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An Analysis on the Operational Efficiency of Select Impact Investing Automobile Companies

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Abstract

In this study the operational efficiency of select impact investing firms are analysed. The automobile companies who are conventional and impact investing and companies who are exclusively electric vehicle manufacturing are chosen for the study. Data for 10 years 2014-2024 is gathered from the company financial reports. Since a number of financial ratios can be used to gauge efficiency. This article uses the fixed asset turnover and cash conversion cycle factors to analyse efficiency.The study's conclusions and the characteristics of the data are described using financial metrics.

Keywords: Operating efficiency, Impact investing, Electric vehicles, Fixed Asset Turnover, Cash Conversion Cycle.

I. INTRODUCTION

Impact investing has become a new and expanding method of sustainable financing in recent years as people are becoming more social and environmental conscious. Impact investing makes sure that the investor makes a reasonable return while also satisfying social/ environmental goals. In India the number of E-vehicle manufacturers are growing steady as many people are opting in for eco-friendly transportation. Many corporate companies are investing a large sum of money on sustainable environmental development and automobile industries manufacturing electric vehicles are one such impact investing avenue.Some examples of financial metrics are fixed asset turnover (FAT) and cash conversion cycle (CCC), which assess how effectively a business leverages its assets.

Fixed Asset Turnover (FAT)

Fixed Asset Turnover (FAT) measures the efficiency of a business in utilizing its fixed assets towards building sales. This is computed by calculating the net sales over a given time and dividing it by the average fixed assets (i.e.,) Revenue / Average Fixed Assets. The result from dividing a company's sales by its average fixed assets. A higher ratio suggests a more efficient use of fixed assets.Fixed assets are tangible assets a company employs in its business operations and expects to be used for more than one accounting period.

A firm's investment in property, plant, and equipment accounts for the net fixed assets less accumulative depreciation. A higher fixed asset ratio usually indicates greater efficiency of the investments made in fixed assets to generate revenue. This metric is often analysed together with leverage and profitability ratios.

Cash Conversion Cycle (CCC)

The number of days required by the company to sell its inventory, collect receivables, and pay its invoices is known as the cash conversion cycle (CCC), which is also referred to as the net operating cycle or versus cash cycle. It indicates how efficiently a business utilizes its accounts receivable and inventory.The calculation here is adding days inventory outstanding (DIO) to days sales outstanding (DSO) and subtracting days payable outstanding (DPO)

A shorter cash conversion cycle is more desirable as it indicates that the company takes fewer days to convert the cash incurred on inventory into cash generated from the sale of goods and services.

Literary Review

Over the last decade, impact investing has become an increasingly-discussed topic in the realms of both business and public policy. Impact investors are motived by a desire to advance social or environmental goals and an intuition that pursuing two goals at once - investment returns and social or environmental returns - is more effective than keeping them separate.

The article 'Impact Investing: A brief History' by Brian Trelstad (2016) reviews the recent history of impact investing, addresses some of the issues confounding the nascent field, and offers a few definitions that might bring more rigor and clarity to what remains, as yet, a simultaneously confusing and promising investment strategy.

Thearticle 'Renewable Energy Consumption, ESG Reporting, and Fixed Asset Turnover: Does it Work in Asia?' by Widianingsih, L. P., Kohardinata, C., &Vlaviorine, E. (2024)empirically measure the impact of renewable energy (RE) consumption and environmental, social, and governance (ESG) reporting on fixed asset turnover of companies within the energy sector and basic materials sector in Asia. There has been no attempt to study the impact of RE consumption and ESG factors on the efficiency of asset utilization in a firm's performance in the Asian region which is a critical region for sustainability targets. The study's finding is that in Asia, RE does not impact the fixed assets turnover of the companies in the energy industry and basic materials industry. On the contrary, ESG reporting as measured by ESG score positively and significantly affects the company's fixed asset turnover. The overall internal readiness of the company is one of the most important major factors that have to be taken into account in the beginnings so that the business practices of natural resources management to operational activity efficiency is beneficial. High results of ESG scores are an indicator of better management of activities aimed at improving the operational efficiency of the corporations through efficient fixed asset turnovers, and the other way around.

Objectives

1. To analyze the operational efficiency of select automobile companies in order to make better impact investment decisions.
2. To compare the efficiency of conventional and investing automobile companies with exclusively electric vehicle manufacturing automobile companies.
3. To understand Fixed Asset Turnover Ratio and Cash conversion cycle and its impact on operational efficiency.

