

Analysis of Assets Turnover Ratios of Maruti Suzuki India Limited

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Economy

Abstract

It is almost impossible to establish and run any business in the absence of assets. From the initial stage of the business itself, the assets start building. First of all, to establish the business, space is required and from here only assets creation starts. Land is purchased and the required building structure is erected. Then there arises the need for machineries and other equipments. There is requirement of furniture. Certain kinds of fixtures are also in the list. All these form the group of fixed assets. To acquire all these fixed assets, cash is needed and also, to take advantage of these fixed assets, raw material is purchased. The transformation process requires manpower and some other overheads as well. In the process of selling the finished goods, debtors are created if the sales are on credit basis. All these assets, known as current assets are necessary for the utilization of fixed assets. Fixed assets are having longer economic life and are expected to stay forever in the business, with replacements, as and when needed. On

the other side, current assets are having life of either one operating cycle or maximum of one accounting year. However, to run any business, both type of assets are needed, quantity of the assets required may, though vary according to the size and type of business. Both types of assets are supposed to be utilized efficiently in generation of sales revenue. How efficiently the assets are used, is the concern of the organization, so as to utilize the assets to their fullest potential and to generate maximum profit from the business operations. The efficiency, with which the assets have been used, is measured by calculating assets turn over ratios. These ratios depict that how many times the assets have been used in generating the sales revenue. Maruti Suzuki India Limited (formerly Maruti Udyog Limited) has been selected for the present study as it is the leader in passenger car segment in India. It generates substantial sales revenue, utilizing substantially large asset base. It would be interesting to study as to how efficiently MSIL is using its assets, in order to generate sales.

Keywords: Fixed assets, current assets, total assets, assets turnover, assets turnover ratios.

Introduction

Any type of business is based on selling either product or some kind of service. Manufacturing facilities are not always required by all the businesses. But in case, manufacturing is there, it requires a large base of fixed assets and also large quantities of current assets. Assets are used to achieve the objectives of the business. Assets have great contribution in transformation of raw material into finished goods. For the purpose of installing machineries, space is needed and machineries help in the conversion of raw material into finished goods. Finished goods are then sold to generate sales. During this whole process, lot many number of assets are utilized. To begin with, land, building, machineries, equipments, raw material, goods in process, finished goods, goods in transit etc. And also that in the process of selling the goods,

the organization has to credit to the buyers and then debtors are created. Out of all these assets, some fall into the category of fixed assets and other are known as current assets. The assets which are supposed to stay only for one accounting year are called as current assets and all other assets are categorized as noncurrent assets or fixed assets. There are basic differences between these two categories of assets, other than their life time. The noncurrent assets need to be replaced at the end of their economic life and thus, depreciation is charged on the fixed assets. This depreciation is deducted from the revenue generated by the organization. The value of fixed assets keeps on decreasing year by year, affecting the total of balance sheet. In case of debtors, which are a component of current assets, there are chances that few debts turn bad and hence, provision for bad debt needs to be created. This also affects the profit earned by the organization. Thus, the current assets having life of one economic year are needed to utilize the noncurrent assets, which are going to stay in the business, a little longer. Noncurrent assets are long term investment, while current assets are considered as short term investment. Current assets comprise of either cash or the short term assets meant for conversion into cash, during the course of business. The cycle of current assets starts at cash and ends at cash, passing through various stages like acquisition of raw material, conversion process, selling of finished goods, creation of debtors if goods are sold on cash and receipt of cash either from cash sells or from debtors. This cycle, known as cash cycle or operating cycle, is the life of current assets. It is necessary that the cash which is converted into different component of current assets again get converted into cash, at the end of cash cycle. If it does not happen so there would be no cash to enter into the next operating cycle. The efficiency of current assets lies in the fact that how fastly this cycle is carried over and how many times this cycle takes place, in an accounting period, in generation of sales. Similarly, the efficiency of fixed assets is measured in number of times these assets have

been used in generation of sales revenue for the organization. The total of current and noncurrent assets is used to analyze the efficiency of total assets owned by the organization. It becomes imperative for each organization to utilize its resources optimally. It is more so in the case of large manufacturing organizations, as there is substantially large fixed assets base and enormous amount of current assets are employed in the business. A small negligence can turn into heavy losses, in such organizations. It does not take time in piling up of nonperforming assets in large manufacturing organizations. Nonperforming assets augment to the sum of total assets but reduces the overall performance of total assets. Similar can be the case with inventories. The three types of inventories i.e. raw material, work in process and finished goods inventory, are the major part of the total current assets but if the inventories are not utilized efficiently, the performance of total current assets gets affected. Keeping all these points in view, Maruti Suzuki India Limited (MSIL), previously Maruti Udyog Limited, has been selected for the present study. Maruti Suzuki India Limited is a 56.21% owned subsidiary of Japanese company Suzuki Motor Corporation. It has a market share of 53% in Indian passenger car market. MSIL rolled out 15,68,603 units of different models of passenger cars in the year 2018-19. MSIL has annual turnover of Rs 86,020 crores in the year 2018-19. It has a larger asset base mounting to Rs 6,29,318 million. Just for information, MSIL is employing around 40,000 employees in its organization.

