TERKAR®
CAPITAL

IT & IT-enabled Services (ITes)

Working Capital Management & Financing Guide

Terkar Capital

IT & ITeS Industry - Overview

₹1.37 L Cr	6-7%	5.4M+	65%+	55%
MARKET SIZE (2024)	GROWTH RATE YOY	TOTAL EMPLOYMENT	EXPORT REVENUE SHARE	GLOBAL OUTSOURCING SHARE

- **Global Leadership:** India is the top destination for cost-effective, high-quality IT outsourcing.
- **Major Hubs:** Bengaluru, Hyderabad, Pune, Chennai, NCR, and Mumbai.
- **Strategic Shift:** Rapid growth of Global Capability Centers (GCCs), 3.46M jobs by 2030.
- **Core Segments:** Software, Cloud Services, Cybersecurity, and BPO/KPO.
- **Growth Drivers:** Digital transformation, GenAI, and rapid cloud migration.
- **Advantage:** Technical expertise, English proficiency, and 24/7 ops.

Operational Process in IT Services

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1

Client Acquisition

Lead generation, bidding, and MSA signing.
15-90 Days

2

Project Planning

Requirement analysis and resource allocation.
7-15 Days

3

Dev & Delivery

Agile execution, Quality Assurance, and UAT.
30-180 Days

4

Invoicing

Milestone billing and payment collection.
45-90 Days

Note: IT Services have minimal physical inventory. The main working capital need is managing receivables during lengthy project delivery cycles.

Key Resources & Inputs

Human Capital

Software developers, data scientists, architects, and project managers.

Tech Infra

Servers, cloud subscriptions (AWS/Azure), and specialized licensed software.

Connectivity

Redundant internet, VPNs, and robust cybersecurity firewalls.

Physical Assets

Laptops, workstations, and modern co-working hubs.

Intellectual Property

Proprietary codebases, frameworks, and client confidentiality agreements.

Operations

Certification programs, insurance, and compliance costs.

Service Deliverables & Revenue Streams

- **App Development (35%)**- Fixed price builds
- **Cloud Services (30%)**- Migration & Managed Cloud
- **IT Consulting (15%)**- Strategy & Integration
- **Managed Security (10%)**- Audits & Threat Detection
- **BPO Services (5%)**- Support & Operations
- **Emerging Tech (5%)**- AI/ML & IoT

**Mix includes Time & Material (T&M), SaaS Subscriptions, and Staff Augmentation models.*

Working Capital Cycle in IT & ITeS

Working Capital Cycle = (Receivable Days) - (Payable Days)

Accounts Receivable

60 - 90 Days

Standard credit terms for global enterprises and BFSI clients. Offshore payments often take longer.

Accounts Payable

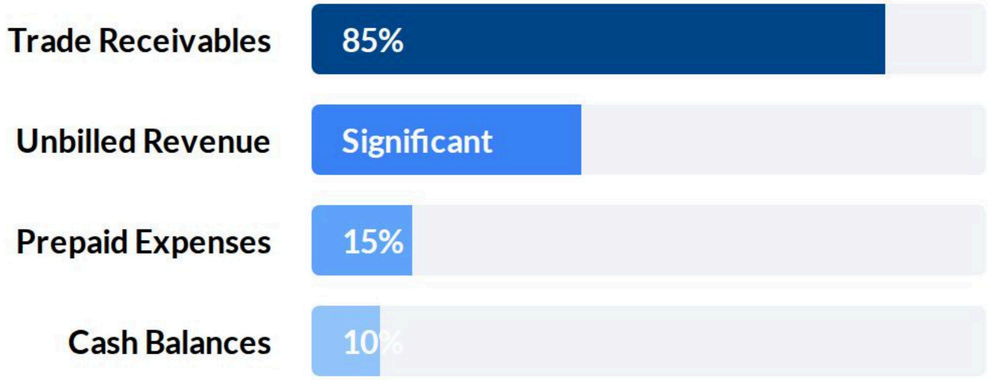
15 - 30 Days

Immediate payments required for employee salaries, cloud infrastructure (AWS/Azure), and office rent.

The Net Cash Gap: 45 – 75 Days

Firms must pay salaries monthly while client payments arrive quarterly. Growth compounds this gap.

Current Asset Composition



- **Trade Receivables:** The single largest current asset—unpaid client invoices.
- **Unbilled Revenue:** Work completed but not yet eligible for formal billing.
- **Prepaid Expenses:** Cloud credits and annual software renewals.
- **Cash:** Essential for immediate monthly payroll needs.

Common Mistakes to Avoid

The Challenges

Delayed Milestone Sign-offs: Allowing projects to "drift" without formal approvals to bill.

High Bench Strength: Keeping too many unallocated employees without active billing.

Poor Contract Terms: Not negotiating mobilization advances for large-scale projects.

Ignoring FX Exposure: Failing to hedge against USD/EUR volatility for export revenue.

Best Practice Solutions

Implement **Automated Reminders** and dedicated AR teams for collections.

Structure contracts with **Milestone-based Payments** (e.g., 30-40-30 model).

Utilize **Invoice Discounting** to convert 90-day terms into immediate cash.

Conduct **Credit Checks** for new clients and use bank guarantees for large contracts.

Standard Working Capital Cycle Table

Component	Industry Standard	Strategic Insight
Inventory	0 Days	Zero physical inventory; asset is time & talent.
Domestic Receivables	30 - 45 Days	Net 30 terms are common with local corporates.
Export/MNC Receivables	60 - 90 Days	Standard for Fortune 500 & International clients.
Accounts Payable (Salaries/Rent)	15 - 30 Days	Fixed monthly outflows create liquidity pressure.
Net Cash Gap	**45 - 75 Days**	Actual period requiring external financing.

*Averaged across 4-6 annual billing cycles typical for IT services companies.

Customer Credit Periods & Payment Terms

Customer Segment	Credit Days
SMEs / Startups	15 – 30 Days
Global Enterprises	60 – 90 Days
Government/PSU Projects	90 – 150 Days

Optimization Strategy

Weekly/Fortnightly Timesheets: Billing frequently to reduce the "Unbilled Revenue" window.

T&M Contracts: Better for cash flow as billing is strictly resource-driven and frequent.

Industry Threats & Challenges

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Talent Attrition

High cost of replacement and training for specialized roles. Skilled talent shortages in AI/Cloud.

Cybersecurity Risks

Potential for data breaches leading to legal penalties and withheld client payments.

Automation/AI Impact

Traditional BPO roles at risk from GenAI, requiring rapid reskilling and service evolution.

Global Economic Shifts

Tightening IT budgets in US/Europe impacting project pipelines and realization margins.

How Terkar Capital Can Help

Unsecured Working Capital: Up to ₹5 Cr for managing monthly payroll and cloud costs.

Invoice Discounting: Immediate liquidity against 60-90 day receivables (12-18% PA).

LC Discounting: Financing against export Letters of Credit for international contracts.

Secured Limits: ₹5-100 Cr+ against property or FDs for large-scale scaling.

CGTMSE Loans: Collateral-free funding for MSME IT units up to ₹5 Cr.

7-10 Day Disbursement

Rates from 9% PA

Partner with Terkar Capital

Empowering IT & ITeS Companies with Smart Working Capital Solutions.

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