

# CHAPTER VII

## SUGGESTATION AND POLICY IMPLICATIONS

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- **Suggestions:**

1. **Cash Management Policy** - The company may revise its Cash Management policy with provision for Hedging / Speculation purpose.
2. **Inventory Policy** -The company may revitalize Inventory policy and avoid excess buffer stock.
3. **Debtors' Policy** -The company may revitalize Debtors' policy. This may help the company to use the internal accruals.
4. **Creditors' Policy** - The company may revitalize Creditors' policy. This may help to deploy the funds on other necessities.
5. **Policy on Advances** - The company may rethink upon accepting Advances from Customers against orders. This may bring in cash flow.
6. **Zero Working Capital** – This is latest phenomena evolved in working capital management. In Zero Working Capital working capital always remains at Zero. That means current assets are always equal to current liabilities. The implementation of this concept is slight hard and difficult. Because it needs utmost attention at all times. All times the current assets need to be kept in realization mode. Every effort is required to match the current assets to current liabilities. This system brings financial discipline and saves cost of borrowing, give more rate of return etc.

The company may think over execution of Zero Working Capital.

7. Policy on managing Inflation – During inflation turnover goes up even the quantitative sales remain same. Cost of raw materials, labours and other direct indirect expenses goes up which brings heavy burden on working capital. Inflation forces to inflate the working capital budget. And consequent of all this is reduced profit level. In view of this company may take policy decision on managing the risk of inflation.
8. Policy on double shifts – The company is now at growing stage. The demand is increasing and to meet the increasing demand the company has to maintain higher level stock, two working shifts etc. The company will be running perpetually, if decision on double shift is taken. This will definitely put some burden on working capital. In view of this company may prepare its own policy on double shift to mitigate the risk of double shift on working capital management.
9. Policy on Overcapitalization – On some occasions it is noticed that cash in hand, cash with bank, inventory, debtors are at high side but comparatively creditors are lower side. If the situation prevails for longer time it will show inefficiency of working capital management. Such situation may leads to employ the long term funds in current assets and it will result in lower return on capital employed. As the company is growing rapidly it is necessary for the company to think over deciding its policy to overcome the fear of Overcapitalization.
10. Policy on Undercapitalization – The current scenario shows high growth rate of the company. The company has its own plan of

diversification of business for backward integration. If company will go ahead with its diversification plan there are chances of drying up internal funding sources and short term funding sources if the funds are deployed in diversified units. In such a situation of undercapitalization it is worthwhile to devise policy on undercapitalization to manage the risk in working capital management.

The above suggestions are based on findings and conclusion discussed in chapter VI of this report. In short, the study shows that overall performance of the company in working capital management is prudent and excellent.