**INTRODUCTION**

Finance is often defined simply as the management of money or “funds” management. According to Mr. A.L. KIND SHOTT “Finance is the common denominator for vast range of corporate objectives and the major part of any corporate plan must be expressed in financial marketing and management of cash and money surrogates through a variety of capital accounts, instruments, and markets created for transacting and trading assets, liabilities, and risks. Finance is conceptualized, structure, and regulated by a complex system of power relations within political economies across state and global markets. Finance is both art (e.g. product development) and science (e.g. measurement), although these activities increasingly converge through the intense technical and institutional focus on measuring and hedging risk-return relationships that underlie shareholders value. Networks of financial businesses exist to create, negotiate, market, and trade in evermore-complex financial products and services for their own as well as their clients’ accounts. Financial performance measures assess the efficiency and profitability of investments, the safety of debtors’ claims against assets, and the likelihood that derivative instruments will protect investors against a variety of market risks.

##### Finance is a field that deals with the allocation of assets and liabilities over time under conditions of certainty and uncertainty. Finance also applies and uses the theories of economics at some level. Finance can also be defined as the science of money management. A key point of one unit of currency can vary over time. Finance aims to price assets based on their risk level and their expected rate of return. Finance can be broken into three different sub-categories: public finance, corporate finance and personal finance.

# Finance is one of the most important aspects of business management and includes analysis related to the use and acquisition of funds for the enterprise.

**SCOPE AND IMPORTANCE OF FINANCE**

As we know finance is the lifeblood of every business, its management requires special attention. Financial management is that activity of management which is concerned with the planning, procuring and controlling of firm’s financial resources.

During 1950s, the need for most profitable allocation of scarce capital resources was recognized. During 1960s and 1970s many analytical tools and concepts like funds flow statement, ratio analysis, cost of capital, earning per share, optimum capital structure, portfolio theory etc. were emphasized. As a result, a broader concept of finance began to be used. Thus, the modern approach to finance emphasizes the proper allocation and utilization of funds in addition to their economical procurement. Thus, business finance, in the words of **Authman** and **Dongall**, may broadly be defined as “the activity concerned with the planning, raising, controlling and administering of funds used in the business.” Modern business finance includes- (I) determining the capital requirements of the firm. (ii) Raising of sufficient funds to make an ideal or optimum capital structure, (iii) allocating the funds among various types of assets and (iv) financial control so as to ensure efficient use of funds.

**IMPORTANCE OF FINANCE**

Finance is said to be the “**LIFE BLOOD”** of an organization. Finance helps in the smooth running of an organization. This is because in the modern money-oriented economy, finance is one of the basic foundations of all kinds if economic activities. It is the master key, which provides access to all the sources for being employed in manufacturing and merchandising activities.

It is rightly been said that business needs money to make more money. However, it is also true that begets more money to when it is properly managed. Hence, efficient management of every business enterprise is closed linked with efficient management of its finance.

**INTRODUCTION TO FINANCIAL ANALYSIS**

The term financial analysis is also known as analysis and interpretation of financial statements, refers to the process of determining the financial strengths and weakness of the firm by establishing strategic environment between the items of the balance sheet, profit and loss account and other operative data.

After funds are raised from long term sources as well as short term sources, and firms begins the operations, the role of financial analysis becomes significant. Using the different tools and techniques available for financial analysis such as financial ratios analysis, techniques and cash flow and funds flow techniques, one can get the insights into the financial strengths and weaknesses of the company.

Analysis of financial performance by the finance manager is very much required to increase efficiency, for proper planning, to have balanced asset structure to Measure Company’s liquidity position, to have financial discipline in the organization, maximizing profitability and effective management control.

**MEANING OF FINANCIAL ANALYSIS**

Analysis and interpretation of financial statements is the methodical classification of the data given in the financial statement into simple component parts of elements, and evaluation of the significance of the relationship between the classified component parts of elements, with a view to provide full diagnosis of the profitability and the financial statement of an enterprise.

It is a process of identifying the financial strength and weakness of the firm by properly establishing the relationship between the items of the balance sheet and profit and loss account. During the 1920s several innovations took place, which resulted in the promotion of new industries. The need for the finance is by the corporate.

**DEFINITION OF FINANCIAL ANALYSIS**

According to Metcalf and Titard, “Financial analysis is a process of evaluating the relationship between the component parts of a financial statement to obtain as better understanding of a firm’s position and performance.”

**TOOLS FOR FINANCIAL ANALYSIS**

* Comparative Financial Statements
* Common size Financial Statements
* Trend Analysis
* Funds Flow Analysis
* Cash Flow Analysis
* Cost Volume Profit Analysis
* Ratio Analysis
* **COMPARITIVE FINANCIAL STATEMENTS**

Comparative financial statements are those statements, which have been designed in a way so as to provide a time perspective to various elements of financial statements. In these statements figures for two or more periods are placed side by side to facilitate comparison both income statement and balance sheet can be prepared in the for of comparative financial statements. However the method is very cumbersome to study the trend with data accumulated over more than two periods.

* **COMMON SIZE FINANCIAL STATEMENTS**

Common size financial statements are those in which figures reported are converted into percentages to some common base. They do not show variations in respective items from period to period. Trend percentages are immensely helpful in making a comparative study. It involves the calculations of percentage relationship, which each item bears to the same item in the base year. Any year may be taken as the base year. It is a useful analytical device for the management, since the substitution of percentages for large amounts, brevity and readability are achieved. They are usually calculated only for major items since the purpose is to highlight important changes.

* **TREND ANALYSIS**

Comparisons of past over a period of time with base year are known as trend analysis. So, trend percentage or trend ratio analysis is a method of analysis under which the percentage relationship that each financial statement item of each year bears to same items in the base year is calculated. After the trend percentage of different items for various years are calculated, the trend percentages or trend ratio are shown in comparative financial statements.

* **FUND FLOW ANALYSIS**

It has become an important tool in the analytical kit of financial analysis, credit granting institutions and financial managers. It reveals the changes in work capital positions. It provides information about sources from which the working capital was obtained and the purpose for which it was used. It brings out into the open changes, which have taken place and are not evident in the balance sheet.

* **CASH FLOW ANALYSIS**

A cash flow statement is a statement which depicts the changes in the cash position (i.e; cash and bank balance) of the concern between one balance sheet data and the another. In other words, it is a statement, which indicates the cash flow during a financial period. It show as the various sources from which cash was received and the various applications or the uses of cash, i.e., the various purpose for which cash was utilized during an accounting period, and also resulting a cash balance at the accounting period.

* **COST VOLUME PROFIT ANALYSIS**

Cost volume profit analysis is a technique for studying the relationship between cost, volume and profit. Profits of an undertaking depend upon a lot number of factors. But the most important of these factors are the cost of manufacture, volumes of sales and the selling prices of the products. In the words Herman. C. Heiser, “ The most significant single factor in profit planning of the average distance is the relationship between the volume of business, costs and profits.”

* **RATIO ANALYSIS**

Ratio analysis is a technique of analysis and interpretation of financial statements. It is the process of establishing and interpretation of financial statements. It is the process of establishing and interpreting various ratios for helping in making certain decisions. However, ratio analysis is not an end in itself. It is only a means of better understanding of the financial strengths and weaknesses of a firm.

Here ratios are used as yard stops for evaluating the conditions and performance of a firm. Accounting ratios are relationships expressed in mathematical terms between figures, which are connected with each other in same manner. Analysis and interpretation of various accounting ratios gives a skilled and experienced analyst a better understanding of the financial condition and performance the firm than what could have been obtained through a near wards perusal of the financial statement.

**WORKING CAPITAL MANAGEMENT**

“Working capital is the liquid cash between the inflow and outflow of funds. In other words, it is the net cash. It is defined as the excess of current assets over current liabilities and provision”.

An overview of the working capital management in general has been prescribed below. The working capital of business enterprise can be that portion of its total financial resources which is put to operative purposes. The facilities that are necessary to carry on the production activity and represented by fixed asset investment (i.e. noncurrent assets investments) are to be operated by working capital. Most important aspect of the financial management is its working capital. Working capital management refers to the administration of all the aspect of current liabilities like bills payable, sundry creditors etc.

Working capital management can be defined as that aspect of financial management which is concerned with the safeguarding and controlling of the firms current assets, and planning for sufficient funds to pay current bills. Working capital management is concerned with all decisions and acts that influence the size and working capital. The goal of working capital management is to manage each of the firm’s current liabilities in such a way that an acceptable level of working capital is maintained.

**OBJECTIVES**

The twin objectives of working capital are profitability and risk. Profitability used in this context as measured by income after expenses and the term risk is defined as the profitability that a firm will become technically insolvent that is it will not be able to its obligations when thus fall due payment.

To ensure solvency, the firm should be very liquid which firm has less risk of solvency when it holds large amount of current assets. However, this will lead to be less profitable that fixed assets.

**IMPORTANCE OF WORKING CAPITAL MANAGEMENT:**

The important aspects of working capital are:

1. Determining the requirements of working capital
2. Financing the requirements
3. Efficient utilization of requirement of working capital Working capital management involves taking decisions regarding:
4. The need to invest funds in current assets.
5. The amount of funds to be invested in each type of current assets and their relative proportion.
6. The proportion of long term and short term funds to finance the current assets.
7. To finance these current assets through appropriate funds.

**CONCEPTS OF WORKING CAPITAL:**

**Gross working capital:** it is a finance concept. It refers to the total investment in current assets such as cash in hand, cash at bank, accounts receivable, etc. it is also known as total current assets.

**Net working capital:** it is an accounting concept. It means net current assets, i.e., the excess of current assets over current liabilities. It may be noted that the term ‘working capital’ is generally used for net working capital.

**NEED FOR WORKING CAPITAL:**

The need for working capital to run the day-to-day business activities cannot be over emphasized. The business firms aims at maximizing the wealth of shareholders for this a firm should earn sufficient return from its operations. Earning a steady amount of profit required successful sales activity. Earning a steady amount of profit requires successful sales activities **current account is needed for the smooth functioning of business operations.**

## PERMENANT WORKING CAPITAL

The operating cycle is a continuous process and therefore, the need for current assets is felt constantly. But the magnitude of current assets needed is not always the same, it increases and decreases over time. However, there is always a minimum level of current assets which is continuously required by the firm to carry on its business operations. This minimum level of current assets is referred to as permanent workingcapital. It is permanent in the same way as the firm's fixed assets are depending upon the changes in production and sales. The need for working capital, over and above permanent working capital, will fluctuate.

## TEMPORARY WORKING CAPITAL

It is the working capital needed to meet seasonal as well as unforeseen requirements. It is also known as fluctuating (or) variable working capital.

The extra working capital, needed to support the changing production and sales activities is called temporary working capital. Both kinds of working capital - permanent and temporary are necessary to facilitate production and sale through the operating cycle, but temporary working capital is created by the firm to meet liquidity requirements.

Permanent

Working capital

Amount of working capital

Temporary Working Capital

**THE VARIOUS USES OF WORKING CAPITAL**

1. To pay wages and salary.
2. It helps to the purchase of raw-materials, components and spares.
3. It helps to incur day-to-day expenses and overhead costs such as fuel, power, office expenses etc.
4. It helps to meet the selling cost as packing, advertising etc.
5. It provides credit facilities to the customer.
6. It helps to maintain the inventories of raw-material, working progress, stores and spares and finished stock.

**DETERMINANTS OF LEVELS OF WORKING CAPITAL:**

**NATURE OF THE BUSINESS:**

The working capital requirement of a firm is closely related to the nature of its business. The composition of current assets is a function of the size of the business and the industry to which it belongs. Small companies have small propositions of cash, receivable and inventory than large corporations.

The difference becomes more marked in large corporations. For example a service firm like an electricity undertaking or a transport corporations, which has a short operating and which sells predominantly on cash basis, has a modest working capital requirement on the other hand a manufacturing concern like a machine tools unit, which has a long operating cycle and which feels largely and credit, has a very subsequent working capital requirement

**PRODUCTION CYCLE:**

The term production or manufacturing cycle refers to the time involved in the manufacturing of goods. There is a small time gap before raw-materials become finished goods therefore the longer the time span the will be the working capital needed and vice versa.

**BUSINESS CYCLE:**

The business fluctuations influence the size of the working capital mainly during upwards phase when room conditions prevail, the need for working capital is likely to grow to cover the lag between increased sale and receipt of cash as well as invest in plant and machinery to meet the increased demand.

**PRODUCTION POLICY:**

A better alternative is a steady production policy independent of shifts in demand for the finished goods. This means a large accumulation of finished goods during the off-season and their abrupt sale during the peak season. The progressive accumulation of stock naturally required an increasing amount of working capital, which remains tide up for some month.

**SEASONALITY OF OPERATIONS:**

Firms, which have marked seasonality in their operations usually, have highly fluctuating working capital requirements. During the periods of peak demand, increasing productions may be expensive for the firm. Similarly it will be more expensive during slack periods when the firm has to sustain its working force and physical facilities without adequate production and sales. A firm may, thus, follow a policy of study production, irrespective of the seasonal changes, in order to utilize the fullest extent.

**PRICE LEVEL CHANGES:**

The increasing shifts in price levels make the functions of financial manager difficult. They should anticipate the effect of price level changes on capital requirements of the form generally; raising price levels will require a firm of maintains a higher amount of working capital. The effects of increasing of general price level will be felt differently by the firms are individual priced may be more difficulty.

