



Economic Value Added Analysis of Selected Indian Automobile Sector

KEYWORDS

Automobile; EVA; Two & Three Wheelers; LCV & HCV; Car and Jeep

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ABSTRACT This research investigates the Economic Value Added (EVA) of BSE listed automobile sector in India using the Prowess corporate databases developed by CMIIE (Centre for Monitoring Indian Economy) and CLP (Capital Line Plus) data from 2001-02 to 2011-12 for Light Two & Three Wheelers, Commercial and Heavy Commercial vehicle and Car and Jeep manufacturing Companies, and employ the findings to estimate the Economic Profit using EVA Techniques. The study selected fifteen companies listed in BSE using proportionate sampling with the Net Sales of 100 crore and above.

1. Introduction

India's automobile industry, currently estimated to have a turnover of US\$ 73 billion which accounts for six per cent of its GDP, and is expected to hit a turnover of US\$ 145 billion by 2016. It is contributing 22 per cent to the manufacturing GDP (CEIC Data). It is no doubt that Chennai; a southern city in India is called the "Detroit of Asia" owing to the presence of a huge number of Automobile manufacturers in the city.

2. Review of Literature

The study made by (Dr. A. Vijayakumar 2011) found that size, growth and GDP growth variables have positive relationship with profitability, whereas leverage have negative relationship with firms' profitability. Stewart (1990) studied the relationship between EVA and MVA with market data of six hundred and eighteen U.S. companies. According to the findings of the study, the relationship between EVA and MVA does not hold very well. The study made by stern (1995) analyzed that the EVA is the financial performance measure that comes closer than any other to capture the true economic profit of an enterprise.

3. Statement of the Problem

The Value Added concept of income is based on the stakeholders' approach that is concerned with maximizing the wealth of customers, employees, suppliers, society and also the shareholders. In this approach, profit/ wealth maximization is not the primary goal rather it's the well being of all stakeholders. The EVA is based on the shareholders' approach i.e., if the interest of a company's shareholders is taken care by the company is adding value to the wealth provided by them automatically it is taking care of the interest of other stakeholders' group also. So the study also focuses the important factor of Economic value added as a model to

analyze the status of shareholders' wealth.

4. Objectives of the Study

- To analyze and compare the Economic Value Added.
- To offer suggestions on the basis of findings for the improvement of Automobile Industry in India.

5. Research Methodology

5.1 Data Collection & Sampling Design

The sampling technique adopted for this study is Proportionate Sampling. According to the prowess corporate database developed by CMIIE, (Centre for Monitoring Indian Economy) there are only fifteen companies listed in BSE with the Net Sales of 100 crore and above in the last three consecutive financial years. So the study taken into account all fifteen companies which is having a net sales of more than 100 crores. The companies include Hero Motocorp, Bajaj Auto, TVS Motor, LML, Atul Auto, Scooters India, Majestic Auto from Two & Three Wheelers segment and Tata Motors, Ashok Leyland, Force Motors, SML Isuzu and Eicher Motors from LCV and HCV Segment and Maruthi Suzuki, Mahindra and Mahindra and Hindustan Motors from Car and Jeep Segment. The study period is 11 financial years from 2001-02 to 2011-12. The tools used for the analysis were EVA.

5.2 Analysis and Interpretation

The performance of the selected Companies during the study period has been measured by studying the behavior of economic profit of the study units. The variables used for the study were Average Capital Employed, Weighted Average Cost of Capital, Cost of Capital Employed, and Reported Net Profit. This variable brings out results of Economic Profit and this has been presented in the following tables.

Table 1
Economic Value Added - Two and Three Wheelers
(Rs. In Crores)

| Year | Hero Honda | Bajaj | TVS Motors | LML | Atul | Scooters India | Majestic Auto | Average |
|---------|------------|--------|------------|---------|------|----------------|---------------|---------|
| 2000-01 | 164.54 | 890.05 | 23.39 | -78.79 | 0.39 | 4.42 | -15.63 | 141.20 |
| 2001-02 | 111.59 | 706.77 | 18.53 | -89.53 | 0.73 | 2.20 | -28.55 | 103.10 |
| 2002-03 | 234.73 | 740.94 | 92.69 | -94.04 | 0.56 | 1.34 | -39.34 | 133.84 |
| 2003-04 | 357.35 | 584.74 | 102.06 | -103.05 | 1.05 | 2.38 | 3.37 | 135.42 |
| 2004-05 | 441.93 | 777.83 | 91.86 | -117.50 | 2.52 | 0.01 | -1.08 | 170.80 |
| 2005-06 | 606.99 | 672.95 | 56.43 | -277.51 | 2.32 | -0.25 | -2.78 | 151.16 |
| 2006-07 | 535.46 | 856.07 | 12.90 | -75.54 | 0.65 | -25.99 | -9.21 | 184.91 |

