CHAPTER 6

SUMMARY

AND

CONCLUSIONS
'Working Capital' is regarded as the lifeblood of every business concern. In the absence of adequate Working Capital, it is difficult to carry on day-to-day business operations. The quantum of Working Capital requirements differs from Firm to Firm depending upon their nature, volume of business and length of operating cycle period. Investment in Working Capital over and above the requirements unnecessarily blocks up Firms funds which could otherwise be used most productively. Thus it is the responsibility of financial manager to maintain a proper balance between liquidity and profitability in such a way that one objective may not suffer at the cost of the other. Therefore Working Capital should be managed effectively and efficiently to achieve this goal.

PRESENT STUDY:

The present study relates to Working Capital Management in Anantapur Cotton Mills, which is situated at Yerraguntapalli near Tadpatri in Anantapur District of Andhra Pradesh. The study covers a period of ten years from 1983-84 to 1992-93. The data and information have been collected from the Annual Reports of the Company. The main observations of the study have been presented here.
CHAPTER-II

WORKING CAPITAL MANAGEMENT - OVERALL ANALYSIS:

As already stated, Working Capital is essential for smooth running of any business. In the absence of adequate Working Capital fixed assets also cannot be utilised efficiently. Both inadequate and excess Working Capital are dangerous to the Firm. In this chapter an attempt has been made to appraise the management of Working Capital in Anantapur Cotton Mills by analysing the size, liquidity, efficiency, adequacy, structure and financing aspects of Working Capital.

The analysis of the size of Working Capital in Anantapur Cotton Mills revealed the following observations:

1. The Gross Working Capital has increased during the study period (from Rs. 98.94 lakhs in 1983-84 to Rs. 652.97 lakhs) registering an increase of more than 560 per cent. The current liabilities increased by more than 500 per cent. This has accelerated the rate of increase in Net Working Capital (845 per cent).

2. The ratio of current assets to total net assets is very high. It has increased from 47.42 per cent in 1983-84 to 77.81 per cent in 1992-93. The ratio of current assets to net fixed assets also has been
showing substantial increase, which increased from 90.20 per cent in 1983-84 to 350.72 per cent in 1992-93.
The ratio of Working Capital in terms of number of days of sales also showed increasing trend with some fluctuations. It was 152.21 days of sales in 1983-84 increased to 214.09 days of sales in 1992-93.

From this analysis it is clear that the size of Working Capital in Anantapur Cotton Mills has been quite large and constituted a considerable percentage of total investment. This has led to low profitability as the current assets are less profitable than fixed assets.

Following observations were made by analysing the liquidity position of Anantapur Cotton Mills.

3. Both current ratio and quick ratio in Anantapur Cotton Mills have been on the lower side against the approved standard ratios of 2:1 and 1:1 respectively except in few years of the study period indicating lower liquidity position. The presence of high amount of inventory in current assets further reduced the liquidity position.

4. The cash position ratio is very insignificant in Anantapur Cotton Mills. The ratio of net
Working Capital to current assets is also quite unsatisfactory.

The liquidity analysis revealed that the liquidity position in Anantapur Cotton Mills is poor during the study period. This is in spite of the fact that the investment in Working Capital is considerable. This may be due to the large amount of short term borrowings and their diversion to long term uses. Due to this reason, liquidity ratios failed to show the efficiency of Working Capital Management. High composition of inventory in current assets and low composition of liquid funds in current assets also reflected in low liquidity.

The efficiency of Working Capital has been analysed with the help of Working Capital Turnover Ratio and relative growth rate in Working Capital and sales. The following observations were made from this analysis:

5. The Working Capital Turnover Ratio has decreased during the study period from 2.39 times in 1983-84 to 1.70 times in 1992-93.

6. Relative growth rate in sales and Working Capital revealed that the percentage increase in sales is not in consonance with the percentage increase in Working Capital.
From this analysis it is clear that Working Capital has not been efficiently utilised in Anantapur Cotton Mills.

