

A STUDY OF PERFORMACE EVALUATION THROUGH CASH MANAGEMENT (WITH SPECIAL REFERENCE TO SELECTED INDIAN AUTOMOBILE COMPANIES)

Author : **VIPAL M. PATEL**

Designation : PH.D RESEARCH SCHOOLER (S.D. SCHOOL OF COMMERCE), Gujarat University, Ahmedabad, Gujarat.

Subject : Commerce

Guide Name : **Dr. Jigar Aggarwal,**

Designation : Research Guide Associate Professor,
J.G College of Commerce, Gujarat University,
Ahmedabad, Gujarat.

ABSTRACT

From the financial year 2004-05, it has become mandatory for all the Indian companies to present cash flow statement in their annual reports. Institute of chartered accounts of India (ICAI) has issued accounting standard-3 (AS-3) for the cash flow statement.

Cash, being a medium of exchange, is one of the important components of working capital. In the present research paper, an effort has been made to evaluate cash management of five leading public sector companies of the commercial vehicles segment in the Indian automobile industry, namely Bajaj auto, Eicher motors, Atul auto, Ashok Leyland, TVS motors. Cash flow based ratios are employed to evaluate the average cash management performance of the selected companies. After applying tools and techniques, the researcher has found that, Eicher motors and Ashok Leyland are at the top of the list and when it comes to an average performance based on cash management, researcher has been seen an fluctuating trend in all the sample companies.

The accounting standard 3 prescribes that the cash flow statement should be able to in accordance with the standard All enterprises should give such a statement as an essential part of their financial statements for each period for which financial statements are prepared Further, all enterprises that equipped financial statements in accordance IFRS (international financial reporting standard) are necessary to prepare a cash flow statement The equivalent standard under IFRS in AS 7.

KEY WORDS: cash, cash equivalent, operating activities, cash management, ratios.

INTRODUCTION

The users of an enterprise's financial statement are interested in how the enterprise generates and uses cash and cash equivalents. This is the case regardless of the nature of the enterprise's activities and irrespective of whether cash can be viewed as the product of the enterprise, as may be the case with a financial enterprise. Enterprise desires cash to carry out their operations, to pay their obligations and to make available returns to their investors.

By studying cash flow statement, one can come to know about the capacity of the organisations to generate cash and cash equivalents. It helps the users in comparing the present value of the cash flows of the different organisations. It removes the effect of using different accounting treatments for the repeated transactions and events. In this way it improves the evaluation of the various enterprises reporting about operating performances. To know about the amount, timing and security of future cash flows, chronological information about cash flow is used. It is also helpful in checking the accuracy of the past judgements of future cash flows. It also helps in determining the relationship between cash flow and profitability and the effect of inflation.

Cash equivalents are held for the validation of meeting short-term cash commitments rather than for investment or other purposes For an investment to be successful as a cash equivalent it must be eagerly convertible to a known amount of cash and be subject to an irrelevant risk of changes in value Therefore, an investment frequently qualifies as a cash equivalent only when it has a short maturity of say, three months or less from the date of acquisition Equity investments are excluded from cash

equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.

In the last few decades, the automobile industry of India has been recording incredible growth and has emerged as major contributor to India's GDP. This vibrant industry currently accounts for almost 7.1 percent of India's GDP and employing about almost 25 million people.

In India, automotive is one of the largest industries showing remarkable growth over the years and has been significantly making increasing contribution to overall industrial development in the country. This move is further enhanced by Government's support towards setting up centres for development and modernism. In order to further accelerate and maintain advancements in the auto sector, the department has undertaken numerous policy measures and incentives. The most important being the announcement of Auto policy of 2002, which aimed to establish a globally competitive automotive industry in India and twofold its contribution to the economy. Another target in this field had been the launch of the National Automotive Testing and R&D Infrastructure Project (NATRIP) which aimed to create core global competencies in automotive sector.

Cash management refers to the collection, concentration, and disbursements of cash. With regards to cash, the management's goal is to manage the cash balance of an enterprise in such a way as to diminish the risk of insolvency. Due to lack of cash, if at any time a company fails to meet its obligation, it directly affects its creditworthiness. Improper management of cash may lead to insolvency and bankruptcy as well. Obviously, the prospect of such a dire consequence should compel companies to manage their cash with care. Moreover, efficient cash management means more than just preventing bankruptcy. Efficient cash management improves the profitability and reduces the risk to which the firm is exposed.

To conclude, Cash is a medium of exchange and therefore it is the most important component of working capital. The present study focuses on performance evaluation through cash management by using various indicator of measuring average cash management.

