

## Impact of Demonetization on Automobile Sector: Special Reference to Commercial Vehicle Industry

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### Introduction

Major economic decision of demonetization of Indian currency notes of Rs 500 and Rs 1000 has posed many questions and challenges to several economic thinkers. Several guess in favor and against have floated since the Friday 8th November 2016 ever since demonetization initiative taken by BJP government. Many earlier demonetization attempts made have resulted into good and few recorded adverse impact on economy. Most noted one is Zimbabwean government demonetization of its currency to curb the hyperinflation in 2006, 2008, & 2009. In 2015, the attempts were made to excrete the Zimbabwean dollar from the economy and boosting the value of US dollar in the same. this process impacted adverse effect and it has taken a long time to revive the position of the economy. The short term impact has brought the negative result to various economies of India. It has frozen the unaccounted and illegal transactions. This study deals with impact of demonetization on auto industry, with special reference to commercial vehicles as most of the purchases are made through cash transactions.

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### Current Scenario of Automobile Industry

Over the past 3-4 months, CV sales, especially M&HCVs (Trucks) have been on a declining trend on account of waning replacement demand, weak industrial activity and uncertainty related to the impact of Goods & Services Tax (GST) regime on vehicle prices. As far as the dealers of the commercial vehicles are concerned, they reported that the new vehicle enquiries have dried up; Customers have also put existing orders on hold according to them new enquiries have dried up and even ongoing transactions have been put on hold by fleet operators after the demonetization move. Although ~90% of commercial vehicles sales in India rely on external financing, but the sentiment has turned subdued and fleet operators are likely to put their fleet expansion or renewal plans on hold till the situation settles down. The inventory levels in the system currently stands at around 4-6 weeks and is likely to go up in the near-term as OEMs would continue to dispatch vehicles already produced. However, to realign inventory levels with demand, OEMs are likely to take production cuts in the near-term till liquidity in the system improves.

The M&HCV (Truck) segment has been witnessing declining sales trend over the past 3-4 months on account of waning replacement demand, subdued industrial activity and its impact on freight rates. Moreover, the support that was expected from pre-buying ahead of the BS-IV norms (from April 2016) would also weaken. In contrast to M&HCV (Trucks), the LCV has registered healthy growth in volumes (up 12% in 7m FY 2016) on back of low-base effect (i.e. sales declined by 30% between FY 2013-16) and improving demand for SCVs aided by pick-up in consumption-driven sectors. These factors supported ICRA's forecast of 11-12% growth in volumes in FY 2017. However, following the demonetization, demand is likely to take a near-term hit and may prompt revision in outlook.

Segment	Q1 FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17
M&HCV (Trucks)	24.3%	44.6%	23.9%	35.2%	17.5%	-17.3%
LCV (Trucks)	-7.4%	-11.4%	3.1%	11.3%	11.9%	12.8%
Buses	10.7%	21.5%	14.2%	13.0%	7.1%	4.9%
Total	4.7%	9.5%	11.0%	20.0%	13.0%	-0.2%

Source: SIAM Data, ICRA research

Growth Outlook	FY 2015	FY 2016	FY 2017e	Growth Drivers
M&HCV – Trucks	21.0%	31.9%	5-8%	<ul style="list-style-type: none"> <li>Pre-buying ahead of the complete roll-out of BS-IV norms across India by April 2017</li> <li>Pick-up in demand from infrastructure and mining related sectors</li> <li>Replacement-led demand is likely to continue if scrappage program is implemented</li> </ul>
LCV – Trucks	(13.4%)	(0.9%)	~12-13%	<ul style="list-style-type: none"> <li>Replacement demand to trigger in following 3 years of decline</li> <li>Pick-up in demand for consumption-driven sectors, rural markets and e-commerce</li> <li>Financing environment to ease as delinquency subside</li> </ul>
Buses	0.2%	13.7%	7-9%	<ul style="list-style-type: none"> <li>Order from SRTUs to support sales in M&amp;HCVs; Smart Cities Initiatives etc.</li> <li>Demand from schools and staff carrier segment remains stable</li> </ul>

Source: ICRA research

### **Objectives of the Study**

- To analyze the fluctuation in EPS, during the period of demonetization, for the selected companies,
- To study the effect of different factors that affect the price movement of shares.

### **Factors Causing Movements in Stock Price**

- **Information**

The latest Information regarding the price level of the stocks is very important for the valuation of the same this is because of the reason that the market will price the stock based on all the information that the public is aware of. Based on such information the market adjusts the price up and down according the perceived information of the future earning of the respective companies.

