

Analyzing and Evaluating the Financial Health of Central Public Sector Enterprises in India through Working Capital Management

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Abstract: A well-designed and implemented working capital management is expected to contribute positively to the construction of a firm's value. Working capital management involves the relationship between short-term assets of a firm and its short-term liabilities. It is related to short-term finance of business concern, which is a closely related business between profitability and liquidity. Efficient working capital management improves operation of business concern and helps in meeting short-term liquidity. The goal of working capital management is to assure that a firm is able to sustain its operations and has adequate capacity to meet both short-term and upcoming operating expenses. "Working capital" is a financial metric that represents the liquidity available to a business, organization or other entity, including government institutions, inventory, debtors, cash and other existing assets such as loans and advances to third parties. With fixed assets like plants and equipment, working capital is considered to be a part of operating capital. In order to produce up to the given capacity by the firm adequate level of working capital should be maintained and the return on investment in fixed assets should be maximized. Gross working capital is refers to current asset. Net Working capital is calculated as current assets less current liabilities. If the current assets are less than current liabilities, then the entity has a lack of working capital, also called working capital deficit. The lack of working capital is less capacity utilization, less turnover and hence the profit is less. Working capital is more inefficient than the amount required producing up to full capacity, and as a result the profits fall. Working capital Management involves managing inventories, accounts receivable and payable, and cash management of Public Sector Enterprises. The tools used in this study include ratio analysis, trend analysis and percentage method.

Keyword: Profitability, Liquidity, Current Assets, Working Capital Management, Ratio Analysis, Central Public Sector Enterprises.

I. INTRODUCTION

Working Capital is an essential part of the business concern whether big, medium or small, needs finance to carry on its operations and to achieve its target. Every business organization should maintain certain amount of Working Capital for their day-to-day requirements as in order to meet the short-term obligations they need short term finance. In our current economy, finance is defined as the provision of money when it is needed. In fact, finance is so indispensable today that its rightly said to be the lifeblood of an enterprise. Without adequate finance, no venture might possibly fulfill its objectives. The working capital is required to purchase the raw material according to the needs of the business concern. Hence, every business concern maintains certain amount as Working Capital to purchase raw materials, components, spares, etc. A business concern must maintain adequate amount of working capital to make the payment of wages and salaries to labour and employees. Periodical payment facilities motivate employees to perform their work more efficiently. Similarly A business concern has to meet various expenditures regarding the operations at daily basis like fuel, power, office expenses, etc. For all these purposes working capital is required. A business concern that is responsible for providing credit facility to the customer and fulfilling short-term liability. Therefore concern should provide adequate working capital. The term working capital refers to that part of firm's capital which is required for financing short term or current assets such as cash, marketable securities, debtors and inventories funds invested in current assets moves fast and they are being continuously converted in to cash and this cash flows out again in exchange for other current assets. However, all the managers should keep in mind that in the pursuit of their liquidity, they should not lose their original goal of profitability. They should be able to attain the objective of liquidity and profitability while managing their working capital.

A firm needs to maintain balance between liquidity and profitability during day-to-day operations. Liquidity means to ensure that the firm is able to meet its short-term obligations and its continuous flow can be guaranteed from a profitable venture. In this process, an asset-liability may be mismatched, which may increase the firm's profitability in the short term, but at the risk of its bankruptcy. On the other hand, a lot of focus on liquidity will be at the expense of profitability. Thus, the manager of a business entity is in a dilemma of achieving desired tradeoff between liquidity and profitability in order to maximize the value of a firm.

Working capital management includes working capital financing apart from managing the current assets and liabilities. That adds the responsibility for arranging the working capital at the lowest possible cost and utilizing the capital cost-effectively. Working capital

management includes working capital financing apart from managing the current assets and liabilities. That adds the responsibility for arranging the working capital at the lowest possible cost and utilizing the capital cost-effectively. The finance manager working alone can not improve the working capital position. In recent times, some cases related to the management of working capital in the selected companies have been done in the order of in-depth analysis of several experts in working capital management. The discovery of such studies not only puts new lights on technical flaws of management activities of related companies, but also helps scholars and researchers to develop new ideas, techniques and methods for the effective working capital management.

As the growth of investment in Public sector enterprises is concerned on 31st March 2001, the total number of Public Sector Enterprises in India was 234. But this number increased to 257 as on 31-03-2018, excluding banks, financial institutions and departmental undertakings like the railways parts etc. The investment of PSEs had increased from Rs. 2,74,198 Crore in 234 enterprises in 2000-01 to Rs. 1833274 crore in 236 enterprises in 2014-15. The paid-up capital of the PSEs increased from Rs. 86215 Crore in 2001 to Rs. 204946 Crore in 2015 registering an increase of 137.71% during the same period. Likewise, and share application money was increased by more than 100% during the same period. The amount of long term loans were increased by 234.70% during the period under study. The amount of total investment which stood at Rs. 274198 Crores in 2001 increased to Rs. 1833274 Crores in 2015 registering an increase of 568.59% during the same period. The number of operating enterprises which stood at 234 in 2000-01 increased to 236 in 2014-15. PSEs have witnessed consistent growth in the turnover/operating income as turnover has been taken after deducting excise duty w.e.f. 2001-02. It has increased from Rs. 458237 crore in 2000-2001 to Rs. 1995176 crore in 2014-15 registering an increase of 335.40% during the same period. Thus, turnover has improved every year. Similarly, the amount of Net Worth went up from Rs. 171406 crore in 2000-01 to Rs. 962518 crore in 2014-15 registering an increase of 461% during the study period. And there is impressive trend of improvement in the financial performance of PSEs. Profit before depreciation, interest and tax has increased from Rs. 69287 cores in 2000-01 to Rs. 270400 crores in 2014-15 thereby registering an increase of 290 percent during the study period. Likewise, profit before interest and tax during this period has increased from Rs. 48767 crores to Rs. 192346 crores. The increase works out to 294%. Similarly, net profit during this period has increased from Rs. 15653 crores in 2000-01 to Rs. 102911 crores in 2014-15 registering an increase of 557%. The number of profit making PSEs increased from 123 to 159 during the study period. The amount of profit of profit making PSEs which stood at Rs. 28494 crore in 2000-01 increased to Rs. 130364 crores in 2014-15 registering an increase of 357 percent during the same period. Similarly, the number of loss incurring PSEs decreased from 110 in 2000-01 to 76 in 2014-15 during the reference period. The amount of loss of loss incurring PSEs which stood at Rs. 12841 crores in 2000-01 increased to Rs. 27498 crores in 2000-01. There was only one PSE which was making no profit no loss in 2014-15. Appreciating the significance and improving performance of the public sector, the Approach Paper of Eleventh Five Year Plan observed: "Public Sector Enterprises have been made a major contribution to the economic growth of the country by creating a diversified industrial base. Some of the PSEs have had strong financial results over many years and recently some more have turned the corner."

II. RESEARCH METHODOLOGY

Research is a systematic process for collecting and analyzing data for our proper understanding of the incident about which we are concerned or interested. A research methodology is a systematic plan for conducting research. Sociologists are attracted to various qualitative and quantitative research methods, including experimentation, survey research, participant observation and secondary data. The purpose of quantitative methods is to classify the features, calculate them and test the hypotheses and make a statistical model to explain the comments. The purpose of qualitative methods is a complete, detailed description of the observations, including references to events and circumstances. This process is used to collect information and data for the purpose of making business decisions. This is the indescribable discovery of knowledge. This is a carefully inquired or inquiry through the discovery of new facts in any branch of particular knowledge. The study demonstrates both descriptive and analytical character. It is descriptive about the theoretical concept because it interprets and analyzes secondary data to reach the proper conclusions. It is also analytical in character. The interpretation of data is done based on ratio and percentage for both present and historical information.

III. RESEARCH DESIGN

Research Design is the strategy or plan for the study. The research design is defined as the structure of the methods and techniques chosen by a researcher to combine different components of research into a logical way so that the research problem can be handled efficiently. It provides insights about "how" to do research using a special method.

Every researcher has a list of research questions which need to be assessed – this can be done with research design. This is a group of decisions that make the master plan, specifying the methods and procedures for collection, measurement and analysis of data. Research has used descriptive research. Descriptive studies are actually being investigated with sufficient interpretation. It focuses on particular aspects of in the study. It is designed to gather descriptive information and provides information for formulating more sophisticated studies.

IV. DATA SOURCE

A. Primary

These are data that are collected from some primary sources, i.e. where the data is generated, a source of origin. Primary data has been collected by personal discussions with the managers and senior officials of the organization.

