An Analysis Of Working Capital And Liquidity Of Ongc Ltd With Special Reference To 2012 April To March 2017

Jibumon K.G

Assistant Professor, Department of Management Studies, MarAthanasios College for Advanced Studies, Tiruvalla, Kerala

ABSTRACT

Working capital management is the management of all current assets and current liabilities. In every firm an adequate amount of working capital is required for the uninterrupted flow of liquid cash. One of the basic duty of a financial manager to ensure the availability of working capital and liquidity of the firm because it will affect profitability. In this study I am trying to measure the performance of working capital, liquidity position and the relationship between liquidity and profitability.

Key words: Working capital, Liquidity and Profitability

1.INTRODUCTION

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. This minimum amount may be differ from each organization that's depends on the nature of business. In the case of manufacturing firms cash is converted in to raw material, raw material become work in progress, finally become finished goods. The finished goods when sold become account receivables which would finally turn in to cash to the firm. Thus, a minimum amount is always in circulation with in the business. There for working capital is also called circulating capital or revolving capital or liquid capital.

There are two concepts of working capital, gross working capital and net 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 is the excess of current assets over current liability, the net working capital equal to current assets minus current liabilities. The net concept is a qualitative concept it establish a relationship between current asset and current liability.

The gross concept is financial or going concern concept, while net concept is an accounting concept. The net may be concept suitable only for sole trader or partnership firms. But gross concept is very suitable foe company form of organization

2.ONGC

ONGC is the largest producer of crude oil and natural gas in India with Gross revenue of Rs.779, 078 (Million) in 16 FY, and contributing around 70 per cent of Indian domestic production. ONGC is India's Top Energy Company and ranks 20th among global energy major. ONGC ranks 14th in 'Oil and Gas operations' and 220th overall in Forbes Global 2000 Acclaimed for its Corporate Governance practices, Transparency International has ranked ONGC 26th among the biggest publicly traded global giants.
It is one of the most valued public enterprise in India, and one of the highest profit-making and dividend-paying. Winner of the Best Employer award, a dedicated team of over 33,927 professionals toil round the clock in challenging locations.

3.REVIEW OF THE LITERATURE

Many researchers have studied working capital from different views and in different environments. The following study was very interesting and useful for our research.

During the study they suggest that managers try to create wealth for their shareholders by minimizing the debt collection period and maximizing the account payment period and inventories turnover to a reasonable maximum. And also suggests that managers of these firms should tack more attention to manage cash conversion cycle and make strategies of efficient management of working capital**.**

B Bagchi and B Khamrui (2012). They found a strong negative relationship between the measures of working capital management with corporate profitability. They suggest that the firm should efficiently manage the working capital which will ultimately increase firm's profitability.

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

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

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.

3.METHODOLOGY OF THE STUDY

The study is fully based on secondary data like annual reports of ONGC Ltd, Companies web-site, and various issues of journals, working papers and magazines. During the study tools like ratio analysis, trend analysis and correlation analysis are used for analyzing the collected data. The study period is limited with five accounting period.

Objective of the study

1. To examine the working capital performance of ONGC Ltd
2. To evaluate the liquidity position of ONGC Ltd
3. To check the relationship between working capital and profitability

For measuring working capital performance the Working Capital Turnover Ratio indicates the velocity of the utilization of net working capital. This ratio indicates the number of times working capital is turned over in the course of the year. This ratio measures the efficiency with which the working capital is being used by a firm. A higher ratio indicates efficient utilization and a low one indicate otherwise.

Working Capital Turnover Ratio= Net sales / Average working capital (1)
For measuring liquidity position the current ratio and acid test ratio using here.
Current ratio - Current ratio measure the short term solvency of a firm, i.e., its ability to meet short term obligation, which means the quality of current assets to meet the current financial obligations. The ratio represents current assets and current liabilities. Current ratio is calculated by dividing current asset by current liability. The optimum level of current ratio is 2:1 and acceptable. A higher ratio indicates sound solvency position and low ratio indicate inadequate working capital.

