A PROJECT REPORT

ON

"WORKING CAPITAL MANAGEMENT"

Bata India Ltd

Bata House, 418/02, Mehrauli-Gurgaon Rd, Sector 17, Gurgaon, Haryana 122002

<u>SUBMITTED BY</u>

(FULL NAME IN CAPITAL LETERS)

(YEAR)

Enrollment No:

<u>UNDER THE GUIDANCE OF:</u>

GUIDE NAME:

<u>SUBMITTED TO</u>

(UNIVERSITY NAME AND ADDRESS IN CAPITAL LETERS)

DECLARATION

I,____________________Student of **M.B.A FINANCE (UNIVERSITY NAME)** ________________________hereby declare that the Project Report on **"WORKING CAPITAL MANAGEMENT" BATA INDIA LTD , Bata House, 418/02, Mehrauli-Gurgaon Rd, Sector 17, Gurgaon, Haryana 122002 is** been result of my own work and has been carried out under supervision of___________________ (GUIDE NAME)

I declare that this submitted work is done solely by me and to the best of my knowledge; no such work has been submitted by any other person for the award of post graduation degree or diploma.

I also declare that all the information collected from various secondary sources has been duly acknowledged in this project report.

PLACE: (NAME)

DATE:

CERTIFICATE

This is to certify that (_________________NAME) has satisfactory completed the project work entitled, **"WORKING CAPITAL MANAGEMENT" BATA INDIA LTD, Bata House, 418/02, Mehrauli-Gurgaon Rd, Sector 17, Gurgaon, Haryana 122002** is based on the declaration made by the candidate and me association as a guide for carrying out this project work, I recommended this project for evaluation as a part of the MBA program of _________ (UNIVERSITY NAME)

Place: ____________

Date: ____________ PROF: ____________

ACKNOWLEDGEMENT

My debts are many and I acknowledge them with much pride and delight. This project Report was undertaken for the fulfilment of MBA Programme pursuing at (________________________University Name) I would like to thank my institute and **BATA INDIA LTD,** which has provided me the opportunity for doing this project work.

I am extremely great full to (________________Guide Name) (__________________________Designation and College/institute name), for his invaluable help and guidance throughout my work. He kindly evinced keen interest in my work and furnished some useful comments, which could enrich the work substantially.

In fact it is very difficult to acknowledge all the names and nature of help and encouragement provided by them. I would never forget the help and support extended directly or indirectly to me by all.

(_________FULL NAME)

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CHAPTER NO. 1

INTRODUCTION

Bata (also known as Bata Shoe Organisation) is a family-owned global footwear and fashion accessory manufacturer and retailer with acting headquarters located in Lausanne, Switzerland. Organised into three business units: Bata Europe, based in Italy; Bata Emerging Market (Asia, Pacific, Africa and Latin America), based in Singapore, and Bata Protective (worldwide B2B operations), based in the Netherlands, the organisation has a retail presence in over 70 countries and production facilities in 26 countries.

Bata India is the largest retailer and leading manufacturer of footwear in India and is a part of the Bata Shoe Organization.

Incorporated as Bata Shoe Company Private Limited in 1931, the company was set up initially as a small operation in Konnagar (near Calcutta) in 1932. In January 1934, the foundation stone for the first building of Bata's operation - now called the Bata. In the years that followed, the overall site was doubled in area. This township is popularly known as Batanagar. It was also the first manufacturing facility in the Indian shoe industry to receive the ISO: 9001 certification.

The Company went public in 1973 when it changed its name to Bata India Limited. Today, Bata India has established itself as India's largest footwear retailer. Its retail network of over 1200 stores gives it a reach / coverage that no other footwear company can match. The stores are present in good locations and can be found in all the metros, mini-metros and towns

Bata's smart looking new stores supported by a range of better quality products are aimed at offering a superior shopping experience to its customers.

The Company also operates a large non retail distribution network through its urban wholesale division and caters to millions of customers through over 30,000 dealers.

FOUNDATION

The T. & A. Baťa Shoe Company was founded in 1894 in Zlín, Moravia, (then Austro-Hungarian Empire, today the Czech Republic) by Tomáš Baťa (Czech pronunciation: [ˈtomaːʃ ˈbaca]), his brother Antonín and his sister Anna, whose family had been cobblers for generations. The company employed 10 full-time employees with a fixed work schedule and a regular weekly wage, a rare find in its time.

In the summer of 1895, Tomáš found himself facing financial difficulties, and debts abounded. To overcome these serious setbacks, Tomáš decided to sew shoes from canvas instead of leather. This type of shoe became very popular and helped the company grow to 50 employees. Four years later, Bata installed its first steam-driven machines, beginning a period of rapid modernization. In 1904 Tomáš Baťa introduced mechanized production techniques that allowed the Bata Shoe Company to become one of the first mass producers of shoes in Europe. Its first mass product, the "Batovky," was a leather and textile shoe for working people that was notable for its simplicity, style, light weight and affordable price. Its success helped fuel the company's growth and, by 1912, Bata was employing 600 full-time workers, plus another several hundred who worked out of their homes in neighboring villages.

SHOEMAKER TO THE WORLD

Consumer response to the price drop was dramatic. While most competitors were forced to close due to the crisis in demand between 1923 and 1925, Bata was expanding as demand for the inexpensive shoes grew rapidly. The Bata Shoe Company increased production and hired more workers. Zlin became a veritable factory town, a "Bataville" covering several acres. On the site were grouped tanneries, a brickyard, a chemical factory, a mechanical equipment plant and repair shop, workshops for the production of rubber, a paper pulp and cardboard factory (for production of packaging), a fabric factory (for lining for shoes and socks), a shoe-shine factory, a power plant and a farming activities to cover both food and energy needs... Horizontal and vertical integration. Workers, "Batamen", and their families had at their disposal all the necessary everyday life services: housing, shops, schools, hospital, etc.

INTERNATIONAL GROWTH

Bata also began to build towns and factories outside of Czechoslovakia (Poland, Latvia, Romania, Switzerland, France) and to diversify into such industries as tanning (1915), the energy industry (1917), agriculture (1917), forest farming (1918), newspaper publishing (1918), brick manufacturing (1918), wood processing (1919), the rubber industry (1923), the construction industry (1924), railway and air transport (1924), book publishing (1926), the film industry (1927), food processing (1927), chemical production (1928), tyre manufacturing (1930), insurance (1930), textile production (1931), motor transport (1930), sea transport (1932), and coal mining (1932). Airplane manufacturing (1934), synthetic fibre production (1935), and river transport (1938). In 1923 the company boasted 112 branches.

In 1924 Tomáš Baťa displayed his business acumen by figuring out how much turnover he needed to make with his annual plan, weekly plans and daily plans. Baťa utilized four types of wages – fixed rate, individual order based rate, collective task rate and profit contribution rate. He also set what became known as Baťa prices – numbers ending with a nine rather than with a whole number. His business skyrocketed. Soon Baťa found himself the fourth richest person in Czechoslovakia. From 1926 to 1928 the business blossomed as productivity rose 75 percent and the number of employees increased by 35 percent. In 1927 production lines were installed, and the company had its own hospital. By the end of 1928, the company's head factory was composed of 30 buildings. Then the entrepreneur created educational organizations such as the Baťa School of Work and introduced the five-day work week. In 1930 he established a stunning shoe museum that maps shoe production from the earliest times to the contemporary age throughout the world. By 1931 there were factories in Germany, England, the Netherlands, Poland and in other countries.

In 1932, at the age of 56, Tomáš Baťa died in a plane crash during takeoff under bad weather conditions at Zlín Airport. Control of the company was passed to his half-brother, Jan, and his son, Thomas John Bata, who would go on to lead the company for much of the twentieth century guided by their father's moral testament: the Bata Shoe company was to be treated not as a source of private wealth, but as a public trust, a means of improving living standards within the community and providing customers with good value for their money. Promise was made to pursue the entrepreneurial, social and humanitarian ideals of their father. The Baťa company was apparently the first big enerprise to systematically utilise aircraft for company purposes, including rapid transport of lesser personnel on business like delivery of maintenance men and spares to a location where needed, originating the practice of business flying.

PRESENT

After the global economic changes of the 1990s, the company closed a number of its manufacturing factories in developed countries and focused on expanding retail business. Bata moved out of Canada in several steps. In 2000, it closed its Batawa factory. In 2001, it closed its Bata retail stores, retaining its "Athletes World" retail chain. In 2004, the Bata headquarters were moved to Lausanne, Switzerland and leadership was transferred to Thomas G. Bata, grandson of Tomáš Baťa. The Bata headquarters building in Toronto was vacated and eventually demolished. In 2007, the Athletes World chain was sold, ending Bata retail operations in Canada. As of 2013, Bata maintains the headquarters for its "Power" brand of footwear in Toronto. The Bata Shoe Museum, founded by Sonja Bata, and operated by a charitable foundation, is also located in Toronto.

Although no longer chairman of the company, the elder Mr. Bata remained active in its operations and carried business cards listing his title as “chief shoe salesman.” In 2008, Thomas John Bata died at Sunnybrook Health Sciences Centre in Toronto at the age of 93.

Bata estimates that it serves more than 1 million customers per day, employing over 30,000 people, operates more than 5,000 retail stores, manages 27 production facilities and a retail presence in over 90 countries.

BOARD OF DIRECTOR

UDAY KHANNA

Mr. Uday Chander Khanna is Independent Non-Executive Chairman of the Board of Bata India Limited. He has been the Managing Director & CEO of Lafarge India since July 1, 2005. He joined Lafarge in Paris on 1st June 2003 as Senior Vice President for Group Strategy, after a long experience of 30 years with Hindustan Lever/Unilever in a variety of financial, commercial and general management roles both nationally and internationally. His last position before joining Lafarge, was Senior Vice President Finance, Unilever - Asia, based in Singapore. He has earlier been on the Board of Hindustan Lever as Director - Exports. He has also worked as Vice Chairman of Lever Brothers in Nigeria and General Auditor for Unilever-North America based in the USA. Mr. Uday Khanna is a Chartered Accountant - B.Com, FCA. He was the President of the Indo-French Chamber of Commerce & Industry in 2008 & 2009 and is currently on the Managing Committee of the Bombay Chamber of Commerce & Industry and Associated Chamber of Commerce & Industry, as well as the Executive Committee of the Federation of Indian Chamber of Commerce & Industry (FICCI).

OVERVIEW OF THE INDUSTRY

Indian Footwear Industry Overview:

Indian leather industry is the core strength of the Indian footwear industry. It is the engine of growth for the entire Indian leather industry and India is the second largest global producer of footwear after China.

