# CHAPTER-1

## INTRODUCTION OF AUTOMOBILE INDUSTRY & FINANCIAL PERFORMANCE

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1.1 INTRODUCTION

A well-developed transportation system plays a key role in the development of an economy. Transportation throughout the world has made possible unprecedented level of mobility across the geographical boundaries. Transport sector plays a key role in a country’s economic growth and development. The mobility has given many people more options about where to live, and work than they had years ago. Similarly, mobility has broadened the access of business to new markets and more choices by increasing the available pool of resources.

One of man’s most instinctive urges is to transport his person and his goods from place to place. The trade facilitated by transportation has been a growing component of national income in all countries. From the economic point of view, transportation is a vital factor for steady economic growth and development. Man’s mode of land transportation changed little from the early days of civilization when he invented the wheel and tamed the horse. From the economic point of view, transportation is a vital factor for steady economic growth and development.

The story of the horseless carriage, as the automobile was originally known, begins not in North America but in Europe. In 1769, Captain Nicolas of France built and ran an artillery tractor that was powered by a steam engine. The history of the automobile begins as early as 1769, with the creation of steam engine automobiles capable of human transport. In 1806, the first cars powered by an internal combustion engine running on fuel gas appeared, which led to the introduction in 1885 of the ubiquitous modern gasoline- or petrol-fueled internal combustion engine. The early history of the automobile can be divided into a number of eras, based on the prevalent means of force.

The history of the Automobile actually began about 4000 years ago when the first wheel was used for transportation in India. Several Italians recorded designs for wind driven vehicles. The first was Guido da Vigevano in 1335. Vaturio designed a similar car which was also never built. Later Leonardo da Vinci designed
clockwork driven tricycle with tiller steering and a differential mechanism between the back wheels.

A Catholic Priest named father ferdinan varbiest is credited to have built a steam-powered car for the Chinese emperor Chien Lung in about 1678. There is no information about the automobile, only the event. Since James Watt didn’t invent the steam engine until 1705, we can guess that this was possibly a model automobile powered by a mechanism.

Although by the mid–15th Century the idea of a self–propelled automobile had been put into practice with the development of experimental car is powered by means of springs, clockworks, and the wind, In the year 1769, a French engineer by the name of Nicolas–Joseph cugnot invented the first automobile to run on roads, while designed by cugnot and Constructed by M. Brezin. This automobile, in fact, was a self–powered, there–wheeled military tractor that made the use of a steam engine. The range of the automobile however, was very brief and at the most, it could only run at a stretch for fifteen minutes. In addition, these automobile were not fit for the roads as the steam engines made them very heavy and large, and required ample starting time. It had a top speed of a little more than 3.2 km/h and had to stop every 20 minutes to build up a fresh head of steam.

Evans was the first American who obtained a patent for “a self - propelled carriage”. He, In Fact, attempted to create a two -in - one combination of a steam wagon and a flat – bottomed boat, which didn’t receive any attention in these days. During the 1830’s the steam car had made great advances. But stiff competition from railway companies and crude legislations in Britain forced the poor steam automobile gradually out of use on roads. The early steam – powered automobiles were so heavy that they were only practical on a perfectly flat surface as strong as iron. A road thus made out of iron rails became the norm for the next hundred and twenty five years. The Automobiles got bigger and heavier and more powerful and as such they were eventually capable of pulling a train of many cars filled with freight and passengers.
Corl Benz and Gottlieb Daimler, both Germans, Share the credit of changing the transport habits of the world, for their efforts laid the foundation of the great motor industry as we know it today. First, Corl Benz invented the petrol engine in 1885 and a year later Diamler made a car driven by motor of his own design and the rest is history.

France too had joined the motoring scenario by 1890 when two Frenchmen Panhard and Levassor began producing automobiles powered by Daimler engine and Daimler himself possessed by the automobile spirit went on adding new features to his engine. He built the first V – Twin engine with a glowing platinum tube to explode the Cylinder gas – the very earliest from of sparking plug. The engines were positioned under the Seat in most of the Daimler as well as Benz Cars. However, the French duo of panhard and levassor made a revolutionary contribution when they mounted the engine in the front of the car under a ‘bonnet’.

Charles Duryea built a car carriage in America with petrol engine in 1892, followed by Elwood Haynes in 1894, thus concret e the way for motor cars in that country.

For many years after the introduction of automobiles, there kinds of power sources were in common use; Steam engines, gasoline or petrol engines, and electrical motors. In 1900, over 2300 automobiles were registered in New York, Boston, Massachusetts, and Chicago of these 1170 were Steam Cars, 800 were electric Cars, and only 400 were gasoline Cars.

