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A Study of Performance Evaluation through Cash Management (With Special Reference to Commercial Vehicle Companies)

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Abstract: Cash, being a medium of exchange, is one of the important components of working capital. In the present research paper, an attempt has been made to evaluate the cash management performance of four leading public sector companies of the Commercial Vehicles segment in the Indian automobile industry, namely Tata Motors Ltd., Ashok Leyland Ltd. and SML Isuzu Ltd. Cash flow based ratios are employed to evaluate the average cash management performance of the selected companies. After applying the tools and techniques, the researcher has found that, Ashok Leyland Ltd. is at the top of the list when it comes to average performance based on cash management, followed by Ashok Leyland Ltd. and SML Isuzu Ltd. Researcher has seen a fluctuating trend in performance of all the selected companies. They are not showing stability in their overall cash management performance.

Keywords: Cash, Cash Management, Cash Return on Assets, Cash Profit, Cash Flow Margin.

I. INTRODUCTION

In the last few decades, the Automotive Industry of India has been recording tremendous growth and has emerged as a major contributor to India's GDP. This dynamic Industry currently accounts for almost 7.1 percent of India's GDP and employing about almost 25 million people. Also contribution of Indian Automotive Industry to Global Auto Industry Development is increasing significantly. In India, since the de-licensing of the sector in 1991 and the subsequent opening up of 100 percent FDI through automatic route, Indian Automobile Sector has come a long way. Today almost every global auto major has set up facilities in the country.

In India, automotive is one of the largest industries showing impressive 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 centers for development and innovation. In order to further accelerate and sustain advancements in the auto sector, the department has undertaken several 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 double its contribution to the economy. Another milestone 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.

As a result, India is emerging as strong automotive Research and Development (R&D) hub with foreign players like Hyundai, Suzuki, and General Motors setting up their base in India. Tata Nano's successful entry in the market steamed up the opportunities of growth available in alternative segments like electric cars, vehicles run on natural gas etc. All such initiative indicates that the Indian Automotive Industry has been emerging as a sunrise sector of the economy. It is not only meeting the growing domestic demands, but also gradually increasing its penetration in the international market.

Cash, the most liquid asset, is of vital importance to the daily operations of business firms. While the proportion of corporate assets held in the form of Cash is very small, its efficient management is crucial to the solvency of the business. In a

very important sense, cash is the focal point of fund flows in a business and is generally referred to as the “lifeblood of business enterprise”.

Cash is an idle resource with an opportunity cost. The liquidity provided by holding cash is at the expense of profits that could accrue from alternative investment opportunities. Hence, the firm should plan and control cash carefully.

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 reduce 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.

II. REVIEW OF LITERATURE

Doshi S.H., Senthil R., and Patidar P., (2005) attempted to identify the reasons behind different cash practices adopted by the top three Indian information technology companies.

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.

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.

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.

III. RESEARCH METHODOLOGY

A. Objective

The main objective of the study is to make comparison of performance evaluation based on cash management by and between Maruti Suzuki India Ltd., Hindustan Motors Ltd., Force Motors Ltd. and Mahindra & Mahindra Ltd.

B. Universe & Sample of the Study

The universe of the study consists of all the companies registered under automobile sector of Bombay Stock Exchange. The universe is divided in various segmentations like cars & utility vehicles, commercial vehicles, 2/3 wheelers etc. Using cluster sampling technique of Commercial Vehicles segment, researcher has selected top four companies based on turnover, namely, Tata Motors Ltd., Ashok Leyland Ltd. and SML Isuzu Ltd.

C. Hypotheses of the study

According to above objective, the following hypotheses 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.

D. Data collection and period of the study

The study has been carried out for a period five year. i.e. from 2008-09 to 2012-13. The study is based on secondary data that has been collected and compiled from the published annual reports of the sample companies.

E. Tools and techniques

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

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

F. 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.

IV. DATA ANALYSIS AND INTERPRETATION

Table – 1 Table showing Performance Drivers

Performance Drivers	Formulae	Performance Measures
Cash Profit Ratio (CPR)	Cash Profits ÷ Sales	The ratio indicates financial efficiency of the firm in terms of generating cash profit.
Cash Return On Assets (CRA)	Cash Flow From Operating Activities ÷ Total Assets	The cash return on assets (including interest) indicates internal generation of cash available to creditors or investors.
Cash Flow Margin Ratio (CFMR)	Cash Flow From Operating Activities ÷ Net sales	The ratio shows the relationship between cash generated from operations and sales.

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 %)

Year	Tata Motors Ltd.			Ashok Leyland Ltd.			SML Isuzu Ltd.		
	CPR	CRA	CFMR	CPR	CRA	CFMR	CPR	CRA	CFMR
2008-09	7.31	05	5.05	6.16	-09	-8.79	1.97	-08	-4.83
2009-10	9.20	20	18.50	8.67	17	15.05	4.20	39	15.11
2010-11	6.60	04	3.13	8.08	08	5.32	5.14	11	3.92
2011-12	5.25	11	6.73	7.15	16	8.70	5.05	26	7.19
2012-13	4.73	07	5.05	6.53	09	5.84	4.85	-08	-2.53
Mean	6.62	09	7.69	7.32	08	5.22	4.24	12	3.77

S.D.	1.77	0.06	6.18	1.05	0.11	8.74	1.32	0.21	7.97
Ranks	3	1	2	2	1	3	2	1	3

1. Cash Profit Ratio:

As observed from table – 2, The Cash Profit ratio of TML is almost forming a declining pattern. Amongst all the sample companies it is having the highest standard deviation. Whereas ALL is showing a mixed pattern in its CPR with lowest standard deviation,. SML with a standard deviation of 1.32, SMIL is showing an increasing trend in starting of the research period, further it is trying to consolidate its CPR.

2. Cash Return on Assets:

TML is showing a completely mixed trend during the research period in its Cash Return on Assets. ALL starting on the negative side, in generating cash return on assets, has been quite successful in earning positive cash returns though with quite a fluctuating trend. Same is the scene with SMIL. But in the end of the research period, SMIL has again generated a negative cash returns.

3. Cash Flow Margin Ratio:

As it can be observed clearly from Table – 2, all the sample companies are showing fluctuations in generating cash flow margin during the research period. TML is standing at top with highest average CFMR of 7.69% followed by ALL and SMIL with an average CFMR of 5.22% and 3.77% respectively.

A. ANOVA 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 ANOVA

Ratio	F-value	Sig.	Status of Null-hypotheses
CTR	6.51	0.01	Rejected
CRA	0.10	0.91	Accepted
CFMR	0.33	0.72	Accepted

1. On the basis of results of one- way ANOVA with resulting value of F-test 6.51 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 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 Cash Return on Assets.
3. On the basis of results of one- way ANOVA with resulting value of F-test 0.33 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 Flow Margin Ratio.

V. CONCLUSION

Selected companies are found to be having a fluctuating trend almost in all the three performance drivers of cash management. Hence it can be derived that the industry might be facing a mixed trend during the research period. Overall performance of Tata Motors Ltd., when eyed from the cash management viewpoint, is good enough though showing a mix trend during the study period. Ashok Leyland Ltd. is found to be best at its management of cash considering the average cash

management performance. SML Isuzu Ltd. is below the average performance as compared to Ashok Leyland Ltd and Tata Motors Ltd., 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 be affecting its performance.

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