

Capital management on commercial automobile manufactures Companies in India

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ABSTRACT

This paper analyses the management of working capital components of select automobile companies in India. For this purpose two leading manufacturers of both passenger and commercial vehicles were selected such as, Tata motors limited and Mahindra and Mahindra limited. In this view, the automobile industry is under tremendous pressure from both customers and government for sustainable development. Therefore, Indian automobile industry focuses on business improvement through profitability enhancement as well as environmental development through sustainable lean manufacturing. This study used secondary data for the study period of nine years from 2003-04 to 2011-12. This study used simple percentage and ratio for analyzing the data. It analysed inventory, receivables and payables and cash management separately. The result of research based on data collection from small-, medium- and large-scale automobile sectors. It has been analysed earlier that sustainable manufacturing (lean and green practices) delivers superior results.

Keywords: Working capital, Inventory, Receivables, Critical success factors, Work-in-progress, Indian automobile industry.

INTRODUCTION

Indian economy is one of the fastest growing economies in the world. Various sectors

contribute to the development of Indian economy [1]. The contribution of service sector to gross domestic product (GDP) is higher than any other sector. Next to this sector manufacturing sector contribute more to GDP followed by agricultural sector. In the aspect of employment next to agricultural sector, manufacturing sector gives more employment to people [2]. There are some industries in manufacturing sector, among them automobile industry is playing prominent role in the aspects of production, sales and employment. Automobile industry is the key driver of Indian economy. It plays a prominent role in the economy and industrial development of India [3]. It supports the development of other industries by procurement of raw material, those basic industries are steel, metal, plastic, petrochemicals, rubber, glass, and so on. These industries give more employment opportunity to people directly and indirectly. Next to agricultural sector the manufacturing sector gives more employment [4].

The success of an industry depends on industrial units of such industry. Hence the study on companies is getting importance [5].

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The automobile industry is one of the fastest growing industries in India. It is also one of the largest in the world. It is the sixth largest in the world in terms of passenger car and commercial vehicle manufacturing. This industry also helps to raise foreign currency by exporting its products, Indian automobile industry exports averagely 1.5 million vehicles every year.

Every business organization needs capital not only for its establishment. It requires capital for its operation also. Capital required for establishment is called fixed capital which is used to acquire building, machinery, land and so on [6]. Capital needed for its day-to-day operation is called working capital which is used to meet out day-to-day expenses of the business such as, for salary, wages, rent, payment to creditors, to settle bills payable and so on.

Hence working capital meant by capital required for daily expenses of the business [7]. "Working capital could be defined as the portion of assets used in current operations". Working capital comprises several components. The important components are inventory, receivables and cash.

Overall working capital management could be good when a company manages its components efficiently. Hence it is essential to study the efficiency of working capital components management.

REVIEW OF LITERATURE

As far as the researcher concerned there were many studies in working capital performance of various industries in India and also in some foreign countries. But studies in the performance of components of working capital

were very limited. Some of the selected studies in working capital management are reviewed in this section.

Amalendu Bhunia and Islam Uddin khan (2011) [8] tested the association between the liquidity management and profitability. They found lower degree of association between working capital management and profitability. Chanrabai T and Venkata Janardhan K (2011) [9] examined and evaluated the working capital management of ACC Limited. They found satisfactory working capital management of the sample company. They also found good liquidity position and inventory, receivable and cash management. Ashraf Mohammad Salem Alrjoub et al. (2012) [10] found that the size of inventory, size of receivables and receivable to current asset ratio had a significant difference and inventory turnover ratio, inventory to current assets and inventory to working capital ratio did not have significant difference.

OBJECTIVE OF THE STUDY

1. To assess the inventory management of the select automobile company.
2. To analyse the receivables management of select automobile companies and
3. To analyse the cash management of select automobile companies.

