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Working Capital Management: A Case Study of OCM

A Study depicting the impact of Operational & Financial Workability of Organization after the Change of Ownership in contend with Global Financial Crisis

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Case Summary: *In this Case Study, we have presented a view upon the Changes in the Financial Position and Working Capital of OCM, depicting its Operational Effectiveness, particularly after the Takeover of the company by the WL Ross & Co. LLC.*
The firm as well as industry is facing a rigorously Adverse Market Situation, but the firmis initiating more efficiently towards executing its operations, resulting into a successive increase in its demand structure. Hence, the firm ismarching towards a cause to have an Efficient Working Capital Management.
There is a strong need to improve the Efficiency of Inventory Utilization Practices, in order to let the firm optimally utilize its resources and have bristling futures. In the long run, the firm is improving its efficiency in managing debts and therefore, is having maximum sales with minimum receivables after 2010.
With the passage of time, the firm is more and more well learning about the Management of Working Capital and is growing gradually irrespective of the Adverse Market Circumstances.

I. Introduction

Effective financial management is the outcome of proper management of investment of funds in business. Management of working capital is not a least important part of it. It is being increasingly realized that inadequacy or mismanagement of working capital is the leading cause of business failures. It is the investment needed for carrying our day-to-day operations of the business smoothly. Let’s have a word on it, before paving ahead.

1.1 Types of Working Capital: In the broad sense, the term Working Capital refers to the Gross Working Capital representing the Funds Invested in Current Assets.In the narrow sense, it refers to the Net Working Capital, which is the Excess of Current Assets over Current Liabilities.The net concept of working capital may be suitable only for proprietary form of organization. Whereas, the gross concept is very much suitable in the case of company form of organizations, where there is divorce between the ownership, management and control.FurtherCategorisation of working capital is as follows:

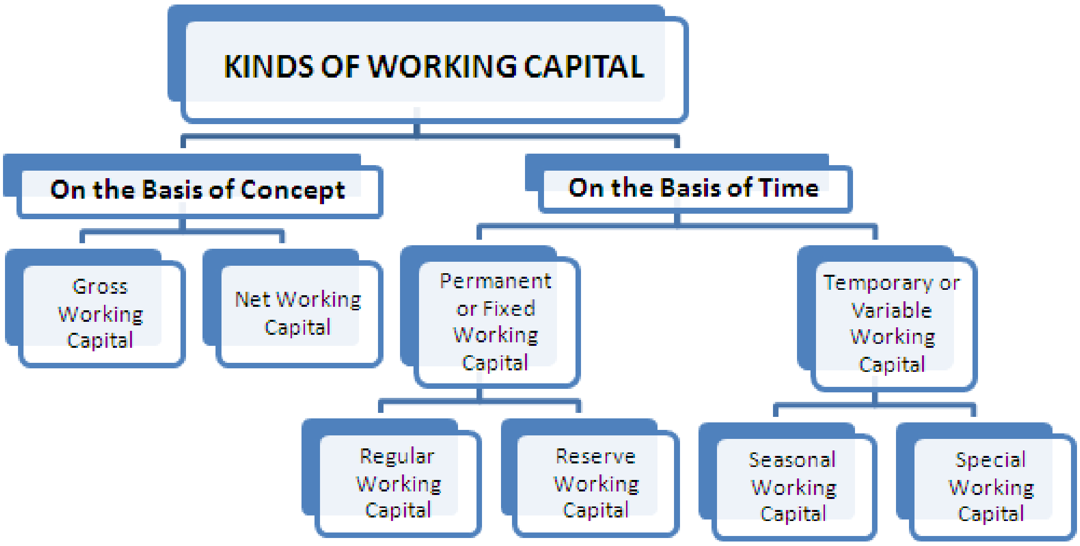


Figure 1: Diagram depicting the Classification of Working Capital depending upon its nature.

1.2 Approaches of Working Capital: There are two approaches, generally followed for:

The Conventional Approach implies managing the individual components of working capital (i.e. inventory, receivables, payables, etc.) so that neither idle funds nor paucity of funds is there. In India, more emphasis is given to the management of debtors because they generally constitute the largest share of the investment in working capital. Whereas, inventory control has not yet been practiced on a wide scale, perhaps caused due to the scarcity of commodities and ever rising prices.

The Operating Cycle Approach views working capital as a function of the volume of operating expenses. Under this approach, the working capital is determined by the duration of the operating cycle and the operating expenses needed for completing the cycle. The optimum level of working capital will be the requirement of operating expenses for an operating cycle, calculated on the basis of operating expenses required for a year.

In India, most of the organizations use to follow the conventional approach earlier, but now the practice is shifting in favour of operating cycle approach. Banks usually apply this approach while granting credit facilities to their clients.

1.3 The Risk-Return Trade-off: Risk is defined as the probability that the firm will become technically insolvent, so that it will not be able to meet its obligations as and when they become due for payments.This relationship between risk and return can be expressed as:

Return = risk-free rate + risk premium

Here the risk free rate is a compensation for time and risk premium for risk coverage.

