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Working Capital Management, A Review

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Abstract

Cogent working capital management is stellar for essence of an organization. Manifold components of current assets and current liabilities should be well managed to facilitate an organization to have apposite working capital structure. Decent working capital equips an organization to honor its obligations in time. Adept working capital management intuits success or failure of an organization. Working capital management is credited as lifeline of every concern. Provision for dexterous working capital management has, thus, developed zenith. Docility of IT industry has espoused primeval essence in a developing country like India due to its major-domos towards the growth of economy. IT companies, therefore, mundanely explore stratagem to redo the biz to ameliorate performance. The study developed on idiolect of distinct indices spills that the selected company, Wipro Ltd. matter-of-factly eye simpatico healthy financial triumph apropos working capital management in the years under reference. The study sourcing secondary data embosoms that the selected company, Wipro Ltd. has modest working capital and cedes robust spring of dexterity, and is cogent to managers, stakeholders and groundwork in elevating their knowledge mattering working capital position of IT industry in India to greet their own quests.

Keywords*: Working capital, Liquidity, Profitability, Current assets, Current liabilities.*

1. Introduction

Effectively managed working capital is clamant between success and failure of an organization. Many business units implode due to unhappy provision for working capital. Working capital management is crucial in optimizing corporate profitability (Mielcarz et al., 2018). Excessive liquidity presages idle funds left as unrewarding while insufficient liquidity adversely impacts credibility. Working capital efficiency multiplier (WCEM) primarily measures liquidity. Low WCEM bespeaks efficacious working capital (Prasad et al., 2019). Desideratum for methodical working capital management, has thus, become crucial for exultant functioning of any enterprise. Indian Information Technology (IT) has key theme in the bestowal of India's Gross Domestic Product and has back one of the eloquent nascent sectors for the economy. Also with bolstering India's economy, IT sector has salutary impact on society by comprehensive inclusion to disparate socioeconomic considerations. There is very trivial qualm that the future of developing country and its dexterity to address its natural ardor of annulment of poverty and rapid emendation in living standards imposingly bets on the role imputed to IT industry. This motivates the author to venture for studying working capital management in the selected IT sector company, Wipro Ltd.

2. Working Capital-Concept

Working capital connotes funds necessitous to effectuate diurnal business operations. It constitutes two concepts-gross and net. Gross working capital contemplates total current assets whereas net working capital cogitates surplus of current assets over current liabilities (Kuchhal, 1973). Net concept of working capital denotes qualitative concept while gross concept as quantitative concept. Working capital embraces excess of current assets over current items owed to employees and others (Gerstenberg, 1963, Gladson, 1963). Both the concepts of working capital have their own merits. Gross concept measures the extent to which current assets are employed to optimize productivity whereas net concept evaluates liquidity position. Managers should know when to look for working capital funds, how to use, measure, plan and control them (Brandt, 1972). Efficient working capital management helps develop competitive edge (Aktas et al., 2015; Banos-Caballero et al., 2014; Boisjoly et al., 2020). Management regulates funds to stabilize economy and profitability. Working capital management, thus, institutes balance among risk, liquidity and profitability.

