CHAPTER I

INTRODUCTION

Finance is said to be 'the science of money'. Finance implies funds necessary for carrying on the activities of an organization. The funds include;

- Fixed capital for procuring fixed assets, i.e., plant, machinery, building, tools and equipments.
- Working capital for procuring raw materials, payment of wages, overhead etc.

Working capital (WC) is a financial metric which represents available to a business, organization or other entity, including governmental entity. Working capital may be regarded as the lifeblood of a business firm. Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital. Working capital refers to firm's investment in short term assets such as cash, short term securities, amount receivables, inventories of raw materials, work in progress and finished goods. There might not be many business firms in the world where, besides investment in fixed assets, funds would not be needed for carrying on day-to-day operations of the business. It can also be regarded as that portion of the firm's total capital that is employed in short term operations. It refers to all aspects of current assets and current liabilities. Net working capital is calculated as If current assets are less than current liabilities; an entity has a working capital deficiency, also called a working capital deficit.

Technically, Working capital management is an integral part of the financial management. Decisions relating to working capital and short term financing are referred to as working capital management. The financial manager must determine the optimum level of working capital funds and also the optimum composition of current assets and current liabilities. He must ensure that the appropriate sources of funds are used to finance working capital and also see that short term liabilities of the business are met well in time. The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and

upcoming operational expenses.

A firm may exist without making profits but cannot survive without liquidity. A firm not making profits may be treated as sick but one having no liquidity may soon meet with its downfall and ultimate die. Working capital has thus become a basic and broad measure of judging the performance of a business firm.

State Bank of Travancore (SBT) is a subsidiary of the State Bank Group and also has private shareholders. In 1960, it became a subsidiary of State Bank of India under the SBI Subsidiary Banks Act 1959, enacted by the Parliament of India. It is the premier bank of Kerala, India. Where it has 777 branches spread over 16 Indian States. It provide services in the areas of Investment banking, Consumer banking, Commercial Banking, Retail banking, Private banking, Asset management, Pensions, mortgages etc.,

This project is undertaken to study the present mode of working capital management and utilization in SBT. Main objective of this study is to suggest optimization and improvisation strategies, if any to represent mode of working capital management.

STATEMENT OF THE PROBLEM

This study has been undertaken to know whether the management of working capital employed by State Bank of Travancore is satisfactory or not. To have a clear understanding about the management of working capital, profitability and financial position of the business, the financial statements should be analyzed and interpreted.

Every business activities require finance. Finance is needed to establish a business, to run it, to modernize it, to expand or to diversify it. A firm can attain growth and development only by performing in a better way in all the fields. If the performance is not up to the satisfactory level proper, precautionary measures have to be adopted in the sick or inefficient areas.

In this context an attempt is made to evaluate the overall working capital position of STATE BANK OF TRAVANCORE (SBT), one of the subsidiaries of SBI. The study is carried on by giving more emphasize on the working capital management of SBT.

SCOPE AND SIGNIFICANCE OF THE STUDY

The financial sector reforms and the rapid structural changes taking place in the Indian economy are having very positive impact on the banking sector. It made the banking industry in India a less predictive but a more competitive one.

As banking sector is different from other conventional industries with regard to its operation and working, the procurement and utilization of working capital is also different. A study of working capital is of major importance to internal and external analysis, because of its close relationship with the current day –to-day operation of an entity. The inefficient management of working capital is one of the main causes for sickness and failure of many entities. Thus, in the light of the present performance of the public sector banks, the present study on working capital management with reference to State Bank of Travancore has got special significance.

OBJECTIVES OF THE STUDY

The main objective of this study is to examine the operating and working capital performance of State Bank of Travancore with proper stress on the following specific objectives.

- To study the effect of working capital on SBT's profitability and liquidity.
- To study the working capital position of SBT.
- To evaluate the capital structure of SBT.

METHODOLOGY OF THE STUDY

The study is partially descriptive and partially analytical. It is descriptive as it traces the theoretical frame work of working capital management. It is analytical in the sense that it makes an appraisal of working capital management in SBT.

The study is mainly based on secondary data. The secondary data were collected mainly from the audited annual reports of the bank, books, periodicals etc.

In order to analyze the data statistical tools like ratios, percentages, tables and graphs are used.

PERIOD OF THE STUDY

For overall analysis of the performance of bank, data related to 5 years that is, from the financial year 2008 – 2009 to the financial year 2010 -2013 were considered.

LIMITATIONS OF THE STUDY

- The data available for study have been restricted to few years' annual reports. The in-house data has been very secretive and confidential. This shortcoming is reflected in the study.
- The study would have been more useful if primary data were collected from the customers and officials of the bank.
- Again, owing to time constraint, carrying out an in depth study was not possible.

CHAPTERIZATOIN

The project report is presented in five chapters:

Chapter 1 **Introduction:** It deals with meaning and significance of working capital, statement of the problem, scope and significance of the study, objectives of the study, methodology followed, period and limitation of the study.

Chapter 2 **State Bank of Travancore:** A profile: This includes origin and development, organization structure, objective and activities performed by the bank such as deposits schemes, credit schemes, etc.

Chapter 3 **Theory on 'Working Capital Management':** This chapter deals with working capital, concepts of working capital, need of working capital, operating cycle, factors influencing working capital, kinds of working capital, working capital management, Excess or inadequate working capital, disadvantages of excess or inadequate working capital, principles of working capital management, importance of working capital management, advantages of working capital management, working capital financing policy.

Chapter 4 **Analysis and interpretation:** This chapter deals with data analysis of the SBT to assess the working capital position through the ratios of liquidity, profitability, efficiency and solvency and statement of changes in working capital for the past five years.

Chapter 5 **Findings, Suggestions and Conclusion:** In this chapter summarizes the findings of the study and certain remedial measures and conclusions are incorporated.

CHAPTER II

STATE BANK OF TRAVANCORE – A PROFILE

The State Bank of Travancore, the premier banking institution in Kerala, is one of 27 public sector banks of country. It belongs to the State Bank Group comprising the State Bank of India and 7 Associated Banks. The bank was originally known as Travancore Bank Ltd, until it became a subsidiary of The State Bank of India (SBI) on 01/01/1960 from which date it came to be called the State Bank of Travancore.

Origin and Development

The bank was originally established as the Travancore Bank Ltd on the 12th September 1945 with the support and patronage of the Maharaja of Travancore. The bank had 8 branches in the year 1946 and acted as the central bank of the state. The bank was accorded the status of a scheduled bank in the same year.

State Bank of Travancore (2010)

State Bank of Travancore (2010)

The bank became a subsidiary of State Bank of India as per The State Bank of India (subsidiary bank act 1959) may of the old private bank of Kerala like Travancore forward bank, Kottayam orient bank, Bank of India, Cochin Nayar Bank, Latin Christian bank etc were amalgamated with the bank between 1961 to 1965 and State Bank of Travancore emerged as the premier banking institution in the state Kerala with wide network of branches. The chief executives of the Travancore Bank Ltd in the earlier days were Europeans. From 1995 the executives were Indians drawn from The Imperial Bank of India or The State Bank of India.

Organization Structure

The bank' affairs are managed by Boar of Directors with nominees from Government of India, RBI, and SBI. The chairman of SBI is the chairman of the Board of the bank under clause (a) of subsection (1) of section 25 of the SBI Act, there is also an executive committee of Board consisting of a few of the Directors which meet at least once a month to transact the bank's business.

The head of SBT is situated at Poojapura, Thiruvananthapuram, it controls 5 zonal offices situated at Thiruvananthapuram, Ernakulam, Kottayam, Kozhikode and Chennai, which in turn control 16 regional offices supervising 667 branches. The organizational structure of the bank consists of 3 control centers.

Management Tier	**Responsibility Control**
Top Management Chairman / Managing Director/ Chief General Manager/ General Managers	Corporate
Zonal / Regional Management Deputy General Managers Assistant General Manager Regional Manager	Corporate

Branch Management

Branch Managers

branch Managers of divisions/

Other Officers

} Day to day function at level

The bank has adopted a modular structure management and the growth in business is taken care by increasing the number of modules or regions as and when necessary. Top management consists of The Chairman/ Managing Director, The Chief General Manager and 4 General Managers. The zonal office has Deputy General Managers as its hand with 3 to 4 Regional Managers.

Objective

Section 4 (3) of SBI Act provides that the " bank shall carry on the business of banking and other business in accordance with the provisions of the Act and shall have the power to acquire and hold property whether movable or immovable for the purpose of its business and to dispose the same".

Activities

SBT performs all the functions of commercial bank. Specifically it performs the following:

a) Acceptance of deposits from Indian public and NRI's.

b) Financing of Indian industry, agriculture, SSI units, small business enterprises, support to self employed and professionals etc.

c) Export credit assistance.

d) Investment and treasury operations, sale and purchase of government of India securities, debentures, share of Joint Stock companies, money market operations etc.

e) Merchant Banking: issue management, underwriting, and acting as a collecting banker to primary issues.

f) Foreign exchange dealings: sale and purchase of rupee and foreign currency.

g) Other services: Acting as bankers for state Government, RBI, and SBI, providing safe deposit locker services and custodian services.

Some other activities of SBT are given below:

1) Lead Bank Scheme

SBT has lead bank responsibility in three districts in Kerala viz, Alappuzha, Kottayam and Pathanamthitta. The bank conducted several programmes like SHG linkages, formation of farmers clubs, Kudumbasree awareness classes, Bhavanasree loan melas etc. Revenue Recovery melas were conducted in all the three lead districts allotted to the bank.

2) Community Service Banking

Voluntary participation of staff members in social action programmes through social circles is the unique feature in the community service policy of the bank. The concept has promoted innovative thinking, concern for the society, better team spirit and more opportunities for staff fulfillment.

3) Consumer Service

A fully fledged grievance redressal mechanism to address issues relating to customer complaints is in place. The customer service committee at the branches, zonal offices and head offices are quite active to ensure that there is no deficiency in this regard. SBT is indeed seen today as a customer sender and a customer friendly bank.

4) Technology Up gradation and ITR initiative

Continuing its thrust in leveraging the benefits of computerization in business growth, the bank undertaken a number of IT initiatives for technology up

gradations and providing value added products and services. One of the major IT initiatives launched recently was the introduction of Core Banking Solutions with centralized database management.

5) Risk Management System

The bank has structured risk management architecture to address various risks. At the apex level, a Risk Management Committee Board (RMCB) oversees the policy and strategy for integrated risk management relative to various risk exposures. Risk Management Initiatives are being taken keeping in mind the demands made by the new capital adequacy framework, which is more risk sensitive.

Deposits Schemes

State Bank of Travancore offers the following deposit schemes:

a) Savings Deposit

- Best suited for all classes of people.
- Minors above 10 years can open and operate the account.
- Quarterly average minimum balance to be maintained in SB account is Rs.1000 with cheque book facility and Rs.500 without cheque book facility.
- Liberal withdrawal facilities.
- No tax deduction at source on interest.
- Nomination facility is available.
- Internet banking or ATM or mobile banking facilities are also available.

b) Term Deposits

- Deposits for periods of 7 days to 120 months.
- Minimum deposit is Rs.1000 at multiples of Rs.100.

- Interest normally paid quarterly, half yearly or yearly. Monthly payment can be had at discount rates.
- Premature withdrawal permitted with applicable penalty.
- Loans are available up to 90% of the deposit, with interest 1% above the deposit rate.
- Minors above the age of 10 can deposit up to Rs.2 lakhs in their names independently.

c) SBT Reinvestment plan (Special Term Deposits)

- Ideal for maximum return.
- Care free long term investment with safety and liquidity.
- Interest accrued is compounded quarterly.
- Premature withdrawal permitted with applicable penalty.
- Loans are available up to 90% of the deposit, with interest 1% above the deposit rate.
- Minors above the age of 10 can deposit up to Rs.2 lakhs in their names independently.
- Existing deposits accounts can freely be converted into special term deposit accounts and vice versa.

d) Short Term Automatically renewable (STAR) Deposit Scheme

- Minimum deposit Rs.5000 accepted in multiples of Rs.100 only.
- Short term deposit scheme with automatic renewal facility.
- Premature withdrawal permitted.

e) Thrift Deposits

- Recurring deposit scheme for a period of 12 months to 120 months with fixed monthly remittances.
- No income tax deducted at source.
- Ideal for regular monthly income earners, traders, pensioners etc.

f) Unit Deposit Scheme

- Amount deposited is held in units of Rs.1000each
- Accounts can be opened with Rs.10000 and thereafter in multiples of Rs.100.
- No maximum limit.

g) Variable Deposit Scheme (Super Surplus)

- Recurring deposit scheme for a period of 12 months to 120 months.
- Offers flexibility in the amount of monthly remittance.
- Interest credited to the account half yearly.
- Ideal for those persons whose monthly savings vary from month to month.

