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The developing economies are generally faced with the problems of inefficient utilization of resources available to them. Adding to this problem, such economies also have the problem of scarcity of some of the resources critically required for development. Capital is one of such scarce productive resources, efficient utilization which is very essential to promote the rate of growth, cut down the cost of production and above all to beef up the efficiency of the productive system. In view of its criticality, the purposeful harnessing of capital is of paramount importance in every policy of economies.

Companies within such economies can rarely be immune to their economy’s problems including scarcity of capital. Companies require capital resource for fixed and working capital requirements of their businesses and therefore, the capital needs to be sufficiently mobilized, properly utilized and managed. However, the emphasis has ever been on the growth and efficiency of fixed capital. The management of working capital has often been neglected, resulting in sub-optimal utilization of working capital and consequently the fixed capital. Management of working capital in a given enterprise has profitability and liquidity implications. Working capital represented by current assets, constitutes a dominant and controllable segment of investment, particularly in manufacturing enterprises and efforts to prune it or optimize its size must promptly enhance the profitability. These efforts would simultaneously activate the flow of funds through the enterprise by focusing on dormant inventories and overdue outstanding and by curbing the long established tendency of funds to stagnate at different stages in the enterprise operations. Thus working capital offers a common front for profitability and liquidity management.

Importance of working capital can further be judged from the fact that many a time the main cause of the failure of a business enterprise has been found to be the shortage of current assets and their mishandling. Inadequate working capital is a serious handicap in the business. Whereas fixed capital investment generates production capacity, working capital makes the utilization of that capacity possible. Competent administration of current assets solves the problem of underutilization of capacities.

The correlation and interdependence of fixed and working capitals is more in capital intensive industries such as steel, textiles, rubber, and cement etc. Cement
industry is a typical representative of the manufacturing industries which not only requires huge fixed capital but also needs significant proportion of working capital for its operations. Cement industry is indeed the backbone of economic growth in any country. A thick relationship has been found between the level of economic growth and the quantum of cement consumption in developed as well developing countries. Cement industry, through its forward linkages provides the maximum stimulus to growth in other industry also. It is often stated that one employee in cement manufacturing activity supports eight to ten persons in related activities.

In India, since independence, great emphasis has been laid on the development of cement industry. It is one of the key basic industries in India. It plays dominant role in the national economy. Cement industry ranks second after the Iron and steel industry. Cement is indispensable in building and construction works. The production and consumption of cement, to a large extent, indicates a country’s progress. The development of transport, infrastructure, irrigation and power projects etc. depends to a very large extent on the availability of the cement. The per capita consumption level of cement is regarded as one of the indicators of development and standard of living in a nation.

PRESENT STUDY AND SELECTION OF SAMPLE

Keeping in mind the above importance of the cement industry in the economic development, it has been considered significant to study the working capital management of industrial units in cement industry.

The following are the select units for the study:

1. Anjani Portland Cement Limited (APCL)
2. Bheema Cements Limited (BCL)
3. Deccan Cements Limited (DCL)
4. NCL Industries Limited (NCL)
5. Panyam Cements & Mineral Industries Limited (PCMIL)
6. Sagar Cements Limited (SCL)
OBJECTIVES OF THE STUDY

The overall objective of the study is to analyze the size, liquidity and structure of current assets and evaluate the efficiency of working capital management and its financing pattern in the select units. In particular, the study makes an in-depth analysis of the management of inventory, receivables and cash by analyzing their size, structure and operational adequacy aspects with a view to evaluate the degree of the efficiency with which each of these components was managed.

SCOPE AND PERIOD OF THE STUDY

The present study is restricted to evaluate the efficiency of overall management of working capital and its components, such as inventory, receivables and cash in selected units of cement industry in Andhra Pradesh. This study is confined to the period from 2003-04 to 2012-13.

RESEARCH METHODOLOGY

The detailed research methodology is narrated in the following paragraphs:

Data Base:

The study is mainly based on secondary data and primary data are collected as per requirements of the study through questionnaire and discussion with concerned company’s finance and accounts executives.

