

## **A STUDY ON WORKING CAPITAL MANAGEMENT OF INDIAN TOBACCO CORPORATION (ITC) LIMITED**

**G. S. YOGESH RAM**

*Teacher Trainee*

*Thiagarajar College of Preceptors, Teppakulam, Madurai, Tamil Nadu, India*

**Dr. B. AMALIPRABHA**

*Assistant Professor, Thiagarajar College of Preceptors, Madurai, Tamil Nadu, India*

**DOI:** <https://www.doi.org/10.34293/eduspectra.v7i1.03>

### **Introduction**

The objective of working capital management is to effectively manage a firm's current assets, such as debtors, receivables, cash in hand, cash at bank, and inventory, alongside the firm's current liabilities, including creditors and bills payable. Inefficient management may result in insolvency and potential bankruptcy. Current assets must be sufficient to cover current liabilities, ensuring a reasonable margin of safety. Each current asset should be managed effectively to maintain liquidity while avoiding excessive levels of any single asset that may increase costs. Short-term financing sources must remain continuously manageable to optimize their acquisition and utilization. Effective working capital management is crucial for an organization's success, as it safeguards the purchasing power of assets and maximizes return on investment.

Liquidity constitutes one of the most critical objectives for organizations. The significance of adequate liquidity, defined as an enterprise's ability to meet short-term obligations as they become due, cannot be overstated. Liquidity is indeed a prerequisite for the survival of any enterprise. Short-term creditors are particularly concerned with a firm's short-term solvency and liquidity. However, liquidity also suggests that funds may remain idle or generate minimal returns. Thus, it is essential to maintain a proper balance between the conflicting requirements of liquidity and profitability for effective working capital management.

This study evaluates the working capital management of Indian Tobacco Corporation (ITC) Limited over an eleven-year period, utilizing Motaal's comprehensive test of liquidity.

### **Statement of the Problem**

Financial statements are crucial tools that provide valuable insights into a company's financial health and earning potential. They serve as the foundation for financial analysis, which involves a systematic evaluation of these statements to facilitate informed decision-making by stakeholders. This study focuses on the working capital management of Indian Tobacco Corporation Limited (ITC) by examining the relationships between various balance sheet items.

Working capital management is vital for ensuring that a company can meet its short-term liabilities while maintaining operational efficiency. Analyzing ITC's working capital over an eleven-year period will help identify trends, strengths, and weaknesses in its financial management practices.

### Scope of the Study

The present study focuses on the working capital management of Indian Tobacco Corporation Limited (ITC) by analyzing financial data over an eleven-year period, spanning from 2013-14 to 2023-24. The scope of the study encompasses the following key areas:

**Time Frame:** The study will analyze ITC's financial performance over an eleven-year period, allowing for the identification of trends and patterns in working capital management.

**Financial Data:** The analysis will be based on comprehensive financial statements, including the balance sheet and income statement, to assess the company's liquidity, efficiency, and overall financial health.

**Working Capital Components:** The study will focus on key components of working capital, including current assets (such as cash, inventory, and receivables) and current liabilities (such as payables and short-term debt). The relationships between these components will be explored to understand their impact on ITC's liquidity.

**Analytical Framework:** The research will employ Motaal's Comprehensive Test of Liquidity as the primary financial analysis technique. This method will facilitate a thorough evaluation of ITC's liquidity position and working capital management strategies.

**Performance Evaluation:** The study will assess the effectiveness of ITC's working capital management practices in relation to historical performance, providing insights into areas of strength and potential improvement.

**Recommendations:** Based on the findings, the study aims to offer actionable recommendations for enhancing working capital management practices at ITC, thereby contributing to the company's financial stability and operational efficiency.

By focusing on these aspects, the study aims to provide a comprehensive evaluation of ITC's working capital management, contributing valuable insights for stakeholders, including management, investors, and financial analysts.

### Objective of the Study

The present study is conducted with the following objective:

- To analyze the management of working capital in the Indian Tobacco Corporation (ITC) Limited.
- To suggest ways to enhance the working capital management of Indian Tobacco Corporation (ITC) Limited.