Credit Schemes

The following are the credit schemes of SBT:

a) Gyan Jyothi (Educational Loan)

- Provides financial assistance to deserving students.
- Loan up to 705 lakhs for studies in India and up to 15 lakhs for studies abroad.
- Repaid in 5 to 7 years after commencement of repayment.

b) SBT Gold Loan:

- Loans against Gold ornaments or gold bullion.
- Amount of loan – maximum 5 lakhs.
- Period of loan – 6 to 12 months.

c) SBT Festival Loan:

- For celebrating festivals and important functions.
- Loan amount minimum Rs.5000 and maximum Rs.50000.
- Repayment period 1year.
- Repayable in 10 equated monthly installments.

d) Sahaya Varsha

- A loan scheme to meet short term financial needs.
- Amount of loan – minimum RS.100000 and maximum Rs.200000.
- Repaid in 6 to 60 months in equated monthly installments.

e) Suvidha Loans

- General purpose loan.
- Amount of loan – minimum Rs.50000 and maximum Rs.25 lakhs.
- Repayable in 7 years in equated monthly installments.
- Age of the borrower should not exceed 60 years.

f) SBT Computer Loan

- For purchasing home computer, personal computer and other accessories.
- Maximum amount of loan Rs.1 lakh.
- Maximum repayment period – 72 months.

g) SBT Car Loan

- For purchase of new as well as second hand cars.
- Maximum amount of loan Rs.12 lakhs.
- Repayment – For new cars 84 equal monthly installments, for second hand cars 60 equated monthly installments.

h) SBT Two Wheeler Loans

- Both for residents and NRI's.
- Maximum amount of loan Rs.5 lakhs.
- Repayable in 72 equated monthly installments.

State Bank of Travancore (SBT) received

- **National Award for Excellence in MSME Lending**
- **National Award for Excellence in Lending To Micro Enterprises for the Year 2011 – 12.**

The Bank opened 134 new branches during the financial year, taking the total number of branches to 1013. Bank has 758 branches in the state of Kerala which is 75% of Bank's total network. The Bank has plans to open about 200 branches to take its network to 1200 during the current year. Alternative channel reach was also expanded further; by installing 36 new ATMs during the financial year, taking the total ATMs to 965. A new Zonal office has been opened in Kollam taking the total number of Zonal Offices to seven. The branches under Kollam and Alappuzha districts are under the control of this Zone. The Bank has also opened a Platinum Point Personal segment branch at Banjara Hills, Hyderabad.The Bank has also opened 21 Specialised Gold Point Branches covering 14 districts in Kerala

and one in Kanyakumari district of Tamil Nadu to facilitate speedy and easy disbursement of Gold Loans for the customers.

Bank also proposes to open a new Zonal Office at Bangaluru. The Bangaluru Zonal Office will have jurisdiction of branches in Karnataka, Andhra Pradesh and Orissa States. Five more Regional Offices are proposed at Hyderabad,Madurai, Pala, Kottarakara and a second Regional Office at Kannur.

RSETIs are functioning at Wayanad, Pathanamthitta, Alappuzha, and Kottayam for providing skill upgradation training to the rural youth with focus on BPL category. The four institutes had trained 15,582 beneficiaries since inception and 87% of the people are women beneficiaries and majority of the trainees are reported to be successful in starting self-employment ventures. Out of 10,363 beneficiaries contacted as follow up, 7803 were well settled. The important courses includes beautician, electrical wiring, ornaments manufacturing, tally accounting, Computer hardware servicing, aluminum fabrication, kitchen gardening, mushroom cultivation with vegetable growing, mural painting etc.

CHAPTER III

REVIEW OF LETRATURE

Working Capital

Every business needs funds for two purposes – for its establishment and to carry out its day to day operations. Long term funds are required to create production facilities through purchase of fixed assets such as plant and machinery, land, building, furniture, etc. Investment in these assets represent that part of firms capital which is blocked on a permanent or fixed basis is called fixed capital. Funds are also needed for short – term purposes for the purchase of raw materials, payment of wages and other day to day expenses, etc. These funds are known as working capital. In simple words, 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 and inventories. Funds thus invested in current assets 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.

According to ***Genestenberg,*** "Circulating capital means current assets of a company that are changed in ordinary course of business from one form to another, as for example, from cash to inventories, inventories to receivables, receivables in to cash."

Concepts of Working Capital

There are two concepts of working capital:

- Balance Sheet Concept
- Operating Cycle or Circular Flow Concept

Balance Sheet Concept

There are two interpretations of working capital under the balance sheet concept:

- **Gross Concept**
- **Net Concept**

In the broad sense, the term working capital refers to the ***gross working capital*** and represents the amount of funds invested in current assets. Thus, the gross working capital is the capital invested in total current assets of the enterprise. Current assets are those assets which in the ordinary course business can be converted in to cash within a short period of normally one accounting year. For example, cash in hand and bank balances, bills receivables, sundry debtors, inventories, etc.

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

Net working capital = Current Assets – Current Liabilities.

Net working capital may be positive or negative. When the current assets exceed the current liabilities the working capital is positive and the negative working capital results when 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 assets or the income of the business. For example, bills payables, sundry creditors, outstanding expenses, etc.

The gross working capital concept is financial or going concern concept whereas net working capital is an accounting concept of working capital.

Operating Cycle or Circular Flow Concept

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 and inventories. Funds thus invested in current assets 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. The circular flow concept of working capital is based upon this operating or working capital cycle of a firm. The cycle starts with the purchase of raw materials and other resources and ends with the realization of cash from the sale of finished goods. It involves purchase of raw materials and stores, its conversion into stock of finished goods through work in progress with progressive increment of labor and service cost, conversion of finished stock into sales, debtors and receivables and ultimately realization of cash and this cycle continues again from cash to purchase of raw materials and so on. The speed / time duration required to complete one cycle determines the requirements of working capital - longer the period of cycle, larger is the requirement of working capital.

The duration of time needed to complete the following chain of events in case of a manufacturing company is called operating cycle.

- Conversion of cash in to raw materials.
- Conversion of raw materials in to work-in-progress.
- Conversion of work-in-progress in to finished goods.
- Conversion of finished goods in to accounts receivables through sales.
- Conversion of accounts receivables in to cash.

Operating Cycle = O = R + W + F + D – C

O	Duration of Operating Cycle
R	Raw Materials and Storage Period
W	Work In Progress
F	Finished Goods and Storage Period
D	Debtor’s Collection Period
C	Creditor’s Payment Period

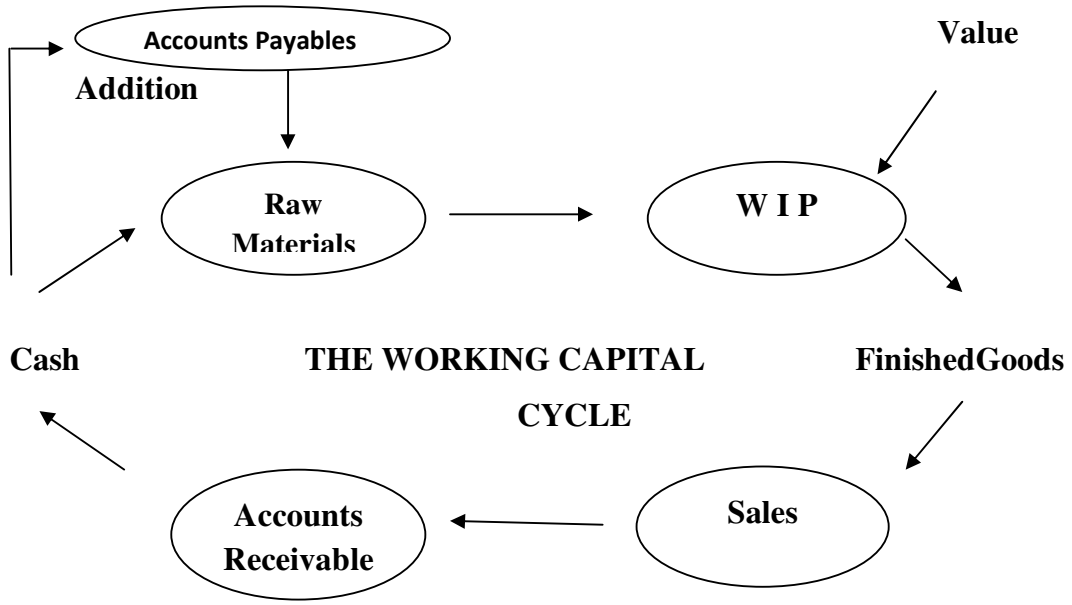


Figure 3.1

Factors that influence total investment in Working Capital

The working capital requirements of a concern depend upon a large number of factors such as nature and size of business, the character of their operations, the length of production cycle, the rate of stock turn over and the state of economic situation. It is not possible to rank them because all such factors are of different Importance and the influence of individual factors changes for a firm over time. However the following are the important factors generally influence the working capital requirements:

- **Nature of business :**

The working capital requirements of a firm basically depends on the nature of its business. Public utility undertakings like electricity, water supply, etc need very limited working capital. On the other hand, trading and financial firms requires less investment in fixed assets but have to invest large amounts in current assets. The manufacturing undertakings also require sizable working capital along with fixed investments

- **Manufacturing process :**

In manufacturing business, the requirements of working capital increase in direct proportion to length of manufacturing process. Longer the process period of manufacture, larger is the amount of working capital required.

- **Size of business :**

The working capital requirements of a concern are directly influenced by the size of its business which may be measured in terms of scale of operations. Greater the size of a business unit, generally larger will be the requirements of working capital.

- **Production policy :**

In certain industries the demand is subject to wide fluctuations due to seasonal variations. The requirements of working capital, in such cases depend upon the production policy. If the policy is to keep production steady by accumulating inventories it will require higher working capital.

- **Seasonal Variations :**

In certain industries raw material is not available throughout the year. They have to buy the raw materials in bulk during the season to ensure uninterrupted flow and process them during the entire year. Generally during the busy season, a firm requires larger working capital than in the slack season.

- **Working Capital Cycle :**

In a manufacturing concern, the working capital cycle starts with the purchase of raw material and ends with the realization of cash from the sale of finished products. The speed with which the working capital completes one cycle determines the requirements of working capital.

- **Rate of Stock Turnover :**

There is a high degree of inverse co-relationship between the quantum of working capital and the velocity or speed with which the sales are affected. A firm

having rate of stock turnover will need lower amount of working capital as compared to a firm having a low rate of turnover.

- **Business Cycle :**

Business cycle refers to alternate expansion and contraction in general business activity. In a period of boom i.e., when the business is prosperous, there is a need for larger amount of working capital due to increase in sales, rise in prices, optimistic expansion of business, etc. On the contrary in the times of depression, the business contracts, sale decline and the firm may have large amount of working capital lying idle.

- **Rate of Growth of Business :**

The working capital requirements of a concern increase with the growth and expansion of its business activities. Although it is difficult to determine the relationship between the growth in the volume of business and the growth in the working capital of the business.

- **Price Level Changes :**

Changes in the price levels also affect the working capital requirements. Generally the rising prices will require the firm to maintain larger amount of working capital as more funds will be required to maintain the same current assets. The effect of rising prices may be different for different firms.

- **Earning Capacity and Dividend Policy :**

The firms with high earning capacity may generate cash profits from operations and contribute to their working capital. The dividend policy of a concern also influences the requirements of its working capital. A firm that maintains a steady high rate of cash dividend irrespective of its profits needs more working capital than the firm that retains larger part of its profits.

- **Repayment Ability :**

A firm's repayment ability determines level of its working capital. The usual practice of a firm is to prepare cash flow projections according to its plan of repayment and to fix the working capital levels accordingly.

- **Credit Policy :**

The credit policy of a concern in its dealings with debtors and creditors influence the working capital position. A concern that purchases its requirements on credit and sells its products/services on cash requires lesser amount of working capital. On the other hand a concern buying its requirements for cash and allowing credit to its customers, need larger amount of working capital.

- **Other Factors :**

Certain other factors such as operating efficiency, management ability, irregularities of supply, import policy, asset structure, importance of labour, banking facilities, etc., also influence the requirements of working capital.

Kinds of Working Capital

Working capital may be classified in two ways:

a) On the basis of concept
b) In the basis of time

On the basis of concept working capital is classified as gross working capital and net working capital. On the basis of time working capital may be classified as Permanent or fixed working capital and Temporary or variable working capital.

