The issues to be addressed in this chapter include:

CONCLUSIONS AND SUGGESTIONS
A detailed analysis and closer examination of the working capital management practices of the selected enterprises in the preceding chapters finally lead us to some fundamental observations. A collective and incisive look at those observations in this final stage of the study yields significant insights as crucial conclusions which, in turn, provide useful openings for some pragmatic and expedient suggestions as culmination of this research work. The observations and conclusions also help to test the hypotheses set in the first chapter of the study.

7.1 SUMMARY OF CONCLUSIONS:

Concerning with a prerequisite foundation, the study evolves from a conceptual analysis of working capital and its utmost importance in the productivity performance of the public enterprises in the paper industry. It emerges as the most delicate and highly specialised side of a total financial dynamics of any industry is the management of its working capital. Owing to the distinctive features of public enterprises, in general, and paper industry, in particular, the management of working capital of these enterprises is by no means an easy task. It is, in fact, a highly complex, rigorous and innovative area of executive action, intrinsic to the entire productivity operation of the industry, and hence, a highly stimulating challenge to the financial executives of the public enterprises in the paper industry.

A brief review of evolution and development of paper industry in India emanates from the theoretical scanning as a primary observation that though there has been a remarkable growth of paper units both in numbers and in terms of
investment, production, employment etc., however, the paper industry in this country has not been free from hazards. Concomitantly, failure of newly set up paper units have also been fairly common in the country. It revealed that imperfect organisational structure, improper financial planning, unsound capital structure, poor working capital management and lack of adequate financial control and a sound system of financial reporting together with the absence of effective and prompt follow up measures have been responsible for much of their catastrophic distress/failures.

The study of the comparative working capital trend of the selected enterprises has revealed that though the variation in the indices of current assets in between the years among the enterprises are not so significant, but the differences in the indices of current assets in between the enterprises among different years are very significant. Moreover, the differences in the comparative level of current liabilities indices in between the years among the enterprises and similarly also in between the enterprises among the different years are remarkably significant. The net working capital position, more or less, always remained at positive level among the first two enterprises whereas it continued at negative level among the latter two enterprises throughout the study period.

The twin noteworthy features of the post-liberalisation working capital trends were, first, the magnitude of current assets indices were more vigorous than the current assets indices during the post-reform period among the former two enterprises while the current liabilities indices were more vigorous than the current assets indices during the said period among the latter two enterprises, and
second, the variations in the magnitude of current assets and current liabilities indices were relatively strenuous in the post-liberalisation period as compared to the pre-liberalisation period among all the enterprises under study.

It has been observed that no particular trends have endured for either the individual or the all enterprises during the pre- and post-liberalisation period. It apparently casts doubt on the identical efficiency level in between the enterprises and also in between the two phases. Following which, it can reliably be stated that either the latter two enterprises have undergone a deceleration in performance level in the post-liberalisation period or the former two enterprises have undergone a acceleration in performance level during the corresponding period and vice versa. The main instigating factor of such capricious condition may be either due to the policy differences of concerning the level of current assets and current liabilities or due to the policy difference concerning the level of current assets and current liabilities or due to the imprudent and tactless administration of these elements within the same policy guidelines.

The coefficient of correlation between current assets and current liabilities values are found statistically significant and the association between them asserted the favourable standing of the first two enterprises, whereas the statistically significant negative values supported the unfavourable standing of the latter two enterprises. However, the comparison of working capital trends with the trends of sales has revealed that the trends of current assets and current liabilities were properly matched with the trends of sales in the Hindustan Newsprint Ltd. only.
This is confirmed from the fitted relationship between current assets, current liabilities and sales also, which is positive and statistically significant in this concern. Further, the degree of association between these three variables advocates relatively more favourable standing of the Hindustan Newsprint Ltd. followed by the Hindustan Paper Corporation Ltd. the Mandya National Paper Mills Ltd. and the Nagaland Pulp & Paper Company Ltd. in that order. Thus, if the maximum and minimum level of current assets in connection with output or sales are indicative of policy direction, then it becomes clear that neither adequate attention has been paid to control them nor full use has been made of them. Much of the growth in sales of these enterprises has come through assets build up rather than better utilisation of existing assets. This is very evident if one looks at the relative trend of growth in sales and current assets over a decade (vide Chapter 4). It emerges that for most of the enterprises, the growth rate in current assets has been higher than that in sales or output, at least for the second half of the study period.