**SALE OF PRODUCTION;**

Concern carrying on activities on a small scale of needs less working capital. On the other hand a concern undertaking activities in a large scale needs large amount of working capital.

**GROWTH AND EXPANSION OF BUSINESS:**

The growth and expansion of business also effect the working capital requirements. When their growth and expansion in the business of a firm the working capital needs a firm will also increase.

**CREDIT POLICY:**

The credit policy relating to sale and purchase also affects the working capital. The policy in influence the requirements of working capital in two ways:

1. Credit terms granted by the company to its customers/buyers on goods. Credit terms available to the firm its creditors.
2. A firm, which more credit sale and cash, purchase required high working capital than a firm having more credit purchase and cash sales.

**OPERATING EFFICIENCY:**

Operating cycle refers to the management is also important capital positions and both excessive and in adequate working capital position, as they are dangerous from firm’s point of view.

**RATE OF STOCK TURN-OVER:**

There is a high degree of inverse correlation hip between the quantum of working capital and velocity or speed with which the sale of affected. A firm having as high rate of stock turn over will need lower amount of working capital as compare to a firm having allowed rate of turnover.

**EARNING CAPICITY AND DIVIDENT POLICY:**

Some firms have more earning capacity than other due to quality of their products, monopoly conditions etc. such firms with high earning capacity may generate high cash profits from operations and contribute to their working capital. The dividend policy of a concern also influences the requirement of its working capital.

**SOURCES OF WORKING CAPITAL:**

A business firms has vertical of sources to meet its financial requirement in selecting of particular sources a financial manager has to consider the merit and demerit of the each sources in context constraints.

The sources of finance for working capital may be said to fall into four categories namely:

1. Long-term internal sources.
2. Long-term external sources.
3. Short-term internal sources.
4. Short-term external sources.

Each of this can be further divided as follows:

1. Long-term internal sources:
2. Retained earnings
3. Depreciation provisions
4. Long-term external sources:
5. Debenture
6. Long-term loans from financial institutions including commercial banks
7. Short-term internal sources:
8. Divided provision
9. Tax provision
10. Short-term external sources:
11. Trade credit
12. Bank credit
13. Public deposit
14. Commercial papers
15. Miscellaneous source such as deposit from stock list, contractors etc.

**FORECAST ESTIMATE OF WORKING CAPITAL REQUIREMENT:**

Working capital is the life blood and controlling nerve centre of business. No business can be successfully turned without amount of working capital. Thus for proper functioning of a business the day to day payments will have to be met and so, the management should access the required for working capital purpose constantly while doing so all the factors that influence the requirements of funds will be scrutinized and estimate for an efficient performance will taken be made, it will also help in working capital if necessary later it could be compared with cultural.

Factors requiring consideration while estimating working capital:

1. Total cost incurred on materials, wages, and over heads.
2. The length of time for which raw materials are to remain in stores before they are issued for production.
3. The length of the production cycle or working progress I.e., the time taken for conversion or raw materials into finished goods.
4. The length of sales cycle during which finished goods are to be kept waiting for sales in the warehouse.
5. The average period of credit allowed to customers.
6. The amount of cash required for paying day to day expense of the business.
7. The average amount of cash required for making advance payments if any.
8. The average credit period expected to be allowed by suppliers.
9. Time lag in the payment of wages and other expenses.

**DANGERS OF EXCESSIVE WORKING CAPITAL**

1. It results in unnecessary accumulation of inventories. The chances of inventory mishandling, waste, theft and losses increase.
2. It is an indication of defective credit policy and slack collection period. Consequently, higher incidents of bad debts adversely affects profits.
3. Excessive working capital makes management complacent which degenerates in managerial inefficiency.
4. Tendencies of accumulating inventories to make speculative profits grow. This may tend to make dividend policy liberal and difficult to cope with in future when the firms are unable to make speculative profits.

**DANGERS OF INADEQUECY OF WORKING CAPITAL**

1. It stagnates growth. It becomes difficult for the firm to undertake profitable projects due to non-availability of working capital funds.
2. It becomes difficult to implement operating plans and achieve the firms profit target.
3. Operating inefficiencies creep in when it becomes difficult even to meet day to day commitment.
4. Fixed assets are not efficiently utilized for the lack of working capital funds. Thus the rate of return on investment slumps.
5. Paucity of working of capital funds renders the firm unable to avail of attractive credit opportunities etc.
6. The firm losses its reputation when it is not in a position to honor its short-term obligation. As a result the firm faces tight credit terms.

**OPERATING CYCLE**

Operating cycles is the time duration required to convert the sales, after the convert sales, after the conversion of resources into inventories, into cash.

In other words the duration of time required to complete the following cycle of events in cash of a manufacturing firms is called the operation cycle.

1. Conversion of cash into raw materials.
2. Conversion raw materials into work in progress.
3. Conversion of work in process into finished goods.
4. Conversion of finished goods into Drs and bills receivable through sales.
5. Conversion of Drs and bills receivable into cash.

In symbol it can be expressed as follows:

Assets

O=R+W+F+D-C

Where O= Time duration for operating cycle.

R= Raw material and storage period.

w= Work-in-process period.

F= Finished goods storage period.

D= Debtors collection period.

C= Creditors period.

The components of operating cycle referred to above can be calculated as follows:

Average stock of raw materials and stores

R= --------------------

Average raw materials and stores consumption per day

Average work-in-progress inventory

w= ---------------------

Average cost of production per day

Average finished goods inventory

F= -----------------------

Average cost of goods sold per day

Average book debts

D= ------------------------

Average credit sales per day

Average trade creditors

C= ------------------------

Average credit purchase per day

Since cash inflow and outflow do not match firms have to necessarily keep cash or invest in short term marketable securities so that they will be in position to meet obligations when they become due. Similarly firms must have adequate inventory to guard against the possibility of not being able to meet a demand for their products. Adequate inventory, therefore, provides a caution against being out of stock. If firms have to be competitive, they must sell goods to their customer on credit, which necessitates the holding of accounts receivables.

**CRITERIA FOR JUDGING THE EFFICIENCY OF WORKING CAPITAL MANAGEMENT:**

The efficiency of working capital management can be judged through accounting ratios. The important accounting ratio’s that could be used for judging the efficiency of working capital management are:

1. Current ratio.
2. Quick ratio.
3. Cash to current assets ratio.
4. Operating ratio.
5. Inventory turnover ratio.
6. Total assets turnover ratio.
7. Working capital turnover ratio.

**MEASURES TO BE ADOPTED FOR A SOUNDWORKING CAPITAL MANAGEMENT**:

For a sound management of working capital, a concern should adopt the following measures:

1. Budget its cash flow.
2. Control its debtors.
3. Control its creditors.
4. Control its stock.
5. Avoid over borrowing.
6. Determine the financing mix.

**CASH MANAGEMENT**

Cash is the most important factor in financial management. It is also the important of all the current assets, for the operations of the business. It is the basic input needed to keep the business running on a continuous basis, it is also the ultimate output expected to be realize by selling the service or product manufactured by the firm. Cash is the vital important to the daily operations of business firms. Its effective management requirements of the business. Its storage stops the operation/7may degenerate a firm into a state of technical insolvency.

**Cash management is concerned with the managing of**:

1. Cash flows into and out of the firm.
2. Cash flow within the firm.
3. Cash balances held by the firm at the pint of time by financing deficit are investing surplus cash. It can be represented by cash.

The management of the cash is also important because it’s difficult to predict cash flow accurately. Particularly the inflows, and there is no perfect cash outflow will exceed cash inflows, because payments for taxes, dividends are seasonal inventory build-up At other time, cash management is also important because cash continuous the smallest portion of the total current assets, at management’s considerable time devoted in cash management techniques.

An obvious aim of the firm nowadays is to manage its cash affairs in such a way have to keep cash in balance at a minimum level and to invest the surplus cash funds in profitable opportunities.

In order to resolve the uncertainty about cash flow prediction and then lack of synchronization between cash receipt and payments the firm should develop appropriate strategies for cash management. The firm should evolve strategies regarding the following 4 facets of cash management.

**Cash planning**:

Cash inflows and outflows should be planned to project surplus or deficit for each period, cash budget should be prepared for this purpose.

**Managing the cash flows**:

The flow of cash should be properly managed. The cash inflows should be accelerated while, as far as possible, decelerating the cash outflows.

**Optimum cash level**:

The firm should decide about the appropriate level of cash balances. The cost of access cash and danger of cash differences should be matches to determine the optimum level of cash balances.

**Investing surplus cash**:

The cash balances should be properly invested to earn profits. The firm should decide about the divisions if such cash balances between bank deposits, marketable securities and in corporate lending.

The objectives of cash management:

1. To meet the cash payments as per payment schedule.
2. To minimize the amount locked up as cash balances.

**NEED FOR AN OBJECTIVE OF CASH MANAGEMENT:**

Large cash and bank balances indicate high liquidity position of a company, which will result in lower profitability as idle cash, fetches on return, while the same when invested in the assets of company will result in profits. The need for holding cash arises from a variety of reason such as:

1. **Transaction motive:**

A company cause immediate cash inflows and outflows. So firms always keep a certain is always entering into transition with other entities, which may amount as cash to deal with routine transactions where immediate cash payment is required.

1. **Precautionary motive**:

A company has to prepare to meet such contingencies like a sudden fire may break out, accidents, employees strike etc. to minimize its losses. For this purpose companies generally maintain some amount in the form of cash.

1. **Speculation motive**:

Firms also maintain cash balance in order to take advantages of opportunities that do not take place in the course of routine business activities. 4 lack of proper synchronization between cash inflows and cash outflows, In case of reasonably well-managed profitable companies, that total amount of cash inflows for the year is usually higher than total amount of cash outflows. However, the company can have spell of cash deficits and surpluses mainly due to lack of synchronization between cash inflows and surpluses mainly due to lack of synchronization between cash inflows and outflows.

**RECEIVABLE MANAGEMENT**

Receivable management is a permanent in the business. As old receivable are collected & new receivable are created, it is a major credit of the current assets. This emerges because of the existence of the credit sales. It shows the amount receivable from the purchases. This is called by different name such as bills receivables, accounts receivables, trade debtors, sundry debtors, trade rece3ivable etc.

Receivables derive benefits & also involve cost of the firm. If the benefit is the more the cost is also more & hence the risk increase on the other hand, if the benefits are less the cost & risk is also less to trade of between benefits & cost arising from receivables.

**INVENTORY MANAGEMENT**

The important component of working capital is Inventory. Inventory refers to the stock of goods yet to be sold by a business firm. It is derived as the stock of goods a firm is offering for sales & the components they make the goods.

**OBJECTIVE OF INVENTORY MANAGEMENT**

1. To provide continuous supply of raw – materials for production.
2. To reduce the wastage & to avoid loss of breakage & deterioration.
3. To meet the demand for goods to ultimate consumers on time.
4. To provide right materials, at time & at right place for production.
5. To avoid excess & inadequate storing of raw – materials.

**MOTIVES FOR HOLDING INVENTORY;**

Generally inventories are held for 3 motives;

1. The transaction motive, which emphasizes the need to maintain inventories to facilitate smith production & operation,
2. The precautionary motive which necessitates holding of inventories to guard against the risk of unpredictable changes in demand & supply process & other factors like rate supply from vendors.
3. The speculative motive which influence the decision to increase or to reduce inventory levels to take advantages of price fluctuations in the market.

**RATIO ANALYSIS**

Ratio Analysis is a powerful tool of financial analysis. A ratio is defined as “The indicated quotient of two mathematical expressions” and as “The relationship between two (or) more things”.

In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm the absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a firm an accounting figure convey meaning when it is related to some other relevant information.

Ratios may be classified into the four important categories.

* Liquidity Ratios
* Leverage Ratios
* Activity Ratios
* Profitability Ratios

**A. LIQUIDITY RATIOS**

Liquidity ratios measure the firm’s ability to meet current obligations.

**1. Current Ratio**

The current ratio is calculated by dividing current assets by current liabilities.

Current Assets

Current Ratio = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Current Liabilities

Where,

* **Current assets** include cash and bank balances, marketable securities, debtors and inventories and also prepaid expenses etc.
* **Current Liabilities** include creditors, bills payable, accrued expenses, short-term bank loan, income Tax liability etc.

**2. Quick Ratio**

Quick ratio establishes a relationship between quick, or liquid, assets and current liabilities.

Current Assets – Inventories & Loans & Advances

Quick Ratio = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Current Liabilities

Where;

**Liquid assets** include cash, debtors, and bills receivable and marketable securities.

**3. Absolute Quick (Cash) Ratio**

Since cash is the most liquid asset, a financial analyst may examine cash ratio and its equivalent to current liabilities. Trade investment (or) Marketable securities are equivalent of cash.

Cash + Marketable Securities

Cash Ratio = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Current Liabilities

**B) LEVERAGE RATIOS**

Leverage ratios may be calculated from the balance sheet items to determine the proportion of debt in total financing. Leverage ratios are also computed form the profit and loss items by determining the extent to which operating profits are sufficient to cover the fixed charges.

**1. Total Debt Ratio**

Several debt ratios may be used to analyse the long-term solvency of a firm, the firm may be interested in knowing the proportion of the interest bearing debt (also called funded debt) in the capital structure. It may compute debt ratio by dividing total debt by capital employed (or) net assets.