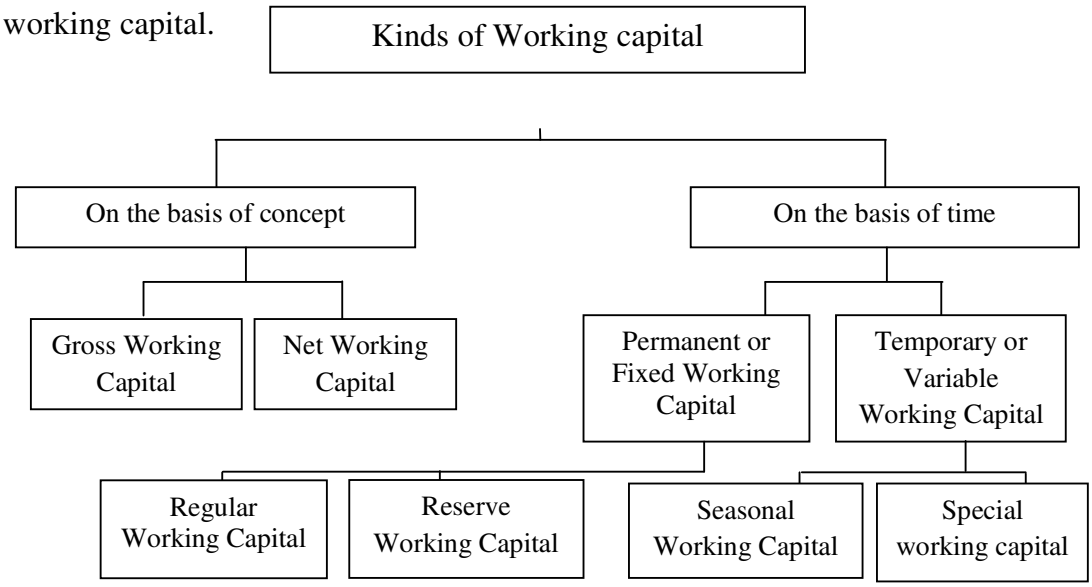


Figure 3.2

1. **Gross Working Capital :**

Gross working capital is the amount of funds invested in the various components of current assets.

2. **Net Working Capital** :

The net working capital is the difference between current assets and current liabilities. The concept of net working capital enables to determine how much amount is left for operational requirements.

3. **Permanent or Fixed Working Capital :**

Permanent or fixed working capital is the minimum amount which required ensuring effective utilization of fixed facilities and for maintaining the circulation of current assets. There is always a minimum level of current assets which is continuously required by the enterprise to carryout its normal business operations. This minimum level of current asset is called as permanent or fixed working capital.

The permanent working capital can further be classified as regular working capital and reserve working capital required to ensure circulation of current assets from cash to inventories, from inventories to receivables, and from receivables to cash and so on.

Reserve working capital is the excess amount over the requirement for regular working capital which may be provided for contingencies that may arise at unstated period such as strikes, rise in prices, depression, etc.

4. **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. Viable working capital can be further classified as seasonal working capital and special working capital. Most of the enterprises have to provide additional working capital to meet seasonal and special needs.

The capital required to meet the seasonal needs 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 campaigns for conducting research etc.

Working Capital Management

Working capital, in general practice, refers to the excess of current assets over current liabilities. Management of working capital therefore, is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the inter-relationship that exist between them. In other words, it refers to all aspects of administration of both current assets and 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 inadequate nor excessive. This is so because both inadequate as well as excessive working capital positions are bad for any business. Inadequacy of working capital may lead the firm to insolvency and excessive working capital implies idle funds which earn no profit for the business. Working capital management policies of a firm have a great effect on its profitability, liquidity and structural health of the organization.

Excess or Inadequate Working Capital

Every business concern should have adequate working capital to run its business operations. It should have either redundant or excess working capital nor inadequate or shortage of working capital. Both excess as well as short working capital positions are bad for any business. However, out of two, it is the inadequacy of working capital which is more dangerous from the point of view of the firm.

Disadvantages of Redundant or excessive Working capital

- Excessive working capital means idle funds which earn no profits for the business and hence the business can not earn a proper rate of return on its investment.
- When there is a redundant working capital, it may lead to unnecessary purchasing and accumulation of inventories causing more chances of theft, waste and losses.
- Excessive working capital implies excessive debtors and defective credit policy which may cause higher incidence of bad debts.

- It may result in to overall inefficiency in the organization.
- When there is excessive working capital, relations with banks and other financial institutions may not be maintained.
- Due to low rate of return on investments, the value of shares may also fall.
- The redundant working capital gives rise to speculative transactions.

Disadvantages of Inadequate Working Capital

- A concern which has inadequate working capital cannot pay its short term liabilities in time. Thus, it will lose its reputation and shall not be able to get good credit facilities.
- It can not buy its requirements in bulk and cannot avail of discounts, etc.
- It becomes difficult for the firm to exploit favorable market conditions and undertake profitable projects due to lack of working capital.
- The firm cannot pay day to day expenses of its operations and it creates inefficiencies, increases costs and reduces the profits of the business.
- It becomes impossible to utilize efficiently the fixed assets due to non availability of liquid funds.
- The rate of return on investments also falls with the shortage of working capital.

Principles of Working Capital Management

The following are the general principles of a sound working capital management policy:

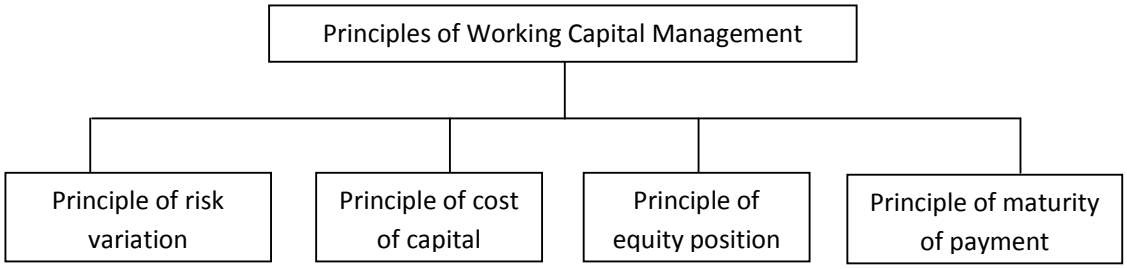


Figure 3.3

- **Principle of Risk Variation (Current Assets Policies)**

Risk here refers to the inability of affirm to meet its obligations as and when they become due for payment. Larger investment in current assets with less dependence on short term borrowings increases liquidity, reduces dependence on short term borrowings increases liquidity, reduces risk and there by decreases the opportunity for gain or loss. On the other hand, less investment in current assets with greater dependence on short term borrowings reduces liquidity and increases profitability. In other words, there is a definite inverse relationship between the degree of risk and profitability.

- **Principle of Cost of Capital**

The various sources of raising working capital finance have different cost of capital and the degree of risk involved. Generally, higher the risk lower is the cost and lower the risk higher is the cost. A sound working capital management should always try to achieve a proper balance between these two.

- **Principle of Equity Position**

This principle is concerned with planning the total investment in current assets. According to this principle, the amount of working capital invested in each component should be adequately justified by a firm's equity position. Every rupee invested in the current asset should contribute to the net worth of the firm. The level of current assets may be measured with the help of two ratios: current assets as a percentage of total assets and current assets as a percentage of total sales.

- **Principle of Maturity of Payment**

This principle is concerned with planning the sources of finance for working capital. According to this principle, a firm should make every effort to relate maturities of payment to its flow of internally generated funds. Maturity pattern of various current obligations is an important factor in risk assumptions and risk assessments. Generally, shorter the maturity schedule of current liabilities in

relation to expected cash inflows, the greater the inability to meet its obligations in time.

Importance of Working Capital Management

Working capital is the life blood of every concern, whether it is manufacturing or non manufacturing one. Without adequate working capital there can be no progress in the industry. Inadequate working capital means shortage of raw materials, labour etc., resulting in partial utilization of available machinery. On the other hand, more working capital may lead to less control over workers performances, inefficient store keeping, excessive stock of raw materials and finished goods, delay in the flow of work-in-progress and lack of co-ordination in the enterprise.

In times of rising capital costs and scarce funds, the area of working capital management assumes added importance. A firm's profitability and liquidity are deeply influenced by the way its working capital is being managed. The main objective of the working capital management is to arrange the needed funds adequately from the sources and for the time period involved, so that trade-off between liquidity and profitability may be realized.

The volume of working capital required is determined by the level of production unlike fixed asset investment which is determined by the scale of production. The precise level of working capital investment depends upon the management's attitude towards risk and the factors that influence the levels of cash, inventories and receivables required to support a given volume of output.

Advantages of Working capital management

The use of general principles and techniques for planning and controlling working capital results in following benefits:

i. Control of cost of holding current assets :

Holding inventory level and debtors involves cost. Poor control of inventory and debtors can result in loss. In the case of inventory, it may be absolute and not

saleable at profitable prices. Holding of such absolute inventory causes loss. Managing working capital aims at reducing such investments and therefore, minimizing cost of holding current assets.

ii. Control of technical insolvency :

The inability to repay debts at their maturity dates leads to technical insolvency and eventually to liquidation. Legal insolvency is the state when the realized value of assets is less than the amount of debts to be paid. Technical insolvency is the state when assets are equal or more than the liabilities to convert assets into cash so as to pay its creditors. Avoidance of technical insolvency is a significant benefit from managing working capital.

iii. Adequate working capital :

Inadequate working capital has a cost. This cost arises due to loss of potential sales and loss of customers. If the level of inventory is so low that customer's requirements cannot be earned on such potential sales are lost. Added to this is loss due to diversion of customers to other suppliers for their longer term requirements. Similarly, customers will be lost if competitive credit terms are not offered by a firm, when it is trying to reduce receivables to a below than normal level by strict credit policy.

iv. Credibility with the outside world :

Working capital management helps in maintaining solvency in the eyes of trade creditors, bankers, fixed interest investors, and equity share holders. These persons analyze the financial position of the firm to evaluate its credit worthiness.

Management of working capital directs attention to alternative managerial decisions. Some of these are:

a) Obtaining adequate long term financing by making necessary arrangements well in time.

b) Arranging credit from suppliers and banks.

c) Restructuring the selling prices and pricing policies.

d) Shortening of period of credit allowed and revising discount rates and discount periods.

e) Monitoring the level of inventory.

In shortly, confidence of outside world is an important factor which should be considered in working capital management to ensure credibility with outside world.

Working Capital Financing Policy: Three Approaches

Apart from the profitability-risk trade off another important ingredient theory of working capital management is determining financing mix. One of the most important decisions, involved in the management of working capital is how current assets will be financed. Broadly speaking, the(i) short term sources and (ii) long term sources. What proportion of current assets should be financed by current liabilities and how much by long term sources? Decisions on such question will determine the financing mix.

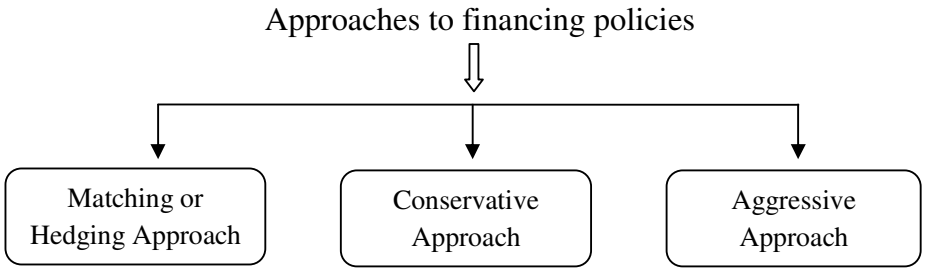


Figure 3.4

1. Matching or Hedging Approach :

This approach emphasizes on matching (a) the periods of assets to be financed with (b) the periods of sources of funds to be used. In other words, long term assets are purchased by using funds from long term sources. This type of match is expected to reduce risk. This matching is risk reducing activity and also termed as 'hedging'. With reference to an appropriate financing mix, the term

hedging can be said to refer to the process of matching of debt with the maturities of financial needs.

According to this approach, the maturity of source of funds should match the nature of assets to be financed. For the purpose of analysis, the current assets can be broadly classified in to two classes:

a) Those which are required in a certain amount for a given level of operation and hence, do not vary over time. (permanent working capital)

b) Those which fluctuate over time. (variable working capital)

The hedging approach suggest that long term funds should be used to finance the fixed portion of current assets requirements as spelt out in (a) above, in a manner similar to the financing of fixed assets. The purely temporary requirements, that is, the seasonal variations over and above the permanent financing needs should be appropriately financed with short term funds (current liabilities). With this approach, the short term financing requirements (current assets) would be just equal to the short term financing available (current liabilities). There would, therefore be no net working capital.

2. Conservative Approach :

This approach suggest that the estimated requirements of total funds should be met from long term sources; the use of short term funds should be restricted to only emergency situations or when there is an unexpected outflow of funds.