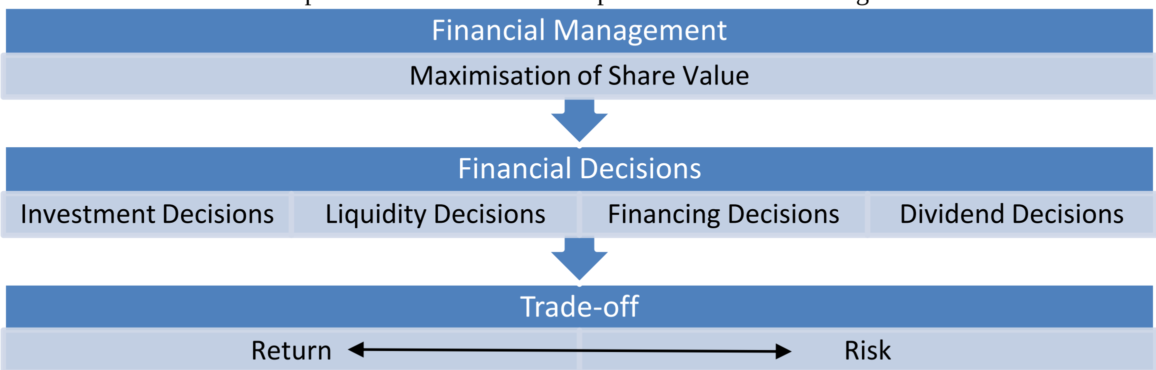


Figure 2: An overview of financial management describing the risk-return relationship.

Source: MS-4: Accounting & Finance for Managers (Block 5), SOMS, IGNOU.

1.4 The Case Study: A view upon the changes in the financial position and working capital of OCM is being presented here in this case, depicting its operating effectiveness, particularly after the takeover of the company by the WL Ross & Co. LLC. Before incepting discussion, I would like you to known to the opinions of internal management of OCM by presenting the extracts of CEO's communiqué, duly published in the Annual Report 2011-12.

"Dear Shareholders,

The financial year 2011-12 was full of challenges ………. new management …….. give a new image to the Company……………… a topline growth of around 30% and crossed the milestone of Rs. 200 crores ………………………. new brand identity ………….. continuous quality improvement will attract new customers ……………… we are confident …., to overcome ……"

SK Singhal

II. Company Profile

OCM (Oriental Carpet Manufacturers) is a company headed by Wilbur L Ross & Co. LLC, hascame a long way to become one of the Largest Worsted Fabric **Retailer and Manufacturer**, First one to implement Customized Textile ERP Solution.Itoffers wool blended, polyester viscose, polyester, and woolen fabrics. The company provides suiting, shirting, trousers, and jacketing fabrics with exporting about one-third of its volume to the markets like the US and Europe.

At Present, OCM has an **International Presence** with its Corporate and Sales Office in Delhi and Manufacturing Facility in Amritsar; embellishing an energetic Tagline "OCM SUITING - FACE LIFE". The Mill houses a World Class Infrastructure with its well managed facilities Growing its Presence world over.The mill has the Strong Employee Strength of 1020, working relentlessly towards Achieving Customer Satisfaction as its Prime Goal.

OCM is known for its products on international level.Today, OCM is a leading men's apparel fabric retailer & manufacturer of India, with its integrated production facility in Amritsar. In the 3000 Crores Textile Market,Raymonds is the market leader and OCM is competing with Reid and Taylor for the second position.The company has future 'plan of action' to strengthen research and development to develop a newer range of products to build and consolidate consumer confidence and emphasize on product development and cost reduction.

2.1 The History of OCM Woolen Mills, Amritsar, Punjab

OCM India Limited was formerly known as The East India Carpet Co. Ltd. and changed its name in January 1989. The company was incorporated in 1922 and is headquartered in New Delhi, India. OCM India Limited operates as a former subsidiary of Digjam Ltd.

In 1924, Orient Carpet Manufacturers was set up by the British in Amritsar, the wool centre of India. During the time period of 1924-72, Developments and changes held included setting up of Mule spindles to the carpets unit looms to add into its existing capacity. Worsted spinning added to cater to the surplus weaving capacity. By then, Overall expansion of OCM was mainly towards worsted. In the mean time, OCM was taken over by Ralli's brothers, the then port of UK's Slater Walker Empire. In 1970, OCM was further taken over by the Birlas.

During the time period of 1973-1993, further Changes and Developments in OCM includedExpansion&Modernisation of unit, Installation of Modern Shubble less looms, and Discontinuation of handmade carpets. In the decade of 1994-2006, OCM established itself as one of the leading brands in India. In the Year 2007, it has been acquired by a New York, US based, Global Private Equity Fund Management Company, WL Ross & Co. LLC.

The ownership of OCM is split between the US-based, WL Ross & Co. LLC, a global private equity fund management company and HDFC Ltd. WL Ross and Company holds a 94 per cent stake and remaining 6 per cent is held by HDFC. Today, it is a world class Mill growing its International Presence.

2.2 Proportion of the funds used by firm from various long term sources of funds during the period of study

(% in LT Funds)

Source of Fund/Proportion	2007	2008	2009	2010	2011	2012
Share Capital (Called up Amount)	06.964	57.685	58.651	60.623	70.695	69.983
Share money pending on allotment	83.898	00.000	00.000	00.000	00.000	00.000
Reserves & surplus	00.013	33.191	24.241	27.211	24.673	23.578
Secured loans	00.129	09.124	17.108	12.166	04.633	06.438
Total long term funds (%)	**100.000**	**100.000**	**100.000**	**100.000**	**100.000**	**100.000**

Notes &Comments: The firm is going for conservative approach of major funding from share capital instead of making debt arrangements. Besides, the proportion of secured loans is also increasing fourfold depending upon the increasing credibility of the firm and increasing market goodwill till 2009, but afterwards it goes on declining because of the firm's increasing capability to fund itself inside from its reserves and surplus as its strength.

Previously, Loanswereheld from PSIDC and GHB which were cleared before the study period. Presently, the company has a long term borrowing amounting to Rs. 101,475,163 and short term borrowing (for its working capital needs) of Rs. 141,681,114 from HDFC bank.

