

# Working Capital Analysis of Public State Undertaking (A Case Study of Madhya Pradesh State Electricity Board)

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## CONCEPT

Management of working capital is one of the most important and key resources of an organization for caring for its day to day operations. Working capital can be taken as funding resources for routine activities of business. It is the most vital and important part of fund management and profitability for business. It may be needless to maintain that without proper management of working capital, the business will start struggling for its existence and solvency. Managing it is an art, which can only be excelled through proper study and scenario analysis. It can also be generated by numerous short term funding resources and short term credits and loans.

The major common sources contributing to working capital of an enterprise may be categorized as trade credits extended by suppliers, advances by customers, by discounting of bills, Banks overdrafts from state government reserves and reserves funds, subsidies grants and contribution from central and state government borrowings etc. As already stated, management of working capital is a vital dimension in determining profit and growth of an enterprise. It's planning and projection needs careful integration of targets of various business targets. Determination of optimum capital may be derived by budgeted performance of various business segments. After determination of optimum capital requirement for the business, the next target of designing the working capital structure is taken up which is designed with the objective of minimizing the cost of working capital, thus reducing the burden of cost of working capital of profit. The optimally designed capital structure not only guards solvency of the company but also enriches its earning by protecting its cash outflow.

As already mentioned, it is extremely important that optimally designed working capital should be adequate enough to steer the organization to its target at minimum cost. Designing adequate optimum working capital structure is not only the liability of managers of the company but also an honest duty towards the holders of the company. Adequate and optimum working capital add to economic value aided of the organization. This increase in the economic value of the company not only adds to earning per share of the company but also yields to increase in goodwill market value and creditability of the company. The increase in creditability and goodwill of the company can be further used for generating low cost funds from market and also for gaining better credit turnover ratio. The above scenario clearly highlights the fact that optimum or adequate capital not only improves profitability of the company but also develops its own cycle of perpetual earning for the company.

One most important aspect to be considered in deciding the working capital is to arrive at a reliable estimate of requirements of funds which can be made by systematic historic study and futuristic projections and estimates. The references of bench moved scenario across the industry should also be referred to verify the efficiency of working capital requirements of the industry. Gathering excess funds than the requirement not only leads to high cost of capital but also results in opportunity loss of growth by employing the fund move economically. Similarly, insufficient working capital may result in scarcity of funds resulting in loss of opportunity of business, profit and value.

## JUSTIFICATION OF THE STUDY

The working capital management refers to management of the working capital or to be precise, the management of current assets. A firms working capital consist of its investments in current assets which include short term assets such as cash and bank balance, inventories, receivables and marketable securities. So the working capital management refers to the management of the level of all those individual current assets. The need of working capital management arises from two considerations- first existence of working capital is imperative in any firm. The fixed assets, which usually require large funds, can be used at an optimum level only if supported by sufficient working capital and the second; the working involves statements of funds of the firm. If the working capital level is not properly maintained and managed, then it may result in unnecessary blocking of scare resources of the firm. The insufficient working capital, on the other hand, puts different hindrances in smooth working of the firm. Therefore, the working capital management needs attention of all the financial managers and need for working

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capital to run business activities need not be overemphasized. One can hardly find a business enterprise which does not require any amount of working capital. A company with sufficient working capital is always in a position to take advantage of any favorable opportunity either to purchase raw materials or to execute a special order or to wait for better market position. Further, the adequacy of working capital contributes a lot in raising the credit standing of a corporation because of better credit terms, reduced cost of production on account of the receipt of cash discounts, favorable rates of interest on bank loans etc. A firm profitability may be increased as more working capital is added to the fixed capital, provided the firm does not exceed 100 percent capacity. In this article, a modest effort has been made to analyze the working capital management of MPSEB during the period of 1995-1996 to 2004-2005.

### OBJECTIVES OF THE STUDY

- (i) To assess the significance of working capital by selecting few important parameters such as working capital ratio, acid test ratio and current assets to total assets, total assets to sales ratio, receivables to sales.
- (ii) To make item wise analyses of the element or components of working capital and to identify the items responsible for changes in working capital.
- (iii) To study the relationship between current asset and current liabilities of MPSEB.

### HYPOTHESIS OF THE STUDY

Hypothesis is a tentative generalization, the validity of which remains to be tested. However, hypothesis is generally based on the assumption. In this study, following hypothesis is taken:

- (i) Liquidity position of MPSEB is satisfactory.
- (ii) There is a positive relationship between current assets and current liabilities.
- (iii) The overall position of working capital of MPSEB is satisfactory.

