An Analysis of Financial Performance of Leading Automobile Companies in India – A Comparative Study

CMA Sandip Basak
Faculty, Department of Commerce Surendranath College for Women, Kolkata

Sayani Sikdar
Faculty, Department of Commerce Prafulla Chandra College, Kolkata

Gourab Das
Assistant Professor Department of Commerce Vidyanagar College
South 24-Parganas, West Bengal
Corresponding author: Gourab Das

Abstract
COVID-19 has led the Indian Automobile Industry Market hit hard with triple unpleasant influence of factory closures, supply chain disruption, and a sudden collapse in demand. As the years pass the sales usually increases in almost every industry, but this outbreak of global pandemic has hampered the sales of almost each of the vehicle segments specially making the sales of FY20 at the same level as FY16, as per the reports available with the Society of Indian Automobile Manufacturers. This paper largely concentrates on thecomparative study of the pre and during COVID impacts on the expected financial performance of Bajaj Auto Limited and Tata Motors Limited. With a short overview of the said companies, period of the study has been taken from 2014-2015 to 2019-2020 in the form of actual data, and 2020-2021 to 2021-2022 as the forecasted data to analyze the effect of COVID onthe past, present and future expected financial performance of the selected companiesThe key variables chosen for the analysis are Enterprise Value, Capitalization/Revenue Ratio (C/R Ratio), Price Earnings Ratio (P/E Ratio), Enterprise Value/Earnings before Depreciation, Interest, Tax and Amortization (EV/EBDITA) Ratio.Through charts and graphs the comparison has been done with a clear presentation of the effect of the COVID as one of the major reasons for the poor conditions of the automobile industries.

Keywords: Enterprise value, Capitalization/Revenue Ratio, Price Earnings Ratio, Enterprise Value, Interest, Tax and Amortization Ratio, Financial Performance.

I.   Background
The deadly outbreak has rendered the today's automotive sector to a halt as it has made the smooth functioning of the said industry almost impossible due to the dependency on the China imports, which is not reaching out to the Indian industries due to lockdown and other kinds of hindrances. Besides the overall halt in the smooth functioning of the industries either through man power shortage, or through improper revenue generation mechanism due to hindrances in sales, the loss of customers in this pandemic all in total disrupts the overall automobile industry. Besides this there are several long-term impacts on automobile industries that can be given stated below:

•   In a sector there might be some less important segments that needs to be temporarily shut down due to lack of mam power and other temporary hindrances.

•   Significant measures of restructuring may be expected in the automobile sector as dealers are unable to meet the changing demand conditions.

•   Lockdown scenarios in the world has called for a global recession that leads to a loss of consumers, thus significantly leads to loss of revenues and profitability

•   Every industry sets aside the research and development funds for the ultimate betterment of the industries. But in this global pandemic situation the companies often are channelizing the funds for continuing basic operations mainly for the productions.

Economy turnover earnings depend largely on the automotive industry to a great extent as it provides a connection to the several types of other industries like steel, textiles, chemicals (being the component parts of

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the automobile industry), and also the other service sectors jointly in association with this automotive industry like repair, mobility services etc. Further the employment in this sector really shows the importance of this industry. This study aims to analyze the impact of Covid – 19 pandemic on the two Indian Automobile companies namely Bajaj Auto Limited and Tata Motors Limited with some charts and graphs for the clear presentations.

II. Review Of Literature

Research in the context of ongoing pandemic did not support us in finding a lot of reviews on this topic. But severe searching has given us the following literatures, a brief study with observations are given below:

1.   **Chaudhury (2020)** focused on various angles of the effect of the pandemic on Indian Automobile Industry ranging from impact of change in emission norms by Government to consumer sentiments and perceptions about the recovery of this automobile industry and lastly found out some positive news for auto industry in this pandemic. From the study the researcher found that about 75% customers from India believes that Indian economy will recover in the coming 6 months post lockdown. The paper also highlighted the fact that health concerns arising in the time of pandemic are forcing the age group between (25-35) years to purchase personal cars for greater protection.

2.   **Rastogiet. al. (2013**) gave a clear presentation of the SWOT analysis mentioning also the reasons for the downfall in the Indian Automobile Industry. The analysis further showed that demand for the vehicles depends on the various types of factors like convenience, cost of finance, density of the vehicles, demographic shape of the marketplace, and also the earning capability. Technology should further tap the developments of the automobile industry making this sector one of the largest one. To reach at the top the researchers prescribed constant innovation specially in the slowdown period, so that it leads to grater satisfaction of the consumers and also indirectly increases the sales.

