CHAPTER - III

REVIEW OF LITERATURE

INTRODUCTION:

The studies on working capital are larger in number and most of them are found to be case studies and firm specific. However, an attempt has been made to provide a summary of the existing studies.

Leonke (1970) in his paper has critically evaluated the current ratio and he proposed a new liquidity index which is defined as the ratio of the projected practical maximum rate of at flow. The projected and retrospective indexes and this variants were presented as a basis for discussion for the purposes of internal financial analysis. The projected liquidity flow index or some refinement and modulation of it should be computed for shorter periods as a supplement of cash budget data since the requisite information should be readily obtainable. For the external analyst, a projected index would also be a more desirable substitute for the current ratio than a retrospective index. According to Lemke, many firms do not prepare formal forecasts of cash flow data even for internal purposes. The liquidity flow index seems to promises a significant improvement over the current ratio.

Robert O Edmister's (1972) study develops and empirically tests a number of methods of analysis, financials ratio to predict small
business failure Using the step-wise multiple discriminate analysis with independent variables a highly accurate test sample, was developed.

**Material analysis found to be useful in the study are**

1.) Classification of borrowers is ratio into quantities relative to other borrows in the sample.

2.) Observation of an-up-or down-trend for a three year period.

3.) Combinational analysis of a ratio’s trend and recent level.

4.) Calculation of the three terms average and

5.) Division of a ratio by its respective industry average ratio.

The discriminate function demonstrates ability as great as those functions recently estimated for much larger firms. However, the small business function fails to discriminate when only one statement is available whereas financial statement is sufficient for a highly discriminate function. This led the author to qualify his conclusions above, with the provisions that at least three consecutive financial statements be available for analysis of a small business.

**Braj kishor (1978)** in his paper attempted to give a general framework to analyze working capital policy issues both for public enterprises and private business firms. He analyzed the financing of current asset first. The alternatives of long term tests and current liabilities have been evaluated on the basis of cost and risk. A hypnotically numerical examples illustrated the risk return trade off while doing so, an a attempt
was made to incorporate subjective publishers of risk free rates, so that expected interest after a time period could be established this would then enable a decision with regard to whether a conservative aggressive or moderate current liability policy should be pursued. A similar exercise was then repeated for the current assets, finally, two exercises would be merged together so that an interpreted policy decision both for current assets and current liabilities emerges.

The shape of material cost and labour cost function for the Indian manufacturing industry was studied by Bartwal and Nair (1979)\textsuperscript{4} the profit and loss data used from stock exchanges directory for the year 1971-72 for 10 industries. The major result of this study was: 8 out of the 10 industries has evidenced increasing or decreasing returns to scale. The L shaped curve reflecting constant returns to scale was found valid only for two industries.

Venkatchalam and Dakshinamoorthy (1983)\textsuperscript{5} in their paper working capital trends in Indian private corporate sector analysed the working capital trends in the medium and large public limited companies in India over a decade 1973-1974 to 1982-83. This study was based on the RBI data. In this study in the context of the quantum of current assets is investment. The distribution of gross working capital - current assets investment among its different components, each components being both in absolute terms and percentages and analyzed
for an appraisal of the behavior of each component over the period. Finally the form of financing gross working capital, that is current assets investment was traced. It was observed that current liabilities and equally long term loan had been the major forms of financing current assets, investment in the public limited companies accounting for a minimum of 87 percent to a maximum of 99.5 percent.

The study of Panigrahi (1990) was on overall working capital analysis of large Indian companies during the period 1970 to 1987. The study also looked into the fact whether the working capital has any impact on possibility. The study showed that liquidity position of the large Indian companies is not satisfactory during the study period of seven years. All the liquidity ratio's namely current ratio, quick ratio and absolute liquid ratio remained below the standard norms throughout the period of study. It led to the conclusion that a large Indian Industries have been suffering for lack of liquidity. Among the ratios the co-efficient of correlation between profitability ratio and debtor's turnover ratio was found to be significant at 5 per cent level. On the other hand, ratios like quick ratio, inventory turnover ratio, and averages collection period have negative co-efficient of correlation with profitability ratio.

