Chapter VI
RECEIVABLES MANAGEMENT

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RECEIVABLES MANAGEMENT

Management of receivable arises only when merchandise is sold on credit. Where a company makes all sales for cash, the question of receivable management does not arise. Accounts receivables constitute a significant portion of the total current assets of the business next after inventories. They are a direct consequence of 'trade credit' which has become as essential marketing tool in modern business.

The main purpose of maintaining receivables is to plush up sales and ultimately profit by allowing certain credit to the potential customers who otherwise may find it difficult to make cash purchases. Moreover, receivables being a near-cash item, improve the liquidity position of an enterprise. "When goods or services are sold under arrangement permitting the customer to pay for them at a later date, the amount due from the customer is recorded as an account receivable."¹

The receivable represent an important component of current assets. They occupy the second important place after inventories and constitute a substantial portion of current assets in most of the business enterprises. It is considered as an essential marketing tool, acts as a bridge for the
movement of goods through production and distribution stage to customers finally.

**Meaning of Receivables**

Receivables are defined as the "debt owned to the firm by customers arising from sales of goods or services in the ordinary course of business." Trade credits generate receivables which the firm is expected to collect in near future. According to Robert N. Anthony, "Account receivables are amount owned to the business enterprises usually by its customers. Sometime item is broken down into trade accounts receivables and other account receivable; the former refers to amounts owned by customers and the latter refers to amount owned by employees and others." In the words of John J. Hampton, "Receivables are assets accounts representing amounts owned to the firm as a result of sales of goods/services in the ordinary course of business."

They therefore represent the claims of a firm against its customers and carried to the assets side of the balance sheet under titles such as book debts, accounts receivables, trade receivables and customer receivables. The receivables arising out of credit, have three basic characteristics. Firstly, they involve an element of risk which should be carefully analyses because the cash payment has yet to be received.
Secondly, they are based on the economic value. To the buyer, the economic value in goods or services passes immediately at the time of sales, while the seller expects an equivalent value to be received later on. Thirdly, it implies futurity. The cash payment for goods or services received by the buyer will be made by him in a future period.

**Receivables Management**

Receivables are a main part of current assets and they are direct result of credit sales. Credit sale is resorted by the company to increase its sales which ultimately results in an increase of the profits earned by the company. At the same time, selling goods on credit results in blocking of funds in accounts receivable. Moreover, increase in receivables also increase chances of bad debts.

Management of account receivable may be defined as “the process of making decisions, relating to the investment of funds in the assets which will result in maximizing the overall return on investment of the firm. The objective of receivables management is reached when the return on investment in further funding of receivables is less than the cost of funds raised to finance that additional credit.” in other words receivables management may be defined as the process of making decision relation to the investment of funds in the assets which will result in maximising the overall return on the investment of the company.
Objective of Receivables Management

The basic objective of receivables management is to maximize the overall return on investment. The purpose of credit management is neither to maximise sales nor to minimise the risk of bad debts. If the objective is to maximise sales, then the firm should sell on credit to all. On the other hand, if minimisation of bad-debt risk was the aim, then the firm would not sell on credit to anyone.

The objective of receivable management is "to promote sales and profit until that point is reached where the return on investment in future funding of receivables is less than the cost of funds raised to finance that additional credit (i.e., cost of capital)." In fact, the receivables in an organisation must be managed in a way that the sales are expected to an extent where risk remains within the acceptable limits. Therefore, the goals of receivables management are us under:

1- To maintain optimum volume of sales.
2- To maintain an optimum level of investment in receivables.
3- To control the cost of credit and keep it at the minimum.
4- To keep down the average collection period.

As the above goals seem to be a little contradictory, only a balance approach in their conflicting aspects can help to achieve
the desired result. In the worlds of J.N. Vyas, “other important aspects of managing accounts receivables are credit term, discount policy and collection etc.”

