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## Comparative Appraisal of Solvency Position of Leading Indian Automobile Companies

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**ABSTRACT:** The study examines the solvency position of leading Indian automobile companies for the past ten years. It involves in-depth analysis of relationship between the total outside liabilities to the total assets of the firm having regard to important aspects concerning the same. Solvency ratios are calculated to ascertain financial stability of the firm in the long run.

**KEYWORDS:** Total outside Liabilities, Total Assets, Deviation, Enterprise

### I. INTRODUCTION

For running and managing an enterprise funds are required. If funds are inadequate, the business suffers and if funds are not properly managed, the entire organization suffers. Solvency ratio indicates the relationship between the total outside liabilities to the total assets of the firm. It measures availability of assets for discharging outside liabilities. Through this ratio, the ability of a business concern for meeting its short term & long term obligations can be judged. Lower the ratio of total liabilities to Total assets, more satisfactory or stable is the long term solvency position of a firm. On the contrary, higher solvency ratio implies presence of more liabilities and comparatively lower assets available to discharge these liabilities.

### II. OBJECTIVE OF THE STUDY

- To know the Solvency position of the companies for the past ten years
- To know the comparative position of these companies in terms of solvency

### III. METHODOLOGY ADOPTED

The study is concerned with the ten year's data of companies (2002- 2011). The data is secondary in nature and is obtained from the published annual reports of leading Indian automobile companies. Solvency position of the companies is analysed by calculating the ratio of Total outside Liabilities to Total Net Worth of the company. Obtained results are examined through use of Statistical techniques to determine the accuracy of results.

### IV. RESULTS AND DISCUSSION

Maruti Suzuki India Ltd. emerges as the most solvent company in term of this ratio. It has the lowest average ratio of 31.44 during ten years under study. Interestingly, standard deviation is at 6.04 with highest C.V. of 19.22%. Overall, position of company is strong since availability of assets is much higher than the outside liabilities. Occupying second place is Hero MotoCorp having an average ratio of 49.20. Deviation is at 8.94 with C.V. of 18.17%. Although the company is ranked second in terms of this ratio, the gap between the top company i.e. Maruti Suzuki India Ltd. is quite substantial. Maruti Suzuki India Ltd. fares better in terms of wealth creation for shareholders than Hero MotoCorp.

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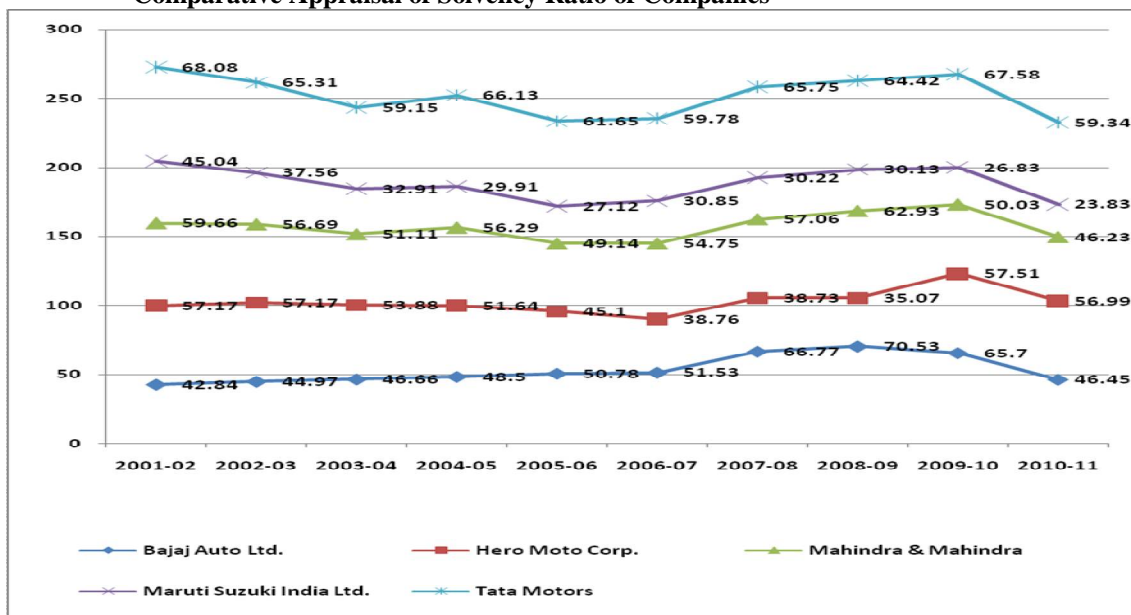
### Solvency Ratio Analysis and Interpretation

