

TRENDS IN GROSS AND NET WORKING CAPITAL IN AUTO INDUSTRY IN INDIA

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ABSTRACT: Working capital is considered as a significant issue in financial decision-making given that it is being a part of investment in asset which calls for appropriate financing investment. The essential part in management of working capital lies in maintaining its liquidity in day-to-day operation to ensure smooth running of the business and meets its obligations. But working capital has always been ignored in financial decision-making because it involves investment and financing in short-term period and also acts as a restrain in financial performance, since it does not contribute to Return on Equity (ROE). If firm's manager failed to manage it properly then it will affect firm's growth and profitability, which will further escort to financial distress and finally firms can go bankrupt. In the present study an attempt has been made to examine the trends in gross working capital and net working capital in five companies related to auto industry.

Key Words:

Introduction

Working capital is considered as a significant issue in financial decision-making given that it is being a part of investment in asset which calls for appropriate financing investment. However, according to Sanger, working capital has always been ignored in financial decision-making because it involves investment and financing in short-term period and also acts as a restrain in financial performance, since it does not contribute to Return on Equity (ROE). Although, it ought to be critical for to a firm to sustain their short-term investment as it will ensure the ability of a firm in longer period. The essential part in management of working capital lies in maintaining its liquidity in day-to-day operation to ensure smooth running of the business and meets its obligations. Nevertheless, this is not an effortless task because managers must ensure that the firm is running in efficient and profitable manner and also there are high possibilities of mismatch of current asset and current liability during this process. If this happens and firm's manager failed to manage it properly then it will affect firm's growth and profitability which will further escort to financial distress and finally firms can go bankrupt.

Efficient management of working capital is an essential prerequisite for the successful operation of a business enterprise and improving its rate of return on the capital invested. Many a time business failures take place due to lack of working capital. Working Capital has been looked upon as the driving seat of a financial manager. Adequacy of cash and other current assets with their efficient handling virtually determine the survival or demise of an enterprise. Constant management is required to maintain appropriate levels in the various working capital components. The manner of working capital management determines the success or failure of an enterprise. Working capital is the index of short term solvency of an organization, heart of a business and life blood of an enterprise. Inadequate working capital is a business ailment. Thus the Working Capital Management is the most critical area of financial management in every organization and needs to be critically studied.

Review of Literature

Sharma Asha (2013) conducted a study on comparative analysis of working capital management between private and public sector companies in India. She had taken data of Steel Authority of India and Tata steel limited from 2008 to 2012. Negative relation was found between liquidity and profitability. The study concluded pressing needs for further empirical studies to be undertaken, particularly small business financial management by extending sample size so that it can explain the factors for better performance. Study provided financial management practices used by their peers. The working capital needs change over time as does its internal cash generation rate.

Rajdev Ankita (2013) studied working capital management of Makson Healthcare Private Limited with the help of ratio analysis, measures of central tendency, dispersion, Pearson's correlation, working capital components and it was found that company did not delay its commitments both for creditors and debtors. The findings suggested that liquidity was managed most by owners past experience and data and hence no significant correlation between liquidity and profitability was seen. The study was limited only to single company hence reflected partial view of overall working capital management in Indian healthcare industry.

Babu and Chalam (2014) studies Indian leather industry for 14 years 1997-98 to 2010-11. Secondary data was taken from PROWS of CMIE (centre for monitoring Indian economy). The study depicts significant positive relationship between profitability and inventory conversion period and average collection period. But negative relationship between average payment period and cash conversion cycle with profitability. The theory suggests that the manages can create value for their shareholders by reducing accounts receivables days, increasing payment period also suggests to make policies for cash conversion cycle .

K. Madhavi (2014) conducted a study on "Working Capital Management of Paper Mills" for the period of 2001-02 to 2010-11. In the analysis of data standard statistical techniques like percentages and averages have been used. The study found out that the management of APPML must initiate necessary steps to utilize its idle cash and bank balances in attractive investments or to pay back in short term liabilities (current ratio). The low quick ratio may also have liquidity position, if it has fast moving inventories and is more satisfactory in SSPBL with APPML. Cash ratio is not satisfactory in APPML as compared to SSPBL and it needs the attention of the management to include effective utilization of cash and bank balance.

