

PROFITABILITY ANALYSIS OF MAHINDRA AND MAHINDRA

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ABSTRACT

Automotive sector can be termed as the engine for achieving development in any economy. Indian vehicle manufacturers are opening their wings in the international market these days and have made a successful entry in international competition in last few years. But still there remain many problems that the companies face, and this keeps them away from the full fledged expansion. Mahindra and Mahindra is one of the key players of the vehicle manufacturing industry of India and have a substantial market share. Financial statements of the company are analyzed keeping profitability concept at the center. Such analysis highlighted great growth prospective of the company with an uneven track record. With proper supply of infrastructure in terms of political, natural and economic assistance to the company it can become a global leader in the upcoming years.

Keywords: Profitability, Ratio Analysis, Trend Analysis, Comparative analysis

INTRODUCTION

India is one of the fastest growing economies of the world. India holds an important place in developing economies of the world. It is difficult to neglect India when it comes to international business. India hold a key position in imports from various countries and it is inevitable for India as well to hinder its export income. For bright growth all the sectors have

contributed and played their duties up to the mark. Industrial sector has contributed major part for the development of the economy and is having a major share in GDP. For development of all industries, a corresponding support of various other sectors is also necessary. Tertiary industry plays the role of back bone for the steady growth of all industry. Out of the various services that are used by all the sectors in India, transportation plays an important role in increasing the productivity as well as increasing the speed of the turnover. Commercial vehicles play a vital role for distributing raw material from warehouse to factories as well as distributing the finished goods from warehouse to the consumption centers, i.e to the end customer. Even transportation of goods via Water ways as well as Air ways also needs the help of commercial vehicles. Proper performance of commercial vehicle industry is important for bringing modern innovations and techniques in the transport industry.

It is a known fact that finance is the life blood for proper working as well as for existence of the industry. Finance is required at all stages of business and plays a vital role in development of any company. The main source of generating finance for any company is its profit (Retained Earnings). Profit also acts as a barometer for judging the efficiency of any industrial unit. Profit is an important tool for attracting the investors for

development of the company and also increases goodwill of the company in domestic and international market. In the process of Wealth maximization adequate generation of profits holds an important position.

Objective of the study

The objective of this study is to elaborate the profitability of Indian commercial vehicle manufacturer “Mahindra and Mahindra Ltd” and there by highlight their key areas for improvement as well as development. The study focuses on the key player of Indian commercial vehicle manufacturing industry. The company selected under the study was working in India as and when the study was conducted. The company selected have major market share of commercial vehicles in India and is constantly moving further for more and more development among the industry.

Following objectives are considered for the aforesaid research:

- Comparing financial performance in terms of profitability over the years.
- Analysing and comparing capacity to generate profits with reference to asset over the years.
- Analysing the effect of demonetisation on financial performance of the company.

Thus the main objective of this study is to dig the company’s financial statements and find out the areas that can be improved upon and add to their competitiveness at national and international level and there by contribute towards economic development of India.

Rational for the Topic

All goods are brought to our door steps via road ways with the help of commercial vehicles to satisfy our needs. A small developmental step in such area can bring a vast change in the economy. During the literature review it was spotted that there remains a large research gap in area of

profitability measurement in the automotive sector of India. Such sector plays the role of back bone for giving pace to the process of development of the country by constantly moving the goods and (peripherals that are needed for services) services to destined places from production center to consumption center. Development of such sector can help in proper, speedy and effective supply chain management.

RESEARCH METHODOLOGY

The research undertaken is analytical research. This paper attempts to study profitability position of Mahindra and Mahindra based on secondary Data. The tools used for data analysis are Ratio analysis, trend analysis and Comparative analysis. Trend analysis and comparative analysis is implemented on various key profitability ratio of the company.

Scope of Study

The study will be undertaken to find out areas for improvement in financial performance of the Indian automotive commercial vehicle manufacturing company, “Mahindra and Mahindra Ltd” by comparing them with their past performance.

There are about very limited commercial vehicle manufacturing companies working in India, some of it holding good ranking in world competition as well. The company selected is working in Indian as on 31-10-2017. Efficiency and profitability measurement have been identified as a key area for detailed analysis and interpretations.

The first part the present study focuses on analyzing various ratios from the financial data and there by comparing such with the past performance. Later a trend analysis and a comparative analysis have been done on the financial ratio of the company to find intra-company changes.

