

FINANCIAL HEALTH OF MUTHOOT FINANCE LIMITED - AN EMPIRICAL ANALYSIS

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ABSTRACT

The present study “Financial Health of Muthoot Finance Limited” was based on secondary data from records, reports and profile of the organization. The financial health of the Muthoot finance Limited has been measured with the help of Altman ‘Z’ score analysis. Edwin I Altman combined a number of accounting ratios (Liquidity, Leverage, activity and profitability) to form an index of the profitability, which was an effective indicator of corporate performance in predicting bankruptcy. In this direction, an attempt made to evaluate the financial health cover the period of 2004-2014 by applying Multiple Discriminant Analysis (MDA).

Key words: Financial health, Accounting ratios, Profitability ratio, Corporate Performance, Bankruptcy

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1. INTRODUCTION

Muthoot Finance Limited is an Indian financial corporation. It is known as the largest gold financing company in the world. In addition to financing gold transactions, the company offers foreign exchange services, money transfers, wealth management services, travel and tourism services, and sells gold coins at Muthoot Finance Branches. The company's headquarters are located in Kerala, India, and it operates over 4,400 branches throughout the country. Outside India, Muthoot Finance is established in the UK, the US, and the United Arab Emirates. While the company

falls under the brand umbrella of the Muthoot Group, its stocks are listed on the Bombay Stock Exchange (BSE) and NSE. As of March 2012, revenue (after expenditure) stood at more than Rs.23, 000 crore (\$4.2 billion). The target market of Muthoot Finance includes small businesses, vendors, farmers, traders, SME business owners, and salaried individuals.

2. STATEMENT OF THE PROBLEM

The Muthoot Finance Limited was setup as a private limited company in 1997. From 1997 onwards, the company has been extending their financial services to their customers at the various states in India. The major strength of the company is its customer's base and branch networks in India. It has its own strong brand name and track record. The financial activities and the performance of the company has been increasing year by year from the beginning. Especially after the exists of so many private finance companies and the foreign banks into India, all the banking and non-banking financial companies are facing severe competition. Because of that severe competition, The Muthoot Finance Limited has a decline in its rate of growth of financial performance. Even though, the financial performance is good, its rate of growth is not at an appreciable level like in the past. Hence, there is a need for thorough analysis on the financial performance of Muthoot Finance Limited for the sake of its policy implications.

3. OBJECTIVES OF THE STUDY

The Main objective of the study is to analyse the financial health of Muthoot Finance Limited and to offer suggestions for improving the financial performance.

4. METHODOLOGY

The present study is based on secondary data. The secondary data on the financial facts related to Muthoot Finance Limited have been drawn from the various annual reports of Muthoot Finance Limited from 2004-05 to 2013-14. In this study the financial health of the company is analyzed based upon the following tools has been measured with the help of Altman 'Z' score analysis. Edwin I Altman combined a number of accounting ratios (Liquidity, Leverage, activity and profitability) to form an index of the profitability, which was an effective indicator of corporate performance in predicting bankruptcy. In this direction, a variety of studies have been conducted over the period by applying multiple discriminant analysis (MDA) to predict the corporate failure by financial analysis like Altman. The formula used to evaluate the "Z" score analysis system as established by Altman is as follows

$$Z = 0.012x_1 + 0.014x_2 + 0.033x_3 + 0.006x_4 + 0.999x_5$$

"Z" is the overall index and the variables x_1 to x_4 are computed as absolute percentage values while x_5 is computed in number of times. Variables used in "Z" score analysis are

4.1. Working Capital to Total Assets (X_1)

The ratio of working capital to total assets is (Working Capital / Total Assets x100). It is the measure of the net liquid assets of a concern to the total capitalization.

4.2. 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 and other activities.

4.3. 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 assets employed in an enterprise. The ultimate existence of an enterprise is based on the earning power. In the present study, it is computed by Net operating profit / TA x 100.

4.4. Equity to Debt (x₄)

It shows the ratio between equity capital and debt capital of the unit. It represents the relationship between the owned capital used by the firm and the borrowed capital of the firm.

4.5. Sales to Total Assets

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

5. MEASUREMENT OF FINANCIAL HEALTH

Altman established the following to be used to classify firms as either financially sound or bankrupt. Altman's guidelines for Healthy zone:

Situation Z scores	Zones	Possibility
I below 1.8	Bankruptcy Zone	Certain to fall
II 1.8-3.0	Healthy Zone	Uncertain to predict
III 3.0 And above	Too healthy zone	Not to fall.