Current Ratio = Current Asset / Current Liability (2)
Quick Ratio – Quick ratio is also known as Acid test ratio or Liquidity ratio. This ratio will check the relationship between quick assets and current liabilities. It is calculated by quick assets divided by current liability. An acid test ratio of 1:1 is considered satisfactory. If the ratio is less than 1:1 then the financial position shall be deemed to be unsound. If the ratio is more than 1:1 then the financial position is sound and good. Quick ratio is the true test of business solvency.

Quick ratio = Quick Asset / Current liabilities (3)
**Quick Asset = Current asset – Stock
Pearson's Correlation - For measuring the correlation between liquidity and profitability Karal Pearson's Rank Correlation
The Pearson correlation evaluates the linear relationship between two continuous variables. A relationship is linear when a change in one variable is associated with a proportional change in the other variable.
The value of correlation coefficient 'r' ranges from -1 to +1 If r = +1, then the correlation between the two variables is said to be perfect and positive If r = -1, then the correlation between the two variables is said to be perfect and negative If r = 0, then there exists no correlation between the variables.

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} \qquad \textbf{(4)}$$

Table 1: Components of Current Assets

Current Assets	2016-17	2015-16	2014-15	2013-14	2012-13
Inventory	61,653	56,256	59,635	58,825	57044
Trade receivables	64,762	54,314	135,783	81,657	68637
Cash and Bank Balances	95,108	99,566	27,601	107,989	132186
Short-term loans and advances	14,269	10,272	69,477	43,670	37021
Others	11,347	23,202	4,933	2,718	4565
Other current assets	15,591	34,113	-	-	-
Total	262730	277723	297416	294859	299453

Table 2: Components of Current Liability

Current Liability	2016-17	2015-16	2014-15	2013-14	2012-13
Shorter Borrowings	-	-	13930	-	-
Trade Payable	51548	51264	54891	63725	53410
Others	94969	95693			
Other Current Liabilities	18,361	16390	102938	119262	112227
Short Term Provision	21328	7043	19976	7811	9102
Current Tax Liability	6129	8391			

Table 3: Current Ratio

Year	Current Assets	Current Liability	Current Ratio
2016-17	262730	192335	1.55 : 1
2015-16	277723	178781	1.72 : 1
2014-15	297416	191735	1.55 : 1
2013-14	294859	190798	1.55 : 1
2012-13	299453	174739	1.72 : 1

Source annual report ONGC
The satisfactory current ratio is 2:1 but thorough out the study period the current ratio of ONGC Ltd is not satisfactory. A lower current ratio indicates the firm is not able to meet their current financial obligation.

Table 4: Liquidity Ratio

Year	Liquid Assets**	Current Liability	Liquid Ratio
2016-17	201,077	192335	1.05 : 1
2015-16	221,467	178781	1.24 : 1
2014-15	237,781	191735	1.24 : 1
2013-14	236,024	190798	1.24 : 1
2012-13	242,409	174739	1.39 : 1

Source annual report ONGC **Liquid asset = Current asset – Inventory
The acceptable liquidity ratio is 1:1. Here in this study the quick assets are more than current liabilities then the concern may be able to meet its short term obligation. Quick ratio is a more rigorous test of liquidity than current ratio.

Table 5: Trend analysis of Working Capital

2012-13	2013-14	2014-15	2015-16	2016-17	2012-13	2013-14	2014-15	2015-16	2016-17
124,714	104,061	94,232	98,942	70,395	100.00	83.44	75.56	56.45	56.45

Table 6: Working Capital Turnover Ratio

Year	Net Sales	Working Capital	Working Capital Turnover Ratio
2016-17	825714	70395	11.73 times
2015-16	834697	98942	8.44 Times
2014-15	823488	105681	7.79 Times
2013-14	834697	104061	8.02 Times
2012-13	825714	124714	6.62 Times

Source annual report ONGC
In this study the working capital turnover ratio is satisfy throughout the period and seen an increasing trend. This result indicates the firm effectively utilizing working capital.

