© July 2021 | IJIRT | Volume 8 Issue 2 | ISSN: 2349-6002

Financial Performance of Selected Automobile Companies

DR. SINDHUJA1, S. KIRUTHIKA[2]

[1] *Associate Professor, VLB Janakiammal College of Arts and Science, Department of Commerce, Coimbatore*

[2] *Research Scholar, VLB Janakiammal College of Arts and Science, Department of Commerce, Coimbatore*

***Abstract*— Demographically and economically, India's automotive industry is well-positioned for growth, servicing both domestic demand and, increasingly, export opportunities. Manufacturers are already planning for the future: early advocates of technological and distribution alliances have yielded generally positive results, enabling domestic OEMs to access global technology and experience, and permitting them to grow their ranges with fewer financial risks. This exciting outlook for the industry is set against a backdrop of two potentially game-changing transportation trends – the gradual legislative move towards a greener, gas-based public transport vehicles, and a greater requirement for urban mass mobility schemes to service rapidly-expanding cities.**

***Index Terms*— Financial Performance, Liquidity Analysis, Profitability Analysis, Efficiency Analysis, Market Value Analysis.**

I. INTRODUCTION

The Indian auto industry is one of the largest in the world, along with the auto components industry. The industry accounts for 7.1 % of the country's Gross Domestic Product (GDP). The automobile is one of the largest industries in the global market. Automobile Sector occupies a prominent place in the fabric of the Indian Economy. The automobile sector is a leader in product and process technologies in the manufacturing sector. It has been recognized as one of the drivers of economic growth and the domestic automobile industry is believed to be the barometer of the economy. India's automobile market has grown steadily over the last seven to eight years, except for the previous two years where the effects of the global downturn were felt, primarily in sales of commercial vehicles. The Global and Indian manufacturers are focusing their efforts to develop innovative products, technologies, and supply chains. India is one of the key markets for Global Manufacturers of hybrid and electronic vehicles, which is a new development in the automobile sector. India is one of the world's fastest-growing passenger car markets it is the second-largest two-wheeler manufacturer and fifth largest commercial vehicle manufacturer. It is also home to the largest motorcycle manufacturer. Moreover, India is the fourth largest passenger car market in Asia.

This work is an outcome of the analysis of the data collected through secondary sources. Descriptive and Quantitative research method was used to conduct this research. There has been a use of various annual reports, books, and websites to gather this information. Analysis of data is done by various methods by applying different statistical tools.

- Review of literature:

a) Financial performance of Indian Automobile Companies after Liberalization: A comparative study of Maruti Suzuki and Tata Motors, ISSN: 2278-6236, Vol. 3 | Issue No. 9, Sumesh Kumar and Dr. Gurbachan Kaur Bhatia

The automobile sector is the dominant player not only in India but also in the economy of the world. The industry has been evolving over the years, meeting up with challenges as varied as transitions, consolidations, and restructuring and thereby adapting to the new market environment. The present paper measures the financial performance of two major automobile companies of Indian origin, Tata Motors, and Maruti Suzuki after the policy of liberalization and reveals the comparative financial strength of both the companies under study based on liquidity, efficient use of assets, profitability, etc.

b) A Comparative Evaluation of Financial Performance and Market Value of Maruti and TATA Company, ISSN No. 2319-426X, Vol. 1 No. 1, S.M. Tariq Zafar and S.M. Khalid

Financial ratios are an excellent and scientific way to analyze a firm's financial position. They are important indicators and are widely used to summarize the information in a company's financial statements in assessing and evaluating its financial health. A genuine investor prefers to invest in that company that may endow maximum return with a low degree of risk to them. Its core aim is to evaluate the past performance, profitability position, and the expected future performance of the companies along with recognizing the effect of various financial ratios on the company's future. For this purpose performance of two Indian automobile companies, Maruti Suzuki and Tata Motors have been analyzed based on their financial ratios.

c) Comparative Financial Performance of Maruti Suzuki India Limited and Tata Motors Limited, ISSN: 2321-1784, Vol.03 Issue-07, (July 2015), Dr. Nidhi Agarwal

One of the major industrial sectors in India is the automobile sector. After the liberalization, the automobile sector has been aptly described as the sunrise sector of the Indian economy. On the canvas of the Indian economy, the automobile industry occupies a prominent place. The study focuses on the comparative financial performance of Maruti Suzuki India Limited and Tata Motors Limited. A financial appraisal is a process of determining the operating and financial characteristics of a firm from accounting and financial statements. The financial performance of Maruti Suzuki India Limited and Liquidity analysis attempts to analyses the companies' ability to meet its short-term obligations. Leverage ratios assess the long-term solvency of a firm i.e. ability to repay the principal amount when due; and the ability to pay the interest and dividend promptly and periodically.