- Below "Z" scores of 1.8 of the unit is considered to be in bankruptcy zone. Its failure is certain and extremely likely and would occur probably within a period of the year.
- If a unit has a "Z" score between 1.8 to 3, its financial viability is considered to be healthy. The failure in this situation is uncertain to predict.

Above "Z" score of 3, the unit is in too healthy zone. Its financial health is very viable and not to fall.

The Financial health of the Muthoot Finance Limited is to be studied by considering working Capital to total assets(x1), Net profit to Sales (x2), Earnings before Interest and Tax to total assets(x3), Equity to debt (x4) and Sales to Total assets (x5)

6. WORKING CAPITAL TO TOTAL ASSETS IN MUTHOOT FINANCE LIMITED

One of the ratios included to measure the financial health of the organisation is the ratio between working capital to total assets. This ratio has been computed from 2004-05 to 2013-14. The weightage given in the Altman 'Z' score analysis is 0.012. Hence the weighted ratios for each year have been computed. The results are shown in Table 1.1.

TABLE 1.1 Working Capital to Total Assets during the Study Period

Sl.No.	Year	Working capital	Total assets	WC/TA	Weighted WC/TA (0.012)
1.	2004-05	715.26	95.87	7.4607	0.0895
2.	2005-06	849.57	159.82	5.3158	0.0637
3.	2006-07	1470.04	205.80	7.1430	0.0857
4.	2007-08	2018.35	495.72	4.0716	0.0488
5.	2008-09	3404.26	953.01	3.5721	0.0428
6.	2009-10	5706.43	1405.86	4.0590	0.0487
7.	2010-11	13033.66	1523.70	8.5539	0.1026
8.	2011-12	21978.66	2012.18	10.9228	0.1311
9.	2012-13	27700.25	3003.16	9.2237	0.1107
10.	2013-14	24241.24	3699.38	6.5528	0.0786

The working capital in Muthoot Finance Limited is increasing from Rs.715.26 crores in 2004-05 to Rs.24241.24 crores in 2013-14 whereas the total assets is increasing from Rs.95.87 crores to Rs.3699.38 crores during the study period. The ratio between working capital and total assets is varying from 3.5721 to 10.9228. The weighted ratio is varying from 0.428 to 0.1311 3.5721.

7. NET PROFIT TO SALES IN MUTHOOT FINANCE LIMITED

The net profit of the Muthoot Finance Limited represents the profit before tax. The net profit from 2004-05 to 2013-14 and the total sales from during the same period have been collected from various annual reports in order to compute. The ratio between the net profit to sales. The weightage of this ratio in the Altman 'Z' score analysis is 0.014. The weighted ratio from 2004-05 to 2013-14 have been computed and presented in Table 1.2.

TABLE 1.2 Net Profit to Sales during the Study Period (X_2)

Sl.No.	Year	Net Profit	Total Sales	NP/Total Sales	Weighted (0.014)
1.	2004-05	17.68	693.65	0.0255	0.0004
2.	2005-06	41.33	795.15	0.0519	0.0007
3.	2006-07	66.96	1401.34	0.0478	0.0006
4.	2007-08	96.98	1805.69	0.0537	0.0008
5.	2008-09	148.17	2583.75	0.0573	0.0008
6.	2009-10	345.55	4461.69	0.0774	0.0011
7.	2010-11	761.21	11751.77	0.0648	0.0091
8.	2011-12	1331.25	21360.02	0.0623	0.0009
9.	2012-13	1511.45	26413.11	0.0572	0.0008
10.	2013-14	1193.55	21894.49	0.0545	0.0545

The net profit of the Muthoot Finance Limited is increasing from Rs.17.68 crores in 2004-05 to Rs.1193.55 crores in 2013-14 whereas the total sales is increasing from Rs.693.65 crores to Rs.21894.49 crores during the same period. The ratio between net profit to total sales is increasing from 0.0255 to 0.0545 during the same period. The weighted ratio is increasing from 0.0004 in 2004-05 to 0.0545 in 2013-14.

