CU Global Management Review
Vol. 14, Issue 1, January-June 2025, pp. 3-12

A Comparative Financial Analysis of Working Capital Management of Reliance Industries Ltd. and Adani Enterprises Ltd.

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Abstract

This study presents a comparative analysis of the financial performance of Reliance Industries Ltd. and Adani Enterprises Ltd. over a five-year period (2019–20 to 2023–24), focusing on liquidity, profitability, and efficiency. A quantitative approach was adopted, utilizing financial data extracted from annual reports of both companies. Key ratios such as current ratio, quick ratio, net profit margin, return on assets, asset turnover, and inventory turnover were analysed. Statistical tools were applied to evaluate trends, correlations, and deviations across the selected financial indicators. The analysis reveals that Reliance Industries has demonstrated strong liquidity and consistent profitability, reflecting sound financial and operational management. Conversely, Adani Enterprises has shown growth in business operations but struggles with liquidity and working capital efficiency. Correlation analysis identified significant relationships among certain variables, though regression analysis did not establish a strong link between working capital management and profitability. The findings offer valuable insights for investors, analysts, and policymakers, highlighting areas of strength and improvement for both companies. These insights support more informed investment and strategic decisions. However, the study is limited to historical financial data and may not fully account for future uncertainties or changing market dynamics, suggesting the need for further research including broader economic factors.

Keywords: Working Capital Management, Liquidity, Profitability, Corporate Finance and Efficiency.

1. Introduction

Working capital management (WCM) stands as one of the most vital components of corporate financial strategy, governing how organizations handle their short-term assets and liabilities to maintain smooth

operations while maximizing financial health. At its core, WCM ensures that a company possesses sufficient liquidity to meet immediate obligations without compromising profitability. In today's rapidly evolving business landscape, marked by globalization, economic fluctuations, and stringent regulatory frameworks, the significance of efficient working capital management has escalated dramatically. The implementation of International Financial Reporting Standards (IFRS) has further transformed financial management practices, compelling businesses to adopt standardized reporting mechanisms that enhance transparency and facilitate cross-border comparability.

1.1 Critical Role of Working Capital Management

Working capital, defined as the difference between current assets (cash, receivables, inventory) and current liabilities (payables, short-term debt), serves as a barometer of a firm's operational efficiency. Effective WCM ensures that a company maintains an optimal balance between liquidity and profitability—holding too much inventory or lax receivables collection can tie up capital, while excessively tight credit policies may stifle sales. Conversely, poor WCM can trigger cash flow crises, disrupt supply chains, and even threaten solvency. Given these stakes, businesses must continuously refine their working capital strategies to adapt to market demands and regulatory changes.

1.2 Impact of IFRS on Financial Reporting and WCM

The adoption of IFRS has revolutionized financial reporting by establishing a universal framework that enhances consistency and investor confidence. These standards influence how companies recognize, measure, and disclose financial elements, directly affecting working capital metrics. For instance, IFRS guidelines on revenue recognition (IFRS 15) and financial instruments (IFRS 9) alter how receivables and payables are recorded, impacting liquidity assessments. Accounting professionals must now possess not only traditional financial expertise but also the ability to interpret and apply IFRS in diverse **business contexts.**

1.3 Challenges and Opportunities in a Globalized Economy

As businesses expand internationally, the need for harmonized financial reporting becomes paramount. IFRS facilitates cross-border investments by eliminating discrepancies in financial statements, but it also imposes new compliance burdens. Companies must reassess their working capital policies to align with these standards, ensuring accurate financial disclosures while maintaining operational agility. Additionally, accounting education must evolve to prepare future professionals for these complexities, integrating IFRS principles into curricula to foster a deeper understanding of global financial management.

1.4 Comparative Analysis of Reliance Industries Ltd. and Adani Enterprises Ltd.

This study conducts a detailed financial comparison of two Indian corporate giants—Reliance Industries Ltd. and Adani Enterprises Ltd.—to evaluate their working capital management strategies. By analysing their handling of current assets and liabilities, the research aims to uncover best practices and potential inefficiencies in their financial operations. Key areas of focus include inventory turnover,

receivables collection periods, and payables management. The findings will offer actionable insights for investors, financial analysts, and policymakers, highlighting how these firms navigate liquidity challenges while sustaining growth in a competitive market.

