BANGALORE UNIVERSITY

A Project Report On

"A STUDY ON WORKING CAPITAL AND DEMONETISATION EFFECTS AT ABHAY STEEL"

Submitted in partial fulfillment for the award of the degree in

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In

BACHELOR OF BUSINESS ADMINISTRATION

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DECLARATION

I hereby declare that this project titled "**A STUDY ON WORKING CAPITAL AND DEMONETISATION EFFECTS AT ABHAY**" has been prepared under the guidance and supervision of **Prof. SABITA RANI LAL, New Shores International College, Bangalore** in partial fulfillment of the requirements for the award of the Under Graduate Degree in

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I also declare that this project is the result of my own effort and that it has not been submitted to any other university for the award of any other Under Graduate Degree.

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CHAPTER 1

INTRODUCTION

Industry profile

India was the world's third-largest steel producer in 2017.@ The growth in the Indian steel sector has been driven by domestic availability of raw materials such as iron ore and cost-effective labour. Consequently, the steel sector has been a major contributor to India's manufacturing output.

The Indian steel industry is very modern with state-of-the-art steel mills. It has always strived for continuous modernization and up-gradation of older plants and higher energy efficiency levels.

Indian steel industries are classified into three categories such as major producers, main producers and secondary producers.

Market Size

India's crude steel output grew 5.87 per cent year-on-year to 101.227 million tones (MT) in CY 2017. Crude steel production reached 93.183 MT during April-February 2017-18.

India's finished steel exports rose 102.1 per cent to 8.24 MT, while imports fell by 36.6 per cent to 7.42 MT in 2016-17. Exports and Imports of iron and steel stood at 14.6 MT and 13.1 MT during April-February 2017-18, respectively.

Total consumption of finished steel stood at 81.943 MT during April-February 2017-18.

Investments

Steel industry and its associated mining and metallurgy sectors have seen a number of major investments and developments in the recent past.

According to the data released by Department of Industrial Policy and Promotion (DIPP), the Indian metallurgical industries attracted Foreign Direct Investments (FDI) to the tune of US$ 10.56 billion in the period April 2000–December 2017.

Some of the major investments in the Indian steel industry are as follows:

- In March 2018, Tata Steel won the bid for acquisition of Bhushan Steel and is awaiting approval from National Company Law Tribunal (NCLT) and Competition Commission of India (CCI). Acquisition of Bhushan Steel will help Tata Steel increase its capacity to over 18 MTPA.
- JSW Steel has planned a US$ 4.14 billion capital expenditure programme to increase its overall steel output capacity from 18 million tonnes to 23 million tonnes by 2020.
- Rashtriya Ispat Nigam Ltd (RINL) has signed a Memorandum of Understanding (MOU) with Kudremukh Iron Ore Company Ltd for setting up of a 1.2 million ton per annum (MTPA) plant project at Vishakhapatnam.
- Tata Steel has decided to increase the capacity of its Kalinganagar integrated steel plant from 3 million tonnes to 8 million tonnes at an investment of US$ 3.64 billion.

Government Initiatives

Some of the other recent government initiatives in this sector are as follows:

- Government of India's focus on infrastructure and restarting road projects is aiding the boost in demand for steel. Also, further likely acceleration in rural economy and infrastructure is expected to lead to growth in demand for steel.
- The Union Cabinet, Government of India has approved the National Steel Policy (NSP) 2017, as it seeks to create a globally competitive steel industry in India. NSP 2017 targets 300 million tonnes (MT) steel-making capacity and 160 kgs per capita steel consumption by 2030.
- Metal Scrap Trade Corporation (MSTC) Limited and the Ministry of Steel have jointly launched an e-platform called 'MSTC Metal Mandi' under the

'Digital India' initiative, which will facilitate sale of finished and semi-finished steel products.

- The Ministry of Steel is facilitating setting up of an industry driven Steel Research and Technology Mission of India (SRTMI) in association with the
- public and private sector steel companies to spearhead research and development activities in the iron and steel industry at an initial corpus of Rs 200 crore (US$ 30 million).

Road ahead

India is expected to overtake Japan to become the world's second largest steel producer soon, and aims to achieve 300 million tonnes of annual steel production by 2025-30.

India is expected to become the second largest steel producer in the world by 2018, based on increased capacity addition in anticipation of upcoming demand, and the new steel policy, that has been approved by the Union Cabinet in May 2017, is expected to boost India's steel production.* Huge scope for growth is offered by India’s comparatively low per capita steel consumption and the expected rise in consumption due to increased infrastructure construction and the thriving automobile and railways sectors.

Exchange Rate Used: INR 1 = US$ 0.015 as of March 01, 2018.

1.1 INTRODUCTION

The present research seeks to study in depth the Working Capital Management of selected paper companies in India, with special emphasis on an examination of the management performance in regard to financial management. It hardly needs mentioning that inventory, accounts receivables and cash and its alert administration can go a long way in solving the problem of the efficient working capital management. In fact, the present research of working capital management needs special attention for the efficient working and the business. It has been often observed that the shortage of working capital leads to the failure of a business. The proper management of working capital may bring about the success of a business firm. The management of working capital includes the management of current assets and current liabilities. The present research undertakes to deal with the net concept of working capital: excess of current assets over current liabilities. A number of companies for the past few years have been finding it difficult to solve the increasing problems of adopting seriously the management of working capital. Business concerns intent on developing their business have to use to the utmost, their available resources for the improvement and development of the business there by enabling them to increase their profits. Working Capital and change in working capital, especially in inventories, which is one of the components of working capital form a very important part of the total gross-capital formation in the paper companies. Efficient and the optimal utilization of fixed assets is very closely related to the proper management of working capital. The present research attempts to recognize initially the importance of working capital as a part of the total capital. It further goals to recognize the factors influencing the working capital, its volume, and in the process try to suggest remedial measures which might help in optimizing the use of working capital. It also considers as to how precisely “financing working capital” and further more what should be mix of different components of working capital.

DEFINITIONS OF WORKING CAPITAL

Definitions of Working Capital, as per various management experts are as under

: "Working Capital is the excess of C.A. over current liabilities."

- H.G, Guthmann

"Working Capital is descriptive of that capital which is not fixed. But the more common use of the Working Capital is to consider it as the difference between the book value of the C.A. and current liabilities."

- Hoglend. J. Bierman, and A. K. Mc Adams,

"Working Capital represents the excess of C.A. over current liabilities"

- J.L. Brown and L.R. Housard.

"Working Capital to a firm's investment in short term assets cash short term securities, accounts, receivables and inventories.

" -Weston the Brigham

"Working Capital represents only the current capital assets."

- Meal Baker Malott and Field.

"Working Capital means a sum of C.A"

- J.S. Mill.

"A Working Capital deficit exits if current liabilities exceed C.A."

-Prof. C.Gerstoberg.55

"Working Capital equals the aggregate value of C.A. minus aggregate value of current liabilities"

- Lincoln.

"Gross Working Capital may be used to refer to total C.A. and net working capital refers to the surplus of C.A. over current liabilities"

- Prof. S.C. Kuchhal

CIRCULATION SYSTEM OF WORKING CAPITAL

Working capital is also known as 'circulating capital or current capital' Kulkarni has remarked that, "The use of the term circulating capital instead of working capital indicates that its flow is circular in nature".

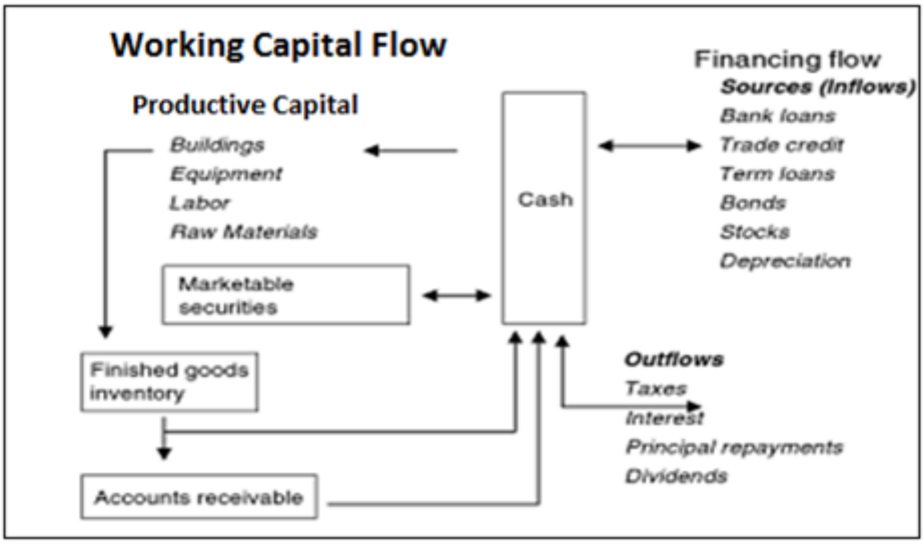


Figure – 1.1 Circulation System of Working Capital

The funds in a business are obtained from the issue of share, the issue of debentures, and other long-term arrangement and from operations of business. A huge part of generated funds is used to acquire fixed assets, viz, plant and machinery, land building and some other fixed assets, while the remaining part of the generated funds is used for day to day operations of the business e.g. to pay wages and overheads expenses for the raw materials processed. This makes possible the stocking of finished goods by whose sales either accounts receivables are created or cash is received. In this process profits are generated. A part of the profit is used to pay tax, interest and dividends, while the remaining part is ploughed back in the business.

Part 2: -

ABSTRACT

Working capital management refers to the administration of all components of working capital-cash, marketable securities, debtors and stock and creditors. Working capital is one of the powerful measurements of the financial position. The words of H. G. Guthmann clearly explain the importance of working capital. “Working Capital is the life-blood and nerve centre of the business. The goal of working capital management is to manage the firm’s current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. In several units there is adequate working capital but the mismanagement of working capital increases the costs and reduces the rate of return. The efficient management of working capital minimizes the cost and can do much more for the success of the business.

KEYWORDS: Working Capital Management, Current Assets, Current Liabilities, Current Ratio, Quick Ratio, Profitability, Steel Industry

Working capital

Capital required for a business can be classified under two main categories via,

1) Fixed Capital

2) Working Capital

Every business needs funds for two purposes for its establishment and to carry out its day- to-day operations. Long terms funds are required to create production facilities through purchase of fixed assets such as p.m., land, building, furniture, etc. Investments in these assets represent that part of firm’s capital which is blocked on permanent or fixed basis and is called fixed capital. Funds are also needed for short-term purposes for the purchase of raw material, payment of wages and other day – to-day expenses etc.

These funds are known as working capital. In simple words, working capital refers to that part of the firm's capital which is required for financing short- term or current assets such as cash, marketable securities, debtors & inventories. Funds, thus, invested in current assets keep revolving fast and are being constantly converted in to cash and this cash flows out again in exchange for other current assets. Hence, it is also known as revolving or circulating capital or short-term capital.

- What is included in working capital?

Because it includes cash, inventory, accounts receivable, accounts payable, the portion of debt due within one year, and other short-term accounts, a company's **working capital** reflects the results of a host of company activities, including inventory management, debt management, revenue collection, and payments

- how does work working capital?

The **working capital** ratio (Current Assets/Current Liabilities) indicates whether a company has enough short-term assets to cover its short term debt. ... Most believe that a ratio between 1.2 and 2.0 is sufficient. Also known as "net **working capital**".

- What is a working capital account?

Working capital is the amount of a company's current assets minus the amount of its current liabilities. For example, if a company's balance sheet dated June 30 reports total current assets of $323,000 and total current liabilities of $310,000 the company's **working capital** on June 30 was $13,000.

- What is the difference between working capital and net working capital?

Working capital is sometimes used to refer only to current assets, while **net working capital** is defined to be the **difference between** current assets and current liabilities. Non-cash **working capital** looks at the **difference between** non-cash current assets and current liabilities.

CONCEPT OF WORKING CAPITAL

There are two concepts of working capital:

1. Gross working capital

- 2. Net working capital

The gross working capital is the capital invested in the total current assets of the enterprises current assets are those Assets which can convert in to cash within a short period normally one accounting year.

CONSTITUENTS OF CURRENT ASSETS

1) Cash in hand and cash at bank

2) Bills receivables

3) Sundry debtors

4) Short term loans and advances.

5) Inventories of stock as:

a. Raw material

b. Work in process

c. Stores and spares

d. Finished foods

6. Temporary investment of surplus funds.

7. Prepaid expenses

8. Accrued incomes.

9. Marketable securities.

In a narrow sense, the term working capital refers to the net working. Net working capital is the excess of current assets over current liability, or, say:

NET WORKING CAPITAL = CURRENT ASSETS – CURRENT LIABILITIES.

Net working capital can be positive or negative. When the current assets exceeds the current liabilities are more than the current assets. Current liabilities are those liabilities, which are intended to be paid in the ordinary course of business within a short period of normally one accounting year out of the current assets or the income business.

CONSTITUENTS OF CURRENT LIABILITIES

1. Accrued or outstanding expenses.

2. Short term loans, advances and deposits.

3. Dividends payable.

4. Bank overdraft.

5. Provision for taxation, if it does not amt. to app. Of profit.

6. Bills payable.

7. Sundry creditors.

The gross working capital concept is financial or going concern concept whereas net working capital is an accounting concept of working capital. Both the concepts have their own merits.

The gross concept is sometimes preferred to the concept of working capital for the following reasons:

1. It enables the enterprise to provide correct amount of working capital at correct time.

2. Every management is more interested in total current assets with which it has to operate then the source from where it is made available.

3. It take into consideration of the fact every increase in the funds of the enterprise would increase its working capital.

4. This concept is also useful in determining the rate of return on investments in working capital. The net working capital concept, however, is also important for following reasons:

- It is qualitative concept, which indicates the firm’s ability to meet to its operating expenses and short-term liabilities.
- IT indicates the margin of protection available to the short term creditors.
- It is an indicator of the financial soundness of enterprises.
- It suggests the need of financing a part of working capital requirement out of the permanent sources of funds.

CLASIFICATION OF WORKING CAPITAL

Working capital may be classified in two ways:

o on the basis of concept.

o on the basis of time.

