# EXPLORING THE RELATIONSHIP BETWEEN MARUTI SUZUKI INDIA LIMITED 'S FINANCIAL STATEMENTS AND ITS STOCK PERFORMANCE

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#### **Abstract:**

This study aims to explore the relationship between Maruti Suzuki India Limited's financial statements and its stock performance. Maruti Suzuki is a leading automobile manufacturer in India, and analyzing its financial statements can provide insights into the company's financial health, growth potential, and overall performance. The study focuses on key financial ratios that can indicate the company's financial strength and profitability, such as return on equity, operating margin, and debt-to-equity ratio. The research utilizes quantitative analysis to examine the relationship between these financial metrics and the company's stock performance. The study findings provide valuable insights for investors and analysts looking to make informed investment decisions in the automobile industry. Understanding the link between financial statements and stock performance can help investors assess the company's performance, identify potential risks, and make informed investment decisions. *Keywords: Financial Analysis, Ratios, Stock Performance, Growth, Financial Position.* 

#### I. INTRODUCTION

India has the fourth-largest automotive industry in the world as per 2021 statistics. In 2022 India became the fourth largest country in the world by the valuation of the automotive industry. Currently, India's auto industry is worth more than US\$100 billion and contributes 8% of the country's total export and accounts for 49 percent of India's manufacturing GDP and 7.5% of the GDP at larger. The auto realm's value chain is responsible for 32 million jobs. The automobile sector received cumulative equity FDI inflow of about US\$32.84 billion between April 2000 – March 2022. The Government of India expects the automobile sector to attract US\$ 8 – 10 billion in local and foreign investments by 2023.



**Background information on Maruti Suzuki India Limited** 

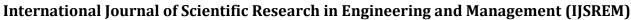
Maruti Suzuki India Limited is a leading Indian automobile manufacturer that specializes in the production of small cars and utility vehicles. It was founded in 1981 as a joint venture between the Indian government and Suzuki Motor Corporation of Japan. Maruti Suzuki is headquartered in New Delhi and has production facilities in Haryana, Gujarat, and Tamil Nadu. Over the years, Maruti Suzuki has become a household name in India due to its affordable and reliable vehicles, which have been popularized by its extensive dealership network and aggressive marketing campaigns. The company has a diverse product portfolio that includes hatchbacks, sedans, SUVs, and vans, catering to a wide range of customer segments.

Maruti Suzuki has consistently been the market leader in the Indian automobile industry, with a market share of over 50%. The company has received numerous awards and accolades for its product quality, customer service, and environmental sustainability initiatives. Despite facing intense competition from both domestic and foreign players, Maruti Suzuki has managed to maintain its dominant position in the Indian automobile market through continuous innovation, cost efficiency, and customer-centricity. Today, Maruti Suzuki is one of the most successful and profitable automobile companies in India, with a strong brand reputation and a loyal customer base.

Maruti Suzuki India Limited is the largest automotive manufacturing company in India. As of February 2022, Maruti Suzuki has a market share of 44.2 percent in the Indian passenger car market. It is a joint venture agreement signed between Maruti Udyog Ltd. and Suzuki of Japan in 1982. It is the largest automotive manufacturing company in India with the two largest manufacturing facilities in Haryana (Gurugram and Manesar) and Gujarat. Recent data reveals that Maruti Suzuki once enjoyed more than 50% of the market share has failed to touch the pre-pandemic sales mark ever since COVID – 19 has hit market. While Maruti Suzuki has always led the small car market, the drop in market share is down to the fact that compact and midsize SUVs have gained a lot of traction in recent years. The category of midsize and compact SUVs has risen from 14 percent to 40 percent of the market value in recent months.

**II. STATEMENT OF THE PROBLEM:** 

Financial reporting is a standard accounting practice that uses financial statements to disclose a company's financial information and performance over a particular period, usually on an annual or quarterly basis. In simple terms, a financial report is critical for understanding how much money you have, where the money is coming from, and where your money needs to go. It is important for companies to make informed business decisions





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based on facts about the company's financial health. As the Government of India takes several initiatives to make India a dominant player in the Automotive sector, Maruti Suzuki comes under consideration being a major player in the automobile industry which is now losing its market share because of various reasons based on their financial reports which will be discussed in this report.

