



Financial Analysis of Automobile Industry

M.Kavya¹ & Dr. U.Thaslim Ariff²

¹Student (Final year), Department of Commerce, Sri GVG Visalakshi College for Women, Udumalpet, Tirupur, Tamilnadu, India.

²Assistant Professor, Department of Commerce, Sri GVG Visalakshi College for Women, Udumalpet, Tirupur, Tamilnadu, India.

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Abstract

In India, automobile industry plays an important role in country's rapid economic and industrial development. Today India is the second largest manufacturers of two wheelers in the world. Hero Honda Company is one of the leading companies in the two-wheeler industry. The research has been done on the basis of some selected ratios like investment valuation, profitability, liquidity and solvency, debt coverage, management efficiency, profit and loss account, cash flow indicator ratios that make use of information taken from financial statements and other reports. The paper analysis the financial position of the Hero Honda Company.

Keywords: Automobile, Ratio analysis, Two wheeler, Financial Position, etc.

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Introduction

The Indian Automobile industry is one of the largest in the world. The industry accounts for 7.1 per cent of the country's Gross Domestic Product (GDP). The Two Wheelers segment with 80 per cent market share is the leader of the Indian Automobile market owing to a growing middle class and a young population. In August 2017, the two-wheeler industry grew over 14 per cent, with market leader Hero MotoCorp leading sales volumes. Hero sold 6,61,490 two-wheelers in August, while Honda Motorcycle and Scooter India (HMSI) is in second place, selling 5,86,237 two-wheelers. Hero Honda is an Indian company motorcycle and scooter manufacture based in New Delhi, India. The company is the largest two-wheeler manufacturer in the world and also in India where it has a market share of about 46% in the two-wheeler category.

Hero is the brand name used by the Munjal brothers for their flagship company Hero Cycles Ltd. A joint venture between the Hero group and Honda motor company was established in 1984 as Hero Honda Motors Limited at Dharuhera, India. Munjal family and Honda group both own 26% stake in the company. In 2010, it was reported that Honda planned to sell its stake in the venture to the Munjal family. A popular advertising campaign based on the slogan "Fill it-Shut it-Forget it" that emphasized the motorcycle's fuel efficiency helped the company to grow.

Objective of the Study

The following are the objective of this study :

- To study the present scenario of Hero Honda company.
- To analysis financial position of the Hero Honda company.

Research Methodology

- **Nature and Source of Data:** The study is based on secondary data, It has been collected from annual report of Hero Honda company from 2013-2017 and other data are collected from journals, magazines and text book.
- **Period of Study:** The study was conducted for a period of 6 months.
- **Tools for analysis:** The collected data were analyzed using ratio analysis.

Limitation of the study

- ❖ The study is restricted to the particular automobile industry and hence it can't be generalized.
- ❖ The statistical tools used to analyze the data have their own limitations.
- ❖ All the limitation of secondary data was applicable to the study.

REVIEW OF LITERATURE

Dr. Duggani Yuvaraju (PDF-Scholar)& 2Prof. S. Durga Rao observed the customer satisfaction is a feeling of pleasure or disappointment resulting from comparing a products perceived performance or outcome in relation to his or her expectations. The study founded that 60%of respondents to know the advertisement of Honda Bike through media, 90 percent of the

Correspondence

Dr.U.Thaslim Ariff

E-mail:ariff85thaslim@gmail.com, Ph. +9199422 35579

respondents were completely satisfied with the mileage and performance of the bike, 73% of respondents are satisfied with pick-up of the Honda Bike, 56% of the respondents are attracted to the quality of the service to choose this bike, 50% of the respondents are satisfied with the design of the bike, 54% of the respondents considered the price of the Honda, 60 % of the respondents felt the explanation to be “excellent”. In this study the chi-square test finds that there is a significant difference between the preferable factors like mileage, pickup, price and design.

Huda Salhe Meftan and Manish Roy (2014) studied the financial analysis of Hindustan Petroleum Corporation Ltd. The study is based on secondary data. The company has got excellent gross

profit ratio and trend is rising in with is appreciable indicating efficiency in production cost. The net profit for the year 2010-11 is excellent and it is 8 times past year indicating in operating expenses and large proportion of net sales available to the shareholders of company.

Zafar S.M.Tariq and Khalid.S.M (2012) explored that ratios are calculated from financial statements which are prepared as desired policies adopted on depreciation and stock valuation by the management. Ratio is simple comparison of numerator and denominator that cannot produce complete and authentic picture of business. Results are manipulated and also may not highlight other performance of firm by promoters.