Methodology

This study is based on secondary data obtained from official websites. The audited financial statements for a period of 10 years (2014-2024) were utilized to measure the performance of select electric vehicle manufacturing automobile companies. The following companies investing on manufacturing electric vehicle for a more environmental friendly impact were chosen for the study. Bajaj Auto Ltd, Eicher Motors, Hero Motors, Mahindra & Mahindra, Maruti Suzuki Ltd and Tata motors are companies pioneering in the automobile industry who has recently taken up investments in electric vehicles. For a comparison two companies namely OlectraGreentech Limited and Wardwizard Innovations and Mobility Limited companies who focus on impact investing alone and exclusively manufacture electric vehicles were considered for the study.

Analysis and Interpretation

Table: Average efficiency of the selected automobile firms from conventional and Impact investing

	Bajaj	**Eicher**	**Hero**	**M&M**	**Maruti**	**Tata**	**Olectra**	**Wardwizard**
Fixed Asset Turnover	5.93	3.47	2.67	1.74	2.87	1.33	1.29	1.65
Cash Conversion Cycle	-25.49	-44.53	-26.43	-27.80	-35.69	93.92	-64.23	2311.95

Source: Secondary data/Annual Reports

Fixed Asset Turnover (FAT):Fixed Asset Turnover: Fixed Asset Turnover measures how effectively a company utilizes its fixed assets to generate sales. A higher ratio indicates better efficiency in using assets to produce revenue.This ratio indicates how effectively a company uses its fixed assets to generate sales. A higher FAT suggests better utilization of assets.

The values for the Fixed Asset Turnover of the firms are as follows:Bajaj: 5.93, Eicher: 3.47, Hero: 2.67, M&M: 1.74, Maruti: 2.87, Tata: 1.33, Olectra: 1.29 and Wardwizard: 1.65 is recorded respectively. From these figures, Bajaj stands out with a significantly higher FAT of 5.93, indicating superior efficiency in asset utilization compared to its peers. In contrast, Tata and Olectra show the lowest efficiencies at 1.33 and 1.29, respectively.

Cash Conversion Cycle (CCC):The Cash Conversion Cycle (CCC) reflects the time taken by a company to convert its investments in inventory and other resources into cash flows from sales. A negative CCC indicates that a company collects cash from sales before it has to pay its suppliers, which is advantageous.The CCC measures how quickly a company can convert its investments in inventory and other resources into

cash flows from sales. A negative CCC indicates that a company can sell its products before needing to pay for them.The values forCash Conversion Cycle of the firms are as follows:Bajaj: -25.49, Eicher: -44.53, Hero: -26.43, M&M: -27.80, Maruti: -35.69, Tata: 93.92, Olectra: -64.23 and Wardwizard: 2311.95 is recorded respectively.

Here, Wardwizard shows an extraordinarily high positive CCC of 2311.95, suggesting severe inefficiencies in managing cash flow, which is alarming compared to other firms that maintain negative cycles, indicating effective cash management.The analysis reveals significant disparities in operational efficiency among the selected automobile firms:Bajaj and Eicher demonstrate robust asset utilization with high FAT ratios, while others like Tata and Olectra lag behind.The stark contrast in CCC highlights critical issues, especially for Wardwizard, which faces substantial challenges in cash flow management.This data underscores the necessity for firms to enhance their operational strategies, particularly in asset management and cash flow optimization, to improve overall efficiency and competitiveness in the automotive sector.Firms like Eicher, Olectra, and Bajaj exhibit strong negative CCC values, indicating they efficiently manage their cash flow cycles, allowing them to maintain liquidity while minimizing working capital needs.In stark contrast, Tata's positive CCC of 93.92 suggests significant delays in converting inventory into cash, which could lead to liquidity challenges.Wardwizard's extremely high CCC of 2311.95 raises concerns about its operational efficiency and cash management practices.

II. CONCLUSION

There is evidence that the affluent and the less privileged are increasingly keen on combining investments with social responsibility. Just as in the business world, a new demographic of socially responsible investors is bound to spawn a wide range of products. Such socially responsible investments will be popular as long as they yield competitive financial and social returns. And investors while making such investments should consider both Fixed Asset Turnover and Cash Conversion Cycle when evaluating potential investments. Management teams should focus on strategies that can improve asset utilization and channelizing cash conversion processes to stabilize financial health and to make operational effectiveness better. By focusing on such areas, companies will drastically improve their competitiveness and increase their profitability in the evolving automotive industry.

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