

A COMPARATIVE STUDY OF WORKING CAPITAL MANAGEMENT OF SELECTED FOUR WHEELERS COMPANIES IN INDIA

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ABSTRACT

The purpose of the present study is to examine the issues like how more investment in working capital can provide quality of current assets and utilised efficiently and effectively by the selected four wheeler sector in India during the period under study. An effort has therefore, been made to undertake an in –depth study on “working capital management of Automobile industry (Four wheeler) in India. Conclusion is that negative working capital will continue to work for the four wheeler industry. The financial data have been collected for the period of 5 years from 2015 to 2019 of 3 Companies. This study is aimed at judging the working capital management of the company. Working capital is the capital required for maintenance of day to day business operations.

Keywords: *Investment, Working Capital, Automobile Sector, Four Wheeler, Current Assets.*

Introduction

Working capital can be referred to as that part of the firm's total assets which are used in current operation. It shows the funds that are required for day to day operations of the business and to meet the short term obligations, so that the liquidity position of the business would not hamper. The management of working capital is essential to formulate plans and policies to handle and manage the working capital efficiently. A firm should always maintain a sound working capital position so that the efficiency of the firm will improve. Both excessive and inadequate working capital leads to operational problems in the business (Sharma, 2013). A businessman must evaluate in advance the approximate amount of working capital needed for a financial year and should be quick enough to arrange the required funds to finance the working capital needs, so that a proper balance could be maintained between liquidity and profitability (Smith, 1980). Automobile industry plays a pivotal role in the growth of the Indian economy. It is one of the key industries in India. It helps in the growth of the economy by producing foreign currencies through export, it provides more employment opportunities to people both directly and indirectly and some other industries like glass, rubber, iron and fabrics are depended on this industry (Ganesamoorthy & Rajavathana, 2013). India is the world's fourth largest automobile market with an annual production of 30.92 million vehicles in FY 2018-19. The companies taken for the purpose of the study are Maruti Suzuki India Ltd., Mahindra & Mahindra Ltd. and Tata Motors India Ltd.

Brief Profile of the Selected Companies

- **Maruti Suzuki India Ltd.**

Maruti Suzuki India Ltd. formerly known as Maruti Udyog Ltd. is an automobile manufacturer in India, founded in February 1981. The company created history in the Indian automobile market with its popular four wheeler model Maruti 800. The company became the first Indian automobile company to manufacture one million vehicles in 1994. The company became Maruti Suzuki India Ltd. on September 17, 2007. Maruti Suzuki manufactures and sells popular cars such as Wagon R, Alto K10 and Alto 800, Swift, Celerio, Swift Dzire, Omni, Vitara Brezza etc. and newly launched S-Presso small SUV. As of July 2018, it had a market share of 53% of the Indian passenger car market.

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- **Mahindra & Mahindra Ltd.**

Mahindra & Mahindra Limited is an Indian multinational car manufacturing corporation. It was established in 1945 as Muhammad & Mahindra and later renamed as Mahindra and Mahindra. It is one of the largest vehicle manufacturers by production in India and the largest manufacturer of tractors in the world. It is a part of the Mahindra Group, an Indian conglomerate. Products are Mahindra e2o, Mahindra KUV100, Mahindra XUV300, Mahindra TUV300, Mahindra Verito, Mahindra Thar, Mahindra Scorpio, Mahindra Bolero etc. It was ranked 17th on a list of top companies in India by Fortune India 500 in 2018.

- **Tata Motors Ltd.**

Tata Motors Ltd. (formerly TELCO, short for Tata Engineering and Locomotive Company) is an Indian multinational automotive manufacturing company headquartered in Mumbai, Maharashtra, India and a subsidiary of the Tata Group. It was founded on 1945. Products are Tata Safari, Tata Indica, Tata Bolt, Tata Ace, Tata Ace Zip, Tata Super Ace, Tata LSV, Tata Nano etc. Tata Motors increases its UV market share to over 8% in FY2019. It is the world's 17th largest motor vehicle manufacturing company, fourth largest truck manufacturer and second largest bus manufacturer by volume.

Literature Review

Shin and Soenen (1998) used a sample of 58,985 firm's years covering the period 1975-1994 in order to investigate the relation between net-trade cycle that was used to measure the efficiency of working capital management and corporate profitability. In all cases, they found a strong negative relation between the length of the firm's net-trade cycle and its profitability.

