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Analysis of Working Capital Management in HCL Technologies Limited

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ABSTRACT

This study is based on the analyzing the working capital management in HCL technologies limited. This paper has been analyses the working capital management through the secondary source of annual report from the period of 2011 to 2020. A working capital analysis may also be performed to determine day to day liquidity & turnover positions of the HCL technologies limited. But in this study with help of the analytical research like ratio analysis, Springate Zscore model of tools are shows the working capital management positions of the HCL technologies limited. So, the results indicate that through proper working capital management the HCL Company is becoming financially better & maintaining a satisfactory level of working capital.

Keywords: *Working capital management, Liquidity, Turnover, Analytical research, Z score*

Introduction:

Management is an art of anticipating and preparing for risks, uncertainties and overcoming obstacles. An essential precondition for sound and consistent assets, in modern financial management, efficient allocation of funds has a great scope in finance and profit planning for the most effective utilization of enterprise resources, the fixed and current assets have to be combined in optimum proportion.

Working capital in simple terms means the amount of funds that a company requires for financing its day-to-day operations. Finance manager should develop sound techniques of managing current assets.

Decisions relating to working capital and short-term financing are referred to as working capital management. These involve managing the relationship between a firm's short-term assets and its short-term liabilities.

The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses.

A managerial accounting strategy focusing on maintaining efficient levels of both components of working capital, current assets, and current liabilities, in respect to each other. Working capital management ensures a company has sufficient cash flow in order to meet its short-term debt obligations and operating expenses.

What is working capital?

Working Capital refers to the investment by the company in short terms assets such as cash, marketable securities. Net current assets or net working capital refers to the current assets less current liabilities symbolically it means.

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HCL Technologies Limited: It is an Indian multinational IT services and consulting company , the HCL enterprise was founded in 1976, headquartered in Nodia, Uttar Pradesh. It is a subsidiary of HCL enterprise. Originally a research and development division of HCL , it emerged as an independent company in1991 when HCL entered into software services business. The HCL companies are in 42 countries, HCL Technologies is on the Forbes Global 2000 list. It is among the top 20 largest publicly traded companies in India with a market capitalization of $18.7 billion as of May 2017.As of May 2018, the company, along with its subsidiaries, had aconsolidated revenue of $7.8 billion.

Review of Literature:

Prior studies reported that working capital management may have an important effect on the firm'sprofitability. **Shin and Soenen (1998), Lazaridis and Tryfonidis (2006), Raheman and Nasr (2007),** among others, measured working capital with cash conversion cycle, which consists of stockholding period, debtors' collection period and creditors' payment period.

These researchers supported that greater investment in working capital (thelonger cash conversion cycle) leads to reduction in the firm's profitability **(Banos-Caballero et al, 2010, and Nazirand Afza, 2003, 2009).**

Rahman Mohammad M. (2011) focuses on the co-relation between working capital and profitability. An effective working capital management has a positive impact on profitability of firms. from the study it is seen that in the textile industry profitability and working capital management position are found to be up to the mark.

Joseph Jisha (2014) closely examines the study of working capital management in Ashok Leyland and points out that the liquidity and profitability position of the company is not satisfactory, and needed to be strengthened in order to be able to meet its obligations in time.

Madhavi K. (2014) makes an empirical study of the co-relation between liquidity position and profitability of the paper mills in Andhra Pradesh. It has been observed that inefficient working capital management makes a negative impact on profitability and liquidity position of the paper mills.

Objectives of the study:

- To study the Analysis of working capital management in HCL Technologies Limited using ratio analysis
- To calculate the efficiency, liquidity and turnover ratios of HCL technologies limited
- To know the HCL bankruptcy based on springate Z score Model from the period of 2011 to 2020.

Statement of the problem:

Working capital management is maintenance is differing based on the company performance. According to review of Rahman Mohammad M. (2011)the textile industry shows the positive impact on profitability of working capital management. then Joseph Jisha (2014) In Ashok Leyland working capital management of liquidity & profitability is not gives satisfactory.Hence the topic working capital how the working capital plays a vital role in running the business smoothly and successfully in HCL company it was based on analysis for the final result.Management is choose to identify

Limitations of the study:

- This study is only during the year from 2011-2020.
- Due to limited time constrain, the study only covers fully with secondary data.

Research Design:

Analytical Researchhas to use facts or information which is already available analyzes these to make a critical evaluation of the material. The tools are used.

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(a) Ratio analysis
(b) Z score

Data Analysis

I Liquidity Ratio

Liquidity ratios are an important class of financial metrics used to determine a debtor's ability to pay off current debt obligations without raising external capital. Liquidity ratios measure a company's ability to pay debt obligations and its margin of safety through the calculation of metrics including the current ratio, quick ratio, and operating cash flow ratio.