### METHODOLOGY OF THE STUDY:

The data of MPSEB for the year (1995-96 to 2004-05) used in this study have been taken from secondary sources e.g. published annual reports of the company. Editing, classification and tabulation of the financial data, which have been collected from above mentioned sources, have been done as per the requirement of the study. For assessing the performances of the working capital position in this study, the technique of ratio analysis have been used. The collected data have been analyzed in four ways:

- (i) Analysis of liquidity position.
- (ii) Item wise analysis of components of gross working capital.
- (iii) Liquidity ranking.
- (iv) Analysis of liquidity ratio.

For assessing the behavior of ratio, statistical techniques have also been used e.g. Mean, growth rate and coefficient of variation in this study.

### ANALYSIS

Working capital is the life blood and nerve centre of a business just like circulation of blood is essential in the human body for survival. It is essential to maintain the smooth running of a business. No business can run successfully without an adequate amount of working capital. However, it must also be noted that excess working capital and shortage of working capital both are dangerous for the business. Keeping this view in mind, the working capital position of MPSEB are analyzed by ratio analysis technique although working capital position can be analyzed by three important techniques which are (i)Ratio analysis, (ii)Funds flow analysis and (iii)Working capital analysis technique. In this study, working capital is analyzed by ratio analysis technique. For this purpose, certain ratios are calculated like current ratio, acid test ratio, absolute ratio, inventory and receivable turnover, payable turnover, working capital turnover ratio etc.

**TABLE- I : LIQUIDITY POSITION OF MPSEB**  
(From 1995-1996 to 2004-2005)

(Rs. In Crores)					
Year	Current Assets (Rs.)	Liquid Assets (Rs.)	Current Liabilities (Rs.)	Working Capital (Rs.)	Increase/Decrease Working Capital
1995-96	2475.68	2069.75	1976.75	498.93	-
1996-97	2537.52	2083.95	2289.57	247.95	250.98

1997-98	2655.54	2189	2715.03	(-)59.49	(-)188.46
1998-99	2835.93	2362.62	3622.34	(-)786.41	(-)726.92
1999-00	4071.64	3654.93	5316.46	(-)1244.82	(-)458.41
2000-01	4280.8	3856.78	6536.03	(-)2255.23	(-)1010.41
2001-02	3096.87	2755.49	5702.46	(-)2605.59	(-)350.36
2002-03	3844.79	3468.69	6140.11	(-)2295.32	(-)310.27
2003-04	3542.16	3035.96	7568.97	(-)4026.81	(-)1731.49
2004-05	5209.93	4561.83	5145.5	64.43	(-)3962.38
MEAN	3455.09	3103.9	4701.32	(-)1246.23	
GROWTH RATE	110.44%	120.40%	160.30%	(-)87.09%	

Coefficient of correlation between current assets and current liabilities is +0.73  
Source: Compendium of power statistics from 1995-96 to 2004-05

## LIQUIDITY POSITION OF MPSEB

Liquidity refers to the ability of the concern to meet its current obligations as and when these become due. If current assets can pay of current liabilities, then the liquidity position is considered to be satisfactory and if it is not so, the position is not satisfactory. The liquidity position of MPSEB is presented in Table no.1. It is observed from the table that current assets have been increased from 2475.68 to 4280.80 crores between 1995-96 to 2001-2001 and after that, current assets had decreased to 3096.87 crores in the year 2001-2002. In the year 2002-2003, the current assets again increased to 3844.79 crores and in the year 2003-04, it again decreased to 3542.16. In 2004-05, current assets increased to 5209.93 crores. The mean position of current assets was 3455.09. Current assets registered a growth of 110.44% (percent) which shows that they increased consistently during the period of study. Liquid assets had increased from 2069.75 crores to 3856.78 between 1995-96 to 2000-01. It has been seen that liquid assets decreased to 2755.49 in the year 2001-02. Again it has been seen that in 2002-2003, the liquid assets increased by 3468.69 crores then it decreased to 3035.96 crores in the year 2003-2004. In the year 2004-2005, the liquid assets increased to 4561.83 crores. It has been noted that there was simultaneous increase in liquid assets during the study period. The mean position of liquid assets was 3103.9 and its growth rate was 120.40 % (percent). Current liabilities had increased from 1976.75 crores to 6536.03 crores during the period from 1995-1996 to 2000-2001 then afterwards in the year 2001-2002, it decreased to 5702.46 crores and then in 2002-2003 and 2003-04, it increased to 6140.11 crores and 7568.96 crores respectively. In the year 2004-2005, the current liabilities decreased to 5145.50 crores. A high volatility has been witnessed and the mean position of it was 4701.32 crores as the growth in current liabilities was 160.30 % (percent).

