

A Comparative Study on Profitability of Selected Indian Automobile Companies

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Abstract: *The main objective of the study is to evaluate profitability of selected FMCG Companies, for this purpose data were collected from financial statements and profitability ratios calculated. The study found that Bajaj Auto Limited has generated highest amount of return on assets with consistency during study period among all the five companies. The study also found that Eicher Motors Limited has generated highest amount of net profit margin with consistency during study period among all the five companies.*

Keywords: Profitability, Financial, Ratios, FMCG

1. Introduction

Profitability ratios are a group of quantitative values that measure a company's profitability against its revenue, cost of sales, equity and balance sheet assets. It is a metric that measures a company's ability to generate income from its operations over the specific period of time. Profitability ratio is a category falling under financial ratios that are used by investors, bankers, financial institution, creditors and other stakeholders for evaluation of financial performance of the company in regards of annual profitability. These ratios help them to assess how profitable entity currently earns from using or managing the existing resources to generate profits and add the value to its shareholders or owners.

2. Literature Review

Venkatesan & Nagarajan (2012) studied profitability analysis of selected steel companies in India. The study analysed various data, related to selected steel companies in India and founded in theoretical statement, it clear that profitability more or less depends upon the better utilization of resources, cut-off expenses and quality of management function in the products, customer services and to manpower and goodwill and market share. It is worthwhile to increase production capacity and use advance technology to cut down cost of production and wage cost in order to increase profitability, not only against the investment, but also for investors return point of view. The study also suggested that these programs are helpful to increase profitability of selected steel companies in India in future prospects and if the management or government does not look into it seriously, it can result in loss of jobs and the company will become a sick unit.

Tulsian (2014) undertook a profitability analysis and comparative study of SAIL & TATA Steel. It should be duly noted that net income figure alone is not very helpful in determining the efficiency and performance of the business firm unless it is related to some other figures such as sales, cost of goods sold, operating expenses, capital invested etc. Thus the profitability ratios are calculated to enlighten the end result and comparison of business firms which is the sole criterion of overall efficiency of business concern.

Mohamed (2016) studied financial analysis by using profitability ratios and its role in evaluating the performance of commercial banks a sample study of commercial banks in Libya. The results showed that a decline in the rate of return on capital despite the rise in capital of commercial banks, as well as reserves against a fall of profits and this refers not to the low returns obtained by the shareholders from behind investments in commercial banks.

Srbinoska (2018) undertook liquidity and profitability analysis of non-financial entities listed on the Macedonian stock exchange. The statistical tests indicate that there is a statistically significant relationship between liquidity and profitability and that these two measures are positively correlated. the current study confirms the efficient management of liquid assets by non-financial companies listed on the Macedonian Stock Exchange for the goal of achieving a better profitability. Therefore, liquidity management should not be circumvented, especially seeing that many of the listed entities are facing slow movement in the collection of their trade receivables, a prevailing trend which may harm their long-term financial stability and ability to generate profits. The set-up of a credible credit sales policy will have a positive impact of the dynamic measures of liquidity and reduces risks for companies.

3. Research Methodology

Objectives of the study: To evaluate profitability of selected companies.

Sources of data: data collected from secondary sources that consist of Journals, articles, annual reports, and consolidated financial statement.

Research tools: Mean, Standard Deviation, Co-efficient of Variances, Profitability Ratios: To know the profitability of companies Profit Before Interest and Tax Margin, Net Profit Margin, Return on Capital Employed, and Return on Assets are used.

4. Data Analysis

4.1 Profit before Interest & Tax Margin (in %)

Table 21: Comparison of PBIT Margin (in %)

PBIT Margin (%)					
	Ashok Leyland Limited	Bajaj Auto Limited	Eicher Motors Limited	Force Motors Limited	Hero MotoCorp Limited
2014-15	7.34	20.49	27.49	5.57	12.52
2015-16	12.31	24.16	28.04	8.29	15.34
2016-17	12.46	24.5	31.95	7.81	16.06
2017-18	12.83	22.51	31.95	6.05	16.24
2018-19	13.14	20.72	31.09	5.73	14.95
Mean	11.616	22.476	30.104	6.69	15.022
SD	2.412183658	1.86824249	2.172597524	1.264911064	1.493927709
CV	21%	8%	7%	19%	10%

