



## An analysis of financial performance of Apollo Tyres

<sup>1</sup> S Ramya, <sup>2</sup> Porgeetha Angel R, <sup>3</sup> Pavithra SR

<sup>1</sup> Assistant Professor, PSGR Krishanammal College for Women, Coimbatore, Tamil Nadu, India

<sup>2,3</sup> III<sup>rd</sup> year B.com (Professional Accounting), PSGR Krishanammal College for Women, Coimbatore, Tamil Nadu, India

### Abstract

Financial Analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account. The main objective of the study is to analyze the financial position of the company. The study was carried out for the period of five years (2013 – 2017) to analyze the financial performance of the company. Secondary data are based on the annual reports of 20013-2017. The various tools used for the study are ratio analysis and various leverages. Through ratio analysis the company could understand the Profitability, Liquidity, Leverage, Turnover positions of the company. The study recommends to reducing the dept capital and providing security to creditors and to increase the sales to reduce the loss of the bank.

**Keywords:** combined leverage, debt equity ratio, current, interest coverage, net profit, proprietary and quick ratio

### 1. Introduction

Financial performance in broader sense refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management. It is the process of measuring the results of a firm's policies and operations in monetary terms. Finance plays a vital role in the every part of business. It gives a life line to the working capital of a company. So without proper administration of finance, we cannot have an effective utilization of funds for the development facts. Thus, analysis of financial performance refers to the treatment of information contained in the financial statement in a way so as to afford a full diagnosis of the profitability and financial position of the firm concerned. The Indian Tyre Industry is an integral part of the auto sector and its fortunes are interdependent on those of the Automobile players.

### 2. Objectives

- To study and analyze the short-term solvency and liquidity position of the company using ratios.
- To measure positional advantages using various leverage.

### 3. Review of Literature

1. Santosh Chandu has analyzed "Ratio analysis at JK Tyre" in 2004-2005. He studied and analyzed liquidity, leverage, activity ratio and profitability ratio. His objective is to know the current financial position over as profitability of the firm in relation to investment over sales. Although the earnings per share is good to shareholder, it is below 50% to 75%, therefore it will helps attracting shareholders towards investment. So he concluded that current year position is well due to rise in profit level. It is better for organization to diversify the funds to different sectors in the present market scenario.
2. Nilesh P. Movalia has studied about the relationship

between "Capital Structure and Profitability of Tyre industry" in India for the period 2009-2010 to 2013-2014. The tools used for this analysis was capital structure, Debt Equity ratio, Net Profit ratio, Return on net worth, Return on Capital Employed. He concluded that there is a significant relationship between capital structure and profitability. It helps to generate more profit if the company maintains ideal debt equity ratio.

### 4. Analysis and Interpretations

#### 4.1 Contribution

"Contribution" represents the portion of sales revenue that is not consumed by variable costs and so contributes to the coverage of fixed costs. This concept is one of the key building blocks of break-even analysis.

**Table 1:** Showing Value of Contribution (Rs. in Crore)

Year	2017	2016	2015	2014	2013
Sales	8933.77	8701.64	8937.82	8711.73	8507.49
(-)Variable cost	7924.64	7014.28	7602.62	7728.05	7616.67
Contribution	1009.13	1687.36	1335.2	983.05	890.82

**Source:** Secondary Data

#### Interpretation

From the above table it can be inferred that there was a steady growth in contribution from Rs.890.82 crores in 2012-13 to Rs.1687.36 in 2015-16. But there was a fall to Rs. 1009.13 crores in 2016-17. This will have an effect on the profits of the respective period.

#### 4.1.1 Combined Leverage

A degree of combined leverage (DCL) is a leverage ratio that summarizes the combined effect that the degree of operating leverage (DOL) and the degree of financial leverage have on earnings per share (EPS), given a particular change in

sales. This ratio can be used to help determine the most optimal level of financial and operating leverage to use in any firm.

**Table 2:** Showing Value of Combined Leverage (%)

Year	2017	2016	2015	2014	2013
Contribution	1009.13	1687.36	1335.2	983.05	890.82
(÷)EBT	1085.63	1257.44	934.15	614.45	474.53
Combined Leverage %	92.95	134.19	142.93	159.99	187.73

*Source:* Secondary Data

### Interpretation

From the above table it can be understood that combined leverage shows a decreasing trend from 187.73% in 2013 to 92.95% in 2017. With no fluctuation during the period at the maximum in 2013 and lowest in the year 2017. A firm with a relatively high level of combined leverage is seen as riskier than a firm with less combined leverage, as the high leverage means more fixed costs to the firm.

