Hyundai and Mahindra – A Comparative and an Empirical Study in Automobile Companies in India

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Abstract

The researcher has made an attempt to make an empirical study in two leading automobile companies in India, Hyundai & Mahindra. The study has been conducted during the period (2008-2018) to study the working capital position of the selected concerns using Ration Analysis. The researcher observed that there were wide fluctuations in the current ratio and liquidity ratio. Finally the author has suggested the automobile companies should adopt proper credit policies to make effective utilization of current assets.

KEYWORDS: Ratio Analysis, HYUNDAI, MAHINDRA, Working Capital position.

INTRODUCTION OF THE STUDY

Transport sector contributes a crucial part in economic development of our country. Mobility across the nations became possible in an unparalleled level throughout the evolution of transportation modes. Automobile industry is an unrivalled contributor of surface transport. Automobiles include passenger vehicles, goods vehicles, two and three wheelers; India has occupied a huge market for automobiles as the demands keep on rising. India ranks fourth, in exporting automobiles next to Japan, South Korea and Thailand. The short term and long term are the two views in which financial strength of every organization depends. Short term financial strength refers to meeting the technical solvency in near future, while imposing structure to fund more permanent asset necessities refers to long term financial strength. Hereby this study is about focusing on short term liquidity position of considered automobile companies in India. In the analysis, the financial performance of a company is evaluated using the ratio.

OVERVIEW OF AUTOMOBILE INDUSTRY IN INDIA

The Indian Automobile industry is the potential sector which will become one of the world's largest, as India is already second globally next to China in two wheeler segment, 11th in car manufacturing and 13th in commercial vehicle manufacturing. With increased spending capability of middle class Indians and developing industrial production, Indian market could make it to top five markets without being saturated. Comparing to the Heavy Trucks per capital levels of developed countries like china and world average, India's level is still far below. World's leading auto giants gained affinity towards economically developing Indian market in recent years. Indian automobile industry has attracted flow of capital and capacities due to well trained manpower at affordable cost and stagnation in the Europe, US and Japanese sectors.

AUTOMOBILE INDUSTRY IN INDIA

The sales in Indian automobile industry has already climbed up the chart. Department of Industrial Policy and Promotion (DIPP) report shows that FDI of US 12,232.06 has been invested during the period from April 2006 to March 2016. Indian government policies clarify that India Automobile sector is open towards 100% FDI adding to the reduced excise duty of 8% from 12% under "Make in India". Initiatives are kick started by Indian government to boost both domestic market and international market position.

Domestic volume growth trends in March 2016

Type of Vehicles	Growth Rate - 2016	
	YOY in Mar	FY
Passenger Vehicles	2.7	3.9
Commercial vehicles	2.8	2.8
Two wheelers	0.8	8.1
Three Wheelers	2.7	10.8
Tractors	3.4	13.0

Source: Adopted from ICRA Research Services

Society of Indian Automobile Manufacturer (SIAM) data says that in India commercial vehicle sales grown upto 5.3% in Jan 2106 after selling 52,481 units. Indian government has already initiated various activities aiming to make Indian market as one of the leader nations in two and four wheeler market globally by 2020. Hence this study is to guide stake holders to make better investment decision considering the examined outcomes through selected automobile companies.

REVIEW OF LITERATURE

Narayanan K (1997) has attempted to analyze the effects of deregulation policy introduced in India during eighties on technology acquisition and competitiveness in the Indian automobile industry. Following evolutionary theoretical framework, the study argues that asymmetry among firms in terms of technology acquisition explain much of the firm level differences in competitiveness. Asymmetry among firms in terms of technology acquisition is largely due to differences in the firm's ability to bring about technological paradigm. The results of the econometric exercise support the view that, even in the era of capacity licensing, development of competitive skills crucially dependent upon the ability to build specific technology advantages. This is achieved successfully by complementing imported technology with in-house technological efforts. Competitiveness in a deregulated regime would, however, depend upon the ability of the firm to bring about technological paradigm shifts, appear more successful. Furthermore, in a liberal regime, advantages of vertical integration also appear to be important determinants of competitiveness.

