

# A COMPARATIVE STUDY OF WORKING CAPITAL MANAGEMENT OF TVS motor and Bajaj auto ltd

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## **ABSTRACT**

*Working capital management is one of the vital important financial decisions in business that represent the management efficiency. The optimal management of working capital of company will raise the business value. In this study the researcher tried to carry out a comparative analysis on working capital management of TVS motors and Bajaj auto limited. The aim of this study is to analyze which company's performance is better than other company. For this analysis researcher have use only of secondary data from companies' websites, companies' annual reports and financial websites like money control .com for five years 2013-2017.for data analysis researcher have selected the technique of ratio analysis.*

**Keywords:** *average collection period, debtor turnover ratio, working capital management.*

## **I. INTRODUCTION**

Management of working capital is an essential task of finance management because it plays vital part of any business firm because it is directly affect the firms' profitability and liquidity. With the help of proper management of working capital firm can build up it's the solvency, improve its goodwill, and it's also can face out all the business operations smoothly and it's also can be able to face out crisis. So that It is the duty of financial managers to keep an optimal level of working capital

**Net working capital** = Current assets–current liabilities

Current assets are short-lived investments that are continually being converted into other assets, while current liabilities are those liabilities which firms are accountable to pay within a year.

### **1.1. Company Profile**

#### **TVS motor company**

TVS was established by Mr. TV SundaramIyengar. He began with delhi first bus service in 1911 and founded T.V.SundaramIyengar and Sons Limited, a company in the transportation business with a large fleet of trucks and buses under the name of Southern Roadways Limited. When he died in 1955, his sons took the company ahead with several forays in the automobile sector, including finance, insurance, and manufacture of two-wheelers, tyres and components. The group has managed to run 97 companies that account for a combined turnover of nearly \$6 billion. TVS Motor Company is the third largest two-wheeler manufacturer in India, with revenue of over 13,000 Cr (\$2 billion) in 2016-17. It is the flagship company of the Rs. 40,000 Cr (\$6 billion, in

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2014-15) TVS Group. The company has annual sales of 3 million units and an annual capacity of over 4 million vehicles. TVS Motor Company is also the 2nd largest exporter in India with exports to over 60 Countries. It has a production capacity of over 3 million Vehicles a year. The company has four state of the art manufacturing plants - three located in India (Hosur, Tamil Nadu; Mysore, Karnataka and Nalagarh, Himachal Pradesh) and one in Indonesia (Karawang). Today, TVS Motor functions through a nationwide network of more than 4000 touch points across all the states in India.[1]

## **Bajaj Auto Limited**

Bajaj Auto came into existence on 29 November 1944 as M/s Bachraj Trading Corporation Private Limited. It started off by selling imported two- and three-wheelers in India. In 1959, it obtained a licence from the Government of India to manufacture two-wheelers and three-wheelers and obtained Licence from Piaggio to manufacture Vespa Brand Scooters in India and started making Vespa 150 scooters, it became a public limited company in 1960. In 1970, it rolled out its 100,000th vehicle. In 1977, it sold 100,000 vehicles in a financial year. In 1985, it started producing at Waluj near Aurangabad. In 1986, it sold 500,000 vehicles in a financial year. In 1995, it rolled out its ten millionth vehicles and produced and sold one million vehicles in a year. With the launch of motorcycles in 1986, the company has changed its image from a scooter manufacturer to a two-wheeler manufacturer. Bajaj Auto is the world's sixth-largest manufacturer of motorcycles and the second-largest in India. It is the world's largest three-wheeler manufacturer. On May 2015, its market capitalisation was ₹640 billion (US\$10 billion), making it India's 23rd largest publicly traded company by market value. The Forbes Global 2000 list for the year 2012 ranked Bajaj Auto at 1,416.[2]

## **1.2. Review of Literature**

### **N. Suresh Babu and Chalam (2014)**

Author studied the relationship between the components of working capital and firms' profitability of firms in Indian leather industry. He undertakes profitability (ROA) as a dependent variable and the inventory conversion period (ICP), the average collection period (ACP), the average payment period (APP), and the cash conversion Cycle (CCC) are used as independent variables, and are considered for measuring working capital management. The results show that for overall leather industry, working capital management has significant impact on profitability of the firms.

