



## An analytical study of corporate financial management practices of Indian automobile companies

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### Abstract

The corporate financial management practices considered as most important thing in business organization because it deals with management of funds and effective utilization in business. It deals with profit maximization and wealth maximization. This research work has been conducted for analyzing corporate financial management practices in India's most emerging automobile sector. This researcher work have been selected four companies like Ashok Layland, Eicher Motors, Tata Motors and Force Motors during the study period of 2016-17 to 2020-21. For analyzing corporate financial management practices seven ratios have been selected like gross profit, net profit margin, return on net worth, return on capital employed, current ratios, debt to equity ratio and interest coverage ratio. For hypotheses testing researcher used one-way Anova at 5% level of significant. The major finding of the study is Eicher Motors indicated good financial management as compare to other three and Tata Motors' performance is not satisfactory as compare to other three.

**Keywords:** corporate financial management practices, gross profit ratio, net profit margin ratio, return on equity, return on capital employed, debt to equity ratio, interest coverage ratio, covid-19)

### Introduction

In 2020, India has been witnessed for fifth-largest auto maker, with ~3.49 million units combined (passenger and commercial vehicles) sold in this categories. The growing demand for automotive sector is increased due to middle class and young population. In may 2021, total volume of passenger vehicles production reached 8,06,755 units. In concern with opportunity for automotive sector in India will become leader in shared mobility by 2030 due to providing mobility in electric and autonomous vehicles. The main focus of Indian automotive sector will be shifting to electric vehicles for reduce emissions and it is also provides wider job opportunities in Indian market. Indian government also make polices for attract US \$8-10 billion investment in local and foreign sector by 2023. Automotive mission plan has been also started from 2016 to 2026 as mutual initiative by government of India. (Org, 2021) <sup>[6]</sup>

### Literature Review

(N.C. Shilpa, 2017) <sup>[6]</sup> have analyzed corporate financial distress: analysis of Indian automobile industry. In this paper researcher analyzed financial distress leads to bankruptcy of firm which is impacted on both macro and micro economy of the country. Industry characteristics to play an important role in firm financial success and financial strategies. The evaluation of financial strength of firm is a significant aspect for both internal and external environment of the organization. In this paper researcher identified financial health of automobile industry. For the identification of financial health researchers are used Altman Z Score model applied for study period of 2007 to 2016. The major finding of the study was commercial vehicle manufactures are in intermediate are of financial distress and calls for agile action.

(Sadhvani, 2019) have analyzed technical analysis of

selected auto shares listed on Indian stock exchange. The main purpose of this research paper is forecasting the stock price using technical analysis. For the prediction of share price researcher used past shares prices. This study is based on moving average, oscillators and other technical tools. Aforesaid tools are used for the time period of three years on weekly basis. In this study auto companies were analyzed. The major findings of the study was recommendation of buying for Maruti and Bajaj auto for long term investment with two to three years view and there is waiting period for buying Mahindra & Mahindra and Hero Moto corps.

(Patrik joshi, 2020) <sup>[7]</sup> have analyzed effect of CSR contribution on financial performance: a study on automobile companies of India. In this paper researcher identified the effects of CSR on financial performance have been significant based on theoretical and empirical evidences. This researcher paper also find financial effectiveness of selected automobile companies during the study period from 2014-15 to 2017-18 with the help of secondary data. For the analysis of data researcher selected four financial ratios like net profit margin, return on equity, return on total asset as independent variable and return on investment as dependent variable and CSR as control variable. Correlation and regression analysis are used as statistical tools. (Bindu, 2021) <sup>[1]</sup> have analyzed determinants of capital structure: a panel regression analysis of Indian auto manufacturing companies. In this paper researcher identified that capital structure denotes the proportion of equity share capital, preference share capital, long term loans and long term sources for business. These funds possessed different values based on their sources in business organization. The main challenge for the financial manager is to mix these funds for effective utilization and optimum cost of capital. There are manly two factors

affecting on capital structure like quantifiable factor and non-quantifiable factor. In this study researcher used panel data regression for analysis of capital structure decision in automobile manufacturing companies in India. In this study two variables are considered like long term debt to total assets and long term debt to equity. The major findings of the research was firm size, growth and profitability are jointly influencing the capital structure decision of the auto companies.

**Importance of Study**

This study enhances the existing knowledge of financial management practices in automobile sector. This study is helpful to the stakeholder who are willing to invest in automobile sector and who are related with this sector. This study is also helpful to government for decision making for auto mobile sector.

