

Internship Report

Working Capital Management of Aamra Networks Limited



University of Liberal Arts Bangladesh

Internship Report

Working Capital Management of Aamra Networks Limited

Prepared for:

Shubhankar Shil

Assistant Professor

Supervised by:

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ID: 131011178

Program: Bachelors in Business Administration

Major: Finance

Date: September 2022

Letter of Transmittal

September, 2022

To,

Shubhankar Shil

Assistant Professor

University of Liberal Arts Bangladesh

Subject: Submission of Internship Report

Dear Sir,

With due respect, I, Shahana Akter, bearing ID 131011178, would like to submit my internship report titled Working Capital Management of Aamra Networks Limited.

In this report, I have shed light on the working capital management practices of Aamra Networks Limited. The report outlines how the company manages its accounts receivable, accounts payable, and cash to maintain a desirable working capital. I have tried my utmost to present the information following your valuable guidelines.

I, therefore, would be greatly obliged if you accept my internship report. I would appreciate you communicating with me for any queries pertaining to this report.

Sincerely Yours,

Shahana Akter

ID: 131011178

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Signature

Acknowledgement

To begin with, I would like to express my gratitude to Almighty Allah for giving me good health and the opportunity to do an internship with a reputable company. I would like to thank my family, supervisor, and faculties who have encouraged, guided and supported me throughout my undergraduate journey.

I would like to especially thank my supervisor, **Shubhankar Shil**, who has guided me in preparing this internship report. His guidance was of paramount importance in selecting and preparing the topic and content of this report.

Finally, it was a privilege to be an Intern in the Finance and Accounts Department of **Aamra Networks Limited located** at Banani, Dhaka 1213, between 1 July 2022 and 30 September 2022. I wholeheartedly appreciate the cooperation of all the members of this department. Finally, I would like to convey my gratitude to **Mr. Nanda Dulal Paul** Assistant General Manager of the Finance and Accounts Department for allowing me to perform my internship duties under his supervision.



Internship Report Approval Form

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INTERNSHIP/PROJECT INFORMATION

Internship

Organization: Aamra Networks Limited

Internship /Project Report Topic: Working Capital Management of Aamra Networks Limited

Term (Tick one): ☐ Spring 2022 ☐ Summer 2022 ☐ Fall 2022

SUPERVISOR APPROVAL

(Tick One)

☐ Approved ☐ Not Approved ☐ Partial Re-write ☐ Full Re-write

Remarks (For Not Approved): _____

Signature: _____

Name: _____

Title: _____

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Name: SHAHANA AKTER

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Signature _____

Date: September, 2022

Executive Summary

Aamra Networks Limited is a renowned IT, IoT and ITES company. Its major business comprise of B2B ISP. It is among the first five nationwide bandwidth provider stepping in this industry at its stage of infancy in 1987. Although the market does not have many legal competitors, huge irregularities in the industry pose threat from illegal ISPs. To take advantage of the opportunities brought by the digitalization of Bangladesh and to mitigate threat of IT regulatory bodies, the company needs to utilize its strength and address its weakness.

For the internship I was assigned to the Finance and Accounts Department of Aamra Networks Limited. This report titled “Working Capital Management of Aamra Networks Limited” is aimed to measure, analyze and understand how the company manages its working capital components and identify whether its current practice requires intervention. The study is predominantly based on secondary data but includes information collected through personal observation an interview.

In Part A, I have attempted to summarize the history, objective, operation and performance of Aamra Networks Limited and my internship experience with the organization. The first chapter of Part A comprise of the background and progress of the IT, IoT and ITES industry in Bangladesh. It proceeds to describe the company’s profile and briefly discusses the forces affecting the industry and the company’s intrinsic strength, weakness, opportunities and threats (SWOT). This chapter also included a brief financial performance analysis for the period of 2017 and 2021. In Chapter 2 of Part A, I have described the activities and tasks I have performed during the internship. As a finance and accounts intern my responsibilities and duties mainly involved data sorting and recording, AIS software training and furnishing various documents. This chapter concludes with my personal observation and recommendation on the workplace environment and culture of Aamra Networks Limited.

Part B comprises the research design and findings and analysis of the topic studied in this report. Chapter 1 of this part mostly discusses the problem, purpose, methodology, scope and limitation of the research design. In the next chapter I proceeded to review previous literature on working capital management. In chapter 3, I have reported the qualitative and quantitative analysis on the

working capital management of Aamra Networks Limited. From the analysis, I have found that Aamra Network Limited had a positive working capital requirement (WCR) since 2017. The implication of positive WCR is that the company needs to finance this from non-spontaneous sources that have both implicit and explicit cost. The findings is supported by the evidence found in the annual report showing the company's long dependency on short term loans. The analysis extends to evaluate the large positive cash conversion period of the company and its possible adverse impact on profitability. In the final chapter I have provided my thoughts and recommendation on improving the working capital scenario of the company.

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Part A: Internship Experience

Chapter 1: Organization Profile

1.1 Industry Background

Digital Bangladesh is a critical vision of the Bangladesh government. To promote IT, IoT and ITES in the country, the government has developed policies that facilitate doing business in this sector. In addition, it has approved IT and software parks across all the districts. Information technology began its journey in this country with the internet using VSAT-based data transmission technology in June 1996. Two ISPs, namely Internet Services Network (ISN) and Grameen CyberNet Limited, were granted licenses by the Bangladesh Telegraph and Telephone Board (now BTCL) in the same year.

In 2006, Bangladesh reached a milestone by connecting to submarine cable -SEA-ME-WE 4. Eventually, BTCL extended its submarine connections, making the internet ever more accessible and economical to the general public. According to Daily Star, internet consumption in Bangladesh stands at 2600 gigabytes per second. There are four categories of ISP licenses-nationwide, divisional, district and Upazila. Of this, only nationwide licensed businesses can provide internet services anywhere in the country. According to BTRC, there are 10 million internet users (October 2021).

Even before achieving legal status from BTRC in 2018, IoT has shown rapid growth in Bangladesh. BTRC approved IoT's use in nine prospering sectors: infrastructure, industrial automation, smart grids, water management, waste management, smart agriculture, telecare, intelligent transport system, environment management, urban lighting, and smart parking. Meanwhile, the IT and ITES industry is a promising sector for Bangladeshi investors. Although the country is trailing far behind its neighbor India, it has projected strong growth with a current valuation of US\$ 1.1 billion. The growing number of tech-based startups and a strong commitment of the government to develop this sector is paving the way to the projected growth of US\$ 4.8 billion by 2025.

1.2 Organization History

Aamra Networks Limited is one of the eighteen strategic units of the Aamra group. The group began operation as Texas Group of companies in 1985 and has diversified to become a key market player in information communication technology, textile, lifestyle, and food and beverage sectors. In 2008, the group changed its name to "Aamra" which means "we" in Bengali to ensure that its corporate philosophies resonate with the name. As of 2020, Aamra group has employed over 2000 individuals, formed two publicly listed companies and created an estimated value of USD 60 million.

Aamra Networks, previously known as Global Online Services Limited, is currently the largest business to business (B2B) internet service provider in Bangladesh. The company obtained the certificate of incorporation only in 2001, after nearly two decades of operation. In 2017, the company enlisted as a public limited company on Dhaka and Chittagong stock exchange and currently it is the leading IT firm in Bangladesh with the highest market capitalization. Aamra networks limited has 100,000,000 authorized shares of BDT 10 and 56,223,681 issued shares. Of this, 33.04% is owned by sponsors or directors, 28.65% by institutes, and 38.32% by the public.

