**CHAPTER – 1**

**INTRODUCTION**

A firm should aim at maximizing their wealth. In its endeavor to do so, a firm should earn sufficient return from its operation. The firm has to invest enough funds in current asset for generating sales. Current asset are needed because sales do not convert into cash instantaneously. There is always an operating cycle involved in the conversion of sales into cash.

The objectives are to analyze the Cash management and to determine efficiency in cash, inventories, debtors and creditors. Further, to understand the liquidity and profitability position of the firm.

These objectives are achieved by using ratio analysis and then arriving at conclusions, which are important to understand the efficiency / inefficiency of Cash.

The company goes in insufficient manner in the past five years. So the company takes steps to improve the performance and concentrate in local areas. The company financial capacities are low and borrow funds from the government and outsiders. It creates liabilities for the company. The working capital is reducing from year to year. So they should take some necessary steps for adding more amounts to working capital.

**1.1 Objectives of the Study:**

* + - To meet the Cash Disbursement needs
    - To know the sources of Cash Inflow and uses of Cash Outflow in AFT
    - To determine how short term / current obligations of the Company are met by the Liquidity Ratio.
    - To know the short term Solvency Position and the trend
    - To make suggestion and recommendation to improve the cash position of A.F.T ltd.

**1.2 Need for the Study:**

The importance of Cash management in any industrial concern cannot be overstressed. Under the present inflationary condition, management of Cash is perhaps more important than even management of profit and this requires greatest attention and efforts. It needs vigilant attention as each of its components require different types of treatment and it throws constant attention on exercise of skill and judgment, awareness of economic trend etc, due to urgency and complicacy the vital importance of Cash.

The anti-inflationary measure taken up creating a tight money condition has placed working capital in the most challenging zone of management and it requires a unique skill for its management. Today, the problem of managing Cash has got the recognition of separate entity, so its study and management is of major importance to both internal and external analyst to judge the current position of the business concerns. Hence, the present study entitled “**A study on Cash Management”** has been taken up.

**1.3 Scope of the Study:**

* This study helps to take short term financial decision
* It indicates the cash requirement needed for plant or equipment expansion programmes.
* To find strategies for efficient management of cash.
* It helps to meet routine cash requirement to finance the transaction.
* It reveals the liquidity position of the firm by highlighting the various sources of cash and its uses.

**1.4 Limitations of the Study:**

* Difficulty of getting access to some important data due to its sensitivity and secretive nature.
* The non- uniformity in the accounting periods of the years under study made it difficult to interpret the data concisely.
* It took time to collect data from the finance departments.

**CHAPTER – 2**

**REVIEW OF LITERATURE**

#### Meaning

Cash is the money which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the firm, and balances in its bank accounts. Sometimes near-cash items, such as marketable securities or bank times deposits, are also included in cash. The basic characteristic of near-cash assets is that they can readily be converted into cash.

**FACETS OF CASH MANAGEMENT**

Cash managementis concerned with the managing of: (i) Cash flows into and out of the firm, (ii) Cash flows within the firm, and (iii) Cash balances held by the firm at a point of time by financing deficit or investing surplus cash. It can be represented by a cash management cycle. Sales generate cash which has to be disbursed out. The surplus cash has to be invested while deficit this cycle at a minimum cost. At the same time, it also seeks to achieve liquidity and control. Cash management assumes more importance than other current assets because cash is the most significant and the least productive asset that a firm’s holds. It is significant because it is used to pay the firm’s obligations. However, cash is unproductive**.** Unlike fixed assets or inventories, it does not produce goods for sale. Therefore, the aim of cash management is to maintain adequate control over cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way.

Cash management is also important because it is difficult to predict cash flows accurately, particularly the inflows, and there is no prefect coincidence between the inflows and outflows of cash. During some periods, cash outflows will exceed cash inflows, because payments for taxes, dividends, or seasonal inventory build up. At other times, cash inflow will be more than cash payments because there may be large cash sales and debtors may be realized in large sums promptly. Further, cash management is significant because cash constitutes the smallest portion of the total current assets, yet management’s considerable time is devoted in managing it. In recent past, a number of innovations have been done in cash management techniques. An obvious aim of the firm these days is to manage its cash affairs in such a way as to keep cash balance at a minimum level and to invest the surplus cash in profitable investment opportunities.

In order to resolve the uncertainty about cash flow prediction and lack of synchronization between cash receipts and payments, the firm should develop appropriate strategies for cash management. The firm should evolve strategies for cash management. The firm should evolve strategies regarding the following four facets of cash management.

* **Cash planning:** Cash inflows and outflows should be planned to project cash surplus or deficit for each period of the planning period. Cash budget should be prepared for this purpose**.**
* **Managing the cash flows:** The firm should decide about the properly managed. The cash inflows should be accelerated while, as far as possible, the cash outflows should be decelerated.
* **Optimum cash level:** the firm should decide about the appropriate level of cash balances. The cost of excess cash and danger of cash deficiency should be matched to determine the optimum level of cash balances**.**
* **Investing surplus cash:** The surplus cash balances should be properly invested to earn profits. The firms should decide about the division of such cash balances between alternative short-term investment opportunities such as bank deposits, marketable securities, or inter-corporate lending**.**

**MOTIVES FOR HOLDING CASH**

The firm’s need tohold cash may be attributed to the following three motives:

* The transactions motive
* The precautionary motive
* The speculative motive

**TRANSACTION MOTIVE**

The transactions motive requires a firm to hold cash to conduct its business in the ordinary course. The firm needs cash primarily to make payments for purchases, wages and salaries, other operating expenses, taxes, dividends etc. The need to hold cash would not arise if there were perfect synchronization between cash receipts and cash payments, i.e., enough cash is received when the payment has to be made. But cash receipts and payments are not perfectly synchronized. For those periods, when cash payments exceed cash receipts, the firm should maintain some cash balance to be able to make required payments. For transactions purpose, a firm may invest its cash in marketable securities. Usually, the firm will purchase securities whose maturity corresponds with some anticipated payments, such as dividends or taxes in the future. Notice that the transactions motive mainly refers to holding cash to meet anticipated payments whose timing is not perfectly matched with cash receipts.

**PRECAUTIONARY MOTIVE**

The precautionary motive is the need to hold cash to meet contingencies in the future. It provides a cushion or buffer to withstand some unexpected emergency. The precautionary amount of cash depends upon the predictability of cash flows. If cash flows can be predicted with accuracy, less cash will be maintained for an emergency. The amount of precautionary cash is also influenced by the firm’s ability to borrow at short notice when the need arises. Stronger the ability of the firm to borrow at short notice, less the need for precautionary balance. The precautionary balance may be kept in cash and marketable securities. Marketable securities play an important role here. The amount of cash set aside for precautionary reasons is not expected to earn anything; the firm should attempt to earn some profit on it. Such funds should be invested in high-liquid and low-risk marketable securities. Precautionary balances should, thus, be held more in marketable securities and relatively less in cash.

**SPECULATIVE MOTIVE**

The speculative motive relates to the holding of cash for investing in profit-making opportunity to make profit may arise when the security prices change. The firm will hold cash, when it is expected that interest rates will rise and security prices will fall. Securities can be purchased when the interest rate is expected to fall; the firm will benefit by the subsequent fall in interest rates and increase in security prices. The firm may also speculate on materials prices. If it is expected that materials prices will fall, the firm can postpone materials purchasing and make purchases in future when pric4e actually falls. Some firms may hold cash for speculative purposes. By and large, business firms do not engage in speculations. Thus, the primary motives to hold cash and marketable securities are: the transactions and the precautionary motives.

**CASH PLANNING**

Cash flows are inseparable parts of the business operations of firms. A firm needs cash to invest in inventory, receivable and fixed assets and to make payment for operating expenses in order to maintain growth in sales and earnings. It is possible that firm may be making adequate profits, but may suffer from the shortage of cash as its growing needs may be consuming cash very fast. The ‘poor cash’ position of the firm cash is corrected if its cash needs are planned in advance. At times, a firm can have excess cash may remain idle. Again, such excess cash outflows. Such excess cash flows can be anticipated and properly invested if cash planning is resorted to. Cash planning is a technique to plan and control the use of cash. It helps to anticipate the future cash flows and needs of the firm and reduces the possibility of idle cash balances ( which lowers firm’s profitability ) and cash deficits (which can cause the firm’s failure).

Cash planning protects the financial condition of the firm by developing a projected cash statement from a forecast of expected cash inflows and outflows for a given period. The forecasts may be based on the present operations or the anticipated future operations. Cash plans are very crucial in developing the overall operating plans of the firm.