Table: 1.1Current Ratio

Year	Cuurent Assets (Rs. In Cr.)	Current Liabilities (Rs. In Cr.)	Current Ratio
2011	6,944.71	6,247.65	1.111572
2012	9,048.83	6,423.98	1.408602
2013	12,633.52	7,472.23	1.69073
2014	19,329.63	9,241.78	2.091548
2015	23,046.80	9,945.05	2.317414
2016	24,860.16	10,159.68	2.446943
2017	26,469.78	11,341.65	2.333856
2018	24,386.00	10,107.00	2.412783
2019	29,722.00	12,299.00	2.416619
2020	38,420.00	23,730.00	1.619048

Figure:1.1 Current Ratio

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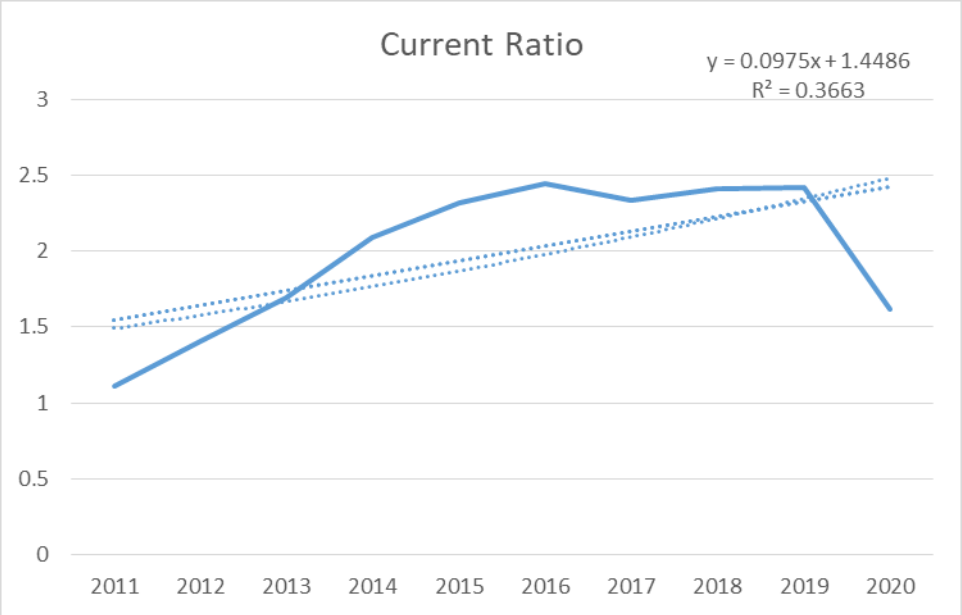

Interpretation:

The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.

A company with a current ratio less than one does not, in many cases, have the capital on hand to meet its short-term obligations if they were all due at once, while a current ratio greater than one indicates the company has the financial resources to remain solvent in the short-term. From the table and Graph we can understand that the ratio has increased in the last 10 years. It has increased from 1.111572 in 2011 to 2.416619 in 2019.

In all these years the ratio is above 1, proving that the company had no liquidity issues in the last 10 years. We can also understand that in HCL, the assets have increased considerably when compared to short term liabilities.

Table: 1.2 Quick Ratio

Year	Current Assets (Rs. In Cr.)	Current Liabilities (Rs. In Cr.)	Inventory (Rs. In Cr.)	CA-I	QR
2011	6,944.71	4,056.65	2,611.28	4,333.43	1.068229
2012	9,048.83	6,423.98	226.16	8,822.67	1.373396
2013	12,633.52	7,472.23	231.5	12,402.02	1.659748
2014	19,329.63	9,241.78	122.3	19,207.33	2.078315
2015	23,046.80	9,945.05	157.61	22,889.19	2.301566
2016	24,860.16	10,159.68	264.48	24,595.68	2.420911
2017	26,469.78	11,341.65	275.58	26,194.20	2.309558
2018	24,386.00	10,107.00	172	24,214.00	2.395765
2019	29,722.00	12,299.00	91	29,631.00	2.40922

