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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	**CUSTOMER PREFERENCE TOWARDS INTERNET BANKING AND THEIR LEVELS OF SATISFACTION: A STUDY AT PUNE** *BAHAREH SHEIKHI & DR. AISHA M SHERIFF*	1
2.	**DETERMINANTS OF GROWTH AND CHALLENGES IN HOTEL INDUSTRY: A STUDY OF BUDGET AND LUXURY SEGMENTS OF HOTEL BUSINESS IN INDIA** *KULDEEP KUMAR*	6
3.	**A COMPARATIVE ANALYSIS OF THE EFFECTIVENESS OF CASH MANAGEMENT PRACTICES BETWEEN COOPERATIVE AND PRIVATE MILK PROCESSING PLANTS** *RAVINDRA B. GAWALI & DR. PURANDAR D. NARE*	11
4.	**CONTENT ANALYSIS OF CHILDREN BASED FOOD AND BEVERAGES ADVERTISEMENTS** *POOJA SEHGAL TABECK & SONALI P. BANERJEE*	14
5.	**REVIEWING THE COMPONENTS OF WORKING CAPITAL: A STUDY ON SELECTED INDIAN CEMENT INDUSTRIES** *RANAPRATAP PAL*	21
6.	**WHERE YOUR MONEY IS GOING? MENTAL ACCOUNTING AN EMPIRICAL APPROACH** *MANGAL CHHERING*	26
7.	**FACTORS AFFECTING THE DEVELOPMENT OF INTERNATIONAL ACCOUNTING** *SIDHARTHA SHARMA*	29
8.	**E-BANKING AND E-CRM INITIATIVES: A CASE STUDY OF PUNJAB & SIND BANK** *DEEPSHIKHA SHARMA*	32
9.	**PERFORMANCE EVALUATION OF SELECTED EQUITY MUTUAL FUND SCHEMES** *DR. V. KANNAN & I.SHEEBA FATHIMA*	36
10.	**WORKING CAPITAL MANAGEMENT AS A FINANCIAL STRATEGY TO IMPROVE PROFITABILITY AND GROWTH OF MICRO AND SMALL-SCALE ENTERPRISES (MSEs) OPERATING IN THE CENTRAL REGION OF GHANA** *BEN EBO ATTOM*	42
11.	**A STUDY ON CUSTOMER DELIGHT IN INDIAN BANKING SECTOR** *LOURDU MARY. Y.*	51
12.	**A STUDY ON THE BEST RECOMMENDATIONS FOR WOMEN EMPOWERMENT THROUGH SELF HELP GROUPS** *DR. RASHMI RANI AGNIHOTRI H.R & MAHESH URUKUNDAPPA*	53
13.	**POVERTY IN INDIA: A CONTROVERSIAL APPROACH AND METHODOLOGY OF EXPERT GROUPS** *NISHA, DEEPIKA, RATISH KUMAR & LEKH RAJ*	56
14.	**CONSUMER BEHAVIOR AND SATISFACTION IN E-COMMERCE: A COMPARATIVE STUDY BASED ON ONLINE SHOPPING OF SOME ELECTRONIC GADGETS** *MANISH KUMAR*	62
15.	**TRADE BALANCE OF SERVICES PER CAPITA IN APEC REGION, 2005-2014** *ANTONIO FAVILA TELLO*	67
16.	**SOCIO-ECONOMIC PROFILE AND EMPOWERMENT AMONG AGROPRENEURS IN KANNUR DISTRICT** *PRIYARAJ. P.M*	73
17.	**PUBLIC INVESTMENT ON MAJOR AND MEDIUM IRRIGATION AND ITs REALIZATION** *AMIT KUMAR*	80
18.	**AN ECONOMIC ANALYSIS OF STREET FOOD VENDORS WITH SPECIAL REFERENCE TO DURGIGUDI STREET, SHIVAMOGGA CITY** *SHARATH.A.M*	84
19.	**INCLUSIVE GROWTH WITH INDIAN SCENARIO** *MOHD. AFFAN ANSARI*	90
20.	**FINANCIAL INCLUSION: PMJDY** *CH. V. RAMA KRISHNA RAO, VENKATA RAKESH DIVVELA & PRAVALLIKA VURA*	93
	REQUEST FOR FEEDBACK & DISCLAIMER	96

