ABSTRACT

An organization needs two forms of capital in order to make its business successful. Capital employed in fixed assets that form the infrastructure of the organization and working capital that makes the fixed assets operative. Lack of fixed assets will no doubt lead to lower profits but shortage of working capital will lead to business failure. Thus the significance of working capital is much more than fixed assets.

A unique character of working capital is that its excess or deficiency both are undesirable. A high level of working capital will mean high liquidity but it will adversely affect profitability and vice-versa. The main thrust of working capital is to provide funds when needed. Thus a trade off has to be made between profitability and liquidity.

The present study is an endeavor by the researcher to find how working capital is managed in different companies of the automobile industry, the extent to which working capital has been efficiently managed and also to find the aspects of inefficiency in this regard.
This research is divided into seven chapters and each chapter is divided into several sections. A brief outline of the chapter contents follows.

Chapter I describes the methodology adopted for this research. The chapter starts with a review of literature followed by identification of research gap, and the need for the study on the basis of which the research problem has been stated. A brief profile of automobile industry and the companies under study is given. Next the questionnaire design, data collection, method of analysis of data and finally limitations of the study are given.

A uniform structure has been adopted in chapter II to VI which deal with the individual issues in working capital management. First the concept is described followed by the responses to the research questionnaire. The third part of each chapter presents the analysis of relevant ratios.

The first part of Chapter II briefly explains the concept of capital followed by the concept of working capital, its objectives, policy and planning. The second part of the chapter provides the responses of the questionnaire given by the executives of six companies regarding objectives, policy and planning of working capital, organization, control and review of working capital. Finally, the last part of the chapter presents the ratio analysis in thirteen major companies in the three segments of the industry.
The first part of Chapter III briefly explains the concept of financing of working capital followed by forecasting of working capital, the concept of operating cycle and finally the sources of working capital finance. The second part of the chapter provides the responses of the questionnaire given by the executives of six companies regarding approaches of financing, forecasting, sources and forms of financing and the policy of the companies in this regard. Finally the last part of the chapter presents the ratio analysis in thirteen major companies in the three segments of the industry.

The first part of Chapter IV briefly explains the concept of cash management and its objectives, its process and marketable securities as a special case of cash management. The second part of the chapter provides the responses of the questionnaire given by the executives of six companies regarding cash planning, organization of cash management, control, review and problems in cash management. Finally the last part of the chapter presents the ratio analysis in thirteen major companies in the three segments of the industry.

The first part of Chapter V briefly explains the objectives of receivables, loans advances and its management. The second part of the chapter provides the responses of the questionnaire given by the executives of six companies
regarding objectives, policy and planning of working capital, organization, control, review, credit collection, constituents of advances, policy, financing and interest on advances, its organization, control and review of advances, and some general aspects in this regard. The last part of this chapter presents the ratio analysis in thirteen major companies in the three segments of the industry.

The first part of Chapter VI briefly explains the concept and motives of inventory, forms of inventory control, cost of holding inventory, concerns of inventory management, and inventory management system. The second part of the chapter provides the responses of the questionnaire given by the executives of six companies regarding objectives, policy and planning of working capital, organization, control and review, and problems of inventory management. Finally, the last part of the chapter presents ratio analysis in thirteen major companies in the three segments of the industry.

The last chapter, i.e. Chapter VII states the summary, conclusions and suggestions on the basis of the study done. In the end, direction for future research are given to help researchers to make further studies in this regard.

The evaluation of working capital management can help one to understand how working capital is managed in the organization. It can also
help the executives taking decisions in this regard about how to make such decisions more effective. Others, especially students, interested in corporate finance will get an insight about how different companies manage working capital and also learn how to interpret the hidden information.
A STUDY OF WORKING CAPITAL MANAGEMENT IN SELECTED UNITS OF AUTOMOBILE INDUSTRIES IN INDIA

RESEARCH GAP

After going through the paragraphs of the literature review it can be observed that no research is done to study the management of working capital in the automobile industry. Rather, this industry has been ignored by the researchers as far as its management of working capital is concerned. Only one such study was done in 1986 and that too in a specific segment i.e. scooter manufacturing companies by S.K. Jindal. Of all the researches surveyed several of them are superficial in the sense that they do not consider the specific management of different components of working capital.

While trying to identify the research gap the researcher has gone through the bibliography of doctoral dissertations by the Association of Indian Universities (AIU) Social Science Research Abstracts. ICSSR (Indian Council for Social Science Research) Survey of Research in Management and University News. None of these sources specified any research work in progress or submitted except the one mentioned above. Besides this despite the fact that the Government and the business executives have been
concerned about the efficiency and effectiveness in the management of working capital and its components this industry has not been of concern to researchers. The present study is an attempt to fill this research gap.

**STATEMENT OF RESEARCH PROBLEM**

Once the research gap was identified it motivated the researcher to make an attempt at fulfilling the need in the subject. This also helped in the formulation of the research problem.

