Chapter-II
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RESEARCH STRUCTURE

(1) OBJECT OF THE STUDY

Working capital management is a significant facet of financial management. Financial managers spend a great deal of time on working capital management. Working capital policy is concerned with two important factors, viz. the level of current assets to be held and the type of assets and the methods by which these assets are financed. This takes much of the financial manager’s time in making decisions. A company’s profitability is in one way determined by the management of its working capital. When there is variation of working capital to sales without corresponding changes in its production, the profits are affected. When the flow of funds caused by the changes in the working capital generated by various process in the business is interrupted, the working capital turnover decreases as well as the return on investment. As the small business have only limited access to long term capital, they have to necessarily rely upon short term credit, trade credit and short term bank loans which affect the working capital by increasing the current liabilities.

The very object of this study may be sum up as under:

1. Evaluation of working capital of HPCL through observation, testing, analysis and interpretation.

2. Study of profit earning capacity of the company.
3. To inform the financial institutions and creditors about the financial soundness and protection of their investment in the company.

4. Analysis of the selling policy.

5. To find out financial resources for purchasing of raw material and its conversion into finished goods and also to study the overall picture of financial resources.

6. To undertake a study of the financial statements of Hindustan Petroleum Corporation Limited (HPCL).

7. To know about the financial self sufficiency of the company.

8. To access the need of fund investment in current assets.

9. To study planning and control of working capital.

10. To give suggestions for the betterment of the working capital management of HPCL.

(2) RESEARCH METHODOLOGY

Every research conducted scientifically has a specified framework for collection and analysis of data in a manner that aims at combining relevance of the research purpose with economy in procedure. This framework is called research design. Research design involves five steps:

1. Deciding the approach to be used in the design.
2. Deciding the data needed.
3. Identifying probable sources of data.
4. Deciding how the data should be gathered.
5. Anticipating the results, their interpretation and presentation.

In view of the main objective of this study, to look in the financial statements of Hindustan Petroleum Corporation Limited, an exploratory research design was followed for this study. Since an exploratory study largely interprets already available information, it makes use of the secondary data and the emphasis is on available information. Hence, no formal design can be established. As such, the imagination of the research is the key factor in such cases.

Various reference books have been considered to review the theoretical aspects of the research. For the practical aspect of the study published financial statements of Hindustan Petroleum Corporation Limited are used. For matters related to policy determination correspondence with Hindustan Petroleum Corporation Limited was carried out. Analysis and interpretation of numerical facts have been made on the basis of ratio, trend technique and other related techniques.

A questionnaire was issued to Hindustan Petroleum Corporation Limited to supply data regarding the procedures and techniques adopted by HPCL for the management and control of working capital and its various components. In addition, various officials and executives of HPCL related with finance were interviewed to supplement the information already received. This data has been analysed with view to arrive at conclusions regarding the industry practice relating to the management of working capital and its components. For performance evaluation of the management of working capital and its components financial data of the company
has been mainly processed for a period of 7 years i.e 2003 – 04 to 2009 –10.

The data for this study has been collected both from primary sources and secondary sources. Main emphasis has been on the secondary data. Primary data is quite negligible in the study because on the basis of the interview of various executives, employees, study of the records, only first hand information could be gathered. The above mentioned approaches reveal that our base has been the secondary source and not the primary source.

(3) SCOPE AND UTILITY OF THE RESEARCH

Research on financial management includes different operations like: Financial Analysis, Capital Structure, Ratio Analysis, etc. Capital structure and ratio analysis enable a company to ration the requirement of resources. Rationing of resources means optimum utilisation of different funds available for a company. Unless the resources available in a company are utilised it may be needed to find out various sources of funds and costs of capital, liquidity constraint, for a more clear understanding. As is known to everybody unless a company is able to maintain the required liquidity level for ensuring the requirements of the working capital, the company is bound to suffer from operational problems which in the long run may affect profitability. Apart from such an affect, the non-availability of working capital in time and holding of excess liquidity again affects the company’s profitability. So what is needed is to ensure the minimum or the optimum holding of the liquid assets of the company. Other areas of financial management research may
be the management of different funds, management of assets and financial market analysis, etc. Now it is known that in any company, profitability largely depends on the efficient handling of financial resources. Financial management research enables to compare the operation of different companies with the help of financial analysis. If a major portion of the working capital is invested for purchase of raw materials and inventories alone, companies will unnecessarily hold capital in excess of requirement and thereby strain their profitability. Apart from holding of raw materials and inventories which need to be controlled, companies may have the problem of excess storage costs for finished products. When more is produced without taking into cognizance the market potentialities, problem of storing finished products is faced, which occupy maximum godown space and involve a lot of costs.

Although rationing of resources is primarily a concern for the cost management function, with the help of financial management research, using different cost indicators or using different ratios, optimum resource holding can be found out and the way a company is able to hold that optimum level of resources. Management of funds and assets and analysis of the financial market are also equally important for financial management research. Management of funds requires an efficient planning of borrowing long – term, short – term and medium – term loans as per the requirements. When to borrow, how to borrow and from where to borrow is important for the company to understand in the context of different data of the company itself. The company may have some traditional way of
borrowing, like, borrowing from banks, borrowing from other financial agencies like different development banks or they may borrow by issuing debentures in the market or they may raise their capital by issuing shares, etc. All these alternatives need to be compared and analysed and the most cost effective one needs to be chosen to ensure maximum profitability.