The company has built a reputation for consistently providing stable connectivity services to blue chip clients. To ensure such, it has heavily invested in state-of-the-art IT infrastructure having 75 PoP stations across the country (Annual report, 2021), 2 international PoPs in Interxion, and France and Equinix. It has over 370 employees working nationwide to assess changing customers' needs and bring about affordable IT solutions. Its efforts to improve and maintain service quality and satisfy contracts with clients enabled it to uphold the ISO 9001:2008 certification for 7 consecutive years. Aamra network has purchased 275 Gbps bandwidth as an international internet gateway (IIG) operator and is currently serving 65% of the total bandwidth in the telecommunication sector.

1.3 Organization Vision, Mission and Values

- ❖ **Vision:** The vision statement of Aamra network says that their vision is “To achieve excellence and drive innovation without boundaries through the power of We”. This means that Aamra

keeps innovation and cooperation at its forefront to grow as a reputed organization in the market.

❖ **Mission:** Aamra's mission is to "To empower our stakeholders with best practices and finest products every day!" This means that the company strives to provide the best quality product and services to its customers and engage in activities that protect stakeholders' interest.

❖ **Values:**

- Build and retain partnership and cooperation with stakeholders.
- Create products and services that creates value and unity with clients
- Solve problems in an integrative manner by incorporating stakeholders
- Maintain people driven business practice
- Retain stakeholders' trust by keeping commitments

1.4 Management Structure

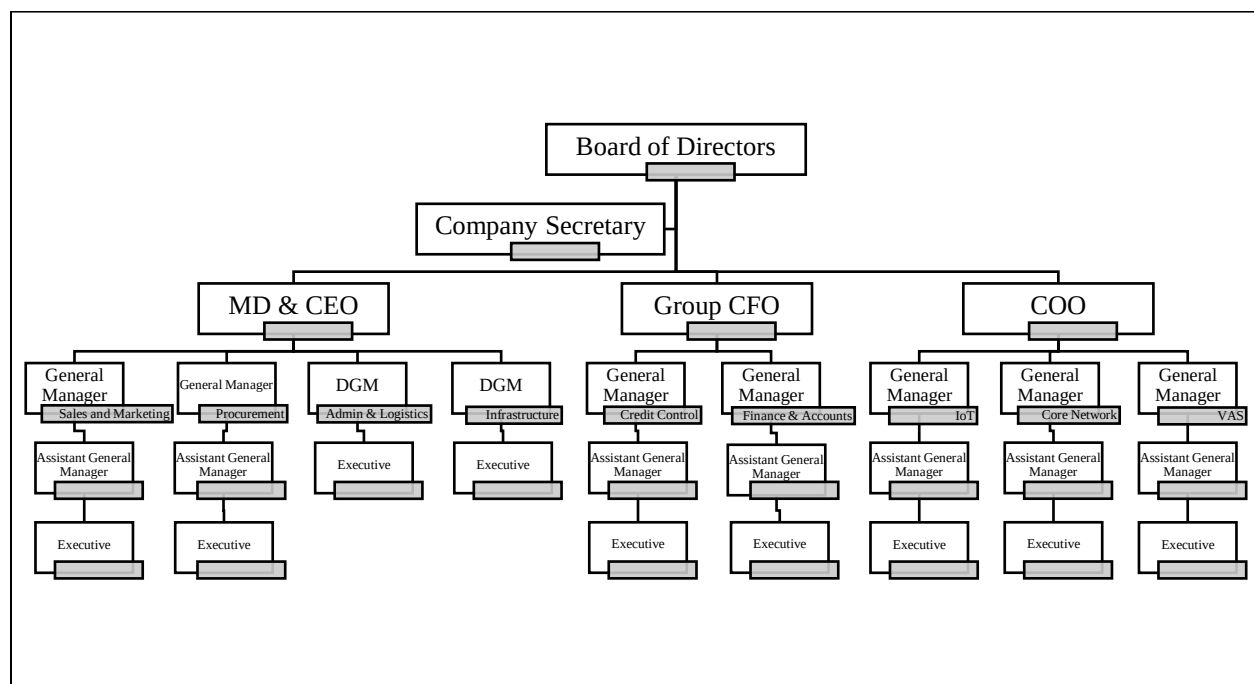


Figure 1: Organogram of Aamra Networks Limited

1.5 Key Product and Service

Aamra Networks Limited concentrates on the internet and IT-enabled services. The main products and services offered by Aamra Networks are described below:

Bandwidth: Aamra networks is a business to business internet service provider (ISP). They offer broadband and direct internet access services to public and private organizations. Currently, they serve over 1300 clients from more than a million workstations. Alongside this, they provide data connectivity services connecting clients and servers for secured transmission. Some noteworthy internet and data connectivity clients include the Bangladesh Army, Bangladesh Navy, Rapid Action Battalion, Biman Bangladesh Airlines, LafargeHolcim Bangladesh Limited, British American Tobacco, and Orion Group.

Software as a service: Aamra offers MPLS and PLC services to organizations looking to connect their ERP, CRM or other software. It pioneered the Multiprotocol Label Switching technique that enables faster data transmission via shorter paths eliminating the need for complex routing procedures. It serves big MPLS providers like Orange Business Solutions and HGC Global.

IT and IoT: With over twelve years of experience, Aamra manages the IT services of more than fifty private organizations and MNCs. Their IoT service includes networking, video conferencing, CCTV surveillance, firewall, VPN, etcetera. Noteworthy clients include the National Telecommunication Monitoring Center (NTMC), Directorate General of Forces Intelligence (DGFI), Bangladesh Export Processing Zones Authority, Royal Tulip Sea Pearl Beach Resort, and Honda. Meanwhile, Aamra was the first to introduce local cloud in Bangladesh, where customers can find email security, platform, and applications as a service.

Networking: Aamra provides routing, storage, configuration, and other enterprise network services that enable organizations to connect geographically dispersed computers via LAN or WAN. It works with similar leading companies around the globe like Huawei, Cisco, Dell, and Juniper.

Data center and colocation: Aamra has 4 data centers across the country that provides colocation facilities and infrastructure to manage customer loads. Its disaster recovery center in Jessore

ensures that customer data is saved during catastrophic events like earthquakes in Dhaka and Chittagong. It has partnered with leading data centers like APC and Schneider. They also have micro data centers that allow organizations to store, browse and transmit their data without committing to a dedicated data center.

1.6 Porter's Five Forces

The five forces model developed by Michael Eugene Porter is a widely used framework to identify and organize the forces that affect all the firms in the industry. The model analyses the forces in the competitive industry so that a firm can develop appropriate strategies in the light of the opportunities and threats in the environment.

1.6.1 Bargaining Power of Suppliers

A firm relies on various suppliers for their inputs and infrastructure to produce goods and services. The bargaining power of suppliers refers to the extent of control a supplier can exercise on prices and terms of trade. Powerful suppliers can raise prices or impose unfavorable terms more easily. For this reason powerful suppliers are threats to a firm. Contrarily, a firm can negotiate better term and lower prices if suppliers are weak. The bargaining power of suppliers depends on the number of supplier relative buyers and possibility of forward integration; these are discussed below:

- Number of suppliers relative to buyers: When there are many suppliers available in the market, the bargaining power of suppliers is low. Suppliers cannot easily raise prices or impose rigid terms because the client firms can switch to other suppliers. Contrarily, when the input is available only to a few suppliers, the bargaining power of suppliers is very strong. In this situation, if the supplier raises price, reduces quality or complicates terms, the customers have little option to switch over.