Total Debt

Total Debt Ratio = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Total Debt + Net Worth

Where,

**Total Debt =**  secured +unsecured loans

**Capital Employed =** Total Debt +shareholders funds.

**2. Debt – Equity Ratio**

This relationship describing the lender’s contribution for each rupee of the owner’s contribution is called debt-equity ratio. Debt – equity ratio is directly computed by dividing total debt by net worth.

Total Debt

Debt Equity Ratio = \_\_\_\_\_\_\_\_\_\_\_\_\_\_

Net Worth

Where,

**Total Debt =** secured + unsecured loans

**Net Worth**  = share capital +Reserves and surplus

**3. Interest Coverage Ratio**

Debt ratios described above are static in nature, and fail to indicate the firm’s ability to meet interest (and other fixed – charges)obligations. The interest coverage ratio (or) the times – interest – earned is used to test the firms debt - servicing capacity.

The interest coverage ratio is computed by dividing earnings before interest and taxes by interest charges.

EBIT

Interest Coverage Ratio = \_\_\_\_\_\_

Interest

**C) ACTIVITY RATIOS**

Activity ratio involve a relationship between sales and assets, a proper balance between sales and assets generally reflects that assets are managed well. Several activity ratios can be calculated to judge the effectiveness of asset utilization.

**1) Inventory turn over Ratio**

Inventory turnover ratio indicates the efficiency of the firm in producing and selling its product. It is calculated by dividing the cost of goods sold by the average inventory.

Cost of goods sold

Inventory Turnover Ratio = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Average Inventory

Where,

Cost of goods sold = Raw material, wrapping and packing materials consumed + purchase of finished goods + manufacturing expenses.

**2. Working Capital Turnover Ratio**

A firm may also like to relate net current assets (or net working capital gap) to sales. It may thus compute net working capital turnover by dividing sales by net working capital.

Sales

Net Current Assets Turnover = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Net Working Capital

**3. Debtors Turnover Ratio**

A firm sells goods for cash and credit. Credit is used as a marketing tool by a no. of companies. When a firm extends credits to its customers, debtors (accounts receivables) are created in the firm’s Accounts. Debtors are expected to be converted into cash over a short period.

Debtors turnover is found out by dividing credit sales by average debtors.

Credit sales/sales

Debtors turnover = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Average debtors

Debtors turnover indicates the no. of times debtors turn over each year.

**4. Creditors Turnover Ratio**

This ratio Gives the Average credit period enjoyed from the creditors and is by dividing credit purchases by average accounts payable (creditors + Bills payable)

Credit Purchases

Creditors Turnover = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Average Creditors

Where,

**Purchases =**  Raw Materials, wrapping and packing materials consumed + purchase of finished goods.

**Note:** Here, credit purchases are not available. Therefore we consider the total purchases for calculation.

**5. Fixed Assets Turnover Ratio**

Fixed assets are used in the business for producing goods to be sold. The effective utilization of fixed assets will result in increased production and reduced cost. It also ensures whether investment. In the assets have been judicious (or) not.

Sales

Fixed Assets Turnover Ratio = \_\_\_\_\_\_\_\_\_\_\_\_

Fixed Assets

**C) PROFITABILITY RATIOS**

The profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are also interested in the profitability of the firm creditors want to get interest and payment of principal regularly owners want to get a required rate of return on their investment.

**1) Gross Profit Ratio**

The first profitability ratio in relation to sales is the gross profit margin. It is calculated by dividing the gross profit by sales.

Gross Profit

Gross Profit Ratio = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ X 100

Sales

Where,

**Gross Profit =** sales – (Raw Material, wrapping and packing material consumed + purchase of finished goods + manufacturing expenses).

**2. Net Profit Ratio**

Net profit is obtained when operating expenses, interest and taxes are subtracted from the gross profit. The net profit margin ratio is measured by dividing profit after tax by sales.

Net Profit

Net Profit Ratio = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ X 100

Sales

Where,

**Net Profit =** PBIDT

**3. Return On Investment (ROI)**

The term investment may refer to total assets (or) Net assets. The funds employed in net assets in known as capital employed. Alternatively, capital employed is equal to net worth plus total debt.

PBIDT

ROI = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ X 100

Capital Employed

Where,

**Capital Employed =**  share capital + Reserves and Surplus + secured loans + Unsecured loans.

**4) Return on Equity (ROE)**

A return on share holder’s equity is calculated to see the profitability of owner’s investment. The return on shareholders equity is net profit after taxes divided by shareholder’s equity.

PAT

ROE = \_\_\_\_\_\_\_\_\_\_ X 100

Equity

Where,

**Equity =** share capital + reserves and surplus.

**PRICIPLES OF WORKING CAPITAL MANAGEMENT**:

The objectives of working capital management are to manage the firm’s current assets & current liabilities in such a way that a satisfactory level of working capital is maintained.

The following general principles help us to maintain a sound working capital:-

1. Principal of Risk variation.
2. Principal of Cost of capital.
3. Principal of Enquiry position.
4. Principal of Maturity of payment.

**PRINCIPLE OF RISK VARIATION:**

Risk here refers to the capacity of a firm to meet its obligations as & when they become due for payment. Large reinvestment in current with less dependency on short term borrowing increases liquidity, like for e.g. conversion of resource into inventories; into cash here cash outflows occur before cash inflow. But when the cash inflows are not certain because sales & collections, which gives rise to cash inflows, are difficult to forecast accurately. Cash outflows on the other hand are relatively certain. The firm is therefore, require to invest in current assets for a smooth uninterested functioning, it needs to purchase raw materials & pay expenses such as wages salaries, other manufacturing administrative & selling expenses as there is hardly a matching between cash inflows & cash outflows. On the other hand investment is current assets with greater dependence on short term borrowings increases risks, reduces liquidity & increases profitability. For e.g. Acquiring resources on credit, temporarily postpone payment of certain expenses. Thus, the time market between cask collections from sale

Of products & cash payments for recourses acquired by firm reduces liquidity & increases profitability. In other words there is a definite inverse relationship between the degree of risk & profitability. The variations working capital polices, such as conservative policy & aggressive e policy indicate the relation between current assets & sales. A conservative management prefers to minimize risk by maintaining a higher level of current assets for working capital. While a moderate or aggressive management assumes comparatively greater risk by reducing working capital. However, a goal of management should be to establish a suitable trade-off between profitability & risk.

**PRINCIPLE OF COST OF CAPITAL/PERMANENT & VARIABLE CAPITAL:**

Cost capital varies with the source of finance & the degree of risk involved. Generally it is higher the risk, lower the cost & lower the risk higher the cost. A sound working management should always try to achieve a proper balance between these two.

A magnitude of current assets needed is not always the same; it keeps fluctuating over time. However there is always minimum level of current asset, which is continuously required by the firm to carry on its business operations. This minimum of level of current asset is required to as permanent or fixed working capital. Depending upon the changes in production on sales, the need for the working capital & above permanent working capital will fluctuate.

For e.g. Extra inventory of finished goods will have to be maintained to support the peak periods of sales, investment in receivable may also increases during such periods, on the other hand, investment in raw materials work in progress & finished goods will fall if the market is slack.

The extra working capital needed to support the changing production & sales activity is called fluctuating variable or temporary working capital. The firm to meet liquidity requirements that will last only temporarily creates temporary working capital. Therefore, it can be concluded that permanent working capital is stable over the time, where temporary working capital is fluctuation.

**PRINCIPLES OF EQUITY POSITION:**

This principle is concerned with planning how much to earn mark for current asset from the total investment. According to this principle, the amount working capital invested in each component should be adequately justify by a firm’s equity position, every rupee invested in the current asset should contribute to the net worth of the firm, excessive working needs idle functions which earn no profit for the firm, paucity of the working capital not only impairs the firms profitability but also results in production interruptions & inefficiency.

**COMPANY PROFILE**

Lsquare Eco-Products Pvt. Ltd. was established in 2007 and has, since then, been into the business of manufacturing paper honeycomb and allied products under the brand name HonECOre. The company was started by a team of 5 young men coming from management and engineering backgrounds with an entrepreneurial vision of a “Greener World”.   
  
Located in the garden city of India, Bangalore, HonECOre is domestically the largest selling paper honeycomb brand with a facility to manufacture paper honeycomb with production technology at par with most low-to-medium volume production units worldwide. HonECOre, today stands as a well renowned and the most recognized brand of paper honeycomb made in India and has, under its portfolio of client’s, some of the distinguished players from the wood working, sheet metal and packaging industry.

At Lsquare, HonECOre- a high quality Kraft paper honeycomb, paper honeycomb end products, and project management solutions are provided.   
Essentially, HonECOre paper honeycomb is consumed in two industries. One is Construction, the other being packaging. These applications are very different from one another and require dedicated plants and machinery to manufacture.   
HonECOre -paper honeycomb, is an evolutionary product that replaces non eco-friendly materials like wood and EPS in their respective applications while preserving the key virtues of their usage in the concerned applications. On its own HonECOre is an eco-friendly, versatile, flexible and lightweight material that has excellent compatibility with other materials and an excellent strength-to-weight ratio. It combines with plywood, steel, plastics, FRP and many other materials as its sandwich faces to form some of the strongest composite panels for its weight and dimensions. It is also more economical than most materials, thereby making it an ideal choice. As a product made from recycled paper and eco-friendly glue, it is a boon to the earth as a 100% bio-degradable, non polluting, eco-friendly material. Large scale usage of paper honeycomb can drastically boost a country’s aim of preserving the nature.

**VISION**

**To be the number one paper honeycomb brand in the Asia-Pacific region through commitment to quality, innovation, discipline and above all a long list of satisfied clientele. All for a greener tomorrow!**

**MISSION**

**To achieve pioneering success in converting users of traditional materials in packaging and construction to a greener and cleaner option, HonECOre Paper honeycomb. This, with strong in-house research, development and innovation as well as very high levels of reliability as a supplier to its clients is our primary focus.**

**CORPORATE SIDE OF LSQUARE**

As a part of CM group of companies, Lsquare is guided by some of the best men in the business. From financial analysts to senior ranking members of organizations like the associated chambers of commerce and the federation of Indian chambers of commerce (FICCI and FKCCI), members with over 30 years of manufacturing experience from the world over, on its board of advisors.Under the able leadership of the chairman of the group, Mr. Crasta, Lsquare has grown from strength to strength and the 5 founding members have come together to form a cohesive force ready to take on new challenges.

**PRODUCT PORTFOLIO**

In order to cater to the requirements of furniture, construction, packaging and other allied industries, Lsquare manufacture, supply, and export a wide assortment of Homegrown Paper Honeycomb Products and Processing Machines. Their range includes **Framed Panel, Frameless Panel, HonECOre Flush Doors, HonECOre Skin Doors,**and**HonECOre Paper Honeycomb Core.**In addition to these, they also offer**HonECOre Expander, HonECOre secondary packaging, HonECOre Primary Packaging, Optiledge Pallet Solutions,**and **HonECOre Pallets.**Manufactured using high grade raw material, their range is manufactured in compliance with industry quality standards.

**Owing to the following features, the product line is acclaimed across the national and international markets:**

* Durable
* Termite resistant
* Wear & tear resistant
* Smooth finish
* High performance (HonECOre Expander)

**INDUSTRES CATERED TO:**

Being one of the pioneers of the industry, Lsquare is able to manufacture, supply and export a wide range of homegrown paper honeycomb products and processing machines. All products are fabricated under the brand name ***“HonECOre”***, with the help of highly sophisticated machinery. Owing to this, the eco-friendly range offers excellent weight to strength ratio, and is widely used in packaging, doors, table tops, panels, automobiles and others.

