

To Analyse the Solvency, Liquidity Position of the Selected Auto Mobile Companies in India

* Dr.A. Kannan, ** G.Gunavelan

Principal & Professor of Commerce, Siri PSG Arts & Science College for Women,
Sankari (Po), Salem –Dt, Tamilnadu State, Pin 637 301.

Ph.D Scholar, PG And Research Department of Commerce, Siri PSG Arts & Science College for Women, Sankari (Po),
Salem –Dt, Tamilnadu State, Pin 637 301.

ABSTRACT: Automobile industry is the key driver of any growing economy and plays a pivotal role in country's rapid economic and industrial development. The study will be helpful in understanding the pattern and the structure of financial variables of selected company apart from identifying the financial relationship with other major automobile companies in India. In the present study liquidity analysis of the selected companies is done through the study of current ratio, liquid ratio and absolute liquid ratio. Objectives of the study, The study is based on secondary data. Methodology of the study, the data were collected from the official directory and database of CMIE namely PROWESS. The goals of such appraisal are to determine the efficiencies or performance of a firm's management as reflected in the financial records and reports. The important areas of financial appraisal include production, cost trends and sales, profitability, financial strength, working capital, liquidity and productivity

KEYWORDS: Solvency, liquidity, financial position etc.,

INTRODUCTION

Automobile industry is the key driver of any growing economy and plays a pivotal role in country's rapid economic and industrial development. It caters to the requirement of equipment for basic industries like steel, non-ferrous metals, fertilizers, refineries, petrochemicals, shipping, textiles, plastics, glass, rubber, capital equipments, logistics, paper, cement, sugar, etc. 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. Automobile industry includes two wheelers, three wheelers, commercial vehicles and passenger vehicles. The Indian automobile industry has made rapid strides since delicensing and opening up of the sector in 1991. It has witnessed the entry of several new manufacturers with the state-of-art technology, thus replacing the monopoly of few manufacturers. There are 19 manufacturers of passenger cars & multi utility vehicles, 16 manufacturers of commercial vehicles, 10 manufacturers of two wheelers and 7 manufactureres of three wheelers in India. The norms for foreign investment and import of technology have also been liberalised over the years for manufacture of vehicles. At present, 100% foreign direct investment (FDI) is permissible under the automatic route in this sector, including passenger car segment. Presently, India is the world's second largest manufacturer of two wheelers, fifth largest manufacturer of commercial vehicles and fourth largest manufacturer of tractors. It is the seventh largest passenger car market in Asia Chapter- 1 Introduction 2 as well as a home to the largest motor cycle manufacturer. The installed capacity of four wheelers is 3.88 million units, two and three wheelers is 14.31 million units.

The Indian automobile industry has attained a turnover of USD 56,259.57 million and provides direct employment to 1 million people and indirect employment to 18 million people in the country. The sector has shown great advances in terms of development, spread, absorption of newer technologies and flexibility in the wake of changing business scenario.

The Indian auto industry is one of the largest in the world. The industry accounts for 7.1 per cent of the country's Gross Domestic Product (GDP). The Two Wheelers segment with 80 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 the companies in exploring the rural markets further aided the growth of the sector. The overall Passenger Vehicle (PV) segment has 14 per cent market share.

India is also a prominent auto exporter and has strong export growth expectations for the near future. Overall automobile exports grew 15.81 per cent year-on-year between April-February 2017-18. 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 2W and Four Wheeler (4W) market in the world by 2020.

STATEMENT OF THE PROBLEM

Financial Appraisal is of special importance in industries and automobile industry is one of such industry. From the point of view of the socio-economic development of the country, automobile is significant enough in terms of investment and employment. The sales and profitability function in automobile industry differs from that of other industries. a) The study will be helpful in understanding the pattern and the structure of financial variables of selected company apart from identifying the financial relationship with other major automobile companies in India. b) The study will be helpful in checking current performance against predetermined standards contained in the plans and will be helpful in evaluation of standards. c) The study will be helpful in forming the policies of the management within the scheduled time and approve cost. d) The study will be helpful in ensuring maximum economy in expenditure. e) The study will be helpful to the management, the financiers the investors and the government at large, to take valuable decisions on their own.

