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## A STUDY ON FINANCIAL ANALYSIS OF AUTOMOBILE INDUSTRIES

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### Abstract

The main purpose of this study is to determine, forecast and evaluate the best of economic conditions and company's performance in the future. The other purpose of this study is to analyze the financial statement and then give information for financial managers to make through decisions about their business. In this selected 2 automobile companies in India. The main objective of this project is to analysis profitability of the companies for last ten years (2010-2020). My study is based on secondary data. Financial position is analyzed by different ratio. From the study, position of maruti Suzuki & Tata motors is ascertained. This project shows the change in profitability.

**Keywords; Profitability ratio, Shareholders funds, Liabilities.**

### INTRODUCTION

Financial analysis is the process of examining a company's performance in the context of its industry and economic environment in order to arrive at a decision or recommendation. Often, the decisions and recommendations addressed by financial analysts pertain to providing capital to companies-specifically, whether to invest in the company debt or equity securities and at what price. An investor in debt securities is concerned about the company's ability to pay interest and to repay the principal lent. An investor in equity securities is an owner with a residual interest in the company and is concerned about the company's ability to pay dividends and the likelihood that its share price will increase. Overall, a central focus of financial analysis is evaluating the company's ability to earn a return on its capital that is at least equal to the cost of that capital, to profitably grow its operations, and to generate enough cash to meet obligations and pursue opportunities.

### OBJECTIVES OF THE STUDY

- To analysis profitability of maruti Suzuki Ltd & Tata motors Ltd.
- To identifying the liquidity position of the maruti Suzuki Ltd & Tata motors Ltd.
- To study the financial strength of the companies

## STATEMENT OF THE PROBLEM

The efficiency of the business is measured by the amount of profit earned. Analysis and interpretation of the financial statement is regular exercise to review the performance of the companies. It was purpose to conduct to study the short term prospects as well as the long term trends and to arrive at the conclusion on the performance of the companies.

The problem is to determine the financial ratio analysis and to earn sufficient profitability to manage the proper functioning of the companies. Every effort has been made to conclude relevantly and to suggest for the best performance.

## RESEARCH METHODOLOGY

### RESEARCH DESIGN

The study is based on secondary data. The data is pertaining to the behavior of liquidity, solvency and profitability position were collected from the balance sheet and profit & loss account of maruti Suzuki ltd & Tata motors ltd. The necessary data were obtained from the published annual reports.

### NATURE OF DATA

The evaluation of the study is based on the secondary data collected from the annual reports. The analysis and recommendations made on the facts, diagrams and graphs which are given to represent the statistical data for the study of ratios of current assets, current liabilities, net sales, operating profit, capital expenditure and current assets to current liabilities .

### TOOLS APPLIED

To have a meaningful analysis and interpretation of various data collected the following tools are used to study

1. Ratio analysis
2. Correlation

## REVIEW OF LITERATURE

**Sharma (2008)**<sup>2</sup> in her study on ‘Indian Automotive Industry’ has analyzed the sales and capabilities of different firms in automobile industry. The study further indicates that the growth in the automobile sector is expected to grow due to rising disposable income and increasing consumerism. The global automakers will continue to allocate a rising proportion of the foreign direct investment in India, growing auto-manufacturing first and latter auto engineering R&D services. Many companies are aware of the fact that their lab our cost advantage is beginning to erode as both shop floor and managerial wage costs rise. However, they are optimistic that productivity improvements through low cost automation and improved management efficiency will compensate to rising direct wage cost.

**Kale (2011)**<sup>1</sup>, in the last decade the Indian auto industry has shown increasing levels of technological sophistication and significant growth. The Indian auto industry consists of local firms with indigenous design and development capability, well established global brands and has marketing presence in Indian as well as other emerging markets. This paper tracks capability development in the Indian auto industry and seeks to understand the factors, both internal and external to firms that have shaped innovative capabilities. It points out that the Indian Government’s industrial policy secured development of basic capabilities but restricted innovative capability development in auto manufacturing. This paper reveals that key attributes of firm ownership such as managerial vision and diversified nature of business, helped Indian firms in the development of the innovative capabilities

