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Liquidity and Profitability Position of Select Automobile Companies in India

Dr. K. Jothi[1]
Associate Professor, Department of Commerce, Karpagam Academy of Higher Education, Cbe-21, India

A. Geethalakshmi[2]
Ph.D Research Scholar, Department of Commerce, Karpagam Academy of Higher Education, Cbe-21, India

Abstract: The Indian auto industry is one of the largest in the world with an annual production of 23.37 million vehicles in FY 2014-15. The automobile industry accounts for 7.1 per cent of the country's gross domestic product (GDP). The study is based on development of industries depends on several factors such of financial personal, technology, quality of the product and marketing. Statistical tools were used, Ratio analysis, summary of statistics, correlation. It was found that there higher level of consistency (Liquidity position) is noticed in TVS motors. it is suggested that Tata motors and TVS motors should maintain ideal current ratio & quick ratio. It was found that there higher level of consistency (profitability position) is noticed in TVS motors & Tata motors. There is a positive relationship between the profitability, Short term and Long term capital. It revealed that capital impact on profitability.

Key words: Liquidity, Profitability, Ratio analysis, Correlation analysis.

I. INTRODUCTION

The Indian auto industry is one of the largest in the world with an annual production of 23.37 million vehicles in FY 2014-15, following a growth of 8.68 per cent over the last year. The automobile industry accounts for 7.1 per cent of the country's gross domestic product (GDP). The Two Wheelers segment with 81 per cent market share is the leader of the Indian Automobile market owing to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the sector. The overall Passenger Vehicle (PV) segment has 13 per cent market share. India is also a prominent auto exporter and has strong export growth expectations for the near future. In FY 2014-15, automobile exports grew by 15 per cent over the last year. In addition, several initiatives by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the Two Wheeler (2W) and Four Wheeler (4W) market in the world by 2020.

Market Size

The industry produced a total 14.25 million vehicles including PVs, commercial vehicles (CVs), three wheelers (3W) and 2W in April-October 2015 as against 13.83 in April-October 2014, registering a marginal growth of 3.07 per cent year-on-year.

The sales of PVs grew by 8.51 per cent in April-October 2015 over the same period last year. The overall CVs segment registered a growth of 8.02 per cent in April-October 2015 as compared to same period last year. Medium & Heavy Commercial Vehicles (M&HCVs) registered very strong growth of 32.3 per cent while sales of Light Commercial Vehicles (LCVs) reduced by 5.24 per cent during April-October 2015 year-on-year.

In April-October 2015, overall automobile exports grew by 5.78 per cent. PVs, CVs, 3Ws and 2Ws registered growth of 6.34 per cent, 17.95 per cent, 18.59 per cent and 3.22 per cent respectively in April-October 2015 over April- October 2014. The Indian automotive sector has the potential to generate up to US$ 300 billion in annual revenue by 2026, create 65 million additional jobs and contribute over 12 per cent to India's Gross Domestic Product, as per the Automotive Mission Plan 2016-26 prepared jointly by the Society of Indian Automobile Manufacturers (SIAM) and government.

Statement of the problem

- The study is based on development of industries depends on several factors such of financial personal, technology, quality of the product and marketing.
- Out of these, financial aspect assumes a significant role in determining the growth of industries.
- Company's operations virtually affect when it needs after cash. With the help of the profit and loss account of the company the analysis helps to find out the deviation in the net sales, operating expenses, operating profit, deductions such as depreciation, tax, etc and the net profit of the organization.
- The optimum utilization of resources, efficient management of activities, control on the costs and expenses, and enhancement of productivity is essential for the survival of the organization.

Objectives of the study

- To analysis the short term solvency position of the select automobile companies.
- To identify the long term solvency financial position of the select automobile companies.
- To analyze the profitability position of the select automobile companies.
- To suggest recommendations for future growth and development of the select industries in India.

Scope of the study

- ➢ The study aims to measure the liquidity, solvency, efficiency, profit and growth of select industries and identify the drawbacks which are of the indicators of the low performance of the industry.
- ➢ The result of the study may help the management of the industries in taking suitable decisions for better performance in future.

