

CHAPTER – III

***WORKING CAPITAL
MANAGEMENT***

WORKING CAPITAL

The working capital of a business firm is classified on the basis of (a) period and (b) purpose.

a) PERIOD

The term working capital is of two types. They are:

- Gross working capital; and
- Net working capital.

Gross working capital refers to the business firm's total current assets i.e., the firm's investments in current assets. It has great significance from management point of view. This decision needs to focus attention on two aspects while investing. They are:

- (a) Optimum investment in current assets; and
- (b) Financing current assets.

While investing funds in current assets, the business firm observes the following constraints, which are:

- An ideal investment in current assets earns nothing.
- Inadequate investments in current assets lead to inability to meet its current obligations.

Net working capital refers to the differences between current assets and current liabilities. It may be positive or negative. If current assets exceed current liabilities, then it is referred positive. On the other hand, when current liabilities exceed current assets, then it is termed as negative. Thus, the net working capital indicates the liquidity position of the business firm. It also provides basis how much working capital may be financed by the permanent source of funds of business firm. The well accepted norm for the ratio of current assets and current liabilities is 2:1.

b) PURPOSE

The working capital can be classified based on purpose. They are;

- a) Permanent working capital, and
- b) Variable working capital.

Generally, every business firm needs to maintain a minimum level of current assets in order to carry the business operations. This minimum level of current assets is referred to as permanent working capital. The working capital that needs to support the changing production and sale activities is called variable working capital.

Both of the above kinds of working capital of permanent and variable are necessary to facilitate the intended production and sale targets through the operating cycle. Thus, the business firm to meet its

liquidity requirements that will last only temporary creates the working capital. Because of this feature, this working capital is also called temporary working capital.

OPERATING CYCLE

The operating cycle is the time duration required to convert current resources, which transformed into output and into cash. The operating cycle of a manufacturing company involves a three-phase approach, which is presented below.

- a)** Acquisition of resources such as raw- materials, labour and fuel.

Then manufacture of products, which includes conversion of raw-materials into work-in-progress and finished goods. Only then, products sale either for cash or on credit, the latter creates book-debts for collection.

- b)** A manufacturing firm operating cycle causes the length (period) of:

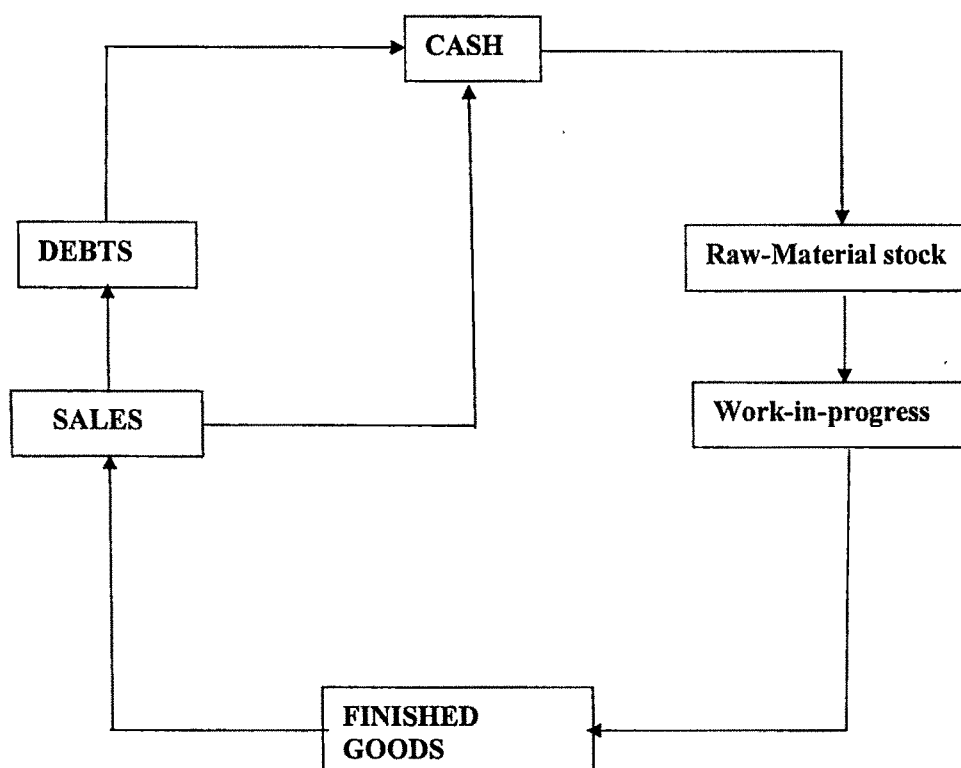
- Inventory conversion period
- Book debts conversion period

- c)** The inventory conversion period is the sum of time needed for producing and selling the product. It covers raw-material conversion period, work-in-progress conversion period and finished goods conversion period.

The book-debts collection period is the time required to collect outstanding amounts from the customers. The total of book debts collection period and inventory conversion period is, some times, referred to as gross operating cycle period. Figure 3.1 explains gross operating cycle in manufacturing firm.

Fig 3.1

OPERATING CYCLE OF MANUFACTURING FIRM



MANAGEMENT OF WORKING CAPITAL

The term working capital management refers to all aspects of the management of both current assets and current liabilities: In other words, the working capital management is concerned with the issues that arise in managing current assets, current liabilities and interrelationship that exist between them.

