Chapter 1
INTRODUCTION

1.1 Financial Management - An Overview

Money will not feed us, cloth us, shelter us or amuse us unless we spend it or invest it. It imparts value only in parting. Money will do almost anything for people. So, money otherwise called finance is an integral part of life. Business is no exception to it. It has been rightly said that business needs money to make more money. However, it is also very much true that money earns more money only when it is properly managed. Hence the success of any business enterprise depends on efficient management of its finance.

There are three approaches as far as the definition of the term finance function is concerned. The first approach defines finance function as simply the task of providing funds needed by the enterprises on suitable terms. It is a narrow in view. It ignores the financial decisions, investment decisions as well as dividend decisions.

As per the second approach, finance function is concerned with cash. Since every business transaction involves cash directly or indirectly, finance is concerned with every thing that takes place in the conduct of a business. Obviously, such a definition is too broad to be meaningful.
The third approach defines the finance function as procurement of funds and their effective utilization in the business. This approach considers the financial decisions, investment decisions and dividend decisions. Some of the authoritative definitions are as follows:

"Business finance can be broadly defined as the activity concerned with planning, raising, controlling and administering of the funds used in the business."\(^1\)

"Finance is defined as the issuance of the distribution of and the purchase of liability and equity claims issued for the purpose of generating revenue producing assets."\(^2\)

1.1.1 Scope of Financial Management

Financial Management emerged as a distinct field of study at the turn of this century after undergoing significant changes over years with regard to scope and coverage. In order to have a better exposition to these changes, it will be relevant to study the various approaches to the finance function. Hence, the approach to the scope and functions of financial management is divided for the purpose of exposition, into three broad categories:

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• Traditional approach
• Transitional approach
• Modern approach.

Traditional Approach

The traditional approach was very popular in the early part of this century. Finance was a part of economics in the initial stage and no separate attention was paid to finance. Business owners were more concerned with operational activities. The role of finance manager was limited to the raising of funds to finance formation, expansion or diversification activities and the finance function, thus was episodic in nature.

The approach was mainly descriptive and institutional. The instrument of financing, the institutions and procedures used in capital markets and the legal aspects of financial events formed the core of financial management.

Finance function was viewed from the point of view of suppliers of funds i.e., the lenders, both individuals and institutions. So, the emphasis was to consider the interest of outsiders. The internal decision making process and the persons involved in the process were less important.

Finance was concerned with procuring of funds primarily by the user of securities such as equity shares, preference shares and
debt instruments. So knowledge of the source of funds—what securities to sell, to whom and by what techniques to sell was needed.

The traditional approach to the scope of the finance function was evolved during the 1920s and 1930s and dominated academic thinking during the forties and through the early fifties. It has now been discarded as it suffers from serious limitations which are given below:

- The traditional approach was only outsider-looking-in approach since it considered the viewpoint of suppliers of funds. It thus, ignored the viewpoint of internal financial decisions.

- This approach took into account only the financing problem of corporate enterprises. The financing problems of non-corporate enterprises, therefore, were outside the scope of financial management.

- It did not give much attention to the day-to-day financial problems of a company.

- It focused attention on the problems of long-term financing only and the issues involved in short-term or working capital management, which constitute the crux of
the financial problems of modern financial management, were not in the purview of the finance function.

The limitations of traditional approach were more fundamental rather than treatment based. The concept and analytical shortcoming of this approach arose from the fact that it confined financial management to issues involved in procurement of external funds. It did not consider the important dimension of allocation of capital. The conceptual framework of the treatment ignored what Solomon aptly describes the central issue of financial management.

- Should an enterprise commit capital fund to certain purposes?

- Do the expected returns meet the financial standards of performance?

- How should these standards be set and what is the cost of capital funds to the enterprises?

- How does the cost vary with the mixture of financing methods used?

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In the absence of the coverage of these crucial aspects, the traditional approach implied a very narrow scope for financial management. The modern approach provides a solution to these shortcomings.

