



A STUDY OF WORKING CAPITAL EFFICIENCY AND ITS EFFECT ON FINANCIAL RATIOS WITH REFERENCE TO TVS MOTORS

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Abstract:

Managing working capital is really important for keeping a company's finances healthy and running smoothly. This study takes a look at the working capital situation of TVS Motor Company Ltd. Here is a simpler and more natural way to say that: "Let's take a look at the important financial ratios from the past five years, from 2020 to 2024. The study points out some issues with cash flow, liquidity, and profitability. It recommends making some changes to how inventory and accounts receivable are managed. The results show that the company depends a lot on short-term loans and needs to use its working capital more efficiently.

1. Introduction:

Working capital management is essential for the smooth functioning of a business. It involves managing current assets (cash, receivables, and inventory) and current liabilities (payables, short-term borrowings, etc.) to ensure financial stability. TVS Motor Company, a leading two-wheeler manufacturer in India, requires efficient working capital management to sustain profitability and growth. This study aims to analyze TVS Motor's working capital trends and its impact on liquidity and profitability.

2. Statement of Problem:

TVS Motor Company has been experiencing liquidity challenges due to a negative working capital trend over the years. The company struggles with:

- Converting revenue into cash efficiently.
- Managing accounts receivables and inventory.
- High dependence on short-term borrowings.

3. Objectives:

- To examine TVS Motor's working capital position over five years.
- To analyze liquidity ratios like current ratio and quick ratio.
- To assess the impact of working capital on profitability and financial stability.
- To recommend strategies for improving working capital management.

4. Review of Literature:

Mehta, R., & Sharma, P. (2023) - "Impact of Working Capital Policies on Profitability in the Automobile Industry" This study examines the relationship between working capital policies and profitability in the automobile sector. The findings indicate that firms with aggressive working capital policies (lower current assets, higher reliance on short-term financing) tend to face liquidity risks but experience higher profitability. On the other hand, conservative working capital policies ensure financial stability but may lead to lower returns. TVS Motor's negative working capital shows they're taking a bold approach, but it's clear they need to find a good balance moving forward.

Sinha, V., & Patel, S. (2022) - "Liquidity and Financial Performance: A Comparative Study of Indian Manufacturing Companies" This research explores how liquidity management affects financial performance in Indian manufacturing firms. The study finds that firms with a current ratio below 1 (indicating negative working capital) often struggle with short-term obligations. TVS Motor's current ratio has dropped from 0.71 in 2020 to 0.63 in 2024. This suggests there might be some liquidity issues coming up, even though they're making more profit.

Roy, A., & Banerjee, M. (2023) - "The Role of Inventory Management in Enhancing Working Capital Efficiency" This paper discusses how efficient inventory management improves working capital utilization. Companies with higher inventory turnover ratios tend to maintain better cash flow and liquidity. TVS Motor's inventory turnover ratio improved from 10.71 (2020) to 17.97 (2024), indicating better stock management. However, the study also warns that over-reliance on inventory turnover without improving receivables collection may lead to cash flow constraints, a challenge TVS Motor still faces.

Gupta, N., & Kumar, R. (2022) - "Cash Flow Management and Its Impact on Working Capital Efficiency" This study focuses on the importance of cash flow management in maintaining optimal working capital levels. It emphasizes that companies with a declining quick ratio (like TVS Motor, which dropped from 0.46 in 2020 to 0.29 in 2024) may struggle with short-term liquidity needs. The paper suggests that improving cash conversion cycles and reducing credit sales dependency can enhance financial stability.

5. Research Methodology:

Research Design:

This study employs a descriptive and quantitative research approach.

Data Collection:

Secondary Data: Collected from TVS Motor's annual reports, financial statements, and industry research papers.

Financial Ratios Used:

- Current Ratio: Measures liquidity.
- Quick Ratio: Assesses immediate financial solvency.
- Inventory Turnover Ratio: Evaluates inventory efficiency.
- Net Profit Ratio: Indicates profitability trends.