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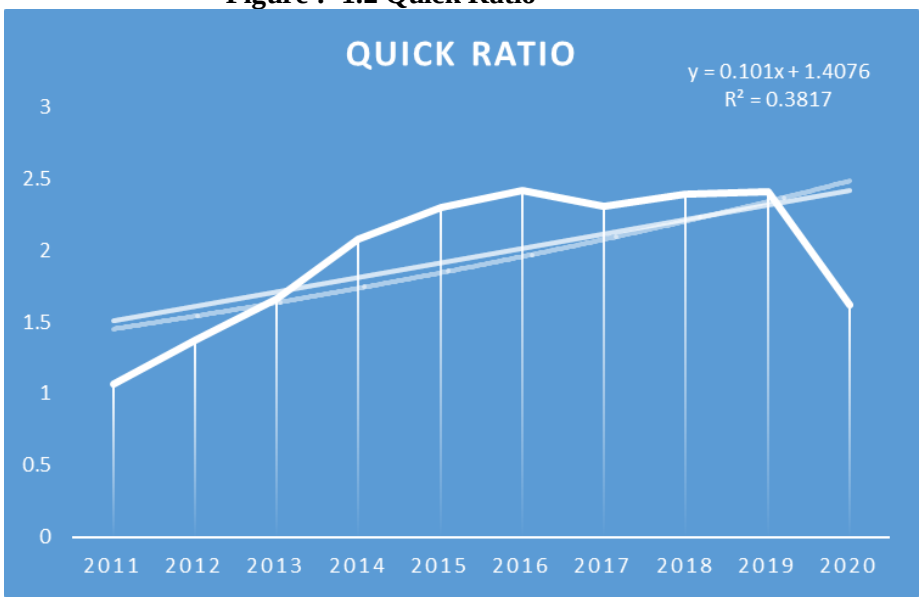
2020	38,420.00	23,730.00	91	38,329.00	1.615213

Figure : 1.2 Quick Ratio



Interpretation:

The quick ratio is an indicator of a company's short-term liquidity position and measures a company's ability to meet its short-term obligations with its most liquid assets. Since it indicates the company's ability to instantly use its near-cash assets (assets that can be converted quickly to cash) to pay down its current liabilities, it is also called the acid test ratio.

A result of 1 is considered to be the normal quick ratio. It indicates that the company is fully equipped with exactly enough assets to be instantly liquidated to pay off its current liabilities. A company that has a quick ratio of less than 1 may not be able to fully pay off its current liabilities in the short term, while a company having a quick ratio higher than 1 can instantly get rid of its current liabilities. From the table and graph we shall understand that the company's quick ratio is above 1, which mean that HCL had enough near-cash assets to pay off its liabilities. We can also infer that the ratio has increased from 1.068229 in 2011 to 2.40922 in 2019. This means that the proportion of near-cash assets in comparison to current liabilities has increased considerably.

II Turnover Ratio:

These ratios signify how efficiently the assets and liabilities of the company are been used to generate revenue.

Table: 1.3 Working Capital over Total Asset Ratio

Year	Current Assets (Rs. In Cr.)	Current Liabilities (Rs. In Cr.)	CA-CL(Rs. In Cr.)	Total Assets (Rs. In Cr.)	WC/TA

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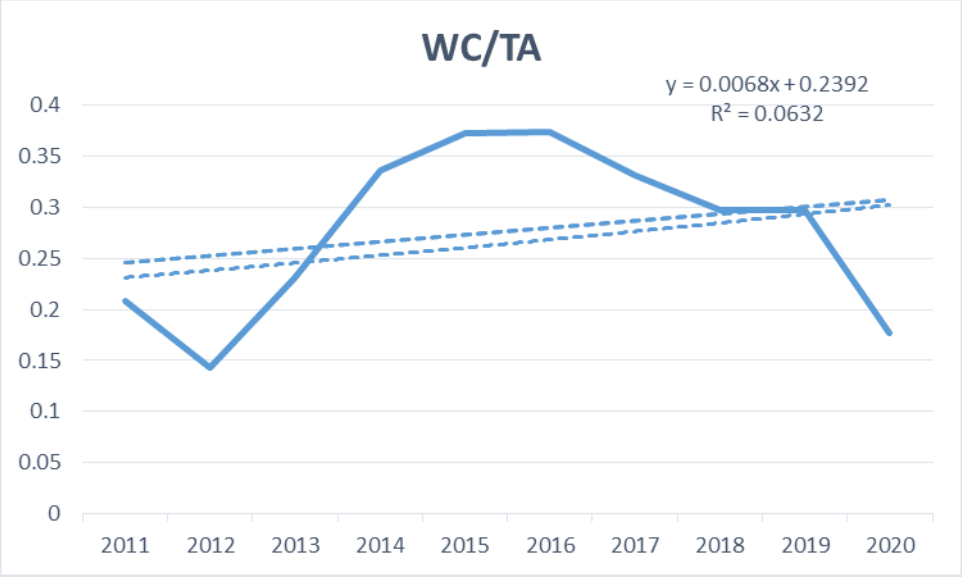
2011	6,944.71	4,056.65	2888.06	13900.64	0.207765
2012	9,048.83	6,423.98	2624.85	18,291.30	0.143503
2013	12,633.52	7,472.23	5161.29	22,399.32	0.230422
2014	19,329.63	9,241.78	10087.85	29,979.69	0.336489
2015	23,046.80	9,945.05	13101.75	35,244.67	0.371737
2016	24,860.16	10,159.68	14700.48	39,343.67	0.373643
2017	26,469.78	11,341.65	15128.13	45,769.44	0.330529
2018	24,386.00	10,107.00	14279	48,023	0.297337
2019	29,722.00	12,299.00	17423	58,575	0.297448
2020	38,420.00	23,730.00	14690	82,906	0.177189

