Impact of Working Capital Management on Profitability- A case study on Robi Axiata

Internship Report on

Impact of Working capital Management on Profitability- A case study on

Submitted to: Dr. Suman Paul Chowdhury

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Date of Submission: 9th Januray, 2018

Letter of Transmittal

9th Januray, 2018

Dr. Suman Paul Chowdhury

Assistant Professor

BRAC Business School

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Subject: Letter of Tansmittal

Dear Sir,

It is an honor to submit the internship report titled "Impact of Working Capital Management on Profitability- A case study on Robi Axiata". As a 12 week long period, it is mandatory to be affiliated with an organization and mine was Robi Axiata.

Being an intern of Robi Axiata, the team I was assigned was Master Data Management under Department of FCPI (Finance control and process improvement). After gathering 3 month long internship program, I tried by best to come up with an effective report.

It would be really grateful if you find this report useful and accept it and I would like to thank you once more for giving me the opportunity to prepare the report and also for your guidance and support as well.

Sincerely Yours,

Raquib Ibn Rafiq

ID: 13104208

BRAC University

Letter of Endorsement

The internship report titled, “Impact of Working capital management on profitability- A case study ob robi Axiata” has been submitted to Brac Business School’s Faculty, Dr. Suman Paul Chowdhury, Assistant Professor. The submission partially fulfills the requirements for the degree of Bachelor of Business Administration (BBA), of BRAC Business School, BRAC University.

It is submitted on 9th January, 2018 by Raquib Ibn Rafiq, ID: 13104208. The report has been carried out successfully under the guidance and supervision of Dr. Suman Paul Chowdhury.

(Any opinions, suggestions made in this report are entirely that of the author of the report. The university neither condones nor rejects any idea of these opinions or suggestions.)

____

Internship Supervisor

Dr. Suman Paul Chowdhury

Assistant Professor

BRAC Business School

BRAC University

Acknowledgement

The Internship opportunity I had with Robi Axiata Limited was the best opportunity of learning and professional development for me. I feel privileged to have had the opportunity to work there and come into contact with so many people of different personalities. I would like to express profound gratitude to all those people who have been guided me and helped me to prepare this Internship Report. Without their help and guidance it would not have been easier to complete this report.

First, I would like to express deepest gratitude and thanks to my academic internship supervisor and faculty Dr. Suman Paul Chowdhury for helping me to select the topic of this report and for giving proper guidance and instructions throughout my internship program. I am also thankful to him for always being available when I needed help and suggestions from him for preparing this report.

I would like to express special thanks to my organizational supervisor Mirja Enamul General Manager, MDM for giving me clear guidance and instructions of my work activities, making a friendly working environment and also for being an excellent supervisor. I would also like to thank Mohammad Hasan Sharif, Specialist (MDM) and Ziaur Rahman, Specialist (MDM). I am thankful to other employees of BRAC Bank Limited for being friendly and cooperative with me during this internship program. I consider myself lucky that I got to work with such an amazing team.

Finally, I would like to convey my gratitude to the almighty Allah and my parents because without their blessings and support it would not have been possible for me to continue my journey so smoothly in Robi Axiata Limited.

Executive Summary

This internship report is prepared as a requirement of BBA program completion under BRAC Business School. This 12 month internship program gives a bird's eye view about the corporate culture. I have prepared the report which does not comply with the experience I gathered througout the internship period.

The report is prepared upon a quantitaive study of impact of working capital management on profitability of Robi Axiata. Since, the confidential information was not available; the study was conducted based on the annual reports of Axiata Group, Berhad. Based on the findings proper recommendation was given in the study. I was assigned in Masterdata management team under FCPI department. My main job responsibility was material creation, functional location creation and vendor data updation and creation. However, my report does not go along with my job experience, under the proper guidance of my supervisor faculty, I was able to conduct this study. Based on the past historical data, regression was done and also with the interpretation and based on the findings, proper reccomendation was given.

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CHAPTER: 01
INTRODUCTION

1.1 RATIONALE OF THIS REPORT:

To begin with, as internship program is the final milestone of under graduation program, it enables one to take the prime opportunity to have a bird's eye view of the professional world reflect it through the academic knowledge. Firstly, to organize the report, I had to ask my supervisor whether I can get the required data. Subsequently, my supervisor discussed about it with the general manager of the MDM (Master Data Management) because he had the fire fighter role to have the access of the information. However, they declined to share the information I sought as Robi is a private limited company and Axiata is their parent company. Therefore, the annual report of Axiata Group berhad has been used as the source of the secondary data of the report. To understand the working capital policy of Robi Finance, I had consulted with the manager of corporate finance team and the manager of accounts payable team to get a clear view of their trade credit policy. Add to that, Robi particularly does not have any working capital management team. Working capital management has a great significance on profitability of a firm. Hereby, this was the best chance to clarify impact of working capital management on profitability of Axiata group, Berhad.

1.2 OBJECTIVE:

The objective of the report is to illustrate the impact of working capital management on the profitability of Robi Axiata. However, being a private limited company it only left the choice of doing the report on Axiata Group, Berhad. The soul purpose of preparing the report is to picture the working capital management and impact of profitability on working capital management of Robi Axiata by evaluating WCM of Axiata Group, Berhad. In short how a multinational telecom should manage their working capital to get the optimum level of profit.

1.3 METHODOLOGY:

After slection of the topic of the report, I had discussion with the accounts payable team, corporate finance team and business plan team to know the overall working capital management of Robi Axiata. As mentioned earlier, Robi being a private limited company, the mother company was taken to represent the report on Robi. Therefore, annual report has been the seondary source of the Report.

