WWW.IJRPR.COM

International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

A Study on Financial Performance of MRF Tyres

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ABSTRACT:

Finance, the process of raising funds or capital for any kind of expenditure. Consumers, business firms, and governments often do not have the funds available to make expenditures, pay their debts, or complete other transactions and must borrow or sell equity to obtain the money they need to conduct their operations. Savers and investors, on the other hand, accumulate funds which could earn interest or dividends if put to productive use. These savings may accumulate in the form of savings deposits, savings and loan shares, or pension and insurance claims; when loaned out at interest or invested in equity shares, they provide a source of investment funds. Finance is the process of channeling these funds in the form of credit, loans, or invested capital to those economic entities that most need them or can put them to the most productive use. The institutions that channel funds from savers to users are called financial intermediaries.

1. INTRODUCTION OF STUDY:

The Rubber industry has established itself as a major industry in India. In a few years' time India is likely to become the second largest global player in this sector. India ranks high in natural rubber production. It is largely produced in Kerala but its production is growing in North-East India. Both Natural rubber and synthetic rubber play a complimentary role in providing the desired end properties to final rubber products made of it. The share of synthetic rubber in total rubber consumption in India is around 30% while the world average is 65%.

As such the Government encourages establishment and development of synthetic rubber plants in India. Indian domestic market has the capacity to consume the entire indigenous production of natural rubber.

1.2 STATEMENT OF PROBLEM:

To decide the economic problem, the economic overall performance and evaluation to earn enough profitability to manipulate the right functioning of MRF Ltd. Every attempt has been made to finish relevantly and advise for the overall performance of MRF Ltd. Financial statement is used to judge the profitability and financial soundness of a firm. In this study, an attempt is made to identify the financial strength and weakness of the firm by properly establishing relationship between items in the balance sheet and profit and loss account of MRF Ltd.

1.3 SCOPE OF STUDY:

The main scope of study is to find out financial performance of the firm for the past five years from 2016-2021. This study gives an idea to the public about the liquidity position and the annual growth rate of the company, help utilize the various opportunities available to them and strive for their betterment. It includes all the aspects on liquidity position, profitability position and comparative balance sheet.

1.4 OBJECTIVES:

- To analysis the Liquidity and Solvency performance of MRF LTD.
- To evaluate the structure of the balance sheet by Common Size Statement.
- To make a comparative study of the balance sheet of MRF LTD
- To find out the Trend Analysis of MRF

1.5 RESEARCH METHODOLOGY:

PERIOD OF STUDY

The period of study covers 6 months the data collected from 5 years from 2016-2017 to 2020-2021.

SOURCE OF DATA

The assessment is based on the secondary data collected from the annual report published by MRF Ltd.

TOOLS FOR ANALYSIS

1. Ratios
   - Liquidity Ratio
   - Solvency Ratio
2. Common size statement
3. Comparative statement

Trend Analysi

1.6 LIMITATIONS OF STUDY:

- Analysis and interpretation are purely based on Secondary data which are taken from published annual report of MRF Ltd.
- The values calculated are from past financial statement and these are not indicators of future.
- The short span of time provided is also one of limitation.

2. REVIEW OF LITERATURE:

Dr. D. Siva Sakthi, Ms. R. Selvapriya (2021) [1] "A Study on Financial Performance of Apollo tyre" studies the financial overall performance is the tries to decide a security's feedthrough that specialize in underlying elements that have an effect on a business enterprise and its destiny prospectus on a border scope, it's favorable to carry out economic overall performance on industries or financial as a whole. Its overall performance is fundamental instrument, which affords all records approximately the economic role and operational performance of the business enterprise. It finishes that the business enterprise has to take suitable steps to manipulate the price, boom the extent of income, earnings within side the destiny years.

D. Surjith Jiji, M. Maragatham, P. Mariappan (2021)[2] "Analyzing the performance efficiency of Rubber Industries in India" The primary goal of this study is to use two stage fuzzy data envelopment analysis approach in Fuzzy environment to assess the efficiency of Rubber Industries functioning in India. By using a hybrid learning procedure, the proposed Fuzzy Inference System can construct an input-output mapping based on the form of fuzzy if-then rules and stipulated input-output data pairs. The analysis of the results shows that some Industries are efficient in terms of production, while others are efficient in terms of marketability.

Rupesh Yadav (2020)[3] "Efficiency of Managing Working Capital in Select Companies in the Indian Tyre Industry." This study measures the efficient management working capital of five well-known companies in the Indian tyre industry. The study has been made using relevant ratios relating to WC and statistical tools and techniques at appropriate places. The study revealed that the efficiency of managing WC was the highest in CEAT Ltd. Followed by JK Tyre & Ind. Ltd., MRF, Apollo Tyres and Balkrishna Ind., in that order. The study also indicated strong evidence of a positive association between overall profitability and overall efficiency of WCM of Balkrishna Industries during the study period.

Dr. U. Arumugam and S. Pradeep Kumar (2020)[4] "Study on financial performance of select tyre industry in India" examined the nature of results accomplished alludes to the presentation execution is utilized to demonstrative associations prosperity, conditions and compliance money related execution to the demonstration of performing monetary movement. Maintaining continued edge in technology through innovation and creativity in research and development has been the focused are at tyre industry in India the concept of green tyres becomes a paradigm of the country's competitive edge.

3 HISTORY AND PROFILE OF THE COMPANY

MRF Ltd is the first Indian company to export tyres to the US, the very birthplace of tyre technology. It is the first company in India to manufacture and market Nylon tyres passenger tyres commercially. In 2004, the company's turnover crossed INR 30 billion mark. The company was given the title of most ethical company by 'Business World' magazine after a survey conducted in1999.