**Characteristics of Maintaining Receivables**

The basic goal of the receivables management is to maximize the value of the enterprise by striking the golden mean as among liquidity, risk and profitability. The main characteristics of maintaining receivables are as under:

**(1) Expansion of Sales**

Though it is a goods policy to effect the cash sales to the maximum possible extent, but it may not always be possible to do so the customers as they may not be willing to buy goods on a cash-down basis. They have, therefore, to be encouraged with the offer of credit terms. In the absence of such an offer, a firm may not be able to sell goods. Receivables enable it to push its sales effectively in the market.

**(2) Increase in Profits**

If the company increases level of its sales, the profit will also increase because if sales are higher then the additional cost associated with such an increase will also be higher. According to Joseph L. Wood,
"The purpose of any commercial enterprise is the earning of profit. Credit is itself utilized to increase sales, but sales must return a profit."  

(3) Maintain Liquidity:-  

The concept of operating cycle explains that receivable is one step ahead of inventories. So, it facilitates to maintain liquidity in the business because it can be easily converted into cash, wherever required.  

(4) Cost of Collection  

A company may need to appoint several persons of engage collection agencies to remind and even call on delinquent customers to make payments. A number of collection letters and reminders usually follow, which eventually increase the cost of collection. Because an effective maintenance of receivables depends ultimately upon the effective collection of receivables.  

(5) Meeting Competition  

A company may have to resort to granting credit facilities to its customers because of similar facilities being granted by the competing companies. This to avoid the loss of sales from customers who would be elsewhere if they did not receive the expected credit.
Determination of Credit Policy

Determination of strong credit and collection policies is the first step in efficient receivables management. Credit policy is an important part of the overall strategy of a firm to market its products and spread its services. Credit policy of a firm lies in matching incremental profit arising from increased credit sales with incremental cost associated with receivables. Once the credit policy of a firm is decided, the level of receivables will depend on the volume of credit sales which in its turn is conditioned by the general level of business activity and changes in the proportion of credit to cash sales.

In the words of Mayo, "if the firm accepts credit it is accepting a promise of payment in the future. The firm must determine its willingness to accept credit sales. As in all financial, these factors involve the potential benefit versus the costs associated with the policy." In the words of Stevenson, "when a firm sells a product to a customer and accepts, instead of a product to a customer and accepts, instead of cash payment, the customers promise to pay on a future date, the firm has extended credit to the customer and holds in return an account receivables. Extending credit presents financial risks, which must be matched against the marketing benefits anticipated. If too much credit is
extended to poor credit risks, the organisation may face a liquidity crisis from large amounts of uncollectable accounts.”

The Credit policy of a firm is influenced by many factors, such as, the type of products sold, quality of customers, profit margin, general economic conditions, competition etc. Products of low unit price can generally be sold to customers representing greater credit risk than selling items of high unit value. There is greater turnover of collection, involving payment of small amount. Very careful checking of credit is required while making a very large sale to new customers. “Effective handling of a firm’s accounts receivables, based on sound credit policy, has three main parts:

(i) Proper classification of credit customers;
(ii) Appropriate limits to both amount and duration of credit to each class of customers;
(iii) Effective collection practices.”

The business firm must concern not only with the establishment of credit standards but with the correct use of these standards in making decisions. Appropriate source of credit information and methods of credit analysis must be developed. The important aspects of credit policy should be identified before policy is important for the successful management of
accounts receivables. Poor implementation of a good credit policy or successful implementation of a poor credit policy will not produce optimum results.”13 The three important decision variables of credit are:-

(a) Credit Terms

The conditions under which the firm sells on credit to its customers are called credit terms. Credit terms specify the length of the credit period and size of the cash discount offered for quick payment. There is no legal obligation on a firm to set terms of sale. Each trade has its customary terms of credit, which frequently dictate the nature of the credit terms to be offered by after. Selection of credit customers should be made on the basis of the amount of bad debts losses, which a firm can absorb during the span of any given period. In the words of N.T. Backman, “the amount of funds tied up in receivable is directly related to the limit of credit granted to customers. These limits should never be ascertained on the basis of the subject's own requirements, they should be based upon the debt paying power of the customer and his previous records of the order and payment.”14 Thus, credit terms specify the repayment terms of receivables. Credit terms have three components: credit period, cash discount period and cash discount.

