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IMPACT OF TRADE INVESTMENT ON ASSETS EFFICIENCY AND REVENUE TO OPERATING CASH CONVERSION CAPACITY

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ABSTRACT:
The main objective of this study is to know the impact of trade investment strategies on assets efficiency and revenue to cash conversion capacity position of corporates. To meet this objective the data has been collected from 34 BSE listed companies. These companies are selected from automobile, FMCG, pharmaceutical, telecom, and information technology industry based on market capitalization and availability of data. The data has been analyzed using fixed effect panel regression analysis in STATA software. This study concludes that the trade investment strategies like investment in associates have significant impact on assets efficiency and the corporates should consider this in making corporate restructuring and investment decisions.

Keywords: *Assets Efficiency, Cash Conversion Capacity, Trade Investments, Subsidiaries, Associates, Joint Ventures*

INTRODUCTION
It is believed that corporate restructuring is essential to resolving significant financial crises and enhancing a company's performance. The management of the corporate competitor consults with a tax and economic expert for assistance and direction in the transactions, operations, and negotiation.

Trade Investments Strategies
Trade investment means the investment in other entities securities or stakes for the business purpose. There are mainly three trade investment strategies that are identified. First is investment in subsidiaries, investment in associates, and investment in joint ventures.

Consolidation
The process of combining various company divisions or organisations into a single, larger organisation is known as corporate consolidation. Corporation consolidation is a legal tactic that is regularly used to boost operational effectiveness by minimizing superfluous people and procedures. Corporate consolidating, which is frequently associated with mergers and acquisitions, can result in long-term efficiency advantages and a concentration of market share, regardless of how expensive and challenging it may be in the short term. The most extreme approach is to combine many businesses or business units into a completely new corporation. If one of the combined firms gets liquidated, this could be a costly venture. The consolidation has been done for improving operational efficiency; for removing competition and rivalry; for entering new markets or segments, for fulfilling financing needs, and for improved profit and many more.

Types of business consolidation
Whereas the process of business consolidation is rather simple, there seem to be various distinct business consolidation strategies. The most typical kinds of company consolidation are as follows:
Statutory Merger: an acquiring firm selling off the assets of the company it buys before tearing down or absorbing the operations of the target firm. The acquired company no longer exists, but the acquiring firm continues to operate.
Statutory consolidation: combining businesses to form a new, larger company. The original businesses will vanish

as a result of this type of corporate consolidation.
Variable interest entity: an acquiring entity is said to have a controlling interest in a company even while it does not have the majority voting rights.
Stock acquisition: An acquiring firm obtaining a controlling stake, or more than 50%, in another business.
The desired outcome of the combination is likely to dictate the consolidation technique that your company adopts.

Revenue to Cash Conversion Capacity
The cash flow to sales ratio demonstrates a company's ability to generate cash flow in proportion to its total sales. Operating cash flows are divided by sales revenue to calculate it. Operating cash flows can indeed be retrieved from a company's cash flow statement, while total sales can be observed at top of the income statement.
Ideally, the ratio should remain roughly constant as sales increase. If the ratio falls, it can indicate a variety of issues, including:

- The company is pursuing incremental sales that generate less money.
- The company is offering extended payment terms to incremental customers, causing cash to be locked up in accounts receivable.

These issues may indicate that a company's sales are increasing at the expense of declining cash flows.
The formula for this ratio is as follows;

$$\text{Operating Cash to Revenue Ratio} = \frac{Cash\ Flow\ from\ operations}{Sales\ Revenue}$$

Assets Efficiency
The asset turnover ratio assesses the efficiency with which a company's assets generate revenue or sales. It computes an annualised percentage by comparing the amount of sales (revenues) to asset value. Divide total revenue or sales by the total average assets to calculate the asset turnover ratio.