Research Methodology

Research Design

- Research design is the arrangement of activities for the collection and analysis of the data in a manner that aims to combine relevance to the purpose with economy in procedure. The study carried out here is an Analytical Research

Collection of Data

The secondary data collection was adopted in this study. The automobile companies are:

- ➢ Tata Motors
- ➢ Maruti
- ➢ Mahindra &Mahindra
- ➢ TVS Motor

Period of Study: The period of study covers 5 years (2011-2012 to 2015-2016).

Statistical Tools for Analysis

- ➢ Ratio analysis
- ➢ Summary of statistics
- ➢ Correlation analysis.

II. REVIEW LITERATURE

Shurveer S. Bhanawat(2011) in this study **"Impact of Financial Crisis on The Financial Performance of The Indian Automobile Industry"** India a country diverse in culture and religion, strong in will and manpower, large in size and opportunities has become a highly wooed automobile market. On the analyses of the t-Test and Analysis of Variance, it is found that the impact is not significant which proves that though the global economies are impacted by recession, the Indian Automobile Sector showed resilience and was not affected significantly by the recession.

Dharmaraj and Kathirvel (2013), the Indian Automobile Industry marked a new journey in the 1991 with the financial revolutionary New Industrial Policy Act 1991, opening automatic route which allowed the 100 per cent Foreign Direct Investment(FDI). Here, an attempt is made to find out the effect of FDI on the financial performance of Indian Automobile Industry. For this purpose, sixteen companies were selected and analysed through various financial ratios. Descriptive statistical tools like Mean, Standard Deviation and Student's paired't' Test were used to test the hypothesis. The liquidity analysis showed little changes and profitability analyses showed an increasing trend during post FDI when compared to pre FDI. The efficiency analysis showed that the companies are efficiently utilising the available resources during post FDI as compared to pre FDI. It is concluded that foreign direct investment in India makes positive impact on the financial variables of the Automobile Companies.

Ray (2012) ,this study tries to evaluate the performance of Indian automobile industry in terms of various financial indicators, sales trend, production trend, export trend etc. for the period of 2003-04 to2009-10.The result suggests that the automobile industry has been passing through turbulent phases characterized by enhanced debt burden, low utilization of assets, and above all, huge liquidity crunch . The key to success in the industry is to improve labour productivity, labour flexibility, and capital efficiency.

Kale (2011), in the last decade the Indian auto industry has shown increasing levels of technological sophistication and significant growth. The Indian auto industry consists of local firms with indigenous design and development capability, well established global brands and has marketing presence in Indian as well as other emerging markets. This paper tracks capability development in the Indian auto industry and seeks to understand the factors,both internal and external to firms that have shaped innovative capabilities. It points out that the Indian Government's industrial policy secured development of basic capabilities but restricted innovative capability development in auto manufacturing. This paper reveals that key attributes of firm ownership such as managerial vision and diversified nature of business, helped Indian firms in the development of the innovative capabilities.

Sharma (2008) in her study on 'Indian Automotive Industry' has analysed the sales and capabilities of different firms in automobile industry. The study further indicates that the growth in the automobile sector is expected to grow due to rising disposable income and increasing consumerism. The global automakers will continue to allocate a rising proportion of the foreign direct investment in India, growing auto-manufacturing first and latter auto engineering R&D services. Many companies are aware of the fact that their labour cost advantage is beginning to erode as both shop floor and managerial wage costs rise. However, they are optimistic that productivity improvements through low cost automation and improved management efficiency will compensate to rising direct wage cost

III. PROFILE OF THE COMPANY

Tata Motors

Tata Motors Limited (formerly **TELCO**, short for **Tata Engineering and Locomotive Company**) is an Indian multinational automotive manufacturing company headquartered in Mumbai, Maharashtra, India, and a subsidiary of the Tata Group. Its products include passenger cars, trucks, vans, coaches, buses, construction equipment and military vehicles. It is the world's 17th-largest motor vehicle manufacturing company, fourth-largest truck manufacturer, and second-largest bus manufacturer by volume

Maruti Suzuki India Limited

Maruti Suzuki India Limited, formerly known as Maruti Udyog Limited, is an automobile manufacturer in India. It is a subsidiary of Japanese automobile and motorcycle manufacturer Suzuki. As of November 2012, it had a market share of 50% of the Indian passenger car markets. Maruti Suzuki manufactures and sells popular cars such asthe Alto, Ritz, Celerio, Swift, WagonR, Zen ZenEstilo, SwiftDZire, Ciaz, Kizashi, SX4, Eeco, Omni, Ertiga, S-Cross and the Grand Vitara.

