## CHAPTER:- 9
Summary, Findings and Suggestions

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CHAPTER-1

Conceptual framework of liquidity analysis

Present research dealt with the study of “Analysis of liquidity of steel industry in India”, which are mainly engaged in the production of different types of steel products. The study is made to analyze liquidity, profitability, receivables, and cash of an organization. In the interest of getting good working results, every enterprise should have a periodical analysis of its liquidity and working capital. The areas of the analysis are liquidity, profitability, receivable and cash. For that the conceptual framework of Concept of Liquidity Management, Meaning of Liquidity Management, Principles of Liquidity Management, Techniques of Liquidity Management, Relationship between Liquidity and Profitability about the Study is given. The objective of this study is detailed cause and effect study of the efficiency and effectiveness in the use of resources available in the business enterprise. The importance and usefulness of liquidity management. Cash management, receivable management and profitability analysis of business are different for various users of the information such as for financial managers, investor, and shareholders, creditors, employees, Big business Houses, Government, and Society etc. For Financial managers this study is devises to measure the over all effectiveness of their own plans and policies. Investors and Shareholders are interested in the current and long term profitability of their investment. The employees, Shareholders, and Government are interested in the profits of a company. The society also expects to know about the social performance such as environmental obligations, employment, avenues, Social welfare etc. The techniques, which are commonly used for the study, are such as ratio analysis, trend analysis, comparative statement analysis etc. Statistical techniques are also used for the purpose and they generally include the average, index, ANOVA- one-way analysis of variance, Standard deviation, variance etc. Diagrams, Graphs and Charts are also prepared and made use of.
CHAPTER-2:

Profile of Steel Industry in India

The steel group of companies in India plays an important role in development of the Indian economy, which is mainly engaged in manufacturing the steel products. Therefore, the brief profile of steel industry is given in this chapter. A brief profile steel industry, which includes the introduction, steel industry that is classified as primary producers and secondary (down stream) producers, introduction of steel industry, history of steel industry, global steel industry, demand of steel in India, supply of steel in India, demand supply mismatch, production of steel in India, cost and revenue concept, export and import, major players of steel, competition analysis, merger and acquisition, SWOT analysis, expected growth, factor holding back to Indian steel, and factor for financial crisis, critical success factors, global perspective and outlook which includes facts and figure about exports, import and production capital of Indian steel industry. In the last the brief introduction of selected units has been given, which included the ownership of the industry, main product, and incorporation of years.

CHAPTER-3:

Research Design

The subject of the present study is “Analysis of liquidity of steel industry in India”, which covers the period of the last ten years from 1999-2000 to 2008-09. The study covers the large plants of steel group of companies. The study is based on secondary data published by the steel group of companies in their annual reports and accounts. The main objective of the study is to know the position of steel industry, financial strength, liquidity position, financial efficiency and management of receivable and cash position in relation to total resources of selected units of steel group of companies.

The chapter covers problems related to steel industry, Relevance of the study, Review of the literature, Statement of problem, Objectives of study, Hypothesis of the study, Universe of the study, Period of the study, Sampling design, Data collection method, Tools and Techniques which included Various statistical measures like mean, standard deviation, regression, index number, have been used and least-square trend, qui-square of productivity have been fitted, Kruskal Wallis and one way-analysis of variance test have been applied to
test the validity of two hypotheses namely (1) Null hypothesis (2) Alternative hypothesis.,
Outline of Study, Finally the limitations of present study have been shown.

CHAPTER-4:

Analysis of Liquidity

The concept of liquidity within a business is vital to the understanding of financial management as it is the basic criteria to test the short-term financial position of the enterprise. Liquidity may be defined as the ability to realize value in money the real liquid asset. It has two dimensions: - The times required converting the assets into money and risks involved. (1).the certainty of the reliable price. Liquidity refers to affirm continuous ability to meet its short-term maturing obligations. Since cash is used to meet a firm’s obligations, emphasis is given on holding large investment in current assets which include cash and ‘near cash’ items like receivables, short-term securities etc. thus, holding relatively large investment in current assets will result in no difficulty in paying the claims of the creditors and others.

According to Muraw Bahadur, “Analysis of liquidity provides the measure of the ability of the enterprise to meet its obligation. It is not sufficient that the final accounts show a profit and the balance sheet a rosy picture of financial health of the enterprise. All this will look meaningless, unless the cash available to meet obligations as and when they mature. The analysis of liquidity should therefore, be taken into consideration, the size of the components of current assets which can be readily converted into cash to meet maturing liability. The size, character and sequence of maturity of liabilities are also of significant importance & deserve due attention.” The term liquid asset is used to describe money and assets that are readily convertible into money “Liquidity has two dimensions viz. time and risk.” “The time dimension of liquidity concerns the speed with assets other than cash. The risk dimension raises the question of the degree of certainty about the conversion of inventories, receivable, receivable and other into cash with  a little sacrifice in price as possible. Viewed from these, all assets will have a degree of liquidity and assets that comprise cash and near cash items  in most liquid assets.” The liquidity of any business results from its ability to generate cash. “The financially sound company is able to build up a reserve of cash in excess of requirement for operation. This surplus of cash is then available for the financing of expansion and for payment of debts and dividends.” The working capital of a business represents the amount of current assets which the enterprise has in excess of the claims of the current creditors and with which, therefore, it is free to work. From this statement it would appear that the greater
the amount of working capital, or net current assets, the greater the degree of liquidity of the business, and so it is alleged that the amount of working capital is a measure of liquidity. The word liquidity was used by the financial accounting standard Board (FASB) “the amount of time that is expected to elapses until an asset is realized or otherwise converted into cash or until a liabilities has been paid”

