

The history about indus motor marketing essay



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Oxford Brookes University has recommended a list of topics for preparation of the Research and Analysis Project. After a thorough review of topics, I finalize Topic (8) “ The Business and Financial Performance of an organization over a three year period.”

Reason for choosing the topic

Evaluation of financial and business performance of a company is one of the important aspects of accounting profession.

My preference for considering this topic is because it allows me to apply theoretical knowledge which I learned during my ACCA qualification in a practical scenario by analyzing the performance of a real company which gives me ability to perform in a more complex situation diligently from a diverse point of view in different sectors of business.

This project provides a great opportunity and enables me to polish my skills for further practical implementations that can assist me in my future professional career and passion to become a Financial and Business Analyst.

Organization selection

After a detail research, I selected Automobile Industry to base my RAP. It is one of the most dominating industries in the world having massive potential for the future. Today automobiles are not just foundations for transportation but have become a necessity of life. I opted for Indus Motor Company Limited (IMC) as a focus of my Research which is the second largest automobile manufacturer and has 32% market share in Pakistan.

About Indus Motor

Indus Motor Company was founded in 1990 as a joint venture of between the House of Habib, Toyota Motor Corporation, Japan (TMC), and Toyota Tsusho Corporation, Japan (TTC) for assembling, progressive manufacturing and marketing of Toyota vehicles in Pakistan. Toyota Motor Corporation and Toyota Tsusho Corporation have 37.5% stake in the company equity. The majority shareholder is the House of Habib.

The main product offering includes several variants of the flagship “Corolla” in the passenger cars (PC) category and “Hilux” in the light commercial vehicle (LCV) segment, including four-wheel drive. IMC also deals in imported vehicles and spare parts.

Indus Motor has invested heavily to build its production facilities based on state of art technologies. To ensure highest level of productivity world-renowned Toyota Production Systems are implemented. It works on the principle of Maximizing QRD (Quality, Reliability & Durability) & raising the bar in all support functions to meet Toyota Global Standards.

(<http://www.toyota-indus.com/corporate/company-profile/>)

IMC is currently providing employment to over 7,000 persons directly and more than 200,000 indirectly. IMC has successfully completed production of 500,000 vehicles in Pakistan which is a milestone for the company.

(http://www.dailytimes.com.pk/default.asp?page=2012%5C11%5C06%5Cstory_6-11-2012_pg5_12)

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IMC was able to outperform the market and post impressive results under severe economic circumstances and also managing to maintain its rank of second in Pakistan automobile industry.

The competitors of IMC are:

Pak Suzuki Motors

Honda Atlas Cars (Pakistan) Limited

Honda Atlas -selected as competitor

Formed in 1993, it is 3rd largest automobile manufacturer in Pakistan with a market share of 8% with over 200, 000 cars sold till July 12, 2012. It has sales of over Rs. 16 Billion for the year ended 31, March 2012. (<http://www.honda.com.pk/pakistan/index.html>)

Overview of Industry

Auto sector has an active role in the fast growing industries in Pakistan. It presently contributes 16% to the manufacturing sector which is predicted to increase to 25% in the next 7 years. Presently 3 major players dominate the market and include Pak Suzuki, Indus Motor and Honda Atlas Cars. The automobile sector can be categorized into 6 major segments which are cars & light commercial vehicles (LVC's), two and three wheelers, tractors, trucks and buses, Accessories and part manufacturers and Vendor Industry. In assessing the current scenario of the sector there are 3, 200 units of automotive industry with the investment of Rs92 billion, employing 1. 8 million people and producing annually 1. 8 million motorcycles and 200, 000 vehicles. The magnitude of this industry can further be judged by its

contribution to the national exchequer which is nearly Rs50 billion which is roughly 3% of the GDP.

(<http://www.pakwheels.com/blog/2013/02/12/a-view-on-pakistans-automotive-industry/>)

(<http://www.pama.org.pk/images/stories/pdf/historical-data.pdf>)

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Aims and Objectives of the Project

The main aim of this project is to gather and analyze information from various sources and to provide a reasonable opinion on the business and financial performance of IMC during three year period up to June 30, 2012. The report also aims to review present and historical data and to comment on financial health of the company.

