Chapter-V
Conclusion

CHAPTER - V

CONCLUSION

5.1 INTRODUCTION

The present study in the preceding four chapters leads to many conclusions about the Automobile industry receivables management but with one caution. As already pointed out in earlier the biggest limitation of the study had been related to there is difference in the receivable management or not in the selected sample automobile companies. Further, in the chapter no. iv we have shown the trend analysis of the sample companies, with their Average collection period and debtors position in current Assets. So overall conclusions are drawn on all the data shows by using the financial tool & how the companies position in the receivables management by calculating ratios of the receivables. Subject to these limitations following conclusions are drawn from the study, Researcher has suggested some suggestion on those findings with help of financial experts & today's market condition of the companies and conclude these studies by the reference of all the chapter scheme of the study.

5.2 FINDINGS OF THE STUDY

The following are the important findings of the study.

1. There was a trend analysis in sales and Trade Debtors shows fluctuate trend in indices of All Five Automobile Companies during the study period. The average of sales indices (660.91) and Trade debtor's indices (163.03) indicates that the sales grow faster than receivables. In the beginning of the study period the sales grow faster than Trade debtors. And the Trade debtors in the beginning it shows declining trend and afterwards it grows faster.
2. Size of Trade Debtors in the percentage of Current Assets during the study period it was very high in the 2002 and after that it goes down. Only Force Motors has shown in 2002 (31) and after that it goes higher (33) during the study period. Overall trend with an average 44.3 in the year 2002 & it comes 37.24 in the year 2011.
3. Average collection period & Turnover Table No. 4.3.1 Shows the collection period according to the Sales. In the study period only Ashok Leyland and Maruti Suzuki shows that these companies' efficiency of collection of debt from debtor's

than the table value of F (1.713439) at 5% significance level; This lead to the rejection of null hypothesis and acceptance of alternate hypothesis. P-value is also lower than all of the customary level of significance. So using ANNOVA test here researcher has proved that there is a difference in the ratios of the receivables of all selected companies.

d) Radical Approach: Michael J. Brennan and other advocates of low payout position argue that a policy of low dividend payout ratio promotes the welfare of the shareholders. The reason for this is that, for taxation purpose capital gains are taxed more favourably (long – term capital gains) than the income from dividends. The investors, therefore, will prefer those shares which provide more capital appreciation and less dividend income. This is possible when the dividend payout is on the lower side. If the shareholders of a company are from a higher income bracket, this model may be applicable. However, in the absence of any evidence, it is difficult to generalise this conclusion.

B) Irrelevance theory: Under this approach, the thought is that the market price of shares and the value of a firm is not at all dependent on the percentage of dividends declared. Modigliani and Miller are the strong advocates of this thought. Their arguments are as follows :

a) Modigliani – Miller Model: According to this model, the value of a firm is solely dependent on the earnings capacity of the firm. How a firm is distributing its earnings is not the deciding factor in the valuation. The MM argument says that a firm may retain its earnings or it may distribute them. If the earnings are retained, it will lead to capital appreciation. On the other hand, if dividends are distributed, the shareholders will enjoy dividend income which is equal to the amount by which his capital would have appreciated if the company would have retained its earnings. The shareholders, therefore, do not make any differentiation between present dividend and retained earnings.

was not good. However, Overall Average of all the companies during the study period shows turnover is 14.4 and Collection period in Days is 33.4, where Ashok Leyland gives Turnover is 10 & collection period is 45 and Maruti Suzuki shows 8 & 46, which is not good.

4. The average bench mark of the Receivable to Current Asset Ratio of the Automobile Industry during the study period was 37.2%. only Tata Motors ltd. Shows that 31.64 % of receivables to current Assets, and Maruti Suzuki Ind. Ltd. Shows 45.3% which is very higher than others and compared to above the Average ratio.
5. The Receivable to Total Asset of the Hyundai Motor is 10.92% which is less than the Industry Average Ratio of 18.38. Force Motor Ltd earned higher ratio 32.03% compared to the Industry Average of sample companies and it was followed by Ashok Leyland, Mahindra & Mahindra and Maruti Suzuki ltd.
6. The Ratio of Receivables to Current and Total Asset of the Sample Companies namely Tata Motor Ltd. performed better than the other sample companies.
7. The Receivables to sales of Mahindra & Mahindra was the most efficient firm by holding less amount of investment (3.34%) in receivables as percentage of sales which is less than Average ratio of (7.9%).
8. For Receivable to Sales of sample companies, Average Industry ratio is (7.9%) and it is followed by Maruti Suzuki Ltd. earned the lowest ratio of 5.66% and Tata Motors Ltd. Was (5.90%) as compared to other sample companies and also the benchmark of the Industry.
9. While comparing the benchmark (Receivable to Sales) Ratio of the Industry (7.9%), it is found out that Ashok Leyland earned higher ratio of 12.6%.
10. Debtors' Turnover Ratio of the Industry Average (14.4 times) was compared to other sample companies, it conclude that Maruti Suzuki Ltd. earned higher turnover of 22 times.
11. The Industry Average for the Average Collection Period was 33.4 in days (bench mark). Force Motors took longer collection period (46 days) while Maruti Suzuki Ltd. collected within a very short period. The Average Collection Period of the Maruti Suzuki Ltd. Is 20 days and Tata Motor Ltd. (22 days). It indicates the liquidity of trade debtors i.e., higher turnover ratio and shorter debt collection period.