The basic objective of working capital management is to manage the firm's current assets and current liabilities in such a way that lead in satisfactory level of working capital. In other words, it is neither inadequate nor excessive. The current assets should be sufficient to cover current liabilities in order to maintain a reasonable safety margin. Moreover, different components of working capital are needed to be properly balanced. In the absence of such situation, the financial position of the firm's liquidity may not satisfactory in spite of satisfactory current ratio and liquidity ratio.

Suppose, the proportion of inventory is very high in the total current assets because of slow moving or absolute inventory, it cannot ensure the cushion of liquidity. Similarly, if the proportion of the accounts receivable is very high in the total current assets due to firm's inability to recover money from the debtors, the firm's liquidity ratio will be at lower level. Similarly, if a business firm is maintaining higher

cash and bank balances, it is not making profitable use of its resources.

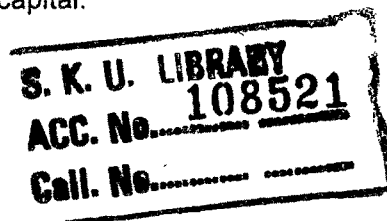
The working capital management policy has a great effect on a firm's profitability, liquidity and its capital structure. A finance manager should therefore, chalk out appropriate working capital management policy in respect of each of the components of working capital so as to ensure higher profitability, proper liquidity and sound capital structure.

WORKING CAPITAL REQUIREMENTS

There are no self-governed rules or provisions to determine the working capital requirements of a business firm. Many factors influence the working capital needs of a business firm. The description, which, generally influences the working capital requirements of a business firm are discussed hereunder.

a. NATURE AND SIZE OF BUSINESS

The working capital requirements of a business firm are basically based on the nature of its business operations. Trading and financial firms have a very small investment in fixed assets but require large money to be invested in working capital.



b. CYCLE OF MANUFACTURING

The cycle of manufacturing of a business firm comprises of purchase and use of raw - materials and production of finished products. The longer the manufacturing cycle, the larger will be the firm's working capital requirements and vice-versa.

c. SALES GROWTH

The working capital needs of a firm increase by its growth of sales.

d. DEMAND CONDITIONS

Most business firms experience seasonal and cyclical fluctuations in the demand for their products and services. The business variations affect the working capital requirements especially the temporary capital requirements of a business firm.

e. PRODUCTION POLICY

A steady production will cause inventories to accumulate during the off-season period and the firm will be exposed to greater inventories and costs. Those firms, whose productive capacities can

be utilized for manufacturing varied products can have the advantage of diversified activities and solve their working capital problem.

f. PRICE LEVEL CHANGES

Generally, raising price level changes requires a firm to maintain higher amounts of working capital. When prices are increasing, which need increased investment and hence current assets accordingly.

g. OPERATING EFFICIENCY AND PERFORMANCE

The operating efficiency of a firm is related to the optimum utilization of resources at minimum cost. The firm effectively contributes to its working capital, if it is efficient in controlling in operating costs. The use of working capital is improved and the pace of cash cycle is accelerated with operating efficiency.

h. CREDIT POLICY

The credit terms of the firm to customer affects working capital by influencing the level of book-debts. In other words, the credit sales to be granted to customer may depend upon the norms of the industry to which the firm belongs.

I. AVAIABILITY OF CREDIT:

The working capital requirement of a firm also affects by the credit facility by its creditors. A firm needs less working capital if liberal credit terms are available to it. Similarly, the available credit from banks also influences the working capital needs of a firm.

Besides the above, the other determinants are competitive conditions, profit level, promotional and formative phase, position of business cycle, variation in supply of raw-material, taxation; divided policy and depreciation policy are some of the factors.

COMPONENTS OF CURRENT ASSETS AND CURRENT LIABILITIES

The components of current assets and current liabilities of the Super Spinning Group of Mills consists of inventories which includes raw- materials and stores and spares, work-in-process, finished goods, trade debtors, loans and advances, investments and cash and bank balances. The current liabilities cover sundry creditors; trade advances borrowings from commercial banks and others.