SAMPLE OF THE STUDY

The present study assessed working capital management of automobile companies. For this purpose two companies were selected such as Tata Motors limited and Mahindra and Mahindra limited. There were 19 companies who manufacturing passenger vehicle and 16 companies manufactured commercial vehicles among them these two companies only

manufactured both commercial and passenger vehicles, so they were selected for this study.

DATA COLLECTION

The study mainly depended on secondary data. For this purpose annual financial statements of the selected companies were required, they were taken from annual reports of the respective companies. Annual reports were collected from the official websites of the selected companies.

RESULTS AND DISCUSSION

The performance of overall working capital management of a company is the result of the management of efficient management of its components such as inventory management, receivables and payables management and cash management. So, it is essential to analyze the management of the components of working capital. In the analysis of the management of components of working capital, it is important to know percentage of the components of current assets. The detailed ISM steps are presented in Figure 1. Hence, ISM technique is used for solving such an industrial decision-making problem.

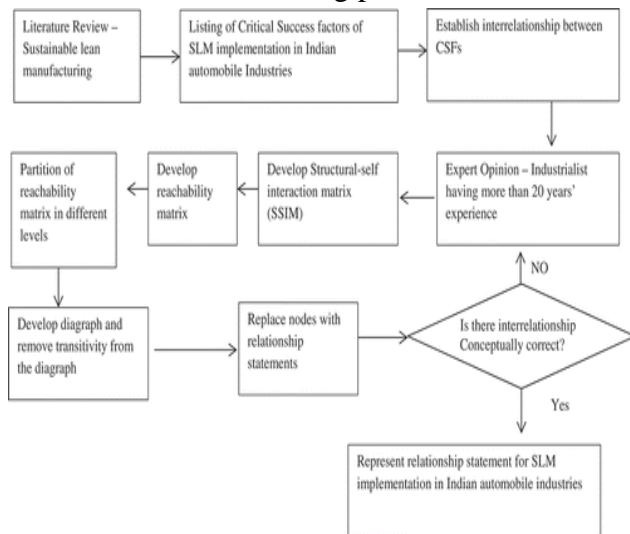


Figure 1. Research flow chart for ISM study

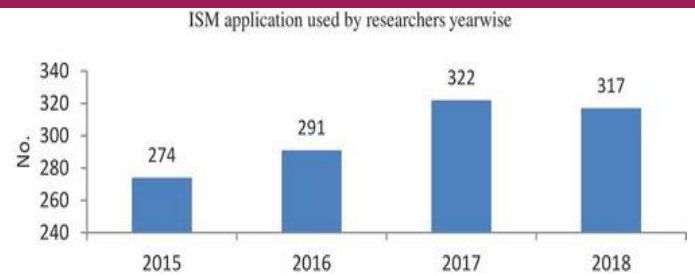


Figure 2. ISM application used by researchers (year wise)

Several researchers have used ISM methodology in their research problem in previous years by practitioners, and findings are aligned with solution as shown in Figure 2. As shown in Figure 2; after year 2015 usage application of ISM methodology increased year on year.

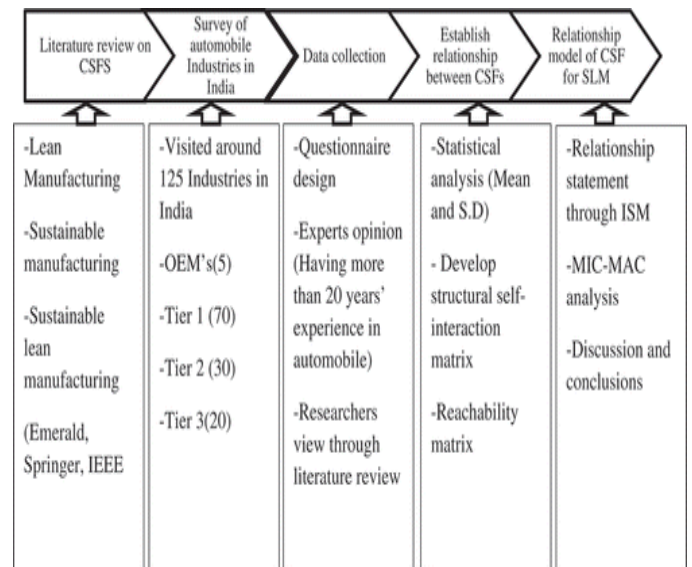


Figure 3. Flowchart for analysing the critical success factors for SLM implementation

