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Liquidity Management and Profitability: A Study on Selected Public Sector Companies in India

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Abstract:

The present empirical study is designed to examine and analyze the industry practices in managing liquidity and profitability of the companies with the purpose of examining the performance of management in the area of financial management. The efficiency of working capital management can be ensured by effective administration of various components of working capital- Inventory, Receivables and cash. This study has attempted to examine efficiency and effectiveness of management in each of these above cited areas. Inadequate amount of working capital is an indicator, and not an excuse, but by no means could be the cause of failure of business. The efficient and effective management of liquidity and profitability is, thus, crucially important for success of a business firm. Business firms need to optimize the use of available resources through efficient management of current assets and current liabilities. The present empirical study being designed with analytical approach (instrumental prospective) has dealt with primary and secondary data relating to working capital management in the selected public sector companies(such as, Bharat Heavy Electricals Limited –BHEL; Steel

Authority of India Limited –SAIL; and Shipping Corporation of India—SCI) have been collected from respective offices.

Key words: Liquidity Management, Profitability, Public Sector Indian Companies, BHEL, SAIL, SCI.

Introduction

"As you sow, so shall you reap"— a catch phrase that is popular among management experts and scholars of the 21st century. Especially during recession and fluctuated market economy, finance is as critical as its management and this fact is universally applicable from per capita income to Gross Domestic Products of any nation. It is proven fact that capital management (at large) holds prosperity of enterprises, companies or institutions, but what remains to be elusive or relatively less popular is the efficiency of working capital management. Keeping this as the backdrop, a study was undertaken to validate the extent to which effective administration of various components of working capital, such as, Inventory, Receivables and cash could yield ripen benefits to companies.

Conceptual Framework

Liquidity and Liquidity management

Liquidity is the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets. Money, or cash-in-hand, is the most liquid asset. Liquidity plays a very significant role in the successful functioning of a business firm. Liquidity may also be referred to as the ability to realize value in money. A firm should ensure that it does not suffer from lack of liquidity. Otherwise, it will not be able to run the business, which would result in bad

credit ratings and possible closure of the company. At the same time, a very high degree of liquidity is also bad, as idle assets earn nothing. Therefore, a company should plan an appropriate liquidity structure of assets and liabilities. In accounting, liquidity is a measure of the ability of a debtor to pay debts as and when they fall due. Liquidity is an intangible concept and there is no specific formula for measuring it. However, liquidity is often calculated by using liquidity ratios and these ratios as a group are intended to provide information about a firm's liquidity and the primary concern is the firm's ability to pay its current liabilities.

The liquidity management is concerned with determination of relevant levels of current assets and their efficient use as well as the choice of the financing mix. "The efficiency of a firm to earn profits depends largely on its ability to manage working capital. In other words, liquidity management policies have a crucial effect on firm's liquidity and profitability. Thus, liquidity plays a crucial role in earning a reasonable rate of return. Hence, liquidity has to be effectively planned, systematically controlled and optimally utilized.

Working capital and its Management

Working Capital may be regarded as the life blood of a business firm. There might be hardly any business firms in the world, where besides investment in fixed assets, funds would not be needed for carrying on day to day operations of the business.

Technically, Working Capital Management is an integral part of the financial management. The financial management must determine the optimum level of working capital funds and also the optimum composition of current assets and current liabilities. It must ensure that the appropriate sources of funds are used to finance working capital and should also see that short-term liabilities of the business are met well in time.

A study of working capital is of major importance to internal and external analysis because of its close relationship to current day-to-day operations of a business. "Inadequacy or mismanagement of working capital is one of the leading causes of business failures.[1]"

The working capital management refers to management of the working capital, or to be more precise, the management of current assets. To quote Ramamoorthy, "It refers to the funds, which a company must possess to finance its day-to-day operations".[2] It is concerned with the management of the firm's current assets and current liabilities. So, the working capital management refers to the management of the level of all these individual current assets and involves deciding upon the amount and composition of current assets and how to finance these assets.[3] It relates to the problems that arise in attempting to manage the current assets, current liabilities and their inter-relationship that exists between them.[4] A firm's working capital consists of its investment in current assets which include short term assets such as cash and bank balance, inventories, receivables and marketable securities.

In ordinary parlance, the capital available for meeting the day-to-day requirements of an enterprise is regarded as 'working capital'. Normally, after investment in fixed assets (e.g. land and buildings, plant and machinery, furniture and fittings), a part of the capital is kept in the business for supporting the day-to-day normal operations. The capital employed as working capital constantly changes its form to drive the 'business wheel'. It is also known as the circulating capital.

