Financial Performance Evaluation of the Automobile Sector

Mr. Naveen Irappa Jadar

Student

ABSTRACT
Financial performance analysis is the process of determining the operation and financial characteristics of a firm from accounting and financial statements. The goal of such an analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. The study focus on overall financial position of particular Maruthi Suzuki company during the specific period based on the selected variables, which may interest not only for the respective companies in the industry but also brings a process of development operational aspects of the entire industry. The study is much important to the management from the point of decision-making purpose, to identify the strength, weakness areas of the company and finally helps to maximize the intrinsic value of the company.

INTRODUCTION
Every business organization, whether manufacturing oriented or service oriented, needs finance, i.e., money for carrying on its activities. Though business organization gets sufficient money for carrying its activities, success of the business depends on how well the organization manages them. That is, its depends on how well a business organization funds its capital and how efficiently it operates out of the invested capital to generate profit. While the success of the of a business also a subjective measure how well a firm can finance its assets and make use of the assets to generate revenues, the business can be stable and healthy if it is financial performance consistently yields profit. These measures often determine whether or not that level of performance is consider adequate. Further, a business organization is considered to be inefficient, if the performance level is often found to be low, even if it is making profit.

STATEMENT OF THE PROBLEM
Financial performance analysis is the process of determining the operation and financial characteristics of affirm from accounting and financial statements. The goal of such an analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. From the above point of view the researcher has undertaken an analysis of financial performance of Maruti Suzuki India Limited Company to understand how management of finance plays a crucial role in the growth.

OBJECTIVES OF THE STUDY
- To study the growth and development of Maruthi Suzuki India limited Company.
- To examine the consistency and growth rate of selected financial parameters of the particular Maruthi Suzuki Company.
- To analyze profitability and liquidity status of the Maruthi Suzuki Company Limited.

NEED FOR THE STUDY

The interest of the various groups related to a firm is affected by the financial performance of the firm. So it is much of significance for these groups to analyze the financial performance of the firm they are interested in. The study focus on overall financial position of particular Maruthi Suzuki company during the specific period based on the selected variables, which may interest not only for the respective companies in the industry but also brings a process of development operational aspects of the entire industry. The study is much important to the management from the point of decision-making purpose, to identify the strength, weakness areas of the company and finally helps to maximize the intrinsic value of the company.

SCOPE OF THE STUDY

The study covers a period of five years from 2020-21 to 2024-25. Secondary data were collected for this study due to cost and time constrains. The present study is largely based on ratios, which have been its own limitations. On Maruti Suzuki.

FINANCIAL PERFORMANCE

Financial performance analysis is the process of determining the operation and financial characteristics of a firm from accounting and financial statements. The goal of such an analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. The word 'performance' is derived from the word 'perfourmen', which means 'to do', or 'to carry out' or 'to tender'. It refers to the act of performing: execution, accomplishment, fulfilment etc. In a broader sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost and speed. Performance is used to indicate the firm's success, conditions, and complains. The goal of financial performance analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. The analyst attempts to measure the firm's solvency, liquidity, profitability and other indicators so that the business is conducted in a rational and normal way. More specifically, any research on financial performance of a business organization seeks to dwell upon mainly,

1. Assessing the short term and long term solvency
2. Assessing the liquidity and profitability,
3. Identifying the efficiency of financial operations and
4. Analyzing the factors determining the solvency level liquidity and profitability.

SOURCES OF DATA

Secondary data are used in this study, which were collected from the various data base, journal and magazines. Variables pertaining to behaviour of liquidity, leverage and profitability were collected from the balance sheet and profit and loss account of the selected Maruthi Suzuki India Limited Company for a period of 5 years i.e from 2020-21 to 2021-25.

FRAME WORK OF ANALYSIS

Analyzing the performance of a company can be done through a carful and critical analysis of financial statements. The two important financial statements are ' Balance sheet" and ' Profit and loss account'. It indicates the operating results and financial position of the concern, therefore by analyzing and interoperating the statements, performance can be apprised. In the light of the above in this study various financial ratios and variables have been used to examine the objectives of the study.