Reputed global brands like Florsheim, Nunn Bush, Stacy Adams, Gabor, Clarks, Nike, Reebok, Ecco, Deichmann, Elefanten, St Michaels, Hasley, Salamander and Colehaan are manufactured under license in India. Besides, many global retail chains seeking quality products at competitive prices are actively sourcing footwear from India.

While leather shoes and uppers are produced in medium to large-scale units, the sandals and chappals are produced in the household and cottage sector. The industry is poised for adopting the modern and state-of-the-art technology to suit the exacting international requirements and standards. India produces more of gent’s footwear while the world’s major production is in ladies footwear. In the case of chapels and sandals, use of non-leather material is prevalent in the domestic market.

Leather footwear exported from India are dress shoes, casuals, moccasins, sport shoes, horrachies, sandals, ballerinas, boots. Non-leather footwear exported from India are Shoes, Sandals and Chappals made of rubber, plastic, P.V.C. and other materials.

With changing lifestyles and increasing affluence, domestic demand for footwear is projected to grow at a faster rate than has been seen. There are already many new domestic brands of footwear and many foreign brands such as Nike, Adidas, Puma, Reebok, Florsheim, Rockport, etc. have also been able to enter the market.

The footwear sector has matured from the level of manual footwear manufacturing methods to automated footwear manufacturing systems. Many units are equipped with In-house Design Studios incorporating state-of-the-art CAD systems having 3D Shoe Design packages that are intuitive and easy to use. Many Indian footwear factories have also acquired the ISO 9000, ISO 14000 as well as the SA 8000 certifications. Excellent facilities for Physical and Chemical testing exist with the laboratories having tie-ups with leading international agencies like SATRA, UK and PFI, Germany.

One of the major factors for success in niche international fashion markets is the ability to cater them with the latest designs, and in accordance with the latest trends. India, has gained international prominence in the area of Colours & Leather Texture forecasting through its outstanding success in MODEUROP. Design and Retail information is regularly made available to footwear manufacturers to help them suitably address the season's requirement.

The Indian Footwear Industry is gearing up to leverage its strengths towards maximizing benefits.

Strength of India in the footwear sector originates from its command on reliable supply of resources in the form of raw hides and skins, quality finished leather, large installed capacities for production of finished leather & footwear, large human capital with expertise and technology base, skilled manpower and relatively low cost labor, proven strength to produce footwear for global brand leaders and acquired technology competence, particularly for mid and high priced footwear segments. Resource strength of India in the form of materials and skilled manpower is a comparative advantage for the country.

India has emerged in recent years as a relatively sophisticated low to medium cost supplier to world markets –The leather industry in India has been targeted by the Central Government as an engine for economic growth. Progressively, the Government has prodded and legislated a reluctant industry to modernise. India was noted as a supplier of rawhides and skins semi processed leather and some shoes.

In the 1970's, the Government initially banned the export of raw hides and skins, followed this by limiting, then stopping the export of semi processed leather and encouraging local tanneries to manufacture finished leather themselves. Despite protestations from the industrialists, this has resulted in a marked improvement in the shoe manufacturing industry. India is now a major supplier of leather footwear to world markets and has the potential to rival China in the future (60% of Chinese exports are synthetic shoes).

India is often referred to as the sleeping giant in footwear terms. It has an installed capacity of 1,800 million pairs, second only to China. The bulk of production is in men's leather shoes and leather uppers for both men and ladies. It has over 100 fully mechanised, modern shoe making plants, as good as anywhere in the world (including Europe). It makes for some upmarket brands including Florsheim (US), Lloyd (Germany), Clarks (UK), Marks and Spencer (UK).

India has had mixed fortunes in its recent export performance. In 2000, exports of shoes were US$ 651 million, in 2001 these increased to 663 million but declined in 2002 to 623 million dollars (See Statistics).

The main markets for Indian leather shoes are UK and USA, which between them take about 55% of total exports.

India has not yet reached its full potential in terms of a world supplier. This is due mainly to local cow leather that although plentiful, has a maximum thickness of 1.4 – 1.6mm, and the socio / political / infrastructure of the country. However, India is an excellent supplier of leather uppers. Importation of uppers from India does not infringe FTA with Europe or the USA.

The potential is set to change albeit slowly, but with a population rivalling China for size, there is no doubt the tussle for world domination in footwear supply is between these two countries.

Few Interesting Facts:

- The Indian footwear retail market is expected to grow at a CAGR of over 20% for the period spanning from 2008 to 2011.
- Footwear is expected to comprise about 60% of the total leather exports by 2011 from over 38% in 2006-07.
- Presently, the Indian footwear market is dominated by Men's footwear market that accounts for nearly 58% of the total Indian footwear retail market.
- By products, the Indian footwear market is dominated by casual footwear market that makes up for nearly two-third of the total footwear retail market.
- As footwear retailing in India remain focused on men's shoes, there exists a plethora of opportunities in the exclusive ladies' and kids' footwear segment with no organized retailing chain having a national presence in either of these categories.
- The Indian footwear market scores over other footwear markets as it gives benefits like low cost of production, abundant raw material, and has huge consumption market.
- The footwear component industry also has enormous opportunity for growth to cater to increasing production of footwear of various types, both for export and domestic market.

In a Nutshell:

There are nearly 4000 units engaged in manufacturing footwear in India. The industry is dominated by small scale units with the total production of 55%. The total turnover of the footwear industry including leather and non-leather footwear is estimated at Rs.8500-9500 crore (Euro 551.3-1723.1 Million) including Rs.1200-1400 crore (Euro 217.6-253.9 Million) in the household segment.

India's share in global leather footwear imports is around 1.4% Major Competitors in the export market for leather footwear are China (14%), Spain (6%) and Italy (21%).

The footwear industry exist both in the traditional and modern sector. While the traditional sector is spread throughout the country with pockets of concentration catering largely to the domestic market, the modern sector is largely confined to select centres like Chennai, Ambur, Ranipet, Agra, Kanpur and Delhi with most of their production for export.

Assembly line production is organized, and about 90% of the workforces in the mechanized sector in South India consist of women. In fact, this sector has opened up plenty of employment opportunities for women who have no previous experience. They are trained to perform a particular function in the factory itself.

Positive Outlook for footwear and leather industry: Highlights CII Study

The National Manufacturing Competitiveness Council (NMCC) has identified the sector as one of the twelve focus manufacturing sectors in terms of competitiveness and untapped potential in the country.

The sector is one of the top eight foreign exchange earners of the country worth Rs. 10,000 crores per annum and accounting for 2.5 percent of the global leather-related trade of Rs. 387,200 crores. An estimated 15 percent of total purchase of leading global brands in footwear, garments, leather goods & accessories, in Europe, and 10 percent of global supply is outsourced from India.

Deliberating upon the current scenario, the Report states that the leather industry employs about 2.5 million people and has annual turn over of Rs. 25,000 crores. Nearly 60-65 percent of the production is done by small / cottage sector.

In tune with the whole sector, the Indian footwear industry too obtains 90 percent production in SMEs, having about 42,000 units registered under SSI, concentrated largely in Agra, Kanpur and Tamil Nadu. Most of the SSI units are also into the production of non-leather footwear.

The footwear segment is the pride of India's leather industry, and ranks second in the world, next to China. The global trade in leather footwear is US$ 30 billion and in non-leather footwear is US$ 18 billion; however India's share in both segments is only marginal -1.4 percent and 0.15 percent respectively.

In the last five years, the leather footwear and footwear component production increased by 60 percent, the consumption of footwear in rural India is 75 percent of the total. An interesting aspect of India's footwear industry is that India produces more of gents' footwear while the world's major production is in ladies footwear.

Analyzing the export - import potential of the sector, the Report informs that imports mostly comprise of hides and skins, semi finished and finished leather. Product imports are low.

On the other hand, almost 50 percent of the total domestic production is exported. Nearly 75 percent of the total export of footwear components is from the Southern Region, the Northern Region, being a poor second with 13 percent. Increased value of export of footwear from Rs 2957.5 crores in 2005 to Rs. 11,000 crores by 2012 is envisaged. Annual export earnings from the Footwear and Leather sector were US$ 2.1 billion in 2003-04 and the sector ranks 8th among the top 10 sectors in India's export list at 2.74 percent.

In addition to the global market, Indian Leather Industry is yet to capture the existing untapped potential in the domestic market. India has a large and growing consumer class (annual income > US$ 449), estimated to constitute nearly 90 million households by 2006 - 07, having with a CAGR around 12 percent. This is a large and growing market for Footwear and Leather goods, the Report further stressed.

The distinct advantages of the Footwear & Leather industry in India, highlighted in the Report are low costs; variety & abundance of raw material; quality consciousness and back up; R & D facilities with extension support enables India as a significant participant in the world Footwear & Leather market. As per the current scenario; the Footwear & Leather Industry in India is spread largely over unorganized sector, comprising tanning & finishing, footwear & footwear components, leather garments, leather goods including saddlery & harness, etc.

Stressing on the improvement areas in infrastructure and investment in the Sector, the Report states that an estimated investment in the entire footwear and leather sector in India is approximately Rs. 4,500 crores and annual production is at Rs. 22,000 crores.

However, India seems to have missed out the investments in the footwear industry with China getting most of the benefit by attracting 10 times more investments than India in the last 20 years.

It can be said that India has not been alive to its potential in this matter. India's loss has been China's gain. India's lacks of awareness of its potential and its belated recognition of this sector have been to be made good speedily.

Though the Leather Industry, especially the Footwear industry has made a strong contribution to the Indian economy, India's share in global trade remains low, however being a labour intensive industry, its contribution to employment is significant.

In a recent study carried out by NMCC, it was highlighted that total employment in this sector would amount to 2.5 million (30 percent of which are women).

Footwear industry provides employment to the uneducated population - 40 percent of employment is represented by unskilled workers doing table work operation in the assembly line.

Large employment opportunities on the input side - minority community and low caste people have their sole source of livelihood from collecting carcasses, skinning dead animals and tanning leather.

The Footwear industry has potential to provide employment across all sections of the economy Industry estimates of employment potential 3 lakh jobs in next 3 years.

The potential for employment is across all skills to the tune of semi-skilled and unskilled labourers - 92 percent; technical supervisory, shop floor - 7 percent; entrepreneurs, senior managers and technologists - 1 percent.

Indian Footwear and Leather industry is clearly optimistic about the future. To protract this optimism, State Governments must ensure that they are able to create an attractive and enabling environment. CII believes this can be achieved through openness to investments, good governance and robust infrastructure.

Import Export of Footwear & Leather Products

- Indian Footwear Industry in a Nutshell: -
- Second largest footwear producer after China
- 2.06 billion pairs produced in an year
- 16 % of the global production is produced in India

- Contract manufacturers supply to leading global brands
- 644 Member produces situated as clusters at Chennai, Ambur, Ranipet, Kanpur, Agra, Mumbai, Delhi and Karnal.

