

AN ANALYSIS OF WORKING CAPITAL MANAGEMENT OF TATA MOTORS LIMITED

AUTHOR: Dr. (Mrs.) G. Lakshmi, M.Com., B.Ed., M.Phil., Ph.D., Assistant Professor, Department of B.COM (PA), PSGR Krishnammal College for Women.

lakshmi@psgrkcw.ac.in Ph.no 9047681645

CO-AUTHOR: Abhi Nandana.B, Krishika.R, Meenakshi.K, III B.COM (PA), PSGR Krishnammal College for Women, Coimbatore

ABSTRACT

The Working capital management ensures that a company has sufficient cash flow in order to meet their operating expenses and the company's short-term debt obligations. The main objective is to study the need of working capital requirement in an organization and to offer suggestion to improve the working capital performance of the company. The working capital analysis helps the stakeholders of the company to evaluate the current performance of the firm. This study is done with the help of the secondary data which is gathered from the annual report of the company. The tool used in the research is schedule of changes in working capital.

Keywords: Working Capital, Current Assets, Current Liabilities, Negative

INTRODUCTION

Working capital management is a tool designed to have a check on the company's assets and liabilities, how it operates efficiently by monitoring and using its assets and liabilities to its utmost effect. Working capital management monitors a company's assets and liabilities to maintain sufficient cash flow to meet its short-term operating costs and short terms debts. Some of the tools used are statement of changes in working capital, ratio analysis.

Statement of changes in working capital is prepared with help of assets and liabilities and is compared over the years to identify the changes that occurs each year taken into account. Increase in current asset results in increase in working capital. Decrease in a current asset results in decrease in working capital, likewise increase in current liability decrease in working capital and decrease in current liability causes increase in working capital. These are the changes that occurs in the statement. Changes in working capital affects the cash flow of the company. Positive working capital is when a company has more of current assets than liabilities that the company can fully cover its short-term liabilities as they come due in the next 12 months. it is a sign of financial strength. However, having more amount of working capital for a long time might indicate that the company is not managing its assets effectively.

REVIEW OF LITERATURE

Avinash. P and Etal (2018) identified “**the impact of working capital management on corporate performance: An empirical analysis of selected IT firms in India**”. The study period was from 2008 - 2017. During the study they found that the management of current assets was more important than other aspects of the working capital management. It was a comparative analysis of the selected companies under study. This study measures the reactivity of return on employed capital to the working capital vary in the different companies. The author suggested that the firms in the IT sector should manage their current assets very carefully in order to enhance the profitability.

Patel charmiben vimalbhai (2016) inspected the “**working capital management of Hero MotoCorp Ltd. Ambica motors, Gujarat**”. This study is covered from 2013 to 2016. The objective of the study was to analyse the effective utilization of working capital and evaluate the performance of receivables and cash. During the period of study, there were a few up and downs in the working capital and ratio analysis it will affect the operations of the company but it was observed that the overall financial position was good. The author suggest that the working capital ratio was decreasing year by year, it was not good for the society so in order to increase the working capital turnover the company need to increase its sales.

STATEMENT OF THE PROBLEM

The working capital analysis helps the stakeholders of the company to evaluate the current performance of a financial position, and to predict the future performance of the company. The study has been conducted to know the working capital management of “TATA MOTORS LIMITED” from the year 2015 -2020. As working capital is the life blood and nerve centre of an organization, it can run successfully without an adequate amount of working capital

OBJECTIVES OF THE STUDY

1. To access the working capital management of the company
2. To offer suggestion to improve the working capital performance of the compa

RESEARCH METHODOLOGY

The data used in this analysis are secondary data which is collected from the annual report of the Tata motors. The period of study is from 2015 – 2016 to 2019 – 2020. The tools used for this study is “Schedule of changes in working capital”.

ANALYSIS AND INTERPERTATION

SCHEDULE OF CHANGES IN WORKING CAPITAL

Working capital means the excess of current assets over current liabilities. Statement of changes in working capital is calculated for comparing the figure of two consecutive years.

THE GENERAL RULE

1. An increase in current asset will increases working capital.
2. A decrease in the current asset will decreases working capital
3. An increase in current liabilities will decreases working capital
4. A decrease in current liabilities will increases working capital.

