

A COMPARATIVE STUDY ON WORKING CAPITAL MANAGEMENT PRACTICES OF ASSET LIGHT STARTUPS IN INDIA

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Abstract

The purpose of this paper is to study various prospects, availability, feasibility, implementation, practicalities, and unresolved gaps of working capital for Indian startups. In addition, this study examines the source and application of working capital, the impact on trade execution, the ability to receive liquidity proportions, and analyzes how it has been accomplished. Further, this research paper shows a comparative analysis of India's working capital management (WCM) practices of selected asset-light startups. The statistical techniques have been used in this research for descriptive analysis and quantitative research, and secondary data sets are used to access WCM.

The usage of the asset-light model has become the most popular way of doing business among new generation startups and corporates. Although working capital management is crucial for startups, there are scarce studies on effectively using WCM within newly developed companies. Moreover, the effectiveness of WCM has primarily been studied in large enterprises and SMEs, indicating a current gap in the literature for startups. That is why it is essential to conduct further research on WCM for startups.

This study has found no relation between the working capital trend and the turnover of startups. This study on working capital trends and turnover of startups has concluded varying results. With the increase in turnover, one has shown an increase in working capital while the other have shown a decrease or negative working capital. BigBasket has very high debtors, and Grofers have their investments in cash, cash equivalents, short-term loans, and advances; in contrast, both companies have commonly used trade payables as a source of funding for working capital needs.

Key Words: Working capital management, startups, last-mile delivery, asset-light model

1. Introduction



Working Capital (WC) is the short-term financial requirements of a business. Extending the term, working capital management is a business strategy specifically designed to help companies monitor and use their assets and liabilities efficiently. It plays a vital role in maintaining a balance between current assets and liabilities. A.K. Sharma and Satish Kumar (2010) concluded that “Working capital management is an important part of financial management decisions in all firms. The ability of the firm to operate for longer durations depends on a proper trade-off between the management of investment in long-term and short-term funds. Firms can achieve optimal working capital management by making the trade-off between profitability and liquidity.”

1.1 Working Capital Management and its Objectives

Working capital is a metric used to measure the liquidity level of a company. It is classified into three categories based on ratio analysis: Positive WC, Zero WC, and Negative WC.

The main objective of working capital management (WCM) is to deal with all immediate and short-term expenses required to run the business operations efficiently. Access to inadequate WC is a problem. In the worst-case scenario, a company can face insolvency or closure if it does not have the liquidity to pay its obligation. That is why most enterprises prefer to have consistent positive WC. Although positive WC is beneficial to a business, extremely high WC is detrimental to a business’s health as it indicates operational inefficiency, stagnation of assets, and thereby neglected growth opportunities. It is important to note that although zero WC will impair a company’s ability to fulfill its financial obligations, the negative WC will ring the death knell for the company.

1.2 Working Capital Management in Startups and Best Practices

A startup with working capital is equipped with enough cash to meet short-term obligations and expenses related to its operations. Working capital is essential for having financial viability and sustainability.

A few best practices to manage working capital in a startup:

1. Closely focus on reconciliation and settlement process.
2. Invest in organizational bandwidth in developing cash flow forecast.
3. Monitor payment and collection cycles.
4. Optimally utilize excess cash available in the business.
5. Outsource what cannot be managed in-house.

1.3 Source of Funding the Working Capital Needs

Table 1, Working Capital Sources

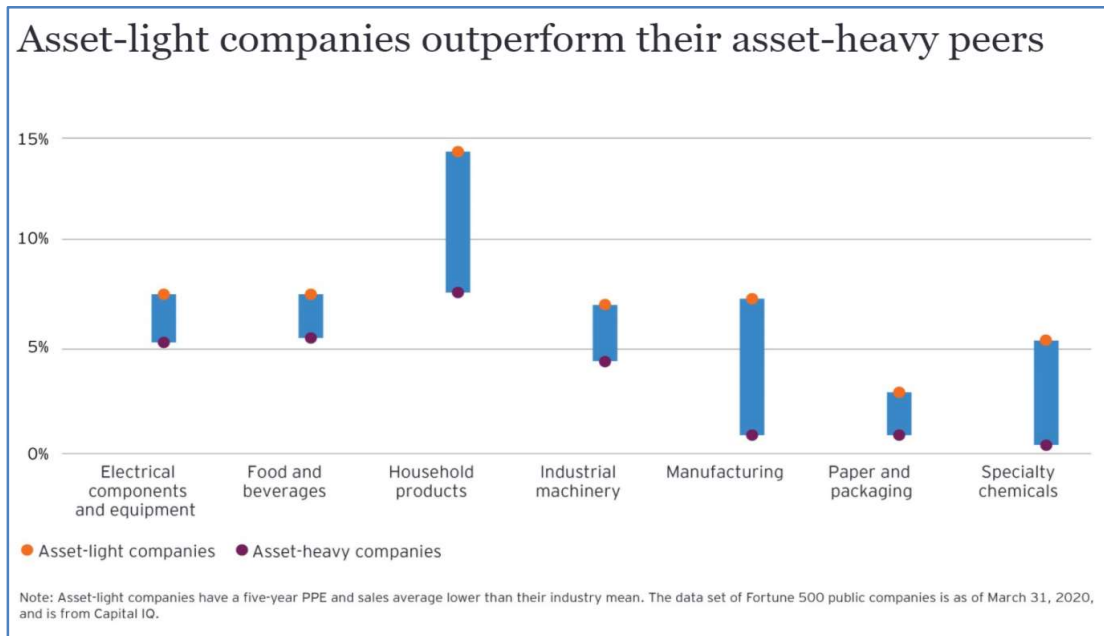
Sources of Working Capital	Short Term	Internal	Tax Provisions
			Depreciation and Amortization
		External	Bank Loan (CC/OD/Discounting)
			Account Payables
	Long Term	Internal	Public Deposit
			Commercial Papers
		External	Retained Earnings
			Equity Shares
		Preference Shares	
		Debentures	

Source: Author's made table based on source from www.ExpertsMind.com

1.4 Asset Light Model

The goal of businesses is to pursue their strategy with the lowest possible level of asset ownership. Determining the optimal level of asset ownership is not an easy task. Executives face a tough dilemma when considering asset weight. Asset-heavy, vertically integrated models offer superior control, but they tie up significant capital and frequently prove less flexible in a fast-changing environment. By contrast, asset-light business models provide greater flexibility; still, it can be tough to manage them, and the risk of leaking intellectual property (IP) or becoming less valuable is greater. Nevertheless, both integrated and asset-light models can deliver good results when wisely chosen. Nicolas and Adam, BCG (2014) analyzed 2,687 of the largest companies—that publish financial results across 24 industry sectors.

Figure 1, Assets Light outperform Assets Heavy Companies



Source: https://www.ey.com/en_in/strategy-transactions/how-asset-light-strategies-and-models-can-boost-business-growth

Figure 1 shows the average percent difference in performance between asset-light and asset-heavy companies. As indicated from the data, asset-light companies outperform asset-heavy companies.

Shao-Yan Zhou (2016) concluded that a company that uses the asset-light business model must have a forward-looking strategic financial arrangement and pave quality strategic layout for various strategic initiatives.

1.5 Why is it efficient?

Asset-Light Models have better returns on assets, lower profit volatility, greater flexibility, and higher scale-driven cost savings than asset-heavy models. In addition, being asset-light helps large companies avoid the diseconomies of scale that emerge from owning many small shops in different locations. For instance, it is far more efficient for a mobile phone company to franchise its smaller retail outlets than to operate thousands of small stores. An added benefit: franchisees run the stores as owners, not employees, so they have a stake in the business and are highly motivated to succeed.

1.6 How it is different from Asset Heavy Model

Table 2, Asset Light Model vs. Asset Heavy Model

	Asset Light Model	Asset Heavy Model
Pros	Long-term sustainability.	Monopoly due to high investment.
	Less time is required to build a brand name.	Have higher margins due to their exclusive nature.
Cons	Quality management issue due to outsourcing.	Huge investment
	Customer serving by the franchise is not the same.	A failure in a project, plant or, new venture means you end up with significant losses.

Source: Author's made table based on source from www.mass.co.in

2. Literature Review

This section deals with research conducted on WCM and WCM-related aspects in a small business and SME context as limited research has been done on WCM in startups. Since startups have similar characteristics to small businesses and SMEs (e.g., in terms of the number of employees and revenue and asset and liability structure), the findings of previous small business/SME-related WCM studies provide good insights into the topic.

