Chapter-IV
CHAPTER IV

MANAGEMENT AND ANALYSIS OF WORKING CAPITAL

(1) MEANING OF WORKING CAPITAL MANAGEMENT

Decisions related to working capital and short-term financing are referred to as working capital management. These involve managing the relationship between an organisation's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that the organisation is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses.

Working capital management, which encompasses the short-term investment and financing decisions of the organisation, affects profitability as well as liquidity of the enterprise. Excessive working capital leads to unremunerative use of scarce funds, inadequate working capital interrupts the smooth run of business activity and thus both impair profitability. Effective working capital management, by optimising the use of funds in working capital enhances profitability. It improves liquidity by focusing attention on flow of funds through proper management of cash, receivables, inventories and short-term sources of funds. Importance of efficient working capital management can be judged from the fact that while its effective management can do much to ensure the
success of a business, its inefficient management can lead not only to loss of profits but also to ultimate downfall of what otherwise might be considered as a promising concern.

Working capital management involves deciding upon the amount and composition of current assets and how to finance these assets. It is concerned with the problems that arise in attempting to manage the current assets, current liabilities and their interrelationships. Working capital management deals with the determination of appropriate levels of current assets and their efficient use as well as the choice of the financing mix for raising the current resources. It is a continuous function requiring a constant vigil and control of everyday ebb and flow of financing resources circulating in one form or the other so as to maintain an optimum level of working capital.

Proper management of working capital is very important for the success of an enterprise. The manner of administration of current assets to a very large extent determines the success of operations of an organisation. Shortage of working capital, so often advanced as the main cause of failure of industrial concerns, is nothing but the clearest evidence of mismanagement, which is so common. Sales expansion, plant expansion, dividend declaration, rising price levels etc. put added strain on working capital maintenance. Constant management is required to maintain appropriate levels in the various working capital accounts.
An organisation should make its working capital position strong by making optimum investment in current assets. Therefore working capital and its every component like – securities, B/R, stock and current liabilities should be managed in the most efficient manner. It is the primary duty of financial management to determine optimum balance of every component of current assets. The finance manager should make every effort to locate resources to acquire current assets and also use of them so that current liabilities may be paid off at the appropriate time. It is a fact that major portion of the funds of the organisation are invested in current assets therefore, financial management should devote their major time in sorting out day to day problems of financial management in the internal conduct of the business. According to a survey conducted by RBI on 1650 companies 62% of their total net assets were invested in current assets. ¹

From working capital point of view industries may be classified into two parts. In the first category those industries are included whose ratio of working capital with total net asset is more than 50%. In this category mostly trading companies, jute industry, engineering, sugar, cotton, coal and mine and oil industries are included. In the second category such industries are included whose ratio of working capital with net assets is less than 50%. This

¹ Reserve Bank of India Bulletin
includes electricity generation, shipping, aluminium, cement, paper, iron and steel and chemical industries.

The above principles do not apply in all cases. In public utility concerns and in manufacturing industries comparatively this ratio used to be less. In traditional industries like sugar, jute and cotton the ratio of working capital used to be in the higher side. There used to be many reasons for such situation for example excess of old units whose fixed capital is valued at historical price and defective inventory management due to which stock piles up. Above facts related to HPCL are shown in the following table which is as follows:-

**Table No. 4.1**

**Percentage of current assets and net fixed assets with total net assets**

(Rs. in crores)

<table>
<thead>
<tr>
<th>Years</th>
<th>Current Assets</th>
<th>Net Fixed Assets</th>
<th>Total Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
</tr>
<tr>
<td>2003-04</td>
<td>9430.17</td>
<td>58.91</td>
<td>6577.91</td>
</tr>
<tr>
<td>2004-05</td>
<td>9502.30</td>
<td>57.78</td>
<td>6943.64</td>
</tr>
<tr>
<td>2005-06</td>
<td>11009.98</td>
<td>60.01</td>
<td>7337.40</td>
</tr>
<tr>
<td>2006-07</td>
<td>11464.70</td>
<td>56.52</td>
<td>8820.84</td>
</tr>
<tr>
<td>2007-08</td>
<td>19297.37</td>
<td>61.80</td>
<td>11929.28</td>
</tr>
<tr>
<td>2008-09</td>
<td>15992.69</td>
<td>57.85</td>
<td>11654.75</td>
</tr>
<tr>
<td>2009-10</td>
<td>20641.94</td>
<td>57.42</td>
<td>15306.67</td>
</tr>
</tbody>
</table>

Source: Compiled from various Annual Reports of HPCL
From the observation of table no. 4.1 it is clear that current assets have increased by 72.13 crores of rupees (0.76%) in the year 2004-05 as compared to its previous year 2003-04, while net fixed assets were increased by 365.73 crores of rupees (5.56%) and total net assets were increased by 437.86 crores of rupees showing an addition of 2.74% during the same period. Similarly in the year 2005-06 current assets stood at 11009.98 crores of rupees, net fixed assets 7337.40 crores of rupees and total net assets 18347.38 crores of rupees showing an increase of 15.87%, 5.67% and 11.56% respectively. Further, in the year 2006-07 the trend of addition in current, net fixed assets and total net assets continued. The current assets increased by 4.13%, net fixed assets by 20.22% and total net assets by 10.56% and at the end of this period current assets were in the tune of 11464.70 crores of rupees, net fixed assets were 8820.84 crores of rupees and total net assets were 20285.54 crores of rupees. The figure of current assets in the year 2007-08 was 19297.37 crores of rupees while it was only 9430.17 crores of rupees in the year 2003-04. This shows that current assets increased by 9867.20 crores of rupees. This also means that these assets almost doubled in three years as compared to the figures of 2003-04. However, increase of these assets as compared to 2006-07 was 68.32%. Net fixed assets also showed almost two fold increase in the year 2007-08 as compared to the year 2003-04. However, as compared to its previous year the increase was 35.23%. In case of total net assets the increase in the year 2007-08 as compared to its previous year was 53.94%. However, these assets also increased leaps and bounce almost two times as compared to the year 2003-04. In the year 2008-09 the
current assets stood at Rs. 15992.69 crores and the net fixed assets at Rs. 11654.75 crores. However, these figures were Rs. 20641.94 crores and Rs. 15306.67 crores respectively for the year 2009-10. The increase in all type of assets of HPCL shows that the company has been heavily investing both in the current and fixed assets. This also reflects that the company is expanding its activities and therefore expanding its asset base.

(3) METHODS OF ANALYSIS OF WORKING CAPITAL

Financial statements are the means, not the end. In absolute form financial statements appear to be the group of members only. They themselves do not reveal any significant conclusion whereas person involved in its analysis can draw important conclusion from them.