**Transitional Approach**

This approach began around the early forties and continued up to the early fifties. The nature of financial management during this phase was similar to that of the traditional approach. But greater emphasis was placed on the day-to-day problems faced by finance managers in the area of funds analysis, planning and control.

**Modern Approach**

The modern phase began in the mid fifties. The finance function has become analytical and decision oriented due to gradual increase in competition and growth in business. The scope of finance function has widened further. It includes not only the measures of procuring funds at episodic events but also the optimum utilization through data based analytical decision-making. The finance manager has emerged as a professional manager with regards to raising of capital by the firm, allocation of these funds to different projects and the measurement of the results of each allocation.
The new approach is an analytical way of viewing the financial problems of a firm. The main contents of this approach are:

- What is the total volume of funds an enterprise should commit?
- What specific assets should an enterprise acquire?
- How should the funds required be financed?

The three questions presented above cover the major financial problems of a firm. In other words, financial management according to the new approach, is concerned with the solution to these three major problems namely i) Financing, ii) Investment and iii) Dividend decisions.

Since the beginning of the modern phase, many significant and seminal developments have occurred in the fields of capital budgeting, capital structure theory, efficient market theory, option pricing theory, agency theory, arbitrate pricing theory, valuation models, dividend policy, working capital management, management of earnings, cash management and financial modelling.\(^5\)

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\(^4\) Ibid., P.1.7.

So, the concept of financial management, according to the modern approach, is being widely recognized and used all over the world today. Some of the authoritative definitions are as follows:

"Financial Management is broadly concerned with the acquisition and use of funds by a business firm."^6

"Financial Management is concerned with the acquisition, financing and management of assets with some overall goal in mind."^7

"Financial management is concerned with the efficient use of an important economic resource, namely capital funds."^8

"Financial Management is that managerial activity which is concerned with the planning and controlling the firm's financial resources."^9

"The term Financial Management can be defined as the management of flow of funds in the firm and it deals with the financial decision making of the firm."^10

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^6 Ibid P. 1.2
A brief discussion of all the three major decision areas of financial management is outlined below:

**Financing Decision**

The financing decision involves in deciding when, where and how to raise funds to meet the financial requirements of a firm. There are two main sources of finance for any firm. They are (i) the shareholders' funds and (ii) the borrowed funds. The shareholders’ funds may consist of Equity Capital, Preference Share Capital and the Accumulated Profits. The borrowed funds may consist of loans, Debentures, bonds etc. The borrowed funds are always repayable and require payment of a committed cost in the form of interest on a periodic basis. The borrowed funds are relatively cheaper but always entail a risk. The risk is known as financial risk i.e., the risk of insolvency due to non-payment of interest or non-payment of capital amount.

The shareholders’ funds are the main source of funds to any firm. There is no committed outflow for equity share capital neither in the form of return nor in the form of repayment of capital. Firms usually adopt a policy of employing both borrowed funds as well as shareholders funds to finance their activities. The employment of these sources in combination is also known as financial leverage.
A finance manager has to evaluate different such combinations with the help of some of the tools such as leverage analysis, EBIT, EPS analysis, capital structure models etc. The capital structure of a firm is said to be optimum when the market value of share is maximised. The use of debt affects the return and risk of shareholders, it may increase the return on equity funds but it always increases risk.

A proper balance will have to be struck between return and risk. When the shareholders return is maximized with minimum risk, the market value per share will be maximized and the firm's capital structure would be considered optimum. So one dimension of this financing decision is the determination of an appropriate capital structure.

The Finance Manager must raise the appropriate amount through the best available sources after determining the best combination of debt and equity. The second aspect of the financing decision is raising the required amount of funds. The financing decision thus covers two interrelated aspects of 1) Capital Structure theory and 2) Capital Structure decision.

