CHAPTER - X

SUMMARY FINDINGS AND CONCLUSION

Working Capital Management is concerned with the problems that arise while the finance manager attempts to manage the current assets, the current liabilities, as well as the interrelationship that exists between them. Because of its importance in corporate sector it has been considered the life blood and controlling nerve centre of business, and also looked upon as the driving force behind a finance manager. A firm requires both fixed and current assets; the effective utilization of the fixed assets, however depends upon the amount and usage of the current assets. There are four principles of working capital management and they are:

(a) Principle of risk variation,
(b) Cost of capital,
(c) Maturity of payments, and
(d) Equity position.

The efficient management of working capital can ensure the success of an enterprise, while its
inefficient management can convert an otherwise successful enterprise into an unsuccessful one. Therefore the study of working capital management is important both to the internal and external analysts.

An enterprise should have adequate working capital to run its business operations. Either excessive or inadequate working capital will have serious repercussions. While the excessive working capital can lead to idle funds without earning any income; inadequate working capital, not only impairs the profitability of the enterprise but also results in production interruptions, and inefficiencies.

The workings of the State enterprises have given rise to a talk about privatisation, either fully or partially. The poor profitability of the State enterprises has convinced many countries and States to think in terms of privatising them either partially or fully. Many of these enterprises in India have heavy accumulated losses and hence become sick. Some of the sick private enterprises which were taken over by the Government for the purpose
of nourishing it back to normalcy also continue to be sick. There are many factors, both financial and nonfinancial in nature, that are said to be responsible for the present state of affairs in most of the public enterprises. Among the financial problems, sometimes the mismanagement of the working capital or imprudent financing methods of working capital are responsible for the unsatisfactory financial performance of these enterprises. As such a diagnosis by an impartial agency may help identify the weaknesses and suggest ways for improvement in the management of the working capital. With this view, an attempt has been made to examine the degree of efficiency or otherwise with which the working capital, has been managed by the public enterprises of Tamilnadu.

EVOLUTION AND GROWTH OF PUBLIC ENTERPRISES

Prior to 1947 there was no public sector in the Indian economy except the Railways, Posts and Telegraphs Department, Port Trusts, Ordinance and Aircraft factories and a few State managed industries. With the achievement of freedom for the country and setting up of the National Planning Commission, launching of the Five Year Plans, and
adoption of the socialistic pattern of society as the economic goal of the country, the industrial scenario of India changed. The Directive principles of the State policy envisaged that the economic policies of the Government should be directed towards the establishment of a socialistic pattern of society without full scale nationalisation and collectivisation in which all unnecessary and unjustifiable social, economic and political inequalities would disappear. As a natural corollary all industries of basic and strategic importance, or in the nature of public utilities, services, came to be in the hands of the public sector.

The adoption of the concepts like democratic socialism and mixed economy have necessitated the need to devise policies which reconcile the imperatives of growth with concern for the well being of the needy and the poor. The industrial policy resolutions have been used as a means to achieve the economic goals of the country.

The objectives of establishing new public enterprises and or the reasons for nationalising some of the existing ones are varied and often differ from case to case and from time to time.
While the specific objectives vary from case to case, the basic objectives are the accelerated economic growth and social justice.

The growth of the public enterprises started from the first five year plan having 5 units investing Rs.29 crores to 232 public enterprises as on date investing Rs.85565/- crores. During this period it had a compound growth rate of 10.06 per cent in terms of number of enterprises and 22.10 per cent in terms of investments in them. India would not have been among the front rankers in the world, as she is today, without the public sector in the field of industry and technology. The public sector has played a key role in the growth of the economy in various ways. Serious gaps in the economy, particularly in the field of heavy industry such as manufacture of steel, heavy machine tools, heavy electrical equipment, heavy chemicals and fertilisers, ship building, aircraft manufacture, mining machinery, exploration and refining oil and indigenous production of defence equipments have been filled up by the public enterprises.
As the Government of India, various State Governments have also set up public enterprises in their respective States. Tamilnadu is one such State in which there is a substantial number of public enterprises at present. The growth originated in the erstwhile composite State of Madras with 10 public enterprises. But, it is only after the formation of the present State that they have grown fast. As on date there are 63 public enterprises and 8 statutory boards investing about Rs.1612.15 crores and providing employment to 1,38,767 persons.

