CHAPTER 1
INTRODUCTION AND
METHODOLOGY
Cotton Textile is one of the oldest, largest and firmly established industries in the organised industrial sector in India. This industry assumes national importance by virtue of its size, output, employment and exports. About 10 per cent of the total number of factories in the country are in the textile sector contributing about 20 per cent of the total industrial output. This industry provides direct employment to nearly 20 million people, besides providing indirect employment to several millions of people in the unorganised sector. Its share in the total value of exports is nearly 38 per cent.

ORIGIN AND GROWTH OF COTTON TEXTILE INDUSTRY IN INDIA:

The first unit of Cotton Textile Industry in India was established at Fort Gloster, near Culcutta in the year 1818. However, the real base of this industry was made in 1854 with the establishment of a cotton textile mill at Bombay. Till 1920, this industry was confined to its units in and around Bombay. Later on, this was expanded to Tamilnadu, Karnataka, Madhya Pradesh in Northern India and some other parts of the country.

Cotton Textile Industry in India comprises both organised and unorganised sectors. The organised sector consists of three distinct categories of mills, viz., (i) Spinning mills, (ii) Coarse and Medium Composite Mills and (iii) Fine and Super fine Composite Mills, while the unorganised sector comprises powerlooms and handlooms. The mills in the organised sector come under medium and large scale category of industries and the village and small scale industries constitute the unorganised sector.

The growth of the Cotton Textile Industry over the last several years had been phenomenal (table 1.1). The total mills in the organised sector had increased from 378
TABLE 1.1: GROWTH OF TEXTILE MILLS IN INDIA

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Mills</th>
<th>Installed Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Spinning</td>
<td>Composite</td>
</tr>
<tr>
<td>1951</td>
<td>103</td>
<td>275</td>
</tr>
<tr>
<td>1961</td>
<td>192</td>
<td>287</td>
</tr>
<tr>
<td>1971</td>
<td>373</td>
<td>291</td>
</tr>
<tr>
<td>1981</td>
<td>415</td>
<td>278</td>
</tr>
<tr>
<td>1991</td>
<td>781</td>
<td>281</td>
</tr>
<tr>
<td>1992</td>
<td>846</td>
<td>271</td>
</tr>
<tr>
<td>1993</td>
<td>874</td>
<td>268</td>
</tr>
<tr>
<td>1994</td>
<td>909</td>
<td>266</td>
</tr>
<tr>
<td>1995</td>
<td>1148</td>
<td>268</td>
</tr>
</tbody>
</table>

Note: Figures in brackets indicate percentage of capacity Utilisation.


units in the year 1951 to 1175 units in the year 1994 registering an average annual growth rate of 4.85 per cent. Out of these total mills, the number of spinning mills have increased from 103 units with an installed capacity of 11 million spindles in 1951 to 909 units with more than 28 million spindles in 1994. As against this, the number of composite mills have reduced from 275 units in 1951 to 266 units by 1994.

Some of the reasons for the rapid increase in spinning mills in the country have been the availability of state-of-the-art technology, easy access to capital, favourable government policies for setting up of Export Oriented Units (EOU) and the liberal import policy under the Export Promotion Capital Goods (EPCG) Scheme. The decrease in the number of composite mills in India can be attributed to increasing viability of powerlooms compared to composite mills. This is because powerlooms have highly developed cost effective production system, while the composite mills are still saddled with obsolescent machinery and inadequate working capital.

PRESENT SCENARIO OF COTTON TEXTILE INDUSTRY IN INDIA:

Though the Cotton Textile Industry in India has witnessed enormous growth in terms of number of mills, installed capacity etc., it has been suffering from the problems like - obsolete machinery, problems of modernisation, lack of raw material, under-utilisation of production capacity, short supply of power, increasing government control and heavy excise duties, higher cost of production, inefficient and uneconomic units of production, increasing labour problems, increasing competition in foreign market and shortage of finance from banks. Consequently, the industry has been suffering with poor profitability especially from 1985-86. In the private sector, the ratio of profit before tax to net sales has touched as low as 0.32 per cent during the decade 1985-86 to 1993-94 (table 1.2). In the public sector, the net accumulated losses at the end of March, 1996 touched more than Rs. 4500 crores leading to complete erosion of its net worth. 3

Apart from various exogenous and non-financial reasons stated above, lack of management skills as a factor responsible for the poor performance cannot be overlooked.

