

A Comparative Study On The Financial Performance Of Wheels India Limited

¹Dr. S. Ramanathan , ²T Kavya, ³Sai Yamini, ⁴Manikandan T, ⁵Dilepan N, ⁶Ashwin T K

¹Assistant Professor (Sr.G), Faculty of Management, SRM Institute of Science and Technology, Ramapuram, Chennai.

²M.B.A Student, Faculty of Management, SRM Institute of Science and Technology, Ramapuram, Chennai – 89

³M.B.A Student, Faculty of Management, SRM Institute of Science and Technology, Ramapuram, Chennai – 89

⁴M.B.A Student, Faculty of Management, SRM Institute of Science and Technology, Ramapuram, Chennai – 89

⁵M.B.A Student, Faculty of Management, SRM Institute of Science and Technology, Ramapuram, Chennai – 89

⁶M.B.A Student, Faculty of Management, SRM Institute of Science and Technology, Ramapuram, Chennai – 89

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Abstract

The paper presents a holistic evaluation of Wheels India Limited's (WIL) financial performance, drawing on working capital management, operating cycle analysis, and ratio examination. Leveraging data from the company's balance sheets and income statements spanning recent years, the study provides a deep dive into various aspects of WIL's financial operations. Beginning with an exploration of working capital management, the study dissects WIL's current assets and liabilities to gauge capital utilization efficiency and short-term liquidity. Through the calculation of key working capital ratios like the current ratio and quick ratio, the analysis elucidates WIL's capability to meet immediate financial obligations and sustain day-to-day operations. Moreover, the study delves into WIL's operating cycle, encompassing the time required for the conversion of resources into cash through operational activities. By scrutinizing components such as inventory turnover, accounts receivable collection, and accounts payable payment periods, the analysis sheds light on WIL's operational efficiency, inventory management practices, and credit policies. This examination provides valuable insights into the company's operational dynamics and areas for optimization. In addition to operational metrics, the study examines key financial ratios spanning liquidity, profitability, efficiency, and leverage. Efficiency ratios such as the fixed asset turnover ratio highlight WIL's effectiveness in utilizing assets to generate revenue, while leverage ratios like the debt-to-equity ratio gauge the company's reliance on debt financing. Overall, the analysis provides a comprehensive overview of WIL's financial health, performance trends, and areas of strength and improvement. By offering insights into the company's financial performance, the study facilitates informed decision-making and strategic planning for stakeholders. Moreover, it underscores the critical importance of effective working capital management, operational efficiency, and financial ratio analysis in driving sustainable growth and profitability for Wheels India Limited. Armed with these insights, stakeholders can make informed decisions to steer WIL towards continued success in the competitive business landscape.

KEYWORDS: Financial performance, Working capital, Operational efficiency

1.INTRODUCTION

WORKING CAPITAL ANALYSIS

Working capital analysis is a vital aspect of financial management that involves a detailed examination of a

company's current assets and liabilities to evaluate its liquidity, operational efficiency, and short-term financial health.

Current Assets and Liabilities Evaluation:

Current Assets: These include cash, accounts receivable, inventory, and other assets that are expected to be converted into cash within one year or the operating cycle of the business. Analyzing the composition, quality, and fluctuations of current assets provides insights into the company's liquidity position and ability to meet short-term obligations.

Current Liabilities: These encompass obligations due within one year or the operating cycle, such as accounts payable, short-term debt, and accrued expenses. Understanding the nature and timing of these liabilities is crucial for assessing the company's short-term financial obligations and solvency.

OPERATING CYCLE ANALYSIS

The operating cycle is a critical concept in financial analysis that measures the time it takes for a company to convert its resources into cash through operational activities. It consists of several stages through which raw materials are transformed into finished goods, sold to customers, and ultimately converted into cash. Understanding and managing the operating cycle is essential for optimizing cash flow, inventory management, and overall operational efficiency.

