

## Analysis of Working Capital Management of TVS Limited

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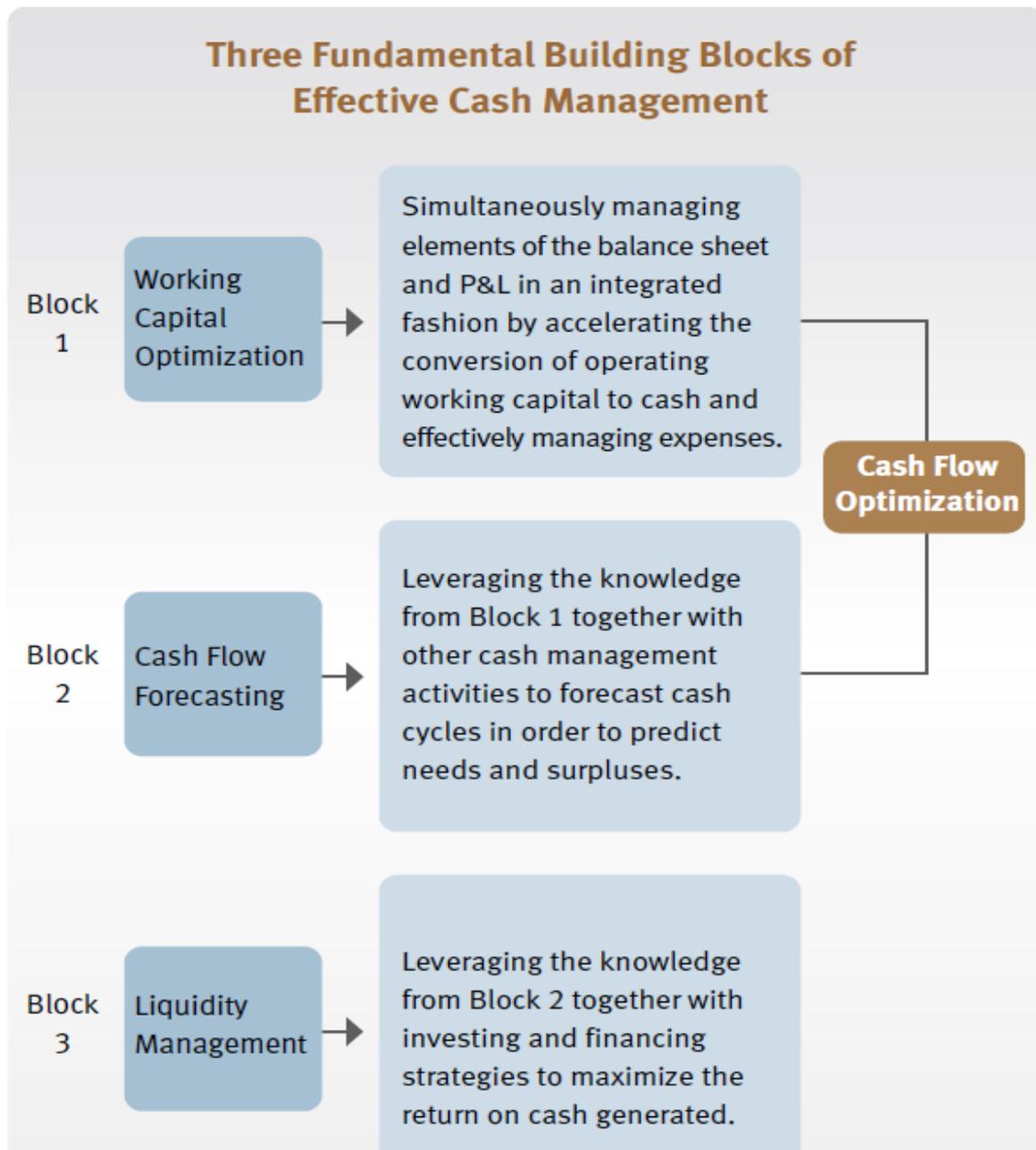
### Abstract

Working capital management is important part in firm financial management decision. Improper management of Working capital, that is, too much or too low working capital may suffer firms, so an optimum level of working capital is the key to a smooth inflow of profit. Working capital management plays a vital role in the success of businesses because of its effect on profitability and liquidity. Working capital management is very essential one for any organization. Poor working capital management will affect a company in many ways. If a company does not have sufficient liquidity, it will not be able to meet its short term financial obligations, it will decrease its profitability and some time it may lead to shutdown the business. In the study an attempt was made to known the relationship between working capital management and profitability of TVS Ltd. The study found insignificant relationship between working capital management and profitability of TVS Ltd.

