



Comparative analyses of working capital management of four wheelers companies in India

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Abstract

The purpose of the present chapter is to examine the issues like how large is the investment in working capital and its various components, how the quality of current assets has evolved over time, and whether working capital and its various components have been utilized efficiently 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. My conclusion is that negative working capital will continue to work for the two wheeler industry. The financial data have been collected for the period of 5 years from 2013 to 2017 of 4 Companies. This project is a project 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: working capital trends, automobile industry, financial management, four wheeler companies in India

Introduction

Working capital is the portion of an enterprise’s total capital which is employed in short-term operations, i.e., current assets. A typical list of these assets in order of liquidity includes cash in hand and at bank, short-term investment, payments in advance, accounts receivables, raw materials inventory and inventory of goods in process and finished goods inventory. The management of all these current assets assumes greater importance because the sum total of investment in current assets forms over one-half of an enterprise’s total assets. Besides, liquidity and profitability, the two desired goals of financial management are directly affected by working capital management performance. As the size of working capital increase, both the enterprise’s risk and return would decrease and vice-versa. Since, the current assets (working capital) affect the risk return trade off to be achieved by the enterprise, the study of structure, sources and utilization appears to be one of the important areas of investigation on working capital management.

The concept of working capital can define in following two ways

1. Gross working capital
2. Net working capital

1. Gross Working Capital = Total Current Assets

2. Net working capital = Current Assets – Current Liabilities

Gross concept and Net concepts of working capital have their own significance. When individual current assets are to be managed, gross concept of working capital is used. Net concept of working capital emphasizes on how much current assets have been financed out of long term funds. Under this concept, the relationship between current assets and current liabilities is established or their liquidity is determined.

Definition of working capital

According to Smith, K.V. “working capital management is Concerned with the problem that arise in attempting to manage the current assets, current liabilities and the inter relationship that exists between them”.

History of Indian automotive industry

The automotive industry in India is one of the largest in the world. The industry accounts for 7.1 per cent of the country’s Gross Domestic Product (GDP). During its early days, the most of the Indian car auto manufacturers banked upon foreign technologies. But the scenario has changed over the years and currently, the Indian auto manufacturers are using their own technology. Due to the growing pace of Indian automobile market, a number of car manufacturers including the global leaders have locked their horns in the Indian auto market. After the recent setback due to the global recession, the Indian automobile market has again started to grow up. Though the auto sales except commercial vehicles started creeping up since the beginning of this financial year, 2009 when the market saw buoyant sales. It fuelled optimism in the industry. The retail trade also started soaring up. The auto sales saw a 9.6% rise in the month of September with a sale of 1,092,262 units. The passenger vehicle sales also grew by 20.32%. The two wheeler market was also augmented by 7.67% during the same period with a total sale of 838,150 units. The Two Wheelers segment, with 81 per cent market share, is the leader of the Indian Automobile market, owing to a growing middle class and a young population. Moreover, the India is also a prominent auto exporter and has strong export growth expectations for the near future. In FY 2014-15, automobile exports grew by 15 per cent over the last year. In addition, several initiatives by the Government of India and the major automobile players in the Indian market are

expected to make India a leader in the Two Wheeler (2W) and Four Wheeler (4W) market in the world by 2020.

Introduction to companies

1. Maruti Suzuki India Ltd. (MSIL)

Maruti Suzuki India is an undisputed leader in the Indian automobile industry. Started its journey in February 1981 as Maruti Udyog Limited, the company created history in the Indian automobile market with its hugely 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 Limited on September 17, 2007.

Founder

It is a 56.21% owned subsidiary of the Japanese car and motorcycle manufacturer Suzuki Motor Corporation.

Major brands

Ciaz, Ertiga, Wagon R, Alto, Swift, Celerio, Swift Dzire, Baleno and Baleno RS, Omni, Alto 800, Eeco, Ignis.

The total annual production capacity of this company is about 14, 50,000 units.

