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A Comparative Study of the Financial Performance of Mahindra & Mahindra Ltd and Maruti Suzuki Ltd and Their Role in the Sustainability of the Automobile Sector of India

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Abstract

Purpose of the study: Financial performance analysis is the process of identifying a company's operational and financial features from its accounting and financial records. Determining the effectiveness and performance of the firm's management, as shown by the financial records and reports, is the aim of such an examination. In terms of creating jobs, producing goods, and selling them, the automobile industry is crucial to the Indian economy. A significant factor in macroeconomic growth is the automobile industry. The purpose of this study is to compare the financial performance of Mahindra & Mahindra Ltd. and Maruti Suzuki Ltd. using ratios and to assess both companies' contributions to India's automobile sector. The study is based on secondary data gathered from yearly reports for the five years 2016–17 to 2020–21.

Methodology: This study aims to use ratio analysis to compare and analyze the financial performance of Mahindra & Mahindra Limited and Maruti Suzuki India Ltd over the study period. Secondary data has been used. The analysis is carried out by making use of various ratios, and appropriate statistical tools like mean, standard deviation, C.V., etc.

Main Findings: Maruti Suzuki Limited has a better long-term solvency position, overall efficiency, and profitability, whereas Mahindra & Mahindra Limited has a better short-term solvency position.

Novelty of the study: The study will help the readers in understanding the solvency, efficiency, and profitability of selected companies.

Keywords: Current ratio, Quick ratio, Debt-Equity ratio, Solvency, Profitability

INTRODUCTION

Any statement or document that contains financial information about a business concern is referred to as a financial statement. Financial statements provide information on a company's financial position, financial results, and changes in those areas. Financial analysis is the practice of analysing financial statements to judge how well a business is doing financially. It assists in determining a company's profitability, solvency, liquidity, and stability. Every financial user has a different reason for looking at financial data. Ratio analysis is the most beneficial approach to financial analysis.

Ratio analysis is a tool for management for measuring achievements in efficiency and guiding business policies. It provides the base for the comparative study of financial efficiency between different years of a firm or various departments of a firm or between different firms of a particular industry. It also helps in ensuring effective control of the business. It aids in assessing whether a company is improving, having more stability, or is inclined toward insolvency.

An essential component of the manufacturing sector and seen as a gauge of a country's economic progress is the automobile industry. It saw phenomenal growth throughout time and has now established itself as a significant contributor to India's GDP. It currently generates 7.1% of India's GDP, 49% of the country's manufacturing GDP, and is a significant employer. The present study takes two companies i.e. Mahindra & Mahindra ltd and Maruti Suzuki ltd, in the passenger vehicle segment of Indian automobile companies and compares their financial strength in this sector and also assess their respective contribution in the sustainability of automobile sector of India.

STATEMENT OF PROBLEM

The process of figuring out the company's operating and financial state is called financial performance analysis. The ability of an organization lies in the use of resources to enhance its position as a market competitor. The organization can find possibilities to enhance departmental, organizational, or unit performance by carefully examining its financial performance. In this regard, an effort has been made to first examine how financial management contributes significantly to growth and, second, how their performance has improved for both of the vehicle firms under consideration.

LITERATURE REVIEW

Kumar S. and Bhatia G.K. (2014) assessed for a period of twenty-one years, from 1991–1992 to 2012–2013, the financial performance of two significant vehicle manufacturers of Indian origin, Tata Motors and Maruti Suzuki. According to the study's findings, there were few differences between the companies' short-term profitability, liquidity, and solvency. Furthermore, the study showed that the sample's long-term solvency differed because of the significance of the debt-equity ratio and equity.

Devaki & Chitra (2018) assessed the profitability, working capital needs, and short- and long-term solvency of Mahindra and Mahindra Limited and Maruti Suzuki India Limited using ratios and statistical techniques like Mean, Standard Deviation, Coefficient of Variation, CAGR, and test of the hypothesis-t test. The outcomes have been contrasted and compared. The study was conducted from 2006–2007 through 2015–2016 during a ten-year span. The study's findings demonstrate that both companies' short- and long-term solvency positions require improvement, and their profitability ratios demonstrate their efficient operation.

Miglani (2019) examines the functions of governmental initiatives, physical infrastructure, and other enabling elements in the growth of India's automobile industry. India rose to the fourth-largest vehicle market in the world in 2017. Both domestically and internationally, there is an increasing demand for Indian cars. In light of these developments and the contribution made by the automobile industry to the nation's economic expansion, she also analyses India's national policy. The study looks at how the government has aided in the expansion of the sector.

Kaur A. (2020) looked at the performance of the Indian auto industry. A significant portion of all automotive manufacture was made up of two-wheelers. In terms of all autos, India enjoys a trade surplus. To increase the quality of automobiles and make them competitive in the global market, research and development activities in the production sector should be conducted. There should be high-quality infrastructural facilities available in the nation. To raise the quality of automobiles, the government should set up training programs for the workforce. The paper used secondary data for the automotive industry's production, exports, and imports from 2001 to 2018.

