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A STUDY ON FINANCIAL PERFORMANCE ANALYSIS OF MRF LTD

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ABSTRACT

This research analyzes the financial performance of MRF Ltd focusing specifically on its liquidity and profitability over a decade (2014–2024). Utilizing essential financial ratios such as the current ratio, quick ratio, and cash ratio, the analysis assesses the company's capacity to fulfill short-term obligations. The results indicate that although MRF Ltd. has sustained a relatively stable liquidity position, it has consistently underperformed against optimal benchmarks, particularly in recent years, highlighting the necessity for enhanced working capital and quick asset management. These findings are vital for stakeholders evaluating the firm's short-term financial stability.

The article examines MRF Ltd.'s profitability through various ratios, including gross profit margin, net profit margin, return on assets (ROA), and return on equity (ROE). The analysis reveals variable profitability trends, peaking in the middle of the decade, followed by significant declines and a recent resurgence. Although there were instances of falling short of optimal ratios, MRF has shown robust financial health and the ability to generate profits. This assessment provides important insights for investors and financial decision-makers, underscoring the necessity of ongoing performance evaluation and strategic financial planning.

KEYWORDS: *Financial Performance, Liquidity Analysis, Profitability Ratios*

2.INTRODUCTION

Financial performance analyzing is essential for comprehending a company's operational capabilities and its sustainability over time. This process entails a thorough review of financial data to evaluate how effectively a company employs its resources to generate revenue and uphold its financial stability. Key focal points in this analysis include liquidity, which indicates the company's capacity to fulfill short-term liabilities, and profitability, which assesses how efficiently it converts resources into profits. For stakeholders, including investors, creditors, and management, these two aspects provide vital insights into the financial health of the organization.

In this context, MRF Ltd., the largest tyre manufacturer in India, is an appropriate candidate for financial assessment. With a significant presence in both domestic and international markets, MRF is crucial to the Indian tyre sector. A comprehensive financial analysis spanning a decade provides insights into the company's performance trends, its resilience against market fluctuations, and its operational strengths. Evaluating MRF's liquidity is essential for assessing its short-term financial stability, while an analysis of profitability highlights its capacity to generate value from its operations.

This study utilizes secondary data derived from MRF Ltd.'s published financial statements and reports over a ten-year timeframe (2014–15 to 2023–24). By concentrating on liquidity and profitability, the research seeks to provide a detailed and insightful perspective on the company's financial status. The findings from this analysis are anticipated to offer significant insights for financial stakeholders, improve corporate transparency, and contribute to the wider discourse on corporate financial health within the Indian manufacturing industry.

3.REVIEW OF LITERATURE

S Ramya, Porgeetha Angel R and Pavithra SR (2018) have studied in their Research Paper regarding 'An Analysis of Financial Performance of Apollo Tyres.' They have examined on the basis of analysis for the period from 2013 to 2017 that the firm with a relatively high level of combined leverage was seen as riskier than a firm with less combined leverage, as the high leverage means more fixed costs to the firm. The firm was highly liquid in the earlier year and after that it started to decrease in the succeeding years. The proprietary ratio has also indicated a good long-term solvency position in the earlier year and thereafter it has shown fluctuating trend. Net profit ratio has expressed that the firm is earning good profits, which shows the efficient and effective management of the functions of the business. They have given conclusions with the help of using ratios and leverage.

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Dr. D. Siva Sakthi, Ms. R. Selvapriya (2021) "A Study on Financial Performance of Apollo tyre" studies the financial overall performance is the tries to decide a security's feedthrough that specialize in underlying elements that have an effect on a business enterprise and its destiny prospectus on a border scope, it's favorable to carry out economic overall performance on industries or financial as a whole. Its overall performance is fundamental instrument, which affords all records approximately the economic role and operational performance of the business enterprise. It finishes that the business enterprise has to take suitable steps to manipulate the price, boost the extent of income, earnings within side the destiny years.

Dr. U. Arumugam and S. Pradeep Kumar (2020) "Study on financial performance of select tyre industry in India" examined the nature of results accomplished alludes to the presentation execution is utilized to demonstrative associations prosperity, conditions and compliance money related execution to the demonstration of performing monetary movement. Maintaining continued edge in technology through innovation and creativity in research and development has been the focused are at tyre industry in India the concept of green tyres becomes a paradigm of the country's competitive edge.

Nisha Rapheal (2013) , "An Overview Of The Financial Performance Of Indian Tyre Industry – Comparison Among Leading Tyre Companies" This study tries to evaluate the performance of Indian tyre industry in terms of various financial indicators, sales trend, production trend, export trend etc. for the period of 2003-04 to2011-12.The result suggests that the tyre industry has been passing through turbulent phases characterized by enhanced debt burden, low utilization of assets, and above all, huge liquidity crunch . The key to success in the industry is to improve labour productivity, labour flexibility, and capital efficiency.

