Chapter-VIII

CONCLUSION AND FINDING
Chapter VIII

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CONCLUSION

The concept of working capital is equally important to economist manufacturer, industrialist, businessmen and accountant, the performance of the enterprise is also measured in the form of utilization of capital. No business can be run, the businessmen gets frustration and exhaustion in case of loss.

Working capital as the amount of balance of current assets over current liabilities. Profit is important for an economist as well as for an industrialist.

The analysis of the data of different companies/sample companies shows the following conclusions:-

Chapter -1

In earning a reasonable rate of return the functional complementary, proportional and technical roles of working capital plays a great part. Besides this, the presence of an adequate working capital also helps in maintaining and earning a goal reputation in the business world. Analysis of working capital should concern itself with its
circulation, liquidity, level and structured health. The working capital position of a company can be analysed by preparing a funds flow statement or conducting various ratio tests. Of the two the letter is the better and of greater importance since it deals with every aspect of the working capital analysis and it is useful for both Internal Management and External Management.

The salient aspect of working capital management has become an integral Part of corporate. Planning in business. Management of short term assets and short term services of finance is described as working capital management or current Assets Management. In fact management of working capital is similar to that of fixed Assets management in the sense that in both the case and a firm analyses their effects on its profitability and risk. However, fixed assets management and working capital management differ in three important ways. Firstly, in managing fixed assets time factor is very important, secondly a large holding of current assets especially cash, strengthens a firm's liquidity position, but also reduces the overall profitability. Thirdly though the levels of fixed as well as current assets depend upon expected sales, it is only current assets, which can be adjusted with sales fluctuations in the short run.
Chapter - 2

In research methodology various methods and techniques are used for estimating working capital and founded some facts. Research work based on secondary and primary data.

Chapter - 3

In this chapter, we have concluded from the observation of the trend value or trend of working capital in sample companies of the steel industry, that Tata Steel Company has the greatest trend of working capital in the steel industry. Whereas Jindal Steel Company and Bhushan Steel Company have good or average trend of working capital. Essar and JSW Ispat Steel Company has the lowest trend of working capital. This means there is not proper utilization of working capital in both companies.

After the analysis of working capital trend of selected steel companies, we can conclude that Tata Steel Companies. We can conclude that Tata Steel Company had fluctuating trend of working capital during the study period, as in 2005-06 it was base years and as compare to base year it was decreasing in 2006-07 by 97.80 and in next two years it was increase by 326.14% and 1450.98 in 2007-08 and in 2008-09 then there was sudden fall in 2009-10 in working capital trend and it came down to 15.73%. After that it was increased and reached to 58.93% in 2011-12.
Where as Essar Steel Company had lowest working capital trend in 2007-08 as 14.94% and highest working capital trend in 2011-12 as 270.15% and it was lower as compare to Tata Steel Company.

Bhushan Steel Company had increasing working capital trend during the study period. It was 99.77% in 2006-07 and increased to 377.59% in 2011-12.

As compare to Bhushan Steel Company JSW Ispat Steel Company had a fluctuating trend of working capital during the study period. It was lowest by 10.61% in 2009-10 and was highest in 2011-12 as 99.03% which was lowest among all the selected steel companies.

During the study period Jindal Steel Company had a fluctuating working capital travel it was lowest by 48.71 in 2010-11 and highest in 2011-12 as 942.36. It was also the highest working capital trend among all the selected companies in 2011-12.

In combined we have conducted that Jindal Steel Company and Bhushan Steel Company, Tata Steel Company these three are managing their current assets well but JSW Ispat steel company has to take some effective steps to improve their working capital travel.
Chapter- 4

The analysis of the Inventory turnover ratio of different sample companies shops the following conclusion. Inventory constitutes major component of working capital. Inventory is nearly 74% of total current assets in the case of Tata Steel Company but in case of Jindal Steel Company, Essar Steel Company and Bhushan Steel Company. It is near about 60-68 percent and lowest percent is in JSW Ispat Steel Company. The highest percentage of raw material inventory was in Tata Steel Company and highest percentage of finished goods inventory was in Bhushan Steel Company.

