

**A COMPARATIVE FINANCIAL STUDY ON SELECTED COMPANIES IN AUTOMOBILE INDUSTRY IN INDIA**

**Dr. P. Jeyalakshmi**, Assistant Professor, Department of Commerce, CMS College of Science and Commerce, Coimbatore, Tamilnadu, India Affiliation: Bharathiar University

**Abstract**

India's automobile industry is the fourth largest automobile industry in the world. The researcher selected the automobile companies of 2 and 3 wheelers based on group A companies listed in the Bombay Stock Exchange. The selected automobile companies are Bajaj Auto ltd, Eicher Motors ltd, Hero MotoCorp ltd and TVS Motor Company ltd. The main target of this analysis is to compare the financial positions of the selected automobile companies for the time of a long time from 2016-2020. This study proved that financial position of Eicher Motors ltd financial position is superior to other selected automobile companies. Current ratio, quick ratio, debt-equity ratio, net profit ratio, return on assets ratio of Eicher Motors ltd is better than other selected automobile companies.

**Keywords:** Liquidity ratio, quick ratio, debt-equity ratio, net profit ratio, return on assets ratio, return on capital employed, return on equity, comparative

**Introduction**

India was the world's fourth largest manufacturer of cars and seventh largest manufacturer of commercial vehicles in 2019. Three-wheelers like electric rickshaws, auto rickshaws are used extensively as a last mile transport solution in the country. Two wheelers are largely used by Indian family for their everyday routine works. Hence it is imperative to analyse the financial relationship between the automobile companies of 2 wheelers and 3 wheelers.

In this study, various financial ratio analysis of the selected automobile companies has been carried out which are very effective when comparing the relationship between the businesses. Suggestions on various fields of the companies are prescribed based on the results of the analysis to improve their financial positions.

**Review of Literature**

Pallavi Pudi (2018) has conducted a financial analysis through comparative balance sheet and profit & loss account of five selected Indian oil and gas companies from 2012 to 2017. The researcher has analysed the intra firm comparative analysis through comparative statements. Through the comparative statements she has analysed liquidity, profitability and solvency position of Hindustan Petroleum Corporation ltd (HPCL). Inter firm comparative analysis has also been conducted by the researcher for selected Indian oil and gas companies. Different financial ratios like current ratio, return on equity ratio, debt equity ratio have been examined in this research. The researcher has found that HPCL was performing well compared with other four companies.

Rohit Bansal (2015) has done a study on relative financial analysis of selected Indian IT companies namely Tata Consultancy Services (TCS), Wipro, Infosys and Tech Mahindra companies. He collected the financial statements from the database for the period 2010-2014. In this article the researcher has analysed many financial ratios like current ratio, return on equity, earnings per share etc. From these analyses the researcher found that Infosys is the most looked company for investment and this analysis has shown that TCS also have a positive sign for investment by the investors who have benefits as their prime purpose of thought.

**Objectives**

The present research study aims to compare the selected companies from automobile industry in India. The automobile companies of 2 wheelers & 3 wheelers were selected by the researcher on the basis of group-A companies listed in the Bombay Stock Exchange. Group A companies listed on

the BSE contains the rundown of the most famous and effectively exchanging stocks. The following automobile companies have been selected on the basis of Group A companies listed on the BSE.

1. Bajaj Auto Ltd.
2. Eicher Motors Ltd.
3. Hero MotoCorp Ltd.
4. TVS Motor Company Ltd.

### Research Methodology

This study is based on secondary data, collected from the online web site [www.moneycontrol.com](http://www.moneycontrol.com) and the annual reports of selected companies for a period of five years from 2016 to 2020. The researcher used the financial ratios like liquidity ratio, solvency ratio, activity ratio and profitability ratio in order to compare the financial performance of the companies.

### Analysis of the Study

Liquidity Ratio measures an organization's capacity to pay its transient obligation commitments. Two liquidity ratios are commonly used. They are current ratio and quick ratio.