2. Mahindra & Mahindra Ltd. (M&M)

Mahindra & Mahindra Limited is another auto-giant in India. A part of the Mahindra Group, M&M is the largest SUV maker in the country. They are world's largest tractor manufacturing company. It is also India's second largest vehicle manufacturing company. Their head office is located at Mumbai and the total number of employees working under them right now is about 39276. They produce two wheelers, bus, pickup, tempo, trucks, and commercial vehicles. They are expertise in producing vehicles.

Founder

Jagdish Chandra Mahindra in 1945 at Ludhiana in Punjab state.

Major brands

Mahindra Tractors, Mahindra Thar, Mahindra Xylo, Mahindra Quanto, Mahindra Bolero, Mahindra Scorpio, Mahindra Pik-Up, Mahindra Verito, Mahindra Maxximo, Mahindra Supro, Mahindra XUV500, Mahindra TUV300, Mahindra KUV100, Mahindra Pik-Up, SsangYong Rexton

3. Tata motors LTD

This is founded in the year 1945, it is Asia's largest and world's 17th largest automobiles manufacturing company. The headquarters of this company is located at Mumbai. This could be public type and the total number of employees in this company right now is about 79,558. It has its factories in India at around 6 places and the company is known for its production of cars, vans, truck, buses, coaches etc.

Founded: 1945

Major Brands

Tata Safari, Tata Daewoo, Tata Indica, Tata bolt, Tata Hispano, Jaguar Land Rover, Tata Ace, Tata Ace Zip Tata Super Ace, Tata LSV, Tata Nano.

4. Hyundai motors India Ltd. (HMIL)

Hyundai Motor India Limited, founded in 1998 and a subsidiary of Korean auto giant Hyundai Motor Company, is the second largest car manufacturer in India. It is also country's largest passenger car exporter with 104731 employees. Hyundai Motor came very close to the hearts of the Indian auto lovers through its flagship model Santro.

Founder: Chung Ju-yung in 1967

Major Brands

Hyundai Eon, Hyundai Grand i10, Hyundai Xcent, Hyundai Elite i20, Hyundai i20 Active, Hyundai Elantra, Hyundai Creta, Hyundai Tucson, Hyundai Verna.

Literature review

1. Sukhdev Singh (2006) ^[2] in his study made an attempt to examine the Inventory control practices in Indian Farmers Fertilizer Cooperative Limited (IFFCO) by using various financial ratios. The inventory control practices revealed that correlation between sales and inventory ranges from very high to moderate among inventory items and the correlation was significant in case of all the components of inventory except stores and spares. The growth rate of stock of raw material, work-in-progress, finished goods and total inventory was more than the ideal situation and provides clues for improvements. The stock of stores and spares requires the immediate attention of management in order to stop ruthless purchases.
2. Anand and Malhotra (2007) ^[3] in their study discussed the cash conversion efficiency, days operating cycle and days of working capital in 339 India non-financial companies for the period of three years from 2001-02 to 2003-04 for each company and for 98 industry groups. They concluded that there exists some relationship between working capital management and profitability on an aggregate basis suggest that there was a significant negative relation between cash flows from operating activities and average days of account receivables.
3. Ghosh (2007) ^[4] in his study reviewed that 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.
4. Sharma (2007) ^[5] in his study analysis that various procedures and techniques of financial analysis adopted by the textile industry of the accounting and control of various constituents of current assets in all aspects of textile units in India for a period from 2002-2006. It may be remarked that the existing system of current assets accounting in all the textile companies selected for this study was not been satisfactory and needs improvement in all the directions immediately. Today, manufacturing units of several other industries are using modern techniques of current assets accounting and the textile industry should not lag behind.
5. Inna (2016) ^[6] in his study analysis that Negative or

Inadequate working capital has many disadvantage. Due to negative working capital firm unable to pay his short-term liability in time, the production process stop due to lack of raw material, absence of adequate working capital, fixed assets cannot be utilized fully and some time management cannot take advantage of business opportunities. But after doing this I am also found that negative working capital is not always bad. It is sign of managerial efficiency. The main reason of negative working capital in two wheeler industry is that they have high credit period and that they Collect advances from the customer. The inventory turnover ratio is also higher for all companies it shows they keep stock less day ad stock converted into quickly and they generate revenue quickly.

