

A STUDY ON FINANCIAL PERFORMANCE OF MAHINDRA & MAHINDRA LIMITED WITH SPECIAL REFERENCE TO AUTOMOTIVE DIVISION

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ABSTRACT

This study analyses the financial performance of Mahindra & Mahindra Limited with reference to its automotive division. The main objective is to evaluate the company's financial health, profitability and operational efficiency over a period of five years (2020–2021 to 2024–2025). The study is based on secondary data collected from annual reports and financial statements. Ratio analysis is used as the primary tool, including liquidity, solvency, and profitability ratios such as current ratio, debt-equity ratio, and net profit ratio. The findings highlight the company's strengths and areas for improvement, providing useful insights for management and investors to make better financial decisions and ensure sustainable growth.

Key words: Financial Performance Ratio Analysis, Liquidity Ratio, Solvency Ratio, Profitability Ratio, Automotive Industry and Mahindra & Mahindra Limited.

INTRODUCTION

Finance is the study and management of money, funds and investments. It deals with how money is raised, allocated and utilized in an effective manner. Finance plays a vital role in the success and survival of any business organization. Without adequate finance, no company can start, operate, or expand its activities. In a company, finance is required for purchasing fixed assets such as land, buildings, machinery and equipment. It is also needed for buying raw materials, paying wages and salaries, meeting administrative expenses and managing day-to-day operations. Therefore, finance is often called the “lifeblood” of a business. Finance is not just about arranging money; it also involves proper planning, controlling and monitoring of funds. Financial management ensures that the right amount of money is available at the right time and is used for the right purpose. Proper financial planning helps in avoiding wastage of resources and reducing financial risks.

Financial performance refers to the overall financial health and profitability of a company over a specific period of time. It indicates how efficiently a company uses its resources, such as capital, assets and investments, to generate revenue and profit. Financial performance is usually evaluated through financial statements such as the Income Statement, Balance Sheet, and Cash Flow Statement. The Income Statement helps in understanding the revenue, expenses and net profit earned during a particular year. The Balance Sheet shows the financial position of the company by presenting its assets, liabilities and shareholders' equity. The Cash Flow Statement explains the inflow and outflow of cash from operating, investing, and financing activities. Important indicators used to measure financial performance include profitability ratios (such as gross profit ratio, net profit ratio, and return on investment), liquidity ratios (current ratio and quick ratio), solvency ratios (debt–equity ratio), and efficiency ratios (inventory turnover ratio and asset turnover ratio).

A company with strong financial performance will have consistent revenue growth, higher profit margins, controlled expenses, proper cash management and balanced debt levels. Good financial performance increases investor confidence, improves creditworthiness and supports business expansion and long-term sustainability. On the other hand, poor financial performance may indicate low sales, high operating costs, excessive debt, weak cash management, or inefficient utilization of resources. Therefore, analyzing financial performance is very important for management,

investors, creditors and other stakeholders to make effective financial and strategic decisions.

STATEMENT OF THE PROBLEM

In today's competitive business environment, financial stability plays a crucial role in the survival and growth of a company. A company must maintain adequate liquidity to meet its short-term obligations, ensure solvency to sustain long-term financial commitments, and generate sufficient profitability to maximize shareholders' wealth. However, many companies face financial challenges due to improper management of working capital, excessive debt, or low profit margins. Without proper financial analysis, it becomes difficult to identify the strengths and weaknesses of the company's financial position. Therefore, this study focuses on analysing the financial performance of the company by evaluating its liquidity position, solvency position and profitability performance using ratio analysis. This analysis helps in understanding whether the company is financially sound, capable of meeting its obligations, and earning satisfactory returns.

In this regard, the study probes into the following questions to find answer,

- Is the company able to meet its short-term obligations?
- Can the company meet its long-term liabilities effectively?
- Has the profitability improved over the years?

OBJECTIVES OF THE STUDY

- To study the liquidity position of Mahindra & Mahindra Company Limited.
- To analyse the solvency position of the Mahindra & Mahindra Company Limited.
- To evaluate the profitability position of Mahindra & Mahindra Company Limited.
- To provide actionable recommendations to the company based on the findings.

RESEARCH METHODOLOGY

• Period of the study

The study covers a period of five years from 2020–2021 to 2024–2025. The analysis is based on data relating to these five financial years.

• Source of data

The study is based only on secondary data. The data has been collected from annual reports, official websites, financial statements, and other published sources.

• Tools for analysis

The performance of Mahindra & Mahindra Company Limited is analysed with the help of ratio analysis. The following ratios were used for analysis and interpreting the financial performance of the company.

