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# Profitability Analysis of two Wheeler Manufacturing Companies in India

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## ABSTRACT

**Two Wheeler industry is fast growing industry in India, contributing in life style, transportations and pleasure rides. This paper analyse the profitability of three two- wheeler companies in India for a period of five years (2001-2002 to 2006-2007). Profit is the life blood of a business enterprises, The main objective of all the business firms is to earn profit. Profitability is a measure of evaluating the overall efficiency of the company. It involves in-depth analysis of profitability of the company with the help of key ratios & statistical analysis. Profitability ratio helps the management to know about the earning capacity of the company with respect to various profitability measures like Gross Profit ratio, Net Profit ratio, Operating Profit ratio, PBIT ratio, conclusions are drawn with the help of results obtained aforesaid techniques.**

**Keywords : Profitability, Two Wheeler Companies, Ratio Analysis.**

## INTRODUCTION

Automobile Industry is a symbol of technical marvel by humankind. It being one of the fastest growing sectors in the world the phases of its dynamic growth are explained by nature of completion, product life cycle and consumer demands.

Two wheeler are one of the most versatile forms of transportation. Two wheeler companies launched several new concepts and models in motor bike like, Hero Honda, Bajaj , TVS etc.

India is a potential emerging market for worldwide auto giants. Automobile production in India rose substantially in last few years, 77% of market share is captured by two wheelers, passenger and commercial vehicles capture around 19% market share in 2006-07. The production of total vehicle increased from 4.2 million in 1998-99 to 11.08 million in 2006-07.

**Object of the study :**
The study covers three reputed two wheeler manufacturing companies in India. The present study attempts to obtain an insight into the financial position of the selected companies of two wheeler industry in India and to analyse their profitability and financial strength.

The profitability of selected companies during the years from 2001-2002 to 2006-2007 will be examined.
The present study will include the following three two wheeler manufacturing companies

1. Hero Honda Motors Ltd.
2. Bajaj Auto Ltd.
3. TVS Motors Company Ltd.

**Hypothesis :**
There is no significant difference between the samples units lies for profitability ratios during the study period of selected automobile companies.

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## RESEARCH MYTHOLOGY

The data relating to the profitability position of the automobile companies, under study will be collected mainly from the published annual report and accounts of these companies for the financial year from 2001-02 to 2006-07. The data has been analyzed with the help of ratio analysis.

**Limitation of the Study :**

The data which is collected for the present study is entirely secondary in nature and in that case the study carries all the limitations inherent with the secondary data. The study is restricted to three companies for the period of five years.

## REVIEW OF LITERATURE

Pankaj Shrivastava (2003) made a research for the degree of Ph.D. (Profitability Analysis of Textile Industry in Rajasthan) and suggested that textile companies of Rajasthan should reduce their expenditure, so as to improve their profitability by applying new techniques in cost reduction. Companies should improve working capital position by increasing the amount of current assets and adopt new machinery for improving productivity . According to him linking profitability of workers with incentive schemes should increase the efficiency of worker.

Vishu Pal Arya (2002) , This study has been undertaken to study of the "Profitability Analysis of Iron & Steel Industry in India. " According to him there are many major problems of low production and performance such that - irregular power supply, inadequate transportation facilities, poor quality of coking coal, poor industrial relations, lack of capital etc. Government of India should take adequate steps to ensure availability of essential raw material and regular supply of power. The productivity of Labour was very low due to unsatisfactory industrial relations in Steel & Iron companies. It has been a major factor which resulting into low production performance.

Dr. Purnima Sharma (1999) made a research on "Profitability Analysis of Cosmetics Industry in India" in which she has made case study of Hindustan Liver Ltd. , Lakme Ltd., Rackit & Colman Ltd, Godrej Soaps Ltd. This research work analysedthe cost structure of production & reasons responsible for the high cost of production of cosmetics industry in India. According to her the cosmetics industry in India should increase their profitability by reducing the cost of production or increasing their sales. She gives a very important suggestion to all cosmetics production companies that the herbal material should be used more and more than that of chemical & artificial.

Dr. Sugan Chand Jain (1991) made a search on "Performance Appraisal of Automobile Industry a Comparative Analysis of selected National & International units " in which he has made case study of car sector. According to this research most of the car companies didn't generate sufficient funds in the form of net value added. It is suggested that they should either reduce their expenses or increase income through increasing sales.

According to him the car companies should replace their old machinery to increase production. The government of India may reduce the excise duty rates applicable to the car manufacturing units to enable the common man to purchase a car. This may boost up the sale of this sector.

## ANALYSIS OF PROFITABILITY

Various ratios for the selected period are calculated and their.