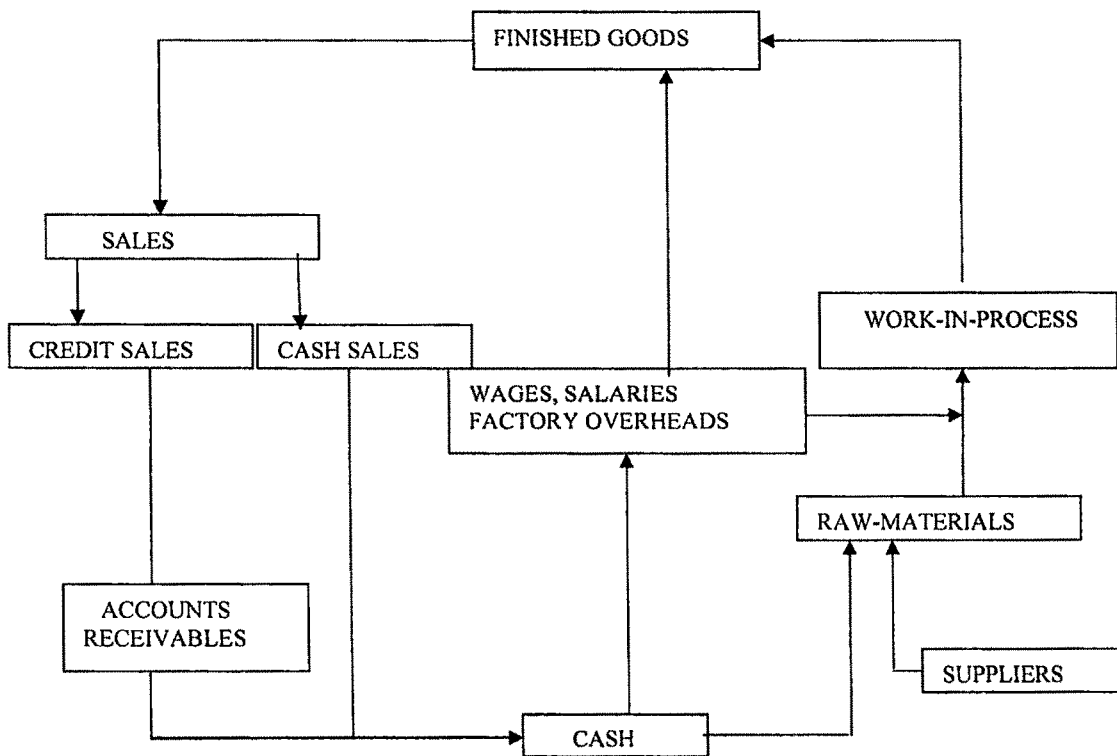
CURRENT ASSETS

In management of the working capital, two characteristics of current assets must be taken into account. They are: one is short life span and the other is swift transformation into other asset forms.

Generally, current assets have a short life span; and cash balances may be held idle for a week or two. The account receivables may have a life span of 30 to 60 days; and inventories may be held for 30 to 100 days. Each current asset is swiftly transformed into other form of assets. Cash is used for acquiring raw-materials; raw-materials are transformed into finished; finished goods sold on credit, which is converted into accounts receivable and finally these assets generate cash. Figure 3.2 shows the cycle of cash transformation.

Figure 3.2

CYCLE OF CASH TRANSFORMATION



LEVEL OF CURRENT ASSETS

The important decision to be taken regarding working capital is the level of investment in current assets. Under a flexible policy, the investment in current assets is high (large amount). It results in fewer or no production stoppages, which ensure quick delivery to customer, and insure sales. On the other hand, in restrictive current asset policy, the investment in current assets is low (small amount). It may lead to frequent production stoppages, delayed delivery to customers and loss of market with fewer sales.

Determining the optimal level of current assets involves a trade-off between costs that rise with current assets and costs that fall with current assets. The former is referred carrying costs and the latter is shortage costs. The carrying costs are mainly in the nature of cost of financing a higher level of current assets. The shortage costs are mainly in the form of disruption in production schedule, loss of sales and loss of customer goodwill.

CURRENT ASSETS FINANCING POLICY

After establishing the level of current assets, a business firm must determine how these assets should be financed and what mix of long-term and short-term debt should the business firm employ to support its current assets. The investments in current assets may be

