Introduction

“The ultimate purpose for any profit-seeking organization is to create wealth for its owners. It is the goal of a street vendor, as well as for a large listed company. The only difference is that the street vendor operates for the benefits of a one person whereas a listed company operates for the benefits for a large number of shareholders.”

de Wet and du Toit, 2007

Prologue: In the introductory part of the study, the researcher discusses the various parameters for the evaluation of financial performance of Maruti Suzuki India Ltd. (MSIL) and Hyundai Motors India Ltd (HMIL). Researcher has explained research methodology used by her in the present study. The researcher has made a thorough review of literature and research already done but no such study on this subject has been done. The present research work will highlight the untouched issues of the financial performance of MSIL and HMIL.

For practical and applied part of the study she has to depend largely on the secondary data. She has also gathered information from published sources of the companies like Annual Reports, Financial Statements and Newspapers. The discussion with the accounting people proved of tremendous use and the researcher has obtained useful data on finance and accounting.

Researcher’s efforts has been to present the study in an analytical manner, the following discussion gives complete scenario of the theory of financial performance evaluation.
1.1(1) **Statement of the Problem**

The development of Industries depends on several factors such as Human, Technology, Quality, Marketing and Financial among which the financial aspect assumes a significant role in determining the growth of Industries. The value of a firm is determined by four factors- its capacity to generate cash flows from assets in place, the expected growth rate of these cash flows, the length of time it will take for the firm to reach stable growth rate and the cost of capital.

The success or failure of any organization depends on the efficiency with which it works and achieves its objectives. Thus there arises a need to evaluate the performance of any organization. The study will give an insight into the concept of performance appraisal in sampled units with respect to various financial indicators.

Managers who focus on building shareholder value will create healthier companies that who do not. Healthier companies will in turn, lead to stronger economies, higher living standards and more career and business opportunities.

Evaluating Performance is necessary to understand its strengths and weaknesses to know the risks and rewards and to find out what changes to make, to achieve higher returns and if possible with less risk. The purpose of measuring performance evaluation is not to know the business is performing but to enable it to perform better.

Financial Performance mean a general measure of a company’s financial health over a given period of time, and it can be used to compare similar companies across the same industry or to compare industries or sectors in aggregation.

The Purpose of Performance Evaluation is to examine the past and current financial data so that a company’s performance and financial position can be measured and evaluated and future risks and potential can be estimated. Ratio Analysis is the most common form of performance evaluation of any company. It provides relative measures of the firm’s conditions and performance.
In the Private Sector, the survival of an organization depends on its ability to both evaluate current performance and identify strategies to improve the quality of planning and control decisions.

In the present study, two sampled units from automobile industry in India i.e. Maruti Udyog Ltd. (now MSIL) and Hyundai Motors India Ltd. have been taken into consideration for the evaluation of financial performance from all perspectives of both the companies.

1.1(2) Need of the Study
Financial Performance measures whether the company’s strategy and its implementation and execution are effectively contributing towards profitability, Liquidity, Efficiency and Solvency so that the business can be carried out smoothly ensuring success, growth and bottom line improvement. Hence the present study seeks to make an in-depth analysis of the performance in Automobile Companies (MUL & HMIL) from all perspective.

1.1(3) Rationale of the Study
The basis for analysis and decision-making is financial information. Financial information is needed to predict, compare and evaluate the firms earning ability in all respects. The financial information is reported through the financial statement, and other accounting reports. It contains a wealth of information that if properly analyzed and interpreted can provide valuable insights of purposes, which range from a simple analysis of short-term liquidity position of the firm to comprehensive assessment of the strengths and weakness of the firm in various areas.

The study throws light on the over all financial performance of sampled units as a whole in the last 10 years. The study deals with performance evaluation of sampled units in terms of functional and financial areas.
1.1(4) Purpose and Objectives of the Study

The proposed research is aimed at a comparative and analytical study of Performance Evaluation of Automobiles Industry in India with special reference to MSIL & HMIL in particular. The study aims at focusing on the following:

1. To familiar with the profile of sample units under study.

2. To assess the Performance Evaluation of Sample Companies in terms of different Financial parameters.

3. To analyze the liquidity and profitability of sample units under study using Ratio Analysis.

4. To study the efficiency and leverage (long term solvency position) of sampled units with the help of ratios.

5. To compare the financial performance of sample units on the basis of Ratio Analysis.

6. To analyze the trend of the selected performance indicators over a period using Trend Analysis.

7. To know at what extent sample units are spending on their Research & Development.

8. To examine the Growth Rate, Market Capitalization and Cash Flow position of the companies under study.

9. To what extent the sample units are contributing to their shareholder’s wealth.
Chapter I

1.1(5) Review of the Present Literature

Many of the research work have been conducted, over the period to evaluate the financial position of the company with the help of various ratios or by applying the Multiple Discriminate Analysis to predict the corporate failure.

1. L.C.Gupta (1999) attempted a refinement of Beaver’s method with objective of predicting the business failure in, “Financial Ratios as Forewarning Indicators of corporate sickness”, Bombay, ICICI), in this he tried to throw light on the business’s strength and weakness with the help of ratio analysis, he explained that with the financial ratios a company can take measures to increase its profitability and can avoid company’s bad financial position. Business Managers can make a strategy towards company’s goal with the help of proper ratio analysis, because ratio analysis can prove a useful technique to present a true picture of any company. Whereas

2. Mansure. A.Mulla (2002) made a study in Textile mill with the help of Z score model for evaluating the financial wealth with five weighted financial ratios in, “Use of Z score analysis for Evaluation of financial health of Textile Mills-A case Study”, Abhigyan, Jan-Mar,Vol XIX, No.-4, pp 37-41, with the help of five weighted financial ratios he tried to show the financial health of textile mills. With the help of Z score analysis he analyzed the financial health of textile mills. With the ratio analysis and Z score technique he tried to evaluate the profitability of textile mills.


importance of accounting ratios in risk evaluation, he explained accounting ratios are the most important tools to avoid any risky situation for a company.


6. Krishna Chaitanya (2005) used two models to measure the financial distress of IDBI and concluded that IDBI is likely to become insolvent in the years to come in, “Measuring Financial Distress of IDBI Using Altman Z-Score Model”, The ICFAI Journal of Bank Management, August, Vol. IV, No. 3, pp 7-17, in his study he tried to analyze the financial position of IDBI and conclude that company is suffering from bad financial position and can be insolvent in coming future. So to avoid any bad situation he tried to give some suggestions to improve the financial position of the IDBI in the coming future.

