Working Capital Management and Cash Flow Analysis of Selected Indian Companies in Automobile Industry

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ABSTRACT

Working capital management is one of the most imperative factors impacting the performance of the firm. Efficient management of working capital is crucial for sustenance of the business in the long run. Working Capital management has been one of the key areas of research as previous studies revealed that many companies have enjoyed sales growth momentum but operating cash flow as a percentage of sales, has been decreasing. The necessary data has been collected for the period of five years from financial year 2012-13 to financial year 2017-18. This paper is an attempt to analyze and understand the working capital management practices using ratios and cash management capabilities of well- known three firms in Automobile industry in India.

Keywords: Working Capital Ratios, Cash Flow Statement, Indian Automobile Industry

INTRODUCTION

Working capital in an organisation plays a pivotal role in the business analogous to the role of heart in human body. Working capital funds are circulated in the business for the day to day functioning of the organisation. As and when this circulation stops, the functions in the business also halts. It is because of this reason that the working capital is known as the circulating capital as it circulates in the business just like blood in the human body, **(Agarwal, 2000)**.

In modern era, management of working capital is an important and challenging task due to the presence of high percentage of working capital in the businesses especially in the heavy engineering industry. The objective of the working capital management in a business concern is to maintain an optimum balance of each of the working capital components. The viability of any business will depend on the management of the individual components of working capital.

A cash flow statement provides useful information about the liquidity position of the organization and also assists in cash planning of the organisation. Cash flow statement gives a clear picture of effect of changes of each and every item of balance sheet on the cash position of the company. It helps the management to foresee and analyze the situations where business has enormous profits but still there is shortage of cash to distribute to the shareholders. Therefore, there is an imperative need for the firms to increase the cash availability for project financing, expansion etc. by reducing the amount of funds tied up in current assets. Efficient working capital management leads to improve the operating performance of the business concern and it also helps to meet the short term liquidity.**(C. Paramasivan T. Subramanian, 2009)**

Thus, this paper is an attempt to study the working capital components and cash flow practices of the firms in automobile industry.

LITERATURE REVIEW

In this section, we present the review of the literature with a brief overview of previous studies on working capital management.

Mukhopadhyay (2004) in his study to find out the effectiveness of working capital management of a firm with particular reference to its short term liquidity and impact on commercial operations of the organization found that Gross working capital is significantly positively related with Inventory, Debtors and Receivables, Loans and Advances, Other current Assets and Net working capital and significantly and negatively related with current Liabilities and provision

The efficient management of working capital is a fundamental part of the overall corporate strategy to create shareholders value (Nazir and Afza, 2008). In addition, efficient working capital management leads to improve the operating performance of the business concern and it helps to meet the short term liquidity (C. Paramasivan T. Subramanian, 2009). Therefore firms try to keep an optimal level of working capital that maximizes their value (Deloof, 2003).

Eljelly (2004), stated that inspite of the organisation makes profit there might be a shortage of liquidity if its assets cannot readily be converted into cash and will not be able to finance its obligations as at when due.

Egbide (2009) found that large number of business failures in the past has been blamed on the inability of the financial manager which adversely affect their operating performance. Therefore, effective working capital management is very important because it affects the performance and liquidity of the firms (Taleb et al., 2010). Thereby, the main objective of working capital management is to reach optimal balance between working capital management components (Gill, 2011).

RESEARCH METHODOLOGY

The study covers the analysis of working capital performance of 3 NSE-listed public companies from Automobile industry namely Bajaj Auto Ltd, Tata Motors Ltd and Maruti Suzuki India Ltd. These companies have been chosen particularly for the reason that they are among the largest ones in terms of seeking short term funds especially for their working capital requirement. The main objective of this study is to examine the trends in working capital management and cash flow practices in the automobile sector for the selected companies. The data has been sourced from screener database and company specific annual reports for a period of five years year ending 31st March 2012 to 31st March 2017. On the basis of data collected working capital and cash flow statement were analyzed The working capital analysis have been made considering the selected important ratios such as current ratio, quick ratio, inventory turnover ratio, debtor's turnover ratio and asset turnover ratio.

