A

PROJECT REPORT ON

WORKING CAPITAL FINANCING AND MANAGEMENT

FOR

IN THE PARTIAL FULFILMENT OF THE TWO YEAR FULL TIME MBA PROGRAMME

Under the Guidance of:

Sh. LAXMAN TIKYANI

[Asset. Manager (finance)]

Submitted By:

NITESH KUMAR AJMERA

Institute of Technology & Management

(Affiliated to Rajasthan Technical University, Kota)

I HERE BY DECLARE THAT THE PROJECT REPORT ENTITLED

WORKING CAPITAL FINANCING & MANAGEMENT

ON

BSL LTD

SUBMITTED IN THE PARTIAL FULFILLMENT OF THE

REQUIREMENTS FOR THE DEGREE OF

MASTERS OF BUSINESS ADMINISTRATION

TO

(RAJASTHAN TECHNICAL UNIVERSITY KOTA)

IT IS MY ORIGINAL WORK & NOT SUBLIMATED FOR THE AWARD OF ANY OTHER DEGREE, DIPLOMA, FELLOWSHIP OR ANY OTHER SIMILAR TITLE OR PRICE.

PLACE: BHILWARA NITESH KUMAR AJMERA

Table of Contents

LIST OF FIGURES

EXECUTIVE SUMMARY

Hilary emerged as INDIA'S largest manufacturer of fabrics-worsted, polyester & silk furnishing. Sixteen years after the advent of economics liberalization June 1991, India is now clearly moving along a high growth path. BSL Ltd. is more consolidated and technologically modern operations, to further leverage the goodwill that its product enjoys in domestic and global markets.

Summer training is by the most important & interesting part of the MBA course. At the end of MBA (Second Sem.) every student is required to go to under the training in a leading business organization on a project in the functional area of his\ her choice.

The duration of this training is 45 days. The rational behind this summer training is to expose management student to corporate culture so that they may broaden their outlook & get an insight as to how the theoretical knowledge which they have gained at there institution is applied in business situation.

I was extremely lucky to be selected one of the premier organization in the country BSL LTD , Hilary for a 45 days Being thoroughly managed organization was had a good opportunity to put over theoretical knowledge in practices.

During our 45 days in the company, I worked on the project **"working capital financing & management** "for BSL Ltd.

These 45 days constituted one of the most interesting & rewarding period of my MBA studies.

ACKNOWLEDGEMENT

Any work accomplishment is seldom on person achievement .there are usually many people behind it who contribute to its goodness in form or the other. It was my good luck that the staff of BSL was supportive which ease my job by quite a long extent.

For the development of the project .I extend my heartful gratitude to MR. PRAVEEN JI JAIN & MR. LAXMAN JI TIKYANI Department of finance for providing excellent mentoring, encouragement & support.

I sincerely thank who despite his tight schedule spared time for discussions and gave basic ground rules and directions, without which completion of this project would have been impossible.

I am highly grateful to the management of BSL Ltd for giving me the opportunity to work on this Project, and in the process enrich myself with immense learning on all aspects, from the study of Working Capital, its Management and Financing to the understanding of the textile Industry as a whole.

I am grateful to all employees of BSL Ltd. for providing me all the information and help I required for the completion of this project.

Last but not the least; I am grateful to my institute, INSTITUTE OF TECHNOLOGY & MANAGEMENT, BHILWARA (RAJ.) & my family that provided me this opportunity to interact with this organization and understand the intricacies of the corporate world.

PREFACE

The summer training of a management student plays an important role in developing him as a well-groomed professional. It allows a student to give theoretical concepts a practical stand in the field of application. It gives the candidate an idea of dynamic & versatile professional world as well as exposure to the intricacies and complexities of corporate world.

Doing the summer training at BSL LTD was a great experience. An opening experience to the concepts of FINANCE, which helped me a lot in understanding the concepts that are applied for in the organization. This organization since its inception has progressed a lot & is walking on the guidelines of success .As the organization is marching with the tenacious speed towards the horizon.

During the MBA course we are taught dozen of subjects which if not applied properly are a simply waste of time. Implementing & learning the concepts of FINANCE in a work place having large number of professionals provides an opportunity to groom oneself to changing needs and increase the knowledge.

In a period of 45 days exposure to the corporate environment, I got a learning of organizational structure, its protocols, etc.

Real learning places its worth only when it gives sweet fruits in future. Summer training is one way to learn at work. I enjoyed the interesting experience and every part of it

ABSTRACTS

BSL LTD is one of the fastest growing Textile Industry in India. Presently it has plant in operation at Mandpam, Hmeergarh.

The title of my project study was "**Working Capital Financing & Management"**. Working capital is taken to be the lifeblood of a business. Lack of working capital may lead a business to "technical insolvency" and ultimately to liquidation. That is why, the working capital management of a firm is considered to be one of the most important tasks of financial managers. A decision regarding the volume of current assets has its own importance no doubt, but the question of financing is, in fact, the key area of working capital management. Since the management is concerned with proper financial structure and cost of funds, so the funds required for working capital must be raised judiciously.

The main aim of my project was to analyze the complete process of Working Capital Financing and study the existing system in the organization and also to suggest Working capital funding required by the company.

The report can be divided into the following parts according to the project analysis and was handled accordingly:

1. Literature Survey

This section is used to build a theoretical platform for further study in the project. The concepts such as, sources of funds, working capital cycle, key ratios and working capital management are discussed. The optimum level of working capital and different financing policies are also reviewed.

1. Process of Working Capital finance

In this section, various steps involved in obtaining the Working Capital funding from banks are discussed. The process of getting the Working Capital financed is a very comprehensive one, consisting of a number of steps; starting from assessing the fund requirements to the step of auditing by the Bank and the Auditors. The process of estimating the levels of inventory, receivables, other current assets and liabilities is also discussed. The methods of appraisal, final sanction and ways of disbursal of funds by the banks are also included.

2. **working Capital finance and Management at BSL Limited**

This portion of the project study aimed at understanding the existing system of working Capital Financing at BSL Limited. This included a study of technique used by company, like term loans & working capital loan

& innovative techniques which can be used for borrowings, like Commercial Paper, FCNR (B) linked loans. The high credit rating of the company is also mentioned in this section. Working Capital requirements, it has been suggested to increase the Working Capital borrowing limit in view of the increased funds requirement due to commissioning of the new plants.

1.1 INTRODUCTION TO INDIAN TEXTILE WORLD

The textile industry occupies a unique position in the Indian economy as it contributes significantly to the industrial production, employment generation and foreign exchange earnings.

The Indian textile industry is extremely complex and varied with hand-spun and hand-woven sector at one of the spectrum and the capital-intensive sophisticated mill sector at the other, with the decentralized power loom and knitting sector coming in between.

This industry use natural fibers - cotton, jute, silk and wool, as well as synthetic man-made fibers - polyester, viscose, nylon, acrylic and their multiple blends.

The complex and varied structure of the industry coupled with our ancient culture and tradition provides it with the unique capacity to produce, with the help of latest technological inputs and designs capability, a wide variety of products suitable to varying consumer tastes and preferences, both within the country and overseas.

The textile industry has shown remarkable resilience and grown considerably in terms of installed spindle age, yarn production and output of fabric and garments.

It is the only industry, which is self - reliant and complete in value chain i.e. from raw material to the highest value added products – garments/made-ups. Therefore the growth and development of his industry has significant bearing on the overall development of the Indian economy.

The scope of improvement that can be made on the employment front with in a very short span of time with minimum investment, only if government of India places it as per priority industry like some of our neighboring countries have. Thus garment manufacturing and export industry that is the real engine of growth for the whole textiles sector in India. With substantial and development of this sector, there is much scope for the growth of Indian textile for exports.

With promise of greater globalization and liberalization, Indian textile industry seems to be looking ahead with both challenges and innovations, to have close look at how major structural changes in world economy will affect to prospects of Indian textile industry.

In light of this, a review of Indian textile scenario in particular and the world situation in general will help all sectors of Indian Textile Industry to re-organize themselves to face new challenges both known and unknown that may come in future. Thus we find many scopes in development of Indian Textile Industry.

1.2 INTRODUCTION TO THE ORGANIZATION

Our company was incorporated as a limited company 1971 under the company's act 1956 in the state of Rajasthan having the name "**BSL Ltd**".

Its Chairman – Emeritus is **L. N. Jhunjhunwala.** "**BSL Ltd"** is the part of **LNJ Bhilwara Group.**

Our company is presently engaged in the manufacturing of yarn, worsted & synthetic fabric, readymade garments & accessories.

BSL Ltd. is located in Bhilwara, Rajasthan, the **'Textile City'** of India. This industrial township is not only well connected with all the major cities of the country but is also suitably located in terms of procurement of raw material as well as accessibility to a modern shipping port.