7. Kumar Rajesh B (2008) analyzed the valuation of Indian companies on the basis of some selected indicators in, “Valuation of Indian Companies-An Analytical Perspective, Asia Pacific Business Review, Volume IV, Number-1, Jan-Mar-08, in his study on the basis of some selected indicators like sales, cash flows, market capitalization, growth rate, research & development he tried to know the exact financial position of the top selected Indian Companies in the market. Companies from the different sector of our economy like automobiles industry, cement industry, IT industry, Tekcom industry, Fertilizer industry were taken into study.

1.2 Research Methodology

1.2(1) Sample Design
Maruti Udyog Ltd. (MUL) (now MSIL) is the no. one car maker company in India and Hyundai Motors India Ltd. (HMIL) takes place second position. On the basis of this sample has been selected for the proposed research.

1.2(2) Data & Source
The proposed study is entirely based on secondary data. The data has been compiled from annual reports of the respective companies, text books, reference books, journals, articles, magazines and from the internet. The study would add a wealth of knowledge to the researcher. It is a quantitative analysis of the financial data of sample units; the necessary data has been collected from the CMIE data base PROWESS The Centre for Monitoring Indian Economy and from the Capitaline.Com

1.2(3) Framework of Analysis (Tools & Techniques)
For the purpose of analysis of data various ratios relating to Profitability, Liquidity, and Solvency & Efficiency have been calculated. Moreover, the simple statistical techniques have been applied to analyze the performance of a company under the study:

- The Ratio Techniques (Ratio Analysis)
- Comparative Financial Statements
- Common Size Statement Analysis (Vertical Analysis)
- Trend Analysis (Horizontal Analysis)
- Common Profitability Statement
- Growth Index Rate
- Average, Standard Deviation and Coefficient of Variation
- Regression Analysis & ANOVA
- Graphs & Diagrams
1.2(4) Period of the Study
To study the performance of a company reasonably a longer period is required which enable us to find out the consistency and stability over a period of time. Therefore, the period of study has been taken for Ten years i.e. financial year 1998-1999 to 2007-08.

1.2(5) Scope of the Study
Only two sampled units from Automobile Industry (Car Manufactures) i.e. Maruti Udyog Ltd. and Hyundai Motors India Ltd. have been taken into study to evaluate the financial performance of both the units for last ten years. Both the sample units are pioneer in their field. MUL is the no. one car manufacture in India and Hyundai comes after that. MUL is domestic company and Hyundai is foreign company. Different financial parameters to evaluate the financial performance of the companies i.e. liquidity ratios, profitability ratios, efficiency ratios and leverage ratios have been taken into study to conduct the research. Besides these parameters, Growth Index Rate, Cash Flows, Market Capitalization, Research & Development have also been taken for the valuation of sampled units.

1.2(6) Research Hypotheses
(i) Sampled Units are cost-effective and efficient companies in terms of resource utilization.
(ii) Sampled Units are generating adequate surplus necessary for future expansion.
(iii) The Management of Earnings is being done to maximize shareholder’s wealth.

1.2(7) Limitations of the Study
- Only secondary data (quantitative financial data) have been used for the performance evaluation of sampled units.
- Only ten years period has been taken with limited no. of financial indicators.
- The study has been restricted to only two sampled units i.e. MSIL & HMIL.
- Whatever limitations the published data of sample companies consists, the study also suffers with the same.
1.2(8) Parameters for Evaluating Performance Evaluation of Sample Units under Study (Maruti Udyog Ltd. & Hyundai Motors India Ltd.)

The criteria of evaluation of performance vary from one unit of organization to other. Financial Parameters along with market value based models have been used to evaluate the performance evaluation of sample units under the study:

- Liquidity Ratio (To know the short term financial position of the companies)
- Profitability Ratio (To know the over all performance of the companies)
- Efficiency or Activity or Turnover Ratio (To know the efficiency of utilizing Company’s assets)
- Leverage or Capital Structure Ratio (To know the long term financial position of the Sampled Units.
- Market Value Ratios (To know the exact position of the companies in the market)
- Average Growth Rate, Sales, Market Capitalization, Research & Development, Cash Flow
Liquidity Ratios

Liquidity Ratios measure the firm’s ability to meet current obligations. Liquidity ratio can provide a picture of company’s short term financial situation or solvency. Current Ratio, Quick Ratio & Absolute Cash Ratio have been applied to know the short term financial position of a company. Liquidity or working capital ratios shows how well the business is managing its working capital.

These ratios have been used to know the short term financial position of the companies under the study:
1. Current Ratio
2. Quick Ratio
3. Absolute Cash Ratio

Profitability Ratios

Profitability Ratios measure overall performance and effectiveness of the firm. Profitability ratios demonstrate whether the business is making any money and whether the level of profitability is large enough to justify capital investments. It is useful to compare a company's profitability against that of its major competitors in its industry. Such a comparison tells whether the company is operating more or less efficiently than its rivals. In addition, the change in a company's profit ratios over time tells whether its performance is improving or declining. These various ratios have been used to know the profitability position of the companies under the study:

Profitability based on Sales:
1. Gross Profit Ratio
2. Net Profit Ratio
3. Operating Ratio

Profitability based on Investment:
4. Return on Investment
5. Return on Equity
6. Return on Assets


**Efficiency or Activity Ratios**

Efficiency or Activity Ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. Activity Ratios involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well. Asset management ratio can use turnover measures to show how efficient a company is in its operations and use of assets. These ratios have been used under the study to know the efficiency of the companies:

1. Fixed Assets Turnover Ratio
2. Stock Turnover Ratio
3. Debtors Turnover Ratio
4. Working Capital Turnover Ratio
5. Sales Efficiency Ratio,
6. Assets Turnover Ratio

**Leverage Ratio**

Leverage Ratio is helpful in understanding the long-term financial position of the firm. Leverage is generally measured by debt-equity ratio. A company is said to be highly leveraged if it uses more debt than equity, including stock and retained earnings. The balance between debt and equity is called the capital structure. The optimal capital structure is determined by the individual company. Debt has a lower cost because creditors take less risk; they know they will get their interest and principal. However, debt can be risky to the firm because if enough profit is not made to cover the interest and principal payments, bankruptcy can occur. These ratios have been used under the study to know the long term solvency position of the companies:

1. Capital Gearing Ratio
2. Debt Equity Ratio
3. Interest Coverage Ratio
Market Value Ratios

Market Value Ratios attempts to measure the economics status of the organization within the marketplace. Investors use these ratios to evaluate and monitor the progress of their investment. Valuation ratios indicate the performance of the equity stock of a company in the stock market. Since the market value of equity reflects the combined influence of risk and return, valuation ratios play an important role in assessing a company's performance in the stock market. These ratios have been used under the study to know the market value of the companies:

1. Earning Per Share
2. Price Earning Share
3. Book Value per Share
4. Economic Value Added (EVA)
5. Market Value Added (MVA)
6. Tobin’s Q Ratio

1.2(9) Ratio Analyses

1.2 (9) (i) Meaning and Definition of Ratio Analysis

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strengths and weaknesses of the firm as well as its historical performance and current financial condition can be determined. The term ratio refers to the numerical or quantitative relationship between two variables. “A ratio is the relation of one amount of X, to another amount Y, expressed as the ratio of X to Y, or X: Y, or as a fraction, or number, or a percentage”.¹ A ratio is simply one number expressed in the term of another. It is found by dividing one number, the base into the other. A percentage is one kind of ratio in which the base is taken as equaling 100 and quotient is expressed

¹ Livingstone, J. Leslie and Kerrigan, Harry D.: Financial Accounting-An Introduction Study (Grid, Inc, Columbus, Ohio, Ed.1977,P.640)
Chapter-I  Introduction

as ‘per hundred of the base’.

In the other words of J Batty, “The term ‘Accounting ratio’ is used to describe significant relationships which exist between figures shown in a balance sheet, in a profit and loss account, in a budgetary control system, or in any other part of the accounting organization.”

The techniques of ratio analysis is not limited merely to the computation Ratio analysis is rather the process of determining and interpreting numerical relationship based on financial statements the techniques is getting wider acceptance in a accounting and mathematical word; Helfert has rightly stated,

“The ratio analysis provides clues especially in spotting trends towards better or poor performance, and in finding out significant deviation from any average or relatively applicable standard.”

Some writers have contended that there are as many as 429 business ratios. It is necessary, therefore, to determine first of all the ratios which need to be calculated in a particular study. Only certain selective ratio, which suit the nature of a business concern and the circumstances in which it is operating are chosen. It is futile to calculate a large number of ratios and every attempt should be made to keep the number of ratios as far as possible at a minimum. Then only the confusion in their interpretation can be avoided. The standards for these selected ratios are also determined so that they may measure the significance of each ratio calculated.

Financial ratios can be divided into certain categories on the basis of items are used for the ratios. As has been stated by Herbert, “Four types of financial ratios are commonly used. (1)-Liquidity Ratios, (2) Profitability Ratios, (3) Efficiency Ratios and (4) Leverage Ratios

______________________________

2 Anthony, Robert N. Op.Cit, P.297
5 Batty, J: Management Accountancy (Orient Longmans 1965), p. 394
6 Herbert, T Spiro, Financial for the non financial Manager (john Wiley & Sons, New York), Ed.1982, P.54
According to Parkinson, “Ratios which are generally used are grouped in four convenient areas-Those concerning the liquidity of the business, its ability to pay the bills when hey fall due, the ratios relating tot eh performance and including the profitability ratios, the ratios on the structure as this has a bearing on the security of loans and the availability of financé, and lastly the financial ratios which look at performance ad structure from the view point of the investors and the financial markets.7

1.2 (9) (ii) Significance or Importance of Ratio Analysis

It helps in evaluating firm performance:- With the help of ratio analysis conclusion can be drawn regarding several aspects such as financial health, liquidity, profitability, solvency and operational efficiency of the undertaking.

It helps in determining the financial performance of the concern:- Ratio Analysis facilitates the management to know whether the firm financial trend with the help of ratios. The analysis with the help of ratios may help the position is improving or deteriorating or is constant over the years by setting a management in the task of planning, forecasting and controlling.

1.2 (9) (iii) Purposes and Considerations of Ratios and Ratio Analysis: Ratios are highly important profit tools in financial analysis that help financial analysts implement plans that improve profitability, liquidity, financial structure, reordering, leverage, and interest coverage. Although ratios report mostly on past performances, they can be predictive too, and provide lead indications of potential problem areas. It has been said that you must measure what you expect to manage and accomplish without measurement, you have no reference to work with

7 Parkinson, Dennis: Finance (Bldrdford Press Poole) Ed.1979, p .89
and thus, you tend to operate in the dark. One way of establishing references and managing the financial affairs of an organization is to use ratios.

Ratios are simply relationship between our references so we can understand how well we are performing financially. Ratios also extend our traditional way of measuring financially performance i.e. relying on financial statement. By applying ratios to a set of financial statements, we can better understand financial performance.

In finance, a financial ratio or accounting ratio is a ratio of two selected numerical values taken from an enterprise's financial statements. There are many standard ratios used to try to evaluate the overall financial condition of a corporation or other organization. Financial ratios may be used by managers within a firm, by current and potential shareholders (owners) of a firm, and by a firm's creditors. Security analysts use financial ratios to compare the strengths and weaknesses in various companies.\textsuperscript{8}

Financial ratio analysis is the calculation and comparison of ratios which are derived from the information in a company's financial statements. The level and historical trends of these ratios can be used to make inferences about a company's financial condition, its operations and attractiveness as an investment.

\textbf{1.2 (9) (iv) Sources of data for Financial Ratios}

Values used in calculating financial ratios are taken from the balance sheet, income statement, statement of cash flows or (sometimes) the earnings. These comprise the firm's "accounting statements" or financial statements. The statements' data is based on the accounting method and accounting standards used by the organization.

1.2 (9) (v) Financial Statements and Reports

- **Annual Report**: Yearly record of a publicly held company's financial condition. It includes a description of the firm's operations, as well as balance sheet, income statement, and cash flow statement information. SEC rules require that it be distributed to all shareholders. A more detailed version is called a 10-K.

