TANDON COMMITTEE REPORT & FINANCE FOR INDUSTRY

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"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. Shroff
1899-1965
Founder-President
Forum of Free Enterprise

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By

J. H. Doshi*

The origin of the report of the Study Group to frame guidelines for follow-up of bank credit, generally described as the Tandon Study Group, can be traced back to the inflationary conditions, which prevailed in 1973 and the first half of 1974 after the oil crisis. The Reserve Bank of India was concerned about the steep increase in prices and wanted to take measures which would reduce the total demand through curbs on bank credit. The Reserve Bank thought that this was one of the elements which, if adequately controlled, could probably lead to a stabilisation of the price level, at least of industrial raw materials which were subject to extremely high price rise.

As a first step, all the nationalised banks were asked by the Reserve Bank of India to freeze all cash credits at a level on a particular day. This was a sudden step taken on an *ad hoc* basis. Obviously, some parties were very hardly hit and, therefore, lots of complaints were lodged against such an indiscriminate measure. It was, therefore, thought that it was necessary to lay down certain norms for controlling the cash credit and a Study Group was appointed under the Chairmanship of Mr. Prakash Tandon, then the Chairman of Punjab National Bank. From the terms of reference, the Group set before them the following tasks :—

— What constitutes working capital requirements of industry which banks should finance and what is the end-use of credit ?

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* This is the text of a lecture delivered under the auspices of the Forum of Free Enterprise in Bombay on 19th December 1975. The author, well-known industrialist, is a past President of the Indian Merchants' Chamber.

— How is the quantum of bank advance to be determined ?

— Can norms be evolved for build-up of current assets and for debt-equity ratio to ensure minimal dependence on bank finance ?

— Can the current manner and style of lending be improved ?

— Can an adequate planning, assessment and information system be evolved, to ensure a disciplined flow of credit to meet genuine production needs and its proper supervision ?

The main task affecting business and industry immediately was the laying down of guidelines for holding inventories including raw materials, work-in-progress and finished goods. A related question was how much of the total finance should be provided by the banking system and how much should be financed from the owned funds of the industry. As it is well-known, the banks finance only a part of the working capital required by industry and trade. The Group was therefore asked to make suggestions as to the extent to which the current assets, i.e., assets which are of short-term character should be normally financed by banks. Inventory norms and capital structure were thus the two basic aspects in which the Study Group was required to make recommendations.

The Study Group submitted its interim report rather quickly before March 1974 to serve as a broad outline as well as to seek the reaction of all concerned to the working of those guidelines. These guidelines were set in the interim report for only 9 industries. It created a lot of controversy and the Study Group went round the country visiting various organisations and industries and submitted a final report in August 1975. In the final report, they have touched 15 industries in place of 9 in the interim report. For the other industries, they have mentioned that the banks should use their own discretion more or less on the guidelines laid down for the 15 industries. They have not been able to suggest

norms for the heavy engineering industry as it has certain special characteristics.

By the time the Tandon Study Group Report was submitted and a directive issued to the scheduled commercial banks by the Reserve Bank of India advising them to implement most of the recommendations of the Study Group, the economic situation in the country had completely changed. Whilst the country was passing through a serious inflationary situation towards the end of 1973 when the Tandon Study Group was appointed, the economy had already entered a serious stage of recession when the report was submitted in August 1975. It appears that this Committee has not taken any notice of this change in the economic situation, perhaps believing that the guidelines and the norms which they have suggested hold good for all conditions, with which one cannot agree.

It is well known that the Keynesian theory is still followed in the absence of any alternative theory evolved and proved successful, in spite of opposition from several American economists who call it "the old religion" and completely disagree with the steps suggested by Keynes. In any case, according to this theory, in times of inflation all Governments follow a rule of credit squeeze and dear money policy through fiscal and monetary measures.

At the same time, when there is a recession, the conditions have to be reversed and credit has to be relaxed and money should be made comparatively cheaper.

Any Study that does not take these factors into consideration and lays down certain norms for all conditions can only do serious damage to the economy of a country. In my opinion, this is what the Tandon Study Group Report would result in, if fully implemented.

