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www.skirec.org Email Id: skirec.org@gmail.com

Financial Leverage Analysis of Maruti Udyog Limited (An Analytical Study During 2018 to 2022)

Sumit Dayal, Research Scholar,

Department of Accounts & Law, Faculty of Commerce, St. Johan's College, Agra

Abstract

The automobile industry is regarded as a major contribution to the country's economic development. Because of ongoing development and technological advancement, Udyog has demonstrated that it is always one step ahead of its competition. Because of its research and development activities, Udyog has established a standard of excellence, believing that this activity would enable the company to provide superior and environmentally friendly products to consumers who will be completely satisfied. The environmental performance of Udyog is truly unquantifiable. In response to rising vehicle pollution, the corporation installed modern K series engines in its car, which resulted in over 50% reduction in COand THC. The primary goal of financial leverage analysis is to secure short term as well as long term financial strength and performance of the company's management as evidenced by the books of record. Financial leverage ratio analysis provided to help owner, lender, and management. These ratios are used to measure a company's overall financial strength, such as Maruti Udyog. The leverage of Maruti Udyog from 2018 to 2022 is presented in this report.In Financial leverage Analysis using a verity of leverage ratio and measuring, growth chart and statistical methods.

Introduction

The researcher examines areas that have been overlooked and draws attention to untouched aspects of Maruti Udyog India Ltd's financial strength and efficiency. The current research is based on secondary data and information acquired from Annual Report, financial statement, and newspaper, among these sources. The researcher in this study attempt to conduct the research in a systematic manner, and the following argument summarized the status of the theory of financialstrength and efficiency evaluation of Maruti Udyog Ltd.

Company profile

Maruti Udyog Ltd. (MUL) established in 1981, had the prime objective to meet the growing demand of a personal mode of transport, which was caused due to lack of an efficient public transport system. The incorporation of the company was through an Act of Parliament. Suzuki Motor Company of Japan was chosen from seven other prospective partners worldwide. Suzuki was selected not only because of its undisputed leadership in small cars but also to its commitment to actively bring to MUL contemporary technology and Japanese management practices (that had catapulted Japan over USA to the status of the top auto manufacturing country in the world).

A license and a Joint Venture agreement were signed between the Government of India and Suzuki Motor Company (now Suzuki Motor Corporation of Japan) in Oct 1982. By December 1983 a revolution started in the Indian automobile industry, Maruti collaborated with Suzuki Motor of Japan to produce the first car for the common Indian. The Indian car market currently was stagnating with a volume of around 30,000 to 40,000 cars for the decade ending 1983.

The story of Maruti begins in 1983. When Maruti entered the Indian car market, it sought to fill what it perceived as two very glaring needs. One was to provide fuel efficient, low-cost vehicles, that were reliable and of high quality. The second was to offer customer-friendly sales and after-sales service.

The Objective of study

- To investigate Maruti Udyog Limited's strength and efficiency.
- To investigate short term and long-term financial strength of Maruti Udyog Limited.
- Analyze the Maruti Suzuki Limited solvency situation.

Limitation of Study: -

Theinformation that has been used is primary data. It has been taken from annual report of the Company that is called Historical report. It does not indicate the current situation of the company, detailed Analysis could not be possible, and for research work it has a time limit. Financial matters are sensitive in nature, same could not obtained easily.

Review of literature: -

Many researchers have studies Financial Leverage Analysis from different view and in different environments the following were very interesting and useful for our research.

Reddy, (2016) analyzed the impact of leverage on profitability of Tata steel limited. The data were collected for the period of 5 years. The data was analyzed with the help of Mean, percentage, different ratios, correlation, and t test. It was concluded that the company should improve its debt equity ratio to have better trading on equity position and reframe its capital structure.Kalpana, (2014) studied on leverage analysis and its impact on profitability of selected company traded in BSE. The study is based on the secondary data. Hypotheses are examined with the help of co relation and the test of significance and analyzed of variances. The result shows that the use of debt and fixed cost expenses would reduce the profitablyof the firm.M. Krishna Moorthi (2012) studied leverage analysis of selected steel company in India. Four steel companies that satisfied the criteria are selected for study. Secondary data was used for the study and analyzed the data by using of mean, standard deviation and on Way ANOVA finally it concludes that companies belong to the same industry followed a different debt equity position during the study period.

