# A STUDY ON

INVERSTOR PERCEPTION ON MUTUAL FUNDS

**Submitted by**:

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UNDER THE GUIDANCE OF

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*In partial fulfillment for the award of the degree of*

MASTER OF BUSINESS ADMINISTRATION



DEPARTMENT OF MANAGEMENT SCIENCE

(PUMBA)

SAVITRIBAI PHULE PUNE UNIVERSITY (2018-20)

**Company Certificate**



November 3, 2019

**TO WHOMSOEVER IT MAY CONCERN**

**Kundan Mishra**

Employee Number: 11635027

Pune

This is to confirm that Kundan Mishra has completed , 2018.He/She is currently designated as Career Level 9.

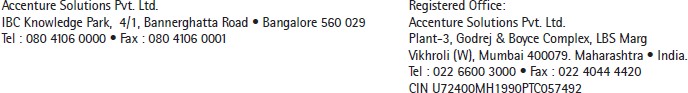
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**Akram Khan**

**Lead Personnel Administration - HRSS India Accenture Solutions Private Limited**

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SAVITRIBAI PHULE PUNE UNIVERSITY

Bonafide Certificate



This is to certify that the Summer Project entitled “***A Study on Working Capital management with reference to Kesoram .*** ” is a bona-fide project carried out by Mr. Kundan Mishra under the summer internship program of Department of Management Sciences (PUMBA), Savitribai Phule Pune University, towards the partial fulfillment of the requirements for the award of the degree of Masters of Business Administration (MBA) has been satisfactorily carried out under the guidance of Dr. Vikrant Kelkar.

Dr. Vikrant Kelkar Internal Guide

External Examiner

Dr. Surabhi Jain Head of Department

DMS(PUMBA) DMS (PUMBA)

**DECLARATION**

This is to certify that I have completed the project titled “A Study on Working Capital management with reference to Kesoram” under the guidance of “Dr. Vikrant Kelkar” and the present project is the outcome of my own efforts. It has not been submitted in part or full for any other diploma or degree of any university. This project report is prepared in accordance with the guidelines issued by Department of Management Sciences (PUMBA), Savitribai Phule Pune University.

**ACKNOWLEDGEMENT**

I take this opportunity to extend my sincere thanks to Insight Quality Services, Pune and for allowing me to undertake this project. Special thanks to Mr. Diwakar Joshi for assigning this task to me.

I wish to extend my sincere and heartfelt gratitude to my mentor Dr. Vikrant Kelkar, who guided, supported and encouraged me during the entire tenure of the project. I also thank entire Team of Insight Quality Services, for supporting and guiding me throughout the course of my project.

Kundan Mishra

E-MBA (18545) PUMBA

**Executive Summary**

**Insight Quality Services, Pune** is a premier institute in the field of Training andConsultancy in Non Destructive Testing. We try our utmost best to keep ourselves abreast of current industry trends and developments in order to provide services that ensure customer delight.

In 2016, the American standards governing the qualification and certification of NDT personnel accepted the usage of **Computer-based training and web-based** **training** for the training of NDT personnel. This is an opportunity for InsightQuality Services to expand their training portfolio into online or computer based trainings.

A study needs to be conducted to understand the market need and market acceptance of such programs. This will require analysis of training requirements, competitor analysis, planning for investment and expected returns from this project.

As the Incharge of Training Department at Insight Quality Services, I have been assigned to work on this project. The pilot program is expected to be released in July 2019. This project is an on-going task and has not reached its completion stage. A part of the project has been discussed in this report.

**ABSTRACT**

Mutual fund is an investment vehicle that pools in the money of many investors, and collectively invests this amount in either the equity market, debt market or money market, or both, depending upon the goal of the scheme. This means one can access either the equity market or the debt market, or both, with investing directly now mutual do innovation into objective of fund by introducing liquid fund by putting some amount in this fund money slowly move to desired fund without losing any benefit. My study is conducted in pune city. By asking close ended and open-ended questioners. I observed that despite being a lot of bombarding of continuous advertising by Mutual fund houses still investors of tier two cities are not believing on private mutual fund but in case of metro like Delhi are more aware and eager to invest in private and PSU mutual funds. In our study we touch student’s business man and working people of middle class and found that people are hungry to invest in Good avenue, but they are not getting proper guidance in their own language or in simple way. I meet during the data collecting process many ordinary and less educated person who knows a lot about mutual funds but at end of the day they are not ready to put their hard earn money in any private funds and private equity due to the risk associated with it.

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**CHAPTER-1**

**INTRODUCTION**

**INTRODUCTION**

A Mutual Fund is a trust that pools together the resources of investors to make a foray into investments in the capital market thereby making the investors to be part owner of the assets of the mutual fund. The money thus collected is invested by the fund manager in different types of securities depending upon the objective of the scheme. These could range from shares to debentures to money market instruments. The income earned through these investments and the capital appreciations realized by the scheme are shared by its unit holders in proportion to the number of units owned by them (pro - rata). Thus, a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. Anybody with an investible surplus of as little as a few thousand rupees can invest in Mutual Funds.

A Mutual Fund pools the money of people with certain investment goals. The money invested in various securities depending on the objectives of the mutual fund scheme and the profits (or loss) are shared among investors’ in proportion to their investment. Investments in securities are spread across a wide cross-section of industries and sectors. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time. Mutual fund issues units to the investors’ in accordance with quantum of money invested by them. Investors’ of mutual funds are known as unit holders. The profits or losses are shared by the investors’ in proportion to their investment. The mutual funds normally come out with a number of schemes with different investment objectives which are launched from time to time. A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) which regulates securities markets before it can collect funds from the public.

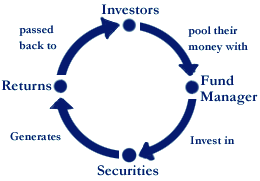
Mutual funds can be invested in many different kinds of [securities.](file:///C:\Users\student.SIBM\wiki\Security_(finance)) The most common are [cash, stock,](file:///C:\Users\student.SIBM\wiki\Cash) and [bonds, b](file:///C:\Users\student.SIBM\wiki\Bond_(finance))ut there are hundreds of sub-categories. Stock funds invest primarily in the shares of a particular industry, such as [technology o](file:///C:\Users\student.SIBM\wiki\Technology)r utilities. These are known as sector funds. Bond funds can vary according to risk (e.g., high-yield or [junk bonds,](file:///C:\Users\student.SIBM\wiki\Junk_bonds) investment-grade corporate bonds), type of [issuers (](file:///C:\Users\student.SIBM\w\index.php)e.g., government agencies, corporations, or municipalities), or maturity of the bonds (short- or long-term). Both stock and bond funds can invest in primarily U.S. securities (domestic funds), both U.S. and foreign securities (global funds), or primarily foreign securities (international funds). Most mutual funds' investment [portfolios a](file:///C:\Users\student.SIBM\wiki\Portfolios)re continually adjusted under the supervision of a professional manager, who forecasts the future performance of investments appropriate for the fund and chooses those which he or she believes will most closely match the fund's stated investment objective. A mutual fund is administered through a parent management company, which may hire or fire fund managers. Mutual funds are liable to a special set of regulatory, [accounting,](file:///C:\Users\student.SIBM\wiki\Accounting) and tax rules. Unlike most other types of business entities, they are not taxed on their income as long as they distribute substantially all of it to their shareholders. Also, the type of income they earn is often unchanged as it passes through to the shareholders. Mutual fund distributions of tax-free municipal bond income are also tax-free to the shareholder. Taxable distributions can be either [ordinary income o](file:///C:\Users\student.SIBM\wiki\Ordinary_income)r [capital gains, d](file:///C:\Users\student.SIBM\wiki\Capital_gains)epending on how the fund earned those distributions

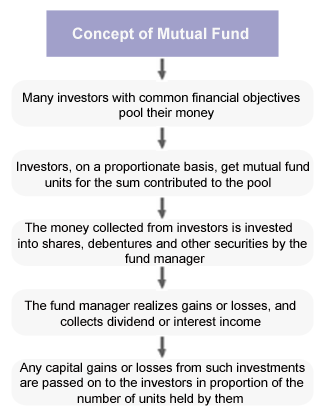
**Breaking Down ‘Mutual Fund’**

Mutual funds allow access to small or individual investors for professionally managing portfolios of equities, bonds and other securities. Thus, this enables each shareholder to equivalently participate in the gains or losses of the fund. Mutual fund schemes invest in a wide array of securities, and their performance is tracked as the change in the market cap of the fund, derived by aggregating performance of the underlying investments.

Mutual fund units, or shares, can be procured or encashed as anticipated at the fund’s current Net Asset Value(NAV) per share, or the NAVPS. A fund’s NAV is derived by dividing the total value of the securities in the portfolio by the total amount of shares outstanding.

**Mutual Fund Operation Flow Chart**



OBJECTIVE OF STUDY

1. To study investor’s perception relating to liquidity and investment decision.

2. To study the financial awareness of mutual fund investment

3. To study the effect of gender difference on investment decision.

4. To study the effect of age factors on investment decision in respect of age & gender.

# 

SCOPE OF STUDY:- X

My study based on the fact rather than pure assumptions about the mutual fund schemes cater for different category of people and give clear understanding about schemes and break the myth about the mutual that only few selected institutional investor and AMCs are benefited

And rest is loser and expense ratio are hidden and entry load is low and exit load is very high. Every investor has equal awareness about mutual whether belong to tire two cities or metros. Picture is quite different all myth about the mutual are came out of rather serious research. So, my research tries to answer those entire questions arise in mind of common investor about the subject.

**CHAPTER-2**

# LITERATURE REVIEW:-

**REVIEW OF LITERATURE**

The Indian financial system based on four basic components like Financial Market, Financial Institutions, Financial Service, Financial Instruments. All are play important role for smooth activities for the transfer of the funds and allocation of the funds. The main aim of the Indian financial system is that providing the efficiently services to the capital market. The Indian capital market has been increasing tremendously during the second generation reforms. The first generation reforms started in 1991 the concept of LPG. (Liberalization, privatization, Globalization).

Then after 1997 second generation reforms was started, still the it’s going on, its include reforms of industrial investment, reforms of fiscal policy, reforms of ex- imp policy, reforms of public sector, reforms of financial sector, reforms of foreign investment through the institutional investors, reforms banking sectors. The economic development model adopted by India in the post independence era has been characterized by mixed economy with the public sector playing a dominating role and the activities in private industrial sector control measures emaciated form time to time. The last two decades have been a phenomenal expansion in the geographical coverage and the financial spread of our financial system.

The spared of the banking system has been a major factor in promoting financial intermediation in the economy and in the growth of financial savings with progressive liberalization of economic policies, there has been a rapid growth of capital market, money market and financial services industry including merchant banking, leasing and venture capital, leasing, hire purchasing. Consistent with the growth of financial sector and second generation reforms its need to fruition of the financial sector. It's also need to providing the efficient service to the investor mostly if the investors are supply small amount, in that point of view the mutual fund play vital for better service to the small investors. The main vision for the analysis for this study is to scrutinize the performance of five star rated mutual funds, given the weight of risk, return, and assets under management, net assets value, book value and price earnings ratio.

A financial specialist has numerous choices for making his ventures. Be that as it may, every one of them don't give ideal returns at almost no hazard. An interest in common reserve is a speculation that gives results tantamount to exchanging shares and the dangers are decreased a considerable amount. Practically all common store houses have begun Systematic Investment Plans (SIP) over a most recent few years. They harp upon the psyches of financial specialists to put resources into the SIPs to limit the market dangers. Is it the total truth? Is it conceivable to accomplish another thing to beat the market dangers and in the meantime boost the profits? These are the issues that I want to reply through this task report. Be that as it may, one must have some fundamental information about common assets before endeavoring the appropriate responses. What is a Mutual reserve? Common store s a system for pooling the assets by issuing units to the financial specialists and putting assets in securities as per destinations as revealed in offer record. Interests in securities are spread over a wide cross area of enterprises and parts and along these lines the hazard is decreased. Broadening decreases the hazard since all stocks may not proceed onward a similar course in a similar extent in the meantime. Shared reserve issues units to the financial specialists as per quantum of cash contributed by them. Speculators of common assets are known as unit holders. The benefits (or misfortunes) are shared by the financial specialists in extent to their ventures. The common supports typically turned out with various plans with various speculation targets, which are propelled every once in a while. Prior to gathering assets from the general population, a common reserve is required to be enlisted with the Securities and Exchange Board of India (SEBI), which manages securities showcase. A shared store is set up as a trust, which has supports, trustees, Asset Management Company (AMC) and an overseer. The trust is set up by a support or more than one support who resembles promoter(s) of an organization. The trustees of the shared reserve hold its property to assist the unit holders. AMC endorsed by SEBI deals with the assets by making interests in different sorts of securities. Overseer, who is enlisted with SEBI, holds the securities of different plans of assets in its care. The trustees are vested with the general intensity of superintendence and heading over AMC. They screen the exhibition and consistence of SEBI Regulations by the common assets. SEBI guidelines require that at any rate 66% of the executives of trustee organization or leading body of trustees must be free for example they ought not be related with the supporters. Additionally, half of the chiefs of AMC must be free. Every single common reserve are required to be enrolled with SEBI before they launce any plan. Net Asst Value (NAV) The presentation of a specific plan of a common reserve is indicated by Net Asset Value (NAV). Shared Funds contribute the cash gathered from the financial specialists in security markets. In basic words, NAV is the market estimation of the securities held by the plan. Since market estimation of securities changes each day, NAV of a plan additionally fluctuates on everyday premise. The NAV per unit is the market estimation of securities of a plan isolated by the absolute number of units of the plan on a specific date. For instance, if the market estimation of securities of a shared store plan is Rs. 155 lakhs and the shared reserve has issued one lakh units of Rs. 10 each to the financial specialists, at that point the NAV per unit of the store is Rs. 15.50. NAV is required to be unveiled by the common assets all the time – every day or week after week – relying upon the kind of plan.

