



A Study on Working Capital Management on Mahindra and Mahindra Private Limited

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ABSTRACT

Working capital is the life blood and nerve center of a business. Just as circulation of blood is essential in the human body for maintaining life, working capital is very essential to maintain the smooth running of a business. No business can run successfully without a working capital. Working capital management is the device of finance. It is related to manage of current assets and current liabilities. After learning working capital management, commerce students can use this tool for fund flow analysis. Working capital is very significant for paying day to day expenses and long term liabilities. Working capital refers to that part of firm's capital which is required for financial short term or current assets such as cash, marketable securities, debtors, and inventories. In other words working capital is the amount of funds necessary to cover the cost of operation the enterprise.

WORKING CAPITAL = CURRENT ASSETS – CURRENT LIABILITIES

The purpose of this paper is to working capital of Mahindra and Mahindra Private limited in India and discusses the working capital and today's economy that helps us to sustain in the future growth.

KEYWORDS

Ratio Analysis and Working Capital Analysis,

INTRODUCTION ABOUT WORKING CAPITAL

Definition: "Working capital is the amount of funds necessary to cover the cost of operating the enterprise." - Shubin.

CONCEPT OF WORKING CAPITAL

Working Capital: Working Capital is the fund available for meeting day to day requirements. Working capital, sometimes called net working capital

Current Asset: Current asset are resources, which are in cash or will soon be converted into cash with in accounting year.

Current Liabilities: Current liabilities are commitments, which will soon require settlement with in the accounting year.

Introduction of the Study: Mahindra & Mahindra Private Limited is an Indian multinational automobile manufacturing corporation headquartered in Mumbai, Maharashtra, India. It is one of the largest vehicle manufacturers by production in India and the largest seller of tractors across the world. It is a part of Mahindra Group, An Indian conglomerate. It was ranked as the 10th most trusted brand in India, by The Brand Trust Report, India Study 2014. It was ranked 21st in the list of top companies of India in Fortune India 500 in 2011. Its major competitors in the Indian market include Maruti Suzuki, Tata Motors, Ashok Leyland, Toyota, Hyundai, Mercedes-Benz (Merc) and others.

Mahindra & Mahindra Private Limited was set up as a steel trading company in 1945 in Ludhiana as Mahindra & Mohammed by brothers K.C. Mahindra and J.C. Mahindra and Malik Ghulam Mohammed. After India gained independence and Pakistan was formed, Mohammed immigrated to Pakistan. The company changed its name to Mahindra & Mahindra in 1948. It eventually saw business opportunity in expanding into manufacturing and selling larger MUVs, starting with assembly under licence of the Willys Jeep in India. Soon established as the Jeep manufacturers of India, the company later commenced manufacturing light commercial vehicles (LCVs) and agricultural tractors. Today, Mahindra & Mahindra is a key player in the utility vehicle manufacturing and branding sectors in the Indian automobile industry with its flagship UV Scorpio and uses India's growing global market presence in both the automotive and farming industries to push its products in other countries.

Automobiles: Mahindra & Mahindra Private Limited, branded on its products usually as 'Mahindra', produces, saloon cars, pickups, commercial vehicles, and two wheeled motorcycles and tractors. It owns assembly plants in India, Mainland China, the United Kingdom, and has three assembly plants in the United States. Mahindra maintains business relations with foreign companies like Renault SA, France.

CURRENT STATUS: Mahindra & Mahindra Private Limited its Q4 FY16 and FY16 results which were in line with our estimates. Following are the key highlights: Overall Volumes grew by 13.5% YoY (UVs 16% YoY & Tractors 12% YoY). Net Sales grew by 12.9% YoY to Rs 101.6bn. EBITDA margins expanded by 134bp YoY to 12.5%. Adjusted PAT grew by 20.5% YoY to Rs 6.6bn. Based on its core earnings the stock at Rs. 1378 is trading at a PE multiple of 10.7x FY18E and an EV/EBIDTA of 6x FY18E, excluding its subsidiary value of Rs 500 per share. We have assigned FY18E PER of 15x to its core earnings and have valued the listed subsidiaries to 20% discount to the market price. We maintain our ACCUMULATE recommendation on the stock with SOTP-based target price of Rs 1,718 per share with 25% upside potential.

FUTURE PLAN: India's largest SUV maker Mahindra & Mahindra that recently launched Mahindra NUYO SPORT AND TUV300 M HAWK 100 models in the country, has plans to launch at least several new and face lifted models in the next two years. While the company's focus in these two years will be on launching petrol versions of its existing cars, we might see some highly refreshed and new models.