Cash planning may be done on daily, weekly or monthly basis. The period and frequency of cash planning generally depends upon the size of the firm and philosophy of management. Large firms prepare daily and weekly forecasts. Medium-size firms usually prepare weekly and monthly forecasts. Small firms may not prepare formal cash forecasts because of the non-availability of information and small-scale operations. But, if the small firms prepare cash projections, it is done on monthly basis. As a firm grows and business operations become complex, cash planning becomes inevitable for its continuing success.

**OTHER FACTORS THAT AFFECT THE SIZE OF CASH BALANCE**

1**. Availability of short-term credit**:

To avoid holding unnecessary large balances of cash, most firms attempt to make arrangements at borrow money is case of unexpected needs. With such an agreement, the firm normally pays interest only during the period that the money is actually used.

2. **Money market rates**:

If money will bring a low return a firm may choose not to invest it. Since the loss or profit is small, it may not be worth the trouble to make the loan. On the other hand, if interest rates are very high, every extra rupee will be invested.

3. **Variation in cash flows**:

Some firms experience wide fluctuation in cash flows as a routine matter. A firm with steady cash flows can maintain a fairly uniform cash balance.

4. **Compensating balance**:

If a firm has borrowed money from a bank, the loan agreement may require the firm to maintain a minimum balance of cash in its accounts. This is called compensating balance. In effect this requires the firm to use the services of bank a guaranteed deposit on which it pays no interest. The interest free deposit is the bank’s compensation for its advice and assistance.

**CASH MANAGEMENT – BASIS STRATEGIES**

The management should, after knowing the cash position by means of the cash budget, work out the basic strategies to be employed to manage its cash.

**CASH CYCLE:**

The cash cycle refers to the process by which cash is used to purchase materials from which are produced goods, which are them sold to customers.

Cash cycle=Average age of firm’s inventory

+Days to collect its accounts receivables

-Days to pay its accounts payable.

The cash turnover means the numbers of times firm’s cash is used during each year.

360

Cash turnover = ----------------

Cash cycle

The higher the cash turnover, the less cash the firm requires. The firm should, therefore, try to maximize the cash turn.

**MANAGING COLLECTIONS:**

a) **Prompt Billing:**

By preparing and sending the bills promptly, without a time log between the dispatch of goods and sending the bills, a firm can ensure earlier remittance.

b) **Expeditious collection of cheques**:

An important aspect of efficient cash management is to process the cheques receives very promptly.

c) **Concentration Banking**:

Instead of a single collection center located at the company headquarters, multiple collection centers are established. The purpose is to shorten the period between the time customers mail in their payments and the time when the company has use of the funds are then to a concentration bank – usually a disbursement account.

d) **Lock-Box System**:

With concentration banking, a collection center receives remittances, processes them and deposits them in a bank. The purpose is to lock-box system is to eliminate the time between the receipt of remittances by the company and their deposit in the bank. The company rents a local post office box and authorizes its bank in each of these cities to pick up remittances in the box. The bank picks up the mail several times a day and deposits the cheque in the company’s accounts. The cheques are recorded and cleared for collection. The company receives a deposits the cheque in the company’s accounts. The cheques are recorded and cleared for collation. The company receives a deposit slip and a lift of payments. This procedure frees the company from handling a depositing the cheques.

**CONTROL OF DISBURSMENT**

**a) Stretching Accounts Payable**

A firm should pay its accounts payables as late as possible without damaging its credit standing. It should, however, take advantages of the cash discount available on prompt payment.

**b) Centralized Disbursement**

One procedure for rightly controlling disbursements is to cenrealise payables in to a single account, presumably at the company’s headquarters. Such an arrangement would enable a firm to delay payments and can serve cash for several reasons. Firstly, it increases transit time. Secondly, if a firm has a centralized bank account, a relatively smaller total cash balances will be needed.

**c) Bank Draft**

Unlike an ordinary cheque, the draft is not payable on demand. When it is presented to the issuer’s bank for collection, the bank must present it to the issuer for acceptance. The funds then are deposited by the issuing firm to cover payments of the draft. But suppliers prefer cheques. Also, bank imposes a higher service charge to process them since they require special attention, usually manual.

**d) Playing the float**

The amount of cheques issued by the firm but not paid for by the bank is referred to as the “payment float”. The differences between “payment float” and “collection float” are the net float. So, if a firm enjoys a positive “net float”, it may issue cheques even if it means having an ever drown account in its books. Such an action is referred to as “playing the float”, within limits a firm can play this game reasonably safely.

Thus management of cash becomes essential and it should be seen to, that neither excessive nor inadequate cash balances are maintained.

**FLOW OF STATEMENTS**

The funds flow statement analyses only the causes of changes in the firm’s working capital position. The cash flow statement is prepared to analyze changes in the flow of each only. These statements fail to consider the changes in the firm’s total financial resources. They do not reveal some significant items which do not affect the firm’s cash or working capital position, but considerably influence the financing position and asset mix of the firm. For example, ordinary shares issued to acquire some asset, say land, affect the financing and asset mix of the firm. For example, ordinary shares issued to statement will not include this transaction as it does not involve any change in cash or working capital. A comprehensive statement of changes in financial position would disclose or working capital. A comprehensive statement of changes in financial position would disclose this information along with information on cash or working capital changes.

The statement of changes in financial position is an extension of the funds flow statement or the cash flow statement. It is more informative and com apprehensive in indicating the changes in the firm’s financial position. However, the analysis of changes in the firm’s cash position or working capital is still very significant. Therefore, to get better insights, a firm may prepare a comprehensive, all – inclusive, statement of changes in financial position incorporating changes in the firm’s cash and working capital positions. In the following sections, we illustrate the preparation and use of the statement of changes in financial position involving:

* Changes in the firm’s working capital position
* Changes in the firm’s working capital position
* Changes in the firm’s total financial resources.

**FUNDS FLOW STATEMENT**

The statement of changes in financial position, prepared to determine only the sources and uses of working capital between dates of two balance sheets, is known as the funds flow statement. Working capital is defined as the difference between current assets and current liabilities. Working capital determines the liquidity position of the firm. A statement reporting the changes in working capital is useful in addition to the financial statements.

**CASH FLOW STATEMENT**

An analysis of cash flows is useful for short-run planning. A firm needs sufficient cash to pay debts maturing in the future, to pay interest and other expenses and to pay dividends to shareholders. The firm can make projections of cash inflows and outflows for the near future to determine the availability of cash. This cash balance can be matched with the firm’s need for cash during the period, and accordingly, arrangements can be made the deficit or invest the surplus cash temporarily. A historical analysis of cash flows provides insight to prepare reliable cash flow projections for the immediate future.

A statement of changes in financial position on cash basis. Commonly known as the cash flow statement, summarizes the causes of changes in cash position between dates of the two balance sheets. It indicates the sources and uses of cash. The cash flow statement is similar to the funds flow statement except that it focuses attention on cash (immediate or near term liquidity) instead of working capital or funds (potential or medium term liquidity). Thus, this statement analyses changes in non-current accounts as well as current accounts (other than cash) to determine the flow of cash.

**UTILITY OF CASH FLOW ANALYSIS**

A Cash flow analysis is an important financial tool for the management. Its chief advantages are as follows.

**1. Helps in efficient cash management**

Cash flow analysis helps in evaluating financial policies and cash position. Cash is the basis for all operation and hence a projected cash flow statement will enable the management to plan and co-ordinate the financial operations properly. The management can know how much cash is needed from which source it will be derived, how much can be generated, how much can be utilized.

**2. Helps in internal financial management**

Cash flow analysis information about funds, which will be available from operations. This will helps the management in repayment of long-term debt, dividend policies etc.,

**3. Discloses the movements of Cash**

Cash flow statement discloses the complete picture of cash movement. The increase in and decrease of cash and the reasons therefore can be known. It discloses the reasons for low cash balance in spite of heavy operation profits on for heavy cash balance in spite of low profits.

**4. Discloses success or failure of cash planning**

The extent of success or failure of cash planning be known by comparing the projected cash flow statement with the actual cash flow statement and necessary remedial measures can be taken.

**Measurement of Current Ratio**

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

Current ratio = Current assets

Current liabilities

The current assets of a firm, as already stated, represent those assets which can be, in ordinary course of business, converted into cash within a short period of time, normally not exceeding one year and include cash and bank balances, marketable securities, inventory of raw materials, semi-finished (work-in- progress) and finished goods, debtors net of provision for bad and doubtful debts, bills receivable and pre-paid expenses. The current liabilities defined as liabilities which are short-term maturing obligations to be met, as originally contemplated, within a year, consist of trade creditors, bills payable, banks credit, provision for taxation, dividends payable and outstanding expenses.

