

## **Performance of Automobile Sector - A Study of Selected Stocks of Two-Wheeler Manufacturing Companies in India**

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### ***Abstract***

*The establishment of National Stock Exchange (NSE) and demutualisation of Bombay Stock Exchange (BSE) followed by series of measures to stimulate the investment in capital market has led to rapid growth of stock market in India. This has resulted into rapid economic growth and further attracting the investors towards stock market. The economic growth created wide market for automobile sector especially two-wheeler segment with increasing in income levels and introduction of newer technologies by both domestic and foreign manufacturers. The measures taken by government to boost this sector has further enhanced the profitability and growth of two-wheeler manufacturers and emerged into prominence in stock markets. This paper attempts to analyse the financial position of four leading two-wheeler manufacturers and their corresponding effect on decision making process of investors.*

**Key Words:** *Two-Wheeler Industry, Demutualisation, Automobile, Hybrid Vehicles*

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**1. Introduction:** The dream of every individual after they starts earning is to own a motor bike which symbolises their social status in Indian society. This desire has extended to youth and even housewives to have a bike or scooter and became part of Indian lifestyle. The growth and expansion of economy, creation of jobs, speedy urbanisation and technology used in the automobile products have created huge opportunity for expansion of automobile sector, especially two-wheeler segment.

The statistics on Indian two-wheeler industry shows huge potential in terms growth as well potential investment sector for financial markets participants. The estimates shows that automobile industry in India is expected to be the world's third largest by 2016, with the country currently being the world's second largest two-wheeler manufacturer. The total two-wheeler production is projected to rise from 18.5 million units in the FY-2015 to 34 million by FY-2020. Furthermore, passenger vehicle production is expected to increase to 10 million in FY20 from 3.2 million in FY15.

Automobile exports have grown at a Compounded Annual Growth Rate (CAGR) of 14.65 per cent during the five years period between 2010 and 2015. The Indian automobile industry comprising of Passenger Vehicles, Commercial Vehicles, Three Wheelers and Two Wheelers grew by 6.89 per cent, 13.77 per cent, 18.69 per cent and 16.60 per cent respectively in terms of CAGR during 2010-15. Two wheelers accounted for the largest share of exports at 69.4 per cent in the FY-2015 with passenger vehicles comprised a sizeable 16.7 per cent of overall exports of the country and exports of three wheeler vehicles registered around 11.1 per cent share in the exports during the same period.

The Government of India aims to develop the country as a global manufacturing as well as a Research and Development (R&D) hub. It has set up National Automotive Testing and R&D Infrastructure Project (NATRiP) centres as well as a National Automotive Board to act as facilitator between the government and the industry. Alternative fuel has the potential to provide for the country's energy demand in the auto sector as the CNG distribution network in India is expected to rise to 250 cities in 2018 from only 12 cities during 2015. However, big steps have been taken by both government and two-wheeler manufacturers to bring out electric bikes to become eco-friendly as well meeting international compliances in terms of pollution standards.

The phenomenal growth of two-wheeler automobile segment has attracted many foreign companies to enter Indian two-wheeler market with new age technology and expertise which has changed the landscape of Indian two-wheeler segment of automobile sector. Initially Japanese majors' like Honda, Suzuki and Kawasaki have collaborated with Indian two-wheeler manufacturers by providing technology with less than 50 percent share through joint venture route. The policy shift due to economic reforms and liberalisation has resulted in to direct establishment of own entities by the foreign auto makers in two-wheeler segment by establishing their own companies for manufacture and sale of two-wheelers. This resulted in parting way for Indian counterparts' viz., Hero Motors, TVS Motors, etc., and have started their own manufacturing and marketing activities with R&D investment and brand building in Indian two-wheeler market. According to data released by Department of Industrial Policy and Promotion (DIPP), Government of India, the automobile industry has attracted foreign direct investment (FDI) worth US\$13.48 billion during the period April 2000 to June 2015.

