AN EMPIRICAL STUDY ON COMPARATIVE FINANCIAL EVALUATION BETWEEN MANNAPURRAM FINANCE LIMITED AND MUTHOOT FINANCE LIMITED, BANGALORE

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Abstract

A non-banking financial company is one that does activities based on loans and advances, shares, securities, bonds, debentures, stocks, etc. and which is registered under the Companies Act of 1956. Every organization makes profits and losses. Profit making needs to be continued and loss making needs to be discontinued. So there is a need to identify what are the causes that enable profit making and what causes lead to loss making and the remedial measures which can be taken to overcome the losses. Hence in the study titled, "An empirical study on comparative financial evaluation between Mannapurram Finance Limited and Muthoot Finance Limited, Bangalore" a comparison has been done between the two Non- Banking Financial Companies. The study has taken the past 5 years financial statements of the two firms from 2013-2018 and a comparison has been established between the two. Also various statistical techniques have been used to find out the true financial positon. The objectives of the study is to understand the importance of Financial Statement Analysis, evaluate the position of the two non-banking financial companies and to study the recommendations of Mannapuram and Muthoot finance to move ahead from the banking sector. The study gives the findings and suggestions based on the financial evaluation between the two leading Non-Banking Financial Companies.

Keywords: *: Financial ratios, Income statement, Non-Banking Financial companies, Bar graph, Comparison.*

INTRODUCTION

Every organization strives to achieve better than the other be it in terms of customer satisfaction, hedging risks, maximizing profit, employee retention, increasing the reserves, etc. In order for every firm to be ahead of its competitors a comparative financial evaluation is necessary as it helps the firm in tracking its competitors past, present and future performance and what steps it can take to go ahead of its competitor. Financial evaluation of an organization can be

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measured with the help of financial results attained from financial performance on a yearly basis to see how much it has earned that is how much is gain and how much is loss. Every firm or organization must keep in mind that every financial decision is vital for its growth. If a financial decision increases the risk of the firm it reduces the value of the firm. On the other hand if a financial decision decreases the risk of the firm it increases the profitability as well as the value of the firm. Hence risk and profitability should be taken seriously by the firm to ensure long term growth. There are 3 measures which are used in financial evaluation. They are:

- Return on Equity
- Earnings Per Share, and
- Price Earnings Ratio

Profit and loss account also helps in knowing the profit or loss of a company as on a particular year. The Balance Sheet also helps in knowing the financial position of a firm at a particular point of time. The financial evaluation and performance can also be done using financial statements only.

Hence in order to arrive at a proper conclusion on comparative financial evaluation the following needs to be considered:

a) Balance Sheet analysis (both horizontal and vertical)

b) Income Statement analysis (both horizontal and vertical)

c) Ratio Analysis

The comparative financial evaluation helps the following parties:

- **Trade Creditors and Suppliers of long term debt**
- **Investors**
- **Management**
- **Debtors**
- **Financial Analysts and Financial Managers**
- **Suppliers and Buyers**
- **Customers and etc.**

REVIEW OF LITERATURE

Venkataramma.N, K. Ramakrishnaiah (2012) in the study, "Financial Performance and predicting the risk of bankruptcy- A case of selected companies in India" has used Altman Z-Score Analysis, Bankruptcy, Liquidity Ratios, Solvency Ratios, Working Capital Ratios, correlation, mean, standard deviation, variance and skewness. It took into consideration ten cement companies and the financial reports are taken for ten years from 2001 to 2010 to know the profitability and the financial position of all the firms. The study concludes financial failure needs to be predicted well in advance and appropriate and corrective measures need to be taken related to financial investments, lending and borrowings so that bankruptcy can be prevented and profitability can be ensured. The firms which are not

profitable are mainly due to causes such as lack of proper planning, no proper forecasting of sales, lack of experience among management, advancement in technology, more manpower, frauds and changing wants, tastes and preferences of consumers from time to time.