REVIEW OF LITERATURE

Pradhan and Singh (2008) analyzed R&D investments and outward FDI by Indian automotive firms. Although their focus was broader, the study highlighted that Maruti Suzuki's profitability was supported by strategic partnerships with Suzuki Motor Corporation, enabling access to advanced technologies. They emphasized that continuous investment in product innovation and localization strategies had a direct positive impact on long-term profitability.

Sharma (2010) conducted a comparative analysis of leading automobile firms in India and concluded that Maruti Suzuki consistently maintained a strong profitability position due to its **dominance in the small car segment**, effective production strategies, and a wide-reaching sales and service network. The study emphasized that Maruti's **economies of scale** and cost-effective manufacturing helped it remain profitable, even in times of industry slowdown.

Ray (2012) ,this study tries to evaluate the performance of Indian automobile industry in terms of various financial indicators, sales trend, production trend, export trend etc. for the period of 2003-04 to2009-10.The result suggests that the automobile industry has been passing through turbulent phases characterized by enhanced debt burden, low utilization of assets, and above all, huge liquidity crunch .The key to success in the industry is to improve labour productivity, labour flexibility, and capital efficiency.

Dharmaraj and Kathirvel (2013), the Indian Automobile Industry marked a new journey in the 1991 with the financial revolutionary New Industrial Policy Act 1991, opening automatic route which allowed the 100 per cent Foreign Direct Investment(FDI). Here, an attempt is made to find out the effect of FDI on the financial performance of Indian Automobile Industry. For this purpose, sixteen companies were selected and analysed through various financial ratios. Descriptive statistical tools like Mean, Standard Deviation and Student's paired 't' Test were used to test the hypothesis. The liquidity analysis showed little changes and profitability analyses showed an increasing trend during post FDI when compared to pre FDI. The efficiency analysis showed that the companies are efficiently utilizing the available resources during post FDI as compared to pre FDI. It is concluded that foreign direct investment in India makes positive impact on the financial variables of the Automobile Companies.

Ravichandran, M. & Subramanium M Venkata (2016) the main idea behind this study is to assessment of viability, stability and profitability of Force motors limited. Operating position of the company can be measured by using various financial tools such as profitability ratio, solvency ratio, comparative statement & graphs etc. This study finds that company has got enough funds to meet its debts & liabilities. Company can further improve financial performance by reducing the administrative, selling & operating expenses.

PROFITABILITY RATIOS:

The Profitability ratios measures the overall performance and effectiveness of the firm.

