Financial Health of Muthoot finance Limited - An Empirical Analysis

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Abstract

The present study is on "Financial Health of Muthoot Finance Limited" and it was based on the secondary data.Secondary data was retrieved from reports, documents, and profile. Financial stability of Muthoot Finance Limited has calculated by the Altman "Z" score evaluation. All the accounting ratios (activity, leverage, liquidity) are merged to form a single AccountingAngle. Edwin I Altman combined anumber of accounting ratios (Liquidity, Leverage, activity and profitability) to forman index of the profitability, which was an effective indicator of corporateperformance in predicting bankruptcy. Moving in this manner,an assessment of the financial situation covering the years 2018–2023 with the use of MDA, or multiple discriminant analysis.

Keywords

Financial Health, Bankruptcy, Muthoot Finance, Z Score

Introduction

In the past, economic necessity has been defined as a low income (relative to the Federal Poverty Line) or participation in safety-net programs related to housing, food, and health care. This has limited the approach through which the population experiences economic hardship to a siloed manner of strategies targeted at a specific problem as opposed to addressing its root causes.

Financial health is a holistic measure of financial well-being that encompasses own and others constituents' ability to meet basic needs, manage debt responsibly, prioritize their interests, save for the short-term and long-term goals including both liquid savings as well as sufficient accumulated income or assets given an individual has access), build wealth (even if it's just $2 per payment), resources. Financial health is not just associated with a range of economic insecurities (housing, food and energy insecurity, among others), it is identified as the underpinning driver of each.

The absence of reliable, consistent metrics and definitions of personal financial health has hampered attempts to increase wealth in order to alleviate housing insecurity, food insecurity, and other financial problems.Furthermore, the majority of previous research on financial health has been conducted in the consumer finance sector, where specific interventions are not developed or used with populations that are underbanked or have lower incomes.

Statement of the Problem

In 1997, the Muthoot Finance Limited was established as a private limited business. The organization has been providing financial services to its consumers in different Indian states since 1997.

The company's client base and branch networks throughout India are its main competitive advantages. It has a solid track record and strong brand name of its own. Since the start of the business, the financial operations and performance have grown yearly. All banking and nonbanking financial institutions are under intense competition, particularly in light of the proliferation of private finance companies and international banks operating in India. The Muthoot Finance Limited's pace of growth of financial performance has decreased as a result of that intense competition. The financial performance is strong, but growth is not occurring at the same rate as it did in the past. Therefore, in order to determine the consequences for policy, a detailed examination of Muthoot Finance Limited's financial performance is required.

Objectives of the Present Study

- ✓ To analyze the financial health of Muthoot Finance Limited
- ✓ To offer suggestions for improving the financial performance.

Significance of the Present Study

- ➢ To inform stakeholders about the company's financial performance status, including its strengths and weaknesses, as well as other matters.
- ➢ To support the management team by providing them with information about their financial performance and by clearing the path for them to conduct in-depth financial performance analyses in the future.
- ➢ To provide constructive feedback to the management and relevant government agencies regarding the establishment of an industry standard or benchmark within the same industry.
- ➢ To educate those in charge of financial decisions on how to estimate expected future outcomes while also analysing historical financial performance and issues.

- To give the business specific information about its financial performance from 2018 to 2023.
- To act as a standard for upcoming studies

Research Methodology

The present study is based on secondary data. The secondary data on the financialfacts related to Muthoot

Finance Limited have been drawn from the various annualreports of Muthoot Finance Limited from 2018 to 2023.

In this study thefinancial health of the company is analyzed based upon the following tools has beenmeasured with the help of Altman 'Z' score analysis.

The formula used toevaluate the "Z" score analysis system as established by Altman is as follows

Z = 0.012x1 + 0.014x2 + 0.033x3 + 0.006x4 + 0.999x5

"Z" is the overall index and the variables x1 to x4 are computed as absolutepercentage values while x5 is computed in number of times. Variables used in "Z"score analysis are:

Caluculation of Z Score

I. Working Capital to Total Assets (X1)

The ratio of working capital to total assets is (Working Capital / Total Assets x 100). It is the measure of the net liquid assets of a concern to the total capitalization.

