



A Comparative Study on the financial performance of Automobile Companies in India.

¹Amol LaxmanShinde and ²Dr. R. N. Naik.

¹Assistant Professor, Matoshri Bayabai Shripatrao Kadam KanyaMahavidyalaya, Kadegaon.

²Assistant Professor, Smt. KusumtaiRajarambapuPatil Kanya Mahavidyalaya Islampur.

Abstract

The process of determining the firm's financial strengths and shortcomings is known as financial performance analysis. The financial analyst needs to apply specific methods on different financial aspects in order to assess the financial performance of a company. Ratio analysis is one powerful and often used tool. In order to analyse financial success, we must look at least five ratios during the previous five years. The net profit margin, current ratio, quick ratio, inventory turnover ratio, and debt to equity ratio of five automobile companies are examined in this research paper. The company's ratios were reviewed from 2018–19 to 2022–2023 years. Based on personal judgment, the researcher chose five Companies: Maruti Suzuki, Tata Motors, Mahindra & Mahindra, Force Motors, and Ashok Leyland.

Keywords

Financial performance, Ratio analysis, net profit margin, current ratio, quick ratio, inventory turnover ratio, debt to equity ratio.

Introduction

An essential element of every expanding economy is the automobile industry. Three-wheelers, trucks, cars, buses, and two-wheelers are all part of the Indian vehicle sector. In terms of revenue, it is among the biggest sectors in the world. Globally, the automotive sector is a significant industrial and economic force. The automotive sector is one of the varied industries that have contributed to not just the economic status of any nation, but additionally impacting the patterns of investment. A vast array of businesses and organizations engaged in the creation, advancement, production, promotion, and retailing of motor vehicles make up the automotive sector. The automotive industry in India is expanding annually at a rapid pace. India is currently the largest tractor, two-wheeler, and three-wheeler manufacturer in the world. India ranks fourth in the world for vehicle manufacturing, third for heavy trucks, and second for buses. Approximately 37 million people are currently employed in the automobile business, which is one of the major employers in the nation. (Inclusive and direct)



The most crucial element in all industrial sectors is finance. The lifeblood of any company enterprise is finance. The process of determining a company's financial strengths and shortcomings is known as financial performance. It is employed to assess a company's overall financial standing over a certain time frame. Financial statements can be used to analyse financial performance. Formal records of a company's financial conditions and actions are called financial statements. Financial statements include the cash flow statement, balance sheet, and statement of profit and loss.

Objectives

1. To study the conceptual framework of financial performance.
2. To study the technique (Ratio analysis) to measures financial performance.
3. To study the various ratios of selected automobile companies in India.

Research methodology

1. Methods of data collection-Present research paper is “A Comparative Study on the financial performance of automobile companies in India.” The majority of the data needed for this paper comes from secondary sources. Sources gathered from the internet, books, journals, and research papers. This study will run for five years, from 2018–19 to 2022–2023.

2. Sample design-There are more than 10000+ small and large automobile companies in India. But present study researcher selected only 5 automobile companies on the basis of judgment sampling & these are-

1. Maruti Suzuki
2. Tata Motors
3. Mahindra & Mahindra
4. Force Motors
5. Ashok Leyland

Review of literature

1. VanMajumdar&Pooja Sharma (2022) made a study on, “A Study on liquidity analysis of selected automobile companies in India.” This study examines the liquidity and solvency position of automobile industries. According to the researcher overall performance of the automobile industries has been satisfactory. The researcher came to the conclusion that other business should boost their liquidity and turnover in order to perform better because the liquidity ratios had a more favourable impact on force motor efficiency.



2. Madhvi Kush & Sahil (2022) made a study on, “Financial performance analysis of automobile industry with special reference to ratios.” The goal of this research paper is to analyse the auto industries financial performance using a variety of ratios. Maruti Suzuki and Tata motors have taken as a sample. According to the researcher Maruti Suzuki is performing well as compared to Tata motors and Tata motors needs to raise its net earnings, which are poor when compared to Maruti Suzuki and also improve all of its important ratios.

3. Mahasweta Chattopadhyay & Shirsendu Mukherjee (2019) made a study on, “Automobile Industry in India: A Recent Study.” This study examines domestic sales trend in automobile sector in India. It is concluded that of the top seven automobile markets worldwide, only India saw double digit growth of 11% from January to May 2017. India’s automobile industry is expected to rank in the top three globally in terms of engineering, manufacturing and exporting automobiles and auto parts by 2026.