The intersection of working capital management, IFRS compliance, and accounting education presents both challenges and opportunities for modern businesses. Efficient WCM remains indispensable for corporate stability, yet the shift toward global financial standards demands greater expertise and adaptability. This research underscores the need for continuous learning and strategic refinement in financial management, particularly as companies operate in an increasingly interconnected and regulated economic environment. By examining industry leaders like Reliance and Adani, the study contributes to a broader understanding of how firms can optimize working capital to achieve long-term success.

2. Review of Literature

Research by Zhang et al. (2017) demonstrated that working capital management (WCM) components such as cash conversion cycle, inventory holding period, and return on assets significantly influence SME performance. Their study revealed that SMEs allocating substantial resources to inventories and accounts receivable tended to generate lower profits, while those maintaining higher proportions of current assets relative to total assets achieved better profitability. This established a clear relationship between effective WCM practices and SME success. Nimalathasan's (2010) findings indicated an inverse relationship between cash conversion cycle (CCC) and return on assets (ROA), with a statistically significant negative correlation of -0.127. The research showed that extending the CCC by one day corresponded to a 5.03% decrease in ROA, suggesting that reducing inventory and receivable periods could enhance manufacturing firms' profitability. The inventory conversion period (ICP) also showed a significant impact, with ROA decreasing by 0.065 units for each ICP increase. Lakshmi et al. (2021) identified several operational deficiencies in their case study company. While the firm achieved satisfactory profitability and turnover ratios, it consistently failed to meet optimal liquidity benchmarks. The analysis revealed persistent negative working capital turnover, with current liabilities exceeding assets throughout the study period. Researchers recommended reducing current liabilities as a strategy to improve the working capital position. Verma and Agarwal's (2018) sectoral analysis found varying relationships between working capital, profitability, and market capitalization across industries. Their study particularly highlighted strong correlations among these factors in IT companies, while other sectors showed either neutral or negative associations. The researchers suggested expanding future studies to include additional industries for more comprehensive insights. Padmaja et al. (2023) claim that Reliance Jio is performing well financially. Over the past year, the inventory turnover has increased, which indicates that the business is doing well. The corporation has a healthy liquidity position. The investment is covered by the amount of money invested in current assets. When investing in its current assets, the company should be cautious because doing so might keep the money from being used

appropriately for other good projects.Overall, the business is expanding under strong leadership. (Nepolean & Ramamoorthy, 2020) Bharat Plastics' management must work to put the required measures into action by examining the previous year's financial results. In actuality, a great finance executive is more concerned with keeping an adjusted account of current assets to ensure smooth corporate operations than with maintaining a solid current ratio. Therefore, for management to preserve current assets and current liabilities, working capital principles are more crucial. According to the (Rahman & Parameshwara, 2022) analysis, Force Motors' profitability was positively impacted by inventories, but Hyundai Motor India Ltd.'s profitability was negatively impacted by cash and other current assets. At Toyota Kirloskar Motor Pvt. Ltd., the effect of current liabilities on the current assets turnover ratio was positive.

3. Hypothesis of the Study

H01: There is no significant relationship between working capital management, liquidity ratios, profitability ratios, and efficiency ratios of Reliance Industries Ltd. and Adani Enterprises Ltd.

H11: There is a significant relationship between working capital management, liquidity ratios, profitability ratios, and efficiency ratios of Reliance Industries Ltd. and Adani Enterprises Ltd.

H02: Working capital management does not have a significant impact on the profitability of Reliance Industries Ltd. and Adani Enterprises Ltd.

H12: Working capital management have a significant impact on the profitability of Reliance Industries Ltd. and Adani Enterprises Ltd.

3. Research Objectives

- To study the working capital management of Reliance Industries Ltd. and Adani Enterprises Ltd.
- To compare the financial performance of Reliance Industries Ltd. and Adani Enterprises Ltd.
- To investigate the interrelationships between working capital management practices, liquidity ratios, profitability ratios, and efficiency ratios.
- To examine the impact of working capital management practices on the profitability of Reliance Industries Ltd. and Adani Enterprises Ltd.

4. Research Methodology

The study employed a quantitative methodology to examine the connections between working capital management, liquidity, profitability, and operational efficiency in Reliance Industries Ltd. and Adani Enterprises Ltd. Financial information was extracted from both companies' annual reports spanning five fiscal years (2019-20 through 2023-24), with particular emphasis on critical financial metrics pertaining to these operational aspects. Initial data examination utilized descriptive statistics to provide an overview of the financial measures. Subsequent correlation analysis revealed potential associations among the various financial ratios. To assess working capital management's influence on profitability,

regression analysis was conducted using Return on Equity (ROE) as the outcome measure. Predictor variables in this analysis included accounts receivable period, inventory holding period, accounts payable period, cash conversion cycle, current ratio, and quick ratio - all key indicators of working capital efficiency.This multifaceted analytical framework enabled a robust evaluation of both corporations' financial health while systematically exploring the dynamic interactions between working capital components and overall corporate performance. The methodological design ensured a comprehensive assessment of how working capital management practices affect profitability outcomes in these major Indian conglomerates.

