Comparitive Financial Performance of Maruti Suzuki India Limited and Tata Motors Limited

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Abstract

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. On the canvas of the Indian economy, automobile industry occupies a prominent place. The study focuses on the comparative financial performance of Maruti Suzuki India Limited and Tata Motors Limited. Financial appraisal is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. Financial performance of Maruti Suzuki India Limited and Tata Motors Limited has been studied by Liquidity analysis and leverage analysis (long term solvency analysis).Liquidity analysis attempts to analyses the companies' ability to meet its short-term obligations. Leverage ratios assess the long-term solvency of a firm i.e. ability to repay the principal amount when due; and the ability to pay the interest and dividend promptly and periodically.

Key Words: Automobile Industry, Financial performance, Liquidity analysis, leverage analysis

Introduction

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. This sector has witnessed tremendous growth during the last two decades. On the canvas of the Indian economy, automobile industry occupies a prominent place. Due to its deep forward and backward linkages with several key segments of the economy, automobile industry has a strong multiplier effect and is capable of being the driver of economic growth. The well-developed Indian automobile industry skillfullyfulfils this catalytic role by producing a wide variety of vehicles- passenger vehicles, commercial vehicles, two wheelers and three wheelers. Automobile Industry was delicensed in July 1991 with the announcement of the New Industrial Policy. The passenger car industry was, however, delicensed in 1993. With the gradual liberalization of the automobile sector since 1991, the number of manufacturing facilities in India has grown progressively.

The economic contribution of the sector is significant. The industry contributes~22% of India's manufacturing GDP and~7%of India's overall GDP. It is one of the leading employment providers in the country and has helped create nearly19 million jobs through direct and indirect employment. The dominant products of the industry are two-wheelers with a market share of over 75% and passenger cars with a market share of about 16%. Commercial vehicles and three-wheelers share about 9% of the market between them. About 91% of the vehicles sold are used by households and only about 9% for commercial purposes. The major companies present in the automobiles market in India include Tata Motors Limited, Maruti Suzuki India Limited, Mahindra & Mahindra Limited, Ashok Leyland Limited, Hero MotoCorp Limited, Bajaj Auto Limited, Echier Motors Limited and Force Motors Limited. Tata Motors is leading the commercial vehicle segment with a market share of about 58%. Maruti Suzuki is leading the passenger vehicle segment with a market share of 45%. Hyundai Motor India Limited and Mahindra and Mahindra are focusing expanding their footprint in the overseas market. Hero MotoCorp is occupying over 41% and sharing 25% of the two-wheeler market in India with Bajaj Auto. Bajaj Auto in itself is occupying about 58% of the three-wheeler market.

Maruti Suzuki is India’s leading automobile manufacturer and the market leader in the car segment, both in terms of volume of vehicles sold and revenue earned. Maruti Suzuki offers a complete range of cars from entry level Maruti 800 and Alto, to hatchback Ritz, A-Star, Swift, Wagon-R, Estillo and sedans DZire, SX4, in the 'C' segment Maruti Eeco, Multi Purpose vehicle Ertiga and Sports Utility vehicle Grand Vitara.The country's largest carmaker Maruti Suzuki India consolidated its position in the passenger vehicles segment by increasing its share to 42% in a declining market during 2013-14. During FY14, Maruti's passenger vehicle sales grew marginally to 10,53,689 units from 10,51,046 units in 2012-13.Tata Motors Limited is an Indian multinational automotive manufacturing company. Its products include passenger cars, trucks, vans, coaches, buses and military vehicles. It is the leader in commercial vehicles and is among the top three in passenger vehicles in India with products in the compact, midsize car and utility vehicle segments. Tata Motors Limited recorded a gross turnover of 37,758 crores, 23.4% lower from 49,320 crores in the previous year.

Methodology and Objectives

Financial appraisal is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. Ratio analysis has been found the most suitable tool of analysis and has been used in our study for the analysis. Ratio Analysis helps to ascertain the financial condition of the firm. Financial ratios help to summarise large quantities of financial data to make qualitative judgment about the firm's financial performance. The study focuses on the comparative financial performance of Maruti Suzuki India Limited and Tata Motors Limited. The data used for analysis is a secondary data and has been taken from the annual reports of the companies, published by CMIE (Centre for Monitoring Indian Economy).Thedatahasbeencollectedforaperiodof5yearsfrom 2009-10to2013-14. Financial performance of Maruti Suzuki India Limited and Tata Motors Limited has been studied by Liquidity analysis, and leverage (long term solvency) analysis.

Data Analysis and interpretation

Liquidityanalysis of the Companies from the Financial Year 2009-10 to 2013-14 (Times)

Current Ratio	**2010**	**2011**	**2012**	**2013**	**2014**
Maruti Suzuki India Ltd.	1.05	1.68	1.22	1.04	0.82
Tata Motors Ltd.	0.66	0.75	0.65	0.56	0.50
Liquid Ratio					
Maruti Suzuki India Ltd.	0.71	1.33	0.94	0.77	0.61
Tata Motors Ltd.	0.49	0.54	0.45	0.35	0.30

Current ratio of Maruti Suzuki when compared to Tata Motors shows that Maruti Suzuki comparatively has a higher current ratio which implies that Maruti Suzuki efficiently meets its short term obligations and thus the short term creditors of the company feels secured for their repayments by the company. But it does not satisfy the standard of ideal current ratio i.e. 2:1 which denotes that the current assets of the business should be twice of the current liabilities. Current ratio of MSIL was higher in the FY 11 at 1.68 times but the company has the lowest current ratio of 0.82 times in financial year 2014 which implies that in the year 2014, the company experienced difficulty in the payment of its current liabilities. Current ratio of TML decreases from 0.66 times in FY 2010 to 0.50 times in FY 2014 which shows that the company is not meeting its short term liabilities efficiently.