The survey of past examinations identified with budgetary ace's disposition and lead towards shared store experience are thick underneath:

Point: shared assets for private cash related experts:

Sant and Zaman (1996) 2 raised that the media had a huge impact for retail scholars and in addition at the edges of the common sponsorships advance. Private inspectors are altogether subject to extra remarks and offer tipping in real money related news parcels since they have brief period or ace making sense of how to settle on contemplated choices. News media was either the essential wellspring of data for a specific budgetary master or there were generally couple of elective wellspring of data on a specific stock. The retail money related experts responded essentially more to media data than ace inspectors.

Nalini Prava Tripathy,

(1996), ' Mutual Fund In India: A Financial Service In Capital Market', Finance India, Vol. X(1), March, pp. 85–91.

1. Sant R and Zaman, M.A., (1996), 'Market Reaction to Business Week Inside Wall Street' Column: A Self-satisfying Prophecy', Journal of Banking and Finance, Vol.20 (2), pp.617-643.

Subjects: MUTUAL SEGMENTATION FOR INVESTOR:

Raja Rajan (1997,1998)3 high helped division of analysts subject to their attributes, experience measure, and the relationship between stage in life cycle of the cash related bosses and their undertaking.

Gupta and Sehgal, (1998)4 in their examination paper "Theory Performance of Mutual Funds: The Indian Experience" tried to discover the undertaking execution of 80 plans regulated by 25 ordinary assets, 15 in private part and 10 in open division for the time apportioning of June 1992-1996. The examination has researched the introduction to the degree store improvement and consistency of execution. The paper presumes that basic store industry's portfolio advancement has performed well. By the by, it bolstered the consistency of execution structure.

Subject: IDENTIFY ECONOMIC REFORMS

Raj Kapila and Uma Kapila (1998)5 in its exchange paper printed that as the methodology of money related change proceeds and the possibility of the corporate segment in the economy broadens the movement of securities pitches as cost wellspring of raising assets for hypothesis is relied on to finish up being dynamically major. In the event that Indian markets are to work splendidly for the need of firms as a the country over arrangement of convertors, it is essential that attempts to sweetheart exchange cost and to broaden the fairness and reasonableness of Indian markets proceed. While measures that have been taken by the association, SEBI trades and market focus people toward along these lines have affected an augmentation in capital market action and cash related master conviction, it is fundamental to concentrate on further changes that are so far required.

Subject: BEHAVIORAL OF INVESTOR ACTIVITIES IN INVESTMENTS:

Terrance (1998)6 examined the direct of individual cash related stars and discovered them demonstrating air impacts, that is, they understand their productive stocks need as undertaking at an a lot higher rate than their unfruitful ones. The manner in which impact is found to impact market cost; yet its cash related significance is in all probability going to be the best for individual analysts.

Subject: IMPORTANCE OF SIP IN MUTUAL FUNDS

Chakarabarti and Rungta (2000)7 focused on the importance of brand influence in picking the mighty position of the AMCs. Their examination uncovers that brand picture factor, at any rate can't be effectively gotten by quantifiable execution measures, impacts the money related specialist's recognition and in this manner his spare/conspire confirmation.

Point : MANAGING OF MUTUALFUNDS

Gupta, L.C. what's more, Choudhary (2000)8 in their examination brought up that once-over assets have gotten certification among scholars since it was discovered that spare directors typically achieved more shocking than the control, speculation and insider exchanging. There was no productive guideline and control as in the USA and the UK.

Sarkar and Majundar (2001) 9 made an endeavor to make an operational examination of different ordinary assets over a time of three years.

observations about essential assets in the perspective on general cash related master feels that specific administrative bodies like SEBI and others have not had the decision to direct and control the working of shared assets in order to shield the little scholars' bit of space.

Singh Jespal (2004)19 considered that by a wide margin a large portion of the improvement planned ordinary assets performed insufficiently when showed up distinctively in connection to the benchmark. They have likewise dismembered the improvement of imparted assets in India to regard to asset authorization, movement of different sorts of plans and NAV based risk and return. The hard and fast assets of shared assets experienced a four-overlay rise and found a triple expansion in the measure of plans during the period 1990-91 to 1997-

Sodhi and Jain (2004)20 reviewed 26 regard normal sponsorships drawn

from 22 Asset association affiliations having a spot with private and open area. They accepted that the regard shared assets have everything thought about second rate execution in examination of danger free return. They considered the rate of return made by regard typical assets and 364 days T-bills for the period of 1993-2002.

Gelade and youthful (2005) 21 separated the relationship between association air, pro frame of mind, buyer reliability and game plans execution and accumulated that joint exertion air, work drawing in effects and bolster condition are complete air factors, commitment is an agent way and client resolve and deals accomplishment are different leveled execution measures**.**

**Dr. Shantanu Mehta (September 2019) in his research paper “Preference of Investors for Indian Mutual Funds and its Performance Evaluation”, published in Pacific Business Review International Vol. 5** concluded that, Mutual funds have opened new vistas to millions of small investors by virtually taking investment to their doorstep. In India, a small investor generally goes for such kind of information, which do not provide hedge against inflation and often have negative real returns. However Mutual funds have come, as a much needed help to these investors.

**Dr. Ravi Vyas (July 2018) in his article “Mutual Fund Investor’s Behaviour and Perception”, published in International Refereed Research Journal Vol. – III** concluded that, Mutual fund companies should come forward with full support for the investors in terms of advisory services, ensure full disclosure of related information to investor, proper consultancy should be given by mutual fund companies to the investors in understanding terms mutual fund information should be published in investor friendly language and style, proper system to educate investors should be developed by mutual fund companies to analyze risk in investments made by them, etc.

**Dr. Binod Kumar Singh (March 2017) in his article “Investors attitude towards Mutual Funds”, published in the International Journal of Research in Management** pointed out that, most of the investors having lack of awareness about the various function of mutual funds. Moreover, as far as the demographic factors are concerned, gender, income and level of education have significantly influence the investors’ attitude towards mutual funds. On the other hand the other two demographic factors like age and occupation have not been found influencing the attitude of investors’ towards mutual funds.

**Mr. Sarish (2017) in his research paper “A Study of Opportunities and Challenges for Mutual Fund in India: Vision 2020”, published in VSRD International Journal of Business & Management Research Vol. 2** draw a conclusion that, Mutual funds are among the most preferred investment instruments. For middle income individuals, investing in mutual funds yields higher interest and comes with good principal amount at the end of the maturity period of the mutual fund investment. Another important fact which he concluded is that mutual funds are safe, with close to zero risk, offering an optimized return on earnings and protecting the interest of investors.

**Mr. B. K. Singh and Mr. A. K. Jha (2009) in his study, “An Empirical study on awareness & acceptability of Mutual Fund”, published in Regional Student’s Conference, ICWAI** pointed out that investors basically prefer mutual fund due to return potential, liquidity and safety and they were not totally aware about the systematic investment plan. The invertors’ will also consider various factors before investing in mutual fund.

**Ramamurthy and Reddy (2019)** **conducted a study,** “**Recent Trends in Mutual Fund Industry**” **published in SCMS Journal of Indian Management** to analyze recent trends in the mutual fund industry and draw a conclusion that the main benefits for small investors’ due to efficient management, diversification of investment, easy administration, nice return potential, liquidity, transparency, flexibility, affordability, wide range of choices and a proper regulation governed by SEBI. The study also analyzed about recent trends in mutual fund industry like various exit and entry policies of mutual fund companies, various schemes related to real estate, commodity, bullion and precious metals, entering of banking sector in mutual fund, buying and selling of mutual funds through online.

**Theoretical framework / Background Theory**

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realized are shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

SEBI

Trustees

AMC

Unit Holders

Sponsors

Transfer Agent

Custodian

Mutual Fund

**Figure : Organisation of a Mutual Fund**

**Sponsors:**

They are the individuals who think of starting a mutual fund. The Sponsor approaches SEBI, the market regulator and also the regulator for mutual funds. Not everyone can start a mutual fund. SEBI will grant a permission to start a mutual fund only to a person of integrity, with significant experience in the financial sector and a certain minimum net worth. These are just some of the factors that come into play.

**Trustee:**

Once SEBI is satisfied with the credentials and eligibility of the proposed Sponsors, the Sponsors then establish a Trust under the Indian Trust Act 1882. Trusts have no legal identity in India and thus cannot enter into contracts. Hence the Trustees are the individuals authorized to act on behalf of the Trust. Contracts are entered into in the name of the Trustees. Once the Trust is created, it is registered with SEBI, after which point, this Trust is known as the mutual fund.

**Asset Management Company:**

Asset Management Company is the one which will manage the asset (money collected to invest on company shares) of its customers by appointing a manager under several schemes. Every scheme will have a specific objective, which is framed at the time of introducing the scheme. A manager is to be appointed under the scheme to keep up the objectives framed. He should take care that the investment on specific scheme should not affect the customer's asset. The schemes being introduced by the Asset Management Companies is known as Mutual Fund Scheme. As per the Mutual Fund definition, the **Asset** is the money received towards a collective investment plan. This will help the small investors to increase their asset with the help of Asset Management Companies.

Anyhow an investor cannot blame AMC, for its under performance. We need to have a quick review on the performance of the fund in which we invest, at least once in 3 months. The AMC will help in providing the various investment plans. We should select the suitable plan from it which can meet our requirement. So risks are based on our decisions.

**Requirement of Asset Management Company:**

Recent days are said to be the days of competition. Every day and every minute everyone is running to achieve something in their career. Achieving some goal is not that much easier nowadays, not only the hard work but also fastness in the work will help in achieving their goal to earn money. So, many of us do not have time to think about the future financial requirement and planning. Many of us are not having time to watch the market status and invest the money in it. That is the only source, through which we can grow our money drastic in a long run. However that needs some follow up of market, to change the investments periodically in order to fetch high returns. The above are all the reasons for which the Asset Management Companies are required. By paying the fund manager a little percentage we are making him to take care of our assets by investing in the shares which will meet the declared financial objectives

**Top 10 Asset Management Companies in India:**

As it is very tough to find the best one AMC among the list, with the past performance and the returns of the schemes they have, many are suggesting the following the 10 AMC as top among the 44. It is not in order from the first to last, all may have same importance.

* Axis AMC ltd.
* Reliance Capital AMC Ltd.
* SBI Funds Management Ltd.
* HDFC Asset Management Co. Ltd.
* ICICI Prudential AMC Ltd.
* Franklin Templeton AMC (I) Pvt. Ltd.
* Birla Sun Life AMC Ltd.
* BNP Paribas AMC Ltd.
* Tata Asset Management Ltd.
* DSP Blackrock Investment Managers Pvt. Ltd.

**History of Mutual Funds**

A strong financial market with extensive participation is vital for a developed economy. With this broad objective, UTI, India’s first mutual fund establishment in 1963, as a project of The Government of India and RBI ‘with a vision to stimulating saving, investment and participation in the income, profits and gains accruing to the Corporation from the acquisition, holding, management and disposal of securities’. The history of mutual funds can be broadly classified into five important phases which are follows:

# First Phase (1964-1987):- UTI was established on 1963 by an Act of Parliament. It was set up by the

# RBI and functioned under the Regulatory and administrative control of the Reserve Bank of India. In

# 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India took over

# the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit

# Scheme 1964. At the end of 1988 Unit Trust of India had Rs.6700 Cr of assets under management.

# Second Phase – (1987-1993) (Entry of Public Sector Funds):- Entry of non-UTI MFs. SBI MF was the first followed by Canara bank Mutual Fund (Dec 87), PNB Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC in 1989 and GIC in 1990. The end of 1993 marked Rs.47004 as assets under management.

# Third Phase – (1993-2003) (Entry of Private Sector Funds):- With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

# The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996. The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805 crores. The Unit Trust of India with Rs.44, 541 crores of assets under management was way ahead of other mutual funds.

# Fourth Phase – (2003-2014):- In February 2003, instantly after the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities, viz., the Specified Undertaking of the Unit Trust of India (SUUTI) and UTI Mutual Fund which functions under the SEBI MF Regulations. With the branching of the former UTI and several mergers being undertaken among different private sector funds, The MF industry entered its fourth phase of consolidation. Subsequent to the global melt-down in the year 2009, securities markets all over the world had tanked and so was the case in India. Most investors, who had entered the capital market during the boom, had lost money and their faith in MF produts was shaken greatly.