1.4 LIMITATION:

Limitation of the report is though it is made ready for Robi Axiata that consists of the study of the Parent company Axiata Group, Berhad. I tried the level best to recommend on Robi Axiata's WCM and the impact of their profitability in WCM.

- To maintain the confidentiality, eventhough, I was given permission to use the required data by manipulating; annual report of Axiata was used so that it would not create any ambiguous scenario.
- As working capital management's objective is fragmented and allocated to different teams, three month has set a time constraint to understand the whole working capital management of the company being an intern of Master Data Management Team.

CHAPTER: 02

OVERVIEW OF THE ORGANIZATION

2.1. BACKGROUND OF THE COMPANY:

Robi Axiata Limited is currently the second largest mobile network operator of Bangladesh. It is a joint venture between Axiata Group Berhad, of Malaysia, NTT DoCoMo Inc. Japan and Bharti Airtel Limited of India. Axiata holds 68.7% of controlling stake in the entity; Bharti holds 25% whereas the remaining 6.3% is owned by NTT DoCoMo Inc.

With the aim of fulfilling the communication needs of the people of Bangladesh, the company commenced operation in 1997 as Telekom Malaysia International (Bangladesh) under brand name of Aktel. During the year 2008, AK Khan and Company dissolved the business by liquidating its 30% stake to Japan's NTT Docomo for about US$350 million. On 28th of March, 2010 the company was rebranded to “Robi” which means ‘Sun’ in Bengali. Robi reformed the logo of its parent company Axiata Group which itself went through a key rebranding in 2009. After doing business for five years, on 2013 Docomo lessened its share to 8% that made Axiata the owner of 92% shares of the company.

2.2. ROBI AND AIRTEL MERGER:

Robi began its operations in 1997 under the name of Aktel. The operator transformed its license in 2011 after completing its first 15-year lease. On the other hand, Airtel had arrived Bangladesh in 2010 by acquiring a 70 percent stake in Warid Telecom. Later in 2013, it picked up the remaining 30 percent shares but its license expires in 2018.

The two dominating Telecom operators of Bangladesh- Robi Axiata Limited and Airtel Bangladesh Limited have merged which is now called Robi Axiata Limited. The possibility of merging the companies was pronounced on September 9, 2015, while on January 28, 2016, both the companies had officially agreed to merge their operations. Their view was that it will reinforce the long-term sustainability of Bangladesh telecom landscape with major contributions of the overall economy of the country. The merged entity will serve approximately 3.22 crore subscribers.

The 4 key benefits that the merger will bring to the customer through this merger are:

1) Affordability- Low tariffs and call rates for 32.2 million customers of both brands.
2) Availability- Enabling the availability of internet access and mobile services across Bangladesh by the boosted strength of combined operations.
3) Care- Creating extented channels for wider sales and distributions around the country.
4) Speed- A solid network coverage and faster data connections.

Bangladesh's Supreme Court had fixed the merger fee at 100 crore taka. The merged entity has obligations to pay the Bangladesh Telecommunications Regulatory Commission (BTRC) an additional 507 crore taka.

On accomplishment of the merger, Axiata will hold a controlling 68.7% stake in the combined entity, while Bharti will own 25%. The remaining 6.3% will be held by existing shareholder NTT Docomo of Japan. The merger was completed on 16th November 2017. After the merger, more than 200 executives of Airtel joined Robi, while around 137 left under a voluntary retirement scheme. Moreover, Robi-Airtel merged entity will be the largest spectrum holder in both 900 Mhz and 1800 Mhz bands with 12 units and 17 units of such airwaves respectively.

2.3. COMPANY PROFILE:

The company provides widest network coverage to 99% of the population with over 13,900 on-air sites of which over 8,000 are 3.5G sites. Robi introduced GPRS and 3.5G services in Bangladesh for the first time. The company has presented many unique digital services in the country and invested heavily to take the mobile financial services to the underprivileged groups in the rural and semi-urban areas. Robi has bult itself as a socially responsible brand and has taken up a number of flagship corporate responsibility initiatives in the fields of ICT-Education, Health and Environment with a mission to contribute towards the sustainable development of the country.

2.4. PRINCIPLES AND PURPOSE:

Robi employees religiously follow three guiding principles:

1. Uncompromising Integrity

- They will be legal, ethically, and morally correct.

- Their code of conduct will be fair and honest.

- They will listen and encourage open dialogue.

-They will be passionate in pursuing their beliefs

- They will treat others with dignity, valuing and benefiting from diversity

- They will be accountable for their own actions and behaviors on fellow employees, customers, shareholders, and the communities in which they operate.

- They will be courageous in sharing their work and bold to learn and improve from their mistakes

2. Customer at the Centre

- They will be customer centric in delivering their needs in terms of value, quality, and satisfaction.

- Their customer focus will be in creating a positive experience, at every point of interface, sale, and post-sale.

- Simplicity will be the key for the customer to learn about Robi, buy from them, and get support from them whenever wherever.

- They will strive for continuous innovative solutions in every sphere of their work.

- They will engage with the customers to know their demands and their actions will be designed to serve the customers better than their competitors do.

- They will not be distracted from creating and providing value for their recruitment process.

3. I Can, I Will

- Guaranteeing their efforts to produce desired results.

- Grabbing the opportunities at the right time and execute them on time.

- Going beyond their scope, strive for and achieve excellence.

- Doing what is needed to deliver the results and not waiting for delegation.

- Going that extra mile, setting ambitious goals to ensure their efforts bring success.

- Having the courage to say and do what it takes in order to assure success.