On the basis of Raw Material Inventory travel in steel industry we have observed that the share of raw material to total inventory was lowest in Essar Steel Company which was 30.73 percent on an average of during the study period and the highest in Tata Steel Company which was highest by 63.77 percent.

Steel companies should keep good percentage of raw material because the complete process of steel manufacturing depends on raw material.

Where as size of finished goods inventory to total invest is highest as 75.7% in Bhushan Steel Company on Average basis during the study
period and lowest in JSW Ispat Steel company by 45.11 percent.

On the basis of growth of inventory it can be concluded that there was always an increasing trend in Jindal Steel Company and Essar Steel company. But in Tata Steel Company and JSW Ispat Steel Company there was fluctuating trend and again in Bhushan Steel Company there was an increasing trend except the year 2006-07.

Chapter -5

Cost is the most liquid asset among all the liquid asset. A business unit begins with cost, operates with cash during its lifetime and finished leaving cash for its owners. Cash is the most crucial component of the working capital of a firm. Its effective management is the key determinant of efficient working capital management. Cash like the blood stream in the human body, gives vitality and strength to business enterprises, operations is the basis of business solvency. Cost as the most liquidity assets. It is the duty of the finance manager to provide adequate cash to all segments of the organization. he has also to ensure that no funds are blocked in idle cash. Since this will involve cost in terms of interest to the business. A sound cash management scheme. Therefore the balance between the turn objectives of liquidity and cost.

There are two basic objectives of cash management:-
1. To meet cash disbursement needs as per the payment schedules.

2. To minimize the amount locked up as cash balances.

As a matter of fact both the objectives are mutually contradictory and therefore, it is a challenging task for the finance manager, to reconcile them and to have the best in this process.

The comparative analysis of Tata Steel Company, Jindal Steel Company, Bhushan Steel Company, JSW Ispat Steel Company and Essar Steel Company show the following conclusions:

As regards inter-firm comparison in Tata Steel Company, Bhushan Steel Company, JSW Ispat Steel Co. and Jindal Steel Company was fluctuating in relation to fluctuation in sales whereas in Essar Steel Company. There was increase in both cash balance and sales. To have a better working capital management, control over cash in relation to sales in Tata Steel Company, Bhushan Steel Company, JSW Ispat Steel and Jindal Steel Company are suggested and also to maintain the balance of cost in relation with the sales.

On the basis of analysis of average current ratio of selected companies during the study period we can conclude that best proportion of current assets over current liabilities is highest in Tata Steel Company which is 1.52 due to the proper utilization of current assets and Tata Steel
Company is following good operating cycle where as lowest ratio is of Essar Steel Company which is 0.83 due to lack of management of current assets and actually they are not following proper operating cycle. Same conclusion can be drawn from quick ratio analysis which is highest as 1.19 times in Tata Steel Company and lowest in Essar Steel Company as 0.41 times.

On the basis of cash position ratio (average) of selected companies during the study period, results are same Tata Steel Company has greatest position with 5.97 times cash position ratio against current liabilities where as Essar Steel Company has weakest cash position ration as 1.67 times. The reason behind these ratio that Tata Steel Company has great market leadership plus they have good rotation of funds where as Essar Steel Company is not following so much effective cash management policies.

Chapter - 6

After the analysis of receivable management of different sample companies during the study period, we can say that receivable turnover ratio and debt recovery period is great in Jindal Steel Company after that Tata Steel Company has debt recovery ratio where as Essar Steel Company has weakest debt recovery ratio.
Accounts receivables constitute a significant portion of the total current assets of the business next after inventories. They are a direct consequences of "Trade Credit", which has become and essential marketing tool in modern business.

Receivables are a direct result of credit sales. Credit sale is resorted to by a firm to Push up its sales which ultimately result in pushing up the profits earned by the firm. At the same time, selling goods on credit results in blocking funds in accounts receivables.