<table>
<thead>
<tr>
<th>Year</th>
<th>PBDT/sales</th>
<th>PBDIT/sales</th>
<th>PBIT/sales</th>
<th>PBT/sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
<td>3.46</td>
<td>8.63</td>
<td>5.50</td>
<td>0.32</td>
</tr>
<tr>
<td>1986-87</td>
<td>5.94</td>
<td>13.12</td>
<td>7.83</td>
<td>0.64</td>
</tr>
<tr>
<td>1997-88</td>
<td>6.39</td>
<td>13.39</td>
<td>8.19</td>
<td>1.18</td>
</tr>
<tr>
<td>1988-89</td>
<td>7.88</td>
<td>15.38</td>
<td>9.07</td>
<td>1.57</td>
</tr>
<tr>
<td>1989-90</td>
<td>8.54</td>
<td>13.52</td>
<td>9.50</td>
<td>4.52</td>
</tr>
<tr>
<td>1990-91</td>
<td>11.04</td>
<td>15.93</td>
<td>11.95</td>
<td>7.06</td>
</tr>
<tr>
<td>1991-92</td>
<td>10.03</td>
<td>15.66</td>
<td>11.84</td>
<td>6.20</td>
</tr>
<tr>
<td>1992-93</td>
<td>8.38</td>
<td>14.64</td>
<td>10.73</td>
<td>4.46</td>
</tr>
<tr>
<td>1993-94</td>
<td>10.83</td>
<td>16.25</td>
<td>12.45</td>
<td>7.02</td>
</tr>
</tbody>
</table>

b) Industrial Performance Review, CMIE, 1994-95.
Among the managerial skills which have affected the performance of the industry, management of working capital is vital one. As current assets are only supporting assets, the investment in them should be kept as minimum as possible. Excess investment in current assets is not only unproductive but also an overhead. Contrary to this, the asset structure in cotton textile industry revealed that the ratio of current assets to total assets is nearly 60 per cent on an average. From the point of profitability, such a high proportion of current assets is unfavourable. Hence, current assets are to be managed effectively and efficiently so as to reduce investment in them to increase profitability and at the same time without adversely affecting liquidity. The present study has been undertaken to evaluate various facets of working capital management in the selected public and private sector units in Rayalaseema region of Andhra Pradesh. A brief review of literature is presented here before stating the objectives, methodology and plan of the study.

**REVIEW OF LITERATURE:**

Considerable research has been done in the area of Working Capital Management of which few studies have been reviewed.
One of the first studies worth mentioning in the area of working capital management is the study of National Council of Applied Economic Research (NCAER) which devoted mainly to the analysis of composition of the working capital in Sugar, Cement and Fertilizer Industries during the period from 1959 to 1963. However, the study failed to put into sharp focus the various problems involved in the management of different components of working capital.

Mishra analysed the problems of working capital of six large public enterprises during the period from 1960-61 to 1967-68. The three important components of working capital namely cash, receivables and inventory in the selected units have been thoroughly analysed. The basic issues outlined in this study and the findings therein have gained currency and relevance to many of the units even today.

Agrawal, in his study relating to 34 large manufacturing and trading public limited companies, observed


the use of modern control techniques in the areas of inventory, receivables and cash management. His study revealed that there exists a sufficient scope for reduction in investment in almost all the segments of working capital. However, the study tried to draw only general conclusions for all categories of industries and businesses covered in the sample.

7 Khandelwal in his study analysed the performance of working capital management in 40 small scale industries located in Jodhpur Industrial Estate. This study made a detailed analysis of performance of management of inventory, receivables, cash and financing aspects in the selected units from 1975-76 to 1979-80.

8 Rajeswara Rao thoroughly examined the managerial aspects of inventories, receivables and advances and cash of certain Central Public Enterprises in India during 1971-72 to 1976-77. The study concluded that the policies and practices


of working capital management in Public Enterprises are not useful for achieving the working capital management objectives.

9 Panda studied the problems of working capital in 26 selected small manufacturing companies in the State of Orissa. The study covered the problems of adequacy, the choice, sources and problems of raising working capital.

10 Kamta Prasad Singh et al's study analysed the effectiveness with which the working capital has been utilised in Indian Industries in general and the Fertiliser Industry in particular. This study has analysed the different aspects of working capital management in the Fertiliser Corporation of India and its daughter units and compared them with that of Gujarat State Fertiliser Company (GSFC) Limited during the period from 1978-79 to 1982-83.


Panda and Satapathy's study relates to the analysis of the structure of working capital in 10 selected private sector Cement Companies which are listed in different stock exchanges in India. This study was mainly based on the data obtained from the Stock Exchange Official Directory during 1969 to 1985. This study covered only broader aspects of working capital but failed to study intensively each component of working capital.