2.5. PRODUCT PORTFOLIO:

Robi offers a diversified variety of packages. Apart from the fundamental pre-paid and post-paid mobile services it also gives a wide-range of value-added products and services such as 3.5G HSPA+, 4G LTE, GPRS, EDGE, international roaming, Mobile Banking, SMS banking, Caller Ring Back Tone, MMS, Voice Greetings, Welcome Tunes etc.

In order to satisfy the needs of all the consumer segments, the company continuously innovates to have a competitive advantage over its competitors. Robi has the widest international roaming service in the market, connecting 385 operators across more than 140 countries. Robi has enriched peoples' life experience with its innovative Value Added Services (VAS) whether it is in the fileld of entertainment, education, health or agriculture.

2.6. SUPPLEMENTARY SERVICES:

- Call Waiting
- Internet & Data Services

- Call Forwarding
- Call Conferencing
- Dedicated Customer Service Centres
- Entertainment
- Live Chat
- MyRobiApp
- Robi Radio
- Robi Sports portal
- Information Services
- Robi cash
- Robi Recharge Plus
- Education & Career
- Islamic Kotha
- Lifestyle
- M-Ticket
- Balance Transfer Request

Within two years after the launch, BDAPPS (Robi's one of the popular app stores) hosts more than a thousand exciting mobile apps on sports update, cooking recipe, jobs/career tip, and alert, beauty tips, general knowledge, religious, newspaper, jokes etc. Robi-Yonder is the company's popular music app and contains the largest collection of local and international music. Along with the participation of the leading artists, this digital music platform is already considered as the hub of musical creativity of the country.

Robi's ticketing platform Bdtickets brings the greatest convenience for the people in buying bus, launch and movie tickets. Also, the utility bill payment solution continues to provide digital bill payment facility to the customers of Bangladesh Power Development Board for paying their monthly electricity bills.

2.7. CHAIN OF COMMAND AND DEPARTMENTS:

- Mahtab Uddin Ahmed; CEO of Robi Axiata Limited.
- A K M Morshed; CTO of Robi Axiata Limited.
- Roni Tohme; CFO of Robi Axiata Limited
- Tan Sri Ghazali Sheikh Abdul Khalid is the chairman of the Board of directors.

The major divisions of Robi are Finance, Marketing, Technology, People & Corporate, Digital services.

Market Operations: This divisoin is dedicated to achieve the monthly targeted sales set by the top management. It develops brand and market communication, sales of corporate and business products, maintain the contact centre and determine pricing strategies.

Finance: This division is responsible for budgeting. Under finance division there are major departments. For instance, Financial Accounting and Management Reporting, Corporate Finance and Corporate Process Improvement & Compliance.

Corporate Strategy: It analyzes monthly growth revenue, manage business strategy, develops business planning for projects, attract new business proposals and also plans for organizational growth.

Human Resources: HR recruits new employees, renders training for existing employees, circulates remuneration of employees' salary to their respective accounts, motivates them and works for organizational development.

Technology: Renders IT support to all other divisions and departments of Robi. Their tasks include central network monitoring, compliance of technology, supporting employees by providing hardware and software assistance, monitoring the Robi website.

Administration: The division controls the layout of the business facility, safety and maintainance, employee mamangement, security staffs and personnel management.

Internal Audit: It ensuresworthiness of operations, reliability of financial reporting, inspecting fraudulent activities and safeguarding assets alligned with laws and regulations.

Enterprise Program Management (EPMO): Works closely with the CXOs to create different management programs and also with corporate strategy division to determine business goals, objectives and policies for business.

VISION: "To be the leading telecommunication service and small screen data provider in Bangladesh in the long run.

MISSION: "Robi aims to achieve it's vision through being number one not only in terms of market share, but also by being an employer of choice with up-to-date knowledge and products geared to address the ever changing needs of our budding nation.

2.8. KEY ACHIEVEMENTS:

According to (Saha, 2017) Robi received different kinds of award and achievement, some of these are:

- Robi received the significant fund grant from GSMA MMU (Mobile Money for the Unbanked) in 2009.

- Financial Mirror Samsung Mobile & Robintex Business Award 2008-2009 awarded Robi the best Telecommunication Company.

- In 2007, Robi recieved TeleLink Telecommunication Award for its brilliance in service, corporate social responsibilities, and dealership management for the year 2006 in commemoration of World Telecommunication Day 2007.

- Arthakantha Business Award was given to Robi by the national fortnightly business magazine of Bangladesh for its excellence in service in the telecom sector.

- Robi got Deshbandhu C. R. Das Gold Medal for contribution to telecom sector in Bangladesh.

- Robi got the Beautification Award for the exceptional contribution to the Dhaka Metropolitan City from Prime Minister Office on 13 the SAARC summit.

- Robi also got Standard Chartered-Financial Express Corporate Social Responsibility (CSR) Awards 2006 for contribution in Education, Primary Health, Poverty Alleviation and Ecological Impact.

- Robi also received Desher Kagoj Business Award 2006 for corporate social responsibilities activities.

- Robi Axiata was awarded the 5th Best Employer of the Year at the 22nd World HRD Congress, 2014. It also got the awards in the categories of “Talent Management”, “Best HR strategy in line with Business”, and “Global HR Strategy”.

- In 2012 Robi crossed the landmark 2 crores (20 million) subscriber base.

- Robi received "Star News HR EXCELLENCE AWARDS FOR INNOVATION IN HR"

Saha (2017) stated, since the rebranding in 2010, Robi moved forward, with an average of 20% revenue growth. They earned back their No. 2 position in terms of revenue. Robi is being identified as one of the top three employers of choice in the country. They have been awarded the Emerging Market Service Provider of the Year Award at the 10th Frost & Sullivan Asia

Pacific IT Award:

According to Parvez (2017), their success has not been by chance; it has been by choice, through careful crafting of strategies to align and exceed the requirements of the changing industry. It's HR accordingly, envisioned, evolved and executed its people strategy through demanding processes and practices.