## Research Methodology

In the current study, the researchers employed existing information and data to conduct a thorough evaluation of working capital management practices at the Indian Tobacco Corporation (ITC) Limited. Consequently, the adopted research design is analytical in nature.

## Data Analysis and Results

Motaal recommends a robust framework for assessing a firm's liquidity position, employing a ranking process to derive a more comprehensive liquidity measure by combining the following three ratios into a point score:

- Working Capital to Current Assets Ratio
- Inventories to Current Assets Ratio
- Liquid Assets to Current Assets Ratio

A higher value of both the working capital to current assets ratio and liquid assets to current assets ratio indicates a more favorable liquidity position for the firm, and vice versa. Conversely, a lower value of the stock or inventories to current assets ratio reflects a more favorable liquidity position. The ranking of these three ratios over time is conducted in order of preference. Ultimately, the final ranking is determined by the principle that a lower point score signifies a more favorable liquidity position and vice versa.

### 1. Working Capital to Current Assets ratio

$$\text{Working Capital to Current Assets ratio} = \frac{\text{Working Capital}}{\text{Current Assets}} \times 100$$

**Table 1 Working Capital to Current Assets Ratio**

S. No	Year	Working Capital (₹ in Crores)	Current Assets (₹ in Crores)	Ratio	Rank
1.	2013-14	10,655.60	22,531.35	47.29	11
2.	2014-15	13,402.14	25,534.54	52.49	10
3.	2015-16	18,204.04	24,862.50	73.22	2
4.	2016-17	19,148.09	26,269.10	72.89	3
5.	2017-18	17,143.47	26,393.62	64.95	8
6.	2018-19	21,735.28	31,747.27	68.46	5
7.	2019-20	29,945.58	39,505.35	75.80	1
8.	2020-21	24,302.31	34,991.99	69.45	4
9.	2021-22	22,068.74	34,232.45	64.47	9
10.	2022-23	25,931.48	39,670.89	65.37	7
11.	2023-24	27,375.14	41,065.54	66.66	6

**Source: Company's Annual report 2013-14 to 2023-24**

A higher value of the working capital to current assets ratio signifies a more favorable liquidity position for the firm. Table 1 indicates that, in the fiscal year 2013-14, the company ranked 11<sup>th</sup>, followed by 10<sup>th</sup> in 2014-15 and 2<sup>nd</sup> in 2015-16, which subsequently declined to 3<sup>rd</sup> in 2016-17. For the fiscal year 2017-18, the rank was 8<sup>th</sup>, followed by 5<sup>th</sup> in 2018-19. In 2019-20, the Indian Tobacco Corporation Limited attained 1<sup>st</sup> rank. During the fiscal years 2020-21 and 2021-22, the company achieved positions of 4<sup>th</sup> and 9<sup>th</sup>. The company's working capital to current assets ratio has improved to 7<sup>th</sup> position and 6<sup>th</sup> position, as recorded in 2022-23 and 2023-24, respectively.

## 2. Inventories to Current Assets ratio

$$\text{Inventories to Current Assets ratio} = \frac{\text{Inventories}}{\text{Current Assets}} \times 100$$

**Table 2 Inventories to Current Assets Ratio**

S. No	Year	Inventories (₹ in Crores)	Current Assets (₹ in Crores)	Ratio	Rank
1.	2013-14	8,223.38	22,531.35	36.50	11
2.	2014-15	8,557.88	25,534.54	33.51	8
3.	2015-16	9,062.10	24,862.50	36.45	10
4.	2016-17	8,186.15	26,269.10	31.16	6
5.	2017-18	7,584.53	26,393.62	28.74	3
6.	2018-19	7,943.97	31,747.27	25.02	2
7.	2019-20	8,965.53	39,505.35	22.69	1
8.	2020-21	10,507.22	34,991.99	30.03	4
9.	2021-22	10,973.59	34,232.45	32.06	7
10.	2022-23	11,914.13	39,670.89	30.03	5
11.	2023-24	14,302.88	41,065.54	34.83	9

