

A Study on Financial Performance: A Comparative Analysis of MRF Tyres Industries Ltd and selected Tyre Companies in India

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ABSTRACT

Financial statements provide information on the various aspects of financial statements like assets, liabilities on a specified date, revenues and expenses and the net result of operations during the specified period. In order to make the information more useful, such elements which form a part of financial statements have to be analyzed in a systematic manner and thereof after proper interpretation, they may be communicated to its users.

Financial statement analysis is largely a study of relationships among the various financial factors in a business as disclosed by a single set of statements, and a study of trends of these factors, as shown in a series of statements. It may also be said that the analysis of financial statements is a study of relationship among various financial facts and figures as set out in financial statements, that is, Balance Sheet and Income Statement.

In this descriptive study it has been covered analysis of comparative financial performance of selected tyre companies in India with JK Tyres Industries Ltd by using the different tools are Ratio Analysis to understand and compare the performance of selected Tyre Companies over the five year period and the ANOVA Test has been conducted to test the mean returns of selected Tyre firms and that proved to insignificant. This helped to understand the comparative Analysis of the Financial Performance of the Company.

1. Introduction

The basis for financial analysis, planning and decision making is financial status of the business. A business firm prepares its financial viz., Balance Sheet and Profit and Loss Account which provide useful financial information for the purpose of decision making. Financial information is needed to predict, compare and evaluate the firms earning ability.

These are assessment the results achieved by an entity during the specific accounting period. The Income Statement depicts the net result of operations during the period where as the Balance Sheet reflects the financial position of the entity on a particular date. These statements communicate accounting information to its users both Aspect. The internal users are the management and the important external users investors, creditors, suppliers, customers, lenders, employees and government and its various agencies. Users of these financial statements are dearly in need of more specific information relating to profitability and solvency of the business.

However, these statements do not disclose all of the necessary and relevant information. The relevant information is useful to analyze the financial strengths and weaknesses. It is necessary to analyze the data depicted in the financial statement. The financial manager has certain analytical tools which help in financial analysis and planning. For instance, a cash flow statement is valuable aid to a financial manager in evaluating the inflows and outflows of cash. Ratio analysis is also helping the manager to analyze the past performance of the firm and to make future projection.

2. Review of literature

B. Krishnakumar, the Hindu Business line (2003) report showed that the net loss of 12.69 crore for the year ended December 2002, Goodyear extended its record of reporting net losses to the third consecutive year. Though the net loss has more than halved from ` 6.98 crore in 2001, the performance does not compare too favourably with other tyre industry players, such as MRF, Apollo Tyres and J K Industries. Both Apollo and MRF have reported manifold jumps in their earnings the past few quarters while Goodyear is still nursing losses. The reason for this divergent trend in performance is not far to seek. Unlike, say MRF or Apollo, Goodyear does not have a strong presence in the replacement market of truck tyres the tyre industry's biggest and most lucrative segment. However, the company has a major exposure in the passenger car and tractor tyre markets.

B. Krishnakumar, the Hindu Business line (2003) presented that the pick-up in the automobile production and the improvement in economic fundamentals has had a positive impact on the financial performance of the tyre companies. Taking into account the recent developments such as cut in excise duty, soft trend in input cost and the appreciation of the rupee, Goodyear's performance could improve in the near term. Risk-seeking investors with a slightly long-term orientation could take limited equity exposure in the company at the current level of 42. Goodyear India has a strong presence in the passenger car and tractor tyre segments. A bulk of its income flows from the original equipment market. It has also taken efforts to gain a better presence in the replacement market. The slowdown in the automobile sector, in general, and the tractor segment, in particular, has affected the company's financial performance in the past few years.