Vivek Singla, (2013) analyzed the financial performance of selected companies. It includes analysis of profitability and working capital. Financial Performance is a yardstick to measure financial and operational efficiency of the firm. Strategic and operational of thinking mainly depends on analysis of financial performance. The consistency and routine efforts made to improve financial condition. This will result on increasing effectiveness and efficiency of the firm and increase the interest on investment.

Vikkraman Dr.P. Varadharaja 2004, “A study on risk & return analysis of automobile industry in India”, Automobile Industry is a symbol of technical marvel by humankind. Automobile industry is considered to be one of the fastest growing sectors in any developing and even in a developed country. 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.

Patel Vivek, 2010, “Financial Performance of Tata Motors, the company has issued equity capital rather than going for preference share which means the company’s dividend will not be fixed but the company has provided a good amount of dividend to shareholders. Despite of having large reserves, company has opted for loan funds. The company had a good operating income which shows that the company has a sustainable growth.

Zafar Tariq, 2012, “A comparative evaluation of financial performance of Maruti and Tata company”, Financial ratios are an excellent and scientific way to analyze firm’s financial position. They are important indicators and are widely used to summarize the information in a company’s financial statement in assessing and evaluating its financial health. Indian automobile industry moving on cyclical growth and showing the reflection of economic dynamics has been playing an imperative role in this radical phase and thus invite investigative analysis for smooth future. With regard to automobile industry there are various factors which affect the performance of the company as well as shareholders return.

Siddharth Mahajan and Mainak Sarkar (2007), in his study, an attempt had been made to compare the financial performance of three Indian companies, Tata motors, Maruti and Mahindra & Mahindra with two MNCs, Honda and Hyundai. Ten ratios have been used. There are four profitability ratios, four liquidity ratios and two solvency ratios. In profitability ratio, the profit margin is roughly the same for the Indian companies and for the MNCs. The asset turnover and return on assets of MNCs are roughly double that of Indian Companies. This indicates that the MNCs are more efficient at utilizing their assets to generate profits. However, the return on equity of the Indian Companies is about ten times that of the MNCs. In liquidity ratios, the current ratio, the quick ratio and the inventory turnover ratio are roughly the same for the Indian Companies and for the MNCs. In solvency ratios, the debt to equity ratio of the Indian Companies is about one-and-half times that of the MNCs. This is because the Indian Companies use much less equity capital that the MNCs.

STATEMENT OF PROBLEM

The automobile sector is one of the most successful growing industries as it has already been contributing 22% of the country's manufacturing gross domestic product (GDP). It is one the biggest direct and indirect employers as every single job relates to five allied jobs. The growth potential of India's domestic market have been a strong attraction for leading global automakers. India ranks third as world's largest two wheeler exporter next to China and Japan. By the year 2020, India will go past Thailand in auto-export market share as reported by Standard Charted Bank.

In India, being one of the largest industries, the automobile industry is one of the crucial sectors for the economy. The industry has progressed higher since de-licensing and welcoming Foreign Direct Investment (FDI) in 1991-92.With deep front and back linkages with rest of the economy, it has strong multiplier effect. It is estimated that automobile industry along with component manufacturing is providing direct employment to 5 lakhs people and indirect employments around 50 million people. As a result, the automobile industry being the pilot of economic growth, India is keen to accelerate the economic growth through the sector. This study analyses the present problems as still there some threats to the viability of automobile industry. Following the background of above situation, this study evaluates the liquidity, profitability and solvency position. Under considered environment, it is necessary to study financial built of automobile industries through the following objectives.

OBJECTIVES OF THE STUDY

1. To analyze the liquidity position of the selected automobile companies.
2. To assess the efficiency of selected automobile companies.
3. To suggest recommendations for future growth and development of the selected Automobile industries in India.

