International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 09 Issue: 02 | Feb - 2025 SJIF Rating: 8.448 ISSN: 2582-3930

# A Study of Financial Performance Analysis of Bajaj Auto

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## Abstract

The financial performance of a company serves as a crucial indicator of its stability, profitability, and overall efficiency. This study aims to analyze the financial performance of Bajaj Auto, one of India's leading two- and three-wheeler manufacturers, by evaluating key financial metrics over recent years. The study employs ratio analysis to assess the company's liquidity, profitability, solvency, and efficiency. The research utilizes secondary data collected from annual reports, financial statements, and industry reports to derive insights into the company's financial health. Key financial indicators such as return on assets (ROA), return on equity (ROE), net profit margin, current ratio, and debt-to-equity ratio are examined to determine the company's strengths and areas of improvement.

## INTRODUCTION

Financial performance analysis is a vital tool for assessing a company's financial health, operational efficiency, and long-term sustainability. It helps stakeholders, including investors, management, and policymakers, make informed decisions regarding investments, strategic planning, and financial management. This study focuses on analyzing the financial performance of Bajaj Auto Limited, one of India's leading manufacturers of two-wheelers and three-wheelers. Bajaj Auto has been a key player in the automobile industry, consistently innovating and expanding its product portfolio.

The company's financial performance is influenced by various internal and external factors, such as market demand, cost structure, competition, global economic conditions, and government policies. This study aims to analyze Bajaj Auto's financial performance using key financial tools such as ratio analysis. By examining financial indicators like profitability, liquidity, solvency, and efficiency, this research seeks to provide insights into the company's strengths, weaknesses, and future growth potential.

The findings of this study will be valuable for investors, financial analysts, and business strategists to understand the company's financial standing and make data-driven decisions. The research will also provide recommendations to enhance financial performance and sustain long-term growth in the highly competitive automobile industry.

Bajaj Auto, established in 1945, has grown into a global brand with a significant presence in over 70 countries. The company is renowned for its diverse product portfolio, including motorcycles, scooters, and auto-rickshaws. Bajaj Auto has consistently maintained a strong position in the automobile sector due to its cost-effective production techniques, innovation in design, and strategic market expansion. Its popular models, such as Pulsar, Platina, and RE series three-wheelers, have contributed significantly to its market share.

Bajaj Auto operates in a highly competitive and volatile industry influenced by factors such as economic conditions, fuel prices, government regulations, technological advancements, and shifting consumer preferences. Therefore, analyzing the financial performance of Bajaj Auto is essential to understanding its financial strengths, weaknesses, and future growth potential.

## RESEARCH METHODOLOGY

**Objective of the study:**

- Assessing the liquidity and profitability position of Bajaj Auto Ltd.
- Examining the solvency and development position of Bajaj Auto Ltd.
- furnishing practicable recommendations grounded on exploration findings.

**Scope of the study:**

This exploration has a broad compass, fastening specifically on fiscal issues related to Bajaj Auto Ltd., thereby offering perceptivity into its functional performance.

## METHOD OF COLLECTION:

Type of Data: Secondary data will be used for this analysis (Money control, Screener)

- Current ratio: The current ratio measures a company's ability to pay its short-term obligations using its current assets.
- Quick ratio: A higher quick ratio indicates a company’s ability to meet short-term liabilities without relying on inventory sales.
- Asset turnover ratio: This ratio evaluates how efficiently a company uses its assets to generate sales. A higher ATR indicates better utilization of assets in generating revenue.