Going forward, their aim is to take the excellence achieved towards greatness, in terms of company performance and industry limits. They are no more concerned about holding the 2nd position in the industry but going beyond all performance parameters and gaining pace towards becoming the leading telecom operator in the country with solid local heritage. Being transparent to their corporate brand value, they strive to ignite the power within their people and place ourselves in league with the Global High Performing Companies, known for our exceptional performance and uncompromising integrity.

2.9. Corporate Social Responsibility of Robi:

- On January 31, 2010, Robi Axiata Ltd. donated sewing machines for the underprivileged women.
- Robi initiated health camp at Rangpur for underprivileged women March 07, 2010.
- Robi Axiata Ltd. pledge for 'Healthy Women, Healthy Family' March 08, 2010.
- Robi organized 'Konthe O Tulite Bangladesh' contest on March 31, 2010.

Robi Axiata Limited & The Daily Star have jointly initiated "English in Schools (EIS)", a language learning program to promote English language learning at secondary schools across the country.

- Robi Axiata Ltd. organized debate championship 2008 in Chittagong.

Guided by their strong corporate governance practices, they aim to go beyond short-term profits, to enhance people's lives by enabling them to ignite their power within. Corporate Responsibility works as the strategic tool for Robi to facilitate sustainable development of the community, which in turn helps in the creation of the platform for the sustainable business environment.

According to (Rahman, 2017) Robi has huge successive CSR activities, some of them are:-

- ✓ "Gori Nijer Bhobishhot" is the flagship CR project of Robi. In partnership with UCEP Bangladesh, they are providing "free" technical training to 500 underprivileged boys and girls in Chittagong, on mobile phone servicing, electronics, and sewing machine operation for RMG sector.

- ✓ "Internet4U" is a campaign for college and university students across the country, to edify them about "proper and safe" use of the internet as a tool for networking, learning, and development. Through interactive sessions and live demonstrations, students were shown the power of the internet as a tool for self-education, skill development, and employment, leading to a better life. Sessions were conducted with students of, University of Barisal, Barisal Amrita Lal Dey College, Presidency University Dhaka, Daffodil University Dhaka and South East University Dhaka, as well as across Robi Internet Corners in the public libraries of Khulna, Rangpur, Sylhet, Rajshahi, and Barisal.

- ✓ As a responsible telecom operator, Robi is eager to promote ICT-based education as a tool for human development, and so it has sponsored 10 Minute School, the first-ever online platform in the country which offers a comprehensive guideline and solution for 10 minutes for admission tests of all leading public and private universities in Bangladesh; online courses, tutorials and quizzes for JSC, SSC and HSC students; aptitude tests like SAT, IELTS, GRE, GMAT etc. Robi has faith in that ‘10 Minute School’ can alter the way of education in Bangladesh by taking it to the fingertips of ambitious students who want to outshine by providing them access to quality education regardless of their location, economic status or relation to educational bodies.

- ✓ Robi Alo is a CSR activity where access-to-electricity is given to more than 4,000 people in the off-grid areas of Kurigram and Naikhonchhari, through solar home systems installed across 950 households. This has considerably abated the dependence on kerosene lamps after dark, thus reducing the Green House Gas emission.

- ✓ Robi provided assistive devices and physiotherapy equipment to SEID (Society for Education & Inclusion of the Disabled) to help the organization to support the physical challenges faced by the children with special needs. SEID works for the rights of underprivileged children with intellectual and multiple disabilities, Autism, Down syndrome, and Cerebral Palsy. It has operations across three centers, providing assistance to more than 450 special-needs children from slum areas.

- ✓ Robi supported the victims of the flash flood in the south-eastern region of the country in 2015. It was the first to respond this natural catastrophe. Along with the help of the Bangladesh Army’s 24th and 10th Divisions, Robi distributed relief items to more than 20,000 affected people in Bandarban, Cox’s Bazaar and Ramu.

CHAPTER: 03

JOB OVERVIEW

3.1. JOB RESPONSIBILITY:

Vendor Masterdata updating and editing: As Robi Finance has inaugeurated EFT payment to its vendors; I have been assigned to update the EFT information of their vendors in their ERP software known as SAP software. After receiving authenticated EFT bank information of the vendors from Corporate Finance, I had to update the required fields in sap and enable EFT for the particular vendors. Add to that, I had to confirm the vendors also. Lastly, I had to update the information which includes routing number, swift code, bank accounting number, TIN information, Trade license, Vat information in ARIBA spend management website which will sync with SAP vendor information afterwards.

Functional Location Creation and Editing: As Robi and Airtel merged, the functional location or sites were under Robi. Therefore, my duty was to update the Airtel's 2332 Functional location's cost center and profit center so that that Robi would allign their operations. To perfrom the task, I had been given the functional location site code, name according to their respective location. Each location has different FL format. I had to change the format according to the FL site and update the cost center and profit center.

Collaborate with ARIBA end-users to address master data issues and provide support: ARIBA Spend management is new ERP software which is also a product of SAP-ERP. This new ERP software keeps the vendor information updated and synced with SAP-ERP. My responsibility was to make the vendors aware of the software. In this ERP software vendor himself has to update all the required information in a given time. I had to call some vendors who did not update their information because that would result in delay payment. My job was to assist the vendors so that they had a clear idea about the whole process.