REVIEW OF LITERATURE

I.M. Pandey (2010) highlighted that profitability is a key indicator of a company's long-term sustainability. According to him, fluctuations in profit ratios may arise due to changes in cost structure, pricing policies, and market conditions, and therefore require careful managerial attention.

Prasanna Chandra (2011) emphasized the significance of ratio analysis in measuring financial performance. He noted that profitability ratios help in assessing managerial efficiency and the firm's ability to generate returns on investment.

Panchapakesan P. et al. (2012) analyzed customer satisfaction in Indian hospitals and observed that profitability and service quality are interrelated. The study concluded that efficient financial management practices improve both organizational performance and customer satisfaction.

D.C. Ferreira et al. (2013) examined patient satisfaction and financial efficiency in healthcare institutions and emphasized that financial stability and profitability are closely linked to service quality and operational efficiency. Their study highlighted the importance of maintaining a balance between cost control and revenue generation.

K. R. Subramanyam (2014), in his work on financial statement analysis, stated that profitability ratios such as gross profit, net profit, and operating profit ratios are essential tools for evaluating a firm's operational

efficiency and overall performance. He emphasized that consistent improvement in these ratios indicates sound financial health.

Further, R.K. Sharma (2015) conducted a study on financial performance using ratio analysis and found that companies with better cost control mechanisms and efficient resource utilization tend to exhibit higher profitability and stability.

ANALYSIS AND INTERPRETATION

LIQUIDITY RATIO

Liquidity ratios are essential indicators used to assess an organization’s ability to meet its short-term financial obligations. These ratios reflect the financial soundness and operational efficiency of a firm in managing its current assets and liabilities. The present analysis focuses on three key liquidity ratios, namely the Current Ratio, Quick Ratio, and Absolute Liquid Ratio, over a period of five years from 2020–2021 to 2024–2025. This analysis helps in understanding the trend and consistency in the liquidity position of the organization.

TABLE: 1 LIQUIDITY RATIO

RATIOS	2020- 2021	2021-2022	2022-2023	2023-2024	2024-2025
Current Ratio	1.34	1.38	1.33	1.35	1.49
Quick Ratio	1.08	1.06	0.99	0.99	1.16
Absolute liquid Ratio	0.71	0.61	0.54	0.54	0.74

Source: Annual Reports

Table 1 reveals the liquidity position of the organization over the five-year period. The Current Ratio shows a relatively stable trend, fluctuating slightly between 1.33 and 1.49, indicating that the firm maintains an adequate level of current assets to meet its current liabilities. The increase to 1.49 in 2024–2025 reflects an improvement in short-term financial strength.

The Quick Ratio, which excludes inventory from current assets, shows a marginal decline during the middle years, reaching 0.99 in 2022–2023 and 2023–2024, before improving to 1.16 in 2024–2025. This suggests that the firm experienced slight pressure in maintaining immediate liquidity during those years but has shown recovery in the latest year.

The Absolute Liquid Ratio follows a similar pattern, declining from 0.71 in 2020–2021 to 0.54 in the subsequent years, and then rising to 0.74 in 2024–2025. This indicates that the firm’s most liquid assets (cash and cash equivalents) were relatively lower in the middle period but improved significantly in the final year.

Overall, the analysis indicates that although the organization faced minor fluctuations in liquidity during the study period, it maintained a satisfactory liquidity position and demonstrated improvement in the most recent year. This reflects better cash management and enhanced short-term financial stability.

SOLVENCY RATIO

Solvency ratios are vital indicators used to evaluate the long-term financial stability and sustainability of an organization. These ratios measure the firm’s ability to meet its long-term obligations and reflect the proportion of debt and equity in its capital structure. A sound solvency position ensures financial independence and reduces the risk of insolvency. The present table analyses key solvency ratios such as Debt-Equity Ratio, Proprietary Ratio, Fixed Assets to Net Worth Ratio, and Current Assets to Proprietor’s Fund Ratio over a period of five years from 2020–2021 to 2024–2025.

TABLE: 2 SOLVENCY RATIO

RATIOS	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Debt Equity Ratio	0.21	0.17	0.11	0.03	0.02
Proprietary Ratio	0.58	0.58	0.57	0.62	0.62
Fixed Assts to Net Worth Ratio	0.44	0.50	0.46	0.41	0.38
Current Assets to Proprietor’s Fund Ratio	0.59	0.66	0.80	0.67	0.77

Source: Annual Reports

Table 2 highlights the solvency position of the organization over the study period. The Debt-Equity Ratio shows a consistent declining trend from 0.21 in 2020–2021 to 0.02 in 2024–2025. This indicates a significant reduction in reliance on external borrowings and reflects a strong financial structure with minimal debt burden. The Proprietary Ratio remains relatively stable, with a slight increase from 0.58 to 0.62. This suggests that a major portion of the total assets is financed through shareholders’ funds, indicating strong ownership control and financial stability.