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REVIEWING THE COMPONENTS OF WORKING CAPITAL: A STUDY ON SELECTED INDIAN CEMENT INDUSTRIES

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ABSTRACT
The importance of working capital management is very crucial in corporate finance. It influences the profitability as well as the liquidity of the company. The Current assets and the current liabilities are to be maintained in such a way that the risk of both liquidity and over capitalization can be managed efficiently. In this paper we review some relevant parameters in relation to the components of Working Capital (WC) in some selected Indian companies in Cement Industry during 2004/05-2013/14 and tried to determine some yardstick for efficient Working Capital Management in the Indian corporate sectors.

KEYWORDS
cement industry, current assets, current liabilities, working capital.

INTRODUCTION
The importance of working capital management is very crucial in corporate finance. It influences the profitability as well as the liquidity of the company. Thus the success of a company largely depends on the proper and effective management of working capital. The amount of working capital (WC) may vary from company to company according to their nature of operation. But the working capital constitutes major portions of total capital in general. Its optimal volume and prudent use can boost the profitability of a company in varied ways. But the study of Working Capital Management (WCM) is a very sensitive area in the field of financial management (Joshi, 1994)[1]. It is a well-known fact that Liquidity and the profitability are two important aspects of a company and there must be a tradeoff between these two special objectives of the firm. The Current assets and the current liabilities are to be maintained in such a way that the risk of both liquidity and over capitalization can be managed efficiently.

In this present discussion we are to review some relevant parameters during 2004/05-2013/14in relation to the components of Working Capital (WC)in some selected Indian companies in Cement Industry and this may be treated as yardstick for efficient WCM in the Indian corporate sectors. In section 1 we present a brief review of relevant literatures while in section 2 we provide the brief profile of the selected companies. Section 3 contains themethodological foundation of the present analysis while section 4 deals with the assessment of the performance of different Cement Companies of Indian cement industry during 2004/05-2013/14. Concluding remarks are in Section 5.

REVIEW OF LITERATURE
SuhailHayajneh. Osama et.al. (2011) in a research paper entitled "The Impact of Working Capital Efficiency on Profitability – an Empirical Analysis on Jordanian Manufacturing Firms" maintained that the firms to manage their working capital efficiently to achieve the optimal profitability. This study emphasized on the relationship between working capital efficiency and profitability on the 53 Jordanian manufacturing firms listed in Amman Exchange Market for the period (2000-2006). It is analyzed through using the descriptive statistics, Pearson correlation coefficients, ordinary least squares (OLS) and two stage least squares(2SLS) regressions model. The results of study found a significant negative relationship between profitability and the average receivable collection period, average conversion inventory period and average payment period, and also the cash conversion cycle which expresses the efficiency of working capital. This study revealed a positive significance between the size of the firm, growth of sales and current ratio from this side and profitability from other side. Finally, financial leverage correlated negatively with profitability. These regression results require from the firms to manage its working capital efficiently to achieve the optimal profitability.

Abdul Raheman et.al. (2007) conducted a research work entitled "Working Capital Management and Profitability – Case of Pakistani Firms" and their main findings were that along with the negative relationship between the Collection Period and Profitability, some other significant findings of the study were:

(a) Importance of mode of financing the current asset and its effect on profitability,
(b) Negative relationship between liquidity and profitability,
(c) Positive relationship between size of the firm and its profitability.

They took 94 selected samples from Karachi Stock Exchange during a period of 1999-2004 and they selected working capital as their research arena because they thought Working Capital Management is one of the most important areas for corporate finance and it directly affects profitability and liquidity of a firm.

F. W. Mueller, Jr. (1953), in a research paper entitled "Corporate working capital and liquidity" observed that as working capital and liquidity are worthy of mention in this context,

(a) The term "working capital" should be coextensive with current assets. A better term, if we need one to describe its function, would be "revolving capital."
(b) The nature of an asset is determined by its function and not by its name.
(c) The functional concept of revolving capital overcomes inconsistencies in the equity concept.
(d) Ordinary use of the term "liquidity" makes it more a problem of marketing than accounting and finance.
(e) The conversion of an asset into cash is a test not of liquidity but of salability.
(f) The tenets of comparability are violated in attempts to measure the "degrees" of liquidity.
(g) The attainment of economic objectives requires the complete process of exchanging goods for money followed by the exchange of money for goods.
(h) The function of revolving capital is to provide an orderly process for the gradual emergence of utilities to satisfy human wants.
(i) Liquidity is a consequence of the dynamic function of satisfying social wants.
(j) It is essential to differentiate between individual and aggregate analysis, financial and economic liquidation, and structural and organic liquidity.