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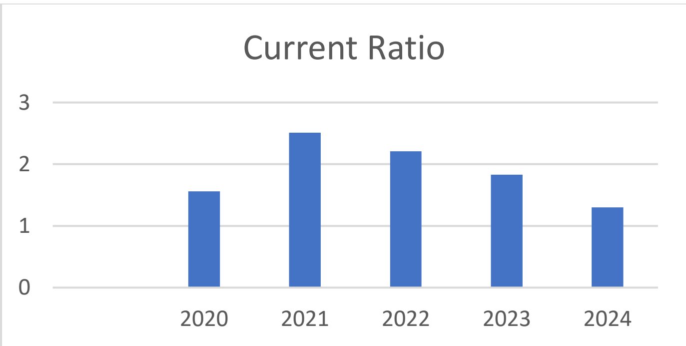
- Debt-to-Equity ratio: This ratio shows the proportion of debt financing relative to equity. A high D/E ratio indicates higher financial leverage (higher risk), while a low D/E ratio suggests a more conservative capital structure.
- Return on Equity ratio: ROE measures how effectively a company generates profits from shareholders' investments. A higher ROE indicates better financial performance and profitability.
- Return on Assets ratio: ROA measures how efficiently a company uses its assets to generate profit. A higher ROA reflects better asset utilization.

**Results and Analysis:**

## Liquidity Ratios:

### Current Ratio

| Year | Current Ratio |
|---|---|
| 2020 | 1.56 |
| 2021 | 2.51 |
| 2022 | 2.21 |
| 2023 | 1.83 |
| 2024 | 1.30 |

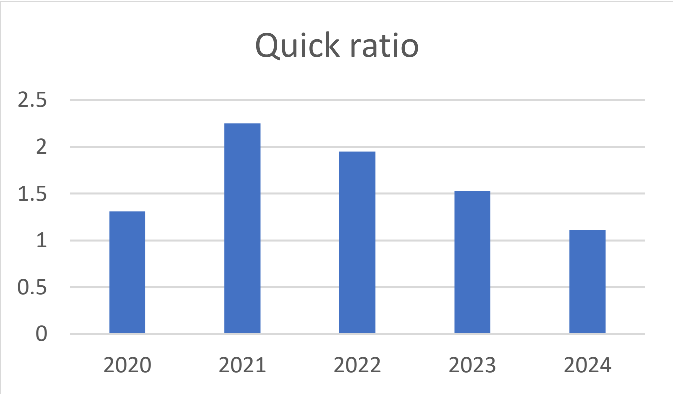



**Interpretation:**

Bajaj Company's current ratio is a measure of their ability to cover their bills with their current assets and liabilities. In 2020, they had enough resources to cover their bills 1.56 times over. However, in 2021, their business boomed, and their coverage dropped to 1.83 times. In 2023, they used supplies for a special summer promotion, reducing coverage to 1.83 times. In 2024, they had to use more cash to buy more lemons, reducing coverage to 1.30 times. Despite this, Bajaj Company is still in good shape, but their ability to cover bills quickly has decreased.

**Quick Ratio**

| Year | Quick ratio |
|---|---|
| 2020 | 1.31 |
| 2021 | 2.25 |
| 2022 | 1.95 |
| 2023 | 1.53 |
| 2024 | 1.11 |




**Interpretation:**

In 2023, they took on more short-term loans or struggled with managing liquid assets. In 2024, their ability to cover immediate expenses dropped further, indicating potential financial pressure or need for improved working capital management.

## Solvency Ratio:

**Debt- Equity Ratio**

| Year | Debt-Equity Ratio |
|---|---|
| 2020 | 0.00 |
| 2021 | 0.00 |
| 2022 | 0.00 |

| | |
|---|---|
| 2023 | 0.00 |
| 2024 | 0.06 |

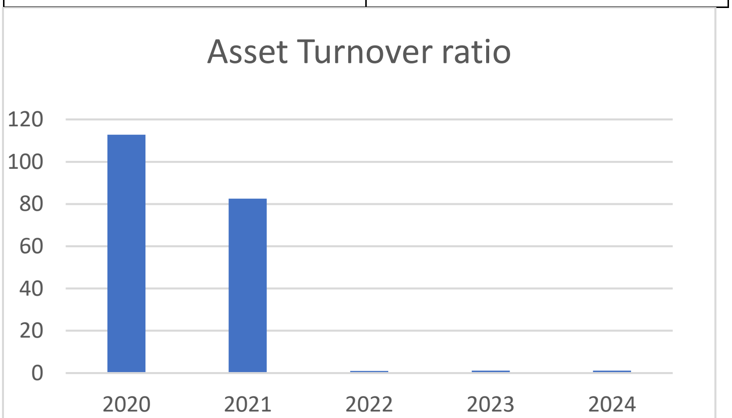

**Interpretation:**

Bajaj Auto Ltd. has maintained a conservative financing approach, with a Debt-Equity Ratio of zero from 2020-2023. However, in 2024, it increased to 0.06, indicating a slight increase in borrowing, despite a minimal change.

