

Role of Working Capital Financing In Unorganized Small Scale Powerloom Sector In West Bengal: An Evaluative Study

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ABSTRACT: 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 represent that part of the firms' capital which is blocked on a permanent or fixed basis and is called blocked capital or fixed capital. Funds are also needed for short-term purposes known as working capital. In small scale powerloom sector in West Bengal the amount of block capital includes the component capital required for acquisition of powerlooms and other capital expenses. Working capital is required for the purchase of spun yarns, raw materials, payment of wages to workers and any other day to day operations, but this amount, again, varies with the variety and types of cloth produced. No business can run successfully without a sufficient amount of working capital Working capital shows strength of business in short period of time. If Company has sufficient working capital, Company can easily pay off the creditors and create his reputation in market. The need of working capital arises due to the time gap between production and realization of cash from sales. Again, both excess as well as short working capital positions are very bad for every business.

KEYNOTES: Funds, Block Capital, Working Capital, Powerloom, Production, Sales, workers.

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I. INTRODUCTION

In a modern money- using economy, finance may be defined as the provision of money at the time it is wanted. It is, undoubtedly, the lifeblood of business. The ambitious plans of a businessman would remain mere dreams unless adequate money is available to convert them into reality. In the early stage of industrial development, capital was not of much consequence and the financial requirements of business were limited. The methods of production were extremely simple by using crude and inexpensive tools and equipment. At that time labour was more important than capital and production could thus be termed as labour intensive. In the case of production under labour intensive set-up, finance did not play any big role and pose any big problem. But if industrial tools and equipment become more expensive, the financial requirements of industries would also be increased. The Industrial Revolution changed the nature of industries by producing mass scale of production for national and international markets. These changes necessitated the use of costly heavy machines, very large quantities of raw materials and lengthy manufacturing operations conducted in the big factories employing a large number of workers whose pay bills had to be met regularly in advance of the actual sale of products. All these developmental features made the industry capital intensive and capital became the most important factor of production. Keeping the role of finance in mind, we are going to analyse the financial scenario of small scale powerloom sector in West Bengal. Like other production-based industries, capital of small scale powerloom sector in West Bengal is to be divided into two types, namely fixed or block capital and 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. Investments in these assets represent that part of the firms' capital which is blocked on a permanent or fixed basis and is called blocked capital or fixed capital. Funds are also needed for short-term purposes for the purchase of raw materials, payment of wages and other day- today expenses, etc. These funds are known as working capital. In the case of small scale powerloom industry in West Bengal the amount of block capital includes the component capital required for acquisition of power looms, their uninterrupted accessories, land and buildings, motors, switches, power connection, winding machines and respective installation charges. Again, it should be noted that there are various types of power looms - plain, doobby, drop box, Jacquard, etc. Block capital is also required for the purpose of overhauling and remodeling the factories. On the contrary, working capital is required for the purchase of spun yarns, raw materials, payment of wages to workers and any other day to day operations, but this amount, again, varies with the variety and types of cloth produced.

II. REVIEW OF LITERATURE

There is no authentic and huge number of literatures about this area but some literature are there, which are helpful for the study and research purposes, some such references are Book India 2006 a reference annual compiled and edited by research, reference and training division, Ministry of Information and Broadcasting, Govt. of India. West Bengal Human Development Report, Development and Planning Dept; Govt. of India, first published in may 2004, India Year Book 2004, Institute of Applied Manpower Research, Textile Souvenir-1981-82, Textile Souvenir-1984, 1986, Yojana-Dhanadhanye- June & July-2007, Tex Vision-2008, The Kolkata Gazette-2008, Govt. of West Bengal, Encyclopedia of Textile, "Tantu O Rang"- A book of Textile Technology – basu, T.N., Majumder, Dipak, "The issue of small versus large in the Indian Textile Industry", Govt. of West Bengal: Report of the Power loom Enquiry committee- 1967, Schemes and Initiatives for the Development of the Textile Industry, Govt. of India, West Bengal Economy- present, past and future-basu, kalipada, Sharma, R.K. and Gupta, K. Shashi, Management Accounting Principles and Practice, 1984, 3rd and 2007, 10th Edition, Kalyani Publishers, New Delhi. etc.

III. METHODOLOGY AND SOURCES OF DATA

Most of the data which have been used in the present study are primary and some are, of course, secondary. The economic parameters have been analyzed with the help of the statistical tools like mean, median, mode, standard deviation (SD), etc. as the situation demands. Primary data are collected through convenient sample survey. One basic limitation of the study is the lack of availability of sufficient data. I have tried my level best to make the data as current and accurate as possible.

