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A critical study of financial performance evaluation of Mahindra and Mahindra and Tata motors

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Abstract

Automobile industry is the key driver of any growing economy and plays a pivotal role in country's rapid economic and industrial development. It caters to the requirement of equipment for basic industries like steel, non-ferrous metals, fertilizers, refineries, petrochemicals, shipping, textiles, plastics, glass, rubber, capital equipment's, logistics, paper, cement, sugar, etc. It facilitates the improvement in various infrastructure facilities like power, rail and road transport. Due to its deep forward and backward linkages with several key segments of the economy, the car industry has a powerful multiplier effect on a country's development and is therefore capable of driving economic growth. It performs a major catalytic part in, on the one side, building the shipping industry and, on the other, helping the industrial sector to develop quicker and thus create important possibilities for jobs. In India, automotive is one of the biggest sectors with remarkable growth over the years and has contributed considerably to the country's general economic development. Two wheelers, three wheelers, commercial vehicles and personal cars are part of the automotive industry.

Keywords: Economy, industrial development, car industry, transport

Introduction

Financial statements were treated as a proof of the work of the bookkeeper until the end of the nineteenth century. After the middle of the 19th decade, the accountants began forcing their customers to send the equilibrium cards on the grounds of which they made their loan acceptance choices. In the month of February 1895, the New York State Bankers' Association adopted a 69decree to obtain from the borrowers a written declaration of assets and liabilities and to take the choice to approve the loan after analyzing it. In 1900, the Association released a normal loan request type that included a balance sheet room. Some economists have also used relative claims. A writer pointed to: "By research and contrast, the loan director must carefully analyze the accounts: their faults observed and their powerful points stated—they must be completely understood." Globally, the automotive industry is one of the biggest sectors and a main economic sector. It has a powerful multiplier effect due to its deep forward and backward linkages and functions as one of the major engines of economic growth. Since 1991, the amount of manufacturing installations has gradually increased with the gradual liberalization of the automotive sector in India. It generates a broad range of vehicles: passenger cars, light, medium and heavy commercial vehicles, multi-purpose vehicles like jeeps, two wheelers like scooters, bicycles and mopeds, three wheelers, tractors and other agricultural equipment, etc. With a CAGR of more than 15% over the last 5-7 years, it is timely defined in the last sun rise sector of the Indian economy.

Automobile Industry in India

India was host to 40 million cargo cars in 2010. More than 3.7 million cars were produced in India in 2010, rendering the nation the world's second biggest after China's fastest-growing automotive market that year. Annual car revenues were expected to raise to 4 million vehicles by 2015, according to the Indian Automobile Manufacturers Society. In India, passenger vehicle manufacturing in 2012-13 was reported at 3.23 million and is anticipated to expand at a compound annual growth rate of 13 percent in 2012-2021, according to information released by the Indian Association of Automotive Component Manufacturers. Most of India's automotive manufacturing industry is focused in the south, west and east around three nodes. Chennai's eastern group is the largest with 35% of business ownership.

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The eastern area close Mumbai and Pune adds to a market share of 33 percent. The national capital region's southern group adds 32 percent of the market share. The activities of automotive firms such as Ford, Hyundai, Renault, Mitsubishi, Nissan, BMW, Hindustan Motors, Daimler, Caparo, and PSA Peugeot Citroën are about to start their activities in Chennai's central zone of India from 2014.

Tata Group of Companies

The Tata group of businesses had been at the center of the Indian commercial industry since the 1950s. Tata's distributed their legs across industries from manufacturing to utilities and beyond, while at the same moment establishing a strong ethical standard. Dealing with the modifications introduced by the group Liberalization was a critical factor that enabled it to take major steps in several ways. Certain characteristics were different in the Tata group's method of activity.