2.3 OCM in News: OCM India, the 87-year-old textile company owned by US-based WL Ross & Co, has set itself a stiff target of wiping out its accumulated losses by 2012-13, and take off on its expansion programme on a faster track thereafter. The privately held, former SK Birla Group company, while refusing to reveal the exact losses, indicated that it was lesser than the value for which it was bought by WL Ross in 2007 for $37 million. WL Ross has made it clear that its investment in OCM will be like those in the Mittal-owned International Steel Group, International Textile Group and CompagnieEuropeene de Wagons, in which it has been involved for nearly 10 years.

OCM, which has begun to notch up net profits, has already flagged off an image makeover programme, uncorking a new brand identity and stitching up plans to expand its portfolio of offerings. It is investing about Rs 15 crores annually for the three years to ramp up the capacity of its Amritsar plant from the 5.5 million meters to 6.2 million meters in March 2013 and 8 million meters by March 2014.

Its new and evolutionary brand identity reinforces the firm commitment and emulate image of its strategy. WL Ross took over the company in 2007 but changed the top management only in November 2010. The fresh drape image denotes OCM's core expertise and its focus in the field of textile. It is targeting age group of 25 to 35 years the across India. The company has made changes in the colour combinations and more vibrant colours have been introduced.

III. Research Methodology

The Objective of the Study is to check about the effectiveness of Working Capital Management in OCM during the period of study & project the overview thereof. The Scope of the Study entail only for Working Capital Management of OCM for the financial period ranging from 2007 to 2012. The study does not tend to present a view upon the current financial position and financial management of OCM mills. All the data presented here is true and best of my knowledge as well as reach regarding the information. But still there can be a stance of probable errors and/or unintentional mistakes or misrepresentations in the preparation and presentation of this report.

For preparing the case different types of information has been collected from different sources. Primary Sources for the purpose included Meetings with the heads and staff members of the OCM; and Secondary Sources included Annual Reports 2006-2012 & Other Data & Statements. Methods for the data collection from the above sources included Observation, Expert Opinion and Secondary Data Analysis. Ratio Analysis & Operating Cycle Analysis has formed the part of the Tests and Analysis during the study.

IV. Working Capital Management And Financial Statement Analysis

Financial Information is needed to predict, compare and evaluate the firm's earning ability. However, financial statements do not disclose all of the necessary and relevant information. For the purpose of obtaining the material and relevant information necessary for ascertaining the financial strengths and weaknesses of an enterprise, it is necessary to analyze the data depicted in the financial statements. The financial manager has certain analytical tools which help in financial analysis and planning. These include comparative, common size, ratio, and cash flow analysis. Here a few,being applied to this research, to efficiently make up the analysis.

4.1 Calculation of Total Current Assets / Gross Working Capital for the Analysis (In rupees)

Particulars	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Stock / Inventories	230,644,319	291,367,657	417,101,922	389,080,370	556,507,572	634,271,324
Trade Receivables	131,765,757	381,875,624	471,449,045	529,619,794	304,484,024	276,124,041
Cash and Bank Balances	69,031,582	43,122,912	45,071,964	42,635,478	9,028,540	22,379,980
Loans and Advances	22,907,167	33,237,621	25,662,183	37,647,341	57,173,521	61,310,262
Other Current Assets	-	398,361	259,315	1,468,863	-	12,525,373
Total Current Assets	**454,348,825**	**750,002,175**	**959,544,429**	**1,000,451,846**	**927,193,656**	**1,006,610,980**
Quick Assets (CA – Stock)	223,704,506	458,634,518	542,442,507	611,371,476	370,686,084	372,339,656

4.2 Calculation of Various Ratios for the Analysis of Working Capital and Its Management in OCM before and After Acquisition

Particulars	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Quick Assets	223,704,506	458,634,518	542,442,507	611,371,476	370,686,084	372,339,656
Annual Sales Income	522,133,945	966,065,240	1,298,583,549	1,282,520,090	1,484,661,630	1,928,776,592
Operating expenses	423,446,911	690,164,658	953,501,386	691,462,400	613,952,958	975,117,444
Cash Turnover Ratio (sales / cash)	07.564	22.403	28.811	30.081	164.441	86.183
Inventory Turnover Ratio (sales / stock)	02.264	03.316	03.113	03.296	02.668	03.041
Debtor Turnover Ratio (sales / debtors)	03.963	02.530	02.755	02.422	04.876	06.985
GWCTR (Sales / CA)	01.149	01.288	01.353	01.282	01.601	01.916
Operating (Mfg) exp / GWC (CA)	00.932	00.920	00.994	00.691	00.662	00.968

Working Notes:

1. Manufacturing / operating expenses for the years 2011 & 2012 not given in concrete figures in the respective annual reports. So calculated thereof from the figures available in the reports in the following note.
2. Calculation of Operating (Manufacturing) expenses for 2011&2012: Cost of Materials Consumed + Purchase of Stock in Trade -Changes in Inventories.
3. Abbreviations used: (a) GWCTR: Gross Working Capital Turnover Ratio, (b) GWC: Gross Working Capital.

4.3 Analysis of the Gross Working Capital (GWC)

The stock has shown a tremendous increase in its quantities with the only exceptions in 2010. In the year 2008 & 2011, it had exceptionally arisen. That may be the weak management of inventories due to which the company faced crucial losses in 2011, to the tune of Rs. 11 crores. As excess capacity of stock shows low turnover ratio and increasing debtors shows liquidity problem in the firm. Trade receivables (debtors), after having continuous increase till 2010, declined to half of its figures (2010) by 2012. Furthermore, decreasing quantities of cash just shows that firm is placing optimum cash balances in the firm so as to prevent idle funds lying in the firm. Loans and advances had shown us a throughout increasing trend. Although it roughly account for a small part of the total current assets, but it should be managed well to ensure efficient capital management as well as optimal use of funds. Quick assets shows us quite same scenario as such of trade receivables.