Secondary data is taken from CMIE, Prowess Database and published annual reports of the cement companies. In addition to that, financial literature and published articles on the related aspects are also considered. The secondary data is basically for financial analysis purpose. Various publications of “Cement Manufacturers’ Association”, National Council for Cement and Building Material, World Cement and Stock Exchange Official Directory are used for this purpose. Other information related to the industry are collected from the Economic Times, Financial Express, Business Standard, RBI Bulletin, periodicals, journals and various documents of the companies.
RESEARCH APPROACH AND TOOLS OF ANALYSIS

The research approach is descriptive observational research. The observed secondary data is used for financial analysis purpose. In the course of analysis, various accounting and statistical techniques have been used. Accounting techniques include ratio analysis, trend analysis and common size statements while among statistical techniques the arithmetical mean, standard deviation, coefficient of variation, maximum, minimum, simple and average growth rates, correlation coefficient, coefficient of determination and linear regression equations have been applied. The use of all these techniques at different places has been made in the light of nature and suitability of data available and requirements of analysis.

The chapter-wise findings, conclusions of the present study and suggestions are briefly summarized below.

CHAPTER–4: WORKING CAPITAL MANAGEMENT: OVERALL ANALYSIS

Working capital is essential for the smooth running of any business. In the absence of adequate working capital, the fixed assets cannot be utilized properly. As already stated, inadequate working capital not only leads to production interruption, but also impairs liquidity. On the other hand, excess working capital impairs the firm’s profitability even though it strengthens the liquidity. Therefore, the amount of working capital in a firm should be neither more nor less than what is required. As the profitability and liquidity of a firm are directly influenced by the way its working capital is managed, the main objective of working capital management is to achieve a trade-off between liquidity and profitability. These aspects have been examined in this chapter.

FINDINGS AND CONCLUSIONS:

1. In the cement industry, it was found that, on an average, 29.21 per cent of total assets were in the form of current assets. The growth rate of current assets has recorded 670.97 per cent over the base year. Among the select units, on an average, PCML and BCL have higher proportion of current assets and DCL, NCL and SCL have lower proportion of current assets compared to the industry. The APCL has more or less the same of current
assets compared to the industry. However, in all the select units, except NCL, the proportion of current assets to total assets has been showing an increasing trend during the study period. The rate of increase was the highest in BCL and the lowest in SCL. This was due to high rate of growth in current assets than that of fixed assets. This unhealthy trend in the size of current assets has resulted in low profitability in select units, especially in BCL and PCMIL which have incurred losses in some of the years under the study. It was also observed that the growth in current assets of the select units was not in tune with the growth in sales in most of the years under the study.

2. The liquidity analysis revealed that the management of liquidity in these units was not on sound lines. Among the ratios, which indicate the liquidity position (current ratio, quick ratio and cash position ratio), it was found that the current ratio was less than the norm, on an average, in APCL, NCL, PCMIL and SCL except in BCL and DCL. The quick ratio which is the better indicator of liquidity position was more than the norm in most of the years under the study. Individually, the quick ratio of all the select units was more than the norm in most of the years under the study. This was due to high proportion of trade receivables in the current assets of the select units, which has positively affected their liquidity position. The cash position ratio, which was just 0.16 times, on an average, in the industry also revealed that the select units, except DCL where only it was more than the norm, have failed in maintaining adequate level of cash to meet its short term maturing obligations. In particular, the cash position was tight in PCMIL, where in most of the years cash position ratio was just 0.01 times or less than that level.

3. The composition analysis revealed that the major element of current assets was receivables (60.28 per cent) followed by inventory (29.75 per cent), cash (8.57 per cent) and other current assets (1.69 per cent), on an average, in the industry. In all the select units, more or less the same composition could be observed. Among the select units, PCMIL and DCL have accounted for the highest and the lowest proportion of receivables.

