

Financing of Working Capital in Select Public Sector Oil and Gas Companies in India : A Comparative Study

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Abstract

It is generally argued that the permanent or fixed portion of total current assets should be financed by long term sources and the temporary or variable portion of the total current assets should be financed by short term sources. However, in the real world situation this argument does not always holds good. The pattern of financing current assets adopted by a firm depends upon several factors, such as cost of capital, risk performance of owners etc. several studies on this issue have been made in India and abroad but no significant study on Indian public sector oil and gas companies considering the matter addressed here has been carried out. Oil and gas companies have a significant place in our national economy as it provides the basic input to infrastructure and consumer goods. In this backdrop, the present study seeks to examine financing pattern of working capital of select public sector oil and gas companies during the period 1978-79 to 2015-16. The present study has been made by simple mathematical analysis of collected secondary data.

JEL Code : D24, E62, F32, G32, H83, I70, I95 M49

Keywords : Finance, WCM, PSU, Oil, Gas, India, Capital, Fuel

I. Introduction

WORKING CAPITAL IS the amount of funds which an enterprise has to use to finance its day-to-day working on operations. It can also be regarded as that portion of the firm's total capital which is employed in current assets. It is generally argued that the permanent or fixed portion of the total current assets should be financed by long term sources and the temporary or variable portion of the total current assets should be financed by short-term sources. However, in the real world situation this argument does not always hold good. The pattern of financing current assets adopted by a firm depends upon several factors, such as cost of capital, risk preference of the owners, demand and supply position in the money market etc.

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decreasing dominance of long term funds as source of working capital as compared to the short term funds during both the pre-liberalisation and post-liberalisation periods. The increasing dependence on the short term funds in financing working capital of GAIL during the pre-liberalisation period signifies its better performance regarding working capital management. However, the company used both the short term funds and long term funds as sources of working capital during the post-liberalisation period. In fact, the company tried to maintain a balance between the long term and short term sources of fund in the post-liberalisation period. Table V also shows that the percentage of long term funds used for financing NFAI increased during the pre-liberalisation period. It ranged between 84.82 percent in 1993-94 and 100 percent in the years 1985-86, 1986-87, 1987-88, 1989-90, 1990-91, 1991-92 1995-96 and 1996-97 during the pre-liberalisation period while in the post-liberalisation period the proportion of long term fund used for financing NFAI varied between 72.10 percent in 2007-08 and 100 percent in 1997-98, 1998-99, 2011-12 and 2015-16. The company used a small percentage of long term funds for financing deferred tax which was only 0.70 percent in 2002-03 during the post-liberalisation period. So it can be said that in case of GAIL, highly aggressive financing strategy was adopted by the company in both the pre-liberalisation and post-liberalisation periods.

IV. Conclusion

The paper deals with the financing of working capital in the selected gas and oil companies. The study stresses importance on long term and short term financing of working capital. It reveals that short term funds dominated as a source of working capital in BPCL and HPCL in both the pre-liberalisation and post-liberalisation periods. In case of IOCL and GAIL working capital was financed largely by short term funds in the pre-liberalisation period, whereas in the post-liberalisation period the role of short term funds in financing of working capital became insignificant. The study also observes that ONGC utilised both the short term and long term funds as sources of working capital in each and every year in both the pre-liberalisation and post-liberalisation periods.

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