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FINANZA

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From the Editor's Desk

I am delighted to share with my readers' second volume (first issue) as we have successfully completed one year. We have been receiving lot of appreciation from readers and authors for articles being published and submitted to our newsletter.

Currently, there are various issues facing India which need attention. One of the important issues in economic growth includes the problem of Non-performing assets (NPAs) in banks. The article included in this issue tries to examine NPAs in banking industry as problem or opportunity. Another article on social cost benefit analysis discusses importance of socially viability of the project apart from its financial viability. The case based analysis of working capital management and current international investment outlook is also presented in other articles.

I thank for your valuable suggestions and contributions to our newsletter.

Editor

Non-Performing Assets in Banking Industry

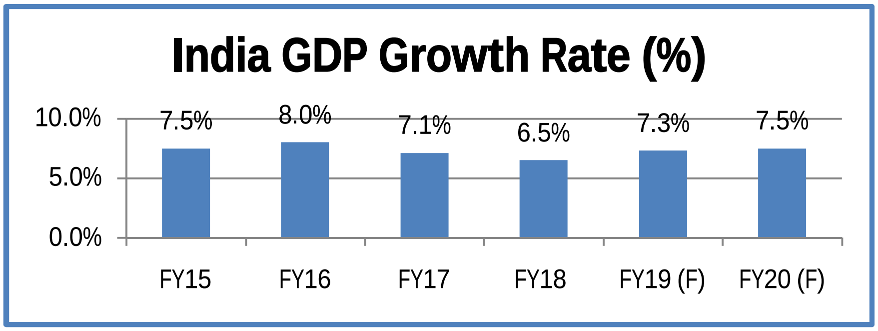
Problem or Opportunity?

Author: Aashish Gandhi

(Financial Restructuring Analyst, KPMG Deal Advisory)

Overview of Indian Economy

Indian Economy is classified into three sectors- Services, Industry and Agriculture. Service is the largest contributor to the economy, contributing 51.4% to the economy followed by the Industry, 31.2% and Agriculture, 17.4% in FY17.Micro, Small and Medium Enterprises form the backbone of Indian Economy making large contributions to important economic indicators as well as household incomes. It contributes 28.8% to the total Gross Domestic product. Reserve Bank of India (Central Bank) targets inflation in the range of 2% to 6%. As of now considering several factors such as crude oil prices, non oil industrial raw material prices and the monsoon, RBI estimated the inflation for 1H19 in the range of 5.1% to 5.6% and for 2H19 in the range of 4.5% to 4.6%.The next general elections are due in 2019, if the BJP (ruling party) loses, liquidity in the financial markets may tighten, thus adversely impacting the India growth outlook. The World Bank expects economic growth to pick-up in FY19 and FY20 because of expectation of stability in GST, higher investment activity and anticipated growth in Industrial sector. Banking sector of India is struggling with high NPAs. As on 30September 2018, gross NPA ratio was 10.2%, which is expected to increase to 10.9% by 31 March 2019. With such high NPA ratio, India is fifth country in the world with highest NPAs after Portugal, Italy, Ireland and Greece. The major key challenges for economic growth include high NPAs in banking sector, lingering effect of GST implementation and demonetization, appreciation of INR which dampens the exports,rise in crude oil prices and security threats from neighboring countries Pakistan and China.



F represents Forecasted figures by World Bank

The Current GDP growth rate as per the Advanced Estimates of Government and Statistical Department revolves around 6.5% in FY 2018 which is expected to increase to 7.3% in FY 2019 as per the Forecasted Estimates by World Bank.

The article revolves around the Banking sector, one of the prominent sectors contributing majorly to the Gross Domestic Product of the country. The first few sections talks about the current overview and position of Indian economy and walks in through the major issues and challenges being faced by Banking Sector which includes Problem of Non-Performing Assets/ Loans, major frauds by few corporate houses and steps being taken by banks to resolve the problem of mounting debts/ NPAs in Balance sheet.

Financial Health and Parameters of Assessment: Major Banks

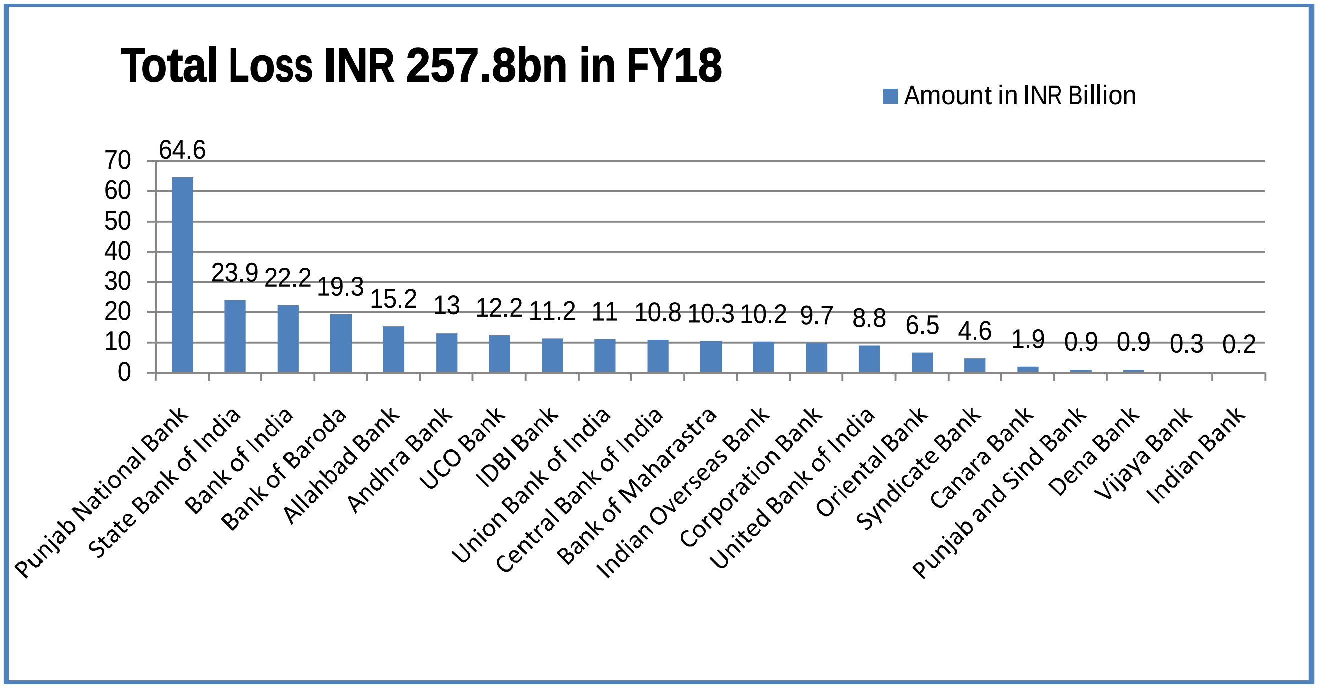
India holds a dubious distinction of having the worst Non performing loan ratio among the world's major economies, having surpassed Italy to become the fourth country with highest amount of Non-Performing assets in the world. As per the guidelines, an asset is defined as NPL (sometimes being referred as NPAs) in respect of which the interest or the Installment of Principal has remained past due for specified period of time. According to the Reserve Bank of India (RBI), the gross non-performing assets in Indian banks, specifically in public sector banks, are valued at around Rs 400,000 crore (US$61.5 billion), which represents 90% of the total NPA in India, with private sector banks accounting for the remainder.