In ten years from the invention of the petrol engine, the motor car had evolved itself into amazing designs and shapes. By 1898, there were 50 automobile manufacturing companies in the United States. In that year, Henry Ford revolutionized the manufacture of automobiles with his assembly – line style of production and brought out the model T, a Car that was inexpensive, versatile, and easy to maintain. This matter leads to the development of the automobile industry, and it first begun in the assembly lines of the car factory. The several methods
adapted by Ford, made the new invention (i.e. Car) popular amongst the rich as well as the masses.

Later periods were defined by trends in exterior styling, and size and utility preferences. At the beginning of the century the automobile entered the transportation market as a toy for the well-to-do peoples. However, it became increasingly popular among the general population because it gave travelers the freedom to travel when they wanted to and where they wanted. As a result, in North America and Europe the automobile became cheaper and more accessible to the middle class. This was facilitated by Henry Ford who did two important things. First he priced his car to be as affordable as possible and second, he paid his workers enough to be able to purchase the cars they were manufacturing. This helped push wages and auto sales upward. The convenience of the automobile freed people from the need to live near rail lines or stations; they could choose locations almost anywhere in an urban area, as long as roads were available to connect them to other places.

1.2 DEVELOPMENT OF AUTOMOBILE INDUSTRY

Popularity of the automobile has consistently moved with the state of the economy, growing during the boom period after World War I and dropping abruptly during the Great Depression, when unemployment was high. World War II saw a large increase in mass transit because employment was high and automobiles were scarce. The rapid growth of car owners after World War II, particularly in the United States and Western Europe demonstrated the population's favor towards automobiles. During the war, automobile motors, fuel, and tires were in short supply. There was an unsatisfied demand when the war ended and plenty of production capacity as factories turned off the war machine. Many people had saved money because there was little to buy, beyond necessities, in the war years. Workers relied heavily on mass transportation during the war and longed for the freedom and flexibility of the automobile. Some historians cite examples as early as the year 1600 of sail-mounted carriages as the first vehicles to be propelled by something other than animals or humans.
However, it is believed by most historians that the key starting point for the automobile was the development of the engine. The engine was developed as a result of discovering new energy carrying mediums, such as steam in the 1700s, and new fuels, such as gas and gasoline in the 1800s. Shortly after the invention of the 4-stroke internal combustion gasoline-fuelled engine in 1876, the development of the first motor vehicles and establishment of first automotive firms in Europe and America occurred. The first automobile to be produced in quantity was in the US three-horsepower, curved-dash Oldsmobile; 425 of them were sold in 1901 and 5,000 in 1904-this model is still prized by collectors. The firm prospered, and it was noted by others, and, from 1904 to 1908, 241 automobile-manufacturing firms went into business in the United States. One of these was the Ford Motor Company which was organized in June 1903, and sold its first car on the following July 23. The company produced 1,700 cars during its first full year of business. Henry Ford produced the Model T to be an economical car for the average American. By 1920 Ford sold over a million cars.

1.3 CONTRIBUTION OF AUTOMOBILE INDUSTRY IN ECONOMY

Automobile industry gives important contribution in country’s fast development. It provides to the requirement of equipment for basic industries like steel, non-ferrous metals, fertilizers, refineries, petrochemicals, shipping, textiles, plastics, glass, rubber, capital equipment’s, logistics, paper, cement, sugar etc. it facilitates the improvement in various infrastructure facilities like power, rail and road transport. Due to its deep forward and backward linkages with almost every segment of economy, the industry has a strong and positive multiplier effect and thus propels progress of a nation. The automotive industry comprises of the automobile and auto component sectors. It includes passenger cars; light, medium and heavy commercial vehicles; multi-utility vehicles such as jeeps, scooters, motor cycles, three wheelers, tractors, etc; and auto components like engine parts, drive transmission parts, suspension and breaking parts, electrical, body and
chassis parts; etc. In India, automotive is one of the largest industries showing impressive growth over the years and has been significantly making increasing contribution to overall industrial development in the country. The sector has shown great advances in terms of development, spread, absorption of newer technologies and flexibility in the wake of changing business scenario. It is also finding increasing recognition worldwide and a beginning has been made in exports in vehicles as well as components.

**1.4 Development in India**

The automotive industry in India started developing in the 1940s, distinct growth rates started only in the 1970s. Cars were considered ultra-luxury products, manufacturing was strictly licensed, expansion was limited and there was a restrictive tariff structure. The decade 1985 to 1995 saw the entry of Maruti Udyog in the passenger car segment in collaboration with Suzuki of Japan, and Japanese manufacturers in the two-wheeler and commercial vehicle segments. The Indian automobile industry has made rapid strides since delicensing and opening up of the Sector in 1991. The Indian Automotive Industry Has Recognized as a Sunrise industry in our economy.