2.1 Research Studies

Kovelskiy (2015) study aimed to examine the different sources of financing working capital and suggest practical measures for the effective utilization of the working capital. For achieving the stated objectives, surveys were conducted by visiting the MSMEs personally to get the predesigned-structured questionnaires filled. Viktor concluded that the need for working capital in micro, small and medium enterprises cannot be over-emphasized. Adequate working capital should be maintained, which positively impacts the solvency and goodwill of the business. An estimate of working capital requirements should be made in advance to procure adequate working capital in time to avoid the shortage of working capital.

Kunze, Antonina (2015) analysis revealed that the use of WCM is vital for all startups. However, nonusers were identified to be more likely to face cash flow issues. A key difference identified between the use of WCM in large companies and startups is that the former use it for cash optimization purposes. At the same time, it can be a matter of survival for the latter.

Viqar Ali Baig (2009) paper attempts to know the effect of ownership, government regulations, managerial empowerment, and cultural factors on working capital decision making. Working capital management practices of the firm are analyzed with the help of a 2-dimensional

approach of working capital decision making, developed as a part of this thesis, to analyze the improvement in working capital management practices. It is observed that the inter-firm cooperation between the firms has helped the firms to increase their profit.

Aminu Y and Zainuddin N (2015) examine the importance of WCM concepts and components such as cash conversion cycle, inventory conversion period, average collection period, and average payment period. The study tries to link some unified theories relevant to explaining WCM components and concepts. The approaches include agency risk and return, cash conversion cycle, operating cycle in the resource-based theory was employed. They had that; a linkage was established to properly integrate and understand these theories and how many relate to the WCM concepts.

Durga P.T (2015) stated that more significant amounts of cash, securities, accounts receivables, marketable securities, and inventories would be needed to support increased sales. With this view, he used regression analysis to measure the relationship between sales and working capital. The observational study found that sales analysis is one of the essential keys for estimating future working capital requirements. Sales analysis reduces investment requirements, assists with cost control, and is more reliable.

Abbadi (2013), the study found that the cash conversion cycle, return on assets, and operating cash flow are significant determinants and positively related to working capital requirements, while leverage and firm size are significant but negatively related to the working capital requirements. On the other hand, economic variables such as interest rate and real GDP growth rate have no significant impact on the working capital.

H. Kent Baker et al. (2016), the purpose of the paper was to investigate the working capital management practices adopted by Indian firms listed on the National Stock Exchange (NSE). The evidence collected in this study points out that the firms have followed a moderate approach in financing their activities, which involves a trade-off between liquidity and profitability.

2.2 Research Gap on WCM in startups, Especially Asset-Light

After examining the research studies, it is clear that not many studies have been conducted that meaningful yield methodology for analyzing working capital management of startups in India. Although governments and stockholders of startups are concerned about the efficiency and effectiveness of working capital management, this major vertical has not been researched and evaluated. Thus, the present study will attempt to fill in this research gap on working capital management, which is crucial for the success of any startup.

3. Research Methodology

Quantitative and secondary data sets are used to assess and compare WCM in selected startups. The data set used in this study is from the last-mile supply chain industry, which is the classic

asset-light model in India. We have chosen two startups working in India for our research. A large portion of the data and information required for the investigation is gathered from existing literature, relevant journals, and annual reports of the chosen organizations from 2015-2019. Few research, investment notes, and publicly available media information also construed a large part of the study. Yearly information inclusion of different years is utilized for the experimental investigation in this exploration.

3.1 Description of the Companies Selected for Study

Table 3, Startups Selected for Study

	Grofers	BigBasket
Year of Establishment	December 2013	Oct 2011
No. of Operational Years	7 years	9 years
Operational Geography	India (27+ cities)	India (30+ cities)
Funding Total	\$607.4 M	\$ 1.1 B
Recent valuation	\$650 M at last funding round.	\$ 2 B Series F
Average Daily Orders Delivered (April 2020)	1.9 lakhs	2.8 lakhs

Source: Grofers and BigBasket websites and reports

3.1.1 Reason for Choosing Grofers with BigBasket

We have selected these two businesses because they are comparable. Both came from the same last-mile delivery sector and used asset-light models for operation and working capital management. Also, startup's operational age and their geographies are similar.

Grofers - A Gurugram based company, one of India's fastest-growing low-cost online supermarkets. Using its in-house technology platform, the company has managed to run a network of over 5,000 partner stores that enable the company to make a smooth and fast supply chain – from manufacturers to customers in 27+ cities. Grofers utilizes its well-organized supply chain in these cities to deliver over 25 million products to customers every month.

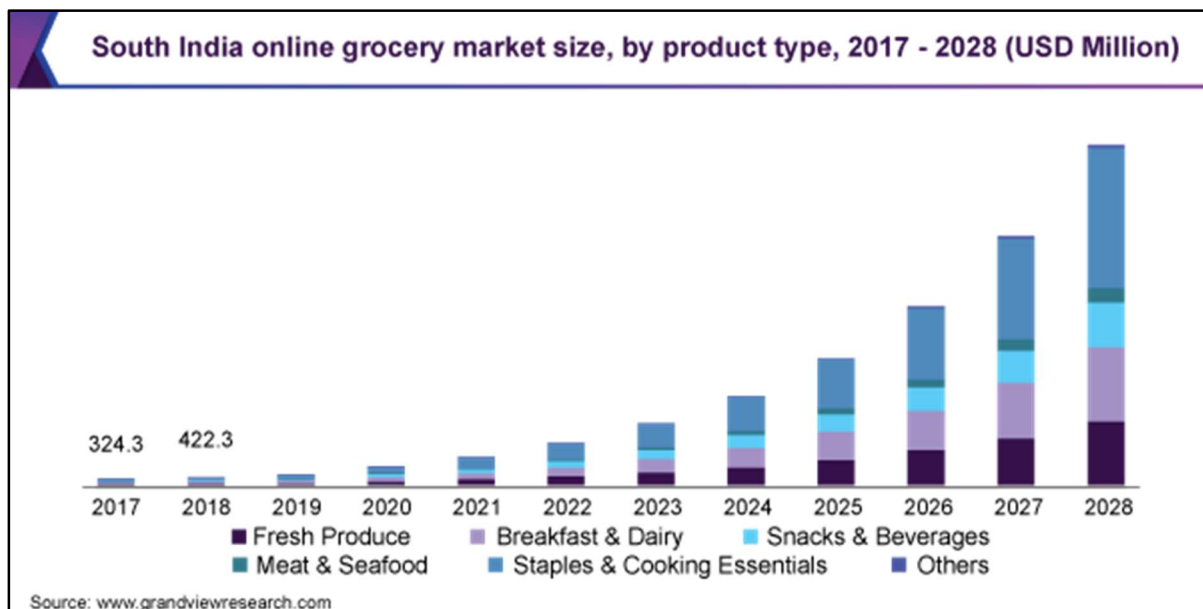
BigBasket is the largest and most popular online grocery store in India. Headquartered in Bengaluru, it is operational in more than 30 cities. BigBasket primarily delivers grocery goods, home essentials, and food supplies that include various products ranging from fresh fruits, vegetables, food grains, oil, masala, packaged snacks, beverages, household supplies, healthcare products. The company has more than 20,000 products and 1000 brands in its catalog. Around eight years after its lunch, Bigbasket has joined the elite club of startups in India with a valuation of \$ 1 billion.

3.1.2 Geographical Penetration

Both Bigbasket and Grofers have limited their operations to the domestic market only. According to the India Online Grocery Market Report (2020), the Indian online grocery market size was esteemed at USD 2.9 billion in 2020 and is believed to expand at a compound annual growth rate (CAGR) of 37.1% from 2021 to 2028. According to the data, the market has acquired immense traction over the past months by under the changing lifestyle of the consumers, growing urbanization, and the tech-savvy generation who prefers buying products online. With the growth in disposable incomes, busier lifestyles, and ease of shopping, people are increasingly inclined towards customizable and convenient online platforms for grocery shopping instead of walking down to the street vendors. Therefore, the preference for online grocery shopping has become more prevalent during and after the COVID-19 outbreak.

The everyday household groceries and cooking essentials segment dominated the market with a 33.9% share in 2020. This significant share of the online shopping of daily essentials indicates the widespread uses of online grocery shopping platforms. The breakfast and dairy segment are expected to expand at a growth rate of 37.6% over the forecast period.