4. The current assets turnover ratio, which indicates the overall efficiency of utilization of the investment in current assets, revealed that in seven years
the industry could not achieve more than 3 times of turnover with registering an average ratio of 2.75 times. In case of individual units, APCL, DCL and SCL could achieve more than 3 times of turnover as against BCL, NCL and PCMIL. The net working capital turnover ratio, which has been used to know the real efficiency in the utilization of investment in working capital, increased from 6.36 times to 62.48 times in the industry during the study period and on an average, it was 13.57 times. Among the select units, in DCL and PCMIL this ratio was below than the industry and it was negative in case of NCL on an average during the study period. Even though the average ratio of the other units (APCL, BCL and SCL) was more than the industry, on an average, it was negative in SCL in latest years. Therefore, it can be concluded that the management of the select units have not been satisfaction active in the utilization overall current assets as well as working capital.

5. Correlation analysis revealed a high degree of correlation between current assets and sales both at the industry and at the individual unit level. Regression equation revealed that the value of ‘b’ was comparatively high in BCL, DCL and PCMIL when compared to that of industry. However, the value of ‘a’ in APCL, DCL, PCMIL and SCL was negative which indicates the extent to which they can reduce the size of current assets. The value of ‘a’ was comparatively very high BCL and NCL which indicates the lower capacity of these units in adjusting the size of current assets according to change in sales.

On the whole, it may be concluded that the select units have to put in serious efforts to control their investment in current assets.

**SUGGESTIONS:**

- When there is deficit of working capital, as in the case of NCL and PCMIL, they should try to build an adequate amount of working capital. Enterprises having excess working capital such DCL need to invest in short term securities in order to strengthen liquidity and to improve profitability.
The sample units should try to bring down the rate of increase in current liabilities or to augment the rate of increase in current assets. Further, the units, having current liabilities more than the current assets, have to reduce the former considerably so that the working capital position can be strengthened.

The select units while undertaking the expansion programme should strengthen the current assets too so that the expansion activity ultimately will pay rich dividends and plant facility need not be kept idle for want of working funds.

CHAPTER – 5: FINANCING OF WORKING CAPITAL

FINDINGS AND CONCLUSIONS:

1. The analysis of financing of current assets revealed that APCL, BCL and DCL heavily depended on long term sources to finance major portion of their current assets where as NCL and SCL depended heavily on short term borrowings. But, PCMIL could not use the long term sources in financing its current assets in half of the years of study period and that too, the proportion of this source was negative in this unit. In this unit other current liabilities have a major portion in financing its current assets. From this it can be concluded that APCL, BCL and DCL have been following the conservative policy and giving much importance to the liquidity at the cost of profitability as against NCL, SCL and PCMIL which have been following the aggressive policy and giving more importance to the profitability at the cost of liquidity.

2. The utilization of bank credit in the select units when compared with the maximum permissible bank credit suggested by the Tandon Committee revealed that DCL has succeeded fully in controlling bank credit throughout the study period. BCL also, except in 2012-13, has succeeded in controlling bank credit. APCL, NCL, PCMIL and SCL have exceeded their borrowings in three years, four years, six years and four years respectively during the study period as per first method. However, excesses borrowings were noticed in all units as per second method during the study period. APCL and BCL in three years each, DCL in two years,
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NCL and PCMIL in six years each and SCL in five years have exceeded their borrowings.

On the whole, it may be said that the utilization of bank credit is not ideal and has not been kept under control in most of the units under study. An ideal situation would be a gradual shift of the units to the third method of financing under which they will have to finance from their own sources the entire core current assets plus a minimum of 25 per cent of the balance of current assets, determined on the basis of norms laid down for inventories and receivables. There is no escape for these units from their present position but to strengthen their financing from long term internal sources further.

