

# [Financial statement analysis of maruti suzuki company ltd](https://assignbuster.com/financial-statement-analysis-of-maruti-suzuki-company-ltd/)

Maruti Suzuki India Limited (MSIL, formerly Maruti Udyog Limited), a subsidiary of Suzuki Motor Corporation of Japan, is Indias largest passenger car company, accounting for majority of the domestic car market.

They offer 14 brands and over 150 variants ranging from peoples car Maruti 800 to the stylish hatchback Ritz.

Range of cars include people movers – Omni and Eeco, international brands – Alto, Alto-K10, A-star, WagonR, Swift and Estilo, off-roader – Gypsy, SUV – Grand Vitara, sedans – SX4 and Swift DZire.

## VISION AND CORE VALUES

Creating Customer Delight is not a recent discovery for the company rather the expression finds roots in the company vision. Taking forward the same spirit the company is committed to serve many more customers through a numerous way.. in times to come….

## We believe our core values drive us in every endeavour

Company began the operations way back in 1983, with the Maruti 800 – the vehicle which brought about a revolution in the Indian car market.

Today, one in every two cars in India is a product of Maruti Suzuki. Scale and manufacturing complexity have today moved to a different league from when it began. Now Company have reached a capacity of one million cars annual production this year.

This feat is entirely based on the company’s constant endeavour to meet aspirations of a large and diverse demography, by providing the best through innovative products and services.

Today, each car from the Maruti Suzuki factories at Gurgaon, and Manesar, Haryana, North India are the tangible evidence of Quality, manufacturing standards and efficiency.

## Exports

Maruti Suzuki exports, entry-level models across the globe to over 120 countries and the focus has been to identify new markets. Some important markets include Latin America, Africa, South East Asia and Oceana.

The Company clocked its highest ever exports at 147, 575 units, a growth of 111% in the Fiscal Year 2009-10.

The star performer has been A-Star which is also the fifth World Strategic Model by Suzuki.

A-star, as a Made-in-India car, represents Maruti Suzuki aspirations as an Indian company to emerge as a global hub for manufacturing and exporting small cars. Alto and M800 are the other most popular models in the overseas market. Joining the team of growth drivers is latest launch Alto K10

The company was incorporated in 1981 and is listed on the Bombay Stock Exchange and National Stock Exchange of India

## Analysis and Evaluation

## Financial Analysis

Financial Analysis refers to the assessment of a business to deal with the planning, budgeting, monitoring, forecasting, and improving of all financial details within an organization.

## Understand, Identify, Analyze and Adjust

Understanding your organization’s financial health is a fundamental aspect of responding to today’s increasingly stringent financial reporting requirements. To avoid risks, organizations must quickly

identify ascertain financial ratios and trends across in liabilities and assets

analyze and adjust planned and forecasted amounts

act to provide regulatory statements as needed

Financial statement analysis is defined as the process of identifying financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account.

There are various methods or techniques that are used in analysing financial statements, such as comparative statements, funds analysis, trend analysis, and ratios analysis.

Financial statements are prepared to meet external reporting obligations and also for decision making purposes. They play a dominant role in setting the framework of managerial decisions. But the information provided in the financial statements is not an end in itself as no meaningful conclusions can be drawn from these statements alone. However, the information provided in the financial statements is of immense use in making decisions through analysis and interpretation of financial statements.

## Financial highlights for FY 2009 (1 April 2009 – 31 March 2010)

Net sales ¥ 2. 5 trillion (up 1. 3% y-o-y)

Operating Income ¥ 80. 0 billion (up 0. 8% y-o-y)

Net Income ¥ 30. 0 billion (up 3. 8% y-o-y)

The company’s consolidated profits exceeded those of the previous year with ¥79. 4 billion of operating income (103. 2% y-o-y), ¥93. 8 billion of ordinary income (117. 8% y-o-y) and ¥28. 9 billion of net income (105. 4% y-o-y).

## Ratio Analysis

Financial ratios are generally ratios of selected values on an enterprise’s financial statements. There are many standard financial ratios used in order to evaluate a business or a company. Financial ratios can also be used by managers within a firm, by current and potential shareholders (owners) of a firm, and by a firm’s creditors. Security analysts use financial ratios to compare the strengths and weaknesses of various companies. For listed companies, the market price of the shares is used in certain Financial Ratios. Financial Ratios are always expressed as a decimal value, such as 0. 10, or the equivalent percent value, such as 10%. Financial ratios quantify many aspects of a business in order to build an exhaustive financial analysis. In the Corporate focus Service, Financial Ratios are categorized according to the financial aspect of the business which the ratio measures: Profitability, Asset Utilization, Capital Structure, and on a specific tab Market Ratios. Financial Ratios allow for comparisons between companies, between industries and also between a single company and its industry

## NOW WE ARE ANALYSING RATIOS OF MARUTI SUZUKI IN REFERECE TO ABOVE MENTION BALANCE SHEET AND P&L A/C

## LIQUIDITY RATIOS

Liquidity ratio can be categorized in three categories as below in reference to Maruti Suzuki Ltd.

## Ratio Analysis

## As on

31-Mar-10

31-Mar-09

## Liquidity

Current Ratio (x)

0. 67

0. 63

Quick Ratio (x)

0. 29

0. 36

## Current ratio

It can be defined as the measure of the capability of a company to fulfil its financial obligations that are outstanding.

It is also called as “ liquidity ratio”,” current asset ratio” and “ cash ratio”.

Higher is the current ratio better it is because it shows that the company has higher degree of ability to fulfill their short-term debt obligations that are falling due.

## Formula- current assets/current liabilities

As per balancesheet mentioned above, current ratio of company in 2009 was 0. 63 (2060. 20/3250. 90) and in 2010 it is 0. 67(2116. 90/3160) which is increasing in 2010 and this is a good indication in reference to company ability.

## Quick Ratio

This ratio can be derived by lessning stock from the current assets and then dividing by current liabilities. Quick ratio is an indicator of the financial strength and weakness of a company(more is the value of this ratio means more stronger the firm is and lower value signifies that the company is weak).

## FORMULA:- QUICK ASSETS/CURRENT LIABILITY(QUICK ASSETS= C. ASSETS-STOCK)

As per balance sheet Quick ratio of company in 2009 was 0. 36 and in 2010 it is 0. 28.

Quick ratio has also shown a reducing trend and negative indications regarding financial ability of Company. One of the Reason for this s financial crises.

## PROFITABILITY RATIOS

Profitability ratios measure the results of business operations or overall performance and effectiveness of the Company.

As the name suggests , profitability ratios are concerned with the efficiency of a business in achieving its targets and generating profits or returns on the invested capital.

So profitability ratios is one of the financial analytical tool by means of which we can judge the ability of a businesss to generate profits or earnings with respect to the expense met with the business. they measure the firm’s performance by comparing the profits produced by the firm with the size. assets and the sales made by the firm

## Ratio Analysis

## As on

31-Mar-10

31-Mar-09

## Profitability

Gross Profit Margin(%)

13. 04

9. 53

Net profit margin (%)

8. 51

5. 87

Operating Margin (%)

15. 30

11. 91

## NET PROFIT MARGIN

it can be defined as the amount of profit a company makes from every pound of the total revenue it produce or sales it makes. its good for the company to have more net profit margin as compared to its rivals.

## Formula :- net profit margin= [profit before interest and tax/sales or turnover]x100

2009= 1218. 7/20729. 40\*100= 5. 87

2010= 2497. 60/29317. 70\*100= 8. 51

The above data shows that net profit shows an increase from 2009 to 2010, its shows irrespective of financial crises company has recorded profit on upper trend in 2010.

## GROSS PROFIT MARGIN

The gross profit margin ratio can be defined as the amount amount of profit a firm can produce with respect to the cost of sales, or cost of goods sold.

Gross profit is the amount of profit we get before we deduct any cost of administration, sales etc. thus its good if net profit margin is lower then the gross profit margin.

## Formula- [gross profit/sales or turnover]x100

2009= 1976. 60/20729. 40= 9. 53

2010= 3824. 60/29317. 70= 13. 04

we have seen that the gross profit margin in higher than the net profit margin for Maruti Suzuki over the years 2009 to 2010 which is good for the financial condition of the company.