**Keywords:** Profitability, Working Capital Management, Liquidity.

### Introduction

Working capital in simple terms means the amount of funds that a company requires for financing its day -to- day operations. Working Capital includes the current assets and current liabilities areas of the balance sheet. Working Capital Management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship that exists between them. Working Capital Management is the process of planning and controlling the level and mix of current assets of the firm as well as financing these assets. Analysis of working capital is of major importance to internal and external analysis because it is closely related to the current day -to- day operations. There are three fundamental building blocks of effective cash management. All three must be tightly linked to maximize cash flow benefits.



### Objectives of the Study

1. To see whether the company is prepared with enough working capital to face any kind of contingencies.
2. To identify the financial strength and weakness of the company.
3. To compare the performance of working capital for a particular year with previous years.
4. To assess Liquidity position, Long term solvency, operational efficiency, and overall profitability of TVS LIMITED.

### Data Collection & Methodology

The methodology involved for data collection was mainly through secondary data and was obtained from the company's financial statements and the company's website. The data has been collected mainly from the company's Balance Sheet and Profit & Loss Account for the past 3 years. Various tools and techniques have been used to fulfill the aforesaid objectives. A thorough study of the organization has been along with in depth study of the functioning of Finance and Accounts Department of TVS LIMITED. Further for the analysis of Working Capital Management, study of working Capital cycle / Operating cycle has been made along with Operating cycle of TVS LIMITED. Thereafter analysis of

working capital has been done by taking into consideration past 3 years Current Assets and current Liabilities.

### Company Profile

TVS Motor Company is the third largest two-wheeler manufacturer in India and one among the top ten in the world, with annual turnover of more than USD 1.32 billion in 2013-2014, and is the flagship company of the TVS Group. TVS Motor Company was formerly known as TVS Suzuki. It manufactures wide range of mopeds, scooter and motorcycles. The company has four manufacturing facilities located at Hosur, Mysore, Himachal Pradesh and Indonesia and a production capacity of 300 thousand units a year. The Company's products are distributed by network of authorized dealers across India. The Company has strong distribution network in the 2W industry and it continuously seeks to increase its distribution reach.

### Subsidiary Companies

TVS Motor Company having the subsidiaries is namely

1. Sundaram Auto Components Limited
2. TVS Energy Limited
3. TVS Housing Limited
4. TVS Motor Company (Europe) B.V.

Balance Sheet as at 31<sup>st</sup> 2009 – 2013

TVS Motor Company Ltd.	2009-10	2010-11	2011-12	2012-13
<b>SOURCES OF FUNDS</b>				
<b>Shareholder's Funds</b>				
Share Capital	475.10	475.10	475.10	475.10
Reserves and Surplus	11771.60	13677.70	15729.36	17774.17
<b>1. Sub Total - Net worth</b>	<b>12246.70</b>	<b>14152.80</b>	<b>16204.46</b>	<b>18249.27</b>
<b>Non Current Liabilities</b>				
Long term borrowings	4941.40	4424.10	4070.17	3825.96
Deferred Tax Liabilities	931.20	1246.80	1446.29	1619.84
Long Term Provisions	487.90	531.70	574.24	608.69
<b>2. Sub Total - Non Current Liabilities</b>	<b>6360.50</b>	<b>6202.60</b>	<b>6090.70</b>	<b>6054.49</b>
<b>Current Liabilities</b>				
Short Term Borrowings	517.20	334.70	281.15	253.03
Trade Payables	8085.80	9989.10	10988.01	11976.93
Other Current Liabilities	3567.80	4288.20	4802.78	5187.01
Short Term Provisions	578.00	679.60	740.76	785.21