METHODOLOGY

The study analyses through secondary data, as it collected from the official database and directory of CMIE namely Capital Line database. Stratified sampling technique is used to collect date for this study. Research is a process of a systematic and in-depth study or search of any particular topic, subject or area of investigation, backed by the collection, compilation, presentation and interpretation of relevant details or data. It is a conscious search into any subject or subjects matter, endeavoring to discover valuable facts, which results in further application or utilization of researchers and management problem analysis to make a conclusion through logical analysis. To evaluate the research problem systematically a scientific approach is must to the research methodology.

SAMPLE DESIGN

On the basis of data availability through 10 years (financial year) from March 2007-08 to 2017-18.

TOOLS FOR ANALYSIS

The study makes use of various accounting ratios extensively especially current and liquidity ratios to analyze the Working Capital Position of HYUNDIA & MAHINDRA.

SCOPE OF THE STUDY

Each and every study has its unique scope. This study is keen in indentifying the liquidity of automobile industries in India. The scope is to extend grip on various factors of performance of the industry through the period of ten years from 2007-2008 to 2017-18. Hence, scope of the study is restricted to financial performance of automobile companies in India.

LIMITATION OF THE STUDY

1. Analysis of the study is based on financing data collected from CMIE capital line package. The quality of the study depends purely upon the accuracy, reliability and quality of the secondary data.
2. The ratio analysis has its own limitations. The same also applies to the present study. There are many approaches to the performance measurement. There is no uniformity among experts.
3. Also, in spite of being aware of the fact that inflation is so certain a factor, it could not be taken into consideration in the present study.

ANALYSIS AND INTERPRETATION OF THE DATA

Ratios Used For Analysis

1. Current Ratio

2.Inventory Turnover Ratio

3.Debtors Turnover Ratio

Current Ratio:

It is the ratio which explains the relationship between the current assets and current liabilities. The rule of thumb for current ratio stands at 2:1.

Table 1:

Year	MAHINDRA	HYUNDAI
2008	1.92	2.38
2009	1.59	1.87
2010	1.44	2.04
2011	1.78	1.62
2012	1.03	2.17
2013	1.24	2.10
2014	1.21	1.69
2015	1.40	1.63
2016	1.33	1.52
2017	1.18	1.66
2018	1.09	2.02
AVG	**1.38**	**1.88**

From the above table it is evident that the it is getting improved till 2013 and get declined from 2014 – 2018. The company should take care to improve the trade credit policies to collect from the debtors in time and to make prompt payment to creditors.

2. Liquid ratio:

This ratio indicates the representation between the liquid assets and current liabilities. The main constituents of liquid assets are cash, bank balances, short term investment and excludes inventory, and prepaid expenses. The rule of thumb for liquid ratio is fixed at 1:1

Year	MAHINDRA	HYUNDAI
2008	1.47	1.44
2009	1.11	1.13
2010	1.14	1.28
2011	1.43	1.20
2012	0.66	1.69
2013	0.81	1.57
2014	0.83	1.21
2015	1.00	1.09
2016	0.94	1.02
2017	0.83	1.10
2018	0.76	1.57
AVG	**0.85**	**1.30**

It is found from the above table that the liquid ratio for Mahindra and HYUNDA increases till 2012 and shows wide fluctuations in from 2013 – 2018.

3.Inventory Turnover ratio:

Year	MAHINDRA	HYUNDAI
2008	0.89	0.94
2009	0.92	0.96
2010	0.92	0.98
2011	0.86	0.94
2012	0.86	0.92
2013	0.90	0.93
2014	0.89	0.91
2015	0.89	0.92
2016	0.89	0.91
2017	0.90	0.91
2018	0.87	0.89
AVG	**0.89**	**0.93**

It is inferred from the above table that the company recorded growth from 2008 – 2010 and from 2011 till 2018 same rate is maintained and thereafter with little variations and average was found to be 0.89 in case of MAHINDRA and HYUNDAI

CONCLUSION

The firms should take prompt measures to maintain proper credit policies and take corrective measures in make proper utilization of current assets be financed by the current liabilities.

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