$$\text{Assets Turnover Ratio} = \frac{Sales\ Revenue}{Total\ Assets}$$

LITERATURE REVIEW

(Poddar, 2019) studied mergers and acquisition in India and examined its impact on operating efficiency of companies. The researcher found that the total number of M&A transactions seems to have increased the acquirer company's value less than anticipated. The researcher is of the opinion that this may be due to a variety of circumstances, such as the macroeconomic climate (deal time) and the motivations for the merger from the standpoint of the acquiring business. The researcher stated that the global financial crisis seems to be one of the main reasons limiting the performance of Indian acquirer enterprises. The researcher suggested that the long-term studies can be conducted to examine the effects over time.
(Putri, 2012) examined the impact of mergers, acquisitions on the financial performance. The researcher used an event study methodology. The researcher used 10 listed mining companies for the analysis. The researcher found that there are no significant impacts of mergers and acquisitions on the financial performance and there are no significant differences on companies' performance before and after mergers are observed. The researcher also stated that there is increase in liquidity and activity ratio while the leverage and profitability declined slightly after merger and acquisition but these difference are not statistically significant.
(Sharma, 2019) examined the effects of trade investment strategies on Tata Motors' financial results were examined, it turned out that the company's joint ventures and associates were generating respectable returns and that its overall return on investment was double that of an investment made at cost, demonstrating sound investment practises. In spite of a company's long-term fundamental position being solid on its own and being upheld by trade investments, the analysis finds that its performance and operational efficiency fall short of expectations. In order to improve its overall performance and operational effectiveness of the company during consolidation, the corporation undertook trade investments.
(Sharma, 2022) examined the impact of trade investment on firm value and solvency position. The researcher stated that the corporates are becoming larger and giants by spreading their control, joint control, or influence in domestic and foreign firms through trade investment for the expansion of business. The researcher found that the trade investment strategies have significant impact on firm value.

RESEARCH GAP

There are numerous studies have been conducted on measuring assets efficiency, firm value, cash conversion capacity, and solvency position of corporates; measuring the performance of international subsidiaries, associates, and joint ventures. However, there is no study conducted on measuring the impact of trade investment strategies on assets efficiency and revenue to cash conversion capacity of corporates.

RESEARCH METHODOLOGY

The main objective of this study is to know the impact of trade investment strategies on firm value and solvency position of corporates. To meet this objective a causal research design has been used and data is collected for five year (01-04-2015 to 31-03-2020) from the annual reports of respective company. The sample of 34 listed companies is selected from five industries such as automobile, telecom, FMCG, pharmaceutical, and information technology based on market capitalization and availability of data. For causal research the dependent variable is assets efficiency and revenue to cash conversion capacity while the independent variables are trade investment strategies. The collected data has been analyzed using fixed effect panel regression analysis in STATA software.

DATA ANALYSIS

Statistical Output 1: Descriptive Statistics for Trade Investments and Asset Efficiency Variables

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
STROI	170	-1.5249	3.9334	.312523	.7356513	.541
ATROI	170	-.7683	5.6000	.158812	.5987289	.358
JTROI	170	-1.9073	3.0963	.066535	.4028931	.162
TTROI	170	-1.5249	3.9334	.340543	.7565601	.572
ATOR	170	.13	3.82	1.0251	.64962	.422

Statistical Output 2: Fixed Effect Regression for Trade Investments and Assets Efficiency

Fixed-effects (within) regression — Number of obs = **170**
Group variable: **CompanyID** — Number of groups = **34**
R-sq: within = **0.0454** — Obs per group: min = **5**
between = **0.0118** — avg = **5.0**
overall = **0.0016** — max = **5**
F(**4**,**132**) = **1.57**
corr(u_i, Xb) = **-0.1149** — Prob > F = **0.1861**

ATOR	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
STROI	**.1632466**	**.1246635**	**1.31**	**0.193**	**-.08335**	**.4098433**
ATROI	**.0885554**	**.0408803**	**2.17**	**0.032**	**.0076902**	**.1694206**
JTROI	**.0628568**	**.0437681**	**1.44**	**0.153**	**-.0237209**	**.1494344**
TTROI	**-.1694122**	**.1281048**	**-1.32**	**0.188**	**-.4228161**	**.0839918**
_cons	**1.01353**	**.0158624**	**63.90**	**0.000**	**.9821525**	**1.044907**
sigma_u	**.64348676**					
sigma_e	**.16922831**					
rho	**.93531205**	(fraction of	variance due		to u_i)	