After economic reforms took place in India in 1991, it is only in the mid-1990s, that the automotive industry started opening up. Thus, the mid-1990s are characterized by the entry of global automotive manufacturers through joint ventures in India. Till the 1990s, the automotive industry in India was primarily dominated by Maruti Suzuki, Tata Motors, Hindustan Motors and Premier Padmini in the passenger car segment. Ashok Leyland, Tata Motors and Mahindra & Mahindra dominated the commercial vehicle segment while Bajaj Auto dominated the two-wheeler segment. After the year 2000, further policy changes were introduced and focus on exports in the industry started increasing. Following that, the Core Group on Automotive Research & Development (CAR) was set up in the year 2003 to identify priority areas for Research and Development (R&D) in India. Automobile industry is a key driver of any growing economy. It plays a vital role in country’s rapid industrial and economic development. It caters to the
requirement of equipment’s for basic industries like steel, non-ferrous metals, fertilizers, refineries, petrochemicals, shipping, textiles, plastics, glass, rubber, capital equipment’s, logistics, paper, cement, sugar etc. it facilitates the improvement in various infrastructure facilities like power, rail and road transport. Due to its deep forward and backward linkages with almost every segment of economy, the industry has a strong and positive multiplier effect and thus propels progress of a nation. The automotive industry comprises of the automobile and auto component sectors. It includes passenger cars; light, medium and heavy commercial vehicles; multi-utility vehicles such as jeeps, scooters, motor cycles, three wheelers, tractors, etc…. and auto components like engine parts, drive transmission parts, suspension and breaking parts, electrical, body and chassis parts; etc. In India, automotive is one of the largest industries showing impressive growth over the years and has been significantly making increasing contribution to overall industrial development in the country.

- India is the largest two-wheeler manufacturer in the world.
- India is the largest tractor manufacturer in the world.
- India is the largest three-wheeler market in the world.
- India is the fifth largest commercial vehicle manufacturer in the world.
- The number one global motorcycle manufacturer is in India.
- India is the fourth largest car market in Asia.

Presently India is the world’s largest manufacturer of two wheelers, fifth largest manufacturers of commercial vehicles as well as largest manufacturers of the tractors. It is the fourth largest passenger car market in Asia as well as a home to the largest motor cycle manufacturer.

The automobile industry also provides employment to a large section of the population. Thus the role of automobile industry cannot be overlooked in Indian Economy. All kinds of vehicles are produced by the automobile industry. It includes the manufacture of trucks, buses, passenger cars, defense vehicles, two-wheelers, etc. The industry can be broadly divided into the car manufacturing, two-wheeler manufacturing and heavy vehicle-manufacturing units.
1.5 INDIAN AUTOMOBILE INDUSTRY

The Indian automobile industry is going through a technological change where each firm is engaged in changing its processes and technologies to maintain the competitive advantage and provide customers with the optimized products and services. Starting from the two wheelers, trucks, and tractors to the multi utility vehicles, commercial vehicles and the luxury vehicles, the Indian automobile industry has achieved splendid achievement in the recent years.

The era from 1940 to late 1950’s experienced the emerging period of the industry; where in a number of new companies came into existence for the production of the automobiles. Amongst these very few companies survived the impositions of the government. A major part of the private sector in the potential industry was swiped out due to license raj imposed by the government. The government had a socialistic approach towards development, thus the auto industry did not face much competition in its initial stages. Due to lack of competition the industry faced losses in form of low purchases due to the same automobile models. The growth of the industry during this period was very slow due to the low economic status of the country.

A few changes in the growth rate were seen during the years 1970 to 1980 when a few new industries entered the market with new models. This profited the market and enhanced the growth of the industry. The companies such as Telco (currently owned by Tata Motors), Ashok Leyland and Bajaj Premier entered the market with the launch of the new range of commercial vehicles. The market for the first time had faced such a growth. This growth also affected the national economy. This marked the start of a new segment for profit production in the Indian economy which would grow on to become a major sector of the economy. During the years 1980 to 1990 the automobile market was further opened. The Japanese were the first global player to occupy the Indian industry. They entered into joint venture with the Indian companies and started the production work. It marked the origin of the leading manufacturer of automobile in India, The Maruti Suzuki. The alliance bought a few new twists in the market. With new models entering the
market, the growth rate further increased. Automotive industry became a major contributor to the GDP of the country. During this era, the Prime Minister Dr. P. V. Narasinha Rao and the then finance minister Dr. Manmohan Singh foresighted the growth opportunity of the automotive sector. In the year 1991 the new reforms were introduced. The new rules and regulations introduced attracted a number of new changes to the industry. The changes brought in were:

1.5.1 Privatization in India

The restrictions of license raj on the private sector of the industry were abolished. As a result new private sector companies entered the market and the competition gained new heights. People encouraged the introduction of new models in the industry and the profits further increased.

1.5.2 Tax Reforms in India

The taxes on the industries not only automotive industry but all the other industries were reduced. This change resulted in an overall increment in the national economy, which brought India on the international map as a new player with potential markets.

1.6 The Present Scenario of Indian Automobile Industry

The Automobile Industry in India is one of the largest and is the fastest growing industry, world-wide. There has been a dramatic development and change in Automobile industry, particularly for the last couple of years. Even the Indian automotive industry today operates in terms of the dynamics of an open market like the automobile and the auto-component industries, which constitute the automotive industry, exhibit a good balance of domestic and foreign players. A Nation’s economy is well known from its transport system. As India’s transport network is developing at a fast speed, Indian Automobile Industry is growing too. Also, the Automobile industry has strong backward and forward linkages and hence provides employment to a large part of the population. Thus the role of Automobile Industry is very essential in Indian economy. With many companies
now concentrating more on customer needs and price factors, there has been a sharp rise. Automobile industry includes two wheelers, three wheelers, commercial vehicles and passenger vehicles. The production trend is given below:

Table 1.1

<table>
<thead>
<tr>
<th>Category</th>
<th>Passenger Vehicles</th>
<th>Commercial Vehicles</th>
<th>Three Wheelers</th>
<th>Two Wheelers</th>
<th>Grand Total</th>
<th>Growth (In %)</th>
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Source: Society of Indian Automotive Manufacturing (SIAM)

Figure 1.1

Production Trend (Number of Vehicles)
Table 1.1 indicates that the production trend of automobiles in last decades growing greatly. Due to recession in USA and EUROPE, the growth rate going down in 2007-08 and 2008-09. From 2002-03 to 2012-13 ranges between 13.80% and 27.28% over its preceding year.

Table 1.2

Automobile Production Trend (Number of Vehicles)

<table>
<thead>
<tr>
<th>Category</th>
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<th>Two Wheelers</th>
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Source: Society of Indian Automotive Manufacturing (SIAM)

Figure 2

Automobile Production Trend (Number of Vehicles)

There is an increase 3.28% in total production of vehicle in the 2012-2013 as compared to year 2002-2003.
**Table 1.3**  
Automobile Domestic Sales Trend (Number of Vehicles)

<table>
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<th>Category</th>
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<th>Two Wheelers</th>
<th>Grand Total</th>
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Source: Society of Indian Automotive Manufacturing (SIAM)

**Figure 3**

Automobile Domestic Sales Trend (Number of Vehicles)

There is increasing trend over preceding year sales in all other years since 2002-03. The increase range between 12.24% and 26.44% over its previous year sales.
Automobile industry in India growth rate is high except 2007-08 then preceding year.

**Table 1.4**

**Automobile Domestic Sales Trend (Number of Vehicles)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Passenger Vehicles</th>
<th>Commercial Vehicles</th>
<th>Three Wheelers</th>
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*Source: Society of Indian Automotive Manufacturing (SIAM)*

**Figure 4**

**Automobile Domestic Sales Trend (Number of Vehicles)**

There is an increase 2.98% in total domestic sales of vehicle in the 2012-2013 as compared to year 2002-2003.

One of the major industrial sectors in India is the automobile sector. Subsequent to the liberalization, the automobile sector has been aptly described as the sunrise sector of the Indian economy as this sector has witnessed tremendous growth. Automotive Industry, globally, as well in India, is one of the key sectors of the economy. Due to its deep forward and backward linkages with several key segments of the economy, automotive industry has a strong multiplier effect and
acts as one of the drivers of economic growth. The well-developed Indian automotive industry produces a wide variety of vehicles: passenger cars, light, medium and heavy commercial vehicles, multi-utility vehicles such as jeeps, scooters, motor-cycles, mopeds, three wheelers, tractors and other agricultural equipment’s etc. The sector has tremendous potential for providing employment. The Indian Automobile Industry is on overdrive because of the rapid urbanization, coupled with an overwhelming growth in the middle class population, which has created an Indian market that is extremely conducive for the automobile industry to flourish. In short, on the canvas of the Indian economy, automotive industry occupies a prominent place.

During the last few years, certain macroeconomic conditions have helped the automotive industry to grow. The GOI has undertaken supportive policies for the automotive industry, there is easier availability of finance as compared to the 1990s and the real income of the Indian consumer is increasing. This is leading to increased purchasing power which is driving demand in the passenger cars segment and the two-wheelers segment. Demand for commercial vehicles has increased due to further development of the manufacturing sector, more trade and commerce between regions, increased road transport (passenger and freight) owing to the construction of more national highways and better roads.

1.7 THE FUTURE OF INDIAN AUTOMOBILE INDUSTRY

The Automotive Industry of India with the tremendous growth occupying a key place on the canvas of Indian economy, Due to growth of transportation system.

