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A Study on Working Capital Analysis of TVS Motors Ltd

KEYWORDS

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ABSTRACT *The study has been conducted to analyse the working capital management of the TVS Ltd for the period of 2008-2013. TVS Motor Ltd the Flagship Company of the TVS Group, India's third largest two-wheeler manufacturer and one among the top ten in the world. The group has managed to run 33 companies that account for a combined turnover of nearly $3 billion. In the study ratio analysis is used to reveal the short term and long term solvency position of the company.*

Introduction

Working capital is a measurement of an entity's current assets, after subtracting its liabilities. Sometimes referred to as operating capital, it is a valuation of the amount of liquidity a business or organization has for the running and building of the business. TVS has been established by Thirukkurungudi Vengaram Sundaram Iyengar. It began with Madurai's first bus service in 1911, a company that consolidated its presence in the transportation business with large fleets of trucks and buses under the name of Southern Roadways Limited. TVS Motor Company Limited is a two-wheeler manufacturer in India. The Company manufactures a range of two-wheelers from motors to racing motorcycles. The Company's products include domestic range of two-wheelers, three-wheelers and international range of two-wheelers.

Review of Literature

Pedro Juan Garcia(2007)[1] "Effects of Working Capital Management on SME Profitable" in the study the researcher identified the empirical evidence on the effects of working capital management on the profitability of small medium sized Spanish firms. From this study the researcher's results was to demonstrate that the managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. Moreover, shortening the cash conversion cycle also improves the firm's profitability.

Pavithra (2010)[2] "Working Capital Management of Battery Chemicals and Minerals pvt ltd".The objective of the research is to study the sources and uses of the working capital on the liquidity position through various working capital related rations. The researcher has found that the inventory turnover has increased for the company and its liquidity position is very good with regard to the investments in current assets and the adequate funds invested in it.

Dong (2010)[3]has examined "Working Capital Management effects on firms profitability" of listed Vietnamese firms from 2006-2008. It is revealed from the study that there is a significant negative relationship between profitability measured among gross operating profit and the components of cash conversion cycle (inventory days and receivable days). Furthermore, the study also observes a significant positive association between profitability and accounts payable days. These findings imply that increasing firm's inventory and receivable days lead to a decreasing profit which significant financial success can be attained with increased payable days.

Gill et al(2010)[4] has studied the relationship between "Working Capital Management and Profitability" of 88 US firms listed on the new York stock exchange using data from 2005-2007, It is statistically observed that there is a significant relationship between average payable days and profitability and also between average inventory days and firm profitability. Similarly, there is no significant relationship between firm's size and profitability but notice a negative association between accounts receivable and profitable. It is suggested from the study managers can enhance the profitability of their firms by reducing the number of days from their account receivables.

Objectives of the study

- To analyse the short term solvency position of the company.
- To examine long term solvency position of the company.

Research methodology

To achieve the above mentioned objectives of the present study is diagnostic in nature which makes use of secondary data. The relevant data have been extracted from the data base of TVS Motors Company limited. The study period is five year from 2008 to 2013. To analyse the data, financial tool ratio analysis has been used.

TABLE 1-CURRENT RATIO OF TVS MOTORS LTD FOR THE PERIOD 2008-2013
(IN CRORES)

YEAR	CURRENT ASSETS (IN RS)	CURRENT LIABILITIES (IN RS)	CURRENT RATIO (%)
2008 – 09	893.67	615.83	1.45
2009 – 10	965.19	734.08	1.31
2010 – 11	395.37	977.17	0.40
2011 – 12	1078.3	1345.18	0.80
2012 – 13	1129.51	1254.17	0.90

Source: secondary data

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From the above table it is found that the current ratio of the company during the year 2008-2009is 1.45 per cent. It has been revealed that in the year of 2009-2010 it is decreased to 1.31per cent, in 2010-2011 it shows a fluctuation up to 0.40 per cent and during 2011-2012 it shows the increase of 0.80 per cent. It is revealed that in 2012-13 there is increase in 0.90 per -cent. Thus it is revealed that there is fluctuation current ratio from 2008-2013.The average ratio for five year is 0.97.Hence the current ratio is not satisfactory.

TABLE 2-LIQUID RATIOS OF TVS MOTORS LTD FOR THE PERIOD 2008-2013 (IN CRORES)

YEAR	LIQUID ASSETS (in rs)	CURRENT LIABILITIES (in rs)	LIQUID RATIO (%)
2008-09	573.12	615.83	0.93
2009-10	675.46	734.08	0.92
2010-11	673.63	977.19	0.69
2011-12	493.44	1345.18	0.37
2012-13	619.85	1254.17	0.49

Source: secondary data

From the above table it is found that the liquid ratio of the company during the year 2008-09 ratio is 0.93. It has decreased to 2009-10 the ratio is 0.92 per cent, 2010-11 the ratio is 0.69 per cent and 2011-12 the ratio is 0.37 per cent this ratio shows a decreasing trends. It is revealed that in 2012-13 there is increase 0.49 per cent. Thus it revealed that there is a continuation's decreasing trend. The average liquid ratio is 0.68. Hence the Liquid ratio is not satisfactory.