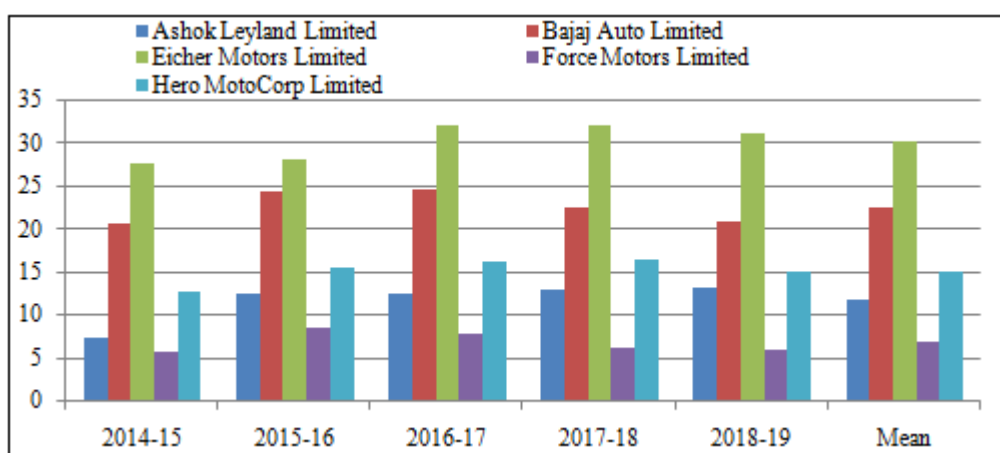


Chart 21: Comparison of PBIT Margin (in %)

Data Analysis

The above table shows comparison of Profit before Interest & Tax Margin (in %) for five years ranging from 2014-15 to 2018-19 between five selected companies of automobile industry, standard deviation and co-efficient of variance also calculated to know the consistency or variability profitability performance of companies through profit before interest and tax margin. Considering the profit before interest and tax margin Eicher Motors Limited has generated highest 30.10% and Force Motors Limited has lowest 6.69% among all five automobile companies. The trend and co-efficient of variance indicates that Eicher Motors limited has maintained

the consistency in earnings from profit before interest and tax margin, while Ashok Leyland Limited has variability in earnings from profit before interest and tax margin.

Remarks

The data indicates that Eicher Motors Limited has generated highest amount of profit before interest and tax margin with consistency during study period among all the five companies.

4.2 Net Profit Margin (%)

Table 22: Comparison of Net Profit Margin (%)

Net Profit Margin (%)					
	Ashok Leyland Limited	Bajaj Auto Limited	Eicher Motors Limited	Force Motors Limited	Hero MotoCorp Limited
2014-15	-1.39	13	18.95	4.29	8.52
2015-16	3.71	17	19.27	5.87	10.81
2016-17	7.18	17.57	21	5.87	11.28
2017-18	6.1	15.58	18.99	4.3	11.31
2018-19	6.57	15.13	20.02	4.03	10.02
Mean	4.434	15.656	19.646	4.872	10.388
SD	3.511471202	1.789309923	0.870247091	0.917452996	1.167120388
CV	79%	11%	4%	19%	11%

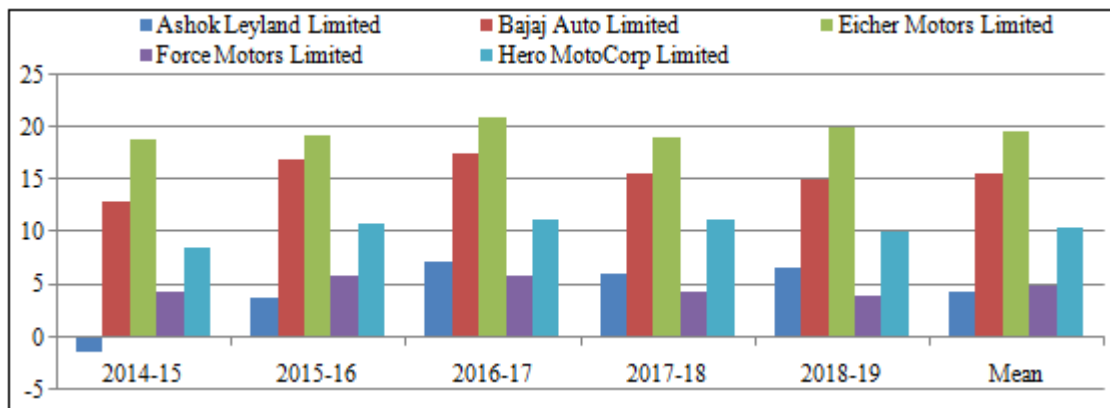


Chart 22: Comparison of Net Profit Margin (%)

