

CHAPTER - V

CONCLUSIONS AND SUGGESTIONS

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CONCLUSIONS AND SUGGESTIONS

This chapter is the conclusive section of the research work and it highlights on the best policies of the company as well as on the points where the company still requires some attention for further improvement.

The following conclusions are drawn from the entire study. The suggestions given thereunder will help The Madhavnagar Cotton Mills Ltd., Madhavnagar (Sangli), if it tries to implement them, to improve the management of Working Capital.

1. It is observed from the size of working capital that the Net Working Capital of the company is not only negative but also at an increasing rate during the period 1981-82 to 1985-86.

Therefore, it is an humble suggestion that the management as far as possible should try to maintain the Net Working Capital on positive side.

2. It is observed from the changes in current assets and current liabilities that there is no proper relation between the increase or decrease in current assets and current liabilities.

It is, therefore, suggested that as far as possible the management should try to use the current liabilities for current assets.

3. The operating cycle used for the study plan 1981-82 to 1985-86 indicates the fluctuating trend throughout the period of the study.

It is, therefore, suggested that this trend should be checked through efficient management of inventory and of credit and collection as the company has already started doing it from 1985-86. The operating cycle is generally higher during 1983-84. Further analysis of the operating cycle shows that the inventory turnover ratio was much higher during 1983-84. It is, therefore, further suggested that the management of the company should make intensive efforts to reduce the number of days turnover inventory by improving efficiency and effectiveness of its sales and production departments.

4 In the segment of working capital the inventory posed the most challenging problem to the company. The size of inventory in absolute rupee values throughout the period of the study marked an increasing trend except in 1984-85 when it is decreased as compared to the size in 1983-84. However, the proportion of inventory to current assets fluctuated from year to year. This proportion was the lowest during 1984-85. This shows that the company tried to control the proportion of inventory in relation to current assets.

Therefore, it is suggested that the trend followed by the company during 1984-85 should be continued. It will improve the liquidity position of the company.

5. The study of relationship of inventory to total output and total cost of sales in the company revealed that the size of inventory was more related to the total output than to the total cost of sales. The size of inventory should be adequate in relation to its requirement in a business. The inventory turnover ratio throughout the period of the study was higher during 1981-82. On the other hand the turnover shows a lowest trend during 1983-84. A low turnover

of inventory during 1983-84 reflected on inefficient and poor inventory management. The low turnover of inventory also adversely affected the liquidity position of the company.

It is, therefore, suggested that, the company should make every effort to reduce its level of inventories to a reasonable extent and further that the company should exercise a strict control over inventories so as to improve its liquidity and profitability. The high turnover of inventory during 1981-82 indicated the company had conducted more business with proportionately less amount of inventories. The company should maintain this situation in future also.

6. The average proportion of consumable stores in the structure of inventory was below 12.03 %. The raw materials formed a significant proportion of total inventory which was more than 22.09%. The size of work-in-process and finished goods inventory played a vital role in the structure of aggregate inventory. The proportion of these items in overall inventory was 30.24 and 35.62 respectively. The accumulation of the work-in-process and finished goods inventory were at the peak during 1981-82 and 1983-84 respectively. The company tried to control the situation immediately in the following year.

Therefore, it is suggested that the management of the companies should concentrate their efforts on bringing down the size of these items to an appropriate level.

7. It is observed that the turnover of finished goods always fluctuated from year to year. This turnover was the lowest during 1983-84. The low turnover shows the accumulation of finished goods, which resulted in a large holding period of finished goods inventory

in the company..

It is, therefore, suggested that the management of the company should check the size of this component periodically and should also try to reduce its level.

8. It is observed that the stock of consumable stores inventory has been maintained at a constant rate. This is better from the financial management point of view.

Therefore, it is suggested that the management should follow the same policy in future also.

9. Raw material inventory is lying in the stores for more than two months. This leads to heavy investment in raw materials inventory.

Therefore it is suggested that the management should see that the raw materials inventory will be brought to the optimum level.

10. It is observed that, nearly 10% of net sales are lying in the company, which will be treated as slow movement of finished goods.

Therefore, it is suggested that the management should try to despatch the goods as soon as, they are finished.

11. It is observed that the current ratio is below the standard norms throughout the period of the study, which is not satisfactory.

Therefore, it is suggested that the company should try to maintain the ratio as per the standard norms. It can be maintained either by increasing current assets or by decreasing current liabilities.

12. It is observed that in all the years of the study the company had maintained their quick ratio below the standard norms, which is also not satisfactory.

It is, therefore, suggested that as far as possible the management should try to maintain the ratio as per the standard norms.

13. It is observed that on an average the debtors are recovered within 37 days, which may be treated as the best policy of the company.

Therefore, it is suggested that the company should either maintain the same policy or should try to minimise the days in future also.

14. Creditors turnover ratio indicates that the company enjoys nearly six months credit period from its suppliers, which will be treated as the highest and best facility available to the company.

Therefore, it is suggested that the company should try to avail of the same facility in future also.

15. It is observed that 'Decentralised Purchasing System' is used by the company. It makes difficult to control the purchases and creates payment problems.

Therefore, it is suggested that as far as possible the company should apply 'Centralised Purchasing System'. It will help the company to make purchases of economic order quantity, control the purchases and to minimise the payment problems. Some similar type of business concerns have followed the centralised purchasing system and that is economically beneficial to them.

16. It is observed that the company uses centralised system

of stores which leads to delay in production.

It is, therefore, suggested that as far as possible the company should use decentralised or imprest system of stores. This will help the company to faster the production as well as to control the items of stores. Such decentralised system of stores, have been followed by some similar type of business firms and they are getting the advantages of the same.

17. It is observed that no control techniques of working capital such as cash flow, fund flow, ratio analysis is followed by the company.

Therefore, it is suggested that the company should use such controlling techniques of working capital. These techniques will surely help the company to keep the working capital as well as inventory to the required optimum level.

18. It is observed that the levels of stock are not strictly followed and therefore the purchases are made as per requirements.

Therefore, it is suggested that the level of stock should be strictly followed. This will help the company to maintain the stock at optimum level which in-turn will ultimately result in control working capital.

19. It is observed that there is no proper control over the items of stock in the stores. Therefore the use of Bin Cards at least for the valuable items coming under the category of 'A' and 'B' is suggested. This will help the company to have a proper control over the valuable items.

20. It is observed that the budgetary control system is not in use in the company,

It is, therefore, suggested that the company should develop the use of the budgetary control system. This will help the company to run its business smoothly in all respects.

21. It is observed that 'ABC Analysis' is also not followed by the company.

Therefore, it is suggested that the company should introduce the 'ABC Analysis Technique' at least for most consumable and valuable items in the stores.

It is observed from the annual reports that every year the company is suffering heavy losses. This is not good for the company. This also leads to loose the control over working capital as well as over the inventory management.

Therefore the suggestions given below will help the management to improve the overall performance of the company.

- a. To reduce the interest burden by any means.
- b. The management should become cost minded and cost conscious.
- c. The costing department should work effectively.
- d. Marketing area should be expanded.
- e. Proper reporting system should be developed.

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