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[1] Kennedy R.D. and Mcmullen S.Y., Financial Statement form, Analysis and Interpretation. P.261.

[2] Ramamoorthy, V.E., Working Capital Management, Madras: Institute of Financial Management and Research, 1978, p.5.

[3] S.C. Kuchhal, "Financial Management: An Analytical and Conceptual Approach", (Allahabad : Chaitanya Publishing House, 1980), p.180.

[4] Smith, K.V., Management of Working Capital, New York: West Publishing Company, 1975,p.5.

Lack of working capital makes it hard to attract investors or get business loans or obtain credit. Therefore, it is very important for a firm to manage is working capital properly. Working capital management shows a company's efficiency and its short-term financial health.

Working capital can be positive or negative. Positive working capital means that the company is able to pay off its short-term liabilities. Negative working capital means that a company is currently unable to meet its short-term liabilities with its current assets. Working capital is calculated as follows:

Working Capital = Current Assets – Current Liabilities

"Current assets are those assets which in ordinary course of business can be or will be turned into cash within one year without undergoing a diminution in value and without disrupting the operation of a firm."[5] Similarly, current liabilities are the liabilities that should be settled in cash within the fiscal year or the operating cycle of a given firm, whichever period is longer. A more comprehensive definition is that current liabilities are obligations that will be settled by current assets or by the creation of new current liabilities. According to K.V. Smith, "Working capital in concerned with the problems that arise in attempting to manage current assets, the current liabilities and inter-relationship that exists between them."[6]

Profit and Profitability

Profit is the prima facie object of every business. In the words of Lord Keynes, "Profit is the engine that drives the business enterprise." A business needs profit not only for its existence but also for the expansion and diversification. "Profit is the barometer of the success of the business. It is indeed, a magic

[5] Ralph D. Kennedy and Stewart Y. McMullen, "Financial Statement Forms Analysis and Interpretation", (Homewood: Richard D. Irwin Inc. 1968), p.365-66.

[6] K.V. Smith, "Management of Working Capital", (New York: West Publishing Company, 1974), p.7.

eye that mirrors all aspects of entire business operations including the quality of output." "If an enterprise fails to make profit, capital invested is eroded and if are the soul of the business without which it is lifeless. In fact, "Profits are useful intermediate beacon towards which is firm's capital should be directed."[7]

The highest motivator for an economic activity is the profit. The higher the profit they can earn, the higher the degree of work they will do because profit is the engine that drives the business enterprise. Profit is not only considered as the principal motivating force but is also the primary objective of an enterprise to conduct business.

The ultimate task of management is to maximize the profits. The operational efficiency of a business is measured through the amount of profits earned. The greater the profit, the more efficient is the business.

A company should earn profits to survive and grow over a long period of time. Profits are essential, but it would to assume that every action initiated by the management of a company should be aimed at maximizing profits, irrespective of social consequences. "It is unfortunate that the word 'Profit' is looked upon as a term of abuse since some always act to maximise profits at the cost of employees, customers and society. Except such infrequent cases, it is a fact that sufficient profits must be earned to sustain the operations of the business to be able to obtain funds from investors for expansion and to contribute towards the social overheads for the welfare of the society."[8]

Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate output of the company, and it will have no future if it fails to make

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[7] Joseph F. Bradley, Administrative Financial Management, 1964, p.104

[8] Pandey I.M., Financial Management, Vikas Publishing House Pvt. Ltd., 1983, p.517-518.

sufficient profits. Even in totally planned economies, profit criteria has been accepted as the basis of efficiency.

The financial manager should continuously evaluate the efficiency of its company in terms of profits. The operating efficiency of a company and its ability to ensure adequate returns to its shareholders depends ultimately on the profits earned by it.

Accounting policies play an important role in determining profits. Two companies having the same cost structures, physical profits and identical sale could have different profits, because they have different accounting policies.

Measurement of Profit

Profit is not the surplus of receipts over payment, but the surplus of revenue over expenses. Profit cannot be earned by producing more and more, but by selling as much as possible.