On the basis of concept working capital can be classified as gross working capital and net working capital. On the basis of time, working capital may be classified as:

- Permanent or fixed working capital.
- Temporary or variable working capital

PERMANENT OR FIXED WORKING CAPITAL

Permanent or fixed working capital is minimum amount which is required to ensure effective utilization of fixed facilities and for maintaining the circulation of current assets. Every firm has to maintain a minimum level of raw material, work- in-process, finished goods and cash balance. This minimum level of current assets is called permanent or fixed working capital as this part of working is permanently blocked in current assets. As the business grow the requirements of working capital also increases due to increase in current assets.

TEMPORARY OR VARIABLE WORKING CAPITAL

Temporary or variable working capital is the amount of working capital which is required to meet the seasonal demands and some special exigencies. Variable working capital can further be classified as seasonal working capital and special working capital. The capital required to meet the seasonal need of the enterprise is called seasonal working capital. Special working capital is that part of working capital which is required to meet special exigencies such as launching of extensive marketing for conducting research, etc.

Temporary working capital differs from permanent working capital in the sense that is required for short periods and cannot be permanently employed gainfully in the business.

Quick Ratio or Liquid Ratio

Quick ratio is also called Acid-test ratio because it is the acid test of a concern`s financial soundness. It is the relationship between quick assets and quick liabilities. Quick assets are those assets which are readily converted into cash. They include cash and bank balances, bills receivable, debtors, short term investments. Quick liabilities include creditors, bills payable, outstanding expenses.

Quick ratio = Quick Assets/Quick Liabilities Quick Assets = Current assets- (Stock +Prepaid expenses) Quick Liabilities = Current Liabilities –Bank Overdraft. A quick ratio of 1:1 considered satisfactory. The quick ratio supplements current ratio.

Cash Ratio (Absolute Liquid Ratio)

Cash is the most liquid asset. The relationship between cash including cash at bank and short term marketable securities with current liabilities is examined to know the immediate solvency. Although receivables, debtors and bills receivable are generally more liquid than inventories, yet there may be doubts regarding their realization into cash immediately or in given time. The formula to calculate the cash ratio is as under.

Cash Ratio = Cash* + Marketable Securities / Current Liabilities. * Cash means, cash in hand and cash at bank.

RATIO ANALYSIS

***Meaning of Ratio*:-** A ratio is simple arithmetical expression of the relationship of one number to another. It may be defined as the indicated quotient of two mathematical expressions.

According to Accountant's Handbook by Wixon, Kell and Bedford, "a ratio is an expression of the quantitative relationship between two numbers".

***Ratio Analysis*:-** Ratio analysis is the process of determining and presenting the relationship of items and group of items in the statements. According to Batty J. Management Accounting "Ratio can assist management in its basic functions of forecasting, planning coordination, control and communication". It is helpful to know about the liquidity, solvency, capital structure and profitability of an organization. It is helpful tool to aid in applying judgement, otherwise complex situations

Ratio analysis can represent following three methods.

Ratio may be expressed in the following three ways:

1. *Pure Ratio or Simple Ratio*: - It is expressed by the simple division of one number by another. For example, if the current assets of a business are Rs. 200000 and its current liabilities are Rs. 100000, the ratio of 'Current assets to current liabilities' will be 2:1.

2 .*'Rate' or 'So Many Times*: - In this type, it is calculated how many times a figure is, in comparison to another figure. For example , if a firm's credit sales during the year are Rs. 200000 and its debtors at the end of the year are Rs. 40000 , its Debtors Turnover Ratio is 200000/40000 = 5 times. It shows that the credit sales are 5 times in comparison to debtors.

3. *Percentage*: - In this type, the relation between two figures is expressed in hundredth. For example, if a firm's capital is Rs.1000000 and its profit is Rs.200000 the ratio of profit capital, in term of percentage, is 200000/1000000*100 = 20%

ANALYSIS OF FINANCIAL STATEMENTS

FINANCIAL STATEMENTS:

Financial statement is a collection of data organized according to logical and consistent accounting procedure to convey an under-standing of some financial aspects of a business firm. It may show position at a moment in time, as in the case of balance sheet or may reveal a series of activities over a given period of time, as in the case of an income statement. Thus, the term 'financial statements' generally refers to the two statements

(1) The position statement or Balance sheet.

(2) The income statement or the profit and loss Account.

OBJECTIVES OF FINANCIAL STATEMENTS:

According to accounting Principal Board of America (APB) states

The following objectives of financial statements: -

1. To provide reliable financial information about economic resources and obligation of a business firm.

2. To provide other needed information about charges in such economic resources and obligation.

3. To provide reliable information about change in net resources (recourses less obligations) missing out of business activities.

4. To provide financial information that assets in estimating the learning potential of the business.

LIMITATIONS OF FINANCIAL STATEMENTS:

Though financial statements are relevant and useful for a concern, still they do not present a final picture a final picture of a concern. The utility of these statements is dependent upon a number of factors. The analysis and interpretation of these statements must be done carefully otherwise misleading conclusion may be drawn.

Financial statements suffer from the following limitations: -

1. Financial statements do not give a final picture of the concern. The data given in these statements is only approximate. The actual value can only be determined when the business is sold or liquidated.

2. Financial statements have been prepared for different accounting periods, generally one year, during the life of a concern. The costs and incomes are apportioned to different periods with a view to determine profits etc. The allocation of expenses and income depends upon the personal judgment of the accountant. The existence of contingent assets and liabilities also make the statements imprecise. So, financial statement is at the most interim reports rather than the final picture of the firm.

3. The financial statements are expressed in monetary value, so they appear to give final and accurate position. The value of fixed assets in the balance sheet neither represent the value for which fixed assets can be sold nor the amount which will be required to replace these assets. The balance sheet is prepared on the presumption of a going concern. The concern is expected to continue in future. So, fixed assets are shown at cost less accumulated depreciation. Moreover, there are certain assets in the balance sheet which will realize nothing at the time of liquidation but they are shown in the balance sheets.

4. The financial statements are prepared on the basis of historical costs or original costs. The value of assets decreases with the passage of time current price changes are not taken into account. The statement is not prepared with the keeping in view the economic conditions. the balance sheet loses the significance of being an index of current economic realities. Similarly, the profitability shown by the income statements may be representing the earning capacity of the concern.

5. There are certain factors which have a bearing on the financial position and operating result of the business but they do not become a part of these statements because they cannot be measured in monetary terms. The basic limitation of the traditional financial statements comprising the balance sheet, profit & loss A/c is that they do not give all the information regarding the financial operation of the firm. Nevertheless, they provide some extremely useful information to the extent the balance sheet mirrors the financial position on a particular data in lines of the structure of assets, liabilities etc. and the profit & loss A/c shows the result of operation during a certain period in terms revenue obtained and cost incurred during the year. Thus, the financial position and operation of the firm.

Horizontal Analysis Example

UD Co Ltd
Comparative Balance Sheets
December 31, 2014 and 2013

			Increase (Decrease)	
	2014	2013	Amount	%
Assets				
Current assets:				
Cash	$ 12,000	$ 23,500	$ (11,500)	(48.9)
Accounts receivable, net	60,000	40,000	20,000	50.0
Inventory	80,000	100,000	(20,000)	(20.0)
Prepaid expenses	3,000	1,200	1,800	150.0
Total current assets	155,000	164,700	(9,700)	(5.9)
Property and equipment:				
Land	40,000	40,000	-	0.0
Buildings and equipment, net	120,000	85,000	35,000	41.2
Total property and equipment	160,000	125,000	35,000	28.0
Total assets	$ 315,000	$ 289,700	$ 25,300	8.7

IMPORTANCE OR ADVANTAGE OF ADEQUATE WORKINGCAPITAL

- SOLVENCY OF THE BUSINESS: Adequate working capital helps in maintaining the solvency of the business by providing uninterrupted of production.

- Goodwill: Sufficient amount of working capital enables a firm to make prompt payments and makes and maintain the goodwill.

- Easy loans: Adequate working capital leads to high solvency and credit standing can arrange loans from banks and other on easy and favorable terms.

- Cash Discounts: Adequate working capital also enables a concern to avail cash discounts on the purchases and hence reduces cost.

- Regular Supply of Raw Material: Sufficient working capital ensures regular supply of raw material and continuous production.

- Regular Payment of Salaries, Wages and Other Day TO Day Commitments: It leads to the satisfaction of the employees and raises the morale of its employees, increases their efficiency, reduces wastage and costs and enhances production and profits.

- Exploitation of Favorable Market Conditions: If a firm is having adequate working capital then it can exploit the favorable market conditions such as purchasing its requirements in bulk when the prices are lower and holdings its inventories for higher prices.

- Ability to Face Crises: A concern can face the situation during the depression.

- Quick And Regular Return On Investments: Sufficient working capital enables a concern to pay quick and regular of dividends to its investors and gains confidence of the investors and can raise more funds in future.

- High Morale: Adequate working capital brings an environment of securities, confidence, high morale which results in overall efficiency in a business.

EXCESS OR INADEQUATE WORKING CAPITAL

Every business concern should have adequate amount of working capital to run its business operations. It should have neither redundant or excess working capital nor inadequate nor shortages of working capital. Both excess as well as short working capital positions are bad for any business. However, it is the inadequate working capital which is more dangerous from the point of view of the firm.

DISADVANTAGES OF REDUNDANT OR EXCESSIVE WORKING CAPITAL

1. Excessive working capital means ideal funds which earn no profit for the firm and business cannot earn the required rate of return on its investments.

2. Redundant working capital leads to unnecessary purchasing and accumulation of inventories.

3. Excessive working capital implies excessive debtors and defective credit policy which causes higher incidence of bad debts.

4. It may reduce the overall efficiency of the business.

5. If a firm is having excessive working capital then the relations with banks and other financial institution may not be maintained.

6. Due to lower rate of return n investments, the values of shares may also fall.

7. The redundant working capital gives rise to speculative transactions

INADEQUATE WORKING CAPITAL

Every business needs some amounts of working capital. The need for working capital arises due to the time gap between production and realization of cash from sales. There is an operating cycle involved in sales and realization of cash. There are time gaps in purchase of raw material and production; production and sales; and realization of cash.

Thus, working capital is needed for the following purposes:

- For the purpose of raw material, components and spares.
- To pay wages and salaries
- To incur day-to-day expenses and overload costs such as office expenses.
- To meet the selling costs as packing, advertising, etc.
- To provide credit facilities to the customer.
- To maintain the inventories of the raw material, work-in-progress, stores and spares and finished stock.

For studying the need of working capital in a business, one has to study the business under varying circumstances such as a new concern requires a lot of funds to meet its initial requirements such as promotion and formation etc. These expenses are called preliminary expenses and are capitalized. The amount needed for working capital depends upon the size of the company and ambitions of its promoters. Greater the size of the business unit, generally larger will be the requirements of the working capital.

The requirement of the working capital goes on increasing with the growth and expensing of the business till it gains maturity. At maturity, the amount of working capital required is called normal working capital.

There are others factors also influence the need of working capital in a business.

FACTORS DETERMINING THE WORKING CAPITAL REQUIREMENTS

1. **NATURE OF BUSINESS**: The requirements of working is very limited in public utility undertakings such as electricity, water supply and railways because they offer cash sale only and supply services not products, and no funds are tied up in inventories and receivables. On the other hand, the trading and financial firms requires less investment in fixed assets but have to invest large amt. of working capital along with fixed investments.

2. **SIZE OF THE BUSINESS**: Greater the size of the business, greater is the requirement of working capital.

3. **PRODUCTION POLICY**: If the policy is to keep production steady by accumulating inventories it will require higher working capital.

4. **LENTH OF PRDUCTION CYCLE**: The longer the manufacturing time the raw material and other supplies have to be carried for a longer in the process with progressive increment of labor and service costs before the final product is obtained. So, working capital is directly proportional to the length of the manufacturing process.

5. **SEASONALS VARIATIONS**: Generally, during the busy season, a firm requires larger working capital than in slack season.

6. **WORKING CAPITAL CYCLE**: The speed with which the working cycle completes one cycle determines the requirements of working capital. Longer the cycle larger is the requirement of working capital.

7. **RATE OF STOCK TURNOVER**: There is an inverse co-relationship between the question of working capital and the velocity or speed with which the sales are affected. A firm having a high rate of stock turnover will needs lower amt. of working capital as compared to a firm having a low rate of turnover.

8. CREDIT POLICY: A concern that purchases its requirements on credit and sales its product / services on cash requires lesser amt. of working capital and vice-versa.

9. BUSINESS CYCLE: In period of boom, when the business is prosperous, there is need for larger amt. of working capital due to rise in sales, rise in prices, optimistic expansion

of business, etc. On the contrary in time of depression, the business contracts, sales decline, difficulties are faced in collection from debtor and the firm may have a large amt. of working capital.

10. RATE OF GROWTH OF BUSINESS: In faster growing concern, we shall require large amt. of working capital.

11. EARNING CAPACITY AND DIVIDEND POLICY: Some firms have more earning capacity than other due to quality of their products, monopoly conditions, etc. Such firms may generate cash profits from operations and contribute to their working capital. The dividend policy also affects the requirement of working capital. A firm maintaining a steady high rate of cash dividend irrespective of its profits needs working capital than the firm that retains larger part of its profits and does not pay so high rate of cash dividend.

12. PRICE LEVEL CHANGES: Changes in the price level also affect the working capital requirements. Generally, rise in prices leads to increase in working capital.
Other FACTORS: These are:

- Operating efficiency.
- Management ability.
- Irregularities of supply.
- Import policy.
- Asset structure.
- Importance of labor.

