A Study on Financial Performance Analysis of Force Motors Limited

Dr. M. Ravichandran
Assistant Professor
Department of Management Studies
Anna University, BIT Campus, Trichy-620024

M. Venkata Subramanian
Student
Department of Management Studies
Anna University, BIT Campus, Trichy-620024

Abstract

Financial analysis referred to financial statement analysis or accounting analysis refers to an assessment of the viability, stability and profitability of a business, sub-business or project. The main idea behind this study is to analyze the financial operating position of the company. This research is done with help of secondary data which is gathered from the annual report of the company. The financial performance can be measured by using various financial tools such as profitability ratio, solvency ratio, comparative statement, etc. Based on the analysis, findings have been arrived that the company has got enough funds to meet its debts & liabilities, the income statement of the company shows sales of the company increased every year at good rate and profit also increased every year.

Keywords: Profitability ratio, Shareholders funds, Liabilities

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I. INTRODUCTION

Financial performance means ensuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added, etc. A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance analysis is prepared mainly for decision-making purposes. The information given in the financial statements is of immense use is making decisions through analysis and interpretation of financial statements. Financial analysis is the process of identifying the financial strengths and weakness of a firm by properly establishing relationship between the items of the balance sheet and profit and loss account.

Comparative Financial Statement analysis provides information to assess the direction of change in the business. Financial statements are presented as on a particular date for a particular period. The financial statement Balance Sheet indicates the financial position as at the end of an accounting period and the financial statement Income Statement shows the operating and non-operating results for a period. But financial managers and top management are also interested in knowing whether the business is moving in a favorable or an unfavorable direction. For this purpose, figures of current year have to be compared with those of the previous years. In analyzing this way, comparative financial statements are prepared.

II. COMPANY PROFILE

Force Motors, formerly Bajaj Tempo, is an Indian manufacturer of three-wheelers, multi-utility and cross country vehicles, light commercial vehicles, tractors, buses and heavy commercial vehicles. It was originally named Firodia Tempo Ltd. and later after partial acquisition by Bajaj Auto as Bajaj Tempo Ltd.Force Motors manufactures a range of vehicles including Small Commercial Vehicles (SCV), Light Commercial Vehicles (LCV), Multi Utility Vehicles (MUV), Sports Utility Vehicles (SUV), Heavy Commercial Vehicles (HCV) and Agricultural Tractors.

III. OBJECTIVES OF THE STUDY

1) To study and analyze financial performance of Force motor limited.
2) To know the earning capacity or profitability, solvency and the financial strength by evaluating financial statement.
3) To compare the financial performance and to analyze the financial changes over a period of five years.

IV. NEED FOR THE STUDY

1) One of the most fundamental facts about business is that the financial performance of the firm shapes its financial structure. Therefore in order to obtain a favourable financial structure it is necessary to study the efficiency of the firm.
2) Efficiency measurements imply prior knowledge of the inputs and outputs of an organization to increase the level output for a company it is necessary to study the operating efficiency of the firm.

3) The main problem in business that of making correct estimates for the future which cannot be done unless data representing changes over a period are systematically and scientifically analyzed.
4) Financial analysis is a powerful mechanism which helps in ascertain the strength and weakness in the operation and financial position of an enterprise.
5) Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and he profit and loss accounts.

V. SCOPE OF THE STUDY

1) The study is basically confined to study the operating efficiency of Panasonic.
2) The study helps to evaluate the decision making with regard to the financial performance.
3) The study is carried out with the help of five years financial statement of the company.
4) The study would help to improve the operating efficiency of the company.
5) It would help to improve the profitability of firm by reducing the cost wasted in various processes.

VI. LIMITATIONS

There were certain limitations in understanding this research work. As it is understood that the limitation are a part of the project, they have been over shadowed by the study.
1) Performance analysis of company is done only for past 5years due to time constraint.
2) The statement that are studied are historical past cannot be the index for future estimation.
3) The study is done with help of secondary data obtained from the annual reports of the organization.

VII. REVIEW OF LITERATURE

A more focused literature such was undertaken to identify the various methods and approaches used for the study relating to the topic. It exhibits how much work has been already done in the area under research.

(S.M. Tariq Zafar, Sep. 2012) The author made study to explored the truth that the ratios are calculated from the financial statements' which are prepared as desired by the management and policies adopted on depreciation and stock values and thus produce only a collection of facts expressed in monetary term and cannot produce complete and authentic picture of the business and also may not highlight other factors which affects performance. They found that to control manager's management often overuse ratio and concentrate more on improving the ratios and also known fact that ratio is simple comparison of numerator and a denominator and in comparing ratios it become difficult to adjudicate whether differences are due to change in the numerator or denominator or in both. It is also found that ratios are interconnected but are often treated by management in isolation and also found that analysis of ratios lack authenticity as data used in calculation are not accurate but manipulated presentation by the promoters.

