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# A Study on Analysis of Working Capital Management with Special Reference to BHEL, Visakhapatnam

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## ABSTRACT

*This current study focuses on the working capital management of Bharat Heavy Electricals Limited (BHEL) leading company in the heavy electrical industry in India, which is located in Visakhapatnam. Working capital management has become one of the most important aspects of financial statements in any business entity, and the BHEL company follows rules and regulations to ensure future solvency and maintain a balance between current assets and liabilities. Working capital management plays a significant role in the better performance of manufacturing firms. Therefore, excess working capital causes no profit, and the shortage of working capital results in a low rate of return on investment and leads to bankruptcy this paper used to know how working capital influence the company performance, and determine how to set working capital ideally. To understand better how to manage working capital and to get how well working capital help business for smooth performance and productivity of activities, to identify the debtor, creditor, inventory, and working capital turnover ratios over the last five years, and finally to make recommendations and suggestions for better working capital management in BHEL.*

**Keywords:** Working Capital Management, BHEL, Inventory, Visakhapatnam.

## I. INTRODUCTION

"Working Capital is the Life-Blood and Controlling Nerve Centre of a Business." Working capital is one of the most important aspects of a financial statement and it is necessary to run the typical operations of an entity every day. By studying different sources, it seems that the previous focus of financial management was on long-term financial decisions. Working capital management, which is involved with short-term financial decisions, appears to have received little attention in the finance literature. Working capital funds are considered a company's

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lifeblood. A company can exist and survive without making a profit, but it cannot exist and survive without a working capital fund. A business that is not making a profit is said to be sick. A lack of working capital can lead to bankruptcy and closure over time.(Hrishikes Bhattacharya, 2021)

Working capital management is concerned with the problems that arise while attempting to manage current assets, current liabilities, and the interrelationship that exists between them. The term "current assets" refers to those assets that in the ordinary course of business can or will be converted into cash within one year without depreciation and without disrupting the firm's operations. marketable securities Cash accounts receivable, and inventory is the most important current assets. Current liabilities are those liabilities that are expected to be paid in the ordinary course of business, within a year, from the company's current assets or earnings. Bank overdrafts, accounts payable, outstanding expenses, bills payable, and other short-term liabilities are the most basic current liabilities.

In the current study, the focus is on Bharat Heavy Electricals Limited (BHEL), which is a government-owned engineering and manufacturing company headquartered in New Delhi, India. It is owned by the government of India's Ministry of Heavy Industries. BHEL, which was established in 1956, is India's largest manufacturer of power generation equipment.

BHEL manufactures transmission equipment and electric power generation. Under one roof, the industry manufactures power generation equipment. Existing technology should be upgraded by this industry, but it is now able to accept turnkey contracts for export markets. In India, the performance of the power sector and the development of Indian heavy electrical machinery are inextricably linked. The improvement of power supply is critical to the growth of the industry. If the emphasis on capacity expansion in the power sector grows, so will the heavy electrical machinery manufacturing industry.(Manimekalai & Surulivel, 2017)

Working capital is a modern view: "The newer view is that working capital is undesirable because it constitutes a drag on financial performance." Current assets that do not contribute to ROE hinder the performance of the company and hide obsolete inventory that may not be saleable, receivables that may not be collectible, and other problems. The emphasis is now on reducing current asset accounts to the point where current liabilities can be funded from the ongoing operations of the business. That is, cash collected from sales is used to pay for payables and payroll with the minimum in idle current asset accounts" (James S, 2010).

#### **(A) Need of the study**

Every business concern, irrespective of its size, nature, or age, requires funds to carry out business operations such as procuring raw materials, paying wages, and other day-to-day expenses. Working capital is the lifeblood and nerve centre of a business because no business can function successfully without it. As a result, managing working capital in any industry is a difficult task. Working capital management makes an important contribution to the smooth operation of the net operating cycle, also understood as the cash conversion cycle (CCC)—the time needed to convert net current assets and liabilities into cash.