MANAGEMENT OF WORKING CAPITAL

Management of working capital is concerned with the problem that arises in attempting to manage the current assets, current liabilities. The basic goal of working capital management is to manage the current assets and current liabilities of a firm in such a way that a satisfactory level of working capital is maintained, i.e. it is neither adequate nor excessive as both the situations are bad for any firm. There should be no shortage of funds and also no working capital should be ideal. WORKING CAPITAL MANAGEMENT POLICES of a firm has a great on its probability, liquidity and structural health of the organization. So, working capital management is three dimensional in nature as

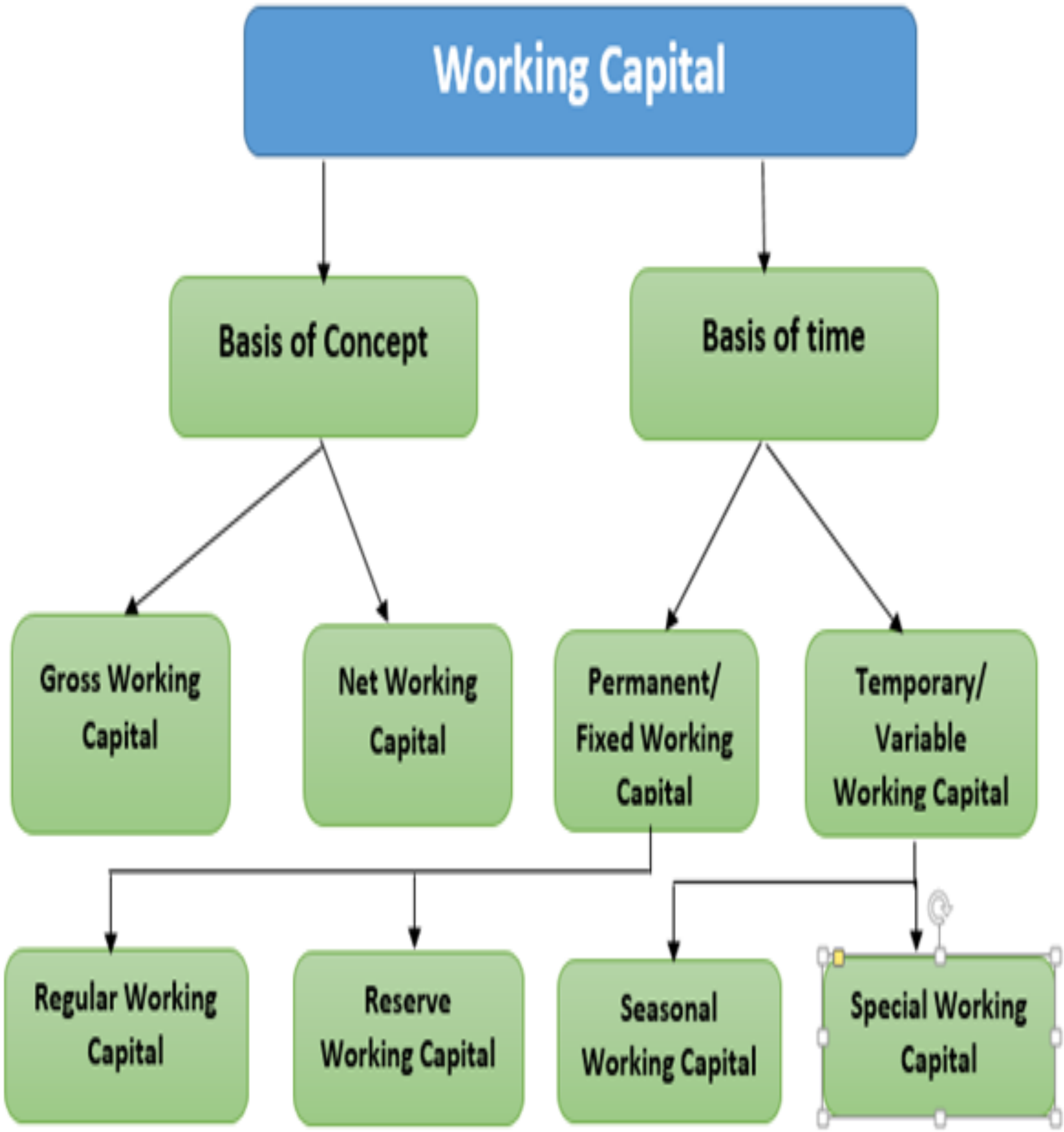
1. It concerned with the formulation of policies with regard to profitability, liquidity and risk.

2. It is concerned with the decision about the composition and level of current assets.

3. It is concerned with the decision about the composition and level of current liabilities.

WORKING CAPITAL ANALYSIS

As we know working capital is the life blood and the center of a business. Adequate amount of working capital is very much essential for the smooth running of the business. And the most important part is the efficient management of working capital in right time. The liquidity position of the firm is totally effected by the management of working capital. So, a study of changes in the uses and sources of working capital is necessary to evaluate the efficiency with which the working capital is employed in a business. This involves the need of working capital analysis.


Working Capital
Basis of Concept
Basis of time
Gross Working Capital
Net Working Capital
Permanent/ Fixed Working Capital
Temporary/ Variable Working Capital
Regular Working Capital
Reserve Working Capital
Seasonal Working Capital
Special Working Capital

CONCEPT of Working Capital Analysis

From the financial management point of view, capital in broader sense can be divided into two main categories- fixed capital and working capital. Here I am going to study the concept of working capital. The term working capital generally is used in two senses – 'Gross working capital 'which denotes total current asset and 'Net working Capital 'which denotes the excess of current assets over current liabilities. Both the concepts International Manuscript ID: ISSN23194618-V2I1M11-012013 have their own significance and relevance. In common parlance, working capital is that part of capital, which is in working or which is used to meet day-to-day expenses. To understand the exact meaning of the term 'Working Capital', it will be appropriate to understand its two components – current assets and current liabilities. The current assets are those assets, which can be converted into cash within a short period of time, say not more than one year during the operating cycle of business or without affecting normal business operations. Current liabilities are such liabilities as are to be paid within the normal business cycle a within the course of an accounting year out of current assets.

Gross working Capital Concept: -According to the gross concept, working capital means total of all the current assets of a business. It is also called gross working capital. Gross working Capital = Total Current Assets
Net Working Capital Concepts: The concepts of Net Working Capital refer to the excess of current assets over current liabilities. It indicates the surplus value of current assets. Since, all the current liabilities are met out of current assets and after meeting the current liabilities what remains in the enterprise is called net working capital. Net working capital will exist only in that case when long-term funds, to some extent, are invested in current assets and comparatively less amount of short term funds are involved in current assets. Components of Working Capital: International Manuscript ID: ISSN23194618-V2I1M11-012013
The working capital consists of two components current assets and current liabilities. Assets of a concern are of two types- Fixed assets and current assets: Fixed assets are

to be in business on permanent basis and are not intended for sale whereas the current assets are for conversion into cash at the earliest. Similar is the case with liabilities, which may be long-term liabilities and current liabilities. Long-term liabilities are those maturing over a long period of time usually five often years whereas short-term liabilities are those maturing within a short period usually less than a year. Concept of profitability Analysis The third part of financial performance analysis is profitability analysis. The analysis of profitability is mainly a test of earning capacity of business. Profit is the lifeblood of every business unit. It is also very essential for the survival of any business. The efficiency of management functioning is also determined on the basis of the profitability of business. Profit is also required for the long-term growth of the business. The profitability analysis of selected units has been made while using various ratios such as net profit ratio, return on capital employed ratio and return on total asset ratio. This analysis is restricted to the above-mentioned ratio because the given data provides the information relating to these ratios only. At last it can be said that the profitability analysis depicts a clear and comparative position regarding the financial performance of the selected units.

Demonitisation and its effects

In India, it was announced on 8th November 2016 that the Rs. 500 and Rs. 1000 banknotes would cease to qualify as valid tender from 9th November 2016 onward.

Why is demonitisation used?

Demonitisation is used in several situations, whenever a certain type of currency is deemed no longer desirable to use.

- Old coins and notes being replaced with new designs: Sometimes, certain denominations of old notes and coins are replaced with newer models. In this situation, the older coins can be officially demonetized. The reasons for such move includes:
    - elimination of fake notes,
    - reduce corruption,
    - stop terror funding, and
    - bring unused idle cash into the banking channel, etc.
- A move to digital currency: Demonitisation has also moved the economy of India towards a cashless system. Some people predict that in the future we will use digital currency to pay for things and physical cash will be totally demonetized.

Demonitisation in India has worked in the many ways in India. India's demonitisation process has tackled the country's problem of counterfeit notes.

The process of demonitisation in India has not been without its challenges. It has, however, had both positive and negative impacts in the short-term. It remains to be seen if the positive impacts will be long-lasting.

Meaning of Demonitisation

The act to cease a currency unit or put an official stop on its status as a legal tender is known as demonitisation (alternate spelling: demonetization).

Demonitisation is the process that involves a change of national currency, where old currency is replaced with new currency.

The circulation of a specific currency unit is stopped, followed by the withdrawal of old banknotes or coins. The process of demonitisation *is opposite to remonetisation, where the legal status is restored*.

The demonitisation effects include both the positive and negative aspects. Let us now discuss the demonitisation benefits and demonitisation disadvantages as well.

Advantages of Demonitisation

1. Eradicate the use of fake currency.

2. Tackle with corruption due to currency upholds.

3. Withdrawal of old currency and bring unaccounted money back into the banking system by a considerable increase in bank deposits. With this the idle money becomes productive.

4.Encourage digital payment modes to reach the target of a cashless society.

5.Reduction of illegal activities.

6.Reduced tax avoidance by encouraging higher tax payments.

With a perfect implementation, demonitisation policy can provide a great boost to any country's economy

Disadvantages of Demonitisation

Some of the disadvantages that may emerge could be: -

1. Inconvenience to the public.
2. Huge economic cost to the nation.
3. Disruption of business activities.
4. Decrease in sales, particularly cash based sales.
5. Labour / Wage payment issues.
6. Additional printing and distribution cost of new currency.
7. Problem situation for small-scale business operations that deal in cash.

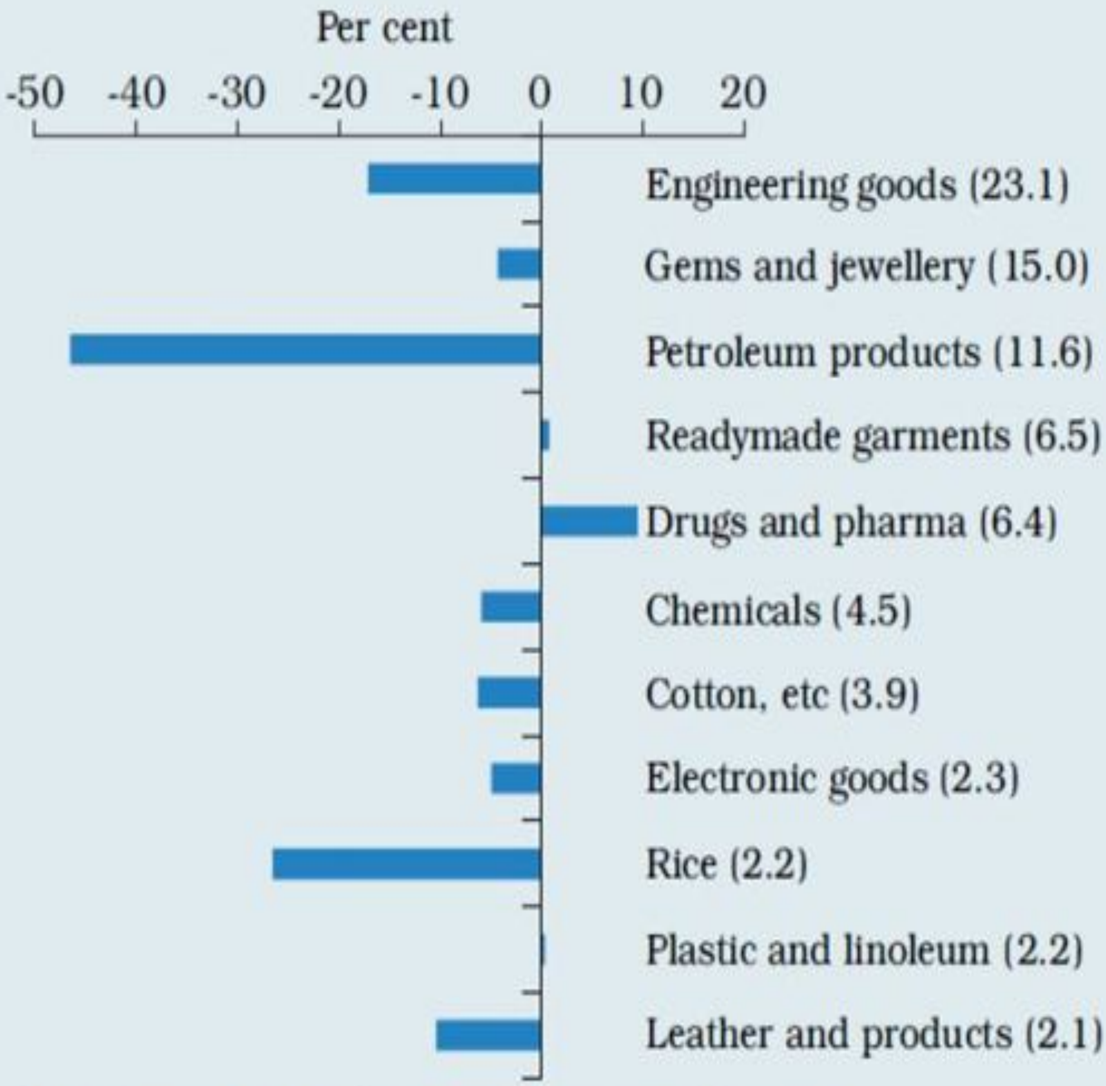
Conclusion

A well-planned demonitisation system can prove beneficial for any economy. However, in case of mishandled support, this may also cause problems. Hence, a public support must be sought for the overall success of this policy.

How will it impact the economy?

Since our economy is heavily dependent on cash, as only less than half the population uses banking system for monetary transactions, demonitisation has hit trade and consumption hard. With people scrambling for cash to pay for goods and services, the move is likely to take a big toll on the country's growth and output during the current fiscal. Consumption makes up for around 56% of India's GDP, hence, a drop-in spending will pull down growth. The current step could also lead to behavioral changes in households' savings and their consumption pattern, say economists.

Chart II.21: Sectoral Export Performance in 2015-16 (Growth)



Note: Figures in brackets are shares in total exports.
Source: DGCI&S.