**Acid-Test or Quick Ratio**

As observed above, one defect of the current ration is that it fails to convey any information on the composition of the current assets of a firm. A rupee of cash is considered equivalent to be rupee of inventory or receivables. But it is not so. A rupee of cash is more readily available (i.e. more liquid) to meet current obligations than a rupee of , say, inventory. This impairs the usefulness of the current ratio. The acid-test ration is a measures of liquidity designed to overcome this defect of the current ratio. It is often to convert its current assets quickly into cash in order to meet its current liabilities. Thus, it is a measure of quick or acid liquidity.

The acid-test ratio is the ratio between quick current assets and current assets by the current liabilities:

Quick assets\_\_\_\_\_

Acid-test ratio= Current liabilities

The term quick assets refers to current assets which can be converted into cash immediately or at short notice without diminution of value.

**Inventory Turnover Ratio**

It is computed by dividing the cost of goods sold by the average inventory. Thus,

Cost of goods sold

Inventory turnover ration = Average inventory

The cost of goods sold means, sale minus gross profit, the average inventory refers to the simple average of the opening and closing inventory. The ration indicates how fast inventory is sold. A high ratio to good from the view point of liquidity and vice versa. A low ratio would signify that inventory does not sell fast and stays on the shelf or in the ware-house for a long time.

**Management of Cash**

**Introduction**

Cash management is one of the key areas of working capital management. Apart from the fact that it is the most liquid current asset, cash is the common denominator to which all current assets can be reduced because the other major liquid assets, i.e. receivables and inventory get eventually converted into cash. This underlines the significance of cash management.

The present chapter is concerned with a detailed account of the problems involved in managing cash. The main coverage of this chapter is as follows. The first section outlines the motives for holding cash followed in section two by the objectives of cash management. The next section presents an in-depth discussion of the methods to plan and determine the cash needs through cash budgets. The basic strategies for efficient management of cash are the subject’s matter of the subsequent section. We then explain specific techniques to manage cash. The remainder of the chapter is devoted to the discussion of marketable securities. The chapter concludes with the major points.

**MOTIVES FOR HOLDING CASH**

The term cash with reference to cash management is used in two senses. In a narrow sense it is used broadly to cover currency and generally accepted equivalents of cash such as cheques, drafts and demand deposits in banks. The broader view of cash also includes near-cash assets, such as marketable securities and time deposits in banks. The main characteristics of these is that they can be readily sold and converted into cash. They serve as a reserve pool of liquidity that provides cash quickly when needed. They also provide a short-term investment outlet for excess cash and are also useful for meeting planned outflow of funds. We employ the term cash management in the broader sense. Irrespective of the form in which it is held, a distinguishing feature of cash, as an asset, is that it has no earning power. If cash does not earn any return, why is it held by firms? There are four primary motives for maintaining cash balances: (i) Transaction motive; (ii) Precautionary motive; (iii) Speculative motive; and (iv) Compensating motive

**Transaction Motive**

An important reason for maintaining cash balances is the transaction motive. This refers to the holding of cash, to meet routine cash requirements to finance the transaction which a firm carries on in the ordinary course of business. A firm enters into a variety of transactions to accomplish its objectives which have to be paid for in the form of cash. For example, cash payments have to be made for purchases, wages, operating expenses, financial charges, like interest, taxes, dividends, and so on. Similarly, there is a regular inflow of cash to the firm from sales operation, returns on outside investments, etc. these receipts and payments constitute a continuous two-way flow of cash. But the inflows (receipts) and outflows (disbursements) do not perfectly coincide or synchronise, i.e. they do not exactly match. At times, receipts coincide or outflows while, at other times, payments exceed inflows. To ensure that situation in which disbursements are in excess of the current receipts, it must have and adequate cash balance. The requirement of cash balances to meet routine cash needs is known as the transaction motive and such cash balances are termed as transaction balances. Thus, the transaction motive refers ot the holding of cash to meet anticipated obligations whose timing is not perfectly synchronized with cash receipts. If the receipts of cash and its disbursements could exactly coincide in the normal course of operation, a firm would not need cash for transaction purposes. Although a major part of transaction balances are held in cash, a part may also be in such marketable securities whose maturity conforms to the timing of the anticipated payments, such as payment, of taxes, dividends, etc.

**Precautionary Motive**

In addition to the non-synchronizations of anticipated cash inflows and outflows in the ordinary course of business, a firm may have to pay cash for purposes which cannot be predicted or anticipated. The unexpected cash needs at short notice may be the result of:

(i) floods, strikes and failure of important customers;

(ii) Bills may be presented for settlement earlier than expected;

(iii) Unexpected slow down in collection of accounts receivable;

(iv) Cancellations of some order for goods as the customer is not satisfied;

(v) Sharp increase in cost of raw materials.

The cash balances hold in reserve for such random and unforeseen fluctuations in cash flows are called as precautionary balances. In other words, precautionary motive of holding cash implies the need to hold cash to meet unpredictable obligations. Thus, precautionary cash balance serves to provide a cushion to meet unexpected contingencies. The more unpredictable the cash flows, the larger the need for such balances. Another factor which has a bearing on the level of such cash balances is the availability of short-term credit. If a firm can borrow at short notice to pay for unforeseen obligations, it will need to maintain a relatively small balance and vice-versa. Such cash balances are usually held in the form of marketable securities so that they earn a return.

**Speculative Motive**

It refers to the desire of a firm to take advantage of opportunities which present themselves at unexpected moments and which are typically outside the normal course of business. While the precautionary motive is defensive in nature, in that, firms must make provisions to tide over unexpected contingencies, the speculative motive represents a positive and aggressive approach. Firms aim to exploit profitable opportunities and keep cash in reserve to do so. The speculative motive helps to take advantage of:

(i) An opportunity to purchase raw materials at a reduced price on payment of immediate cash;

(ii) A chance to speculate on interest rate movements by buying securities when interest rates are expected to decline;

(iii) Delay purchases of raw materials on the anticipation of decline in prices; and

(iv) To make purchases at favorable prices.

**Compensation Motive**

Yet another motive to hold cash balances is to compensate banks for providing certain services and loans.

Banks provide a variety of services to business firms, such as clearance of cheque, supply of credit information, transfer of funds, etc. while for some of the services banks charge a commission or fee, for others they seek indirect compensation. Usually clients are required to maintain a minimum balance of cash at the bank. Since this balance cannot be utilized by the firms for transaction purposes, the banks themselves can use the amount to earn a return. To be co,pensated for their services indirectly in this form, they require the clients to always keep a bank balance sufficient to earn a return equal to the cost of services. Such balances are compensating balances.

Compensating balances are also required by some loan agreements between a bank and its customers. During periods when the supply of credit is restricted and interest rate during the period when the loan will be pending.

The compensating cash balances can take either of two forms: (i) an absolute minimum, say, Rs. 5 lakhs, below which the actual bank balance will never fall; (ii) a minimum average balance, say, Rs. 5 lakhs over the month. The first alternative is more restrictive as the average amount of cash held during the month must be above Rs.5 lakhs by the amount of transaction balance. From the firm’s view point this is obviously dead money. Under the second alternative, the balance could fall to zero one day provided it was Rs. 10 lakhs some other day with the average working to Rs. 5 lakhs.

Of the four primary motives of holding cash balances the two most important are the transactions motive and the compensation motive. Business firms normally do not speculate and need not have speculative balances. The requirement of precautionary balances can be met out of short –term borrowings.

**CASH MANAGEMENT: TECHNIQUES/ PROCESSES**

The basic strategies of cash management have been outlined in the preceding section. It has been shown that the strategic aspects of efficient cash management are: (1) efficient inventory management, (2) speedy collection of accounts receivable, and (3) delaying payments on accounts payable. The main elements of an efficient management of inventory are discussed in some detail. There are some specific techniques and processes for speedy collection of receivables from customers and slowing disbursements. We discuss them in the present section.

**Speedy Cash Collections**

In managing cash efficiently, the cash inflow process can be accelerated through systematic planning and refined techniques. There are two broad approaches to do this. In the first place, the customers should be encouraged to pay as quickly as possible. Secondly, the payment from customers should be converted into cash without any delay.

**CHAPTER – 3**

**3.1 INDUSTRY PROFILE**

The Textile Sector in India ranks next to Agriculture. Textile is one of India’s oldest industries and has a formidable presence in the national economy in as much as it contributes to about 14 per cent of manufacturing value-addition, accounts for around one-third of our gross export earnings and provides gainful employment to millions of people. The textile industry occupies a unique place in our country. One of the earliest to come into existence in India, it accounts for 14% of the total Industrial production, contributes to nearly 30% of the total exports and is the second largest employment generator after agriculture.