1. Calculation of Working Capital

$$X1 = \text{working capital} / \text{Total asset}$$

Table 1 - Calculation of Working Capital

Year	Current Assets	Current Liabilities	Working Capital
2023	721782	510759	**211023**
2022	757141	565381	**191760**
2021	680988	523161	**157827**
2020	544274	423625	**120649**
2019	413384	102091	**311293**

Source: Secondary Data

2019-2020: A significant increase in working capital occurred during this period, likely due to increased investments in current assets or a decrease in current liabilities.

2020-2021: The working capital increased moderately, continuing the positive trend.

2021-2022: A slight decrease in working capital was observed, but it remained at a healthy level.

2022-2023: The working capital increased again, reaching its highest point in the given timeframe.

The working capital has generally increased over the past five years, indicating improved liquidity and financial health.

This positive trend suggests that the company has been effectively managing its current assets and liabilities.

2. Working Capital to Total Assets (X1)

Table 2 - X1 Calculation

Year	Working capital	Total Asset	X1	Weighted X1(1.2)
2023	211023	726198	0.290	**0.348**
2022	191760	763164	0.251	**0.301**
2021	157827	686414	0.229	**0.275**
2020	120649	548817	0.219	**0.263**
2019	311293	4173348	0.745	**0.894**

Source: Secondary Data

Table 2 reveals that the information regarding working capital to total assets (X1) X1 value is too high at the year 2019.

After 2019 it was decreased in the year 2020. After that 2021 it was started to boom. The last year X1 is 0.348.

The company's working capital efficiency, as measured by the X1 ratio, has fluctuated over the past five years. In 2019, it was high, indicating significant investment in working capital.

It decreased significantly in 2020 but has been steadily increasing since then, reaching its highest level in 2023. This suggests a growing investment in working capital relative to total assets.

II. Calculation of Net profit to Total Asset X2

$$X2 = Net\ Profit / Total\ Asset$$

Table 3 - Calculation of Net Profit to Total Asset X2

Year	Net profit	Total Asset	X2	Weighted X2(1.4)
2023	34735.31	726198	0.0478	**0.0669**
2022	40313.23	763164	0.0528	**0.0739**
2021	38188.70	686414	0.0556	**0.0778**
2020	40313.23	548817	0.0734	**0.1028**
2019	38188.70	4173348	0.0915	**0.1281**

Source: Secondary Data

Table 4 and 3 reveals that Net profit to total asset X2.

2019 X2 was 0.1281, 2019 X2 was 0.1028,

For the year 2021 X2 was 0.0778,

For the year 2022 X2 was 0.0739 and

Next year 2023 X2 was 0.0669.

The company's profitability, as measured by the X2 ratio, has fluctuated over the past five years.

In 2019, it was relatively high, indicating efficient use of assets to generate profits.

It decreased slightly in 2020 and 2021 but increased again in 2022 and 2023. This suggests a generally improving trend in profitability.

II. Net Profit to Sales (X2)

The ratio of the net operating profit to net sales is

$$(Net\ Operating\ Profit\ /\ Sales\ x100)$$

It indicates the efficiency of management in manufacturing, sales, administration andother activities.

Calculation of Net profit to Total Asset X2

$$X2 = \boldsymbol{Net\ Profit / Total\ Asset}$$

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For the year 2022 X2 was 0.0739

and

Next year 2023 X2 was 0.0669.

- ✓ **2019:** X2 was relatively high, indicating strong profitability relative to total assets.
- ✓ **2020:** X2 decreased slightly, suggesting a minor decline in profitability.
- ✓ **2021:** X2 increased slightly, indicating improved profitability.
- ✓ **2022:** X2 decreased again, but remained at a reasonable level.
- ✓ **2023:** X2 increased, suggesting a positive trend in profitability.

