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An analysis of Working Capital Management in Automobile Industry with Reference to Ashok Leyland Ltd

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Abstract- This paper empirically investigates the relationship between the components of working capital and its impact on financial position of firms in Indian automobile industry. We undertake statement of change in working capital as comparative study in the firms.

The data was taken from secondary data source named as "Industry; financial aggregates and ratios" (PROWS) of center for monitoring Indian economy (CMIE) covering the period from 2020-21 to 2022-23(3 years). The results shows that the firm which were establishing before LPG are using more fixed cost bearing capital while firms establishing after LPG are using short term resources.

Keywords: working capital, financial position and automobile industry.

Introduction: - The working capital management refers to management of the working capital, or to be more precise, the management of current assets. A firm's working capital consists of its investment in current assets which include short term assets such as cash and bank balance, inventories, receivables (including debtors and bills), and marketable securities. So, the working capital management refers to the management of the level of all these individual current assets. The need for working capital management arises from two considerations. First, existence of working capital is imperative in any firm. The fixed assets which usually require a large chunk of total funds can be use at an optimum level only if supported by sufficient working capital, and second, the working capital involves investment of funds of the firm. If the working capital level is not properly maintained and managed, then it may result in unnecessary blocking of scare resources of the firm. The insufficient working capital, on the other hand, put different hindrances in smooth working of the firm. Therefore, the working capital management needs attention of all the financial managers.

The working capital management includes the management of the level of individual current assets as well as the management of total working capital. However, each individual current asset has unique characteristics which the financial manager must consider in deciding how much money should be invested in each of these current assets. In other words, he must decided the level of all the current assets. The management of individual current assets i.e., cash and bank balance, marketable securities, receivables and inventories has been taken up in subsequent chapters. However, the general principles of working capital management have been taken up in this chapter.

Meaning of Working Capital

Working capital may be regarded as lifeblood of a business. Its effective provision can do much to ensure the success of a business, while its inefficient management can lead not only to loss of profits but also to the ultimate downfall of what otherwise might be considered as a promising concern. Much has been rightly made of the long-term planning of capital projects. But the cost to industry due to inadequate planning in the use of working capital is immeasurable. A study of working capital is of major importance to internal and external analysis because of its close relationship with the current day-to-day operations of a business. There are two concepts of working capital, namely, gross concept and net concept.

Gross Working Capital

It refers to the firm's investment in current assets. Current assets refer to the assets which are held for their conversion into cash within an operating cycle i.e., time duration between the conversion of cash into inventory items (raw-materials in case of a manufacturing firm and finished goods in case of a trading firm) and receivables and their conversion into cash.

Net Working Capital

It refers to the difference between current assets and current liabilities. Current liabilities refer to those claims of outsiders which are expected to mature for payment within an operating cycle and include creditors, bills payable, outstanding expenses, bank overdraft. It can be positive or negative. A positive net working capital occurs when current assets exceed current liabilities and a negative net working capital occurs when current liabilities exceed current assets:

Net working capital is a qualitative concept, which indicates:

(a) Liquidity position of the firm as it represents safet5y margin available to short-term creditors so as to discharge their obligations within an operating cycle.

(b) That part of the current assets which should be financed with long-term funds such as equity share capital, preference share capital, debentures, long-term borrowings.

Indian Automobiles History

The automotive industry in India is one of the largest automotive markets in the world. It was previously one of the fastest growing markets globally, but it is currently experiencing flat or negative growth rates.

In 1897, the first car ran on an Indian road. Through the 1930s, cars were only imported, and in very small numbers.

An embryonic automotive industry emerged in India in the 1940s. Hindustan Motors was launched in 1942, long-time competitor Premier in 1944, building GM and Fiat products respectively. Mahindra & Mahindra was established by two brothers in 1945, and began assembly of Jeep CJ-3A utility vehicles. Following independence in 1947, the Government of India and the private sector launched efforts to create an automotive-component manufacturing industry to supply to the automobile industry. In 1953, an import substitution programme was launched, and the import of fully built-up cars began to be restricted.