Material Database Management: Another job responsibility was material creation. From MO (Market Operation), MDM team gets material creation request. After getting the request, my job was to find out the equipment type. For equipment type there are different classifications. The materials need to have a plant name derived form different location for different warehouse.There is material description and material group (hardware, transport, service, accessories). According to the type of material request I had to create the material and forward it to my supervisor. There is valuation class which stands for GL account number that shows whether it is capital expenditure or operating expenditure. That is how a material is created and by seeing the material, stakeholders can identify from which department the material is used and cost of the product.A common hiccup in this work is material duplication. Market Operations often request materials with same description or reference that creates duplicate material that hinders company's internal auditing. Therefore, to appease the problem, I had to find duplicate materials from the material database and remove the materials.

CHAPTER: 04

MAIN PROJECT

Impact of working capital management on profitability- A case study on Robi Axiata

4.1 RATIONALE OF THE STUDY:

Corporate finance is elaborated on three main areas: capital budgeting, capital structure and working capital management. Capital budgeting and capital structure are related with the long-term investments decisions whereas working capital management manages short-term financing and makes short-term investment decisions. WCM decides the appropriate levels of current assets and their uses. Due to increasing cost of capital and scarce of funds, importance of WCM should the emphasised. The inefficient WCM reduces the profitability as well as leads to financial crisis. Sometimes, inaccurate WCM procedures may lead to bankruptcy, even though their profitability may constantly be positive (Samiloglu & Demirgunes, 2008). Regardless of profit orientation, every organization needs working capital. It is the most critical factor that maintains not only liquidity, persistence, affluence but also profitability of business (Mukhopadhyay, 2004). WCM is one of the most influential areas while making comparison between firms based on profitability and liquidity (Eljelly, 2004). Smith (1997) emphasised on profitabilty and liquidity as the salient goal of WCM. Moreover, Shin and Soenen, (1998) argued that efficieny of WCM is very significant creating value for the shareholder. Excessive current assets can occur to a substandard return on investment (Raheman & Nasr, 2007). However, proper WCM results in materials savings and optimum financial retuns by using minimum level of capital used.

On the contrary, firms having lower levels of current assets may acquire a deficiency of funds and struggle in maintaining smooth business operations (Horne and Wachowicz, 2000). Efficieny on management of working capital is a vital business strategy to create shareholders' value. Therefore, to maximize the shareholders' value, firms try to keep an optimal level of working capital (Afza and Nazir, 2007; Deloof, 2003). Precisely, working capital investments involve a settlement between profitability and risk as it has effects on the firm's value.

Firms may have an optimal working capital level to maximize their value most. Large inventory and a liberal trade credit policy can boost sales. Larger inventory reduces stock-out risk. As customers can assess the product quality before paying, trade credit policy may increase sales (Long, Maltiz and Ravid, 1993, and Deloof and Jegers, 1996).

Another component of working capital is accounts payable. A deferral in payments to suppliers allows a firm to assess the quality of the products bought, and so can be an economical and flexible source of financing for the firm. Conversely, delay of payment of invoices can incur cost if the firm is offered a discount for early payment. A standard measure of Working Capital Management (WCM) is the cash conversion cycle. It indicates the time gap between the disbursement for the purchases of raw materials and the collection of sales of finished goods. The longer this time gap duration, the larger the investment in working capital (Deloof 2003).

Maximum empirical studies involving working capital management and profitability support the fact that aggressive working capital policies increase a firm's profitability. Jose et al. (1996), Shin and Soenen (1998), Deloof (2003) and Wang (2002) boalstered the fact that, by allowing managers to create value for shareholders by reducing the investment in current assets to an optimal level net credit period may increase profitability of the firm. There is, however, no empirical evidence available that indicated the relationship of working capital management and profitability of Axiata Group, Berhad. The objective of the current study is to provide empirical evidences about the effect of working capital management on profitability for Axiata Group, Berhad based on their past 10 years data. This study is believed to be the first to detect whether there is any relationship between WCM and profitability of Axiata Group, Berhad. Since, no study has been conducted on Telecommunication Company like Axiata Group; it is believed that it will help academic researchers to lead study on other Telecommunication company as well as Telecommunication sector as a whole.

4.2. STATEMENT OF THE PROBLEM:

- ✓ Does working capital management efficiency have impact on profitability?
- ✓ Is there any relationship between working capital management and profitability of a firm?

4.3. SCOPE AND LIMITATION OF THE STUDY:

As the research is an applied research, the thesis is done for ROBI Axiata. Hereby, the findings will indicate the relationship of working capital management and profitability of the company. No prior research was done on any telecom company in Bangladesh in this regard. That is why this study will help any research related to the industry according to the topic. Based on data of CFO magazine on the ranking of firm's working capital efficiency, it was revealed that working capital efficiency measures vary from industry to industry. Therefore, this sudy is restricted to a particular industry. However if any further research related to the topic is undertaken for other telecom company, this thesis will help in a great extent.

4.4. OBJECTIVE OF THE STUDY:

Corporate profitability may decrease with a longer cash conversion cycle whereas it results high profitability due to high sales. The main objective of the study is to find out any dependency of profitability on working capital management of ROBI Axiata and add to that impact of its components on profitability.

4.5. METHODOLOGY OF THE STUDY:

The methods used for data collection as well as techniques for their anaysis in the study are in the following.

- Collection of Data: The data required for the study was collected from secondary source that is annual report of Robi Axiata. Last 10 years (2007-2010) annual reports were taken for the thesis.
- Variables: The dependent variable is operating profit margin on sales which indicate profitability. We derived it from ROA a major indicator of profitability. OPM= PBIT/Net sales.