## III. METHODOLOGY

To explore the relationship between Maruti Suzuki India Limited's financial statements and its stock performance, a comprehensive methodology will be adopted. Firstly, the study will involve collecting financial data of the company from its annual reports, financial statements, and other credible sources. The financial statements will be analyzed using financial ratio analysis, which will help in determining the company's liquidity, profitability, and solvency position. In addition, the study will also collect stock market data, including daily stock prices, trading volumes, and other relevant market indicators, to examine the relationship between Maruti Suzuki's financial performance and its stock performance. The study will employ statistical techniques such as regression analysis to identify the relationship between the financial performance of Maruti Suzuki and its stock returns. Furthermore, the study will also conduct a thorough review of the literature to identify any existing theories and empirical evidence that can inform the analysis. The literature review will focus on the previous research conducted on the relationship between financial statements and stock performance, especially in the automobile industry. Finally, the results of the analysis will be presented and interpreted to provide insights into the relationship between Maruti Suzuki's financial statements and its stock performance. The study's findings will help investors, financial analysts, and other stakeholders make informed investment decisions and provide valuable insights into the Indian automobile industry's dynamics.

## **IV. OBJECTIVES OF THE STUDY:**

The following were the objectives framed by the researcher to analyze the financial statements of **MARUTI SUZUKI INDIA LTD.**:

- > To analyze the Liquidity Position of Maruti Suzuki India
- > To find out the Profitability Position of Maruti Suzuki India
- To measure the stock performance and Volatility of Maruti Suzuki India
- To test the relationship between Liquidity, Profitability and Stock Performance of the company.



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#### V. DATA ANALYSIS:

#### **5.1. Stock Performance:**

The stock data of Maruti Suzuki limited was analyzed below by using growth rate, Compounded annual growth rate, mean and standard deviation. The data was downloaded from BSE website, specifically from historical annual close stock prices.

Table No.5.1. Stock Performance of Maruti Suzuki Limited

Year	Stock Price as on 31st March	<b>Growth Rate</b>
2016	5323.00	
2017	9731.35	83%
2018	6501.00	-33%
2019	5447.00	-16%
2020	4002.00	-27%
2021	6301.20	57%
2022	6540.00	4%
Mean	6263.65	11%
SD	1771.34	48%
CAGR		2.99%

The average stock price of the company was around Rs.6263.65 for past 7 years. The growth rate was excellent in 2017, afterwards it was not stable. It also exhibited in its CAGR is 2.99%. The covid also another reason for decline the stock prices between 2019 to 2022.

## **5.2 Liquidity Ratios**

Liquidity ratios are an important class of financial metrics used to determine a debtor's ability to pay off current debt obligations without raising external capital. Liquidity ratios measure a company's ability to pay debt obligations and its margin of safety through the calculation of metrics including the current ratio, quick ratio, and operating cash flow ratio.



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**Table No.5.2 Analysis of Liquidity Ratios** 

S.No	Ratio	Formulas	2018	2019	2020	2021	2022
1.	Current Ratio	CA/CL	0.66	0.51	0.87	0.75	1.15
2	Quick Ratio	QA/CL	0.42	0.31	0.64	0.46	0.96
3.	Cash Ratio	Cash + Bank + ST Mkt sec/CL	0.0018	0.0048	0.0132	0.0026	0.1890

The current ratio that measures a company's ability to pay short-term obligations or those due within one year. From the above data, we can interpret that the company may have faced problems meeting its short-term obligations as the ratio is <1 from the year 2017 to 2020. We can interpret that they make into break even in 2021 as their current ratio is >1, which means the company has financial resources to remain solvent in the short term. The quick ratio measures a company's capacity to pay its current liabilities without needing to sell its inventory or obtaining additional financing. The quick ratio of the company is <1 for the 5 consecutive years which means the company don't have enough quick assets to fully pay off the current liabilities in the short term. The cash ratio calculates a company's total cash and cash equivalents to its current liabilities. From the above, we can interpret that the company's cash ratio is <1 for 5 consecutive years which says that there are more liabilities than cash and cash equivalents.

## 5.3. Liquidity Vs. Stock Performance

 $H_{\text{o}}$  – There is no significant relationship between liquidity position of the company and its stock performance.

The closing stock price from 2017-18 to 2021-22 was taken along with the companies working capital values to test the relationship as well as the association between liquidity movements and stock price volatility.



Table No. 5.3 ANOVA – Liquidity Vs. Stock Performance

Source of Variation	SS	df	MS	F	P-value	F crit
Between						
Groups	196857267	1	196857267	28.527946	0.00069317	5.31765507
Within						
Groups	55204049.2	8	6900506.15			

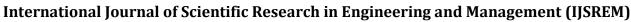
The P-Value was less than the standard of 0.05. Therefore, the null hypothesis was accepted and inferred that there is no significant association or relationship between Liquidity availability and the stock performance of the company.

