

## **Analysis of financial stability of Selected Indian automobile companies with special reference to liquidity and profitability**

**Anil Kumar (research scholar)**

**Dr. Anand Kumar (supervisor & assistant professor)**

**Department of commerce & management**

**Apex School of commerce & management**

**Apex University, Jaipur, Rajasthan**

### **ABSTRACT**

Undoubtedly the Automobile sector of India is one of the most successful and potential growing sector especially after the independence this sector has shown remarkable growth. The Major sectors which plays significant contribution in the economic growth and employment generation of the country, includes Automobile sector as one of the major contributor. As part of Mission 2026 for being supreme nation of the world, the Government of India, has also recognized the importance of the Automobile Industry. This is also because India is one of the Prominent Exporter of the Automobiles in the world especially to the Asian Countries. This will also help in boosting up this sector and its growth. This Importance of automobile sector, makes it indeed for every user of the Financial Statements, that financial analysis shall be taken out. In the context of India, where analyst also depends for their analysis of Future Performance, on audited Financial Statements, the financially analyzed Statements are very important. As we see that there are variety of Financial Charges, and return formations and Patterns in Automobile Industry, we have to grasp with the Financial Position of the Automobile companies. Financial Analysis in its literal sense is a scientific evaluation of Financial Strength of any business or entity. This helps to make an objective evaluation of Performance of the Business. In this Research Paper we have analyzed the financial performance of selected Automobile companies in special context of Liquidity and Profitability, so as to obtain inside the operational as well as financial strength of entity and to suggest the possible measures for improvements.

### **KEYWORDS**

Financial, Liquidity, Profitability, Scientific, Automobile, Contribution.

### **INTRODUCTION**

Automobile has become a necessarily for everyone's life now a days, it suffices the requirements from necessary till luxury. Without having a vehicle one cannot dream of achieving the heights of development humans have achieved to this point. Automobile plays an important part within the growth of any country's economy. Automobile is a very important sector which supports the opposite entire sector is facing a serious problem. There are many players within the sector on the premise of ownership like private ownership, and on public private partnership. The automobile companies in India are segregated in step with the various forms of ownership and different fuel mix within the energy portfolio. Being such an important sector, the financial analysis of this sector is indeed of every user of the financial statement. In Indian context, where an analyst should depend upon the audited financial plan for a specific company, the performance is to be judged from the budget only. As we see the financial

charges and yield formations and patterns of electricity cost and finance, then we'll get to grasp about financial position of Automobile companies. Financial analysis could be a scientific evolution of monetary strength of any business and any sort of enterprise. Here we are able to evaluate the performance of enterprises. Through the financial data as considered in profit and loss Account and that we also can evaluate the position of the corporate on the idea of record.

## INDIAN AUTOMOBILE INDUSTRY

Indian Automobile Industry stands at fourth largest Automobile manufacturer in the world, and having seventh position in the world in manufacturing of commercial Vehicles. As per IBEF, India has displaced Germany from the fourth position in auto market and kept itself stand over that position, with the sale of around 4 million vehicles including commercial as well as Passenger. Now India is about to displace the Japan from its position of third number probably by the end of 2021. It has been found that Production of Automobiles at Domestic Level has grown up at 2.36 percent Compound Annual Growth Rate (CAGR) between period of FY 2016-2020 with the record quantity of around twenty Six Million Vehicles being manufactured in India in Financial Year 2020. Overall, Sale of vehicles in Domestic Level is grown up at 1.29 percent CAGR during the Financial Year 2016 to 2020 with around twenty one million Vehicles being Sold in Financial Year 2020. Undoubtedly The Two Wheelers and Passenger category Vehicle overrides the whole Indian auto market. Most of passenger cars sold India are either Small size or mid size cars. The total share of two wheelers and passenger cars covers around eighty percent and thirteen percent of the total market share, with recorded total sales of around twenty million vehicles in Financial Year 2020. The export of Automobile from India during Financial Years 2020 has crossed around 4.77 million with the growing level of CAGR of around seven percent during the financial year 2016 to 2020. Out of two Wheelers manufactures around Seventy Four percent vehicles are exported and in case of Passenger Vehicles around fourteen percent and same as in Around Ten point five percent for Three wheelers. Sales of Electric Vehicles excluding E-Rickshaw's has also shown an increase of around twenty percent and only within two wheeler segment it has reached up to a level of around 1.55 lakh. Strangely a seven times jump has been recorded in Premium category Motorbike sales in India with recorded Sales of around Fourteen thousand units only in first quarter of 2019. Same as in case of Luxury cars, sale has been recorded between fifteen Thousand to Seventeen thousand in the first half of 2019. (Source: IBEF Latest Updates as on 21<sup>st</sup> Oct, 2020)

