A Study on Fundamental Analysis of Indian Automobile Industry with Reference to the Selected Companies

Management

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ABSTRACT
Fundamental analysis is the technique for finding the value of the stock which considers economy as a whole then industry and then performance of the company for finding the value of its stock. It uses top to bottom approach for finding the value of the stock. Fundamental analysis considers various factors such as development of the economy as a whole, development in the industry, past performances of company, and future prospectus of the company for finding the value of the stock of the company. The automobile industry is one of the key drivers of economic growth of the nation. Since the delicensing of the sector in 1991, Indian automobile sector has come a long way. Today, almost every global auto major has set up their facilities in the country. This paper attempts to study the fundamental analysis of Indian automobile industry with reference to the selected companies.

INTRODUCTION:

Fundamental Analysis is the method of evaluation of stock of a company by measuring the intrinsic value of the stock. Intrinsic value is the actual value of a company or an asset based on the underlying perception of its true value including all tangible and intangible the aspects of the business. This value may or may not be equal to the current market value of the stock of the company. For finding the intrinsic value, fundamental analysis uses top to bottom approach which is also called as E-I-C (Economy, Industry and Company analysis) approach. Firstly it studies the macro economy i.e., overall health of economy as a whole and industry trends, competitors performance. After that the next step is to examine the financial data of the company.

If this intrinsic value of the stock is more than its current market price, investor would prefer to purchase the stock because he believes that the stock will perform better in future and it will move towards intrinsic value. If intrinsic value of the stock is less than the market price, then investor would prefer to sell the stock because he believes that the price of the stock will fall in future and it will come near to the intrinsic value.

LITERATURE REVIEW:

Hossein Khanifar (2012) studied the factors affecting investors decision by performing fundamental analysis. The analysis is performed by studying economy, industry and then firm. The population included in the study was broking firms at Tehram Stock exchange. The study shows that EPS, profit margin, P/E ratio, sales have highest importance in analysts decision followed by economy related factor and industry related factor.

Prof.Madhavi Dhole (2013) performed fundamental analytical study of four Automobile sector companies in Price movement of shares. The study concluded that investors are interested in predicting the future behavior of stock market. The study concluded that the investor should look at the price movements of the particular company over the years and then should go for better portfolio. The future plans of the organization are also vital information for analysis. The study shows that speculative or sentimental factors do play a role in price movement of shares. But, it is only a short-term effect, in long term annual performance is sole factor which is responsible for price movement.

OBJECTIVES:
- To study improvement in the level of economic activity in India with the help of GDP growth rate.
- To study the contribution of automobile industry in the development of economic situation of country.
- To study the performance of automobile industry of India with the help comparison of the performances of selected companies i.e., Tata Motors Ltd and Maruti Suzuki India Ltd.

ECONOMIC ANALYSIS:
Price movement of the share and company performance has

been influenced greatly by the level of economic activity. When the level of economic activity is high, stock prices are also high because it reflects the prosperous outlook for sales and profit for the firm. Gross domestic product of the country is the indicator of the development of the economic activity in the country.

Chart 1 : GDP Growth Rate of India:
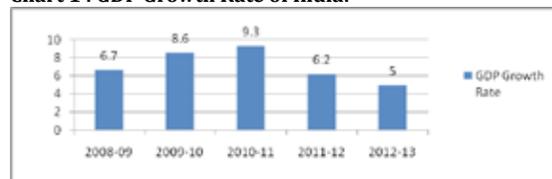
(Source: EXIM bank report on India's macroeconomic Indicator)

It can be said from the above chart that after 2008-09 the GDP growth rate of India has increased but after 2010-11 it is declining.

INDUSTRY ANALYSIS:
Although the economic position of the country is not satisfactory but it is important to study if there is any impact of declining economy on automobile industry or not. For that purpose, production of automobile sector has been studied.

Chart 2: Total Production of Automobile Sector
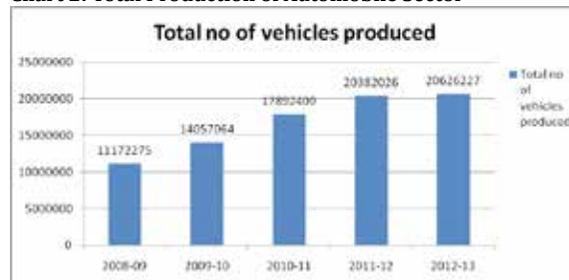
(Source: Society of Indian Automobile Manufacturers Report)

It can be concluded from the above chart that the total production of all types of vehicle in automobile industry has been increasing in the time period of 2008-09 to 2012-13.

SWOT Analysis of Indian Automobile Industry:
SWOT analysis involves study of industries strengths, weakness and opportunities and threats available in market. The following diagram shows the SWOT analysis of automobile industry in India.