3. Literature Review

Banos-Caballero et al. (2014a) in their analysis of association between working capital management and corporate performance for the selected non-financial British companies observed staunch support for inverted U-shaped relation between investment in working capital and firm performance. Lima et al. (2015) in their investigation found significance of working capital management on profitability of SME in European countries. Lyngstadas and Berg (2016) in their study assured relevance of working capital management for small and medium-sized Norwegian firms' profitability. Banos-Caballero et al. (2016) in their investigation on the relationship between working capital requirement and firm performance found that appropriate strategy helps firms improve their performance. Afrifa and Tingbani (2018) in their analysis on impact of working capital management on SME performance on the selected British SME observed negative impact. Managers should attempt to decrease/increase working capital investment to foster performance. Panigrahi (2012) in the study on cement company in India during 1999-2000 to 2009-2010 found moderate relationship between working capital management and profitability. Mansoori and Muhammad (2012) suggested managers of the companies listed on Singapore Stock Exchange from 2004 to 2011 to tellingly manage working capital for upping profitability. Kodithuwakku (2015) in the study on manufacturing companies listed on Columbia Stock Exchange (2008-2012) showed negative influence of working capital management on profitability. Tarnoczi and Fenyves (2012) in the study on the relationship between liquidity and corporate risk concluded that working capital management specifies ability of a firm's earning profit. Korent and Orsag (2018) evaluated the impact of working capital management on pro tability in Croatian software companies and observed nonlinear concave relationship between net working capital and return on assets. Mukherjee and Rao (2020) observed in their study that undertakings sputter at the outset of their extant for lacking liquid resources. Seth et al. (2020) in their study on the relationship between working capital management and the exogenous variables of 563 Indian manufacturing companies from 2008 to 2018 evidenced that leverage effect, share of non-current assets, pro tability, asset turnover, growth of total assets and productivity have profound impact on cash conversion cycle. Zabolotnyy and Sipiläinen (2020) evaluated working capital management strategies of 12 Northern European food companies from 2005 to 2015 and showed that some companies accentuate liquidity within working capital management strategies while most companies have idle working capital management policy. Boisjoly et al. (2020a) reasoned that working capital specifies the funds necessitated to meet short-term nancial needs. Every corporate must safeguard proper trade-off between liquidity and pro tability to ensure smooth running for added persuasion. Prsa (2020) expounded that working capital management impacts corporate wealth. corporate financing more in working capital expects lower risk but is inimical for pro tability and vice versa. Aktas et al. (2015a), Banos-Caballero et al. (2020) in their study observed companies with high investment in working capital breed strong performance implying bettering of investment. Seth et al. (2021) in their study on the impact of working capital management on the performance of 212 Indian manufacturing companies in 2008–2019 found that on an average, the companies achieve approximately 60% of efficiency in working capital management indicating grave challenge in management. Rahman et al. (2019) observed in their study that growth and sustainability of rms pertain to efficient working capital management precipitating revved-up. Vukovi´c and Jakši´c (2019) in their research on impact of working capital management on pro tability of 9883 companies in food industry in Southeast Europe in 2010–2014 witnessed significant impact of all independent variables like current ratio, current liabilities/total assets, and total liabilities/total capital on return on assets except debt ratio on pro tability. Naumoski (2019) while analyzing the impact of effective working capital management on corporate pro tability of 720 South-Eastern European companies observed insigni cant impact of payable outstanding on the companies' pro tability whereas statistically signi cant impact of receivable outstanding on pro tability.

4. Significance of the Study

Working capital aspect contemplates ephemeral health of an undertaking. An investor posits this perspective before accepting any investment determination. Attempts are made to discern financial potency and imbecility of Wipro Ltd. through working capital management exercising statistical tools and techniques.

5. Objective of the Study

The objectives of the study are: i) to study the size and composition of working capital in the selected IT sector company for the last 5 years; ii) to analyse the ratios with the help of financial statements.

6. Research Methodology

The study is descriptive in nature and conducted by variety literatures. Descriptive study has been preferred for developing better profundity of knowledge. Thus, this study purely adopts secondary data collection strategy, and reckons gobs of secondary sources accessed through the Internet and academic databases viz. literature reviews, website, books, journals, annual reports, etc. for the examination of diverse aspects of working capital management of Wipro Ltd. for the period from 2017-2018 to 2021-2022. The latest data available for the study is 2021-2022. Hence, the study is confined upto the period 2021-2022. Editing, classification and tabulation of the data have been done as per the requirement of the study. For the purpose of assaying the potency of working capital management of Wipro Ltd., varied statistical techniques like ratio, mean, etc. have been employed. The corpus of this paper is limited to establish, in the first place, importance of working capital management. In the second place, an assessment on the foremost mission endeavoring the effect of working capital management of the selected giant company in the IT sector has been delineated. The author has fascinated company within IT industry as this type of industry is ballooning and revamping the contour of Indian economy. Mechanism of analysis is worthwhile for contemplating financial strength and weakness of the company.