To measure working capital efficiency seven independent variables taken for the study are-

1) Day Sales Outstanding- Receivables/ (sales/365)

2) Inventroy Turnover- Inventory/ (sales/365)
3) Days payable Outstanding- Payables/(sales/365)
4) Current Ratio (CR)- CL/CA
5) Quick Ratio (QR)- CL-Inv/(CA)
6) Asset Turnover Ratio(ATR): Net Sales/Total Asset
7) Debt to asset ratio: Total debt/Total Asset

The dependant variable is Operating Profit Margin= PBIT/ Net Sales

4.6. LITERATURE REVIEW:

Numerous studies have done analysis on the relationship between working capital management and firm profitability in various markets.Though majorities of the studies concluded that WCM and profitability have negative relationship, the results are quite mixed. Reviewed studies have used various variables to analyze the relationship, with different methodology such as linear regression and panel data regression. This section is the chronological presentaion of major studies relevant to our study that would help us to achieve the objective of the study.

Soenen (1993) examined the relationship between the net trade cycle as a measure of working capital and return on investment as a measure of profitability in US firms. The results of the study showed a negative relationship between the duration of net trade cycle and return on assets (ROA).

In order to determine the relationship between efficient WCM and profitabilty of a firm Shin and Soenen (1998) took net-trade cycle (NTC) to measure working capital management. NTC is originally the CCC consisting of all three components expressed as a percentage of sales. Regardless of WC being a function of the projected sales growth, NTC helps greatly to get an estimation of financial needs. This relationship is inspected using correlation and regression analysis, by industry and working capital intensity. Using a sample of 58,985 firms covering the period 1975-1994, in all cases, they found, a strong negative relation between the length of the firm's net-trade cycle and its profitability. In addition, shorter NTC are associated with higher risk-adjusted stock returns. In other word, (Shin & Soenen, 1998) suggest that there is one possible way the firm can create shareholder value is by reducing firm's NTC.

Deloof (2003) discovered a substantial negative relation between gross operating income and the number of days accounts receivable, inventories and accounts payable of Belgian firms. He took a sample of 1,009 large Belgian non-financial firms for the period 1992–96 and used trade credit policy and inventory policy as measured by number of days accounts receivable, accounts payable and inventories, and the cash conversion cycle as a broad measure of working capital management. The outcomes of the study were similar as of Shin and Soenen (1998). Thus, he suggests that by reducing the number of days accounts receivable and inventories to a rational minimum level, managers can add value for their shareholders.

Eljelly (2004) took a sample of joint stock firms in Saudi Arabia to provide empirical evidence on the relation between WCM and profitability as measured by current ratio and cash gap (cash conversion cycle). Using correlation and regression analysis, the study inspected significant negative relation between the firm's profitability and its liquidity level, as measured by current ratio. The negative relationship was more apparent in firms with high current ratios and longer cash conversion cycles. At the industry level, however, the study found that the cash gap is of more importance as a measure of liquidity than the current ratio that affects profitability. The size variable was also found to have a significant effect on profitability at the industry level.

Lazaridis and Tryfonidis (2006) investigated the relationship of corporate profitability and working capital management of 131 listed companies of the Athens Stock Exchange (ASE) for the period 2001–04. The objective of their paper was to establish a relationship that is statistically significant between profitability, the cash conversion cycle and its components for listed firms in the ASE. The results of their research showed that there is statistical significance between profitability, measured through gross operating profit, and the cash conversion cycle. Moreover managers can generate profits for their firms by managing correctly the cash conversion cycle and keep each different component (accounts receivables, accounts payables, inventory) to an optimum level.

The cash conversion cycle had been widely used as a major component represents working capital. Jose (1996) examined the relationship between profitability measures and management of ongoing liquidity needs for a large cross section of firms over a 20-year period. They tested the long run equilibrium relationship between the cash conversion cycle and alternative measures of profitability, using both non-parametric and regression analysis. The study concluded with strong evidence that aggressive working capital policies enhance profitability. The authors found no evidence of a positive cross sectional relationship for the CCC-profitability in any of the industries studied.

Padachi (2006) used return on total assets to express profitability. The relation between working capital management and corporate profitability was investigated for a sample of 58 small manufacturing firms in Mauritius, using panel data analysis for the period 1998 – 2003by the author. The regression result of their study indicates that high investment in inventories and receivables is associated with lower profitability. The key variables used in the analysis are inventories days, accounts receivables days, accounts payable days and cash conversion cycle. This study has also shown that the paper and printing industry has been able to achieve high scores on the various components of working capital and this has had a positive impact on its profitability. The findings also reveal an increasing trend in the short-term component of working capital financing.

Raheman and Nasr (2007) provide further indication about the relationship of working capital management and profitability. Using variable and methodology on a sample of 94 companies listed on the Karachi Stock Exchange (KSE) for the period 1999–2004, the results reveals that there is strong negative relationship between variables of WCM and profitability of the firms. This means that as the cash conversion cycle increases, it leads to decreasing profitability of the firm. Hence, managers can make the shareholders value positive by reducing CCC to the minimum possible level. The authors also found a positive relationship between the size of the firm and its profitability, and a significant negative relationship between debt and profitability.

Ramachandran and Janakiraman (2009) analyzed the relationship between working capital management efficiency and earnings before interest and tax of the paper industry in India in their study. The study discovered that cash conversion cycle and inventory days had negative correlation with earning before interest and tax, while accounts payable days and accounts receivable days related positively with earning before interest and tax.

Vishnani and Shah (2007) investigated the impact of working capital management policies on the corporate performance of the Indian consumer electronics industry. They noticed that inventory holding period, debtors' collection period and net working capital cycle had negative relationship on the profitability of firms. However, the average payment period had positive correlation with profitability.