Kanagaraj and Priya (2020), this study's primary objective is to examine Mahindra and Mahindra's overall situation throughout a five-year period (2014–2015 to 2018–2019) as well as the company's financial performance. They came to the conclusion that for Mahindra & Mahindra Ltd. to expand in the future, performance must be enhanced while costs and cash outflow be reduced.

OBJECTIVES OF THE STUDY

1. To study and analyze and compare the financial position of Mahindra & Mahindra ltd and Maruti Suzuki ltd on the basis of ratio analysis.
2. To study and compare the financial position of Mahindra & Mahindra ltd and Maruti Suzuki ltd on the basis of ratio analysis.
3. To study the contribution of Mahindra & Mahindra ltd and Maruti Suzuki ltd in the automobile sector of India.

RESEARCH METHODOLOGY

The data used in this analysis are secondary data which is collected from the annual report of the selected companies. The period of study is from 2016 – 2017 to 2020 – 2021.

ANALYSIS AND INTERPRETATION

Only important and relevant accounting ratios and statistical tools like mean, standard deviation, coefficient of variation, and yearly growth rate are used to compare the performance of Mahindra and Mahindra Limited with Maruti Suzuki Limited. The relevant ratios which are employed for the investigation are provided in Table 1.

Table 1: Classification of Ratios

Type of Ratio	Ratio	Formula
Short–term Solvency Ratio	Current Ratio	Current Assets/Current Liabilities
Long–term Solvency Ratio	Debt-Equity Ratio	Long-Term Debt / Shareholders Fund
Overall Efficiency Ratio	Inventory Turnover Ratio	Cost of Goods Sold / Average Stock or Inventory
Profitability Ratio	Net Profit Ratio	Net Profit x100 / Net Sales

1. Current Ratio

The current ratio of firm measures short-term financial solvency or the ability to satisfy current obligations. It is a commonly regarded useful measure to judge the short-term financial position of a corporation. The current Ratio is also known as the working capital ratio as it refers to the ratio of current assets to current liabilities. A ratio of 2:1 is regarded as the best level for current assets. Whereas the Quick ratio also called as liquid ratio or acid test ratio represents the ratio between liquid assets to current liabilities.

Table 2: Current Ratio

Year/Statistical inferences	Mahindra & Mahindra ltd	Maruti Suzuki ltd
2016-17	1.20	0.72
2017-18	1.22	0.66
2018-19	1.20	0.51
2019-20	1.18	0.87
2020-21	1.19	0.75
Mean	**1.20**	**0.70**
Standard Deviation	**0.02**	**0.13**
Coefficient of Variation	**1.42%**	**18.64%**
Growth	**-1.04%**	**3.70%**
Annual Growth Rate	**-0.21%**	**0.74%**

Source: Computed and compiled from annual reports

Mahindra & Mahindra Ltd's current ratio shows that the company has sufficient capital to cover its obligations but not an excessive amount of liquid assets that could be invested or distributed to shareholders. On the other hand, Maruti Suzuki Ltd's current ratio reveals that the company lacks sufficient liquid assets to cover its short-term liabilities.

2. Debt-Equity Ratio

This ratio represents the long-term financial status of a corporation and is determined in the form of a relation between external liabilities or outsider's funds and internal equities or shareholders' funds.

Table 3: Debt-Equity Ratio

Year/Statistical inferences	Mahindra & Mahindra ltd	Maruti Suzuki ltd
2016-17	1.16	0.03
2017-18	1.35	0.04
2018-19	1.23	0.04
2019-20	1.35	0.05
2020-21	1.56	0.05
Mean	**1.33**	**0.04**
Standard Deviation	**0.15**	**0.005**
Coefficient of Variation	**11.44%**	**12.83%**
Growth	**34.48%**	**38.34%**
Annual Growth Rate	**6.90%**	**7.67%**

Mahindra & Mahindra Ltd's debt-to-equity ratio reveals that the majority of the company's funding comes from borrowing, which raises the danger of bankruptcy for the business. On the other side, Maruti Suzuki Ltd.'s debt-to-equity ratio shows that the company almost never receives financing from debt via lenders and instead receives the majority of its funding from equity via shareholders.

3. Inventory Turnover Ratio

Merchandise Turnover or Stock Velocity are other names for this ratio. A link between the average amount of inventory held over a particular period and the cost of items sold during that period is established by this ratio. The number of times finished stock is turned over over the course of an accounting period is thus shown by this ratio. This ratio's primary goals are to determine whether the stock has been utilized effectively and to determine whether only the minimum amount has been put in the stock. More efficient asset use results from higher ratios. The lower ratio is a result of the company's underutilization of its available resources

Table 4: Inventory Turnover Ratio

Year/Statistical inferences	Mahindra & Mahindra ltd	Maruti Suzuki ltd
2016-17	8.32	18.38
2017-18	9.43	20.86
2018-19	9.86	25.23
2019-20	8.58	25.87
2020-21	8.57	23.52
Mean	**8.95**	**22.77**
Standard Deviation	**0.66**	**3.13**
Coefficient of Variation	**7.36%**	**13.74%**
Growth	**3.00%**	**27.97%**
Annual Growth Rate	**0.60%**	**5.59%**

Source: Computed and compiled from annual reports

Compared to Mahindra & Mahindra Ltd, Maruti Suzuki ltd has a higher inventory turnover ratio. It demonstrates that Mahindra & Mahindra has outmoded stocks in stock while Maruti Suzuki Ltd. has fast-moving inventory.