The export of Leather and Leather Products for the period April-March 2007-08 touched US$3477.52 million against the performance of US$3059.43 million in the corresponding period of last year, registering a positive growth of 13.67% in Dollar Terms. In rupee terms the export touched Rs.140007.33 million against the previous year's performance of Rs.138437.84 million showing a positive growth of 1.13%.

The export value during 2012-13 was revised upwards by DGCI&S, from US$2981,79 million (Rs.134924.39 million) to US$3059.43 million {Rs.138437.84 million).

Major Highlights

- Export of Footwear (leather, footwear components & non-Leather footwear) has increased from US$1236.91 million in April-March 2006-07 to US$1475.83 million in April-March 2007-08, registering a growth of 19.32%
- In Dollar terms, Leather footwear has alone grown by 19.45%, footwear components by 21.05% and Non-Leather footwear by 7.39%
- Export of Leather Garments has increased by 11.00%, Saddlery & Harness by 28.53%, and Leather Goods by 11.14%
- Export of Finished Leather has increased by 5.93%.

India's Leather & Leather Products Export Basket

Major Production Centers

The major production centers for footwear and leather products are located in:

- Tamil Nadu - Chennai, Ambur, Ranipet, Vaniyambadi, Trichy, Dtndtgul
- West Bengal - Kolkata
- Uttar Pradesh - Kanpur, Agra & Noida
- Punjab - Jallandhar
- Karnataka - Bangalore
- Andhra Pradesh - Hyderabad
- Haryana - Ambala, Gurgaon, Panchkula and Karnal
- Delhi

PROFILE OF THE ORGANISATION

Bata - India's favorite footwear brand

Bata India is the largest retailer and leading manufacturer of footwear in India and is a part of the Bata Shoe Organization.

Incorporated as Bata Shoe Company Private Limited in 1931, the company was set up initially as a small operation in Konnagar (near Calcutta) in 1932. In January 1934, the foundation stone for the first building of Bata's operation - now called the Bata. In the years that followed, the overall site was doubled in area. This township is popularly known as Bata nagar. It was also the first manufacturing facility in the Indian shoe industry to receive the ISO: 9001 certification.

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Bata's smart looking new stores supported by a range of better quality products are aimed at offering a superior shopping experience to its customers.

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BATA'S STORY BEGINS IN 1894

Bata was founded by three siblings with a small inheritance in the town of Zlin, Czechoslovakia on August 24, 1894. ————————————It was one of the world's first shoe "manufacturers"; a team of stitchers and shoemakers creating footwear not just for neighbours, but for distant retail merchants.

Less than 10 years later, Bata produced 2200 pairs per day, employing resourceful imaginations, skilled hands and modern machinery to keep up with demand. Innovative shoes styles were developed with new customer-sensitive ways to promote them. And despite the outbreak of the

First World War, material shortages, manpower shortages, and cartels, sales increased to about two million pairs per year by 1917. The Bata legacy had just begun.

In Zlin, Bata built housing, schools and hospitals around the factory for its workers and their families- a design it would replicate in other parts of the world in years to come. Bata provided inexpensive rent and food during very difficult times, because founder Tomas Bata firmly believed business should serve the public.

CHAPTER NO 2

STATEMENT OF THE PROBLEM

The researcher aim to find out the liquidity and profitability position of the company. This study is concerned with problems involved in working capital like estimation of working capital and provision of working capital at the time it is needed.

Working capital represents that part of resources of the business, which makes the business work. In the absence of proper management of working capital it would be difficult to achieve the requirement of the company.

OBJECTIVE OF THE STUDY:

1. To examine the effectiveness of working capital management polices with the help of accounting ratio.
2. To study liquidity position of the company by taking various measurements.
3. To evaluation the financial performance of the company.
4. To make suggestions for policy makers for effective management of working capital.

SCOPE OF STUDY

The scope of this study is to provide an insight into concept of working capital management and illustrate it by actually working capital management of Bata India Ltd. This study also provides insight of the customer preference of Bata India Ltd and its market share as competitor.

Working Capital is the money used to make goods and attract sales. The less working capital used to attract sales, the higher is likely to be the return on investment. Working Capital Management is about the commercial and financial aspects of Inventory, Credit, Purchasing, Marketing and royalty and investment policy. The higher the profit margin, the lower is like to be the level of working capital tied up in creating and selling titles. The importance of working capital management stems from the two reasons viz,.

1. A substantial portion of total investment is invested in current assets
2. Level of current assets will change quickly with the variation in sales.

Hence, an attempt should be made to analyze the size and composition of working capital and whether such an investment will lead to increased of business ever a period of time. After determining the requirements of current assets, one of the importance tasks of the financial manager is to select an assortment of appropriate sources of finance for the current assets.

The efficient utilization of funds is very important in an organization. The scope of this project is to analyze the efficiency utilization of working capital. This project document emphasizes in handling the various techniques in articulating the glass factory's monetary strengths and weakness and its growth for the specific period of time. So this project will help the organization's future by suggesting means to metering the optimal level is working capital.

NEED AND IMPORTANCE OF THE STUDY:

1. Their projects is helpful in knowing the company's position of funds maintenance and setting the standards for working capital inventory levels, current ratio level, quick ratio, current amount turnover level & web torn turnover levels.
2. This project is helpful to the managements for expanding the dualism & the project viability & present availability of funds.
3. This project is also useful as it companies the present year data with the previous year data and thereby it shows the trend analysis, i.e. increasing fund or decreasing fund.
4. The project is done entirely as a whole entirely. It will give overall view of the organization and it is useful in further expansion decision to be taken by management.

DATA COLLECTION METHOD

Primary Data

In respect of primary data which the researcher is directly collects data that have not been previously collected.

The primary data was gathered through personal interaction with various functional heads and other technical personnel. Some information was also collected by observation.

Secondary Data:

Secondary data was collected various reports / annual reports, documents charts, management information systems, etc in PRAGA. And also collected various magazines, books, newspapers and internet.

The analysis of the information gathered has been made on the basis of the clarifications sought during the personal discussions with the concerned people and perception during the personal visits to the important areas o services.

LIMITATIONS OF THE STUDY

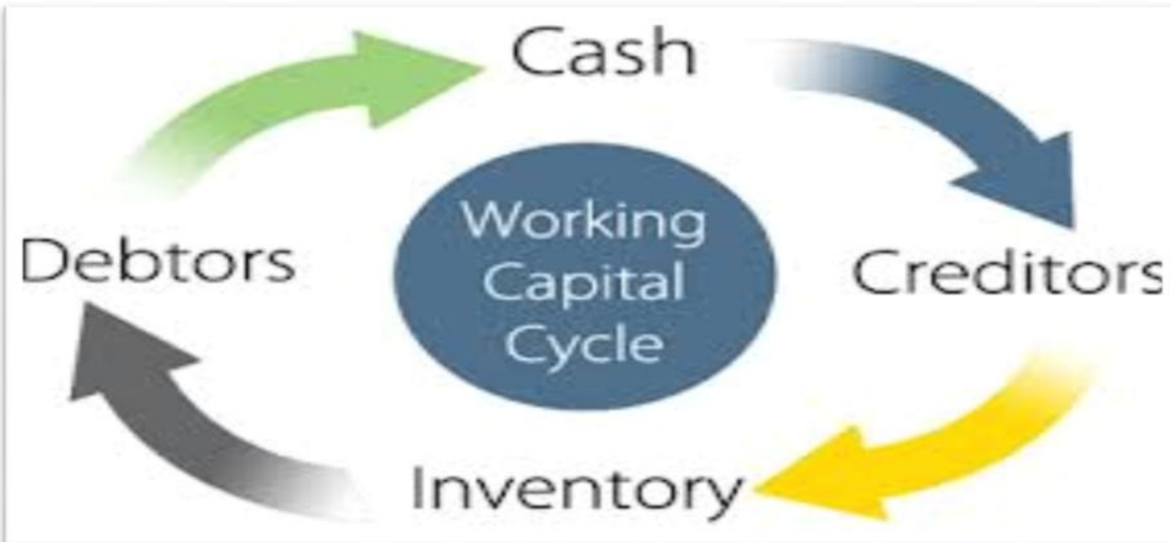
Following were the limitations of the study:

1. Time was limited.
2. The sample size of 100 is very small and more than that could not be possible.
3. The study was only based on the survey of respondents in GURGAON and no other area could be undertaken for the survey due to lack of time.
4. This of working capital management is based solely upon the annual reports of the company in hard copy and through company website.

CHAPTER NO 3

CONCEPTUAL DISCUSSION

OVERVIEW OF WORKING CAPITAL MANAGEMENT



Working capital is a financial metric which represents operating liquidity available to a business, organization or other entity, including governmental entity. Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital. Gross working capital equals to current assets. Net working capital (NWC) is calculated as current assets minus current liabilities. It is a derivation of working capital that is commonly used in valuation techniques such as DCFs (Discounted cash flows). If current assets are less than current liabilities, an entity has a working capital deficiency, also called a working capital deficit.

A company can be endowed with assets and profitability but short of liquidity if its assets cannot readily be converted into cash. Positive working capital is required to ensure that a firm is able to continue its operations and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash.

Working capital refers to that part of the firm's capital which is required for financing short-term or current assets such as cash, marketable securities, debtors & inventories. Funds, thus, invested in current assts keep revolving fast and are being constantly converted in to cash and this cash flows out again in exchange for other current assets. Hence, it is also known as revolving or circulating capital or short term capital.

Working capital management is concerned with the problems arise in attempting to manage the current assets, the current liabilities and the inter relationship that exist between them.

The term current assets refers to those assets which in ordinary course of business can be, or, will be, turned in to cash within one year without undergoing a diminution in value and without disrupting the operation of the firm. The major current assets are cash, marketable securities, account receivable and inventory.

Current liabilities ware those liabilities which intended at there inception to be paid in ordinary course of business, within a year, out of the current assets or earnings of the concern. The basic current liabilities are account payable, bill payable, bank over-draft, and outstanding expenses.

The goal of working capital management is to manage the firm's current assets and current liabilities in such way that the satisfactory level of working capital is mentioned.

Definition:-

According to Guttmann & Dougall-

"Excess of current assets over current liabilities".

According to Park & Gladson-

"The excess of current assets of a business (i.e. cash, accounts receivables, inventories) over current items owned to employees and others (such as salaries & wages payable, accounts payable, taxes owned to Government)".

Capital required for a business can be classified under two main categories via,

1) Fixed Capital

2) Working Capital

Every business needs funds for two purposes for its establishment and to carry out its day- to-day operations. Long terms funds are required to create production facilities through purchase of fixed assets such as p&m, land, building, furniture, etc. Investments in these assets represent that part of firm's capital which is blocked on permanent or fixed basis and is called fixed capital. Funds are also needed for short-term purposes for the purchase of raw material, payment of wages and other day – to- day expenses etc.