- **Income Statement (Statement of Operations, Profit & Loss Statement)**: A statement showing the revenues, expenses, and income (the difference between revenues and expenses) of a corporation over some period of time.

- **Balance Sheet**: Also called the statement of financial condition, it is a summary of a company's assets, liabilities, and owner’s equity at a specific point of time.

- **Statement of Retained Earnings**: A Statement of all transactions affecting the balance of a company’s retained earnings account.

1.2 (9) (vi) Purpose and Types of Ratios

Financial ratios quantify many aspects of a business and are an integral part of financial statement analysis. Financial ratios are categorized according to the financial aspect of the business which the ratio measures. Liquidity ratios measure the availability of cash to pay debt. Activity ratios measure how quickly a firm converts non-cash assets to cash assets. Solvency ratios measure the firm's ability to repay long-term debt. Profitability ratios measure the firm's use of its assets and control of its expenses to generate an acceptable rate of return. Market ratios measure investor response to owning a company's stock and also the cost of issuing stock.

---

9 Groppelli, p. 434.
10 Groppelli, p.436
11 Groppelli, p. 439.
12 Groppelli, p. 442
13 Groppelli, p. 445
1.2 (9) (vii) Accounting Methods and Principles

Financial ratios may not be directly comparable between companies that use different accounting methods or follow various standard accounting practices. Most public companies are required by law to use Generally Accepted Accounting Principles (GAAP) for their home countries, but private companies, partnerships and sole proprietorships may not use accrual basis accounting.

Large multi-national corporations may use International Financial Reporting Standards (IFRS) to produce their financial statements, or they may use the generally accepted accounting principles of their home country.

There is no international standard for calculating the summary data presented in all financial statements, and the terminology is not always consistent between companies, industries, countries and time periods.

1.2(9) (viii) Ratios can be Classified According to the Target Group of the Stakeholders.

- **Liquidity**: For shareholders, management, suppliers, creditor and competitors
- **Profitability**: For shareholders, employees, creditors, investors, management
- **Efficiency**: For management, shareholders, creditors and competitors.
- **Leverage**: For shareholders, lenders, creditors and potential investors.
- **Investment**: For shareholders, potential investors, management.

The primary purpose of ratios is to point out areas needing further investigations. Financial ratios allow for comparisons:-between companies, between industries, between different time periods for one company, between a single company and its industry average.
1.2 (9) (ix) **Types of Ratio Comparison**

*Trend Analysis*: Also termed time-series analysis. Evaluation of the firm’s financial performance over time to help determine or predict the improvement or deterioration in its financial situation. In trend analysis, ratios are compared over time, typically years. Year-to-year comparisons can highlight trends and point up the need for action. Trend analysis works best with three to five years of ratios. Through trend analysis, we can identify trends, good and bad, and adjust our business practices accordingly.

*Comparative Analysis*: Also termed cross-sectional analysis. Involves comparing the firm’s ratios to those of other firms in the same industry or to industry averages. Benchmarking is a type of cross-sectional analysis in which the firm’s ratios are compared to those of a key competitor or group of competitors, primarily to identify areas for improvement.

1.2 (9) (x) **Ratios related to Liquidity and Profitability**

*Liquidity Ratios*: - In this Analysis an attempt is made to highlight the relative strength of the companies in meeting their current obligations to maintain sound liquidity and to pinpoint the difficulties if any in it. It measures the firm’s ability to meet current obligations. Higher Liquidity levels indicate that we can easily meet our current obligations.

In a nutshell, a company's liquidity is its ability to meet its near-term obligations, and it is a major measure of financial health. A class of financial metrics that is used to determine a company's ability to pay off its short-term debts obligations. Generally, the higher the value of the ratio, the larger the margin of safety that the company possesses to cover short-term debts.
1. **Current Ratio or Working Capital Ratio**: This is the ratio of current assets to current liabilities and should be about 2, indicating that current assets are twice the current liabilities. It should not be less than 2, it will indicate over-trading. A very high ratio will result from idleness of funds only, and it’s not a good sign.¹⁴

   The formula to calculate Current ratio is:

   \[
   \text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
   \]

   This ratio is used to assess the short term financial position of the business concern. It shows the no. of times the current assets are in excess over current liabilities.¹⁵

2. **Liquidity Ratio or Acid Test Ratio or Quick Ratio**: This is a part of current ratio really and is found by comparing liquid resources i.e. cash and bank balance, readily saleable securities and book debts with current liabilities. It measures our ability to meet current obligations based on most liquid assets.

   It is calculated as:

   \[
   \text{Liquidity Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}
   \]

   According to accounting principles, a quick ratio of 1:1 has usually been considered favorable, since for every rupee of current liabilities, there is a rupee of quick assets.

3. **Absolute Cash Ratio**: The cash ratio is an indicator of a company’s liquidity that furthers refines both the current ratio and the quick ratio by measuring the amount of cash; cash equivalents or invested funds there are in current assets to cover current liabilities.

   It only measures the ability of a firm's cash, along with investments that are easily converted into cash, to pay its short-term obligations. Along with the quick ratio, a higher cash ratio generally means the company is in better financial shape.

The formula to calculate is:

Absolute Cash Ratio = Cash + Cash Equivalents + Invested Funds / Current Liabilities

### Summary of Liquidity Ratios and their meanings - As an Appendix

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
<th>Meaning</th>
<th>Desired Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio</td>
<td>Current assets / current liabilities</td>
<td>Indicates an ability to meet short term obligations as they come due.</td>
<td>Higher to a point (2:1 “rule of thumb” Tow-low may lead to insolvency BUT Too-high insufficient use of capital</td>
</tr>
<tr>
<td>Liquid Ratio</td>
<td>Liquid assets / current liabilities</td>
<td>Indicates the ability to meet short term payments, using only the most liquid of assets.</td>
<td>Higher to a point (1:1 rule of thumb)</td>
</tr>
<tr>
<td>Absolute Cash Ratio</td>
<td>Cash + Cash equivalent funds + invested funds / current liabilities</td>
<td>Indicates the ability to meet short term obligations, using only cash and easily convertible funds into cash</td>
<td>Higher to a point (0.5:1 is considered an acceptable norms)</td>
</tr>
</tbody>
</table>

**Profitability Ratios:** Profitability is the overall measure of the companies with regard to efficient and effective utilization of the resources at their command. It indicates in a nutshell the effectiveness of the decisions taken by the management from time to time. Generally two major types of profitability are calculated:

- Profitability in relation to sales
- Profitability in relation to investment

**Profitability based on Sales**

1. **Gross Profit Ratio:** This is the most common ratio calculated. It shows the profits related to sales after the direct production costs are deducted. It may be used as an indicator of efficiency of the production operation and the relation between production costs and selling price.
It is calculated as below:-

\[
\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100
\]

2. Net profit Ratio (or Margin):- This measures the rate of net profit earned on sales. The profit is usually only the operating profit, that is, income from non-trading assets and expenses, which do not relate to trading or manufacturing, are not included.

