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AN EVALUATIVE STUDY OF PROFITABILITY OF MARUTI SUZUKI INDIA LIMITED

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ABSTRACT

Maruti Suzuki India Ltd was incorporated on February 24 1981 with the name Maruti Udyog Ltd. The company was formed as a government company with Suzuki as a minor partner to make a people's car for middle class India. As of May 2007, the Government of India, through Ministry of Disinvestment, sold its complete share to Indian financial institutions and no longer has any stake in Maruti Udyog. As it is leading company of automobile industry, efforts have been made through this paper to know the profitability position and prosperity by using reliable indicators used in measuring financial performance. It will help to keep watch on operating and overall performance and help to management for their SWOT analysis in future. It can help them to take proper corrective actions on time if there are any undesirable results out from company's performance. For this study the whole study will be based on secondary data and appropriate tools and techniques of statistics and profitability ratios to be used.

Keywords: *PAT, EBITDA, EBIT, ROCE, Net Sales.*

Introduction

Automobile industry in India is one of the main pillars of the economy. Even it considered as a key driver of the growth in an economy. The major automobile companies has moduled distinct and unique features in their products to occupy market share. Rising middle class income and high youth population of India has triggered up the market of this sector. Automobile sector has shown tremendous growth in sales in recent years

Maruti Suzuki Limited, is one of the India's leading passenger car companies has grabbed a share for about 50% of the domestic car market.

Study of Maruti Suzuki India Limited, is essential to know directly or indirectly the progress of this sector as it contributes majorly in this industry. Through evaluative study we can know the strength and weakness of the Maruti Suzuki India Limited. With the help of profitability analysis tool and techniques tries to know the efficiency of management, returns on investment etc. Even To evaluate profit is necessary for every unit as profit is lifeline and survival, it also supports expansion, growth opportunities. For investors profit is main source of reliability and trust. Profit is also the main support system for smooth running of a business.

The study aims to analyse the financial performance of the Maruti Suzuki, using different relevant ratios. The time span for study is 2017-18 to 2021-22. As per researchers five year of study can explain the trend in fast changing economy. The data has been collected form annual reports of company and moneycontrol.com website.

Objectives

- To know the financial position of Maruti Suzuki India Limited during period of study.
- To analyse the profitability of Maruti Suzuki India Limited.

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Review of Literature

Mukherjee and Sastry (1996) discuss that focusing on passenger cars in rural and semi-urban areas is extremely low and could provide fresh markets. They have a thought that new entrants will have to deal with the uncertainty of demand, different and evolving customer needs, a relatively poor supplier base, a market crowded with competition and industry-wide capacity shortages. They see the Indian prospect emerging as a significant manufacturing base for exports. They summarized that in the high price-sensitive market, reduction of prices because of lower duties and taxes and progressive indigenization, and rising middle-class incomes are likely to further increase industry growth rates.

Shurveer S. Bhanawat(2011) this study "Impact of Financial Crisis on The Financial Performance of The Indian Automobile Industry" India is a country with diversity in culture and religion, strong in will and manpower, large in size and opportunities has become a highly wooed automobile market. By using the t-Test and Analysis of Variance, it was evaluated that the impact was not significant which proves that though the global economies are impacted by the recession, the Automobile Sector of India showed resilience and was not affected significantly by the recession.

Dr. S. Jyothirmaye Reddy, Dr. B. Venkateswara Reddy & S. Durga Rao (2017): The automobile sector plays a key role in the development of a nation. India is one of the largest and fastest growing countries in automobile sector. The research covered customer satisfaction towards Maruti and Tata Motors. The present study was carried to identify the relationship between demographic factors and customer satisfaction. The positive influence of customer satisfaction made the customers to be loyal to the company. The population of the study comprised the total population of five cities in Andhra Pradesh. Random sample was carried out on 1000 customers out of which 500 were Maruti users and 500 were Tata Motor car users. A well-designed questionnaire was administered for the study. Chi-square, ANOVA, Regression, F-test & Z-test were used to analyze the data. The highest mean values are recorded for the variable ‘Engine Quality by both Maruti and Tata respondents. The lowest mean values are recorded for the variable ‘Paint Quality’ by both Maruti and Tata respondents. The analysis helped in providing improvements in the pertinent areas of Maruti and Tata Motor cars.

Sharma Varun (2017) the author studied the profitability of Maruti Suzuki during the period of 2006-07 to 2015-16 and concluded that profitability position of company was stable during this period which may be due to company’s enough sale to cover its all expenses. As a result shareholders are gaining value and more investors are placing their money in company.

Analysis and Interpretations

Ebitda Ratio

EBITDA is Earning before interest, tax, depreciation and amortization expenses. It helps to measures company’s profitability and financial performance. It indicates company’s ability to pay its future finances and fixed obligations. It is calculated as following:

EBITDA= Net Sales-All expenses (other than interest, tax, depreciation and amortization expenses).