As per the Current Financial position, State Bank of India holds most of Non-Performing Assets with INR 2251.0 billion in its Balance Sheet which accounts for 10.9% of its total assets block whereas IDBI (Industrial and Development Bank of India) holds around 28.0% of its total asset block as Non- Performing making it a worst performing bank, although it is taking adequate steps to reduce the number.

Figures (March 2018)	NPA (INR Billion)	NPA Ratio (%)	Provisions (INR Billion)	Coverage Ratio (%)	CET 1 Ratio (%)
State Bank of India	2251.0	10.9%	1135.8	50.5%	9.9%
Punjab National Bank	895.4	18.7%	418.4	44.3%	6.5%
Bank of India	623.9	15.5%	318.9	21.1%	8.5%
Bank of Baroda	570.6	12.1%	333.6	58.5%	10.1%
IDBI Bank	555.9	28.0%	269.0	48.4%	7.6%
Union Bank of India	493.7	11.6%	250.4	50.7%	7.7%
ICICI Bank	567.0	9.54%	302.8	53.4%	8.2%

IDBI is the bank which carries most of the Non-performing assets on the balance and is taking active steps in reducing the NPAs.

The amount of fraud only includes the cases involving sum of over INR 0.1 million. In FY18, total 5,152 cases of fraud were reported in various banks, which are 76 more than the number in FY17. As per RBI data, over the last three years there has been 15,673 cases of frauds involving a total amount of INR 74939 billion. The latest is the INR 50.0 billion by Nitin Sandesara, the loan was sanctioned by consortium like SBI, UBO Bank, Allahabad Bank, Bank of India and Andhra Bank. Total amount of losses amounted to INR 257.8 billion in FY2018.



Punjab National Bank is the Bank with major frauds in FY18, followed by SBI and others

Banks action on NPA Accounts

Two Strategies are being used by bank to over by banks to overcome NPA Problem which involves the use of Preventive Management and Curative Management. Preventive measures are undertaken by the banks or financial institution to prevent the asset from becoming a non performing asset. Banks evaluate the performance at different points and formulate the policies to reduce the risk by assessing early warning signals (Financial Warning signals, Operational Signals, Banking related signals, management related warning signals) and taking adequate measures accordingly. Curative measures are post default measures which are undertaken by banks to boost and maximize the recoveries so that banks funds which are locked up in form of NPAs can be utilized for other purposes. This involves various legislative and regulatory procedures. The process of overcoming the problem can be understood in a better manner from the exhibit below.

1. Preventive Management:

2. Corrective Management:

Preventive management is to take measures to prevent the asset becoming non performing

Execution of Risk Management

1: Financial and Operational warning signals are used to identify potential default

2: If Default happens, than accounts will be under the Watch list or will be Classified as Special Mention Accounts (SMA)

SMA Sub Categories	Classification based on Overdue Days
SMA 0	1-30 days
SMA 1	31-60 days
SMA 2	61-90 days

If aggregate (Fund based + non fund based) exposure is > INR 50.0m

Lenders will report credit information, including classification of an account as SMA to Central Repository of Information on Large Credits

As soon as there is default with any lender/ lenders, any one/all can initiate steps to cure the default

Curative Management is application of measures to maximize the recovery of NPAs

Implementation of Resolution Plan

The Resolution plan may involve any actions/plan/ reorganization including, but not limited to regularization of the account by payment of all over dues by the borrower entity, sales of the exposures to other entities/investors, change in ownership

Other Initiatives under Curative Management

1: One-time Settlement

One-time Settlement is an agreement where the borrower offers to pay and the bank agrees to accept in full and final settlement of its dues less than the total amount due to bank under the relative loan contract

Key Highlights:

- This covers all categories of NPAs and all the cases on which the lenders have initiated action under SARFAESI or cases pending before DRT
- OTS schemes are in pursuance of Board approved policies of banks therefore some banks cover willful defaulters and frauds
- One-time settlement scheme is oriented towards sectors such as agriculture, Micro Small and Medium Enterprises, weaker sections and educational loans and typically has an upper limit on the amount of NPA.

2: Lok Adalat's

Lok Adalat's comes under Alternative Disputes Redressal Mechanism like Arbitration and Conciliation. Accounts in which amount does not exceed INR 2.0m can be settled through Lok Adalat's. Lok Adalat Institutions help bank to settle disputes involving account in doubtful and loss category

Method of Organizing Lok Adalat

- The Bank will contact the borrower and will convince the borrower about the benefits of settling the matter via Lok Adalat.
- The Bank will approach Legal Service Authorities to Conduct Lok Adalat along with a list of accounts where settlement is feasible
- The concerned branch of the bank will contact the borrowers and ensures that all the parties be present at Lok Adalat

- The Lok Adalat will be convened on the date fixed and same day award will be passed, which is final and binding on all the parties.

3: Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002

The SARFAESI act provides for the enforcement of Security Interest for the realization of the dues without the intervention of courts or tribunal. Exercising the rights of secured creditors under the Act can be done through only “Authorized Officer” which means an officer cannot be less than designation of Chief Manager.

Exercising the SARFAESI

- The bank issue demand notice to the defaulting borrower or guarantor under Section 13(2). The notice gives details of dues and calls upon them to discharge their dues to bank within 60 days from the date of notice.
- In case the borrower fails to discharge the liability demanded under the section, the secured creditor may take recourse to one of the following measures under section 13(4
    - Take possession of secured assets of the borrower including the right to transfer by the way of lease, assignment or sale
    - Take over the management of secured assets, any other business which is relatable to security.
    - Appoint any other person to manage the assets, which has been taken over by the secured creditor
    - Sale of assets through tender notices, In case of immovable properties bank needs approval from DM for possession.
    - During the sale of properties, a 30-day sale notice copy is mailed to the borrower/ mortgagor after 20 days of taking possession, to enable the aggrieved person

4: Debt Recovery Tribunal:

Accounts in which amount exceeds INR 2.0m or as Central government may by notification specify.