Research methodology

Maruti Udyog Limited data from 2018 to 2022 was used in this research. The information was gathered from secondary sources. The data was chosen using the random sampling approach. The data will be analyzed using important leverage ratios and activity ratios and statistical approaches.

Leverage Ratio: -

The short-term creditors, like banker and suppliers of raw material, are more concerned with the firm's current debt paying ability. On the other hand, long-term creditors, like debenture holders, financial institution etc. are more concerned with the firm's long term financial strength. In fact, a firm should have a strong short as well as long term financial position. To judge the long-term financial position of the firm, financial leverage or capital structure ratios are calculated.

Debt Equity ratio: -

The relationship between borrowed funds and owner's capital is a popular measure of the long-term financial solvency of a firm. This relationship is shown by debt equity ratios. This ratio reflects the relative claims of creditors against the assets of the firm. Alternative, this ratio indicates the relationship between outsiders' claims and owner's equity in financing assets of a firm.

Table No. 1 - Debt Equity ratio of Maruti Udyog Limited

Amounts in Millions

Years	Long Term Debts	Shareholders fund	Ratio
2017-18	15853	417573	0.04
2018-19	20365	461415	0.04
2019-20	21453	484370	0.04
2020-21	4888	513668	0.01
2021-22	3819	540860	0.01
Average	13275.6	483577.20	0.029
Std deviation	8419.49	47526.63	0.02
Co-efficient of variance	63.42	9.83	65.51

Source: Annual Report of Maruti Udyog Limited 2018 to 2022

Debt is riskier than equity from the point of view of Company. The company has legal obligation to pay interest on borrowing irrespective of profit made or losses incurred by the company. In Maruti Udyog Limited the debt equity ratio is very low. The maximum debt equity ratio is 0.04 times, it has only 4% of Shareholder funds. Average ratio is 0.029 times, its show that the company financial position is stable. In long term debt std deviation 8419.49 which show the verity of changes in debts position that's why co-efficient of variance 63.42% that is very high but in shareholders funds' std deviation is 47526.63 shows some changes in the company and co-efficient of variance has 9.83% seems low. The co-efficient of variances of ratio is 65.51%. That is very huge percentage. Maruti Udyog Limited Debt Equity ratio show that company should improve Debts policy.

Debt Ratio: -

Several debt ratios may be used to analyses the long-term solvency of a company. The firm may be interested to knowing the proportion of the interest-bearing debts in the capital structure. It may therefore compute debt ratio by dividing total debts by capital employed.

Table No. 2 - Debt ratio of Maruti Udyog Limited

Amount in Million

Years	Total Debts	Capital Employed	Ratio
2017-18	30299	439280	0.07
2018-19	36261	487815	0.07
2019-20	31533	512573	0.06
2020-21	21476	539607	0.04
2021-22	27873	563806	0.05
Average	29488.4	508616.20	0.06
Std deviation	5420.19	48120.16	0.01
Co-efficient of variance	18.38	9.46	24.06

Source: Annual Report of Maruti Udyog Limited 2018 to 2022

As camper to debt equity ratio, debt ratio is high. In total debt include long term debt as well as short term debts. The maximum debt ratio increased by 0.07 times who shows that total debt is 7% of capital employed. Average total debt is 2948804 and std-deviation of total debt is 5420.19 show very minor changes in last five years of debts and co-efficient of variances 18.38 Percent as compared to capital employed std- deviation is 48120.16 and co-efficient 9.46 percent shows that the verity of changes in total debt are very high as compared to capital employed. In the year 2020-21 this ratio goes down because of total debts is decreasing by 31% that's why the co-efficient of variances increased by 24.06%. Average debt ratio of Maruti Udyog Limited is very low.Company should improve debt ratio for better management.

