

## A STUDY ON FINANCIAL EFFICIENCY ANALYSIS WITH REFERENCE TO MRF LTD

**Neha Raghuwanshi**

Research Scholar,

Govt. Hamidia Arts and Commerce Collage,  
Bhopal

**Pushpalata Chouksey**

Head, Department of Commerce,

Govt. Hamidia Arts and Commerce Collage,  
Bhopal

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### Abstract:

The Tyre Industry of India is a flourishing sector of the economy. The MRF Ltd. is the foremost leading Tyre manufacturing company of India and amongst the Top Tyre manufacturer in the world. The key objective of this study is to analyze and elucidate the financial statements of the company with a motive to shed a light on the company's financial performance and efficiency of managerial decisions. Financial Ratio analysis helps to examine the firm's financial resources to its disposal and revenue with an intend to provide details about company's financial efficiency and potentials. The study is based upon the foundation of strategically inter-linking the relation of the financial resources of the company with their effective utilization to earn revenue. This study is focuses on computing the financial performance of MRF Ltd, the leading player of Indian Tyre industry. For the purpose of evaluating the financial efficiency performance three important ratios- Total Assets Turnover Ratio, Fixed Assets Turnover Ratio and Capital Employed Turnover Ratio are taken into account for determination.

This study covers the time period of Five years from 2015-16 to 2019-20. The desire of the study is to measure and evaluate financial efficiency of the company during the specific time period. **Keywords-** Financial efficiency, financial statements, Turnover ratios, MRF Ltd.

### Introduction:

The Tyre industry of India is one of the most dynamic markets in the world. The Indian Tyre industry is predicted to be grow further due to cheaper availability of raw material (Rubber), introduction of innovative technologies and continuously increasing demand from automobile sector etc. the Indian Tyre industry is an evolving sector of the economy due to the constantly increasing demand of Tyre for both domestic sales and export. After China, Europe and US, India is considered to be fourth largest market of Tyre in the world. Madras Rubber Factory Ltd. (MRF Ltd.) is an Indian origin multinational Tyre manufacturing company that produces extensive range of Tyres and ranked amongst Top20 Tyre manufacturer in the world. For the year ended March 2020, MRF Ltd. achieved a sale of 15914.25 Cr. as against of sale of 15169.00 Cr. in FY 2018-19. The company has reported an operating profit of 2660.91 Cr. and Net profit of 1394.98 Cr. in FY 2019-2020.

Finance is the important component of every business entity which require careful and effective utilization in order to increase the productivity and potential growth opportunities of any organization. The examination and interpretation of data available in the Financial Statements with intend to establish a strategic and logical inter-relationship between them, in order to ascertain financial strengths and weaknesses of an organization is known as financial statement analysis or financial analysis.

Ratio analysis is one of the important tools to analyze and interpretate the financial statements. Ratio analysis is a quantitative analysis technique used to analyze the various aspects of a company's financial performance



such as efficiency, liquidity, profitability and solvency. Financial efficiency ratio analysis facilitates to determine the ability of a company to effectively use its resources such as Assets, Capital, Stock, Debtors and Working capital to raise sales and generate incomes. In order to analyze the overall financial efficiency performance of a firm, financial efficiency ratio provide help to describe the financial efficiency performance based on various Turnover Ratios of MRF Ltd.

#### Review of Literature:

Seyfettin Unal, Rafet Akta<sup>o</sup> and Sezgin Acikalin (2007) in there research work titled "A Comparative Profitability and Operating Efficiency Analysis of State and Private Banks in Turkey", presented a comparative performance analysis between state and private owned commercial banks of Turkey over the time period of 10 years between year 1997-2006. In this study they focus on profitability and operational efficiency to compare the performance of Government and private banking in Turkey. They used statistical measures Mean and Standard Deviation to test their Hypothesis.

Sumarti (2020) have made a study on "Efficiency Analysis of Firm Financial Performance: Case Study of Pt. Unilever Indonesia", presented an overview on the relationship between financial profitability and liquidity of PT. Unilever Indonesia. This study focuses on analysing financial profitability and liquidity with an intend to measure the overall efficiency of the company. This study covers the time period of four years from 2013-14 to 2016-17.

Swati Chauhan (2021) in her research paper titled "Measuring Financial Efficiency and Ranking of Indian MFIs: An Analysis using DEA vs PCA", give a review on financial efficiency of 46 NBFC-MFIs for the time period of 2009-10 to 2015-16. In this study efficiency are calculated on various Input-Output model specifications by using Data Envelopment Analysis (DEA).