The above data indicates that the automobile sector is undoubtedly having a lot of opportunities both in terms of sales and innovations. Now the focus of whole automobile industry is on manufacturing of Electric vehicles and efforts are making to reduce the carbon emission. The innovation is taking place in the direction of the alternative source of fuels and intensified engine technology. (Sharma S, 2006)<sup>1</sup>. Now the exciting phase growth of Indian Automobile industry is about to start or perhaps it has been entered into it. The Government is also taking various supportive measures in favour of Automobile industry. As per the study conducted by Bhasker, (2013) to analyze the FDI in this sector, it was observed that the Indian Automobile Industry is

<sup>1</sup> Sharma, S., —A Study on Productivity Performance of Indian Automobile Industry: Growth Accounting Analysis||, 2006, <http://www.uq.edu.au/economics/appc2004/Papers/cs6C4.pdf>

the one among the biggest industries and has emerged as one of the key sectors of the economy by the entry of foreign companies in the Indian automobile market.

## RATIONAL AND SIGNIFICANCE OF THE STUDY

After slowdown in economy, there are almost all the sectors got affected either positively or negatively. The Automobile industry In India is growing fast and having direct correlation with the reforms related policies that influenced domestic demand pattern as well as trade. The India is currently moving towards major reforms in its taxation system and economic policies. Hence it is quite imperative and important to understand the financial stability of automobile sector so that evaluations for future can be made.

## WHY FINANCIAL ANALYSIS IS REUIQRED

Business is an activity which functions with various factors. Business is the pool of activities and every one the activities can run with the fund. Without fund business isn't possible. Within the present scenario of business are often possible with debt fund means any businessman can start the business with own fund and debt fund but the condition is that only to return the debt fund with in time. So, it's possible to try and do the business with debt fund. This debt fund available from the assorted sources, which are easily available, Now the question raised that why such sources provides fund to you? The rationale behind they return from the investment once any investor provides fund they wants return in time and with growth. So, being investor if you're visiting invest money there's have to exercise that such company's financial result's profitable or not and to try and do the financial analysis is feasible with the assistance of varied accounting measures. Although the point which is worth noting is that the available documents and information showing Financial strength of the corporate as on it point of time. However, profit and loss account may be a statement, which is ready for a selected year. In Indian context, where an analyst should depend upon the audited financial plan for a specific company, the performance is to be judged from the budget only. There are number of the techniques, which might be used for such Usefulness of economic performance to numerous stakeholders. The analysis of monetary performance is employed by most of the business communities or says stake holders. They include the following:

1. **Trade Creditors:** The creditors provide goods / services on credit to the firm. The creditors are always keen to understand about the liquidity position of the firm.
2. **Suppliers of long term debt:** The suppliers of future debt provide finance for the on-going/expansion projects of the firm. The future debt providers will always focus upon the solvency condition and survival of the business. Their confidence within the firm is of utmost importance as they're providing finance for an extended period of your time. Thus, for them the financial performance parameters evolve round the following:
  - i) Firm's ability to come up with cash - to be able to pay interest and
  - ii) Firm's ability to come up with cash – to be able to repay the principal and
  - iii) The relationship between various sources of funds.

The long run creditors do consider the historical financial statements for the financial performance. Normally, the projections are prepared on the premise of expected capacity expansion, projected level of production \ service and market trends for the value movements of the stuff furthermore as finished goods.

3. **Investors:** Investors are the persons who have invested their money within the equity share capital of the firm. They're the foremost concerned community as they need also taken risk of investments – expecting an improved financial performance of the firm. They judge the performance of the corporate by analyzing firm's present and future profitability, revenue stream and risk position.
4. **Management:** Management for a firm is usually keen on financial analysis. It's ultimately the responsibility of the management to seem at the foremost effective utilization of the resources.

