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An Analysis of Corporate Financial Management Practices of Selected 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 its effective utilization in business. It deals with profit maximization as well as wealth maximization. This research work is conducted for analysing corporate financial management practices in India's most emerging automobile sector. In this researcher work four automobile companies are selected based on random sampling viz. Ashok Layland, Eicher Motors, Tata Motors and Force Motors. The study period of this research work is five years from 2019-20 to 2023-24. For analysing corporate financial management practices six ratios are selected i.e. gross profit ratio, net profit ratio, return on capital employed, current ratio, debt to equity ratio and interest coverage ratio. For hypotheses testing researcher has used one-way Anova test. The major finding of the study is Eicher Motors indicated good financial management as compared to other selected companies and Tata Motors performance is not satisfactory in all the selected automobile companies.

Keywords: Corporate Financial Management Practices, Automobile Sector, Profitability Performance, Liquidity Position, Leverage and Capital Structure.

Introduction

India has been witnessed for fifth-largest auto maker, with 3.49 million units combined (passenger and commercial vehicles) sold in these categories. The growing demand for automotive sector is increased due to middle class and young population. In May 2024, total volume of passenger vehicles production reached 10,50,659 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 also provides wider job opportunities in Indian market. Indian government also make policies for attract US \$8-10 billion investment in local and foreign sector by 2026. Automotive mission plan has been also started from 2016 to 2026 as mutual initiative by government of India.

Literature Review

(N.C. Shilpa, 2017) have analysed corporate financial distress: analysis of Indian automobile industry. In this research work researcher has analysed financial distress leads to bankruptcy of firm which is impacted on both macro & micro economy of the country. The evaluation of financial strength of business is an important aspect for both internal as well as 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 the study period of 2007 to 2016. The major finding of this research work was commercial vehicle manufacturers are in intermediate of financial distress and calls for agile action.

(Sadhvani, 2019) have analysed technical analysis of selected automobile shares listed on Indian stock exchange. The main aim of this research paper is forecasting the stock price using technical analysis. For the prediction of share price researcher used past shares prices. This work is based on moving average, oscillators & other technical tools. Aforesaid tools are used for the time period of three years on weekly basis. The major findings of the study was recommendation of buying for Maruti & 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) have analysed effect of CSR contribution on financial performance: a study on automobile companies of India. In this research paper researcher has identified the effects of CSR on financial performance have been significant based on theoretical and empirical evidences. This researcher paper also finds financial effectiveness of selected auto companies during the study period from 2014-15 to 2017-18 with a help of secondary data. For the analysis of data researcher selected four financial ratios viz. net profit margin, return on equity and return on total asset as independent variables and return on investment as dependent variable and CSR as control variable. Correlation and regression analysis are used as statistical tools.

(Bindu, 2021) have analysed 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 preference share capital, equity 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. In this research work researcher used panel data regression for analysis of capital structure decision in automobile manufacturing companies in India. In this work two variables are considered i.e. long-term debt to total assets and long-term debt to equity. The major findings of the research were firm size, growth and profitability are jointly influencing the capital structure decision of the auto companies.

Research Methodology

Research methodology gives roadmap for reaching to the conclusion. Following methodology are adopted for reaching to the findings of the research work.

Objectives of the Study

- To know profitability performance of selected automobile companies.
- To measure liquidity position of selected automobile companies.
- To analyse leverage position and capital structure of selected automobile companies.

Hypotheses for the Study

- $H_0 =$ There is no significant difference in gross profit ratio among selected automobile companies during the study period.
- $H_0 =$ There is no significant difference in net profit ratio among selected automobile companies during the study period.
- $H_0 =$ There is no significant difference in return on capital employed ratio among automobile selected companies during the study period.
- $H_0 =$ There is no significant difference in current ratio among selected automobile companies during the study period.
- $H_0 =$ There is no significant difference in debt-to-equity ratio among automobile selected companies during the study period.
- $H_0 =$ There is no significant difference in interest coverage ratio among selected automobile companies during the study period.

Nature of the Study

In this paper facts and information used is already available in various secondary sources to make critical evaluation and thus from this point of view, the nature of the research work becomes analytical.

Period of the Study

The present research work is completed for a period of the last 5 financial years from 2019-20 to 2023-24.

