A Study on Working Capital Management of Small Auto Component Manufacturers in Chennai.

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ABSTRACT: The automobile and auto componentmanufacturersare facing a lot of challenges due to various micro and Macro environmental factors and other operational constraints.The few of the auto component manufacturers close down their operations due poor management of working capital and related financial expenses. On account of above factors, the auto component manufacturers facing severe liquidity problems and leads to bankruptcy. Hence study on working capital management is important for investor and other stakeholders to take appropriate decision on making right level of investments.

The working capital analysis of the firm shall be established with detailed ratios analysis and using other Financial analytical too. For this specific study, we are trying to analyse and evaluate the working capital management of select auto component manufacturersin Chennai using Financial Ratio.

Keywords: Working capital, Debtor, Stock, Multiple Regression.

I.   INTRODUCTION

The management of current assets, current liabilities and inter-relationship among them is termed as working capital management. For smooth running an enterprise, adequate amount of working capital is very essential. Efficiency in this area can help, to utilize fixed assets gainfully, to assure the firm's long- term success and to achieve the overall goal of maximization of the shareholders, fund. Shortage or bad management of working capital may result in loss of reputation due to non-payment of obligation on due dates.

II.   LITERATURE REVIEW

Jagan Mohan Rao (1993) conducted a study on "Financial appraisal of Indian Automotive Tyre Industry" The study was intended for the evaluation of the financial condition-financial strength and weakness-of the Indian tyre industry. The main findings of the study were that assets utilization in many of the tyre undertakings was not as productive as expected and inventory was managed fairly well.

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Praveen Kumar Jain (1993)conducted a study among seven paper companies in India to "Analyze the basic components of Working Capital". The study revealed that the current ratio in public sector undertakings during the study period was found to be highly erratic while the same in private sector undertakings registered continuous decrease.

SukamalDatta (1995)in his study entitled "Working Capital Management through Financial Statements: Analysis of Paper Industry in West Bengal" found that most of the firms were suffering from shortage of working capital. One of the primary causes of such shortage of working capital was that most of the firms under study were not capable of earning adequate profit and were also suffering from losses.

OBJECTIVES OF STUDY

The objective of this study are given in two fold, viz,

1. To analyse and evaluate the Working capital management of Small auto component Manufacturers in Chennai.

2.To identifyand analyse the relationship between and among the various aspects of working capital.

RESEARCH METHODOLOGY

The brief description of the research methodology applied for the present study is givenin table 1.

Table 1 Research Methodology

Research type	Descriptive and Analytical Research
Research Approach/Design	Quantitative Approach (Numerical Data)
Population (Universe) & Sampling Unit	Auto Components Companies in Chennai
Sample size	8small Auto Components Companies
Sampling Area	Chennai Cluster
Sampling Method	Non-Probability Sampling – Purposive and Convenience Sampling
Data type	Secondary Data
Sources of Secondary Data	Annual Reports, Bulletins, Websites, Newspapers, Journals, Magazines, books, research articles, etc.
Period of data collection	10 Years - April 2007 to March 2017
Software used for Data Analysis	MS Excel 2013 & SPSS (Version 20)

Criteria For Selection Of Companies

According to ACMA (Automotive Components Manufacturers Association of India), 24 Auto Components Companies, located in Chennai cluster, out of which 8 companies were selected for this research based on the list of member companies registered in ACMA.

Table 2 Criteria for Selection of Auto Components Companies

*Annual Turnover (InRs.) Based On 2016-17	*Category Of Companies	Sample Size
Up to 150 Crores	Small Companies (A)	8 Companies
TOTAL		8Companies

Source: *Categorization of Companies based on ACMA Report, May 2017

HYPOTHESES

Three variables have been used in this study to analyse the working capital management. The only dependent variable of the study is Working Capital and independent variables were hypothesized as follows:

Hypothesis 1: When Debtors increases, Working Capital remains same.

Hypothesis 2: When Stock increases, Working Capital remains same.

Hypothesis 3: When Cash and Bank balance increases, Working Capital remains same.