LITERATURE REVIEW:

1. **Shailendrasihn j. Vaghela and Dr. urvashibaN. Jhala (2016)** attempted to study of performance evaluation through cash management (with special reference to commercial vehicle companies) with Ashok Leyland, Tata motors and SML ltd. After applying tools and techniques, the researcher have found that, Ahok Leyland is at the top of the list when it comes to average performance based on cash management, researcher have observed a mix trend in the performance of all the sample compnies.
2. **Vaghela S.J., and Raval M. B.,(2015)** analysed performance evaluation of selected cars and utility vehicles companies Maruti Suzuki India Ltd., Hindustan Motors Ltd., Force Motors Ltd., and Mahindra & Mahindra Ltd. in their research paper. After applying the tools and techniques, the researchers have found that, MML is at the top of the list when it comes to average performance based on cash management, followed by MSIL, though researchers have observed a mix trend in the performance of the MSIL. Researchers have seen a fluctuating trend in performance of FML. It is not showing stability in its overall cash management performance. When it comes to HML, it is having the worst scenario showing much poor performance in its average cash management.
3. **Sanghani D. D. (2013)** analysed performance evaluation through cash management of Bajaj Auto Ltd. and Hero Motocorp Ltd. in his research paper. The findings of the study revealed that Hero Motocorp Ltd. has used the average cash more efficiently than Bajaj Auto Ltd. Also, cash return on assets of both the companies was quite similar and both the companies are almost same in case of capacity to convert its sales into cash.
4. **Ghosh Sudipta (2011)**, analysed performance evaluation through cash management of TSL and SAIL in her research paper. The empirical findings of the study revealed that TSL on the average has utilized its cash more efficiently in comparison to SAIL. TSL has better capacity to convert its sales in to cash than that of SAIL.
5. **Maxwell Samuel amuzu (2010)**, attempted to study on cash flow ratio as a measure of performance of listed companies in emerging economics, It was also evident that Ghana is competitive when it comes to the Milk Products and

Alcoholic Beverages industry. On the other hand, US evidently have a stronghold on the Telecommunications Industry.

RESEARCH METHODOLOGY

OBJECTIVE:

The main objective of the study is to make comparison of performance evaluation based on cash management by and between Bajaj auto, TVS motors, Eicher motors, Ashok Leyland and Atul auto.

SAMPLE FOR THE STUDY:

For the purpose of the study, the following Indian companies were selected:

1. Bajaj auto
2. Eicher motors
3. Ashok Leyland
4. Atul auto
5. TVS motors

HYPOTHESIS:

The following hypothesis have been framed, as under

H0: - There is no significant difference in Cash Profit Ratio between the sample companies.

H0: - There is no significant difference in Cash Return on Assets between the sample companies.

H0: - There is no significant difference in Cash Flow Margin Ratio between the sample companies.

TIME PERIOD OF THE STUDY:

To undertake the comparison of the cash flow of the selected companies, the cash flow statements of five years starting from 2014-15 to 2018-19 were studied.

DATA SOURCE:

There are majorly two types of data sources which are primary sources and secondary sources the present study is undertaken on the basis of secondary data the information of the cash flow statements was collected from the annual reports of the selected companies for the period under the study.

TOOLS AND TECHNIQUES:

As per the nature of the study following tools and techniques are used for testing the hypotheses.

1. Accounting Tools: - Ratio analysis
2. Statistical technique: - Mean, Standard Deviation (S.D.), ANOVA

LIMITATIONS OF THE STUDY:

1. The study is based on secondary data taken from the published annual reports of the company.
2. The study is conducted on selected samples of the universe. The result may or may not apply to the other units of the same universe.

ANALYSIS OF CASH FLOW STATEMENT:

Table – 1

Table showing Performance Drivers

Performance Drivers	Formulae
Cash flow margin ratio	Cash flow from operating activities ÷ net sales
Operating index	Cash Flow From Operating Activities ÷ profit before tax
Cash Flow return on asset	Cash Flow From Operating Activities ÷ total asset

The cash management performance of the sample companies are examined with the help of the above ratios. To examine whether or not there are significant differences in cash management performance between the sample companies, One-Way ANOVA has been applied in the study.

