



## **A Study on Working Capital Management and its Impact on Profitability of TATA Motors**

**Mrs. Akshaya Sudarshana R<sup>a</sup>, DurgeshNandini N<sup>b\*</sup>**

<sup>a</sup>Assistant Professor, Sri Krishna Adithya College Of Arts and Science, Coimbatore-641042

<sup>b</sup>Student, Sri Krishna Adithya College of Arts and Science -641042

### **ABSTRACT**

Abstract – Working capital is one of the maximum essential components for any organization which permits to examine the cash drift in addition to the profitability of the firm. The cutting-edge-day aggressive market surroundings requires a green management of operating capital. Proper management of running capital is essential to an employer, essential to economic health and operational fulfillment as a commercial enterprise. A hallmark of proper enterprise control is potential to utilize working capital control to hold a robust stability among increase profitability and liquidity. This paper examine the various aspects of Working Capital management in “TATA MOTORS LIMITED”. This looks at brings theoretical contribution which helps to apprehend the nature of operating capital, the effects spotlight the importance of WCM for Firm Profitability. The study concluded that in the most of the aspects company seems to take action against it for better profit and improvement.

Keywords: working capital management, Tata Motors

### **1. Introduction of the study**

The concept of working capital is very vital because the term used for the capital needed for the day-to-day operation. Working capital may be regarded as life blood of a business. Working capital management is a process of planning and controlling the level and mix of the current assets of the firm as well as financing these assets. A study of working capital is of major importance to internal and external analysis because of its close relationship with the day-to-day operation of a business. The goal of working capital management is to manage each of the firm’s current assets and current liabilities. Working capital is also known as circulating capital or current capital or revolving capital.

Working capital management is a business process that helps companies make effective use of their current assets and optimize cash flow. It’s oriented around ensuring short-term financial obligations and expenses can be met, while also contributing towards longer-term business objectives. The goal of working capital management is to maximize operational efficiency.

By improving the way they manage working capital, companies can free up cash that would otherwise be trapped on their balance sheets. As a result, they may be able to reduce the need for external borrowing, fuel growth, fund mergers or acquisitions, or invest in R&D. Working capital is essential to the health of every business and improving your working capital position can provide a boost to the operational efficiency of a business, but managing it effectively is something of a balancing act.

Companies need to have enough cash available to cover both planned and unexpected costs, while also making the best use of the funds available to fuel growth. This is achieved by the effective management of accounts payable, accounts receivables, inventory, and cash.

Capital required for a business can be classified under two main categories viz

- Fund capital
- Working capital

Funds are also needed for short-term purpose for the purchase of raw materials, payment of wages and other day-to-day expenses. These funds are known as working capital.

The working capital may rightly to be called as the circulating or revolving capital, because current asset keeps revolving fast and are being constantly converted into cash and this cash flows out again in exchange for other current assets.

The working capital meets the short-term financial requirements of a business enterprise. It is a trading capital, not retained in the business in a particular form for longer than a year. The money invested in it changes form and substance during the normal course of business operations. The need for maintaining an adequate working capital can hardly be questioned. Just as circulation of blood is very necessary in the human body to maintain life, the

flow of funds is very necessary to maintain business. If it becomes weak, the business can hardly prosper and survive. The success of a firm depends ultimately, on its ability to generate cash receipts in excess of spending. The study objectives are to examine the working capital management of the Tata Motors. Balance sheet of the company is used for analysing the working capital. The comparison made with balance sheet of different periods to know the ability of the company.

---

## 2. Statement of the problem

Automobile industry is one of the most important industries in Indian economy. It has played a vital role in the development of country. During the last three or four decades the industry has achieved substantial progress. Finance is lifeblood of any business, working capital analysis is important in analyzing the financial position of any organization. Solvency position the strong base for planning income and profitability of any organization. Hence if is important to understand the solvency position, the study is undertaken to understand the solvency position and its impact on profitability of Tata Motors.

---

## 3. Objectives of the study

- To study the working capital management and its impact on profitability of TATA Motors limited

---

## 4. Scope of the study

- The study “Working Capital Management and its impact on profitability of Tata Motors Limited” analyses the efficiency of the working capital management and its components.
- The study attempts to determine the efficiency and effectiveness of management in each segment of working capital and to analyze the Working Capital ratio and its impacts on profitability.

