

# **Operating and Financial Efficiency of Automobile Industry**

By

**M.V. Ravishankar**

Ph.D., Research Scholar

Department of Business Administration

Khadir Mohideen College

Adirampattinam - 614701

Thanjavur District

Tamil Nadu State

&

**Dr. M. Nazer**

Associate Professor of Commerce

Guide & Supervisor

Khadir Mohideen College

Adirampattinam

Tamil Nadu.

## **Abstract**

Analysis of financial efficiency is inevitable as it throws light on the financial strengths and weaknesses of an organization. Financial efficiency analysis gives a clear picture of the future earnings, ability to pay its obligations, sound dividend policy etc., of an organization that guides and initiates prospective investors, creditors, employees, customers, suppliers and the society. Financial efficiency contributes to minimize the wedge between borrowing and lending rates. A high degree of financial efficiency, where resources are allocated efficiently from savers to investors and where risks are appropriately priced and distributed, normally contributes to financial stability.

**Keywords:** *Financial Efficiency, Financial Strength organization, investors, creditors.*

## **Introduction**

The automobile industry has an enormous opportunity for creating new wealth by delivering value to the world and by delivering value to the customers. The automobile industry the world over is an important driver for any economy. India has already become one of the fastest growth in automobile markets in the world and in fact, the automobile industry here has scripted a new, inspirational story to learn from and build on. The automotive industry is growing 16 to 18 per cent annually. The change in the economic policy of the government certainly has had an impact on the efficiency of the corporate units in India.

Financial efficiency is a very important and essential component in the measure of success and failure of industries. Financial efficiency, as a lens, projects the strengths and weaknesses of companies. From the point of view of the

socio-economic development of the country, two and three wheelers sector is significant enough in terms of investment and employment. Even though many studies in this direction have been conducted, the present one would be of greater significance to many. A need at the present juncture is therefore felt to study the impact of such changes on the efficiency of corporate sector.

## **II Scope of the Study**

Financial efficiency is a yard stick of how well an organization has managed certain trade offs like risk and return, liquidity and profitability etc., in the use of its financial resources. The analyst attempts to measure the financial efficiency of a business organization that largely depends up on the relationship among cost of production and the selling price, profit and profitability, uncontrollable and controllable factors affecting profits, liquidity position and utilization of resources. Right from the investors of an organization to the society financial efficiency plays an important role. The study constitutes the financial efficiency of the selected two and three wheeler companies. It does not include non-financial areas such as personnel research and development etc., in its purview.

## **III Selection of Two and Three Wheelers Sector**

Two wheelers have become very common in Indian families. Two wheelers are available in every family either as a necessity or luxury. It is too difficult for a family or an individual to survive without a two wheeler.

The three wheelers cater to the mobility needs of those not using private transport and not being served by the existing public transport system. In this way they serve the needs of a section of the society by acting as cheap taxis. The major driving force behind the three wheelers is the policy makers who decide various

issues such as the total number of passengers allowable in the cities and fare policies etc. This informal transport alternative is not always backed by sufficient data to counter these claims. The goods carrier sales are showing signs of improvement due to economic recovery especially gaining from the last mile connectivity to rural, semi-urban markets and recovery of the organized retail sector. The total two wheeler sales also grew by twenty eight per cent. Therefore, the two and three wheelers sector of Indian automobile industry has been selected for this study in order to determine the financial efficiency during the study period.

#### **IV Objectives of the Study**

1. To analyze the trends of production, domestic sales, exports and market share of the selected two and three wheelers sector companies of Indian automobile industry.
2. To study the financial efficiency of the selected two and three wheelers sector companies of Indian automobile industry.
3. To analyse the relationship between growth and size with the profitability of the selected two and three wheelers sector companies of Indian automobile industry.
4. To study the determinants of profitability of the selected two and three wheelers sector companies of Indian automobile industry.
5. To analyse the financial structure, assessment of financial health and determinants of financial structure of the selected two and three wheelers sector companies of Indian automobile industry.
6. To compute and analyse Economic Value Added (EVA) and Market Value Added (MVA) of the selected two and three wheelers sector companies of Indian automobile industry.

7. To make suggestions for the successful survival of the selected two and three wheelers sector companies in the years to come.

## **V Hypothesis**

- (i) There is no significant difference between the actual production and trend values of production among different years in the selected companies of two and three wheelers sector of Indian automobile industry.
- (ii) There is no significant difference between the actual sales and trend values of sales among different years in the selected companies of two and three wheelers sector of Indian automobile industry.
- (iii) There is no significant difference between the actual market share and trend values of market share among different years in the selected companies of two and three wheelers sector of Indian automobile industry.
- (iv) There is no significant difference between the actual exports and trend values of exports among different years in the selected companies of two and three wheelers sector of Indian automobile industry.