4. Net Profit Ratio

The relationship between "net profit" and "net sales" is established using the net profit ratio. The net profit ratio assesses the organization's general effectiveness. The position of cost control and operational efficiency is better when the ratio is higher. This ratio aids in the monitoring of a company's efficiency trend over time.

Table 5: Net Profit Ratio

Year/Statistical inferences	Mahindra & Mahindra ltd	Maruti Suzuki ltd
2016-17	3.57	9.33
2017-18	3.76	10.77
2018-19	7.43	9.66
2019-20	4.44	8.70
2020-21	-1.43	7.34
Mean	**3.55**	**9.16**
Standard Deviation	**3.19**	**1.26**

Coefficient of Variation	**89.74%**	**13.80%**
Growth	**-140.06%**	**-21.33%**
Annual Growth Rate	**-28.01%**	**-4.27%**

Source: Computed and compiled from annual reports

According to the ratio, Maruti Suzuki Ltd outperforms Mahindra & Mahindra Limited in terms of operational efficiency and cost control.

CONTRIBUTION OF BOTH COMPANIES TO THE SUSTAINABILITY OF THE AUTOMOBILE SECTOR IN INDIA

To know the contribution of both companies in the automobile sector of India, the sales figures of passenger vehicles of different automobile companies have been taken into account, for a period of three years. The Market share of different automobile companies has also been displayed, in order to get a proper understanding of the dominant players in the automobile industry.

Table 6: Sales of Passenger Vehicles

(In Units)

Automobile Companies	Sales in 2018-19	Sales in 2019-20	Sales in 2020-21
Maruti Suzuki	1729826	1414342	1293840
Hyundai Motors	545243	485309	471535
Tata Motors	231512	138238	224109
Mahindra & Mahindra	254351	186943	157215
Kia Motor	NA	21954	155686
Toyota Kirloskar	150525	113721	93124
Renault	79654	89534	92268
Honda Cars ltd	183787	102016	82074
Skoda & VW (Combined)	51380	40032	31759
MG Motor	NA	21954	35597
Nissan Motor	36525	17976	18884
Others*	114633	141500	55366
Total	**3377436**	**2773519**	**2711457**

***FCA+PSA+Isuzu+Ford+Force Motor etc**

Source: https://auto.economictimes.indiatimes.com/

Table 7: Market Share of companies in Passenger vehicle

Automobile Companies	MS in 2018-19	MS in 2019-20	MS in 2020-21
Maruti Suzuki	51.22%	51.00%	47.72%
Hyundai Motors	16.14%	17.50%	17.39%
Tata Motors	6.85%	5.00%	8.27%
Mahindra & Mahindra	7.53%	6.74%	5.80%
Kia Motor	NA	0.79%	5.74%
Toyota Kirloskar	4.46%	4.10%	3..43%
Renault	2.36%	3.23%	3.40%

Honda Cars ltd	5.44%	3.68%	3.03%
Skoda & VW (Combined)	1.52%	1.44%	1.17%
MG Motor	NA	0.79%	1.31%
Nissan Motor	1.08%	0.65%	0.70%
Others*	3.39%	5.10%	2.04%

***FCA+PSA+Isuzu+Ford+Force Motor etc**

Source: https://auto.economictimes.indiatimes.com/

As evident from the above two tables, i.e., Table 6 and Table 7 pertaining to the sale of passenger vehicles and their respective market share, Maruti Suzuki is the dominant player and is solely accountable for almost half of the market share in the passenger vehicle segment. On the other hand, Mahindra & Mahindra ranks 4th in the list of companies and is accountable for almost 5 to 8 percent of the market share. This means both companies capture almost 58 to 59 percent market share combinedly of the automobile sector.

SUGGESTIONS

1. By evaluating its overhead costs and bringing them down, utilizing idle funds, and effectively managing its receivables, Maruti Suzuki Limited can raise its liquidity ratio.
2. Mahindra & Mahindra Ltd should refrain from taking on any further debt and make an effort to reduce operating costs to raise its long-term solvency ratios.
3. By having a stronger inventory management system and getting rid of safety stock and outdated goods, Mahindra & Mahindra Limited should increase its turnover ratio.
4. Mahindra & Mahindra Limited should decrease its cost of goods sold and enhance its inventory management in order to increase its profitability ratios.
5. Both companies should work on increasing their sales which are falling year by year.

CONCLUSION

The present study describes the comparative study of the financial performance of two automobile companies. Based on the findings of the study, we can conclude that no similarity has been found between Mahindra & Mahindra ltd and Maruti Suzuki ltd as far as short-term solvency, long-term solvency, efficiency, and profitability is concerned and further, it can be stated that both the companies play an important role towards the sustainability of automobile sector of India, particularly Maruti Suzuki ltd. which acquires nearly half of the total market share of the automobile industry.

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