

# A STUDY OF RETURN ON SHAREHOLDERS' FUND IN AUTOMOBILE SECTOR OF INDIA

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## Abstract

This research is carried out to examine the financial structure in terms of networth. Ten leading automobile companies are examined for their performance on bases of operating networth of the firms.

**Objective:** To evaluate financial performance analysis of selected automobile companies in India in terms of different ratios. It assumed that there is no significant difference in networth and efficiency ratio of the selected automobile companies during the period the study. **Time Taken for Study:** Normally it is not possible for the researcher to study the financial performance of automobile companies in India for longer period because there is constrain of the time, money and efforts. So the present study is done for seven years of period because of convenience for proper data collection and analysis for the period of seven years for the study. The present study is made for a period of seven accounting years from 2013-2014 to 2019-20. **Parameters of the Study:** Return on Shareholders' Fund, Analysis of Variance. **Tools Used for Study:** Descriptive Statistics and Analysis of Variance

**Keywords:** Financial Ratios, ANOVA

## 1. INTRODUCTION

In Indian economy, the Indian automobile industry has arisen as a 'dawn area'. India is arising as one of the world's quickest developing traveler vehicle markets and second biggest bike maker. India is the biggest base to trade minimal vehicles to Europe. On the auto material, half and half and electronic vehicles are new turns of events and India is one of key business sectors for them. Worldwide and Indian producer are centering their endeavors to foster imaginative items, advances and store network. Automobile industry, the matter of creating and selling self-fueled vehicles, including traveler vehicles, trucks, ranch hardware and other business vehicles. By permitting buyers to drive significant distances for work, shopping and diversion, the vehicle business has empowered the improvement of a broad street framework, made conceivable the development of rural areas and retail outlets around significant urban communities, and assumed a vital part in the development of the auxiliary ventures like the oil and travel organizations.

The word 'Automobile' comes through the French Automobile from the old Greek word (auto's, 'self') and Latin versatile ('Movable') implies a vehicle that moves itself, as opposed to being pulled or moved by an isolated creature or another vehicle. By definition, an auto or vehicle is a wheeled vehicle that conveys its own engine and transport travelers, as we probably are aware the car was not created in a solitary day or by single creator. For the majority of the historical backdrop of car, a vehicle was relied upon to do minimal more than make a trip from spot to somewhere else with a few level of unwavering quality and economy. Vehicles were relied upon to go minimal quicker, ride all the more serenely and keep going to the point of making the speculation beneficial on account of streets and innovation improved and more individuals started to utilize them. Any new vehicle could do these things well by mid 1930s, and even as innovation progressed throughout the following 40 years, what the world expected of a vehicle remained fundamentally something similar. There was sped up, comfort and dependability consistently, yet for more than 60 to 70 years, a vehicle was relied upon to do just move individuals and their stuff. After than Government engaged in auto plan. State government began requiring specific things, for example, security glass, electric light and excess choke return springs on the grounds that the innovation became useful. Government Motor Vehicle Safety Standard was made in 1966 in US. The mission of the auto started changing because of Environment Protection Agency in 1973. Vehicles were in the long run expected to safeguard inhabitants in crash, hold all unburned fuel fumes, convert the result of ignition into less unsafe gases and report their breakdown rather than simply conveying individuals and their stuff rapidly, serenely and dependably. Society of auto Engineers set many sorts of securities and execution necessities which the vehicle organizations should meet these prerequisites. The actually for buyer auto has additionally gone light a long time past solid, conservative transportation as though new specialized plan guidelines weren't sufficient. The 'auto style' alluded to a scope of monetary vehicles at one range and extravagance vehicles at different, has now incorporate a many various sorts of autos.

