Chapter 11
Findings, Conclusions and Suggestions
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FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

11.0 FINDINGS

The key findings of the undertaken research are as enumerated beneath:

➤ Various companies are generally using 60% equity and 40% borrowed capital. The proportion of equity and debt is approximately 60:40 in total capital.
➤ Most of the companies said that their capital structure doesn’t affect the value of their firm.
➤ Approximately 66% companies situated in this region say that they don’t restructure their capital and 34% were positive on this.
➤ Approximately 88% companies of this region are of the opinion that they don’t use EBIT/EPS analysis and 12% accept that they use this for restructuring of capital.
➤ Cost of capital is more for owned capital than of debt/borrowed capital.
➤ Most of the companies (78%) approximately paying accumulated cost between 12-16%. It is very high.
➤ As per researcher’s survey most of the respondents (78%) accepted that their profitability is affected by the cost of capital and rest (22%) denied this.
➤ All respondents in this region accept that their return on investment is greater than their fixed cost.

➤ Through the survey, the result comes that the technique of capital budgeting is not used by 57% of respondents and 47% use it.

➤ Most of the companies who use capital budgeting (approximately 75%) are using the discounting methods (NPV, IRR and PI). It is healthy sign as this reduces the uncertainty and risk.

➤ Approximately 78% users of capital budgeting techniques, use them for the selection of long-term projects and rest 22% use for the selection of short-term project.

➤ Most of the companies (60%) understand the benefit of using the leverage and rest 40% don’t find it useful. This shows that they want to take advantage of borrowed capital they are using.

➤ Respondents and population are mostly small scale industry so they are not able to issue its equity share and preference share to the public. Most of these are Private Ltd. or Firms (Proprietary or Partnership) hence they have no policy regarding the dividend.

➤ Most of the respondents (64%) rely on banks for working capital requirement.

➤ The future estimation of working capital varies from company to company. Approximately 40% of companies require 20 lakhs and 50% of companies require 60 lakhs and rest want near-about 120 lakhs.

➤ As per the survey approximately 68% of companies have fixed working capital and rest 32% use variable working capital.
➢ It is reflected from the survey that in this region the motive for holding cash is approximately 88% for daily transaction. They have only 8% for precautionary motive.

➢ In this region 52% of companies use their surplus funds in short-term deposit. Only 4% invest in certificate of deposit and remaining 44% invest in other investment options.

➢ It is clear from the survey that approximately 40% respondents use personal efforts for collecting receivables, 36% receive against offer of cash discount, 14% use internet banking and only 4% use decentralized banking.

➢ To control the cash outflow approximately 70% of companies use negotiable instruments, 28% refers to cash payments on due date.

➢ The average credit period allowed by the supplier is 20 – 40 days. This is the opinion of 54% of respondents, 8% of respondents say that they have not received credit period, 22% say that they receive 0 – 20 days credit period.

➢ Average payment period of companies is approximately 50 days.

➢ 78% companies don’t get discount on payment and 22% companies get discount on payment to suppliers.

➢ All companies makes cash budget for estimating future cash in-flow & out-flow and for managerial decisions.

➢ In urgency 74% companies arrange cash from bank, 10% from friends 6% from relatives and 10% from other sources.

➢ From the survey the researcher find that 72% companies say, they provide credit to customers and 28% companies don’t provide credit to their customers.
- Companies of Bundelkhand Region provide 40% credit sales to their customer.
- Company’s policy for providing credit varies from customer to customer.
- All companies provide credit to some selective customers.
- Almost 80% of companies provide credit on the basis of goodwill of parties, 6% of companies on the basis of information received from his/her business associates, 14% of companies on the basis of analysis of last 3-5 years financial statement.
- Approximately 68% of companies accept that they provide cash discount for accelerating collection and 32% say no to it.
- Private companies in Bundelkhand Region have approximately 2% bad debts against their credit sales.
- Approximately 14% of companies say that they have policy regarding bad debts and 86% don’t have any policy on bad debt.
- Companies’ average holding period of Raw Material is 38 days; Work in Progress is 3 days, Finished Goods is 28 days and Spares and Tools is 24 days.
- 80% respondents use EOQ model for deciding per order quantity while 18% respondents don’t use any method for this.
- For classification of inventory 68% of respondents use ABC system, 26% use VED system, 4% use JIT and 2% use some other system.
- FIFO is most popular (70% of total respondents) inventory evaluation system. 30% respondents use both LIFO and FIFO system for evaluating inventories while no one use LIFO alone.
11.1 CONCLUSIONS

With the help of above mentioned key findings following conclusions can be drawn:

- That though generally companies/firms understand the effect of Cost of Capital on the profitability of firm/business and they normally calculate optimum cost also but they don’t restructure their capital time to time and consider that capital restructuring has no impact on the value of firm.