RATIOS

Ratios are essential tools in financial analysis that provide insights into various aspects of a company's performance, financial health, and operational efficiency. These ratios help stakeholders assess profitability, liquidity, solvency, efficiency, and valuation, among other key metrics

TREND ANALYSIS

Trend analysis is a powerful tool in financial analysis that involves examining historical data to identify patterns, trends, and changes over time. This analysis enables stakeholders to assess the direction and magnitude of various financial metrics and make informed decisions based on historical performance

2. REVIEW OF LITERATURE

Rafuse [1] studied that suppliers were not interested in interest, rather they wanted their money. His more suggestions were that improvement of working capital by delaying payment to creditors was an inefficient and ultimately damaging practice, both to its practitioners and to the economy as a whole. He suggested that those seeking concentrated working capital reduction strategies should focus on stock reduction.

Eljelly [2] analysed that liquidity management involves planning and controlling of current assets and current liabilities so that it can eliminate the risk of inability to meet short-term obligations and avoids much investment in these assets. Current ratio, regression analysis and correlation have been used to measure the result. The study found that the cash conversion cycle was of utmost important as a measure of liquidity than the current ratio that affects profitability.

Padach [3] analysed that management practices are expected to assist managers in identifying zones where they might require improvement in the financial performance of their operation. The results provided owner-managers with information relating to the basic financial management practices used by their peers and their peers attitudes toward the selected practices. The working capital requirements of an organization change over times as does its internal cash generation rate.

Raheman and Naser [4] examined the working capital management and profitability position of Pakistani firms. An example of 94 Pakistani firms recognized on Karachi Stock Exchange for a period of 6 years from 1999 to 2004. The results indicated that there is an adverse relationship between variables of working capital management and profitability

Kaushik Chakraborty [5] checked the various studied done on management of working capital and its components. The studies related to working capital management as a whole would necessarily discuss the individual components of working capital and thus exclusive studies on individual factors of current assets and current liabilities were found to be very few.

DÄfnuleÄ£iu [6] Study the relation between the efficiency of the working capital management and profitability using Pearson correlation analyses and take a sample size of 20 annual financial records of companies covering

period 2004-2008. The conclusion of the study is that there is a negative linear correlation between working capital management indicators and profitability rates

3. RESEARCH OBJECTIVES

- To analyse the depth of working capital, balance sheet, profit and loss statement, ratio analysis of Wheels India limited.
- To determine the gross and net operating cycle of the unit.
- To assess the earning capacity or profitability of the firm using profit & loss statement
- To assess the progress of the firm over a period of time using trend analysis
- Identification of trends in key financial metrics over multiple reporting periods to assess the company's growth trajectory and stability.

4. RESEARCH METHODOLOGY

The research methodology for the abstract involves collecting financial data from Wheels India Limited's balance sheets and income statements. This data is analysed to evaluate working capital management, operating cycle, and financial ratios. The analysis includes calculating ratios such as liquidity, profitability, efficiency, and leverage, based on which conclusions are drawn about WIL's financial performance and areas for improvement.

5. DATA COLLECTION METHOD

Data collection is one of the most important aspects of research. The information in tough research methodology must be accurate and relevant. The data collection method is secondary data. Secondary data means data that are already available i.e., they refer to data which has already been collected and analysed by someone else. The secondary data for the study was collected from book, company websites, magazines and other sources. The Secondary data was collected from Company and Annual reports (Balance sheet, Income Statement).

6. FRAME WORK OF ANALYSIS

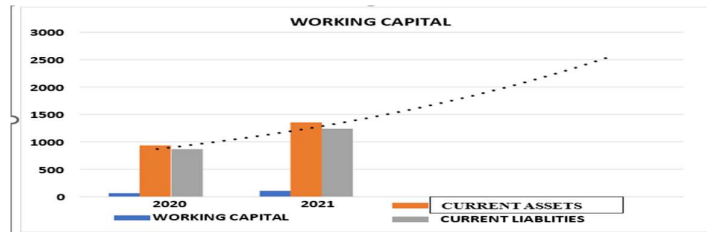
The collected essential information has been measurably prepared, classified, and arranged by utilizing fitting strategies, tables, figures, and measurable comes. The apparatuses in the ponder are Working capital, Operating cycle, Ratios, Trend Analysis using Balance sheet and Income Statement.

LIMITATIONS OF THE STUDY

- The secondary data like annual reports of Wheels India limited is collected from the website hints the accuracy of results of the study. Many facts and data are not to be disclosed because of the confidential nature.
- Since the financial matters are sensitive in nature the same could not be gathered easily.
- Since the procedure and policies of the company does not allow disclosing of all financial information, the project has been completed with the available data provided.