The history and promotional pattern of the public enterprises of Tamilnadu have shown that they have grown on six bases. The number of public enterprises created by the conscious efforts of the State amounts to 23 and the nationalisation of the private sector as a revolutionary measure has contributed to 15 other corporations. All these 15 are in the field of passenger transports.

As their national counterparts, the public enterprises of Tamilnadu also have played an important role in the socio economic transformation of the State.
OBJECTIVES OF THE PRESENT STUDY

The present study aims at examining the policy towards the working capital management and evaluating the performance as a consequence of this, to search for possible remedial measures, on the basis of which the funds tied up in the working capital could be used efficiently.

In order to achieve this primary objective, the following specific objectives have also been considered for the purpose of this study. They are:

(1) to find out whether the State enterprises have planned their working capital requirements properly or not,

(2) to identify the financing pattern of working capital and its impact on the costs and profitability;

(3) to identify the purchasing policy and the gaps in the management of that part of the working capital,

(4) to find out the impact of the debtors and collection policy; and

(5) to know whether the public enterprises utilized the investments in current assets effectively or not.
HYPOTHESES

The present study has been undertaken to examine as to whether the public enterprises have a working capital policy or not and to evaluate such a policy the following hypotheses have been formulated. The hypotheses are:

1. The public enterprises are not conscious of costs,

2. The public enterprises do not have a proper planning of the source with which the requirements of funds are financed; and

3. They always try to play a safe game with reference to inventory management.

METHODOLOGY OF THE STUDY

The present study has been carried out by selecting a purposive sample of five units out of the total 63 public enterprises in ten groups, the purpose being the representation of the industry, size and nature of business etc. The statutory Boards which have to perform many statutory and service oriented functions have been kept out of the scope of the study. Among the ten groups, only the manufacturing and mining groups have been
selected because of the applicability of the principles of working capital management and commercial viability. Four out of the nine manufacturing concerns, and one out of the two mining concerns have been selected for detailed examinations. Thus the five sample units, namely TANSI, SS Ltd, TACEL, TASCO and TAMIN have been selected to represent a holding company of small industries, structural engineering industry also as an example of a company taken over for rehabilitation, ceramic, a loosing one, sugar and mining industries.

TOOLS OF ANALYSIS

In this study only the simple tools like percentage, average, standard deviation, range, ratio analysis, trend analysis, correlation, multiple regression and fund flow analysis have been used.

Apart from these, diagrams and graphs have been used to relate the different types of working capital requirements like, permanent, semipermanent and temporary, the trends of the working capital etc.

Tests like chi square test, 'f' test and 't' test have been used as tests of goodness of fit,
to validate the linear regression and levels of significance in the regression analysis respectiv-
ely.

LIMITATIONS OF STUDY

The study has been conducted on the basis of the data collected from the annual reviews of the Bureau of public enterprises of Tamilnadu, data collected from the approved questionnaire and also with the help of the interviews with the officials in the BPE, Finance Department, Government of Tamilnadu, apart from the guidelines given to the executives of the State enterprises.

There had been limitations of the data available to the researcher. There was a change in the grouping of particulars, during the years 1980-81 to 1983-84 and change in the accounting period from July-June to April-March in TASCO. Certain particulars like credit sales, profit or loss on the sale of fixed assets were not accounted for by them.

The study is confined only to a period of ten years from 1979-80 to 1988-89, a sufficiently long period for a study of this type and therefore the findings and suggestions are likely to be
applicable in general to all similar public enterprises or at least to the public enterprises of Tamilnadu.

STRUCTURE AND DETERMINANTS OF WORKING CAPITAL

The management of an enterprise should try to take maximum utilisation of its components at the minimum possible cost. This is highly dependent on the structure of working capital. The structure of working capital of public enterprises of Tamil Nadu has been made up of components like inventories, sundry debtors, loans and advances, cash and bank balances and others like advances and deposits received, and these were financed from the long term funds, ways and means advance, cash credits from banks, outstanding expenses, proposed dividends and provision for taxations.

The major determinants of the levels of the working capital having significant influence are sales, current liabilities, total capital employed, borrowed capital and a host of some other unexplored variables.