## OPERATING PROFIT MARGIN

This is a part of net profit margin ration. This ratio helps company in order to identify Earning before Taxes and Interest in comparison to Net Sales.

## Formula:- {Earning before interest and taxes/Net Sales}\*100

2009 = 2468. 30/ 20729. 40= 11. 91

2010= 4486. 60/29317. 70= 15. 30

For Maruti Suzuki Operating Profit Margin was 11. 91 in 2009 and 15. 30 in 2010. This shows a positive and strong financial condition of company.

## ACTIVITY RATIOS:-

Activity ratios- it can be defined as how actively or quickly a company is able to change the assets into sales or cash.

## Ratio Analysis

## As on

31-Mar-10

31-Mar-09

## Activity Ratios

Inventory Turnover Ratio

13. 71

14. 09

Fixed Assets Turnover Ratio

18. 50

6. 66

Total Assets Turnover Ratio

2. 54

2. 33

Different types of activity ratios are as follows:

## INVENTORY TURNOVER RATIO

It can be defined as the measure of the amount of time a company needs to comvert its stock into sales. the lesser is the stock days or stock turnover, lower is the cost incurred by the company in holding stock.

## Formula- [stock or inventory/cost of sales]x365

2009:-902. 3/23381. 50\*365= 14. 09

2010= 1208. 80/32174. 10\*365= 13. 71

In 2010 stock turnover ratio is comparatively less then 2009, it means company is taking care of cost part in holding stock.

## FIXED ASSETS TURNOVER RATIO

it can be defined as the sales produced from the fixed assets of a company.

## Formula- sales or turnover/fixed assets

2009= 23381. 50/3509. 9= 6. 66

2010= 32174. 10/1739. 10= 18. 50

## TOTAL ASSETS TURNOVER RATIO

It can be defined as sales produced from total assets of company.

## Formula- sales or turnover/total assets

2009= 23381. 50/10043. 80= 2. 33

2010= 32174. 10/12656. 50= 2. 54

Total assets turnover ratio is increasing in 2010 compartive to 2009 which is a positive sign for company and also showing capacity of company for producing sales out of total assets

## FINANCIAL CRISES

Year 2009-10 started against a backdrop of mixed macroeconomic signals in India. There was an unprecedented slowdown in the previous year, with quarterly swings. By the end of2008-09, while overall sentiment was cautious, certain sectors had started to recover. At the start of 2009-10, passenger vehicle industry growth projections ranged from -5% to+10%.

While most governments around the world had to take extreme steps, policymaker’s in India gave a calibrated impetus to revive consumption. Although this fiscal expansion increased government deficit, it arrested the slowdown. The stimulus package inDecember-08 included a 4% reduction in Cenvat rate. The Government also reduced fuel prices, and took steps to improve liquidity and bring down interest rates. Together withthis, improved availability of car loans by public sector banks, resilient demand fromrural areas and government employees and manufacturers’ marketing efforts helped improvesentiment and customers returned to showrooms.

During the year, the economy posted a remarkable recovery and grew by 7. 4%. It was alsoa year of several model launches by the Indian car industry, which boosted consumersentiment. Passenger vehicle industry grew by 26% after flat sales the previous year. Thetwo-wheeler market benefited from demand from rural and mid-urban India and grew by 26%. The commercial vehicle industry saw more pronounced swings and grew at 38% after declining22% the previous year.

