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An Analysis of Profitability Performance of Mahindra & Mahindra

ORIGINAL ARTICLE


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Abstract

This study focuses on evaluating the overall performance of Mahindra & Mahindra Ltd. by analyzing its income, expenditure, assets, and liabilities through the examination of profit and loss statements and balance sheets. The analysis aims to provide insights into the company's financial health, assisting in decision-making and enhancing understanding of its financial position. The evaluation is conducted using ratio analysis, specifically focusing on liquidity, profitability, and activity ratios.

Key Words

Mahindra & Mahindra Limited, Current Ratio, Quick Ratio, Activity Ratios.

Introduction

Profitability serves as a vital measure of a company's financial stability and potential for sustained growth. It indicates how effectively a firm generates profit in relation to its revenue, assets, and equity, offering important insights into its operational performance and competitive edge. For Mahindra & Mahindra Limited, a prominent entity in the Indian automotive and agribusiness industries, assessing profitability is key to understanding its overall financial strength and strategic direction.

This study focuses on evaluating Mahindra & Mahindra Limited's profitability by thoroughly analyzing its financial statements. The study will examine essential profitability ratios, including the net profit margin, return on assets (ROA), and return on equity (ROE), to uncover trends, strengths, and potential areas for improvement in the company's financial practices.

Additionally, the analysis will take into account the influence of external factors such as market dynamics, competitive pressures, and economic policies on the company's profitability. By doing so, the study aims to provide meaningful insights into Mahindra & Mahindra's financial performance, laying the groundwork for informed strategic decisions and future growth opportunities.

Review of Literature

B.Surekha K. Rama Krishnaiah (2015) outlined profitability ratios to evaluate the company's financial status for this investigation. by examining the company's entire financial study utilizing a variety of methods. Additionally, the business had steady growth and recommended cutting back on the study's costs. By reducing financial and administrative costs and utilizing optimal capital gearing, the company can further increase its profitability.

Nilesh P. Movalia (2015) The financial structure and profitability of the company were the basis for this analysis, which used a data technique. for the purpose of analyzing and interpreting the data that the regression analysis used. The business keeps an optimal capital structure, which boosts profits and suggests reducing debt levels, all of which have an impact on a company's profitability. Profitability and capital structure are significantly correlated.

Nisha Rapheal (2013) had explained the study among leading tyre companies, they compared as per the financial performance of Indian tyre companies. On this study ,terms of various financial indicators, sales trend, and production trend for the period of 2003-2004 to 2011-2012. And also the company has 80% rank in Indian ranks and certain suggestions for the company has low utilization of assets and to improve labor productivity and capital efficiency.

Dhanabhakyam and Kavitha (2012) examined the effectiveness of several automakers' asset use. Ratio analysis and correlation analysis were the researchers' analytical tools. According to the survey, the chosen automakers fared well in terms of finance and asset use, which would support the businesses in making crucial financial decisions regarding their fixed and current assets.

Vijayakumar (2011) attempted to investigate the connection between Indian automakers' profitability and their organizational structure. Firm size, growth, liquidity, leverage, age, post-profitability, market share, and capital output ratio were all taken into account in the study. Regression modeling and ratio analysis were used in the study as analytical techniques. Twenty Indian automakers made up the study's sample. The findings show that business growth and size were significant factors in determining profitability in the Indian car sector, and a positive correlation was discovered between profitability and firm growth and size**.**

Santanu Kumar Ghosh and Paritosh Chandra Sinha (2007) assessed whether a firm's capital structure decision might help an investor (a risk taker or averter). Regarding the capital structure's suitability in the context of maximizing shareholder value, there is currently no agreement.

This study examines, with specific reference to the Indian automobile sector, the hypothesis that a firm's value maximization can be explained by the leverage variable. Our research indicates a strong relationship between shareholder returns and the firm's debt levels. The companies maintain the long-term debt to equity ratio more cautiously than the total debt to equity ratio.

Objectives of the Study

1. To study the trend of the Mahindra & Mahindra company's short-term liquidity condition.
2. Toanalyse trend oftheprofitabilitymarginoftheMahindraandMahindracompany.

Significance of the Study

Examining Mahindra's profitability performance is essential for multiple stakeholders. Investors gain valuable insights into the company's financial well-being, potential returns, and prospects for growth. For management, the analysis helps pinpoint strengths and weaknesses, guiding strategic decisions and efficient resource allocation. Creditors can evaluate the company's ability to manage debt and its overall risk profile. Employees and labor unions can assess the company's financial stability, which impacts job security and wage sustainability. Moreover, this study adds to academic knowledge by offering empirical data on the profitability of a major automotive firm, supporting future research and industry analysis. This analysis is pivotal for maintaining M&M's competitive edge, ensuring sustainable growth, and securing its position as a leading player in its industry.

Limitation of the Study

The study relies on secondary data sources, specifically the company's published financial statements. Consequently, the reliability of the ratios depends on the accuracy of the information provided in these statements.

Analysis & Interpretation

Table No. 1: Current Ratio

Year	Current Ratio
2015-16	1.20
2016-17	1.22
2017-18	1.20
2018-19	1.18
2019-20	1.19
Average	1.20

*(**Source:** Primary Data)*

Interpretation

The table indicates that the current ratio in 2015-16 was 1.20, which then increased to 1.22. However, it subsequently declined to 1.20 and 1.18 over the next two years, before rising slightly to 1.19 in 2019-2020. The ideal current ratio is considered to be 2:1, but the data shows that the firm's current ratio remained below 2 in all five years. The average current ratio for the period from 2015 to 2020 is 1.20, indicating that the company's liquidity position is not ideal.