S. Venkatesh, W. Infant Emiliya (2024) "an analysis of financial Performance of mrf tyres ltd" This comprehensive study delves into the financial performance analysis of MRF Tyres Ltd, a prominent player in the tyre manufacturing industry. The investigation encompasses a five-year period from2019 to 2023, utilizing a mixed-method research design that integrates quantitative and qualitative approaches. The study employs various financial ratios, trend percentages, and statistical measures to assess profitability, liquidity, and operational efficiency. A SWOT analysis identifies strengths, weaknesses, opportunities, and threats, emphasizing the need for strategic planning. This study will provide valuable insights for stakeholders, guiding MRF Tyres Ltd in navigating industry challenges and capitalizing on emerging opportunities for sustainable growth.

4.OBJECTIVES

- To Identify the Liquidity Position of MRF Ltd. during the period 2014–15 to 2023–24.
- To Analyze the Profitability of MRF Ltd. during the period 2014–15 to 2023–24.

5.RESEARCH METHODOLOGY

This study is focused on analyzing the liquidity and profitability of MRF Ltd. over a ten-year period from 2014–15 to 2023–24. The purpose is to understand how well the company can meet its short-term financial obligations and how effectively it generates profit.

Research Design

The study follows a descriptive research design, which means it is based on observing and analyzing existing data without making any changes. This helps to describe the financial performance of the company in a clear and factual manner.

Period of Study

The research covers ten financial years, from 2014–15 to 2023–24. This long-term view helps in understanding trends and changes in the company's financial performance.

Sources of Data

Secondary data have been used in this study. The data have collected from MRF Ltd.'s annual reports, financial statements available on official websites and Stock exchange filings (BSE and NSE)

Tools and Techniques Used

Financial Ratio Analysis

Liquidity Ratios

- Current Ratio
- Quick Ratio
- Cash Ratio

Profitability Ratios

- Gross Profit Margin
- Net Profit Margin

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- Return on Assets (ROA)
- Return on Equity (ROE)

6.ANALYSIS AND DISCUSSION

6.1 Liquidity Ratios

A liquidity ratio assesses a company's capacity to fulfill its short-term liabilities with its most liquid assets, reflecting the financial stability and short-term solvency of the organization.

Current Ratio The current ratio is a financial metric that assesses a company's capacity to settle its short-term obligations using its short-term assets.

Current Ratio = Current Asset / Current Liabilities

Quick Ratio The quick ratio, often referred to as the acid-test ratio, assesses a company's capacity to fulfill short-term liabilities by utilizing its most liquid assets, excluding inventory.

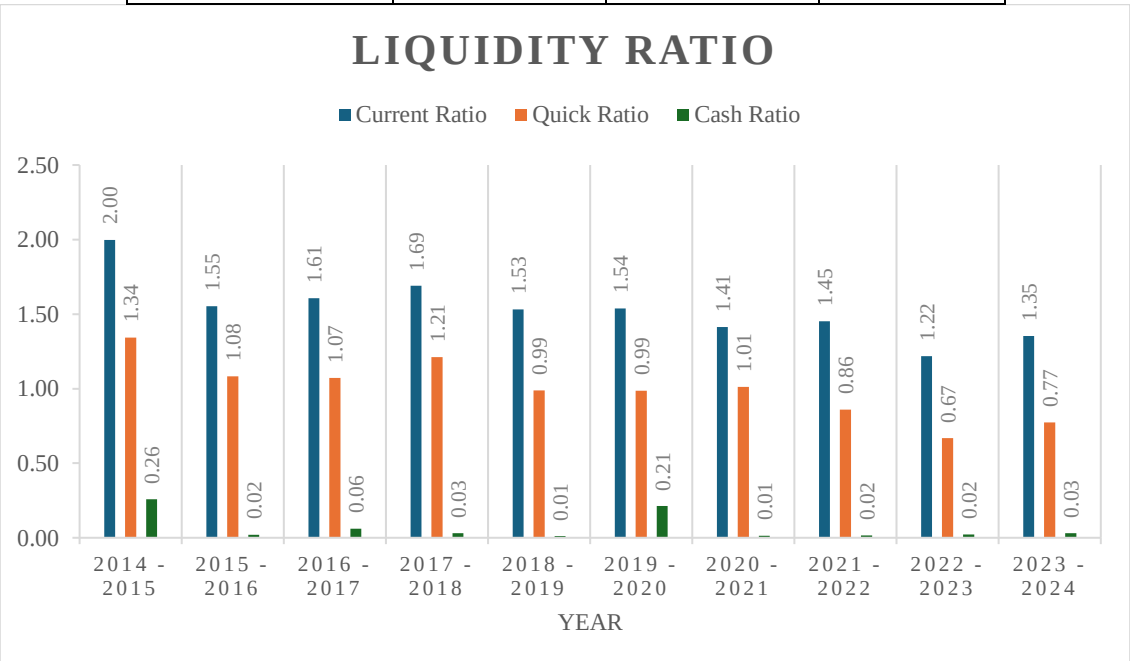
Quick Ratio = Quick Assets / Current Liabilities

Cash Ratio A liquidity measure that shows a company's ability to cover its short-term obligations using only cash and cash equivalents.

Cash Ratio = Cash and Cash Equivalents / Current Liabilities

Table 1 Liquidity Ratio

Year	Current Ratio	Quick Ratio	Cash Ratio
2014 - 2015	2.00	1.34	0.26
2015 - 2016	1.55	1.08	0.02
2016 -2017	1.61	1.07	0.06
2017 - 2018	1.69	1.21	0.03
2018 - 2019	1.53	0.99	0.01
2019 - 2020	1.54	0.99	0.21
2020 - 2021	1.41	1.01	0.01
2021 - 2022	1.45	0.86	0.02
2022 - 2023	1.22	0.67	0.02
2023 - 2024	1.35	0.77	0.03



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The liquidity position of MRF Ltd. has shown a steady decline over the past decade. The Current Ratio decreased from 2.00 to 1.35, signifying a diminished ability to fulfill short-term obligations. Similarly, the Quick Ratio dropped from 1.34 to 0.77, consistently remaining below the optimal threshold of 1 since 2018–19, indicating an increasing reliance on inventory. The Cash Ratio, which indicates the most immediate liquidity, has remained notably low, fluctuating between 0.01 and 0.26, suggesting insufficient cash reserves to address short-term liabilities. Collectively, these trends highlight a constrained liquidity position and underscore the necessity for enhanced cash and working capital management.

6.2 Profitability Ratio

A profitability ratio measures a company's capacity to produce profit in relation to its revenue, assets, or equity. It serves to evaluate the efficiency with which a company operates and generates earnings.

Gross Profit Margin The gross profit margin assesses the proportion of revenue that surpasses the cost of goods sold (COGS), reflecting the efficiency with which a company manufactures its products.

Gross Profit Margin = (Gross Profit / Revenue) *100

Net Profit Margin The net profit margin indicates the proportion of revenue that is retained as net profit following the deduction of all expenses, taxes, and costs. This metric reflects the overall profitability of a business.

Net Profit Margin = (Net Profit / Revenue) *100

Return on Assets (ROA) Return on Assets (ROA) is a financial metric that reflects the efficiency with which a company utilizes its assets to produce profit. It illustrates the amount of profit generated for every rupee of assets held. A higher ROA indicates that the company is adept at converting its investments into profits, showcasing robust and efficient management.

Return on Asset = (Net Profit / Total Asset) *100

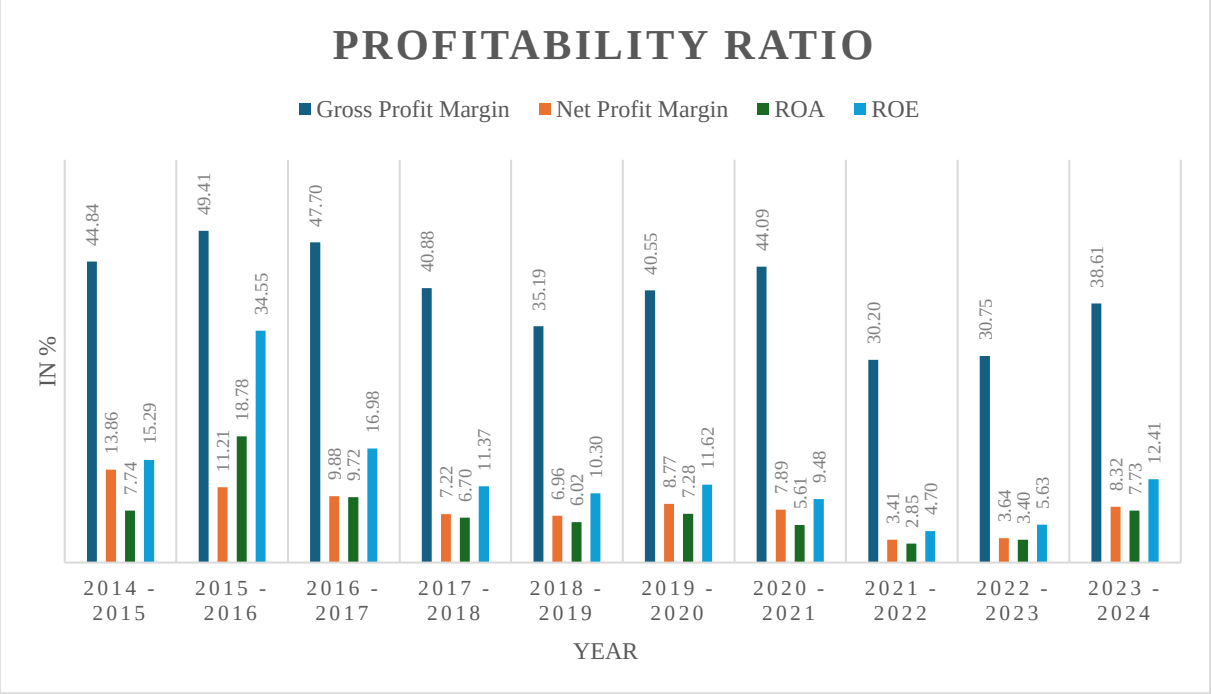
Return on Equity (ROE) Return on Equity (ROE) assesses the efficiency with which a company utilizes shareholders' equity to produce profit. It indicates the returns generated on the equity contributed by shareholders, with a higher ROE signifying superior financial performance.