As every student of Indian economic affairs is aware, industry has been faced with a severe fall in demand and at the same time, the Government has advised industry not to cut down production or to lay off workers. As such, production levels have more or less been kept up, the excess supply being held as stocks. As mentioned earlier, the

report of the Tandon Study Group has already become outdated due to change in economic conditions and this is the basic reason why this report has created considerable controversy immediately after it was sought to be implemented. This controversy is not so much about the basic idea of financial discipline, which is the overall guiding principle adopted by the Study Group, but about the methods by which financial discipline is sought to be enforced. Also the timing of the implementation of the recommendations is not opportune since the economic condition has completely changed. At the same time, it would be too short-sighted to look at the Report as a temporary expedient to tackle inflation. The philosophy of the report has a long-term dimension and it is, therefore, necessary that we examine the report from that angle.

The report bases itself on two premises : the first about norms for inventory holding and the second about the capital structure. At times one would wonder whether two separate types of control are necessary to enforce financial discipline. If the banks imposed restrictions in regard to inventory holding by industry and trade, it would be superfluous to have another control on the extent of bank finance in the total working capital. This view has considerable validity. In fact, our economy and our industry are so much tied up in such a vast variety of controls that many times our development has suffered. The same handicap is seen in the recommendations of the Tandon Study Group. If norms are stipulated by banks for inventory holding, there should be no further restrictions about the proportion of bank finance in total working capital ; or, if the banks think that operating on the proportion of bank finance in total working capital is more desirable then it is superfluous to have any norms in regard to inventory holding. But, unfortunately, both the things are sought to be implemented. Banks have started imposing rigid inventory norms and also restructuring capital so that it conforms to the recommendations of the Study Group. This is going to have a very adverse effect on the pace of industrialisation in the country.

Industry and trade, it is needless to say, have to carry a certain amount of inventories in the form of raw materials,

work-in-progress and finished goods. Efficient working of enterprises requires that these inventories are at the operationally minimum level. This is one of the goals of efficient management because inventory holding imposes costs on enterprises by way of interest, warehousing expenses, loss in storage, etc. *Let us be clear that bank credit is not a grant but a loan.* It is a loan at a rate of interest which is currently at the fabulous level of 16 to 17 per cent. No enterprise would like to use this expensive resource lavishly or for unproductive purposes. Therefore, economy in inventories becomes a self-imposed commercial discipline to which management usually conforms.

The level of inventories in our country is high compared to many other developed economies. I emphasize the word "developed" because it explains why inventory holding in our country is high. In well organised societies with a free or market economy, where there is smooth flow of goods, the level of inventories held by industry and trade is quite small. It predominantly depends on the time required for goods to reach from the supplier to the user. For example, in Japan or U.S.A. I understand that in some of the industries raw materials in stock do not exceed more than a few hours' consumption. But one can well imagine what the consequences of such a cut-down in inventory holding in our country would lead to. If one cannot anticipate when the next wagon load will be delivered, if one cannot predict when the next import licence will be cleared, if one could not predict when the power cut would be imposed in any State, it would be a folly to hold stocks at such low levels that industry would be left with no elbow room and production would be interrupted. One cannot impose arbitrary norms on the basis of what is happening in other countries. If there are road blocks in the flow of goods, either administrative or organisational, industry and trade will be compelled to hold more inventories so as to maintain continuous production.

This position is also recognised by the Tandon Study Group. In fact, they have themselves indicated various conditions in which deviations from the norms will become necessary. For example, normally, cotton textile industry

in Bombay is not expected to hold more than two months' stocks of cotton, pharmaceuticals not more than 2-1/4 months' requirement of raw materials and so on. But the Study Group has recognised that these norms cannot be absolute or rigid. Allowances have to be made for flexibility in certain circumstances. The Study Group has, in particular, identified situations like bunched receipt of raw materials, strikes, lockouts and other unavoidable interruptions in the process of production, transport delays, accumulation of finished goods due to non-availability of shipping space for export, build up of stocks of finished goods such as machinery etc. due to failure on the part of purchasers to take delivery and the need to cover full or substantial requirements of raw materials for specific export contract of short duration. These deviations would, no doubt, ensure industry some degree of flexibility which is required in changing conditions. Even so, in practice, the banking system has not been able to cope with these problems. They have taken the guidelines as final and deviations have not at all been permitted. The request for deviation from norms would take so much time to be processed that even if the request was sanctioned the additional credit could seldom be used because the situation which called for this additional finance no longer existed. The banks may not be able to evolve a quick procedure for consideration of applications for deviation from the norms at very short notice.