There are three measurable concepts of profits:

1. Accounting Profit;
2. Economic Profit; and
3. Social Profit.

1. **Accounting Profit** is the difference between the selling price and the costs. "The excess of revenue over related cost applicable to a transaction, a group of transaction or the transaction of an operating period is profit".[9] In other words, accounting profit is the income which is left over after meeting all the explicit costs. Explicit costs are raw materials consumed, wages, administrative expenses, etc. The terms profit, income and earnings are synonymous and are used interchangeably. Accounting profit can be subdivided into three categories:

(i) Gross Profit;

(ii) Operating Profit; and

[9] R.L. Smith "Management through Accounting", (Englewood Cliffs, New Jersey: Prentice Hall, 1962), p.91

(iii) Net Profit;

(i) Gross Profit: The gross profit ratio is also called the average mark up ratio. it indicates how efficiently management uses labor and supplies in the production process. More specifically, it can be used to calculate gross profit margin. The gross profit varies significantly from industry to industry.

Gross Profit = Net Sales – Cost of Goods Sold

In a manufacturing concern, gross profit is the excess of net sales over direct costs and factory overheads, which is the excess of net sales over direct cost only.

(ii) Operating Profit : The operating profit refers to the pure operating profit of the firm i.e. the profit generated by the operation of the firm and hence is calculated before considering any financial charge (such as interest payment), non-operating income/loss and tax liability etc. The operating profit is also termed as the Earning Before Interest and Taxes (EBIT). EBIT measures the performance of a firm's operation without regard to the sources of financing, i.e., debt or equity, and may include other incomes. "The operating assets produce a stream of income known as operating income.

(iii)Net Profit: Net profit or net income is a measure of the profitability of a venture after accounting for all costs. In a survey of nearly 200 senior marketing managers, 91 percent responded that they found the "net profit" metric very useful.[10] In accounting, net profit is equal to the gross profit minus overheads minus interest payable for a given time period (usually: accounting period.

[10] Farris, Paul W.; Neil T. Bendle; Phillip E. Pfeifer; David J. Reibstein (2010)

2. **Economic Profit**: Economic profit may be defined as the excess of total revenues over total cost, including opportunity cost of capital and opportunity cost of owner's time. Economic Profit does not occur in perfect competition in the long run equilibrium. Once risk is accounted for, long-lasting economic profit is thus viewed as the result of constant cost-cutting and performance improvement ahead of industry competitors or an inefficiency caused by monopolies or some form of market failure. Positive economic profit is sometimes referred to as supernormal profit or as economic rent.

Pure economic profit is the increase in wealth that an investor has from making an investment, taking into consideration all the costs associated with that investment, including the opportunity cost of capital.

3. **Social Profit**: Social profit may be defined as the difference as the difference between social benefits and social costs. Techniques/accounting methodologies adopted for measuring contributions towards social responsibilities and community are not yet established with relative degree of confidence and accuracy. However, an attempt has been made by some companies to present the company's expenses under suitable heads, with a view to conveying its direct contributions toward social responsibilities/activities.

The word 'profitability' is the composition of two words 'profit' and 'ability'. The concept of profitability may be defined as the ability of a given investment to earn a return from its use. The profit is not simply the increase in cash made available from business activities but includes some value (positive or negative) arising from the changes in resources commended during the period. The word ability reflects the power of the enterprise to earn the profit. The ability is also referred to as the earning power or operating capacity of the concerned investment. The word 'ability' attached to profit means the earning power of operating performance. The state of

profitability is not a condition that exists and can be measured for limited period of time only. It is variable like the temperature of the body.

The term ‘profitability’ should be distinguished from ‘profits’. Profits refer to the absolute quantum of the profits whereas the profitability refers to the ability to earn profits. Profitability is the relative measure – it indicates the most profitable alternative profit, on the other hand, is an absolute measure it indicates the overall amount of profit earned by transactions. Profitability is taken into consideration in judging the degree of operational efficiency of the management and controlling operations and performance. It is also used to study the ‘relative efficiency’ with the other firms.

Profitability Analysis: Profitability analysis reveals how the profit position stands as a result of total transactions made during a year. Such analysis is particularly interesting to suppliers of funds who can evaluate their investment and take decision accordingly. On the other hand, profit ratios are equally beneficial to the management because these ratios reflect the efficiency of the enterprise as whole.

After analysing the reasons, an enterprise can enhance its ability to make profits. A Company can also carry out an in-depth analysis of its strengths and weaknesses and overcome them and increase its profitability.

Importance of Profitability: The word profitability may be defined as the ability of a given investment to earn a return from its use. The state of profitability is a variable thing like temperature and humidity of a day. The definition of profitability by an account and or analyst can even be linked to temperature reading and study of humidity by meteorologist. The present wealth of a day is recorded so that prospects can be forecasted.

