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# A study of Financial Performance of select automobile companies in India

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**Abstract:** Both in India and globally, the automotive industry is a major economic force. The sector has a significant multiplier impact on industrial development as a result of its forward and backward links with various other sectors of the economy. Over time, the sector has changed in response to shifting market conditions, including consolidations, restructuring, and other types of transformation. This article compares the financial health of two large Indian automotive manufacturers, Tata Motors and Maruti Suzuki, after the liberalization program. We evaluate the firms' liquidity, efficiency of asset usage, profitability, and other key financial metrics.

**Key Words:** Financial, Profitability, Ratio, Performance, Indian Automobile, Liberalization, Tata Motors, Maruti Suzuki

## Introduction

The Indian car sector has been witnessing significant development over the years and has emerged as a key contributor to India's Gross Domestic Product. About 19 million people are presently employed directly or indirectly by the sector, which contributes almost 7% to the country's GDP. With government support and an emphasis on exports, the automobile industry is projected to contribute double digits to GDP by 2016, as stated in the Automotive Mission Plan 2006-2016. The impact of this expanding industry on the bottom lines of enterprises operating in this space has to be understood. This analysis considers two prominent Indian-origin corporations and evaluates their financial health in this expanding industry. The primary objective of financial analysis is to evaluate the performance of the companies under investigation by determining their resources, earning potential, capacity to fulfill commitments, asset value, liability exposure, etc.

About a century ago, import tariff on automobiles was implemented when the first foreign-made automobile was brought into the country. Indian Great Royal Road (Predecessor of the Grand Trunk Road) was designed. A princely king introduced the first automobile to India in 1898. In 1840, Simpson & Co. was founded. They pioneered the development of steam-powered vehicles in India, including the first steam bus, the first effort at motorcar production, the first gasoline-powered passenger service, and the first import of American Chassis to the country. In the 1850s, India became the world's third country to install railways. Col. Rookes Crompton first used imported steam road rollers, known as streamers, to move public transportation carts in 1865. In 1919 with the conclusion of the war, a huge number of military vehicles arrived on the roadways. Hindustan Motors Ltd. was founded in 1942, and their first car rolled off the assembly line in 1950. Premier Automobiles Ltd. was established in 1944, and its first car was rolled off the assembly line in 1947. Using a license from Piaggio, Bajaj Auto began production a few years after their 1947 proposal to replace the cycle rickshaw with the automobile was approved by the Government of Bombay. In 1955, scooters, motorcycles, mopeds, and automobile production began in India at Automobile Products of India (API) and Enfield India. Bajaj Tempo Ltd. launched a commercial vehicle production line in the Indian market in 1956, and the following year Simpson began producing diesel engines for the company. In 1959, the AIA&AIA (Association of the Component Manufacturers) was founded, and the government authorized Bajaj Auto Ltd. to begin producing Vespa scooters in India, at a rate of 6,000 per year.

With the opening of Indian markets to global automakers and partners, the Indian auto industry has been on a tear since the 1980s. Unfair business practices such as monopoly, oligopoly, etc., gradually vanished when the first round of liberalization was proclaimed. That was the first step toward relaxing the government's protectionist stance. In the 1980s, a plethora of international partnerships emerged. Collaborations with Japanese firms were pursued by several enterprises. In the early 1980s, Hindustan Motors Ltd. and Isuzu of Japan released the Isuzu truck. Since 1982, when the government first started allowing international participation on the production of two-wheelers with an engine size of up to 100 cc, demand for these vehicles has steadily grown.

**Growth of Indian Automotive Industry**

It's common knowledge that the automobile industry has tremendous room for expansion, both in terms of overall sales volume (including exports) and available jobs. Projections from iMaCS, NCAER, and AT Kearney were used to determine the expected future volumes of various vehicle classifications. Calculations of predicted domestic output's worth were made using average car prices over the last several years. Estimates of export potential were made taking into account the most promising developments in key export markets. We also factored in the aftermarket's need for car parts and the industry's potential for export expansion. Furthermore, the automobile sector offers excellent job prospects. There will need to be a large number of people, both skilled and unskilled, to keep up with the increasing output. In addition to direct employment, many semi-skilled and unskilled people in rural and semi-urban regions would be employed as salespeople, financiers, insurers, mechanics, and in other after-sales roles.