Liquidity management therefore involves the amount of investment in the group of assets to meet short term maturing obligations-creditors and others. From the point of financing, normally a major portion of the fund required for financing current assets is obtained from long-term sources, equity and for debt, while the rest is met from short-term sources. It goes without saying that if the maturing obligations are met continuously as and when become due, creditors and others will have a feeling of confidence in the financial strength of the firm and this will sustain the credit reputation of the firm and a going firm will accordingly face difficulty in holding a particular level of current assets. But failure to meet such obligations on a continuous basis will affect the reputation, and hence credit worthiness of a firm, which will, in turn, make it more difficult to continue to finance the level of current assets from the short-term sources.

**Measurement of liquidity ad trends**

**Current ratio = Current assets/Current liabilities**

This ratio is an indicator of the firm’s commitment to meet its short-term liabilities. Current assets mean the assets that will either be used up or converted into cash within a year’s time or normal operating cycle of the business whichever is longer. Current liabilities means liabilities payable within a year or operating cycle, whichever is longer, out of the existing current assets or by creation of current liabilities. It is an index of the solvency f a concern. An ideal current ratio 2:1. The ratio is considered as a safe margin of solvency due to the fact that if the current assets are reduced to half i.e. one instead of two then also the creditor will be able to get their payments in full. However, a business having seasonal trading activity may show a lower current ratio at certain period of the year.

A very high current ratio is also not desirable since it means less efficient use of funds. This is because a high current ratio means excessive dependent on long-term sources of raising funds. Long-term liabilities are costlier than current liabilities and therefore, this will result in considerably lowering down the profitability of the concern.

The object of ascertainment this ratio is to measure the extent to which payment is to be made in a year. Hence, on the one hand, it is a measure of strength of the working capital positions of a concern and on the other hand it indicates the solvency of the concern.
The current ratio is the index of the concern’s financial stability since it shows the extent of the working capital, which in the amount by which current assets exceeds the current liabilities.

**Working capital turnover (Sales/Net working capital)**

A close relationship exists between sales and net working capital. With any increase in sales volume, there is a corresponding increase in the working capital. Therefore, a good amount of net working capital may be needed to support the increase in sales. The ratio helps to assess the degree of efficiency in the use of short-term funds for generating sales.

In order to test the efficiency with which working capital is utilized the working capital turnover is calculated. However, a very high turnover of working capital might indicate that the working capital is insufficient for the given volume of business. A very low working capital turnover ratio should clearly be taken to mean that the capital is not sufficient active. So we can say a high ratio indicates that management is aggressive in its use of working capital. However, an excessive high ratio indicates poor working capital management may be inadequate at present sales.

**Net working capital to current assets (Net working capital/Current liabilities):** It shows the financing mix that is used for financing the current assets. It also reveals the equity and long term vis-à-vis current liability financed portion of current assets. From the liquidity angle it throws light on the equity and long-term financed asset cushion for a given amount of current liabilities.

For analyzing trend and liquidity of steel Industry following ratios have been computed:-

1. Current ratio and ANOVA test.
2. Quick ratio and ANOVA test .
3. Absolute Liquidity Ratio and ANOVA test.
5. Debtors to Sales Ratio
6. working capital turnover ratio
7. Debt equity ratio
8. Proprietary ratio.

1. The current ratio of **JSWSL, JS&AL SAIL** and TL was less than the norm of 2:1. It means the solvency position of these companies was poor and precarious. Combined
current ratio of steel industry was 0.81 times. The solvency position was bad and sort term creditors’ position regarding their claims was not safe because companies had not sufficient funds in the form of current assets to meet their claims. ANOVA test showed that the difference is not significant.

2. In general the quick ratio has been lesser than the norm of 1:1 in JSWSL, JS&AL, and TSL. The financial position regarding the quick ratio of these companies is not very sound. Remaining companies ratio was less than one indicated poor liquidity position. Steel industry as a whole ratio was not more than one which indicated poor liquidity position of companies. ANOVA test showed that the difference is not significant.

3. Absolute quick ratio was Less than standard. It has decreased due to lower profits or losses. Working capital funds are invested in fixed and capital work in process. Therefore company is advised not to invest its liquid funds on long term assets. ANOVA test showed that the difference is not significant.

4. Current assets to total assets ratio was not satisfactory as a whole due to low value current assets; there was insufficient coverage of working capital in companies like JSWSL, JS&AL, SAIL and TSL. However the ratio of SAIL had been near 47% percent which reflects that the liquidity position of this company was little sound. It is suggested remaining (JSWSL, JS&AL and SAIL) companies should try to reduce the volume of current assets. NOVA test explained that the null hypothesis is accepted and alternative hypothesis is rejected which meant the difference is insignificance.

5. Debtor to sales was the highest in JS&AL followed by JSWSL, SAIL and TSL. There is no proportionate increase in debtors with sales and ANOVA Test resulted that the difference among selected companies was insignificant

6. Analysis of working capital turnover reveals that there was no better utilization of working capital in JSWSL, JS&AL, SAIL and TSL, the turnover was moderate in TSL. There was negative ratio in JS&AL. Utilization of working capital in SAIL was very poor. Hypothesis was tested by using ANOVA test and resulted in insignificant different.