Automotive Tyre Manufacturers' Association (2006) report given that the entire domestic demand of tyres is met by indigenous production. On the export front also tyre industry has done well in the recent past and expects to improve its performance in the materials. coming years. There is continuous up gradation of quality of tyres manufactured and range of new tyres being introduced. However, production cost push has resulted in considerable pressure on the tyre industry. Tyre industry is raw material intensive in terms of cost. 55 percent of Industry turnover and 70 percent of production cost are accounted by raw

Indian Tyre Industry Forecast to 2015" evaluated that the tyre production in India is anticipated to reach 191 Million Units by the end of March 2016. Moreover, manufacturers are expected to invest huge amount into the industry over the next few years, with a major proportion of this investment directed towards the radial tyre capacity expansion. The concept of green tyres'is becoming a paradigm of the country's competitive edge. Technologies like self inflation by Goodyear and run flat tyre (RFT) by bridgestone are paving the way in Indian market. This new category of tyres is now being widely accepted in India. It has also been found that India's market for radial tyres in commercial vehicles section is still in its infancy. The penetration level of radial tyre has also started to increase rapidly in the light commercial vehicles and truck & bus segment.

3. Statement of the problem

Every finance manager is involved planning and decision making of business. In order to take right decision in right time of the business, In past and present information about the firm and its operation statement is useful to formulate a strategy of the business. Much of this information that is used by finance manager is known as financial information, which is derived from the financial statement is therefore necessary step in the corporate financial decision making . Financial statements are the summarized periodical reports which disclose the operational results and financial position of a business for a particular period of time. In other words they are the formal and original statements prepared for the purpose of indicating the financial health of a business in terms of profit position and prospects as on a certain data.

4. Research Gap

The problem is selected to analyse a Company Performance with other top three companies in India. The analysis of company with other companies will help to increase the company performance. At present in MRF tyres industries is one of the leading producers of tyres, tubes and flaps and facing the problem of huge cost of production. The companies is incurred more capital expanses and insufficiency of raw material.

5. Objectives of the study

- To study the financial performance of MRF Tyre Industries ltd using various tools.
- To compare the financial performance of MRF Tyre Industries ltd with selected Tyre companies in India.

6. Scope of the study

The Indian tyre industry has been reporting good growth figures over the past few years, spurred by the growing passenger vehicle and two-wheeler market. It has emerged as one of the most competitive markets in the world and with the emergence of new technology, ultra-modern production facilities and availability of raw materials, the sector is poised to grow further. Major technological changes have taken place in tyre design from the conventional bias or diagonal ply of the past to the current steel-belted radial tyres, tubeless tyres, tyres with low aspect ratios, puncture resistant tyres, etc. The manufacturers are also investing in development of green tyres and in capacity expansion for radial tyres. Innovative technologies like self-inflation and run flat tyres are also gaining popularity in the Indian market.

The scope of the present study is confined to financial performance of select Tyre Industry in India. The emphasis is given to analysis of financial performance in terms of liquidity, profitability, leverage and solvency of the select sample units.

7. Research Methodology

The present study is mainly based on primary as well as secondary sources of information. As a part of primary source the researcher has visited personally to some of the sample unit corporate branch office. To understand the Financial and Technical information, the personal discussion with the financial executives of the company were organized.

8. Limitations of the study

1. For the study particular on primary data as well as secondary data used that collected from the annual reports
2. The annual reports mostly contain quantitative and financial information and as regards to qualitative aspect of financial performance.
3. The time period of data is only five years

9. Results and discussions

Table 1 Showing Current Ratio of MRF Tyres industries Ltd and selected tyre companies in India.

Years	Company Name			
	M R F	APOLLO	CEAT	JK TYRE
2014	1.89	1.87	1.61	1.35
2015	2.18	1.40	1.30	1.10
2016	1.45	1.49	1.11	0.87
2017	1.79	0.85	0.79	0.90
2018	2.01	0.96	0.76	0.92

The above table shows the Current Ratios of MRF, APOLLO, CEAT, and JK TYRE from the year 2014 to 2018. It is been observed that the current ratio of MRF Tyre is very high in 2018 in other companies.MRF tyre company is most probably very high return for comparing others.

Table 2 Showing Quick ratio of MRF Tyres Industries Ltd and selected tyre companies in India.

Years	Company Name			
	M R F	APOLLO	CEAT	JK TYRE
2014	1.32	0.35	1.44	1.82
2015	1.08	1.38	1.41	2.11
2016	0.85	1.47	0.98	1.42
2017	0.87	0.84	0.71	1.79
2018	0.90	0.95	0.66	1.98

The above table shows the Quick ratio of MRF, APOLLO, CEAT, and JK TYRE from the year 2014 to 2018. It is been observed that the Liquid ratio of MRF Tyres is comparatively better than other companies and equal to the Idea ratio of 1:1. The company Liquid ratio is decreasing trend through the year. The quick ratio of the MRF Tyres Industries is decreasing every year which is less than the ideal ratio i.e., 1:1. It indicates that it does not have sufficient quick resources to meet its immediate obligation and hence it is advisable to take necessary steps like increase investments in quick assets of the concern.