Working capital management, or the efficient use of a company's resources, can improve cash flow management and earnings quality. Working capital management encompasses inventory management, accounts receivable management, and accounts payable management.

Following its commissioning and beginning, the plant has been continuously updating its technologies through collaborations with renowned multinational companies such as Air Liquide, BSL, Delas, HCG, Alstom, and others. Thus, for better day-to-day coverage of operation expenses, it is necessary to manage working capital in a better manner.

The purpose of working capital management is to maintain a suitable amount of working capital through managing the firm's current assets and current liabilities. To ensure an adequate margin of safety, current assets should be high enough to meet current liabilities.

### **(B) Objectives of the study**

This study has been undertaken to assess the financial efficiency of the organization by establishing the following objectives:

- To study the working capital management of the BHEL company.
- To understand how working capital is being managed.
- To assess the company's financial position and short- and long-term solvency.
- To assess the performance of the BHEL company using financial statement analysis.
- To give suggestions and recommendations for improving BHEL's working capital management.

### **(C) Research methodology**

The research methodology is used to obtain accurate information about the company. This study is based on secondary data. The required data related to Working Capital has been collected from the company's annual report and balance sheet. The annual report includes the company's balance sheet and profit and loss statement. To ascertain the BHEL company's

working capital management. The present study considers 6 years of data starting from 2014 to 2020.

#### **(D) Limitations of the study**

Every study has its own set of constraints and this study focuses solely on financial data. So, the limitations of the study are as follow:

- 1) The major limitation of the project is the time restriction. So, the complete analysis of the organization cannot be done within a short span of time.
- 2) Since it is entirely based on secondary data, it was impossible to obtain 100% accurate information.
- 3) It is collected from magazines and books, the reports of which may not be completely accurate due to the nature of the subject matter.
- 4) The study was conducted using information obtained from financial and its related departments and published annual reports.
- 5) Due to the restrictions in the policy of the company some of the information is not revealed.

#### **(E) Literature review**

The literature vastly documents that there's a relationship Between working capital management and a firm's efficiency, profitability.(Ganesan, 2007), examines the working capital management efficiency of firms from the telecommunication equipment industry, by using correlation and regression analyses. ANOVA analysis is also done and taken a sample of 443 annual financial statements of 349 telecommunication equipment companies covering the period 2001-2007, the study found evidence that even though "days working capital" is negatively related to the profitability, it is not significantly impacting the profitability of firms in the telecommunication equipment industry.

(Raheman & Nasr, 2007), investigate the Working Capital Management and Profitability – Case of Pakistani Firms. The findings indicate that there is a strong inverse relationship between working capital management variables and firm profitability. It means that as the cash conversion cycle improves, the firm's profitability decreases, and managers can create positive value for shareholders by reducing the cash conversion cycle to a bare minimum. We discover a significant inverse relationship between liquidity and profitability.

(Baños-Caballero et al., 2010), analyses the working capital management in SMEs that determines the Cash Conversion Cycle (CCC) for small and medium-sized businesses. The findings show that it takes longer for older firms, and firms with higher cash flows. Firms with

more growth opportunities, as well as higher leverage, fixed asset investment, and return on assets, have a more aggressive working capital policy.

(Hagberg & Johansson, 2014), examines the relationship between working capital management (WCM) and revenue growth in 36 Swedish companies from the IT and telecommunications, wholesale, and manufacturing industries. The findings indicate that there is currently a general gap between perceived and actual performance in terms of WCM and its effects on revenue growth. The companies polled believe there is no trade-off between WCM and revenue growth. However, actual performance in the studied industries shows that increases in revenues are frequently unjustifiable in relation to increases in net working capital (NWC).

(Gonçalves et al., 2018), evaluate the impact of working capital management on firm profitability in different business cycles: evidence from the United Kingdom by using a sample of 400 UK unlisted companies during the period between 2006 and 2014. findings indicate that there is a statistically significant relationship between working capital management and firm profitability, implying that active working capital management should be included in firm financial planning.

