CHAPTER- 6

FINANCING OF WORKING CAPITAL
6.1 Introduction:

Working capital may be regarded as lifeblood of a business. Its effective provisions can do much to ensure the success of a business. While its inefficient management, on lead not only to loss of profits but also to the ultimate downfall of what otherwise might be considered as a promising concern. Much has been rightly made of the long term planning of capital projects. But the cost to industry due to inadequate planning in the use of working capital is immeasurable. A study of working capital is of major importance to internal and external analysis because of its close relationship with the current day-to-day operations of a business. As pointed out by Ralph Kennedy and Steward Mc Muller, inadequacy or mismanagement is the leading cause of risk in business which are used in, or related to current operations, and represented at any one time by the operating cycle of such items as against receivables, inventories of raw materials, stores, work-in-progress and finished goods, merchandise, notes or bills receivables and cash the assets of this type are relatively temporary in nature.

Working capital represents the total of all current assets. In other words, it is gross working capital. It is also known as circulating capital or current capital, for current assets or rotating in their nature. Where current liabilities and provisions exceed assets, the difference is referred to as negative working capital. This situation does not generally exist in a business firm because this is generally a situation of crisis. The use of the term circulating capital instead of working capital indicates that the flow is circular in nature. At the beginning of a business venture, cash is provided by owner and lenders. A part of this cash is invested in tools, machinery, furniture, equipment, building and other forms of fixed assets which are not to be sold
throughout the year during the normal course of business. The remaining cash is used as working capital to meet the current requirements of a business enterprise such as the purchase of services, raw materials or merchandise. When a firm’s products or finished goods are sold, it has what is known as cash or receivables. When receivables are collected, more cash is available for planning of services and the purchase of raw materials or merchandise. This flow of cash into production and so on illustrates the circular flow or working capital. The term circulating capital is frequently used to denote those assets which are changed with relative rapidity from one form to another; working capital is essentially circulating capital.¹

Working capital is normally taken to mean the excess of current Assets over current liabilities, this amount being the net current Assets. If the balance sheet for ABC, PLC is examined the working capital for that company is seen to be 3065539 minus 2505132 which amounts to 560407.

The working capital indicates the liquidity of the company, and there are two commonly used ratio to express the degree of liquidity. Some accountants consider that is more useful to ignore inventories when looking at liquidity, since they could take considerably longer to turn into cash than debtors or creditors. They feel that it is more pertinent to compare the quick assets with the current liabilities.²
6.2 CONCEPT OF WORKING CAPITAL

There are two concepts of working capital—gross and net.

- **Gross working capital**—It refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year (or operating cycle) and include cash, short-term securities, debtors, (accounts receivable or book debts) bills receivable and stock (inventory).

- **Net working capital**—It refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year and include creditors (accounts payable), bills payable, and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative working capital occurs when current liabilities are in excess of current assets.³

6.3 NATURE OF WORKING CAPITAL:

Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the inter relationship that exists between them. The term current refers to those assets which in the ordinary course of business can be, or will be converted into cash within one year without undergoing a diminution in value and without disrupting the operation of the firm. The major current assets are cash, marketable securities, accounts receivables and inventory. Current liabilities are those liabilities, which are
intended at their inception, to be paid in the ordinary course of business, within a year out of the current or the earning of the concern. The basic current liabilities are accounts payable, bills payable, bank overdrafts ad outstanding expense. The goal of working management is to manage the firms assets and liabilities in such a way that a satisfactory level of working capital is maintain. This is because if the firms cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may even be forced into bankruptcy. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of safety. Each of the short term source of financing must be continuously managed to ensure that they are obtained and used in the way. Interaction between current liabilities is, therefore the main theme of the management of working capital.4

6.4 SIGNIFICANCE OF WORKING CAPITAL

Investment in fixed assets only is not sufficient to run the business. Working capital or investment in current assets, howsoever small it is, is a must for purchase of raw materials, and for meeting the day-to-day expenditure on salaries, wages, rents, advertising etc., and for maintaining the fixed assets. “The fate of large scale investment in fixed capital is often determined by a relatively small amount of current assets.” Working capital is just like a heart of industry if it is weak, the business cannot prosper and survive, although there is a large body (investment) of fixed assets. Moreover, not only the existence of working capital is a must for the industry, but it must be adequate also. Adequacy of the working capital is the lifeblood and controlling nerve center of a business. Inadequate as well as redundant working capital is dangerous for the health of
industry. It is said, ‘Inadequate working capital is disastrous; whereas redundant working capital is a criminal waste’. Both situations are not warranted in a sound organization.

The advantages of working capital or adequate working capital may be enumerated as below: -

1. **Cash Discount:**
   If a proper cash balance is maintained, the business can avail the advantage of cash discount by paying cash for the purchase of raw materials and merchandise. It will result in reducing the cost of production.

2. **It creates a Feeling of Security and Confidence:**
   The proprietor or officials or management of a concern are quite carefree, if they have proper working capital arrangements because they need not worry for the payment of business expenditure or creditors. Adequate working capital creates a sense of security, confidence and loyalty, not only throughout the business itself, but also among its customers, creditors and business associates.

3. **‘Must’ for Maintaining Solvency and Continuing Production:**
   In order to maintain the solvency of the business, it is but essential that the sufficient amount of fund is available to make all the payments in time as and when they are due. Without ample working capital, production will suffer, particularly in the era of cut throat competition, and a business can never flourish in the absence of adequate working capital.

4. **Sound Goodwill and Debt Capacity:**
   It is common experience of all prudent businessmen that promptness of payment in business creates goodwill and increases the debt of the capacity of the business. A firm can
raise funds from the market, purchase goods on credit and borrow short-term funds from bank, etc. If the investor and borrowers are confident that they will get their due interest and payment of principal in time.

5. **Easy Loans from the Banks:**
   An adequate working capital i.e. excess of current assets over current liabilities helps the company to borrow unsecured loans from the bank because the excess provides a good security to the unsecured loans, Banks favor in granting seasonal loans, if business has a good credit standing and trade reputation.

6. **Distribution of Dividend:**
   If company is short of working capital, it cannot distribute the good dividend to its shareholders despite of sufficient profits. Profits are to be retained in the business to make up the deficiency of working capital. On the other contrary, if working capital is sufficient, ample dividend can be declared and distributed. It increases the market value of shares.

7. **Exploitation of Good Opportunity:**
   In case of adequacy of capital in a concern, good opportunities can be exploited e.g., company may make off-season purchases resulting in substantial savings or it can fetch big supply orders resulting in good profits.

