



The Impact Of Working Capital Management On Profitability Of Bharat Sanchar Nigam Limited

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Abstract

Efficient management of assets plays an important role in success of any business concern. Assets of business concern may be categorized in fixed assets and current assets. Working capital mainly concerned with current assets of the firm. Management of current assets is considered as an important function of the firm because it has huge significance on liquidity and profitability of the firm. The increase or decrease in working capital directly affects the liquidity position and profitability of the firm. Thus, a firm needs to keep a optimum balance between current assets and current liabilities of the firm. The component for measuring the working capital consists the inventory turnover ratio, payable days, current ratio and quick ratio on the net operating profitability position. Other factors like fixed assets on total assets, the Debt ratio and the size of the firm have also been used for measuring of the working capital management.

Index Terms - Profitability, Liquidity, working capital Management, ratios, BSNL

1. INTRODUCTION

Working capital is regarded as heart of any business entity because it plays the same role in business as the heart plays its role in human body. The working capital requirement of firm depends upon nature of the business, size of the business, production policy of the firm, seasonal variations, credit policy offered by firm, business cycles, rate of growth of business and earning capacity of the firm etc.

Firms that provides public utility services such as railways, electricity, water supply requires very low working capital because they offers cash sales only and supply services not products whereas trading and financing firm requires high amount of working capital because of investment in current assets like cash, inventory and receivable. Large scale business requires large amount of working capital to fulfill their needs while small scale business requires relatively low amount of working capital.

In modern days, management of working capital is an important and challenging work because it involves in taking decision of level of current assets, the level of current assets can be manage by creating a relationship between liquidity and fixed profitability there is three main policy namely, conservative, moderate and aggressive, that a firm can use to make a balance between liquidity and profitability. Large amount of fund invested in current assets may have a negative impact on firm's profitability whereas a low amount of fund invested in current assets may create difficulties in maintaining day to day operations of the firm.

Profitability and liquidity are two major aspects of a business entity. Increase in profit at the cost of liquidity may leads to serious problem to the firm. There must be a balance between these two objectives of the firm. Liquidity and profitability both have their own importance so one objective should not be obtain at the cost of other. If a firm has more care about liquidity, they can not survive for a longer period if there is no profit, on the other hand if a firm has more care about profit and less about liquidity the firm may have face the problem of bankruptcy or insolvency. Because of these problems a manager of firm should give proper attention on working capital management as it affects the profitability of the firm. As a result of this consideration company can accomplish maximum profitability and maintain optimum level of liquidity because of efficient and effective management of working capital.

An important aspect of working capital management is separation of working capital between operational working capital and financial working capital. The operational working capital is a part of working capital that is used for investing in accounts receivable and inventories. Financial working capital refers to short term investment in marketable securities, prepaid and current liabilities that have

very little effects on company's operations. Every business concern requires funds for two purposes. One for its establishment and other for carrying out its day to day operations. The long term funds are required to create production facilities and purchases of various fixed Assets. Investment blocked in these types of assets is called Fixed Assets. Funds are also required for business concern for short term purposes also such as for Raw materials, payment of wages and other day to day obligations and expenses. These funds are known as working capital.

Theoretical Framework:

In general terms a company having higher amount of net working capital, is more liquid and have the less risk of becoming technically insolvent company and a company having lesser amount of net working capital have the more chances to become insolvent. There is a close relationship between risk, liquidity and net working capital because if , liquidity or net working capital increases the company risk of become insolvent automatically decreases. Another important task of a finance manager is to determine how to working capital requirement of a company is to be finance. There is two type of sources from which fund can be raised to finance current assets, generally termed as short term sources and long term sources.

Finance managers of a company who take decision on the above matter determine the financial mix of a company. Financial mix generally based on three basic approaches namely, hedging approach, conservative approach and trade off between these two approaches. Hedging approach suggests that investment in current assets for long term should be financed with long term sources of fund and seasonal and short term requirement of working capital should be financed with short term sources of fund and conservative approach of working capital advocate about all requirement of working capital should be financed with long term sources and only in emergency situation it should be financed with short term sources of fund. The trade off approach of working capital suggest that hedging approach is associated about high risk and high return while conservative approach suggest that low risk and low return, Obviously both these approaches would not serve the purpose of efficient working capital management and there should be balance between these two extreme approaches and there should be a acceptable financing mix of sources of working capital requirement.