The adequacy of Working Capital is studied with the help of Regression Analysis, Average percentage-of-sales method and operating cycle period. The observations from this analysis are as follows:

7. Regression analysis revealed that in five years of the study period the Firm carried excessive investment in Working Capital. This excess is highest in the year 1992-93 with ₹ 60.08 lakhs. The average percentage of sales method also revealed that in five years of the study period the Firm carried excessive Working Capital. This excess is highest in the year 1992-93 with ₹ 74.98 lakhs.

8. Operating Cycle Period analysis revealed that Working Capital has increased in spite of decrease in Operating Cycle Period during the study period.

From these observations, it can be concluded that there is excess investment in current assets in Anantapur Cotton Mills during the study period.

9. The structural analysis revealed that the major component of Working Capital is inventory which
constitute 60.67 per cent on an average followed by receivables and cash and bank balances with an average of 37.51 per cent and 1.82 per cent respectively.

10. Analysis of financing pattern of Working Capital revealed that upto 1989-90 long-term sources occupied first position and trade creditors occupied second position. This situation is reversed after 1989-90. The composition of deposits and advance payments has decreased during the study period.

11. Comparison of borrowings analysis with Tandon Committee norms revealed that the Firm has achieved norm as per first method but yet to achieve as per second method.

The overall analysis of Working Capital Management in Anantapur Cotton Mills points to an urgent need for reducing the investment in Working Capital. This can be achieved by varying Working Capital relative to sales as increase in Working Capital without a proportionate increase in sales indicates negative direction and the management's inability to cut the size of Working Capital. This requires improved coordination in the functioning of some key departments like purchasing, finance, marketing and production. This would result in effective demand forecasting for reducing investment
in the finished goods. Strengthening the Management Information System and periodical reporting system is required for taking timely action to avoid unnecessary locking up of scarce capital in different components of Working Capital.

A Firm can improve its liquidity position by decreasing current liabilities which will improve the current ratio or by increasing liquid assets structure in the current assets which improves the quality of current assets and thereby liquidity position. Anantapur Cotton Mills has to take both these measures to improve the liquidity position as it was found that the current liabilities have been increasing year after year and the average quick ratio is well below the norm indicating poor structure of liquid assets.

Cash credit borrowings should be reduced by reducing investment in inventory and by increasing payment float and reducing collection float.

CHAPTER III
INVENTORY MANAGEMENT:

Inventory, which consist of raw materials, work-in-process, finished goods and stores and spares,
constitute nearly 50-60 per cent of current assets in any manufacturing organisation. Because of this high composition, inventory needs careful management. In this chapter an attempt has been made to analyse the size, structure, efficiency and adequacy of inventory in Anantapur Cotton Mills during the study period.

The size of inventory has been increased during the study period from ₹ 53.56 lakhs in 1983-84 to ₹ 364.96 lakhs in 1992-93 registering growth rate of more than 580 per cent. Component-wise analysis indicated that raw material inventory increased abnormally registering growth rate of more than 838 per cent, followed by work-in-process, finished goods and stores and spares.

Comparison of the size of inventory with other assets has been done by calculating ratios such as, inventory to total net assets ratio, inventory to current assets ratio and inventory to net Working Capital ratio. The observations made from this analysis are:

1. The ratio of inventory to total net assets in Anantapur Cotton Mills has increased from 25.67 per cent in 1983-84 to 43.49 per cent in 1992-93.
2. The ratio of inventory to current assets has shown steady trend with some fluctuations and on an average it is 60.67 per cent during the study period.

3. The ratio of inventory to net Working Capital is ranging between 94.40 per cent (1989-90) and 243.79 per cent (1983-84) during the study period.

From these observations, it can be concluded that the size of inventory is very large in Anantapur Cotton Mills. It indicates that the risk of loss is more, when there is decrease in the value of inventory, in Anantapur Cotton Mills.

