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

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

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

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

A ratio analysis of Maruti Suzuki India Ltd.

B Navaneetha, R Padmasri and A Pavithira

Abstract
The automobile industry includes a wide range of companies and organization involved in development, design, manufacturing, marketing and selling of motor vehicles. It is one of the world’s most economic sector by revenue. Maruti Suzuki India Limited is the king of the Indian automobile industry. This study has been undertaken to understand the overall financial performance of Maruti Suzuki India Limited. Ratio analysis has been used to analyze the liquidity and profitability of Maruti Suzuki India Limited for the period of 5 years (2013 to 2017). The study has identified that liquidity position can be improved by revising credit policies and the profit earned can be used for the purpose of research and innovation to tackle the competition in the market and concluded that MSIL has been consistently surviving in the industry with the effective growth rate which is evidenced by high profit earning capacity.

Keywords: automobile, ratios, liquidity, performance

1.1 Introduction

The automotive industry in India is one of the largest in the world with an annual production of 23.96 million vehicles in FY (fiscal year) 2015–16, following a growth of 2.57 per cent over the last year. The automobile industry accounts for 7.1 per cent of the country's gross domestic product (GDP) [1]. The Two Wheelers segment, with 81 per cent market share, is the leader of the Indian Automobile market. Moreover, the growing interest of companies in exploring the rural markets further aided the growth of the sector. The overall Passenger Vehicle (PV) segment has 13 per cent market share.

Maruti Suzuki (formerly Maruti Udyog) was established in 1981 as a joint venture between the Government of India and Suzuki Motor Corporation (SMC), Japan. Today, it is the leading passenger car manufacturer in India and SMC’s largest subsidiary in terms of volume of production and sales. The Company holds 46.8% market share in the Indian passenger vehicles market. The Company is listed on the BSE and NSE of India. SMC owns 56.21% equity stake in the Company. Maruti Suzuki strives to be a people’s company, and for that, it needs to take care of everyone. Not only is it completely dedicated to the customers, but also to the communities around the facilities. As a part of the community development programme, Maruti Suzuki identify their needs through formal surveys. Their CSR programmes tackle social issues at both local and national level in order to develop sustainable social programmes that leave a visible impact for the future generations. The major CSR activities undertaken by MSIL are as follows.

- Pehnikya(use of seat belts)
- Road safety
- Skill development
- Community development
- Employee volunteering

[1](Source: computed https://en.m.wikipedia.org/.wiki/.automative_industry_in_india)

Fig 1: Maruti Suzuki India Limited has received innumerable awards which indicates its effective survival in the industry

Year	Awards
2009	Award for most innovative Ad campaign. Young Entrepreneur Award.
2010	Spare Parts Award. Award for lowest inventory days.
2012	Workshop Performance Award.
2013	Dealership Platinum Award for overall performance 2012-13 Highest growth in wholesale award
2014	Best Showroom award

(Source: computed http://www.kalyanimotors.com/awards-and-achievements)

1.2 Objectives of the study
- To study the liquidity position of Maruti Suzuki India limited.
- To analyze the overall efficiency of Maruti Suzuki India limited by using profitability ratios

1.3 Research methodology
The following methodology has been used in this study.

1.3.1 Research design
The study aims at analyze the liquidity position for a period of 5 years from 2013 to 2017 of Maruti Suzuki India Ltd. and also to get a clear insight of profit earning capacity of the company

1.3.2 Nature of data
The study is based on secondary data. The data is collected from various sources such as newspaper, magazine, books, journals and online publications. The audited financial statements are collected to perform the study.

1.3.3 Tools used for the study
Various ratios have been used to analyze the data.

1.4 Limitations
- The study is based on secondary data.
- The analysis is based on quantitative factors and qualitative aspects are ignored.