The scheduled commercial banks have set up what have been called committees of direction to consider norms on an on-going basis. There is also a committee of direction in the Reserve Bank of India which is expected to make a continuous review about the norms for different industries. It is not known as to what extent these committees have been successful in bringing the norms up to the week-to-week requirements. Many of the industries today are faced with shortfall in demand and accumulated large stocks. But the requisite financial accommodation from the banks has not been coming forth. As a result, industry has been compelled to get finance from outside sources at exorbitantly high rates of interest. This has affected cost of production and distribution.

I would go with the Study Group to the extent that a broad criteria has to be evolved as to the extent to which industrial production needs to be financed by the banks. This would give industry a direction about the availability of funds from the banking sector and its responsibility to secure funds from other sources. This criteria could be in terms of a certain percentage of production or a certain number of months' requirements of inventories. But I do not agree with the Study Group that this overall limit should be further split into sub-limits in respect of raw materials including other items used in the process of manufacture, stocks in process, finished goods and receivables. The breaking up of overall limit into these sub-limits curbs the freedom of industry to adjust itself to changing conditions. The imposition of separate sub-limits at different stages in process of production and marketing does not fit in with the dynamic commercial situations. Generally speaking, in an inflationary condition, industries would have larger stocks of raw materials and smaller stocks of finished goods. In a deflationary situation, on the other hand, industries would have smaller stocks of raw materials and be forced to hold larger stocks of finished goods. The composition of inventories undergoes constant change from week to week and as such stipulating separate norms in all situations for the same goods at different stages of manufacture becomes somewhat arbitrary. My suggestion, therefore, would be that there should be only one overall limit for total credit without its being broken up into sub-limits for different categories of inventories. This would enhance the business adaptability of industry and thus help it to attune itself to prevailing conditions, besides making it simple for the banks to check and the industry to satisfy the bank's requirements.

The period allowed for receivables must take into account the time that is necessary for goods to go from industry to the final consumer and the money returned back again to industry. The time taken to complete this cycle represents the period for which bank finance is necessary. Normally, it appears that the period required is about 3 months. The Study Group which has made suggestions in this regard stipulates varying period for different industries. In the

case of cotton textiles, it is 2-1/4 months, man-made fibres 1-3/4 months, and so on. There are complaints from a number of industries that the period allowed is too short and does not take into account time taken for the circular flow of goods and money between industry and the consumer through wholesale and retail trade channels.

A review of the norms stipulated by the Tandon Study Group would thus indicate that these would give rise to considerable rigidity and create difficulties in the smooth functioning of industry and trade. No doubt, it has been emphasised time and again that banks should adopt a flexible approach to ensure that there are no hardships in the way of industry and trade. However, the operative mechanism is such that this required type of flexibility will hardly ever be possible. Therefore, the norms, if at all are necessary, should be broad enough to accommodate week- by-week changes in business conditions.

Let us now go to the second major part of the Tandon Study Group recommendations regarding capital structure. Generally speaking, the pattern of financing of enterprises is the result of a complex of considerations and factors. What is more, the structure of capital evolves in response to circumstances. There is no universal formula which can be adopted by all industries in all countries. The conditions vary, and therefore, the contribution from different sources of finance to industrial capital cannot always be the same. In the early 1950s, the structure of capital in industry generally weighed in favour of owned capital, including share capital and reserves. This was due to the fact that banking structure was relatively less developed and the capital market was fairly in good condition to throw up the amount of funds required for industrial development, which was not as fast growing as thereafter. But in the 1960s the market for shares, particularly after May 1962, was adversely affected. In fact, in the past 13 years there has not been any significant revival. It is precisely because of this factor that a number of Government sponsored financial institutions like IDBI, ICICI, State Financial Corporations, etc. came up, apart from the IFC which was already functioning. The major source of long-term capital for the corporate sector is now

the institutional finance. The slow growth of capital formation naturally compelled industry to go in for larger borrowings from the banking sector. This phenomenon has been interpreted by the Tandon Study Group as financing of long-term assets from bank funds. Nothing would be farther from the truth. Ultimately, the test is whether bank credit has exceeded the industry's legitimate requirements of working capital.

We should also not lose sight of the fact that our high rate of taxation and low rate of public savings are not conducive to the growth of capital formation necessary to achieve the targeted growth rate fixed by the Planning Commission from Plan to Plan. One wonders whether this constraint is not one of the main reasons for the serious lags we have observed in achievement of targets during the different Plan periods.