**Investment Decision**

After having been determined the required amount of funds, the finance manager must plan to invest it for the smooth
functioning of the organization. The investment decision relates to the selection of assets in which funds will be invested by a firm. The asset which can be acquired, fall into two broad groups:

- Long term assets which yield a return over a period of time in future,

- Short term or current assets, defined as those of the assets, which in the normal course of business are convertible into cash without diminution in value usually within a year. The first of these involving the first category of assets is popularly known in financial literature as capital budgeting. The aspect of financial decision-making with reference to current assets or short-term assets is popularly termed as working capital management.

**Capital Budgeting Decision**

Capital budgeting decision is the long-term investment decision which related to the selection of an asset or investment proposal or course of action whose benefits are likely to be available in future over the lifetime of the project. The long-term assets can be either new or old or existing ones. The first aspect of capital budgeting decision relates to the choice of the new assets out of the alternatives available or the reallocation of capital when an existing asset fails to justify the funds committed. Whether an
asset will be accepted or not will depend upon the relative benefits and returns associates with it. The measurement of the worth of the investment proposal is, therefore a major element in the capital budgeting exercise.

The second element of the capital budgeting decision is the analysis of risk and uncertainty. Since the benefits from the investment proposals extend into the future, their accrual is uncertain. The various proposals are ranked on the basis of such criteria as urgency, liquidity, profitability and risk sensitivity. The financial analyzer should be thoroughly familiar with such financial techniques as pay back, internal rate of return, discounted cash flow and net present value among other because risk increases when investment is stretched over a long period of time. The financial analyst should be able to blend risk with returns so as to get the current evaluation of potential investment.

**Working Capital Management**

It is concerned with the management of current assets. It is a financial lubricant, which keeps business operations going. It is an integral part of financial management since short-term survival is a pre-requisite for long-term success. If a firm does not have adequate working capital, it may become illiquid and may not have the ability to meet its obligations and thus, invite the risk of
bankruptcy. If the current assets are too large, profitability is adversely affected. The key strategies and considerations in ensuring a trade off between profitability and liquidity is one major dimension of working capital management. In addition, individual current assets should be efficiently managed so that neither inadequate nor unnecessary funds are locked up. The management of working capital thus, has two basic ingredients of i) an overview of working capital management as a whole and ii) efficient management of the individual current assets such as cash, receivable and inventory.

**Dividend Policy Decision**

Dividend policies constitute a crucial area of financial management. The shareholders and the prospective investors are interested in getting highest dividend. But the Board of directors are interested in maintaining its financial health by retaining the surplus to be used when contingencies arise. A firm may improve its internal financing so that it may avail itself of benefits of future expansions. Two alternatives are available in dealing with the profits of a firm. They can be distributed to the shareholders in the form of dividends or they can be retained in the business itself. The decision as to which course should be followed depends largely on a significant element in the dividend decision; the dividend payout ratio that is what proportion of net profits should be paid out to the
shareholders. The final decision will depend upon the preference of the shareholders, investment opportunities available within the firm. The second major aspect of the dividend decision is the factors determining dividend policy of a firm in practice. They include like the trend of earnings, legal restrictions, the tax position of the shareholders, financial needs of the company, desire of control etc. The finance manager should also consider the question of dividend stability, bonus shares and cash dividends.

1.1.2 Objectives of Financial Management

Efficient financial management depends on the decision-making ability of the firm. To make wise decisions, a clear understanding of the objectives of financial management is necessary as the objectives provide a framework for optimum financial decision-making. From the finance function point of view, firms may have the following two objectives:

- Profit Maximisation

- Wealth Maximisation

**Profit Maximisation**

For any business firm, the maximization of profits is often considered as the implied objective. It is therefore natural to retain the maximum of profit as the goal of financial management also. According to this approach, various financial decisions such as
investment, financing and dividend decision are taken with a view to maximize the accounting profit of the firm – the difference between revenues and expenses.

The rationale behind profitability maximization, as a guide to financial decision-making, is simple. Profit is a test of economic efficiency. It provides the yardstick by which economic performance can be judged. Moreover, it leads to efficient allocation of resources as all business firm of society are working towards profit maximization. Finally, it ensures maximum social welfare.