- **Uncertainty**

Whether a company will make profit in the future? The answer to this question is almost uncertain and based on some or the other assumed information. The uncertain future of the company will bring some volatility in share prices even during a period in which there is no new information. Now the amount of volatility is less in the case of the companies who have shown consistent performance in the past.

- **Psychological Factors**

Humans are behind the activities of the trading market. That means human characteristics are also factors in how share prices move. Understanding human psychology is extremely important in evaluating investment opportunities because human psychology creates and accentuates many of the opportunities that investors can capitalize on. For example greed often causes stocks to go higher than they deserve to go.

- **Supply and Demand**

The majority of the stocks that we can choose to invest do not have much liquidity. As a result stocks that trade smaller value of shares are subject to fluctuations more because of supply and demand. If a large shareholder wants to sell a large number of shares into the market with weak liquidity, the share holder can dramatically move share price.

### **Profile of Sampled Companies**

**Mahindra & Mahindra Mahindra & Mahindra Limited (M&M)** is one of the prominent automobile companies in India and belongs to Mahindra Croup. Initiated in the year 1945, initially acted as a supplier of steel to the countries like U.K. and U.S.A.

then in the later years, tractors and light commercial vehicles (LCVs) were added to the portfolio of the company. After that the group engaged in various other sectors like Information Technology, agricultural equipments, finance services and even in infrastructure development.

### Ahoka Leyland

Type	Public
Traded as	BSE: 500477 NSE: ASHOKLEY
Industry	Automotive
Founded	7 September 1948
Headquarters	Chennai, Tamil Nadu, India
Area served	Worldwide
Key people	DheerajHinduja (Chairman)
Products	Automobiles, engines, commercial vehicles
Revenue	▲ ₹206.58 billion (US\$3.2 billion) (2016)
Net income	▲ ₹10.98 billion (US\$170 million) (2016)
Number of employees	11,552 (2014) <sup>[1]</sup>
Parent	Hinduja Group

### Tata Motors

Type	Public
Traded as	BSE: 500570 (BSE SENSEX Constituent) NSE: TATAMOTORS NYSE: TTM
Industry	Automotive
Founded	1945
Headquarters	Mumbai, India
Area served	Worldwide
Key people	NatarajanChandrasekaran (Chairman) ChandrasekaranRamakrishnan (President and Group CFO) GuenterButschek (CEO)
Products	Automobiles Sport Cars Commercial vehicles Coaches Buses Construction equipment Military vehicles Automotive parts

Services	Automotive design, engineering and outsourcing services Vehicle leasing Vehicle service
Revenue	▲ ₹2.697 trillion (US\$42 billion) (2016) <sup>[2]</sup>
Operating income	▼ ₹216.5 billion (US\$3.3 billion) (2016) <sup>[2]</sup>
Profit	▼ ₹95.88 billion (US\$1.5 billion) (2016) <sup>[2]</sup>
Total assets	▲ ₹2.619 trillion (US\$41 billion) (2016) <sup>[2]</sup>
Total equity	▲ ₹763.5 billion (US\$12 billion) (2016) <sup>[2]</sup>
Number of employees	60,000 (2016)
Parent	Tata Group
Divisions	Tata Motors Cars
Subsidiaries	Jaguar Land Rover Tata Daewoo Tata Hispano

### Mahindra & Mahindra

Mahindra and Mahindra, one of the fastest growing CV brands in the country managed to sell only 12,644 CV units during November 2016 in comparison to 14,801 CV units it had sold in November 2015.

### Tata Motors

Tata Motors, considered as the heavyweight champion of the Indian commercial vehicle industry, sold only 20,538 commercial vehicles in November 2016. It had sold around 24,030 commercial vehicles in the same month last year.