(i) Credit Period
The first and main component of credit terms is the credit period. The time duration for which credit is extended to the customers is referred to as credit period. Usually the firms can extend credit for longer duration to increase sales but the credit period of the firm is governed by the industries norms. According to Martin H. Seiden, "credit is the duration of time for which trade credit is extended, during this period the customer must pay the overdue amount. The length of credit period directly affects the volume of investment receivables and indirectly, the net worth of the company. A long credit period may boost sales but it also increases investment in receivables and lowers the quality of trade-credit." The period of credit for each individual customers should therefore be worked out after considering his financial position.

(ii) Cash Discount

Cash discount is a powerful device to speed up collections of receivables. The cash discount has implications for the volume of sales, average collection period, bad debt expenses and profit per unit. In taking a decision regarding the grant of cash discount, the management has to see what happens to these factors if it initiates, increase or decrease the discount rate. The change in the discount rate might have both positive and negative effects.
According to Theodore N. Beckman, "cash discount is a premium on payment of debts before due date and not a compensation for the so-called prompt payment."16 "To make cash discount an effective tool of credit control, a business enterprise should also see that it is provided allowed to only those customers who make payments at due date."17

Finally, the credit terms of a business enterprise should lay stress upon the receipts of securities for the credits to be granted.

(b) Credit Statement

The credit statement followed by the business concern has an impact on sales and receivables. The sales and receivables levels are expected to be relatively low if the concern has relatively tight credit standards. On the contrary, when the sales and receivables levels are likely to be high, if the credit standard of the concern is relatively loose.

"Credit standards or the maximum risk of acceptable credit accounts define the minimum criteria for the extension of credit to a customer. Such as credit rating, credit references, average payment period and certain financial ratios provide a quantitative basis for establishing and enforcing credit standards."18 In general, a firm's liberal credit standards tend to push sales up by attracting more customers.
(c) Collection Policy

A firm needs collection policies all customers do not pay the firm’s bills in time. The purpose of collection policy should be to speed up collection of dues. The chances of bad debts also increase as the collection is delayed. A firm should follow clear-cut collection procedures to obtain payment of post due accounts. According to R.K. Mishra, “A collection policy should always emphasize promptness, regularity and systematization in collection efforts. It will have a psychological effect upon the customers i.e., it will make them realize the attitude of the seller towards the obligation granted.”

“As a general rule, the more quickly accounts receivables are converted into cash the greater will be the profits.” Collection becomes a problem when payments are not received on due dates it should wait a reasonable period of time before initiating collection procedures. If the firm pushes its customers too hard to pay their business elsewhere. The collection procedures/ processes can become expensive. So, a balance must be struck between the costs and benefits of different collection policies.

As essential component of a sound credit policy in an effective collection policy. It is essential to keep a watch over outstanding account and to take action for recovery to over dues.
Evaluation of Credit Management

Evaluation of credit management can be made by analysing the size and composition of receivables and the efficiency of granting credit and collection of post due account.

A successful credit management must be the effective use of capital invested, ensured satisfactory collection period and comparatively slow growth in receivables as against sales. Their success can be gained by actual performance. The following points have been applied in the present work to evaluate the performance of receivables management in the Steel Industry in India. A successful credit management should:-

(i) Minimise the cost of investment in “book debts”,

(ii) Keep bad debts losses to the minimum,

(iii) Obtain maximum revenue,

(iv) Have a satisfactory collection period,

(v) Deep servicing cost for book debts to the minimum

Control of Receivables

Control of receivables requires first of all a system of credit control. Information must be obtained from which it can be decided to whom it is
justifiable to afford credit and to what extent. When a customer wishes to place an order, a check will be made against the authorised terms the current state of the customers balance to ensure that the order can be safely accepted and delivered.

"Sometimes export sales are onward variety of term. In such cases segregation by the terms of credit into separate ledger totals may be helpful. Sometimes large contracts payables payable by installments involve credit for several years. The price fixed in these cases should be sufficiently high; not only cover export credit insurance, but also to cover a satisfactory rate of interest on the diminishing balance of debt expected to be outstanding during the credit period."\(^{21}\) In order to analyze the efficiency of granting credit and collecting past due accounts, the following measures are commonly employed:-

(a) Bad debts losses;
(b) Average collection period; and
(c) Ageing schedule.