3.   **Naziret. al. (2019) studied** the latest global automotive industry's competitive strategies that made the industry as one of the most competitive one. With 54 most relevant articles and data from 2017 and 2018 total 133 competitive strategies has been identified and analysed. The main objective of the study is to make the automotive industry of the developing countries to improve the strategies suitable for the current business trends.

4.   **Miglani (2019)** dealt with the India's national policy regarding the factors of upgradation, digitization and automation in the automobile industry. With the detailed structural analysis and the growth patterns of the automobile sector the governmental reforms since 1950 has been analyzed from the areas of demand, supply, firm strategies and others which ultimately led to upgradations and innovations. The study recommended for the large investments for the development of indigenous technologies that are specially eco-friendly and sustainable so that India could experience a sustainable development as a whole.

5.   **Arya (2019)** analyzed with some suggestions given via adoption of the innovative techniques that will surely make the automobile sector the largest one in the future. Research and development is the way out for the industry to be sustainable globally specially with their low cost skilled labours and low cost steel productions.

6.   **Yadavet. al. (2020)** dealt with the impact of the automobile sector on the air pollution and also details the growth structure of this sector. With the increase in the disposable income of the countrymen the total demand and supply increases that leads to the increase in sales of the automobiles which thus increases the air pollution in the environment.

7.   **Akamatsu et. al. (2013)**made the study on the history of automotive technology development and human factors research since the starting of the said industry. With 180 references the foundation of automotive human factors has been analyzed with a number of strategies formulated for future growth and development of this sector.

8.   **Moradiet. al. (2020)** found through the exploratory research that the Covid pandemic largely altered the perception of the consumers towards their own safety and hygiene that will positively increase the personal car demand and the rate of purchases will increase in the future. Lastly the researcher recommended the greater use of electronic means of transportation to maintain the sustainability levels of the environment

III. Objectives Of The Study

Based on the research gap, this study has three specific objectives –

✓   To provide an overview of the selected companies lying in the category of Automobile Industry.
✓   To analyze the past, present and future expected financial performance of the selected companies.
✓   To make a comparative study between the companies.

IV. Research Methodology

This section consists of four sub-sections which are Overview of Sample Companies, Period of Study, Data Source and Key Variables considered for this study.

Overview of Sample Companies – Here, for this study, only two companies have been taken. These two companies are Bajaj Auto Limited and Tata Motors Limited.

Bajaj Auto Ltd. is one of the leading companies in the automobile industry of India. The company is presently engaged in manufacturing of motorcycles, scooters and three wheelers. In India, Baja Auto has a distribution network of 485 dealers and over 1600 authorized services centres. It has total 3750 rural outlets in rural areas. As of now its market capitalization stands around INR 90000 Crore. In 2019-20, operating profit of the company was declined by 0.7% while profit before tax before exceptional items grew by 3.4% to INR 6580 Crore. It was the company's highest ever. Surplus cash and cash equivalents as on 31st March, 2020 reduced by 12.5% on account of payment of interim dividend in FY 2020.

Another leading company in automobile field is Tata Motors Limited which is one of India's largest Original Equipment Manufacturers offering an extensive range of integrated, smart and e-mobility solutions. In the Financial Year 2019-20, it has generated a consolidated revenue of INR 261068 Crore. But revenue from operations in 2019-20 has been dropped by 22% from the year 2018-19. Another important aspect of this company is that over 8.3 lakh people get benefitted from their various community programmes during the year.

Period of Study – For this study data are classified into two categories i.e. Actual data and Forecasted data. For actual data, last six years (2014-15 to 2019-20) and for forecasted data, only two years (2020-21 and 2021-22) have been considered.

Data Sources – All the data are collected from respective websites of the selected sample companies and other different web-links associated with the stock market performance of different listed companies.

Key Variables – Only four variables on the basis of which performance and valuation of the selected company can be judged have been selected for this study which are –

• **Enterprise Value –** it is a measure of a company's total value in terms of market capitalization represented by the product of market price per share and number of equity shares outstanding at the end of certain date or period. Higher the value, better is the performance of the company and vice-versa.

• **Capitalization/Revenue Ratio (C/R Ratio) –** This ratio utilizes a company's market CAPITALIZATION and revenue to determine whether the stock is valued properly. All things being equal, a low C/R ratio is good news for investors while a very high C/R ratio can be a warning sign.

