Inter firm Profitability Analysis of Indian Tyre Industry: A study during the period 2008-09 to 2012-13.

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ABSTRACT

This paper makes an attempt to provide an insight into the profitability performance of leading tyre manufacturers in India. It also makes an endeavour to observe and test the inter firms industry position. Profitability ratios are ranked and selected into a uniform boundary to compare their performance. The study is based on secondary data collected from published annual reports cover a five years period (2008-09 to 2012-13). The available data have been analyzed by using important Profitability ratios.

Keywords: Financial Performance, Inter-firm analysis, Profitability

I INTRODUCTION

Profitability is a set of financial indicators that are used to measure a business's ability to generate income as compared to its expenses incurred during a specific period of time. The profitability of a company is a major concern for the management as well as the stakeholders because it finds out the rate of return and makes the business comparable to the industry as well as its own past. To ascertain the relative profitability standing of a firm, its profitability ratios are compared with its immediate competitors. Used with care and imagination, the technique can reveal much about a company and its operations. For most of these ratios, having a higher value relative to a competitor's ratio is suggestive that the firm is doing well.

The Indian Tyre Industry is an integral part of the auto sector and its fortunes are interdependent on those of the Automobile players. While there are around 40 listed tyre manufacturers in India, the top 7 tyre players account for around 70-80% of the total tyre production. Apollo, MRF, JK, Ceat, Balkrishna, Goodyear and TVS-Srichakra were accounted as major players of organised market. Falcon, Govind Rubber, Krypton-PTL and Surya are some of the other significant players in the industry. For the year 2010-11 the industry has clocked a turnover of almost Rs.30,000 Crore of which around 90% has come from the domestic market. According to a study by Credit Analysis and Research Limited, the tyre industry is expected to show a healthy growth rate of 9-10 percent over the next five years. This is the time to analyse and appraise the performance in respect of profitability of major tyre companies and it will help the policy makers to take on further development of these banks.

II OBJECTIVE

The main objective of the present work is to appraise the performance in respect of profitability on selected tyre manufactures in India and its profitability ratios are compared with its immediate competitors. More specifically, it seeks to do well upon mainly the following issues:

(i) To assess the profitability position with the help of widely used financial ratios of the selected companies;

(ii) To observe the profitability performance of companies under the study;

(iii) To compare the performance of selected companies based on overall profitability.

II MATERIALS AND METHOD

The present study is based on 7 listed tyre manufacturing firms in India. The study covers a period of 5 years i.e. from 2008-09 to 2012-13. The industry level secondary data obtained from the audited balance sheets and profit & loss accounts and also the annual reports. The available data have been analyzed by using various Profitability indicators such as Operating Profit Margin, Net profit Margin, Return on Capital Employed, Return on Equity and Return on long term fund. An attempt has been made to measure the profitability performance of major tyre manufacturers in the light of said financial indicators.

IV RESULTS AND DISCUSSION

The table-1 exhibits the list of 7 major players of tyre industry considering their 6 profitability ratios. The estimated profitability ratios are ascertained on the basis of simple average value for the 5 successive financial years from 2008-09 to 2012-13.

Table-1 contains the financial data of seven tyre manufacturing firms.