8. **Meeting Unseen Contingency:**
   Depression shoots the demand of working capital because piling of finished goods become necessary. Certain other unseen contingencies e.g., financial crisis due to heavy losses, business oscillations, etc. can easily be overcome, if company maintains adequate working capital.
9. **High Morale:**

The provision of adequate working capital improves the morale of the executive because they have an environment of certainty, security and confidence, which is a great psychological factor in improving the overall efficiency of the business and of the person who is at the helm of affairs in the company.

10. **Increased Production Efficiency:**

A continuous supply of raw material, research programme, innovations and technical development and expansion programme can successfully be carried out if adequate working capital is maintained in the business. It will increase the production efficiency, which will, in turn, increase the efficiency and morale of the employees and lower costs and create image among the community.\(^5\)

### 6.5 NEED AND IMPORTANCE OF WORKING CAPITAL

Working capital is the life blood and nerve center of business. Working capital is very essential to maintain smooth running of a business. No business can run successfully without an adequate amount of working capital. The main advantages or importance of working capital are as follows:

1. **Strengthen the Solvency**

Working capital helps to operate the business smoothly without any financial problem for making the payment of short-term liabilities. Purchase of raw materials and payment of salary, wages and overhead can be made without any delay. Adequate working capital helps in maintaining solvency of the business by providing uninterrupted flow of production.
2. **Enhance Goodwill**
Sufficient working capital enables a business concern to make prompt payments and hence helps in creating and maintaining goodwill. Goodwill is enhanced because all current liabilities and operating expenses are paid on time.

3. **Easy Obtaining Loan**
A firm having adequate working capital, high solvency and good credit rating can arrange loans from banks and financial institutions in easy and favorable terms.

4. **Regular Supply of Raw Material**
Quick payment of credit purchase of raw materials ensures the regular supply of raw materials from suppliers. Suppliers are satisfied by the payment on time. It ensures regular supply of raw materials and continuous production.

5. **Smooth Business Operation**
Working capital is really a life blood of any business organization which maintains the firm in well condition. Any day to day financial requirement can be met without any shortage of fund. All expenses and current liabilities are paid on time.

6. **Ability to Face Crisis**
Adequate working capital enables a firm to face business crisis in emergencies such as depression.⁶
6.6 WORKING CAPITAL MANAGEMENT IN SUGAR INDUSTRY:

Working capital ratios indicates the ability of a business concern in meeting its current obligations as well as its efficiency in managing the current assets for generation of sales. These ratios are applied to evaluate the efficiency with which the firm manages and utilize its current assets. The following three categories of ratios have been to analyze management of working capital.

1. Efficiency ratios
2. Liquidity Ratios
3. Structural Health ratios

Efficiency Ratios

(i) Working capital to sales Ratios = \(\frac{Sales}{Working \ Capital}\)

This ratio is computed by dividing working capital by sales. This ratio helps to measure the efficiency of the utilization of new working capital. It signified that for an amount of sales, a relative amount of working capital is needed. If any increase in sales is contemplated working capital should be adequate and thus this ratio helps management to maintain the adequate level of working capital.
Working capital to sales ratio

Table No. 6.1

<table>
<thead>
<tr>
<th>Years</th>
<th>KSCML-G</th>
<th>BCSFL</th>
<th>KSCML-N</th>
<th>KSCML-S</th>
<th>KSCL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1.26</td>
<td>1.72</td>
<td>1.19</td>
<td>1.99</td>
<td>1.13</td>
</tr>
<tr>
<td>2007</td>
<td>2.91</td>
<td>2.04</td>
<td>3.02</td>
<td>9.39</td>
<td>1.97</td>
</tr>
<tr>
<td>2008</td>
<td>0.91</td>
<td>1.10</td>
<td>0.99</td>
<td>3.12</td>
<td>0.66</td>
</tr>
<tr>
<td>2009</td>
<td>1.17</td>
<td>1.40</td>
<td>2.21</td>
<td>1.95</td>
<td>2.92</td>
</tr>
<tr>
<td>2010</td>
<td>1.96</td>
<td>20.84</td>
<td>8.97</td>
<td>2.68</td>
<td>1.39</td>
</tr>
<tr>
<td>Total</td>
<td>8.21</td>
<td>27.1</td>
<td>16.38</td>
<td>19.13</td>
<td>8.07</td>
</tr>
<tr>
<td>Average</td>
<td>1.642</td>
<td>5.42</td>
<td>3.276</td>
<td>3.826</td>
<td>1.614</td>
</tr>
</tbody>
</table>

Source- Computed by researcher from annual reports of the company.

Unit wise analysis:

**KSCML-G:** The above table 6.1 demonstrates that the working capital of KSCML-G was 2.91 in the year 2007 and 0.91 in the year 2008. In 2006 working capital to sales ratio was 1.26 and in 2007 it increased to 2.91 but in 2008 and 2009 it went on declining i.e, 0.91 & 1.17 respectively but in 2010 it was slight increased & lead to 1.96.

**BCSFL:** Working capital to sales ratio of BCSFL company was highest 20.84 in the year 2010 and was lowest 1.10 in the year 2008. In 2006 it was 1.72 and in the year 2007 it was increased to 2.04 but in the year 2008 it was decreased to 1.10 but from 2009 it went on increasing i.e, 1.40, 20.84 respectively.

**KSCML-N:** Working capital to sales ratio of KSCML-N company was highest 8.97 in the year 2010 and was lowest 0.99 in the year 2008. In 2006 to showed 1.19 and it 2007 it was increased to 3.02 but
in 2008 it was decreased i.e, 0.99 but after that it went on increasing i.e, 2.21 and 8.97 respectively.

**KSCML-S:** Working capital to sales ratio of KSCML-S Company was highest 9.39 in the year 2007 and was lowest 1.95 in the year 2009. In 2006 it showed 1.99 and in 2007 it increased approx five time i.e 9.39 but in 2008 & 2009 it went declining i.e 3.12 and 1.95 respectively but in 2010 it was increased and lead to 2.68.

**KSCL:** Working capital to sales ratio of KSCL Company was highest 2.92 in the year 2009 and was lowest 0.66 in the year of 2008. In 2006 it was 1.13 and in 2007 it was slight increased to 1.97 but in 2008 it was decline i.e, 0.66 and in 2009 it was fluctuate and lead to 2.92 and it 2010 it was again fluctuate and showed 1.39.

The average working capital to sales ratio of KSCML-G, BCSFL, KSCML-N, KSCML-S and KSCL during the study period was 1.642, 5.42, 3.276, 3.286, and 1.614 respectively.