(Manoj Kumara N V, August 2015) The author had made attempt to determine the financial performance of selected automobile companies in India by using financial performance parameters, It can be concluded that the anticipated inputs to this study to the firm is to assist strategic thinkers pay attention to the appropriate actions that apply latent and strong affect on their automobile performance. This research facilitates a comprehensive model for examining the financial performance of automobile performance and the major findings of this research will give a important parameters and helps to fill a similar gaps in the literature. This analytical strong fit model that R-square results 54% indicates variation of independent variable on dependent variable. Further research, need to focus on important parameters like Economic Value added and Refined Economic Value Added to Reveal & evaluate the overall organizational development performance

(Dr.K.Jothi, june 2015) The author made study on financial performance analysis of HONDA & TOYOTA companies and made have discussed that both companies have comfortable short term liquidity position and therefore not likely to encounter to any major difficulties in paying / discharging their short term obligations in time. As far as cash ratio is concerned it is encouraging to note that the Honda is having sound cash management practice. Toyota Company had made use of more borrowed funds than the capital. From the profitability perspective it is found that Honda Company has high earning potential. In conclusion it appears safe to summarize that the Honda & Toyota seems to be sound financial management practice.

(Vidya, October 2015) The Author had discussed that the standard current ratio of automobile industry is matched with Tractor and the four sectors like gears, engine parts, lamps and ancillaries others are matched with standard norms. It is inferred that other sectors have to improve the repaying capacity to strengthen the financial aspects. The standard liquidity ratio is matched with tractor in the automobile sector and all the sectors are standard in the auto ancillary. In order to meet the financial obligation, the lcv/hcv, motor cycle, scooters have to make arrangement to meet the standards

(PAL, June 2015) The author had discussed that the individual ratios which are affecting the profitability of the industry. Another objective of the study is to identify and categorized the financial ratios into a small number of latent variable to represent a compact view of financial performance for a specified time period. Initially the study was started with 36 ratios of 9 Indian automobile companies for a period of 15 years classified in 7 traditional categories. Statistical techniques like factor analysis, regression analysis are applied to the data set to facilitate the objectives of the study. Factor analysis extracted three factors 'solvency asset and cash flow management', 'profitability management' and 'operating efficiency' which represents the most prevailing factor during the study period. On the other hand regression analysis shows that three individual variables WCTA, ITR and DPRCP have significant effect on the profitability of the industry

VIII. RESEARCH METHODOLGY

A. *Research Design:*

Analytical research design is chosen for the study. This research is conducted to find out facts about a given topic and from the answers obtained develop new and useful ways of doing things. The analytical research usually concerns itself with cause-effect relationships.

IX. TOOLS USED FOR ANALYSIS

Data collected from the secondary sources in the form of annual report was analyzed using the tools. The following tools were used for the financial performance analysis,

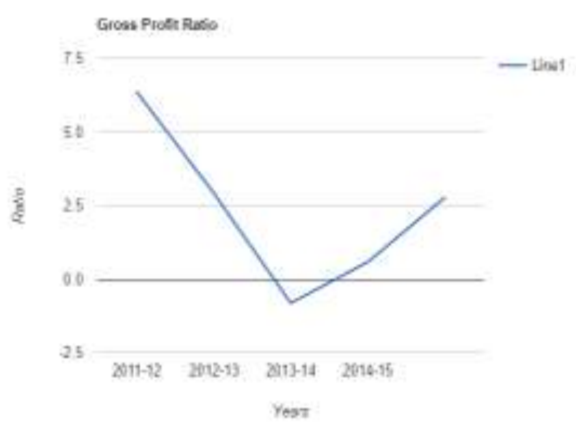
A. *Ratio analysis*

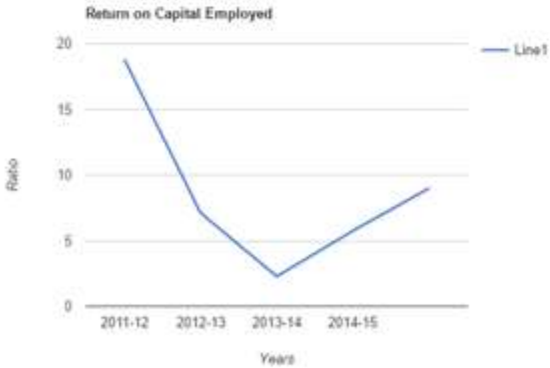
1) *Profitability ratio*
    1) Gross profit ratio
    2) Operating profit ratio
    3) Net profit ratio
    4) Return on capital employed
    5) Return on net worth
2) *Liquidity & solvency ratio*
    1) Current ratio
    2) Quick ratio
    3) Debt equity ratio