4. R. Menaka & K. Ashath (2015) published research paper titled, “A study on role of automobile industry in India and its customer satisfaction.” The objective of this research is to know the initiatives of the government and to know the dimensions of customer satisfaction towards Indian automobile industries. Based on their findings, it is stated that when service industries offer the best possible services, there is no need to spend more money on advertisement and promotions because happy customers spread the word about a product brand.

5. K. Joshi & P. Kalaivani (2015) published a research article titled, “A Study on financial performance of Honda and Toyota automobile company a comparative study.” An objective of this research paper is to compare and analyse liquidity, profitability, solvency ratio of Honda and Toyota automobile industry. Researcher concluded that it is encouraging to see that Honda has good cash management practices in terms of cash ratio and from the perspective of profitability, Honda Company has a large earning potential.

Technique to measures financial performance (Ratio Analysis)

The firm's financial success can be measured using a variety of methods. The ratio analysis approach is one of the key ones. A ratio is the mathematical expression of the relationship between two figures. Using financial data as a basis, ratio analysis is a mathematical technique that identifies and interprets numerical correlations. To analyse financial performance, we look at the following important ratios.-



1. Net profit margin-

After subtracting operational and non-operating costs from gross profit, net profit is found. The net profit margin serves as an indicator of the company's overall effectiveness in converting each rupee of sales into net profit. The computation of net profit margin is as follows:

$$\frac{\text{Net profit after tax}}{\text{Net sales}} \times 100$$

2. Current ratio-

The current ratio is the comparison of current liabilities to current assets. All assets that are cash or can be converted into cash within a year are considered current assets. Liabilities with a one-year maturity date are known as current liabilities. The formula for current ratio is under-

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

3. Quick ratio-

It creates a connection between current liabilities and quick assets. Current assets, minus inventory, are referred to as quick assets. A company's ability to pay its current creditors without having to liquidate its inventory is gauged by the quick ratio. The quick ratio is computed as follows:

$$\frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}}$$

4. Inventory turnover ratio-

It is computed to determine whether a company has too much inventory relative to its volume of sales. This efficiency ratio assesses the effectiveness of inventory management. The calculation of inventory turnover ratio is as follows:

$$\frac{\text{Cost of goods sold}}{\text{Average inventory}}$$

5. Debt to equity ratio-

This ratio shows how much of a company's activities are financed by debt as opposed to entirely owned capital. This ratio assesses how much a corporation owes in total to its shareholders. The ratio of debt to equity is computed as follows:

$$\frac{\text{Total debt}}{\text{Shareholders' equity}}$$

Data Analysis & Interpretation

1. Net profit Margin-

Years	Maruti Suzuki	Tata Motors	Mahindra &Mahindra	Force Motors	Ashok Leyland
2018-19	8.71	2.91	8.94	4.03	6.82
2019-20	7.47	-16.59	2.92	1.88	1.37
2020-21	6.01	-7.93	0.59	-5.62	-2.05
2021-22	4.26	-3.47	8.59	-2.30	2.49
2022-23	6.84	1.90	7.70	3.02	3.81
Total	33.29	-23.18	28.74	1.01	14.44
Average	6.65	-4.63	5.74	0.20	2.88

The above table shows the net profit margin of selected automobile companies for the last 5 years. The highest average net profit margin is 6.65 percent by Maruti Suzuki and lowest average net profit margin is -4.63 percent by Tata Motors during research period. Highest net profit margin achieved by Mahindra & Mahindra in the year 2018-19 showing 8.94 percent and the lowest net profit margin achieved by Tata Motors in the year 2019-20 showing -16.59 percent during research period.

2. Current Ratio-

Years	Maruti Suzuki	Tata Motors	Mahindra &Mahindra	Force Motors	Ashok Leyland
2018-19	0.87	0.58	1.26	1.66	0.93
2019-20	0.75	0.53	1.38	1.12	0.77
2020-21	1.15	0.60	1.34	1.00	0.90
2021-22	0.99	0.58	1.38	0.80	1.00
2022-23	0.58	0.45	1.33	1.03	1.06
Total	4.34	2.74	6.69	5.61	4.66
Average	0.86	0.54	1.33	1.12	0.93

The current ratio for selected automobile companies during the previous five years is presented in the above table. The highest average current ratio is 1.33times by Mahindra & Mahindra and lowest average current ratio is 0.54times by Tata Motors during research period. Highest current ratio achieved by Force motors in the year 2018-19 showing 1.66 times and lowest current ratio achieved by Tata Motors in the year 2022-23 showing 0.45times during research period. The current ratio of Maruti Suzuki, Tata Motors and Ashok Leyland is less than 01.