**Contribution of Automobile Industry in Economy**

The automobile industry in India has been one of the country's fastest-growing and most important contributors to the country's overall economic growth. The industry has made significant strides in terms of development, technological penetration, and adaptability in the face of a rapidly shifting business environment. In addition, it is gaining popularity all over the globe, and exports of cars and parts have already begun.

**The Present Scenario of Indian Automobile Industry**

The quality of a country's transportation network is directly correlated to the success of its economy and international reputation. The Indian auto industry is expanding rapidly with the country's expanding transportation infrastructure. In addition to employing a sizable percentage of the working population, the automobile sector benefits from strong backward and forward connections. Therefore, the automobile industry is crucial to India's economy. The surge might be attributed to the increased attention paid by many businesses to the wants and budgets of their clients. The automobile sector encompasses a wide range of vehicle types, including motorcycles, scooters, cars, and trucks.

**Review of literature**

(Sumesh Kumar & Bhatia, 2014) studied "financial performance of indian automobile companies after liberalization: a comparative study of maruti suzuki and tata motors" discovered, and Both in India and globally, the automotive industry is a major economic force. The sector has a significant multiplier impact on industrial development as a result of its forward and backward links with various other sectors of the economy. Over time, the sector has changed in response to shifting market conditions, including consolidations, restructuring, and other types of transformation. This article compares the financial health of two large Indian automotive manufacturers, Tata Motors and Maruti Suzuki, after the liberalization program. We evaluate the firms' liquidity, efficiency of asset usage, profitability, and other key financial metrics.

(Sudarshan Kumar, 2021) studied "Financial Performance Of Select Automobile Companies In India" discovered that the Indian economy is one of the world's fastest expanding. The growth of India's economy is the result of efforts from many different fields. The service sector's share of GDP is greater than that of any other industry. Manufacturing's contribution to GDP is second only to the service sector. When considering employment, only agriculture provides more jobs than the manufacturing industry. The manufacturing sector includes many different types of businesses, but the automotive industry has always been one of the most important in terms of output, revenue, and employment. The Indian economy relies heavily on the automobile sector. It's crucial to India's economy and industrial growth. Industries like steel, metal, plastic, petrochemicals, rubber, glass, and so on rely on it for the raw materials they need to grow. Both directly and indirectly, these sectors boost job prospects. Each individual manufacturing facility contributes to the overall performance of the industry as a whole. As a result, research on organizations (businesses) is becoming more significant.

(Dharmaraj & Dr. N.Kathirvel, 2013) studied "Analysing the Financial Performance of Selected Indian Automobile Companies" concluded that, on average, the Indian automobile industry has been rising by 17% annually over the previous five years. An increase of 13.83% was seen in output between April 2011 and March 2012. The economic health of the industry is investigated. There were fifteen different corporations whose annual reports were mined for information over the course of fifteen years. The average and standard deviation are included in the set of descriptive statistics. By comparing the amount of variation within each sample to the amount of variation across samples, analysis of variance may be used to infer whether or not there is a difference in the means of the populations being compared. Companies may use this research to learn what they can do to improve their financial results. This research suggests they are financially stable and expanding at a pace of 17% annually.

(Rani, 2016) studied "financial performance of selected automobile companies" discovered, and With sales of 9.5% year-on-year to 4.02 million units (excluding two wheelers), India's car sector jumped to #4 worldwide in 2017. In 2017, it was the seventh-largest producer of commercial vehicles. As the middle class expands and the youth population grows, the two-wheeler sector of the industry has become the most lucrative. Companies' increasing curiosity in opportunities in rural areas has also contributed to the sector's expansion. There are high projections for export growth in the near future for India, which is already a major car exporter. From FY13-FY18, India's vehicle exports climbed by 6.86 percent annually. Using ratio analysis, the current article compares the financial health of many prominent automakers over the course of five years (2013-2017). The goal of the research is to provide an overall rating of the financial performance of the three organizations chosen for the study. The research's goal is to compare and contrast the relative safety (or lack thereof) of various businesses.