The company has been a innovator in textile field and conducted its business with the purpose of growing into a notable organization. Today, despite the midst of highly fierce and competitive textile markets, BSL is still poised to serve both local and international markets with a pledge of providing great satisfaction to it's customers. In an effort to finalize this vertical plan, there are plans underway to enter the apparels sector to complete the production chain from yarn to ready-to-wear garments.

1.3 Related groups

Group	BSL Limited have five associates concerns. (1) **RSWM Limited** (2) **Maral Overseas Limited** (3) **BMD pvt. Limited** (4) **Bhilwara Spinners Limited** (5) **Bhilwara Processors Limited**

1.4 CORPORATE INFORMATION

BOARD OF DIRECTORS:-

CHAIRMAN & MANAGING DIRECTOR:

- **MR. A.K.Churiwal**

DIRECTORS:

- **Shri Ravi Jhunjhunwala**
- **Shri Shekhar Agarwal**
- **Shri R.P.Khaitan**
- **Shri B.D.Mundhra**
- **Shri Sushil Kumar Churiwala**
- **Sushil Jhunjhunwala**
- **R.N.Gupta**
- **Riju Jhunjhunwala**
- **Nivedan Churiwal**

KEY EXECUTIVES:

- **Shri. M.C.Maheshwari Vice President (Export)**
- **Shri. S. Sen Gupta Vice President (Spinning)**

CFO & COMPANY SECTORY:

- **Shri Praveen Jain**

AUDITORS:

- **M/S A.L.Chechani & Co.,**
  Chareted Accountants (Bhilwara)

BANKERS;

- **Oriental Bank of Commerce**
- **The Bank of Rajasthan Limited**
- **Union Bank of India**
- **State Bank of India**

REGISTERED OFFICE:

26, Industrial Area, Post Box No. 17,

Gandhi NAGAR

Bhilwara -311001 (Rajasthan)

1.5 BUSINESS OVERVIEW

Our company is currently engaged in manufacture of combed & carded cotton yarns ranging. These yarns are suitable for application such as apparels ,terry towels, denims medical fabrics, furnishing fabrics & industrial fabrics. Further as apart of vertical integration, our company has installed knitting machine . our company has the capacity to knit single jersey, rib & interlock fabric & other possible structures. Knitting is the cheapest & fastest process of converting yarn into fabrics. The knitted fabrics produced by our company are used for made ups in apparel & garment industry.

Our company has installed plant & machineries imported from textile machinery manufacturers like Switzerland, Italy , Germany, Czechoslovakia. We have also installed plant & machineries purchased from Laxmi Machine Works , Kirloskar Toyoda Textile Machine & Zinser Textile System.

We have continuously expanded & modernized our facilities in the line with the industry trend ,which has also been supported day term loans from financial institution & banker under the Technology Up gradation Fund Scheme (TUFS) introduced by government of India.

Our company has a Captive Power Plant of 3.5 MW based on furnaces oil along with standby arrangement for electricity.

Our Company is exporting cotton yarns & knitted fabrics to countries like Austria , China , Norway , Italy , U.K , U.S.A , Spain , Germany , Canada and other .

1.6 PRODUCT WE MANUFACTURE:

Offering a diverse products line to fulfill demand of customer worldwide, we have perfected our spinning processes by applying state-of-the-art automated technology & innovation to every phase of our yarn manufacturing process. We are recognized worldwide as the industry leader for spun yarns due to our continued focus on product quality & our commitment to extraordinary customer service.

YARN

- Open end yarn
- Multifold Open End Yarn
- Ring Spun Combed Yarn
- Multifold Ring Spun Yarns
- Z & S Twist Yarns

KNITTED FABRICS

- Single Jersey fabrics customer requirement plain pique, fleece & various structures as per customer requirement.
- Rib fabrics manufacturing, waffle, Thermal Milano & various structure as per customer requirement.

Interlock fabrics manufacturing plain I/L, Eight lock, Double Face I/L & other structure as per customer requirement.

1.6.1 PRODUCT APPLICATION

In a world full of competitiveness & commitment to fulfill specific customer requirement , BSL Limited translate conceptual ideas of our customer into reality & shape them through our technical bent & professional acumen .We strongly believe that the customer satisfaction is essence of marketing.
Our yarns are used to produced a diverse range of high quality products . our major products is listed below:

- **MAYUR SUITING**
- **BSL SUITING**
- **MELANTRA MELANGE YARN**
- **LA ITALIA TROUSER GARMENTS**
- **GEOFFREY HAMMONDS FABRIC**

FOCUS ON GLOBAL MARKET

The year 2006-07 was a challenging year for domestic & exports market. The BSL Ltd has been focusing on emerging markets of Indo-China, Middle-East and Latin America, Where traditional system are still thriving. In the year 2006-07 for the first time crossed Rs.100 crore export mark, and anticipates growth in these and other developing countries.

Innovative design and product are becoming essential to meet consumers' ever evolving demands and choices. The company therefore has set up a state-of-the-art technology design centre.

A. K. CHURIWAL

(MANAGING DIRECTOR)

1.7 KEY STRENGTHES

The key strengths associated with BSL LIMITED include:

- **Captive Power Plant**: The Company has installed WIND POWER PROJECT in Jaisalmer. The Wind Power had generated 35.25 Lac units during the year.
- **Information Technology:** A robust IT platform with "BSL" enables a seamless integration of management practices with business processes at BSL resulting in the achievement of optimum speed, efficiency, transparency, internal controls & overall profitability.
- **Logistics Management:** An efficiency in logistics management helps rationalize freight costs, shrinking the truck turnaround time & delivery efficiency.
- **Manufacturing:** BSL has consistently increased cement production through effective debottlenecking and a high sweating of assets. The company has enhanced productivity through improved kiln operations, better raw material mix and the optimum utilization of human & financial resources.

Besides these, BSL exhibits unique strengths in:

- **Quality Management**
- **Raw Material Management**
- **Human Resource Management**
- **Internal Control Systems Management**
- **Risk Management**
- **Outlook**

1.8 Vision and Mission

BSL Ltd is committed to operating a successful business by developing manufacturing, manufacturing & supporting quality yarn products for global textile industry we shall accomplish by:

VISION:

- Remain at the forefront in high quality textile products manufacturing
- Create value for shareholder & allied industries
- Completing our vertical integration chain by entering into high quality apparel manufacturing
- Endeavour for the ultimate satisfaction of our allied partners with

Mission:

- Developing long tern relationship with suppliers with an aim to be the most reliable supplier in textile to garment
- Providing superior quality products at competitive price & establishing a brand value in the international arena
- Exceeding industry standards with exceptional customer & technical service

1.9FINANCIAL DEPARTEMANT

Need of money for every organization is the same as the need of blood in the human body. Money is the means through which an organization achieves its goals. The finance dept of the company has all financial records related to company transactions. Mainly the functions of the dept. can be divided in the three major categories:-

TOP LEVEL:

At this level, high authorities are involved in planning and controlling the the financial issues. They plan, direct, coordinate and control the resources, its allocation and proper utilization in order to take maximum benefit from it.

MIDDLE LEVEL:

At this level, personnel get the instructions from the high authority and follow them. They collect information, prepare documents and statements and check them out in the order to implement the planning. They are the head of particulars section of finance department & then report to the higher level personnel about the result of their respective section that help out to higher authority to prepare further strategy.

LOWER LEVEL:

It includes the accounting jobs. Those peoples are engaged in recording the transactions into primary books, transferring them into ledger and finally preparing the balance of very account. These all records are done through computers.

The dept. prepares bank report for updating bank transactions. For collecting debts from debtors. List of debtors is prepared then invoices are sent to them. If any debtor fails to make its account clear then reminders are sent to them. Since the company is much attentive towards maintaining cordial relationship with outsiders so to refer the case of unpaid debtors is rarely referred to the court. In order to clear the creditors account when invoices are sent by then it is checked out and finally payments are made to them either through DD, cheques or by transferring the amount in their bank accounts, and consumption the monthly report is prepared. Quarterly Balance sheet is prepared which shows the financial position of the company.

FINANCIAL PERFORMANCE IN YEAR 2006-2007

Particulars	2005-06	2006-07
TURNOVER	173.35	182.09
EXPORTS	93.44	102.14
P B I D T	17.73	16.80
INTEREST	6.94	8.45
DEPRECIATION	8.59	7.58
TAXATION	0.34	1.17
PAT	1.86	0.40
GROSS BLOCK	160.50	202.41
LESS : DEPRECIATION	98.30	106.35
NET BLOCK	62.20	96.06
NET WORTH	47.51	46.68

1.3 MANAGERIAL CHALLENGES FACED

In today's world of global competition, it is imperative to raise the efficiency level of the organization through the measures like cost cutting and improvement in technology. In this scenario, jobs like planning capital expenditure, maintaining Cash balances, monitoring day to day transaction, planning and managing tax liability, keeping accounting records and preparation and presentation of financial statements becomes very crucial. Also, investment decisions, financing decision and capital structure policies for the company must be made with utmost care, as all these decisions have a very strong bearing on the overall performance of the company. Every firm needs funds, both for its day to day activities and for future endeavors. So, the most important function is to raise short-term and long-term loans at the lowest interest rates possible.