Under this method:

I. Risk is minimized.

II. Cost of financing is relatively more.

III. Liquidity is relatively is greater.

3. Aggressive Approach:

This approach suggests that (a) a major part of the total current assets investment is financed by short-term sources, and (b) a part of fixed assets investments is also financed by short-term sources.

In aggressive approach, the bias is towards use of short-term sources, even for long-term uses. The larger the ratio of short-term funds to total investments in assets (fixed + current assets), the more the aggressive approach of financing.

CHAPTER IV

DATA ANALYSIS

This chapter deals with the analysis of working capital of The State Bank of Travancore based on the analysis of secondary data. Analysis is done with the help of various financial ratios and statements or schedules of changes in working capital.

Under ratio analysis various components of current assets and current liabilities are taken into account and their relationships expressed in mathematical terms for interpreting financial position. It is a powerful tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements, so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined.

Schedule of changes in working capital is prepared to show the changes in working capital between the two balance sheet dates. This statement is prepared with the help of current assets and current liabilities derived from the two balance sheets. It is resulted in either increase or decrease in net working capital.

Financial Ratios

Financial ratios are useful indicators of a firm's performance and financial situation. It is used as a device to analyze and interpret the financial health of the enterprise. Most ratios can be calculated from information provided by the financial statements. A financial ratio is the relationship between two accounting figures expressed mathematically. Financial ratios can be used to analyze trends and to compare the firm's financial position to those of other firms. In some cases, ratio analysis can predict future bankruptcy.

Financial ratios can be classified according to the information they provided. The following types of ratios frequently are used.

I. Liquidity Ratios

These are the ratios which measure the short term solvency or financial position of the firm. These ratios are calculated to comment upon the short term paying capacity of a concern or the firm's ability to meet its current obligations. The frequently used liquidity ratios are the current ratios, quick ratios and absolute liquid ratios.

1. Current Ratio :

Current ratio is the relationship between the total current assets and current liabilities. This ratio also known as working capital ratio is a measure of general liquidity and is most widely used to make the analysis of a short term financial position or liquidity of a firm

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

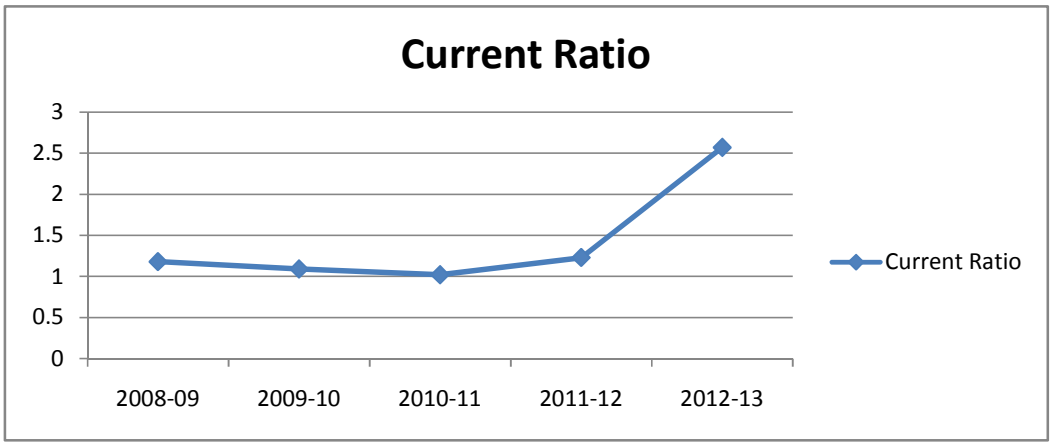
Table 4.1 Current Ratios

Year	Current Assets	Current Liabilities	Current Ratio
2008-09	18,88,164.56	16,06,551.29	1.18
2009-10	21,99,413.11	20,79,682.61	1.09
2010-11	26,55,224.38	26,08,332.08	1.02
2011-12	35,77,365.70	28,96,375.39	1.23
2012-13	39,80,250.25	15,47,393.79	2.57

(Source: Audited annual report)

The Current ratio is a measure of firm's short term solvency. It indicates the availability of current assets in rupees for every one rupee of current liability. SBT enjoys a comfortable position as far as current ratio is concerned. It is showing a fluctuating trend. Even though it is showing a down ward trend up to the financial year 2010-11, the subsequent two years reflecting an increasing trend.

Figure 4.1 Current Ratios



2. Liquid Ratios :

Liquid ratio is concerned with the relationship between the liquid assets and liquid liabilities. It is a measurement of firm's ability to convert its current assets quickly into cash in order to meet its current obligation. These assets essentially are current assets less inventory and prepaid expenses.

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

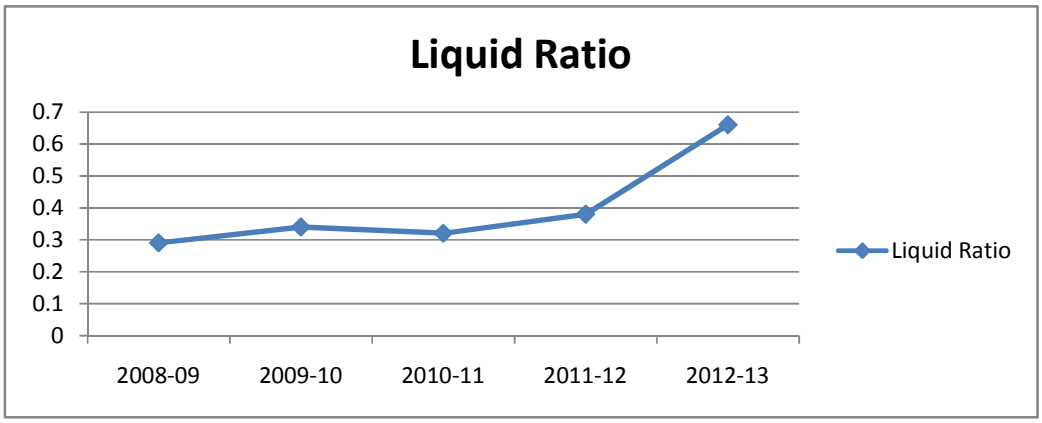
Table 4.2 Liquid Ratios

Year	Quick Assets	Current Liabilities	Liquid Ratio
2008-09	4,59,374.51	16,06,551.29	0.29
2009-10	6,86,012.51	20,19,682.61	0.34
2010-11	8,34,308.72	26,08,332.08	0.32
2011-12	10,97,716.95	28,96,375.39	0.38
2012-13	10,19,317.26	15,47,393.79	0.66

(*Source: Audited annual report)*

This ratio establishes a relationship between quick or liquid assets and current liabilities. Generally a quick ratio of 1:1 is considered as a very satisfactory current financial condition. SBT's quick ratios for the past 5 years do not show a satisfactory position of its short term solvency. Even though the ratios show an increasing trend but it does not reach the standard level.

Figure 4.2 Liquid Ratio



3. Absolute Liquid Ratio :

Absolute liquid ratio or Cash position Ratio relates the sum of cash and marketable securities to the total quick or current liabilities. It gives the most regorous measure of liquidity when used in conjuction with current ratio and quick ratio.The acceptable norm for this ratio is 50% or 1:2.

$$\text{Absolute Liquid Ratio} = \frac{\text{AbsoluteLiquidAssets}}{\text{Current Liabilities}}$$

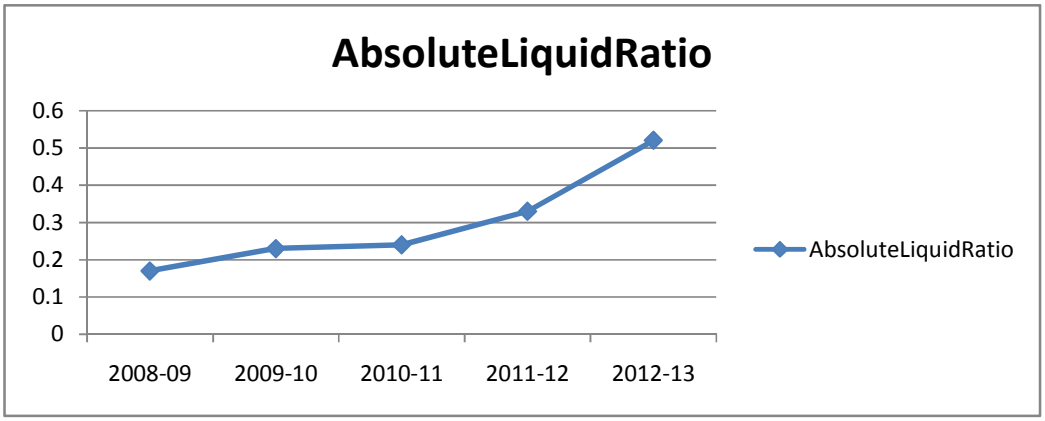
Table 4.3 Absolute Liquid Ratio

Year	AbsolutLiquid Assets	Current Liabilities	Absolute Liquid Ratio
2008-09	2,69,005.41	16,06,551.29	0.17
2009-10	4,62,698.17	20,19,682.61	0.23
2010-11	6,17,887.23	26,08,332.08	0.24
2011-12	9,54,752.62	28,96,375.39	0.33
2012-13	8,09,076.53	15,47,393.79	0.52

(Source: Audited annual report)

Absolute liquid ratio shows an increasing trend, while in the past four years it does not satisfy the standard level.But in the year 2012-13 this ratio reach the standard and it shows an improvement in the capacity of the bank to pay off its short term liabilities.

Figure 4.3 Absolute Liquid Ratio



II. Profitability Ratios :

Profits are useful measure of overall efficiency of a business concern. Profits to management are the test of efficiency and a measurement of control, to owners a measure of worth of their investment, to an enterprise less cumbersome source of finance for growth and existence. Profitability ratios offer several measures of the success of the firm at generating profits. It indicates in a nutshell the effectiveness of the decision taken by the management from time to time. These ratios are calculated to enlighten the end results of business activities which is the sole criterion of the overall efficiency of a business concern.

1. Net Profit ratio :

Net profit ratio establishes a relationship between net profit (after tax) and sales, and indicates the efficiency of the management in the activities of the firm. This ratio is the overall measure of firm's profitability.

$$\text{Net Profit Ratio} = \frac{\text{Net Profit after Tax}}{\text{Net Sales}}$$

Here, the bank's loans and advances are considered for calculating sales.

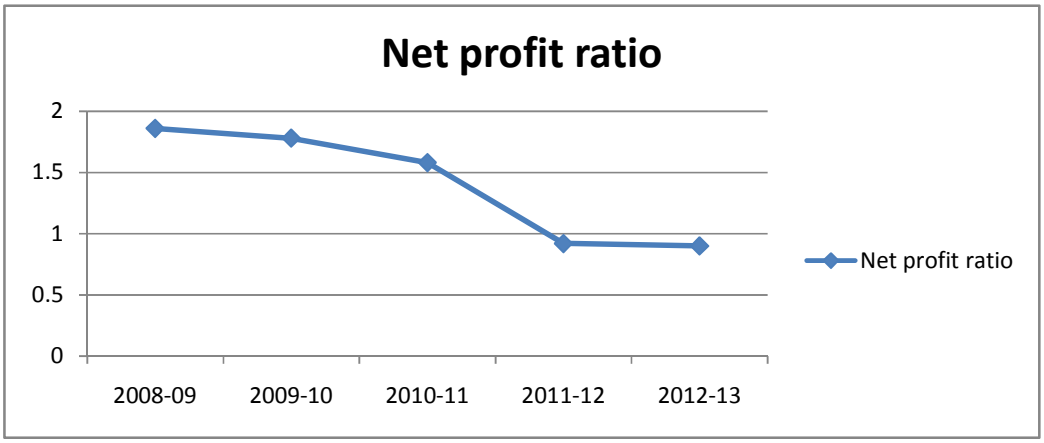
Table 4.4 Net Profit ratio

Year	Net Profit After Tax	Net sales	Net profit ratio
2008-09	60,724.05	32,71,092.94	1.86
2009-10	68,549.84	38,46,126.10	1.78
2010-11	72,942.09	46,04,422.65	1.58
2011-12	51,386.82	55,34,595.24	0.92
2012-13	62,189.82	67,48,361.62	0.90

(Source: Audited annual report)

Higher will be the ratio better will be the profitability position. The table shows a decreasing trend in the net profit of SBT. From year to year the net profit is decreasing. Hence the profitability position of SBT is not satisfactory.

Figure 4.4 Net profit ratios



2. Operating Profit Ratio

This ratio is calculated by dividing operating profit by sales. Operating profit is calculated as; Net sales – Operating cost.