Figure 2, Online Grocery Market



In 2020, the South India online grocery market held the largest share of 34.6% in terms of revenue. The region is expected to keep up with its lead over the forecast period. The regional growth is credited to several prominent players, such as Supermarket Grocery Supplies Pvt. Ltd. (BigBasket), Grofers India Pvt. Ltd., and Amazon India Pvt. Ltd. The highest number of online consumers are located in Bengaluru and Chennai. Amid prominent players, Big Basket is the most preferred online grocery in the South Indian cities, such as Hyderabad and Bangalore. With the ease of shopping, consumers are becoming more accustomed to online

shopping and, this is the crucial factor for the growth of online grocery in these markets. West India is projected to be the second-fastest-growing region with a CAGR of 37.3% during the forecast period.

Founder's Profile

Grofers

Grofers was founded in 2013 by two IIT Graduates. One of the founders worked as a transportation analyst at URS Company in the USA. As a transportation analyst, the founder was able to identify a massive gap in the online grocery market coupled with considerable opportunities in India. Their idea was to facilitate the customers' local delivery needs by having on-demand pickup and drop services. This was to coordinate the shops such as grocery stores, medical stores, and restaurants around consumers' locality.

BigBasket

BigBasket CEO has vast work experience in diverse fields. Before Big Basket, he was the CEO of India skills. An alumnus of BITS Pilani. He also worked as the Country Head at Plantasia, India's first Internet services business. He also held the position of business head with a known IT firm like Wipro Infotech. BigBasket co-founder was the CEO of Planetasia, and he carries vast experience in the IT sector.

Inference - Richard Harroch (2019), an entrepreneur, wrote on Forbes that most investors consider the team behind a startup more important than the idea or products. For startups, the profile of the founders plays a crucial role in the funding process by VCs and PEs. These funds invest their money believing in the capabilities of founders.

3.2 Dimensions of Working Capital for Startups

3.2.1 Sources of working capital- The availability of money was high in the years before the financial crisis of 2008. Companies did not have to look far for capital to fund expansions, and thus, goals to increase sales were expected. (Kaiser & Young, 2009; Ivashina & Scharfstein, 2009) The outbreak of the financial crisis affected the entire world economy. However, many companies were faced new difficulties, fighting for their existence in an environment with highly reduced liquidity. With the supply of money drying up, the importance of streamlining operations and collecting every penny possible increased. The changing business environment forced companies to turn their attention towards minimizing cost and managing assets. (Puri, Rocholl, & Steffen, 2010).

The COVID-19 pandemic created a situation like the financial crisis of 2008. According to Central Bank, financial institutions have limited their new lending and parking the fund. We analyzed the sources available for the working capital needs of a startup and the sources they have opted to fund their operations.

3.2.2 Growth vs. profitability – We analyzed whether the business is focused on growth or profitability. Growth impacts profitability and the firm's working capital needs.

3.2.3 **Founders outlook** – Identified the area of working capital where funds are deployed. It is observed that both the businesses have typically applied their funds to trade receivables.

3.3 **Research Methodology**

For evaluating working capital management in the startup included within the study, we have applied various tools and techniques for analysis.

KK Vyas and Rajani Bora (2020), use the standard deviation of the current and quick ratios to test the significant difference in various Indian Iron & Steel companies.

3.3.1 **Common size financial statements**- A common size financial statement displays line items as a percentage of one selected or standard figure. Using common-size financial statements is beneficial because it makes it easier to compare business financials with similar businesses in the industry.

3.3.2 **Statistical techniques**

Following techniques have been applied for descriptive analysis:

- Percentages
- Graphical presentation of data
- Standard Deviation (Population)

$$\sigma = \sqrt{\frac{\sum (x_i - \mu)^2}{N}}$$

3.3.3 **Ratio Analysis** – Ratio analysis is one of the most critical and majorly used tools for analyzing the working capital and its management. The various ratios will be calculated as follows:

Liquidity Ratios

- Current Ratios= Current Assets/ Current Liabilities
- Quick Ratios= (Current Assets- Inventories)/ Current liabilities

Activity Ratios

- Debtors Turnover Ratios= Total Sales/Average Debtors
- Average Collection Period= 365/ Debtors Turnover Ratio
- Inventory Turnover in days= Inventory/ Cost of Goods Sold* 365

Profitability Ratio

This method is not preferable as the companies used in the study are startups that have not

reached stabilization yet. However, here we can establish factors such as the positive outlook of an investor to this industry, and the market potential of the space and geography in which these companies are working.

Other ratios

- Gross Working Capital Turnover Ratio= Net Sales/ Current Assets
- Current Assets to Total Assets Ratio= Current Assets/ Total Assets
- Current Liabilities to total assets Ratio= Current Assets/ Total Liabilities

3.4 Research Question and Hypotheses

The study's research question explores the relationship between working capital management and the light asset last-mile delivery startups.

Based on literature reviews, the hypothesis of the study is formulated as under:

H0: There is no significant relationship between working capital management and startups.

H1: There is a significant relationship between working capital management and startups.

4. Financial Analysis

4.1 Components of Working Capital of Each selected company

4.1.1 BigBasket (Supermarket Grocery Supplies Private Limited)

(i) Current Assets

Table 4, Big Basket Current Assets

					INR Lakhs
Components	31-Mar-15	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19
Current Investments		-	4,242.10	1,06,461.10	4,677.90
Inventories	910.90	3,465.00	6,811.90	11,371.60	20,798.90
Trade Receivables	1,636.30	14,575.10	35,019.90	48,079.00	93,201.80
Cash and Cash Equivalents	21,942.10	58,470.10	12,649.80	2,882.90	1,525.60
Short Term Loans & Advances	-	-	-	376.10	208.00
Other Current Assets	922.90	4,289.20	3,938.60		

				6,659.50	14,204.40
Total	25,412.20	80,799.40	62,662.30	1,75,830.20	1,34,616.60

Source: Author's calculation based on the annual reports of BigBasket

In Table 1, there is no apparent pattern from the data; however, in totality, current assets have grown at a CAGR of 51.7% over the period. Significant asset use is seen in trade receivables for 2018 & 2019, constituting 55.9% and 69.2% of the total CA.

(ii) Current Liabilities

Table 5, BigBasket Current Liabilities

					INR Lakhs
Components	31-Mar-15	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19
Short Term Borrowings	-	-	-	-	-
Trade Payables	1,768.80	5,806.90	10,808.30	19,742.10	38,511.00
Short Term Provisions	33.00	97.70	221.10	278.20	397.00
Other Current Liabilities	873.90	3,178.00	2,209.50	2,425.60	5,929.80
Total	2,675.70	9,082.60	13,238.90	22,445.90	44,837.80

Source: Author's calculation based on the annual reports of BigBasket

From the very beginning, trade payable is observed as a funding source by the company ranging between 64% and 88% of the total CL.