7. On the basis of above analysis it can be concluded that the highest long term debt equity ratio was of 6.02 times of JSWSL. Followed by SAIL, TSL and JS&AL. The average of combined long term debt-equity ratio of steel industry was 2.47 times. The ratio in JS&AL was 2.00 times and the same was also zero in last two years of study period in JS&AL to negative net worth. Most of the companies under the study did not maintain the standard norm of 1:1. In JS&AL. The ratio was 0.17 times which was lowest among all the companies under the study and the company was more relied on owner’s funds.
But there is high financial risk in JSWSL and SAIL. ANOVA test resulted that debt equity ratio does not differ significantly.

8. Return on net worth indicates how well the company has used the resources of the owners. On making an analysis of the performance of the steel units the return on net worth had been on average 10.38. It showed highly fluctuated trend during the whole years of study period. The return on net worth in the covered period ranged between 45.435 in 2004-05 and -26.353 in 2001-02 the steel group of companies under study. JSWSL and JS&AL had to make a struggle for achieving the standard. Other companies under study had however, come up to the standard. On the whole TSL had the highest return on net worth of 26.35 percent on an average in span of ten years followed by SAIL.

9. One way ANOVA test also explains that Return on Net worth Ratio of steel units under study is not deviated.

10. Fixed assets to Net-worth ratio have been calculated for ascertaining the percentage of fixed assets financing by owners of the company. The ratio showed fluctuated and increasing trend throughout the study period. The ratio was ranged between 4.61 times in 2002-03 and 1.00 times in 2006-07 with an average of 2.45 times. The ratio was above the standard norm of 65 percent, which means that the fixed assets were more than the net worth. The ratio in most steel units were very good because most of owner’s fund has been utilized in fixed assets which generated good amount of return and increased earning potentiality.

11. One way ANOVA test also explains that Return on Net worth Ratio of steel units under study is significant.

CHAPTER-5:

Analysis of Profitability

Profit planning is an integrated part of overall process of financial planning. The term profitability refers to the ability of a given investment to earn returns from its use. Profitability can be ascertained and analyzed the computation of profits ratio either based on operating profit profits or net profits or both.

In this chapter the concepts of the profit, profitability and rate of return, bases of profitability measuring the profitability in relation to sales and capital employed, shareholders investment and dividend policy of the sample units have been analysis.
Profitability is a measure of the organization's ability to translate its financial resources into mission-related activities. Financial efficacy is desirable in all organization of individual mission. Profitability measures the intensity with which a business uses its assets to generate gross revenue and the effectiveness of producing, purchasing, pricing, financing, and marketing decisions. At the micro level, profitability refers to the efficiency with which resources are correctly allocated among competing uses at a point of time. Profitability is a measure of how well an organization has managed certain trade-off (risk and return, liquidity and profitability) in the use of its financial efficiency. The present study has been made in order to analyze profitability through ratio of the aluminum of companies in India. The profitability ratios which have been discussed in this chapter are: (1) Gross profit ratio: (2) Operating profit ratio: (3) Net profit ratio: (4) Return on gross capital employed (5) Return on net capital employed (6) Return on net worth (7) A study of earning per equity share of the company under study has been also made

12. The Net profit ratio in steel companies in was satisfactory. The average ratio of TSL was highest among all the steel companies. The average ratio of TSL (14.65 percent) followed by JS&AL (13.00) and SAIL (6.15) JSWSL (2.92). The average ratio of JSWSL and SAIL indicated a very low profitability.

13. ANOVA (F) test indicates that there is significant difference in Net Profit ratio of steel units under study. Hence it can be concluded that there is no high deviation in the Net Profit ratio of steel units under study.

14. The analysis of the return on gross capital employed in individual steel of the study period reveals that it was the highest return on gross capital employed in TSL followed by SAIL, JS&AL, and SAIL. In JSWSL and JS&AL Return on Gross Capital Employed Ratio of the company was satisfactory during the study period. The average gross capital employed was 25.09% which was quite satisfactory.

15. ANOVA Test analysis indicates that there were similarities in Return on Gross Capital Employed Ratio of steel units under study.

16. Return on Net Capital Employed is the best test of overall profitability and efficiency of the business firm. A company with high rate of return on capital employed would be in a position to capitalize; e.g. it can take advantage of all favorable market opportunities.

17. The study shows that returns on capital employed in the steel units in India had marked a fluctuated trend. The average was 7.28 percent in steel units in India. This ratio was satisfactory. On the whole TSL had the highest return net on capital employed of 16.63
percent on an average in a span of ten years followed by JS&AL, JSWSL, and SAIL. As compared to the steel units in India the performance of JSWSL, SAIL, and TSL were better. While the performance of JS&AL was lower. In the light of the above discussion it is suggested that JS&AL should undertake cost control measure so that increase net profit before interest and taxes of the company might enhance the return on net capital employed.

18. One way ANOVA test of Return on Net Capital Employed ratio showed that there was not any significant different among the Return on Net Capital Employed ratio.