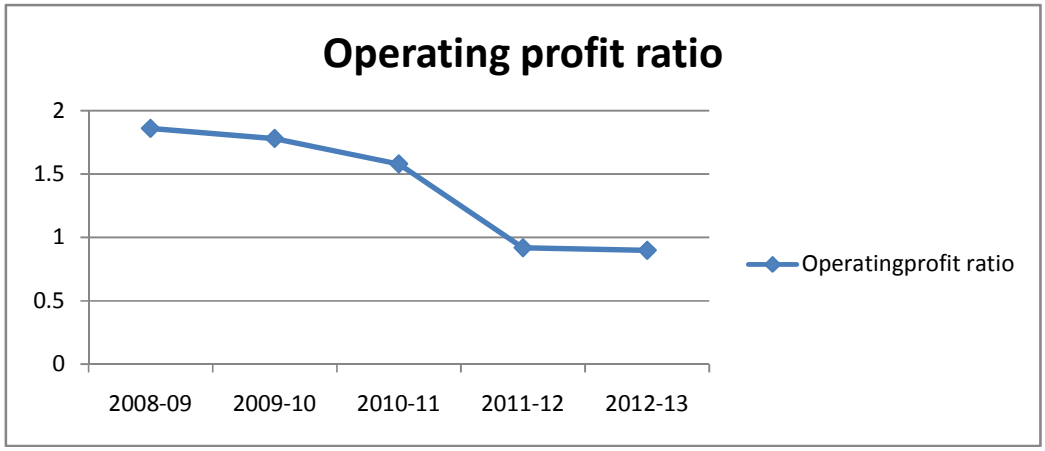
Table 4.5 Operating Profit ratio

Year	Operating Profit	Net sales	Operating Profit Ratio
2008-09	60,783.79	32,71,092.94	1.86
2009-10	68,426.91	38,46,126.10	1.78
2010-11	72,772.53	46,04,422.65	1.58
2011-12	51,045.63	55,34,595.24	0.92
2012-13	61,504.24	67,48,361.62	0.90

(Source: Audited annual report)

The operating profit ratio also shows a decreasing trend. It indicates that the bank's operating profit is inadequate to cover the operating expenses and it adversely affects the bank's profitability.

Figure 4.5 Operating Profit ratio



3. Return on Investment :

Return on shareholders' investment, popularly known as R O I or return on shareholders' / proprietors fund. It is one of the important overall profitability ratios for investment analysis. I t is the relationship between net profits (after interest and tax) and the proprietors fund. Thus,

$$\text{Return on Shareholders' Investment} = \frac{\text{Net Profit (after interest \& tax)}}{\text{Shareholders fund}}$$

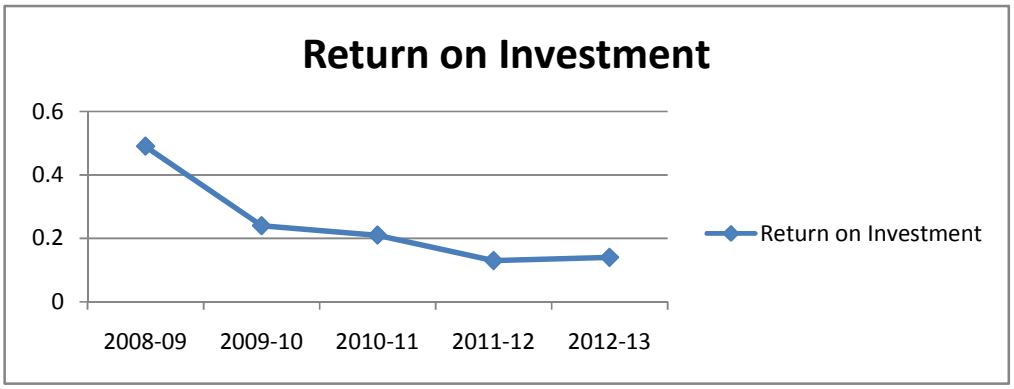
Table 4.6 Return on Investment

Year	Net profit after tax	Shareholders fund	Return on Investment
2008-09	60,724.05	1,22,693.46	0.49
2009-10	68,549.84	2,84,057.84	0.24
2010-11	72,942.09	3,46,354.89	0.21
2011-12	51,386.31	3,86,615.85	0.13
2012-13	62,189.82	4,36,497.87	0.14

(Source: Audited annual report)

Return on shareholders' investment used for measuring the overall efficiency of a firm. As this ratio reveals how well the resources of a firm are being used, higher the ratio better will are the results. Here the ratio shows declining trend. This reveals that the bank's overall efficiency is not satisfactory.

Figure 4.6 Return on Investment



4. Earnings Per share (EPS) :

Earnings per shre is a small variation of return on equity capital. This helps in determining the market price of equity shares of the company and in estimating the company's capacity to pay dividend to its equity shareholders.

$$E\,P\,S = \frac{\text{Net Profit After Tax-Preference DIvidend}}{\text{No. of Equity Shares}}$$

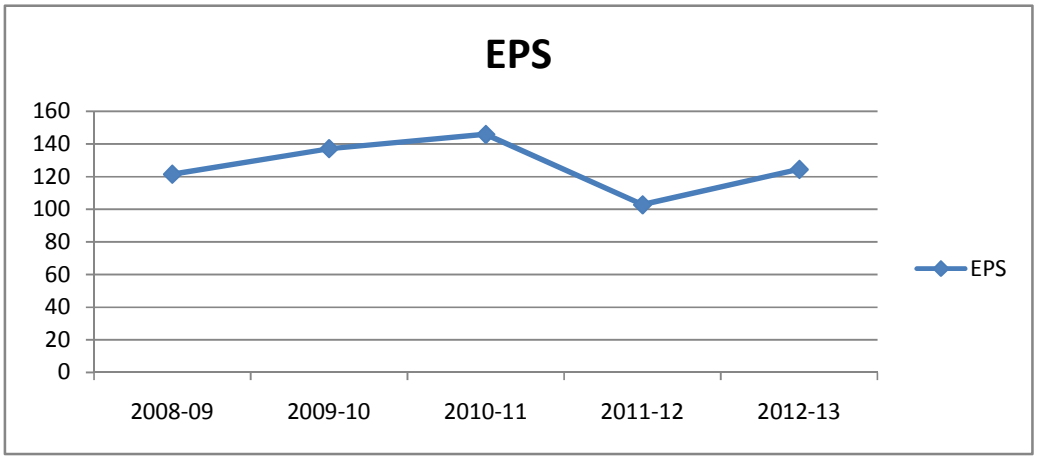
Table 4.7 EPS

Year	Net Profit after Tax & Preferance Dividend	No. of Equity Shares	EPS
2008-09	60,724.05	500	121.45
2009-10	68,549.84	500	137.09
2010-11	72,942.09	500	145.88
2011-12	51,386.31	500	102.77
2012-13	62,189.82	500	124.3

(Source: Audited annual report)

The earnings per share are a measure of profitability and when compared with EPS of similar other companies, it gives a view of the comparative earnings. Here the EPS is increasing for the first three years, then it fluctuate for the next two years. As it reveals the earning power of the bank has improved.

Figure 4.7 EPS



5. Dividend Pay out Ratio :

Dividend payout ratio is calculated to find the extent to which earnings per share have been retained in the business. It is an important ratio because ploughing back of profits enables a company to grow and pay more dividends in future.

$$\text{Dividend yield Ratio} = \frac{\text{Dividend Per Equity Share}}{\text{Earnings per Share}}$$

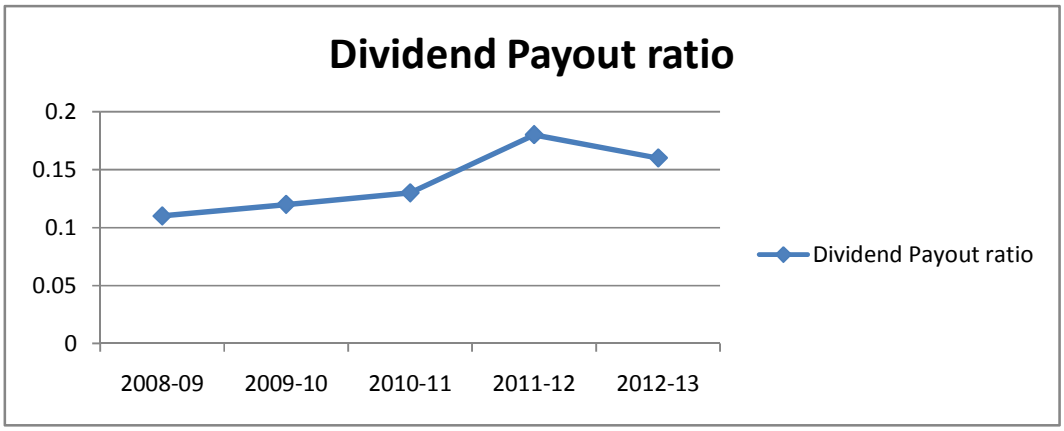
Table 4.8 Dividend Payout ratio

Year	Dividend Per Share Equity Share	Earnings Per Share	Dividend Payout Ratio
2008-09	13	121.45	0.11
2009-10	16	137.09	0.12
2010-11	18	145.88	0.13
2011-12	18	102.77	0.18
2012-13	20	124.38	0.16

(Source: Audited annual report)

Here the Bank's dividend payout ratio reveals an increasing trend over the years except the financial year 2012-13. So it shows that the bank is able to pay dividends properly.

Figure 4.8 Dividend Payout Ratio



III. Efficiency or Assets Management ratios :

Activity ratios measure the efficiency or effectiveness with which a firm manages its resources or assets. These ratios are also called Turn over ratios because they indicate the speed with which assets are converted or turned over into sales. It is important to calculate the turn over or efficiency ratios to comment upon the liquidity or the efficiency with which the liquid resources are being used by a firm.

1. Working Capital Turnover Ratio :

Working capital turn over ratio indicates the velocity of the utilisation of net working capital.This ratio indicates the number of times the working capital is turned over in the course of a year. This ratio measures the efficiency with which the working capital being used by afirm.

Table 4.9 Working capital Turnover Ratio

Year	Sales	Working capital	Workingcapital turnover ratio
2008-09	32,71,092.94	2,81,613.27	11.62
2009-10	38,46,126.10	1,79,730.5	21.39
2010-11	46,04,422.65	46,892.30	98.19
2011-12	55,34,595.24	6,80,990.31	8.13
2012-13	67,48,361.62	24,32,856.46	2.77

(Source: Audited annual report)

A higher ratio indicates efficient utilisation of working capital and a lower ratio indicates otherwise. But a very high working capital turnover ratio is not a good situation for any firm and hence care must be taken while interpreting the ratio. Here the SBT's ratio shows wide fluctuations. There is a high ratio in the year 2010-11 and a lower ratio in 2012-13.

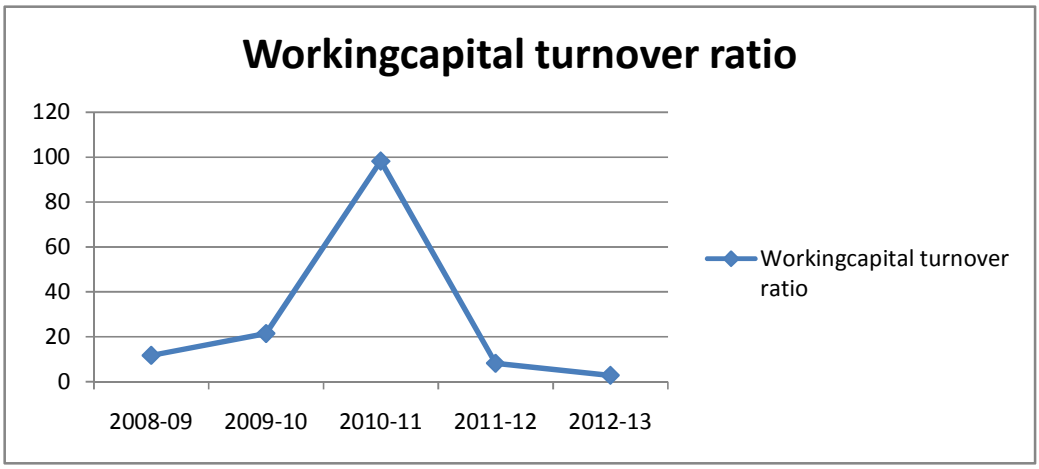


Figure 4.9 Working Capital Turnover ratios

2. **Total Assets Turnover Ratio:**

Funds are invested in various assets in business to make sales and earn profit. The efficiency with which assets are managed directly affects the volume of sales. The better the management of assets, larger is the amount of sales and the profits.

$$\text{Total Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Total Assets}}$$