DATA ANALYSIS AND INTERPRATATION

Table 1: Current Ratio

Year	Bajaj Auto Ltd.	Tata Motors Ltd.	Maruti Suzuki India Ltd.
2012	1.12	0.62	1.69
2013	1.50	0.11	1.60
2014	1.19	0.08	1.74

2015	2.13	0.42	0.93
2016	1.70	0.60	0.71
2017	2.92	0.59	0.65

The above Table 1 shows the current ratios for five years year ending 31st March 2012 to 31st March 2017. The standard current ratio for manufacturing heavy industries is 1.33:1. When we compare the ratios for the three companies it was noticed that the current ratio position is not up to the standard over the study period for the two major automobile companies namely Tata Motors Ltd. and Maruti Suzuki India Ltd. The average current ratio is 1.76, 0.40, 1.22 for Bajaj Auto Ltd., Tata Motors Ltd. and Maruti Suzuki India Ltd. Moreover there has been a decline in the current ratio for Tata Motors Ltd. and Maruti Suzuki Ltd which depicts a serious liquidity position of the two companies.

Table 2: Inventory Turnover Ratio

Year	Bajaj Auto Ltd.	Tata Motors Ltd.	Maruti Suzuki India Ltd.
2012	30.62	0.59	22.16
2013	29.75	0.60	23.97
2014	31.37	0.42	24.70
2015	29.70	0.08	22.76
2016	29.46	0.11	19.78
2017	30.08	0.62	21.28

Table 2 shows the inventory turnover ratio of the three companies. In this analysis we identified that Bajaj Auto Ltd and Maruti Suzuki Ltd. has maintained a steady and controlled inventory ratio throughout the study period highest being in the year 2014 for both the companies, whereas Tata Motors Ltd inventory turnover ratio reflects a poor performance on an unremitting basis. In addition, it has been noticed sales has been declined during the study period which has further triggered higher average inventory for Tata Motors Ltd. as also revealed by the turnover ratio.

Table: 3 Fixed Asset Turnover Ratio

Year	Bajaj Auto Ltd.	Tata Motors Ltd.	Maruti Suzuki India Ltd.
2012	3.33	4.09	3.17
2013	3.19	4.49	2.77
2014	2.21	5.42	2.67
2015	3.58	6.36	1.97
2016	1.92	6.54	1.69

2017	1.91	5.85	1.61

Table 3 gives explanation about the fixed asset turnover which measures the company's ability to generate sales from its fixed assets. The results revealed that Tata Motors Ltd has been utilising their fixed assets more efficiently in a consistent manner with an average of 5.46 times in comparison with Tata Motors Ltd and Maruti Suzuki India Ltd.

Table 4: Debtors Turnover Ratio

Year	Bajaj Auto Ltd.	Tata Motors Ltd.	Maruti Suzuki India Ltd.
2012	51.43	20.00	36.00
2013	27.69	17.14	30.00
2014	25.71	21.18	30.00
2015	30.00	21.18	45.00
2016	30.00	20.00	45.00
2017	22.50	18.95	60.00

Table 4 shows the Receivable Turnover Ratio which portrays the firm's efficiency in managing and collection of the credit issued to the customers. The above table shows that that the average collection period of Maruti Suzuki India Ltd has been increasing with an average turnover of 41.00 times. The results of the turnover ratio of Bajaj Auto Ltd and Tata Motors Ltd are not encouraging as they have a declining trend with an average collection of 31.22 and 19.74 times in a year. A low ratio indicates the company's bad collection period and it is also indicating low cash balance.

TABLE 5: NET CASH FLOWS OF BAJAJ AUTO LTD.

Particulars/Year	2012	2013	2014	2015	2016	2017
Cash From Operating Activities	3,246	2,218	3,502	2,114	3,690	3,267
Cash From Investing Activities	-850	-1,394	-2,072	-380	-68	-3,610
Cash From Financing Activities	-1,462	-1,445	-1,496	-1,644	-3,384	-190
Net Cash Flow	934	-621	-66	90	238	-532

TABLE 6: NET CASH FLOWS OF TATA MOTORS LTD.