The components of the working capital are neither evenly distributed nor as per the trends in
the Indian manufacturing industries. The sundry debtors and loans and advances are in some units more than the inventory, while the inventory is supposed to be largest item in the working capital. In some others, the inventories are more than net working capital. When the study is carried out for the purpose of examining whether the working capital is adequate or not, with the tools like current ratio, quick ratio and the coefficient of correlation, the results are as follows:

The current ratio revealed that in TANSI the ratio is satisfactory even though it is little less than the norm. In Southern Structural Limited there are excess investments in current assets. In TACEL the current assets are inadequate to pay for the creditors in case of fall in value. TASCO exhibits the highest investments in current assets among the public enterprises which may lead to high cost and low profitability and in TAMIN also there are excess investments in current assets.

The results of the quick ratio have proved that except TACEL, all the other public enterprises, possess quick assets sufficient to meet the current liabilities. In TACEL the quick assets are only
0.8 time of the current liabilities. In cases like Southern Structural Limited and TASCO there are excess investments in current assets. In short the current ratio and quick ratio have revealed that the public enterprises are conservative by way of maintaining excess levels of current and quick assets than warranted by the current liabilities.

The co-efficient of correlation worked out between current assets and current liabilities have proved that in four of the five sample public enterprises (except TANSI) they are positively correlated indicating that they move together and the working capital is provided to carry out their operations. But in TANSI they are negatively correlated, but still it is able to have enough working capital probably because of its heavy initial investments or some other factors.

FINANCING OF WORKING CAPITAL

Normally the current assets are financed out of a combination of long, medium and short term sources of funds. After determining the level of current assets, their volume and components, the
other important task of a finance manager is to select an assortment of appropriate sources to finance them. The objective of working capital finance being the maintenance of operational efficiency and cost reduction, the study is conducted to examine whether the financing of the public enterprises aims at achieving the same or not.

**LOWER SHARE OF SHORT TERM FUNDS**

The results of finding in the financing pattern of public enterprises of Tamilnadu show the lower share of the short term source of funds (both internal and external). The major share has been tapped from long term source of funds evidencing the conservatism in financing current assets.

Another feature also found is raising short term loans for financing long term activity in TACEL for about three years evidencing the symptom of aggressive financing. By and large this has proved a lack of consistent policy of financing working capital.

When financing of working capital is examined on the lines of the recommendations of the study group namely P.L. Tandan Committee, which prescribed owners' contribution of 25 per cent of the working capital
gap so as to make the current ratio 1.17:1 in the beginning and 25 per cent of the total current assets in the next stage so as to make the current ratio 1.33:1 and 25 per cent of the core current assets to strengthen the ratio further, to be eligible for commercial banks assistance, and also to provide a sound financial base, the results obtained in the public enterprises of Tamilnadu reveal that the net working capital was being financed on an average 41.75 per cent, 54.73 per cent, 37.08 per cent, 63.68 per cent and 65.80 per cent from the long term funds and even in the combined working capital also the share of the long term funds is 49.66 per cent. This shows that the owners/long term funds are more than expected of evidencing their failure to raise short term source of funds (either through commercial banks or otherwise).

Because of the larger share of the long term funds in financing working capital, the current ratio has been on an average ranging from 1.59:1 (in TACEI) to 2.93:1 (in TAMIN). The combined current ratio also, on an average stood at 1.99:1 evidencing higher levels of investments in current assets.
These show that the public enterprises
(1) lack cost consciousness; (2) prefer to be liquid
rather than to be profitable; and (3) they are con-
servative in financing the working capital.

The funds flow analysis is able to show
that all the public enterprises have contributed
for increasing the working capital in varying de-
grees from the flow of funds within the organi-
sation. TANSI has contributed to increase in working
capital in six out of the ten years to the tune of
Rs.307.65 lakhs; Southern Structural Limited in six
years, Rs.1665.64 lakhs, TACEL in seven years,
Rs.53.32 lakhs, TASCO in five years, Rs.671.74 lakhs
and TAMIN in nine years, Rs.705.64 lakhs. All these
proved that inspite of these, the public enterprises
have depended on equity/long term funds heavily to
finance working capital requirements.

TRENDS IN THE WORKING CAPITAL

Since the financial statement of one year
may not be able to provide complete information
about the business, the internal as well as external
analysts are interested in knowing the direction and
tendency of the business over a period of time for
the purpose of forecasting the future. The direction of change over a period of time is of crucial importance for the financial managers because decisions have to be altered according to the circumstances. Therefore the trends in the working capital of the public enterprises are studied here for the purpose of examining whether the public enterprises have attempted to alter the levels of working capital balances on the basis of the trends or not.

