A Comparative and Analytical Study of the Financial Performance Evaluation of Automobile Industry in India (with special reference to Maruti Udyog Ltd. & Hyundai Motors India Ltd.)

SYNOPSIS

Submitted to

Ch. Charan Singh University, Meerut

for the Registration to the Degree of

DOCTOR OF PHILOSOPHY

in

COMMERCE

2009

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Statement of Problem

The development of Industries depends on several factors such as Human, Technology, Quality, Marketing and Financial among which the financial aspect assumes a significant role in determining the growth of Industries. The value of a firm is determined by four factors- its capacity to generate cash flows from assets in place, the expected growth rate of these cash flows, the length of time it will take for the firm to reach stable growth rate and the cost of capital.

The success or failure of any organization depends on the efficiency with which it works and achieves its objectives. Thus there arises a need to evaluate the performance of any organization. The study will give an insight into the concept of performance appraisal in sample units with respect to various financial indicators.

Managers who focus on building shareholder value will create healthier companies that who do not. Healthier companies will in turn, lead to stronger economies, higher living standards and more career and business opportunities.

Evaluating Performance is necessary to understand its strengths and weaknesses to know the risks and rewards and to find out what changes to make, to achieve higher returns and if possible with less risk. The purpose of measuring performance evaluation is not to know the business is performing but to enable it to perform better.
Financial Performance mean a general measure of a company’s financial health over a given period of time, and it can be used to compare similar companies across the same industry or to compare industries or sectors in aggregation.

The Purpose of Performance Evaluation is to examine the past and current financial data so that a company’s performance and financial position can be measured and evaluated and future risks and potential can be estimated. Ratio Analysis is the most common form of performance evaluation of any company. It provides relative measures of the firm’s conditions and performance.

**Parameters for Evaluating Performance Evaluation of Sample Units under Study (Maruti Udyog Ltd. & Hyundai Motors India Ltd.)**

The criteria of evaluation of performance vary from one unit of organization to other. Financial Parameters along with market value based models will be used to evaluate the performance evaluation of sample units under the study:

- Average Growth Rate
- Sales
- Market Capitalization
- Research & Development
- Cash Flow
- Liquidity Ratio (To know the short term financial position of a company)
- Profitability Ratio (To know the overall performance of a company)
- Efficiency or Activity or Turnover Ratio (To know the efficiency of utilizing company’s assets)
- Leverage or Capital Structure Ratio (To know the long term financial position of a company)

  - The values of market capitalization and sales will represent the valuation dimension from the perspective of the stock market performance and operating performance.

  - The central focus will be on the cash flows because they represent the actual economic benefits generated by the assets.

  - The Tobin’s ‘q’ Ratio is based on the investment opportunities of companies. Tobin q defined as the ratio of market value of the firm’s assets to their replacement cost.

  - Liquidity Ratios measure the firm’s ability to meet current obligations. Current Ratio & Quick Ratio will be applied to know the short term financial position of a company.

  - Leverage Ratio is helpful in understanding the long-term financial position of the firm. Leverage is generally measured by debt-equity ratio.

  - Efficiency or Activity Ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. Activity Ratios involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well.

  - Profitability Ratios measure overall performance and effectiveness of the firm.

  - Market Vale Ratios attempts to measure the economics status of the organization within the marketplace. Investors use these ratios to evaluate and monitor the progress of their investment.
Indian Automobile Industry  The automobile industry in India the 10th largest in the world with an annual production of approximately 2 million units is expected to become one of the major global automotive industries in the coming years. A no. of domestic companies produce automobiles in India and the growing presence of multinational investment, too has led to an increase in overall growth following the economics reforms of 1991 the Indian Automobile Industry has demonstrated sustained growth as a result of increased competitiveness and relaxed restrictions.

Indian’s Car Market  has emerged as one of the fastest growing in the world. The no. of cars domestically is projected to double by 2010 and domestic production is skyrocketing as foreign makers are setting up their own production plants in India. The Govt.’s 10-years plan aims to create a $ 145 billion auto industry by 2016.

Maruti Udyog Ltd. (MUL)

Maruti Udyog Ltd. is the first automobiles company in the world to be honoured with an ISO 9000:2000 certificate. The company has a joint venture with Suzuki Motor Corporation of Japan. It is said that company takes only 14 hours to make a car. Few of the popular models of MUL are Maruti-800, Alto, Baleno, Swift, Wagon-R, Esteem, A-Star, Versa, SX4 and Zen.