**Table 1: Gross Profit Ratio**

| Year/ Companies | HHML | Bajaj | TVS | Combined |
|---|---|---|---|---|
| 2002-03 | 31.97 | 35.26 | 31.28 | - |
| 2003-04 | 30.89 | 32.72 | 34.22 | - |
| 2004-05 | 29.94 | 28.49 | 31.10 | - |
| 2005-06 | 30.55 | 28.71 | 28.25 | - |
| 2006-07 | 27.49 | 25.73 | 24.69 | - |
| Average Ratio | 30.17 | 30.18 | 29.91 | - |

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| | | | | |
|---|---|---|---|---|
| combined average ratio | - | - | - | 30 |

**Source :- Secondary data**

The table 1 clears the position regarding the Gross Profit ratio of the selected two wheeler companies in India Gross Profit ratio average of the HHML was 30.17%, Bajaj was 30.18% and 29.91%of the TVS company. It can be said that the HHML & the Bajaj companies G.P. ratio was higher than that of the TVS. All three companies the combined average ratio was 30%.

**Table 2Net Profit Ratio**

| Year/ Companies | HHML | Bajaj | TVS | Combined |
|---|---|---|---|---|
| 2002-03 | 11.38 | 12.94 | 4.73 | - |
| 2003-04 | 12.48 | 15.38 | 4.91 | - |
| 2004-05 | 10.92 | 13.36 | 4.76 | - |
| 2005-06 | 11.14 | 14.74 | 3.61 | - |
| 2006-07 | 8.66 | 13.32 | 1.72 | - |
| Average Ratio | 10.9 | 13.95 | 3.95 | - |
| combined average ratio | - | - | - | 9.6 |

**Source :- Secondary data**

Table 2 shows the net profit ratio of two wheeler companies in India. Net profit ratio showed fluctuating in each year. The average of HHML was 10.9% , the Bajaj was 13.95% and the TVS was 3.95% .It can be said that the Bajaj net profit ratio was higher than that of the HHML and the TVS. The TVS Company's performance was not good. The combined average ratio of the three companies was 9.6%.

**Table 3 Operating Profit Ratio**

| Year/ Companies | HHML | Bajaj | TVS | Combined |
|---|---|---|---|---|
| 2002-03 | 16.9 | 15.9 | 9.7 | - |
| 2003-04 | 16.8 | 14.0 | 9.2 | - |
| 2004-05 | 15.7 | 12.3 | 7.4 | - |
| 2005-06 | 15.7 | 15.2 | 6.3 | - |
| 2006-07 | 11.9 | 12.5 | 3.6 | - |
| Average Ratio | 15.4 | 14.0 | 7.2 | - |
| combined average ratio | - | - | - | 12.2 |

**Source :- Secondary data**

Operating profit ratio gives attention on the net profit margin arising from the business process before tax is deducted. From table 3 it is found that the average operating profit ratio of HHML was 15.4% , 14% of Bajaj and 7.2% of the TVS company. It means HHML company was better than the Bajaj and TVS. All the three companies combined average ratio was 12.2%.

**Table 4: Profit before Interest and Tax Margin Ratio**

| Year/ Companies | HHML | Bajaj | TVS | Combined |
|---|---|---|---|---|
| 2002-03 | 17.3 | 19.9 | 7.4 | - |
| 2003-04 | 18.4 | 20.2 | 7.6 | - |
| 2004-05 | 16.4 | 19.0 | 6.9 | - |
| 2005-06 | 16.1 | 21.2 | 4.8 | - |
| 2006-07 | 12.4 | 18.6 | 1.5 | - |
| Average Ratio | 16.1 | 19.6 | 5.6 | - |
| combined average ratio | - | - | - | 13.77 |

**Source :- Secondary data**

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Table 4 shows the PBIT ratio of the two wheeler companies in India. Average ratio of profit before interest and tax margin of HHML was 16.1% , of Bajaj was 19.6% and of the TVS was 5.6% Thus it can be said that the PBIT ratio of the Bajaj was better than that of others. The combined average ratio of the three companies was 13.77%.

## DISCUSSION

As per the study table 1 gross profit ratio of the HHML and Bajaj companies decreased during the study period but TVS company showed fluctuation in each year. All three companies the combined average ratio was 30%. Lower gross profit ratio of the TVS company was due to steep increase in the cost of raw material . Table 2 shows net profit ratio showed fluctuation in each year .Average net profit ratio of the HHML 10.9% , Bajaj was 13.95% and the TVS was 3.95%. The TVS company's performance was not good. Due to hyper-competition and higher promotional cost this shrank the margins further. From table 3 it was found that the HHML company was better than the Bajaj and TVS.Despite this, the profit was lower mainly due to the increase in metal prices and increased cost of raw materials. Table 4 shows profit before interest and tax margin of Bajaj was better than the HHML and TVS. PBIT ratio were lower due to huge pressure on raw materials costs and higher depreciation charged reduced PBIT ratio.

## CONCLUSION

The companies which have more gross profit ratio, net profit ratio, operating profit ratio, Profit before interest and tax margin ratio is said to be more prome to risk . From ratio analysis among three companies Hero Honda Motor Ltd, Bajaj Auto Ltd and TVS company Ltd. seems to have high risk and company's should concern about this and take remedical measures. The Indian two wheeler industry is dominated by three players, the HHML, the Bajaj and the TVS who account for 80% of the total two wheeler market. The other player including their Kinetic, Yamaha and other account for the remaining 20% of three broad segments Scooters, Motorcycle, and Mopeds. Profitability helps the management to know about the earning capacity of the business concern. In this way profitability ratio shows the actual performance of the two wheeler manufacturing companies.

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