GROSS PROFIT RATIO

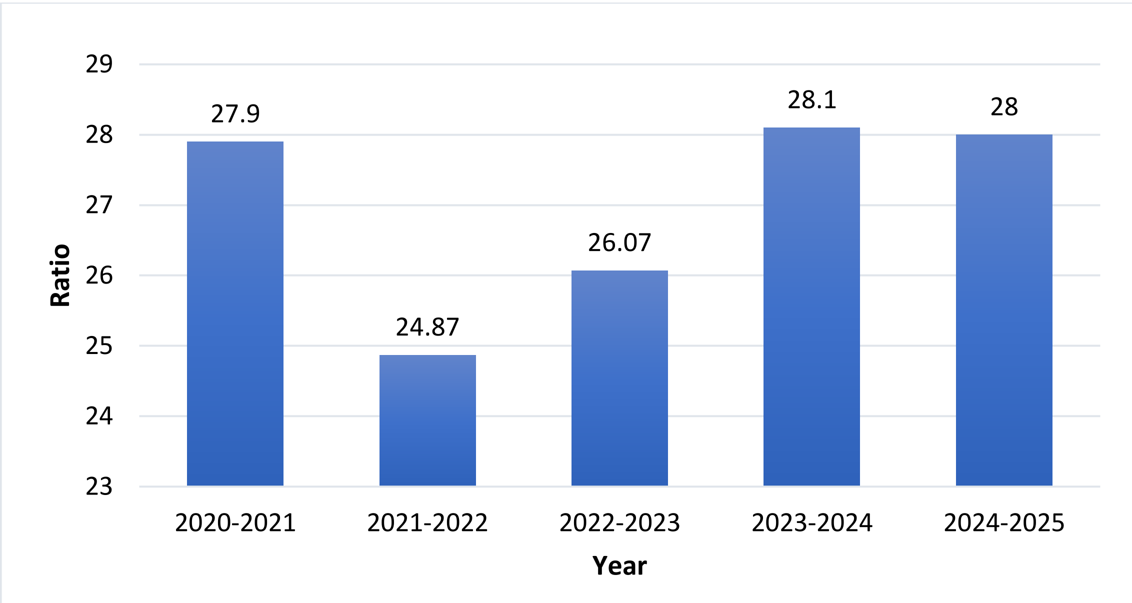
Gross profit ratio is the ratio of gross profit to net sales i.e. sales less sales returns. The ratio thus reflects the margin of profit that a concern is able to earn on its trading and manufacturing activity. It is the most commonly calculated ratio. It is employed for inter-firm and inter-firm comparison of trading results. Gross profit is what is revealed by the trading account. It results from the difference between net sales and cost of goods sold without taking into account expenses generally charged to the profit and loss account. The larger the gap, the greater is the scope for absorbing various expenses on administration, maintenance, arranging finance, selling and distribution and yet leaving net profit for the proprietors or shareholders.

Gross Profit Ratio = Gross profit / (Net sales × 100)

Year	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Gross Profit	19621	21957	30642	39602	42539
Trend analysis	100%	112%	156%	202%	217%
Sales	70332.5	88295.6	117522.9	140932.6	151900.1
Trend analysis	100%	126%	167%	200%	216%
Ratio	27.9	24.87	26.07	28.1	28

The gross profit ratio 27.9% in 2020–2021 to 24.87% in 2021–2022, indicating a temporary rise in costs or pricing pressure. However, it steadily improved in the following years, reaching 28.1% in 2023–2024 and remaining stable at 28% in 2024–2025. This reflects effective cost control and strong pricing strategies, maintaining profitability as the company grew.

Gross Profit Ratio



NET PROFIT RATIO

Net profit ratio (NP ratio) expresses the relationship between net profit after taxes and sales. This ratio is a measure of the overall profitability net profit is arrived at after taking into account both the operating and non-operating items of incomes and expenses. The ratio indicates what portion of the net sales is left for the owners after all expenses have been met.