## 5.4 Profitability Ratio:

Profitability ratios are financial indicators used by analysts and investors to assess a company's capacity to create income (profit) compared to sales, balance sheet assets, operational costs, and shareholders' equity during a certain time period. They demonstrate how successfully a firm uses its assets to generate profit and value for its owners. Most businesses seek a greater ratio or value since it indicates that the firm is functioning well in terms of revenues, earnings, and cash flow. When studied in relation to similar firms or past times, the ratios are most beneficial.

Table No. 5.4 Analysis of Profitability Ratios

S.no	Ratio	Formula	2018	2019	2020	2021	2022
1.	Gross Profit Ratio	(Gross profit/ Net sales) * 100	36%	42%	46%	52%	50%
2.	Net Profit Ratio	(Net profit/ Net Sales) *100	11%	10%	9%	8%	6%
3.	Operating Ratio	((COGS+ Operating expenses)/ Net Sales) * 100	86%	87%	91%	95%	98%
4.	Return on Investment	(Profit before Interest and Tax/ Capital employed) * 100	26%	25%	21%	13%	9%
5.	ROE- Return on Equity	(Profit after Tax/Net worth) * 100	20%	18%	16%	11%	8%
6.	ROA- Return on Assets	(Profit after Tax/Total assets) *100	14%	13%	12%	9%	6%



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From the above table which shows the Profitability Ratio Analysis of Maruti Suzuki India Pvt. Ltd, we can interpret that: The gross profit ratio is the percentage of earnings made by the sale of goods or services before selling and administrative costs. It is used to assess a company's capacity to generate marketable items while being cost-effective. The gross profit of the company has significantly grown. The net profit percentage is calculated by dividing after-tax earnings by net sales. It shows the leftover profit after all manufacturing, administrative, and finance costs have been taken from sales and income taxes have been deducted. Profit after tax is decreasing. The company was falling behind in earnings. Management uses the operating ratio as an indicator of efficiency to assess daily operational performance. The operational ratio statistic measures a team's or organization's ability to generate a given level of sales and revenue while keeping reduced operating costs. A lower ratio means that the company is bringing in more money than it is spending overall. The company's operating expenses are becoming **more** which is reducing its profits. The benefit an investor will receive in relation to their investment cost is determined by a financial ratio called return on investment (ROI). The most typical way to measure it is by dividing net income by the investment's initial capital cost. The benefit received rises as the ratio does. Return on investment is **not stable**. It is drastically **decreasing**. The Return On Equity ratio effectively gauges the rate of return that a company's common stock owners earn on their investments. Return on equity measures how effective a firm is at earning returns on the capital invested by its owners. Return on equity is **drastically decreasing**. It is a **negative sign**. The return on assets (ROA) ratio compares a company's profitability to its total assets. It demonstrates how successfully (or badly) a corporation uses everything it possesses to generate revenue, from machinery to automobiles to intellectual property. Return on assets is drastically decreasing over the last 5 years.

## 5.5. Profitability Vs. Stock Performance

## $H_0$ – There is no significant relationship between profitability of the company and its stock performance.

The stock price annual growth rates from 2017-18 to 2021-22 was taken along with the companies' profitability variables such like net profit, ROE, ROI, and ROA to test the relationship as well as the association between profitability progress and stock price volatility.



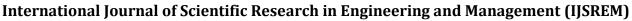
Table No. 5.5 CORRELATION – Profitability Vs. Stock Performance

	Stock Performance	Net Profit	ROI	ROE	ROA
Stock Performance	1				
Net Profit	-0.5491	1			
ROI	-0.6982	0.9695	1		
ROE	-0.6744	0.9839	0.9970	1	
ROA	-0.6326	0.9895	0.9906	0.9966	1

The correlation results are negative between Stock growth rates and Profitability variables. It infer that there will be high association between stock price as well as stock price volatility and the profitability. And the same time there is no significant relationship in between the variables such like net profit, ROI, ROE and ROA.

#### V. DISCUSSION AND CONCLUSION

Stock Prices of the companies were initially very high, later on its was stable. Volatility was not too much in the market. The company's liquidity condition is not that great, so the company needs to focus on it. Overall the profitability position is decreasing and it shows that the company may or may not earn a decent amount of profits, so they need to focus on earning profits. There is no association between companies liquidity and stock performance, but the same time Profitability is one of the important factor, which influencing stock price and its performance in the market. In the Study of analysing the financial statements of **Maruthi Suzuki India Limited**, it is concluded that Maruti Suzuki is one of India's top most selling cars. In the profit and loss statement, it is clear that the company's operating expenses are increasing year by and year, and decrease in profits from the past 5 years. And in the position statement, it is shown that the company's liquidity position was not so great. The company has seen drastic reduce in the profits of the company from the past 5 years.





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