Bangladesh Submarine Cable Company Limited (BSCCL) is the sole authority in Bangladesh relating to undersea cables. Currently BSCCL has granted licenses to 3 private companies to establish and operate submarine cable systems throughout the country

(Hasan, 2022). Around 60% of the country's bandwidth comes from submarine cable connections. The remaining demand is met by 7 international terrestrial cable (ITC) services operators buying bandwidth from India. Thus, there are 10 suppliers of bandwidth and Level Three in the market. On the other hand, there are 36 IIG operators (Singh, 2022) who purchase bandwidth from these suppliers. This indicates that suppliers have moderate bargaining power.

- Possibility of forward integration: In some industries, suppliers are superior in terms of technology, infrastructure, economic scale, brand reputation and other many factors that give them the capacity to integrate forward in the supply chain and become a direct competitor of the firm which is a threat for the firm. The possibility of forward integration by suppliers is low if the business requires complex technology, large investment or scarce resources.

There are few suppliers in the industry who have already engaged in forward integration as IIG operators like 1Asia Alliance Communication Ltd and Fiber@Home (Singh, 2022). Many suppliers in this industry have the capital and infrastructural capacity to integrate forward and become competitors of Aamra Networks Limited. Thus, the bargaining power of suppliers is moderate in this industry.

1.6.2 Bargaining Power of Buyers

Porter's five forces view buyers with strong bargaining power as competitive threats. When bargaining power of buyers is high, they can force the firm to reduce price, improve quality or flex trade terms that may hamper the profitability of the business. Contrarily, when buyers have weak bargaining power, firms can easily increase their price, cut down on quality or reinforce terms which face the risk of losing customers. Bargaining power of buyers depends on the number of buyers, switching cost and threat of backward integration. These are discussed below:

- Number of buyers: When the demand for the firm's products and services is high and there are many customers in the market, the bargaining power of buyers is low. The firm can significantly increase prices, reduce quality or give terms that are advantageous to it because there is always another customer in the pool willing to buy the products and

services if one customer refuses to buy from the firm. On the other hand, if there are fewer buyers, for instance in a monopsony market, buyers have strong bargaining power because the firm has few or no other customers to sell its output. This may force the firm to engage in price competition.

Aamra Networks Limited is primarily a B2B internet service provider. According to Bangladesh Bureau of Statistics (2019), there are 7.8 million establishments in the country. This suggests that the market has a large number of buyers so the bargaining power tends to be low.

- Switching cost: Switching cost refers to the monetary, psychological, physiological or any other cost incurred by customers to move from one seller to another. The financial cost of switching to another ISP provider is also high. Thus, bargaining power of customers is low.
- Possibility of backward integration: When the customers of a firm are businesses in the supply chain, there is a possibility of customers engaging in backward integration. This may arise because of superior technology, capital or resources available to the customers that enable them to integrate backward and become a direct competitor of the firm. The possibility of backward integration by customer companies is low if the business of the firm is complex or the product or service is only a small constituent of the buyers' total input. The possibility of its customers integrating backward is very low because there are only a few customers who are mobile operators and have the capital and infrastructure to integrate backwards.

1.6.3 Threat of Substitutes

Substitutes can replace the product or service of the firm and alter the supply-demand dynamics. As a result, prices may reduce causing adverse impact on profitability. The degree of threat, however, depends on the utility, availability and pricing of the substitute. In other words, substitutes are a threat if they offer similar benefits to customers, they are readily available in the market or when the price of the substitute is competitive or lower. When there are too many substitutes, customers have low loyalty and easily switch over. There are no direct substitutes of IT and IoT and ITES services, so the threat of substitutes is low in this industry.

1.6.4 Barrier to Entry

When a market is profitable and the barrier to entry is low, new firms join the market. New entrants are likely to affect the market share as they take away customers from existing firms with their new product and marketing. Barrier to entry is high when capital requirements are high, old companies have mature distribution channels, governments impose restrictive policies and there are cost disadvantages independent of scale.

- **Capital requirement:** If the capital needed to enter a market is high, the barrier to entry is likely to be high; in turn the threat of new entrants is likely to be low. Capital requirement may be high when production of goods or services require expensive technology, plants or research and development. The ability to raise large funds, high cost of funds and the risk associated with the return and recovery of capital invested can create barriers for firms or individuals to enter in a market. The capital requirement to become a nationwide ISP firm is very high because of expensive infrastructure required to operate business. This creates high barriers to enter in this industry.
- **Mature distribution channel:** Distribution channels are needed to distribute the product of a business to customers. A mature, dynamic, efficient, far reaching and effective distribution channel is a strength for many existing companies and weakness for new entrants. If old firms dominate over existing distribution channels, access to such may get costlier to new entrants creating a barrier to entry. However, if new entrants join the market with innovative and more effective distribution channels they will pose a threat to existing companies. Aamra Networks Limited has a wide and well established distribution channel in the country having 75 PoPs, 4 data centers and valuable strategic alliances. This creates significant barriers for new entrants in the market.
- **Government Policy:** If government policy favors new entrants, the barrier to entry is low. The government has imposed very high VAT and tax on the IT, IoT and ITES products and services in Bangladesh. For instance, ISP companies have to pay as large as 32.5% in VAT to local government avail service from popular sites like Google and Facebook

(Akter, 2022). These kinds of expensive government policies create a high barrier for new entrants.

- Cost disadvantages independent of scale: Established firms are likely to have more knowledge about the market, have technologically superior infrastructure, and have specialists and experienced personnel and the confidence of the customers. These allow them to manage cost that creates a cost disadvantage for new entrants and therefore a barrier to enter into the market. Aamra Networks Limited have more than twenty years of experience in this industry, expert employees and strategic network that gives it a significant advantage over the new entrants.

1.6.5 Industry Rivalry

The extent to which the competition among firms within an industry limits the profit potential of the competing firms shows the intensity of industry rivalry. When two companies are roughly similar in terms of financial power, marketing, brand reputation, human resources and product portfolio, competition among them is significantly higher. Unless the product or service is highly differentiated, customers will incline to the seller offering lower price. This leads to price competition and higher cost of doing business resulting in loss of profitability. Contrarily, if one firm is dominating a market, it becomes relatively easier for the firm to tackle competitive moves of smaller rivals and keep prices high. Aamra Networks Limited have many competitors in the market who are similar in size and resource capability. Furthermore, the industry faces fierce competition from illegal internet service providers offering lower prices. As a result the extent of competitive rivalry is very high.

Summarizing the discussion above, it can be concluded that the industry forces on Aamra Networks Limited range from moderate to low. The company faces low pressure from customers, low threat from substitutes and new entrants, moderate pressure from suppliers and high industry rivalry.

1.7 SWOT Analysis

1.7.1 Strength

- Early foothold in the IoT, IT and ITES industry giving more than 20 years of experience
- Established robust infrastructure nationwide having 75 PoPs
- Priority access to IIG bandwidth
- High profile clienteles in both the private and public sector
- Established four data centers in strategic locations- Dhaka, Jessore and Chattogram.
- Diverse portfolio of products and services
- Skilled human resources throughout the country
- Strategic alliances with public sector and major autonomous bodies i.e. BCB, BEPZA, CRI, and DNCC.
- Good partnerships with top OEMs, i.e. Cisco, Microsoft, Polycom, HikVision.