Table-1 ***Profitability Ratios of major Tyre Companies***

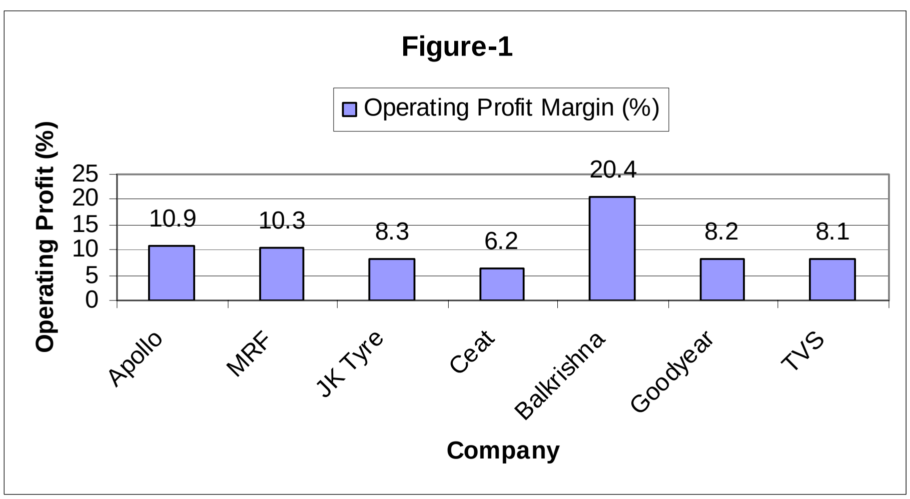
Serial Number	Company Name	Avg. Operating Profit Margin (%)	Avg. PBIT Margin (%)	Avg. Net Profit Margin (%)	Avg. ROCE (%)	Avg. ROE (%)	Avg. Return on Long term Fund (%)
1	Apollo	10.9	9.3	4.1	15.9	12.9	18.2
2	MRF	10.3	7.1	4.6	20.0	19.8	22.4
3	JK Tyre	8.3	6.2	1.7	14.5	10.2	20.8
4	Ceat	6.2	5.8	1.6	16.0	(8.2)	18.6
5	Balkrishna	20.4	16.9	10.0	19.9	23.6	29.1
6	Goodyear	8.2	7.5	4.9	36.3	23.9	36.7
7	TVS Srichakra	8.1	7.2	2.9	22.0	26.4	37.1
Serial Number has been done on the basis of Total Income during 2012-13.							

The industry shows significant variation across firms in terms of all Profitability ratios.

1. Operating Profit Margin:

Operating Profit Ratio establishes the relationship between operating Profit and net sales. Higher operating ratio indicates that the firm has got enough margins to meet its non operating expenses well as to create reserve and pay dividends. It can be computed as follows:

Operating Profit Ratio = Operating Profit / Sales × 100

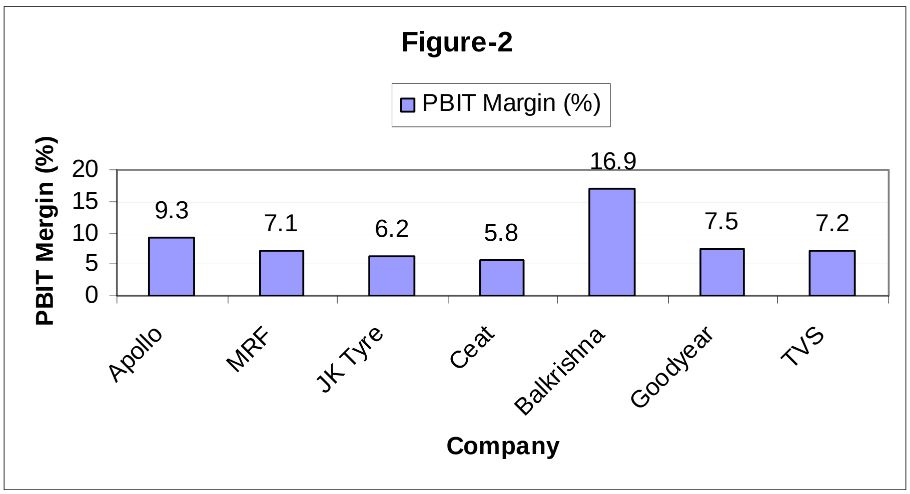


The Figure 1 indicates that the Balkrishna Industries is the highest average Operating Profit margin of 20.4%. Apollo Tyres comes at the second place with an average operating profit margin of 10.9% but Average operating profit margin of Balkrishna industries is almost double of Apollo Tyres. The MRF is the third highest performing company with 10.3% average operating profit margin in the industry.