The other interesting aspects which perhaps is of more serious consequences to the enterprises under study is their distressing liquidity condition lowering down their efficiency level even further. The liquidity position has varied in between the pre- and post-liberalisation period in the same enterprise and also in between the enterprises. Moreover, the 'Z' score of discriminant analysis revealed a significant variation concerning the extent of liquidity standing of different enterprises during the study period. It was found as 'poor liquidity management' in the enterprises under study except the Hindustan Newsprint Ltd. Excess of operating cash outflows over operating cash inflows in almost all the enterprises has
induced to worsening cash position. Because of the unsatisfactory liquid position, borrowings were used to fill up the negative funds gap, thus, resulting in further unrelenting liquidity crunch in the near future. The study has clearly revealed that only the Hindustan Newsprint Ltd. may be classified as a cash rich company i.e., able to meet its investment and financing needs through operational flows itself.

A close look at various segments of inventory gave a wide variation subsisted in the composition of inventory in all the enterprises, thus, reflecting differences in their inventory management practices. The general trend noticed in all the enterprises is regarding their growing accumulation of funds in stores & chemicals and a distinct preference for holding large volume of finished goods inventory. Compared to the norms laid down by the Tandon Committee, over stocking of stores & chemicals and finished goods has been noticed in almost all the enterprises. In addition to piling up, inclination to accumulate much slow moving or excessive amount of inventory in the form of stores & chemicals has also been observed. Moreover, the sprouting stock of finished goods with its low turnover and extensive variation has revealed the inefficiency of the enterprises in the realm of inventory management. Inspite of the fact that the enterprises are dealing with the paper and paper products (consumer items), they are yet to extract advantage of the 'pull-together productive - distributive system'. This is well reflected from the fact that the turnover ratios of finished goods inventory were quite unsynchronised when compared with the turnover ratios of work-in-progress and material inventory.
Yet another more surprising and unacceptable peculiarity observed over a period of ten years has been the growth of inventories vis-a-vis growth of consumption/sales were not adhered to the standard set by the management scientists of the 'square root relationship'. This trend of inventory position of some of the enterprises has placed them at a great disadvantage as regard to running day-to-day operations. Added to it the valuation policy of inventory followed by the enterprises is found inconsistent with the normally accepted accounting practice. In addition, the accuracy of the value of inventory and the system of compilation of data also seems to be doubtful. Poor maintenance of inventory record has been positively responsible for lack of effective inventory control of the enterprises. Further, the performance level of inventory management of most of the enterprises has revealed that in the post-liberalisation period, in comparison to the pre-liberalisation period, not only the average performance level of inventory has been reduced, but the variation range has also been considerably aggravated. For instance, as compared to the pre-liberalisation period materials and stores were overpurchased, production control was defective and finished goods were slow moving pertaining to the sales volume, in the post-liberalisation period.

As regards the cash management performance, it turned out in almost all enterprises as unsuccessful in controlling and utilising their cash funds towards achieving the effectiveness of working capital management. The share of cash fund in total current assets has been highly erratic and wide fluctuations in between the years and also in between the enterprises were over bearing which, otherwise highlights, the absence of any policy decisions of the enterprises with re-
gards to the proportion of cash fund in total current assets. The study divulged that both in the Hindustan Paper Corporation Ltd. and the Mandya National Paper Mills Ltd. cheques and intransit funds did not immediately found the routes of productive channels of investment and their volumes were allowed to swell beyond the desired level. It has further been observed that the cash in terms of number of days of operational requirements fluctuated significantly throughout the study period among all the enterprises. The enterprises were caught in between excess and shortage of funds due to improper planning of cash balances. This dichotomy of the extremities obviously implies the management of cash on unsound lines.