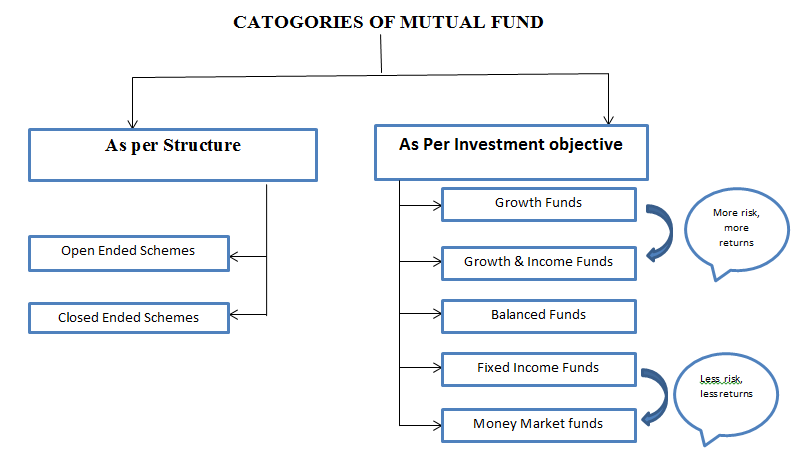
# Fifth Phase – (since May 2014):- Taking Cognizance of the absence of penetration of MFs, particularly in tier II and tier III cities, and the need for greater alignment of the interest of various stakeholders, SEBI announced several progressive measures in sep 2012 to revitalize the Indian Mutual fund industry and increase the reach of the MFs.

# Over the time, the measures did succeed in reversing the –ve movement that was set in motion after the global melt-down and improve significantly after the formation of the new Government.

# The growth in the size of the industry has been possible due to the twin effects of the regulatory measures taken by SEBI in re-energizing the MF industry in Sep 2012 and the support from mutual fund distributors in increasing the retail base.

# MF distributors have been delivering the last link to the investors, particularly I smaller towns and this is not just limited to enabling investors to invest in appropriate schemes, but also in aiding investors stay on course through stints of market volatility and thus experience the benefit of investing in mutual funds. MF distributors have also had a major role in popularizing Systematic Investment Plan (SIP) over the years.

# Following Chart will give you a clear idea about growth of Mutual Fund industry since 2009-10:-

**Categories of Mutual Funds**

* B**ased on Structure:-**

**1) Open Ended Schemes :-** As the name implies the size of the scheme (Fund) is open i.e., not specified or pre- determined. Entry to the fund is always open to the investor who can subscribe at any time. Such fund stands ready to buy or sell its securities at any time. It implies that the capitalization of the fund is constantly changing as investors sell or buy their shares. Further, the shares or units are normally not traded on the stock exchange but are repurchased by the fund at announced rates. Open-ended schemes have comparatively better liquidity despite the fact that these are not listed. The reason is that investors can any time approach mutual fund for sale of such units. No intermediaries are required. Moreover, the realizable amount is certain since repurchase is at a price based on declared net asset value (NAV). No minute-to-minute fluctuations in rates haunt the investors. The portfolio mix of such schemes has to be investments, which are actively traded in the market. Otherwise, it will not be possible to calculate NAV. This is the reason that generally open-ended schemes are equity based.

**2) Closed ended scheme :-** Such schemes have a definite period after which their shares/units are redeemed. Unlike open-ended funds, these funds have fixed capitalization, i.e., their corpus normally does not change throughout its life period. Close ended fund unitstrade among the investors in the secondary market since these are to be quoted on thestock exchanges. Their price is dete rmined on the basis of demand and supply in the Market. Their liquidity depends on the efficiency and understanding of the engaged broker. Their price is free to deviate from NAV, i.e., there is every possibility that the market price may be above or below its NAV. If one takes into account the issue expenses, conceptually close ended fund units cannot be traded at a premium or over NAV because the price of a package of investments, i.e., cannot exceed the sum of the prices of the investments constituting the package. Whatever premium exists that may exist only on account of speculative activities. In India as per SEBI (MF) Regulations every mutual fund is free to launch any or both types of schemes.

* **Based on Investment Objective:-**

**1) Growth funds :-** Such funds aim to achieve increase in the value of the underlying investments through capital appreciation. Such funds invest in growth-oriented securities, which can appreciate through the expansion production facilities in long run. An investor who selects such funds should be able to assume a higher than normal degree of risk.

**2) Income funds :-** An income fund is a type of [mutual fund](https://www.investopedia.com/terms/m/mutualfund.asp) or exchange-traded fund (ETF) that emphasizes [current income](https://www.investopedia.com/terms/c/currentincome.asp), either on a monthly or quarterly basis, as opposed to [capital appreciation](https://www.investopedia.com/terms/c/capitalappreciation.asp). Such funds usually hold a variety of government, municipal, and corporate debt obligations, [preferred stock](https://www.investopedia.com/terms/p/preferredstock.asp), money market instruments, and dividend-paying stocks. These schemes are ideal for conservative investors or those not in a position to take higher equity risks like, for example, retired individuals.

**3)Balanced funds :-** A balanced fund is a combination of stock component, a bond

component and sometimes a money market component in a single portfolio. Generally, these funds stick to a relatively fixed mix of stocks and bonds. Their holdings are balanced between

equity and debt with their objective between growth and income. Hence, their name "balanced."

Balanced funds are geared toward investors who are looking for a mixture of safety, income,

and modest capital appreciation.

**4) Fixed income funds :-** Fixed income is a kind of investment in which real return rates or Periodic income is received at regular intervals and at reasonably predictable levels. Fixed

income investments can be used to expand the portfolio, as they pose less risk then equities and

derivative investments.

**5) Money Market Funds :-** A money market fund is a mutual fund that invests

only in highly liquid instruments such as cash, cash equivalent securities, and high credit rating

debt-based securities with a short-term, maturity—less than 13 months. As a result, these funds

offer high liquidity with a very low level of risk. Money market funds should be used as a place

to keep money temporarily before investing elsewhere or making an anticipated cash outlay;

they are not suitable as long-term investments.

**Following are some other Mutual fund categories :-**

* **Tax saving funds :-** These schemes propose tax rebates to the investors under a

specific provision under the Indian Income Tax laws as the Government tax incentives

for investment in certain predefined avenues. Equity linked saving schemes(ELSS) nd

pension schemes are allowed as c

* **Index Schemes:-** The main purpose of an index is to serve as a measure of the

Performance of the market as a whole, or a specific sector of the market.Index also

functions as a benchmark to gauge the performance of mutual funds. Thus, index funds

attempt to replicate the performance of a particular index such as the BSE or the NSE.

Several investors are interested in investing in the market in general instead of investing

In any specific fund. Such investors are interested in receiving the returns announced by

the markets. Since investing in every stock in the market in the ratio to its magnitude is

not possible, these investors are contended by investing in a fund that they believe is a

good representative of the entire market. The index Funds are managed for such

investors.

* **Sector specific schemes :-** Sector specific schemes are those which invest

exclusively in a specified industry or a group of industries or various segments such as

‘A’ group of shares of IPO. For example, Gold Sector Funds are the funds investing in

shares of companies engaged in gold mining and processing. The prices of these shares

are closely linked with the profitability and gold reserves of these companies along with

the influence of gold prices.

**Advantages and Disadvantages of Mutual Funds**

. **Advantages of Mutual Funds:-**

* **Professional Management :-** The investors avail of the services of experienced and

Skilled professionals who are backed up by an expert research team.This research team

Studies the performance and forecasts of companies and select suitable investments to

achieve the objective of the scheme. Thus, the investors do not have to continuously

keep an eye on their positions in the stock market and can enjoy profit through shares in

the stock market and can enjoy profit through shares in various companies by just

having invested in the a Mutual Fund.

* **Diversification:-** Mutual Funds invest in a number of companies across a broad cross

section of industries and sectors. This diversification reduces the risk because seldom all

stocks decline at the same time and in same proportion. This diversification is achieved

through a mutual fund. Mutual funds usually own a lot of different stocks in several

diverse industries. It is not possible for an individual investor to build this kind of

portfolio being that the amount he can invest is comparatively very small.

* **Return potential:-** over medium to long term, MFs have the ability to provide a higher

return as they invest in a diversified basket of selected securities.

* **Tax Deferral:-** Mutual funds are not liable topay tax on the income they earn. If the

investors were to earn the same income directly by themselves, then the tax may have to

be shelled out in the same financial year. By choosing the growth option in a scheme,

the investor can allow the money to propagate in the scheme r many years without any

incidence of taxation. This helps investors to legally put together their wealth quicker

than in the case otherwise.

* **Flexibility:-** With features like regular investment plans and withdrawal plans and

Dividend reinvestment plans, an investor can systematically invest or withdraw funds

according to his needs. The options offered under a scheme viz. growth and dividend,

Permit the investors to organize their investments as per their liquidity preference and

tax situation.

* **Well regulated:-** All mutual funds are registered with SEBI and they function within

the provisions of strict regulations designed to protect the interests of investors.

* **Tax Benefits:**-The dividend obtained by the investor from any mutual fund scheme is

deemed to be tax-free in his hands. When investment is done in certain specific schemes

of mutual funds like in Equity Linked Savings Schemes (ELSS), the earned income

liable to tax can be reduced by the investment amount. This reduces the investors’

taxable income, and in effect also the tax liability.

**Systematic Approaches to Investment:**- Mutual funds also offer facilities

which help investors in regular investment through a Systematic Investment Plan (SIP);

or regularly withdraw money through a Systematic Withdrawal Plan (SWP); or shift the

money between other schemes through a Systematic Transfer Plan (STP).Such

methodical tactics boost an investment discipline, which is useful in long term wealth

creation and protection.

* **Transparency:**-Since the mutual funds industry is a regulated industry, unlike the

stock market, the investors are ensured accountability and fairness.

**Disadvantages of Mutual Funds:-**

* **Costs:-**Mutual funds’ existence is not solely to make investors’ life easier when all the

funds are in it for a profit. The Mutual Fund industry is well-known to be a master at

burying costs under layers of lings. These costs are so intricate that the ultimate profit

received by the investors in lesser than that expected.

* **Tax issues:**-Although, the return on investment are quite high a mutual fund cannot

guarantee lower tax bills. The tax amounts are generally high, specially in the case of

short term gains. When making decisions about the investors’ money, fund managers

don’t consider your personal tax situation. For instance, when a fund manager sells a

security, a capital gain tax is triggered. This capital gain tax affects how much profitable

the sale transaction was for the individual. It might have been more beneficial for the

individual to put back the capital gains liability.

* **Investor issues:**- A Mutual fund requires a deep and long term analysis of the

amount of investment and its potential investment areas. In a situation where there is a

constant change in the company’s fund manager, it may adversely affect the returns on

investment.

* **Changing returns:**-Mutual funds are like many other investments, where there is of

all times the probability that the mutual fund’s will depreciate unlike fixed income

products such as bonds and treasury bills. Mutual funds go through fluctuating returns

along with the stocks that are included in the fund.

* **Over diversification:**-Although diversification is one of the solutions to successful investing , many mutual fund investors tend to diversify more than is necessary. The single motive for diversifying a portfolio is to lessen the risks linked with owning a single security; over diversification takes place when investors purchase many funds that are highly related to each other and thus, as a result, have a negative impact on the so thought benefitting diversification .

**Performance Evaluation of Mutual Fund**

MF shares are priced at the Net Asset Value (NAV).When people refer to NAV, they

talk about value of each unit of the scheme. The NAV is calculated as :-

Unit-holders’ Funds in the Scheme (Net Assets) / No. of Units

The NAV fluctuates daily with the movement in the value of individual fund holdings

and with the change in the number of outstanding fund shares. Also, all the transactions

conducted by the investors are done at the current NAV of the scheme. The reason for

this is that the NAV is meant to reflect the true worth of each unit of the scheme,

because investors buy or sell units on the bass of the information contained in the NAV.

This process of valuing each security in the investment portfolio of the scheme at its

current market value is called ‘mark to market’ i.e. making the securities to their market

value.

If investments are not marked to market, then the investment portfolio will end up being

valued at the cost at which each security was bought, which turns out to be a

meaningless when the market value is ‘x’ times more than the acquisition cost.

**Risks Involved in MFs**

Mutual funds, like the Stock market, also involve risks, They are as follows:

* **Portfolio Risk:-** The investors invest in Mutual Fund Schemes, which in turn invest in

the various types of markets, namely stock market, gold, commodities, bonds and so

on, in a variety of combinations. This combination also depends upon the nature of

scheme. According to the fluctuations in the market, the value of the portfolio and the

NAV of the schemes vary.

* **Portfolio Liquidity:-** When investments are liquid, there is a transparency in the market

benchmark. These investments can be sold easily if it is expected to perform poorly, or

to book profits or to generate liquidity for the scheme. But in scenarios when huge

tumult seen in the market, the portfolio liquidity can be affected considerably. Like in

2008 and 2009, when the global markets went into turmoil, liquidity disappeared from

the market. RBI had to step in to help some mutual funds fulfill their obligation.

* **Liquid Assets in the Scheme :-**MFs maintain a certain proportion of their assets in

liquid form. This can be done to hold the liquid assets to invest in assets at the market

low or to provide for contingencies like dividend payment or repurchase expectations.