## Efficiency Ratios:

### Assets Turnover ratio

| Year | Asset Turnover ratio |
|---|---|
| 2020 | 112.85 |
| 2021 | 82.55 |
| 2022 | 1.01 |
| 2023 | 1.10 |
| 2024 | 1.20 |

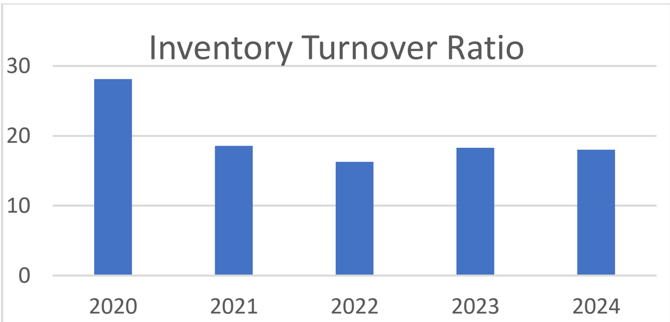


**Interpretation:**

Bajaj Auto Ltd.'s asset turnover ratio has fluctuated significantly from 112.85 in 2020 to a low of 82.55 in 2021, indicating a drop in efficiency. The ratio then gradually improved, reaching 1.10 in 2023 and 1.20 in 2024, reflecting a recovery and enhanced asset utilization. Overall, this trend suggests that the company is increasingly effective in leveraging its assets to generate revenue, with a notable increase of approximately 20% from the previous year.

**Inventory Turnover Ratio**

| Year | Inventory Turnover Ratio |
|---|---|
| 2020 | 28.13 |
| 2021 | 18.57 |
| 2022 | 16.28 |
| 2023 | 18.27 |
| 2024 | 18.00 |



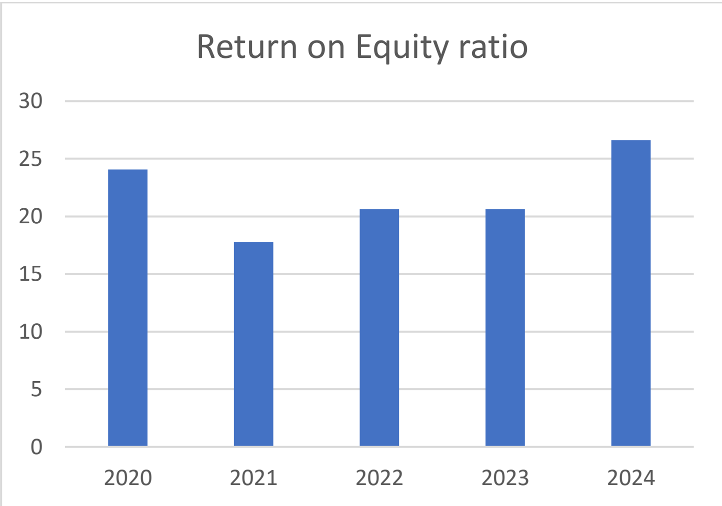

**Interpretation:**

Bajaj Auto Ltd.'s inventory turnover ratio has declined from 28.13 in 2020 to 18.57 in 2021, indicating decreased efficiency in inventory management. The ratio continued to fall to 16.28 in 2022, suggesting potential overstocking or slower sales, before slightly recovering to 18.27 in 2023 and then decreasing again to 18.00 in 2024. Overall, this represents a total decrease of approximately 10.13 from the peak in 2020, highlighting ongoing challenges in maintaining optimal inventory levels.