• **Price Earnings ratio (P/E Ratio) –** It is the ratio for valuing a company that measures its Market Price per share (MPS) relative to its Earning per Share (EPS). Higher P/E ratio reflects the better position of the company in the stock market in terms of its market Value with compared to its peer companies.

• **Enterprise Value/ Earning before Depreciation, Interest, Tax and Amortization (EV/EBDITA) Ratio -** It is such a ratio which is used to measure the performance of the company. Higher the ratio, better will be the value of the company and hence represents better performance of the company too.

V. Analysis & Findings

In this section, a comparative study between two selected companies have been done on the basis of some graphical representations of selected variables over the selected span of time.

Table – 1: Enterprise Value

Companies	Enterprise Value (In Crores)							
	Actual						Forecasted	
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Bajaj Auto Ltd.	57.901.68	68765.8	81066.9	78887.7	83430	58286.3	73452.7	72508.7
Tata Motors Ltd.	196160	144650	176759	126666	75424.9	42927.3	118018	116281

Source: Annual Reports and Websites

Chart – 1: Enterprise Value
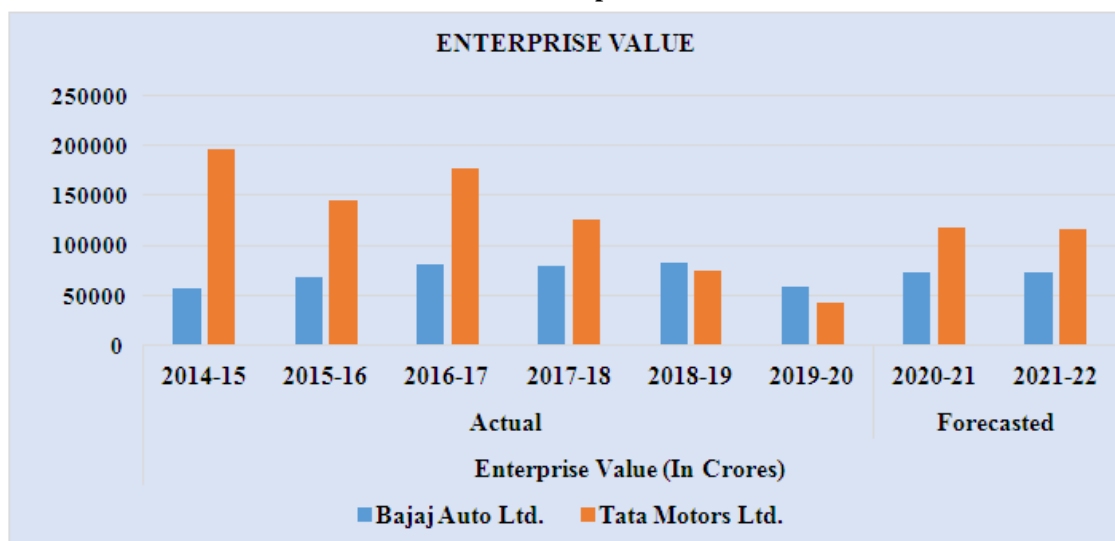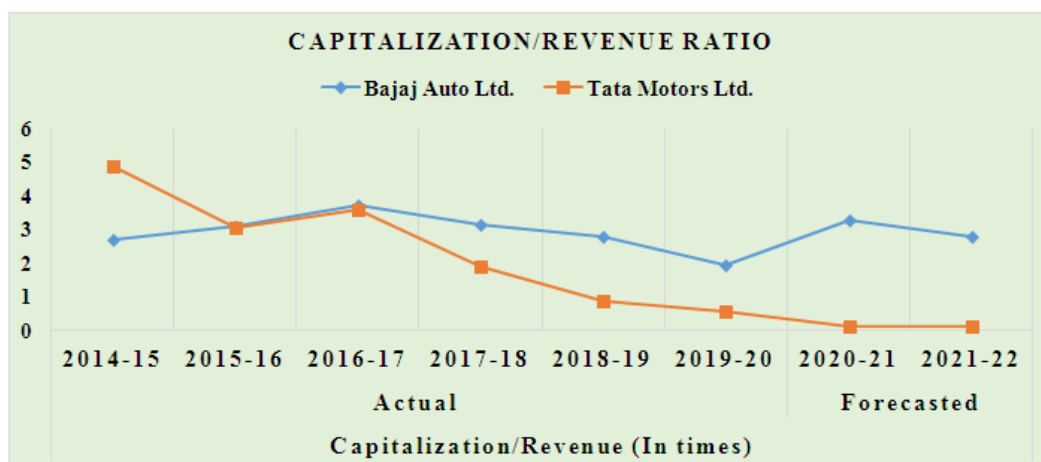