A. Cash Management Performance of selected Companies

Table – 2

**Table Showing Cash Management Performance Ratios of Selected Companies
(in %)**

YEA R	BAJAJ AUTO			EICHER MOTORS			ASHOK LAYLAND			ATUL AUTO			TVS MOTORS		
	CF MR	OI	CRO A	CF MR	OI	CRO A	CFM R	OI	CRO A	CF MR	OI	CRO A	CE MR	OI	CRO A
2014- 15	0.1	0.5	0.13	0.22	0.8	0.30	0.13	3.9	0.13	0.07	0.6	0.20	0.00	0.1	0.01
		3	8	6	6	8		9	3	3		2	8	9	8
2015- 16	0.16	0.6	0.23	0.23	0.8	0.42	0.08	1.4	0.12	0.02	0.1	0.04	0.07	1.4	0.17
		8	3	7	3	9	9	3	5	1	5	9	5	9	
2016- 17	0.14	0.6	0.16	0.22	0.7	0.31	0.10	1.6	0.15	0.15	1.2	0.29	0.05	1.0	0.12
		3		2	7	9	1	2	6	3	8	5	5	4	3
2017- 18	0.17	0.7	0.17	0.78	0.9	0.32	0.20	2.4	0.32	0.04	0.0	0.08	0.08	1.4	0.17
		4	9	3	5	3	4	3	7	6	04	7	1	2	4
2018- 19	0.08	0.3	0.09	0.16	0.5	0.14	-0.01	-0.1	-0.02	0.05	0.4	0.09	0.06	1.1	0.13
		7	1	5	1	2				2	2	8		4	1
TOT AL	0.65	2.9	0.80	1.63	3.9	1.52	0.51	9.3	0.72	0.34	2.4	0.73	0.28	5.2	0.61
		4	1	3	3		2	3	1	4	6			8	7
MEA N	0.13	0.5	0.16	0.32	0.7	0.30	0.10	1.8	0.14	0.06	0.4	0.14	0.05	1.0	0.12
		9		7	9	4	2	7	4	9	9	6	6	6	3
SD	0.04	0.1	0.05	0.25	0.1	0.10	0.07	1.5	0.12	0.05	0.5	0.1	0.02	0.5	0.06
		4	2	7	6	3	8	1	3	1			9	2	3

1. CASH PROFIT MARGIN RATIO:

As observed from table-2, the cash flow margin ratio of Bajaj auto and Atul auto are showing a mix pattern. And among the all sample company Eicher motors is having highest average as well S.D. of 0.327 and 0.257. Ashok Leyland is also showing a mixed trend and in last year it shows negative result. And TVS motors is forming almost increasing pattern.

2. OPERATING INDEX:

According to table-2, the operating index ratio of all the sample companies forming fluctuating pattern except TVS motors. TVS motors is showing almost increasing pattern throughout the 5 years and Ashok Leyland is forming negative cash returns in the year of 2018-19 but Ashok Leyland is standing at top with highest average OI of 1.87 followed by TVS motors, Eicher motors, Bajaj auto and Atul auto.

3. CASH RETURN ON ASSET:

As it can be observed clearly from table-2, all the companies are showing fluctuations in generating cash return on asset during the research period. Eicher motor is standing at top with highest average CROA of 0.304 followed by other companies.

ANNOVA TEST

To know whether there are significant differences between the samples in their average cash management performance, ANOVA has been applied. The results obtained from ANOVA are shown as below:

Table-3 table showing statistical result of ANNOVA

RATIOS	F-Value	Significance	Status of Null Hypothesis
CFMR	3.9290	0.0164	Rejected
OI	2.6691	0.0622	Accepted
CROA	3.1227	0.0378	Rejected

1. On the basis of results of one- way ANOVA with resulting value of F-test 3.93 that is significant at 5% level as shown in the table – 3, the null hypothesis is rejected and it is concluded that significant difference exist among companies of Indian Automobile Industry in terms of their Cash Profit Margin Ratio.
2. On the basis of results of one- way ANOVA with resulting value of F-test 0.10 that is significant at 5% level as shown in the table – 3, the null hypothesis is accepted and it is concluded that no significant difference exist among companies of Indian Automobile Industry in terms of their Operating Index.
3. On the basis of results of one- way ANOVA with resulting value of F-test 3.12 that is significant at 5% level as shown in the table – 3, the null hypothesis is accepted and it is concluded that no significant difference exist among companies of Indian Automobile Industry in terms of their Cash Return On Asset Ratio.

CONCLUSION

From the above study we can conclude that selected sample companies are found to be having a fluctuating trend almost in all the three performances drivers of cash management. Hence it can be derived that the industry might be facing a mixed trend during the research period. Compare to other companies Ashok Leyland and Eicher motors are found to be best at its management of cash considering the average cash management performances. Eicher motors shows mix trend during the study period whereas Ashok Leyland is showing negative result in last year of study period but overall performance is good enough. Bajaj auto, TVS motors and Atul auto are below the average performance as compared to Ashok Leyland and Eicher motors. Which again cannot be said that it is only due to its poor cash management, but other factors such as market condition and its sales may also affecting its overall Performance.

REFERENCES

1. Shailendrasihn j. Vaghela and Dr. urvashibaN. Jhala (2016) “performance evaluation through cash management (commercial vehicles)”.
2. Vaghela S.J., and Raval M. B., (2015) “performance evaluation of selected cars and utility vehicles”.
3. Sanghani D. D. (2013) “performance evaluation through cash management of Bajaj Auto Ltd. and Hero Motocorp Ltd”.
4. Ghosh Sudipta (2011), “performance evaluation through cash management of TSL and SAIL”.
5. Maxwell Samuel amuzu (2010), “study on cash flow ratio as a measure of performance of listed companies in emerging economics”.
6. Published annual report of selected companies from 2014-15 to 2018-19.
7. Vipal m. Patel (2017), “cash management evaluation through cash flow statement analysis of selected Indian companies”

ONLINE REFERENCE

1. Companies’ Official Websites