

## **A Study On Crisis Of Selective Automobile Industry**

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### **ABSTRACT**

This paper has attempted to study the impact of recent crisis on automobile industry in India. The two major company taken for study are Tata motors and Mahindra & Mahindra. The study is done on first half yearly financial statements for the years 2018-2019 and 2019-2020. To measure the impact ratio analysis and comparative statement analysis are used. Automobile industry affects the economic strength of the country greatly, so this paper focus on analyzing and interpreting the financial performances of Tata motors and Mahindra & Mahindra during the recent crisis.

Keywords: automobile, crisis, TATA motors, Mahindra & Mahindra.

### **INTRODUCTION**

The automobile industry is one of the world's largest economic sectors by revenue. The shares of automobile industry in the last decade is 5% of GDP. The Indian automobile Sector is facing a serious recession from mid-2018-2019. This recent downturn in automobile industry in India has to be taken seriously as it is accompanied by many other domestic reasons. The NBFC crisis led to a drop in the fresh investment and credit to the industry, adding to this the Bharat stage 6 emission standards are coming into effect from April 2020, so consumers are delaying the purchase of cars. Online cab booking service and crowded cities are the other major factors for decline in sales and it resulted in closure of the nearly 300 dealerships across countries. The automobile component manufacturers association of India (ACMA) warned in July that 10lakh jobs were at risk and urgent actions are to be taken to bring the industry back on track.

## **STATEMENT OF THE PROBLEM**

Over a long period of time, the Indian automobile industry has been considered as a key economic driver. It is backed by strong forward and backward linkages in the segment like sales, Research & development Etc. India is expected to be the third largest automobile market in terms of volume by 2026, but in the recent times the industry is facing a strong downturn in growth. This stagnation could also be counted as one of the reasons for overall Indian economic slowdown. This study was carried out to analyze the impact of recent economic downturn in Mahindra & Mahindra and Tata Motors Limited and suggest measures for improving the industry.

## **REVIEW OF LITERATURE**

- 1. Kadambini Katke**(2019) made a study on “Impact of Demonetization on Indian automobile Industry” Indian Demonetization has shaken the economy and lots of mix response has recorded from different industries and get positive impact and hope in the industry. Automobile industry is one such has negative impact. Demonetization has not only posed economic problem but also penetrated psychological fear. Long run may generate positive impact but again the demand for sedan and SUV will be a question as most of the transaction are from unaccounted sources.
- 2. Dr. Shailesh N. Ransariya** (2013) made a research on “A Study of Global crisis and its impact on India” The impacts of global crisis on profitability and liquidity performance of 6 selected units of Indian auto mobile industry. The last two years have been the toughest year of the Indian Automobile industry with the continuing slump in the profitability and in the market of commercial vehicles. As it compare to profitability of the automobile industry the liquidity performance is less affected by the global crises.

## **OBJECTIVE OF THE STUDY**

The objective of the study is to compare the financial performance of Tata motors and Mahindra & Mahindra for the first half of 2019-2020.

## RESEARCH TOOL

The study is based on the secondary data and the data are extracted from websites of Mahindra & Mahindra and Tata motors and e-journals. The study is descriptive in nature. The period of study is first half year of 2019-2020. The ratio analysis and comparative statement is used to analyze the effect of recent economic crisis on tata motors and Mahindra & Mahindra.

## ANALYSIS AND INTERPRETATION

### RATIO ANALYSIS

Ratio analysis is the process of determining and interpreting numerical relationship between figures of financial statements so its techniques of analyzing of financial statement by computing ratios.

#### 1.CURRENT RATIO

Current ratio establishes the relationship between current assets and current liabilities. it indicates the ability of the firm to meet its short-term financial obligation.

$$\text{Current ratio} = \text{current assets/current liabilities}$$

COMPANY	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
TATA MOTORS	14117.89	27482.49	0.514
MAHINDRA & MAHINDRA	16886.18	12038.87	1.402

FINANCIAL YEAR: First half yearly of 2019-2020

#### 2.LIQUID ASSET RATIO

Liquid ratio establishes the relationship between liquid asset and current liabilities. it is computed to assess the short-term liquidity of the firm.

**Liquid ratio = current assets-inventory/current liabilities**

FINANCIAL YEAR: First half yearly of 2019-2020

COMPANY	LIQUID ASSET	CURRENT LIABILITIES	RATIO
TATA MOTORS	8832.74	27482.4	0.32
MAHINDRA & MAHINDRA	13077.32	27482.49	0.48

### 3. ASSET TURNOVER RATIO

The asset turnover ratio is efficiency ratio that measures a company ability to generate sales from its asset by comparing net sales with average total assets.

