CHAPTER I

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INTRODUCTION

Working Capital Management is considered as an important function of a management. The overall success of a firm is determined by its efficiency in fixed assets management and working capital management. However, more attention is required for working capital management than fixed asset management.

"Van Horne" stresses that the financial manager is more concerned with the management of current assets than with that of fixed assets\(^1\). According to Havard working capital may be regarded as the life blood of business, it can do much to ensure the success of a business, while its inefficient management can lead not only to the loss of profitability but also to the ultimate downfall of a concern\(^2\).

The financial resources of a firm are invested in fixed assets and current assets. Effective utilization of the fixed assets and current assets lead to the growth of the firms working capital management is concerned with the management of current assets current liabilities and the interrelationship between the current and non current accounts of firm. The management of the working capital by enterprises is one of the most important factors that the influence decisions by several agencies like suppliers of commodities and goods, commercial, banks,
SCOPE OF THE STUDY

The study covers a section of the corporate sector in India. Namely, the engineering industry. Broadly the engineering industry is classified into five subgroups. They are:

1. Foundries & Engineering workshop.
2. Machinery other than Transport and Electrical.
3. Electrical machinery, apparatus, appliances etc.,

The combined balance sheet data and the combined profit and less account data and the selected growth rates and financial ratios of these sub-groups of engineering industry from the basic framework of analysis. Further, the interrelationship between the current assets and working capital finance has to be explained. Above all, the debate on liquidity 'versus' profitability has to be tested by using empirical data. The trends in working capital items have to be identified and appropriate models have to be developed. Hence the present study has raised the following issues for research.

1. What is the structure of current assets among the companies in engineering industry in India?
2. What is the pattern of Working Capital Finance among the companies in the engineering industries in India?
3.) Does the profitability influence liquidity? If so, what is extent of influence among the companies in the engineering industry?

4.) What is the behavior of inventories among the companies in the engineering industry?

5.) What is the role by long-term-funds in Working Capital finance in the engineering industry?

6.) What is the operating cycle time in the engineering industry?

7.) Can we develop a model for forecasting the working capital?

OBJECTIVE OF THE STUDY

In order to answer the research questions raised above, study has set the following objectives.

1. To analyze the pattern of current assets and current liabilities among the engineering industry in India.

2. To identify the trends in the behaviour of working capital accounts.

3. To study the inter relationship between the current asset investment and working capital finance in engineering industry.

4. To examine the contribution of profitability of the corporate sector in working capital finance in engineering industry.

5. To study the inventory build-up in corporate sector and the interrelationship between the inventory and basic borrowing among the firms in the engineering industry.

6. To develop a model for forecasting of working capital.
SOURCES OF DATA

The present study is based on analysis of secondary data collected from RBI's data on finances of non financing companies. The RBI has been publishing studies on the finance performance of private sectors for the past five decades. The studies were undertaken with a view, to capture the trends in income, value of production, sales, profitability savings, investments, borrowing, etc., in the corporate sector. Most of the data are condensed from the balance sheet and income statement of companies and hence it provides an authenticity to the information.

The criterion adopted for the selection of companies in the present study is based on their paid-up capital, as it is the only characteristics for which information is available at the population level. The objective is to have maximum coverage, industry-wise in terms of paid up capital and to include as many representative units as possible from various industries consistent with the twin parameters of time and resources. Companies in construction stage and defect companies are not involved.

The RBI studies also exclude companies in formative stage and those not operative for more than six months during the year. In addition companies and associations functioning for non profit motives,
companies limited by guarantee and promotional organizations are excluded. The list of selected companies is revised constantly with a view to improve the paid-up capital coverage and the representative character of the selected companies.

The main sources for the financial statistics on companies are the annual reports and accounts of the companies. The companies publish these reports, in accordance with the requirements of the companies Act 1956. The purpose of these reports is mainly to furnish details about the financial position of the company at the end of the accounting period and also details of the working of the company during the year. It is thus possible to glean valuate information on the financial status of the companies as reflected by the assets and liabilities and on the working of the companies from the details of income and expenditure.

The annual report and accounts of the company consists of

1.) The balance sheet showing the financial position of the company as at the end of the accounting period.

2.) Manufacturing, trading and profit and loss accounts showing the working of the company during the period, and the profit earned during that period and appropriating thereof and

3.) Debtors report showing the proposed appropriation of points. In some cases, the annual report outlines the working of the company during
the year and presents the board contours of the future program of the company. Apart from the financial information furnished in the report and accounts, certain other details regarding quantitative Information are also available in the reports of some companies. In order to arrive at meaningful results these data need to be classified under uniform heads, and analyzed appropriately.

**STUDY PERIOD**

The study covers a period of ten years form 1998-1999 to 2007-2008, completeness of data and availability of updated information were the two criteria adopted by the researcher in choosing this time period of study.

**METHODOLOGY**

The study is based on secondary data published by RBI and these further, analysis and statistics were computed. Summary statistics such as mean, standard deviation, coefficient of variation, and tests of mean difference using f-statistics have been used in this study.

Further, in addition to the annual compound growth rate (CGR) filling of trend equation, correlation and regression analysis fitting of multiple regression models and potential smoothing method were also adopted for the analysis and interpretation of data.
LIMITATIONS OF THE STUDY

The following are the limitations of this study.

1. The data used in this study are taken from RBI database.
2. The field of study relates to engineering industries.
3. Only five sub groups of engineering industries were taken into account.
4. The period of study is only ten years.

SIGNIFICANCE OF THE STUDY

The study highlights certain trends in working capital in engineering industry of India during the year 1999 to 2008. The structure of working capital shows the role of individual components and its importance in working capital. This research work helps to understand the performance of inventory stores, work in progress, receivables and cash in engineering industry in particular and the corporate sector in general.

CHAPTER SCHEMES

This study is presented in six chapters; the FIRST CHAPTER discusses the introductory part of this study, statement of problem, objectives of this research, scope of this study, sources of data, study period, methodology, limitations, significance and scheme of chapterisation are discussed.
The SECOND CHAPTER explains the concept of working capital management so as to give a theoretical overview of the topic and engineering industries in India.

The THIRD CHAPTER discusses the review of literature.

The FOURTH CHAPTER explains the trends in the structure of working capital.

The FIFTH CHAPTER explains, the analysis and interpretation of data relating to financing of working capital liquidity and profitability in the engineering industries in India.

Finally the SIXTH CHAPTER discusses the findings, suggestions and conclusion of the study.
END NOTES:


