CHAPTER FOUR

FINANCIAL POSITION AND WORKING CAPITAL ANALYSES OF THE MYSORE PAPER MILLS LIMITED

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4.1 FINANCIAL STRUCTURE:

4.1.1 Introduction:

Finance is one of the basic foundations of all kinds of economic activities. It is the lifeblood of business and industrial enterprise. It is the masterkey that provides access to the sources to be employed in economic activities.

The present Chapter highlights the financial structure, capital structure, comparison of financial structure and capital structure and utilization of funds as also pattern of growth of assets of the Mysore Paper Mills Limited, a joint sector Company, over a period of five years from 1989-90 to 1993-94.

For this purpose, the Company's financial statements, namely, annual reports, balance sheets and profit & loss accounts for the period have been studied and analyzed.

4.1.2 Definition of 'Finance':

Generally, in business, the term 'finance' is interpreted with three meanings. The first meaning signifies that the 'finance' keeps the business is supplied with enough funds to accomplish its objectives. The second meaning is concerned with cash, since every business transaction is ultimately translated into the cash it generates, invests or looses. The third meaning has found winder acceptance, according to which, 'finance' performs the function of funds and their effective utilization in the conduct of a business. In this third meaning, finance, when meant as funds could be private finance, public finance, personal finance or business finance.

According to Wheeler, "Business finance is that business activity which is concerned with acquisition and conversion of capital funds in meeting the financial needs and overall objectives of the business enterprise". In the opinion of the Guthman and Dougall, "Business finance can broadly be defined as the activity concerned with planning, raising, controlling and administering the funds used in the business". In brief, finance means collecting the funds and putting them to proper and effective utilization in the conduct of business.

4.1.3 Financial Structure and Capital Structure:

A firm's total financial resources can be divided into short-term and long-term components. Long-term financial sources may be invested in fixed and real assets which are owned for permanent use in the business. Some portion of long term finance may also be utilized for permanent current assets. Assets held on temporary basis are usually financed with temporary, that is, short-term funds.

'Capital Structure' is the permanent financing of the concern represented primarily by the long-term debts and shareholders' funds, but excluding all short-term credits. The capital structure usually represents a mix of different sources of long-term funds in the total capitalization.

On the other hand, the scope of the 'financial structure' is wider than the 'capital structure'. Capital structure includes only the long-term, permanent finance; whereas financial structure includes all the components of finance that are necessary for carrying out the business activities.

Financial structure may vary from concern to concern according to the nature and size of the concern's business activity.

The balance-sheet of a business indicates its financial structure. It states the nature, monetary values of each of the various assets, liabilities and its owners' share. The balance sheet also is a statement that discloses the names of all the accounts which show a debit or credit balance at the end of the year. It reports the values of the properties owned by the enterprise and the claims of the creditors and owners against these properties. A balance sheet may also describe a statement of sources and uses of capital. The property values are spoken to as the assets of the business while the claims on the business as its liabilities.

The Mysore Paper Mills Limited's consolidated balance sheets for the study period of five years from 1989-90 to 1993-94 are presented in Table 4.1 on the following page.

Table 4.1
Consolidated Balance Sheets of the Mysore Paper Mills Limited for the years 1989-90 to 1993-94

(Rs.in Lakhs)

Particulars	Financial Years				
	1989-90	1990-91	1991-92	1992-93	1993-94
LIABILITIES:					
- Paid-up Capital	6,428.01	6,453.01	6,453.01	6,453.01	9,853.01
- Reserves & Surplus	9,401.38	7,956.88	6,501.22	4,753.00	2,201.04
- Borrowings from:					
- State and Central Government	1,256.64	1,464.89	1,994.09	2,279.42	1,219.93
- Banks & Financial Institutions	11,889.07	8,488.81	7,918.11	11,881.25	9,349.84
- Working Capital from Banks	184.87	1,137.00	961.80	1,368.40	190.03
- Others	325.65	280.51	122.27	119.17	164.82
- Current Liabilities & Provisions (incl.interest accured & due)	5,733.31	6,131.79	6,935.95	5,484.27	5,430.87
Total:	35,227.93	31,912.89	30,886.45	32,338.52	28,409.54
ASSETS:					
Gross Block	34,126.01	34,242.37	34,422.76	34,504.69	33,924.94
less: Depreciation	6,902.31	11,953.69	16,293.65	18,828.53	22,010.59
- Net Fixed Assets	27,223.70	22,288.68	18,129.11	15,676.16	11,914.35
- Capital Work-in-Progress	116.97	220.53	353.13	1,175.83	214.47
- Unallocated Capital Expenditure	5.40	1.56	3.31	38.38	115.91
- Advances to Contractors	71.53	66.17	190.44	173.23	235.83
- Investments	0.44	0.44	0.44	0.44	0.34
- Current Assets, Loans & Advances	5,678.42	6,913.91	9,341.30	12,205.32	12,715.91
- Captive Forest Plantations	1,986.18	2,296.31	2,723.43	2,923.40	3,185.73
- Miscellaneous Expenditure	145.29	145.29	145.29	145.29	-
Total:	35,227.93	31,912.89	30,886.45	32,338.52	28,409.54
Capital employed	27,184.52	23,104.97	20,534.46	22,400.21	19,761.71
Net Worth	15,684.10	14,264.60	12,808.94	11,060.72	12,054.05

Notes: 'Capital employed' represents "net fixed assets plus working capital".
'Net worth' represents "paid-up capital plus reserves & surplus less intangible assets".

4.1.4 Comparison of Trends:

Trends are immensely helpful in making a comparative study of the balance sheets for several years. Such comparison indicates the trend of the various balance-sheet items across the years. They provide a comparative horizontal analysis of the items in the balance sheet, a dynamic study of the behaviour of the items with the passage of time. A series of trend percentages may show whether a particular item has increased or decreased, but it does not indicate whether the movement is favourable or unfavourable. For the purpose of forming an opinion as to the satisfactory trend of certain items, it is necessary to compare such trends with the trends of some related items in the balance sheets.

In the present study, the following precautions have been taken while calculating trend percentages in respect of the Mysore Paper Mills Limited:

(1) The Company, during the study period, has consistently followed certain accounting principles and practices. The researcher first gained a deeper understanding of these principles and practices before venturing on to the trend analysis;

(2) For calculating the trend percentages, 1989-90 has been taken as the base-year;

(3) Only the absolute figures for the respective years were taken into consideration for their comparison with the base year.

A presentation of the trend percentages of the Mysore Paper Mills Limited's balance-sheet figures for the study period (1989-90 to 1993-94) is made in Table 4.2 and Graphs 4.1-A and 4.1-B on the following pages.

Table 4.2 reveals the following tendencies of the trend percentages:

(1) 'Fixed assets' showed a downward trend from 100% in the base year 1989-90 to barely 43.76% in the concluding year 1993-94. The Company has made only marginal investments in new lands and significant investments in new vehicles and the earthmoving equipment. All other fixed assets have depreciated in value over the period and in the absence of fresh investments in them, the fixed assets trends have shown a decline, the severest case being the Company's 'plant and machinery', its 1993-94 value being only 36.30% of the base year 1989-90 (100%).

(2) Both 'capital work-in-progress' and 'captive forest plantation' have shown increasing trends during the study period; the former increased from 100% in the base-year 1989-90 to 305.94% in 1993-94; the latter increased to 160.39% in 1993-94. On the other hand, 'investments' remained steady for four years but dipped to 77.27% in the year 1993-94.

(3) The Company's 'current assets', as a whole, revealed only a marginal increase of 19.37% during the period of five years from 1989-90 to 1993-94. The break-up of the current assets' elements, however, reveal an interesting situation; inventories increased to 148.89% and cash and

Table 4.2

Trend Percentages based on the Balance Sheet figures of the Mysore Paper Mills Limited for the period 1989-90 to 1993-94

Particulars	Financial Years (Amounts: Rs.in Lakhs)					Financial Years (Trend Percentages)				
	1989-90	1990-91	1991-92	1992-93	1993-94	1989-90	1990-91	1991-92	1992-93	1993-94
A. ASSETS SIDE										
1. Fixed Assets:										
a. Land	226.70	226.70	238.15	238.15	238.15	100.00	100.00	105.05	105.05	105.05
b. Buildings, Roads, Drains	3618.79	3208.65	3155.68	3070.41	3032.52	100.00	88.67	87.20	87.60	83.80
c. Railway siding, Locos.	237.59	179.84	168.73	154.83	140.93	100.00	75.69	71.02	65.17	59.32
d. Plant & Machinery	23031.94	18591.90	1445.89	12084.05	8360.97	100.00	80.72	62.63	52.47	36.30
e. Furniture, Fittings & Office Equipment	49.85	42.04	43.25	40.60	35.64	100.00	84.33	86.76	81.44	71.49
f. Vehicles	13.14	13.23	12.93	18.14	25.80	100.00	100.68	98.40	138.05	196.35
g. Earthmoving Equipment	45.49	26.24	84.48	69.96	80.34	100.00	57.65	184.89	153.12	175.83
Total:	27223.70	22288.68	18129.11	15676.14	11914.35	100.00	81.87	66.59	57.58	43.76
2. Capital Work-in-Progress	193.90	268.26	546.88	1387.91	593.21	100.00	138.35	282.04	715.78	305.94
3. Captive Forest Plantation	1986.18	2296.31	2723.43	2923.40	3185.73	100.00	115.61	37.19	147.18	160.39
4. Investments	0.44	0.44	0.44	0.44	0.34	100.00	100.00	100.00	100.00	77.27
5. Current Assets:										
a. Inventories	3885.76	4678.14	6546.17	8314.91	5785.52	100.00	120.39	168.46	213.98	148.89
b. Sundry Debtors	626.10	872.82	1047.09	1290.09	3173.92	100.00	139.40	167.24	193.11	506.93
c. Cash & Bank Balances	170.79	128.14	190.43	122.27	393.11	100.00	75.03	114.49	71.59	230.17
Total:	4682.65	5679.10	7783.69	9727.27	9352.55	100.00	121.28	166.22	207.73	119.73
6. Loans and Advances	995.77	1234.81	1557.61	2478.05	3363.36	100.00	124.00	156.42	248.85	337.76
7. Misc.Expenditure	145.29	145.29	145.29	145.29		100.00	100.00	100.00	100.00	-
Grand Total:	35227.93	31912.89	30886.45	32338.50	28409.54	100.00	90.58	87.68	91.79	80.64

Graph 4.1-A (Table 4.2) Trend Percentage

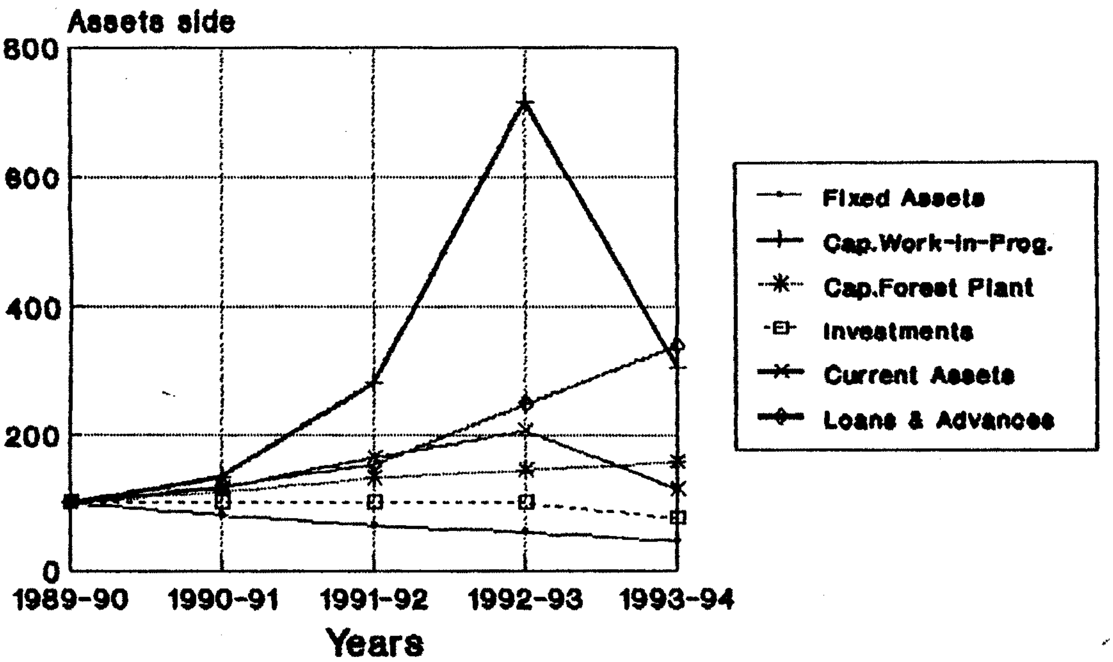
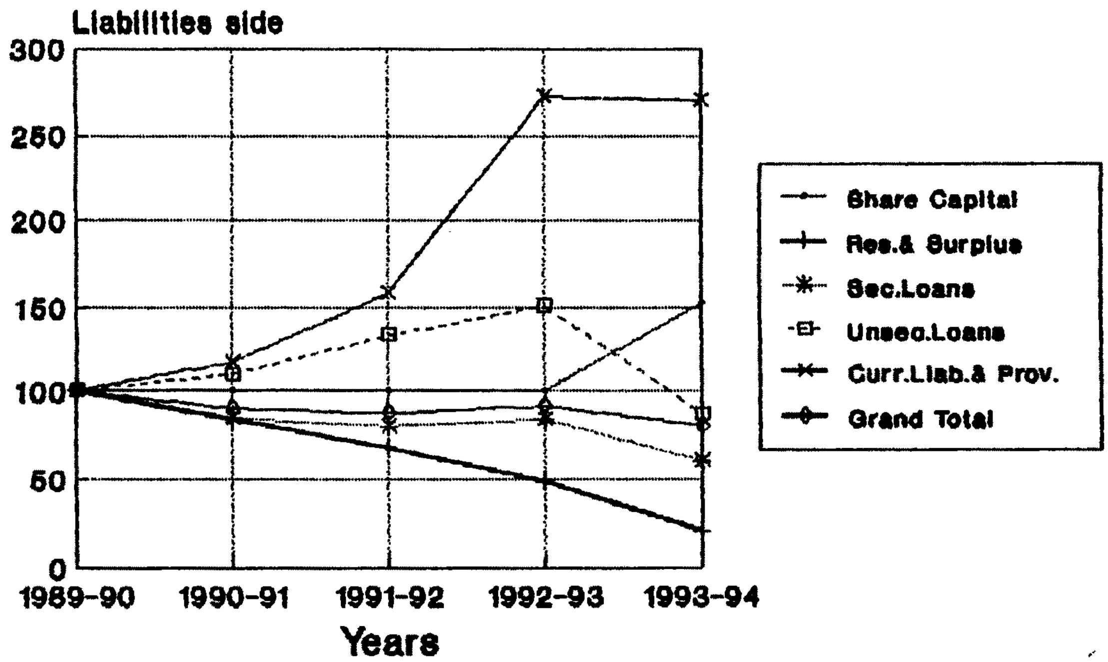


Table 4.2 (contd.)

