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FINANCIAL PERFORMANCE OF INDIAN AUTOMOBILE COMPANIES AFTER LIBERALIZATION: A COMPARATIVE STUDY OF MARUTI SUZUKI AND TATA MOTORS

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Abstract: *The automobile sector is the dominant player not only in India but also in the economy of the world. Due to its forward and backward linkages with several key segments of the economy, the industry has a strong multiplier effect of industrial growth. The industry has been evolving over the years, meeting up with challenges as varied as transitions, consolidations and restructuring and thereby adapting to the new market environment. The present paper measures the financial performance of two major automobile companies of Indian origin, Tata Motors and Maruti Suzuki after the policy of liberalization and reveals the comparative financial strength of both the companies under study on the basis of liquidity, efficient use of assets, profitability etc.*

Key Words: *Financial, Profitability, Ratio, Performance, Indian Automobile, Liberalization, Tata Motors, Maruti Suzuki*

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INTRODUCTION

The Indian automobile industry has been recording tremendous growth over the years and has emerged as a major contributor to India's Gross Domestic Product. The industry currently accounts for almost 7 per cent of the country's GDP and employs about 19 million people both directly and indirectly. According to the Automotive Mission Plan 2006–2016, with Government's backing and special focus on exports, the automotive sector's contribution to the GDP is expected to reach in double figures up to 2016. It is important to know that how this growing sector is affecting the financial performance of companies under this sector. The present study takes two major companies of Indian origin and compares their financial strength in this growing sector. The foremost purpose of analyzing the firms financially is to assess the performance of the firms under study, on a number of aspects such as their resources, ability to earn profit or fair return on their investment, ability to meet their obligations, value of assets, extent and nature of their liabilities etc.

OBJECTIVES OF THE STUDY

1) To compare the ability of the companies to meet short term financial obligations
2) To compare the working capital requirements
3) To compare the long term solvency
4) To compare the profitability
5) To compare the efficiency of the companies in utilization of financial resources

LITERATURE REVIEW

Narayanan K. (1997) has attempted to analyze the effects of de-regulation 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 in technology acquisition is largely due to differences in the firms' 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. New firms which are dependent on intra-firm transfer of technology and firms with in-house R & D efforts, to accomplish paradigm shifts, appear more successful. Furthermore, in a liberal regime, advantages of vertical integration also appear to be important determinants of competitiveness.

Maksymiuk (2006)" The study describes the influences of foreign direct investments (FDI) on the automotive industry in Poland. The data and indices provided in the work confirm the close relationships between FDI and the automotive industry. The author compares areas of activity of the automotive suppliers in Poland. The main aspects include finance and sales, HR, logistics, quality and production. The used measures allow us to compare the competitiveness of Polish and foreign suppliers. The study emphasizes the major strengths and weaknesses of the sector in Poland, which is ultimately a measure of the attractiveness of the sector for FDI. The study includes results of research based on the author's questionnaires (with feed-backs from 147 Polish and foreign suppliers). The results illustrated in graphs present tendencies, where foreign suppliers are more competitive than their Polish counterparts. The research also shows a dualism in the Polish automotive industry. The final part provides an assessment of the perspectives for the automotive industry in Poland. Although competitors are developing rapidly in Central and Eastern Europe, China and India, Poland is still an exceptionally attractive country for FDI, mainly because of the positive attitude of workers, a large number of highly qualified specialists, participation in the EU market, a growing economy, a high standard of living and the development of suppliers based in Poland.

Pradhan, Singh (2008) in recent years, developing countries have emerged as significant participants in the OFDI (Outward foreign direct investment) activities having the strategic asset seeking motive. Such OFDI which is assets exploiting cum augmenting involves potential two way cross border knowledge flows. This study examines these issues for the Indian automotive industry that is currently transnationalizing at a rapid rate in terms of both exports and OFDI. The study traces the technological capability building and several dimensions of OFDI in this industry. The case studies of two major automotive groups highlight their competence building and knowledge seeking operations. This study undertakes a quantitative analysis of the influence of OFDI activities on the in house (domestic) R&D performance of Indian automotive firms during 1988–2008. As expected,

the favourable impacts on R&D intensity appear to be stronger for developed vs. developing host nations and for joint venture vs. wholly owned ownership OFDI. The study concludes with suggestions to promote particularly the strategic asset enhancing OFDI.