This report also enables to predict the potential future aspect of the company.

Project Objectives are as follows:

To assess the performance of IMC with the direct competitor and what competitive edge it has over its competitor.

Analysis of business performance of the company by applying SWOT analysis that IMC possess in the current economic environment.

To evaluate performance and market share of products of IMC.

To recommend the ways in which the company can improve its performance.

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To provide a conclusion on the company by analyzing the research work and make recommendation for the potential investors.

Project Research Questions are as follows:

What has been the financial performance of IMC over the three year period?

What are the internal and external factors affecting IMC's performance?

What are reasons of growth of IMC?

What is marketability of products of IMC?

What is the future direction of IMC?

Research approach

To start my project I first went through the whole OBU BSc Information pack to understand the requirement of the project. Then I started thinking for industry and topic that best suits me to analyze according to my interest and deep knowledge of sector. Finally I decided topic 8 and IMC on which I have to work on. I made a list of my objectives and research questions that are to be answered in this research started collection of data and then summarize my collection and fit them to the areas to which they relate.

Finally I decided to analyze the company's business performance by applying models like SWOT and BCG matrix and assess financial performance by employing techniques such as ratio analysis and trend analysis and make a conclusion on the basis of the analysis that is best for the company.

Information Gathering

For making a project report it is very important to gather information which makes the project helps in achieving the identified objectives. During this there should be a plan in order to be not to get puzzled with your own actions. IMC is a listed company therefore I found numerous sources of information which were relevant and sufficient for the company. The relevant and appropriate data can lead to an efficient analysis and an appropriate conclusion can be drawn. For making this project mainly secondary sources of information are used. The sources of information that are used for this project are as follows:

Annual Accounts of IMC & HAC

The best source of information available is Audited Annual accounts of IMC. It does not only provide financial statements but it also provides company's performance, future aspects, corporate social responsibilities, chairman's review and much other meaningful information. Annual accounts are considered as a best source because they are audited by top Audit firms.

It also provides trends and ratios over a glance to create a picture of the past and future of the company.

Annual accounts of HAC are used to compare the performance of IMC with its competitor i. e. HAC.

IMC and HAC Official website

Official website of the company is also considered as a most reliable source of information as it is directly published by the company itself and it includes the reliable details about the company. Information that extracted from this <https://assignbuster.com/the-history-about-indus-motor-marketing-essay/>

source is history of the company, products in which they deal, corporate information, etc.

Internet

Nowadays internet is considered as a largest & easily accessible source of information, which facilitates the users to access relevant information which they are looking for. It is accessible easily and very fast that also enables to save time. This source is used to extract many types of information relating to industry, reports and comments of financial analysts and the information about governing and regulatory bodies of automobile industry in Pakistan.

The search engines like Google helps me to extract information. Some other websites like <http://www.investopedia.com/>, <http://www.pakboi.gov.pk/>, www.pakinvestorsguide.com, www.thefinancialdaily.com, were used.

Books and Accountancy Magazines

Approved Publishers of ACCA books and other accountancy magazines were used to refer the accounting and business models and concepts which also helped me to refresh my knowledge and to generate better ideas for analysis.

Books Referred are:

ACCA F9 for ratios

ACCA P3 for SWOT analysis and BCG Matrix.

Newspaper/ Media

This source is used to get extracts of financial analysts and business related articles which helps to refer the analysis with experts' opinions and can be considered as a much valuable way of obtaining information regarding IMC and the automobile industry.

Other Sources

Almost of the research work has been done by analyzing financial reports and gathering information from sources directly related to company but for providing a background of automobile industry in Pakistan numerous sources were taken into consideration which includes PAMA (Pakistan Automobile Manufacturing Association), Pakistan Board of Investment & Economic Survey of Pakistan 2011 & 2012.

Limitations

During the research analysis and information gathering, some limitations were faced due to wide range of sources used and some conflicting issues arose. Some limitations are identified as follows:

Mostly information was gathered from IMC's website and its annual accounts which may be biased as companies tends to present themselves as efficient and create a positive picture, however the information can be relied upon as it has been audited by the top audit firm.