Analysis and Interpretation

Table 1

Investment valuation ratio in Rs. (Cr)

	2017	2016	2015	2014	2013
Face Value	2.00	2.00	2.00	2.00	2.00
Dividend Per Share	85.00	72.00	60.00	65.05	60.00
Operating Profit Per Share (Rs)	232.09	222.70	177.39	177.28	164.48
Net Operating Profit Per Share (Rs)	1,425.91	1,432.18	1,381.42	1,265.75	1,190.27
Bonus in Equity Capital	59.98	59.98	59.98	59.98	59.98

Interpretation

- Face value for Hero Honda Company has maintained their value for last 5 years.
- Dividend per share of Hero Honda Company has increased on 2017 as Rs.85 Crores when compared to 2016 as Rs.72 Crores.
- Operating profit per share on Hero Honda company has risen at Rs.232.09 Crores as seen before was only at Rs.222.70 Crores.
- Net operating profit per share of Hero Honda Company has been increased at Rs.1425.91 Crores when compared to the year at 2013.
- Bonus in equity capital was maintained at same rate only.

Table 2

Profitability ratio in Rs. (Cr)

	2017	2016	2015	2014	2013
Operating Profit Margin	16.27	15.54	12.84	14.00	13.81
Profit Before Interest And Tax Margin	14.28	13.81	10.69	9.45	8.86
Gross Profit Margin	14.54	14.00	10.88	9.62	9.01
Cash Profit Margin	13.34	12.32	10.97	12.50	13.48
Adjusted Cash Margin	13.34	12.32	10.97	12.50	13.48
Net Profit Margin	11.85	10.95	8.64	8.34	8.91
Adjusted Net Profit Margin	11.64	10.80	8.49	8.19	8.76

Return On Capital Employed	46.13	55.34	53.42	51.41	47.86
Return On Net Worth	33.39	39.42	36.47	37.66	42.31
Adjusted Return on Net Worth	33.39	39.42	38.84	37.66	42.31
Return on Assets Excluding Revaluations	506.33	397.85	327.58	280.43	250.70
Return on Assets Including Revaluations	506.33	397.85	327.58	280.43	250.70
Return on Long Term Funds	46.13	55.34	53.42	51.41	47.86

Interpretation

- Operating profit margin has been increased at Rs.16.27 Crores in the year 2017 as it was only Rs.12.84 Crores at the year 2015.
- Profit before interest and tax margin was raised for the company Hero Honda in the year 2017.
- Gross profit margin has increased as Rs.14.54 Crores in the year 2017 when seen in the year 2013 as Rs.9.01 Crores.
- Cash profit margin has also increased statement in the year 2017.
- Adjusted cash margin has increased in the year 2014 and had a decline in the year 2015 and comes up in the year 2016 and 2017.
- Net profit margin had high level in 2013 and decreased in 2014 and comes up through following years till 2017.
- Adjusted net profit margin of hero Honda Company has also increased statement till 2017.
- Return on capital employed has continuous raise till 2016 but in the year 2017 it was decline at Rs.46.13Crores.
- Return on net worth also had certain decline in 2014 when compared to 2013 and increased after that till 2016 and decreased in 2017.
- Adjusted return on net also has decline in the year 2017 when compared to the year 2017.
- Return on assets excluding revaluations has continuous increase until 2017.
- Return on assets including revaluations of hero Honda has raised.
- Return on long term funds has increased at 2016 at 55.34% but at 2017 it was declined at 46.13%.

Table 3

Liquidity and Solvency Ratios in Rs. (Cr)

	2017	2016	2015	2014	2013
Current Ratio	0.86	0.83	0.94	0.65	0.67
Quick Ratio	0.72	0.67	0.72	0.47	0.52
Debt Equity Ratio	--	--	--	--	0.06
Long Term Debt Equity Ratio	--	--	--	--	0.06

Interpretation

- Current ratio has increased with point wise at Rs.0.03Crores itself.
- Quick ratio has also raised in hero Honda company.
- Debit equity and long term debt equity ratios are no more after 2013 till 2017.

Table 4

Debt Coverage Ratios in Rs. (Cr)

	2017	2016	2015	2014	2013
Interest Cover	770.99	2,044.99	315.14	243.58	213.36
Total Debt to Owners Fund	--	--	--	--	0.06
Financial Charges Coverage Ratio	852.44	2,250.29	363.83	337.26	309.22
Financial Charges Coverage Ratio Post Tax	640.64	1,663.22	264.81	273.12	274.71

Interpretation

- Interest cover of hero Honda has declined to very rate when compared to the year 2016.
- Total debt to owners fund has no value its value on only 2013 after no value for that.
- Financial charges coverage ratio of the company hero Honda has decreased on 2017 when seen on 2016.
- Financial charges coverage ratio post tax of hero Honda was also reduced in 2017 as Rs. 640.64Crores but previous year it was so high at Rs.1663.22Crores.