The ratio is calculated as:-

\[
\text{Net Profit Ratio} = \frac{\text{Net Operating Profit}}{\text{Sales}} \times 100
\]

3. Operating Ratio: - A rise in the operating ratio indicates a decline in efficiency, lower the ratio, the better it is. This ratio measures the extent of costs incurred for making the sale.

It is ascertained as:-

\[
\text{Operating Ratio} = \frac{\text{Cost of good sold plus all other operating expenses i.e. manufacturing, administrative and selling expenses (excluding financial expenses like interest)}}{\text{Sales}} \times 100
\]

The ratios that analyze the operating ratios are the following:-

- Material Consumed Ratio= Material Consumed/ Sales x 100
- Conversion Cost (or Manufacturing Expenses) Ratio= Manufacturing Expenses (excluding materials)/ Sales x100
- Administrative Expenses Ratio= Administrative Expenses/ Sales x100
- Selling Expenses Ratio= Selling & Distribution Expenses/ Sales x100

The total of these four ratios will be equal to the operating ratio.
Summary of Profitability Ratios in relation to Sales and their meaning: As an appendix

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
<th>Meaning</th>
<th>Desired Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>G.P.Ratio</td>
<td>G.P./Net Sales x 100</td>
<td>The % of COGS relative to sales</td>
<td>The lower the ratio, the lower the cost (usually 20% to 30%)</td>
</tr>
<tr>
<td>N.P.Ratio</td>
<td>N.P./Net Sales x 100</td>
<td>The % of G.P. earned on Sales</td>
<td>The higher the ratio the higher the cut received on each sale (usually 5% to 10%)</td>
</tr>
<tr>
<td>Operating Ratio</td>
<td>Operating Exp./Net Sales x 100</td>
<td>The % if any (or all) Operating Exp. Relative to Sales</td>
<td>The lower the ratio, the lower the exp. Relative to sales</td>
</tr>
</tbody>
</table>

Profitability based on Investment

1. **Return on Investment:** Profitability or the Return on Investment is the basic casual ratio. It is ascertained by a comparison of profit earned and capital employed to earn it. The resultant ratio, usually expressed as a percentage, is called Rate of return or Net profit to capital employed or, more commonly Return on Investment.

The ratio is calculated as:-

Return on Investment = Net Profit before interest, tax & dividends/ Net Fixed Assets plus working capital x 100

Return on Investment judges the overall performance of the concern. It measures how efficiently the sources entrusted to the business are being used. In other words, what is the earning power of the net assets of the business?
2. **Return on Equity:** - Return on Equity is a measure of how well management has used the capital invested by shareholders.

The way to calculate is:-

\[
\text{Return on Equity} = \frac{\text{Net profit after tax-Preference dividend}}{\text{Equity share capital}} \times 100
\]

The shareholders of any company are more interested in knowing how much their investment has earned, in other words profit available to equity shareholders.

Return on equity is used to compare the performance of a company’s equity capital with that of other companies which are alike in quality. The company with higher return on equity will be favored by the investors. In addition to this, a greater market valuation will be placed on its share.

**Dupont Analysis**

Dupont Analysis is a technique that breaks ROA and ROE measures down into three basic components that determine a firm's profit efficiency, asset efficiency and leverage. The analysis attempts to isolate the factors that contribute to the strengths and weaknesses in a company's financial performance... ROE has three ratio components.

The ratios that make up Return on equity are:-

**(i) Profit Margin Ratio:** - Profit margin measures the percent of profits you generate for each dollar of sales. Profit Margin reflects your ability to control costs and make a return on your sales. Management is more interested in having high profit margins.

The formula to calculate is: - \[\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Sales}}\]
(ii) **Assets Turnover Ratio:** - Assets Turnover measures the percent of sales you are able to generate from your assets. Assets Turnover reflects the level of capital we have tied-up in assets and how much sales we squeeze out of our assets. A high asset turnover rate implied that we can generate sales from a relatively low level of capital. Low turnover would imply a very capital-intensive organization.

The method is: - \( \text{Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Assets}} \)

(iii) **Financial Leverage Ratio:** - Financial Leverage is the third and final component of Return on Equity. Financial Leverage is a measure of how much we use equity and debt to finance our assets. As debt increases, financial increases. Generally, management tends to prefer equity financing over debt since it carried less risk.

The method to calculate Financial Leverage is: - \( \text{Financial Leverage} = \frac{\text{Assets}}{\text{Equity}} \)

3. **Return on Assets:** - Return on Assets measures the net dollar of assets. This ratio measures overall profitability from our investment in assets. High rates of return are desirable.

Return on Assets is calculated as follows:-

\[ \text{Return on Assets} = \frac{\text{Net Profit}}{\text{Average Total Assets}} \]

**Summary of Profitability Ratios in relation to investment and their meanings: As an appendix**

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
<th>Meaning</th>
<th>Desired Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROI</td>
<td>Net Profit/Total Assets</td>
<td>Shows the relationship between income and sales</td>
<td>High return= good use of assets</td>
</tr>
<tr>
<td>ROE</td>
<td>Net Profit/Shareholder equity</td>
<td>Shows the maximum return available to shareholders</td>
<td>High return= happy shareholders/owners</td>
</tr>
<tr>
<td>ROA</td>
<td>Net Profit/ Total Assets</td>
<td>Shows the relationship between income and investment in assets</td>
<td>High return= sufficient use of assets</td>
</tr>
</tbody>
</table>
**Market based Value Model/ Market Value Ratios:** - These ratios attempt to measure the economic status of the organization within the marketplace. Investors use these ratios to evaluate and monitor the progress of their investments. If the liquidity, asset management, debt management, and profitability ratios all look good, then the market value ratios will be high, and the stock price will probably be as high as can be expected.