But, it is always risky and almost impossible to anticipate the fluctuations in the market

and hence, conversion into liquid assets can turn out to be a risky deal. Also since liquid

assets generally yield low return, they can be a drag on the scheme returns, if the other

assets in the market perform better.

* **Liabilities in the Scheme:-** The NAV is calculated as Net Assets dividend by

number of units outstanding. Any scheme’s net asset is the difference between it total

assets, and its outside liabilities i.e, liabilities other than to unit holders. The outside

liabilities need to be paid by a scheme, irrespective of the performance of the assets. It is

bad enough when the assets perform poorly, but if heavy outside liabilities need to be

paid during such time, the scheme comes under great pressure. Therefore, outside

liabilities add to the risk in a mutual fund scheme.

* **Leveraging:-**  Leveraging means taking large positions with a small outlay of funds.

Mutual funds are permitted to use derivatives for hedging against risk or rebalancing the

portfolio, but not for leveraging. MFs are barred from writing options, or purchasing

instruments with embedded written options, but they can buy options.

**Company Profile:**

Insight Quality Services is a ISO 9001 certified, pioneer institute in the field of Non-Destructive Testing Training, Consultancy, Inspection Services and NDT Services.

Founded in 1994, IQS is an internationally reputed organization that strives to provide services that exceed the "customers' expectations". A wide experience of many years, hands-on working style and a series of added qualifications in Inspection and Testing domains have been the focus of our team members. We have always emphasized on enhancing our competencies through continuous training.

We, at Insight Quality Services, started working in the field of Training, Consultancy, Inspection and NDT Services in 1994 and have rendered quality services in the above area for over 23 years.

Mr. Diwakar Joshi, a Mechanical Engineer and qualified ASNT Level III in RT, UT, PT, MT, LT, ET and VT having more than 40 years’ experience in engineering industries, has promoted Insight Quality Services.

Insight Quality Services has trained and qualified over 10000 technicians in different disciplines of Non – Destructive testing, who are now working around the world. IQS conducts NDT Training courses in India, Middle East, South Africa, Thailand, Singapore, Bangkok, and Indonesia regularly.

A dedicated team of experienced young engineers supports us. The team working at IQS is efficient and has a wide range of experience in the inspection of Heat Exchangers, Pressure vessels, Raw materials, Storage tanks, Static and Rotary Equipments, Boiler and Piping. The engineers are well conversant with national and international standards and codes like ASME, AWS, API, BS, DIN, TEMA and IS. They do have experience in equipment fabrication, welding and all types of NDT and DT.

World Class facilities, state of the art classrooms, infrastructure, material, equipment and a rich library support our Training, Inspection and Testing activities.

We are the only institute in Pune which is accredited by National Certification Board of Indian Society for Non Destructive Testing.

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**2.0** **What Is Working Capital?**

**Working Capital**

Working capital is the cash a business requires for day-to-day operations, According to Shubin, “working capital is the amount of funds necessary to cover the cost of operating the enterprise”. In simple words, working capital refers to that part of the firm’s capital, which is required for financing current assets such as cash, debtors, marketable securities, and inventories for the purpose of raw materials, payment of wages and other day-to-day expenses.

Working capital is calculated as current assets minus current liabilities. it is also known as operating capitals. Among the most important items of working capital are: levels of inventory, accounts receivable and accounts payable. Analysts look at these items for signs of a company’s financial strength and efficiency.

**Current Assets and Current Liabilities**

**I. Current assets (CA)**:

This is an asset that can be quickly turned into cash. This includes accounts receivable, prepaid expenses, most securities and inventory.

**Constituents of Current Assets: -**

* Cash in Hand and Bank Balances
* Bill Receivables
* Sundry Debtors (Less provision for bad debts)
* Short terms Loans & Advances
* Inventories of stocks
* Raw Material
* Work in Process
* Stores and Spares
* Finished Goods
* Coal & Fuel
* Temporary Investments of Surplus Funds
* Prepaid Expenses
* Accrued Income

**II. Current liabilities (CL)**:

This is a liability in the immediate future. This including wages, taxes account payable.

**Constituents of Current Liabilities**:

* Bills Payable
* Bank Overdraft
* Advances & Deposit
* Dividend Payable
* Sundry Creditors or Accounts Payables
* Short Terms Loans
* Provision for taxes

The basic objective of financial management is to maximize shareholder’s wealth. For this it is necessary to generate sufficient profits. The extent to it, which the profit can be, earn, largely depend on the magnitude of sales. However, sales do not convert into cash instantly because of the time gap between the sale of goods and receipt of cash. Therefore, there is a need for working capital in the form of CA to deal with the problem arising out of the lack of immediate realization of cash again goods sold. Therefore, sufficient WC is necessary to sustain sales activity.

**3.0 Types of Working Capital**

**Types of Working Capital**

Working capital may be classified in two ways: -

* On the basis of time
* On the basis of concept

**I. On the basis of time:**

There are two concepts of working capital;

**a.** Gross Working Capital

**b.** Net Working Capital

1. **Gross Working Capital**

Gross working capital refers to the firm’s investment in current assets. Current assets are assets, which can be converted into cash with in an accounting year. The main components of current assets are cash, debtors, marketable securities and stock.

The Gross Working Capital concept focuses attention on two aspect of current asset management.

* Optimum investment in current assets
* Financing of current assets

The consideration of level of investment in assets should be to avoid two-danger point: excessive and inadequate in current assets. Investment in current assets should be just adequate, not more nor less to the needs of business firm. Excessive investment in current assets should be avoided as its impairing firm’s profitability. On the other hand, inadequate amount of working capital can threaten solvency of the firm.

Another aspect of gross working capital points of the need of arranging funds to finance current assets. Whenever a need for working capital arises, financing arrangement should be made quickly. Similarly arising shall be invested in short-term securities.

1. **Net Working Capital**

Net working capital refers to the difference between currents assets and current liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment with in an accounting year. Current liabilities include creditors; bills payable and outstanding expenses. Net working capital is a qualitative concept. It indicates the liquidity position of the firm and suggests the extent to which working capital needs may be financed by permanent source of funds as share, debenture, long-term debts etc. It covers the question of judicial mix of long and short-term funds for financing current assets. In order to protect their interests, short-term creditors like a company to maintain a positive NWC. Conventionally the ratio of current assets and Current liabilities is **2:1**. A negative Net working capital means a negative liquidity, which may prove to be harmful to company’s solvency makes it unsafe and unsound.

|  |
| --- |
| **Net working capital = Current assets - Current liabilities** |

**II. On the basis of concept:**

1. Permanent working capital
2. Temporary or variable working capital
3. **Permanent working capital**

Permanent of fixed working capital is the minimum amount, which required ensuring effective utilization of fixed facilities and for maintaining the circulation of current assets. There is always a minimum level of current assets, which is consciously required by the enterprise to carry out normal business operations. Every firm has to maintain a minimum level of raw materials, work-in-progress, finished goods and cash balances. This minimum level of current assets is called permanent or fixed working capital as this part of capital is permanently blocked in current assets.

**Characteristics of Permanent Working Capital**

* Amount of permanent working capital remains in the business is one form or the other. The supplier of such working capital should not accept its return during the lifetime of the firm.
* It grows with the size of the firm.
* Permanent working capital is permanently needed for the business.

**b) Temporary or variable working capital**

This is also known as the fluctuating working capital or variable working capital. Temporary working capital is the extra working capital needed to support the changing production and sales activity of the firm.

**4.0 Need and Importance of Working Capital**

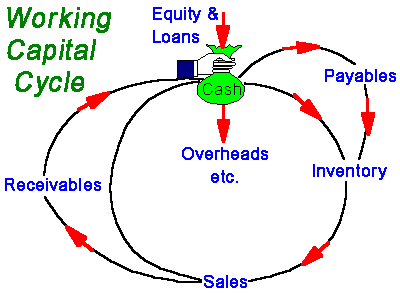
**Need of Working Capital**

Every business needs some amount of working capital. The need arises due to the time gap between production and realization of cost from sales. There is an operating cycle involved in the sales and realization of cash. The working capital is needed for the following purpose:

* For the purchase of raw materials and spares.
* To pay wages and salaries.
* To incur day to day expenses and overhead costs like fuel, power and office expenses.
* To provide credit facilities to customers.
* To maintain the inventories of raw materials, work in progress, stores and spares and finished goods.

A new concern needs a lot of liquid funds to meet initial expenses like promotion, formation etc. The amount needed as working capital in a new concern depends on its size, ambitions of its promoters. Greater the size of the business unit, larger will be the need of working capital needed goes on increasing the growth and expansion of business till it attain maturity. At maturity the amount of working capital needed is called as normal working capital.

**WORKING CAPITAL CYCLE**



Working capital cycle indicate the length of time between a company’s paying for material, entering into stock and receiving the cash form sales of finished goods. It can be determined by adding the number of days required for each stage in the cycle. For example, KESORAM company hold raw material on an average for 120 days; it gets credit from supplier for 30 days, production process needs 30 days, finished goods for held for 60 days and credit extended to debtor. The total of all these, 240 days, i.e., 120+30+30+60 days is the total working capital cycle. The determination of working capital cycle helps in forecast, control and management of working capital. The duration of working capital cycle may vary depending on the nature of business.

**Estimation of working capital requirement**

There is no set rule or formula to determine working capital requirement of the firm. The quantum of working capital requirement of a company largely depends upon aforesaid factors. A finance manager in order to estimate the working capital requirement of the firm has to keep in mind the above factors. Besides he can apply any of the following techniques for assessing working capital requirement –

1. Estimation of component of working capital
2. Percentage of sales method
3. Operating cycle approach

**TECHNIQUE (1): -Estimation of component of working capital**

Since working capital is the excess of current assets over current liabilities, estimating amount of different constituents of working capital can makes an assessment of working capital requirement. For example, inventories, account receivables, cash, debtors, creditors etc.

1. **Inventories: -** The average amount of raw material to be kept in stock will depend upon quality of raw material required for production during a particular period and average time taken in obtaining fresh delivery. Suitable adjustment may have to be made for incontinency and seasonal factor. It can be calculated by following formula:

Budget Production × Cost of Raw material × Average inventory holding period

(Units) (Per unit) (Months or days)

12(months) OR 365 (Days)

1. **Work-in-progress: -** The cost of work-in-progress includes raw material, wages and other overheads in determining the amount of work-in-progress the time period for which the goods will be in process, is most important. Work-in-process is normally equivalent to 50% of total cost of production. Symbolically;

Budget production × Estimated WIP × Average WIP time span

(Units) (Per unit) (Month or days)

12(months) OR 365 (Days)

1. **Finished Goods: -** The period for which finished goods have to remain in the warehouse before is an important factor determining the amount locked up in finished goods. It summed up as:

Budget Production × cost of goods produced ×finished goods holding period

(Units) (Per unit)(Exclude DEP.) (Months or Days)

12(months) OR 365 (Days)

1. **Sundry Debtors: -** The amount of fund locked up in sundry debtors will be computed on the basis of credit sales and time lag in collection payment. It should be estimated in relation to total cost price as follows:-

Budgeted credit sales × Cost of sales × Average collection period

(Units) Excl. Dep. (Per unit) (Months or Days)

12(months) OR 365 (Days)

1. **Cash or Bank balance: -** The amount of money which to be kept as cash in hand or cash at bank can be estimated on the basis of past experience.
2. **Sundry creditors: -** The lag in payment of supplier of raw materials, goods etc and the likely credit purchases made during them to help in estimating the amount of creditor –

Budgeted creditor × raw mat. Requirement × Credit period allowed

(Units) (Units) (Months or days)

12(months) OR 365 (Days)

1. **Outstanding Expenses:** - The time lag in payment of wages and other expenses will help in estimating the amount of outstanding expenses as follow –

Budgeted production × Labor cost × Time lag in paymt. of Exp.

(Units) (Per unit) (Months or Days)

12(months) OR 365 (Days)

**TECHNIQUE (2): -Percentage of sale method**

This is a traditional and simple method of estimating working capital requirement. According to this method, on the basis of past experience between sales and working capital requirement, a ratio can be determined for estimating the working capital requirement in future

**For Example,** if in the past experience shows that working capital has been 30% of sales and it is sales for the next year would amount to 1, 00,000, the amount of working capital can be estimated to Rs. 30,000 , the basic criticism of this method is that its presumes a linear relationship between sales and working capital. This is neither true in all cases nor the method is universally accepted.

The following table shows how the companies estimate their working capital requirement by using percentage of the sale method for the year 2012: -

**PERCENTAGE OF SALE METHOD**

|  |  |  |
| --- | --- | --- |
| Items | Rs. (in millions) | % of sales |
| **Sales** | 28053.24 |  |
| **Inventories** | 3903.96 | 13.91 |
| **Sundry debtors** | 1427.45 | 5.08 |
| **Cash & bank Bal.** | 722.30 | 2.58 |
| **Other current assets** | 355.78 | 5.88 |
| **Loan & advances** | 1647.65 | 1.27 |
| **Total** | **36110.38** | **128.72** |
| Less : - |  |  |
| **Liabilities** | 23615.15 | 84.17 |
| **Provisions** | 919.88 | 3.28 |
| **Total** | **24535.03** | **87.45** |
| **Net current assets** | 16479.44 | 58.74 |
| **Miscellaneous Exp.** | 730.28 | 2.60 |

**Analysis:-**

From this method we can conclude the data, how much working capital (in percentage) KESORAM need in the next year. This gives help to control the working capital level. This is an important aspect to control the cost of finished goods through reduce the cost of inventories.

