CHAPTER VII

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION
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7.1: INTRODUCTION

The working capital of a business enterprise can be said to be that portion of its financial resources which is put to a variable operative purpose\(^1\). The facilities that are necessary to carry on the productive activity and represented by fixed asset investment (ie Non current asset investment) are to be operated by working capital.

Two concepts of working capital now in vogue are found useful in the management of working capital, viz ‘gross’ and ‘net’\(^1\). Gross working capital refers to the sum of current assets represented by inventories, receivables, cash and marketable securities.

Net working capital means ‘working capital’ as the net of current assets over current liabilities. The gross working capital concept is useful to get analytical insights in to profitability with reference to the management of current assets\(^2\).

The networking capital concept emphasizes the aspect of liquidity, drawing attention to the equity and long term financing portion of current assets which is supposed to serve as a cushion of safety and security to current liabilities\(^3\). The ‘gross’ working capital concept emphasizes the use and the net concept the source the integration of both these concept is necessary in order to understand working capital management from the point of view of risk, return and uncertainty.

In simple terms working capital management may be defined as the management of current assets and the sources of their financing. It can also be defined as that aspect of financial management which is concerned with

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"the safe guarding and controlling of the firms current assets and planning for sufficient funds to pay current bills"\textsuperscript{5}

Working Capital Management is concerned with all decision and acts that influence the size and effectiveness of working capital. According to Gitman "The goal of working capital is to manage each of the firm's current assets and current liabilities in such a way that an acceptable level of net working capital is maintained" E.W.Walker, Essentials of Financial Management, prentice Hall of India, New Delhi, 1974, P.11 E.W.Walker, Essentials of Financial Management, Prentice Hall of India, New Delhi, 1974, P.11\textsuperscript{4} It is concerned with the determination of appropriate levels of current assets and their efficient use as well as the choice of the financing mix for raising the current resources.

Foundry industry has occupied one of the most important positions in Indian economy. Working capital is considered to be life giving force to an economic entity. Management of working capital is one of the most important functions of corporate management. The management of working capital is an integral part of overall management of foundry units. Working capital management is particularly very important for foundry industries to manage their current assets and current liabilities very carefully. A small foundry unit may not have much investment in fixed assets and it can minimize its investment in fixed assets by renting or leasing plant and machinery but there is no way it can avoid an investment in current assets such as cash, accounts receivable and inventories. Therefore, current assets are particularly significant for the financial management of foundry units. The efficient working capital Management is the most crucial factor in maintaining survival, liquidity, solvency, and profitability of the foundry industries. It needs sufficient finance to carry out purchase of

raw materials, payment of day-to-day operational expenses including salaries and wages, repairs and maintenance expenses etc.

The data used in the present study are mainly of two types: Primary and secondary data. The primary data is collected through questionnaires. A prestructured questionnaire was personally administered to the sample foundry units to collect the data. The secondary data consisting of the annual reports of the foundry units was collected by visiting the units personally. The secondary data is also collected from various sources like text books, journals, reports, foundry directory, District Industries Center, Belgaum district and District statistical office, Belgaum.

The present study is mainly based on the analysis of the working capital management. The approach adopted is basically analytical and descriptive in nature. The data thus collected have been properly classified, analysed, and interpreted by using simple statistical tools like percentages, Z test and trend analysis.

7.2 : SUMMARY OF FINDINGS

The major Findings of the study are as follows.

1. Among the total, 92 respondent units constituting 71 percent are ferrous grey cast iron foundries.

2. In 64 respondent units consisting of 59 percent of the total, the proprietor or partner themselves are looking after the management of working capital.

3. Among the total, 34 respondents constituting 33 percent are determining the size of working capital on the basis of percentage of sales.
4 46 respondents representing 38 percent and 42 respondents representing 35 percent are using their own capital and depending on borrowed capital as their sources of working capital.

5 36 respondents out of 100 respondents constitute 36 percent out of 100 are controlling working capital by budgetary control.

6 56 respondents accounting for 62 percent of the respondents are assessing their working capital position by both cash flow and funds flow statements.

7 66 respondents representing 64 percent are allocating working capital to various components on production estimate.

8 Out of the 100 respondents, 50 respondents representing 50 percent have the inadequate working capital due to under investment in inventories, in receivables and in marketable securities.

9 36 respondents accounting for 32 percent of the respondents are determining the minimum level of inventory on the basis of change in price.

10 40 respondents consisting of 25 percent of the total are determining the maximum level of inventory on the basis of future production plans.

11 56 respondents accounting 56 percent of the respondents are determining the safety stock on the basis of variation in lead time and consumption rate.