Reasons for Weak Recovery in NPAs

1: DRT and SARFAESI were initially successful before they became overburdened as large promoters understood how to game them.
2: The loan recovery system is inefficient as in some cases borrower refused to pay unless the lender brought in more money. Sometimes promoters offered low OTS knowing that legal system would allow the banks to collect even secured loans only after years
3: Projects were not revived through deep surgery because risk averse banks were afraid of investigating agencies, asdue diligence was not done when these projects were shining and banks granted the loans without proper due diligence
4: The IBC is being tested by the large promoters, with continuous and sometimes frivolous appeal
5: Until the Bankruptcy code was enacted, promoters never believed they were under serious threat of losing their firms. Even after it was enacted some still are playing the process to gain control at lower prices. So many have not engaged seriously with the banks

Restructuring Regulatory Regime in India

Restructuring in banking sector normally involves the modification of the terms of the loan/ securities- alteration of payment period/ repayable amount/ the amount of instalments/ rate of interest/ roll over of credit facilities/ sanction of additional credit facility/ enhancement of existing credit lines/ compromise settlements where time for payment of settlement amount exceeds three months.

The section below briefs about the New NPA resolution framework being imposed in Indian Banking Industry along with some of the measures being taken by the Government of India to support the Public Sector undertaking banks from ending up into the losses. One of the major steps to support involves: **Recapitalization of Banks (Process of restructuring a banks debt and equity mixture in order to make financial position stable or overhaul financial structure majorly being done by infusion of additional capital or equity).**

New NPA resolution framework in India	•Discountinued the existing programmes to restructure the defaulted loans such as Corporate debt restructuring (CDR), sustainable structuring of stressed asssets, Strategic debt restructuing, among others. •Introduced the Insolvency and Bankruptcy code (IBC) 2016 as the main tool to deal with defaulters. If the default is above INR0.1m (may be increased up to INR10.0m), the creditor may initiate insolvency resolution process under National Companies Law Tribunal (NCLT, a quasi -judicial body which adjudicates issues relating to Companies and Corporate Entities). The Code Proposes two independent stages which includes Insolvency Resolution Process and Liquidation (if the insolvency resolution process fails, than final liquidation takes place)
Government steps to support PSU Banks	•Announced a new recapitalization package of INR2.1 trillion over the next two years. • INR 1.35 trillion to come frpom the issuance of recapitalization bonds and INR 70 billion to come from the budegtary support and market borrowing.
Latest developments for NPA resolutions	•Lenders to report credit information, including classification on account as special mention account (SMA) to the Central Repository of Information on Large Credits (CRILC) on all borrowers having an agreegate exposure of INR 50.0m and above. •Lenders will have to report to CRILC, all borrower entities in default on weekly basis, at the close of business on every friday, or the preceeding working day if Friday happens to be a holiday.

Banks are reluctant to bring entities to NCLT because they will make a higher provision for the Loans. Under IC, a default above INR0.1m can also trigger- banks have a limited bandwidth to handle the large number of smaller bad loan accounts that could enter the system in the coming months. ARCs, given their expertise and capital base, can help banks offload some of these accounts.

NPA resolution framework will add further pain to stress out bank balance sheets by adding over INR 2.0 trillion worth bad loans to the existing pile of INR 10.0 trillion.

List of Beneficiary Banks by Recapitalized in FY 2018 Government of India

Name of the Bank	Amount INR Bn
State Bank of India	88.0
Punjab National Bank	54.7
Bank of Baroda	53.8
Canara Bank	48.7
Union Bank	45.2
Syndicate Bank	28.4
Andhra Bank	18.9
Vijaya Bank	12.8
Punjab and Sind Bank	7.9

Name of the Bank	Amount INR Bn
IDBI Bank	106.1
Bank of India	92.3
UCO bank	65.1
Central Bank	51.6
IOB Bank	46.9
OBC Bank	35.7
Bank of Maharashtra	31.7
Dena Bank	30.5
United Bank of India	26.3
Corporation Bank	21.9
Allahabad Bank	15.0

Non-Prompt Corrective Action BanksPrompt Corrective Action Banks

1- A total of INR 666.0 billion was injected into the Public Sector Undertaking Banks during Financial year 2011-2015.
2- As a part of Indradhanush plan in August 2015, the government established PSU Bank Capital requirements of INR 1.8 trillion during the Financial year 2016-2019
3- In October 2017, the Government announced a large-scale recap plan of INR 2.1 trillion of which INR 2.11 trillion will be through recapitalization of Bonds and remaining INR 760.0 Billion will be provided through the Budgetary Support.

Inspite of several measures being taken by the Reserve bank of India, along with capitalization schemes being introduced by Government of India, Banking sector has become one of the most prominent choices for Turnaround and Restructuring companies due to the bleeding performance and financials. Inspite of various legislative measures being taken up, the amount of frauds has not shown a positive sign. The mounting losses are not anywhere will allow banks to become profitable until FY2020 (expected).

SOCIAL COST BENEFIT ANALYSIS

Author: Vaishali Dutt

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The financial analysis of an industrial project can be made by any of the methods of capital budgeting such as the payback period, the accounting rate of return method, the net present value method or internal rate of return method.

Now-a-days a project to be finally accepted should not only satisfy the test of financial viability, it should also be socially desirable. This aspect is termed as **social cost benefit analysis.**

The social cost benefit analysis involves the evaluation of a project keeping in view the long term interest of the society and the nation at large.

This analysis is done with reference to the social cost of a project and expected benefits from it to the society, for e.g., generation of employment etc. it is possible that some projects may not be financially viable, however, they be taken up on account of social considerations. It is being increasingly recognized that the commercial evaluation of industrial projects is not enough to justify commitment of funds to a project, especially when it belongs to the public sector. Social cost benefit analysis is important to private corporations also.

In fact, the social cost benefit analysis has acquired great urgency in the context of the national policy of making huge public investments in various sectors of the economy.

It is being increasingly felt in recent years that private entrepreneurs should also undertake these projects as they are not only financially viable but also socially desirable. Such projects may get priority in various matters from government as well. If the private sector includes cost benefit analysis in its evaluation techniques, it will mean that it is taking into account the long term interest, because in the long-run only those projects will survive that are socially beneficial.

In the context of social cost-benefit analysis, it may be noted that the actual costs or revenues in respect of project do not necessarily reflect the monetary measurement of cost or benefits to the society. For this purpose, social cost benefit analysis is usually made of “opportunity cost” or shadow prices to ascertain the real impact of the project. There are various indicators indicating the social desirability or otherwise of a project. Important indicators are high employment potentiality, high capital-output ratio, net benefit in foreign exchange, favorable cost benefit in foreign exchange, favorable cost-benefit ratio, etc.

The computation of cost benefit ratio attempts to measure the total effect of all the social benefits and costs involved in a project. Social benefit in its broadest sense can be defined as any benefit to the society, whether economic or non-economic, internal, or external. It is a comprehensive analysis which seeks to examine the total impact of the project.

