FINANCIAL PERFORMANCE EVALUATION OF SELECT AUTOMOBILE COMPANIES

AUTHOR – SAI HARI PRIYA NIDAMARTY, (Roll No-18031E0013) MBA 2018-2020 Batch. STUDENT AT JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY, KUKATPALLY, HYDERABAD, INDIA.
Under the guidance of Dr. SINDHU, Professor & Director, SMS, JNTUH.

Abstract:

The Automotive, or the Automobile Industry is one of the pillars of the economic development for a country, with the provision of the most important developmental facility – transportation. The flow of raw materials, goods, services, machinery and equipment, and people in and around the nation is only possible with the help of transportation services.

The following study presents the financial performance of the Automobile Industry of India, amidst the economic slowdown affecting the nation. Three of the top most firms were selected for the study, and apt financial instruments and statistical tools and techniques were implemented to assess and compare the financial performance of the firms.

The results have shown a decline in the financial performance of the firms, through the five- year period. The reasons for the decline include government policies, shift in the environmental norms, and the economic slowdown affecting the nation. The firms have performed satisfactorily, despite a decline in the performance through the years considered for the time period, indicating the possibilities for a growth in their performance in the future.

I. INTRODUCTION

The Automotive Industry, also known as the Automobile Industry, is responsible for the design, production, manufacture, and marketing of the motor driven vehicles, in an economy. All the firms participating in the direct production of motor vehicles are a part of the industry, but the post-sales services, such as repairs and maintenance do not come under the automotive industry.

The automotive industry of India is one of the largest automotive industries in the world. Currently, India is the fourth largest automobile market. India experienced the comfort of motor vehicles first, in the latter part of the 19th century. By 1930, the consumption of cars grew in a gradual pace, with the cars being imported in little numbers, from manufacturers of foreign nations.

The idea of an indigenous automotive industry was embodied in the 1940s, with the firms such as Hindustan Motors and Premier Automobiles being established in the years 1942 and 1944, respectively.

The growth of the automotive industry was severely hampered during 1950s to the 1990s due to the phenomenon of 'License Raj', wherein the establishment of any new firm required a tedious licensing process. Manufacturers were reluctant to set up shop and to produce and market any type of vehicles.

The 1991 scheme of Liberalisation, Privatization, and Globalisation, also known as the LPG Model, opened up the Indian market to the world, and made the regulations and licenses to set up an establishment easier. More automobile manufacturers came into existence and the demand for such motor vehicles grew.

The post liberalization scenario proved to be beneficial to foreign investors, who invested in the Indian automobile production market. The firms from South Korea and Japan were one of the first few firms to invest in Indian automobile industry. Maruti Suzuki, a tie-up between an Indian firm and a Japanese firm, was one of the first and the most successful entries, in the post liberalization era.

Firms such as Hyundai from South Korea, and Toyota of Japan, entered the market as solo players, without any tie-ups with local production firms, and were also successful in creating a market for themselves. Therefore, it can be understood that the growth of the Automobile industry has seen new milestones after the liberalisation of the government policies and the globalisation of the Indian market.

The automobile industry has been one of the core industries for India, providing the vehicles of transport for a steadily growing population, both urban and rural. The increasing urbanisation of India so as to promote economic development, increase in the need for and taste for personal commute of the public, and the increase in the consumption of goods by the middle-class families, have brought about a huge market base for the automobile industry to flourish.

The establishment of the automobile industry clusters in five regions, i.e., Delhi-Gurgaon- Faridabad in the north, Sanand-Halol and Mumbai-Pune-Nasik-Aurangabad in the west, Chennai-Bengaluru-Hosur in the south and Jamshedpur-Kolkata in the east, have led to the increasing possibility of India becoming the world's top automobile manufacturer.

RESEARCH METHODOLOGY

OBJECTIVES OF THE STUDY

1. To analyse the performance of select firms in the automobile industry.
2. To compare and contrast the performance of the select firms.
3. To examine and study the cash flows and profitability of the select companies.

STATISTICAL TOOL

The Statistical Tool used for the study was MS – Excel. Since the analysis was mostly financial, the statistical tools used were limited to Graphs and Tables. The financial analysis involved the cash flow statements and financial ratios.