STATEMENT OF THE PROBLEM

Every organization's growth and development depends on a variety of factors such as human technology, financial resources, quality, promotion, monetary and non-monetary items maintenance. Among these availability of financial resources is one of the most important factors. A firms worth is decided by few important criteria such as how much cash inflow is coming from assets or how much capability the asset has to incur cash inflows, how much time it takes to achieve stable rate of growth and the amount of capital to be invested or maintained without debts. If an organization wants to achieve success it must be able to achieve its objectives first. Hence there is a genuine need to know if the organization is performing well or not. If a firm is healthy both in the short run and long run not only by itself but also in comparison to other firms not only does the organization become strong but also the career and business opportunities for both employees and the organization as it able to diversify itself and expand globally both locally and internationally. Hence a comparative financial evaluation is very essential so that the firm can know what are its risks, strengths and weaknesses, rewards, higher returns, performance analysis, etc in comparison to another firm or firms which are its competitor or competitors in the same industry so it can assess what needs to change or improve to perform better or maintain the performance level

OBJECTIVES OF THE STUDY

- To understand the importance of financial statement analysis in comparative financial evaluation of a firm.
- To evaluate the position of two non-banking financial companies so as to know who is performing better in the industry
- To providethe appropriate recommendations and suggestions for Mannapuram Finance Limited and Muthoot Finance Limited

SCOPE OF THE STUDY:

In India considerable growth has taken place in the Nonbanking financial sector in last two decades. Since the activities of NBFCs have undergone the qualitative change in the recent years, there is a need to look at the salient issues like liquidity, profitability, interest margins etc. The primary objective of the study is to evaluate the overall financial performance of NBFCs. The present study attempts to examine the relative financial performance of two different groups of NBFCs in terms of profitability, solvency and liquidity. The study is based

on the NBFC's which covers the period of study for five years and it reveals the status of two Non- financing banking companies in market and financial performance by analyzing with the help of financial ratios. By this study we can understand the present situation of the two NBFC's-Mannapuram Finance Limited and Muthoot Finance Limited and the investment or borrowing loan etc. can be verified. The study shows the financial position of the two companies which can be comparatively checked for future investment in the NBFC's, to know the advancements in the past and present which in turn helps in making a probabilistic measure of expectation of the future turn of profitability and growth.

LIMITATIONS OF THE STUDY:

- The study does not take into consideration banks, corporate companies and other financial institutions for a comparative financial evaluation.
- It is limited to only two listed gold loan Non-Banking Financial companies which are Manappuram Finance Limited and Muthoot Finance Limited
- The study is not generalized to other firms as it is restricted to only two firms
- This research is been carried out only for a specific time limit that is the study is limited to only the past five years from 2013-2014 to 2017-2018

RESEARCH METHODOLOGY

RESEARCH DESIGN AND SIZE:

The study relates to comparative financial evaluation between Mannapuram Finance Limited and Muthoot Finance Limited the study is based on description and analytics. For the study only two non-banking financial companies which are mostly dealing in gold loans are taken. The study relates to secondary data analysis and the study conducted is purely an analytical study. The period of study is for five years and two companies have been selected.

DATA COLLECTION: The collection of data has been done by purely using secondary data analysis which was acquired, collected and gathered from various sources such as websites, annual reports, financial statements such as balance sheet and profit and loss account, research related portals and knowledge base for a period of five years that is from 2013-2018. Data was further obtained from other related articles, previous studies pertaining to the present topic, books, international journals and papers

Method of Analysis: The collected data is analyzed using ratios, tables and charts with interpretation

TOOLS OF ANALYSIS : Financial ratios, solvency ratios, liquidity ratios, charts and tables are used to analyze and compare the financial evaluation of two