Jain studied the current practices in the management working capital in ten selected State Enterprises of Rajasthan and examined the management performance in this sphere. It also studied the possible remedial measures that could be used efficiently and effectively during 1980-84. It offered various suggestions for the improvement of working capital management enabling State Enterprises reduce their dependence on outside funds.


Mukharjee studied the performance of management of working capital and its components in twenty Central Industrial and Manufacturing Undertakings which are engaged in the production of non-homogeneous items. This study covered a period of five years from 1974-75 to 1978-79.

Verma's study on working capital management covered selected units both in public sector and the integrated steel plants in private sector in the country. He made a detailed comparative study of the management of various components of working capital between the selected public and private sector units during the period from 1978-79 to 1985-86.

Rao in his study analysed the performance of working capital management in five public enterprises engaged in manufacturing activity and which are owned and managed by the Andhra Pradesh Government during the decade 1969-70 to


1978-79. This study analysed inventory, receivables and cash management and the financing pattern of the working capital. Apart from these aspects, impact of inflation on working capital management had also been analysed in this study.

16 Mohan Reddy's study relates to the management of working capital in six selected large scale manufacturing undertakings in the private sector in Andhra Pradesh during 1977 to 1986. This study covered one unit each in Cement, Cotton Textiles, Fertilisers, Food products, Paper and plastic industries.

17 Jain studied the performance of working capital management in selected units of Paper Industry during 1981-82 to 1987-88. He made a comparison between two public sector and five private sector paper mills. This study also analysed the performance of payables management, apart from the usual areas, such as inventory, receivables, cash management and financing pattern of working capital during the study period.


Bairathi studied the performance of working capital management in selected units of Non-ferrous Metal Industries in Public Sector during 1981-82 to 1985-86. This study analysed the liquidity and financing aspects of working capital apart from a thorough analysis of inventory, receivables and cash management.

Apart from the above published works, several Ph.D. works are also done by several researchers in the area of working capital. Among these, Vaidya's study on "Working capital management in the Engineering Industry", Gogte's study on "Management of working capital in Large scale engineering industry in and around Pune", Panda's study on "Working capital in small manufacturing companies in Orissa", Vaish's study on Management of working capital in


Cotton textile industry of Madhya Pradesh", Pradhan’s study on "Working capital Management in Nepalese Public Corporations", Singh’s study on "Management of working capital in Public Sector Enterprises of Haryana", Bardia’s study on "Working capital Management of Iron and Steel Industry in India", Agarwal’s study on "Management of Working capital; A study of selected Paper Manufacturing Units in India", Tofarzee Hossain’s study on "Management of


working capital in Cotton Textile Industry of Bangladesh'',

Sharma's study on "Working capital Management in the Textile Industry in Private Corporate Sector in Rajasthan; with special reference to credit planning by banks'',

Jindal's study on "Working capital Management in Scooter Manufacturing Companies in India'', Sharma's study on "Working capital Management in Tobacco Industry in India'',

Singh's study on "Working capital Management in Public Enterprises in India: A case study'', Gupta's study on "Working capital Management in Public Limited Companies of Paper Industries of Haryana and Madhya Pradesh'', Singhal's


study on "Management of Working capital; A case study of Modi Steels", Sharma's study on "Management of Working capital in State Level Corporations of Haryana", Tambi's study on "Management of Working capital in State Electricity Boards of India; A case study of selected Boards", Sharma's study on "Working capital management of Bearing Industry in India", Sharma's study on "Working capital Management of Zinc Industry in India", Shah's study on "Working capital...


management of Drugs and Pharmaceutical Industry in India", 39
Ramakrishna Rao's study on "Working capital Management of
Small Scale Industry; A case study in a simultaneous multiple
objective framework", Janardhana Rao's study on "Working
capital Management in Small Scale Industrial Units; A study
of selected units in Andhra Pradesh", Jaimini's study on
"Working capital Management of Textile Industry in
Rajasthan", Gupta's study on "Working capital management in
Electronic and T.V. Manufacturing Companies in India", 43
Gupta's study on "Working capital Management of Fertiliser

39. Ramakrishna Rao, A., "Working Capital Management of
Small Scale Industry: A case study in a simultaneous
multiple objective framework", (unpublished) Ph.D.

in Small Scale Industrial Units: A study of selected
University, 1989.


