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An Evaluation of Working Capital Management of Public Sector Enterprises (A Case Study of ONGC Limited, India)

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Abstract

The role of the Public Sector has been confined to industries which help in growth of infrastructure and of other industries. In fact, the Public Sector has assisted their expansion from Plan to Plan. The Public investor cannot be expected to put his money in such projects where no money return can be expected. The returns in the form of better health and higher education and technical skills accrue to the whole society rather than to the individual investors. The public enterprises have also helped in reducing the regional imbalances. Through a planned dispersal of new industries. The Govt. have kept in mind the claims of the relatively backward areas in locating new public enterprises. Finance is considered as life blood of business enterprise. The success and survival of any organization depends upon how efficiently it is able to raise funds as and when needed and their proper utilization. Working capital management is very important indicator for judging financial performance for every business organisation. Working capital is the capital required for day to day function of business enterprises. It required for the purchase of raw materials and for meeting day to day expenditure on salary, wages, rent etc. Every organization requires a minimum amount of money to manage its routine activities without financial bottleneck.

Keywords: Working Capital, Net Working Capital, Current Assets, Current Liabilities.

Introduction

The public sector enterprises have played an important role in financing the planned development of the country. They have much contributed to the Central Exchequer in the form of interest and various taxes. Indian Government announced its Industrial Policy in the form of a resolution in the Parliament. Independent India adopted planned economic development policies in a democratic, federal polity.

The country was facing problems like inequalities in income and low levels of employment, regional imbalances in economic development and lack of trained manpower. The Public Sector is expected to help in further development of industries of Public and strategic importance or industries, which are in the nature of Public utility services, other industries being also taken up by the Government to the extent necessary. The Public Sector has to start some of the key but difficult projects where completion periods are very long and full output can be reached only after several years of operation. The investment in public sector has also helped in reducing the concentration of economic power in private hands. The progressive expansion of the public sector means increasing the control of the economy of the country in public interest.

The investment pattern for an enterprise should be such as to be adequate to meet the needs of fixed and working capital without putting unnecessary burden on the undertaking. It should be elastic and flexible so that it can be expanded and even contracted according to the varying needs. The investment pattern considerably depends on the form of organization adopted by the enterprise. If the enterprise is organized departmentally, for instance, all its expenditure will have to be shown under the demand for grants of the controlling Ministry and will have to be voted upon by the Parliament. The public enterprises have to maintain their accounts usually on receipts and payments basis. Their accounts generally do not present a true picture of their operational efficiency. In view of these factors and the need for putting the enterprises on commercial lines, the public undertakings have been entrusted to statutory corporations or to limited Joint stock companies. Even though the boards are appointed by the government with a number of constraints and restrictions and are subjected to Government directives in regard to policy matters, the corporation as well as company form of organizations enjoy greater freedom in day-to-day financial administration. The boards are required to seek approval of the Government, Central or State as the case may be, for increasing their authorized capital, raising loans and issuing debentures. Working Capital is the Lifeblood and controlling nerve of an organization. ONGCbeing a large organization, dealing in exploration of hydrocarbons requires a large amount of funds. The complexity and high risk involved in exploration business like whole procedure of search of oil, geographical and physical conditions, day to day reduction in oil reserves and many other things tend to maintain a substantial amount of working capital. Therefore, there is a need of proper management of working capital, so that day to day operations do not strangle, at the same time there would not be any idle investment in working capital. Working capital is the capital required for day to day function of business enterprises. It required for the purchase of raw materials and for meeting day to day expenditure on salary, wages, rent etc.

Objective of the Study

1. To explain the meaning of working capital& its' types;
2. To explain different factors affecting working capital requirement;
3. Evaluate working capital position of ONGC using different ratios.

Review of Litrature

Many researchers have studied management of working capital from different views and in different environments. I have reviewed the following studieswhich were very interesting and useful for my research.