Further, almost all the enterprises were found unable to utilize their cash fund effectively. The unsatisfactory cash position of the enterprises suggests that they had to depend heavily on the collection of intransit remittances and conversion of in-hand cheques for meeting even their day-to-day needs or they had to depend, for the time being at least, on the overdraft system too. The large overdraft balance at the end of each year well corroborates this fact. It implies that cash planning was either totally ignored or not properly undertaken in these enterprises. Moreover, as compared to the pre-liberalisation period, not only the average performance level of cash management has been substantially decreased, but the variation range has also been enormously extended in the post-liberalisation period. The average performance level of this component remained well below the expected standard (vide chapter five), except the Hindustan Newsprint Ltd. It indicates that the enterprises were incompetent to invest their precious cash resources both within and outside the business. It may be due to the rigorous compe-
tion and unsparing uncertainty either in the input market or in the output mar-
ket or both. Expectedly, the result of such ineffective performance level in the post-
liberalisation period will have a ruinous effect on the revenue generation capacity 
of the funds whatsoever the enterprises had.

Yet another feature revealed from the study is that irrespective of relative impor-
tance of receivables as a component of working capital, the amount of 
funds blocked in this segment has been increasing in all the enterprises. It con-
tinuously registered a more than proportionate rise, compared with sales. The 
aminating factors of such repressible divergence mainly attributed to the excess 
level of loans & advances, on the one hand and the extended line of credit, on the 
other. Since all these enterprises have generally experienced a low rate of return 
of investment or losses throughout the study period and have felt acute shortage of 
funds either for operations or for modernization, the wisdom, whatsoever it may 
be, of increasing investment in receivables to such an extent is open to question. In 
any sense, it only indicates faulty credit management, poor collection policies and 
weak working capital management practices of the enterprises. The comparative 
standing of receivables management performance in the pre- and post-liberalisa-
tion period revealed that not only the performance level derogated to an unsatis-
factory level, but the variation range of the subsided level has also been aggravated 
in the post-liberalisation period. The action of resorting to the easy-going policy 
naturally turned the performance level towards negative scale. To withstand com-
petition though efforts have been made to save the existing markets by offering an 
extended line of credit, but the increasing cost of financing and the ever increasing
level of debtors, due to the slowing down of collection and monitoring machinery (vide Chapter 5), reprovingly forced these enterprises into vicious circle. Here again, the Hindustan Newsprint Ltd., is an exception to such position.

So far as the working capital financing policy is concerned, it has revealed that while the first two enterprises i.e., the Hindustan Paper Corporation Ltd. and the Hindustan Newsprint Ltd. have followed the moderate approach, the other two enterprises i.e. the Nagaland Pulp & Paper Company Ltd. and the Mandya National Paper Mills Ltd. have followed the aggressive approach. However, the Hindustan Paper Corporation Ltd. has inclined towards the conservative approach during the later part of the study period. The most aggressive enterprise assuming highest risk has been noticed to be the Nagaland Pulp & Paper Company Ltd. Even though it is not possible to advocate which one is good or bad, in isolation, but it can safely be argued that, there should have been uniform financing policy because the enterprises belong to a particular industry group and the same management practices/functions under the separate entities. Also, keeping in mind the current assets investment policy, the financing policy of these enterprises cannot cogently be argued as justifiable atleast from the point of view of commercial prudence. Here again, the clearly noticed policy difference between the enterprises regarding the working capital finance has strengthen our earlier findings.

Furthermore, the funds those raised through borrowings need to be used for discharging the mounting current debts, on the one hand, and to effective capacity utilisation, on the other. But, what we find in the instant case, though most
of the enterprises raised their funds through borrowings, but those were mainly utilised to purchase assets for capacity addition. But, in view of the enterprises suffered from operating losses, there is no justification of such capacity addition, instead of capacity utilisation effectively. The implication of such rampant assets creation has led to a series of accusation because that has not helped them generate higher profits. That may be another reason for which the enterprises are now not able to keep pace with their past growth rate and the progress seems to be halted in the recent years. What is worse is that this higher growth rate in assets compared to sales has led to a decline in the assets utilisation ratio (as is evident from utilisation index in chapter five), in the later part of the study period. Lower assets utilisation level has also tended to lower profitability and lower efficiency (vide chapter five), for which the enterprises come under severe pressure to serve their short-term obligations. This is because, on the one hand, operating profits have registered poor growth as a result of poor sales volumes, and on the other, interest costs have gone up significantly as a result of high costs of borrowings. A comparison of the profit margin between the enterprises and also in between the years at the operating level and net level testify this fact.