Particulars	Financial Years (Amounts: Rs.in Lakhs)					Financial Years (Trend Percentages)				
	1989-90	1990-91	1991-92	1992-93	1993-94	1989-90	1990-91	1991-92	1992-93	1993-94
B. LIABILITIES SIDE										
1. Shareholders' Funds:										
a. Share Capital	6428.01	6453.01	6453.01	6453.01	9853.01	100.00	100.38	100.38	100.38	152.38
b. Reserves & Surplus	9182.35	7737.75	6282.19	4533.97	1982.01	100.00	84.26	68.41	49.37	21.58
c. Capital Subsidies and Grants received	219.03	219.03	219.03	219.03	219.03	100.00	100.00	100.00	100.00	100.00
Total:	15829.39	14409.89	12954.23	11206.11	12054.05	100.00	91.03	81.83	70.79	76.05
2. Loans:										
a. Secured	15830.05	13440.22	12679.51	13341.21	9622.09	100.00	84.90	80.09	84.28	60.78
b. Unsecured	1583.70	178.15	2109.48	2392.12	1378.46	100.00	109.75	133.19	151.05	87.04
Total:	17413.75	15178.37	14788.99	16733.33	11000.55	100.00	87.16	84.92	96.09	63.17
3. Current Liabilities	1984.79	2324.63	3143.23	5399.18	5354.94	100.00	117.12	158.36	272.03	269.79
Grand Total:	35227.93	31912.89	30886.45	32338.50	28409.54	100.00	90.58	87.66	91.79	80.64

Graph 4.1-B (Table 4.2) Trend Percentage



bank balances to 230.17%, but the largest single increase of 506.93% was recorded by sundry debtors.

(4) During the study period, loans and advances have also shown an increasing trend, from 100% in the base-year to 337.76% in the year 1993-94.

(5) On the liabilities side, the Company's share capital, after remaining almost steady for four years, has shown an increase to 152.38% in the year 1993-94. At the same time, its reserves and surpluses have shown a consistently decreasing trend ending at 21.58%.

(6) Both the secured and unsecured loans have shown declining trends, ending at 60.78% and 87.04%, respectively, the combined decline being to the tune of 63.17%.

(7) The Company's current liabilities have shown a gradually increasing trend ending at 259.79% in 1993-94.

This exercise in trend analysis reflects the Company's financial position in a poor light. Its fixed assets are deteriorating at a rate faster than the rate at which its current assets are appreciating. The Company has also fared rather poorly in sundry debtors' management. Its reserves and surpluses have eroded by almost 80% in its effort to raise the resources internally instead of seeking secured loans against the assets. The current assets have recorded an average annual growth of 29.93% against the current liabilities' growth of nearly 67.45% over the study period of five years. Both these trends are not keeping pace with each other, thereby adversely affecting the Company's long term liquidity.

4.2 SOURCES OF FINANCE:

The financial requirements of a business can be classified into two categories as follows:

(1) Short-term financial requirements,

(2) Long-term financial requirements.

(1) Short-term financial requirements:

Short-term funds are required for meeting the working capital needs of a business. They are usually required for a period of upto one year and raised from the sources which can provide funds only for a short period, quickly and at a reasonable cost. The following are the important sources of short-term finance:

(a) Trade Credit: Trade credit is a form of short-term financing, common to almost all types of business firms. As a matter of fact, it is the largest source of short-term finance. In an advanced economy, most buyers are not required to pay for goods on delivery but are allowed a short-term credit before the payment for the goods becomes due.

Trade credit arrangement is generally made available to the buyer on an informal basis without creating any charge on the assets. Trade credit arrangements usually carry a stipulation of allowing a cash discount to the buyer for prompt payment. The volume of trade credit and its popularity as a means of short-term financing depends on the factors such as:

- terms of trade credit,
- reputation of the purchasing firm,
- financial position of the seller, and
- volume of purchases to be made by the buyer.

The firm must balance the advantages of the trade credit as a discretionary source of financing without anys explicit cost against the cost of losing of cash discount, the possibility of deterioration in reputation if trade credit is availed and the increased purchase price of the products.

(b) Commercial Banks: Commercial banks provide only a short-term credit to the business and also the medium term finance to some extent. Commercial banks make advances to the customers in the following forms:

i. Loans: A loan is a kind of advance made with or without security. In the case of a loan, the banker makes a lump sum payment to the borrower or credits his deposit account with the money advanced. It is given for a fixed period at an agreed rate of interest. Repayments may be made in instalments or at the expiry of a certain period. The loan may be a 'term loan' or a 'demand loan'.

ii. Cash Credit: Cash credit is an arrangement by which a banker allows his customers to borrow the money upto a certain limit. Cash credit arrangements are usually made against the security of the commodities hypothecated or pledged with the bank.

iii. Hypothecation: In case of a hypothecation, the possession of goods is not given to the bank. The goods remain at the disposal and in the godown of the borrower. The bank is given access to the goods whenever it so desires. Such an advance is granted by the bank only to a person whose integrity and confidence is guaranteed.

iv. Pledge: In case of a pledge, the goods are placed in the custody of the bank with its name on the godown where they are stored. Borrower has no right to deal with them directly and without the knowledge of the bank.

v. Overdrafts: A bank's customer may be allowed to overdraw his account if he requires a temporary accommo-dation. This type of bank credit is, however, for a short period only.

vi. Bills discounted & purchased: Banks also give advances to their customers by discounting their bills. The net amount after deducting the amount of discount is credited to the account of the customer. The bank may discount the bills with or without taking a security from the debtor, in addition to the personal security of one or more persons already liable on the bill.