There are various problems with the profit maximization as the objective of financial management. Some of these are as follows:

- It does not take into account the amount of risk which the firm undertakes in attempting to increase the profits.

- It ignores the time value of money i.e., it ignores the fact that a rupee recovered to-day is much more valuable than a rupee received tomorrow.

- It ignores the quality aspect of benefits associated with a financial course of action.
On the basis of the above discussion, it may be concluded that the profit maximization fails to be an operationally feasible objective of financial management.

**Wealth Maximisation**

The objective of wealth maximization is almost universally accepted as an appropriate operational decision criterion for financial management as it removes all the technical limitations of the profit maximization criterion. This objective is generally expressed in term of maximization of the value of a share of a firm. The measure of wealth which is used in financial management is the concept of economic value. "The economic value is defined as the present value of the future cash flows generated by a decision, discounted at appropriate rate of discount which reflects the degree of associated risk."^{11}

This measure of economic value is based on cash flows rather than profit. The economic value concept is objective in its approach and also takes in to account the timing of cash flows and the level of risk through the discounting process.

The shareholders wealth is represented by the present values of all the future cash flows in the form of dividends or other benefits expected from the firm. The market price of share reflects

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this present value. Since each shareholder’s wealth at any time is
equal to the mar ket value of all his holding in shares, an increase
in the market price of firm’s share should increase the
shareholders wealth.

The objective of wealth maximisation implies that market
price of a share is linked to three basic financial decisions i.e., the
investment decision, the financing decision and the dividend
decision. The link among these decisions and the value of the
share can be made by recognizing that the market price of a share
is the present value of its expected cash flows, discounted back at
a rate that reflects both the riskness of the project and the
financing mix used to finance it.

However, there are certain problems with the implementation
of the goal of maximization of shareholders wealth. The main
problem is the assumption underlying this goal i.e., there is an
efficient capital market wherein the effect of a decision is truly
reflected in the market of share. In practice, the share price in the
market is subject to the influence of so many extraneous factors.
The market price of a share is influenced by the overall economic
and political scenario in the country. More often than not the
market price of a share may also fluctuate because of speculation
activities. All these facts are assumed to be given and constant in
this objective.
So the maximisation of equity shareholders' wealth as reflected in the market price of a share is viewed as a proper goal of financial management.

1.1.3 Organization of Financial Management

A well organised financial division is absolutely essential for the efficient financial management of an undertaking. If financial data are missing or inaccurate, the firm may not be in a position to identify the problems confronting the firm in time for necessary corrective action. The roles of different finance executive should be clearly defined in order to avoid any sort of conflict and overlapping of functions.

Finance function is a major/critical financial area. So, the ultimate responsibility for carrying out the financial management functions lies with top management. Thus, a department to organize financial activities may be set up under the direct control of the board of directors. The finance department may be headed by a committee or an executive. The major financial policy matters will be decided by the finance committee or an executive while routine activities will be delegated to lower levels.
FIGURE 1.1
ORGANIZATION CHART OF FINANCIAL MANAGEMENT

- Capital Budgeting
- Cash Management
- Commercial banking and investment Banking relationships.
- Credit management
- Dividend disbursement
- Financial Analysis and Planning
- Investors Relations
- Pensions Management
- Insurance/Risk management and
- The Analysis and Planning

- Cost Accounting
- Cost Management
- Data Processing
- General Ledger
- (Payroll, Accounts Receivable/Payable)
- Government reporting (IRS, SEC)
- Internal control
- Preparing Financial Statements
- Preparing Budgets
- Preparing forecasts.
The Figure 1.1 illustrates the organization of the financial management in a large typical (hypothetical) business firm. This chart prevails in almost every business enterprises, public or private though the exact organization for a firm depends on its needs and circumstances. The titles used to designate the key financial officers may be different, viz., Financial Manager, Vice-President (Finance), Chief Executive (Finance), Director (Finance), Chief Financial Officers, General Manager (Finance) but the task of the financial manager will be the same in every organization.

