



## A Study on Financial Performance of Honda and Toyota Automobile Company a Comparative Analysis

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### Abstract

The automobile industry is one of the key drivers that boost the economic growth of the country. It has grown a reasonable capture in four wheeler companies in India play a vital role in economic segments. The period for this study covered five years from 2009-2010 to 2013-2014 and the essential data for this study have been collected from the annual reports of two companies (Honda & Toyota). It appears safe to summarize that the Honda & Toyota seems to be sound financial management practice.

**Keywords:** Automobile Industry; Liquidity and Profitability; Consistency.

### Introduction

The automobile industry is one of the key drivers that boost the economic growth of the country. In India, automotive is one of the largest industries showing impressive growth over the years and has been significantly making increasing contribution to overall industrial development in the country. Presently, India is the world's second largest manufacturer of two wheelers, fifth largest manufacturer of commercial vehicles as well as largest manufacturer of tractors. It is the fourth largest passenger car market in Asia as well as a home to the largest motor cycle manufacturer. It plays a pivotal role in country's rapid economic and industrial development. As of 2010, India was home to 40 million passenger vehicles. More than 3.7 million automotive vehicles were produced in India in 2010 (an increase of 33.9%), making India the second fastest growing automobile market in the world (after China). According to internal projections by Mercedes Benz Cars, India is set to become Mercedes Benz's fastest-growing market worldwide ahead of China, the US and Europe.

### Profile of Company

#### HONDA

Honda Motor Co., Ltd. (Honda), incorporated on September 24, 1948, develops, produces and manufactures a variety of motor products, ranging from small general-purpose engines and scooters to specialty sports cars. The Company's business segments are the motorcycle business, automobile business, financial services business, and power product and other businesses. Honda conducts its operations in Japan and worldwide, including North America, Europe and Asia.

#### TOYOTA

Toyota Motor Corporation was Japan's largest car company and the world's third largest by the year 2000. The company represented one of the true success stories in the history of manufacturing, its growth and success reflective of Japan's astonishing resurgence following World War Ibis the twelfth-largest company in the world by revenue.

- (1) The biggest carmaker in the world in 2009 (more than 7.5 million cars).
- (2) Main markets are Japan and North America, but recently we can see a strong growth in Asian and South America markets.
- (3) Toyota has three brands: Toyota, Lexus and Scion.

## Review of Literature

“**Financial Analysis of Indian Automobile Industry** “Dr. Nishi sharma The financial performance of Mahindra & Mahindra Limited as well as Tata Motors is very satisfactory in terms of profitability as well as managerial efficiency to generate sales from the use of assets. But their liquidity positions are not so sound. The liquidity position of commercial vehicle manufacture is better than passenger vehicle manufacturers.” **An Overview of the Financial Performance of Indian tyre Industry –Comparison among leading tyre Companies**” Nisha Rapheal (2013) in her study that success of the industry depends on Labour productivity, Labour flexibility, and capital efficiency.” **Performance Evaluation of maruti Suzuki India Limited: An Overview**” **Mr.Vishal.S.Rana,Dr.Murlidhar A.Lokhande**” Maruti Suzuki’s last few year’s statistics of Domestic sales, Export, narrates that still Maruti Suzuki is the leader of Indian Automobile sector.

## Objectives of the Study

To compare and analyze liquidity, profitability, solvency ratios of the Honda and Toyota Automobile industry.

## Sampling Method

The study is based on convenience sampling method.

## Period of the Study

The period for this study covered five years from 2010 to 2014 and the essential data for this study have been collected from the annual reports of two companies (Honda & Toyota).

## Data Collection

The financial data and information required for the study are drawn from the secondary source Prowess corporate databases developed by CMIE.

## Data Analysis

In order to identify the performance and the profitability of Automobile Industries various financial ratios were estimated in that statistical tools like mean, standard deviation and co-efficient of variation were computed.

## Analysis of Honda

Statistical tools	Current Ratio	Liquidity Ratio	Cash Ratio	Debt Equity	Proprietary Ratio	Gross Profit Ratio	Net Profit
Mean	1.296	1.02	0.308	0.416	0.372	26	5.05
Standard Deviation	0.046	0.05244	0.044	0.015	0.023	0.7	1.56
Co-efficient variation	3.56	5.14	14.41	3.64	6.41	2.71	31.04

## Analysis of Toyota

Statistical tools	Current Ratio	Liquidity Ratio	Cash Ratio	Debt Equity	proprietary Ratio	Gross Profit Ratio	Net Profit
Mean	1.096	0.938	0.152	1.75	0.358	17.424	3.67
Standard Deviation	0.071	0.072	0.026	0.023	0.008	2.95	2.65
Co-efficient variation	6.56	7.7	17.65	1.34	2.33	16.98	72.4

## Findings and Conclusion

It is satisfying to note that the both (HONDA & TOYOTA) 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.

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