## LITERATURE REVIEW

**Abhyankar (2005)**, Madhya Pradesh SEB, faced loss mainly because of the bifurcation of the state into two parts; Chhattisgarh got bifurcated from the state of Madhya Pradesh. The facility sector in Madhya Pradesh was structured under the shadow of the Asian Development Bank. There are many factors for the financial performance of the facility companies to urge affected, one amongst the foremost important is political issues.

**Bikash C. Dash and Sangita (2011)** examined the impact of governance reforms on efficiency, equity and repair delivery so as to identifying the factors chargeable for the success / failure of reforms within the automobile sector in Orissa. The study reveals that success of reforms not merely depends on change of ownership from public to personal, but rather it depends on such a large amount of factors wish to what extent the stakeholders involved within the process are benefited and the way the institutions implement the policies in point of fact.

**Chand, Kamal, & Ali, (2012)** the researchers have used GARCH model to analyse the share price volatility. Their main motive in selecting the GARCH model by the researchers is that, it's two advantages over OLS methodology. The most problem of autocorrelation in error terms are effectively handled by the GARCH type model.

**K. Jayalakshamma (2013)** conducted a study on the "Financial Performance of Bangaluru Electricity Supply Company Limited". The analysis of monetary statement comparison has been applied to achieve the objectives of the sample company. The study revealed that the both financial & technical reasons for the decline and improvement within the performance of BESCOM. This means that the financial performance of BESCOM isn't good.

**Mathur & Johal (2004)**, within the entire value chain, it's known that the distribution segment is that the riskiest. The most objective of this paper is to analyse the equity-based return on various risk parameters related to the facility sector companies within the worth chain. There are three segments of automobile sector. Among these sectors, distribution should even be taken care of as ultimately these distribution companies sell the automobile on condition that these companies are profitable and may give money to the facility generation companies instead ultimately it'll have a negative impact on both the ability generating and transmitting companies.

## FINANCIAL ANALYSIS THROUGH RATIO ANALYSIS

Ratio analysis is a technique of study and interpretation of financial statements. There is variety of ratios which might be calculated from the information given within the financial statements but the analyst needs to select the acceptable data and calculate only some appropriate ratios from the same keeping in mind the target of study.

### Type of Ratios

**I. Liquidity Ratios**

- Current Ratio
- Quick Ratio

**II. Profitability Ratios**

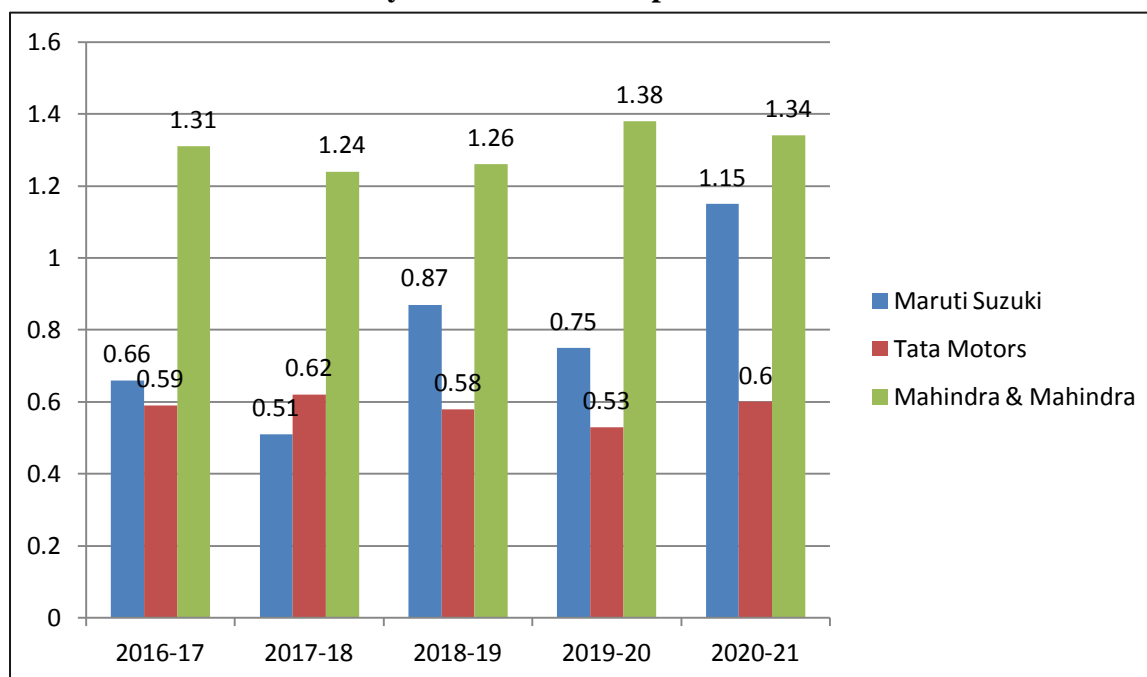
- Net Profit Ratio
- Return on capital employed Ratio