(c) Accrual accounts: Accrual accounts are spontaneous sources of financing since they are self-generating. The most common accrual accounts are wages and taxes. In both cases, the amount becomes due but it is not paid immediately. The time lag between receipt of income and making payment for the expenditure incurred in earning that income helps the business in meeting some of its short-term financial requirements.

(2) Long-term financial requirements:

The long-term funds are required to a great extent for meeting the fixed capital requirements of the business. They are required for a period exceeding one year. They are sometimes classified as:

- Intermediate or Medium-term funds, and
- Long-term funds.

The medium term funds are required for a period between three and five years, while long term funds are required for a period exceeding five years. Following are the important sources of long-term finance:

- Share Capital,
- Debentures.

(a) Share capital: Issue of shares is the most common method of raising long term funds. A trading company cannot be incorporated by law without having a share capital. The company collects finance by issuing shares as a first step in raising the capital and pay off the amount of share capital in the last, if the company dissolves, after meeting all the losses and paying off all the liabilities. Thus, it provides a cushion to absorb the shocks sustained due to losses or other financial crisis during its lifetime, except the redeemable preference shares which cannot be refunded. A public company can issue only two types of shares, namely, Preference Shares and Equity Shares.

(b) Debentures: A debenture is a document issued by a company as an evidence of debt due from the company with or without a charge on the assets of the company. It is a certificate issued by a company under its seal, acknowledging a debt due by it to the debenture holder.

Table 4.3 (on the following page) presents a Consolidated Statement of Sources and Uses of Funds by the Mysore Paper Mills Limited during the period 1989-90 to 1993-94.

4.3 UTILIZATION OF SOURCES OF FINANCE:

After having raised the necessary finance through different sources, the next important task before the finance manager is the profitable deployment of the funds raised. The modern concept of finance function includes both raising of finance and its proper utilization. The funds raised are utilized for purchasing fixed assets and current assets.

The investment in the fixed assets is known as (a) a long-term investment and the investment in the current assets is known as (b) a short-term investment.

Table 4.3
Consolidated Statement of Sources and Uses of Funds by the Mysore Paper Mills Limited

(Rs. in Lakhs)

Particulars	Financial Years				
	1989-90	1990-91	1991-92	1992-93	1993-94
SOURCES OF FUNDS:					
A. Shareholders' Funds:					
- Share Capital	6,428.01	6,453.01	6,453.01	6,453.01	9,853.01
- Reserves & Surplus	9,182.35	7,737.85	6,282.19	4,588.97	1,982.01
- Capital Subsidies and Grants Recd.	219.03	219.03	219.03	219.03	219.03
Total-A:	15,829.39	14,409.89	12,954.23	11,206.01	12,054.05
B. Loans:					
- Secured	15,830.05	13,440.22	12,679.51	13,341.21	9,622.09
- Unsecured	1,583.70	1,738.15	2,109.48	2,392.12	1,378.46
Total-B:	17,413.75	15,178.37	14,788.99	16,733.33	11,000.55
C. Current Liabilities & Provisions	1,984.79	2,324.63	3,143.23	5,399.18	5,354.94
Grand Total (A+B+C)	35,227.93	31,912.89	30,886.45	32,338.00	28,409.54
USES OF FUNDS:					
A. Fixed Assets	27,223.70	22,288.68	18,129.11	15,676.14	11,914.35
B. Captive Work-in-Progress	193.90	268.26	546.88	1,387.91	593.20
C. Captive Forest Plantation	1,986.18	2,296.31	2,723.43	2,923.40	3,185.73
D. Investments	0.44	0.44	0.44	0.44	0.34
E. Current Assets & Loans and Advances	5,678.42	6,913.91	9,341.30	12,205.32	12,715.91
F. Miscellaneous Expenditure	145.29	145.29	145.29	145.29	
Grand Total (A to F)	35,227.93	31,912.89	30,886.45	32,338.00	28,409.54

(a) <u>Investment in fixed assets</u>:

Fixed assets are those assets which which are of a somewhat fixed or permanent nature (a life expectancy of more than one year) and are used by a business in its normal operations. They do not include the items offered for sale. Fixed assets include building, plant and machinery, equipments, etc. Fixed assets management is the most important task which a management has to face in its day-to-day situations and is important for the following reasons:

i. There is a risk involved in fixed assets because of their long life.

ii. Fixed assets usually have a relatively high cost.

iii. Fixed assets have problems of acquisition and replacement. Acquisition is for increasing the existing capacity, while replacement is for acquiring new assets with comparable capacity. The purchase of fixed assets is of particular significance to busines firms because the amount involved is relatively large and represents commitments for relatively longer period of time.

iv. There is a greater tendency to make use of machines and to invest more and more funds into the fixed assets. The use of efficient machinery is necessary for the economies of scale, particularly in the conditions of increasing competition. Due to technological changes, the investment in the fixed assets is likely to increase, since old assets become outdated and may have to be replaced.