The trends in the working capital of the public enterprises of Tamilnadu have been analysed on five factors, and the results are as follows:

(a) When the trends in the working capital are considered as dependent on sales, the working capital of TANSI decreases for every increase in sales. Since the decrease in working capital along with increase in sales is a sign of efficiency in managing the working capital, TANSI have evidenced the efficiency in managing the same;

Whereas in the other four sample units, the working capital increased along with increase in sales. It implies that the working capital in these units played the complementary roles to production/sales.
The trends in working capital are analysed as percentage to its sales so as to find out the rate of changes of working capital for a given change in sales. This has revealed that in TANSI, TASCO and TAMIN the percentage of working capital has decreased for every increase in sales evidencing the economical use of the total working capital, but in Southern Structurals Limited and TACEL the percentage of working capital has increased along with the increase in sales evidencing the liberal use of working capital. The percentage of the combined working capital has also declined and this decreasing trend have been significant. This shows that the public enterprises are developing a tendency to use the working capital economically.

The trends in the Indian manufacturing industries are that the current assets form 60 to 70 per cent of the total capital employed and in this context the trend of the working capital as a percentage to total capital employed has been analysed to examine whether the trends in the working capital of these public enterprises are as per the trends in the Indian manufacturing industries or not. The results have proved that the current assets are
on an average formed 40.54 per cent, 38.57 per cent, 12.94 per cent, 40.55 per cent and 62.68 per cent of the total capital employed of the respective public enterprises. This has revealed that only TAMIN maintains the current assets as per the trends in India, and all the other units, have maintained lower share of the current assets in terms of total capital employed. This may be due to either financing the current assets with long term source of funds or poor capacity to generate internal funds.

The trends further reveal that while TANSI, TASCO and TAMIN, attempt to use the working capital on an economical way, TACEL and S.S. Ltd evidence liberal usage of working capital for every increase in total capital employed.
(d) The trend of current assets and current liabilities has been examined considering that the current liabilities as dependent factor on current assets, so as to observe whether the current liabilities have responded to finance the current assets or not. The results have revealed that in TANSI they move in the opposite direction and in all the other sample units they move together. This shows that in TANSI the current assets are financed by some sources other than the current liabilities and in the remaining units the current liabilities have responded to the financing requirements of current assets. The current liabilities as a function of current assets have moved at a lower rate confirming the increased share of long term funds in financing current assets.

(e) The multiple regression analysis has been carried out considering sales, current liabilities, borrowings and total capital employed as probable determinants of working capital of the public enterprises.
The results have proved that these were determinants of working capital of these public enterprises on varying degrees. But in the case of TANSI, and TASCO there are some more factors influencing the size of the working capital.

By and large the trends in the working capital have shown that TANSI, TACO and TMIN show some attempts to alter the levels of working capital balances on the basis of the trends in sales and total capital employed, and the other units (SS Ltd and TACEL) do not show such a response. The current liabilities as a function of current assets have responded at a lower rate revealing the increased share of the long term funds in financing current assets.

INVENTORY MANAGEMENT

Inventories are the stock of the products a company is manufacturing for sale and also the components that make up the product. The various forms of inventories are raw materials, work in progress and finished goods. But the inventories of the public enterprises of Tamilnadu are analysed here as one group under the heading inventories.
The primary objectives of inventory management are to minimise the possibility of disruption in production schedule of a firm for want of raw materials, stores and spares and to keep down capital investments in inventories. A firm should have adequate inventory, neither more nor less. Inventories are held for meeting transactions, precautionary and speculative motives. The inventory management techniques like E.O.Q., reorder point, lead time, and safety stock may show the right quantity to be purchased, the right time to purchase and also the appropriate levels of inventory to be maintained by the manufacturing concerns.

The public enterprises of Tamilnadu claim to have adopted the inventory management techniques. But still, when the inventory management is evaluated the results are as follows:

(a) The share of the inventories in the gross working capital are 43.82 per cent, 33 per cent, 54.11 per cent, 49.73 per cent, and 46.64 per cent respectively. This is not only lower than the trends in the Indian manufacturing industries, but some times occupies secondary position also to Sundary Debtors and Loans and advances instead of
the primary position in the total current assets. Most often this secondary position is due to increased share of the sundry debtors and loans and advances and hence this is not a healthy trend.