Data Analysis

The above table shows comparison of net profit margin (in %) for five years ranging from 2014-15 to 2018-19 between five selected companies of automobile industry, standard deviation and co-efficient of variance also calculated to know the consistency or variability profitability performance of companies through profitability net profit margin. Considering the net profit margin (in %) Eicher Motors Limited has generated highest 19.65% and Ashok Leyland Limited has lowest 4.43% among all five automobile companies. The trend and co-efficient of variance indicates that Eicher Motors limited has maintained the consistency in

earnings from net profit margin, while Ashok Leyland Limited has too much variability in earnings from net profit margin.

Remarks

The data indicates that Eicher Motors Limited has generated highest amount of net profit margin with consistency during study period among all the five companies.

4.3 Return on Capital Employed (%)

Table 23: Comparison of Return on Capital Employed (%)

Return on Capital Employed (%)					
	Ashok Leyland Limited	Bajaj Auto Limited	Eicher Motors Limited	Force Motors Limited	Hero MotoCorp Limited
2014-15	1.14	26.33	0	7.36	35.46
2015-16	4.88	28.08	35.83	11.36	33.69
2016-17	17.52	28.95	41.01	14.09	41.27
2017-18	19.67	27	39.47	11.26	40.82
2018-19	18.32	26.16	32.79	9.59	36.04
Mean	12.306	27.304	29.82	10.732	37.456
SD	8.622753621	1.189676427	16.97433357	2.48112273	3.392451916
CV	70%	4%	57%	23%	9%

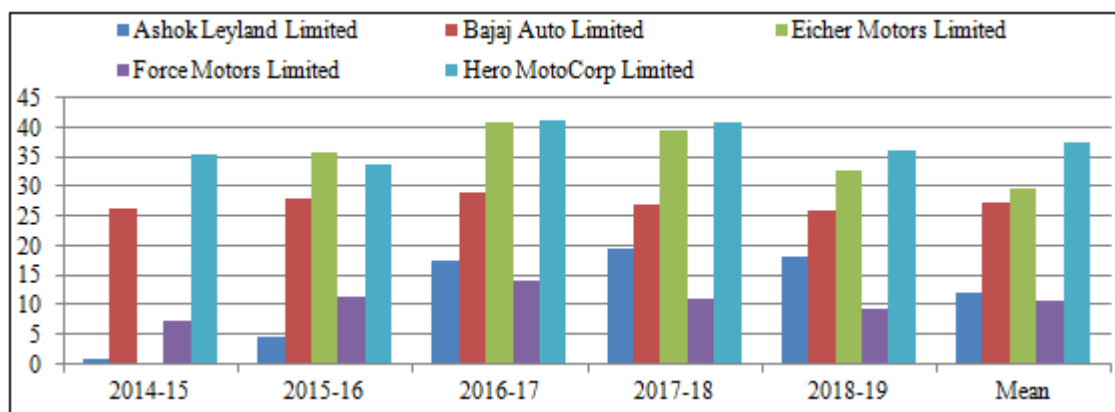


Chart 23: Comparison of Return on Capital Employed (%)

Data Analysis:

The above table shows comparison of return on capital employed (in %) for five years ranging from 2014-15 to 2018-19 between five selected companies of automobile

industry, standard deviation and co-efficient of variance also calculated to know the consistency or variability profitability performance of companies through profitability, return on capital employed. Considering the return on capital

employed (in %) Hero MotoCorp Limited has generated highest 37.46% and Force Motors Limited has lowest 10.73% among all five automobile companies. The trend and co-efficient of variance indicates that Bajaj Auto limited and Hero MotoCorp Limited has maintained the consistency in earnings from return on capital employed, while Ashok Leyland Limited and Eicher Motor Limited has too much variability in earnings from return on capital employed.