The company's headquarters are at No 1, Nelson Mandela Road, New Delhi. In February 2012, the company sold its ten millionth vehicle in India

Mahindra and Mahindra Limited

Mahindra and Mahindra Limited (M&M) is an Indian multinational automobile manufacturing corporation headquartered in Mumbai, Maharashtra, India. It is one of the largest vehicle manufacturers by production in India and the largest manufacturer of tractors across the world. It is a part of Mahindra Group, an Indian conglomerate.

It was ranked as the 10th most trusted brand in India, by The Brand Trust Report, India Study 2014. It was ranked 21st in the list of top companies of India in Fortune India 500 in 2011

TVS Motor Company

TVS Motor Company is the third largest two-wheeler manufacturer in India and one among the top ten in the world, with annual revenue of more than Rs.10,098 Cr in 2014-15 (around USD 1.6 billion), and is the flagship company of the, USD 7.29 billion in 2013-14, TVS Group. The company has an annual sale of 2.5 million units a year. TVS Motor Company is also the 2nd largest exporter in India with exports to over 60 Countries.

IV. Analysis and Interpretation

I .Liquidity and Solvency Ratios

Table No.1. Current ratio

Year	Tata Motors	Maruti	Mahindra &Mahindra	TVS Motor
2011	0.70	1.57	1.39	0.87
2012	0.83	1.13	1.39	0.73
2013	0.81	1.04	1.47	0.84
2014	0.94	0.78	1.65	0.80
2015	0.80	0.69	1.43	0.82
Avg	**0.816**	**1.042**	**1.466**	**0.812**
SD	**0.0781025**	**0.18175**	**0.11719**	**0.02**
CV(%)	**9.57138441**	**17.4425**	**7.99381**	**2.46305**

Interpretation

This table shows that the higher level of consistency of TVS motor and Tata motors.

Table No.2. Quick ratio

Year	Tata Motors	Maruti	Mahindra &Mahindra	TVS Motor
2011	0.72	1.27	1.34	0.51

2012	0.73	1.03	1.37	0.47
2013	0.70	0.90	1.48	0.49
2014	0.78	0.68	1.64	0.52
2015	0.66	0.42	1.60	0.58
Avg	**0.718**	**0.86**	**1.486**	**0.514**
SD	**0.0438178**	**0.32581**	**0.13372**	**0.04159**
CV(%)	**6.1027583**	**37.8845**	**8.99839**	**8.09208**

Interpretation

This table shows that the higher level of consistency of TVS motor, Maruti and Tata motors.

Table No.3. Debt equity ratio

Year	Tata Motors	Maruti	Mahindra &Mahindra	TVS Motor
2011	1.60	0.02	0.99	1.28
2012	1.17	0.08	1.13	1.58
2013	1.16	0.08	1.16	1.02
2014	0.84	0.09	1.21	0.62
2015	1.23	0.01	1.14	0.83
Avg	**1.2**	**0.056**	**1.126**	**1.066**
SD	**0.27064737**	**0.03782**	**0.08204**	**0.3764**
CV(%)	**22.5539477**	**67.5274**	**7.28566**	**35.3099**

Interpretation

This table shows that the higher level of consistency Maruti.

II. Profitability Ratios

Table No.1. Gross Profit Ratio

Year	Tata Motors	Maruti	Mahindra &Mahindra	TVS Motor
2011	9.95	7.13	13.91	3.41
2012	10.07	3.77	9.38	4.05
2013	8.99	5.50	10.23	3.54
2014	10.20	6.94	10.74	4.03
2015	9.83	8.52	9.26	4.11
Avg	**9.808**	**6.372**	**10.704**	**3.828**
SD	**0.4775144**	**1.80568**	**1.89358**	**0.32683**
CV(%)	**4.86862151**	**28.3377**	**17.6904**	**8.53796**

Interpretation

The table shows that the higher level of consistency (profitability position) is noticed in TVS motors & Tata motors.