8. EARNING BEFORE INTEREST AND TAX TO TOTAL ASSETS IN MUTHOOT FINANCE LIMITED

The earning before interest and tax (EBIT) and total assets of Muthoot Finance Limited from 2004-05 to 2013-14 have been collected from the various annual reports. The ratio between these two items have been computed since it is included as one of the important components of Altman 'Z' score. The weightage given for this ratio is 0.033. Hence the weighted ratio from 2004-05 to 2013-14 have been computed and shown in Table 1.3.

TABLE 1.3 Earnings before Interest and Tax to Total Assets during the Study Period (X_3)

Sl.No.	Year	EBIT	Total Assets	EBIT/ Total Assets	Weighted (0.003)
1.	2004-05	37.39	95.87	0.3900	0.0129
2.	2005-06	55.55	159.82	0.3476	0.0114
3.	2006-07	89.93	205.80	0.4369	0.0144
4.	2007-08	130.36	495.72	0.2629	0.0087
5.	2008-09	198.62	953.01	0.2084	0.0069
6.	2009-10	463.52	1405.86	0.3297	0.0108
7.	2010-11	1028.25	1523.70	0.6748	0.0223
8.	2011-12	1773.32	2012.18	0.8813	0.0291
9.	2012-13	2028.51	3003.16	0.6755	0.0223
10.	2013-14	1605.95	3699.28	0.4341	0.0143

The EBIT is increasing from Rs.37.39 crores in 2004-05 to Rs.1605.95 crores in 2013-14 whereas the total assets is increasing from Rs.95.87 crores to Rs.3699.38 crores during the same period. The ratio between the EBIT to total assets is increasing from 0.3900 in 2004-05 to 0.4341 in 2013-14. The weighted ratio is increasing from 0.0129 to 0.0143 during the same period.

9. EQUITY TO DEBT RATIO IN MUTHOOT FINANCE LIMITED

It is the reciprocal of the debt equity ratio which is included as one of the important components of Altman 'Z' score analysis. This ratio from 2004-05 to 2013-14 have been computed separately. The weightage of this ratio in the Altman 'Z' score analysis is 0.006. The weighted ratio is also computed to calculate the 'Z' score of Muthoot Finance Limited. The results are shown in Table 1.4.

TABLE 1.4 Equity to Debt during the Study Period (X_4)

Sl.No.	Year	Equity	Debt	Equity to Debt	Weighted (0.006)
1.	2004-05	63.74	681.95	0.0935	0.0006
2.	2005-06	90.86	805.87	0.1127	0.0006
3.	2006-07	159.85	1382.64	0.1156	0.0007
4.	2007-08	223.45	1915.30	0.1167	0.0007
5.	2008-09	327.07	3165.59	0.1033	0.0006
6.	2009-10	584.55	5280.52	0.1107	0.0007
7.	2010-11	1334.40	11938.58	0.1118	0.0007
8.	2011-12	2925.72	6510.34	0.4494	0.0027
9.	2012-13	3735.56	8516.32	0.4386	0.0026
10.	2013-14	4254.57	7802.00	0.5453	0.0033

The equity capital of Muthoot Finance Limited is increasing from Rs.63.74 crores in 2004-05 to Rs.4254.57 crores in 2013-14 whereas the debt is increasing from RS.681.95 to crores to Rs.7802.00 crores during the same period. The ratio between equity to debt is increasing from 0.0935 in 2004-05 to 0.5453 in 2013-14. The weighted ratio is increasing from 0.0006 to 0.0033 during the same period.

10. SALES TO TOTAL ASSETS RATIO IN MUTHOOT FINANCE LIMITED

It is included as one of the important components of Altman 'Z' score. It is computed by the ratio between the sales and total assets of Muthoot Finance Limited from 2004-05 to 2013-14. The weightage given on this ratio in the Altman 'Z' score is 0.999. The ratio between the sales and total assets and its weighted ratios from 2004-05 to 2013-14 are summated in Table 1.5.