The analyses done were mainly on secondary sources as there was limited access to internal information and reports due to being confidential.

As being availability of large amount of data it was difficult to select most relevant and appropriate data to be referred.

The references taken from newspapers can be considered as vital statistics but it quickly becomes outdated and there exists possibilities that information is partial and left out deliberately.

Additionally there is another limitation that IMC's year end is 30th June whereas HAC's year end is 31st March.

Lastly automobile industry is very fast moving and fluctuating and further more there is a lot of inconsistency in Pakistan's economy which makes it tough to predict about future of the company by analyzing the past information.

Ethical issues

As being a student of ACCA it is vital to comply with ethical principles and face the ethical issues that arose during the course of work and made assure that they are resolved.

Using mainly secondary data, there was a risk of plagiarism, therefore if any reference used it is clearly stated according to Harvard Referencing System. Other information which has been mentioned without any reference can give an understanding that the information is self-created and it is due to own analysis and discussions.

During the research work it was made assure that data is taken from reliable sources and there is no any kind of falsification involved.

Accounting and Business Techniques

The accounting and business techniques used in this RAP are as under:

Trend analysis

Trend analysis is a tool for the analysis of the company's monetary statements for the investment purposes. In a trend analysis, the financial statements of the company are compared with each other for the several years after converting them in the percentage.

Trend analysis has a great advantage that it can also be used to predict the future events. This is possible by forecasting the future growth based on the data available of the past. With the help of trend analysis, one can predict the future and track the variances to add performance.

(http://www.readyratios.com/reference/analysis/trend_analysis.html)

Ratio analysis

A tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. Ratios are calculated from current year numbers and are then compared to previous years, other companies, the industry, or even the economy to judge the performance of the company.

(<http://www.investopedia.com/terms/r/ratioanalysis.asp>)

Ratio analysis gives the quantitative analysis and enables to determine exposure of strengths and weaknesses of a company. These Ratios is categorized into five categories:

Limitations of Ratio Analysis

It just takes quantitative measures into account and ignores qualitative measures.

Companies having different fiscal year ends make comparison difficult.

Ratios may not be directly comparable between companies that use different accounting methods and accounting period end.

Comparison of ratios with competitor can be difficult since competitor may not be of same size and same market share as in the case of Indus Motor Company Limited and its competitor Honda Atlas Cars Limited.

Ratio analysis explains relationships between past information while users are more concerned about current and future information.

(BPP ACCA Study Text F7, 2011)

SWOT Analysis

SWOT Analysis is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment. Its key purpose is to identify the strategies that will create a firm specific business model that will best align an organization's resources and capabilities to the requirements of the environment in which the firm operates. (<http://www.managementstudyguide.com/swot-analysis.htm>)

SWOT analysis heads can be divided into two main categories:

Internal environment - the situation inside the company or organization
(Strengths and Weaknesses)

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External environment - the situation outside the company or organization
(Opportunities and Threats)

swot-analysis-image. png

Limitations of SWOT Analysis

SWOT Analysis does stress upon the significance of these four aspects, but it does not tell how an organization can identify these aspects for itself.

It is very subjective as there is great degree of uncertainty in market and it is solely on the knowledge and judgments of analyst.

Opportunities may be easy to overlook or may be identified long after they can be exploited.

A company may have difficulty anticipating possible threats in order to effectively avoid them.

(<http://www.managementstudyguide.com/swot-analysis.htm>) (http://wiki.answers.com/Q/What_are_the_Limitations_of_swot_analysis)

BCG Matrix

The Boston Consulting Group (BCG) Matrix is a simple tool to assess a company's position in terms of its product range. It helps a company think about its products and services and make decisions about which it should keep, which it should let go and which it should invest in further.

(http://www2.accaglobal.com/documents/boston_consulting.pdf)

This matrix displays the various business units on a graph of the market growth vs. market share relative to competitors:

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(Quickmba. com)

Limitations of BCG Matrix:

BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.