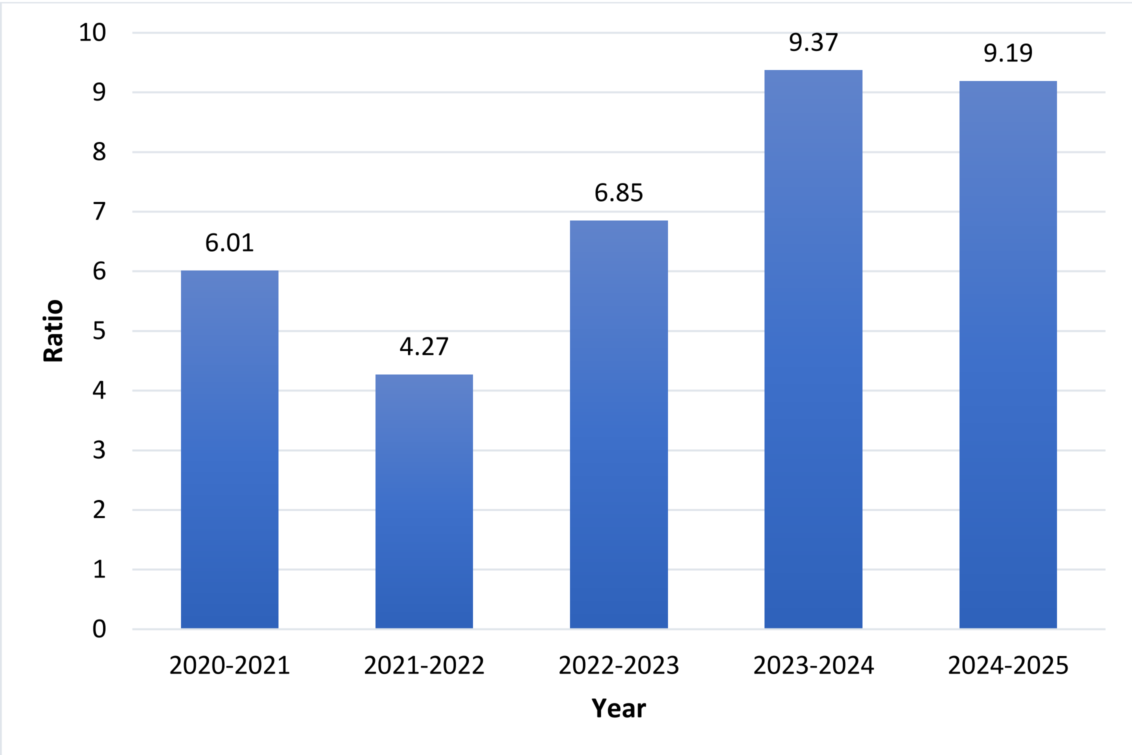
Net profit Ratio = Net profit / Sales * 100

Year	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Net Profit	4229.7	3766.3	8049.2	13209.4	13955.2

Trend analysis	100%	89%	190%	312%	330%
Sales	70332.5	88295.6	117522.9	140932.6	151900.1
Trend analysis	100%	126%	167%	200%	216%
Ratio	6.01	4.27	6.85	9.37	9.19

The net profit ratio declined from 6.01% in 2020–2021 to 4.27% in 2021–2022, indicating reduced profitability. However, it improved steadily in the following years, reaching 9.37% in 2023–2024 and slightly easing to 9.19% in 2024–2025. This upward trend reflects better cost control and increased efficiency in generating profit from sales

Net Profit Ratio



OPERATING PROFIT RATIO

The operating ratio is a financial term defined as a company's operating expenses as a percentage of revenue. This financial ratio is most commonly used for industries which require a large percentage of revenues to maintain operations, such as railroads. In railroading, an operating ratio of 80 or lower is considered desirable. The operating ratio can be used to determine the efficiency of a company's management by comparing operating expenses to net sales. It is calculated by dividing the operating expenses by the net sales. The smaller the ratio, the greater the organization's ability to generate profit. The ratio does not factor in expansion or debt repayment. Alternatively, it may be expressed as a ratio of sales to cost. In such case a higher ratio indicates a better ability to generate revenue.