4. The structural analysis of inventory revealed that raw materials consists major portion (i.e., 52.28 per cent on an average) of inventory followed by finished goods (i.e., 26.18 per cent on an average), work-in-process (9.89 per cent on an average) and stores and spares (i.e., 7.66 per cent on average).

Efficiency analysis of inventory is done with the help of inventory turnover ratios and relative growth rate in sales and inventory. This revealed that,

5. The overall inventory turnover ratio has decreased from 4.41 times in 1983-84 to 3.05 times in 1992-93.
6. Raw material inventory in terms of months' value of consumption has increased from 2.07 months in 1983-84 to 3.55 months in 1992-93.

7. Stores and spares inventory in terms of months' value of consumption has decreased from 15.12 months in 1983-84 to 5.15 months in 1992-93.

8. Goods-in-process in terms of months' value of production has shown steady trend and finished goods in terms of months' value of sales has shown decreasing trend during the study period.

9. The average rate of growth in inventory (i.e., 34.58 per cent) is more than the average rate of growth in sales (i.e., 20.63 per cent) which indicates that the additional investment has not resulted in effective additional sales.

From these observations, it can be concluded that inventory has not been effectively utilised in Anantapur Cotton Mills during the study period.

The adequacy analysis of inventory has made with the help of Regression Analysis and Average Percentage of Sales Method and the following observations made:
10. Regression analysis revealed that in five years of the study period there were unfavourable deviations which indicated over-stocking. The average percentage-of-sales method also revealed the same results.

Therefore, it can be concluded that the Firm's investment in inventory is not justified and it has to reduce its inventory levels so that its liquidity and profitability can be improved.

The inventory composition should be reduced to the minimum extent, especially slow moving items, like stores and spares. The investment in raw-material also should be reduced to a minimum possible extent. The high proportion of raw material inventory is probably be the risk averse attitude of the management of Anantapur Cotton Mills which is a Public Sector Undertaking. Since production is the basis on which they are primarily judged they do not want to be caught short of raw materials as it would affect production. However, a rational approach, which balances cost of extra inventories against the expected benefits, is needed which will decide the optimum level of inventories. Would also contribute to reduce the size of
inventories. This requires fixing up of norms for consumption and stocking of various raw materials on a scientific basis.

CHAPTER-IV
RECEIVABLES MANAGEMENT :

Receivables occupied the second place among the various components of Working Capital in Anantapur Cotton Mills. The main purpose of maintaining receivables in any Firm is to push up sales and also profit by giving credit to the customers who find it difficult to purchase on cash. Receivables means, generally, only trade debtors. But in the present context, this term has been used in its broader sense, that is, to include trade debtors and loans and advances in its perview.

In this chapter, an attempt is made to evaluate the management of receivables in Anantapur Cotton Mills.

Receivables in Anantapur Cotton Mills has shown increasing trend which increased from ₹.42.53 lakhs in 1983-84 to ₹.287.51 lakhs in 1992-93 registering an increase of more than 575 per cent over base year. Out of components, sundry debtors registered more than
885 per cent increase over base year which is more than the rate of increase in total receivables. Comparison of receivables with other assets revealed the following observations:

1. The ratio of receivables to total net assets has been showing increasing trend and constituted 18.78 per cent on an average during the study period. Sundry debtors constitute major proportion i.e., 12.38 per cent on an average.

2. The ratio of receivables to current assets constitute 37.51 per cent on an average of which sundry debtors constitute 23.37 per cent on an average.

Therefore, it can be concluded that the size of receivables constitute major portion in Anantapur Cotton Mills during the study period.

The analysis of the efficiency of debt collection has revealed the following observations:

3. The proportion of debts outstanding over six months in total debtors has been decreased during the study period which is a significant improvement.

4. Debtors turnover ratio has shown decreasing trend and the average collection period has shown increasing trend during the study period.
5. The relative growth rate in debtors and sales indicates that the average rate of growth in debtors (55.81 per cent) is more than the average rate of growth in sales (20.63 per cent) during the study period.