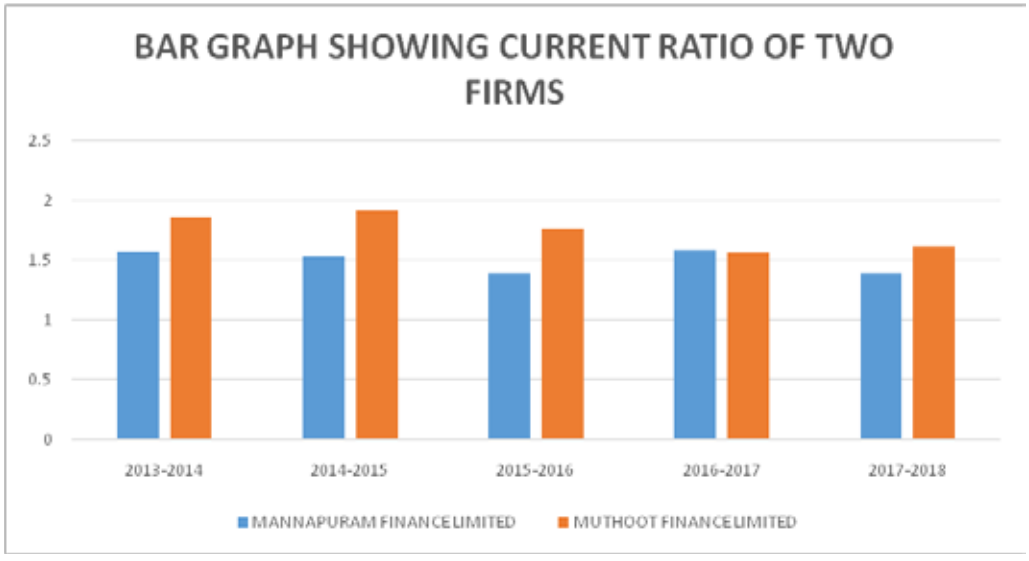
selected gold loan non-banking financial companies in India. The details of them are as follows:

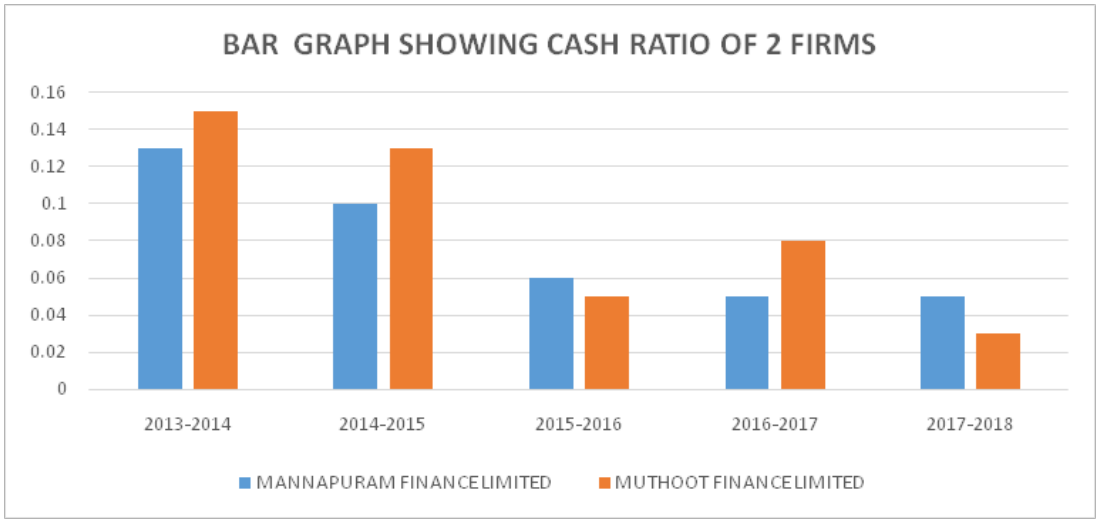
ANALYSIS AND INTERPRETATION:

1) CURRENT RATIO AND CASH RATIO:-

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \qquad \text{Cash Ratio} = \frac{\text{Cash + Marketable Securities}}{\text{Current Liabilities}}$$

	MANNAPURAM FINANCE LIMITED		MUTHOOT FINANCE LIMITED	
	CURRENT RATIO	**CASH RATIO**	**CURRENT RATIO**	**CASH RATIO**
2013-2014	1.57	0.13	1.86	0.15
2014-2015	1.53	0.10	1.91	0.13
2015-2016	1.39	0.06	1.77	0.05
2016-2017	1.58	0.05	1.56	0.08
2017-2018	1.39	0.05	1.62	0.03