**Products are widely used for the following applications:**

* Furniture
* Construction
* Packaging
* Wood Working
* Clean Rooms
* Metal Doors

**CLIENT SATISFACTION**

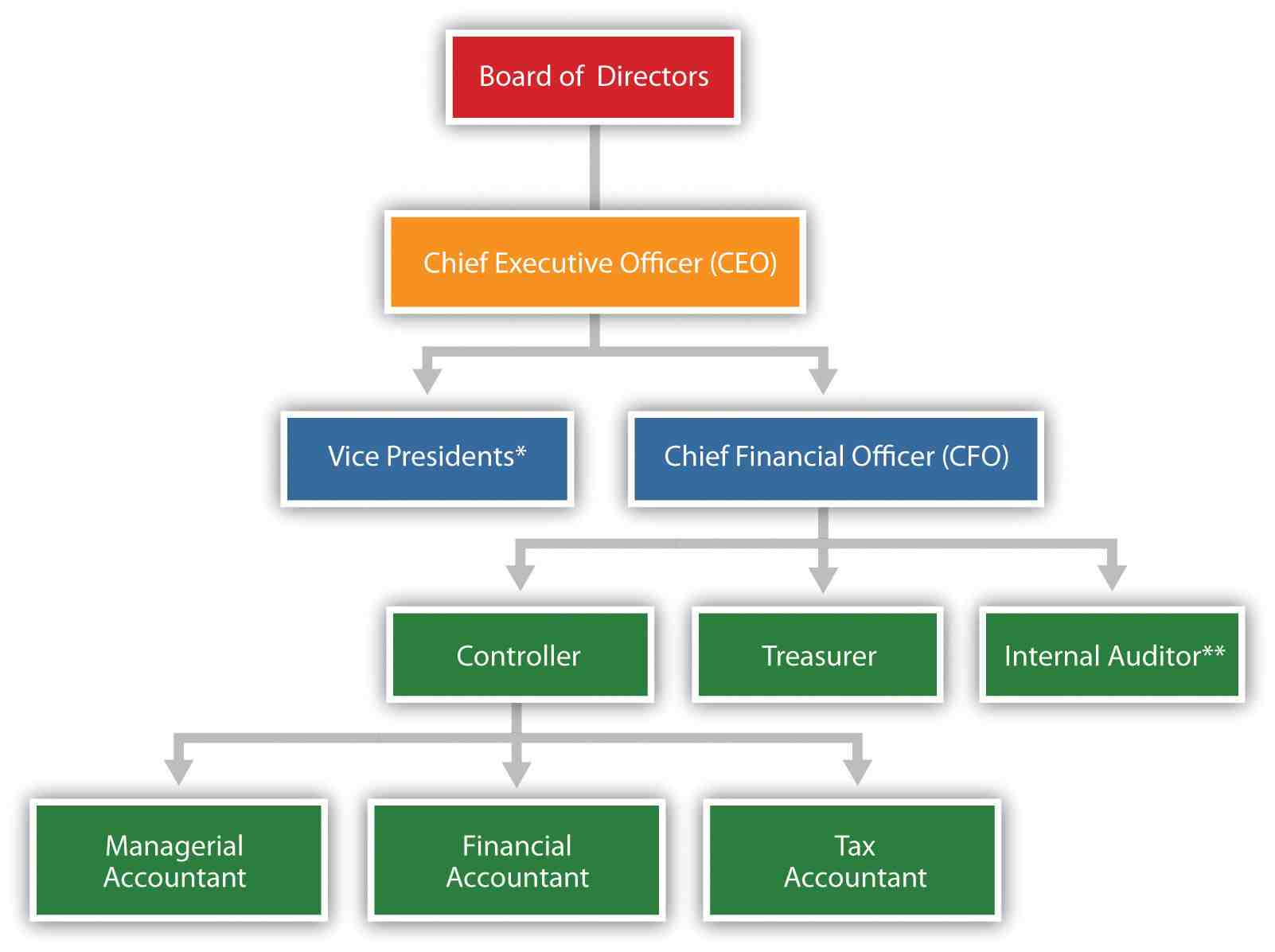
This organization has become a prominent name in a short span of time, owing to the committed efforts towards client contentment. Huge clientele with our streamlined business operations and quality paper honeycomb products and services are satisfied. In addition to the facility of customizing the product line as per the specifications and requirements of the clients, they also provide samples to the clients. Further, they make sure that all their endeavors are directed towards ensuring that customers get full support from their side, not just in terms of advice and solutions but also the right machines to enhance productivity and maintain consistency in manufacturing.

With the help of wide distribution network, Lsquare is able to offer quick deliveries in all parts of the globe. Apart from India,valued clientele comes from **Australia, New Zealand, Eastern Europe,**and**South East Asian countries.**

### QUALITY ASSURANCE

Path-breaking success and establishment as a prominent manufacturer and exporter, is a result of total commitment and laborious efforts towards maintaining premium quality. Sold under the brand name, *“HonECOre”,* wide range of Homegrown Paper Honeycomb Products have been recognized by the industry and valued clients, for being flawless and durable. Made in compliance with the industry standards,the products are used duly tested by our expert quality inspectors. The in-house quality testing unit is equipped with industry approved tools and equipment, which assist them in testing and verifying their range.

**ORGANISATIONAL STRUCTURE**

****

**SWOT ANALYSIS**

**STRENGTHS**

* Customized products/services
* OE Products and private labeling
* Has CAD/CAM facilities
* Provides samples to buyers

**WEAKNESSES**

* Demand is seasonal dependent
* Low quality standards of unrecognized players
* Low capital intensive industry attracts new entrants

**OPPORTUNITIES**

* Healthy proposition
* Differentiated packaging and variants
* Lower personal taxes
* New distribution channels

**TRENDS**

* Changing customer base
* Technological advances
* Tax increases
* Government pricing policies

**INDUSTRY PROFILE**

Packaging is the technology of enclosing or protecting products for distribution, storage, sale, and use. Packaging also refers to the process of designing, evaluating, and producing packages. Packaging can be described as a coordinated system of preparing goods for transport, warehousing, logistics, sale, and end use. Packaging contains, protects, preserves, transports, informs, and sells. In many countries it is fully integrated into government, business, institutional, industrial, and personal use.

**OBJECTIVES OF PACKAGING**

* **Physical protection** – The objects enclosed in the package may require protection from, among other things, mechanical [shock](https://en.wikipedia.org/wiki/Shock_(mechanics)), [vibration](https://en.wikipedia.org/wiki/Vibration), [electrostatic discharge](https://en.wikipedia.org/wiki/Electrostatic_discharge), compression, [temperature](https://en.wikipedia.org/wiki/Temperature), etc.
* **Barrier protection** – A barrier to [oxygen](https://en.wikipedia.org/wiki/Oxygen), [water vapor](https://en.wikipedia.org/wiki/Water_vapor), dust, etc., is often required. [Permeation](https://en.wikipedia.org/wiki/Permeation) is a critical factor in design. Some packages contain [desiccants](https://en.wikipedia.org/wiki/Desiccant) or [oxygen absorbers](https://en.wikipedia.org/wiki/Oxygen_absorber) to help extend shelf life. [Modified atmospheres](https://en.wikipedia.org/wiki/Modified_atmosphere) or controlled atmospheres are also maintained in some food packages. Keeping the contents clean, fresh,[sterile](https://en.wikipedia.org/wiki/Asepsis) and safe for the duration of the intended [shelf life](https://en.wikipedia.org/wiki/Shelf_life) is a primary function. A barrier is also implemented in cases where segregation of two materials prior to end use is required, as in the case of special paints, glues, medical fluids, etc. At the consumer end, the packaging barrier is broken or measured amounts of material are removed for mixing and subsequent end use.
* **Containment or agglomeration** – Small objects are typically grouped together in one package for reasons of storage and selling efficiency. For example, a single box of 1000 pencils requires less physical handling than 1000 single pencils. [Liquids](https://en.wikipedia.org/wiki/Liquid), [powders](https://en.wikipedia.org/wiki/Powder_(substance)), and [granular materials](https://en.wikipedia.org/wiki/Granular_material) need containment.
* **Information transmission** – Packages and [labels](https://en.wikipedia.org/wiki/Label) communicate how to use, transport, [recycle](https://en.wikipedia.org/wiki/Recycling), or dispose of the package or product. With [pharmaceuticals](https://en.wikipedia.org/wiki/Medication), [food](https://en.wikipedia.org/wiki/Food), [medical](https://en.wikipedia.org/wiki/Medicine), and [chemical](https://en.wikipedia.org/wiki/Chemical_substance) products, some types of information are [required](https://en.wikipedia.org/wiki/Mandatory_labelling) by government legislation. Some packages and labels also are used for [track and trace](https://en.wikipedia.org/wiki/Track_and_trace) purposes. Most items include their [serial](https://en.wikipedia.org/wiki/Serial_number) and [lot numbers](https://en.wikipedia.org/wiki/Lot_number) on the packaging, and in the case of food products, medicine, and some chemicals the packaging often contains an [expiry/best-before date](https://en.wikipedia.org/wiki/Shelf_life), usually in a shorthand form. Packages may indicate their construction material with a symbol.
* **Marketing** – Packaging and [labels](https://en.wikipedia.org/wiki/Label) can be used by [marketers](https://en.wikipedia.org/wiki/Marketing) to encourage potential buyers to purchase a product. Package [graphic design](https://en.wikipedia.org/wiki/Graphic_design) and physical design have been important and constantly evolving phenomena for several decades. [Marketing communications](https://en.wikipedia.org/wiki/Marketing_communications) and [graphic design](https://en.wikipedia.org/wiki/Graphic_design) are applied to the surface of the package and often to the[point of sale display](https://en.wikipedia.org/wiki/Point_of_sale_display). Most packaging is designed to reflect the brand's message and identity.
* **Security** – Packaging can play an important role in reducing the [security](https://en.wikipedia.org/wiki/Security) risks of shipment. Packages can be made with improved [tamper resistance](https://en.wikipedia.org/wiki/Tamper_resistance) to deter manipulation and they can also have [tamper-evident](https://en.wikipedia.org/wiki/Tamper-evident)[[24]](https://en.wikipedia.org/wiki/Packaging_and_labeling#cite_note-24) features indicating that tampering has taken place. Packages can be engineered to help reduce the risks of [package pilferage](https://en.wikipedia.org/wiki/Package_pilferage) or the theft and resale of products: Some package constructions are more resistant to pilferage than other types, and some have pilfer-indicating seals. [Counterfeit consumer goods](https://en.wikipedia.org/wiki/Counterfeit_consumer_goods), unauthorized sales (diversion), material substitution and tampering can all be minimized or prevented with such anti-counterfeiting technologies. Packages may include [authentication](https://en.wikipedia.org/wiki/Authentication) seals and use [security printing](https://en.wikipedia.org/wiki/Security_printing) to help indicate that the package and contents are not [counterfeit](https://en.wikipedia.org/wiki/Counterfeit). Packages also can include anti-theft devices such as dye-packs, [RFID](https://en.wikipedia.org/wiki/Radio-frequency_identification) tags, or [electronic article surveillance](https://en.wikipedia.org/wiki/Electronic_article_surveillance)[[25]](https://en.wikipedia.org/wiki/Packaging_and_labeling#cite_note-25) tags that can be activated or detected by devices at exit points and require specialized tools to deactivate. Using packaging in this way is a means of [retail loss prevention](https://en.wikipedia.org/wiki/Retail_loss_prevention).
* **Convenience** – Packages can have features that add convenience in distribution, handling, stacking, display, sale, opening, reclosing, using, dispensing, reusing, recycling, and ease of disposal
* **Portion control** – Single serving or single [dosage](https://en.wikipedia.org/wiki/Drug_delivery) packaging has a precise amount of contents to control usage. Bulk commodities (such as salt) can be divided into packages that are a more suitable size for individual households. It also aids the control of inventory: selling sealed one-liter bottles of milk, rather than having people bring their own bottles to fill themselves.

**TYPES OF PACKAGING**

Packaging may be of several different types. For example, a transport package or distribution package can be the [shipping container](https://en.wikipedia.org/wiki/Shipping_container) used to ship, store, and handle the product or inner packages. Some identify a consumer package as one which is directed toward a consumer or household.

Packaging may be described in relation to the type of product being packaged: [medical device](https://en.wikipedia.org/wiki/Medical_device) packaging, bulk [chemical](https://en.wikipedia.org/wiki/Chemical_substance) packaging, [over-the-counter drug](https://en.wikipedia.org/wiki/Over-the-counter_drug) packaging, retail [food](https://en.wikipedia.org/wiki/Food) packaging, military [materiel](https://en.wikipedia.org/wiki/Materiel) packaging, [pharmaceutical](https://en.wikipedia.org/wiki/Medication) packaging, etc.

It is sometimes convenient to categorize packages by layer or function: "primary", "secondary", etc.

* Primary packaging is the material that first envelops the product and holds it. This usually is the smallest unit of distribution or use and is the package which is in direct contact with the contents.
* Secondary packaging is outside the primary packaging, and may be used to prevent pilferage or to group primary packages together.
* Tertiary packaging is used for [bulk handling](https://en.wikipedia.org/wiki/Logistics), [warehouse](https://en.wikipedia.org/wiki/Warehouse) storage and [transport](https://en.wikipedia.org/wiki/Transport) shipping. The most common form is a [palletized](https://en.wikipedia.org/wiki/Pallet) [unit load](https://en.wikipedia.org/wiki/Unit_load) that packs tightly into [containers](https://en.wikipedia.org/wiki/Containerization).

These broad categories can be somewhat arbitrary. For example, depending on the use, a [shrink wrap](https://en.wikipedia.org/wiki/Shrink_wrap) can be primary packaging when applied directly to the product, secondary packaging when used to combine smaller packages, or tertiary packaging when used to facilitate some types of distribution, such as to affix a number of cartons on a pallet.

**ENVIRONMENTAL CONSIDERATIONS**

Package development involves considerations of [sustainability](https://en.wikipedia.org/wiki/Sustainability), environmental responsibility, and applicable [environmental](https://en.wikipedia.org/wiki/Environmental_policy)and [recycling](https://en.wikipedia.org/wiki/Recycling) regulations. It may involve a [life cycle assessment](https://en.wikipedia.org/wiki/Life_cycle_assessment)[[30]](https://en.wikipedia.org/wiki/Packaging_and_labeling#cite_note-30)[[31]](https://en.wikipedia.org/wiki/Packaging_and_labeling#cite_note-31) which considers the material and energy inputs and outputs to the package, the packaged product (contents), the packaging process, the [logistics](https://en.wikipedia.org/wiki/Logistics) system,[[32]](https://en.wikipedia.org/wiki/Packaging_and_labeling#cite_note-32) [waste management](https://en.wikipedia.org/wiki/Waste_management), etc. It is necessary to know the relevant regulatory requirements for point of manufacture, sale, and use.

The traditional “three R’s” of reduce, reuse, and recycle are part of a [waste hierarchy](https://en.wikipedia.org/wiki/Waste_hierarchy) which may be considered in product and package development.