Financial accounts and statements are first of all classified and arranged in appropriate parts so that they may be understood easily, this process is known as financial analysis. After financial analysis the work of interpretation is carried on in which simplified data is critically examined and important conclusions are drawn. Infact, analysis and interpretation are two such closely related activities that practically it is not possible to separate them. For this reason only both of these terms are used in the same sense. It would not be inappropriate to mention that working capital is an integral part of Balance Sheets / Annual Reports. Detail of retained earnings, capital surplus, detail of shareholder equity, funds flow and cash flow
statements are included in annual report. It is also essential for analysis and interpretation of working capital and financial statements. Analysis and interpretation of financial statements is an effort to determine importance and meaning of financial data so that future earning, paying capacity of loans (present and long term both) and interest on due dates and possibilities of benefits of sound dividend policy can be forecasted.

There are various methods of analysis of working capital. An analyst adopts an appropriate method which suits to his objects and requirements in analysing working capital. These methods are as follows:

1. Ratio analysis method
2. Funds flow analysis method
3. Cash flow analysis method
4. Comparative statement method
5. Working capital budget.

**RATIO ANALYSIS METHOD:**

Ratio analysis is a process of comparison of one figure against another, which make a ratio and the appraisal of the ratio to make proper analysis about the strengths and weaknesses of the organisation's operations. Ratio analysis is extremely helpful in

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2 Killer I. Van. and Farera William L., Management Accounting For Profit Control, Mac Grohil, p. 39.

providing valuable insight into a company’s financial picture. Ratio analysis pinpoints a business strengths and weaknesses in two ways:

a) Ratios provide an easy way to compare present performance with the past.

b) Ratios depict the areas in which a particular business competitively advantaged or disadvantaged through comparing ratios to those of other businesses of the same size within the same industry.

Thus, accounting ratio used for financial analysis is a universally accepted technique in financial management area. This technique or device gives the power to speak to speechless data given in financial statements, whose absolute value is useless. In the specified time, ratios calculated at various occasions through this technique indicates progress or downfall of the business and they convert complex accounting data into simple, understandable, brief and arranged data and they also help managers in forecasting, coordination, control and communication.

Funds Flow Analysis Method:

Funds flow statement is a technical device designed to highlight the changes in the financial position of the business enterprise between two balance sheets. Funds statement depicts the sources, where from additional funds during the current year as compared

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4 Chambers R.J., Financial Management, Sweet Max Val Limited, 1953, p. 224
to the previous year have been received and to what uses these funds have been applied.

The term 'funds' are referred in 'the funds flow statement' means working capital which is the excess of current assets over current liabilities. Current assets consist of cash in hand, cash at bank, B/R, debtors, stock, prepaid expenses, short term investments etc. and the current liabilities include creditors, B/P, bank overdraft, outstanding expenses and short - term loans, working capital, known as 'funds' here increases with the increase in current assets and decrease in current liabilities result in the decrease of working capital.

The statement which is prepared to show the inflow (sources) and outflow (uses) of funds is termed as 'funds flow statement.' According to Mr. Robert N. Anthony, “Funds flow statement describes the sources from which additional funds were derived and the uses to which these funds were applied.”

Funds flow analysis helps the organisation in the following manner :

1) **Effective tool of managing working capital:** It is a technique to ascertain the funds received during the year and also a method to know the uses of these funds. Working capital is the excess of current assets over current liabilities. Funds flow statement depicts inflow and outflow of working capital.
2) **Knowledge of change in the working capital:** Schedule of changes in the working capital shows the net increase or decrease in the working capital.

3) **Knowledge of funds from operation:** Income statement (profit and loss account) shows net income or net profit, which is calculated after debiting both operating and non-operating expenses and also after crediting operating and non-operating incomes.

4) **Knowledge of inflow of funds:** Sources side of the funds flow statement shows where from and to what extent we have received funds from different sources. This will also reveal the funds received from current and non-current sources and we shall be able to plan our future operations in such a way that trading income should increase considerably.

5) **Knowledge of application of funds:** The outflow, uses or the application side of funds flow statement shows the different purposes for which the funds have been used during the year.

6) **Knowledge as to the payment of current liabilities out of current assets:** It has been an accepted fact that all current liabilities must be paid out of current assets i.e. current assets must be sufficient to meet current liabilities.

7) **Knowledge as to purchase of fixed assets out of non-current sources:** Fixed assets must be purchased out of non-current sources i.e. by issue of shares or debentures or by long-term loans.
8) **Knowledge of supplementary information:** Funds flow statement is prepared to supplement financial statements. These statements also show the financing and investing activities of the business.

9) **Helps borrowing operating:** Lending institutions assess the credit worthiness of the institutions with these statements and decide whether loan should be granted or not, if granted then to what extent. The statement reveals the current sources and non-current sources of the business and enables them in making a decision regarding loans.

10) **Acts as a process of budgeting:** Funds flow statement reveals the plus and minus points in the management of working capital. The management plans and budgets its future activities in such a way that weaknesses should be removed and good points should be strengthened.

**CASH FLOW ANALYSIS METHOD:**

Cash plays an important role in the operation of any business concern. Cash is a life blood for every business concern. Infact, what blood is to human body, cash is to a business enterprise and therefore, proper and continuous flow of cash is necessary for healthy operation of the enterprise. Cash is both the beginning as well as the end of business operations. Hence, while analysing the results of any business concern it becomes useful to know that what were the balances of cash in the beginning and at the end of a particular period? What were the sources of cash flow and in which activities such inflows were utilised. All these factors are
analysed through the technique of ‘Cash Flow Statement’. Transactions that increase the cash balance of the concern are known as ‘inflow’ of cash and those which decrease the cash balance as ‘outflow’ of cash. In brief, cash flow analysis explains the reasons for the changes in cash position of an enterprise.

Thus, cash flow analysis is an important tool to check the short term financial changes. Through it paying capacity and position of cash flows of an organisation are evaluated. In this method a statement is prepared in which inflow and outflow of cash is shown.

**COMPARATIVE STATEMENT METHOD:**

In this method such statement of working capital is prepared in which decrease and increase of working capital between two years is worked out.

