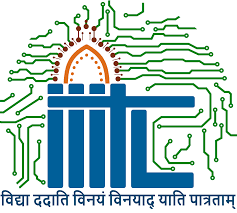
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**Indian Institute of Information Technology Lucknow**

**MBA Digital Business**

**Managerial Finance assignment**

**“Financial Analysis Mahindra & Mahindra LTD”**

Submitted by

**Dyovan Madhav**

(MDB23024)

Submitted to

**Prof. Dheeraj Misra**

(Managerial Finance Faculty)

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**OVERVIEW OF THE COMPANY**

Mahindra & Mahindra Limited is an Indian multinational conglomerate headquartered in Mumbai, Maharashtra, India. It was founded in 1945 as a steel trading company. Today, Mahindra Group operates in various sectors including automotive, aerospace, agribusiness, information technology, hospitality, real estate, and more.

The automotive division of Mahindra is one of its most prominent sectors, manufacturing SUVs, trucks, and commercial vehicles. It's renowned for its rugged off-road vehicles like the Mahindra Thar and Scorpio. Mahindra also has a significant presence in the farm equipment sector through its subsidiary Mahindra Tractors, offering a wide range of agricultural machinery.

Beyond automotive and agribusiness, Mahindra Group has a diverse portfolio. It has interests in IT services through its subsidiary Tech Mahindra, hospitality through its ownership of Club Mahindra Holidays, and real estate through Mahindra Life space Developers Limited. Mahindra Group also operates in aerospace, two-wheelers, and financial services, among other sectors.

As a conglomerate, Mahindra is known for its commitment to sustainability and social responsibility. It's actively involved in various CSR (Corporate Social Responsibility) initiatives focusing on education, healthcare, and rural development, among others. With a presence in over 100 countries and a workforce exceeding 250,000, Mahindra operates through numerous subsidiaries and joint ventures, each contributing to its overarching mission of driving positive change and enhancing lives worldwide.

From pioneering electric mobility solutions to championing rural development initiatives, Mahindra remains steadfast in its commitment to creating value for stakeholders while fostering inclusive growth. With a legacy spanning nearly eight decades, Mahindra continues to shape the future through innovation, integrity, and a relentless pursuit of excellence.

**OBJECTIVES**

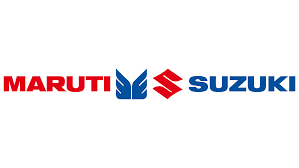
* Gather Financial Statements: Collect the balance sheets and profit loss statements of the company for the past five years. Ensure that the data is sourced from reliable sources such as the company's official reports and reputable financial databases like Money Control.
* Verify the accuracy and consistency of the financial data obtained to ensure reliability in the analysis.
* Evaluate Financial Performance: Assess the company's financial performance over the five-year period to identify trends, patterns, and changes in key financial metrics.
* Assess Liquidity Position: Analyze the company's liquidity position by examining current assets, current liabilities, and liquidity ratios to determine its ability to meet short-term obligations.
* Examine Profitability: Evaluate the company's profitability by analyzing operating profit margins, net profit margins, Return on capital Employed , Return on equity and Earnings per share over the five-year period.
* Assess Solvency: Determine the company's solvency by examining its debt-to-equity ratio, other solvency ratios to assess its long-term financial stability.
* Evaluate Efficiency: Assess the company's operational efficiency by analyzing asset turnover ratios, inventory turnover ratios, and other turnover ratios as well to check how effectively the company utilizes its assets.
* Compare Performance: Compare the company's financial performance to historical data to identify areas of strength and weakness.
* Communicate Findings: Clearly communicate the findings of the financial analysis in a comprehensive report, presentation, or other suitable format, highlighting key insights and recommendations for stakeholders.

**MAJOR COMPETITORS**

In the fiercely competitive landscape of the Indian automotive industry, Mahindra & Mahindra Ltd. stands among the key players, facing formidable rivals such as Ashok Leyland Ltd, Force Motors Ltd, Maruti Suzuki India Ltd, and **Tata Motors Ltd**. Each of these companies commands a significant presence in various segments of the market, ranging from commercial and passenger vehicles to utility vehicles.



**Ashok Leyland Ltd** is renowned for its expertise in commercial vehicles, offering robust trucks and buses tailored for diverse transport needs. Force Motors Ltd, on the other hand, is recognized for its utility vehicles and robust off-road vehicles, catering to both urban and rural consumers.



**Maruti Suzuki India Ltd**, a dominant force in the passenger vehicle segment, has consistently led the market with its wide range of compact cars, sedans, and SUVs, known for their reliability and fuel efficiency. Tata Motors Ltd, with its diverse portfolio spanning commercial vehicles, passenger cars, and utility vehicles, poses a strong competition with its innovative designs and technological advancements.