Similarly the challenges before the BSL Limited can be summarized as below:

- To devise innovative methods of borrowing to further decrease the cost of funds,
- Keeping the working capital requirements at lowest possible levels,
- Maintaining good relationship with banks and other financial institutions,
- Maintaining high credit rating, as it directly affects the rate of interest at which borrowings will be made by firm.

2.1 OBJECTIVE

The principal objective of the project is to study and analyze the complete process of financing of working capital from banks. The objective of the present study is limited to mere understanding of the procedure of Working Capital Finance and estimating levels of Working Capital for the current year.

2.2 SCOPE

At BSL LIMITED the entire exercise of Working Capital Financing either for getting any new sanction or reviewing the existing borrowing limits is carried out at the start of the financial year. During the course of this project, I was able to get first hand experience of all the documentation and fulfillment of other formalities laid under the bank norms for getting the funds sanctioned.

In my study of the process of Working Capital Financing at **BSL Limited**, the following points have been covered:

- **Complete Analysis of the last year's performance and critical of the inventory levels, debtors, creditors and other important factors affecting working capital needs,**
- **Computation of Working Capital requirements for the current year and assessment of borrowing limits,**
- **Preparing CMA and other supporting documents,**
- **Application to consortium of Banks,**
- **Clearance of any objection raised by the member Banks,**
- **Creation of Security**.

3.1 WHAT IS WORKING CAPITAL

“ Working Capital” refers to the cash a business requires for day-to day operations, or more specifically, for financing the conversion of raw materials into finished goods, which the company sells for payment. Working Capital typically means the firm’s holdings of current or short-term assets such as cash. Receivables, inventory, and marketable securities. These items are also referred to as “Circulating assets” because of their cyclical nature. In a retail establishment, cash is initially employed to purchase inventory which is in turn sold on credit and results in accounts receivables. Once the receivables are collected, they become cash, part of which is reinvested in additional inventory and party going to the profit or cash throw-off. According to the Balance Sheet concept, it is simply represented by the excess of current assets over current liabilities and is the amount normally available to finance current operations. In this case the Current Assets are called **Gross Working Capital** and the excess of Current Assets over Current Liabilities is called **Net Working Capital**.

Current assets mainly include, stocks of raw materials, work-in-progress, finished goods, trade debtors, prepayments and cash balances. Whereas the main components of Current Liabilities are trade creditors, accruals, taxation payable, dividends payable and short term loans.

In financial reporting, the term **”funds”** has usually been defined as Working Capital, or the excess of current assets over current liabilities.

3.1.1 SOURCES OF FUNDS

Transactions that increase working capital are sources of funds. The primary sources of working capital of a firm include:

- **Funds generated from operations**:

The earnings of a business represent one of the principal "sources of funds". The amount of funds generated from operations is not the net income shown in the income statement, because some of the expenses, principally depreciation and amortization, do not involve the expenditure of funds. In order to determine working capital provided by operations, it is necessary to deduct from revenues only those expenses which require an expenditure of funds and therefore cause a reduction in working capital. **A convenient way of determining working capital from operations is simply to add back to net income all those expenses, which did not require an outlay of funds, i.e. working capital.**

Certain items included in the income statement decrease expenses without increasing working capital like Payment of premium on bonds payable causes interest expense to be less than the amount of cash paid. Therefore, these items should be deducted from net income in computing the amount of working capital provided by the operations.

The computation of the working capital fund provided by operations any be summarized as follows:

Net income + items reducing Net Income which do not affect Working Capital + Non-operating Losses – Non-operating Gains – Items increasing Net Income which do not affect working Capital.

- **Increase in Long-term liabilities:**

A second source of funds is long-term borrowing. A positive change in the long-term borrowings is a source of fund whereas a negative change is a use of fund.

- **Increase in share capital**:

If a firm has issued share capital during the period, the amount for which the shares were sold is a source of funds.

- **Sale of fixed Assets:(Non Current Assets)**

This will be another source of funds equal to the net proceeds from the sale.

3.1.2 USES OF FUNDS:

Transactions that decrease working capital are classified as uses of funds. Typical uses of working capital include:

- **Purchase of fixed Assets:(Non Current Assets)**

One of the major uses of funds is the purchase of non-current assets, principally land, buildings, machinery investments, and intangible assets. Non-current assets accounts are not affected only by purchases, but also by the amount of depreciation taken during the year and the sale or disposition of assets during the year.

- **Dividends**:

The declaration of cash dividends to be paid at a later date is also a use of funds. Working capital is reduced at the time the declaration is made because a current liability, dividends payable, is incurred and recorded at that time.

- **Decrease in long-term liabilities**:

Funds may be used to pay-off long-term liabilities, so a decrease in long-term liability is a use of funds.

3.1.3 CHANGES IN WORKING CAPITAL

In determining changes in working capital, only those accounts are considered which determines the working capital and the accounts not included in working capital (i.e., non-working capital accounts) at the same time. Transactions that involve only working capital accounts or non-working capital may be ignored in determining the changes in working capital. **For example**: if a cash payment is made to creditors, working capital is not affected because cash (and current assets) and creditors (and current liabilities) decrease by equal amounts. Likewise, if shares are exchanged for a machine, working capital does not change because no working capital accounts are involved in exchange. Transactions like transfer form long-term assets to current assets or current liabilities viz sale of fixed assets, transfer of a long-term asset to a creditor satisfying a current debt, etc increases the working capital. Whereas transactions like transfer from current assets to long-term assets or long-term liabilities viz purchase of fixed assets, debentures payable paid from cash, etc decreases the working capital.

<u>3.2 WORKING CAPITAL CYCLE AND KEY RATIOS</u>:

Working Capital Cycle refers to the period of time which elapses between the point at which cash begins to be expended on the production of a product and the collection of cash from a customer. <u>This cycle or loop starts at the cash and marketable securities account, goes through the current accruals accounts as direct labour and materials are purchased and used to produce inventory, which is in turn sold and generates accounts receivable, which are finally collected to replenish cash. The major point to notice about this cycle is that the turnover (or velocity) of resources through this loop is very high as compared to the other inflows and outflows of the cash account.</u>