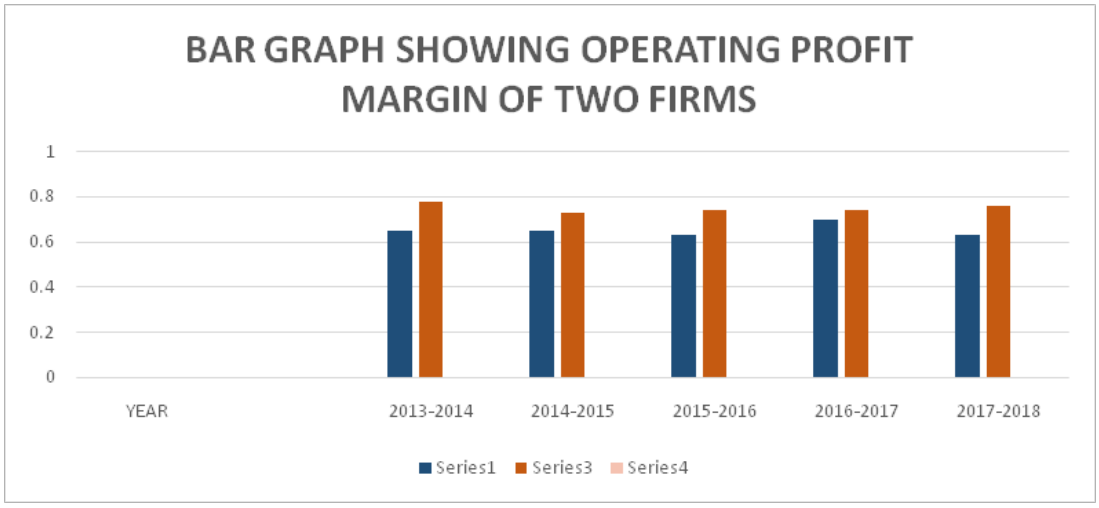
From the above table and bar graph it can be seen that the current ratio of Muthoot Finance limited is higher than that of Mannapuram Finance Limited for all the years from 2013-2018 except 2016-2017. Hence this shows that Mannapuram has a lesser efficiency and liquidity than that of Muthoot Finance Limited. The cash ratio of Mannapuram Finance Limited is lesser than that of Muthoot Finance Limited for 2013-2014, 2014-2015 and 2016-2017 which clearly shows that Muthoot Finance Limited can easily pay off its debts than Mannapuram Finance Limited.

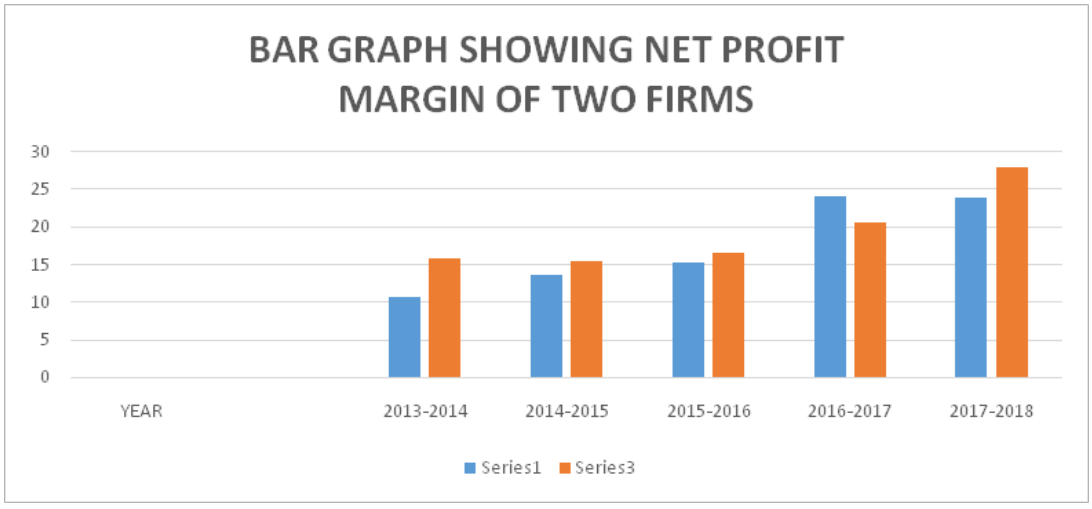
2) NET PROFIT MARGIN AND OPERATING PROFIT MARGIN:-