From these observations, it can be concluded that the investment in debtors is not utilised properly and management has failed in collecting debtors in time.

The adequacy analysis of debtors with the help of Regression Analysis and Average Percentage-of-Sales method revealed the following:

6. As per Regression Analysis, out of ten years, six years registered unfavourable situation. Out of six years, recent two years of the study period, i.e., 1991-92 and 1992-93, also registered unfavourable investment.

7. As per Average Percentage-of-sales method only four years registered unfavourable investment, of which recent three years, i.e., 1990-91, 1991-92 and 1992-93, registered unfavourable investment with increasing trend.

These observations lead to the conclusion that the investment in debtors has been excessive especially during last two years of the study period.
8. The analysis of major deposits and advances position in Anantapur Cotton Mills during the study period revealed that the deposits with A.P.S.E.B. constitute major portion. It was nearly equal to three months consumption of power. Therefore, these deposits are to be kept under control, so that the funds can be utilised for some other productive purposes.

The investment in debtors in Anantapur Cotton Mills is mounting every year. This is an understandable fact that in Public Sector Undertakings the proportion of receivables would be more as they are likely to be more interested in making sales rather than aggressively pursuing the payment of bills. As Anantapur Cotton Mills has been continuously incurring losses, it can not afford to make delay in collections. Hence, efforts should be made to increase Debtors Turnover Ratio by expediting the collections so that the average collection period can be reduced which will result in lower investment in sundry debtors. There is a large scope for this in Anantapur Cotton Mills as its debtors are mainly regional stores of N.T.C.

It is also important to match the additional investment in debtors with additional sales so that the incremental cost of holding debtors can be recouped from additional sales. It is, therefore, suggested that
periodical reports should be prepared and serious
efforts should be made for making reminders to debtors
so that cash inflow position can be improved.

CHAPTER-V
CASH MANAGEMENT :

One of the main tasks of financial management
is to hold and maintain an adequate, but not excessive,
cash balance. Cash is another commodity required in the
process of production. Therefore it should be maintained
as low as possible. Cash management assumes more
importance than any other current assets because of its
least productiveness. The objective of cash management
is optimum utilisation of available cash balance with a
view to maximising profits without endangering the
liquidity position. In this chapter, an attempt has
been made to evaluate the cash management in Anantapur
Cotton Mills by analysing the size, structure, operacional adequacy of cash and funds flow position during
the study period. The following are the few observations:

1. The cash balance has been showing decreasing
trend which decreased from ₹.2,86 lakhs in 1983-84 to
₹. 0.50 lakhs in 1992-93.
2. The ratio of cash to current assets is 1.86 per cent on an average and cash to sales is only 0.82 per cent on an average.

3. The structure of cash consists of cash on hand, cash at current account, remittances in transit and cheques on hand.

4. Operational adequacy of liquid assets in terms of number of days of operating expenses is 70 days on an average.

5. Cash balance in terms of number of days of operating expenses is very poor and in some of the years it not enough to meet even a single day operating expenses.

6. Both technical liquidity and actual liquidity is not satisfactory.

7. There is no relation between growth rate of sales and growth rate of cash balance and there are wide fluctuations in cash balance.

8. Operations did not contribute anything for its funds requirements because of its continuous losses. Therefore, the flow of funds from operations is not satisfactory the result of which was that it had an adverse effect on solvency in the long run.
Anantapur Cotton Mills need to improve its cash balance position by exercising proper control on cash inflows and cash outflows by preparing cash budget and thereby bring about a regularity in them. This is particularly important as it can no longer depend upon external sources for its Working Capital requirements due to its poor financial position. Moreover, the interest burden is already very high.

The foregoing diagnosis of the strengths and weaknesses of overall Working Capital Management and the management of different components of Working Capital and measures suggested will definitely be useful for improving the overall performance of Working Capital Management, reduce unnecessary locking up of funds in different components of Working Capital and thereby help balancing the liquidity and profitability which is the ultimate objective of Working Capital Management.