CHAPTER 2

RESEARCH DESIGN

Research design

A research design Is the set of methods and procedures used in collecting and analyzing measures of the variables specified in the research problem research study. The design of a study defines the study type (descriptive, correlational, semi-experimental, experimental, review, meta-analytic) and sub-type (e.g., descriptive-longitudinal case study), research problem, hypotheses, independent and dependent variables, experimental design, and, if applicable, data collection methods and a statistical analysis plan. Research design is the framework that has been created to find answers to research questions.

Need for Research Design

Research design is needed because it facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible yielding maximal information with minimal expenditure of effort, time and money. Research design has a significant impact on the reliability of the results obtained. It thus acts as a firm foundation for the entire research.

For example, economical and attractive construction of house we need a blueprint (or what is commonly called the map of the house) well thought out and prepared by an expert architect, similarly we need a research design or a plan in advance of data collection and analysis for our research project.

Research design stands for advance planning of the methods to be adopted for collecting the relevant data and the techniques to be used in their analysis.

The need for research design is as follows:

- It reduces inaccuracy;
- Helps to get maximum efficiency and reliability;
- Eliminates bias and marginal errors;

- Minimizes wastage of time;
- Helpful for collecting research materials;
- Helpful for testing of hypothesis;
- Gives an idea regarding the type of resources required in terms of money, manpower, time, and efforts;
- Provides an overview to other experts;
- Guides the research in the right direction.

TITLE OF THE STUDY

A comparative study of working capital and demonetization effects

STATEMENT OF PROBLEM

A problem statement is a brief description of the issues that need to be addressed by a problem-solving team and should be presented to them (or created by them) before they try to solve a problem. ... This should explain who needs the solution and who will decide the problem has been solved.

Although profitability may be considered the governing factor of a business, nevertheless the management of working capital can effectively bring to a halt, or to its ultimate downfall, what might otherwise be a successful and profitable company. The current squeeze on cash and credit is threatening the survival of many businesses all working the world generally and Nigeria in particular; as it is considered the sources of company working assets and liabilities. The aftermath of this credit crunch is drastic reduction in production and sales, leading to massive retrenchment of workers and of many organizations. Unfortunately, not every company is able to find external easily. Where it is available, the cost of borrowing may be expensive, resulting in bottom line. In view of this, liquidity management (working capital management) has become one of the most important issues in the organizations where many executives strive to identify the basic working capital drivers and the appropriate level of working capital.

The study is mainly aimed at studying the working capital and ratio analysis by means of research & developments, Customers feedback, Findings, etc.

REVIEW OF LITERATURE

INTRODUCTION:

In recent past it has been observed that working capital management has acquired a significant position. However, the empirical research work in this regard is still in the infancy. Working capital management, which related to short-term financial decision seems to be relatively neglected by financial experts. In the study of literature regarding research it is traditionally bifurcated into two major parts. These relevant studies are having a sound impact on the present work in this report on working capital management.

Many researchers have studied working capital from different views and in different environments. The following study was very interesting and useful for our research:

Abdul Raheman* and Mohamed Nasr (2004) In this paper made an attempt to examine the Working Capital Management And Profitability – Case Of 94 Pakistani Firms selected a sample of 94 Pakistani firms listed on Karachi Stock Exchange for a period of 6 years from 1999 – 2004, Found that there is a significant negative relationship between liquidity and profitability. That there is a significant positive relationship between size of the firm and its profitability. There is also a significant negative relationship between debt used by the firm and its profitability.

K. Madhavi studied “Working Capital Management of Paper Mills” during the period from 2002-2003 to 2010-2011 with the help of accounting tools and statistical techniques. From the study analyze that, the management of Andhra Pradesh Paper Mills Ltd (APPML) must initiate necessary steps to utilize its idle cash and bank balances in attractive investments or to pay back in short term liabilities. (current ratio). The low quick ratio may also have liquidity position, if it has fast moving inventories and is more satisfactory in Seshasayee Paper Boards Ltd (SSPBL) with APPML. Cash ratio is not satisfactory in APPML as compared to SSPBL and it needs the attention of the management to induce effective utilization of cash and bank balances.

B Bagchi and B Khamrui (2010) In this study, selected a sample of 10 FMCG (Fast Moving Consumer Goods) companies in India from CMIE database covering a period of 10 years from 2000–01 to 2009–10. Profitability has been measured in terms of return on assets (ROA). Cash conversion cycle (CCC), interest coverage ratio, age of inventory, age of creditors, age of debtors and debt-equity ratio have been used as explanatory variables. Pearson's correlation and pooled ordinary least squares regression analysis are used in the study. The study results confirm that there is a strong negative relationship between variables of the working capital management and profitability of the firm. As the CCC increases, profitability of the firm decreases, and managers can create a positive value for the shareholders by reducing the CCC to a possible minimum level. There is also a stumpy negative relationship between debt used by the firm and its profitability.

Mr. Suresh Babu and Prof. G.V. Chalam (2014) Suggest that managers can create value for their shareholders by reducing the number of day's accounts receivable and increasing the account payment period and inventories to a reasonable maximum and also suggests that managers of these firms should spend more time to manage cash conversion cycle of their firms and make strategies of efficient management of working capital.

Daniel Mogaka Makori1and Ambrose Jagongo (2013) Concluded that the management of a firm can create value for their shareholders by reducing the number of day's accounts receivable. The management can also create value for their shareholders by increasing their inventories to a reasonable level. Firms can also take long to pay their creditors in as far as they do not strain their relationships with these creditors. Firms are capable of gaining sustainable competitive advantage by means of effective and efficient utilization of the resources of the organization through a careful reduction of the cash conversion cycle to its minimum. In so doing, the profitability of the firms is expected to increase.

TYPE OF RESEARCH:

This project "A **STUDY ON WORKING CAPITAL MANAGEMENT OF AND DEMONITISATION EFFECTS OF ABHAY STEELCOMPANY** "is considered as an analytical research.

OBJECTIVES OF THE STUDY

- To study the various factor affecting working capital requirements of the company
- To analyze and evaluated working capital management with respect to trade off between liquidity and profitability.
- To analyze relative asset liquidity and relative finance liquidity
- To assess the relative significance of various sources of financing of working capital management of the company
- To analyze and evaluate inventory management techniques and performance of the company
- To evaluate the management of receivables with respect to credit policy, credit terms and collection policy of the company.
- To evaluate and analyze the techniques and strategies of cash management of the company.
- To study the liquidity position through various working capital related rations

THE SCOPE OF THE STUDY

The scope of the study is identified after and during the study is conducted. The main scope of the study was to put into practical and theoretical aspect of the study into real life experience. The study of working capital is based on tools like current assets, ratio analysis, current liabilities and statement changes of working capital. Further the study is based on last five years annual reports of abhay steel.

METHOD OF DATA COLLECTION

The main source of data used for the study was secondary drown from the annual profit and loss account and balance sheet figures as found in the annual reports of the company. The selected data was complemented through company's subordinates.

1.company prospects.

2.jornals.

3.websites.

4.working capital journals

5. company subordinates.

6. secondary data.

7. project references.

8.company financial statements.

9. authors books.

10. newspapers.

CONCLUSION

This literature of the working capital management. The literature has been divided in two groups' viz. (1) literature for theoretical issue and (2) Literature with empirical study.

Theoretical studies provided strong theoretical background and conceptual foundations on the subject. This includes those books which deal with concepts and problems of the subject. While literature with the empirical study deals with research done in this subject.

Demonetization effects on steel industry

Research Methodology

India's economic growth is contingent upon the growth of the Indian steel industry. Consumption of steel is taken to be an indicator of economic development. While steel continues to have a stronghold in traditional sectors such as construction, housing and ground transportation, special steels are increasingly used in engineering industries such as power generation, petrochemicals and fertilisers. India occupies a central position on the global steel map, with the establishment of new state-of-the-art steel mills, acquisition of global scale capacities by players, continuous modernisation and up gradation of older plants, improving energy efficiency and backward integration into global raw material sources.

Steel production in India has increased by a compounded annual growth rate (CAGR) of 8 percent over the period 2002-03 to 2006-07. Going forward, growth in India is projected to be higher than the world average, as the per capita consumption of steel in India, at around 46 kg, is well below the world average (150 kg) and that of developed countries (400 kg). Indian demand is projected to rise to 200 million tonnes by 2015. Given the strong demand scenario, most global steel players are into a massive capacity expansion mode, either through brownfield or Greenfield route. By 2012, the steel production capacity in India is expected to touch 124 million tonnes and 275 million tonnes by 2020. While greenfield projects are slated to add 28.7 million tonnes, brownfield expansions are estimated to add 40.5 million tonnes to the existing capacity of 55 million tonnes.

Steel is manufactured as a globally tradable product with no major trade barriers across national boundaries to be seen currently. There is also no inherent resource related constraints which may significantly affect production of the same or its capacity creation to respond to demand increases in the global market. Even the government policy restrictions have been negligible worldwide and even if there are any the same to respond to specific conditions in the market and have always been temporary. Therefore, the industry in general and at a global level is unlikely to throw up substantive competition issues in any national policy framework. Further, there are no natural monopoly characteristics in steel. Therefore, one may not expect complex competition issues as those witnessed in industries like telecom, electricity, natural gas, oil, etc.

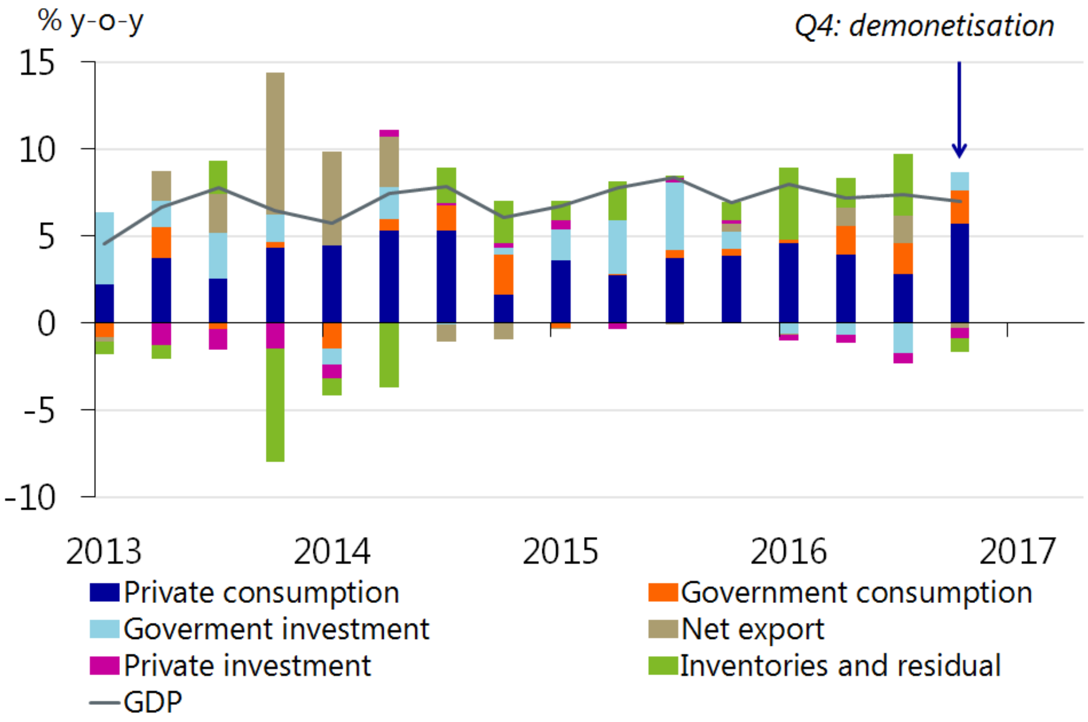
Steel production in India has expanded rapidly in recent decades and, as a result, India has become the world ‘s fourth-largest producer of crude steel. Relative to the size of its economy, India ‘s steel consumption, however, remains low; with large additions to steelmaking capacity planned to meet expected growth in steel demand, the nation ‘s steel industry is expected to expand as India develops further. India occupies a prominent place in World steel industry. The country ‘s steel industry is catching up the pace and luring the steel majors from all over the world. The industry has gained strength from the strong Indian economy, and strong sectors like infrastructure, construction and automobile. Although India consumes less steel as compared to other Asian countries, India ‘s position in world‘s steel production remained unchanged at the fourth slot in 2013 with an output of 81.2 million tonnes (MT). This is despite India logging the second highest growth of 5.1% among the top five producers. There was no change in the order of top three steel producing nations with China, Japan and the US retaining their slots in the respective order in 2013, the World Steel Association (WSA) data. Thus, the country offers vast scope for the steel industry in future.

The global crude steel production grew by almost 4% during the first 11 months of CY13, and around 50% of this production was contributed by China. This reflects an improvement over the 1% production growth rate achieved in CY12. However, with Chinese Government ‘s focus being expected to shift from infrastructure spending to stimulating domestic consumption, Chinese demand for steel in unlikely to grow at the historical high rates going forward. Consequently, the World Steel Association[3] predicted a slower growth rate of around 3% in CY 14 as against double digit rates earlier. Additionally, although the economic outlook for the USA and EU has started improving of late, steel demand growth from these economies is expected to improve only modestly in the near term. Steel prices in the USA and EU have reacted positively to the prospects of better economic conditions, while Chinese steel prices have remained weak, given the substantial excess steel capacity in the country, and a waning growth in demand.

Steel is a highly capital-intensive industry and cyclical in nature. Its growth is intertwined with the growth of the economy at large, and in particular the steel consuming industries such as manufacturing, housing and infrastructure. Steel, given its backward and forward linkages, has a large multiplier effect. Indian steel industry has been in the limelight. This sudden catapult of interest is due mainly to the few large merger and acquisition deals.

Indian Iron and steel Industry is vital to the Indian economy for economic growth and economic wellbeing. No practical substitutes exist on a large scale for iron and steel because of the relatively high cost of alternative materials. Worldwide, there are broadly two major categories of steel players—Integrated steel producers (ISPs) and mini- mills/secondary producers, although variations and combinations of the two exist. The key difference between the two is the type of iron bearing feedstock they consume. In an integrated mill, this is predominantly iron ore, with a smaller quantity of steel scrap. A mini-mill produces steel uses mainly steel scrap, or increasingly, other sources of metallic iron such as directly reduced iron (DRI)/hot briquette iron (HBI) .

