SHODHSAMHITA
शोधसंहिता

ISSN 2277-7067
UGC CARE Group 1

EVALUATION OF WORKING CAPITAL MANAGEMENT- A COMPARATIVE STUDY OF BHARAT PETROLEUM CORPORATION LTD (BPCL) & INDIAN OIL CORPORATION LTD

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Abstract- Finance serves the role of a lubricant in any organization without which there will be blockade in the normal working of the business. Such finance required for day to day working is known as working capital. Working capital management basically is about how efficiently the management manages companies` assets and liabilities that are of current nature. Management of working capital is a critical function of the management as its affects liquidity and profitability Considering the importance and relevance of managing working capital, the researcher focussed to evaluate the working capital management of Bharat Petroleum Corporation Ltd (BPCL) & Indian Oil Corporation Ltd on comparatively basis using ratio analysis and trend analysis. Secondary data was extracted from the website and data was analysed using SPSS 20. The comparative analysis using ratio analysis and trend analysis provided some valuable insights into the working capital management efficiency of the select companies. Further, some inferred suggestions were also discussed for the relevant stakeholders in the paper.

Keywords- Working Capital Management, BPCL, Indian Oil Corporation Ltd, Ratio Analysis.

1.1 Research Context

Any organization operating either on profit or non-profit basis requires adequate amount of finance for various purposes. Thus, finance serves the role of a lubricant in any organization without which there will be blockade in the normal working of the business. Such finance required for day to day working is known as working capital. One of the major reason of business failure is the inadequate amount of working capital whereas, proper management of working capital contributes to the success of a business firm. Management of working capital typically means managing those assets that have are expected to convert into cash within a year and those liabilities that are expected to be mature within a year.

1.2 Problem statement-

A firm may survive on break-even point but not on illiquidity. Having given the choice between profitability and solvency, a firm will always sacrifice profitability over solvency. But too much investment is current assets will lead the funds to remain idle up to the extent of that extra investment in current assets, hence the profitability will suffer. On the contrary, having a low level of investment in current assets will make a firm inefficient in paying bills promptly as they mature. Further it may cause possibility lead the firm to acquire funds at high interest rates. This sort of borrowing will also adversely affect the ease of the firm in acquiring the funds, making it difficult for the firm to obtain funds in future. Such an inability to pay off debts and obligations and lack of funds will eventually lead the firm towards insolvency. Therefore, proper estimation of working capital and analysis of working capital management is necessary for the business to survive in the long run. Considering the importance of management of working capital and the complications of risk and return trio the researcher focuses on analysing the working capital of the two selected companies i.e. Bharat Petroleum Corporation Ltd (BPCL) & Indian Oil Corporation Ltd.

1.3 Rationale of the Research

A business may have good strategies and plans but a poorly chalked working capital requirement or an ineffective working capital policy will spoil the game. As such proper working capital management is an important task upon which the whole business rests. It provides enough liquid assets so that the obligations can be met as when they fall due and helps the business to run the routine operations smoothly without cash obstruction. Thus, justification and significance of the study lies in the importance of working capital management.

1.4 Research Objective

- The study aimed to make a comparative assessment of working capital management of Bharat Petroleum Corporation Ltd (BPCL) & Indian Oil Corporation Ltd

2: LITERATURE REVIEW

In the words of **R.S Kulshreshtha and Kulshreshta. R. (2009),** the exact estimation of working capital need of the firm is not possible therefore it is always liquidity versus profitability issue that the firm has to solve. Therefore, the finance manager needs to be vigilant in deciding the amount of investment in current assets. But, one thing to be borne in mind is that how much a firm is willing to invest in current assets will depend upon the working capital policy of the firm.

Further, **Blinder and Maccini, (1991),** noted that because there are various reasons supporting the maintenance of investment of firm in its working capital, therefore working capital management has a considerable impact on performance of the firm and its valuation. When a company is in a position to maintain a certain balance of inventory throughout business operations, then it ensures the protection to company against price fluctuations and enables companies to reduce supply costs.