**Operating Cycle Approach:-**

According to this approach working capital requirement is depends upon the operating cycle business. The operating cycle begins with the acquisition of raw material and with the collection of receivables. It may be broadly classified into four stages: -

* Raw material and store storage stage
* Work-in-progress stages
* Finished goods storage stage
* Receivable collection stage

The duration of operating cycle for the purposes of estimating working capital requirements equivalent to the sum of the duration of each of these stages less credit period allowed by the superior of the firm.

**Symbolically:**

Here,

**O** = Duration of operating cycle

**R** = Raw material storage period

**W** = Work-in-progress period

**F** = Finished goods storage period

**D** = Debt collection period

**C** = Creditors payment period

**The above can be calculated as follows:**

Average Stock of raw material × 365 days

**R =**

Average raw material store consumption

Average Work in progress inventory × 365 days

**W =**

Average cost of production

Average finished goods inventory × 365 days

**F =**

Average cost of goods sold

Average books of debts × 365 days

**D =**

Average credit sales

Average trade creditor × 365 days

**C =**

Average credit purchases

After completing the period of one operating cycle total number of operating cycle that can be completed during a year can be computed by dividing 365 days with the number of operating days in a cycle.

**SYMBOLICALLY:**

**N = 365/O**

**Here,**

**N = numbers of operating cycles**

**O = duration of operating cycles**

**Total operating expenditures**

**WCR =**

**Number of operating cycles in a year**

The working capital has the following components, which are in several forms of current assets:

* Cash in hand
* Cash at bank
* Stock of raw material
* Stock of finished goods
* Value of debtors
* Miscellaneous current assets (short term investment, loans & advances.

|  |  |
| --- | --- |
| **Components of working capital** | **Basis of valuation** |
| 1. Stock of raw material 2. Stock of work in progress 3. Stock of finished goods 4. Debtors 5. Cash | Purchase cost of raw material  At cost or market value, whichever is lower  Cost of production  Cost of sales or sales value  Working expenses |

**II: Working Capital Management**

Every business needs investment to procure fixed assets, which remain in use for a longer period. Money invested in these assets is called ‘long term funds’ or ‘fixed capital’.

Business also needs funds for short-term purposes to finance current operations. Investment in short term assets like cash, inventories debtors etc. is called ‘short term funds’ or ‘working capital’.

The working capital is categorized as fund needed for carrying out day-to-day operations of the business smoothly. The management of the working capital is equally important as the management of long term financial investment.

Every running business needs working capital. Even a business which is fully equipped with all types of fixed assets required is bound to collapse without-

1. Adequate supply of raw materials for processing.
2. Cash to pay for wages, power and other costs.
3. Creating a stock of finished goods to feed the market demand regularly.
4. The ability to grant credit to its customers.

All these require working capital.

**“Working capital is like the lifeblood of a business”**

The business will not be able to carry on day-to-day activities without the availability of adequate working capital.

**Working capital,** also known as **net working capital,** is a financial metric which represents operating liquidity available to a business.

Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital. It is calculated as current assets minus current liabilities. If current assets are less than current liabilities, an entity has a **working capital deficiency**, also called as **working capital deficit**.

A company can be endowed with **assets** and **profitability** but short of liquidity if its assets cannot readily be converted into cash. Positive working capital is required to ensure that a firm is able to continue its operations and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivables and payable and cash.

**Calculations**

**Current assets and current liabilities** include **three accounts** which are of special importance. These accounts represent the areas of business where the managers have the most direct impact-

* Accounts receivable (current assets)
* Inventory (current assets), and
* Accounts payable (current liabilities)

The current portion of debt (payable within 12 months) is critical, because it represent a short term claim to current assets and is often secured by long term assets. Common types of short-term debts are bank loans and lines of credit.

An increase in working capital indicates that the business has either increased current assets (that is received cash, or other current assets) or has increased current liabilities, for example paid off some short-term creditors.

**Current assets – current liabilities (excluding deferred tax assets/liabilities, excess cash, surplus assets and/or deposit balances)**

**Working Capital Management**

Decision relating to working capital and short term financing are referred to as working capital management. These involves managing the relationship between a firm’s short term assets and short term liabilities. The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flows to satisfy both maturing short-term debt and upcoming operational expenses.

**Decision criteria**

By definition, working capital management entails short term decisions- generally related to next one year period- which are “reversible”. These decisions are therefore not taken on the same basis as capital investment decisions (NPV or related, as above) rather they will be based on cash flows and/or profitability.

* One measure of cash flow is provided by the cash conversion cycle- the net number of days from the outlay of cash for raw material for receiving payment from the customers. As a management tool this metric makes explicit the inter-relatedness of decision relating to inventories, accounts receivables and payables and cash. Because this number effectively corresponds to the time that the firms cash is tied up in operations and unavailable for other activities, management generally aims at a low net count.
* In this context, the most useful measure of profitability is return on capital (ROC). The result is shown as a percentage, determined by dividing relevant income for the 12 months by capital employed; return on equity (ROE) shows this result for the firm’s shareholders. Firm value is enhanced when, and if, the return on capital, which results from working capital management, exceeds the cost of capital, which results from capital investments decisions as above. ROC measures are therefore useful as a management tool, in that they link short-term policy with long-term decision making. See economic value added (EVA).

**Management of working capital**

Measurement will use a combination of policies and techniques for the management of working capital. These policies aims at managing the current assets (generally cash and cash equivalents, inventories and debtors) and the short term financing, such as cash flows and returns are acceptable.

* **Cash management-** Identify the cash balance which allows for the business to meet day to day expenses, but reducing cash holdings costs.
* **Inventory management-** Identify the level of inventory which allows for uninterrupted production but reduces the investment in raw materials- and minimizes reordering costs- and hence increases cash flows; see supply chain management; just in time (JIT); economic order quantity (EOQ); Economic production quantity.
* **Debtors management-** Identify the appropriate credit policy, i.e. credit terms which will attract customers, such that any impact on cash flows and the cash conversion cycle will be offset by increased revenue and hence return on capital (or vice versa) see discount and allowances.
* **Short term financing-** Identify the appropriate source of financing, given the cash conversion cycle; the inventory is ideally financed by credit granted by the supplier; however, it may be necessary to utilize a bank loan (or overdraft), or to “convert debtors to cash” through “factoring”.

**Component of working capital management**

**Inventory Management**

Inventory includes all types of stocks. For effective working capital management, inventory needs to be managed effectively. The level of inventory should be such that the total cost of ordering and holding inventory is the least.

Simultaneously, stock out costs should also be minimized. Business, therefore, should fix the minimum safety stock level, re-order level and ordering quantity so that the inventory cost is reduced and its management becomes efficient.

**INVENTORY MANAGEMENT IN KESORAM**

KESORAM produces normal production cycle items against the firm orders from customers. Because of this as well as sizeable raw materials and compulsory bulk purchase of items, the company has to carry high level of inventories.

A **low inventory turnover ratio** is a signal of inefficiency, since inventory usually has a rate of return of zero. It also implies either poor sales or excess inventory. A low turnover rate can indicate poor liquidity, possible overstocking, and obsolescence, but it may also reflect a planned inventory buildup in the case of material shortages or in anticipation of rapidly rising prices.

A **high inventory turnover ratio** implies either strong sales or ineffective buying, A high inventory turnover ratio can indicate better liquidity, but it can also indicate a shortage or inadequate inventory levels, which may lead to a loss in business.

**Receivables’ Management**

Given a choice, every business would prefer selling its produce on cash basis. However, due to factors like trade policies, prevailing marketing conditions, etc., businesses are compelled to sell their goods on credit. In certain circumstances a business may deliberately extend credit as a strategy of increasing sales. Extending credit means creating a current asset in the form of ‘Accounts Receivable’. Investment in this type of current assets needs proper and effective management as it gives rise to costs such as:

i. Cost of carrying receivable (payment of interest etc.)

ii. Cost of bad debt losses

Thus, the objective of any management policy pertaining to accounts receivables would be to ensure that the benefits arising due to the receivables are more than the cost incurred for receivables and the gap between benefit and cost increases resulting in increased profits. An effective control of receivables helps a great deal in properly managing it.

**DEBTORS MANAGEMENT IN KESORAM**

In most of the contracts, payments of KESORAM are made in following stages:

* Advance from customers.
* At the time of dispatch of goods.
* At the time of MRC (Material Receipt at Site)

However, the above terms may vary from contract to contract. Each business should project expected sales and expected investment in receivables based on various factors, which influence the working capital requirement. From this it would be possible to find out the average credit days using the above given formula. A business should continuously try to monitor the credit days and see that the average credit offered to clients is not crossing the budgeted period. Otherwise, the requirement of investment in the working capital would increase and, as a result, activities may get squeezed and this may lead to cash crisis.

**Cash Management**

Cash is the most liquid current asset. It is of vital importance to the daily operations of business. While the proportion of assets held in the form of cash is very small, its efficient management is crucial to the solvency of the business.

Therefore, planning cash and controlling its use are very important tasks. Cash budgeting is a useful device for this purpose.

**Cash Budget**

Cash budget basically incorporates estimates of future inflows and outflows of cash over a projected short period of time which may usually be a year, a half or a quarter year. Effective cash management is facilitated if the cash budget is further broken down into month, week or even on daily basis.

There are two components of cash budget (i) cash inflows and (ii) cash outflows.

The main sources for these flows are given here under:

**Cash Inflows:**

(a) Cash sales

(b) Cash received from debtors

(c) Cash received from loans, deposits, etc.

(d) Cash receipt of other revenue income

(e) Cash received from sale of investments or assets

**Cash Outflows:**

(a) Cash purchases

(b) Cash payment to creditors

(c) Cash payment for other revenue Expenditure

(d) Cash payment for assets creation

(e) Cash payment for withdrawals, taxes

(f) Repayment of loans, etc.

Now let us understand the means to finance the working capital. Working capital or current assets are those assets, which unlike fixed assets change their forms rapidly. Due to this nature, they need to be financed through short-term funds. Short-term funds are also called current liabilities. The following are the major sources of raising short-term funds

**Cash Management**

It is the duty of the finance manager to provide adequate cash to all segments of the organization. At the same time, he/she has also to ensure that no funds are blocked in idle cash as this will involve cost in terms of interest to the concern. A sound cash management scheme has to maintain the twin objective of liquidity and cost.

**Motives for Holding Cash**

In spite of the fact that cash does not earn any substantial return for the business, it is held by the concern with the following motives.

* **Transaction motive:** A company enters a variety of business transactions resulting both inflow and outflow of cash; at times the cash outflow exceeds the cash inflow. In order to meet the business obligations in such situation, it is necessary to maintain adequate cash balance. Thus, a firm with the motive of making routine business payments maintains cash balance.
* **Precautionary motive**: A firm holds cash balance to meet sudden cash needs arising out of unexpected contingencies such as floods, strikes, obsolesces; sharp increase in prices of raw materials, presentation of bills of payment earlier than expected date more amount of cash will be kept by the firm if there is more possibility of such contingencies.
* **Speculative motive**: KESORAM also keeps cash balance to take advantage of unexpected business opportunities. Such motive is there of speculative nature.
* **Compensation motive**: Banks provide certain services to their customers free of charge. So they usually require the customers to keep minimum cash balance with them which enables them to earn interest and compensate for the free services rendered.

**Reasons of Cash Management**

Cash management involves the following four basic problems.

* **Controlling level of cash**: One of the basic objectives of cash management is to minimize the level of cash balances with the firm. This objective is sought to be achieved by means of the following:
* **Preparing cash budget:** Cash budget is the most important device for planning and controlling the use of cash. It involves the future receipts and payments of the firm. On the basis of this information the finance manager can determine the future cash needs of the firm.
* **Providing for unpredictable discrepancies**: Cash budget shows discrepancies between cash receipts and payments on the basis of normal business activities.
* **Availability of alternative source of funds**: A firm may not require keep large cash balance, if it has arrangements with banks for borrowing money in times of emergencies.
* **Controlling of cash inflow**: In order to prevent fraudulent diversion of cash receipt and speeding up collections of cash, an adequate control on cash inflow is necessary. A properly installed check system can, to a great extent, minimize the possibility of fraudulent diversion of cash. Speedier collection of cash can be made possible by adoption of the following two techniques
* **Concentration banking system**: It is a system of decentralizing collection of account receivables. According to this system, KESORAM’s branch offices are authorized to collect the payment from the customers, and deposit in the local bank accounts. This system facilities fast movement of funds. This system is good in case of the firms having their spread over a large area.
* **Lock box system**: This system is more popular in the U.S.A. and is further step in speeding up collection of cash. This system has been devised to element delay arising in cash of the concentration banking system on account of a time gap between actual receipt of cheques by the regional collection centers and its deposits in the local bank account. Under this system company hire a post office box and instruct its customers for their remits to the box. It also reduces the chances of frauds in the cash collection process and controls the cash inflows better. In order to avoid the unnecessary pockets of idle funds, the company should maintain minimum number of bank accounts.
* **Controlling outflows of cash**: An efficient control over cash outflows is equally important for conserving cash and reducing financial requirements. Control over cash outflows signifies slow disbursement. In order to control the outflows of cash efficiently, a firm should keep in view the following considerations:

**Centralized system for cash payments** should be followed as compared to decentralized system in cash of collections. All payments should be made from a single control account, i.e. from the central office of the company.