Factors determining the growth of the industry

- Fuel economy and demand for greater fuel efficiency is a major factor that affects consumer purchase decision that will bring leading companies across two-wheeler and four-wheeler segment to focus on delivering performance-oriented products.
- Sturdy legal and banking infrastructure
• Increased affordability, heightened demand in the small car segment and the surging income of the Indian population
• India is the third largest investor base in the world
• The Government technology modernization fund is concentrating on establishing India as an auto-manufacturing hub.
• Availability of inexpensive skilled workers
• Industry is perusing to elevate sales by knocking on doors of women, youth, rural and luxury segments
• Market segmentation and product innovation
• The Indian automobile industry has a prominent future in India. Apart from meeting the advancing domestic demands, it is penetrating the international market too. Favoured with various benefits such as globally competitive auto-ancillary industry; production of steel at lowest cost; inexpensive and high skill manpower; entrenched testing and R & D centers etc., the industry provide immense investment and employment opportunities.

For the impressive future of the Indian automobile industry the Government of India and the automotive industry had jointly set a road map Automotive Mission Plan (AMP) 2006-16. The Automobile Mission Plan (AMP) for the period 2006–2016, designed by the government is aimed at accelerating and sustaining growth in this sector. Also, the well-established Regulatory Framework under the Ministry of Shipping, Road Transport and Highways, plays a part in providing a boost to this sector.

According to the SIAM website, the AMP was first launched in 2006 for a 10-year period ending in 2016. The plan had a vision that India would emerge as a favorable production location for global automakers, for vehicles and automotive components, with output targeted to reach US$45 billion by 2016, accounting for more than 10% of GDP and providing additional employment for 25 million people by the target year. The plan primarily focused on boosting competitiveness in the domestic vehicle manufacturing industry and the flow of technology,
demand, brand building, and infrastructure, export and international business, environmental and safety standards, and human resource development.

The AMP 2016 plan envisioned India as the seventh largest automotive market globally by the target year, as compared to the eleventh during 2006, and to be the fourth largest truck producer in the world. However, SIAM earlier predicted that the industry will miss the ambitious targets, owing to the weak market conditions in recent years.

The second phase of the AMP, which was first launched in 2006 that lasted until 2016 India's government revealed the latest roadmap for the country's automotive industry, known as the Automotive Mission Plan for 2016–26, with ambitious growth development plans.

India has seen a lot of automotive sector interest in recent years. It is a market with a huge potential for growth, but a China-like market surge is not expected. Indeed, the economic crisis of 2013 and subsequent slowdown has hurt the automotive industry, which has also been dragged down by slower economic growth, inflation, high interest rates and expensive fuel.

However, stronger sales recovered over the past little duration have caused renewed optimism. India is also a substantial auto exporter, with solid export growth expectations for the near future. Looking at the facts, there are ample reasons to be optimistic about the automotive industry’s future in India. Ultimately to conclude the Indian automobile industry seems to be the strongest growing markets among all of automobile industry present crossways the globe at current.

1.8 FINANCIAL PERFORMANCE ANALYSIS

Finance is one of the requisites for all human attempts - personal, business or government. Finance is the life-line of business. Finance is very essential for the smooth running of the business. “Finance is that business activity which is concerned with the organization and conversation of capital funds in meeting financial needs and overall objectives of a business enterprise.”- Wheeler
Financial performance is an important aspect which influences the long term stability, profitability and liquidity of an organization. Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. Financial statement analysis is an evaluative method of determining the past, current and future performance of a company. Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. The analysis of financial statement is a process of evaluating the relationship between the component parts of financial statement to obtain a better understanding of the firm’s position and performance. According to Myer “Financial statement analysis is largely a study of relationship among various financial factors in a business as disclosed by a single set of statements and study of these factors shown in a series of statements”. Financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.

The focus of financial performance analysis is on key figures in the financial statements and the significant relationship that exists between them. The financial statements provide some extremely useful information to the extent that the balance sheet mirrors the financial position on a particular date in terms of the structure of assets, liabilities and owners’ equity, and so on and the profit and loss account shows the results of operations during a certain period of time in terms of the revenues obtained and the cost incurred during the year. The analysis of financial statements is thus, an important aid to financial analysis. The analysis of financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm’s position and performance. Financial analysis refers to an assessment of the viability, stability and profitability of a business.
Financial performance analysis is an evaluative method of determining the past, present and future performance of a company. Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The objective of financial performance analysis is the expression of strength and weakness of a business undertaking by regrouping and analyzing of figures obtained from financial statement and balance sheet by the tools and techniques of management accounting. Financial performance is also used as a general measure of a firm's overall financial health over a given period of time, the level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Financial analysis is a process of selecting, evaluating, and interpreting financial data, along with other pertinent information, in order to formulate an assessment of a company’s present and future financial condition and performance.