Additional funds are, therefore, required for the operational needs of the business which involve extra costs in terms of interest. Moreover increase in receivables also increases chances of bad debts. Thus, creating of accounts receivable is beneficial as well as dangerous. the finance manager has to follow a policy which uses cash funds as economically as possible in extending receivables without adversely affecting the chances of increasing sales and making more profits. Management of accounts receivable may, therefore, be defined as the process of making decisions relating to the investment of funds in this assets which will result in maximising the overall return on the investment of the firm.

Thus, "The objective of receivables management is to promote sales and profits untill that point is reached where the return on investment in further funding of receivables is less than the cost of funds
raised to finance that additional credit (i.e. cost of capital)."

After the analysis of size of receivables or receivables trends revealed that 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 receivables was due to increase in the level of sales as well as loans and advance given to the employees. In Jindal Steel Company, increase in loan and advance was the important factor for increase in the amount of receivables.

On the basis of analysis of combined average of loan and advances to current assets we can conclude that average percentage of loan and advances to current assets exceeded the combined average in the 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 Co.

As regards into firm comparison, the average accounts receivable turnover ratio we have concluded that receivable turnover ratio was 38.51 times in Tata Steel Company, 8.34 times in Bhushan Steel Company, 19.05 Times in Essar Steel Company, 12.05 times in JSW Ispat Steel Company. Among all selected companies Bhushan Steel Company has
lowest rate of turnover ratio which is only 8.34 times and which is because of slackness of collection efforts and inefficient receivable management, which can be proved from the combined average of average collection period which was 48 days and the average collection period of Tata Steel Company, Bhushan Steel Company, JSW Ispat Steel Co. and Essar Steel Company was below the combined average. There was only Jindal Steel Co., whose average collection period was higher than the combined average.

Chapter - 7

The technique of Fund Flow analysis is widely used by the financial analysis, credit granting institution and financial managers in working capital analysis. The term 'Flow' means change and, therefore, the term "Flow of Funds" means "changes in funds" or change in working capital. In other words, any increase or decrease in working capital means "Flow of Funds".

Fund flow statement helps the financial analyst in having a more detailed analysis and understanding of changes in the distribution of resources between two balance sheet dates. In case such study is required regarding the future working capital position of the company, a projected fund flow statement can be prepared fund flow statement provides a ready answer to so many conflicting situation such as:-
(a) Why the liquid position of the business is becoming more and more unbalanced inspite of business making more and more profits?

(b) How was it possible to distribute dividends in excess of current earning or in the presence of a net loss for the period?

(c) How the business could have good liquid position inspite of business making losses or acquisition of fixed assets?

(d) Where have the profits gone.

Definite answers to these questions will help the financial analyst in advising his employer/client regarding directing of funds to those channels which will be most profitable for the business.

A business firm has diverse sources for meeting its financial requirements. In selecting a particular source the financial manager has to consider the merits and demerits of each source in the context of such constraint of the firm, from the view point of the time element, the source of finance of a firm in and industry may be classified broadly into two categories, long-term sources and short-term sources. Each of these can further be divided into Internal and external sources. After the analysis of fund flow statement we have concluded that:-

Fund from operation, long term borrowings and issue of shares capital were the major sources of funds in all the units. All the units have
primarily utilised these funds by investing in fixed assets except in Tatra Steel Company. The Tata Steel Company also used their funds in payment of loans during the study period. The funds were also applied for catering to the working capital requirement. Efforts should be made to preserve liquidity through profitability so that the business may meet its maximum capital requirements through self generated funds. Attractive rate of cash discount and other incentives may be introduced by carrying out relative study of the cost of such steps and benefits from early receipts of funds arising on account of such efforts.

The net profit to working capital ratio was the highest in Tata Steel Company. It was 354.85% in 2010-11, where as it was highest as 113.76% in Essar Steel Company in 2007-08. In Bhushan Steel Co. this Ratio was highest as 158.53% in 2005-06. In the case of JSW Ispat Steel Co. and Jindal Steel Co. it was varied between 46.30% to 340.81% during the study period. After the analyses of Net Profit to working capital we can conclude that Tata Steel Co. has good profitability. After the analyses of Net Profit to net worth ratio we find that JSW Ispat Steel Co. has least net profit to net worth ratio as compare to other selected companies.