SUGGESTIONS:

- All the units under the study are required to reduce the proportion of bank borrowings as a source of working capital even to satisfy the second alternative as suggested by the Tandon Committee.
- Excess reliance on short term funds as is noticed in NCL and SCL should be avoided. In other words, these units need to increase the proportion of long term funds in financing their working capital needs. These long term funds may be in the form of equity and long term loans.
- Further, it is also desirable to promote internal resources from their own operations to finance the working capital requirements. The variable component of working capital should be financed by the cash credit arrangement from scheduled commercial banks, short term loans from other sources and also from internal funds.
- Necessary efforts should be initiated to speed up the operating cycle in order to quicken the transmutation of working finance. Further, the concept of operating cycle period has to be given due weightage in estimating the working capital requirements of the enterprise. An effective use of this concept avoids, to a greater extent unnecessary tie up of funds in various current assets. Further, advance planning of working capital needs can also be estimated through this technique.
CHAPTER – 6: INVENTORY MANAGEMENT

FINDINGS AND CONCLUSIONS:

1. Inventory occupied the second place after the receivables in the composition of current assets in all the select units, except DCL where it got third place. Its proportion averaged 29.75 per cent in the industry and fluctuated between 21.66 per cent and 40.19 per cent during the study period. Among the select unit, the inventory proportion was the highest in BCL (38.47) and the lowest in PCMIL (19.16 per cent), on an average.

2. In order to know whether the investment in inventory is adequate or excessive, the inventory turnover ratio and ratio of inventory to net working capital were calculated. The inventory turnover ratio reveals that it has fluctuated between 10.42 times and 19.01 times, on the whole showing increasing trend in the industry. The average inventory turnover ratio was 13.60 times in the industry during the study period. In select units, APCL, NCL and SCL have been showing an increasing trend as against decreasing trend in BCL, DCL and PCMIL during the study period. The averages of DCL (20.19 times) and SCL (28.48 times) are more than that of industry while the same of APCL (10.20 times), NCL (7.98 times), BCL (4.59 times) and PCMIL (10.17) are less than that of industry. Though the average of DCL is more than that of industry, its reducing trend during the study period indicates decrease in the efficiency level of the unit. The same is true in case of BCL and PCMIL. But, SCL has made considerable improvement in this regard. Therefore, it can be concluded that the turnover of inventory was lower in APCL, NCL, BCL and PCMIL during the study period. This indicates that these four units have been carrying high level of inventory. As inventory turnover ratio does not clearly indicate the extent of over investment in inventory, it was supplemented by the ratio of inventory to net working capital. This ratio was 111.29 per cent, on an average, in the industry which was more than the norm (75 per cent). In select units, the size of inventory was less than 75 per cent level of net working capital in DCL and PCMIL and it was more in APCL, BCL and SCL. But, it was negative in NCL on an average during the study period. In latest years, APCL, BCL, DCL and PCMIL
were carrying high level of inventory and also showing increasing trend. But, NCL was showing a decreasing trend and SCL was showing a negative in latest years in this regard. On the basis of both these ratios it can be concluded that the size of inventory in APCL, BCL was excessive and DCL and PCMIL were carrying high level of inventory especially in latest years of the study period. But the NCL and SCL were carrying low level of inventory in latest years though they carried high level of inventory in initial years during the study period,

3. In order to know the components of inventory which are carried excessively, the analysis of the structure of inventory in the select units was made. Structural analysis revealed that the raw materials occupied last but one place in the inventory structure. It can be observed that the raw materials inventory has been showing a decreasing trend in the industry. This has decreased from 16.56 per cent in 2003-04 to 5.81 per cent in 2012-13 and, on an average; it was 12.22 per cent during the study period. In select units also, the same trend could be observed. On an average, the proportion of raw materials inventory was 3.71 per cent in APCL, 13.26 per cent in BCL, 11.19 per cent in DCL, 14.05 per cent in NCL, 20.80 per cent in PCMIL and 10.29 per cent in SCL during the study period. This analysis revealed that the proportion of raw materials inventory was low in all select cement companies. The operational adequacy of raw material inventory revealed that it fluctuated between 0.79 and 2.43 months’ value of consumption, in the industry and recorded on an average 1.34 months’ value of consumption, which is lower than the norm (1.5 months’ value of consumption). In select units, the raw materials inventory has been showing a decreasing trend. On an average, it was 0.44, 0.56 and 1.06 months’ value of consumption, which is lower than the norm, in APCL, DCL and SCL respectively. In NCL, it was 1.51 months’ value of consumption, which is almost equal to the norm. While it was 2.40 and 2.07 months’ value of consumption in BCL and PCMIL respectively, this was higher than the norm. Therefore, from this analysis it can be concluded that two units (BCL and PCMIL), among select units, have carried excessive raw materials inventory during the study period. These
two units failed in properly assessing the raw materials requirements during the study period.