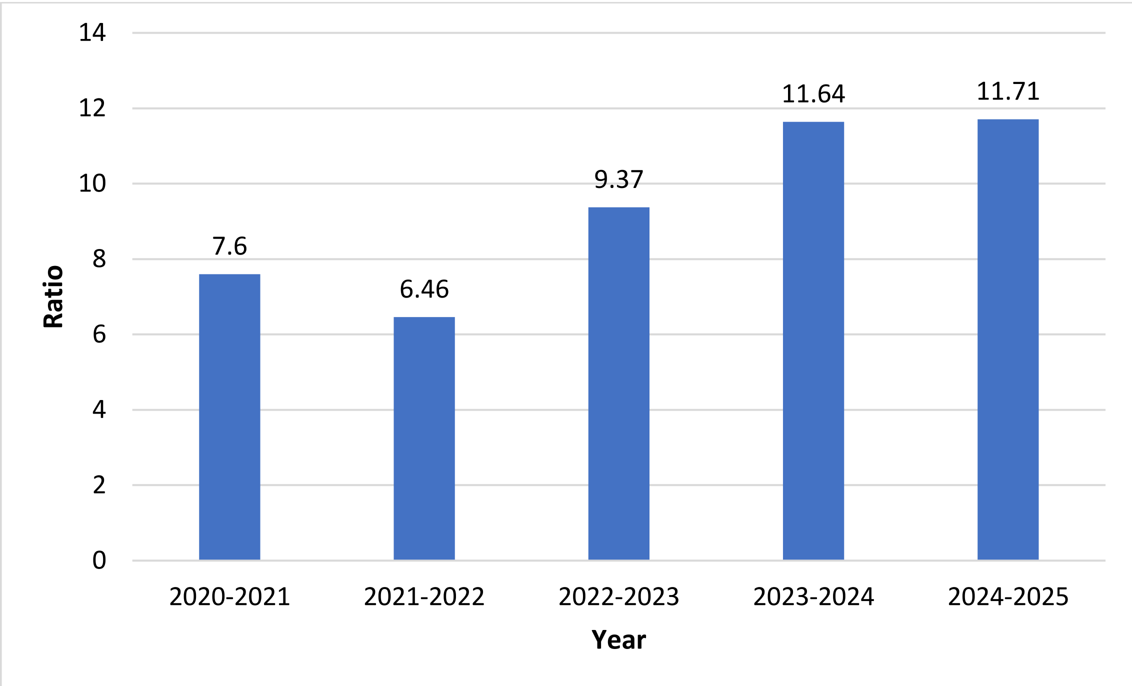
Operating Ratio = Operating Profit / Sales * 100

Year	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Operating Profit	5345.3	5701.2	11007.7	16401.1	17785.2

Trend analysis	100%	107%	206%	307%	333%
Sales	70332.5	88295.6	117522.9	140932.6	151900.1
Trend analysis	100%	126%	167%	200%	216%
Ratio	7.6	6.46	9.37	11.64	11.71

The operating profit ratio decreased from 7.6% in 2020–2021 to 6.46% in 2021–2022, indicating a rise in operating expenses. However, it improved steadily in the following years, reaching 11.71% by 2024–2025. This upward trend reflects increased operational efficiency and stronger profitability from business activities.

Operating Profit Ratio



PROPRIETARY RATIO

The proprietary ratio (also known as the equity ratio) is the proportion of shareholders' equity to total assets, and as such provides a rough estimate of the amount of capitalization currently used to support a business. If the ratio is high, this indicates that a company has a sufficient amount of equity to support the functions of the business, and probably has room in its financial structure to take on additional debt, if necessary. Conversely, a low ratio indicates that a business may be making use of too much debt or trade payables, rather than equity, to support operations.