**WORKING CAPITAL TO SALES**

**(ONE WAY ANOVA TEST)**

**Null Hypothesis:** There is no significant difference in working capital to sales of sugar mills

**Alternative Hypothesis:** There is significant difference in working capital to sales of sugar mills.

**Level of Significance:** 5 percent

**Critical Value:** 3.01

**Degree of freedom:** 16
WORKING CAPITAL TO SALES RATIO  
(ONE WAY ANOVA TEST)

Table No. 6.2

<table>
<thead>
<tr>
<th>Sum of variance</th>
<th>Sum of Squares</th>
<th>Degree of freedom</th>
<th>Mean sum of squares</th>
<th>Calculated value of F</th>
<th>Tabulated Value Fat 5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years</td>
<td>121.132</td>
<td>4</td>
<td>30.283</td>
<td>8.281</td>
<td>3.01</td>
</tr>
<tr>
<td>Firm</td>
<td>51.294</td>
<td>4</td>
<td>12.823</td>
<td>3.506</td>
<td>3.01</td>
</tr>
<tr>
<td>Error</td>
<td>58.509</td>
<td>16</td>
<td>3.656</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since, the calculated value of F for year is more than the tabulated value of F, we accept the alternative hypothesis and conclude that there is significant difference between them.
Graph 6.1

Working Capital to Sales Ratio

Working Capital to Sales Ratio 2006

Working Capital to Sales Ratio 2007

Working Capital to Sales Ratio 2008
(ii) **Inventory Turnover Ratio**

\[
\text{Inventory Turnover Ratio} = \frac{\text{Sales}}{\text{Average Stock}}
\]

Refer table No. 3.1

**Unit wise analysis:**

**KSCML-G:** Table 3.1 reveals that from 2006 to 2008 inventory turnover slightly increased but in 2009 it decreased to 0.10 and in 2010 this turnover again increased and lead to 1.51 times.

**BCSFL:** In 2006, 07 and 09 there was no consistency in inventory turnover but in 2008 it was decreased to 0.71 times and in 2010 it was again just double increased i.e, 2.15 times.

**KSCML-N:** From 2006 to 2007 this turnover slight increased i.e, 1.16 to 1.64 times but in 2008 it was decline to 0.81 times thereafter in 2009 and 2010 it went on increasing trend.

**KSCML-S:** There was declining pattern from 2006 to 2008 but in 2009 and 2010 it showed increasing trend and lead to 3.08 time which was highest in 2010.

**Kichha:** This table showed increasing trend except in 2008 i.e, 0.66 times which was lowest in this year and lead to 459 times which was highest in the year 2010.

The average inventory turnover of KSCML-G, BCSFL, KSCML-N, KSCML-S and KSCL during the study period was 1.078, 1.31, 1.37, 1.528 and 1.818 respectively. Generally higher the inventory turnover ratio, the shorter is the average time between investment in stocks and sales transaction on the other hand, a low
inventory turnover ratio signifies over investment or excessive inventory.

INVENTORY TURNOVER (ONE WAY ANOVA TEST)

Null Hypothesis: There is no significant difference in inventory turnover of firm study.

Alternative Hypothesis: There is significant difference in inventory turnover of firms under study.

Level of Significance : 5 percent
Critical Value : 3.01
Degree of freedom : 16

INVENTORY TURNOVER RATIO (ONE WAY ANOVA TEST)

Refer Table No. 3.3

Since, the calculated value of F for year is more than the tabulated value of F, we accept the alternative hypothesis and conclude that there is significant difference between them.

(iii) Current Assets Turnover ratio  = \frac{Sales}{Current Assets}

This ratio indicates the efficiency with which current assets turn into sales. A lower current assets to sale ratio implies by and large a more efficient use of funds. Thus a high turnover, rate indicates reduced lock up of funds in current assets. An analysis of this ratio over a period of time reflects working capital management of a firm.
Current Assets Turnover Ratio

Table No. 6.3

<table>
<thead>
<tr>
<th>Year</th>
<th>Firms</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>KSCML-G</td>
<td>BCSFL</td>
<td>KSCML-N</td>
<td>KSCML-S</td>
<td>KSCL</td>
</tr>
<tr>
<td>2006</td>
<td>1.07</td>
<td>1.20</td>
<td>0.97</td>
<td>1.15</td>
<td>0.93</td>
</tr>
<tr>
<td>2007</td>
<td>1.13</td>
<td>1.06</td>
<td>1.57</td>
<td>1.07</td>
<td>1.31</td>
</tr>
<tr>
<td>2008</td>
<td>0.52</td>
<td>0.57</td>
<td>0.50</td>
<td>0.68</td>
<td>0.45</td>
</tr>
<tr>
<td>2009</td>
<td>0.97</td>
<td>1.45</td>
<td>1.08</td>
<td>1.16</td>
<td>1.12</td>
</tr>
<tr>
<td>2010</td>
<td>1.47</td>
<td>2.40</td>
<td>1.62</td>
<td>1.47</td>
<td>1.26</td>
</tr>
<tr>
<td>Total</td>
<td><strong>5.16</strong></td>
<td><strong>6.68</strong></td>
<td><strong>5.74</strong></td>
<td><strong>5.53</strong></td>
<td><strong>5.07</strong></td>
</tr>
<tr>
<td>Average</td>
<td><strong>1.032</strong></td>
<td><strong>1.336</strong></td>
<td><strong>1.48</strong></td>
<td><strong>1.066</strong></td>
<td><strong>1.014</strong></td>
</tr>
</tbody>
</table>

Source: Compiled from annual reports.

Analysis

The above table 6.3 demonstrate that the current assets turnover ratio 1.47 which was highest in the year 2010 and lowest 0.52 in the year 2008. During the study period there was slight increase and decrease in the ratio.

The current assets turnover ratio of BCSFL company 2.40 which was highest in the year 2010 and was lowest 0.57 in the year 2008 from 2006 this ratio went on decline pattern but after 2008 it showed increasing pattern but after 2008 it showed increasing pattern.

The current assets turnover ratio of KSCML-N Company 1.62 which was highest in the year 2008. During the study period between 2006 to 2010 there was slight increase and decrease. The current assets turnover ratio of KSCML-S Company 1.47 which was highest in the year 2010 and 0.68 which was lowest in the year 2008. During the study period from 2006 to 2008 it showed declining pattern and after 2009 it showed increasing pattern.
The current assets turnover ratio of KSCL Company 1.26 which was highest in the year 2010 and 0.45 which was lowest in the year 2008. During the study period between 2006 to 2010 there was slight increase and decrease.