SAMPLE SIZE AND SAMPLING DESIGN

Few of the top performers of the Indian Automotive industry have been selected, so as to analyse their financial performance. The firms selected are:

1. TVS Motor Company
2. Tata Motors Ltd
3. Maruti Suzuki Ltd

The firms have been selected considering their impact on the Automotive Industry of India. The firms are considered as the top performers of the industry, and have had a global reach to reach further heights of expansion. Convenience Sampling was used to determine the sample.

SOURCES OF DATA

The data for the current study can be classified as Secondary Data, with the data sources being the annual reports of the various select firms for the research.

DATA ANALYSIS AND RESULTS

CASH FLOW STATEMENT ANALYSIS

The values of Cash from Operations, Cash from Investing, and Cash from Financing can be summarised as below:

Maruti Suzuki (in crores)

	2014-15	2015-16	2016-17	2017-18	2018-19
Operations	6410.6	8433.1	10284.7	11785.0	6593.2
Investing	(4499.9)	(7175.9)	(9181.5)	(8282.1)	(3538.3)
Financing	(1962.1)	(1236.4)	(1129.3)	(3446.0)	(2947.8)

Interpretation

From the above graph it can be seen that Cash from Operations increased over the years and fell drastically in the fifth year. Cash from Financing maintained a slow growth for three years, fell in the fourth year, and rose in the fifth year. Cash from Investing fell drastically for three years, and rose in the last two years. Overall, the performance of Maruti Suzuki has been satisfactory, to the point where it is good for investors for investing. Maruti Suzuki has shown a good performance through the years.

Tata Motors (in crores)

	2014-15	2015-16	2016-17	2017-18	2018-19
Operations	(2562.67)	2346.18	4028.96	4133.94	(3820.55)
Investing	601.4	(2925.96)	(2737.98)	(710.27)	6292.63
Financing	2631.53	(71.14)	1119.21	(3105.63)	(2529.70)

Interpretation

From the above graph, it can be observed that Tata Motors has experienced volatility in its cash flows, with steep changes in the values of cash in various activities. While Cash from Operations grew gradually and fell suddenly, Cash from Investing experienced an increase and later on a fall in the four years. It is to be noted that positive values for Investing are not beneficial for the firm. Cash from Financing was volatile, with falls and increases, ultimately leading to a decrease in the fifth year, when compared to the first year. The performance of Tata Motors has been difficult to assess and predict, with such huge and erratic changes. It can be safely assumed that Tata Motors has barely scraped by, in terms of performance.

TVS Motor Company (in crores)

	2014-15	2015-16	2016-17	2017-18	2018-19
Operations	84.84	845.65	723.93	308.66	1097.78
Investing	(493.27)	(519.52)	(748.12)	(1049.42)	(1002.28)
Financing	330.82	(300.64)	(72.70)	896.54	81.13

Interpretation

From the above graph, it is obvious that Cash from Investing has been increasing over time, but has decreased by a small percent, in the fifth year. Cash from Operations has experienced an increase in the second year, and a slow fall in the third and fourth years, and a steep increase in the fifth year. Cash from Financing has experienced an increase in the second year, but third and fourth years show the firm's inability to pay off its interest and dividend dues. The fifth year shows a fall, meaning that the firm was able to pay off its principal and interest dues. Overall, despite the figures being small when compared to the other mentioned firms, TVS Motors has been performing well.

FINANCIAL RATIO ANALYSIS

1. **LIQUIDITY RATIOS**

Year	Current Ratio			Quick Ratio		
	Maruti Suzuki	TVS	Tata	Maruti Suzuki	TVS	Tata
2014-15	0.68	0.87	0.42	0.41	0.66	0.42
2015-16	0.70	0.72	0.51	0.45	0.58	0.41
2016-17	0.55	0.71	0.53	0.35	0.54	0.42
2017-18	0.49	0.66	0.57	0.31	0.51	0.44
2018-19	0.56	0.65	0.54	0.37	0.56	0.51

Interpretation – Current Ratio:

Maruti Suzuki has the peak current ratio of 0.70:1. It can be observed that the current assets are not enough for the firm, to meet the liabilities. This is not an ideal situation, but the Cash from Operations for the firm have been strong for the years, which might provide enough cash for clearing the liabilities.

TVS Motors has the peak current ratio of 0.87:1. The current ratio has shown a decreasing trend through the years. The firm's Cash from Operations have not been strong to support such weak current ratio, making it difficult for the firm to meet its liabilities. The firm has experienced negative cash flows from operations twice in the five-year period, and the positive cash flows have only shown a gradual increase in the three years.

