CREDIT MANAGEMENT OF INDIAN COMMERCIAL VEHICLE INDUSTRY

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ABSTRACT

Receivable constitutes substantial portion of current assets of several firms. In India, trade debtors after inventories are the major components of current assets. They form about one-third of current assets. As substantial amounts are tied-up in trade debtors, it needs careful analysis and proper management. The prime aim of this study is to examine the trade credit of Indian commercial vehicle industry.

KEYWORDS
Credit, Commercial Vehicle, Working Capital, Industry.

INTRODUCTION

All the firms by their very nature are involved in selling either goods or services. Although some of these sales will be for cash, a large portion will involve credit. In such a situation, trade credit is an essential marketing tool of the firms to protect its sales from the competitors and to attract the potential customers.

Receivables or book debts has three features such as risk, economic value, futurity. First it involves with risk, second, economic value of goods and services passes immediately to the buyer, third the seller can get money in future period.

The size of investment in accounts receivable is determined by several factors. These factors are bifurcated under following heads: 1. Non decision variable and 2. Decision variable.

Level of sales, percentage of credit sales to total sales and level of credit sales are not within the control of the financial manager. The nature of business tends to determine the blend between credit sales and cash sales. But the firm can take a decision regarding collection period, monitoring and evaluating customers regularly. This paper focuses on how the Indian commercial vehicle industry, monitoring and evaluating their customers.

LITERATURE REVIEW

Niranjan Mandal, Dr. B. N. Dutta Smriti Mahavidyalaya, (2010) in their study makes an attempt to provide an insight into the conceptual side of working capital and to assess the impact of working capital management on liquidity, profitability and non-insurable risk of ONGC, a leading public sector enterprise in India over a 9 year period (i.e. from 1998-99 to 2006-07). It also makes an endeavor to observe and test the liquidity and profitability position of the enterprise and to study the correlation between liquidity and profitability as well as between profitability and risk. They may be concluded that working capital management is very much useful to ensure better productive capacity, good profitability and sound liquidity of an enterprise, specifically the PSE in India, for managerial decision making regarding the creation of sufficient surplus for its growth and survival stability in the present competitive and complex environment.

Dr. T. Koti Reddy and Shri Raghav Baheti (2010) in their study seeks to examine current policies and practices of working capital management at Saregama India Limited and tries to identify the strengths and weaknesses of the company; the opportunities it has and the threats it faces. It contains a detailed analysis of the various factors affecting the working capital requirements of the company and the impact they have on its profitability. The study concludes by suggesting solutions to address the concern areas that have been identified. The company is recommended to focus on digital sales, incentivize cash sales, follow a forecasting model that captures the tastes and preferences of consumers and strictly implement its credit policy.

Russell P Boisjoly (2009) in his study discussed receivable turnover, payable turnover, inventory turnover, cash flow and working capital per share, and investment ratio for 50 of the largest non-bank corporations over the period 1990-2004 to determine whether their management practices had an impact on their financial ratios and distributions. Aggressive management of working capital and significant increases in productivity resulted in significant improvements in cash flow per share and reduced corporate reinvestment. Furthermore, it found that the distribution of cash flow per share became more positively skewed and working capital per share became less positively skewed during the study period.

Shri. Abdul Raheman and Shri. Mohamed Nasr (2007) in their study discussed about the Working Capital Management has its effect on liquidity as well on profitability of the firm. In this research, they have selected a sample of 94 Pakistani firms listed on Karachi Stock Exchange for a period of 6 years from 1999 – 2004. The main objective of the study is to find out relationship between working capital management and profitability and debt used by the firms and its profitability. The results show that there is a strong negative relationship between variables of the working capital management and profitability of the firm. It means that as the cash conversion cycle increases it will lead to decreasing profitability of the firm, and managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level. We find that there is a significant negative relationship between liquidity and profitability. We also find that there is a positive relationship between size of the firm and its profitability. There is also a significant negative relationship between debt used by the firm and its profitability.

Shri. G. Sudharsana Reddy and Shri. S. Raghutha Reddy (2005) in their study attempted to evaluate the receivables management practices in the selected small scale industries at Peenya industrial estate in Bangalore. The major findings of the study are: prime reason for granting credit facility is as sales promotion technique, bills receivables are the main form of credit sales. The credit worthiness of customers is judged based on their past association with the customers. Units collect dues from the customers directly and also through representatives and units do not prefer to the court of law in regard to defaulting customers.