## 4.2 Ratio Analysis

### 4.2.1 Debt equity ratio

**Table 3:** Showing Value of Debt Equity Ratio (in times)

Year	2017	2016	2015	2014	2013
Total Liability	6949.22	4582.71	4067.28	3634.22	4219.21
(÷) Net Worth	5331.19	3996.41	3270.68	2739.82	2341.42
	1.3	1.15	1.24	1.33	1.8

*Source:* Secondary Data

### Interpretation

From the above table it can be inferred that debt equity ratio shows a decreasing trend from 1.8 times in 2013 to 1.15 times in 2016. But in 2017 it has increased to 1.3 times. A high debt-to-equity ratio indicates that a company may not be able to generate enough cash to satisfy its debt obligations. However, low debt-to-equity ratios may also indicate that a company is not taking advantage of the increased profits that financial leverage may bring. Thus, firms with high debt-to-equity ratios may not be able to attract additional capital.

### 4.2.2 Current Ratio

**Table 4:** Showing Value of Current Ratio (in times)

Year	2017	2016	2015	2014	2013
Current Asset	2255.27	1605.04	1713.04	1745.35	1548.16
(÷) Current Liability	2466.09	1748.26	1643.03	2186.24	1426.91
	0.91	0.92	1.04	0.8	1.08

*Source:* Secondary Data

### Interpretation

From the above table it can be inferred that in 2013 the firm shows current ratio as 1.08 times which is the highest during the study period. Thus it can be said that the firm was highly liquid in 2013. In 2014 it became 0.8 times which is the least. In 2015 it again increased to 1.04 times. But in 2016 it started to decrease reaching 0.91 times in 2017.

### 4.2.3 Proprietary Ratio

**Table 5:** Showing Value of Proprietary Ratio (in times)

Year	2017	2016	2015	2014	2013
Net Worth	5331.19	3996.41	3270.68	2739.82	2341.42
(÷) Capital invested	3861.65	2447.59	2424.25	1447.98	2792.3
	1.38	1.63	1.35	1.89	0.84

*Source:* Secondary Data

### Interpretation

From the above table it can be found that proprietary ratio is at its lowest in 2013 (0.84 times) representing poor long term solvency position. In 2014 it was 1.89 times which the maximum representing good long term solvency position is. From 2015 the ratio shows a fluctuating trend.

### 4.2.4 Interest Coverage Ratio

**Table 6:** Showing value of interest coverage ratio (in times)

Year	2017	2016	2015	2014	2013
EBIT	1174.42	1345.78	1106.23	930.1	735.49
(÷) Interest	88.78	88.33	172.09	244.61	260.97
	13.23	15.24	6.43	3.8	2.82

*Source:* Secondary Data

### Interpretation

The above table shows that the ratio was at its lowest in the year 2013 with 2.82 times representing a high debt burden. From 2014 (3.8 times) the ratio shows an increasing trend to 2016 (15.24 times) representing reducing debt burden each year. But in year 2017 it became 13.23 times which is the highest showing raise in the debt burden compared to 2016.

### 4.2.5 Net Profit Ratio

**Table 7:** Showing Value of Net Profit Ratio (in times)

Year	2017	2016	2015	2014	2013
Net Profit	802.76	852.46	645.08	442.62	312.53
(÷) Net Sales	8933.77	8701.64	8937.82	8711.74	8507.49
	0.09	0.1	0.07	0.05	0.04

*Source:* Secondary Data

### Interpretation

From the table it can be found that the firm earned good profits in the year 2016 (0.1 times) which is the maximum compared to other years. In the year 2013 the ratio was 0.04 times showing low earning. The ratio shows an increasing trend from 2013 – 2016. But in 2017 it decreased to 0.09 times which is at the least.

### 4.2.6 Quick Ratio

**Table 8:** Showing value of quick ratio (in times)

Year	2017	2016	2015	2014	2013
Current Asset	2255.27	1605.04	1713.04	1745.35	1548.16
(-) Inventory	1729.4	1022.9	1185.19	1283.69	1120.83
Liquid Asset	525.87	582.14	527.85	461.66	427.33
(÷) Current Liability	2466.09	1748.26	1643.03	2186.24	1426.91
	0.21	0.33	0.32	0.21	0.3

*Source:* Secondary Data

### **Interpretation**

The table shows that Quick ratio has a fluctuating trend. In 2013 it was 0.3 times. In 2014 it has fallen to 0.21 times at its least. In 2015 it raised to 0.32 times. In 2016 it has become 0.33 times which is at the maximum. In 2017 it has again fallen to 0.21 times.

### **5. Findings**

- The analysis made indicates that the firm with a relatively high level of combined leverage is seen as riskier than a firm with less combined leverage, as the high leverage means more fixed costs to the firm. The combined leverage shows a decreasing trend from the year 2013-2017.
- The current ratio shows that the firm is highly liquid in the year 2013 after which it started to decrease in the succeeding years.
- The proprietary ratio indicates a good long-term solvency position in the year 2014 and from 2015 the ratio shows a fluctuating trend.
- Net profit ratio express that the firm earned good profits in the year 2016 which indicates the efficient management of the affairs of business.

### **6. Conclusion**

The present study on “financial performance of Apollo Tyres” using the ratios and leverage helps to have a better insight about the financial background and financial performance of the company. From the analysis it was found that the overall financial performance of the company was good with a positive impact although there were some fluctuations.

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