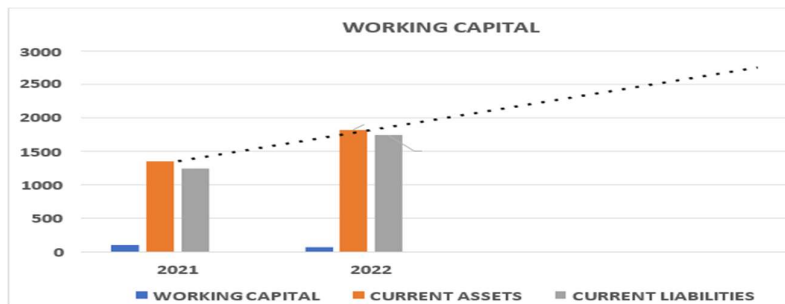
7. DATA ANALYSIS

STATEMENT SHOWING THE CHANGES IN WORKING CAPITAL DURING THE YEAR 2022-2023



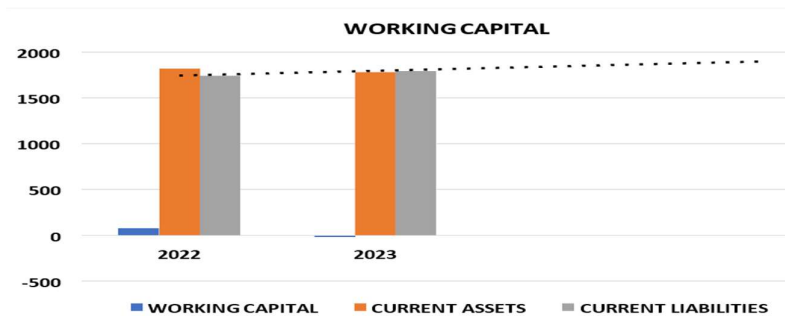
INTERPRETATION: The statement shows that there is **net decrease** of Rs. -59.37 crores during 2022- 23. The net decrease in working capital suggests that current liabilities have increased more than current assets during the period. This might indicate potential liquidity issues, as the company may struggle to meet short-term obligations without additional financing.

CHART SHOWING WORKING CAPITAL DURING 2022-21



INTERPRETATION: The statement shows that there is **net decrease** of Rs. -32.29 crores during 2021-22. The net decrease in working capital suggests that current liabilities have increased more than current assets during the period. This might indicate potential liquidity issues, as the company may struggle to meet short-term obligations without additional financing.

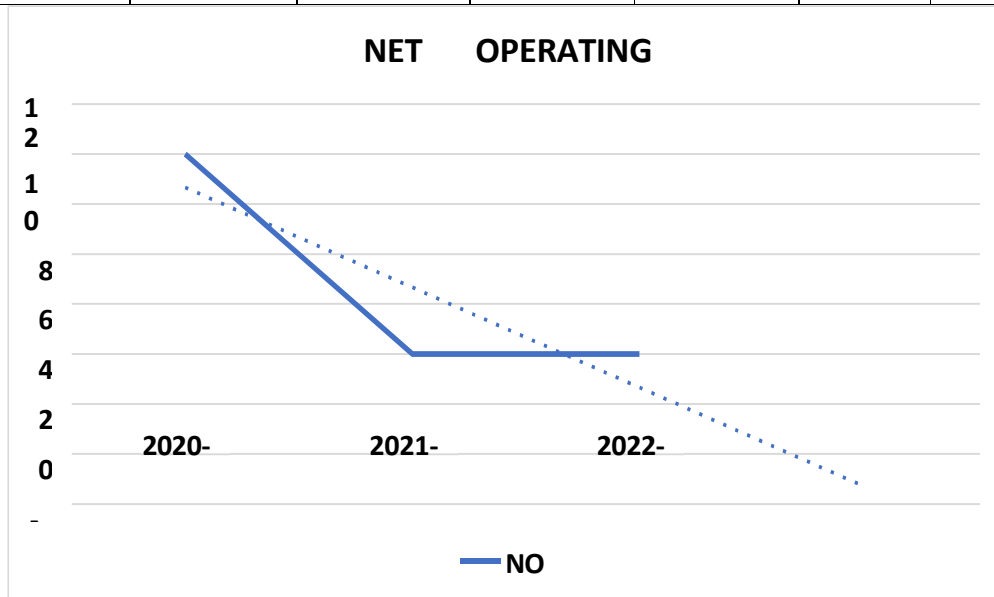
CHART SHOWING WORKING CAPITAL DURING 2021-20