**WORKING CAPITAL BUDGET:**

Efficient management of working capital involves careful measurement of future requirements and the formulation of plans for meeting them. The working capital budget is an important phase of an overall financial budgeting. Working capital budget measures permanent and variable working capital requirements. The objective of working capital budget is to secure an effective utilisation of the investment.
(4) RATIO ANALYSIS OF WORKING CAPITAL

Multiple ratios are used to analyse the financial position, capability and profitability of an organisation but from the group of ratios the use of only those ratios is profitable that can fulfill the purpose of analysis such as ratios related to short – term solvency like current ratio, liquid ratio etc. are essential for short – term investors (who wants to know the short – term solvency of the organisation). For them profitability of an organisation is not very important. Likewise ratios related to long – term solvency and earning capacity are important for long – term investors because they give more emphasis on earning capacity rather than mortgaging assets but the managers who are connected with the all round progress of the organisation, they need every type of ratio related to working capital, solvency, profitability and efficiency. The brief description of the main ratios is as follows :

(a) Liquidity Ratio :

Ratios that are used to analyse the short – term solvency of the organisation are known as liquidity ratios. In the words of Robert Anthony, "Liquidity means the capacity of the company to pay its current liabilities." The purpose of calculating these ratios is to find out the capacity to pay short – term liabilities from short – term resources. These ratios are helpful in investigating the efficient use of working capital in business, volume of working capital and to find out the position of working capital and is also capable to answer the

questions – whether the working capital has been used in effective and efficient manner? Whether the volume of working capital in the organisation is adequate? What is the position of working capital?

Following main ratios are used to give reply of above questions:

1) **Current Ratio**: The current ratio compares the total current assets of the business unit to its current liabilities. It is calculated by dividing current assets by current liabilities. Symbolically:

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

This ratio is also known as working capital ratio. Under current assets generally following assets are included: cash in hand, cash at bank, debtors, prepaid expenses, short period deposits, bills receivable, money at call and short notice, other receivables, stock, finished stock, stock of work in progress, stock of raw materials, sundry supplies.

Normally, investments should not be included in current assets however if investments are easily marketable or are short term investments then they should be included in current assets.

Current liabilities refer to those liabilities which are payable within one year or less. Generally these include the following: Bills payable, income – tax payable, creditors, outstanding expenses, bank overdraft, provision for taxation,
interest due on fixed liabilities, reserve for unbilled expenses, instalment payable on long period loans.

If bank overdraft is a continuing facility, then it is also treated as long-term liability.

It is essential that a business unit should have a reasonable current ratio. Although there is no hard and fast rule, conventionally, a current ratio of 2:1 is considered satisfactory.

2) **Quick Ratio**: Quick ratio is also known as 'Acid test ratio' and 'liquidity ratio'. This ratio is concerned with the relationship of liquid assets and current liabilities. In liquid assets, all current assets are included except stock and prepaid expenses. The formula is as follows:

\[
\text{Liquidity Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}
\]

Some scholars and authorities of the subject use liquid liabilities in place of current liabilities and they apply the following formula:

\[
\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Liquid Liabilities}}
\]

Where: Liquid Liabilities = Current Liabilities – Bank Overdraft

The ideal level of liquidity ratio is 1:1

3) **Cash Ratio**: The ratio calculated between the cash in hand and cash at bank to current assets, is said to be as cash ratio.
Through this, share of cash in current assets is found out. Its formula is as follows:

\[
\text{Cash Ratio} = \frac{\text{Cash (in hand and at bank)}}{\text{Current Assets}}
\]

(b) **Profitability Ratio**:

Mostly profitability of the business is considered as the symbol of efficiency of business activities. Profitability of the business depends on the quantity of sales, nature of costs and effective use of financial resources. Reliable analysis of profitability of any business can be done on the basis of two to three profitability ratios but any single ratio can give confusing conclusions. Therefore, following main ratios are used for measuring profitability:

1) **Gross Profit Ratio**: This ratio indicates the relationship between Gross Profit and Net Sales. Normally, this ratio is defined in percentage (%). This ratio is also called as Gross Margin. The formula for calculating this ratio is:

\[
\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100
\]

Where:
- Net Sales = Sales – Sales Return
- Gross Profit = Net Sales – Cost of Goods Sold

Gross profit ratio measures the profit earning capacity available on sales. This ratio should be adequate to meet out the indirect expenses as well as to provide for depreciation on fixed assets, interest on long – term loans, transfer to reserves, etc. The gross profit ratio is primarily a test of the efficiency of purchases and
sales management. No ideal standard is fixed for this ratio, but the gross profit ratio must be adequate.

2) Net Profit Ratio: It is a measure of the overall profitability of a business concern. Net profit ratio indicates the relationship between the net profit earned by the concern and net sales. This ratio is defined in percentage (%) only. Net profit is a surplus of revenue over expenses in a particular accounting period. Net profit includes operating profit as well as non-operating profit. The motive of the calculation of net profit ratio is to check the total efficiency and performance of the business concern. The formula for computing this ratio is:

\[
\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100
\]

High ratio shows lesser operating and non-operating cost, better efficiency and performance of business concern, whereas low ratio indicates higher operating and non-operating cost, less profitability and poor performance of business concern.

3) Operating Ratio: This ratio measures the proportion of a business concern’s cost of goods sold and all other operating expenses (Office and Administration Expenses + Selling and Distribution Expenses + Discount Allowed + Bad debts etc.) to its net sales.

\[
\text{Operating Ratio} = \frac{\text{Cost of Sales} + \text{All other Operating Expenses}}{\text{Net Sales}} \times 100
\]
Where:

All other operating Expenses = [Office and Administration Expenses + Selling and Distribution Expenses + Discount Allowed + Bad Debts etc.]

Operating expenses do not include non-operating expenses / Incomes i.e., Interest on long term loans, capital expenditures, dividend received.

Cost of Goods Sold = (Opening stock + Purchases + Direct Expenses – Closing Stock)

Direct Expenses = (Direct wages + All Manufacturing Expenses)

The lower the operating ratio, the better it is for the business concern. The operating ratio should not be very high. The high operating ratio will leave less margin of profit on sales.

(c) Activity Ratio:

These ratios are used to measure the effectiveness of utilisation of various resources. On the basis of it work performance of the organisation is checked and it is find out, that whether the organisation has used the available resources and facilities efficiently and in a profitable manner or not. In it calculation of ratios is done on the basis of selling amount or cost of goods sold. Therefore, these ratios are also known as turnover ratios. To investigate the activity of the concern following ratios are used:
1) **Stock Turnover Ratio**: This ratio indicates the relationship between the cost of goods sold and average stock kept during the year. This ratio indicates whether stock has been efficiently used or not. If stock turnover ratio is low, it indicates that stock does not sell quickly and remains lying in warehouse for cost and losses on account of inventory becoming obsolete.

\[
\text{Cost of Sales or Cost of Goods Sold} = (\text{Opening Stock} + \text{Purchases} + \text{Direct Expenses}) - \text{Closing Stock}
\]

or \( \text{Cost of Goods Sold} = \text{Sales} - \text{Gross Profit} \)

\[
\text{Average Inventory} = \frac{\text{Opening Stock} + \text{Closing Stock}}{2}
\]

