Working capital practices in select IT sector company, a study

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Abstract

Working capital practice impacts marketing, personnel, production and other varied activities. Almost every function of a business enterprise is related to working capital practice. Efficient utilization of working capital permits an enterprise to earn plausible return on the capital invested and also allows to pay its dues timely. Hence, adroit working capital practice assumes great significance and presents a stimulating challenge to the financial executive. In the cosmic milieu, newbie of IT industry have been the trailblazer niche in India’s financial system with its novel methods and unique gruntwork. IT sector company in India furthers appreciably to the Indian economy. This paper exercising secondary data designs to divulge the working capital practices of Wipro Ltd., a leading IT company for the years 2020-2021 and 2021-2022. Results spill the company’s modest working capital practices but it approaches to be benigner to investors by boosting their perception to other opportunities for decision-making apropos contribution.

Keywords: IT company, credit policy, collection policy, Wipro Ltd., finance, working capital practice.

1. Introduction

The lust for developing working capital practice that may be exercised as chaperone in decision-making of a business cannot be ignored. No domain of business is so concomitant to other domains as the domain of working capital management. As the degree of cogency at what working capital practice is dogged affects future together with current appraisal, no industry can disregard the life-or-death of this approach of administration. Corporate profitability pivots on sound working capital management (Mielcarz et al., 2018).

Inadequacy or mismanagement of working capital is one of the leading causes of business failures (Kennedy; McMullen, 1968). Clocklike working capital practice has, thus, become sine qua non crucial for ecstatic running of an organization. IT has played a crucial issue in fabricating India’s icon from a groveling governing plan to a place of innovative endeavor and holistic picture in nourishing prime modern networks and mission sustenance.
It is in this context that a modest attempt has been made in this paper to examine the working capital practice of a giant Indian IT company, Wipro Ltd.

1.1 Wipro Ltd., A Brief Introduction

Wipro Ltd., incorporated in 1945 is the first PCMM Level 5 and SEI CMM Level 5 certified IT services company globally. Wipro offers extensive IT solutions and services including systems integration, Information Systems outsourcing, package implementation, software development and maintenance, telecom services, and research and development services globally. Wipro is the pilot cardinal IT partner for companies across India, the Middle East and Asia-Pacific offering integrated IT solutions.

Strengthened by potent quality processes and broad expertise managing global clients, it alienates IT strategies to business goals. With their fostering technology partners, Wipro InfoTech also assists hardware and IT infrastructure needs. Reliability and perfection are their crucial discerners while assisting drive business momentum.

Wipro InfoTech believes in constantly scaling quality standards by broadening efficiency beyond their basic IT offerings. Wipro having about 20 offices around the world is the top provider of integrated business, technology and process solutions and has fermented few novel breakthroughs steering India’s emergence as the global destination for software services talent. The company has obtained London-based The Capital Markets Company for USD 1.45 billion in 2021. Wipro entered into the Dow Jones Sustainability Index, World and Emerging Markets in 2020 for the 10th time. The company has acquired a grade of 90/100 on the 2020 Corporate Equality Index. Ethisphere Institute designates Wipro as 2020 World’s Most Ethical Company for the 9th time.

The purpose of the paper is to find out the working capital practices of Wipro Ltd., the leading company in terms of credit policy and profitability. The paper also studies the average level of other key financial parameters concerning working capital practices.

2. Materials and Methods

The researcher, being an external analyst, has to depend solely on secondary data for the examination of working capital practices of the selected undertaking i.e. Wipro Ltd. Hence the data and information required for the study have been collected mostly from the annual reports of the company for the years 2020-2021 and 2021-2022.

For in-depth study, descriptive research basically based on bibliographical review of theoretical and empirical works previously perfected on the subject has been executed. Accessibility of secondary data accredits more research scope conducive to the learning of working capital practice and innovation. Bibliographic research has been accomplished particularly in the online knowledge library allowing access to research and higher educational institutions, texts from several newspapers and eBooks online of few important suppliers.

Consulted papers contributed in seminars and conferences and theses published on the subject, to ensure broad coverage of literature beyond a limited selection of journals. Article references have also been examined to identify other feasibly relevant studies on the implementation of working capital practice. The study does not develop new model; rather adjoins existing literature on this subject, summarizes, analyzes and facilitates in the understanding of these issues, providing a critical and sweeping perception on them for breeding search and new academic objectivity.