Financial performance analysis is process of synthesis and intellectual activity. It is a technique of X-raying the financial position as well as the progress of a company. An analysis of both these statements gives a comprehensive understanding of business operations and their impact on the financial health. If the business operations result in profits, the total investment is enhanced, bringing prosperity to shareholders, increase in goodwill and strengthening on credit. On the other hand, if these are loses, capital invested to the extent of loss is lost or dissipated ability to pay creditors and lenders is weakened and the business concern operates under a’ handicap’ Financial statements are analyzed through liquidity, for that the concept of liquidity is expresses below.

Analysis of financial performance of a company can be done through a careful and critical analysis of financial statements; financial analysis helps managers in controlling their enterprise’s performance. It does this by providing them with a system and set of procedures for analyzing and understanding financial indicators of performance. The two important financial statements are the “Profit and Loss
Account” and the “Balance Sheet”. Although any formal statement expressed in money value might be thought of as financial statement, the term has come to be limited by most accounting and business writers to mean the “Profit and Loss Account” and “Balance Sheet”. The analysis of both these statements gives a comprehensive understanding of business operations of a related concern as also of their impact on the financial health. A careful examination of profit and loss account throws ample light on the operating efficiency, inventory management, and control over indirect overheads and dividends policies pursued by the concern. Analysis of Financial Statements is a systematic process of the critical examination the financial information contained in the financial statements in order to understand and make decisions regarding the operations in the firm. The Analysis of Financial Statements is a study of relationships among various financial facts and figures as set out in the financial statements i.e., Balance sheet and Profit and Loss Account. In short, it can be said that the evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms.

The process of financial statement analysis is of different types and the process of analysis is classified on the basis of “information used”, “objective analysis” and “modus operandi” of analysis. According the information basis include two type like internal analysis and external analysis, at the same way, objective analysis include short-term as well as long-term analysis, while “Modus operandi” include horizontal analysis & vertical analysis.

1.9 Objectives of the Financial Performance Analysis

Financial Performance analysis involves a broad area of coverage. The perspective throughout is on the effective management of company resources. Financial Performance analysis can be done through a careful and critical analysis of the financial statement of an enterprise. Usually the financial statement of a business concern comprises two statements: balance sheet or position statement.
and profit and loss account or income statement. However, in big concerns two more statements are prepared. They are profit and loss appropriation account and fund flow statement. The overall performance of a business cannot be judged without a systemic analysis and interpretation of its financial statements. The advantages of such an analysis are as follows.

1. To find out the financial stability of a business concern
2. To assess its earning capacity
3. To estimate and evaluate its stock and fixed assets
4. To assess its capacity and ability to repay short and long term loans
5. To estimate and examine the possibilities of its future growth
6. To estimate the administrative efficiency of its management

Financial Performance analysis is a close and a critical study of various measures observed in the operation of Business Organization. The concept of human body is similar to the concept and case of business organization. Human body requires medical checkup and examination for maintaining fitness of bodies, similarly the performance of a business organization has got to be assessed periodically. Erich A. Helfert organization has got to be assessed periodically. Erich A. Helfert started "The person analyzing business performance has clearly in mind which tests should be applied and for what specific reasons. One must define the viewpoints to be taken, the objectives of the analysis and possible Standard Comparison". Business Organization have the "Balance Sheet" and the "Profit and Loss Account" by the statements of change in financial position value added statements are also prepared for annual reports. They may be considered as additional financial statements. The data embodied in financial statements are rearranged in order to facilitate the appraisal of performance. The financial figures are approximated to the nearest rupee to simplify the process of analysis.

However, no single attempt can give firm results of appraising the performance of business organization. Business conditions differ according to location, type of
facilities, products and services, plant capacity, capital structure, accounting policies, caliber of management and levels of efficiency. Such conditions of business organizations have become more complicated in the event of multi-product and multi business organizations. All these differences are part and parcel at the time of appraising the performance of a business organization.

1.10 PERFORMANCE ANALYSIS THROUGH FINANCIAL STATEMENT ANALYSIS

Analysis of financial performance of a company can be done through a careful and critical analysis of financial statements; financial analysis helps managers in controlling their enterprise’s performance. It does this by providing them with a system and set of procedures for analyzing and understanding financial indicators of performance. The two important financial statements are the “Profit and Loss Account” and the “Balance Sheet”. Although any formal statement expressed in money value might be thought of as financial statement, the term has come to be limited by most accounting and business writers to mean the “Profit and Loss Account” and “Balance Sheet”. Financial statements indicate the operating results and financial position of a concern; therefore, by analyzing and interpreting these statements performance can be appraised. It is for this purpose, analysis of financial statements is made.