**DATA ANALYSIS AND INTERPRETATION****4.1 CURRENT RATIO****FORMULA;**

$$\text{CURRENT RATIO} = \text{CURRENT ASSETS} / \text{CURRENT LIABILITIES}$$

**TABLE NO 1 CURRENT RATIO : MARUTI SUZUKI LTD**

S.NO	YEAR	CURRENT ASSETS	CURRENT LIABILITES	CURRENT RATIO
1	2010-2011	9,746.40	4,104.7	2.39
2	2011 -2012	11,242.00	6,677.00	1.69
3	2012-2013	11,154.10	6,971.9	1.63
4	2013– 2014	14,553.60	8,230.90	1.76
5	2014- 2015	8,798.00	8,982.40	0.93
6	2015-2016	7,951.10	11,044.10	0.71
7	2016-2017	8,798.00	13,236.80	0.66
8	2017-2018	7,930.00	15,448.50	0.51
9	2018 -2018	12,372.70	14,160.50	0.87
10	2019-2020	8,440.60	11,305.40	0.75

SOURCE- Secondary data

**INTREPRETATION**

The current ratio was the highest in the year 2010-2011 and lowest in the year 2017-2018.

**TABLE 2 CURRENT RATIO: TATA MOTORS LTD**

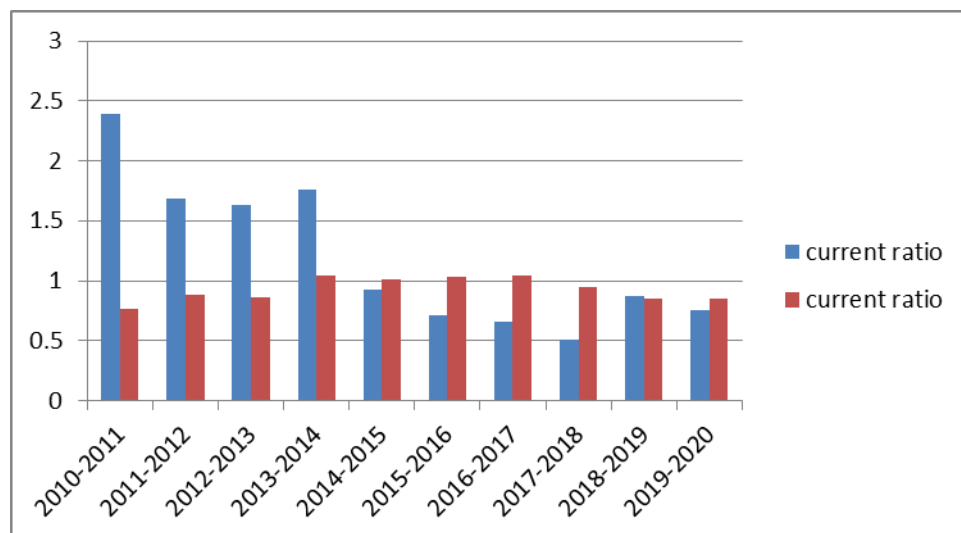
S.NO	YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
1	2010-2011	42,088.82	55,125.52	0.76
2	2011-2012	64,461.47	73,268.07	0.88
3	2012-2013	74,006.73	86,285.90	0.86
4	2013-2014	95,845.33	92,356.13	1.04
5	2014-2015	101,758.40	100,272.00	1.01
6	2015-2016	109,923.67	107,049.43	1.03
7	2016-2017	116,119.75	115,629.52	1.04
8	2017-2018	135,972.84	143,219.47	0.95
9	2018-2019	123,431.16	145,457.43	0.85
10	2019-2020	119,587.25	140,457.43	0.85

Source-secondary data

**INTERPRETATION**

The current ratio was highest in the year of 2013-2014 and lowest in the year of 2014-2015.