(b) The inventory turn over ratio of TANSI has been fluctuating between 1.24 times and 2.72 times. On an average it was turning over 1.88 times revealing a poor performance. In Southern Structurals Limited the inventory has turned over a little faster than TANSI, having an average turn over of 3.80 times. In TACEL also the ratio fluctuates, but on an average the inventory turned over 1.86 times in a year, the lowest among the public enterprises. In TASCO and TAMIN also, eventhough the ratios fluctuate, the average of which have been 3.43 times and 3.26 times respectively evidencing better performance than TANSI and TACEL. The combined ratio of the public enterprises has also been fluctuating between 1.59 times (1980-81) and 3.22 times (1987-88). The average of the combined inventory turnover ratio being 2.38 times reveals that the inventories turned over approximately once in five months. This level of turnover may be alright for raw materials, but for finished goods inventory this is below the norm.
(c) The proportion of inventory to net working capital has proved that the public enterprises maintain inventories in varying proportions. The ten year averages of the sample units are 114 per cent, 86 per cent, 192 per cent, 88 per cent, and 89 per cent. This has proved that all of them have invested in inventories more than the norm of not exceeding 75 per cent of the net working capital. The combined ratio was also fluctuating between 74 per cent (1981-82) and 122 (1985-85). The average of this, being 87 per cent, points out that the public enterprises maintain larger inventories in terms of the net working capital. This shows the excess levels and the safe game that is being played by the public enterprises with reference to inventories.

The lower share of the inventories in terms of total working capital, the lower turnover ratio and the higher share in terms of net working capital proves the poor state of affairs and confirms the earlier conclusion that the public enterprises are neither cost conscious nor do they use the inventory in an efficient way, rather they prefer to play a safe game.
RECEIVABLES MANAGEMENT

When the firms sell their products or services and do not receive cash for it immediately, they are said to have created receivables. It is advantageous both for the seller and customer. Sometimes it may also be due from employees. The former is sundry debtors and the latter is known as loans and advances. But however both of them combined together is known as receivables.

The objectives of maintaining receivables are: expansion of sales and thus increase in profits and maintaining liquidity. The public enterprises of Tamil Nadu have certain policy and procedures in managing their receivables even though they sell a major part of their products for cash and a small part only on credit, that too for Government or government agencies. The structure of the receivables is in the form of sundry debtors and loans and advances. The size of the receivables has proved that in Southern Structural Limited, they are more than the inventories which is an unhealthy trend. In TANSI and Southern Structural Limited, the receivables are more than 50 per cent of the total current assets over the period. This
shows the excess investments in receivables. But in the other three sample units, the receivables are 27.97 per cent, 30.04 per cent, and 21.10 per cent of the total current assets, that is they are as per the trends in the Indian manufacturing industries.

The trend of the receivable is examined along with the trend of the sales to evaluate as to whether the receivables grow in line with the growth of sales or disproportionately high with sales. The tests have revealed that the sales and accounts receivables have moved together in all the public enterprises except in the case of Southern Structural Limited. In this unit the accounts receivables are relatively high, (i.e. the receivables are more than the sales in three years) and it is more than the sales in one year in TACEL. Even the lagged receivables are more than the sales. This reveals the heavy overdues of sundry debtors and slack collection procedures.

When the performance of the accounts receivables are measured with the help of receivables turnover ratio, the ratio of debtors to sales and finally loans and advances turnover ratio, the results are as follows:
(a) There is no consistency in the turnover of the receivables among the public enterprises.

(b) There is some amount of efficiency in granting credits (sales) but it has been marred by the maintenance of high levels of loans and advances,

(c) In a few enterprises, the granting of credits are not uniform throughout the period,

(d) Since the proportion of debtors to the sales is small, being just 23 per cent it is only the high levels of loans and advances that have reduced the receivables turnover ratios; and

(e) The turnover of the loans and advances are not uniform in all the public enterprises. In some cases (like TANSI) its turnover is on an average 3.08 times in a year, but in some other cases (like TAMIN) it turns over 15.16 times.