6. K Thulasivelu & Dr. G Suresh (2017) ^[8] a study on working capital performance analysis is very much essential to the present globalized economic environment. Appropriate trend analysis of financial performance helps the firms to increase their earning capacity and changes the retained earning process by modifying various revenue ratios. Under this circumstance the present management policies are all reviewed to strengthen country's economic development by way of more productions and increasing the consumptions of automobile products.
7. Sneha S (2018) ^[7] the analysis has shown the fluctuations and have 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.

Objectives of the study

The main objective of this research paper is

1. To find out and calculate the overall working capital management in selected four wheeler company.
2. To find out the trends in working capital followed in four wheeler industry.
3. To analyze and evaluate the financial performance of selected companies in terms of working capital management of automobile Sector of India.
4. To study the pattern of working capital management of Automobile Sector of India.

Data Analysis & Interpretation

1. Maruti Suzuki LTD.

5. To present summary of the study and to make suitable suggestion for improvement in the competitive business world.

Limitations of the study

1. The data used in this study have been taken only secondary sources and as such it findings depends entirely on the accuracy of such data.
2. This study is only give information about four wheeler industries of India.
3. The main source of information containing in this study is based on annual reports of company. They represent financial information/position on particular date.
4. The financial performance who covering a large period state 20 years or 30 years can give a much clear representation of management practices of financial performance.
But this study covers only 5 years period so it can touch only a part of the problem.
5. This study includes only 4 four wheeler manufacturer companies in India.

Research methodology

Research Design: For this study we used descriptive research design. Expressive or descriptive as well as analytical research design means describe the feature or performance of the subject under study.

Data collection: The present study is mainly based on secondary data. The main source are published Annual Report of the all Companies for last 5 years.

In addition for framing theoretical as well as analytical framework, various books and published material, newspapers, Journals and websites, Author personal views has been made used of. For analysis working capital we used current assets, current liabilities, gross working capital, and net working capital.

Period of Study: The present study covers the period of 5 years spanning from the year 2013 to 2017.

Data Presentation: Tabular representation of the data has been done to show the working capital positions of all companies.

Sample Frame: The sample size was put 4 chosen from various companies.

Table 1: Show Working Captial of Maruti Suzuki Ltd.

Particulars	Mar '17	Mar '16	Mar '15	Mar '14	Mar '13	Total
Current assets						
Inventories	3,262.20	3,132.10	2,615.00	1,705.90	1,840.70	12,555.90
Sundry Debtors	1,199.20	1,298.60	1,069.80	1,413.70	1,469.90	6,451.20
Cash and bank balance	13.1	39.1	18.3	629.7	775	1,475.20
Total current Assets	4,474.50	4,469.80	3,703.10	3,749.30	4,085.60	20,482.30
Loans and Advances	3,748.90	3,165.40	2,891.80	3,256.70	3,830.20	16,893.00
Total CA, Loans & Advances(A)	8,223.40	7,635.20	6,594.90	7,006.00	7,915.80	37,375.30
Current Liabilities	13,867.70	9,974.60	8,013.60	6,996.90	5,892.00	44,744.80
Provision	470.9	2,136.50	1,653.00	875.7	874.1	6,010.20
Total CL& Provisions (B)	14,338.60	12,111.10	9,666.60	7,872.60	6,766.10	50,755.00

Gross Working Capital (A)	8,223.40	7,635.20	6,594.90	7,006.00	7,915.80	37,375.30
Net Working Capital (A-B)	-6,115.20	-4,475.90	-3,071.70	-866.60	1,149.70	-13,379.70

Interpretation

The above table indicates working capital of Maruti Suzuki ltd. for the mentioned period 2013-17. After observing we can say that company had negative working capital for during the study period. Only in the year 2017, its working capital is positive i.e.1149.70 crores. It shows company current liabilities are more than their current assets. We can also

analysis that company can has been kept a large amount as provision such provision for taxes and proposed dividend etc. Current liabilities include creditors, bills payable dividend payable current maturities of long term borrowing employee benefits and taxes. We can also see company loans and advance is main components of company current assets.