Where, in **1974, Schiff and Lieber,** added that stocking up of inventory assists the firms to better serve customers while avoiding high cost of production which results from production instabilities. Further, in **1984, Emery,** argued in his research work that investing funds in trade credit is comparatively profitable short-term investment than the investment in marketable securities. If a firm has maintained an optimum level of investment in its current assets then the firm does not fall short of cash and is secured against the bad effects of a shortage of funds **(Fazzari and Petersen, 1993).** On the contrary, **(Deloof, 2003)** mentioned in his study that more than excess of investment in working fund over the optimal level could adversely affect profit earnings, because the excess amount equivalent to the idle investment would decrease returns on one hand while on the other hand leading to an increase in the financial cost. Therefore, it can be said that managing the cash conversion cycle is a prerequisite to efficiently and effectively manage working capital of the business. Keeping in mind the significance of managing efficiently the cycle of cash conversion for businesses, **Belghitar and Khan (2013),** in their study noted that prior research identifies the fact that most businesses fails due to the cash constrains and businesses suffers from exploiting the substantial prospects of growth **(Campello et al. , 2011).** Moreover, in the year **2017, Zeidan and Shapir,** in their research work revealed that the shorter a cash conversion cycle of a firm is, the more it adds to the shareholder value. Thus, the revelation of this connection between cash conversion cycle and shareholder`s value advocates that effectual management of working capital can impact shareholder value positively or negatively.

3. RESEARCH MEYHODOLOGY

For the purpose of conducting the study, the researcher took secondary data from https://www.business-standard.com/company/b-p-c-l-2290/financials-ratios/1 to collect data of Bharat Petroleum Corporation Ltd (BPCL) & Indian Oil Corporation Ltd. The researcher analysed the data with the help of trend analysis and ratio analysis by using SPSS 20 and MS Excel 20.

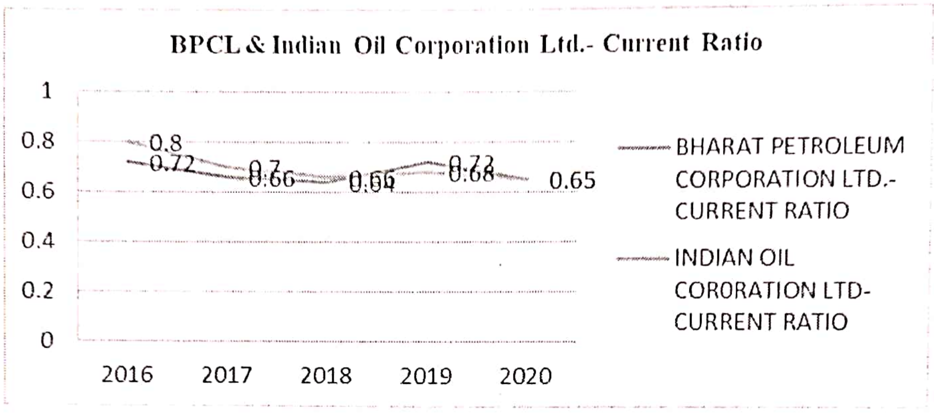
4. DATA ANALYSIS & INTERPRETATION

Trend Analysis: Analysing the trend of Current ratio, Quick ratio, Asset turnover ratio, Inventory ratio and Debtors turnover ratio of Bharat Petroleum Corporation Ltd (BPCL) & Indian Oil Corporation Ltd

ISSN 2277-7067
UGC CARE Group 1

- Current Ratio- BPCL & Indian Oil Corporation Ltd

Figure- Current Ratio- BPCL & Indian Oil Corporation Ltd

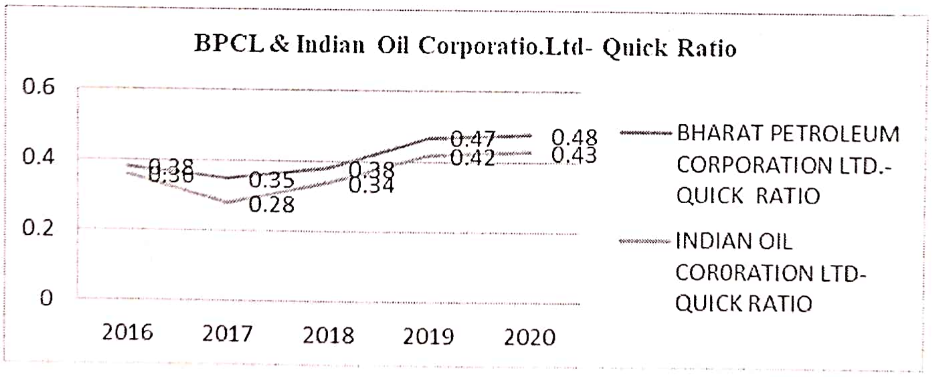


(Source of data-https://www.business-standard.com/company/b-p-c-l-2290/financials-ratios/1)