M. Prakash and M. Ranganaya (2015) conducted a study on working capital management of Hatsun Agro Product Ltd Chennai. This study focused on company's working capital management on these six years. During the last six years company incurred profit. In this study importance was given to, if there is any increase or decrease in loss of the company in last six years. This study also analyzed the capital structure of the company. Tools of financial analysis may be used for analyzing the working capital management of the company. This study also found relationship between various components of the balance sheet. This study had also given importance to analyze the profitability of the business.

Research Methodology

As the study is based on secondary data, hence the selection of 5 auto companies in India was done on the basis of their market capitalization as per 'Business MapsofIndia.com'. These companies were:

S. No.	Name of the Company	Market Capitalization (crore Rs.)
1	Tata Motors Limited	56499.77
2	Mahindra & Mahindra Limited	49945.17
3	Maruti Suzuki India Limited	31475.63
4	Hero Motocorp Limited	40395.63
5	Bajaj Auto Limited	46885.69

Fifteen years data on working capital management were collected from secondary sources like annual reports of the selected auto-companies, Economic Survey of India of different years, research publications, journals, websites, Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) of India. The period of the study was 2002-03 to 2016-17. Simple statistical tools like averages, percentages, etc. and advance statistical techniques like Coefficient of Variation (C.V.) and Compound Growth Rate are used.

Results and Discussion

Working capital has two concepts – the total current assets (gross working capital) and the excess of current assets over current liabilities (net working capital). In contrast to the above A working capital deficit exists if current liabilities exceed current assets. Both the concepts of working capital have their own significance.

1. Gross Working Capital

1.1 Trends in gross working capital

Gross working capital consists of all the current assets of the company that can be converted to cash within a year or less. Gross working capital includes cash, accounts receivables, saving bank accounts etc. overall we can say that it shows the liquidity condition of the company. Table 1.1 showed the information about trends in gross working capital ratio in selected transport companies.

Year	Tata Motors	Mahindra& Mahindra	Muruti Suzuki	Hero Motocorp	Bajaj Autos
2002-03	10945.81	2657.19	5849.66	476.51	2728.22
2003-04	12267.87	2687.10	6175.62	508.99	2971.05
2004-05	12139.92	3507.31	6521.29	554.53	3543.53
2005-06	15174.46	4225.30	6841.51	821.24	4527.40
2006-07	17774.13	4681.71	7329.11	913.27	5970.91
2007-08	19711.17	5117.46	8980.49	936.18	2891.43
2008-09	21355.56	5915.07	10361.19	1013.49	3772.21
2009-10	22618.83	8975.11	10287.74	2882.58	4906.52
2010-11	25896.28	13197.60	14201.15	1504.57	4374.24
2011-12	29866.21	15261.26	16192.70	4830.66	5131.27
2012-13	25234.15	17634.52	15463.43	5077.25	6567.06
2013-14	22291.74	19316.58	13858.92	5555.99	6033.10
2014-15	23225.86	14939.29	12795.86	5281.80	9994.61
2015-16	21755.46	20395.33	14528.84	5935.08	5132.68
2016-17	27837.96	18674.98	15520.45	4474.33	10509.19
Average	20539.69	10479.05	10993.86	2717.76	5270.23
C.V.	28.38	64.52	34.98	80.56	44.41
C.G.R.	6.19	17.90	8.13	23.08	7.65
t-value	5.73**	12.51**	8.64**	9.28**	4.78**

The gross working capital in Tata Motors increased from Rs. 10945.81 crore in 2002-03 to Rs. 29866.21 crore in 2011-12, but decreased to Rs. 25234.15 crore in 2012-13 and further to Rs. 22291.74 crore in 2013-14. In 2014-15 it again increased to Rs. 23225.86 crore but decreased to Rs. 21755.46 crore in 2015-16. It ultimately increased to the level of Rs. 27837.96 crore by the year 2016-17. The t-value of 5.73 showed that gross working capital in Tata Motors increased significantly at the rate of 6.19 percent compounded annually.