**Mukti R. Barot (2016).** In this study the researcher tried to carry out a comparative analysis on working capital management of Raymond and Vardhman Textile Limited. The aim of this study is to analyze which company's performance is better than other company. For this analysis researcher has used only of secondary data for ten years 2006-2015. For data analysis researcher has selected the technique of ratio analysis.

## **II. OBJECTIVES OF THE STUDY**

The specific objectives of the study are:

1. To analyze the concept and importance of working capital.

2.To calculate the financial performance through Ratio Analysis of TVS motor and bajajauto ltd, on comparative basis in terms of short term.

### III. RESEARCH METHODOLOGY

- **Source of Data:** The study is based on secondary data. Data regarding industries is collected from the annual report of selected industries with the help of websites, books, journals, magazines.

- **Sample Size:** Two industries are taken into consideration. Those are as follows:

1. TVS motor

2. Bajaj auto


- **Duration of Study:** For the purpose of analysis of industries period taken is from 2013 to 2017.

- **Tools for Analyzing Data:**

#### A) Statistical Tools

Tools which are used are current, quick, debtor turnover, inventory turnover ratios and average collection period.

#### B) Presentation

Graph, table

### IV. DATA ANALYSIS

The various ratios that will be calculated are as follows:

1) Liquidity Ratios: These ratios throw light on the liquidity position of the concern. The following ratios were calculated:

1 Current Ratio:  $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$

2 Quick Ratio:  $\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$

2. Activity Ratios: These ratios measure the effectiveness with which an organization manages its resources on assets.

They are also called the turnover ratios because they indicate the speed with which assets are converted or turned over into sales. The various ratios calculated are as follows:

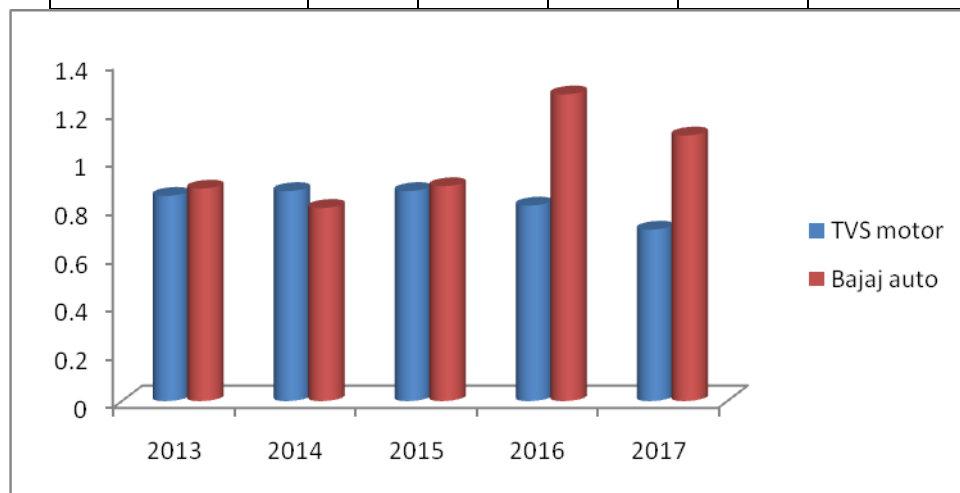
1. Debtors Turnover Ratio:  $= \frac{\text{Total Sales}}{\text{Average Debtors}}$

2. Average Collection Period:  $= \frac{365}{\text{Debtors Turnover Ratio}}$

3. Inventory Turnover in days:  $= \frac{\text{Inventory}}{\text{cost of goods sold}} * 365$

➤ **Current ratio**

Companies/years	2013	2014	2015	2016	2017
TVS motor	0.85	0.87	0.87	0.81	0.71
Bajaj auto	0.88	0.8	0.89	1.27	1.1