The rise of companies like Hero Motors, Bajaj Auto and TVS Motors with ever increasing of their share price in stock market and finding place in top scripts of the indices of national level stock exchanges have attracted many investors to put their money in the shares of automobile companies. Stock market investments are always subject to careful study of fundamentals associated with the companies in particular and market in general.

## **2. Literature Review**

Dr. Pramod Kumar, in his published book titled "Analysis of Financial statements of Indian industries" has covered seventeen private, five state owned and one central public sector enterprises and concluded that improvement of profitability can be achieved by applying ratios effectively to analyse profitability. Another notable contribution was made by Robert D. Buzzell, Bradley T. Gale, and Ralph G.M. Sultan who have examined why market share is profitable, listing economies of scale, market power, and quality of management as possible explanations; then, using the PIMS data base, they show how market share is related to ROI.

Mathur Shivam & Agarwal Krati (2016) opined that Ratio analysis are the best way to know the financial performance of any firm. The study revealed that many awards and achievements received due to innovation and technological advancements. The indicators helps the investors to invest in the right company.

Jothi, K. & Geethalakshmi, A. (2016), evaluates the financial position and profitability of few selected automobile companies of by using statistical tools like, ratio analysis, mean, standard deviation, correlation. The study results the positive relationship between profitability, short term and long term capital.

Kumar Mohan M.S, Vasu. V. and Narayana T. (2016) analysed the financial health of the company by using different ratios , mean, standard deviation and Altman's Z score approach. The study finds that there is a positive correlation between liquidity and profitability ratios except return on total assets as well as Z score value indicate good health of the company.

Kaur Harpreet (2016) examined that the qualities & quantities performer of Maruti Suzuki co., It shows that MSL has been successfully leading automobile sector in India for last few years.

### 3. Objectives

- 1) To study the performance of shares of leading companies in two-wheeler segment in automobile sector.
- 2) To evaluate the profitability and growth of the shares in the selected two wheeler companies.

### 4. Research Methodology

The analysis of financial statements of an enterprise is crucial in ascertaining its financial strength and potential market efficiency. Ratio analysis is an important tool that is being used to uncover the mysteries of financial statements of companies and is crucial in fundamental analysis. This study is intended to study the performance of shares of leading companies in two-wheeler segment in automobile sector of the country. Hence, an evaluation of the profitability and growth of the shares in the selected two-wheeler companies have been carried out by applying important ratios and inferences were drawn on financial statements. For these purpose four major two-wheeler automobile companies were selected are shown under:

Sl. No.	Selected Automobile Companies for the study	Date of Incorporation	Date of Listing at BSE
1	Hero Moto Corp Limited	1984	1985
2	TVS Motors Company Limited	1982	2000
3	Mahindra and Mahindra Ltd	1945	1956
4	Bajaj Auto Ltd.	1945	1961

The need of the study is focused on to identify the best performing company in the automobile industry and to analyse the impact of economy and stock market index Performance on behaviour of Automobile industry stock price.

## 5. Data Analysis

With the objective of encouraging foreign investment in the automobile sector Government of India has allowed 100 per cent FDI under the automatic route. This is the part of aims to make automobile manufacturing the main driver of "Make in India" initiative, as it expects the passenger vehicles market to triple to 9.4 million units by 2026, as highlighted in the Auto Mission Plan (AMP) 2016-26. The major initiative is that, the government has formulated a Scheme for Faster Adoption and Manufacturing of Electric and Hybrid Vehicles in India, under the National Electric Mobility Mission 2020, to encourage the progressive introduction of reliable, affordable, and efficient electric and hybrid vehicles into the country. This is expected to change the landscape of passenger vehicle segment including two-wheeler manufacturing. This can be both an opportunity as well challenge for the automobile makers in India.