**Size of Receivables**

Receivables in the steel industry comprise the total of sundry debtors and loans and advances. The table 6.1 shows the sizes of receivables and their trend percentage in all five companies of steel industry in India from 2005-06 to 2011-12.
### Table 6.1

**Size of Receivables in steel industry in India.**

**From 2005-06 to 2011-12**

<table>
<thead>
<tr>
<th>Year</th>
<th>Tata</th>
<th>Bhushan</th>
<th>JSW Ispat</th>
<th>Essar</th>
<th>Jindal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs.</td>
<td>Trend</td>
<td>Rs.</td>
<td>Trend</td>
<td>Rs.</td>
</tr>
<tr>
<td>2005-06</td>
<td>2816.78</td>
<td>100</td>
<td>470.38</td>
<td>100</td>
<td>2044.58</td>
</tr>
<tr>
<td>2006-07</td>
<td>2533.86</td>
<td>89.9</td>
<td>646.21</td>
<td>137</td>
<td>1810.08</td>
</tr>
<tr>
<td>2007-08</td>
<td>4687.58</td>
<td>165.3</td>
<td>907.40</td>
<td>192.9</td>
<td>2047.48</td>
</tr>
<tr>
<td>2008-09</td>
<td>35126.32</td>
<td>124.0</td>
<td>1262.89</td>
<td>268.48</td>
<td>2037.50</td>
</tr>
<tr>
<td>2009-10</td>
<td>6520.59</td>
<td>231.5</td>
<td>1391.67</td>
<td>295.9</td>
<td>2441.64</td>
</tr>
<tr>
<td>2010-11</td>
<td>7113.38</td>
<td>252.5</td>
<td>1691.31</td>
<td>359.6</td>
<td>2520.12</td>
</tr>
<tr>
<td>2011-12</td>
<td>17242.07</td>
<td>612.11</td>
<td>1821.46</td>
<td>387.27</td>
<td>2784.99</td>
</tr>
</tbody>
</table>

Source: Annual Report and Accounts of Tata, Essar, Bhushan, JSW and Jindal Steel Company from 2005-06 to 2011-12

Table 6.1 indicates a fluctuating trend in the size of receivables of Tata steel company in the period under study. It was highest to Rs. 35126.32 Cr. in 2008-09 and lowest in 2005-06 as Rs. 2816.78 Cr.

In the case of Bhushan steel co. the receivable were Rs. 1821.46 Cr. in 2011-12 against Rs. 470.38 Cr. in the year 2005-06 due to increase in size trend. In the case of JSW Ispat steel company the size of receivable showed Cr. in 2005-06 as compare to Rs. 2784.99 Cr. in 2011-12. In the case of Jindal Steel company trend showed an increasing nature because in the year 2005-06 it was Rs. 745.45 Cr. and in 2011-12 it reached to Rs. 5944.45 Cr. and in the year 2009-10 there was a great increase in receivables.
Graph 6.1
Size of Receivables in steel industry in India.
From 2005-06 to 2011-12
Above analysis reveals that the there was continuous increase in Receivable of Jindal steel company and Bhushan steel company. But receivable in Tata steel company and JSW Ispat steel company was fluctuating during the period under study. In Bhushan steel company, increase in receivable was due to increase in the level of sales as well as loans and advance given to the employs. In Jindal Steel company, increase in loan and advance was the important factor for increase in the amount of receivables.

Size of Loan and Advances.

Loans and advance are important part of receivable and main part of current assets. The table 6.2 shows the size of loan and advances and trend percentage of steel industry in India.

Table 6.2
Size of Loan and Advances in steel industry in India.

