



## Analysis of Financial Statement of Automobile Companies in India

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### ABSTRACT:

*Automobile is one of the largest industries in the global market. Owing to its strong forward and backward linkages with several key segments of the economy, the Automobile Sector occupies a prominent place in the fabric of the Indian Economy. It has been recognized as one of the drivers of an economy. This sector has emerged as a sunrise sector in the Indian economy. Global and Indian manufacturers are focusing their efforts to develop innovative products, technologies and supply chains. The automobile industry is considered one of the very attractive industries for investors. Selection of the best automobile company is the main aim of the value investment. In the present analytical study, we have made an attempt to analyses and compare the financial performance of the selected automobile companies. It was found in the study that Hero Motocorp and Maruti Suzuki are the most fundamentally strong companies among the companies under study.*

**KEYWORDS:** Automobile, company, financial statement, industry, performance, ratios.

### I. INTRODUCTION

The automobile industry, along with the auto components industry, is one of the core industries in India. A well-developed transportation system plays a key role in the development of an economy, and India is no exception to it. Automobile is one of the largest industries in the global market. Owing to its strong forward and backward linkages with several key segments of the economy, the 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. Such a belief is in line with international trends since in most mature economies the automobile industry's performance is viewed as a reflection of the economy's health. This sector has emerged as a sunrise sector in the Indian economy. 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. The automobile sector is divided into four segments - two-wheelers, passenger vehicles, commercial vehicles and three-wheelers. Two-wheelers 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. In the past few years, the production and management systems in the India automobiles industry have been revolutionaries. In the

present analytical study, we have made an attempt to compare the financial performance of the top five automobile companies in India on the basis of Market Capitalization.

## II. OBJECTIVES OF THE STUDY

The main objective of the study is to evaluate the financial performance of top automobile companies in India. The specific objectives of the study are:

- To compare the profitability position of the companies under study
- To evaluate the liquidity position of the units under study
- To find out the efficiency of the management in managing the assets

## III. SCOPE OF THE STUDY

The study deals with the financial performance analysis of Indian automobile companies. Since it is a comparative study, a comparison of the performance of the five top automobile companies is made. The study period is five years from March 2013 to March 2017.

## IV. RESEARCH METHODOLOGY

The entire study is based on secondary data extracted from sources like books and websites. The sample size of the study is the top five automobile companies in India selected on the basis of the judgmental sampling technique. Descriptive statistics like mean and standard deviation are used for the effective analysis. In addition to the above descriptive statistics, the One Way ANOVA test is also used to test the hypothesis framed in the study.

For the analysis of the financial statements of the companies, the researchers have used the following ratios:

### Liquidity Ratios:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liability}}$$

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liability}}$$

### Profitability Ratio:

$$\text{Return on Capital Employed} = \frac{\text{Operating Profit}}{\text{Capital Employed}} \times 100$$

$$\text{Net Profit Margin Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

### Turnover Ratio:

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

$$\text{Debtors Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Debtors}}$$

### Investment Ratio:

$$\text{Operating Profit Per Share Ratio} = \frac{\text{Operating Profit}}{\text{Number of Sares}}$$

$$\text{Dividend Per Share Ratio} = \frac{\text{Amount of Dividend}}{\text{Number of shares}}$$

## V. LIMITATIONS OF THE STUDY

1. Performances of the companies are measured only in terms of financial figures and qualitative aspects of the companies are totally excluded from the study.
2. The study suffers from the limitation of the financial statement.
3. The study period is only five years.

## VI. DATA ANALYSIS AND INTERPRETATION

**Table 1: Current Ratios of the companies under study**

Sl. No	Name of the company	Year					Mean	Standard Deviation
		Mar '17	Mar '16	Mar '15	Mar '14	Mar '13		
1	Hero Motocorp	0.86	0.83	0.94	0.65	0.67	0.79	0.11
2	Bajaj Auto	1.07	1.27	0.89	0.8	0.88	0.982	0.17
3	Mahindra and Mahindra	1.03	1.01	1.05	1.19	1.02	1.06	0.07
4	Maruti Suzuki India	0.55	0.63	0.68	0.77	1.04	0.734	0.17
5	Tata Motors	0.52	0.51	0.42	0.43	0.42	0.46	0.05