Till 2010 Gross Working Capital, i.e., total current assets sprung out with a fourfold increase in its value with a stringent fall in its increase by 2010 and afterwards decline followed by come back to its earlier values of 2010.

Ratio analysis provides us with a more specific picture of business dynamics of the firm. Cash turnover ratio has shown us an increasing trend, touching its highest figures in 2011 followed with a decline to half of its values in 2011. Still, tremendously it had shown us a high increase, quite first of its own history. Inventory turnover ratio has a fluctuating scenario with rolling around the figure of 3, depicting that there is not as such change in the efficiency of utilization of its inventories as a part of its working capital. In 2011, with whole economy decline, the ratio comes back to a situation quite similar to that, in 2007, instigating an overall similarity of situations somewhere due upcoming global financial crisisfollowed by change in its ownership in 2007, when the company held a net loss of barely Rs. 23 crores (one of the major causes of the change in its ownership). It had shown us a slight down fall in 2009 because of the higher stock maintained for the future expected demand and not as such expected rise in sales due to global crisis and other causes allied. Inthe long run the firm is improving its efficiency in managing the debts and therefore, is having maximum sales with minimum receivables after 2010.

Gross working capital turnover ratio (GWCTR) with a fluctuating trend throughout is having a steady rise after 2010 depicting the firm's efficiency to optimally utilize its working capital. It instigates us that with the passage of time the firm is more and more well learning about the effective and efficient management of working capital and is growing gradually irrespective of the adverse market conditions.

4.4 Interpretation of the Analysis

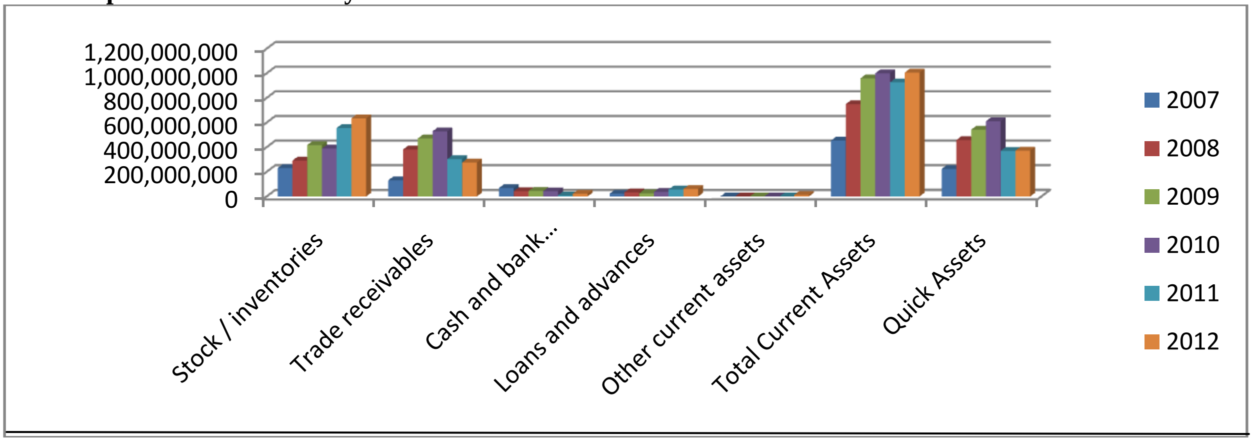


Figure 3: Bar Diagram showing the level of various Current Assets during mentioned periods.

Current Assets are increasing quite more after acquisition, and after 2010 they are quite stable with a down fall in 2011 (related to losses held in 2011). The firm is trying to manage them more efficiently. Although the firm is still incurring losses, it is trying to enhance itsefficient production and from the financial analysis of its sales level, it can be clearly said that demand is increasing, hence resulting in increasing turnover and justifiable financial management with a gradual increase in working capital after the change in ownership.

4.5 Calculation of Current Liabilities

CURRENT LIABILITIES	2007	2008	2009	2010	2011	2012
Short-term borrowings	-	-	-		23,921,050	141,681,114
Acceptances	2,080,357	52,555,203	69,668,851	57,480,251	-	-

Trade payables						
1. Micro and Small Enterprises	486,619	960,689	2,135,547	90,653	1,676,638	994,233
2. Others	132,855,527	157,432,723	161,174,652	172,408,018	157,703,869	101,392,163
Employee dues	-	-	-	-	15,081,044	19,078,658
Current maturities of long-term debt	-	-	-	-	44,734,339	47,203,551
Interest accrued but not due on borrowings	-	-	-	-	1,378,904	2,132,227
Statutory dues	-	-	-	-	10,248,623	9,482,228
Advances from the Customers	1,837,897	1,570,684	1,719,675	34,115,343	45,330,427	45,645,675
Deposits from Dealers	17,372,500	18,016,500	18,656,500	20,580,000	24,831,427	29,960,500
Other Liabilities	4,197,795	5,106,879	5,852,822	8,125,871	140,696,575	135,217,634
Short term provisions	29,649,765	29,931,014	22,543,604	16,695,811	5,001,032	3,298,015
Total Current Liabilities	**188,480,460**	**265,573,692**	**281,751,651**	**309,495,947**	**470,603,501**	**536,085,998**