Mahindra and Mahindra Limited

Mahindra & Mahindra Limited is based in Mumbai, Maharashtra, India, an Indian global automotive production company. It is one of the Republic of India's biggest manufacturing vehicle producers. M & M was established by the brother of Mahindra in 1945. KC Mahindra and Mohd and JC Mahindra. Ghulam as a steel trading company, we started manufacturing automobiles in 1947 to put the famous Willy's Jeep on Indian roads. We have expanded over the years into many fresh companies to best satisfy our clients' requirements. They pursue a distinctive business model of generating powerful businesses that appreciate the finest of entrepreneurial independence and synergy across the group This concept has resulted our development into a multinational company of US\$ 16.2 billion with more than 155,000 staff in more than 100 nations worldwide.

Review of literature

Santanu Kumar Ghosh and Paritosh Chandra Sinha (2007) ^[5] in his study assessed can Firm's capital structure Decision help an Investor (A Risk Averter or Risk Taker) A case study on Automobile Industry in India? The question of relevance of the capital structure in the context of Shareholder's value maximization remains unsolved as yet. In this paper the hypothesis is leverage variable can explain firm's value maximization and the same has been tested in the context of the Automobile industries in India. Our results reveal that shareholder's returns very significantly with significant variance in firm's dept levels. Firm are more conservative in maintenance of long-term dept to equity ratio than that of total debt to equity ratio. Increase in dept levels does not contain always good news to the investors and risk takers act differently.

Amuthan R and Ramachandram A (2009) ^[3] undertook a study entitled "Inflationary Pressure on the Automobile Industry". The researchers stated that Inflation is the relentless phenomena for every country in the world. In the third week of July 2008, inflation climbed to 11.98%. It may not have crossed the significant mark of 12%. The R.B.I. hoped to contain inflation with a 5 - 5.5% band. However, given the current scenario, RBI has got the target of 7% by March 2009. Stiff hikes in the repo rate and CRR will go a long way in reducing inflation. (Reference- Editorial Column, The Hindu dated Aug.5 2008). However, rising

inflation coupled with depreciating US\$ cause tight liquidity conditions and a slowdown in the global economy is an unexpected challenge for the policy makers across the globe.

Vivek Sharma (2011) ^[2] analysed Liquidity, Risk and Profitability of Maruti India Ltd. The study was ten years from 2001 to 2010. The collected data were analyzed using various ratios and the researcher also applied t test. The study found that profitability of Maruti Suzuki India Ltd was satisfactory. The liquidity position of the company was fluctuating but was acceptable. The study also evidenced that the profitability was increasing at good pace showing the efficiency of the company.

Vijayakumar (2011) ^[6] in his study made an attempt to examine the relationship between firm structure and profitability of Indian automobile companies. The study considered the variables of firm size, growth, liquidity, leverage, age, post profitability, market share and capital-output ratio. The study employed regression model and ratio analysis as tools of analysis. Sample size of the study was 20 automobile firms in India. The results demonstrate that firm size and growth were important determinants of profitability in the Indian automobile industry and a positive relationship was found between profitability and firm size and growth.

Dhanabhakym and Kavitha (2012) ^[1] analyzed the efficiency of asset utilization by selected automobile companies. The researchers used Ratio Analysis and Correlation Analysis as tools of analysis. The study found that the selected automobile companies performed well in efficient utilization of asset and financing pattern of asset and this will help the companies to take the important financial decisions on the fixed and current assets.

Objectives of the study

- To study financial performance analysis of both the companies.
- To read the financial changes for over the period of five years.
- To study the financial statement of both the companies using the financial tools.
- To evaluate the financial position of the companies.

Research methodology

The main purpose of research methodology is to give the well-furnished plan to carry out the research. Research methodology tells us about the both reactionary and progressive elements of the economy. Preparing the project's layout is the researcher's favourite normal analytical. It was used in secondary data already released in bank blog, newspapers, magazines and newspapers and other secondary data tools as quarterly accounts of the bank. Someone else may already collect and analyze this secondary information, but distance is the research duration and factors we want to understand. The research primarily linked quarterly financial reports that are initial corporate accounts for the last five years 2010-2015 (balance sheet and profit and loss).

Data collection

1. Primary Data

Primary data will be collected from both the company's employees & manager of all the levels by the use of personal interview, telephonic interview, observation and questionnaire.