Padachi (2006) has examined the trends in working capital management and its impact on firm's performance for 58 Mauritian small manufacturing firms during 1998 to 2003. He explained that a well designed and implemented working capital management is expected to contribute positively to the creation of firm's value. The results indicated that high investment in inventories and receivables is associated with low profitability and also showed an increasing trend in the short term component of working capital financing.

Ghosh (2007) in his study reviewed the four different industries namely Pharmaceutical industry, Cement Industry, National Fertilizer Limited and Textile Industry. The objectives of the study were to determine size and source of working capital with a survey made in 98 small scale textile firms of Punjab. It concluded that in addition to the own capital, bank loans were the most prominent source of working capital among most of the survey units.

Ramachandran & Janakiraman (2009) in their paper titled, "The relationship between working capital management efficiency and EBIT" concluded that the importance of efficient working capital management is indisputable in paper industry in India. Moreover, an adequate working capital management is essential as it has a direct impact on EBIT and liquidity.

L. moorthy and R.Rajavathana (2013) in their paper titled "Effects of working capital management on profitability of selected automobile companies in India" took two automobile co. Namely Tata motors and M&M Ltd. and their result showed that both the companies had insignificant relationship with profitability, Although cash conversion cycle of both the co. had positive relationship with profitability but average collection period and average payment period of both the co. proved to be in negative relationship with the profitability.

Snekha S (2018) the analysis has shown the fluctuations and has both good and bad sides during five years. The performance of the company seems to be in increase every year because of the increase in sales but the efficient management of adapting to changes is needed to run towards success. The company is having good reserves and reputation, which will lead to excellent progress in the fore coming years.

All the above studies provide us a solid base and give us idea regarding working capital management and its components. They also give us the results and conclusions of those researches already conducted on the same area for different countries and environment from different aspects. On the basis of these researches done in different countries, we have developed our own methodology for research.

Research Gap

After going through the detailed literature review we found that working capital management has a paramount importance in the minds of the researchers, as number of researches have been conducted in this particular field. But it is also a matter of concern that very few researches are available on the automobile industry in relation to working capital management. We also found that most of the

researches are available on the profitability of the concern. So we have tried to make an attempt to analyze the pattern and trend of working capital management in some selected automobile industries for a limited period (for 5 years).

Objective of the Study

- To study the trends and pattern of working capital management of selected four wheeler companies.
- To analyse and evaluate the financial performance of selected companies in terms of automobile sector in India.

Limitations of the Study

- The study is based on only 5 years data so it can cover only a part of the problem.
- The study covers only four wheeler manufacturer in India.
- The data used in this study is based on only secondary sources and as such its findings depends entirely on the accuracy of such data.

Data Analysis and Interpretation

Table 1: Working Capital of Maruti Suzuki India Ltd.

Particulars	Mar'19	Mar'18	Mar'17	Mar'16	Mar'15	Total
Current Assets						
Inventories	3325.70	3160.80	3262.20	3132.10	2615.00	15495.80
Sundry Debtors	2310.40	1461.80	1199.20	1322.20	1069.80	7363.40
Cash and Bank Balance	178.90	71.10	13.80	42.20	18.30	324.30
Total Current Assets	5815.00	4693.70	4475.20	4496.50	3703.10	23183.50
Loans and Advances	3593.90	3901.30	3749.40	3994.40	2891.80	18130.80
Total Current Assets, Loans and Advances(A)	9408.90	8595.00	8224.60	8490.90	6594.90	41314.30
Current Liabilities	15976.80	16915.50	13865.00	11564.70	8013.60	66356.60
Provision	663.90	586.50	470.90	413.70	1653.00	3788.00
Total Current Liabilities & Provisions(B)	16640.70	17502.00	14335.90	11978.40	9666.60	70123.60
Gross Working Capital(A)	9408.90	8595.00	8224.60	8490.90	6594.90	41314.30
Net working Capital(A-B)	-7231.80	-8907.00	-6111.30	-3487.50	-3071.70	-28809.30

The above table shows the working capital of Maruti Suzuki India Ltd. for the financial years 2015 to 2019. After analysing the data given in the balance sheet of the company we can conclude that the company had negative working capital (net) during the study period. It indicates that the company's current liabilities are more than their current assets. We can also analyze that company is maintaining larger amount as cash in hand and loans and advances is the main component of the company's current assets. Current liabilities include creditors, bills payable, dividend payable, current maturities of long term borrowings, employee benefits and taxes etc.