(Nguyen et al., 2020) examines the impact of working capital management on firm profitability. The research sample consists of 119 non-financial listed companies on the Vietnam stock exchange. To address econometric issues and improve the accuracy of the regression coefficients, two statistical approaches are used: ordinary least squares (OLS) and fixed effects model (FEM). The empirical findings show that working capital management has a negative and significant impact on profitability.

Most empirical studies conducted in the past used a multi regression, OLS, and fixed effects model to investigate the working capital management of firms.

## **RESOURCES**

### **PRODUCTION FACILITIES**

Factory Area	:	197 Acres
Total Covered Area	:	90,000 sq. Meters
Covered area of Production Shops	:	56,000 sq. Meters
Power Requirement	:	3,000 KW from APSEB
No. of Ancillary Units	:	Around a Dozen

## II. MEANING AND DEFINITION OF WORKING CAPITAL

### (A) Definition

- “Working capital management is the process of planning and controlling the level and mix of the current asset of the firm as well as financing these assets”(Bhalla, 2014).
- Working capital is the arithmetic difference between two balance sheet-aggregated accounts: current assets and current liabilities(James S, 2010).
- “Working capital. As the name suggests is a capital required to work or more accurately, to run the business, which is used in its day-to-day operation”(Singh, 2021).

### (B) Meaning

“Working capital management is the discipline of management with pervades all walks of economic life whether, in a household or in an enterprise, in the public domain or in the private domain, in manufacturing or in service. In the absence of working capital, management economic activities shall come to a halt” (Manimekalai & Surulivel, 2017). The funds invested in current assets, such as stocks, various debtors, cash, and other current assets, are referred to as working capital. Current assets are needed to make profitable utilization of fixed assets. A machine, for example, cannot function without raw materials.

### Formula:

$$\text{Net Working Capital} = \text{Current Asset} - \text{Current Liabilities}$$

Figure 1. Formula of working capital

### Working capital statement for a period of five years from the year (2014-15 to 2019-20)

Table 1. WC statement period of five years

(Rs. In lakhs<sup>3</sup>)

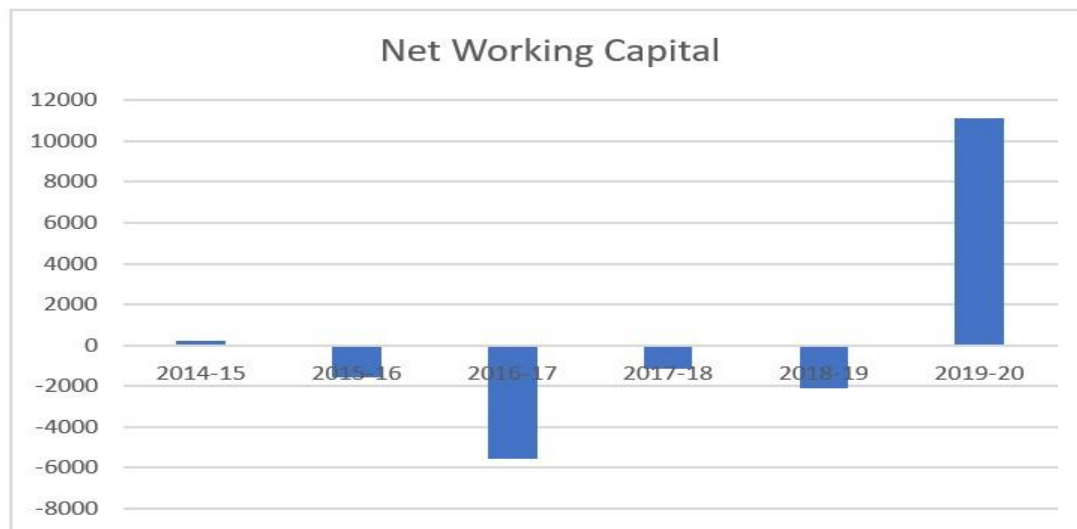
Particular	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
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<sup>3</sup> A lakh or lac is a unit in the numbering system equal to one hundred thousand