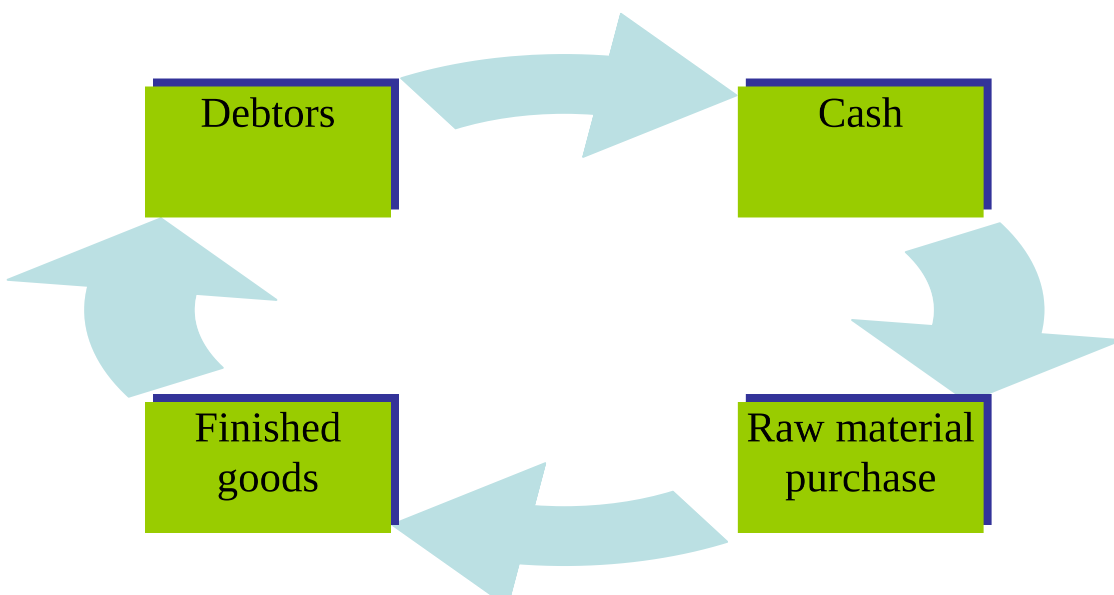
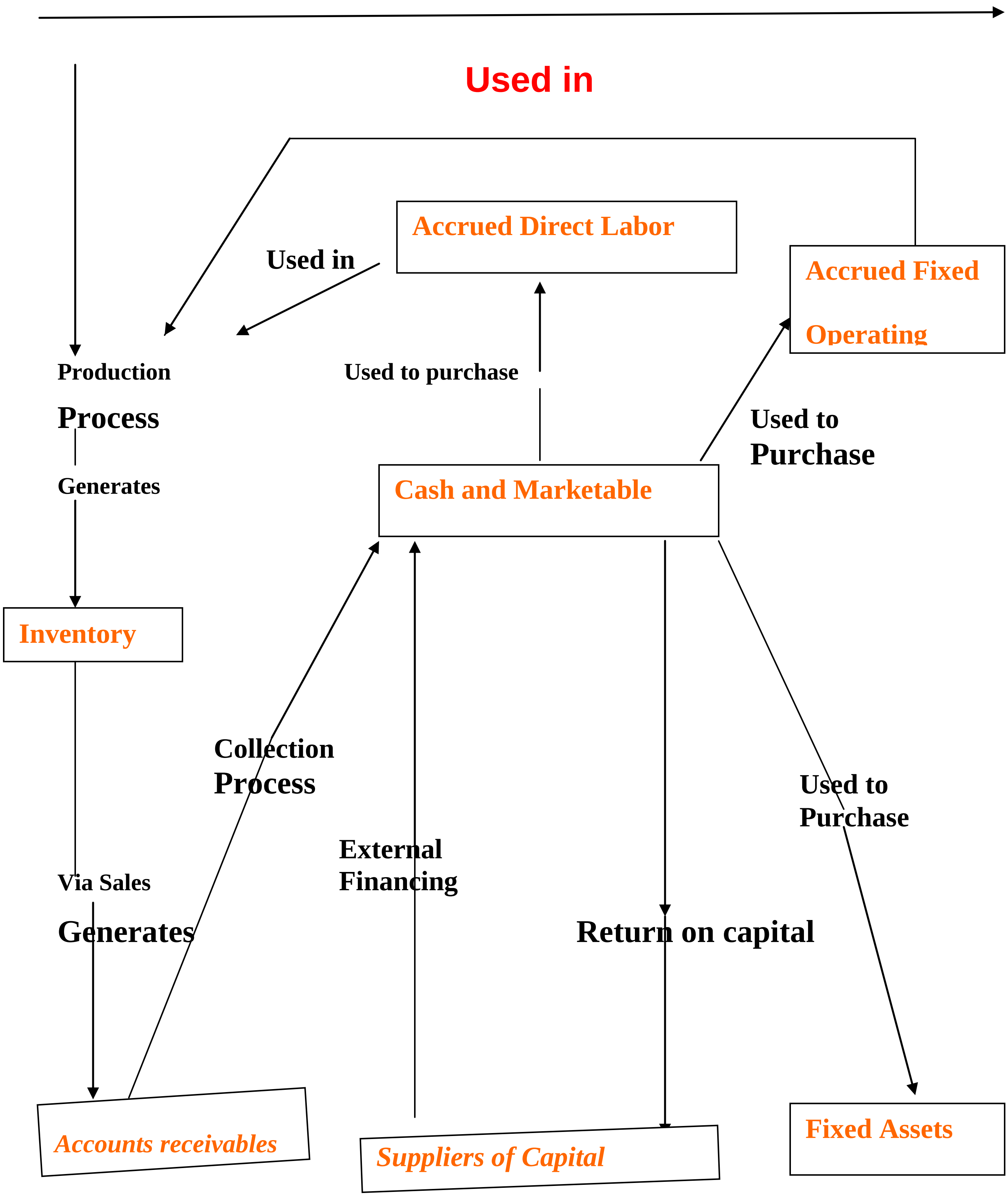


Fig: 1 DESCRIPTION OF WORKING CAPITAL CYCLE



Each of the boxes in the above diagram can be seen as a tank through which funds flow. These tanks, which are concerned with day-to-day activities, have funds constantly flowing into and out of them.

The faster a business expands, the more cash it will need for working capital and investment. The cheapest and best sources of cash exist as working capital right within the business. Good management of working capital will generate cash, will help improve profits and reduce risks. Bear in mind that the cost of providing credit to customers and holding stocks can represent a substantial proportion of a firm's total profits.

There are two elements in the business cycle that absorb cash- **Inventory** (stocks and working-in-process) and **Receivables** (debtors owing you money). The main sources of cash are **payables** (your creditors) and **Equity and Loans**.

All the above periods are measured in days to calculate the final Working Capital Cycle or the Cash Conversion Cycle. Each component of working capital (namely inventory, receivables and payables) has two dimensions- **TIME** and **MONEY**. When it comes to managing working capital- **TIME IS MONEY**. <u>If you can collect money due from debtors more quickly or reduce inventory levels relative to sales, the business will generate more cash or it will need to borrow less money to fund working capital.</u> Similarly, if terms with suppliers can be improved e.g. getting longer credit or an increased credit limit, then free finance to help fund future sales can be created.

Table 2. Key Ratios, their formulas and interpretation

The key ratios, their formulae and their interpretation, which are important in measuring the Working Capital Utilization, are given in the table below:-

RATIO	**FORMULA**	**RESU-LT**	**INTERPRETATION**
Inventory Turnover (in days)	Average Stock*365/ Cost of Goods sold	= X days	On average, the value of the entire stock is turned over every x days. Obsolete stock. Slow moving lines will extend overall stock turnover days. Faster production, fewer product lines, just in time ordering will reduce average days.
Receivables Ratio(in Days)	Debtors*365/Sales	=X days	It take on an average x days to collect monies due on the debtors. One or more large or slow debts can drag out he average days. Effective debtor management will minimize the days.
Current Ratio	Total Current Assets/Total Current Liabilities	= X times	Current Assets are assets that can readily turn in to cash or will do so within 12 months in the course of business. Current Liabilities are amount which are due to pay within the coming 12 months. CR less than 1 times e.g. 0.75 means that one could have liquidity problems and be under pressure to generate sufficient cash to meet oncoming demands.
Quick Ratio	(Total Current Assets-Inventory)/Total Current Liabilities	= X times	Similar to the Current Ratio but takes account of the fact that it may take time to convert inventory into cash.

Working Capital Ratio	(Inventory + Receivables-Payables)/Sales	As % Sales	A high percentage means that working capital needs are high relative to your sales.

3.3 WORKING CAPITAL MANAGEMENT

Working capital management is the management of all aspects of both current assets and current liabilities, so as to minimize the risk of insolvency while maximizing return on assets. Even profitable companies fail if they have inadequate cash flows. Liabilities are settled with cash, not profits. The primary objective of working capital management is to ensure that sufficient cash is available to:

- **Meet day-to-day cash flow needs,**
- **Pay wages and salaries when they fall due,**
- **Pay creditors to ensure continued suppliers of goods and services,**
- **Pay government taxation and providers of capital-dividends and interest, and**
- **Ensure long- term survival of the business entity.**

Poor working capital management can lead to:

- Over-capitalization (and therefore waste through under utilization of resources and hence poor returns), and

- Overtrading (trying to maintain a level of sales which is higher than working capital can sustain-for businesses which extend credit terms, more sales means more debtors and higher working capital demands).

Basically Working Capital Management is the process to shorten the working capital cycle as much as possible with the most efficient use of the available resources. This can be done by reducing the inventory conversion period and receivables collection period or by increasing the payable deferral period.

3.4 OPTIMUM LEVEL OF WORKING CAPITAL

The conventional definition of Working Capital, in terms of the difference between current assets and current liabilities is somewhat confusing. **Working capital is really what a part of long-term finance is locked in and used for supporting current activities consequently,** larger the amount of working capital so derived, greater the proportion of long-term capital sources siphoned off to short-term activities. It is difficult to say whether this is right or wrong. A relatively large amount of working capital according to this definition may produce a false sense of security at a time when cash resources may be small or when these may be provided increasingly by long-term fund sources in the absence of adequate profits. So the impossibility is that current assets which are relied upon to yield cash must themselves to be supported by long-term funds until they are converted into cash. Strategies that utilize investment or financing with working capital accounts often offer a substantial advantage over other techniques. Several strategies may be formulated to address the uncertainty regarding the levels of its future cash flows and the costs that it may engender. Among these strategies are some that involve working capital investment or financing suck as holding additional cash balances beyond expected needs, holding a reserve of short-term marketable securities, or arranging for the availability of additional short-term borrowing capacity.

One of the major features of this world is uncertainty (risk), and it is this feature that gives rise to many of the strategies involving working capital accounts. Moreover, a firm’s net working capital position is not only important from an internal standpoint, it is also widely used as a measure of the firm’s risk.. Risk deals with the probability that a firm will encounter financial difficulties. Such as the inability to pay bills on time. All other things being equal, the more net working capital a firm, the more likely that it will be able to meet current financial obligations. Many loan agreements with commercial banks and other lending institutions contain a provision requiring the fir to maintain a minimum level of net working capital position likewise, bond indentures also often contain such provisions. With the liquidity-profitability dilemma solidly authenticated in the financial scheme of the management, concerted efforts are made to ensure the ability of the firm to meet those obligations which mature within a twelve month period. Keeping all the factors in mind, management decides the levels of current assets, despite the fact that sales dictate some fluctuations in short-term asset investment. Excessive current assets are usually not advisable because they are generally not considered to be the “Earning Assets” of the firm. The yield from short-term assets is usually low, while returns from long-term, more permanent assets are usually quite high. So, management may be considered to be aggressive or conservative according to investment in current vs. long-term assets.