Shri. Amit K.Mallik, Shri. Debasish Sur and Shri. Debdas Rakshit (2005) examined the relationship between working capital and profitability of some selected companies in Indian pharmaceutical industry during the period 1990-91 to 2001-02. The study concluded that the joint influence of the liquidity, inventory management and credit management on the profitability were very significant in the selected companies for the study.

Shri. Reddy and Patkar (2004) studied the size and its components and liquidity management in factoring companies. They also studied the correlation between liquidity and profitability of factoring companies. They concluded that the study debtors and amount due to creditors are the major components of current assets and current liabilities respectively in determining the size of the working capital.

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Dr. G. Sudarsana Reddy, Shri. C. Sivarami Reddy and Shri. P. Mohan Reddy (2004) in their study evaluated the performance of the debtors' management of the paper industry in Andhra Pradesh. For this purpose, the analysis of trends in sales and debtors, debtors' size, turnover, collection period and aging of receivables had been carried out. The forgoing analysis reveals that the sample mills adopted liberal credit policy, which had a favorable effect on sales with the exception of Sirpur. The size of trade debtors as a percentage of current assets have shown declining trend. But the collection period of debtors slowly increased in all the mills except in Sirpur. The increasing debtors' collection period was an indication of slackness in collection efforts of the mills. To reduce the collection period, the collection and follow up efforts of trade debtors shall be rationalized and the slackness should altogether be removed.

Shri. N.R. Parasuram (2004) studied the working capital practices in leading pharmaceutical companies- a view of the credit policy and profitability. The main objective of the study is to understand the relationship between credit period given by companies and their actual performance in terms of sales and profitability. He concluded that the top pharmaceutical companies strategize on their working capital policy to relax the credit policy to achieve greater sales and greater profits. And, he added thus the working capital management practices are seen to be quite different for the larger companies (companies with larger turnover) compared to others.

Shri. Khatik and Shri. Pradeep Kumar Singh (2003) in their study made an attempt to examines the liquidity position of Eicher Limited by using various financial ratios. The results of the study showed that the liquidity management of Eicher Limited was not satisfactory due to poor current assets management. The company should give special attention to management of current assets and debtors collection period, because debtor directly affects liquidity position of the company. The study suggested that all the techniques of currents assets management should be employed by the company to maintain overall control over liquidity position.

PRESENT STATUS OF THE INDIAN AUTOMOBILE INDUSTRY

Indian automobile industry is nearly six decades old. The industry encompasses commercial vehicles, multi-utility vehicles, passenger cars, two wheelers, three wheelers, tractors and auto components. Out of 262 total number of companies, 220 Auto ancillaries, 7 commercial vehicle companies, 5 motor cycles / moped companies, 8 passenger car manufacturers 12 scooter and three wheeler companies and 10 tractor manufacturing companies. It employs 4, 50,000 people directly and 100, 00,000 people indirectly and is now inhabited by global majors in keen contention.

India manufactures about 38,00,000 two wheelers, 5,70,000 passenger cars, 1,25,000 Multi Utility Vehicle, 1,70,000 Commercial Vehicles and 2,60,000 tractors annually. Today, the Indian automobile industry is ranked first in the world in the production of three wheelers, second in the production of two wheelers, fourth in the production of commercial vehicles and ninth in passenger vehicles.

SELECTION OF SAMPLE COMPANIES

The study concentrates on Indian commercial vehicle Industry which includes Light Commercial Vehicles (LCV), Medium Commercial Vehicle Industry (MCV) and Heavy Commercial Vehicle (HCV). There are seven players in the Industry and five companies only were selected. The companies include Ashok Leyland Ltd., Tata Motors Ltd., Force Motors Ltd., Eicher Motors Ltd. and Swaraj Mazda Ltd.

THE RESEARCH PROBLEM

Generally, the higher the degree of competition influences more credit sales. Thus, the firm's credit policy is one of the factors to determine the size of the working finance. In the inflationary trend it is very difficult to determine the optimum working finance to the firms especially in the manufacturing sectors. It is not exception to the Indian commercial vehicle industry. Besides this, liquidity position of company has been tied up with different factors like inventory management, debtors' management and cash management. This paper examines the credit / receivables management of Indian commercial vehicle industry.