From 2005-06 to 2011-12

<table>
<thead>
<tr>
<th>Year</th>
<th>Tata</th>
<th></th>
<th>Bhushan</th>
<th></th>
<th>Essar</th>
<th></th>
<th>Ispat</th>
<th></th>
<th>Jindal</th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Rs.</td>
<td>Trend</td>
<td>Rs.</td>
<td>Trend</td>
<td>Rs.</td>
<td>Trend</td>
<td>Rs.</td>
<td>Trend</td>
<td>Rs.</td>
<td>Trend</td>
</tr>
<tr>
<td>2005-06</td>
<td>2234.96</td>
<td>100</td>
<td>130.94</td>
<td>100</td>
<td>NA</td>
<td>-</td>
<td>977.59</td>
<td>100</td>
<td>572.54</td>
<td>100</td>
</tr>
<tr>
<td>2006-07</td>
<td>1994.46</td>
<td>89.2</td>
<td>241.73</td>
<td>184.6</td>
<td>2478.49</td>
<td>100</td>
<td>1215.95</td>
<td>124.4</td>
<td>591.01</td>
<td>103.2</td>
</tr>
<tr>
<td>2007-08</td>
<td>4025.95</td>
<td>180.1</td>
<td>368.50</td>
<td>281.4</td>
<td>2284.19</td>
<td>92.1</td>
<td>1402.46</td>
<td>143.5</td>
<td>785.94</td>
<td>137.3</td>
</tr>
<tr>
<td>2008-09</td>
<td>34582.84</td>
<td>1547.3</td>
<td>645.51</td>
<td>492.9</td>
<td>1961.42</td>
<td>79.1</td>
<td>1457.67</td>
<td>149.1</td>
<td>1453.72</td>
<td>253.9</td>
</tr>
<tr>
<td>2009-10</td>
<td>5884.61</td>
<td>263.3</td>
<td>771.85</td>
<td>589.5</td>
<td>2387.92</td>
<td>96.3</td>
<td>1881.55</td>
<td>192.5</td>
<td>3278.90</td>
<td>572.7</td>
</tr>
<tr>
<td>2010-11</td>
<td>6578.55</td>
<td>298.8</td>
<td>957.39</td>
<td>731.2</td>
<td>3094.80</td>
<td>124.9</td>
<td>1761.15</td>
<td>180.1</td>
<td>3164.54</td>
<td>552.7</td>
</tr>
<tr>
<td>2011-12</td>
<td>16814.04</td>
<td>752.3</td>
<td>1337.93</td>
<td>1021.8</td>
<td>NA</td>
<td>-</td>
<td>2390.42</td>
<td>244.5</td>
<td>5207.33</td>
<td>909.5</td>
</tr>
</tbody>
</table>

Source-Annual Report and Accounts of Tata, Essar, Bhushan, JSW and Jindal Steel Company from 2005-06 to 2011-12

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Table 6.2
Size of Loan and Advances in steel industry in India.
From 2005-06 to 2011-12
The table 6.2 shows that in Tata steel company the size of had an increasing trend except the year 2004-10 when there was a great downfall from 1547.3 to 263.7 percent. The size of loan was highest in the year 2008-09 Rs. 34582.84 cr. the Trend percentage was highest in 2008-09 as 1547.3 percent and lowest in 2006-07 as 89.2 percent.

In the case of Bhushan steel company, the loans and advances trend percentages in table 5.2 reveals an increasing trends throughout the period of study. It was 100.00 percent in 2005-06. It increase to 1021.8 percent in 2011-12. In absolute rupee term, the total amount invested in load and advances was highest Rs. 1337.93 Cr. in 2011-12 and the lowest Rs. 130.94 Cr. in 2005-06.

In The case of Essar steel company tend percentage was showing a fluctuating nature. It was started with 100.00 percent in 2005-06 and reached to 124.9 percent in 2010-11. It was lowest in the year 2008-09 by 79.1 percent and highest in 2010-11 by 124.9%.

In the case of JSW Ispat steel company the trend percentage of Loan and Advances reveals an increasing trend. It was Rs. 977.59 Cr. in 2005-06 as compare to Rs. 2390.42 Cr. in 2011-12. In the case of Jindal steel company the trend of loan and advances trend it was Rs. 572.54 Cr. in 2005-06 as compare to 5207.33 Cr. in 2011-12.
It can be concluded that all five companies had increased the amount of investment in loan and Advances in the period of study.