TABLE 3- ABSOLUTE LIQUID RATIOS OF TVS MOTORS LTD FOR THE PERIOD 2008-2013 (IN CRORES)

YEAR	ABSOLUTE LIQUID ASSETS (IN RS)	CURRENT LIABILITIES (IN RS)	ABSOLUTE LIQUID RATIO (%)
2008-09	42.05	615.83	0.068
2009-10	101.01	734.08	0.137
2010-11	6.01	977.17	0.006
2011-12	13.03	1345.18	0.009
2012-13	17.45	1254.17	0.014

Source: secondary data

From the above table it is found that the absolute liquid ratio of the company during the year 2008-09 is 0.068 per cent. It has been revealed that in the year of 2009-10 it is increased 0.137 per cent. Then the ratio is decreased to 0.006 per cent in the year 2010-11. In 2011-12 it shows an increase of 0.009 per cent. It is revealed that in 2012-13 there is increase in 0.014 per -cent. Thus it is revealed that there is fluctuation in absolute liquid ratio from 2008-2013. The average ratio for the five years is 0.047 and the ideal norm is 0.5:1. Hence the absolute liquid ratio is not satisfactory.

TABLE 4- WORKING CAPITAL TURNOVER RATIO TVS MOTORS LTD FOR THE PERIOD 2008-2013 (IN CRORES)

YEAR	NET SALES (IN RS)	AVERAGE WORKING CAPITAL(IN RS)	WORKING CAPITAL TURNOVER RATIO (IN TIMES)
2008-09	3,670.92	242.94	15.11
2009-10	4,363.11	254.48	17.15
2010-11	6,179.48	227.75	27.13
2011-12	7,126.20	2,842.30	2.51
2012-13	7,065.00	197.70	(35.74)

Source secondary data

From the above table it is found that the working capital turnover ratio of the company for five years is depicted in the above table and it shows a decreasing trend. For the year 2008-09 the ratio is 15.11 times. The ratio has been increased up to 17.15 times and 27.13 times in the year of 2009-10 and 2010-11 respectively. Then the ratio has been decreased up to 2.51 times and (35.74) times in the year 2011-12 and 2012-13.The average working capital turnover ratio is 5.23times.Hence it is not satisfactory.

TABLE 5 -DEBT EQUITY RATIO OF TVS MOTORS LTD FOR THE PERIOD 2008-2013 (IN CRORES)

YEAR	OUTSIDER FUNDS(IN RS)	SHAREHOLDERS FUNDS(IN RS)	DEBT- EQUITY RATIO (%)
2008-09	1521.81	810.16	1.88
2009-10	1737.37	865.30	2.01
2010-11	1762.59	999.41	1.76
2011-12	1873.65	1169.30	1.60
2012-13	1801.48	1224.67	1.47

Source: secondary data

From the above table it is found that the debt equity ratio of the company during the year 2008-09 is 1.88. It has been revealed that in the year 2009-10 it is increased to 2.01.In 2010-11 it is decreased up to 1.76. During 2011-12 it is decreased up to 1.60 and in 2012-13 it decreased up to 1.47.Thus it is revealed that there is decreasing trend in equity ratios from 2008-2013. The average debt equity ratio for five year is 1.74.This indicates that the company uses more of outsider funds than the shareholders' funds.

SUGGESTIONS

- During the study period the current ratio, liquid ratio, absolute ratio is not satisfactory. So the company has to increase its current assets to satisfy the short-term solvency position of the concern.
- As there is a decline in working capital, the company should work efficiently to gain the progress.
- The company has to reduce the outsider funds for maximization of profit.

CONCLUSION

The study has been made to analyse the working capital management of the TVS ltd for the period of 2008-2013, reveals that its liquidity and short term solvency position not satisfactory. Working capital is very important to business to meet the day to day operation. Every company's working capital position is important for the quick and

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smooth running of the business. This can be achieved through proper utilization of outsider's fund, current assets, and liabilities of the firm. Cut down the expenses and utilization of available recourse will improve the working capital of the company. It could be concluded from the study a working capital turnover ratio are not satisfactory. But the dept equity ratio indicates that the company uses more of outsider funds rather than the shareholders' funds. Which indicates that of the firm should follow the right proposal for profit earning.

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