INTERPRETATION: The statement shows that there is net increase of Rs. 44.29 crores during 2020- 21. It means that the company's current assets (such as cash, accounts receivable, and inventory) have increased more than its current liabilities (such as accounts payable and short-term debt) during the period. This could indicate that the company has improved its liquidity and the ability to meet short-term obligations.

NET OPERATING CYCLE

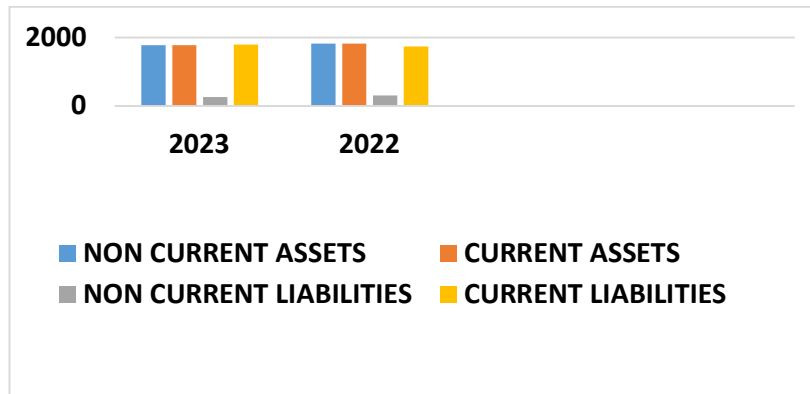
YEAR	RMSP	WIPHP	FGSP	DCP	CPP	NOC
2020-21	17 DAYS	30 DAYS	10 DAYS	95 DAYS	132 DAYS	10 DAYS
2021-22	15 DAYS	22 DAYS	10 DAYS	77 DAYS	122 DAYS	2 DAYS
2022-23	20 DAYS	27 DAYS	16 DAYS	70 DAYS	131 DAYS	2 DAYS



1.1. INTERPRETATION

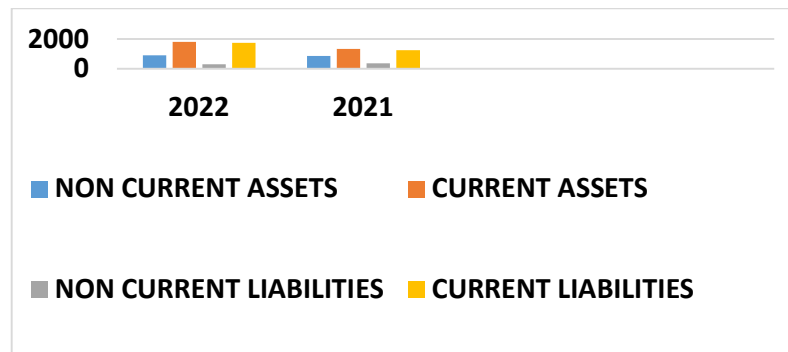
A decrease in the net operating cycle is generally interpreted as a positive sign for a company's financial health and operational efficiency. The net operating cycle measures the time it takes for a company to convert its resources (such as cash) into inventory, sell that inventory, and then collect cash from customers.

