

A Study on Profitability of Auto Ancillaries in India

R. VIDYA*
M. KRISHNAVENI**

Abstract

The prime objective of the study is to check determinants of profitability of the selected companies in automobile industry in India during the period 2004-05 to 2013-14. Profitability is significant for survival and growth of the company. Several factors play an important role directly or indirectly in determining profitability. The objective of the study is to examine the determinants of profitability of selected Auto Ancillaries in the Indian Automobile Industry. Determinants of profitability are analysed using the technique of multiple regression analysis. It is evident from the results that operating ratio is the stronger determinants of profitability followed by the variables liquid ratio, past profitability, inventory turnover ratio, size. The study concluded that auto Ancillaries should consider all these possible determinants while considering its profitability.

I. Introduction

A WELL-DEVELOPED TRANSPORTATION system plays a pivotal role in the development of economy. India is no exception to it, with the unprecedented growth of the transportation system, the automobile industry of India is also growing at rapid speed occupying a prominent place on the canvas of Indian economy. There are two distinct set of players in the Indian Automobile Industry namely the Automobiles manufacturers and the Auto Ancillaries manufacturers which are also referred to as original equipment manufacturers. While the former is engaged in manufacturing parts, components, bodies and chassis involved in automobile manufacturing, the latter is engaged in assembling of all these components in to an automobile.

II. Review of Literature

Nagarjunan and Barathwal (1989)¹ studied large size companies have the advantage of technical know-how and economies in manufacturing,

* Assistant Professor, Government Arts College, The Department of Commerce, Udumalpet Tamil Nadu 641026, INDIA

** Head of the Department, L.R.G. College for Women, The Department of Commerce, Palladam Main Road, Near Collector Office, Tiruppur, Tamil Nadu 641604, INDIA

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Table VI
Determinants of Profitability in Others (2004-05 to 2013- 14)
 (Dependent Variable - NPR)

Particulars	Beta Co-efficient	t-value	Significant/Not Significant
(Constant)	131.81		
Size	0.50	13.52	Significant
LR	-9.00	8.50	Significant
ITR	-0.90	3.54	Significant
DER	0.04	2.10	Not Significant
FATR	-0.11	6.12	Significant
OPER	-.095	5.64	Significant
OR	-1.00	24.93	Significant
PP	-0.005	12.38	Significant
R ² - 1.00			
Adjusted R ² - 0.99			

Source: Self Computed from the Annual Reports of Indian Automobile Industry

The overall explanatory power of Multiple Regression appears to be good. This may be inferred from the Co-efficient of determination (R²) which is the measure of the extend of movement in the dependent variable that is explained by the independent variables. R² is 100 per cent and the adjusted R² explanation is around 99 per cent.

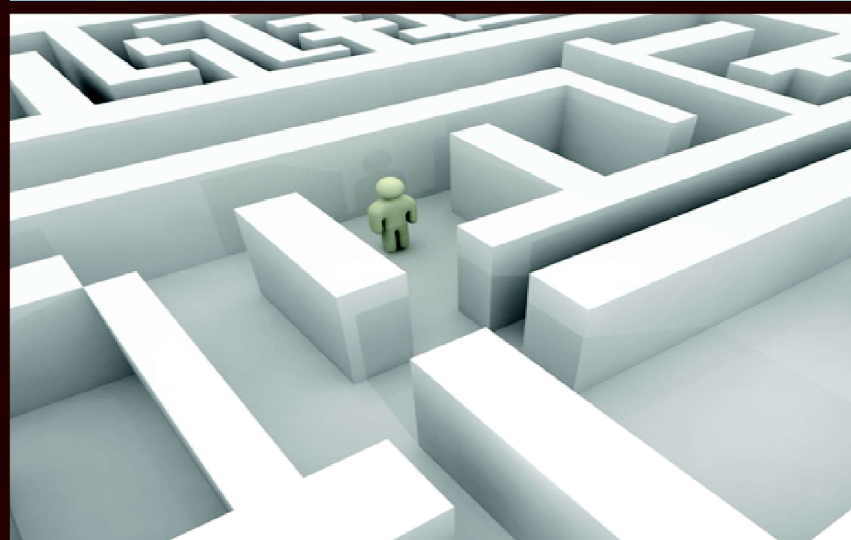
VI. Conclusion

It can be concluded from the above analysis the selected variables explain 100 per cent of variation in profitability in Gear sector, Sheet Metal sector, 87 per cent in Springs sector, 84 per cent in Lamps sector and 99 per cent in Engine Parts sector. It is evident from the results that Operating Ratio is the stronger determinant of profitability followed by the variables Liquidity Ratio, Size, Past profitability, Debt Equity Ratio, Inventory Turnover Ratio, Operating Expenses Ratio and Fixed Assets Turnover Ratio. The selected variable have both positive and negative contribution in variation of profit rate. It can be concluded that sectors should consider all these possible determinants while considering its profitability

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Capital Structure Decisions



Under
Multiple Objectives
A STUDY OF INDIAN CORPORATES

Dr. Yamini Agarwal

Contact :

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Indian Institute of Finance

45A, Knowledge Park III

Greater Noida 201310, UP, INDIA

Ph.: 9999321585-86;

0120-2323683

Email: nl@iif.edu ; info@iif.edu