Persistent weakness in demand from key end-user industries kept the domestic steel consumption growth at a meagre 0.5% during the period April-December 2013. After registering a year-on-year growth of 0.8% in the first half of 2013-14 (H1FY14), steel consumption growth in India registered a decline of 0.15% in Q3FY14. As a result, ICRA expects the domestic steel demand to grow at a slower pace in FY14 than the 3.3% growth rate achieved in FY13, notwithstanding a typical pick-up in demand in the last quarter. On the other hand, double digit production growth rates clocked by the main steel producers1 in April-December 2013 resulted in a domestic steel production growth of 5.2% during the same period. The mismatch in domestic supply and demand necessitated higher steel exports, which also benefitted from favourable exchange rate conditions. This led to an export growth of 9.5%, while steel imports crashed by 29.2% during the period.



Weak price trends, coupled with slower demand growth ruled out any improvement in the operating profitability of Indian steel Industry in 2014. While the large players announced price hikes in 2013, the same was not sustainable because of an adverse demand-supply position in the country. Based on a study of the financial performance of seven large steel players which account for over 40% of the domestic installed capacity, the stand-alone operating profitability of the industry declined from 20.37% in Q1FY14 to 19.87% in Q2FY14. Additionally, depreciation and finance charges on account of the debt funded capital expenditure by most players continued to impact their net margins. The smaller players, typically having weaker credit profiles, are likely to have experienced higher stress as is evident from the fact that the iron and steel industry accounted for 21.3% (highest) of the total restructured debt in, 2013 under the Corporate Debt Restructuring (CDR) cell. The near-term outlook on the profitability of Indian steel players however has improved, given
the soft price trends of key raw materials.

A further price hike announced by the industry in January 2014 should also help, provided a weak steel market can absorb such a price hike. The steel industry being highly raw material intensive, ICRA expects the near-term benefits from lower raw material costs to more than neutralize the adverse impact of a low volume growth,

even if a part of the benefits of lower costs are passed on to customers to protect sales volumes. Over a longer term, volume growth however would be critical, given that substantial fresh capacities are likely to be commissioned in the next two years. Unless demand conditions improve significantly, overall capacity utilization levels and profitability of steel players would remain impacted.
Financial efficiency of a business is highly depends upon the liquidity, productivity and profitability of the business enterprise. The liquidity can be achieved by managing the different parts of working capital such as receivable management, cash management and proper debt collection policy. An output is obtained by the combined input of a number of factors like labour, material, capital, land and organization. The ratio between output and one of these factors of input is generally known as the productivity of the factors considered, the ratio between output and all these factors is known as total productivity. It is considered as a measure performance of the economy as a whole. In the broadest concept, productivity may be taken to constitute the ratio of all available goods and services to the potential resources of the group of the country.

The problem of increasing efficiency relying on proper and efficient utilization of the available resources of men – machines- money – power – land- capital etc. Efficiency cannot have a mask attack on wastage of every type and in every sphere. It constantly urges to find better, cheaper, quicker, easier and safer ways of doing job, manufacturing a product and providing a service. It aims at the maximum utilization of resources for yielding as many goods and services as possible, of the kinds most wanted by consumers, at the lowest possible cost. The profitability can be achieved after control over the cost of production. In recent years, cost of almost all elements of production like cost of raw material consumed, wages cost, excise duty, power and fuel cost, interest burden, administrative expenses, selling and distribution expenses etc. have increased heavily. On the other hand, selling price of metal, iron, steel, steel products, cement, textiles, automobiles, woollen, engineering, tea, paper, and chemical products has decreased. In these circumstances, to keep the progress of business enterprise is very essential for management in present environment, to achieve the profit it tends to introduce various control techniques over expenditure and get maximum output. A study of financial efficiency classified on the basis of persons interested in the analysis. Generally external and internal parties are interested in such analysis of study. Objectives of both these analyses are different. An external analyst has to depend upon the published information of financial statement, which is not enlightening them. While internal analysis knows everything regarding the information provided in the financial statements. Different analysts always make analysis or study of financial efficiency knowingly, generally, external analyst 's analysis of the information as per their requirements. All stakeholders are interested in the financial and liquidity position of a company. A shareholder is interested in the profitability. Management is interested in the productivity and operational efficiency. Thus, various stakeholders of business enterprise like management, investors, bankers, financial institutions, creditors, employees, government; economists, prospective investors etc. look at liquidity, profitability and productivity and overall performance of the business concern. In one word, we can say overall financial efficiency is the main concern for the stakeholders for gaining fruitful returns from investment. As Steel Industry is backbone of the development of every economy researcher is highly interested to know the financial efficiency of Indian Steel Industry.

Survey of Existing Literature: In order to have proper insight into the various aspects of the problem under study, it will be useful and imperative to review the studies conducted in the past. Till now, many studies have been conducted on the different aspects to measuring the financial efficiency and financial performance of public and private sectors in India but it has been rarely tried to work on the problems of these undertakings and suggested for taking out the one or two or some other aspects of finance or focus on other industry. There is wide range of literature available on financial efficiency, financial performance, analysis of different companies in conforming to its dynamic value and significance of intuitive nature. A good dealing in analytical part of literature exists at broad levels like size and technology, problem associated with productivity, financial efficiency, and capacity utilization. Relevant existing literature and studies have been mentioned separately in the previous chapter, where researcher has mentioned available literature and have tried to find out the research gap.

Scope of the Study: The review of literature presented in the preceding part of discussion testifies that many studies have been conducted in the past on financial aspects, profitability and liquidity on both public and private sectors but overall study on financial efficiency of steel industry and future growth for the steel industry required strategy is not focused till date. A study on financial performance or profitability and liquidity of the organizational study is also conducted but no study seems to be conducted on financial efficiency of steel industry after the downturn. In the present scenario where business world has become highly competitive, and there is a slow recession in the world economy each and every sectors and sector growth is highly depending on the performance of steel industry. The performance of steel industry is highly impacted on the performance of other industry like Automobile, Construction, Heavy tools and equipment, Aviation, Power, and etc., Time has come when the revival of these undertakings has become imperative and for making them competitive, Government need to take some effective steps accepting the fact that the present time is the time of change towards betterment. The pace, scope and depth of changes taking place in the public sector are said to require a fundamental retaining of the conceptual models or paradigms upon which public base accuracy have been built in the past. More pragmatically, there is an insistence need to examine the relevance, worth and effectiveness of all activities undertaken by the government.

Data Collection

Secondary data has used for the study. Secondary data is collected from library, text books, and journals, articles from news papers and from relevant websites available on internet.

Measurement

Based on situation specific scenarios, expert's opinions, and use of internet for information search.

Theoretical Framework

1. **Amartya Sen** (Leading economist; Noble)

Laureate; recipient of the Bharat Ratna) According to Indian express, Professor Amartya Sen said that millions of innocent people have deprived from their money and being suffered to get their own money back.

2. **Dr. Manmohan Singh** (Former Prime Minister; eminent economist; former RBI governor)

According to Indian express, the former prime minister, RBI governor, and economist Dr. Manmohan Singh said in Rajya Sabha that this demonetization is an organized loot. In his speech he said that, the way the scheme has been implemented will harm the agricultural sector in India, it will also harm the small-scale industry and informal sectors of the economy. He also said that India's GDP can falls about 2 percentage point as a result of this note banned policy. Cooperative banks which serves the rural areas are non-functional and has been prevented from cash. Former prime minister also said that this note banned policy is a monumental mismanagement.

3. **Kaushik Basu (**Leading economist; Senior Vice- President and Chief Economist at The World Bank)

According to Indian express, Mr. Kaushik Basu said that government of India made policy that any person who deposits money beyond the limit of 250000, have to pay huge penalty. This policy created a new black market, in which large amount of illicit cash broken in to smaller parts and deposited by the members of team; which is a legal way of illegal activity. Mr., Basu said this move is hurting innocent people who has no illegal money but they have built up cash reserve over a long period of time.

4. **Arun Shourie** (Former economist at the World Bank; recipient of the Padma Bhushan and Union Minister)

According to Indian express, Mr. Arun Shourie said in an interview with NDTV, that this note banned policy made by present Indian government is not poke on black money, because the owner of black money converted their money into tangible and intangible assets. The persons who have huge black money, they never keep money in cash, they never keep money under the mattress, or in gunny bags. They invested their black money in properties, jewelleries, stock markets or in other assets.

5. **Arun Jaitley** (Current Finance Minister of India; Senior Advocate, Delhi High Court)

According to Indian Express Mr. Arun Jaitley gives his opinion that the demonetization is good for economy, Indian banks were facing NPA problem since last many years, now banks will have more money to lend for many sectors of the economy.

6. **Arvind Virmani (**Leading economist; Former India's representative at IMF; Former Chief Economic Adviser, GOI)

According to Arvind Virmani demonetization is a useful technique to solve the problem of black money, but he also said that it need the deeper study to check the effectiveness of demonetization. Immediate effects of demonetization are negative impact in retail trade in goods and services. Currency for everyday transaction have to be replace soon.

7. **Surjit Bhalla** (Chairman, Oxus Investments, a Delhi-based economic research/advisory firm; Former Professor at Delhi School of Economics; Previously worked at the World Bank)

According to Mr. Surjeet Bhalla BJP government take a Courageous step, and the credit goes to our prime minister Mr. Narendra Modi. If this step would be successful then it will be biggest reform in India. This policy will silently create the money for the economy.

Chapter 3

COMPANY PROFILE

Abhay iron and steel

Company profile

Abhay steels embarked on the illustrious journey that has shaped and strengthened the core of India. Driven by an insatiable quench to anneal and bolster the speed of development and technology Abhay Enterprise came in to being in 1989, later on it was renamed Abhay Steel in 1992 and finally as Abhay (India) Pvt. Ltd

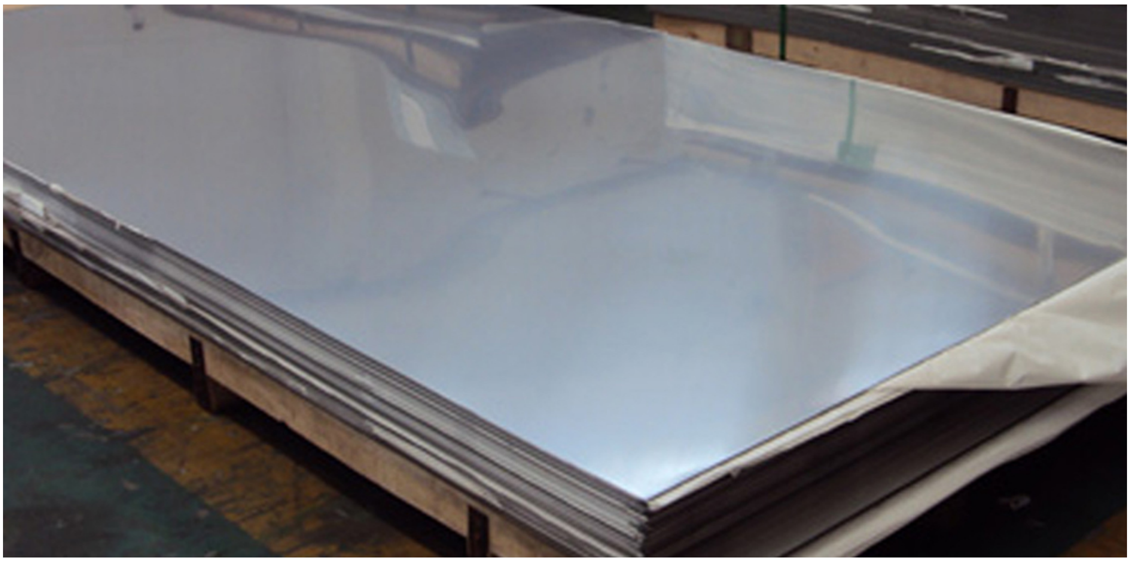
Abhay steel has been serving t with a multitude of steel products such as Galvanised Coils, Galvanised Sheets, Galvanised Corrugated Sheets, Hot Rolled Coils and Hot Rolled Plates in India. Company's wide range of product offerings and end-to-end solutions has made it private sector dealer in local market of Iron and Steel Industry.

Company motive is to serve their customers optimally led to the formation of a Steel Service Centre at MIDC Taloja, Navi Mumbai, that emphasizes on infrastructural development to focus on Steel Fabrication and Cut to Length services while also accommodating a facility capable of cutting coils from 0.30mm-16mm thickness, up to 2500mm width.

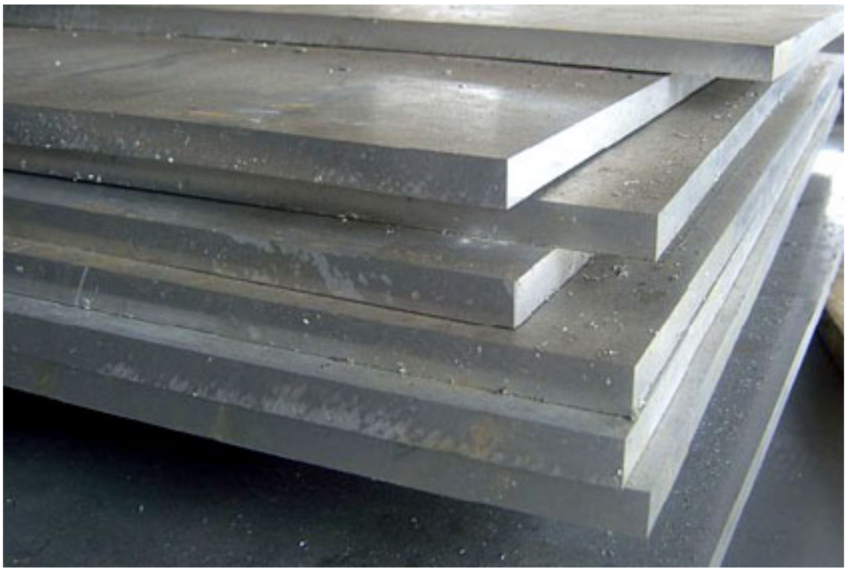
Abhay steel servitude attitude towards our customers and wide range of quality product offerings at competitive prices has made our progress indelible.