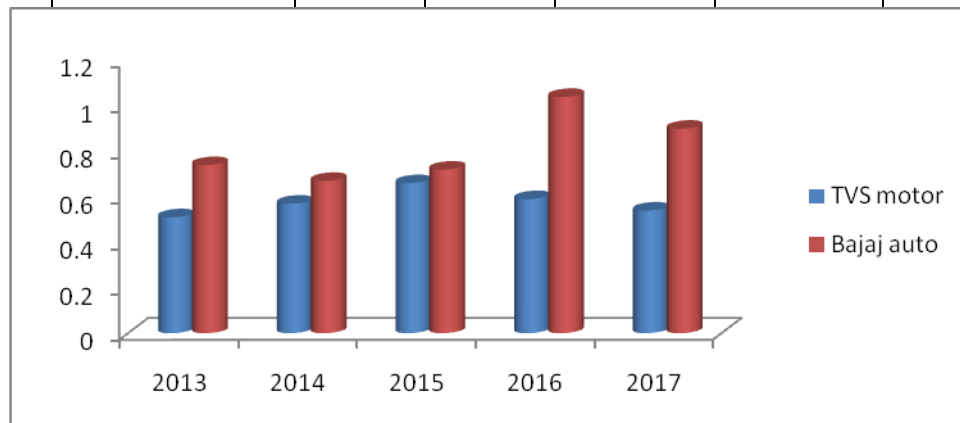


**Chart 1 TVS motor and Bajaj auto Current Ratio**

In the above graph current ratio of TVS motor and Bajaj auto from 2013-2017 was depicted. It can be seen that current ratio of TVS motor first increasing than start decline whereas current ratio of Bajaj auto is continuously rising. The performance of bajaj auto was better than TVS motor but less than ideal 2:1.

➤ **Quick ratio**

companies/years	2013	2014	2015	2016	2017
TVS motor	0.51	0.57	0.66	0.59	0.54
Bajaj auto	0.74	0.67	0.72	1.04	0.9

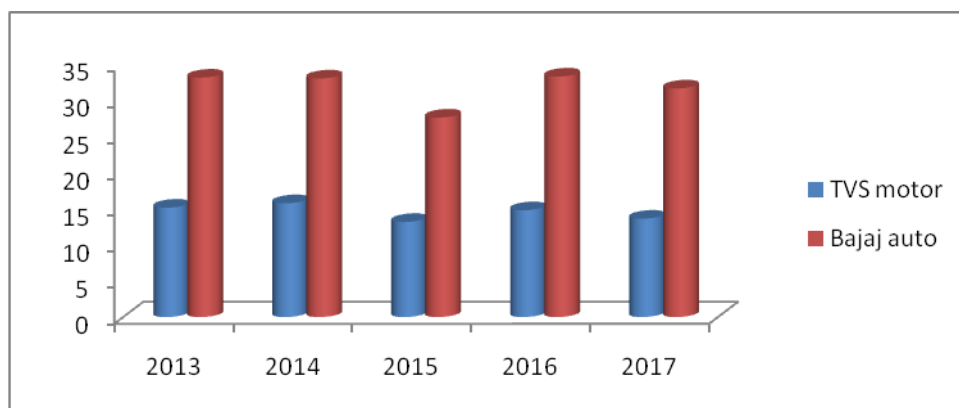


**Chart 2 TVS motor and Bajaj auto QuickRatio**

The above chart displays that the Quick Ratio for TVS motor has been the highest in the years 2015 and lowest was in 2013 but both which is below 1. We can also see that it was the lowest for bajaj auto in 2014 and highest in 2016. The performance of bajaj auto was better than TVS motor because it attain ideal ratio 1:1 in last two years of study.