The working capital problems, in the iron and steel industry in India, was studied by Varma in (1989). The study observed that the basic problem of working capital in this industry was the surplus
investments in current assets rather than inadequacies. The surplus investment is mainly found in the inventory and receivables components. As far as cash management is concerned, no systematic policy has found in this industry and therefore, the firms have excessively depended upon basic borrowings to meet the working capital requirements among the industries studied by Varma, Tata Iron and steel company (TISCO) achieved trade off between liquidity and profitability. The main objectives of working capital management in the findings of this study were that the private sector in the industry had an edge over the public sector as far as management is concerned.

The share and the cost of financing of working capital which may contribute towards the growth of a firm through reduction was studied by Roy and Bhattachariyya (1991)\(^8\). The study concludes that as long as the income is comfortable for financing of current assets by current liabilities it would not cause any problem. But when the projected income becomes uncertain, the situation will turn to be critical. But it will not be so, if the finance is served from the self finances like depreciation provision. Here the supply of finance from the depreciation provision is spontaneous if the revenue remains sufficient to cover this provision.

Das (1993)\(^9\) in his paper on working capital management in the public sector undertaking in India: a case study points out that a very
important reason for slow progress of an undertaking is shortage or wrong management of working capital. The major findings in his study were that current assets constituted more than 23 percent of the total assets in the National Jute Manufactures Corporation Limited a public sector undertaking of Government of India. The analysis of current assets to turnover or current assets to sales ratio revealed that although the ratio has decreased over a period of time but excepting a few years the same is high. In some cases the ratio is also high which inputs an inefficient utilization of funds. The management should have a attention to reduce lock up of funds in current assets. The working capital to sales ratio is positive for the first three years of study but for the rest of the years it is found to be negative. This position is not satisfactory since the negative working capital may retard the further progress of the undertaking. The analysis of determination to sales ratio reflects that credit management is not very effective. The inventory holding period appears to be moderate. From the current ratio and quick ratio point of view, the short term liquidity position of NJMC was found to be poor. As a large part of capital is invested in inventory the quick assets are not sufficient to meet the currently maturing obligations.

David F.Scott et.al. (1997)\textsuperscript{10} studied the change in the financial and operating performance of 79 companies from 21 developing nations that experienced full or partial privatization during the period firm 1980
to 1992. This study used the according performance measures adjusted for market effects in addition to unadjusted accounting performance measures both unadjusted and market adjusted results show significant increase in profitability operating efficiency, capital investment spending, input employment level, and dividends. This study also found a decline in the leverage following privatization but this change was significant only for the unadjusted leverage ratios.

Uma Subaramaniyam, (1996)\textsuperscript{11} studied working capital analysis of State road Transport Undertaking (STU) in Tamil Nadu and identified the financial performance of the state road transport undertaking with help of ratio analysis. The study showed no improvement in the financial performance of either the parent corporations or the off shoot corporations. Since the working capital showed a negative figure in the majority of years, there by indicating inadequacy of current assets to meet current liabilities, on which management have no control. The results also showed that there was no uniformity between the corporations as to the influence of factors identified on the study of current assets.

The inventory investment behaviour in Indian sugar industry was carried out by Srinivasa Suresh and Somayijulu (1998)\textsuperscript{12}. The RBI data was used in this study from 1965-66 to 1986-87. This study was carried out within the frame work of flexible accelerator model. In this
model, the main focus was on the time structure of the investment process. This analysis is carried out in three levels viz, time series, cross section, and pooled time series cross section levels. It has been observed that external finance is shown to exert considerable influence on the inventory investment.

This implies that Indian sugar industry depends on external sources of finance to meet its investment needs. However, the accelerator showed weak influence on investment activity. Fixed capital had a bearing on inventory investment. In the sense that more the fixed investment less would have been the inventory expenditures.

The study of working capital management in co-operative and private sector companies in the sugar industry of TNAW was carried out by Vijayakumar (1998)\textsuperscript{13}. Analysis of size of Working capital showed that private sector units have enjoyed comparatively sound liquidity position and also effective utilization of working capital funds form the co-operative sector. The risk-return analysis showed that overall working capital leverage of sugar industries of Tamil Nadu as a whole was found to be low. It shows that changes in working capital in relation to fixed capital had very low impact over profitability.

In the work carried out by Herbert and Visscher (1998)\textsuperscript{14} ten diverse industry groups over a time period of ten years were analysed to examine the relationship between aggressive and conservative working
capital practices. The results showed a high and significant negative correlation between the industry assets and liability policies. And in general, it appears that when a relatively aggressive working capital assets policy was followed, they are balanced by relatively conservative working capital financial policies.