OBJECTIVES OF THE STUDY

The present study attempts to achieve the following objectives.

1. To study the debtors position and credit policy of the selected units in Indian commercial vehicle Industry.
2. To examine the efficiency of credit management in these units.
3. To offer suggestions and recommendations for better management of debtors.

HYPOTHESES OF THE STUDY

The study proposes to test the following hypotheses.

1. Average ratio of debtors to sales of Indian commercial vehicle industry does not differ significantly.
2. Average debtors collection period of Indian commercial vehicle industry does not differ significantly.
3. Average debtors turnover ratio of Indian commercial vehicle industry does not differ significantly.

PERIOD OF THE STUDY

The period of the study selected only ten years from 1998-1999 to 2007-2008.

METHODOLOGY

The study is analytical in nature. The data used for the study is secondary data. The required data for the commercial vehicle manufacturing companies were collected from the compilation made by the Centre for Monitoring Indian Economy (CMIE) for the period1998-99 to 2007-08. Prowess database of CMIE is the most reliable and empowered corporate database. It contains a highly normalized database built on a sound understanding of disclosures on were over 7000 companies in India. Some of the data collected from journals, websites, books etc. Editing, classification and tabulation of the financial data, which will be collected from the above-mentioned sources, will be done as per the requirements of the study.

FINANCIAL AND STATISTICAL TOOLS

Ratio analysis technique is used to evaluate the credit management of the Indian commercial vehicle Industry. Cross sectional analysis is done to identify the best performance of the company. Arithmetic mean, standard deviation (S.D) and co-efficient of variation (C.V) are used to study the nature of rations. By using multiple discriminant analysis differentiate good customers from bad customers.

LIMITATIONS OF THE STUDY

The data used in this study have been taken only from secondary sources and as such it findings depends entirely on the accuracy of such data.

RESULTS AND DISCUSSIONS

RATIO OF DEBTORS' TO SALES (IN %)

This ratio is computed by dividing debtors by total sales. The higher the percentage of the ratio shows inefficiency of management. Lower the percentage of the ratio indicates that sound credit management of the company.

Debtors to sales ratios of Indian commercial vehicle Industry is depicted in table 1.The debtor to sales ratios of Indian commercial vehicle industry is varied from 0.35 per cent to 0.91 per cent. The mean value (99-08) of all units in the commercial vehicle industry is less than that of Industry mean 0.52, which reflects that Tata Motors Ltd. (0.09) and Eicher Motors Ltd. (0.09) has better control over the credit management followed by Force Motors (0.1) then Ashok Leyland Ltd. (0.185) and Swaraj Mazda Ltd. (0.26). The Standard deviation and co-variance of the commercial vehicle industry is 0.17 and 0.33 respectively. The C.V. values of Tata Motors Ltd, Ashok Leyland Ltd. are greater than industry C.V, which shows that effective control over the debtors.

The average debtors to sales ratio of selected companies have been compared using one-way ANOVA and are tested by the following hypothesis. The results are shown in table 2.

H_o : The average debtors to sales ratio of Ashok Leyland Ltd., Tata Motors Ltd., Force Motors Ltd., Eicher Motors Ltd. and Swaraj Mazda Ltd. do not differ significantly.

Inference: since $F_{cal} > F_{Crit}$ the average debtors to sales ratio of selected companies differ significantly.

RATIO OF DEBTORS COLLECTION PERIOD (IN DAYS)

This ratio indicates the efficiency of the debt collection period and the extent to which the debt have been converted into cash. It is very helpful to the management because it represents the average debt collection period. This ratio can be computed as follows

Debt Collection Period Ratio = Average Accounts Receivable / Net credit sales for the year * Days in a year

The shorter debt collection period indicates that prompt payment by debtors. Similarly, higher collection period implies that payment by trade debtors is delayed.

Ratio of Debtors collection period of Indian commercial vehicle Industry is presented in table 3. The debtors' collection period of Indian commercial vehicle industry is varied from 110.13 days to 225.69 days. The mean value (99-08) of commercial vehicle industry is 154.47 days. The mean values (99-08) of all units in the commercial vehicle industry are less than industry average. It reflects that efficient management of debtors by the selected units in the Indian commercial vehicle industry. Tata Motors Ltd. (0.09days) is very sound in the management of debtors than others. The Standard deviation and co-variance of the aggregate industry is 36.85 days and 0.24 days respectively. The C.V of Eicher Motors Ltd. is below than the industry which highlights that very good management of debtors than others.

