Corporate Financial Distress: Analysis of Indian Automobile Industry

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Abstract
Financial distress leads to bankruptcy of firm which features systemic impact on both macro and micro economy of the country. Industry characteristics too play an important role in endurance of firm and successively with its financial strategies. Compulsion to evaluate the financial strength of firm is a significant aspect for both Internal and External stakeholders, especially creditors. Information that firm is approaching distress can set out managerial actions to anticipate problems before they occur. Drastic changes in automobile policies in India have mixed effects on Automobile Industry. This paper is an attempt to evaluate the financial health of automobile industry in India. Automobile industry has been classified into four categories based on products namely Passenger car, commercial vehicles, motorcycle/ mopeds and scooters & 3-wheelers manufacturers. The Altman Z score model developed for manufacturing firms has been applied for ten years (2007 to 2016) during which period features Automotive Mission Plan framed by Government of India. The study reveals that commercial vehicle manufactures are in intermediate area of financial distress and calls for agile action.

Keywords
Financial Distress, Bankruptcy, Stakeholders, Altman Z Score Model, Intermediate Area.

Subject Discipline
Economics

Full Text:
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Corporate Financial Distress: An Empirical Analysis of Distress Risk. DISSERTATION of the University of St.Gallen Graduate School of Business Administration, Economics, Law and Social Sciences (HSG). to obtain the title of Doctor Oeconomiae. Research on corporate financial distress is relatively young in comparison to knowledge about mechanisms and processes in sound enterprises. Large failures and corporate scandals in recent years have pointed to the need for extended and deepened research on financial distress, especially on the accelerated impairment of value in the last stages prior to default, when distress risk achieves its highest level. The automotive industry is one of the focus industries for KPMG globally, given its importance both in the mature economies of countries such as the US and Germany, and in the emerging economies of China and India. The Indian automobile industry has emerged stronger from the recent global downturn, and sales across all segments have seen record breaking numbers in the recent past. A predicted increase in India’s working-age population is likely to help stimulate the burgeoning market for private vehicles. Rising prosperity, easier access to finance and increasing affordability is expected to see four-wheelers gaining volumes, although