1. **Supplier’s Credit**

At times, business gets raw material on credit from the suppliers. The cost ofraw material is paid after some time, i.e. upon completion of the credit period.Thus, without having an outflow of cash the business is in a position to useraw material and continue the activities. The credit given by the suppliers ofraw materials is for a short period and is considered current liabilities. Thesefunds should be used for creating current assets like stock of raw material,work in process, finished goods, etc.

1. **Bank Loan for Working Capital**

This is a major source for raising short-term funds. Banks extend loans to businesses to help them create necessary current assets so as to achieve the required business level. The loans are available for creating the following current assets:

* Stock of Raw Materials
* Stock of Work in Process
* Stock of Finished Goods
* Debtors

Banks give short-term loans against these assets, keeping some security margins. The advances given by banks against current assets are short-term in nature and banks have the right to ask for immediate repayment if they consider doing so. Thus, bank loans for creation of current assets are also current liabilities.

1. **Promoter’s Fund**

It is advisable to finance a portion of current assets from the promoter’s funds They are long-term funds and, therefore do not require immediate repayment. These funds increase the liquidity of the business.

**Ratio Analysis**

Ratio Analysis is the most commonly and widely used tool of financial analysis. A Financial Ratio is defined as, the relationship between two accounting figures, expressed mathematically. Ratio Analysis is used to interpret the financial statement so that the strength and weaknesses of a firm as well as its historical performance and current financial condition can be determined. Ratio Analysis makes related information comparable. It helps to summaries large quantities of financial data’s and to make, quantitative judgments about financial performance.

**Classification of Ratios**

In view of the financial management have been classified as below:

* Liquidity  [ratios](http://www.accountingformanagement.com/financial_statement_analysis_accounting_ratios.htm#Profitability ratios)
* [Activity ratios](http://www.accountingformanagement.com/financial_statement_analysis_accounting_ratios.htm#Liquidity ratios)
* [Solvency ratios](http://www.accountingformanagement.com/financial_statement_analysis_accounting_ratios.htm#Activity ratios)
* [Profitability ratios](http://www.accountingformanagement.com/financial_statement_analysis_accounting_ratios.htm#Leverage ratios or long term solvency ratios)

**LIQUIDITY RATIOS**

The liquidity Ratio measures the ability of firm to meet its short-term obligations and reflect its short-term financial strength/ solvency of firm. Liquidity Ratio is generally based on the relationship between current assets and current liabilities.

Some important liquidity ratios are:

1. **Current Ratio:**

The current ratio is the ratio of total current assets to total current liabilities and calculated by dividing current assets by current liabilities.

**Current Ratio = Current Assets / Current Liabilities**

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It measures the short-term solvency of the firm; the higher current ratio measures the higher margin of safety.

1. **Quick Ratio or Liquid Ratio:**

It is a measurement of firm’s ability to convert its current assets quickly into cash in order to meet its current liabilities.

**Quick Ratio = Quick Assets / Current Liabilities**

The acid test ratio is ratio between quick assets and current liabilities and calculated by dividing the quick assets by current liabilities. Quick assets are that which can be converted into cash immediately at a short notice without a loss of value.

1. **Cash Ratio :**

Since cash ratio is the most liquid asset, a financial analyst may examine cash ratio and if equivalent to current liabilities. Trade investment or marketable securities are equivalent of cash. Therefore, they may be included in the computation of cash ratio.

**Cash Ratio = Cash balance / Current Liabilities**

### ACTIVITY RATIOS

Activity ratios that measure a firm's ability to convert different accounts within their balance sheets into cash or sales. Activity ratios help investors evaluate a firm’s ability to effectively and efficiently manage its operations and assets. The most commonly used activity ratios include:

1. **Stock turnover ratio:**

This ratio is a relationship between the cost of goods sold during a particular period of time and the cost of average inventory during a particular period. It is expressed in number of times. Stock turnover ratio / Inventory turnover ratio indicates the number of times the stock has been turned over during the period and evaluates the efficiency with which a firm is able to manage its inventory. This ratio indicates whether investment in stock is within proper limit or not.

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| **Inventory Turnover Ratio = Cost of goods sold / Average inventory** |

1. **Debtors turnover ratio:**

This ratio indicates the velocity of debt collection of a firm. In simple words it indicates the number of times average debtors (receivable) are turned over during a year.

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| **Debtors Turnover Ratio = Net Credit Sales / Average Trade Debtors** |

1. **Average Collection Period:**

The [Debtors / Receivable Turnover ratio](http://www.accountingformanagement.com/debtors_or_receivable_turnover_ratio.htm) when calculated in terms of days is known as Average Collection Period or Debtors Collection Period Ratio. The average collection period ratio represents the average number of days for which a firm has to wait before its debtors are converted into cash.

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| **Average collection period = (Trade Debtors × No. of Working Days) */* Net Credit Sales** |

1. **Working capital turnover ratio**:

This ratio indicates the velocity of the utilization of net working capital. This ratio represents the number of times the working capital is turned over in the course of year.

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| **Working Capital Turnover Ratio = Cost of Sales / Net Working Capital** |

1. **Fixed assets turnover ratio:**

This ratio is also known as sales to fixed assets ratio. This ratio measures the efficiency and profit earning capacity of the concern. Higher the ratio, greater is the intensive utilization of fixed assets. Lower ratio means under-utilization of fixed assets.

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| **Fixed Assets Turnover Ratio = Cost of Sales / Net Fixed Assets** |

**SOLVENCY RATIOS**

Solvency ratios measure the financial soundness of a business and how well the company can satisfy its short- and long-term obligations. Solvency ratios help investors assess a company’s ability to meet its long-term obligations. They also tell investors how the company has been financed (debt or equity) and whether that is changing over time. Some solvency Ratios are;

1. **Debt-to-Equity ratio:**

This ratio indicates the relationship between the external equities or out siders funds and the internal equities or shareholder’s funds. It is also known as external internal equity ratio. It is determined to ascertain soundness of the long-term financial policies of the company.

**Total long-term debt /Shareholders’ funds**

1. **Interest coverage ratio:**

This ratio is also known as debt service ratio or debt service coverage ratio. This ratio relates the fixed interest charges to the income earned by the business. It indicates whether the business has earned sufficient profits to pay periodically the interest charges. It is calculated by using the following formula.

**Interest Coverage Ratio = Net Profit before Interest and Tax / Fixed Interest Charges**

**PROFITABILITY RATIOS**

Profitability reflects the final result of business operations. Poor operational performance may indicate poor sales and hence poor profit. A lower profitability may arise due to the lack of control over the expenses. Some profitability ratios are;

1. **Gross Profit Ratio:**

Gross profit ratio is the result of the relationship between price, sales value and cost. The gross profit ratio can also be used in determining the extent of loss caused by theft, spoilage, damage etc. A high ratio of gross profit is sign of good management, as it implies that the cost of production is relatively low or vice- versa.

**Gross Profit Ratio = Gross Profit / Net Sales \* 100**

1. **Net Profit Ratio:**

Net profit ratio measures the relationship between net profit and sales of a firm. It shows the overall efficiency of production, administration, financing. This ratio shows the earning left for shareholders as a percentage of net sales.

**Profit Ratio = Net Profit / Sales \* 100**

1. **Operating Profit Ratio:**

This ratio is complementary of net profit ratio. It is computed to overcome the limitation of net profit ratio. This ratio measures the relationship between operating profit and sale

**Operating Profit Ratio = Operating / Sales \* 100**

This ratio indicates an average operating margin on a sale of Rs. 100 what portions of sales is left to cover non-operating expenses to pay dividends and to create reserves.

1. **Return on Investment or Return on Capital Employed Ratio:**

The prime objective of making investments in any business is to obtain satisfactory return on capital invested. Hence, the return on capital employed is used as a measure of success of a business in realizing this objective. Return on capital employed establishes the relationship between the profit and the capital employed. It indicates the percentage of return on capital employed in the business and it can be used to show the overall profitability and efficiency of the business.

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| **Gross capital employed = Fixed assets + Investments + Current assets** |

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| **Net capital employed = Fixed assets + Investments + Working capital\* \*Working capital = current assets − current liabilities.** |

# Dividend Yield Ratio:

# Dividend yield ratio is the relationship between dividends per share and the market value of the shares. Shareholders are real owners of a company and they are interested in real sense in the earnings distributed and paid to them as dividend. Therefore, dividend yield ratio is calculated to evaluate the relationship between dividends per share paid and the market value of the shares.

**Dividend Yield Ratio = Dividend per Share / Market Value Per Share**

1. **Dividend Pay-out Ratio(DPR):**

# DPR is calculated to find the extent to which earnings per share have been used for paying dividend and to know what portion of earnings has been retained in the business. It is an important ratio because ploughing back of profits enables a company to grow and pay more dividends in future.

**DPR = Dividend per Equity Share / Earnings per Share**

# A complementary of this ratio is retained earnings ratio. Retained earnings ratio is calculated by using the following formula:

**Retained Earnings Ratio = Retained Earnings Per Share / Earning Per Share**

1. **Earnings Per Share (EPS) Ratio:**

EPS Ratio is small variation of [return on equity capital ratio](http://www.accountingformanagement.com/return_on_equity_capital.htm) and calculated as

**Earnings per share Ratio = (Net profit after tax − Preference dividend) / No. Of equity shares**

**2.1 THE SCENARIO OF RATIO ANALYSIS**

Ratios are highly essential profit tools in financial analysis that help financial analysts implement plans that improve profitability, liquidity, financial structure, reordering, leverage, and interest coverage. Although ratios report mostly on past performances, they can be predictive too, and provide lead indications of potential problem areas.

Ratio analysis is primarily used to compare a company's financial figures over a period of time, a method sometimes called trend analysis. Through trend analysis, you can identify trends, good and bad, and adjust your business practices accordingly. You can also see how your ratios stack up against other businesses, both in and out of your industry.

There are several considerations you must be aware of when comparing ratios from one financial period to another or when comparing the financial ratios of two or more companies.

* If you are making a comparative analysis of a company's financial statements over a certain period of time, make an appropriate allowance for any changes in accounting policies that occurred during the same time span.
* When comparing your business with others in your industry, allow for any material differences in accounting policies between your company and industry norms.
* When comparing ratios from various fiscal periods or companies, inquire about the types of accounting policies used. Different accounting methods can result in a wide variety of reported figures.
* Determine whether ratios were calculated before or after adjustments were made to the balance sheet or income statement, such as non-recurring items and inventory or pro forma adjustments. In many cases, these adjustments can significantly affect the ratios.
* Carefully examine any departures from industry norms.

**Ratio Analysis** is a useful tool in the following aspects:

**Evaluation of Liquidity**: The ability of a firm to meet its short term payment commitments is called liquidity. Current Ratio and Quick Ratio help to assets the short-term solvency (liquidity) of the firm.

**Evaluation of Profitability**: Profitability ratios i.e. Gross Profit Ratio, Operating Profit Ratio, Net Profit Ratio are basic indicators of the profitability of the firm. In addition, various profitability indicators like Return on Capital Employed (ROCE), Earnings per share (EPS), Return on Assets (ROA) etc. are used to assess the financial performance.

**Evaluation of Operating Efficiency**: Ratios throw light on the degree of efficiency in the management and utilization of assets and resources. These are indicated by activity or performance or turnover ratios e.g. Stock Turnover Ratio, Debtors Turnover Ratio. These indicate the ability of the firm to generate revenue (sales) per rupee of investment in its assets.

**Evaluation of Financial Strength: Long**-term solvency strength is indicated by Capital Structure Ratios like Debt-Equity Ratio, Gearing Ratio, Leverage Ratios etc. These ratios signify the effect of various sources of finance e.g. debt, preference and equity. They also show whether the firm is exposed to serious financial strain or is justified in the use of debt funds.

**Inter-firm and Intra-firm comparison**: Comparison of the firm’s ratios with the industry average will help evaluate the firm’s position vis-à-vis the industry. It will help in analyzing the firm’s strengths and weaknesses and take corrective action. Trend Analysis of ratios over a period of years will indicate the direction of the firm’s financial policies.

**Budgeting**: Ratios are not mere post-modern of operations. They help in depicting future financial positions. Ratios have predictor value and are helpful in planning and forecasting the business activities of a firm for future periods, e.g. estimation of working capital requirements.

**2.2 LIMITATION OF RATIO ANALYSIS**

(a) Window Dressing: Ratios depict the picture of performance at a particular point of time. Sometimes, a business can make year-end adjustments in order to result in favorable ratios (e.g. current ratio, operating profit ratio, debt-equity ratio etc.)