Table No. 2: Quick Ratio

Year	Quick Ratio
2015-16	0.95
2016-17	1.00
2017-18	1.01
2018-19	0.97
2019-20	0.98
Average	0.98

*(**Source:** Primary Data)*

Interpretation

The quick ratio serves as an indicator of a business's solvency. The standard benchmark for this ratio is 1:1, with a higher ratio reflecting a stronger financial position. In this case, the quick ratios observed are 0.95, 1.00, 1.01, 0.97, and 0.98, resulting in an average of 0.98. This suggests that the firm is capable of meeting its current liabilities either immediately or within a short period, such as a month.

Table No. 3: Fixed Assets Turnover Ratio

Year	Fixed Assets Turnover Ratio
2015-16	1.32
2016-17	1.24
2017-18	1.16
2018-19	1.10
2019-20	0.91
Average	1.15

*(**Source:** Primary Data)*

Interpretation

Effective utilization of fixed assets leads to increased production and reduced costs. However, the analysis shows a decreasing trend in the fixed asset turnover ratio each year, with the exception of the 2015-2016 period. The inefficient use of fixed assets is particularly evident in the 2019-2020 financial year, which recorded a lower ratio. The company's average ratio stands at 1.15. This fluctuation highlights the need for improved management and utilization of fixed assets.

Table No. 4: Working Capital Turnover Ratio

Year	Working Capital Turnover Ratio
2015-16	10.29
2016-17	9.16
2017-18	9.14
2018-19	9.66
2019-20	9.34
Average	9.52

*(**Source:** Primary Data)*

Interpretation

The Working Capital Turnover Ratio measures how efficiently a company uses its working capital to generate revenue. A higher ratio indicates that the company is generating more revenue per unit of working capital, signifying efficient management of resources.

The Working Capital Turnover Ratio analysis over five years shows fluctuations in the company's efficiency in utilizing its working capital. The ratio peaked in 2015-16 at 10.29, indicating the highest efficiency during this period. However, it declined in 2016-17 and 2017-18, reflecting a slight drop in revenue generation per unit of working capital. A minor improvement was seen in 2018-19, followed by another dip in 2019-20. Despite these fluctuations, the company maintained an average ratio of 9.52 over the period, suggesting overall stable but inconsistent working capital management.

Table No. 5: Analysed Ratios at a Glance

Year	Current Ratio	Quick Ratio	Fixed Asset Turnover Ratio	Working Capital Turnover Ratio
2015-16	1.20	0.95	1.32	10.29
2016-17	1.22	1.00	1.24	9.16
2017-18	1.20	1.01	1.16	9.14
2018-19	1.18	0.97	1.10	9.66
2019-20	1.19	0.98	0.91	9.34
Average	1.20	0.98	1.15	9.52

*(**Source:** Primary Data)*

Interpretation

The line chart displays trends in four financial ratios for a company over the period from 2015-16 to 2019-20. Current Ratio, Measures the company's ability to meet short-term liabilities using current assets. Quick Ratio, Similar to the current ratio but excludes inventory, offering a more conservative liquidity measure.Fixed Asset Turnover Ratio, Assesses how effectively the company uses its fixed assets to generate sales. And Working Capital Turnover Ratio, Evaluates how efficiently the company uses its working capital to generate sales. The ratios analyzed are:

- **Current Ratio vs Quick Ratio:** Both ratios experienced a slight decline from 2015-16 to 2016-17, followed by stability until 2018-19. There was a marginal decrease in both ratios in 2019-20. Despite remaining above 1, indicating the company's ability to cover short-term obligations, the downward trend suggests a need for improved liquidity management.
- **Fixed Asset Turnover Ratio:** This ratio remained relatively stable with minor fluctuations throughout the period. The stability suggests consistent efficiency in utilizing fixed assets for sales generation.
- **Working Capital Turnover Ratio:** Saw a significant increase from 2015-16 to 2016-17. Stabilized with minor variations until 2019-20. Higher values indicate enhanced efficiency in managing working capital to support sales.
- **Interpretation and Implications:** The company generally maintains a good liquidity position, with

both the current and quick ratios staying above 1. However, the declining trend should be monitored to ensure adequate short-term resources. The stable fixed asset turnover ratio implies effective use of fixed assets. The improvement in the working capital turnover ratio reflects better management of working capital, contributing to enhanced operational efficiency.

Conclusion & Recommendation

Profitability serves as a vital measure of a company's financial well-being and growth prospects, indicating how effectively it converts its revenue, assets, and equity into profit. For Mahindra & Mahindra Limited, a prominent player in the Indian automotive and agribusiness sectors, assessing profitability is key to understanding its financial resilience and strategic outlook. This analysis evaluates the company's profitability through critical ratios such as net profit margin, return on assets (ROA), and return on equity (ROE), while also considering the influence of external factors like market dynamics and economic policies. The insights gained from this study are valuable for investors, management, creditors, employees, and academic research, supporting strategic decision-making and promoting sustainable growth.

Recommendations

1. **Try to Improve Liquidity Management:** Given that the current and quick ratios are below ideal levels, the company should focus on enhancing liquidity by optimizing working capital or securing additional short-term funding.
2. **Increase Fixed Asset Efficiency:** To counter the declining fixed asset turnover ratio, the company should focus on improving asset utilization, possibly through technological upgrades or better asset management strategies.
3. **Stabilize Working Capital Efficiency:** The company should aim to stabilize the working capital turnover ratio by refining inventory management and optimizing the cash conversion cycle.
4. **Monitor External Factors:** Regularly assess the effects of market dynamics, competitive pressures, and economic policies to adapt strategies as needed to maintain profitability.
5. **Prioritize Strategic Investments:** Utilize profitability insights to guide resource allocation, directing investments toward areas with the highest potential for returns.

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