KINDS OF WORKING CAPITAL

Working capital may be classified in two ways

On the basis of concept: On the basis of concept working capital can be classified as:

1. Gross working capital
2. Net working capital

On the basis of time: On the basis of time working capital can be classified as

1. Permanent or fixed working capital
2. Temporary or variable working capital

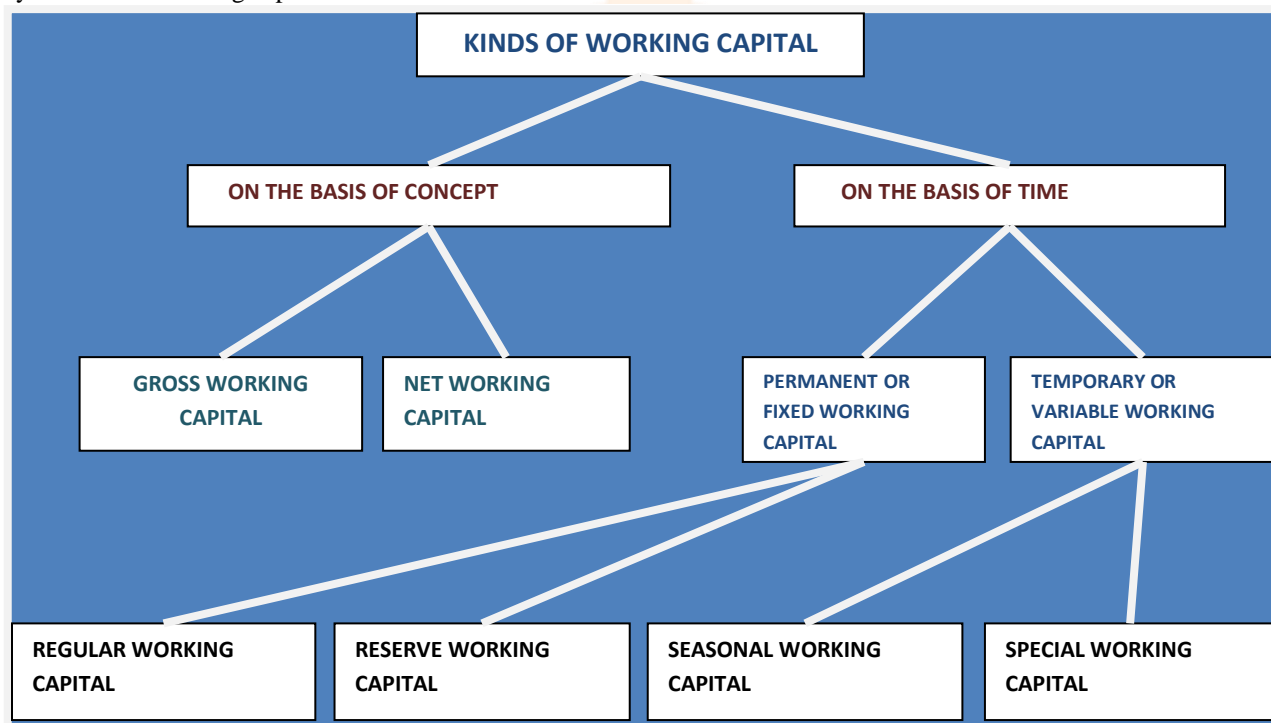


Figure.1 Types of working capital

Gross working capital: The gross working capital is capital invested in current assets of the firm which are normally converted into cash within an accounting year.

Gross working capital= Total current assets

Net working capital: Net working capital can be define as excess of current assets over current liabilities.net working capital may be positive or negative, when current assets exceeds current liabilities it is regarded as positive working capital and when current liabilities exceeds the current assets it is regarded as negative working capital.