EBITDA Ratio=Net sales/EBITDA*100

Higher the EBITDA ratio indicates the company’s financial strength at an early stage and company considered as a financially less risky.

EBITDA Ratio of Maruti Suzuki India Limited (Rs Crore)

Years	Net Sales	EBITDA	EBITDA Ratio (%)
2017-18	81994.40	14107	17.20
2018-19	86020.30	13560.3	15.64
2019-20	75610.60	10723.40	14.18
2020-21	70332.50	8291.70	11.78
2021-22	88295.60	7494.70	8.49

During study period, Maruti Suzuki has the maximum EBITDA is recorded in the year 2017-18 and lowest is recorded in the year 2021-22 with value of 7494.70 crore and in percentage it was 8.49 in comparison of net sales. Mean ratio of the company is 13.458% and standard deviation is indicated the value of 3.48 and coefficient of variation is 25.86 percent indicates consistency in the performance of the company.

EBT / PBT Ratio

EBT or PBT is earning before tax or profit before tax. All expenses deducts whether operating or non-operating except deduction of tax from revenues. It considered as a “pure ratio” as it shows true profitability without shows the effect of tax on income.

EBT= Net Sales-All expenses (except tax).

EBT Ratio=Net sales/EBT*100

EBT RATIO of Maruti Suzuki India Limited (Rs Crore)

Years	Net Sales	EBT	EBT Ratio
2017-18	81994.40	11003.40	13.42
2018-19	86020.30	10465.60	12.16
2019-20	75610.60	7064.80	9.34
2020-21	70332.50	5159.40	7.34
2021-22	88295.60	4582.30	5.19

During study period, Maruti Suzuki has the maximum EBT is recorded in the year 2017-18 by the value of 11003.40 crore and in ratio term it was 13.42 percent in comparison of net sales and lowest is recorded in the year 2021-22 with value of 4582.30 crore and in percentage it was 5.19 in comparison of net sales. Mean ratio of the company is 9.49% and standard deviation indicates the value of 3.38 and coefficient of variation is 35.62 percent. EBT ratio indicates less consistency in comparison of EBITDA.

PAT Ratio

PAT ratio is profit after tax. It measures true efficiency of management after deducting all expenses from all revenues. This ratio establishes relationship between net sales and Profit after tax and it calculated as following:

PAT Ratio= PAT/Net Sales*100

PAT Ratio of Maruti Suzuki India Limited (Rs Crore)

Years	Net Sales	PAT	PAT Ratio
2017-18	81994.40	7721.80	9.42
2018-19	86020.30	7500.60	8.72
2019-20	75610.60	5650.60	7.47
2020-21	70332.50	4229.70	6.01
2021-22	88295.60	3766.30	4.26

During study period, maximum PAT is recorded in the year 2017-18 by the value of 7721.80 crore and in ratio term it was 9.42 percent in comparison of net sales and lowest is recorded in the year 2021-22 with value of 3766.30 crore and in percentage it was 4.26 in comparison of net sales. Mean ratio of the company is 7.176% and standard deviation is 2.083 and coefficient of variation is 29.03 percent which shows company is quite stable.

Return on Capital Employed (ROCE)

ROCE is a finanacial ratio that measure overall profitability of the firm. It expresses the relationship between earned profit and capital invested. It measures how efficiently the capital employed in the business is being used. It is calculated as following:

ROCE= EBIT/Capital Employed*100

EBIT= Earning before interest and tax

Capital Employed= Total assets – current liabilities

ROCE Ratio of Maruti Suzuki India Limited (Rs Crore)

Years	EBIT	Capital Employed	ROCE (in %)
2017-18	11349	44800	25.33
2018-19	10544	49808	21.16
2019-20	7118	52322	13.60
2020-21	5253	55162	9.52
2021-22	4661	57632	8.00

Highest ROCE is recorded in the year 2017-18 with percentage of 25.33 and least is in the year 2021-22 with 8 percent only. Mean ROCE is 15.522 percent and standard deviation is 7.488. Consistency is measured by using coefficient of variation and it was 48.24 percent. It is showing high variation.

Conclusion

In whole study it has observed that downward trend in all profitability ratios of Maruti Suzuki India Limited. One reason that came out for such declining trend in ratio was increase in cost of production and other operating expenses due to increase in the price of automobile parts globally. By study of annual reports, shortage of semiconductor was also one of the reasons. Two hard hit years of COVID induced slowdown in economy its slowdown demand and production ultimately downs in sales create disruptions for a company. One positive thing is that it is earning profit in all the years and profitability ratios is showing not so much variations except ROCE. But all over it did not affect the dominant position and still Maruti Suzuki is the head of Indian Automobile sector, showing reliability for investors and customers.

The one valuable suggestion to Maruti Suzuki India Limited is to always focus on their core customer group that is the middle-income group of India. It will always help to remain in dominant position and maintain their reliability.

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