Textile Industry is providing one of the most basic needs of people and the holds importance; maintaining sustained growth for improving quality of life. It has a unique position as a self-reliant industry, from the production of raw materials to the delivery of finished products, with substantial value-addition at each stage of processing; it is a major contribution to the country's economy. This paper deals with structure, growth and size of the Indian textile industry, role of textile industry in economy, key advantages of the industry, textile industry export and global scenario and strength, weakness, opportunities and treats of the Indian textile industry.  
  
**INTRODUCTION**

The Indian textile industry is one of the largest in the world with a massive raw material and textiles manufacturing base. Our economy is largely dependent on the textile manufacturing and trade in addition to other major industries. About 27% of the foreign exchange earnings are on account of export of textiles and clothing alone. The textiles and clothing sector contributes about 14% to the industrial production and 3% to the gross domestic product of the country. Around 8% of the total excise revenue collection is contributed by the textile industry. So much so, the textile industry accounts for as large as 21% of the total employment generated in the economy. Around 35 million people are directly employed in the textile manufacturing activities. Indirect employment including the manpower engaged in agricultural based raw-material production like cotton and related trade and handling could be stated to be around another 60 million.

A textile is the largest single industry in India (and amongst the biggest in the world), accounting for about 20% of the total industrial production. It provides direct employment to around 20 million people. Textile and clothing exports account for one-third of the total value of exports from the country. There are 1,227 textile mills with a spinning capacity of about 29 million spindles. While yarn is mostly produced in the mills, fabrics are produced in the powerloom and handloom sectors as well. The Indian textile industry continues to be predominantly based on cotton, with about 65% of raw materials consumed being cotton. The yearly output of cotton cloth was about 12.8 billion m (about 42 billion ft). The manufacture of jute products (1.1 million metric tons) ranks next in importance to cotton weaving. Textile is one of India’s oldest industries and has a formidable presence in the national economy inasmuch as it contributes to about 14 per cent of manufacturing value-addition, accounts for around one-third of our gross export earnings and provides gainful employment to millions of people. They include cotton and jute growers, artisans and weavers who are engaged in the organised as well as decentralised and household sectors spread across the entire country.  
  
**INDIAN TEXTILE INDUSTRY STRUCTURE AND GROWTH**

India’s textile industry is one of the economy’s largest. In 2000/01, the textile and garment industries accounted for about 4 percent of GDP, 14 percent of industrial output, 18 percent of industrial employment, and 27 percent of export earnings (Hashim). India’s textile industry is also significant in a global context, ranking second to China in the production of both cotton yarn and fabric and fifth in the production of synthetic fibers and yarns.

In contrast to other major textile-producing countries, mostly mostly small-scale, nonintegrated spinning, weaving, cloth finishing, and apparel enterprises, many of which use outdated technology, characterize India’s textile sector. Some, mostly larger, firms operate in the “organized” sector where firms must comply with numerous government labor and tax regulations. Most firms, however, operate in the small-scale “unorganized” sector where regulations are less stringent and more easily evaded.

The unique structure of the Indian textile industry is due to the legacy of tax, labor, and other regulatory policies that have favored small-scale, labor-intensive enterprises, while discriminating against larger scale, more capital-intensive operations. The structure is also due to the historical orientation towards meeting the needs of India’s predominately low-income domestic consumers, rather than the world market. Policy reforms, which began in the 1980s and continued into the 1990s, have led to significant gains in technical efficiency and international competitiveness, particularly in the spinning sector. However, broad scope remains for additional reforms that could enhance the efficiency and competitiveness of India’s weaving, fabric finishing, and apparel sectors.  
  
**Structure Of India’s Textile Industry**

Unlike other major textile-producing countries, India’s textile industry is comprised mostly of small-scale, nonintegrated spinning, weaving, finishing, and apparel-making enterprises. This unique industry structure is primarily a legacy of government policies that have promoted labor-intensive, small-scale operations and discriminated against larger scale firms:

• Composite Mills. Relatively large-scale mills that integrate spinning, weaving and, sometimes, fabric finishing are common in other major textile-producing countries. In India, however, these types of mills now account for about only 3 percent of output in the textile sector. About 276 composite mills are now operating in India, most owned by the public sector and many deemed financially “sick.”

**• Spinning. Spinning** is the process of converting cotton or manmade fiber into yarn to be used for weaving and knitting. Largely due to deregulation beginning in the mid-1980s, spinning is the most consolidated and technically efficient sector in India’s textile industry. Average plant size remains small, however, and technology outdated, relative to other major producers. In 2002/03, India’s spinning sector consisted of about 1,146 small-scale independent firms and 1,599 larger scale independent units.

**• Weaving and Knitting**. Weaving and knitting converts cotton, manmade, or blended yarns into woven or knitted fabrics. India’s weaving and knitting sector remains highly fragmented, small-scale, and labor-intensive. This sector consists of about 3.9 million handlooms, 380,000 “powerloom” enterprises that operate about 1.7 million looms, and just 137,000 looms in the various composite mills. “Powerlooms” are small firms, with an average loom capacity of four to five owned by independent entrepreneurs or weavers. Modern shuttleless looms account for less than 1 percent of loom capacity.

**• Fabric Finishing**. Fabric finishing (also referred to as processing), which includes dyeing, printing, and other cloth preparation prior to the manufacture of clothing, is also dominated by a large number of independent, small scale enterprises. Overall, about 2,300 processors are operating in India, including about 2,100 independent units and 200 units that are integrated with spinning, weaving, or knitting units.

**• Clothing. Apparel** is produced by about 77,000 small-scale units classified as domestic manufacturers, manufacturer exporters, and fabricators (subcontractors).  
  
**Growth of Textile Industry**

India has already completed more than 50 years of its independence. The analysis of the growth pattern of different segment of the industry during the last five decades of post independence era reveals that the growth of the industry during the first two decades after the independence had been gradual, though lower and growth had been considerably slower during the third decade. The growth thereafter picked up significantly during the fourth decade in each and every segment of the industry. The peak level of its growth has however been reached during the fifth decade i.e., the last ten years and more particularly in the 90s. The Textile Policy of 1985 and Economic Policy of 1991 focussing in the direction of liberalisation of economy and trade had in fact accelerated the growth in 1990s. The spinning spearheaded the growth during this period and man-made fibre industry in the organised sector and decentralised weaving sector.

**Size of Textile Industry in India**

• The textile industry in India covers a wide gamut of activities ranging from production of raw material like cotton, jute, silk and wool to providing high value-added products such as fabrics and garments to consumers.

• The industry uses a wide variety of fibres ranging from natural fibres like cotton, jute, silk and wool to man made fibres like polyester, viscose, acrylic and multiple blends of such fibres and filament yarn.

• The textile industry plays a significant role in Indian economy by providing direct employment to an estimated 35 million people, by contributing 4 per cent of GDP and accounting for 35 per cent of gross export earnings. The textile sector contributes 14 per cent of the value-addition in the manufacturing sector.

• Textile exports during the period of April-February 2003-2004 amounted to $11,698.5 million as against $11,142.2 million during the same period in the previous year, showing an increase of around 5 per cent.

• Estimates say that the textile sector might achieve about 15 to 18 per cent growth this year following dismantling of MFA.

**ROLE OF INDIAN TEXTILE INDUSTRY IN THE ECONOMY**

Textile industry plays a significant role in the economy. The Indian textile industry is one of the largest and most important sectors in the economy in terms of output, foreign exchange earnings and employment in India. It contributes 20 per cent of industrial production, 9 per cent of excise collections, 18 per cent of employment in industrial sector, nearly 20 per cent to the country’s total export earnings and 4 per cent ton the GDP. The sector employs nearly 35 million people and is the second highest employer in the country. The textile sector also has a direct link with the rural economy and performance of major fibre crops and crafts such as cotton, wool, silk, handicrafts and handlooms, which employ millions of farmers and crafts persons in rural and semi-urban areas. It has been estimated that one out of every six households in the country depends directly or indirectly on this sector.

India has several advantages in the textile sector, including abundant availability of raw material and labour. It is the second largest player in the world cotton trade. It has the largest cotton acreage, of about nine million hectares and is the third largest producer of cotton fibre in the world. It ranks fourth in terms of staple fibre production and fourth in polyester yarn production. The textile industry is also labour intensive, thus India has an advantage.

**The key advantages of the Indian industry are:**

• India is the third largest producer of cotton with the largest area under cotton cultivation in the world. It has an edge in low cost cotton sourcing compared to other countries.

• Average wage rates in India are 50-60 per cent lower than that in developed countries, thus enabling India to benefit from global outsourcing trends in labour intensive businesses such as garments and home textiles.