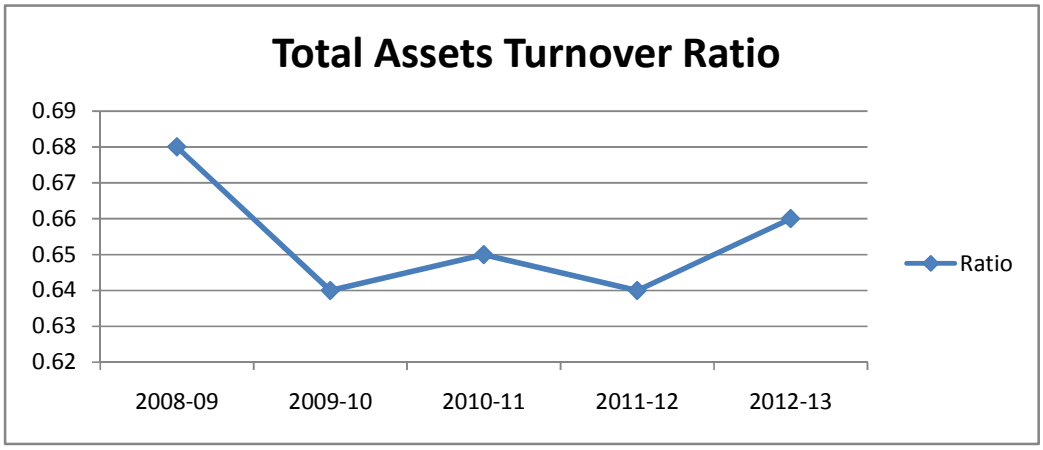
Table 4.10 Total assets Turnover ratio

Year	Sales	Total Assets	Ratio
2008-09	32,71,092.94	48,38,754.18	0.68
2009-10	38,46,126.10	59,67,470.45	0.64
2010-11	46,04,422.65	70,97,675.34	0.65
2011-12	55,34,595.24	85,98,668.83	0.64
2012-13	67,48,361.62	1,01,57,932.58	0.66

(Source: Audited annual report)

The Fixed assets turnover ratio of SBT for the past 5 years from 2008-09 to 2012-13 shows a fluctuating trend. The ratio is slightly fluctuating over the years. The high ratio is an indicator of over trading of total assets while a low ratio reveals idle capacity.

Figure 4.10 Total Assets Turnover ratio



IV. Solvency or Capital Structure Ratios :

The term solvency refers to the ability of a concern to meet its long term obligations. These ratios help in ascertaining the long term solvency of a firm which depends on firm's adequate resources to meet its long term funds requirements, appropriate debt equity mix to raise long term funds and earnings to pay interest and installment of long term loans in time.

1. Debt - Equity Ratio :

Debt – Equity ratio also known as External –Internal Equity Ratio is calculated to measure the relative claims of outsiders and the owners (i.e. Shareholders) against the firm's assets. The ratio indicates the relationship between the external equities or the outsiders fund and the internal equities or the shareholders fund. Thus:

$$\text{Debt-Equity Ratio} = \frac{\text{Outsiders Fund}}{\text{Shareholders Fund}}$$

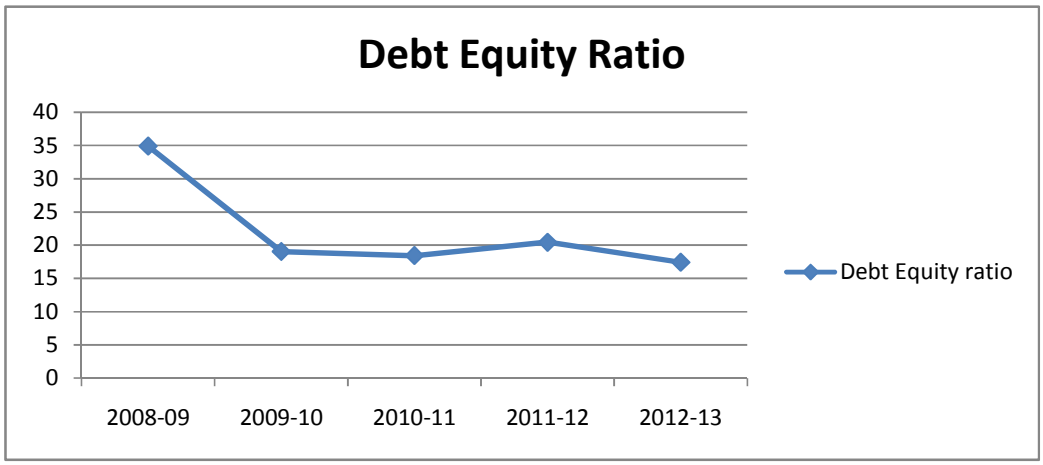
Table 4.11 Debt- Equity Ratio

Year	Outsiders fund	Shareholders Fund	Debt Equity ratio
2008-09	42,84,967.97	1,22,693.46	34.92
2009-10	54,13,353.27	2,84,057.84	19.06
2010-11	63,88,442.41	3,46,354.89	18.44
2011-12	79,07,714.32	3,86,615.85	20.45
2012-13	76,11,670.25	4,36,497.87	17.43

(Source: Audited annual report)

The debt-equity ratio is calculated to measure the extent to which debt financing has been used in a business. The ratio indicates the proportionate claims of owners and the outsiders against the firm's assets. The debt-equity ratio of SBT shows a very high proportion of debt in its capital structure than equity. The ratio is high in the year 2008-09.

Figure 4.11 Debt- Equity Ratios



2. Equity Ratio :

A varient to the debt-equity ratio is the Equity ratio Which is also known as Propritory ratio or Networth to Total assets ratio. This ratio establishes the relationship between Shareholders funds to total assets of the firm.The ratio of propritors funds to total funds is an important ratio for determining long term solvency of the firm.

$$\text{Equity Ratio} = \frac{\text{Shareholders Funds}}{\text{Total Assets}}$$

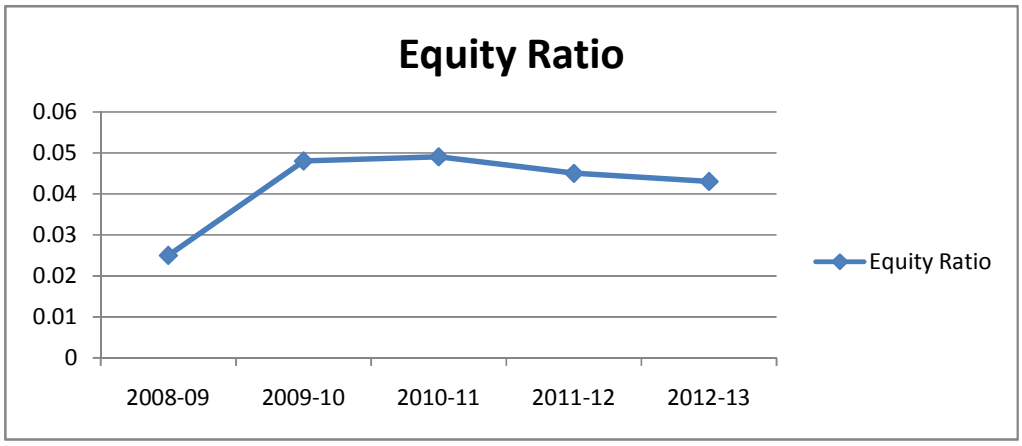
Table 4.12 Equity Ratio

Year	Shareholders Fund	Total Assets	Equity Ratio
2008-09	1,22,693.46	48,38,754.18	0.025
2009-10	2,84,057.84	59,67,470.45	0.048
2010-11	3,46,354.89	70,97,675.34	0.049
2011-12	3,86,615.85	85,98,668.83	0.045
2012-13	4,36,497.87	1,01,57,932.58	0.043

(Source: Audited annual report)

Equity ratio showing a fluctuating trend.As equity ratio represents the relationship of owners funds to total assets, higher the ratio or the share of the shareholders in the total capital of the company, better is the better is the long term solvency position of the company. The ratio is increasing up to the year 2010-11, then it showing a downward trend. The bank need to improve its solvency position.

Figure 4.12 Equity ratio



3. Solvency Ratio :

Solvency ratio otherwise called as The ratio of total liabilities to total assets.This ratio is small varient of equity ratio. It indicates the relationship between the total liabilities to outsiders to total assets of a firm.

$$\text{Solvency Ratio} = \frac{\text{Total Liabilities to outsiders}}{\text{Total Assets}}$$

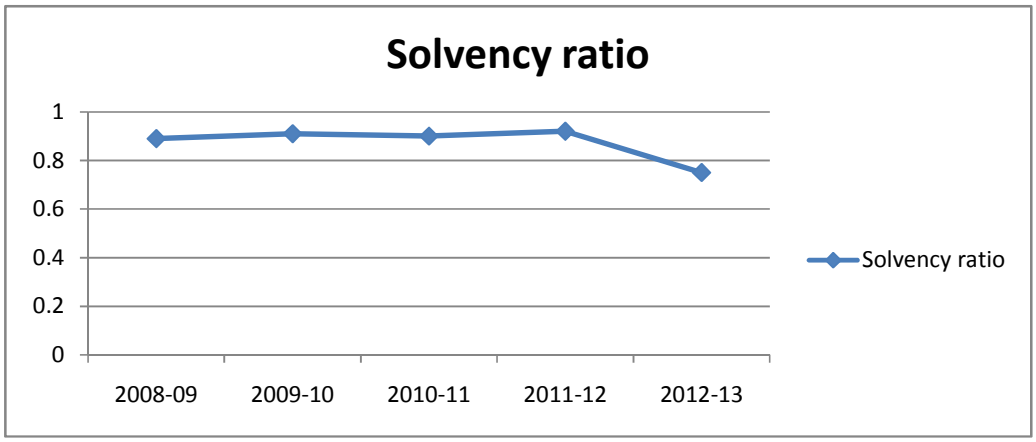
Table 4.13 Solvency Ratio

Year	Total Liabilities to Outsiders	Total Assets	Solvency Ratio
2008-09	42,84,967.97	48,38,754.18	0.89
2009-10	54,13,353.27	59,67,470.45	0.91
2010-11	63,88,442.41	70,97,675.34	0.90
2011-12	79,07,714.32	85,98,668.83	0.92
2012-13	76,11,670.25	1,01,57,932.58	0.75

(Source: Audited annual report)

Generally, lower the ratio of total liabilities to total assets, more satisfactory or stable is the long term solvency position of a firm. In this case SBT's solvency ratios fluctuating over the years. The lower ratio is in the year 2012-13.

Figure 4.13 Solvency ratio



4. Ratio of Current Assets to Proprietors Funds :

The ratio is calculated by dividing the total of current assets by the amount of shreholders funds.The ratio indicates the extent to which propritors funds are invested in current assets.

$$\text{Ratio of Current Assets to Proprietors Funds} = \frac{\text{Current Assets}}{\text{Proprietors Funds}}$$

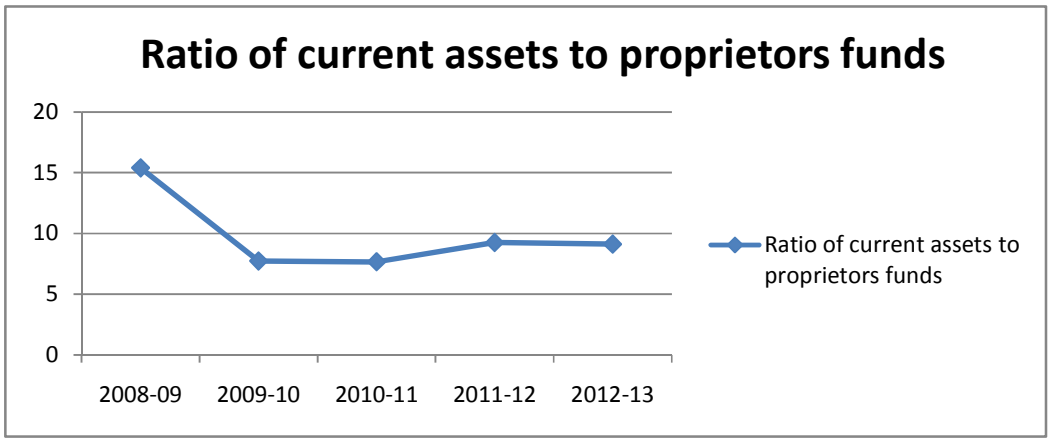
Table 4.14 Ratio of Current Assets to Proprietors Fund

Year	Current Assets	Propritors Funds	Ratio of Current Assets to Proprietors Fund
2008-09	18,88,164.56	1,22,693.46	15.39
2009-10	21,99,413.11	2,84,057.84	7.74
2010-11	26,55,224.38	3,46,354.89	7.67
2011-12	35,77,365.70	3,86,615.85	9.25
2012-13	39,80,250.25	4,36,497.87	9.12

(Source: Audited annual report)

The proportion of current assets to shareholders fund in SBT has showing fluctuating movements. It is high in the year 2008-09, then it starts to decline.

