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CHAPTER X

CONCLUSIONS AND SUGGESTIONS

CONCLUSIONS

In the foregoing chapters the researcher has made an attempt to examine the Hindustan Petroleum Corporation Limited (HPCL) practice in working capital management and to evaluate the management performance in this regard. This chapter summarizes the important findings of the study and offers suggestions for the efficient management of working capital and its components.

HPCL has failed to plan its working capital requirements properly. The company sometimes has inadequate working capital and at another times excess working capital. The shortage of working capital is generally due to insufficient cash whereas excess working capital is primarily the result of high inventory build-up. High inventory build-up itself creates the shortage of cash. HPCL has to pay high interest charges on funds borrowed off hand to meet the emergency. The company has failed to utilize its full production capacity for want of adequate working capital.

The proportion of net working capital and liquid funds plays comparatively a greater role than the proportion of inventory to total working capital in the determination of liquidity ranks. The analysis has shown that only lower investment in inventory is not sufficient
for getting higher liquidity ranks. It should also be accompanied by a high proportion of net working capital and liquid funds.

The examination of Petro industry practice in cash management reveals that the company determines its cash requirements largely by making a cash forecast through cash budget. To intensify cash inflows the company relies on the technique of concentration banking and issue standing instructions to local banks to transfer all funds above a certain limit. This is often done telephonically. However, the company is forced to borrow funds at high rates of interest to save the worsening situation as a result of unanticipated shortfall in cash. It indicates that the overall management of cash is not efficient.

The analysis of financial data has also revealed that HPCL has not been able to control liquid resources effectively. It is evident from the computation of various ratios, such as, percentage of cash with current assets, cash turnover ratio, and ratio of cash with sales. For example, the trend in the percentage of cash with current assets is fluctuating during the period under review which indicates that the management could not exercise the very effective planning and control on cash and the analysis of cash turnover ratio indicates a grim situation of the company on cash funds and the company is suffering from payment problem.

A low proportion of marketable securities in total liquid funds and total current assets shows that the company has not been able to make profitable utilisation of surplus cash. Most of the executives do
not favour the investment in marketable securities. They consider it as a speculative activity.

Since credit and collection policies have a direct bearing on the company’s basic function of selling therefore they are formulated by the top management or chief executive. The administration of these policies is, however, the concern of a financial executive suggesting thereby that the company gives preference to safety of funds as against sales promotion. In HPCL the evaluation of credit applications of the prospective customers is based on the analysis of their financial statements and references to their bankers. In the case of existing customers, their ledger accounts provide the basis for decision.

The cause of bad debts in this company appears to be the participation of larger number of dealers in the distribution of products. Debtors turnover ratio in the company has ups and downs but it appears that increasing trend prevails which indicates better realisation of receivables. The average collection period in the company varies between 6 to 8 days. The most of the sales of the company are cash sales and this does not adversely affect the liquidity of the company.

The stock management in Hindustan Petroleum Corporation Limited is carried out by purchase and store department and they are controlled by general manager with the help of production manager and purchase manager.

First in First out (FIFO) method or net realisable value method or at cost method is used in the valuation of crude oil while for the
valuation of lubricants weighted average cost or net realisable value, whichever is lower is used. Similarly, stock-in-process is valued at the cost of raw material plus conversion cost or net realisable value, whichever is lower. Other than lubricant stock is also valued at cost or net realisable value, whichever is lower. Empty packages and stores and spares are valued at weighted average cost.

A constant increase in the size of stock indicates negligence of the managers. Profitability is adversely affected as increase in sales could not match the increase in stock percentage. It appears that stock control techniques like re-order limit, ABC analysis and economic order quantity are not effectively used and mostly replenishment system has been adopted. In fact there appears to be insufficient and ineffective organisation of stock management in the company. The company badly needs professional stock managers.

Long term investments constitute around 53% of the total investment and which includes trade investments and other investments while current investment constitutes around 47% of the total investment. Out of these investments around 87% investments are quoted. Out of trade investments there are investments in the share capital of Mangalore Refinery & Petrochemicals Ltd., Oil India Limited and 6.35% Oil Marketing Companies’ GOI Special Bonds 2024. Besides this, the company has unquoted share stake in HPCL – Mittal Energy Ltd., Hindustan Colas Ltd., Petronet India Ltd., Petronet MHB Ltd., Prize Petroleum Co. Ltd., South Asia LPG Co. Pvt. Ltd., Bhagyanagar Gas Ltd. and Aavantika Gas Ltd. In other type of investments quoted investments include government securities and
equity share capital of Scooters India Ltd. Unquoted category of investment includes government securities, debentures in East India Clinic Ltd. and share capital of Shushrusha Citizen Co-operative Hospital Limited. The company has also contributed towards seed capital of Petroleum India International.

