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A study on Profitability Analysis of Automobile Industry in India

Mr Jai Prakash
Associate Professor of Commerce
Pt. C.L.S. Govt. College, Karnal Haryana
Dr. S. S. Jadhav
Associate Professor of Commerce
B.K.D. College, Chakur, Distt. Latur, Maharashtra

Abstract

The growth of every economy is inextricably linked to the state of its transportation infrastructure. The expansion of the global transportation network has reached India as well. The Indian car sector is likewise flourishing, taking center stage in the country's economic landscape. Ratio analysis, descriptive statistics, and regression are used to examine the profitability and solvency of selected Indian vehicle manufacturers. Short-term solvency situation is not sufficient during the research periods, which is the study's main result. As a result, it is imperative that the corporations enhance their cash reserves. Companies should pay special attention to the debt-equity ratio and the current assets-to-shareholders-funds ratio, which both indicate a changeable tendency, in order to strengthen their debt-, equity-, and shareholder-wealth positions. A company's profitability may be increased through reducing production costs, increasing investments in fixed assets, and expanding the frequency with which sales are made.

Keywords: Indian Automobile Companies, Descriptive Statistics, Ratio Analysis, Multiple Regression, Probability, Short term Solvency, Long term Solvency

Introduction

When it comes to manufacturing cars, India has one of the best industries in the world. Seven point one percent of the country's GDP is reflected in the company's books. Two-wheeler sales account for 80 percent of the market, making them the undisputed leader in India's automobile industry because to the country's growing middle class and youthful population. Companies' rising curiosity in opportunities in rural areas has also contributed to the industry's development. Passenger cars account for 14% of the automotive industry. India is a major exporter of automobiles, and this sector is anticipated to expand rapidly in the near future. The growth of every economy is inextricably linked to the state of its transportation infrastructure. The expansion of the global transportation network has reached India as well. The Indian car sector is likewise flourishing, taking center stage in the country's economic landscape. When it comes to three-wheelers, India's auto sector ranks first in the world; when it comes to two-wheelers, they rank second; when it comes to commercial vehicles, they rank fourth; and when it comes to passenger cars, they rank ninth. The current research concentrated largely on the Indian car sector and on a few representative vehicle manufacturing firms.

The automobile sector is a cornerstone of modern economies and one of the most important contributors to their growth. country's brisk industrial and economic development. It satisfies the need of several main industries, including those dealing with nonferrous metals, iron and steel, cement, textiles, plastics, glass, paper, sugar, etc. It aids the expansion of several electricity, rail, and road infrastructure infrastructures. In addition to its potential as a primary stimulant of economic growth, the industry also plays a crucial role in advancing the transportation sector, assisting the industrial sphere in accelerating its own growth, and providing fantastic new job opportunities for the people of the country. In addition, the automobile industry in India is consistently providing over 49% of the nation's manufacturing output, making it one of the greatest sectors in the country and demonstrating incredible development year by year.

GDP, and 7.5 percent to its total GDP. The country's overall progress in the manufacturing sector. To a large extent, a company's profitability is tied to its scale. Profitability at different company levels has been the subject of several studies that attempted to pinpoint its causes. In the study of industrial economics, it is often held that large corporations have more bargaining power than their smaller counterparts. Economies or diseconomies may arise due to the size. In economics, "scale" refers to the quantity or volume of anything, hence a company's size is a key factor in determining its productivity. Barriers to entrance into a market, which large enterprises may create if they so want, give them monopolistic power and allow them to make price and production choices with relative autonomy. Profitability relies heavily on this factor. It's possible for marketing, money, technology, and enterprising to all have a role in a company's scale. When these conditions are met, a company may expand to other locations and employ more workers. To paraphrase The importance of a company's size in determining its profitability has been well acknowledged. Today, economies of scale have made a company's size a crucial factor in the success of any business.

Indian automobile industry:

Bombay, India is where the first car in India was driven for the first time in 1897. The automotive sector in India is seen as a promising new frontier. The automotive sector in India is seeing increased investment from foreign companies. Given that 75 percent of the Indian market is made up of motorbikes, this is the case. The vast majority of passenger vehicles in Europe are cars (79%) rather than SUVs (21%) as they are in the United States. Tata Motors controls more than 60 percent of the Indian commercial vehicle market. In addition, India has the biggest market for three-wheelers and the second-largest market for two-wheelers. Asia's seventh- and the world's tenth-largest passenger-car market, the world's fourth-largest tractor market, and the world's fifth-largest commercial-vehicle, bus- and truck-market. It is common knowledge that India is the largest market for automobiles and the most formidable rival to the world's automotive giants.

Review of literature

(SNEHLATA, 2012) studied "analysis of financial performance of automobolie industry in india" confirmed that India's automotive sector is a global leader. After the Indian market was delicensed in 1991, things began to change. The automotive sector in India entered a new phase when the country opened up to full foreign direct investment (FDI) through the car route. In FY 2015-16, the automotive sector produced 23.96 million automobiles and accounted for 7.1% of the country's GDP. The value of India's vehicle exports in 2014 was $ 14.5 billion. The Indian auto sector produces everything from trucks to buses to automobiles to military vehicles to motorcycles and scooters. There are separate factories that make cars, motorcycles, and large trucks in the auto sector. Government regulations, new ideas and product launching, lower costs to consumers, and exports to other nations are the key growth factors for the Indian car sector.