**FINDINGS AND ANALYSIS**

1. **Profitability Ratios**

**Operating Profit Margin**:

There's a slight increase in 2020 followed by a small decrease in 2021. However, the margin remains relatively stable.

Potential reasons for the increase in 2020 could include cost-cutting measures or increased revenue.

The decrease in 2021 might be due to rising operating expenses or a decrease in revenue growth.

**Net Profit Margin**:

There's a significant decrease in 2020, followed by a gradual increase in subsequent years.

The sharp decrease in 2020 could be because of extraordinary expenses, such as impairment charges, restructuring costs, or a decrease in sales volume.

The subsequent recovery suggests that the company might have implemented strategies to improve efficiency, reduce costs, or increase sales.

**Return On Capital Employed:**

ROCE shows slight fluctuations over the years but remains relatively stable.

Potential factors influencing ROCE could include changes in asset utilization, capital structure, or profitability.

Stability in ROCE indicates that the company is effectively utilizing its capital to generate profits.

**Return on Equity:**

ROE experienced a significant decrease in 2020, possibly due to the negative net income that year.

The subsequent recovery suggests improvement in profitability and efficiency in utilizing equity.

Factors such as debt levels, profitability, and shareholder equity can influence ROE.

**Earnings Per Share:**

EPS follows a similar pattern to Net Profit Margin, with a significant decrease in 2020 followed by a recovery.

The decrease in 2020 could be attributed to the negative net income, resulting in a loss per share.

Recovery in subsequent years indicates improved profitability and earnings per share.

1. **Turnover Ratios**

**Total Asset Turnover Ratio:**

The total asset turnover ratio measures how efficiently the company utilizes its assets to generate revenue.

There's a general decrease in this ratio from 2019 to 2021, indicating a decline in asset utilization efficiency.

Possible reasons for the decrease could include slower sales growth relative to asset growth, inefficiencies in asset utilization, or changes in the business model.

The slight increase in 2022 and 2023 suggests some improvement in asset utilization efficiency.

**Fixed Assets Turnover Ratio:**

This ratio measures how effectively the company utilizes its fixed assets to generate sales.

There's a decrease in the ratio from 2019 to 2021, indicating a decrease in the efficiency of fixed asset utilization.

Potential reasons for the decrease could include underutilization of fixed assets, changes in production processes, or a decrease in demand for products utilizing fixed assets.

The increase in 2022 and 2023 suggests some improvement in the efficiency of utilizing fixed assets.

**Working Capital Ratio:**

The working capital ratio measures the company's ability to meet short-term obligations with its current assets.

There's significant volatility in this ratio, with a sharp decrease in 2021 and a substantial increase in 2023.

The negative ratio in 2021 indicates that the company's current liabilities exceeded its current assets, which could signify liquidity issues.

The subsequent increase in 2023 suggests an improvement in liquidity, possibly due to better management of working capital or increased current assets.

**Debtors Turnover Ratio:**

This ratio measures how efficiently the company collects payments from its debtors.

There's a general increase in the ratio over the years, indicating an improvement in debtors' payment efficiency.

Possible reasons for the improvement could include better credit management, tighter credit policies, or improved customer payment practices.

**Average Collection Period:**

The average collection period represents the average number of days it takes for the company to collect payment from its debtors.

There's a general decrease in the collection period over the years, indicating faster collection of receivables.

Faster collection could be attributed to improved credit management practices or more efficient invoicing and collection processes.

**Inventory Turnover Ratio:**

This ratio measures how efficiently the company manages its inventory by assessing how quickly inventory is sold and replaced.

There's a slight fluctuation in the ratio over the years, but it generally remains within a similar range.

Possible reasons for fluctuations could include changes in demand, production inefficiencies, or inventory management practices.

**Inventory Disposal Period:**

The inventory disposal period represents the average number of days it takes for the company to sell its inventory.

There's some fluctuation in this period over the years, but it generally remains within a similar range.

Fluctuations could be influenced by changes in demand, production capacity, or inventory management strategies.

1. **Liquidity Ratio**

**Current Ratio**:

The current ratio measures the company's ability to pay short-term obligations with its short-term assets.

There's a fluctuation in the ratio over the years, with a significant decrease in 2021 followed by an increase in subsequent years.

The decrease in 2021 indicates potential liquidity challenges or an imbalance in current assets and liabilities.

The subsequent increase suggests an improvement in liquidity, possibly due to better management of current assets or a decrease in short-term liabilities.