(iii) Working Capital

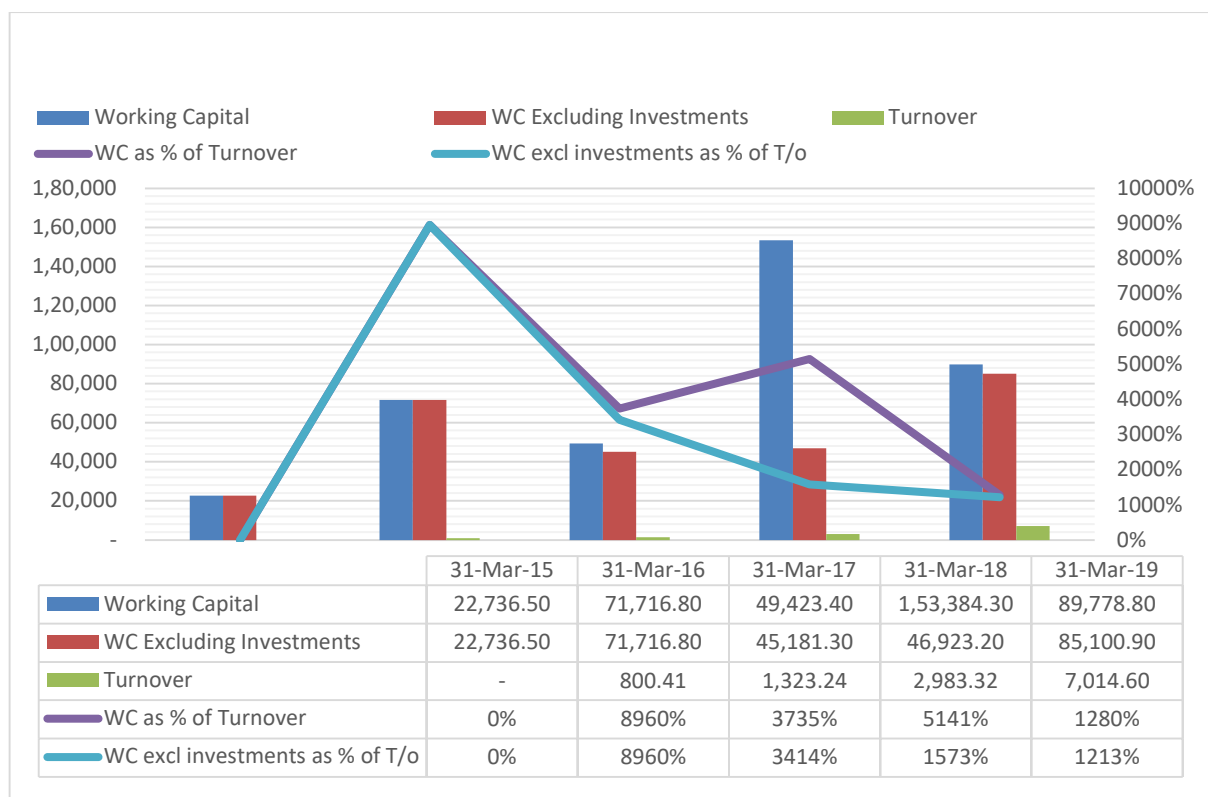
Table 6, BisBasket Working Capital

Year	Current Assets	Current Liabilities	Net Working Capital
31-Mar-2015	25,412.20	2,675.70	22,736.50
31-Mar-2016	80,799.40	9,082.60	71,716.80
31-Mar-2017	62,662.30	13,238.90	49,423.40
31-Mar-2018	1,75,830.20	22,445.90	1,53,384.30
31-Mar-2019	1,34,616.60	44,837.80	89,778.80

Source: Author's calculation based on the annual reports of BigBasket

Initially, working capital depicted an unidentified trend w.r.t turnover; however, if we observe the WC excluding investments, then WC need have stabilized around 30-31% of the turnover.

Figure 3, WC growth as % of Turnover - BigBasket



Source: Author's calculation based on the annual reports of BigBasket

(iv) Working Capital Ratios

Table 7, Working Capital Ratios of BigBasket

Ratios	31-03-2015	31-03-2016	31-03-2017	31-03-2018	31-03-2019
Liquidity Ratio					
Current Ratio	9.50	8.90	4.73	7.83	3.00
Quick Ratio	8.81	8.04	3.92	7.01	2.22
Activity Ratio					
Debtor Turnover Ratio	10.40	3.86	3.36	3.29	2.95
Days Receivables Outstanding	35.08	94.45	108.63	110.85	123.59
Inventory Turnover Ratio	18.69	16.26	17.27	13.92	13.23
Cash Turnover Ratio	0.12	0.16	1.05	7.79	29.39

Average age of Cash	2,993.19	2,349.72	348.76	46.88	12.42
Payable Turnover Ratio	13.03	14.44	13.70	9.58	8.60
Days of Payable	28.01	25.28	26.65	38.08	42.46
Days of Inventory	19.53	22.45	21.13	26.22	27.58
Profitability Ratio					
Gross Margin	7.3%	5.8%	8.7%	11.0%	9.2%
Net Margin	-34.1%	-16.5%	-54.6%	-19.3%	-20.0%
Return On Total Assets	-22.5%	-10.4%	-85.8%	-16.7%	-35.6%
Other Ratios					
Gross WC Turnover Ratio	0.67	0.70	1.88	0.90	2.04
Current Assets to Total Assets	0.94	0.88	0.82	0.95	0.85
Current Liability to Total Liability	0.10	0.10	0.17	0.12	0.28

Source: Author's calculation based on the annual reports of BigBasket

4.1.2 Grofers India Private Limited

(i) Current Assets

Table 8, Grofers Current Assets

Components	INR Lakhs			
	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19
Current Investments	41,979.46	17,676.97	1,000.00	-
Inventories	-	-	-	-
Trade Receivables	135.82	76.89	758.17	1,804.47
Cash and Cash Equivalents	832.70	546.02	661.92	3,473.15
Short Term Loans and Advances	2,722.27	2,690.37	3,729.70	6,015.30
Other Current Assets	4.80	228.78	810.41	896.70
Total	45,675.05	21,219.03	6,960.20	12,189.62

Source: Author's calculation based on the annual reports of Grofers

Current Assets have continuously decreased except for 2019, where it almost doubled compared to the previous year. In 2016 and 2017, current investments formed a significant element of current assets; however, lately, CCE & short-term loans and advances constitute 78% of total current assets as of March 2019.

(ii) Current Liabilities
Table 9, Grofers Current Liabilities

Components	INR Lakhs			
	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19
Short Term Borrowings	-	3,200.00	-	-
Trade Payables	2,113.11	3,202.57	8,745.63	6,138.43
Short Term Provisions	0.16	266.30	98.83	213.06
Other Current Liabilities	444.55	181.59	611.77	6,868.46
Total	2,557.82	6,850.46	9,456.23	13,219.95

Source: Author's calculation based on the annual reports of Grofers

Current Liabilities depicted a continuous uptrend, with trade payables being a significant funding source.

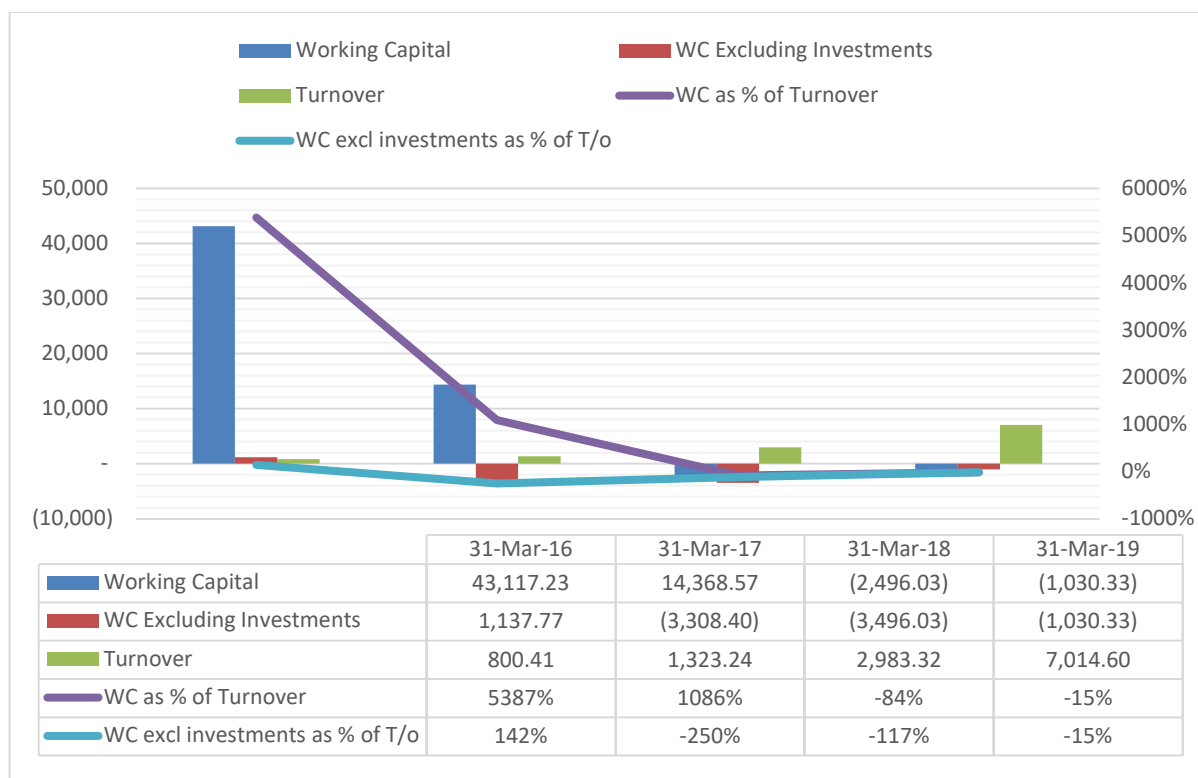
(iii) Working Capital
Table 10, Grofers Working Capital

Year	INR Lakhs		
	Current Assets	Current Liabilities	Net Working Capital
31-Mar-16	45,675.05	2,557.82	43,117.23
31-Mar-17	21,219.03	6,850.46	14,368.57
31-Mar-18	6,960.20	9,456.23	-2,496.03
31-Mar-19	12,189.62	13,219.95	-1,030.33

Source: Author's calculation based on the annual reports of Grofers

Initially, the business operated at a positive NWC; however, in 2018 & 2019, with increased payables, NWC became negative.