5. Data Analysis and Interpretation

Table I shows the Working Capital Management of Reliance Industries (ID 1), The cash conversion cycle is consistently negative, indicating efficient management. However, Deb Days and Inv Days fluctuate, suggesting variations in sales collection and inventory management. Liquidity shows that CR and QR are above 1, showing strong liquidity, although there has been a decline in recent years. Profitability depicts that ROA and ROE are generally high, indicating effective asset and equity utilization. However, there's a noticeable drop in ROE in 2024. Management Efficiency of Reliance Industries demonstrates that ITR and DTR are relatively stable, indicating consistent management efficiency, although the ATR shows some fluctuations.

Table I - Working Capital Management, profitability, Liquidity, and Managerial Efficiency

ID	year	Deb Days	Inv Days	Days Pay	CCC	CR	QR	ROA	ROE	ROCE	ITR	DTR	ATR
1	2024	10	79	121	-32	1.1	0.7	4.38	8.16	9.54	6.76	33.8	0.75
1	2023	16	77	108	-15	1.1	0.9	4.96	9.22	10.21	11.6	33.8	0.78
1	2022	12	52	151	-87	1.1	0.9	4.44	8.28	8.24	10.2	45.7	0.64
1	2021	6	78	180	-96	1	0.9	3.65	6.73	5.82	7.45	42.2	0.37
1	2020	8	58	106	-40	0.5	0.4	3.18	7.89	8.84	9.44	34.4	0.56
2	2024	48	48	283	-187	1.2	1	6.74	17.09	21.8	10.7	7.19	1.63
2	2023	30	31	162	-102	1.1	0.9	4.04	11.64	19.44	16.5	16.4	5.12
2	2022	48	77	170	-44	1.1	0.8	3.32	15.23	22.52	5.54	8.68	3.28
2	2021	73	38	175	-63	1.1	0.9	2.83	8.93	22.91	12.2	4.11	2
2	2020	87	44	189	-58	1	0.9	5.03	18.58	21.12	10.6	3.67	2.58

Working Capital Management of Adani Enterprises Ltd. (ID 2) shows a significantly higher CCC, indicating a slower conversion cycle and reliance on external financing. The days payable are high, which can indicate good cash management but may also suggest potential supplier issues. As for Liquidity the CR and QR values are above 1 but have decreased over the years, indicating a gradual decline in liquidity. ROA and ROE are significantly higher compared to Reliance in recent years, suggesting Adani is utilizing its assets and equity more effectively. ITR was relatively low in the earlier years but shows improvement. DTR fluctuates, which may indicate variability in receivable collections.

Table II provides summary statistics for various financial variables of Reliance Industries Ltd. and Adani Enterprises Ltd., including liquidity, profitability, and turnover metrics. On average, debtors take around 34 days to pay, while inventory is held for 58 days. Payables take the longest, with an average of 164 days to settle. The cash conversion cycle is negative, suggesting the company collects from customers before paying suppliers, a positive sign for liquidity.

Table II Descriptive Statistics

Variable	Observation	Mean	Std. Dev.	Min	Max
Deb Days	10	33.8	29.02413	6	87
Inv Days	10	58.2	18.32909	31	79
Days Pay	10	164.5	51.33604	106	283
CCC	10	-72.4	49.28196	-187	-15
Cr	10	1.029	0.189529	0.5	1.15
QR	10	0.826	0.17405	0.39	1.01
ROA	10	4.257	1.144815	2.83	6.74
ROE	10	11.175	4.260452	6.73	18.58
ROCE	10	15.044	7.017268	5.82	22.91
ITR	10	10.08	3.109269	5.54	16.48
DTR	10	22.989	16.57935	3.67	45.67
ATR	10	1.771	1.525804	0.37	5.12

The liquidity ratios (current and quick) show the company has sufficient assets to cover shortterm liabilities. Profitability metrics, such as return on assets (ROA), return on equity (ROE), and return on capital employed (ROCE), indicate moderate profitability with some variability. The turnover ratios reveal significant variations in how efficiently the company manages its assets, inventory, and receivables. Overall, the data shows varying financial performance, with liquidity and profitability generally positive, but with some areas requiring closer management.