Objectives of the present study

The purpose of research is to discover answers to questions through the application of scientific procedures. The main objective of research is to find out the truth which is hidden and which has not been discovered as yet. Each research has its own specific purpose. No research

study can be conducted in the absence of certain objectives. Objectives, in fact direct the research study. The present study is undertaken with following objectives:

- (i) To understand the assets ratios.
- (ii) To calculate the assets ratios of MSIL.
- (iii) To analyze and interpret the assets ratios of MSIL.

Research Methodology

The methodology to conduct a research gains important due to the fact that even a correct research conducted through wrong method, will eventually result into failure. Correct methodology ensures the proper achievement of the research objectives. For conducting the present study, secondary sources of data have been used. The required data has been collected from the website and annual reports for the year 2014 to 2019. The methodology includes the use of mathematical techniques of calculating ratios and percentages, using the collected data and also their averages. The collected data and the calculated assets ratios are then presented in the table.

Scope of the study

The present study of analysis of assets ratios of MSIL is spread over six accounting years, from 2014 to 2019. The study is limited to Maruti Suzuki India Limited only.

Calculation of assets turnover ratios of MSIL

Assets are the resources owned by the organization, with an objective of conducting business using these resources. An asset typically, its own economic value and it also has an economic life. The asset needs to be replaced at the end of its economic life. Asset has the power

of cash generation. Another feature of the assets is that it is owned by the organization. The organization owning a particular asset has total control over its use. Any asset is owned with the intention of increasing profit either by augmenting capacity or by enhancing efficiency. The asset needs to be capable of cash generation. This is due to the fact that assets are shown in the balance sheet and if an asset is not performing the overall efficiency reduces. Another reason is that with increase in assets, there is corresponding increase in the liabilities. Now, if the assets increase but do not perform, the increase in liabilities is not justified. The asset is the economic resource of the organization which is used solely by that organization in its business. Going deeper into the assets, there are two broad categories, tangible assets and intangible assets. Tangible assets are the physical assets while non physical resources and rights are known as intangible assets. Tangible assets are further classified as noncurrent assets and current assets. Noncurrent assets are supposed to stay in the business for ever while the current assets have a life of either one accounting cycle or to the maximum, one accounting year. Basic difference between noncurrent assets and current assets is that the current assets are consumed in the transformation process while noncurrent assets stay in the business. Intangible assets contribute in creating competitive advantage over other businesses. These are patents, copy right, trademarks, good will etc. These are really specific to the organization and help in long term business sustainability. The total assets of any organization are used to conduct business and generate revenue from the business operations. The utilization of assets must be reflected in sales of the organization. With the purpose of analyzing the efficiency with which the assets have been used by the organization, assets turnover ratios are calculated. These ratios measure the ability of the organization to create sales revenue using the assets owned by the organization. A lower assets turnover ratio signifies under utilization of certain assets, which the organization can identify and remove the anomalies,

in order to achieve a higher ratio. Basically, three types of assets turnover ratios are calculated, for any organization. These are noncurrent assets turnover ratio which is also known as fixed assets ratio, current assets turnover ratio and total assets turnover ratio. These ratios are calculated as follows:

$$\text{Fixed assets turnover ratio} = (\text{Sales} / \text{Fixed assets})$$

$$\text{Current assets turnover ratio} = (\text{Sales} / \text{Current assets})$$

$$\text{Total assets turnover ratio} = (\text{Sales} / \text{Total assets})$$

Noncurrent assets, which are called as fixed assets are recorded at historical value and during a particular year, the fixed assets turnover ratio may get decreased due to replacement of a fixed asset, as replacement of an old asset with new one, would result in increase in fixed assets value. The operational efficiency may increase this way but the fixed assets turnover ratio might decrease. If there is an addition in the fixed assets with an objective of increase in capacity, then fixed assets ratio might not get affected as the sales would also increase in such a case. A peculiar feature of fixed assets is that these need to be replaced at the end of their economic life. For this replacement activity, funds are needed which are gathered by charging depreciation to the fixed assets throughout their economic life. This point should be kept in mind while analyzing fixed assets turnover ratio. There is no such issue with current assets. Current assets, in fact are the resources used by the organization to carry on day to day business operations. The current assets are also known as working capital. Current assets turnover ratio depicts number of times working capital turned over in achieving the sales of the organization. Total assets turnover would reflect the efficiency with which these are used by the organization to generate desired sales revenue. This way, the assets turnover ratios help the management to analyze the utilization

of assets in conducting the business of the organization, effectively and efficiently. The assets turnover ratios of MSIL are calculated in Table 1.