Liquid ratio of Maruti Suzuki when compared with and Tata Motors shows that Maruti Suzuki has higher liquid ratio from financial year 2010 to 2014which indicates that Maruti Suzuki was in a better position to pay off its current liabilities immediately out of its liquid assets although was not able to pay 100% of its current liabilities immediately. Maruti Suzuki has adequate liquid ratio of 0.71 times in 2010 which increases to 1.33 times in 2011 and since then the ratio of the company are declining. Tata Motors has a very low liquid ratio of 0.49 times in financial year 2010 which further declines to 0.30 times and thus the company does not maintain sufficient liquid assets to pay off its current liabilities immediately out of its liquid assets.

Leverageanalysis of the Companies from the Financial Year 2009-10 to 2013-14 (Times)

Capital Gearing Ratio	**2010**	**2011**	**2012**	**2013**	**2014**
Maruti Suzuki India Ltd.	0.06	0.01	0.07	0.07	0.08
Tata Motors Ltd.	1.11	0.73	0.56	0.74	0.75
Debt Equity Ratio					
Maruti Suzuki India Ltd.	0.37	0.30	0.50	0.43	0.46
Tata Motors Ltd.	2.27	1.68	1.69	1.84	1.73
Total Debt Ratio					
Maruti Suzuki India Ltd.	0.26	0.23	0.34	0.31	0.32
Tata Motors Ltd.	0.67	0.62	0.61	0.75	0.67
Proprietary Ratio					
Maruti Suzuki India Ltd.	0.72	0.75	0.68	0.71	0.69
Tata Motors Ltd.	0.29	0.36	0.36	0.40	0.38

Capital gearing ratio of Maruti Suzuki when compared to Tata Motors shows that Maruti Suzuki has low capital gearing ratio than Tata Motors. This indicates that the fixed interest bearing funds of Maruti Suzuki is less than its equity shareholders' funds and thus it is less burdened with paying off its fixed interest charges. Maruti Suzuki has a very lower capital gearing ratio of 0.01 times in 2011 but it rises to 0.08 times in 2014.During the year 2010 to 2014, Tata Motors has the highly geared ratio, indicating that Tata Motors has more fixed interest bearing funds than its equity shareholders' funds and thus is more burdened with paying off its fixed interest charges. Tata Motors has a very high ratio of 1.11 times in 2010, indicating that the capital structure of the company is highly geared, as the amount of fixed interest bearing funds is more than the equity shareholders' funds but the ratio declines to 0.75 times in 2014.

During financial year 2010 to 2014, Maruti Suzuki has a low Debt equity ratio than Tata Motors. This reveals that the creditors of MarutiSuzuki has large margin of safety against all possible losses in case of liquidation of the company and the claim of outsiders of Tata Motors is more than its shareholders' funds, against the firm's assets. Tata Motors has a very high debt equity ratio of 2.27 times in 2010 and thus the long term creditors of Tata Motors feels unsecured about their repayment by the company and they can also interfere in the affairs of the business or put certain restrictive conditions on the operations of the business. However, the ratio of Tata Motors declines to 1.73 times in 2014.

Maruti Suzuki has low Total debt ratio than Tata Motors which reveals that the Maruti Suzuki is not risky because it has plenty of financing available when compared to its needs. However, it also indicates that the company should take on more debt. The reason for this is that the ability to borrow is considered a resource. Total debt ratio of Tata Motors rises from 0.67 times in 2010 to 0.75times in 2013 and this shows threat to the solvency of the company as it indicates that the company is carrying too much debt. This is of concern to the company because it may not be able to repay the debts and nor may borrow the additional funds required. This situation is risky because short term financing is limited and may not be available in an emergency.

Proprietary ratio of Maruti Suzuki when compared to Tata Motors shows that during the year 2010 to 2014, the Maruti Suzuki has higher proprietary ratio than Tata Motors. This implies that Maruti Suzuki has less dependence on external funds, creditors were not suspicious about the repayment of their debts and the financial position of the company was also sound. The proprietary ratio of Tata Motors was very low in 2010 at 0.29 times, which implies that Tata Motors is depending more on external funds and which increases the risk of the creditors about the repayment of their debts. But in 2013,the ratio of Tata Motors slightly raises to 0.40 times. A ratio below 50% may be quite alarming for the creditors of the company.

Conclusion

Keeping in view the above observations relating to the study, the following measures are suggested which would go on a long way to improve the performance of Indian automobile industry.

1. The policy of borrowed financing in automobile industry is not proper. So, the company should use wisely the borrowed funds and should try to reduce the fixed charges burden gradually by decreasing borrowed funds and by enhancing in owners fund.
2. Tata Motors should efficiently control its current assets and liquid assets to pay its current liabilities so that the creditors of the company feel secured about the repayment of their amounts by the company. This will enhance the creditworthiness and also the short term solvency of the company.
3. Tata Motors should not raise too much capital by way of fixed interest bearing capital because company has to pay fixed obligation in the form of interest irrespective of the volume of the profit. The company should increase the proportion of proprietors' funds in the business. This will improve the long term solvency position of the company.

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