This ratio shows the relationship between the cost of goods sold and average stock kept in warehouse during the year. Therefore, higher the ratio, the better it is. In a business firm where inventory turnover ratio is high, goods are sold at a low margin of profit and even then the business firm earns more profit by selling the maximum volume of goods. A low stock turnover ratio indicates that the goods do not sell quickly and efficiently, so the maximum inventory remains lying in the warehouse.
2) **Debtors Turnover Ratio:** Normally all business organisations sell goods on cash as well as on credit basis, but every organisation wants that amount from debtors is realised in time or as quickly as possible. Debtors turnover ratio indicates the relationship between net credit sales and average receivable outstanding during the year. In receivables, debtors and bills receivables are included for the purpose of calculation of this ratio.

\[
\text{Debtors or Receivables Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Receivables}}
\]

Where:

- Net Credit Sales = Total Sales – Cash Sales – Sales Return
- Average Receivables = \(\frac{(\text{Opening Debtors and B/R}) + (\text{Closing Debtors and B/R})}{2}\)

Higher debtors turnover ratio indicates that the collection from debtors or B/R is quick and efficient. The lower debtors turnover ratio indicates that the amount collected from debtors or B/R is not quick i.e., the credit management of the organisation is not efficient or good.

3) **Creditors Turnover Ratio:** Normally, all business organisations purchase goods on credit basis. The parties from whom credit purchases are made are known as creditors and the bills accepted in lien of credit purchases are known as bills payable. The sum of the amount of sundry creditors and bills payable is known as total payables of the organisation. By
analysing the net credit purchases and total payables, the organisation can calculate the number of days in which creditors are paid off. For this, organisation calculates the creditors (payable) turnover ratio.

Creditors (payable) turnover ratio indicates the relationship between net credit purchases and total payables. Following formula is used for calculating this ratio:

\[
\text{Creditors or Payable Turnover} = \frac{\text{Net Credit Purchases}}{\text{Average Payables (Creditors + B/P)}}
\]

Where:

Net Credit Purchases = (Total Purchase - Cash Purchase - Purchase Return)

Average Payables = \( \frac{(\text{Opening Creditors and B/P}) + (\text{Closing Creditors and B/P})}{2} \)

4) **Working Capital Turnover Ratio:** Working capital turnover ratio reveals the efficiency with which working capital has been utilised by a concern. This ratio is calculated by dividing the cost of goods sold by working capital. The formula used for calculating this ratio is as follows:

\[
\text{Working Capital Turnover Ratio} = \frac{\text{Cost of Goods Sold or Net Sales}}{\text{Working Capital}}
\]

The high ratio indicates efficient use of working capital in the concern while a low working capital turnover ratio indicates under-utilisation of working capital in the concern.
5) **Current Assets Turnover Ratio:** This ratio measures the concern’s efficiency or inefficiency in the utilisation of its current assets. This ratio also indicates the over investment or under investment position of current assets in a concern. Following formula is used for calculating the current assets turnover ratio:

\[
\text{Current Assets Turnover Ratio} = \frac{\text{Cost of Goods Sold or Net Sales}}{\text{Current Assets}}
\]

Ratios are not the end themselves but they are only the means of analysing the position of the organisation. Their utility is in their analysis and interpretation. There are four main methods for interpreting ratios that are as follows:

- **Interpretation on the basis of one single ratio:**

  There are some ratios that alone provide significant results. For example – continuous decline in current ratio and even its getting reduced below one can be considered as an indication of the insolvency of the organisation in the near future. Such ratios which can be termed as experience proved can be counted on tips and are capable of delivering conclusions by themselves alone.

- **Interpretation on the basis of the ratios of the same group:**

  There are number of ratios that have no significance while studying individually. However when they are
studied in relation to some other ratios they become very significant.

- **Interpretation on the basis of periodical comparison:**

  In this method important trends are known and conclusions are drawn from them on the basis of similar period of the previous years.

- **Inter – enterprise comparison:**

  Inter – enterprise comparison is more in those organisations that are facing similar type of financial problems. In this method for evaluating relative position of an organisation its ratios are compared with the ratios of other organisations of this industry or is compared with the average of all other organisations of the industry and results are drawn.

**ANALYSIS OF WORKING CAPITAL OF HINDUSTAN PETROLEUM CORPORATION LIMITED**

In this part of the study an attempt is made to analyse working capital of HPCL in absolute terms by using various techniques which have already been discussed in the preceding pages of this chapter. As the management of current assets takes most of the time of the finance manager, therefore every efficient working capital manager changes current assets in accordance with changes in the volume of sales. Changes in the activities of the enterprise as well as the transactions of the business effects the constructive value of current assets. Hence, components of working capital of Hindustan
Petroleum Corporation Limited such as management of cash, bills receivable and stock are analysed in the various chapters of this thesis.

To measure and evaluate the working capital management efficiency of Hindustan Petroleum Corporation Limited following ratios have been used:

1. Current ratio
2. Liquidity ratio
3. Current assets turnover ratio
4. Trend analysis
5. Composition of current assets
6. Funds flow analysis

**Current Ratio:**

It is an important ratio to measure the liquidity of an enterprise. This ratio is calculated by dividing current assets with the current liabilities of an enterprise.

In the form of formula:

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

This ratio holds great importance from the viewpoint of short-term lenders of a business because this ratio clears the security limit of short-term loans and the capacity to pay the current liabilities of an organisation. The more the ratio, the more will be the capacity of the organisation to pay its current liabilities and the short-term lenders will be more assured for the timely payment of their loans but if this ratio is more than a certain limit it is good from the
viewpoint of lenders but it could not be good from the viewpoint of
the business because excess current ratio indicates weak policy of
the business, excess debt, excess stock etc. Likewise less current
ratio shows lack of working capital in the business. In this way less
current ratio is comparatively more risky. According to American
writers proportionate relationship between current assets and
liabilities is considered as ideal because in this condition current
liabilities of the organisation can be paid off easily and this payment
does not adversely affect the liquidity of the organisation. Current
ratio upto 1.5 : 1 to 3 : 1 is acceptable.\(^6\) Indian Institute of Chartered
Accountants is seriously considering to accept current ratio of 3 : 1
as an ideal ratio.