Working capital showed a fluctuating trend. It was high during the year 1995-1996 when it was 498.93 crores. Then it came down to 247.95 in the year 1996-97. Further then, the working capital became negative from (-) 59.49 in 1997-1998 to (-) 4026.81 in the year 2003-2004. In the year 2004-2005, the working capital was 64.43 crores. There was high variance in the working capital. The mean position of working capital was (-) 1246.23 crores and its average growth rate was (-) 87.09% (percent).

**TABLE- II : COMPONENTS OF WORKING CAPITAL WITH RESPECTIVE PERCENTAGE OF MPSEB**

Year	Inventory to Gross working Capital (%)	Receivable to working Capital (%)	Cash & Bank to working Capital (%)	Loan & Advt. to Gross working Capital (%)
95-96	0.06	0.27	0.16	0.01
96-97	0.07	0.27	0.17	0.02
97-98	0.07	0.33	-0.11	-0.02
98-99	0.07	0.38	-0.05	-0.05
99-00	0.05	0.33	-0.09	0.05
00-01	0.04	0.36	-0.08	0.01

01-02	0.04	0.31	-0.01	0.02
02-03	0.04	0.37	-0.01	0.01
03-04	0.05	0.3	-0.04	0
04-05	10.06	65.27	1.05	4.48
MEAN	1.06	6.82	0.14	9.3

Source: Compendium of power statistics of MPSEB 1995-96 to 2004-05

### COMPOSITION OF GROSS WORKING CAPITAL

An element wise analysis of gross working capital enables one to examine the element in which the gross working capital funds are locked up and to find out the factor responsible for the significant changes in working capital of different years. In the Table no. II, the share of each element has been calculated separately for each of the year and average share percentage for all years has also been calculated. Out of the four elements of working capital, the element, namely loan and advance contributed the highest i.e. 9.3 % where as cash contributed the least i.e. 0.14%. On the other hand, inventory constituted 1.06% of gross working capital whereas receivable to gross working capital constituted 6.82%. During the study period, there has been a remarkable change in share of different elements of working capital. The inventory to working capital percentage fluctuated between 0.04% to 10.06%. It was highest during the year 2004-2005 and lowest in the period of 2001, 2002 and 2003. A large tie up of funds in inventory adversely affects the profitability of the concern due to carry over costs. Receivable, which is another element of working capital increased from 0.22% to 65.27%. High volatility was seen in receivable during the study period. The share of cash and bank in gross working capital came down from 0.17 in the year 1997 and became negative till the year 2004 but in 2005, there was sudden increase of 1.05%. The table shows that the company is maintaining less cash and bank throughout the period of study and this adversely affected the profitability of the company. Share of loan and advance in gross working capital was highest in the year 2005 i.e. 4.48%.

**TABLE- III : STATEMENT OF LIQUIDITY RANKING OF MPSEB**

Year	Inventory to Current Assets	Receivable to Current Assets	Cash and Bank to Current Assets	Loan and Adv. To Current Assets	Liquidity Rank				Total Rank	Ultimate Rank
					1	2	3	4		
95-96	0.16	0.77	0.04	0.03	7	8	2	5	22	5
96-97	0.18	0.74	0.02	0.06	9	10	5	2	26	8
97-98	0.18	0.85	0.02	-0.05	10	3	6	9	28	10
98-99	0.17	0.95	0.01	-0.13	8	1	7	10	26	9
99-00	0.1	0.75	0.03	0.12	1	9	4	1	15	2
00-01	0.1	0.82	0.05	0.03	2	4	1	6	13	1
01-02	0.11	0.82	0.01	0.06	4	5	8	3	20	3
02-03	0.1	0.87	0.01	0.02	3	2	9	7	21	4
03-04	0.15	0.81	0.04	0	6	7	3	8	24	6
04-05	0.12	0.81	0.01	0.06	5	6	10	4	25	7

Source: Compendium of power statistics from 1995-96 to 2004-05

### LIQUIDITY RANKING

The liquidity position of a firm is largely affected by the composition of working capital in as much as any considerable shifts from the relatively more current assets to the relatively less current or vice versa, will materially affect a firm's stability to pay its current debts prompt. Therefore to determine the liquidity position of the MPSEB more precisely, a comprehensive test has been made in Table no.III. A process of ranking has been used to arrive at a more comprehensive measure of liquidity in which four factors- namely inventory to current

assets ratio, cash and bank to current assets and other current assets including loans and advances to current assets ratio have been combined in a points score. In case of receivables to current assets ratio, cash and bank to current assets ratio and other current assets including loans and advances to current assets ratio, a high value indicates relatively favorable position and ranking has been done in that order. On the other hand, a low inventory to current assets ratio shows a more favorable position and hence ranking has been done in that order. Ultimate ranking has been done on the principle that the lower the point score, the more favorable is the liquidity position.