The present car architects and designing aren't anything not exactly legends. They should make a vehicle that meets more wellbeing and discharges guidelines and ridiculously inventive market requests which were

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undreamed of an age prior. Continuously they need to sort out some way to deliver these kind of machines at a particular expense on the grounds that the selling cost is essentially set before the plan work isn't yet started. Presently a day, auto organizations have significant piece on the lookout. An organization record, Ford sold 7.2 million vehicles worldwide in 1999. Passage additionally record for the total compensation \$ 7.2 billion and EPS \$5.86 while the complete expense diminished by \$1 billion. General Motors recorded procuring \$8.53 per share in 1999 which was twofold the \$4.32 per share acquired in 1998. Its incomes bounced 14%, working expense decreased by \$3.7 billion and its net revenue multiplied to 3.2%. Daimler Chrysler announced a total compensation of \$5.8 billion out of 1998, a 19% increase north of 1998. Overall deals were up and working benefit has expanded 28%. In 1993 absolute automobile industry creation arrived at 42 trillion yet which was 13.4% of the complete for all makers. The absolute number of people utilized straightforwardly and in a roundabout way is 7.2 million. Nissan Motor Co. Ltd. is building a \$930 million vehicle fabricating plant in Canton that will cover 2.6 million square feet and produce around 25,000 units every year.

A regular pickup truck, a standard game utility vehicle and a recently planned minivan will be created at this office. This creation has expressed to start in mid-2003. At first the plant will utilize around 3,300 specialists. All through twentieth century, the vehicle reconfirmed and refreshed its status as a victory of designing through persistent improvement and uneasy use of new innovation. The vehicle business is frequently viewed as the fundamental motor of modern development of the twentieth century. Its impacts on metropolitan life and the climate are obvious all over. The business is a complex and steadily changing process for assembling, sub-project worker and unions. The change from make creation to large scale manufacturing, proclaimed a blast of assembling limit which has had an unavoidable impact of human action in this century. New mechanical improvement like the utilization of energy components as a power source will without a doubt keep the vehicle on the main edge of innovation in the 21st century. Automakers should offer highlights, for example, various air packs, driver data framework, solace controls, etc. to stay serious. Union of worldwide vehicle industry is pushing ahead at the amazing speed.

### RETURN ON SHAREHOLDERS' FUND (NET WORTH)

This ratio is an important yardstick of performance for equity shareholders as it indicates the return on the funds employed by them. This ratio expresses the net profit in terms of the equity shareholders' funds. Ratio measure is based on the net worth and will be high for old plants and low for new plant.

$$\text{Return of Shareholder Fund} = \frac{\text{Net Profit after Interest and Tax}}{\text{Shareholders Fund (Net Worth)}} \times 100$$

Shareholders fund = equity capital + reserve and surplus

It is also computed as:

$$\text{Return of Shareholder Fund} = \frac{\text{Net Profit after Taxes} - \text{Preference Dividend}}{\text{Shareholders Fund (Net Worth)}} \times 100$$

The expectation of an adequate rate of return on the fund is the factor which motivates share holder to invest in a company. Periodically shareholder want to assess the rate of return earned in order to decide whether to continue with their investment or not. This ratio is useful in measuring the rate of return as a percentage of the book value of shareholders' equity.

Return on investors' assets is one of the proportion of generally productivity of firm. Which demonstrates the benefit of a firm comparable to the assets provided by the investors. This proportion is vital according to the proprietors' perspective as it assists the firm with knowing whether the firm has procured enough re-visitations of reimburse its investors or not.

Net profit as a level of investors' asset – for example cash provided by investors' stores and the equilibrium from the benefit and the absolute monetary interest in the organization.

**Table 1 Return on shareholders' fund (In %)**

	Maruti Suzuki ltd.	Tata Motors	M & M Ltd.	Ashok Leyland	Bajaj Auto	Atul Auto	TVS Motor	Force Motor	Hero MotoCorp	Eicher Motor Ltd.
2013-14	13.26	1.74	22.39	0.89	33.75	31.53	18.48	6.33	37.66	45.3
2014-15	15.65	-31.93	17.25	8.17	26.31	33.51	21.48	7.69	36.47	0
2015-	17.95	-0.26	14.29	7.2	29.62	30.65	24.98	12.11	39.42	56.03