In addition, it has been observed that the borrowings arrangement what the enterprises have chosen and the rationale underlying therein cannot convincingly be argued as unblemished so far as the cost viability and the working capital financing policies are concerned. Though the dependence on long-term funds has been more in the initial years of the study period, but latter on the share of short-term sources has been substantially increased for financing working capital needs.
Moreover, the contribution of various short-term sources in solving the acute fund shortage not only varied in the same enterprise between different years but also between the enterprises in the same year. The principle of matching the current assets with current liabilities have not been adopted by the enterprises, except the Hindustan Newsprint Ltd. for financing their working capital requirements. The effect of cost on the selection of various sources has not got due importance. Although the main propelling force behind the use of costly fund may be the accumulated deficit, but it can undeniably be argued that the injudicious financing mix along with the unjustified financing sources enforced these enterprises into the vicious circle of financing.

7.2. TEST OF HYPOTHESES:

To test the hypotheses, following inferences may be drawn from the aforementioned findings:

First, occurrence of policy differences regarding the size, composition, and relative precedence of intra and inter-components of working capital in between the enterprises and similarly also in between the phases. Second, the entemporaneous administration of current assets and current liabilities compelled the enterprises to front the distressing liquidity crunch. Third, the performance level of inventory, cash and receivables have fallen sharply during the post-liberalisation period as compared to the pre-liberalisation period with exception of the
yet been developed through reform in paper industry in the public enterprises. Only one enterprise, namely, the Hindustan Newsprint Ltd., is laying on the frontier level while the other three are facing liquidity crisis and gradually losing out of the market.

7.3. SUGGESTIONS:

What broadly transpires from the preceding deduction is an urgent need for providing new orientation to the present policies and strategies, on the one hand, and a tremendous effort to implement them, on the other, in order to gain overall efficiency in the domain of working capital management in the present-day competitive environment. Though it is difficult to outline the suggestions and recommendations on the activities of the enterprises covered individually, nonetheless, a modest attempt has been made here to give the following suggestions for the improvement of overall efficiency of the working capital management of the enterprises under study.

The basic policy decisions regarding the target level of each category of current assets and current liabilities and also the financing strategy should be based on optimization rather than approximation so as to ensure a proper balance between profitability and liquidity. As the luxury of the officials created monopoly and the regulated regime of high tariff protection led these enterprises to depend almost entirely on an easy-going policy (vide chapter 6), exertion should, therefore,
Hindustan Newsprint Ltd. *Fourth*, there were excessive blocking of funds in inventory, heavy accumulation of receivables and surplus idle cash. The management of these enterprises have failed to make efficient use of them. *Fifth*, the working capital financing policy and the borrowing arrangements what the enterprises haven chosen were irrational. The injudicious financing mix along with the unjustified financing sources reprovingly forced these enterprises to suffer from losses. *Finally*, the overall efficiency of working capital management of almost all the enterprises gradually retrograded in the post-liberalisation period as compared to the pre-liberalisation period.

It, thus, appears that all these evidences are consistent with the hypotheses generated in the first chapter that: (i) The leading factor which has been obstructing and preventing the growth of Hindustan Paper Corporation Ltd. and its subsidiaries in India is improper and inefficient management of working capital, and (ii) The efforts for monitoring changes in business environment are expectedly weak in public enterprises and so in paper industry also. The administration of current assets and current liabilities within policy guidelines is but an extempore.