Figure 4, WC growth as % of Turnover - Grofers



Source: Author's calculation based on the annual reports of Grofers

(iv) Working Capital Ratios

Table 11, Grofers Working Capital Ratios

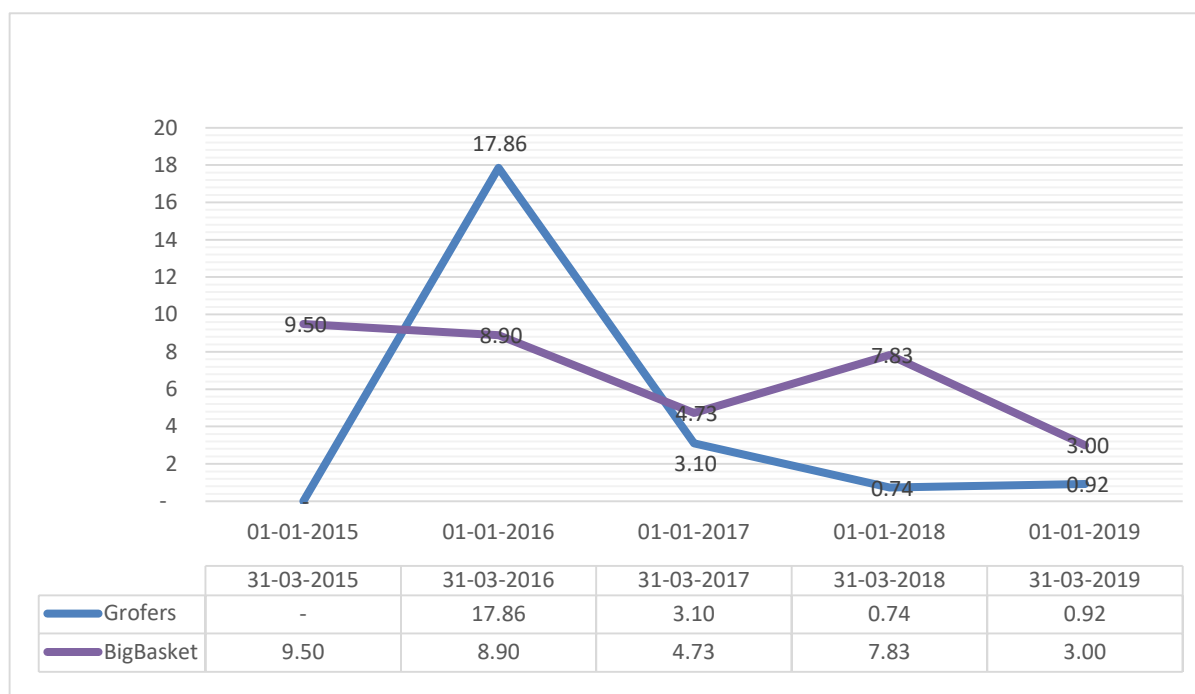
Ratios	31-03-2016	31-03-2017	31-03-2018	31-03-2019
Liquidity Ratio				
Current Ratio	17.86	3.10	0.74	0.92
Quick Ratio	16.79	2.67	.26	0.40
Activity Ratio				
Debtor Turnover Ratio	5.89	17.21	3.93	3.89
Days Receivables Outstanding	61.94	21.21	92.76	93.89
Cash Turnover Ratio	3.07	12.55	14.29	3.81
Average age of Cash	118.83	29.09	25.55	95.89
Payable Turnover Ratio	11.18			8.45

		9.19	3.40	
Days of Payable	32.66	39.71	107.36	43.18
Days of Inventory	-	-	-	-
Profitability Ratio				
Gross Margin	100.00%	100.00%	1000.0%	100.00%
Net Margin	-1571.7%	-791.1%	-483.1%	-535.8%
Return On Total Assets	-46.0%	-101.5%	-202.0%	-257.7%
Other Ratios				
Gross Working Capital turnover ratio	0.02	0.06	0.43	0.58
Current Assets to Total Assets	0.93	0.80	0.54	0.70
Current Liabilities to Total Liabilities	0.05	0.26	0.74	0.76

Source: Author’s calculation based on the annual reports of Grofers

4.2 Comparative Analysis of the Selected Companies

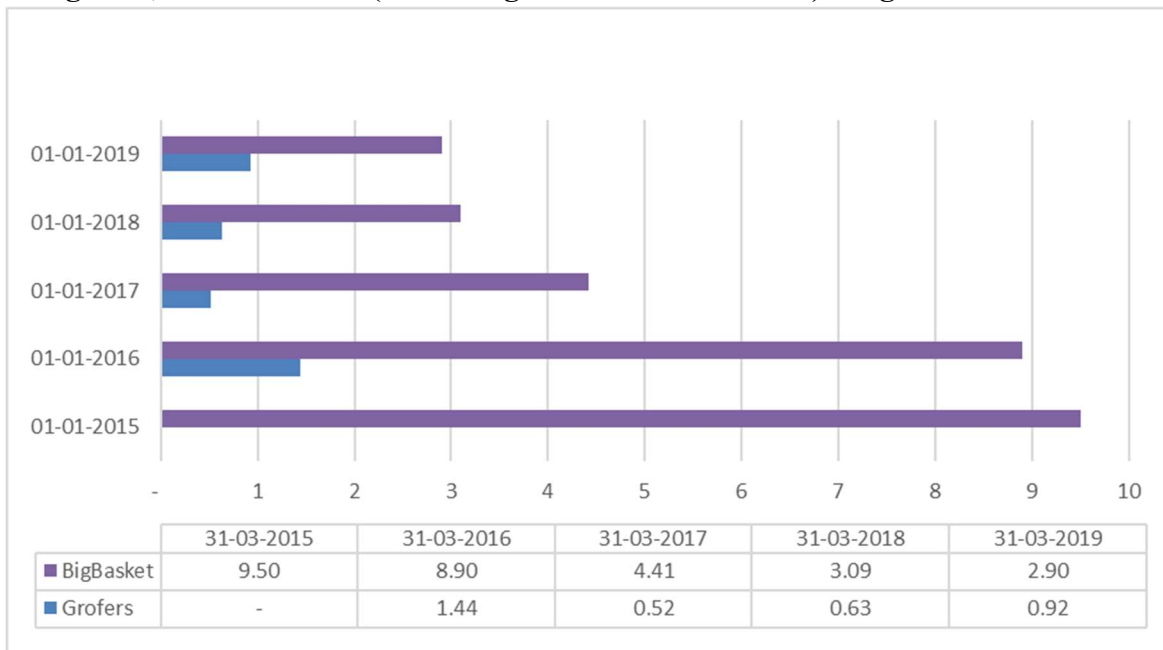
Figure 5, Current Ratio - Bigbasket vs. Grofers