**Research Gap**

For this research work there are many literature reviews have been studied like corporate financial distress: analysis of Indian automobile industry. (N.C. Shilpa, 2017) [6], technical analysis of selected auto shares listed on Indian stock exchange (Sadhvani, 2019) [8], effect of CSR contribution on financial performance: a study on automobile companies of India. (Patrik joshi, 2020) [7] Determinants of capital structure: a panel regression analysis of Indian auto manufacturing companies (Bindu, 2021) [1] but this type of research has not been existed in current literature so, there is research gap for conducting research work.

**Research Design**

Research design gives overview of roadmap for reaching to the conclusion. Following research design have been adopted for reaching to the findings of the study.

**Objectives of the Study**

This research paper analyzed following objectives:

- To know profitability position of selected automobile companies.
- To analyze return on capital employed in selected companies.
- To measure liquidity position of selected companies.
- To analyze leverage position and capital structure of selected companies.

**Hypotheses for the Study**

**H<sub>0</sub>** = There is no significant difference in gross margin ratios among selected companies during the study period.

**H<sub>0</sub>** = There is no significant difference in net profit margin ratios among selected companies during the study period.

**H<sub>0</sub>** = There is no significant difference in return on net worth/equity ratios among selected companies during the study period.

**H<sub>0</sub>** = There is no significant difference in return on capital employed ratios among selected companies during the study period.

**H<sub>0</sub>** = There is no significant difference in current ratios among selected companies during the study period.

**H<sub>0</sub>** = There is no significant difference in debt to equity ratios among selected companies during the study period.

**H<sub>0</sub>** = There is no significant difference in interest coverage ratios among selected companies during the study period.

**Period of the Study**

The period of the study have been considered as 2016-17 to 2020-21 which consist 5 years time period.

**Scope of the Study**

For the study scope have been divided in to two part first one is functional scope and second one is geographical scope.

**Functional Scope**

Functional scope of the study has been considered as corporate financial management practices for selected ratios. For the identification of financial management, researcher bifurcated into four segment like profitability ratios, return generated ratios, liquidity ratios, leverage ratios and based on it respective ratios have been selected.

**Geographical Scope**

The study has been indicated Indian origin selected companies so, geographic area is India territory and it's also included those area in which companies providing their goods and services.

**Selection of Samples**

This study included four main automobile manufacturing companies like Ashok Layland, Eicher Motors, Tata Motors and Force Motors based on randomly basis. These samples provides overall picture of population of automobile sector in India.

**Data Collection**

Data is most important instrument for reaching to the objective of the study, for this study secondary source of data have collected from annual reports of the company as well as respective websites of the companies.

**Data analysis and Interpretation**

**Table 1:** Gross profit margin ratio: (in percentage)

Years	Ashok Layland	Eicher Motors	Tata Motors	Force Motors
2016-17	14.97	34.14	11.25	11.5
2017-18	15.01	34.44	12.02	9.83
2018-19	15.17	34.15	9.15	9.86
2019-20	15.22	29.75	8.02	10.11
2020-21	13.33	25.62	13.98	1.91
Avg.	14.74	31.62	10.884	8.642
Max.	15.22	34.44	12.02	11.5
Min	13.33	25.62	8.02	1.91

(Source: www.moneycontrol.com)

Above table indicated gross profit margin ratio of selected companies for the study period of 2016-17 to 2020-21. Average ratio of Ashok layland has 14.74%, Eicher Motors has 31.62%, Tata Motors has 10.89%, force Motors has 8.64%, during the study period maximum ratio possessed by Eicher Motors as 31.62%. Ashok layland indicated first four year increasing trend except the year 2020-21. Eicher Motors shows constant decreasing trend during the study period in concern with gross profit margin ratio which means performance of this company has been decreasing year by year. Tata motors and Force motors indicated zig-zag trend during the study period. The highest and lowest ratio as 34.44% and 1.91% possessed by Eicher motors and Force motors respectively during the study period.