• Design and fashion capabilities are key strengths that will enable Indian players to strengthen their relationships with global retailers and score over their Chinese competitors.

• Production facilities are available across the textile value chain, from spinning to garments manufacturing. The industry is investing in technology and increasing its capacities which should prove a major asset in the years to come.

• Large Indian players such as Arvind Mills, Welspun India, Alok Industries and Raymonds have established themselves as 'quality producers' in the global market. This recognition would further enable India to leverage its position among global retailers.

• India has gathered experience in terms of working with global brands and this should benefit Indian vendors.

**GOVERNMENT INITIATIVES**

With a view to raise India's share in the global textiles trade to 10 per cent by 2015 (from the current 3 per cent), the Ministry of Textiles proposes 50 new textile parks. Out of the 50, 30 have been already sanctioned by the government (with a cost of US$ 710 million). Set up under the Scheme for Integrated Textile Parks (SITP), this initiative will not only make the industry cost competitive, but will also enhance manufacturing capacity in the sector.

Apart from the above, a series of progressive measures have been planned to strengthen the textile sector in India:

• Technology Mission on Cotton (TMC)

• Technology Upgradation fund Scheme (TUFS)

• Setting up of Apparel Training and Design Centres (ATDCs)

• 100 per cent Foreign Direct Investment (FDI) in the textile sector under automatic route.

• Setting up two design centres in Gujarat in collaboration with National Institute of

Fashion Technology.

• Setting up a Handloom Plaza in Ahmedabad with an estimated investment of US$ 24.6 million.

• Revival plans of the mills run by National Textiles Corporation (NTC). Already, for the revival of 18 textile mills, US$ 2.21 million worth of machineries has been ordered

for the upgradation and modernisation of these mills.

• Setting up a handloom mall with an investment of US$ 24.6 million at Jehangir Mill in Ahmedabad.

• Scrapping of the Textile Committee cess being collected from the textile and textile machinery industry under the Textile Committee Act.

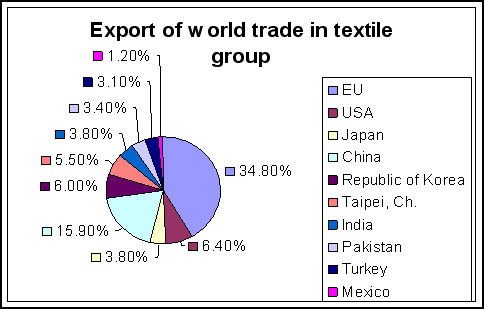
In a further bid to bolster the envisaged annual growth rate of 11 per cent, the Government will also increase the TUF (Technology Upgradation Fund) from US$ 124 million in 2006-07 to US$ 211 million in 2007-08.

The Government of India has also included new schemes in the Annual Plan for 2007-08 to provide a boost to the textile sector. These include schemes for Foreign Investment Promotion to attract foreign direct investment in textiles, clothing and machinery; Brand Promotion on Public-Private Partnership (PPP)) approach to develop global acceptability of Indian apparel brands; Trade Facilitation Centres for Indian image branding; Fashion Hubs for creation of permanent market place for the benefit of Indian fashion industry; Common Compliance Code to encourage acceptability among apparel buyers and Training Centres for Human Resource Development on Public Private Partnership (PPP) mode.

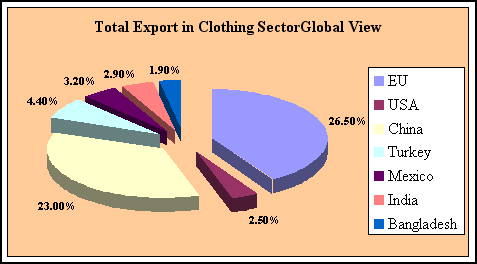
**INDIAN TEXTILE INDUSTRY**

**In textile Scenario** In exports Cotton yarns, fabric, made ups etc made largest chunk with US$ 3.33 Billion or 26.5% in textiles category, and Ready Made garments (RMG)-cotton including accessories made largest chunk with 4.67 Billion US $ or 37.1 % of total exports. Whereas, manmade yarn and fabrics in textiles group and RMG–Man made fibers constituted second position in the two categories, respectively. Carpets and woolen garments are other items exported from India.

**In global scenario** Developed countries' exports declined from 52.2% share in 1990 to 37.8 % in 2002. And that of developing countries increased from 47.8% to 62.2 % in the same period. In 2003 the exports figures in percentage of the world trade in Textiles Group (for select countries) were:

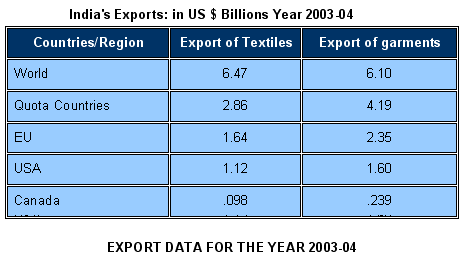


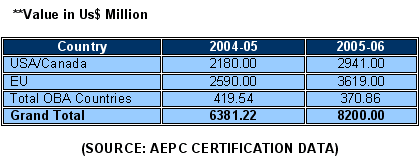
The above chart clearly shows that export of world trade in textile group. Among world textile group EU occupies 34.80% of export, next China at 15.90%, USA at 6.40%, Republic of Korea at 6.00% Taipei, Ch at 5.50%, India and Japan at 3.80% respectively, Pakistan at 3.40%, turkey at 3.10% and Mexico at 1.20%.  
In Clothing Sector the figures were as below in 2003 in percentage of total experts globally:



In this sector the exports have declined for EU (15) from 42% to 26.5% in period 1980-2003 whereas of China increased from 4% to 23% and of India from 1.7% to 2.9% only. We can see that developing countries' share in textiles had declined and in clothing it has increased sharply.  
  
**EXPORT SCENARIO:**

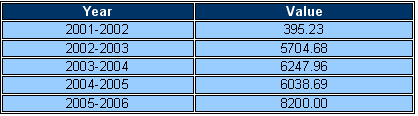
Textiles contributed 20% of India's exports to about US $ 12.5 Billion. The Quota Countries mainly USA, EU (15) and Canada constituted 70 % of total garment exports and 40% of India's textiles exports. In non-quota countries UAE is the largest market with 7% of textile exports and 10% of garment exports from India.





The exports of readymade garments as per AEPC certification data for the last five years are as follows: -

\*\*Qty in Million PCs and Value in Million US$.



The above table clearly depicts the export of readymade garments for the last five years. In the year of 2001-2002 the value of export of readymade garment is 395.23 and in the year 2005-2006 the value is 8200.00. From 2001-2002 it started increasing and in the year 2004-2005 it declines and again in the year 2005-2006 it increases.

**INDIAN TEXTILE INDUSTRY – SWOT ANALYSIS**\

**Strength**

» India has rich resources of raw materials of textile industry. It is one of the largest producers of cotton in the world and is also rich in resources of fibres like polyester, silk, viscose etc.

» India is rich in highly trained manpower. The country has a huge advantage due to lower wage rates. Because of low labor rates the manufacturing cost in textile automatically comes down to very reasonable rates.

» India is highly competitive in spinning sector and has presence in almost all processes of the value chain.

» Indian garment industry is very diverse in size, manufacturing facility, type of apparel produced, quantity and quality of output, cost, and requirement for fabric etc. It comprises suppliers of ready-made garments for both, domestic or exports markets.

**Weakness**

» Knitted garments manufacturing has remained as an extremely fragmented industry. Global players would prefer to source their entire requirement from two or three vendors and the Indian garment units find it difficult to meet the capacity requirements.

» Industry still plagued with some historical regulations such as knitted garments still remaining as a SSI domain.

» Labour force giving low productivity as compared to other competing countries.

» Technology obsolescence despite measures such as TUFS.

» Low bargaining power in a customer-ruled market.

» India seriously lacks in trade pact memberships, which leads to restricted access to the other major markets.

» Indian labour laws are relatively unfavorable to the trades and there is an urgent need for labour reforms in India.

**Opportunity**

» Low per-capita domestic consumption of textile indicating significant potential growth.

» Domestic market extremely sensitive to fashion fads and this has resulted in the development of a responsive garment industry.

» India's global share is just 3% while China controls about 15%. In post-2005, China is expected to capture 43% of global textile trade.

» Companies need to concentrate on new product developments.

» Increased use of CAD to develop designing capabilities and for developing greater options.

**Threats**

» Competition in post-2005 is not just in exports, but is also likely within the country due to cheaper imports of goods of higher quality at lower costs.

» Standards such as SA-8000 or WARP have resulted in increased pressure on companies for improvement of their working practices.

» Alternative competitive advantages would continue to be a barrier.