4. ANALYSIS AND INTERPRETATION

4.1 FINANCIAL STATEMENT ANALYSIS:

RATIO ANALYSIS:

A ratio analysis is a quantitative analysis of information contained in a company's financial statements. Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency. Ratio are calculated from current year figures and then compared to past years, other companies, the industry, and also the companies assess the performance of the company. Besides, ratio analysis is used predominantly by proponents of financial analysis.

- Liquidity Ratios
- Solvency Ratios

LIQUIDITY RATIO:

Liquidity is a very critical part of a business. Liquidity is required for a business to meet its short-term obligations. Liquidity ratios are a measure of the ability of a company to pay off its short-term liabilities.

Liquidity ratios determine how quickly a company can convert the assets and use them for meeting the dues that arise. The higher the ratio, the easier is the ability to clear the debts and avoid defaulting on payments.

This is a very important criterion that creditors check before offering short term loans to the business. An organization which is unable to clear dues results in creating impact on the creditworthiness and also affects credit rating of the company.

Types of Liquidity Ratio:

There are following types of liquidity ratios:

1. Current Ratio or Working Capital Ratio
2. Quick Ratio also known as Acid Test Ratio
3. Cash Ratio also known Cash Asset Ratio or Absolute Liquidity Ratio

SOLVENCY RATIO:

Solvency ratio is of the various ratios used to measure the ability of a company to meet its long-term debts. Moreover, the solvency ratio quantifies the size of a company's after-tax income, not counting non-cash depreciation expenses, as contrasted to the total debt obligations of the firm. Solvency ratio studies the firm's ability to meet its long-term obligations.

TREND ANALYSIS:

Trend analysis involves the collection of information from multiple time periods and plotting the information on a horizontal line for further review. The intent of this analysis is to spot actionable patterns in the presented information. T shows changes in the amounts of corresponding financial statement items over a period a time. It is a useful tool to evaluate the trend situation.

5 FINDINGS, SUGGESTION AND CONCLUSION

5.1 FINDINGS:

RATIO ANALYSIS:

- The average current ratio for the period of analysis is 1.5. Therefore, their liquidity Position is very healthy during the study period.
- MRF Ltd has a quick Ratio of 1.05 in average for the study period. The company had enough liquid assets to meets its short-term obligations.
- Absolute Liquid Ratio is decreased from 0.061(2016-17) to 0.01(2018-19). There is a gradual increase and it raised to 0.32 in the year 2020-2021.
- In Debt Equity Ratio we can see that the company has more shareholders Fund than long term Debt. The Average of this ratio is 1.6 which is not bad.
- With the help of Proprietary ratio, we know that the company has more equity in the total assets for the operations of the business.

COMMON SIZE BALANCE SHEET:

- In this year the value of other equity has decreased when compared to previous year. There is an increase in borrowings too. Non-current assets contribute more than 50% of the value in the asset side. The value of trade receivables is decreasing in the balance sheet comparing to the last year.
- The balance sheet of this year is same as that the previous year. Non-current assets show a little change. The contribution of other equity is been reduced. Non-current assets continue to be a major contribution. The contribution of the cash balance sheet is low. On the whole it is satisfactory one.

COMPARITIVE BALANCE SHEET:

- The performance of the company during 2016-17 is slightly favorable for the company as the company's assets have increased from 13169.75 to 14959.62. And Liabilities of the has also been increased
- The year 2019-20 is a very productive year for the company because all the liabilities have decreased to some extent like their borrowings decreased to 26.13%, non-current liabilities to 22.98% and deferred tax liabilities to 49.01%. in asset side, their non- current assets have shown some good increase in percentages like property, plant and equipment to 30.65% and capital work in progress to 23.61%. but the current assets have been decreased in inventories, investments and trade receivables.
- The year 2020-21 the liabilities have decreased almost in each equity and non-current liabilities. The other equities have been reduced to 9.78%, provisions to 11.67% and other non-current liabilities to 246.28% and overall total liabilities has been reduced to 16.21%. in the asset side, the assets have been reduced in every component which shows that the company is not performing well in their assets comparing to the previous year's 2016-2019. The total assets have been reduced to 16.21%. It clearly shows that the company is not good at asset management.

TREND ANALYSIS:

In Trend Analysis of long-term Investment, there is a complete decline in the year 2019- 21 It decreased from 1078 crores to 2 crores and again increased to 1150 crore in the year 202-21. There was a consistency in the Net Profit of the company.

5.2 SUGESSTIONS:

- The company should reduce the price of their products.
- Improve the distribution network and make the product available when needed.
- MRF Ltd should spend more on advertisement activities to attract those customers who does not know about the products.
- The company can increase its current assets by investing more in current assets or by decreasing its current liabilities so that it can Maintain a standard ratio. If the standard ratio is maintained the company's working capital requirement will be met out.
- Though the company has to maintain both the brand value as well as the profit margin in a balance, it can fetch more revenue and profits by increasing ancillary products under the brand as such.

5.3 CONCLUSION:

MRF Ltd is a leading brand in the tyre industry in India. The financial position of MRF Ltd. is sound. The liquidity position, short term solvency position and profitability is satisfactory. The progress made by the company during the last 10 years is exceptionally well. The company is growing speedily After analyzing the management of MRF has a competent management, which cares about shareholder's interests and believes in company's future. MRF seems to have put in place a succession plan, which would enable the next generation to take over the company. MRF Ltd company satisfies the customers need and the purpose, but only problem is with the service given to the customer by the showroom. MRF Ltd should think about the service provided by showroom in order to capture the maximum market segment. MRF has been the fastest growing tyre manufacture in India and a company which has improving profitability margins and decreasing working capital cycle.