In the table no. 4.2 current ratio in Hindustan Petroleum
Corporation Limited is shown which is as follows:

Table No. 4.2
Current Ratio in HPCL

<table>
<thead>
<tr>
<th>Years</th>
<th>Current Assets (Rs. in crores)</th>
<th>Current Liabilities (Rs. in crores)</th>
<th>Current Ratio</th>
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<td>1.25</td>
</tr>
</tbody>
</table>

\(^{\text{Source: Compiled from various Annual Reports of HPCL}}\)

\(^{6}\) Miller E. Donald : *The Meaningful Interpretation of Financial Statements* New York,
1966, p. 24
By analysing the table no. 4.2 this is clear that current ratio in HPCL has always been lower than standard ratio (2 : 1) and it also shows variation in different years. This shows a weak security coverage of current liabilities against current assets and shows lack of working capital. Under the period of analysis it was 1.23 in the year 2003-04 while it increased marginally (0.13) in its following year 2004-05. The reason for this change has been the increase in the current assets by Rs. 72.13 crores in the year 2004-05. It remained almost constant in the year 2005-06 (negligible increase of 0.02). The reason for the marginal change has been an increase of current liabilities by Rs. 966.22 crores while the current assets increased by Rs. 1507.68 crores. Thus the increase in current assets were mostly set off by increase in current liabilities. Surprisingly this ratio went down to 1.13 in the year 2006-07 due to the fact that company made capital investment in this year as a result of that this ratio declined. This is noticeable that the company could increase its current ratio to 1.55 in the year 2007-08. The main reason for such a big jump was the increase of current assets by Rs. 7832.67 crores while current liabilities during this period increased by only Rs. 2314.2 crores. However in the year 2008-09 this ratio came down to 1.36. This situation can be attributed to the decrease in both current assets and current liabilities but it is interesting to note that the ratio has further declined in the year 2009-10 inspite of the fact that both current assets and current liabilities have increased.
Liquidity Ratio:

Liquidity ratio is calculated to evaluate the immediate paying capacity of the liabilities of an organisation. It is estimated by dividing liquid assets with current liabilities. In the form of formula:

\[
\text{Liquidity Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}
\]

In the present study for the calculation of liquid assets all the current assets are included like: cash, bills receivable, debtors (after deducting doubtful and bad debts) and loans and advances. However stock and investments are not considered.

In the evaluation of short – term solvency of an organisation liquidity ratio provides strong base than current ratio. As cash and realisable assets are included in liquid assets, therefore liquid ratio of 1 : 1 is considered satisfactory. However this is not a necessity. This ratio however always should not be 1 : 1. It can be lower than this depending upon the payment of current liabilities in the immediate following few months or with the increase in business activities sufficient cash may be collected.

In the table no. 4.3 liquidity ratio of HPCL is shown which is as follows:

**Table No. 4.3**

<table>
<thead>
<tr>
<th>Years</th>
<th>Liquid Assets</th>
<th>Current Liabilities</th>
<th>Liquidity Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>4027.64</td>
<td>7655.15</td>
<td>0.53</td>
</tr>
<tr>
<td>2004-05</td>
<td>3820.09</td>
<td>6988.67</td>
<td>0.55</td>
</tr>
<tr>
<td>Year</td>
<td>Long Term</td>
<td>Short Term</td>
<td>Ratio</td>
</tr>
<tr>
<td>----------</td>
<td>-------------</td>
<td>--------------</td>
<td>-------</td>
</tr>
<tr>
<td>2005-06</td>
<td>3199.69</td>
<td>7954.89</td>
<td>0.40</td>
</tr>
<tr>
<td>2006-07</td>
<td>3366.30</td>
<td>10119.49</td>
<td>0.33</td>
</tr>
<tr>
<td>2007-08</td>
<td>7277.09</td>
<td>12433.69</td>
<td>0.59</td>
</tr>
<tr>
<td>2008-09</td>
<td>7199.45</td>
<td>11755.81</td>
<td>0.61</td>
</tr>
<tr>
<td>2009-10</td>
<td>8062.72</td>
<td>16555.11</td>
<td>0.49</td>
</tr>
</tbody>
</table>

Source: Compiled from various Annual Reports of HPCL

The liquid ratio of Hindustan Petroleum Corporation Limited in the year 2003-04 was 0.53 while in the following year it was 0.55 showing a marginal increase of 0.02. In the year 2005-06 there was a steep downfall and this ratio touched the figure of 0.40, a decline of 0.15 as compared to its previous year. The decline could not be checked and in the year 2006-07 it was at its lowest of 0.33. It was due to the reasons of spiraling crude prices, price inflexibility and squeeze on margins, the treasury management was under pressure throughout the year. The HPCL resorted to many innovative solutions such as proper mixture of long term and short term borrowings, very close monitoring of collections and funds flow. This is appreciable that the company bounced back to maintain this ratio at 0.59 in the year 2007-08. This could be done because of higher refining margin, higher other income, inventory gains and compensation in the form of oil bonds etc. Several measures to achieve reduction in operating expenses were also exercised. The company had to raise resources from the market to meet additional fund requirements and the borrowings had gone up by 60% from Rs. 10518 crores in March 07 to Rs. 16787 crores in March 08 due to higher burden of under recoveries. In the year 2008-09 liquidity ratio was found to be 0.61 showing an increase of 0.02 as compared to
previous year. Both liquid assets and current liabilities came down but current liabilities came down at a faster pace. However, in the year 2009-10 this worked out at 0.49.

**Current Assets Turnover Ratio:**

This ratio highlights relationship of current assets with net sales and throws light on the capabilities and utility of current assets. For its calculation amount of net sales is divided by current assets. In the form of formula:

\[
\text{Current Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Current Assets}}
\]

Ideal standard of this ratio is 2.5 times. This ratio is extremely useful from the viewpoint of management. With the help of this ratio the management mechanism of the enterprise can measure the limit of the utility of current assets. Current assets are directly related with sales. If the sales is high in comparison to current assets then it could be concluded that current assets are excessively used in the organisation. This fact is clear in itself that increase in the quantity of sales generate profit and profits in turn generate current assets. On the continuity of this process there used to be no shortage of working capital in the organisation. High ratio of sales on current assets clears this fact that current funds are being utilised more efficiently. This ratio indicates that investment in current assets should not be beyond a certain limit otherwise liquidity of the organisation can be questioned.