## Auto Industry Growth: Indian Automobile Domestic Sales Growth Rate (%)

## Category

## 2004-05

## 2005-06

## 2006-07

## 2007-08

## 2008-09

## 2009-10

Total Passenger Vehicles

18%

8%

21%

12%

0%

26%

– Passenger Cars

18%

8%

22%

12%

1%

25%

– A1

-31%

-23%

-11%

-12%

-29%

28%

– A2

34%

15%

31%

14%

3%

27%

– A3

26%

7%

6%

15%

7%

14%

– A4, A5 &A6

60%

7%

40%

4%

-13%

35%

– Utility Vehicles

20%

10%

13%

11%

-8%

21%

– MPVs

9%

-2%

25%

21%

6%

41%

## Total Two Wheelers

16%

14%

11%

-8%

3%

26%

– Scooters

4%

-2%

4%

12%

9%

27%

– Motorcycles

19%

17%

13%

-12%

1%

26%

– Mopeds

5%

3%

7%

16%

4%

31%

Electric Two Wheelers

-43%

49%

-89%

## Total Three Wheelers

8%

17%

12%

-10%

-4%

26%

Total CVs

22%

10%

33%

5%

-22%

38%

M&HCVs

23%

5%

33%

0%

-33%

34%

Total LCVs

21%

19%

34%

12%

-7%

43%

## Grand Total

## 16%

## 13%

## 13. 7%

## -4. 6%

## 1%

## 26%

## EFFECT OF FINANCIAL CRISES ON MARUTI SUZUKI

Consolidated sales were ¥3, 004, 888 million (85. 8% year on year, y-oy) for this fiscal year, below consolidated sales of the previous year, on account of the overseas sales reduction and yen appreciation.

As for consolidated profits, operating income, ordinary income and net income declined to ¥76, 926 million (51. 5% y-o-y), ¥79, 675 million (50. 8% y-o-y) and ¥27, 429 million (34. 2% y-o-y), respectively, because the reduced costs, reduced depreciation and operating expenses, etc. were unable to cover the reduced profits on account of the reduced sales, increased raw material costs, exchange influences and increased research and development expenses.

In addition, non-consolidated sales declined to ¥1, 685, 777 million (83. 0% y-o-y) for this fiscal year. As for non-consolidated profits, operating income, ordinary income and net income declined to ¥11, 422 million (16. 9% y-o-y), ¥4, 133 million (6. 7% y-o-y) and ¥3, 287 million (8. 0% y-o-y), respectively, because the reduced costs, reduced depreciation/amortization and operating expenses, etc. were unable to cover the reduced profits on account of the reduced sales, exchange influences and increased research and development expenses.

Automobile sales have dropped in various parts of the world, however, on account of the world financial crisis, and we are faced with unprecedented crisis with the prospect of more than 30% fall in expected sales for the next year compared to previous fiscal year.

## COMPANY OVERVIEW

“ given the dynamic market situation… we have to accept uncertainty andconsciously plan for it. Planning for uncertainty for us would mean building flexibilityand agility throughout our value chain. It means speed. Lower response times. Fasterdecision making. A positive approach to change.” -MD & CEO, Maruti Suzuki in theAnnual Report 2008-09

Flexibility and Agility were identified as the mantras to win in a volatileenvironment. This approach was communicated to all employees, vendors and dealers. A closewatch on demand in domestic and export markets, strong inventory control, shorter leadtimes, a stretch on capacities, and better product mix flexibility helped the Companyachieve overall growth of 28. 5% over the previous year. The Company sold 1, 018, 365vehicles during the year. This comprised of 870, 790 cars in the domestic market (growth of21%) and 147, 575 in the export market (growth of 111%).

For the first time, Maruti Suzuki was able to make and sell more than a millionvehicles in a year.

The Company launched a new model, refreshed four existing models and introduced itsnext generation K-series engines in four models.

## Sustainability

The Company’s relationship with its stakeholders is one of mutual well-being and trust. As part of its National Road Safety Mission, the Company trained 1, 37, 000 people in safedriving at Institutes of Driving Training and Research and Maruti Driving Schools. Ofthese, training of 28, 000 people was sponsored by the Company.

## MEASURES TO OVERCOME FROM THIS SITUATION:

The management environment drastically changed in the latter half of this year, and the situation has become severer, but the Company recorded profits for the full year. Therefore, to express our gratitude for our shareholders, we decided to distribute ¥8 as the dividend at the end ofthe current fiscal year (¥16/year including interim dividend), the same as the previous year.

STRETEGIES IMPLEMENTED IN MARUTI SUZUKI

Company has stopped acting in a self-styled manner and get back to the basics” as basic policy in promoting the growth strategy, reviewed every aspect of business to strengthen our management practices.

To overcome this crisis, Company has been making concerted efforts as a group with the slogan of “ Try our ingenuity to overcome difficulties.”