Strengths:	Weaknesses:
• Domestic Market is very large • Government of India provides monetary assistance for manufacturing units • Labor cost is low in India.	• Too many taxes levied by government has increased the cost of production • Some companies do not make more investment in Research and Development.
Opportunities:	**Threats:**
• Demand from Rural India is also rising continuously as condition of roads in rural area has also improved.	• Rates of interest on automobile loans are not stable. • There is a lot of competition in automobile industry.

COMPANY ANALYSIS:

The third section of fundamental analysis deals with the analysis of the company. In present study, following companies have been selected for further analysis.

1. Maruti Suzuki India Ltd

Maruti Suzuki India Limited was established in 1981. It is the country's largest passenger car manufacturing company. It is Credited for bringing revolution in the automobile industry in India. Some of Maruti's most popular cars are: Alto, Gypsy, Omni, Wagon R, Maruti 800, Versa, Zen, Esteem, Baleno and Swift.
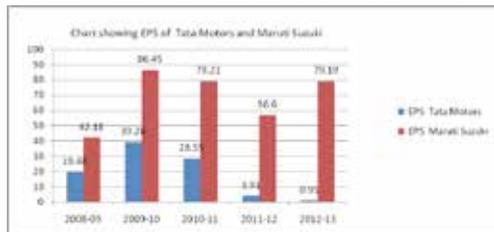
2. Tata Motors Ltd:

Tata Motors is the largest automobile manufacturing companies in India. It was Established in 1945. Tata Motors is a multinational automobile company with its headquarters in Mumbai. This company manufactures compact medium sized utility vehicles. Over the last few decades it has stood as the undisputed leader in the commercial vehicles segment. It is also the third largest producer of passenger cars in India. Some of the well known cars manufactured by Tata Motors are: Tata Indigo, Tata Indica, Tata Sumo, Tata Indigo Marina and Tata safari.

The following aspects have been studied for company analysis.
a) Earnings Per Share (EPS)
b) Return on capital employed
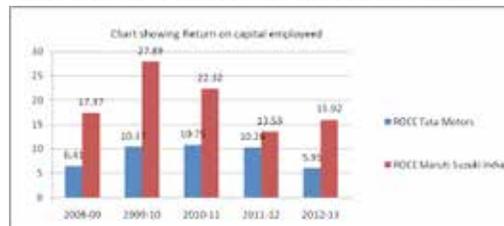c) Current ratio

Chart 3: EPS of Tata Motors and Maruti Suzuki:

(Source: Annual reports of Tata Motors and Maruti Suzuki)

The above chart represents Earning per share of Tata motors and Maruti Suzuki. It can be seen that the EPS of Tata Motors has increased in 2009-10 but after that it is continuously decreasing. Whereas the EPS of Maruti Suzuki has increased in 2009-10 after that it has decreased in consequently two years but after that it has increased in 2012-13. As compared to Tata Motors the performance of Maruti Suzuki is better in terms of Earning per share in last five years time period.

Chart 4: ROCE of Tata Motors and Maruti Suzuki:

(Source: Annual reports of Tata Motors and Maruti Suzuki)

The above chart represents the return on capital employed of Tata Motors and Maruti Suzuki. It can be seen from the chart that ROCE of Tata motors have increased in 2009-10 but in 2012-13 it has decreased. ROCE of Maruti Suzuki has increased in 2009-10 after that it has declined in consecutive two years and it has increased in 2012-13.

Chart 5: Chart showing current ratio of Tata motors and Maruti Suzuki:

(Source: Annual reports of Tata Motors and Maruti Suzuki)

The above chart represents the current ratio of both the companies. Current ratio represents the amount which is available to the company for paying its short term obligations. It can be seen that the average current ratio of Tata motors is 0.5. It means Tata motors have 0.5 current assets against liability of 1. And the average current ratio of Maruti Suzuki during last five years is 1.2 which means Maruti Suzuki have current assets of 1.2 against liability of 1 . It is clear from above information that Maruti Suzuki is in a better position than Tata Motors in terms of current ratio.

CONCLUSION:

Fundamental analysis is an important technique to find the value of stock as it considers all past information about country, industry and company. The present study reveals that although the GDP of India is declining still the automobile sector is shining as there is continuous increase in the production of total no of vehicles in the Industry. SWOT analysis presents that major strength of Indian automobile industry is large domestic market and availability of cheap labour and raising demand from rural areas of India is acting as the opportunity in expansion of the market. Maruti Suzuki India's performance is comparatively better than Tata Motors Ltd in terms of earning per share, return on capital employed and current ratio. Fundamental analysis is helpful when the investing amount is huge and investment is to be made for long time.

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