B. Secondary

Secondary data has been received from annual report like secondary report of the companies, Balance Sheets, Profit and Loss Accounts, Booklets, Records, Files, Reports maintained by the company and public enterprises surveys etc. Mainly the annual report consists of two parts. One is Profit and Loss Account and second is Balance Sheet. Profit and loss account reveals the income and

expenses of the company. Balance Sheet reveals the financial position of the organization. Those two statements are prepared by the highly qualified and experts with the help of available information or data.

V. TOOLS USED FOR THE ANALYSIS

- Trend Analysis
- Ratio Analysis
- Operating Cycle Analysis
- Schedule of changing in working capital

VI. PERIOD OF STUDY

The current study relates to the data collected from Annual Report and other relevant documents for the period of 15 years i.e. 2000-2001 to 20014-2015.

VII. SCOPE OF THE STUDY

The study is on the working capital management of selected public sector enterprises. The study presents the idea of working capital performance of the company. Working capital requirements vary from industry to industry, and they may also be different among similar companies. The basic goal of working capital is to maintain satisfactory level of working capital. A working capital policy ensures a firm's high profitability and reasonable liquidity. There is a daily requirement for working capital businesses, because they require regular cash to cover basic costs, cover unexpected costs and buy basic materials used in the production of goods. The basic ingredients of the theory of working capital management may include; - i) Optimum level of current assets. ii) Trade of between profitability and risk, which is associated with the level of current assets and liabilities. iii) Financing mix strategies. In short, it is the management of current assets and current liabilities.

Efficient working capital management helps in maintaining smooth operations and can also help improve the company's income and profitability. Management of working capital includes inventory management and management of accounts receivable and accounting payments. The main objectives of working capital management include maintaining working capital cycle and ensuring its well-maintained operation, reducing the cost of capital spent on working capital and maximizing the return on current asset investments. Working capital is an easy-to-understand concept, because it is related to the cost of living of a person and thus, it can be understood in a more personal way. Individuals need to collect the money that they owe, and keep a certain amount on a daily basis to cover day-to-day expenses, bills and other regular expenses.

Each study has its own purview. This project intends to study working capital Status of public sector enterprises. This study helps to identify areas that may be improved. In response to further suggestions, it was said that the company could use it in the future to enhance the better use of all resources.

VIII. LIMITATIONS

The data was collected mainly on the basis of secondary data. So the limitations of secondary data are applicable. Due to busy work schedules, detailed discussion was not done Possible. Information and data may not be accurate. The data collected for the study was historic in nature, so the suggestions will be irrelevant.

IX. LITERATURE REVIEW

Sargadhanan and Prasad (1995) in their research work entitled "Towards a Better Management of Funds by Public Enterprises" underscored the fact that many of the public enterprises in India can be made efficient if proper attention is given to the management of funds by using modern scientific methods. While making investments, various alternatives should be explored and only those projects which found to be feasible should be chosen. Capital structure, cost of production, pricing and budgeting are the key factors in this regard.

Chris (2010) suggests that public sector compensation is becoming a high-profile policy issue. While private sector wages and benefits have stagnated during the recession, many governments continue to increase compensation for public sector workers. At the same time, concerns about heavy underfunding are increasing in public sector retirement schemes across the nation.

These studies undoubtedly, provide an odyssey of professional learning with many contours including relearning. Without these studies it would not have been possible to come across the various aspects of Public Sector Enterprises and have an in-depth view of them and also the scope and methodology for further research. The survey of the existing literature indicates no systematic, specific and scientific study has been carried out earlier on this subject by taking into account all the relevant issues concerning policy, strategy and programmers of Public Sector Enterprises and their impact on its overall performance and prospects.

Therefore, the present study entitled as "Working Capital Management of Public Sector Enterprises in India – A Case Study of Oil and Natural Gas Corporation" is therefore, a humble attempt to bridge this gap.

Dr.D. Guruswamy (2012) studied Analysis of Profitability Performance of SBI and Its Associates. The study based on secondary data and various statistical tools like Mean, standard deviation, variance, CAGR and ANOVA are used in the study. The study reveals that SBI associate banks has performed well in respect of earning profit in relation to working fund compared to SBI.

Dr. S M.D. Ghose, B. Raghavendra Prasad and Dr. B. Abdul Azeem (2013) states that the public sector enterprises have laid down a strong foundation in the economic development of India. While all private companies either cut down on their production or decided to slow down their investment plans the public sector units decided to face the crisis. Public sector enterprises helped the country to maintain the pace of growth during the economic recession. The units have also played a major role in terms of corporate social responsibility.

Usman Dawood (2014) in his research paper on Factors influencing profitability of commercial banks believe that there no relationship between the cost efficiency and profitability but observes that capital adequacy and deposits do support in profitability where as size of the bank doesn't help in profitability.

Ms. Hetalagani & Dr. Smita rao (2015) studied a study on the liquidity, profitability and financial health of Sun pharmaceutical Industry Ltd. The study focus on company's liquidity, profitability, trade-off between liquidity, profitability and risk and financial health using Altman's Z-score test, the reveals that there is moderate correlation between liquidity and risk and profitability & risk and also company is in a healthy zone.

Dr. D Prabhakar (2015) states that the performance of Bharat Heavy Electricals Ltd one of the nine Heavy Engineering CPSEs has been increasing considerably over the years between 2001-2011. He also states that the overall performance of all disinvested CPSEs has improved between 2009-10 and 2010-11.

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X. WORKING CAPITAL MANAGEMENT

Working capital management refers to the managerial accounting strategy of a company designed to monitor and use the two components of working capital, current assets and current liabilities to ensure the company's most financial operations. The main objective of working capital management is to ensure that the company always maintains sufficient level of cash flow to meet its short-term operating costs and short-term debt obligations.

Capital of the concern may be divided into two major parts-(i) Fixed Capital, and (ii) Working Capital. "Fixed capital" means that capital of the concern may be divided into two major parts. Fixed capital refers to the capital used for long-term investment of a business concern. For example, purchase of permanent property. Generally it is non-recurring in nature.

The "working capital" that is used in its day-to-day trading operations is calculated as current assets subtract current liabilities. For example, payment to creditors, wages given to workers, purchase of raw materials etc. are usually recurring in nature. It can be easily converted into cash. Therefore, it is also known as short-term capital.

The firm must maintain an adequate level of working capital to produce up to the given capacity and maximize the return on investment in fixed assets. Lack of working capital leads to less capacity utilization, less turnover and hence lowers profits. Working capital, exceeding the amount required to produce to full capacity, is idle and results in a decline in profits.

XI. IMPORTANCE OF ADEQUATE WORKING CAPITAL

Adequate working capital can never be of much importance in any business concern. A concern requires sufficient working capital to carry out its day-to-day tasks smoothly and efficiently. Lack of adequate working capital not only impairs firm's profitability but also results in stoppage in production and efficiency in payment of its current obligations. Working capital is considered the life-blood of the business. Management of working capital is an essential function of a finance manager. He has to ensure that the amount of working capital available for his needs is neither too large nor too small for his requirements. Excessive working capital means passive funds that do not make any profit for the business and hence the business cannot earn a fair rate on its investment. This can be the result of overall disability in the organization. When there is excessive working capital, relations with banks and other financial institutions can not be maintained. Due to the lower rate of return on investment, the value of shares may also fall. Various studies conducted by the Bureau of Public Enterprises have shown that one reason for the poor performance of public sector undertakings in our country is the large amount of money locked in working capital. This condition refers to over capitalization.

On the other hand if a concern which do not have sufficient working capital to pay its short-term liabilities in time, it will lose its reputation and shall not be able to get good credit facilities. Such condition of capital inadequacy refers to under capitalization. The firm can not pay for day-to-day expenses of its operations and it creates inefficiency, increases costs and reduces business profits. The rate of return on investment also comes down with the lack of working capital.

XII. CLASSIFICATION OF WORKING CAPITAL

Working capital is classified into various types and the classification is based on the following considerations:

- *Balance Sheet Concept and*
- *Operating cycle Concept*

Under Balance Sheet concept, the working capital is interpreted on the basis of concept in two ways:

- A. *Gross working capital*
- B. *Net working capital*

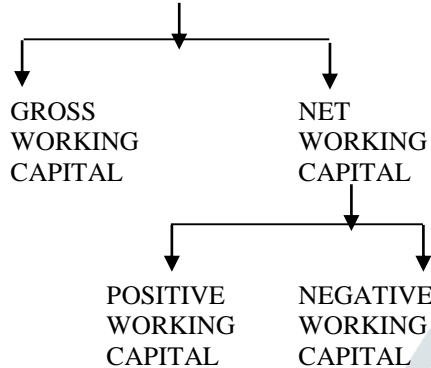
A. Gross Working Capital

The term working capital refers to gross working capital and represents the amount of money invested in current assets. Thus, gross working capital refers to the capital invested in the total current assets of the enterprise. Current assets are those assets which, in the normal course of business, can normally be converted into cash within a short period of an accounting year.