4.6 Net Working Capital: It has increased to a great extent over the years, except 2011.

- **Calculation of Net Working Capital before and After Acquisition (2007-08)**

Particulars	**2007**	**2008**	**NWC Change**
1. Current Assets	454,348,825	750,002,175	Increase
2. Current liabilities	188,480,460	265,573,692	Decrease
Net Working Capital (1 – 2)	**265,868,365**	**484,428,483**	**Increase**

- **Calculation of Net Working Capital after Acquisition (2008-12)**

Particulars	**2008**	**2009**	**NWC Change**
1. Current Assets	750,002,175	959,544,429	Increase
2. Current liabilities	265,573,692	281,751,651	Decrease
Net Working Capital (1 – 2)	**484,428,483**	**677,792,778**	**Increase**
Particulars	**2009**	**2010**	**NWC Change**
1. Current Assets	959,544,429	1,000,451,846	Increase
2. Current liabilities	281,751,651	309,495,947	Decrease
Net Working Capital (1 – 2)	**677,792,778**	**690,955,899**	**Increase**
Particulars	**2010**	**2011**	**NWC Change**
1. Current Assets	1,000,451,846	927,193,656	Decrease
2. Current liabilities	309,495,947	471,357,251	Decrease
Net Working Capital (1 – 2)	**690,955,899**	**470,603,501**	**Decrease**
Particulars	**2011**	**2012**	**NWC Change**
1. Current Assets	927,193,656	1,006,610,980	Increase
2. Current liabilities	471,357,251	535,332,675	Decrease
Net Working Capital (1 – 2)	**470,603,501**	**536,085,998**	**Increase**

4.7Calculation of Various Ratios for the Analysis of Working Capital and Its Management in OCM before and After Acquisition

Particulars	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Current Assets	454,348,825	750,002,175	959,544,429	1,000,451,846	927,193,656	1,006,610,980
Current Liabilities	188,480,460	265,573,692	281,751,651	309,495,947	470,603,501	536,085,998
Net Working Capital	265,868,365	484,428,483	677,792,778	690,955,899	456,590,155	470,524,982
Quick Assets	223,704,506	458,634,518	542,442,507	611,371,476	370,686,084	372,339,656
Cash and bank balances	69,031,582	43,122,912	45,071,964	42,635,478	9,028,540	22,379,980
Annual Purchases	132,538,883	261,572,405	516,530,619	481,600,910	613,952,958	975,117,444
Annual Sales	522,133,945	966,065,240	1,298,583,549	1,282,520,090	1,484,661,630	1,928,776,592
Operating expenses	423,446,911	690,164,658	953,501,386	691,462,400	613,952,958	975,117,444
MSE trade payables	486,619	960,689	2,135,547	90,653	1,676,638	994,233
Other trade payables	132,855,527	157,432,723	161,174,652	172,408,018	157,703,869	101,392,163
Total trade payables (Cr.)	133,342,146	158,393,412	163,310,199	172,498,671	159,380,507	102,386,396
Current Ratio (CA/CL)	2.41058848	2.82408310	3.405639064	3.232520024	1.970222606	1.877704293
Quick Ratio (QA /CL)	1.18688434	1.72695765	1.925250500	1.975377972	0.787682376	0.694552101
Cash Ratio	0.36625326	0.16237645	0.159970541	0.137757791	0.019185025	0.041746996
Cr. T/o Ratio (Pur. / Cr.)	0.99397593	1.65140962	3.162880348	2.791910843	3.852120749	9.523896554
Sales/Current Liabilities	2.77022852	3.63765414	4.608965180	4.143899468	3.154803623	3.597886532
NWCTR (sales/NWC)	1.96388143	1.99423707	1.915900539	1.856153326	3.251628652	4.099201245
Opr. Exp. ratio(sale/ME)	1.23305645	1.39976052	1.361910500	1.854793681	2.418200956	1.977994142
Purchase / Operating Exp	0.31300000	0.37900000	0.541719841	0.696496165	1.000000000	1.000000000
Sales / purchases	3.93947748	3.69329953	2.514049509	2.663035022	2.418200956	1.977994142

Operating Exp / NWC	1.59269385	1.42469876	1.406774190	1.000733044	1.344647823	2.072403127

Working notes:

1. As major business transactions are on credit, therefore, the annual purchases for the year(s) is assumed to be credit purchases for that year(s).
2. Annual purchases for 2007 and 2008 is calculated on the basis of average ratio of purchases with manufacturing expenses in the successive years, as it forms a sequence of successive and gradually increasing trends (as not in the info. Provide with management.
3. Calculation of Annual Purchases Expenditure for:

Particulars	**2009**	**2010**	**2011**	**2012**
Cost of materials consumed	545,574,698	421,122,408	717,300,282	1,040,511,220
Purchase of stock-in-trade	22,701,367	86,484,079	50,933,268	55,345,643
Changes in inventories of finished goods, work in progress, and stock-in trade	(51,745,446)	(26,005,577)	(154,280,592)	(120,739,419)
Annual Purchases Expenditure	516,530,619	481,600,910	613,952,958	975,117,444

4. Calculation of Purchases Estimations for:

Particulars	**2007**	**2008**
operating expenses	423,446,911	690,164,658
Purchase / Operating (Manufacturing) Expenses	0.313	0.379
estimated purchase of the year	132538883.1	261572405.4
estimated purchase of the year (rounded-off)	**132,538,883**	**261,572,405**

5. Abbreviations: (a) MSE: Micro and Small Enterprises; (b) CA: Current Assets; (c) QA: Quick Assets; (d) CL: Current Liabilities; (e) T/o: Turnover (Sales); (f) Pur.: Purchases; (g) Cr.: Creditors; (h) NWCTR: Net Working Capital Turnover Ratio; (i) NWC: Net Working Capital; (j) Opr.: Operating; (l) Mfg: Manufacturing; (m) Exp.: Expenses.