1.7.2 Weakness

- They do not have any product or services for individual customers (B2C); they serve businesses only (B2B).
- Highly dependent on third party infrastructure providers such as NTTNs, LSPs
- Providing superior services to customer increases cost significantly
- Expansion of business heavily relies on earnings retained

1.7.3 Opportunity

- Have infrastructure to commercialize vehicle tracking solutions
- Expand portfolio of MPLS services
- Introduce business to customer (B2C) internet products and services
- Capacity to venture in robotics and automation business
- Increase business presence through acquisition of data center and other infrastructure
- Achieve collaboration with international companies and investors

1.7.4 Threats

Frequent cable cuts by various authorities

- Frequent disruptions caused during cable cuts by authorities
- Insufficient transmission infrastructure and narrow NTTN coverage
- Market is highly competitive
- Many businesses providing illegal internet services
- Unregulated IT industry eases entry of new companies.
- Government imposed TAX/VAT rates on various products and services are very high.
- Low sales of equipment due to availability of illegal and untaxed imports in the market

1.8 Financial Ratio Analysis

Financial ratios are widely used by management and other stakeholders to evaluate the financial stability and growth prospects of companies for decision-making purposes (Myšková and Hájek, 2017). Ratios are extracted from the financial report which is the prime publicly available information in the market. In practice, financial ratios are often used as financial performance indicators due to their simplicity and positive information value (Ichsani et al., 2021). These ratios enable users to conduct trend analysis and comparative analysis. They provide insights into factors affecting profitability, risk, liquidity, economic utility (Tsiouni et al., 2022), and the solvency of the firm. The following section measures and evaluates the financial ratios of Aamra Networks Limited for the period between 2017 and 2021. The ratios are categorized into profitability, efficiency, leverage and market value ratios.

1.8.1 Profitability Ratios

Net Profit Margin

Net profit margin shows the ratio of net profit and revenue. It indicates the ability of a firm to generate profit from sales (Husaini, 2012). Investors look into this ratio to assess growth potential, tentative investment payback term, and associated risk. Higher net profit margin attracts investors. The net profit margin of Aamra Networks Limited has decreased over the years due to sharp increase in cost and expenses. The highest net profit margin enjoyed by Aamra Networks Limited was 22.37% in 2018, which reduced to 12.05% in

2021. The decline can be attributed to sharp increase of cost of goods and services and financial expense.

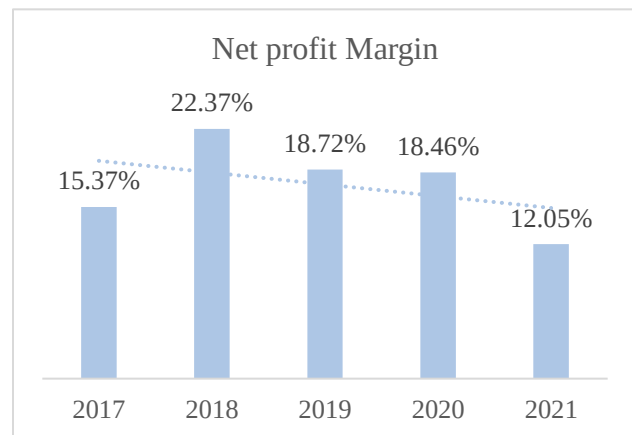


Figure 2: Net Profit Margin (Source: Annual Report, Aamra Networks Limited)

Return on Assets: The return on assets (ROA) ratio shows the ability of a company to generate profit by utilizing assets. It shows the return on total investment irrespective of the source of capital. ROA suggests that companies having large amounts of assets should earn higher income (Otekunrin et al., 2018). ROA decreased from 11.23% in 2018 to 4.16% in 2021. The profit generated did not commensurate the larger asset base over

the years. This indicates that the profitability of the business is falling at an alarming rate.

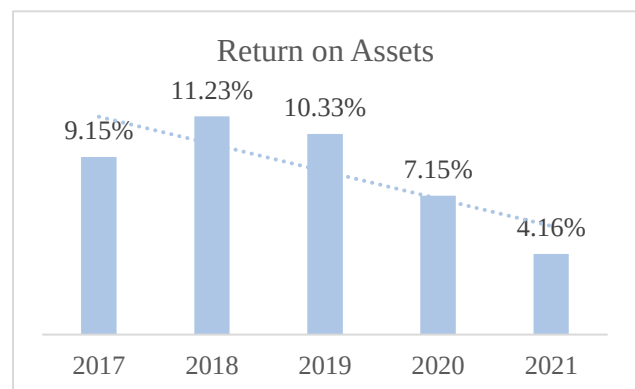


Figure 3: ROA (Source: Annual Report, Aamra Networks Limited)

Return on Equity: A core objective of a company is to generate profit for shareholders. Return on equity (ROE) shows the return earned by investors for one taka invested in the company. It is a ubiquitously used ratio to measure corporate financial performance. Common stockholders are entitled to residual income of the company. The dividends paid to them are not fixed and not all profit earned in a year is distributed to the common shareholders as some of it is retained for the growth of business. The investors of Aamra Networks Limited

enjoyed the highest ROE in 2018 i.e. 12.39%. In recent years ROE fell sharply to 5.77% and is below the average return on savings in Bangladesh.

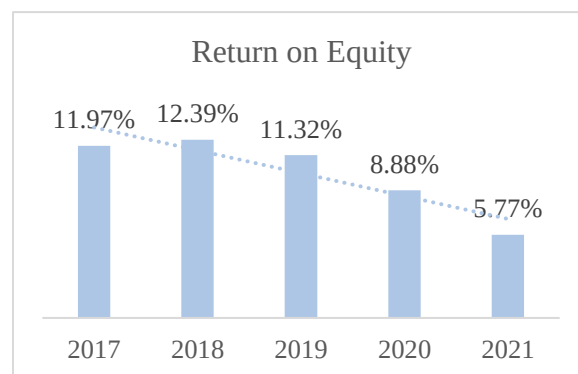


Figure 4: ROE (Source: Annual Report, Aamra Networks Limited)

1.8.2 Efficiency Ratio

Asset Turnover ratio: Asset turnover ratio compares revenue to total assets of the firm. This ratio provides insight into the operational efficiency of the business and indicates how effectively the company is using its assets to generate revenue. Revenue generated from every 1 taka invested was as high as 0.6 taka in 2017. In 2021, revenue to asset declined to 0.35:1. This suggests that

the large asset base in recent years is unable to generate revenue as efficiently.



Figure 5: Asset Turnover ratio (Source: Annual Report, Aamra Networks Limited)

1.8.3 Leverage Ratio

Debt to Equity: A company is said to have leveraged when it finances its assets from non-spontaneous sources other than equity. The debt to equity ratio shows the leverage of a company. Signaling hypothesis implies that a more successful firm with high anticipated profits takes on more debt to take advantage of tax deductions without facing financial distress. However, debt increases the risk of stockholders as debt obligations receive priority over equity claims. The company did not have any long term debt between 2017

and 2019. During the economic stagnancy in 2020, the firm issued debt to finance business operation. Debt to equity is still low at being 9.29% in 2021.