**CHART**



**SOLVENCY RATIO**

**FORMULA**

$$\text{SOLVENCY RATIO} = \frac{\text{TOTAL LIABILITIES TO OUTSIDERS}}{\text{TOTAL ASSETS}}$$

**TABLE NO 4.15 SOLVENCY RATIO: MARUTI SUZUKI LTD**

S.NO	YEAR	TOTAL LIABILITIES TO OUTSIDERS	TOTAL ASSETS	SOLVENCY RATIO
1	2010-2011	4,797.5	19,106.30	0.25
2	2011-2012	7,424.8	23,099.30	0.32
3	2012-2013	8,432.4	27,470.80	0.30
4	2013-2014	9,902.8	31,411.40	0.31
5	2014-2015	10,146.8	34,478.60	0.29
6	2015-2016	12,095.1	42,725.50	0.28
7	2016-2017	14,870	51,960.50	0.29
8	2017-2018	15,672.9	60,248.40	0.26
9	2018-2019	16,859	63,968.70	0.27
10	2019-2020	14,195.5	63,627.70	0.22

Source – Secondary data

### INTERPRETATION

The solvency ratio was highest in the year was 2013-2014 and lowest in the year was 2019-2020.

**TABLE NO 4.16 SOLVENCY RATIO : TATA MOTORS LTD**

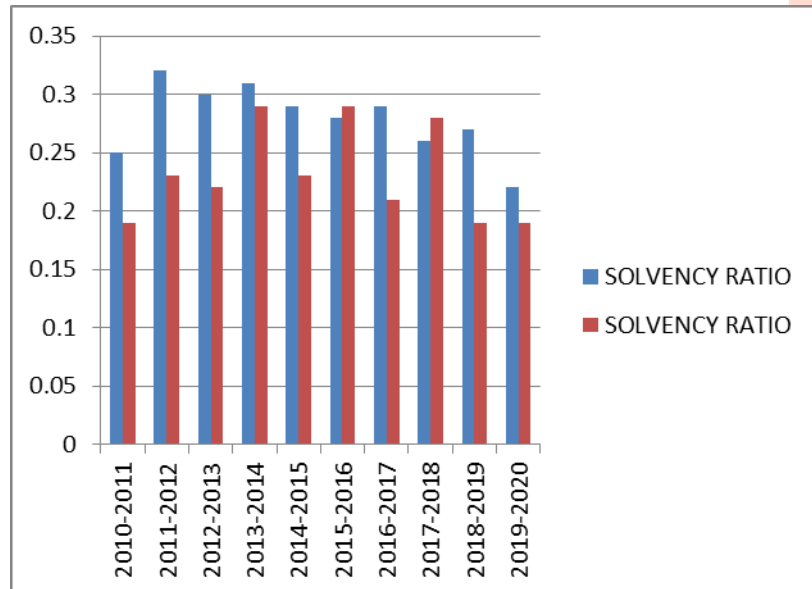
S.NO	YEAR	TOTAL LIABILITIES TO OUTSIDERS	TOTAL ASSETS	SOLVENCY RATIO
1	2010-2011	19,026.84	101,014.18	0.19
2	2011-2012	33,057.03	145,382.64	0.23
3	2012-2013	37,597.7	170,026.45	0.22
4	2013-2014	65,580.58	219,998.32	0.29
5	2014-2015	56,239.05	238,657.99	0.23
6	2015-2016	78,952.41	267,141.15	0.29
7	2016-2017	58,061.89	273,754.36	0.21
8	2017-2018	95,427.91	331,350.51	0.28
9	2018-2019	60,179.56	307,194.53	0.19
10	2019-2020	62,211.03	322,121.26	0.19

Source- secondary data

### INTERPRETATION

The solvency ratio was highest in the year was 2013-2014 and lowest in the year was 2018-2019.