Particulars/Year	2012	2013	2014	2015	2016	2017
Cash From Operating Activities	18,384	22,163	36,151	35,531	37,900	30,199
Cash From Investing Activities	-19,464	-22,969	-27,991	-36,232	-36,694	-39,571

Cash From Financing Activities	6,567	-1,692	-3,883	5,201	-3,795	6,205
Net Cash Flow	5,488	-2,499	4,277	4,500	-2,589	-3,167

TABLE 7: NET CASH FLOWS OF MARUTI SUZUKI INDIA LTD.

Particulars/Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Cash From Operating Activities	2,560	4,301	4,904	6,321	8,484	10,279
Cash From Investing Activities	-3,096	-3,386	-4,893	-4,410	-7,227	-9,178
Cash From Financing Activities	616	-966	-66	-1,962	-1,236	-1,129
Net Cash Flow	81	-51	-55	-51	21	-28

Table 5, 6 and 7 shows the net cash flows computed from three major activities of the cash flow statement of Bajaj Auto Ltd, Tata Motors Ltd and Maruti Suzuki India Ltd for five financial years. It is being observed from the above tables that the operating activities of all the companies are positive and depict an uptrend in case of Maruti Suzuki India Ltd and depicted intact business from operations. However, huge investment was incurred by all these companies due to which there is a negative cash flow from Investing activities more specifically for the year ending 31st March 2017.

FINDINGS AND SUGGESTIONS

On the whole the study identifies the issues related to the working capital management undertaken by automobile industries through various secondary data analysis. The findings of the company – wise study based on the secondary data have been discussed below.

From the study it has been found that Tata motors Ltd. is maintaining an aggressive policy as their current asset is much lower than the industry standard as noticed from the current ratio which will increase the profitability but at the same time the risk appetite of the company is increasing. Therefore, the company should move towards reducing the risk by dipping a certain extent of the current liabilities from the organisation.

The study revealed that inventory turnover period is sluggish for Tata Motors Ltd. as the company's Jaguar Land Rover car sales has fallen drastically world-wide due to competitive price and ban on diesel vehicles in foreign countries even though domestic sales has gone up. Thus, companies focussed on domestic markets have portrayed a better performance in comparison to the companies focussing on foreign markets therefore inventory control may adopt techniques like just in time using integrated management information system which in turn will improve the efficiency of cash management.

Fixed Asset turnover Ratio of Tata Motors Ltd is high as compared to the turnover ratio of Bajaj Auto Ltd. and Maruti Suzuki India Ltd which also delineates that Tata motors Ltd. is able to utilise their fixed assets in an efficient manner.

It has been find out that Maruti Suzuki India Ltd. has maintained an efficient credit and collection policies due to which Maruti Suzuki India Ltd. has continuously improved their Debtors Turnover ratio whereas debtors turnover ratio has declined for other two companies more specifically for Tata motors Ltd which is due to their continuous sluggish sales and thereby liberal credit policy. Therefore, Tata motors should monitor the credit sales of the cars to their dealers and launching new models in the market instead of following a liberal credit policy.

Cash Flow statement of the three companies depicts that the operating profit of the companies have grown considerably for Bajaj Auto Ltd and Maruti Suzuki Ltd whereas the operating profit of Tata Motors Ltd has plummeted due to the decline in the sales. In addition it has been noticed that none of these companies have been consistent during the study period in generating positive net cash flows. Moreover, the net cash flows for all the three companies has been majorly affected due to investing activities as huge investment is being incurred by the automobile companies.

CONCLUSION

The present study pertaining to working capital management is an attempt to study the working capital in such a way to assess the liquidity position of the company, performance of inventory management, collection of accounts receivables and to understand the cash flow statement of selected automobile companies in India. On the basis of the analysis it has been suggested that Tata Motors Ltd should focus more on managing and reducing the Accounts receivables and Inventory turnover days in order to maximize profitability and to withstand the competitive environment. In addition it has been noticed from the cash flow statement that cash flow from operating activities for the all the selected automobile is positive which depicts the viability of the main stream business.

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