Sampling Design

All the automobile manufacturing companies listed on BSE are considered as population of the research work. Out of the population, four automobile companies are selected and the random sampling technique of probability sampling methods is used. The selected companies for this research work are Ashok Leyland, Eicher Motors, Tata Motors and Force Motors. These samples provide overall picture of population of automobile sector in India.

Data Collection

This research work is constructed on secondary sources data. Financial data is composed from the money control and other information used is collected from several websites, articles, Journals and books.

Tools and Techniques of Data Analysis

In this research work tools & techniques used for data analysis are as follows:

- Tabulation and Classification of Data
- Accounting Tool – Ratio Analysis
- Statistical Tool – ANOVA - test

Data Analysis and Interpretation**Table 1: Gross Profit Ratio (In %)**

Years	Ashok Layland	Eicher Motors	Tata Motors	Force Motors
2019-20	15.22	29.75	8.02	10.11
2020-21	13.33	25.62	13.98	1.91
2021-22	10.87	25.37	9.97	3.67
2022-23	12.48	27.96	10.56	7.79
2023-24	17.65	32.67	14.95	13.55
Average	13.91	28.274	11.496	7.406
Maximum	17.65	32.67	14.95	13.55
Minimum	10.87	25.37	8.02	1.91

(Source: www.moneycontrol.com)

Above table no. 1 displays gross profit ratio of selected automobile companies for the duration of 5 years from 2019-20 to 2023-24. Gross profit ratio is the percentage of earnings obtained from the sale of goods or services, excluding selling and administrative costs. Average ratio of Ashok layland has 13.91%, Eicher Motors has 28.27%, Tata Motors has 11.50%, force Motors has 7.41%. Ashok layland and Eicher Motors shows decreasing trend in first three-years and increasing trend in last two years. Tata motors indicate zig-zag trend during the period of study and Force motors shows increasing trends during the study period except the first two years. The highest and lowest ratios are 25.37% and 1.91% possessed by Eicher motors and Force motors respectively during the time span.

Table 2: Net Profit Ratio (In %)

Years	Ashok Layland	Eicher Motors	Tata Motors	Force Motors
2019-20	2.08	19.61	-4.20	1.89
2020-21	-0.35	15.08	-5.21	-5.61
2021-22	-1.11	15.69	-4.03	-2.29
2022-23	3.24	17.99	0.68	3.02
2023-24	5.85	21.48	7.10	5.74
Average	1.942	17.97	-1.132	0.55
Maximum	5.85	21.48	7.10	5.74
Minimum	-1.11	15.08	-5.21	-5.61

(Source: www.moneycontrol.com)

Above table no. 2 represents net profit ratio of selected auto companies for the year 2019-20 to 2023-24. Net profit ratio indicated percentage of profit earn in concern with hundred rupees of sales earn during the particular year. In concern with average net profit ratio Ashok Layland, Eicher Motors and Force Motors indicated positive return on sales, whereas Tata Motors indicated negative return during the time span. The highest ratio as 21.48% possessed by Eicher Motors whereas lowest ratio possessed by Tata Motors as -5.21%. Except Eicher Motors all selected companies indicated single digit net profit ratios. All the companies show zig-zag trend during the time span.

Table 3: Return on Capital Employed (In %)

Years	Ashok Layland	Eicher Motors	Tata Motors	Force Motors
2019-20	11.10	22.46	-0.25	5.35
2020-21	6.80	14.95	6.14	-5.73

2021-22	7.94	16.35	1.63	-3.02
2022-23	13.33	22.00	6.45	6.03
2023-24	17.46	24.60	19.39	24.50
Average	11.326	20.072	6.672	5.426
Maximum	17.46	24.6	19.39	24.5
Minimum	6.8	14.95	-0.25	-5.73

(Source: www.moneycontrol.com)

Above table no. 3 indicated return on capital employed (ROCE) which represent how much return earns on invested capital. In common thing Ashok Layland and Eicher Motors shows raising trend during the period of study except the first two years. While, 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 years 2020-21 and 2021-22 as -0.25, -5.73 and -3.02 respectively. Eicher Motors shows good performance in concern with return on capital employed during study period. In concern with average return on capital employed highest percentage has 20.07% and lowest percentage has 5.43% possessed by Eicher Motors and Force Motors respectively.