2. Secondary data

- Magazines
- Company websites
- Company annual report
- Other websites
- Research publications

4.3 Data analysis

The research used all significant ratio analysis instruments to evaluate the bank's profitability. It shows the various measures. Study used primary and secondary data collected from publishers of the bank final accounts it is limited to last five years 2010-2015 annual financial reports.

Techniques and Tools of Financial Statement Analysis

Financial statements provide full data on an organization's investments, equity, liabilities, reserves, expenditures, income and profit and loss. Financial reports are not qualified to make decisions for stakeholders such as creditors, shareholders, investors, etc. Therefore, the financial statements are analyzed and interpreted using

different methods.

Cross-Sectional Ratio Analysis

For inter-company contrast, cross-sectional analysis is helpful. This assessment enables to analyze a company's economic element with another comparable company's economic element in that accounting era.

Total asset turnover ratio

Tata Motors Ltd. & Mahindra & Mahindra Ltd

Assets turnover ratio in Tata Motors shows up and down trends in every year as compare to Mahindra & Mahindra Ltd. It was 2.4 times in 2005-06, then after slight increase in next year 2006-07, it was 2.49 times then slight decrease in 2007-08, it was 2.06 times. Then again it decreases up to more than half 1.02 times in 2008-09. Then we can see constant increase from the year 2009-10 to 2011-12 and goes to 1.99 times. Again, from the next year 2012-13 starts declining for two years it was 1.48 times in 2012-13 and 1.12 times in 2013-14. Again in 2014-15 it increases very slightly; it was 1.16 times.



Fig 1: Total asset turnover ratio

Operating ratio

Tata Motors Ltd. & Mahindra & Mahindra Ltd

The Operating ratio of Tata Motors Ltd. And Mahindra & Mahindra Ltd was found fig 6.5. It shows slight fluctuation trend during study period. It is ranged between 103.41% in

the years 2013-14 and 2014-15 and 88.60% in the years 2009-10, with an average ratio of 93.563%. The average ratio of this company was 93.563%, which is slightly more than average ratio (92.227%) of sampled companies.



Fig 2: Operating ratio

Wages and Salaries Ratio

It is clear from fig 6.7 that the Wages and salaries ratio of the company Tata Motors Ltd. & Mahindra & Mahindra Ltd shows fluctuating trend during the study period. It is ranged between 8.52% in the year 2014-15 and 4.87% in the year 2010-11, with an average ratio of 6.051%. The average ratio of the company was 6.051%, which is more than the average ratio (6.984%) of the sample companies under study.

Working Capital Turnover Ratio

It is clear from the fig 6.8 that the Working Capital Turnover Ratio of the company shows fluctuated trend during study period. It was ranged between 13.25 times in the year 2006-07 and negative -23.04 times in the year

2007-08 with an average ratio of -5.342 times. The average ratio of this company was -5.342 times, which is too much higher than the average ratio (5.350 times) of sampled companies.

Debtors Turnover Ratio

It is clear from the fig 6.10 that the Debtors Turnover Ratio of the company showed fluctuated trend during the study period. It was ranged between 35.6 times in the year 2006-07 and 17.92 times in the year 2009-10 with an average ratio of 24.185 times. The average ratio of this company was 24.185 times, which is higher than the average ratio (20.887 times) of sampled companies. So, we can say that the company is doing better.



Fig 3: Debtors turnover ratio

Cash Flow Coverage Ratio

It is clear from the fig 6.15 that the Cash Flow Coverage Ratio of the company showed fluctuated trend during the study period. It was ranged between 0.64 times in the years 2009-10 and 0.32 times in the year 2008-09 with an average ratio of 0.535 times. The average ratio of this company was 0.535 times, which is higher than the average ratio (0.476 times) of sampled companies. So, we can say that the company is doing better.

The Cash Flow Coverage Ratio was 0.62 times in 2005-06

and 0.6 times 2006-07. Then it was decreased in next two year; 0.53 times in 2007-08 and 0.32 times in 2008-09. Then it was increased in the next year; 0.64 times in 2009-10. Then it was decreased constantly in the next two years; 0.59 times in 2010-11 and 0.51 times in 2011-12. Then it was increased and remained same constantly in next two years; 0.53 times in 2012-13 and in 2013-14. Then it was decreased in next year; 0.48 times in 2014-15. This way ratio shows fluctuation during the study period.