CONCEPT OF WORKING CAPITAL

There are two concepts of working capital:

1. Gross working capital
2. Net working capital

The gross working capital is the capital invested in the total current assets of the enterprises current assets are those assets which can convert in to cash within a short period normally one accounting year.

CONSTITUENTS OF CURRENT ASSETS

1) Cash in hand and cash at bank
2) Bills receivables
3) Sundry debtors
4) Short term loans and advances
5) Inventories of stock as:
    a. Raw material
    b. Work in process
    c. Stores and spares

d. Finished goods

6. Temporary investment of surplus funds.

7. Prepaid expenses

8. Accrued incomes.

9. Marketable securities.

In a narrow sense, the term working capital refers to the net working. Net working capital is the excess of current assets over current liability, or, say:

NET WORKING CAPITAL = CURRENT ASSETS – CURRENT LIABILITIES.

Net working capital can be positive or negative. When the current assets exceeds the current liabilities are more than the current assets. Current liabilities are those liabilities, which are intended to be paid in the ordinary course of business within a short period of normally one accounting year out of the current assts or the income business.

CONSTITUENTS OF CURRENT LIABILITIES

1. Accrued or outstanding expenses.
2. Short term loans, advances and deposits.
3. Dividends payable.
4. Bank overdraft.
5. Provision for taxation, if it does not amt. to app. of profit.
6. Bills payable.
7. Sundry creditors.

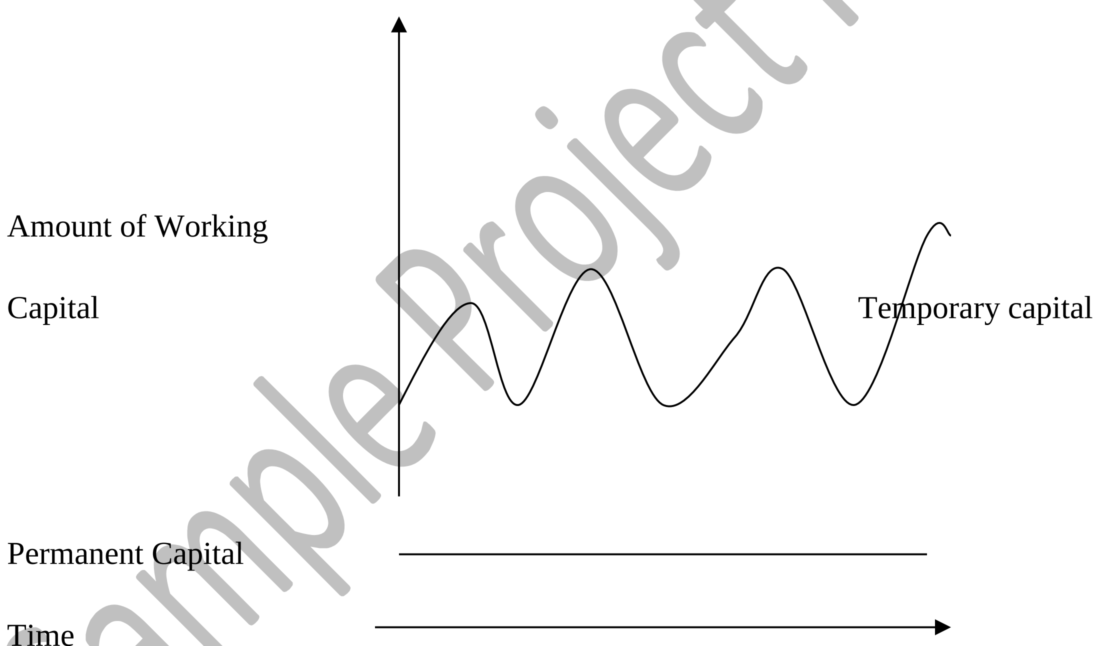
CLASSIFICATION OF WORKING CAPITAL

Working capital may be classified in two ways:

1. On the basis of concept.
2. On the basis of time.

On the basis of concept working capital can be classified as gross working capital and net working capital. On the basis of time, working capital may be classified as:

1. Permanent or fixed working capital.
2. Temporary or variable working capital



PERMANENT OR FIXED WORKING CAPITAL

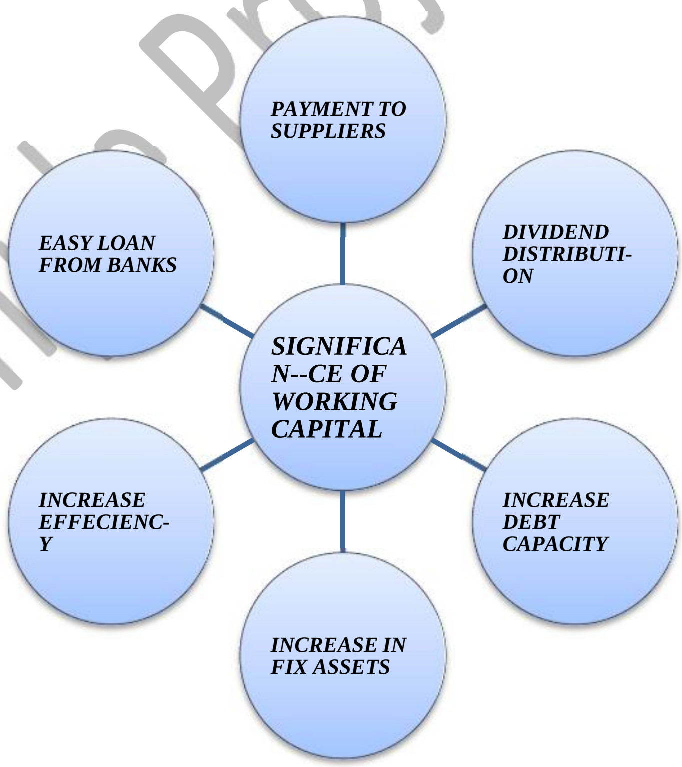
Permanent or fixed working capital is minimum amount which is required to ensure effective utilization of fixed facilities and for maintaining the circulation of current assets. Every firm has to maintain a minimum level of raw material, work- in-process, finished goods and cash balance. This minimum level of current assets is called permanent or fixed working capital as this part of working is permanently blocked in current assets. As the business grow the requirements of working capital also increases due to increase in current assets.

TEMPORARY OR VARIABLE WORKING CAPITAL

Temporary or variable working capital is the amount of working capital which is required to meet the seasonal demands and some special exigencies. Variable working capital can further be classified as seasonal working capital and special working capital. The capital required to meet the seasonal need of the enterprise is called seasonal working capital. Special working capital is that part of working capital which is required to meet special exigencies such as launching of extensive marketing for conducting research, etc.

Temporary working capital differs from permanent working capital in the sense that is required for short periods and cannot be permanently employed gainfully in the business.

IMPORTANCE OR ADVANTAGE OF ADEQUATE WORKING CAPITAL



- SOLVENCY OF THE BUSINESS:

Adequate working capital helps in maintaining the solvency of the business by providing uninterrupted of production.

- Goodwill:

Sufficient amount of working capital enables a firm to make prompt payments and makes and maintain the goodwill.

- Easy loans:

Adequate working capital leads to high solvency and credit standing can arrange loans from banks and other on easy and favorable terms.

- Cash Discounts:

Adequate working capital also enables a concern to avail cash discounts on the purchases and hence reduces cost.

- Regular Supply of Raw Material:

Sufficient working capital ensures regular supply of raw material and continuous production.

- Regular Payment Of Salaries, Wages And Other Day TO Day Commitments:

It leads to the satisfaction of the employees and raises the morale of its employees, increases their efficiency, reduces wastage and costs and enhances production and profits.

- Ability to Face Crises:

A concern can face the situation during the depression.

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FACTORS DETERMINING THE WORKING CAPITAL REQUIREMENTS

1. NATURE OF BUSINESS:

The requirements of working is very limited in public utility undertakings such as electricity, water supply and railways because they offer cash sale only and supply services not products, and no funds are tied up in inventories and receivables. On the other hand the trading and financial firms requires less investment in fixed assets but have to invest large amt. of working capital along with fixed investments.

2. SIZE OF THE BUSINESS:

Greater the size of the business, greater is the requirement of working capital.

3. PRODUCTION POLICY:

If the policy is to keep production steady by accumulating inventories it will require higher working capital.

4. LENTH OF PRDUCTION CYCLE:

The longer the manufacturing time the raw material and other supplies have to be carried for a longer in the process with progressive increment of labor and service costs before the final product is obtained. So working capital is directly proportional to the length of the manufacturing process.

Sources of working capital

The company can choose to finance its current assets by

1. Long term sources

2. Short term sources

3. A combination of them.

Long term sources of permanent working capital include equity and preference shares, retained earnings, debentures and other long term debts from public deposits and financial institution. The long term working capital needs should meet through long term means of financing. Financing through long term means provides stability, reduces risk or payment and increases liquidity of the business concern. Various types of long term sources of working capital are summarized as follow:

1. Issue of shares:

It is the primary and most important sources of regular or permanent working capital. Issuing equity shares as it does not create and burden on the income of the concern. Nor the concern is obliged to refund capital should preferably raise permanent working capital.

2. **Retained earnings:**

Retain earning accumulated profits are a permanent sources of regular working capital. It is regular and cheapest. It creates not charge on future profits of the enterprises.

3. **Issue of debentures:**

It creates a fixed charge on future earnings of the company. Company is obliged to pay interest. Management should make wise choice in procuring funds by issue of debentures.

Short term sources of temporary working capital

Temporary working capital is required to meet the day to day business expenditures. The variable working capital would finance from short term sources of funds. And only the period needed. It has the benefits of, low cost and establishes closer relationships with banker.

Some sources of temporary working capital are given below:

1. Commercial bank:

A commercial bank constitutes significant sources for short term or temporary working capital. This will be in the form of short term loans, cash credit, and overdraft and though discounting the bills of exchanges.

2. **Public deposits:**

Most of the companies in recent years depend on this source to meet their short term working capital requirements ranging for six month to three years.

3. **Various credits:**

Trade credit, business credit papers and customer credit are other sources of short term working capital. Credit from suppliers, advances from customers, bills of exchanges, etc helps to raise temporary working capital

4. **Reserves and other funds:**

Various funds of the company like depreciation fund. Provision for tax and other provisions kept with the company can be used as temporary working capital.The company should meet its working capital needs through both long term and short term funds. It will be appropriate to meet at least 2/3 of the permanent working capital equipments form long term sources, whereas the variables working capital should be financed from short term sources. The working capital financing mix should be designed in such a way that the overall cost of working capital is the lowest, and the funds are available on time and for the period they are really required.