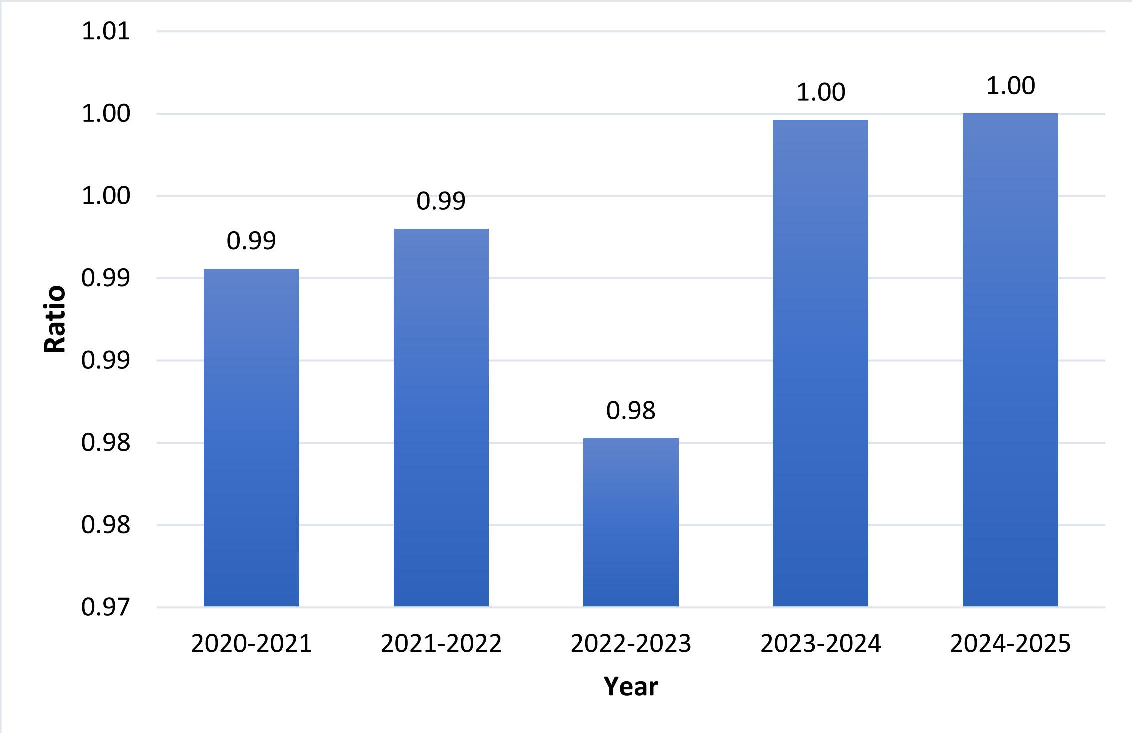
Proprietary ratio = Shareholders fund / Total tangible assets

Year	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Share Holders Fund	51366.8	54086	60382	83982	94046.7
Trend Analysis	100%	105%	118%	163%	183%
Total Tangible Asset	51855.6	54467.9	61597.8	84015.1	94046.7
Trend Analysis	100%	105%	119%	162%	181%

Ratio	0.99	0.99	0.98	1.00	1.00

The ratio of Shareholders' Fund to Total Tangible Assets remained stable around 0.99 to 1.00 throughout the period, indicating that the company's tangible assets were almost entirely financed by shareholders' equity. This consistency reflects a strong and balanced capital structure with minimal dependence on external debt.

Proprietary Ratio



ACTIVITY RATIOS

Activity ratios reflect the firm's efficiency in utilizing its assets.

ASSETS TURNOVER RATIO

Asset turnover is a financial ratio that measures the efficiency of a company's use of its assets in generating sales revenue or sales income to the company. Companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover. Companies in the retail industry tend to have a very high turnover ratio due mainly to cutthroat and competitive pricing. The ratio of the value of a company's sales or revenues generated relative to the value of its assets. The Asset Turnover ratio can often be used as an indicator of the efficiency with which a company is deploying its assets in generating revenue.