1. **Earning Per Share (EPS):**- Growth in earnings is often monitored with EPS. The EPS expresses the earnings of a company on “per share” basis. A high EPS in comparison to other competing firms is desirable.

   EPS is Calculated as:-

   \[ \text{Earning Per Share (EPS)} = \frac{\text{Earnings available to Equity shareholders}}{\text{No. of Equity shares outstanding}} \]

   \[ \text{Earning Per Share} = \frac{\text{Net Profit after taxes - Preference dividend}}{\text{No. of equity shares}} \]

   This ratio helps in evaluating the prevailing market price of share in the light of profit earning capacity. The more the earning per share, better are the performance and prospects of the company. Generally, 10-20 times of EPS are considered a justified market price of a share.

2. **Price Earning Share (P/E Ratio):**- The relationship of the price of stock in relation to EPS is expressed as the price to Earnings Ratio or P/E Ratio. Investors often refer to the P/E Ratio as a rough indicator of value for a company.

   A high P/E Ratio would imply that investors are very optimistic (bullish) about the future of the company since the price (which reflect market value) is selling for well above current earnings. A low P/E Ratio would imply that investors view that
company’s future as poor and thus, the price the company sells for is relatively low when compared to its earnings.

The formula is:  - **Price Earning Share (P/E) Ratio= Market Value per Share/ EPS**

### 3. Book Value per Share:
- Book Value per Share expresses the total net assets of a business on a per share basis. This allows us to compare the book values of a business to the stock price and gauge differences in valuations. Net assets available to shareholders can be calculated as total equity less preferred equity.

The formula is:  - **Book value per share= Net Assets Available to Common Shareholders/ Outstanding Common Shares.**

### 4. Economic Value Added (EVA):
- EVA is the difference between NOPAT and WACC of invested capital. EVA takes into consideration the total capital employed by the company minus total shareholders' fund (equity and accumulated profits) and total debt and finds out the difference between the earning and the cost of the capital employed. Economic Value Added (EVA), or economic rent, is a widely recognized tool that is used to measure the efficiency with which a company has used its resources.

In other words, EVA is the difference between return achieved on resources invested and the cost of resources. Higher the EVA, better the level of resource unitization.

**EVA=Net Operating Profit-Taxes-Cost of Capital**

### 5. Market Value Added (MVA):
- The way in which shareholder wealth is increased is by maximizing the difference between an organization's total market value and the amount of capital that investors have supplied to the organization.
This difference is called market value added (MVA) expressed by the equation:

\[ \text{MVA} = \text{Total Market Value} - \text{Total Capital Supplied}. \]

MVA is the difference between market value of the company and the invested capital. Higher value of MVA means the company has created substantial wealth to its shareholders and vice versa.

\[ \text{MVA} = \text{Market Value of Capital} - \text{Book Value of Capital} \]

6. **Tobin’s Q Ratio:**

Tobin’s q is a ratio comparing the value of the stocks of a company listed in the financial market with the value of a company's equity book value. The ratio was developed by James Tobin (Tobin 1969). It is calculated by dividing the market value of a company by the replacement value of the book equity. Another use for q is to determine the valuation of the market as a whole.

The formula for this is: - Tobin’s Q = Value of stock market/ corporate net worth, Tobin’s Q Ratio = Market Value of the firm (Equity) + Liabilities Book Value/Total Book Value of Asset

The Tobin’s ratio is based on the investment opportunities of companies. Tobin q defined as the ratio of the market value of the firm’s assets to their replacement cost can be used to distinguish between firms that have positive NPV investment opportunities under current management and those that do not. High q firms are likely to have positive NPV projects. Hence these firms are expected to use their internally generated funds productively. A ratio equal to 1 indicates that the firm is “fairly valued” while a ratio below 1 means the company is undervalued and a consequently a ratio above 1 indicate that the company is overvalued.
Chapter-I   Introduction

Summary of Market Value Ratios and their meaning- As an appendix

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
<th>Meaning</th>
<th>Desired Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS Ratio</td>
<td>N.P-preference dividend/ no. of equity shares</td>
<td>Shows the earnings of a company on “per share” basis</td>
<td>Higher EPS is desirable</td>
</tr>
<tr>
<td>P/E Ratio</td>
<td>Market value per share/ EPS</td>
<td>Shows the relationship of the price of stock in relation to EPS</td>
<td>Higher P/E is better</td>
</tr>
<tr>
<td>Book Value per Share</td>
<td>Net assets available for shareholders/ common shares</td>
<td>Shows net assets available on per share basis</td>
<td>Higher is desirable</td>
</tr>
<tr>
<td>EVA</td>
<td>Net Operating Profits-Taxes-Cost of Capital</td>
<td>Shows the difference between net operating profit after taxes and cost of capital</td>
<td>Higher EVA is better</td>
</tr>
<tr>
<td>MVA</td>
<td>MV of Capital-BV of Capital</td>
<td>Shows the difference between market value of the company and the invested capital</td>
<td>Higher MVA is desirable</td>
</tr>
<tr>
<td>Tobin’s Q Ratio</td>
<td>MV of the firm+ liabilities book value /Total book value of assets</td>
<td>Shows Market Value of the firm’s assets to their replacement cost</td>
<td>Equal to 1 is desirable</td>
</tr>
</tbody>
</table>

1.2(9) (x) Ratios related to Efficiency and Leverage

Efficiency or Activity or Performance or Turnover or Assets Management Ratios: - Efficiency ratios are also called as turnover ratios. These will indicate position of the assets usage. In order to compute these ratios sales are divided by various types of assets such as inventory, debtors and net fixed assets. The ratios are expressed in no. of times. The greater the ratio more will be the efficiency of assets usage. The lower ratio will reflect the under utilization of the resources available at the command of the companies. Always the companies must plan for efficient use of the assets to increase the overall efficiency. Efficiency measures the
degree to which the business is effectively utilizing its resources in generating sales and profit for the business.