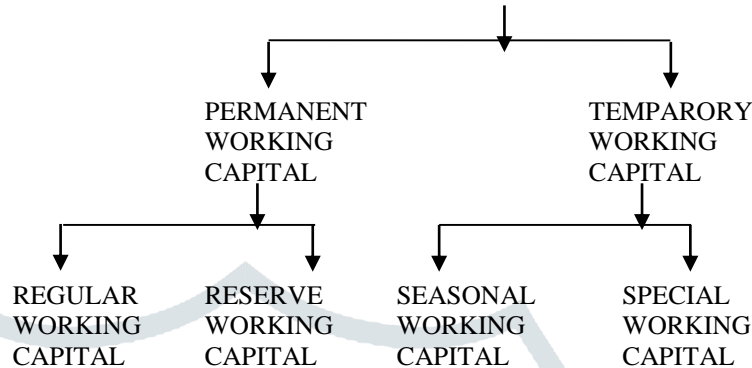
Gross Working Capital = Total Current assets.

TYPES OF WORKING CAPITAL

ON THE BASIS OF CONCEPT



ON THE BASIS OF TIME



B. Net Working Capital

It refers to working capital as pure working capital. Net working Capital shows the current assets are more than the current liabilities.

Net Working Capital = Current Assets (CA) - Current Liabilities (CL)

or Net Working Capital = Equity plus long-term debts minus as much as blocked in Fixed Assets.

Net working capital can be positive or negative. Working capital is positive when current assets exceed current liabilities and negative working capital results when current liabilities exceed current assets. Current liabilities are those liabilities that are intended to be paid within a short period i.e. one accounting year out of the current assets or business income.

On the basis of Time the working capital is of two types:

a) Permanent Working Capital

It is also known as Fixed Working Capital. The business concern must maintain certain amount of capital at minimum level at all times which is termed as permanent working capital. The level of Permanent working Capital depends upon the nature of the business. Permanent or Fixed Working Capital will not change regardless of time or sales volume.

- i. **Regular working capital:** This is permanent working capital which is normally required for the working capital cycle to flow smoothly.
- ii. **Reserve Working Capital:** It is the working capital available in addition to the regular working capital. It is kept for accidental situations that may arise due to unforeseen circumstances.

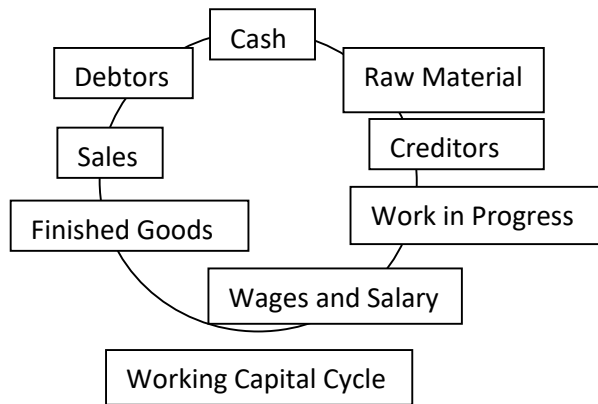
b) Temporary Working Capital

It is also known as variable working capital. This is the amount of capital that is required to meet seasonal demands and some special objectives. It can be further classified Seasonal working capital and special working capital. The capital required to meet the seasonal needs of business concern is called Seasonal working capital. Capital required to meet special requirements such as to undertake extensive marketing campaigns for research etc.

- i. **Seasonal Working Capital:** Seasonal working capital is that temporary increase in working capital that is caused by some relevant season for the business. This applies to businesses with season effects, for example, summer is the relevant season for the manufacturer of air conditioners. Generally, they require a high working capital in that season due to higher sales in that period and then go down as the collection from debtors is more than sales.
- ii. **Special Working Capital:** Special working capital is an increase in temporary working capital that is caused by a special event that would otherwise not normally occur. There is no basis for predicting this and is a rare occurrence in general. For example, a country where Olympic Games are held, all the business require extra working capital due to a sudden rise in business activity.

Financial manager's job in managing working capital is to ensure efficiently an adequate liquidity in the operation of the enterprise. Liquidity of a business firm is calculated by its ability to pay short term obligations as they become due. Net working Capital is not very useful as a measure of liquidity for comparing performance of various firms, but it is quite useful as a measure for internal control. Net working capital is helpful in comparing the liquidity of the same firm overtime. Working capital management is a way to measure the liquidity of a firm in a smooth way. In other words, main objective of working capital management is to manage the current assets as well as the liabilities in such a way that there should be proper availability of the working capital in the enterprises.

XIII. OPERATING CYCLE VIEW / WORKING CAPITAL CYCLE



An operating cycle (OC) refers to the days required for a business to obtain inventory, sell inventory, and collect cash from inventory sales. The cycle plays a major role in determining the efficiency of a business. The length of time involved in the conversion of cash into raw materials, raw materials into work-in-progress, work-in-progress into finished goods, finished goods into debtors, debtors into cash again the operating cycle or working capital cycle. The length of operating cycle or working capital cycle may differ from one firm to another, depending upon the nature of the business.

XIV. Nature of Working Capital

To make a substantial profit, a firm has to depend on its sales activities apart from others. We know that sales are not always converted into cash immediately, i.e., there is a time-lag between the sale of a product and the realization of cash. So, an adequate amount of working capital is required by a firm in the form of different current assets, for its activities to continue uninterrupted and to tackle the problems that may arise because of the time-lag.

Working Capital is used for purchase of raw materials, payment of wages and expenses. It generates elements of cost: materials, wages and expenses. It constantly changes to keep the wheels of the business running. Working capital increases the liquidity, solvency, goodwill and reputation of the enterprise. This enables the enterprise to avail cash rebate facilities offered by its suppliers.

XV. Source of Working Capital Finance

Each firm has to forecast when the company's initial capital structure is planned, the minimum amount of working capital that it needs to support is at the projected level of operation. Sources of working capital can be divided into long-term sources of working capital and short-term sources of working capital. The main sources of long-term funds are shares, debentures, term-loans, Retention in various forms (i.e., Ploughing back of profits, General Reserves etc.), Sale of fixed assets etc. Sources of Short-term Working Capital are Trade credit, Bank overdraft and cash credit, Advances from customers, Accrual accounts, Bank credit, Loans from commercial banks, Factoring, Discounting bills of exchange, Public deposits, Government assistance, Customer credit Provision for Taxation, Depreciation Provisions etc.

XVI. DETERMINANTS OF WORKING CAPITAL

Working capital requirements are not uniform across all enterprises, and therefore, the factors responsible for a particular size of working capital in a company differ from those of another enterprise. In addition, a set pattern of factors determining the optimal size of working capital is difficult. For the determination of working capital requirements the following factors are considered:

1. Nature of business
2. Length of period of manufacture
3. Volume of business
4. The proportion of the raw materials cost to total cost
5. Use of manual labor or mechanization
6. Development and extension
7. Need to keep large stocks of finished goods raw materials
8. Turnover of working capital
9. Terms of Credit
10. Terms of purchase and sales
11. Seasonal Variations
12. Requirements of Cash
13. Production cycle
14. Depreciation policy

1. Nature of business

This is an important factor for determining the amount of working capital required by various companies. Trade or manufacturing concerns will require a greater amount of working capital, along with its fixed investment of stocks, raw materials and finished products.

Public utilities and large fixed-investment railway companies usually have the least need for current assets, partly because of cash, the nature of their business, and partly because of selling a service rather than a commodity. Similarly, basic and major industries or

those engaged in the manufacture of producer's goods generally have a lower proportion of working capital than industries producing consumer goods.

2. Length of period of manufacture

The average length of the manufacturing period, i.e. the time between the start and end of the construction process is an important factor in determining the amount of working capital.

If the finished product takes less time to be made, the required working capital will be less. To give an example, a baker needs one night time to bake his daily quota of bread. Therefore, their working capital is much less than a ship building concern which takes three to five years to build a ship. Other business concerns may fall between these two cases with varying periods of construction requiring different amounts of working capital.

3. Volume of business

Generally, company size has a direct relationship with working capital needs. The major concerns are to have high working capital for investment in current assets and to pay current liabilities.