**Source: Company's Annual report 2013-14 to 2023-24**

A lower value of the stock or inventories to current assets ratio reflects a more favorable liquidity position. Table 2 clearly indicates that, in the fiscal year 2013-14, the company was ranked 11th, followed by 8th in 2014-15 and 10th in 2015-16, which subsequently declined to 6th in 2016-17. For the fiscal year 2017-18, the rank was 3rd, followed by 2nd in 2018-19. In 2019-20, the Indian Tobacco Corporation Limited achieved 1st rank. During the fiscal years 2020-21 and 2021-22, the company attained positions of 4th and 7th. The company's working capital to current assets ratio has improved to 5th position and subsequently declined to 9th position, as recorded in 2022-23 and 2023-24, respectively.

### 3. Liquid Assets to Current Assets ratio

$$\text{Liquid Assets to Current Assets ratio} = \frac{\text{Liquid Assets}}{\text{Current Assets}} \times 100$$

**Table 3 Liquid Assets to Current Assets Ratio**

S. No	Year	Liquid Assets (₹ in Crores)	Current Assets (₹ in Crores)	Ratio	Rank
1.	2013-14	14,307.97	22,531.35	63.50	11
2.	2014-15	16,976.66	25,534.54	66.49	8
3.	2015-16	15,800.40	24,862.50	63.55	10
4.	2016-17	18,082.95	26,269.10	68.84	6
5.	2017-18	18,809.09	26,393.62	71.26	3
6.	2018-19	23,803.30	31,747.27	74.98	2
7.	2019-20	30,539.82	39,505.35	77.31	1
8.	2020-21	24,484.77	34,991.99	69.97	5
9.	2021-22	23,258.86	34,232.45	67.94	7
10.	2022-23	27,756.76	39,670.89	69.97	4
11.	2023-24	26,762.66	41,065.54	65.17	9

**Source: Company's Annual report 2013-14 to 2023-24**

A higher value of the liquid assets to current assets ratio signifies a more favorable liquidity position for the firm. Table 3 indicates that, in the fiscal year 2013-14, the company was ranked 11th, followed by 8th in 2014-15 and 10th in 2015-16, which subsequently declined to 6th in 2016-17. For the fiscal year 2017-18, the rank was 3rd, followed by 2nd in 2018-19. In 2019-20, the Indian Tobacco Corporation Limited achieved 1st rank. During the fiscal years 2020-21 and 2021-22, the company attained positions of 5th and 7th. The company's liquid assets to current assets ratio has improved to 4th position and subsequently declined to 9th position, as recorded in 2022-23 and 2023-24, respectively.

### 4. Ultimate Ranking of Motaal's Comprehensive Test of Liquidity

**Table 4 Ultimate Ranking of Motaal's Comprehensive Test of Liquidity**

S. No	Year	WC to CA Ratio	Rank	Inventory to CA Ratio	Rank	LA to CA Ratio	Rank	Total	Ultimate Rank
1.	2013-14	47.29	11	36.50	11	63.50	11	33	11
2.	2014-15	52.49	10	33.51	8	66.49	8	26	10
3.	2015-16	73.22	2	36.45	10	63.55	10	22	7
4.	2016-17	72.89	3	31.16	6	68.84	6	15	5
5.	2017-18	64.95	8	28.74	3	71.26	3	14	4

6.	2018-19	68.46	5	25.02	2	74.98	2	9	2
7.	2019-20	75.80	1	22.69	1	77.31	1	3	1
8.	2020-21	69.45	4	30.03	4	69.97	5	13	3
9.	2021-22	64.47	9	32.06	7	67.94	7	23	8
10.	2022-23	65.37	7	30.03	5	69.97	4	16	6
11.	2023-24	66.66	6	34.83	9	65.17	9	24	9