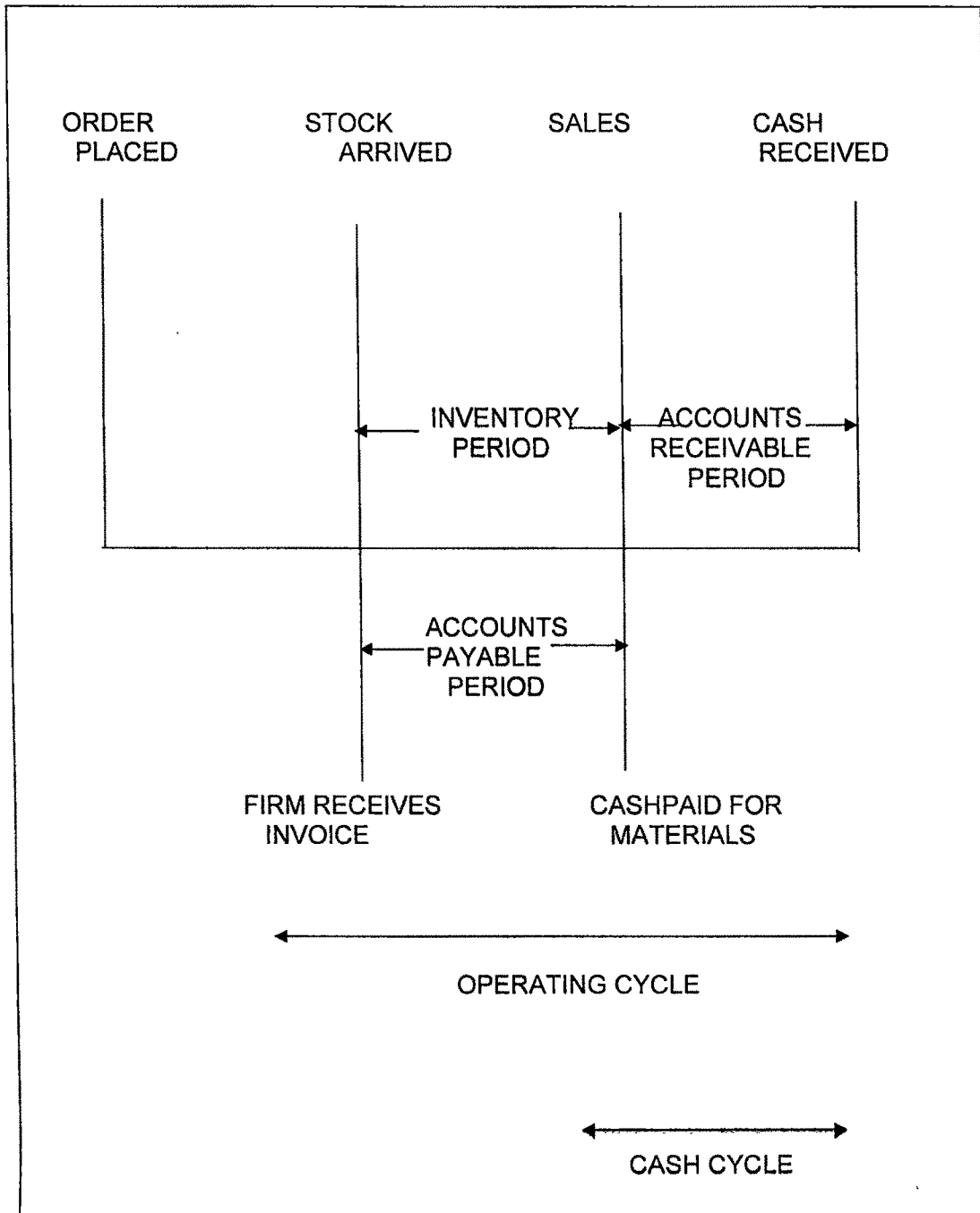
divided into two parts namely permanent current assets and temporary current assets. The former represent what the firm requires even at the bottom of its sales cycle; and the latter reflects a variable component that moves in line with the seasonal fluctuations.

Investments in working capital are influenced by four key events in production and sales cycle of the business firm. They are;

- Purchase of raw-materials
- Payment of raw - materials
- Sale of finished goods
- Collection of cash and accounts receivables for sales

Thus, from purchase of raw – materials to collection of cash for sales are referred to operating cycle; and payment of raw – materials to cash received from sales are termed as cash cycle. This has been explained in the figure 3.3.

FIG 3.3
OPERATING AND CASH CYCLE



A business firm begins with the purchases of raw-materials and paid, which generally represents accounts payable period. The time-lag between the purchase of raw-materials and the sale of finished goods is inventory period. The time-lag between the date of sale and the date of collection of receivables is the accounts receivables period (debt period). The time that elapses between the purchase of raw materials and the collection of cash for credit sales is referred to operating cycle. Whereas the time length between the payment of raw-materials purchased and the collection cash for credit sales referred to the 'cash' cycle.

CASH MANAGEMENT

To achieve the intended goal entirely depends upon cash. It is equally applicable to business concern as well as business operations formed in nature of fixed and working capitals. In other words, business firm needs cash to make payments for acquisition of resources and services for conducting of business and also it needs additional funds to meet any emergency situation. Therefore, a business firm needs to maintain continuity in the process of carrying at the operations. The term, cash includes cash and bank balances; and near cash items such as marketable securities. The manager of finance should maintain a sound position of cash. Thus, the cash management is concerned with managing of:

- Cash flows into out side the firm,

- Cash flows within the firm, and
- Cash balances held by the firm at the point of financial deficit or investing surplus cash.

The cash management seeks to accomplish the cycle of inflow and outflow at a minimum cost. At the same time, it also seeks to achieve liquidity and control. Data on cash and bank balances of the Super Spinning Group of Mills is presented in Table 3.1.

TABLE 3.1
CASH AND BANK BALANCES

(Rs in lakhs)			
Year	Opening Balance	Closing Balance	Average
1994 – 1995	310.21	380.29	345.25
1995 – 1996	380.29	267.40	323.85
1996 – 1997	267.40	185.64	226.52
1997 – 1998	185.64	111.22	148.43
1998 – 1999	111.22	134.88	123.05
1999 – 2000	134.88	120.06	127.47
2000 – 2001	120.06	93.66	106.86
2001 – 2002	93.66	163.53	128.60
2002 – 2003	163.53	145.99	154.76
2003 – 2004	145.99	139.28	142.64

Source: Annual Reports of Mills, Various Issues.

