

## Performances of selected automobile companies in India: A analytical study

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### Abstract

The automobile industry is one of the key drivers that boost the economic growth of the country. In this present era of Liberalisation, Privatisation and Globalisation (LPG) the Indian automobile market has become globally competitive; hence the survival of an enterprise depends upon the efficiency and accuracy. Based on this concept this study aims to assess the size, growth and profitability of selected automobile manufacturing companies functioning in India. In terms of size and growth of automobile industry segments such as HCV & LCV, motor cycles and tractors segment are in a substantially good position with consistent growth between the years 2004-05 to 2013-14, except HMT Ltd. Whereas the performances (size, growth) of auto cars and scooters & three wheelers segments are observed to be poor and the companies have gained a negative growth in terms of profitability. While comparing the profitability status of the companies only few Atul Auto Ltd (Scooters & Three Wheelers), International Tractors Ltd (Tractors) and Tractors & Farm Equipment Ltd (Tractors) are found to be profitable between the ten years study period, whereas the other companies have incurred serious loss during the same period.

**Keywords:** Profitability, growth, automobile industry, companies and size

### Introduction

The automobile industry is one of the key drivers that boost the economic growth of the country. Since the de-licensing of the sector in 1991 and the subsequent opening up of 100 per cent FDI through automatic route, Indian automobile sector has come a long way. Today, almost every global auto major has set up manufacturing units in the country. The automotive industry in India is one of the largest in the world with an annual production of 23.37 million vehicles in the financial year 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 accounts for 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 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 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.

The Indian automobile industry has a prominent future in India. Apart from meeting the advancing domestic demands, it is penetrating the international market too. Favoured with various benefits such as globally competitive auto-ancillary industry; production of steel at lowest cost; inexpensive and high skill manpower; entrenched testing and R & D (Research and Development) centres etc., the industry provide immense investment and employment opportunities. The economic contribution of this sector is significant. It facilitates the

improvement in various infrastructure facilities like power, rail and road transport. Due to its deep forward and backward linkages with several key segments of the economy, the automobile industry is having a strong multiplier effect on the growth of a country and hence is capable of being the driver of economic growth. It plays a major catalytic role in developing transport sector in one hand and help industrial sector on the other to grow faster and thereby generate a significant employment opportunities. In India, automobile is one of the largest industries showing impressive growth over the years and has been significantly making increasing contribution to overall industrial development in the country. All such initiatives indicate that the Indian automotive industry has been emerging as a sunrise sector of the economy.

### Statement of Problem

In this present era of Liberalisation, Privatisation and Globalisation (LPG) the Indian automobile market has become globally competitive; hence the survival of an enterprise depends upon the efficiency and accuracy. Hence, it is necessary to evaluate the financial performance of automobile companies to know where the competitive stand of the companies in the market environment. In the current study the performances of the selected automobile companies are assessed based on three important parameters i.e., their size, growth and profitability.

### Objective of the study

The study aimed to assess the size, growth and profitability of selected automobile manufacturing companies functioning in India.

### Research Methodology

The present study is diagnostic and exploratory in nature. The study is primarily based on the secondary data. In the first

stage of the study, desk research was carried to collect, review and draw a clear empirical understanding of previous research works and their discussion on size, growth, profitability and performances of selected automobile companies functioning in India. In the second stage, secondary data for descriptive analysis were collected from Capitaline plus for ten years 2004-05 to 2013-14. As on date in India there are 39 automobile companies are functioning, of which few are listed companies and few are unlisted companies. Out of the 39 automobile companies it has been that only 17 companies have continuous time series for ten years. These 17 companies were selected as the sample for the effective conduct of this study.

**Results and Discussion of the study**

Automobile companies' performance can be measured in different ways and by applying various methods. The size of a

firm is the amount and variety of production capacity and ability a firm possesses or the amount and variety of services a firm can provide concurrently to its customers. The size of a firm is a primary factor in determining the profitability of a firm due to the concept known as economies of scale which can be found in the traditional neo classical view of the firm. It reveals that contradictory to smaller firms, items can be produced on much lower costs by bigger firms. In accordance with this concept, a positive relationship between firm's size and profitability is predicted. Other than the size of a firm; firm performance is affected by a variety of internal and external variables. Therefore, apart from mere investigating the relationship between firm size and performance, it is crucial to explore the impact of various variables like: sales, liquidity, financial leverage, operational efficiency and tangibility of assets in determining firm profitability.