1. **Fixed Assets Turnover Ratio**: - It shows how well the fixed assets are being utilized. In manufacturing concern, the ratio is important and appropriate, since sales produced not only by use of working capital but also by the capital; invested in fixed assets. An improvement in the ratio indicates better performance and decline in it would show a declining efficiency or improvident investment.

The way to ascertain the ratio is: - **Fixed Assets Turnover Ratio** = \( \frac{\text{Sales or Cost of Sales}}{\text{Net Fixed Assets}} \)

2. **Stock/Inventory Turnover Ratio**: - The term stock may include all types of stock (raw material, work in progress and finished goods) but since sales are of finished gods it is better to calculate the ratio on the basis of stock of finished goods only. Higher the ratio, the better it is, since it indicates that more sales are being produced by a unit of investment in stock, Industries in which the stock turnover ratio is high usually work on a comparatively low margin of profit- the rate of profit on sales must be high if the stock turnover ratio is low.

   It is calculated as: - **Stock/ Inventory Turnover Ratio** = \( \frac{\text{Sales or Cost of Sales}}{\text{Average Stock}} \)

3. **Debtors Turnover or Accounts Receivables Turnover Ratio**: - It establishes the relationship between credit sales and account receivables (Trade Debtors and Bills Receivables). A high debtor’s turnover ratio will mean that debts are being collected efficiently. It measures the no. of times we were able to convert our receivables over into cash. Higher turnover ratios are desirable.

   It is calculated as follows: - **Debtors Turnover or Accounts Receivables Ratio** = \( \frac{\text{Net Credit Sales}}{\text{Accounts Receivables}} \)
4. **Working Capital Turnover Ratio:**- The ratio is better than the Stock Turnover Ratio, since it shows up efficiency or inefficiency in the use of the whole of working capital and not merely a part of it, viz, that invested in stock- it is whole of the working capital that leads to sales. It expresses the no. of times a unit invested in working capital produces sale.

The ratio to ascertain as:- Working Capital Turnover Ratio = Sales or Cost of Goods Sold/ Net Working Capital

5. **Sales Efficiency Ratio:** - This ratio explains per rupee profit generating capacity of the sales. It shows the operating efficiency of the company. Higher the ratio, higher is the efficiency.

It is calculated as: - Sales Efficiency Ratio = Net Profit/Net Sales

6. **Assets Turnover Ratio:** - This ratio measures the efficiency of the assets use. The efficient use of assets will generate greater sales per rupee invested in all the assets of the company. The inefficient use of the assets will result in low sales volume coupled with higher overhead charges and under utilization of the available capacity.

It is ascertained as follows: - Assets Turnover Ratio = Net Sales/ Total Net Assets

**Summary of Efficiency Ratios and their meaning-As an appendix**

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
<th>Meaning</th>
<th>Desired Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Assets Turnover Ratio</td>
<td>Sales or Cost of Sales/ Net Fixed Assets</td>
<td>Helps measure how useful fixed assets are to the business?</td>
<td>Higher is better</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Too low—may have useful assets that can be sold BUT</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Too high—may be sign that assets are sold and need</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>replacing</td>
</tr>
<tr>
<td>Debtors Turnover Ratio</td>
<td>Net credit sales/Average Debtors</td>
<td>Measures the speed at which debtors can be converted into cash?</td>
<td>Higher is better</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(60 to 90 days)</td>
</tr>
</tbody>
</table>
**Chapter-I Introduction**

**Leverage Ratios:** The leverage ratios which, the debt is employed in capital structure of the companies. Always companies use debt fund along with equity funds, in order to maximize the after tax profits, thereby optimizing earning available to equity shareholders. The debts funds are used very carefully by considering the liquidity and risk factors. The debts will increase the risk factors. These ratios indicate the level of risk taken by a company as a result of its capital structure.

In finance, leverage (or gearing) is borrowing money to supplement existing funds for investment in such a way that the potential positive or negative outcome is magnified and/or enhanced. It generally refers to using borrowed funds, or debt, so as to attempt to increase the returns to equity. Deleveraging is the action of reducing borrowings.

**1. Capital Gearing Ratio:** Capital gearing ratio is the ratio of borrowed funds to owner funds. If fixed cost bearing capital is more than equity share capital, reserves and P&L balance then it is called high capital gearing, on the other hand if it is lower, it is called low capital gearing. The main purpose to use fixed cost bearing capital is to increase the profit available for equity shareholders.
Chapter I  

Introduction

The formula to calculate is: **Capital Gearing Ratio** = **Equity share capital** + **Reserves** + **P&L balance** / **Fixed cost bearing capital**, where fixed cost bearing capital means **Preference share capital** + **Debenture** + **Long term Loans**

2. **Debt-Equity Ratio**: - Debt to Equity Ratio is the ratio of Total Debt to Total Equity. It compares the funds provided by creditors to the funds provided by shareholders. As more debt is used, the Debt to Equity Ratio will increase. Lower the ratio, more comfortable is the position of creditors, because it means that they can be called upon to suffer losses only if the losses are exceptionally heavy.

   It is worked out as: - **Debt Equity Ratio** = Long Term Debt / Shareholder Funds plus Long Term Debt or Debt/ Equity.

   In India, this ratio may be taken as acceptable if it is 2:1. If the debt to equity ratio is more than that, it shows a rather risky financial position from the long term point of view.

3. **Interest Coverage Ratio**: - This ratio indicate how many times the profit covers the fixed interest—it measures the margin of safety for the lenders. If profit just equals interest, it is a bad position for the company (since nothing will be left for shareholders) and on unsafe one for the Lenders. A high ratio is desirable from both creditors and management.

   It is calculated as: - **Interest Coverage Ratio** = Net profit before interest & taxes/ Interest on long term loans and debentures
Summary of Leverage Ratios and their meaning - As an appendix

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
<th>Meaning</th>
<th>Desired Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Gearing</td>
<td>ESC+Res+P&amp;L/ PSC+Debentures+Long term loans</td>
<td>Shows relationship between owners funds and borrowed funds</td>
<td>Lower is safer</td>
</tr>
<tr>
<td>Ratio</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Debt Equity Ratio  | Debt/ Equity                                 | The no. of times of debt for every dollar of equity                     | Lower is safer.  
|                    |                                              |                                                                         | Too high- too highly leveraged |  
|                    |                                              |                                                                         | Too low-insufficient use of equity |  
| Interest Coverage Ratio | N.P before int.& taxes/ Int. on long term loans & Debentures | The no. of times over that a company can meets its int. payments. | Lenders need assurance in what times their loan charges can be recovered? |

1.2(10) Financial Statements Analysis

One final way of evaluating financial performance is to simply compare financial statements from period to period and to compare financial statements with other companies. This can be facilitated by vertical and horizontal analysis.