Table no.III shows that the year 2000-2001 registered the most sound liquidity position and was followed by 2000, 2002, 2003, 1996, 2004, 2005, 1997, 1999, 1998 respectively in that order. The fluctuation in the liquidity position over different years of the period of study may be a point for investigation into the financial efforts of the concern.

**TABLE- IV : Selected Liquidity Ratio of MPSEB (1995-96 to 2004-05)**

YEAR	CURRENT RATIO	ACID TEST RATIO	INVENTORY TO SALES RATIO	RECEIVABLES TO SALES RATIO	WORKING CAPITAL TURNOVER RATIO	CURRENT ASSET TO TOTAL ASSET	CURRENT ASSET TO SALES RATIO
95-96	1.25	1.05	9.84	0.47	0.12	0.36	0.60
96-97	0.23	0.91	8.69	0.36	0.05	0.37	0.49
97-98	0.98	0.81	8.32	0.40	-0.01	0.39	0.47
98-99	0.78	0.87	7.23	0.41	-0.12	0.40	0.43
99-00	0.77	0.65	7.23	0.53	-0.22	0.45	0.62
00-01	0.65	0.69	7.08	0.59	-0.38	0.44	0.71
01-02	0.54	0.59	6.59	0.49	-0.50	0.38	0.60
02-03	0.63	0.48	6.89	0.61	-0.42	0.42	0.70
03-04	0.47	0.56	7.78	0.44	-0.62	0.37	0.54
04-05	1.01	0.89	9.42	0.61	0.01	4.60	0.76
MEAN	0.73	0.75	7.91	0.49	-0.22	0.78	0.59

Source: Compendium of power statistics of MPSEB 1995-96 to 2004-05

## CURRENT RATIO

The ratio is calculated by dividing current assets by current liabilities. Current assets mean all those assets, which are convertible into cash within a year, such as marketable securities, debtors, stock, cash, bank and prepaid expenses. Current liabilities include the obligation maturing within a year like creditors, bills payable, outstanding expenses, bank overdraft and income tax liability. The current ratio is thus a measure of the firm's short term solvency. It indicates the availability of current assets in rupee for every one rupee of current liabilities. Ratio of greater than one means that the firm has more current assets than current claims against it. Ideal of current ratio is 2:1 in normal condition.

As per table IV, current ratio of MPSEB was below the ideal standard of 2:1. Ratio was always in between 0.23% to 1.25% during the study period, which actually shows a low trend. From 1996-97 to 2003-04, the current ratio was very low and in the year 2004-05, the ratio was 1.01% which indicates that the liquidity position of MPSEB was not sound. The average mean of current asset was 0.7 during the study period.

## LIQUID RATIO

Quick ratio also known as acid test or liquid ratio is more vigorous test to liquidity than the current ratio. The term 'liquidity' refers to the ability of a firm to pay its short term obligation as and when they become due. The two determinants of current ratio as a measure of liquidity are current assets and liabilities. Current assets included inventories and prepaid expenses, which are not easily convertible into cash within a short term period. Quick ratio may be defined as the relationship between quick/current assets and current or liquid liabilities. An asset is



said to be liquid if it can be converted into cash within a short period without loss of value. In that sense, cash in hand and cash at bank are the most liquid assets, ideal liquid ratio is 1:1.

As per table IV, acid test ratio was also not satisfactory. In the year 1996-97, the ratio was 1.05% which was the highest ratio during the study period and the lowest ratio was 0.48% in the year 2002-03. It has been seen that after 1995-96, the ratio continuously decreased till 2002-03 from 1.05% to 0.48%. Thereafter, it was seen that there was an increase in ratio to 0.56% and 0.89% in the year 2003-04 and 2004-05 respectively. The overall average of ten years was 0.75 which is towards favorable position.