**Percentage of Loans and Advance to Current Assets in Steel Industry in India**

Share of loans and advances in total current assets has been calculated to have an idea as to what extent they have concerned the total current assets of the respective individual units. It is observe from the following table.
Table 6.3
Percentage of Loans and Advance to Current Assets in Steel Industry in India
From 2005-06 to 2011-12

<table>
<thead>
<tr>
<th>Year</th>
<th>Tata Steel</th>
<th>Bhushan Steel</th>
<th>Essar Steel</th>
<th>JSW Steel</th>
<th>Jindal Steel</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Loan &amp; Advance</td>
<td>%</td>
<td>Loan &amp; Advance</td>
<td>Current Assets</td>
<td>%</td>
</tr>
<tr>
<td>2005-06</td>
<td>2234.96</td>
<td>2700.90</td>
<td>82.7</td>
<td>130.94</td>
<td>931.80</td>
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<tr>
<td>2006-07</td>
<td>1994.46</td>
<td>3002.50</td>
<td>66.4</td>
<td>241.73</td>
<td>890.76</td>
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<td>2007-08</td>
<td>4025.95</td>
<td>3411.12</td>
<td>118.0</td>
<td>368.50</td>
<td>1311.38</td>
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<tr>
<td>2008-09</td>
<td>34582.84</td>
<td>3613.46</td>
<td>957.0</td>
<td>645.51</td>
<td>1768.39</td>
</tr>
<tr>
<td>2009-10</td>
<td>5884.61</td>
<td>4580.03</td>
<td>128.5</td>
<td>771.65</td>
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<tr>
<td>2010-11</td>
<td>6678.55</td>
<td>4012.88</td>
<td>15.9</td>
<td>957.39</td>
<td>2797.01</td>
</tr>
<tr>
<td>2011-12</td>
<td>16814.04</td>
<td>4894.55</td>
<td>343.5</td>
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<td>3681.57</td>
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<td>244.57</td>
<td>30.76</td>
<td>86.38</td>
<td>94.43</td>
<td>128.67</td>
</tr>
</tbody>
</table>

Source: Annual Report and Accounts of Tata, Essar, Bhushan, JSW and Jindal Steel Company from 2005-06 to 2011-12
Table 6.3 indicates, the percentage of loans and advances to total current assets in Tata steel company which fluctuated during the period of study. It was 82.7 percent in 2005-06, which declined to 66.4 percent in 2006-07. Its increased from 18.0 percent in 2007-08 and again in 957 percent in 2008-09 again it was declined in next two years. It was showing an increase in trend in 2011-12 again with 343.5 percent.

It reveals that the percentage of loan and advances to total current assets in Bhushan steel company had a fluctuating trend. In the first year of study period it was showing an increase. It was 14 percent in 2005-06 as compare to 39.1 percent in 2009-10. In 2010-11 it was declined and came upto 34.2 percent. In 2011-12 it was raised and reached to 36.2 percent.

In the case of Essar steel company it was showing fluctuating trend. It was highest in 2006-07 with 121.5 percent as compare to 63.5 percent in 2010-11.

In the case of JSW Ispat steel company, the percentage of loan and advance to total current assets was showing a fluctuating trend. It varied from 180 percent in 2005-06 to 64.8 percent in 2010-11.

The Jindal Steel company also had a fluctuate trend. It was started with 125 percent in 2005-06 and came to 174.8 percent in 2011-12. The highest percentage was 192.17 percent in 2009-10 and lowest was 66
percent in 2006-07.

The combined average of loan and advances to current assets in all the units was 116.96 percent. The average percentage of loan and advances to current assets exceeded the combined average in case of Tata steel company and Jindal steel company. It indicated investment of more funds in loan and advance by these companies in comparison to Bhushan steel company, Essar steel company and JSW Ispat steel company.

**Percentage of Sundry Debtors to total Current Assets**

Table 5.4 shows the percentage of sundry debtors to current assets from 2005-06 to 2011-12 in selected steel industry in India.