**3.2 COMPANY PROFILE**

At the end of the 19th century, puducherry one of the small town within the French territory, on the southeastern coast of India, on the bay of Bengal, witnessed the birth of a textile mill in the names of Rodier Mills. It was established and incorporated on England in 1898 by the Anglo French Textiles Limited, a British Textile firm.

The shareholders of the mill became restless, as the years want by, because of the fact that their investment was located in a quite far off place, on a French territory, they were apprehensive as to the security of their property on Puducherry.

On the departure of the French and annexation of Puducherry to India in 1958, the mill was sold off to Best and Crompton, on English Management Company. In 1963, they sold their interest in the mill t60 Sri C.R.Ramachaki, a textile industrialist from Madurai. The mill thrived within the period under this management managing to expand by building unit B and C.

After the death of Sri C.R. Ramachaki there developed a lot of mismanagement, family problems and persistent labour unrest which led to the eventual selling of the mill in 1982 to Mr. Jatia of the somani group, a textile trader from Bombay. But unfortunately due to continued labour unrests, Mr. Jatia too failed to manage this mill and abandoned it in 1983.

Due to public appeals the Puducherry government took over the mill in 1985. It was not until June of 1986 that the mill was opened. The mill became a government undertaking and a unit of Pondicherry Textile Corporation Ltd., the government has injected into it funds for renovations improvements and modernization. Many

Technological advances have been made by introducing projectile loans from USSR and return types of loans from Lakshmi mills in Coimbatore.

Initially AFT started off with spinning and weaving departments making only gray fabrics. It was only between 1964 and 1970 that extensive modernization programme were implemented. This included the installation of sophisticated automatic loans and process house, which resulted in increased efficiency both in production and quality.

The raw material used to produce cloth is cotton and their products are 100% cotton. The sequence of operations carried out to produce cloth are carding, spinning and weaving, processing up to godown.

The specialty products of AFT are bed linen, pillow cases, garments include readymade like cotton shirts, trousers, shorts, handkerchiefs and kitchen aprons.

AFT is dedicated to a system of quality management, which ensures that its products and services meet the requirements of its customers at all times. Recently AFT got the ISO 9002 which is issued by the direction General, Bureau of Indian standards. It has strong orientation towards quality and dedication that has helped the company’s fabric to weave their way into the fashion conscious markets of **USA, UK, France, Italy, Switzerland, Belgium, Australia, Germany, Middle East and Africa.**

**AFT PRODUCT SPECTRUM**

**Institutional Fabrics**

* Entire range of hospital linen.
* Linen for hospitals and restaurants.
* Uniforms for schools, institutions, factories, defence and paramilitary organizations.
* Fire resistant fabrics.
* Strain/water resistant fabrics.

**Industrial Fabrics**

* Form coated cotton curtain lining.
* PVC, coated lining.
* Recreational and campaign equipment.
* Belting.
* Shoe uppers.

**Consumer products**

* Household linen of all types.
* Dress material in safin, poplin, chambray etc.,
* Furnishings and draperies in all ranges.
* Specialized fabrics and fashion garments.

Today AFT makes more than 45% of its sales through exports. It is accelerating towards greater achievements by way of expansion and modernization although it has a capital raising constraint being a state keen corporation. This plus the fact that it faces stiff competition from both local manufactures as well as countries like China, Pakistan, Egypt, Far East and Asian countries. The driving force leading them towards growth is its commitments to quality consciousness, which is stressed by the company’s motto.

AFT is functionally in three units A, B, and C. Units A and B are located in Mudaliyarpet in the heart of Puducherry town while C is located in Iyankuttipalayam some distance towards cuddalore. AFT employs approxiamately 6000 workers and staff. The strength of the mill’s employees is thus:

The strength of the mill’s employees:

|  |  |  |
| --- | --- | --- |
| **UNIT** | **WORKMEN** | **STAFF&OFFICER** |
| A | 3505 | 550 |
| B | 1035 | 65 |
| C | 670 | 32 |
| **TOTAL** | 5210 | 647 |

At present AFT is managed by Managing Director and Joint Managing Director, subjected to control, supervision and management of the Board of Directors. The Board consists of one chairman and five other directors. Directors are appointed according to the company’s Act 1956.

**Managing Director**

The managing director Mr. Padmanaban of Puducherry Textile Corporation was the caretaker of Anglo French Textiles and is directly appointed by the government of Puducherry. The M.D. is the supreme power of Aft even if there is a higher post of chairman. Who is the chief secretary of Puducherry Government? The M.D. holds responsible for the day- to- day affairs of the company. He has the power to dismiss, transfer, take disciplinary action on any employee of the mills, and to decide the policy matters for the welfare of the company.

The M.D. with the co-ordination of the joint managing director decides marketing of cloth material, director decides marketing of cloth materials in all regions of the country and also abroad. The selling price of the finished goods is determined after arriving the cost of production and with the concern of the M.D.

**Performance of AFT**

In 1998-1999, the company accumulated loss of Rs. 105.93 crores by end of 99. In warded 18.44 crores loss during the year against 20.83 during 97-98. In 98-99 the loss was reduced by about Rs.2.39 crores.

2000-2001 -- Accumulated loss of Rs. 122.70 cr by end of March 2001. During the year loss incurred is 20.27 cr against Rs.18.44 during 98-99.

2001-2002 – Accumulated loss of Rs. 139.44 crore by end of 2002. Loss increased is Rs. 17.66 cr against the Rs. 20.27 cr during 1999-2000.

2002-2003 – Accumulated loss of Rs. 159.64 cr by end of 2003. During the year the Loss is 20.07 cr against 17.66 cr during 2001-2002

.

2003-2004 – Accumulated loss of Rs. 183.91 cr by end of 2004. During the year the loss Incurred is Rs. 24.43 cr against Rs.20.07 cr during 2001-02.

2004-2005 – Accumulated loss of Rs. 222.55 cr by end of 2005. During the year the loss Rs. 183.91 cr in 2003-2004.

**PRODUCTION**

**DEPARTMENT OF AFT**

The various departments of AFT are viz:

**PRODUCTION DEPARTMENT**

* + - 1. Spinning department – blow, room, carding and spinning.
      2. Weaving preparatory department – winding, warping and sizing.
      3. Weaving department – loom shed
      4. Processing department – bleaching, printing and dyeing
      5. Warehouse department – examining, parking and baling

**SERVICE DEPARTMENT**

* + - 1. Marketing department
      2. Finance and accounts department
      3. Purchase and stores
      4. Quality assurance
      5. Engineering
      6. Personnel

**SERVICE SECTION**

* + - 1. EDP 17. Internal audit
      2. Costing 18. Canteen
      3. Dispensary 19. Security
      4. Horticulture 20. Garment Factory
      5. Transport and Automobile

**RAW MATERIALS**

1. Cotton
2. Nylon

**ABOUT THE PRODUCTS**

The following products are presently manufactured in AFT Ltd. (P.T.C.), Puducherry.

1. Cotton clothes 5. Pant and Shirt clothes
2. Towels 6. Screen clothes
3. Uniforms 7. Bed spread
4. Pillow covers

**(AFT MANUFACTURING PROCESS)**

Raw material

Blow room Carding Drawing

Warping Winding Spinning

Sizing Weaving Dying

Baling Examining Printing

Fabrics

**OBJECTIVES OF THE COMPANY**

* The main objective of the company can be generally stared as the manufacturing and selling of cotton yard and cotton fabrics.
* To manufacture and market cotton years
* To manufacture and market cotton Fabrics
* To manufacturing garments and uniforms for various agencies and service organization
* To protect the interest of the employees through welfare measures
* To modernized the mills and its systems including computerization

**SAFETY MEASURES**

* AFT has a full fledged safety department to monitor the safety in the factory. The Company has been recipient of the state industrial safety for many years for its excellent in safety protection and preservation of environment.

**QUALITY POLICY OF AFT LIMITED**

* Anglo French Textile is committed to meet
* The requirement of its customers
* And to continually improve its
* Product and services by Technological
* Up gradation and enriching the resources
* With perpetual review of the
* Quality system
* Meeting Tomorrows
* Need Today

**OBJECTIVES OF PERSONAL FUNCTION IN AFT LTD**

1. The personnel office in AFT is fulfilling these objectives
2. Fuller utilization of human resources
3. Establish and an adequate organization structure
4. Secures integration
5. Maximum development
6. Compensation
7. Moral and human relation

**FUNCTIONS OF PERSONNEL MANAGEMENT AND HRD DEVELOPMENT**

1. Recruitment
2. Trainings and development
3. Wage and salary administration
4. Labour welfare measures
5. Health and safety management
6. Industrial relation management
7. Compliance of statutory requirement
8. Disciplinary proceedings

**STRUCTURE OF THE PERSONNEL DEPARTMENT**

Personnel Department

Deputy Manager Manager

(Personnel & HRD) (IR)

Assistant Manager Safety Manager Labour office Deputy Manager

(Canteen)

Supervisor Supervisor Assistant Labour Assistant Labour

(7) Officer (1) Welfare Officer (4)

Assistant Labour

Welfare Officer(2)

**CHAPTER – 4**

**RESEARCH METHODOLOGY**

**Research design**

The research approach used for the study is descriptive. The form of the study is on the cash management in general and specific to the financial position.