2. Mahindra & Mahindra LTD.

Table 2: Show working capital of Mahindra & Mahindra LTD.

Particulars	Mar '17	Mar '16	Mar '15	Mar '14	Mar '13	Total
Current assets						
Inventories	2715.6	2687.93	2437.57	2803.63	2419.77	13064.5
Sundry Debtors	2918.45	2512.05	2558.03	2509.84	2208.35	12706.72
Cash and bank balance	1687	2297.03	2064.77	2950.39	1781.41	10780.6
Total current Assets	7321.05	7497.01	7060.37	8263.86	6409.53	36551.82
Loans and Advances	4442.51	5876.58	4638.12	4539.55	3389.26	22886.02
Total CA, Loans & Advances(A)	11763.6	13373.6	11698.5	12803.4	9798.79	59437.84
Current Liabilities						
Provision	1359.83	2011.48	2068.78	2074.02	1905.47	9419.58
Total CL& Provisions (B)	10931.3	12861.6	11069.4	10752.3	9567.6	55182.22
Gross Working Capital (A)	12291.2	14873.1	13138.2	12826.3	11473.1	64601.8
Net Working Capital (A-B)	832.24	511.99	629.09	2051.11	231.19	4255.62

Interpretation

The above table indicates working capital of Mahindra & Mahindra ltd. for the mentioned period 2013-17. After observing we can say that company had positive working capital which is a good sign for the company. Also loans &

advances holds the major portion in current assets. It means company more dependent on short-term loans. Sundry Debtors are also increasing it means the company is following liberal credit policy. Cash position is also good but in the year 2017 it got declined.

3. Tata motors LTD.

Table 3: Show working Capital of Tata Motors Ltd.)

Particulars	Mar '17	Mar '16	Mar '15	Mar '14	Mar '13	Total
Current assets						
Inventories	5504.42	5117.92	4802.08	3862.53	4455.03	23741.98
Sundry Debtors	2128	2045.58	1114.48	1216.7	1818.04	8322.8
Cash and bank balance	286.06	788.42	944.75	226.15	462.86	2708.24
Total current Assets	7918.48	7951.92	6861.31	5305.38	6735.93	34773.02
Loans and Advances	5435.45	4998.42	4270.67	4374.98	5305.91	24385.43
Total CA, Loans & Advances(A)	13353.9	12950.3	11132	9680.36	12041.8	59158.45
Current Liabilities						
Provision	17347.2	17958.1	12282.3	13334.1	16580.5	77502.13
Total CL& Provisions (B)	1318.69	1201.16	2717.28	2708.11	2200.77	10146.01
Total CL& Provisions (B)	18665.8	19159.2	14999.6	16042.2	18781.2	87648.14
Gross Working Capital (A)	13353.9	12950.3	11132	9680.36	12041.8	59158.45
Net Working Capital (A-B)	-5311.91	-6208.9	-3867.6	-6361.9	-6739.4	-28489.69

Interpretation

The above table indicates working capital of Tata Motors ltd. for the mentioned period 2013-17. After observing we can say that company had negative working capital for during the study period. Only in the year 2017, its working capital is positive i.e.5311.91 crores. It shows company current liabilities are more than their current assets. But the major part

of company current assets will be covered by inventory and sundry debtors and company's short term investment and cash balance is also increased to comparison last year, it was good for company. We can also see company Current liabilities & provision it was 18781.2 in 2013, it was 16042.2 in 2014, it was 14999.6 in 2015, it was 19159.2 in 2016, it was 18665.8 in 2017.