TABLE 1.5 Sales to Total Assets during the Study Period (X_5)

Sl.No.	Year	Sales	Total Assets	Sales / TA (X_5)	Weighted (0.999)
1.	2004-05	63.74	681.95	0.0935	7.2280
2.	2005-06	90.86	805.87	0.1127	4.9703
3.	2006-07	159.85	1382.64	0.1156	6.8024
4.	2007-08	223.45	1915.30	0.1167	3.6389
5.	2008-09	327.07	3165.59	0.1033	2.7084
6.	2009-10	584.55	5280.52	0.1107	3.1705
7.	2010-11	1334.40	11938.58	0.1118	7.7049
8.	2011-12	2925.72	6510.34	0.4494	10.6047
9.	2012-13	3735.56	8516.32	0.4386	8.7863
10.	2013-14	4254.57	7802.00	0.5453	5.9125

The sales of Muthoot Finance Limited is increasing from s.1693.65 crores in 2004-05 to Rs.64894.91 crores in 2013-14 whereas the total sales in increasing from Rs.95.70 crores to Rs.3699.38 crores. The ratio between the sales and total assets is increasing from 7.2353 in 2004-05 to 10.6154 to 2011-12 and their decline to 5.9184 in 2013-14 whereas the weighted ratio is increasing from 7.2280 in 2004-05 to 10.6047 in 2011-12 and their decline in 5.9125.

11. ALTMAN'S 'Z' SCORE ON FINANCIAL HEALTH OF MUTHOOT FINANCE LIMITED

The Altman 'Z' Score on financial health of Muthoot Finance Limited is computed by the given formula.

$$Z = 0.012x_1 + 0.014x_2 + 0.033x_3 + 0.006x_4 + 0.999 x_5$$

Whereas the X_1 – Working Capital to total assets; X_2 – Net profit to total assets; X_3 – Earnings before interest and tax to total assets; X_4 – Equity to debt; and X_5 – Sales to total assets. The 'Z' score from the year of 2004-05 to 2013-14 have been computed. The results are given in Table 1.6.

TABLE 1.6 Score on Financial Health of Muthoot Finance Limited during Study Period

Sl. No.	Year	Weighted Score in various ratios					'Z' Score
		WE/TA (X ₁)	NP/ Total (X ₂)	EBIT/ TA (X ₃)	Equity/ debt (X ₄)	Sales/ TA (X ₅)	
1.	2004-05	0.0895	0.0004	0.0129	0.0006	7.2353	7.3387
2.	2005-06	0.0637	0.0007	0.0114	0.0006	4.9753	5.0517
3.	2006-07	0.0857	0.0006	0.0144	0.0007	6.8092	6.9106
4.	2007-08	0.0488	0.0008	0.0087	0.0007	3.6425	3.7015
5.	2008-09	0.0428	0.0008	0.0069	0.0006	2.7111	2.7622
6.	2009-10	0.0487	0.0011	0.0108	0.0007	3.1736	3.2349
7.	2010-11	0.1026	0.0091	0.0223	0.0007	7.7126	7.8473
8.	2011-12	0.1311	0.0009	0.0291	0.0027	10.6154	10.7792
9.	2012-13	0.1107	0.0008	0.0223	0.0026	8.7951	8.9309
10.	2013-14	0.0786	0.0545	0.0143	0.0033	5.9184	6.0691

The 'Z' score of financial health is varying from 2.7622 in 2008-09 to 10.7792 in 2011-12. It is increasing from 7.2387 in 2004-05 to 10.7792 in 2011-12. During the study period, the 'Z' score of the Muthoot Finance Limited is greater than 3.00 in all years except in 2008-09. It reveals that the Muthoot Finance Limited is in the higher health zone. In 2008-09, the 'Z' score is 2.7622 which reveals that the company is in the healthy zone but not in too healthy zone. In total, the Muthoot Finance Limited is in the too healthy zone.

12. SUMMARY OF FINDINGS

The financial health of Muthoot Finance Limited is measured of Alman's 'Z' score analysis. The included five important ratio in the 'Z' scores are working capital to total assets, net profit to total sales, Earnings before interest and tax to total assets, equity to debt and sales to total assets. The working capital to total assets is continuously increasing during the study period whereas the net profit to total sales is increased by 2.14 times doing the study period. The rate of increase in the Earnings before interest and tax to total sales is at the rate of 1.12 times doing the study period whereas the equity to debt is increased by 5.38 times. The sales to total assets are decreased by 0.8179 times. The 'Z' score of the Muthoot Finance Limited is always higher than 3.00 which reveals the too healthiness of the company. The financial health of Muthoot Finance Limited is too sound since it's 'Z' score is greater than 3.00. But is declining during the study period. It is the appropriate time to examine the reasons for such fall in financial health. Other size the Muthoot Finance Limited may loose its financial health very soon.

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