Interpretation- It can be seen from the five years trend that BPCL & Indian Oil Corporation Ltd have nearly the same pattern in its current ratio over the period of five years (2016 to 2020) with a slight difference in the years 2016 to 2018, in which the current ratio of Indian Oil Corporation Ltd was slightly higher that of BPCL

- Quick Ratio- BPCL & Indian Oil Corporation Ltd

Figure- Quick Ratio- BPCL & Indian Oil Corporation Ltd

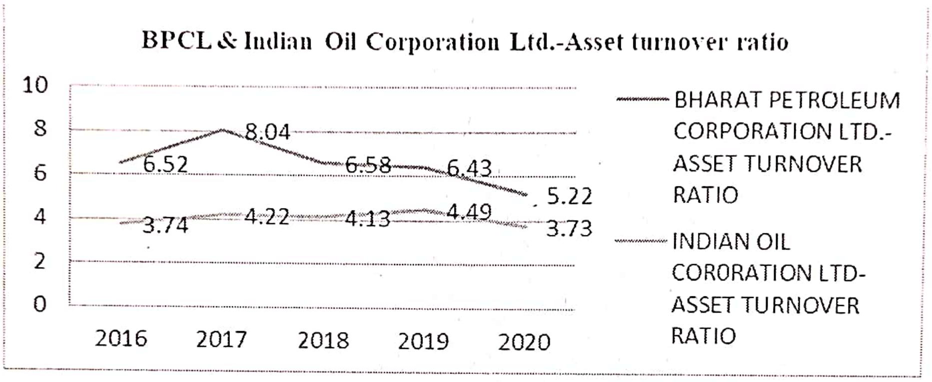


(Source of data -https://www.business-standard.com/company/b-p-c-l-2290/financials-ratios/1)

Interpretation-It can be seen from the five years trend that BPCL & Indian Oil Corporation Ltd have nearly the same pattern in its quick ratio over the period of five years (2016 to 2020. While, comparatively seeing it can be said that BPCL took the lead over Indian Oil Corporation Ltd in its quick ratio.

- Asset Turnover Ratio- BPCL & Indian Oil Corporation Ltd

Figure- Asset Turnover Ratio- BPCL & Indian Oil Corporation Ltd

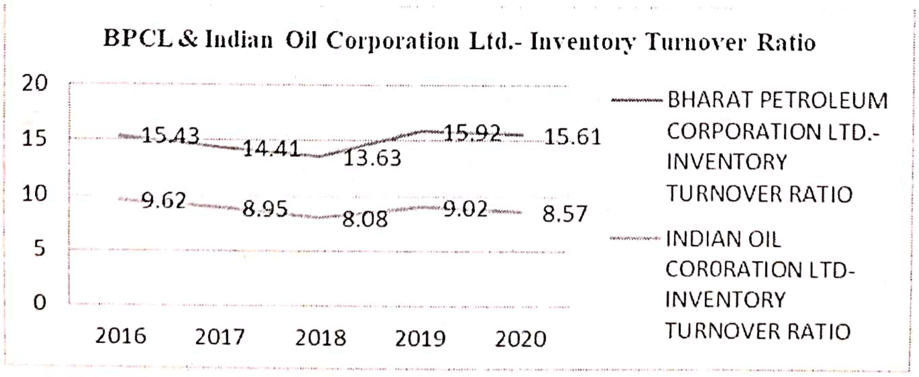


(Source of data -https://www.business-standard.com/company/b-p-c-l-2290/financials-ratios/1)

Interpretation- It can be seen from the five years trend that BPCL & Indian Oil Corporation Ltd have nearly the same pattern in its asset turnover ratio over the period of five years (2016 to 2020. While, comparatively seeing it can be said that BPCL took the lead over Indian Oil Corporation Ltd in its asset turnover ratio. BPCL reported its highest asset turnover ratio in 2017 and Indian Oil Corporation Ltd in 2019.