Market is not clearly defined in this model.

High market share does not always leads to high profits. There are high costs also involved with high market share.

Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.

At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.

This four-celled approach is considered as to be too simplistic.

([http://www. managementstudyguide. com/bcg-matrix. htm](http://www.managementstudyguide.com/bcg-matrix.htm))

SWOT Analysis

Strengths

Toyota is a strong brand name, which gives great support to IMC when new product is launched because consumers place additional value in the brand and customers loyalty.

The ample availability of original spare parts all over the country provides an edge to IMC over its competitors.

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Major strength of IMC is its product “ Toyota Corolla” which remained the most preferred car in small-high Segment of passenger car, recording the market share of 70% and 30% of total cars sold in Pakistan.

(www. Pama. org. pk)

The financial position IMC is its strength as it's improving every year.

Financial risk is minimal as IMC has no interest bearing debt and wholly equity financed.

Toyota is preferred by peoples because its vehicles have great resale value in comparison with other cars.

Manufacturing plant of IMC is located at Port Qasim, Karachi which can considered as favorable location. Being located near the port, it saves transportation cost for the materials which are imported from Japan.

IMC has modern Service Network in the country as customer satisfaction is the foundation of its marketing philosophy. There are about 35 dealerships spread across the country. All its Dealers operate on “ 3S” basis (Sales, Service, and Spare Parts). (<http://www.toyota-indus.com/customer-relations/>)

Weaknesses

In economy car segment (800-1000cc), IMC hasn't been able to compete against market leader Pak Suzuki Motor as evident by IMC management to discontinue Daihatsu Cuore in April 2012.

The holding company of IMC is Toyota Motor Corporation, Japan; therefore major decisions regarding the products are taken by holding company which delays decision making process and may also conflict to local culture and customs of Pakistan.

Dealership network of IMC is weak as it is not owned by company itself, it licenses dealers to sell their cars; thus dealers often tend to not act according to the directions of the company and principles of Toyota resulting in customers' complaints.

IMC has weak supply chain that can cause shortages of CKD kits coming from Japan leading to delay in delivery of vehicles to customers.

IMC is heavily relied upon the parts imported from Japan which causes increase in cost due to continuous devaluation of Rupee.

Opportunities

IMC has opportunity to expand in local market in the economy cars segment (800-1000cc), which occupies about 60% of the total cars sold in Pakistan.

This category is solely dominated by Pak Suzuki with 4 products. As the IMC is already working on fuel efficient cars, therefore if introduction of products in this segment can increase its market share.

IMC has opportunity to introduce Hybrid cars in Pakistan as no locally manufactured Hybrid car is available in Pakistan.

IMC has opportunity to expand into regional markets such as central Asian countries as current operations focuses on local market only.

IMC can offer discounts to large organizations and Government departments to purchase its vehicles in bulk quantities.

Threats

IMC is facing the tough competition from the import of reconditioned cars which slowed down the demand of locally manufactured vehicles.

According to an official in IMC, the company is actually feeling the pinch of huge influx of used cars which is eroding the market share of locally produced vehicles.(ref: <http://dawn.com/2012/07/28/second-hand-cars-dominate-market/>)

Pak Suzuki is considered as a threat to IMC as Suzuki's products are replacing IMC's products because people are becoming price conscious and trying to shift to economical cars which are fuel efficient therefore gradually decreasing the demand of IMC's products.

The precarious law and order situation in the country is a threat to IMC causing the company's production to diminish because of higher Non Production Days which have increased to 53 days in the year.

Increase in inflation in Pakistan which is about 11%, is a main threat to IMC which decreases the purchasing power of people therefore decreases the demand of IMC's products.

The devaluation of Pak Rupee is also a threat to IMC because Indus Motor's imports CKD kits from Japan leading to higher cost of production.

Political instability in Pakistan is also a threat to IMC and the industry due to fear of inconsistency in policies relating to tax and import duties.

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IMC is severely affected by various malpractices of auto parts importers and smugglers who work in collusion with unscrupulous customs and tax officials resulting in loss of sales. Importers of used parts are smuggling, under-invoicing and dumping auto parts which is affecting auto industry.