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2016-17	20.17	-11.48	13.6	19.96	22.84	20.1	23.17	10.8	33.39	39.77
2017-18	18.49	-5.13	14.37	23.7	21.29	21.05	23	8.16	31.41	31.88
2018-19	16.25	9.11	14.01	23.8	21.46	21.54	20.02	7.6	26.32	28.82
2019-20	11.66	-39.64	3.86	3.29	25.59	17.27	16.36	2.94	25.7	23
<b>Avg</b>	<b>16.20</b>	<b>-11.08</b>	<b>14.25</b>	<b>12.43</b>	<b>25.84</b>	<b>25.09</b>	<b>21.07</b>	<b>7.95</b>	<b>32.91</b>	<b>32.11</b>
<b>SD</b>	<b>2.99</b>	<b>18.14</b>	<b>5.53</b>	<b>9.79</b>	<b>4.58</b>	<b>6.56</b>	<b>2.99</b>	<b>2.98</b>	<b>5.41</b>	<b>17.93</b>
<b>CV</b>	<b>18.45</b>	<b>-163.68</b>	<b>38.82</b>	<b>78.77</b>	<b>17.74</b>	<b>26.15</b>	<b>14.18</b>	<b>37.53</b>	<b>16.43</b>	<b>55.84</b>

[Source: Computed from the annual reports of the companies]

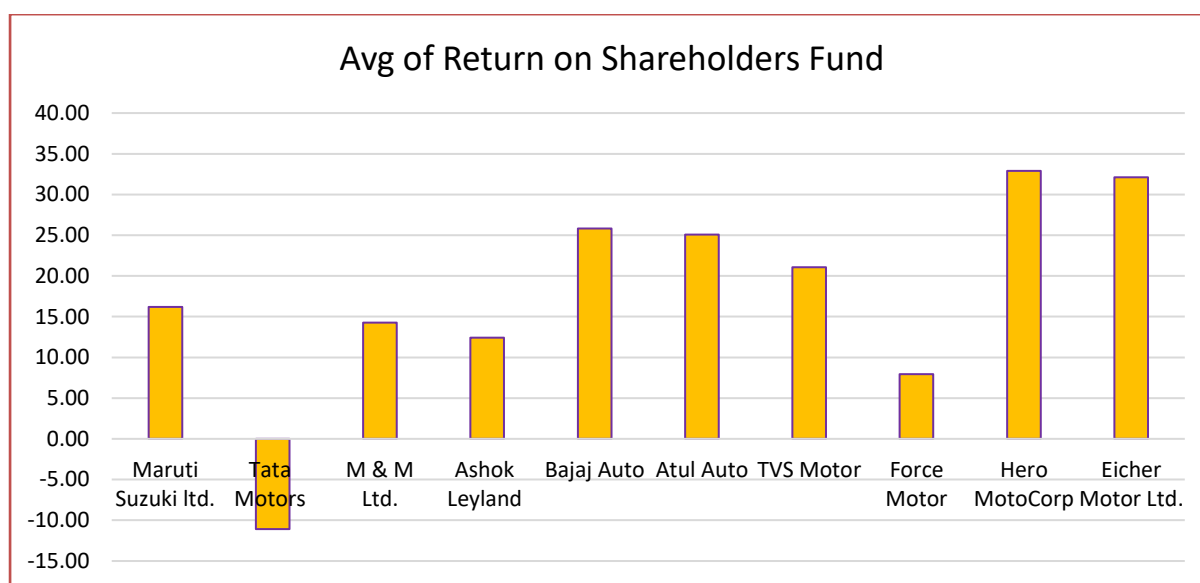


Figure 1 Return on Shareholders Fund of Automobile Companies

The selected firms are the leading and listed firms. It is necessary to examine how it has useful to the company's shareholders. An analysis for financial year 2013-14 to 2019-20 is presented for return on shareholders' fund (RSF). The ratios are measured in percentages for each year for each firm.

The initial values of RSF for the year 2013-14 shown that, the highest return was given by Eicher Motor Ltd. The firm was ranked first with return of 45.3% for the said year. Hero Moto Corp has rated second with 37.66% of returns. Bajaj Auto has ranked third with return of 33.75% during 2013-14. Atul Auto ranked fourth in return to shareholders; the firm has returned 31.53% of RSF during financial year 2013-174. The discussed three firms had returned highest value of RSF, they were returned more than 30% to the shareholders. The least return to shareholders were given by Force Motors (6.33%) and Tata Motors (1.74%) for the year 2013-14. The most failure firm was Ashok Leyland; it has returned only 0.89% to the shareholders'.