In case, current assets in the current year are more than in the previous year, it is an increase in working capital and it is recorded in the increase column. If a current liability in the current year is more than in the previous year, it shows decrease in working capital and it is recorded in decrease column

Table No.1.1

**STATEMENT OF CHANGES IN WORKING CAPITAL FOR THE
YEAR 2015-2016 (Rs. In crores)**

Particulars	31/3/2015	31/3/2016	Increase	Decrease
Current Assets				
Inventories	4802.08	5117.92	315.84	
Sundry debtors	1114.48	2045.58	931.1	
Cash and bank	949.75	788.42		156.33
Loans and Advances	1691.44	2163.93	472.49	
A= total current assets	8552.75	10115.85		
Current liabilities				
Current liabilities	10942.09	12298.82		1356.73
Provisions	613.09	529.54	83.55	
B= Total current liabilities	11555.18	12828.36		
NET WORKING CAPITAL (A– B)	(3002.43)	(2712.51)		
Increase or decrease in working capital		289.92		289.92
	3002.43	3002.43	1802.98	1802.98

Source: Annual report of Tata Motors.

INTERPRETATION

The above table clearly shows that the working capital of the above two years is negative. All the current assets except cash in hand have increased in the year 2016 when it is compared with 2015. **The end result of the statement of changes in working capital after comparing all the increases and decreases is the net increase in working capital but it is also negative in the year 2016.** So, the

above table focuses on the fact that the increase in working capital is Rs. 289.92 cr.

Working capital can be negative if a company's current assets are less than its current liabilities. Working capital is calculated as the difference between a company's current assets and current liabilities. This can happen if a company's current assets substantially decrease as a result of large one-time cash payments, or current liabilities increase due to significant credit extension resulting in an increase in accounts payable.

Table No 1.2

**STATEMENT OF CHANGES IN WORKING CAPITAL FOR THE YEAR
2016 – 2017 (Rs. In crores)**

Particulars	31/3/2016	31/3/2017	Increase	Decrease
Current Assets				
Inventories	5117.92	5553.01	435.09	
Sundry debtors	2045.58	2128.00	82.42	
Cash and bank	788.42	326.61		461.81
Loans and advances	2163.93	2312.04		
A=total current assets	10115.85	10319.66		
Current liabilities				
Current liabilities	12298.82	15306.61		3007.79
Provisions	529.54	560.85		31.31
B= total current liabilities	12828.36	15867.46		
NET WORKING CAPITAL(A-B)	(2712.51)	(5547.8)		
Increase or decrease in working capital	2835.29		2835.29	
	5547.8	5547.8	3500.91	3500.91

Source: Annual report of Tata Motors.

INTERPRETATION

The above table clearly shows the negative increase in working capital for the year 2016 – 2017. **All the current assets except cash and bank have increased in the year 2017 as compared to year 2016.** The end result of the statement of changes in working capital after comparing all the increases and decreases is the negative net increase in the amount of working capital. **The above table shows that the negative increase in working capital is Rs. 2835.29**

Cr. The decrease in working capital is due to large increase in current liabilities and decrease in cash.

Table No 1.3

**STATEMENT OF CHANGES IN WORKING CAPITAL FOR THE YEAR
2017 – 2018 (Rs. In crores)**

Particulars	31/3/2017	31/3/2018	Increase	Decrease
Current assets				
Inventories	5553.01	5670.17	117.16	
Sundry debtors	2128.00	3479.81	1351.81	
Cash and bank	326.61	795.42	468.81	
Loans and advances	2312.04	2523.52	211.48	
A = total current assets	10319.66	12468.88		
Current liabilities				
Current liabilities	15306.61	18026.33		2719.72
Provisions	560.85	884.69		323.84
B = total current liabilities	15867.46	18911.02		
NET WORKING CAPITAL(A-B)	(5547.8)	(6442.14)		
Increase or decrease in working capital	894.3		894.3	
	6442.14	6442.14	3043.56	3043.56

Source: Annual report of Tata Motors

INTERPRETATION

When we analyse the above table it also shows that there is negative increase in working capital for the year 2017 – 2018. All the current assets have increased in the year 2018 compared to 2017. But the current liabilities exceed the current assets. **The end result of the statement of changes in working capital for the years 2016-17 and 2017-18 is negative increase in working capital because company's current liability shows an increasing trend.** The above table explains that the negative increase in working capital is Rs.894.3 Cr.