The ascertainment of social costs and benefits of a project is a ticklish problem. The Manual of Industrial Project Analysis in Developing Countries prepared by the Organization of Economic Cooperation and Development (OECD) provides same guidelines for social cost benefit analysis. It, however, suffers from various drawbacks. It takes into consideration only those aspects of social costs and benefits which can be quantified. But there are many other aspects such as happiness, satisfaction, aesthetics pleasure, etc., which cannot be quantified. Therefore, further research is needed to perfect the technique.

Let us understand by way of example related to social cost benefit analysis:

Suppose, a manufacturer produces cigarettes and sell it Rs forty a packet, and another manufacturer produces soaps and sell it Rs twenty a bar. Now, if we expect regarding the impact of soaps & cigarettes on the society, the queries could also be –

Does the worth of cigarettes realize of the smokers’ higher likelihood of heart condition or cancer?

Does the worth of soap note of the advantages from the utilization of soap, e.g., reduced risk of unfold diseases?

Obviously, a poster bourgeois can’t offer well answer to those queries.

CRITERIA FOR SOCIAL COST-BENEFIT ANALYSIS:

The objective function of CBA is that the establishment of net social benefit (NSB) which can be expressed as NSB = Benefits – Costs.

There are four benefit-cost criteria. They are

1.) **‘B - C/I’**,

2.) ‘∆B /∆C’,

3.) **‘B - C’** and

4.) **‘B/C’**

Where **B** and **C** point out to benefits and costs respectively, **I** relate to direct investment and **∆** is incremental or marginal.

Of these, the formula **B – C/1** is “for determining the **total annual returns** on a particular investment to the economy as a whole irrespective of to whom these accrue.”

Here we do not include the private investment that may have to be incurred by the beneficiaries of the project, such as the cultivators from an irrigation project.

If the private investment happens to be very large, even a high value of B – C/I may be less beneficial to the economy. Thus this criterion would not give satisfactory results.

The criterion of **∆B/∆C = 1** is meant to determine the **size of a project** that has already been selected and is not for selecting a project.

The adoption of the **B – C**. criterion would always favor a large project, and make small and medium size projects less beneficial. Thus this criterion can only help in determining the scale of the project on the basis of the maximization of the difference between B and C.

But the prime and the most dependable criterion for project evaluation is B/C. In this criterion, the benefit-costs ratio is the measure for the evaluation of a project. If B/C = 1, the project is marginal. It is just covering its costs. If B/C > 1, the benefits are more than costs and it is favorable to undertake the project.

Let us take a case example of dedicated surveillance on location

A paper by Stewart and Mueller (2008) performed a cost-benefit analysis of two aviation security measures, one of them the Federal Air Marshal Service. They deduce that even if the Air Marshal surveillance prevents one 9/11 replication each decade, the $900 million annual spending on Air Marshal Service fails a cost-benefit analysis at an annual estimated cost of $180 million per life saved (compared to a societal willingness to pay to save a life of $1 - $10 million per saved life).

DIRECT, INDIRECT & EXTERNAL EFFECTS :

The social cost benefit analysis calculates the direct (primary), indirect (secondary) and external effects:

1) **Direct effects:**
   Costs and Benefits that can be directly linked to the owners of the project properties
   (e.g., the users and the holder of a building, recreational area, wind energy park, or highway).

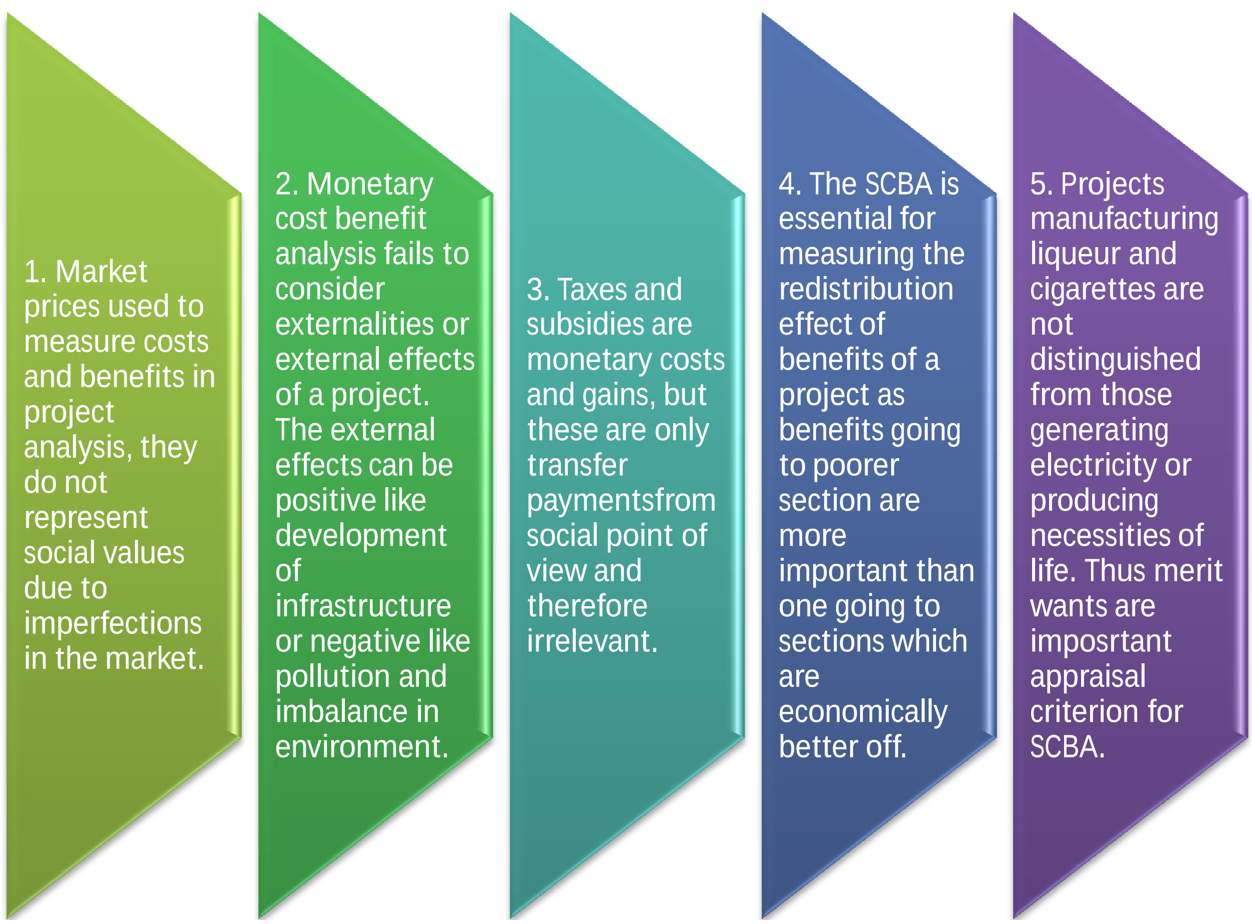
2) **Indirect effects:**
   Costs and Benefits that are passed on to the producers and consumers outside the market with which the project is involved
   (e.g., the owner of a bakery nearby the new building, or a business company located near the newly planned highway, recreational area, indirect tax incomes, etc.).