<b>(A) Current assets</b>						
<b>Inventory</b>	14052.32	12853.90	9492.43	8846.93	11193.32	8201
<b>Sundry debtors</b>	4583.92	3633.45	5117.90	3496.7	4428.77	4216.05
<b>Cash &amp; bank balance</b>	241.35	227.75	216.52	205.03	191.78	188.19
<b>Loans &amp; advances</b>	81.82	12.82	10.25	19.38	18.06	28.56
<b>Other current asset</b>	10754.28	5143.18	4571.91	1994.46	2750.36	2825.55
<b>TOTAL(A)</b>	<b>29713.69</b>	<b>21871.1</b>	<b>19409.01</b>	<b>14562.5</b>	<b>18582.29</b>	<b>15459.35</b>
<b>(B) Current liabilities</b>						
<b>Sundry creditors</b>	7150.89	10985.11	7124.27	5975.71	6205.79	6917.22
<b>Other liabilities</b>	6964.10	10042.00	11077.80	9670.31	9198.07	4627.13
<b>Advance from customers</b>	-	-	-	-	-	-
<b>Provisions</b>	4497.62	2931.52	2347.78	4485.90	4773.17	3674.41
<b>TOTAL(B)</b>	<b>18612.61</b>	<b>23958.63</b>	<b>20549.85</b>	<b>20131.92</b>	<b>20177.03</b>	<b>15218.76</b>
<b>NET WORKING CAPITAL(A-B)</b>	11101.08	-2087.53	-1140.84	-5569.42	-1594.74	204.59

**Figure 2. Chart statement of Net Working Capital**





### Interpretation:

From table 4.1 working capital statement we can observe that during the 5-year period, the working capital position of BHEL (HPVP) is very low. That the networking capital has become negative over the years i.e., 204.59 in 2014-15, -1594.74 in 2015-16, -5569.42 in 2016-17, -1140.84 in 2017-18, and -2087.53 in 2018-19, the reason for the decline is merging with BHEL. In the year 2019-20 a positive working capital is observed i.e., 11101.08 as the first positive value after 2014-15. The negative values in net working capital show that the firm is not in a position to maintain its current assets and current liabilities.

### III. WORKING CAPITAL TURNOVER RATIO (WCTR)

This ratio represents the rate of utilization of net working capital. It denotes the number of times working capital is turned over in a given year.