PRODUCTS OF THE COMPANY

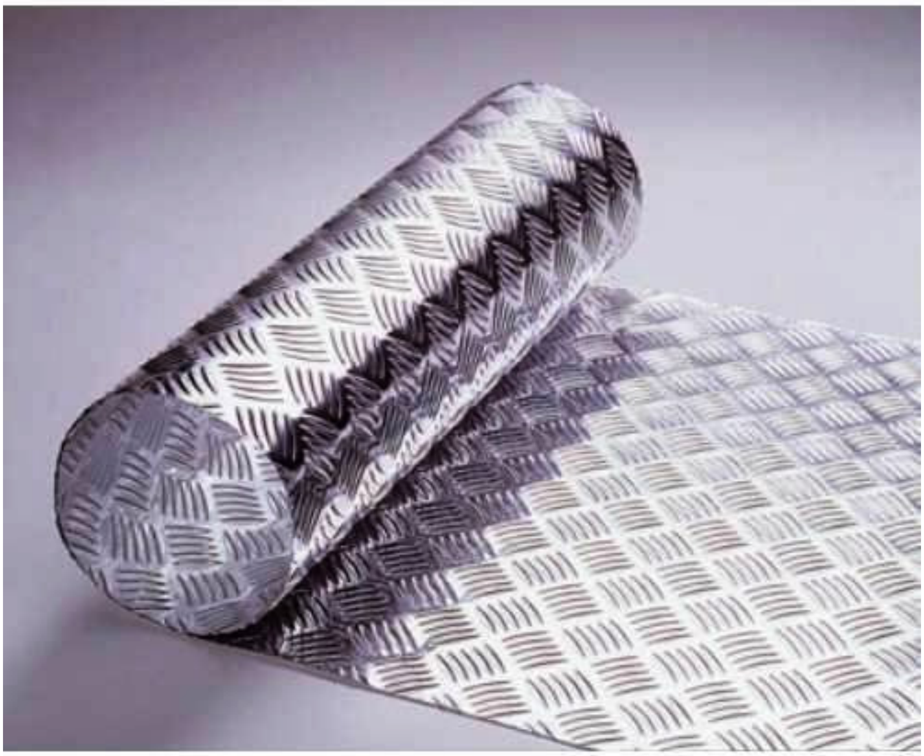
HR STEEL COILS



HR PLATES



HR HIGH TENSIL COILS/PLATES

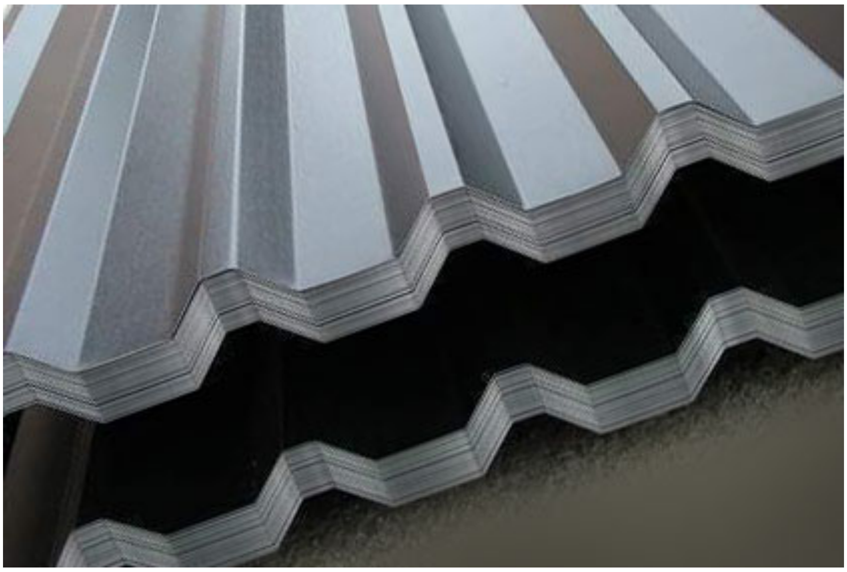


CHEQUERED COILS/PLATES

Cold Rolled Coils

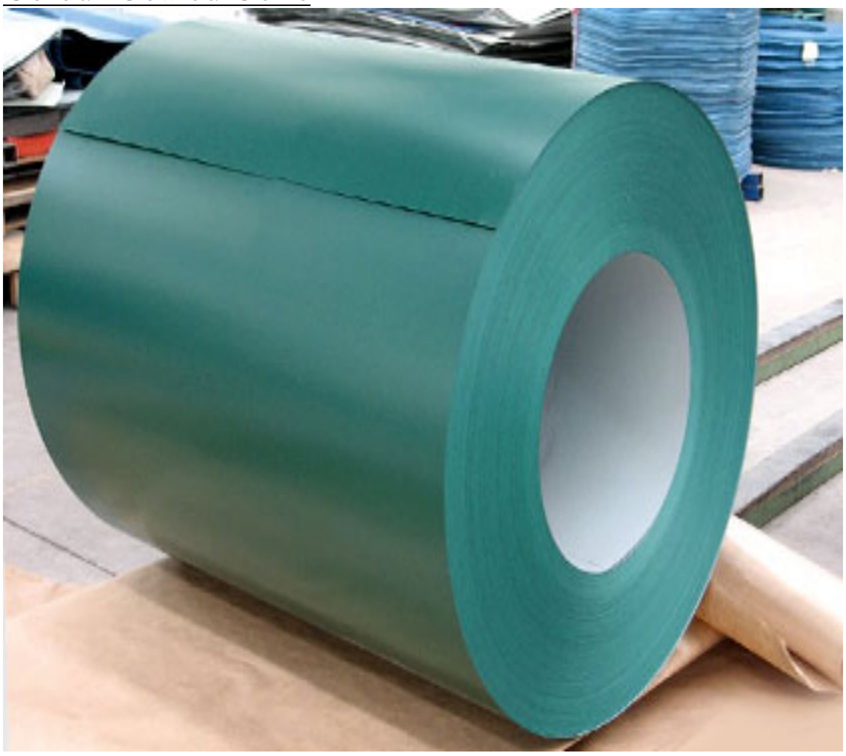
Galvanized Coils / Sheets

Galvanized coils/sheets



Galvanized Corrugated Sheets

Colour Coated Coils



Color Profile Sheets

TMT Bars

Services

- Movement of goods from mill to warehouse
- Maintaining ready stock for prompt supply
- Cutting and sheering as per specifications
- Packing as per specifications
- Movement of goods from warehouse to customers
- Financing and credit to customers

RISK & OPPORTUNITIES

Company's Steel Works is exposed to risk and opportunities in equal measures. The company has a robust Enterprise Risk

Management (ERM) frame work, that allows the organization to take certain risk in order to be competitive and to mitigate other risk to drive sustainable results. By identifying and proactively addressing risk and opportunities, stakeholder value is Protected at all times. We do address the risk related to strategy, operational, financial and legal.

The main competitive strength of the company:

Promoters have years of experience in the same line of business.

•Company has large customers base in PAN India basis.

•Company has large variety of products in various length and sizes in Billets, Angles, Wire Rods, Wire and Bright Bars.

•High quality products accepted by customers over the years and growing acceptability in the quality conscious markets.

•Integrated facilities accredited with quality and ISO certifications such as ISO 9001:2008, TUV NORD.

•Excellent strategic management in procurement of imported stainless steel Scrap, Alloys and allied materials.

•Cost competitive with good operational efficiency.

•Skill work force with industry expertise with long years of experience.

•All downstream and upstream product lines are consolidated.

•Consistent and growing demand from overseas clients.

Opportunities:

•To take advantage of the various initiatives taken by the Government in FY 2016.

•Export potential in traditionally overlooked markets.

• Government is taking many steps to increase per capita consumption of stainless steel products.

• With the Government of India's emphasis on the substitution of imported goods to reduce import bills, sectors such as Transportation (Railways), Aerospace etc. are expected to rely on Indian companies and domestic expertise for Procurement.
• Growth in infrastructure and automobile sector.
•Availability of Bank finance providing liquidity for import and capacity utilization.

Types of steel

Steel is an iron based mixture containing two or more metallic and/or non metallic elements usually dissolving into each other when molten. Since it is an iron based alloy—as per its end use requirements—other than iron it may contain one or more other elements such as carbon, manganese, silicon, nickel, lead, copper, chromium, etc. For example, stainless steel (a type of steel) mainly contains chromium that is normally more than 10.5 percent with/without nickel or other alloying elements. Steel is produced using Steel Melting Shop that includes converter, open hearth furnace, electric arc furnace and electric induction furnace.

There are broadly two types of steel according to its composition: alloy steel and non-alloy steel. Alloying steel is produced using alloying elements like manganese, silicon, nickel, chromium, etc. Non-alloy steel has no alloying component in it except that are normally present such as carbon. Non-alloy steel is mainly of three types viz**.** mild steel (contains up to 0.3% carbon), medium steel (contains between 0.3-0.6% carbon) and high steel (contains more than 0.6% carbon). All types of steel other than mild steel are called special steel. It is mainly because a special care is taken in order to maintain particular level of chemical composition in such steel. This process gives different properties to the steel according to its composition. In India, non-alloying steel constitutes about 95 percent of total finished steel production, and mild steel has large share in it.

Steel production processes

Blast furnace/basic oxygen furnace (BF/BOF): BF basically converts iron ore into liquid form of iron. Iron produced by BF contains high amount of carbon and other impurities, this iron is called pig iron. Pig iron due to its high carbon content has limited end use application such as covers of manholes. To make steel products out of pig iron it is further processed into BOF where its carbon content and other impurities are burnt or removed through slag separation. Main inputs to BF are iron ore and coal/coke. BOF is also called oxygen furnace because oxygen is the only fuel used in the process. Generally, integrated milling use BF/BOF routes to produce finished steel. Company uses this technology for its production

Electric Arc Furnace (EAF): Basic purpose of the EAF is remelting sponge iron, melting scrap, its main inputs, to produce finished steel. It uses electricity as much as 400-500 kWh/ton. ISPAT, ESSAR, and the Jindal group are examples of producers, which use this technology.

COREX or Cipcor Process*:* COREX is an advance process of making steel. Though few use this process, it is possible to use non-coking coal directly in smelting work and it also makes it possible to use lump ore and pellets as inputs. These two advantages allow steel producers to eliminated coking plants and sinter plants. Purpose of coking plant is to convert non-coking coal into more efficient fuel and purpose of sinter plant is purify lump ore or pellets for further processing. Basic inputs to COREX are iron-ore and coal. Company uses COREX technology to produce finished steel.

Induction Arc Furnace (IAF): is one of the most advance processes of making steel. Like EAF it uses electricity as its main fuel. IAF is most environment friendly and efficient way of producing steel. However, its lack of refining capacity requires clean products as its inputs. Large numbers of small steel companies use this technology.

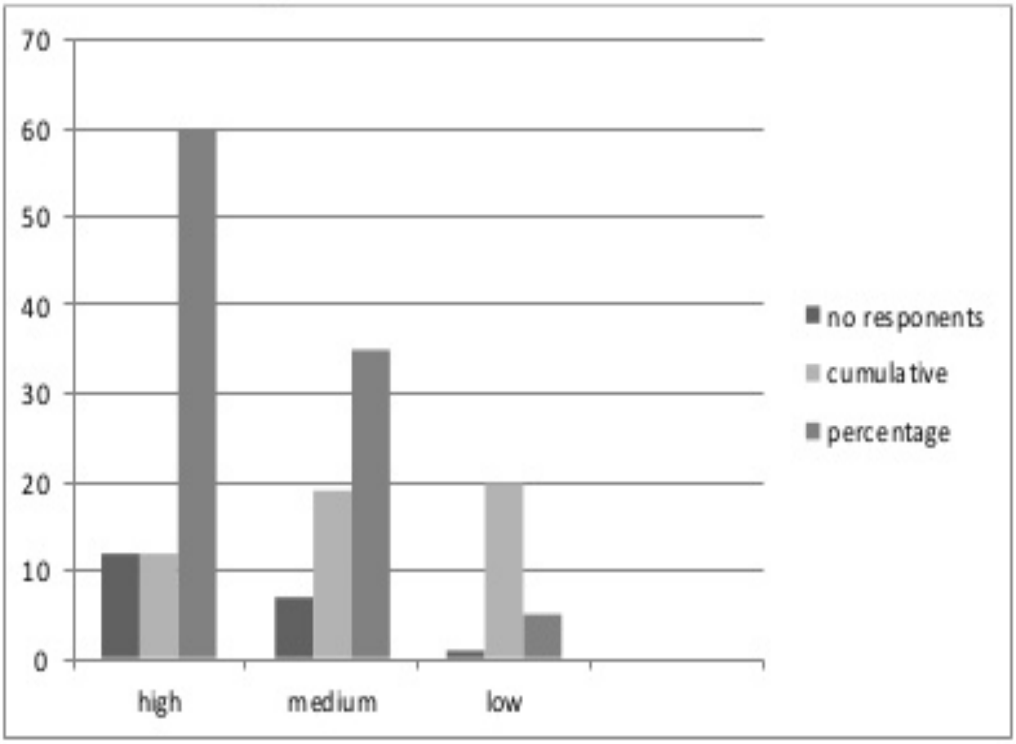
The high weight of the product significantly pushes up transport and movement costs. Therefore, large integrated plants are the norm for cost efficient production. For specialized steel and alloys efficient production by smaller plants is possible