4. The proportion of the raw materials cost to total cost

Where the cost of raw materials used in manufacturing a product is very large in proportion to the total cost and its final value, the required working capital will also be higher. Therefore, in a cotton textile mill or sugar mill, this work requires huge money. A building contractor requires very large working capital for this reason. If the importance of the material is low, for example in an oxygen company, working capital needs will not be inherently high.

5. Use of manual labor or mechanization

In labor intensive industries, large working capital will be required compared to excessive mechanized ones. The latter will have a larger proportion of fixed capital. However, it may be recalled that to some extent the decision to use manual labor or machinery rests with the management. Therefore, in most cases it is possible to reduce working capital requirements and increase investment in fixed assets and vice versa.

6. Development and extension

As a company grows, working capital requirements will be higher. It is very hard to determine the relationship between the volume of a company's business and the increase in its working capital. The structure of working capital also changes in a growing company with economic conditions and corporate practices. Other things being equal, increasing industries require more working capital than static.

7. Need to keep large stocks of finished goods raw materials

Manufacturing concerns typically have to be carried on raw material and other stores and stocks of finished goods. The larger the stock (whether raw material or finished goods), the more working capital will be needed. In some lines of business, for example, where materials are heavy and purchased in large quantities, (in cement manufacturing), stock piling of raw materials is used. Similarly, in public utilities, which must have a sufficient supply of coal to ensure regular service, it is necessary to accumulate coal stock. Finished goods stocks in seasonal industries have to be stored during the seasons. All these require large working capital.

8. Turnover of working capital

Turnover refers to the speed with which working capital is recovered from the sale of goods. In some businesses, sales are made quickly and stocks soon run out and new purchases have to be made. In this manner, a small amount of money invested in shares will result in the sale of a much larger amount.

Considering the sales volume, the working capital requirements in such a business will be small. There are other businesses where sales are done irregularly. For example, in the case of jewellers, an expensive jewellery can remain closed in the show-window for a long time before it catches the fancy of a rich woman.

In such cases, large sums have to be invested in shares. But a baker or a news-hacker may be able to dispose of their shares quickly, and therefore, very small amounts may be required through working capital.

9. Terms of Credit

A company purchasing all raw materials for sale on cash and credit will require a large amount of working capital. Conversely, if the enterprise is in a position to buy on credit and sell it for cash, it will require a lower amount of working capital. The length of the credit period has a direct impact on the working capital.

The essence of this is that the period in which there is an expansion between the purchase of materials and the sale of finished goods and the sale of receivables will determine the requirements for working capital.

10. Terms of purchase and sales

The terms of purchase and sale [cash or credit] also affect the amount of working capital. If the company buys all the goods in cash and sells its finished products on credit, then the company will require a large amount of working capital. On the other hand, a company making the purchase of all goods on credit and providing no credit facilities to its customers will require less amount of working capital.

11. Seasonal Variations

There are some industries that either produce goods or sell only seasonally. For example, the sugar industry produces practically all sugar between December and April, and the woolen textile industry generally sells it during the winter. In both these cases the working capital needs will be very large, over the course of a few months (i.e. season). Working capital requirements will gradually decrease when sales occur.

12. Requirements of Cash

The requirement of having cash in hand to meet various needs, such as payment of salaries, rent, rates, etc. affects the working capital. The higher the cash requirements, the more will be the needs of the working capital of the company and vice versa.

13. Production cycle

It refers to the time involved in the manufacturing of goods. It covers the time period between acquiring the raw material and the completion of manufacturing process directing to the production of finished goods. Funds must be tied up during the process of construction, increases the required working capital. The longer the time the larger will be tied up and hence large working capital is needed and vice versa.

14. Depreciation policy

The depreciation policy through its effect on tax liability and retained earnings has an influence on working capital. Depreciation is tax deductible. Higher the amount of depreciation the lower the tax liability and more the cash profit. Similarly, the amount of net profits will be less if higher depreciation is charged. If the dividend policy is linked with net profits, the firm can pay fewer dividends by providing for more depreciation. Thus, depreciation is an indirect method of maintaining profits and preserving the firm's working capital position.

XVII. Components of Working Capital Management

The components of management of working capital of any organization are:

- a) Management of Cash and Cash equivalents
- b) Management of Inventory
- c) Management of Accounts receivables (Debtors)
- d) Management of Accounts payable (Creditors)

a) Management of Cash and Cash equivalents

One of the most important working capital components managed by all organizations is cash and cash equivalents. Cash management helps determine the optimal size of the firm's liquid asset balance. This indicates efficient methods of controlling the collection and payment of cash, as well as appropriate types of short-term investments. Good cash management implies the co-relation between maintaining adequate liquidity with minimum cash in bank. All companies strongly emphasize cash management as it is the key to maintain the firm's credit rating, minimize interest cost and avoid insolvency.

b) Management of inventories

The list includes raw materials, WIP (work in progress) and finished goods. Where excessive stocks can place a heavy burden on the cash resources of a business, insufficient stock can result in sales losses, delays for customers, etc. Inventory management involves the control of assets that are generated to be sold in the normal course of business.

For better stock/inventory control:

- Regularly review the effectiveness of existing procurement and inventory systems
- Keep track of stock for all major items of inventory
- Slow moving stock has to be disposed of for sale if kept for a long time
- Outsourcing should also be considered as a part of the strategy where part production can be done through another manufacturer
- Security procedures also need to be closely monitored

c) Management of receivables

Receivables contribute to a significant portion of the current assets. For investing in receivables, there are some costs (opportunity cost and time value) that any company has to bear, there is also the risk of bad debts associated with it. It is, therefore necessary to have proper control and management of receivables which helps in taking sound investment decisions in debtors. Thus, effective receivable management requires one to control credit and ensure that clear credit practices are part of the company's policy, which is followed by all others associated with the organization. One has to be very cautious while accepting new accounts, especially the big ones. Thereby, the principle lies in establishing appropriate credit limits for every customer and stick to them.

Effectively managing accounts receivables:

- Manage records efficiently by regularly coordinating and communicating with credit managers and treasury in-charges
- Create a performance measurement report
- Control the accuracy and security of receivable records.
- Captive finance subsidiary can be used to centralize accounts receivable and provide financing for the sale of the company

d) Management of accounts payable

Creditors are an important part of effective cash management and must be managed carefully to enhance the cash position of the business. One should remember that purchasing initiates cash outflows and an undefined purchasing function can create liquidity problems for the company. Trade loan terms are to be defined by companies as they vary across industries and between companies.

Factors to consider:

- Costs of business loans and alternative forms of short-term financing are to be defined
- Disbursement float which is the amount paid but not deposited in the payers account needs to be controlled
- Inventory management system must be implemented
- There is a need to adopt appropriate methods for customer-to-business payments through e-commerce
- The company has to centralize the financial function in relation to the number, size and location of the vendors

XVIII. COMPUTATION (OR ESTIMATION) OF WORKING CAPITAL

This step tells how to calculate the working capital requirements is a matter of commercial concern. It may also depend on various factors but some common methods used to estimate working capital are:

a) Estimation of components of working capital method

Working capital includes various current assets and current liabilities. Therefore, we have to estimate how much current assets for inventions are and how much cash is required to meet short-term obligations. The finance manager first estimates assets and required working capital for a particular period.

b) Percent of sales method

Based on past experience between sales and working capital requirements, a ratio can be set to assess the need for working capital in the future. It is a simple and conventional method of estimating working capital requirements. Under this method, first we have to find the sales to working capital ratio and Based on this, we have to estimate the working capital requirements. This method too expresses the relationship between sales and working capital.

c) Operating cycle Method

The requirement for Working Capital depends upon the operating cycle of any business. This operating cycle also known as working capital cycle begins with the attainment of raw material and ends with the collection of receivables. The Operating cycle consists of the following important stages:

1. Raw Material and Storage Stage, (R)
2. Work in Process Stage, (W)
3. Finished Goods Stage, (F)
4. Debtors Collection Stage, (D)
5. Creditors Payment Period Stage. (C)

$$O = R + W + F + D - C$$

Each component of the operating cycle can be calculated by the following formula:

$$R = \frac{\text{Average Stock of Raw Material}}{\text{Average Raw Material Consumption per Day}}$$

$$W = \frac{\text{Average Work in Process Inventory}}{\text{Average Cost of Production per Day}}$$

$$F = \frac{\text{Average Finished Stock Inventory}}{\text{Average Cost of Goods Sold per Day}}$$

$$D = \frac{\text{Average Book Debts}}{\text{Average Credit Sales per Day}}$$

$$C = \frac{\text{Average Trade Creditors}}{\text{Average Credit Purchase per Day}}$$

d) Balance sheet method

In this method a forecast is made up of various assets and liabilities. After this, difference between the two is taken out. Difference will indicate deficiency or surplus of cash.