Profitability has been considered, to a great extent, as one of the main criteria to judge the extent to which

management has been successful in maximizing its profits or minimizing is losses, if any.

The concept of profit is related to absolute figures. It does not tell about the reason how it takes place or the relationship of this figure with another one. These questions can be answered by a peep into the profitability of an entity. Profit, as an absolute term, has no relevance to compare the sound organizational efficiency and a low profitability not always a sign of organizational sickness. In many a situation it so happens that when a concern is implementing expansion plans, it may run into short term losses. Therefore, it can be said that profit is not the prime variable on which the operational efficiency an financial efficiency of an organization can be compared.

Significance of the Study

Working capital management or liquidity management and profitability is one of the important dimensions of business enterprises. An effective and efficient management of working capital enables the enterprise to maximize profitability and also to maintain adequate liquidity in the business. The manner of management of working capital determines to a large extent the success and the failure of an enterprise. Many a times, in the event of failure of an enterprise, the shortage of liquidity is given out as main cause but in the ultimate analysis it may be the mismanagement of working capital. It is, therefore, necessary to maintain optimum level of working capital so as to ensure higher profitability and to maintain adequate liquidity funds in the business.

Public sector in India plays a vital role towards the economic development of the country but their lesser profitability in comparison to private sector is a matter of concern. Though profitability is affected by various reasons but working capital is the most important factor which affects the

profitability to a great extent. Keeping it in view, the researcher has selected the topic" An Empirical Study of Working Capital Management (A Comparative Study of Selected Public and Private Sector Companies in India)". In present study an attempt will be made to analyze the components of working capital as well as the causes of mismanagement of working capital in selected public and private sector companies in India.

The proposed study "An Empirical Study of Liquidity Management and Profitability Analysis of Selected Companies in India in Public Sector" is intended to examine and analyze the industry practices in managing liquidity and profitability of the companies with the purpose of examining the performance of management in the area of financial management. The efficiency of working capital management can be ensured by effective administration of various components of working capital- Inventory, Receivables and cash. This study will attempt to examine efficiency and effectiveness of management in each of these areas. Inadequate amount of working capital is an indicator, and not an excuse, but by no means the cause of failure of business. The efficient and effective management of liquidity and profitability is, thus, crucially important for success of a business firm. Business firms need to optimize the use of available resources through efficient management of current assets and current liabilities. This will enable them to increase the profitability of the concern and to meet the current obligations in time.

Objectives of the Study

The proposed research work has been carried out with the following objectives:-

a) To examine the overall quantum of working capital maintained by the companies undertaken for the present study.

b) To evaluate and examine the amount invested in the various components of working capital of the companies under study during the period under study.

c) To compare the working capital position of the companies under study

d) To carry out the liquidity position of the companies by applying the technique of ratio analysis

e) To evaluate the extent of relationship between working capital and profitability by applying the technique of ratio analysis as well as statistical techniques such as correlation, regression analysis etc.

f) To offer appropriate suggestions wherever necessary to improve the adequacy and efficiency of working capital management and profitability of the selected companies under study.

Hypotheses of the Study

In the light of above cited objectives, following hypotheses were formulated.

1. There is improper and inefficient liquidity management in the companies under study
2. There is no adequate proportion of the components of working capital in the companies under study
3. There is no significant difference in the profitability of the companies under study
4. There is a positive correlation between working capital and profitability

Research Methodology

The present study is an empirical and analytical in approach and instrumental prospective. Primary and secondary data relating to working capital management in the selected companies have been collected from the offices of the companies. The questionnaire was designed to collect primary data, personal interviews were held to obtain technical information and where clarification required.

The secondary data were collected from the published annual reports and accounts of the companies and various other publications of the industry.

The collected information was classified and grouped under suitable heads. Suitable ratios under suitable heads had been calculated and statement with regard to working capital management was prepared to examine the state of affairs of liquidity management and profitability in the companies under study.

To analyze the problem of managing liquidity various techniques have been used in the present study such as ratio analysis, common size analysis, and trend analysis. To present the broad view of the problem several statistical techniques have also been used for analysis such as average, standard deviation, coefficient of variation etc. The hypotheses have been tested by applying F Test i.e. analysis of variance. To find the relationship between liquidity and profitability coefficient of correlation has also been computed. To present graphic view and make it easy to understand a few diagram and graphs have also been prepared.