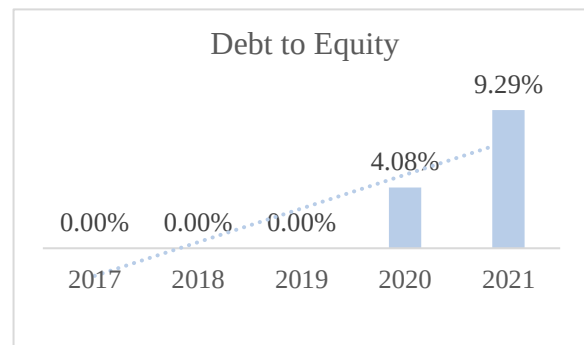


Figure 6: Debt to Equity ratio (Source: Annual Report, Aamra Networks Limited)

1.8.4 Market Value Ratios

Price-to-Book Value ratio: The price-to-book value ratio compares the market value of the firm to the value reported in its books. It shows the book value per share as a ratio to the share price. In a weak-form efficient market, this ratio is a prime indicator of whether a stock is overvalued, undervalued, or rightly priced. The market price of shares was 4.32 times the book value of the stockholder's interest in 2017. This reduced

to 1.09 in 2021 reflecting falling confidence of investors on the company.

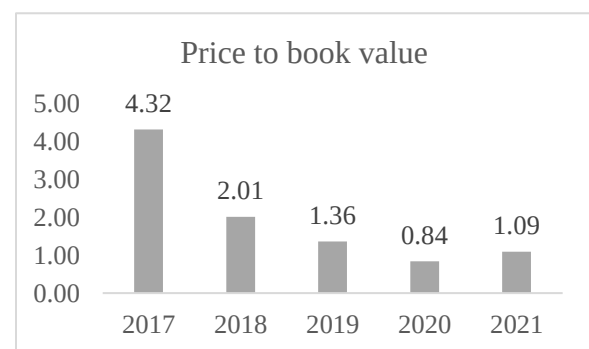


Figure 7: Price to book Value Ratio (Source: Annual Report, Aamra Networks Limited)

Price earnings ratio: Price earnings ratio compares the market price of the share with earnings per share (EPS). It directly shows the price of the share per one taka of the company's earnings. It indirectly shows how many years it will take for the current earnings to recover the price of the stock. As a result, potential investors can identify whether a stock is reasonably priced based on its current earning condition. In 2017, investors were will to pay 36.02 times the

EPS for the stocks of Aamra Networks Limited. It dropped to only 9.46 times in 2020. However, P/E ratio doubled in 2021

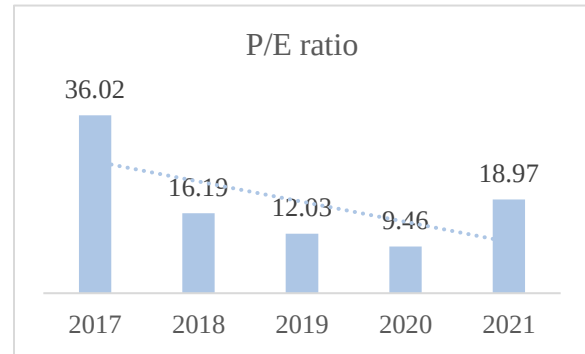


Figure 8: P/E Ratio (Source: Annual Report, Aamra Networks Limited)

Dividend yield: Dividend yield shows the dividend paid per share as a percentage of the market price. Dividend is the profit distributed to the shareholders. The dividend signaling theory suggests the importance of a good dividend policy for both investors and company as it is the source of income for many investors and an indication of better company performance in future. No dividend was paid to the stockholders of the company in 2017. In 2021, dividend was only 2.46% of

the price investors paying for the stock. This is a negative signal for investors who rely on dividend for livelihood.

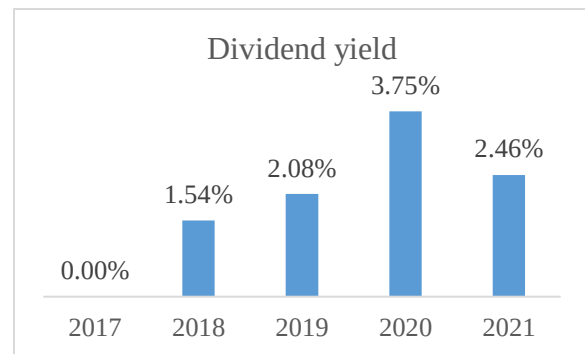


Figure 9: Dividend Yield (Source: Annual Report, Aamra Networks Limited)

Chapter 2: Internship Roles and Responsibilities

2.1 Nature of the Internship Job

Aamra Networks Limited has a finance and accounts function that records, processes, analyses and reports financial information. The transactions are initially stored in Excel files and then recorded in the accounting software-QuickBooks. The range of activities performed during the internship is discussed in the following section.

2.2 Responsibilities

Invoice sorting by month: The first task I was assigned at Aamra Networks Limited was to sort the invoices by month. Since the sales invoices are periodically entered in the accounting software, the invoices are sorted first on the basis of the month in which they took place. I was assigned to this task due to its simplicity.

Preparing Pro Forma Income Statement: In the second week of my internship I was assigned to prepare a pro forma income statement for the period of August 2022 to January 2022. The pro forma income statement consisted of two items- revenue and salary expenditure. The company can reasonably predict their revenue due to the nature of contractual agreement of providing services. Another piece of predictable cost was the salaries paid to employees which was matched against the revenue.

Supplies/Stationery requisition letter: Aamra Networks Limited has a system of issuing requisition letters for office supplies. The document serves as an official request to the purchase department to purchase a certain quantity of certain supplies. The requisition letter is produced as evidence by the purchase department to the finance and accounts function to validate the purchase expenditure. During the internship I have prepared requisition letters for papers, pens, staplers and other stationeries.

Calling Vendors for Receivable Collection: Aamra's credit collection procedures involve calling customers for payment. Aamra uses the receivable aging schedule to identify customers who are long due and puts them on credit monitoring. During the internship I was assigned to call many of these customers to ask them for settlement in a professional manner.

Preliminary recording check deposits: Aamra Network maintains a preliminary excel file for all the vendor payments through check. I routinely updated the file with information of the new check including the date, vendor's name, payee's bank name, account number, check number, and amounts.

Matching Mushak Files: Aamra Network prepares monthly Value Added Tax return files. I was assigned the duty to match information and figures on hardcopy documents with the soft copy.

QuickBooks Data entry training: Aamra Network uses QuickBooks as their accounting software. Since the accounting software contains sensitive information and are subject to external scrutiny, the company does not allow inexperienced interns to enter, update or change data into the QuickBooks. However, the company provided me with training on journal entries on the QuickBooks in a separate database using dummy data.

Writing Applications: During the internship I was assigned the task of writing applications to cancel pay orders and bank guarantees. Aamra Networks has a structured format for these applications and I had to update the format for date, pay order number, tender security code, account number and amounts.

Chapter 3: Observation, Conclusion and Recommendation

3.1 Observation

I was assigned to the finance and accounts function of Aamra Network Limited for this internship. The department is responsible for managing receipts from vendors, authorizing payment and managing the accounting information system and furnishing financial reports of the company. One important observation is that there is a lot of duplication of efforts in this function. For instance, vouchers are sorted first by one employee, recorded in an excel file by another employee, and checked once again before they are finally entered in the software. The company has a very formal workplace environment. The employees mostly engage with their superior and subordinates in a respectful manner. During the internship, the employees from the marketing and purchase department helped me in various ways to understand the industry and business of the company. There is an immense workload in each department so employees are expected to learn quickly and perform their task independently. There are little arrangements for training new interns which makes the first few weeks of the internship very difficult to cope with.

3.2 Recommendations

Aamra Networks Limited is an experienced and reputed company in the information communication industry. It is difficult to make recommendations on the management practices of the company. However, from my observation and experience I have the following recommendations. First of all, I would recommend the company to introduce job rotation on some functions. This would particularly help the interns to better understand the business operations of the company and learn more skills in the process. I would also recommend the company to hire more interns and engage them into market research to improve the decision making process. Finally, efforts could be made to eliminate the duplication of effort and save employee time.