Financial statement analysis is a preliminary step towards the final evaluation of the results drawn by the analyst or management accountant. Appraisal or evaluation of such results is made thereafter by the management. The analysis of financial statements spotlights the significant facts and relationships concerning management performance, corporate efficiency, financial strength and weakness, which would have otherwise been buried in a maze of details. Analysis of financial statements is a process of evaluating relationship between component parts of financial statement to obtain a better understanding of a firm’s position and performance.
Plainly, the analysis and interpretation of financial statements is an attempt to determine the meaning and significance of the financial statement data. So that forecast may be made of the prospects for future earnings, ability to pay interest and debt maturities (both current and long-term) and profitability of a sound dividend policy. Financial statements of a business enterprise are valuable in the sense that they depict how the financial data of the related enterprise fit into the fabric of its accounting system.

The analysis and interpretation of the financial statements result in the presentation of information that will aid in decision-making by business managers, investors and creditors as well as other groups who are interested in the financial status and operating results of a business.

Financial analysis is a process of syntheses and summarization of financial and operative data embodied in the financial statements, with a view of getting an insight into the operative activities of a business enterprise. By establishing strategic relationships between the components of balance sheet and profit and loss account and other operative data, financial analysis eventually unveils the meaning and significance of the various items embodied in the financial statements, also known as the financial Blue Prints of a business concern.

The major and the most significant financial statements of a business concern are the profit and loss account and the balance sheet. While the profit and loss account is a dynamic statement that records income(s) and expense(s) between the two balance sheets dates, the balance sheet is a static statement, which shows the financial position on a certain date. Thus, the latter is an instantaneous photograph of the assets, liabilities and net worth of an enterprise at a particular unit of time.

The analysis of both these statements gives a comprehensive understanding of business operations of a related concern as also of their impact on the financial health. A careful examination of profit and loss account throws ample light on the operating efficiency, inventory management, and control over indirect overheads and dividends policies pursued by the concern.
Moreover, a study of the major individual items of a statement in relation to some other items of other statement will measure the activity and the profitability of the enterprise. Since both the major financial statements are interrelated, the exclusive analysis of either of them would not lead to any purposive exercise.

The main purpose of financial analysis is to make available to creditors, stockholders and the general public adequate information about and evaluation of a corporation's financial conditions. Of special interest to banks and other traders of funds to corporations are the various ratios that enable creditors and investors to appraise the progress of a company. These ratios help in comparing current accomplishments and financial prospects of a business corporation with those of its past as well as with those of similar corporations.

The public and particularly the investors in corporate securities are concerned about the soundness of a business in which they have purchased, or contemplate purchasing, a share of ownership. The analysis of a corporation's securities requires evaluation of its past performance as reflected in the previous financial statements and of its probable future progress considering the overall business environment and futuristic trends.

1.11 TOOLS AND TECHNIQUES FOR FINANCIAL PERFORMANCE ANALYSIS

There are many techniques which may be used for performance analysis. These techniques may be classified as follows:

a) Accounting techniques

b) Statistical techniques

Accounting techniques or tools which can be used for performance analysis are many such as ratio analysis, common-size statement analysis, trend analysis, comparative statement analysis, value added analysis etc. The users pick up the techniques to suit their requirements and also on the basis of data available to them. Further, use of statistical techniques has become a normal phenomenon in any type of analysis. These statistical techniques which are proposed to be used in
financial statement analysis consists of measuring the central tendencies like mean, median, mode, measures of dispersion, like range, mean deviation and standard deviation, correlation and regression analysis, analysis of variance, etc. Financial analysts often assess firm's production and productivity performance, profitability performance, liquidity performance, working capital performance, fixed assets performance, fund flow performance and social performance. However in the present study financial health of automobile industry is measured from the following perspectives:

1. Liquidity Analysis 
2. Profitability Analysis 
3. Financial Structure Analysis 
4. Activity Analysis 

**1.12 USEFULNESS OF FINANCIAL PERFORMANCE ANALYSIS**

Financial analysis determines a company's health and stability. The data gives you an intuitive understanding of how the company conducts business. Stockholders can find out how management employs resources and whether they use them properly. Governments and regulatory authorities use financial statements to determine the legality of a company's fiscal decisions and whether the firm is following correct accounting procedures. Finally, government agencies, such as the Internal Revenue Service, use financial statement analysis to decide the correct taxation for the company.