II. OBJECTIVES OF THE STUDY

a. To carry out the profitability and efficiency analysis of sample companies.
b. To examine the growth rate, market capitalization, and cash flow position of the company under study.
c. To analyze the performance of the selected company with regards to the Porter 5S Model.

III. RESEARCH DESIGN AND METHODOLOGY

A. Sampling Design

a) Population: Whole Automobile Sector will be the population under this research.
b) Sampling Unit: The researcher had taken Tata Motors and Maruti Suzuki as a sampling unit.
c) Sampling Frame: The researcher had analyzed the data of the last three financial years' i.e. 2014-15, 2015-16, 2016-17.
d) Sample Size: The researcher had taken the final sample size as two.

B. Data Collection

Data collection is the process of gathering and measuring information on targeted variables in an established systematic fashion, which enables one to answer relevant questions and evaluate outcomes.

The task of data collection begins after a research problem has been defined and the research design/plan chalked out. The researcher would have to decide which sort of data he would be using (thus collecting) for his study and accordingly he will have to select one or the other method of data collection.

C. Analytical Tools of Data Analysis:

There are some of the tools which are relevant for the study of the financial performance of TATA Motors and Maruti Suzuki, which are as follows:

a. Income Statement Analysis
b. Comparative analysis of Balance Sheet
c. Ratio Analysis
d. Analysis and Interpretation of Financial Statements

IV. DATA ANALYSIS AND INTERPRETATION

A. Ratio Analysis:

1. Current Ratio:

Table 5.1			
	2014-15	2015-16	2016-17
Maruti Suzuki	0.65	0.71	1.01
TATA Motors	0.45	0.63	0.58

Interpretation: It shows the bad financial position of the TATA & also the liquidity of TATA cannot meet its short-term obligations.

2. Gross Profit

Table 5.2			
	2014-15	2015-16	2016-17
Maruti Suzuki	64.10 %	64.28 %	62.06 %
TATA Motors	52.07 %	46.68 %	42.85 %

Interpretation: Maruti Suzuki continuously increases its gross profit margin which means it can be considered a good company than TATA which is bearing loss on sales and also they are not efficiently using their material and labor.

3. Net Profit

Table 5.3			
	2014-15	2015-16	2016-17
Maruti Suzuki	56.33 %	56.72 %	56.10 %
TATA Motors	90.21 %	89.48 %	77.65 %

Interpretation: The overall profitability of Maruti Suzuki is good as compared to TATA Motors. As the net profit margin of Maruti Suzuki doesn't have high fluctuations in the last 3 years due to efficient use of their business assets.

4. Operating Ratio:

Table 5.4			
	2014-15	2015-16	2016-17
Maruti Suzuki	35.89 %	35.72 %	37.94 %
TATA Motors	47.93 %	53.32 %	57.15 %

Interpretation: The above-calculated ratio shows the operating ratio of 3 years which means it covers the overall cost of both firms. The ideal operating ratio is 80-90%. The remaining nearly 43- 53% ratio of both the companies helps to cover interest taxes of the firm; hence it is a good sign for the firm.

5. Debt to Equity Ratio:

Table 5.5			
	2014-15	2015-16	2016-17
Maruti Suzuki	0.77	0.84	0.56
TATA Motors	0.81	0.46	0.66

Interpretation: The debt-equity ratio of Maruti Suzuki in the year 2015-16 was only more than the ratio of TATA Motors. In the years 2014 and 2016, TATA Motors is better than Maruti Suzuki. All three-year ratios are lesser than 1, which will be a risk to creditors of the company.

6. Earnings per share:

Table 5.6			
	2014-15	2015-16	2016-17
Maruti Suzuki	161	186.5	221.5
TATA Motors	(14.57)	0.68	(7.30)

Interpretation: Maruti Suzuki has risen continuously which helps in determining the price of equity share in the marketplace. So it can be interpreted that Maruti Suzuki has more earnings per share than TATA motors.