3) **External effects:**

Costs and benefits that cannot be passed on to any existing markets because they relate to issues like the environment (noise, emission of CO_2, etc.), safety (traffic, external security) and nature (biodiversity, dehydration, etc.

WHY SOCIAL COST BENEFIT ANALYSIS (SCBA) IS NECCESARY?

Social cost benefit analysis is important for the private corporations also, who have a moral responsibility to undertake socially desirable projects.



Several hundred crores of rupees are engaged in every year to various public projects. Inspection of such projects has to be done with allusion to social costs and benefits. Since they cannot be expect to yield on adequate commercial return on the funds employed, at least during the short run.

A crucial advantage of a social cost benefit analysis is that it enables investors (mostly public parties) to systematically and cohesively compare different project alternatives. Hence, these alternatives will not just be compared intrinsically, but will also be set against the “null alternative hypothesis”. This hypothesis outlines “the most likely” scenario development in case a project will not be executed. Put differently, investments on a smaller scale will be included in the null alternative hypothesis in order to make a realistic comparison in a situation without “huge” investments.

CONCLUSION:

All relevant costs and benefits of the different project alternatives are identified and monetized as far as possible. Effects that cannot be monetized are outlined and quantified as much as possible. The advantage of a project does not always get to the groups bearing the costs. A social cost benefit analysis gives insight in who bears the costs and who derives the benefits. A social cost benefit analysis is a proficient method to show the differences between project alternatives and provides information to make a well informed decision. A social cost benefit analysis has various methods to take economic risks and uncertainties into account. The policy decision should be based on calculated risk.

A social cost benefit analysis is a systematic and cohesive method to survey all the impacts prompt by an (urban) development project or other policy measure. It composed of not just the financial effects (investment costs, direct benefits like profits, taxes and fees, etc.), but all the societal effects, like: pollution, environment, safety, travel times, spatial quality, health, indirect (i.e. labour or real estate market impacts, legal aspects, etc.). The main aim of a social cost benefit analysis is to attach a price to as many effects as possible in order to uniformly weigh the above-mentioned heterogeneous effects. As a result, these prices reflect the value a society attaches to the caused effects, enabling the decision maker to build an opinion about the net social welfare effects of a project.

WORKING CAPITAL MANAGEMENT

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WORKING CAPITAL TO A COMPANY IS LIKE BLOOD TO HUMAN BODY. IT IS THE MOST VITAL INGREDIENT OF A BUSINESS. WORKING CAPITAL MANAGEMENT IF CARRIED OUT EFFECTIVELY, EFFICIENTLY & CONSISTENTLY WILL ASSURE THE HEALTH OF ORGANISATION.

A firm invests a part of its permanent capital in Fixed asset & keeps a part of it for working capital i.e., for meeting the day to day requirements.

We will hardly find a firm which does not require any amount of Working Capital for its normal operations. The requirement of working capital varies from firm to firm depending upon the nature of business, production policy, market operation, seasonality of operations, conditions of supply etc.

- **WORKING CAPITAL IS DEFINED AS THE EXCESS OF CURRENT ASSETS OVER CURRENT LIABILITIES.**

1.) Current assets are those assets which will be converted into cash within the current accounting period or within the next year as a result of the ordinary operations of the business. They are cash or near cash resources.

- Cash & bank balances
- Receivables
- Inventory
- Prepaid expenses

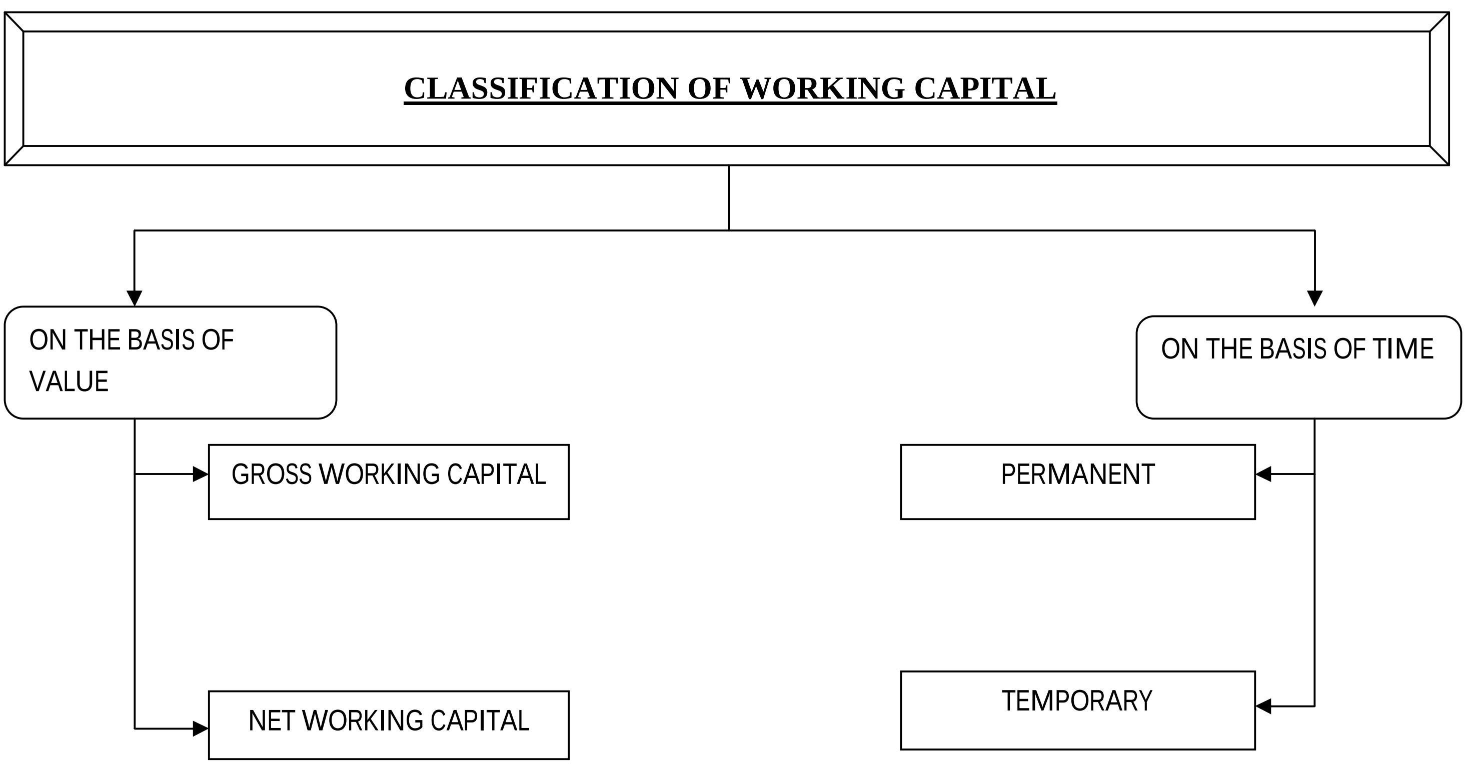
- Short term advances
- Temporary investments

2.) Current liabilities are the debts of the firms that have to be paid during the current accounting period or within a year.