QUALITY OF STEEL BARS HANDLING

TABLE NO:1

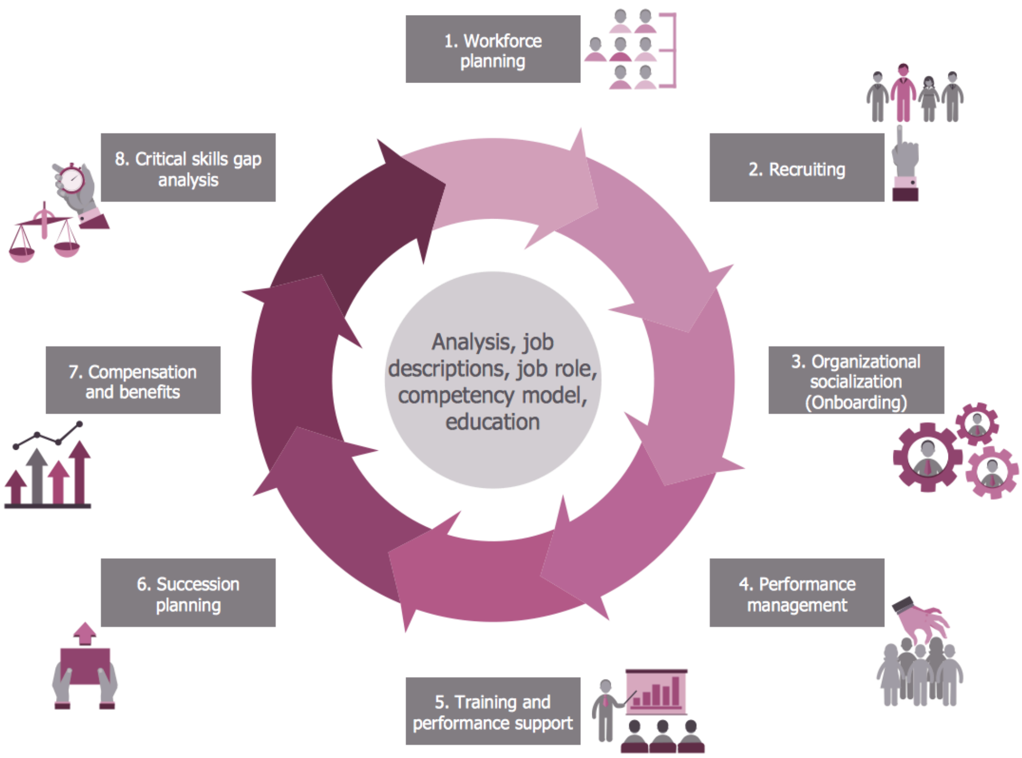
OPINION	NO RESPONENTS	CUMULATIVE %	PERCENTAGE
high	12	12	60
medium	7	19	35
low	1	20	5
Total	20	20	100

CHART NO:1 QUALITY OF STEEL BARS HANDLING



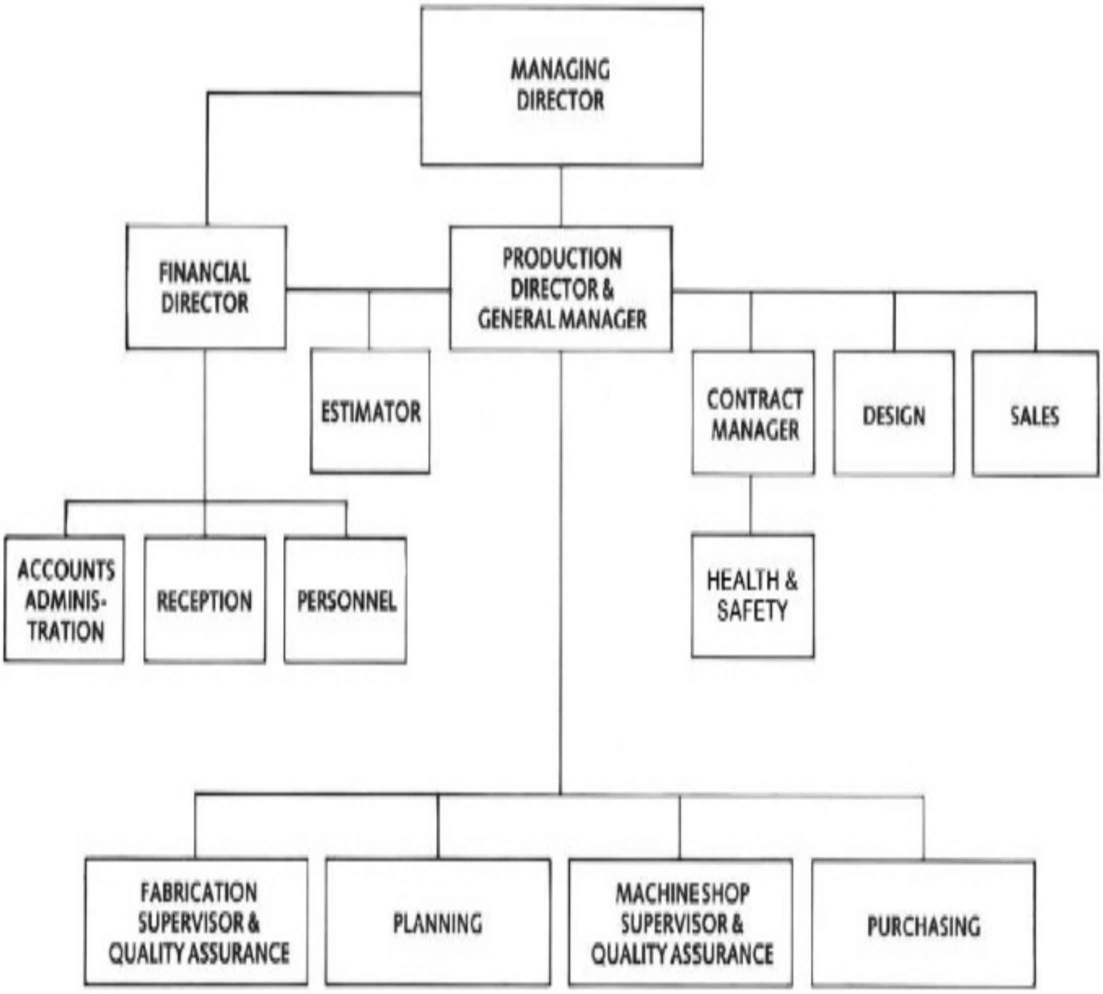
HUMAN RESOURCES DEPARTMENT

The focus on HRM is now moved to the strategic utilisation of employees and the measurable impact of employee programs over business. Nowadays successful companies need to be adaptive, resilient, quick to change direction and customer-centered. Within such an environment the effectiveness of HRM is crucial to business success. HR professionals establish systems for performance development, career succession planning and employee development. This keeps people motivated, happy, personally engaged and contributing to company success. Furthermore, the HR professional helps the development of organisational culture and climate in which employees have the competency, concern and commitment to serve customers well.



ABHAY STEEL

ORGANISATIONAL STRUCTURE



Vision & Mission

“To generate 1-million-ton resale value in the Iron and Steel Industry within the next 3 years. "

“To leverage our experience by investing in various expansion techniques like joint ventures and acquisitions. "

“To produce an increase in turnover, propelled by the addition of new infrastructure oriented products such as all-dimensional specialized plates, profiles for shades and pre-engineered buildings. "

“To create a customer relationship based on the foundation of trust, respect and accountability.

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

DATA ANALYSIS AND INTREPRETATION

Working capital is the backbone of an organization. It refers to a portion of the total fund which finances the day to day working expenses during the operating cycle. Management of working capital is one of the most important functions of corporate management. It is rightly said, "Inadequate working capital is advantageous, whereas redundant working capital is a criminal waste". As a large manufacturing industry, working capital management in the steel industry involves a large portion of the company's total assets. The optimum working capital ensures the success of the business, while its inefficient management will lead to the down fall of the company. Hence, this paper analyses the working capital management of the company. Finally, it was concluded that the size of a company plays a vital role in determining the efficiency of its working capital management.

FINANCIAL PERFORMANCE

The year 2006-07 was a good year for the steel industry as it registered positive growth as a whole. During January-March 2007 PTA for the sector as a whole was Rs. 489.6 Crores a growth of 14 percent over previous quarter

During the year the company achieved a Revenue of 594.36 Crores along with Net Profit of 4.04 Crores. Company’s Net Worth has increased from 232.99 Crores in FY 2014-15 to 237.02 Crores in FY 2015-16. Operating Profit (EBITDA) improved from 28.42 Crores in FY 2014-15 to 30.04 Crores in FY 2015-16 representing growth of 5.70%. EBITDA has improved significantly on account of effective capacity utilization. The organization has applied to various financial institutions and Banks for enhancing working capital facilities to support operations & in order to achieve optimum capacity utilization.

Current Ratio

Current ratio may be defined as the relationship between current assets and current liabilities. This ratio also known as working capital ratio is a measure of general liquidity and is most widely used to make the analysis of a short-term financial position or liquidity of a firm. It calculated by dividing the total of current assets by total of the current liabilities.

Current Ratio = Current Assets/Current Liabilities or Current Assets: Current Liabilities

The statistical data relating to calculation of current ratio was computed through the financial statements referred in their respective annual reports of Abhay iron and steel company for the study period from 2010-11 to 2014-15 are depicted in the below table

Components of Current Assets of the company (Rs. In Crores)

Y ears	2014-15	2013-14	2012-13	2011-12	2010-11
Current Investments	100.08	233.24	434.00	124.17	
Inventories	802.00	607.81	557.94	488.99	337.58
Trade receivables	41.46	77.81	76.92	90.08	42.03
Cash and Bank balances	48.59	91.16	218.11	346.99	441.54
Short term Loans and advances	171.77	129.20	207.83	188.09	745.97
Other Current assets	55.27	82.38	65.80	22.18	76.18

Table 2: Components of Current Liabilities of the company (Rs. In Crores)

Y ears	2014-2015	2013-14	2012-13	2011-12	2010-11
Short – term borrowings	3.88	4.69	7.94	6.62	
Trade payables	58.9	86.6	63.9	59.2	
Other current liabilities	11.5	71.7	85.5	89.5	77.83
Short term provisions	15.4	19.8	15.2	26.2	37
total	89.68	183.6	172.54	181.52	114.83

INTERPRETATION

As shown in the above table the company's short borrowings from banks has been substantially reducing that indicates company's better profits which has been promoting for reduction in company's current liabilities. However, the company's trade payables levels have been moderate.

Table 3: Current Assets and Current Liabilities of the company (Rs. In Crores)

Y ear	Current Assets	Current Liability	Current Ratio
2014-15	18.1	89.68	0.2:1
2013-14	16.6	183.6	0.9:1
2012-13	13.6	172.54	0.7:1
2011-12	12.5	181.52	0.6:1
2010-11	241.3	114.83	2:1

Interpretation

As a conventional rule, a current ratio of 2:1 is considered satisfactory. This rule of thumb should not blindly be followed because, low current ratio indicates that the unit may not be having sufficient funds to pay off liabilities or it may be trading beyond its capacity. Higher current ratio may not be favourable because of slow moving stocks, stocks may pile up due to poor sale, debt collection may not be satisfactory, cash and bank balances may be lying idle because of insufficient investment opportunities. This ratio is below the accepted standard norm of the company in the entire study period, excepting 2010-11. It clearly indicates, the normal general accepted solvency to meet their current obligations in time is not satisfactory during 2011-2014. The management of Abhay iron and steel limited must initiate necessary steps to utilize its idle cash and bank balances in attractive investments or to pay back its short-term liabilities.

Quick Ratio or Liquid Ratio

Quick ratio is also called Acid-test ratio because it is the acid test of a concern`s financial soundness. It is the relationship between quick assets and quick liabilities. Quick assets are those assets which are readily converted into cash. They include cash and bank balances, bills receivable, debtors, short term investments. Quick liabilities include creditors, bills payable, outstanding expenses.

Quick ratio = Quick Assets/Quick Liabilities

Quick Assets = Current assets- (Stock +Prepaid expenses)

Quick Liabilities = Current Liabilities –Bank Overdraft.

A quick ratio of 1:1 is considered satisfactory. The quick ratio supplements current ratio.

Table 4: Quick Assets and Current Liabilities of the company (Rs. In Crore)

Y ear	Quick Assets	Current Liabilities	Quick Ratio
2014-15	4.1	16.9	0.24
2013-14	5.7	18.7	0.30
2012-13	7.6	19.6	0.43
2011-12	8.5	16.6	0.51
2010-11	2072	10.81	1.91

INTERPRETATION

A quick ratio of 1:1 is considered to represent a satisfactory current financial condition. A quick ratio of 1:1 does not necessarily mean satisfactory liquidity position, if all debtors cannot be realized and cash is needed immediately to meet current obligations. A low quick ratio does not necessarily mean a bad liquidity position as inventories are not an absolutely non-liquid. It is observed from the above data the quick ratio is less than the accepted norm from 2011-12 to 2014-15, whereas it is just above the standard in 2010-11. Quick ratio is very poor so it will increase their liquidity position, it will help to meet day to day expenses.

Swot analysis

Strength

- Company has nature of adapting the changes occurring in environment and market forces, that indicates greater strength for the company.
- Through the high competencies the company is adapting changes in local markets as well as Is in global markets within the operations of the of the organisations with higher efficiencies.
- Strong brand image in the local markets indicates advantages for the company.
- Good work force
- Wide range & size
- Customer trust & faith is good
- Good in sales technique &ability to customize
- Good in share market

WEAKNESS

1) Poor network in rural area
2 Weak publicity
3) High price
4) Only for the high-income group
5) Not possible to meet the world market
6) Red tapism, bureaucracy

THREATS

1) local market competition

2) Availability of raw materials

4) Internal market

5) Unawareness to local people.

7) Protectionism in local market

8) Dumping by competitors

Opportunities

- Under uncertainty principle the major factor is to determine how the organisation can continue to grow within the marketplace

- After all, opportunities are everywhere, such as changes in technology, government policy, social patterns, and so on.

- What does the organisation predict in the future that may depict new opportunities?

- Where and what are the attractive opportunities within the marketplace?

- Are there any new emerging trends within the market?

DEMONETISATION EFFECTS ON THE COMPANY

The government surprised the country by announcing that all Rs 500 and Rs 1000 notes will cease to be legal tender in an effort to unearth black money and counterfeit currency. The sudden ban and lack of adequate new currency notes has prompted a liquidity crunch across industries especially smaller and medium sized businesses that depend on cash transactions.