Table 7: Cash Ratio

Year	Cash and Bank	Current Liability	Cash Ratio
2016-17	95,108	192335	0.49
2015-16	99,566	178781	0.56
2014-15	27,601	191735	0.14
2013-14	107,989	190798	0.57
2012-13	132186	174739	0.76

The ideal cash ratio is 1:2 or 0.5 or 50 percent. This ratio is less than the standard and not encouraging for the accounting year 2014-15 and 2016-17.

Table 8: Average Debtors Turnover (In days)

Year	Debtors Turnover Ratio(Days)
2016-17	28
2015-16	45
2014-15	48
2013-14	33
2012-13	30
Average Debtors Turnover	37 Days

The ratio will measure the ability to collect the receivable. Higher the ratio will indicate the efficiency of the management to handle the liquidity. Here in this study the firm can collect their receivables only after one month.

Table 9: Inventory Turn – Over Ratio

Year	Sales	Average Inventory	Inventory Turn Over Ratio
2016-17	774,864	89781.00	8.63
2015-16	771,568	86073.50	8.96
2014-15	823,428	89047.50	9.25
2013-14	834,653	147351.00	5.66
2012-13	825,672	265290.50	3.11

Table 10: Correlation

Accounting Year	Working Capital	Net Profit
2016-17	70,395	179000
2015-16	98,942	161399
2014-15	94,232	177330
2013-14	104,061	220948
2012-13	124,714	209257

r = 0.589531

Findings and suggestions

- ❖ Current ratio of ONGC Ltd during the study period is not satisfactory but liquidity ratio is satisfactory, this suggest that company invest more in inventory.
- ❖ The company should take initiate for reducing the volume inventory, this will harm the liquidity of the firm.
- ❖ There is no need for introducing additional working capital to the company.
- ❖ The cash position is only average and better to improve it.
- ❖ Try to minimize the debt collection period and improve the cash liquidity.
- ❖ During the study it is noted that there is a decreasing trend in working capital.
- ❖ The positive correlation indicate that, working capital positively influence the profitability of the firm.

REFERENCES

[1] U. K. J. Jyoti Mahato, "Impact of Working Capital Management on Profitability : Indian Telecom Sector," Imperial Journal of Interdisciplinary Research, pp. 17-23, 2016.
[2] A. Bhunia, B. Bagchi and B. Khamrui, "The Impact of Liquidity on Profitability: A Case Study of FMCG Companies in India," Modern Economy, pp. 44-58, 2013.
[3] N. Babu and G. V. Chalam, "Study on the Working Capital Management efficience in indian Leather Industry -An Empirical Analysis," International Journal of Research in Management & Technology (IJRMT), pp. 196-201, 2014.
[4] S. Premila, K. Kumar and A. Karmakar, "A Study on Steel Industries in India," International Journal of Research in Humanities, Arts and Literature, pp. 43-54, 2016.
[5] S. A and . N. T, "A Study on the Effect of Working Capital on the profitability of INFOSYS," ICTACT Journal on Management Studies, pp. 368-371, 2016.
[6] S. Bansal and . E. Arora, "Impact of Working Capital Management on Profitability With special reference to ITC Company in India," International Journal of Innovative and Emerging Research in Engineering, pp. 1-5, 2017.
[7] S. P. Gupta, Statistical Methods, New Delhi: Sultan Chand & Sons Publishers, 1981.
[8] R. K. Sharma and S. K. Gupta, Management Accounting Principles and Practice, Ludhiana: Kalyani Publishers, 2000.
[9] I. M. Pandey, Financial Management, Noida : Vikas Publishing House Ltd, 2010.
[10] P. Subramanian, Innovations in Contemporary Arena, New Delhi: New Star Publications, 2010.