The current investments are also divided in the categories of quoted and unquoted investments. 13% of current investments are unquoted while 87% are quoted which includes 7.47% Oil Marketing Companies’ GOI Special Bonds 2012, 7.61% Oil Marketing Companies’ GOI Special Bonds 2015, 7.95% Oil Marketing Companies’ GOI Special Bonds 2025, 8.20% Oil Marketing Companies’ GOI Special Bonds 2023, 6.90% Oil Marketing Companies’ GOI Special Bonds 2026, 8.00% Oil Marketing Companies’ GOI Special Bonds 2026, 8.20% Oil Marketing Companies’ GOI Special Bonds 2024, 6.35% Oil Marketing Companies’ GOI Special Bonds 2024.

In the total sources of the funds of the company the share of long term sources vary from 25% to 33%. This includes share capital and reserves and surplus. The authorised capital of the company is 350.00 crores of rupees while the issued capital is 339.33 crores of rupees. Paid up capital stood at 339.01 crores of rupees after adjustment for forfeited shares. Reserves and surplus comprises of share premium, capital grant, general reserve and surplus as per profit and loss account.

The loan funds of the company can be divided as secured loans and unsecured loans. Secured loans are in the form of collateral
borrowing and lending obligation (against pledge of Oil Bonds) and overdrafts from banks (secured by hypothecation of stock-in-trade). Unsecured loans include fixed deposits, clean loans from banks, short term loans from banks, term loan from Oil Industry Development Board and syndicated loans from foreign banks.

The continuing fluctuation in the proportion of long-term funds suggests that total permanent working capital is not financed from such sources. In fact, the availability of bank and trade credits on regular basis and circulatory nature of working capital enables the company to finance even permanent portion of working capital from short-term sources.

The study has provided an empirical support to the fact that the short-term funds finance major portion of working capital. On an average more than fifty percent of the current assets are financed by short-term sources.

The proportion of internal short-term funds (provisions for taxes and dividends) and short-term borrowings in the total working capital financing has shown a fluctuating trend. The downward trend shows lower profitability whereas upward trend is the outcome of increasing profitability. Various factors – such as, increase in the demand for bank credit, nationalization of 14 ‘major’ banks, overall national priorities, enhancement of interest rates, credit planning by banks and the changes in the monetary and credit policy of the Reserve Bank of India for economic development and containing inflation – caused reduction in the flow of bank credit to industries.
As a result, total short-term borrowings showed a fluctuating trend over the years.

The belief that the short-term borrowings finance the major portion of working capital does not find empirical support. Although trade credit is made available to finance inventories only, the study revealed that the company utilized trade credit to finance other current assets also.

Hindustan Petroleum Corporation Limited does not make advance provision for contingencies or to take advantage of favourable markets. Instead of this HPCL keeps cash balance on the basis of day to day obligations. This is very well supported by cash with current assets ratio which could not cross the limit of 3.80%. Similarly in the year 2005-06 it was lowest at 0.38% level. The company appears to be not very particular in this regard. The company’s cash balance is determined by making cash forecast for this purpose a cash budget is prepared. The company does not take into account the mathematical cash management models and normally cash relationship with other variables is used to identify cash needs. Most of the decisions relating to cash balances are taken by employing methods of budgeting and forecasting of cash needs. Benefits of executive’s experience and judgment is also taken into account thereby following the rule of thumb and keeping in view the desire to retain the goodwill of bankers. Inspite of all procedures and techniques adopted by the company for managing cash it has failed in controlling and utilising liquid funds effectively.
SUGGESTIONS

Above conclusions mentioned in this chapter are highlighting the fact that due to improper working capital management Hindustan Petroleum Corporation Limited is afflicted with low level liquidity and less profitability. Component of working capital stock, loan and advance and low level of liquid ratio and condition of less profitability is reflecting the infirm solvency of the organisation. To impediment these complex problems of working capital management multifacet efforts are required. Following suggestions are forwarded on the basis of the analysis and conclusions drawn from the study of various facts of this thesis:-

SUGGESTIONS REGARDING STOCK MANAGEMENT

Improvement is specifically needed in the process related to stock management. From this viewpoint following suggestions are presented: -

1. Quite a big portion of the working capital of HPCL is blocked in the excessive stock. The funds so blocked can be utilised elsewhere in the company wherever they are needed if the excessive stock is not held by the company. It is therefore suggested that the stock managers should take effective steps for the liquidation (sale) of excessive stock.