### **INVENTORY TO SALES RATIO**

Inventory to sales ratio establishes relationship between the costs of goods sold to average stock. This ratio measures the velocity of conversion of stock into sales. Usually, a high inventory turnover indicates efficient management of inventory because more frequently the stocks are sold; the lesser amount of money is required to finish the inventory. A low inventory turnover ratio indicates an inefficient management of inventory, over investment in inventories, sluggish business, poor quality of goods and lower profit as compared to total investment. A high inventory turnover may be the result of a very low level of inventory which results in storage of goods in relation to demand and a position of stock or the turnover may be high due to a conservative method of valuing inventories at lower value or the policy of the business to buy frequently in small lots.

As per table IV, inventory turnover ratio ranges from 6.59 times to 9.84 times. It was lowest in the year 2001-02 and highest in the year 1995-96. There was continuous fall in the percentage of inventory turnover ratio from 1995-96 to 2002-2003 which was 6.89 times from 9.84 times. After that it was seen that there was an increase in ratio from the year 2003-2004 and 2004-2005 to 7.78 and 9.42 times respectively shows that there is improvement in inventory turnover ratio. The average means was 7.91 during the study period.

### **RECEIVABLE TO SALES RATIO**

Receivable to sales ratio indicates the velocity of receivable collection of the firm. In simple words, it indicates the number of time the receivables are turned over during a year. Generally, the higher the value of receivables turnover, the more efficient is the management of receivables/ sales or more liquid are the receivables. Similarly, low receivable turnover implies inefficient management of receivables/ sales and less liquid receivables. But a precaution is needed while interpreting, a very high ratio may imply a firm's inability due to lack of resources to sell on credit. There is no rule of thumb, which may be used as a norm to interpret the ratio, as it may be different from firm to firm, depending upon the nature of business. This ratio should be compared with ratio of other firms doing similar business and a trend may also be making a better interpretation of the ratio.

Table IV indicates that receivables to sales ratio of MPSEB are fluctuating much. It was highest during the year 2002 -03 and 2004-05 which was 0.61% and lowest in the year 1996-97. The average mean of receivables to sales ratio was 0.49 during the study period.

### **WORKING CAPITAL TURNOVER RATIO**

Working capital of a concern is directly related to sales or cost of goods sold. The current assets like debtors, bills receivable, cash, bank, stock changes with increase or decrease in sales. The working capital is taken as current asset minus current liabilities. This ratio measures the efficiency with which the working capital is being used by a firm. A higher ratio indicates efficient utilization of working capital and a low 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.

The working capital turnover ratio of MPSEB shows a very bad position. In the year 1995-96, the ratio was 0.12% which decreased to 0.05% in the year 1996-97 after that the ratio became negative from 1997-98 to 2003-04. In the year 2004-05, the ratio was 0.01%. The average mean of working capital turnover ratio was (-) 0.22 during the study period.

### **CURRENT ASSETS TO TOTAL ASSETS**

This ratio expresses the relationship between the amount of current assets and the amount of investment in total assets. It helps to assess the importance of current assets of a concern.

Table IV indicates that the ratio varied from 0.36% to 4.60%. The highest ratio was in the year 2004-05 and the lowest ratio was in the year 1995-96. The mean ratio of current asset to total asset was 0.78 during the study period.

### **CURRENT ASSETS TO SALES RATIO**

This ratio indicates the efficiency with which working capital turns into sales. A lower ratio implies by and large a

more efficient use of funds. A high turnover rate indicates reduced lock-up of funds in working capital. An analysis of current assets to sales ratio over a period of time shows the overall efficiency of working capital management of a firm.

Table IV indicates a fluctuating trend of current assets to sales ratio. It was highest in the year 2004-05 which was 0.76% and lowest in the year 1998-99 which was 0.43%. The mean ratio of current asset to sales ratio was 0.59 during the study period.

## CONCLUSION

Working capital position of MPSEB is analyzed by ratio analysis technique and it was found that the position of current ratio, quick ratio, acid test ratio, working capital ratio, inventory turnover ratio are not satisfactory because these ratios are not up to the standard bench mark. These ratios have been continuously declining which have adverse impact on MPSEB, which results in interruption of short term solvency or short term liquidity due to adverse result of these ratios. The second objective of the study was to identify the items responsible for changes in working capital of MPSEB. It was found that the result of working capital arrived negative during the study period except in the year 1995-96, 1996-97 and 2004-05. This situation is more dangerous for the business because working capital has been increasing tremendously year by year as compared to current liabilities which has resulted in MPSEB not being able to meet out day to day expenses and short term liabilities. It has had negative impact on the board because in this situation, creditors or outsiders do not feel secure.