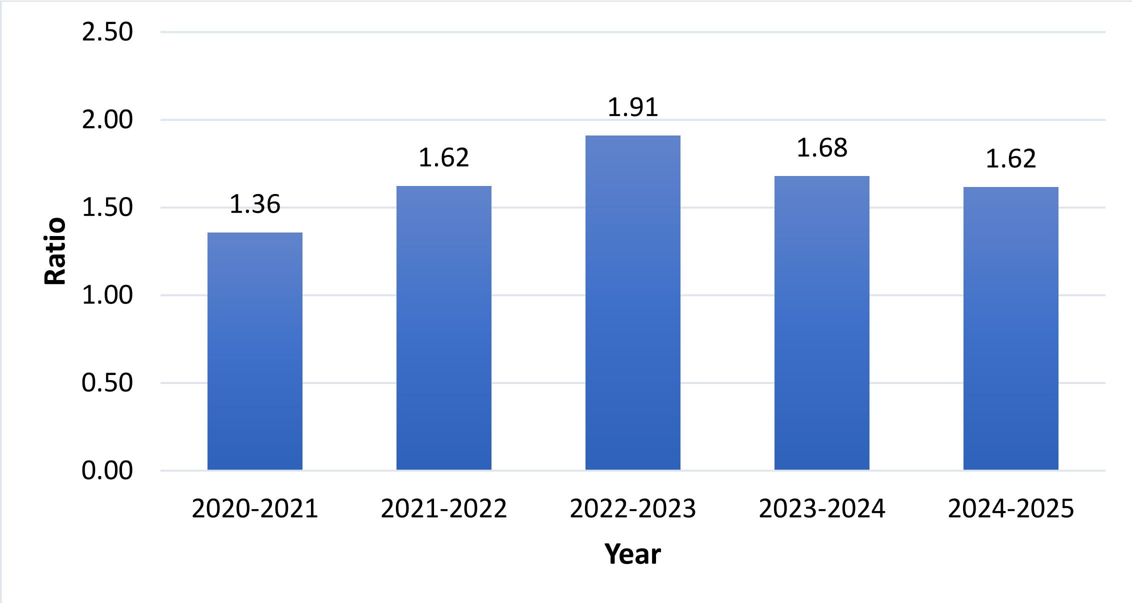
Total asset turnover ratio = Sales / Net Assets

Year	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Sales	70332.5	88295.6	117522.9	140932.6	151900.1
Trend Analysis	100%	126%	167%	200%	216%
Net Asset	51855.6	54467.9	61597.8	84015.1	94046.7

Trend Analysis	100%	105%	119%	162%	181%
Ratio	1.36	1.62	1.91	1.68	1.62

The sales to net asset ratio rose from 1.36 in 2020–2021 to a peak of 1.91 in 2022–2023, showing improved efficiency in using assets to generate sales. It then declined to around 1.62 by 2024–2025, indicating a slight drop in asset turnover but still reflecting relatively strong sales performance.

Assets Turnover Ratio



STOCK TURNOVER RATIO (INVENTORY TURNOVER RATIO)

The Inventory turnover is a measure of the number of times inventory is sold or used in a time period such as a year. The equation for inventory turnover equals the cost of goods sold or net sales divided by the average inventory. Inventory turnover is also known as inventory turns, merchandise turnover, stock turn, stock turns, turns, and stock turnover.

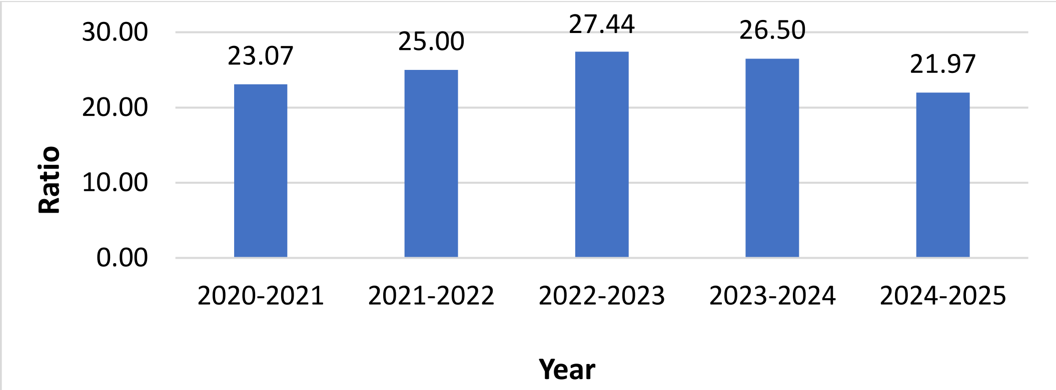
- Increasing inventory turns reduces holding cost. The organization spends less money on rent, utilities, insurance, theft and other costs of maintaining a stock of good to be sold.
- Reducing holding cost increases net income and profitability as long as the revenue from selling the item remains constant.
- Items that turn over more quickly increase responsiveness to changes in customer requirements while allowing the replacement of obsolete items. This is a major concern in fashion industries.
- When making comparison between firms, it's important to take note of the industry, or the comparison will be distorted. Making comparison between a supermarket and a car dealer, will not be appropriate, as supermarket sells fast moving goods such as sweets, chocolates, soft drinks so the stock turnover will be higher. However, a car dealer will have a low turnover due to the item being a slow moving item. As such only intra-industry comparison will be appropriate.