However, growth was relatively slow in the 1950s and 1960s, due to nationalization and the license raj, which hampered the Indian private sector. After 1970, with restrictions on the import of vehicles set, the automotive industry started to grow; but the growth was mainly driven by tractors, commercial vehicles and scooters. Cars were still a major luxury item. In the 1970s, price controls were finally lifted, inserting a competitive element into the automobile market. However, by the 1980s, the automobile market was still dominated by Hindustan and Premier, who sold superannuated products in fairly limited numbers. During the eighties, a few competitors began to arrive on the scene.

Review of Literature

Many researchers have studied working capital from different views and in different environments. The following study was very interesting and useful for our research:

Dr. K.S. Vataliya in August 2009 studied "Management of Working Capital in Indian Industries." The thisis have been carried out in Bhavnagar University and was with the special Reference to Pharmaceutical and cement Industries. The thisis was focused on management of various components of working capital with reference to above-mentioned industries.

Barot Haresh (2012) observed that a negative relationship between account receivables and corporate profitability and a positive relationship between accounts payable and profitability. The researcher concludes that the firms properly manage their cash, accounts receivables, accounts payables, and inventories in proper way, will ultimately increase profitability of these firms.

Biswajit Bose (2013) found that out of seven ratios (such as working capital turnover ratio, net current assets to total assets ratio, inventory turnover ratio, cash position ratio, current ratio), only cash position ratio has positive influence on return on total assets and the remaining has negative correlation with return on total assets and also found that return total assets is negatively associated with days of working capital.

Daniel Mogaka and Ambrose Jagongo (2013) found that the negative correlation between return on assets and the firms average collection period and cash conversion cycle while positive correlation with inventory holding period, accounts payment period. The authors conclude that working capital management has a significant impact on profitability of the firms and play a key role in value creation for shareholders as large cash conversion cycle have negative impact on profitability of firms.

Hina Agha (2014) found that creditors' turnover ratio, debtors' turnover ratio and inventory turnover ratio have a positive significant impact on return on assets and there is no significant impact of current ratio on return on assets.

Mahum Bukhari and Mohammad Shaukat Malik (2019) found that positive and insignificant relationship of average collection period and profitability while negative and insignificant relationship between profitability and average age of inventory and also found that the relationship between the average payment period and profitability is negative and significant. Moreover, operating cycle has positively insignificant while cash conversion cycle is positively significant relationship with profitability. The authors suggest that managers of these companies should spend more time to manage cash conversion cycle of their firms and make strategies of efficient management of working capital.

Horne & Wachowitz, 2021 Working capital management efficiency plays a great role in profitability of the industry, especially for manufacturing and construction firms, where a dominant part of assets is composed of current assets.

Objectives of the study

1. To measure the overall efficiency of working capital

2. To evaluate the efficiency of each firm under study to achieve the target level of efficiency.

Data Base: The present study has been conducted on firms in automobile sector (on the basis of BSE 200 companies). The data has been taken from the PROWESS database of Centre for Monitoring Indian Economy. The study includes two automobile companies in respect of which data for 3 years i.e. from the year 2020-21 to 2022-23 has been taken.

Research Methodology:

To measure Efficiency of Working Capital: For measuring the overall efficiency of working capital we take schedule of change in working capital as main parameter which has been calculated as follows:

Purpose of Schedule of Changes in Working Capital

The purpose of preparing this statement is to arrive at a single figure of net increase of decrease in working capital at the end of the period as compared with that of the beginning.

Interpretation of Change in Working Capital

An increase in working capital means applying long-term funds towards short-term needs and a decrease in working capital means applying short-term funds towards long-term needs.