The Author of the study mainly tried to focus and find the answers of the following questions

(1) What is meant by corporate working capital? (2) What is meant by liquidity? (3) Where is the source of liquidity?

Zariyawati, M. A. et.al. (2008) in the paper entitled "Effect of working capital management on profitability of firms in Malaysia" found that cash conversion cycle are significantly negative associated to the firm profitability. A balanced panel set of 1628 firm-year observations was obtained, with observations of 148 firms over 1996-2006 periods. In order to analyze the effects of working capital management on the firm's profitability, (operating income + depreciation)/total asset (OI) as measure of profitability was used as the dependent variable, they use some other common variable like cash conversion cycle, days receivables, days payables etc. Control variables are introduced as the growth in firm sales and its leverage. Sales growth (SG) is calculated by $\frac{(\text{Sales1} - \text{Sales0})}{\text{Sales0}}$. The leverage (DR) measures by debt ratio as calculated by total debt over total asset. In addition, current ratio (CR) which calculated by current asset over current liability, was included as one of independent variable. The reason is current ratio always been used as measure of corporate liquidity conventionally.

[1]P.L. Joshi: "Working CapitalManagement under Inflation (1st Ed.)"

AmarjitGill, Nahum Biger, Neil Mathurin their research article entitled "The Relationship Between Working Capital Management And Profitability Evidence From The United States" (2010) adds to existing literature such as Deloof, Lazaridis and Tryfonidis etc. and found negative relationship between accounts receivables and corporate profitability. they observed i) a negative relationship between profitability (measured through gross operating profit) and average days of accounts receivable and ii) a positive relationship between cash conversion cycle and profitability. The findings of this paper suggest that managers can create value for their shareholders by reducing the number of days for accounts receivables. In addition, the negative relationship between accounts receivables and firm's profitability suggest that less profitable firms will pursue a decrease of their accounts receivables in an attempt to reduce their cash gap in the cash conversion cycle. On the basis of findings of this paper, it can be concluded that profitability can be enhanced if firms manage their working capital in a more efficient way. This study is limited to the sample of American manufacturing industry firms. The findings of this study could only be generalized to manufacturing firms similar to those that were included in this research. In addition, the sample size is small.

Sunday, Kehinde James (2011) in the research paper entitled "Effective Working Capital. Management in Small and Medium Scale Enterprises (SMEs)" has observed that

(a) It was evident that small firms have very weak financial position they rely on credit facility to finance their operation, this credit facility most times comes from account payable.
(b) Most small firms become insolvent and fail because they often than not could not access financial assistance from the financial institutions due to lack of the necessary requirement needed by the financial institutions.
(c) It was also revealed from this study that there is poor liquidity in most small business in Nigeria the small business has current assets in excess of current liability leading to shortage of fund.
(d) There is also poor record keeping system in most small firm which reduces the ability of the firm to monitor the proper flow of their working capital.
(e) The poor working capital flow of the smell firms have precluded them from the ability to compete effectively
(f) from the study it was revealed that most Small business fail at most within 2 years, the strongest will fail within 6 years, while only few surviving ones remain.

HasanAganKaraduman et.al. (2011) in a research paper entitled "The Relationship between Working Capital Management and Profitability: Evidence from an Emerging Market", observed the relationship between working capital management efficiency and profitability of selected companies in the Istanbul Stock Exchange for the period of 2005-2009 by employing panel data methods. The findings are similar to the previous studies made by Deloof, 2003; Lazaridis and Tryfonidis, 2006; Garcia-Teruel and Martinez-Solano, 2007; Zariyawati et al., 2009. The findings suggest that it may be possible to increase profitability by improving efficiency of working capital. The Cash Conversion Cycle (CCC) is used as a measure of working capital management efficiency, and return on assets (ROA) used as a measure of profitability. In line with the previous studies, the findings show that reducing CCC positively affects ROA.