$$\text{WCTR} = \frac{\text{Turnover}}{\text{Working Capital}}$$

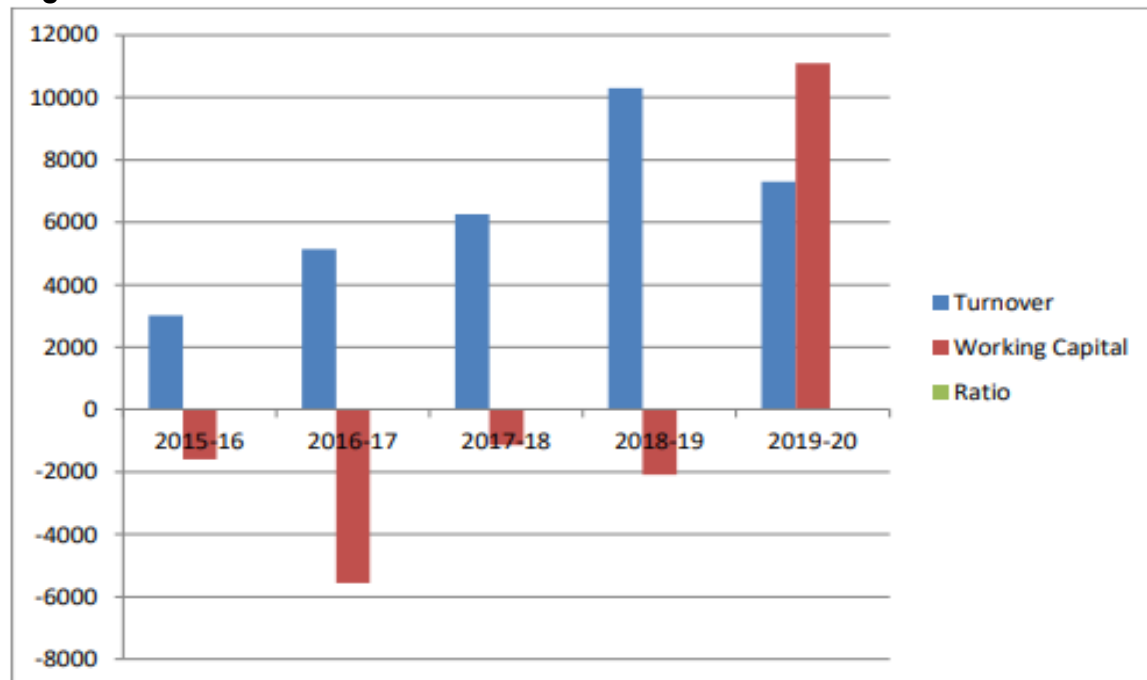
**Table 2. Statement of WC Turnover ratio**

Rs lakhs

Year	Turnover	Working capital	Ratio
2015-16	3012.47	-1594.74	-4.71
2016-17	5145.41	-5569.42	-1.83

<b>2017-18</b>	6265.30	-1140.84	-12.09
<b>2018-19</b>	10291.65	-2087.53	-9.00
<b>2019-20</b>	7300.83	11101.08	1.34

**Figure 3. Chart statement of WC turnover ratio**



Source: Secondary data collected using MS-Excel 2019

### Interpretation:

From the chart and Table, 4.7 statement of working capital turnover ratio a higher W.C. turnover ratio indicates the efficient management of working capital. The W.C.T.R. is -4.71 in 2015-16 and -1.83 in 2016-17 and -12.09 in 2017-18, -9.00 in 2018-19 and 1.34 in 2019-20. The WORKING CAPITAL TURN OVER RATIO of the firm-year to year slightly decreased and increased, but the year 2019-2020 working capital is positive and satisfactory for the firm.

## IV. CONCLUSION

BHPV Ltd. is India's largest fabricator of process equipment for the oil, gas, chemical, and related sectors. It is completely owned by the Indian government and run by an autonomous board of directors. B.H.P.V. Ltd is located in Visakhapatnam, the city of destiny on the western sea coast of the Deccan plateau, and is well connected by road, rail, water, and air.

It is a company's lifeline that allows it to fund daily operations, and examining a company's

working capital management is one of the best ways to judge its cash flow health (Huynh, 2012).

The analysis of this study shows that BHEL company didn't have an ideal working capital ratio over the last five years and most of the time being negative and faced to the problem and the respective managers must address this issue and maintain a good working capital ratio for the company's future.

## **V. SUGGESTIONS**

1. The marketing department might be bolstered to handle more legacy product orders.
2. Customers should be able to obtain interest-free advances. as a result of this, the liquidity of business entities will improve.
3. For effective inventory management, an ABC analysis should be used. this is essential Because the raw material share of every Rs 100 spent by the company is roughly 60%.
4. BHPV needs to acquire additional export orders in order to improve its output and profitability. The firm must seek new export markets. An effort will be made to obtain a higher return on invested funds.
5. Better coordination between the purchasing, production, marketing, and financial divisions is required. This will assist in improving inventory management efficiency.
6. BHPV must assess the available staff in relation to the current requirements.
7. The firm's cost control mechanism should be upgraded so that unnecessary spending can be avoided and cost-cutting opportunities may be identified.

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