To guide the banks, the Tandon Study Group has laid down certain criteria which are described as Methods one, two and three respectively. The Reserve Bank of India which has accepted the report generally has for the time being approved only Method One and Method Two. What these methods specify is the extent to which bank credit can finance current assets. The total current assets are partly financed by credit for purchases and other current liabilities. Funds required to carry the remaining current assets, which is called the working capital gap, are usually met partly from borrower's owned funds and long-term borrowings and partly from bank credit. What Method One specifies is that banks should finance a maximum of 75% of the working capital gap, the balance coming out from long-term funds. Method Two imposes still further restrictions by stipulating that a minimum of 25% of the total current assets will be provided by the borrower out of long-term funds and that current liabilities including bank borrowings will not exceed 75% of the current assets. Methods one and two are not alternatives, but successive stages through which borrowers will pass. A borrower who has reached Method One will be pushed ahead to conform to Method Two. There will be no slipping back which means that if for any reason expansion of a company has been delayed and it has used its reserves for

financing the working capital for some time, according to the Tandon Report, it should not be allowed to slip back and seek more finance from the banks at a later date. This is a very dangerous suggestion for the growth of our economy.

Method One, which is the stage to be reached within a period of one year, will mean, to some industries, conversion of a part of bank credit into a term-loan which has to be repaid from internal resources. To these industries additional bank credit will become difficult. They will be compelled to divert a part of retained profits from developmental use to mere inventory holding. That is to say, the retained earnings which would have financed capital formation by industry would now be used for working capital. As a result, in quite a few industries, the rate of industrial growth is likely to be affected. In other industries where financing has already conformed to Method One, banks will try to insist on Method Two. This would mean again that industries will have to divert funds either from retained earnings or from financial institutions towards working capital. Thus, almost all industries, in some way or the other, will be deprived of resources which would have gone into capital formation.

One can well appreciate the need for financial discipline. But certainly, it should not be at the cost of industrial growth. Financial discipline which affects growth adversely is over-reaching the target. The purpose of discipline is to ensure that funds are used productively, not that a particular source of finance should be mathematically related to a particular type of use. Once such rigorous constraints are put, leading to a weakening of the growth of industry, the very purpose of discipline gets lost.

The type of financial control which the Study Group envisages would be justified if : (a) Credit made surplus as a result of the guidelines would be put to more productive purposes. And (b) the shortfall in bank credit available to industry is made good by the term lending institutions.

Let us examine these points a little further. There is a belief, particularly in the minds of monetary authorities, that a part of the credit going to industry and trade is used for speculative purposes. It is possible that in periods of

rising prices, industry sometimes holds larger stocks of raw material as a hedge against inflation. This cannot be construed as speculation. Such credit is, in effect, deflationary because the pricing of finished goods which is generally done on the basis of costs will tend to keep industrial prices a step behind the general price level. During periods of inflation, prices of manufactures rise much less than prices of food articles or industrial raw materials. To this extent, credit to industry should be in national interest and even if it competes with other uses should be liberally allowed.

Today private industry and trade together account for a little over half of the total bank credit. The balance is taken up by food and priority sectors like small-scale industry, agriculture etc. and public sector industrial enterprises. The shortage of credit in recent years has arisen partly because Government which used to finance some of the activities from the budget is now resorting to banks. In effect, bank deposits and credit have been increasing at a high rate and banks would have been flushed with funds if the draft by Government had not been there. But the basic question is whether the use of Bank credit by industry is less or more productive than that by other sectors. Obviously, the use of bank credit by industry is directly linked to production and the ratio of production to bank credit would be much higher than in any other sector. Therefore, any diversion of credit from industry to other sectors would lead to less productive use and not only reduce the total level of production in the country but also help inflationary forces. A part of the rise in prices that has taken place in the past 5 years has been at least partly due to less productive use of funds by banks or diversion of credit from industry to other sectors.

It has been assumed by some economists that if Method One as suggested by the Tandon Study Group is applied, it will release Rs. 600 crores and when Method Two is applied, it will release Rs. 1,260 crores from the credit extended to large and medium industrial companies.

The question arises whether these funds if released will be utilised for financing public sector undertakings, food procurement, agricultural and small-scale sectors, exports

or for any other productive or non-productive purposes. Unfortunately, the Study Group has neither tried to assume these figures nor provide any replies to these questions (See Appendix I).