Not all Companies and Businesses are similar. Different industries have different optimum working capital profiles, reflecting their methods of doing business and what they are selling. Businesses like supermarkets with a lot

of cash sales and few credit sales should have minimal trade debtors, some seasonal business like travel agencies will receive their money at certain times of the year although they may incur expenses receive their monies at certain times of the year, although they may incur expenses throughout the year at a fairly consistent level. Some finished goods, notably foodstuffs have to be sold within a limited period because of their perishable nature. **The size and nature of a firm's investment in current assets is a function of a number of different factors, including the following:**

- **The type of products manufactured and the length of the operating cycle,**
- **The sales level, as higher sales require more investment in inventories and receivables.**
- **Inventory policies, e.g. the amount of safety stock maintained,**
- **Credit policies,**
- **Efficiency in Management of current assets.**

Some companies are inherently better placed then others. Insurance companies, for instance, receive premium payments up front before having to make any payments. However, insurance companies do have unpredictable outgoings as claims come in. Normally a big retailer like Wal-Mart has little to worry about when it comes to accounts receivable, as customers pay for goods on the spot. Inventories represent the biggest problem for retailers, who must perform rigorous inventory forecasting or they risk being out of business in a short time. Manufacturing companies, like Shree Cement, incur substantial up-front costs for materials and labor before receiving payment. Much of the time they eat more cash than they generate.

3.5 WORKING CAPITAL FINANCING & POLICIES

Working capital is taken to be the life-blood of a business. That is why, working capital management of a firm is considered to be one of the most important tasks of financial managers. A decision regarding the volume of current assets has its own importance no doubt, but the question of financing is in fact the key area of working capital management. Since the management is very much concerned with proper financial structure, these and other funds must be raised judiciously.

Various sources of Working Capital financing are bank borrowings, public deposits, trade credit, long-term borrowing and equity capital. Of the different sources, bank credit has been a major source of working capital in India and abroad. Frequently, current assets are financed from short term loans. Larger the percentage of funds obtained from short term funds, the more aggressive(and risky) is the firm's working capital policy and vice versa. A company's need for financing is equal to the sum of its fixed assets and current assets. Current Assets can be divided into the following two categories**:**

- **Permanent current assets,**
- **Fluctuating current assets.**

Fluctuating current assets are those which are affected by the seasonal or cyclical nature of a company's sales. **For example, a firm must make larger investments in inventories and receivables during peak selling periods than during other periods of the year.**

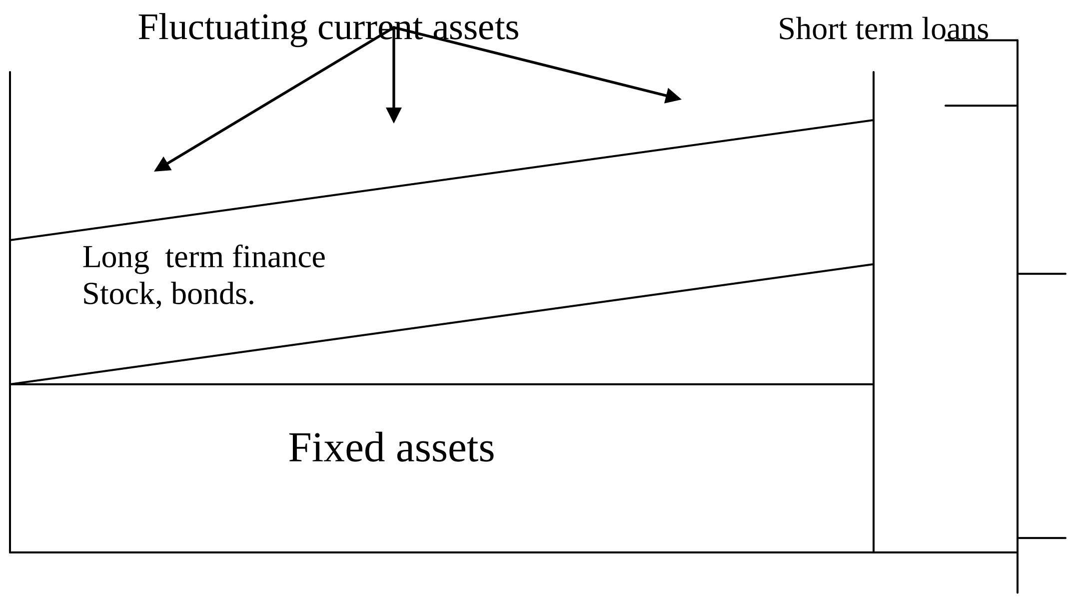
Permanent current assets are held to meet the company's minimum long-term needs e.g**. safety stocks of cash and inventories**

Fig. 3 COMPONENTS OF TOTAL ASSETS

Both expected profitability and risk increase as the proportion of short-term debt increases. The company's net working capital position and current ratio would depend on the financing policy chosen in summary, a firm can adopt any of the following policies for financing its working capital needs:-

(1) Matching Approach to Asset Financing:

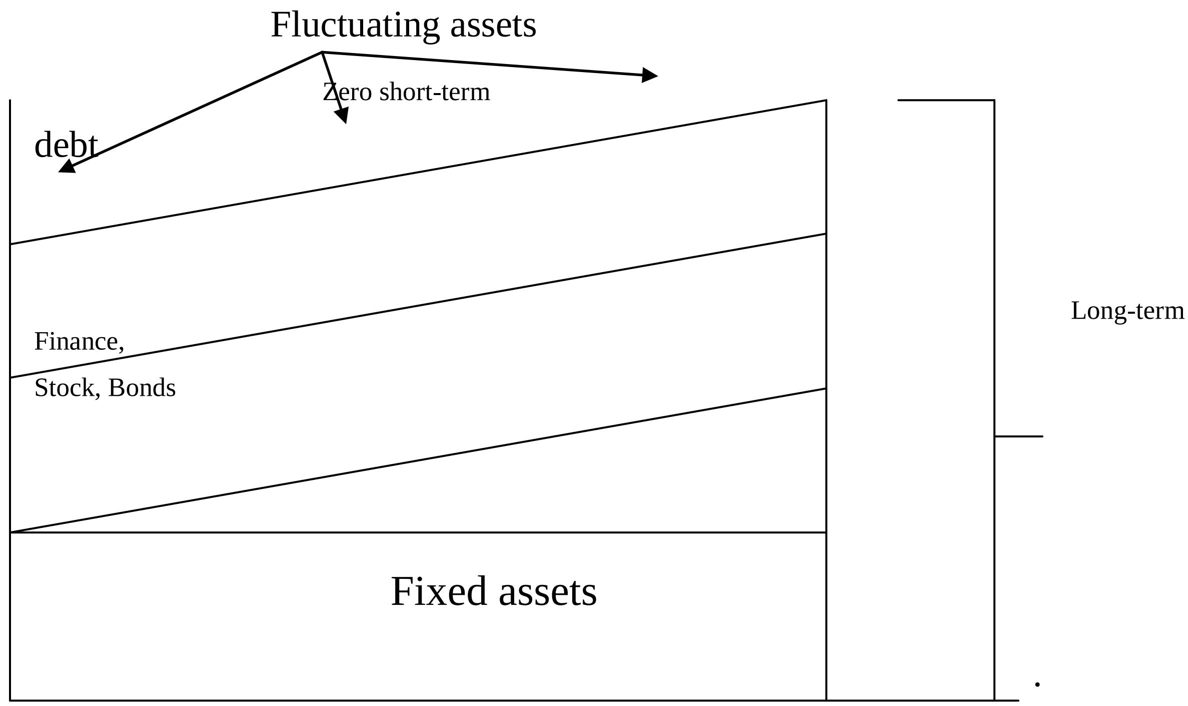
In this approach, the maturity structure of the firm's liabilities is made to correspond exactly to the life of its assets. This is illustrated in the figure given below. As can be seen, fixed assets and permanent current assets are financed with long-term debt and equity funds, whereas fluctuating current assets are financed with short-term debt. In practice the uncertainty associated with the life of individual assets makes this approach difficult to implement.