In the table no. 4.4 current assets turnover ratio of Hindustan Petroleum Corporation Limited is shown which is as follows:
Table No. 4.4
Current Assets Turnover Ratio in HPCL

<table>
<thead>
<tr>
<th>Years</th>
<th>Net Sales</th>
<th>Current Assets</th>
<th>Turnover Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>51515.99</td>
<td>9430.17</td>
<td>5.46</td>
</tr>
<tr>
<td>2004-05</td>
<td>60164.55</td>
<td>9502.30</td>
<td>6.33</td>
</tr>
<tr>
<td>2005-06</td>
<td>71430.62</td>
<td>11009.98</td>
<td>6.49</td>
</tr>
<tr>
<td>2006-07</td>
<td>89725.03</td>
<td>11464.70</td>
<td>7.83</td>
</tr>
<tr>
<td>2007-08</td>
<td>104312.99</td>
<td>19297.37</td>
<td>5.41</td>
</tr>
<tr>
<td>2008-09</td>
<td>124752.42</td>
<td>15992.69</td>
<td>7.80</td>
</tr>
<tr>
<td>2009-10</td>
<td>114888.63</td>
<td>20641.94</td>
<td>5.57</td>
</tr>
</tbody>
</table>

Source: Compiled from various Annual Reports of HPCL

By the observation of table no. 4.4 it is clear that:

(1) Both net sales and current assets have continuously been increasing during the period of 2003-04 to the year 2007-08. However in the year 2008-09 though the sales has increased but the current assets have gone down. In contrast to this in the year 2009-10 current assets have increased but the sales has gone down.

(2) During the period of observation the company has always achieved more than standard turnover ratio which is taken at 2.5.

(3) Current assets turnover ratio of the company is consistently showing increasing tendency except in the years 2007-08 and 2009-10. The reason for decline in the year 2007-08 appears to
be lesser increase in the volume of turnover. However it went up to 7.80 in the year 2008-09.

(4) This is clear that the company is efficiently utilising its current assets and the management is able to maintain an increasing trend in the volume of turnover.

**Trend Analysis:**

This method is propounded by Mr. Gill Man. In this on the basis of change in the items of financial statements the analysis of the financial condition of the firm is done. In this method for any business fact tabulation of data is done for many years and considering any one year as base year, ratio is calculated for that fact in the form of percentage for other years which are defined as index numbers. After studying these index numbers for the related fact significant conclusions are drawn after estimating the trend easily on the basis of the given years. The purpose of trend analysis in the present study is to analyse the trend of important components of working capital of Hindustan Petroleum Corporation Limited such as net sales, working capital, accounts receivable, stock, cash, profit and loss etc. This is presented through the table no. 4.5:

**Table No. 4.5**

**Trend Analysis of Hindustan Petroleum Corporation Limited**

<table>
<thead>
<tr>
<th>Trend Components</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Years</td>
</tr>
<tr>
<td>1. Net Sales</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Working Capital</td>
</tr>
<tr>
<td>---</td>
<td>----------------</td>
</tr>
<tr>
<td>2.</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Current Assets</td>
</tr>
<tr>
<td>4.</td>
<td>Stock</td>
</tr>
<tr>
<td>5.</td>
<td>Debtors</td>
</tr>
<tr>
<td>6.</td>
<td>Cash and bank balance</td>
</tr>
<tr>
<td>7.</td>
<td>Loans and Advances</td>
</tr>
<tr>
<td>8.</td>
<td>Current Liabilities</td>
</tr>
<tr>
<td>9.</td>
<td>Net Profit/Loss</td>
</tr>
</tbody>
</table>

**Source**: Compiled from various Annual Reports of HPCL

Following facts may be traced by the analysis of the above table no. 4.5:-

**Sales**:

There has been constant increase in the turnover of the company during the period of study except in the year 2009-10. As compared to the base year 2003-04 it increased by 16.79% in the year 2004-05 and 38.66% in the year 2005-06. However as compared to the previous year 2004-05 the increase was 18.72%. The company had a tremendous increase of 74.17% and 102.49% in the years 2006-07 and 2007-08 respectively as compared to the base year (2003-04). This was due to the fact that the company had big demand of its products in the national and international markets. In the year 2008-09 the net sales increased by 142.16%. However, in the year 2009-10 a declining trend is noticed.
Working Capital:

The working capital always have a percentage above the base year (2003-04 = 100). However the year 2006-07 duped to 75.79% only due to the fact that the company made capital investments. However this is to be noted that the company could manage working capital at its peak. The year 2007-08 indicates tremendous increase in current assets. The percentage of working capital was recorded at 238.69 in the year 2008-09 showing an increased by 138.69% as compared to the base period of 2003-04 but was lesser by 147.99% when compared with its previous year. In the year 2009-10 a marginal decline is noticed.

Current Assets:

Taking 2003-04 as base the current assets have increased every year during the period of study. In the year 2007-08 the current assets doubled as compared to 2003-04. This indicates that the company has increased its repayment capacity of short-term liabilities. The percent change in current assets has shown increasing trend. However it declined by 35.04% in the year 2008-09. However, this percentage has again increased in the year 2009-10 to its peak level.

Stock:

The stock showed a continuous increasing trend upto the year 2007-08 but was recorded low in the year 2008-09 at 162.76%. In the year 2009-10 this percentage again increased to the level of 232.84%.
Debtors:

The debtors of the company during the period of study are constantly increasing. This indicates more credit sales and slow realisation. The company should make an attempt to control these factors.

Cash and bank balance:

The cash and bank balance had a steep fall in the years 2005-06, 2006-07 and 2009-10. However, it could surpass base year in the year 2007-08. The reasons for sharp decline in the years 2005-06 and 2006-07 were growing competition from new entrants and alternate fuels, high oil prices, increasing costs relating to environmental compliance, under-recoveries from the sale of auto fuels and increasing expenditure requirements relating to projects and marketing translate into a challenging operating environment.

With the spiraling crude prices, price inflexibility and squeeze on margins, the treasury management has been under severe pressure throughout the years 2005-06 and 2006-07. The company had to raise resources from the market to meet additional fund requirements. The borrowings have gone up by 60% from Rs. 10518 crores in March, 2007 to Rs. 16787 crores in March, 2008 due to higher burden of under recoveries borne by HPCL and the time lag between incurring of under - recoveries and realisation from oil bonds. This increase in borrowings was inspite of selling oil bonds amounting to Rs. 4535 crores during the year. Cash and bank balance increased leaps and bounce in the year 2008-09 and was
recorded at 308.69%. This is almost double than its previous year. However, in the year 2009-10 this figure showed a declined by Rs. 365.14 crores.

**Loans and Advances :**

The loans and advances show a trend of declining in the years 2004-05, 2005-06 and 2006-07 as compared to the base period of 2003-04. However, this increased by 84.56% in the year 2007-08 and declined by 37.24% in the year 2008-09. This percentage again increased by 38.5% in the year 2009-10.

**Current Liabilities :**

The current liabilities of the company have always been increasing except in the years 2004-05 and 2008-09. This indicates that the company’s creditors are increasing.