Table 3.1 shows that the Super Spinning Group of Mills has maintained cash balance of opening and closing at Rs 310.21 and Rs 380.29 lakhs with an average of Rs. 345.25 lakhs in 1994-95. The corresponding figures in 1995-96 are Rs. 380.29, Rs. 267.40 and 323.85 lakhs; Rs.267.40, Rs 185.64 and Rs 226.52lakhs in 1996-97; 185.64 Rs. 111.22 and Rs. 148.43 lakhs in 1997-98; Rs 111.22 Rs. 134.88 and Rs.123.05 lakhs in 1998-99; Rs134.88, Rs 120.06 and Rs.127.47 lakhs in 1999- 00: Rs.120.06, Rs 93.66 and Rs 106.86 lakhs in 2000-01: Rs.93.66, Rs 163.53 and Rs 128.60 lakhs in 2001-02 Rs.163.53, Rs 145.99 and Rs 154.76lakhs in 2002-03: Rs.145.99, Rs 139.28 and Rs 142.64 lakhs in 2003-04 respectively. Further, Table 3.1 shows that in the year 1995-96 the average cash balance is mark by Rs.56.45 lakhs to the closing balance; similarly in 1996-97 by Rs.40.88 lakhs, in 1997-98 by Rs. 37.21 lakhs, in 1999-00 by Rs. 7.41 lakhs, in 2000-01 by Rs.13.20 lakhs and in 2002-03 by Rs. 8.77 lakhs. This without doubt represents either more opening balance or closing balance of cash.

Data on current assets and cash closing balance of the Super Spinning Group of Mills is presented in Table 3.2.

TABLE 3.2
CASH AND CURRENT ASSETS

(Rs. in lakhs)

PARTICULARS	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Cash and bank balances	380 29	267 40	158 64	111 22	134 88	120 06	93 66	163 53	145.99	139 28
Current Assets	7428 86	6407 25	7168 02	8094 92	6838 92	7989 38	9330 11	9863 10	12862.85	20966 47
Current Liabilities & Provisions	3179 41	1625 45	1983 21	2622.18	1427.48	1630 40	2010 25	2161 25	2974.13	6925 63
Net working Capital	4299.45	4781 80	5184 81	3472.74	5409 44	6358 98	7319 89	7701 85	9888 72	14040.87
per cent of Cash to Current Assets	5 12	4 17	2 58	1 37	1 97	1.50	1 00	1 66	1 13	0.66
per cent of Cash to Current Liabilities	11 96	16 45	9 36	4 25	9.44	7 36	4 65	7 57	4.91	2 01
per cent of Cash to Networking Capital	8.74	5 59	3 58	2 03	2.49	1 88	1.27	2 12	1.48	0 99

Source: Annual Reports of Spinning Mills, Various Issues.

Table 3.2 shows that the net working capital of Super Spinning Group of Mills is accounted for Rs.4299.45 lakhs in 1994-95; Rs. 4781.80 lakhs in 1995-96; Rs. 5184.81 lakhs in 1996-97; Rs. 3472.74 lakhs in 1997-98; Rs. 5409.44 lakhs in 1998-99; Rs. 6358.98 lakhs in 1999-00; Rs. 7319.89 lakhs in 2000-01; Rs. 7701.85 lakhs in 2001-02; Rs. 9888.72 lakhs in 2002-03; and Rs. 14040.87 lakhs in 2003-04. The increase in working capital is accounted by Rs. 9741.42 lakhs or 693.40per cent in 2003-04 over 1994-95. It shows the Super Spinning Group of Mills has a sound working capital position. It would reflect in better business and better managerial performance.

Further, Table 3.2 discloses the bank and cash balances which will have significant impact on working performance of Super Spinning Group of Mills. Preferably more cash or less cash is not desirable in any business enterprise. An ideal cash amount is a pre-requisite to be said effective financial management of business enterprise. The Super Spinning Group of Mills has a cash balance which is accounted for 5.12 per cent current assets, 11.96 per cent current liabilities and 8.74 per cent of net working capital in 1994-95. The corresponding figures are; 4.17 per cent, 16.45 per cent and 5.59 per cent in 1995-96; 2.58 per cent, 9.36 per cent and 3.58 per cent in 1996-97; 1.37 per cent, 4.25 per cent and 2.03 per cent in 1997-98; 1.97 per cent, 9.44 per cent and 2.49 per cent in 1998-99; 1.50 per cent, 7.36 per cent and 1.88 per cent in 1999-00; 1.00 per cent, 4.65 per cent and 1.27 per cent in 2000-01; 1.66 per cent, 7.57 per cent and 2.12 per cent in 2001-02; 1.13 per cent, 4.91 per cent and 1.48 per cent in 2002-03; and 0.66 per cent, 2.01 per cent and 0.99 per cent in 2003-04. The analysis of cash in relation to current assets, current liabilities and net working capital throws light that the Super Spinning Group of Mills has effective as its cash position has comedown. This is because of effective management of cash.

RECEIVABLES MANAGEMENT

The business firm, generally, sell its goods on credit which is granted, to facilitate and capture more and more result. It grants trade

credit in order to project its sales from competitors and to attract the potential customers. This trade credit creates debtors, which blocks the funds of business firm. Blocking up of funds, some times large amount, tied up in trade debtors and hence needs a careful as well as cautious plan including efficient analytical approach of financial management. A prudent financial management aims to focus on the following aspects. They are:

- If the firm has more slow moving goods (SMG), its investments in debtors will increase and firm is exposed to greater risk.
- Credit standards decide the types of customers to whom goods could be sold on credit
- Credit term specifies the duration of credit and terms of payment by customers. If customers are allowed extended time for making payment, the investments in accounts receivables will be high. However, the success of any business enterprise depends upon the input of financial information.

