

## **Chapter One: Introduction**

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### **1.1. Introduction**

If we open the pandora's box of working capital management, a plethora of academic research are unveiled revealing how quintessential is this aspect of liquidity management to organisations for managing financial and operating commitments, because even a bantam compromise in short term or long-term financial sources will result in grave consequences in terms of organisation's capacity to manage finance and relative performance and further expansion of business. Printing industry in India has taken a quantum leap post liberalization, privatization and globalization and many printing giants have emerged including Navneet Education Ltd, Sandesh Ltd, Orient Press Ltd. D B Corp. Ltd. Changing the entire façade of printing industry in India, from manual to machine.

In spite of multiple strategies being deployed many a times the industry is in a state of a 'liquidity crisis' which is hampering the survival of even some of the biggest companies in business. In this current situation it's imperative for organisations to rethink on their working capital management policies so that they are able to manage adequate liquidity, to manage their operational expenses in such a way as to avoid get on to the trap of long term debt. Owing to these requirements, a comprehensive study of working capital management of companies in this industry has become essential for understanding the current policies concerning to working capital management. The objective of management of Working Capital is to manage firm's current asset and current liabilities, in such a way, that investment in Working Capital can be optimized by balancing liquidity and profitability aiming at minimizing operating cost and maximizing the operating profit.

Management of current assets plays an important role in a firm's profitability, risk, value of the firm and thereby wealth of the shareholder. It is generally observed that for a manufacturing firm, the amount of current assets is about half of its total assets, while for a distribution company, this portion may be even more. Excessive investment in current assets result into a lower rate of return. However, Van Horne and Wachowicz (2004) pointed out that excessive level of current assets may have a negative effect on firm's profitability, whereas low level of current assets problematizes the liquidity and smooth operations. Enhancing the profitability at the cost of liquidity can pull the firm down to doldrums,

prioritizing the balance between liquidity and profitability needs be the prime objective of the firm. Management of current assets involves planning and controlling of current assets to settle short-term obligation whenever it becomes due.

Before the invention of paper there was a time when people used to write on palm leaves. The earliest kind of print technology was developed in China, Japan and Korea in the form of a system of hand printing. Chinese were the first to invent the art of printing. From AD 594 onwards, books in China were printed by rubbing paper – also invented wooden blocks to print letters during the age of the Tang Dynasty in 600 AD. The oldest known surviving printed work in a woodblock is a Buddhist scripture of 684 AD. Buddhist missionaries from China introduced hand-printing technology in Japan around AD 768-770. The oldest Japanese book, printed in AD 868, is the Buddhist Diamond Sutra, containing six sheets of text and woodcut illustrations. Pictures were printed on textiles, playing cards and paper money. It is exhibited in a calligraphy museum in Tokyo, Japan. The Buddhist text, the “Diamond Sutra” by Wang Chik in 868 AD, was the first printed book published in China. Though the Egyptians made paper by 3500 BC, it came to Europe only by the 11th century. The first paper mill in Europe was set up in Spain in 1120. Block printing came to Europe by 1300. In 1295, Marco Polo on returning from China brought the knowledge of wood block printing to Italy and soon this technology propagated in the entire Europe.

Johannes Gutenberg of Germany is considered as a father of Printing press being the forerunner of printing technology around 1439 and also invented an oil-based ink for printing (NCERT,2020). The next hundred years (1450 to 1550) witnessed the mushrooming of printing presses across Europe heralding a boom in book production, inducing a revolutionary paradigm shift from hand printing to mechanical printing. Shanghai also emerged as the hub of the new print culture gradually shifting from the hand printing to mechanical printing, on the lines of Western schools. This breakthrough led to the emergence of a new reading public owing to slash in cost of books, effortless reading experience which resulted in easy access and wider reach. By the mid-nineteenth century, Richard M. Hoe of New York invented the power-driven cylindrical press capable of printing 8,000 sheets per hour. A series of other developments followed: methods of feeding paper, the quality of plates, automatic paper reels and photoelectric controls of the color register transforming printed texts which got digitally revolutionized in the twentieth century.

The printing press first came to Goa with Portuguese missionaries in the mid-sixteenth century. By 1674, about 50 books had been printed in the Konkani and in Kanara, Tamil and Malayalam. The coming of East India Company tolled the knell of printing which augmented into the publication of magazines and newspapers, comic strips on socio-political issues, Bengal Gazette being one of the those. With the modern age printing industry witnessed a metamorphosis with visuality and technological interventions being the propellers influencing the entire history of mankind as never before. The obvious consequences started reflecting in flourishing of publishing firms in the private sector. During the financial downturn in India Small and Medium Businesses shifted from CAPEX to OPEX models for cost saving operational efficiency, enhanced profitability, long term survival and sustenance in the industry. The growth of printing industry indicate that recession is nothing but a changing trend towards adoption of new working style. In the newfound growth which were well over the world averages made India to become Rs. 431 billion market in the second decade of the twenty first century. This roller coaster ride led to a reiterated impetus on management of current assets.

