

## A STUDY OF LIQUIDITY AND PROFITABILITY OF SELECTED AUTOMOBILE COMPANIES IN INDIA

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### ABSTRACT

*The Indian auto industry is one of the largest in the world. Now a day's youngster wants new types or newly stylish as well as designed two wheelers vehicles. The two wheeler segment with 80 % market share is the leader of the Indian automobile market owing young population. The production of two wheeler sector grew at 14.14 % year April –February 2017-18.*

**KEYWORDS:** Liquidity, Profitability, Ratio Analysis

### INTRODUCTION

In the present study, Liquidity means Short –term Creditors are primarily interested in liquidity or short-term solvency of the enterprise since their claims are to be met in the short run. Liquidity or short-term solvency means the ability of the enterprise to meet short-term obligations as and when they become due. Inability to pay off short-term liabilities affects the credibility of the enterprise. Continuous defaults on the part of the enterprise lead to commercial bankruptcy which may lead to its sickness and dissolution. These liquidity ratios show the short term financial solvency of the concern. Profitability ratio measures management's overall effectiveness as shown by returns generated on sales and investment.<sup>(1)</sup> it also analysis that the shareholder to measure and evaluate an ability of a company to earn the profit.

### COMPANY PROFILE

#### Hero Motocorp

Hero Motocorp Ltd., another name Hero Honda is an Indian Motorcycle and Scooter manufacturing unit based in New Delhi, India. Hero Motocorp is largest two-wheeler manufacturing unit in the world as well as India, where it market share of about 46% in the two-wheeler category.<sup>(2)</sup> The 2006 Forbes list of the 200 world's most respectable companies has Hero Honda Motors ranked at 108.<sup>(3)</sup> on 31 March 2013, the market capitalization of the company was Rs. 30800 crores(Us \$4.6 billion).<sup>(4)</sup> Hero Motocorp is listed on the BSE (Bombay Stock Exchange). It s product includes Two-Wheelers vehicles like Karizma ZMR, Xtreme Sports, New Glamour, Super Splendor, Passion, Duet Maestro, Pleasure etc.<sup>(5)</sup>

#### TVS Motors

It is the third largest two wheeler manufacturer company in India. TVS Motor Company Ltd. is a part of the TVS group. TVS Motor Company, the flagship company of the TVS Group, is India's third largest two-wheeler manufacturer

and one among the top ten in the world. The group has 30 companies employing a work force of around 40,000 people. TVS Motor Company is the largest among the group companies in terms of size and turnover. It is listed in BSE (Bombay Stock Exchange). The current product portfolio of the company comprises of motorcycles including TVS Star in the economy segment, TVS Flame in the executive segment and TVS Apache RTR in the performance segment. TVS Scooty Pep+, TVS Scooty Teenz, TVS Scooty Teenz Electric and TVS Scooty.<sup>(6)</sup>

### **Bajaj Auto**

Bajaj Auto is a part of Bajaj Group which is one of the top 10 business entities in India. Its footprint stretches over a wide range of industries, spanning automobiles (two-wheelers and three-wheelers), home appliances, lighting, iron and steel, insurance, travel, and finance. The group's flagship company, Bajaj Auto, is ranked as the world's fourth largest two- and three- wheeler manufacturer and the Bajaj brand is well-known across several countries in Latin America, Africa, Middle East, South and South East Asia. In two-wheeled vehicles includes Bajaj Discover (100, 125, 150 cc), Bajaj Platina (100 & 125 cc), Bajaj Pulsar (150,135,180,200,220, cc), Bajaj Avenger (220 cc ) and Bajaj Ninja (250 cc). It is also listed under BSE (Bombay Stock Exchange).<sup>(7)(8)</sup>

### **REVIEW OF LITERATURE**

- **JISHA JOSEPH (2014)** conducted a study among “Impact of working capital Management on firm’s profitability & liquidity”- An empirical study of Ashok Leyland Ltd, while analyzing the company’s performance it is clear that the firm gives little importance to the issues related with working capital. The company must keep an optimum balance between liquidity and profitability for efficient use of its working capital. At the same time, it should not stop formulating certain policies to keep a well-monitored working capital for better profitability, stability, reliability, growth, and consistency.
- **DR. KANAK N. ATKOTIA**, “Analysis of Profitability performance of Tea Industry in India” - thesis submitted by Kanak N. Atkotia. In it, the conceptual framework of financial performance, a profile of the tea industry in India, analysis of profitability, financial structure, working capital and analysis of activity is included and also suggestions are given.
- **DR. KRIPAL SING** has written a book on “Automobile Engineering”. This book keeps emphasizes on the fundamental aspect like the wheels, types, external and internal parts of the automobile. Author has narrated the functioning process of the automobile in very easy language.
- **DR. RITU PALIWAL1 & DR. VINEET CHOUHAN**, Have done “the relationship between Liquidity and Profitability in Indian Automobile Industry.” In 2015. In this study, they have made the study on liquidity and profitability ratios. They mentioned in detail about liquidity and profitability ratio. They used Current ratio, Quick ratio, Leverage ratio, Gross margin ratio, Net margin ratio, Account receivable turnover ratio, Return on assets ratio, and Return on investment ratio in the articles. (ISSN:2319-7064)

- **MAHESH POPHALEY & RAM KRISHNA VYAS**, have done “Plant maintenance practices in automobile industries: A retrospective and literature review’ in 2010. Under this study critical examination of maintenance practices in Automobile Industries in particular. One of the objectives of this literature review is to investigate the present state of Plant Maintenance Management Practices, based on studies conducted in different countries and published in a variety of journals over the past two decades. (ISSN : 2013-8423)
- **AVINANDAN MUKHERJEE** has written an article on “The Indian Automobile Industry Speeding into the Future ” in this article he wrote about Indian automobile faced many problems and barriers and also given data regarding per capita income, GDP etc.