**Asset turnover ratio= Net sale / average total asset**

FINANCIAL YEAR: First half yearly of 2019-2020

COMPANY	SALES	NET ASSET	RATIO
TATA MOTORS	23352.39	63432.68	0.36
MAHINDRA & MAHINDRA	23998.77	53136.10	0.45

## COMPARATIVE STATEMENT ANALYSIS TATA MOTORS

NO	PARTICULAR	2018	2019	INCREASE/ DECREASE	%
1	Revenue from operation				
	Revenue	34236.46	23163.52	(11072.94)	(32.34%)
	Other operation revenue	197.22	188.87	(8.35)	(4.23%)
	Total revenue from operation	34433.68	23352.39	(11081.29)	(32.18%)
2	Other income	1865.46	762.62	(1102.84)	(59.12%)
3	Total income	36299.14	24115.01	(12184.13)	(33.57%)
4	Expenses				
	Cost of material consumed	23010.29	14932.2	(8078.09)	(35.11%)
	Purchase of stock in trade	3186.26	2955.63	(230.63)	(7.24%)
	Changes in inventories of finished goods, stock in trade and work in progress	1210.28	814.13	396.15	32.73%
	Employee benefit expenses	2078.32	2216.43	138.11	6.65%
	Financial costs	936.35	937.41	1.06	0.11%
	Foreign exchange	496.30	32.03	(464.27)	(93.55%)
	Depreciation & Amortization expenses	1459.20	1537.70	78.5	5.38%
	Product development	208.62	327.07	118.45	56.78%
	Other expenses	4959.20	3980.41	(978.79)	(19.74%)
	Amount transferred to capital and other accounts	(532.83)	(608.35)	(75.52)	(14.17%)
	Total expenses	34591.43	25496.4	(9095.02)	(26.29%)
5	Profit (loss) before exceptional item and tax	1707.71	(1381.40)	(3089.1)	(180.89%)
6	Exceptional items				
	Employee separation cost	-	0.33	0.33	
	Write off (reversal) of capital work-in-progress and intangibles under development	93.21	(83.11)	(176.32)	(189.16%)
	Provision for loan /investment in subsidiary company/joint venture	-	19.04	19.04	
	Profit on sale of investment in joint venture	-	-	-	
	Others	-	-	-	
7	Profit (loss) before tax	1614.50	(1317.66)	(2932.16)	(181.61%)
8	Tax expenses				
	Current tax	280.20	16.79	(263.41)	(94%)
	Deferred tax	37.51	44.62	7.11	18.95%
	Total tax expenses	317.71	61.41	(256.3)	(80.67%)
9	Profit (loss) for the period from continuing operation	1296.77	(1379.07)	(2675.86)	(206.34%)

## MAHINDRA & MAHINDRA

NO	PARTICULAR	2018	2019	INCREASE/ DECREASE	%
1	Income				
	Revenue from operation	26508.48	23998.77	(2509.71)	(9.47%)
	Other income	1111.28	1146.85	35.57	3.21%
	Total income	27619.76	25145.62	(2474.14)	(8.96%)
2	Expenses				
	Cost of material consumed	13626.28	12551.04	(1075.24)	(7.89%)
	Purchase of stock in trade	6288.79	4433.16	(1855.63)	(29.51%)
	Changes in inventories of finished goods, stock-in-trade and work-in-progress	(1102.34)	(148.01)	954.33	86.57%
	Employee benefits expenses	1493.35	1502.90	9.55	0.64%
	Financial costs	60.39	57.35	(3.04)	(5.03%)
	Depreciation & amortization	854.36	1085.28	230.92	27.03%
	Other expenses	2779.59	2747.76	(31.83)	(1.15%)
	Amount capitalized	(53.78)	(101.80)	(48.02)	(89.29%)
	Total expenses	23946.64	22127.68	(1818.96)	(7.60%)
3	Profit before exceptional items and tax	3673.12	3017.94	(655.18)	(17.84%)
4	Exceptional items (net)	155.00	1367.05	1212.05	782%
5	Profit before tax	3828.12	4324.99	556.87	14.55%
6	Tax expenses				
	Current tax	780.87	607.70	(173.17)	(22.18%)
	Deferred tax	176.83	250.87	74.04	41.87%
7	Profit after tax	2870.42	3526.42	656	22.85%

## FINDINGS AND SUGGESTIONS

While comparing Tata motors and Mahindra & Mahindra for the first half yearly period of 2019 -2020 using ratio. It is evident that Mahindra& Mahindra's performance is better in terms of current ratio and acid test ratio. Asset turnover ratio also shows the similar trend, as Mahindra & Mahindra performs better than Tata motors during the period and crisis.

Comparative statement analysis of Tata motors and Mahindra & Mahindra for the first half yearly profit and loss account for the year 2018-2019 and 2019-2020 shown that faced a decline in income up to 32.28%. Whereas Mahindra & Mahindra has decline amounting to 8.96 with respect to overall profit after tax, Tata motors faces loss of 206.34% in comparison to some period previous year. Whereas Mahindra & Mahindra showed an increase in profit of 41.87% contradicting the industry environment, due to income from exceptional items.

In order to receive the industry back to its growth pace, the government need to give confidence to banks about revival of the economy and it has to take steps to increase the availability of funds for issuing loans. Then, the ministry of road transport department can issue a statement that the existing BS4 vehicles will not be subject to any change even after implementation of BS6 vehicles. The government can reduce tax at the time of purchase and registration of automobiles.

## **CONCLUSION**

During the economic slowdown in the automobile industry every company faced a serious turmoil to keep up its position. The utilization of ratio analysis and comparative statement analysis helped us to quantify the short coming of Tata motors and Mahindra & Mahindra in an effective manner and to form suggestion for the same.

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