Hence, ISM methodology is found more appropriate for this study. CSFs listed through literature review and put in questionnaire survey to get opinion of experts. Option was given in questionnaire to add more CSF for SLM implementation in the Indian automobile

industry. The step of the methodology followed in this study is shown in 3.

INVENTORY MANAGEMENT

Inventory is one of the essential components of working capital, so it is important to assess the inventory management of the working capital. Total inventory consists raw material, work-in-progress and finished products. Raw material is the raw form of material, which means no production process is undertaken, where work-in progress is the semi completed goods, which mean a part of production process is completed and the remaining is pending. The finished products are fully completed goods.

Discussion

Inter-relationships and impact of CSFs on SLM implementation in Indian industries

Top management involvement – >working culture, employee training, cost competitive strategy, employee motivation

Top management leads to improve working culture through monthly awareness meetings, employee birthday celebration, rewards for best results. By management review and involvement, new directions have decided to reach at the next level of achievement by team building, training and employee motivation. Top management focus is most important to lead SLM implementation in industries. Management initiatives directly impact on manufacturing activity by involvement and commitment. Top management has been considered driver CSFs for sustainable lean manufacturing implementation.

Employee training < – > cost competitive strategy, top management involvement

Employee training started to initiate cost competitive strategies in organisation also

driven by top management. Without training to employee, no strategy works in any organisation. Employee training is also a critical factor for enhancing the skills of working hands, which will directly affect the quality of their products. Cultural and training changes are found important for economic design and environmental results. Employee training is also an important support to working culture and new cost strategy. Through training employee thinking diversify and make positive impact towards new ideas. Employee satisfaction is found critical in achieving performance objective as positive attitude that comes in the workforce. Business sustainability initiatives provided guidance and support to the industry to develop its improvement projects for shop floor development. The employee is considered as a base for startup and any initiatives regarding improvement activities. Employee motivation support to working culture and interlinked with cost competitive strategy.

CONCLUSIONS

The study has attempted to assess the management of working capital components of Tata motors limited and Mahindra and Mahindra limited. The study found efficient management of collections and payables by both the companies. The study found negative cash conversion cycle during all the years of the study period by both the companies. It showed very short debtors collection period and inventory conversion period and long creditors' payment period. It was possible because the suppliers (creditors) of automobile companies are most depended, because they produce spare parts specifically for a particular company and it cannot be supplied to any other company, so automobile

companies are able to extent creditors' payment period as long as possible. India is being considered as competitive cost market, and this is the challenge for many OEMs to survive. As major assemble parts OEMs are buying from Tier 1 and Tier 2 suppliers and assembly on their platform. So being competitive cost market, OEMs have to focus on their suppliers towards waste reduction through lean and sustainable manufacturing.

Government is also taking the initiative towards green manufacturing because of increasing pollution. For controlling pollution, many laws and standards present for an automobile manufacturer and they must go through these audits. By SLM implementation automobile manufacturer can survive in this competitive era. This study will help in decision making for SLM implementation to achieve qualitative product, on-time delivery, and less cost. It may be helpful in rewards and recognition from the government through various quality and environment schemes like ZED, Green corp. Updated technology adoption will be also helpful in meeting customer demand and sustainable economy. Employee motivation and development support organisation to meet expectation and deliver more than ability. Positive results show this role is having a strong impact on the industry. This study will help in identification of resources to make industry lean and sustainable. Environmental conditions will be improved through SLM implementation using ISM model. With the help of this study, an automobile manufacturer can release their pressure to explore business in the competitive market.

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