Tata Motors has shown an increasing trend for the first four years, and has shown a decrease in the fifth year. The values of the current ratio are very less, with the peak being 0.57:1. The performance has been better than Maruti Suzuki, which has shown erratic decreases.

Interpretation – Quick Ratio:

Maruti Suzuki has the peak quick ratio of 0.45:1. The liquid assets are not even half of the liabilities owed by the firm. The ratio shows a decreasing trend after the second year.

TVS Motors has the peak quick ratio of 0.66:1. But from the graph it can be deduced that the firm has experienced a downward trend of the quick ratio. The quick ratio rose in the fifth year.

Tata Motors has shown an upward trend of quick ratio through the years, with the peak being 0.51:1. The firm does not show an ideal performance, despite there being an upward trend, as the amount of quick assets are not even half of the current liabilities of the firm.

From the graphs, it can be observed that TVS Motors has shown the best performance in terms of Liquidity Ratios, even if it isn't ideal, among the three firms.

2. **PROFITABILITY RATIOS**

Year	Operating Profit Margin			Net Profit Margin		
	Maruti Suzuki	TVS	Tata	Maruti Suzuki	TVS	Tata
2014-15	13.43	5.98	-3.40	7.42	3.44	-13.05
2015-16	15.44	7.29	6.87	9.32	4.40	-0.14
2016-17	15.21	7.06	3.63	10.80	4.59	-5.48
2017-18	15.12	7.46	5.62	9.68	4.37	-1.75
2018-19	12.78	7.87	7.13	8.71	3.68	2.91

Interpretation – Operating Profit Margin:

Maruti Suzuki has shown this ratio more than the ideal levels of EBIT margin. This means that the firm is maintaining a financial stability and is gaining profits well and above the expected levels.

TVS Motors has shown a gradual increase in the first four years, but has shown a decrease in the EBIT levels in the fifth year. Despite the consistent performance, the values of EBIT levels are very low, meaning that the firm isn't converting the revenues of the firm into profits.

Tata Motors has shown an increase in the operating profit margins, through the years, despite a fall in the third year. The levels start from a negative and rise to the peak of 7.13%. This shows that the firm is still unable to convert a lot of its revenues into profits.

Interpretation – Net Profit Margin:

Maruti Suzuki has peaked at 10.80%, meaning the net profit margin lied between poor and average, for the five years.

TVS Motors experienced a poor net profit margin for the five years, with the highest being 4.59%.

Tata Motors has peaked at 2.91% and has the lowest at -13.05%, which means that the firm has not been able to convert its sales into profit.

3. ACTIVITY RATIOS:

Year	Inventory Turnover Ratio			Total Asset Turnover Ratio		
	Maruti Suzuki	TVS	Tata	Maruti Suzuki	TVS	Tata
2014-15	21.08	13.19	8.23	2.12	3.99	1.16
2015-16	20.77	17.36	9.46	1.94	4.16	1.26
2016-17	23.69	13.64	8.83	1.86	3.53	1.19
2017-18	25.94	16.04	10.52	1.92	3.92	1.78
2018-19	25.87	15.49	14.84	1.88	3.90	1.94

Interpretation – Inventory Turnover Ratio:

When compared to the industry averages, it can be seen that the firms have met the industry averages once or twice in the five years span. Maruti Suzuki has shown an increase in this ratio through the years, while TVS Motors has shown fluctuations through the years. Tata Motors has also shown an increase in the inventory turnover ratio, through the years.

Despite such performance, it is to be noted that the values are extremely below the industry averages, which makes the performance of the firms' poor. The firms have not been able to sell their products easily, and have held more inventory, when compared to sales.

The firms have not been able to sell their goods as expected.

Interpretation – Total Asset Turnover Ratio:

Maruti Suzuki has shown a decreasing trend in the asset turnover ratio, with the highest being 2.12, in the year 2014-15. TVS Motors has shown a varying trend, with increases and decreases. The highest ratio was 4.16 in the year 2015-16. Tata Motors has shown an increasing trend in the ratio, with the highest being 1.94, in 2018-19.

From the three firms, TVS Motors has performed the best, in terms of Activity Ratios. Maruti Suzuki has shown a poor performance in the asset turnover ratio. Tata Motors has shown poor performance in both the ratios.