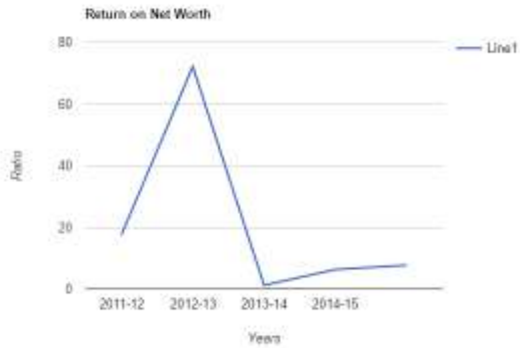
B. *Comparative Financial Statements Analysis:*

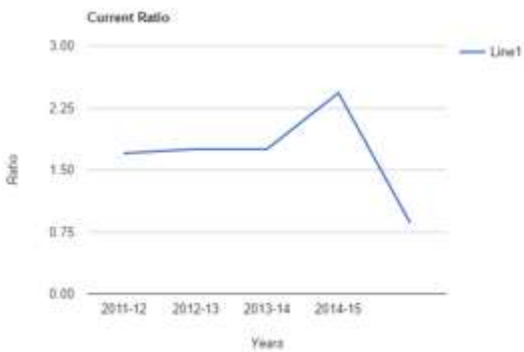
ANALYSIS AND INTERPRETATION
PROFITABILITY RATIO ANALYSIS

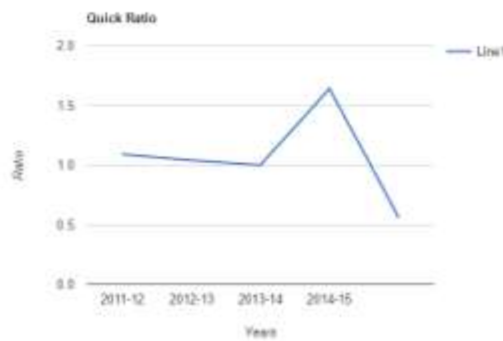
YEAR	GPR	OPR	NPR	ROCE	RONW	CR	QR	DER
2010-11	6.38	9.22	3.74	18.81	17.53	1.7	1.09	0.01
2011-12	2.93	5.82	39.53	7.12	72.1	1.75	1.04	0.02
2012-13	-0.82	2.73	0.72	2.29	1.23	1.75	1	0.04
2013-14	0.58	4.78	3.84	5.76	6.33	2.43	1.64	0.05
2014-15	2.78	6.21	4.28	9	7.69	0.86	0.56	0.67