Objectives: The following are the objectives of the study:

- I. To portray the financial scenario of small scale powerloom industries in West Bengal;
- II. To discuss the importance or significances of working capital of small scale powerloom industries in West Bengal;
- III. To explain the source of block capital and working capital of this sector;
- IV. To evaluate the forecasting of working capital; and
- V. Making concluding remarks.

Sources of Block Capital:

Generally, the term "fixed capital" stands for that amount of capital which is required for long-term purpose to create production facilities through the purchase of fixed assets such as plant and machinery, land and building, furniture, looms etc. These assets represent that part of the firms' capital which is blocked on a permanent or fixed basis. The business does not intend to dispose off these assets and for this reason fixed capital is also known as "block capital"

At the beginning i.e. sometimes in 1956-57, a four-loom unit used to require Rs. 12,000 which included the value of machineries, electrical motors, switch, starter and electrical installation and installation costs to get the unit ready for commission. Here we may note that the said amount of Rs. 12,000 did not include the cost of land, cost of construction of shed and cost of winding machines.

At present, a 48 inches plain new powerloom of any brand costs around Rs. 72,000. Naturally, a four-loom unit will require an estimated cost of Rs. 7,05,000 which includes the value of looms, electrical motors, switch, starter and electrical installation and installation costs to get the unit ready for commission. This amount does not include the cost of land, construction of shed and cost of winding machine.

The state government loan and the members' shares are the main sources of the block capital of co-operative societies in small scale powerloom industry in West Bengal. However as per the state government policy, the government has been providing loan for the purchase of new powerlooms only. The members of the societies have provided the other part of the amount of block capital of the co-operative societies.

At the very beginning of the small scale powerloom industries in West Bengal, most of the individual owners were the displaced persons and they started their own production either by borrowing money from friends and relatives or selling their ornaments. Afterwards, a few powerlooms were installed at the individuals' entrepreneurship by investing their own finance. Our survey about the sources of non-co-operative societies' block capital is given in Table 5.1.

■ **Table 1: Sources of Block Capital of Non-Co-operative Societies:**

Source	No. of Looms	Percentage (%)
Own	1152	94.67
Bank	47	3.85
Government	18	1.48
Total	1217	100.00

Source: Field Investigation.

In the study, it is observed that the amount of loan received from the bank or the state government was not sufficient enough. So much of the block capital was provided by the non- co- operative societies themselves.

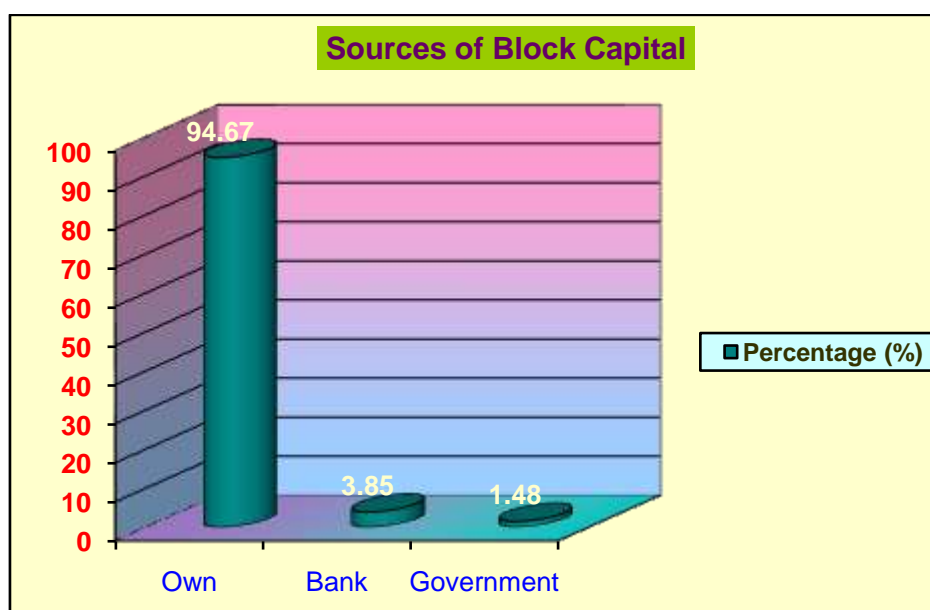


Diagram- 1

Importance or significances of working capital:

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

When the factories came into operation, the fact of shortage of working capital came into bold relief. The societies failed to raise the required amount of working capital from the members. The amount of working capital provided by the Government of India by way of loan was too inadequate for a society to continue production even for a month, where a provision of working capital for 90 days was essential. The bond executed by the society for the purpose of obtaining loan acted as a handicap for their approaching the financial institutions for the accommodation of the working capital. By execution of the bonds as referred to above, societies not only mortgaged plants and machineries but also the stock- in- trade; as such they were not in a position to offer any liquid assets to the prospective financial agencies as society, for advance of working capital from them sandwiched between the inadequate working capital provided by the government and a rigid bond debaring the societies from hypothecating their assets for obtaining loan from the financial institutions on reasonable interest.

Sources of Working Capital:

So far I have visited the co-operative societies in the small scale powerloom industry in West Bengal. I have never seen a single society which had adequate amount of working capital and which can operate independently. All the co-operative societies (presently working 18 societies), whether old or new, have been working on pick system (popularly known as *dadon* system). This is not widely used in the co-operative societies of the powerloom industry.

Now I turn to the scenario of working capital needed by the non-co-operative small scale powerloom owners, "Most of the owners were displaced persons who started on their own either by borrowing money from friends and relatives or selling ornaments. The wholesale merchants of Burra Bazar, kolkata as selling or commission agents were then supplying the working capital. The industry was going on like this for sometimes till the invasion of China in 1962 when this infant industry got a big jolt due to sudden depression in the market, as a result of which it suffered heavy losses and almost the whole industry remained closed for some time. Though the industry, again, started working after the end of the war, it began to feel the impact of war as the wholesale merchants began to show disinterest in advancing money as before. However, the industry was crawling on somehow or other when it, again, faced with another depression on account of the Pakistani Invasion in 1965. Since then the condition of this industry became very distressing due to non-availability of necessary working capital facilities. It is at this stage that small scale powerloom units approached to the UBI

through their respective associations for commission to the aid of this tiny industry of the state which had tremendous possibilities if nursed properly with need- based finance.”(3)

The evidences make us clear that the small scale powerloom industry in West Bengal was born handicapped, for want of block capital, partially and for working capital, fully. Yet I have seen a few non-co-operative concerns, which have come forward to invest working capital in the industry and which are going on production independently, though it is decreasing.

Table 2: Sources of Working Capital of Non Co-operative Owners.

Source	No.of Power Looms	Percentage (%)
Own	162	86.63
Bank	18	9.63
Private Money Lender	7	3.74
Total	187	100.00

Source: Field Investigation.

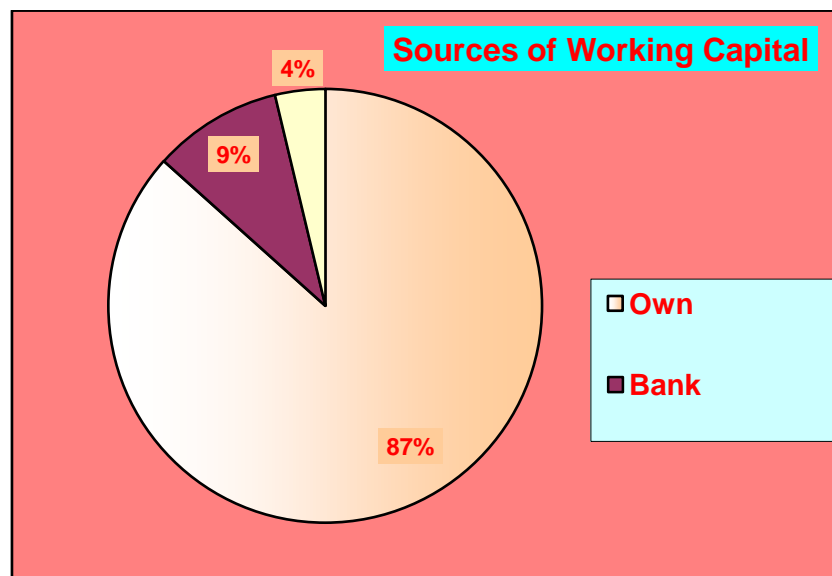


Diagram- 2

Forecasting of Working Capital Requirement:

Working capital is not fixed capital. Actually, the term “fixed capital” stands for that amount of capital invested in fixed assets, which are kept in business for a long period for the purpose of earning profit. Generally, working capital is considered as the fund available for meeting day-to-day requirements of an enterprise.