2. PBIT Margin:

PBIT Ratio is useful to compare multiple companies, especially with in a given industry, and it also helps to evaluate how a company has grown over time. The PBIT Margin is defined as:

PBIT Margin = (Operating Profit +Other Income)/ Sales × 100

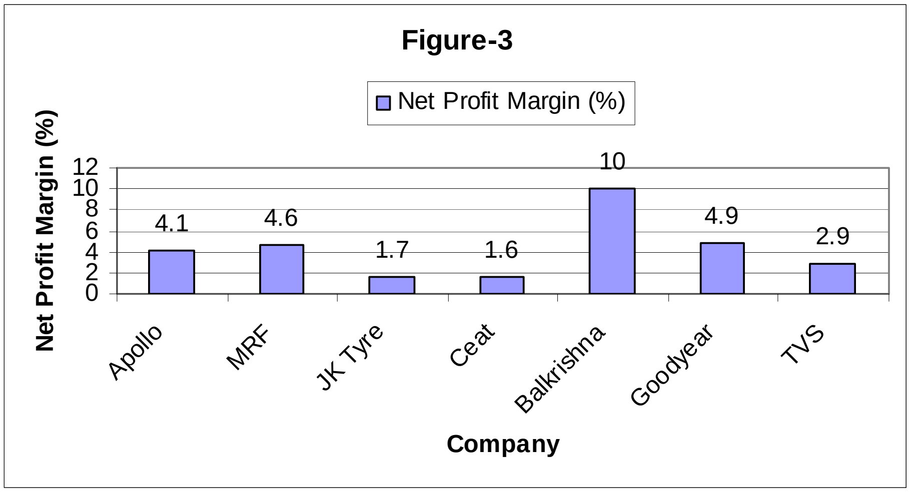


As seen in the above Figure-2, the average PBIT margin is highly competitive with the top 3 players. Balkrishna Industries is slightly ahead with a 16.9% average PBIT. Apollo Tyres is in the second place in average PBIT margin 9.3%. Goodyear which has a good presence in the market is in the third place with 7.5% average PBIT margin.

3. Net Profit Margin:

This ratio establishes the relationship between net profit and net sale. It indicates managements' efficiency in manufacturing, administering and selling the product. A firm with high net profit margin would be in an advantageous position to survive in the face of falling selling prices, rising cost of production or declining demand for the product. It is calculated as a percentage of sales. It is computed as under:

Net Profit Ratio = Net profit / Net Sales × 100



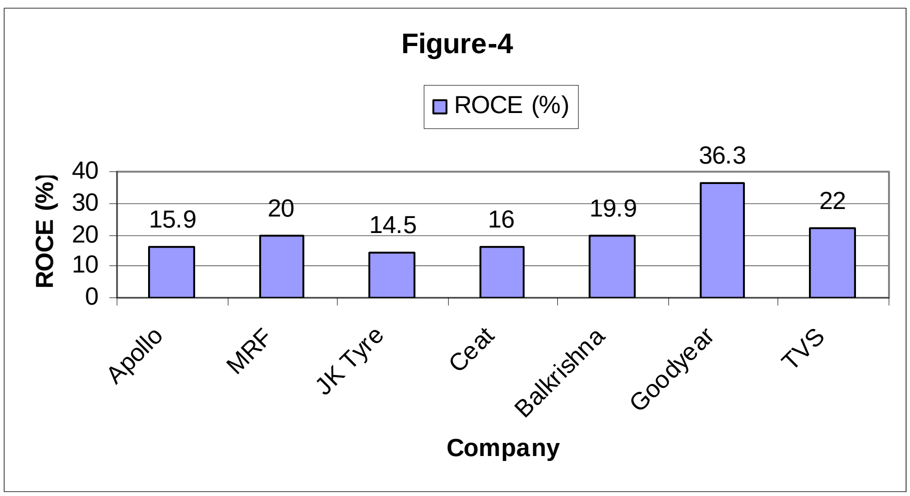
The Figure 3 indicates that the Balkrishna Industries which has the highest average Net Profit Margin of 10%. Goodyear comes at the second position with 4.9% and like operating profit margin MRF is in the third position with average Net Profit margin of 4.6 %.