1.2 Outline of the study

1.2.1 Statement of the problem

The corporate form of organization commends a supreme importance in the present day world of industry, commerce and finance. It is essentially due to its unique characteristics that have made possible the accumulation of large amount of capital needed for large scale activity under unified business management. But business failures in the corporate sector have become a common phenomenon world wide. Business failures have not confined to small scale industry but to the giant companies too. The recent collapse of yamaichie securities Ltd (1997), the fourth largest securities company in Japan is a glaring example of a big business failure. The number of companies becoming sick is always on the
increase in the corporate culture. Company failure affects not only those most immediately concerned, those employed by and trading with the company but also industry in general, the overall economy and the well-being of the company.

Business failure is never a pleasant subject and therefore, deserves the most serious study. Corporate performance evaluation is a topic of much interest in recent years. Researchers and Analysts are devoting their attention to develop models in the prediction of business failures as early as possible in order to overcome the problems which are likely to occur in the post bankrupt scenario.

Lack of efficient financial management may be one of the strongest reasons for such business failures. In the light of the prevailing situation, it becomes necessary to investigate thoroughly the various aspects of the financial management of a company such as investment in fixed assets, management of working capital and distribution of profits, i.e. dividend policy plus retention of earnings. Such an investigation may reveal the unforeseen pitfalls and thus, pave the way for the required remedial measures in order to remove the inefficiency from all spheres of financial management of the undertaking.
1.2.2 Review of Literature

To probe and research the problem at hand in a better way, it is necessary to review the existing relevant literature. Of course, various studies relating to corporate performance in India have been conducted in the past. Here, it is neither possible nor useful to make reference to all such studies. Thus, a brief review of some of the doctoral studies conducted, using the financial ratio profile, is given below:

Rao and Sarma (1976) applied multiple discriminant analysis to a sample of 60 textiles firms comprising 30 failed and 30 non-failed firms. The discriminant function found to be efficient included 5 financial ratios which were net worth to total assets, debts to turnover, working capital to total assets, retained earnings to total assets earning before interest and taxes to total assets.

Gupta (1979) has carried out a study on corporate sickness using financial ratios. He has taken a sample from textile industry and tried to extend it to non-textile units as well. Fifty-six ratios, classified into two broad categories of profitability ratios and balance sheet ratios were tested. A sample of non-parametric test for measuring the relative differentiating power of the various financial ratios was used. The test was based on taking a sample of sick and non-sick companies, arraying them by the magnitude of
each ratio to be tested. A cut of point was selected which divided the array into two classes with a minimum number of misclassifications. A percentage of misclassification error was then chosen as a deciding parameter.

The sample included 41 textile companies of which 21 were non-sick and 20 were sick. The matching was done on the basis of product or products manufactured, age and size measured in terms of paid up capital, assets and sales. Ratios were computed and tested for each of the company in sample. Five profitability ratios were finally selected which individually had shown to possess highest predictive power when applied to a homogeneous industry group. It was observed that companies with an inadequate equity base had little reserve strength to weather adversities and are, therefore, sickness-prone. Another important observation was that all liquidity ratios proved to be very poor predictors contradicting the great importance of traditionally attached to liquidity analysis in appraising corporate health.

Kaveri (1980) selected a sample of 524 small units comprising of good, regular and sick units which has an investment of up to 375 lakhs. Twenty-two ratios were considered for identifying the health of small-scale industries. Of these only five significant ratios were selected on the basis of t-test. The five ratios are the current ratio, stock/cost of goods sold, current
assets/net sales, net profit before taxes/ total capital employed and net worth/total outside liabilities. The multiple discriminant analysis technique was applied to assign units in the sample to one of the groups viz. good, regular and sick. Accuracy of prediction was found to be 76 per cent in the initial sample and 69 percent in the holdout sample for year before the event.