The average current assets turnover ratio of KSCML-G, BCSFL, KSCML-N, KSCML-S and KSCL during the study period was 1.032, 1.336, 1.148, 1.106 and 1.014 respectively.
CURRENT ASSETS TURNOVER RATIO
(ONE WAY ANOVA TEST)

Null Hypothesis: There is no significant difference in current assets turnover ratio of firm study.

Alternative Hypothesis: There is significant difference in current assets turnover ratio of firms under study.

Level of Significance : 5 percent
Critical Value : 3.01
Degree of freedom : 16

CURRENT ASSETS TURNOVER RATIO
(ONE WAY ANOVA TEST)
Table No. 6.4

<table>
<thead>
<tr>
<th>Sum of variance</th>
<th>Sum of Squares</th>
<th>Degree of freedom</th>
<th>Mean sum of squares</th>
<th>Calculated value of F</th>
<th>Tabulated Value Fat 5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years</td>
<td>3.110</td>
<td>4</td>
<td>0.777</td>
<td>14.705</td>
<td>3.01</td>
</tr>
<tr>
<td>Firm</td>
<td>0.31</td>
<td>4</td>
<td>0.082</td>
<td>1.568</td>
<td>3.01</td>
</tr>
<tr>
<td>Error</td>
<td>0.846</td>
<td>16</td>
<td>0.052</td>
<td></td>
<td></td>
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<tr>
<td>Total</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since, the calculated value of F for year is more than the tabulated value of F, we accept the alternative hypothesis and conclude that there is significant difference between them.
Graph No. 6.2

Current Assets Turnover Ratio

- Current Assets Turnover Ratio 2006
- Current Assets Turnover Ratio 2007
- Current Assets Turnover Ratio 2008

Legend:
- KSCML-G
- BCSFK
- KSCML-N
- KSCML-S
- KSCL
Liquidity Ratio

(i) \[ \text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \]

This ratio indicates the extent of the soundness of the current financial position of an undertaking and the degree of safety provided to the creditors. The higher the current ratio the larger amount of rupee available per rupee of current liability, the more the firm’s ability to meet current obligations and the greater safety of funds of short term creditors. A current ratio of 2:1 indicates a highly solvent position. A current ratio of 1.33:1 is considered by banks as minimum acceptable level for providing working capital finance. The constituents of the current assets are as important as the current assets themselves for evaluation of company’s solvency position.

Current Ratio

Refer Table No. 5.1

Analysis

The above table 5.1 depicts that the current ratio of KSCML-G was highest 6.52 in the year 2006 and lowest 1.64 in the year 2007. In 2007 it was approx five time decrease but in 2008 and 2009 it went on increasing pattern but in 2010 it was decreased to 4.02 current ratio of the BCSFL company 3.27 which was highest in the year 2006 and 0.89 which was lowest in the year 2010. In 2007 and 2008 table showed equal current ratio i.e, 2.08 and 2.08 current ratio of KSCML-N company 5.31 which was highest in the year 2006 and 1.22 which
showed lowest in 2010 from 2007 it went on declining pattern current ratio of KSCML-S company 11.29 which was highest in the year 2007 and 1.28 which showed lowest in the year 2008. In 2007 it was increase approx five times than 2006 but in 2008. It was slight increase i.e, 2.48 and in 2010 it was slight decrease and lead to 2.21.

The average current ratio of KSCML-G, BCSFL, KSCML-N, KSCML-S and KSCL during the study period was 4.064, 1.996, 2.52, 3.926 and 4.824 respectively. As there is rule of thumb current ratio of 2:1 is considered to be satisfactory. A high current ratio may not be favorable.
CURRENT RATIO
(ONE WAY ANOVA TEST)

**Null hypothesis:** There is no significant difference in current ratio of sugar mills under study.

**Alternative Hypothesis:** There is significant difference in current ratio of sugar mills under study.

**Level of significance:** 5 Percent

**Critical value:** 3.01

**Degree of freedom:** 16

**Table: Current Ratio (One way ANOVA)**

Refer Table No. 5.2

Since, the calculated value of F for year is less than the tabulated value of F, we accept the null hypothesis and conclude that there is no significant difference between them.

**(ii) Quick Ratio**

\[
\text{Quick ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}
\]

Quick ratio is more refined tool to measure the liquidity of an organization. It is a better test of financial strength than the current ratio, because it excludes very slow-moving inventories and the items of current assets which cannot be converted into cash only. This ratio shows the extent of cushion of protection provided from the quick assets to the current creditors. A quick ratio of 1:1 is usually considered satisfactory through it is again a rule of thumb only.
Quick Ratio

Refer Table No. 5.3

Analysis

The above tables 5.3 depicts that the quick ratio of KSCML-G 0.68 which was highest in the year 2009 and 0.18 was lowest in the year 2008. During the study period there was slight increase and decrease. Quick ratio of BCSFL 0.38 which was highest in the year 2006 and in 2008 & 2009 lowest and equal quick ratio showed. From 2006 to 2008 it showed declining pattern but in 2010 there was slight increased.

Quick ratio of KSCML-N 1.08 which was highest in the year 2006 and 0.42 lowest in the year 2008. During the study period there was slight increase and decrease. Quick ratio of KSCML-S 21.34 which was highest in the year 2006 after that it was 0.13 which was lowest and equal in the year 2007 and 2008. After 2008 it went on increasing pattern.

Quick ratio of KSCL 5.27 which was highest in the year 2006. After that it went on decaling pattern up to 2009. After 2009 it was increased and lead to 4.64 in 2010. As a convention of quick ratio of 1:1 is considered satisfactory. Hence, BCSFL is in much better position to meet its short term obligation.
QUICK RATIO
(ONE WAY ANOVA TEST)

Null hypothesis: There is no significant difference in quick ratio of sugar mills under study.

Alternative Hypothesis: There is significant difference in quick ratio of sugar mills under study.

Level of significance : 5 Percent
Critical value : 3.01
Degree of freedom : 16

Table: Quick Ratio (One way ANOVA)

Refer Table No. 5.4

Since, the calculated value of F for years is less than the tabulated value of F, we accept the null hypothesis and conclude that there is no significant difference between them.
STRUCTURAL HEALTH RATIO

(i) Current Assets to Total Net Assets = \( \frac{\text{Net Assets}}{\text{Current assets}} \)

This ratio explains the relationship between current assets and total investment in assets. A business enterprise should use its current assets effectively and economically because it is out of the management of these assets that profits accrue. A business will end-up in losses if there is any lacuna in managing the assets to the advantage of business. Investment in fixed assets being inelastic in nature, there is no elbow room to make amends in this sphere and its impact on profitability remains minimal.