Data Collection

The data has been collected from the company's website and from the stock exchange where the company's shares are listed. Other sources like online portals of company, blogs, interviews, newspapers, press release, bulletins, etc.. were also used for getting better understanding of the topic concerned.

Period of the study:

The research will be conducted for the time period starting from 2007 - 2008 and ending on 2016-2017.

REVIEW OF LITERATURE

1. The thesis submitted by SUTHAM LERTPONGPRASERT on "Profitability analysis of automobile industry of Thailand" under the supervision of Dr. D.M. SHAH aims at analyzing the profitability, reason of low profitability, analysis of balance sheets and utilization of assets, evaluate the value of the companies and study the trend of profit of automobile companies in Thailand. Vehicles were distributed into following parts for the study: Cars, Pick-ups, Trucks, further sub-classified as below 5MT, 5-10 MT and 10 MT and upward. DU PONT CHART was used for data analysis.

2. In the research paper "Practice of manufacturing strategy: Evidence form Indian automotive industry" published in "INT. J. PROD. RES., 2001, VOL. 39, NO. 11, 2353 2393" by G.S. Dangayach and S.G. Deshmukh presented various manufacturing strategies that the Indian automotive manufacturers are using and the trend in it and how such strategies are changing as per changing time. It was suggested to concentrate on bringing the fundamental changes in the culture of company, more importance to flexibility in production process and the way in which manufacturing strategies are developed for better performance.

3. The thesis written on "A study on working capital management of Indian commercial vehicle industry" by P. JANAKI RAMUDU under the supervision of Dr. S. DURGA RAO explains the concept of working capital management. She has given very specific meaning of current assets, its management, cash management, current liabilities, lox box system, concentration banking receivables control, FSN, VED, ABC, EOQ, inventory management, working capital policy etc... The thesis aims at finding Composition of working capital and Efficiency of working capital management by various companies.

4. The paper "outward FDI and knowledge flows: A study of Indian automotive sector" shows the situation of increase in FDI in India which has lead to increase in R&D expenditures undertaken by the domestic companies. FDI is an important determinant of domestic R&D performance of Indian automotive firms. With FDI the Indian automotive firms appear to be gaining access to technological and market information in foreign countries which motivates them to undertake higher R&D.

SWOT Analysis

Strength

Mahindra & Mahindra is a leading company in commercial vehicles manufacturing and have a major market share in India. Strong market share has provided a competitive advantage to the company. The company is a leading player when it comes to introducing new inventions in the market and making vehicles more efficient than they were ever before.

Mahindra and Mahindra had a highly focused and effective Research and development department. Mahindra and Mahindra was successful in constantly developing new products and technologies.

Major areas of invention are Value addition and Value engineering (VAE) approach, use of alternate materials for effective cost cutting etc. Mahindra group give employment to over 1,10,000 employees. Excellent branding and advertising, and efficient after sales service, M&M has a competitive advantage on other manufacturers and also have high availability of spare parts in different regions of the country.

Weaknesses

Mahindra's partnership with Renault did not perform well but the dissolution of the joint venture did not affect either of the companies and both are performing well in the present times. The new venture of Mahindra and Mahindra in two wheeler segment seem to be a blunder and did not perform well in the market that was already occupied by strong two wheeler companies from decades. The sale of tractors is dependent on how well the agriculture sector does in India. Still the availability of irrigation facility is restricted to only 60 percent of agricultural land and thus the rest of the farmers still depend on rains. Which again restrict the growth of the company. New commercial vehicles manufacturers are entering the Indian market with latest technology and innovative vehicles which have lead to decrease market share of the company.

Opportunities

After the huge step of tesla in the field of electric cars and vehicles, it is a great opportunity for Developing hybrid cars and fuel efficient cars for the future India's relation with other countries are improving day by day and thus tapping emerging markets across the world and building a global brand is a great opportunity if the company caters the products that are in demand in various markets.

Apart from foreign markets even Indian market itself is growing fast in terms of commercial vehicle market as trade and commerce is growing at a fast speed in India. If the company comes with better products and marketing strategy in two-wheeler segments then it can be a great opportunity for company to increase its profits and there by develop its other segment.