Table No.2. Net Profit Ratio

Year	Tata Motors	Maruti	Mahindra &Mahindra	TVS Motor
2011	7.59	6.41	8.35	1.95
2012	8.15	4.65	5.26	1.78
2013	5.23	5.57	5.96	2.67
2014	6.00	6.41	6.30	2.22
2015	5.32	7.49	4.36	3.18
Avg	**6.458**	**6.106**	**6.046**	**2.36**
SD	**1.33763597**	**1.06155**	**1.48667**	**0.56846**
CV(%)	**20.7128519**	**17.3853**	**24.5893**	**24.0874**

Interpretation

The table shows that the higher level of consistency (profitability position) is noticed in Tata motors.&Maruti

Table No.3.Operating Profit Ratio

Year	Tata Motors	Maruti	Mahindra	TVS Motor

			&Mahindra	
2011	13.77	9.90	16.55	5.45
2012	13.46	6.99	12.42	6.18
2013	13.00	9.76	13.26	5.91
2014	14.96	11.70	13.67	5.81
2015	14.93	13.47	12.22	5.84
Avg	**14.024**	**10.364**	**13.624**	**5.838**
SD	**0.8843246**	**2.41848**	**1.74047**	**0.26148**
CV(%)	**6.30579436**	**23.3354**	**12.775**	**4.47887**

Interpretation

The table shows that the higher level of consistency (profitability position) is noticed in Tata motors & TVS motors.

Table No.4.Return On Capital Employed

Year	**Tata Motors**	**Maruti**	**Mahindra &Mahindra**	**TVS Motor**
2011	25.49	21.63	19.18	16.04
2012	24.17	13.02	16.62	16.85
2013	21.87	15.87	17.19	15.80
2014	20.39	16.77	16.39	22.21
2015	21.32	21.07	12.99	19.85
Avg	**18.384**	**13.458**	**13.876**	**14.18**
SD	**2.11310672**	**3.6371**	**2.23616**	**2.7856**
CV(%)	**11.4942707**	**27.0256**	**16.1153**	**19.6445**

Interpretation

The table shows that the higher level of consistency (profitability position) is noticed in Tata motors & Mahindra & Mahindra.

Table No.4.Return On Net Worth

Year	**Tata Motors**	**Maruti**	**Mahindra &Mahindra**	**TVS Motor**
2011	48.73	16.64	21.57	18.76
2012	40.88	10.72	18.73	18.24
2013	26.31	12.97	20.55	22.08
2014	21.33	13.27	20.03	18.34
2015	24.86	15.65	12.14	26.65
Avg	**32.422**	**13.85**	**18.604**	**20.814**
SD	**11.7798714**	**2.34157**	**3.75555**	**3.62721**
CV(%)	**36.3329572**	**16.9066**	**20.1868**	**17.4268**

Interpretation

The table shows that the higher level of consistency (profitability position) is noticed in TVS motors & Maruti.

III. CORRELATION BETWEEN LIQUIDITY AND PROFITABILITY

CR TO GPR	0.58
CR TO NPR	0.41
CR TO OPR	0.46
QR TO GPR	0.73
QR TO NPR	0.55
QR TO OPR	0.54
DER TO GPR	0.35
DER TO NPR	0.21
DER TO OPR	0.19

V. FINDING AND SUGGESTION

- A study has been highlighted the liquidity and profitability position of automobile industry. Hence, it is suggested that Tata motors and TVS motors should maintain ideal current ratio & quick ratio.
- It was found that there higher level of consistency (Liquidity position) is noticed in TVS motors.

- It was found that there higher level of consistency (profitability position) is noticed in TVS motors & Tata motors.
- There is a positive relationship between the profitability, Short term and Long term capital. It revealed that capital impact on profitability.

VI. CONCLUSION

Liquidity management is of crucial importance in the overall financial management decision of a business unit. The purpose of this study is to investigate the liquidity management efficiency and profitability position of selected automobile companies. In the present study an attempt is made to investigate the liquidity position. of automobile industry. By applying various accounting ratios and statistical techniques. There is a positive relationship between the profitability, Short term and Long term capital. It revealed that capital impact on profitability.

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