Singh and Pandey (2008) discussed the impact of working capital management in the profitability of Hindalco Industries Limited. Regression results showed that current ratio, liquid ratio, receivable turnover ratio and working capital to total assets had statically significant impact on profitability.

4.6. HYPOTHESIS:

Since, the objective of the study is to detect any relationship between working capital management components and profitability of Axiata group Berhad, only one testable hypothesis generated is: (The null hypothesis H0 versus the altenative hypothesis H1)

H0: *There is no relationship between working capital management and profitability of Axiata Group Berhad.*

H1: *There is a relationship between working capital management and profitability of Axiata Group Berhad.*

4.7. STATISTICAL TOOLS USED FOR THE STUDY:

Statistical tools are used in this study for descriptive and quantitative analysis. The mean and Standard Deviation are used in the descriptive analysis. Add to that, in quantitative analysis portion, correlation analysis is made to determine any relationship between working capital management and profitability. Multiple regression analysis is also included in the quantitavie analysis to develop better understanding of the relationship between WCM and profitability of Axiata Group Berhad.

4.8. THE REGRESSION MODEL:

Multiple regression analysis took place to discover any combined efferct of variables of WCM on profitabilty.The regression equation is given below:-

$$OPM = \beta 0+\beta 1(ATR)+\beta 2(DTA)+\beta 3(CR)+\beta 4(QR)+\beta 5(DSO)+\beta 6(DPO)+\beta 7(ITR)+ €$$

Where, OPM= Operating Profit Margin

ATR= Asset Turnover Ratio

CR= Current Ratio

QR= Quick Ratio

DSO= Dalily Sales Outstanding

DPO= Days Payable Outstanding

ITR= Inventory Turnover Ratio

DTA= Debt To Asset Ratio

4.9. ANALYSIS AND INTERPRETATION OF THE DATA:

Table1: Descriptive Statistics

Year	OPM	C.R.	Q.R	ATR	DTA	DSO	DPO	ITO
2007	0.26	0.53	0.52	0.41	0.21	32.98	141.1	2.72
2008	0.17	0.36	0.35	0.3	0.43	49.5	145.98	2.49
2009	0.24	0.56	0.55	0.36	0.33	42.75	116.89	0.97
2010	0.22	1.39	1.37	0.41	0.28	39.81	106.7	1.99
2011	0.25	1.17	1.13	0.39	0.28	45.17	124.49	7.66
2012	0.23	1.36	1.31	0.41	0.29	43.67	118.51	7.89
2013	0.22	1.15	1.14	0.42	0.3	53.25	121.37	1.24
2014	0.18	0.79	0.78	0.38	0.28	59.74	163.36	1.55
2015	0.21	0.79	0.78	0.76	0.63	72.59	174.4	2.856
2016	0.13	0.53	0.52	0.31	0.32	80.89	203.56	2.96
MEAN	0.21	0.86	0.85	0.42	0.34	52.04	141.64	3.23
MEDIAN	0.22	0.79	0.78	0.40	0.30	47.34	132.80	2.61
MODE	0.22	0.53	0.52	0.41	0.28	#N/A	#N/A	#N/A
SD	0.040	0.377	0.367	0.128	0.117	15.049	30.680	2.490
Correl. Coeff. 'r"		0.39	0.39	0.24	-0.27	-0.78	-0.74	0.27

Table 2: Correlation Matrices

	OPM	*C.R.*	*Q.R*	*ATR*	*DTA*	*DSO*	*DPO*	*ITO*
OPM	1.00							
C.R.	0.39	1.00						
Q.R	0.39	1.00	1.00					
ATR	0.24	0.18	0.18	1.00				
DTA	-0.27	-0.24	-0.24	0.71	1.00			
DSO	-0.78	-0.27	-0.26	0.29	0.55	1.00		
DPO	-0.74	-0.58	-0.58	0.16	0.39	0.86	1.00	
ITO	0.27	0.46	0.44	0.01	-0.12	-0.16	-0.16	1.00

Table 3: Regression Output

Regression Statistics	
Multiple R	0.997343
R Square	0.994693
Adjusted R Square	0.97612
Standard Error	0.006201
Observations	10

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	7	0.014413107	0.002059	53.55541419	0.018450288
Residual	2	7.68929E-05	3.84E-05		
Total	9	0.01449			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	0.438	0.029	14.975	0.004	0.312	0.564
C.R.	-1.290	0.882	-1.463	0.281	-5.084	2.504
Q.R	1.205	0.890	1.353	0.309	-2.626	5.036
ATR	0.354	0.038	9.415	0.011	0.192	0.516
DTA	-0.326	0.047	-6.878	0.020	-0.531	-0.122
DSO	0.001	0.001	2.061	0.175	-0.001	0.004
DPO	-0.002	0.000	-6.258	0.025	-0.003	-0.001
ITO	0.012	0.004	2.813	0.107	-0.006	0.031

Correlation Matrix analysis:

From table2 it can be observed that, operating profit margin has weak relationship with current ratio, quick ratio, asset turnover ratio, and inventory turnover ratio whareas it has a strong negative correlation with day sales outstanding and days payable outstanding. Add to that, it has weak negative relation with debt to asset ratio. Current ratio and Quick ratio have moderate negative relationship. Moreover, asset turnover ratio has strong positive relation with debt to asset ratio. On the other hand, debt to asset ratio has moderate relationship with day sales outstanding. In addition, Days sale outstanding has strong relationship with days payable outstanding.

Regression Output Interpretation:

Multiple R: This is the correlation coefficient which measure how well the data clusters around the regression line. The closer this value is to 1, the more linear the data is. This statistic ranges from -1 to +1. The value of the multiple R here is 0.9973. Therefore we can easily infer that the dependent variable has linear relationship with the independent variables.