- That many of them understand the use of leverage in enhancing profitability but still these enterprises are using less debt as compared to equity/own funds, even when almost all respondents were agree that their ROI is higher than the cost of funds.

- That though only 48% of respondents are using techniques of capital budgeting for evaluating projects, these use discounting methods (NPV and PI) commonly. However some enterprises are also using non-discounting techniques for evaluating short-tem projects.
• That companies situated in Bundelkhand region don’t distribute dividends and they generally don’t have any dividend policy because they are owned and controlled by individuals and/or family members.

• That the companies of Bundelkhand region manage working capital conservatively as they use long-term sources of funds for financing Working Capital. Their prime sources of short-term borrowing are Banks.

• That they make cash budget for the management of cash inflows and out-flows and they invest surplus funds mainly in traditional short-term bank deposits but don’t use many other methods of investment available for surplus funds such as Commercial Papers, ICDs etc. For the acceleration of cash inflows and slow down of cash outflows they use facilities efficiently.

• That these enterprises provide credits to their customers but credit decision is based on ‘Goodwill’ of the party or in some cases ‘information collected from other business associates’ rather than analyzing previous financial statements along with the former methods. Although they bear bad debts on credit sales but they don’t have proper bad debt policy probably due to excellent collection of receivables (appx. 98% as only 2% bad debt is reported by the respondents).
• That these enterprises utilize all available resources to minimize the cost of inventory for the Management of Inventory. Most of the companies are using EOQ model for ordering inventory, ABC system for classifying inventory and FIFO method for the valuation of inventory.

• That the hypothesis testing shows that out of the various Financial Management Practices, companies are using Capital Structuring, Cost of Capital, Management of Cash, Receivables Management and Inventory Management but not following Capital Budgeting and Dividend decision on the basis of acceptance of Ho or H1 (Null and Alternate hypothesis respectively).

11.2 RECOMMENDATIONS

➢ Because of the lesser cost of debt than the cost of equity, it is suggested that the companies using more equity in comparison to borrowed capital should do restructuring and use more borrowed capital.

➢ It is recommended to all the companies that they should calculate individual cost of each available source, optimum cost of capital and accordingly restructuring of capital should be done.

➢ EBIT/EPS analysis could be used by these companies for taking decision of restructuring.
➢ It is very necessary for all the companies that they must use capital budgeting technique/s along with risk adjustments depending on the requirement/s to increase their profitability and reduce the risk and uncertainty.

➢ Due to variation in sales it is advised to companies that the approach used forecasting of working capital should be on scientific basis. Sales basis forecasting is not better because sales vary due to various reasons from time to time, so forecasting cannot be appropriate.

➢ It is recommended that the companies should increase their cash holding for precautionary purpose also rather than only for transaction motive.

➢ Approximately half of the respondents use their surplus cash by investing in short-term deposits. It is recommended that all companies should explore other options available for investment.

➢ Techniques for accelerating cash in-flows used by companies of this region are much traditional. It is recommended that they should use better techniques for this purpose like Concentration Banking or Internet Banking etc.

➢ As far as possible companies should make payments on the last date of credit period to creditors.
Companies should make pre-arrangements and tie-ups for urgent and emergency requirements of cash from the cheapest source/s to avoid last time hassles and increased cost of funds.

Companies should not push credit sale to their customers. This affects the working capital of company. The cost of working capital increases or decreases according to credit sales and collection of cash.

Companies should provide credit to customers on the analysis of 3-5 years’ financial statements and information collected from other business associates and Bankers. This ensures faster conversion of credit into cash.

Companies should reduce their intermediaries’ margin, paper work cost, transaction and other costs to reduce requirement of working capital that in turn, will save the interest cost in future otherwise it may negatively affect financial position of company in long run.

Bad debts affect the financial position of companies. Companies should take legal action against defaulters and make policy for bad debts.

Companies should use both LIFO and FIFO methods for valuation of inventory during situation of price change to take the best benefits of the prevailing situation.
There is a future scope of research in this area. In-depth case based study to find out reasons of not practicing certain financial management practices despite knowing the benefits/use thereof. Further study can also be conducted to identify the impact of practicing financial management practices on their financial performance.

Eventually the researcher must say that if enterprises of Bundelkhand Region follow the recommendations given, they will be in a better position to manage their financials and to minimize uncertainties.
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