In Mahindra & Mahindra Ltd, the gross working capital showed a continuous increasing trend from the year 2002-03 (Rs. 2657.19 percent) to 2013-14 (Rs. 19316.58 crore). It decreased to Rs. 14939.29 crore in 2014-15 but increased to Rs. 20395.33 crore in 2015-16 that again decreased to Rs. 18674.98 crore by the year 2016-17. The analysis showed that despite few fluctuations gross working capital of M & M Ltd increased significantly at the rate of 17.90 percent compounded annually. The t-value of 12.51 also confirmed the same.

The gross working capital of Maruti Suzuki Ltd increased from Rs. 5849.66 crore in 2002-03 to Rs. 16192.70 crore in 2011-12. It decreased to the level of Rs. 12795.86 crore by the year 2014-15 but increased to Rs. 14528.84 in 2015-16 and further to Rs. 15520.45 crore by the year 2016-17. The analysis showed that the gross working capital increased significantly at the rate of 8.13 percent per annum compounded annually. The t-value of 8.64 also confirmed the same.

In Hero Motor Corp, the gross working capital increased from Rs. 476.51 crore in 2002-03 to Rs. 2882.58 crore in 2009-10 but decreased to Rs. 1504.57 crore in the year 2010-11. It again increased to the level of Rs. 5555.99 crore by the year 2013-14 but decreased to Rs. 5281.80 crore in 2014-15. Ultimately it reached the level of Rs. 4474.33 crore by the year 2016-17, registering a significant growth at the rate of 23.08 percent compounded annually. The fact was also confirmed by the t-value of 9.28.

In Bajaj Auto Ltd, the gross working capital increased from Rs. 2728.22 crore in 2002-03 to Rs. 10509.19 crore in 2016-17. Even though there was certain ups and downs in the gross working capital of the Baja Auto Ltd, but it recorded a significant growth at the rate of 7.65 percent compounded annually. The fact was also confirmed by the t-value of 4.78.

2. Net Working Capital

2.1 Trends in Net Working Capital

Net working capital is the difference between the current assets and the current liabilities of a company over a period of time. It also shows the effectiveness of the management in utilizing its current assets. It also measures the short term liquidity position of a company. If the net working capital figures are positive it shows that the short term funds are available to pay for the current liabilities. Table 2.1 showed the trends on net working capital in selected transport companies from the period 2002-03 to 2016-17.

Year	Tata Motors	Mahindra & Mahindra	Muruti Suzuki	Hero Motocorp	Bajaj Autos
2002-03	7253.56	1765.71	3212.87	-639.49	735.31
2003-04	7474.84	1677.23	4631.92	-751.01	582.11
2004-05	5513.41	2247.32	4905.69	-945.47	667.28
2005-06	8195.27	2704.46	4854.01	-741.76	905.27
2006-07	10009.66	2731.49	4804.31	-565.73	1058.06
2007-08	9043.47	2820.91	6986.69	-888.82	936.30
2008-09	10657.46	2394.87	6898.19	-1039.51	1154.02
2009-10	5151.68	5571.65	6318.61	-1948.42	534.03
2010-11	8277.57	7252.91	10042.85	-4640.43	262.55
2011-12	12856.10	8291.71	8476.80	489.66	506.11
2012-13	6672.33	9699.42	8510.03	906.25	2423.43
2013-14	3787.55	10794.81	5586.82	1132.99	1302.86
2014-15	3800.59	7039.47	3680.26	1397.80	5517.82
2015-16	5093.69	11572.57	2936.84	1886.08	2179.66
2016-17	6459.09	9272.30	2268.15	420.33	7296.81
Average	7349.75	5722.46	5607.60	-395.17	1737.44
C.V.	35.00	62.78	40.10	-403.69	115.94
C.G.R.	-3.10	15.98	-1.27	0.77	13.63
t-value	1.56	8.71**	0.49	0.06	2.78**