## **1.2. Rationale' of the Study**

Over the years, the printing industry has made giant strides propelled by improving its machinery in terms of the scope, technology and speed. The modern style of business favours not only consumer satisfaction but also consumer delight paving way for providing quality products at minimum cost. Academic and research interventions in the field of working capital management in industries in the developed countries have already been amalgamated in the form of innovations but printing industry remained unploughed. To meet this challenge, the printing industry started looking for novel and innovative solutions instead of getting fret on decline in prices, which led to the emergence of management of current asset practices in printing industry. Working capital management remains as the main stair and the most effective factor for the profitability and thereby long-term sustenance of the business in printing industry. Hence, this study proffers the relationship between cost management with special reference to management of current assets and its impact on profitability of select companies in printing industry.

### **Problem Statement**

With the expanding horizons of corporate firms, printing industry started experiencing variety of problems and facing practical issues which were left unaddressed in the academia. Surprisingly, huge work was carried out but, very little amount of efforts was made in the field of working capital management as majority of the work were addressing issues related to financing, long term investments and profit management. Moreover, no studies have been conducted to analyse the association between working capital management (management of current assets) practices and profitability of printing industry even in India. Therefore, management of current asset practices is a major concern of the companies that laid the foundation of this study with the objective of measuring its effect on profitability by exploring the relevant theories and also the practices followed by the firms. The paucity of such studies and research in Indian Printing Industry is behind the ideation of this research drawing upon the components of current assets with the intention of bridging the gap between theory and practices. This study is based on the Indian printing companies listed at Bombay Stock Exchange as India is today's rising market of South Asia having the potential for exponential economic growth in printing industry with immense scope of comprehensive quantitative and qualitative probings. The present study is poignant contribution to the existing corpus of knowledge on impact of management of current assets practices and profitability in the trajectory of printing industries. The study has been based on secondary data extracted from the annual reports of firms listed at Bombay Stock Exchange and financial portals Database (PROWESS IQ) using multiple regression model which can assist the policy makers to put up the deficient sectors according to level of working capital and amount of their profitability for being able to take remedial actions in case of any deficiency in the practices providing a standard to which firms can restructure their working capital policy.

### **1.3.Objectives of the Study**

The main objective of this research endeavour is to examine the impact of working capital management on firms' performance of select production units of printing industry in India. Specifically, the study seeks to:

1. Expound the theoretical understanding of different approaches to identify and management of current assets.
2. Analyze current assets management practices.
3. Examine the impact of cash management on firms' performance.
4. Evaluate the effect of Inventory Management on firms' performance.
5. Analyze the effect of Receivable Management on firms' performance.
6. Analyze the relationship between Liquidity and Profitability of the select companies of printing industry.
7. Gauge the relationship between Working Capital Management and performance of select companies of printing industry.
8. Contribute to evolving commonly accepted working capital management practices so that to control the operating cost.
9. Explore and suggest areas for futuristic interventions.

Considering the above identified objectives, the next of the study intends to reveal methodology followed in collection and analysis of the data and reach to the conclusion.

#### **1.4. Research Methodology**

This part of study intends to reveal all the realities and provide absolute idea for understanding management of current assets practices.

A research design is a pillar constituting the framework for the collection, measurement and analysis of the data. For the present research work the research methodology adopted has been essentially empirical, descriptive, and explorative. Descriptive research design is used to study the cause and effects through possible relationships among variables under study. Secondary data has also been collected from various sources like annual reports of the companies, database like (PROWESS IQ). Other relevant information is collected from published and unpublished reports, Business Newspapers, Magazines, Research Journals, Research Reports, Financial Statements of the select organizations. Government Publications and also e-data was a part of procuring secondary data.

This is the Empirical study which is exploratory in nature based on the secondary data and analysis thereof using various statistical as well as accounting tools to assess the impact of management of current assets on profitability of selected companies of printing industries listed at Bombay Stock Exchange.

As study aims at assessing the impact of current asset management practices on performance of companies of printing Industry in India. Here, all Printing companies listed at Bombay Stock Exchange have been taken as population of the study because Bombay Stock Exchange is the oldest stock exchange of India from where authenticated data for listed printing companies can be obtained, listed companies being the public entities run under stringent corporate governance regulations, ensuring their financial and accounting disclosures reliability at large.