The financial statement analysis generally involves common size analysis, ratio analysis (liquidity, turnover, profitability, solvency etc.), trend analysis and industry comparative analysis. By comparing a company’s financial statements in different time periods, growth or decline in revenues or expenses, changes in capital structure, or other financial trends can be viewed.

Financial statement analysis involves analyzing the firm’s financial statements to extract information that can facilitate decision-making. For example, an analysis of the financial statement can reveal whether the firm will be able to meet its long-term debt commitment, whether the firm is financially distressed, whether the company is using its physical assets efficiently, whether the firm has an optimal financing mix, whether the firm is generating adequate return for its shareholders, whether the firm
can sustain its competitive advantage etc; While the information used is historical, the intent is clearly to arrive at recommendations and forecasts for the future rather than provide a “picture of the past”.

1.2(10) (i) Financial Statements

Financial statements (or financial reports) are formal records of a business' financial activities. In British English, including United Kingdom company law, financial statements are often referred to as accounts, although the term financial statements are also used, particularly by accountants.

Financial statements provide an overview of a business' financial condition in both short and long term. There are four basic financial statements:

- **Balance Sheet**: also referred to as statement of financial position or condition, reports on a company's assets, liabilities, and net equity as of a given point in time.
- **Income Statement**: also referred to as Profit and Loss statement (or a "P&L"), reports on a company's income, expenses, and profits over a period of time.
- **Statement of Retained Earnings**: explains the changes in a company's retained earnings over the reporting period.
- **Statement of Cash Flows**: reports on a company's cash flow activities, particularly its operating, investing and financing activities.

1.2 (10) (ii) Purpose of Financial Statements

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.
1.2(10) (iii) Uses of Financial Statement Analysis

Financial analysis is performed by both internal management and external groups. Firms would perform such an analysis in order to evaluate their overall current performance, identify problem/opportunity areas, develop budgets and implement strategies for the future. External groups (such as investors, regulators, lenders, suppliers, customers) also perform financial analysis in deciding whether to invest in a particular firm, whether to extend credit etc.

There are several rating agencies (such as Moody’s, Standard & Poor’s) that routinely perform financial analysis of firms in order to arrive at a composite rating.

The performance of a firm can be assessed by computing key ratios and analyzing: How is the firm performing relative to the industry? How does the current year performance compare to the previous year(s)? What are the linkages among the ratios?

What do the ratios reveal about the future prospects of the firm for various stakeholders such as shareholders, bondholders, employees, customers etc.?

1.2(10) (iv) Types of Financial Statement Analysis

1. Horizontal Analysis  2. Vertical Analysis

Horizontal analysis is used to evaluate the trend in the accounts over the years, while vertical analysis, also called a Common Size Financial Statement discloses the internal structure of the firm. It indicates the existing relationship between sales and each income statement account.

1.2(10) (v) Trend Analysis (Horizontal Analysis)

Trend analysis makes it easy to understand the changes in an item or a group of items over a period of time and to draw the conclusion regarding the changes in data. Changes in the financial statements between periods can be easily be studied by establishing a base year and expressing other years in terms of he base year. Every
item is to be stated as 100 in the statement which is taken as the base. Trend ratio can be computed by dividing each amount in the statements with the corresponding item in the statement taken as the base. Trend should be studied at least over a period of 5 or more years for this purpose. Trend percentages indicate the degree of increase or decrease but they cannot indicate the cause for the change.

1.2(10) (vi) **Common-Size Statement Analysis (Vertical Analysis)**

The common size statement analysis is also known as vertical analysis. A statement under this technique is known as cent per cent or component percentage statement. The percentage of each individual item of a statement shows the relation of the item to the total. Therefore, the common size percentages (analytical) method represents a type of ratio analysis because each individual item on a statement is expressed as percentage item of total.\(^{16}\)

“This type of analysis first convert each individual rupee amount in the statement to a percentage of the total amount of the group of which it is a part, “As a result, the relative importance of each individual amount stands out clearly.”\(^{17}\)

When performing a ratio analysis of financial statements, it is often helpful to adjust the figures to common-size numbers. To do this, we change each line item on a statement to a percentage of the total. For example, on a balance sheet, each figure is shown as a percentage of total assets, and on an income statement, each item is expressed as a percentage of sales.

This technique is quite useful in comparing one business to other businesses or to averages from an entire industry, because differences in size are neutralized by reducing all figures to common-size ratios. Industry statistics are frequently published in common-size form. This type of comparison is limited to companies engaged in similar business activities. When the financial policies of two companies differ, these differences can be recognized in the evaluation of comparative reports.

---

\(^{16}\) Ibid

\(^{17}\) Korn J. Winston and Boyd, Thomas: Accounting for Management Planning And decision making, p.156
Summary: To sum up, in this third chapter research methodology has been discussed in detail to evaluate the financial performance of Sampled Units. Need of the Study, Scope of the Study, Purpose & Objectives of the Study, Data Source, Tools & Techniques all these have been discussed in the first chapter of research work undertaken by the researcher. Financial parameters have also been discussed to evaluate the financial performance of MSIL & HMIL. In Ratio Analysis we have divided it into four parts i.e. Liquidity, Profitability, Efficiency and Solvency. On the basis of market valuation apart from old methods of calculating market value new methods i.e EVA, MVA and Tobin’s Q have also been added in this chapter to come on any conclusion.

The chapter has been divided into four parts:-

Liquidity Analysis
Profitability Analysis
Efficiency Analysis
Leverage Analysis

In the next chapter we will explain the profile of both the companies i.e. Maruti Suzuki India Ltd. and Hyundai Motors India Ltd. in detail. Both the companies are car manufacture in India and both are pioneer in their field. Maruti Udyog Ltd. (now Maruti Suzuki India Ltd.) is no. one car manufacture in India and Hyundai which is foreign company takes second place. From introduction, evolution, exports, achievements & awards, production planning to progress during the period will be explained to become familiar with the companies.