Table 2: Working Capital of Mahindra & Mahindra Ltd.

Particulars	Mar'19	Mar'18	Mar'17	Mar'16	Mar'15	Total
Current Assets						
Inventories	3839.27	2701.69	2758.01	2687.93	2437.57	14427.47
Sundry Debtors	3946.30	3172.98	2938.84	2511.64	2558.03	15127.79
Cash and Bank Balance	3731.66	2893.73	1687.48	2287.03	2064.77	12664.67
Total Current Assets	11517.23	8768.40	7384.33	7486.60	7060.37	42219.93
Loans and Advances	3569.87	3774.39	1616.97	1763.10	1302.42	12026.75
Total Current Assets, Loans and Advances(A)	15087.10	12542.79	9001.30	9249.70	8362.79	54243.68
Current Liabilities	12905.84	11634.91	8256.69	7824.44	6298.50	46920.38
Provision	888.67	931.93	760.27	598.38	1461.44	4640.69
Total Current Liabilities & Provisions(B)	13794.51	12566.84	9016.96	8422.82	7759.94	51561.07
Gross Working Capital(A)	15087.10	12542.79	9001.30	9249.70	8362.79	54243.68
Net working Capital(A-B)	1292.59	-24.05	-15.66	826.88	602.85	2682.61

The above table states the working capital of Mahindra & Mahindra Ltd. for the financial years 2015 to 2019. After analysing the data given in the balance sheet of the company we can conclude that the company had majorly positive working capital (except in the year 2017 and 2018) which is a good sign for the company. It indicates that current liabilities are more than that of the current assets. The

proportion of current assets is increasing every year. Loans and advances hold the major portion in current assets. It means that the company is more dependent on short term loans. Increasing sundry debtors indicates that the company is maintaining liberal credit policy. Cash position of the company is also good except in the year 2017 when it got declined. The proportion of current liabilities is also increasing ever year during the study period.

Table 3: Working Capital of Tata Motors Ltd.

Particulars	Mar'19	Mar'18	Mar'17	Mar'16	Mar'15	Total
Current Assets						
Inventories	4662.00	5670.13	5553.01	5117.92	4802.08	25805.14
Sundry Debtors	3250.64	3479.81	2128.00	2045.58	1114.48	12018.51
Cash and Bank Balance	1306.61	795.42	326.61	788.42	944.75	4161.81
Total Current Assets	9219.25	9945.36	8007.62	7951.92	6861.31	41985.46
Loans and Advances	6249.59	5703.02	5530.93	4998.42	4270.67	26752.63
Total Current Assets, Loans and Advances(A)	15468.84	15648.38	13538.55	12950.34	11131.98	68738.09
Current Liabilities	18779.30	20913.14	17501.71	17958.05	12282.33	87434.53
Provision	2430.28	1872.40	1369.35	1201.16	2717.28	9590.47
Total Current Liabilities & Provisions(B)	21209.58	22785.54	18871.06	19159.21	14999.61	97025.00
Gross Working Capital(A)	15468.84	15648.38	13538.55	12950.34	11131.98	68738.09
Net working Capital(A-B)	-5740.74	-7137.16	-5332.51	-6208.87	-3867.63	-28286.91

The above table states about the working capital of Tata Motors Ltd. for the financial period 2015-2019. After analysing the data given in the balance sheet of the company we can say that the company had negative working capital during the study period. It shows that the company's current liabilities are more than their current assets. But the major parts of the company's current assets were covered by inventory, sundry debtors and loans. We can also see that company's current liabilities and provisions are increasing every year. We can say that the liquidity position of the company is not good.

Conclusion

The present study describes the comparative analysis of working capital management in automobile industry. It is found that, Maruti Suzuki Ltd. & Tata Motors Ltd. Are both working on negative working capital, whereas Mahindra & Mahindra Ltd is showing positive sign of working capital. Negative or inadequate working capital has many disadvantages. The main reason of negative working capital in automobile industry is that they have high credit period and collect advances from the customer. But by doing this the study indicates that negative working capital is not always bad. Rather it is a sign of managerial efficiency. The companies should focus on improvement by implementing working capital management in an effective way and reduce expenses. The companies should review the current management policies to strengthen country's economic development by way of more productions and making strategies for increasing the consumptions of automobile products.

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