Juliet D. Souza and William I. Megginson’s (1999) study on the financial and operating performance of privatized firms during the 1990’s. compared the pre and post privatization financial and operating performances of 85 companies from 28 industrialized countries that were privatized through public share offering for the period from 1990 to 1996. The study reveals that significant increase in profitability, output, operating efficiency and dividend payment and significant decrease in leverage ratios for the full sample of firms after privatization. Capital expenditure increased significantly in absolute terms but not relative to sales. The findings suggest that privatization yields significant performance improvements.

Marc Delooy (2001) in his paper “Does Working Capital Management affect profitability of Belgian Firms?” has investigated the relation between the working capital management and corporate profitability. The sample considered of 1009 large Belgian non financial firms for the period of 1992-1996. Number of days accounts receivables: Inventories and accounts payable are used as measures of
trade credit and inventory particles. The cash conversion cycle is used as a comprehensive measure of working capital management. In this paper he has found out that firms have a large amount by cash, invested in working capital. It can therefore, be expected that the way in which the working capital is managed will have a significant role in profitability of the firms. In this paper Deloof formed a significant negative relation between gross operating income and the number of days accounts receivables, inventories, and accounts payable of the Belgian firms. These results show that managers can create value for their shareholders by reducing the number of days. Accounts payable and profitability is consistent with the view that less profitable firms wait longer to pay their bills.

INDUSTRY GROUP: -

1.) Foundry
2.) Machinery
3.) Electrical
4.) Ferrous
5.) Motor
6.) Engineering

Chandrasekaran (1989)\textsuperscript{17} has made a study on the performance of cement, measuring the profitability, efficiency and growth. He has
identified that the cash flow and external funds are the important determining factor of investment in the cement industry.

**Harbir Singh (1990)**\(^{18}\) in his study has stated that the financial health of a company can be improved if stringent control is exercised on raw materials, stores and spares, and also by reducing the unprofitable investment blocked in current assets. The cash flow can be regulated if the companies prepare weekly cash flow statement and also cash budget on a regular basis.

**Brealey and Myers (1991)**\(^{19}\) has stated in their study that according to the trade off theory, high profit should mean more debt servicing capacity and more taxable income to protect, resulting in a higher optimal debt-equity ratio. They observed that risky non profitable companies intangible assets must rely primarily on equity financing.

**Ratnam, Indra Doraiswamy, Seshadri and Rajamanickam (1992)**\(^{20}\) in their study on “Cost Control in Spinning Mills”, examined the various costs and factors affecting profits and suggested measures for cost control and recovery from sickness in spinning mills. The study found that the raw material cost was higher than all other costs. The profitability was low and variation in profits was greater. The study also suggested short-term and long-term measures in finance, productivity, technical and maintenance to improve their working and reduce losses.
Sinha (1993) conducted a study to investigate debt-equity ratio in private sector in India. His study revealed that there was a negative correlation between debt-equity ratio and profitability in the case of public limited companies but in the case of private limited companies, the margin on sales had a negative correlation with debt-equity ratio.

Syed Zabid Hossion (1997) in his study, competitiveness of Indian Textiles in the European Economic Community: 1974-85”, had made an empirical comprehensive analysis of India’s export performance in the EEC Market in textiles and clothing during 1974-85. The study examined India’s competitiveness in textiles compared to the major Asian competitors as judged by the alternative indicators of market share, relative price ratios and quota utilization. According to the study, price competitiveness was a significant relevance to the performance of India and competitors. In fabrics, Pakistan offered a lower price and had flexible exchange rate policy. In clothing, East Asian countries were efficient in production and offered a wide range of products. The study concluded that India’s lack of competitiveness was because of India’s trade and industrial policies.

Ratnam and Kalyanaraman(1993) in their study on “A Decade of SITRA’s Research”, compared the financial performance of member mills and analyzed the factors influencing costs and profits. The study states that the 1 per cent change in cotton cost will affect the cost of
production by Rs.10 per spindle that the use of superior cottons combined with improved machinery maintenance would lead to more savings to realize higher earnings than the break-even levels. The study states that, as spindle speed increases there would be steady increase in the overall profit per spindle.