Sharma (2008) in her study on 'Indian Automotive Industry' has analysed 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 labour 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), 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.

Balakrishnan, Jagathy (2011) Globalization and liberalization, with the entry of many prominent foreign manufacturers, changed the automobile scenario in India, since early 1990s. Manufacturers such as Ford, General Motors, Honda, Toyota, Suzuki, Hyundai, Renault, Mitsubishi, Benz, BMW, Volkswagen and Nissan set up their manufacturing units in India in joint venture with their Indian counterpart companies by making use of the Foreign Direct Investment policy of the Government of India. These manufacturers started capturing the hearts of Indian car customers with their choice of technological and innovative product features, with quality and reliability. With the multiplicity of choices available to the Indian passenger car buyers, it drastically changed the way the car purchase scenario in India and

particularly in the State of Kerala. This transformed the automobile scene from a sellers‟ market to buyers‟ market. Car customers started developing their own personal preferences and purchasing patterns, which were hitherto unknown in the Indian automobile segment. The main purpose of this paper is to come up with the identification of possible parameters and a framework development, that influence the consumer purchase behaviour patterns of passenger car owners in the State of Kerala, so that further research could be done based on the framework and the identified parameters.

Ray (2012) ,this study tries to evaluate the performance of Indian automobile industry in terms of various financial indicators, sales trend, production trend, export trend etc. for the period of 2003-04 to2009-10.The result suggests that the automobile industry has been passing through turbulent phases characterized by enhanced debt burden, low utilization of assets, and above all, huge liquidity crunch . The key to success in the industry is to improve labour productivity, labour flexibility, and capital efficiency.

Dharmaraj and Kathirvel (2013), the Indian Automobile Industry marked a new journey in the 1991 with the financial revolutionary New Industrial Policy Act 1991, opening automatic route which allowed the 100 per cent Foreign Direct Investment(FDI). Here, an attempt is made to find out the effect of FDI on the financial performance of Indian Automobile Industry. For this purpose, sixteen companies were selected and analysed through various financial ratios. Descriptive statistical tools like Mean, Standard Deviation and Student's paired't' Test were used to test the hypothesis. The liquidity analysis showed little changes and profitability analyses showed an increasing trend during post FDI when compared to pre FDI. The efficiency analysis showed that the companies are efficiently utilising the available resources during post FDI as compared to pre FDI. It is concluded that foreign direct investment in India makes positive impact on the financial variables of the Automobile Companies.

DATA COLLECTION

The data required for the analysis and comparison is secondary in nature collected through various reports of Society of Indian Automobile Manufacturers(SIAM) .The financial data and information required for the study are drawn from the various annual reports Tata Motors and Maruti Suzuki.

PERIOD OF THE STUDY

The period for this study covered twenty one years from 1992 to 2013.The financial year starts from 1st April to 31 st March every year.

HYPOTHESIS OF THE STUDY

The researchers identified the following null hypothesis for the study.

H0 -*There would be no significant difference in the means score of various financial ratios of Maruti Suzuki and Tata Motors for a period of 1992-2013*

DATA ANALYSIS

In order to compare the performance of Tata Motors and Maruti Suzuki, financial data has been extracted from variurs annual reports of companies under study. To make the financial analysis more effective the ratios have been divided in the different sections shown with the help of table below.