3.3 Conclusion

The internship with Aamra Networks Limited was a great experience and opportunity to learn about corporate culture and mannerism. Through this internship I was able to acquire some solid skills like QuickBooks operation and soft skills like communication etiquette with customers. I have experienced many challenges and pressures and learned how to overcome these situations with the help and advice of the people in the workplace. This internship has benefited me with practical knowledge, career motivation and personal development.

Part B: Research Project

Chapter 1: Research Design

1.1 Background

Bangladesh is gearing up for the fourth industrial revolution. Aamra network is a leading market player in the IT, IoT and ITES industry. It is currently trading its stock in the Dhaka and Chittagong stock exchange. In recent years, the company has experienced a steady decline in its earnings and share price. The company's cash balance plummeted from BDT 31.44 million in 2018 to BDT 12.40 million in 2021. The company issued non spontaneous debt for the first time after listing in 2020. Amid these, the company's bandwidth capacity was capped by 50% by the BTRC in July 2022 for failing to settle the government's revenue sharing dues on time. The lack of working capital, as suggested by these facts, is defined as the problem of this report.

1.2 Objective of the Study

This report was prepared as a partial fulfillment of the internship requirements to successfully complete my graduation. The specific objective of this report is to measure and evaluate the working capital management of Aamra Networks Limited.

1.3 Methodology

This report is descriptive in nature. Both qualitative and quantitative data and information were used to provide the historical insights of the company.

1.3.1 Primary Data

The primary data used in this report mainly comprise of physical observation of the company activities and brief management interviews to understand the industry forces, competitors, process, and procedures of the company.

1.3.2 Secondary Data

The secondary data used in the report are the audited annual report and quarterly reports of Aamra Networks Limited for the period of 2017-2021, newspaper articles, website information and the internet.

1.4 Scope

This report contains an overview of the Aamra Networks Limited, its vision, mission, products and services, industry and organization analysis. The report attempts to describe the industry forces faced by the company and its strength, weakness, opportunities and threats in the market. The report also contains a brief review of prior literature in working capital management to establish its concept and importance in the smooth operation of a business.

1.5 Limitations

During the study, I have faced several limitations that barred me from conducting a detailed study for my report. Despite these limitations I tried my utmost to present relevant information to make the report insightful. The limitations experienced while conducting this study arose due to time constraint, lack of primary data from internal management and lack of secondary data.

- This report was prepared during the three month internship tenure. During this period I experienced huge pressure from working at the office, attending university classes and studying for a GED course, and maintaining my family at home. As a result, I did not have sufficient time to conduct extensive research, plan a detailed study or conduct primary research. This constricted the findings of this report.
- To fulfill the objective of this report I needed various financial and non-financial information from the management. I could not obtain desired qualitative and quantitative information because of sensitivity matters.
- There was a significant lack of inexpensive secondary data relating to the industry and market players.

Chapter 2: Theoretical Background

Literature review- Working Capital Management

Literature related to corporate finance has always had the tradition of studying long-term financial decisions which involve capital structuring, dividend allocation, firm valuation methods, and so on. But, Smith (1980) prioritizes the working capital management due to its impact on the firm's risk management, profitability, and valuation. When looking for literature on working capital management, not too many studies can be found to inherit information from, although working capital management is extremely crucial, especially for small and medium-sized businesses. One of the common studies on working capital management is on Cash Conversion Cycle (CCC), where it has been identified that a longer CCC results in increased sales and increased inventory while foregoing other investment opportunities. However, in a perfect capital market scenario, there are opportunities for a firm to acquire funds from external sources while having a longer CCC because financing and investment decisions are independent of each other in this hypothetical scenario (Modigliani & Miller, 1958), but in reality, the external sources of investment have increased cost and high risk, therefore, investment decisions and financing decisions are all interrelated. The following literature survey has focused on understanding the role of working capital in the service industry, the working capital cycle, and working capital management to have a thorough understanding of working capital.

“Profitable working capital management in industrial maintenance companies” – the literature has illustrated the impact of working capital on Return on Investment (ROI) while considering the service sector related to industrial maintenance. One of the key factors of the literature was to point out the role of working capital management because a significant amount of profitability for the service sector is dependent on how the working capital is managed. The literature has shown that a higher CCC cycle results in a negative ROI, and this statement is found to be truer for the service industry (Marttonen et al., 2013).

According to Appuhami (2009), same as in the manufacturing industry, the service industry's working capital structure has an inverse relationship with the firm's investment. The lower the net liquidity balance of the firm, the less opportunity the firm has in terms of increasing its investment, thus impacting the profitability of the firm. The author also points out that firms alter the net liquidity balance based on the opportunities available to them for corporate investments, where higher opportunity results in higher liquidity and lower opportunity results in lower liquidity within the firm.

In "Working capital management: Financial and valuation impacts", it has been found that different types of service industries have different types of working capital practices, and for this reason, the same working capital management strategy cannot be applied to all types of service firms. Efficient working capital management leads to a better valuation of the organization by others. The literature points out that the transportation and communication industry is very aggressive in terms of managing the working capital cycle; on the other hand, financial sectors which includes banks and non-banking financial institutions are less aggressive with working capital management because of trying to stay risk averse. Being aggressive means that the working capital structure uses the least investment in current assets and maximizes the usage of short-term credit (Boisjoly et al., 2020). This is how we can understand that the working capital cycle can vary from industry to industry within the service sector. However, in general, the cash conversion cycle is found to be the lowest for the service industry, and this is good because it allows the firm to be highly risk-free since it can easily convert current assets into cash (Jose et al., 1996).

"FACTORS THAT INFLUENCE WORKING CAPITAL REQUIREMENTS IN CANADA" by Gill (2011), we find that the operating cycle, return on assets, sales growth, and the size of the organization influence the working capital requirements. It is further stated that the working capital requirements are positively associated with OC and ROA. On the other side, the working capital requirement is negatively associated with the service industry. In this report, positive association means, for example, the higher the or longer the operating cycle is, the more requirement a firm has for working capital. On the other hand, the lower the association, the less working capital is required.

According to Aminu (2012), in the service industry, inventory management is strictly related to sales. Based on consumption and sales quantity, a firm needs to determine the inventory for managing its working capital. When a firm has the optimum inventory level which is based on sales, it ensures a proper balance between the inventory and the profitability of the firm. The second factor related to working capital management is accounts receivables, and to squeeze out more profit, accounts receivables conversion cycles need to be shortened, and this is true for any kind of service industry (Knauer & Wöhrmann, 2013). When it comes to choosing whether or not to cash accounts receivables in the service industry, it fully depends on the firm's size, the type of service that is offered, customer type, financial statement situation, management team's decision-making style, operational style, and the collectability of the accounts receivables (Soufani, 2001).

Accounts payable are usually modified in the service industry by increasing the payment term with the supplier, just like in the manufacturing industry; however, in the service industry, the payment terms are found to be less stretched compared to the manufacturing industry. Accounts payable and accounts receivable management has one thing in common, and that is that increased use of both of them results in increased sales and when a firm has increased growth, the usage of both receivables and payables increases. However, it has been found by studying 3589 businesses which comprise of both small and medium-size businesses in the UK that large organizations who have the opportunity to acquire financing through internal and external sources for a lower cost avoid increasing the number of accounts payable (García-Teruel & Martínez-Solano, 2009).