OBJECTIVES OF THE STUDY

To analyse the solvency, liquidity, profitability position of the selected Auto mobile companies in India

HYPOTHESIS OF THE STUDY

There is no difference between the years and companies on the current ratio

There is no difference between the years and companies on the quick ratio

METHODOLOGY OF THE STUDY

The study is based on secondary data. The data were collected from the official directory and database of CMIE namely PROWESS. The data for this study has been selected based on stratified sampling technique. The Indian Automobile Industry consists of two sectors namely (i) automobiles (ii) auto ancillaries. The Automobiles consist 77 companies in the capital line database. Out of which 10 public limited companies have been selected on the basis of availability of 10 years (financial year) data from March 2007- 08 to March 2016-17. The study concentrates on automobile sectors top 10 companies.. The following table – 1 represents top two automobile companies in India based on net profit for the year 2016. Sample taken for the research paper consists of ten automobile companies listed in BSE/NSE.

ANALYSIS AND INTERPRETRATION

TABLE NO.1
CURRENT RATIO

	current ratio									
	Tata Motors Ltd.	Mahindra & Mahindra Ltd.	Maruti Suzuki India Ltd.	Hero MotoCorp Ltd.	Bajaj Auto Ltd.	Ashok Leyland Ltd.	Sundaram Clayton Ltd.	TVS Motor Company Ltd.	Eicher Motors Ltd.	Force Motors Ltd.
	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10
2008	0.92	1	0.96	0.51	0.88	1.21	1.05	1.37	0.99	0.7
2009	0.94	0.99	1.59	0.49	0.83	1.46	1.03	1.45	4.61	0.91
2010	0.91	1.16	0.95	0.6	0.68	1.38	1.04	1.31	1.28	0.95
2011	0.83	0.91	2.39	0.96	0.79	1.06	0.98	0.96	0.56	0.97
2012	0.85	1.08	1.69	1.11	1.12	0.89	0.92	0.8	2.73	2.6
2013	1.17	1.1	1.63	1.22	1.5	0.81	0.94	0.9	1.99	1.79
2014	0.36	1.29	1.76	1.26	1.19	0.84	0.91	0.92	1.65	1.71
2015	0.42	1.13	0.93	1.36	2.13	0.93	0.83	0.9	1.31	1.67
2016	0.6	1.09	0.63	1.47	1.56	1.02	0.85	0.87	0.98	1.7
2017	0.58	1.32	0.65	1.82	2.92	0.95	1.17	0.77	0.94	1.66
Mean	0.758	1.107	1.318	1.08	1.36	1.055	0.972	1.025	1.704	1.466
SD	0.2571554	0.12789	0.57619	0.4408	0.70484	0.2249	0.1033	0.251	1.1946	0.577
CV	0.81	0.41	1.76	1.33	2.24	0.65	0.34	0.68	4.05	1.9

The current ratio of the sample automobile companies was shown in Table 4.1.

The mean value was the highest in Eicher Ltd i.e., 1.704 followed by Force Ltd i.e., 1.466. Current ratio of all the selected automobile companies reflected that they were below the mean ratios in most of the years. Hence, it could be concluded that the current ratio was not in a satisfactory position in all the companies. The co-efficient of variation showed that the current ratio of Sundaram Clayton Ltd. was more consistent (0.34) than the other companies and it was followed by Mahindra & Mahindra Ltd. (0.41), Tata Motors Ltd. (0.81), TVS Motor Company Ltd. (0.68) and so on.

TABLE NO.2

ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	6.839405	9	0.759934	2.542088	0.011978	1.985595
Within Groups	26.90467	90	0.298941			
Total	33.74408	99				

** $P < 0.01$ * $P < 0.05$ S- Significant NS- Not Significant

Source: Computed using the values of ratios

In order to examine the significant effect of difference between the years and companies on the Current Ratio, F test has been made and it is exhibited in the Table. The table reveals that the p-value is less than 0.05; the null hypothesis is rejected at five percent level of significance.

The hypothesis “there is difference between the years and companies on the current ratio” is disproved. It is concluded that, there is difference between the years and category of sectors on the current ratio.