Data Analysis Tools:

- Ratio Analysis: To assess financial performance.
- Statement of Changes in Working Capital: To track the flow of funds.

6. Data Analysis & Interpretation:

a. Working Capital:

Year	Working Capital (in crores)
2020	₹-1,403.33
2021	₹-1,026.61
2022	₹-2,141.37
2023	₹-2274.62
2024	₹-2,049.60

Interpretation:

The company's consistently negative working capital indicates liquidity challenges, with current liabilities exceeding current assets. While 2021 showed slight improvement, the situation worsened in 2022 and 2023 before a marginal recovery in 2024. This trend suggests financial strain, possibly due to rising short-term liabilities or inefficient cash flow management. If not addressed, it may impact the company's ability to meet short-term obligations.

b. Liquidity:

Year	Current Ratio	Quick Ratio
2020	0.71	0.46
2021	0.85	0.46
2022	0.64	0.33
2023	0.61	0.29
2024	0.63	0.29

Interpretation:

The declining Current Ratio and Quick Ratio indicate weakening liquidity over the years. Sure! Here is a more conversational version of that text: "Although things got a bit better in 2021, both numbers really took a hit starting in 2022. This could mean the company might have a hard time keeping up with its short-term payments.". A Quick Ratio under 0.5 shows that there aren't enough liquid assets, which can be worrying when it comes to quick financial flexibility. This trend signals potential cash flow issues that need attention.

c. Profitability Analysis:

Year	Net Profit	Gross Profit
2020	592.25	4,287.41
2021	612.04	4,026.69
2022	893.56	4,982.34
2023	1,491.03	6,768.48
2024	2,083.00	8,352.21

Interpretation:

The company's Gross Profit and Net Profit have shown a strong upward trend from 2020 to 2024, indicating improved revenue generation and cost management. Despite liquidity challenges, rising profitability suggests operational efficiency and business growth. However, the company should focus on improving working capital and liquidity to sustain this positive momentum.

d. Efficiency Analysis:

Year	Cash Turnover Ratio	Inventory Turnover Ratio
2020	39.18	10.71
2021	18.01	11.42
2022	51.74	13.92
2023	10.87	16.62
2024	59.84	17.97

Interpretation:

The Inventory Turnover Ratio has consistently improved, indicating efficient inventory management and faster stock movement. Sure! Here is a more conversational version of your text: "The Cash Turnover Ratio changes a lot, which shows that the cash flow isn't really steady.". While 2024 shows a sharp increase in cash turnover, the company should ensure stable cash flow management to support operations and liquidity needs.

e. Solvency Ratios:

Year	Debt Equity Ratio
2020	0.66
2021	0.38
2022	1.30

2023	0.52
2024	0.24

Interpretation:

The Debt-Equity Ratio fluctuated over the years. It was 0.66 in 2020, dropped to 0.38 in 2021, then spiked to 1.30 in 2022. It later declined to 0.52 in 2023 and 0.24 in 2024, indicating a trend of reduced debt and improved equity.

7. Findings:

- Liquidity risk: TVS Motor's current and quick ratios are declining, indicating liquidity concerns.
- Negative working capital: The company relies heavily on short-term borrowings, affecting financial flexibility.
- Improved inventory management: The inventory turnover ratio has improved, reflecting better stock management.
- Profitability growth: The net profit ratio increased from 3.14% (2020) to 5.32% (2024), showing improved cost efficiency.

8. Suggestions:

- Optimize cash flow by reducing dependence on short-term loans.
- Strengthen receivables management to speed up cash collection.
- Enhance inventory turnover to maintain liquidity.
- Increase current asset base to improve the current ratio.

9. Conclusion:

TVS Motor Company faces liquidity challenges due to its negative working capital position. Although profitability has improved, better cash flow management is needed. The company should adopt efficient working capital strategies to ensure long-term financial stability.

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