4. The proportion of work-in-process inventory fluctuated between 14.92 per cent and 29.07 per cent and constituted on an average 19.48 per cent in the industry. It is next to stores and spares in the total inventory. In select units individually, the proportion of work-in-process has been showing an increasing trend in four units (APCL, BCL, DCL and PCMIL) and a decreasing trend in two units (NCL and SCL) during the study period. The average proportion was 33.63 per cent in APCL, 22.52 per cent in PCMIL, 20.68 per cent in BCL, 17.83 per cent in SCL, 14.55 per cent in DCL and 6.05 per cent in NCL. Thus high proportion of work-in-process inventory could be observed in APCL, PCMIL and BCL compared to industry. the work-in-process inventory in terms of number of months’ cost of production has fluctuated between 0.35 and 1.13 months’ cost of production and on an average; it was 0.52 months’ cost of production during the study period in the industry, which is above the norm (0.50 months’ cost of production). Among select units individually, in two units (APCL and BCL) the work-in-process inventory was more than the norm and in the remaining four units (DCL, NCL, PCMIL and SCL), it was lower than the norm, on an average. On the whole, it was observed that due to lack of speed and smooth flow of work on the one hand and lack of scientific attempt at reducing manufacturing cycle in two units (APCL and BCL), work-in-process inventory registered more than the norm.

5. The proportion of stores and spares occupied first place. It was 41.57 per cent in the industry, on an average, during the study period. Among the select units, BCL, PCMIL and APCL have high proportion of stores and spares inventory, on an average, compared to industry. Measurement of stores and spares inventory in terms of months’ value of consumption revealed that it fluctuated between 14.80 and 40.02 months’ value of consumption and, on an average, it was 25.04 months’ value of consumption in the industry, which is more than the norm suggested by Tandon Committee, i.e., 1.50 months’ requirement. Among select units individually, the average stores and spares inventory in APCL was 20.75, BCL was 79.77, DCL was 7.87, NCL was 15.57, PCMIL was 13.61 and
SCL was 12.69 months’ value of consumption during the study period, which was also more than the norm. Therefore, it can be concluded that all the select units have been carrying high level of stores and spares inventory.

6. The proportion of finished goods inventory constituted minor portion but had been slowly increasing and on an average it was 11.58 per cent in the industry during the study period. Individually, the proportion of finished goods inventory was more in NCL and DCL compared to industry. Measured in terms of months’ value of sales, the industry carried 0.17 months’ value of sales, on an average, which is lower than the acceptable norm of one month value of sales. In select units individually also the finished goods inventory was below the norm throughout the study period. Thus, it can be concluded that no select unit under study has carried high level of finished goods inventory during the study period. This is mainly due to high level of demand for the cement produced by the select units.

7. The correlation analysis revealed a high degree of correlation between inventory and sales both at the industry level and units’ level, except in DCL. Further, regression analysis revealed that the values of ‘b’ indicate the sensitivity with which inventory change for a unit change in sales. The ‘b’ values of APCL, NCL, PCMIL and SCL are comparatively less, which indicates that the inventory in these units is less sensitive than that of industry. Negative values of ‘a’ in the industry as a whole, and in individual units (APCL, BCL, DCL and SCL) indicates the extent to which these firms can reduce the size inventory.

From the above observations, it can be concluded that the size of inventory was excessive in the select units mainly due to high level of stores and spares inventory. This has adversely affected their liquidity position. The profitability of the units has also been affected due to additional investments blocked up in these components.
SUGGESTIONS:

- Thus, the problem of inventory in the select units is related more of overstocking rather than understocking. The overstocking in stores and spares which is a maintenance inventory was mainly because of existence of highly depreciated machinery in the select units. It can be reduced by replacing the old and worn out machinery on the one hand, and developing ancillary units which will take up the maintenance and repair works and burden of carrying the inventory of stores and spares on the other. The following are some more solutions:

- Though there was no over investment in inventory there is ample scope for further reduction of the size of the inventories.