So the amount of working capital requirement of a firm is determined by considering a number of factors (parameters), some of which are internal and some are external. These factors, again, may vary from firm to firm and over a period of time.

In general, the following factors are to be considered in determining the working capital requirement of a firm:

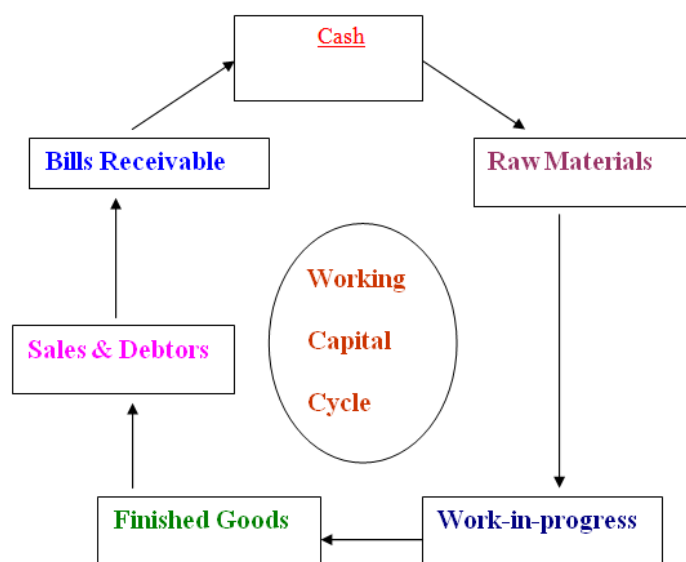
- 1) Nature and Character of Business;
- 2) Scale of operation or Size of Business;
- 3) Production Policy;
- 4) Business Cycle;
- 5) Seasonal Variations;
- 6) Credit Policy;
- 7) Growth and Expansion;
- 8) Rise in Price Level or Price Level Change;
- 9) Depreciation Policy;
- 10) Operating Efficiency;
- 11) Taxation;
- 12) Working Capital Cycle;
- 13) Import Policy;
- 14) Dividend Policy;
- 15) Assets Structures;
- 16) Rate of Stock Turnover;
- 17) Banking facilities, etc.

Considering the above general framework for determining working capital requirement of a manufacturing concern, we proceed to determine an estimated amount of working capital required (at current prices) by the owner of the small-scale power loom in West Bengal.

Our survey reveals that around 17 % powerloom owners in West Bengal are independently engaged in production and marketing. As the amount of working capital requirement varies with the changes of any one of the parameters mentioned above, we here proceed to give a particular reference:

A Study of Working Capital Cycle:

In a manufacturing concern, the working capital cycle starts with the purchase of raw materials and ends with the realization of cash from the sale of finished goods. This cycle involves the purchase of raw materials and stores, its conversion into stocks of finished goods through work-in-progress with progressive increment of labour and service costs, 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.



**Working Capital Cycle
Figure – 3**

The speed with which the working capital completes one cycle determines the requirements of working capital – the longer the period of the cycle, the larger the requirement of working capital.

According to our Survey:

- 1) Pre-weaving process period = 7 days
- 2) Raw Materials are in stores = 7 days
- 3) Average weaving period = 8 days
- 4) Post- weaving process period = 7 days
- 5) Finished Goods are in stores = 14 days
- 6) Credit Allowed to Debtors = 21 days
- 7) Credit Allowed by Creditors = 21 days
- 8) Lag in payment of weaving charges = 15 days
- 9) Lag in payment of Pre-weaving and Post-weaving charges. = 21 days

Table 1: Showing Working Capital Requirement Forecast at Current Price Level:

A. - Yarn:

Items	DA Y s	Raw Materials in stores (Rs.)	WIP At Sizing Mills (Rs.)	WIP At Weaving Mills (Rs.)	WIP At Cald. Mills (Rs.)	F.G At godown n (Rs.)	SD (Rs.)	SC (Rs.)	Total (Rs.)
Yarn: In stores	7	41,357.68							
In Sizing	7		41,357.68						

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Mills									
In weaving Mills	8			47,265.92					
In Cald. Mills	7				41,357.68				
F.G	14					82,715.36			
Debtors	21						1,24,073.04		
Less-Creditors	21							1,24,073.04	
Total	43								2,54,54.22