**Table 1:** Size, Growth and Profitability of The Selected Automobile Companies Operating in India (2004-05 to 2013-14) (Values in `Crores)

Automobile Company	Size		Growth		Profitability	
	Value	CGR	Value	CGR	Value	CGR
<b>Auto Car Segment</b>						
Hindustan Motors Ltd	193.28	-18.71	757.19	-6.67	-14.86	-
Hyundai Motor India Ltd	5726.09	12.20	17724.16	17.48	11.84	-2.27
Maruti Suzuki India Ltd	12449.65	17.48	29978.36	14.81	16.04	-6.67
<b>HCV &amp; LCV Segment</b>						
Ashok Leyland	5320.11	20.22	9494.90	9.64	9.47	-24.14
Force Motors Ltd	677.99	17.48	1496.34	9.64	11.07	-
SML Isuzu Ltd	275.60	14.81	841.48	4.71	10.40	-6.67
TATA Motors Ltd	24847.07	23.02	37168.84	9.64	8.94	-29.20
<b>Motor Cycle Segment</b>						
Hero Motor Corp	4020.75	14.81	17145.33	12.20	39.94	-1.14
Majestic Auto Ltd	127.13	14.81	138.97	4.71	6.69	-
TVS Motor Comp. Ltd	1629.54	7.15	5495.04	9.64	8.14	2.32
<b>Scooters &amp; Three Wheelers</b>						
Atul Auto Ltd	58.40	7.15	219.51	17.48	14.77	23.02
Maharashtra Scooters Ltd	211.61	2.32	10.13	-12.90	7.81	-
Scooters India Ltd	57.74	-2.27	172.99	2.32	-43.77	-
<b>Tractor</b>						
HMT Ltd	1231.06	-0.06	175.38	-8.79	-3.02	-
International Tractors Ltd	808.96	20.22	1723.35	17.48	24.95	2.09
Mahindra & Mahindra Ltd	10956.70	23.02	22204.62	23.02	17.72	-4.50
Tractors & Farm Equipment Ltd	1511.18	20.22	3215.84	17.48	19.41	7.15

Source: Computed Data from www.Capitalineplus.com

Ten years average business size, growth and profitability status of the 17 companies are presented in detail in the above table. It has been inferred that in the Auto car segment the assets size and sales of the Maruti Suzuki India Ltd is highest compared to the Hyundai Motor India Ltd and Hindustan Motors Ltd. However, it has been observed that the profitability of Hyundai Motor India Ltd is observed to be healthier in comparison to other two companies. In the Heavy and Light Commercial Vehicle segment Tata Motor is the largest companies in term of both sales and assets size, however, the profitability of this company is comparatively lower than that of Force Motors Ltd and SML Isuzu Ltd. In case of Motor cycle, Hero Motor Crop is observed to be the market leader with the highest assets size, sales growth and profitability. However, this company has experiences reduction in its profitability margin to extend of -1.14 per cent per annum during the study period 2004-05 to 2013-14.

Further, it has been, Scooters & Three Wheelers segment though Maharashtra Scooters Ltd has largest assets size in its category, the company has experiences depletion in sales volume, which in turn has effects its profitability position. But, Atul Auto Ltd has realised sustainable growth in all the three basic financial parameters i.e., assets size, growth and profitability. In the tractor segment Mahindra & Mahindra Ltd is the largest company with heavy base of assets size and sales growth, again it was observed that the profitability of this company has suffered to the extent of -4.50 per cent per annum. The heavy competition among the auto manufacturing companies, entry of MNCs (Multi-National Companies) and increase in raw material costs have forced the auto manufacturing companies to strategically manage the soaring cost of manufacturing and forgoing their profit margins, which is clearly depicted in the study, as the profit margin of all most all big corporates have suffered a major hit.