19. Return on net worth indicates how well the company has used the resources of the owners. On making an analysis of the performance of the steel units the return on net worth had been on average 10.38 percent. It showed highly fluctuated trend during the whole years of study period. The return on net worth in the covered period ranged between 45.435 0 in 2004-05 and -26.353 in 2001-02 the aluminum group of companies under study. JS&AL had to make a struggle for achieving the standard. Other companies under study had however, come up to the standard. On the whole TSL had the highest return on net worth of 26.35 percent on an average in span of ten years followed by SAIL, and JSWSL.

20. One way ANOVA test also explains that Return on Net worth Ratio of steel units under study is not deviated.

21. The return on paid-up capital ratio was showing increasing trend of steel group of companies with an average of 155.27 percent. The ratio ranged between -435.20 percent in 1999-2000 and 582.65 percent in 2007-08. The ratio was the highest in JS&AL followed by JSWSL, TSL and SAIL.

22. The result of ANOVA test showed significant difference.

23. The earning per share registered a fluctuated trend during the period under study. The highest earning per share was in TSL, JSWSL and SAIL. The combined average earning per share of JS&AL indicated worst profitability position of unit.

24. ANOVA Test indicates that there is insignificant difference in earning per share of steel units under study because the calculated value of ‘F’ is lower than table value.

25. Percentage of dividend per share JSWSL showed fluctuating trend with an average of 0.31. Percentage of dividend per share of SAIL ranged between zero from 1999-2000 to 2008-09 and 4.35 percentages in 2007-08. The ratio of SAIL ranged between zero to 9.05 percent in 2002-03. The ratio of TSL was showing fluctuating trend throughout the study period with an average of 2.38 percent. The ratio was zero in most of years.
26. The ANOVA test indicates that the ratio was the null hypothesis is accepted and alternative hypothesis is rejected and hence it is concluded that the Return percentage of dividend of per share does not differ significantly.

27. Dividend payout ratio measures the relationship between the earnings belonging to the ordinary shareholders and the dividend paid to them. It can be generalized that the dividend payout ratio of TSL was the highest followed by JSWSL, SAIL and JSWSL. The following companies showed the dividend payout ratio was lower than the average ratio of steel units like SAIL, SAIL and JSWSL.

28. One way ANOVA explains that the difference among selected steel units does not differ.

29. The total assets turnover ratio, which indicates the effectiveness of the utilization of assets, registered a fluctuating trend in almost all the companies under study. The ratio of JSWSL was the lowest 1.18 times in 2004-05 while it was the highest 6.45 times in JSWSL in 1999-2000. The ratio was in most of years more one in JSWSL, SAIL, TSL and JS&AL. The reason responsible for the lower ratio was the increase in the amount of assets because of huge expansion and development programmes. Thus, the addition to investment in various assets could not be resulted in proportionate in sale.

30. The result showed by ANOVA test (F) reveals the difference in total assets turnover ratio were insignificant in all selected companies at the 5 percent level of significant.

31. The fixed assets turnover ratio of JSWSL ranged from 1.09 times 2004-05 and 0.17 times in 1999-2000. The ratio showed fluctuating and mixed trend in almost all the selected steel companies under study during the period under review. The ratio was less than one times in JSWSL. Thus, the ratio suggests that the TSL, were able to utilize its fixed assets properly in generating sales whereas JSWSL failed to maintain the rate on increase in sales as compared to that in fixed assets JS&AL succeeded to a large extent on this front.

32. It is evident from Table no. 5.4 that the difference between Fixed Assets Turnover Ratio in between groups and within groups was significant because the calculated value of ‘F’ (0.41) was less than the critical value of ‘F’ (2.15) so, null hypothesis is accepted and alternative hypothesis is rejected. So, it indicates no deviation in Fixed Assets turnover Ratio of steel units under study.

33. The current assets turnover ratio of JSWSL ranged between 4.09 times in 2007-08 and 1.43 times in 1999-2000 indicating a mixed trend in almost all the selected steel units under study during the period under review. The combined average ratio 3.94 times. All the companies made excessive investment in current assets particularly in the form of
inventory and sundry debtor. The ratio was always more than two times in JS&AL and, TSL indicated efficient utilization of current assets.

34. It is evident from Table No.5.6. that the difference between Current Assets Turnover Ratio in between groups and within groups was significant because the calculated value of ‘F’ (1.28) was lesser than the critical value of ‘F’ (2.15) so, null hypothesis is accepted and alternative hypothesis is rejected. Therefore, it indicates no deviation in Current Assets Turnover Ratio of steel units under study.

CHAPTER – 6

MANAGEMENT OF RECEIVABLE

Account receivable is most prominent force of the modern business. It is considered as an essential marketing tool, acting as a bridge for the movement of goods through production and distribution stages to customers finally. A firm grants trade credit to protect it sale from the competition and to attract the potential customers to buy it product at favorable term. When the firm sells its product or services and does not receive sash for it immediately, the firm is said to have granted trade credit to customers. Trade credit thus, creates receivable or book debt, which the firm is expected to collect in the near future. Receivable management, also termed credit management, deals with the formulation of credit policy, in terms of liberal or restrictive, concerning credit standard and credit period, the discount offered for early payment and the collection policy and procedures undertaken. It does so in such a way that taken together these policy variables determines an optimal level of investment in receivables where the return on that investment is maximum to the firm. The credit period extended by business firm usually ranges from 15 to 60 days. When goods are sold on credit, finished goods get converted into accounts receivable (trade debtors) in the books of the seller. In the books of the buyer, the obligation arising from credit purchase is represented as accounts payable (trade creditors). “Accounts receivable is the total of all credit extended by a firm to its customer.” Poor management of accounts receivable are: neglect of various overdue accounts, sharp rise in the bad debt expense, and the collection of debts expense and taking the discount by customers even though they pay after the discount date and even after the net date. Since accounts receivable represent a sizable investment on the part of most firms in the case of public enterprises in India it forms 16 to 20 percent of current
assets. Efficient management of these accounts can provide considerable saving to the firm.