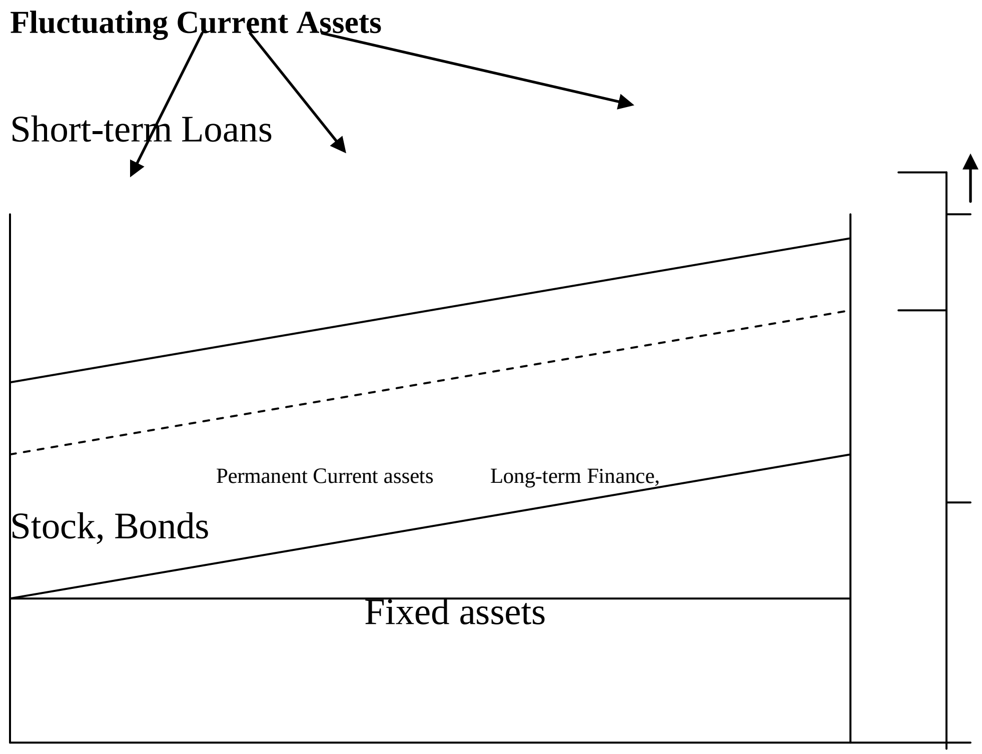
(2) Conservative Approach to Asset Financing:

In this approach, a relatively higher proportion of long-term debt is used. The relatively low proportion of short-term debt in this approach reduces the risks that the company will be unable to repay its debt, and it also reduces the risk associated with interest rate fluctuations. At the same time, however this approach cuts down on the expected returns available to stockholders, because the cost of long-term debt is generally higher than the cost of short-term debt. Net working capital and current ratio will be highest under this plan.

Marketable Securites



(3) <u>Aggressive Approach to Asset Financing</u>: This approach uses a relatively higher proportion of short-term debt. In this approach debt must be repaid more frequently, and this increases the risk that it will be unable to obtain new financing as needed. Also, the greater possible fluctuations in interest expenses associated with this financing plan also add to the firm's risk (variability in earnings). These higher risks are offset by the higher expected after-tax earnings that result from the lower cost of short-term debt. Under this plan the net working capital and current ratio would be the lowest.



4. RESEARCH PROBLEMS

The main aim of this project was to study the complete process of Working Capital Financing, both at **BSL Limited** in general. Every organization carriers out the entire exercise of analysis of last year's performance, assessment of working capital requirements, and creation of CMA and other documents for the purpose of obtaining bank borrowings at the end of every financial period. Forecasting the levels of different components of current assets and current liabilities becomes very crucial, as on their basis the final working capital requirements are calculated.

5. RESEARCH DESIGN

5.1 GENERAL METHODOLOGY

The methodology followed in completion of this project study could be enumerated as follows:

- **Analyzing relevant figures**
- **Study of the complete process of Working Capital Financing using the literature and by the way of discussions with the organizational guide,**
- **Preparing assumptions for the estimation of figures for year**
- **Using formulae to calculate the absolute values of current assets and current liabilities and their justification,**
- **Linking of all the statements to arrive at a final estimation of the working capital requirements and the Maximum Permissible Bank Finance (MPBF),**
- **Creation of CMA and other supporting documents,**
- **Complete documentation of the project study**.

5.2 SOURCES OF DATA:

The major sources of data in the project study were past year's financial statements and information gathered from my guide. The entire set of information and data was available within the organization, without any need for collecting data from outside.

5.3 DATA COLLECTION PROCEDURE:

Information was taken directly from the Finance Department. Figures and Financial Statements for the past 3 years were made available from annual reports. Literature pertaining to the bank norms and other relevant documentation was taken from the organizational guide for reference purposes.

6. PROCESS OF WORKING CAPITAL FINANCING

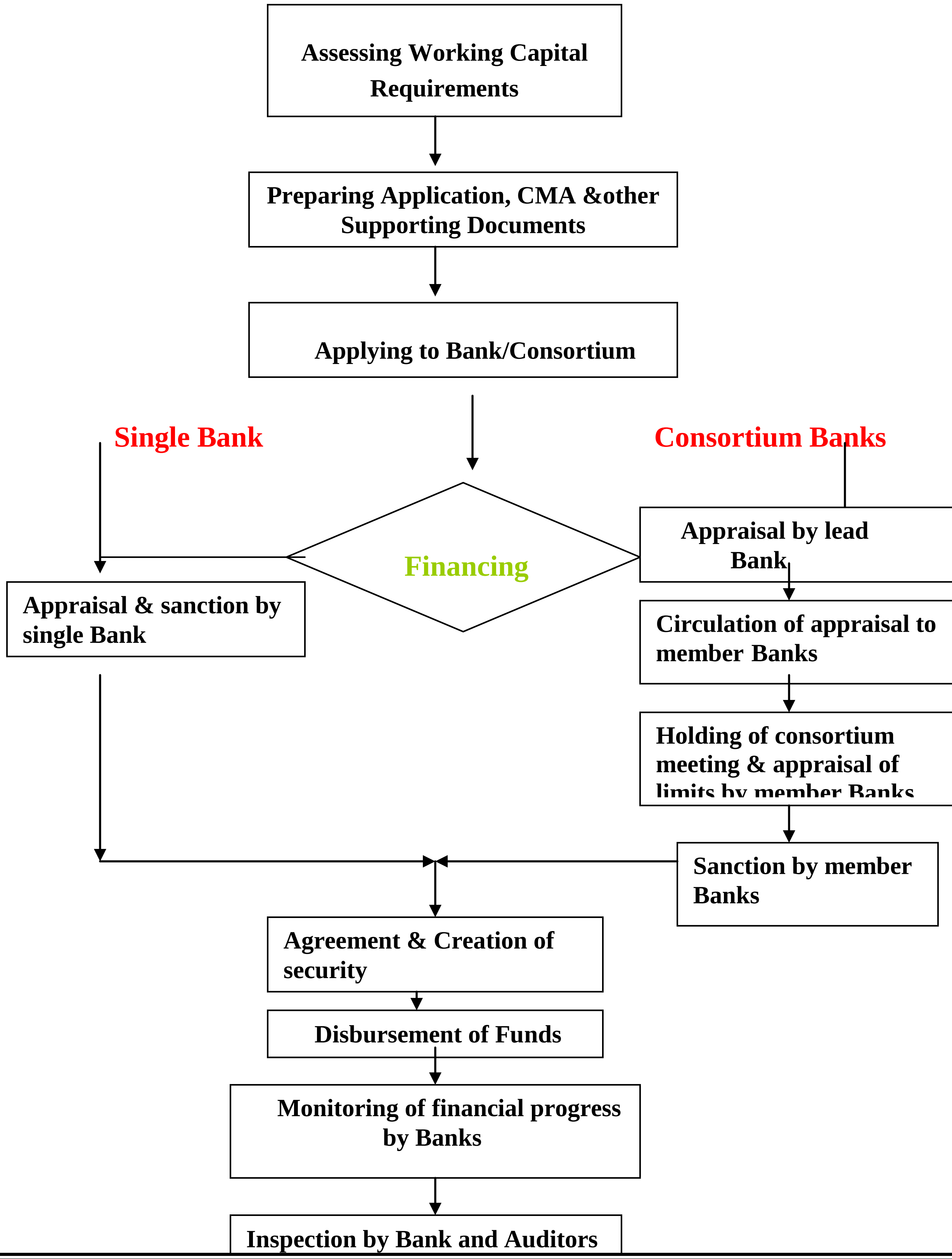
The process of working capital financing from banks is a very comprehensive one. It consists of a number of steps starting from assessing the fund requirements to the step of auditing by the Bank and Auditors. A firm can get the financing done from a single Bank or a Consortium of Banks. Generally a firm has to go for a consortium of Banks because every bank has a limit up to which it can fund the working capital requirements of a firm in a specific industry.

This is because investing money in a single industry is much riskier than diversified investments. Banks have to adhere to the norms laid down for limits of industry exposure (investment) as well as company exposure. Other steps include the preparation of Credit Monitoring Arrangement (CMA) in which the future cash flows are projected and accordingly the various requirements are assessed, which further consolidates into the working capital requirements in the following year.

Then there is preparation of other supporting documents, applying to the bank or the lead bank in case of consortium of banks, then appraisal and sanction by the bank (or banks as the case may be), creation of security, disbursement of funds and finally monitoring and auditing by the Banks and the auditors. In appraisal of the loan application by any bank, the most important part is to award a credit rating to the firm, on the basis of which the final for every firm to maintain a high credit rating.