#### Objective of the Study:

The following are the major objectives of the study-

1. To study the current status of financial structure and financial performance of MRF Ltd. in Tyre industry in India.
2. To analyse the financial efficiency performance of MRF Ltd.
3. To provide information to fill the information gap which justify the requirement of this study.
4. To provide findings, necessary suggestions and recommendations on the basis of conclusion drawn after the study.

#### Research Methodology:

This study is a descriptive type of research as it describes a particular aspect of research issue. The data have to be used to elicit necessary information for carrying out the object of the study is based on secondary sources and collected from various sources including published papers, journals, magazines, several published annual reports and financial reports of MRF Ltd. of different years and from various other websites. The study covers the time period of five years from 2015-16 to 2019-2020. Analytical tool like ration analysis and statistical tools like Mean, tables and graphs are used in the study.

#### Analysis of Data:

Ratio analysis is an important tool used to help a business in assessing their financial standing. Ratio analysis helps a firm to determine its financial health in terms of strengths and weaknesses of the business. Financial ratios can be used for the purpose of taking important decisions regarding the position of business, for making future plans and forecasting by the way of budgeting. Ratio analysis also facilitates inter-firm comparison. Ratio analysis not only shows the financial standing of the entity but also helps in evaluating operational efficiency. The financial ratios are categories into various categories based on the uses, objectives and financial statements. The major



category of ratio includes- Profitability ratios, Liquidity ratios, Solvency ratios and Turnover ratios.

**Turnover Ratios-** These ratios are also known as 'Activity Ratios', 'Performance Ratios' and 'Efficiency ratios'. The main objective to calculate these ratios is to assess a firm's efficiency in employing its assets and capital. These ratios provide help to evaluate the velocity with which resources are converted into sales. These ratios are used to measure the work performance of the enterprise and effectiveness of managerial decisions. Turnover Ratios are calculated to determine how well resources available at the disposal of the firm are being used. Efficiency ratios are useful to measure efficiency of an organization in utilizing its resources to earn its revenue. The figures of disposal are compared with Assets (both Fixed and Total Assets) and employed capital, in order to determine the level of optimization with which a firm used its resources to achieve sales. These ratios represent a strategic inter-relationship between a firm's assets and capital with the revenue generated through them. A higher Turnover ratio is considered to be better as it reflects the efficiency of a firm with which it uses its resources at its disposal.

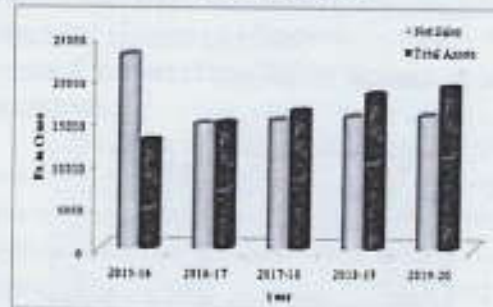
**1. Total Assets Turnover ratio:** The Total Assets Turnover ratio matches the Total assets of a firm with its sales revenue. This ratio indicates a relationship between Net Sales and Total Assets of the company.

$$\text{Total Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

**Table 1: Total Assets Turnover Ratio**  
(Rs. In Crores)

Year	Net Sales	Total Assets	Ratio
2015-16	22829.61	17809.11	1.28
2016-17	14863.24	14959.82	0.99
2017-18	15317.82	16301.80	0.94
2018-19	15769.00	18227.68	0.87
2019-20	15914.25	19154.11	0.83
Mean	16938.78	16290.46	1.04

**Fig 1: Net Sales to Total Assets**



**2. Fixed Assets Turnover ratio:** The Fixed Assets Turnover Ratio shows the intensity with which Fixed Assets are converted into Sales. This ratio establishes a relationship between the Net Sales and Fixed Assets of the company.