$$\text{Operating Profit margin} = \frac{\text{EBIT}}{\text{Sales}}$$

$$\text{Net Profit margin} = \frac{\text{Net Income}}{\text{Sales}}$$

YEAR	MANNAPURAM FINANCE LIMITED		MUTHOOT FINANCE LIMITED	
	OPERATING PROFIT MARGIN	NET PROFIT MARGIN	OPERATING PROFIT MARGIN	NET PROFIT MARGIN
2013-2014	0.65	10.76	0.78	15.82
2014-2015	0.65	13.70	0.73	15.54
2015-2016	0.63	15.23	0.74	16.65
2016-2017	0.70	24.14	0.74	20.59
2017-2018	0.63	23.91	0.76	27.91



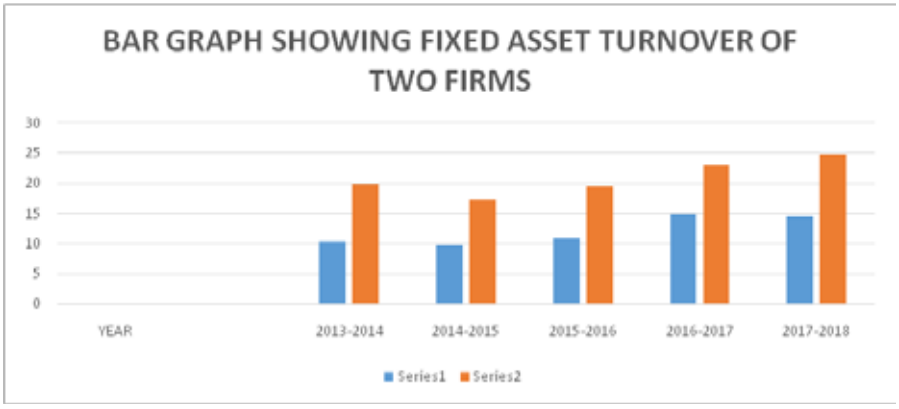


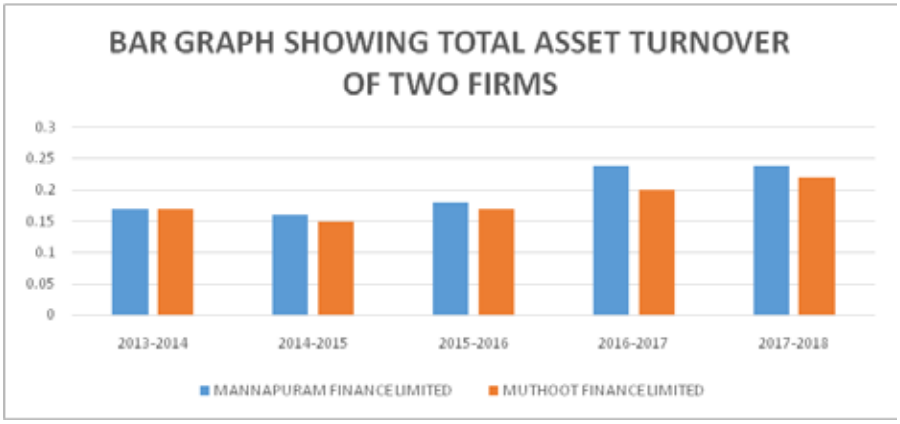
From the above table it can be seen that the operating profit margin of Mannapuram Finance Limited is lesser than that of Muthoot Finance Limited for the past five years from 2013-2018 which clearly shows that Muthoot Finance Limited has more profits than that of Mannapuram Finance Limited after paying for the cost of production. Net profit margin of Mannapuram Finance Limited is lesser than that of Muthoot Finance Limited for all the years except for the financial year 2016-2017 which indicates that Muthoot Finance Limited is more efficient in converting the sales into profit than that of Mannapuram Finance Limited.