It was also found that there is a positive relationship between current asset and current liabilities. It has +0.73 correlation among them, which indicates that current assets and current liabilities have been going in same direction but current assets has been moving slowly as compared to current liabilities which is not favorable for MPSEB.

The hypothesis assumed that there is a positive relationship between current asset and current liabilities, the significance value of  $r = +0.73$ , it is also analyzed by student t test,  $t = 3.035$  and  $t_{0.05} = 2.31$ . The calculated value of t is more than the table value, therefore this hypothesis is rejected that there is significant difference in coefficient of correlation between current assets and current liabilities. Due to this result, working capital arrived negative in most of the study period, so this hypothesis is disapproved.

$H_1$  : alternative hypothesis that there is significant difference in coefficient of correlation between current asset and current liabilities of MPSEB. Hence it is clear that calculated value is more than table value which indicates that the hypothesis is significant and there is a significant difference in coefficient of correlation between current asset and current liabilities. Thus alternative hypothesis is proved.

## SUGGESTIONS:

- ♦ MPSEB should improve their current assets position so that they can easily meet out their short term obligations. In this regard, board should increase cash and bank balance and inventory for smooth running of the business.

- ♦ Board should control the current liabilities. In this regard, the board should try to reduce creditors, bills payable, short term loans.

- ♦ Board should adopt matching investment policy; in this regard, current liabilities should be used in current asset and not in fixed assets and vice versa.

- ♦ MPSEB should put a control on outstanding expenses because these expenses lead to increase in the current liabilities.

- ♦ Board should maintain the adequate amount of inventory for regular supply of power.

- ♦ For maintaining adequate amount of inventory, it must be classified on the basis of value.

- ♦ Store should adopt inventory control techniques like ABC analyses technique.

Short term solvency or liquidity position depends upon current assets and current liabilities, if current assets are more than current liabilities, it means that the organization has good liquidity position. In this light, MPSEB should try to increase their current assets specially in cash and bank and inventory and try to curtail their current liabilities; specially creditors and outstanding expenses for improvement of short term solvency and liquidity position as well as expedite benefits of working capital.

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*(Cont. from page 30)*

NITCO Tiles	168	194.15	0.15	197.85	.018	192.70	0.15
Visa Steels	57	53.65	-0.06	53.00	-0.07	53.60	-0.06
Adhunik Metaliks	37	43.00	0.16	42.80	0.16	41.25	0.11
K Sera Sera Production Ltd	68	31.85	-0.53	31.90	-0.53	31.90	-0.53

Source: BSE

B.L Kashyap & Sons had yielded positive return. However; the return was high in the third week. The first week return was high for Pratibha Industries. Visa Steels and K. Sera Sera Productions Ltd had given negative return. The investors faced heavy loss. The best performer of the period is B.L Kashyap & Sons Ltd. The Sensex moved from 11000 to 12000 in 24 days. Even though seven issues came to the market in this period, a limited number of company stocks were actively traded. The actively traded stocks were taken for further analysis.

## RESEARCH FINDINGS

Cairn India Ltd raised the highest amount of Rs. 5260.78 crores and next to them was Reliance Petroleum Ltd with Rs. 2700 crores during the year 2006. The smallest issue that hit the market was Royal Orchard Hotel Ltd with Rs. 11.25 crores.

In general, the numbers of small issues were lesser than the number of the medium and the mega issues. They were of 44 issues out of 59 issues, in the Rs. 50 to Rs. 100 crore category.

In the Oil, Gas and Petroleum sector, both the issues were of mega size. The entertainment sector has floated many issues compared to all other sectors.

Out of the total amount of Rs. 19466.30 crores mobilized through primary market in the year 2006, Oil, Gas and Petroleum sector had taken first rank with mobilizing Rs. 7960.78 crores.

Construction and Infrastructure sector had taken the second rank by collecting of Rs. 3643.77 crores.

Out of the five issues taken for analysis of the post listing returns, the returns were negative for three issues.

In Nitin Spinners Ltd, even though the returns were positive, they started declining after the first week. INOX Leisure Ltd had given good return for the first three weeks compared to the other scrips.

## CONCLUSION

India has witnessed a magnificent economic growth during the last decade. The unprecedented growth of Indian capital market has resulted in huge flow of investments through the initial public offerings and further issues of Indian companies.

To conclude, even though the sentiments of the secondary market plays a vital role in the post listing gains, the major deciding factor is the performance of the economy of the country, performance of industry and individual companies.

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