**Net Profit / Loss :**

The net profits of HPCL have a zigzag trend. Taking the year 2003-04 as base it was just 67.09% in the year 2004-05 as compared to the base period showing a decline around 33%. The reason for such a sharp decline has been ever increasing cost of raw materials and the competition in the industry. The profitability of HPCL was all time as low as 21.30% in the year 2005-06 as compared to the year 2003-04 (base period). Demand growth in the petroleum was sluggish in the year 2005-06 increasing by just 0.3% reversing 3.5% growth rate trend of last two years. Growing competition from new entrants and alternate fuels, high oil prices, increasing costs relating to environmental compliance, under recoveries from the sale of auto
fuels and increasing expenditure requirements relating to projects and marketing translated into a challenging operating environment to the company. Though facing with spiraling crude prices, price inflexibility and squeeze on margins the company could come out from the steep decline of 2005-06 in the year 2006-07. This was possible by resorting to many innovative solutions such as proper mix of long term and short term borrowings, very close monitoring of collections and funds flow. Further the year 2006-07 saw a very volatile foreign exchange market which the company faced by timely hedging of foreign exchange exposures and proper mix of hedging instruments. Again in the year 2007-08 the profit percentage as compared to the base period came down to 59.61% and 30.19% in the year 2008-09. The company saw period of higher burden of under recoveries and the time lag between incurring of under recoveries and realisation from oil bonds. Inspite of this higher refining margins and other income, inventory gains and compensation in the form of oil bonds or upstream share etc., have contributed to the profitability. However, company could manage to increased its profit again in the year 2009-10 which was recorded at Rs. 1301.37 crores.

**Composition Of Current Assets :**

In this the condition of management of every component of current assets is studied. In this reference measurement of the main components of current assets such as inventory, cash, debtors and loans and advances is done in the form of percentage of total current assets. This study provides information to the managers about the
relative relationship of every component and its utility so that management mechanism can control them properly. The condition of every component of current assets in Hindustan Petroleum Corporation Limited is shown in the table no. 4.6:

Table No. 4.6

Percentage share and amount of components of current assets

(Rs. in crores)

<table>
<thead>
<tr>
<th>Years</th>
<th>Stock</th>
<th>Sundry Debtors</th>
<th>Cash and Bank Balances</th>
<th>Loans and Advances</th>
<th>Other current Assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
<td>%</td>
</tr>
<tr>
<td>2003-04</td>
<td>5402.53</td>
<td>57.29</td>
<td>1000.29</td>
<td>10.61</td>
<td>197.06</td>
<td>2.09</td>
</tr>
<tr>
<td>2004-05</td>
<td>5682.21</td>
<td>59.79</td>
<td>1048.61</td>
<td>11.03</td>
<td>201.63</td>
<td>2.12</td>
</tr>
<tr>
<td>2005-06</td>
<td>7101.29</td>
<td>70.93</td>
<td>1392.26</td>
<td>12.64</td>
<td>42.59</td>
<td>0.38</td>
</tr>
<tr>
<td>2006-07</td>
<td>8098.40</td>
<td>70.63</td>
<td>1577.78</td>
<td>13.76</td>
<td>86.79</td>
<td>0.75</td>
</tr>
<tr>
<td>2007-08</td>
<td>12020.28</td>
<td>62.28</td>
<td>1710.66</td>
<td>8.86</td>
<td>294.01</td>
<td>1.52</td>
</tr>
<tr>
<td>2008-09</td>
<td>8793.24</td>
<td>54.98</td>
<td>2240.91</td>
<td>14.01</td>
<td>608.31</td>
<td>3.80</td>
</tr>
<tr>
<td>2009-10</td>
<td>12579.22</td>
<td>60.94</td>
<td>2437.34</td>
<td>11.81</td>
<td>243.17</td>
<td>1.18</td>
</tr>
</tbody>
</table>

Source: Compiled from various Annual Reports of HPCL

Stock constitutes a major portion of the current assets in the company which varies in between around 55% to around 71% under the period of review (2003-04 to 2009-10). While in the same period loans and advances are between 14% to 30% and sundry debtors occupy third place in this period and vary between around 9% to around 14%. Cash and bank balance floats between 0.38% to 3.80% and the other current assets between negligible 0.01% to 1.14%. The fluctuation in the inventory is due to fluctuation in its prices resultant into its valuation. The major percentage of inventories in current assets indicate that a big portion of the current funds is blocked in
this item. Debtor’s percentage shows under recoveries. This may be an indication for a change in recovery policy. Loans and advances and debtors together stand around 40% on an average under the period of review. This is making adverse affect on the liquidity of the company and the company used to be under pressure for funds. Cash and bank balance shows the liquid position of a company. The figures of the table reveal that this percentage is very meagre. There is a need to enhance this percentage.

**Funds Flow Analysis :**

Funds flow analysis is a technique of analysis and interpretation of financial statements. In this technique the causes of changes in funds between two periods is found out and their desirability is determined. Usually lack of cash and working capital are faced in the business. These problems become complicated, strange and serious at the time of raising the capital in the organisation. In such a condition the interpretation method which is used is known as statement of sources and applications of fund or funds flow statement.

The main purpose of funds flow statement is to highlight the causes of change in working capital between a certain period. This statement presents managerial policy decisions and the main changes in relation to expansion of assets and capital structure between the period of two balance sheets.

In the table no. 4.7 sources and utilisation of funds of Hindustan Petroleum Corporation Limited are shown as under : -
## Table No. 4.7