Net working capital= current assets-current liabilities

Permanent or fixed working capital: Permanent working capital refers to the minimum fund required in firm to carry out its normal business operations. Every firm has to maintain a minimum level of raw material, work in progress, finished goods and cash in hand. This minimum amount of current assets is known as permanent working capital. Since firms have longer life and production does not stop at the end of particular accounting period some amount of firm's investment is always blocked in the form of raw material, work in progress, finished goods and cash. Permanent working capital can be further classified as regular working capital and reserve working capital. Reserve working capital is excess amount over the requirement for regular working capital. **Temporary or variable working capital:** Temporary working capital refers to the seasonal or some special requirement of working capital to meet liquidity necessities that are of a purely momentary or temporary in nature. Temporary working capital can be further classified as seasonal working capital and special working capital. Seasonal working capital required in a specific season because of increase in demand and sales and special working capital required for some special exigencies such as launching of extensive marketing campaigns.

2.Working Capital Management At Bsnl:

Bharat Sanchar Nigam Limited (abbreviated BSNL) is an Indian state-owned telecommunications company headquartered in New Delhi, India. It was incorporated on 15 September 2000 and took over the business of providing of telecom services and network management from the erstwhile Central Government Departments of Telecom Services (DTS) and Telecom Operations (DTO), with effect from 1 October 2000 on a going concern basis. It is the largest provider of fixed telephony, largest wired broadband services provider with more than 60% Market share, and fifth largest mobile telephony provider in India. However, in recent years the company's revenues and market share have plummeted into heavy losses due to intense competition in the Indian telecommunications sector.

Bsnl has authorized equity capital of Rs.10000 crore and paid equity share capital of Rs 5000 crore with net worth of Rs 45418 crore. In 2015-16 company has current assets of Rs 1968 crore and current liabilities of Rs. 7074 crore. Currently total 211086 employees are working in company, out of which 44906 are executive and 166180 are working as non executive.

3.Review Of Literature:

A survey of literature plays an important role in establishing the back drop for any research work. It provides views through which the topic has been discussed and analyzed. It also provides some lacking or missing link about which previous works either remain silent or provide less information. A brief description of some literature survey is being presented:-

Anand and Gupta (2002) analyzed working capital management performance of Corporate India by using three financial parameters- Cash Conversion Efficiency, Days Operating Cycle and Days Working Capital and by assigning them different weights in the overall score, to rank and analyze working capital management performance. This study provides the estimates by using data of 427 companies over the period 1998-99 to 2000- 01 for each company and for each industry.

Pradeep (2008) attempted to analyze the size and composition of working capital. It also tries to examine as to what proportion of current assets has been financed by long term sources. The study tries to evaluate the effect of size of inventory and impact of working capital through inventory ratios, working capital ratios, and trends, computation of inventory and working capital, and liquidity ranking. It was found that the size of inventory directly affects working capital and its management. Size of inventory and working capital management of Indian Farmers and Fertilizer Cooperative Limited is properly managed and controlled as compared to National Fertilizers Ltd (NFL).

Sumaira Tufail (2012) has mentioned in her study that Working capital can be considered as source of existence for a financial body and management of working capital is regarded as one of the most essential part of business management. Results of her study show that aggressiveness of working capital management policies is negatively associated with profitability. Moreover liquidity and size of the firm have positive relation profitability whereas debt to equity ratio is negatively correlated with profitability.

Dr. B Vijayalakshmi (2013) has mentioned that the financial health of all select Telecom companies in India i.e. BSNL, Airtel and R-Com have been poor. In spite of having a well established infrastructural capacity, the public sector giant BSNL is still suffering to cope-

up with the competition from private network operators like Airtel, R-Com etc. further she has suggested that all the Telecom companies in India should take innovative steps for the survival and betterment of financial health.

Daniel Mogaka (2013) has mentioned in his study that Working capital management plays a significant role in improved profitability of firms. He further mentioned that firms can achieve optimal management of working capital by making the trade-off between profitability and liquidity.

Turan M. S., Bamal Sucheta, Vashist Babita and Turan Nidhi (2013): Analyzed the relationship between working capital management and profitability by comparing two inter sector manufacturing industries i.e. chemical industries and pharmaceutical industries. On the basis of market capitalization 50 companies and 500 indices were selected from BSE for the research for the duration from 2002 to 2011. result of the study has been observed that despite similar nature of both the industries, working capital variable affects profitability of chemical industries more strongly than profitability of pharmaceutical industries.