Table 5

Management Efficiency Ratios in Rs. (Cr)

	2017	2016	2015	2014	2013
Inventory Turnover Ratio	47.00	45.85	35.93	40.56	40.30
Debtors Turnover Ratio	20.02	21.40	23.88	31.88	50.72
Investments Turnover Ratio	47.00	45.85	35.93	40.56	40.30
Fixed Assets Turnover Ratio	4.20	4.92	5.99	7.40	7.32
Total Assets Turnover Ratio	2.84	3.65	4.28	4.81	5.76
Asset Turnover Ratio	3.15	3.95	4.54	4.63	4.48
Average Raw Material Holding	--	--	--	--	--
Average Finished Goods Held	--	--	--	--	--
Number of Days In Working Capital	-22.67	-8.76	-5.69	-25.44	-21.24

Interpretation

- Inventory turnover ratio has increased in 2017 when compared to 2016.
- Debtors turnover ratio of the hero Honda company has decreased at value 1 that is Rs.20.02 Crores when in 2016 as Rs.21.40 Crores before all previous year also declined till 2013.
- Investment turnover ratio has raised every year onwards 2013 to till 2017.
- Fixed assets turnover ratio has declined in continuous every year from 2013 to 2017.
- Total assets turnover ratio has decreased from 2013 to 2017 very high to low.
- Asset turnover ratio of hero Honda has declined on 2017 at Rs.3.15 Crores when compared to 2016.
- Average raw material holding and average finished goods held was none to hero Honda.
- Number of days in working capital has been in negative value for past 5 years.

Table 6

Profit & Loss Account Ratios in Rs. (Cr)

	2017	2016	2015	2014	2013
Material Cost Composition	70.22	67.92	72.10	72.48	73.50
Imported Composition of Raw Materials Consumed	--	5.01	6.00	6.40	5.79
Selling Distribution Cost Composition	--	--	--	--	--
Expenses as Composition of Total Sales	--	2.72	2.61	1.85	2.62

Interpretation

- Material cost composition has increased from 2013 to 2015 but in 2016 it was Rs.67.92 Crores and raised in 2017 as Rs.70.22Crores.
- Imported composition of raw materials consumed of hero Honda was none in 2017 but

previous year it was Rs.5.01 crores and more in 2015, 2014, and 2013.

- Selling distribution cost composition was none for hero Honda.
- Expenses as composition of total sales of hero Honda was none in 2017 but previous year till date was increased from 2013 to 2016.

Table 7

Cash flow indicator ratios in Rs. (Cr)

	2017	2016	2015	2014	2013
Dividend Payout Ratio Net Profit	51.44	45.89	50.22	61.59	56.56
Dividend Payout Ratio Cash Profit	44.89	40.23	40.95	40.39	36.75
Earning Retention Ratio	48.56	54.11	52.85	38.41	43.44
Cash Earning Retention Ratio	55.11	59.77	61.11	59.61	63.25
Adjusted Cash Flow Times	--	--	--	--	0.09

Interpretation

- Dividend payout ratio net profit was increased from the year 2013 onwards till 2017.
- Dividend payout ratio cash profit of hero Honda was raised continuously for past 5 years.
- Earning retention ratio was decline in the year 2017 but a stable and increase amount in the year 2016 and 2015 but before that 2014 it was declined very low and in the year 2013 high when compared to 2014.
- Cash earnings retention ratio of hero Honda was Rs.63.25 Crores in 2013 and reduced in 2014 at Rs.59.61 Crores and again raised in 2015,2016 and at the end of 2017 it was reduced.
- Adjusted cash flow times were Rs.0.09 in 2013 Corers but none after that till 2017.

Conclusion

An attempt has been made in the present study to investigate the financial Analysis of Hero Honda in India during the year 2013 to 2017. The study reveals that the financial analysis of the Hero Honda is good during the study period. The two wheeler industries are competitive one among them Hero Honda occupies the first position by occupying more than 50% of the market share. The financial analysis of Hero Honda Company has been increased the profit from the year 2013 to 2017.

However, Hero Honda Company should concentrate on further improvement in profitability by cost concentration, innovative marketing techniques and modern advertising.

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