7. A brief introduction to Wipro Ltd.

Wipro Ltd. established in 1945 and acknowledged globally for full spectrum of services, is a leading global IT consultation, healthcare, employment and all-rounder service organization. International Financial Corporation, Bombay Stock Exchange and Institutional Investor Advisory Services have recognized Wipro in the top “Leadership” Category in Governance practice. Wipro Ltd. utilizes the power of analytics, robotics, cloud and other emerging technologies to help clients adapt the latest digital trend for success. Wipro, having 40+ “Centers of Excellence” provides unique service through process excellence, quality frameworks and service delivery innovation on global platform. In 2019, Wipro won the Global Breakthrough Partner of the year from Pivotal Software and also won the Gender Inclusion category with NASSCOM Diversity and Inclusion Award. In 2017, Wipro Ltd. instituted New Logo for new brand identity and paraphrased “Spirit of Wipro" to accentuate Wipro’s commitment to metamorphosis and enducing client expectation. Wipro is World's first PCMM Level 5 and SEI CMMi Level 5 certified software services company, and the first outside USA to receive the IEEE Software Process Award. Wipro is a member of Vigeo Eiris Emerging Market Sustainability Index (the 70 most advanced companies in the Emerging Market Region). It was featured in the Bloomberg’s Gender Equality Index in 2020 and received a score of 90/100 on the 2020 Corporate Equality Index. With over 20 offices globally, Wipro InfoTech epitomizes quality by husbanding magnificence in service offerings and products as well as internal processes and people management.

8. Results and Discussions

8.1. Structural Analysis

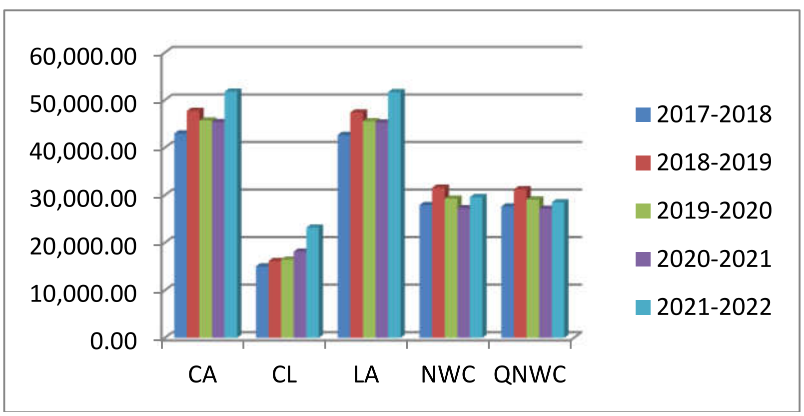
Healthy working capital facilitates company to meet ephemeral obligations honing the association between risk and profitability (Bello and Sensini, 2020; Chalmers et al., 2020a; Boisjoly et al., 2020b). Debts epitomize an important determinant of working capital (Mueller and Sensini, 2021). Table.1and Figure.1 reveal that CAs of Wipro Ltd. have increased from Rs. 42,967.30 crore in 2017-2018 to Rs. 51,772.20 crore in 2021-2022 reflecting an increase of 20.49% over the years. On an average, CAs have Rs. 46712.54 crore. However, LAs unveil distinct depiction due to inventory. LAs have increased from Rs. 42,673 in 2017-2018 to Rs. 51,684.70 crore in 2021-2022 showing an increase of 21.12% over the years. CLs have increased from Rs. 15,035.90 crore in 2017-2018 to Rs. 23,173.70 crore in 2021-2022 showing an increase of 54.12%. Table.1 and Figure.1 exhibit increase in CLs every year. On an average, CLs are Rs. 17,786.08 crore.

Table.1. Statement of Working Capital from 2017-2018 to 2021-2022 (Rs. in Crore)

Year	Current Assets (CA)	Current Liabilities (CL)	Liquid Assets (LA)	Net Working Capital (NWC)	Quick Net Working Capital (QNWC)
2017-2018	42,967.30	15,035.90	42,673.00	27,931.40	27,631.10
2018-2019	47,730.40	16,144.60	47,390.10	31,585.80	31,245.50
2019-2020	45,713.30	16,443.80	45,539.20	29,269.50	29,095.40
2020-2021	45,379.50	18,132.40	45,288.50	27,247.10	27,156.10
2021-2022	51,772.20	23,173.70	51,684.70	29,598.50	28,511.00
π	46,712.54	17,786.08	46,515.10	29,126.46	28,727.82

Source: Annual Reports and Accounts; Results Computed

Figure. 1. Statement of Working Capital (Rs. in Crore)