Poonam Gautam Sharma and Preet Kaur (2015) The study reveals that there is significant negative relationship between liquidity and profitability of the company and it also reveals that quick ratio, inventory turnover ratio, debtor's turnover ratio of firm shows satisfactory result and current ratio of company was found not satisfactory.

S. Pramila and K. Kumar (2016) Suggest that additional funds raised for invested Working Capital, because working capital turnover ratio is not satisfactory. Accordingly, the management may resort to effective utilization of cash and bank balances in attractive investments or to pay back in short term liabilities.

Sumathi A and Narasimhaiah T (2016). In this study, it is clear that the overall position of the working capital of Infosys is satisfactory, but there is a need for improvement in inventory. From the beginning stage of the company the working capital is not satisfactory. But now it has growing trend, a major portion of the current assets are maintained in the form of firm's stock or inventory, on the other hand other current assets are properly utilized and maintained. However, through this study it was founded that there is need for an immediate improvement in working capital and inventory. The management of Infosys must try to properly utilize the inventory and try to hold the required inventory, so that liquidity will not interrupt.

Methodology

In this research paper I have used both primary and secondary data. For primary data I have visited to different establishments of ONGC and collect information about working capital. For Secondary data is taken from Annual report of ONGC, books, internet and various research papers.In the present study, the researcher has followed the standard practice of research with standard tools of research.

Meaning of Working Capital

Working Capital tells us about the short-term financial position of the business organisation. Along with this it also measures of organisations overall efficiency. There are two concepts of computing working capital, Gross Working Capital and Net Working Capital. For computing Gross Working Capital,we just add all Current Assets and if we want to compute Net Working Capital, we will subtract the current liabilities from the current assets. Working capital ratio indicates whether the company possesses sufficient assets to cover its short-term debt.Working Capital represents the liquidity levels of the organisations for managing day-to-day expenses and covers inventory, cash in hand, cash at bank, accounts payable, accounts receivable and short-term debt that is due. Various Organisations derived Working capital from operations such as debt and inventory management, supplier payments and collection of revenues. Every organization requires a minimum amount of money to manage its day-to-day activities without financial bottleneck. This minimum amount might be different from each organization that's depends on the nature of business. For Manufacturing firms' cash is converted in to raw material, raw material become work in progress, finally become finished goods thereafter they sold their finished goods and it will become account receivables which would finally turn in to cash to the firm. Thus, we can say that a minimum amount is always in circulation with in the business. Therefore, we called working capital as circulating capital or revolving capital or liquid capitalalso. We will discuss types of working capital it in detail.

Types of Working Capital

There are two types of working capital based on the balance sheet or operating cycle view. The balance sheet view classifies working capital into net and gross working capital. Gross working capital is the total amount invested current assets of the firm is known as gross working capital. This concept is used by the management to evaluate the current working capital position and to ensure the optimum investment in individual current investment. Gross working capital is a qualitative concept. Net working capital means current assets minus current liability. In other words when we deduct current liability from current assets then we get Net Working Capital. The net concept is known as qualitative concept. It establishes a relationship between current asset and current liability. In other words, gross concept is known as financial or going concern concept, while net concept it is an accounting concept. The net may be concept suitable only for sole trader or partnership firms. But gross concept is very suitable for company form of organization.

Gross Working Capital= Total of all Current Assets;

Net working Capital = Current assets – Current Liabilities.

Factors Determining Working Capital Requirements

As we discuss earlier the requirement of working capital is depending upon various factors. Like nature and size of business, so it is very difficult to point out asingle factor which is highly responsible for working capital requirement. The importance of influence of each factor changes from time to time. However, In my opinion the following are the important factors and create influence on working capital requirement.

