

## An Evaluative Study of Profitability of Maruti Suzuki

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### ARTICLE INFO

### ABSTRACT

Profitability ratios are reliable measures in ascertaining the position of the company.

Major objectives of Maruti Suzuki are to earning profit so as to ensure survival and growth. The study is on the profitability position and prosperity of Maruti Suzuki With the help of key ratios and statistical tools in terms of profit the profitability position is analyzed. These are most vital and reliable indicators in measuring financial performance .They keep a watch on the current operating performance and act as a helping hand to management for taking corrective actions, if there is a decline. This paper expresses the prosperity & growth of Maruti Suzuki from 2006-07 to 2015-16.

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**KEYWORDS:** *Net Profit, EBDIT, EBT, PAT, RONW*

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### INTRODUCTION:

Automobile industry in India is one of the fastest sectors and has a ample of opportunities in improving it. The major players have carved the strategies to increase the market share in the sector as per their unique and distinctive features in their automotives. The accelerating GDP and economical resources have triggered up in the last few years which has raised the purchasing power of the people of the country. The car segment has emerged in India as the promising sector and has shown tremendous growth in the sales.

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

Study of growth and prosperity is very essential. Through this evaluative study, it can recognize its strength and weaknesses for further analysis. Profitability analysis enables the organization to identify whether investment is yielding better

returns or not, management is efficient or not, organization has employed efficient workers or not. Profit is the life blood of business. It is must for survival growth and expansion Profit is required for the satisfaction and building the trust of to investors, to repay the debts, to pay expenses like rent, salary, wages etc. Profit act as the benchmark for smooth operation of a business.

The study aims at analyzing the performance of the Maruti Suzuki, using different financial ratios. The basis of study is study is the financial data of Maruti Suzuki for the period of 2006-07 to 2015-16.

### OBJECTIVES:

1. To check the financial position of the Maruti Suzuki.
2. To check profitability position of Maruti Suzuki.

**LITERATURE REVIEW**

- Hotwani Rakhi analyzed in her study 'Profitability Analysis of Tata Motors' that it has generated sufficient wealth and given significant returns. Fluctuations were observed in Companies' return on equity was less than 10% in concerned years. However inner strength was commendable.
- Daniel Moses in his study on 'Financial Status of Tata Motors LTD' revealed that company has consistent and stable growth. He suggested to cut short the expenditure so that there increase in profitability. He further suggested that working capital should be efficiently.
- "Patel Vivek revealed in the work that 'Financial Performance of Tata Motors' that the company has gone for issue of equity shares but not on performance share that the dividend of company are not fixed. In spite that the company had handsome returns for the shares holders.

**METHODOLOGY:**

The study covers the data of 10 years from 2006-07 to 2015-16. It is completely based on secondary data which is taken from annual reports published on Money Control. Various types of Profitability ratios and statistical techniques have been used in this study for analyzing the data.

**ANALYSIS AND INTERPRETATIONS:**

**Ebitda Ratio:**

EBITDA that is Earning before Interest Tax Depreciation and Amortization ratio analyzes long term profitability of the company and its ability to repay future finances. It is an important tool to measure the profitability.

EBITDA is an indicator of financial performance of the company and is calculated as follows-  
EBITDA= Net Sales - Expenses (other than interest, tax, depreciation and amortization)

**EBITDA RATIO=EBITDA/TOTAL REVENUE**

**Table 1. EBITDA Ratio of Tata Motors (Rs. Crores) (In %)**

Years	Net Sales	EBITDA	EBITDA Ratio
2006-07	14806.40	2542.90	17.17
2007-08	18066.80	3045.30	16.86
2008-09	20729.40	2395.40	11.56
2009-10	29317.70	4399.90	15.01
2010-11	36618.40	4147.30	11.33
2011-12	35587.10	3339.80	9.38
2012-13	43587.90	5042.00	11.57
2013-14	43700.60	5918.80	13.54
2014-15	49970.60	7544.50	15.10
2015-16	57746.30	9440.40	16.35

Higher is the ratio, better it is as the less risky a company is considered financially.

Maruti Suzuki has the maximum EBITDA in the year 2015 - 16 of crores and was lowest in the year 2008-09. The ratio has fallen drastically in 2011-12 showing that company had invested high amount in production but has generated less income. Mean ratio of the company is 13.79% and low standard deviation of 2.71 indicates consistency in the performance of the company.

**Ebt Ratio:**

EBT that is Earnings before tax, includes all operating whether operating or non-operating, continuing or non-continuing.

This ratio shows profit before tax as percentage of net sales.