Let's have a look into selected companies financial statement to make their financial analysis

**Table 1: Current Ratio analysis of selected companies**

	Maruti Suzuki	Tata Motors	Mahindra & Mahindra
2016-17	0.66	0.59	1.31
2017-18	0.51	0.62	1.24
2018-19	0.87	0.58	1.26
2019-20	0.75	0.53	1.38
2020-21	1.15	0.60	1.34

Source: Moneycontrol.com

**Chart1: Current Ratio analysis of selected companies**

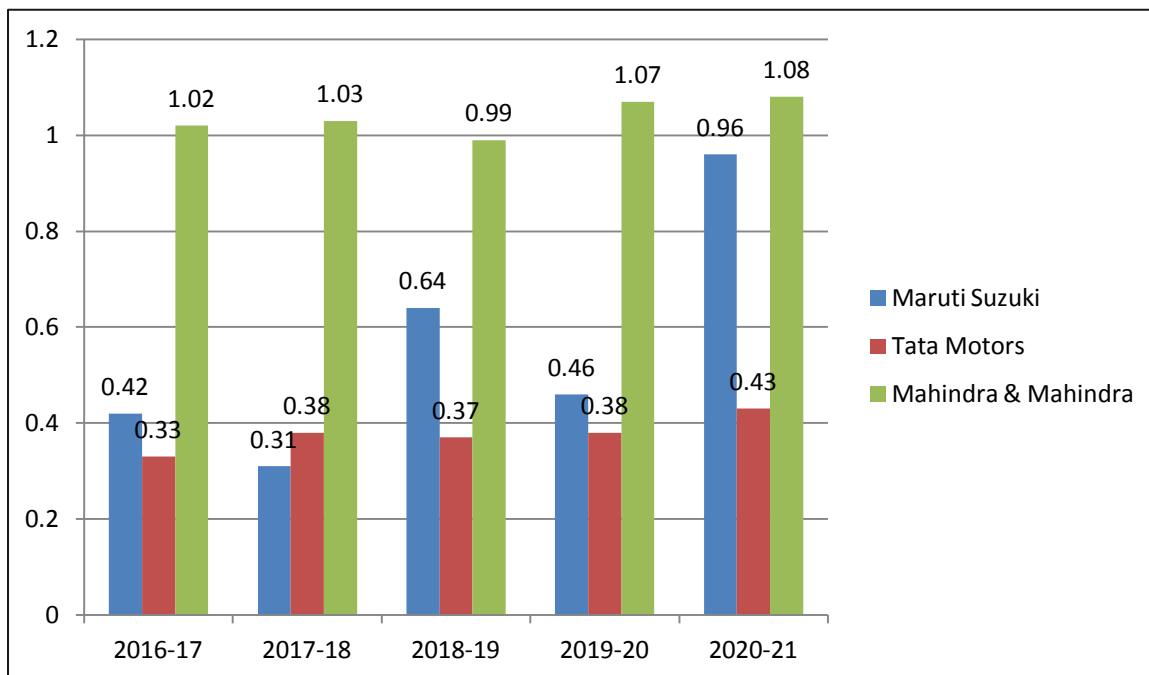
The Above data indicates that Mahindra & Mahindra has maintained a good position as far as current ratio is concerned. The ideal current ratio is taken as 2:1, which is unfortunately not maintained by any of the company in any of the year. However position is better in case of Mahindra & Mahindra and worst in case of Tata Motors.