TREND ANALYSIS OF BALANCE SHEET DURING 2023-22



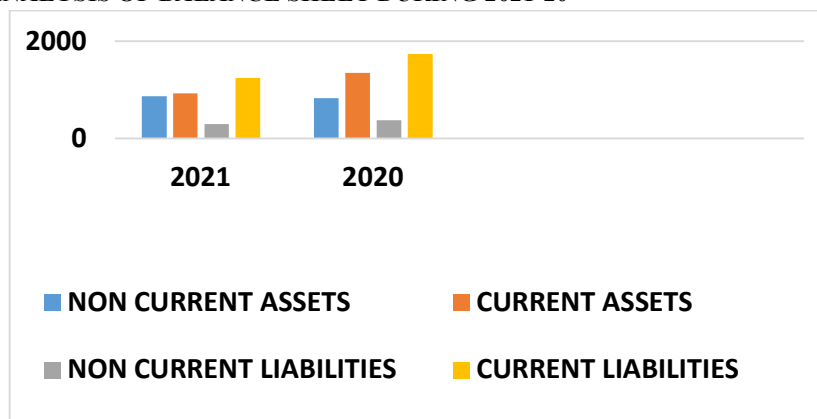
INTERPRETATION: Total non-current asset increased from Rs.910.50 crores in 2021--22 to Rs.987.48 during 2022- 23 an increase of 8.45%. Total current asset decreased from Rs.1818.68 crores in 2022-21 - 20 to Rs.1779.84 during 2022- 23, a decrease of 2.14%. Total non-current liabilities decreased from Rs.31071 Crores in 2021-22 to Rs.258.52 during 2022-23 a decrease of 16.79%. Total current liabilities increased to Rs.1743.36 Crores in 2021-22 to Rs.1795.26 during 2022-23 an increase of 2.977%.

TREND ANALYSIS OF BALANCE SHEET DURING 2022-21



INTERPRETATION: Wheels India's 2022 year has a very less intangible assets compared to 2021 year. Total non-current asset of 2022 is 4.76% high compared to 2021 which is a good sign for company's development. The Total current asset of 2022 has been rising by 25.72% as compared to 2021 which represents good asset management system. Total outstanding due payable to creditors is more in 2022 by 46.19% which is a matter of concern.

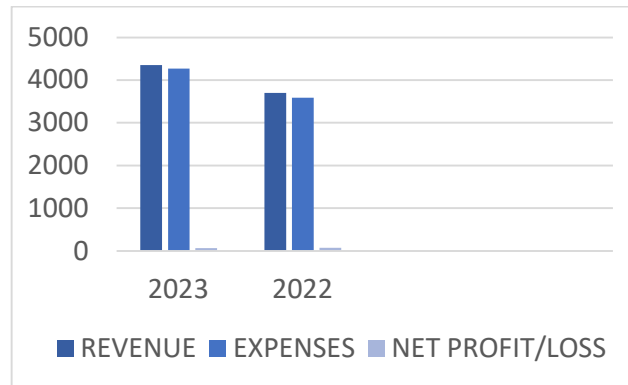
TREND ANALYSIS OF BALANCE SHEET DURING 2021-20



INTERPRETATION: Wheels India's 2021 year has a very less intangible assets compared to 2020 year.

Total non-current asset of 2022 is 4.76% less compared to 2020 which is not a good sign for company's development. The Total current asset of 2021 has been rising by 45.00% as compared to 2020 which represents good asset management system

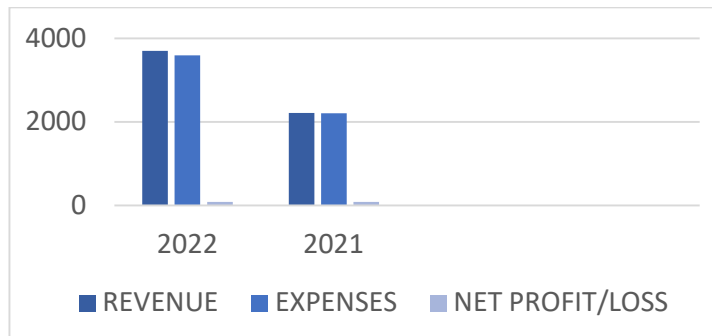
TREND ANALYSIS OF PROFIT & LOSS STATEMENT DURING 2023-22



INTERPRETATION

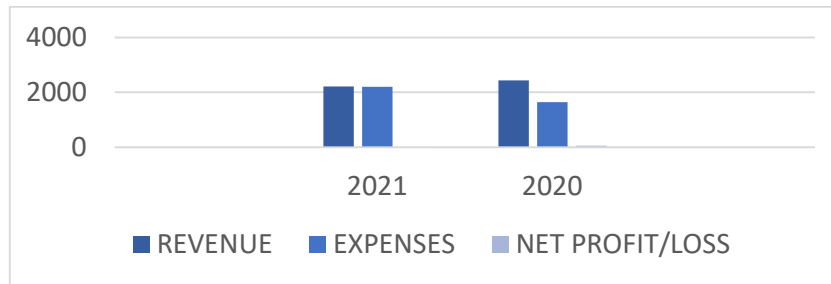
Total revenue has been increased by 17.69%. Revenue from operations has been increased to 4355.6 crores in the year 2023 from 3701.07 in the year 2022. Total expenses have been increased by 18.77% which is not good for the company.