Nature of Business

This is most important factor of working capital requirement. If we are a trading business organisation, then there is a need of maintaining more inventories, receivables, cash& bank and the need of fixed are very less. So, we can say that everytrading concern requires more amount working capital. If we take the example of service organization, they need large number of fixed assets and the services are rendered only on cash basis. Credit is allowed only to some extent and very short period. So, we can say that the service organization requires less amount of working capital. In the case of manufacturing organisations, sizable amount of working capital is required along with a large number of fixed assets as in the form of investment. So, finally we can say that trading organisations requires more working capital and service industries requires less working capital.

Size of Business

Size of the business organisations also plays a crucial role in in working capital requirement. Normally, more amount of working capital is required if the size of business organisation is large and the scale of operation is also highand if the size of business organisation is small need of working capital is less. It has also been seen that in some cases, small business organisations need more working capital due to high overhead charges and inefficient use of available resources.

Production Policy

Production policy is the third factoreffecting working capital. If the production of the business organisation is carried on the basis of order then less amount of working capital is required. Sometimes, the production of organisation is carried on in anticipation of demand in future, in that case more amount of working capital is required. In this case ofseasonal demandmore amount of working capital is required.

Credit Policy

This is our fourth factor that affects the requirement of working capital.If any business organisation follows liberal credit policy and allows more credit sales with long period for repayment, there is a need of more amount of working capital and in other case less working capital is required.

Credit Period

Credit period also put affect on working capital requirement.Because credit period allowed by the suppliers may be either short or long. If the allowed credit period is short, there is a need of more amount of working capital andIf the allowed credit period is long, there is a need of less amount of working capital.

Manufacturing Process

It is also an important factor in requirement of working capital. The manufacturing process of any organisation may be two, three or four. We also know that the time required in each process may differ from one process to another. If the number of manufacturing process in the organisation is large and the time required for each process is short or more, there it required more amount of working capital. On the other hand, if the number of manufacturing process of any organisation is short and the time required in the process is also short, then requirement of working capital is less.

Working Capital Cycle

Working capital cycle represents to the Time required for the organisation to convert the raw materials into finished goods and up to the stage of conversion of finished goods into cash form. If in any business organisation the working capital cycle is long, there is a need of more amount of working capital otherwise it requires less amount of working capital.

Seasonal Variation

As we know some raw materials are available only in a particular season. But, the need of that raw material is throughout the year. Hence, the organisation is forced to buy the raw materials in bulk and store them for one year. If so, more amount of working capital is needed.

Business Cycle

Business cycle means periods of prosperity, recession, depression and recovery. Whenever in the organisation the demand for the product is high, prices of the products are also high during the period of prosperity. Therefore, the particular organisation requires more amount of working capital. On the other hand, if the demand for any product is low and prices of the products are also low during the period of depression. In this case every business organisation requires less amount of working capital. We also know that during the period of recession and recovery, demand for the product and price of the product are moderate. Therefore, the business organisation requires moderate amount of working capital.This is also very important factor.

Season Business

As we know thatsome products have been required only in season. In this case, more amount of working capital is required for the organisation during

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seasonable period and less amount of working capital is required for off season period.

Profile of the Company

Oil and Natural Gas Corporation (ONGC) is anIndian public sector multinational crude oil and gas company.

ONGC has registered office is in New Delhi. It is owned by the Indian Government and comes under the administrative control of the Ministry of Petroleum and Natural Gas. It is the largest oil and gas exploration and production company in the country, and produces around 70% of India's crude oil (equivalent to around 57% of the country's total demand) and around 84% of its natural gas. In November 2010, ONGC got the Maharatna statusby Government of India. In a survey for fiscal year 2019–20, ONGC was ranked as the largest profit-making PSU in Indiaby Government of India. ONGC is also involved in exploring for and exploiting hydrocarbons in 26 sedimentary basins of India, and owns and operates over 11,000 kilometres of pipelines in the country. ONGC is also ranked 7th among the Top 250 Global Energy Companies by Platts. It was actually founded by Indian Government on 14 August 1956.It is also remarkable that Its international subsidiary "ONGC Videsh" currently has projects in 17 countries. Our ONGC has also discovered 6 of the 7 commercially producing Indian Basins, over the last 50 years, adding over 7.15 billion tonnes of In-place Oil & Gas volume of hydrocarbons in Indian basins.