**Table 6.4**

Percentage of sundry debtors to current assets in steel industry in India

From 2005-06 to 2011-12

<table>
<thead>
<tr>
<th>Year</th>
<th>Tata steel</th>
<th>Bhushan steel</th>
<th>Essar steel</th>
<th>JSW Ispat</th>
<th>Jindal steel</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>21.54</td>
<td>36.43</td>
<td>NA</td>
<td>60.36</td>
<td>37.78</td>
</tr>
<tr>
<td>2006-07</td>
<td>17.97</td>
<td>45.41</td>
<td>26.47</td>
<td>36.62</td>
<td>33.49</td>
</tr>
<tr>
<td>2007-08</td>
<td>18.52</td>
<td>41.09</td>
<td>18.74</td>
<td>33.02</td>
<td>31.70</td>
</tr>
<tr>
<td>2008-09</td>
<td>15.09</td>
<td>24.91</td>
<td>14.01</td>
<td>29.71</td>
<td>21.12</td>
</tr>
<tr>
<td>2009-10</td>
<td>13.89</td>
<td>31.39</td>
<td>15.91</td>
<td>28.78</td>
<td>22.94</td>
</tr>
<tr>
<td>2010-11</td>
<td>10.84</td>
<td>26.24</td>
<td>9.67</td>
<td>27.94</td>
<td>31.11</td>
</tr>
<tr>
<td>2011-12</td>
<td>8.74</td>
<td>13.13</td>
<td>NA</td>
<td>16.19</td>
<td>24.75</td>
</tr>
</tbody>
</table>

Source-Annual Report and Accounts of Tata, Essar, Bhushan, JSW and Jindal Steel Company from 2005-06 to 2011-12
Graph 6.4

Percentage of sundry debtors to current assets in steel industry in India

From 2005-06 to 2011-12
Table 6.4 reveals that the percentage of sundry debtors to current assets was fluctuating during the period of study in Tata steel company. It was highest in 2005-06 as 21.54 percent and lowest in 2011-12 as 8.74 percent. In other words we can say that it was showing a decreasing trend except the year 2007-08 in which it was slightly increased by 0.55 percent.

In the case of Bhushan steel company the percentage of sundry debtors to current assets was 36.43 percent in 2005-06 and 13.13 percent in 2011-12. It was highest in 2006-07 as 45.41 percent and lowest in 2011-12 as 13.13 percent. In overall we can say that it was showing fluctuating trend.

In the case of Essar steel company it was showing a decreasing trend because it was highest by 26.47 percent in 2006-07 and afterward it was declined by 18.47 percent in 2007-08, 14.01 percent in 2008-09, 15.91 percent in 2009-10 and 9.67 percent in 2010-11.

Table 6.4 indicate that there was a declining trend in JSW Ispat steel company, of sundry debtors to total current assets. It was started with 60.36 percent in 2005-06 and came to 16.19 percent in 2011-12.

In the case of Jindal steel company the percentage of sundry debtors to current assets had a fluctuating trend throughout the study period. It was 37.78 percent in 2005-06 and came to 24.75 percent in 2011-12. The
The highest percentage was 37.78 percent in 2005-06 and the lowest percentage was 21.12 percent in 2008-09.

**Accounts Receivables Turnover Ratio of Steel Industry in India**

The accounts receivable turnover ratio shows the relationship between sales and account receivables of a company. According to Spiller and Gosman, "The turnover of receivables provides information on the liquidity of the receivables."\(^{22}\) It indicates the speed with which the receivables are converted into cash. It can be calculated by dividing net sales by the accounts receivable.

\[
\text{Accounts Receivable Turnover} = \frac{\text{Net Sales}}{\text{Average Account Receivable}}
\]

The average accounts receivable can be calculated as opening balance of accounts receivable plus closing balance of accounts receivables divided by two. "A higher turnover of accounts receivables indicates quick collection of sundry debtors on one hand and enables the firm to transact a high value of business without corresponding increase in investment in receivables on the other. An increase in the volume of receivables without corresponding increase in investment in receivables and an increase in the volume of receivables without corresponding increase in the total current assets may cause decrease in the volume of investment in others"
The basic objective of the comparison implied in the accounts receivable turnover ratio is to learn how old the accounts are and partly to learn how fast cash will be flow.