The second point is whether the depletion of bank credit to industry would be made good by financial institutions or by issue of shares and debentures. Looking at the conditions as they are, this does not seem to be possible. Already the financial institutions are facing capital shortage and are not in a position to meet the full legitimate requirements to development. The capital market is in a bad shape. The maximum amount of paid-up capital ever raised by non-banking, non-financial public limited companies in the private sector was only Rs. 99 crores in 1973 compared to the total gross investment of over Rs. 900 crores. On an average, private corporate sector has not been able to increase paid-up capital by more than 2 per cent per year. Paid-up capital is an extremely valuable resource as it forms the nucleus of the capital structure of companies. This resource has to be utilised to the greatest possible advantage and caunot be dissipated on minor uses.

It would then appear that if industry is denied bank credit for financing inventories, there is bound to be diversion of long-term capital to inventory holding which would dilute the growth of the industrial sector. The alternatives are clear. If industry is forced to adopt the type of financial discipline that the Tandon Study Group thinks is right, then the country must put up with a smaller rate of industrial growth. The issue has thus wider implications and cannot be considered merely as one of accounting principle or financial discipline. It is a question of growth, employment generation, creation of export surpluses and generation of resources for Government through the widening of the tax base. I find it difficult to agree with the Tandon Study Group that financial discipline is all that counts.

It is a pity that no member of the Planning commission was associated with the Study Group, who could have looked from the angle of economic growth and the effects of this

policy on the achievement of the targets set by the Planning Commission.

In any case, at the present juncture when industry is tottering under the pressure of recession it would be unreasonable to expect it to reform its financial structure to conform to Method One within one year. Hopefully, the situation will improve and rationalisation of the finances would be possible after some time. Also Method One requires to be modified to ensure that it does not eat into the finances available for industrial expansion. Method Two would be too rigorous and would really put a brake on industrial growth. One view is that, if Method Two is implemented, industrial growth will be bypassed for the next five years. One may disagree with the period mentioned. But one certainly cannot deny the fact that industrial growth will suffer. At this time when the country is required to undertake big strides in industrial production, these artificial barriers are least welcome. The Reserve Bank should extend the time given to borrowers to conform to Method One and should not insist on Method Two at all.

We should also not lose sight of the fact that the project costs have increased 2 to 3 times in the last five years and so also the cost of inventories. The industry should, therefore, require more funds now than before. On top of this, if further restrictions are imposed, one can easily imagine its repercussions.

It has been estimated by some economists that between 1971 and 1975 the wholesale price index has increased by 56% which corresponds to the working capital requirement whereas release of extra credit amounted to only 39%.

At present the Private Sector companies are supplementing their working capital requirements by borrowing from the public at a comparatively high rate of interest. Here again, the RBI has recently imposed a cut of 10% on borrowings from shareholders and at the same time accepted the recommendations of the Raj Committee which has suggested a further cut of 5% within a year and the balance 10% within 2 years from now with the result that the ceiling

of public deposits which was 50% of owned funds till recently will be reduced to 25% within 2 years.

I have broadly commented on the two major limbs on which the report of the Tandon Study Group rests. I have not touched on the other recommendations in regard to information system or supervision. But there is one more point which merits attention. This relates to the style of credit. Once it is accepted that an enterprise deserves to be given a certain amount of credit, a question arises as to the form in which that credit has to be given. For example, banks can give credit in the form of cash credit, overdraft, loan or bills. Cash credit has been the most common form. The shortcomings of the present cash credit system are obvious. Banks have no control over the level of advances and no notice is required for drawing under limits that may remain unutilised for long periods. As such, banks are not able to plan their credit operations. At the same time, it must be recognised that, if enterprises do not have sufficient flexibility to increase or lower their credit, they may be put to considerable hardships. Taking these factors in view, the Study Group has suggested that the credit limit should be bifurcated into a loan and cash credit. The loan would comprise the minimum level of borrowing which the borrower expects to use throughout the year, known as "core current assets", while the cash credit part would meet the fluctuating requirements. This approach should be of value both to the borrowers and the banks. But even here the shiftover must be done gradually and with sufficient flexibility.