2. Various registers of stock in listing following type of stocks should be prepared –

   • Marketable Stock
• Non - Marketable Stock

• Re - usable Stock

• Dead Stock, etc.

Unusable stock in production should be sold at a reasonable price to enhance the working capital balance in the company. This system will be helpful in strengthening the liquidity of the organisation and will also enable the company to make use of this fund elsewhere.

3. Defective stock should be made saleable by making necessary improvements in it.

4. All the sale depots should be asked to supply weekly and monthly information to head office regarding stock so that stock planning may be improved as per current requirements.

5. To have effective control over purchase of material, storage of material and issue of material, etc. and also for bringing organisational, creative and process related improvements in the overall management of materials a separate fund should be created which may be named as material management fund.

6. For initial and subsequent purchase of store and spare parts, technical audit method should be used.

7. For correct assessment of required quantity of material, a Material Budget should be prepared with the help of Purchase Budget, Production Budget and Sales Budget. Assessment of correct
quantity will reduce the carrying cost of the material to the company.

8. Efforts should be made to improve the production cycle so that quantity of semi-finished goods may effectively be controlled. By controlling semi-finished goods, availability of working fund may be enhanced at a particular time.

9. To control high value purchases a committee should be constituted comprising of competent officers from –

- Purchase Department
- Finance Department
- Research and Development Wing
- Production Department, etc.

This committee should conduct its meeting regularly in the space of 15 days so that high value components may not fall short in the company.

**SUGGESTIONS REGARDING RECOVERY OF LOANS AND ADVANCES**

Necessary measures should be adopted in the recovery of loans and advances so that liquidity may be strengthened and short – term loans may be paid promptly.

In this regard, following suggestions should be taken care of:

1. Long-term advances should be listed in a separate register.
2. For realisation of loans and advances managers should determine logical, effective and prudent future policy. For this all relevant facts such as availability of funds, recovery period and company’s policy, etc. should be considered in a rational manner.

3. For speedy recovery of loans and advances substantial measures should be adopted. For doing so a lower rate of interest may be offered for timely repayment. Similarly a higher rate of interest may be charged by way of penalty for late payment. This will enable the organisation to adjust its funds availability for other purposes.

4. Company needs to make an effort for encouragement to generate and use internal liquid sources.

**SUGGESTIONS REGARDING DEBTORS MANAGEMENT**

From the viewpoint of effective working capital management in relation to recover the amount from debtors preparation of a recovery plan is inevitable. In this regard following measures can be adopted:

1. Debtors should not be allowed a very long term credit. This will help in avoiding adverse affect on the liquidity of the organisation and bad debts will be curtailed. This means that the lenient credit facility should not be provided to all and sundry. However it can be extended to selected customers who have proved that they are good pay masters within the stipulated period of credit. This means, in general a strict and effective credit and collection policy should be implemented by the company.
2. For the purpose of making credit and collection process very effective "Accounts Receivable Department" should be established separately whose main function would be to try to recover money from debtors on time. This department can play its constructive role in the determination and compliance of sound credit policy and proper credit efforts.

3. For the purpose to reduce the quantity of stock, to increase sales and to face the intensive competition liberal credit should be provided to those new and old customers whose financial condition is sound and who pay on time.

4. Time schedule of debtors should be made for the recovery of delayed outstanding amount. With the help of this schedule legal proceedings should be initiated against those who willfully avoid payments.

5. For the information regarding correct position of the debtors all the sale depots should be instructed to send weekly and monthly schedule of debtors.

6. Credit worthiness of the customers should be ascertained before giving them credit. An independent department should be established to evaluate credit worthiness of the customers on well accepted principles.

**SUGGESTIONS REGARDING CASH MANAGEMENT**

Execution of following suggestions is necessary regarding cash management: -
1. To provide adequate working capital at any time cash availability is very significant. Informations regarding availability of cash in hand in any organisation is of great importance. Similarly an organisation should also be in a position to forecast the availability and quantum of cash at a stipulated period. For this purpose it is suggested that the company should use cash flow accounting techniques rigorously and strictly.