## **VI Research Design**

### **VI (a) Selection of Sample**

Keeping in view the scope of the study, it is decided to include all companies under two and three wheelers sector of Indian automobile industry working before or from the year 1996-97. But owing to several constraints such as non-availability of financial statements or non-working of a company in a particular year etc., it is compelled to restrict the number of sample companies to

nine. Therefore, this study uses ex post facto based survey method for making a survey of nine companies under two and three wheelers sector of Indian automobile industry. There are thirteen companies operating in the Indian automobile industry. Out of thirteen companies of the selected sector, thirteen years data is available for nine companies only. Therefore, all the nine companies are included in the sample. Thus, the findings based on the occurrence of such representative sample may be presumed to be true representative of two and three wheelers sector of Indian automobile industry. The list of companies selected in the present study along with their year of incorporation, ownership and its market share is presented in Table 1.

**Table 1**  
**List of sample companies included in the present study**

<b>S. No.</b>	<b>Companies</b>	<b>Year of Incorporation</b>	<b>Ownership</b>	<b>Market Share (%)</b>	<b>Total Market Share</b>
1.	Bajaj Auto Ltd	1945	Bajaj Group	18.80	
2.	LML Ltd	1972	LML Group	11.58	
3.	Maharashtra Scooters Ltd	1975	Bajaj Group	7.80	
4.	TVS Motor Company Ltd	1982	TVS Group	12.93	
5.	Kinetic Motor Company Ltd	1984	Firodia Group	11.75	
6.	Hero Honda Motors Ltd	1984	Hero (Munsals) Group	10.54	
7.	Kinetic Engineering Ltd	1970	Firodia Group	9.72	
8.	Majestic Auto Ltd	1986	Hero Group	9.04	
9.	Scooters India Ltd	1972	Central Govt. Commercial Enterprise	7.65	99.81

It is evident from Table 1 that the sample companies represent 99.81 percentage of market share in two and three wheelers sector. Thus, the findings based on the occurrence of such representative sample may be presumed to be true representative of two and three wheelers sector of automobile industry in the country.

#### **VI (b) Period of the Study**

The analysis of financial efficiency of two and three wheelers sector of Indian automobile industry is made for a period of thirteen years from the accounting year 2005 – 2006 to 2017-18. This thirteen years period is chosen in order to have a fairly long, cyclically well balanced, for which reasonably homogenous, reliable and up to-date financial data would be available.

#### **VI (c) Sources of Data**

The study is mainly based on secondary data. The major source of data analyzed and interpreted in this study related to all those companies selected is collected from “PROWESS” database, which is the most reliable on the empowered corporate database of Centre for Monitoring Indian Economy (CMIE).

#### **VI (d) Data Editing**

Majority of the data collection needed for the study are made through secondary sources. Raw data collected are then made suitable for analysis as per the methodology defined for the purpose.

#### **VI (e) Selection of Variables**

A number of key financial variables have been identified for the purpose of analysis under the study. The computation of these variables has been made for a

period of thirteen years. An epigrammatic explanation of the selected variables is outlined below.

## **VII Findings and Suggestions**

1. Analysis of proportion of various components of costs and total cost revealed that there was greater variation among the companies under study. Cost efficiency is necessary for two and three wheelers sector companies to enhance their global competitiveness. Therefore, it is suggested that the selected companies should initiate cost reduction exercises.
2. As the management of working capital involves frequent decision-making, it is proposed that every organization should set-up a separate cell to keep an eye on the environmental conditions and economic trends. So far, no unit under study has been able to create such a section in the organization.
3. It is suggested that there is a need for Indian two and three wheelers sector to target the rural sector also because there is a large untapped market in semi-urban and rural areas. Further, potential markets can be identified as well as prioritized using statistical techniques with the help of secondary data on socio-economic parameters.
4. It is suggested that there is a need for Indian two and three wheelers sector 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.
5. It is suggested that the management of the selected unit should concentrate on overcoming the problems faced by implementing R&D



- programs, applications of the latest technology and making industrial relations cordial and congenial to increase the capacity utilization.
6. It is suggested that the selected two and three wheeler sectors companies should work more on public relation in order to maintain and increase market share and reputation.
  7. It is suggested that the two wheeler industry needs to upgrade its market information system to capture the new market and to maintain its already existing markets.
  8. Emission standards and technologies that have been applied for decades to control pollution from passenger cars have not been fully implemented in two and three wheelers.

### **VIII Conclusion**

A composite competitiveness index is defined as the combination of individual indicators that represents different dimensions of the concept whose description is the objective of the analysis. The findings of the study reflect the relative competitive position of the sample companies and also the overall picture of the industry. Out of nine sample companies Hero Honda Motors Ltd scored the highest in the group getting the top most ranking mainly because of working capital efficiency. This is followed by Bajaj Auto Ltd which scored the second rank due to value added performance, profitability and cost effectiveness. Two and three wheelers sector is dominated by Hero Honda Motors Ltd and Bajaj Auto Ltd. It can be hoped that the overall index prove to be helpful in framing competitive policies by the firms. It will also be useful for consumers to judge the competitive performance of these firms from the product quality and investment point of view.

After research, analysis and getting information about the companies as formulated, the two wheeler automobile companies achieved success in the market. For the two wheeler industry, it is also important to identify the target groups for various categories of motorcycles and scooters. The two wheeler manufacturers are having new and modern technology, they have a good market share in India, many of the MNCs like Honda Yamaha, Suzuki are also in the competition. It is also imperative to initiate measures to make the presence of Indian two wheeler industry felt in the global market.

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