

WORKING CAPITAL MANAGEMENT AND PROFITABILITY: AN EMPIRICAL ANALYSIS OF INFORMATION TECHNOLOGY SECTOR IN INDIA

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ABSTRACT

Purpose: The paper seeks to empirically investigate the relationship between liquidity and profitability. It also examines the impact of working capital management on profitability and the impact of investment & financing policies on profitability and risk.

Design/Methodology/Approach: The analysis is based on 14 companies of Information Technology Sector (as per BSE 200 index) in India in respect of whom data from 2000-2010 has been taken from CMIE database. Karl Pearson correlation and regression analysis has been used.

Findings: It was found that there is a strong significant relationship between the measures of liquidity and corporate profitability. The regression analysis reveals that there is a negative relationship between profitability and accounts receivables days, inventory days and cash conversion cycle but a positive relationship between profitability and accounts payables days. There is a negative relationship between degree of aggressiveness of investment policy and accounting measures of returns. However there is a positive relationship between degree of aggressiveness of financing policy and return. The results also indicate a **positive relationship between the** degree of aggressiveness of investment policy & financing policy and relative risk.

Practical Implications: The findings suggest that managers can increase profitability by efficiently managing liquidity. Managers can create value for their firms by reducing the days inventory is held, days of accounts receivables and reducing cash conversion cycle.

Originality/Value: The paper addresses gap in literature relating to working capital management of Indian companies.

KEYWORDS: Liquidity, Profitability, Working Capital Management, Investment Policy, Financing Policy, Return on Assets, Return on Equity