XIX. WORKING CAPITAL MANAGEMENT POLICY

In order to manage the relationship between sales and working capital efficiently, three policies are formulated:

- Conservative Working Capital Policy.
- Moderate Working Capital Policy.
- Aggressive Working Capital Policy.

a) Conservative working capital policy

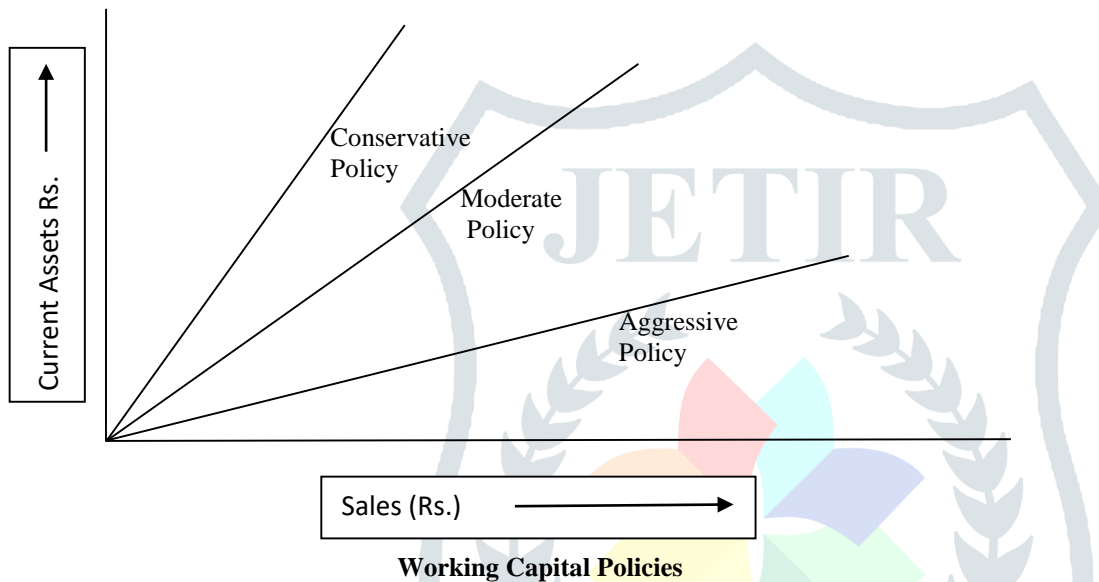
Conservative working capital policy refers to reduce risk by maintaining a high level of working capital. This type of working capital policy is suitable to meet seasonal fluctuations of manufacturing operations.

b) Moderate working capital policy

Moderate Working Capital Policy refers to the moderate level of Working Capital maintenance according to moderate level of sales. This means that one percent change in working capital, that is, working capital is equal to sale.

c) Aggressive working capital policy

Aggressive Working Capital Policy is one of the high risky and profitability policies which maintain low level of Aggressive Working Capital as opposed to the high level of sales in the business during a particular period.



XX. DATA ANALYSIS

RATIO ANALYSIS

Liquidity ratio: Liquidity refers to a firm's ability to meet its obligations in the short term usually one year. These ratios show relationship between current assets and current liabilities. The important ratios are current ratio, acid test ratio, Absolute Cash Ratio Current Assets Turnover Ratio, Working Capital Turnover Ratio and Profitability Ratio (Net Profit Margin Ratio and Gross Profit Margin Ratio).

• CURRENT RATIO

Current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations within a year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables. Current Ratio is the ratio of Current Assets to the Current Liabilities. It shows the firm's ability to cover its Current Liabilities with the Current Assets.

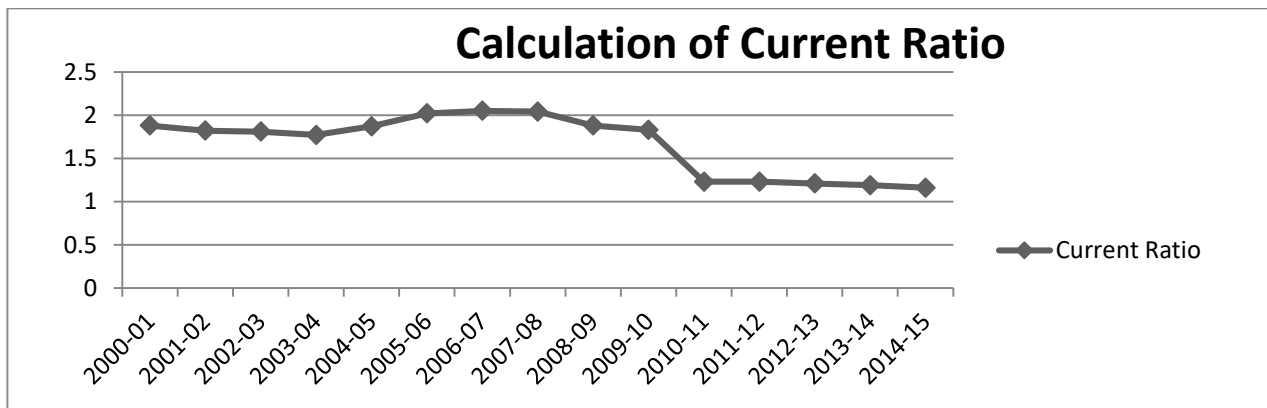
CURRENT RATIO=CURRENT ASSETS/CURRENT LIABILITIES

TABLE I: (Rs. in Crore)

Years	Current assets	Current liabilities	Current ratio
2000-01	274473	145613	1.88

2001-02	312950	171566	1.82
2002-03	348226	192847	1.81
2003-04	385710	218046	1.77
2004-05	464041	248582	1.87
2005-06	547860	271765	2.02
2006-07	626053	305707	2.05
2007-08	757748	372045	2.04
2008-09	824148	438503	1.88
2009-10	949113	517409	1.83
2010-11	866474	707110	1.23
2011-12	992740	810215	1.23
2012-13	1028375	849804	1.21
2013-14	1066140	894389	1.19
2014-15	1037451	893942	1.16

(Source: Secondary Data)



The current ratio is optimal at 2: 1, i.e. the current assets should be 2 times the current liability. A current ratio less than one indicate that the company may have problems to meet short-term financial obligations. If the ratio is very high, the company may not be efficiently using its current assets or short-term financing facilities. But this rule does not need to work well in real life situations as it depends on many other factors. Since the availability of the raw materials are seasonal in nature and the industry uses imported Materials and Stores the Company have to stock them for a longer period to avoid lead time. Both these components make the Inventory level very high in turn resulting in a higher Current Assets level over the Current Liability, this in turn lead to a higher Current Ratio.

Over the period of analysis the Current Ratio of the company went below 2:1 for the time period from 2000-01 to 2004-05 which is not suitable as per the above rule. For the year from 2005-06 to 2007-08 the Company was stable in maintaining its Current Ratio that is above 2:1 i.e. the enterprises are more liquid and are apparently in a better position to pay off their liabilities. From the year 2008-09 to 2014-15 the Companies Current Ratio was at below the required ratio which is again not suitable as per the above rule. Overall the Company is found satisfactory with its Current Ratio from 2005-06 to 2007-08.

• ACID TEST RATIO

Companies with acid-test ratios less than 1 do not have sufficient liquid assets to pay their current liabilities and must be treated with caution. If the acid-test ratio is much lower than the current ratio, it means that the company's current assets are highly dependent on inventory. The quick ratio is considered a more reliable test of short-term solvency than the current ratio because it quickly shows the ability of a business to pay short-term debts. Inventory and prepaid expenses are excluded from current assets for calculating the quick ratio because the inventory may take a longer period of time to convert to cash and prepaid expenses also can not be used to pay current liabilities.