Facing the fact of a large reduction in sales squarely, Co promoted the establishment of system to ensure profits in the declining sales by cost reduction by “ reduction of a gram and cost reduction of 1 yen per part,” squeezing of fixed expenses by “ internal cost reduction activities” and further reviewing of organizations and systems.

Co has made efforts to reinforce the sales force by increasing and training sales persons, also to build and enhance “ Suzuki Arena Shops”, for further expansion of market share. In overseas markets, Co has tried to improve SUZUKI brand image by using the slogan of “ Way of life” and increase the level of overseas bases through promotion of local procurement of parts, cost reduction activities, further improvement of quality and further progress in productivity, as well as sales enhancement.

Company has done efforts for the development of high-mileage and low-emission technologies such as diesel engine cars, hybrid cars and electriccars mainly with the product development abilities for small cars, the strength of our Group, based on the alliance with each company

## CONCLUSION & FUTURE PROSPECTS

The passenger vehicle market size in India is now comparable to some of the developed economies of the world and ranks 7th globally. A simple extrapolation of the past growth rates suggests that India will improve its ranking from this level. The presence of a number of global players, the introduction of technology, features, styling and regulation indicate that the market is gradually attaining maturity. While all indicators suggest a good growth path for the market, a number of entrants are eyeing the same market.

The Company has in the past built a position for itself in terms of a sizeable portfolio of relevant products, a wide network with good systems and processes, strong customer equity, R&D capability, cost leadership, and a profitable business model with healthy practices for its vendors, dealers and itself. There is a well-defined roadmap for building on strengths like products, total cost of ownership, sales and service net work and systems and processes for customer delight. They all augur well for the future, but the risks to organizations at such levels are more internal than external. The Company has to watch out for signs of complacence, self satisfaction or sluggishness. The only benchmark has to be a sharper understanding and anticipation of the stated and unstated need of the customer. The Company, therefore has to keep attacking itself, keep challenging its own levels of past achievement, keep setting high benchmarks for improvement and continue dedicating itself to under standing and serving its customers

## MARUTI BETTER PREPARED TO FACE CHALLENGES

We expect Maruti will be able to protect its domestic market share over the next 3 years. The company has a comprehensive plan to raise production capabilities and enrich product portfolio.

## CAPACITY CONSTRAINTS TO EASE

The company has surprised us with the following announcements:

Production capacity to be raised by 10% from H2 through debottlenecking;

Expansion plans now include another unit in Manesar, for 250, 000 units (+15%).

## PORTFOLIO BEING ENRICHED

Maruti’s product strategy covers the following aspects:

1. Upgrade portfolio through complete makeover including new generation engines.

2. Introduce variants using alternative fuels e. g., CNG, ensuring early mover advantage in segments with future growth potential;

3. Foray into segments yet to be addressed, although sizeable e. g., premium cars, utility vehicles.

## PRODUCT UPGRADES DISTINGUISHABLE

Maruti’s entire portfolio has been replaced with next-generation engines (M-series, K-series), which deliver superior fuel efficiency with increased power. Further,

Wagon-R, Alto models have undergone complete makeovers with sporty exteriors and refreshing interiors. All of this is reflecting in stronger growth (YTD up 35%, of

which compact hatchbacks up 50%).

## CNG COULD BE INDIS’S FUTURE

Maruti has introduced factory fitted CNG vehicles on popular models Zen Estilo, Wagon-R, Swift, Eeco and SX4. Initially, the models will be available in Mumbai, Delhi and Gujarat, but with roll out of the CNG infrastructure in the country, we expect Maruti’s early mover advantage will help it achieve meaningful sales over longer term.

## PREMIUM LAUNCH NEXT YEAR

We expect Kizashi sedan to be introduced by April 2011. Market size of the premium D segment is relatively miniscule at ~57, 000 units (2. 5% of industry), but

grown at 15% annually over past 5 years. Maruti’s franchise is weak outside of small cars, but we believe the company would not repeat its failures in C segment

Business world, one of the leading business magazines of India has come with a list of most respected companies in India across various sectors. In Automobile sector, they ranked Maruti Udyog as first followed by Tata motors and Ford India. According to the article, Maruti which holds the 55 % share of the 1. 2 million indian market overshadowed its competitors by the 2 lakhs to 5 lakhs range products.