**Table 2:** Ranking of The Company Based on Its Assets Size, Sales Growth and Profitability (Values in `Crores)

Company	Size		Growth		Profitability	
	Value	Rank	Value	Rank	Value	Rank
Ashok Leyland	5320.11	5	9494.9	6	9.47	10
Atul Auto Ltd	58.4	16	219.51	13	14.77	6
Force Motors Ltd	677.99	11	1496.34	10	11.07	8
Hero Motor Corp	4020.75	6	17145.33	5	39.94	1
Hindustan Motors Ltd	193.28	14	757.19	12	-14.86	16
HMT Ltd	1231.06	9	175.38	14	-3.02	15
Hyundai Motor India Ltd	5726.09	4	17724.16	4	11.84	7
International Tractors Ltd	808.96	10	1723.35	9	24.95	2
Maharashtra Scooters Ltd	211.61	13	10.13	17	7.81	13
Mahindra & Mahindra Ltd	10956.7	3	22204.62	3	17.72	4
Majestic Auto Ltd	127.13	15	138.97	16	6.69	14
Maruti Suzuki India Ltd	12449.65	2	29978.36	2	16.04	5
Scooters India Ltd	57.74	17	172.99	15	-43.77	17
SML Isuzu Ltd	275.6	12	841.48	11	10.4	9
TATA Motors Ltd	24847.07	1	37168.84	1	8.94	11
Tractors & Farm Equipment Ltd	1511.18	8	3215.84	8	19.41	3
TVS Motor Comp. Ltd	1629.54	7	5495.04	7	8.14	12

*Source:* Computed Data from www.Capitalineplus.com 2004-05 to 2013-14

The above table indicates the ranking of the company based on its assets size, sales growth and profitability. In terms of size of the automobile industry, TATA Motors Ltd is in first place with the average size of .24847.07 crores, followed by Maruti Suzuki India Ltd at .12449.65 crores and Mahindra & Mahindra Ltd at .10956.7 crores, respectively. Whereas the companies such as Majestic Auto Ltd (.127.13 crores), Atul Auto Ltd (.58.4 crores) and Scooters India Ltd (.57.74 crores) are in the least position i.e., in fifteenth, sixteenth and seventeenth places, respectively.

While comparing the growth of the companies, TATA Motors Ltd is in first place with the average size of .37168.84 crores, followed by Maruti Suzuki India Ltd at `29978.36crores and Mahindra & Mahindra Ltd at `22204.62crores, respectively. On the contrary the companies such as Scooters India Ltd (.172.99 crores), Majestic Auto Ltd (.138.97 crores) and Maharashtra Scooters Ltd (.10.13 crores) are ranked in fifteenth, sixteenth and seventeenth places, correspondingly.

Further it has been inferred that, while comparing the profitability status of the companies, Hero Motor Corp is in the first position with average of `39.94 crores, International Tractors Ltd at second place with an average of `24.95 crores and Tractors & Farm Equipment Ltd is tanked in third position with the average profit of `19.41 crores, respectively. However HMT Ltd (-3.02 Crores) Hindustan Motors Ltd (-14.86 Crores), and Scooters India Ltd (-43.77 Crores) are in fifteenth, sixteenth and seventeenth ranks, respectively.

### Major findings of the Study

In terms of size and growth of automobile industry segments such as HCV & LCV, motor cycles and tractors segment are in a substantially good position with consistent growth between the years 2004-05 to 2013-14, except HMT Ltd. Whereas the performances (size, growth) of auto cars and scooters & three wheelers segments are observed to be poor and the companies have gained a negative growth in terms of profitability. While comparing the profitability status of the companies only few Atul Auto Ltd (Scooters & Three Wheelers), International Tractors Ltd (Tractors) and Tractors & Farm Equipment Ltd (Tractors) are found to be profitable between the ten years study period, whereas the other companies have incurred serious loss during the same period.

### Conclusion

The automobile industry in India is gradually evolving to replicate those of developed countries. The trends are emerging in the industry across segments, namely, passenger cars, multi-utility vehicles, commercial vehicles, two-wheelers and tractors. The qualitative analysis of the various trends reveals that the industry offers immense scope even for allied industries and those looking at investing in the auto industry. The Indian automobile industry is undergoing a revolution of sorts. The vehicle war is on. Automobile manufacturing is a highly capital-intensive business. In recent years it has been observed that car manufactures are experiencing lower profit margins primarily because of intense competition. The competition makes it difficult for companies to pass on increases in raw material prices to the customer. Due to high operating leverage, a small increase in input prices adversely affects margins by a significant percentage. Compliance to stringent fuel emission standards and fuel efficiency requirements resulted in significant structural costs for companies as well as to customers. Thus, the auto car manufacturing companies have to act strategically and more spectative in monitoring its size, growth and profitability for realising effective developments and also for future sustainability.

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