Vijayakumar and Venkatachalam (1994) have made an empirical analysis on working capital and profitability, taking 13 companies of sugar industry during the period 1982-83 to 1991-92. Correlation and regression analysis have been applied to measure the impact of working capital ratios on profitability. Liquid ratio, inventory turnover ratio, receivables turnover ratio and cash turnover ratio have been considered to measure their impact on profitability (PBT/TA). The study has revealed that liquid ratio and cash turnover ratio have negatively influenced profitability and inventory turnover ratio and receivables turnover ratio have positively influenced profitability.

Hyun-Han Shin and Luc Soenen (1998) have focused their study on efficiency in working capital management and corporate profitability of 58,985 firms covering a period from 1975-1994. The study found that there exists a strong negative relationship between the length of the firms Net Trade Cycle (NTC) and its profitability. They also have found that NTC is measuring liquidity differently from the
more conventional current ratio, which is positively related to profitability.

Amit Mallick and Debasish Sur (1998) have examined the relationship between return on investment and working capital management in tea industry. Simple correlation and multiple regression analysis have been applied to find out the relationship between return on investment and each of the working capital ratio to assess the joint effect of those upon the profitability and to test the significance of cause and effect. They have also examined the working capital leverage of the tea industry. Their study has revealed that out of the nine ratios selected, five ratios (working capital ratio) have recorded a negative correlation with return on investment. The study encompasses yarn, fabrics and made up segments of the cotton textile industry. The study identifies the cost of raw materials, energy, dyes and chemicals and wages as the most critical cost in the cotton textile value chain. They constitute 85 per cent of manufacturing costs. The study indicates that China is the cost leader with cost advantages in all the factors of production and India is fast losing its traditional advantages of home grown cotton, low cost labour and higher energy costs. The study recommends that India should target for radical cost reduction, at least 15 percent in spinning, weaving and processing, to regain its competitive edge.
Hamasalakshi and Manickam (2005) in their study on "Financial Performance Analysis of Selected Software Companies" examined liquidity, profitability and leverage position of thirty four software companies during the period 1997-1998 to 2001-2002 by using ratios, correlation and multiple regression analysis. The study revealed favorable liquidity and working capital position. They concluded that the companies rely on the internal financing and overall profitability position of the software companies showed a moderately increasing trend.

Sudhansu Mohan Sahoo and Gom Karnath (2005) in their article on "Capital Structure of Indian Private Corporate Sector: An Empirical Analysis", analyzed the capital structure of the Indian corporate sector and the factors that determine the debt-equity of the firms during the period 1980-81 to 2003-04. The study concluded that the firm is significantly and positively to debt-equity ratio, asset structure and profitability are the most significant factors deciding the capital structure.

Balakrishnan (2005) in his study, "Financial Performance of Public Sector Petroleum Industry", analyzed the liquidity, solvency, profitability and predicted the financial position of the companies. He concluded that the petroleum industry is in a healthy position.
Chalam and Prasad (2006) attempted to evaluate financial performance of primary agricultural co-operative societies in Andhra Pradesh, through scaling technique. The study concluded that out of nine co-operative societies, four societies' performance were poor.

Jayaraj and Ilango (2004) examined the determinants of textile exports in India during the period from 1981-81 to 2001-02. The study concluded that the trade openness was the major factor than raw materials, power, obsolete machines, technology up-gradation and demand in determining the exports of textile goods.

Sankaran (2004) in his study on “Identifying Discriminate Financial Factors between Well Run and Not Well-Run Spinning Mills in Tamilnadu”, analysed and identified factors which separate well run from others for a period from 1991-2000, by using ratios, fund flow statement, discriminate analysis and prediction model for the thirty member mills of The Southern Indian Mills’ Association. He arrived at the conclusion that the well run companies were able to meet long term funds and current ratio and expenses on employee have significant influence in determining well and not well run companies.

Vunyale Narendra and Abhinav Sharma (2006) argued that the public enterprises are utilizing internal sources of funds for expansion and financing and do not utilize debt capital. The study further stated that they raised long term resources for meeting short-term
requirements. The study concluded that the public enterprises are using pecking order theory for capital structure policies.

**Sudarsana Reddy, Raghunatha Reddy and Mohan Reddy (2006)**\(^{34}\) examined the internal funds availability for financing fixed assets in paper industry of Andhra Pradesh. The study found that the owner’s funds were insufficient to finance fixed asset and observed that fixed assets do not have significant relationship with the sales.