MUL was established in 1981, had a prime objective to meet the growing demand of a personal mode of transport, which is caused due to lack of efficient public transport system. The incorporation of the company was through an Act of Parliament. MUL is the leading 4 wheelers manufacturer in India.
**Suzuki Motor Company** of Japan was chosen from seven another prospective partners worldwide. Suzuki was not only to its undisputed leadership in small cars but also its commitments to actively bring to MUL contemporary technology and Japanese management practices (that had catapulted Japan over USA to the status of the top auto manufacturing country in the world.

A License and a Joint Venture agreement was signed between Govt. of India and Suzuki Motor Company (now Suzuki Motor Corporation of Japan) in Oct 1982.

The Objectives of MUL, then are as cited below:

- Modernization of the Indian Automobile Industry
- Production of Fuel-efficient vehicles to conserve scarce resources.
- Production of large no. of motor vehicles which was necessary for economic growth.

The production/R&D is spread across 297 acres with 3 fully integrated production facilities. The MUL plant has already rolled out 4.3 million vehicles. The fact says that, on an average 2 vehicles roll out of the factory in every single minute. Maruti Suzuki fits every car buyer’s budget and any dream.

**Maruti Suzuki** export entry level models across the globe to over 100 countries and the focus has been identify new opportunity markets. At Present, Latin America and Africa constitute new emerging markets where Maruti exports have increased at least by 60% in the last year. The Co. sold 53,024 units during 2007-08. This is the highest ever export volume in a year for the Company and marked a growth of 35 percent over the previous year.

**Production Facilities** Gurgaon and Manesar (Haryana)
Hyundai Motors India Ltd. (HMIL)

Hyundai Motor India Ltd. is South Korea’s Largest car maker and 6th largest car maker in the world. Hyundai Motor India Ltd. (HMIL) is the Second largest and fastest growing car manufacturer in India. Santro, Getz, i-10, Accent, Elantra, Sonata Embera and Tuscon are the most successful brands of HMIL. The co. is an ISO 14001 for its sustainable environment management practices.

Hyundai Motor Company (HMC) is a division of Hyundai Kia Automotive Group. It is South Korea’s largest car maker. It is headquartered in Yangiae-Dong Secho-Gu Seoul. HMC is also the 6th largest car maker and operates the world’s largest integrated automobile manufacturing facility in Ulsan, South Korea.

In India the Co. is known by Hyundai Motor India Limited (HMIL). It is wholly owned subsidiary of Hyundai Motor Company and is the second largest and the fastest growing car manufacturer in India. Currently the company markets 32 variants of passenger cars in 6 segments. Santro in the B segment, Getz in the B+, the Accent in the C segment, Elantra in the D segment, Sonata Embera in the E segment and the Tuscon in the SUV segment.

HMIL recorded combined sales of 252,851 during calendar year 2005 with a growth of 17.26% over previous year. It is the Country’s fastest growing car company having rolled out 10,00,000 cars in just 90 months since its inception and is the largest exporter of passenger cars with exports of over Rs. 1800 crores. The company has recorded a growth 27.2% in export over the year 2004.

Production Facilities: Chennai & Tamil Nadu
Objectives of the Study

The proposed research is aimed at a comparative and analytical study of Performance Evaluation of Automobiles Industry in India with special reference to MUL & HMIL in particular. The Study aims at focusing on the following:-

1. To familiar with the profile of sample units under study.
2. To assess the Performance Evaluation of Sample Companies in terms of different financial parameters.
3. To analyze the liquidity and profitability of sample units under study using Ratio Analysis.
4. To study the efficiency and leverage (long term solvency position) of sample units with the help of ratios.
5. To compare the financial performance of sample units on the basis of Ratio Analysis.
6. To analyze the trend of the selected performance indicators over a period using Trend Analysis.
7. To know at what extent sample units are spending on their Research & Development.
8. To examine the Growth Rate, Market Capitalization and Cash Flow position of the companies under study.
9. To what extent the sample units are contributing to their shareholder’s wealth.
Research Methodology

Sample Design  Maruti Udyog Ltd. (MUL) is the no. one car maker company in India and Hyundai Motors India Ltd. (HMIL) takes place second position. On the basis of this sample will be selected for the proposed research.

