

COMPARATIVE ANALYSIS OF SELECTED AUTOMOBILE COMPANIES IN INDIA FOR 2015 TO 2019: A STUDY

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ABSTRACT

The Automobile industry manufactures 26 mn vehicles including Passenger Vehicles, Commercial Vehicles, Three Wheelers, Two Wheelers in FY 2019-20. India is the largest tractor manufacturer, second-largest bus manufacturer and third largest heavy trucks manufacturer in the world. As of 2019, India is the 4th largest automobile market in the world, surpassing Germany in terms of sales. Out of 26.36 mn vehicles manufactured in FY 2019-20, India has exported 4.77 mn. India is expected to emerge as the third-largest Automotive market in the world in terms of volume by 2026, followed by China and USA. Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles and National Electric Mobility Mission Plan (NEMMP 2020) have been initiated with an aim to support hybrid/electric vehicles market development and ecosystem. It employs approximately 1.30 million people in India in 2017 and % of GDP contribution in year 1992 was 2.77% against 7.1% in Year 2019. This Industry has direct impact on employment generation. Factors supporting this Industry are Growing per capita income of citizens in India and having high percentage of young generation in entire population. Current Government policies like Atmanirbhar Bharat Abhiyaan - Self Reliant India and Production-Linked Incentive (PLI) Scheme helps to grow manufacturing facilities and results into high FDI equity inflow received by the Automobile Industry in FY 2019-20 is valued at USD 2.82 Bn. With this study, Researcher wants to find out the factors affecting manufacturing and supporting facilities in India which will impact on its export and attract foreign currency which will boost employment and GDP.

Keywords: *Automobile Industry, Passenger Vehicles, Commercial Vehicles, GDP, FDI, PLI.*

Introduction

In India, The Automobile industry manufactures 26 mn vehicles in FY 2019-20 in compared to 17.89 mn in FY 2010-11 (73% growth).¹ Out of 26mn vehicles, India has exported 4.77 mn vehicles.² As of 2019, India is the 4th largest automobile market in the world, surpassing Germany in terms of sales. India is expected to emerge as the third-largest Automotive market in the world in terms of volume by 2026, followed by China and USA. Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles and National Electric Mobility Mission Plan (NEMMP 2020) have been initiated with an aim to support hybrid/electric vehicles market development and ecosystem. It employs approximately 37 million direct and indirect jobs, 7.1% of the country's total GDP (In 1992 it was 2.77%), 27% of Industrial GDP and 49% of Manufacturing GDP.³

Supporting Factors of Growth in India

- Growing per capita income of citizens in India,
- Having high percentage of young generation in India's population and
- Favouring government strategies - Current Government policies like

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- Atmanirbhar Bharat Abhiyaan - Self Reliant India and
- Production-Linked Incentive (PLI) Scheme helps to grow manufacturing facilities and results into high FDI equity inflow received by the Automobile Industry in FY 2019-20 is valued at USD 2.82 Bn.⁴

Objectives of the Study

- To analysis the profitability position of Indian Car Manufacturing companies in the automobile sector
- To make a comparative analysis among the fundamentals of sample automobile companies selected for study.

Research Method

Hypothesis

H₀: There is no substantial difference between the selected variables of the sample companies.

H₁: There is a substantial difference between the selected variables of the sample companies.

Research Methodology

Sr. No.	Particulars	Details
1	Type of Data	Secondary Data
2	Universe / Population	Companies in Automobile Sector
3	Sources of Data	Balance Sheet, Stock Market, Relevant Websites
4	Sample Size	Three Indian Car Manufacturing Companies
5	Name of the Companies selected for study	Mahindra & Mahindra, Maruti Suzuki and Hindustan Motors
6	Key Variables	The variables which have been considered in the study are. <ul style="list-style-type: none"> • Operating Profit Margin (OPM) • Net Profit Margin (NPM)
7	Time Period	FY 2015-16 to 2019-20
8	Statistical tools	<ul style="list-style-type: none"> • Arithmetic Mean (Average), • Standard Deviation (SD),

Literature Review

Ou and Penman (1989) use financial statement analysis of income statement and balance sheet ratios to estimate upcoming earnings. The principal motivation for this research is to ascertain mispriced securities. However, these writers demonstrate that the information in the earnings forecast indications is useful in generating unusual stock returns.⁵

Jagadeesh and Titman (1993) found that over a period of three to twelve months, previous winners on an average remain to outperform past losers by about one percent per month.⁶

Lev and Thiagarajan (1993) used theoretical opinions to study their ratios. They prove that the earnings forecast signs in variables like growth in debtors relative to sales growth and gross profit ratio are incrementally connected with contemporary stock returns and are important in predicting future earnings.⁷

Dyna Sen et. al., (2012) carried out fundamental analysis research beyond the spatial and temporal bounds of previous studies. They have studied how detailed financial statement data enter the decisions of market makers by inspecting how current changes in the fundamental signals chosen can provide information on subsequent earnings changes.⁸

Venkates C K, Dr. Madhu Tyagi, Dr. Ganesh L (2012), revealed out that investors can create a stronger value portfolio by using simple historical financial performance. They used 'F Score' Model for the same.⁹

Result and Analysis

Data Analysis and Interpretation

• Operating Profit Margin (OPM)

The Operating Profit Margin is the ratio of operating profit to the total revenue. It indicates the effectiveness with which a company controls the cost and expenses related with their normal business operations.