CREDIT EVALUATION

The assessment of individual or firm, with whom to be dealt transactions, becomes a basic factor for making sound financial decision. For analysis, the data can be collected in the following ways:

- Primary source of information pertaining to the financial position and performance of the prospective customers is the financial statements.
- Another source of collecting information is the bank where the customer maintains his accounts and transactions carried by him.
- If the firm has previous dealings with the customers, the firm itself can assess the credit worthiness of customers.

Data on the receivable management of the Super Spinning Group of Mills is depicted in Table 3.3, 3.4 and 3.5.

Table 3.3 discloses the ratio of Sundry debtors to current assets in the Super Spinning Group of Mills is under fluctuations. It means the Super Spinning Group of Mills could not maintain efficient financial management but represent better business.

TABLE 3.3
MANAGEMENT OF RECEIVABLES
(SUNDRY DEBTORS TO CURRENT ASSETS RATIO)

(Rs in lakhs)

PARTICULARS	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Sundry Debtors	335.27	246.09	419.09	344.02	470.99	440.06	686.79	1319.24	114.02	1517.28
Current Assets	7448.86	6407.25	7168.02	8094.92	6836.92	7989.38	9330.14	9863.10	12862.85	20966.47
Percentage	4.49	3.84	5.85	4.42	6.88	5.50	7.36	13.38	8.66	7.24

Source: Annual Reports of Spinning Mills, Various Issues

TABLE 3.4
SUNDRY DEBTORS TO WORKING CAPITAL

(Rs. in lakhs)

PARTICULARS	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Sundry Debtors	335.27	246.09	419.09	344.02	470.99	440.06	686.79	1319.24	1114.02	1517.28
Working Capital	4299.45	4781.80	5184.81	5472.74	5409.44	6358.98	7319.89	7701.85	9888.72	14040.87
Percentage	7.80	5.15	8.09	6.28	8.70	6.92	9.38	17.13	11.27	10.81

Source: Annual Reports of Spinning Mills, Various Issues

Table 3.4 shows that the proportion of debtors to working capital of the Super Spinning Group of Mills has an upward trend with fluctuations. It has improved better working capital and at the same time it improved the sundry debtors but not with same proportion of the former. This analysis also shows that the Super Spinning Group of Mills has a sound base in terms of sundry debtors and working capital.

TABLE 3.5
SUNDRY DEBTORS TO SALES

(Rs. in lakhs)

PARTICULARS	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Sundry Debtors	335 27	246 09	419 40	344 02	470 99	440 06	686 79	1319 24	1114 02	1517 28
Sales	11895 72	14010 98	14935 79	15807 09	1646 37	18040 80	24490 66	29556.77	28101 73	33516 26
Percentage	2.82	1.75	2.80	2.17	2.06	2.43	2.80	4.46	3.96	4.53

Source: Annual Reports of Spinning Mills, Various Issues

Table 3.5 discloses that sundry debtors to sales ratio of the Super Spinning Group of Mills is accounted for 2.82 per cent in 1994-95 while the corresponding figures are 1.73 per cent; 2.80 per cent; 2.17 per cent; 2.06 per cent; 2.43 per cent; 2.80 per cent; 4.46 per cent; 3.96 per cent; and 4.53 per cent respectively during the 1995-96 to 2003-04. This analysis indicates more sales compared to sundry

debtors. It is a welcome sign in financial management of the Super Spinning Group of Mills.

MANAGEMENT OF INVENTORY

Inventories, generally, constitute about 60 percent of current assets of a manufacturing company. The manufacturing firm holds inventories in the form of raw – materials, work-in-process and finished goods. The motive behind having commensurate inventory is as follows:

- To facilitate smooth production without break and to reap on supply of goods to the intended customers (Transaction motive)
- To guard against the risk of unpredictable changes in usage rate and delivery time. (Precautionary motive)
- To take advantage of price fluctuations (Speculative motive)

Inventories represent investments of firm's funds. The motto of the management of inventory is maximizing the value of the firm. The firm, which needs to consider the following factors.

- Cash
- Return
- Risk factors in establishing inventory policy

OBJECTIVES OF INVENTORY MANAGEMENT

The objectives of inventory management are to determine and maintain optimum level of industrial investment. To avoid both excessive and inadequate level of inventories; and to maintain sufficient inventory for the smooth and optimum production and sales operations, efforts are required to place an 'order' of the right time with right source to acquire right quantity at the right place and right quality. The effective inventory management;

- Ensures a continuous supply of raw – materials to facilitate uninterrupted production
- Maintains sufficient stock of raw-materials in periods of short supply and anticipate price changes.
- Maintains sufficient finished goods inventory for smooth sale operations and efficient customer service.
- Minimizes carrying cost and time.
- Controls investment in inventories and keep it at an optimum level.

Basically, the cost incurred in maintaining inventory are grouped into (1) ordering costs, and (2) carrying costs. The entire cost of acquiring raw - materials is called 'ordering cost'. This includes requisitioning, order placing, transportation and storing.

The cost incurred for maintaining a given level of inventory to meet the production process is called 'carrying cost'. This includes warehousing, handling, clerical and staff, insurance, deterioration and obsolescence.

ESSENTIAL FOR INVENTORY MANAGEMENT

For effective inventory management, a business concern has to adopt some measures to be taken as essential steps, which are pre-requisites for sound governance. They are listed hereunder;

1. A well comprehensive classification of inventory required.
2. A B C analytical approach for the different items.
3. A continuous stock taking or perpetual inventory.
4. Assessment of selected inventory
5. Identify non-moving and slow-moving items.
6. Focus on fast track recovery of inventory.