(<http://dawn.com/2012/05/05/smuggled-auto-parts-hurt-local-market/>)

BCG Matrix Analysis

BCG Matrix is a measure of market attractiveness by market growth rate. It assesses a company's ability to compete by its relative market share. BCG matrix divides business units into four categories:

Stars

Question mark

Cash cows

Dogs

Stars

Stars are units with a high market share in a fast-growing industry. Toyota Corolla is considered as Star product for IMC as it generates about 80% of the revenue for IMC. It has strong market share but also consumes huge amount of cash because of high growth rate. Corolla has market share of about 70% in small-high sedan category of passenger cars and 26% share of all passenger cars. IMC launched new Corolla ECOTEC, an environmental friendly car with factory fitted CNG kit offering fuel economy.

(IMC Annual Report 2012, pg 29)

Furthermore, IMC is investing in Toyota Corolla because the future of the company depends on the success and failure of this product and it is expected that the new model of Toyota Corolla will be launched in 2014.

(<http://tribune.com.pk/story/527997/best-seller-indus-motor-to-unveil-new-corolla-by-end-2014/>)

Cash cows

Cash cows are units with high market share in a slow-growing industry. For IMC Toyota Hilux is a cash cow product which earns a lot of cash because in this segment there is high relative market share of IMC and the growth rate of this type of vehicles is very slow.

LCV segment has high potential growth but suffers from non-availability of financing option from commercial banks and absence of an alternate cheaper brand vehicle. IMC also launched Vigo-Champ, a modified version of Hilux. Currently IMC's competitor HAC is not dealing in this segment.

(IMC Annual Report 2012, pg 30)**Question marks**

Question marks are such business units of which a company is uncertain about their success or failure. These types of businesses has potential to gain market share thus becoming a Star and eventually a cash cow but if this business does not succeed then it will be ruined off and become a Dog from which company should divest.

For IMC the question mark product was Cuore which competes in the economy segment of passenger cars and in this segment there is a large competition from market leader with products Suzuki Alto & Mehran and some reconditioned imported vehicles like Passo, Vitz, and Mira which are already dominating the market in this segment. This segment is growing and has high demand due to efficient fuel consumption but Cuore failed to compete in the market and company discontinued Cuore production in April 2012 upon it reaching the end of life cycle and considering alternative decision.

Dogs

According to BCG matrix Dogs are the products that have no market share and which also consumes large amount of funds instead of generating funds. The company would always want to divest from that products. For IMC there is currently no product which is in this category.

Trend Analysis

Trend analysis is a form of comparative analysis that is often employed to identify current and future movements of an investment or group of investments.

(<http://www.wisegeek.org/what-is-trend-analysis.htm>)

Revenue trend of IMC is showing a good picture as it has been started growing rapidly since last 3 years. The sales in 2010 were 52, 063 units recording 48% increase with sales revenue of Rs. 60 billion, a jump of 59%. The rise in revenues was also supplemented by 8% price hike. While HAC

also showed growth of 12% despite a volumetric decline of 158 units, increase was mainly due to hike in selling prices.

In 2011, growth slowed down, increasing by 2.7% because of price increases due to various cost push factors negatively affected the cost of production. The majority revenue was contributed by sales of Corolla which was about 80% of total sales revenue with the positive contribution by Hilux. The sales units declined because of decrease in sales of Cuore. The reduction in sales was because of floods in upper Sindh and tsunami in Japan which disrupted the supply chain. The other reasons were continuous devaluation of Pak Rupee against Yen and Dollar, increase in fuel and steel prices. The import of used cars increased due to liberalization in policy also obstructed the growth of local industry. On the other hand, HAC also showed revenue growth of 39% to Rs. 22 billion due to volumetric increase.

In 2012, sales volume was 55,060 units, up by 8%. Sales revenue of Rs. 77 billion was posted, depicting an increase of 25%, mainly due to launch of new variant of Corolla with company fitted CNG kit and Vigo Champ which attracted the customers. The other main reason for improvement in revenues was continuous increases in car prices on the back of persistent devaluation of Pak Rupee against Japanese Yen. On the other hand, HAC's sales volume dropped to 11,406 units which was drastic and negatively affected its profitability.