#### CHART



### CORRELATION

**TABLE NO 4.31 CURRENT RATIO : MARUTI SUZUKI LTD**

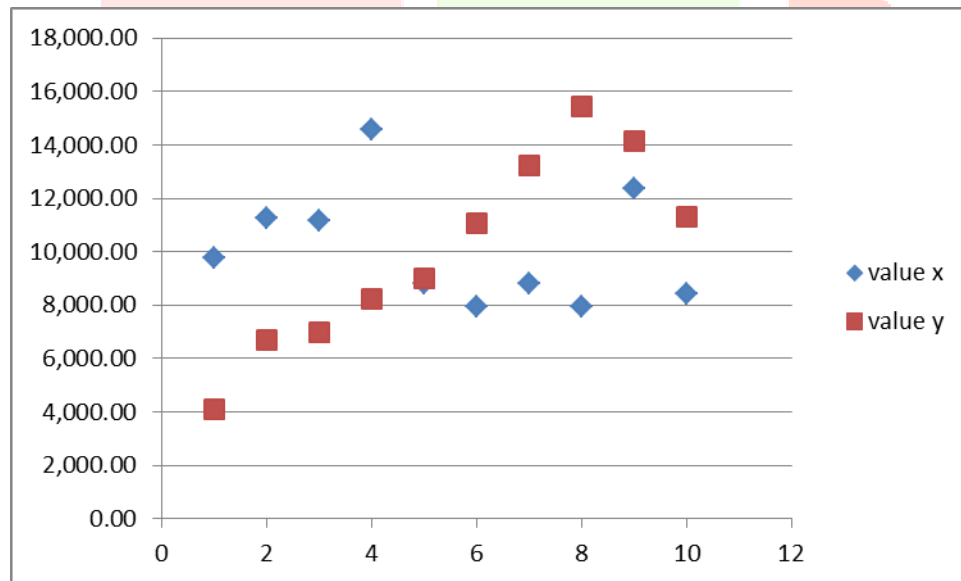
YEAR	X	Y
2010-2011	9,746.40	4,104.7
2011-2012	11,242.00	6,677.00
2012-2013	11,154.10	6,971.9
2013-2014	14,553.60	8,230.90
2014-2015	8,798.00	8,982.40
2015-2016	7,951.10	11,044.10
2016-2017	8,798.00	13,236.80
2017-2018	7,930.00	15,448.50
2018-2019	12,372.70	14,160.50
2019-2020	8,440.60	11,305.40

Correlation = - 0.31

**INTERPRETATION**

Negative correlation between current assets and current liabilities during the period 2010-2020 in maruti Suzuki ltd

**CHART**



**TABLE NO 4.32 CURRENT RATIO**

**TATA MOTORS LTD**

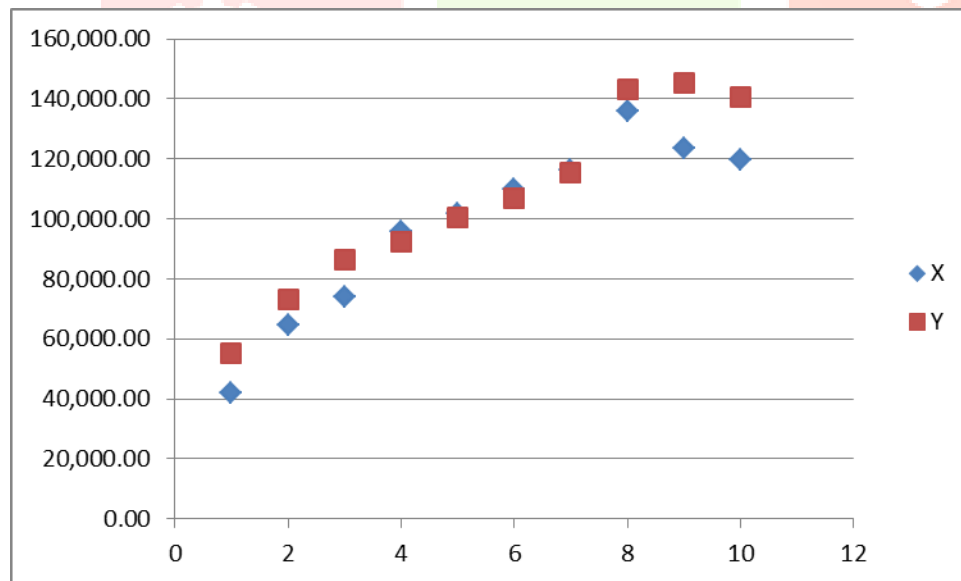
YEAR	X	Y
2010-2011	42,088.82	55,125.52
2011-2012	64,461.47	73,268.07
2012-2013	74,006.73	86,285.90
2013-2014	95,845.33	92,356.13
2014-2015	101,758.40	100,272.00
2015-2016	109,923.67	107,049.43
2016-2017	116,119.75	115,629.52
2017-2018	135,972.84	143,219.47
2018-2019	123,431.16	145,457.43
2019-2020	119,587.25	140,457.43

Correlation = 0.95

**INTERPRETATION**

Positive correlation between current assets and current liabilities during the study period 2010-2020 in Tata motors ltd.

