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## RESEARCH ARTICLE

### Comparative Appraisal of Return on Net worth Ratio of Companies.

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#### Abstract

The study examines the return on Net worth ratio of five leading Indian automobile companies for the past ten years. It is one of the important ratios to measure the overall efficiency of a firm. The ratio is of great importance to the present/prospective share holders and management of the company. It reveals how well the resources of the firm are being used. Higher ratio implies higher returns on the amount of capital invested in a company.

Study aims to evaluate the performance of top five Indian automobile companies on the parameter of 'return on net worth' of the company. Results obtained are further analysed through statistical techniques for arriving at conclusions.

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#### Introduction:-

Automobile Industry has witnessed rapid growth during last two decades. Their progress has not only contributed to country's economy but also resulted in wealth creation for its shareholders. Wealth creation is not possible without earning profits. One of the important yardstick to measure profitability of any organization is to check the return on net worth employed by the company. We have identified top five automobile companies of the country on the basis of turnover achieved by them during 2001-02 to 2010-11. Our aim is to make a comparative appraisal between these companies on the basis of return on net worth ratio.

Ratio calculates the relationship between net profit (after interest and tax) and share holder's/proprietor's fund (Net worth). This ratio establishes the profitability from the share holders' point of view. The two basic components of this ratio are net profits and shareholder's funds. Shareholder's funds include equity share capital and all reserves and surplus belonging to equity shareholders. Net profit means net income after payment of interest and income tax available for shareholders of the company.

#### Objective of the Study:-

- To know return on net worth of top 5 Indian automobile companies for last 10 years
- Make comparative appraisal between companies in terms of return on net worth ratio

#### Methodology Adopted:-

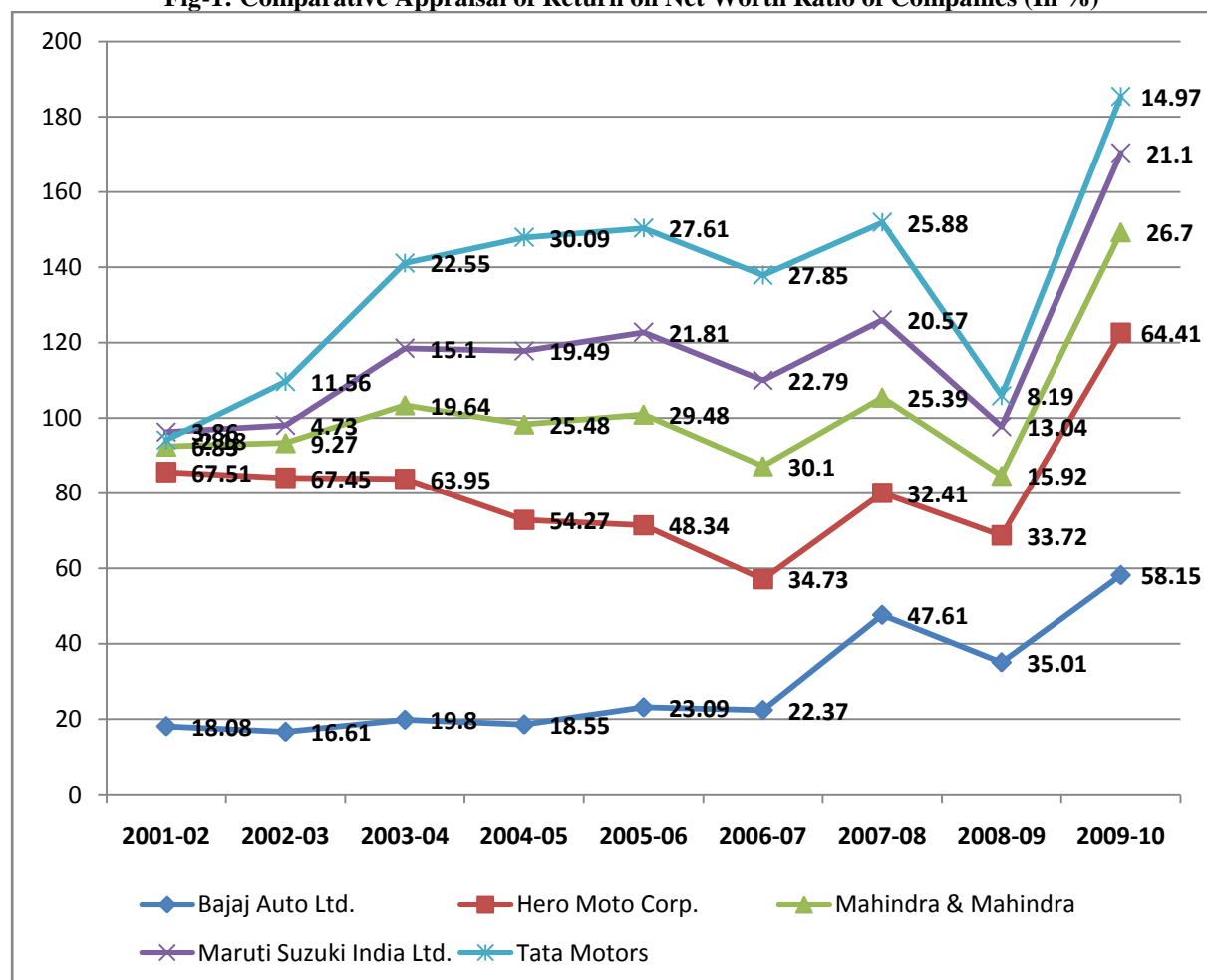
The study is concerned with the ten year's data of companies (2002- 2011).The data is secondary in nature and is obtained from the published annual reports of leading Indian automobile companies. Data is analyzed through statistical techniques to comment upon the Return on net worth ratio of the companies.