The average debtors collection period of selected companies have been compared using one-way ANOVA and are tested by the following hypothesis. The results are shown in table 4.

H_o : The average debtors collection period of Ashok Leyland Ltd., Tata Motors Ltd. Force Motors Ltd. Eicher Motors Ltd and Swaraj Mazda Ltd do not differ significantly.

Inference: since $F_{cal} > F_{Crit}$ the average debtors collection period of selected companies differ significantly.

DEBTORS TURNOVER RATIO (TIMES)

Debtor's turnover ratio indicates that number of times the receivables are turned over in business during a particular period. Receivables and Debtors represent the uncollected portion of credit sales. It is also termed as Debtors' velocity. It is used to measure the liquidity position of a concern. It is calculated as

Debtors Turnover Ratio = Net Credit Sales / Average Receivables

The higher turnover ratio indicates prompt payment by debtors. Like lower turnover ratio implies that payment by trade debtors are delayed.

Debtors' turnover ratio presented in the Table 5. Debtors turnover ratio of Indian commercial vehicle Industry is fluctuating trend in the period from 1998-99 to 2007-08. The Debtors turnover ratio of Indian commercial vehicle Industry is 14.53. The mean value of Indian commercial vehicle Industry is less than that of Mean (1999-2003) value (13.85) which indicates that very fast payment of debtors during the period than the first five years of the study period. The mean values of units in the Indian commercial vehicle industry are greater than industry mean which shows that prompt payment by debtors. The standard deviation and C.V of Indian commercial vehicle Industry is 3.93 and 0.36 respectively. The C.V. of Eicher is less than the Industry C.V, Which indicates that very good administration of debtors.

The average debtors turnover ratio of selected companies have been compared using one-way ANOVA and are tested by the following hypothesis. The results are shown in table 6.

H_o : The average debtors turnover ratio of Ashok Leyland Ltd., Tata Motors Ltd. Force Motors Ltd. Eicher Motors Ltd and Swaraj Mazda Ltd do not differ significantly.

Inference: since $F_{cal} > F_{Crit}$ the average debtors turnover ratio of selected companies differ significantly.

CONCLUSION

As receivables occupy a dominant position, its efficient management will play a vital role in any organization. It constitutes the part of total current assets, its prudent management is of paramount important in working capital management. The study reveals that all the units in the Indian commercial vehicle industry is very good in management of debtors. In case of debtors to sales ratio of Tata Motors Ltd and Ashok Leyland Ltd. are having minimum ratio, which shows that sound credit management. Eicher Motors Ltd. is very efficient in collection of money from debtors. Moreover, debtors of Tata motors Ltd. and Eicher Motors Ltd. are very prompt in their payment.

Force Motors Ltd. and Swaraj Mazda Ltd. are also very good in the management of debtors, while comparing with others in the Indian Commercial vehicle Industry, they should concentrate their credit policy and credit terms to compete with others. The application of one-way ANOVA revealed that the mean ratios of debtors' sales, mean ratios of debtors' collection period, mean ratios of debtors' turnover of all selected units in the Indian commercial vehicle Industry are differ significantly.

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APPENDIX

RATIO DEBTORS' TO SALES OF INDIAN COMMERCIAL VEHICLES INDUSTRY (in %)

TABLE NO. 1

Year	Ashok Leyland Ltd.	Tata Motors Ltd.	Force Motors Ltd.	Eicher Motors Ltd.	Swaraj Mazda Ltd.	Industry
1998-99	0.41	0.28	0.05	0.13	0.2	0.91
1999-00	0.32	0.12	0.05	0.09	0.24	0.63
2000-01	0.29	0.11	0.09	0.08	0.25	0.62
2001-02	0.21	0.11	0.12	0.11	0.22	0.59
2002-03	0.19	0.11	0.11	0.08	0.17	0.52
2003-04	0.12	0.05	0.12	0.11	0.22	0.44
2004-05	0.11	0.05	0.09	0.08	0.28	0.39
2005-06	0.08	0.04	0.11	0.07	0.42	0.38
2006-07	0.07	0.03	0.12	0.1	0.32	0.38
2007-08	0.05	0.04	0.14	0.06	0.28	0.35
Mean(all)	0.185	0.09	0.1	0.09	0.26	0.52
Mean (99-03)	0.284	0.15	0.08	0.1	0.216	0.66
Mean (04-08)	0.086	0.04	0.12	0.08	0.304	0.39
S.D	0.12	0.07	0.03	0.02	0.07	0.17
C.V	0.66	0.79	0.3	0.23	0.27	0.33
Source: Annual reports of the concerned company						