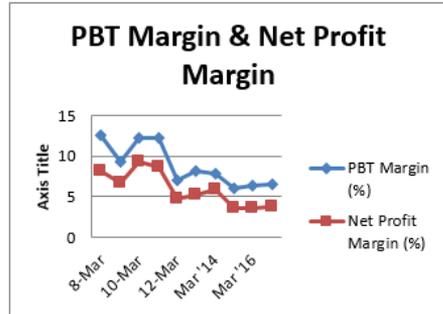
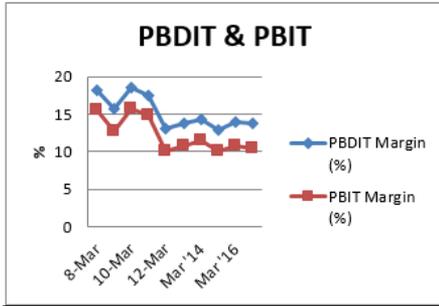
CHALLENGES

We just witnessed the upgradation of BS standards for automotive vehicle manufacturing companies. It is a clear indication that the government is dedicated on tightening the rules of emission control which can increase the production cost. With the increasing prices of oil there is an increase in demand of electric vehicles. Such technology cannot be used in commercial vehicle and multi utility vehicle segment as they require more power. Even the capacity to cover the distance is less when it comes to electric vehicles. Due to more liberal FDI policies domestic companies have to face competition from international players. The quality of goods and services that are provided by international players are far much better and sophisticated as compared to domestic companies. Thus it is one of the biggest threats to the domestic companies to survive such competition. Substitute modes of public transport like buses, metro trains are getting more popular as roads are getting congested, people are giving more preference to public transport than personal vehicles. In other terms it is also an opportunity for the company as its commercial vehicle segment and passenger vehicle segment will gain more momentum.

Ratio Analysis:

Year	PBDIT Margin (%)	PBIT Margin (%)	PBT Margin (%)	Net Profit Margin (%)	Return on Net worth (%)	Return on Capital Employed (%)	Return on Assets (%)	Total Debt/Equity (X)	Asset Turnover Ratio (%)
8-Mar	18.16	15.57	12.48	8.18	25.62	8.69	5.96	1.69	85.61
9-Mar	15.63	12.64	9.3	6.63	19.49	6.28	4.26	1.75	78.53
10-Mar	18.49	15.68	12.16	9.23	26.93	9.16	6.82	1.4	85.57
11-Mar	17.41	14.77	12.24	8.63	21.57	8.94	6.07	0.99	72.75
12-Mar	13	9.97	7.04	4.67	18.73	7.46	4.9	1.13	93.12
13-Mar	13.82	10.8	8.11	5.3	20.55	8.13	5.36	1.16	89.88
Mar '14	14.35	11.42	7.86	5.84	20.03	7.68	5.28	1.21	83.83
Mar '15	12.95	9.99	5.99	3.6	12.14	5.13	3.3	1.14	75.85
Mar '16	13.98	10.76	6.36	3.57	11.88	4.92	3.12	1.16	75.36
Mar '17	13.68	10.32	6.5	3.76	12.43	4.93	3.22	1.35	73
Average	15.147	12.192	8.804	5.941	18.937	7.132	4.829	1.298	81.35

Source: Dion Global Solutions Limited

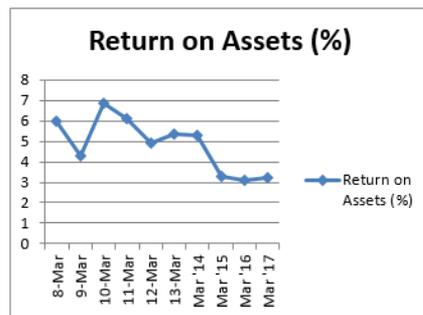
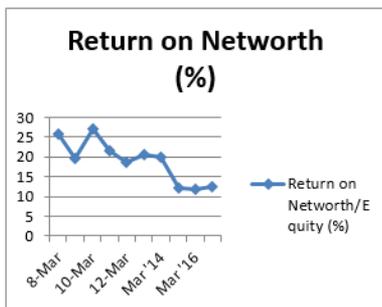


The rate of PBDIT & PBIT from April, 2007 to March, 2011 was above average of last 10 years, but thereafter rate of PBDIT & PBIT decreased substantially in last six years. The rate of PBDIT & PBIT was below average in last six years.