Figure 4.14 Ratio of Current Assets to proprietors fund



5. Ratio of Current Liabilities to Propritors Funds :

The ratio of current liabilities to propritors funds establishes the relationship between current libilities and propritors funds and indicates the amount of long term funds raised by the proprietors as against short term borrowings.

$$\text{Ratio of Current Liabilities to Proprietors Funds} = \frac{\text{Current Liabilities}}{\text{Proprietors Funds}}$$

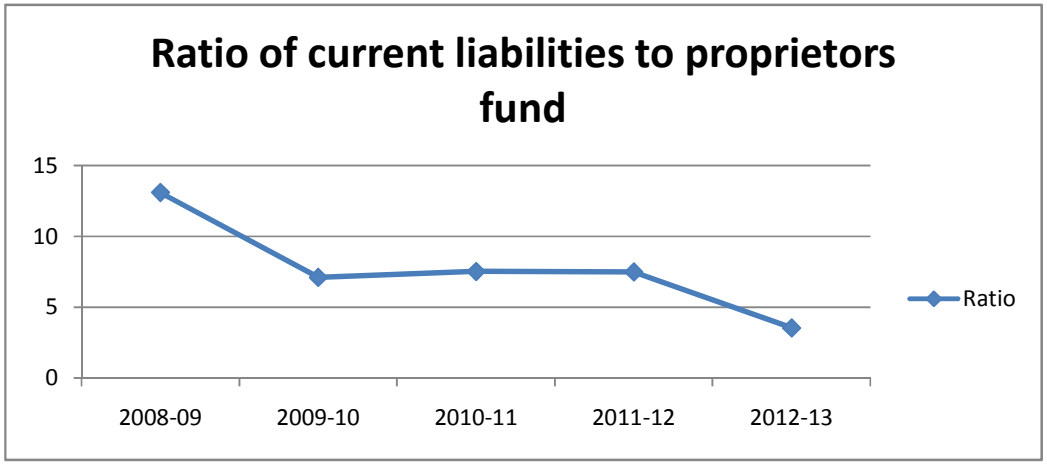
Table 4.15 Ratio of Current Liabilities to Proprietors Fund

Year	Current liabilities	Proprietors Funds	Ratio
2008-09	16,06,551.29	1,22,693.46	13.09
2009-10	20,19,682.61	2,84,057.84	7.11
2010-11	26,08,332.08	3,46,354.89	7.53
2011-12	28,96,375.39	3,86,615.85	7.49
2012-13	15,47,393.79	4,36,497.87	3.55

(Source: Audited annual report)

The amount of long term funds raised by the proprietors as against the current liabilities of SBt has showing a downward trend. The ratio is lower in the year 2012-13.

Figure 4.15 Ratio Of Current liabilities to proprietors Fund



6. Ratio of Current Assets to Total Assets :

The ratio of current assets to total assets indicates the proportion of current assets in the total asssets of a firm. The ratio can be calculated as follows :

$$\text{Ratio of current assets to total assets} = \frac{\text{Current Assets}}{\text{Total Assets}}$$

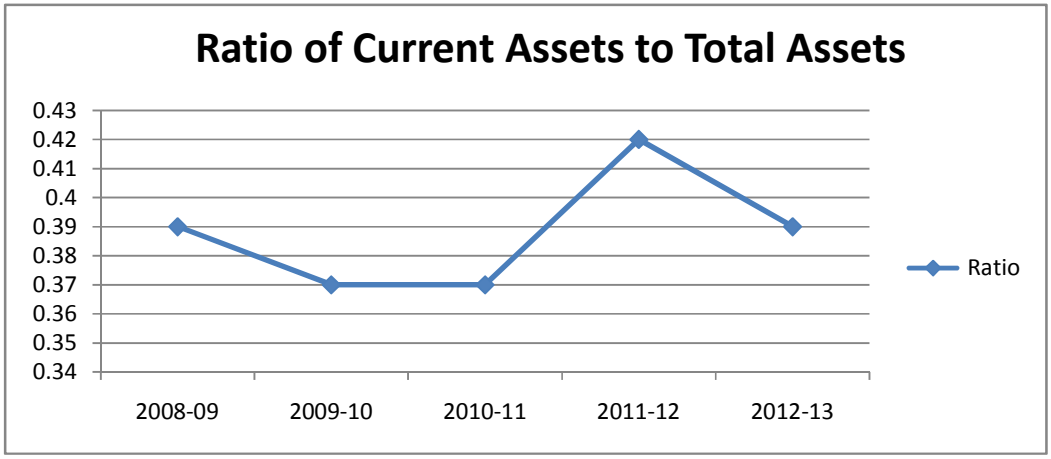
Table 4.16 Ratio of Current Assets to Total Assets

Year	Current Assets	Total Assets	Ratio
2008-09	18,88,164.56	48,38,754.18	0.39
2009-10	21,99,413.11	59,67,470.45	0.37
2010-11	26,55,224.38	70,97,675.34	0.37
2011-12	35,77,365.70	85,98,668.83	0.42
2012-13	39,80,250.25	1,01,57,932.58	0.39

(Source: Audited annual report)

The ratio helps us to assess the importance of current assets in the total assets of the company. The table depicts that the component of current assets in the total assets covers between 30% and 50%.

Figure 4.16 Ratio of Current Assets to Total Assets



7. Fixed Assets to Networth Ratio :

The ratio establishes the relationship between fixed assets and shareholders fund i.e. share capital,plus reserves and surpluses and retained earnings. Thae ratio can be calculated as follows :

$$\text{Fixed Assets to Net worth ratio} = \frac{\text{Fixed Assets}}{\text{Shareholders Funds}}$$

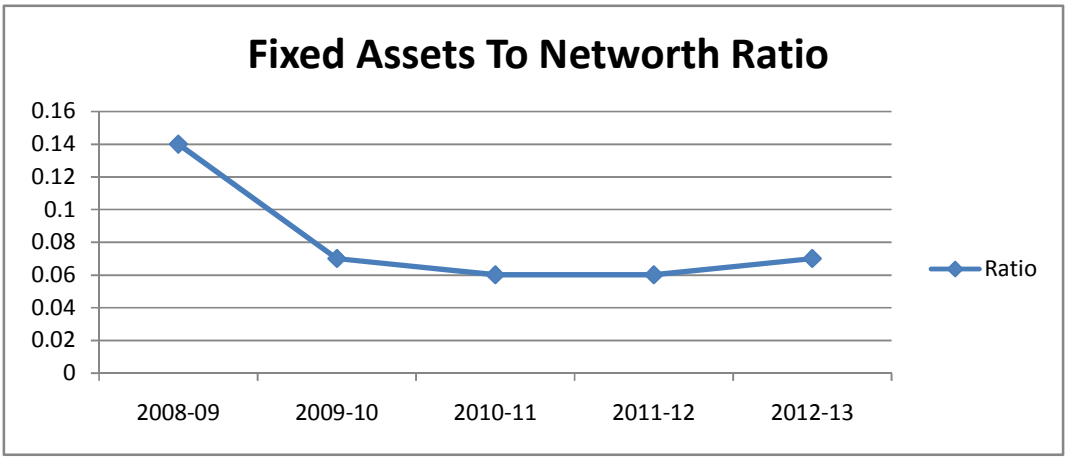
Table 4.17 Fixed assets to Networth Ratio

Year	Fixed Assets	Shareholders Funds	Ratio
2008-09	17,158.34	1,22,693.46	0.14
2009-10	20,281.89	2,84,057.84	0.07
2010-11	22,136.97	3,46,354.89	0.06
2011-12	24,327.39	3,86,615.85	0.06
2012-13	28,628.64	4,36,497.87	0.07

(Source: Audited annual report)

The ratio of fixed assets to net worth indicates the extend to which shareholders funds are sunk into the fixed assets.The fixed assets to net worth ratio shows a downward trend.If the ratio is less than 100%, it implies that owners funds are more than total fixed assts and a part of working capital is provided by the shareholders.

Figure 4.17 Fixed Assets to Netwprth ratio



Gross and Net Working Capital of SBT For the Years 2008-09 to 2012-13

Gross working capital refers to the amount of funds invested in Total current assets of a firm.In a broad sense, working capital refers to the gross working capital. Where as the net working capital is the excess of current assets over current liabilities. In a narrow sense the term working capital refers to the net working capital.

It may be said that both, gross and net concepts of working capital are im[portant aspects of working capital management. The net concept of working capital may be suitable only for proprietory form of organizations such as sole trader or partnership firms. But the gross concept is very suitable to the company form of organizations where there is a divorce between ownership, management and control.

Let us examine the gross and net working capital of the Bank :

Table 4.18 Gross and Net Working Capital

The table shows that the gross working capital of SBT is increasing during

	31-03-2009	31-03-2010	31-03-2011	31-03-2012	31-03-2013
Current Assets					
Cash & Balance with RBI	2,32,872.52	3,46,804.15	4,70,957.19	4,77,664.63	4,54,400.45
Balance With Banks, Money at call and short notice	12,593.34	66,512.35	14,297.34	1,04,001.71	22,370.02
Bills purchased and discounted	1,71,469.94	2,26,176.68	2,98,538.36	4,31,279.68	4,58,809.85
Cash credits & Bank Over drafts	14,16,654.59	15,06,549.10	18,14,746.84	24,52,372.68	29,31,553.25
Iner Office Adjustments	2,876.33	---	---	13,770.12	1,050.30
Interest Accrued	39,270.62	46,176.55	50,181.31	71,000.12	82,686.64
Tax paid in advance	12,135.46	6,851.50	6,168.82	27,276.07	29,379.74
Stationary and Stamps	291.76	342.78	334.52	---	---
Gross Working Capital	18,88,164.56	21,99,413.11	26,55,224.38	35,77,365.75	39,80,250.25
Current Liabilities					
Deposits	13,63,514.71	15,47,356.49	17,63,294.78	19,53,669.98	4,56,767.06
Borrowings	80,776.31	3,25,014.64	5,72,650.34	7,60,731.51	8,74,716.14
Bills Payable	81,451.63	82,788.05	82,068.70	95,770.74	1,20,985.86
Iner Office Adjustments	---	12,215.36	1,23,298.61	---	---
Inetrest Accrued	80,808.64	52,308.07	67,019.66	86,203.16	94,924.73
Total Current Liabilities	16,06,551.29	20,19,682.61	26,08,332.09	28,96,375.59	15,47,393.79
Net Working Capital	2,81,613.27	1,79,730.50	46,892.29	6,80,990.36	24,32,856.46

(Source: Audited annual report)

the period under study.

During the period from 2008-09 to 2012-13, the Net working capital of SBT showing a fluctuating trend. It is declining in the first three years then it starts to go upward. The highest value of net working capital is in the year 2012-13. The gross working capital as well as net working capital position of the bank reveals a satisfactory position.

Statement or Schedule of Changes in Working capital

Working capital means the excess of current assets over the current lioabilities. Statement of cahnges in working capital is prepared to show the changes in the working capital between the two balancesheet dates. This Statement is prepared with the help of current assets and current liabilities derived from two balance sheets.

As working Capital = Current Assets – Current Liabilioties.

So, An increase in current assets increases working capital

A decrease in current assets decreases working capital

An increase in current liabilities decreases working capital

A decrease in current liabilities increases working capital.

The change in the amount of any current asset or current liability in the current balance sheet as compared to that of the previous balance sheet either results in increase or decrease in working capital. The difference is recorded for each individual current asset and current liability.In case a current asset in the current period is more than in the previous period, the effect is an increase in working capital and it is recorded in the increase column. But if a current liability in the current period is more than in the previous period, the effect is decrease in working capital and it is recorded in the decrease column or vise versa. The total increase and the total decrease sre compared and the diference shows the net net increase or net decrease in working capital. It is worth noting that schedule of changes in working capital is prepared only from current assets and current liabilities and the other information is not of any use for preparing this statement.