## Profitability Ratios:

### Return on Equity ratio

| Year | Return on Equity ratio |
|---|---|
| 2020 | 24.06 |
| 2021 | 17.80 |
| 2022 | 20.64 |
| 2023 | 20.63 |
| 2024 | 26.61 |



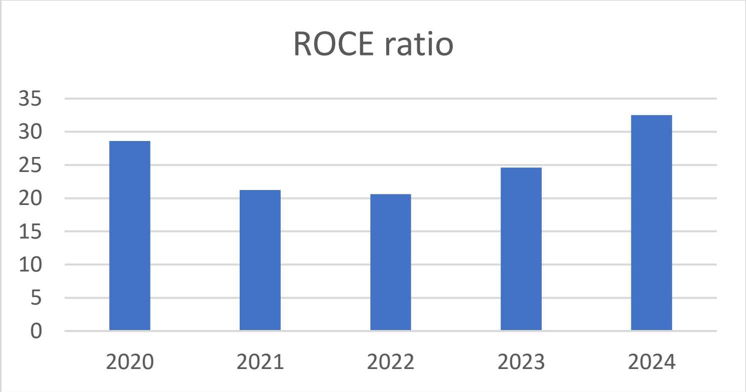

**Interpretation:**

Bajaj's Return on Equity (ROE) showed a steady improvement from 24.06% in 2020 to 26.61% in 2024, indicating improved efficiency in converting shareholder investments into profits. Despite market challenges, the ROE remained steady at 20.63% in 2023 and 20.63% in 2024.

### Return on Capital Employed Ratio

| Year | ROCE ratio |
|---|---|
| 2020 | 28.63 |
| 2021 | 21.25 |
| 2022 | 20.59 |
| 2023 | 24.61 |

| | |
|---|---|
| 2024 | 32.50 |

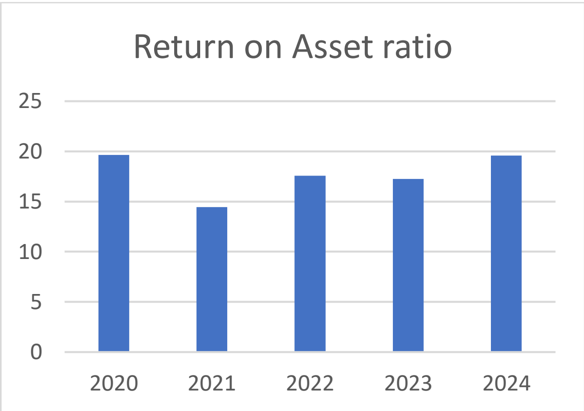



**Interpretation:**

Bajaj's Return on Capital Employed shows the company's efficiency in generating profits over the years. In 2024, it jumped to 32.50%, indicating improved capital management. Despite dips in 2021 and 2022, Bajaj's ROCE improved significantly in 2024, indicating healthy financial performance and efficient management.

**Return on Assets ratio**

| **Year** | **Return on Asset ratio** |
|---|---|
| 2020 | 19.66 |
| 2021 | 14.45 |
| 2022 | 17.56 |
| 2023 | 17.24 |
| 2024 | 19.59 |

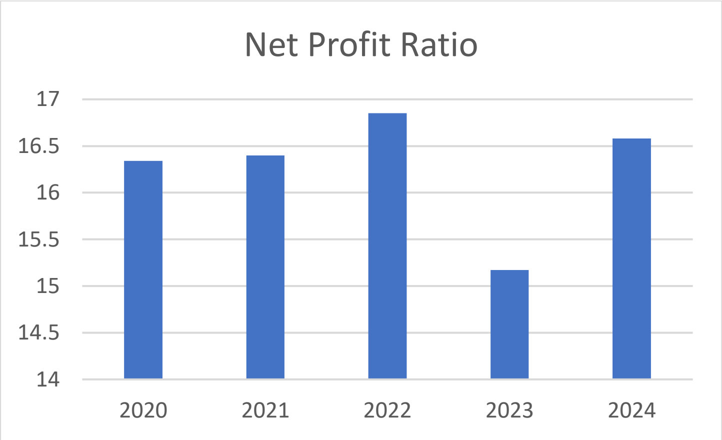


**Interpretation:**

Bajaj Auto Ltd.'s Return on Assets (ROA) fluctuated from 2020 to 2024, with a 3.11 increase from 2020 to 2021 and a 0.32 drop from 2022 to 2023. However, from 2023 to 2024, ROA rose by 2.35, indicating improved profitability.