Current Assets to total Net Assets

Table No. 6.5

<table>
<thead>
<tr>
<th>Year</th>
<th>Firms</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>KSCML-G</td>
<td>BCSFL</td>
</tr>
<tr>
<td>2006</td>
<td>0.08</td>
<td>0.03</td>
</tr>
<tr>
<td>2007</td>
<td>0.09</td>
<td>0.04</td>
</tr>
<tr>
<td>2008</td>
<td>0.05</td>
<td>0.03</td>
</tr>
<tr>
<td>2009</td>
<td>0.06</td>
<td>0.04</td>
</tr>
<tr>
<td>2010</td>
<td>0.08</td>
<td>0.07</td>
</tr>
<tr>
<td>Total</td>
<td>0.36</td>
<td>0.21</td>
</tr>
<tr>
<td>Average</td>
<td>0.072</td>
<td>0.042</td>
</tr>
</tbody>
</table>

Source: Compiled from annual reports.
Analysis

The above table 6.5 reveals that in the year 2006 Current assets to total net assets was 0.08 but after that there was Slight increase and decrease. The current assets to total net assets of KSCML-G Slight increase and decrease during the Study period in 2006 and 2008 this ratio were same and of 2007 and 2009 current assets to total net assets were equal.

Current assets to total net assets of KSCML-N in 2006 was 0.06 but in 2007 it was slight increased and reached to 0.09 after that it was reduced to 0.06 and went on increasing pattern. Current assets of total net assets of KSCML-S was equal in 2006, 2007, 2009 and 2010 i.e, 0.04 only in 2008 it was slight reduce to 0.03 current assets to total net assets of KSCL was 0.85 in 2006 after that it went on decaling pattern upto 2008 after that it went on increasing pattern and reached 0.93 in the year 2010.

The average current assets to net assets of KSCML-G, BCSFL, KSCML-N, KSCML-S and KSCL during the study period were 0.072, 0.042, 0.072, 0.038 and 0.792 respectively.
CURRENT ASSETS TO TOTAL NET ASSETS
(ONE WAY ANOVA TEST)

Null hypothesis: There is no significant difference in current assets to net assets of sugar mills under study.

Alternative Hypothesis: There is significant difference in current assets to net assets of sugar mills under study.

Level of significance: 5 Percent
Critical value: 3.01
Degree of freedom: 16

Table: Current Assets to Total Net Assets (One way ANOVA)
Table No. 6.6

<table>
<thead>
<tr>
<th>Source of variation</th>
<th>Sum of squares</th>
<th>Degree of freedom</th>
<th>Mean Square</th>
<th>F-Calculated Value</th>
<th>F-Critical Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>0.120</td>
<td>4</td>
<td>0.030</td>
<td>1.21</td>
<td>3.01</td>
</tr>
<tr>
<td>Firm</td>
<td>1.582</td>
<td>4</td>
<td>0.395</td>
<td>15.895</td>
<td>3.01</td>
</tr>
<tr>
<td>Error</td>
<td>0.398</td>
<td>16</td>
<td>0.024</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since, the calculated value of $F$ for years is less than the tabulated value of $F$, we accept the null hypothesis and conclude that there is no significant difference between them.
Graph 6.3

Current Assets to Total Net Assets

- Year 2006
- Year 2007
- Year 2008
(ii) Debtors Turnover Ratio = \frac{\text{Sales}}{\text{Debtors}}

This ratio shows the extent of trade credit granted and the efficiency in the collection of data. Thus, it is an indicative of efficiency of trade credit management. The lower the debtors to sales ratio, the better the trade credit management and better the quality (liquidity) of debtors. The lower debtors mean group payment by customers. An excessively long collection period, on the hand, indicates a very liberal, ineffective and inefficient credit and collection policy.

Debtors Turnover Ratio

Table No. 6.7

<table>
<thead>
<tr>
<th>Year</th>
<th>KSCML-G</th>
<th>BCSFL</th>
<th>KSCML-N</th>
<th>KSCML-S</th>
<th>KSCL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>235</td>
<td>80.49</td>
<td>145.19</td>
<td>244.53</td>
<td>138.52</td>
</tr>
<tr>
<td>2007</td>
<td>181.5</td>
<td>71.73</td>
<td>114.57</td>
<td>164.96</td>
<td>1294.98</td>
</tr>
<tr>
<td>2008</td>
<td>27.45</td>
<td>39.76</td>
<td>73.21</td>
<td>31.99</td>
<td>217.98</td>
</tr>
<tr>
<td>2009</td>
<td>300.87</td>
<td>91.41</td>
<td>117.63</td>
<td>128.44</td>
<td>385.01</td>
</tr>
<tr>
<td>2010</td>
<td>59.32</td>
<td>68.03</td>
<td>120.06</td>
<td>79.26</td>
<td>162.68</td>
</tr>
<tr>
<td>Total</td>
<td>803.79</td>
<td>351.42</td>
<td>570.66</td>
<td>649.18</td>
<td>2198.79</td>
</tr>
<tr>
<td>Average</td>
<td>16.758</td>
<td>70.284</td>
<td>114.132</td>
<td>129.836</td>
<td>439.756</td>
</tr>
</tbody>
</table>

Source: Compiled from annual reports.

Analysis

The above table 6.7 demonstrate that the debtors turnover ratio of KSCML-G 300.87 which was highest in the year 2009 and 27.45
which was lowest in the year 2008. The debtors turnover ratio of BCSFL 91.41 which was highest in the year 2009 and 39.76 which was lowest in the year 2008 from 2006 to 2008 it went on declining pattern after that it was increased lead to 91.41 in 2009 but in the year 2010 again it was reduced to 68.03. The debtors turnover ratio of KSCML-N 145.19 in the year 2006 which was highest after that it was declining in the year 2007 & 2008 after that It went on increasing pattern and lead to 120.06 in 2010. Lowest debtors turnover ratio showed in 2008 i.e, 73.21. Debtors turnover ratio of KSCML-S 244.53 which was highest in the year 2006 after that it was decreased in the year 2007 and 2008. After 2008 it was increased to 128.44 but in 2010 it was reduce to 79.26 lowest debtors turnover ratio showed 31.99 in the year 2008 the debtors turnover ratio of KSCL 1294.50 which was highest in the year 2007 during the study period. There was increase and decrease during the study period. 138.52 showed lowest debtors turnover ratio in the year 2006.
DEBTORS TURNOVER
(ONE WAY ANOVA TEST)

Null hypothesis: There is no significant difference in debtors turnover of sugar mills under study.