Working capital investment beyond optimal level adversely impacts profitability and enhances costs with ensuant eventuatility of financial distress (Diaz and Vazquez, 2019). Extensive working capital policies bring positive influence until the firm touches curvature point. Above the optimal level, working capital investment increases costs and risks of financial crunch (Amendola et al., 2020). Of the several measures, 'net working capital' (NWC) hints margin of safety provided for creditors (Kolb, 1983a). Such margin exhibited in Table.1 and Figure.1 manifests positive NWC of the company for the period of study. Greater NWC insinuates greater liquidity. NWC has increased from Rs. 27,931.40 in 2017-2018 to Rs. 29,598.50 showing an increase of 5.97%. On an average, NWC is Rs. 29,126.46 in Wipro Ltd.. Indeed, the measure of NWC does not demonstrate true ability to pay current debts. NWC being the excess of CA over CL and since these current assets comprise illiquid inventory, the measure of 'quick net working capital'(QNWC) i.e. LA less CL, has been adopted as ad rem. Table.1 and Figure.1 show that QNWC has increased in Wipro Ltd. The company has positive 'margin of safety' or 'cushion' of protection for creditors throughout the period of study. On an average, the company has positive QNWC evincing its agility to honor current debts over the years.

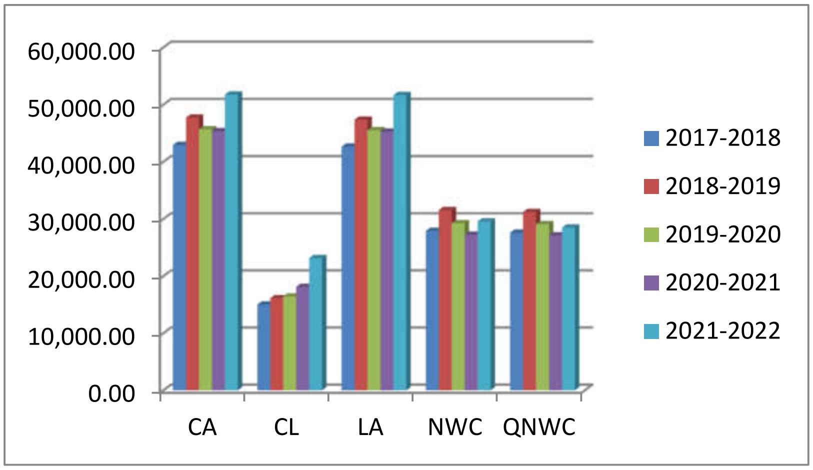
8.1.1. **Components of Gross Working Capital:** Working capital management ventures for maintaining reasonable proportion of its components to achieve maximum returns. Components of gross working capital have been prepared and depicted in Table.2 and Figure.2 for the company to scan in which components gross working capital funds are caged in different years. Table.2 and Figure.2 exhibit that current investment to gross working capital ranges from 38.55% to 57.81% for Wipro Ltd. On an average, the ratio is 46.09%. Trade receivables fluctuate

Table.2. Components of Gross Working Capital from 2017-2018 to 2021-2022(in %)

Year	Current Investment to Gross Working Capital	Trade Receivables to Gross Working Capital	Cash to Gross Working Capital	Loans & Advances (including Other Current Assets) to Gross Working Capital	Inventory to Gross Working capital
2017-2018	57.81	22.12	5.41	13.98	0.68
2018-2019	46.09	22.31	21.77	9.12	0.71
2019-2020	41.48	20.25	22.85	15.04	0.38
2020-2021	38.55	17.73	21.56	21.96	0.20
2021-2022	46.50	17.95	9.46	25.92	0.17
π	46.09	20.07	16.21	17.20	0.43

Source: Annual Reports and Accounts; Results Computed

Figure. 2. Ratio of Components of Gross Working Capital (%)



from 17.73% to 22.31% with an average of 20.07%, cash from 5.41% to 22.85% with an average of 16.21%, loans and advances including other current assets from 9.12% to 25.92% with an average of 17.20%. Inventory bears very low proportion varying from 0.17% to 0.68% with an average of 0.43%. On an average, current investment contributes the highest followed by trade receivables, loans and advances including other current assets, cash and inventory. In a pleasantly stable business, cash will probably be not below than 5% to 10% of current assets. Since current liabilities are not expected to exceed half of current assets, cash percentage should run not below 10% to 20% of the same (Pandey, 2000). Wipro Ltd. holds more than 5% cash in current assets in all the years of reference which demonstrates adequate cash balance.

However, NWC and QNWC exclusively are unexplicit to appraise liquidity position of the company as these measures do not illustrate the extent of margin of safety provided to creditors. For this, ratio and other related expedients are honored as better.