**CHART**



**TABLE NO 4.37 PROPRIETARY RATIO**

**MARUTI SUZUKI LTD**

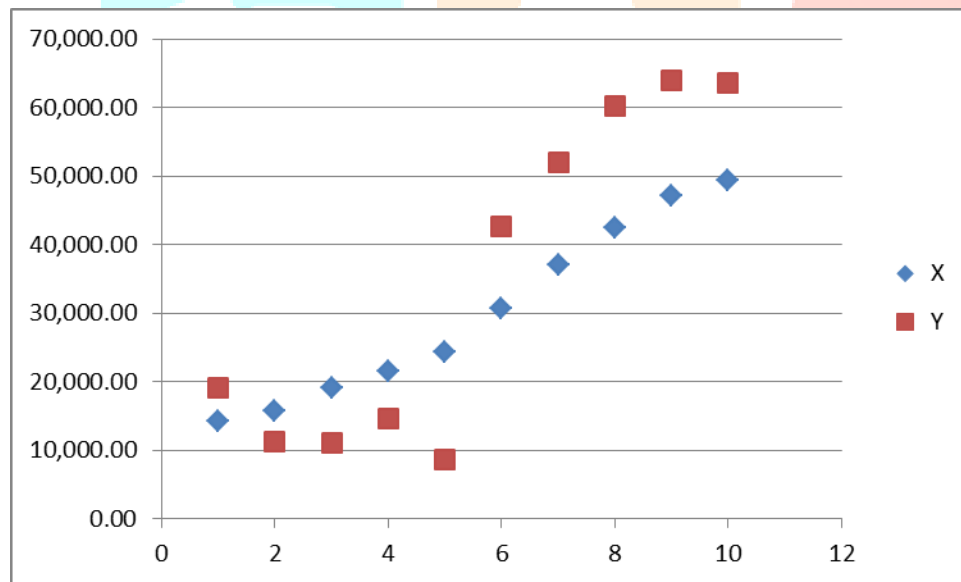
YEAR	X	Y
2010-2011	14,308.8	19,106.30
2011-2012	15,674.5	11,242.00
2012-2013	19,027.8	11,154.10
2013-2014	21,496.4	14,553.60
2014-2015	24,314.4	8,696.40
2015-2016	30,616	42,725.50
2016-2017	37,075.1	51,960.50
2017-2018	42,559.4	60,248.40
2018-2019	47,092.1	63,968.70
2019-2020	49,413	63,627.70

Correlation = 0.94

**INTERPRETATION**

Positive correlation between shareholder’s funds and total assets during the study period 2010-2020 in Maruti Suzuki ltd.