**Source:** Annual Reports of the companies under study

The current ratio is used to measure the liquidity position of the company. The standard ratio for manufacturing company is 2:1. The Higher the ratio better the liquidity position of the company but the more the opportunity cost. Table 1 presents the current ratios of the automobile companies under study. According to the current ratios of the companies, none of the companies have the standard current ratio. Among the companies under study, Mahindra and Mahindra is more strong in its liquidity position with 1.06 current ratio and it is followed by Bajaj Auto with 0.982, Hero Motorcorp with 0.79, Maruti Suzuki with 0.734. Tata Motors has the lowest current ratio of 0.46. Bajaj Auto and Maruti Suzuki have shown the highest variation in the current ratio over the years.

**Table 2: Quick Ratios of the companies under study**

Sl. No	Name of the company	Year					Mean	Standard Deviation
		Mar '17	Mar '16	Mar '15	Mar '14	Mar '13		
1	Hero Motocorp	0.72	0.67	0.72	0.47	0.52	0.62	0.10
2	Bajaj Auto	0.88	1.04	0.72	0.67	0.74	0.81	0.13
3	Mahindra and Mahindra	0.83	0.83	0.84	0.93	0.77	0.84	0.05
4	Maruti Suzuki India	0.35	0.37	0.41	0.67	0.9	0.54	0.21
5	Tata Motors	0.42	0.41	0.42	0.36	0.4	0.402	0.02

**Source:** Annual Reports of the companies under study

The standard quick ratio for a manufacturing and trading company is 1:1. The Quick ratio is also used to measure the liquidity position of the company. It is clear from Table 2 that none of the companies have the standard quick ratio. M&M has the highest quick ratio (0.84), followed by Bajaj Auto (0.81), Hero Motocorp (0.62), Maruti Suzuki (0.54) and Tata Motors (0.402). Maruti Suzuki has the highest standard Deviation in its quick ratio.

It is a fact from the above table that the mean return on capital employed (%) of Hero Motocorp is the highest (50.832%). Bajaj Auto has the second highest return on capital employed (43.401%), Maruti Suzuki India offers the next highest return (21.17%), Mahindra and Mahindra offer 20.282% return and Tata Motors offer the lowest return on capital employed (1.27%). The standard deviation of the return on capital employed by Bajaj Auto is

the highest (7.40), whereas the standard deviation of the return on capital employed by Mahindra and Mahindra is the least (3.14).

**Table 3: Return on Capital Employed (%) of the companies under study**

Sl. No	Name of the company	Year					Mean	Standard Deviation
		Mar '17	Mar '16	Mar '15	Mar '14	Mar '13		
1	Hero Motocorp	46.13	55.34	53.42	51.41	47.86	50.832	3.41
2	Bajaj Auto	31.33	43.24	41.01	47.92	53.51	43.402	7.40
3	Mahindra and Mahindra	16.84	18.33	18.51	22.29	25.44	20.282	3.14
4	Maruti Suzuki India	27.36	24.42	21.24	16.91	15.92	21.17	4.35
5	Tata Motors	-1.86	5.38	-5.61	2.52	5.92	1.27	4.41

*Source: Annual Reports of the companies under study*

**Table 4: Net Profit Margin (%) of the companies under study**

Sl. No	Name of the company	Year					Mean	Standard Deviation
		Mar '17	Mar '16	Mar '15	Mar '14	Mar '13		
1	Hero Motocorp	11.85	10.95	8.64	8.34	8.91	9.738	1.40
2	Bajaj Auto	17.58	16.09	13.01	16.09	15.21	15.596	1.50
3	Mahindra and Mahindra	9.03	7.74	8.52	9.27	8.29	8.57	0.54
4	Maruti Suzuki India	10.78	7.91	7.42	6.36	5.48	7.59	1.80
5	Tata Motors	-5.59	-0.14	-13.05	0.97	0.67	-3.428	5.37

*Source: Annual Reports of the companies under study*

Net profit margin ratios of companies under study are presented in Table 2. It indicates the fact that Bajaj Auto offers the highest (15.596%) return, followed by Hero Motocorp (9.738%), M&M (8.57%), Maruti Suzuki India (7.59%) and Tata Motors offers a negative return (-3.428).