4. Return on Capital Employed:

Return on capital employed is the indicator of the operational efficiency of the company. It measures how much investors are earning on the capital they have invested in that business. Return on Capital Employed is a performance measure and it indicates how much return is generated from Invested Capital.

The return on capital Employed is defined as:

ROCE = [Profit after Tax + Interest] / Net Capital Employed ×100

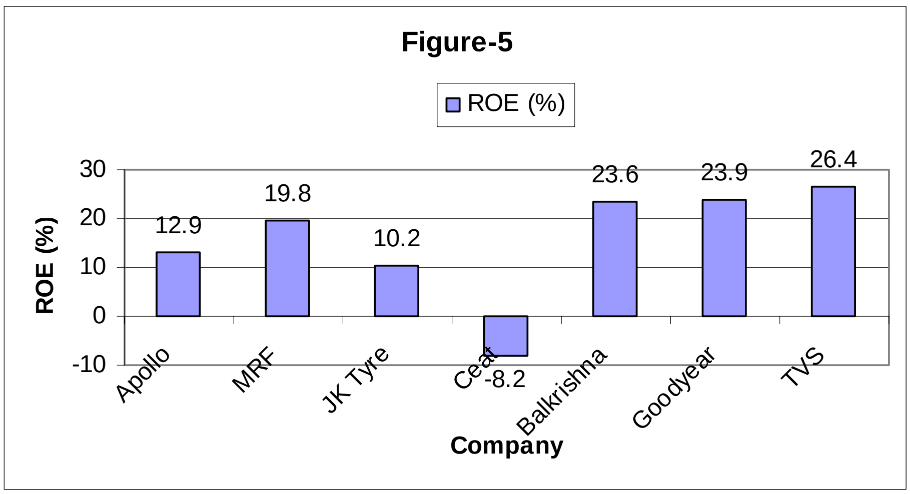


The Figure 4 indicates that the Goodyear India is far ahead from other players in terms of average Return on Capital Employed. Its ROCE has grown strongly with an average of 36.3%. TVS- Srichakra also has high average return of ROCE of 22% in the industry. The third major player is MRF with 20% average return on capital employed.

5. Return on Equity:

The Return on Equity ratio is perhaps the most important of all the financial ratios to investors in the company. It measures the return on the money the investors have put into the company. In general the higher the percentage, the better, with some exceptions, as it shows that the company is doing a good job using the investors' money. The return on net worth is defined as:

ROE = Net Profit / Share Holders Fund ×100

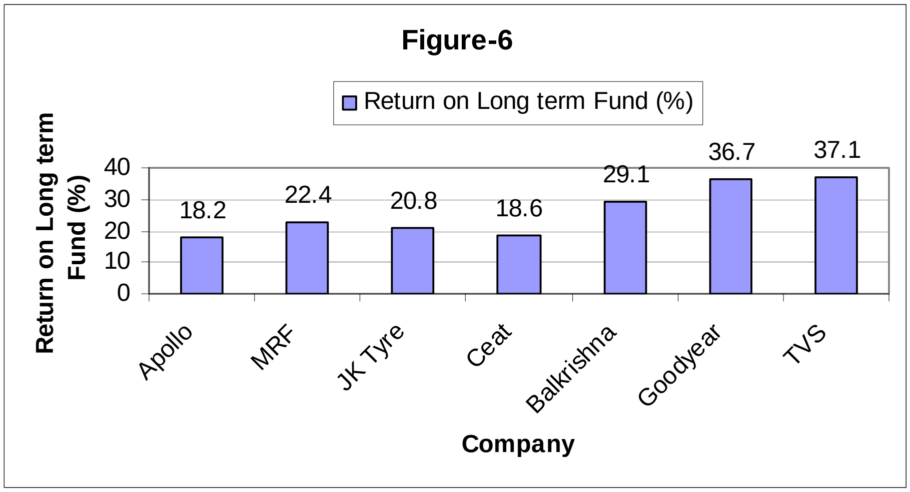


The Figure 5 indicates that the Return on Equity of TVS-Srichakra has grown strongly with an average of 26.4% which is the highest in the industry. Goodyear India comes at second position with an average ROE of 23.9% and MRF is in the third position with an average ROE of 22.6%.