**Net Profit Ratio**

| Year | Net Profit Ratio |
|---|---|
| 2020 | 16.34 |
| 2021 | 16.40 |
| 2022 | 16.85 |
| 2023 | 15.17 |
| 2024 | 16.58 |



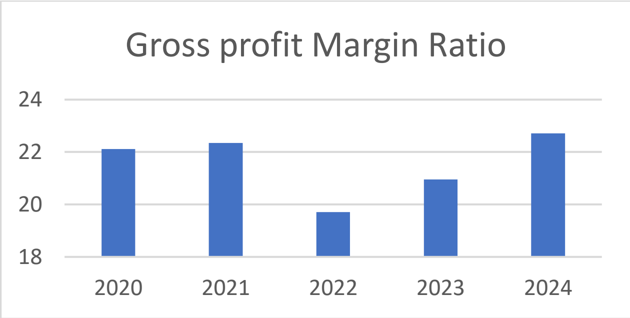

**Interpretation:**

Bajaj Auto Ltd.'s Net profit ratio has shown a stable trend from 2020 to 2024, with a significant increase from 2020 to 2022. However, a slight decrease in 2022 to 2023 led to a recovery in 2024, indicating improved operational efficiency and cost control.

**Gross Profit Margin Ratio**

| Year | Gross profit Margin Ratio |
|---|---|
| 2020 | 22.12 |
| 2021 | 22.35 |

| | |
|---|---|
| 2022 | 19.71 |
| 2023 | 20.95 |
| 2024 | 22.72 |




**Interpretation:**

Bajaj Auto Ltd.'s Gross profit margin ratio has fluctuated over the years, starting at 22.12% in 2020 and increasing to 22.35% in 2021, indicating stable profitability. However, it declined to 19.71% in 2022, suggesting challenges in maintaining margins, potentially due to rising costs or competitive pressures. A recovery was noted in 2023, with the ratio rising to 20.95%, but it further improved to 22.72% in 2024, reflecting a strong rebound and an increase of approximately 8.2% from the previous year.

## Findings:

- Bajaj Auto has demonstrated robust profitability, indicating a well-performing business with consistent earnings.
- The increase in ROE suggests that the company is efficiently generating profit from shareholders' equity.
- Higher ROCE reflects effective utilization of total capital, leading to enhanced returns for investors and stakeholders.
- A favorable Assets Turnover Ratio (ATR) highlights the company's ability to generate sales relative to its total assets.
- The Current Ratio (CR) and Quick Ratio (QR) indicate that Bajaj Auto maintains adequate liquidity to meet its short-term liabilities.
- A balanced Debt-Equity Ratio (D/E Ratio) suggests that Bajaj Auto is financing its operations with an optimal mix of debt and equity, avoiding excessive financial risk.

- A reasonable Inventory Turnover Ratio (ITR) implies efficient inventory management, minimizing holding costs and improving cash flow.
- A stable or growing ROA indicates that the company is effectively using its assets to generate profits.

## Conclusion:

Bajaj Auto's success is significantly attributed to its popularity as a preferred mode of transportation compared to public transit and four-wheeled vehicles. However, the industry is currently facing challenges such as rising fuel prices, increasing safety concerns, a surge in road accidents, higher insurance costs, and discussions surrounding the electrification of motorcycles. These factors have contributed to a downturn in the industry and present obstacles to growth. The primary aim of this report is to analyse Bajaj Auto's financial statements, focusing on asset utilization and profitability metrics. This study also attempts to forecast the company's annual income growth rate using trend analysis techniques. Additionally, it offers recommendations aimed at enhancing Bajaj Auto's overall financial performance. The research relies on secondary data sourced from published reports and journal articles pertaining to the two-wheeler industry.

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