3. Results

Wipro Ltd. shows an increase in Profit After Tax Growth (PATG) from 11.22% in 2020-2021 to 12.66% in 2021-2022. In the same period, WC (Working capital) has risen from (-6.91%) in 2020-2021 to (+8.63%) in 2021-2022. This result shows that increase in profit results in increase in working capital requirements. Strategically, increased working capital exposure is needed by company as an industrial practice to improve profitability. This aspect is specifically borne out by the experience of the company. Capital Employed (CE) in the company goes up by about 27.03% in 2021-2022 in relation to 2020-2021. Of this, increase in working capital accounts for 8.63%. This indicates that the leading company strategically employs greater working capital to enhance profitability. Almost the entire increase in capital use is for only this purpose.

Table 1 also exhibits that the relation between Net Sales Growth (NSG) and RD with NSG and PATG shows
improvement. The company collects its debts in less time in 2021-2022 than 2020-2021 indicating efficiency in credit and collection policy. Receivable Days (RD) has decreased from 58.57 days to 48.21 days. It is observed that Wipro Ltd. has recorded a decrease in collection period. Table 1 shows that PATG has improved from 11.22% in 2020-2021 to 12.66% in 2021-2022.

In the same period Working Capital to Sales (WCS) has also increased from 2.11 times in 2020-2021 to 2.54 times in 2021-2022. This shows the same trend between PATG and WCS. It is observed that while both WC and CE have went up, Return On Capital Employed (ROCE) has lowered from 22.81% to 21.80% from 2020-2021 to 2021-2022. This shows that increase in WC is not accompanied by increase in ROCE but, increase in WC roughly corresponds to increase in CE. Coming to liquidity ratio of Current Ratio (CR) and Quick Ratio (QR), it may be noted that both the ratios show persuasive liquidity position from the creditors perspective.

Juxtaposing the paradigmatic CR and QR of 2:1 and 1:1, liquidity provisions for creditors demonstrate meticulous working capital policies. Lofty Cash to Current Liabilities (CCL) is exulant from creditors platform but from management observation, it specifies strapped financing stratagem. CCL styles practicality of cash to satisfy existent commitment (Bernstein, 1978). It has decreased from 53.95% in 2020-2021 to 21.14% in 2021-2022. At the same time CR and QR have also decreased 2.50 times to 2.23 times. CCL of the company may be stated satisfying barring few occasions i.e. level of cash balance withheld by Wipro Ltd. is satisfying against the admissible benchmark of 0.5:1 or 1:2. Cash stance apropo current liabilities is mostly palatable for operations. Contemplating the superb CR and QR of 2:1 and 1:1 respectively, liquidity provisions accessible to creditors of the company demonstrate modest working capital policy.

Table 1 exhibits that QRs in the company act persistently like CRs. A decent CR acts like a good umbrella for creditors against rainy day; but to management, it depicts vile financial planning or emergence of unproductive assets or over-capitalization (Walker; Bough, 1964). CR not only measures solvency but is an index of working capital accessible to enterprise resulting from sound working capital policy (Yorston et al., 1953). QR evaluates discreetly firm’s potentiality to discharge short-term debts. Although both CCL and CR or CL have shown decline, they show satisfactory working capital policy. Inventory days or ID specify movement of inventory or stock during a year in an organization. Lower the age of inventory, better the liquidity stance and vice versa. Inventory Days (ID) of Wipro Ltd. has declined from 0.86 day in 2020-2021 to 5.55 day in 2021-2022 reflecting efficiency in relation to inventory and working capital policy.

WCS has increased whereas ID has decreased indicating also efficiency in inventory policy. Disbursement period or Payment Days (PD) bespeak the time required to pay its debts. Table witnesses that RD has decreased while PD has increased. PD when read with RD reveals that the former is always higher than its later which evinces payment takes more time than collection.

As a policy, Wipro Ltd. periodically assesses financial solidity of customers assenting financial status, current economic trends, historical bad debts and ageing of accounts receivable. Individual risk limits are set accordingly. The company always strives to enhance shareholders’ value for their investors. Its’ policy has been to provide regular, stable and consistent distribution of return. There is stasis in the philosophy on shareholders’ return. Besides final dividend, the board occasionally recommends interim dividend.

Table 1. Different parameters of working capital practices of wipro Ltd., the selected company.