- Creditors for goods purchased
- Outstanding expenses
- Short term borrowings
- Advance received against sales
- Taxes & dividend payable
- Other liabilities maturing within a year.

WORKING CAPITAL IS ALSO KNOWN AS CIRCULATING CAPITAL, FLUCTATING CAPITAL & REVOLVING CAPITAL.

The magnitude & composition keep on changing continuously keep on changing in the course of business.



✓ **ON THE BASIS OF VALUE**

1.) GROSS WORKING CAPITAL :

Investment in all the current assets. The total of investments in all current assets is known as gross working capital.

2.) NET WORKING CAPITAL :

Working capital is defined as the excess of current assets over current liabilities.

✓ **ON THE BASIS OF TIME**

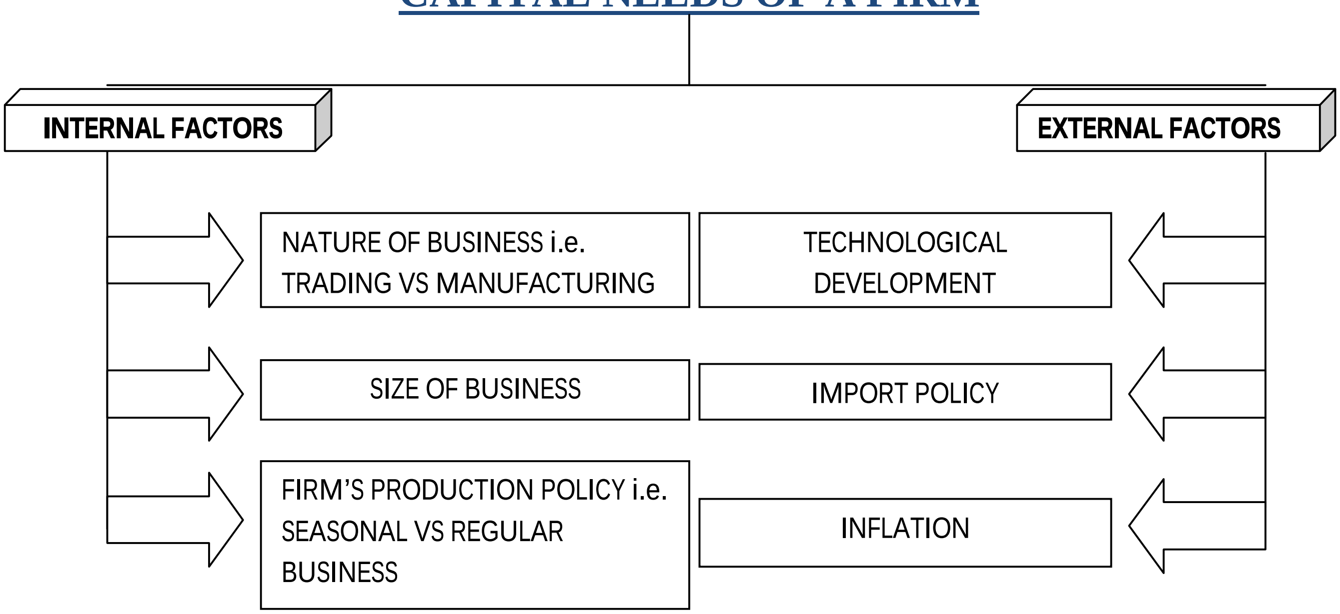
1.) PERMANENT WORKING CAPITAL :

The assets required on continuing basis over entire year.

2.) TEMPORARY WORKING CAPITAL :

Additional assets required at different items during the operation of year.

FACTORS INFLUENCING THE LEVELS OF WORKING CAPITAL NEEDS OF A FIRM



LET US UNDERSTAND THE CONCEPT OF WORKING CAPITAL BY TAKING THE CASE OF:

TINPLATE COMPANY OF INDIA LIMITED

TINPLATE

THE TINPLATE COMPANY OF INDIA LIMITED

A TATA Enterprise

Industry; Mining/Minerals/Metals

The following is the Working Capital of the Tinplate Company of India Ltd from 2008 – 2012:

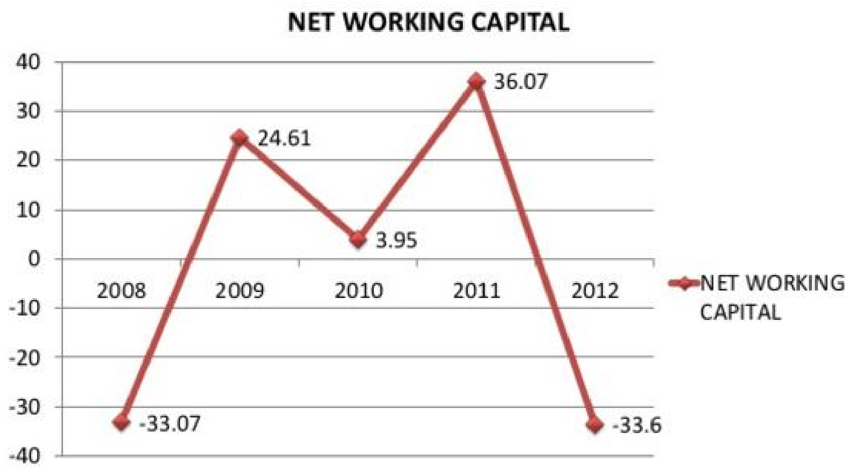
YEAR	2008	2009	2010	2011	2012
NET WORKING CAPITAL	(36.07)	24.61	3.95	36.07	(33.60)

INTERPRETATION OF WORKING CAPITAL OF TCIL COMPANY'S WORKING CAPITAL:

Working capital of TCIL gives us a picture about its position in the market. Though negativity does not mean that the company is in a bad position in the market, many firms have a negative working capital still they are holding a top position in the market.

Negative working capital is a situation in which a business is continuing to operate in spite of the fact that the liabilities held by the company are more than the company's available assets. Essentially, this means that the accounts payable for the period of operation is more than the account receivables for the same period.