**Table 2:** Net profit margin ratio: in percentage)

Years	Ashok Layland	Eicher Motors	Tata Motors	Force Motors
2016-17	7.18	21	2.24	5.87
2017-18	6.1	18.99	2.31	4.3
2018-19	6.57	20.02	-9.58	4.03
2019-20	2.08	19.61	-4.2	1.89
2020-21	-0.35	15.08	-5.21	-5.61
Avg.	4.316	18.94	-2.888	2.096
Max.	7.18	21	2.31	5.87
Min	-0.35	15.08	-9.58	-5.61

(Source: www.moneycontrol.com)

Above table indicated net profit margin ratio of selected companies for the year 2016-17 to 2020-21. Net profit margin ratio indicated percentage of profit earn in concern with hundred rupees of sales earn during the particular year. In concern with average net profit margin ratio Ashok layland, Eicher Motors and Force Motors indicated positive return on sales where as Tata Motors indicated negative return during the study period. The highest ratio as 21% possessed by Eicher motors where as Lowest ratio possessed by Tata Motors as -9.58%. Except Eicher Motors all selected companies indicated single digit net profit margin ratios. In the year 2020-21 ashok layland, Eicher Motors and Force Motors shows losses in particular year.

**Table 3:** Return on networkth/ equity: In percentage)

Years	Ashok Layland	Eicher Motors	Tata Motors	Force Motors
2016-17	24.86	31.18	12.83	10.79
2017-18	23.72	27.87	9.41	8.16
2018-19	23.76	24.69	-47.9	7.41
2019-20	4.32	18.3	-19.13	2.55
2020-21	-2.1	11.77	-24.34	-6.72
Avg.	14.912	22.762	-13.826	4.438
Max.	24.86	31.18	12.83	10.79
Min	-2.1	11.77	-47.9	-6.72

(Source: www.moneycontrol.com)

Above table indicted return on net worth which means how much profit earned by equity shareholder during particular years and out of selected companies Tata motors indicated negative return on net worth as an average. Ashok layland indicated first three year more or less good return on equity but in the year 2019-20 drastic change in return on equity and it stood on 4.32% after that -2.1%. Eicher motors shows comparative good performance but it is also decreased during the study period. Tata motors indicated highest negative return as -47.9% in the year 2018-19. Force Motors shows decreasing trend during the study period and in the year 2020-21 it stood at -6.72%. Overall selected companies indicated decreasing trend during the study period.

**Table 4:** Return on capital employed (in percentage)

Years	Ashok Layland	Eicher Motors	Tata Motors	Force Motors
2016-17	17.52	41.01	7.86	14.09
2017-18	19.67	39.47	7.36	11.26
2018-19	18.32	32.79	2.49	9.59
2019-20	11.1	22.46	-0.25	5.35
2020-21	6.8	14.95	6.14	-5.73
Avg.	14.682	30.136	4.72	6.912
Max.	19.67	41.01	7.86	14.09
Min	6.8	14.95	-0.25	-5.73

(Source: www.moneycontrol.com)

Above table indicated return on capital employed which represent how much return earns invested capital. In common thing all the selected companies show decreasing trend during the study period but two companies indicated negative return on capital employed first one is Tata motors in the year 2019-20 and second one is Force Motors in the year 2020-21 as -0.25 and -5.73 respectively. Eicher Motors shows good performance in concern with return on capital employed during the year. In concern with average return on capital employed highest percentage has 30.13% and lowest percentage has 4.72% possessed by Eicher Motors and Tata Motors respectively. In short, all the selected companies indicated downward trend during the study period.

**Table 5:** Current Ratio: (In Times)

Years	Ashok Layland	Eicher Motors	Tata Motors	Force Motors
2016-17	1.07	0.9	1	1.54
2017-18	1.02	1.12	0.95	1.65
2018-19	1.08	2.1	0.85	1.67
2019-20	1.03	3.15	0.85	1.13
2020-21	0.98	3.35	0.93	1.01
Avg.	1.036	2.124	0.916	1.4
Max.	1.08	3.15	1	1.67
Min	0.98	1.12	0.85	1.01

(Source: www.moneycontrol.com)

Above table indicated current ratio for the time period of 2016-17 to 2020-21 for selected samples. Current ratio indicated portion of current assets to current liabilities means in one rupee of current liabilities how many current assets. The standard current ratio is 2:1. As above data indicated just only Eicher Motors satisfy the standard norms in concern with current ratio. In concern with average ratio Ashok Layland and Force Motors have indicated fluctuating trend during the study period. Eicher Motors indicated increasing trend and reveal satisfactory performance of current ratio. Tata Motors Indicated More or less constant performance of current ratio.