- Inventory Turnover Ratio- BPCL & Indian Oil Corporation Ltd

Figure- Inventory Turnover Ratio- BPCL & Indian Oil Corporation Ltd

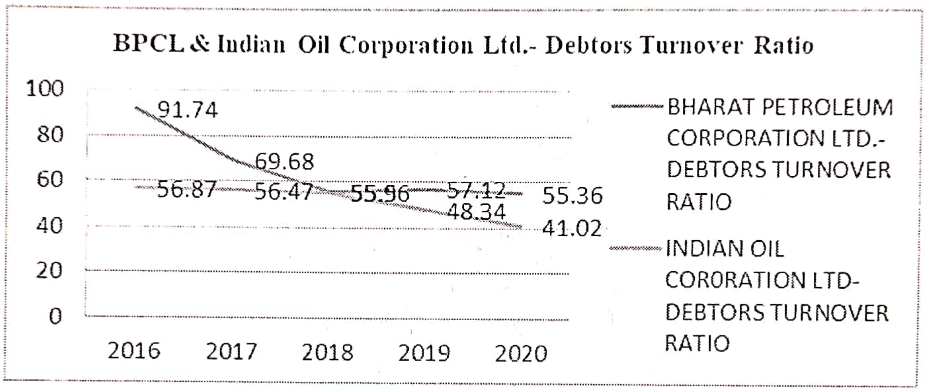


(Source of data -https://www.business-standard.com/company/b-p-c-l-2290/financials-ratios/1)

Interpretation- It can be seen from the five years trend that BPCL & Indian Oil Corporation Ltd have nearly the same pattern in its inventory turnover ratio over the period of five years (2016 to 2020. While, comparatively seeing it can be said that BPCL took the lead over Indian Oil Corporation Ltd in its inventory turnover ratio.

- Debtors Turnover Ratio- BPCL & Indian Oil Corporation Ltd

Figure- Debtors Turnover Ratio- BPCL & Indian Oil Corporation Ltd



(Source of data -https://www.business-standard.com/company/b-p-c-l-2290/financials-ratios/1)

Interpretation- It can be seen from the five years trend that BPCL & Indian Oil Corporation Ltd have high difference in the initial two years under the study. While, the debtors' turnover ratio of both the companies was approximately same in 2018, after that the ratio increased again in BPCL and decreased in Indian Oil Corporation Ltd.

5. CONCLUSION, DISCUSSION & SUGGESTIONS

5.1 Conclusion and Discussion

Managing, handling and evaluating working capital is very crucial for the survival of any business/company therefore, having understood the relevance of efficiently managing working capital in a business, the researcher made a comparative analysis of working capital management of BPCL & Indian Oil Corporation Ltd. The results of the study that revealed both companies were following almost similar pattern of its current ratio and were maintaining a low current ratio while it was just in 2016 and 2018 that Indian Oil Corporation Ltd increased its ratio. It can be said that in 2016 and 2018 BPCL was having lower liquidity state than the other company. While exploring the another liquidity ratio i.e. Quick ratio (which excludes inventories and prepayments) of the two companies, it was found that both the companies managed to improve their liquidity position and manage day to day expenses of their company after 2017 but BPCL was in a better position than & Indian Oil Corporation Ltd in dealing its working capital management.

Further, the assets turnover ratio of both the companies was seen increasing from 2016 to 2019, and it decreased in 2020 for both the companies. It can be concluded that in the years when the asset turnover ratio was increasing, the company was in a better position to utilize its assets to generate revenue. But the rate of rise in asset turnover ratio was higher in BPCL than the increase in other company. Moving ahead it was also found that BPCL was able to make higher conversion of its inventory into sales than Indian Oil Corporation Ltd.

Last but not the least on analysing the effectiveness of BPCL & Indian Oil Corporation Ltd in recovering its money due to their customers, it was found that comparatively BPCL was more efficient than Indian Oil Corporation Ltd in collecting the dues from its customers while in 2018 Indian Oil Corporation Ltd improved its debt collecting efficiency and both the companies have the same ratio. While the poor debt collecting performance in the remaining years may be attributed to company`s poor credit policies, bad collection process or due to financially unsound clients.

5.2 Suggestions-

- In order to effectively manage the working capital need of the company, both the companies need to focus on achieving higher liquidity while without hampering the profitability as idle investment in current assets will generate no benefits to the organisation.
- As Indian Oil Corporation Ltd was seen comparatively ineffective in generating more revenue from the assets and converting its assets into sales, therefore reasons of deviances from the targeted sales must be sought to improve the situation.
- BPCL needs to investigate the inventories record to further improve its liquidity position.
- The debt collecting policies and procedures need to be critically evaluated and redefined so that there is steady flow of cash into the company

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