

Operating Cycle Management: An Empirical Investigation in Maruti Suzuki India Limited (MSIL)

Dr. P. Kamalnath

Assistant Professor, Department of Commerce, Hindusthan College of Arts & Science, Coimbatore (India)

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Corresponding Author

Email: kamal1317[at]gmail.com

ABSTRACT

In the paper, an effort made to analyses the operating cycle of Maruti Suzuki India limited (MSIL). Such, an analysis is helpful to understanding of how many days take to inventory outstanding, sales outstanding, payment outstanding and cash conversion cycle.

1. Introduction

Whenever a company makes investment in its operating activities for manufacturing products, automatically a company expects profit from it, but there is processing time involve. Therefore, a manufacturing company should be measure of time taken for to convert its cash into cash i.e., cash flow. The cash flow is measured in terms of operating cycle. The operating cycle that considers all relevant cash flows comes from the operations. The operating cycle can be defined as the

length of time between cash payments for purchase of raw materials and the collection of receivable associated with the sale of finished goods. However, the operating cycle focuses only on the length of time financial flows engaged in the cycle and does not consider the amount of fund committed to a product as it moves through the operating cycle. Calculating the operating cycle helps, you understand why businesses that are growing quickly often have cash flow problems.

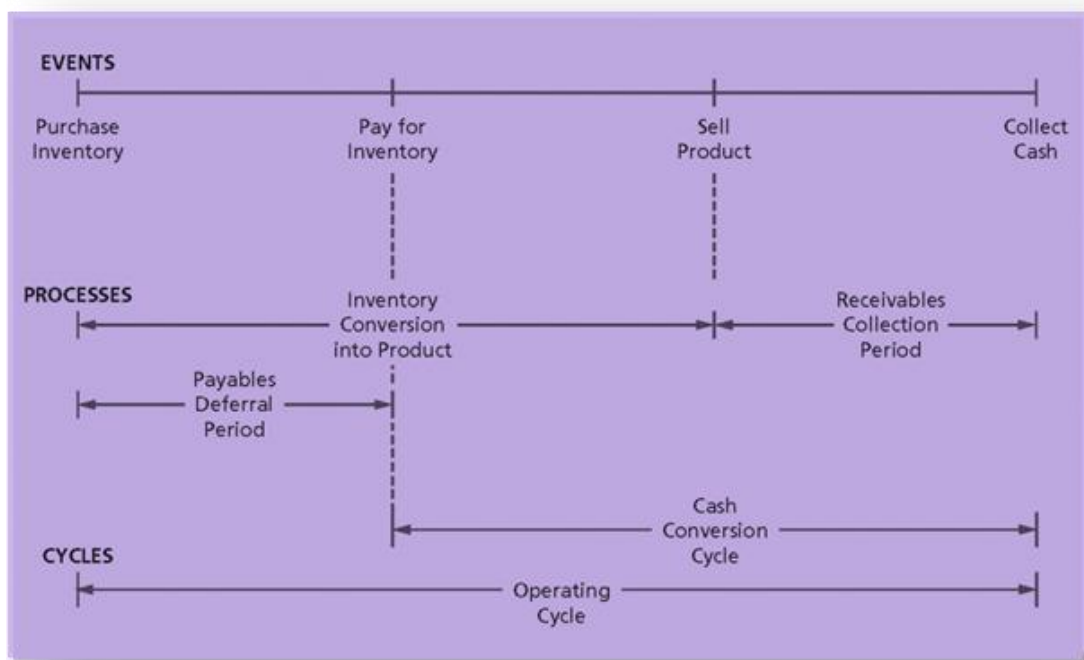


Figure:1 Operating cycle

Source: <https://www.treasuryxl.com>

2. Company Profile

Maruti Suzuki Company Ltd is one of the leading Indian automobile manufacturing companies. Maruti Suzuki India Limited (MSIL), formerly known as Maruti Udyog Limited, a subsidiary of Suzuki Motor Corporation of Japan, is India's largest passenger car company, accounting for over 50 per

cent of the domestic car market. Maruti Udyog Limited was incorporated in 1981 under the provisions of Indian Companies Act 1956 and the government of India selected Suzuki Motor Corporation as the joint venture. The Chairman and Managing Director of the Maruti Suzuki India Limited is R C Bhargava and kenichi Ayukawa. The company is engaged in manufacturing of

passenger cars. Currently, it owns manufacturing facilities located in Haryana. It is the market leader in the automobile industry, both in terms of production and revenue generation (Dr. P.Kamalnath,2018).

3. Objectives of the study

- To analysis the operating cycle length of a company.