The difference of above two curves shows total tax expense. In the year 2014 difference between PBT and Net profit decreased which shows decrease in total tax

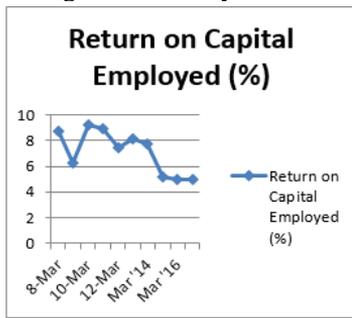
expense due to MAT credit received in that year.

Net profit margin shows decreasing trend during last 10 years. The average rate of net profit margin during these 10 years remained at 6.07%. During last six years, average rate of net profit margin has remained below 10 years' average

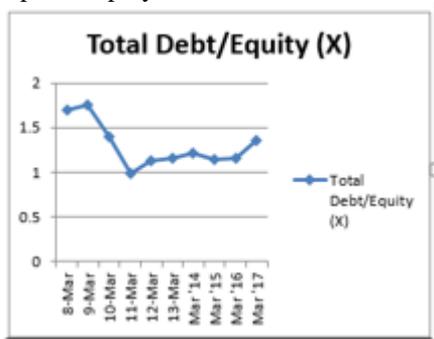


The average Return on net worth was 19.07% during last 10 years. It shows decreasing trend. It is below average during last three years. This reduction in return on net worth is due to decrease in profitability on one side & increase in paid-up equity capital on other side. Equity paid-up capital was Rs. 246.74 Cr in the year 2007-08 which increased to 310.54 Cr in the year 2016-17.

The average rate of return on assets remained at 4.89% during last ten years. It shows decreasing trend. It is below average since last 3 years.

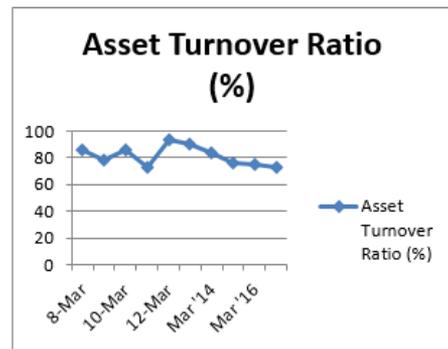


The average rate of return on capital employed remained at 7.26% during last ten years. It also shows decreasing trend. It is below average since last 3 years. Reserves & Surplus and noncurrent liabilities have increased substantially along with increase in long term borrowings, resulting into increase in capital employed & decrease in return on capital employed.



In the year 2009 debt equity ratio was at its peak due to the above stated acquisition resulting into increase in total debt. There after the ratio continuously declined and remained below average of last 10 years except in the year 2016-17.

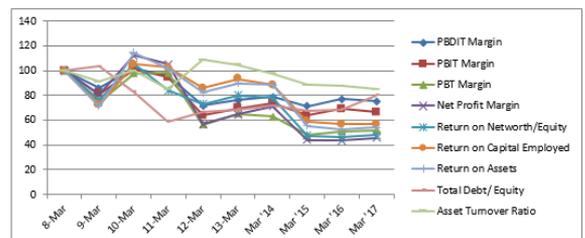
It shows management is reluctant to raise debt capital in the recent years. It can be seen that the risk taken in funding the assets from the borrowed funds has been decreasing in the company. The company is not taking the benefit of financial leverage.



The average rate of Assets turnover ratio remained at 80% during last ten years. It is below average since last 3 years.

▲ Trend Analysis

	PRDIT Margin	PBIT Margin	PBT Margin	Net Profit Margin	Return on Net worth	Return on Capital Employed	Return on Assets	Total Debt/Equity	Asset Turnover Ratio
Mar 08	100	100	100	100	100	100	100	100	100
Mar 09	86.06	81.18	74.51	81.05	76.07	72.26	71.47	103.55	91.72
Mar 10	101.81	100.7	97.43	112.83	105.11	105.4	114.42	82.84	99.95
Mar 11	95.87	94.86	98.07	105.5	84.19	102.87	101.84	58.57	84.97
Mar 12	71.58	64.03	56.41	57.09	73.1	85.84	82.21	66.86	108.77
Mar 13	76.1	69.36	64.98	64.79	80.21	93.55	89.93	68.63	104.98
Mar 14	79.01	73.34	62.98	71.39	78.18	88.37	88.59	71.59	97.92
Mar 15	71.31	64.16	47.99	44	47.38	59.03	55.36	67.45	88.59
Mar 16	76.98	69.1	50.96	43.64	46.37	56.6	52.34	68.63	88.02
Mar 17	75.33	66.28	52.08	45.96	48.51	56.73	54.02	79.88	85.27



It can be seen from the above analysis that the company's profitability ratio shows decreasing trend over the years after 2010-11. Company's return on net worth, return on capital employed and return on assets show substantial decrease in last three years.