Appendix A

## Balance Sheet of Maruti Suzuki India

## ——————- in Rs. Cr. ——————-

Mar ’09

Mar ’10

12 mths

12 mths

## Sources Of Funds

Total Share Capital

144. 5

144. 5

Equity Share Capital

144. 5

144. 5

Share ApplicationMoney

0

0

Preference Share Capital

0

0

Reserves

9, 200. 40

11, 690. 60

Revaluation Reserves

0

0

## Networth

9, 344. 90

11, 835. 10

Secured Loans

0. 1

26. 5

Unsecured Loans

698. 8

794. 9

## Total Debt

698. 9

821. 4

## Total Liabilities

10, 043. 80

12, 656. 50

Mar ’09

Mar ’10

12 mths

12 mths

## Application Of Funds

Gross Block

8, 720. 60

10, 406. 70

Less: Accum. Depreciation

4, 649. 80

5, 382. 00

## Net Block

4, 070. 80

5, 024. 70

Capital Work in Progress

861. 3

387. 6

## Investments

3, 173. 30

7, 176. 60

Inventories

902. 3

1, 208. 80

Sundry Debtors

918. 9

809. 9

Cashand Bank Balance

239

98. 2

Total Current Assets

2, 060. 20

2, 116. 90

Loans and Advances

1, 809. 80

1, 739. 10

Fixed Deposits

1, 700. 00

0

Total CA, Loans &Advances

5, 570. 00

3, 856. 00

Deffered Credit

0

0

Current Liabilities

3, 250. 90

3, 160. 00

Provisions

380. 7

628. 4

Total CL &Provisions

3, 631. 60

3, 788. 40

## Net Current Assets

1, 938. 40

67. 6

Miscellaneous Expenses

0

0

## Total Assets

10, 043. 80

12, 656. 50

Contingent Liabilities

1, 901. 70

3, 657. 20

Book Value (Rs)

323. 45

409. 65

## Source : Religare Technova

Appendix B

## Profit &Loss account of Maruti Suzuki India

## ——————- in Rs. Cr. ——————-

Mar ’09

Mar ’10

12 mths

12 mths

Income

Sales Turnover

23, 381. 50

32, 174. 10

Excise Duty

2, 652. 10

2, 856. 40

Net Sales

20, 729. 40

29, 317. 70

Other Income

491. 7

662

Stock Adjustments

-356. 6

200. 9

Total Income

20, 864. 50

30, 180. 60

Expenditure

Raw Materials

15, 983. 20

22, 636. 30

Power &Fuel Cost

193. 6

216. 6

Employee Cost

471. 1

545. 6

Other ManufacturingExpenses

716. 1

1, 061. 60

Selling and Admin Expenses

817. 66

1, 032. 17

Miscellaneous Expenses

236. 84

201. 73

Preoperative Exp Capitalised

-22. 3

0

Total Expenses

18, 396. 20

25, 694. 00

Mar ’09

Mar ’10

12 mths

12 mths

Operating Profit

1, 976. 60

3, 824. 60

PBDIT

2, 468. 30

4, 486. 60

Interest

51

33. 5

PBDT

2, 417. 30

4, 453. 10

Depreciation

706. 5

825

Other Written Off

0

0

Profit Before Tax

1, 710. 80

3, 628. 10

Extra-ordinary items

37. 9

51. 1

PBT (Post Extra-ord Items)

1, 748. 70

3, 679. 20

Tax

457. 1

1, 094. 90

Reported Net Profit

1, 218. 70

2, 497. 60

Total Value Addition

2, 413. 00

3, 057. 70

Preference Dividend

0

0

Equity Dividend

101. 1

173. 3

Corporate Dividend Tax

17. 2

28. 8

Per share data (annualised)

Sharesin issue (lakhs)

2, 889. 10

2, 889. 10

Earning Per Share (Rs)

42. 18

86. 45

Equity Dividend (%)

70

120

Book Value (Rs)

323. 45

409. 65

## Source : Religare Technova