4. Statement Of The Problem:

Management of working capital in a firm is important for the following reasons. A certain amount of investment is to be invested in firm's current assets.

1. Current assets in a firm quickly change with the variations in sales and
2. Management of working capital in a firm has a huge impact on profitability of the firm.

Hence, This study has been conducted to find out the effect of the size and rising of working capital and to find out whether such investment has increase or decrease over a period of time.

It is a very important task of a financial manager to choose sources of finance to fulfill the requirement of working capital of the firm so that firm can maximize its profits.

5.Objectives Of The Study :

To study the significance of working capital management and analyse the relationship between working capital and profit of the company.

To study the impact of different component of working capital on profits of the firm.

To provide some suggestions for improvement of earning on the basis of findings of the study.

6. Research Methodology:

This study has been conducted on financial data of Bharat Sanchar Nigam Limited from the year 2017-18 to 2021-22.

6.1 Collection Of Data:

This study is based on the secondary data collected from bharat Sanchar Nigam Limited's Annual Report, Balance Sheet, Financial Ratios and various other financial statements. Data is also collected from different websites, journals, magazines etc.

6.2 Data Processing:

Data has been classified into tables and analysis has been conducted based on the classification of data. An interpretation was drawn on the effect of working capital on profitability of the firm and analysis of ratio and z score test has been applied.

7. STATEMENT OF CHANGES IN WORKING CAPITAL OF BHARAT SANCHAR NIGAM LTD

Table:1 working capital changes

| Changes in BSNL'S Current Assets and Current Liabilities (In Lakh of Rs.) | | | | | |
|---|----------------|-------------|-------------|-------------|-------------|
| Particulars | Financial year | | | | |
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
| Stock | 21241 | 81310 | 140813 | 179583 | 124041 |
| Accounts Receivables | 392538 | 486057 | 502219 | 386939 | 401522 |
| Cash and Bank balance | 75920 | 75027 | 237219 | 438822 | 300748 |
| Short term loans and advances | 20224 | 20099 | 47 | 30 | 29 |
| Other current assets | 1161088 | 1259664 | 2805663 | 1969062 | 1987143 |
| Total Current Assets(A) | 1671011 | 1922157 | 3685961 | 2974436 | 2813483 |
| Short term borrowings | 30910 | 318634 | 212647 | 774406 | 1716050 |
| Trade payables | 782989 | 1293480 | 1467447 | 1147724 | 903769 |
| Other current liabilities | 1505055 | 2087618 | 3919338 | 2391731 | 2241682 |
| Short term provisions | 1157 | 2936 | 29803 | 41258 | 84751 |
| Total Current Liabilities(B) | 2320111 | 3702668 | 5629235 | 4355119 | 4946252 |
| Working capital(A)-(B) | (649,100) | (1,780,511) | (1,943,274) | (1,380,683) | (2,132,769) |

Sources:Annual Reports Of BSNL

Bsnl's working capital for the year 2017-18 was Rs. -649100 lakh and in the following next year it has been decreased upto Rs. -17800511lakh but in year 2020-21 it stood at -1380683 and has a sharp decreasing in year 2021-22.

Hence BSNL has very high degree of volatility in working capital structure.

7.1 WORKING CAPITAL INVESTMENT EFFICIENCY TEST :

7.1.1 Liquidity test:

The financial stability of a company can be tested in many ways. The liquid test ratio are used to measure the short term solvency of the firm and shows the capability of the firm to meet its fund requirement whenever they become due.

Liquidity Test

Table:2 Liquidity Ratios

| YEAR | Current Assets | Quick Assets | Current Liabilities | Current Ratio | Quick Ratio |
|---------|----------------|--------------|---------------------|---------------|-------------|
| 2017-18 | 1671011 | 1649770 | 2320111 | 0.72 | 0.71 |
| 2018-19 | 1922157 | 1840847 | 3702668 | 0.52 | 0.50 |
| 2019-20 | 3685961 | 3545148 | 5629235 | 0.65 | 0.63 |
| 2020-21 | 2974436 | 2794853 | 4355119 | 0.68 | 0.64 |
| 2021-22 | 2813483 | 2689442 | 4946252 | 0.57 | 0.54 |

Sources:Annual Reports Of BSNL

The liquidity position of the company is not in a good position because as shown in the above table current ratio of the company is far away than standard of 2:1.