Remarks

The data indicates that Hero MotoCorp Limited has generated highest amount of return on capital employed with consistency during study period among all the five companies.

4.4 Return on Assets (%)

Table 24: Comparison of Return on Assets (%)

Return on Assets (%)					
	Ashok Leyland Limited	Bajaj Auto Limited	Eicher Motors Limited	Force Motors Limited	Hero MotoCorp Limited
2014-15	0.68	26.33	0	5.14	22.19
2015-16	3.07	28.08	27.09	7.82	24.36
2016-17	5.95	28.95	23.78	6.91	23.4
2017-18	5.25	27	20.57	5.83	21.38
2018-19	5.31	26.16	19.34	5.05	18.61
Mean	4.052	27.304	18.156	6.15	21.988
SD	2.176860124	1.189676427	10.58672896	1.193628921	2.204624685
CV	54%	4%	58%	19%	10%

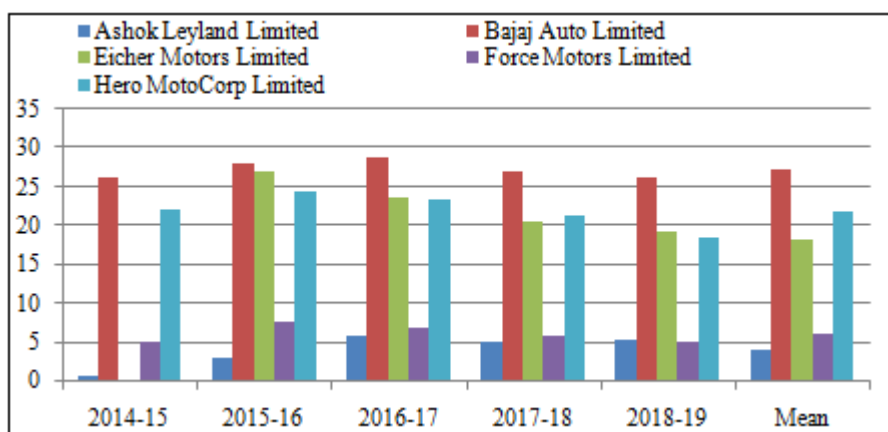


Chart 24: Comparison of Return on Assets (%)

Data Analysis

The above table shows comparison of return on assets (in %) for five years ranging from 2014-15 to 2018-19 between five selected companies of automobile industry, standard deviation and co-efficient of variance also calculated to know the consistency or variability profitability performance of companies through profitability, return on assets. Considering the return on assets (in %) Bajaj Auto Limited has generated highest 27.30% and Ashok Leyland Limited has lowest 4.05% among all five automobile companies. The trend and co-efficient of variance indicates that Bajaj Auto limited has maintained the consistency in earnings from return on assets, while Ashok Leyland Limited and Eicher Motor Limited has too much variability in earnings from return on assets.

Remarks

The data indicates that Bajaj Auto Limited has generated highest amount of return on assets with consistency during study period among all the five companies.

5. Major Findings and Conclusion

The profitability ratios shows that during the period of study Ashok Leyland Limited has generated good amount of profit and maintained the consistent growth of profit before interest and taxation for payment of interest & dividend, shareholders wealth creation, business expansion, and for future plans. The profitability ratios of Bajaj Auto Limited shows that during the period of study, company has generated good amount of profit and maintained the consistency in Return on Capital Employed that indicates that company is generating appropriate amount from operations against capital invested in consistent manner. The profitability ratios of Eicher Motors Limited shows that during the period of study, company has generated good amount of profit and maintained the consistency in Return that indicates that company is generating appropriate amount from operations against capital invested in consistent manner, which can be retained and reinvested in company for growth and development. The profitability ratios of Force Motors Limited shows that during the period of study, company has not generated normal profit and there were no consistency in Return that indicates that company is not

generating appropriate amount from operations against capital invested in consistent manner, and company need to think and reframe or modify the strategies used for it. The profitability ratio Hero MotoCorp Limited indicates that during the period of study, company has generated handsome amount of profit and there were consistency in Return.

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