<table>
<thead>
<tr>
<th>2020-2021</th>
<th>2.50</th>
<th>QR</th>
<th>NSG</th>
<th>PATG</th>
<th>CCL</th>
<th>RD</th>
<th>ID</th>
<th>PD</th>
<th>WCS</th>
<th>ROCE</th>
<th>WC</th>
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<td>2.50</td>
<td>1.30</td>
<td>11.22</td>
<td>53.95</td>
<td>58.57</td>
<td>0.86</td>
<td>2766</td>
<td>2.11</td>
<td>22.81</td>
<td>27,247</td>
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<td>(-6.91%)</td>
<td>(0.09 %)</td>
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<tr>
<td>2021-2022</td>
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<td>2.23</td>
<td>28.06</td>
<td>12.66</td>
<td>21.14</td>
<td>48.21</td>
<td>0.55</td>
<td>3278</td>
<td>2.54</td>
<td>21.80</td>
<td>29,599</td>
<td>810,369</td>
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<td>(+8.63%)</td>
<td>(27.03%)</td>
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</table>

| Source: Annual reports and accounts; Results computed. |

4. Discussion

4.1 Working capital policy
Working capital policy of a company refers to the level of investment in current assets for attaining its targeted sales. Based on risk, profitability and liquidity, working capital policy is of three types: restricted, relaxed and moderate.

**Restricted Policy:** In restricted policy, estimation of current assets for achieving targeted revenue is done aggressively without considering contingency for unforeseen event. This policy is forcefully implemented in organization without tolerating any deviation. It benefits small working capital requirement and saves interest cost to company generating high profitability, but this policy suffers from high risk.

**Relaxed Policy:** In this policy, estimation of current assets for achieving the targeted revenue is prepared after considering uncertain events like seasonal fluctuations, sudden change in activities or sales, etc. A cushion to avoid unforeseen circumstances is left to prevent maximum possible risk. Relaxed policy assumes benefit of almost no risk or low risk and assures entrepreneur about slickness of operating cycle. However, this policy succumbs to low return as high investment in current assets captivates high interest costs reducing profitability.

**Moderate Policy:** Moderate policy balances restricted policy and relaxed policy. It assumes lower risk than restricted but higher than conservative. This policy assures orderly functioning of working operating capital cycle with moderate profitability.

There is subtlety between policy of working capital and strategy of working capital financing. Working capital management policy reckons the first decision while working capital management strategies reckon second decision. Working capital policies are restricted, relaxed and moderate whereas working capital strategies are aggressive, conservative and matching maturity.

### 4.2 Few basic strategic issues

Working capital policy can be framed for each component of working capital, i.e., cash, receivable, inventory and payable. Cash policy maintains appropriate level of cash. Receivable policy states payment terms, credit period, credit limit, etc. Inventory policy speaks about minimizing inventory level to the point it proposes any risk to the satisfaction of customers. Accounts payable policy includes payment terms, quality terms, return policies, etc. Investment in working capital is predicted in working capital is of three types: restricted, relaxed and moderate whereas working capital strategies are aggressive, conservative and matching maturity.

1. **Receivables:** Receivables are assets for amount owed to company as a result of sale of goods or services in ordinary course of business (Hampton, 1983, p.154). Investment in receivables is the function of sales, credit collection policies and cash discount. Receivable management attempts to maximize overall return on investment. Credit in itself is utilized to enhance sales but sales must return profit (Mishra, 1975, p. 94).

Increase in receivable investments is for several causes, e.g. increase in sales, size of cash discount, length of credit terms and volume of delinquent accounts. Receivables rest on the principle that the value of each sales rupee sold on terms will be more if it is received in near future than it would be if it were received afterwards. Management must maintain shortest credit terms. No investment in working capital should be made unless money furthers firm’s net worth. The most important policy affecting receivables is the selection of credit risks. RD measure rapidity or slowness of debtors collectability. Lower the value of RD, more efficient is the management of assets.

Low RD insinuates slack management of debtors/sales and less liquid debtors (Pandey, 1988). Misgoverned working capital emplaces organization in a financially poor to heave blooming for delay in debtors collection period (Levelset, 2019). 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; Vazquez, 2019). Thus, DTR serves as a pragmatic means of collectability of receivables and effectiveness with which credit policy of a business is enforced.

Average collection period shows the number of days gliding between the date of actual credit sales to debtors and the date of actual payment made by debtors for the same. Usually, a high collection period implies an
inefficient collection performance, which, in turn, adversely affects liquidity or short-term paying capacity of an enterprise. But extremely short collection period may imply a firm’s conservative policy to sell on credit or its inability to allow credit to its customers or debtors and thereby losing sales and profit. Moreover, longer the average collection period, longer are the possibilities of uncollectibilities.

ii) Inventories: Inventories occupy the most strategic position in the structure of working capital of an enterprise. Excessive investment in inventory in relation to requirement does not only affect cash cycle badly but also funding gap of firm. In contrast, lack of inventory adversely affects production activities. A firm is, therefore, required to maintain optimum inventory. Finance experts suggest that inventory must be maintained at EOQ (Economic order quantity) level where total inventory cost is minimum and, order and carrying costs of inventory are equal.