**Table 6:** Debt to Equity ratio: (In Times)

Years	Ashok Layland	Eicher Motors	Tata Motors	Force Motors
2016-17	1.55	0.02	1.28	0.12
2017-18	1.64	0.02	0.82	0.01
2018-19	1.73	0.02	1.51	0.13
2019-20	2.07	0.01	1.58	0.12
2020-21	2.31	0.01	2.08	0.28
Avg.	1.86	0.016	1.454	0.132
Min	1.55	0.01	0.82	0.01
Max.	2.31	0.02	2.08	0.28

(Source: www.moneycontrol.com)

Above table indicated debt equity ratios of selected companies. Debt equity ratio indicated debt portion in compare with equity share capital. The more use of debt in capital structure leads to entertain leverage benefits but some extent it is benefit more use of debt in also harmful to the organization. Eicher Motors indicated less use of debt in their capital structure that also leads to higher earning to equity share holders but it also indicated they are not took benefit of leverage in their organization. In concern with highest leverage ratio was possessed by Ashok Layl and and lower ratio is possessed by Eicher Motors. Force Motors

also indicated lower average ratio of debt to equity means they are also not use more debt in their capital structure.

**Table 7:** Interest coverage Ratio: (In Percentage)

Years	Ashok Layland	Eicher Motors	Tata Motors	Force Motors
2016-17	2.72	631.31	2.93	43.31
2017-18	3.09	536.41	2.96	31.07
2018-19	2.9	415.58	0.7	13.66
2019-20	1.44	124.05	-0.06	4.21
2020-21	0.92	108.43	1.41	-4.81
Avg.	2.214	363.156	1.588	17.488
Min	0.92	108.43	-0.06	-4.81
Max.	3.09	631.31	2.96	43.31

(Source: www.moneycontrol.com)

Above table indicated interest coverage ratios of selected companies during the study period. Interest coverage ratio indicated portion of net profit before interest and tax available for meet the interest liabilities. In this table interest coverage ratio is indicated in percentage format means for 100 rupees of liabilities how much net profit before interest and tax is available. The Eicher Motors indicated good financial position in compare with other selected companies. Tata motors indicated not good position of interest coverage ratio as compare to other companies. Force Motors is second position and Ashok Layl and is considered as Third position as compare to selected companies.

**One-Way ANOVA as Statistical Tool**

For the testing of hypotheses researcher used One-Anova Test at 5% level of significant and test result as follows.

**Table 8**

Ratio	F- Value	F- Crit	P-Value	H <sub>0</sub> Accept / Reject
Gross Profit Ratio	60.3998	3.23887	6E-09	H <sub>0</sub> Rejected
Net Profit Ratio	27.9871	3.23887	1.3E-06	H <sub>0</sub> Rejected
Return on Net worth	5.50543	3.23887	0.0086	H <sub>0</sub> Rejected
ROCE	11.6193	3.23887	0.00027	H <sub>0</sub> Rejected
Current Ratio	4.32764	3.23887	0.02052	H <sub>0</sub> Rejected
Debt to Equity Ratio	53.7141	3.23887	1.4E-08	H <sub>0</sub> Rejected
Interest Cover. Ratio	11.1263	3.23887	0.00034	H <sub>0</sub> Rejected

(Source: Calculated from MS Excel)

Above table indicated One-Way Anova test for selected ratios and it is indicated Null hypotheses have been rejected at 5% level of significance that means there is significant difference in corporate financial management practices in selected companies during the study period.

**Findings**

- In concern with gross profit margin ratios, Eicher Motors shows constant decreasing trend during the study period and Tata Motors and Force Motors indicated zig-zag trend during the study period.
- Net profit margin ratio of selected companies indicated decreasing trend for study period. Except Eicher Motors all the samples indicated single digit net profit margin ratio and in the year 2020-21 except Eicher Motors all the companies indicated losses may be due to Covid-19.
- For return on net worth also indicated decreasing trend during the study period. Tata motors indicated higher negative return on equity in the year 2018-19. It may be happened because of decreasing in the profit.

- Eicher Motors indicated good performance in return on capital employed based on average ratios. All the selected companies indicated decreasing trend during the study period in which two companies like Tata Motors and Force Motors reveal negative return on capital employed during the study period.
- The standard current ratio is 2:1 and it has satisfied by Eicher Motors or it can be said that it has more current assets in compare to current liabilities because average current ratio of five years were 2.124:1 so it can be said overall liquidity position is satisfactory. Any other companies not satisfied this standard ratio.
- In Concern with Debt to equity ratio Eicher motor and Force Motors not used more debt in their capital structure means both companies are less levered but Ashok Layl and use more debt in their capital structure or it can be said that they are taking the benefits of leverage in their capital structure.
- Interest coverage ratio of Eicher Motors has been indicated satisfactory performance in compare of selected companies. Tata Motors indicted not good performance for interest coverage ratio or not meet their interest liabilities satisfactory.

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