6. Return on Long term Funds:

Return on Long term funds establishes the relationship between net profit and the long term funds. It tells us that earning of the company which reflects operating condition of the firm. The term long-term funds refer to the total investment made in business for long term. It is calculated by dividend earnings before Interest and Tax (EBIT) by the total long term funds. The return on Long term funds is defined as:

Return on Long term fund = EBIT / Long term Fund ×100



The Figure 6 indicates that the TVS-Srichakra shows highest soundness of return on long term fund with an average of 37.1%. Goodyear India is much closed to TVS-Srichakra with an average return of 36.7%. Balkrishna Industries comes at third place with an average return of 29.1%.

7. Consolidated Profitability Performance

The Table-2 exhibits the consolidated profitability performance of seven major tyre companies to illustrate their individual position.

Table-2

Company	Rank as per Profitability Ratio						Total	Ultimate Rank
	Avg. Operating Profit Margin	Avg. PBIT Margin	Avg. Net Profit Margin	Avg. ROCE	Avg. ROE	Avg. Return on Long term Fund		
Apollo	2	2	4	5	6	7	26	**5**
MRF	3	5	3	3	4	4	22	**4**
JK Tyre	4	6	6	7	5	5	33	**6**
Ceat	7	7	7	6	7	6	40	**7**
Balkrishna	1	1	1	4	3	3	13	**1**
Goodyear	5	3	2	1	2	2	15	**2**
TVS Srichakra	6	4	5	2	1	1	19	**3**
The ultimate Rank has been calculated taking lower the aggregate of the individual Rank								

V FINDINGS

1. Among the top seven tyre companies selected for the study, Balkrishna Industries was having the highest Operating Profit margin of 20.4% as per last five years performance. Apollo Tyres was at the second place with operating profit margin of 10.9%.

2. In the area of Profit before Interest and Tax, Balkrishna Industries was in the topmost position among the seven tyre companies with 5 years average of 16.9%. Apollo Tyres was in the second place in average PBIT margin 9.3%.

3. In Net profit Ratio, Balkrishna Industries was the best performer, as it had the highest average Net Profit Margin of 10%. Thus, it had chances of earning higher profits. Goodyear came at the second position with 4.9%.

4. Among the top seven leading tyre manufactures of India, Goodyear India was far ahead from other players in terms of Return on Capital Employed. Its ROCE has grown strongly with a 5 year average of 36.3%. Thus, Goodyear India was efficiently utilizing its capital.

5. In the area of Return on Equity, TVS-Srichakra was the best performer among the leading tyre manufacturers, as it had grown strongly with a 5 year average of 26.4%. Thus, it had a potential return on the money for the investors have put into the company.

6. The Return on long term fund was highest for TVS-Srichakra with 5 year average of 37.1%.Thus; TVS-Srichakra shows highest soundness among the top seven companies. Goodyear India was much closed to TVS-Srichakra with an average return of 36.7%.

7. The study revealed that Balkrishna Industries was in the highest profitability position during the study period compared to other industry players.

VI CONCLUTION

The companies selected for the study shows that the industry is somewhat doing well as far as profitability ratios are concerned. It is notable that the operational efficiency of Balkrishna Industries has been consistent and it figures in top position. Goodyear is also far ahead from remaining industry players. It also has second highest profitability position based on ultimate rank. The other major performer is TVS-Srichakra which ranks third position during the study period, where as market leaders MRF and Apollo enjoying fourth and fifth position respectively. However, the profitability performance of JK tyres and Ceat are less satisfactory in comparison with the other players in the industry.

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