**Eljelly (2004)**\(^{35}\) elucidated that efficient liquidity management involves planning and controlling current assets and current liabilities in such a manner that eliminates the risk of inability to meet due short-term obligations and avoids excessive investment in these assets. The relation between profitability and liquidity was examined, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock companies in Saudi Arabia using correlation and regression analysis. The study found that the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have significant effect on profitability at the industry level. The results were stable and had important implications for liquidity management in various Saudi companies. First, it was clear that there was a negative relationship between profitability indicators such as current ratio and cash gap in the Saudi sample examined. Second, the study also revealed that there was
great variation among industries with respect to the significant measure of liquidity.

**Deloof (2003)** discussed that most firms had a large amount of cash invested in working capital. It can therefore be expected that the way in which working capital is managed will have a significant impact on profitability of those firms. Using correlation and regression tests he found a significant negative relationship between gross operation income and the number of days accounts receivable, inventories and accounts payable of Belgian firms. On basis of these results he suggested that managers could create value for their shareholders by reducing the number of days’ accounts receivable and inventories to a reasonable minimum. The negative relationship between accounts payable and profitability is consistent with the view that less profitable firms wait longer to pay their bills.

**Chosh and Maji (2003)** in this paper made an attempt to examine the efficiency of working capital management of the Indian cement companies during 1992 – 1993 to 2001 – 2002. For measuring the efficiency of working capital management, performance, utilization, and overall efficiency indices were calculated instead of using some common working capital management ratios. Setting industry norms as target-efficiency levels of the individual firms, this paper also tested the speed of achieving that target level of efficiency by an individual firm.
during the period of study. Findings of the study indicated that the Indian Cement Industry as a whole did not perform remarkably well during this period.

**Shin and Soenen (1998)**\(^{38}\) highlighted that efficient Working Capital Management (WCM) was very important for creating value for the shareholders. The way working capital was managed had a significant impact on both profitability and liquidity. The relationship between the length of Net Trading Cycle, corporate profitability and risk adjusted stock return was examined using correlation and regression analysis, by industry and capital intensity. They found a strong negative relationship between lengths of the firm's net trading Cycle and its profitability. In addition, shorter net trade cycles were associated with higher risk adjusted stock returns.

**Smith and Begemann (1977)**\(^{39}\) emphasized that those who promoted working capital theory shared that profitability and liquidity comprised the salient goals of working capital management. The problem arose because the maximization of the firm's returns could seriously threaten its liquidity, and the pursuit of liquidity had a tendency to dilute returns. This article evaluated the association between traditional and alternative working capital measures and return on investment (ROI), specifically in industrial firms listed on the Johannesburg Stock Exchange (JSE). The problem under investigation
was to establish whether the more recently developed alternative working capital concepts showed improved association with return on investment to that of traditional working capital ratios or not. Results indicated that there were no significant differences amongst the years with respect to the independent variables. The results of their stepwise regression corroborated that total current liabilities divided by funds flow accounted for most of the variability in Return on Investment (ROI). The statistical test results showed that a traditional working capital leverage ratio, current liabilities divided by fund flow, displayed the greatest associations with return on investment. Well known liquidity concepts such as the current and quick ratios registered insignificant

Parker (2002) presents an overview of the modern theory and evidence of credit rationing, and concludes that the case for credit rationing is weak. He suggests that theoretical arguments for or against credit rationing are inconclusive, so evidence is needed to decide the issue. He further submits that the evidence is not supportive of the view that credit rationing is an important or widespread phenomenon. Parker (2002) provides a review of the empirical literature pertaining to capital rationing from which he concludes (p.162) that theoretical arguments are inconclusive and empirical evidence, which he notes is inherently
difficult to obtain, does not support the view that credit rationing is important or widespread.

**Boadway and Sato (1999)** consider that project risk includes idiosyncratic and aggregate components. They submit that banks can investigate aggregate risk and can evaluate the idiosyncratic risk of each entrepreneur and that they engage competition for entrepreneurs using interest rates. They conclude that information obtained by a bank on aggregate risk is fully revealed, and that entrepreneur-specific risk is partly revealed. In their view, banks will not investigate risk and will evaluate entrepreneurs too intensively. As a result, efficiency can be improved by public acquisition of information on industry risk and by loan guarantees partially covering losses on projects that fail.

**Eggers, Leahy, Mikalachki (1997)**. Rapid growth often leads to expansion of the need for working capital, in turn generating a need for additional cash. Hence, creditworthiness requires that good fiscal management accompany rapid growth. This argument poses the empirical challenge of distinguishing, in cases of low levels of creditworthiness, whether rapid growth is the causal factor or whether poor fiscal management is the problem.