Several factors like time required to circulate inventory through various processes, cost associated with minimum level of inventory, prediction of forces disrupting flow of inventories, accounting procedure, etc. impact inventory level. Lower the age of inventory, better the financial solvency. Inventory Turnover Ratio (ITR) or ID helps in determining the liquidity of an enterprise and assists financial manager in assessing inventory policy and preventing danger of over-stocking as a prelude to effective utilization of the resources of the firm (Man Mohan; Goyal, 1979). A high ID reflects dull business, over investment in inventory and accumulation of greater sales volumes. Thus, a firm should have neither too high nor too low ID.

iii) Cash: In working capital policy, every company frames its cash budget that focuses avenues for efficient governance of the components infiltrating into operating cycle. This makes company cognizant concerning cash holding required to proceed its activities within the expected net operating cycle. Management must restore optimum fund to perfect transaction, precaution and speculative needs of an organization. Majority must not have idle cash at their disposal as it is treated non-earning asset.

Cash balance of an enterprise rests on enterprise’s credit position, status of outstanding as also inventories, nature of business, management’s attitude towards risks, size of sales in relation to fixed assets (Walker, 1964). Besides, availability of temporary credit, money market rate and variations in cash flows impact cash balance. Sound cash management needs prompt inflows of cash and delay in cash disbursements. Delaying payment should not impact strength to face obligations. Close observation of net operating cycle now-and-then would ensure that things are under control. A study of cash budget and float trends sometimes suggests certain strategic changes in collection.

iv) Payables: Efficacious business pursuits foster not only the needs for credit but also certain striking sources of credit. Trade payable is a distinctive cardinal source of funds to finance inventories. Period and magnitude of trade payable differs from unit to unit. Typically, repayment of this genre of credit on due date has zero cost assumption. Businessmen abet these finances for bank credit when the availability of the latter is rattled, ascetic or costly. Trade payable is imperative. But key limitation of trade payable is that it is relevant for the goods or services only. Trade payable is a short-term credit outstretched by supplier to buyer about purchase of goods for extreme sale (Johnson, 1959). Average Disbursement Period or PD reveals the time lag between the date of credit purchase and the date on which the payment is made. If more time is given by the creditors, naturally the concern will have a breathing time. It should be ascertained whether the concern is enjoying actually the credit period promised by suppliers.

4.3 Working capital: its financial pattern

Every problem in industry has a bearing on finance. Quantum of funds necessary to finance current assets contemplates nature of business. Commitment of funds apropo of fixed assets is irreversible and, therefore, there is hardly any scope for stratagems with them. However as regards current assets, manager has to proceed redressing policy monitoring profitability, competition, seasonal variations, etc. Working capital in business is akin to that of heart in human body. Every attempt is, therefore, made for cinching perceptive and impressive management of finance. Forsooth, operations, earnings and investment fluctuate.

With these modulations, financing pattern also modulates. One basis of assessment of finance, therefore, is mode of financing which relates to company’s objective of earnings and subsistence. Varied circumstances compel an
industry to ensue structural changes. Salience afforded to an individual objective in rearing finance differs from industry to industry even from company to company. Short-term sources of funds cocoon less cost and have better resilience but more risky than long-term sources of funds. Management, should, therefore, exercise different sources astutely in financing working capital.

As a policy, one cannot generalize that working capital should always be financed through borrowings or any other particular source because a company has to meet different regularizations. Availability of funds in both appropriate quantity and variety is sometimes difficult to achieve. Potent practices require well-balanced funds without which either scarcity of funds will cause obstruction in the flowiness of enterprise or excess funds will prevent an organization from conducting its operation dexterously. Hence, extensive attention must be given to the governance of working capital investment in an organization. Financing pattern of obtaining finance in a company or in an industry is a compromise of several criteria.

Many companies are caught in the web of having to make strategic decision apropos whether to constantly avail of discounts by paying its dues on time, or to forego advantage being spontaneous financing. Over time, discount foregone is perhaps lofty for its impact on profitability. Companies ought to take adverse view when it comes to drafting a policy of discounts for receivables.