Return on Equity = (Net Profit / Shareholders Fund) *100

Table 2 Profitability Ratio

Year	Gross Profit Margin (In %)	Net Profit Margin (In %)	ROA (In %)	ROE (In %)
2014 - 2015	44.84	13.86	7.74	15.29
2015 - 2016	49.41	11.21	18.78	34.55
2016 -2017	47.70	9.88	9.72	16.98
2017 - 2018	40.88	7.22	6.70	11.37
2018 - 2019	35.19	6.96	6.02	10.30
2019 - 2020	40.55	8.77	7.28	11.62
2020 - 2021	44.09	7.89	5.61	9.48
2021 - 2022	30.20	3.41	2.85	4.70
2022 - 2023	30.75	3.64	3.40	5.63
2023 - 2024	38.61	8.32	7.73	12.41

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The profitability of MRF Ltd. exhibited a downward trajectory from 2014–15 to 2021–22, as evidenced by a decrease in Gross Profit Margin from 44.84% to 30.20% and a reduction in Net Profit Margin from 13.86% to 3.41%. Nevertheless, a significant recovery was observed in 2023–24. Although Return on Assets (ROA) and Return on Equity (ROE) also experienced a decline during the mid-period, they have shown improvement in recent years, reflecting enhanced asset utilization and returns for shareholders. In summary, while profitability diminished over the years, there are indications of recovery in the past two years.

7.FINDINGS

- Over the ten-year period, MRF Ltd.'s current ratio declined from 2.00 in 2014–15 to 1.35 in 2023–24, indicating a weakening capacity to cover short-term liabilities with current assets.
- The quick ratio consistently remained below the ideal benchmark of 1 after 2018–19, reflecting an increased reliance on inventory to meet short-term obligations.
- The cash ratio stayed low throughout the period, rarely exceeding 0.26, signifying limited immediately available cash resources to handle urgent liabilities.
- Profitability ratios such as gross profit margin and net profit margin saw a marked decline between 2014–15 and 2021–22, reaching their lowest at 30.20% and 3.41% respectively.

8.SUGGESTIONS

- Improve working capital efficiency by optimizing inventory levels and accelerating receivables collection to strengthen liquidity.
- Increase cash and cash equivalent reserves to ensure better coverage of short-term obligations and improve the cash ratio.
- Implement tighter cost controls in manufacturing and procurement to sustain improvements in gross and net profit margins.
- Invest in process automation and asset utilization strategies to boost return on assets and equity.

9.CONCLUSION

The analysis of MRF Ltd.'s financial performance over the decade spanning 2014–15 to 2023–24 reveals a downward trend in liquidity, as evidenced by the decline in current, quick, and cash ratios, especially in the latter years. This trend underscores increasing challenges for the company in fulfilling short-term obligations and indicates a need for improved management of working capital and cash flow. Although MRF exhibited a relatively stable liquidity status during the initial years of the analysis, the recent data points to a more constrained financial situation that necessitates strategic corrective measures.

In terms of profitability, MRF Ltd. initially enjoyed robust margins and returns; however, fluctuations during the mid-period highlighted challenges including cost pressures and market dynamics. Positively, the last two years of the analysis indicate a recovery in key profitability ratios, suggesting enhanced efficiency and profitability. In summary, although the company has shown

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resilience, its ability to maintain strong financial performance will rely on proactive financial planning, operational efficiency, and ongoing performance assessment to effectively address future industry challenges.

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