Liquid or Quick Assets = (Total Current Assets – Inventory – Prepaid Expenses)

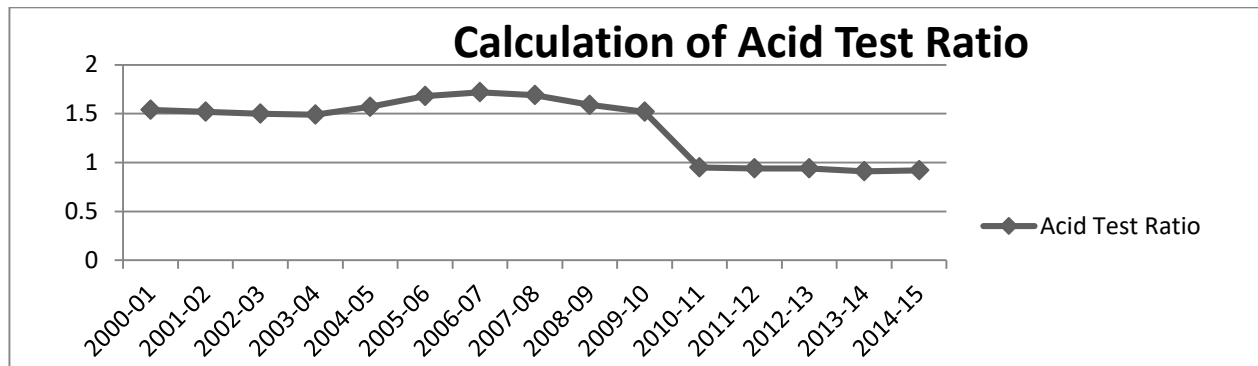
Acid Test Ratio = Quick Assets / Current Liabilities

TABLE II: (Rs. in Crore)

Year	Quick assets	Current liabilities	Quick ratio
2000-01	223756	145613	1.54
2001-02	260775	171566	1.52
2002-03	289944	192847	1.50

2003-04	326005	218046	1.49
2004-05	390399	248582	1.57
2005-06	456975	271765	1.68
2006-07	524526	305707	1.72
2007-08	629060	372045	1.69
2008-09	697821	438503	1.59
2009-10	787315	517409	1.52
2010-11	674720	707110	0.95
2011-12	758766	810215	0.94
2012-13	797639	849804	0.94
2013-14	814021	894389	0.91
2014-15	821349	893942	0.92

(Source: Secondary Data)



Liquid ratio refers to the real liquidity of a firm. The liquid ratio of 1: 1 as a convention is considered satisfactory. The company has been efficient in maintaining its liquid assets its current liability. The table shows that the Company has maintained its Quick Assets more than its Current Liabilities till 2010. But from 2010 onwards the company had stepped into severe liquidity crisis and the quick ratio had gone below the ideal ratio and least i.e. 0.91 in the year 2013-2014. So during this period the quick ratio is less than 1 which means the enterprises do not have enough liquid assets to pay their current liabilities and should be treated with caution. If The Liquid Ratio of the Company is not at a satisfactory level, the Company is not in a safe position.

• **ABSOLUTE CASH RATIO**

A cash ratio or cash coverage ratio is a liquidity ratio that measures a firm's ability to pay its current liabilities with cash and cash equivalents only. The cash ratio is much more restrictive than the current ratio or quick ratio because no other current assets can be used to pay off the current debt except cash. This is why many creditors prefer the cash ratio. They want to see if a company maintains adequate cash balances to pay off all of their current debts as they come due. Creditors also like the fact that inventory and accounts receivable are left out of the equation because both of these accounts are not guaranteed to be available for debt servicing. Inventory could take months or years to sell and receivables could take weeks to collect. Cash is guaranteed to be available for creditors.

This ratio measures the cash availability of the firm to meet the current liabilities. There is no ideal ratio, it helps the management understand the level of cash availability of the firm and make any changes required. However, if the ratio is greater than 1 it indicates poor resource management and very high liquidity. And high liquidity may mean low profitability.

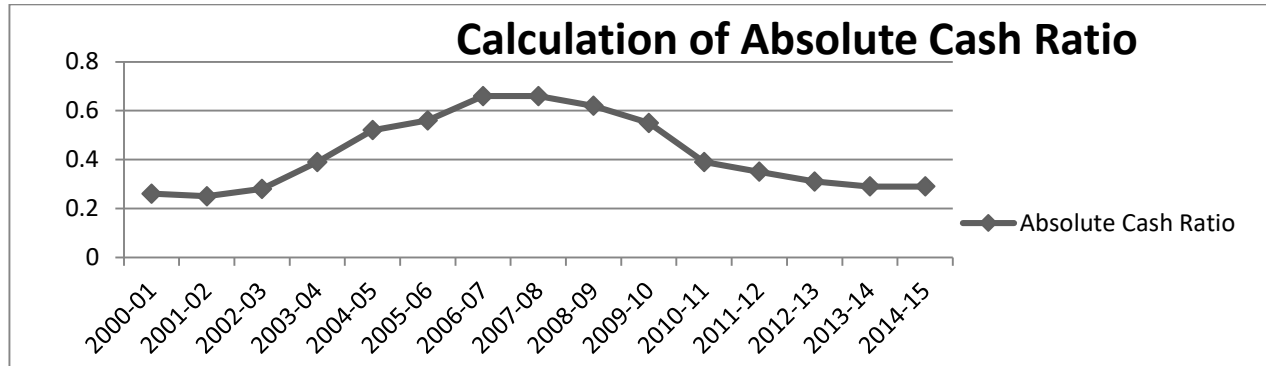
Absolute Cash ratio = $\frac{\text{Cash} + \text{Bank Balance} + \text{Marketable Securities}}{\text{Current Liabilities}}$

TABLE III: (Rs. in Crore)

Year	Cash & Bank Balances	Current liabilities	Absolute Cash Ratio
2000-01	37448	145613	0.26
2001-02	43525	171566	0.25
2002-03	53454	192847	0.28
2003-04	84979	218046	0.39
2004-05	129482	248582	0.52
2005-06	151974	271765	0.56
2006-07	203342	305707	0.66
2007-08	246375	372045	0.66
2008-09	272454	438503	0.62
2009-10	284149	517409	0.55
2010-11	276157	707110	0.39
2011-12	283256	810215	0.35
2012-13	266680	849804	0.31

2013-14	263502	894389	0.29
2014-15	255839	893942	0.29

(Source: Secondary Data)



A ratio of 1 means that the company has the same amount of cash and equivalents as it has short term liabilities. In other words, to pay back its current debt, the company must use all its cash and equivalents. A ratio more than 1 means that all current liabilities can be repaid with cash and equivalents. A ratio below 1 means that the company needs more than just its cash reserves to pay its current debt.

As with most liquidity ratios, a higher cash coverage ratio means that the company is more liquid and can fund its debt more easily. Creditors are particularly interested in this ratio because they want to ensure that their debts are repaid. Any ratio above 1 is considered a good liquidity measure.

- **CURRENT ASSET TURNOVER RATIO (CATR)**

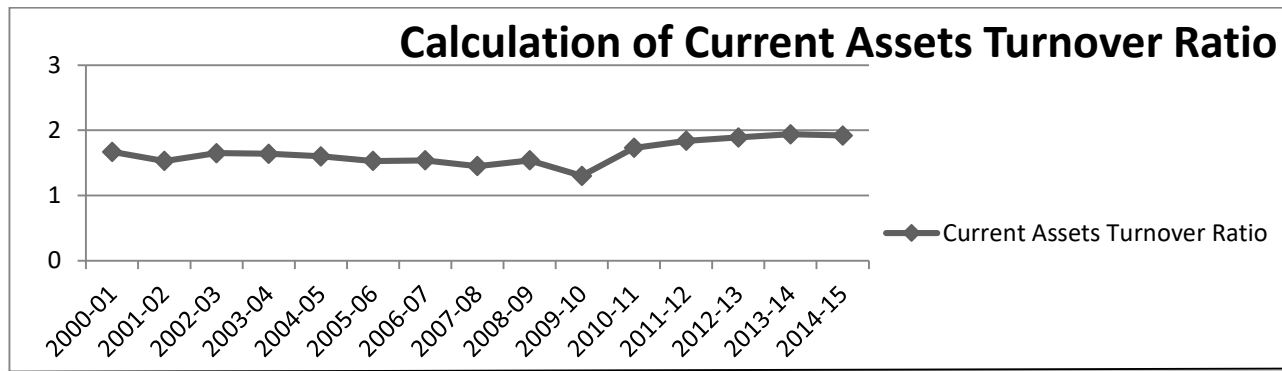
Sales to current assets ratio is measured over several periods and should be compared to the industry average, as the amount of current assets varies widely among companies and industries. The decreasing current assets turnover ratio is generally a negative sign, the company indicates that production may be slow, reduced in the amount of inventory and consequently current assets.