42. Gupta, Shailender Kumar, "Working Capital Management in
Electronic, T.V. Manufacturing Companies in India",

43. Gupta, Kamal Kumar, "Working Capital Management of
Industry in India", Bhambra's study on "Management of Working capital in State Undertakings of Assam; An enquiry into its problems", Naik's study on "Management of Working capital in Sugar Industry", Gupta's study on "Credit planning and Working capital Management of Bicycle Industry in India", are some of the studies conducted in the area of working capital management.

In addition to the above detailed studies on working capital management, several other studies also attempted to analyse the overall efficiency of working capital as a part of their financial analysis. Among these


Apart from the above detailed published and unpublished works, many other contributions have appeared in different issues of leading journals and periodicals, from time to time, throwing light on chosen aspects in the management of working capital. These include the following:


Public Enterprises”, Wahi on "Organisation of Materials Management Function”, Banga on "Importance of Material Handling in Corporate System”, Vijayasaradhi and Rajeswara Rao on "Cash Management in a Multi-division Enterprise”, Rao and Rao on "Inventory Management in Public Sector Units”, Vijayasaradhi on "Problems of Working Capital Management in Public Enterprises”, Panda on "Inventory Management”, Rajeswara Rao on "Working capital problems of


From the above review of literature, it is clear that several studies have been conducted in the area of working capital management. They pertain to different industries under public and private sector. Surprisingly, the studies on working capital management in cotton textile industry were very few and conducted long back. There was no exploration by research exclusively on working capital management in cotton textile industry in Andhra Pradesh. The present study is aimed to subscribe in its own humble way to this area of management studies.

PRESENT STUDY AND SELECTION OF Sample

The present study relates to the working capital management in the selected spinning mills in Andhra Pradesh with special reference to Rayalaseema region.

As on 31 March, 1995, there are 83 spinning mills in Andhra Pradesh. Out of these, six are in Public sector, 65 are in private sector and 12 are in cooperative sector. Out of the total spinning mills in Andhra Pradesh, Rayalaseema region alone has 31 units (a share of more than one third). Out of these 31 units, three units are in public sector, 26 units are in private sector and two units are in the cooperative sector.
For the purpose of selecting units for the study, installed capacity of the units has been taken as the basis. The selection has been out of those units with an installed spindlage capacity of 25000 and more. This has been done purposively because only such units are considered economically viable. The mills located in the Rayalaseema region have an installed capacity ranging between 7000 and 53548 spindles. Out of these, 13 units have the installed capacity of 25000 spindles and more. Among them, two units are in public sector, one unit in cooperative sector and 10 units in private sector. Both the units in public sector have been taken for the study. As the unit under cooperative sector which is located at Guntakal has been closed long back, it can not be taken as sample unit of cooperative sector. Out of the 10 units in private sector, one unit was closed and two units had started production only in 1993. Out of the remaining seven units in private sector, four units have been selected for the present study. Thus, the sample constitutes two units in public sector and four units in private sector with a total of six units in the Rayalaseema region. A brief profile of the selected units is presented here, before stating the objectives, methodology, tools of analysis and plan of the study.
Super Spinning Mills Limited-B Unit

This unit was established in 1982 in the private sector at Kotnur near Hindupur in Anantapur district of Andhra Pradesh. Its head office is located in Coimbatore. It is one of the largest spinning mills in Andhra Pradesh with an installed capacity of 51,840 spindles. It produces cotton yarn. The proportion of current assets to total assets in this unit was about 48 per cent on an average. The net profit margin of this unit during the study period was 4.95 per cent. A brief progress of this unit in terms of capital, sales, assets and profitability are presented in table 1.3.

Cuddapah Spinning Mills Limited

This unit was established in 1978 in the private sector near Cuddapah. Its head office is at Hyderabad. This unit has an installed capacity of 36,000 spindles and produces cotton yarn. The proportion of current assets to total assets in this unit is 41 per cent. The profitability of this unit was highly unsatisfactory as the average net profit margin was just 1.20 per cent during the period under study. Its progress in terms of equity capital, total assets, sales and profitability can be seen in table 1.3.
Madanapalle Spinning Mills Limited

This unit was established in 1963 in the private sector at Chinnatippasamudram near Madanapalle in Chittoor district. Its installed capacity is 47,224 spindles and 576 rotors. This mill produces cotton yarn (both hank and cone form). The proportion of current assets to total assets in this unit was 63 per cent on an average. The average net profit margin of this unit during the study period was 3.28 per cent. The progress of this unit in terms of capital, sales, assets and profitability can be seen in the table 1.3.