**Liquid Ratio**:

The liquid ratio, also known as the quick ratio, measures the company's ability to pay off its current liabilities with its most liquid assets.

Similar to the current ratio, there's a significant decrease in 2021 followed by an increase in subsequent years.

The decrease in 2021 suggests a decline in the company's ability to cover its short-term liabilities with its most liquid assets.

The subsequent increase indicates an improvement in liquidity, possibly due to increased cash reserves or a decrease in current liabilities.

**Cash Ratio**:

The cash ratio is the most conservative liquidity ratio, measuring the company's ability to pay off its current liabilities with its cash and cash equivalents.

Like the other liquidity ratios, there's a decrease in 2021 followed by an increase in subsequent years.

The decrease in 2021 suggests a decrease in the company's ability to cover its short-term liabilities solely with cash and cash equivalents.

The subsequent increase indicates an improvement in cash reserves or a decrease in short-term liabilities.

1. **Valuation Ratio**

**Payout Ratio**:

The payout ratio measures the proportion of earnings paid out to shareholders as dividends.

There's significant fluctuation in the payout ratio over the years, with a sharp increase in 2021.

The negative payout ratio in 2020 indicates that the company paid out more dividends than its net income, which is unusual and may indicate a one-time event or accounting anomaly.

The subsequent increase in 2021 suggests a change in dividend policy or an increase in dividends relative to earnings.

**Retention Ratio**:

The retention ratio represents the proportion of earnings retained by the company for reinvestment in the business.

There's also significant fluctuation in the retention ratio over the years, with a decrease in 2021.

The increase in 2020 and subsequent decrease in 2021 suggest variations in the company's dividend policy or capital allocation decisions.

A high retention ratio can indicate that the company is reinvesting profits for growth opportunities, while a low ratio may suggest a focus on returning profits to shareholders.

**Book Value of Share**:

The book value of a share represents the value of a company's equity as reported on its balance sheet.

There's a gradual increase in the book value of shares over the years, with fluctuations.

The increase in book value reflects growth in the company's assets or improvements in its financial position over time.

Fluctuations may be influenced by changes in asset values, equity issuances, share buybacks, or changes in accounting practices.

1. **Leverage Ratios**

**Debt Equity Ratio**:

The debt-to-equity ratio measures the proportion of debt financing relative to equity financing.

There's a fluctuation in the debt-to-equity ratio over the years, but it generally remains within a similar range.

An increase in the debt-to-equity ratio indicates higher reliance on debt financing, which can increase financial risk.

A decrease in the ratio may indicate reduced reliance on debt financing or increased equity financing.

**Debt Ratio**:

The debt ratio measures the proportion of a company's assets financed by debt.

Similar to the debt-to-equity ratio, there's fluctuation in the debt ratio over the years.

An increase in the debt ratio indicates a higher level of debt financing relative to total assets.

A decrease in the ratio may indicate a reduction in debt levels or an increase in asset value.

* **Increase in 2021**: The increase in both ratios in 2021 suggests that Mahindra Ltd might have taken on more debt to finance its operations or investments. This could be due to expansion plans, capital expenditures, or acquisitions.
* **Stability in other years**: The relatively stable ratios in other years indicate a balanced approach to capital structure management, where the company is maintaining a consistent level of debt relative to equity and assets.

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**DUPONT ANALYSIS**

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Net Profit Margin (in ₹) | Total Asset Turnover Ratio | Equity Multiplier |
| 2019 | ₹ 3.77 | 1.02 | 1.02 |
| 2020 | ₹ -1.19 | 0.68 | 1.46 |
| 2021 | ₹ 0.72 | 0.67 | 1.48 |
| 2022 | ₹ 5.24 | 0.69 | 1.46 |
| 2023 | ₹ 7.23 | 0.78 | 1.61 |

* **2019:**

ROE: 3.77 × 1.02 × 1.02 = 3.86

* **2020:**

ROE: - 1.19 × 0.68 × 1.46 = -1.54

* **2021:**

ROE: 0.72 × 0.67 × 1.48 = 0.71

* **2022:**

ROE: 5.24 × 0.69 × 1.46 = 5.94

* **2023:**

ROE: 7.23 × 0.78 × 1.61 = 8.89

**Analysis**

* **2019:** The ROE was 3.86, driven by modest profitability, efficiency, and leverage.
* **2020:** The company experienced negative ROE due to a negative net profit margin.
* **2021:** ROE improved slightly but remained low, mainly due to low profitability.
* **2022:** ROE increased significantly to 5.94, driven by improved profitability and efficiency.
* **2023**: ROE further increased to 8.89, indicating substantial improvement across all components, particularly in profitability and leverage.