### Current ratio

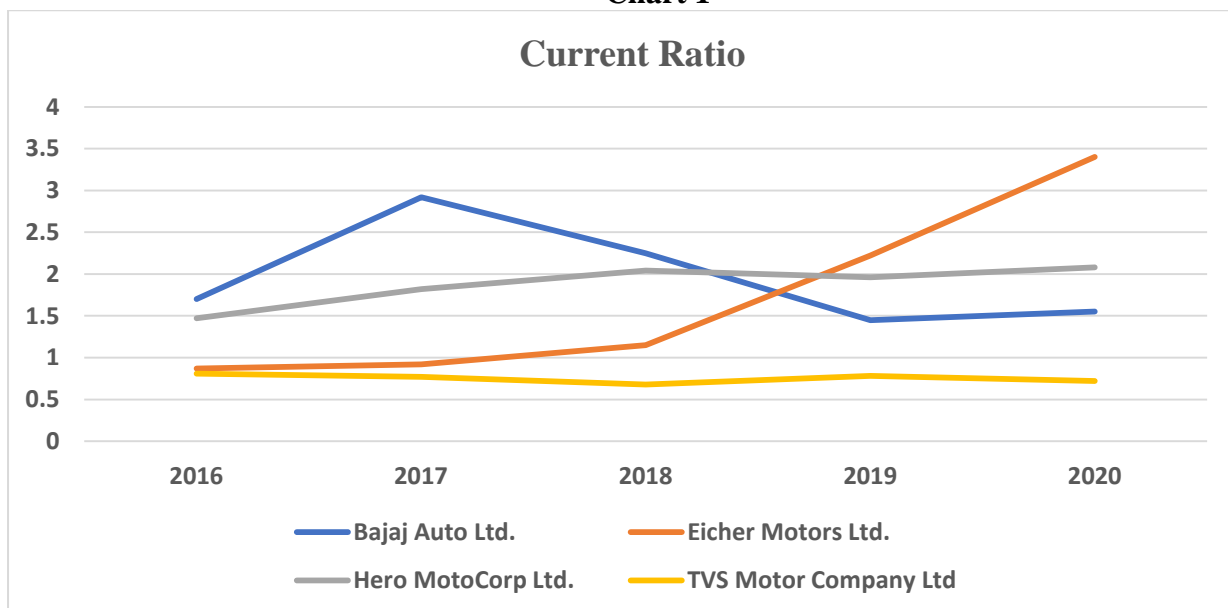
The ideal current ratio is 2:1. Current ratio formula is current assets divided by current liabilities. Current assets include stock in hand, sundry debtors, cash in hand, loans and advances, bank balances, receivables and other current assets. Current liabilities include bank overdraft, sundry creditors, short term loans, bills payables, outstanding expenses and other current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**Table 1**

Particulars	2016	2017	2018	2019	2020
<b>Bajaj Auto Ltd.</b>	1.7	2.92	2.25	1.45	1.55
<b>Eicher Motors Ltd.</b>	0.87	0.92	1.15	2.22	3.4
<b>Hero MotoCorp Ltd.</b>	1.47	1.82	2.04	1.96	2.08
<b>TVS Motor Company Ltd</b>	0.81	0.77	0.68	0.78	0.72

**Chart 1**



**Interpretation**

From the above table and graph, it is clear that Eicher Motors ltd, Hero MotoCorp ltd financial positions are satisfactory. But financial positions of TVS Motor Company ltd, Bajaj Auto ltd are not satisfactory because their current ratios are below the standard norms of 2.