Some observations on the recent busy season policy announced by the Reserve Bank of India are in order. The policy takes account of the changed economic conditions and makes the first step towards liberalisation of credit restrictions. In the main, the advice given to banks in November 1973 about additional margins on book debts and inventories has been withdrawn. But this liberalisation will have no meaning in view of the fact that the Reserve Bank of India has instructed the banks that the progressive application of the guidelines indicated by the Tandon Study Group will continue. Of course, it is true that the Reserve Bank has recognised the need for a certain degree of flexibility in the application of

the criteria for credit discipline. But this is not enough. Unless the benefit intended under the relaxation of margins is fully available to industry, it will not be possible for them to get additional credit for financing the extra stocks which they are required to hold under the present recessionary conditions. At this time, when there is comfortable cushion created by bumper crop and prices have been declining, there was every need for effectively liberalising credit and counter the recessionary process. It is to be hoped that as the busy season progresses, the Reserve Bank will have a fresh look at the credit policy and ensure that industry and trade get their legitimate requirements of bank credit without encroaching on resources which would otherwise promote industrial growth.

The other day Prof. Gangadhar Gadgil pointed out several imbalances created in our economy over a period of time. These are imbalances between pattern of income distribution, between the rate of savings and rate of economic growth sought to be obtained, between prices and costs, etc. Unless the imbalances in the economic growth are corrected, the monetary and credit policy of the Reserve Bank of India will not by itself achieve the desired results. On the contrary, it would help to effect the retardation of industrial growth and create an unintended financial crisis in the corporate sector.

I have analysed the report in some detail both as regards its shortcomings as well as good points. The basic intention of the Study Group to ensure financial discipline is undisputable. What has caused concern is the methods by which this discipline is enforced. The Reserve Bank seems to be aware of the repercussions which will follow from any rigorous implementation of the guidelines. That is why the Reserve Bank issued a Press Note in October emphasising a certain degree of flexibility.

The press note said that the banks should exercise control over the situation with due understanding of the circumstances which may warrant deviation from the norms for temporary periods. Thus while accepting the recommendations relating to inventory norms and commending them for imple-

mentation in the case of all existing and new borrowers, th
Reserve Bank has impressed upon the banks the need fo
considerable flexibility in the actual implementation of th
recommendations. This is a correct approach and I hop
that the banks will respond to this call in the spirit in whic
it has been made. After all, the relationship between th
banks and their clients is much more than a set of rules an
regulations. There has to be mutual understanding on th
part of both. The guidelines are only a broad directio
to go by. If this type of relationship is evolved between th
banks and the clients, the credit system will serve the need
of production better.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise

APPENDIX I

Sectoral Deployment of outstanding gross bank credit (including bills rediscounted with the Reserve Bank of India)

(Amounts in Rupees Crores)

	As on April 26, 1974			As on April 25, 1975		
	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total
1. Food Procurement Credit	423·3	0·5	423·8	564·1	—	564·1
2. Priority Sectors (including Export Credit)	136·9	1665·1	1802·0	149·8	2000·3	2150·1
(a) Small Scale Industries	8·4	918·2	929·6	7·7	1035·2	1042·9
(b) Agriculture	121·5	477·3	598·8	136·4	648·6	785·0
(c) Other priority sectors	7·0	269·6	276·6	5·7	316·5	322·2
3. All other Sectors* (incl. Export Credit)	722·6	4881·3	5603·9	970·5	5101·8	6072·3
4. Non-Food Credit (2+3)	859·5	6546·4	7405·9	1120·3	7102·1	8222·4
5. Of item 4 — Export Credit	94·8	740·0	834·8	90·1	659·3	749·4
6. Gross Bank Credit (1+4)	1282·8	6547·0	7829·8	1684·4	7102·1	8786·5

* Includes large and medium industries and wholesale trade.

NOTE : This table is based on data collected from 59 major banks.

APPENDIX II

1st Method

Total current assets ..	370
Less: Current liabilities other than bank borrowings	150
Working capital gap ..	220
25% of above from long term sources	55
Maximum bank borrowings permissible	165
Excess borrowing	35
Current ratio	1·17:1

2nd Method

Total current assets ..	370
25% of above from long term sources	92
	278
Less: current liabilities other than bank borrowings	150
	128
Working capital gap ..	220
Maximum bank borrowings permissible	128
Excess borrowing	72
	1·33:1

3rd Method

Total current assets ..	370
Less: core current assets (illustrative figure) from long term sources	95
Real current assets ..	275
25% of above from long term sources	69
	206
Less: current liabilities other than bank borrowings	150
	56
Working capital gap ..	220
Maximum bank borrowings permissible	56
Excess borrowing	144
	1·79:1

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

—Eugene Black

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