BRIEF PROFILE OF THE SELECTED COMPANIES

We have selected ACC Limited, Everest India, Grasim Industries, JK Cement and Dalmiya Cement for our current revision and all these firm are the undisputable leaders in terms of their share in domestic as well as international market of Indian Cement. All the five firms are enlisted with Bombay Stock Exchange as well as with National Stock Exchange and their brief profile are as follows:

ACC (ACC Limited) is India's foremost manufacturer of cement and concrete. Since inception in 1936, the company has been a trendsetter and important benchmark for the cement industry in many areas of cement and concrete technology.ACC's operations are spread throughout the country with 17 modern cement factories, more than 50 Ready mix concrete plants, 21 sales offices, and several zonal offices. It has a workforce of about 9,000 persons and a countrywide distribution network of over 9,000 dealers. It was the first cement company to figure in the list of Consumer Super Brands of India.

Everest is one of India's fastest growing building solutions company. Founded in 1934, Everest is one of the most respected and renowned business entities in India, and has dominated the market ever since. The Everest brand of products are produced at ISO:9000 certified manufacturing facilities located at Kymore, Nashik, Coimbatore, Kolkata and Roorkee. Trained manpower is a dedicated strength at Everest.

Grasim Industries Limited, a flagship company of the Aditya Birla Group, ranks amongst India's largest private sector companies, with a consolidated net revenue of Rs.293 billion and consolidated net profit of Rs.21 billion (FY 2014). Grasim started as a textile manufacturer in 1948. Grasim entered into Cement business in 1985 with a capacity of 0.5 million TPA. Currently, Grasim's subsidiary UltraTech Cement Limited ("UltraTech") has a capacity of 61.75 million TPA. Grasim demerged its cement business into UltraTech in July 2010.

J.K. Cement Ltd is an affiliate of the multi-disciplinary industrial conglomerate J.K. Organisation. Their operations commenced with commercial production at the first grey cement plant at Nimbahera in the state of Rajasthan in May 1975. The Company is the second largest manufacturer of white cement in India, with an annual capacity of 600,000 tonnes in India. It is also the second largest producer of Wall putty in the country with an annual installed capacity of 5,00,000 tones. J.K Cement is also the first cement Company to install a waste heat recovery power plant to take care of the need of green power.

Dalmiya Cement had been a leader in cement manufacturing since 1939. DalmiyaCement have cement manufacturing plants in southern states of Tamil Nadu (Dalmiyapuram & Ariyalur) and Andhra Pradesh (Kadapa), with a capacity of 9 million tons per annum. A leader in cement manufacturing since 1939, DCBL is a multi-spectrum Cement player with double digit market share and a pioneer in super specialty cements used for Oil wells, Railway sleepers and Air strips. They also hold a stake of 47.3 % in OCL India Ltd., a major cement Player in the Eastern Region. Recently they have acquired the brands Adhunik Cement &Calcom Cement in North East. The Group with current capacity of 17 million tons (along with its subsidiaries and associate) is ranked fourth largest in the Indian cement industry.

METHODOLOGY

In this paper we assess the performance of different Cement Companies of Indian cement industry. In this respect the trend analysis of different components of working capital was done. The different components of working capital considered for studying working capital management of five selected Indian cement companies are 1) Inventory 2) Debtors 3) Cash 4) Other current assets 5) Creditors and 6) Other current liabilities.

After necessary adjustments in the data set for the selected companies during 2004/05- 2013/14 the growth rates of different components of working capital for five Indian cement companies as a whole was estimated in nominal terms from the estimated co-efficient of the chosen trend equation. In this regard we have chosen exponential (normalized with respect to time i.e., shifting the origin to the midpoint of the time period) trend equation given by:

$Ln(Y_t)=a+bt+ct^2$

Where Y_t is the variable whose growth rate is measured over time and 't' denotes the time variable. Ln implies natural logarithm (i.e. Log_e) and a is the intercept of the function, b denotes the growth rate coefficient and c denotes the coefficient of acceleration or deceleration.

