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MEASUREMENT OF WORKING CAPITAL IMPACT ON THE PROFITABILITY OF SELECT AUTOMOBILE COMPANIES IN CHENNAI

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INTRODUCTION

Working capital management refers to managing the current assets. The working capital of the firm is comprised of current assets like cash in hand, bank balances, inventories, receivables and marketable securities. Working capital should be neither more nor less than what is actually required for the firm. The objective of working capital management is to arrange the required funds in the right period of time

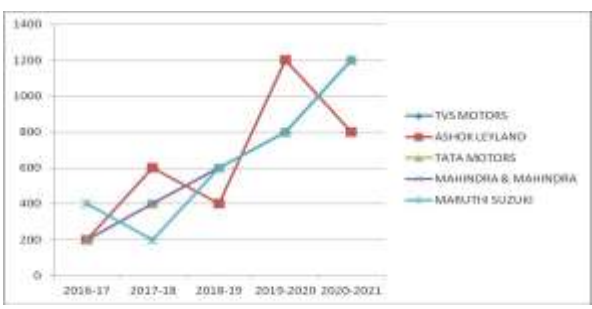
OBJECTIVES OF THE STUDY

i) To examine the relationship between leverage and profitability of the select companies
ii) To measure the working capital impact on the profitability of the select companies
iii) To recommend measures for efficient management of working capital, liquidity, and profitability of the select automobile companies.

SCOPE OF THE STUDY

The thesis work encompasses the study of working capital management and profitability of six Automobile companies in India, namely, 1. Hero MotoCorp 2. TVS Motor 3. Ashok Leyland 4. Tata Motors 5. Mahindra & Mahindra 6. Maruti Suzuki.

Chart -1 Debt Equity Ratio Status in Automobile Industries



Debt Equity Ratio of the Select Automobile Companies Hero Moto Corps index of the debt-equity ratio fall 50 in 2017-18 over 2019-20 accounting for a decrease of 50 percent, whereas, there were certain changes in the due course of 6 years, the index of the ratio decreased continuously from 2016-17. Then it increased tremendously by 1200 percent i.e., from 50 to 1250 in 2019-20 as the total 0 200 400 600 800 1000 1200 1400 Heromotocorp, Tvsmotors, Ashok Leyland, Tatamotors, Mahindra&Mahindra, Maruthi Suzuki, 143 assets increased and liabilities decreased in the year 2013-14 it remained constant, even though the total liabilities and total equity decreased accordingly. Quick Ratio of Select Automobile Companies The quick ratio measures a company"s ability to pay off its current liabilities with its most liquid assets. The quick ratio excludes inventory from the current ratio because some companies have difficulty turning their inventory into cash, which compares all current assets to current debts. Quick ratio = Current Assets-Inventory-Prepaid Expenses / Current Liabilities

Table 2 Aggregate of six companies correlation coefficient

S,. NO	**NAME OF THE COMPANY AND WORKING CAPITAL**	**PEARSON CORRELATION (NET PROFIT)#**	**Sig (2 tailed)**	**N**
1	HERO MOTO CORP	.871	.001	10
2	TVS MOTORS	-.887	.001	10
3	ASHOK LAYLAND	-227	.528	10
4	TATA MOTORS	-.345	.330	10
5	MAHINDRA	.289	.417	10
6	MARUTI SUZUKI	-.881	.001	10
7	AVERAGE*	-.317	.372	10

* **Aggregate of six companies selected for study . #. correlation I significant at the 0.01 level (2 tailed)**

There was a strong significant positive correlation between the working capital and the Profitability of the Hero MotoCorp Pvt.Ltd (r =.871, n = 10, p = .001). Hence, the alternative hypothesis "there is a significant positive relationship between working capital and the profitability of the Hero MotoCorp Pvt.Ltd." is accepted. 2. A Pearson product-moment correlation coefficient was computed to assess the relationship between the Working Capital and Profitability of TVS Motors. There was a strong negative correlation (r = -.887, n = 10, p = .001) between the working capital and Profitability of TVS Motors. Hence, the alternative hypothesis "there is a significant positive relationship between working capital and the profitability of TVS Motors" is accepted.

CR= Current Ratio (Liquidity) DER=Debt Equity Ratio (Leverage) TATR=Total Asset Turnover Ratio (Asset management) 199 Hypothesis-2 Ha2: There is a significant inverse relation between liquidity and profitability position of the firms. A Pearson product-moment correlation coefficient was computed to assess the relationship between the liquidity and the profitability of the select automobile firms. There was a poor inverse correlation between the two variables, r =- 158, n = 10, p = 0.663. There was an insignificant correlation between the liquidity and the profitability of the select automobile firms. Hence, the alternative hypothesis "there is a significant inverse relationship between liquidity and profitability of the select firms"" is rejected.

SUMMARY OF FINDINGS

Based on the analysis of data pertaining to working capital management with the prominent tools, the findings are reported here under. i) All the listed companies except for Tata Motors had decreased current ratio over a period of 10 years. In the accounting base year, i.e. 2008-2009 the current assets of Hero MotoCorp, Mahindra & Mahindra and TVS Motors were greater than their current liabilities, but for Ashok Leyland and Maruti Suzuki and Tata Motors current assets were lower than current liabilities. During 2017-2018 except for Mahindra & Mahindra, all other select companies" current ratios were below one which may create obstacles to meet their short term obligation. The higher current ratio indicates under-utilization of short term credit and excessive investment in current assets. Lower ratio implies unsafe liquidity and the firm facing difficulties in meeting short term commitments. One of the basic reasons for the current ratio being high is that a firm has a large proportion of inventory assets which are difficult to liquidate. When the current ratio is low it shows the inefficiency of the firm in the collection of receivables consequently there would be a possibility of cash balance being very low or higher current liabilities. ii) The quick ratios of Hero MotoCorp and TVS Motor have been increasing among all the listed companies for 10 years. During the base year, i.e. 2008-2009 the quick ratio of Ashok Leyland and Maruti Suzuki was above one, that means those companies quick assets were over their current liabilities, but for the other companies the quick assets were 210 under their current liabilities. In 2017-2018 the quick ratio of all the companies was recorded below than one. The high quick ratio shows the firm proficiency to meet its current liabilities on time. It also measures a firm‟s ability to meet current liabilities from its liquid assets.

RECOMMENDATIONS:

On the basis of the analysis of the study results, it is suggested to the top management and subordinates to enhance profits of their company by adopting new strategies in asset management; by regularly monitoring; and evaluating the asset base and looking for value added to create better asset value. The most important aspect of the company‟s profitability is largely dependent on the skillful management of debtors. Review of debtors at regular intervals gives good results by adopting effective ways to keep in control the debtors, which in turn improves the profitability of the company. Maintaining a healthy inventory level of stock by way of new techniques helps the company maintain an optimum level of inventory, which would lead the company to reduce the capital investment in stocks and helps the company to make profits.

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