Factors involving in Receivable management:-
1. The terms of credit granted to customers deemed creditworthy.
2. The policies and practices of the firm in determining which customers are to be granted credit.
3. The paying practices of credit customers.
4. The vigor of the seller’s collection policies and practice.
5. The volume of credit sales.

Credit procedure
For effective management of credit, the firm should lay down clear-cut guidelines and procedures for granting credit to individual customer and collecting the individual accounts. The firm should not follow the policy of treating all customers equal for the purpose of extending credit. The credit evaluation procedure of the individual accounts should involve the following steps:

(1) Credit information :-
In extending credit to the customers, firm would ensure that receivables are collected in full and on the due date. As discussed earlier, investment in receivables involves costs. If the firm fails to collect its receivables, there is a greater loss to the firm—loss of bad debt and cost of investment. Therefore, credit should be granted to those customers who have the ability to make payment on the due date. Collecting credit information involves expenses. The cost of collecting information should, therefore, be less than the potential profitability. In addition to cost, the time required to collect information should also be considered. The decision to grant credit cannot be delayed for long because of the time involved in collection the credit information. Depending on these two factors of time and cost, any or a combination of the following sources may be employed to collect the information.

(a) financial statement:-
One of the easiest ways to obtain information regarding the financial condition and performance of the prospective customer is to scrutinize his financial statements—balance sheet and sheet and the profit and loss account.

(b) Bank references :-
Another source of collecting credit information is the bank where the customer maintains his account. The firm should seek to obtain the information through its bank. Alternatively, the customer can be requested to instruct its banker to provide information required by the firm. Then, the firm can approach the bank. But in India the bankers do not give very clear answers to the enquiries made by the firm.

(c) **Trade references :-**

The firm can ask the prospective customer to give trade references. The firm may insist to give the names of such persons or firms with whom the customer has current dealings. This is a useful source to obtain credit information at no cost. Many times a customer can furnish misleading references. To guard against this, the honesty and seriousness of the referee should be examined.

(d) **Credit bureau reports :-**

To get comprehensive and correct information, credit bureau organizations which specialize in providing credit information, are employed in the advanced countries. In India also there is urgent need for such organizations. To begin with, the various trade associations and chambers of commerce can be developed to provide the useful credit information to their members.

(e) **Prices and Yields on Securities :-**

For listed companies, valuable references can be derived from stock market data. Higher price earning multiple an lower the yield on bank, other thing being equal lower will be the credit risk.

1. **Credit investigation**

After having obtained the credit information, the firm will get an idea regarding the matters which should be further investigated. The factors that affect the extent and nature of credit investigation are.

(i) New or existing customers.
(ii) Business line, background and the related trade risk of customers.
(iii) Perishable or seasonal product.
(iv) Credit policies and practices of company.

The firm which is up-to date in credit management can maintain each customer’s credit file. A regular examination of the customer’s credit file will reveal to the firm the credit standing of the customer. Credit investigation involves cost. But a credit decision without adequate investigation can be more expensive in terms of excessive collection costs and possible bad
debt losses. Therefore, credit investigation should be carried so long as the saving in terms of speedy collections and prevention of bad debt losses resulting from it exceed its costs.

2. **Credit analysis** :-

   In the sequence of the credit appraisal, the next step is to conduct the credit analysis of the applicant. The evaluation of the applicant’s financial conditions should be done very carefully. The applicant should be asked to provide the financial statements which will form a basis to analyses the performance and trends of the applicant’s business activities.

3. **Credit limit** :-

   Once the firm has taken a decision to extend credit to the applicant, the amount and duration of the credit have to be decided. The decision on the magnitude of credit will depend upon the amount of contemplated sale and the customer’s financial strength. The credit line must be reviewed periodically in order to know the development in the account. If the tendencies of slow paying are found, the credit line can be revised downward. At times, a customer may ask for the amount of credit in excess of his credit line. The firm has not only to determine the amount of credit but also the duration of credit. Keeping in view the industry norm, the normal collection period should be determined.

4. **Collection procedures** :-

   The collection procedures of the firm should be clear-cut and well-administered. The purpose of collections policy should be to speed up the collection of dues. If collections are delayed, alternative arrangement of finance to sustain production and sales will have to be made. The chances of bad debts also increase as the collection is delayed.

35. The receivable to current assets of all the steel companies shows fluctuating trend throughout study period. The minimum size of receivable to current assets in JSWSL is 26.67 (2008-09), JS&AL is 57.77 (1999-2000), SAIL is 16.9 (2008-09), and TSL is 8.53 (2006-07). The maximum size of receivable to current assets in JSWSL is 72.45 (1999-2000), JS&AL is 89.56 (2004-05), SAIL is 40.3 (2008-09), and TSL is 52.69 in (2000-01). The study of the composition of receivable to current assets is a very
important tool to evaluate the management of receivables. It assists to show the point where receivables are concentrated most.