We are to measure the growth rate expressed in percent per annum and we are further interested to measure the Goodness of fit of the trend line fitted to the time series data of the components of working capital. In this regard we use adjusted $\bar{R}^2$as a measure of goodness of fit for each of the estimated trend equation and determine the statistical significance at different levels of significance. Further we use the Durbin-Watson (DW) statistics to check whether the disturbance term suffer from auto- correlation.

ANALYSIS OF RESULTS

The estimates of different components of working capital of Everest Cement (Table - 1) reveal that the nominal rate of growth of inventory is 0.9% which indicates they maintain a low level of inventory and the growth rate is statically significant at 1% level of significance. The growth rate of debtor is 17.90%, which indicates increase in the volume of credit sale, whereas growth rate of cash is 3.50% and for the other current asset it is 9.50%. It implies that the company maintains cash at a low level which is reflected by growth rate in cash and increase in other current asset indicates that there is sufficient increase of working capital which helps the organization to meet exigency requirements of running fund. The growth rate of creditor and other current liabilities is 8.80% and 19.10% per cent respectively

which are also statistically significant at 1% level of significance and indicates that company is maintaining a healthy payment policy for the suppliers, but high percentage of other current liabilities indicates there are some other short time liabilities that play an important role for the organization as well as for the management of working capital.
From the estimated value of different components of working capital of ACC Cement (Table 2), it is observed that the nominal rate of growth of inventory is 4.3% which indicates that they maintain a low level of inventory and the growth rate is statically significant at 1% level of significance. The growth rate of debtor is 2.90%, which indicates low volume of credit sale, whereas growth rate of cash is 3% and for other current asset it is 9.90%. This signifies that the company maintains cash at a low level which is reflected by growth rate in cash and increase in other current asset indicates that there is sufficient increase of working capital which helps the organization to meet exigency requirements of running fund. The growth rate of creditor and other current liabilities is - 8.0% and 10.5% per cent respectively which are also statistically significant at 1% level of significance and indicates that company is maintaining advance payment policy for the suppliers, but high percentage of other current liability indicates there are some other short time liabilities that play an important role for the organization as well as working capital management.
The estimates of different components of working capital of Grasim Cement (Table- 3) indicates that the nominal rate of growth of inventory is 1.60% which indicates they maintain a low level of inventory and the growth rate is statically significant at 1% level of significance. The growth rate of debtor is 0.40%, which indicates increase in the volume of credit sale, whereas negative growth rate of cash is -12.10% indicates that the company is unable to maintain a stable cash balance in hand and for other current asset it is 7.10%, which indicates that there is sufficient increase of working capital which helps the organization to meet exigency requirements of running fund. The growth rate of creditor and other current liabilities is - 4.30% and 5.3% respectively which are also statistically significant at 1% level of significance and indicates that company is maintaining advance payment policy for the suppliers, but high percentage of other current liability indicates there are some other short time liabilitiesthat play an important role for the organization as well as working capital management as like the previous two.
From the estimated value of different components of working capital of Dalmiya Cement (Table- 4), it is observed that the nominal rate of growth of inventory is -11.20% which indicates that they generally maintain a very unhealthy level of inventory which also affect working capital directly and the growth rate is statically significant at 1% level of significance. The growth rate of debtor is 2.20% which indicates low volume of credit sale, whereas negative growth rate of cash is - 9.20% which indicates that the company fails to maintain a stable cash balance in hand and for other current asset it is 6.70% which indicates that there is sufficient increase of working capital which helps the organization to meet exigency requirements of running fund. The negative growth rate of creditor is -10.50 % and for other current liabilities it is 3.50% that are also statistically significant at 1% level of significance. It indicates that the company is maintaining advance payment policy for the suppliers, but the growth rate in other current liabilities indicates that there are some other short time liabilities that play usual role for the organization as well as for the working capital.
From the estimated value of different components of working capital of JK Cement (Table - 5), it is observed that the nominal rate of growth of inventory is 12.20% which indicates that they maintain a high level of inventory and the growth rate is statically significant at 1% level of significance. The growth rate of debtor is 5.20%, which indicates volume of credit sale is maintained efficiently, whereas growth rate of cash is 6.70% and for other current asset it is 3.40% that reflects that the company maintains cash at a low level which is reflected by growth rate in cash while the increase in other current asset indicates that there is normal increase of working capital which helps the organization to meet exigency requirements of running fund. The growth rate of creditor and other current liabilities are 1.70% and 9.5% respectively and they are also statistically significant at 1% level of significance and indicate that the company is maintaining a usual payment policy for the suppliers.
The estimates of different components of working capital of Indian Cement Industry (Table 6), reflects that the nominal rate of growth of inventory is 6.60% which indicates that the industry as a whole maintains a normal level of inventory and the growth rate is statically significant at 1% level of significance. The growth rate of debtor is 5.30%, which indicates low volume of credit sale, whereas growth rate of cash is 5.20% and for other current asset it is 47%, the industry maintains low level of cash which is reflected by growth rate in cash. Growth rate of other current asset (47%) indicates that there is sufficient increase of working capital which helps the organization to meet exigency requirements of running fund. The growth rates of creditor and other current liabilities are 8.40% and 18.90% respectively which are also statistically significant at 1% level of significance and indicates that entire industry is maintaining general and usual payment policy for the suppliers, but percentage of other current liability indicates there are some other short term liabilities that play an important role for the organization as well as for the working capital management, per se.