The scope of the research has been kept restricted to an analysis of working capital of Hindustan Petroleum Corporation Limited. The analysis is based on the financial statements and annual reports of the company. Analysis of working capital directly affects the profitability and liquidity of the enterprise. The importance of the research in hand is reflected by the fact that the manner of the management of working capital determines to a very great extent the success or failure of the enterprise. Many times the reason for the failure of an enterprise is found not a blockage of the working capital but the insufficient management of working capital. This working capital is said to be the lifeblood and nerve centre of an enterprise.

In the absence of adequate supply of working capital, being the heart and soul of business, the business can hardly prosper and survive. Its proper calculation provides to the business the right amount of cash to maintain a regular flow of its operations. Just as circulation of the blood is very necessary in the human body to maintain life, the flow of working capital is very inevitable to maintain a business. Inadequacy of working capital is a symptom
and sometimes an excuse, but by no means the cause of business failure.

Analysis of working capital is therefore of paramount importance for the success of an enterprise as it involves the management and coordination of all current assets as well as all current liabilities and their inter-relationship. This research is an attempt to analyse all the aspects of working capital management of HPCL, to present useful empirical results.

(4) LIMITATIONS OF THE STUDY

The research is based on the secondary data which is based on some limitations and assumptions on which the primary data and information have been taken into account in their record. In these circumstances the research cannot said to be free from all such limitations. Records and data kept in the government offices are found to be haphazard. This very fact may also affect the study adversely.

In addition the use of the reports and returns for the purpose of analysis and interpretation are not without limitation. The financial position reflected by the annual reports is true and fair only on the last day of the accounting year, but it may not be relevant for the remaining part of the year. Hence the conclusion drawn in the research should be taken up in the light of these deficiencies of the data and information.

But despite these limitations also the study of the researcher is of the opinion that the study conducted by her presents a true and
fair picture regarding the analysis of working capital of HPCL and the conclusion drawn will be correct and purposeful.

No doubt the data of the research is based on the secondary data but likely to be as true as the primary ones collected from the primary sources.

(5) HYPOTHESIS

Formulation of hypothesis is a central step in a research and it is an indispensable tool of scientific research. A hypothesis is to ascertain what the investigator seeks to investigate. As in the case of the present study the researcher has the opinion that the efficient management of working capital raises the profitability of the enterprise. Hence the analysis of working capital of HPCL is to be made by researcher to judge whether the management of working capital in HPCL has resulted into a significant acceleration in concern’s profitability and also fulfilling the social and economic responsibility or not.

Thus researcher takes the following assumptions in the research hypothesis:

1. Working capital management is very important for the success of a business.

2. All is not well regarding the working capital management in HPCL and there is a need for its study so that ways and means may be suggested for improvement.
(6) RESEARCH DESIGN:

Research design is in fact the conceptual structure within which the research is conducted. Bernard Philips has described the research design as a "blue print for the collection, measurement and analysis of data."

To achieve the above mentioned objectives, all the major tools for comparing and analysing the financial position have been taken into consideration. The entire study has been divided into following aspects:

(i) Financing Aspect
(ii) Investment Aspects
(iii) Management of Earnings
(iv) Other Aspects

(i) FINANCING ASPECT

The first aspect 'financing' covers the raising of finances and finding out the optimal capital structure for the various units. Finances are raised through different sources, such as equity share capital, debentures, public deposits and internal accruals etc. In this aspect, the major consideration is given to the nature of the finances as to how much money is to be raised from the equity capital and how much in the shape of debt capital. This decision very much affects the net and operating profitability for the owners of the concerns.
INVESTMENT ASPECTS

The investment decision relates to the selection of assets in which funds are invested by the company. The assets selection decision of a firm is of two types. The first of these involving the long term assets is popularly known in the financial world as capital budgeting. The aspect of financial decision making with reference to current assets or short term assets is popularly designed as working capital management. Long term investment decision relates to the selection of an asset or investment proposal available in future over the life time of the project. Working capital management is an important and integral part of financial management as short term survival is a prerequisite to long term success.

MANAGEMENT OF EARNINGS

The third major aspect of the financial management is the management of earnings. Under this head, the earnings arise from various business operations. They are analysed in relation to the percentage of earning paid to equity shareholders in cash and the percentage of earning retained in business for internal finances.

OTHER ASPECTS

According to Kerlinger, "Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance."
Research may be carried out either by directly interviewing the samples or by sending questionnaire to the samples or by mere observation of the characteristic of samples.

Social science research, or to be more particular, research on commerce and management, mostly deals with qualitative variables. Unless qualitative impressions are duly quantified, research findings may not be clearly understood and may even be questioned by others as to their authenticity. Statistical techniques help the researcher to counter this problem. In fact it is being increasingly felt that understanding basic statistical norms is a prerequisite for the success of a researcher. Stuart A Rice put forth the following arguments to justify quantitative expressions of research findings:

1) It reduces individual bias to a minimum.
2) Permits verification by other investigators.
3) Reduces and at the same time makes evident the margin of error.
4) Replaces the less exact meaning of descriptive words with the precision of mathematical notation.

Data collection from secondary sources may be compiled with great ease in the form of tables. Data from secondary sources enables to define the characteristics of phenomena which the researcher again try to investigate in the
light of his own findings based on data collected from primary sources.

The problem of financial management thus involves four major decisions regarding financing, investing, management of earnings and other aspects of the concern. The financial analyst strive for an optimal combination of these four decision because they are interrelated and they should be evaluated jointly, though treated separately.