CATR=NET SALES / CURRENT ASSETS

TABLE IV: (Rs. in Crore)

Year	Sales	Current assets	Current assets turnover ratio
2000-01	458237	274473	1.67
2001-02	478731	312950	1.53
2002-03	572833	348226	1.65
2003-04	630704	385710	1.64
2004-05	744307	464041	1.60
2005-06	837295	547860	1.53
2006-07	964890	626053	1.54
2007-08	1096308	757748	1.45
2008-09	1271529	824148	1.54
2009-10	1235060	949113	1.30
2010-11	1498018	866474	1.73
2011-12	1822049	992740	1.84
2012-13	1945814	1028375	1.89
2013-14	2066057	1066140	1.94
2014-15	1995176	1037451	1.92

(Source: Secondary Data)



The Current Assets Turnover Ratio shows the number of times the Current Assets are being turned over in a stated period. It also shows how well the current assets are being used in the business concern. A high ratio indicates a higher degree of efficiency in asset use from year 2000-2001 to year 2012-2013 there is a fluctuation trend of current assets turnover ratio as it is increasing in some years and declining in the other but the ratio for all the previous years is less than the ration in the year 2013-2014 i.e. 1.94. This indicates a slight decline in firm's ability of generating sales through its current assets, such as cash, inventory, accounts receivable, etc. For increasing the current asset turnover some measures have to be taken to return the funds of the company. For avoiding the risk of the same problem arising again in future the complex strategy of commercial credit provision for clients should be developed. Within the framework of this strategy, all clients should be split into groups, depending on the history of the collaboration with them, their financial condition and their importance for the company. The main share of consumer and commercial loans must belong to the most reliable and important clients. Again in the year 2014-2015 the enterprises started declining in terms of its current Assets Turnover Ratio in comparison to the previous year 2013-2014 i.e. 1.94.

• **WORKING CAPITAL TURNOVER RATIO (WCTR)**

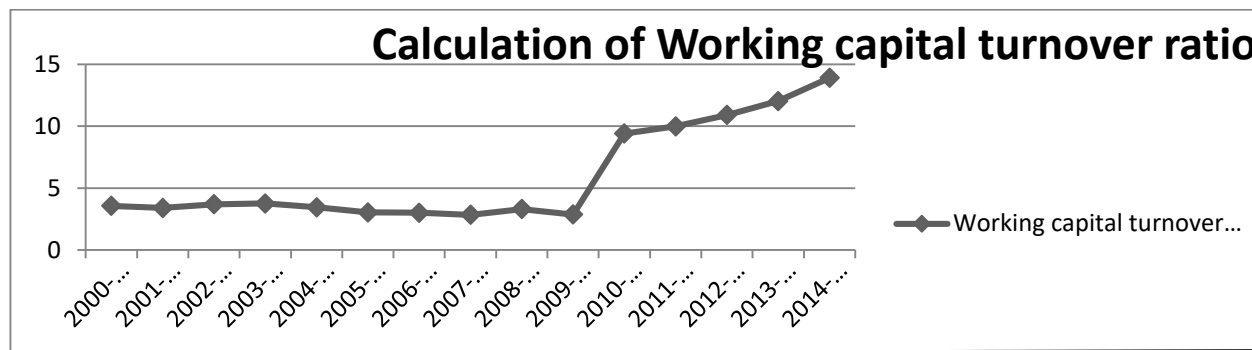
A high or growing working capital turnover is usually a positive sign the company shows its good ability to generate sales from its working capital. Either company has been able to achieve more net sales with the same or lesser amount of working capital, or it is capable of reducing the working capital with being able to sustain the sales. Efforts to streamline the operations of the company will often show compatibility in this ratio.

$$\text{WCTR} = \text{NET SALES} / \text{WORKING CAPITAL}$$

TABLE V: (Rs. in Crore)

Year	Sales	Working capital	Working capital turnover ratio
2000-01	458237	128860	3.56
2001-02	478731	141384	3.39
2002-03	572833	155379	3.69
2003-04	630704	167664	3.76
2004-05	744307	215460	3.45
2005-06	837295	276096	3.03
2006-07	964890	320346	3.01
2007-08	1096308	385703	2.84
2008-09	1271529	385645	3.30
2009-10	1235060	431704	2.86
2010-11	1498018	159364	9.40
2011-12	1822049	182525	9.98
2012-13	1945814	178571	10.90
2013-14	2066057	171751	12.03
2014-15	1995176	143509	13.90

(Source: Secondary Data)



This ratio measures the number of times working capital is operational. The Company could maintain a satisfactory level of Working Capital Turnover Ratio in the period of analysis. The Working Capital Turnover Ratio stood at the highest level in the year 2014-15 Owing to lower Unit Net Sales Realization during the year 2013-14. In the year 2015 the Working Capital turnover of the Company increased to 13.90 which is the largest.

• PROFITABILITY RATIO

Profitability reflects the end results of business operations. There are two aspects to the profit ratio: the profit margin ratio and the rate of return ratio. The profit margin ratio reflects the relationship between profit and sales. The rate of return ratio reflects the relationship between profit and investment.

• NET PROFIT MARGIN RATIO

Net profit margin ratio is the percentage of net profit relative to revenue earned over a period. This ratio is also known by the names of net profit margin percentage and NP margin.

Net Profit = Total Revenues - All Expenses

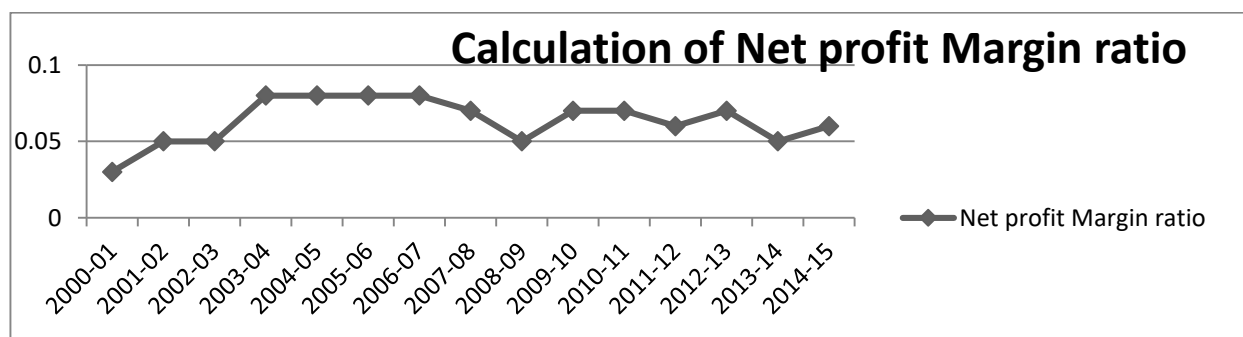
Net Sales = Total Revenues - Allowances - Returns – Discounts

Net profit margin ratio = net profit/net sales

TABLE VI : (Rs. in Crore)

Year	Net profit	Net sales	Net profit Margin ratio
2000-01	15653	458237	0.03
2001-02	25978	478731	0.05
2002-03	31119	572833	0.05
2003-04	49010	630704	0.08
2004-05	63889	744307	0.08
2005-06	66344	837295	0.08
2006-07	77175	964890	0.08
2007-08	79704	1096308	0.07
2008-09	69267	1271529	0.05
2009-10	84119	1235060	0.07
2010-11	98245	1498018	0.07
2011-12	114982	1822049	0.06
2012-13	128045	1945814	0.07
2013-14	102911	2066057	0.05
2014-15	114031	1995176	0.06

(Source: Secondary Data)



This ratio explains the ability to make a profit per rupee of sales. If the cost of sales is lower than the net profit will be higher and then we divide it with the net sales, the result is the sales efficiency. This ratio is very useful for proprietors and prospective investors because it reveals the overall profitability of the firm. The ratio was high in the year 2003-04, 2004-05 and 2005-06 but in the year 2000-2001 it has declined to 0.03 and still continuing so there is a chance of increasing the ratio by the improvement in the efficiency of the concern.

• GROSS PROFIT MARGIN RATIO

The gross profit ratio shows the relationship between gross profit and total net sales. It is a popular tool for evaluating the operational performance of a business. The ratio is calculated by dividing the figure of gross profit by net sales.

The following formula is used to calculate the gross profit ratio:

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}}$$

When the gross profit ratio is expressed in percentage form, it is known as gross profit margin or gross profit percentage. The formula for gross profit margin or percentage is given below:

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

Also known as the gross profit margin ratio, it establishes a relationship between gross profit and net revenue generated from operations (net sales). Gross profit ratio is a profitability ratio which is expressed as a percentage hence it is multiplied by 100. Net sales consider both Cash and Credit sales. on the other hand, gross profit is calculated as Net Sales minus COGS. Gross profit ratio helps in finding optimal selling prices and improving efficiency of trading activities. It also helps find out the lowest selling price of goods per unit to an extent that the business will not suffer a loss.