➤ **Inventory Turnover Ratio**

companies/years	2013	2014	2015	2016	2017
TVS motor	15.17	15.78	13.19	14.81	13.64
Bajaj auto	33.2	33.08	27.66	33.35	31.7

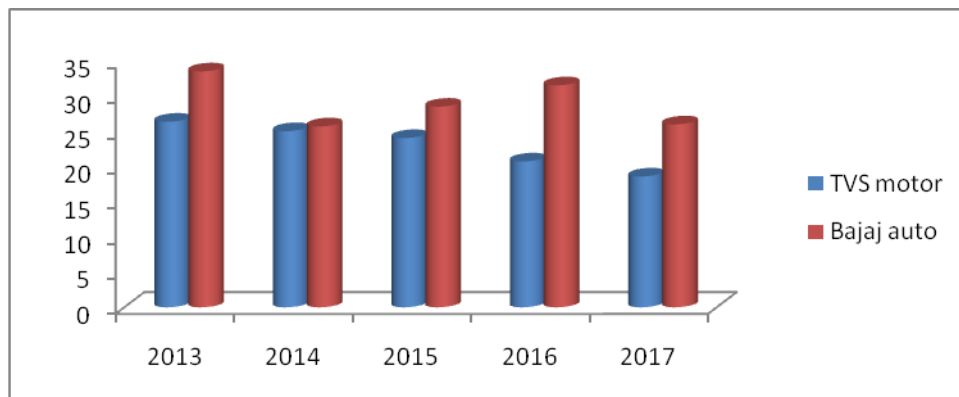


**Chart 3 TVS motor and Bajaj auto Inventory Turnover Ratio**

As per the above figure, it can be clearly seen that bajaj auto has a higher Inventory Turnover Ratio when compared to TVS for all the years except for the years of study.

➤ **Debtors Turnover Ratio**

companies/years	2013	2014	2015	2016	2017
TVS motor	26.43	25.09	24.1	20.77	18.63
Bajaj auto	33.6	25.77	28.57	31.62	26.05

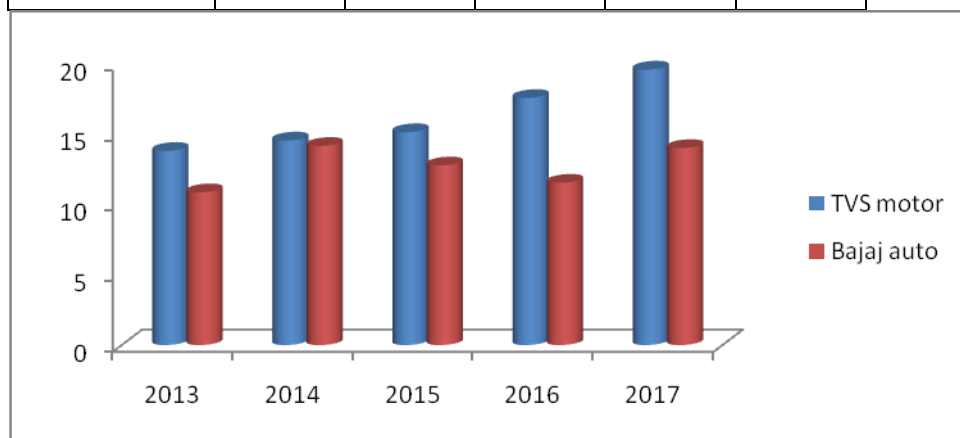


**Chart 4 TVS motor and Bajaj auto Debtor Turnover Ratio**

We can see that the Debtors Turnover Ratio for bajaj auto has been the highest since 2013 compared to that of TVS motor. Both the companies were at almost equilibrium for the year 2014.

➤ **Average collection period**

companies/years	2013	2014	2015	2016	2017
TVS motor	13.81	14.54	15.14	17.57	19.59
Bajaj auto	10.86	14.16	12.77	11.54	14.01



**Chart 5 TVS motor and Bajaj auto Average collection period**

The Average collection period chart above shows that TVS motor has the highest average compared to bajaj auto for all the years. The highest average collection period for went above 19 in the year 2017. The average collection period for bajaj has been lesser than 15 for all the years of study.

**V. CONCLUSION**

Working capital management is one of the most important decisions for financial decisions in any business unit. The researcher had tried to carry out a comparative analysis on working capital management. The results show that liquidity position of bajaj auto was better than TVS motor because its result are stable and more nearer to ideal than TVS motors. We may further conclude that these firms properly manage components of working

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capital like cash, marketable securities, receivables and inventory management and make collection as soon as possible to strength there financial sources .

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