These ratings also help the firm in issuing other instruments like Commercial Paper, debentures, etc. also, monitoring by banks constitutes an important step. The drawing power of a firm is decided on the basis of the stock levels, as Cash Credit limit is given after hypothecation of inventory and stocks. So, the drawing power of a firm keeps on changing according to the levels of the stock. Therefore reporting of financial position becomes very important. It is important from the company's performance on a regular basis. The whole sequence of Working Capital Financing is shown in the following flowchart

Fig. 7 PROCESS FLOW CHART FOR WORKING CAPITAL FINANCING



6.1 ASSESSING WORKING CAPITAL REQUIREMENTS

The money required for day to day use in a business organization contributes to the working capital requirements of the firm. Examples of such activities are payment of electricity bill, salaries & wages, mining compensation, purchase of raw material, payment of excise and sales tax., payment of factory and office expenses like telephone bills, travelling expenses and computer expenses etc.

Working Capital Requirements (WCR) may be defined as the difference between operating assets (consisting of prepaid, inventory and receivables). These accounts represent spontaneous uses and sources of funds over the firm's operating cycle.

WCR = A/R+INV+PREPAIDS-A/P

All the current assets like raw materials, stock in process, finished goods, stores & spares, debtors, loans and advances and cash & bank balances, constitute the Gross working capital. Whereas, the difference between current assets and current liabilities given the Net Working Capital (NWC). It is generally agreed that greater the current assets relative to the level of current liabilities, the more liquid the company is.

NWC = CA-CL

Another term Net Liquid Balance (NLB) is defined as the difference between current financial assets such as cash and marketable securities and current discretionary or non spontaneous financial liabilities such as notes payable and current maturities of long-term debt.

NLB =CASH+MKT SECURITES-NOTES PAYABLE- CURRENT MATURITIES OF LONG TERM DEBT.

The absolute NLB may be used as a measure of a firm's liquidity. If the measure is negative, it indicates a dependence on outside financing and is indicative of the Minimum borrowing line required. A negative NLB does not itself suggest that the firm is going to default on its debt obligations.

From the above equations, the relationship between WCR, NLB and NWC can be represented as:

NWC = WCR + NLB

Out of the above, Working Capital Requirement is the most appropriate approach to calculate the real requirements of a firm because the traditional NWC figure includes accounts that are not directly relaxed to the operating cycle. For example, the marketable securities account, and the notes payable balance should be viewed as balances that result from internal financial decisions or policies, not balances resulting form the operating cycle of the firm. They should therefore by exclude from consideration. This approach is consistent with the decomposition of net working capital into net liquid balance and working capital requirements.

- **FORMULAE FOR COMPUTATION OF CURRENT ASSETS AND CURRENT LIABILITIES**

Working capital requirements of a firm is calculated as the difference between the current assets and current liabilities. The levels of the various components of current assets like raw material, stock-in-process, finished goods, other consumable spares, receivables, advances to suppliers and other current assets, are decided by considering the levels of past years and peak

level in the last year. Also, financing of the various levels is based on judgmental decisions by financial analysts.

Formulae for calculating the requirements of different components of current assets can be given as:

Raw material inventory

(Budgeted Requirement* cost of Raw Material per unit* Average inventory Holding Period in months)/12

Finished Goods Inventory

(Total Cost of Sales*Average Inventory Holding Period in months)/12

Sundry Debtors

(Budgeted Credit Sales*Price of finished goods per unit*Average debt collection period in months)/12

Sundry Creditors

(Budgeted Credit Purchase*Cost of Raw Material per unit*Average payable period in months)/12

6.2 PREPARING CMA, APPLICATION & OTHER SUPPORTING DOCUMENTS

At the time of fresh sanction, sanction for review with modifications in the existing limits, and also for modification in any of the stipulated terms and conditions, borrowers are required to furnish the following forms:

- Form No. I: This includes particulars of existing/proposed limits/facilities/finance from: (a) each bank (b) each financial institution; for working capital credit requirement. This from is applicable to all borrowers irrespective of the size of the finance required.
- Form No. II: This includes operating statement with additional particulars required under the Desirable Bank Finance method.
- Form No. III: This includes analysis of the Balance Sheet with additional particulars required as per the bank norms.
- Form No. IV: This includes comparative statement of current assets and current liabilities.
- Form No. V: This includes a Cash Budget with all the current year projections.
- Form No. VI: This includes a report on financial indicators.

The above forms are combines to prepare **Credit Monitoring Arrangement** (CMA). It is a comprehensive document consisting of the company's performance in the past 3 years along with estimations for the current year (the year for which loan is required) and projections for the next year. This CMA is a consolidation of the Profit & Loss statement, Balance sheet and Cash flow statement showing the sources and uses of funds. This document is very descriptive, consisting of all the information about the levels of current assets (inventory holdings, receivables, and other current assets), current liabilities (creditors, statutory & other liabilities). Also, details are given about the holding levels of current assets during the past 3 years and peak level during the last year, so as to justify the estimated levels for the current year. A complete bifurcation of sales, production, expenses on labour, salary & allowances, administrative expenses are also given at the end, which mainly includes the prices taken for raw material, power, fuel, stores & maintenance and other expenses.

For obtaining the bank credit limits, working capital requirements are estimated and on that basis with requisite supporting data, application is given to the bank.

For the purpose of bank financing, minimum current ratio requirement is 1.33:1. if the current ratio is lower than 1.33 then the bank charges a higher rate of interest or assesses the bank borrowing at a lower level, so as to achieve the current ratio of 1.33 (as by reducing the bank borrowing, current liabilities get reduced, which is the denominator in the calculation of current ratio, hence leading to a higher current ratio).

6.3 APPLYING TO SINGLE BANK CONSORTIUM OF BANKS

Now as per the amount of the bank borrowings required, the firm can apply to a single bank or to a consortium of banks. A firm has to apply to a consortium of Banks because as per the bank norms every bank has a limit up to which they can provide funding to a firm in a specific industry, as investing money in a single industry is much riskier than diversified investments. For all this, banks have to adhere to the norms laid down for the limits of industry exposure (investment) as well as company exposure. So, whenever the borrowing requirements of a firm exceed the lending limits of a bank then it has to approach a consortium of two or more banks. Once of the banks out of the consortium is chosen as the lead bank by the company. Generally the bank with the highest share in the sanctioned loan is chosen. The lead bank is responsible for the primary appraisal of the loan application and then circulates the appraisal to the member banks. The application along with CMA & other supporting documents are sent to all the member banks of the consortium which is then appraised and loan amount is accordingly sanctioned.

6.4 APPRAISAL BY SINGLE BANK/LEAD BANK

After the bank/consortium of banks receive the application for funding of working capital requirements, a comprehensive process of appraisal is carried out. In case of a consortium of banks, the lead bank bears the responsibility of primary appraisal and then passing the information to member banks. Borrowers are categorized on the basis of their requirements in the following manner and accordingly the process of appraisal is carried out.

CATERGORISATION OF BORROWERS

(i) For Non-SSI borrowers requiring working capital finance over Rs. 2 lacs and up to Rs. 100 lacs from the banking system. From the banking system, for such small-scale borrowers, a method of perceiving W/C credit requirement is applied.

(ii) For Non-SSI borrowers requiring working capital finance over Rs. 100 lacs and up to Rs. 500 lacs, and SSI borrowers requiring working capital finance over Rs. 200 lacs but up to Rs. 500 lacs from the banking system, for this segment of borrowers are pre-supposed to have a better data base of their operations and of financial health and, size of the limit to these borrowers demands a high level of bank-exposure, a relatively detailed analysis and supervision is proposed.

(iii) For all borrowers requiring working capital finance over Rs. 500 lacs and up to Rs. 1000 lacs (for both SSI as well as Non-SSI borrowers) from the banking system. The borrowers requiring the above said size of limit are either corporate of likely to graduate to corporate-constitution in near future and, as such, are believed to have a better data-base of their operations. Moreover, the aggregate of the limits under the above said size puts the bank's exposure as a whole at a substantial level. Therefore, the

(iv) For all borrowers requiring working capital finance over Rs. 1000 lacs (for both SSI and Non-SSI borrowers) from the banking system, the borrowers, requiring this size of limit, (i) are in upper strata of the economy, (ii) are predominantly corporate, and therefore, are statutorily required to maintain various financial data base and statements as per the requirements prescribed under the relevant statutes/Acts apart from being statutorily subjected to at least annual audits, (iii) have in-built systems to maintain easily and promptly retrievable wide data-base to facilitate in depth analysis and understanding level of inventory and/or receivables but suffer more from cash deficits arising fro time to time. Further, because of the mammoth size of the finance required by such borrowers, the banks are more required to vigil their funds-managing ability to timely resource the funds-availability as well as to conceive a proper funds-development.