Source: Presentation by the Researchers

Based on Chart - 1, it is quite clear that in case of both the companies, Enterprise value has been continuously dropping over the years from 2014-15 to 2019-20 while upcoming years represent the hope of slight recovery. But comparing the data, it can be stated that the performance of Tata Motors Ltd. is better than the performance of Bajaj Auto Ltd. as far as Enterprise Value is concerned.

Table – 2: Capitalization/Revenue Ratio (C/R Ratio)

Companies	Capitalization/Revenue (In times)							
	Actual						Forecasted	
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Bajaj Auto Ltd.	2.7	3.08	3.73	3.16	2.79	1.96	3.27	2.77
Tata Motors Ltd.	4.88	3.06	3.57	1.89	0.86	0.58	0.14	0.12

Source: Annual Reports and Websites

Chart – 2: Capitalization/Revenue Ratio (C/R Ratio)

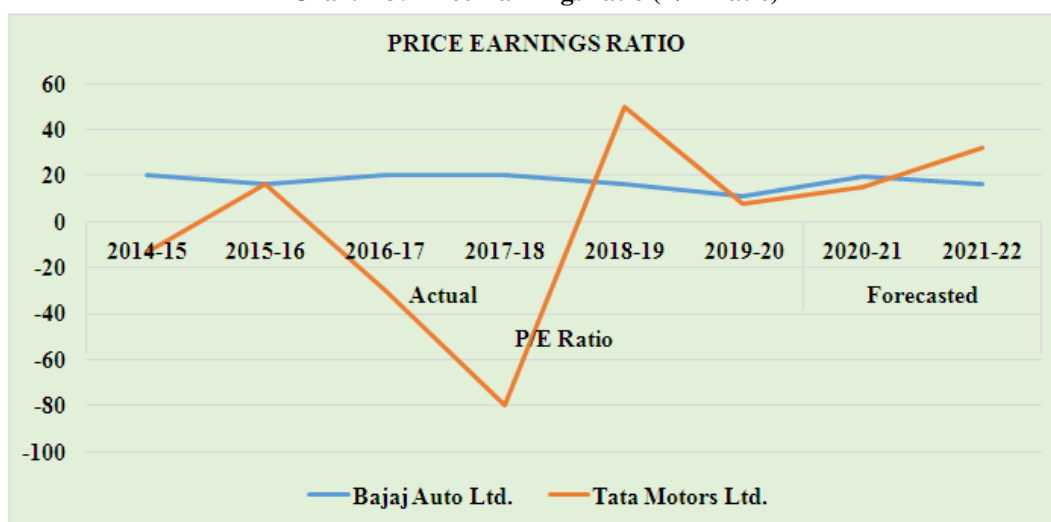**Source: Presentation by the Researchers**

Chart – 2 represents that both the companies have been moving in a same direction from the year 2014-15 to 2019-20 but after that Bajaj Auto Ltd is expected to have a higher value of C/R Ratio with compared to Tata Motors Ltd. in the upcoming years. Naturally it can be stated that in the future years Tata Motors Ltd. will have an advantage over Bajaj Auto Ltd. as far as Capitalization/Revenue Ratio is concerned.

Table – 3:Price Earnings ratio (P/E Ratio)

Companies	Price Earnings Ratio (P/E Ratio)							
	Actual						Forecasted	
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Bajaj Auto Ltd.	20	16.67	20	20	16.67	11.11	19.9	16.6
Tata Motors Ltd.	-33.33	NA	-50	-100	33.33	-3.45	-5.08	15.7

Source: Annual Reports and Websites

Chart – 3: Price Earnings ratio (P/E Ratio)