Quick ratio also shows the bad position of the company regarding liquidity because it is far away than standard of 1:1.

Thus, there should be a better management of working capital by the company so that firm can meet short term obligations and day to day expenses.

7.1.2 Solvency Test: While searching best ratio for solvency, Edward altman has find out a new technique in the late 1960s that consider the five key ratio combined into a single score called z-score.

The Altman's z-score consists of five performance ratios that are combined into a single score that determine both financial as well as operating problems of the firm.

These five ratios are weighted using the following formula:

$$Z\text{-score} = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E$$

Where,

A= Working capital/Total assets

B= Retained earnings/Total assets

C= Earnings before interest and Taxes/Total assets

D= Capital fund/Total liabilities

E= Sales/Total assets

While analyzing the Z-score of a company, the lower value shows the company is headed toward bankruptcy.

Table:3 Altman's Z-score calculation for Bharat Sanchar Nigam Limited:

| Financial Data(In lakh of Rs.) | YEARS | | | | |
|--------------------------------|----------|----------|----------|----------|----------|
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
| Working capital | -649100 | -1780511 | -1943274 | -1380683 | -2132769 |
| Total assets | 11608772 | 13678014 | 14676081 | 13284531 | 12639530 |
| EBIT | -868985 | -1412258 | -1350842 | -487405 | -436383 |
| Total liabilities | 4312541 | 6204580 | 8761816 | 8115569 | 8169884 |
| Capital fund | 8967242 | 7473434 | 5914265 | 5168962 | 4469645 |
| Net Sales | 2507064 | 1932067 | 1890656 | 1864559 | 1905259 |

Sources:Annual Reports Of BSNL

Table:4 Z-score ratios

| Z-score ratios | YEARS | | | | | |
|---------------------------------|---------|---------|---------|---------|---------|-------------------|
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | Z-score weighting |
| Working capital/Total assets | -0.056 | -0.130 | -0.132 | -0.104 | -0.169 | 1.2 |
| Retained Earnings/ Total assets | -0.075 | -0.103 | -0.092 | -0.037 | -0.035 | 1.4 |
| EBIT/ Total assets | -0.075 | -0.103 | -0.092 | -0.037 | -0.035 | 3.3 |
| Capital fund/Total liabilities | 2.079 | 1.205 | 0.675 | 0.637 | 0.547 | 0.6 |
| Net sales/Total assets | 0.216 | 0.141 | 0.129 | 0.140 | 0.151 | 1 |
| Z-score | 1.045 | 0.222 | -0.058 | 0.225 | 0.114 | |

From the above table it can be conclude that company does not have healthy position at any point of time under this study.

In the financial year 2017-18 company have Z-score of 1.045 that is decrease in the following year upto 0.222 in the year 2018-19 and in 2019-20 again fall the level of -0.058 but in the financial year 2020-21 it stood at 0.222 that implies the recovery from the financial crisis and effective turn around strategies but it's not a progress.

As per Altman if Z-score of a company is below 1.8 it is headed for bankruptcy.

8.FINDINGS AND SUGGESTIONS:

On the basis of above study it has been observed that firm can increase the financial performance of the company by effective and efficient management of working capital. In this study it has been observed that at any point of time working capital of the company is not in a good position. Hence it is suggested that maintaining the working capital should be done at an optimum level and it helps the company to maintain its current assets and current liabilities in a better way so that company can become a profitable from a loss making company.

CONCLUSION:

From the above study, It is clear that overall position of working capital of Bharat Sanchar Nigam Limited is not satisfactory, but there is need for improvement in collection period and effective management of other current assets because the major portion of current assets are maintained in the form of inventory and trade receivable.

The firms solvency position mainly depend on the size of inventory maintained but other factors such as trade receivable, loans and advances, cash and bank balance etc are also affects the position of the company.

However, from this study it was observed that there is urgent need for effective management of working capital and inventory. The Top management of Bharat sanchar nigam limited must try to give proper attention on management of current assets so that an optimum level of working capital can be maintained for smooth functioning of the business.

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