Alternative Hypothesis: There is significant difference in debtors turnover of sugar mills under study.

Level of significance: 5 Percent
Critical value: 3.01
Degree of freedom: 16

Table: Debtors Turnover Ratio (One way ANOVA)

<table>
<thead>
<tr>
<th>Source of variation</th>
<th>Sum of squares</th>
<th>Degree of freedom</th>
<th>Mean Square</th>
<th>F-Calculated Value</th>
<th>F-Critical Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>105.376</td>
<td>4</td>
<td>26.34</td>
<td>2.11</td>
<td>3.01</td>
</tr>
<tr>
<td>Firm</td>
<td>57.567</td>
<td>4</td>
<td>14.39</td>
<td>1.5</td>
<td>3.01</td>
</tr>
<tr>
<td>Error</td>
<td>199.357</td>
<td>16</td>
<td>12.45</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>249.297</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since, the calculated value of F for years is less than the tabulated value of F, we accept the null hypothesis and conclude that there is no significant difference between them.
Graph 6.4
Debtors Turnover Ratio

Debtors Turnover Ratio 2006

Debtors Turnover Ratio 2007

Debtors Turnover Ratio 2008
(iii) **Creditors Turnover Period (in days)** = \( \frac{\text{Creditors}}{\text{Purchases}} \times 365 \)

The management of the creditors turnover period shows the average time taken to pay for goods and services purchased by the company. In general, the longer the credit period achieved the better, because delays in payment mean that the operations of the company are being financial interest free by supplier’s funds. But there will be a point beyond which, if they are operating in a seller’s market, may harm the company. It too long a period is taken to pay creditors, the credit rating of the company may suffer, thereby making it more difficult to obtain suppliers in the future.

**Creditors Turnover Period (in days)**

*Table No. 6.9*

<table>
<thead>
<tr>
<th>Year</th>
<th>Firms</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>KSCML-G</td>
<td>BCSFL</td>
<td>KSCML-N</td>
<td>KSCML-S</td>
<td>KSCL</td>
</tr>
<tr>
<td>2006</td>
<td>2.54</td>
<td>5.49</td>
<td>15.41</td>
<td>14.40</td>
<td>25.38</td>
</tr>
<tr>
<td>2007</td>
<td>8.16</td>
<td>6.26</td>
<td>63.24</td>
<td>12.80</td>
<td>70.96</td>
</tr>
<tr>
<td>2008</td>
<td>6.89</td>
<td>242.89</td>
<td>97.29</td>
<td>16.01</td>
<td>101.44</td>
</tr>
<tr>
<td>2009</td>
<td>7.32</td>
<td>9.02</td>
<td>32.25</td>
<td>21.16</td>
<td>21.62</td>
</tr>
<tr>
<td>2010</td>
<td>5.11</td>
<td>7.49</td>
<td>16.58</td>
<td>13.47</td>
<td>18.94</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30.02</strong></td>
<td><strong>271.15</strong></td>
<td><strong>224.77</strong></td>
<td><strong>77.84</strong></td>
<td><strong>238.34</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>6.004</strong></td>
<td><strong>54.23</strong></td>
<td><strong>54.23</strong></td>
<td><strong>15.568</strong></td>
<td><strong>47.668</strong></td>
</tr>
</tbody>
</table>

*Source:* Compiled from annual reports.

**Analysis**

It can be observed from the above table 6.9 that the creditors turnover period of KSCML-G in the year 2007, 8.16 which was highest and 2.54 which was lowest in the year 2006. There was
increase and decrease during the study period. The creditors turnover period of BCSFL 242.89 which was highest in the year 2008 and 5.49 which was lowest in the year 2006? From 2006 to 2008 it went on increasing pattern but from 2009 it went on declining pattern and lead to 7.49. The creditors turnover period of KSCML-N 97.29 which was highest in the ratio of 2008 and 15.41 which was lowest in the ratio of 2006 from 2006 it went on increasing pattern but from 2008 it went on decreasing pattern and lead to 16.58 in the year 2010. The creditors turnover period of KSCML-S 21.16 which was highest in the year 2009 and 12.80 which was lowest in the year 2007 from 2006 to 2009 creditors turnover period was increased continuously but in 2010 it was decreased to 13.47. The creditors turnover period of KSCL 101.44 which was highest in the year 2008 and 18.94 which was lowest in the year 2010? From 2006 to 2008 it went on increasing pattern and from 2009 it went on declining pattern and lead to 18.94 in 2010. The average of creditors turnover period of KSCML-G, BCSFL, KSCML-N, KSCML-S and KSCL was 6.004, 54.23, 44.954, 15.568 and 47.668 respectively.
Creditors Turnover Period
(ONE WAY ANOVA TEST)

**Null Hypothesis:** There is no significant difference in creditors turnover period of sugar mills

**Alternative Hypothesis:** There is significant difference in creditors turnover period of sugar mills.

**Level of Significance:** 5 percent

**Critical Value:** 3.01

**Degree of freedom:** 16

<table>
<thead>
<tr>
<th>Creditors Turnover Period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Creditors Turnover Period
(ONE WAY ANOVA TEST)

Table No. 6.10

<table>
<thead>
<tr>
<th></th>
<th>Sum of variance</th>
<th>Sum of Squares</th>
<th>Degree of freedom</th>
<th>Mean sum of squares</th>
<th>Calculated value of F</th>
<th>Tabulated Value Fat 5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years</td>
<td></td>
<td>23240.76</td>
<td>4</td>
<td>5810.19</td>
<td>2.933</td>
<td>3.01</td>
</tr>
<tr>
<td>Firm</td>
<td></td>
<td>9188.62</td>
<td>4</td>
<td>2297.15</td>
<td>1.159</td>
<td>3.01</td>
</tr>
<tr>
<td>Error</td>
<td></td>
<td>31687.03</td>
<td>16</td>
<td>1980.43</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>31687.03</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since, the calculated value of F for year is less than the tabulated value of F, we accept the null hypothesis and conclude that there is no significant difference between them.
Graph 6.5
Creditors Turnover Period

Creditors Turnover Period 2006

Creditors Turnover Period 2007

Creditors Turnover Period 2008
(iv) **Average Collection Period (in days) =** \( \frac{\text{Debtors}}{\text{Sales}} \times 365 \)

Average collection period, which measures how long it takes to collect amounts from debtors. The actual collection period can be compared with the stated credit terms of the company. If it is longer than those terms, then this indicates some insufficiency in the producers for collecting debts.