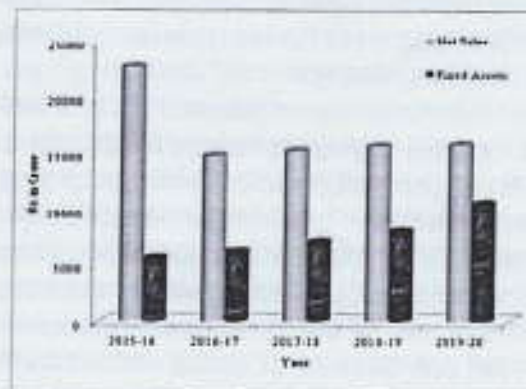
**Net Sales**

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Fixed Assets}}$$

**Table 2: Fixed Assets Turnover Ratio**  
(Rs. In Crores)

Year	Net Sales	Fixed Assets	Ratio
2015-16	22829.61	5643.14	4.05
2016-17	14863.24	6321.31	2.35
2017-18	15317.82	7136.68	2.15
2018-19	15769.00	8154.51	1.93
2019-20	15914.25	10555.28	1.51
Mean	16938.78	7562.18	2.24

**Fig 2: Net Sales to Fixed Assets**



**3. Capital Employed turnover Ratio:** Capital Employed Turnover ratio is calculated to measure the efficiency of a company in utilizing its employed capital with reference to sales rev-



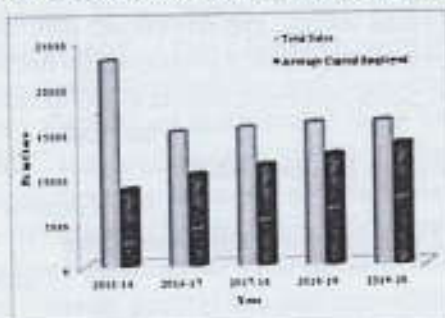
enue. This ratio is helpful to determine a connection between the employed capital of the company and revenue generated out of it.

$$\text{Capital Employed Turnover Ratio} = \frac{\text{Total Sales}}{\text{Average Capital Employed}}$$

Table 3: Capital Employed Turnover Ratio  
(Rs. In Crores)

Year	Total Sales	Average Capital Employed	Ratio
2015-16	22829.63	8561.38	2.67
2016-17	14863.24	10706.89	1.40
2017-18	15317.82	11118.39	1.38
2018-19	15769.00	12777.74	1.28
2019-20	15014.25	13384.91	1.19
Mean	16926.78	11595.18	1.52

Fig 3: Total Sales to Average Capital Employed



### Conclusion:

The motive of the study was to assess the effectiveness of the company in utilizing its resources to raise revenue from sales. The study forms a connection between the resources of the company to sales achieved out of them. The analysis made through Turnover ratio analysis to measure the financial and operational efficiency as the part of this research work provides the following findings:

The Total Assets Turnover Ratio of MRF Ltd. was the highest for the year 2015-16 as (1.78) in comparison to other financial year, which reflects the efficiency of the company in utilizing its total assets to raise income most efficiently in this particular year. On the other side, this ratio of the company was the lowest for the year 2019-20 as (0.83), which reveals the company's inefficiency in using the total assets least effectively to yield revenue in this

particular year. The Total Assets Turnover ratio of the MRF Ltd. shows the decreasing trend during the study period indicates that the company need to pay attention towards more optimal utilization of its total assets to increase revenue out of them.

The Fixed Assets Turnover Ratio of MRF Ltd. was the highest for the year 2015-16 as (4.05) in comparison to other financial year, which reveals the efficiency of the company in utilizing its fixed assets to raise income most efficiently in this particular year. As against, this ratio of the company was the lowest for the year 2019-20 as (1.51), which reflects the company's inefficiency in using the fixed assets least effectively to earn revenue in this particular year. The Fixed Assets Turnover ratio of the MRF Ltd. shows the decreasing trend during the study period indicates that the company should require to be more focused towards better utilization of its fixed assets to escalate the income from them.

The Capital Employed Turnover Ratio of MRF Ltd. was the highest for the year 2015-16 as (2.67) in comparison to other financial year, which shows the efficiency of the company in utilizing its employed capital to raise income most efficiently in this particular year. On the other hand, this ratio of the company was the lowest for the year 2019-20 as (1.19), which reveals the company's inefficiency in using the employed capital least effectively to yield revenue in this particular year. The Capital Employed Turnover ratio of the MRF Ltd. shows the decreasing trend during the study period indicates that the company need to give more concentration towards utilizing its employed capital more efficiently to yield better revenue out of them.

### References:

1. "A Comparative Profitability and Operating Efficiency Analysis of State and Private Banks in Turkey" (Seyfettin Unal, Rafet Aktaş and Sezgin Acikalin) (2007) <https://www.businessper>