After going through the literature review, some key aspects which are related with the relationship between working capital management and the service industry have been identified. Firstly, the role of efficient working capital management has a similar value in the service industry compared to manufacturing firms because an effective working capital management system ensures good stability between profitability, risk, and liquidity. Secondly, the service industry is found to have the lowest cash conversion cycle compared to the manufacturing industry; however, the cash conversion cycle is not the same for all kinds of service firms; rather, various aspects impact the cash conversion cycle and, therefore the cycle varies from one service industry to another. Thirdly, accounts receivables and payables are used in an aggressive manner to finance working capital, where business growth is found to be high, and sales are also high in value and in number. The recommendation for service firms will be to make sure that the working capital structure and

management of working capital of the firm takes into consideration the industry, the customer type, convertibility of the capitals, service type, competitors, management practices, and so on to ensure the optimum level of working capital management. It is to be noted that, in the service industry, stretched cash conversion cycles influence the return on investment for firms that are in the service industry more compared to the manufacturing industry.

Chapter 3: Analysis and Findings

3.1 Qualitative Analysis of the Working Capital Management

3.1.1 Inventory Management

Aamra Networks Limited has a wide range of inventories used for trading and maintenance. Including optical fiber, networking equipment, gateway routers, computer, CMS and EVMS devices and related accessories. Based on the reports of marketing and sales department, the procurement function projects the inventory need after considering lead time and safety stock and issue a requisition statement to the finance and accounts department. After getting authorization from the finance department, the procurement department releases purchase order and relay it to the logistics department. It is the logistics department that makes necessary arrangements to bring the inventories inside the organization. The average lead time is less than 30 days for domestic purchase and 10 weeks for international suppliers. The logistics department makes periodic physical observation to notify the procurement department for any loss or damage of inventory.

3.1.2 Receivables Management

Aamra Networks Limited has a separate credit control department for managing trade receivables. The function of credit control is to evaluate and approve credit applications, speed up cash inflow from credit sales, monitor the age of receivables, establish billing and collection policies, maintain the accounts of active credit customers, and safeguard company's investment in receivables. The receivable management process begins with issuing invoices to customers most of whom are recurring in nature. Customers who do not pay their bills in the month of the service are sent a reminder statement within the first 5 days of the following month. Customers who do not pay within 90 days from sales are put on credit monitoring. These customers are periodically called by the company's representatives asking for payment. In events where the credit controller is convinced that the credit customers is reluctant or unable to pay the dues, it needs to decide whether to write off the customer as bad debt or continue with legal proceedings to recover the amount. The company does not offer any discounts to expedite payment from receivables.

3.1.3 Payables Management

The payables decisions of Aamra Network Limited is made by the finance and accounts department. The company does not have any systemic way of managing its payables but relies on the credit terms offered by suppliers. The standard credit term on purchase ranges between 30 to 60 days.

3.2 Quantitative Analysis of Working Capital Management

3.2.1 Days Inventory Held

Inventory management is important to release cash in a timely manner. The cash can then be used to repay suppliers and other dues. It is difficult to manage inventory because it passes through many lines of responsibility like procurement, marketing, sales and finance departments. Inventory is the item that links the various parts of the supply chain. Inventory accounts for an average of 15% of the total assets of Aamra Networks Limited. It is also the least liquid current asset for it is difficult to sell inventory at short notice without reducing price. In 2017, the company's inventory was sold 2.15 times which decreased to 1.74 times in 2021. It can be argued that the company's inventory turnover rate is affected by the business cycle as the lowest turnover rate being 1.65 times was recorded in 2020 during the Covid-19 pandemic. Low inventory turnover increases the number of days inventory is held in the business. Not only does it have implicit and explicit costs, it also slows down the cash conversion process. Over the period of five years the days inventory held (DIH) increased by 40 days to become 210 days in 2021 (see, **Table 1**). The longest time inventory was held is 221 days in 2020.

3.2.2 Days Receivables Outstanding

Companies offer credit to cash constrained customers to increase sales. Good credit policy helps to improve supplier-customer relationship. Hence, credit sales can be used as a strategic tool in a competitive market to increase revenues and capture market share. However, large investment in credit sales can reduce profitability and firm's value due to loss in bad debt and time value of money. Accounts receivable comprises 13.56% of the total assets of Aamra Networks Limited. Between the year 2017 and 2021, days receivables outstanding (DSO) more than doubled from 58

days to 130 days (see, **Table 1**). It takes over four months to collect receivables. Every 1 taka of receivables today is worth only 0.97 taka after 130 days (opportunity cost of fund is assumed 9%,- the highest rate paid by commercial banks on deposits). The sharp increase in DSO calls for reinforcing the credit control policy of the business.

3.2.3 Days Payable Outstanding

Credit purchase is a spontaneous source of financing of the business. When a business purchases on credit, the inventory assets are financed by the supplier's credit facility. Good business practice requires the business to time its days payable outstanding (DPO) with the credit terms offered by the suppliers. The company needs to choose its optimal payment strategy between the options to pay upon delivery or paying within the credit period. Since the value of payable reduces with time in an inflationary economy, present value costs decrease when payment is made on the last day in absence of cash discounts. The DPO of Aamra Networks Limited has gradually increased over the years to become 30 days in 2021 (see, **Table 1**).

Table 1: DIH, DSO and DPO (Source: Annual Report, Aamra Networks Limited)

	2017	2018	2019	2020	2021
DIH	170	185	180	221	210
DSO	58	113	104	139	130
DPO	9	18	19	23	30

3.2.4 Operating Cycle and Cash Conversion Cycle

The operating cycle (OC) shows the length of time the company's fund is tied up in various current assets. It is the summation of DIH and DSO. The operating cycle increased of Aamra Networks Limited increased from 228 days in 2017 to 340 days in 2021 (see, **Figure 10**). This suggests that currently, it takes almost a year for the company to release cash from its current assets. The difference between OC and DPO is known as the cash conversion period (CCP). When the DPO is shorter than the OC, it implies that the company has to make payments to the trade creditors before it can sell its inventory and collect money from the customers. In other words, positive CCP shows the length of time over which the company needs to arrange funds from non-spontaneous sources. Longer positive CCP reduces the liquidity of the business. In 2021, the CCP of the

company was 310 days which was 91 days more than in 2017. The highest CCP accounted by the company was 338 days in 2020 (see, **Figure 10**).

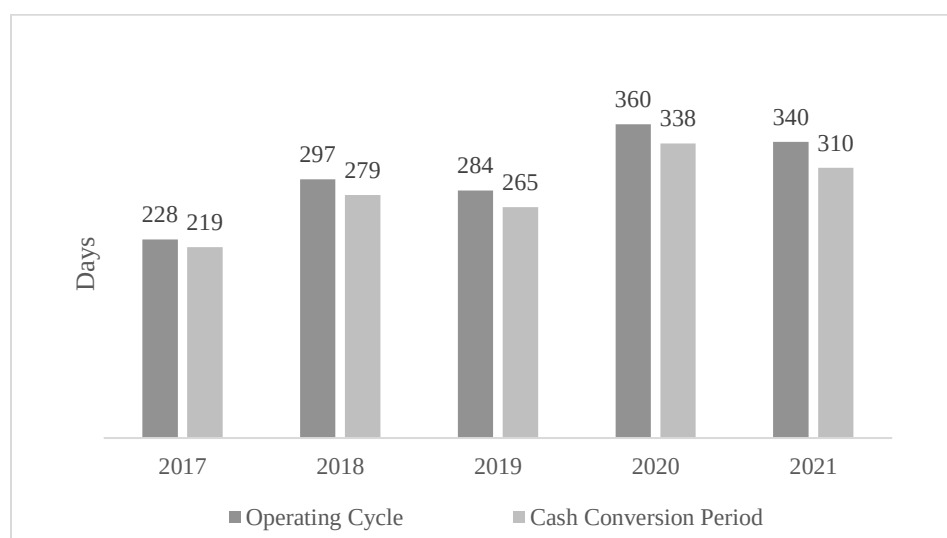


Figure 10: OC and CCP (Source: Annual Report, Aamra Networks Limited)

3.3 Findings

After a successful year in 2018, the profitability, efficiency and market value of Aamra Networks Limited begin to plummet rapidly. The decline in earning prospect was also met by falling investors' confidence as the share prices dropped from a whopping BDT 116 in October 2017 to BDT 40.6 in June 2021 (see, **Table 2**). The company attempted to salvage some of the investors' trust by giving more dividend amid the Covid-19 crisis in 2020. In the same year, the company issued its first long term debt in the past decade (see, **Table 2**).