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Schedule of Changes in working capital (Ashok leyland) 2020-21

Particular	**Absolute amount**		**Changes in working capital**	
	March 31 2020	March31 2021	Increase	**Decrease**
Current assets				
Inventories	2230.62	1896.02	-	**334.60**
Current investment	-.	-	-	-
Trade receivables	1230.24	1419.41	189.17	
Cash and bank balance	32.55	13.94		**18.61**
Short term loan and advances	727.09	890.98	163.89	
Other current assets				
	82.36	76.17		**7.19**
Total C.A (A)				
	4303.86	4296.52		
Current Liabilities				
Short term borrowings				
Trade payable	101.75	766.98		**665.23**
Other current liabilities	2772.46	2485.36	287.10	
Short term provisions	1549.11	1735.06		**185.95**
Total C. L (B)	420.37	308.68	111.69	
Working Capital [A-B]	4843.69	5296.08		
Decrease in W.C (2020-21)	-539.83	-999.56		
				459.73

Source:- Annual Reports of the company
Note- Figure in crore

Analysis of schedule of change in working capital of Ashok Leyland for the year 2020-21

Inventories of Ashok Leyland was decreased to Rs. 334.60crore and trade receivables of was increased and cash of Ashok Leyland was also decrease d. Short term loan and advances was also increased to Rs 163.89 crore and other current assets was decreased.

Short term borrowings were increased to Rs. 665.23 crore. Trade payables was decreased but other current liabilities was increased while short term provisions was decreased. Working capital of Ashok Leyland was decreased to Rs. 459.73 crore.

Schedule of Changes in working capital (Ashok leyland) 2021-22

Particular	**Absolute amount**		**Changes in working capital**	
	March 31 2021	March 31 2022	Increase	Decrease
Current assets				
Inventories	1896.02	1188.70		707.32
Current investment	-	384.37	384.37	
Trade receivables	1419.41	1299.01		120.40
Cash and bank balance	13.94	11.69		2.25
Short term loan and advances	890.98	800.71		90.27
Other current assets				
Total C.A (**A**)	76.17	170.94	94.77	
	4296.52	3855.42		

Current Liabilities				
Short term borrowings				
Trade payable	766.98	587.40	179.58	
Other current liabilities	2485.36	2214.14	271.21	
Short term provisions	1735.06	1696.91	38.15	
Total C. L (**B**)	308.68	88.12	220.56	
Working Capital [A-B]	5296.08	4586.58		
Increase in W.C (2021-22)	-999.56	-731.16		
			268.40	

Source:- Annual Reports of the company
Note- Figure in crore

Analysis of schedule of change in working capital of Ashok Leyland for the year 2021-22

In the comparison we concluded that in current assets a new current investment introduced to increase the current assets. Current assets was decreased by Rs. 441.10 crore and current liabilities was decreased to Rs. 709.50 crore. Working capital was increased by Rs. 268.40 crore.

Schedule of Changes in working capital (Ashok leyland) 2022-23

Particular	**Absolute amount**		**Changes in working capital**	
	March 31 2022	March 31 2023	Increase	Decrease
Current assets				
Inventories	1188.70	1398.52	209.82	
Current investment	384.37	408.45	24.08	
Trade receivables	1299.01	1257.69		41.32
Cash and bank balance	11.69	751.28	739.69	
Short term loan and advances	800.71	568.82		231.89
Other current assets				
Total C.A A	170.94	308.21	137.27	
	3855.42	4692.97		
Current Liabilities				
Short term borrowings				
Trade payable	587.40	25.00	562.40	
Other current liabilities	2214.14	2828.31		614.16
Short term provisions	1696.91	1926.15		229.24
Total C. L B	88.12	256.04		167.92
Working Capital [A-B]	4586.58	5035.50		
Increase in W.C (2022-23)	-731.16	342.53		
			1073.69	

Note- Figure in crore
Source:- Annual Reports of the company

Analysis of schedule of change in working capital of Ashok Leyland for the year 2022-23

Current investment inventories cash and other current assets were increased while trade receivables and short term loan and advances were decreased.

Short term borrowing was decreased while trade payables, other current liabilities and short term provisions were increased. Working capital was increased by Rs. 1073.69 crore.

Conclusion

Working capital of the company was increasing and showing positive working capital in last two years. It shows good liquidity position. Positive working capital indicates that company has the ability of payments of short terms liabilities. Working capital increased because of increment in the current assets is more than increase in the current liabilities. Company's current assets were always more than requirement it effect on profitability of the company. Current assets are more than current liabilities indicate that company used long term funds for short term requirement, where long term funds are most costly then short term funds. Current assets components shows sundry debtors were the major part in Current assets it shows that the inefficient receivables collection management.

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