6.5 SANCTION BY SINGLE BANK/MEMBER BANKS OF CONSORTIUM

After the consortium meeting, the bank/member banks sanction the loan to the applicant. Each of the member banks send a sanction letter to the borrower in which the limit of the loan and the interest applicable as per the credit rating awarded by that particular bank is mentioned. All the terms and conditions of the borrowing are also mentioned in the sanction letter.

6.6 AGREEMENT & CREATION OF SECURITY

After the sanction letter from the Banks is received by the borrower, an agreement is prepared which includes all the terms & conditions of the deal, along with the interest rate that will be charged on the borrowing. Also, other rules and norms to which a borrower has to adhere to are mentioned in this agreement. An agreement is a comprehensive document consisting of rights with the lending banks and duties of the borrower to be fulfilled during the currency of the borrowing. Generally banks have the right to enhance the rate of interest anytime during the year. The borrower also has to offer some property, goods, debt-book, movables or immovable for mortgage as security to the bank. The properties offered as security should be absolute property free from prior charges. In respect of security created by way of hypothecation/pledge/mortgage, the borrower has

to maintain a sufficient quantity and market value of goods, book-debts. Movables and other assets and also all immovable properties given as security at all times, to provide margins of security required by the bank from time to time. In respect of letter of credit opened or guarantees or indemnities issued by the bank on behalf of the borrower, he has to deposit sufficient cash or other security as margin money as stipulated by the bank. Banks are given charge of the security on PARI PASSU basis which indicates that all the banks in the consortium have first hand charge on the borrower's assets kept as security. It means that all the banks providing funds have equal rights on the property of the borrower. In case of any default, they can claim the assets in proportion of the outstanding to them by the borrower. Machineries of the borrower hypothecated and charged to the bank are treated as movable property, and not as an immovable property and it has to bear the name of the bank indicating that the said machineries are hypothecated and charged to the bank.

6.7 DISBURSEMENT OF FUNDS

Indian Banks follow Line of Credit System (LCS) for disbursement of working capital funds. Under LCS, the borrower's working capital credit requirement is assessed at an outer limit i.e. the maximum limit which is flexible enough to be used in one or more of the following forms as selected by the borrower in lieu of his requirements from time to time. In other words, the Line of Credit is not a credit facility per se, but, is an outer limit for total (funded and non-funded) working capital finance. Within this outer limit, various types of working capital funded and non-funded credit facilities with appropriate limits shall be made available to the borrower.

6.8 INSPECTION BY BANK AND AUDITORS

The company has maintained proper records showing full particulars including details and situation of fixed assets. The company has not granted any loan to companies firms or other parties covered in the register maintained under section 301 of the companies act, 1956 the provision of clause 4 (iii) (b) to clause 4 (iii) (d) of the companies. All the payments of loans are not dues. The BSL Ltd is not dealing in our training in shares, securities, debenture and other investment.

7. WORKING CAPITAL FINANCING AND MANAGEMENT AT BSL LIMITED

The textile industry is one, which is characterized by high working capital requirement. This arises principally on account of a long production-to-market cycle time and high debtors arising out of strong competition. The ability to manage the entire cycle from raw material procurement of receivables management holds the key to better working capital management BSL used two modes for financing its working capital requirement:

- **Term loans**
- **Working capital loans**

Term loan: loans taken from any financial intuition and banks with monotonies period of 2 years & repayable in 32 outerly equal period installments

Working capital loans : in forms of cash credit limits ,packing credit limit & foreign bill discounting limit etc. since the company is engaged in export so the packing credit limit utilization is high .the packing credit limit is given for 180 days by bank .the company also used gold card limit.

Letter of Credit (LC): This limit is commonly used to finance international trade. At BSL Ltd, LC is used for domestic purchase/import of consumable stores and spares/packing materials/coal and certain capital items on an ongoing basis for modification/replacement of parts of the machinery.

8.WORKING CAPITAL REQURIMENT AT BSL LIMITED

RAW MATERIAL STOREGE PERIOD

RAW MATERIAL CONSUMED/AVERGE RAW MATERIAL
=OPENING+PURCHASE-CLOSING

AVERGE RAW MATERIAL= $\frac{\text{OPENING STOCK+CLOSING STOCK}}{2}$

8279.32/1239.19=6.68TIMES

IN DAYS= $\frac{365}{6.68}$ = 55 DAYS

WIP CONVERSION PERIOD

COST OF GOODS SOLD/AVERAGE WIP COST OF GOODS SOLD

=OPENING+PURCHASE-CLOSING

AVERAGE WIP= $\frac{\text{OPENING+CLOSING}}{2}$

12319/999.81=12.32 TIMES

IN DAYS= $\frac{365}{12.32}$ = 30 DAYS

FINISHED GOODS STOREAGE PERIOD

COST OF GOODS SOLD/AVERAGE FINISHED GOODS COST OF GOODS SOLD

= OPENING+PURCHASE-CLOSING

AVERAGE FINISHED GOODS $= \frac{\text{OPENING+CLOSING}}{2}$

12160.7/1788.1=6.8 TIMES

IN DAYS$= \frac{365}{6.8}$ = 54 DAYS

DEBTORS COLLECTION PERIOD

CREDIT SALES/AVERAGE DEBTORS+BILLS RECEIVABLE

$= \frac{\text{AVERAGE DEBTORS+BILLS RECEIVABLE}}{2}$

18133.98/2654.48 = 6.83 TIMES

IN DAYS$= \frac{365}{6.83}$ = 54 DAYS

CREDITORS PAYMENT PERIOD

CREDIT PURCHASE/AVERAGE CREDITORS+BILLS PAYABLE

$$= \frac{\text{AVERAGE CREDITORS+BILLS PAYABLE}}{2}$$

7956.54/849.195=9.37 TIMES

$$\text{IN DAYS} = \frac{365}{9.37} = 39 \text{ DAYS}$$

OPERATING CYCLE DAY =

55+30+54+54-39=154

$$\text{NO.OF OPERATION} = \frac{365}{154} = 2.37$$

WORKING CAPITAL REQUERIMENT =

COST OF GOODS SOLD/NO.OF OPERATION

$$\frac{18133.98}{2.37} = \mathbf{7651.5\ CRORS}$$

9. CREDIT RATINGS OF THE COMPANY

Another reason for such a low cost of funds is the rating enjoyed by the company. BSL Limited enjoys the highest rating for both short-term and long-term loans. Credit rating is done by an external agency, CARE (Credit Analysis & Research Limited) has awarded them the rating BBB- Minus for working capital loans. Again the company was consistent in achieving these grading from CARE for the last one years. One of the most important challenges facing the management is to keep these ratings at the highest level.

10. RESULTS & CONCLUSIONS

From the analysis of company's performance in the past few years it is clear that BSL Limited has adopted very innovative techniques for the financing and management of working capital. The company has been able to maintain a Current Ratio . Also, with the help of strict credit policies they have been able to bring down the Receivables collection period. The inventory turnover period has increased by better management. Working capital management helps predict day operation of business. Mismanagement or adequate management become a leading cause of business failure or success.

COMPANY'S VALUES

- **Leadership:** The courage to shape a better future.
- **Passion:** To build BSL in Global Market
- **Integrity**: A World class textile solution
- **Accountability**: If it is to be, it's up to me.
- **Innovation**: production of new fabric
- **Quality:** higher's standard of quality in today's competitive environment

11. SWOT ANALYSIS

The overall estimation of a companies‘s strengths ,weakness’s ,opportunities, and threat’s is called SWOT ANALYSIS . To identify the companies peripheral opportunities n threats as well as its in house strength’s n weakness

The company’s needs to equilibrium strengths n weakness against opportunities n threats.

Is the company an overall strong competitive position? If any company analyzes his SWOT ,that it can continue to pursue its current business or corporate level strategy, profitable and company can also turn weakness into strength n threat in to the opportunities

A SWOT ANALYSIS IS THE KEY TO A SUCESSFUL INDUSTRY

STRENGTHS:

- Availability of world class technology
- ISO 9002 certification for outstanding export performance
- Strategic location for raw material, Logistic activities
- 100% self Reliability in energy consumption
- Cost competitiveness in variable expenses

WEAKENESSES:

- Brand bsl <still to be endorsed in Global Market>
- Product range needs to be expanded to match the growing needs
- A dependency factor of specific customer & markets still exists
- Agency business still accounts a bulk of total sales.

OPPORTUNITIES:

- Large untapped potential exists in the global market
- Management focus for a more diverse product range for silk sector & new fabric in fashion
- Growing domestic textile industries

THREATS:

- Scarcity of semi skilled labour is a problem area
- Small players in the market lead to price wars
- Competition tuff in domestic market

12.BIBLOGRAPHY

- **www.bslltd.com.**
- **www.lnjbhilwara.com.**
- **www.blackwellpublishing.com/books**
- **www.financialexpress.com**


THANKS FOR EVERYTHING....
...& HOPE YOU KNOW HOW MUCH
YOUR GENEROSITY, KINDNESS &
THOUGHTFULNESS MEANS TO ME...
....THANKS AGAIN