Srivastave (1981) used a combination of operational, technical and financial parameters to discriminate between the sick and healthy units. He developed a linear discriminant function comprising seven ratio parameters. A computer model was built up by using three financial ratios and the predictive accuracy of the model was computed. The misclassification error was 15%, which was reduced to 10 per cent when five financial ratios were used. In continuation of the above study, Srivastave (1985) developed an MDA Model to determine the effectiveness of working capital management so that the current operational practices in formulating the policies of working capital management.

For this purpose, he selected a sample of 78 companies 39 sick companies and 39 non-sick companies and applied factor analysis and multiple discriminant analysis using financial ratios as variables to classify companies in terms of their effective or ineffective working capital management. The result indicated that 95 per cent of the companies in the sample are correctly classified
by the discriminant function. To test the real effectiveness of the model, he selected another 40 textile companies not included in the previous analysis, applying the discriminant function he found that the model correctly classified 95 per cent of the companies in the sample.

**Pondey (1990)** attempted to study the following: - (a) Indian evidences an empirical-based classification of financial ratios, (b) To examine the intertemporal stability/change. He selected 612 Indian companies belonging to 61 manufacturing and processing industries; twenty ratios were computed for each of the above companies. On applying the factor analysis, R factor Analysis, Correlation and percentage, mean, absolute deviations to the above sample, ten factors were obtained representing liquidity, profitability, activity and leverage.

**M. Shanmugam (1998)** carried out a study, “A New Approach Towards corporate performance evaluation” using ratios. He had taken a sample of 1015 companies from 5 major manufacturing industries namely automobile, cement, chemical, electronic and steel Industries for his studies in addition to several statistical techniques in order to assess the company performances. He used 52 ratios which were computed for all the companies in five industries selected for the study.
In India, Rao and Sarma (1971) carried out a study titled, "Dividends and Retained Earnings of Public and Private Limited Companies in India: 1955-56 to 1965-66 'An econometric Analysis'. The objectives of the study were to enquire into the determinants of dividends of public and private limited companies, to estimate short-run marginal propensity to pay dividend, short-run marginal propensity to save and the long-run desired payout and savings ratios.

The study covered a period of 11 years from 1955-56 to 1965-66 in respect of two categories of companies' viz., (i) Non-financial and Non-Government companies with a paid-up capital of more than 5 lakh rupees and (ii) medium and large private limited companies. The Basic Linter model was employed in the study. The results of the study indicated that there were variations in the suitability of the models employed. While the model with cash flow variable fitted well for industries like cotton textiles, iron and steel, paper products and electricity generation and supply, the model with depreciation and net profit, introduced separately, was found to explain well the dividend behaviour of jute and textiles and Engineering industries. Further it was also found that the payout ratio widely different among the selected industry groups. The study also revealed that in the case of sugar industry, the substitution of cash flow variable in place of current profits in the
basic Lintner model has not improved the explanatory power of the equation as reflected in Adjusted $R^2$. The standard error is lower in the case of the basic Lintner model and hence this model may be preferred for the sugar industry.

**Dhameja (1972)** in his study entitled Dividend behaviour in Indian Paper Industry 1950-65. A statistical Test, examined the statistical significance of various factors influencing dividend policy in Indian Paper Industry. The variables used were net profit previous year dividend, weighed average of past profits, depreciation, cash flow earnings (net and gross), change in sales, accumulated reserves and provision for tax. The tools used in the study were linear multiple regression and coefficient of determination. He concluded that the increase in profit did not result in an equivalent increase in dividend and vice-versa. Dividend determination was influenced by the past year's profits and fluctuations in the earnings did not have much influence on dividend. Fluctuations in dividend determination were influenced by current year's earnings while change in sales had a positive influence on dividend. Further, it was ascertained from the study that the lagged dividend was directly associated with current year dividend.

In another study, **Krishnamurthy and Sastry (1975)** made an attempt to examine the dividend behaviour of public limited
companies based on the data available in the Reserve Bank of India, Bulletin. The study period was from 1960 to 1970 covering 11 years. They extended Lintner's model with additional variables to these companies. These variables included cash flow, changed cash flow, investment expenditure and flow of debt. They found that the basic Lintner's model was more appropriate in explaining the dividend behaviour.