(Jegadeeshwaran & Basuvaraj, 2021) studied "Financial Performance of Indian Automobile Companies" results showed, and The growth of every economy is inextricably linked to the state of its transportation infrastructure. The expansion of the global transportation network has reached India as well. The Indian car sector is likewise flourishing, taking center stage in the country's economic landscape. Ratio analysis, descriptive statistics, and regression are used to examine the profitability and solvency of selected Indian vehicle manufacturers. Short-term solvency situation is not sufficient during the research periods, which is the study's main result. As a result, it is imperative that the corporations enhance their cash reserves. Companies should pay special attention to the debt-equity ratio and the current assets-to-shareholders-funds ratio, which both indicate a changeable tendency, in order to strengthen their debt-, equity-, and shareholder-wealth positions. A company's profitability may be increased through reducing production costs, increasing investments in fixed assets, and expanding the frequency with which sales are made.

(Kumar, N., & Kaur, 2016) studied “Firm Size and Profitability in Indian Automobile Industry: An Analysis” results showed, and This research aims to examine whether or not there is a connection between the scale of the Indian car sector and its profitability. The extensive empirical data linking company size to profits yielded mixed findings, with some studies finding a positive correlation and others finding a negative one. The linear regression model has been used to investigate the connection both longitudinally (from 1998 to 2014) and cross-sectionally. While total sales turnover and net assets stand in for the firm's size, the ratio of net profit to either net assets or net assets plus working capital is used to measure profitability. The research yielded conflicting findings; although time series analysis demonstrated a positive correlation, cross-sectional analysis revealed no such link between company size and profitability.

(Joshi, 2012) studied “a study on profitability analysis of selected automobile industries in india” results showed, and The purpose of the present research was to use profitability ratios to compare and contrast the top five publicly traded automakers throughout the five-year period from 2014–15 to 2018–19 with regards to their respective profitability. The numerous profitability ratios of these businesses have been taken into account in order to reach the goal of the research. Data for this analysis came from previously published works, or secondary sources. Accounting ratios, the mean, the compound annual growth rate, and the standard deviation are only few of the instruments employed in a study paper's statistical breakdown.

(Sumathy & Rajasekaran, 2019) studied “Determinants of Profitability in Indian Automobile Industry” results showed, and The car industry is one of India's fastest-growing businesses. In 1991, the industry began a new chapter by being de-licensed and opened up to 100 percent foreign direct investment under the automatic method. Vehicle production increased 5.41

percent year-over-year, from 24,016,599 in April-March 2016 to 25,316,044 in April-March 2017 (including passenger vehicles, commercial vehicles, three wheelers, two wheelers, and a quadricycle). That's why automakers are being analyzed here: to see how well they made out within the study's time frame. Many factors, including leverage, size, age, working capital, assets turnover ratio, etc., contribute to a company's profitability. The research need secondary data. For the chosen Motorcycle Businesses in Question, secondary sources were culled from the Capitaline database between the years 2008 and 2017. Correlation and Multiple Regression are used to examine the data. Age, costs as a percentage of revenue, and assets turned over as a percentage of total assets were all shown to have an impact on profitability.

(Professor, 2018) studied "A Study on Profitability Analysis of Indian Selected Automobile Industry in India" results showed, and This study uses a sample of all Indian automakers listed on the Bombay Stock Exchange (BSE) from fiscal years 2013–14 through 2017–18 in an effort to determine the factors that contribute to the profitability of India's auto sector. This sample includes manufacturers of commercial vehicles, three-wheelers, two-wheelers, and passenger vehicles. The goals of the research can only be attained by focusing on elements that are unique to the individual businesses. Firm liquidity, growth, inventory turnover, debt equity ratio, and average payment duration were shown to have substantial effects on the profitability of India's car sector. Secondary information was used for this analysis. The research relies on information collected over the course of five years from the "capitaline" database (2013-14 to 2017-2018). Ratio analysis and other statistical methods were used in the investigation.

Conclusion

The purpose of this research was to examine the financial health of a sample of Indian car manufacturers throughout the course of a specified time frame. This research indicates that the short-term solvency situation is inadequate. In order to maximize profits during the research phase, corporations may prioritize reducing manufacturing costs, increasing investments in fixed assets, and increasing sales volume. In order to maximize profits, management must also exercise restraint over operating costs. Analysis shows that the profitability of automakers depends on characteristics such as leverage, firm size, sales growth, asset turnover ratio, and the index of industrial output. Even in India, where so many young people are out of work, the car industry plays a significant role by creating new employment opportunities. Automobile manufacturers, therefore, need to cut costs as much as possible to ensure their businesses continue to thrive over the long term. In addition, automotive firms need to get the most out of their permanent resources, such as equipment. The study's findings also show that the current industrial condition in a nation is a major factor in determining whether or not a firm will survive. Consequently, governments must offer the financial and infrastructure support automakers need to thrive, increasing the likelihood that the industry will grow and flourish in the years ahead.

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