**Data collection**

**Primary data**

The study has been made using secondary data, which are obtained from annual reports and statements of accounts.

**Secondary data**

The study is period for the annual reports and statement of accounts extended from the year 2000-2001 to 2005-2006.

**Analytical tools for the study**

During the course of research for the researcher for analysis and interpretation of data is given below has applied various tools.

* Cash flow statement analysis
* Funds from operations
* Ratio analysis.
* Trend analysis

**CHAPTER – 5**

**DATA ANALYSIS AND INTERPRETATION**

**CURRENT RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEAR** | **CURRENT ASSETS** | **CURRENT LIABLITIES** | **RATIOS** |
| 2017-2018 | 65,84.62 | 20,32.27 | 3.24 |
| 2018-2019 | 68,99.66 | 29,61.12 | 2.33 |
| 2019-2020 | 58,71.06 | 26,16.37 | 2.24 |
| 2020-2021 | 56,48.37 | 26,84.73 | 2.10 |
| 2021-2022 | 60,09.83 | 45,36.09 | 1.89 |

**Interpretation:-**

The above ratio shows the position of the firm. The standards norm for this ratio is 2:1. From the above table the current ratio for the year 2017- 2018 is normally 3.24 and 2021 -2022 it was 1.89. It is not good position.

**QUICK RATIO**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **YEAR** | **CURRENT ASSETS** | **CURRENT LIABILITIES** | **STOCK** | **RATIO** |
| 2017-2018 | 65,84.62 | 20,32.27 | 36,32.11 | 1.45 |
| 2018-2019 | 68,99.66 | 29,61.12 | 29,63.44 | 1.33 |
| 2019-2020 | 58,71.06 | 26,16.37 | 21,77.15 | 1.41 |
| 2020-2021 | 56,48.37 | 26,84.73 | 25,93.75 | 1.14 |
| 2021-2022 | 60,09.83 | 45,36.09 | 30,88.89 | 0.92 |

**Interpretation:-**

The standard norms for the quick ratio are 1:1. From the above table the quick ratio for the year 2017-2020 are satisfactory position and 2021-2022 it was 0.99:1. This level is not satisfactory level.

**INVENTORY TURNOVER RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEAR** | **COST OF SALES** | **AVERAGE STOCK** | **RATIO** |
| 2018 | 10,15.99 | 39,54.11 | 0.25 |
| 2019 | 92,15.09 | 25,70.29 | 3.59 |
| 2020 | 91,19.10 | 25,70.29 | 3.55 |
| 2021 | 90,79.10 | 28,41.32 | 3.20 |
| 2022 | 93,88.64 | 28,41.32 | 3.30 |

**Interpretation:-**

Inventory turnover ratio represent operational efficiency of the contend. From the above table, it shows in the year 2018 the ratio is 0.25 times and it is show very poor performance of sales. But in year 2019, the ratio is 3.59; it is a good inventory management. In the year 2021, the ratio is 3.30 but compare to the year 2020 it is reduce.

**DEBTOR TURNOVER RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEAR** | **NET SALES** | **DEBTOR** | **RATIO** |
| 2017-2018 | 83,94.08 | 8,19.84 | 10.24 |
| 2018-2019 | 71,94.52 | 7,26.86 | 9.90 |
| 2019-2020 | 66,77.57 | 7,11.81 | 9.38 |
| 2020-2021 | 70,11.25 | 5,82.93 | 12.03 |
| 2021-2022 | 75,93.31 | 10,66.83 | 7.12 |

**Interpretation:-**

From the above table, the ratio is decreased gradually from year to year (2018-2022). It shows, low turnover ratio and minimize bad debts and minimize the capital interest loss.

**WORKING CAPITAL TURNOVER RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEAR** | **SALES** | **WORKING CAPITAL** | **RATIO** |
| 2017-2018 | 83,94.08 | 13,948.80 | 2.13 |
| 2018-2019 | 71,94.52 | 3,49.06 | 2.06 |
| 2019-2020 | 66,77.57 | 27,60.25 | 2.42 |
| 2020-2021 | 70,11.25 | 121,54.59 | 3.25 |
| 2021-2022 | 75,93.31 | 13,50.78 | 5.62 |

**Interpretation:-**

From the above table, the working capital turnover ratio in the year 2022 is 5.62. A very high turnover of working capital is 2.13 to 5.62. Under this concept it is not effective one.

**RATIO OF CURRENT ASSET TO FIXED ASSET**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEAR** | **CURRENT ASSETS** | **FIXED ASSETS** | **RATIO** |
| 2017-2018 | 65,84.62 | 35,54.97 | 1.85 |
| 2018-2019 | 68,99.66 | 34,52.28 | 1.99 |
| 2019-2020 | 58,71.06 | 33,94.31 | 1.73 |
| 2020-2021 | 56,48.37 | 34,91.13 | 1.62 |
| 2021-2022 | 60,09.83 | 37,81.88 | 1.59 |

**Interpretation:-**

From the above table show that, the relationship between current assets to fixed asset. The Current Asset to Fixed Asset turnover ratio in all the year from 1.62 to 1.85 times. It is not an effective operation of a business.

**CASH TO WORKING CAPITAL RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEAR** | **CASH** | **WORKING CAPITAL** | **RATIO** |
| 2017-2018 | 1589.00 | 13948.80 | 0.11 |
| 2018-2019 | 1784.21 | 3940.66 | 0.45 |
| 2019-2020 | 2590.96 | 2760.24 | 0.93 |
| 2020-2021 | 4869.35 | 12154.59 | 0.40 |
| 2021-2022 | 2475.03 | 1350.78 | 1.83 |

**Interpretation:-**

From the above table, the ratio is decreased gradually from year to year (2018-2021) it shows, low cash to working capital ratio minimize working capital and the ratio is decreasing.

**CASH TO SALES RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEAR** | **CASH** | **SALES** | **RATIO** |
| 2017-2018 | 1589.00 | 8394.00 | 0.18 |
| 2018-2019 | 1784.21 | 7194.52 | 0.24 |
| 2019-2020 | 2590.96 | 6677.57 | 0.38 |
| 2020-2021 | 4869.35 | 7011.24 | 0.69 |
| 2021-2022 | 2475.03 | 7593.31 | 0.32 |

**Interpretation**

From the above table the cash to sales ratio is raising from the year of 2018-2021 and at the end of the year it decrease. So the cash to sales ratio is not in a good manner.

**CASH RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEAR** | **CASH** | **CURRENT LIABILITIES** | **RATIO** |
| 2017-2018 | 1589.00 | 2032.27 | 0.78 |
| 2018-2019 | 1784.21 | 2961.12 | 0.60 |
| 2019-2020 | 2590.96 | 2616.37 | 0.99 |
| 2020-2021 | 4869.35 | 2684.73 | 1.81 |
| 2021-2022 | 2475.03 | 4536.09 | 0.54 |

**Interpretation**

From the above table it is proved that the cash to current liabilities are not in a constant the ratios changes for each and every year. The ratio is not decreasing.

**CURRENT ASSETS TO TOTAL ASSESTS RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEAR** | **CURRENT ASSETS** | **TOTAL ASSETS** | **RATIO** |
| 2017-2018 | 6584.62 | 10139.59 | 0.64 |
| 2018-2019 | 6899.66 | 10351.94 | 0.66 |
| 2019-2020 | 5871.06 | 9265.37 | 0.63 |
| 2020-2021 | 5684.37 | 9139.50 | 0.62 |
| 2021-2022 | 6009.83 | 9791.71 | 0.61 |

**Interpretation:**

The ratios show the relationship between the current assets to total assets. There is no much differences between the ratios from each year.

**LOANS AND ADVANCES TO CURRENT ASSETS RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **YEAR** | **LOANS AND ADVANCES** | **CURRENT ASSETS** | **RATIO** |
| 2017-2018 | 5436.50 | 6584.62 | 0.82 |
| 2018-2019 | 4873.37 | 5981.72 | 0.73 |
| 2019-2020 | 3911.33 | 5871.06 | 0.66 |
| 2020-2021 | 2654.08 | 5483.17 | 0.48 |
| 2021-2022 | 1103.03 | 6009.83 | 0.18 |

**Interpretation:**

The above table shows the relationship between loans and advances to current assets ratio and ratios gradually decreases from the year of 2018 to the end of the year.