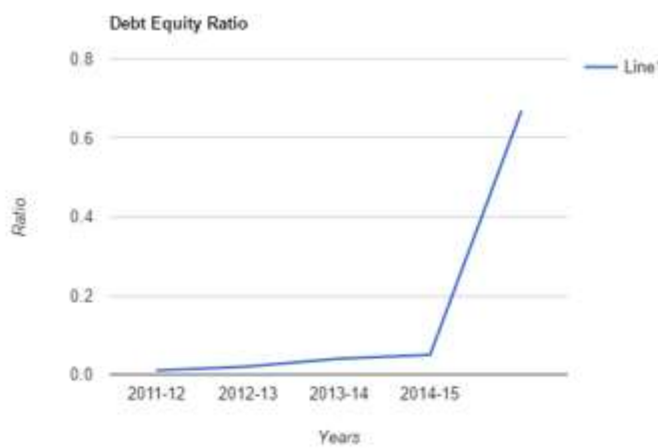












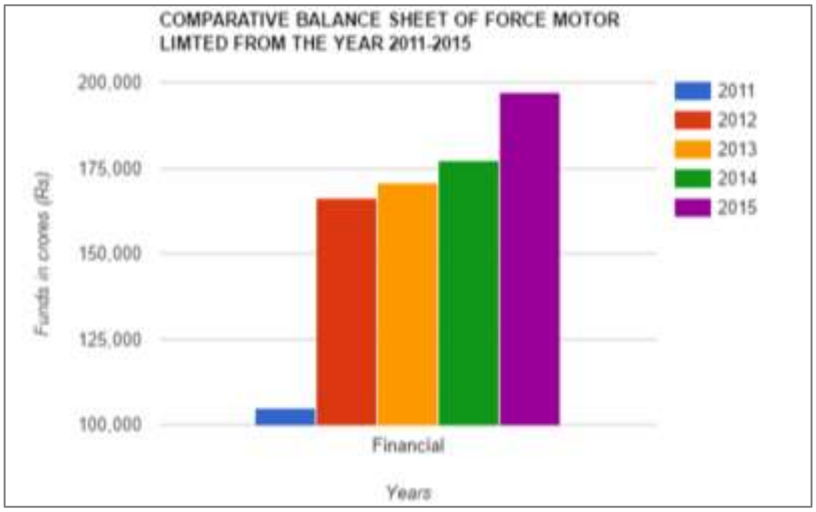
GPR is higher in 2010-2011. In 2012-13 which shows to decline trend from 6.38 to -0.82 this is mainly due to decrease in the gross profit. OPR has showed an increasing trend from the 9.22 in 2010-11 is decreased to 2.73 due to huge decrease in the operating profit. NPR increased to 39.53 in the year 2011-12 and the surprise was that which declined to 0.72 in the year 2012-13 due to huge decrease in the net profit. ROCE has showed an increasing trend from the 18.81 in 2010-11 to 7.12 in 2011-12 but in 2012-13 it is decreased to 2.29 due to huge decrease in the capital employed. RONW increased to 72.10 in the year 2011-12 and in the year 2012-13 it is decreased to 1.23 due to huge decrease in the net worth. CR has showed an increasing trend from the 2.43 in 2013-14 but in 2012-13 it is decrease to 0.86 due to huge decrease in the profit before tax. QR increased to 1.64 in the year 2013-14 and the surprise was that which declined to 0.56 in the year 2014-15 due to huge decrease in the long term fund. DPR initially decreased as 0.01 in 2011 and gradually increased to 0.67 in the year 2014-2015

Table – 1
Comparative Financial Statements Analysis

COMPARATIVE BALANCE SHEET OF FORCE MOTOR LIMTED FROM THE YEAR 2011-2015					
Particular	*As at March 31,2011*	*As at March 31,2012*	*As at March 31,2013*	*As at March 31,2014*	*As at March 31,2015*
EQUITY AND LIABILITIES					

Shareholders' funds					
Share capital	*1317,90,33*	*1317,90,383*	*1317,90,383*	*1317,90,343*	*1317,90,383*
Reserves & surplus	*32109,83,498*	*113011,63,775*	*113977,04,607*	*121284,00,706*	*130370,12,053*
Total	*33427,73,881*	*114329,54,158*	*115294,94,990*	*122601,91,089*	*131688,02,436*
Non-current Liabilities					
Long-term Borrowings	*111923,80,000*	*5969,05,000*	*4198,70,000*	*2038,25,000*	*1073,00,000*
Deferred Tax Liabilities (Net)	*1572,96,300*	*1914,80,176*	*2192,69,499*	*661,87,436*	*2661,33,572*
Other Long term Liabilities	*396,00,000*	*396,00,000*	*396,00,000*	*396,00,000*	*396,00,000*
Long term Provisions	*3134,35,342*	*3355,54,057*	*2763,40,969*	*2066,14,643*	*1921,58,120*
Total	*17027,11,642*	*11635,39,233*	*9550,80,468*	*5162,27,079*	*6051,91,692*
Current Liabilities					
Short-term Borrowings	*10508,99,350*	-	-	-	-
Trade Payables	*32800,96,447*	*24368,84,548*	*25256,11,826*	*29994,25,393*	*39283,42,417*
Other current Liabilities	*8877,31,038*	*13074,54,045*	*1845833508*	*1689037489*	*16168,65,749*
Short term Provisions	*2124,63,491*	*3028,36,348*	*222315450*	*253869668*	*3976,20,801*
Total	*54311,90,326*	*40471,74,941*	*45937,60,784*	*49423,32,550*	*59428,28,967*
Sum Total	*104766,75,849*	*166436,68,332*	*170783,36,242*	*177187,50,718*	*197168,23,095*

Reserves and surplus funds of shareholders shows increasing trend from Rs.32109,83,498 in the year 2011 to Rs130370,12,053 in the year 2015. Long term borrowing shows decreasing trend from Rs.111923,80,000 in the year 2011 to Rs. 1073,00,000 in the year 2015. Deferred tax liabilities have gradually increased from Rs. 1572,96,300 in the year 2011 to Rs. 2661,33,572. Trade payables has increased from Rs. 32800,96,447 in the year 2011 to Rs. 39283,42,417 in the year 2015 and they shows the growth trend in their business.



X. CONCLUSION

The main objective of the present study is to identify the individual ratios which are affecting the profitability of the industry and to categorized the financial ratios into a small number of latent variable to represent a compact view of financial performance for a specified time period. The study reveals that the financial performance is fair. It has been maintaining good financial performance and further it can improve if the company concentrates on its operating, Administrative and selling expenses and by reducing expenses.

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