Figure : 1.3 Working Capital over Total Asset Ratio



Interpretation:

The working capital over total assets ratio, sometimes referred to as the net working capital ratio, measures the net liquid assets of a business as a percentage of its total assets. The ratio is an indicator of the short term liquidity and financial strength of the business and indicates its ability to finance short term obligations. A high ratio is a good thing. From the table and figure we can infer that, the ratio has increased compared to the previous years. This indicate that HCL is financially strong and has enough assets to meet its short term liquidity requirements.

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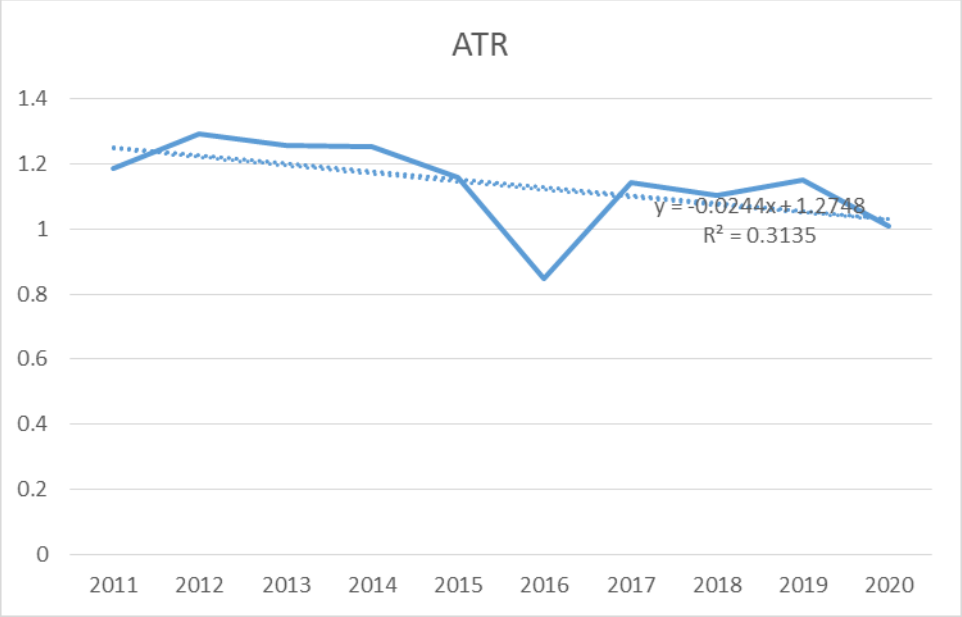
Table: 1. 4 Asset Turnover Ratio

Year	Revenue (Rs. In Cr.)	TA-B (Rs. In Cr.)	TA-E (Rs. In Cr.)	Avg Asset	ATR
2011	15,730.43	12602.72	13900.64	13251.68	1.187052
2012	20,830.55	13900.64	18,291.30	16095.97	1.294147
2013	25,581.06	18,291.30	22,399.32	20345.31	1.257344
2014	32,821.06	22,399.32	29,979.69	26189.51	1.253214
2015	37,840.68	29,979.69	35,244.67	32612.18	1.160324
2016	31,676.24	35,244.67	39,343.67	37294.17	0.849362
2017	48,640.85	39,343.67	45,769.44	42556.56	1.14297
2018	51,786	45,769.44	48,023	46896.22	1.104268
2019	61,370	48,023.00	58,575	53299	1.151429
2020	71,265	58,575	82,906	70740.5	1.007414

Figure:1. 4 Asset Turnover Ratio



Interpretation:

The asset turnover ratio measures the value of a company's sales or revenues relative to the value of its assets. The asset turnover ratio can be used as an indicator of the efficiency with which a company is using its assets to generate revenue.