(<http://www.nation.com>.

[pk/pakistan-news-newspaper-daily-english-online/business/25-Jun-2012/assembly-drive-cars-prices-up-again](http://www.nation.com/pk/pakistan-news-newspaper-daily-english-online/business/25-Jun-2012/assembly-drive-cars-prices-up-again))

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Profitability Ratios

Gross Profit Margin

Gross profit margin is the percentage by which gross profits exceed production costs. Gross margins reveal how much a company earns taking into consideration the costs that it incurs for producing its products or services. (http://www.readyratios.com/reference/profitability/gross_margin.html)

Gross profits currently show a good picture over three year period with a positive growth. However in 2011, GPM fell by 1.5% but recovered in 2012 with an increase of 1.9%. This shows that IMC's aim to work on Kaizen Theory is continually in effect to cut the cost where appropriate without effecting quality. In comparison the GPM of HAC is on a declining phase but somehow was able to make a GP of 0.9% however overall performance of HAC is on a declining trend which gives an idea that they have very less control over cost as compared to IMC.

The low GP is primarily due to consistent cost pressures because of rupee devaluation which increases the price of CKD kits which are imported from Japan and continuous increase in steel prices. The IMC is able to achieve the good GP by shifting the increase in cost over to customers by continuous hikes in prices and also by achieving economies of scale by manufacturing and purchasing many parts within Pakistan as well.

Net Profit Margin

It is calculated by dividing a company's profit by its revenues and expressing the result as a percentage. The higher the profit margin is, the better the company is thought to control costs.

(<http://financial-dictionary.thefreedictionary.com/Net+Profit+Margin>)

Similar to GPM, NPM is also showing the same picture of IMC, in comparison to HAC which is showing a negative trend in last couple of years.

For IMC, 2010 was considered as a remarkable year recording a NPM of 5.7%. The significant factor which provides enhancement to company's financial performance was other income which was increased by 1.5 times and moreover the finance cost of the company decreased by over 85%.

In 2011, NPM decreased to 4.4% due to 35% increase in operating expenses couple with 16% decrease in other income. This was mainly due to unfortunate disaster that struck Japan and strikes in Pakistan which increased non production days of the company and also because of continuous devaluation of Pak Rupee against Yen and USD.

Another robust year for IMC was 2012 in which company recorded all time highest sales ever with an increase of 8% in sales volume. The company recorded NPM of 5.6% which was made possible because of continuous application of kaizen theory for cost reduction and as well as price hikes. The other sources of income also contributed towards increasing NPM which includes income from bank deposits and Market Treasury Bills. On the other

hand, HAC showed a net loss of Rs. 532 million which was due to decrease in sales volume and as well as poor control over costs and expenses.

(IMC and HAC Annual Reports, 2010, 2011 & 2012)

(<http://www.brecorder.com/company-news/601:/1254797:indus-motors-company/?date=2012-11-06>)

ROE

Return on equity (ROE) measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. (<http://www.investopedia.com/terms/r/returnonequity.asp>)

In 2010, ROE is 27% which is quite good and shows that company is generating good returns for shareholders. In 2011 the ROE is decreasing from 27% to 19% which is very much fall as compare to year 2010 which affects the profitability of firm which shows that company is not generating good profit which were expected. This was due to significant increase in price of production due in which major contribution of steel prices and devaluation of rupee against Yen. In 2012 the ROE is improving with respect to the year 2011 from 19% to 25% due to better efficiency as evident in improving asset turnover ratio and higher profit margins from 2011.

Liquidity Ratios

Current Ratio:

Current Ratio measures the company's ability to pay its debt over the next 12 months. (http://www.readyratios.com/reference/liquidity/current_ratio.html)

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The Current ratio of above 1 is regarded as safe and sound. IMC is maintaining a good current ratio and steadily improving every year which shows that company has maintained excellent liquidity position and it has ability to meet its current liabilities easily. However HAC is unable