The decisions regarding the investment in fixed assets are usually known as 'capital budgetting'. It may be defined as, 'the decision-making process by which a firm evaluates the purchases of major fixed assets, including building, machinery and equipment'. It is a process by which the available cash and credit resources are allowed among competitive long-term investment opportunities so as to promote the greatest profitability of the company over a period of time. It refers to the total process of generating, evaluating, selecting and following-up, on the capital expenditure alternatives.

Usually the long term sources of finance such as share-capital, debentures and retained earnings are utilized for purchasing the fixed assets. A first must have some fixed assets, without which it cannot carry on its operatiosn smoothly.

(b) Investment in Current Assets:

Every concern is required to invest some part of its funds in current assets. These assets are those which can be converted into cash within an accounting period (or an operating cycle) and include cash, short-term securities, debtors, bills receivables and stock (inventory). The term 'investment in current assets' refers to the gross working capital. Working capital, in turn, refers to the difference between the current assets and the current liabilities. Every firm short maintain a sound working capital position and there should be an optimum investmentin the working capital. Usually the short-term financial sources are utilized for investments in the current assets. The usual sources of financing the current assets are:

- Bank loans,
- Public deposits,
- Trade credit and other payables,
- Provision for taxation,
- Depreciation provisions.

4.4 SOURCES OF FINANCE OF THE MYSORE PAPER MILLS LIMITED:

After having studied the sources of finance in general, it is now proposed to proceed with the discussion of the sources of finance of the Mysore Paper Mills Limited. The different sources of finance used by the Mill are described below:

4.4.1 Share Capital:

Share-capital is a type of a primary source of raising finance of any kind of corporate finance. The Mysore Paper Mills Limited was incorporated in joint sector in the year 1936 under the provisions of the then prevalent Companies Act of the erstwhile Princely State of Mysore. The lion's share of the original authorized share capital came from the Ruling Family of the Princely State while a few shares were allotted to private individuals who also were the promoters of the

Company. The Princely State merged into the Indian Union in 1949 and its share in the Mysore Paper Mills Limited came to be held by the State Government of Mysore, later on the State Government of Karnataka.

The Company raised its authorized capital to Rs.20.0, out of which it issued and received subscription for shares of Rs.6,428.01 lakhs in 1989-90. The issued, subscribed and paid-up capital of the Company was raised to Rs.6,453.01 lakhs in 1990-91. Another issue of the of the Company's shares occurred soon thereafter and as at the end of the financial year 1993-94, the Company's paid-up capital became Rs.9,853.01 lakhs, divided among 341 shareholders. The State Government of Karnataka holds about 74.88% of these shares while the remaining are held by the Company's employees as well as by the public.

4.4.2 Long-term Finance:

Both secured and unsecured loans have supplied long-term finance to the Mysore Paper Mills Limited. These funds have come from multiple sources, debentures, fixed deposits from the public, deposits from the Company's dealers, financial institutions, etc. These external funds have always played a major role in the Company's finances.

4.4.3 Short-term Finance:

Short-term finance of the Company mostly comprised of the working capital loans raised from the commercial banks by way of cash credit facilities. Current liabilities also have been a sizeable source of short-term finance for the Company, together with some portion of the unsecured loans and trade credit from the suppliers.

Tables 4.4 and 4.5 and Graph 4.2 (on the following pages) give the Mysore Paper Mills Limited's long-term and short-term sources of funds and uses of long-term and short-term funds, respectively, during the years from 1989-90 to 1993-94.

4.5 WORKING CAPITAL OF THE COMPANY:

4.5.1 Introduction:

'Working Capital' is the amount of funds which a Company must have to finance its day-to-day operations. Working capital is a part of the total capital that circulates from one asset to another in the ordinary course of business. This idea indicates recurring transactions from cash to inventories, from receivables to cash, and forms a continuous chain of business operations.

4.5.2 Concepts of Working Capital:

The term 'capital' means "the total funds invested in a business enterprise". It includes fixed assets and current assets. Fixed assets are those assets which are to be retained more or less permanently in the business and the current assets are those which are not permanent but are involved in the day-to-day operations and are constantly changing their nature.