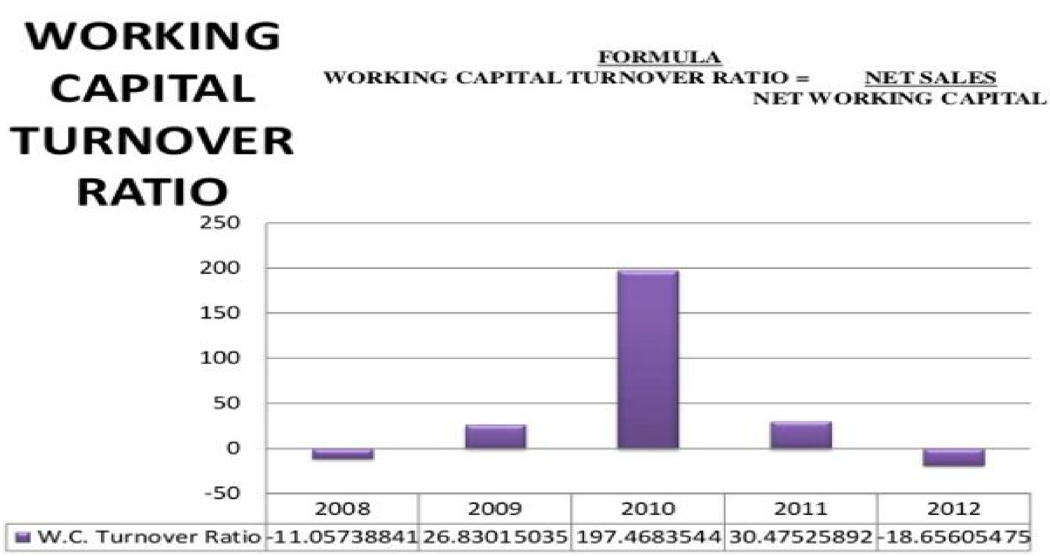
Generally, these are short-term situations that take place because payments related to sales generated in previous periods have not yet been received and posted to the receivables. At the same time, the expenses found in the payables are posted and awaiting disposition.



• *The negative working capitals in 2008 and 2012 are due its mother company's policies.*

• *As we know that TATA STEEL is the mother company its decision of buying the Corus company had influenced the money supply of the sister industries.*

• *Moreover, TCIL has low sales and high stocks in its inventory in those years which indicated less sells.*



RECOMMENDATION:

• *Company's gross working capital has been growing over the years, as because production of tinplate has been increasing and also due to commission of Cold Rolling Mill 2.*

• *Provision for tax and dividend is increasing consistently year by year, company should pay out sufficient dividend to stakeholders and remaining should be used as retained earning.*

• *The company should enhance their marketing strategy and try to penetrate more in both global and domestic tinplate industry.*

CONCLUSION:

The basic objective of financial management is to maximize shareholder's wealth. This is possible only when company earns sufficient profit. The amount of such profit largely depends upon magnitude of sales. However sales do not convert into cash instantaneously. There is always a time gap between the sale of goods & receipt of cash. Working capital is required for this period in order to sustain the sales. in case adequate working capital is not available for this period , the company will not be in a position to sustain the sales since it may not be in a position to purchase raw materials , pay wages & other expenses required for manufacturing the goods to be sold.

Working capital management is essentially an accounting strategy with a focus on the maintenance of a sufficient balance between a company's current assets and liabilities. An effective working capital management system helps businesses not only cover their financial obligations but also boost their earnings.

Managing working capital means managing inventories, cash, accounts payable and accounts receivable. An efficient working capital management system often uses key performance ratios, such as the working capital ratio, the inventory turnover ratio and the collection ratio, to help identify areas that require focus in order to maintain liquidity and profitability.

When a company does not have enough working capital to cover its obligations, financial insolvency can result and lead to legal troubles, liquidation of assets and potential bankruptcy. Thus, it is vital to all businesses to have adequate management of working capital.

International Investment Outlook

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There used to be a notion that foreign investors that is the Foreign Portfolio Investors (FPIs) and Foreign Institutional Investors (FIIs) drive the bellwether indices of the emerging market economy's stock market. This holds true in the Indian context as well. Domestic retail investors and institutional investors' forms a major but not so significant part of all the investments vis-à-vis foreign investments. International investment outlook is not bright in any sense currently in the world due to rising protectionism in developed countries like the US. Trade war ignited by the US against China and other countries is crippling for these developing economies. Rising crude oil prices, low or negative growth rates, mounting inflation, depreciating currency, increasing fiscal deficit and more importantly higher interest rates in other countries are some of the factors that can give jitters to foreign investors prompting them to drive their capital out from these countries.

Foreign investments can be largely classified into 4 categories namely:

1. Commercial Loans
2. Official Flows
3. Foreign Direct Investments (FDI)
4. Foreign Portfolio Investments (FPI)

FDI and FPI is what we will focus more here as these are the two most preferred routes of foreign investments in India and also they form the major chunk of the international investment. FPI involves the investments in financial assets like buying of shares and bonds in companies of other countries to gain profits, whereas FDI involves investing money in companies in other countries to take the ownership control in that company. FPI is thus more of an indirect investment.

These investments are needed by a country for its development and economic growth since these developing countries fails to meet their capital requirements from internal sources, thus they turn to foreign investors for their capital needs. These investors either put their money in company's stocks (equity segment) or in corporate bonds and government securities (debt segment)

What happened last year?

FPI investments are usually in billions of dollars in a country. In the Indian context, we witnessed an unprecedented inflow of foreign funds which stood at ₹2 trillion in 2017. But 2018 was an altogether different story which saw a net outflow of close to 81,000 crores (approximately 4% of India's GDP) from equity and debt market due to a unstable year considering the huge geopolitical and even domestic turbulences which were exacerbating trade war between two biggest economies, weakening rupee in May-October period where our currency depreciated by nearly 16%, crude oil prices were phenomenally high trading at $85 a barrel up from $54 a year before, retail inflation touched 5% in June-July period, bank's NPAs were cropping up, current account deficit was widening and touched 2.8% of the GDP and as a result of which forex reserves were getting depleted and above all the US Federal Reserve were hiking interest rates providing a safe havens to these FPI investors to fetch handsome returns. All these factors were making FPI investors apprehensive and the lucrative US pull were the reason that these investors drove their capital out from the Indian equity and debt market. 2018 was the year of net capital outflows after a span of 7 years; the last net outflow was in 2011. Thankfully the benchmark stock indices did not plunge due to humongous infusion of money by the domestic retail and institutional investors into mutual funds. Foreign portfolio investments are known as "*hot money*" that comes in fast but at the time of crisis, goes out even faster and it is this outward journey that hurts the most. This journey was faced by Indian capital markets (from both the equity and the debt segment) last year as shown below:

Monthly FPI/FII Net Investments (Calendar Year - 2018)				
Calendar Year	INR crores			
	Equity	Debt	Hybrid	Total
January	13781	8523	-32	22272
February	-11423	-254	3	-11674
March	11654	-9044	51	2662
April	-5552	-10036	26	-15561
May	-10060	-19654	-61	-29776
June	-4831	-10970	7	-15795
July	2264	43	-43	2264
August	1775	3414	-44	5146
September	-10825	-10198	-11	-21035
October	-28921	-9978	-6	-38906
November	5981	5610	4	11595
December	3143	4749	-3	7889
Total - 2018	-33014	-47795	-109	-80919

Source: NSDL

As evident from the data, close to 75% of the net outflow occurred in two months which are September and October. These were the most challenging months for India owing to the volatility everywhere from crude oil to currency depreciation and what not. Even RBI had to intervene to sell dollars in the market to control rupee depreciation after Rupee became the worst performing currency in Asia. Much of this outflow in 2018 apart from these factors were also due to a controversial circular by SEBI which later had to be amended in which SEBI asked all the overseas investors had to furnish the details of their end-beneficiaries and sources of funds.