Data on inventory of the Super Spinning Group of Mills is presented in Table 3.6 and 3.7.

TABLE 3.6**INVENTORY MANAGEMENT**

(Rs in lakhs)

PARTICULARS	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Inventory	4366.19	3969.87	4404.35	5376.65	3927.30	4157.73	5247.21	4471.02	7047.75	13416.66
Sales	11895.72	14010.98	14935.79	15807.09	16446.37	18040.80	24490.60	29556.77	28101.73	33516.26
Percentage	36.70	28.33	27.49	34.01	23.88	23.04	21.43	15.13	25.10	40.03

Source: Annual Reports of Mills, Various Issues

Table 3.6 shows that the inventory to sales is increased but with ups and downs during the period for 1994-95 to 2003-04. The sales increased but the increase of sound inventory is not in that proportion. However, the inventory of Super Spinning Group of Mills is at appropriate level in comparison to sales. Obviously, this represent in better management of inventory.

TABLE 3.7**PERCENTAGE OF INVENTORY IN CURRENT ASSETS**

(Rs in lakhs)

PARTICULARS	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Inventory	4366.19	3969.87	4407.35	5376.65	3927.30	4157.73	5247.21	4471.02	7047.75	13416.66
Current Assets	7478.86	6407.25	7168.02	8094.92	6836.92	7989.38	9330.14	9863.10	12862.85	20966.47
Percentage	58.38	61.96	61.49	66.42	57.44	52.04	56.24	45.33	54.79	63.99

Source: Annual Reports of Mills, Various Issues

Table 3.7 shows the percentage of inventory to current assets is maintained at around 60 per cent except in the year 2001-02. It is advisable to maintain at least 60 percent of inventory in current assets by the manufacturing enterprises as efficient working. Therefore, it is inferred that the Super Spinning Group of Mills has maintained inventory to current assets at satisfactory level.

The presentation on management of working capital discerns that the Super Spinning Group of Mills has better cash flow cycle, better business, increased sales and increased current liabilities.

MANAGEMENT OF LIQUIDITY

The primary objective of working capital management is to maintain a proper balance between liquidity and profitability. The Working capital management is considered efficient if the firm maintains a good profitability without any problem of liquidity. The liquidity analysis of Super Spinning Group of Mills is undertaken during 1994-95 to 2003-04 through different liquidity ratios to examine whether it is enough liquid to meet its current obligations. For this purpose, two important ratios, namely current ratio and quick ratio are used. The size of working capital is then related to profits of the company to know how far the primary objective of working capital management is achieved.

Data on analysis of liquidity position of Super Spinning Group of Mills is shown in Table 3.8.

TABLE 3.8
ANALYSIS OF LIQUIDITY POSITION
(Rs. in lakhs)

Particulars	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Current Assets:										
Inventories	4366 19	3969 87	4404 35	5376 65	3927 27	4157 73	5247 21	4471 02	7047.75	13416.66
Debtors	335 27	246 09	419 40	344 07	470 99	440 06	686 79	1319 24	1114 02.	1517.28
Cash and bank balance	380 29	267 40	185 64	111 22	134 88	120 06	93 66	163 53	145 99	139 28
Other current assets	105 39	131 64	112 55	107 64	99 38	25 25	121 22	188 31	417.94	409 16
Loans and Advances	2291 72	1792 25	2046 08	2155 39	2204.37	3246 28	3181 26	3721.00	4137 15	5484 09
Current liabilities and provisions	3179 41	1625 45	1983 21	2622 18	1427 48	1630 40	2010 25	4083 99	4928.87	9032 01
Net working capital	4299 45	4781 80	5184 81	5472.74	5409 44	6358 98	7319 89	5779 11	7933.98	11934 46
Current Ratio	2 35 1	3.94 1	3.61 1	3 08:1	4 79 1	4 90 1	4 64 1	2 42.1	2 61:1	2 32 1
Quick Ratio	0 98 1	1 50 1	1 39 1	1 04 1	2 04:1	2 35 1	2 03 1	1.32 1	1 18 1	0 84 1
Cash Ratio	0 12.1	0 16 1	0 09 1	0 04 1	0 09 1	0 07 1	0 04 1	0 04 1	0 03.1	0.02:1

Source: Annual Reports of Mills, Various Issues

Table 3.8 shows that the cash ratio is accounted 0.12:1, in 1994-95, while it is 0.02:1 in 2003-04. In between these two periods the trend is fluctuating. It is noticed that though the cash ratio is low but the company has efficient in maintaining cash position without any difficult as is noticed from the earlier tables. Really, it is a sign of healthy working conditions of the Super Spinning Group of Mills with low cash position.

SIZE OF WORKING CAPITAL

The size of working capital of Super Spinning Group of Mills during the period of study is presented in Table 3.9. It is observed from it that the size of current assets, current liabilities and net working capital are increasing during the period of study. The current assets increased from Rs. 7478.86 lakhs in 1994-95 to Rs. 20966.47 lakhs in 2003-04. Current liabilities have increased from Rs. 3179.41 lakhs in 1994-95 to Rs. 9032.01 lakhs in 2003-04. Net working capital increased from Rs. 4299.45 lakhs in 1994-95 to Rs. 11934.46 lakhs in 2003-04. This is because the working capital requirements increase with the increase in the size of operations of the Super Spinning Group of Mills.