12 26 respondents representing 28 percent are adopting fixed order quantity system for ordering inventory.

13 In 48 respondent units consisting of 44 percent of the total the inventory control is exercised by proprietor or partner themselves.

14 74 respondents (95 percent) out of 78 have maintained the stores or materials records by stores ledger.
15 Out of the 100 respondents, 84 respondents representing 84 percent are following the method of stock verification, and making stock verification on daily, monthly, quarterly and yearly basis and as when needed.

16 50 respondents representing 47 percent are determining the level of investment in receivables on the basis of making sales forecast.

17 Among the total 40 respondents constituting 36 percent are granting 30 days credit to their customers.

18 54 respondents constituting 54 percent of the sample are following cash and credit sales.

19 In 62 respondent units consisting of 54 percent of the total, the proprietor or partner themselves are determining the credit and collection policies.

20 44 respondents representing 36 percent are obtaining 30 days credit from their suppliers.

21 58 respondents constitute 58 percent out of 100 are determining the optimum level of cash balance on the basis of means of cash budget.

22 Out of the 104 respondents 72 respondents representing 69 percent are meeting the requirement of cash by utilizing bank credit line. When cash balance goes below the minimum desirable level of cash.

23 64 respondents consisting of 63 percent of the total are adopting the concentration banking technique to intensify the inflow of cash.

24 34 respondents (34 percent) out of 100 are determining the optimum level of investment in marketable securities on the basis of certain percentage of working capital.

25 30 respondents consisting of 31 percent of the total are considering production planning as the base for cash planning.
The following suggestions are made to ensure better management of working capital in the foundry industries:

1. The foundry units should have adopted a latest technique of "Zero working capital" i.e. all the times current assets should be equal to current liabilities. It ensures a smooth and uninterrupted working capital cycle.

2. The foundry units should go for innovative techniques and professionalism for working capital management and need to look for options available rather than confining to tradition.

3. Better planning and control of working capital help the foundry units to achieve better efficiency in working capital management.

4. The foundry units should have adopted cost reduction measures which can improve the financial performance of a unit. Cost can be reduced by control of i. Inventory ii. Operating expenses and iii. Capital expenses.

5. The foundry units should implement modern techniques for controlling the different segment of working capital. For inventory control, they may adopt techniques like just-in-time, Integrated management information system using the computer for timely and quick information, use of operation research for improving the operational efficiency. For improving the efficiency of cash management, the techniques of concentration banking and lock box system should be adopted by the units.

6. The foundry units are advised to follow the principles of "THREE Es" to manage liquidity, solvency, profitability,
survival and growth of business. Following are the messages of "THREE Es"

E₁ - Stands for economy, i.e. at what minimum cost it can produce the goods.

E₂ - Stands for efficiency i.e. to do the thing right and finally.

E₃ - Represents Effectiveness i.e. to do the right thing only.

7. Specific indepth study should be made for each of the components of working capital separately, i.e. Inventory, Receivables and cash in the foundry industries.

8. The foundry units could avoid excess locking up of working capital in different components of inventory by exercising strict control over it.

9. It is suggested that the units should maintain stock register indicating the different levels of stock of raw materials i.e. maximum level, re-order level, and minimum level. In this respect it is suggested that the units should take assistance from Chartered Accountants and Cost Accountants.

10. It is suggested that the units have not preferred short-term bank borrowings as a means for financing working capital requirements. A greater use of this source of financing could have been made to increase the return on investment.

11. It is suggested that the foundry units should follow low average collection period and low age of accounts receivable, that indicate efficient credit and collection policies followed by the foundry units.
12. To ensure good quality position the foundry units should try to maintain an adequate quantity of net current assets in relation to current liabilities.

13. To maintain overall control over liquidity position, the foundry units should give special attention to the management of current assets, and all the relevant techniques of current assets management should be employed.

14. Government should have a proper control over the raw material prices, and take proper steps for the development of foundry Industries.

15. Foundry units can be improved by installing modern machines, employing skilled laboures, keeping quality records and having laboratories.

16. The foundry units should strive to maintain and publish sensitive and vital information- statistical and financial, on a continuous basis for the benefit of scientific and scholarly studies based on such data.

7.4 : CONCLUSION

Working capital management is the part and parcel of overall corporate management functions and impact of corporate management policy and strategy effects working capital management practice of the industries. It is thus, necessary to workout and analyze cause-effect relationship of every function of
the management to assess its impact on working capital management.

In the present study focus has been made to analyse the effective working capital management in foundry industries. The findings of the study clearly states that although the working capital management is satisfactory, the industries have several shortcomings, these shortcomings can be effectively overcome by adopting the suggestions made in the study.