8.2. Ratio Analysis

i)Current Ratio(CR): CR locates the extent of solidity of current financial credentials of an undertaking and degree of safety provided for creditors. An altruistic CR behaves like a good umbrella for creditors against rainy day; but to management, it embodies lame financial planning or appearance of idle assets or over-capitalization (Walker and Bough, 1964). Table.3 exhibits that CR of Wipro Ltd. is constantly above the hypothetical norm of 2:1. Indeed, CR of the company varies between 2.23 times in 2021-2022 to 2.96 times in 2018-2019 with an average of 2.67 times. Average of CRs shows cogent liquidity position from the creditors point of view. Comparing the ideal CR, liquidity facilities available to creditors of the company illustrate methodical working capital management.CR misses closing effect about liquidity position as it bethinks quantity of CA, not their quality. Quality of short-term assets must-have further analysis.

Table.3. Selected Ratios from 2017-2018 to 2021-2022

Year	CR(×)	QR(×)	CCL(%)	DTR(×)	WCS (×)	CATA(%)
2017-2018	2.86	2.84	15.44	4.71	1.60	73.23
2018-2019	2.96	2.94	64.36	4.51	1.52	71.24
2019-2020	2.78	2.77	63.51	5.44	1.72	70.00
2020-2021	2.50	2.50	53.95	6.25	1.85	69.49
2021-2022	2.23	2.23	21.14	6.41	2.01	64.41
π	2.67	2.66	43.68	5.46	1.74	69.67

Source: Annual Reports and Accounts; Results Computed

Source: Annual Reports and Accounts; Results Computed

ii)Quick Ratio((QR): QR measures rigorously firm's ability to meet short-term obligations. QR okays financial officer to discern the circumstances if creditors intimidate for immediate payment especially at the time when it is not possible to boost sales or it shows that a colossal loss is approaching. Table.3 depicts that QRs behave consonantly like CRs in the company. On an average also, the ratio has been more than unity as against the hypothetical norm of 1:1 testifying sufficient quick assets to meet current obligations. Performance regarding working capital management of the company is impressive.

iii)Cash Position Ratio or Cash to Current Liabilities Ratio (CCL): CCL delineates liquidity position of a concern if creditors press for immediate payment. It designates availability of cash to meet current obligations (Bernstein, 1978). A high CCL is euphoric from creditors shoes but from management eye, it stipulates poor investment policy. Acceptable norm for this ratio is 0.5:1 or 1:2. Table.3 shows that CCL of Wipro Ltd. ranks between 15.44% in 2017-2018 and 64.36% in 2018-2019. On an average, CCL is 43.68%. CCL of the company can be said to be passable excepting few case(s) during biennium i.e. level of cash balance retained by the company is passable in current assets if it is compared to the acceptable norm. Cash position relative to current liabilities has been almost satisfactory for functioning activities.

iv)Debtors Turnover Ratio (DTR): DTR measures rapidity or slowness of debtors' collectability. Higher the value of DTR, more efficient is the management of assets. Low debtor's turnover insinuates slack management of debtors/sales and less liquid debtors (Pandey, 1988). Misgoverned working capital emplaces organizations in a nancially poor to heave blooming for delay in debtors' collection period (Levelset, 2019). Table.3 evidences low DTR and moderate fluctuation in the years. This might be due to its liberal credit policy. Sometimes, low collection period hints restrictive credit and collection policy. This may happen if in apprehension of bad debt losses, a company sells only to those customers who are financially sound and expeditious in disbursements. This ratio is highest (6.41 times) in 2021-2022 and lowest (4.51times) in 2018-2019. Average is 5.46 times which indicate moderate credit management of Wipro Ltd.. Lower the DTR, lower the chances of bad debts. Credit extension assists to foster sales and capture new customers with a godsend on profitability. However, allowing more credit to customers also begets risks as customers could experience funding constraints and bring slow-up or decrement in collections (Amendola et al., 2013; Sensini, 2016; Diaz and Vazquez, 2019a). Thus, DTR serves as a pragmatic means of collectability of receivables and effectiveness with which credit policy of a business is enforced.

v)Working Capital to Sales (WCS): WCS produces an overarching impression about rapidity of turnover of investment in current assets and is designed as an index of efficiency. Higher the turnover, greater the efficiency. But a very high ratio may epitomize hornet's nest of insufficient working capital. Conversely, a poor turnover ratio hints inefficient utilization of working capital. An analysis of WCS ratios over a period of time shows overall efficiency of working capital management of a firm. Table.3 depicts increase in WCS every year in the company except 2018-2019. On an average, WCS is 1.74 times for Wipro Ltd. Accepting the norm, higher the WCS, better the management, it can be inferred that management is puissant in managing working capital.