Agarwal 1986 carried out a study entitled; Corporate Investment and Financial Behaviour- An Econometric Analysis of Indian Automobile Industry; their study period was 20 years from 1959-60 to 1978-79. The Basic Lintner model was used for examining the dividend behaviour of the selected seven units belonging to the Automobile Industry. To the Lintner's model, he added four more variables namely change in sales, liquidity, flow of external funds and total investment. It was found that current year's profit was the most important factor, which decided the payment of dividend. The other variables were not found to significantly influence the payment of dividend.

Vijayakumar (2002), in 'Determinants of Profitability-A Firm Level Study of the Sugar Industry of Tamil Nadu', delved into the various determinants of profitability viz. growth rate of sales, vertical integration and leverage. Apart from these three variables he had selected current ratio, operating expenses to sales ratio and
inventory turnover ratio. Econometric models were used to test the various hypotheses relating profitability with other variables. The researcher noted in his conclusion that efficiency in inventory management and current assets are important to improve profitability.

Agarwal (1987) in Corporate Investment and Finance Behaviour in Automobile Industry', notices the behaviour and determinants of profit in particular to examine the impact of price control on the profitability of firms in the Automobile sector. The study was based on the data for the period 1959-1960 to 1978-1979. He found that profits in the car sector depended on sales, capacity utilization, product prices and factor prices. Market share and the lagged investment appeared to be significant at the firm level but not at the sector level. However, both market share and lagged investment were significant for the non-car sector. He also concluded that price control had adversely affected profit in the car sector.

The study developed by Prater, Marvin Eugene (1997) formulated predictive models of long-term profitability for grain dependent short line railroad in Mid Western States. The purpose of these models is to aid State policymakers in allocating financial assistance among potential short line railroads. Key factors influencing profitability are identified. Indian Chemical Industries
expressed that there are a number of determinants of profitability in India. He studied the relationship between profitability and growth of firms in the Indian chemical industry during the period 1962-1969 with data of 27 companies quoted in the stock exchange. They found that most of the firms want to grow in an expanding market with differing intensities and those those who have ability aided by profit continued to grow faster.

**Agarwal (1978)** in his study entitled 'Size Profitability and Growth of some Manufacturing Industries' highlighted the relationship between profitability measured as profit/net worth and profit/net assets and size expressed as total sales for 7 Indian manufacturing industries viz. cotton spinning and weaving, cotton ginning, jute textiles, paper and pulp, sugar and aluminium for the period 1962-1972. The relationship between size and profitability was observed in cotton spinning industry, jute textile industry, sugar and brewing industry and aluminium industry while in case of cement and cotton spinning and ginning industry no such relationship was observed.

**Asha Jain (1981)** in 'Price-Cost Margin in Indian Manufacturing Industries: An Econometric Analysis' analysed the price cost margin over time in the 2 digit Indian Industries. Price-Cost margin was used as a measure of profitability. Cost factors
emerged as significant determinants of profitability while the structural variables like concentration.

Most of the research studies conducted were related to the study of only individual area of financial management such as capital structure, working capital management. Determinants of corporate dividend, determinants of profitability etc., It is obvious that there has been hardly any research regarding the complete aspect of financial management of a manufacturing company.

The present study entitled, “Financial Management in NRB Bearings Company Limited”, therefore, has been taken up with a view to fill the above research gap. It is hoped that the study shall highlight the importance of an efficient financial management of the company and help to point out the possible shortcomings of the various aspects of financial management of the company so that they can be corrected to make the company financially more prudent.

Realistic suggestions of the study may prove helpful in improving the financial management of the other companies in the industry.

Last, but not the least is that it may prove to be an effective tool in improving the financial management of corporate sector, which in turn will accelerate the growth of Indian economy. An
efficient financial management is of crucial importance in the
development of all economies, especially, developing economies like
India, which generally face the problem of an inefficient utilization
of resources available to them and also the scarcity of finance,
which is the productive resource.