---

## 5. Review of Literature

- **L Ganesamoorthy, R Rajavathana (2013)<sup>1</sup>** examined how this paper analyses the management of working capital components of select automobile companies in India. For this purpose two leading manufacturers of both passenger and commercial vehicles were selected such as, Tata motors limited and Mahindra and Mahindra limited. This study used secondary data for the study period of nine years from 2003–04 to 2011–12. This study used simple percentage and ratio for analyzing the data. It analysed inventory, receivables and payables and cash management separately. The study found efficient receivables and payables management by both the companies. The study found negative cash conversion cycle during all the years of the study period of both the companies. The study concluded that both the companies efficiently managed their working capital components.
- **P.Megala Devi, M.Gnanasekar and V.Anbuchselvi (2016)<sup>2</sup>** conducted a study analyses the Working Capital Management potency of Tata motors Limited. The relationship between capital management and profit has been examined victimisation correlation and regression analyses. ANOVA analysis is done to review the impact of capital management on profit. For the study, the annual financial statements of Tata Motors firms covering the amount from 2006 to 2015 have been used. As the capital is incredibly important for the made running of the business and profit, the researcher has targeted in each aspects. The working capital ratios are negatively correlative and debtors, creditors and inventory ratios are absolutely correlative and confirm the profit of the company
- **Mubashir Hassan and SK Shrivastava (2019)<sup>3</sup>** investigated the impact of working capital management on the profitability of Tata Motors using cash conversion cycle as an important determinant to find out the important linkages between the variables under study. The paper seeks to extend Lazaridis and Tryfonidis’s findings regarding the relationship between working capital management and profitability. The study is based on secondary data obtained from published annual reports of Tata Motors and Indian Brand Equity Foundation for a period of five (05) years from 2013 to 2017. This paper aims to establish twin objectives of finding out a statistically significant relationship between variables under study and to help explain the necessity of firms optimizing their level of working capital management and maintaining enough liquidity as it affects the profitability. The result of this study clearly shows significant level of relationship between the profitability indices as well as working capital components. The data have been analysed using SPSS (ver. 16.0) for generating better reliability of the results.
- **Pramod Sharma (2019)<sup>4</sup>** states that working capital refers to the firm’s investment in short term assets. Working capital is a common measure of a company’s liquidity, efficiency, and overall health. Because it includes cash, inventory, accounts receivable, accounts payable, the portion of debt due within one year, and other short-term accounts, a company’s working capital reflects the results of a host of company activities, including inventory management, debt management, revenue collection, and payments to suppliers. The management of working capital is essential to the

---

<sup>1</sup> L Ganesamoorthy, R Rajavathana – Asian Journal of Management 4(4), 301-307, 2013.

<sup>2</sup> P. Megala Devi, M. Gnanasekar and V. Anbuchselvi – International Journal of Industrial Engineering & Design 1 (2), 1-6, 2016.

<sup>3</sup> Mubashir Hassan and SK Shrivastava – Proceeding of 10th International Conference on Digital Strategies for organization success, 2019

<sup>4</sup> Pramod Sharma – Research Journey 88, 25, 2019.

financial health of business of all sizes. The amounts invested in working capital are often high in proportion to the total assets employed and so it is important that these amounts are utilized in a productive way. The management of working capital affects the liquidity and the profitability of the corporate firm and consequently its net worth (Smith, 1980). Working capital management therefore aims at maintaining a balance between liquidity and profitability while conducting the day to day operations of business concern. The study uses different working capital measurements for a sample population of Indian firms.