1.5 Review of literature
Rakesh (2005) [2] have made "A study on financial performance of vijayeswari textile limited", from the year 2001 – 2005. The study was conducted to analyze the profitability position, financial position, and also to find the efficiency in asset utilization and fund utilization. It is found that the company's profitability and activity position is satisfactory whereas the liquidity position is not satisfactory due to improper management. Cash flow analysis, working capital analysis, ratio analysis were the tools used in the study. The study period is covered from the year 2001-2005. The study examined the growth and trend of selected textile companies. It is analyzed that these companies should aim, not only to earn high profit but also to run the business with social obligation and maximum utilization of ideal resources properly.

Vijay Patel and Chandresh Mehta (2012) [3] have made a study on "A Financial Ratio Analysis Of Krishak Bharati Co-Opertive Limited". This paper provides the guidelines about analysis of profitability ratio of Krishak Bharati Co-operative ltd. located at Kawas-Hazira in Surat District. The study involved the calculation of profitability ratios to evaluate the financial performance of Kribhco ltd in India from 2000-01 to 2008-09. The nature of data which is collected and used for this research is secondary in nature. Statistical measures like percentage, mean, ratio analysis and test are used in the study. The study has concluded that the company should try to minimize the operating expenses so as to maintain profit and it should not put much reliance on the subsidy. It is analyzed that the credit policy should be made effective so that collection from debtor can be received at the earliest.

Farzan Yahya, Syed Atif Ali, *et al*. (2013) [4] have conducted a study on "Significant Analysis For Financial Statements: An Empirical Study Of National And Unilever Foods". This study focus on most significant analyses to perform on financial statements. To accomplish this study, financial statements of 2 companies, unilever foods and national foods has selected to perform analysis. The study covered for a period of 5 years from 2007 to 2011. Vertical analysis, horizontal analysis, duPont analysis and ratio analysis have been used to analyze the Balance sheet and Profit & Loss statement of both the companies. The study has identified that Unilever Foods is better corporate than National Foods.

In order to compare the efficiency of working capital management in Painting companies, Pavithra, Karthik and Umamaheswari (2016) [5] have made "A Comparative Study On Working Capital Management Of Asian Paints Ltd., And Berger Paints Ltd. in India". The study is analytical and empirical in nature based on secondary data. A sample of two paint companies listed at Bombay Stock Exchange (BSE) has been selected using convenience sampling for the period of 5 years, i.e. 2011 to 2015. Current ratio, Quick ratio, Fixed Asset to Current Assets ratio, Receivables management ratio and inventory management ratios has been applied to analyze the company's working capital position. It is identified from the analysis that the working capital of the companies is efficiently managed throughout the study period. The study has concluded that the overall working capital management of the companies is found to be satisfactory.

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[2] Rakesh, "A Study On Financial Performance Of Vijayeswari Textile Limited", International Journal of Accounting and Financial Management Research (IJAFMR), Vol.3, No.1, March 2005, Pp 11-26.

[3] Vijay Patel and Chandresh B.Mehta, "A Financial Ratio Analysis Of Krishak Bharati Co-Opertive Limited", International Journal of Marketing, Financial Services & Management Research, vol.1, Issue-10, October 2012.

[4] Farzan Yahya, Syed Atif Ali, *et al.* "Significant Analysis For Financial Statements: An Empirical Study Of National And Unilever Foods", Research Journal of Finance and Accounting, vol.4, No.1, 2013.

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1.6 Analysis and interpretation

Ratio

A ratio analysis is quantitative analysis of information contained in a company's financial statements. Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency. In this analysis we used liquidity and profitability ratios to measure the company's overall performance to get a clear insight on the decision making policy of MSIL.

1.6.1 Liquidity ratios

Liquidity ratio is one of the various ratios used to measure the ability of a company to meet its long term debts. Moreover, the solvency ratios quantifies the size of a company after its tax income, not counting non cash depreciation expenses, as contrasted to the total debt obligation of the firm. Liquidity ratio can be classified in to three categories,

- Current ratio
- Liquid ratio
- Quick ratio

1.6.2 Profitability ratios

The profitability ratio are used to assess the ability of the business to generate earnings during the specific period of time. It shows the relationship between the profit and sales of the company. There are three types of profitability ratios.