| | | | | | | | | |
|---------|---------|---------|--------|---------|-------|--------|-------|---------|
| 2007-08 | 606.10 | 101.17 | 4.08 | -83.02 | -2.13 | -26.58 | -2.44 | 85.31 |
| 2008-09 | 907.69 | 342.76 | -41.70 | -77.39 | -2.64 | -30.93 | 0.60 | 156.91 |
| 2009-10 | -83.33 | 1222.11 | -11.34 | -106.97 | 0.21 | -33.53 | 17.30 | 143.49 |
| 2010-11 | -364.05 | 2411.53 | 65.76 | -144.56 | 5.35 | -27.77 | -0.39 | 277.98 |
| 2011-12 | 1577.46 | 1775.57 | 131.91 | -79.77 | 11.17 | -33.32 | 0.01 | 488.05 |
| Average | 424.71 | 923.54 | 45.55 | -110.64 | 1.68 | -14.00 | -6.51 | 1269.90 |
| Rank | 2 | 1 | 3 | 7 | 4 | 6 | 5 | |

Source: Computed

Table 2 Economic Value Added - LCV and HCV
(Rs. In Crores)

| Year | Tata Motors | Ashok Leyland | Force Motors | SML | Eicher Motors | Average |
|---------|-------------|---------------|--------------|--------|---------------|----------|
| 2000-01 | -993.31 | 91.68 | -32.58 | -3.31 | 15.60 | -934.40 |
| 2001-02 | -480.38 | 92.26 | -10.68 | -1.81 | 8.24 | -398.96 |
| 2002-03 | -140.35 | 120.21 | 19.50 | 6.61 | 26.20 | 11.21 |
| 2003-04 | 302.27 | 193.58 | 30.70 | 12.01 | -0.18 | 538.52 |
| 2004-05 | 550.46 | 271.41 | 0.88 | 12.35 | 25.28 | 840.16 |
| 2005-06 | 680.70 | 327.32 | 22.32 | 3.65 | 189.13 | 1071.82 |
| 2006-07 | 879.64 | 441.29 | -57.39 | 0.90 | -34.04 | 1257.63 |
| 2007-08 | 978.93 | 469.31 | -118.18 | 7.47 | 31.23 | 1343.78 |
| 2008-09 | -15.27 | 190.00 | 89.18 | -15.80 | 21.36 | 252.38 |
| 2009-10 | 134.78 | 423.67 | 39.58 | -3.46 | 18.42 | 598.25 |
| 2010-11 | -846.20 | 631.30 | 28.71 | 14.59 | 43.24 | -162.95 |
| 2011-12 | -1257.09 | 44.66 | 29.73 | 19.67 | 79.34 | -1147.16 |
| Average | 704.71 | 3212.65 | 71.64 | 55.90 | 409.52 | 4126.81 |
| Rank | 2 | 1 | 4 | 5 | 3 | |

Source: Computed

Table 3 Economic Value Added - Car and Jeep
(Rs. In Crores)

| Year | Maruthi Suzuki | Mahindra & Mahindra | Hindustan Motors | Average |
|---------|----------------|---------------------|------------------|---------|
| 2000-01 | -305.25 | -52.94 | -119.10 | -159.10 |
| 2001-02 | -32.23 | -51.88 | -94.33 | -59.48 |
| 2002-03 | 34.44 | -34.18 | -81.60 | -27.11 |
| 2003-04 | 443.53 | 167.20 | -136.29 | 158.15 |
| 2004-05 | 759.55 | 331.62 | 12.86 | 368.01 |
| 2005-06 | 1034.04 | 586.17 | -52.54 | 522.56 |
| 2006-07 | 1411.06 | 766.36 | -3.43 | 724.66 |
| 2007-08 | 1535.62 | 733.17 | 10.81 | 759.87 |
| 2008-09 | 1059.26 | 423.83 | -51.21 | 477.29 |
| 2009-10 | 2293.30 | 1381.38 | -62.14 | 1204.18 |

| | | | | |
|---------|---------|---------|--------|---------|
| 2010-11 | 2027.30 | 1885.16 | -26.41 | 1295.35 |
| 2011-12 | 1382.98 | 1948.66 | -50.25 | 1093.80 |
| Average | 970.30 | 673.71 | -54.47 | 1625.86 |
| Rank | 1 | 2 | 3 | |