Table3 Showing Debt equity ratios of MRF Tyres industries Ltd and selected tyre companies in India.

Years	Company Name			
	M R F	APOLLO	CEAT	JK TYRE
2014	0.86	0.51	1.32	0.45
2015	0.98	0.65	1.05	0.77
2016	1.06	0.58	0.96	0.97
2017	1.49	0.76	0.94	0.79
2018	1.52	0.73	0.80	0.62

The above table shows the Debt equity ratio of MRF, APOLLO, CEAT, and JK TYRE from the year 2014 to 2018. It is realized from the above table and graph that the there is an increasing the Debt equity ratio of JK Tyres industries as compared to other companies like MRF, CEAT, APOLLO. The generally expected level of debt equity ratio is 2:1.i.e, when there is two rupees of debt for every one rupee of equity fund, it is understood as the financial soundness of the JK tyres is satisfactory as compared to other tyre manufacturing companies

Table4 Showing Gross profit ratio of MRF Tyres industries Ltd and selected tyre companies in India.

Years	Company Name			
	M R F	APOLLO	CEAT	JK TYRE
2014	4.38	2.52	1.48	1.02
2015	4.27	2.97	1.52	1.35
2016	4.96	3.21	1.76	1.62
2017	5.25	3.01	1.88	1.76
2018	5.83	3.56	1.96	1.99

The above table shows the Gross profit ratio of MRF, APOLLO, CEAT, and JK TYRE from the year 2014 to 2018. The above table and graph shows that the gross profit ratio of all the tyre manufacturing companies is increasing trend in the selected year.

Table5 Showing Net profit ratio of MRF Tyres industries Ltd and selected tyre companies in India

Years	Company Name				
	M R F	APOLLO	B K T	CEAT	JK TYRE
2014	2.94	3.27	3.11	1.56	4.18
2015	2.92	3.56	3.26	1.62	4.36
2016	2.62	3.02	3.52	1.76	5.81
2017	2.01	3.30	4.79	1.55	4.37
2018	1.93	2.02	4.73	1.98	5.96

The above table shows the Net profit ratio of MRF, APOLLO, CEAT, and JK TYRE from the year 2014 to 2018. It realize from the above table and line graph as the MRF, and net profit ratio is increasing in the selected years. The main objective of the computing this ratio is to determine the overall profitability due to various factors such as operational efficiency, trading on equity, etc..

Table 6 Showing Annual Sales of MRF Tyres industries Ltd and selected tyre companies in India

Years	Company Name			
	M R F	APOLLO	CEAT	JK TYRE
2014	5663	4549	2758	4903
2015	7452	8120	2989	3677
2016	9735	8867	3751	4810
2017	13061	8906	4827	5984
2018	13453	9452	5349	6002

The above table shows the annual Sales of MRF, APOLLO, CEAT, and JK TYRE from the year 2014 to 2018. It is been observed that the all the companies Sales are showing the increasing trend during the five selected previous year. One thing can be considered that when sales of the company increases the company production process also increases. It helps to increase the growth of the company.

Table 7Showing Net profit ratio of MRF Tyres industries Ltd and selected tyre companies in India.

Years	Company Name			
	M R F	APOLLO	CEAT	JK TYRE
2014	398.48	2168	628.74	313
2015	534.66	2320	876.78	420
2016	893.65	2635	928.01	277
2017	833.12	2575	1287	282
2018	1227.6	4745	1734	500.41

The above table shows the Net profit of MRF, APOLLO, CEAT, and JK TYRE from the year 2014 to 2018. The

company like MRF, APOLLO and CEAT operating profit are increasing year by year as compared to other companies. The operating profit means profit earned from a firm's normal core business operations.