Although we cannot reject the above hypotheses, but there is a substantial indication of rise in working capital management performance especially during the post-liberalisation period in the Hindustan Newsprint Ltd. Nevertheless, it cannot be denied that the competitive environment, which is major determinant for efficiency improvement in the domain of working capital management, has not
be to change the existing policy and outdated concepts, because the liberalised climate has witnessed a move towards a focused approach based on competitive and comparative advantage. If these enterprises have not began the process of benchmarking against the best competitors in the world, they will be but dinosaurs. Hence, every attempt should be made to enhance competitive standing and dispensation of current assets and current liabilities should be in 'what if' scenario through both internal indemnification and policy mending.

The optimum investment in working capital should be determined on the basis of the achievement of maximization of value of the enterprises. The size of the working capital should be allowed to swell to the extent that it adds to the maximization process. As the study verified that working capital and sales are functionally related variables (vide Chapter 4), so to achieve efficiency what is essential for these enterprises is to have an increase in sales volume in relation to per rupee investment of current assets. While most of the enterprises suffered from operating losses, it is expedient that they should muster up on capacity utilisation rather than the ongoing capacity addition practices.

Given an overwhelming proportion (about 80%) of inventory and receivable in the total current assets, there is a need to strike a matching in production, marketing and collection process of the enterprises. To solve the inventory problem, it is therefore suggested that the enterprises should improve their inventory control system by using the modern sophisticated techniques such as E.O.Q.; R.O.P.; A.B.C. analysis; etc. as far as applicable and improve their marketing system so as
to reduce stock piling of finished goods. Besides, utmost care should be taken to avoid obsolescence of stores & chemicals together with the assiduous efforts to control them through effective utilisation by inducting a *just-in-time* operating environment.

Solution to the problem of receivables credit policies lies in the articulation of these in explicit terms and revised periodically in the light of internal and external changes. Further, a better co-ordination between sales, production and finance departments is called for. Enterprises should examine the published statements of prospective customers with greater regour. The policy of recovery of dues should be so designed that the follow-up is duly ensured and the indifference towards recovery of dues prevalent in government enterprises should be controlled. Prompt billing, timely reminders to defaulting customers and immediate action against delinquent accounts should be ensured. The investment in loans & advances should be minimized to the extent possible.

Proper planning and control procedures need to be adopted and monitored for effective utilisation of cash. For this, the enterprises should device a strong centralised administration of cash funds and should actualize a better regularisation of cash flows by making sound cash forecasts through well projected cash statements on revolving basis. The quantum of cheques and the intransit remittances should be deposited as and when received by the enterprises. In view of the enterprises resorting to overdraft system, the excess cash so received should be utilised in repayment of past balances instead of creating new investments.
As the study revealed that most of the enterprises have not adopted the principles of efficient financial management for financing their working capital need (vide Chapter 6), so it is recommended that the enterprises should not only use the proper sources of finance but should also match the maturity times of current and long-term obligations with that of internal cash inflows. In the fitness of risk and return, it is suggested that they should follow the principle of matching the current assets with current liabilities. The excessive dependence on bank borrowings through cash credit arrangement verified the fact that the enterprises were failed to adjust cash outflows with cash inflows from internal sources. The use of costly funds and the diversion of short-term finance for long-term purposes had already increased the financial risk of these enterprises and negatively affected their profitability. Therefore, proper management of working capital requires that the enterprises should use the alternative cost viable sources of finance and on such terms and conditions that their repayments fit to internal financial positions of the enterprises. Above all, to improve efficiency of working capital management, efficiency and effectiveness in overall management should be increased because the managerial decisions on production, marketing and personnel activities do affect the size of inventory, receivables, cash and other components of working capital. In the present study, except the Hindustan Newsprint Ltd. the other three enterprises are examples which have experienced a relatively low performance of working capital management due to their inefficiencies on different fronts in the organisations.

Finally, it may be stated that though we found a mixed impact of the
ongoing liberalisation process on the performance of working capital management in the paper industry of the public enterprises, it should be admitted that this study only provides some observations of the working capital management practices followed by the enterprises in the pre- and post liberalisation period. We think that a more broad-based in-depth study in this line incorporating both public and private enterprises should be undertaken during the coming years for the development of competitive environment in public enterprises, in general, and the working capital management performance of the selected enterprises, in particular. Sooner the study is undertaken, the better it will be.