The companies listed at Bombay Stock Exchange during the entire duration of research are undertaken for research study. The non-probability sampling approach was put to use based on purposive sampling method for drawing of sampling units. The present study is confined only to the 13 selected companies Listed at Bombay Stock Exchange of Printing industry in India representing the period from 2009-10 to 2018-19. These companies are Citizen Infoline Ltd, D B Corp Ltd, H T Media Ltd, Hindustan Media Ventures Ltd, Jagran Prakashan Ltd, Kiran Print-Pack Ltd, Navneet Education Ltd, Repro India Ltd, S Chand & Co. Ltd, Sambhaav Media Ltd, Sandesh Ltd, Sundaram Multi Pap Ltd, Unick Fix-A-Form & Printers Ltd.

This research work is divided in three parts:

*Part One* of the study lays down the conceptualization, evolution and theorization of current assets management undertaken across the world and also in India.

*Part Two* of the study identifies the Current Assets Management practices in selected printing companies of Printing Industry listed at Bombay Stock Exchange. Further, it examines the various concepts and components of Current Asset Management practices.

*Part Three* of this research endeavor deals with empirical (Quantitative Approach) analysis of select printing companies in order to verify the cause-and-effect relationship of various components of current assets and profitability. This part also deals with impact of Current Asset Management practices on performance.

### **Data Analysis**

The study uses the Financial Analysis and the statistical analysis. Tools of data analysis and Interpretation are pertinent to the computation of certain parameters other than searching for patterns of relationship.

The Financial Analysis of the variables in the study has been performed using Ratio Analysis. Various ratios have been computed for the purpose of analyzing the working capital management of companies selected i.e. Current Ratio, Quick Ratio, Debtors Turnover Ratio, Average Collection period, Debtors to Current Assets Ratio, Stock Turnover Ratio, Inventory Holding period, Inventory to Current Assets ratio, Creditors Turnover Ratio, Accounts Payable period, Cash conversion cycle, Cash and cash equivalents to current assets ratio, Cash and cash equivalents per day to operating expenses per day ratio etc. and operating profit margin, Return on working capital, Return on Total Assets etc. as a measure of profitability.

The statistical analysis of the variables in the study has been performed using Descriptive Statistics, Frequencies and Percentages, Tabulation of Data, Graphical presentation, Time series analysis, Mean/average, Correlation & Regression Analysis, Oneway ANOVA, F- test, T-test and Post hoc Tukey HSD test performed. Data has been analyzed with the help of statistical package for social science (SPSS).

### **1.5. Limitations of the Study**

All efforts have been made to ensure that the research is designed and conducted to optimize the achievement of research objectives. The research work has limitations of data and authentic documents related to current assets management practices as it tries to study current assets management and its impact on cost and thereby on profitability on companies of the printing industry.

In India printing industry being scattered in organized and unorganized sector with the majority of the players being in unorganized with more than 90% of the turnover of industries is in the unorganized sector, this problematized the availability of authentic data from the informal sector. As the financial data available on printing industry is confined only to the published reports in the public domain, definitive financial data on unorganized sector is found to be non-existent. This paucity persuaded an imposition to undertake the study only with companies listed in Bombay Stock Exchange confining to only thirteen (13) companies. The research does not take into its ambit the small-scale printing companies also in the unorganized sector. This study is just a drop in the ocean in terms of academic exploration and contribution to the immensely plausible research interventions.

### **1.6. Research Outline:**

The study spans over **FIVE** chapters as under:

**Chapter One** deals with the introductory part of the research work, rationale and objectives of the study, the methodology used for the research and also spells out the plan of the study.

**Chapter Two** explains the theoretical foundation of current assets management as well as cost management. The chapter explores the existing literature in the afore said field to theorize the concepts and find the need and significance of the study based on the research gap.

**Chapter Three** comprises of four thematic sections with relative sub-sections. In the first section introduction, objective and rationale for the sample selection are discussed. Second section studies investment in total current assets and current liabilities of select companies of printing industry. Third section examines the liquidity, receivables management, inventory management and cash management of select companies of printing industry based on various ratios. Fourth section tests the hypotheses whether the current assets management practices of select companies.

**Chapter Four** checks the cost management with special reference to management of current assets and its impact on profitability in Printing Industry as effective cost management results in higher profitability. The impact of management of current assets on profitability is also expounded. This part of the study is divided into various sub sections : the first part analyses performance of select companies, second part analyses impact of management of current assets practices on profitability, third part analyses efficiency of cost management and the final part discusses the relationship and impact of current assets management practices on performance of the companies.

**Chapter Five** summarizes the findings of this research study and suggests certain policy recommendations. At the end of the chapter, further areas of research on current asset management and its impact on performance of companies have also been highlighted.



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