Table 8 Showing Operating Profit of MRF Tyres industries Ltd and selected tyre companies in India

Years	Company Name			
	M R F	APOLLO	CEAT	JK TYRE
2014	253.03	312.7	250.47	96
2015	353.98	414.98	269.68	196
2016	619.42	598.25	259.59	143
2017	572.36	712.3	753.85	128
2018	802.21	868.28	1063.5	106

The above table shows the Operating profit of MRF, APOLLO, CEAT, and JK TYRE from the year 2014 to 2018. Investors commonly look at a company's profitability history to assess the risks of investing in such company.

Table 9 showing the market capitalization of MRF Tyres industries Ltd and selected tyre companies in India.

Years	Company Name (Rs. in crores)			
	M R F	APOLLO	CEAT	JK TYRE
2014	3456	3128	657	546
2015	4789	4123	721	612
2016	5760	4960	985	801
2017	6645	5345	1367	897
2018	7860	7100	1601	980

The above table shows the Market Capitalization of MRF, APOLLO, CEAT, and JK TYRE from the year 2014 to 2018. It is realized from the above table and graph that the MRF tyre is the number one position in the market and the following are APOLLO, CEAT, and JK tyre is also next stages Industries in India. One thing can be realized that MRF tyre is concentrating in all type of tyres including two wheelers, but JK tyre is not in the two wheelers sector.

ANOVA Test -The ANOVA test has been conducted to test the performance of all the selected Tyre companies in terms of their returns share prices over the five years period. For this the following hypothesis has been designed

- H0= The Mean returns on share price of selected companies are equal.
- H1= The Mean return on share price of selected companies are not equal.

Table 10 Showing ANOVA Test Results

Year	M R F	APOLLO	CEAT	JK TYRE
2014	22.62	4.31	4.44	50.85
2015	-11.58	14.78	-11.76	57.21
2016	-51.28	-1.97	-30.61	-7.08

2017	441.67	300.56	320.00	279.48
2018	-68.70	-56.71	-67.59	-55.01

SUMMARY			
Groups	Sum	Average	Variance
M R F	325.4607	65.09214	16465.2
APOLLO	260.9771	52.19542	20043.28
CEAT	214.4749	42.89498	24716.03
JK TYRE	332.7291	66.54581	45230.59

ANOVA						
Source of Variation	SS	DF	MS	F	P-Value	F Crit
Between Groups	3	4590.48	0.24957	0.93594	0.9359	
Within Groups	24	18394				
Total	27					

The results of F test shows that the average returns of selected Tyre firms are equal as the P-value is 0.9359 which is more than the 0.05. The null hypothesis has been accepted as the result of F test is insignificant.

10. Findings of the study

- I. Gross profit and net profits are increased during the period of study, which indicates that's efficient management in manufacturing and trading operating.
- II. Current Liabilities were increased compared to base year i.e. 2014.
- III. Current ratio of MRF Tyres is comparatively lower than other companies and also the Idea ratio of 2:1.
- IV. Generally a quick ratio of 1:1 is considered satisfactory as a firm. The ratio of MRF Tyres are comparatively better than other companies.
- V. When sales of the company increases the company production process also increases. It helps to increase the growth of the company.

11. Suggestions and recommendations

- I. The company must utilize fixed assets.
- II. Optimum utilization of resources will help the company.
- III. The Company should control its administration and non-operating expenses.
- IV. The company should reduce the cost so that earnings per share will increase and have a better profit margin for the shareholders.
- V. The organization should adopt an appropriate capital structure.
- VI. The company should control fluctuations in cash and bank balances as it impacts the Current ratio of the company.
- VII. The Company should control heavy increase of manufacturing & administration

12. Conclusion

Financial statement analysis generally begins with a set of financial ratios designed to reveal a company's strength and weakness as compared to other companies in the same industry and to show whether its financial position has been improving or deteriorating over time. Also it helps in anticipating firm's future conditions and more importantly it is the starting point for planning actions that will improve the firm's future performance. As we know financial report contain

a lot of information hence the main objective of financial analysis is to seek through the information to find useful and data in analyzing a business.

Efficient management of finance is very important for the success of an enterprise. Term financial performance is very dynamic term. The subject matter of financial performance has been changing very rapidly. In present time greater importance is given to financial performance.

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