B. - Pre-weaving Charges:

Items	D A Y S	WIP At Sizing Mills (Rs.)	WIP At Weaving Mills (Rs.)	WIP At Cald. Mills (Rs.)	F.G At godown (Rs.)	SD (Rs.)	SC (Rs.)	Total (Rs.)
Pre-weaving charge: in Sizing Mills	3 5	1736.28						
In weaving Mills	8		3968.64					
In Calendering	7			3472.56				
F.G	1 4				6945.12			
Debtors	2 1					10417.68		
Less-Creditors	2 1						10417.68	
Total	3 2 5							16122.60

C. - Weaving charges:

Items	D A Y S	WIP At Weaving Mills (Rs)	WIP At Cald. Mills (Rs)	F.G At godown (Rs.)	SD (Rs.)	SC (Rs.)	Total (Rs)
Weaving charge: In weaving Mills	4	3086.72					
In Calendering	7		5401.76				
F.G	14			10803.52			
Debtors	21				16205.28		
Less-Creditors	15					11,575.20	
Total	31						23922.08

D. - Post-weaving charges:

Items	D A Y S	WIP At Calendaring Mills (Rs)	F.G At godown (Rs.)	Debtors (Rs.)	Creditors (Rs.)	Total (Rs)
In Calendering	3.5	2671.76				
F.G	14		10687.04			
Debtors	21			16030.56		
Less-	21				16030.56	

Creditors						
Total	17.5					13358.80

E. - Administration charges:

Items	Days	WIP at weaving Mills (Rs.)	WIP Calen-daring (Rs.)	F.G at Godown (Rs.)	Debtors (Rs.)	Total (Rs)
Adm. Charge:in weaving	4	320.32				
In Calen-daring	3.5		280.28			
F.G	14			1121.12		
Debtors	21				1681.68	
Total	42.5					3403.40

F. - Selling & distribution expenses:

Items	Days (period)	Debtors (Rs.)	Total (Rs)
Selling & distribution Exp. In debtors.	21	4368.00	
Total			4368.00

G. - Other expenses:

Items	Days	WIP At Weaving Mills (Rs)	WIP Calendaring Mills (Rs)	F.G at Godown (Rs)	Debtors (Rs.)	Total (Rs)
Other Exp. In Weaving	8	1123.20				
In Calen-daring	7		982.80			
F.G	14			1965.60		
Debtors	21				2948.40	
Total	50					7020.00

Grand Total Rs. - 3, 22,249.20

Net Working Capital as per the Table 3.4 = 3, 22,249.20

Add: 20 % of above for contingency = 64,449.84

Total Working Capital = 3, 86,699.04

Assumptions:

- 1) No machine breakdown;
- 2) No power failure;
- 3) No workers' problems;
- 4) No marketing trouble;
- 5) Pre-weaving charges for WIP at sizing mill considered for ½ of the sizing period;
- 6) Weaving charges for WIP at Weaving Mill considered for ½ of the weaving period;
- 7) Post- weaving charges for WIP at calendaring mill considered for ½ of the calendaring period;
- 8) Administration charges for WIP at weaving mill and calendaring mill considered for ½ of the period;
- 9) Fixed elements (like depreciation) included in administration expenses are very insignificant. Hence the amount of administration expenses has been totally considered;
- 10) Powerlooms in West Bengal being small scale, it is not required to declare dividend immediately after sale. So profit element has been excluded in the calculation of working capital requirement;
- 11) Due to unforeseen events, 20 % of estimated working capital (Table – 3.4) has been considered an additional working capital for meeting the contingencies.

IV. CONCLUSION

Working capital is that part of the total capital left in the business for supporting the day-today normal operation. It is required for payment of the important elements of costs viz. materials, wages and other expenses. It is very essential for the smooth running of the business which usually leads to production and sale in case of manufacturing concerns. An efficient manager has to ensure optimum utilization of the working capital. In

doing so, he has to plan his working capital requirement in advance so that he can ensure a proper financial mix. An independent firm has to plan its operation in such a way that it does not become handicapped for lack of necessary amount of working capital, nor can it allow excessive amount of working capital to circulate. Both excess as well as short working capital position is bad for any business concern. But every business needs some amount of working capital for smooth running of the business. The need of working capital arises due to the time gap between production and realization of cash from sales. If a firm has sufficient working capital, can easily to purchase of raw materials, components and spares, to pay wages and salaries to workers, to incur day to day expenses and over head costs, to meet the selling cost as packing, advertising etc. to provide credit facilities to the customers, to maintain the inventories of raw materials. WIP, stores, spares and finished stock. The business ultimately will run smoothly.

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