**Quick Ratio**

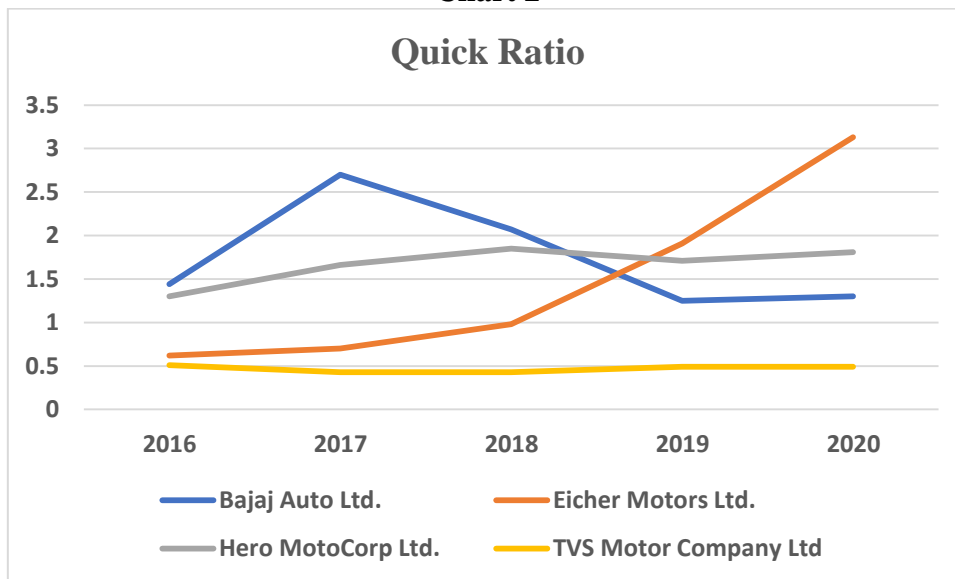
The ideal quick ratio is 1:1. It can be calculated as quick assets divided by current liabilities. Quick assets include money and close to money resources and excludes inventories & prepaid expenses.

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

**Table 2**

Particulars	2016	2017	2018	2019	2020
<b>Bajaj Auto Ltd.</b>	1.44	2.7	2.07	1.25	1.3
<b>Eicher Motors Ltd.</b>	0.62	0.7	0.98	1.91	3.13
<b>Hero MotoCorp Ltd.</b>	1.3	1.66	1.85	1.71	1.81
<b>TVS Motor Company Ltd</b>	0.51	0.43	0.43	0.49	0.49

**Chart 2**



**Interpretation**

From the above table and graph, it is found that financial positions of Eicher Motors ltd, Hero MotoCorp ltd, Bajaj Auto ltd are satisfactory. But TVS Motor Company ltd financial position is not satisfactory because its liquid ratio is below the standard norms of 1.

**Solvency Ratio**

Solvency ratio evaluates the ability of a company to pay its long-term liabilities.

**Debt Equity Ratio**

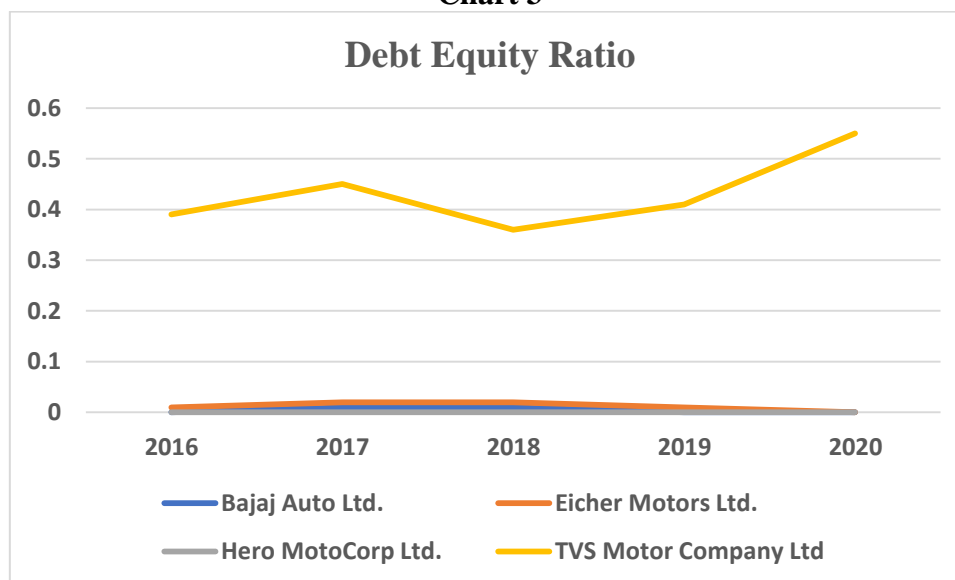
Debt equity ratio can be calculated as company’s total liabilities divided by shareholder’s equity. The ideal debt equity ratio is 1: 1.