Table III Correlation Matrix

	Debdays	Inv days	Day's pay	CCC	CR	QR	ROA	ROE	ROCE	ITR	DTR	ATR
Deb Days	1											
Inv Days	-0.535	1										
Days Pay	0.5145	-0.3734	1									
CCC	-0.1415	0.4489	-0.8767*	1								
Cr	0.25	0.0049	0.4233	-0.2913	1							
QR	0.3643	-0.2982	0.5871	-0.5088	0.9005*	1						
ROA	0.111	-0.0866	0.5665	-0.5612	0.4095	0.4844	1					
ROE	0.7402*	-0.3207	0.6522*	-0.3621	0.2618	0.2952	0.5393	1				
ROCE	0.8722*	-0.5509	0.5819	-0.2938	0.3126	0.3881	0.1279	0.7685*	1			
ITR	0.2083	-0.7960*	0.0819	-0.2651	0.1002	0.4041	0.1457	0.0662	0.287	1		
DTR	-0.9103	0.5088	-0.5693	0.2426	-0.2236	-0.3173	-0.1363	-0.7824*	-0.9764*	-0.2401	1	
ATR	0.4905	-0.5473	0.2415	-0.1686	0.2554	0.2833	-0.0679	0.5267	0.7296*	0.5082	-0.6564*	1

The correlation analysis presented in Table III reveals several significant relationships among the financial variables. Strong negative correlations were observed between Debtors days and DTR (-0.9103), inventory days and days payable (-0.535), and CCC and QR (-0.8767), indicating these variables move in opposite directions. Conversely, strong positive correlations exist between ROCE and ROE (0.8722) and between ROCE and ITR (0.8722), demonstrating that these metrics tend to move together. Moderate positive relationships were found between debtor days and inventory days (0.5145) and between days payable and QR (0.5871). A notably weak correlation of 0.111 between CR and ROA suggests a minimal relationship between these particular variables.

The regression model incorporated ten observations with six predictor variables. The F-statistic of 3.27 (F(6,3)) with a p-value of 0.1792 indicates the model lacks statistical significance at conventional levels (α=0.05), suggesting the independent variables collectively do not significantly explain ROE variance. While the R-squared value of 0.8674 appears strong, indicating 86.74% of ROE variance explained, the substantially lower adjusted R-squared of 0.6022 raises concerns about potential overfitting and questions the meaningful contribution of all predictors. The R-squared value is 0.8674, which means that 86.74% of the variance in ROE is explained by the independent variables in the model, suggesting a good fit. However, since the model is not statistically significant, this fit could be due to overfitting or other factors. Adjusted R-squared is 0.6022, which adjusts for the number of predictors in the model, and is lower at 60.22%. This suggests that while the model explains some variance, not all the predictors may be contributing meaningfully.

Table IV Regression Analysis

ROE	Coef.	t	P>t
Deb days	4.232246	1.87	0.158
Inv days	4.155778	1.83	0.165
Days pay	- 4.03944	-1.81	0.168
CCC	- 4.08565	-1.83	0.164
CR	13.69744	0.9	0.435
QR	- 21.8993	-1.2	0.315
_cons	- 1.06013	-0.15	0.889

Table IV presents the regression coefficients for various working capital metrics. Debtor days (4.23) and inventory days (4.16) show positive coefficients, while days payable (-4.04) and CCC (-4.09) demonstrate negative coefficients. However, all variables exhibit p-values exceeding 0.05, indicating none achieve statistical significance. The current ratio's positive coefficient (13.70) contrasts with the quick ratio's negative coefficient (-21.90), but both lack statistical significance. The insignificant constant term (-1.06) further suggests limitations in the model's explanatory power.

Overall, none of the independent variables in the model are statistically significant, as all p-values are above the 0.05 threshold. The coefficients suggest that working capital metrics and liquidity have a directional influence on ROE, but with this small sample and high p-values, the relationships cannot be confirmed with confidence.

6. Findings, Conclusion and Suggestion

The analysis reveals distinct financial profiles between the examined companies, with one demonstrating stronger liquidity and consistent profitability, while the other shows superior returns but working capital management challenges. The correlation matrix highlights important relationships, particularly the negative association between leverage and profitability metrics, and the positive link between capital efficiency and shareholder returns. However, the regression analysis fails to provide statistically significant evidence supporting a definitive relationship between working capital management and profitability. The marginal significance of some variables suggests potential relationships that warrant further investigation with larger datasets and potentially refined models to draw more conclusive findings.

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