

Analyzation of the Financial Statements:

Mahindra and Mahindra

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OBJECTIVE:-

This research paper attempts to analyze the financial statements to improve the knowledge of fundamental analysis and to identify the strengths and weaknesses of the business entity.

The analysis and interpretation of the financial statement are essential in measuring the efficiency, probability, financial soundness, and future prospects of the business units financial analysis serves the following purposes measuring the profitability indicating the trend in achievements, assessing the growth, and potential of the business comparative position in relation in other feelings, assess overall financial strength assess solvency of the firm.

This paper is done basically to analyze

- Capital structure management
- Fixed assets management
- Working capital management
- Profitability management

The three important financial statements of the business organization as per IAS;

- Income statement
- Balance sheet
- Cash flow statement

About the company

Mumbai, Maharashtra is home to the global Indian automotive manufacturing company Mahindra & Mahindra. It was established in 1945 and is well-known in the aerospace, farm equipment, and automotive industries. Mahindra is renowned for manufacturing a broad variety of automobiles, including as commercial vehicles, SUVs, and utility vehicles. In addition, the company's production of tractors and farm equipment gives them a strong foothold in the agro industry. With time, Mahindra has broadened its business operations and increased its global reach, becoming as a major force in a number of industries. In 1945, Mahindra and Mahindra was established in Ludhiana, Punjab, India, by brothers J.C. and K.C. Mahindra and Malik Ghulam Muhammad. The corporation began as a steel trading company and then expanded into the industrial sector, growing to become one of India's leading conglomerates.

Analysis of the financial information

This chart shows the trend of the share price of the mahindra and mahindra company



Assets

2019	2020	2021	2022	2023
100%	95.83%	113.99%	126.64%	142.88%
75,779.81	67,130.26	59,588.8	50,502.06	52,692.06

- A declining percentage in 2020 denotes a difficult economic climate; however, increases in 2021, 2022, and 2023 indicate a recovery and expansion. Throughout the course of the analysis, the total assets have steadily improved, which is the cumulative effect.
- The upward trend in assets from 2020 to 2023 generally points to the company's potential for financial success.
- In the last two years leading up to this, I had seen amazing growth. From F.Y. 2019 to 2021, the trend in assets was stable; there was no upward trend or decline in assets, but in F.Y. 2022, there was an increase in direct assets. This increase in overall assets, which includes both current and non-current assets, was caused by the increase in tangible assets 6,672.22 cr. Therefore, the increase in tangible assets indicates that the business is growing. Given that it indicates an increase in the company's operating capacity, the increase in physical assets could be interpreted as promising.
- In the most recent fiscal year (2023), we also saw a decrease of 571.25 cr in capital work in progress. This indicates that a notable reduction in capital work in progress in the finance sector usually signals a halt or postponement of ongoing projects or capital expenditures. This could point to a decrease in investment or possible difficulties carrying out the intended projects, which would have an effect on the total amount of capital deployed and possibly future revenue streams.
- Another aspect to take into account is the intangible assets that are still in development. In 2023, we witnessed an enormous decline of 1,662.3 cr. A decline in this usually indicates a decline in the worth or advancement of assets like copyrights, patents, or intellectual property that is still under development.
- Long-term loans and advances are another significant factor affecting the assets. We have seen a significant increase in FY 2021 of 1,513.86, which indicates a rise in the amount or value of loans or financial advances that are anticipated to be returned over a longer time frame, usually longer than a year. This may point to an increase in the organization's lending activities, perhaps as a result of rising demand for funding, effective lending strategies, or a promising economic outlook. However, following FY 2021, there is a significant decline in these terms, which once more illustrates the opposing side and suggests that decline may be caused by events like borrowers encountering financial difficulties, borrowers' creditworthiness changing, or the organization changing its lending strategy.
- The only significant change in the current assets that we have observed is in the current investment. An increase in current investment suggests that the value of investments owned by a business has increased during a brief period of time, usually less than a year.

- The company's current and non-current assets are in generally good condition.

Liabilities

2019	2020	2021	2022	2023
100%	86.76%	143.03%	155.31%	170.62%
18,487.83	16,034.22	25,086.88	28,169.31	32,423.08

The overall trend in the liability information appears mixed, with both positive and potentially concerning aspects.