But profitability ratios show improvement from the year 2017 which may be considered as a good sign. It is to be noted that the return on capital employed has been decreasing over the recent years. Over here one interesting thing that should be noted is that the company's Debt to equity ratio has decreased drastically. And thus a decrease in the debt capital might be one of the reasons for decrease in its capacity to generate returns.

The decreasing growth rate of profit of the company and increasing assets have also lowered its ability to generate return on the assets employed in its capacity to generate returns.

Comparative analysis

The comparative analysis of is done for the year 2016 and 2017 to identify the effect of demonetization done by Indian government (Under the leadership of Shri Narendra Modi) declared on 8th of November 2016. This took the whole economy by a shock and brought dullness in the shine of economy's growth rate. The decrease in the growth rate was acknowledged by decreased GDP of India in the next quarter. This study tries to throw some light on the effect of demonetization on the commercial vehicles manufacturer of India and the impact of such event on its profitability.

Year	Mar '16	Mar '17	Increase / Decrease	Increase / Decrease %
PBDIT Margin (%)	13.98	13.68	-0.3	-2.14
PBIT Margin (%)	10.76	10.32	-0.44	-4.08
PBT Margin (%)	6.36	6.5	0.14	2.20
Net Profit Margin (%)	3.57	3.76	0.19	5.32
Return on Networth/Equity (%)	11.88	12.43	0.55	4.62
Return on Capital Employed (%)	4.92	4.93	0.01	0.20
Return on Assets (%)	3.12	3.22	0.1	3.20
Total Debt/Equity (X)	1.16	1.35	0.19	16.37
Asset Turnover Ratio (%)	75.36	73	-2.36	-3.13

Demonetization was implemented on 8th Nov, 2016. Figures as above for March, 2017 include effect of demonetization of only last 5 months.

Thus it can be seen from the above analysis that there were no adverse effects of demonetization on company's performance. In fact on all endeavors the company's performance has improved in the year 16-17 as compared to the year 15-16. The company's growth trend have been unaffected by the demonetization which in fact have adversely affected other sectors of the economy. Such unaffected trend can be due to less dependence of the sector on cash transactions.

CONCLUSION & RECOMMENDATION

The analysis of Mahindra and Mahindra Ltd showed a promising and healthy growth in the coming year. All the analysis showed a growing trend in terms of profitability prospects but in the recent years company's growth rate has slowed down. The company had overcome the recession and now is on the recovery mode. The company can perform better if it puts stress on trading on equity and increase the amount of profit with the help of leverage.

The year 2012 seemed to be a struggling year for the company due to its acquisition decision of Ssangyong Motors Ltd. The following years after such acquisition were crucial and it can be concluded from the analysis of the financial statement that the company profitability declined after such acquisition. Company's failure in two wheeler segment should be concentrated upon and this segment can also perform well in future with due marketing strategies, effective product and proper product positioning. It is a proven theory that leverage increases the profitability in the company. The company's debt to equity ratio has been decreasing and it should be focused upon.

The commercial vehicle segment of the company is the core generator of profit. It can be expanded as there is increasing demand for its products. Mahindra LMV segment had outperformed all leading commercial vehicle manufacturers and placed its self at the top in the industry in that segment. Profitability ratio shows an irregular trend which can become hurdle in generating funds for future as it will be difficult to win investors trust after such track record. The company had been able to achieve a good percentage of return on the funds that are employed and was quiet high as compared to industry rate.

Thus with effective management and proper supply of infrastructure facilities from government the company can groom itself sharply and can bring the overall standards of the industry to a higher level benefiting the customers with more customer centric products. Thus Mahindra truly fulfills its slogan "Innovation in every beat"

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