4. SHAREHOLDER RATIOS:

Year	EPS			Retention Ratio		
	Maruti Suzuki	TVS	Tata	Maruti Suzuki	TVS	Tata
2014-15	122.85	7.32	-14.72	79.66	74.05	100
2015-16	177.58	10.30	-0.18	85.93	64.56	100
2016-17	243.32	11.75	-7.15	85.62	78.72	100
2017-18	255.62	13.95	-3.05	70.66	76.34	100
2018-19	248.30	14.11	5.95	67.79	75.19	100

Interpretation – Retention Ratio and EPS:

The industry has shown complete retention of the profits, in the five-year time period, which is also done by Tata Motors. Maruti Suzuki has an increasing trend for three years, and a decreasing trend for the last two years. TVS Motors has shown erratic changes for each year of the five-year time period.

This means that while Tata Motors has not paid its dividends and has chosen to reinvest the retained earnings, Maruti Suzuki and TVS Motors have paid the dividends and have reinvested only a part of the total earnings.

Also considering the values of Earnings per Shar or EPS, it can be observed that Maruti Suzuki has the highest value, while Tata Motors has the least. It can be considered that Maruti Suzuki has performed well, in terms of Shareholder Ratios.

FINDINGS

- From the Cash Flow Statements, it is concluded that Maruti Suzuki has performed well, in terms of Cash from Operations. Cash from Operations is one of the benchmarks taken into consideration by the investors, during investments.
- The cash flow statements of Tata Motors show that the performance for the select time period is considered poor, taking into account the size of the firm and its spread world- wide.
- TVS Motors has shown a poor Operations performance, in the sense, the firm does not seem to raise Cash from Operations as expected. Though the trend shows a growth, the figures are low, when compared to the other two firms.
- From the Financial Ratios, it is seen that Tata Motors has shown a subpar performance in all the ratios calculated, which is lower than the industry's standards and the ideal ratio standards.
- TVS Motors and Maruti Suzuki have met and have gained more than the industry averages, for all the five years, in terms of financial ratios. They ratios, despite not being ideal, have been close to the ideal values, making their performance better.
- Considering both the Cash Flow Statement and Financial Ratio aspects, it can be seen that Maruti Suzuki has performed the best, and Tata Motors has performed the least, among the three firms.

CONCLUSION

This study concludes that the firms selected have not performed well, in the given time period. The firms were the top three performers in the selected time period, and their performance only reflects the poor performance of the Automotive industry as a unit. The Industry Averages, which were used to compare the firms' performances, have been abysmal. The changes in the environmental norms, the introduction of Bharat VI laws, and the growing prices, along with the economic slowdown experienced by the economy have affected the performance of the firms, along with the industry, and it is clearly reflected in the cash flow statements and the financial ratios of the firms.

SUGGESTIONS

The following are the suggestions to the firms:

Maruti Suzuki India Limited:

1. Take measures such as checking and improving inventory, and liquidation of old inventory.
2. Revaluation of operating expenses.
3. Giving preference to leasing equipment, rather than buying equipment.
4. Increase Conversion Rate.

TVS Motor Company:

1. Maintain a high conversion rate.
2. Reduce overall direct costs.
3. Improve the inventory management.

Tata Motors:

1. Improve the inventory management of the firm.
2. Control the direct and operating costs of the firm.
3. Since the EPS is low, consider a share repurchase to increase the value of EPS.

ACKNOWLEDGEMENT

The most important person I would like to thank and express my gratitude would be my guide, **Dr. Sindhu, Professor, SMS, JNTUH,** who mentored me with the best of advice. Her timely counseling and guidance were very crucial for completion of the project.
I would also like to thank my parents and friends who encouraged me at all times.

Finally, I would like to thank all my classmates for supporting me in the completion of my project.

BIBILOGRAPHY AND REFRENCES

1. Anthony P. D'Costa; The Restructuring of the Indian Automobile Industry: Indian State and Japanese Capital; World Development Vol.23; pp. 485-502; 1995
2. Sarbarpriya Roy; Assessing Corporate Financial Distress in Automobile Industry of India: An Application of Altmann's Model; Research Journal of Finance and Accounting; Vol 2, No 3, 2011
3. Dr. Govind P. Shinde, Dr. Manisha Dubey; Automobile Industry and Performance of Key Players; Asian Journal of Technology & Management Research; Vol 01, Issue – 02, Jul – Dec 2011
4. www.marutisuzuki.com
5. www.tvsmotors.com
6. www.tatamotors.com