### **Objective of the Study**

- To analyze the liquidity position of the selected automobile companies.
- To analyze the Profitability position of the selected automobile companies.
- To suggest recommendations for future growth and development of the select industries in India.

### **RESEARCH METHODOLOGY**

#### **Source of Data**

The study is based on secondary data that has been collected from the annual reports of the respective company

#### **Sample Size**

Three companies are taken for study. Which are as follow:

- Hero Motocorp
- TVS Motors
- Bajaj Auto

#### **Period of Study**

The period of study cover 5 years (2012-13 to 2016-17).

#### **Statistical Tools for Analysis**

- Ratio Analysis
- ANOVA Single Factor

#### **Limitation of Study**

- This study based on secondary data taken from published annual reports and accounts of selected companies and as such its finding depends entirely on such data.
- Profitability is affected by many factors, internal as well as external factors but the researcher has taken into consideration only some factors which are relevant to the study.

## DATA ANALYSIS AND FINDINGS

### Liquidity Ratio

**Table 1: Current Ratio of Selected Companies**

YEARS COMP.	2012-13	2013-14	2014-15	2015-16	2016-17	AVG.	SD	C.V (%)
Hero Motocorp	1.22	1.26	1.36	1.78	1.82	<b>1.49</b>	<b>0.29</b>	<b>19.47</b>
TVS Motors	0.90	0.92	0.90	0.81	0.77	<b>0.86</b>	<b>0.07</b>	<b>7.67</b>
Bajaj Auto	4.50	1.19	2.13	1.70	2.92	<b>2.49</b>	<b>1.29</b>	<b>51.90</b>
Average	<b>2.21</b>	<b>1.12</b>	<b>1.46</b>	<b>1.43</b>	<b>1.84</b>	<b>1.61</b>	<b>0.42</b>	<b>25.92</b>

(Source : <http://www.acekp.in>)

The current ratio of selected automobile companies has been mentioned in table no.1. we can see the performance of Bajaj Auto was best in compare to TVS Motors and Hero Motocorp. The TVS Motors and Hero Motocorp have below average ratio of the selected industry. The standard Devotions of Bajaj Auto was 1.29 times in compare to Average of selected automobile companies in India.

### ANNOVA Test on Current Ratio

**H<sub>0</sub>**: There is no significant difference in the current ratio of Automobile companies in India.

**H<sub>1</sub>**: There is a significant difference in the current ratio of Automobile companies in India.

**Table 2: ANNOVA on Current Ratio among the Selected Car Industry**

Source of Variation	SS	df	MS	F	F crit
Between Groups	2.09437	4	0.52359	0.44872	3.47805
Within Groups	11.6687	10	1.16687		
Total	13.763	14			

The table indicated the calculated value of F is 0.44872. The table value of F is 3.47805 at 5% level of significance. The calculated value is lower than the table value. It indicated that the Null Hypothesis is accepted and the alternative hypothesis rejected. The result shows there is a significant difference in the current ratio of Automobile companies in India.

### Profitability Ratio

**Table 3: Net Profit Ratio of Selected Companies**

Years Comp.	2012-13	2013-14	2014-15	2015-16	2016-17	AVG.	SD	C.V(%)
Hero Motocorp	8.91	8.34	8.65	11.11	11.86	<b>9.77</b>	<b>1.60</b>	<b>16.34</b>
TVS Motors	1.62	3.28	3.46	4.41	4.6	<b>3.47</b>	<b>1.19</b>	<b>34.12</b>
Bajaj Auto	15.22	16.1	13.02	17.4	17.58	<b>15.86</b>	<b>1.86</b>	<b>11.73</b>
Average	<b>8.58</b>	<b>9.24</b>	<b>8.38</b>	<b>10.97</b>	<b>11.35</b>	<b>9.70</b>	<b>1.55</b>	<b>20.73</b>

(Source: <http://www.acekp.in>)

The above table shows the Net Profit ratio of selected automobile companies in India. The performance of Bajaj Auto was good in compare to TVS and Hero Motocorp. The SD was high in Bajaj Auto it indicates that there is a more fluctuation in the Bajaj Auto.

### ANNOVA Test on Net Profit Ratio

$H_0$ : There is no significant difference in Net Profit ratio of Automobile companies in India.

$H_1$ : There is a significant difference in Net Profit ratio of Automobile companies in India

**Table 4: ANNOVA on Current Ratio among the Selected Car Industry**

Source of Variation	SS	Df	MS	F	F crit
Between Groups	22.627693	4	5.656923	0.144725	3.47805
Within Groups	390.87367	10	39.08737		
<b>Total</b>	<b>413.50136</b>	<b>14</b>			

The table indicated the calculated value of F is 0.144725. The table value of F is 3.47805 at 5% level of significance. The calculated value is lower than the table value. It indicated that the Null Hypothesis is accepted and the alternative hypothesis rejected. The result shows there is a significant difference in the current ratio of Automobile companies in India.

### CONCLUSIONS

A study has been highlighted the liquidity and profitability position of the automobile sector. Hence it suggests that all selected companies should maintain a standard ratio of liquidity.

Performance of Bajaj Auto is quite satisfactory in compare to Hero Motocorp and TVS Motors, it is advisable to TVS motors for increase their profit.

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