After the analysis of Net Profit to capital employee ratio we have concluded that profitability of the steel Industry under study period among selected companies had been good except in few years when
profitability is considered in connection with financing of working capital. It became quite clear that the steel industry had been financing their working capital need through internal sources for example ploughing back of profits.

FINDINGS

From the this study we have finded out some the findings, which are given below:

- Except the constantly increasing trend in equity share capital there is still inadequate return on capital in steel industry.

⇒ In Inpat Steel Inventory cost of production is very high and they are not achieving market leadership.

⇒ Companies are not getting or earning so much return from Assets besides that they are investing a huge amount in Assets.

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⇒ In Eassar Steel Company net profit rate is very low.

⇒ Assets Investment Policy is not so much effective in steel industry.

⇒ In JSW Ispat Steel Company and in Essar Steel Company operating and non-operating costs are not so much controlled.
⇒ Many of Steel Plant Projects are pending and not been completed at time.

⇒ Manpower is not so much educated and technically qualified in steel industry.

⇒ Many rules and regulations are formulated by the government for steel industry rather by the companies.

⇒ Cash position and cash utilization/management is not so much effective in steel industry.

⇒ We find that profit before interest and tax is decreasing in the case of some of the companies of steel industry.

⇒ In the case of Steel Industry we find that receivables are not so effectively managed.

⇒ We observe that in the case of Inventory management Steel Companies do not have one equal policy for all the companies. So that they can easily define the future budget of raw material and finished goods.

SUGGESTIONS

There is a huge scope of development for all the companies and the following general suggestions are made for the betterment of these
corporations:-

(1) Capital structure put turn of the steel companies includes equity share capital and borrowing capital both and constantly shows tremendous increasing trend. We suggested here that companies should ensure adequate return on capital employed and maintain a reasonable annual dividend on equity capital.

(2) Companies must reduce the cost of production by means of systematic cost control measures and thereby market leadership through cost competitiveness.

(3) The assets turnover should be improved by coming more from operations with the same amount of assets.

(4) Low level of net profit gives an indication that their non-operating expenses are mounting. So executives should try to minimise the non-operative expenses.

(5) Long-term assets in steel companies should be financed with long term funds. Short term funds should not be invested in fixed assets.

(6) The operating and non-operating costs should be more controlled at all levels and areas of operations.

(7) It is suggested that steel companies must complete their all planned projects within the scheduled time and approved cost.
(8) The problem of unhealthy competition can be solved if the companies make themselves specialized in different fields/areas of this industry.

(9) Inspite of the rules and regulations framed by the government, companies should improve their regulations for the developments of Industry.

(10) Companies should take effective steps like training programmes for employees, workshops, seminars in order to achieve the socio-economic objectives of the country.

(11) For effective cost management steel companies should concentrated on cash planning techniques as, cash forecasting, cash budget, cash turnover ratio, cash position ratio extra.

(12) To manage and operate all facilities in an efficient manner the steel companies have to generate adequate internal resources to meet revenue cost and requirements for project investment without budgetary support.

(13) It is suggested here that companies should develop their long term corporate plans to provide for adequate growth of the corporations business and it must be continued in future.

(14) It is also concluded that the steel companies should try to run the business as per its maximum capacity in the market. It is suggested that companies should provide prompt and quality products at
competitive prices in market.

(15) Steel companies should also enhance marketing infrastructure and reseller network for providing assured service to customers throughout the country.

(16) We find that companies registered an increase in their capital but while its profit before interest and tax is decreased. It means companies profitability is not in satisfactory position. So companies must optimize their utilization of capacity and maximize their yield and gross margin.

(17) We advise that companies should maintain a reasonable rate of return on investments.

(18) To manage Receivables in steel companies, they should define effective debt policy and credit control system.

(19) For Inventory management steel companies should have an effective inventory control policy like, ABC Policy or EOQ system or Zero Inventory System.

(20) Frequent training programmes for executive employees should be carried out to ensure sense of cost consciousness and responsibility of incumbents towards organizational goal.