**Average Collection Period**

Refer Table No. 4.2

**Analysis**

The above table 4.2 reveals that the average collection period of KSCML-G 13.2 which was highest in the year 2008 and 1.21 which lowest in the year 2009. From 2006 to 2008 the average collection period of BCSFL went on increasing pattern and lead to 9.17 which was highest in the year 2008 after that it was reduce to 3.99 which showed lowest in the year 2009 but in 2010 it was increased to 5.36 in the year 2010. The average collection period of KSCML-N 4.98 which was highest in the year 2008 and 2.51 which was lowest in the year 2006 after that it was increased and lead to 4.98 in the year 2008 but in 2009 and 2010 there was slight decrease. The average collection period of KSCML-S 1.49 in the year 2006, in 2007 and 2008 it was increased and lead to 11.40 which was highest in the year 2008. After that it was decreased and reduced to 2.84 but in 2010 it was increased and lead to 4.60. The average collection period of KSCL 2.63 which was highest in the year 2006 after that it was decreased and lead to 0.16 in 2008. In 2009 there was slight increased to 0.94 but in 2010 it was approx three times increased and reached
2.24. Average of the average collection period of KSCML-G, BCSFL, KSCML-N, KSCML-S and KSCL during the study period was 4.824, 5.626, 3.362, 4.508 and 1.25 respectively.

**AVERAGE CREDIT PERIOD (IN DAYS)**

**(ONE WAY ANOVA TEST)**

**Null hypothesis:** There is no significant difference in average credit period (in days) of sugar mills under study.

**Alternative Hypothesis:** There is significant difference in average credit period (in days) of sugar mills under study.

**Level of significance**: 5 Percent

**Critical value**: 3.01

**Degree of freedom**: 16

**Table: AVERAGE CREDIT PERIOD (IN DAYS)**

**(One way ANOVA)**

Refer Table No. 4.3

Since, the calculated value of F for year is less than the tabulated value of F, we accept the null hypothesis and conclude that there is no significant difference between them.

6.7 **TANDON COMMITTEE**

In 1974, a study group under the chairmanship of Mr. P.L. Tandon was constituted for farming guidelines for commercial banks for follow up & supervision of bank credit for ensuring proper end-use of funds. The group submitted its report in August 1975, which came to be popularly known as Tandon Committees report. Its main recommendations related to norms for inventory and receivables, the approach to lending, style of credit, follow ups & information system.
It was a landmark in the history of bank, lending in India, with acceptance of major recommendations by reserve Bank of India, a new era of lending began in India.

The Norms

Tandon Committees had initially suggested norms for holding various current assets for fifteen different industries. Many of these norms were revised and the least extended to cover almost all major industries of the country.

The norms for holding different current assets were expressed as follows:

(a) Raw Materials as so many months’ consumption. They include stores and other items used in the process of manufacture.
(b) Stock-in-process, as so many months cost of production.
(c) Finished goods and accounts receivable as so many months cost of sales and sales respectively. These figure represent only the average levels. Individual items of finished goods and receivable could be for different periods which could exceed the indicated norms so long as the overall average level of finished goods and receivables does not exceed the amounts a determined in terms of the norm.
(d) Stock of spares was not included in the norms. In financial terms, these were considered to be a small part of total operating expenditure. Banks were expected to assets the requirement of spares on case-by-case basis. However, they should keep a watchful eye if spares exceed 5% of total inventories.
Methods of Lending

The lending framework proposed by Tandon Committees dominated commercial bank lending in India for more than 20 years and its continues to do so despite withdrawal of mandatory provision of RBI in 1997.

As indicated before, the essence of Tandon Committees recommendations was to finance only portion of Borrowers working capital needs not the whole of it. It was thought that gradually, the borrower should depend less on banks to fund its working capital needs. From this point of view the committee three graduated methods of lending, which came to be known as maximum permissible bank finance system or in short MPBF system. For the purpose of calculating MPBF of a borrowing unit, all the three methods adopted equation:

Working capital Gap = Gross Current Assets-Accounts payable.

………..as a basis which is translated arithmetically as follows?

| Gross Current Assets | Rs………………… |
| Less Current Liabilities other Than bank borrowings | Rs………………… |
| Working Capital Gap | Rs………………… |

First Method of Lending

The contribution by the borrowing unit is fixed at a minimum of 25% working capital gap form long term funds. In order to reduce the reliance of the borrowers on bank borrowing by bringing in more internal cash generation for the purpose, it would be necessary to raise the share of the contribution from 25% of the working capital gap to a higher level. The remaining 75% of the working capital would be financed by the bank. This method of lending gives a current ratio of only 1:1 this is obviously on the low side.
Second Method of Lending

In order to ensure that the borrowers do enhance their contribution to working capital and to improve their current ratio, it is necessary to place them under the second method of lending recommended by the Tandon Committees which would give a minimum current ratio of 1.33:1. The borrower will have to provide a minimum of 25% of total current assets- from long term funds. However, total liabilities inclusive of bank finance would never exceed 75% of gross current assets. As many of the borrowers may not be immediately in a position to work under the second method of lending, the excess borrowings should be segregated and treated as a working capital term loan which should be made repayable in installments. To induce the borrowers to repay this loan, it should be charged a higher rate of interest. For the present, the group recommends that the additional interest may be fixed at 2% per annum over the rate applicable on the relative cash credit limits. This procedure should be made compulsory for the entire borrower (except stick units) having aggregate working capital limits of Rs. 10 lakhs and over.

Third Method of Lending

Under the third method, permissible bank finance would be calculated in the same manner as the second method but only after deducting four current assets from the gross current assets.

The borrower’s contribution from long term funds will be to the extent of the entire core current assets (CCA), “core current assets are the essential assets, without which a company cannot function since these assets are crucial to the survival of the company they are usually not sold to raise cash. This implies two things. Firstly
the core current assets are not liquid and secondly if a company is selling core current assets to raise cash, it is in dire situation or even close to bankruptcy” \(^4\). And a minimum of 25% of the balance current assets, thus strengthening the current ratio further. This method will provide the largest multiplier of bank finance.