The size of working capital can be better known by making relationship working capital to total assets and fixed assets. Data on ratio of current assets to total assets and current assets to fixed assets are shown in the Tables 3.10 and 3.11. (Figure 3.4).

TABLE 3.9
SIZE OF WORKING CAPITAL

(Rs. in lakhs)

Years	Current Assets	Current Liabilities	Net Working capital
1994-95	7478.86	3179.41	4299.45
1995-96	6407.25	1625.45	4781.80
1996-97	7168.02	1983.21	5184.81
1997-98	8094.92	2622.18	5472.74
1998-99	6836.92	1427.48	5409.44
1999-00	7989.38	1630.40	6538.98
2000-01	9330.14	2010.25	7319.88
2001-02	9863.10	2161.25	7701.85
2002-03	12862.85	4928.87	7933.98
2003-04	20966.47	9032.01	11934.46
Average of net working capital			6657.74

Source: Annual Reports of Mills, Various Issues

Fig. 3.4

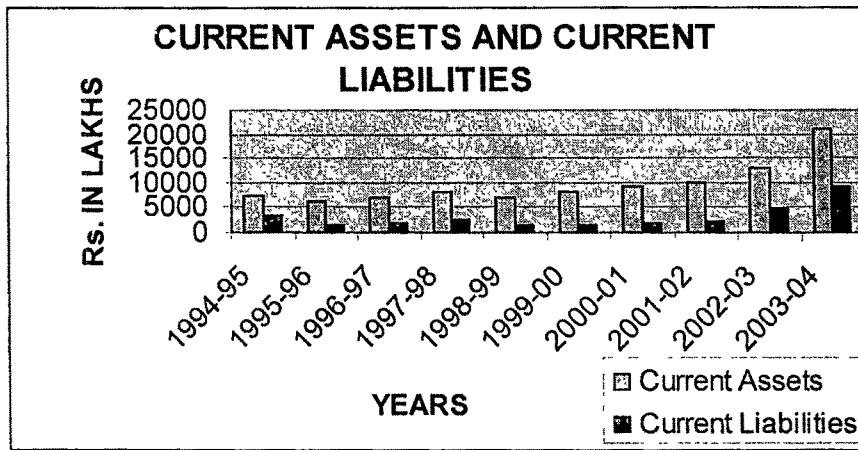


Table 3.10 and 3.11 shows the current assets are accounted for on an average 52.30 per cent of total assets of the Super Spinning Group of Mills. To say, half of the total assets of the Mills constitute current assets. The current ratio to total assets is 62.93 per cent in 1994-95, 58.00 per cent in 1995-96, 54.80, per cent in 1996-97, 51.15 per cent in 1997-98, 45.50 per cent in 1998-99, 47.17 per cent in 1999-00, 45.46 per cent in 2000-01, 46.03 per cent in 2001-02, 52.00 per cent in 2002-03 and 59.80 per cent in 2003-04. In all years the current assets are more than the fixed assets i.e., in 1994-95, 1995-96, 1996-97, 1997-98, but in latter years that is 1998-99 and 1999-00 slightly less.

STRUCTURE OF WORKING CAPITAL

Analysis of the structure of working capital is necessary to identify and control the investment in those components of current assets which have higher investments. The structure of working capital of Super Spinning Group of Mills is presented in Table 3.10. It could be observed from it that the distribution of working capital components has remained in a specific order. The percentage of inventory to the total current assets is highest throughout the entire study period.

Data on the structure of working capital of Super Spinning Group of Mills is shown in the Table 3.12.

TABLE 3.12
STRUCTURE OF WORKING CAPITAL

(Rs. in lakhs)

Year	Inventories	Loans and Advances	Debtors	Cash and Bank	Other Current Assets	Total
1994-95	58.38	30.64	4.48	5.08	1.41	100
1995-96	61.95	27.77	3.84	4.17	2.05	100
1996-97	61.44	28.54	5.85	2.58	1.57	100
1997-98	66.42	26.62	4.24	1.37	1.33	100
1998-99	57.44	32.25	6.89	1.97	1.45	100
1999-00	52.04	40.63	5.51	1.50	0.32	100
2000-01	56.23	34.10	7.36	1.00	1.30	100
2001-02	45.33	37.73	13.38	1.66	1.91	100
2002-03	54.79	32.16	8.66	1.13	3.25	100
2003-04	64.25	26.16	7.24	0.66	1.95	100
Average	57.83	31.66	6.75	2.11	1.65	

Source: The Annual Reports of Mills, Various Issues

Table 3.12 disclosing the structure of working capital in Super Spinning Group of Mills. The inventories constitutes at an average of 57.83 per cent in gross working capital of Mills, loans and advances constitutes 31.66 per cent at an average, debtors are at 6.75, cash and bank balances 2.11 per cent and other current assets are 1.65 per cent. The above data indicating that inventory occupied first place in the working capital of the Mills and loans and advances, debtors, cash and bank balances and other current assets are occupied respective positions.