It is going to be a joyous ride for the investors of two-wheeler stocks as the coming few financial years are expected to be a turnaround years for the industry. The results are encouraging that by March-2015, in the two-wheeler space, share price of Bajaj Auto, Eicher Motors, Hero Moto Corp and TVS Motor Company surged by 64 per cent, 1,268 per cent, 36 per cent and 310 per cent respectively in the past five years. However, the benchmark index Sensex jumped 27 per cent during the same period. Another significant factor is that the two-wheeler exports accounted for 67% have grabbed major share in total automobile exports from India during 2015. It is quite evident that India offers huge growth potentials for both domestic and foreign players who are willing to invest in the automobile market. Further India is having advantage over USA and other European majors that automobile firms from across the world can save 10% to 25% on operation costs and is having abundance of educated and skilled manpower in India who speak English, and they can be employed for lower wages in comparison to the European job market. The possible disadvantage for Indian automobile industry is the threat from neighbour country China who offer cheap cost components and lower pricing to lure international markets.

Any investment in stock market needs careful analysis of the financial strengths before a decision is made by the investor. Financial Statement Analysis generally attempts to reveal the meaning and significance of the items composed in Profit and Loss Account and Balance Sheet. According to Kennedy and Macmillan "Financial Performance is scientific evaluation of profitability and financial strength of any business concern". Financial performance is concern with the business operations which contribute to increase the profits and also to enhance the total investments. Financial performance is also concern with the prosperity of shareholders.

The following analysis attempts to evaluate and helps in decision making of investors in two-wheeler segment of Indian automobile industry:

**Table-5.1: Gross Profit Margin**

Particulars	Gross profit margin (%)				
	Mar '15	Mar '14	Mar '13	Mar '12	Mar '11
Bajaj Auto Ltd.	21.14	23.07	21.31	21.38	22.09
Hero Moto Corp Ltd	14.33	15.45	15.19	16.55	14.68
TVS Motor Company Ltd	6.02	6.04	5.43	6.07	5.67
Mahindra & Mahindra Ltd	12.08	12.56	12.36	12.6	16.03

Source: Annual Reports of Companies

The G/P% of Bajaj Auto Ltd Company goes on decreasing in 2015 however; it has been leading the charts compared to other three major players in Indian two-wheeler automobile industry.

**Table-5.2: Operating Profit Margin**

Particulars	Operating Margin (%)				
	Mar '15	Mar '14	Mar '13	Mar '12	Mar '11
Bajaj Auto Ltd.	19.05	20.38	18.18	19.05	23.8
Hero Moto Corp Ltd	12.84	14.01	13.82	15.35	13.49
TVS Motor Company Ltd	5.98	6.00	5.79	6.59	6.37
Mahindra & Mahindra Ltd	10.72	11.65	11.64	11.84	14.71

Source: Annual Reports of Companies

Operating profit percentage on sales is decreasing in case of all the four major two wheeler manufacturing companies compared to previous four years beginning from 2011.

**Table-5.3: Net Profit Margin**

Particulars	Net Profit Margin (%)				
	Mar '15	Mar '14	Mar '13	Mar '12	Mar '11
Bajaj Auto Ltd.	12.68	15.55	14.64	14.92	19.67
Hero Moto Corp Ltd	8.5	8.2	8.76	9.93	9.8
TVS Motor Company Ltd	3.43	3.27	1.64	3.48	3.06
Mahindra & Mahindra Ltd	8.35	9.12	8.18	8.91	11.18

Source: Annual Reports of Companies

Net profit percentage on sales is also decreasing in case of all the four major two wheeler manufacturing companies in India compared to previous four years from 2011.

**Table-5.4: Earnings per Share**

Particulars	Earnings Per Share (EPS)				
	Mar '15	Mar '14	Mar '13	Mar '12	Mar '11
Bajaj Auto Ltd.	97.24	112.08	105.18	103.81	115.41
Hero Moto Corp Ltd	119.46	105.61	106.07	119.09	96.54
TVS Motor Company Ltd	7.32	5.51	2.44	5.24	4.05
Mahindra & Mahindra Ltd	56.16	63.67	56.8	48.87	45.33

Source: Annual Reports of Companies

Though Bajaj Auto Ltd has the high Gross Profit, Operating and Net profit margins, Hero Moto Corp Ltd is the front runner in terms of profitability of the firm on per equity share basis, so Hero Moto Corp Ltd has the capacity to pay higher dividends to its shareholders.