<u>SOURCES OF ADDITIONAL WORKING CAPITAL</u>

Sources of additional working capital include the following-

1. Existing cash reserves

2. Profits (when you secure it as cash)

3. Payables (credit from suppliers)

4. New equity or loans from shareholder

5. Bank overdrafts line of credit

6. Long term loans

If we have insufficient working capital and try to increase sales, we can easily over stretch the financial resources of the business. This is called overtrading. Early warning signs include

1. Pressure on existing cash

2. Exceptional cash generating activities. Offering high discounts for clear cash payment

3. Bank overdraft exceeds authorized limit

4. Seeking greater overdrafts or lines of credit

5. Part paying suppliers or there creditor.

6. Management pre occupation with surviving rather than managing.

Different Aspects of Working Capital Management

- Management of Inventory
- Management of Receivables/Debtors
- Management of Cash
- Management of Payables/Creditors

MANAGEMENT OF INVENTORY

Inventories constitute the most significant part of current assets of a large majority of companies. On an average, inventories are approximately 60% of current assets. Because of large size, it requires a considerable amount of fund. The inventory means and includes the goods and services being sold by the firm and the raw material or other components being used in the manufacturing of such goods and services.

Nature of Inventory:

The common type of inventories for most of the business firms may be classified as raw-material, work-in-progress, finished goods.

Raw material:

It is basic inputs that are converted into finished products through the manufacturing process. Raw materials inventories are those units which have been purchased and stored for future productions.

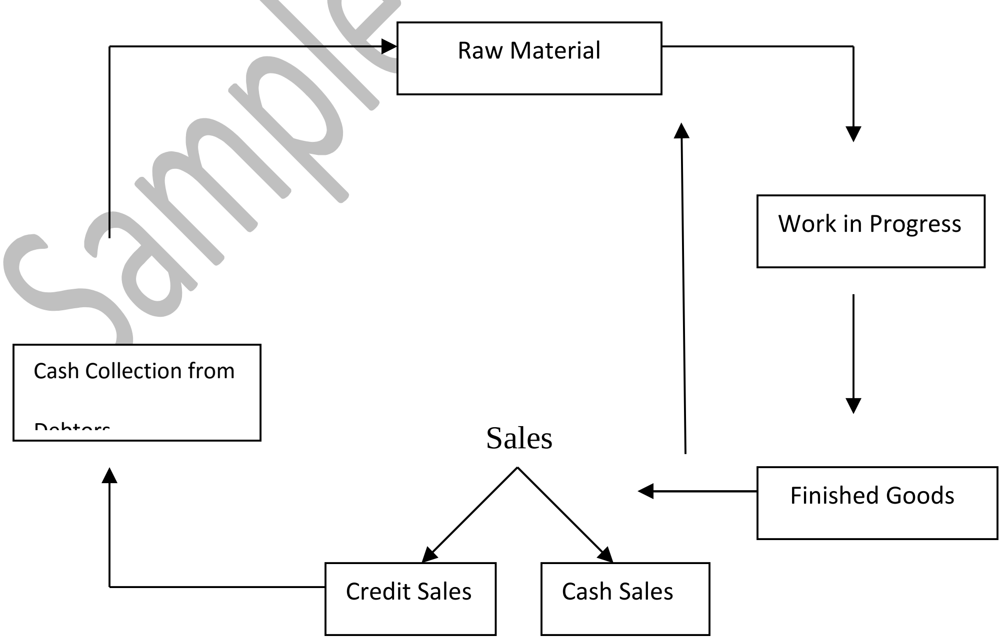
Work–in–process:

Work-in-process is semi-manufactured products. They represent products that need more work before them become finished products for sale.

Finished goods:

These are completely manufactured products which are ready for sale. Stocks of raw materials and work-in-process facilitate production, while stock of finished goods is required for smooth marketing operations. Thus inventories serve as a link between the production and consumption of goods. The levels of three kinds of inventories for a firm depend on the nature of business. A manufacturing firm will have substantially high levels of all the three kinds of inventories. While retail or wholesale firm will have a very high level of finished goods inventories and no raw material and work-in-process inventorie

So operating cycle can be known as following:-



<u>Need to hold inventories</u>

Maintaining inventories involves trying up of the company's funds and incurrence of storage and holding costs. There are three general motives for holding inventories:

Transactions Motive: IT emphasizes the need to maintain inventories to facilitate smooth production and sales operation.

Precautionary Motive: It necessitates holding of inventories to guard against the risk of unpredictable changes in demand and supply forces and other factors.

Speculative Motive: It influences the decision to increase or reduce inventory levels to take advantage of price fluctuations.

<u>Management of Receivables/Debtors</u>

The Receivables (including the debtors and the bills) constitute a significant portion of the working capital. The receivables emerge whenever goods are sold on credit and payments are deferred by customers. A promise is made by the customer to pay cash within a specified period. The customers from whom receivable or book debts have to be collected in the future are called **trade debtors** and represents the firm's claim or assets. Thus, receivable is s type of loan extended by the seller to the buyer to facilitate the purchase process. **Receivable Management** may be defined as collection of steps and procedure required to properly weight the costs and benefits attached with the credit policy. The Receivable Management consist of matching the cost of increasing sales (particularly credit sales) with the benefits arising out of increased sales with the objective of maximizing the return on investment of the firm.

Nature

The term credit policy is used to refer to the combination of three decision variables:

1. Credit standards: It is the criteria to decide the type of customers to whom goods could be sold on credit. If a firm has more slow –paying customers, its investment in accounts receivable will increase. The firm will also be exposed to higher risk of default.

2. Credit terms:

It specifies duration of credit and terms of payment by Customer Investment in accounts receivable will be high if customers are allowed extended time period for making payments.

3. Collection efforts: It determine the actual collection period. The lower the collection period, the lower the investment in accounts receivable and vice versa.

Management of Cash

Cash management refers to management of cash balance and the bank balance and also includes the short terms deposits. Cash is the important current asset for the operations of the business. Cash is the basic input needed to keep the business running on a continuous basis. It is also the ultimate output expected to be realized by selling the service or product manufactured by the firm. The term cash includes coins, currency, and cheque held by the firm and balance in the bank accounts.

Factors of Cash Management:

Cash management is concerned with the managing of

- Cash flows into and out of the firm
- Cash flows within the firm and

- Cash balance held by the firm at a point of time by financing deficit or investing surplus cash. Sales generate cash which has to be disbursed out. The surplus cash has to be invested while deficit has to borrow. Cash management seeks to accomplish this cycle at a minimum cost and it also seeks to achieve liquidity and control.

Motives of holding cash

A distinguishing feature of cash as an asset is that it does not earn any substantial return for the business. Even though firm hold cash for following motives:

Transaction motive:

Precautionary motive

Speculative motives

Compensatory motive

Transaction motive: This refers to the holding of cash to meet routine cash requirement to finance. The transactions, which a firm carries on in the ordinary course of business.

1. Precautionary motive: This implies the needs to hold cash to meet unpredictable contingencies such as strike, sharp increase in raw materials prices. If a firm can borrow at short notice to pay them unforeseen contingency, it will need to maintain relatively small balances and vice-versa.

2. **Speculative motives**: It refers to the desire of the firm to take advantage of opportunities which present themselves at unexpected movements and which are typically outside the normal course of business.

3. **Compensatory motive:** Bank provides certain services to their client free of cost. They therefore, usually require client to keep minimum cash balance with them to earn interest and thus compensate them for the free service so provided.

Management of Payables/Creditors

Creditors are a vital part of effective cash management and should be managed carefully to enhance the cash position. Purchasing initiates cash outflows and an over-zealous purchasing function can create liquidity problems. Consider the Following:

i. Who authorizes purchasing in our company-is it tightly managed or spread among a number of people?
ii. Are purchase quantities geared to demand forecasts?
iii. Do we use order quantities which take account of stock-holding and purchasing costs?
iv. Do we know the cost to the company of carrying stock?
v. Do we have alternative source of supply?
vi. How many of our suppliers have a returns policy?
vii. Are we in a position to pass on cost increases quickly through price increase?

MANAGEMENT OF WORKING CAPITAL

Management of working capital is concerned with the problem that arises in attempting to manage the current assets, current liabilities. The basic goal of working capital management is to manage the current assets and current liabilities of a firm in such a way that a satisfactory level of working capital is maintained, i.e. it is neither adequate nor excessive as both the situations are bad for any firm. There should be no shortage of funds and also no working capital should be ideal. WORKING CAPITAL MANAGEMENT POLICES of a firm has a great on its probability, liquidity and structural health of the organization. So working capital management is three dimensional in nature as

- It concerned with the formulation of policies with regard to profitability, liquidity and risk.
- It is concerned with the decision about the composition and level of current assets.
- It is concerned with the decision about the composition and level of current liabilities.

WORKING CAPITAL ANALYSIS

As we know working capital is the life blood and the centre of a business. 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:

- Ratio analysis.
- Fund flow analysis.
- Budgeting.

METHODS OF WORKING CAPITAL ANALYSIS

There are so many methods for analysis of financial statements but Bata India Ltd used the following techniques:-

- Comparative size statements
- Trend analysis
- Cash flow statement
- Ratio analysis

A detail description of these methods is as follows:-

COMPARATIVE SIZE STATEMENTS:-

When two or more than two years figures are compared to each other than we called comparative size statements in order to estimate the future progress of the business, it is necessary to look the past performance of the company. These statements show the absolute figures and also show the change from one year to another.

TREND ANALYSIS:-

To analyze many years financial statements Bata India Ltd uses this method. This indicates the direction on movement over the long time and help in the financial statements.

Procedure for calculating trends:-

1. Previous year is taken as a base year.

2. Figures of the base year are taken 100.
3. Trend % are calculated in relation to base year

CASH FLOW STATEMENT:-

Cash flow statements are the statements of changes in the financial position prepared on the basis of funds defined in cash or cash equivalents. In short cash flow statement summaries the cash inflows and outflows of the firm during a particular period of time.

Benefits for the Bata India Ltd:-

- To prepare the cash budget.
- To compare the cash budgets.
- To show the position of the cash and cash equivalents.

RATIO ANALYSIS:-

Ratio analysis is the process of the determining and presenting the relationship of the items and group of items in the statements.

Benefits of ratio analysis to Bata India Ltd:-

1. Helpful in analysis of financial statements.
2. Helpful in comparative study.
3. Helpful in locating the weak spots of the **Bata India Ltd.**
4. Helpful in forecasting.
5. Estimate about the trend of the business.
6. Fixation of ideal standards.
7. Effective control.
8. Study of financial soundness.