Going Forward

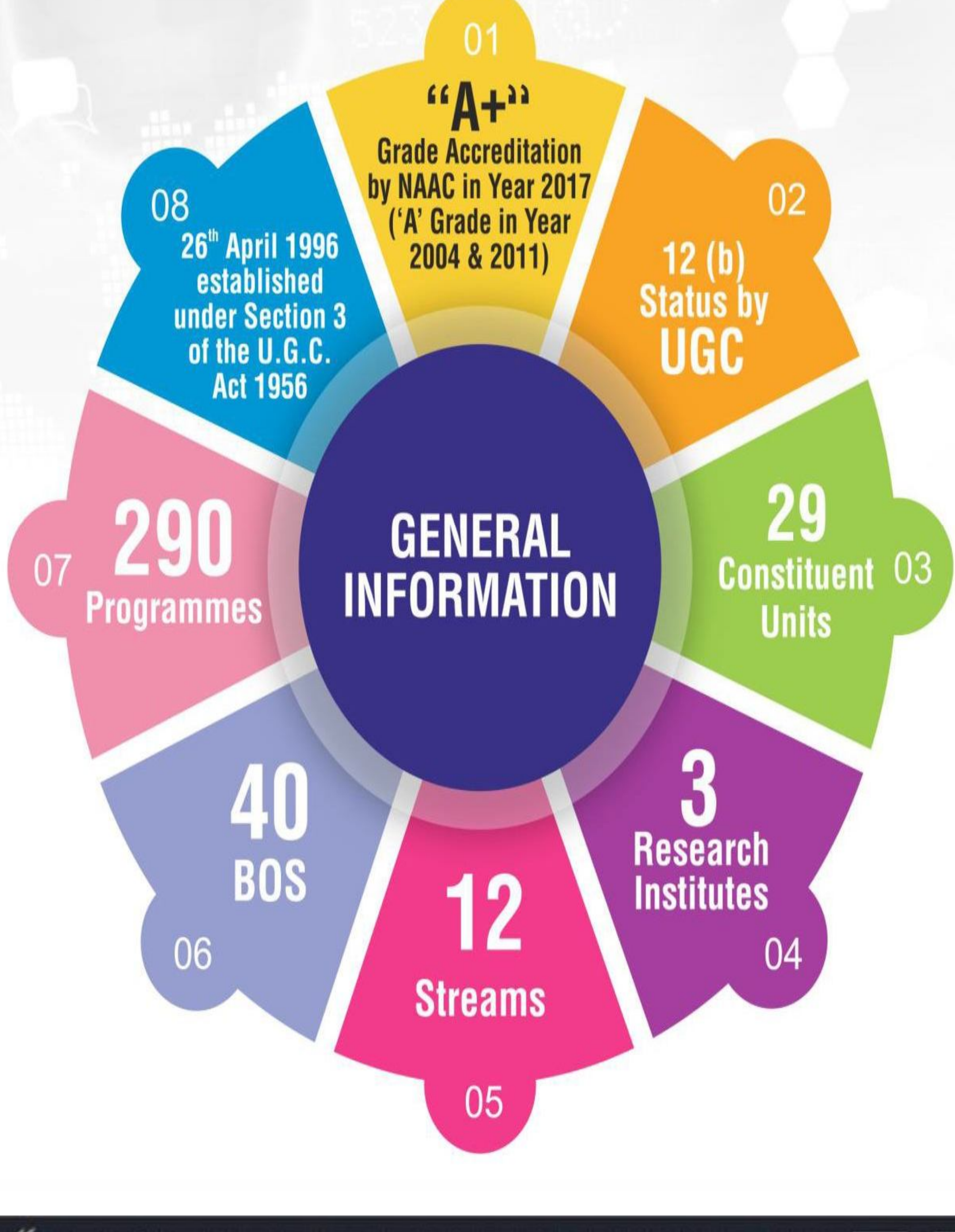
Rakesh Jhunjhunwala, the stock market veteran recently prognosticated that India is all set for the best decade in growth; if that be the case and no global headwinds haunting India's growth then we can expect infusion of billions of dollars in India. There will be many apprehensions in the foreign investors considering this is an election year and by far no one is really sure as to which political party will be at the helm of affairs post elections but after the results are declared and if the incumbent government returns to power, then foreign investors will be equally bullish on India's growth story and invest more in the country. Other domestic factors responsible are inflation after populist interim budget, fiscal deficit numbers, currency robustness etc. A whole lot of external factors which are in play that will determines the inflow or outflow of foreign capital and these factors are the extent to which the trade war goes, how the crude oil prices behave this year considering the supply gap after Venezuela's cataclysm and Turkey's crisis, Brexit result, stance of US Federal Reserve in setting interest rates etc. China and European Union's economic slowdown is another factor that will shape the outlook of global investors this year.

US Dollar should be stable in 2019 for every country to grow and perform as per their expectations. As they say, "*The best of all worlds is a fairly stable USD*."

On the FDI front, 2018 was a remarkable year for India as after a long wait of two decades India finally managed to beat China in FDI inflows that stood at $37.7 billion with 235 deals compared to China's $32 billion. Mauritius was the biggest contributor with 32% of the total FDI. Other major FDI partners were Singapore, Netherlands, US and Japan. This jump in FDI is fuelled by solid fundamentals of the economy, relaxation in new FDI policy, bankruptcy code in place and booming sectors like e-commerce and FinTech. The biggest deal that brought FDI flows in 2018 was Walmart's $16 billion buyout of Flipkart.

According to a market attractiveness survey conducted by Emerging Market Private Equity Association (EMPEA), India has become the most attractive emerging market for global partners (GP) investment. As per a report by a Swiss investment bank UBS, Annual FDI inflows in India are expected to rise to US$ 75 billion over the next five years.

Thus, if everything goes as per these estimates and the global uncertainties eases then we can expect an unprecedented surge northwards in the foreign capital flowing into India and will beat China for the second time in two consecutive years.



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