**Table 2: Quick Ratio analysis of selected companies**

	Maruti Suzuki	Tata Motors	Mahindra & Mahindra
2016-17	0.42	0.33	1.02
2017-18	0.31	0.38	1.03
2018-19	0.64	0.37	0.99
2019-20	0.46	0.38	1.07
2020-21	0.96	0.43	1.08

Source: Moneycontrol.com

**Chart 2: Quick Ratio analysis of selected companies**

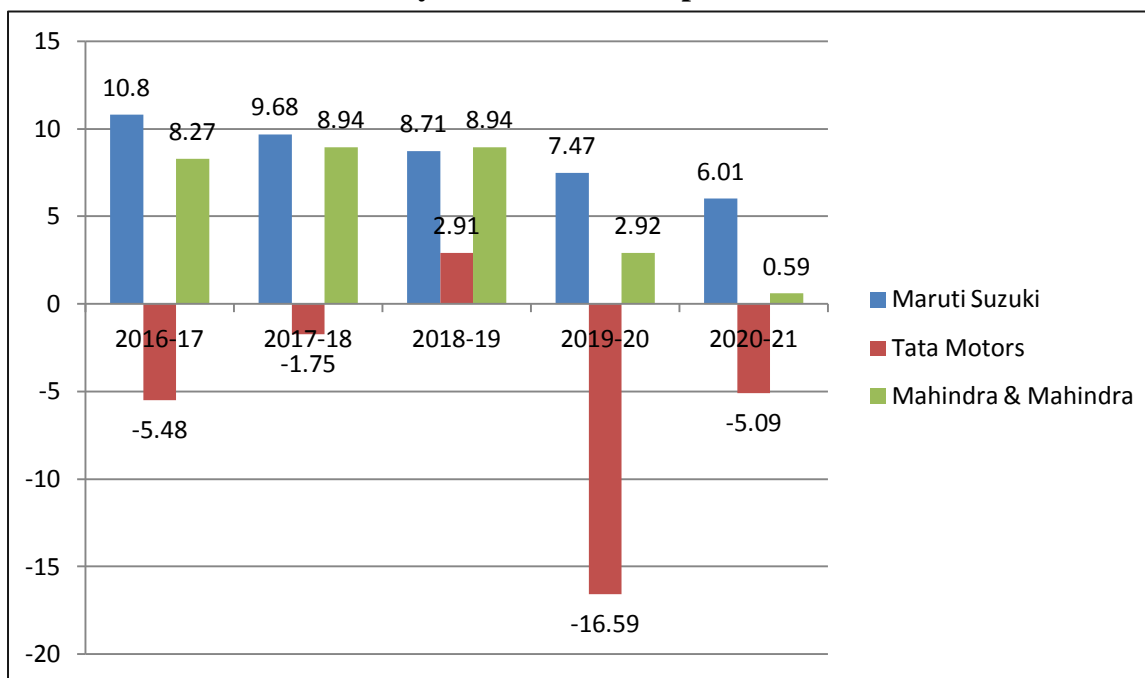


The Above data indicates that Mahindra & Mahindra has maintained a good position as far as current ratio is concerned. The ideal Quick ratio is taken as 1:1, which is unfortunately not maintained by any of the company in any of the year. However position is better in case of Mahindra & Mahindra and worst in case of Tata Motors.

**Table 3: Net Profit Ratio analysis of selected companies**

	Maruti Suzuki	Tata Motors	Mahindra & Mahindra
2016-17	10.80	-5.48	8.27
2017-18	9.68	-1.75	8.94
2018-19	8.71	2.91	8.94
2019-20	7.47	-16.59	2.92
2020-21	6.01	-5.09	0.59