Types of ratio:-

- ***Liquidity ratio:*** They indicate the firms' ability to meet its current obligation out of current resources.
    - **Current ratio**:- Current assets / Current liabilities
    - **Quick ratio:-** Liquid assets / Current liabilities

Liquid assets =Current assets – Stock -Prepaid expenses

- ***Leverage or Capital structure ratio:*** This ratio discloses the firms ability to meet the interest costs regularly and long term solvency of the firm.
  - **Debt equity ratio:-** Long term loans / Shareholders funds or net Worth
  - **Debt to total fund ratio:-** Long terms loans/ share holder funds +long term loan
  - **Proprietary ratio:-** Shareholders fund/ shareholders fund+long term loan

- ***Activity ratio or Turnover ratio:-*** They indicate the rapidity with which the resources available to the concern are being used to produce sales.
  - **Stock turnover ratio:-** Cost of good sold/Average stock

    (Cost of goods sold= Net sales/ Gross profit,

    Average stock=Opening stock+closing stock/2)

  - **Debtors turnover ratio:-** Net credit sales/ Average debtors

    +Average B/R

  - **Average collection period:-** Debtors+B/R /Credit sales per

    (Credit sales per day=Net credit sales of the year/365)

  - **Creditors Turnover Ratio:-** Net credit purchases/ Average

    Creditors + Average B/P

  - **Average Payment Period**: - Creditors + B/P/ Credit purchase per day.

  - **Fixed Assets Turnover ratio:-** Cost of goods sold/Net fixed Assets

    (Net Fixed Assets = Fixed Assets – depreciation)

  - **Working Capital Turnover Ratio:-** Cost of goods sold/

Working Capital

(Working capital= current assets – current liability)

- ***Profitability Ratios or Income ratios:-*** The main objective of every business concern is to earn profits. A business must be able to earn adequate profit in relation to the risk and capital invested in it.
  - **Gross profit ratio:-** Gross profit / Net Sales * 100

    (Net sales= Sales – Sales return)

  - **Net profit Ratio:-** Net profit / Net sales * 100

    (Operating Net Profit= operating net profit/ Net Sales *100 or operating Net profit= gross profit – operating expenses)

  - **Operating Ratio :-** Cost of goods sold + Operating expenses/Net Sales * 100

  (Cost of goods sold = Net Sales – Gross profit, Operating expenses = office & administration expenses + Selling & distribution expenses + discount + bad debts + interest on short term loans)

  - **Earning per share(E.P.S.) :-** Net Profit – dividend on preference share / No. of equity shares
  - **Dividend per share (D.P.S.):-** Dividend paid to equity share Holders / No. of equity shares *100
  - **Dividend Payout ratio(D.P.) :-** D.P.S. / E.P.S. *100

OPERATING CYCLE OF WORKING CAPITAL

Sufficient working capital is necessary to sustain sales activity. Technically this is referred to as a operating/ cash cycle. It can be said to be at the heart of the need of working capital.

Cash/operating cycle is the length of time necessary to complete following event.

- ✓ Convert cash into raw material.
- ✓ Raw material into goods in process.
- ✓ Goods in process into finished goods.
- ✓ Finished goods into debtors through credit sales, and debtor into cash.

The cycle is a continuous process

OPERATING CYCLE

The Working Capital cycle or Cash Conversion cycle as it is also called is usually expressed in terms of the number of days. This figure is the average time that it takes to turn investment in books into cash and profit. Payback expresses the number of days required to recoup the original investment on a single title. In the organization's Balance Sheet there will be the costs of paper, titles still under development, and author advances of books already and not yet published. In addition there will be the cost of stocks of unsold books, Accounts Receivable, and Accounts Payable.

Determinants of working capital

The requirements of working capital generally vary from industry to industry, concern to concern and time to time. Comparing the production cycle of BHEL with any of the FMCG Company we will notice that, BHEL takes considerably longer period to manufacture a turbine while in FMCG companies' like HLL or P&G takes few minutes to manufacture their product. Working capital in these companies can be even negative as they take credit from suppliers and sell their products on cash. So current liabilities are higher due to which figure of working capital can be negative. The various factor which influence the amount of working capital required by a business enterprises, may be grouped under two heads.

1) **Internal factor**: - The factor which are within the control and competence of management. These may include the risk taking attitude of management, turn over of receivable and inventories terms of purchase and sale s and credit rating etc.

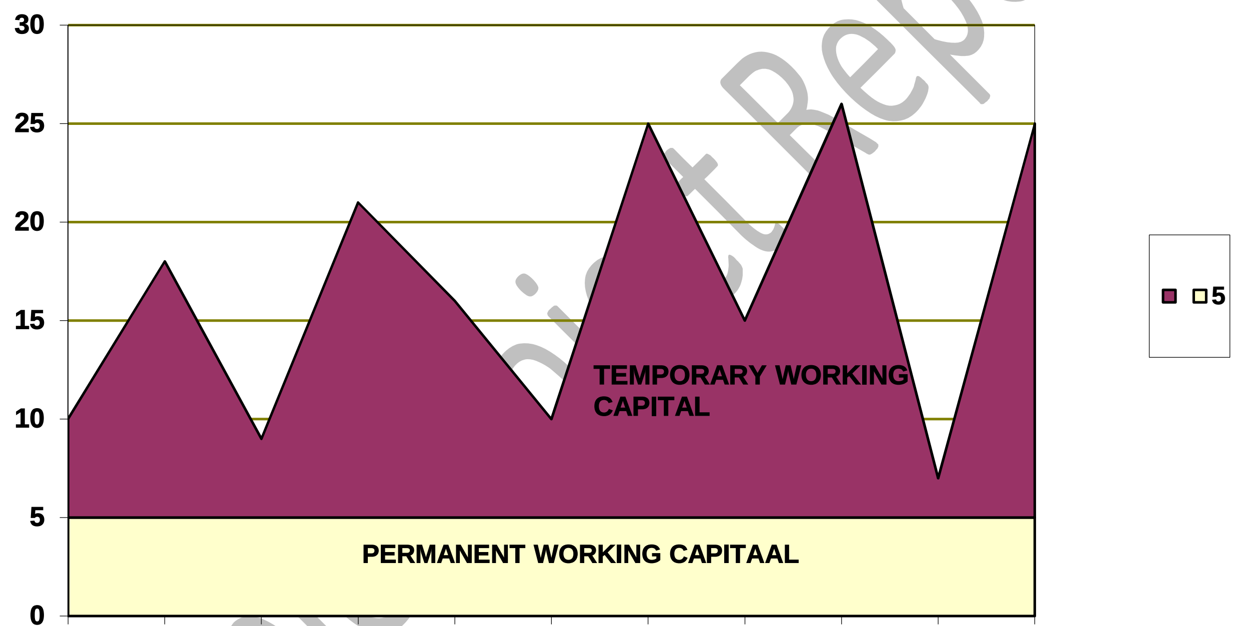
2) **External factor**: - these may include the nature of business, volume of production and sales and business cycle.

PERMANENT AND TEMPORARY WORKING CAPITAL

The operating cycle thus crates the need for current assets (working capital).however this need does not come to an end after the cycle is completed. It continues to exist. Thus the distinction between ***permanent*** and ***temporary*** working capital should be known.

Business keeps on going even after the realization of cash from customers, which creates the need for regular supply of working capital. However the magnitude of Working capital required is not constant, but fluctuating. To carry on business, a certain minimum level of Working capital is necessary on a continuous and uninterrupted basis. For all practical purpose, this requirement has to be met permanently as with other fixed assets. This requirement is referred to as Permanent or fixed Working capital.

Any amount over or above the permanent level of Working capital is temporary, fluctuating or variable Working capital. This portion of the required Working capital is needed to meet fluctuation in demand consequent upon changes in production and sales as a result of seasonal changes. The basic distinction between these two is:



<u>IMPORTANCE OR ADVANTAGES OF WORKING CAPITAL</u>

Working capital is the blood and nerve centre of a business. Just as circulation of blood is essential in the human body for maintaining life, working capital is very essential to maintain the smooth running of a business. No business can run successfully without an adequate amount of working capital. The main advantages of maintaining adequate amount of working capital are as follows:

- Solvency of the business.
- Goodwill

- Easy loans
- Cash discounts
- Regular supply of raw materials
- Regular payment of salaries, wages and other day-to-day commitments.
- Exploitation of favorable market conditions.
- Ability to face crisis
- Quick and regular return on investments

CHAPTER NO 4

COLLECTION OF DATA:-

The task of data collection begins after a research problem has been defined and research design/plan chalked out. The collection of data is done to support tour findings and interest the result whether the result you have found in according to your hypothesis or not. The data can be collected by various methods. These are broadly classified into two ways, as follows:

- **PRIMARY DATA**
- **SECONDARY DATA**

PRIMARY DATA:-

The primary data are those which are collected a fresh and for the first time and thus happen to be original in character. We collect primary data during the course of doing experiments in an experimental research. It is the first hand data and nobody else has collected this before. There are various ways of collecting primary data, these are as follows:

1). Observation method

3). Questionnaires

4). other methods

SECONDARY DATA:

1. From Internet

3. Government Publications

DATA ANALYSIS & INTERPRETATION

It is also known as "working capital ratio" .It is a measures of short-term financial strength of the business and shows whether the business will be able to meet it' s current liabilities as when they mature.

Current Assets including assets which can be converted in to cash easily and itself like market securities debtors, inventory, prepaid expenses etc.

Current Liabilities included creditors, bills payable, accrual expenses, short term bank loan, income tax liabilities and long term debt maturity in current year. In short it can be said as all obligations within a year are included in current liabilities.