$$\text{Debt Equity Ratio} = \frac{\text{Total Debts}}{\text{Total Shareholder's Funds}}$$

**Table 3**

Particulars	2016	2017	2018	2019	2020
<b>Bajaj Auto Ltd.</b>	0	0.01	0.01	0	0
<b>Eicher Motors Ltd.</b>	0.01	0.02	0.02	0.01	0
<b>Hero MotoCorp Ltd.</b>	0	0	0	0	0
<b>TVS Motor Company Ltd</b>	0.39	0.45	0.36	0.41	0.55

**Chart 3**



**Interpretation**

The above table exhibits that financial positions all the selected automobile companies i.e. Hero MotoCorp ltd, Bajaj Auto ltd, Eicher Motors ltd and TVS Motor Company ltd are satisfactory since Debt Equity Ratio of all of them are well below the standard norms of 1.

**Activity Ratio**

Activity ratio measures the productivity of a business in utilizing and dealing with its assets to create maximum possible income.

**Inventory Turnover Ratio**

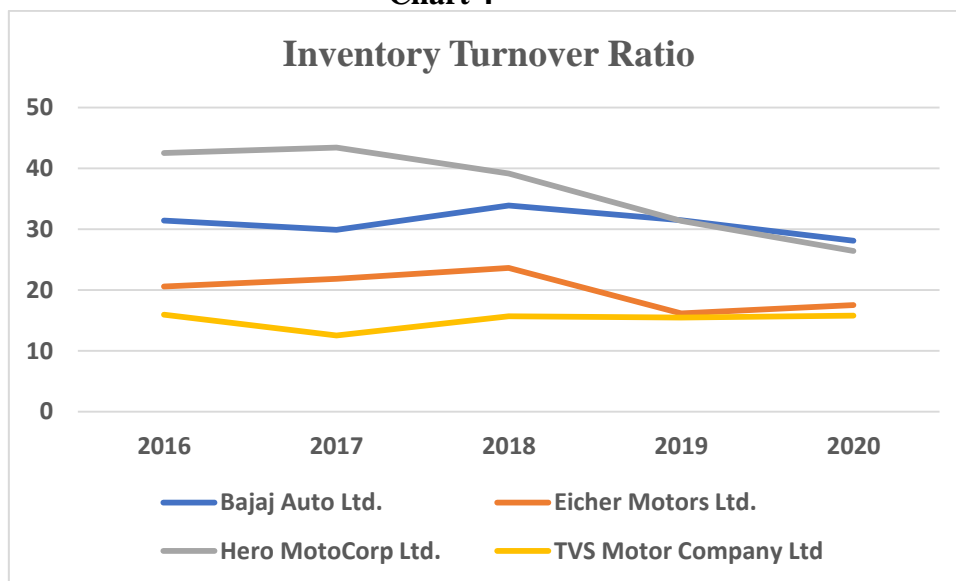
Inventory turnover ratio can be calculated as cost of products sold divided by average stock.

$$\text{Inventory Turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}$$

**Table 4**

Particulars	2016	2017	2018	2019	2020
<b>Bajaj Auto Ltd.</b>	31.41	29.88	33.89	31.46	28.13
<b>Eicher Motors Ltd.</b>	20.6	21.83	23.62	16.18	17.52
<b>Hero MotoCorp Ltd.</b>	42.5	43.43	39.13	31.38	26.41
<b>TVS Motor Company Ltd</b>	15.95	12.55	15.69	15.49	15.81

**Chart 4**



**Interpretation**

Generally higher this ratio better is the inventory management. It is understood from the above table and graph that Hero MotoCorp ltd, Baja Auto ltd are having higher Inventory turnover ratio and hence having better inventory management. Eicher Motors ltd, TVS Motor Company ltd having lower ratio as compared with Hero MotoCorp ltd and Bajaj Auto ltd.

**Profitability Ratio**

Every business begins with the aim of earning profit. Profitability ratio indicates how efficiently a company generates profit and how productive proprietor's assets have been used in the organization.