**CALCULATION OF FUNDS FROM OPERATION AND CASH FROM OPERATION FOR THE YEAR.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **PARTICULARS** | **2017-2018** | **2018-2019** | **2019-2020** | **2020-2021** | **2021-2022** |
| Net profit | 139,45,65 | 159,64,21 | 183,91,41 | 204,59,27 | 222,54,59 |
| (add) depreciation | 28,23,640 | 56,399 | 7,58,484 | 4,58,077 | 20,97,973 |
| Funds from operation | 42,18,205 | 16,52,820 | 25,97,625 | 25,04,004 | 43,23,432 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **PARTICULARS** | **2017-2018** | **2018-2019** | **2019-2020** | **2020-2021** | **2021-2022** |
| Current assets |  |  |  |  |  |
| Inventories |  |  |  | 4,16,59,987 | 4,95,13,535 |
| Sundry debtors |  |  |  |  | 4,83,89,460 |
| Cash and bank | 9,12,22,356 | 11,40,93,719 |  |  |  |
| Loans and advances | 58,29,922 |  |  |  |  |
| Other liabilities | 4,05,43,000 |  | 2,30,25,000 |  |  |
| (less) current liabilities |  |  |  |  |  |
| Other liabilities |  | 9,50,42,000 |  | 1,37,80,000 | 11,65,26,000 |
| Inventories | 6,43,98,656 | 6,68,67,061 | 7,86,28,807 |  |  |
| Sundry debtors | 1,54,74,575 | 92,98,061 | 15,05,184 | 1,28,87,761 |  |
| Cash and bank |  |  | 1,38,98,359 | 4,77,77,004 | 13,62,11,068 |
| Loans and advances |  | 64,23,980 | 88,27,765 | 32,63,845 | 7,44,53,830 |
| C.F.O | 8,86,71,197 | 6,34,37,877 | 7,98,35,115 | 3,60,48,663 | 8,03,80,243 |

**Cash flow statement**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Inflow** | **2017-2018** | **2018-2019** | **2019-2020** | **2020-2021** | **2021-2022** |
| Opening balance | 32,56,91,320 | 43,67,54,492 | 1,59,64,21,899 | 183,91,41,943 | 204,59,27,460 |
| C.F.O | 8,86,71,197 | 6,34,37,877 | 7,98,35,115 | 3,60,48,663 | 8,03,80,243 |
| Increase in loan funds | 4,04,61,798 |  | 82,46,495 | 75,78,595 |  |
| Sale of assets | 24,82,299 | 52,90,476 | 21,44,781 | 21,85,005 | 17,09,754 |
| Increase in share capital | 19,16,01,906 | 26,72,49,544 | 15,35,38,861 | 17,64,00,000 | 12,54,08,000 |
| Total | 70,89,08,520 | 77,27,32,389 | 1,84,01,87,157 | 2,06,13,54,206 | 2,25,34,25,457 |
| Outflow |  |  |  |  |  |
| Purchase | 27,21,54,028 | 68,75,62,363 | 10,46,008 | 1,54,26,746 | 2,55,29,229 |
| Decrease in loan |  | 13,61,27,147 |  |  | 24,36,563 |
| Closing balance | 43,67,54,492 | 1,59,64,21,899 | 1,83,91,41,943 | 2,04,59,27,460 | 2,22,54,59,665 |
| Total | 70,89,08,520 | 77,27,32,389 | 1,84,01,87,151 | 2,06,13,54,206 | 2,25,34,25,457 |

**Inference:**

This table shows that the cash flow statements of ANGLO FRENCH TEXTILES are to be efficient. The cash inflow of the company is to be increased for year after year. The fund from operation is also to differ from every year. The company should increase their share capital .Its must be used as efficient for the next year for decrease their loan amount.

**TREND ANALYSIS**

Trend analysis is very helpful in making a comparative study of the financial statement of several years. Under this technique, information for a number of years is taken up and one year (usually the first year) is taken as the base year. Each items of the base year is taken as 100 and on that basis; the percentage for other year are calculated.

In trend analysis the information contained in balance sheet is suitable for analysis. Such presentation helps in a better understanding of the financial statements.

**TREND ANALYSIS OF ANGLO FRENCH TEXTILE**

**FOR THE YEAR ENDED OF 31-03-2018 TO 31-03-2022**

**Trend % Base year 2000**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **ASSETS** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| **CURRENT ASSETS** |  |  |  |  |  |  |
| **Inventories** | **100** | **85** | **70** | **51** | **61** | **73** |
| **Sundry debtors** | **100** | **124** | **110** | **108** | **88** | **161** |
| **Cash & bank** | **100** | **235** | **404** | **383** | **313** | **111** |
| **Loan advances** | **100** | **112** | **99** | **81** | **74** | **228** |
|  | **100** | **108** | **113** | **97** | **93** | **99** |
| **FIXED ASSETS** |  |  |  |  |  |  |
| **Land** | **100** | **103** | **103** | **103** | **103** | **102** |
| **Lease hold** | **100** | **99** | **98** | **97** | **96** | **95** |
| **Building** | **100** | **91** | **87** | **83** | **81** | **77** |
| **Railway** | **100** | **85** | **70** | **55** | **----** | **----** |
| **Plant** | **100** | **88** | **102** | **89** | **110** | **137** |
| **Furniture** | **100** | **84** | **80** | **69** | **54** | **53** |
| **Office equipment** | **100** | **95** | **87** | **78** | **70** | **62** |
| **Motor vehicles** | **100** | **67** | **174** | **179** | **211** | **493** |
| **Computer equipment** | **100** | **179** | **143** | **177** | **293** | **238** |

**Interpretation:-**

1. The current assets are fluctuations in all the years (2017-2022). The percentage in 2022 is 99. When compared to 100 in 2017. The difference is 1%. When compared to 2019 it shows 113% it is the highest current assets percentages.
2. The fixed assets are decrease in 2020 it was 99%. When compared to 2017 it is 100. In 2021 and 2022 the Anglo French Textiles Limited is increased to utilize the fixed assets. In 2021, the utilization of fixed asset is 103. In 2021, it was increased the percentage of fixed asset is 106.
3. The company has incurred loss for all the years. So, the firm has increase the utilization of fixed assets in proper manner and increases the current assets. It will give gain for the firm**.**

**CHAPTER – 6**

**6.1 Findings:**

* The standards norms for the current ratio are *2:1*. But in AFT the current ratio is not efficient manner. So the short term solvency position of the company is not good position.
* The standard norms for the quick ratio are 1:1. The AFT limited quick ratio is below standard norms. So, the financial soundness of Anglo-French Textiles Limited is not effective one.
* The company does not utilize the inventory in proper manner. The company should concentrate on sales.
* The debt-equity ratiois decreasing position in each the past five years. It shows the unsoundness of the long-term financial position of the Anglo-French Textiles.
* The cash to sales has been decreased gradually from each year. In the year 2022, it is low (0.32). It shows the inefficiency and performances of the firm.
* From the analysis of Trend Analysis tools we found that,
* The current assets are decreased when compared to base year.
* The fixed asset increased in the year 2022(106), when compared to the base year and the continuous several years (2018, 2019, 2020, 2021).

**6.2 Suggestions:**

1. AFT may try to reduce its level of inventories to a reasonable level. It will create liquidity position and also the increase in profitability of the concern.
2. The concern may try to maximize the sales through new design and high promotional activities. It will create good results.
3. The company may try to improve its working capital position through long term sources. It will create free flow of funds. So that the cash management and the company performance will be in a good position.
4. The company should provide more credit facilities to the customers. It will create good sales and also to yield a good profit.
5. The company should concentrate on local sales over sales by export. It will improve the sales and profitability of the concern.
6. The current ratio below 2:1. In case of inadequacy, arrangement can be made for improving the working capital position. It will create good result.
7. The company can try to utilize the fixed assets in efficient manner. It will create a higher productivity and also create profit.

**6.3 Conclusion:**

From the critical analysis depicted through out of the study. It is evident that the overall cash management of the company with regard to profitability is not satisfactory but still, the company can be maximize through stringent measures which will enhances the operating of the company.

Since the company faces losses management has to take several steps in order to improve the profitability. The clothes are one of the basic needs of human beings; I deduce that A.F.T sickness is not terminal. The cure for such sickness is if the company adopts the prescription and if it applies recommendation of the study towards its management of the company will be back on to a profitable position within no time.

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