1.2.3 Objectives of the study

- To study the capital structure management.
- To assess the fixed Assets management.
- To evaluate the working capital management.
- To analyse the dividend policy.
- To examine the profitability.
- To find the relationship between Net worth and fixed assets,
  Long-term funds and fixed assets, Current liabilities and
  Current assets, Paid-up capital and Dividend, Net sales and
  Net profit.
- To give suggestions for the improvement of financial
  management.

1.2.4 Formulation of Hypothesis

- There is no significant relationship between Net worth and
  fixed assets.
- There is no significant relationship between Long-term funds
  and fixed assets.
• There is no significant relationship between Current liabilities and Current assets.

• There is no significant relationship between Paid-up capital and Dividend.

• There is no significant relationship between Net sales and Net profit.

1.2.5 Methodology

The present research is an Analytical study of Financial Management of NRB Bearings Company Limited. The various aspects of financial management of the company are analysed with the help of the information contained in the financial statements of NRB Bearings Company Limited. Secondary data are used in the study. Income statements, Balance sheets, Annual Reports of the NRB Bearings Company Limited, concerned books, Magazines, Articles are referred for the collection of secondary data. Data provided in www.indianinfoline.com have also been used.

1.2.6 Tools used

There are different tools such as Comparative Financial Statement, Common-Size Financial Statement, Ratio Analysis etc., available for the purpose of analysis and interpretation of financial statements. In this study, common-size Balance Sheet and Ratio analysis are used as tools for the purpose of analysis and interpretation. Statistical data are presented with the help of
diagrams and graphs. Statistical tools such as averages, percentages are used to quantify the data.

To find the relationship between Net worth and fixed assets, Long-term funds and fixed assets, Current liabilities and Current assets, Paid-up capital and Dividend, Net sales and Net profit of NRB Bearings Company Limited, Karl Pearson’s co-efficient of correlation is used. For testing the significance of correlation co-efficient, the t-test is applied.

1.2.7 Sampling

There are 23 stock exchanges in India. The Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) dominate the Indian Capital market. The Bombay stock Exchange is purposively selected since it, is the oldest and has the largest number of companies listed on it. There are six Bearing companies listed on the BSE. NRB Bearings Company Limited, Mumbai has been selected for the study from the official stock exchange Directory published by the BSE by adopting simple random sampling technique.

1.2.8 Limitations of the study

The present study is subject to certain limitations, which are presented below:

- The research limits itself to the study of financial management covering capital structure Management, fixed
assets management, working capital management, dividend policy, and profitability of NRB BEARINGS COMPANY LIMITED. All other aspects of financial management have been excluded.

- The study has been limited to a period of 10 years from 1993-94 to 2002-2003.
- The study has taken into account four dependent variables affecting Debt-Net worth ratio while there can be some other significant variable affecting the Debt-Net worth ratio of NRB Bearings Company Limited.
- There may be some significant external variables which have affected Debt-Net worth ratio of NRB Bearings Company Limited such as Government Policy Regulation of the Securities and Exchange Board and the like which have not been taken into account for the present study.

1.2.9 Chapterisation

The contents of the study fall into nine chapters. They are:

CHAPTER I
The introductory chapter deals with the overview of financial management and design of the study- statement of the problem, objectives of the study, review of literature, formulation of hypothesis, methodology, tools used, sampling technique and limitations of the study.

CHAPTER II
This chapter contains profile of NRB Bearings Company Limited.
CHAPTER III

This chapter presents an analytical discussion regarding the capital structure management.

CHAPTER IV

This chapter analyses the fixed assets management.

CHAPTER V

This chapter examines the various aspects of working capital management.

CHAPTER VI

This chapter discusses the dividend policy.

CHAPTER VII

This chapter investigates the profitability of NRB Bearings Company Limited.

CHAPTER VIII

This chapter deals with testing of hypothesis.

CHAPTER IX

The last chapter RESUME’ consolidates all the observations made in the previous chapters.