**Table No.1**

Comparative Appraisal of Return on Net Worth 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. %
Bajaj Auto Ltd.	18.08	16.61	19.80	18.55	23.09	22.37	47.61	35.01	58.15	68.02	32.73	18.74	57.26
Hero Moto Corp.	67.51	67.45	63.95	54.27	48.34	34.73	32.41	33.72	64.41	65.22	53.20	14.80	27.81
Mahindra & Mahindra	6.83	9.27	19.64	25.48	29.48	30.10	25.39	15.92	26.70	25.90	21.47	8.26	38.48
Maruti Suzuki India Ltd.	3.86	4.73	15.10	19.49	21.81	22.79	20.57	13.04	21.10	1.65	14.41	8.19	56.83
Tata Motors	-2.18	11.56	22.55	30.09	27.61	27.85	25.88	8.19	14.97	9.05	17.56	10.80	61.54

(Source – Values Calculated on Data Published in Annual Reports of Mahindra & Mahindra Ltd.)

**Fig-1: Comparative Appraisal of Return on Net Worth Ratio of Companies (In %)**



### Results and Discussions:-

Based on above tabulated results, Hero MotoCorp emerges as a company with highest return on owner's funds. Company has an average ratio of 53.20 for ten years under study. Standard deviation of 14.80 and C.V. of 27.81% signifies good consistency, especially in comparison to other companies.

Bajaj Auto Limited has a second highest ratio of 32.73. However it has a high standard deviation of 18.74 and C.V. of 57.26% implying substantial variation in return figures for ten years under study. In particular, company has shown tremendous results in last two financial years and has recorded highest return on net worth.

Mahindra & Mahindra stands at third rank and has an average ratio of 21.47. Standard deviation is low at 8.26 but C.V. is marginally high at 38.48%. Company has considerable debt in its capital structure which reduces the return on net worth for stakeholders.

In terms of return on capital employed, Tata Motors stands at fourth rank with average return of 17.56. It has a standard deviation of 10.80 and C.V. of 61.54%. Tata Motors has a highest C.V. in terms of percentage which denotes huge fluctuations in return figures. It is the only company which has registered loss during the years under study.

Maruti Suzuki India Limited occupies the bottom place as it has the lowest return of 14.41. While standard deviation is 8.19, C.V. is high at 56.83%. This implies substantial fluctuation in return figures of the company. Latest Financial Year has been the lowest in terms of return of net worth as it stands at 1.65.

### Conclusions:-

Maruti Suzuki and Tata Motors have challenging task of improving their profitability as both these companies are considerably behind in comparison to their counterparts. Although position of Mahindra & Mahindra is better than Maruti Suzuki and Tata Motors, it is distinctly behind in comparison to top two companies in terms of return on net worth ratio. There may be a scope for these companies to improve their profitability by having recourse to following suggestions:

1. Restructuring their debt equity ratio.
2. Improving their operational efficiencies.
3. Controlling the wasteful expenditure.
4. Assessment of performance of employees in proportion to their remuneration.

Bajaj Auto limited occupies second rank in terms of this ratio. However, there is a distinctive gap between its ratio in comparison to Hero Moto Corp's ratio which occupies first rank.

These top two companies viz Hero Moto Corp and Bajaj Auto Limited also have challenging task of maintaining their good profitability in coming years. Due to good track record, expectations of investors, money lender, creditors etc. keep growing. Thus, these companies must keep the focused approach and continued vigilance to their operations for maintaining their good profitability.

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