The company had a consistent large positive CCP cycle over the past five years. The financial report suggests that the company has been financing its working capital through short term loans. Short terms loans are non-spontaneous source of financing that has significant implicit and explicit cost. The interest paid by the company on short term loans ranges from 6% to 9%. This increases the cost of payables and reduces the value of money tied in inventory and receivables. Meanwhile, analyzing the pattern of CCP and net profit after tax shows negative relationship particularly after 2019 (see, **Figure 11**). The short run liquidity crisis of the company escalated in this year when

half of the company's bandwidth capacity was capped for failure to pay its current obligations. This serves as a direct example how failure to manage working capital limits business operation and sales lowering profitability.

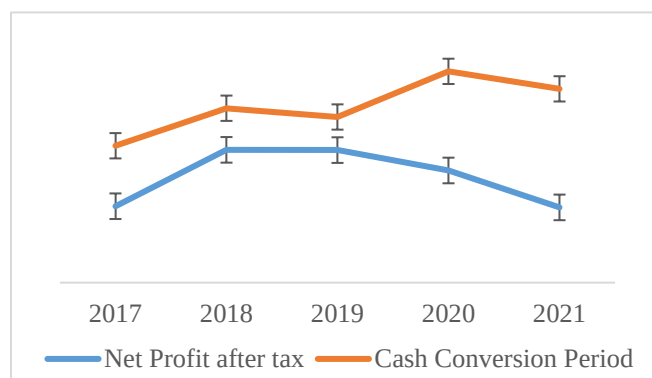


Figure 11: CCP and Net Profit of Aamra Networks Limited

Table 2: Price, Dividend and Debt of Aamra Networks Limited

Year	Price	Dividend per share	Debt
2017	116.0	0	0
2018	64.9	1	0
2019	48.1	1	0
2020	30.2	1.13	82,468,889
2021	40.6	1.00	193,665,908

Large positive working capital can be argued to have weakened the company's short term liquidity. Long inventory turnover might be the result of lack of aggressive marketing in the B2B business model of the business. The company's sales and marketing strategy includes direct selling and bidding. At the same time there is no stringent receivable management policies such as interest charged on accounts long overdue. On the other side, the average payable period is less than 60 days which suggests need for stronger negotiation.

Chapter 4: Recommendation and conclusion

4.1 Recommendation

As an intern having less experience and short tenure with the internal management, it is very difficult to make recommendations relating to the financial matters of the company. Since it is a part of the internship report, I would like to make the following recommendations:

- From my observation, the company has a very flexible trade credit owing largely to maintaining good relationship with B2B clients. Trade credit policies can be reinforced to reduce average collection period. The credit control department can begin with classifying customers for allowing credit. This can include categorizing by value, trade history, client organization history and capacity. The company can assign interest and discounts on credit terms and make explicit contracts on these terms.
- The company can venture into B2C ISP market. In this market, customers are mostly required to pay in advance for the internet service. This might help the company to improve its liquidity position in the short run.
- The company's inventorial process is very lengthy. It can review its stock level, safety stock and reordering policies to reduce idle inventory. I would also like to suggest avoiding large inventory pile up of sensitive inventories like fiber optic cables that requires complex warehousing process and has high incidence of damage.
- Supplier credit terms could be negotiated to extend the credit term on the premises of the nature of the company's revenue process.
- The company can study its competitors to identify whether its working capital management is similar with the industry. If so, the industry can lobby for innovative ways to convert its accounts receivable into tradable financial instruments that are typically found in developed countries.

4.2 Conclusion

Aamra Group is a renowned name in the textile and apparel, IT, lifestyle, and food and beverage sector of Bangladesh. As a concern of this group, Aamra Networks Limited quickly achieved popularity in the market and became the largest B2B internet service provider in the country. The IT market in Bangladesh has few but strong market competitors. The highly capital intensive industry has few suppliers, many buyers and low substitute and huge competition from legal and many illegal ISPs taking advantage of the unregulated market. Over the years, Aamra Networks Limited has seen a decline in their profitability, liquidity and market stock price. Amid investors' pessimism the company's bandwidth, which is a prime input to its service, was capped by BTRC for nonpayment of revenue sharing dues. In the following days, the company experienced the lowest price in its history of stock trading. Nonetheless, the situation quickly recovered when the cap was withdrawn after settlement and the stock prices are in the rise now. The incidence can be argued to have arisen from short term liquidity constraints and poor management of fund. In this report, I have studied the working capital management to provide little support to this incidence. The findings of the study suggest that Aamra Networks Limited has been financing its working capital from non-spontaneous sources such as shorts term loans. The company's cash are largely tied up in inventory and receivables and it takes nearly a year to release cash from these current assets. As a result, the company experiences shortage of cash when its current obligations become due. Despite this, the company has yet to adopt aggressive working capital management strategies to improve its liquidity concern. I hope that the findings and analysis in this report provides little support to the management in addressing these concerns.

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Appendix

Abbreviations

B2B - Business to Business

B2C – Business to Customer

BCB - Bangladesh Cricket Board

BDT - Bangladeshi Taka

BEPZA - Bangladesh Export Processing Zones Authority

BSCCL - Bangladesh Submarine Cable Company Limited

BTRC- Bangladesh Telecommunication Regulatory Authority

BTCL - Bangladesh Telecommunications Company Limited

CCTV - Closed-circuit television

CEPZ - Chittagong Export Processing Zone

CMS - Content Management System

CRI - Center for Research and Information

DGFI - Directorate General of Forces Intelligence

DNCC - Dhaka North City Corporation

EVMS - Enterprise Video Surveillance Solution

F&B - Food and beverage

IoT - Internet of Things

IIG - International Internet Gateway

ISO - International Organization for Standardization

ISN - Information Services Network

ISP - Internet Service Provider

IT - Information Technology

ITC - International Terrestrial Cable

ITES - Information Technology enabled Services

LAN – Local Area Network

LSP – Local Service Provider

MNC – Multinational Company

MPLS - Multiprotocol Label Switching

NTMC - National Telecommunication Monitoring Center

NTTN - Nationwide Telecommunication Transmission Network

OEM - Original Equipment Manufacturer

PLC – Private Leased Circuit

PoP - Point of Presence

RMG - Ready-made Garments

SBU - Strategic Business Unit

USD - United States Dollar

VPN - Virtual Private Network

WAN – Wide Area Network

VSAT- Very Small Aperture Terminal