- The select units shall improve their inventory turnover rate in order to minimize investment in inventories to generate higher sales leading to higher profits.

- Every undertaking has to constitute a purchase committee for raw materials including stores and spares. The committee may consist of members from finance, production, sales and research and development wings which can meet at least twice in a month to sort out the impediments.

- The methods of purchasing raw materials have to be systematized i.e., they need to change the methods of purchase depending upon the value of raw materials to be purchased. The follow up system for purchase orders shall be further refined by making it a more regular and standard activity.

- There is also an immediate necessity of shortening the lead time in procuring raw materials so that emergency purchases can be minimized and further reduction in ordering costs can be effected.

- The inventory levels shall be periodically reviewed so as to ascertain stock positions in order to avoid the cost of stock outs. The basis for fixing maximum and minimum inventory levels of raw materials shall always be on scientific lines.

- Suppliers who failed to go by agreed supply schedules shall be charged with severe penalty. This can be possible provided the undertaking does not depend upon a single supplier. In other words, it is always better to develop contacts with more sources of supply.
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- The procedure for inspection of materials and also the procedure of receiving the goods at the plant should be simplified in order to avoid unwarranted delay in dispatching materials to store.

- Inspite of the fact that there was no overstocking of aggregate inventory, some units like BCL and PCNIL had, however, overstocked the raw materials. It is, therefore, necessary to develop internal norms both for consumption and stocking of various raw materials and never be they deviated.

- The work-in-process inventory has to be maintained at a lower level for which efforts should be made to shorten the production process more specifically in the case of APCL and BCL. The conversion period should not be stretched forward for want of cordial labour relations and breakdown of machinery.

- It would be better, if finished goods are maintained on the basis of systematic demand projections rather than haphazard calculations.

CHAPTER – 7: RECEIVABLES MANAGEMENT

FINDINGS AND CONCLUSIONS:

1. Receivables occupied first place in the structure of current assets in the industry during the study period. Its proportion was 60.27 per cent, on an average, and varied between a minimum of 48.22 per cent and a maximum of 70.75 per cent in the industry during the study period. Among the select units, the highest and the lowest proportions were recorded in PCNIL and DCL respectively. In most of the units, its proportion has been showing decreasing trend during the study period.

2. To know the efficiency of receivables in generating sales, the ratio of receivables to sales has been calculated. This ratio revealed that receivables constituted a high proportion of sales in the industry (27 per cent on an average) thereby indicating that its use was woefully low. The lowest ratio of receivables to sales in DCL revealed that it was able to have comparatively good utilization of receivables, whereas the highest ratio in PCNIL showed very poor performance on this account.
3. The structural analysis of receivables points out that, contrary to the policy of making minimum investment in loans and advances, APCL, DCL, PCMIL and SCL invested much of the amounts of receivables. On an average, loans and advances amounted to 62.16 per cent, 75.90 per cent, 67.21 per cent, and 57 per cent of receivables in APCL, DCL, PCMIL and SCL respectively during the study period. Quite an opposite situation was observed in case of BCL and NCL, which have higher proportion of the debts (59.71 per cent and 59.11 per cent on an average respectively) than the loans and advances (40.29 per cent and 40.89 per cent on an average respectively). This indicates that BCL and NCL have been successful in making minimum investment in loans and advances.