2. Funds should be invested in such cash equivalent securities by which a fixed income can be earned and liquidity be maintained so that in the hours of need they can easily be sold in the market and financial crisis may be averted for better cash management.

3. Necessary instructions regarding furnishing weekly and monthly statistics to the head office can be issued to all vending depots.

4. To make inflow and outflow process of cash effective concentration banking system and lock box should be used.

5. Managers should determine the optimum size of balance of cash.

6. A quick disposal of letters and documents related to sales is necessary so that the velocity of cash inflow can be increased.

7. In order to adopt forward looking approach as the base in its functions, cash section should be modernised.

**SUGGESTIONS FOR INCREASE IN SALES VOLUME**

As a rule no organisation can prosper without selling of its products and HPCL is no exception to this. Following are suggestions to increase its sales volume: -
1. Market research should be done to explore new markets for sales, customer's interest should be studied and in order to provide reasonable and necessary informations regarding the products the company should exercise segmentation at a large scale. By doing so problems of liquidity and profitability can be eradicated and funds blocked in stock may be given momentum and the financial cost shall be reduced.

2. Maximum credit facilities should be extended to those customers having goodwill, sound financial position and good and timely payment track record.

3. To come out of the circumstances of depression maximum efforts should be put to sale goods in the native and foreign markets. For this efforts should be made to improve product quality. For improving the quality of product proper attention should be given to the research and development wing of the company.

4. In order to increase sales there is a need for tireless efforts to explore new foreign markets. Efforts should be made to give a dent in such customers where other countries are selling their products by organising sales promotion campaign.

5. The company should adopt scientific method of sales forecasting to avoid accumulation of unsold stock.

**SUGGESTIONS REGARDING OVERALL WORKING CAPITAL MANAGEMENT**

To provide edge in the working capital management there is a need for some effective steps to be taken. Following are these steps: -
1. For effective and intensive use of current assets managers should make sound plans.

2. To ensure supply of necessary working capital efforts should be made to trace out low interest resources. The management should be discouraged to use secured and unsecured long term capital as working capital.

3. For the proper management of working capital technically qualified and trained employees should be employed. Those employees should not be trusted who do not have business skills and attachment towards the organisation.

4. To achieve the aim of liquidity and profitability management should invest the working capital according to the principle of equality.

5. Effective coordination should be established among the purchase, production, marketing and finance departments and the manager finance should have the sole obligation towards estimate and collection of required working capital.

6. A separate cell should be established within the finance department to look into the management of working capital and also to take prompt actions in this regard. Another object of the cell should be to keep penetrating eye on the economic environment and economic trends within and outside the organisation.

7. Fixed working capital should be obtained through long-term loans and needs of short-term working capital should be fulfilled
through short-term loans. Supply of whole working capital through short-term loan or credit is not in the interest of the organisation. Organisation should learn to face financial difficulties with its internal resources.

8. The government should formulate its price policy friendly towards the industry. The government should allow competitive rates to these companies on the basis of international pricing. To subsidize various products like petrol, diesel, LPG, etc. does not serve any purpose and draw these company's profitability in down tone. On the export front the pricing policy of these products should be formulated according to international environment, however, this is true that these organisations have a very meagre share on the export front.

9. Units of private sector and public sector should together explore new foreign markets under a coordinated plan. This task can speed up with government support.

**OTHER SUGGESTIONS**

To sort out the complexed problems of working capital management besides above suggestions some other suggestions will also prove useful. Some of these are as under:

1. Effective, powerful and quick information system should be used in the enterprise.

2. Reports should be prepared for continuous infrastructural development.
3. For all-around development, full capacity utilisation should be achieved.

4. Efforts should be made for cost reduction.

5. Monetary and non-monetary incentive plans should be implemented.

6. A modern and scientific workshop should be established for repair and renovation of machines used in the production process. Efforts should be made to use outside agencies for this purpose only under the conditions when the internal workshop is unable to repair the components.

7. Modern techniques like marginal cost, break-even point, standard costing and budgetary control should be adopted more effectively. This will help in effective cost analysis and cost control.

Above suggestions are very significant to make Hindustan Petroleum Corporation Limited more vigilant in the social aspect and to make it more profitable and solvent from business viewpoint. Managers of HPCL should accept their social responsibilities. Effective management of working capital will bring new life and new consciousness in the composition and work system of HPCL and it will prove helpful in solving its financial problems.