Current ratio is a measure of the firm's short term solvency. It indicates the availability of current assets in rupee of current liabilities. As a conventional rule, a current ratio should be or slightly more. It focuses the strong of weak position of the company.

$$C \qquad r = \frac{C \quad en \quad a}{C \qquad li}$$

For the year:

2012 - 13 = **Rs.** 58746.07 = 1.61:1

Rs. 35756.98

2011 - 12 = **Rs.** 51488.87 = 2.19:1

Rs. 23417.51

2010 - 11 = **Rs.** 29913.35 = 1.77:1

Rs. 16865.53

2009 – 10 = **Rs.** 24574.45 = 1.96:1

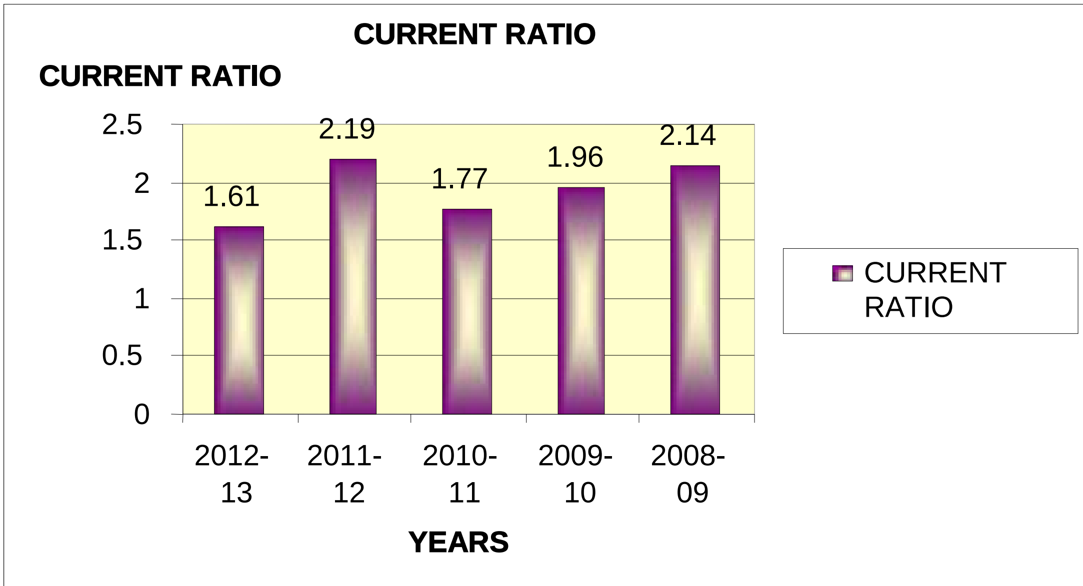
Rs. 12563.50

2008 – 09 = **Rs.** 28452.51 = 2.14:1

Rs. 13283.95

YEARS	**CURRENT RATIO**
2012-13	1.61:1
2011-12	2.19:1
2010-11	1.77:1

2009-10	1.96:1
2008-09	2.14:1



<u>INTERPRETATION:</u>

It is generally believed that 2:1 ratio shows a comfortable working capital position. The tendon committee appointed by RBI had wide recommended a current ratio of 2:1.

Company has maintained this ration and increased it year by year. A current ratio is 1.61 in the current year. But in the other year the ratio is nearer to 1:2 so we can say that the company having comfortable working capital position.

- **<u>ACID-TEST RATIO</u>**

The measure of absolute liquidity may be obtained only cash and bank balance as well as only ready marketable security with liquid liabilities. This is every existing standard of liquidity and it is satisfaction if the ratio is 1.50:1.

$$A \quad - T \quad R \quad = \frac{C.A - I}{C.L}$$

For the year:

2012 - 13 = **Rs.** 58746.07 – 20109.61 = 1.08:1

Rs. 35756.98

2011 - 12 = **Rs.** 51488.87 - 19126.14 = 2.19:1

Rs. 23417.51

2010 - 11 = **Rs.** 29913.35 – 12136.51 = 1.38:1

Rs. 16865.53

2009 - 10 = **Rs.** 24574.45 – 10119.82 = 1.15:1

Rs. 12563.50

2012 - 13 = **Rs.** 28452.51 – 7412.88 = 1.58:1

Rs. 13283.95

YEARS	**ACID-TEST RATIO**
2012 - 13	**1.08:1**
2011 - 12	**1.38:1**
2010 - 11	**1.05:1**
2009 - 10	**1.15:1**
2012 - 13	**1.58:1**

INTERPRETATION:

Acid-test ratio is near to one in current year that is 1.08 as compare to 1.38 in the previous year. Over all the acid-test ratio of last five year is very satisfactory so we can conclude that the absolute liquidity of the Bata India Ltd is in favor.

- **DEBTORS TURNOVER RATIO**

This ratio shows the proportion of sales to average receivables. It shows the efficiency of the collection policy of the firm. The higher the ratio, the less satisfactory position of the firm. Higher ratio indicates weak collection policy of the firm.

$$D \qquad T \qquad R = \frac{C \qquad S}{A \qquad R}$$

For the year:

2012 - 13= $\dfrac{\textbf{Rs. } 151224.01}{\textbf{Rs. } 4844.97}$ = 31.21:1

2011 - 12= $\dfrac{\textbf{Rs. } 137146.66}{\textbf{Rs. } 6068.30}$ = 22.60:1

2010 - 11= $\dfrac{\textbf{Rs. } 111692.72}{\textbf{Rs. } 3732.42}$ = 29.92:1

2009 - 10= $\dfrac{\textbf{Rs. } 81211.33}{\textbf{Rs. } 4163.62}$ = 19.50:1

2008 - 09= **Rs.** 66051.30 = 16.82:1

Rs. 3927.81

YEARS	***DEBTORS TURNOVER RATIO***
2012 - 13	31.21:1
2011 - 12	22.60:1
2010 - 11	29.92:1
2009 - 10	19.50:1
2008 - 09	16.82:1

INTERPRETATION:

We know that the higher Debtor's turnover ratio is not good for the firm. In the year 2012-13 it is 31.21:1 but in the previous year it was 22.60:1. So some improvement is needed.

- **CREDITOR'S TURNOVER RATIO :**

Creditor's turnover ratio shows the proportion of purchase to account payable number of days within which we make payment to our creditors for credit purchases estimated the creditors ratio if this ratio is higher it means company has to check whether company is making payment within credit period available. If it is making payment before the due date means the company is not taking full advantage of it credit period and if company making the payment the period that indicates that the company is not taking the benefit of discount allowed.

$$C \qquad r's\,T \qquad r = \frac{C \qquad p}{A \qquad p}$$

For the year:

2012 - 13= **Rs.** <u>118961.16</u> = 3.33:1

Rs. 35756.98

2011 - 12= **Rs.** <u>108270</u> = 4.62:1

Rs. 23417.51

2010 - 11 = **Rs.** <u>92301.09</u> = 5.47:1

Rs. 16835.53

2009 - 10 = **Rs.** <u>69043.43</u> = 5.49:1

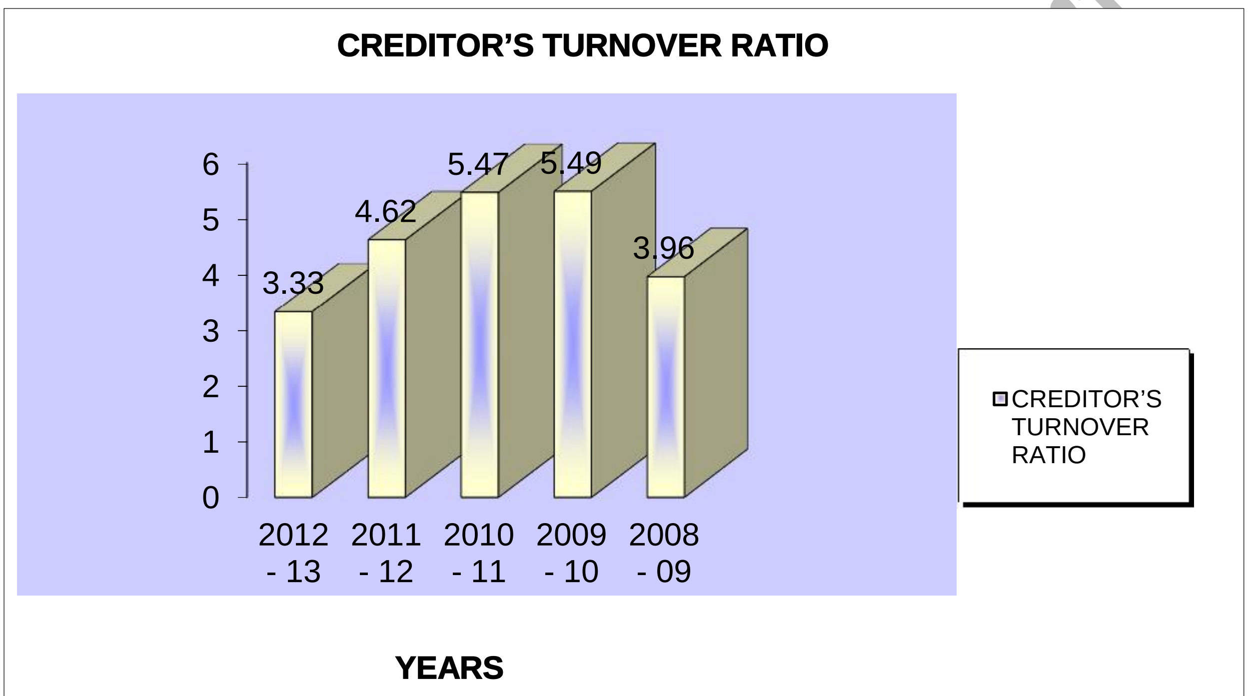
Rs. 12563.50

2008 - 09 = **Rs.** <u>52715.92</u> = 3.96:1

Rs. 13283.95

YEARS	**CREDITOR'S TURNOVER RATI**
2012 - 13	3.33:1
2011 - 12	4.62:1

2010 - 11	5.47:1
2009 - 10	5.49:1
2008 - 09	3.96:1



INTERPRETATION:

Higher Ratio of creditor turnover forces the company to check that payment is made with in credit period properly or not. The creditors' turnover ratio is 3.33 in 2012-13 as compare to 2011-12 the ratio is 4.62 which is higher than the other years.

➢ **INVENTORY TURNOVER RATIO**

This ratio is also known as "stock turnover ratio". The number of times the average stock is turnover during the year is known as stock turnover. It is computed by deciding the sales by the inventory. The ratio is important in joining the ability of management which it can move the stock.

$$I \qquad T \qquad r = \frac{N \quad s}{A \qquad I}$$

For the year:

2012 - 13 = **Rs.** 151224.01 = 7.51 times

Rs. 20109.61

2011 - 12 = **Rs.** 137146.66 = 7.17 times

Rs. 19126.14

2010 - 11 = **Rs.** 111692.72 = 9.20 times

Rs. 12136.51

2009 - 10 = **Rs.** 81211.33 = 8 times

Rs. 10119.82

2008 - 09 = **Rs.** 66051.30 = 8.91 times

Rs. 7412.88

YEARS	**INVENTORY TURNOVER RATIO**
2012 - 13	7.51 times
2011 - 12	7.17 times
2010 - 11	9.20 times

2009 - 10	8.00 times
2008 - 09	8.91 times

INTERPRETATION:

Higher the ratio more profitability the business would be. The ratio is joining the ability of management with which it can move the stock. Inventory turnover ratio is highest in the year 2011-12 is 9.20 as compare to the other year but in current year it is 7.51 which is little lower than previous year but it is obvious that in heavy industries like Bata India Ltd have lower ration as compare to FMCG.