Evaluation of Working Capital Management of Ongc, Limited

Current Assets & Current Liabilities of ONGC, Limited. (Rs. In million)

For evaluation of working capital management of ONGC, I have used Ratio Analysis.

S.NO	PARTICULARS	2018-19	2017-18	2016-17	2015-17
1	Short Term Borrowings	21,593.57	25,592.21	0.00	0.00
	Trade Payables	8,825.00	7,334.55	5,154.80	5,126.45
	Other Current Liabilities	14,712.65	15,176.91	11,945.89	12,047.37
	Short Term Provisions	1,585.66	1,258.19	2,132.78	704.33
	TOTAL CURRENT LIABILITIES	46,716.88	49,361.86	19,233.47	17,878.15
2	Current Investments	0.00	0.00	3,634.33	3,003.24
	Inventories	7,749.17	6,688.91	6,165.32	5,625.57
	Trade Receivables	8,439.96	7,772.64	6,476.21	5,431.42
	Cash and Cash Equivalents	504.06	1,012.70	9,510.78	9,956.64
	Short Term Loans and Advances	633.93	1,402.12	1,426.95	1,027.21
	Other Current Assets	11,063.23	4,640.19	2693.70	5731.48
	TOTAL CURRENT ASSETS	28,390.35	21,516.55	29,907.28	30,773.19

Current Ratio

This ratio is an indicator of company's commitment to meet its short-term liabilities. The current ratio is the ratio of current assets and current liabilities.

Formula = Current assets/ Current liabilities

Standard ratio = 2:1

Computation Of Current Ratio

2018-19 = 28,390.35/46,716.88 = 0.61:1
2017-18 = 21,516.55/49,361.86 = 0.43:1
2016-17 = 29,907.28/19,233.47 = 1.55:1
2015-16 = 30,733.19/17,878.15 = 1.72:1

Interpretation

We can see that current ratio of all the above four years are less than standard. We also see that current ratio of 2017-18 is the lowest while current ratio of 2015-16 is the highest. So, we can say that liquidity position of ONGC is not good.

QUICK RATIO: -The quick ratio, also known as the acid-test ratio is a type of liquidityratio, which measures the ability of a company to use its near cash or quick assets to extinguish or retire its current liabilities immediately. It is defined as the ratio between quickly available or liquid assets and current liabilities.

Formula = Liquid assets/ Current liabilities

Standard ratio = 1:1

Computation of Current Ratio

2018-19 = 20,641.18/46,716.88 = 0.44:1
2017-18 = 14,827.64/49,361.86 = 0.30:1
2016-17 = 23,741.96/19,233.47 = 1.23:1
2015-16 = 25,147.62/17,878.15 = 1.41:1

Interpretation

We can see that quick ratio of 2018-19 and 2017-18 are less than 1 and quick ratio of 2015-16 and 2016-17 are more than 1. So, we can say that Quick ratio of all for years are not met the standard. Therefore, we can say that liquidity position of ONGC is not good.

Conclusion

Working Capital Management is concerned with the decision that relates to investment in the current assets, current liabilities and their interrelationship that arise between them. Effective and Efficient Working Capital Management is key component of the overall corporate strategy to create share shareholder value. The survival, growth and expansion of the company depends on the ability to meet two vital aspect of working Capital Management. Those two aspects are: profitability and liquidity. The company has to maintain an optimum level of liquid to run the business on a continuous basis without any interruption. If the liquid assets are sufficient to meet the short-term commitment then financial soundness is automatically created and its creditworthiness in the market is maintained. In this research paper we find that Liquidity position of the ONGC is not good. This is a alarming situation for the company to work on it, otherwise they will have face problems in the future.

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