Table 4.4
Long-term and Short-term Sources of Funds of the Mysore Paper Mills Limited

(Rs.in Lakhs)

Particulars	Financial Years					Averages
	1989-90	1990-91	1991-92	1992-93	1993-94	
LONG-TERM SOURCES:						
1. Paid-up Capital	6,428.01	6,453.01	6,453.01	6,453.01	9,853.01	7,128.01
2. Reserves & Surplus	9,182.35	7,737.85	6,282.19	4,533.97	1,982.01	5,943.67
3. Capital Subsidies & Grants	219.03	219.03	219.03	219.03	219.03	219.03
4. Debentures	228.33	195.25	156.09	134.03	93.23	161.38
5. Finan.Institutions' Funds	6,447.16	5,496.29	5,043.85	4,338.00	4,000.04	5,065.07
6. Bank Loans	5,263.00	2,846.69	2,738.69	2,391.29	3,656.31	3,379.20
7. Other Secured Loans	3,706.69	3,764.99	377.08	5,109.49	1,682.48	3,608.55
8. Fixed and Dealer Deposits	318.06	273.26	115.39	112.70	159.53	195.79
9. Other Unsecured Loans	1,265.64	1,464.89	1,994.09	2,279.42	1,219.93	1,644.79
Total:	33,058.27	28,451.26	26,781.42	25,570.94	22,865.57	27,345.49
SHORT-TERM SOURCES:						
1. Cash Credit	184.87	1,137.00	961.80	1,368.40	190.33	768.48
2. Current Liabilities & Provisions	1,984.79	2,324.23	3,143.23	5,399.18	5,354.94	3,641.27
Total:	2,169.66	3,461.23	4,105.03	6,767.58	5,545.27	4,409.75

Graph 4.2 (Table 4.4) Sources of Funds

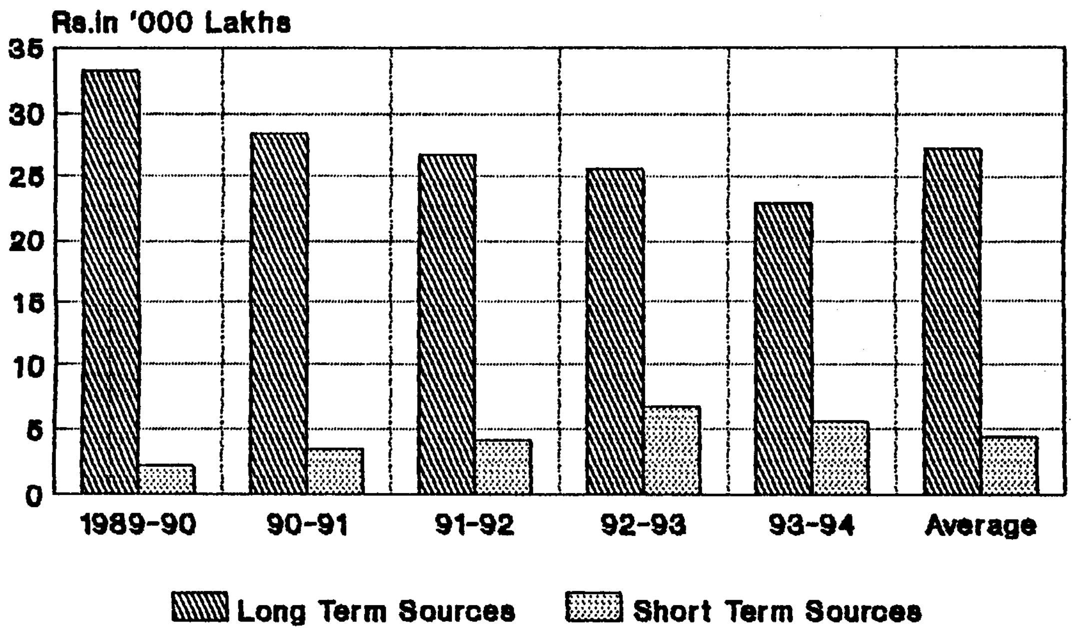


Table 4.5
Uses of Long-term and Short-term Funds by the Mysore Paper Mills Limited

(Rs. in Lakhs)

Particulars	Financial Years					Averages
	1989-90	1990-91	1991-92	1992-93	1993-94	
A. Fixed Assets	27,223.70	22,288.68	18,129.11	15,676.14	11,914.35	19,046.40
B. Capital Work-in-Progress	193.90	268.26	546.88	1,387.91	593.21	598.03
C. Captive Forest Plantation	1,986.18	2,296.31	2,723.43	2,923.40	3,185.73	2,623.01
D. Investments	0.44	0.44	0.44	0.44	0.34	0.42
E. Current Assets and Loans and Advances	5,678.42	6,913.91	931.30	12,205.32	12,715.91	9,370.97
F. Miscellaneous Expenses	145.29	145.29	145.29	145.29	-	116.23
Total:	35,227.93	31,912.89	30,886.45	32,338.00	28,409.54	31,755.06

There are two concepts of the working capital: (1) Gross Working Capital, and (2) Net Working Capital.

A firm's investment in the current assets is called the 'gross working capital'. These assets are usually converted into cash within an accounting year.

The 'net working capital' refers to the difference between the current assets and the current liabilities. It can be stated as follows:

(1) Gross Working Capital = Current Assets,

(2) Net Working Capital = Current Assets <u>less</u> Current Liabilities.

The net working capital can either be positive or it can be negative.

Generally, in public or private companies, most part of the working capital is invested in the inventory. The net working capital is calculated by deducting the current liabilities from the current assets. Hence, the change in the net working capital is mainly dependent upon the changes in the current assets and the current liabilities.