Operating Profit Per Share is one of the Investment ratios. The higher the ratio of the company, it is better for the investors to invest in it. As per Table 5, it is clear that Maruti Suzuki offers highest Operating Profit Per Share (Rs.234.174). Hero Motocorp offers the second-highest operating profit per share (Rs.194.788), followed by Bajaj Auto (Rs.145.556), M&M (Rs.74.184) and Tata Motors with only Rs.2.208. Hero Motocorp has had the highest standard deviation in its operating perofit per share over the years.

**Table 5: Operating Profit Per Share (Rs) of the companies under study**

Sl. No	Name of the company	Year					Mean	Standard Deviation
		Mar '17	Mar '16	Mar '15	Mar '14	Mar '13		
1	Hero Motocorp	232.09	222.7	177.39	177.28	164.48	194.788	27.20
2	Bajaj Auto	152.83	165.17	142.26	141.89	125.63	145.556	13.11
3	Mahindra and Mahindra	76.79	73.58	67.19	76.66	76.7	74.184	3.70
4	Maruti Suzuki India	342.72	297.22	222.22	168.69	140.02	234.174	76.23
5	Tata Motors	3.67	8.68	-3.84	-2.83	5.36	2.208	4.81

*Source: Annual Reports of the companies under study*

**Table 6: Dividend Per Share of the companies under study**

Sl. No	Name of the company	Year					Mean	Standard Deviation
		Mar '17	Mar '16	Mar '15	Mar '14	Mar '13		
1	Hero Motocorp	85	72	60	65	60	68.4	9.39
2	Bajaj Auto	55	55	50	50	45	51	3.74
3	Mahindra and Mahindra	13	12	12	14	13	12.8	0.75
4	Maruti Suzuki India	75	35	25	12	8	31	23.99
5	Tata Motors	--	--	--	4.1	2	3.05	1.05

**Source:** Annual Reports of the companies under study

Dividend Per Share is another important Investment ratio. Usually investors who expect regular income would prefer companies which are paying highest dividend per share. It is fact from Table 6 that Hero Motocorp offers highest average DPS (Rs.68.4), followed by Bajaj Auto (Rs.51), Maruti Suzuki (Rs.31), M&M (Rs.12.8) and Tata Motors offers lowest (Rs.3.05) average DPS. The standard Deviation of DPS is highest for Maruti Suzuki India.

**Table 7. Inventory Turnover Ratios of the companies under study**

Sl. No	Name of the company	Year					Mean	Standard Deviation
		Mar '17	Mar '16	Mar '15	Mar '14	Mar '13		
1	Hero Motocorp	47	45.85	35.93	40.56	40.3	41.928	47
2	Bajaj Auto	31.7	33.35	27.66	33.08	33.2	31.798	31.7
3	Mahindra and Mahindra	17.34	16.22	16.87	15.38	17.94	16.75	17.34
4	Maruti Suzuki India	23.69	20.84	21.08	28.65	26.67	24.186	23.69
5	Tata Motors	8.92	9.26	8.23	9.78	11.07	9.452	8.92

**Source:** Annual Reports of the companies under study

To measure the efficiency of the management in utilizing the assets of the organization, turnover ratios are used. The inventory turnover ratio helps to measure how efficiently the inventories are utilised by the organization. The inventory turnover ratio of Hero Motocorp is the highest (41.928 times). Other companies in order are Bajaj Auto (31.798 times), Maruti Suzuki (23.69 times), M&M (17.34 times) and Tata Motors at least 9.452 times.

Another important ratio which is used to measure the efficiency in the utilization of assets is the Debtors turnover ratio. The higher the Debtors Turnover Ratio, more the efficient of the company is in managing its debtors. Maruti Suzuki India has highest ratio (42 times). Hero Motocorp and Bajaj Auto have DTR of around 29 times, Tata Motors has 24.38 times and M&M has only 16.814 times Debtors Turnover Ratio.