R square: This is the coefficient of determination. R square measures the percentage of variation in the dependent variable that can be explained by the linear relation between dependent and independent variable. It measures the strength of relationship between the model and the dependent variable. As the value of R square is 0.9946 it means that 99.46% variance of operating profit margin is explained by the variation in independent variable. Therefore, this is a well-fitted regression model.

Significance of F: Unlike T-tests that can assess only one regression cofficient at a time, F-test assesses multiple coefficents simultaniously. As in this regression model, Significance level is 5%, p-value of F-test is the significance of F which is .018<.05. As the p-value is less than significance level, therefore the data provide sufficient evidence that the regression model fts the data better than the model with no independent variables. p-value= .018 means that there is 1.8% chance that the model's output was obtained by random chance.

Now if we consider the p-value of individual coefficients we can determine if there is any linear relationship or not. P-value of asset turnover ratio is 0.011<.05 and so it has statistically significant relation with operating profit margin. It means ATR has a linear relation with operating profit margin. Therfore, to increase the profitability, the company should use their assrt efficiently to increase their operating profit margin. This outcome is similar with the study of Panigrahi(2012) which was done on a cement manufacturer company.

Similarly, p-value of debt to asset ratio and days payable outstanding have p-value of 0.20 and 0.21 respectively. This implies that these two independent variables have statistically significant relation with operating profit margin as well. Beta coefficient of DTA -0.326 implies that 1% decrease in debt to asset ratio will increase operating profit margin by 3.26%. This particular result is also consistent with previous literature of Padichi(2006) and Shin & Soenen(1998). Furthermore, DPO having -.002 beta coefficient indicates that less profitable firms wait longer for their bills. It means, 1% decrease in DPO can increase operating profit margin to 0.2%. Add to that this findings is also persistent with the previous literature of Raheman & Nasr (2007)

CHAPTER: 05

RECOMMENDATION AND CONCLUSION

5.1. FINDINGS OF THE STUDY:

After evaluating overall F-test's p-value and individual independent variables p-value, it can be inferred that the model has statistically significant relation with relation with operating profit margin. Therefore, we can reject the null hypothesis and accept alternative hypothesis. Now, if we observe the beta coefficients, we can infer that, WCM has a very weak relationship with profitability.

5.2. RECOMMENDATION:

After analyzing the individual p-value of the independent variables, we can understand that, asset turnover ratio, debt to asset ratio and days payable outstanding these three variables are statistically significant. ATR has beta coefficient of 0.354, DTA has beta coefficient of -0.326 and DPO has beta coefficient of -0.002. Therefore, to increase profit, Axiata group, Berhad should try to increase asset turnover ratio as it has a positive beta coefficient. On the contrary, they should try to decrease debt to asset ratio as it has a negative beta coefficient. Moreover, by reducing days payable outstanding, it can increase their profitability. Based on the statistical evidence it can be reommended that-

- Asset turnover ratio symbolizes how the company utilizes the assets to generate sales. From the ATR beta coefficient we can say if ATR is increased by 1%, profitability will increase by .354%. Suggestions should be to increase asset or in other words the company should increase its assets.
- Debt to asset ratio shows how much of debt the company has in terms of its total asset. Axiata group, Berhad should focus on abating the debt which will decrease DTA ratio and so as it has negative beta coefficient, it will lead them to a increased profitability.
- On top of that, DPO has a negative beta coefficient so that, it will be greatly beneficial for the company to minimize its credit facility so that it can lessen the pressure on the company's cash flow.
- From the corrlation matrix, we can see that, ATR has a strong positive correlation with DTA. This is a great leverage for Axiata group and they can achieve more profit by only increasing asset turnover ratio.

- As a poineer of the telecom industry in Bangladesh, Robi always thrives for latest technology. A large portion of investment goes for technology renovation. A large amount of money was invested recently in advancement of technology by the parent company Axiata Group, Berhad. Hence, boosting asset turnover ratio can be pretty challenging. However, Robi can manipulate their debt to asset ratio bu restructuring their capital structure to get the optimum level of working capital management.

5.3. FURTHER STUDY:

As the variables used in the study were selected as per prior studies, more variables and indicators can be considered for further study. Working capital management may vary from industry to industry. Moreover, it may also vary from firm to firm in same industry considering the firms' size and life cycle. Therefore, there is a tremendous opportunity to take the study into an advanced stage.

5.4. CONCLUSION:

Working capital management is an important aspect to run a firm. Most of the well-known organization has working capital management policy so that they can attain the optimum level

To sum up, the main purpose of the study was to detect any relationship between working capital management and profitability of Axiata Group, Berhad. Operating profit margin has weak relationship with current ratio, quick ratio, asset turnover ratio, and inventory turnover ratio but has a strong negative correlation with day sales outstanding and days payable outstanding. In addition, it has weak negative relation with debt to asset ratio. Moreover, Current ratio and Quick ratio have moderate negative relationship with operating profit margin. From the Anova table, it can be inferred that, overall independent variable has a statistically significant F-value coresponding to the dependent variable. Add to that, individual beta coefficient of the variables are analyzed to cross out the insignificant variable.

In brief, Axiata's Asset turnover ratio, Debt to asset ratio and Days payable outstanding ratio has statistical significance and so these three ratios influence the company's profitability. Since asset turnover ratio has beta coefficient of .354, debt to asset ratio has betacoefficient of -0.326 and days payable outstanding has beta coefficient of -0.002, to achieve more profit, the company should try to increase asset turnover ratio or asset utilization, and condense the debt to asset ratio and days payable outstanding ratio.

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