**Table-5.5: Return on Gross Capital Employed**

Particulars	Return On Capital Employed				
	Mar '15	Mar '14	Mar '13	Mar '12	Mar '11
Bajaj Auto Ltd.	41.01	47.92	53.51	68.13	69.68
Hero Moto Corp Ltd	53.42	51.41	48.57	49.83	52.13
TVS Motor Company Ltd	18.85	19.91	17.08	19.81	18.38
Mahindra & Mahindra Ltd	18.51	22.29	25.44	24.19	28.06

Source: Annual Reports of Companies

Hero Motor Corp Ltd has more efficient management and utilization of Gross Capital employed. It has higher percentage of ability in generating profit per rupee of Gross capital Employed when other companies return on capital employed has been decreasing by 2015.

**Table-5.6: Return on Assets**

Particulars	Return on Assets				
	Mar '15	Mar '14	Mar '13	Mar '12	Mar '11
Bajaj Auto Ltd.	369.5	332.04	273.08	208.77	169.69
Hero Moto Corp Ltd	327.58	280.43	250.7	214.83	148.03
TVS Motor Company Ltd	34.63	29.79	25.78	24.61	21.04
Mahindra & Mahindra Ltd	310.02	272.63	238.75	198.23	167.99

Source: Annual Reports of Companies

Fixed assets turnover ratio has been increasing for all the four companies. Though Bajaj Auto Ltd, has the highest Return on Assets in 2015, Hero Motor Corp Ltd has yielded higher net returns on assets at Rs. 47.15 Crore when compared to 2014.

**Table-5.7: Return on Equity**

Particulars	Return on Net Worth/Equity				
	Mar '15	Mar '14	Mar '13	Mar '12	Mar '11
Bajaj Auto Ltd.	26.31	33.75	38.51	49.72	68.01
Hero Moto Corp Ltd	36.47	37.66	42.31	55.43	65.21
TVS Motor Company Ltd	21.14	18.48	9.47	21.3	19.46
Mahindra & Mahindra Ltd	17.25	22.39	22.87	24.08	26.46

Source: Annual Reports of Companies

Hero Motor Corp Ltd is leading when it comes to firm's ability of generating profit per rupee of shareholder's fund among its peers; however it has reduced by 1.19% when compared to 2014. Interestingly, the return on equity of TVS Motor Company Ltd was increased by 2.66% in 2015 when all the other three companies' ability of generating profit per rupee of shareholder's fund has been declining 2015.

## 6. Key Findings

The vital financial ratios reveal the ability of major two-wheeler automobile companies reflects the automobile sector in India and its possible performance in future. The fluctuations and fall in gross profit and operational profit margins are real cause of concern for the survival and growth of automobile industry. The major reason for this is attributed to rise in cost of raw material, components used in manufacturing of two-wheelers and other overhead expenditure especially publicity and marketing network expenditure. This has ultimate effect on net profits of the companies and found that it is decreasing over the period of study. It is found that though Bajaj Auto Ltd has the high Gross Profit, Operating and Net profit margins, Hero Moto Corp Ltd is the front runner in terms of profitability of the firm on per equity share basis and emerged as attractive company to invest its shares. Hero Motor Corp Ltd has proved its efficiency in managing and utilization of Gross Capital employed by generating higher profit per rupee of Gross capital Employed. It's interesting to note that fixed assets turnover ratio has been increasing for all the four companies during the five year period ending March-2015. Except TVS Motor Company Ltd., all other automobile makers have recorded declining return on equity.

## **7. Conclusion:**

The two-wheeler automobile segment is facing tough times in giving a good ROI as revealed by key financial analysis of major automobile companies. However, they are doing well in terms return on assets they have employed in business and hence they need to address the key issues such as declining EPS and Return on Capital Employed so as to gain the confidence of investors. The initiatives of the government to boost automobile sector will take few time to yield results and hence the investors can put their money in two-wheeler segment especially in Hero Moto Corp Ltd and other companies. The growing young population is always a potential to two-wheeler market and a bright future can be predicted for the same provided they upgrade to newer technologies and requirements of next generation.

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