Sampling Technique and Sample Design

In the present study the method of convenient sampling has been used on the basis of which three major units of public sector has been selected. For the selection of samples three units i.e. one from Steel Sector, one from Shipping Sector and

one from Heavy Product Sector have been selected. The present study is confined to the following units

1. Bharat Heavy Electricals Limited (BHEL)
2. Steel Authority of India Limited (SAIL)
3. Shipping Corporation of India (SCI)

A five yearly period commencing from 2006-07 to 2010-11 has been covered in the present study.

Findings of the Study

- The size of inventory increased to Rs. 83.21 crores in 2009-10 and then to Rs. 146.50 crores in 2010-11. The average size of inventory in SCI was Rs. 91.39 crores which can not be regarded very high.
- An inter-firm comparison of the size of inventory reveals that all the companies had sufficient stock of inventory according to their needs. The size of inventory was highest in BHEL followed by SAIL because both these units are manufacturing units while SCI being a service sector unit did not require much of the inventory, therefore, the size of inventory in SCI was lowest. Irrespective of the size of inventory, the variations in the level of inventory were higher in BHEL followed by SCI and SAIL.
- For BHEL, the average of the ratio was 86.20 percent which was high and affects the liquidity position adversely. In SAIL, the inventory to working capital ratio showed a decreasing trend throughout the period of study except in the year 2010-11.
- The study found that the inventory to working capital ratio of SCI showed a mixed fluctuating trend during the period of study.

- Ration analysis showed that SCI a mixed fluctuating trend during the period of study. During 2006-07 this ratio was 3.59 percent and increased to 4.40 percent in 2007-08 but decreased to 2.75 percent in 2008-09. The ratio in the later years showed an increasing trend and increased to 3.81 percent in 2009-10 and further to 6.46 percent in 2010-11. The average of the ratio was 4.20 percent denoting that only a small amount of working capital is invested in the form of inventory and liquidity position of the company is sound. For BHEL, the inventory to working capital ratio registered an increasing trend throughout the whole period of study except in the year 2010-11.
- Statistical analysis (ANOVA) found that the year-wise difference in the size of inventory of the companies under study is not significant; the difference in inventory to working capital ratio of the companies under study is significant and intra-company wise or year-wise difference in the inventory to working capital ratio of the companies under study is not significant.
- The operating profit and current assets of SCI and SAIL are not inter-related.
- The relationship between gross profit and working capital of BHEL is quite satisfactory
- The operating profit and working capital of SCI and SAIL are negatively correlated.

Suggestions and Recommendations

1. The size of inventory of SCI and SAIL is reasonable which should not be exceeded but the size of inventory of BHEL was abnormally high and the management of the company should be precautious about the spoilage and out dating of raw material. Moreover, the management of BHEL should try to reduce the size of inventory.

2. The proportion of inventory to current assets of all the companies under study is adequate and the management of the companies under study should try to maintain the same proportion in future also.
3. In SCI the proportion of inventory to working capital is reasonable which should be maintained in future also. But the proportion of inventory to working capital in BHEL is very high which adversely affects the liquidity position of the company, hence it is suggested that the management of BHEL should try to reduce the proportion of inventory in working capital. For SAIL, it is suggested that the decreasing trend of inventory to working capital should be controlled by the management.
4. The management of BHEL and SAIL should try to optimise the utilization of inventory to have a satisfactory inventory turnover ratio. The inventory turnover ratio of SCI is satisfactory which should be continued in future also
5. The SCI should try to follow a liberal credit policy to increase the size of receivables. The management of BHEL has adopted a very high liberal credit policy which should be avoided and a strict credit policy should be adopted to reduce the size of receivables. The management of SAIL should not stick to one policy only but the credit policy should be changed according to circumstances.
6. The proportion of receivables in the current assets of SCI and SAIL had a reasonable proportion denoting an efficient receivables management which should be followed in future also. But, for BHEL the proportion of receivables in current assets was excessively high which should be reduced as it denotes an inefficient receivables management.

7. The receivables turnover ratio of SCI and SAIL was satisfactory and indicates quick collection of receivables. It is suggested that the management of the company should follow the same policy in future also. The management of BHEL should try to increase the receivables turnover ratio because it will help to increase the sales as well as profitability.
8. It is suggested that the management of all the companies under study should try to maintain the balance of cash according to their requirements and avoid keeping idle cash balance.
9. The proportion of cash to current assets in SCI and BHEL is satisfactory and should be maintained in future also but for BHEL it is suggested that the proportion of cash to current assets should be reduced as it is excessively high.
10. It is suggested that the decreasing trend of cash to sales ratio of BHEL should be controlled for the purpose of strengthening the liquidity position of the company. The proportion of cash to sales for SCI and SAIL should be maintained in future also as it is satisfactory.
11. The management of BHEL should try to improve the cash to current liabilities ratio by increasing the cash balance and for SCI and SAIL the cash to current liabilities ratio should be maintained in future as it is satisfactory.
12. The management of SCI should try to reduce the dependency on long term source of finance for financing of current assets and it should be tried that the current assets are mainly financed through the short term source of finance. The BHEL and SAIL should try to follow the same policy of financing the current assets.
13. The management of BHEL should try to increase the current assets because the current ratio of the company is very less than the required norm. On the other hand