Following tables shows the changes in net working capital of SBT for the years 2009-10 to 2012-13 :

Table 4.19 Schedule of Changes in Working Capital For the year 2009-10

Particulars	2009	2010	Increase	Decrease
Current Assets				
Cash & Balance with RBI	2,32,872.52	3,46,804.15	1,13,931.63	---
Balance With Banks, Money at call and short notice	12,593.34	66,512.35	53,919.01	---
Bills purchased and discounted	1,71,469.94	2,26,176.68	54,706.74	---
Cash credits & Bank Over drafts	14,16,654.59	15,06,549.10	89,894.51	---
Iner Office Adjustments	2,876.33	---	---	2,876.33
Interest Accrued	39,270.62	46,176.55	6,905.93	---
Tax paid in advance	12,135.46	6,851.50	---	5,283.96
Stationary and Stamps	291.76	342.78	51.02	---
Total Current Assets	18,88,164.56	21,99,413.11		
Current Liabilities				
Deposits	13,63,514.71	15,47,356.49	---	1,83,841.78
Borrowings	80,776.31	3,25,014.64	---	2,44,238.33
Bills Payable	81,451.63	82,788.05	---	1,336.42
Inter office adjustments	---	12,215.36	---	12,215.36
Inetrest Accrued	80,808.64	52,308.07	28,500.57	---
Total Current Liabilities	16,06,551.29	20,19,682.61		
Working Capital	2,81,613.27	1,79,730.5		
Net Decrease in Working Capital		1,01,882.77	1,01,882.77	
	2,81,613.27	2,81,613.27	4,49,792.18	4,49,792.18

(Source: Audited annual report)

Table 4.20 Schedule of Changes in Working Capital For the Year 2010-11

Particulars	2010	2011	Increase	Decrease
Current Assets				
Cash & Balance with RBI	3,46,804.15	4,70,957.19	124,153.04	---
Balance With Banks, Money at call and short notice	66,512.35	14,297.34	---	52,215.01
Bills purchased and discounted	2,26,176.68	2,98,538.36	72,361.68	---
Cash credits & Bank Over drafts	15,06,549.10	18,14,746.84	3,08,197.74	---
Interest Accrued	46,176.55	50,181.31	4,004.76	---
Tax paid in advance	6,851.50	6,168.82	---	682.68
Stationary and Stamps	342.78	334.52	---	8.26
Total Current Assets	21,99,413.11	26,55,224.38		
Current Liabilities				
Deposits	15,47,356.49	17,63,294.78		
Borrowings	3,25,014.64	5,72,650.34	---	2,15,938.29
Bills Payable	82,788.05	82,068.70	---	2,47,635.70
Inter office adjustments	12,215.36	1,23,298.61	719.35	---
Inetrest Accrued	52,308.07	67,019.66	---	1,11,083.25
Total Current Liabilities	20,19,682.61	26,08,332.09	---	14,711.59
Working Capital	1,79,730.50	46,892.29		
Net Decrease in Working Capital		1,32,838.21	1,32,838.21	
	1,79,730.50	1,79,730.50	6,42,274.78	6,42,274.78

(Source: Audited annual report)

Table 4.21 Schedule of Changes in Working Capital For the Year 2011-12

Particulars	2011	2012	Increase	Decrease
Current Assets				
Cash & Balance with RBI	4,70,957.19	4,77,664.63	6,707.44	---
Balance With Banks, Money at call and short notice	14,297.34	1,04,001.71	89,704.37	---
Bills purchased and discounted	2,98,538.36	4,31,279.68	1,32,741.32	---
Cash credits & Bank Over drafts	18,14,746.84	24,52,375.68	6,37,625.84	---
Iner Office Adjustments	---	13,770.12	13,770.12	---
Interest Accrued	50,181.31	71,000.86	20,819.55	---
Tax paid in advance	6,168.82	27,276.07	21,107.25	---
Stationary and Stamps	334.52	---	---	334.52
Total Current Assets	26,55,224.38	35,77,365.75		
Current Liabilities				
Deposits	17,63,294.78	19,53,669.98	---	1,90,375.20
Borrowings	5,72,650.34	7,60,731.51	---	1,88,081.17
Bills Payable	82,068.70	95,770.74	---	13,702.04
Inter office adjustments	1,23,298.61	---	1,23,298.61	---
Inetrest Accrued	67,019.66	86,203.16	---	19,183.50
Total Current Liabilities	26,08,332.09	28,96,375.39		
Working Capital	46,892.29	6,80,990.36		
Net Increase in Working Capital	6,34,098.07			6,34,098.07
	6,80,990.36	6,80,990.36	1045774.50	10,45,774.50

(Source: Audited annual report)

Table 4.22 Schedule of Changes in Working Capital for the Year 2012-13

Particulars	2012	2013	Increase	Decrease
Current Assets				
Cash & Balance with RBI	4,77,664.63	4,54,400.45	---	23,264.18
Balance With Banks, Money at call and short notice	1,04,001.71	22,370.02	---	81,631.69
Bills purchased and discounted	4,31,279.68	4,58,809.85	27,530.17	---
Cash credits & Bank Over drafts	24,52,372.68	29,31,553.25	4,79,180.57	---
Iner Office Adjustments	13,770.12	1,050.30	---	12,719.82
Tax paid in advance	27,276.07	29,379.74	2,103.67	---
Stationary and Stamps	---	---		
Total Current Assets	35,77,365.75	39,80,250.25		
Current Liabilities				
Deposits	19,53,669.98	4,56,767.06	14,96,902.92	---
Borrowings	7,60,731.51	8,74,716.14	---	1,13,984.63
Bills Payable	95,770.74	1,20,985.86	---	25,215.12
Inter office adjustments	---	---		
Inetrest Accrued	86,203.16	94,924.73	---	8,721.57
Total Current Liabilities	28,96,375.39	15,47,393.79		
Working Capital	6,80,990.36	24,32,856.46		
				17,51,866.10
Net Increase in Working Capital	17,51,866.10			
	24,32,856.46	24,32,856.46	2,65,537.01	2,65,537.01

(Source: Audited annual report)

Summary Statement of Increase or Decrease in Net Working Capital for the Period Under Study :

Table 4.23

For the Years	Increase in NWC	Decrease in NWC
2009-2010	-------	1,01,882.77
2010-2011	-------	1,32,838.21
2011-2012	6,34,098.07	-------
2012-2013	17,51,866.10	-------

From the above statement we can interpret that the net working capital of SBT showing a fluctuating trend. There was a decrease in net working capital in the first two years i.e. in the years of 2009-10 and 2010-11. In 2009-10 there was a decrease of rupees 1.02 lakhs and in 2010-11 the decrease is rupees 1.33 lakhs. Where as in the subsequent two years the changes in net working capital shows an increasing trend. In the year 2011-12, there is an increase of 6.34 lakhs. But in the last year 2012-13 there is a tremendous increase in net working capital of rupees 17.52 lakhs.

In short, we can interpret that the working capital managemnet of the State Bank of Travancore is satisfactory. The working capital position of the bank is improving year by year.

CHAPTER V

FINDINGS, SUGGESTIONS AND CONCLUSIONS

Working capital regarded as the life blood of every concern has greater importance in the successful operation of a firm, then the fixed capital. Importance of working capital can be judged from the fact that many a time the main cause of failure of business enterprise has been found to be shortage of current assets and their misleading. Inadequate working capital is a serious handicap business. To remove these, it is necessary to find out the optimum amount of working capital. For this purpose proper management of working capital is essential.

Management of working capital in an enterprise has profitability and liquidity implications. No firm can survive without liquidity. Lack of profit may cause a firm to be treated as sick but lack of liquidity could cause its downfall and death over a period of time. Working capital management thus has become a basic and broader measure of judging the performance and the manner of management of working capital to a very large extent determines the success of operations of a concern. So the amount of working capital in a business should be neither more nor less than what is required.

In the previous chapter of this study we have analyzed the management of working capital of SBT by using certain ratios and schedules of changes in working capital. It is desirable to review the various aspects of the study and sum up the important observations. As such this chapter relates to observational findings and recommendations suggested to improve the status of the concern on the basis of the above study. The main objectives of the study are: To study the effect of working capital on SBT's profitability and liquidity, to study the working capital position on SBT and to evaluate the capital structure of SBT.

Major Findings:

- The liquidity position of the bank is quite satisfactory as regard the liquid ratios of the bank.
- The bank's profitability position has showing a downward trend. It needs to improve its profitability.

- The changes in working capital show an increase in working capital of the bank. So its working capital position is satisfactory.
- The capital structure of the bank needs to improve as far as various capital structure or solvency ratios concerned.
- SBT enjoys a comfortable position as far as current ratio is concerned.
- SBT's quick ratios for the past 5 years do not show a satisfactory position of its short term solvency.
- Absolute liquid ratio shows an improvement in the capacity of the bank to pay off its short term liabilities.
- From year to year the net profit is decreasing. Hence the profitability position of SBT is not satisfactory. Net profit ratio shows a decreasing trend.
- The operating profit ratio also shows a decreasing trend. It indicates that the bank's operating profit is inadequate to cover the operating expenses and it adversely affects the bank's profitability
- The return on shareholders' investment shows declining trend. This reveals that the bank's overall efficiency is not satisfactory.
- The EPS is increasing for the first three years, then it fluctuate for the next two years. As it reveals the earning power of the bank has improved
- The Bank's dividend payout ratio reveals an increasing trend over the years except the financial year 2012-13. So it shows that the bank is able to pay dividends properly.
- SBT's working capital turnover ratio shows remarkably higher turnover ratio during the period 2010-11. The higher the ratio, lower is the investment in working capital and greater are the profits. However, a very high turnover of working capital is a sign of over trading. The rest of the year's show low working capital ratios, from this we can realize that working capital is not efficiently used in these years.
- The Fixed assets turnover ratio of SBT for the past 5 years from 2008-09 to 2012-13 shows a fluctuating trend. The high ratio is an indicator of over trading of total assets while a low ratio reveals idle capacity.

- The debt – equity ratio indicates the proportionate claims of owners and the outsiders against the firm's assets. The ratio of SBT shows a very high proportion of debt in its capital structure than equity. The ratio is high in the year 2008-09.
- Equity ratio showing a fluctuating trend.As equity ratio represents the relationship of owners funds to total assets. The ratio is increasing up to the year 2010-11, then it showing a downward trend. The bank need to improve its solvency position.
- Generally, lower the ratio of total liabilities to total assets, more satisfactory or stable is the long term solvency position of a firm. In this case SBT's solvency ratios fluctuating over the years.
- The proportion of current assets to shareholders fund in SBT has showing fluctuating movements. It is high in the year 2008-09, then it starts to decline.
- The amount of long term funds raised by the proprietors as against the current liabilities of SBT has showing a downward trend. The ratio of current liabilities to proprietors fund is lower in the year 2012-13.
- The ratio of current assets to total assets depicts that the component of current assets in the total assets covers between 30% and 50%.
- The ratio of fixed assets to net worth indicates the extend to which shareholders funds are sunk into the fixed assets.The fixed assets to net worth ratio shows a downward trend.
- The gross working capital of SBT is increasing during the period under study. During the period from 2008-09 to 2012-13, the Net working capital of SBT showing a fluctuating trend.The gross working capital as well as net working capital position of the bank reveals a satisfactory position.
- The schedule of changes in working capital reveals that the working capital managemnet of the State Bank of Travancore is satisfactory. The working capital position of the bank is improving year by year.

Suggestions :

- Since the current ratio is fluctuating widely and maintaining the level of standard there is an urgent need to monitor the ratio between current assets and current liabilities. Excessive investment in current assets will be effectively utilised. Then only undertaking situation prevailing the SBT can be removed.
- The high fluctuations in the working capital turnover ratio over the years should be regulated.
- The profitability position of the bank is not satisfactory. So the bank must take steps to improve the profitability by reducing unnecessary expenses.
- Efforts should be made by the bank to use major portion of the deposits for granting more advances and loans to customers.Through this, the bank will be able to use its unproductive funds in the productive manner and also increase bank's earnings. For this, loans, melas and campaigns should be organised by the bank to create an awareness in the mind of the customers / general public regarding the availability of different types of assistance provided by the bank.
- More efficint plan should be formulated to collect the arriers in loans. Repayment capacity of the customers should be considered for granting loans. Inventives should be given to customers for timely repayment of loans. This will reduce the burden of bad debts.
- Cash balance of the bank can be streamlined by proper planning and control of cash. Optimum size of cash balance should be determined.
- The adoption of above measures will doubtlessly help the concern to improve overall performance in the management of working capital.

Conclusion :

From this project I came to a conclusion that SBT is following a good system of working capital management. While noticing the financial performance of the SBT,can understand that there is always a scope for growth and development in its future commitments. Liquidity ratios reflecting that SBT is always maintain liquidity and stability in its operations. This is helping the bank to meet its obligations on time and to improving the public confidence in its dealings. Whereas SBT's profitability ratios revealing that it is not satisfactory, so the bank need to improve its profitability.SBT maintain a good system of reserves and surplus. A healthy position of reserves and surplus is ensuring bank's future growth. While analyzing the working capital position through schedule of changes in working capital for the past five years ranging from 2009-10 to 2012-13, can notice that the working capital position of SBT is increasing over the years as a result of an efficint system of working capital management.

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