CHAPTER - IV

Findings and Conclusion
A developing economy requires an increasing volume of investments not only in fixed assets but also in working capital. Because of the scarcity of investible resources, the rate of growth of such an economy depends to a great extent on the effective utilization of the working capital.

The funds required for carrying out current operations have been variously called as short-term finance, short-term funds and working capital. Capital requirements of a business can be fixed capital and working capital. Fixed capital is that part of resources invested in fixed or profit earning assets of the business. Working capital represents that part of resources of the business which makes the business work.

Working capital is that portion of total capital of a business which is employed in short-term operations. There is no universally accepted definition for
the term Working Capital. The one which is widely accepted is that “Working Capital represents the excess of current assets over current liabilities”.

Working capital is an integral part of overall corporate finance. Working capital is important for efficiently carrying out the day to day operations of every organization. In all concerns, the problem of effective working capital management is of paramount significance, as considerable amounts of funds are invested in the form of various current assets. In the absence of proper and efficient management of working capital, it would be difficult to achieve the basic objectives of its organizational efficiency.

The working capital of an organization is the life blood which flows through the veins and arteries. It gives courage and morale to the brain (management), and the muscles (personnel). It digests to the best degree, the raw material used, by its constant and regular flow and returns to the heart (cash flow) for another journey. Hence, when working capital is lacking or slow the financial bodies have value only as a junk. Funds are needed for short term purposes, viz., purchase of raw materials, payment of wages and other day-to-day business expenses. These funds are known as working capital. In other words, working
capital refers to that part of the firm's capital which is required for financing short-term current assets such as cash, marketable securities, debtors and inventories.

Working capital refers to the short-term funds required for the duration of the operating cycle in a business. The manner of administration of working capital determines to a large extent the success or failure of a business concern, the shortage of working capital is given out as its main cause. But in ultimate analysis, it may be mismanagement of resources of the firm that could have converted the otherwise successful business, an unsuccessful one.

Non-Banking Finance Companies serve the nation in economic reconstruction in the same way, as non-government voluntary organisations rejuvenate the social structure. The importance of non-banking finance companies have been felt vehemently for uplifting the various sectors of the economy and boosting the rate of economic growth, having learnt the lessons from the experiences of the developed nations where non-banking finance companies have played a vital role in market based free economies.

In India, the role of non-banking finance companies have been well recognised by the Government since seventies. Attempts have been made to
evolve a regulatory framework for non-banking finance companies. Reserve Bank of India's regulations for giving boost to their fund raising endeavour in the form of fixed deposits from the public were enforced as early as in 1977 to ensure their continued growth. The growth of non-banking finance companies have helped the industrial development to a great extent.

The primary objective of the present study is to evaluate the working capital management in non-banking finance companies. In tune with this, the following specific objectives have been framed:

1. To examine the liquidity position of the non-banking finance companies.
2. To examine the financial soundness of the non-banking finance companies.
3. To identify the sources used by the non-banking finance companies to finance their working capital requirements.
4. To find out the factors most influencing the management of working capital.
5. To analyse the trend of working capital requirements and predict the same.
6. To identify the problems encountered by the selected non-banking finance companies in utilization and management of working capital.

7. To suggest remedial measures for the problems involved in working capital management and proper utilization of working capital.

To accomplish the objectives of the study both the primary and secondary data were collected. The secondary data needed for the study were collected from the published financial statements and annual reports of the selected non-banking finance companies for the period under consideration. The primary data needed for the study were collected through personal interviews held with the officials of the units under study. The study covers a period of 10 years i.e., 1987-88 to 1996-97. The study is confined to ten non-banking finance companies having operations all over India.

The method of convenience sampling has been used to select the companies under study. The selected non-banking finance companies have been classified into two groups namely medium and large sized non-banking finance companies, based on the paid-up capital held during the year 1996-97, for the
purpose of meaningful and comparative analysis of their policies in relation to working capital management.

The non-banking finance companies having a paid-up share capital of less than Rs. 20 crores are classified as medium companies and those with a paid-up share capital of more than Rs. 20 crores are considered as large non-banking finance companies, consisting of five non-banking finance companies in each group.

The collected data were analysed with reference to each of the specific objectives of the study. Conventional tools like descriptive tables, percentages, diagrams and graphs were used. To examine the effective management of working capital, different ratios were also constructed. Further, the following statistical tools were made use of, to complete the study.

Simple correlation was carried out to find out the degree of relationship between the variables considered in the study and its significance was tested by using ‘t’ test. Multiple linear regression was used to find out the functional relationship between the working capital and other related variables. Its significance was tested by using ‘f’ test. The technique of analysis of variance
was used to find out the homogeneity of the different companies with respect to the different characteristics. Suitable forecasting technique was used to predict the working capital for the next five years.

The following is the summary of the findings.

1. Both the medium and large sized non-banking finance companies considered for the study have good short-term solvency. Non-Banking Finance Companies taken into consideration do not have satisfactory short-term liquidity.

2. The non-banking finance companies have profitably and effectively made use of their debt.

3. Non-Banking Finance Companies considered for the present study have turned over their stock in an effective and efficient manner.

4. Both the medium and large sized non-banking finance companies have not used their fixed interest and dividend bearing funds in an effective manner.

5. Non-Banking Finance Companies taken into consideration for the present study are making a good return on their investments. Both medium and
large sized non-banking finance companies are making good returns on the funds of their shareholders.