Type	Sr. No.	Ratio	Formula
Liquidity Ratio	1	Current Ratio	Current Assets/Current Liabilities
	2	Quick Ratio or Liquid Ratio or Acid Test Ratio.	Quick Assets/Current Liabilities
Leverage Ratio	1	Debt – Equity Ratio	Long Term Debt/ Share Holder's Fund
	2	Proprietary or Equity Ratio	Shareholder Funds/Total Assets
Profitability Ratio	1	Gross Margin/Gross Profit Margin	Gross Profit/ Net Sale
	2	Net Profit Margin Ratio	Net Profit/Net Sale
Turnover Ratio	1	Fixed Assets Turnover Ratio	Net Sale/Net Fixed Assets
	2	Capital Employed Turnover Ratio	Net Sale/Capital employed

In order to identify the financial performance and the profitability of companies under study, various financial ratios were estimated and the averages were computed on the data of twenty one years for both the companies. The averages were compared to see if there was any statistically significant change in financial performance of companies under study with the passage of time using Students t test.

	Current Ratio Comparison		Quick Ratio Comparison		Debt Equity Ratio Comparison		Equity Ratio Comparison		Gross Profit Margin Ratio		Net Profit Margin Ratio		Fixed Assets Turnover Ratio		Capital Employed Turnover Ratio	
Year	**1**	**2**	**1**	**2**	**1**	**2**	**1**	**2**	**1**	**2**	**1**	**2**	**1**	**2**	**1**	**2**
1992-93	2	1.93	1.12	1.1	1.59	1.88	0.39	0.35	0.03	0.11	0.03	0.01	2.88	2.59	1.65	1.08
1993-94	0.92	1.85	0.65	1.21	1.03	1.69	0.49	0.37	0.07	0.1	0.04	0.03	2.52	2.92	2.43	1.39
1994-95	0.75	1.48	0.52	1.01	0.65	0.81	0.61	0.55	0.08	0.13	0.08	0.07	3.62	3.6	2.87	1.89
1995-96	0.67	1.39	0.32	0.98	0.29	0.53	0.77	0.65	0.14	0.13	0.09	0.08	4.34	3.58	3.48	1.91
1996-97	1.1	2	0.65	1.52	0.06	0.7	0.95	0.59	0.14	0.14	0.09	0.09	5.55	3.34	3.56	1.45
1997-98	1.15	2.2	0.74	1.68	0.04	0.88	0.96	0.53	0.16	0.09	0.11	0.05	5.94	1.85	2.74	0.91
1998-99	1.52	1.46	1.14	1.18	0.04	0.92	0.96	0.52	0.13	0.05	0.09	0.02	4.15	1.41	2.16	0.79
1999-00	1.42	1.35	0.72	0.91	0.19	0.8	0.84	0.56	0.06	0.09	0.05	0.01	2.9	2.21	2.02	1.3
2000-01	1.78	1.06	1.09	0.63	0.42	0.92	0.7	0.52	-0.04	0.06	-0.04	0.01	2.57	2.11	1.79	1.29
2001-02	1.44	1	0.98	0.64	0.24	0.94	0.8	0.52	0.02	0.09	0.01	0.01	2.82	2.56	2.1	1.86
2002-03	1.88	0.87	1.55	0.54	0.15	0.56	0.82	0.62	0.04	0.13	0.02	0.03	3.2	2.7	1.93	2.19
2003-04	1.32	0.79	1.03	0.55	0.09	0.35	0.88	0.67	0.08	0.1	0.06	0.06	4.9	4.07	2.29	2.46
2004-05	1.85	1.08	1.43	0.84	0.07	0.61	0.91	0.57	0.17	0.13	0.08	0.07	5.7	4.71	2.27	2.43
2005-06	1.89	1.37	1.44	1.08	0.01	0.53	0.97	0.61	0.17	0.14	0.1	0.07	6.72	4.57	2.14	2.27
2006-07	1.53	1.36	1.25	1.04	0.09	0.58	0.9	0.59	0.18	0.13	0.11	0.07	5.01	4.3	1.91	2.36
2007-08	1.1	0.97	0.73	0.75	0.11	0.8	0.89	0.52	0.18	0.12	0.1	0.07	4.43	2.75	1.88	1.9
2008-09	1.62	0.89	1.36	0.69	0.07	1.08	0.92	0.46	0.12	0.1	0.06	0.04	4.13	1.76	2	0.97
2009-10	1.06	0.66	0.72	0.5	0.07	1.11	0.93	0.45	0.15	0.17	0.09	0.06	5.35	2.17	2.26	1.08
2010-11	2.39	0.87	2.04	0.63	0.01	0.79	0.75	0.53	0.09	0.1	0.06	0.04	5.61	2.74	1.95	1.26
2011-12	1.69	0.62	1.42	0.41	0.07	0.57	0.68	0.36	0.06	0.04	0.05	0.02	4.27	2.85	1.56	1
2012-13	1.6	0.48	1.33	0.27	0.07	0.75	0.7	0.37	0.07	0.01	0.06	0.01	3.74	2.22	1.6	0.86

