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L Prrabha

Assistant Professor,
Department of B.Com (Pa),
PSGR Krishnammal College
for Women, Coimbatore, Tamil
Nadu, India

Jayapriya R

III B.Com PA Department of
B.Com (Pa), PSGR
Krishnammal College for
women, Coimbatore, Tamil
Nadu, India

Joslin Monica LA

III B.Com PA Department of
B.Com (Pa), PSGR
Krishnammal College for
Women, Coimbatore, Tamil
Nadu, India

A study on shareholders' wealth maximization of muthoot finance limited

L Prrabha, Jayapriya R and Joslin Monica LA

Abstract

Shareholders wealth maximization is the attempt by business managers to maximise the wealth of the firm. In this article, we suggest necessary steps to enlarge Muthoot Finance Company's wealth. To make our case, we used capital structure and trend analysis. Their problem is uncontainable expenses. For that we gave suggestions regarding the maintenance of expenses in a proper way. Finally, the suggestions are offered to improve the wealth of the company.

Keywords: Trend analysis, capital structure and shareholders wealth maximization

Introduction

Wealth maximization is a modern approach to financial management. Maximization of profit is used to be the main aim of a business and financial management till the concept of wealth maximization came into being. It is a superior goal compared to profit maximization as it takes broader arena into consideration.

It is defined as the present value of the expected future returns to the owners of the firm. These returns can take the form of periodic dividend payments and/or proceeds from the sale of the stock.

Shareholders wealthy maximization is the attempt by business managers to maximize the wealth of the firm they run, which results in rising stock prices that increases the net worth of shareholders

Company profile

Muthoot Finance Limited is an Indian financial corporation. It is known as the largest gold financing company in the world. In addition to financing gold transactions, the company offers foreign exchange services, money transfers, wealth management services, travel and tourism services, and sells gold coins at Muthoot Finance Branches. The company's headquarters are located in Kerala, India, and it operates over 4,400 branches throughout the country. Outside India, Muthoot Finance is established in the UK, the US, and the United Arab Emirates. While the company falls under the brand umbrella of the Muthoot Group, its stocks are listed on the Bombay Stock Exchange (BSE) and NSE. As of March 2012, revenue (after expenditure) stood at more than Rs. 23,000 crore (\$4.2 billion). The target market of Muthoot Finance includes small businesses, vendors, farmers, traders, SME business owners, and so on.

Statement of the problem

Shareholders are the anonymous title holder of the company. They have an influential part in company's wealth. Shareholders tend to show interest only when the wealth of the company is at its maximum. Eventually, the shareholders wealth increases proportionate to the increase in the wealth of the company. When the company's wealth is maximized, it is benefited for the shareholders. Muthoot Finance is one of the trusted finance diversified brand in the country. They are specially designed for the working for the wealth of the shareholder. They also have an option for trading in online platforms offered by banking institutions. On those crucial grounds we make choice to designate a project on this company.

Correspondence

L Prrabha

Assistant Professor,
Department of B.Com (Pa),
PSGR Krishnammal College
for Women, Coimbatore, Tamil
Nadu, India

Scope of the study

This study mainly attempts to analyse the financial performance of the company. The present study develops a financial analysis for owner’s equity and its development. The study forecast to evaluate how to increase the company profit.

Objectives of the study

- To determine the value of trend for past 5 years.
- To compare the income statement and Balance sheet of Muthoot Finance for the past 5 years.
- To study the financial position of the business using comparative statement and trend Analysis.

Tools used

1. Trend Analysis
2. Capital Structure

Literature review

Bernard Sharfman [1] has done a study on shareholder wealth maximization and its implementation under corporate law. The article takes a very traditional approach he analysed with an approval that codes have historically been very hesitant to participate in the process of determining if a corporate decision is wealth maximizing, the creation and application of corporate law involves an enduring struggle to find the optimal amount of decision making in the context of a maximizing share holder wealth [1].

R. Muruga ganesh, Dr. A. Somu and V. Mathivathani [2] has done a research on a comparative study on wealth

maximization in selected automobile industries. The problem taken for this research is that due to the fluctuations in the market price of shares. It is essential to measure the wealth created by the organisation. In this research six financial tools have been used to analyse the data. Finally, based on the analysis the researcher has compared wealth creations on selected organisations and suitable suggestion have been given to the selected organization and also for the investors [2].

Research methodology

Data obtained secondary data collected from website.