RATIO OF DEBTORS' TO SALES RATIO (ANOVA)

TABLE NO. 2

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	0.22362	4	0.055905	10.46562	4.44E-06	2.578739
Within Groups	0.24038	45	0.005342			
Total	0.464	49				
Source: computed date from the Annual reports of the concerned company						

RATIO OF DEBTORS COLLECTION PERIOD (IN DAYS)

TABLE NO. 3

Year	Ashok Leyland Ltd.	Tata Motors Ltd.	Force Motors Ltd.	Eicher Motors Ltd.	Swaraj Mazda Ltd.	Industry
1998-99	146.02	0.28	17.98	47.25	70.78	225.69
1999-00	116.78	0.12	19.63	33.15	86.88	187.06
2000-01	103.87	0.11	31.65	29.81	91.65	183.77
2001-02	76.23	0.11	43.36	37.82	77.53	173.03
2002-03	67.65	0.11	39.68	29.83	62.05	149.68
2003-04	42.44	0.05	42.9	40.9	78.75	142.04
2004-05	38.88	0.05	32.06	28.71	100.55	119.81
2005-06	28.66	0.04	41.2	25.85	149.51	125.65
2006-07	25.71	0.03	44.21	34.9	114.96	127.84
2007-08	17.08	0.04	49.77	23.15	100.47	110.13
Mean(all)	66.332	0.09	36.24	33.14	93.313	154.47
Mean (99-03)	102.11	0.15	30.46	35.57	77.778	183.84
Mean (04-08)	30.554	0.04	42.03	30.7	108.848	125.10
S.D	43.75	0.07	10.68	7.29	25.21	36.85
C.V	0.66	0.79	0.29	0.22	0.27	0.24
Source: Annual reports of the concerned company						

DEBT COLLECTION PERIOD RATIO (ANOVA)

TABLE NO. 4

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	50197.52	4	12549.38	23.09782	2E-10	2.578739
Within Groups	24449.15	45	543.3145			
Total	74646.67	49				
Source: computed date from the Annual reports of the concerned company						

DEBTORS TURNOVER RATIO (TIMES) OF INDIAN COMMERCIAL VEHICLE INDUSTRY

TABLE NO. 5

Year	Ashok Leyland Ltd	Tata Motors Ltd	Force Motors Ltd	Eicher Motors Ltd	Swaraj Mazda Ltd	Industry
1998-99	2.46	3.52	20.02	7.61	5.08	7.74
1999-00	3.08	8.32	18.33	10.86	4.14	8.95
2000-01	3.46	8.75	11.37	12.07	3.92	7.91
2001-02	4.72	9.27	8.3	9.51	4.64	7.29
2002-03	5.59	9.34	9.07	12.06	5.8	8.37
2003-04	8.48	20.96	8.39	8.8	4.57	10.24
2004-05	9.25	21.39	11.22	12.54	3.58	11.60
2005-06	12.56	28.32	8.73	13.92	2.4	13.19
2006-07	14	34.75	8.14	10.31	31.31	19.70
2007-08	21.07	25.23	7.23	15.55	3.58	14.53
Mean	8.47	16.99	11.08	11.32	6.90	10.95
Mean (99-03)	3.86	7.84	13.42	10.42	4.72	8.05
Mean (04-08)	13.07	26.13	8.74	12.22	9.09	13.85
S.D	5.96	10.49	4.48	2.40	8.63	3.93
C.V	0.70	0.62	0.40	0.21	1.25	0.36
Source: Annual reports of the concerned company						

DEBTORS TURNOVER RATIO (ANOVA)

TABLE NO. 6

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	591.2884	4	147.8221	3.008732	0.027772	2.578739
Within Groups	2210.896	45	49.13102			
Total	2802.184	49				
Source: computed date from the Annual reports of the concerned company						

REQUEST FOR FEEDBACK

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Academically yours

Sd/-

Co-ordinator