4.8 Analysis of the Net Working Capital (NWC):

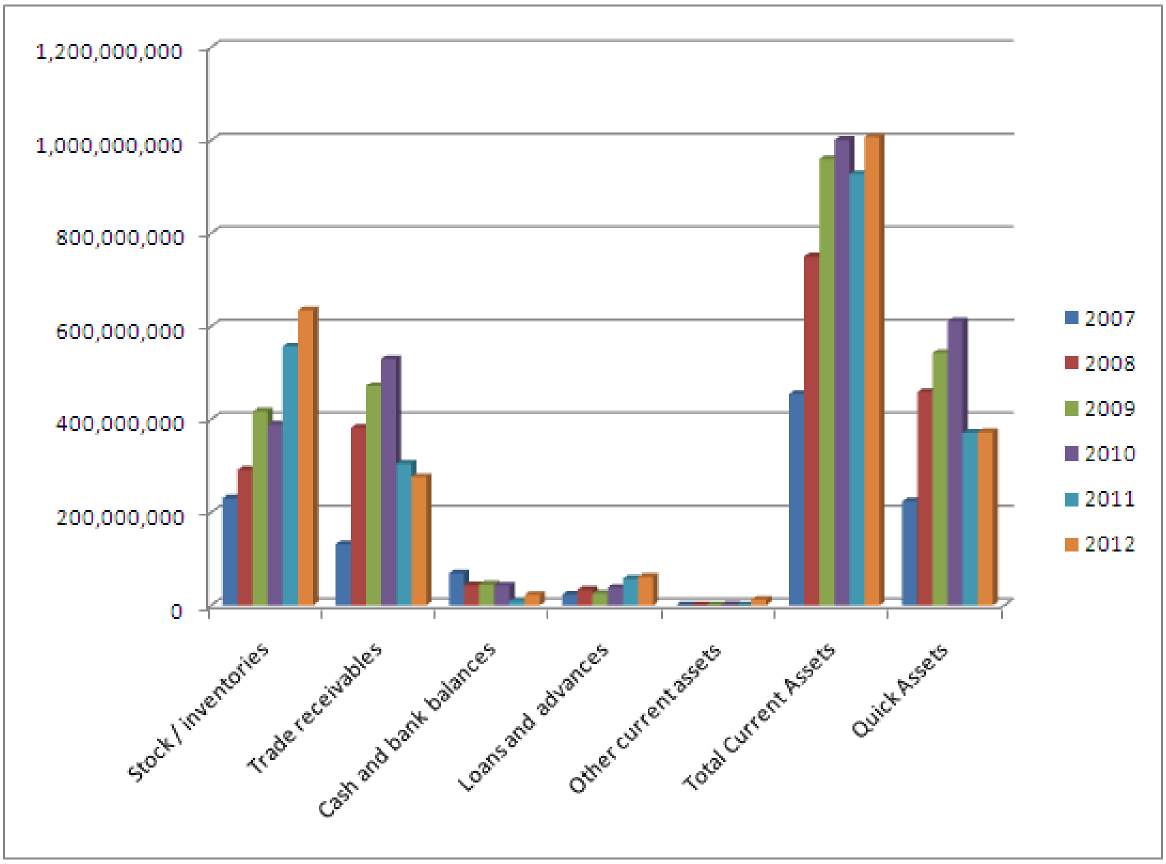


Figure 4: Bar Diagram presenting changes held in different components of current assets during the period of study