* **Prevention** – Waste prevention is a primary goal. Packaging should be used only where needed. Proper packaging can also help prevent waste. Packaging plays an important part in preventing loss or damage to the packaged product (contents). Usually, the energy content and material usage of the product being packaged are much greater than that of the package. A vital function of the package is to protect the product for its intended use: if the product is damaged or degraded, its entire energy and material content may be lost.[[33]](https://en.wikipedia.org/wiki/Packaging_and_labeling#cite_note-33)
* **Minimization** – (also "source reduction") The mass and volume of packaging (per unit of contents) can be measured and used as criteria for minimizing the package in the design process. Usually “reduced” packaging also helps minimize costs. Packaging engineers continue to work toward reduced packaging.[[34]](https://en.wikipedia.org/wiki/Packaging_and_labeling#cite_note-34)
* **Reuse** – [Reusable packaging](https://en.wikipedia.org/wiki/Reusable_packaging) is encouraged.[[35]](https://en.wikipedia.org/wiki/Packaging_and_labeling#cite_note-35) Returnable packaging has long been useful (and economically viable) for closed loop logistics systems. Inspection, cleaning, repair and recouperage are often needed. Some manufacturers re-use the packaging of the incoming parts for a product, either as packaging for the outgoing product[[36]](https://en.wikipedia.org/wiki/Packaging_and_labeling#cite_note-36) or as part of the product itself.[[37]](https://en.wikipedia.org/wiki/Packaging_and_labeling#cite_note-37)
* **Recycling** – [Recycling](https://en.wikipedia.org/wiki/Recycling) is the reprocessing of materials (pre- and post-consumer) into new products. Emphasis is focused on recycling the largest primary components of a package: steel, aluminum, papers, plastics, etc. Small components can be chosen which are not difficult to separate and do not contaminate recycling operations. Packages can sometimes be designed to separate components to better facilitate recycling.
* **Energy recovery** – [Waste-to-energy](https://en.wikipedia.org/wiki/Waste-to-energy) and [Refuse-derived fuel](https://en.wikipedia.org/wiki/Refuse-derived_fuel) in approved facilities make use of the heat available from incinerating the packaging components.
* **Disposal** – [Incineration](https://en.wikipedia.org/wiki/Incineration), and placement in a sanitary [landfill](https://en.wikipedia.org/wiki/Landfill) are undertaken for some materials. Certain US states regulate packages for toxic contents, which have the potential to contaminate emissions and ash from incineration and [leachate](https://en.wikipedia.org/wiki/Leachate) from landfill.[[38]](https://en.wikipedia.org/wiki/Packaging_and_labeling#cite_note-38) Packages should not be [littered](https://en.wikipedia.org/wiki/Litter).

Development of [sustainable packaging](https://en.wikipedia.org/wiki/Sustainable_packaging) is an area of considerable interest to [standards organizations](https://en.wikipedia.org/wiki/Standards_organization), governments, consumers, packagers, and retailers

**INDIAN PACKAGING INDUSTRY : GROWTH POTENTIAL**  
  
India has the second largest GDP among emerging economies based on purchasing power parity (PPP). The country is the 4th largest economy in terms of purchasing power parity (PPP). The packaging industry in India is one of the fastest growing industries which has its influence on all industries, directly or indirectly.  
  
The Indian packaging industry is growing continuously. The total worth is about USD 24.6 billion. The average annual growth rate is about 13 - 15%. However, there is great growth potential since India’s per capita consumption of packaging is only 4.3 kgs whereas neighbouring Asian countries like China and Taiwan show about 6 kgs and 19 kgs, respectively.  
  
This clearly indicates that there are many more commodities which need to be marketed in packaged condition and thus, a great business opportunity stands for the Indian packaging industry.  
  
Moreover, the Indian retail market is the 5th largest retail destination, globally and has been ranked the second most attractive emerging market for investment. The market is currently valued at USD 350 million and is expected to rise to USD 1.3 trillion by 2015.

### INDUSTRY SCENARIO

### **The key trends for rapid growth of the Indian packaging industry are as follows:**

* India’s retail growth and increased consumption of consumer products is driving the demand for packaging in the country.
* India is the sixth largest packaging market in the world, with sales of USD 24.6 billion in 2011.
* The packaging industry is expected to grow at a CAGR of 12.3% during the forecast period, to become the fourth largest global market, with sales of USD 43.7 billion in 2016.
* The Indian food processing market is one of the largest in the world in terms of production, consumption and growth prospects.
* India’s per capita annual packaging expenditure was USD 20 in 2011, which is significantly lower than the top 20 market average of USD 347.6. The low per capita expenditure offers a huge business opportunity for packaging companies.

# **Biodegradable Packaging Market play important role in Packaging Industry**

Biodegradable packaging plays an important role in the packaging industry due to the ever increasing consumer awareness and importance of using eco-friendly, biodegradable packaging materials instead of conventional non biodegradable ones. Biodegradable packaging products are primarily developed from biodegradable plastics such as PLA, Starch based Plastics, PHA, PCL, and PBS or different types of paper and paperboard.

Primary biodegradable packaging materials such as PLA, starch-based plastics, and PHA dominate the biodegradable plastic packaging market and will be growing at a healthy CAGR in the next five years. Within the biodegradable paper packaging materials market, boxboard, corrugated board, and flexible paper will drive majority of the future growth. The growing demand for biodegradable plastic packaging materials over conventional non biodegradable plastic packaging materials like PET proves to be one of the most important factors driving the growth of the market worldwide.

The biodegradable packaging market is driven by rapid growth of food packaging and beverage packaging industries globally especially in emerging economies such as BRIC countries as well as the developed economies of Europe and North America. The developed countries of Europe and North America are expected to contribute almost one third of the future growth in the biodegradable packaging market. Asia-Pacific region, growing at a significantly high CAGR looks to drive the market production by the end of the decade due to fast growing Chinese and Indian packaging industries.

The raw material demand for biodegradable packaging products will also grow hand in hand owing to the increased consumer awareness and hence the usage of biodegradable packaging. Biodegradable plastics are fast replacing the conventional non biodegradable plastics used as raw materials for biodegradable plastic packaging products. Within biodegradable plastics, polylactic acid, starch-based plastics, and polyhydroxyalkanoates are finding greater acceptance on account of their superior properties.

Consumers are demanding for better features and convenience in packaging products. Besides new biodegradable packaging material development, increasing awareness of environmental issues, and the adoption of new regulatory requirements are going to be the key growth drivers for the future biodegradable packaging business.

**USE OF EPS AND WOOD IN PACKAGING**

**EPS PACKAGING MATERIAL**

Expanded polystyrene (EPS) is a versatile, lightweight material that can be manufactured into a variety of products. EPS offers a high-performance yet economical support for a wide variety of items—from sensitive electronics to appliances to pharmaceuticals—to be safely delivered to market. Manufacturers rely on EPS packaging because of its ability to prevent or minimize product damage during transit and its excellent insulation properties required for food and medical shipments.

Yet EPS packaging, just like any disposable packaging, will eventually become a solid waste and have to be managed. But here’s the good news: EPS is recyclable. Although the availability of polystyrene recycling programs varies by community and can be limited, the EPS industry uses average of 50 percent of the post consumer material collected in the manufacture of new EPS transport packaging and loose fill packaging, which has reduced requirements for raw material resources, energy consumption has diverted material from landfills.

**WOOD PACKAGING MATERIAL**

Wood packaging material or WPM is also called Non-Manufactured Wood Packing (NMWP) or Solid Wood Packing Material (SWPM). It is defined as hardwood and softwood packaging other than that comprised wholly of wood-based products such as plywood, particle board, oriented strand board, veneer, wood wool, etc., which has been created using glue, heat, and pressure or a combination thereof used in supporting, protecting, or carrying a commodity (includes dunnage).  
  
Examples of WPM include pallets, skids, pallet collars, containers, cratings/crates, boxes, cases, bins, reels, drums, load boards, or dunnage. Wood packaging made of exempt materials but combined with solid wood components must still be treated and marked.

**RESEARCH DESIGN**

Research is the systematic process of collecting and analyzing information (data) in order to increase our understanding on the working capital management of the organization. The design is the structure of any organized work that gives direction and systematizes the research.

The method you choose will affect your results and how you conclude the findings and the choice of the method of design depends on different factors as follows:

* What information do you want?
* Feasibility
* How reliable should the information be?
* Is it ethical to conduct the study?
* The cost of the design?

For this research work descriptive design is used. It includes surveys and facts and findings of different kinds. The major purpose of descriptive research is description of state of affairs, as it exists at presence. In this method the researcher has no control over the variables he/she can only report what had happened and what is happening.

Finance is involved in every activity of the organization. Finance thus saved in the organization improves the bottom line of the organization. The control is necessary to keep the expenditure under check and also in avoiding the wasteful expenditure. This unnecessary and wasteful expenditure saved can be treated as also the funds generated to the organization.

These four stages cover all the finance movements of the organization:

* Project analysis and Feasibility study stage
* Execution stage
* Acceleration stage
* Growth stage

The Financial tools used are:

* Internal auditing
* Budgetary control
* Cost reduction

**TITLE OF THE PROJECT**

A study on **“Working Capital Management” in Lsquare Eco Products Pvt. Ltd.**

**STATEMENT OF THE PROBLEM**

The organization is continuous growing all rounds in size, structure, sales, profit, etc. The resources are also being consumed in the similar way. The control has to be exercised properly and timely.

The topic is selected to analyze the working capital management of the company which has shown a growth steady pace of increased profits and turnover in recent years. The study is to be evaluating the performance and market standing of the company. In order to give a better scope to the investors, share holders, creditors and the management themselves about the rating of the company and its performance in the market. Also,the study is conducted for providing solution to the management in the areas of:

* Project Selection and Estimation
* Timely Implementation of the Project
* Project Cost Control
* Optimum Utilization and management of the Resources
* Management Information System (Reports)

**NEED FOR STUDY**

In order to maintain flows of revenue from operations every firm need certain amount of current assets. For example cash is required to pay expenses or to meet obligations for service received etc., by a firm on the identical plan inventories are required to provide the line between production and sales. Similarly accounts receivables generate when goods are sold on credit.

Needless to maintain cash, bank, debtors, bills receivables, closing stock including raw materials, working progress, finished goods repayment and certain other deposits and investments which are temporary in nature represents current assets of a firm.

**OBJECTIVE OF THE STUDY**

The Objectives of the study of the Project Report in Lsquare Eco Products Pvt. Ltd, are to provide valuable information to the management in achieving the objectives of the organization.

The benefits derived by these Financial Management Techniques can be classified in the in the following areas:-

* In Project Estimation, Selection and Review of the Projects.
* In Project Timely Implementation and Control of Project cost.
* In Cost reduction and Cost control.
* To improve the Bottom line of the Organization.
* In Optimum Utilisation of the Resources, Inventory Control, Debtors & Claim Receivable Realisation, etc.
* In Perspective Planning for the availability of the Resources at Right time.
* Management Decision based upon MIS reports.

The objectives of the study are as follows:

* 1. To study of working capital management with reference to
     1. Management of cash.
     2. Management of Inventory.
     3. Management of Accounts receivables.
  2. The analyses the profitability – liquidity position of the company
  3. To study whether the firm has met its current asserts obligations

To identify problem regarding working capital management and give possible suggestions for better management

**SCOPE OF THE STUDY**

The present study is confined to only Lsquare Eco Products Pvt. Ltd., The time study considered for performing the study is i.e., from 2010-2015 various components of working capital i.e. cash, receivables, inventory management has been analyzing taking into consideration the information both the post and present with respect to the performance of the company.

Of these years observation made by studying the ratio obtained opinion of the executive of finance section and their concerned section have been considered for analysis

* This project researcher selected the company with the location of Bangalore.
* The time involved in this project work is one month.

**RESEARCH METHODOLOGY:**

The main aim of the study is to know the financial performance of the Lsquare Eco Products Pvt. Ltd. The report will be prepared mainly using viz, research methodology may be understood as science how research is done scientifically. It is a way to systematically solve the research problem

**RESEARCH**

Any effort which is directed to study of the strategy needed to identify the problem and selecting of best solutions for better results is known as research

**RESEARCH DESIGN**

The descriptive form of research method is adopted for the study. The nature and characteristics of the financial statements of Lsquare Eco Products Pvt. Ltd., have been described in this study.

**FINANCIAL TOOL APPLIED FOR THE STUDY**

The financial statements may be made simpler for any reader to understand the operating results and financial health of business. The technique of financial analysis applied is **“WORKING CAPITAL”**

**METHODOLOGY OF THE STUDY**

The analysis and interpretation of financial statements of Lsquare Eco Products Pvt. Ltd., Could be done with the help of Balance sheets and Profit & Loss accounts of Lsquare Eco Products Pvt. Ltd.

**METHODS OF DATA COLLECTION**

The required data has been collected from secondary and primary sources of information. That information was utilized for calculating performance evaluation and based on that, interpretations were made.

**SOURCES OF DATA:**

1. **PRIMARY DATA:**

The primary data collection includes the information collected using the interaction with senior officials and employers of Lsquare Eco Products Pvt. Ltd. The analyst can obtain primary data through the process of direct observation of people.

1. **SECONDARY DATA:**

Secondary data collection includes the information from the company records, websites and books. The advantages of secondary data collection method are:

* It saves time that would otherwise be spent collecting data.
* Provides a larger database than what would be possible to collect on one’s own.