3) FIXED ASSET TURNOVER AND TOTAL ASSET TURNOVER:-

Total Asset Turnover = $\frac{\text{Sales}}{\text{Average Total Assets}}$ **Fixed Asset Turnover =** $\frac{\text{Sales}}{\text{Average Net Fixed Assets}}$

YEAR	MANNAPURAM FINANCE LIMITED		MUTHOOT FINANCE LIMITED	
	FIXED ASSET TURNOVER	TOTAL ASSET TURNOVER	FIXED ASSET TURNOVER	TOTAL ASSET TURNOVER
2013-2014	10.29	0.17	19.82	0.17
2014-2015	9.71	0.16	17.35	0.15
2015-2016	10.92	0.18	19.56	0.17
2016-2017	14.87	0.24	23.04	0.20
2017-2018	14.46	0.24	24.79	0.22



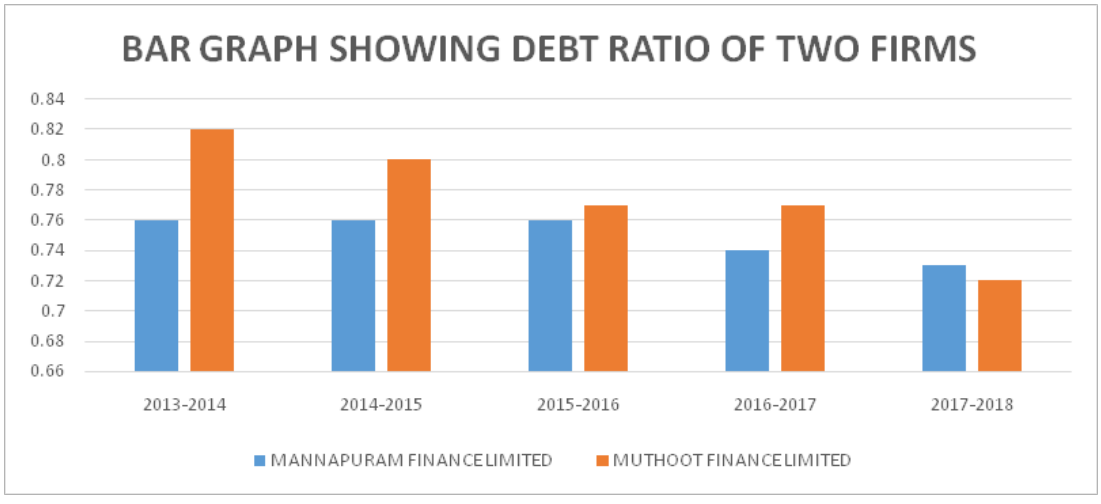


From the above table it can be seen that the Fixed Assets Turnover ratio of Mannapuram is lesser than that of Muthoot Finance Limited for all the five years from 2013-2018 and Total Asset Turnover ratio of Mannapuram Finance Limited is higher than that of Muthoot Finance Limited for four years from 2014-2018. Muthoot has a higher Fixed Assets Turnover ratio than that of Mannapuram Finance Limited which shows that Muthoot Finance Limited has higher rate of generating sales with a very small amount of fixed assets than that of Mannapuram Finance Limited. It also shows that the operating performance of Muthoot Finance Limited is higher than that of Mannapuram Finance Limited. Also Muthoot Finance Limited has a lower rate of Total Assets Turnover ratio than that of Mannapuram Finance Limited which clearly shows that Mannapuram has higher efficiency, revenues and productivity than that of Mannapuram Finance Limited

4) DEBT RATIO:-

$$\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

YEAR	MANNAPURAM FINANCE LIMITED	MUTHOOT FINANCE LIMITED
2013-2014	0.76	0.82
2014-2015	0.76	0.80
2015-2016	0.76	0.77
2016-2017	0.74	0.77
2017-2018	0.73	0.72



From the above table and graph it can be clearly seen that the debt ratio of Mannapurram Finance Limited is lower than that of Muthoot Finance Limited for four years from 2013-2017 which clearly shows that Mannapuram Finance Limited has taken a smaller and lower amount of risk than that of Muthoot Finance Limited and it also shows that a large amount of assets of Mannapuram Finance Limited are not financed through debt but equity in comparison to Muthoot Finance Limited.