From table 1, we can clearly see that the average (Mean) OPM of Maruti Suzuki is highest among all the three companies. So, Maruti Suzuki has been most successful in controlling the cost and expenses of operation.

Table 1

Operating Profit Margin (OPM)			
Year	M&M	MS	HM
2015-16	13%	15%	-2632.10%
2016-17	13%	15%	-1451.33%
2017-18	14%	15%	0
2018-19	14%	13%	-1124.07%
2019-20	13%	10%	-2757.14%
Mean	13%	14%	-1593%
SD	1%	2%	1142%

Hence It can be concluded that there is no substantial difference between the OPM of Mahindra & Mahindra and Maruti Suzuki.

- **Net Profit Margin (NPM)**

Net Profit Margin is the ratio of net profit to total revenue earned by company. This indicates how much a company is able to earn after meeting all direct and indirect expenses for every rupee of revenue.

From the Table 2, It can be seen that Maruti Suzuki earned Rs. 9.0 for every Rs. 100 which is highest in all and hence Maruti Suzuki India scores above all the companies as far as the NPM is concerned.

Table 2

Net Profit Margin (NPM):			
Year	M&M	MS	HM
2015-16	4%	10%	-3955.56%
2016-17	4%	11%	-1418.58%
2017-18	8%	10%	-1714.55%
2018-19	5%	9%	4946.30%
2019-20	0%	8%	-395.24%
Mean	4%	9%	-508%
SD	3%	1%	3314%

Hence it can be concluded that there is a substantial difference between the NPM of all the three companies.

- **Earnings Per Share (EPS)**

EPS implies how much earning is being generated for each share by the company. It is the ratio of earning available to an equity share holder to the total number of outstanding equity shares. Higher the EPS, the greater is the profitability of the company.

Based on Table 3, Maruti Suzuki's EPS is highest at Rs 226.51 among other companies.

Table 3

Earning Per Share (EPS):			
Year	M&M	MS	HM
2015-16	25.35	181.98	-1.54
2016-17	29.77	248.61	-0.77
2017-18	60.41	260.86	2.71
2018-19	42.76	253.21	1.28
2019-20	1.02	187.90	-0.04
Mean	31.86	226.51	0.33
SD	21.98	38.26	1.69

- **Dividend Payout Ratio (DPR)**

The Dividend Payout Ratio expresses the relationship between dividends per share and earnings per share. It indicates as to what percentage of earnings are being distributed to the shareholders of the company which is given in Table 4.

Based on Table 4, It is clear that Mahindra & Mahindra have highest DPS at 55% among all.

Table 4

Dividend Payout Ratio (DPR)			
Year	M&M	MS	HM
2015-16	21%	19%	0%
2016-17	22%	30%	0%
2017-18	11%	31%	0%
2018-19	17%	32%	0%
2019-20	205%	32%	0%
Mean	55%	29%	0%
SD	84%	6%	0%

- **Return on Capital Employed (ROCE)**

Return on capital employed is calculated by dividing net operating profit, or earnings before interest and taxes (EBIT), by employed capital.

Maruti Suzuki is performing well in terms of ROCE criteria.

Table 5

Return on Capital Employed (ROCE)			
Year	M&M	MS	HM
2015-16	14%	23%	0.00%
2016-17	13%	24%	0.00%
2017-18	14%	24%	0.00%
2018-19	13%	19%	0.00%
2019-20	8%	9%	0.00%
Mean	12%	20%	0%
SD	3%	6%	0%

- **Debtors Day**

The debtors days ratio measures how quickly it's taking your debtors to pay you. The longer it takes for a company to get paid, the greater the number of debtors days. Debtor days are used to show the average number of days it takes a company to receive payment from its customers for invoices issued to them.

Based on figures of Table 6, Maruti Suzuki is efficiently working on collection from debtors.

Table 6

Debtor Days			
Year	M&M	MS	HM
2015-16	28	8	532
2016-17	31	6	333
2017-18	34	7	-6
2018-19	30	10	34
2019-20	27	10	122
Mean	30	8	203
SD	3	2	226

- **Inventory Turnover**

Inventory turnover indicates the rate at which a company sells and replaces its stock of goods during a particular period. The inventory turnover ratio formula is the cost of goods sold divided by the average inventory for the same period.

Mahindra & Mahindra is performing well with average 5 days. Hindustan Motors is not considered as its production is abandoned.

Table 7

Inventory Turnover			
Year	M&M	MS	HM
2015-16	5	13	0
2016-17	6	15	1
2017-18	6	17	1
2018-19	6	19	1
2019-20	5	16	1
Mean	5	16	1
SD	1	2	0

- **Net Cash Flow**

Net cash flow is the difference between a company's cash inflows and outflows within a given time period. A company has a positive cash flow when it has excess cash after paying for all operating costs and debt payments. A will have a negative cash flow if it has more expenses than earnings.

Based on Table 8, Maruti Suzuki is able to manage its cash flow at minimum level.

Table 8

Net Cash Flow			
Year	M&M	MS	HM
2015-16	-154	16	0
2016-17	416	-20	0
2017-18	1529	50	17
2018-19	1672	113	-14
2019-20	-1394	-165	-1
Mean	414	-1	0
SD	1267	104	11

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