3. Quick Ratio-

Years	Maruti Suzuki	Tata Motors	Mahindra &Mahindra	Force Motors	Ashok Leyland
2018-19	0.64	0.37	0.99	0.89	0.63
2019-20	0.46	0.38	1.07	0.52	0.60
2020-21	0.96	0.43	1.08	0.36	0.64
2021-22	0.78	0.44	1.06	0.30	0.78
2022-23	0.36	0.33	0.99	0.49	0.81
Total	3.2	1.95	5.19	2.56	3.46
Average	0.64	0.39	1.03	0.51	0.69

The above table shows the quick ratio of selected automobile companies for the last 5 years. The highest average quick ratio is 1.03times by Mahindra & Mahindra and lowest average quick ratio is 0.39times by Tata Motors during research period. Highest quick ratio achieved by Mahindra &

Mahindra in the year 2020-21 showing 1.08 times and lowest quick ratio achieved by Force Motors in the year 2021-22 showing 0.30times during research period. Excluding Mahindra & Mahindra, the quick ratio of other four companies is less than 01.

4. Inventory Turnover Ratio-

Years	Maruti Suzuki	Tata Motors	Mahindra & Mahindra	Force Motors	Ashok Leyland
2018-19	25.87	14.84	13.96	7.25	10.82
2019-20	23.52	11.46	13.38	5.58	14.11
2020-21	23.06	4.54	11.39	3.56	6.58
2021-22	12.07	7.66	8.23	4.32	7.55
2022-23	11.94	12.52	8.43	5.37	11.24
Total	96.46	51.02	55.39	26.08	50.03
Average	19.29	10.20	11.07	5.21	10.06

The inventory turnover ratio for the last five years of selected automobile companies is displayed in the above table. The highest average inventory turnover ratio is 19.29times by Maruti Suzuki and lowest average inventory turnover ratio is 5.21times by Force Motors during research period. Highest inventory turnover ratio achieved by Maruti Suzuki in the year 2018-19 showing 25.87 times and the lowest inventory turnover ratio achieved by Force Motors in the year 2020-21 showing 3.56times during research period.

5. Debt to Equity Ratio-

Years	Maruti Suzuki	Tata Motors	Mahindra & Mahindra	Force Motors	Ashok Leyland
2018-19	0.00	0.79	0.07	0.13	0.05
2019-20	0.00	1.14	0.09	0.12	0.42
2020-21	0.01	1.14	0.21	0.28	0.53
2021-22	0.01	1.17	0.17	0.60	0.48
2022-23	0.02	0.84	0.11	0.49	0.38
Total	0.04	5.08	0.65	1.62	1.86



Average	0.0008	1.01	0.13	0.32	0.37
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The above table shows the debt to equity ratio of selected automobile companies for the last 5 years. The highest average Debt to Equity Ratio is 1.01times by Tata Motors and lowest average Debt to Equity Ratio is 0.0008times by Maruti Suzuki during research period. Highest Debt to Equity Ratio achieved by Tata Motors in the year 2021-22 showing 1.17times and lowest Debt to Equity Ratio achieved by Maruti Suzuki in the year 2018-19 &2019-20 showing 0.00 times during research period.

Conclusion

The average net profit margin of Maruti Suzuki is higher than other companies. It means that Maruti Suzuki is turning income into profit more effectively. The average net profit margin of Tata Motors is less than other companies; a company may be less efficient or have worse finances than its competitors if its net margin is lower than that of its peers in the industry. The average current ratio of Maruti Suzuki, Tata Motors and Ashok Leyland is less than 01. A company does not have enough cash on hand to pay its short-term obligations if its current ratio is less than 1.00. The assets of the Mahindra & Force Motors are sufficient to cover its outstanding debts by the end of the year. The optimal quick ratio is defined as one that is larger than 1. It might be difficult for a business with a fast ratio of less than one to settle its current liabilities. The average quick ratio of Mahindra & Mahindra is more than 1, whereas the average quick ratio of the other four firms is less than 1, indicating inefficient working capital management.

For most organizations, achieving a high inventory turnover is the ultimate goal. Average inventory turnover ratio of Maruti Suzuki is higher than the other four companies. The Maruti Suzuki is seeing rapid product sales and a high level of demand for its products and services. Average inventory turnover ratio of Force Motors is showing least comparing to other companies. Low inventory turnover is a sign of poor sales and inventory management. For businesses, a low debt to equity ratio is advantageous. When compared to other companies, Maruti Suzuki has a lower average debt to equity ratio. A decent debt to equity ratio is often less than 1 and all organizations' average debt to equity ratios are generally less than 1. It means that all the companies mostly funded by shareholder funds and stock.



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