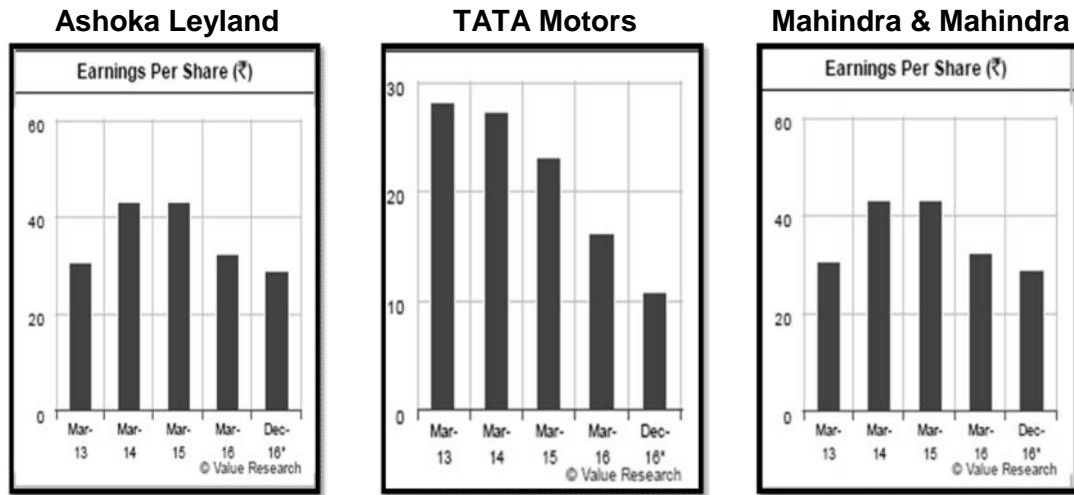
### Ashok Leyland

Ashok Leyland has been quite busy carving more space for itself in the Indian CV industry. The brand, contrary to many expert forecasts, managed to register growth, despite Demonetization. It sold 9,574 units in November 2016 as compared to 8,971 units in November 2015.

### Analysis

Below are given the financial data as required for the study from the fourth quarter of 2016 and first quarter of 2017.

	Market Cap (R Cr)	Revenue (R Cr)	Net Profit (R Cr)	Net Margin (%)	RoE (%)	Price to Book	Price to Earnings
Tata Motors	132,846.90	281,020.85	7,344.13	2.61	16.22	2.45	15.94
Ashok Leyland	24,474.54	19,267.43	848.10	4.36	29.47	4.97	28.86
Mahindra & Mahindra	71,055.10	8,910.17	1,499.49	16.46	48.56	14.63	46.08

**Comparison Based on Earning Per Share****Decline in the value of Sampled Companies for the period of Demonetization**

	Tata	M & M	Ashoka
<b>Growth</b>			
Revenue	4.71	13.43	17.67
Net Profit	-20.99	4.02	3.79
EPS	-24.48	1.90	2.34
Book Value	37.57	26.82	32.01
<b>Average</b>			
Operating Margin	13.69	14.76	14.32
Net Margin	4.02	5.11	5.74
Return on Net worth	16.22	22.21	29.47
Return on Investment	13.24	18.57	20.18

**Interim Growth Ratios (%)**

	Tata	M & M	Ashoka
<b>Quarterly</b>			
Revenue	4.01	-4.29	-15.05
Operating Profit	-17.54	-41.10	-54.20
Net Profit	-146.70	-109.78	-105.15
EPS	-88.68	-96.80	-98.19
<b>TTM</b>			
Revenue	-1.08	7.54	2.48
Operating Profit	-10.65	-12.66	-19.32
Net Profit	-29.09	-9.29	-36.44
EPS	-25.41	1.71	-28.02

### **Findings and Recommendations**

The event of demonetization has not affected only the sampled companies, as all the sectors and respective companies. As a matter of fact the findings of the present study are as follows:

- It is better to invest in companies with good market value, good performance in revenue and one should consider the various factors affecting the performance before investing.
- Even though the industry may perform well, several ratios like, financial ratios, growth ratios, sales etc. should be properly analyzed with reference to that company and also with the industry.
- As P/E ratio is directly related to market price per share and the Earnings per share while looking at the P/E ratio one should analyze the return and go for better portfolio.
- A higher P/E ratio indicates that the stocks are extremely overvalued. If the firm does not earn a huge growth of earnings it will increase the amount paid by each investor to the share.
- One should make use of quarterly financial results for fundamental analysis to get the reliable & relevant information which can prove to be vital in buying decisions.
- Speculative news does play an important role in price movement. But, eventually company performance is the sole factor that matters. That is speculation makes changes for a very short term.

Hence, prudent investor should opt for fundamental analysis in order to have better results.

### **Conclusion**

Investors are interested in predicting the future behavior of stock market. The investor should look at the price movements of the particular company over the years and should go for better portfolio. The actual status, future plans of the organization, information which can affect buying decisions etc. is available in financial results which is very vital for analysis. Speculative or sentimental factors do play a role in price movement of shares. But, it is only a short-term effect, in long term annual performance is sole factor responsible for price movement.

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