**CHART**



**TABLE NO 4.38 PROPRIETARY RATIO**



**TATA MOTORS LTD**

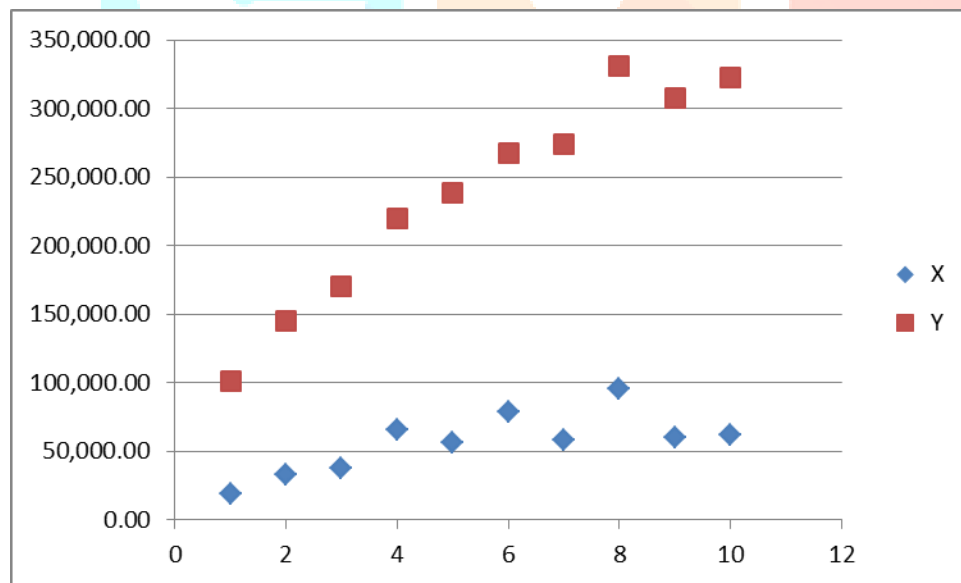
YEAR	X	Y
2010-2011	19,026.84	101,014.18
2011-2012	33,057.03	145,382.64
2012-2013	37,597.7	170,026.45
2013-2014	65,580.58	219,998.32
2014-2015	56,239.05	238,657.99
2015-2016	78,952.41	267,141.15
2016- 2017	58,061.89	273,754.36
2017-2018	95,427.91	331,350.51
2018-2019	60,179.56	307,194.53
2019-2020	62,211.03	322,121.26

Correlation = 0.86

**INTERPRETATION**

Positive correlation between the shareholder’s funds and total assets during the study period 2010 -2020 in Tata motors ltd.

**CHART**



**FINDINGS, SUGGESTION & CONCLUSION**

## **FINDINGS FROM RATIOS;**

### **CURRENT RATIO;**

Maruti Suzuki ltd year 2014 shows the low current ratio and liability is higher than the current assets and also below the standard norm 2:1. This shows that the industry does not have enough ability to pay their liabilities.

Tata motors ltd year 2017 shows the low current ratio and liability is higher than the current assets and also below the standard norm 2:1. This shows that the industry does not have enough ability to pay their liabilities.

### **SOLVENCY RATIO;**

Maruti Suzuki ltd year 2013-2014 shows the high the ratio of total liabilities to total assets satisfactory is the short-term solvency position of a firm and year 2019-2020 shows the lower the ratio of total liabilities to total assets more satisfactory is the long-term solvency position of a firm.

Tata motors ltd year 2013-2014 shows the high the ratio of total liabilities to total assets satisfactory is the short-term solvency position of a firm and year 2018-2019 shows the lower the ratio of total liabilities to total assets more satisfactory is the long-term solvency position of a firm.

### **CORRELATION;**

Maruti Suzuki ltd shows the negative correlation in the year 2010-2020 and Tata motors ltd shows the positive correlation in the year 2010-2020.

### **SUGGESTIONS;**

1 .Supporting IT integration in manufacturing and development of infotronics through project financing by government.

2.To identify the bottlenecks in existing four clusters- Manesar in North, Pune in West, Chennai in South and Jamshedpur-Kolkata in East. A comprehensive plan of action need to be evolved for improving and exploiting the advantages of commonalities find complementarities of the industries in the clusters. An attempt should be made to open relevant government outfits around clusters, to attract foreign investment around clusters and to focus export promotion from the clusters and to establish local University, Research Institutes near to the clusters.

3.In order to meet the growing scarcity of trained human resources , the researcher recommends setting up of a National level Automotive Institute which will run training courses in automobile sector and formulate courses and modules for training in automobile and auto component sector.

4. Opening up of Auto Design Centers at various places

5. Development of Technical Design Data Centers as part of Center of Excellence in NATRIP.

## CONCLUSIONS

The Phased Manufacturing Programme (PMP) introduced in Indian automotive sector for localization had laid the foundation for the development of auto component industry. This programme enabled the auto-component to modernize the technology, improve quality standards and to imbibe good manufacturing and shop-floor practices. It has also been successful in transforming itself as highly capable sector of the manufacturing industry. Globalization has helped the industry with foreign direct investment. Today the auto component companies have long term agreement with global automobile companies and are concentrating on Total Quality Management (TQM) to improve their quality and manufacturing techniques, this has helped them to be more competitive. The industry manufactures the complete range of products required by the domestic as well as export market and provides direct and indirect employment, presently it is employing more than 2,50,000 employees.

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