**Source: Company's Annual report 2013-14 to 2023-24**

The table 4 presents the ultimate ranking of Motaal's Comprehensive Test of Liquidity over several years, from 2013-14 to 2023-24. It includes three key liquidity ratios: Working Capital (WC) to Current Assets (CA) Ratio, Inventory (I) to Current Assets (CA) Ratio, Liquid Assets (LA) to Current Assets (CA) Ratio. Each ratio is ranked for each year, and the total of these ranks contributes to an ultimate rank for each year. The best performance in terms of liquidity was in 2019-20, which achieved the top rank of 1. The company showed a significant improvement from 2013-14 (rank 11) to 2019-20 (rank 1). The years 2018-19 and 2015-16 also showed strong performance with ranks of 2 and 7, respectively. The rankings fluctuated in the following years, with the company experiencing a drop to rank 10 in 2014-15 and rank 11 in 2013-14. The most recent years, 2022-23 and 2023-24, saw the company ranked 6 and 9, indicating a need for improvement. Motaal's liquidity test has shown significant variability over the years. While there was a peak in 2019-20, subsequent years demonstrated some decline in liquidity rankings. Continuous monitoring and strategic management of liquidity ratios will be crucial for improving the overall financial health of the company moving forward.

### Findings of the Study

The findings of the present study indicate several trends in the liquidity positions of the Indian Tobacco Corporation Limited (ITC) over the fiscal years from 2013-14 to 2023-24, based on different liquidity ratios. Here's a summary of the key points:

#### Working Capital to Current Assets Ratio

- **Highest Ratio:** The highest Working Capital to Current Assets ratio was recorded in 2019-20 at 75.80%, ranking 1st.
- **Lowest Ratio:** The lowest ratio was in 2013-14 at 47.29%, ranking 11th.
- **Trend:** Overall, there is an upward trend in the ratio from 2013-14 to 2019-20, followed by a slight decline in subsequent years but remaining above 60%.
- **Consistency:** The Company maintained a ratio above 60% from 2015-16 onwards, indicating a strong liquidity position.

This analysis can help stakeholders understand the company's financial health and its ability to cover short-term liabilities with its current assets.

### Stock or Inventories to Current Assets Ratio

- **Trend:** The ratio shows a general declining trend from 2013-14 to 2019-20, indicating that a smaller proportion of current assets were tied up in inventories over these years. This could suggest improved inventory management or increased current assets.
- **Lowest Ratio:** The lowest ratio was recorded in 2019-20 at 22.69%, indicating that inventories constituted a smaller part of current assets during that year.
- **Highest Ratio:** The highest ratio was in 2013-14 at 36.50%, suggesting a higher dependence on inventories at that time.
- **Recent years:** In the last few years (2020-24), the ratio has shown some fluctuations, with a slight increase in 2023-24 to 34.83%, indicating a growing reliance on inventories relative to current assets compared to the previous year.

### Liquid Assets to Current Assets Ratio

- **Highest Ratio:** The highest Liquid Assets to Current Assets ratio was in 2019-20 at 77.31%, indicating optimal liquidity.
- **Lowest Ratio:** The lowest ratio was in 2013-14 at 63.50%, which suggests a weaker liquidity position compared to subsequent years.
- **Trend:** The ratio generally shows an upward trend from 2013-14 to 2019-20, after which it fluctuated slightly but remained above 65%.
- **Ranking:** The ranking indicates the relative performance of the company in terms of liquidity, with 2019-20 being the best year (rank 1) and 2013-14 being the lowest (rank 11).

This analysis can help stakeholders assess the company's ability to meet short-term obligations and manage its liquidity effectively.

### Ultimate Ranking of Motaal's Comprehensive Test of Liquidity

- **Best year:** The year 2019-20 has the highest overall liquidity, with a WC to CA ratio of 75.80, an inventory to CA ratio of 22.69, and an LA to CA ratio of 77.31, resulting in an ultimate rank of 1.
- **Worst year:** The year 2013-14 has the lowest overall liquidity performance, with an ultimate rank of 11.
- **Trends:** The liquidity ratios show fluctuations over the years. The WC to CA ratio improved significantly from 2013-14 to 2019-20. The LA to CA ratio has generally been strong, particularly in 2019-20, indicating good liquidity management in that year.
- **Overall Stability:** The rankings indicate a degree of stability in the company's liquidity position, with a few notable peaks and troughs.