For financial year 2014-15, Maruti Suzuki Ltd, Ashok Leyland, Atul Auto have returned highest to their shareholders. Maruti Suzuki Ltd has returned 2.39% more than last year. Ashok Leyland has returned 7.28% higher than last year. Atul Auto has paid 1.98% higher return than last year. TVS Motors has returned 3% more, Force Motors has increased 1.36% more than last year. On other hand, Tata Motors had a great down fall during 2014-15. The firm has recorded with negative value of RSF. Mahindra and Mahindra has declined in RSF value. This year, the firm has declined by 5.14% lower return than last year. Bajaj Auto has declined by 7.44% of shareholders' returns. Hero Moto Corp has reduced total 1.19% of RSF than last year. Eicher Motors has never returned anything to shareholders' during financial year 2014-15.

Maruti Suzuki Ltd has gained in net profit, thus the proportion to return to shareholders was paid with increment of 2.3% than last year. Tata Motors has paid returns, but still the gap was negative during 2014-15. Mahindra and Mahindra Ltd has decreased by 2.96% in return of shareholders' fund in 2015-16. Ashok Leyland has also reduced return to shareholders by 0.97%. Bajaj Auto has paid with hike of 3.31% than last year. Atul Auto has reduced its RSF by 2.86% in 2015-16, TVS Motors has increased by 3.5% to the shareholders. Force motors has paid 12.11% of RSF, with hike of 4.42% to shareholders'. Hero Moto Corp has also paid 2.95% higher return to shareholders than last year. Eicher motor ltd has paid highest return this year, the firm has

returned 56.03% of return. It has paid highest to the shareholders' during 2015-16 and was ranked first in automobile sector.

Financial year 2016-17 was a moderate to the shareholders. Apart from Tata Motors, all other firms have returned to the shareholders. Compare to last year the proportion of return was lower. Only Maruti Suzuki Ltd, Ashok Leyland has paid higher returns to shareholder than last year. The gap analysis shown that Maruti Suzuki Ltd has paid 20.17%, which was 2.22% higher than last year. Ashok Leyland has paid 12.76% more. Mahindra and Mahindra has calculated with 0.69% deductive return to shareholders. Bajaj Auto has reduced 6.78% than last year. Atul Auto has reduced 10.55% lower, TVS Motors has declined by 1.81%, Force Motor has reduced 1.3%, Hero Moto Corp has declined by 6.03% and Eicher Motor reduce3d by 16.26% than last year. Tata Motors had a great down fall in sales and net profit this year. Thus, the firm was failed to pay return to shareholders. The firm has calculated (-11.48%) as a return on shareholders.

Financial year 2016-17 shown lower increment in business in automobile sector. Only two firms were paid higher returns to shareholders' than last year. It shown that 80% of the firms were failure in managing their market during 2016-17. Failure in market losses investors' trust. This was affected next investment task of the investors.

The automobile sector has consistently fail again in return to shareholders. Maruti Suzuki Ltd has return 1.68% lower return to shareholders during 2017-18. Tata Motors has again found as a failure in return to shareholders. Compare to last financial year, the firm was calculated with (-5.13%) on shareholders return. The proportion of reduction in return to shareholders increased. Mahindra and Mahindra has increased value of return than last financial year. During 2017-18 the firm has paid 0.77% higher to shareholders. Ashok Leyland has also increased value of return during 2017-18. It has returned 3.74% higher than last year. Bajaj Auto failed to repay higher returns than last year. This year the firm has declined by 1.55% compare to last year. Atul Auto has returned 0.95% more than last year. TVS Motors has declined by 0.17% to return shareholders'. Force Motors has returned 1.64% lower comparatively. Hero Moto Corp reduced by 1.98% and Eicher Motors has declined 7.89% this year.

For financial year 2017-18, only three firms have paid higher to shareholders' than last year. It shown that 70% of automobile firms were failed to manage business during 2017-18. It is also observed that Tata Motors, Bajaj Auto, TVS Motors, Force Motors, Hero Moto Corp and Eicher were paid lower returns for last three to four years.