Banks now-a-days monitor company’s working capital performance and to this extent freedom is shrunk. However, the following measures could be adopted before embarking upon a credit policy: i) estimating changes in profit levels consequent to the change in policy; ii) estimating cost of additional investment involved in working capital; iii) determining incremental revenues and costs and lastly iv) considering other indirect factors like customer loyalty, credit rating, etc. Servility of IT industry admits primordial kernel in India due to its dapifer approaching economic upswing. IT industry, thus, palpably researches means to defo rm pursuit for alleviating exposition.

These steps are fundamental; in actual practice most, companies are driven to working practices by the forces of expediency rather than strategic calculations.

5. Conclusions

IT industry, a premiere robust and flourishing industry in India boosts the economy in distinct style. The study has been fabricated in idea of examining working capital practices of the major IT company by virtue of welcoming aspect in the realm of financial advice. The company under study is glimpsed propitious glistening varied criterion.

Relation between RD and NSG with NSG and PATG show improvement. It strategizes on its working capital policy just as it achieves more sales and more profits despite reduction in RD. This study developed on different criterion, thus, witnesses moderate working capital practices and maximal payment of huge liquidity trustiness with productive exertions of the company. Working capital practices of Wipro Ltd. hold apostolic vista in almost all the parameters.

Resonant ratios and other tools of the company astutely discern accordant agile economic achievement toward working capital practices. Working capital practices contribute convincing operation of broad efficacy of management built on agility. Practices essential examination to examine its cogency to further business endeavor and also to effectuate poético resonance to adorn dilatability of affairs.

6. Limitations

✓ Trend interpretation swiveling on the data utilized for the study may be criticism; the data command swarmed in explicit moiety.
✓ Only one unit has been gawped and fastidious criterion have resorted. Thus, outcomes and propositions are circumscribed to this unit only.
✓ This study outshines non-monetary information of the unit. Thus, the paper swinging multiple criterion disdains subjective demeanor.
✓ Copious exultant inference can be garnered if more units in India with more tools and modalities, and a scores of years are wielded.
✓ Apodictic confounding durability like upsurage, etc. can drag any unit supplantation to pursue policy. Devising an appraisal approaching such evidence maybe unrewarding.
✓ Incongruity in accounting period mothers explication of the selected unit convoluted.
✓ Fairness originated from dated information may perhaps not be scrupulously foolproof post hoc that corporation may achieve paradigm developments in its proclivity for inherent impressive straits.
✓ The study confines to two years’ period as the data beyond this period is not systematically accessible. Hence, the result adduced from the study is also capped to this time.

7. Suggestions
❖ To lessen big financing in current assets, optimal current assets could have maintained by reasoning the tenets of liquidity, profitability and solvency. Management should direct its working capital practices in keeping with the tenets of liquidity, profitability and solvency.
❖ Climatic measures may be desiderated to expedite collections to better debtors’ quality and impassable amount in debtors can be curtailed through preparation of periodic statement of outliers.
❖ As the liquidity stance depends much on credit and collection policy, management should trigger on the collection of debts as a practice to reduce the schedule whilst it backs customers sales.
❖ The government necessitates more academia and education center to devise growing IT-specialists because IT industry built on adroit.
❖ Wipro Ltd. does not exemplify dreary outlook; yet management needs tryout to rejuvenate their potency of working capital practices more to varying ethnic paramountcy.
❖ Mirroring prior savvy, management needs maintaining positive distribution among the various parameters to be sane practices.

8. Implication of the study
The paper can enlighten the knowledge of different stakeholders and investors about behavior of IT industry regarding working capital practice to accost their quests towards organizations. The study is helpful for judging solvency of organization to accredit funds with healthy working capital practices. Management can exercise the mechanisms to finger SWOT wherefrom dexterity and spirit could be bred.

9. Future scope
The pilot review based on disparate IT company with specific parameters can be exalted embracing manifold enterprises contrived on their working capital practices to disseminate deduction. The researcher adjudicates extensive survey to arrive at better productive fruit and contemplates that new budding fashions for working capital practices might be disentangled from further study.

10. Research comment
IT sector in India has wolfed vibes apropos of service and quality. Success of Indian IT industry springs to be happy. Globalization has bolstered multinationals to plant their establishment in this country and like other countries. Working capital practice of the company under reference is glimpsed propitious glistening varied criterion and contribute convincing operation of broad efficacy of management rest on agility. Audio performance is heart for any activity. Sound performance is mainspring for any economic practice. Financial sustainability behaves as a criterion to measure the strength of working capital practices for the ongoing success of any business entity.

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12. Authors’ Contributions

Pradip Kumar Das: the paper expresses the author’s own opinion and thought.
13. Conflicts of Interest
No conflicts of interest.

14. Ethics Approval
Not applicable.

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