the management of SCI and SAIL should try to maintain the same relationship between current assets and current liabilities because their current ratio is satisfactory.

14. The relationship between current liabilities and quick assets of all the companies under study is satisfactory and should be maintained in future also.
15. It is suggested that the management of SCI and BHEL should try to use working capital in efficient manner to increase the working capital turnover ratio. The management of SAIL should try to control the decreasing trend of working capital turnover ratio.
16. The overstocking of inventory by BHEL and SAIL should be controlled and inventory should be utilized properly for efficient inventory management. The inventory management of SCI is satisfactory which should be continued in future also.
17. In BHEL the management should try to make an efficient utilization of current assets to increase the profitability while the management of SAIL should try to control the decreasing trend of current assets turnover ratio by making the use of current assets to the fullest extent.
18. To increase the gross profit ratio, the management of SCI should try to control the cost of services rendered and moreover, the fluctuations in gross profit ratio should also be controlled. For BHEL and SAIL, it can be suggested that the present position of gross profit ratio should be maintained in future also.
19. It is suggested that the management of all the companies under study should try to control and reduce the indirect cost of operation to increase the net profit ratio.
20. The decreasing trend of operating profit ratio of all the companies under study should be controlled by

increasing the sales or controlling and reducing the operating cost of business.

21. It is suggested that the management of SCI should try to make an optimum utilisation of capital employed to increase the profitability while the management of SAIL should try to control the decreasing trend of return on capital employed ratio despite being satisfactory.
22. The total assets of SCI and BHEL are under utilised which should be utilised optimally to increase the return on total assets. In SAIL though the return on total assets is satisfactory but decreasing trend should be controlled by the management.
23. In SCI the return on shareholders' funds is not satisfactory, hence, it is suggested that to retain the investment of shareholders the management of SCI should try to make an efficient use of shareholders' funds. In SAIL the decreasing trend of return on shareholder's funds should be controlled. The management of BHEL should try to maintain the same ratio in future also as the return on shareholder's funds is satisfactory.
24. For, SAIL it is suggested that the management should try to control the decreasing trend of EPS and maintain a uniform rate of EPS. The management of BHEL and SAIL should try to maintain the same rate of EPS in future also.
25. The management of SCI paid dividend at a decreasing trend which should be avoided. In SAIL the rate of dividend per share was very low in comparison to EPS. It is therefore, suggested that the rate of dividend paid should be increased.
26. The management of SCI and SAIL should try to make an effective use of current assets to increase the gross profit and establish a high degree of positive correlation between gross profit and current assets. The high degree

of positive correlation between gross profit and current assets of BHEL should be maintained in future also.

27. The lower degree of positive correlation between net profit and current assets of SCI should be improved by making an effective use of current assets and increasing the net profit. The negative correlation between net profit and current assets of SAIL should be converted into positive correlation. The high degree of positive correlation between net profit and current assets should be maintained in future also.
28. The operating profit and current assets of SCI and SAIL are not inter-related. The management of SCI should try to establish a positive relationship between operating profit and current assets of the company. In BHEL the management of the company should try to increase the current assets because they are positively correlated.
29. The relationship between gross profit and working capital of SCI and SAIL should be improved by establishing a positive correlation between them. For this purpose the working capital should be used efficiently by the management of these companies. The relationship between gross profit and working capital of BHEL is quite satisfactory which should be maintained in future also.
30. The net profit and working capital of SCI and SAIL are inter related, therefore, it is suggested that the management of these companies should try to increase the net profit by making an efficient and effective use of working capital. The net profit and working capital of BHEL are highly correlated and it is suggested that the management of BHEL should increase the working capital to increase the net profit.
31. The operating profit and working capital of SCI and SAIL are negatively correlated which should be controlled and improved by making a proper utilisation

of working capital towards increasing the operating profit. In BHEL the operating profit and working capital are positively correlated which should be maintained in future also.

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