CONCLUSIONS

From the analysis that we indulged so far we can grossly infer that as long as the performance of working capital management of individual firms are undertaken, we observe variations in all most all components of working capital. The growth rates of Inventory, Debtors, Cash, other Current Assets, Creditors and other Current Liabilities are observed to be diverse in nature and lack of conformity is perceived as we go through the tables and trends. But when the entire Cement Industry is taken under consideration we observe that lack of parity diminish to a considerable degree. Again the different companies follow different accounting norms so that the components of other current assets and other current liabilities differ to a considerable degree among them. This can be observed from the comparatively high growth rates of these two parameters when we consider the entire industry as a whole. So it can be inferred that the components under these two parameters could have influenced the other variables if a different practice was observed and due to the diversity of the practice followed, eventually these two parameters have reflected a very high rate of growth for the industry as a whole.

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TABLES

TABLE 1: NOMINAL GROWTH RATE OF DIFFERENT PARAMETERS OF WORKING CAPITAL OF EVEREST DURING 2004/2005 – 2013/14

Parameter	$\bar{R}^2$	DW	Growth Rate	Acceleration (+)/
			Percentage ^{k}	Deceleration (-)
Inventory	0.948*	1.499	0.9*	0.0*
	(0.1400)		(0.008)	(0.002)
Debtors	0.907*	0.522	17.9*	-0.3*
	(0.3448)		(0.019)	(0.004)
Cash	0.125*	1.857	3.5*	0.2*
	(0.3636)		(0.020)	(0.004)
Other Current Asset	0.681*	1.433	9.5*	0.4*
	(0.3993)		(0.022)	(0.003)
Creditors	0.961*	1.738	8.80*	0.1*
	(0.1072)		(0.051)	(0.001)
Other Current Liabilities	0.942*	1.967	19.10*	0.40*
	(0.2877)		(0.016)	(0.971)

TABLE 2: NOMINAL GROWTH RATE OF DIFFERENT PARAMETERS OF WORKING CAPITAL OF ACC DURING 2004/2005 – 2013/14

Parameter	$\bar{R}^2$	DW	Growth Rate	Acceleration (+)/
			Percentage ^{k}	Deceleration (-)
Inventory	0.953*	1.939	4.3*	0.00*
	(0.0568)		(0.003)	(0.001)
Debtors	0.317*	1.17	2.9*	0.40*
	(0.257)		(0.014)	(0.003)
Cash	0.753*	1.738	3*	-2.20*
	(0.3823)		(0.021)	(0.004)
Other Current Asset	0.681*	1.433	9.9*	0.40*
	(0.3993)		(0.022)	(0.004)
Creditors	0.787*	0.905	-8*	-1.30*
	(0.2057)		(0.011)	(0.002)
Other Current Liabilities	0.972*	0.862	10.5*	-0.10*
	(0.1085)		(0.006)	(0.001)