 (b) Impact of Inflation: Financial Statements are affected by inflation. Ratios may not depict the correct picture. For example, fixed assets are accounted at historical cost while profits are measured in current rupee terms. In inflationary situations, the Return on Assets or Return on Capital Employed may be very high due to less investment in fixed assets. Ratios may not indicate the true position in such situations.

(c) Product Line diversification: Detailed ratios for different divisions, products and market segments etc. may not be available to the users in order to make an informed judgment. For example, loss in one product may be set off by substantial profits in another product line. But, the overall net profit ratio may be favorable.

 (d) Impact of Seasonal Factors: When the operations do not follow a uniform pattern during the financial period, ratios may not indicate the correct situation. For example, if the peak supply season of a business is between Februarys to June, it will hold substantial stocks on the balance sheet date. This will lead to a very favorable current ratio on that date. But the position for the rest of the year may be entirely different.

(e) Differences in Accounting Policies: Different firms follow different accounting policies, e.g. rate and methods of depreciation. Strait-jacket comparison of ratios may lead to misleading results.

(f) Lack of Standards: Even though some norms can be set for ratios, there is no uniformity as to what an “ideal” ratio is. Generally it is said that Current Ratio should be 2:1. But if a firm supplies mainly to Government Departments where debt collection period is high, a Current Ratio of 4:1 or 5:1, may also be considered normal.

(g) High or Low: A number by itself cannot be “high” or “low”. Hence, a ratio by itself cannot become “good” or “bad”. The line of difference between “good ratio” and “bad ratio” is very thin.

 (h) Interdependence: Financial Ratios cannot be considered in isolation. Decision taken on the basis of one ratio may be incorrect when a set of ratios are analyzed.

From the above discussion, it is felt that, the ratio is a measuring device to judge the growth, development and present condition of a concern. Further, it is found that, Each and every ratio indicates the financial position as well as it is also helpful for taking several management decisions for the future period effectively and efficiently.

**2.3 CAPITAL INVESTMENT DECISIONS**

Capital investment decisions are long-term corporate finance decisions relating to [fixed assets](http://en.wikipedia.org/wiki/Fixed_assets) and [capital structure](http://en.wikipedia.org/wiki/Capital_structure). Decisions are based on several inter-related criteria. Corporate management seeks to maximize the value of the firm by investing in projects which yield a positive [net present value](http://en.wikipedia.org/wiki/Net_present_value) when valued using an appropriate discount rate. These projects must also be financed appropriately. If no such opportunities exist, maximizing shareholder value dictates that management returns excess cash to shareholders. Capital investment decisions thus comprise an investment decision, a financing decision, and a dividend decision.

The investment decision

Management must allocate limited resources between competing opportunities ("projects") in a process known as [capital budgeting](http://en.wikipedia.org/wiki/Capital_budgeting). Making this capital allocation decision requires estimating the value of each opportunity or project: a function of the size, timing and predictability of future cash flows.

**Project valuation**

In general, each project's value will be estimated using a [discounted cash flow](http://en.wikipedia.org/wiki/Discounted_cash_flow) (DCF) valuation, and the opportunity with the highest value, as measured by the resultant [net present value](http://en.wikipedia.org/wiki/Net_present_value) (NPV) will be selected (applied to Corporate Finance by [Joel Dean](http://en.wikipedia.org/wiki/Joel_Dean_(economist)) in 1951. This requires estimating the size and timing of all of the incremental cash flows resulting from the project. These future cash flows are then [discounted](http://en.wikipedia.org/wiki/Discount) to determine their [present value](http://en.wikipedia.org/wiki/Present_value). These present values are then summed, and this sum net of the initial investment outlay is the [NPV](http://en.wikipedia.org/wiki/Net_present_value).

The [NPV](http://en.wikipedia.org/wiki/Net_present_value) is greatly affected by the [discount rate](http://en.wikipedia.org/wiki/Discount_rate). Thus identifying the proper discount rate—the project "hurdle rate"—is critical to making the right decision. The hurdle rate is the minimum acceptable [return](http://en.wikipedia.org/wiki/Return_on_investment) on an investment—i.e. the [project appropriate discount rate](http://en.wikipedia.org/wiki/Capital_asset_pricing_model#Asset-specific_required_return). The hurdle rate should reflect the riskiness of the investment, typically measured by [volatility](http://en.wikipedia.org/wiki/Volatility_(finance)) of cash flows, and must take into account the financing mix. Managers use models such as the [CAPM](http://en.wikipedia.org/wiki/Capital_asset_pricing_model) or the [APT](http://en.wikipedia.org/wiki/Arbitrage_pricing_theory) to estimate a discount rate appropriate for a particular project, and use the [weighted average cost of capital](http://en.wikipedia.org/wiki/Weighted_average_cost_of_capital) (WACC) to reflect the financing mix selected. (A common error in choosing a discount rate for a project is to apply a WACC that applies to the entire firm. Such an approach may not be appropriate where the risk of a particular project differs markedly from that of the firm's existing portfolio of assets.)

In conjunction with [NPV](http://en.wikipedia.org/wiki/Net_present_value), there are several other measures used as (secondary) [selection criteria](http://en.wikipedia.org/wiki/Decision_making#Decision_making_in_business) in corporate finance. These are visible from the DCF and include [discounted payback period](http://en.wikipedia.org/wiki/Discounted_payback_period), [IRR](http://en.wikipedia.org/wiki/Internal_rate_of_return), [Modified IRR](http://en.wikipedia.org/wiki/Modified_Internal_Rate_of_Return), [equivalent annuity](http://en.wikipedia.org/wiki/Equivalent_Annual_Cost), capital efficiency, and [ROI](http://en.wikipedia.org/wiki/Return_on_investment).

**3.2 Collection of Data**

For carrying out the study of this particular topic the data have been collected basically from two major sources. They are;

**Secondary Sources:-**

The secondary data have been collected from the available sources of the company and external sources for the period under study. These include:-

* Annual Reports of Kesoram Industries Ltd.
* Internet
* Industry portals

**WORKING CAPITAL ANALYSIS (Rs in Lakhs)**

**STATEMENT SHOWING THE SCHEDULE OF CHANGES IN WORKING CAPITAL FOR THE YEAR 2018-19**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **PARTICULAR** | **2018** | **2019** | **WORKING CAPITAL** | |
| **INCREASE** | **DECREASE** |
| CURRENT ASSETS |  |  |  |  |
|  |  |  |  |  |
| Inventories | 1,63,824.00 | 1,52,824.00 |  | 11000 |
| Sundry debtors | 1,02,206.15 | 1,10,206.15 | 8000 |  |
| Cash and bank balances | 51,892.05 | 74648.15 | 22756.10 |  |
| Loans and advances | 96,046.23 | 99,046.23 | 3000 |  |
|  |  |  |  |  |
| TOTAL (A) | 4,13,968.43 | 436724.53 |  |  |
|  |  |  |  |  |
| CURRENT LIABILITIES |  |  |  |  |
|  |  |  |  |  |
| Liabilities | 2,59,206.57 | 2,75,906.57 |  | 16700 |
| Provisions | 36,869.15 | 76,920.83 |  | 40051.68 |
|  |  |  |  |  |
| TOTAL (B) | 2,96,075.72 | 352827.40 |  |  |
|  |  |  |  |  |
| Working Capital (A-B) | 1,17,892.71 | 83897.13 |  |  |
|  |  |  |  |  |
| Decrease in Working Capital |  |  |  |  |
|  |  | 33995.58 | 33995.58 |  |
| TOTAL | 1,17,892.71 | 1,17,892.71 | 67751.68 | 67751.68 |

**STATEMENT SHOWING THE SCHEDULE OF CHANGES IN WORKING CAPITAL FOR THE YEAR 2017-18**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **PARTICULAR** | **2017** | **2018** | **WORKING CAPITAL** | |
| **INCREASE** | **DECREASE** |
| CURRENT ASSETS |  |  |  |  |
|  |  |  |  |  |
| Inventories | 1,33,001.44 | 1,63,824.00 | 30,822.56 |  |
| Sundry debtors | 95,797.42 | 1,02,206.15 | 6,408.73 |  |
| Cash and bank balances | 8,808.36 | 51,892.05 | 43,083.69 |  |
| Loans and advances | 78,954.35 | 96,046.23 | 17,091.88 |  |
|  |  |  |  |  |
| TOTAL (A) | 3,16,561.57 | 4,13,968.43 |  |  |
|  |  |  |  |  |
| CURRENT LIABILITIES |  |  |  |  |
|  |  |  |  |  |
| Liabilities | 1,86,886.41 | 2,59,206.57 |  | 72,320.16 |
| Provisions | 26,808.17 | 36,869.15 |  | 10,060.98 |
|  |  |  |  |  |
| TOTAL (B) | 2,13,694.58 | 2,96,075.72 |  |  |
|  |  |  |  |  |
| Working Capital (A-B) | 1,02,866.99 | 1,17,892.71 |  |  |
|  |  |  |  |  |
| Increase Working Capital | 15025.72 |  |  | 15025.72 |
|  |  |  |  |  |
| TOTAL | 1,17,892.71 | 1,17,892.71 | 97406.86 | 97406.86 |

**INTERPRETATION:**

* This schedule of working capital is result in increasing in need for working capital to the extent of 15,025.72 from the year **2017-2018.**
* All the current assets and liabilities are increased.

**STATEMENT SHOWING THE SCHEDULE OF CHANGES IN WORKING CAPITAL FOR THE YEAR 2016-17**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **PARTICULAR** | **2016** | **2017** | **WORKING CAPITAL** | |
| **INCREASE** | **DECREASE** |
| **CURRENT ASSETS** |  |  |  |  |
|  |  |  |  |  |
| Inventories | 1,22,391.44 | 1,33,001.44 | 10,610.00 |  |
| Sundry debtors | 37,583.51 | 95,797.42 | 58,213.91 |  |
| Cash and bank balances | 45,137.01 | 8,808.36 |  | 36,328.65 |
| Loans and advances | 82,413.85 | 78,954.35 |  | 3,459.50 |
|  |  |  |  |  |
| TOTAL (A) | 2,87,525.81 | 3,16,561.57 |  |  |
|  |  |  |  |  |
| CURRENT LIABILITIES |  |  |  |  |
|  |  |  |  |  |
| Liabilities | 1,92,670.84 | 1,86,886.41 | 5,784.43 |  |
| Provisions | 34,523.09 | 26,808.17 | 7,714.92 |  |
|  |  |  |  |  |
| TOTAL (B) | 2,27,193.93 | 2,13,694.58 |  |  |
|  |  |  |  |  |
| Working Capital (A-B) | 60,331.88 | 1,02,866.99 |  |  |
|  |  |  |  |  |
| Increase in Working Capital | 42,535.11 |  |  | 42,535.11 |
|  |  |  |  |  |
| TOTAL | 1,02,866.99 | 1,02,866.99 | 82323.26 | 82323.26 |

**INTERPRETATION:**

* This schedule of working capital is result in increasing in need for working capital to the extent of 42,535.11 from the year **2016-2017**.
* The current assets like inventory, debtors and in liabilities, provisions increased. Rest of current assets are decreased.

**STATEMENT SHOWING THE SCHEDULE OF CHANGES IN WORKING CAPITAL FOR THE YEAR 2015-16**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **PARTICULAR** | **2015** | **2016** | **WORKING CAPITAL** | |
| **INCREASE** | **DECREASE** |
| CURRENT ASSETS |  |  |  |  |
|  |  |  |  |  |
| Inventories | 1,07,032.10 | 1,22,391.40 | 15,359.30 |  |
| Sundry debtors | 52,287.50 | 37,583.50 |  | 14,704.00 |
| Cash and bank balances | 43,493.90 | 45,137.00 | 1,643.10 |  |
| Loans and advances | 66,957.90 | 82,413.70 | 15,455.80 |  |
|  |  |  |  |  |
| Total (A) | 2,69,771.40 | 2,87,525.60 |  |  |
|  |  |  |  |  |
| CURRENT LIABILITIES |  |  |  |  |
|  |  |  |  |  |
| Liabilities | 1,65,162.50 | 1,92,670.90 |  | 27,508.40 |
| Provisions | 10,423.00 | 34,523.10 |  | 24,100.10 |
|  |  |  |  |  |
| TOTAL (B) | 1,75,585.50 | 2,27,194.00 |  |  |
|  |  |  |  |  |
| Working Capital (A-B) | 94,185.90 | 60,331.60 |  |  |
|  |  |  |  |  |
| Decrease in Working Capital |  | 33854.30 | 33854.30 |  |
|  |  |  |  |  |
| TOTAL | 94,185.90 | 94,185.90 | 66312.50 | 66312.50 |

**INTERPRETATION:**

* This schedule of working capital is result in decreasing in need for working capital to the extent of 33,854.30 from the year **2015-2016.**
* All the current liabilities like liabilities, provisions and in sundry debtors increased. All the current assets are increased except Sundry debtors.