4. The efficiency analysis of debtors revealed that the average debtors turnover ratio was 22.69 times and the average collection period was 39 days in the industry during the study period. The debtors turnover ratio was 13.13 times, 5.29 times, 8.61 times, 10.42 times and 18.31 times and the average collection period was 30 days, 76 days, 46 days, 48 days and 25 days in APCL, BCL, NCL, PCMIL and SCL respectively. It can be said that the debtors were not properly managed in these units. This indicates lack of commercial prudence of these units in granting credit. But a better situation existed in DCL which has recorded a debtors turnover of 80.38 times and a collection period of 9 days on an average. The aging schedule revealed that the proportion of the debts outstanding over six months was 7.01 per cent in APCL, 2.93 per cent in BCL, 7.41 per cent in DCL, 4.1 per cent in NCL and 7.93 per cent in SCL as against to 70.82 per cent in PCMIL. From this analysis it can be concluded that the efficiency of DCL was better than other units in managing the accounts receivables during the study period. APCL, BCL, NCL and SCL were satisfactory in this aspect and PCMIL was inefficient in this regard.

5. A high degree of correlation existed between receivables and sales both in the industry and in the individual units. In all select units, except DCL, also high degree of correlation existed between sales and receivables. In DCL, a low degree of correlation existed, which implies absence of clear cut credit policy. The value of ‘b’ in regression equation was comparatively high in PCMIL, BCL, APCL and SCL which indicates high
sensitivity of receivables to changes in sales. High value of ‘a’ in DCL and NCL indicates their inability in reducing the size of receivables to that extent. Negative value of ‘a’ in APCL and PCMIL indicates the extent to which these firms can reduce the size of receivables. This analysis points out to the need for an effective control on the investment in receivables in all the select units.

6. On the basis of high ratio of receivables to sales, it was concluded that the select units have not succeeded in utilizing receivables as an effective tool for generating sales. But an important observation is that while the loans and advances APCL, BCL, PCMIL and SCL were mainly for improving their production capacities, the same in DCL and NCL were mainly for employees and prepaid expenses.

On the whole, it can be said that the efficiency of debtors management in the select units is relatively poor. The loans and advances in APCL, BCL, PCMIL and SCL were given for productive purposes, while the same is for unproductive purposes in DCL and NCL.

SUGGESTIONS:

- One of the important solutions for these units in regarding poor debtors management is to improve their debtors turnover by insisting on payment. Further, to promote collection efficiency, the periodical reports of the overdues may be prepared by the concerned departments for taking suitable action.

- The investment in loans and advances of DCL and NCL can be minimized to some extent by insisting on the payment of cost of credit on loans and advances. Efforts should also be made by these to convince outside agencies not to insist on blocking up of heavy funds with them in the form of deposits for long spells. Some more suggestions are here under:

- Adherence to consistent credit terms will largely benefit the undertakings as it avoids unnecessary blocking of funds and the collection of dues on the scheduled dates ease out the problems of shortage of working capital in these enterprises.
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❖ Stringent measures may be considered for example, charging penal interest on overdue accounts pertaining to delinquent customers.

❖ Aging schedule of debtors has to be prepared not only for a six months period but also for different time intervals – 3 months, 9 months and 12 months in order to decide the type of measures to be taken to collect dues from these customers. It also helps to quicken the collection efforts and to bring down bad debt losses. Cash discount may be given to encourage timely payment.

❖ To promote the overall efficiency of working capital management, the overall credit policy of the concerns has to be restructured to suit to the changing needs of business conditions.

CHAPTER – 8: CASH MANAGEMENT

FINDINGS AND CONCLUSIONS:

1. In order of importance, cash occupies third place among the various components of current assets in the industry. Its proportion in the current assets was 8.57 per cent, on an average in the industry. Among the select units, the proportion of cash held was the highest (29.49 per cent) in DCL and the lowest in PCMIL (2.37 per cent), on an average, during the study period. High rate of fluctuations was observed in the proportion of cash to current assets. The same position was also revealed by cash to sales ratio during the study period as it fluctuated between a minimum of 1.53 per cent and a maximum of 7.12 per cent in the industry during the study period. On an average, it was the highest in DCL (9.26 per cent) and the lowest in APCL (1.03 per cent). Moreover, this ratio also showed high fluctuations both in the industry and in the select units. This indicates that the select units have not followed any specific policy regarding the size of cash during the study period.