The combined average being 4.18 times in a year has revealed the unsatisfactory levels of turnover of receivables in public enterprises pointing out the need for quickening the collection process.
CASH AND BANK BALANCES

Cash management is concerned with the managing of cash flows into and out of the firms, cash flows within the firm and cash balances held by the firm at a point of time. It is held for meeting transactions precautionary and speculative motives. The objectives of cash management are, to meet the cash disbursement needs and to minimise the funds committed to cash balances.

One of the main tasks of a financial manager is to hold and maintain an adequate amount of cash. Cash is the major and much awaited output or the result of the companies' operations and hence there is the need for effective plan to deploy this liquid resources to utmost productive use and profitable investment of excess cash in marketable securities to balance liquidity and profitability needs.

The cash management practices in the public enterprises of Tamilnadu are examined with the help of tools like the cash to current assets ratio, cash turn over ratio and the liquid funds to current liabilities ratio.
The findings are as follows:-

(a) The cash to current assets ratio is fluctuating in all the public enterprises. The averages of this ratio having been 2.32 in TANSI, 1.68 in Southern Structural Limited, 12.43 in TACEL, 16.77 in TASCO and 23.63 in TAMIN reveal the mixed trend of lower levels of cash and bank balances in the first two units and excess in the other three sample units. The combined average ratio, being 6.18 per cent shows that the cash and bank balances of public enterprises are just sufficient.

(b) The liquid funds to current liabilities ratio used to measure the capacity of the public enterprises to pay for the creditors at a point of time has revealed that the ratios are fluctuating. The averages of these ratios having been 0.05, 2.74, 1.90, 4.74, and 5.39 times respectively, show that except TANSI, all others are liquid. Since TANSI has managed its affairs without adversely affecting its day to day operations it is a sign of efficiency, which the other enterprises lack. The combined average ratio having been at 1.23 times reveals that the public enterprises of Tamilnadu are not only liquid at any point of time, but have excess liquidity loosing opportune income from the investment of such excess liquidity.
(c) It has also revealed that there is no uniformity in the levels of cash balances held by them. The excess cash balances held by them paying interest charges and loosing opportune income is not a healthy practice.

(d) The other test of operational liquidity of public enterprises examined with the tool of cash in terms of number of days operational requirements reveal that the public enterprises hold cash balances to meet the requirements ranging from 3 days to 1738 days. The average levels are 9 days, 417, 317, 834 and 471 days requirements in respective public enterprises. The combined cash position is also equivalent to an average 315 days operational requirements. When judged it from the norm of not exceeding one months requirements, points out that they hold cash and bank balances in hand many times more than their operational requirements which is an evidence not only of the conservative practice followed by them, but also the safe game being played by them.

(e) Eventhough they admit that they invest the excess cash balances in government securities, in practice, TANSI have invested in that only once during this period, likewise Southern Structural Limited,
TASCO and TAMIN also have invested the surplus funds only once during this ten years period. TACEL, inspite of its excess cash balances have not invested in the government securities in any of these years. The investments in other units also are neither sizable nor aimed at having just adequate levels of cash balances. This again shows that the public enterprises of Tamilnadu are neither cost conscious nor interested in earning income from the surplus cash and bank balances.

(f) The cash turn over ratios are fluctuating without showing any definite direction. The averages of the turn over ratios are 51.73, 135.39, 18.06, 19.22, and 11.56 times respectively. The combined turn over being on an average 16.72 times and the average turn overs in the sample units ranging from 11.56 times and 135.39 times proves that there is every possibility for the public enterprises to quicken the collections and use the cash resources profitably.

From the analysis made in the earlier chapters the following conclusions could be made:

1. The structure of the working capital of the public enterprises are not as per the trends in the manufacturing industries in India. Normally the inventory
would always be the largest item and the sundry debtors and loans and advances put together would become the second largest item and the cash and bank balances would be ranging from 6 to 10 per cent of the total current assets. But in the public enterprises of Tamilnadu especially in TANSI and Southern Structural Limited, the receivables occupy the first position and the inventories occupy the second position. Hence the structure is not found to be well balanced.

2. The cash and bank balances of TANSI and Southern Structural Limited are less than 10 per cent of the total current assets over the period leading to insufficient funds for operational requirements, while in other firms they are in surplus.