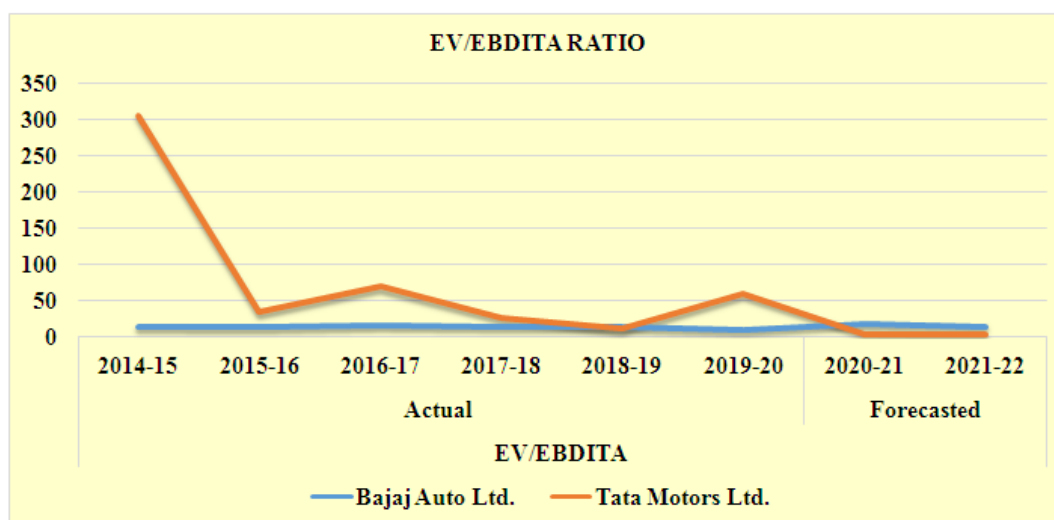**Source: Presentation by the Researchers**

Over the selected span of time, the P/E Ratio of Bajaj Auto Ltd. has been moving in a same line while it is in fluctuating position in case of Tata Motors Ltd. In case of Tata Motors Ltd., it got negative for consecutive five years except 2018-19 which is really an alarming situation for the stakeholders of the company. But the forecasted data show a little hope of recovery. So the fact is that Bajaj Auto Ltd. is in a better position than its peer company as far as Price Earnings Ratio is concerned.

Table – 4: Enterprise Value/ Earning before Depreciation, Interest, Tax and Amortization (EV/EBDITA) Ratio

Companies	EV/EBDITA Ratio							
	Actual						Forecasted	
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Bajaj Auto Ltd.	12.32	11.74	14.36	12.87	12.58	8.53	16.9	13.6
Tata Motors Ltd.	304.63	33.26	68.21	26.03	10.06	58.65	5.63	3.43

Source: Source: Annual Reports and Websites

Chart – 4: Enterprise Value/ Earning before Depreciation, Interest, Tax and Amortization (EV/EBDITA) Ratio

Source: Presentation by the Researchers

From the year 2014-15 to 2019-20, the EV/EBDITA Ratio of Bajaj Auto Ltd. has been kept considerably low in comparison with Tata MotorsLtd. except 2018-19.Moreover, EV/EBDITA Ratio of Tata Motors Ltd. has drastically dropped in 2015-16 and after that it never got back to that level. But forecasted data of 2020-21 and 2021-22 of both the companies show that Bajaj Auto Ltd. will get a better position than its peer company in those years.

VI.   Conclusion

Since the great depression, the COVID-19 has pushed the global economy into a serious crisis that disrupted the entire value-chains of the most industries in India, and the automotive industry is not an exception to this. The global lockdown, structural changes in the Goods and Service Tax, liquidity crunches etc has a multiplier effect along with the ongoing pandemic that has slashed the consumer demand affecting widely the automobile manufacturers' revenues and cash flows. Lack of research and development funding, has literally led some vehicle companies come out from the unprofitable market segments. Bajaj Auto Limited and Tata Motors Limited too has shown the clear effects of Covid on the performance of the company specially through the variables namely, Enterprise Value, Capitalization/Revenue Ratio (C/R Ratio), Price Earnings Ratio (P/E Ratio), Enterprise Value/Earnings before Depreciation, Interest, Tax and Amortization (EV/EBDITA) Ratio, taken for the study. The actual performance and profitability ratios from the period 2014-2015 to 2019-2020 of Bajaj Auto Limited and Tata Motors Limited has been analyzed and comparedwith the Covid affected financial years 2020-2021 and 2021-2022 through their forecasted values, showing lack of uniformity of the values throughout the period of the study. Some other reasons for the fluctuations in the performance and profitability ratios may be investigated later on in the future research works. The whole study can give the most probable forecast about the future of the automotive industry in the way that due to the need for privacy and social distancing will try to accelerate the shift towards subscription model cars for safe use. This will automatically encourage the automakers to produce more subscription and private cars to ultimately boost up sales in the future.

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