7. Dividend Payout Ratio:

Table 5.7			
	2014-15	2015-16	2016-17
Maruti Suzuki	22.54 %	24.08 %	14.40 %
TATA Motors	14 %	26.04 %	(2.45) %

Interpretation: The Company is liable to pay dividends to their shareholders in all years except 2016-17 of TATA Motor as they are not earning as much as they pay dividends to their shareholders. So, Maruti Suzuki is paying better dividends to their shareholders than TATA Motors.

8. Stock Turnover Ratio:

Table 5.8			
	2014-15	2015-16	2016-17
Maruti Suzuki	20.16	23.76	22.45
TATA Motors	7.56	8.64	8.06

Interpretation: The standard stock turnover ratio is 5 to 6 times and by analyzing these three-year data of TATA Motors and Maruti Suzuki, ratios are high enough as compared to the standard ratio which is considered as good and better cash flows. Maruti

Suzuki's cash flow is better than TATA Motors.

9. Working Capital Turnover Ratio:

Table 5.9			
	2014-15	2015-16	2016-17
Maruti Suzuki	(21.55)	(23.99)	(25.70)
TATA Motors	(3.92)	(6.65)	(5.34)

Interpretation: All the working capital ratios are negative, which indicates less efficiency of a firm in utilizing its working capital, and the company is required to look into this matter closely. Both the companies are in a bad financial position. The main objective of this ratio is to determine the velocity with which networking capital is utilized. The higher the ratio lower is the investment in working capital and the higher is the profitability.

10. Return on Capital Employed:

Table 5.10			
	2014-15	2015-16	2016-17
Maruti Suzuki	23.78 %	25.12 %	28.46 %
TATA Motors	(9.01)%	0.42%	(3.66)%

Interpretation: Return on Capital Employed ratio of all the three years of TATA Motors is not good as they are in negative except; which indicates that the company is not employing its capital effectively and is not generating shareholder value.

11. Operating Profit Ratio:

Table 5.11			
	2014-15	2015-16	2016-17
Maruti Suzuki	12.57 %	14.86 %	14.28 %
TATA Motors	(1.34)%	5.73%	42.85%

Interpretation: In 2015-16 and 2016-17; the company is more efficient to manage their business as they make a profit after paying variable costs of production such as wages, raw materials, etc. In 2015 & 2016; the company is managing to control costs and increase its profits. So, TATA Motors is in a good position in the last 2 years. Maruti Suzuki has the highest operating ratio in 2016 through which they can make more profit than TATA Motors.

12. Fixed Assets Turnover Ratio:

Table 5.12			
	2014-15	2015-16	2016-17
Maruti Suzuki	2.80	2.91	3.31
TATA Motors	1.05	1.05	1.05

Interpretation: Fixed Assets Turnover ratio of all 3 years are constant; which indicates that TATA Motors is utilizing their fixed assets in a normal way, but Maruti Suzuki has some variations in their ratio which states that they are utilizing their fixed assets more effectively than TATA Motors.

B. Porter's 5s Model of Tata Motors:

I. Bargaining Power of Suppliers:
  a. High competition among suppliers
  b. Diverse distribution channel
  c. Low cost of switching suppliers

II. Bargaining Power of customers:
  a. Low buyer price sensitivity
  b. A large number of customers
  c. The bargaining power of the customer is low

III. The Intensity of Competitive Rivalry:
  a. Large Industry Size
  b. Fast Industry Growth Rate
  c. Industry Competitiveness is high

IV. The threat of substitutes:
  a. Railways
  b. Airlines

V. The threat of new entrant:
  a. High capital Requirement
  b. Customer switching cost
  c. Distribution Channel

V. FINDINGS

a. Higher the liquidity ratio higher the margin of the company to cover the short-term debts therefore Maruti Suzuki is in a better position than TATA Motors in terms of covering short term debts.

b. The study found that Maruti Suzuki has performed better and leads in the liquidity ratio analysis. It has outperformed TATA Motors in all liquidity ratios and secured the first rank.

c. Maruti Suzuki outperformed TATA Motors in two aspects of profitability ratio analysis i.e. about sales and investment and secured first comparative rank in both of these ratios.

d. Maruti Suzuki has a better ability to utilize its potential and assets to the optimum level in comparison to TATA Motors and thus has higher profitability ratios.

e. TATA Motors has also given the challenge to Maruti Suzuki in one profitability ratio i.e. Net Profit ratio. TATA Motors has the potential to convert their revenues into actual profit and they are performing well as compared to Maruti Suzuki.

f. The dividend Payout Ratio of TATA Motors is less than Maruti Suzuki at some stages, which shows that it is a growing company and in the future, it will become a major leader in the automobile sector.

a. Overall auto production of TATA Motors had increased their domestic sales by 5.39% in which Earnings per share of Maruti Suzuki are high as compared to TATA Motors. TATA Motors can increase its earnings by earning more profits which will increase the value of shares.

b. To get a meaningful ratio it should be compared against the standard and past performance of a company may not be considered as a benchmark when change due to circumstances are possible.