12. The Industry Average for the Receivables to payable was (14.4%), and only Maruti Suzuki adopted a good policy here , that its Payable ratio shows (22%). After that it followed by the tata motors , Mahindra & Mahindra and Ashok Leyland.

13. The Table No. 4.5.1, shows that the calculated value of F ratio is higher than the table value of F (1.713439) at 5% significance level; This lead to the rejection of null hypothesis and acceptance of alternate hypothesis. P-value is also lower than all of the customary level of significance.

5.3 SUGGESTIONS OF THE STUDY

The following are the important suggestions on above findings of the study.

1. From the Table No. 4.2.1 the indices of sales and trade debtors it shows the more fluctuate trend in the trend of trade debtors and sales shows the growing trend, which indicates that credit terms are less liberal it should be more strict and the sample companies should make fixed and standard period for credit sales recovery.

2. Size of Trade Debors in the percentage of Current Assets during the study period shows that stringent policy is adopted by the Automobile Company. The firms have to take the decision that makes the credit sales at a price which is higher than the usual cash selling price. This brings an opportunity to the firm to make extra profit over and above the normal profit.

3. For Average collection period & Turnover the company should reduce the collection period, the collection and follow up efforts of trade debtors shall be rationalised and then the slackness should altogether be removed. The policy they have adopted which is not good, that indicates that these companies could not collect their debt from the debtors efficiently which also shows an inefficient liquidity position of the companies, as the year quality of debtor‘s was not good.

4. The average bench mark of the Receivable to Current Asset Ratio of the Automobile Industry during the study period was 37.2%. From the analysis, so appropriate efforts should be made to maintain Receivables Management at this level, which would help companies to improve their profitability. When the percentage of current Asst is higher, it indicates the cost of carrying the receivables is higher.

5. The management should try to adopt cost reduction and administrative techniques in their companies to get over this critical situation.

6. Effective policies as regards credit granting and collection have to be evolved keeping in view the set objectives. Some of the possible credit policies are: (i) open (liberal) credit without approval of appropriate authority up to a certain limit or with approval if the credit exceeds that limit, (ii) limited credit, (iii) restrictive credit, and (iv) no credit. An effective collection policy has to be developed.

7. The Ratio of Receivables to Current and Total Asset of the Sample Companies namely Tata Motor Ltd. performed better because they have maintained their assets very well and enjoying profit maximisation during study period than the other sample companies.

8. Except Mahindra & Mahindra (3.34%) and Maruti Suzuki (5.66%) earned lowest ratio and other companies was the not efficient firm by holding less amount of investment in receivables as percentage of sales, so it is suggested that other companies must take steps to collect the amount within a shorter period of time.

9. While comparing the benchmark (Receivable to Sales) Ratio it would suggest that the doing business with huge amount of debtors is not good they should not be provided more credit to their customers and should collect the proceeds on time.

10. Debtors' Turnover Ratio of the Industry Average (14.4 times) was compared to sample companies. It indicates that the debtors of the sample company should convert their debtors into cash quickly. So it would be suggested that , The average time lag in days between the sales and the collection was higher which is not good it should be less.

11. Compare to industry average Maruti Suzuki Ltd. collected within a very short period. It is found out that the Maruti Suzuki Ltd. efficiently collected the debt without delay from the debtors other companies should apply same policy which Maruti Suzuki Ltd. has applied.

12. It is also suggested that Ashok Leyland and Force Motors Ltd. should improve their Average Collection Period and also try to reduce their credit sales by designing clear cut collection policy and collection procedures.

13. Efficient and timely collection of dues ensures that the losses on bad debt be reduced to the minimum level. This would help the company to have higher returns on investment and profits.