### Sources and utilisation of funds of Hindustan Petroleum Corporation Limited

(Rs. in crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sources of funds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit after Tax</td>
<td>1903.94</td>
<td>1277.33</td>
<td>405.63</td>
<td>1571.17</td>
<td>1134.88</td>
<td>574.98</td>
<td>1301.37</td>
</tr>
<tr>
<td>Depreciation</td>
<td>606.58</td>
<td>659.59</td>
<td>690.23</td>
<td>704.00</td>
<td>856.41</td>
<td>981.29</td>
<td>1164.40</td>
</tr>
<tr>
<td>LPG Deposits</td>
<td>172.12</td>
<td>175.92</td>
<td>124.57</td>
<td>152.55</td>
<td>189.59</td>
<td>193.98</td>
<td>515.68</td>
</tr>
<tr>
<td>Borrowings (Net)</td>
<td>382.32</td>
<td>307.37</td>
<td>4322.23</td>
<td>3784.38</td>
<td>6301.17</td>
<td>6173.46</td>
<td>(1270.19)</td>
</tr>
<tr>
<td>Share Capital</td>
<td>0.07</td>
<td>0.03</td>
<td>0.01</td>
<td>0.01</td>
<td>0.07</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Share Premium</td>
<td>2.41</td>
<td>0.83</td>
<td>0.39</td>
<td>0.47</td>
<td>2.05</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Redemption of Oil Bonds</td>
<td>-</td>
<td>300.00</td>
<td>850.00</td>
<td>1950.73</td>
<td>4535.00</td>
<td>9039.47</td>
<td>5270.27</td>
</tr>
<tr>
<td>Receipt of Capital Grants from OIDB</td>
<td>-</td>
<td>-</td>
<td>4.94</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Amortisation of Capital Grant</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(0.19)</td>
<td>(0.20)</td>
<td>(0.19)</td>
<td>(0.19)</td>
</tr>
<tr>
<td>Charge against General Reserve on account of Transitional Liability of AS - 15R</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(53.31)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Oil Bonds receivable</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3448.45</td>
<td>2033.99</td>
<td>-</td>
</tr>
<tr>
<td>Redemption/sale of Investment</td>
<td>0.21</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Provision for Deferred Tax</td>
<td>54.04</td>
<td>(79.33)</td>
<td>9.69</td>
<td>36.46</td>
<td>202.53</td>
<td>7.39</td>
<td>204.60</td>
</tr>
<tr>
<td>Deferred Tax Asset due to AS - 15R implication</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(27.45)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Adj. on account of sale/deletion of Assets and Provision for diminution in investment</td>
<td>43.37</td>
<td>6.81</td>
<td>1.66</td>
<td>99.30</td>
<td>62.42</td>
<td>(75.28)</td>
<td>703.73</td>
</tr>
</tbody>
</table>
From the observation of funds flow statements from 2003-04 to 2009-10 it is clear that in the year 2003-04 more than 50% funds came from profit after tax and the depreciation amounted to Rs. 606.58 crores. Net borrowings stood at Rs. 382.32 crores while LPG deposits were Rs. 172.12 crores. In the uses of fund increase in working capital had a major share of Rs. 1347.07 crores while capital expenditure stood at Rs. 941.32 crores. Similarly dividend amounted to 746.81 crore of rupees. Thus total of capital expenditure and the working capital has around being 75% of total sources of funds. In the year 2004-05 sources of funds declined to Rs. 2648.55 crores. This comprised Rs. 1277.33 crores of profit after tax, Rs. 659.59 crores depreciation, Rs. 307.37 crores net borrowings and Rs. 300 crores through redemption of oil bonds by the company.

Source: Compiled from various Annual Reports of HPCL
In the application of funds side capital expenditure was 1322.63 crores which is around 50% of the total sources of funds. There was increase of Rs. 738.65 crores in the working capital. This reflects that the capital expenditure had been constituted of a major portion of sources and their application. In the year 2005-06 there was increase in working capital by Rs. 456.75 crores and the capital expenditure continued absorbing major portion of the sources. About 50% of the sources were utilised in the oil bonds. In the year 2006-07 sources of Rs. 8298.88 crores were raised mainly through net borrowings (Rs. 3784.38 crores). Redemption of oil bonds generated Rs. 1950.73 crores. About 50% of the sources (Rs. 4096.30 crores) were consumed in the capital expenditure and investment in oil bonds also had more than 50% share. While there was decrease in the working capital in the tone of Rs. 1607.02 crores. In the year 2007-08 the sources generated jumped to almost double (Rs. 16651.61 crores) of its previous year. Redemption of oil bonds amounted to Rs. 4535.00 crores and the net borrowings Rs. 6301.17 crores. Oil bonds receivable stood at Rs. 3448.45 crores. In the utilisation side of the funds investment oil bonds stood at Rs. 7703.00 crores and an increase in working capital amounted to Rs. 5497.36 crores and capital expenditure Rs. 3066.91 crores clearly indicating that these three consumed major part of funds. In the year 2008-09 the sources generated increased by Rs. 2277.48 crores. Amount of redemption of oil bonds stood at Rs. 9039.47 crores and net borrowings at Rs. 6173.46 crores. Oil bonds receivable amounted to Rs. 2033.99 crores. In the utilisation side of the funds the investment in oil bonds amounted to Rs. 18141.22 crores and
there is a decline in working capital and it amounted to Rs. 1999.74 crores. Capital expenditure has decreased to Rs. 2372.80 crores. In the year 2009-10 the funds generated stood at Rs. 7889.67 crores and a major portion was applied in dividend which increased from Rs. 177.78 crores to Rs. 406.35 crores as compared to the previous year. Similarly a huge portion (Rs. 3712.68 crores) was utilised as capital expenditure out of sources of funds for the year 2009-10.

(6) EVALUATION OF WORKING CAPITAL MANAGEMENT IN HINDUSTAN PETROLEUM CORPORATION LIMITED

In the evaluation of working capital management of any concern a performance appraisal of its working capital is essential. The efficiency of the working capital management is determined by the efficient administration of its various components like cash, accounts receivable and inventory, etc. The importance of the evaluation is emphasized by the fact that the manner of administration of working capital determines to a large extent the success or failure of overall operations of an enterprise. Many times it is the mismanagement of resources of a concern that have converted an otherwise successful business into an unsuccessful one. The proper management of working capital is, therefore, of crucial importance for the success of an enterprise.

After determining the level of total working capital, it is also essential that total working capital is properly allocated to each component of current assets. Usually the basis adopted for the allocation of working capital to its various components is by
preparing a separate budget for each segment. Various ratios such as cash to current assets, receivables to current assets and inventory to current assets can form another basis for allocation.

HPCL while allocating working capital, determines only the inventory level on the basis of production plan suggesting thereby that HPCL attach more importance to the inventory and receivable in the context of working capital allocation. It also takes into account the inter-component relationship by calculating various ratios such as turnover ratios for inventory and receivables, finished goods to sales ratio and debtors to sales ratio etc., while preparing individual budgets.

HPCL controls it by means of budgetary control device. It prepares a ‘Working Capital Analysis Statement’ at regular intervals and analyse the variations from the budget standards laid down for various current asset items to take appropriate steps. A constant watch is kept on the percentage of working capital to production value or sales.

Neither excess nor shortage of working capital is good for the financial health of any company. In HPCL major portion of the excess working capital finds its way to over stocking. The evaluation also leads to the conclusion that HPCL has failed to plan its working capital requirements properly. As a consequence, it often experiences excess of working capital and sometimes it has shortage of working capital.

In HPCL the average current assets turnover rate for 2003-2010 varies from 5.41 times to 7.83 times.
Analysis of liquidity of HPCL reveals that the liquidity position of working capital changes from year to year. In the year 2003-04 it was 0.53, in the year 2004-05 it stood at 0.55 while in the year 2005-06 it was 0.40, in the year 2006-07 it was recorded at 0.33, in the year 2007-08 it stood at 0.59, in the year 2008-09 it was 0.61 and in the year 2009-10 it is found at 0.49.