FINDINGS:-

Based on the above analysis it can be clearly seen that:

1) The current ratio of Muthoot Finance limited is higher than that of Mannapuram Finance Limited for all the years from 2013-2018 except 2016-2017. Hence this shows that Mannapuram has a lesser efficiency and liquidity than that of Muthoot Finance Limited.

2) The cash ratio of Mannapuram Finance Limited is lesser than that of Muthoot Finance Limited for 2013-2014, 2014-2015 and 2016-2017 which clearly shows that Muthoot Finance Limited can easily pay off its debts than Mannapuram Finance Limited. It should also be noted that though Muthoot has a higher cash ratio than that of Mannapuram, all the cash ratio for the years are below 1 which clearly shows that both the companies need to have more cash reserves in order for it to pay the current debt. It shows less availability of cash in both the firms and in which Muthoot has lesser availability than that of Mannapuram

3) Muthoot Finance Limited has a higher operating profit margin ratio than that of Mannapuram Finance Limited for all the 5 years from 2013-2018 which clearly shows that Muthoot makes a higher profit than that of Mannapuram even after paying for all the costs that are variable in nature such as raw materials, wages, etc.

4) Muthoot Finance Limited has a higher net profit margin ratio than that of Mannapuram Finance Limited for all the 5 years from 2013-2018 except 2016-2017 which clearly shows that Muthoot has a better and an efficient manner of controlling costs and providing its products and services at a cost that is more higher than the price of its products and services

5) Muthoot Finance Limited has a higher fixed assets turnover ratio than that of Mannapuram Finance Limited for all the 5 years from 2013-2018 which clearly shows that Muthoot Finance is using its assets in a better way than Mannapuram Finance which helps in generating more sales with a small amount of fixed assets. Also it shows that

its operating performance is better than that of Mannapuram Finance Limited.

6) Total Asset Turnover ratio of Mannapuram Finance Limited is higher than that of Muthoot Finance Limited for four years from 2014-2018. which clearly shows that Muthoot has more efficiency in generating sales than that of Mannapuram Finance Limited

7) The debt ratio of Mannapurram Finance Limited is lower than that of Muthoot Finance Limited for four years from 2013-2017 which clearly lowshows that Mannapuram Finance Limited has taken a smaller and lower amount of risk than that of Muthoot Finance Limited and it also shows that a large amount of assets of Mannapuram Finance Limited are not financed through debt but equity in comparison to Muthoot Finance Limited.

SUGGESTIONS:-

1) New products or features or services which suit a diversified range of people need to be introduced by Mannapuram in order to reduce its competition from Muthoot.

2) Mannapuram should not finance its funds through debts. It can rather focus on creating more reserves and surplus.

3) Mannapuram Finance Limited must aim at increasing its sales when compared to Muthoot Finance by focusing more on cost reduction and profit maximization.

4) Mannapuram can merge with any other firm within the same industry and which has more amount of sales in order to increase its value in the market ahead of its competitors

5) If Mannapuram focuses more on customer satisfaction, customer retention and customer creation, it can certainly increase its profits over time.

CONCLUSION:-

Mannapuram Finance Limited and Muthoot Finance Limited are one of the best firms to invest in gold loan. Both the firms are doing significantly well in terms of profits, innovation, customer needs, wants and satisfaction, etc. But in terms of financial evaluation for the past five years from 2013-2018 Muthoot Finance Limited has a higher rate of profits than that of Mannapuram Finance Limited. Taking into consideration the important factors such as profit maximization and increasing customer base through customer creation and customer retention, Mannapuram Finance Limited can also increase its profits significantly. In general Mannapuram is also doing considerably well in terms of profits, revenue, growth and turnover but taking into consideration its competitor the above factors needs to be noted.

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