In Tata Motors net working capital in 2002-03 was Rs. 7253.56 crore that increased to Rs. 7474.84 crore in 2003-04 but decreased to Rs. 5513.41 crore in the year 2004-05. It again increased to Rs. 10009.66 by the year 2006-07 but decreased in the next year (2007-08) to Rs. 9043.47 crore. In the year 2008-09, the net working capital of the company again increased to Rs. 10657.46 crore but decreased to Rs. 5151.68 crore by the year 2009-10. By the year 2011-12, net working capital increased to Rs. 12856.10 crore but declined to the level of Rs. 3787.55 crore by 2013-14. It started increasing from the year 2014-15 and increased to the level of Rs. 6459.09 crore by 2016-17. Analysis revealed that frequent ups and downs during the period under study turned the growth rate of -3.10 percent non-significant. This was also confirmed by the t-value of 1.56.

The net working capital of Mahindra & Mahindra Ltd. increased from Rs. 1765.71 crore in 2002-03 to Rs. 2820.91 crore in the year 2007-08 but decreased to Rs. 2394.87 crore in the year 2008-09. It started increasing from the 2009-10 and reached the level of Rs. 10794.81 crore by the year 2013-14. In 2014-15, it again decreased to the level of Rs. 7039.47 crore but increased to Rs. 11572.57 crore in 2015-16. In the year 2016-17, net working capital of the company again decreased to the level of Rs. 9272.30 crore. The average net working capital of the Mahindra & Mahindra was Rs. 5722.46 crore. The analysis further revealed that the net working capital of the company increased significantly at the rate of 15.98 percent compounded annually. This was also confirmed by the t-value of 8.71.

In Maruti Suzuki Ltd., the net working capital increased from Rs. 3212.87 crore in 2002-03 to Rs. 4905.69 crore in the year 2004-05, but decreased to Rs. 4804.31 crore in the year 2006-07. It again

increased to Rs. 6986.69 crore in 2007-08, but decreased to Rs. 6898.19 crore in 2008-09 and further to Rs. 6318.61 crore in 2009-10. In the year 2010-11 net working capital showed a huge fluctuation of Rs. 10042.85 crore that again decreased to Rs. 8476.80 crore in 2011-12. Net working capital again increased slightly to Rs. 8510.03 crore but started decreasing in the year 2013-14 (Rs. 5586.82 crore) and decreased to the level of Rs. 2268.15 crore by the year 2016-17. Heavy fluctuations turned the decline (-1.27 percent) in growth rate non-significant.

In Hero Motor Corp., there was a negative net working capital from the year 2002-03 (Rs. -639.49 crore) to 2010-11 (Rs. -4640.43 crore). It showed that its current assets are not sufficient to pay off its current liabilities. From the year 2011-12, net working capital started increasing and increased to the level of Rs. 1886.08 crore by the year 2015-16, but again decreased to Rs. 420.33 crore in 2016-17. Fluctuations turned the growth rate of 0.77 percent non-significant.

In Baja Auto Ltd, the net working capital increased from Rs. 735.31 crore in the year 2002-03 to Rs. 7296.81 crore in the year 2016-17. However it witnessed some ups and downs during the period under study, but the average net working capital was calculated to be Rs. 1737.44 crore. The analysis further revealed that the net working capital in Bajaj Auto Ltd. increased significantly at the rate of 13.63 percent compounded annually. T-value of 2.78 also confirmed the same.

Conclusions

Gross working capital registered significant growth in all the selected auto industries in India during the period of the study. It can be concluded that net working for the period under study witnessed significant growth only in Mahindra & Mahindra and Bajaj Autos. In all other transport companies the net working capital could not register any significant increase or decrease. Therefore, the management of Tata Motors, Muruti Suzuki and Hero Motocorp should take some effective remedial steps to get the fluctuating trends in net working capital.

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