Table No 1.4

**STATEMENT OF CHANGES IN WORKING CAPITAL FOR THE
YEAR 2018 – 2019. (Rs. In crores)**

Particulars	31/3/2018	31/3/2019	Increase	Decrease
Current assets				
Inventories	5670.13	4662.00		1008.13
Sundry debtors	3479.81	3250.64		229.17
Cash and bank	795.42	1306.61	511.19	
Loans and advances	2523.52	2576.87	53.35	
A = total current assets	12468.88	11796.12		
Current liabilities				
Current liabilities	18026.33	16994.00	1032.33	
Provisions	884.69	1226.99		342.3
B = total current liabilities	18911.02	18220.99		
NET WORKING CAPITAL(A-B)	(6442.14)	(6424.87)		
Increase or decrease in working capital		17.27		17.27
	6442.14	6442.14	1596.87	1596.87

Source: Annual report of Tata Motors

INTERPRETATION

The above table clearly shows that there is increase in working capital for the year 2018-2019. All the current assets except inventories and sundry debtors have increased in the year 2019 when compared with 2018. **The end result of the statement of changes in working capital for the years 2018-19 and 2017-18 after comparing all the increases and decreases shows an increase of 17.27 crs.** The increase in working capital is the result of decrease in current liabilities. All the studied previous years shows that the current liabilities keep on increasing.

Table No 1.5

**STATEMENT OF CHANGES IN WORKING CAPITAL FOR THE YEAR
2019 – 2020 (Rs. In crores)**

Particulars	31/3/2019	31/3/2020	Increase	Decrease
Current assets				
Inventories	4662.00	3831.92		830.08
Sundry debtors	3250.64	1978.06		1272.58
Cash and bank	1306.61	3532.19	2225.58	
Loans and advances	2576.87	3341.28	764.41	
A= total current assets	11796.12	12683.45		
Current liabilities				
Current liabilities	16994.00	13621.02	3372.98	
Provisions	1226.99	1438.24		211.25
B=total current liabilities	18220.99	15059.26		
NET WORKING CAPITAL(A-B)	(6424.87)	(2375.81)		
Increase or decrease in working capital		4049.06		4049.06
	6424.87	6424.87	6362.97	6362.97

Source: Annual report of Tata Motors

INTERPRETATION

During the year 2019-20 the changes in working capital of Tata Motors shows a tremendous increase when compared with the previous year. The net working capital increase is **4049.06 Crs.** Even though the net working capital is in negative figure, the table shows an increase in WC when compared with previous year. This is due to decrease in current liabilities.

The study shows that the company has reduced their current liabilities in the last two studied years which resulted in increase in working capital

FINDINGS

- ❖ In schedule of changes in working capital, it has been found that the all the current assets except cash in hand have increased in the year 2016 compared to 2015 and it shows negative working capital for both the financial years because current liabilities of both the financial years has increased its current assets. When compared to the financial year 2015, the current assets have increased slightly in 2016. So, the end result of the statement of changes in working capital after

comparing all the increases and decreases shows a net increase in working capital.

- ❖ In schedule of changes in working capital, it has been found that the cash and bank has been decreased in the year 2017 compared to 2016 but current liabilities of both the financial years exceed its current assets. The Increase in current liabilities was higher than the increase in current assets. So, it shows negative working capital for both the financial years. The end result of the statement of changes in working capital after comparing all the increases and decreases shows a negative net increase in the amount of working capital.
- ❖ When compared to 2017 it has been found that inventories, sundry debtors, cash and bank, loans and advances has been increased in the year 2018 in schedule of changes in working capital but current liabilities exceed its current assets in both financial years. The end result of the statement of changes in working capital for the years 2016-17 and 2017-18 is negative increase in working capital because company's current liability shows an increasing trend.

The increase in working capital is due to large increase in current liabilities and decrease in cash.

- ❖ When compared to 2018 it has been found that the cash and bank, loans and advances has been increased and inventories and sundry debtors has been decreased in the year 2019 in schedule of changes in working capital. After comparing all the increases and decreases, it shows an increase of 17.27 crs. The increase in working capital is the result of decrease in current liabilities.
- ❖ When compared to 2019 it has been found that the inventories and sundry debtors has been decreased but there was an increase in cash and bank, loans and advances in the year 2020 in schedule of changes in working capital. In the financial year 2019 – 2020 the changes in working capital of Tata Motors shows tremendous increase when compared with the previous year. The networking capital increase is 4049.06 Crs in the financial year 2019 – 2020. This is because the company has reduced their current liabilities in the last two years which resulted in increase in working capital

SUGGESTIONS

- ❖ The company should improve its current assets and current liabilities in order to overcome its negative impact. It has to make its working capital stable to further continue in the market.
- ❖ Working capital shows negative impact and decreases year by year. It is not good for the company as well as the society so in order to increase the working capital turnover the society needs to increase its sales.

CONCLUSION

The study conducted on working capital management at “TATA MOTORS LTD,” gives a view of assessing the performance of working capital management by analysing the financial data with the help of schedule of changes in working capital. The company has a huge market reputation which is very evident with its high scale value but the company has a poor working capital management, which

is not a positive sign of a good financial performance of the company. The company has to work towards improved capital management to increase its profits during the coming years by maintaining a positive workingcapital which follows an increasing trend.

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