**SAMPLING PLAN OF THE STUDY**

**SAMPLING TECHNIQUES**

Sampling is procedure which is small section of the in selected to represent the whole so as to give the researcher the representative efficiency and flexibility.

For the present day, purposive sampling technique has been undertaken under this type of sampling unit its selected deliberately or the enquiry so that only the item representing the characteristics of the population are included in the sample. Thus the finance department and other connected department have been deliberately selected for the purpose of the study, since the object of the study demands purposive sampling.

**SAMPLING SIZE**

Altogether 5 officers and 5 executive belonging to finance section were interviewed.

**ANALYTICAL TOOLS**

Tools under the study in Working Capital is based on the study of practices of the division and the theoretical background of the subject, a review of the financial performance of the company and practices over period of 5 years has been attempted. The variation/ deviation will be studied in department and causes analyzed suggestion for improvement will be made

**REFERENCE PERIOD**

The reference period for this research work is one month

**LIMITATIONS OF THE STUDY**

* It is based on data supplied by the company personnel.
* Only 5 years data was available for the study hence the outcome may not be generalized.
* Most of the information of the company was not collected as it is confidential
* The study is limited to only Bangalore.

**REVIEW OF LITERATURE**

The purpose of this chapter is to present a review of literature relating to the working capital management. Although working capital is an important ingredient in the smooth working of business entities, it has not attracted much attention of scholars. Generally working capital refers to a company’s investment in current assets- cash, short term securities, accounts receivable and inventories.

Every business needs adequate liquid resources in order to maintain day to day cash flows. It needs enough cash to buy wages and salaries as they fall due to pay and creditors if it is to keep its workforce and ensure its supplies. Maintaining adequate working capital; is not just important in the short term. Sufficient liquidity must be maintained in order to ensure the survival of business in the long term as well.

* Working capital management is the management of short term financing requirements of a firm.
* Working capital management involves the relationship between a firm’s short term assets and short term liabilities.
* The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short term debt and upcoming operational expenses.
* This includes maintaining optimum balance of working capital components receivables, inventory payables and using the cash efficiently for day to day operations.
* Optimization of working capital balance means minimizing the working capital requirements and realizing maximum possible revenues.

**CHAPTER SCHEME**

**Chapter 1- Introduction**

This chapter deals with the introductory aspects of finance and overview of “fundamentals of working capital”.

**Chapter 2- Industry and Company Profile**

This chapter deals with the company profile and industry profile, the vision of the company, and the company products along with the head office, branches and distributors. And also, it deals with the industry that is based on its working.

**Chapter 3- Research Design**

This chapter deals with the information of research design, objective of study, scope of the study, methodology of study, sampling plan of the study and the limitation of the study.

**Chapter 4- Data Analysis and Interpretation**

This chapter deals with data analysis and interpretation of the study in “Lsquare Eco Products Pvt. Ltd.” By using the primary and secondary data analysis and inference of the study is done.

**Chapter 5- Summary of Findings**

This chapter deals with the summary of findings of the study. The analysed balance sheet helped me by providing the information.

**Chapter 6- Suggestions and Conclusions**

This chapter deals with the suggestions of the study, recommendation of the study and the conclusion of the study.

**Bibliography and Annexure**

The bibliography from where information was gathered and appendices section contains the questionnaire, which was used to collect the data from the respondents.

**DATA ANALYSIS AND INTERPRETATION**

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

The analysis of working capital can be conducted through a number of devices, such as:

* **Statement of changes in working capital**

The statement of sources and application of funds shows the differences between the aggregate of sources and total applications as either increase or decrease in working capital . statement of changes in working capital is prepared only from the information given in the balance sheets and there is no effect on this statement of any additional information supplied outside the balance sheet. By this tool one can find the increase or decrease in the current assets and current liabilities which is very essential to know the working capital of a company

* **Ratio analysis**

A tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. It is the process of establishing and interpreting various ratios for assisting in making certain important decisions. The ratios help in understanding financial strength and weaknesses of business organization. Ratios are calculated from current year numbers and are then compared to previous years, other companies, the industry, or even the economy to judge the performance of the company.

**PROFORMA OF STATEMENT OF CHANGES IN WORKING CAPITAL**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **1-4-2013**  **Rs.** | **31-3-2014**  **Rs.** | **Changes in**  **working capital** | |
| **Increase**  **(Rs)** | **Decrease**  **(Rs)** |
| **Current assets (CA)** | \*\*\* |  |  |  |
| Inventories : | …….. | …….. |  |  |
| Raw material | …….. | …….. |  |  |
| Consumable stores | …….. | …….. |  |  |
| Finished goods | …….. | …….. |  |  |
| Sundry debtors | …….. | …….. |  |  |
| Cash in hand | …….. | …….. |  |  |
| Balance with bank | …….. | …….. |  |  |
| Other current assets: | …….. | …….. |  |  |
| Deposits | …….. | …….. |  |  |
| Income tax (advance tax) | …….. | …….. |  |  |
| Sales tax | …….. | …….. |  |  |
|  |  |  |  |  |
| **Total Current assets** | …….. | …….. |  |  |
|  |  |  |  |  |
| **Current liabilities** |  |  |  |  |
| Trade creditors | \*\* | …….. |  |  |
| Dealers deposits | \*\* | …….. |  |  |
| Expenses payable | \*\*\* | …….. |  |  |
|  |  |  |  |  |
| **Total current liabilities** | …….. | …….. |  |  |
|  |  |  |  |  |
| Working Capital (current assets – current liabilities) | …….. |  |  |  |
|  |  |  |  |  |
| Net Increase / decrease working capital | \*\*\* |  |  | …….. |
|  | \*\*\*\*\*\*\*\* | \*\*\*\*\*\*\*\* | \*\*\*\*\*\*\*\* | \*\*\*\*\*\*\*\* |

**Statement or Schedule of changes in Working Capital:**

Working capital means the excess of current assets over current liabilities. Statement of changes in working capital is propose to show the changes in the working capital between two balance sheets data. This statement is prepared with the help of current assets and current liabilities derived from two balance sheets.

**Working Capital =** Current assets – Current Liabilities

While preparing a schedule of changes in working capital, it should be note that-

* Increase in Current Assets, Increases the Working Capital.
* Decrease in Current assets, Decreases the Working Capital.
* Increase in Current Liabilities, Decreases the working capital.
* Decrease in Current Liabilities, Increases the Working Capital

**Table 1**

**SCHEDULE OF CHANGES OF WORKING CAPITAL 2011- 2012**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **2011**  **In Rs. Cr** | **2012**  **In Rs. Cr** | **Increase**  **In Rs. Cr** | **Decrease**  **In Rs. Cr** |
| **CURRENT ASSETS** |  |  |  |  |
| Inventories | 8.25 | 7.25 |  | 1.00 |
| Sundry debtors | 11.22 | 10.95 |  | 0.27 |
| Cash and bank | 0.58 | 0.42 |  | 0.16 |
| Loans and advances | 2.14 | 3.49 | 1.35 |  |
| **Total current assets** | **22.19** | **22.11** |  |  |
|  | | | | |
| **CURRENT LIABILITIES** |  |  |  |  |
| Current liabilities | 11.79 | 7.23 | 4.56 |  |
| Provisions | 1.26 | 0.73 | 0.53 |  |
| **Total current liabilities** | **13.05** | **7.96** |  |  |
| Working capital ( CA-CL ) | 9.14 | 14.15 |  |  |
| **Net increase in working capital** | **5.01** |  |  | **5.01** |
| **Total** | **14.15** | **14.15** | **6.44** | **6.44** |

THEREFORE; INCREASED WORKING CAPITAL IS **5.01**

**CHART 1**

**WORKING CAPITAL ( CA- CL)**

**INTERPRETATION:**

Schedule of working capital for the year 2011-2012 indicates that the working capital for the years 2011 is 9.14 whereas the working capital for the year 2012 is 14.15. There is net increase in working capital 5.01. There is net increase in the working capital compared to the previous year.

**Table 2**

**SCHEDULE OF CHANGES OF WORKING CAPITAL 2012- 2013**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **2012**  **In Rs. Cr** | **2013**  **In Rs. Cr** | **Increase**  **In Rs. Cr** | **Decrease**  **In Rs. Cr** |
| **CURRENT ASSETS** |  |  |  |  |
| Inventories | 7.25 | 9.94 | 2.69 |  |
| Sundry debtors | 10.95 | 14.18 | 3.23 |  |
| Cash and bank | 0.42 | 0.64 | 0.22 |  |
| Loans and advances | 3.49 | 4.17 | 0.68 |  |
| **Total current assets** | **22.11** | **28.93** |  |  |
|  | | | | |
| **CURRENT LIABILITIES** |  |  |  |  |
| Current liabilities | 7.23 | 11.86 |  | 4.63 |
| Provisions | 0.73 | 0.85 |  | 0.12 |
| **Total current liabilities** | **7.96** | **12.71** |  |  |
| Working capital ( CA-CL ) | 14.15 | 16.22 |  |  |
| **Net increase in working capital** | **2.07** |  |  | 2.07 |
| **Total** | **16.22** | **16.22** | **6.82** | **6.82** |

THEREFORE; INCREASED WORKING CAPITAL IS **2.07**

**CHART 2**

**WORKING CAPITAL ( CA- CL)**

**INTERPRETATION:**

Schedule of working capital for the year 2012-2013 indicates that the working capital for the years 2012 is 93.17 whereas the working capital for the year 2012 is 145.88. There is net increase in working capital 122.61. There is net increase in the working capital compared to the previous year.

**Table 3**

**SCHEDULE OF CHANGES OF WORKING CAPITAL 2013- 2014**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **2013**  **In Rs. Cr** | **2014**  **In Rs. Cr** | **Increase**  **In Rs. Cr** | **Decrease**  **In Rs. Cr** |
| **CURRENT ASSETS** |  |  |  |  |
| Inventories | 9.94 | 10.65 | 0.71 |  |
| Sundry debtors | 14.18 | 17.22 | 3.04 |  |
| Cash and bank | 0.64 | 1.13 | 0.49 |  |
| Loans and advances | 4.17 | 5.95 | 1.78 |  |
| **Total current assets** | **28.93** | **34.95** |  |  |
|  | | | | |
| **CURRENT LIABILITIES** |  |  |  |  |
| Current liabilities | 11.86 | 12.58 |  | 0.72 |
| Provisions | 0.85 | 0.80 | 0.05 |  |
| **Total current liabilities** | **12.71** | **13.38** |  |  |
| Working capital ( CA-CL ) | 16.22 | 21.57 |  |  |
| **Net increase in working capital** | **5.35** |  |  | 5.35 |
| **Total** | **21.57** | **21.57** | **6.07** | **6.07** |

THEREFORE; INCREASED WORKING CAPITAL IS **5.35**

**CHART 3**

**WORKING CAPITAL ( CA- CL)**

**INTERPRETATION:**

Schedule of working capital for the year 2013-2014 indicates that the working capital for the years 2013 is 145.88 whereas the working capital for the year 2014 is 178.55. There is net increase in working capital 32.67. There is net increase in the working capital compared to the previous year.

**Table 4**

**SCHEDULE OF CHANGES OF WORKING CAPITAL 2014- 2015**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **2014**  **In Rs. Cr** | **2015**  **In Rs. Cr** | **Increase**  **In Rs. Cr** | **Decrease**  **In Rs. Cr** |
| **CURRENT ASSETS** |  |  |  |  |
| Inventories | 10.65 | 9.02 |  | 1.63 |
| Sundry debtors | 17.22 | 17.16 |  | 0.06 |
| Cash and bank | 1.13 | 0.40 |  | 0.73 |
| Loans and advances | 5.95 | 6.00 | 0.05 |  |
| **Total current assets** | **34.95** | **32.58** |  |  |
|  | | | | |
| **CURRENT LIABILITIES** |  |  |  |  |
| Current liabilities | 12.58 | 11.29 | 1.29 |  |
| Provisions | 0.80 | 0.97 |  | 0.17 |
| **Total current liabilities** | **13.38** | **12.26** |  |  |
| Working capital ( CA-CL ) | 21.57 | 20.32 |  |  |
| **Net decrease in working capital** |  | 1.25 | **1.25** |  |
| **Total** | **21.57** | **21.57** | **2.59** | **2.59** |

THEREFORE; DECREASED WORKING CAPITAL IS **1.25**

**CHART 4**

**WORKING CAPITAL ( CA- CL)**

**INTERPRETATION:**

Schedule of working capital for the year 2014-2015 indicates that the working capital for the years 2014 is 178.55 whereas the working capital for the year 2015 is 132.65. There is net decrease in working capital 311.2. There is net i in the working capital compared to the previous year.

### COMPARATIVE STATEMENTS

Statement showing financial data for two or more than two years, placed side by side to facilitate comparison is called Comparative Financial Statements.

            Comparative financial statements not only show the absolute figures of different years but also provide columns to indicate the increase or decrease in these figures from one year to another. In addition, these statements also show changes in percentage form.

            Comparison of financial statements can be intra-firm or inter-firm. When financial statements of two or more years of the same firm are presented and compared, it is known as intra-firm comparison or trend analysis. When financial statements of two or more firms are compared over a number of years, it is known as inter-firm comparison.

            Comparative statements are of great value in forming the opinion regarding the progress of business firm. Under Companies Act, 1956, companies are required to give current year's figures along with previous year figures in their Profit and Loss Account and the Balance Sheet.