Data & Source  The proposed study will be entirely based on secondary data. The data will be compiled from annual reports of the respective companies, text books, reference books, journals, articles, magazines and from the internet. The study would add a wealth of knowledge to the researcher. It is a quantitative analysis of the financial data of sample units, the necessary data will be collected from the CMIE data base PROWESS The Centre for Monitoring Indian Economy.

Framework of Analysis (Tools & Techniques)  For the purpose of analysis of data various ratios relating to Profitability, Liquidity, Solvency & Efficiency will be calculated. Moreover, the simple statistical techniques will also be applied to analyze the performance of a company under the study:

- Comparative Financial Statement
- Common Profitability Statement
- Common Size Statement Analysis
- Ratio Analysis, Trend Analysis & Percentage Analysis
- Growth Index Rate
- Average, Standard Deviation and Coefficient of Variation
- Regression Analysis & ANOVA
- Graphs & Diagrams
**Period of the Study**

To study the performance of a company reasonably a longer period is required which will enable to find out the consistency and stability over a period of time. Therefore the period of study will be taken for Ten years i.e. financial year 1998-1999 to 2007-08.

**Significance of the Study**

The study will throw light on the overall financial performance of sample units as a whole in the last 10 years. The study will deal with performance evaluation of sample units in terms of functional and financial areas.

**Research Hypothesis**

i. Sampled Units are cost-effective and efficient company in terms of resource utilization.

ii. Sampled Units are generating adequate surplus necessary for future expansion.

iii. The management of earnings is being done to maximize shareholder’s wealth.

**Limitations of the Study**

i. Only secondary data (quantitative financial data) will be used for the performance evaluation of sample units.

ii. Only ten years period will be taken with limited no. of financial indicators.

iii. The study will be restricted to only two sample units i.e. MUL & HMIL.

iv. Whatever limitations the published data of Sample Companies will consists, the Study will also suffer with the same.
Tentative Chapter Plan of the Study

Chapter-I

Introduction

- Statement of the problem
- Need of Performance Evaluation
- Significance/Importance of the study
- Purpose & Objectives of the study
- Review of the Present Literature

- **Research Methodology**
  - Data Source (Nature & Collection of Data)
  - Framework of Analysis (Tools & Techniques)
  - Period of the study
  - Scope of the Study
  - Research Hypothesis
  - Limitations of the study
  - Format of Reporting

Chapter-II

Profile of the Company

- Maruti Udyog Ltd. (MUL)
- Hyundai Motors India Ltd. (HMIL)
Chapter-III

Liquidity and Profitability Analysis in the Companies under Study

- Meaning & Role of Liquidity Analysis
  - Current Ratio, Acid Test Ratio, Absolute Cash Ratio

- Meaning & Importance of Profitability Analysis
  - Profitability based on Sales
    - Gross Profit ratio, Net Profit Ratio, Operating ratio and Expenses ratio
  - Profitability based on Investment
    - Return on Investment, Return on Equity (Net Profit Margin, Assets Turnover, Financial Leverage), Return on Assets, Profit Per Employee, Business Per Employee
  - Market based Value Model
    - Earning Per Share, Price Earning Share, Book Value Per Share, EVA & MVA and Tobin’s Q Ratio

Chapter-IV

Efficiency and Leverage Analysis in the Companies under Study

- Meaning & Role of Efficiency Analysis (Assets Management)
  - Fixed Assets Turnover Ratio, Inventory Turnover Ratio, Debtors Turnover Ratio, Working Capital Turnover Ratio, Sales Efficiency Ratio, Assets Efficiency Ratio

- Meaning & Importance of Leverage Analysis
  - Capital Gearing Ratio, Debt Equity Ratio & Interest Coverage Ratio
Chapter-V

Valuation of the Sample Units (MUL & HMIL) under Study

- On the basis of Growth Rate
- On the basis of Market Capitalization
- On the basis of Research & Development Expenditure
- On the basis of Cash Flow Position
- On the basis of Shareholder’s Wealth

Chapter-VI

Comparative Analysis of the Sample Units under Study

- Comparison of Financial Statements of Maruti Udyog Ltd. and Hyundai Motors India Ltd.
- Comparative Analysis of the Sample Units on the basis of Liquidity, Profitability, Efficiency and leverage.
- Comparative Analysis with the help of Trend Analysis, Graphs & Diagrams.

Chapter-VII

Conclusion & Suggestions

- Major Findings
- Recommendations
Bibliography

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(Ashima)