So I suggested that the firm maintain proper liquid funds like cash and bank balance.
- According to the calculated profitability ratios, the company profitability is not attractive. So ,the company should reduce its cost of goods sold and operating expenses by separating controlling and non-controlling cost and implementing corrective action like by reducing purchasing cost, decreasing wastes like paper usage and decreasing over heads like electricity, telephone and soon.
- The firm high inventory so I suggested that the firm must reduce the stock by increase sales.
- In order to improve the leverage ratio, the company should set its optimum capital structure and implement corrective action through some techniques like increase capital and paying of its debt to creditors to achieve its optimum capital structure.

**Conclusion:**

The project of ratio analysis in the corporate service industry is not merely a work of the project. But a brief knowledge and experience that how to analyze the working capital of the firm. The study undertaken has brought in to the light of the following conclusions. According to this project I came to know that from the analysis of financial statements it is clear they have been incurring profit during the period of study. So the firm should focus on getting of huge profits in the coming year by taking care internal as well as external factors. Gross profit and net profit of the Tech Anugraha is fluctuating over the past three years. On an average the Tech Anugraha overall performance is quite satisfactory as per the working capital of the Company

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