One such segment, the demonetization drive has led to a severe drop in business, which in turn means that manufacturing units are on the verge of shutting down.

Negative impact of the demonetisation

The company claims retail trade has been hit the most, not just retail trade. But also the movement of the goods and materials. Company claims that manufacturing continues in some pockets but with the lack of funds may bring it to a halt. Besides, the cash crunch has meant few buyers in the market.

The speed and flow of the market has been completely interrupted. Everyone has Rs 500 and Rs 1000 notes which are no longer acceptable. Buyers want to pay in the old currency (Rs 500 and Rs 1,000 notes) and suppliers are not accepting old currency. So the whole trade cycle has been stuck for two days.

It is not just the company. The whole market runs on cash. Cash is the conventional mode of payment for most things here. If the company is buying supplies from a small trader, the traders would want their payment in cash and similarly, buyers for our goods want to pay in cash. Daily trade runs on cash.

Modes of payment

Cheque payments only work for the big players in the market who can afford to wait for two-three days for the cheque to clear.

But even they are not accepting cheques anymore since cheques also need to be converted into cash and banks have placed a limit on withdrawals. No matter which mode of payment is used, there is cash involvement at some level and the market cannot function smoothly if cash is applicable everywhere and for everything.

Since nobody (in the market) had sufficient cash with them anymore, company's work, production, trading and cash flows came to halt for certain period of time.

Impact of demonetisation in monetary terms:

There are 50 rolling mills, 25 furnaces, 15 sponge iron plants. Traders could not work without manufacturers providing goods and the company could not produce when suppliers are not accepting old currency (Rs 500 and Rs 1,000 notes).

So, all activity had come to a halt. Company had stocks of goods but there was no buyer or supplier in the market because cash was not available. The full chain is interlinked and if one part stops working, other parts start getting affected too.

Company could not pay the labourers because they do not know banks and don not have accounts. Daily wage labourers work on cash only and company could not pay them, the laboures regularity to work declined.

There was loss of at least Rs 8 Crores for the company in span of 3 weeks. And the losses increased as there was no cash availability. Business come down to just a quarter of what it was earlier or before demonetisaton.

CHAPTER 5
Summary of
SUGGESTIONS
OF findings

Suggestions

- Working capital of the company has been increasing every year. Profit also increasing every year this is a good sign for the company. It has to maintain it further, to run the business long term.
- The company has sufficient working capital and has better liquidity. By efficient utilization this it should increase the turnover.
- The company should take precautionary measures for current assets and current liabilities from receivables and to reduce bad debts.
- The company has sufficient working capital and moderate liabilities. By efficient utilizing this short-term capital, then It should increase the turnover.

Findings

- Working capital of the Abhay steel company was increasing and showing positive working capital per year. it shows good position.
- Positive working capital indicates that company has ability of payments of short term liabilities.
- Working capital has increased but the company should take care of their current assets and current liabilities.
- Company's current assets were always more than requirements it effects on company's profitability.

Conclusion

The study investigated working capital management as a financial strategy for Abhay iron and steel pvt. Ltd. The relationship between working capital and profit before tax was examined through regression model between working capital and profit before tax. It was discovered that there is a negative relationship between working capital and profit before tax. The relationship between collection days and turnover was also tested by regressing collection days against turnover. It was discovered that there is a positive relationship between collection days and turnover. The company must improve upon her working capital which is the life blood of any organization. The poor management of working capital is reflected in poor current ratio of 0.99 against the industrial average of 2:1.

Further Research

Since the scope of this study is limited to a certain period of time and to a single company Quoted in the Stock Exchange, the scope of further research may be extended to the working capital components management including cash, marketable securities and inventory management

CHAPTER 6

BIBLIOGRAPHY AND *ANNEXURE*

Q 1 What is the objective of Working Capital Management?

(Tick more than one if necessary)

i) Efficient use of current assets

II) Liquidity and profitability

III) Liquidity profitability and efficient use of current assets

iv) Profitability

v) Confer stanchly to Govt regulation

v Any other (Please Specify)

Q 2 State the policies of Working Capital to achieve its objectives?

(Tick more than one if necessary)

I) Efficient and timely production

ii) Minimum level of cash balance in each component of working capital and Continuous reviews of situation

III) Managing inflows and outflows without affecting production and sales

iv) Maximizing creditors and minimizing receivables

y/) Effective management of inventory

vi) Review and follow up of credits

VII) Any other (Please Specify)

Q 3 What are the different methods of determining working capital requirements '>

(Tick more than one if necessary)

i) Over all budgeting methods

II) Cash forecasting

III) Any mathematical/statistical methods

IV) Any other (Please Specify)

Q 4 Which of the following forms the basis for working capital determination?

I) Production

II) Sales

III) Operating Cycle

IV) Installed capacity

v) Capacity actually used

VI) Any other (Please Specify)

Q.5: (a) On what basis is the working capital budget prepared?

i) On long term basis

(Say annually for 5 years)

ii) Only Annual Budget

(b) State the budget period (Budget Cycle)

i) Weekly

ii) Monthly

iii) Quarterly

Iv) Any others (Please Specify)

Q.6: Are working capital budgets prepared in co-ordination with the budgets of production, sales and collection function? Yes/No

What problems have you experienced in the matter of co-ordination?

(Tick more than one if necessary)

i) Matching the production with sales due to slippages in production on account of slippages in delivery schedules in respect of materials, stores, equipments etc.

ii) Variation in consumption of raw materials and stores and high obsolescence of materials and products,

iii) Uncertainties associated with the supply position of fuel oil, coal etc.

iv) Uncertainties associated with the receipt of subsidy from Government, wherever applicable.

V) Inadequate information from the coordinating departments,

vi) Delay in collection of receivables,

vii) In certain cases even if production forecast was less inventory was required to be provided for higher capacity utilization,

viii) Scheduling of production of long production cycle items and short production cycle items was difficult,

ix) Forecasting of customer clearances for long production cycle items and forecasting of orders for short production cycle items was difficult.

x) Determining the dispatch schedule to meet customer requirements and to suit the terms of payment and invoicing was difficult,

xi) Any other (please specify)

Q.8: What are the duties and responsibilities of your Financial Executive with regard to working capital management?

(Tick more than one if necessary)

i) Laying down working capital policies and reviewing financial position,

ii) Planning, forecasting and assessment of working capital requirements through the introduction of budgetary control system, periodical review of budgets, and generating information reports for managerial action,

iii) Fixation of norms for the components of working capital. Monitoring the levels of working capital Keeping in view the opportunity plans, and correction of imbalances in the composition of working capital,

iv) Report to the management and the Board, the money locked up in working capital suggest methods of controlling working capital and utilization of working capital for maximization of profitability,

v) Monitoring the fund flows and controlling the activities relating to the sources and application of funds.

vi) Advise on and generate the sources for meeting the working capital requirements, wherever possible, without hypothecation of stocks.

vii) Procurement of supplies enforcement of purchase policy, installation of a system of inventory valuation, and accounting of stocks,

viii) Formulation of accounting policies for valuation of finished goods, work in process and inventories,

ix) See that inventory carrying costs are maintained at a reasonable level.

x) Assessment of debtors according to terms of payment and maintenance of records in respect of debtors according to statutory requirements,
xi) Formulation of a system of effective cash management, including credit arrangements, and control over cash operations based on annual and monthly budgets.

Q.9. Do you follow the policy of authorization of working capital expenditure?
Yes/No
if Yes, please state the
i) Levels of authorization
ii) Limits of each level
Please state briefly the important reasons for exceeding the authorization limits.
(Tick more than one if necessary)
i) Change in the volume of price escalation,
ii) Shortage of raw material stores and spares, etc.
iii) Changes in plan priorities resulting in delayed budget allocation,
v) Price variations and unforeseen statutory levies,
vi) Changes in Government policies and credit control
vii) Increase in costs and volume of output.

Q.11: Do you follow any of the following ratios as working capital norm?
(Tick more than one if necessary)
i) Current assets to fixed assets
ii) Net working capital to network,
iii) Net working capital to total assets
iv) Current assets to current liabilities
v) Any other (please specify)

Which of the following is the ratio stated by you above?
i) An industry norm
ii) An organisation norm which is:
a) An average of past achievement
b) Any other (please specify)

Q.12; Please explain the method and technique of Control and Review of Working Capital in your organisation

(Tick more than one if necessary)

a) Ratio Techniques

(Tick more than one if necessary)

i) Current assets to fixed assets

ii) Net working capital to net worth

iii) Net working capital to total assets

iv) Current assets to current liabilities.

V) Any other (Please Specify)

b) Information System (reports, statements, feed-back and review)

c) Government Guidelines

d) Any other control and review techniques (please specify)

Q.13: Do you review your working capital norms? Yes/No

If yes how often?

i) Monthly

ii) Quarterly

iii) Yearly

iv) Any other

What difficulties have you experienced in the working capital control?

a) Human

(Tick more than one if necessary)

i) Playing safe by the operating executives

ii) Dislike of controls by executives and delay in compiling statements/information.

iii) Production executives want to keep as much inventory as possible whereas financial executives want to keep optimum levels,

iv) Any other (Please Specify)

b) Other Problems

i) Maintenance of priced stores ledger on electronic data processing and wrong codification resulting there from.

ii) Diversity of product - lines.

iii) Increased out standings from the government/semi Government parties due to non-availability of funds (due to delay in allocation of funds as a result of plan priorities) with them and price disputes.

iv) Sudden changes in prices of crucial products in the world market, for example crude oil and petroleum.

v) Government decision on pricing

vi) Liquidation of finished goods due to difficulty in organizing special dispatch facilities such as special wagons, heavy trolleys etc.

Q.14: Have you experienced working capital shortage? Yes/No

If yes, does it occur?

a) Very frequently? Yes/No

b) Occasionally? Yes/No

Please state briefly the main reasons for the shortages

(Tick more than one if necessary)

i) Price fluctuations,

ii) Shortfall in receipts from sale proceeds

iii) Delay in realization of dues from debtors,

iv) Decrease in credit period for purchase of raw material,

v) Increase in duty on inventory holding

vi) Excessive credit granting to customers,

vii) Payments withheld by clients,

viii) Any other (please specify)

Q.15. Were there any excess working capital situations? Yes/No

if yes, how was the surplus utilized?

i)Temporarily studying.

ii) Invested in long-term securities

iii) Invested in fixed assets

iv) Utilized for repayment of debt

v) Any other (please specify)

Q. 16: Please state the difficulties you have experienced in the implementation of Tandon Committee norms.

What are your comments on the Tandon Committee Recommendations related to the following?

i) Inventory and Receivables norms

ii) Working Capital Gap

iii) Style of credit and information system

Q.17: What are the problems peculiar to your organisation with regard to working capital management?

(Tick more than one if necessary)

i) Inability to obtain a major portion of requisite goods and services on credit terms.

ii) Inadequate return due to Government restrictions on price increase,

iii) Power and water supply

iv) Difficulties in collection of dues.

v) Stock levels maintained were not based on market condition.

vi) Inventory build ups on account of most of the raw materials having been imported and little control over supplies,

vii) Problem of collecting receivables from the Government,

viii) Too much of decentralized organizational set up.

ix) Non standardization of materials on account of reliance on indigenous technology.

X) Non availability of peripherals and other key components in time.

xi) Keeping long lead times in view of the need to import most of the equipments and spares resulting in large inventories,

xii) Long cycle of manufacture

xiii) Many of materials/components used in manufacture having to be imported, the safety levels to be maintained have to be high because of long deliveries quoted by foreign supplies and because of transit delays,

xiv) Current assets had to be kept at a fairly high level mainly due to contingent payments and the magnitude of inventory as compared to credit/loan given on short-term basis.

FINANCING OF WORKING CAPITAL

Q.1: What is the approach of financing of working capital?

i) Hedging approach

ii) Conservative approach

iii) Any other (please specify)

Q.2: Whether working capital forecasting is done by

A) Informal/Judgmental

B) Formal /Statistical

If done by (B) then which statistical tools do you use.

a) Judgement forecast

i) Delphi technique

ii) Panel of experts

b) Extension of past history

i) Moving averages

ii) Exponential smoothing

iii) Trend adjusted exponential smoothing

iv) Trend projection

c) Causal forecasting models

i) Regression model

ii) Econometric model

iii) Input output analysis.

Q.4: Has there been situations when your forecasted values deviated from actual requirements of working capital? Yes/No.

a) If yes then did the deviations occured owing to

i) Controllable factors

(Please specify factors)

ii) Uncontrollable factors

(Please specify factors)

Q.5: Is the concept of operating cycle incorporated in forecasting working capital requirement? Yes/No.

a) If 'Yes' How is it done? Please Specify

b) If 'No' the reasons for not doing so

i) Irregular demand

ii) Irregular production

iii) Irregular payment of debtors

iv) Irregular delivery by creditors

v) Fluctuating policies of the govt,

vi) Any other (please specify)

Q.8: What are the sources of working capital finance?

(Tick more than one if necessary)

a) Long term external

i) Ordinary shares

ii) Preferences shares

iii) Debentures

iv) Loans from financial institutions

v) any other (please specify)

b) Long term internal

i) Retained earnings

ii) Provisions

iii)any other (please specify)

c) Short term external

i) Goods on credit

ii) Bank borrowings

iii) Discounting of bills

iv) Overdraft

v) Advances

vi) Any other (please specify)

d) Short term internal

i) Gratuity

ii) Dividend contingencies

iii) Pension

iv) Provision for taxation

v) Unclaimed dividend

vi) Outstanding salaries and wages.

Q.9: What are the major forms of financing working capital requirements?

(Tick more than one if necessary)

i) Current liability

ii) Cash credit

iii) Deferred credit

iv) Working capital loan from central government

v) Equity/long term loans

vi) Any other (please specify)

Q.10: What is the overall policy of the organisation regarding financing of working capital?

i) All variable need with short terms sources and only for the periods needed

ii) A portion of the variable need with long term sources

iii) Inventories only from long term sources

iv) A portion of the permanent needs from short term sources

v) One half of the current assets financed by long term sources.

vi) Any other (please specify)

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