(Ramya & Kavitha, 2017) studied "a study on financial analysis of automobile industries" discovered, and It's no exaggeration to say that the Indian car sector is a global powerhouse. Industry contributes 7.1% to GDP (GDP). As a result of a rising middle class and a youthful population, the two-wheeler sector in India accounts for 80 percent of sales. Companies' increasing curiosity in opportunities in rural areas has also contributed to the sector's expansion. The global PV market is dominated by the PV category, which accounts for 14%. There are high projections for export growth in the near future for India, which is already a major car exporter. Between April and December of 2017, exports of automobiles as a whole increased by 13.01 percent annually. The Indian government and the country's main automakers have launched a number of programs aimed at making India the world's most prominent marketplace for two- and four-wheeled vehicles by the year 2020.

(Jegadeeshwaran & Basuvaraj, 2021) studied "Financial Performance of Indian Automobile Companies" discovered, and The growth of every economy is inextricably linked to the state of its transportation infrastructure. Transportation infrastructure has been expanding at an incredible rate worldwide, and India is no exception. The Indian car sector is likewise flourishing, taking center stage in the country's economic landscape. The purpose of this research is to use ratio analysis, descriptive statistics, and regression to examine the financial health of a subset of India's vehicle manufacturers. Short-term solvency situation is not sufficient during the research periods, which is the study's main result. Therefore, it is recommended that the enterprises boost their cash on hand. Companies should pay special attention to bolstering their debt-to-equity and current-assets-to-shareholders-fund ratios, both of which indicate a tendency of volatility. A company's profitability may be increased through reducing production costs, increasing investments in fixed assets, and expanding the frequency with which sales are made.

(Johnson & Lynch, 1971) studied "financial performance of automobile sector in India" discovered, and The health of a country's economy may be gauged by looking at its car industry. Because of the need of high-quality, long-lasting components, this industry is likewise very tech- and knowledge-heavy. As in other developed countries, the automotive industry in India plays a pivotal role in the economy thanks to its extensive forward and reverse links with other vital industries. This industry has the potential to spur overall economic expansion thanks to its high multiplier impact. The state of India's economy may be inferred from the car industry's bottom line. Rapid economic and industrial growth is dependent on a reliable transportation infrastructure, to which the automotive industry is integral. The primary purpose of this article is to evaluate the financial health of a few prominent Indian automakers.

**Conclusion**

Companies' financial statements may be compared using ratio analysis, and their financial performance can be compared over time. More money has been borrowed by businesses recently. Liquidity ratio was shown to have a very significant positive association, according to the research. Companies may increase their liquidity as a result of better inventory management and shorter conversion times. So, the research shows that there are substantial adjustments made to cover their obligations. Selected automakers' solvency ratios exhibit some variation. This suggests they are taking a low level of risk in meeting their commitments over the long run. Hero Motocorp's efficiency or turnover ratios are among the highest of all automobile manufacturers. This demonstrates how well organized Hero Motocorp's assets and resources are. Hero Motocorp's profitability ratios are greater than those of other automakers. It's encouraging to see that Hero Motocorp made a sizable profit. Based on our comprehensive evaluation of all relevant data, we have concluded that although Bajaj Auto and TVS Motors both perform well, Hero Motocorp continues to thrive. Shareholders may take calculated risks with their money this way. The dividends they get will be substantial, and their investment will be protected. After comparing the two firms' financial data, we've concluded that there is little to choose between them in terms of short-term solvency, liquidity, or profitability. Due to differences in satisfying long-term commitments and long-term solvency, the t values of the debt equity ratio and the equity ratio are significantly different for the two organizations. The turnover ratio comparison of both businesses reveals a considerable variation in the efficiency of both firms, indicating that the firms are not equally effective in using their assets.

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