III. Ebit to Total Assets (X3)

The ratio of Earning before interest and taxed to total assets is

$$(Earnings\ before\ Interest\ and\ Tax\ /\ Total\ Assets\ x\ 100)$$

It is a measure of productivity of assetsemployed in an enterprise.

The ultimate existence of an enterprise is based on theearning power.

In the present study, it is computed by

$$Net\ operating\ profit\ /\ TA\ x\ 100$$

Calculation of Ebit to Total Asset X3

$$X3 = Ebit/Total\ Asset$$

Table 5 - Calculation of EBIT to Total Asset X3

Year	EBIT	Total Asset	X3	Weighted X3(3.3)
2023	46664.26	726198	0.0642	**0.2118**
2022	54101.87	763164	0.0708	**0.2336**
2021	51314.80	686414	0.0747	**0.2465**
2020	42603.91	548817	0.07762	**0.25614**
2019	32595.28	4173348	0.0781	**0.25773**

Source: Secondary Data

Table 5 reveals the information about X3.

2019 X3 was 0.25773, 2019 X3 was 0.25614,

For the year 2021 X3 was 0.2465,

For the year 2022 X3 was 0.2336

and

Next year 2023 X3 was 0.2118.

- ✓ **2019:** X3 was relatively high, indicating efficient asset turnover.
- ✓ **2020:** X3 decreased slightly, suggesting a minor decline in asset turnover efficiency.
- ✓ **2021:** X3 increased, indicating improved asset turnover efficiency.
- ✓ **2022:** X3 remained relatively stable.
- ✓ **2023:** X3 decreased slightly, but remained at a reasonable level.

IV. Equity to Debt (X4)

It shows the ratio between equity capital and debt capital of the unit.

It represents the relationship:

Represented as equation:

$$between\ the\ owned\ capital\ used\ by\ the\ firm\ and\ the\ borrowed\ capital\ of\ the\ firm$$

Calculation of Market Value Equity to Total Liabilities X4

$$X4 = \ Market\ Value\ Equity\ /\ Total\ Liabilities$$

Calculation of Market Value Equity

Table 6 - Calculation of Market Value Equity

Year	Market Value Per share	Dilluted shares	Market Value Equity
2023	1476	86.52	**127703.52**
2022	1063	100.5	**106831.5**
2021	1479	94.76	**140150.04**
2020	1210	78.20	**94622**
2019	761	51.82	**39435.02**

Source: Secondary Data

Table 6 reveals the market value equity of Muthoot.

For the year 2019 Market Value of Equity is 39435.05 next year it was decreased.

For the year 2020 Market value equity is 94622,

For the year 2021 the value is 140150.04,

For the year 2022 the value is 106831.5 and For the year 2023 it was 127703.52.

Calculation Of Market Value Equity To Total Liabilities X4

Table 7 - Calculation of market Value Equity to Total Assets X4

Year	Market Value Equity	Total Liabilities	X4	Weighted X4(0.6)
2023	127703.52	515578.86	**0.025**	**0.015**
2022	106831.5	383928.54	**0.278**	**0.167**
2021	140150.04	528818.35	**0.265**	**0.159**
2020	94622	310511.3	**0.305**	**0.183**
2019	39435.02	316612.22	**0.125**	**0.075**

Source: Secondary Data

For the year 2019 X4 was 0.075, 2020 X4 was 0.183, 2021 X4 was 0.159, 2022 X4 was 0.167 and for the year 2023 X4 was 0.015.

The company's leverage, as measured by the X4 ratio, has fluctuated over the past five years. In 2019, it was relatively high, indicating significant reliance on debt financing. Since then, the company has been deleveraging, with the X4 ratio decreasing significantly in 2022 and 2023. This suggests a stronger financial position with less risk associated with debt.

V. Sales to Total Assets

It reveals the activity of the unit with reference to its total assets. It is computed by theratio between the sales of the units and its total assets.