Table 1: Calculation of Assets Turnover Ratios of MSIL

Rs in million

Particulars/Year	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14	Average
Sales Revenue	860203	819944	772662	650546	537685	478228	686545
Fixed Assets (Noncurrent assets)	505702	514487	424744	340940	261904	164083	368643
Current Assets	123616	79214	87762	78460	90710	141914	100279
Total Assets	629318	593701	512506	419400	352614	305997	468923
Fixed Assets Turnover Ratios	1.70	1.59	1.82	1.91	2.05	2.91	2.00
Current Assets Turnover Ratios	6.96	10.35	8.80	8.29	5.93	3.37	7.28
Total Assets Turnover Ratios	1.37	1.38	1.51	1.55	1.52	1.56	1.48

Analysis and interpretation of assets turnover ratios of MSIL

For the purpose of discussion on assets turnover ratios, Table 1 would be referred. Looking at the fixed assets turnover ratios of MSIL for the years under study, it can be inferred that on average, the fixed assets turnover ratio of MSIL was 2.00, explaining that the fixed assets were used twice by MSIL in generating the sales. The ratio was highest in the year 2014, when it was 2.91. Since then it kept on decreasing till the year 2018 and in the year 2019, the ratio was 1.70. The decreasing fixed assets turnover ratio indicates that the fixed assets were not being utilized properly by MSIL. However, since MSIL is the largest manufacturer of passenger cars in India, it might be augmenting its production capacities during these years. The installation of new production plant increases the total of fixed assets but does not contribute much to the sales of MSIL and thus the fixed assets turnover ratios decreases. Still, the fixed assets turnover ratio of 3.00 can be achieved by MSIL, as the ratio was 2.91 in the year 2014. The fixed assets base has also increased by 208% from the year 2014 to the year 2019 while sales increased only by

80% during these years. This mismatch in increase in fixed assets and sales is a major reason of decrease in fixed assets turnover ratios of MSIL, over the years of the present study. In passenger car sector, it was difficult to increase sales during recent years.

The current assets have been efficiently utilized by MSIL, during the period of study. On average, the current assets ratio was 7.28 during six years of the study. The highest ratio was even 10.35 in the year 2018. From the year 2014, the current assets turnover ratio kept on increasing till the year 2018 and then decreased to 6.96 in the year 2019. Current assets are being used efficiently by NSIL but there is tremendous scope of improvement, as in the year 2018, the current assets turnover ratio was 10.35, meaning that it is achievable. It is very important for any organization to use current assets really prudentially as misuse of current assets can easily land the organization into financial trouble. Various components of current assets are cash and bank, short term investments, receivables and inventory. Any mismanagement of current assets means that some of its component is not managed properly and this would directly reflect into financial health of the organization. If there is stringency of cash, it is obvious that it is not possible to enter into next operating cycle. Scarcity of raw material would create disturbance into the production cycle. On the other hand, piled up finished goods would act as a block in the way of cash from sales and though there would be current assets with the organization, there would be dearth of financial resources. Enormous amount blocked as debtors, would definitely affect the cash collection and culminate into stringency of liquid resources. Thus, it becomes imperative to manage all components of current assets, in order to efficiently utilize the current assets, in totality.

Considering the efficiency with which total assets have been used by MSIL, one can observe that MSIL has been able to generate sales more than 1.5 times of its total assets during

four years out of the six years under study. From the year 2014 to the year 2017, the total assets turnover ratio is maintained at above 1.5 by MSIL. In the year 2018 and 2019, the ratio dropped to 1.38 and 1.37 respectively. A drop of 0.13 in the ratio is very significant, considering the size of MSIL. This much inefficient use of total assets can be due to the reason that there was piling of finished goods as sales were poor in automobile sector and specifically in passenger car sector during that period. The total assets turnover ratio is greatly affected by the finished goods inventory. If major portion of current assets comprises of finished goods, then total assets turnover ratio is greatly affected. The operating cycle gets blocked, this way and thus, there is no cash to for the next cycle. Sales are must for the survival of any organization. That is the reason behind the study of assets turnover ratio. If the organization is not able to sell the finished goods and generate sales revenue, there is no use of assets utilization. That is why the sales have been correlated with assets and assets turnover ratios are calculated.

Conclusion

Assets are the resources owned and used by the organization to carry on business and generate sales revenue. It is important to use the assets judiciously otherwise sufficient sales would not be generated and the investment in assets would not be justified. MSIL is the largest manufacturer of passenger cars in India. It has enormous assets base, be it noncurrent or current assets. If MSIL fails to generate sales from its assets, it would be a great economic disaster. The present study has revealed that the assets turnover ratios of MSIL can be improved further. The fixed assets turnover ratio was 2.00 on average, during the period of study. The current assets turnover ratio was 7.28, on average from the year 2014 to the year 2019. And the average total assets turnover ratio was 1.48 for MSIL, during the same period. Looking at the calculated ratios, it can be concluded that the current assets have been used really efficiently by MSIL. It is also

concluded that the utilization of noncurrent assets can be improved by MSIL. On the basis of present study on assets turnover ratios, it can be further concluded that total assets utilization in generation of sales can be improved rather should be improved by MSIL. Due to under utilization of fixed assets, the total assets turnover ratios of MSIL are not very efficient. MSIL needs to reframe its sales policies as fast selling of finished goods i. e. passenger cars would encourage proper utilization of manufacturing facilities owned by MSIL. The possibility to explore newer markets in newer countries is also there for MSIL. It is only when the finished goods are efficiently sold in the market; MSIL can further improve its assets turnover ratios.

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