F test that all u_i=0: F(**33**, **132**) = **69.72** Prob > F = **0.0000**

The above statistical output 1 presents the descriptive statistics for the trade investments and firm value variables. The STROI (return from trade investment in subsidiaries), ATROI (return from trade investment in associates), JTROI (return from trade investment in joint ventures), and TTROI (return from total trade investments) are used as the indicators of trade investments while the ATOR (Assets Turnover Ratio) is used as the indicator of assets efficiency. The statistical output 2 presents the results of fixed effect panel regression analysis. The hypothesis for

this is as follows;
H_0: There is no significant impact of trade investment strategies on assets efficiency.
H_1: There is a significant impact of trade investment strategies on assets efficiency.
The p-value for the t-test on co-efficient of independent variables indicates that the ATROI has significant impact on assets efficiency of selected companies. The co-efficient value indicates that the ATROI have positive impact on assets efficiency. The within R-square value is 0.0454; this means that these independent variables explain only 4.54% variance in the dependent variable.

Statistical Output 3: Descriptive Statistics for Trade Investments and Profitability Variables

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
STROI	170	-1.5249	3.9334	.312523	.7356513	.541
ATROI	170	-.7683	5.6000	.158812	.5987289	.358
JTROI	170	-1.9073	3.0963	.066535	.4028931	.162
TTROI	170	-1.5249	3.9334	.340543	.7565601	.572
OCFR	170	-.32	.41	.1333	.09647	.009

Statistical Output 4: Fixed Effect Regression for Trade Investments and Cash Profitability

Fixed-effects (within) regression — Number of obs = **170**
Group variable: **CompanyID** — Number of groups = **34**
R-sq: within = **0.0081** — Obs per group: min = **5**
between = **0.0428** — avg = **5.0**
overall = **0.0009** — max = **5**
F(**4**,**132**) — = **0.27**
corr(u_i, Xb) = **-0.1178** — Prob > F = **0.8969**

OCFR	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
STROI	**.0120722**	**.0496169**	**0.24**	**0.808**	**-.086075**	**.1102193**
ATROI	**-.0032009**	**.0162706**	**-0.20**	**0.844**	**-.0353858**	**.028984**
JTROI	**.0169309**	**.01742**	**0.97**	**0.333**	**-.0175275**	**.0513894**
TTROI	**-.0115549**	**.0509866**	**-0.23**	**0.821**	**-.1124114**	**.0893016**
_cons	**.1328254**	**.0063133**	**21.04**	**0.000**	**.120337**	**.1453139**
sigma_u	**.07730718**					
sigma_e	**.06735401**					
rho	**.56847918**	(fraction of variance due to u_i)				
F test that all u_i=0:		F(**33**, **132**) = **6.40**			Prob > F = **0.0000**	

The above statistical output 3 presents the descriptive statistics for the trade investments and solvency variables. The STROI (return from trade investment in subsidiaries), ATROI (return from trade investment in associates), JTROI (return from trade investment in joint ventures), and TTROI (return from total trade investments) are used as the indicators of trade investments while the cash from operations to sales revenue ratio is used as the indicator of revenue to cash conversion capacity. The statistical output 4 presents the results of fixed effect panel regression analysis. The hypothesis for this is as follows;
H_0: There is no significant impact of trade investment strategies on revenue to cash conversion capacity.
H_1: There is a significant impact of trade investment strategies on revenue to cash conversion capacity.
The p-value for the t-test on co-efficient of independent variables indicates that the STROI, ATROI, JTROI, and TTROI do not have significant impact on revenue to cash conversion capacity of selected companies.

CONCLUSION

The main objective of this study is to know the impact of trade investment strategies on assets efficiency and revenue to cash conversion capacity of corporates. To meet this objective panel regression analysis is performed to statistically test the proposed hypotheses. The study found that the trade investments in associates have significant and positive impact on assets efficiency. It is also found that there is no significant impact of trade

investment strategies on revenue to cash conversion capacity of corporates. This study concludes that the trade investment strategies like investment in associates have significant impact on assets efficiency. Therefore it is suggested to the corporates that in making trade investment decisions or corporate restructuring decisions the trade investments and their impact on different aspects should be considered.

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