**Types of profitability ratio**

Some of the important profitability ratios are listed below:

1. Net Profit Ratio
2. Return on Equity
3. Return on Capital Employed
4. Return on Assets

**1. Net Profit Ratio**

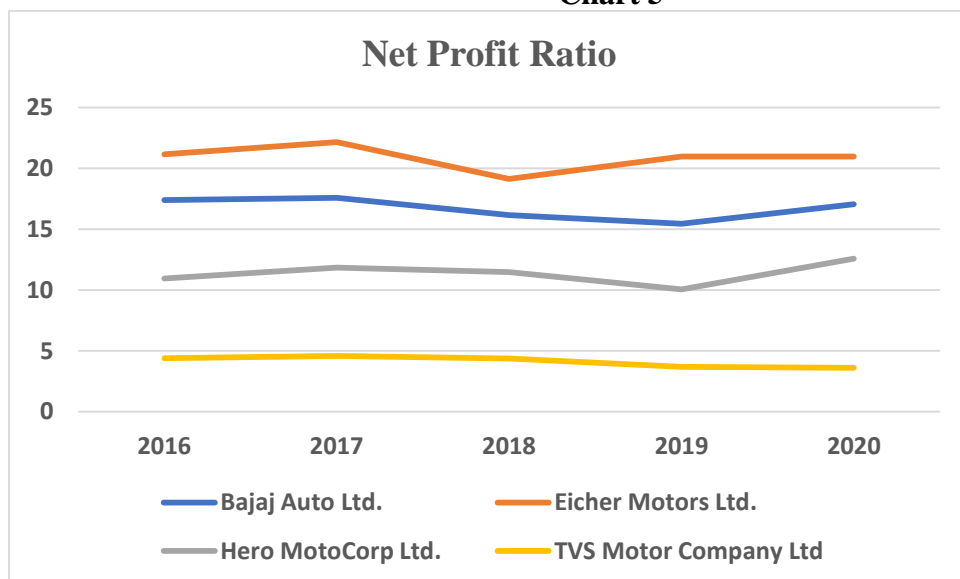
Net profit ratio can be calculated as net profit divided by net sales multiplied with 100

$$\text{Net Profit Ratio} = \frac{\text{Net Income}}{\text{Net Sales}} \times 100$$

**Table 5**

Particulars	2016	2017	2018	2019	2020
<b>Bajaj Auto Ltd.</b>	17.39	17.58	16.16	15.45	17.04
<b>Eicher Motors Ltd.</b>	21.16	22.16	19.12	20.97	20.97
<b>Hero MotoCorp Ltd.</b>	10.95	11.84	11.47	10.05	12.59
<b>TVS Motor Company Ltd</b>	4.4	4.59	4.37	3.68	3.6

**Chart 5**



**Interpretation**

From the above table and graph, it is clearly exhibiting that Eicher Motors ltd having higher ratio afterwards Bajaj Auto ltd, Hero MotoCorp ltd, at last TVS Motor Company ltd. This means that Eicher Motors ltd earning higher profit afterwards Bajaj Auto ltd, Hero MotoCorp ltd and TVS Motor Company ltd earning lower profit as compared with selected other auto mobile companies.