Core portion current assets were presumed to be that permanent level which would generally vary with the level of the operation of the business. For example, in case of stocks of materials the core line goes horizontally below the ordering level so that when stocks are ordered materials are consumed down the ordering level during the lead time and touch the core level, but are not allowed going down-further. This core level provides a safety cushion against any sudden shortage of materials in the market or lengthening of delivery time. This core level is considered to be equivalent to fixed assets and hence, was recommended to be financed from long term sources. \(^6\)

This method was not acceptable for implementation and hence is only academic interest. (Source: www.banknetindia.com)

That’s why only first and second methods have been considered. Though the recommendation of Tandon committee are mainly meant for bankers for financing of working capital to the applicant firms but here the researcher has used these recommendation to analyze the efficiency and effectiveness of working capital management in sugar industry. It is assumed that higher the eligibility of the firm for financing of working capital from bank higher the efficiency and effectiveness in management of working capital. In view of the above the researcher has calculated the amount of eligible finances according to Tandon committee recommendations these calculation have been presented in the foregoing tables- 6.11, 6.12, 6.13, 6.14 and 6.15
### 2006
## Table No. 6.11

<table>
<thead>
<tr>
<th></th>
<th>KSCML-G (I method)</th>
<th>KSCML-G (II method)</th>
<th>BCSFL (I method)</th>
<th>BCSFL (II method)</th>
<th>KSCML-N (I method)</th>
<th>KSCML-N (II method)</th>
<th>KSCML-S (I method)</th>
<th>KSCML-S (II method)</th>
<th>KSCL (I method)</th>
<th>KSCL (II method)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Current Assets</td>
<td>33.76</td>
<td>33.76</td>
<td>58.46</td>
<td>58.46</td>
<td>56.50</td>
<td>56.50</td>
<td>34.72</td>
<td>34.72</td>
<td>75.20</td>
<td>75.20</td>
</tr>
<tr>
<td>(c) Working Capital (a-b)</td>
<td>28.59</td>
<td>28.59</td>
<td>40.61</td>
<td>40.61</td>
<td>45.87</td>
<td>45.87</td>
<td>20.10</td>
<td>20.10</td>
<td>61.72</td>
<td>61.72</td>
</tr>
<tr>
<td>(d) Borrowers Contribution</td>
<td>7.14</td>
<td>8.44</td>
<td>10.15</td>
<td>14.61</td>
<td>11.46</td>
<td>14.12</td>
<td>5.02</td>
<td>8.68</td>
<td>15.43</td>
<td>18.80</td>
</tr>
<tr>
<td>(e) Permissible Bank Finance (c-d)</td>
<td>21.44</td>
<td>20.15</td>
<td>30.45</td>
<td>25.99</td>
<td>34.40</td>
<td>31.74</td>
<td>15.07</td>
<td>11.42</td>
<td>46.29</td>
<td>42.92</td>
</tr>
</tbody>
</table>

### Analysis

The above table 6.11 demonstrates that eligibility was higher according to first method. Permissible Bank Finance (PBF) 46.29 which was highest in KSCL and 15.07 which was lowest in KSCML-S.
### 2007

#### Table No. 6.12

<table>
<thead>
<tr>
<th></th>
<th>KSCML-G</th>
<th>BCSFL</th>
<th>KSCML-N</th>
<th>KSCML-S</th>
<th>KSCL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I method</td>
<td>II method</td>
<td>I method</td>
<td>II method</td>
<td>I method</td>
</tr>
<tr>
<td>(a) Current Assets</td>
<td>31.18</td>
<td>31.18</td>
<td>60.72</td>
<td>60.72</td>
<td>36.15</td>
</tr>
<tr>
<td>(b) Current Liabilities</td>
<td>18.99</td>
<td>18.99</td>
<td>29.15</td>
<td>29.15</td>
<td>17.27</td>
</tr>
<tr>
<td>(c) Working Capital (a-b)</td>
<td>12.19</td>
<td>12.19</td>
<td>31.57</td>
<td>31.57</td>
<td>18.88</td>
</tr>
<tr>
<td>(d) Borrowers Contribution</td>
<td>3.04</td>
<td>7.79</td>
<td>15.18</td>
<td>15.18</td>
<td>4.72</td>
</tr>
</tbody>
</table>

#### Analysis

The above table 6.12 demonstrates that eligibility was higher according to first method. Permissible Bank Finance (PBF) 31.30 which was highest in KSCL and 9.14 which was lowest in KSCML-G.
## 2008

### Table No. 6.13

<table>
<thead>
<tr>
<th>(a) Current Assets</th>
<th>KSCML-G I method</th>
<th>II method</th>
<th>BCSFL I method</th>
<th>II method</th>
<th>KSCML-N I method</th>
<th>II method</th>
<th>KSCML-S I method</th>
<th>II method</th>
<th>KSCL I method</th>
<th>II method</th>
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<tbody>
<tr>
<td>(b) Current Liabilities</td>
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<td>47.48</td>
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<td>79.75</td>
<td>55.15</td>
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<tr>
<td>(c) Working Capital (a-b)</td>
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<td>20.46</td>
<td>38.25</td>
<td>38.25</td>
<td>27.20</td>
<td>27.20</td>
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<td>36.99</td>
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<tr>
<td>(d) Borrowers Contribution</td>
<td>27.02</td>
<td>27.02</td>
<td>41.50</td>
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<td>27.94</td>
<td>27.94</td>
<td>10.36</td>
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<tr>
<td>(e) Permissible Bank Finance (c-d)</td>
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<td>27.02</td>
<td>41.50</td>
<td>41.50</td>
<td>27.94</td>
<td>27.94</td>
<td>10.36</td>
<td>10.36</td>
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<td>64.35</td>
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### Analysis

The above table 6.13 demonstrates that eligibility was higher according to first method. Permissible Bank Finance (PBF) 48.26 which was highest in KSCL and 15.07 which was lowest in KSCML-S.
2009

Table No. 6.14

<table>
<thead>
<tr>
<th></th>
<th>KSCML-G</th>
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<th>KSCL</th>
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<td>II method</td>
<td>I method</td>
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<td>I method</td>
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<td>(a) Current Assets</td>
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<td>28.83</td>
<td>26.84</td>
<td>15.60</td>
<td>77.68</td>
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</table>

Analysis

The above table 6.14 demonstrates that first method was highest in comparison to second method except BCSFL. Permissible Bank Finance (PBF) 77.68 which was highest in BCSFL and 10.39 which was lowest in KSCL.
### 2010

#### Table No. 6.15

<table>
<thead>
<tr>
<th></th>
<th>KSCML-G</th>
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<th>KSCML-N</th>
<th>KSCML-S</th>
<th>KSCL</th>
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</thead>
<tbody>
<tr>
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<td>II method</td>
<td>I method</td>
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<td>I method</td>
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</tbody>
</table>

**Analysis**

The above table 6.15 demonstrates that eligibility was higher according to first method. Permissible Bank Finance (PBF) 56.68 which was highest in KSCL and -2.63 which was lowest in BCSFL.
REFERENCES

6. www.docstoc.com