Analysis of financial statements has become very significant due to widespread interest of various parties in the financial results of a business unit. The various parties interested in the analysis of financial statements are: (I) Investors: Prospective Investors need Financial Statements to assess the viability of investing in a company. Investors are interested in the result of the business. They also like to know the earning capacity of the business and its future growth and, Financial Statements provide a particular decision regarding investment. (II) Management: requires Financial Statements to manage the affairs of the company by assessing
its financial performance and position and taking important business decisions. It helps them in preparing budgets and assessing the performance of various departmental heads. (III) Lenders: use Financial Statements to decide whether to grant a loan or credit to a business. They assess the financial health of a business to determine the short term as well as long term solvency position of the entity, probability of a bad loan. Any decision to lend must be supported by a sufficient asset base and liquidity. (IV) Suppliers: Suppliers need Financial Statements to assess the credit worthiness of a business and ascertain whether to supply goods on credit. Suppliers and other creditors are interested to know about the solvency of the business. Suppliers need to know if they will be repaid. Terms of credit are set according to the assessment of their customers' financial health. (V) Tax authorities: Tax authorities are interested in financial statements for determining the tax liability. (VI) Employees: They are interested to know the growth of profit and its consequence on their future remuneration and job security. (VII) Government: requires Financial Statements to keeps track of economic progress through analysis of Financial Statements of businesses from different sectors of the economy and with the help of it any business can formulate policies and regulations.

1.13 **RATIO ANALYSIS**

Ratios are relationships expressed in mathematical terms between figures, which are connected with each other in some manner. Obviously, no purpose will be served by comparing two sets of figures, which are not at all connected with each other. Moreover, absolute figures are also unfit for comparison. 'Ratio' is relationship between two or more variable expressed in, Percentage, Rate, and Proportion. Ratio analysis is an important technique of financial analysis. It depicts the efficiency or short-fall of the organization in the form of trend analysis. Ratio analysis is one of the techniques of financial analysis where ratios are used as a measure for evaluating the financial condition and performance of a firm. Analysis and interpretation of various accounting ratios gives the idea about
skilled and experienced of analyst, a better understanding of the financial condition and performance of the any firm than what he could have obtained only through a perusal of financial statements.

A comparative study of the relationships between various items of financial statements reveals the profitability, liquidity, solvency as well as the overall position of the concern. The point to be noted is that a ratio reflecting a quantitative relationship helps to form a qualitative judgment. As ratios are simple to calculate and easy to understand, there is tendency to employ them generously. Ratios are useful indication of the progress position and prospects of a business unit in which the many parties are interested in different ways.

1.14 Significance of Ratio Analysis

The ratio analysis is the most powerful tool for financial analysis and, it is a quantitative technique for assessing the financial health of a unit from the accounting data. This also helps to describe the significant relationship between two comparable figures and variable. One can determine.

1. On the basis of ratio analysis, the ability of the firm can be measured to meet its current obligations.
2. With the help of ratio analysis, solvency of the firm can be measured.
3. The efficiency with which the firm is utilizing its various assets in generating sales revenue.
4. The overall operating efficiency and performance of the firm can be measured.

Management has to protect the interests of all concerned parties, creditors, owners etc. They have to ensure some minimum operating efficiency and keep the risk of the firm at minimum level. Their survival depends upon their operating performance from time to time management used Ratio Analysis to determine the firm’s financial strengths and weaknesses, and accordingly takes actions to improve the firm's position.
1.15 LIMITATIONS OF RATIO ANALYSIS

The ratio analysis is a very useful tool to evaluate the financial position and performance of a business. The following are some of the limitations of the ratio analysis.

1. It is difficult to find out a proper basis for comparison. Usually, it is recommended that ratio should be compared with the industry average. But the industry averages are not equally available.

2. Most probably the situations of two companies are never the same. Similarly, the factors influencing the performance of a company in one year may change in another year. Thus, comparison of the ratios of two companies becomes difficult.

3. The interpretation and comparison of ratios are also provided invalid by the changing value of money. In fact, prices changes over years and as a result assets acquired at different dates will be expressed at different rupees in the balance sheet. This makes comparison meaningless.

4. In practice, the difference in the definitions of items in the balance sheet and the income statement make the interpretation of ratios difficult.

5. The ratios calculated at a point of time are less informative and defective as they suffer from short term changes.

6. The basis to calculate ratios are historical financial statements. The financial analysis is more interested in what happens in future, while the ratios indicate what happened in the past. The management remain interested to know about the company's future plans and policies. But the outside analyst has to rely on the past ratios, which may not necessarily reflect the firm's financial position and performance in future.

1.16 TYPES OF RATIO ANALYSIS

Several ratios calculated from the accounting data can be grouped into various classes according to the financial activity or function to be evaluated. Ratio
analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statement, so that the strength and weakness of a firm as well as its historical performance and current financial conditions can be determined. In the view of the requirement of the various users of ratio we may classify term in to the following four important categories.

A. Liquidity Ratio
B. Activity Ratio
C. Profitability Ratio
D. Capital Structure Ratio

The parties which generally undertake financial analysis all short and long term creditors, owners and management short term auditors main interest in liquidity position or the short term solvency of the firm. Long term auditors on the other hand, all are more interested in the long term solvency and profitability and the analysis of the firms performance. They have to profit the interest of all parties and see that the firm grows profitably.