**COMPARITIVE BALANCE SHEET**

A comparative balance sheet presents side-by-side information about an entity's assets, liabilities, and shareholders' equity as of multiple points in time. For example, a comparative balance sheet could present the balance sheet as of the end of each year for the past three years. Another variation is to present the balance sheet as of the end of each month for the past 12 months on a rolling basis. In both cases, the intent is to provide the reader with a series of snapshots of a company's financial condition over time, which is useful for developing trend line analyses.

**COMPARITIVE BALANCE SHEET IN THE YEAR ENDING 2011-12**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **2011** | **2012** | **Absolute Change** | **% Change** |
| **Assets** |  |  |  |  |
| **CURRENT ASSETS** |  |  |  |  |
| Inventories | 8.25 | 7.25 | -1.00 | 12.12 |
| Sundry Debtors | 11.22 | 10.95 | -0.27 | 2.41 |
| Cash & Bank Balance | 0.58 | 0.42 | -0.16 | 27.59 |
| Loans & Advances | 2.14 | 3.49 | 1.35 | 63.08 |
| **Total Current Assets** | **22.19** | **22.11** | **-0.08** | 0.36 |
| **FIXED ASSETS** |  |  |  |  |
| Net Block | 12.92 | 12.20 | -0.72 | 5.57 |
| Capital Work In Progress | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total Fixed Assets** | **12.92** | **12.20** | **-0.72** | 5.57 |
| **INVESTMENTS** | **0.36** | **1.33** | **0.97** | 269.44 |
| **TOTAL ASSETS** | **35.47** | **35.64** | **0.17** | 0.48 |
| **Liabilities** |  |  |  |  |
| **CURRENT LIABILITIES** |  |  |  |  |
| Current Liabilities | **11.79** | **7.23** | **-4.56** | 38.68 |
| Provisions | **1.26** | **0.73** | **-0.53** | 42.06 |
| **Total CL** | **13.05** | **7.96** | **-5.09** | 39.00 |
| **LONG TERM LOANS** |  |  |  |  |
| Secured Loans | **6.02** | **9.78** | **3.76** | 62..46 |
| Unsecured Loans | **1.39** | **1.52** | **0.13** | 9.35 |
| **Total LTL** | **7.41** | **11.30** | **3.89** | **52.50** |
| **CAPITAL & RESERVES** |  |  |  |  |
| Share Capital | **3.00** | **3.00** | **0.00** | 0.00 |
| Reserves | **12.01** | **13.39** | **1.38** | 11.49 |
| **Total Cap & Reserves** | **15.01** | **16.39** | **1.38** | 9.19 |
| **TOTAL LIABILITIES** | **35.47** | **35.64** | **0.17** | 0.48 |

**COMPARITIVE BALANCE SHEET IN THE YEAR ENDING 2012-13**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **2012** | **2013** | **Absolute Change** | **% Change** |
| **Assets** |  |  |  |  |
| **CURRENT ASSETS** |  |  |  |  |
| Inventories | 7.25 | 9.94 | 2.69 | 37.10 |
| Sundry Debtors | 10.95 | 1418.00 | 3.23 | 29.49 |
| Cash & Bank Balance | 0.42 | 0.64 | 0.22 | 52.38 |
| Loans & Advances | 3.49 | 4.17 | 0.68 | 19.48 |
| **Total Current Assets** | **22.11** | **28.93** | **6.82** | 30.85 |
| **FIXED ASSETS** |  |  |  |  |
| Net Block | 12.20 | 11.85 | -0.35 | 2.86 |
| Capital Work In Progress | 0.00 | 0.36 | 0.36 | 0.00 |
| **Total Fixed Assets** | **12.20** | **12.21** | **0.01** | 0.08 |
| **INVESTMENTS** | **1.33** | **0.62** | **-0.71** | 53.38 |
| **TOTAL ASSETS** | **35.64** | **41.76** | **6.12** | 17.17 |
| **Liabilities** |  |  |  |  |
| **CURRENT LIABILITIES** |  |  |  |  |
| Current Liabilities | 7.23 | **11.83** | **4.60** | 63.62 |
| Provisions | 0.73 | **0.85** | **0.12** | 16.44 |
| **Total CL** | **7.96** | **12.68** | **4.72** | 59.29 |
| **LONG TERM LOANS** |  |  |  |  |
| Secured Loans | 9.78 | **7.93** | **-1.85** | 18.92 |
| Unsecured Loans | 1.52 | **3.21** | **1.69** | 111.18 |
| **Total LTL** | **11.30** | **11.14** | **0.16** | **1.42** |
| **CAPITAL & RESERVES** |  |  |  |  |
| Share Capital | 3.00 | **3.00** | **0.00** | 0.00 |
| Reserves | 13.39 | **14.90** | **1.51** | 11.28 |
| **Total Cap & Reserves** | **16.39** | **17.90** | **1.51** | 9.21 |
| **TOTAL LIABILITIES** | **35.64** | **41.76** | **6.12** | 17.17 |

**COMPARITIVE BALANCE SHEET IN THE YEAR ENDING 2013-14**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **2013** | **2014** | **Absolute Change** | **% Change** |
| **Assets** |  |  |  |  |
| **CURRENT ASSETS** |  |  |  |  |
| Inventories | 9.94 | 10.65 | 0.71 | 7.14 |
| Sundry Debtors | 14.18 | 17.22 | 3.04 | 21.43 |
| Cash & Bank Balance | 0.64 | 1.13 | 0.49 | 76.56 |
| Loans & Advances | 4.17 | 5.95 | 1.78 | 42.68 |
| **Total Current Assets** | **28.93** | **34.93** | **6.02** | **20.80** |
| **FIXED ASSETS** |  |  |  |  |
| Net Block | 11.85 | 11.47 | -0.38 | 3.20 |
| Capital Work In Progress | 0.36 | 0.02 | -0.34 | 94.44 |
| **Total Fixed Assets** | **12.21** | **11.49** | **-0.72** | **5.89** |
| **INVESTMENTS** | **0.62** | **0.82** | **0.20** | **32.35** |
| **TOTAL ASSETS** | **41.76** | **47.26** | **5.50** | **13.17** |
| **Liabilities** |  |  |  |  |
| **CURRENT LIABILITIES** |  |  |  |  |
| Current Liabilities | 11.86 | 12.58 | 0.72 | 6.07 |
| Provisions | 0.85 | 0.80 | -0.05 | 5.88 |
| **Total CL** | **12.71** | **13.38** | **0.67** | **5.27** |
| **LONG TERM LOANS** |  |  |  |  |
| Secured Loans | 7.93 | 8.83 | **0.90** | 11.34 |
| Unsecured Loans | 3.21 | 5.65 | **2.44** | 76.00 |
| **Total LTL** | **11.14** | **14.48** | **3.34** | **29.98** |
| **CAPITAL & RESERVES** |  |  |  |  |
| Share Capital | 3.00 | **3.00** | **0.00** | 0.00 |
| Reserves | 14.90 | **16.34** | **1.44** | 9.66 |
| **Total Cap & Reserves** | **17.90** | **19.34** | **1.44** | 8.04 |
| **TOTAL LIABILITIES** | **41.76** | **47.26** | **5.50** | **13.17** |

**COMPARITIVE BALANCE SHEET IN THE YEAR ENDING 2014-15**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **2014.00** | **2015.00** | **Absolute Change** | **% Change** |
| **Assets** |  |  |  |  |
| **CURRENT ASSETS** |  |  |  |  |
| Inventories | 10.65 | 9.02 | -1.63 | 15.30 |
| Sundry Debtors | 17.22 | 17.16 | -0.06 | 0.34 |
| Cash & Bank Balance | 1.13 | 0.40 | -0.73 | 64.60 |
| Loans & Advances | 5.95 | 6.00 | 0.05 | 0.84 |
| **Total Current Assets** | **34.95** | **32.58** | **-2.37** | **6.78** |
| **FIXED ASSETS** |  |  |  |  |
| Net Block | 11.47 | 10.66 | -0.81 | 0.01 |
| Capital Work In Progress | 0.02 | 0.09 | 0.07 | 350.00 |
| **Total Fixed Assets** | **11.49** | **10.75** | **-0.74** | **-6.44** |
| **INVESTMENTS** | **0.82** | **0.82** | **0.00** | **0.00** |
| **TOTAL ASSETS** | **47.26** | **44.15** | **-3.11** | **6.58** |
| **Liabilities** |  |  |  |  |
| **CURRENT LIABILITIES** |  |  |  |  |
| Current Liabilities | 12.58 | 11.29 | -1.29 | 10.25 |
| Provisions | 0.08 | 0.97 | 0.17 | 21.25 |
| **Total CL** | **13.38** | **12.26** | **-1.12** | **8.37** |
| **LONG TERM LOANS** |  |  |  |  |
| Secured Loans | 8.89 | 10.63 | **1.74** | 19.57 |
| Unsecured Loans | 5.65 | 1.05 | **-4.60** | 81.40 |
| **Total LTL** | **14.54** | **11.68** | **-2.86** | **19.66** |
| **CAPITAL & RESERVES** |  |  |  |  |
| Share Capital | 3.00 | **3.00** | **0.00** | 0.00 |
| Reserves | 16.34 | **17.22** | **0.88** | 5.38 |
| **Total Cap & Reserves** | **19.34** | **20.22** | **0.88** | 4.55 |
| **TOTAL LIABILITIES** | **47.26** | **44.15** | **-3.11** | 6.58 |

**NET WORKING CAPITAL**

Net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year. Net working capital may be positive or negative. A positive net working capital will arise when current assets exceed current liabilities and a negative net working capital will arise when current liabilities exceed current assets i.e. there is no working capital, but there is a working capital deficit.

**Net Working Capital = Current Assets – Current Liabilities**

**TABLE 1**

**NET WORKING CAPITAL**

|  |  |  |  |
| --- | --- | --- | --- |
| **Years** | **Current Assets** | **Current Liabilities** | **Working Capital** |
| 2010-11 | 20.05 | 11.79 | 8.26 |
| 2011-12 | 18.62 | 7.23 | 11.39 |
| 2012-13 | 24.76 | 11.86 | 12.9 |
| 2013-14 | 29.00 | 12.58 | 16.42 |
| 2014-15 | 26.58 | 11.29 | 15.29 |

Source: Primary Data

**ANALYSIS**

The statistics in the table says that the net working capital is a fluctuating.. It has increased from 8.26 in 2011 to 11.39 in 2012. The networking capital is then increasing from then till 2015.

**CHART 1**

**NET WORKING CAPITAL**

**INTERPRETATION**

The above graph shows the net working position of company. The current assets are increasing from 2011-2014. And it shows a decrease in the year 2014-15 from 16.42 to 15.29. So the working capital is maintaining at satisfactory level in the following years but has to cope up with decrease in the working capital last year.

**CURRENT RATIO**

Current Ratio establishes the relationship between current Assets and current Liabilities. It attempts to measure the ability of a firm to meet its current obligations.

The two basic components of this ratio are current assets and current liabilities. Current asset normally means assets which can be easily converted in to cash within a year's time. On the other hand, current liabilities represent those liabilities which are payable within a year.

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

**TABLE 2**

**CURRENT RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Current Assets** | **Current Liabilities** | **Current Ratio** |
| 2010-2011 | 20.05 | 11.79 | 1.70 |
| 2011-2012 | 18.62 | 7.23 | 2.57 |
| 2012-2013 | 24.76 | 11.86 | 2.08 |
| 2013-2014 | 29.00 | 12.58 | 2.30 |
| 2014-2015 | 26.58 | 11.29 | 2.35 |

Source: Primary Data

**ANALYSIS**

The statistics in the table says that the current ratio of the company is fluctuating ratio. The ratio has increased from 1.70 in 2011 to 2.57 in 2012 and then decreased 2.08 in 2013 and increased to 2.30 in 2014, and then increased in the year 2015 to 2.35.

**CHART 2**

**CURRENT RATIO**

**INTERPRETATION**

The ideal ratio of current ratio is 2:1 i.e., current assets should be twice of current liabilities is considered to be satisfactory. As a whole we can draw conclusion that every year company is not maintaining the standard norm 2:1 ratio. Company should try to maintain the ideal ratio as Low current ratio represents that the liquidity position of the firm is not good and the firm shall not be able to pay its current liabilities in time without facing difficulties.

**QUICK RATIO**

Quick Ratio also termed as Acid Test or Liquid Ratio. It is supplementary to the current ratio. The acid test ratio is a more severe and stringent test of a firm's ability to pay its short-term obligations 'as and when they become due.

Quick Ratio establishes the relationship between the quick assets and current liabilities**.**

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

**= (Current Assets – Inventory) / Current Liabilities**

**TABLE 3**

**QUICK RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Liquid Assets** | **Current Liabilities** | **Quick Ratio** |
| 2010-11 | 11.8 | 11.79 | 1.000 |
| 2011-12 | 11.37 | 7.23 | 0.189 |
| 2012-13 | 14.82 | 11.86 | 1.249 |
| 2013-14 | 18.35 | 12.58 | 1.459 |
| 2014-15 | 17.56 | 11.29 | 1.556 |

Source: Primary Data

**ANALYSIS**

The statistics in the table says that the quick ratio of the company. The ratio has decreased from 1.00 in 2011 to 0.189 in 2012 and then increased to 1.249 in 2013 and again increased to 1.459in 2014, and then increased in the year 2015 to 1.556.