The above table shows different financial ratios for the time period of twenty one years (1992-2013). Under the different column heads, 1 shows the financial ratios of Maruti Suzuki from 1992-2013 whereas 2 show the financial ratio of Tata Motors.

ANALYSIS AND INTERPRETATION BY USING RATIO ANALYSIS:

In this paper, Current Ratio (CR), Quick Ratio (QR) re computed for the purpose of analysing liquidity of the firms. To know the profitability in the present study gross margin ratio and Net profitabilty ratio is calculated. Fixed Assets Turnover Ratio (FATR) and Capital employed turnover ratio (WCTR) is worked out to know the financial efficiency of the companies. To know the long term solvency position of automobile companies Debt – Equity Ratio (DER) and Equity Ratio is calculated. The relevant‘t’ test statistics, is calculated from the data and

then compared with its table value based on 't' – distribution at a 5 per cent level of significance to accept or reject the null hypothesis.

ANALYSIS OF MARUTI SUZUKI & TATA MOTORS AUTOMOBILE COMPANIES WITH STUDENT'S "t" TEST

CATEGORY	VARIABLES	MEAN		STANDARD DEVIATION		p -VALUE
		MARUTI SUZUKI	TATA MOTORS	MARUTI SUZUKI	TATA MOTORS	
Liquidity Ratio	Current Ratio	1.46	1.22	0.43793	0.47952	0.10079
	Quick Ratio	1.06	0.86	0.41512	0.35948	0.11382
Leverage Ratio	Debt Equity Ratio	0.26	0.85	0.39242	0.36716	0(sig)
	Proprietary or Equity Ratio	0.80	0.52	0.15978	0.095	0(sig)
Profitability Ratio	Gross Margin/gross profit margin	0.10	0.10	0.06066	0.0381	0.85607
	Net Profit Margin Ratio	0.06	0.04	0.03735	0.02711	0.05457
Turnover Ratio	Fixed assets turnover Ratio	4.30	2.91	1.22752	0.93701	0.00019(sig)
	Capital employed turnover ratio	2.22	1.55	0.545	0.56761	0.0004(sig)

The table shows fluctuating trend in the liquidity ratios of the Maruti Suzuki and Tata Motors. The average of all the ratio of Tata Motors is less in comparison to the ratios of Maruti suzuki except Debt equity ratio and gross margin ratio.The table shows that the t value of debt equity ratio, equity ratio, fixed assets turnover ratio and capital employed turnover ratio are significant, so null hypothesis is rejected and which means there is significant effect between these two companies in terms of these ratios. Current ratio, quick ratio, gross profit margin ratio and net profit ratio accept null hypothesis, stating no difference between two companies in terms of these ratios.

CONCLUSION

After analyzing both the companies financially we come on the conclusion that there is not much difference in the companies in short term solvency and liquidity and in profitability. The long term solvency of both the firms is different as the t values of debt equity ratio and equity ratio are significant that means both the firms are different in meeting their long term obligations and long term solvency. The efficacy of utilizing the assets is also different

of both the firms as the turnover ratio comparison of both the firms shows the significant difference in the efficiency of both the firms.

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