**2. Return on Equity**

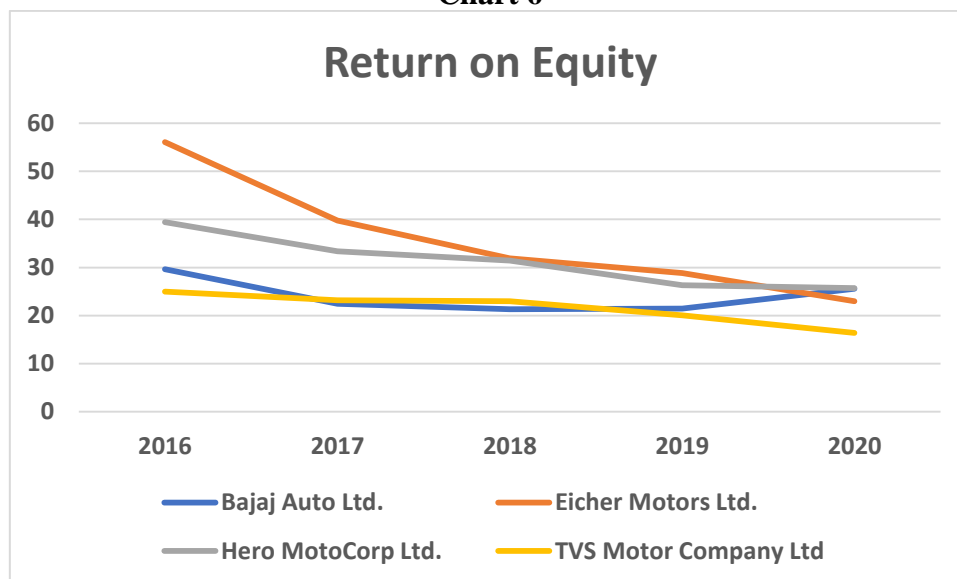
Return on equity can be calculated as net profit divided by shareholders’ equity.

$$\text{Return on Equity} = \frac{\text{Net Profit after interest,tax and preference dividend}}{\text{Equity shareholders funds}} \times 100$$

**Table 6**

Particulars	2016	2017	2018	2019	2020
<b>Bajaj Auto Ltd.</b>	29.62	22.46	21.29	21.46	25.59
<b>Eicher Motors Ltd.</b>	56.03	39.77	31.88	28.82	23
<b>Hero MotoCorp Ltd.</b>	39.42	33.39	31.41	26.32	25.7
<b>TVS Motor Company Ltd</b>	24.98	23.17	23	20.02	16.36

Chart 6



### Interpretation

The above table clearly discloses that Hero MotoCorp ltd having higher ratio followed by Bajaj Auto ltd, Eicher Motors ltd, and TVS Motor Company ltd. This indicates that Hero MotoCorp ltd is in better position and it has used shareholder's money efficiently and has given the return effectively. TVS Motor Company ltd is earning lower income when compared with selected other automobile companies.

### 3. Return on Capital Employed

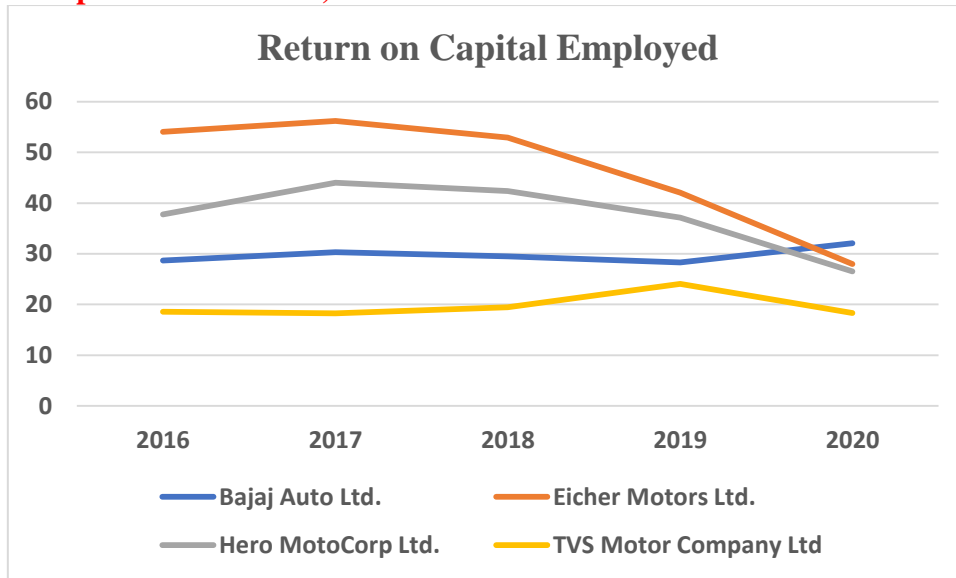
Return on Capital Employed also known as return on investment can be calculated as earnings before interest and tax divided by capital employed. Capital employed includes shareholders' equity plus long term debts.