Source: Author’s calculation based on the annual reports of BigBasket & Grofers

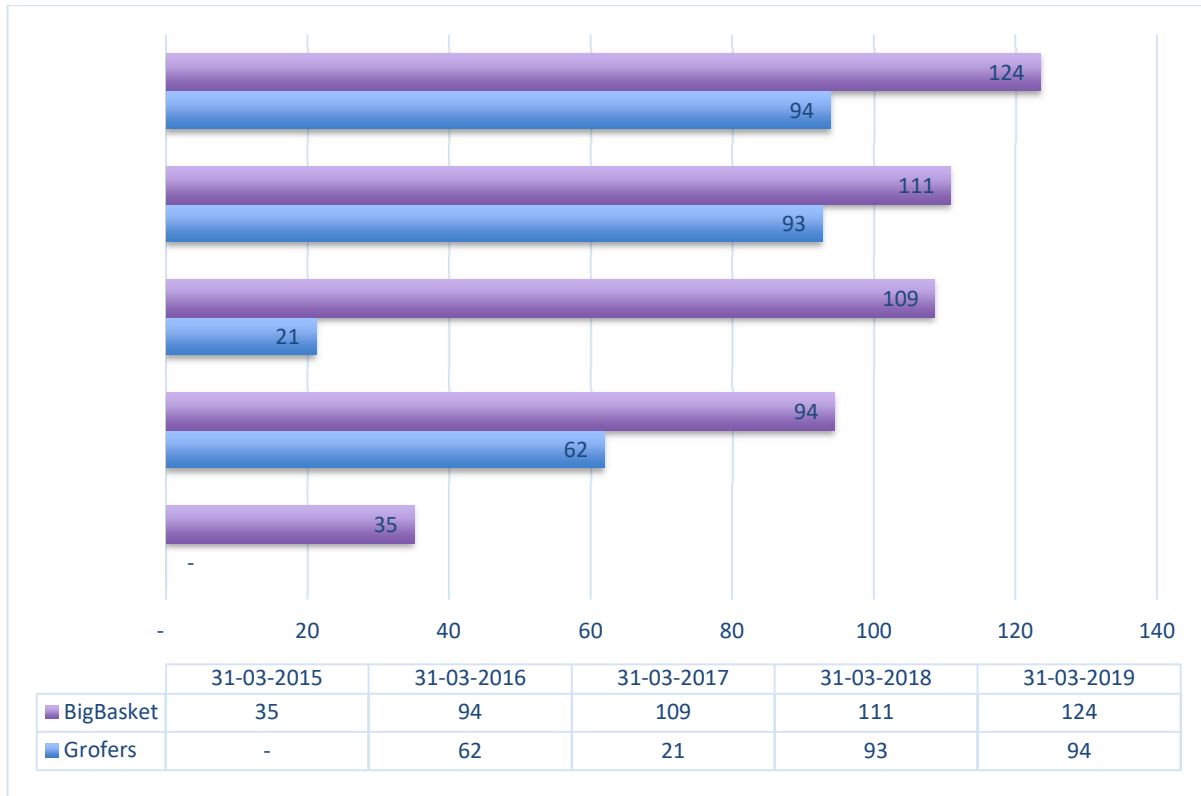
At first, both the organizations were in a close contest to capture the market, so both were operating at a very high level of working capital to establish their business and survive in the market. In 2017, both of them were working at a close range. Then, Grofers ratio further dropped below 1, indicating its inability to meet its short-term obligations. In contrast, BigBasket is operating near the desired level. Their current investment highly impacts the above ratios calculated.

Figure 6, Current Ratio (Excluding Current Investments) - Bigbasket vs. Grofers



Source: Author's calculation based on the annual reports of BigBasket & Grofers

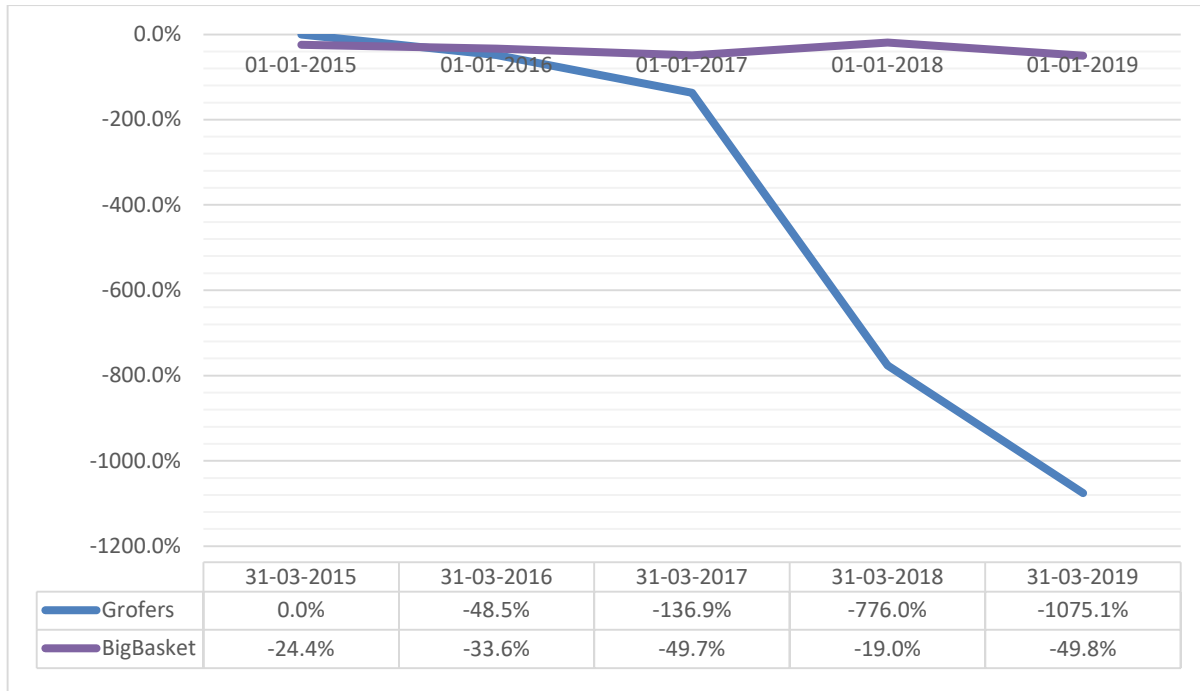
Figure 7, Receivable Days - Bigbasket vs. Grofers



Source: Author’s calculation based on the annual reports of BigBasket & Grofers

From *Figure 7* above, it is clear that BigBasket and Grofers are offering their customers an extended credit period, ultimately increasing their need for Working Capital. Taking the example of BigBasket, it takes 124 days to collect money from its customers. As a result, BigBasket receivable days are continuously growing over the period.

Figure 8, Return on Capital employed - Bigbasket vs. Grofers



Source: Author’s calculation based on the annual reports of BigBasket & Grofers

Comparing businesses based on profitability measures is inaccurate since both organizations are loss-making. Instead, startups should be compared based on who is efficient in limiting their loss. Grofers, from the above graph, is the worst of the two. Moreover, comparing them on this parameter is worthless as both companies are in the niche segment and are in the phase of capturing the market share. Being in the capturing phase means these companies are concerned with higher spending to get more customers.

In the case of the selected startups, all are adequately funded through venture capitalists and bank borrowing. The success of these organizations depends on whether they can convert their current loss-making business into a profitable one.

Startup Ratio Analysis

Grofers vs. BigBasket: BigBasket initially had no optimal liquidity that was detrimental to the effective use of capital and business expansion. BigBasket had high liquidity with a current ratio (CR) of 9.50. Over time, the company improved its efficiency in operations and now has an optimal CR at 3. Similarly, Grofers, at the start, was also operating at very high liquidity. But over the period, the Current ratio dropped below 1, meaning the company cannot satisfy its current liabilities.

Common Size Statements Analysis Conclusion

After analyzing the common size statements of the two companies, there was no WC pattern or connection to an organization’s turnover. However, with the expansion in turnover, some years

have shown an increase in working capital, while on the other hand, some years have shown a decrease or negative working capital.

4.3 Trade Receivables

BigBasket has contributed a large sum of its working capital in trade receivable in 2015, 2016, 2017, 2018, and 2019 at 6.43%, 18%, 55.8%, 27.34%, and 69.2% of the total current assets respectively compared to Grofers 2016, 2017, 2018, and 2019 at .3%, .36%, 10%, and 14%. BigBasket debtors include stores from which it serves the end-users, maintaining its competitive edge, increasing sales, and better customer loyalty.