Compare to financial year 2017-18, the automobile sector has gained in returns to shareholders. Tata Motors has returned 9.11%, which was impressive return to the investors. After four years, the firm has paid higher return to shareholders. Ashok Leyland has paid 0.1% than last year. The firm steadily increased a return values for last three years. Bajaj Auto paid 0.17% higher in last two years. Atul Auto has also increased 0.51% than last year. After 2016-17 the firm has increased returns on shareholders. TVS Motors returned lower to shareholders for last four years. This year again the firm was failed to repay. It has returned 20.02%, which was reduced by 2.98% than last financial year. Force Motors has declined by 0.56%. For last four years the firm reduced its repay to shareholders'. Hero Moto Corp also declined in returns to shareholders by 5.09%. Eicher Motors again reduced return value by 3.06% than last financial year. Maruti Suzuki Ltd and Mahindra & Mahindra have declined their returns to shareholders this year by 2.24% and 0.36% respectively.

During financial year 2018-19, the automobile companies were increased in return on shareholders' fund. Compare to last year, the firms were counted 60% which were 70% last year. Out of ten companies four were paid higher returns, still six firms were fail to pay higher returns. Maruti Suzuki Ltd, Mahindra and Mahindra, TVS Motors, Force Motors, Hero Moto Corp and Eicher Motors were paid lowest return to investors this year. The firms declined their earning of profit by financial year 2018-19.

Financial year 2019-20 had crushed the automobile sector due to Covid -19 pandemic. Only Bajaj Auto has paid higher return to shareholders. The firm has returned 4.13% more to shareholders than last year. All other nine firms were failed to repay returns to shareholders by this year. The proportion of failure is 90%, as nine firms out of ten were not returned to shareholders.

Compare to last year, Maruti Suzuki Ltd has returned 11.6%, which was reduced by 4.59%, Tata Motors were counted with (-39.64%), Mahindra and Mahindra Ltd has reduced 10.15%, Ashok Leyland reduced by 20.51%, Atul Auto has computed with negative return of 17.27%, TVS Motors has reduced and was reached 16.36%, which has reduced by 3.66%, Force Motors reduced by 4.66%, Hero Moto Corp reduced by 0.62% and Eicher Motors has reduced by 5.82% compare to last year.

All over financial year 2019-20 was a failure year for earning profit by automobile sector. Only one firm has paid higher return to shareholders compare to last year. All other seven firms have returned to shareholders but the proportion of return than last year was lower. Two firms - Tata Motors and Atul Auto were computed negative values. Thus, the said firms were totally failure during 2019-20.

Table 4.9 represents, Return on shareholder's fund, average Return on shareholder's fund and CV value of selected automobile companies for the period under study. The highest Return on shareholder's fund was 56.03 percent for Eicher Motors in 2015-16 and lowest Return on shareholder's fund was (-)39.64 percent for Tata Motors in 2019-20 among the selected units during the period of the study. The highest average Return on shareholder's fund was 32.91 percent for Hero Moto Corp and lowest average Return on shareholder's fund



was (-) 11.08 for Tata Motors during the study period. The highest CV value of Return on shareholder's fund was 78.77 percent for Ashok Leyland and followed by Eicher Motors 55.85 percent, Force Motors 37.52 percent and lowest CV value of net profit was (-) 163.74 of Tata Motors. Thus, it reveals that return on shareholder's fund of Bajaj Auto and TVS Motors was remained consistence during the period understudy.

An impact of return on shareholders' fund is tested by stated the following hypothesis.

H0: There is no significance difference between Return on Shareholders Fund during financial years 2013-14 to 2019-20.

H1: There is a significance difference between Return on Shareholders Fund during financial years 2013-14 to 2019-20.

Table 2 Analysis of Variance of Return on Shareholders Fund

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Variations between Companies	10758.17	9	1195.35	13.321	2.07E-11	2.04
Error	5384.06	60	89.73			
Total	16142.23	69				

The statistical hypothesis is used to examine the variability among the changes in values of return on shareholders' fund of the automobile companies in India. The results of F test based on sum of square and mean sum of square is calculated as 13.32 ( $F_{cal}$ ), which is higher than the significance value critical value ( $F_{crit}$ ). It is observed that  $F_{cal} > F_{crit}$  ( $13.32 > 2.04$ ). Higher the value of calculated rejects the null hypothesis. Thus, it is concluded that there is a significance difference between return on shareholders' fund during financial years 2013-14 to 2019-20 among all selected automobile companies.

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