- **NET WORKING CAPITAL TURNOVER RATIO**

Net working capital turnover ratio is obtained by net working capital joining to sales. The excess of current assets over current liabilities is called working capital. It is found for measuring firm liquidity. It also measures the firm potential reserve of funds.

$$N \quad W \quad C \quad T \quad r \quad io = \frac{S}{N \quad W \quad C}$$

For the year:

2012 - 13 = **Rs.** 151224.01 = 5.83 times
Rs. 19874.06

2011 - 12 = **Rs.** 137146.66 = 5.57 times
Rs. 24622.18

2010 - 11 = **Rs.** 111692.72 = 9.85 times

Rs. 11334.95

2009 - 10 = **Rs.** 81211.33 = 10 times

Rs. 8119.97

2008 - 09 = **Rs.** 66051.30 = 5.83 times

Rs. 11320

YEARS	**WORKING CAPITAL TURNOVER RATIO**
2012 - 13	7.60 times
2011 - 12	5.57 times
2010 - 11	9.85 times
2009 - 10	10.00 times
2008 - 09	5.83 times

INTERPETATION:

As per the balance sheet data of the creditor the working capital turnover ratio is different for the different years. The ratio is 7.60 in 2012 - 13and 5.57 in 2011 - 12but the best favorable ratio is in 2009-10which is 10 times. So it means that higher the ratio better the working capital condition of the company.

➢ DEBTOR COLLECTION PERIOD

The Debt Collection shows the number of days taken to collect the debts of credit sales. It shows the efficiency and collection policy of the company. The ratio is computed by dividing the Debtor's turnover ratio in to 365 days.

$$D \quad C \quad o \; P = \frac{3 \quad d}{D \quad r's\,T \quad R}$$

For the year:

2012 - 13 = $\frac{365 \text{ days}}{31.21}$ = 11 days

2011 - 12 **=** $\frac{365 \text{ days}}{22.60}$ = 16.15 days

2010 - 11 **=** $\frac{365 \text{ days}}{29.92}$ = 12.20 days

2009 - 10 **=** $\frac{365 \text{ days}}{19.50}$ = 18.71 days

2008 - 09 **=** $\frac{365 \text{ days}}{16.82}$ = 21.70 days

YEARS	**DEBTORS COLLECTION PERIOD**
2012 - 13	11.00 days

2011 - 12	16.15 days
2010 - 11	12.20 days
2009 - 10	18.71 days
2008 - 09	20.71 days

INTERPRETATION:

The collection period is highest in 2008–09 is 20.71 days as compare to very low in 2012-13is only 11 days. This shows the improvement in collection policy of the Bata India Ltd. So it is very important for any company to collect the debs which this company do very well.

STATEMENT OF RATIO ANALYSIS

RATIOS	***2008-09***	***2007-08***	***2006-07***	***2005-06***	***2004-05***
Current ratio	1.64	2.19	1.77	1.96	2.14
Acid-test ratio	1.08	1.38	1.05	1.15	1.58
Debtor's turnover ratio	31.21	22.60	29.92	19.50	16.82
Creditor's turnover ratio	3.33	4.62	5.47	5.49	3.96
Inventory turnover ratio	7.51	7.17	9.20	8.00	8.91
Net-working capital turnover ratio	7.60	5.57	9.85	10.00	5.83
Debt collection period	11	16.15	12.20	18.71	21.70

CHAPTER NO 5

FINDING, SUGGESTIONS AND CONCLUSION

MAJOR FINDINGS

Findings of working capital management of Bata India Ltd

- The company having comfortable working capital position.
- The absolute liquidity of the Bata India Ltd is in favour.
- The collection policy of the company is very good.
- The creditors turnover ratio is 3.33 in 2012-13 as compare to 2011-12 the ratio is 4.62 which is higher than the other years.
- Inventory turnover ratio is highest in the year 2011-12 is 9.20 as compare to the other year but in current year it is 7.51 which is little bit lower than previous year but it is obvious that in heavy industries like Bata India Ltd have lower ratio as compared to Others.
- The working capital ratio is 7.60 in 2012-13 and 5.57 in 2011-12 but the best favorable ratio is in 2010-11 which is 10 times. So it indicates better working capital condition of the company.
- This is an improvement in collection policy of the Bata India Ltd.

SUGGESTIONS

The recommendation & suggestion for effective management of working capital at Bata India Ltd are given bellow:

1) For inventory, in order to improve the position, Bata India Ltd can reduce the level of stocks by resorting to phased production i.e. producing according to requirement and disposing off or recycling the unserviceable inventories.

However, the low turnover of stock may also be due to problems with generation of sales. Inventory management is a great concern for Bata India Ltd especially stores and spares. The purchase manager should take proper steps for procurement of inventories.

2.) The company must take certain steps to decrease the working capital cycle. One way can be better management of inventories.

3.) Bata India Ltd is suggested to maintain a balance in capacities, synchronization of various inputs availability of some materials or parts which are not easily available.

4.) Short term credit period availed must be reduced and sundry creditors should be paid faster.

5.) It should maintain inventory at an optimum level rather than a very optimistic level.

6***.)*** The procurement for materials requisition processing should be reduced so as to minimize the lead time.

7.) Freedom should be there in deciding the credit policies, cash discount or credit ratings.

8***)***. Bata India Ltd can also consider negotiating its creditors for relaxing the debt repayment period and repaying only on or just before the expiry of the credit period.

CONCLUSION OF FINDING

In the present study I have analyzed the working capital management of Bata India Ltd. The study involves practical and conceptual over view of decisions concerning current assets like cash and bank balance ,inventories(like raw materials ,w-i-p,finished goods),sundry debtors, loans and advances, other current assets and current liabilities like sundry creditors, securities and other deposits, other current liabilities and provisions of Bata India Ltd. Was with the objective of maximizing the overall net profit of the bank. And complete synchronization and co ordination among the working capital components which shall contribute to optimum level of operations. Mismanagement of each or any of these components shall be detrimental to the objectives of efficient operation, profitability and maximization of overall value of the bank.

The working capital limits would be considered only after the project nearing completion and after ensuring control over the inventory. The inventory is a great concern for Bata India Ltd and it need proper procurement and management.

Eligible working capital limits would be assessed by cash Budget method And Projected production method depending the market condition, scale of operation, nature of activity/enterprise and duration/length of operating cycle etc.

CHAPTER NO 6

ANNEXURE

SUPPORTING DOCUMENTS & BIBLIOGRAPHY

BALANCE SHEET OF BATA INDIA LTD

Bata India Ltd.

Chairman : **Uday Khanna** Industry : **Leather**

Last Price	**Today's Change**	**Open**	**Prev Close**	**Day's Range**	**52 Week Range**
1327.10	12.60	1316.00	1314.50	(1340.55) (1302.10)	(1360.00) (802.35)

BSE Code	500043	**Dividend Yield (%)**	0.49	**EPS (Rs.)**	29.43
ISIN Demat	INE176A01010			**Face Value (Rs.)**	10
Book Value (Rs.)	141.85	**Market Cap (Rs Mn)**	85284.45	**Volume**	17556.00
		P/E	45.10		

Standalone (Rs. in Million)

Particulars	Dec 2013	Dec 2012	Dec 2011	Dec 2010	Dec 2009
Share Capital	642.64	642.64	642.64	642.64	642.64
Share Warrants & Outstandings	0.00	0.00	0.00	0.00	0.00
Total Reserves	7767.37	6360.66	5100.42	3339.73	2700.24
Shareholder's Funds	8410.01	7003.30	5743.06	3982.37	3342.88
Minority Interest	0	0	0	0	0
Long-Term Borrowings	0	0	0	0	0
Secured Loans	0	0	0	0	146.53
Unsecured Loans	0	0	0	137.74	103.96
Deferred Tax Assets / Liabilities	-680.79	-443.59	-342.15	-311.00	-241.07
Other Long Term Liabilities	0	0	0	0	0
Long Term Trade Payables	792.75	561.10	409.55	0	0
Long Term Provisions	0	0	216.24	0	0
Total Non-Current Liabilities	111.96	117.51	283.64	-173.26	9.42
Current Liabilities	0	0	0	0	0
Trade Payables	2861.34	2185.89	1936.21	2173.63	1804.97
Other Current Liabilities	876.63	759.04	436.60	957.79	127.79
Short Term Borrowings	0	0	0	0	0
Short Term Provisions	886.77	794.99	500.30	859.43	632.61

Total Current Liabilities	4624.74	3739.92	2873.11	3990.85	2565.37
Total Liabilities	13146.71	10860.73	8899.81	7799.96	5917.67
ASSETS	0	0	0	0	0
Non-Current Assets	0	0	0	0	0
Gross Block	6015.27	5612.80	5003.73	4175.55	3748.58
Less: Accumulated Depreciation	3552.92	3199.31	2813.74	2644.38	2445.70
Less: Impairment of Assets	0	0	0	0	0
Net Block	2462.35	2413.49	2189.99	1531.17	1302.88
Lease Adjustment A/c	0	0	0	0	0
Capital Work in Progress	237.07	181.17	80.67	3.22	6.29
Intangible assets under development	0	0	0	0	0
Pre-operative Expenses pending	0	0	0	0	0
Assets in transit	0	0	0	0	0
Non Current Investments	48.51	48.51	48.51	172.48	172.48
Long Term Loans & Advances	1151.47	972.58	822.43	0	0
Other Non Current Assets	32.10	22.80	22.77	0	0
Total Non-Current Assets	3931.50	3638.55	3164.37	1706.88	1481.66
Current Assets Loans & Advances	0	0	0	0	0
Currents Investments	0	0	0	0	0
Inventories	5826.94	4620.93	3913.22	2993.63	2774.60
Sundry Debtors	509.20	449.47	313.94	302.02	251.80
Cash and Bank	2557.25	1871.01	1229.46	1355.72	562.09
Other Current Assets	161.83	151.64	118.57	89.26	37.73
Short Term Loans and Advances	159.99	129.13	160.25	1352.44	794.48
Total Current Assets	9215.21	7222.18	5735.44	6093.08	4420.70

Net Current Assets (Including Current Investments)	4590.47	3482.26	2862.33	2102.23	1855.33
Total Current Assets Excluding Current Investments	9215.21	7222.18	5735.44	6093.08	4420.70
Miscellaneous Expenses not written off	0	0	0	0	15.31
Total Assets	13146.71	10860.73	8899.81	7799.96	5917.67
Contingent Liabilities	942.10	754.75	645.75	1377.56	1139.12
Total Debt	0.00	0.00	0.00	137.74	250.49
Book Value	126.52	104.49	84.76	56.57	46.15
Adjusted Book Value	126.52	104.49	84.76	56.57	46.15

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THANK YOU SO MUCH FOR YOUR VALUABLE SUPPORT!!!