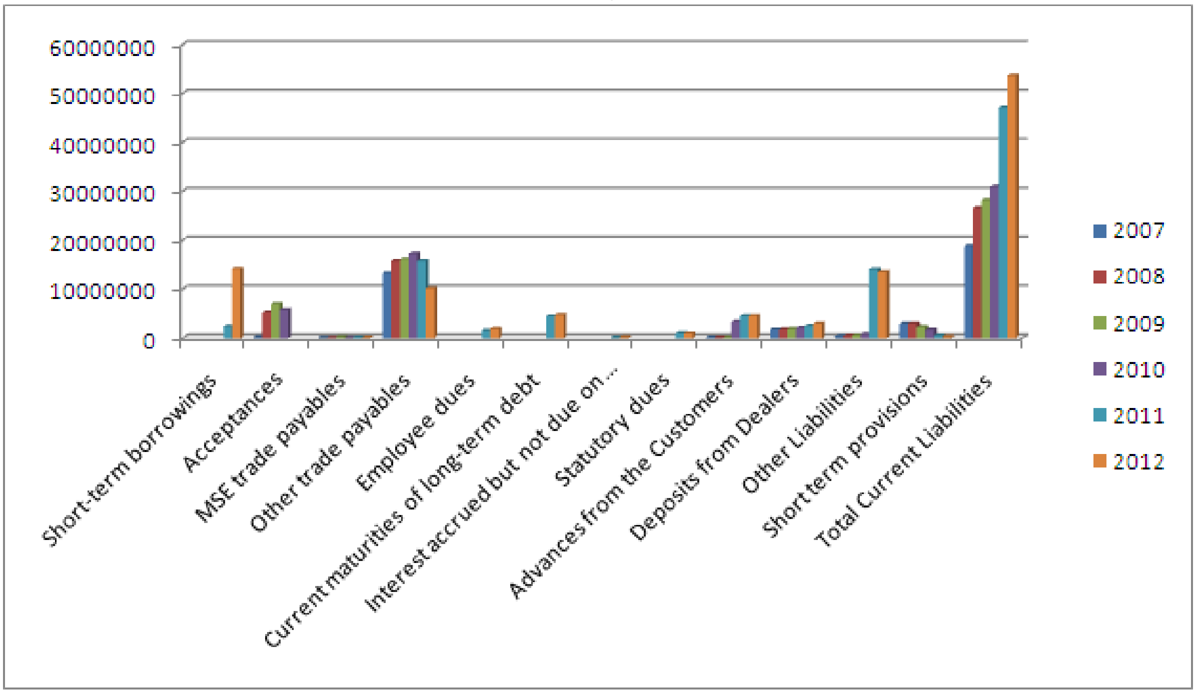
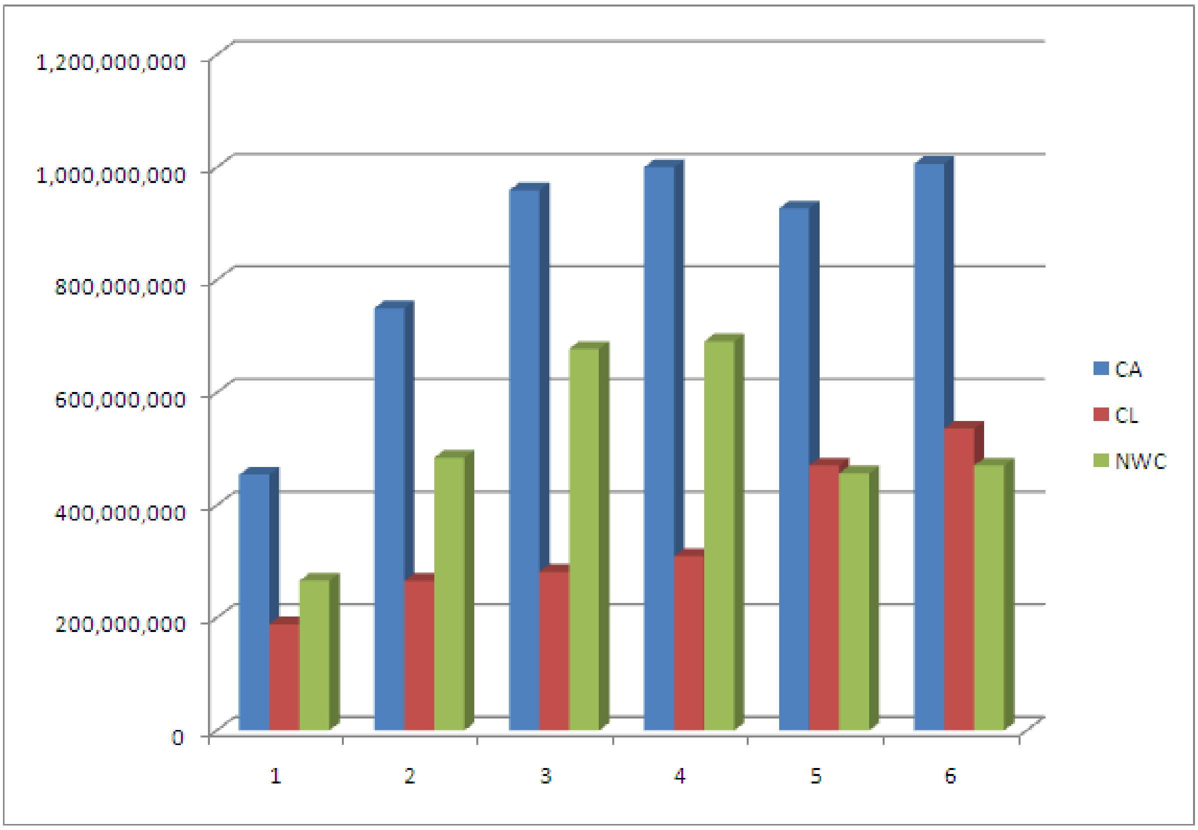


Figure 5: bar diagram representing the changes in current liabilities throughout the period of study



1: 2007, 2: 2008, 3: 2009, 4: 2010, 5: 2011 and 6: 2012.

Figure 6: bar diagram representing the changes in net working capital.

Both Current assets and Current liabilities are showing an increase its financial values, except decline in assets' value in 2011 (allied to loss of 2011). Though there is a consecutive downfall in the ratio of change in both these till 2010, but such downfall just depicts acause towards the efficient management of the current assets of the firm as per need as mentioned earlier. In 2011, as mentioned earlier, there is decline in the value of current assets responded by high jump in the value of current liabilities, resulting into trade imbalances contributing to resulting losses. The firm has successfully recovered due to its various measures and initiatives taken towards recovery of losses. Current ratio increased till 2009 and later shown us a declining trend, with a heavy downfall in it in the financial year 2010-2011, which shows that the firm internal investment as well as capability in working capital is decreasing in comparison to outside funds. Quick ratio has attempted a gradual increase through till 2010 which is a positive sign, but later on it also declined. There at this front too company needs to take necessary measures of control, if it needs so, to avoid future uncertainties.Sales are progressively increasing in comparison to creditors to the firm due to effective utilization of funds short creditors' payment period and quick and fast sales. Sales to current liabilities ratio shows us anincreasing trend till 2010 followed by an afterwards decline in 2011 and recovery in 2012, evident in the firm's corresponding annual revenues.