Capital Employed to net worth ratio: -

There is yet another alternative way of expressing the basic relationship between debt and equity. One may want to know how much funds are being contributed together by lender and owner for each rupee of the owner's contribution. This can be found out by calculating the ratio of capital employer to net worth.

Table No. 3 - Capital Employed to net worth ratio of Maruti Udyog Limited

Amount in Million

Years	Capital Employed	Net Worth	Ratio
2017-18	439280	417573	1.05
2018-19	487815	461415	1.06
2019-20	512573	484370	1.06
2020-21	539607	513668	1.05
2021-22	563806	540860	1.04
Average	508616.20	483577.2	1.05
Std deviation	48120.16	47526.63	0.01
Co-efficient of variance	9.46	9.83	0.60

Source: Annual Report of Maruti Udyog Limited 2018 to 2022

In capital employed to net worth ratio show that who much fund contributes together by lender and owner. Since 2018 to 2022 this ratio is very stable. The average of capital employed is 508616.20 and average of net worth is 483577.2, the averages of both are slightly changed ascamper to every year. Std.deviation of capital employed, and net worth are near to average and co-efficient of variance are also similar. The ratios co-efficient of variance is also very less, shows the long-term borrowing funds are very low and stile reason behind this no change in long term debt.

Other debts Ratio: -

Current liabilities are generally excluded from the computation of leverage ratios. One may like to include them on the ground that they are important determinants of the firm's financial risk since they represent obligation and exert pressure on the firm and restrict its activities. Thus, to assets the proportion of total funds – short and long term provided by outsiders to finance total assets.

Table No. 4 - Other debts Ratio of Maruti Udyog Limited

Amount in Million

Years	Total Debts	Total Assets	Ratio
2017-18	30299	593701	0.05
2018-19	36261	629318	0.06
2019-20	31533	625521	0.05
2020-21	21476	700674	0.03
2021-22	27873	733943	0.04
Average	29488.4	656631.4	0.05
Std deviation	5420.19	58290.11	0.01
Co-efficient of variance	18.38	8.88	24.02

Source: Annual Report of Maruti Udyog Limited 2018 to 2022

Other debt ratio is the relation between total debt (short term and long term) to total assets (fixed Assets and Current Assets) the average ratio is 0.05 times that is 5% of total assets. In the year 2020-21 ratio is very low because decrement of total debts by 31%. This ratio indicated the company policy is very clear. Maruti Udyog limited don't want to increase its debt as camper to equity.Std. deviation of this ratio is 0.01 shows slightly changes in debt position and total assets position. But co-efficient of variance are debts 18.38%, total assets are 8.88% shows some changes in total debts and very few changes in total assets that is why co-efficient of variance of ratio increased by 24.02%.

Conclusion: -

For 40 years,MarutiUdyog limited ruled Indian's road. The coming of Maruti as a low-cost reliable transport in many ways has changed the face of India. Its low-cost manufacturing, coupled with distinct advantage of understanding the Indian consumer, has helped Maruti offer vehicles that affordable, low on manufacture cost and with superior fuel efficiency. It also boasts an impeccable sale and service network, apart from resale value all success. Maruti has had a tremendous run as Indian most preferred carmaker.

Maruti, however continues to hold its ground among small and entry level vehicle, where it has 65% of the market, hatchbacks, meanwhile have seen their market share fall by 25% over the past four year to around 385 largely due to commodity price and taxes. Mauri Udyog Limited is a automobile company, need huge finance specially in a few resent years increment of taxes and technology changes in engines BS4 to BS6 engines, electronic vehicles. In this repaid change environment, it is very difficult to secure the position of No. 1. After the solvency ratio analysis of Maruti Udyog Limited we can understand that the company's borrowing policy in not good. The capital stretcher of any company is the combination of Debt and equity. The maximum total debt is 7% of total company's assets and maximum long-term debt is only 5% of shareholders fund. Company depends only on owner's equity only. It is good for profit because interest on borrowing is against the profit, for maintain good profit margin it is good. For batter control and management Maruti Udyog Limiter should improve the number of Debt. Company should issue some debenture also.

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