Table 4: Current Ratio

(In Times)

Years	Ashok Layland	Eicher Motors	Tata Motors	Force Motors
2019-20	1.03	3.15	0.85	1.13
2020-21	0.98	3.35	0.93	1.01
2021-22	1.00	1.88	0.98	0.80
2022-23	1.08	1.14	0.98	1.04
2023-24	1.09	1.15	0.97	1.25
Average	1.036	2.134	0.942	1.046
Maximum	1.09	3.35	0.98	1.25
Minimum	0.98	1.14	0.85	0.8

(Source: www.moneycontrol.com)

Above table no. 4 shows current ratio for the duration of 5 years from 2019-20 to 2023-24 for selected companies. Current ratio indicated proportion 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 in concern with average ratio Eicher Motors has the higher ratio and TataMotors has the lower ratio during the period of study. Ashok Layland indicated increasing trend in all the yeas except first two years. While, remaining companies shows fluctuating trend in their current ratio.

Table 5: Debt to Equity Ratio (In Times)

Years	Ashok Layland	Eicher Motors	Tata Motors	Force Motors
2019-20	2.07	0.01	1.58	0.12
2020-21	2.31	0.01	2.08	0.28
2021-22	3.28	0.00	3.13	0.61
2022-23	3.61	0.01	2.77	0.51
2023-24	4.51	0.02	1.16	0.23
Average	3.156	0.01	2.144	0.35
Maximum	4.51	0.02	3.13	0.61
Minimum	2.07	0	1.16	0.12

(Source: www.moneycontrol.com)

Above table no. 5 represents debt to equity ratio of selected companies for the year 2019-20 to 2023-24. Debt to 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 shareholders but it also showed they are not took benefit of leverage in their organization. In concern with highest leverage ratio was possessed by Ashok Layland and Tata Motors while lowest ratio was possessed by Eicher Motors and Force Motors, means they are not using more debt in their capital structure.

Table 6: Interest Coverage Ratio (In %)

Years	Ashok Layland	Eicher Motors	Tata Motors	Force Motors
2019-20	1.44	124.05	2.89	4.21
2020-21	0.92	108.43	4.31	-4.81
2021-22	1.53	139.14	2.98	2.90
2022-23	2.49	144.14	3.57	5.73
2023-24	2.71	106.19	6.56	15.25
Average	1.818	124.39	4.062	4.656
Maximum	2.71	144.14	6.56	15.25
Minimum	0.92	106.19	2.89	-4.81

(Source: www.moneycontrol.com)

Above table no. 6 indicated interest coverage ratio for selected automobile companies during the study period of 5 years. Interest coverage ratio indicated portion of earnings before interest and tax available to meet the interest liabilities. In this table interest coverage ratio is indicated in percentage format means for 100 rupees of liabilities how much earnings before interest and tax is available. The Eicher Motors indicated good financial position in compare with other selected companies. AshokLeyland indicated not good position of interest coverage ratio as compare to other companies. Force Motors is in second position and Tata Motors is in third position in compare to selected companies.

One –Way ANOVA Test

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

Table 7: One-Way ANOVA Test

Sr. No.	Name of Ratios	Calculated Value	Table Value	Result of H ₀
1.	Gross Profit Ratio	35.1974	3.23887	Rejected
2.	Net Profit Ratio	25.4142	3.23887	Rejected
3.	Return on Capital Employed	3.75259	3.23887	Rejected
4.	Current Ratio	5.47469	3.23887	Rejected
5.	Debtto Equity Ratio	26.2757	3.23887	Rejected
6.	Interest Cover. Ratio	207.142	3.23887	Rejected

(Source: Calculated from MS Excel)

Above table no. 7 indicates One-Way Anova test for selected ratios and it shows null hypotheses are rejected at 5% level of significance which means there is a significant difference in corporate financial management practices in selected companies during the study period.

Findings and Conclusion

- In concern with gross profit ratio, Ashok Leyland & Eicher Motors shows decreasing trend in first three-years and increasing trend in last two years. Tata motors indicate zig-zag trend and Force motors shows increasing trends during the study period except the first two years.
- Net profit ratio of selected auto companies indicated fluctuating trend for the study period. Except Eicher Motors all the companies show single digit net profit ratio.
- Eicher Motors indicated good performance in return on capital employed based on average ratio. Ashok Layland and Eicher Motors shows raising trend during the period of study except the first two years. While, remaining two companies indicated negative return on capital employed.
- 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 was 2.134:1. 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 Motors and Force Motors not used more debt in their capital structure means both companies are less levered but remaining two companies have used 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. AshokLeyland indicted not good performance for interest coverage ratio or not meet their interest liabilities satisfactory.

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