The Fixed Assets to Net Worth Ratio shows minor fluctuations, peaking at 0.50 in 2021–2022 and then declining to 0.38 in 2024–2025. This indicates that a decreasing proportion of owners’ funds is tied up in fixed assets, which may enhance financial flexibility and improve liquidity. The Current Assets to Proprietor’s Fund Ratio shows variability over the years, increasing from 0.59 to 0.80 in 2022–2023, followed by slight fluctuations and reaching 0.77 in 2024–2025. This suggests that a considerable portion of the proprietor’s funds is invested in current assets, supporting the firm’s working capital requirements.

Overall, the solvency position of the organization appears strong and improving, characterized by reduced debt dependency, stable ownership contribution, and efficient utilization of funds. This indicates sound financial management and long-term financial sustainability.

PROFITABILITY RATIO

Profitability ratios are key indicators used to measure the earning capacity and overall financial performance of an organization. These ratios evaluate how effectively a firm utilizes its resources to generate profits and ensure long-term sustainability. The present analysis focuses on major profitability ratios such as Gross Profit Ratio, Net Profit Ratio, and Operating Profit Ratio over a period of five years from 2020–2021 to 2024–2025.

TABLE: 3 PROFITABILITY RATIO

RATIO	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Gross Profit Ratio	28.63	24.84	22.45	23.62	24.33
Net Profit Ratio	0.61	8.76	7.87	11.06	10.39
Operating Profit Ratio	17.14	14.26	14.28	15.51	16.35

Source: Annual Reports

Table 3 presents the profitability performance of the organization during the study period. The Gross Profit Ratio shows a declining trend from 28.63% in 2020–2021 to 22.45% in 2022–2023, followed by a

gradual recovery to 24.33% in 2024–2025. This indicates initial pressure on production or purchase costs, with subsequent improvement in cost management.

The Net Profit Ratio exhibits significant fluctuation, increasing sharply from 0.61% in 2020–2021 to 8.76% in 2021–2022, and further reaching a peak of 11.06% in 2023–2024 before slightly declining to 10.39% in 2024–2025. This reflects improved overall profitability, possibly due to better cost control and increased operational efficiency.

The Operating Profit Ratio shows a moderate decline in the initial years, followed by a steady increase from 14.28% in 2022–2023 to 16.35% in 2024–2025. This indicates improved efficiency in core business operations and better management of operating expenses.

Overall, profitability shows some fluctuations during the study period; however, an improving trend is evident, particularly in net profit and operating profit ratios. The company maintains a stable financial position with good growth potential, although there remains scope for further enhancement in efficiency and cost control.

SUGGESTIONS

Based on the analysis of liquidity, solvency, and profitability ratios, the following suggestions are offered to improve the overall financial performance of the company:

- The company should improve its liquidity position by increasing current assets and reducing short-term liabilities to achieve the ideal current ratio of 2:1. Effective working capital management practices should be adopted to ensure stability in current assets and smooth day-to-day operations.
- The firm may consider making effective use of financial leverage by introducing a moderate level of debt, as the debt–equity ratio is currently very low. This can help in enhancing returns to shareholders.
- Strong cost control measures should be implemented to stabilize and improve both gross profit and net profit ratios. Efficient management of production and operating costs is essential.
- The company should focus on enhancing operational efficiency by minimizing unnecessary administrative and selling expenses, thereby improving operating profit.
- Efforts should be taken to maintain a stable capital structure by strengthening shareholders' funds and avoiding wide fluctuations in the proprietary ratio.

CONCLUSION

The study on the financial performance of Mahindra & Mahindra Limited was carried out by analysing various liquidity, solvency, and profitability ratios for the period from 2020–2021 to 2024–2025. The analysis shows that the company has maintained a stable financial position during the study period, although certain ratios have exhibited fluctuations. The liquidity position of the company indicates that it can meet its short-term obligations; however, the current ratio has not reached the standard norm of 2:1. The solvency ratios reveal that the company maintains a low level of debt and a strong equity base, indicating financial stability and lower financial risk. The profitability analysis shows that the company is able to generate profits, however, the gross profit ratio, net profit ratio, and operating profit ratio have fluctuated during the study period. This indicates the need for better cost control and improved operational efficiency. Overall, Mahindra & Mahindra Limited has demonstrated satisfactory financial performance during the period of study. With effective financial management, proper utilization of resources, and enhanced operational efficiency, the company can further strengthen its financial position and achieve improved profitability in the future.

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