Stock turnover ratio = Cost of goods sold / Inventory

Year	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Cost Of Goods Sold	70,332.50	88,295.60	1,17,522.90	1,40,932.60	1,51,900.10
Trend Analysis	100%	126%	167%	200%	216%
Inventory	3,049.00	3,532.30	4,283.50	5,318.10	6,913.20
Trend Analysis	100%	116%	140%	174%	227%
Ratio	23.07	25.00	27.44	26.50	21.97

The inventory turnover ratio went up from 23.07 in 2020–2021 to 27.44 in 2022–2023, meaning the company was selling its inventory faster. But in the next two years, it dropped to 21.97, showing that inventory was moving more slowly. This could mean the company is holding more stock than needed or not selling as quickly as before.

Stock Turnover Ratio



SUMMARY OF FINDINGS AND CONCLUSIONS

Performance of a company measured in financial terms, the success of the firm depends on how it is perceived by and reacts to the external economics markets. The field of managing fiancé is much more complicated and faster faces today. Financial managers need to know how effective decisions can be made and ineffective ones be avoided. The present study is concerned with financial analysis of Maruti Suzuki India Limited for a period of five years during 2020-21 to 2024-25 This chapter optimizes the major findings, suggestions and conclusions for efficient utilization with respect to Maruti Suzuki India Limited Company.

FINDINGS

- In 2020-2021, Gross Profit Ratio was 27.9% and it increased to 28.0% in the year 2024-2025 indicating strong cost control and operational efficiency.
- In 2020-2021, Net Profit Ratio was 6.01% and it increased to 9.19% in the year 2024-2025 reflecting improved efficiency and profitability.
- In 2020-2021, Operating Profit Ratio was 7.6% and it increased to 11.71% in the year 2024-2025 reflecting improved cost control and enhanced operational efficiency.
- In 2020-2021, Proprietary Ratio was 0.99% and it increased to 1.00% in the year 2024-2025 indicating a stable and equity-funded capital structure.

- In 2020-2021, Asset Turnover Ratio was 1.36% and it increased to 1.62% in the year 2024-2025 as asset growth outpaced revenue, suggesting possible capacity expansion or underutilization of assets.
- In 2020-2021, Inventory Turnover Ratio was 23.07% and it decreased to 21.97% in the year 2024-2025 indicating slower stock movement and reduced inventory efficiency.

CONCLUSIONS

The financial analysis of Maruti Suzuki India Limited over the five-year period reveals a strong and improving profitability trend, supported by efficient cost control and operational performance. The company maintained a stable capital structure with high equity dependence, ensuring financial stability. Although asset and inventory turnover showed minor declines in the later years, overall financial health remained sound. This study highlights the company's ability to adapt, manage resources effectively, and maintain profitability, positioning it for sustained growth in the competitive automobile industry.

REFERENCES

1. Agarwal, M.P., Analysis of Financial Statements, National Publishing House, New Delhi, 1981, p.5.
2. Batty, Management accounting, McConald and Evens Ltd., 1970, p.143 Gupta.S.P. Statistical Methods, Sultan Chand & Sons, New Delhi (2005)
3. Dr. KhankaS.S., Entrepreneurial Development, S. Chand & Co Pvt Ltd., pp.51-66
4. Panday.I.M., Elements of financial Management, Vikas Publishing House Pvt Ltd., 1993, pp.1-21.