Source: Moneycontrol.com

**Chart 3: Net Profit Ratio analysis of selected companies**

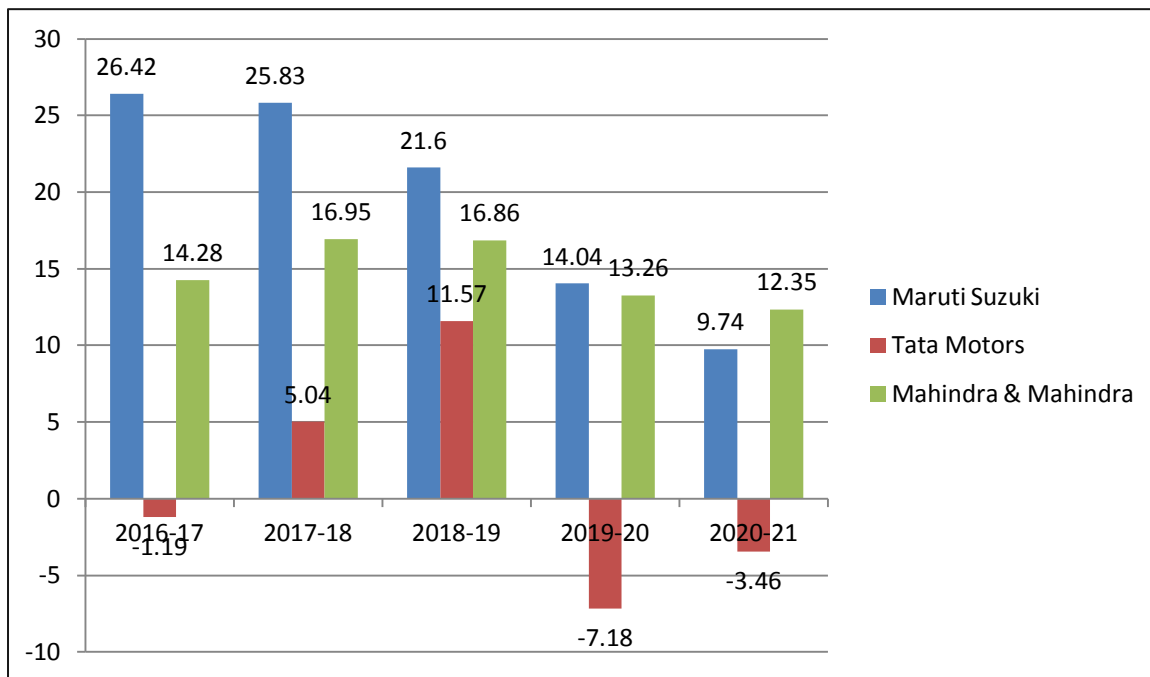
Net profit is perhaps the most common ratio which are understandable to Public and which is used for evaluation of company's position or profitability position. The Above data indicates that position of Maruti Suzuki is far better as compare to Tata Motors, which is in loss in almost all years except 2018-19. Mahindra & Mahindra has maintained a good position as far as Net Profit ratio is concerned except in year 2020-21, where company has lost its returns significantly.

**Table 4: Return on Capital Employed Ratio analysis of selected companies**

	Maruti Suzuki	Tata Motors	Mahindra & Mahindra
2016-17	26.42	-1.19	14.28
2017-18	25.83	5.04	16.95
2018-19	21.60	11.57	16.86
2019-20	14.04	-7.18	13.26
2020-21	9.74	-3.46	12.35

Source: Moneycontrol.com

**Chart 4: Return on Capital Employed Ratio analysis of selected companies**



Like Net profit, Return on Capital Employed is also the most common ratio which are understandable to Public and which is used for evaluation of company's position or profitability position. The Above data indicates that position of Maruti Suzuki is far better as compare to Tata Motors, which is in loss in almost all years except 2018-19. Mahindra & Mahindra has maintained a good position as far as return on Equity is concerned.

## CONCLUSION

Automobile sector undoubtedly one of the biggest industry in the world as well as in India. A major portion of the income of the Economy of our country comes only from this segment. Over a period of 3 decade, this industry has shown its performance breaking through all the records and has become one of the largest industries. The number of players is increasing and innovation is taking expansion. Many of the products has been introduced by the Automobile companies which are not only economic but also matching to standards of automobile at world level. The reach to an economy customer is perhaps one of the biggest achievements of Automobile industry. The support of the government, increasing exports to various countries, and reduced cost of input has given wings to automobile industry. The shining future can be seen from the performance of the automobile industry in numbers of production. As far as financial performance is concerned, the position of the industry is increasing one. The period of 2 years of 2019-20 and 2020-21 has shown a downfall because of the pandemic and clutches in the demand, but however with the introduction of Green initiatives by almost all the companies by launching Electric vehicle, the companies are looking forward with a great diversity and economic boost up, which indicates that performance of this sector will soon be better from the earlier years.



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