

A Study on Startup Financing and Working Capital Management: A Case Study of Crickbug Private Limited

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Abstract

Startup financing and working capital management are pivotal for the success and sustainability of early-stage ventures. This research aims to delve into the financial dynamics of Crickbug Private Limited—a company focused on providing institutional supplies to schools. The paper presents a comprehensive analysis of startup financing options, working capital components, challenges, and real-world applications. Using a case study approach, the research highlights Crickbug's strategic use of internal and external funds, management of liquidity, and financial discipline. The insights from this study can assist entrepreneurs, academicians, and policy-makers in understanding effective financial management techniques for startups.

1. Introduction

1.1 Background of the Study

Startups, being newly formed enterprises, often grapple with limited access to capital and volatile financial environments. With a high failure rate within the first five years, one of the leading causes is poor financial management. A startup must not only secure adequate funding but also efficiently manage its working capital to survive and grow.

In the context of India's booming startup ecosystem, initiatives like Start-up India and Start-in-UP have catalyzed the entrepreneurial spirit. Crickbug Private Limited emerged in this dynamic environment, focusing on streamlining institutional procurement processes by integrating technology and government payment systems.

1.2 Company Overview – Crickbug Private Limited

Crickbug Private Limited is a startup founded to serve the sports and essential needs of schools through a hybrid model involving both online and offline channels.

Operating under the incubation of Amity Innovation Incubator and recognized by Start-up India and Start-in-UP, Crickbug has carved a niche in enabling institutions to procure goods using PFMS and the Government e-Marketplace (GeM). The business model revolves around creating a user-friendly portal for school administrators while ensuring compliance with government payment systems.

1.3 Objectives of the Study

1. To examine the types and sources of startup financing adopted by Crickbug.
2. To analyze the company's working capital management practices.
3. To assess challenges faced and propose practical solutions.
4. To evaluate the correlation between financing and operational efficiency.

2. Literature Review

2.1 Understanding Startup Financing

Startup financing refers to the process of raising funds required to establish and run a new venture. It occurs in stages—seed capital, startup capital, growth capital, and expansion capital. According to Gitman & Zutter (2020), funding sources include:

- **Bootstrapping:** Founders invest personal savings or use company revenues. It gives full control but is limited in scale.
- **Angel Investors:** High-net-worth individuals who fund startups in exchange for equity or convertible debt.
- **Venture Capital (VC):** Institutional investors providing large-scale capital. They also offer mentoring but demand significant equity.
- **Crowdfunding:** Online platforms like Kickstarter allow entrepreneurs to raise small amounts from numerous backers.
- **Government Grants and Subsidies:** Supportive policies offer non-repayable funds or subsidized loans to qualified startups.

2.2 The Concept of Working Capital Management

Working capital is the difference between current assets and current liabilities. Efficient management of working capital ensures that a firm can meet its short-term obligations and continue operations uninterrupted. Key components include:

- **Cash Management:** Maintaining optimal cash levels.
- **Accounts Receivable:** Ensuring timely collection from debtors.
- **Accounts Payable:** Managing payment terms with suppliers.
- **Inventory Management:** Avoiding overstocking or understocking.

Damodaran (2012) emphasizes that mismanagement of even one component can lead to a liquidity crisis.

2.3 Theoretical Frameworks

This study is grounded in financial theories such as:

- **Pecking Order Theory:** Firms prefer internal financing, then debt, and issue equity as a last resort.
- **Working Capital Cycle Theory:** Shorter cycles improve liquidity and operational efficiency.

3. Research Methodology

3.1 Research Design

This study uses a qualitative and exploratory research design through a case study of Crickbug. It analyzes how startup financing decisions influence day-to-day working capital management.

3.2 Data Collection

- **Primary Data:** Collected through interviews with co-founders and financial officers.
- **Secondary Data:** Company reports, government documents, startup India resources, academic journals, and books.

3.3 Analytical Tools Used

The study applies:

- Ratio analysis (Current ratio, Quick ratio)
- Cash Conversion Cycle (CCC)
- SWOT Analysis

4. Startup Financing at Crickbug Private Limited

4.1 Bootstrapping and Founder Investment

Crickbug was initiated with bootstrapped funds from its founders. This ensured control over decisions and minimized liabilities. Initial funds were used for:

- Website development
- Vendor onboarding
- Stock procurement
- Marketing

4.2 Government Grants and Recognition

The startup was recognized under the Start-up India and Start-in-UP schemes. It received funding and incubation support through:

- Seed fund from Start-in-UP
- Mentoring from Amity Innovation Incubator
- Legal and administrative support

4.3 Revenue Reinvestment Strategy

Profits generated from early contracts were reinvested in business development, logistics, and platform expansion.

4.4 Future Plans for Fundraising

The company plans to seek venture capital once it expands to new regions and introduces new verticals.

4.5 Financial Challenges

- Limited scalability due to slow capital inflow
- Dependency on institutional clients with delayed payments
- Lack of VC interest in institutional procurement startups

5. Working Capital Management at Crickbug

5.1 Cash Flow Management

A well-planned cash budgeting process is followed. Payments from schools are tracked using a CRM system, and forecasts are made for supplier payments and operational costs.

5.2 Inventory Optimization

Inventory is maintained based on school schedules. The use of Just-In-Time (JIT) methods reduces holding costs and allows faster response to demand changes.

5.3 Receivables Management

- Invoices are raised immediately after delivery.
- Follow-ups are automated via the CRM.
- Penalties are levied on delayed payments as per contracts.

5.4 Payables Management

- Long-term deals are signed with suppliers to negotiate better credit terms.
- Early payment discounts are availed when cash flow permits.

5.5 Technology in Working Capital

Digital dashboards monitor accounts in real time. Integration with GeM and PFMS systems allows faster invoice verification and settlement.

5.6 Working Capital Challenges

- Fluctuating demand cycles tied to the academic calendar
- Delays in government payment clearance
- Need to maintain adequate buffer stock during peak seasons

6. Analysis and Discussion

6.1 Financial Health Indicators

Crickbug maintains a Current Ratio of 1.8 and a Cash Conversion Cycle of approximately 40 days. These indicators show adequate liquidity.

6.2 Correlation Between Financing and Working Capital

The bootstrapped and grant-based financing model minimizes interest expenses, allowing cash reserves to be used for operational purposes.

6.3 Competitive Edge from Financial Discipline

The company's ability to manage receivables and maintain lean inventory gives it a cost advantage.

6.4 SWOT Analysis

- **Strengths:** Government recognition, niche market, lean cost model
- **Weaknesses:** Low capital reserves, dependency on a few clients
- **Opportunities:** New education policies, sports infrastructure grants
- **Threats:** Regulatory delays, competition from larger suppliers

7. Conclusion and Recommendations

7.1 Summary

Crickbug Private Limited presents a viable model of a financially disciplined startup. Its reliance on bootstrapped capital and government support has allowed it to scale sustainably. However, dependency on slow-paying institutional clients poses a significant liquidity risk.

7.2 Key Recommendations

1. **Seek Equity Financing:** To fund future growth, Crickbug should approach strategic investors.
2. **Digitize Invoice Management:** Automate payment reminders and settlement through PFMS/GeM to reduce the receivable period.
3. **Strengthen Vendor Base:** Build alternative vendor channels to avoid supply-side disruptions.
4. **Expand Client Base:** Reduce dependency on government institutions by targeting private chains and NGOs.

7.3 Future Research Scope

Future studies can analyze similar startups in B2G (Business to Government) models to identify common financial bottlenecks and propose policy reforms.

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