- **Pavan Kumar and Kamma Arpitha (2020)**<sup>5</sup> examined past 5 year's working capital management of Nestle India Ltd i.e. from 2013-2014 to 2019-2020. Working capital management include some ratios in considering it like working capital turnover ratio, receivables turnover, inventory turnover, cash to current asset ratio, quick ratio and current ratio. They concluded the study on working capital management of Nestle India by finding that the company's financial position was seeing to be sound because the company tries to increase its production and also revenue by maximizing the sales.
- **Dr.V.Bhuvanewari (2020)**<sup>6</sup> examined working capital and liquidity position of the Hindustan Unilever Limited. Ratio analysis and Statement of changes in working capital is the technique used for analysing. This study covers a period of 5 years from 2016 to 2020. The company is maintaining good profitability over the years. Based on the analysis they conclude that the overall working stability and soundness of Hindustan Unilever Limited, have improved over the years and this improvement in the overall financial performance in the forthcoming years help the company to grow more and earn more profits in future.
- **Nitin Untwal (2020)**<sup>7</sup> measured the impact of liquidity and efficiency of working capital on return on investment or Asset in the form if empirical test analysis. The independent variables are liquidity and efficiency ratios of working capital. The dependent variable is return on asset ratio further researcher had used R-programming for analysis. The data frame is prepared in R-programming and loading the data for analysis is done to draw predictive modeling results. The author collected secondary data from Screener data base. Screener is a stock screener and research tool for Indian stocks. Period of study is 2008-2014 of Tata Motors.
- **Bhupender Kumar Som, Himanshu Goel (2021)**<sup>8</sup> aims at analyzing the financial performance of Tata Motors by calculating financial ratios. The primary objective of this study is to evaluate the performance of Tata Motors during the last decade. The reference period taken for study is 5 years starting from 2016 to 2020. Five Ratios were calculated to serve the purpose of assessing the financial performance of the company that includes net profit margin, return on capital employed, inventory turnover ratio, asset turnover & current ratio. Secondary data was collected from annual reports of Tata Motors to derive relevant information. The results reveal that the company has performed reasonably well during the reference period. The company has shown a good potential by earning returns for their shareholders.
- **Ahmed Mahdi Abdulkareem, Alok Kumar Chakrawal (2021)**<sup>9</sup> analysed and evaluate the working capital management of selected cement companies. The main purpose of this study is to find out the liquidity position of selected cement companies in India, five companies were selection. The duration of study is five years start from 2015-16 to 2019-20. Two ratios were used for the analysis of data: current ratio & quick ratio. To test hypothesis ANOVA was used. Based on the data analysis, there is a mixed trend in the current ratio during the year 2015-16 to 2019-20. The analysis also shows the ups and down in the quick ratio of the selected cements companies during the period of 5 year. It indicates that there is mixed trend in quick ratio during the year 2015-16 to 2019-20. Removing short-term debt from balance sheet allow companies to have better quick and current ratios and allow to save some of liquidity in the near term and put in to better use. Companies are suggested to adopt more aggressiveness in maintaining their current ratio.
- **Mahesh Chand Garg (2023)**<sup>10</sup> evaluate the effect of Working Capital Management (WCM) on firm profitability of selected textile companies in India. The study is based on secondary data collected by CMIE from the companies' annual reports for the years 2011-2020. Regression analysis is used on a panel sample of 98 companies from India's Bombay Stock Exchange. Various financial ratios related to Working Capital (WC) and profitability and panel data techniques like Fixed Effect Model, Random Effect Model and Hausman test, etc. are also used. The results showed that WCM has a significant impact on a firm's profitability in the textile sector.

### 5.1 Research Gap

Despite the significance of working capital management in enhancing the financial performance of firms, there is a research gap regarding the impact of working capital management on the profitability of Tata Motors. Although some studies have been conducted on working capital management in the Indian manufacturing industry, very few have been on Tata Motors. Additionally, the existing studies have mainly focused on the theoretical aspects of working capital management, particularly the relationship between working capital management components and profitability, without particular focus on Tata Motors. Therefore, more empirical research is needed to fill the gap in the literature by focusing particularly on the impact of working capital management on Tata Motors profitability. Such research would provide the firm with valuable insights into enhancing its financial performance and

<sup>5</sup> Pavan Kumar and Kamma Arpitha- Working capital management of Nestle India Ltd., 2020

<sup>6</sup> Dr.V. Bhuvanewari – Pairpex – Indian Journal of Research: Volume-9 issue 5 May 2020

<sup>7</sup> Nitin Untwal- SSRN, 2020

<sup>8</sup> Bhupender Kumar Som, Himanshu Goel - Lloyd Business Review 1 (1), 19-25, 2021

<sup>9</sup> Ahmed Mahdi Abdulkareem, Alok Kumar Chakrawal – Journal of Asian Multicultural Research for Economy and Management study 2 (4), 56-65, 2021.

<sup>10</sup> Mahesh Chand Garg – IUP Journal of Accounting Research & Audit Practices 22 (1), 2023

developing effective strategies for managing its working capital. In the current study analysis is fully based on the working capital management, its impact on profitability and financial performance of Tata Motors Limited.

## 6. Company Profile



Tata Motors Limited is an Indian Multi National automotive manufacturing company headquartered in Mumbai in Maharashtra, India. It is a part of Tata Group. Its products include passenger cars, trucks, vans, coaches, buses, sports cars, construction equipment and military vehicles.

Tata Motors Group is a currently one of the biggest automakers operating both in India and globally. They are currently changing from the inside of the company by building modern manufacturing facilities to enhance the production efficiency to cut costs when they can and also to embrace the innovation culture. However, there are many challenges ahead of them. Tata Motors Group need to develop a comprehensive solution and execute it seriously to retain and gain market share. Tata Motors is actively investing R&D on new technologies for electric and natural gas vehicles. Auto industry market is rapidly changing with constant moving trends.

Tata Motors Limited is a leading global automobile manufacturer of cars utility vehicles buses trucks and defence vehicles. Tata Group Tata Motors has operations in the UK, South Korea, Thailand, South Africa and Indonesia through a strong global network of 86 subsidiaries ten associate companies, four joint ventures and two joint operation as on March 31, 2022.