4. Methodology

This study required data and information for the period 2008-09 to 2017-18 has been collected from the Money Control database and Maruti Suzuki India Ltd annual report. For studying data, the technique of ratio analysis, statistical

5. Analysis of the study

Table: 1 Ratios of Operating Cycle of Maruti Suzuki Company Ltd

Years	DIO	DSO	DPO	CCC
2008-09	16	16	74	-42
2009-10	15	10	51	-26
2010-11	14	8	49	-27
2011-12	18	10	69	-41
2012-13	15	12	66	-38
2013-14	14	12	81	-55
2014-15	19	8	82	-55
2015-16	20	8	108	-80
2016-17	18	6	107	-83
2017-18	14	7	112	-91
Mean	16.41	9.75	79.95	-53.79
SD	2.14	2.99	22.85	23.49

Source: Maruti Suzuki Company Ltd

5.1. Days Inventory Outstanding (DIO)

Days Inventory Outstanding (DIO) refers to the time taken to convert inventory held in the firm into sales. Table 1 show that the Days Inventory Outstanding in SMIL registered a consistency trend during the period under study. It varied between 14 days and 20 days. On an average, the DIO in SMIL was 16.41 days to sell inventory. On year-wise analysis, it can be observed that the time taken to convert inventory i.e., raw material into finished good and ready to sales held in the firm was satisfactory level and also efficient management of the inventory policy. The standard deviation of DIO of SMIL is 2.14, which shows maintaining of consistency during the study period.

5.2. Days Sales Outstanding (DSO)

Days Sales Outstanding (DSO) is the time taken to collect cash from customers. Table 1 depicts that the Days sales Outstanding in SMIL recorded a stable trend during the period under study. It varied between 6 days and 16 days. On year-wise analysis, it can be observed that collection period of SMIL in the last ten years, the time taken to collect cash from customers was adequate level. The standard deviation of DSO of SMIL is 2.99, which shows consistency and efficient management of the collection policy, during the study period.

techniques like averages, standard deviation are used.

Cash conversion cycle = Days Inventory Outstanding + Days Sales Outstanding - Days Payables Outstanding.

The formula:

$$\text{Days of sales Outstanding} = \frac{\text{Accounts Receivables}}{\text{Sales}/365}$$

$$\text{Days of Inventory Outstanding} = \frac{\text{Inventories}}{\text{Cost of goods solds}/365}$$

$$\text{Days of payables Outstanding} = \frac{\text{Accounts payables}}{\text{Cost of goods solds}/365}$$

5.3. Days Payables Outstanding (DPO)

Days Payables Outstanding (DPO) is the time taken to pay the firm's suppliers. Table 1 describes the Days payables Outstanding of SMIL is seen in a fluctuating trend during the period of study. It varied between 49 days and 112 days. On an average, the DPO in SMIL was 79.95 days to pay for raw material purchase on credit. In normally DPO do not have any standard thumb rule but company auditor can advise to company to pay creditor within 60 days to 90 days, then only it cannot affect short-term solvency and also smoothly run operating activities. On year-wise analysis, it can be observed that, the time it takes to pay the payables are satisfactory level in the following years are 2008-09 and 2014-15, and it may be called suffering years are 2015-16, 2016-17 and 2017-18 when the payment period is 108, 107 and 112 days with respective years and this may be injured short-term solvency of the SMIL during these three years under the study period The standard deviation of DIO of SMIL is 22.85, which indicates may be inconsistency during the study period.

5.4. Cash Conversion Cycle (CCC)

Table 1 represent that the cash conversion cycle of SMIL registered a highly fluctuating trend during the period under study. It varied between -26 days and -91 days. On an average, the CCC in SMIL was -53.79 days to cash back into cash returns. On year-wise analysis, it can be observed that all the ten years of cash conversion cycle are shows negative days. It indicates that SMIL receiving payment for his debtor

but does not pay immediately to its suppliers for the raw material. Even though, it is good approach by the company. The standard deviation of CCC of SMIL is 22.49, which shows consistency during the study period.

6. Conclusion of the Study

Analysis of operating cycle is done on Maruti Suzuki India Limited. In the analysis, it is found that the DIO have maintained well during the study period. It is evidence that the

DSO was maintained healthy and satisfactory level. The DPO was also satisfactory level except last three year. Finally, the CCC was satisfactory level; even though company to concentrate on DPO to reduce the number of days from his current level of payment period. Overall, there is evidence that the operating cycle in Maruti Suzuki India Limited was efficient management of the inventory policy, collection policy and payment policy during the study period.

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