FINANCIAL AND STATISTICAL TOOLS APPLIED FOR DATA ANALYSIS

We have used multipleregressions to determine the relation between and among the various components of Working capital.

INTERPRETATION

In this analysis, the dependent variable is the **Working Capital** and the Independent variables are **Average Debtors, Average Stock and Cash and Bank Balance** of selected smallAuto Components companies are selected.

Table 3: Descriptive Statistics

Variables	Mean	Std. Deviation	N
Working Capital	67.9880	25.89444	10
Average Debtors	77.0890	20.38172	10
Average Stock	144.1850	43.50444	10
Cash and Bank balances	24.9450	8.59263	10

Source: Computed from Secondary Data (Annual Reports)

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.823[a]	.788	.682	14.81036	.788	5.167	3	6	.000

Table 5: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9541.372	3	3180.457	5.167	.000[b]
	Residual	3693.324	6	615.554		
	Total	13234.696	9			

Table 6: Regression Coefficients – Working Capital

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	57.104	36.773		1.553	.171
	Average Debtors	.664	1.059	.467	3.905	.020
	Average Stock	1.052	.911	.767	4.155	.016
	Cash and Bank balances	.116	1.710	.065	.098	.448

Predictors(Constant): Cash and Bank balances, Average Stock&Average Debtors

Multiple Regressions is conducted to determine the best linear combination of **Average Debtors, Average Stock** and **Cash and Bank Balance** for predicting the **Working Capital.** This combination of two out of three variables significantly predict the dependable variable i.e., the **Working Capital, F(3, 6) = 5.167,   p = .000** which is lesser than .01 (Sig. Value at 1% level) and the all three hypotheses are rejected.

Average Debtors and Average Stock show positive association with Working Capital and they influence (predict) the working capital. The beta weights suggest that **Average Stock** only contribute most **(0.764 or 76%)** to predicting **Working Capital.** This means that this variable makes the strong unique contribution to explaining the dependent variable, when the variance explained by all other variables in the model is controlled for. Average Stock may have a standardized regression coefficient of 0.764.   It means for every 1 Standard Deviation of increase in Average Stock, scores on Working Capital increase by 0.767 Standard Deviations, controlling for the scores of other variables in the equation. From the unstandardized coefficient, it is found that one unit increase in Average Stock would increase the Working Capital by 1.052 units respectively. Average Debtors also influences (predicts) the Working Capital (0.467) significantly but lesser than Average Stock. Cash and Bank Balance does not predict the Working Capital (0.065) significantly.

The adjusted R squared value was 0.682. This indicates that 68% of the variance in the **Working Capital** can be predicted from the independent variables. Remaining 32% is unexplained. According to Cohen (1988), this is large effect.

Based on the study, it is inferred that the Hypothesis 1, Hypothesis 2 and Hypothesis 3 are rejected since there are positive and significant relationships among Independent (Average Debtors, Average Stock and Cash & Bank Balances) and Dependent Variables (Working Capital).

III. FINDINGS

❖ It is found that there are positive and significant relationships among Independent (Average Debtors, Average Stock and Cash & Bank Balances) and Dependent Variable (Working Capital) in all the companies in three categories.

❖ The study found that the independent variables such as Average Debtors, Average Stock and Cash & Bank Balances predict the working capital well in all the selected companies. The research indicated that the Working Capital is mostly determined by these variables.

❖ Out of three independent variables, Average Debtors is more influencing component of Working Capital than others and Cash & Bank

Balance is less influencing component of Working Capital than others.

❖ It is found that there is a positive relationship among Average Debtors, Average Stock and Cash & Bank Balances and Working Capital. The positive relationship among these independent variables and Working Capital indicates the higher level of debtors, stock and cash and bank balances might support a relatively higher working capital and vice versa.

IV. CONCLUSION

It is concluded that the selected auto components companies should have a control over the debtors otherwise it may evade the profits. They should tight their credit policy and increase their collection period. Relaxing credit policies leads to generation of bad debts and aging of account receivables. Account receivables are good only when they are converting into cash within short period of time.

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