NWCTR first increases slightly and then registers continuous falls till 2010, followed by major increases later. There is an increasing trend in operating expenses ratio till 2011, followed by a decline in 2012 depicting the throughout increasing optimality of its manufacturing expenses and resulting increased sales, with only exception in 2012, which need to be encountered. The proportion of sales to purchases is declining which a major matter of concern and is needs to be focused early. Operating expenses to net working capital ratio shows a declining trend till 2010 followed by sudden increases, majorly in 2012, depicting a proportional decline in the proportional values of manufacturing expenses financed by firm itself followed by a galloping increase, resulting in net losses in 2011 and 2012.

4.9 Interpretation of the Analysis:

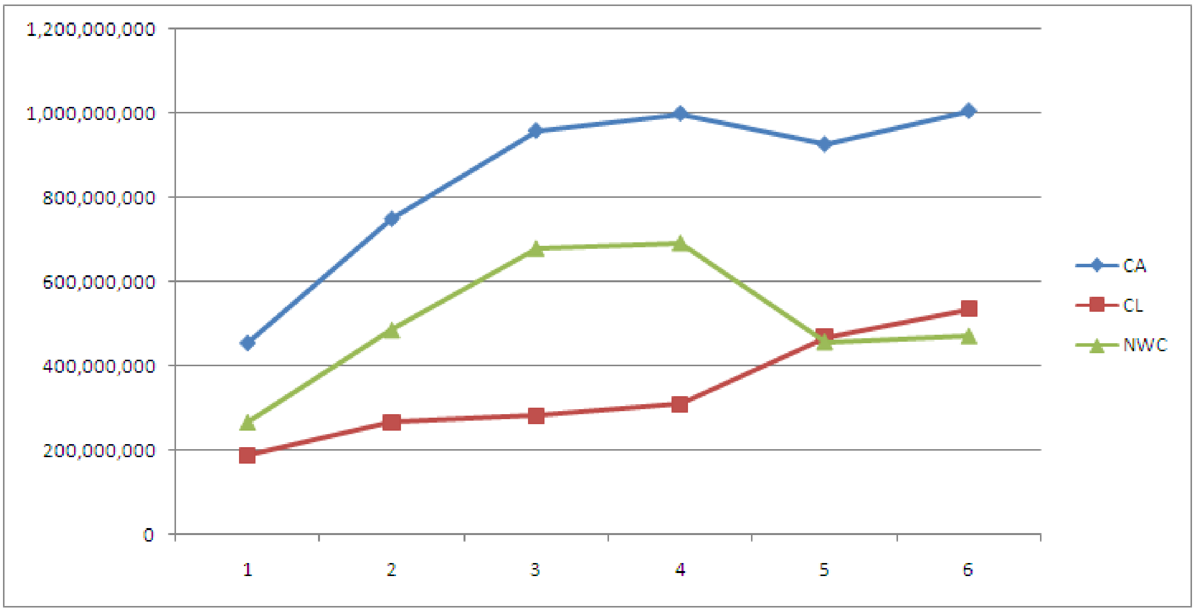


Figure 7: Diagram showing the changes in Working Capital after its Takeover by WL Ross.

Working Capital has increased after acquisition and is currently at a level similar to that in 2008, and the assets have also increased (stable at a level of 2010 after a slight decline), because there is a direct relationship between assets and working capital. Here the Current assets are increasing much more than change in current liabilities. Hence, the working capital of the OCM is moving in upward direction.The firm as well as industry is facing a rigorously adverse market situation, but the firmis initiating more efficiently and effectively to execute its operation, resulting into a successive increase in its demand structure.

V. Conclusion

Based on the study we have concluded that with the passage of time the firm is more and more well learning about the effective and efficient management of working capital and is growing gradually irrespective of changing scenarios and adverse circumstances; & there is a gradual rise in the working capital after the change in ownership of the entity. Attention needs to be taken towards enhancing the efficiency of its net working capital. The Firm as well as Industry is facing the adverse circumstances, but the firmis initiating more and more to execute its operation efficiently and effectively & hence its demand is increasing, hence a cause to have an efficient working capital management is there.

Main highlights of the facts explored in the study are as follows:

Sales are progressively increasing in comparison to creditors to the firm due to effective utilization of funds short creditors' payments period and quick and fast sales. The proportion of sales to purchases is declining which a major matter of concern and is needs to be focused early.

There is a proportional decline in the manufacturing expenses financed by the firm itself, followed by a galloping increase resulting in net losses in 2011 and 2012. There is a throughout increasing optimality of its manufacturing expenses and resulting increased sales, with only exception in 2012, which need to be encountered. In 2011 with whole economy decline, optimal use of inventory reduces to a situation quite similar to that, in 2007, when the company held a net loss of barely Rs. 23 crores (a major cause of the takeover was its huge accumulated losses). But in the long run the firm is improving its efficiency in managing the debts and therefore, is having maximum sales with minimum receivables.

In 2011, there is decline in the value of current assets responded by high jump in the value of current liabilities, resulting into trade imbalances contributing to resulting losses. Later the firm had attempted to control the situations by reducing the rate of annual increase in current liabilities by its policies and regulative measures and recovering the current assets to its earlier level. The firm has successfully recovered due to its various measure and initiatives taken towards recovery of losses, by enhancing its total revenue to the tune Rs. 200 crores for the first time, registering a topline growth of around 30 %.

The stock has shown a tremendous increase in its quantities. There is not as such change in the efficiency of utilization of its inventories as a part of its working capital. That may be the weak management of inventories due to which the company faced crucial losses in 2011, to the tune of Rs. 11 crores.

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End Notes:

***** Figures for a year means, the figures as on / for the year ending 31st march, of the year respectively.