36. There was an upward trend both sales and receivable of JSWSL during the study period. The average of sales indices (660.91) and receivables indices (163.03) indicates that the sales grow faster than receivables, which indicates that credit terms are less liberal. The sales had increasing trend throughout the study period while receivable also indicates increasing trend having some fluctuations. In the beginning of study period the receivable grow faster than sales but at the end of the study period the sales grow faster than receivables which show that the JS&AL’s credit policy is capable of stimulating sales. An increasing trend can also be observed in the values of both sales and receivable of SAIL during study period but the receivables grow faster than sales.

37. Size of loans and advances of JSWSL showed Fluctuating trend during the study period. JS&AL showed decreasing trend with an average 37.95. SAIL showed high fluctuated trend with the range of 121.21 percent and 72.28 percent with an average of 96.55. TSL showed increasing trend with an average of 335.21 percent. The standard deviation was 304.74 percent.

38. The accounts receivables turnover ratio during the study period was the highest for TSL followed by JS&AL, SAIL and JSWSL. The TSL displayed very good ratio while the JSWSL recorded proportionately very low turnover ratio.

39. The accounts receivables to sales ratio during the study period were the highest for Jindal Steel & Alloys Ltd followed by Tata Steel Ltd., J S W Steel Ltd. and Steel Authority Of India Ltd. The TSL displayed very good ratio while the JSWSL recorded proportionately very low turnover ratio.

40. Average collection period JS&AL was more than 100 days it means that these companies’ efficiency of collection of debt from debtor’s was not good. However, Collection period in JSWSL, and SAIL and was more than 50 days indicates that these companies could not collect their debt from the debtors efficiently which also shows an inefficient liquidity position of the companies, as the quality of debtor’s was not good.

CHAPTER-7

MANAGEMENT OF CASH

One of the most important areas in the day-to-day management of the firms deals with the management of working capital. Which is defined as all the short-term assets used in daily operations? This consists primarily of cash, marketable securities, accounts receivable and inventory. The balances in these accounts can be highly volatile as they respond very
quickly to changes in the firm’s operating environment. A highly liquid firm has sufficient cash to pay its bills at all times. An illiquid firm is unable to pay its bills when due.

In a financial sense, the term cash refers to all money items and sources that are immediately available to help in paying firms’ bills. On the balance sheet, cash assets include deposits in financial institutions and cash equivalent in money market funds or marketable securities. All highly liquid short-term securities are treated as cash. Most government and corporate securities are treated as cash because they may be liquidated through a telephone call. Cash is the most important current asset for the operations of the business. It is the basic input needed to keep the business running on a continuous basis. It is the money, which the firm can disburse immediately without any restriction. The term cash includes coins, currency, cheques held by the firm and balances in its bank accounts. J.M. Keynes postulated three motives for holding cash viz- transactional motive, precautionary motive, and speculative motive. These can be said to form the basis for cash management in business enterprise. Cash Management is concerned with minimizing unproductive balances, investing temporarily cash advantageously and to making the best possible arrangement to meeting planned and unexpected demand on the firm’s cash. It involves managing of cash flows in and out of the firm i.e. cash flows within the firm and cash balances held by the firm at a point of time. Cash management must be thought of in terms of the overall liquidity needs of the firm, specifically its current assets and liabilities. In order to reduce the influence uncertainties with regard to cash needs and to ensure adequate liquidity, firms have to gauge the need for protective liquidity. The efforts involved for this purpose usually take the form of Assessment of the probabilities or odds that each of these will develop within a given period in future, such as 5 years. Assessment of the probabilities and developments creating cash drains will occur at the same time. Assessment of the likely amount of cash drain that will result in each of the contingencies develops. An important policy decision regarding cash management is: what should be the optimal amount of cash balance to consider the form impact of the following factors:

1. The philosophy of the management regarding liquidity and risk of insolvency.
2. The expected cash inflows and outflows based on the cash budget forecasts encompassing long-range and short-range cash needs.
3. The size of sales in relation to fixed asset investment.
4. The degree of deviation between the expected and actual net cash flows.
5. The maturity structure of the firm’s liabilities.
6. The firm’s ability to borrow at short notice in the event of emergency.
7. Efficient planning and control of cash.
8. The status of the firm’s receivables and inventory
9. The credit position of the firm.
10. The nature of business.

“Cash Management must aim to reduce the required level of cash but minimize the risk of being unable to discharge claims against the company as they arise.” Since cash itself is not an asset capable of causing the profit differential for the firm. “It is desirable that cash balance be minimized as much as possible, the maintenance of adequate cash balances in an obvious requirement if a firm’s solvency is to be maintained cash management consists basically of having a sufficient quantity of cash yet maintaining a balance at lowest figure adequate to meet current obligations.” Moreover, another important function which Cash Management now-a-days seeks to undertake is to maximize its profits by investing the surplus cash in some marketable securities. “The function of Cash Management, on the one hand starts when a customer writes a cheque to pay the firm on its accounts receivables, and on the other hand, ends when a supplier, an employee or the government releases collected funds from the firm on an account payable or accrual.”

There are five major approaches for effective controls are:

1. Exploitation of techniques of cash mobilization to reduce operating requirement of cash.
2. Major efforts to increase the precision and reliability of cash forecasting
3. Maximum efforts to define and quantify the liquidity reserve needs of the firm.
4. The development of explicit alternative source of liquidity.
5. Aggressive search for more productive uses for surplus money assets.