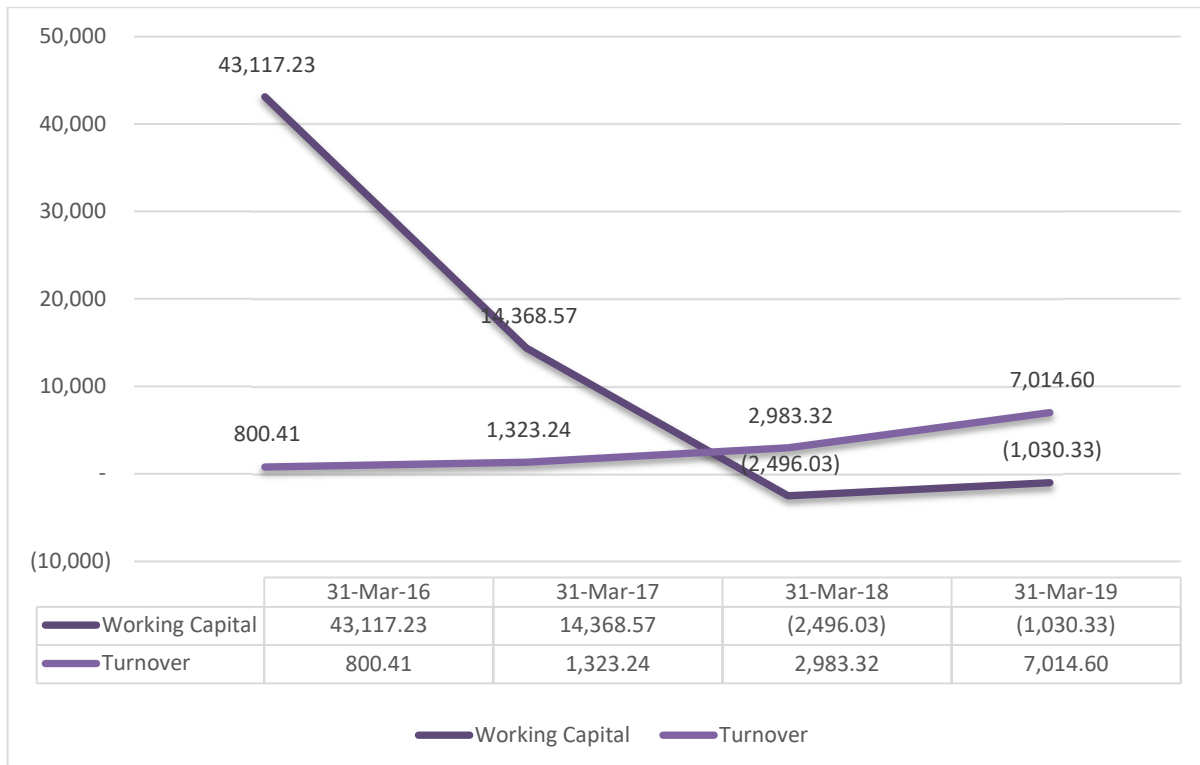
5 Conclusion and Suggestions

5.1 Factors to Preface of Conclusion:

5.1.1 Growth and Its Impact on Working Capital

Grofers

Figure 9, Turnover vs. WC - Grofers

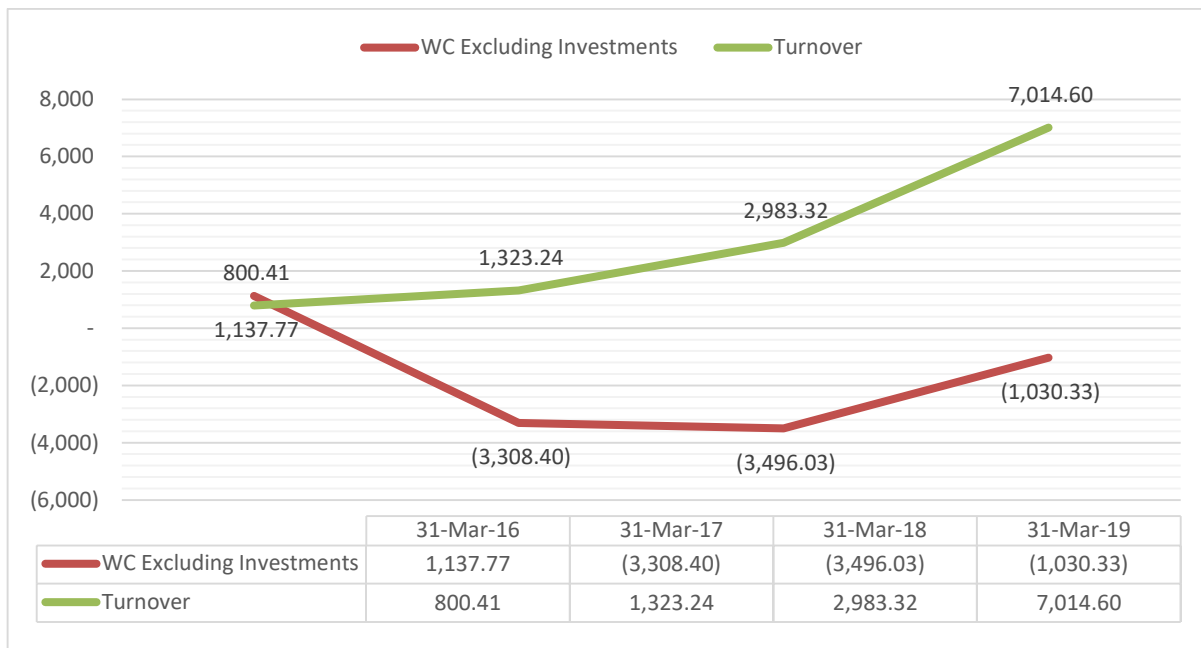


Source: Author’s calculation based on the annual reports of Grofers

Grofers has shown remarkable growth over the last four years. A significant increase in its turnover jumped from 8 crores in 2016 to 70 crores in 2019 at a CAGR of ~106%. With this

consistent growth, the trend of working capital is the opposite. On the one hand, its turnover increased; on the other hand, its working capital decreased from 431 crores in 2016 to -10 crores in 2019. Growth positively affected the business that the company is now needed to employ less working capital for the same or better turnover. Since the effect of the current investments of Grofers is significant, let's analyze the working capital trend excluding its impact.

Figure 10, Turnover vs. WC (excluding investments) - Grofers

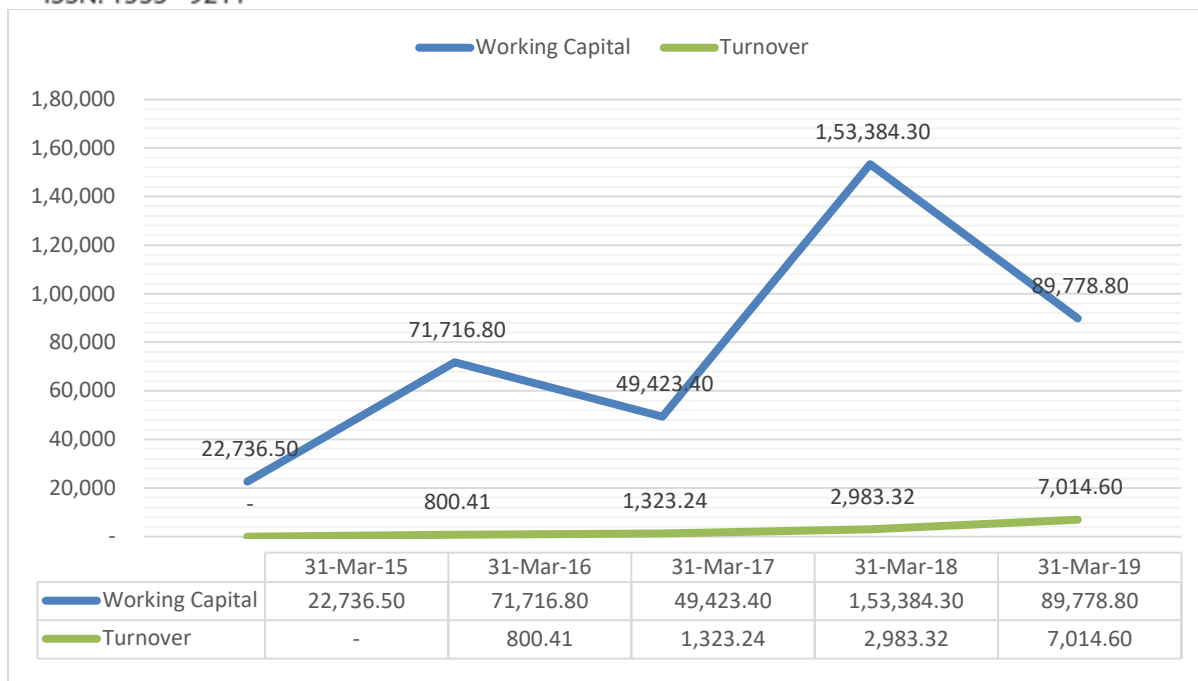


Source: Author's calculation based on the annual reports of Grofers

From the above Graph10, it is clear that there is no significant difference in the trend of working capital considering it with or without current investments.