6. The fixed interest bearing securities of both the medium and large sized non-banking finance companies are fully secured towards payment of interest.

7. Non-Banking Finance Companies considered for the study have higher proprietary ratio indicating stronger financial position from the viewpoint of creditors. A major part of total assets are financed by shareholders.

8. Both the medium and large sized non-banking finance companies taken into consideration have effectively made use of bank credit to finance their working capital requirements. Bank credit have been utilized to the maximum extent, by both medium and large sized non-banking finance companies, to finance working capital requirements with lesser dependence on shareholders funds.

9. The correlation analysis carried out shows that in case of all the large sized non-banking finance companies there is significant correlation between the amount lent under hire purchase and interest income, whereas in the case
of medium sized non-banking finance companies except Kothari Orient Finance Ltd., the relationship is not significant.

10. There is significant relationship between cost of assets leased out and lease rental income in the case of the large sized companies considered, whereas in the case of medium sized companies except Sakthi Finance Ltd., the relationship is not significant.

11. The correlation between loan obtained by the company and interest paid thereon is significant in the case of all the large sized companies except Nagarjuna Finance Ltd. In the case of medium sized companies the relationship is significant as far as all the companies are considered.

12. The multiple regression carried out shows that the variables stock on hire and loans and advances have significant influence over current assets in the case of Integrated Finance Company Ltd., Sakthi Finance Ltd., First Leasing Company of India Ltd., Sundaram Finance Ltd., Ashok Leyland Finance Ltd., and Nagarjuna Finance Ltd.
13. The variables cash and loans and advances have significant influence over current assets in the case of Elgi Finance Ltd., and Kothari Orient Finance Ltd.

14. In case of Investment Trust of India Ltd., the variables stock on hire and cash have high influence over current assets.

15. In the case of 20th Century Finance Corporation Ltd., the variables stock on hire, cash, loans and advances have high joint influence over current assets.

16. The influence of variables, unclaimed dividend and unmatured financial charges over current liabilities is high in the case of Ashok Leyland Finance Ltd., and Elgi Finance Ltd.

17. The variables sundry creditors, unclaimed dividend and unmatured financial charges jointly influence the current liabilities at a higher rate in the case of Integrated Finance Company Ltd.

18. In the case of Sakthi Finance Ltd., variables sundry creditors, unclaimed dividend, unmatured financial charges and provisions have high influence over the current liabilities.
19. The variables unclaimed dividends and provisions have high joint influence over current liabilities in the case of First Leasing Company of India Ltd., and 20th Century Finance Corporation Ltd.

20. In the case of Sundaram Finance Ltd., and Nagarjuna Finance Ltd., the variables sundry creditors and unclaimed dividends have high joint influence over current liabilities.

21. The variables sundry creditors and unmatured financial charges have high joint influence over current liabilities in the case of Investment Trust of India Ltd. In the case of Kothari Orient Finance Ltd., the variable sundry creditors and provisions have high influence over current liabilities.

22. The analysis of variance carried out indicates that there is significant difference between the average current assets and working capital of the large sized non-banking finance companies, Nagarjuna Finance Ltd., and 20th Century Finance Corporation Ltd., Nagarjuna Finance Ltd., Sundaram Finance Ltd., and Ashok Leyland Finance Ltd., First Leasing Company of India Ltd., and 20th Century Finance Corporation Ltd., Sundaram Finance Ltd., and Ashok Leyland Finance Ltd.
23. There is a notable difference between the average current liabilities of Nagarjuna Finance Ltd., and 20th Century Finance Corporation Ltd., Nagarjuna Finance Ltd., and Ashok Leyland Finance Ltd., First Leasing Company of India Ltd., and 20th Century Finance Corporation Ltd., Sundaram Finance Ltd., and Ashok Leyland Finance Ltd.

24. There is significant difference between the average current assets, current liabilities and working capital of Elgi Finance Ltd., and other medium sized non-banking finance companies under consideration.

25. The index analysis carried out to examine the growth of current assets, current liabilities and working capital, indicates that in both the medium and large sized non-banking finance companies considered for the study, there is an increasing trend of current assets, current liabilities and working capital except in the case of a few companies for some years. The variation might have been due to abnormal conditions which prevailed during the concerned year.
SUGGESTIONS

Keeping in view, the above observations relating to the study, the following measures are suggested which would go a long way to improve the management of working capital in the Non-Banking Finance Companies in India;

1. The attitude of the management towards working capital needs an urgent change. Normally they give importance to the liquidity aspect leaving behind the profitability of funds employed in the form of working capital, resulting in an over investment in various current assets. It is suggested to the Managements to consider both the facets of working capital as equally significant and realise that only proper balancing liquidity and profitability would ensure effective and efficient working capital management.

2. Since frequent decision-making is involved in the management of working capital, a separate section or department should be established to assess the environmental changes and economic trends and their impact on working capital requirements.
CONCLUSION

In the present study, an attempt has been made by the researcher to present the various facets of working capital managements and their impact on the liquidity, short-term solvency and profitability of the units considered for the study. The study has made a comparison between the medium sized and large sized non-banking finance companies. The various issues related to the problem have been effectively dealt with and suitable suggestions have been made to overcome them. The researcher hopes that his attempt would serve a useful purpose. Further, it is felt that the study would pave the way for further research on the same or related issues. The researcher would feel amply rewarded if the study is made use of by any one connected with management of working capital.