Source: Computed

Table 4 Overall Selected Sectors Performance
(Rs. In Crores)

| Year | Two and Three Wheeler | LCV and HCV | Car And Jeep | Average |
|---------|-----------------------|-------------|--------------|---------|
| 2000-01 | 141.2 | -934.4 | -159.1 | -317.43 |
| 2001-02 | 103.1 | -398.96 | -59.48 | -118.45 |
| 2002-03 | 133.84 | 11.21 | -27.11 | 39.31 |
| 2003-04 | 135.42 | 538.52 | 158.15 | 277.36 |
| 2004-05 | 170.8 | 840.16 | 368.01 | 459.65 |
| 2005-06 | 151.16 | 1071.82 | 522.56 | 581.85 |
| 2006-07 | 184.91 | 1257.63 | 724.66 | 722.4 |
| 2007-08 | 85.31 | 1343.78 | 759.87 | 729.65 |
| 2008-09 | 156.91 | 252.38 | 477.29 | 295.53 |
| 2009-10 | 143.49 | 598.25 | 1204.18 | 648.64 |
| 2010-11 | 277.98 | -162.95 | 1295.35 | 470.13 |
| 2011-12 | 488.05 | -1147.16 | 1093.8 | 144.9 |
| Average | 181.01 | 272.52 | 529.85 | 327.79 |
| Rank | 3 | 2 | 1 | |

Source: Computed

5.3 FINDINGS OF THE STUDY

5.3.1. TWO AND THREE WHEELERS

The Bajaj holds the top rank among others with huge volume of Rs.923.54 crore and the follower to them is Hero Honda with the Economic Profit of Rs.424.71 crore.

The TVS Motors hold the third position with an economic profit of Rs.45.55 crore. The Atul autos occupied the fourth position with Rs.1.68 crore.

The Majestic auto, Scooters India and LML have registered the negative results. These companies are in a situation to concentrate on managing the capital employed properly.

In fact, four top ranked companies had actually improved the EVA over all and hence thereby be termed as value generators to shareholders' wealth.

5.3.2 LCV AND HCV

The Ashok Leyland holds the top rank among others with Rs. 3212.65 crores and the follower to them is Tata Motors with

Rs.704.71 crore. The Eicher motors, Force Motors and SML have registered the positive results too with the rank of 3, 4 and 5 respectively.

All the companies had actually improved the EVA over all and hence thereby be termed as value generators to shareholders' wealth.

5.3.3 CAR AND JEEP

The Maruthi Suzuki ranked one with the economic profit of Rs.970.30 crore and Mahindra and Mahindra positioned themselves in the second rank with economic profit of Rs.673.71 crore.

The Hindustan Motors secured last position with a negative value of Rs.54.47 crore. The Hindustan Motors is in a situation to contemplate on managing the capital employed and try to give more attention towards enhancing the economic profit eventually.

5.3.4 SELECTED SECTORS OVERALL PERFORMANCE

The Car and Jeep manufacturing companies holds the top rank among others with Rs. 529.85 crores and the follower to them is LCV and HCV Manufacturing companies with the value of Rs.272.52 crore.

The Two and Three Wheeler manufacturing companies positioned themselves with third rank by showing Rs.181.01 crore economic profits. The results are shown in positive value, which means the Automobile sector is in a favourable position in contributing the Economic Value added.

SUGGESTIONS

There is a need for Indian automobile industry to adopt producing and selling wide range of products, to adopt better market strategy.

The selected industries should undertake cost control measures further so that increased profit margin of the companies may enhance the earning power ratio.

Cost of fuel is important and at the same this fuel quality needs to be improved in terms of gumming tendency, and

dust contamination.

The Hindustan Motors, Majestic auto, Scooters India and LML is in a situation to contemplate on managing the capital employed and try to give more attention towards enhancing the economic profit eventually.

The LML has traded excessively on its equity and has not earned sufficiently to satisfy its shareholders. The LML are in a position to satisfy its shareholders by improving their wealth.

The Hero Motocorp and Force Motors Company's position was initially fair and then has started declining in terms of management of fixed commitments. These Companies should minimize its fixed cost of capital.

The Maruthi Suzuki, Mahindra & Mahindra need to concentrate on its employability of capital.

The SML should maintain their Capital Structure in an optimum way to improve their market share as well as its earnings.

5.5 Conclusion

EVA estimates a particular type of economic profit, which has been part of mainstream economic thinking for more than a century. This concept states that in order to assess whether a company earns genuine profits, it is not only necessary that the company earns sufficient profit to cover the firm's operating costs, but they should also cover the cost of capital, that is, the cost of borrowed money in the business as well as the owner's fund deployed in the business. Therefore, we conclude that the automobile companies led to strong demand due to signs of revival in economy and increasing trend in hiring especially Organizations decisions will describe how the companies are placed within the industry and how they track new opportunities and innovations; ups and downs in growing markets, universal economic trends, and varying customer demand will confront companies to react in novel ways.

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