Comparative Appraisal of Solvency Ratio of Companies (In %)													
Companies	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010- 11	Average	Std. Dev.	C.V. %
<b>Bajaj Auto Ltd.</b>	42.84	44.97	46.66	48.50	50.78	51.53	66.77	70.53	65.70	46.45	<b>53.47</b>	<b>10.19</b>	<b>19.05</b>
<b>Hero Moto Corp.</b>	57.17	57.17	53.88	51.64	45.10	38.76	38.73	35.07	57.51	56.99	<b>49.20</b>	<b>8.94</b>	<b>18.17</b>
<b>Mahindra &amp; Mahindra</b>	59.66	56.69	51.11	56.29	49.14	54.75	57.06	62.93	50.03	46.23	<b>54.39</b>	<b>5.17</b>	<b>9.51</b>
<b>Maruti Suzuki India Ltd.</b>	45.04	37.56	32.91	29.91	27.12	30.85	30.22	30.13	26.83	23.83	<b>31.44</b>	<b>6.04</b>	<b>19.22</b>
<b>Tata Motors</b>	68.08	65.31	59.15	66.13	61.65	59.78	65.75	64.42	67.58	59.34	<b>63.72</b>	<b>3.44</b>	<b>5.41</b>

(Source – Values Calculated on Data Published in Annual Reports of Companies)

Bajaj Auto Ltd. is slightly ahead as compared to Mahindra & Mahindra and occupies third place. It has an average ratio of 53.47 as against 54.39 of Mahindra & Mahindra. Mahindra & Mahindra is better in terms of consistency as has a deviation of 5.17 and C.V. of 9.51%. On the other hand, deviation is double for Bajaj Auto Ltd. at 10.19 with a variance of 19.05%.

**Comparative Appraisal of Solvency Ratio of Companies**



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Tata Motors emerges as the least solvent company having an average ratio of 63.72%. Though, it has a low deviation of 3.44 and variance of 5.41%, position of the company is not strong compared to its counterparts. Such a high ratio implies use of more debt funds by the company. Company's wealth creation has been low during the ten years as almost 2/3<sup>rd</sup> of its assets belong to outsiders.

## VI.CONCLUSION

Following are the important findings with respect to the solvency of the companies:

- Maruti Suzuki is a most solvent company having lowest overall liabilities
- Tata Motors emerges as a least solvent company due to higher liabilities
- Average solvency position of Bajaj Auto & Mahindra & Mahindra is almost same

It is evident that tata motors has deployed more debt funds than own equity fund. On the contrary, Maruti Suzuki has deployed more own funds than debts funds.

On the other hand, average position of Bajaj Auto Limited and Mahindra & Mahindra Limited is almost similar as these companies have an average ratio of 46.45 & 46.23 respectively. However, the ratio for Mahindra & Mahindra is on a decline since last two years which is a good sign.

In case of Hero Moto Corp. the ratio is continuously on a decline for 9 years and has only increased in the latest financial year i.e. 2010-11. This can be due to expansion plans of the company.

Thus, except for Maruti Suzuki India Ltd., remaining companies have not fared well in terms of solvency ratio. These companies need to examine their capital structuring and manage their working capital requirements more efficiently to improve upon their solvency ratio.

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