Yemmiganur Spinning Mills Limited

The Yemmiganur Spinning Mills Limited was established at Yemmiganur in Kurnoor District of Andhra Pradesh in 1962 with the object of manufacturing cotton yarn. The installed capacity of this unit is 36,860 spindles. The proportion of current assets to total assets in this was 76 per cent on an average. The profitability of this unit was also unsatisfactory during the study period. Its progress during the study period can be seen in the table 1.3.
**Anantapur Cotton Mills Limited**

It was established at Yerraguntapalli near Tadpatri in Anantapur district of Andhra Pradesh in 1968 in private sector. This mill was taken over by Government of India in 1972. It produces the cotton yarn. Its present installed capacity is 32,188 spindles. The proportion of current assets to total assets in this unit was 59 per cent on average. This unit has been continuously incurring losses. Its progress in various aspects can be seen in the table 1.3.

**Tirupati Cotton Mills Limited**

This unit is situated in Suryanarayanapuram at Renigunta, Chittoor district of Andhra Pradesh. It was established in 1956 in the private sector but due to continuous losses the management found it difficult to run the mill and therefore, it was nationalised in 1974. This mill produces cotton yarn and has an installed capacity of 27,860 spindles. The proportion of current assets to total assets in this unit is 76 per cent on an average. This unit also incurred losses in seven out of ten years of the study period. The progress of this unit can be seen in the table 1.3.
TABLE 1.3 : PROFILE OF SELECTED UNITS

(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Unit</th>
<th>Year</th>
<th>Equity Capital</th>
<th>Total Assets</th>
<th>Sales</th>
<th>Profit/Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Private Sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSM-B</td>
<td>1985-86</td>
<td>51.77</td>
<td>775.04</td>
<td>739.59</td>
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</tr>
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<td>397.32</td>
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<td>517.91</td>
<td>1018.17</td>
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<td>135.34</td>
<td>1186.90</td>
<td>1539.80</td>
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</table>
OBJECTIVES OF THE STUDY:

The present study has been undertaken in order to

a) analyse the size and structure of current assets and evaluate the efficiency of working capital management and its financing pattern;

b) evaluate the efficiency of inventory management by analysing its size and composition with a view to finding out excessive or inadequate inventory;

c) search out the efficiency of the use of working funds in receivables by analysing the size, composition and status of turnover and age of receivables;

d) evaluate the cash management practices by analysing the size, structure, operational adequacy of cash and funds flow position; and

e) suggest appropriate measures for the efficient management of working capital in cotton textile industry.
SCOPE AND PERIOD OF THE STUDY:

The present study is restricted to evaluate the efficiency of overall management of working capital and its components, such as inventory, receivables and cash in selected units of Cotton Textile Industry in Rayalaseema region of Andhra Pradesh. This study is confined to the period from 1985-86 to 1994-95.

DATA AND METHODOLOGY:

a) Data Base: The study depends on the secondary data collected from the Annual Reports of the selected units for the examination of various aspects of working capital management. Other information relating to the cotton textile industry have been collected from Reports of Reserve Bank of India, Reports of Ministry of Textiles, Reports of Centre for Monitoring Indian Economy, Capital Market, Business India, Business World, Business Today etc. In order to understand various management policies towards working capital management in selected units, informal discussions with various managerial staff were also held.
b) **Tools of Analysis:** For the purpose of analysis, various accounting and statistical techniques were used. Among the Accounting techniques, Ratio Analysis and Funds Flow Statement are the two prominent techniques employed in this study. Among statistical techniques, the Arithmetic Mean \((X)\), Co-efficient of Variation \((C.V.)\), Test of Significance \((t\text{-test})\), Trend Indices, Simple Growth Rates, Coefficient of Correlation \((r)\), Coefficient of Determination \((r^2)\) and Linear Regression equation have been used for the purpose of analysis.

**PLAN OF THE STUDY:**

The present study has been divided into six chapters, including the present one.

The first chapter deals with the significance of the study, review of literature, objectives, methodology and tools of analysis followed in this study.

The second chapter examines the size, structure, efficiency and financing pattern of working capital in the selected units of cotton textile industry.

The third chapter analyses the efficiency of inventory management by studying the size, composition and adequacy of inventory in selected units of cotton textile industry.
The fourth chapter evaluates the size, composition, efficiency of receivables management and study the age of receivables in the selected units of cotton textile industry.

The fifth chapter evaluates the operational adequacy of cash balance by studying the size, composition and funding position in the selected units of cotton textile industry.

The last chapter summarises the findings of the study and offers suggestions for efficient management of working capital and its components in the cotton textile industry.