Gross Profit = Net Sales – COGS

COGS = Opening Stock + Purchases + Direct Expenses* – Closing Stock

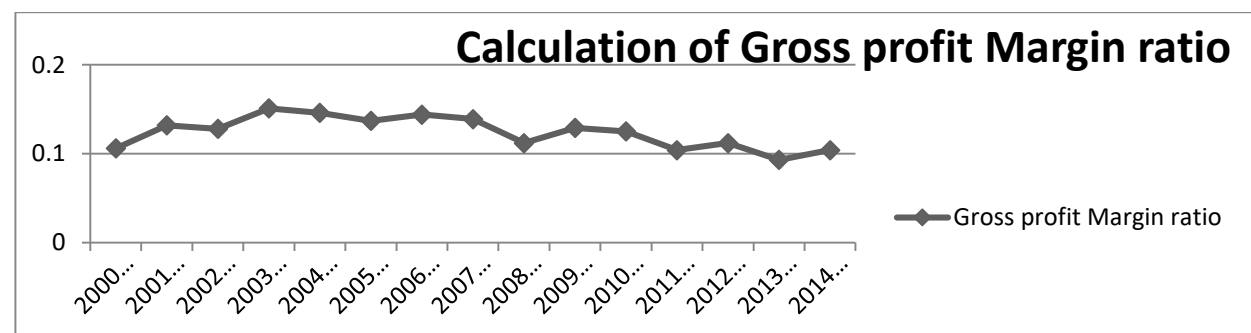
*Only used if they are specifically provided

Net Sales = Cash Sales + Credit Sales – Sales Returns

TABLE VII: (Rs. in Crore)

Year	Gross profit	Net sales	Gross profit Margin ratio
2000-01	48767	458237	0.106
2001-02	63190	478731	0.132
2002-03	73374	572833	0.128
2003-04	95120	630704	0.151
2004-05	108420	744307	0.146
2005-06	114422	837295	0.137
2006-07	139008	964890	0.144
2007-08	152579	1096308	0.139
2008-09	142395	1271529	0.112
2009-10	159846	1235060	0.129
2010-11	186910	1498018	0.125
2011-12	189390	1822049	0.104
2012-13	218693	1945814	0.112
2013-14	192346	2066057	0.093
2014-15	207346	1995176	0.104

(Source: Secondary Data)



With the help of the table we can say that there is a fluctuating increasing and decreasing trend of gross profit ratio but in the year 2003-04 it was the highest i.e. 0.151 and there is no norm or standard to interpret gross profit ratio (GP ratio). Generally, a higher ratio is considered better. So when we compare the ratio of 2003-2004 to 2014-15 it shows a decline in the gross profit ratio from 0.151 to 0.104.

A business is rarely judged by its Gross Profit ratio, it is only a mild indicator of the overall profitability of the company.

With the help of the table we can say that there is a fluctuating increasing and decreasing trend of gross profit ratio but in the year 2003-04 it was the highest i.e. 0.151 and there is no norm or standard to interpret gross profit ratio (GP ratio). Generally, a higher ratio is considered better. So when we compare the ratio of 2003-2004 to 2014-15 it shows a decline in the gross profit ratio from 0.151 to 0.104.

A business is rarely judged by its Gross Profit ratio, it is only a mild indicator of the overall profitability of the company.

High – A high ratio may indicate high net sales with a constant cost of goods sold or it may indicate reduced COGS with constant net sales.

Low – A low ratio may indicate low net sales with a constant cost of goods sold or it may also indicate increased COGS with constant net sales.

Gross profit is very important for any business. This should be sufficient to cover all expenses and provide profits.

There is no standard to interpret the gross profit ratio (GP ratio). Generally, a higher ratio is considered better. The ratio can be used to test the business situation by comparing it with the ratio of previous years and other companies in the industry. Continuous improvement in the gross profit ratio over the past years is a sign of continuous improvement. When comparing ratios with others in the industry, the analyst needs to see if they use similar accounting systems and practices.

XXI. FINDINGS

- 1) The financial performance of the companies was not encouraging with a sales turnover of Rs 1995176 crore for the year ending 31st march, 2015 to Rs 2066057 crore during the previous year.
- 2) Actual production has been increasing consistently from 2000-01 but was low in 2014- 2015 when compared with this previous year.
- 3) The company has no accumulated losses at the end of the financial year.
- 4) Overall the Companies are found satisfactory with its current ratio just for few of the years like 2005-06, 2006-07 and 2007-08 but its was not satisfactory for the other years and even for the year 2014-15.
- 5) The Liquid Ratio of the Companies are at a satisfactory level from 2000-01 to 2009-10. Afterwards the Liquid Ratio of the Companies are not at a satisfactory level. The company is not in a safe position.
- 6) The absolute cash ratio is also not showing satisfactory level for any of the years. To pay its current debt, the company must use all its cash and equivalents. A ratio more than 1 means that all current liabilities can be repaid with cash and equivalents. A ratio below 1 means that the company needs more than just its cash reserves to pay its current debt. Any ratio above 1 is considered a good liquidity measure.
- 7) CURRENT ASSET TURNOVER RATIO (CATR) for all the previous years is less than the ration in the year 2013-2014 i.e. 1.94. This indicates a slight decline in firm's ability of generating sales through its current assets, such as cash, inventory, accounts receivable, etc.
- 8) The Working Capital Turnover Ratio stood at the highest level in the year 2014-15 Owing to lower Unit Net Sales Realization during the year 2013-14. In the year 2015 the Working Capital turnover of the Company increased to 13.90 which is the largest.
- 9) The Net Profit ratio was high in the year 2003-04, 2004-05 and 2005-06 but in the year 2000-2001 it has declined to 0.03 and still continuing so there is a possibility of increasing the ratio through improved efficiency of the concern.
- 10) With the help of the table we can say that there is a fluctuating increasing and decreasing trend of gross profit ratio but in the year 2003-04 it was the highest i.e. 0.151 and there is no norm or standard to interpret gross profit ratio (GP ratio). Generally, a higher ratio is considered better. So when we compare the ratio of 2003-2004 to 2014-15 it shows a decline in the gross profit ratio from 0.151 to 0.104.

XXII. SUGGESTIONS

The major sources of Working Capital of companies are Sundry Debtors, Sundry Creditors, and Advances from customers and Provisions The internal control procedures need to be more ad equals so as to be commensurate with the size of the company and the nature of its business with regard to accounting, handling, control and valuation of inventories, so that it does not block a huge amount of money in inventory.

If the quick ratio is less than 1 that means that even after liquidating all of the company's current assets, it still doesn't have enough available to pay off its short-term debt, if it had to. On the other hand if it is more than 1 then a large Quick ratio gives creditor's

confidence that the company will be able to meet its current obligations whenever they come due. More than 1:1 Looking from the perspective of short-term solvency the company in this case is in a favorable condition. Usually 1: 1 is an acceptable number for the acid test ratio because it shows that for every 1 unit of short-term liability in the business there is 1 unit of quick asset. A lower ratio than 1:1 indicates financial difficulty for the business. Quick ratio of companies from 2000-2001 to 2009-10 is more than ideal ratio 1:1. But in the year 2013-14 and 2014-15 it is very low i.e. 0.92 and 0.91. Management has to take action to maintain the ratio at the standard level because it is a matter of concern that its liquid assets are at least equal to liquid liabilities at all times. The cash situation should be rectified as soon as it is at a dangerous level. The absolute cash ratio is also not showing satisfactory level for any of the years. It is below 1 for all the years and a ratio below 1 means that the company needs more than just its cash reserves to pay off its current debt. Any ratio above 1 is considered to be a good measure of liquidity. So the enterprises needs more cash to pay off short-term debt than it had.

XXIII. CONCLUSION

A study conducted in public limited enterprises; enable to get practical touch to the topic Working Capital Management of the company. The management of working capital plays an important role in maintaining the financial health of the companies during the normal course of business.

The company must maintain an adequate level of working capital to produce up to the given capacity and maximize the return on investment in fixed assets. Decline in working capital leads to lower capacity utilization. To maintain the solvency of the business and continue production, it is necessary that adequate funds be available to pay the bills for material, labour, selling and administrative expenses and other cost of doing business. Prompt payment of bills to the suppliers of materials ensures the continuous supply of raw materials and established loans for future or for proper operation.

From the study undertaken it is clear that the various components of working capital are interrelated. An increase in one component will decrease the amount of other, leading to maintain the level of working capital. As could be seen from the working capital the financial position of the firm is very encouraging. It ensures reasonable return on investment, hence it is considered as a sound and feasible project. Objective of working capital management is to manage in such a way that satisfactory level of working capital is maintained.

The goal of working capital management is to ensure that a firm is capable of continuing its operations and has enough capacity to meet both short-term debt and subsequent operating expenses. To conclude the project work has been a great experience and exposure to the real fixed experience and actual working of an organization.

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