$$\text{Return on Capital Employed} = \frac{\text{Earnings Before Interest and Tax}}{\text{Capital Employed}} \times 100$$

Table 7

Particulars	2016	2017	2018	2019	2020
Bajaj Auto Ltd.	28.67	30.32	29.5	28.28	32.08
Eicher Motors Ltd.	54.04	56.17	52.91	42.05	28
Hero MotoCorp Ltd.	37.77	44	42.35	37.15	26.52
TVS Motor Company Ltd	18.55	18.27	19.48	24.06	18.32

Chart 7



**Interpretation**

From the above table shows that earnings of Eicher Motors ltd are gradually reduced but the earnings of Bajaj Auto ltd are increased as compared with other selected auto mobile companies. TVS Motor Company ltd earns lower income as compared with other selected auto mobile companies.

**4. Return on Assets**

Return on assets can be calculated by dividing net income by total assets.

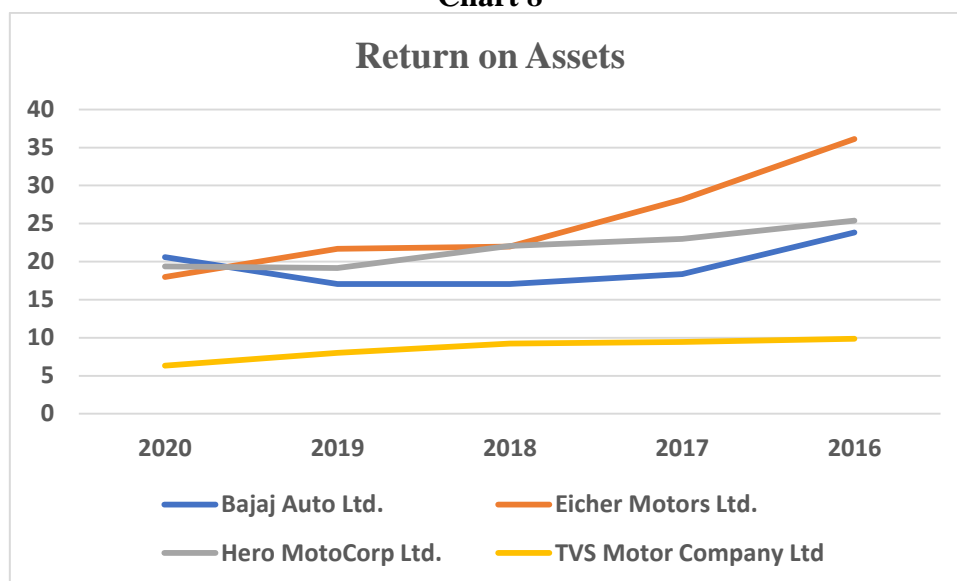
$$\text{Return on Asset Ratio} = \frac{\text{Net Income}}{\text{Total Assets}} \times 100$$

**Table 8**

Particulars	2020	2019	2018	2017	2016
<b>Bajaj Auto Ltd.</b>	20.58	17.07	17.07	18.38	23.83
<b>Eicher Motors Ltd.</b>	17.99	21.67	21.97	28.15	36.12
<b>Hero MotoCorp Ltd.</b>	19.37	19.18	22.08	22.98	25.38
<b>TVS Motor Company Ltd</b>	6.32	8	9.22	9.45	9.88



Chart 8



### Interpretation

The above concludes that Eicher Motors Ltd earnings from assets are increased gradually and Hero MotoCorp Ltd earnings are increased from 19.37 to 25.38. Bajaj Auto Ltd earnings are fluctuating and TVS Motor Company Ltd earnings are the lowest among selected automobile companies.

### Conclusion

This study has proved that financial position of Eicher Motors Ltd is better than other selected automobile companies for the study period from 2016-2020. Current ratio, quick ratio, debt-equity ratio, net profit ratio and return on assets ratio of Eicher Motors Ltd are better than other selected automobile companies. Financial positions of Bajaj Auto Ltd and Hero MotoCorp Ltd are moderate. TVS Motor Company Ltd has higher debt equity ratio than other selected automobile companies and hence it is suggested that it should follow the debt equity management and inventory management efficiently.

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