Some important ratios used as measures of cash control are discussed below:
Some of the important technique of controlling cash is cash budgeting, ratio analysis, linear programming goal programming, simulation and portfolio management. Ratio analysis is widely in application. Some of the important ratios used as measures of cash control are discussed below:-

41. The quantum of JSWSL showing increasing trend with an average of Rs. 1674.14 crores. The indices of this company showed increasing trend with an average indices of 1098.81 percent. The cash position was very sound of JSWS.JS&AL showed very bad position of this company with an average of Rs.9.80 crores. SAIL also showed
very good position with positive trend with Rs. 4916.13 crores. Tata Steel Ltd also indicated very good trend with positive indices.

42. Cash to current assets ratio of JSWL showed positive trend with an average 78.29 percent. The ratio ranged 125.61 percent in 2007-08 and 23.39 in 1999-2000. The ratio JS&AL showed bad position of cash in current assets. The ratio in SAIL showed fluctuated trend during the study period with standard deviation of Rs. 22.31 crores and average of 38.20. The ratio varied between 89.75 and 16.79. The ratio of TSL showed increasing trend with an average of 86.76. The cash position was very sound.

43. On average cash to sales ratio had been 23.21 per cent in JSWSL during the ten years under study. It can be observed that the ratio showed increasing trend and on average increased by 41.62%. It was the lowest at 13.40 percent in 2000-01. JS&AL, on the other hand had -0.04 percent of ten years average of cash to sales ratio but the ratio had hiked more during the last three years under study indicating that proportionate rise in cash held by the company had been more than the sales affected by SAIL during these years. SAIL had the highest average of cash to sales ratio (22.42 per cent) among all the selected concerns. It can be observed that TSL had huge amount of cash lying idle, which could have been fruitfully utilized.

44. It may be concluded that the steel companies had high liquid cash position which indicates under utilization of cash. The indices of cash to sales ratio discloses that JSWSL had a good hand in managing his cash affairs during the study period.

45. The ratio explains the speed with which cash is turned over. The higher the turn over, the less the cash balances required for any given level of sales; and other things remaining constant, it implies greater efficiency. The ration can also be use to establish the cash balances to be held; once the sales forecasts for various periods have been made, the required cash balance can be calculated, using historical cash turnover figures. However, the ratio shows only what is happening to the cash balance without indicating the imperfections and irregularities, caused in cash flows by the income through sales, which may be partly responsible. On the whole it may be concluded that there were a very low cash turnover ratio in housing finance companies under study. It indicates surplus of cash balance. Among the three companies the turnover ratio of SAIL was the best followed by JSWSL, JS&AL and TSL.

46. In Cash to current liabilities of all the steel companies shows fluctuating trend throughout the study period. The minimum Cash to current liabilities in JSWSL is
11.20 (1999-2000,) JS&AL is -3.72 (2005-06), SAIL is 15.76 (2001-02), and TSL is 41.43 (1999-2000), the maximum Sales Cash to current liabilities in ACL is 131.93 (2006-07), GSCL is 43.80 (2001-02), SIL is 78.99 (2004-05), and SCL is 78.94 (2007-08).

47. The table No.7.8 presents that the ratio Net cash flow to Current Liability JSWSL had evidently not satisfactory level of liquidity during the period of study. Though JSWSL faced highly fluctuating trend ranging between -0.01 per cent and 0.08 per cent averaged a Net cash flow to current liabilities ratio of 0.01 per cent. The Net cash flow to current liabilities ratio in JS&AL had also showed fluctuating trend. The ratio was the lowest -0.01 per cent in 2001-02 and the highest 0.01 percent in 2005-06. SAIL had faced negative ratio of net Cash flow to current liability the ten years under study. TSL had average only 0.03 per cent of current liabilities to be met from profit. TSL accounted for carrying out 0.03 per cent current liabilities from the net profit. TSL had faced positive ratio.

48. Coverage of Current Liabilities Ratio of JSWSL showed negative trend from 19999-2000 to 2002-03. The average ratio was only 0.20. The average ratio was 0.02 in JS&AL with increasing trend. The ratio was negative in the beginning of the year and then after it went up. The average ratio was 0.20 with standard deviation of 0.33 percent. The ratio was showing increasing trend in TSL. The average ratio was 0.42 which showed the cover ability of the current liabilities by net profit.

CHAPTER -8

Analysis of cash flow statement

Cash flow statement provides information about the cash receipts and payments of a firm for a given period. It provides important information that compliments the profit and loss account and balance sheet. The information about the cash-flows of a useful in providing users or financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilize these cash flows. The economic decisions that are taken by users require an evaluation of the ability of an enterprise to generate cash equivalents and the timing and certainty of their generation. The statement deals with the provision of information about the historical changes in cash equivalents of an enterprise by means of a cash flow statement, which classifies cash flows during the period from operation investing and financing activities. Financial working capital needs of a business enterprise are a key are wherein a finance manager can play an active role. The
business concern needs funds to carry on the inventories of raw material, work-in-process and finished goods to pay of wage bills and factory overheads, to pay taxes and insurance and to provide credit facilities to customers. It may also require funds for seasonal requirements, for advertisements, campaigning and for overhauling of plant and equipment.