3. While financing the current assets, the public enterprises could not generate short term source of funds (both internal as well as external) as a result of which they have to depend upon the long term funds to a larger extend which is neither aimed at operational efficiency nor the cost reduction.

4. Another trend also found is that the public enterprises like TACEL have raised short term funds (ways and means advance) for meeting long term activity which is not
only a symptom of aggressive financing but also costly and inconvenient. This proves that public enterprises do not have a consistent financing policy.

5. The trends in working capital and sales show the presence of some unexplored variables in the cases of TANSI and TASCO as determining factors, the identification of which would help them to take better financing decisions.

6. The trends in the percentage of working capital to total capital employed has revealed the higher share of long term funds exhibiting the tie of the fund's carrying higher cost.

7. The inventory though it occupies the major share in the total current assets in many units and in many years has been more than the net working capital in many units and also in many years, while it is not expected to exceed three fourths of the same. The combined average being 87 per cent of the net working capital, it reveals the conservative purchasing policy or playing "safe" attitude with reference to inventory.
8. The receivables are more than the inventories in two units and it is more than the corresponding years' sales in three years. It is more even to the previous years' sales of Southern Structural Limited (three years) and in TACEI (one year).

9. The receivables turnover ratio is low probably due to the higher share of the debtors than the trends in the manufacturing industries in India, and it may also be due to larger share of the loans and advances (compared to debtors) in the receivables.

10. The cash management of the public enterprises have evidenced a mixed trend. While the share of cash and bank balances is less than the trends of the same in the Indian manufacturing industries in two units, in another three sample units, it is high. Especially the cash in terms of number of days operational requirements are exorbitantly high in four out of the five sample units. Even the average of the combined cash position was also adequate to 315 days operational requirements, while the norm is not to exceed one month's requirements.
SUGGESTIONS

In the light of the observations, the following suggestions are made for the effective and profitable management of the working capital in the public enterprises especially of Tamilnadu.

1. The structure of the working capital (gross) be evenly constructed taking into consideration the operational requirements so as to reduce the cost and take optimum utilisation of the different sources.

2. The adoption of the matching concept in financing working capital may help reduce the high cost of operating expenses (by reducing interest charges) and also may increase the profitability. A major portion of the short term funds (approximately 65 per cent) along with the long term fund (approximately 35 per cent) in the total current assets may be the ideal to finance the working capital.

3. Even in this short term source of funds (since the capacity to generate internal funds is the symptom of efficiency in management), the public enterprises should try to generate a part of it internally to meet the operational requirements.
4. The levels of the receivables be reduced to such size as to make them occupy only second place in the total current assets to avoid tie up of funds in assets which are incapable of earning any income. This will make the public enterprises of Tamilnadu to reduce their dependence on long term funds and also the interest charges on it.

5. The investment of excess cash and bank balances in Government and other short term securities are claimed to be in vogue, but it is rarely practiced and hence the excess cash and bank balances be invested in profitable and easily convertible government and or other growing multitudes of securities so as to earn some profit out of idle funds, infuse competitive spirit and also avoid complacence.

6. The adoption of the inventory techniques like E.O.Q. reorder point, lead time, and safety stock may help in main/sufficient inventory in terms of avoid gross and/excess in terms of net working capital. It may also show the right quantity and the right time to purchase so as to keep down the capital investments in inventory.
7. The reduction in operating expenses would go a long way to help the public enterprises increase profitability. This would be more pertinent in the context that most of the public enterprises earn gross profit, but that is syphoned off by the heavy operating expenses resulting in net losses. This is possible by committing the employees to the success of the enterprises like the scheme of Memorandum of understanding reached between the Government of India and the employees of the Central Public sector enterprises. This may help to build up high morale which is essential for the success of any organisation.

In short the public enterprises of Tamilnadu have not developed a balanced working capital structure to take maximum advantage of it. They have not tapped the appropriate source to finance the working capital so as to increase the operational efficiency and decrease the cost. They have preferred to play a safe game by holding excess levels of cash and bank balances in hand and inventory at command. While they have bothered about remaining liquid, they have failed to profitably use the working capital.
Thus the study has proved the hypotheses formulated earlier that they are not cost conscious and prefer to play a safe game rather than manage the working capital in a way that would increase their efficiency. They do not have a proper planning of the source of working capital with which the requirement of funds are financed.