**Madill, Haines, Riding, (2003)** Suppliers of risk capital tend to be more specialized in growth-oriented businesses than lenders' loan
account managers. Typically, they also provide assistance with the commercialization process.

Berger and Udell (1992-1995)\(^44\) employed indirect tests for capital rationing. They concluded that "information-based equilibrium credit rationing, if it exists, may be relatively small and economically insignificant". Oliver and Moore also found that the degree of innovation was not linked to the likelihood of financing constraints.

Herzog (1982)\(^45\) argues for the importance of small business to the Swedish economy, but points out that small firms often face obstacles such as insufficient security for loans, lack or risk capital, and sometimes insufficient management expertise in the fields of technical development, financial planning, or marketing. Herzog goes on to indicate that the aim of governmental policy is to remove these obstacles, and to achieve this goal a number of supporting institutions were launched.

Schenk (2004)\(^46\) analyzes industrial financing in Hong Kong in the period 1950 to 1970. Although she indicated the evidence suggest a bias toward financing large-scale industry at the time, she also refers to a "lack of evidence" of market failure. The small business sector applied political pressure over lack of financing because members felt discriminated against because they lacked the collateral or reputation to establish their creditworthiness. There was also a cultural dimension to
the issue of the demand versus supply of small business financing because, at the time, British expatriates controlled the largest bank while Chinese mainly conducted industry.

Zinger (2002)\(^47\) finds differential satisfaction among borrowers, depending on firm size. Although Zinger (2002) indicates that few of the sample borrowers can be classified as being disappointed with their present bank financing arrangements, he also points out that business size, as measured by the number of full time employees, is positively associated with the level of satisfaction with bank financing arrangements— that is, the smallest business are less satisfied than the largest business. The generalizability of the study is called into question due to its small sample size, and focus on a single geographic region, Northern Ontario.

Uzzi (1999)\(^48\) takes a sociological approach to the small business loan market. In his study of acquisition and cost of financial capital in middle-market banking, Uzzi (1999) finds that firms that embed their commercial transactions with their lender in social attachments receive lower interest rates on loans. He also finds that firms are more likely to get loans and to receive lower interest rates on loans if their network of bank ties has a mix of embedded ties and arm’s-length ties. He argues that these effects arise because embedded ties motivate the borrower with access to public information on market prices and loan

125
opportunities. The suggestion that there are two prices available in the market one if capital is sought in the context if social attachments to the provider of capital, and a second price if there are no social attachments is in itself evidence of a market imperfection. In a similar vein, Cole (1998) finds that a potential lender is more likely to extend credit to a firm with which is has a preexisting relationship as a source of financial services.

Glennon and Nigro (2005)\textsuperscript{49} examine the default risk of small business loans granted under the Small Business Administration (SBA). They report that, although medium-maturity loans originated under the SBA 7(a) loan guarantee program (Small Business Administration; the US federal government's loan guarantee program are targeted to small firms that fail to obtain credit through conventional channels, the default experience is comparable to that of a large percentage of loans held by larger commercial banks.

The CFIB (2003)\textsuperscript{50} report, Banking on Competition, is based on a survey of its members to which 9,565 responses were collected. CFIB surveys are limited to its members and are therefore not representative of the larger majority of Canadian SMEs. Arguably, CFIB survey data include both selection and nonresponse biases: CFIB members who respond to surveys on banking are likely to represent survivor firms whose principals have a particular interest in banking issues.
See vogel and Adams (1997)\textsuperscript{51} for a discussion of this the seminal work of Stiglitz and Weiss (1981) has led to a considerable literature based on the idea that information asymmetry between borrowers and lenders is an imperfection consistent with the belief that commercial lenders may deny credit to certain categories of small firms. According to the most prevalent theories, information asymmetry leads to adverse selection or moral hazard problems which, in turn, lead lenders to set an optimal (for them) interest rate that is lower than the rate at which the market would otherwise clear.

CONCLUSION

The review of existing studies on working capital management in the corporate sector brought to highlight some of the research pertinent to the current research. The studies which used the RBI data have touched upon some issues of the present research in part but not in full. There were enough grounds to believe that the studies focusing on estimation models and trend equations were few. Therefore, there exists a need to undertake a study of this type to fill the gap.


END NOTES:


47. Zinger, “working capital management practices in Pharma industry”.