49. Net operating cash flow from operating activities of JSWSL was showing fluctuated trend throughout the study period. The company is advised to sustain the cash from the operating activities. The net operating cash flow of JS&AL showed high fluctuation with an average of Rs. Crores 1674.14. The JS&AL showed Satisfactory result about the Net operating cash flow from operating activities from 1999-2000 to 2008-09. The SAIL indicated positive trend from 2000-01 to 2008-09. Whereas TSL manifested downward trend throughout the study period.

50. Table No. 7.2 showed Net cash inflow/ (outflow) from investment activities from 2000-01 to 2008-09. The JSWSL and TSL showed negative net cash flow from investing activities which means both firms have invested huge amount in fixed assets. Whereas the JS&AL and SAIL also showed decreasing negative trend with an average of -581.2 and 0.4. And the JSWSL and TSL have also manifested bad position of net cash flow from investing activity.

51. Table No. 7.3 showed Net cash inflow/ (outflow) from financing activities from 2000-01 to 2008-09. The JSWSL showed average cash from financing activities is Rs. 119.2 crores and JS&AL indicated downward trend whereas SAIL also showed downward and negative trend throughout the study period. TSL indicated high fluctuation with an average of Rs. 2044.6 crores. The JSWSL and TSL also showed high fluctuations in their trends from 2000-01 to 2008-09.

52. Table No. 7.4 showed Net cash inflow/ (outflow) due to net increase/ (decrease) in cash and cash equivalents during the research period. The position of net cash flow was very good in JSWSL. But the position of net cash flow was not good because it was minus. The cash flow was little positive in SAIL whereas cash flow was JS&AL crores in TSL. The cash flow was 33.6 Crores in JSWSL. The TSL showed positive cash flow during the research period.

53. Table No.7.5 showed opening balance of cash flow of steel companies during the research period. The highest cash opening balance was in SAIL followed by TSL, JSWSL, and JS&AL. The opening balance of cash flow of below the industry average of JSWSL, JS&AL and TSL.
Closing balance of cash was shown in the Table No. 7.6. The in most of the companies closing balance was positive. The highest closing balance of cash was in JSWSL, UCL, SAIL, and TSL. Whereas SAIL showed Closing balance of cash more than industry average.

**SUGGESTIONS:**

As a researcher based on analysis has found the following suggestions for the betterment of the selected steel group of companies.

1. The company should try to increase the production so as to get economies of large-scale production. It will assist in raising the rate of return on capital employed.

2. In order to increase the profitability of the companies, it is suggested to control the cost of goods sold and operating expenses.

3. The management should try to adopt cost reduction techniques in their companies to get over this critical situation.

4. The quantum of sales generated should be improved impressively in order better to enjoy better per of the assets and capital employed.

5. The selected steel Group of Companies is the capital intensive in nature but the policy of purchase of fixed assets should be carefully planned and reviewed so that the funds may be properly utilized.

6. The selected steel units should try to match the amount of working with the sales trends. Where there is a deficit of working capital, they should try to build on adequate amount of working capital. Where, there is an excessive working capital, it should be invested either in trade securities or should be used to repay borrowings.

7. The management should try to utilize their production capacity fully in order to reduce factory overheads and to utilize their fixed assets properly.

8. The burden of interest has produced a deteriorating effect and reduced the percentage of net profit. It is suggested that the companies should try to reduce the interest burden gradually by increasing the owner’s fund.

9. The few companies, which did not follow a definite policy of financing fixed assets, should follow such policy.

10. To strengthen the financial efficiency, long-term funds have to be used to finance core current assets and a part of temporary current assets. It is better if the companies can reduce the over sized short-term loans and advances eliminates the risk arranging finance regularly.
11. The policy of borrowed financing in selected steel group of companies under study was not proper. So the companies should use widely the borrowed funds and should try to reduce the fixed charges burden gradually by decreasing borrowed funds and by enhancing the owner’s fund. For this purpose companies should enlarge their equity share capital by issuing new equity shares.

12. For regular supply of raw materials and the final product infrastructure facilities are required further improvement.

13. Cost accounting and cost audit should be made mandatory for this units and cost sheet along with annual financing statement should be prepared.

14. The public sector enterprises set up in backward areas were not guided by commercial considerations. They were set up to fulfill the aim of balanced regional development.

15. There has been too much of government interference in policy and day-to-day working and decisions. This leads to delays in decision-making. This should be abolished.

16. There is no incentive to the employees to perform better. Also there is no accountability because no one is held responsible for a failure in achieving targets for this kind of problem responsibility centre should be created.

17. Improper planning and delays in implementation of projects lead to rise in their cost. So properly planning should be made.

18. Public sector enterprises have long enjoyed a monopolistic position. Private sector was not allowed entry. This, in the absence of any competition, means that any performance was good performance. Due to absence of competitor there was no incentive to cut down costs or improve the quality of the product.

19. There is overstaffing in public enterprises. The number of persons employed is more than what is required to run the public enterprises efficiently. This increases the cost and reduces profitability of these enterprises.

20. The steel companies should reduce power and fuel consumption by using low as content coal (imported coal), lignite, agro waste product especially ground nut husk, and beggars should be used as coal substitute.

21. To regularize and optimize the use of cash balance proper techniques may be adopted for planning and control of cash. The investments in inventories should be reduced and need to introduce a system of prompt collection of debts.

22. Selected steel companies should try to use properly their operating assets and should try to minimize their non-operating expenses.
23. The government should minimize the subsidy and encourage the capital market for the steel companies.
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