This analysis can help stakeholders understand Motaal's liquidity performance over the years and identify areas for improvement or continued focus.

### **Conclusion**

This study provides a comprehensive assessment of the working capital management of Indian Tobacco Corporation Limited (ITC) over an 11-year period from 2013-14 to 2023-24 using Motaal's Comprehensive Test of Liquidity. The analysis focuses on three key liquidity ratios: Working Capital to Current Assets (WC to CA), Stock or Inventories to Current Assets (I to CA), and Liquid Assets to Current Assets (LA to CA).

**Working Capital to Current Assets (WC to CA) Ratio:** The highest ratio was recorded in 2019-20 at 75.80%, indicating a strong liquidity position. The ratio demonstrated an upward trend from 2013-14 to 2019-20, followed by a slight decline in subsequent years, yet it consistently remained above 60% from 2015-16 onwards. This sustained performance signifies ITC's capability to cover its short-term liabilities effectively.

**Stock or Inventories to Current Assets (I to CA) Ratio:** This ratio exhibited a general decline from 2013-14 to 2019-20, suggesting improved inventory management or an increase in current assets. The lowest ratio was observed in 2019-20 at 22.69%, indicating a reduced reliance on inventories. In the years following 2020, the ratio displayed some fluctuations, with a slight increase to 34.83% in 2023-24, hinting at a growing dependency on inventories relative to current assets.

**Liquid Assets to Current Assets (LA to CA) Ratio:** The peak for this ratio was also in 2019-20 at 77.31%, reflecting optimal liquidity management. The lowest ratio occurred in 2013-14 at 63.50%, suggesting a weaker liquidity position during that year. The ratio generally trended upward from 2013-14 to 2019-20, after which it fluctuated slightly but remained above 65%.

Overall, the Ultimate Ranking of Motaal's Comprehensive Test of Liquidity revealed that 2019-20 was the year with the highest overall liquidity performance, while 2013-14 ranked the lowest. The liquidity ratios displayed fluctuations over the years, with notable improvements in the WC to CA ratio from 2013-14 to 2019-20 and strong LA to CA ratios, particularly in 2019-20.

In summary, this analysis provides valuable insights into ITC's liquidity performance over the years, highlighting its ability to manage short-term obligations effectively and identify areas for potential improvement. Stakeholders can utilize this information to assess the company's financial health and make informed decisions regarding its operations and investments. Continued focus on maintaining strong liquidity ratios will be essential for ITC to navigate future challenges and opportunities in the market.



## References

1. Abiodun, S. A., & Samuel, O. L. (2014). A Comparative Analysis on Working Capital Management of Brewery Companies in Nigeria. *International Journal of Finance and Accounting*, 3(6).
2. Agyei, S. K., & Yeboah, B. (2011). Working Capital Management and Profitability of Banks in Ghana. *British Journal of Economics, Finance and Management Sciences*, 2(2).
3. Kevin, S. (2023). *Security Analysis and Portfolio Management*. PHI Learning Private Limited.
4. Kothari, C. R., & Garg, G. (2022). *Research Methodology: Methods and Techniques*. New Age International Publishers.
5. Krishnaswami, O. R., & Ranganatham, M. (2022). *Methodology of Research in Social Sciences*. Himalayan Publishing House.
6. Mbawuni, J., Mbawuni, M., & Nimako, S. (2016). The Impact of Working Capital Management on Profitability of Petroleum Retail Firms: Empirical Evidence from Ghana. *International Journal of Economics and Finance*, 8(6).
7. Pandey, I. M. (2008). *Financial Management*. Vikas Publishing House.
8. Reddy, T. S., & Reddy, H. P. (2021). *Cost and Management Accounting*. Margham Publications.
9. Santhakumar, G., Deivanai, P., & Chinniah, V. (2018). Working Capital Management of Oil and Natural Gas Corporation (ONGC) Limited. *Shanlax International Journal of Management*, 5(S1), 91-96.
10. Tulsian, P. C., et al. (2023). *Analysis of Financial Statements*. Tcom Prints.