- Gross profit ratio
- Net profit ratio
- Operating profit ratio

1.6.1. a Current ratio

It is used to test the company's liquidity position. Current ratio shows the relationship between current assets and current liabilities. The primary goal behind calculating this ratio is to ascertain if the company's short-term assets are sufficient to pay off its short-term liabilities.

Current Ratio = Current Asset/Current Liabilities

Current Assets = Current Investment, Inventories, Cash, Other Current Asset, Short-term Loans & Advances, accounts receivable

Current Liabilities = Trade Payable, Other Current Liabilities, Short-term Borrowings & Provisions

Table 1: Current Ratio (Rs. in crores)

Year	Current Asset (Rs.)	Current Liabilities (Rs.)	Times
2013	18020.8	13802.3	1.30
2014	22098.2	16044.9	1.38
2015	17214.1	17839.2	0.96
2016	7846.1	10679.2	0.73
2017	8610.2	13231	0.65

(Source: computed http://profit.ndtv.com/stock/maruti-suzuki-india-ltd_maruti/financials-historical)

From the above table, it is understood that during the study period the current ratio is high in the year 2014 and low in the year 2017. Ideal current ratio is 2:1. To achieve the ideal ratio in the forthcoming years, the company has to maintain the high level of cash and increasing its current asset.

1.6.1.b. Liquid ratio

Liquid ratio measures a company's ability to pay off its short term debt obligations. This is done by comparing a company's most liquid assets to current liabilities. The purpose of this ratio is to measure how well a company can meet its short-term debt with its most liquid assets.

Liquid ratio = liquid asset/current liabilities.

Liquid asset = current asset – inventories.

Current Assets = Current Investment, Inventories, Cash, Other Current Asset, Short-term Loans & Advances, account receivable

Current Liabilities = Trade Payable, Other Current Liabilities, Short-term Borrowings & Provisions

Table 2: Liquid Ratio (Rs. in crores)

Year	Liquid Asset (Rs.)	Current Liabilities (Rs.)	Times
2013	16180.1	13802.3	1.17
2014	20392.3	16044.9	1.27
2015	14528.2	17839.2	0.81
2016	4713.9	10679.2	0.44
2017	5348	13231	0.40

(Source: computed http://profit.ndtv.com/stock/maruti-suzuki-india-ltd_maruti/financials-historical)

From the above table, it is understood that during the study period the liquid ratio is increasing in the year 2014 as compared to the previous year 2013 and decreasing in the year 2017 as compared to the previous year 2016. Ideal liquid ratio is 1:1**.** The company has to achieve the ideal liquid ratio by improving the cash and not to make any changes with regards to inventory.

1.6.1. c Quick ratio

The quick ratio is a measure of how well a company can meet its short term financial liabilities. It is also known as acid test ratio. Quick ratio is calculated by taking assets which are quickly converted in to cash. Cash and cash equivalents are the indicators of the quick ratio.

Quick ratio = cash + marketable securities + accounts receivable / current liabilities.

Marketable securities = current investment

Current Liabilities = Trade Payable, Other Current Liabilities, Short-term Borrowings & Provisions

Table 3: Quick Ratio (Rs. in crores)

Year	Cash, Marketable Securities, Account Receivable (RS)	Current Liabilities (RS)	Times
2013	7449.7	13802.3	0.54
2014	10856.5	16044.9	0.68
2015	4084.5	17839.2	0.23
2016	2418.1	10679.2	0.22
2017	3226	13231	0.24

(Source: computed http://profit.ndtv.com/stock/maruti-suzuki-india-ltd_maruti/financials-historical)

From the above table, it is understood that during the study period, the quick ratio shows a fluctuating trend, and the quick ratio high in the year 2014 and low in the year 2016. Ideal liquid ratio is 1:1. To increase the quick ratio in forthcoming year, the company has to maintain the high level of cash.

1.6.2.a Gross profit ratio

Gross profit ratio is a profitability ratio that shows the relationship between the gross profit and total sales revenue. It is a popular tool to evaluate the operational performance of the business.