14. Over and above the normal administrative cost of maintaining and collection of receivables, the firm may have to incur additional costs known as delinquency costs, if there is delay in payment by a customer. The firm may have to incur cost on

reminders, phones calls, postage, legal notices etc. moreover there is always an opportunity cost of the funds tied up in the receivables due to delay in payment.

15. When a firm sells on credit, it takes a risk about the paying capacity of the customers. Therefore to be on a safer side, it must set credit standard which should be applied in selecting customers for credit sales. The initial tendency may be to set rigorous standards which may hamper the sales growth and at the other extreme, the firm to bear losses as many customers may turn out to bad debts. therefore the problem is to balance the benefits of additional sales against the cost of increasing bad debts.

5.4 CONCLUSION OF THE STUDY

The following are the some conclusions from the above study.

1. The forgoing analysis reveals that the Automobile Industry adopted liberal credit policy, which had a favourable effect on sales. The analysis of the trends in sales and trade debtors shows the effectiveness of the credit policy in activating sales. An uninterrupted upward trend in sales accompanied by downward trend in debtors indicates that the credit policy implemented by the company is very effective in stimulating more sales. Further, if the pace of increase in sales is more than the pace of increase in debtors, it is also a symptom of fairly favourable credit policy.
2. The size of trade debtors as a % of current assets had shown declining trend. But the collection period of debtors slowly increased in all the Companies. Though debtors in absolute terms tended to rise, but as a percentage of current assets, they declined. The increase in the amount of debtors was due to expanded sales and the decrease in its percentage to current assets was attributable to accelerated collection of debtors in the industry. The rising quantum of trade debtors was an indication of liberal credit policy adopted by the industry to overcome the sluggish market conditions.
3. The increasing debtor's collection period was an indication of slackness in collection efforts of the companies. In Tata Motors and Maruti Suzuki—the average collection period had recorded 22 days and 20 days respectively, which was less than the industry's average collection period due to increase in debtors' turnover ratio. Collection period in these Industries is rising fastly. They were able to sell their finished goods on liberal credit terms, as they required immediate

cash. It can be further observed that, on an overall position and individual position of Automobile industry, Shows that they have improved there debtors collection period by decreasing collection period and turnover position is rising from 2002 to 2011 study period.

4. A higher debtors turnover coupled with quick average collection of debtors enables the firm to transact a larger volume of business without corresponding rise in the investment in debtors. Lower turnover and larger average collection period is an indication of liberal credit policy of a firm and thereby, implying ineffective credit management.
5. To reduce the collection period, the collection and follow up of trade debtors shall be rationalized and the slackness should altogether be removed. Debtors Turnover Ratio measures the liquidity of debtors of a business firm and average collection period. It indicates the average time lag in days between sales and collection. Higher Receivables turnover ratio and lower debtor collection period reflect the firm's ability to manage a larger volume of business without corresponding increase in Receivables and vice versa.
6. The present study found that the level of Receivable Management in Automobile Industry during the study period was fairly good. The overall analysis indicates the fact that the performance of the Automobile Industry in respect of Receivables Management was satisfactory. Tata Motors and Maruti Suzuki earned higher turnovers and lower debt collection period. Hence the study concluded that the Automobile Industry efficiently managed their Receivables during the study period.
7. The credit Sales delay the time of sales realization and therefore the time gap between incurring the cost and the sales realization is extended. This results in blocking of funds for a longer period. Those firms on the other hand, have to arrange funds to meet its own obligation towards payment to the suppliers.
8. The firms have to take the decisions that make the credit sales at a price which is higher than the usual cash selling price. This brings an opportunity to the firm to make extra profit over and above the normal profit.
9. The overall collection procedure of the firm should neither be too lenient nor too strict. A strict collection policy can affect the goodwill and damage the growth prospects of the sales, if a firm has a lenient credit policy, the customer with a natural tendency towards slow payments, may become even slower to settle his

accounts. So the objective of collection procedure and policies should be to speed up the slow paying customer and reduce the incidence of bad debts.

10. Debtors size depends not only on the collection policies but also on the credit policies on which the extension of credit was based. Increased collection expenditure should reduce the bad debt expenses and the average collection period, thereby increasing profits. The costs of this strategy may include lost sales in addition to increase collection expenditure if the level of collection effort is too intense. The first step in the efficient management of receivable is to define its objectives.
11. The result of the position of receivable Management Ratios of sample companies during the study period (2002-2011) is given in table no. 4.5.1 shows that all the receivables are significance. Through the test of ANNOVA. All F- value shows lower than the 5% level. With this test we have conclude here that there is no difference in the ratios of receivable management.