Positive aspect

- In 2019 to 2020 there was a decrease of approximately 13.24% which can be viewed positively as a reduction in liabilities often signifies improved financial health.

Concerning aspect

- The substantial increase of approximately 56.27% from 2020 to 2021 raises concerns while it might be a strategic decision, understanding the purpose and managing associated rises is crucial. Moderate increase in liabilities from 2021 to 2022 (+12.28%) and from 2022 to 2023 (+15.13%) .
- The initial reduction in liabilities is positive but the subsequent large increase requires close scrutiny.
- The moderate increase in later years may be acceptable if they support the company growth strategy, but a thorough analysis of the underlying reasons is necessary.

Analysis of the major factors that effect the trend of liability

- The first component that affects the declining trend of liability is long-term borrowing; in 2021, long-term borrowing significantly increased, and in 2023, it decreased, indicating that there aren't many options available:•
- Strategic financing: It's possible that the first increase was made on purpose to obtain long-term funding for a big project or growth. The following decline may indicate that those initiatives have been completed or that the organization's funding approach has changed.
- Refinancing or repayments: Refinancing current debt at more advantageous terms or securing new loans for certain uses may cause the increase. If the entity changed its debt structure or paid back some of its long-term debt, the subsequent decline might happen.

- Additional factors to take into account that impact the increasing tendency of the liabilities are short-term borrowing and trade payables. There is a significant increase that starts in FY 2021 and shows how liability has been trending upward over time. This increase shows how dependent a company is becoming on outside funding sources to support its operations in the near term. This can point to the need for more liquidity or working capital.
- The company's total liabilities, both current and non-current, are increasing slowly as a result of these key variables.

Capital

2019	2020	2021	2022	2023
100%	100.76%	100.86%	113.73%	125.05%
34,209.23	34,467.84	34,501.92	38,960.25	43,356.73

- The first few years (2019 to 2021) exhibit moderate growth, which can point to stability and steady growth.
- The more notable rises from 2022 to 2023 and from 2022 to 2022 indicate stronger financial standing and successful outcomes.
- Reserve and surplus are the main drivers of the upward trend; the company's term has been rising steadily over the years, with the biggest increases seen in the FY 2022 and FY 2023. An increase in these typically denotes accumulated profits that haven't been paid out as dividends. This may point to stability in the company's finances and retained earnings, which it may utilize for other strategic endeavors like debt reduction or future investments. A rising reserve and surplus can be a sign of strength, demonstrating the business's capacity to make money over time and put it back into operations.

OVERALL FINANCIAL POSITION

The asset trend is positive, which points to potential expansion overall as well as successful operational performance and growth.

- From 2020 to 2021, liabilities had a worrisome peak; however, the following years saw a more gradual growth.

- Capital expanded steadily, indicating that retained earnings or possible reinvestment might support the company's financial stability;
- Overall, the company's financial situation appears to be improving, as evidenced by its expanding capital and assets.
- Although the company's financial situation is typically favorable, cautious debt management and a thorough financial analysis are advised to guarantee a stable and balanced financial position.

Income statement analysis

Income

2019	2020	2021	2022	2023
100%	85.68%	83.78%	112.44%	159.45%
55302.97	47155.59	46262.29	59521.87	87505.43

The trend begins in a negative direction, stabilizes in 2022, and then has a notable uptick in growth in 2023.

A notable rise was observed between 2022 and 2023, suggesting a favorable trajectory and possible recuperation or expansion. There has been a significant increase in the company's overall income, primarily as a result of the company's increased sales revenue, which increased dramatically in 2023.

A company's increased sales revenue indicates that its sales operations are bringing in more money. This could be the outcome of raising pricing, selling more units, or doing both at once. It's encouraging for a company as it shows expansion and better financial results.

Expenses

2019	2020	2021	2022	2023
46974.44	39689.72	38555.07	50403.68	74517.87
100%	84.49%	82.64%	113.37%	161.21%

The cost of raw materials has largely increased, which could have the following implications on the company.

Depending on a number of variables, a company may experience both good and negative effects from a sharp increase in raw material costs. The following are things to think about:

Positive Aspects:

Increasing Demand: If the company's products are in greater demand, as indicated by the increase in raw material costs, this could be a sign of robust market demand.

Strategic Investment: In order to increase the competitiveness or quality of its products, the corporation may be spending money on specialized or higher-quality raw materials.