Gross profit ratio = gross profit/sales*100
Gross profit= sales – raw material consumed

Table 4: Gross Profit Ratio (Rs. in crores)

Year	Gross Profit (RS)	Sales (RS)	Percentage
2013	11052.3	43587.90	25.35
2014	12461.5	43791.80	28.46
2015	14437.6	49970.60	28.89
2016	18847.6	57538.10	32.76
2017	20923.1	68034.80	30.75

(Source: computed http://profit.ndtv.com/stock/maruti-suzuki-india-ltd_maruti/financials-historical)

From the above table, it is understood that during the study period, the gross profit ratio shows the increasing trend from the period 2013 to 2016. It is decreasing in the year 2017 as compared to the previous year 2016. The company has to increase the gross profit ratio by improving their operating activities.

1.6.2.b net profit ratio

Net profit 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.
Net profit ratio = profit after tax/sales*100

Table 5: Net Profit Ratio (Rs. in crores)

Year	Profit After Tax (RS.)	Sales (RS.)	Percentage
2013	2392.10	43587.90	5.48
2014	2783.00	43791.80	6.35
2015	3711.20	49970.60	7.43
2016	5364.30	57538.10	9.32
2017	7337.70	68034.80	10.78

(Source: computed http://profit.ndtv.com/stock/maruti-suzuki-india-ltd_maruti/financials-historical)

From the above table, it is understood that during the study period the net profit ratio shows the increasing trend. It is a good sign of the company. Net profit ratio is high in the year 2017 and low in the year 2013.

1.6.2.c Operating Profit Ratio

Operating profit is the profit earned from a firm's day to day business operations. This value does not include any profit earned from the firm's investment. This ratio helps in determining the ability of the management in running the business
Operating profit ratio = operating profit/net sales*100

Table 6: Operating Profit Ratio (Rs. in crores)

Year	Operating Profit (Rs)	Net Sales (Rs)	Percentage
2013	5042	43587.90	11.57
2014	5918.80	43791.80	13.52
2015	7544.56	49970	15.10
2016	10345.40	57538.10	18
2017	12632.80	68034.80	18.57

(Source: computed http://profit.ndtv.com/stock/maruti-suzuki-india-ltd_maruti/financials-historical)

From the above table, it is understood that during the study period operating profit ratio shows an increasing trend. This ratio is high in the year 2017 and low in the year 2013**.** This indicates that the company is operating effectively. Based on the increasing trend of the operating profit ratio, it is assumed that the operating profit ratio in the forthcoming years will also increase.

1.7 Findings and suggestions

The major findings of the study are as follows

- During the study period 2013 to 2017, the liquidity position of Maruti Suzuki India Limited indicates that liquidity ratios are inversely proportional to the company's effective growth rate. It shows that it allocates a minimum level of funds towards liquidity.
- During the study period 2013 to 2017, the profit earning capacity of MSIL has been increased which is evidenced by the consistent increase in sales. The profitability ratios shows an increasing trend which is due to the optimum utilization of resources.

Based on the findings the following suggestions are given,

- To attain an optimum liquidity position the company may apportion certain amount of funds on current assets and the company may revise its credit policy to settle current liabilities.
- There is an increasing trend of sales in MSIL which indicates that it follows cost effective policies to earn more revenue. The profit earned may be used for the purpose of research and innovations to tackle the competition in the market.

2. Conclusion

A ratio analysis of the Maruti Suzuki India Limited has done to analyze the overall financial performance. MSIL is following a conservative working capital policy as it maintains minimum level of liquidity. Company's with low liquidity ratios has a higher risk of meeting its current obligations. In the case of MSIL the fall in the liquidity ratios is offset by the rise in profitability ratios. The company allocates more amount of funds on investments to have an edge over the competitors. MSIL is the king of the Indian automotive industry. MSIL has been consistently surviving in the industry with the effective growth rate which is evidenced by high profit earning capacity.

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