Period of the study

The period of study is from 2012 to 2016(5 Years)

Analysis and Interpretation

Trend Analysis

Trend analysis involves the collection of information from multiple time periods and plotting the information on a horizontal line for further review. The intent of this analysis is to spot actionable patterns in the presented information.

When trend analysis is being used to predict the future, keep in mind that the factors formerly impacting a data point may no longer be doing so to the same extent. This means that an extrapolation of a historical time series will not necessarily yield a valid prediction of the future. Thus, a considerable amount of additional research should accompany trend analysis when using it to make predictions.

Table 1: Trend Percentage, (2012-2106)

Year	Share Capital		Net Profit	
	Rs.	Trend percentage	Rs.	Trend percentage
2011-2012	371.71	100	892.02	100
2012-2013	371.71	100	1004.24	112.58
2013-2014	371.71	100	780.07	87.45
2014-2015	392.97	105.71	670.52	75.17
2015-2016	399.00	107.33	809.55	90.75

[Source: www.profit.ndtv.com]

The above trend table state that there is no rise in share capital as up to 2014 and it’s gradually increased in the year 2015 & 2016 from 100% to 107.33%.

As profit is trend is concerned from 2013 there was a great increase in profit to 12% but while seeing 2014 & 2015 there is a steep decrease in the profit ratio to 75.17%. But in 2016 again the profit is boosted up to 90.75.

It shows that share capital trend is in increasing point and profit trend is at fluctuations of increasing and decreasing.

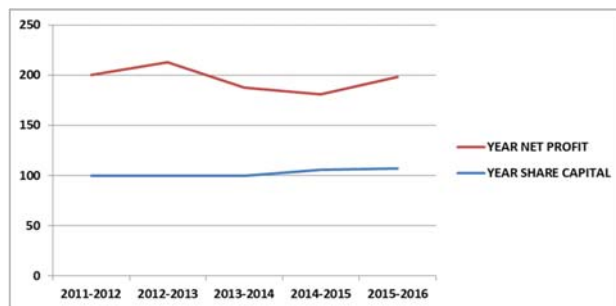


Chart 1

Capital Sctucture

Planning the capital structure is an important area of financial decision making. The finance manager has to select long-term sources of funds in such a way that the capital structure is optimum. The raising of more debt may help to improve the return to shareholders. But it will increase the risk and the fixed interest charges. On the other hand, raising of funds through equity capital will bring in more permanent funds. The risk to the firm is also less, but the shareholders expect higher returns. Therefore, the finance manager has to strike a balance between various long-term sources with a view to minimise the overall cost of capital.

Here, the capital structure is found out to know about the value of the firm.

$$V = S + D$$

Here, V = value of the firm

S = market value of equity shares

D = market value of debt

To calculate v,

Earnings available to equity holders = EBIT – interest

Cost of equity (K_e) = earnings per share / market value per share

Market value of equity shares = earnings available to equity share / cost of equity

Table 2

Year	earnings available to equity holders	Capitalization rate (%)	market value of equity shares	market value of debt	Value of the firm
2011-2012	1364.17	8.9	153.45	19376	19530
2012-2013	1556.89	9	173.76	24081	24542
2013-2014	1241.02	5.8	212.5	19478	19690
2014-2015	1111.98	6.3	176.23	19436	19612
2015-2016	1074.27	7.02	153.03	18567	18862

[Source: www.profit.ndtv.com]

The table 4.4.1 shows, that the value of the firm has been increased in the year 2013 by 25.67% and then it have been decreased from 25.67% to 19.77% then to 0.39% then to 3.82% for 2014-2016.



Chart 2

Findings

The value of share capital has been increased by 7.33%. And the value of net profit have been decreased by 9.26% The value of the firm has been increased in the year 2013 about 25.66%. And then it has been decreased from 25.66% to 23.14%

Suggestions

By seeing the value of share capital it have been increased over the years, but when looking at the profit it have been decreased, to overcome this situation the company should give more attractive plans to increase customers only when the customers are interested to invest then only the wealth of the company will increase. The company should maintain the value of income and expenses in order to preserve the profit of the organization.

Conclusion

The company concentrates on the wealth maximization of the concern, in muthoot finance the wealth of the company is good at the year 2013, but in 2016 due to decrease in the value of profit and increase in the value of dividend rate the wealth is minimised. If the company takes necessary measures to overcome the problem of operating expenses and concentrate on the maximization of profit the company will have a good initiative.

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