3. Sub Total - Current Liabilities	12748.80	15291.60	16812.71	18202.18
<b>Total Liabilities (1+2+3)</b>	<b>31356.00</b>	<b>35647.00</b>	<b>39107.86</b>	<b>42505.94</b>
<b>APPLICATION OF FUNDS</b>				
<b>Non-Current Assets</b>				
a) Fixed Assets	10475.70	11737.90	12911.69	14073.74
b) Non-current investments	8688.40	8959.20	9227.98	9412.54
c) Long Term loans and advances	733.50	862.70	966.22	1053.18
<b>1. Sub Total - Non Current Assets</b>	<b>19897.60</b>	<b>21559.80</b>	<b>23105.89</b>	<b>24539.46</b>
<b>Current Assets</b>				
Inventories	5096.60	5481.50	5865.21	6217.12
Trade receivables	3168.50	3341.20	3541.67	3718.76
Cash and Bank Balances	174.50	825.70	949.56	1082.49
Short-terms loans & advances	2489.50	3643.10	4663.17	5788.92
Other current assets	529.30	795.70	982.37	1159.20
<b>2. Sub Total - Current Assets</b>	<b>11458.40</b>	<b>14087.20</b>	<b>16001.97</b>	<b>17966.48</b>
<b>Total Assets (1+2)</b>	<b>31356.00</b>	<b>35647.00</b>	<b>39107.86</b>	<b>42505.94</b>

**Current Ratio:**

The current ratio is also known as the working capital ratio and is normally presented as a real ratio.

**Table 1: Current Ratio for TVS Limited**

2010-11	Current Asset : Current Liability	1.33:1
2011-12	Current Asset : Current Liability	1.08:1
2012-13	Current Asset : Current Liability	1.12:1

**Cash Ratio****Table 2: Cash ratio for TVS Limited**

<b>Cash ratio for TVS LIMITED</b>			
2010-11	Cash: Current Liabilities	174.5/12748.80	0.013:1
2011-12	Cash: Current Liabilities	825.7/15291.60	0.053:1
2012-13	Cash: Current Liabilities	949.56/16812.71	0.056:1

**Current Asset to Total Assets Ratio:****Table 3: Current asset to total asset ratio for TVS Limited**

<b>Current Asset to Total Asset Ratio for the TVS Limited</b>		
2010-11	11458.40/31356	0.36
2011-12	14087.2/35647	0.39
2012-13	16001.97/39107.86	0.40

**Cash to Current Asset Ratio**

**Table 4: Cash to current asset ratio for TVS Limited**

<b>Cash to Current Asset Ratio for the TVS Limited</b>		
2010-11	174.5/11458.4	0.015
2011-12	825.7/14087.2	0.058
2012-13	949.56/16001.97	0.059

**Findings**

1. As current ratio is showing an increasing trend year on year, which implies that current asset, are more compared to current liabilities.
2. High current assets turnover ratio is more judicious and shows efficiency of management and proper utilization of the assets.
3. TVS LIMITED has not a sufficient amount of working capital during the past three years. As company is showing decreasing trend of working capital, which shows that company, kept its obligation for long time and less cash in hand to pay off its obligations.
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5. Inventory turnover ratio depicts the increasing trend which indicates the faster sale of inventory which is good for the company.
6. The operating cycle of the firm is disturbed, as it is continuously increasing which is not good for the company.

**Suggestions**

1. In case of inventory management ABC analysis, FSN technique, VED technique should be adopted to increase the efficiency of inventory management. Further a inventory monitoring system should be introduced to avoid holding of excess inventory.
2. It is suggested to maintain a favorable current and quick ratios which shows a lesser than ideal figures. It can be done either through increasing current assets or decreasing liabilities.
3. With the help of proper inventory management systems, like demand-based management, etc. the company can reduce the need for working capital and inventories can be financed through accounts payable.
4. The company should try and maintain an optimum level of working capital in order to improve upon the workings of the company.

**Conclusion**

The study on working capital management conducted in TVS Ltd. to analyze the financial position of the company. The company’s financial position is analyzed by using the tool of annual reports from 2010-2013. The financial status of TVS Ltd. is good. In the last year the inventory turnover has increased, this is good sign for the company. The company’s liquidity position is very good. With regard to the investments in current assets there are adequate funds invested in it. Care should be taken by the company not to make further investments in current assets, as it would block the funds, which could otherwise be effectively utilized for some productive purpose. On the whole, the company is moving forward with excellent management.

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