QUICK RATIO

TABLE NO.3

QUICK RATIO										
	Tata Motors Ltd.	Mahindra & Mahindra Ltd.	Maruti Suzuki India Ltd.	Hero MotoCorp Ltd.	Bajaj Auto Ltd.	Ashok Leyland Ltd.	Sundaram Clayton Ltd.	TVS Motor Company Ltd.	Eicher Motors Ltd.	Force Motors Ltd.
	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10
2008	0.61	0.71	0.64	0.34	0.69	0.67	1.17	0.65	0.66	0.32
2009	0.42	0.78	1.32	0.33	0.71	0.84	0.85	0.93	4.44	0.46
2010	0.39	0.93	0.65	0.51	0.58	0.83	0.83	0.92	1.13	0.52
2011	0.37	0.63	2.04	0.87	0.64	0.47	0.91	0.51	0.39	0.4
2012	0.41	0.76	1.42	0.96	0.98	0.43	0.94	0.37	2.53	1.7
2013	0.27	0.8	1.35	1.06	1.35	0.45	0.92	0.49	1.79	0.96
2014	0.15	0.97	1.54	1.1	1.05	0.58	0.98	0.56	1.43	0.95
2015	0.19	0.86	0.63	1.15	1.95	0.65	1.04	0.54	1.09	1.01
2016	0.33	0.84	0.36	1.3	1.32	0.68	1.03	0.51	0.73	0.93
2017	0.33	1.03	0.4	1.66	2.7	0.54	1.05	0.43	0.71	1.17
MEAN	0.347	0.831	1.035	0.928	1.197	0.614	0.972	0.591	1.49	0.842
SD	0.5857	0.58637	0.619	0.629	0.659	0.652	0.709	0.8202	0.945	0.425
CV	168.79	70.5617	59.85	67.825	55.11	106.2	72.939	138.77	63.43	50.43

Source: CMIE

The quick ratio of the sample automobile companies was shown in Table 4.2.

The mean value was the highest in Eicher auto companies i.e., (1.49) followed by Bajaj auto Ltd i.e., (1.197). The Liquidity ratio of seven selected auto companies reflected that they were below the mean ratios in most of the years. Hence, it could be concluded that the current ratio was not in a satisfactory position in all the companies. The Liquidity of variation showed that the co-efficient variation ratio of Force motors Ltd (50.43) than that of the other companies and it was followed by Bajaj auto Ltd more consistent (55.11) ,Maruti suzuki Ltd. (59.85), Eicher (63.43), Hero motorLtd. (67.82) and so on.

TABLE NO.4.

QUICK RATIO

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	10.44309	9	1.160344	4.74187	2.94	1.974
Within Groups	24.47017	100	0.244702			
Total	34.91326	109				

Source: CMIE

F test of Liquidity ratio has been made and it is exhibited in the above Table. The table reveals that the p-value of F is greater than 0.05; the null hypothesis is accepted at five percent level, not significance. The hypothesis “there is no difference between the years and companies on the quick ratio” is disproved. It is concluded that, there is no difference between the years and companies on the quick ratio.

SUGGESTION OF THE STUDY

1. It is suggested that there is a need for Indian automobile industry to adopt producing and selling wide range of products, to adopt better market strategy, by reducing cost and revising selling prices to enhance the value of turnover so as to go ahead in the era of competitions.

2. Inventory is the most crucial asset for a manufacturing organisation. Particularly with reference to inventory turnover ratio, the cost of materials in Indian automobile industry is the major component in production cost and its share is increasing (Narayanan and Vashishth 2008). The managerial efficiency to keep an optimum level of asset lies in maintaining an adequate ratio of assets to turnover.

3. Cost accounting and cost audit should be made mandatory in automobile industry and they should be called to prepare cost sheet along with their annual financial statements.

4. A systematic, prompt and regular flow of information and its analysis is important for improving productivity, efficiency and profitability. A suitable management information system needs to be evolved which will take care of the data requirement of administrative officers as well as other units like factory etc., for internal management and control. Appropriate organisational arrangements should be made for the successful implementation of management information system in Indian automobile industry.

CONCLUSION

The various tools and techniques of financial appraisal are comparative financial statements, common size financial statements. Ratio analysis has been found the most suitable tool of analysis and has been used in our study for the analysis. Ratio analysis helps to ascertain the financial condition of the firm. Financial ratios help to summarise large quantities of financial data to make qualitative judgment about the firm's financial performance. The ratios can be classified into four categories: liquidity ratios, managerial efficiency ratios, leverage (long term solvency) ratios and profitability ratios. Liquidity analysis attempts to analyse the companies' ability to meet its short-term obligations. It is usually done through the calculation of current ratio and quick (liquid) ratio and absolute liquid ratio. The company must attempt to maintain optimum (ideal) ratio which depends upon the type of manufacturing industry. If liquidity ratios of the company are higher than the ideal ratios, the company is said to be having idle investment. Likewise, if ratio is lesser to required one, the deficit will represent possible difficulties in the payment of current liabilities of firm and it is surely not a healthy sign for the company. Managerial efficiency of the company lies in making optimum utilisation of the assets of the companies. Financial appraisal is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The goals of such appraisal are to determine the efficiencies or performance of a firm's management as reflected in the financial records and reports. The important areas of financial appraisal include production, cost trends and sales, profitability, financial strength, working capital, liquidity and productivity.

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