Pass-through Pricing: The business may be able to continue operating profitably if it can successfully pass on cost increases to consumers without losing market share.

Negative Aspects:**Difficulties with Profitability:** Lower profit margins may result from a large increase in raw material costs without a matching rise in sales.

Supply Chain Disruptions: If supply chain difficulties are the cause of the increase, this could indicate operational problems that have an effect on the productivity of the business.

Competitive Pressures: If rivals control expenses more skillfully, the business may experience difficulties with price and market share.

Whether it is beneficial for the company will ultimately rely on the particulars, the sector, and the company's capacity to properly absorb and handle the higher costs. The total effect on the company's sustainability and financial health would normally be assessed by stakeholders and investors.

There is a another factor that to be considered in expense and that is other expense. It can be seen clearly company control their other expense so well in 2019 the other expense was 17849.34 and in 2023 it is 9716.59 which depict the positive scenario in the company.

Profit and loss

2019	2020	2021	2022	2023
4825.77	3344.53	3911.73	5143.89	7978.18
100%	69.3%	89.26%	120.76%	175.86%

Between 2021 and 2023, there was a noticeable rising trend in the profit and loss amount.

An rise in profit on the income statement typically signifies better business financial performance. It denotes that the business made money within the allotted time, resulting in a positive net income. For stakeholders, this is encouraging since it shows the business is running efficiently and making a profit.

Capital structure management

EBIT analysis of the company

Earnings before interest and taxes, or EBIT, growth typically signifies increased operating profitability for the business. EBIT evaluates a business's capacity to turn a profit from its core activities without accounting for taxes and interest costs.

An increased EBIT indicates that the business is either growing sales or successfully controlling its operating costs. Given that it shows the company's operating efficiency and potential for increased net income, it might be encouraging for investors.

The income statement shows that EBIT increased significantly in FY 2023 to \$3,165.97, and that EBIT flowed normally in prior years. These findings suggest that the company is operating profitably, the volume of increase in the expenses is less than the increase in volume of sales in the given period of time.

EPS analysis

Earnings per share (EPS) shows a significant decline in 2021 of 79.84%, followed by a rise in 2022 of 1734.66%, and a relatively stable year in 2023. This suggests that EPS represents the percentage of a company's profit that is distributed to each outstanding share of common stock. It is computed by dividing the average number of outstanding shares by the net income. An increase in EPS frequently denotes higher profitability per share. It may be the consequence of higher net income, effective cost control, or share buybacks that reduce the number of outstanding shares.

Financial leverage ratios

Debt ratio

2019	2020	2021	2022	2023
0.35	0.31	0.42	0.41	0.42

As we can see, the debt ratio grew by 2021, but it then stabilized and remained less than 1. This is not good news for a corporation that depends on debt to acquire further assets.

Debt to equity ratio

2019	2020	2021	2022	2023
0.07	0.09	0.21	0.17	0.11

As we can see, the firm depends more on loan financing than equity financing to maintain its operations only in FY 2021. However, FY 2023 shows a positive trend, with the company depending more on equity financing than debt financing.

Asset management

Turnover ratio

2019	2020	2021	2022	2023
1.54	1.23	1.14	1.32	1.82

As I have seen, there has been a significant increase in sales turnover, and the asset turnover ratio now reflects this increase from the previous fiscal year. A greater asset turnover ratio means that the company is making more money for every rupee spent in assets. This could indicate better resource management and operational efficiency. Growing asset turnover ratios are frequently seen by analysts and investors as a sign that a company is successfully using its assets to boost sales.

Working capital management:-

Ratios	2019	2020	2021	2022	2023
Current	1.08	1.08	1.14	0.96	0.89
Quick	0.90	0.97	0.92	0.76	0.72
Inventory turnover	13.96	13.38	11.39	9.76	9.57
Receivable turnover	15.06	13.10	16.86	21.36	24.01

- In all past 5 years current is more than the quick ratio which is a good indication.
- A large percentage of current assets may consist of inventories when the current ratio is higher than the quick ratio. The fast ratio, sometimes referred to as the acid-test ratio, separates inventory from current assets, whereas the current ratio includes all current assets. A current ratio greater than the quick ratio suggests that inventory is the main cause of the discrepancy between the two. This situation can suggest that the company depends on inventories to cover its immediate liabilities. While some businesses require a certain amount of inventory, it's crucial for a business to manage its inventory well to prevent overstocking and possible liquidity problems. As a result, a greater current ratio relative to the quick ratio indicates a dependency on inventories for liquidity,

therefore it is imperative that stakeholders evaluate whether this is consistent with the financial and operational plans of the organization.