vi)Current Assets to Total Assets (CATA): This ratio expressing correlation between current assets and total assets insinuates the magnitude of funds invested for working capital purpose. Investment in current assets is espied to be cogent in Wipro Ltd.. Table.3 dawns fluctuation of CATA from 73.23% in 2017-2018 to 64.41% in 2021-2022 during the period of study. On an average, the company has invested more than 50% of total assets in the mould of current assets and the remaining are invested in permanent assets. Thus, bulk of investment of the company is for working capital purpose which may hurt efficiency of working capital management. Bulk funds blocked in idle cash and huge debtors increase liability but decrease profitability. Cost of liquidity through low return increases with the intensity of current assets. With little cash, a firm fails to honor its obligations. This enforces a firm to borrow at high cost. Optimum level of current assets should, therefore, be asserted by envisaging the concepts of liquidity, profitability and solvency.

A cursory glance at Table.3 showing the position of the six parameters (CR, QR, CCL, DTO, WCS and CATA) of working capital management reveals that out of the eight different parameters, CATA holds the best position followed by CCL, DTR, CR, QR and WCS in the company. This supports sufficient investment in current assets by the company.

9. Conclusion

IT industry, a cardinal dynamic and booming industry in India bolsters the economy in discrete modalities. The study has been concocted in dreams of reviewing working capital management of the top IT company by dint of receptive facet in the ambit of financial management. Analysis of liquidity aspect helps management get information about the adequacy of working capital. The selected company is espied felicitous gleaming different parameters. This study built on different parameters witnesses adequate working capital and entire payment of high liquidity commitments with prolific operations of the company. Wipro Ltd. has sufficient NWC and QNWC. Structural components of Wipro Ltd. hold christian perspective in all the components. Resonate ratios and other techniques of the company matter-of-factly behold compatible healthy financial triumph with regard to working capital management. Working capital management of the company contributes dispositive dismemberment of sweeping potency of management rest on robustness. Management essentials examination to assess its effectuality to progress business ventures and also to implement poetic mediation to embellish scalability of business.

10. Limitations

- Objectivity sprung on historical data cannot be meticulously sure fire thereon that corporate can do big swing in their operations for implicit heart-stopping exigencies.
- Data wielded for the study can have aggregated in distinct segment and hence, trend analysis pivoting on that data may be calumny.
- Distinctness in accounting period spawns interpretation of the company intricate.
- Irrefutable astounding strength like inflation may coerce a business to do metamorphosis in its activities and thus, contriving an assessment rest on such data may be fruitless.
- The study maneuvering ratio analysis slights the qualitative aspect of the company.
- As the study relates to specific IT sector company, findings and suggestions are confined to this company only.

11. Suggestions

- To abate high investment in current assets steadily, optimum level of current assets should be well-kept by ratiocinating the philosophy of liquidity, profitability and solvency.
- As the liquidity position relies heavily on debtors/receivables and debts collection policy, management should coax on the collection of debts outstanding to lessen the timeline during which it finances customers sales.
- Dramatic steps may be coveted to accelerate collections to ameliorate quality of debtors and trim down blocked amount in debtors pursuing preparation of periodical report of overdues.
- Approaching past experiences, management should keep explicit proportion among the various components of working capital to stay healthy.
- The Government essentials added academe and training hub to concoct crescent IT-specialists as IT industry rests on dexterous.
- Wipro Ltd. does not illustrate bleak situation; yet management should essay to invigorate their efficacy more to disparate socio-demographic status.

12. Implication of the Study

This study would benefit investors and disparate stakeholders in enhancing their knowledge about working capital stance of IT industry to meet their own pursuits. The analysis also proffers horse sense to study stability, solvency or productivity of an undertaking to endorse financing. Management can apply the techniques to pinpoint SWOT from which virtuosities and dynamisms can be reared. Stakeholders can exert the mechanisms to assess performance against other establishments or connive for venture in the company.

13. Future Scope

The exploratory study developed on distinct IT sector company may further be elevated espousing multiple companies of other sectors planted on their working capital strategy to disseminate the conclusion. The author adjudges that the prospect in this terrain demands comprehensive study to clinch at more constructive outcome and dreams that other potential modalities for liquidity ideology will be extricated by future studies.

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