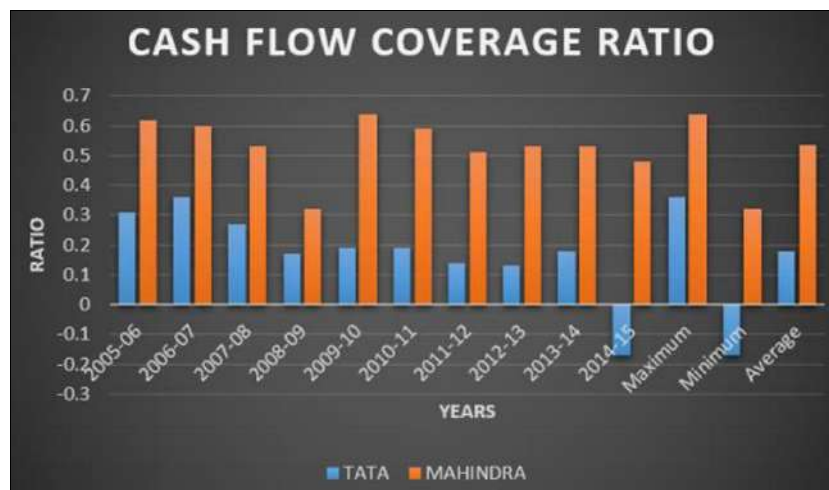


Fig 4: Cash flow coverage ratio

Inventory to working capital ratio

Table 1: inventory to working capital ratio

YEAR	TATA	MAHINDRA
2005-06	1.05	1.60
2006-07	1.25	0.83
2007-08	-1.94	3.12
2008-09	-1.11	3.74
2009-10	-0.40	1.96
2010-11	-0.75	-8.57
2011-12	-0.51	-51.38
2012-13	-0.66	10.47
2013-14	-0.61	1.37
2014-15	-1.24	3.87
Maximum	1.25	10.47
Minimum	-1.94	-51.38
Average	-0.492	-3.299

It is clear from the table no. 6.1 that the Inventory to Working Capital Ratio of the company showed fluctuated trend during the study period. It was ranged between 1.25 times in the years

2006-07 and -1.94 times in the year 2007-08 with an average ratio of -0.493 times. The average ratio of this company was -0.493 times, which is lower than the average ratio (-0.040 times) of sampled companies. So that we can say that the company is not doing satisfactory.

The Inventory to Working Capital Ratio was 1.05 times in first year of the study period 2005-06 and 1.25 times in 2006-07 and then constantly seven years it was negative - 1.94 times in 2007-08, -1.11 times in 2008-09, -0.40 times in 2009-10, -0.75 times in 2010-11, -0.51 times 2011-12, - 0.66 times in 2012-13, -0.61 times in 2013- 14, -1.24 times in 2014-15. This way ratio shows fluctuation during the study period.

Conclusion

The management should try to utilize their production capacity fully in order to reduce factory overheads and to utilize their fixed assets properly. Cost control is the most important factor to increase financial performance. The management of the car manufacturing companies should try to increase the production so as to get economies of large-scale production. The management should try to adopt cost reduction techniques in their companies to increase the profitability of the companies, it is suggested to control the cost of goods sold, operating expenses and other revenue expenses of car manufacturing companies under study. Cost accounting and cost audit should be made mandatory and cost sheet along with annual financing statement should be prepared. The selected car manufacturing companies are highly capital intensive in nature but the management should plan carefully to form the policy of purchase of fixed assets so that the funds may be properly utilized. The few car manufacturing companies, which did not follow a

definite policy of financing fixed assets, should follow such policy. To strengthen the financial efficiency, long-term funds should be used to finance core current assets and a part of temporary current assets. The selected car manufacturing companies should try to use properly their operating assets and should try to minimize their non-operating expenses.

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