Mahindra & Mahindra that currently has just one petrol model – KUV100 – plans to bring in petrol versions of its entire range. In a recent interaction with TOI, M&M's executive director Pawan Goenka revealed that the company is planning petrol iterations of all of its mass-segment cars including the Mahindra Scorpio and the XUV500. Powering the Mahindra Scorpio petrol will be a 2.2-litre MPFI engine which is the same that does duty in the export model of the car. Since the company develops this engine in-house, the company might keep its pricing quite competitive against its rivals. This engine is good for 140bhp and 280Nm.

AWARDS AND RECOGNITIONS

Business world FICCI-SEDF Corporate Social Responsibility

Award 2007.

The Brand Trust Report ranked M&M as India's 10th Most Trusted Brand in its India Study 2014 survey (from 20,000 brands analyzed).

Its Farm Equipment division received the Japan Quality Medal in 2007.

Blue bytes News rated M&M as India's second Most Reputed Car Company (reported in their study titled Reputation Benchmark Study) conducted for the Auto (Cars) Sector in 2012.

OBJECTIVES OF THE STUDY

To study the working capital performance

To identify the liquidity position of the company.

To know the way and means of financing working capital.

To suggest suitable suggestions to overcome the obstacle in the company.

RESEARCH METHODOLOGY: Research methodology is simply the frame work or plan for study that guides the collection and analysis of data. The income statements and the annual report were used for the study.

DATA SOURCES: There are two major sources of data that are extremely valuable for research, they are PRIMARY DATA : Primary data is defined as first hand data. In this research it is collected through interviews and discussions with various managerial staff. SECONDARY DATA: Secondary data is collected from secondary sources. In this research secondary data is collected from balance sheet, reference book, and magazine old company records and internal.

ANALYSIS

Ratio Analysis.

Statement of changes in working capital.

PERIOD OF THE STUDY: The present study covers a period of 5 years that is the period from 2011 to 2015

LIMITATION OF THE STUDY:

The Past statement can never be a hundred percent of helpful for the future.

No standard norm or rule of thumb is for most of the ration so comparison cannot be made.

The reliability of the information and data are limited by time factor.

Some information is confidential to the organization and its non-availability also limited the scope of the project.

REVIEW OF LITERATURE: A case study was made by A. Vijayakumar & A. Venkatachalam on "Responsiveness of working capital management". This study generally indicates a moderate trend in the financial position and utilization of working capital size should be avoided. Attempts should also make to use funds more effectively, by keeping on optimum level of working capital. Because keeping more current abesses cause a reduction in profitability. Hence efforts should make to ensure a positive trend in the estimations and maintenances of working capital.

With a view to study, the working capital trend in Indian industry R.Vannamadevi2 conducted in Indian industry to find the working capital employed in Indian industries for a period of 10 years from 1973 – 1983 Six Groups of industries were taken for study. Ratio analysis techniques were used .It was found that working capital policy followed by different groups of industries was not uniform generally, the industries

have no Efficiently Management their Current Asset the trend in working capital has not maintained uniformly.

RATIO ANALYSIS

Ratio/Years	2011	2012	2013	2014	2015
Current ratio	0.9	1.09	1.1	1.29	1.13
Quick ratio	0.19	0.28	0.34	0.39	0.86
Proprietary ratio	0.82	0.79	0.82	0.82	0.93
Net Profit ratio	11.34	9.03	8.29	9.27	8.52
Inventory Turnover ratio	13.45	13.51	16.71	14.45	14.56
Debt to Equity ratio	0.67	0.7	0.65	0.64	0.54

Source: Annual Report of M&M Pvt. Ltd.

The current ratio over the year for the company has been satisfactory. The quick ratio and proprietary ratio of the company is satisfactory. The proprietary ratio indicates the long-term or future solvency position of the business. Net profit ratio are satisfactory. And Net working capital turnover ratio is not satisfactory for Mahindra and Mahindra limited in India. Stock or inventory turnover ratio is satisfied by cost of goods sold. Debt-to equity ratio and is Total asset turnover ratio is satisfactory for the company Mahindra and Mahindra limited. The overall profitability ratio consist of Net profit ratio, Stock or inventory turnover ratio, which indicates a highest trend for the last 5 years.

NET WORKING CAPITAL TURNOVER RATIO: The working capital turnover ratio indicated the velocity of the utilization of Net working capital. These ratios are cost of sales and the net working capital. If the information about cost of sales is not available the figure of sales may be taken as the numerator. Net working capital is found by deduction from the total current assets the total current liabilities.