TREND ANALYSIS OF PROFIT & LOSS STATEMENT DURING 2022-21



INTERPRETATION: Net profit has increased by 108.27 % that indicates efficient performance which increases the growth of the company. Revenue is decreased by 67.69 % which indicates that the company is not utilizing its assets and aims to increase its financial position.

TREND ANALYSIS OF PROFIT & LOSS STATEMENT DURING 2021-20



INTERPRETATION: Total expenses of have been reduced by 88.64 which is good for the company. Revenue has decreased by 88.64% which indicates that the company is not utilizing its assets. Net profit is declined by 87.55% that indicates poor performance which affects the growth of the company and has to be taken care by the company

RATIOS

CURRENT RATIO

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
2020-21	1,350.59	1,242.98	1.09
2021-22	1,818.68	1,743.36	1.04
2022-23	1,779.84	1,795.26	0.99

INTERPRETATION: In 2022-23 the ratio value is 0.93:1 since it is lesser than the ideal current ratio, it was not enough to meet the short-term obligations

GROSS PROFIT MARGIN

YEAR	GROSS PROFIT	SALES	GROSS PROFIT RATIO
2020-21	664.77	2215.55	30.0
2021-22	948.69	3701.07	25.63
2022-23	1079.86	4355.56	24.79

INTERPRETATION: A declining gross profit ratio indicates that the company is experiencing challenges in maintaining profitability at the operational level. This decline could be attributed to various factors such as increasing production costs, pricing pressures, inventory management issues, shifts in sales mix, or inefficiencies in operation.

DEBT EQUITY RATIO

YEAR	TOTAL DEBT	SHAREHOLDER'S EQUITY	DEBT EQUITY RATIO

2020-21	518.12	599.32	0.86
2021-22	811.06	675.11	1.20
2022-23	721.55	713.54	1.01

INTERPRETATION: The debt ratio initially increases from 0.86 in the year 2020-21 which increased to 1.20 in the next year which indicates low margin of safety to creditors but later reduces to 1.01 indicating moderate safety to creditors.

8. FINDINGS

- Wheels India has shown a consistent decrease in working capital indicating improved operational efficiency and financial health.
- Non-current assets have seen significant increases, suggesting positive company development.
- Total non-current liabilities experienced substantial fluctuations, potentially signaling challenges in debt management strategies.
- Revenue from operations has generally shown growth but accompanied by corresponding increases in expenses
- Net profit margins fluctuated, suggesting varying levels of efficiency in cost management and revenue generation.
- While there were fluctuations in expenses, increased expenses at times led to rises in the debt ratio, indicating potential strains on financial resources.

9.SUGGESTIONS

- Wheels India has shown a consistent decrease in working capital indicating improved operational efficiency and financial health.
- Non-current assets have seen significant increases, suggesting positive company development.
- Total non-current liabilities experienced substantial fluctuations, potentially signaling challenges in debt management strategies.
- Revenue from operations has generally shown growth but accompanied by corresponding increases in expenses
- Net profit margins fluctuated, suggesting varying levels of efficiency in cost management and revenue generation.
- While there were fluctuations in expenses, increased expenses at times led to rises in the debt ratio, indicating potential strains on financial resources.

10. CONCLUSIONS

The company's focus on cost optimization, innovation through research and development, and diversification of revenue streams has contributed to its resilience and competitiveness in the market. Overall, Wheels India's financial performance appears to be positive, with indications of revenue growth, profitability, and efficient asset management. However, it's crucial to consider the broader economic context, industry trends, and company-specific factors when interpreting financial data and making conclusions about its performance. Additionally, ongoing monitoring and analysis are necessary to track performance trends and make informed business decisions.

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