- From a financial perspective, an increasing ratio of accounts receivable turnover is usually regarded as favorable. By evaluating how frequently a business collects its average accounts receivable balance over a given time period, the receivable turnover ratio evaluates how effectively a business manages its receivables (accounts receivable).

An growing ratio of accounts receivable turnover may suggest the following:

- **Effective Receivables Management:** A greater turnover ratio indicates that the business is getting payments from clients faster. The effectiveness of receivables collection can increase liquidity and cash flow.
- **Effective Credit rules:** A rising ratio could indicate that the business has put in place effective credit rules that let it give credit to clients while lowering the chance of bad debts or late payments.
- **Tighter Credit Terms:** In an effort to encourage clients to pay their invoices on time, the business may have put in place tighter credit terms. This may help to accelerate the turnover of accounts receivable.
- **Better Cash Flow:** As receivables are collected more quickly, the company is receiving cash inflows more quickly. Reducing debt, investing in growth possibilities, and satisfying immediate obligations can all benefit from this increased cash flow.
- **Positive Customer Relationships:** A high turnover ratio for accounts receivable may be a sign of happy customers who are driven to make on-time payments, whether as a result of excellent service, high-quality goods, or other considerations.
- Even though a rising ratio of accounts receivable to turnover is generally a good thing, it's important to take industry averages and the particulars of the company into account. Additional information can be obtained by comparing the ratio to historical data and industry averages.
- To some extent, overstocking worries are allayed if sales are rising. A declining inventory turnover ratio combined with increased sales, however, may nevertheless suggest that inventory levels are not expanding in line with sales growth. There are a few possible reasons for this situation:
 - **Inventory management inefficiencies:** It's possible that the business isn't effectively managing its stock levels to meet the expanding demand. This may cause the current inventory to turn over more slowly.
 - **Supply Chain Challenges:** The company's capacity to efficiently replenish and manage inventory may be impacted by production bottlenecks, delays in the supply chain, or other logistical problems.

- **Product Mix Shifts:** The overall inventory turnover ratio may be impacted if the product mix is shifted in favor of products with longer production cycles or slower turnover rates.
- If sales are rising, overstocking might not be the biggest issue, but it's still important to make sure the business is modifying its inventory management procedures to accommodate and benefit from the increase in sales. Maintaining a healthy balance between sales and inventory turnover can be facilitated by routine monitoring, supply chain analysis, and inventory strategy tweaks.

Conclusion

In the midst of the COVID-19 epidemic, Mahindra had a difficult time in 2021 and experienced a significant decline. Their activities were severely disrupted by the pandemic, which had a negative effect on sales and finances. But the business's handling of this misfortune was nothing short of extraordinary. Mahindra managed a remarkable comeback in 2023 with a combination of strong leadership, tenacious leadership, and an unchanging dedication to innovation. The turnaround that followed was nothing short of astounding. Mahindra's 2023 turnaround was not only a spectacular comeback from the previous year's difficulties, but it also represented a significant advancement. Their sales and finances reached previously unheard-of levels, indicating not merely a full recovery but an overwhelming victory. This recovery was more than just a return to pre-pandemic levels; it demonstrated Mahindra's capacity to innovate, grow, and adapt in the face of difficulty. In the annals of corporate perseverance, this amazing recovery is a bright example. Mahindra's extraordinary success was largely attributed to their quick pivot, which involved embracing change and capitalizing on their strengths. It highlighted the business's adaptability, strength of strategy, and steadfast dedication to providing value to their clients. Mahindra's position as an industry leader, ready for sustainable development and continuing innovation, was underscored by the company's spectacular surge in sales and financials in 2023. It demonstrated not simply the company's ability to bounce back from a difficult time, but also its transformative path, which strengthened its foundation and equipped it to prosper in a constantly changing environment. Mahindra's incredible comeback serves as a source of motivation for companies facing uncertainty by demonstrating that flexibility, ingenuity, and perseverance are the cornerstones of long-term success.

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