TABLE SHOWING NET WORKING CAPITAL TURNOVER RATIO OF MAHINDRA AND MAHINDRA PRIVATE LIMITED

YEAR	NET SALES	NET WORKING CAPITAL	RATIO
2011	23460.26	-3336.13	-7.03
2012	31853.52	-3031.49	-10.51
2013	40441.16	-3158.07	-12.81
2014	40508.5	-2488.44	-16.28
2015	40,579	1,153.94	0.02844

Source: Annual Report of M&M Pvt Ltd

The above table reveals the Net Working Capital ratio of Mahindra and Mahindra private limited. The Net Working Capital ratio is highest in the year 2015 (0.028437)2014(-16.28) and the lowest in the year 2011(-7.03)

STATEMENT OF CHANGE IN WORKING CAPITAL

Particulars	2011	2012	Increase	Decrease	2012	2013	Increase	Decrease
Current assets : Stock	1694.21	2358.39	664.18		2358.39	2419.77		61.38
Sundry debtors	1260.31	1988.36	728.05		1988.36	2208.35		219.99
Cash & Bank	614.64	1188.43	573.79		1188.43	1781.41		592.98
Loans & Advances	3138.4	2985.59		153	2985.59	3389.26		403.67
Total current asset	3569.16	5535.18	1966		5535.18	6409.53		874.35
Total current assets	10222.7	14056			14056	16208.3		
Current liabilities :Provisions	1681.54	1845.27		164	1845.27	1905.47		60.2
Total current liability	6905.29	8566.67		1661	8566.67	9567.6		1000.93
Total current liabilities	8586.83	10411.9			10411.9	11473.1		

Source: Annual Report of M&M Pvt Ltd

The current asset for Mahindra & Mahindra private Ltd has been increasing working capital highest in the year 2012(1966.02).and decreasing working capital in the year 2012(152.81).The current liability has been decreasing working capital highest in the year 2012(1661.38).and decreasing working capital lowest in the year 2012(163.73). The current assets for Mahindra & Mahindra pvt ltd has been decreasing working capital highest value in the year 2013(874.35).and lowest value in the year 2013(403.67). The current liability has been decreasing working capital highest in the year 2013(1000.93).and decreasing working capital lowest in the year 2013(60.2)

STATEMENT OF CHANGE IN WORKING CAPITAL

Particulars	2013	2014	Increase	Decrease	2014	2015	Increase	Decrease
Current assets : Stock	2419.77	2803.63	383.86		2803.63	2,437.57	366.06	
Sundry debtors	2208.35	2509.84	301.49		2509.84	2,558.03		-48.19
Cash & Bank	1781.41	2950.39	1150.3		2950.39	2,064.77	885.62	
Loans & Advances	3389.26	4539.55	1854.3		4539.55	773.1	3,766.45	
Total current asset	6409.53	8263.86	4859		8263.86	10,128.21		1864.24
Total current assets	16208.3	21067.3			21067.3	17,961.68	3,105.59	
Current liabilities :Provisions	1905.47	2074.02		169	2074.02	1,461.44	612.58	
Total current liability	9567.6	10752.3		1185	10752.3	8,974.27	1,778.03	
Total current liabilities	11473.1	12826.3			12826.3	10,435.71	2,390.61	

Source annual Report of M&M Pvt Ltd

The current assets for Mahindra & Mahindra pvt ltd has been decreasing working capital. Its highest value in the year 2015(366.06) and lowest value in the year. The current assets for Mahindra & Mahindra pvt ltd has been increasing working capital highest value in the year 2014(4858.95). and lowest value in the year 2014(301.49).The current liability has been decreasing working capital highest in the year 2015(2,390.61).and decreasing working capital lowest in the year

SUGGESTIONS: The Company Mahindra and Mahindra private limited may improve is liquidity position by making more increments in current asset, liquidity asset so in future debit should be preferred for financing to bring the ratio close to the ideal ratio of 1:1. It should always try to maintain and adequate

quantum of net current asset in relation of current liabilities as to keep a good amount of liquidity throughout the years.

There is decreasing trend in net working capital turnover ratio it would be advisable for the company to come out with an equity right issue. This should be increase the performance of the ratio.

The Net profit ratio, Gross profit ratio, Stock or inventory turnover ratio, Operating profit ratio is good but the company should considered ways and means of increasing its working capital position. So the company must take necessary steps to enhance the owner's capital to improve the profitability of the company.

The company should exercise control over the manufacturing

cost and must find out the ways and means of reducing its cost of production. This will have a way to increase the profitability of the company.

CONCLUSION : The present study entitled " A study on working capital of Mahindra and Mahindra private limited "was under taken with main objective of analyzing whether the companies are viable in the long run through the ratio analysis, statement of change in working capital. The researcher hopes that this research will provide an idea on the "A study on working capital of Mahindra and Mahindra private limited" and the processing techniques are satisfactory and it is facing moderate profit over the years it is also essential to buy more shares in order to face the severe competition and to increase its profit, The researcher strongly believes that the suggestion of this study will be beneficial to the company.

On the basis of analysis of financial statements of Mahindra and Mahindra private limited, conclude that the overall working stability-soundness has improved over the years and to improve the overall financial performance in the forthcoming years.

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RESEARCH METHODOLOGY – C.R.Kotahri

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