TABLE 3: NOMINAL GROWTH RATE OF DIFFERENT PARAMETERS OF WORKING CAPITAL OF GRASIM DURING 2004/2005 – 2013/14

Parameter	$\bar{R}^2$	DW	Growth Rate	Acceleration (+)/
			Percentage ^{k}	Deceleration (-)
Inventory	-0.217*	0.654	1.6*	-0.10*
	(0.4837)		(0.027)	(-0.086)
Debtors	-0.266*	1.697	0.4*	0.00*
	(0.2326)		(0.013)	(0.003)
Cash	0.343*	0.89	-12.1*	-0.40*
	(0.8604)		(0.047)	(0.009)
Other Current Asset	0.362*	1.85	7.1*	0.30*
	(0.493)		(0.027)	(0.005)
Creditors	-0.039*	0.855	-4.3*	-5.00*
	(0.6865)		(0.038)	(0.007)
Other Current Liabilities	0.523*	0.532	5.3*	-0.60*
	(0.3173)		(0.017)	(0.003)

TABLE 4: NOMINAL GROWTH RATE OF DIFFERENT PARAMETERS OF WORKING CAPITAL OF DALMIYA DURING 2004/2005 – 2013/14

Parameter	$\bar{R}^2$	DW	Growth Rate	Acceleration(+)/
			Percentage ^{k}	Deceleration (-)
Inventory	0.474*	1.821	-11.2*	0.003*
	(0.6443)		(0.035)	(0.007)
Debtors	0.351*	1.684	2.2*	2.20*
	(0.641)		(0.045)	(0.009)
Cash	0.064*	1.68	-9.2*	0.60*
	(1.0767)		(0.059)	(0.012)
Other Current Asset	0.461*	1.739	6.7*	1.80*
	(0.6489)		(0.036)	(0.007)
Creditors)	0.637*	1.44	-10.5*	0.90*
	(0.4912)		(0.027)	(0.005)
Other Current Liabilities	0.484*	1.703	3.7*	1.60*
	0.5069)		(0.028)	(0.006)

TABLE 5: NOMINAL GROWTH RATE OF DIFFERENT PARAMETERS OF WORKING CAPITAL OF JK DURING 2004/2005 – 2013/14

Parameter	$\bar{R}^2$	DW	Growth Rate Percentage ᵏ	Acceleration(+)/ Deceleration(-)
Inventory	0.972*	1.552	12.2*	0.00*
	(0.1256)		(0.007)	(0.001)
Debtors	0.795*	1.173	5.2*	0.10*
	(0.1574)		(0.009)	(0.002)
Cash	0.326*	1.835	6.7*	0.10*
	(0.4859)		(0.207)	(0.005)
Other Current Asset	0.315*	1.778	3.4*	-1.10*
	(0.4881)		(0.027)	(0.005)
Creditors	0.25*	1.634	1.7*	0.40*
	(0.2062)		(0.011)	(0.002)
Other Current Liabilities	0.553*	1.724	9.5*	-14.10*
	(5.963)		(0.328)	(0.065)

TABLE 6: NOMINAL GROWTH RATE OF DIFFERENT PARAMETERS OF WORKING CAPITAL OF CEMENT INDUSTRY AS A WHOLE DURING 2004/2005 – 2013/14

Parameter	$\bar{R}^2$	DW	Growth Rate Percentage ᵏ	Acceleration(+)/ Deceleration(-)
Inventory	0.817*	1.66	6.6*	0.50*
	(0.195)		(0.011)	(0.002)
Debtors	0.894*	1.494	5.3*	0.70*
	(0.1301)		(0.007)	(0.001)
Cash	0.267*	1.854	5.2*	0.10*
	(0.4171)		(0.052)	(0.005)
Other Current Asset	0.454*	1.524	47*	-0.30*
	(0.2913)		(0.016)	(0.003)
Creditors	-0.257*	1.448	0.4*	-0.771*
	(0.1887)		(0.01)	(0.002)
Other Current Liabilities	0.871*	1.986	18.9*	0.60*
	(0.4397)		(0.024)	(0.005)

Notes (for Table 1 to Table 5): -
* implies significance at 1% level.

- Figures under the $\bar{R}^2$ column indicate observed values of F statistics;
- Figures within the parenthesis are standard errors.
- All the values of DW statistics indicate the degree of autocorrelation in the disturbance term.
- Growth rates are represented in the form of percent per annum. Growth Rate and Acceleration / Deceleration is calculated using the formula Ln (Yt)= a+ bt + ct^2, where b is the growth rate coefficient and c is the acceleration / deceleration rate coefficient

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