Calculation of Sales to Total Assets X5

$$X5 = Sales / Total\ Asset$$

Table 8 - Calculation of Sales to Total Assets X5

Year	Sales	Total Asset	X5	Weighted X5(1.0)
2023	105148.49	726198	0.1447	**0.1447**
2022	121849.49	763164	0.1596	**0.1596**
2021	115307.86	686414	0.1679	**0.1679**
2020	96839.80	548817	0.1764	**0.1764**
2019	75944.32	4173348	0.1819	**0.1819**

Source: Secondary Data

Table 8 reveals that X5 values for the year 2019 – 0.1819, for the year 2020 – 0.1764, for the year 2021 – 0.1679, for the year 2022- 0.1596 and for the year 2023 – 0.1447

The company's asset turnover efficiency, as measured by the X5 ratio, has fluctuated over the past five years. In 2019, it was relatively high, indicating efficient use of assets to generate sales.

Efficiency decreased slightly in 2020 and 2022, but increased in 2021 and 2023.

This suggests a general trend towards improvement in asset turnover, indicating that the company is becoming more effective in utilizing its resources to generate revenue.

VI. Calculation of Z Score

Table 9 - Z Score

Year	X1(1.2)	X2(1.4)	X3(3.3)	X4(0.6)	X5(1.0)	Z SCORE
2023	0.348	0.067	0.212	0.015	0.145	**0.787**
2022	0.301	0.074	0.234	0.167	0.159	**0.935**
2021	0.275	0.078	0.247	0.159	0.168	**0.927**
2020	0.263	0.103	0.256	0.183	0.176	**0.981**
2019	0.894	0.128	0.258	0.075	0.182	**1.537**

Source: Secondary Data

Table 9 reveals the Z score of the company. For the year 2019 Z Score was 0.981, for the year 2020 Z score was 0.981, For the year 2021 Z score was 0.927, For the year 2022 Z score was 0.925 and for the year 2023 Z Score was 0.787.

- ✓ **2019:** The Z-score is significantly higher than in other years, suggesting that the company's financial performance in 2019 was significantly different (likely better) than the average.
- ✓ **2020:** The Z-score decreased, indicating a less significant deviation from the average.
- ✓ **2021:** The Z-score increased slightly, suggesting a slightly better performance compared to the average.
- ✓ **2022:** The Z-score decreased again, but remained above average.
- ✓ **2023:** The Z-score remained relatively stable, suggesting a consistent performance relative to the average.

Recommendations

1. **Continue to Improve Working Capital Management:** The decreasing trend in X1 suggests that the company has been making progress in managing its working capital. However, there is still room for improvement. Consider strategies such as optimizing

inventory levels, accelerating accounts receivable collection, and negotiating better payment terms with suppliers.

2. **Maintain Profitability:** While profitability has remained relatively stable, explore opportunities to increase revenue or reduce costs to further enhance profitability.
3. **Leverage Reduction:** The significant decrease in X4 indicates a reduction in leverage, which is generally positive. However, it's important to ensure that the company maintains a healthy debt-to-equity ratio to avoid excessive financial risk.
4. **Optimize Asset Turnover:** While asset turnover efficiency has remained relatively stable, consider strategies to improve asset utilization and reduce non-performing assets.
5. **Risk Management:** Continuously assess and manage the company's exposure to various risks, such as credit risk, market risk, and operational risk.

- **Regulatory Compliance:** Ensure compliance with all relevant regulations and industry standards.
- **Technology Adoption:** Explore opportunities to leverage technology to improve efficiency, reduce costs, and enhance customer experience.
- **Customer Satisfaction:** Focus on providing excellent customer service to build loyalty and attract new customers.
- **Corporate Social Responsibility:** Engage in corporate social responsibility initiatives to enhance the company's reputation and contribute to the community.

Conclusion

Based on the analysis of the provided data, Muthoot Finance appears to be in a relatively strong financial position. The company has made significant improvements in its working capital management and leverage over the past few years. While profitability and asset turnover efficiency have fluctuated, the overall trend suggests a positive financial performance.

However, it's important to note that this analysis is based on limited information. A more comprehensive assessment would require additional data, such as financial statements, industry benchmarks, and specific definitions of the financial ratios used in the analysis.

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