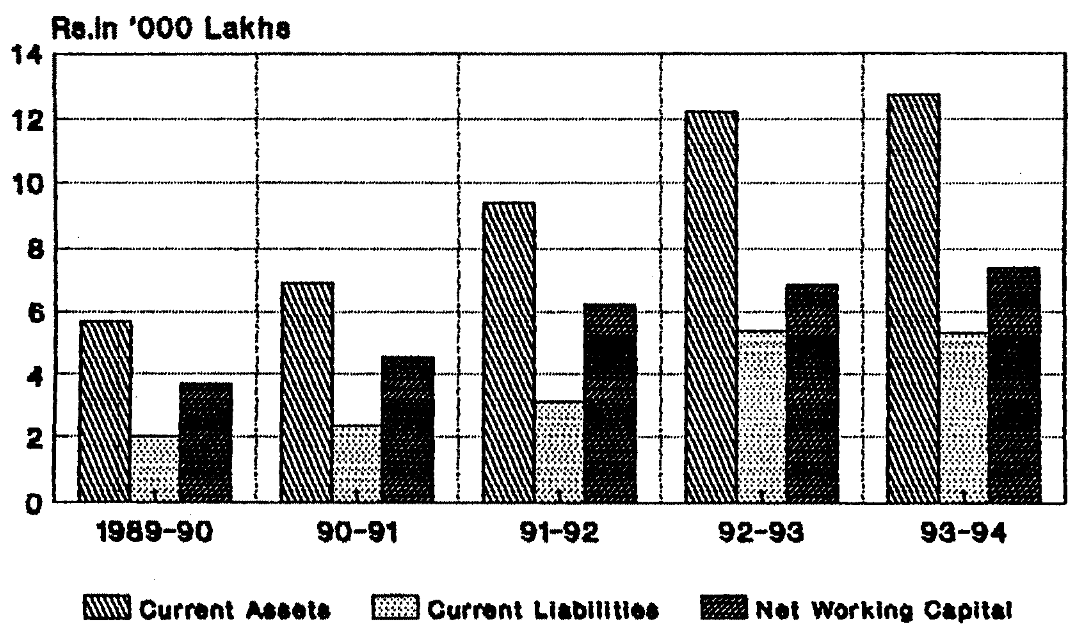
The net working capital of the Mysore Paper Mills Limited for the years 1989-90 to 1993-94 and the total working capital for the period study period are shown in Table 4.6 and Graph 4.3 (on the following pages). With the help of this Table, the working capital position and the changes in the individual items of current assets and liabilities can be studied.

Table 4.6
Net Working Capital of the Mysore Paper Mills Limited as at the end of 31st March of Financial Years 1989-90 to 1993-94

(Rs.in Lakhs)

Particulars	Financial Years					
	1989-90	1990-91	1991-92	1992-93	1993-94	Averages
A. Current Assets:						
- Inventories	3,885.76	4,678.14	6,546.17	8,314.91	5,785.62	5,842.12
- Sundry Debtors	626.10	872.82	1,047.09	1,290.09	3,173.92	1,402.00
- Cash & Bank Balances	170.79	128.14	190.43	122.27	393.11	200.95
- Loans and Advances	995.77	1,234.81	1,557.61	2,478.05	3,363.36	1,925.92
Total:	5,678.42	6,913.91	9,341.30	12,205.32	12,716.01	9,370.99
B. Current Liabilities:						
- Sundry Creditors	1,266.59	1,741.70	2,464.66	4,795.80	4,382.60	2,930.27
- Advances and Deposits	473.63	375.76	417.52	237.88	261.06	353.17
- Unclaimed Dividends	3.32	3.20	3.17	3.15	3.15	3.20
- Other Liabilities	74.23	50.58	125.74	146.46	91.94	97.79
- Interest accrued but not due	167.02	153.39	132.14	215.89	29.69	139.63
- Provisions	-	-	-	-	586.50	117.30
Total:	1,984.79	2,324.63	3,143.23	5,399.18	5,354.94	3641.35
C. Net Working Capital:						
(A) - (B)	3,693.63	4,589.28	6,198.07	6,806.14	7,360.97	5693.64

Graph 4.3 (Table 4.6) Net Work.Capital



(1) The Table reveals that the current assets and the current liabilities have shown increasing tendencies over the study period. As a result, the net working capital has also increased during these years, from Rs.3,693.63 lakhs in the year 1989-90 to Rs.7,360.97 lakhs in the year 1993-94.

(2) It is also seen from the Table that the current assets have increased from Rs.5,678.72 in 1989-90 to Rs.12,715.91 in 1993-94, the main reason for this increase being the increase in inventories, loans and advances and sundry items.

(3) Similarly, the current liabilities have also increased from Rs.1,984.79 in 1989-90 to Rs.5,454.94 in 1993-94. It means that over the period of five years, the current liabilities have increased. The main reason for this increase being the increase in the sundry creditors and provisions.

(4) As a result of all these variations, the net working capital of the Mysore Paper Mills Limited also has increased over the years.

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