Tata Motors principal subsidiaries include British premium car maker Jaguar Land Rover (the maker of Jaguar and Land Rover cars) and the South Korean commercial vehicle manufacturer Tata Daewoo. Tata Motors has a construction-equipment manufacturing joint venture with Hitachi (Tata Hitachi Construction Machinery), and a joint venture with Stellantis which manufactures automotive components and Fiat Chrysler and Tata branded vehicles. On 12 October 2021, private equity firm TP [Texas Pacific Group] invested \$1 billion in Tata Motors' electric vehicle subsidiary.

Tata Motors has auto manufacturing and vehicle plants in Jamshedpur, Pantnagar, Lucknow, Sanand, Dharwad and Pune in India, as well as in Argentina, South Africa, the United Kingdom, and Thailand. It has research and development centres in Pune, Jamshedpur, Lucknow, Dharwad, India and South Korea, the United Kingdom, and Spain. Tata Motors is listed on the BSE (Bombay Stock Exchange), where it is a constituent of the BSE SENSEX index, the National Stock Exchange of India, and the New York Stock Exchange. The company is ranked 265th on the FortuneGlobal500 list of the world's biggest corporations as of 2019.

On 17 January 2017, Natarajan Chandrasekaran was appointed chairman of the company Tata Group. Tata Motors increased its UV market share to over 8% in FY2019.

## 7. Analysis and Interpretation of Data

### NET WORKING CAPITAL:

Working capital, also known as Net Working Capital (NWC), is the difference between a company's current assets such as cash, accounts receivable/customers' unpaid bills, and inventories of raw materials and finished goods and its current liabilities, such as accounts payable and debts.

**Net Working Capital = Current Assets – Current Liabilities**

TABLE SHOWING NET WORKING CAPITAL

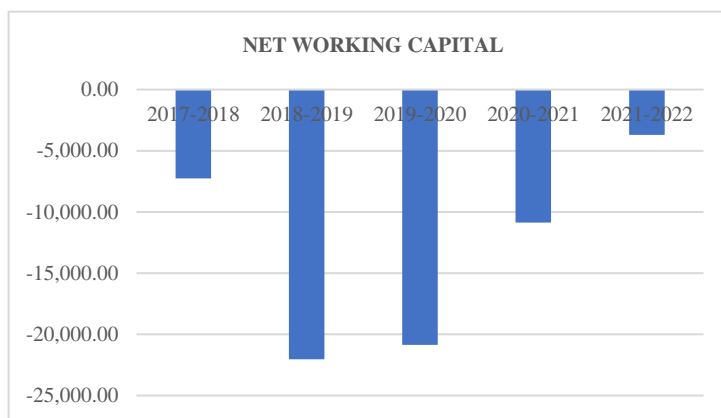
YEAR	CURRENT ASSETS	CURRENT LIABILITIES	NET WORKING CAPITAL
2017-2018	135,972.84	143,219.47	-7,246.63
2018-2019	123,431.16	145,457.43	-22,026.27
2019-2020	119,587.25	140,454.05	-20,866.80
2020-2021	146,887.64	157,749.18	-10,861.54
2021-2022	146,977.54	150,682.81	-3,705.27

Source: Secondary Data

### INTERPRETATION:

The above table represent the Net Working Capital of TATA Motors from 2017 to 2022. In the year 2017-18 it was -7,246.63 and it decreased to -22,026.27 in the year 2018-19 then it increased to -20,866.8 in the year 2019-20. In the next year it increased to -10,861.54 then it gradually increased to -3,705.27.

#### CHART SHOWING NET WORKING CAPITAL



#### 8. Findings

The above table represent the Net Working Capital of TATA Motors from 2017 to 2022. In the year 2017-18 it was -7,246.63 and it decreased to -22,026.27 in the year 2018-19 then it increased to -20,866.8 in the year 2019-20. In the next year it increased to -10,861.54 then it gradually increased to -3,705.27.

#### 9. Suggestion

- It is advisable that the company has to concentrate on to increase the current assets over current liability.
- The company is the worst performance in liquidity position, they have to be regularize and optimize the use of cash balance and proper techniques may be adopted for planning and control of cash.

#### 10. Conclusion

Tata Motors is currently one of the biggest automakers operating both in India and in global level. The study was conducted to analyze the working capital management and its impact on profitability of TATA Motors. The analysis and interpretation of data relating to working capital management of TATA Motors have concluded that in net working capital, the value of asset is decreased when compared to the liabilities. So it affects the profitability of the company. The working capital management has a statistically strong impact on the profitability of TATA Motors. The company has to focus on working capital management to obtain future benefits, but still the company runs in a good manner and the overall performance of the company is satisfactory, the management has to concentrate more on effective working capital management. The working capital management of the company is in improving position.

#### Websites

- <https://www.google.com>
- <https://www.wikipedia.org>
- <https://www.tatamotors.com>
- <https://www.investopedia.com>
- <https://www.moneycontrol.com>
- <https://www.quora.com>