EBT= Total Revenue – Expenses (excluding tax)

This ratio is calculated as follows:

**EBT RATIO = EBT/NET SALES**

**Table 2. Earnings before Tax Ratio of Tata Motors (Rs. Crores) ( In% )**

Years	Net Sales	EBT	EBT Ratio
2006-07	14806.40	2233.90	15.09
2007-08	18066.80	2417.50	13.38
2008-09	20729.40	1637.90	7.90

2009-10	29317.70	3541.40	12.08
2010-11	36618.40	3108.80	8.49
2011-12	35587.10	2146.20	6.03
2012-13	43587.90	2991.00	6.86
2013-14	43700.60	3658.50	8.37
2014-15	49970.60	4868.20	9.74
2015-16	57746.30	6535.00	11.31

EBT was recorded highest in the year 2015 - 16. It was worse in the year 2008-09 which indicates that company was not selling enough that it was not able to cover its fixed cost. Average EBT ratio is 2.95%. standard deviation and coefficient of variation are at 2.95 and 29.72 respectively showing consistency in earning before tax of the company.

**Pat Ratio:**

PAT ratio that is Profit after Tax ratio measures efficiency of management in generating revenue over and above total cost of operation. This ratio establishes relationship in net profit after tax of the company and net sales and is computed as follows:

**PAT RATIO = PAT / NET SALES**

**Table 3. Earnings After Tax Ratio of Tata Motors (Rs. Crores) (In% )**

Years	Net Sales	PAT	PAT Ratio
2006-07	14806.40	1561.60	10.55
2007-08	18066.80	1730.80	9.58
2008-09	20729.40	1218.70	5.88
2009-10	29317.70	2497.60	8.52
2010-11	36618.40	2288.60	6.25
2011-12	35587.10	1635.20	4.59
2012-13	43587.90	2392.10	5.49
2013-14	43700.60	2783.00	6.37
2014-15	49970.60	3711.20	7.43
2015-16	57746.30	4571.40	7.91

Higher the ratio favorable it is for the business. Lower ratio is a sign of fall in profit and management inefficiency which shows that the

cost of production exceeds its revenue and management of the company is operating inefficiently.

It has highest net profits in the year 2015 - 16. Average profit after tax ratio is 7.62% while standard deviation and coefficient of variation are quite high at 1.89 and 26.06 respectively which shows company is quite stable

**Ronw Ratio:**

Return on Net Worth (RONW) ratio represent the firm ability to generate profit which is attributable to the net worth. This is used to ascertain the earning power of share holder's.

Net worth comprises of share capital, share premium and reserves in surplus.

It is calculated as follow;

**RONW RATIO= PAT / NET WORTH**

**Table 4. Return on Equity of Tata Motors (Rs.Crores) (In%)**

Years	NET WORTH	PAT	RONW Ratio
2006-07	6853.90	1561.60	22.78
2007-08	8415.40	1730.80	20.57
2008-09	9344.90	1218.70	13.04
2009-10	11835.10	2497.60	21.10
2010-11	13867.50	2288.60	16.50
2011-12	15187.40	1635.20	10.77
2012-13	18578.90	2392.10	12.88
2013-14	20978.00	2783.00	13.27
2014-15	23704.20	3711.20	15.66
2015-16	27007.10	4571.40	16.93

Higher the ratio better it is as it shows the extent to which profitability objective is being achieved from the point of view of shareholders.

Normally, a return above 8% is considered safe. The data reveals good performance as its mean is 16.35% which is quite above the minimum desired level. Standard deviation is 4.03 and Co-efficient of variance is 24.66.

## RESULTS

**Table 5. Profitability Ratios**

<i>Years</i>	<i>EBITDA Ratio</i>	<i>EBT Ratio</i>	<i>PAT Ratio</i>	<i>RONW Ratio</i>
2006-07	17.17	15.09	10.55	22.78
2007-08	16.86	13.38	9.58	20.57
2008-09	11.56	7.90	5.88	13.04
2009-10	15.01	12.08	8.52	21.10
2010-11	11.33	8.49	6.25	16.50
2011-12	9.38	6.03	4.59	10.77
2012-13	11.57	6.86	5.49	12.88
2013-14	13.54	8.37	6.37	13.27
2014-15	15.10	9.74	7.43	15.66
2015-16	16.35	11.31	7.91	16.93
Average	13.79	9.93	7.62	16.35
Std Deviation	2.71	2.95	1.89	4.03
Co- efficient of Variance	19.65	29.72	26.06	24.66

This table shows that company has shown good performance profitability of the company has improved and its performance is quite consistent in these years.

## CONCLUSION

It can be concluded that Maruti Suzuki's

profitability position is stable which is good for the company which may be due to that company is selling enough to cover its fixed cost, cost of production of company is low, company is investing low in production and generating high income, low cost of borrowed funds etc. As a result shareholders are gaining value and more investors are placing their money in company.

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