**CHART 3**

**QUICK RATIO**

**INTERPRETATION**

A quick ratio indicates that the firm is liquid and has the ability to meet its liabilities in time. A quick ratio of 1:1 is considered as satisfactory. The above table reveals that the quick ratio of the company is good; except for the year 2011-12.High quick ratio represents that the firm’s liquidity position is good. This may be due to the firm’s inventory is moving at a faster rate.

**DEBT EQUITY RATIO**

This ratio also termed as External - Internal Equity Ratio. This ratio is calculated to ascertain the firm's obligations to creditors in relation to funds invested by the owners. The ideal Debt Equity Ratio is 1: 1. This ratio also indicates all external liabilities to owner recorded claims.

**Debt Equity Ratio = Debt / Equity**

**TABLE 4**

**DEBT EQUITY RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Debt** | **Share holder’s fund** | **Debt equity ratio** |
| 2010-11 | 7.41 | 15.01 | 0.494 |
| 2011-12 | 11.30 | 16.39 | 0.689 |
| 2012-13 | 11.14 | 17.90 | 0.622 |
| 2013-14 | 14.54 | 19.34 | 0.751 |
| 2014-15 | 11.68 | 20.22 | 0.578 |

Source: Primary Data

**ANALYSIS**

The statistics in the table says that the debt equity ratio of the company. The ratio has increased from 0.494 in 2011 to 0.689 in 2012 and then decreased to 0.622 in 2013 and increased to 0.751 in 2014, and then decreased in the year 2015 to 0.578

**CHART 4**

**DEBT EQUITY RATIO**

**INTERPRETATION**

The ideal Debt Equity Ratio is 1: 1. The ratio indicates the relationship between the net credit sales and trade debtors. It shows the rate at which cash is generated by the turnover of debtors. Here the chart shows that the debtor’s turnover ratio of the company is decreasing.

**PROPRIETARY RATIO**

Proprietary Ratio is also known as Capital Ratio or Net Worth to Total Asset Ratio. This is one of the variant of Debt-Equity Ratio. The term proprietary fund is called Net Worth. This ratio shows the relationship between shareholders' fund and total assets.

**Proprietary Ratio = Share holder’s Fund / Total Assets**

**TABLE 5**

**PROPRIETARY RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Shareholder’s fund** | **Total assets** | **Proprietary** |
| 2010-11 | 15.01 | 22.42 | 0.669 |
| 2011-12 | 16.39 | 27.68 | 0.592 |
| 2012-13 | 17.90 | 29.04 | 0.616 |
| 2013-14 | 19.34 | 33.88 | 0.571 |
| 2014-15 | 20.22 | 31.89 | 0.634 |

Source: Primary Data

**ANALYSIS**

The statistics in the table says that the proprietary ratio of the company. The ratio has decreased from 0.669 in 2011 to 0.592 in 2012 and then increased to 0.616 in 2013 and again decreased to 0.571 in 2014, and then increased in the year 2015 to 0.634.

**CHART 5**

**PROPRIETARY RATIO**

**INTERPRETATION**

Proprietary ratio shows the relationship between shareholder’s funds and total assets. The above chart shows the shareholder’s funds to total assets are satisfactory.

**INVENTORY TURNOVER RATIO**

Inventory means stock of raw materials, working in progress and finished goods. This ratio is used to measure whether the investment in stock in trade is effectively utilized or not. It reveals the relationship between sales and cost of goods sold or average inventory at cost price or average inventory at selling price. Stock Turnover Ratio indicates the number of times the stock has been turned over in business during a particular period. While using this ratio, care must be taken regarding season and condition, Price trend, supply condition etc.

**Inventory Turnover Ratio = Net Sales / Inventory**

**TABLE 6**

**INVENTORY TURNOVER RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Sales** | **Inventory** | **Inventory turnover ratio** |
| 2010-11 | 66.06 | 8.25 | 8.007 |
| 2011-12 | 59.72 | 7.25 | 8.237 |
| 2012-13 | 75.84 | 9.94 | 7.629 |
| 2013-14 | 81.98 | 10.65 | 7.697 |
| 2014-15 | 94.10 | 9.02 | 10.432 |

Source: Primary Data

**ANALYSIS**

The statistics in the table says that the inventory turnover ratio of the company. The ratio has increased from 8.007 in 2011 to 8.237 in 2012 and then decreased to 7.629 in 2013 and again slightly increased to 7.697in 2014, and then increased in the year 2015 to 10.432.

**CHART 6**

**INVENTORY TURNOVER RATIO**

**INTERPRETATION**

The ratio has increased from 8.007 in 2011 to 8.237 in 2012 and then decreased to 7.629 in 2013 and again slightly increased to 7.697in 2014, and then increased in the year 2015 to 10.432 which clearly indicates the firm’s efficiency in inventory management.

**ABSOLUTE RATIO**

Absolute ratio reveals the immediate payment capacity of the company or the firm to the creditors more ever to meet its current liabilities. The ratio is calculated by the considering the bank and cash balance in hand divided by current liabilities.

**Absolute Ratio = Cash & Bank Balances / Current Liabilities**

**TABLE 7**

**ABSOLUTE RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Cash & Bank Balance** | **Current Liabilities** | **Absolute Ratio** |
| 2010-11 | 0.58 | 11.79 | 0.049 |
| 2011-12 | 0.42 | 7.23 | 0.058 |
| 2012-13 | 0.64 | 11.86 | 0.054 |
| 2013-14 | 1.13 | 12.58 | 0.090 |
| 2014-15 | 0.40 | 11.29 | 0.354 |

Source: Primary Data

**ANALYSIS**

The table shows the absolute ratio of the company. The absolute ratio in 2011 is 0.049 and increased to 0.058 in 2012 and 0.054 in 2013 but in 2014 it increased to 0.090 and in final year in 2015 it is 0.354.

**CHART 7**

**ABSOLUTE RATIO**

**INTERPRETATION**

The absolute ratio in 2011 is 0.049 and increased to 0.058 in 2012 and 0.054 in 2013 but in 2014 it increased to 0.090 and in final year in 2015 it is 0.354. Even though it is decreasing every year but overall the ratios are satisfactory. Company should maintain the immediate payment capacity which is not consistent.

**NET WORKING CAPITAL RATIO**

The difference between the current assets and current liabilities excluding short–term borrowing is called net working capital. Net working capital is some times used as a measure of firm’s liquidity.

**Net Working Capital Ratio = Sales / Net working capital**

**TABLE 8**

**NET WORKING CAPITAL RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Sales** | **Net working Capital** | **Net Working Capital Ratio** |
| 2010-11 | 66.06 | 8.26 | 7.998 |
| 2011-12 | 59.72 | 11.39 | 5.243 |
| 2012-13 | 75.84 | 12.9 | 5.880 |
| 2013-14 | 81.98 | 16.42 | 4.993 |
| 2014-15 | 94.10 | 15.29 | 6.154 |

Source: Primary Data

**ANALYSIS**

The statistics in the table says that the net working capital ratio of the company. The ratio has decreased from 7.998 in 2011 to 5.243 in 2012 and then increased to 5.880 in 2013 and decreased to 4.993 in 2014, and then increased in the year 2015 to 6.154.

**CHART 8**

**NET WORKING CAPITAL RATIO**

**INTERPRETATION**

Company’s net working capital is increasing and decreasing and it indicates that the company and it is advised that the company should take measures to increase the net working capital capital ratio.

**INVENTORY TO WORKING CAPITAL**

Inventory to working capital means how much inventory been converted into cash and there after utilized as working capital.

**Inventory to Working Capital Ratio= Inventory / Working capital**

**TABLE 9**

**INVENTORY TO WORKING CAPITAL**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Inventory** | **Working Capital** | **Ratio** |
| 2010-11 | 8.25 | 8.26 | 0.998 |
| 2011-12 | 7.25 | 11.39 | 0.636 |
| 2012-13 | 9.94 | 12.9 | 0.771 |
| 2013-14 | 10.65 | 16.42 | 0.648 |
| 2014-15 | 9.02 | 15.29 | 0.589 |

Source: Primary Data

**ANALYSIS**

The table shows the inventory to working capital ratio of the company. The inventory to working capital ratio in 2011 is 0.998 in 2012 it decreased to 0.636 but in 2013 it increased to 0.771 in 2014 it decreased to 0.648 and again in 2015 it decreased to 0.589.

**CHART 9**

**INVENTORY TO WORKING CAPITAL**

**INTERPRETATION**

The inventory to working capital ratio in 2011 is 0.998 in 2012 it decreased to 0.636 but in 2013 it increased to 0.771 in 2014 it decreased to 0.648 and again in 2015 it decreased to 0.589.Company should maintain their inventory to working capital ratio which is fluctuating.

**NET PROFIT RATIO**

Net Profit Ratio is also termed as Sales Margin Ratio (or) Profit Margin Ratio (or) Net Profit to Sales Ratio. This ratio reveals the firm's overall efficiency in operating the business. Net profit Ratio is used to measure the relationship between net profit (either before or after taxes) and sales.

**Net Profit Ratio = (Net Profit After Tax / Net Sales) x 100**

**TABLE 10**

**NET PROFIT RATIO**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Profit After Tax** | **Net Sales** | **Ratio** |
| 2010-11 | 194.58 | 6288.02 | 3.094 |
| 2011-12 | 249.07 | 7126.20 | 3.495 |
| 2012-13 | 116.02 | 7732.88 | 1.500 |
| 2013-14 | 261.16 | 8652.09 | 3.018 |
| 2014-15 | 347.83 | 10813.86 | 3.216 |

Source: Primary Data

**ANALYSIS**

The table shows the net profit ratio of the company. The net profit ratio in 2011 is 3.094 in 2012 it increased to 3.495 but in 2013 it decreased to1.500 and in 2014 it increased to 3.018 and again in 2015 it increased to 3.216.

**CHART 10**

**NET PROFIT RATIO**

**INTERPRETATION**

The net profit ratio in 2011 is 3.094 in 2012 it increased to 3.495 but in 2013 it decreased to1.500 and in 2014 it increased to 3.018 and again in 2015 it increased to 3.216. The net profit ratio of the company is satisfactory.

**SUMMARY OF FINDINGS**

* Working capital of the company is increasing. It shows that short term liquidity of the company is satisfactory.
* The inventory turnover Ratio shows increase in the scale, an increasing ratio which indicates the efficient management.
* The liquidity ratio of the company is below to standard of 1:1 the only way to increase liquidity is to decrease the holding period of inventories.
* The quick ratio of the company is up to standard level and has to maintain it without any critical fall.
* The ratio has increased from 8.007 in 2011 to 8.237 in 2012 and then decreased to 7.629 in 2013 and again slightly increased to 7.697in 2014, and then increased in the year 2015 to 10.432 which clearly indicates the firm’s efficiency in inventory management. Stock Turnover Ratio indicates the number of times the stock has been turned over in business during a particular period.
* The ideal ratio of current ratio is 2:1 i.e., current assets should be twice of current liabilities is considered to be satisfactory. As a whole we can draw conclusion that every year company is not maintaining the standard norm 2:1 ratio.

**SUGGESTIONS**

* The liquidity ratio of the company is is satisfactory but sometimes fall below to standard of 1:1. The only way to increase liquidity is to decrease the holding period inventories.
* Company’s liquid ratio indicates that the firm is liquid and has the ability to meet its liquid liabilities. But, absolute liquid ratio is lower. Hence overall liquidity position of the company is not good.
* Finally it can be said that the organizations financial position has not become so bad that if cannot be improved what is required to over invest in working capital particularly inventories
* The company can increase working capital by clearing its debt. Which results avoiding interest to be paid on it this is the only way to get things going smoothly for the organization
* It is suggested that the company should evolve the appropriate strategies in all such direction which will certainly drives the organization into the new heights.
* Debt equity ratio is calculated to ascertain the firm's obligations to creditors in relation to funds invested by the owners. The ideal Debt Equity Ratio is 1: 1. This ratio also indicates all external liabilities to owner recorded claims.

**CONCLUSION**

Finance is important for the organization to grow consistently. The Finance is involved in all the activity of the organization. The proper Financial Controls are essential to plug the loopholes in the organization. The internal control systems are to be strengthened for early detection of any loopholes in the organization. The Financial Control Techniques and Tools, which are adopted, have to be in combinations for deriving the maximum benefits.

The Financial Management tools and techniques help the organization in achieving the Objectives, Goals, and Mission. These Financial Tools make the organization to be adopting the planning process. The planning is very much essentials in this dynamic and competitive business world. Planning makes all the activities to be systematized in the organization. The organization can adapt to the future by proper planning, proactive thinking, and right Alternatives for the problem. Solving and performance profit improvements.

Working capital of a concern is directly related to the sales. Hence good working capital turnover ratio draws a conclusion that the sales of the firm are good. Higher ratio is important to the prospective investors because it reveals the overall profitability of the concern. The company is investing its funds in current assets; it is advisable to invest its fund in liquid assets as it can be readily convertible into cash. It helps them to be on a safer side. . The company is not applying the tools and techniques of inventory management. It should avoid unnecessary blockage of fund in inventory. This will help the company to increase its profitability. The sales and profitability of the company is increasing every year. The management of the company should try to increase the growth rate in sales and profitability and the company is using these funds for the repayment of loans and purchase of current asset.

The profitability of the concern is fluctuating every year sometimes the profits are high but sometimes it has gone down, so the company should take necessary steps to achieve good profits in all the years.