CONCLUSION

a. The researcher investigated and analyzed the financial performance, liquidity, and profitability position of selected automobile companies by applying various accounting ratios and by the use of analytical tools.

b. Tata Motors should efficiently control its current assets and liquid assets to pay its current liabilities so that the creditors of the company feel secured about the repayment of their amounts by the company.

c. After analyzing all the aspects, concern with this research, the researcher concluded that Maruti Suzuki is better than TATA Motors.

REFERENCES

A. Books:

Research Methodology Methods and Techniques

(C.R. Kothari, New Age International Publishers, Second Revised Edition, May 1990)

B. Journals:

a. Sumesh Kumar and Dr. Gurbachan Kaur Bhatia (Sept. 2014), Financial performance of Indian Automobile Companies after Liberalization: A comparative study of Maruti Suzuki and Tata Motors, International Journal of Advanced Research in Management and Social Sciences, ISSN: 2278-6236, Vol. 3 | Issue No. 9.

b. S.M. Tariq Zafar and S.M. Khalid (Sept. 2012), A Comparative Evaluation of Financial Performance and Market Value of Maruti and TATA Company, Bookman International Journals, ISSN No. 2319-426X, Vol. 1 No. 1.

c. Dr. Nidhi Agarwal (July 2015), Comparative Financial Performance of

Maruti Suzuki India Limited and Tata Motors Limited, International Journal in Management and Social Science, ISSN: 2321-1784, Vol.03 Issue-07.

g. ‘Car’ category got highest percentage change among all other categories in domestic sales.

h. Maruti Suzuki had also increased their overall auto production by 10.7% with the highest share of 107.3% of utility vehicles.

i. It is a good sign for TATA Motors had increased in their overall exports by 9.60% which makes them a leader in exporting vehicles.

2. Suggestions:

a. TATA Motors should try to decrease its direct expenses and increase sales to increase its gross profit and Maruti Suzuki has an increasing profit.

b. Companies have to concentrate not on improving the ratio but on significant issues like improving the ROCE by reducing assets rather than increasing profit.

d. Shivam Mathur and Krati Agarwal (2016), Financial analysis of automobile industries (A comparative study of Tata Motors and Maruti Suzuki), International Journal of Applied Research, ISSN Online: 2394-5869, 2(9): 533-539.

e. Dr. Ujjwal Mishra, Mr. Abhijeet Kulkarni, “A Study on various ways of tax avoidance and tax invasion in the agricultural sector and its effect"International Journal for Research, ISSN (online) 2395-7549, Vol. 3 Issue 4, June 2017, Impact factor 3.654.

f. Dr. Ujjwal Mishra, "Inflation and its Impact on India Economy" International Journal of Multifaceted and Multilingual Studies, ISSN (online) 2350-0476, Vol. III Issue 10, Sep 2016, Impact factor 4.205.

g. Dr. Ujjwal Mishra, Mr. Chetan Borole, "A Comparative risk analysis of Kotak selected focus fund (G) Mutual fund scheme"Imperial Journal of Interdisciplinary Research (IJIR), ISSN (online) 2454-1362, Vol. III Issue 3, March 2017, Impact factor 3.75.

C. Websites:

a. http://shodhganga.inflibnet.ac.in/bitstream/10603/45148/8/08_chapter%201.pdf

b. http://www.siamindia.com/statistics.aspx?mpgid=8&pgidtrail=9

c. http://www.careratings.com/upload/NewsFiles/Spl Analysis/Auto%20Industry_Mar2017.p df

d. http://www.managementparadise.com/forums/service-sector-management/201405- competitive-edge-global-scenario-automobile-industry.html

e. http://www.tata.com/article/inside/uYq6OYlBHfo=/TLYVr3YPkMU=

f. http://www.tatamotors.com/about-us/

g. https://www.marutisuzuki.com/company-at-a-glance.aspx

http://www.autocarpro.in/analysis-reports/maruti-suzuki-honda-increase-pv-market- share-april-july-2017-5784.