**Table 8: Debtors Turnover Ratios of the companies under study**

Sl. No	Name of the company	Year					Mean	Standard Deviation
		Mar '17	Mar '16	Mar '15	Mar '14	Mar '13		
1	Hero Motocorp	20.02	21.4	23.88	31.88	50.72	29.58	11.34
2	Bajaj Auto	26.05	31.62	28.57	25.77	33.6	29.122	3.07

3	Mahindra and Mahindra	16.13	16.13	15.37	17.17	19.27	16.8 14	1.35
4	Maruti Suzuki India	54.48	48.76	40.24	30.31	36.21	42	8.66
5	Tata Motors	21.26	27.12	31.14	22.6	19.78	24.3 8	4.18

**Source:** Annual Reports of the companies under study

## VII. FINDINGS AND CONCLUSION

After a detailed analysis of the financial statements of the companies by using ratio analysis, the following major results are arrived:

- i. None of the companies maintained the standard current ratio. Mahindra and Mahindra is a strong company in terms of liquidity with a 1.06 average current ratio and Tata Motors has the lowest average current ratio (0.46).
- ii. Even concerning the quick ratios of the companies under study, none of the companies have maintained the standard. Among the companies under study, Mahindra and Mahindra has the highest quick ratio (0.84) and Tata Motors has the lowest quick ratio (0.402)
- iii. Hero Motocorp has offered the highest (50.832%) return on capital employed and it is followed by Bajaj Auto with 43.401% ROCE, Maruti Suzuki India with 21.17%, Mahindra and Mahindra with 20.282% ROCE and Tata Motors offers the least return on capital employed (1.27%).
- iv. It is found that the Net Profit Margin of Bajaj Auto is the highest (15.596%) and it is followed by Hero Motocorp (9.738%), M&M (8.57%), Maruti Suzuki India (7.59%) and only Tata Motors offers negative return (-3.428%).
- v. Maruti Suzuki offers the highest Operating Profit Per Share (Rs.234.174), Hero Motocorp offers second highest operating profit per share (Rs.194.788), followed by Bajaj Auto (Rs.145.556), M&M (Rs.74.184). Tata Motors offers only Rs.2.208 Operating Profit Per Share.
- vi. Hero Motocorp offers highest average DPS compared to rest of the companies under study. Bajaj Auto (Rs.51) offers second highest DPS and it is followed by Maruti Suzuki (Rs.31), M&M (Rs.12.8) and Tata Motors (Rs.3.05).
- vii. Hero Motocorp (41.928 times) is ranked as first in Inventory Turnover Ratio, Bajaj Auto (31.798 times) is ranked as second, Maruti Suzuki (23.69 times) with third rank, M&M (17.34 times) in fourth place and Tata Motors is in the last place with Inventory Turnover Ratio of 9.452 times.
- viii. Maruti Suzuki India has highest Debtors Turnover Ratio (42 times) and the second position goes to Hero Motocorp and Bajaj Auto with DTR of around 29 times, next position goes to Tata Motors with 24.38 DTR times and M&M has only 16.814 times DTR.

## VIII. CONCLUSION

As mentioned earlier, the Automobile Industry is one of the leading Industries in India. Hence, the automobile industry is one of the best industries for investment. In this research paper, we have analyzed the fundamentals of top five automobile companies. It is found in the study that Mahindra and Mahindra company has strong liquidity position and Tata Motors has the lowest liquidity position among the companies under study. Hero Motocorp has highest Return on Capital Employed and Tata Motors has the lowest Return on Capital Employed. Bajaj Auto has offered highest Net Profit Ratio and again Tata Motors has the lowest NPM. As the OPM of Maruti Suzuki India is highest, it is the most operationally efficient company compared to other companies under study but Hero Motocorp offers highest DPS. Hero Motocorp is leading in Inventory Turnover Ratio and Maruti Suzuki is

leading in Debtors Turnover Ratio. The results of the hypothesis tested shows that there is significant difference in the financial performance of the companies under study. Hence, it can be concluded that Hero Motocorp, Maruti Suzuki are the most fundamentally strong companies among the companies under study.

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