2. The composition analysis revealed that cash at bank represents highest proportion of cash composition, the average of which was 86.04 per cent in the industry. Within this component, current accounts represent 48.83 per cent, deposits represent 36.19 per cent and dividend account represents 1.02 per cent. Cash in hand, cheques on hand and gold coins accounts for
Higher proportion of cash at bank, instead of cash in hand indicates a prudent cash management. However, major proportion of current account does not support such a conclusion. Among select units, the proportion of cash at bank was high in DCL, NCL, SCL and BCL than that of industry. No unit, except APCL, has reported cheques on hand during the study period. A considerable portion of cash was kept in the form of deposits in all the units. As considerable proportion of cash at bank was in the form of deposits in all select units, their efficiency in cash management is considered to be better during the study period.

3. The analysis of operational adequacy of cash balance revealed that the cash was sufficient to cover 19 days of operating expenses, on an average, in the industry during the study period. In select units, DCL has 57 days; NCL has 23 days; BCL has 16 days and APCL, PCMIL and SCL have 6 days each cash balance, on an average, to cover their operational requirements during the study period. Thus, it can be concluded that the operational adequacy of cash was moderate in the industry, especially in two units i.e. NCL and BCL. It was poor in APCL, PCMIL and SCL, but it was excessive in DCL.

4. The analysis of liquidity in the technical sense was measured by current ratio, quick ratio and cash position ratio. This analysis revealed that though the select units were good at quick ratio, their current ratio and cash position ratio did not reveal a satisfactory picture. These ratios were poor in four out of six select units. Thus, the liquidity of the industry in the technical sense is not considered to be satisfactory. But, the actual liquidity, which was measured in terms of current liabilities coverage ratio, (net profit to current liabilities ratio) and cash flows to current liabilities ratio revealed a slightly better liquidity position at the industry level and at units’ level. In BCL, NCL and PCMIL due to losses in some of the years under study, both these ratios turned negative in those years. The remaining three units (APCL, DCL and SCL) slightly a better position could be observed in this regard.
From the above analysis, it can be said that the problem of cash management in the select units was not of excessive cash balance but inadequate cash balance.

**SUGGESTIONS:**

- Efforts should be made for streamlining cash inflows and outflows in these units by improving their debt collection efficiency, sticking to the schedule of payment, stretching the payment wherever possible and by reducing their investment in inventories. Effective measures in this direction will not only improve their liquidity position but also reduce their dependence on external borrowings for meeting their operational requirements. Some more suggestions are as follows:
  - In forecasting cash requirements improved techniques based on statistical data may be worked out in sample units.
  - Cash payments should be centralized whilst collections may be decentralized.
  - To regularize and optimize the use of cash balances proper techniques may be adopted for planning and control of cash. Idle cash balances should be invested in marketable securities. It improves not only the liquidity but also strengthens the profitability.
  - Daily and weekly cash reports may be prepared at the plant level whilst monthly, quarterly, and yearly reports at the head office level. Optimum cash balances should be determined to be kept at plant level.
  - To strengthen the liquidity position of these undertakings either current liabilities are reduced or quick assets position improved. Added to this, cash flow from internal operations should be geared up.
  - Declining tendency of cash turnover ratio over the years in the sample units needs immediate attention of respective managements. Hence, they must take urgent measures to improve this ratio by increasing sales and reducing cash wherever necessary and feasible.

The overall analysis of working capital management revealed that the select units not efficiently managed working capital which happens to be one of the important conditions for running a business firm into adequate profits. While the sizeable investment in current assets has affected the net profit margin, lack of quality
in the composition of current assets affected the liquidity. The conservative policy and aggressive policy of the select units in financing current assets and excess dependence on bank credit, low rate of turnover of various components of current assets points to an urgent need to be brought about in the attitude of the management of these units towards working capital.

Strengthening of internal resources, adopting a policy of financing only permanent working capital by long term funds, observing the ideal norms suggested by the Tandon Committee regarding the extent of reliance on bank credit, bringing about an effective coordination among the key departments like purchasing, sales, production and finance in order to reduce the sizes of different components of current assets – are some of the measures to be taken by the select units to improve their overall efficiency of working capital management.