4. Hyundai motors Ltd.

Table 4: Show working capital (in trillions) of hyundai motor co. Ltd.

Particulars	Mar '17	Mar '16	Mar '15	Mar '14	Mar '13	Total
Current assets						
Inventories	10.28	10.52	9.2	7.42	7.07	44.49
Sundry Debtors	32.87	32.9	32.59	30.41	28.18	156.95
Cash and bank balance	29.37	27.9	24.43	26	22.22	129.92
Total current Assets	72.52	71.32	66.22	63.83	57.47	331.36
Loans and Advances	1.45	1.14	1.32	1.2	1.38	6.49
Total CA, Loans & Advances(A)	73.97	72.46	67.54	65.03	58.85	337.85
Current Liabilities						
Short term Debt & Current Portion Long term Debt	23.06	23.6	20.17	16.53	13.99	97.35
Accounts Payable	6.48	6.99	7.08	7.04	6.72	34.31
Provision	0.15153	0.54091	1	0.6562	0.60528	2.95392
Other Current Liabilities	13.47	12.49	12.96	10.95	10.6	60.47
Total CL& Provisions (B)	43.16	43.61	41.21	35.18	31.92	195.08
Gross Working Capital (A)	56.63	56.1	54.17	46.13	42.52	255.55
Net Working Capital (A-B)	30.81	28.85	26.33	29.85	26.93	142.77

Interpretation

The above table indicates working capital of Tata Motors Ltd. for the mentioned period 2013-17. After observing we can say that company had positive working capital during the study period. Sundry debtors, cash & loans & advances are increasing. Current assets of company will be increasing during the period it will be good for company and we can also see amount of loans and advance in sundry debtors is increase to comparison all year it means company adopt liberal credit policy. It means company does not face any difficulty to paying his short term liabilities, interest of short term creditors will be safe. We can also see inventory and short term loans and advances can contribute major amount in total current assets It liquidity position is not so good of company. Current liabilities will be also increased.

Suggestions and recommendations

The important suggestions and recommendations to improve the four wheeler sector in India

1. Continuous technological upgrading and assimilation of latest technology is essential for the four wheeler sector. The induction of advanced technology has helped the industry immensely to conserve energy and fuel and to save materials substantially and reduce the cost.
2. In order to increase the profitability of the companies, it is suggested to control the cost of goods sold and operating expenses.
3. The management should try to adopt cost reduction techniques in their companies to get over this critical situation.
4. Improper planning and delays in implementation of projects lead to rise in their cost. So properly planning should be made.
5. To regularize and optimize the use of cash balance proper techniques may be adopted for planning and control of cash. The investments in inventories should be reduced and need to introduce a system of prompt collection of debts.

Conclusion

After doing a comparative study of working capital management in automobile company (four wheeler) I found Maruti Suzuki Ltd. & Tata Motors Ltd. are working on negative working capital. Mahindra & Mahindra Ltd. & Hyundai motors ltd. were showing positive signs of working capital. Negative or Inadequate working capital has many disadvantage. Due to negative working capital firm unable to pay his short-term liability in time, the production process stop due to lack of raw material, absence of adequate working capital, fixed assets cannot be utilized fully and some time management cannot take advantage of business opportunities. But after doing this I am also found that negative working capital is not always bad. It is sign of managerial efficiency. The main reason of negative working capital in four wheeler industry is that they have high credit period and that they Collect advances from the customer. My conclusion in spite of various benefits of negative working capital, a firm should checks its inventories, account payables and free cash flow from time to time for better interpretation and implantation. The overall working capital management and profitability of the company is good but not highly satisfactory. It is important that Companies should focus on improvement by implementing working capital management in effective way and reduce expenses. Under this circumstance the present management policies are all reviewed to strengthen country's economic development by way of more productions and increasing the consumptions of automobile products.

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