BigBasket

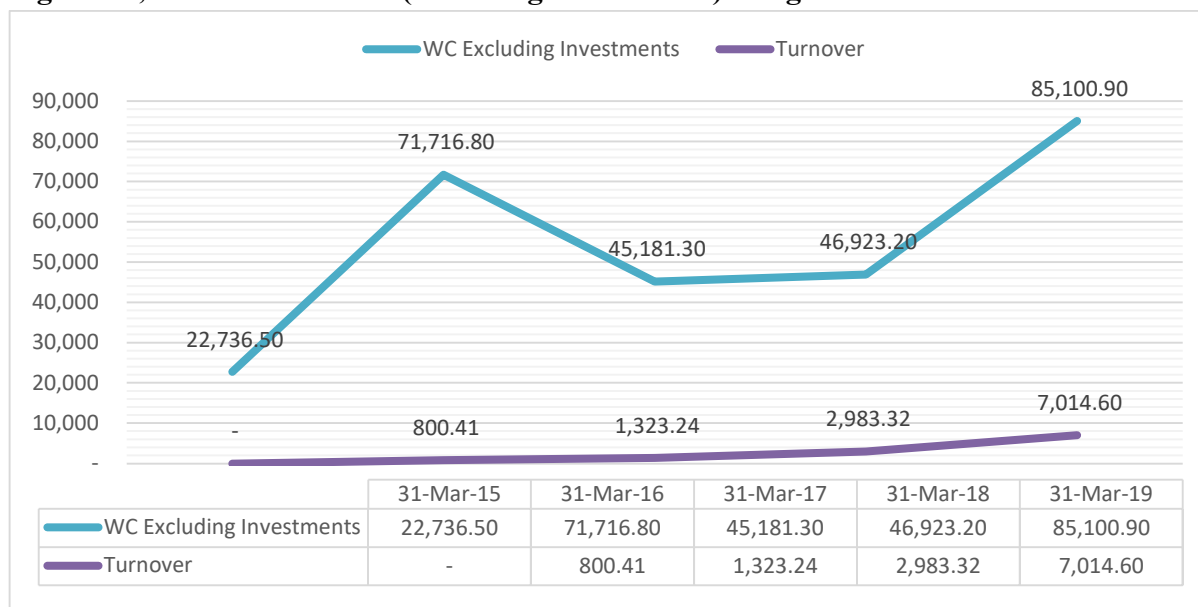
Figure 11, Turnover vs WC - BigBasket



Source: Author’s calculation based on BigBasket annual reports

Bigbasket has shown a significant increase over five years, though the percentage increase in 2018 is a little less than that of other years. Its turnover has jumped from 170 crores in 2015 to 2753 crores in 2019 at a CAGR of ~101%. Working Capital trend is not clear. In 2017, working capital was increased while the following year it was decreased—the same trend of a single up and down over the next two years. Current investments have a significant effect on the WC of the company. Let analyze it without Investments.

Figure 12, Turnover vs. WC (excluding investments) – BigBasket



Source: Author’s calculation based on BigBasket annual reports

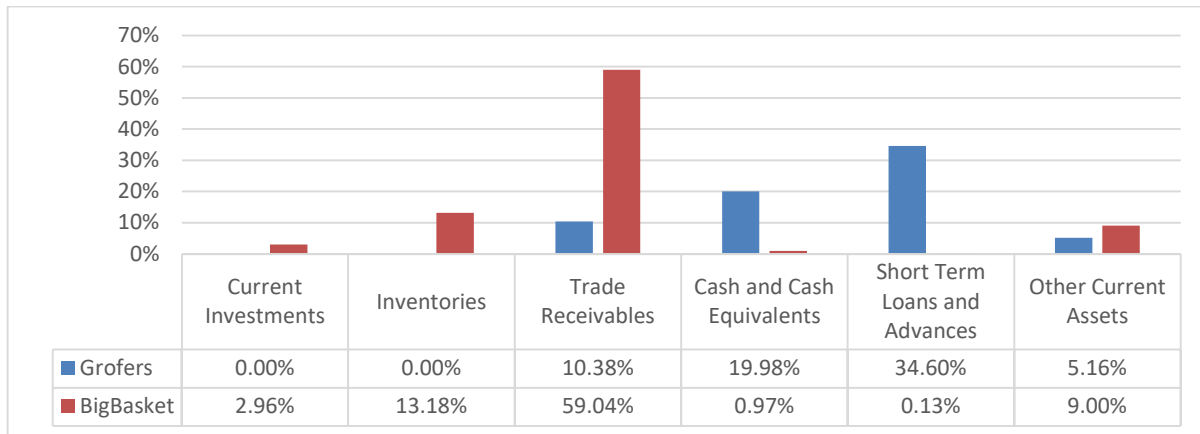
There is no significant variation in the first three years; however, in 2019, there was an increase

of 81%. This increase is consistent with revenue growth. The working capital need has stabilized around 30-31% of the turnover. However, working capital in percentage has shown a consistent decrease over the period, and the growth has positively affected the company's working capital needs.

Observations – It has been inferred from the above analysis that growth had a positive impact on both companies.

5.1.2 Asset Handling

Figure 13, Current Assets as % of Total Assets – Bigbasket vs. Grofers



Source: Author’s calculation based on the annual reports of BigBasket

Grofers vs. BigBasket

Grofers has no current investments and inventories compared to its counterpart, BigBasket has a large percentage stuck in inventories (13.18%). This increase is in line with its turnover growth. The company maintains its inventories at 5.35% to 7.5% of the turnover. Further, comparing the trade receivable of both entities, BigBasket had trapped a considerable sum in its receivables. On the other hand, Grofers have 35% of its assets in short-term loans and advances.

Grofers had 70% of the total assets as current assets, whereas BigBasket had 85%. In addition, BigBasket is handling its cash efficiently as only 1% is held as cash while the other ~3% is held in investments in liquid funds.

Table 12, Current Ratio and Standard Deviation of Startups

Particulars/Year	March, 2015	March, 2016	March, 2017	March, 2018	March, 2019	Mean	Std Deviation	Frequency
CR - Big Bakset	9.5	8.9	4.73	7.83	3	6.792	2.51	5
CR- Grofers		17.86	3.1	0.74	0.92	5.655	7.12	4
Mean SD							4.815	

Source: Author’s calculation based on Table 7, 11

The standard deviation of the current ratio for BigBasket is 2.51, and Grofers is 7.12. The SD of the current ratio of BigBasket is less than the average (4.815), showing less inconsistency. In comparison, the SD of the current ratio of Grofers is greater than the average (4.815), shows a considerable change during the period, and differs significantly.

Table 13, Quick Ratio and Standard Deviation of Startups

Particulars/Year	March, 2015	March, 2016	March, 2017	March, 2018	March, 2019	Mean	Std Deviation	Frequency
QR - Big Bakset	8.81	8.04	3.92	7.01	2.22	6	2.52	5
QR - Grofers		16.79	2.67	0.26	0.4	5.03	6.86	4
Mean SD							4.69	

Source: Author's calculation based on Table 7, 11

The Standard Deviation of Quick Ratio for BigBasket is 2.52, and Grofers is 6.8. The SD of BigBasket's quick ratio is less than the average (4.69), showing less inconsistency. In comparison, the SD of Grofers quick ratio is greater than the average (4.69), shows a considerable change during the period, and differs significantly.

Null Hypothesis

H₀: There is no significant relationship between working capital management and startups.

After analyzing the two companies' common size statements, various ratio, receivables outstanding days, working capital trends, and standard deviation, no working capital pattern was connected in these startups.

Based on the discussion and inference, there is no significant relationship between the working capital management of the startups; hence, a null hypothesis is established.

5.2 Suggestions

BigBasket

- The company should pay some serious attention to its alarming levels of trade receivables and review its credit policy. Year after year, there is an increase in the number of day trade receivables due.

Grofers

- The company has committed a significant amount to short-term loans and advances. As a result, the company should review its advance policy for optimal working capital management.
- Twenty percent of the company's total assets are in cash and cash equivalents. However, the company should reconsider its cash holding levels as it is in its growth phase and consider investing excess money in its operations.

5.3 Concluding Remarks

- Growth has positively affected the working capital position of all the companies. In addition, it has been observed that development paved the way to improved liquidity, margins, penetration, and customer acceptance, ultimately leading to improved WCM.
- Selected companies in the e-tailing sector have limited their operations to domestic markets, which has helped them to penetrate this market. The offline retail industry being \$600 billion is a long way to enter the markets further. COVID-19 pandemic has also given a boost to this industry.
- Both companies in the e-tail industry have submitted extensive amounts in debtors and advances. As a result, these companies need to review their credit policies further to ensure optimal working capital management. Moreover, they should attempt to keep the number of days of the cash conversion cycle at a minimal level.
- There is no significant relationship between the working capital management of the two startups.

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