Later on, adequate steps were taken for the proposed research topic like sufficient necessary subject background, ensuring that necessary data and analysis can be procured, and also the feasibility of completing the work in a reasonable time frame. Besides this, it was also ensured that the study remains within the manageable limits. As the researcher had already undertaken a two months summer training project on working capital management in Modi Rubber Limited while pursuing his M.B.A. degree the topic for research was decided as "A Study of Working Capital Management in Selected Units of Automobile Industry in India."
The selection of working capital measures is primarily guided by the researchers' summer training study while doing his M.B.A. It was during this time that the researcher realized that better working capital management can substantially improve the level of profitability of the organizations. The finding also injected the inquisitiveness to study the impact of similar measures in the industry in general with the help of better techniques and approach. As a result, the following major working capital components have been considered for the study:

1. Financing of working capital
2. Management of cash
3. Management of accounts receivables, loans and advances
4. Management of inventory

The above measures form the basic components of working capital in any standard text in the area of financial management. Moreover, as the components chosen contribute towards the achievement of higher profits, they form the basis of this study.

**RESEARCH METHODOLOGY**

A very exhaustive questionnaire comprising of ninety-five questions was prepared on the basis of research of Dr. K.R. Rao on Working Capital...
Management. Almost all the questions contain multiple choices. The questionnaire was first pre-tested at the Hero Honda Ltd. through personal interview after which some inadequacies were indentified that were removed later on and thus the final questionnaire was prepared.

The questionnaire was separately distributed in five sections so that responses from the concerned persons who actually deal with them can be obtained.

The first section of questionnaire comprises of seventeen questions dealing with an overall view of Working Capital. The second section of the questionnaire comprises of eleven questions regarding Financing of Working Capital. The third section comprises twenty questions on Cash Management. The fourth section includes twenty-five questions on Management of Account Receivables Loans and Advances and the last section on Inventory Management comprises of twenty-two questions.

Both primary and secondary data has been used in the study. The methods, policies and procedures of working capital has been studied through questionnaire. The executive were not willing much to disclose the procedures in detail. Executive at Maruti clearly refused to part with any information. Initially the researcher approached all the units under study at Delhi,

however, he could get responses only from Hero Honda, Escorts, Eicher Motors, Eicher Tractors and Bajaj Auto. The executives of other units suggested to approach the corporate offices that were situated out of Delhi. Since it was not possible for the researcher to approach the offices of such units it was thought appropriate to mail the questionnaire at the respective corporate offices, however, the researchers could get only one response from Bajaj Tempo.

The secondary data was collected mainly through annual reports and data compiled from CAPITALINE and CMIE. The data provided in annual reports, CMIE and CAPITALINE was sufficient enough to analyse and evaluate the performance of working capital through ratio analysis. The ratios helped in analysing the size, composition and efficiency of the various components of Working Capital.

The presentation of data has been done in two ways i.e. descriptive and numerical. The descriptive information is presented on the basis of the responses received from the executives of the six companies namely Hero Honda, Eicher Motors, Eicher Tractors, Bajaj Auto, Bajaj Tempo and Escorts through the questionnaire. The numerical data is presented in a tabular form and ratio analysis has been done for past five years concerning various issues in working capital management. Thus although both the presentations
highlight different aspects of working capital the presentation has been done differently in both ways to understand the complexities of working capital management.

The presentation of descriptive information broadly highlights aspects likes planning, objective, organization, control and review, and peculiar problems of the different aspects of the working capital.

The numerical data presentation has been done after considering relevant ratios studied while going through ratio analysis in various books. Moreover only those ratios have been calculated the data for which can be procured. The tables present ratios for five years. Since industry norms were available to compare the performance of the company ratios with the industry norms the companies have been divided into three segments namely commercial, cars and jeeps and two and three wheelers.

OVER ALL CONCLUSIONS -

In this section the major conclusions and suggestions emerging out of the present study conducted on working capital management in automobile industry have been highlighted.
1. The companies are not using real professional assistance and are not using scientific analysis effectively. Although they have been emphasizing upon coordination and joint decisions, in reality decisions are made independently. Decisions are taken in short term perspective and its viability and the impact in long term for expansion and replacement are not given due consideration.

2. Most of the companies study the past trends of different components of working capital and try to make decisions on their basis.

3. The companies rely more on bank borrowing and do not try to generate funds from internal sources. Besides this, the cost effectiveness of each source of fund is not analyzed. The costs of different sources of funds are also not compared.

4. Cash planning is not effective and they are finding it difficult to procure from operations leading to overtrading. The companies are not clear in determining cash levels.

5. The companies are becoming more strict regarding collections. But the credit terms of the companies are varying. A major portion of current assets are blocked in advances.

6. The investment in inventory is reducing showing clearly that the companies are now managing inventory more efficiently than was done during previous year.