Table 6.5
Accounts Receivables Turnover Ratio of Steel Industry in India
From 2005-06 to 2011-12

<table>
<thead>
<tr>
<th>Year</th>
<th>Tata steel</th>
<th>Bhushan steel</th>
<th>Essar steel</th>
<th>JSW Ispat</th>
<th>Jindal steel</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>23.50</td>
<td>7.75</td>
<td>14.10</td>
<td>8.10</td>
<td>11.74</td>
</tr>
<tr>
<td>2006-07</td>
<td>26.99</td>
<td>7.51</td>
<td>12.20</td>
<td>6.08</td>
<td>10.86</td>
</tr>
<tr>
<td>2007-08</td>
<td>29.81</td>
<td>8.12</td>
<td>14.88</td>
<td>12.15</td>
<td>11.37</td>
</tr>
<tr>
<td>2008-09</td>
<td>33.45</td>
<td>7.23</td>
<td>23.73</td>
<td>13.65</td>
<td>17.67</td>
</tr>
<tr>
<td>2009-10</td>
<td>41.29</td>
<td>8.06</td>
<td>30.35</td>
<td>14.50</td>
<td>22.62</td>
</tr>
<tr>
<td>2010-11</td>
<td>46.58</td>
<td>8.31</td>
<td>NA</td>
<td>15.46</td>
<td>14.49</td>
</tr>
<tr>
<td>2011-12</td>
<td>67.93</td>
<td>11.41</td>
<td>NA</td>
<td>14.44</td>
<td>14.04</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>38.51</strong></td>
<td><strong>8.34</strong></td>
<td><strong>19.05</strong></td>
<td><strong>12.05</strong></td>
<td><strong>14.68</strong></td>
</tr>
</tbody>
</table>

Source: Annual Report and Accounts of Tata, Essar, Bhushan, JSW and Jindal Steel Company from 2005-06 to 2011-12
Graph 6.5
Accounts Receivables Turnover Ratio of Steel Industry in India
From 2005-06 to 2011-12
The accounts receivables turnover ratio of steel industry in India has been shown in the table 6.5 Tata steel company had an increasing trend in the ratio throughout the period of study from 2005-06 to 2011-12. It was 23.50 times in 2005-06 which increased to 67.93 times in 2011-12.

In Bhushan steel company had a highly fluctuating trend throughout the period of study. The ratio was high as 11.41 times in 2011-12, it was very high due to increase in amount of loan and advances in 2011-12 and it was lowest in 2008-09 as 7.23 times.

The Accounts receivables turnover ratio in Essar steel company was 14-10 times in 2005-06 which showed a fluctuating trend and reached to 30.35 times in 2009-10.

In case of JSW Ispat steel company the ratio was showing a fluctuating trend. It was started with 8.10 times in 2005-06 and it was decrease in 2006-07 as 6.08 times. Further in next four year it was increased but again in 2011-12 it decreased and came to 14.44 times.

In Jindal steel company trend of accounts receivables turnover ratio was not stable, means showing fluctuating nature. It was highest by 22.62 times in 2009-10 and lowest by 10-86 times in 2005-07.
As regards inter firm comparison, the average accounts receivables turnover ratio was 38.51 times in Tata steel Co., 8.34 times in Bhushan steel company, 19.05 times in Essar steel company, 12.05 times in JSW Ispat steel company and 14.68 times in Jindal steel company, among all the selected steel companies, the turnover was highest in Tata steel company and lowest in Bhushan steel company as 8.34 times. A very low turnover shows slackness of collection efforts and inefficient receivable management.

The combined average of accounts receivables turnover ratio was 18.53 percent. The average receivables turnover of Tata steel company and Essar steel company is higher these combined average and rest of the companies i.e. Bhushan steel company, JSW Ispat steel company and Jindal steel company was below the combined average, management of these. Companies should try to credit control efficiently.
Reference


18. Ibid.