**STATEMENT SHOWING THE SCHEDULE OF CHANGES IN WORKING CAPITAL FOR THE YEAR 2014-15**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **PARTICULAR** | **2014** | **2015** | **WORKING CAPITAL** | |
| **INCREASE** | **DECREASE** |
| CURRENT ASSETS |  |  |  |  |
|  |  |  |  |  |
| Inventories | 90,256.10 | 1,07,032.10 | 16,776.00 |  |
| Sundry debtors | 42,433.70 | 52,287.50 | 9,853.80 |  |
| Cash and bank balances | 60,287.60 | 43,493.90 |  | 16,793.70 |
| Loans and advances | 30,263.90 | 66,957.90 | 36,694.00 |  |
|  |  |  |  |  |
| TOTAL (A) | 2,23,241.30 | 2,69,771.40 |  |  |
|  |  |  |  |  |
| CURRENT LIABILITIES |  |  |  |  |
|  |  |  |  |  |
| Liabilities | 1,14,689.50 | 1,65,162.50 |  | 50,473.00 |
| Provisions | 26,162.10 | 10,423.00 | 15,739.10 |  |
|  |  |  |  |  |
| TOTAL (B) | 1,40,851.60 | 1,75,585.50 |  |  |
|  |  |  |  |  |
| Working Capital (A-B) | 82,389.70 | 94,185.90 |  |  |
|  |  |  |  |  |
| Increase in working capital | 11,796.20 |  |  | 11,796.20 |
|  |  |  |  |  |
| TOTAL | 94,185.90 | 94,185.90 | 79062.90 | 79062.90 |

**INTERPRETATION:**

* This schedule of working capital is result in increasing in need for working capital to the extent of 11,796.20 from the year **2014-2015.**
* All the current assets and current liabilities are increased except cash and bank balances and Provisions.

**WORKING CAPITAL RATIOS:**

**TURNOVER RATIOS: TABLE- 1**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEARS** | **CURRENT ASSETS** | **CURRENT LIABILITIES** | **NETWORKING CAPITAL** |
|  | (Rs in Lakhs) | (Rs in Lakhs) | (Rs in Lakhs) |
| 2015 | 269771.4 | 175585.5 | 94185.9 |
| 2016 | 287525.6 | 227194 | 60331.6 |
| 2017 | 316561.57 | 213694.58 | 102866.99 |
| 2018 | 413968.43 | 296075.72 | 117892.71 |
| 2019 | 436724.53 | 352827.4 | 83897.13 |

**INTERPRETATION:**

* Net working capital of KESORAM Ltd is maintained balanced in all years.
* Except in 2013- 2015. In this year the net working capital is very low.
* In 2018 net working capital is high.

**TABLE: 2 WORKING CAPITAL TURNOVER RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEARS** | **COST OF GOODS SOLD** | **NET WORKING CAPITAL** | **WORKING CAPITAL TURNOVER RATIO** |
|  | (Rs in Lakhs) | (Rs in Lakhs) | (In Times) |
| 2015 | 672474.9 | 94185.9 | 7.14 |
| 2016 | 711328.3 | 60331.6 | 11.79 |
| 2017 | 524883.71 | 102866.99 | 5.1 |
| 2018 | 595605.14 | 117892.71 | 5.05 |
| 2019 | 929253.54 | 83897.13 | 11.08 |

**INTERPRETATION:**

* The working capital turnover ratio of KESORAM Ltd is high in 2015-16.
* But suddenly there is a dip in 2016-17.

**TABLE: 3** **CURRENT ASSET TURNOVER RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEARS** | **TOTAL SALES** | **CURRENT ASSET** | **CURRENT ASSET TURNOVER RATIO** |
|  | (Rs in Lakhs) | (Rs in Lakhs) | (In Times) |
| 2015 | 847542.1 | 269771.4 | 3.14 |
| 2016 | 912832.3 | 287525.6 | 3.17 |
| 2017 | 676147.21 | 316561.57 | 2.14 |
| 2018 | 799943.81 | 413968.43 | 1.93 |
| 2019 | 1231884.87 | 436724.53 | 2.82 |

**INTERPRETATION:**

* + The current assets turnover ratio of KESORAM Ltd in 2016-17 is decreased when compare to 2015-16. Also, the current asset turnover ratio is decreased in 2017-18
  + In 2017-18 current asset turnover ratio is increased from 1.93 to 2.82 times.

**TABLE: 4 FIXED ASSET TURNOVER RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEARS** | **SALES** | **FIXED ASSET** | **FIXED ASSET TURNOVER RATIO** |
|  | (Rs in Lakhs) | (Rs in Lakhs) | (In Times) |
| 2015 | 847542.1 | 154452.4 | 5.49 |
| 2016 | 912832.3 | 205479.5 | 4.44 |
| 2017 | 676147.21 | 439740.57 | 1.54 |
| 2018 | 799943.81 | 481102.89 | 1.66 |
| 2019 | 1231884.87 | 499175.79 | 2.47 |

**INTERPRETATION:**

* + - In KESORAM Ltd, fixed asset turnover ratio is peak in 2014-15 as 5.49 times.
    - It has been decreased in following year 2016-17.
    - In 2015, fixed asset turnover ratio is increased when compare to previous year 2014.

**TABLE: 5 LIQUIDITY RATIOS: CURRENT RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEARS** | **CURRENT ASSET** | **CURRENT LIABILITIES** | **CURRENT RATIO** |
|  | (Rs in Lakhs) | (Rs in Lakhs) | (in Times) |
| 2015 | 269771.4 | 175585.5 | 1.53 |
| 2016 | 287525.6 | 227194 | 1.26 |
| 2017 | 316561.57 | 213694.58 | 1.48 |
| 2018 | 413968.43 | 296075.72 | 1.39 |
| 2019 | 436724.53 | 352827.4 | 1.23 |

**INTERPRETATION:**

* The current ratio of KESORAM ltd is slightly changing in all the years.
* In 2014-15 and 2016-17 the ratio is high.
* In 2018-19 and 2017-18 it decreased from 1.39 to 1.23 times.

**TABLE: 6 ACID TEST RATIOS**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEARS** | **CURRENT ASSET** | **CURRENT LIABILITIES** | **CURRENT RATIO** |
|  | (Rs in Lakhs) | (Rs in Lakhs) | (In Times) |
| 2015 | 269771.4 | 175585.5 | 1.53 |
| 2016 | 287525.6 | 227194 | 1.26 |
| 2017 | 316561.57 | 213694.58 | 1.48 |
| 2018 | 413968.43 | 296075.72 | 1.39 |
| 2019 | 436724.53 | 352827.4 | 1.23 |

**INTERPRETATION:**

* + - * The ideal acid test ratio is 1:1.
      * In 2014, 2014 and 2013 are near to the ideal acid test ratio.
      * In 2014 it was decreased from 0.84 to 0.61 times.

**TABLE: 7** **ABSOLUTE LIQUID RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEARS** | **ABSOLUTE LIQUID ASSET** | **CURRENT ASSET** | **ABSOLUTE LIQUID RATIO** |
|  | (Rs in Times) | (Rs in Lakhs) | (In Times) |
| 2015 | 43493.9 | 269771.4 | 0.16 |
| 2016 | 45137 | 287525.6 | 0.15 |
| 2017 | 8808.36 | 316561.57 | 0.02 |
| 2018 | 51892.05 | 413968.43 | 0.12 |
| 2019 | 17952.72 | 436724.53 | 0.04 |

**INTERPRETATION:**

* + - The Absolute liquid ratio KESORAM Ltd is good position in 2014 and 2015.
    - But 2016-17, it was fall down to 0.02 from 0.15 times.
    - In 2018-19, it was decreased from 0.12 to .04 times.

**TABLE: 8 PROFITABILITY RATIOS - GROSS PROFIT RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEARS** | **GROSS PROFIT** | **NET SALES** | **GROSS PROFIT RATIO** |
|  | (Rs in Lakhs) | (Rs in Lakhs) | (In %) |
| 2015 | 157996.8 | 8,30,471.70 | 19.02 |
| 2016 | 182040.7 | 8,93,369.00 | 20.38 |
| 2017 | 141780.3 | 6,66,664.01 | 21.27 |
| 2018 | 191654.6 | 7,87,259.74 | 24.34 |
| 2019 | 280107.14 | 12,09,360.68 | 23.16 |

**INTERPRETATION:**

* From the table show above gross profit of the firm is satisfactory in all the years
* But it was recovered very soon by next year and it is still doing well
* The current gross profit ratio is 23.16 %

**TABLE: 9 NET PROFIT RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEARS** | **SALES** | **NET PROFIT** | **NET PROFIT RATIO** |
|  | (Rs in Lakhs) | (Rs in Lakhs) | (In %) |
| 2015 | 8,30,471.70 | 44,128.60 | 5.31 |
| 2016 | 8,93,369.00 | 46,931.00 | 5.25 |
| 2017 | 6,66,664.01 | 18999.63 | 2.85 |
| 2018 | 7,87,259.74 | 42367.48 | 5.38 |
| 2019 | 12,09,360.68 | 63129.93 | 5.22 |

**INTERPRETATION:**

* From the data given in the above table it is clear that the net profit of the company is almost maintained constant except in the year 2018-19.
* Due to market slow down the net profit of the company effected.
* But in 2014-15 it shot up as the company recovered very fast.

**5.1 LIMITATIONS OF THE STUDY**

1. As project has to be completed within a short span of time, the scarcity of time was an important hindrance and hence much information could not be gathered, nor evaluated.
2. Another important limitation is that analysis is very much dependent on the company’s internal bulletin.
3. There are no well – accepted standards or rules of thumb for all ratios, which can be accepted as norms. It renders interpretation of ratios difficult.

While making ratio analysis no consideration is given to price level.

**FINDINGS**

1. Ratios are means for presenting numerical relationships between items or groups of items. A ratio is determined by dividing one item in a relationship with the other.
2. Generally, financial ratios are computed from financial statements and so ratios developed for an analysis of a firm’s performance and financial position are subject to the same limitations, which are present in the accounting statements themselves.
3. Ratios are used in the analysis of financial statements of a business in order to reveal underlying economic trends in its activities and to discover its STRENGTHS AND WEAKNESSES as compared with the trends of sister companies.
4. Capital investment decisions are long-term corporate finance decisions relating to fixed assets and capital structure.
5. Making big investment decisions means that we must allocate substantial amounts of major resources of people, time, technology, intellectual capital, and, of course, money
6. The working capital is increasing in comparison to last year which is good for the liquidity of the company.
7. The working capital turnover is decrease in 2012; it means the company is efficient to manage its working capital.
8. The inventory turnover is not much varying from previous year, this shows that the company is not able to do much for inventory management. But if we compare the data with 2010 then they efficiently manage their inventory and able to increase its sale.
9. In spite of increase in sales from 2011 to 2012, total debtors have been increased, which indicated that the company is not having very effective credit policy. But the same case is not for the previous years.
10. The company’s current ratio is increasing in comparison to previous year it shows that the company’s is able to improve its liquidity position in comparison to previous year.

**5.2 SUGGESTIONS**

1. The company should concentrate more on the Cash and Bank Balance side. As the Reserves and Surplus are decreasing year by year whereas the Debts / Loans are increasing. It should be controlled.
2. KESORAM has been paid the major portion of its earnings as dividend when compared to previous years (2010-11). The enterprise has to retain some more amounts of its earnings for the future use. The enterprise may have some extension plans for future.
3. KESORAM will have to consider the steep increase in the Current Liabilities in financial year 2009-10. The Firm should take measures to control and repay them as far as possible.
4. The company should keep sufficient cash or bank balance in order to meet its liability immediately. Otherwise it will adversely affect the liquidity position of the company.
5. There should be a proper management for the effective utilization of Current Assets and Fixed Assets in order of making sales.
6. KESORAM should develop a proper method for identifying budgeted sales. The raw material consumption is to be controlled according to the budgeted sales. This will helps to increase their operating profit as well as gross profit.
7. The company should focus on the debtors side, as the number of debtors goes on increasing each year. Increasing number of debtors leads to lower working capital.
8. The company should adopt proper sales strategy and their collection facilities.
9. A formal Inventory policy should be drawn out in respect of Raw Materials, as it is a critical area for the Company

The overall profitability and efficiency of the business should enhance. Otherwise the business cannot obtain satisfactory return on capital invested and return on Total Assets.

* 1. **CONCLUSION**

Working capital management is important aspect of financial management. The study of working capital management in KESORAM ltd has revealed that the current ratio was as per the standard industrial practice but the liquidity position of the company showed an increasing trend. The study has been conducted on working capital ratio analysis, working capital leverage, working capital components which helped the company to manage its working capital efficiency and affectively.

* Working capital of the company was increasing and showing positive working capital per year. It shows good liquidity position.
* Positive working capital indicates that company has the ability of payments of short terms liabilities.
* Working capital increased because of increment in the current assets is more than increase in the current liabilities.
* Company’s current assets were always more than requirement it affect on profitability of the company.
* Current assets are more than current liabilities indicate that company used long term funds for short term requirement, where long term funds are most costly then short term funds.
* Current assets components show sundry debtors were the major part in Current assets it shows that the inefficient receivables collection management.

The company has a good operating cycle, liquidity position, and has sufficient funds to repay its liabilities. It is being found that components of working capital like inventory management, receivables management and cash management was managing effectively. It is being found that the production target of the company has been achieved in time; thereby the profit percentage of company is good.

The company is matured one and it has contributed towards the countries growth and development and will also continue to perform and contribute to the whole nation. To conclude company has sound and effective management of working capital, which helps them to control the cost and increase the profit.

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