The higher the asset turnover ratio, the more efficient a company is at generating revenue from its assets. Conversely, if a company has a low asset turnover ratio, it indicates it is not efficiently using its assets to generate sales. From the table and graph we can indicate that the ratio has declined from 1.187052 in

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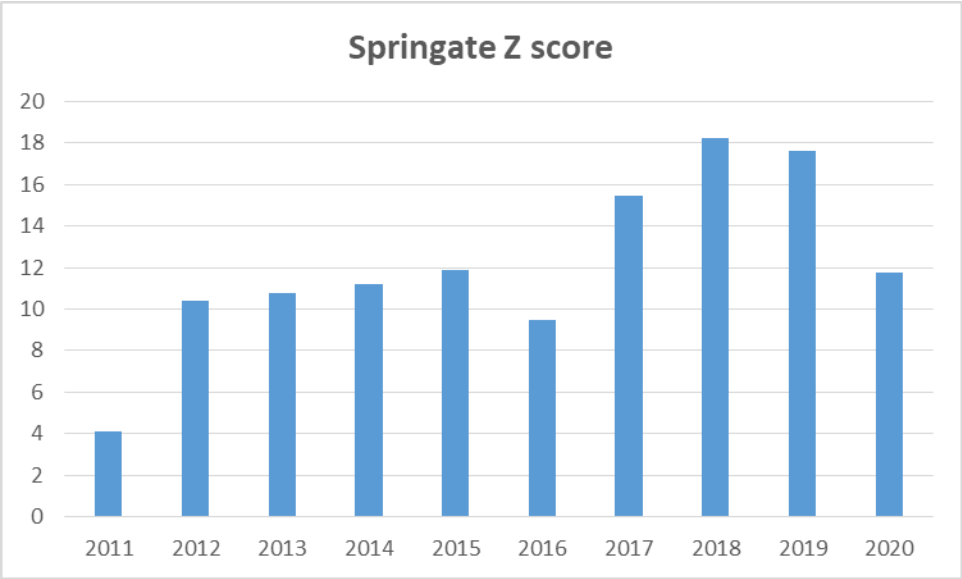
2011 to 0.849362 in 2016 and increased to 1.007414 in 2020. This shows that HCL is not efficient in utilizing its assets to generate revenue. But in the recent years it has managed to improve its efficiency.

Table: 2.1 Springate Z score

Year	Working Capital / Total Assets, X1	1.03X1	EBIT / Total Assets, X2	3.07X2	EBT / Current Liabilities, X3	0.66X3	Asset Turnover ratio,X4	0.4X4	Z
2011	0.207765	0.213997	0.794576	2.439349	1.747816	1.153558	0.688805	0.275522	4.082427
2012	0.143503	0.147808	0.809103	2.483947	2.349498	7.753344	0.104355	0.041742	10.42684
2013	0.230422	0.237334	0.814102	2.499293	2.430952	8.022141	0.101482	0.040593	10.79936
2014	0.336489	0.346584	0.787835	2.418654	2.549803	8.41435	0.09363	0.037452	11.21704
2015	0.371737	0.382889	0.775677	2.381328	2.746826	9.064525	0.085573	0.034229	11.86297
2016	0.373643	0.384852	0.572623	1.757952	2.216748	7.315268	0.078278	0.031311	9.489383
2017	0.330529	0.340445	0.93926	2.883529	3.694135	12.19065	0.077048	0.030819	15.44544
2018	0.297337	0.306257	0.95396	2.928656	4.530523	14.95073	0.063807	0.025523	18.21116
2019	0.297448	0.306371	0.92041	2.825658	4.373445	14.43237	0.063774	0.02551	17.58991
2020	0.177189	0.182504	0.766326	2.35262	2.666751	8.800278	1.007414	0.402966	11.73837

Figure : 2.1 Springate Z score



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Interpretation:

Springate Z score helps us in identifying the firms which is at the risk of bankruptcy. If Z is greater than 0.862, the company is not bankrupt. If Z is less than 0.862, the company is bankrupt. From the table and graph we can easily infer that the Z score has increased from 4.082427in 2011 to 11.73837 in 2020. As the Z score is increasing year after year and as the values are above 0.862 we can interpret that over years HCL is becoming financially better and is nowhere near to bankruptcy.

Conclusion:

The working capital management in HCL technologies limited is analysis the from the period of 2011 to 2020.In 2020 comparing to the previous years the performance of working capital management is not satisfactory level. But there is no any liquidity issues in HCL technologies, So the working capital turnover denotes that HCL technologies is financially strong and has enough assets to meet its short-term liquidity requirements in future.

The analysis of springate Z score HCL is becoming financially better and is now here near to bankruptcy.So finally the working capital management in HCL technologies limited is maintaining a satisfactory level of working capital.

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