

AUTHORS

Ashima
Assistant Professor,
JDMC, Rajender Nagar,
University of Delhi,
New Delhi.

Dr. S.C. Chitkara
Reader & Head,
P.G. Faculty of
Commerce,
SSV College, Hapur,
(Ghaziabad)

Cash Flow Valuation of Maruti and Hyundai An Analytical Perspective

ABSTRACT

This research paper focuses on an analytical valuation perspective of Maruti Suzuki India Ltd. (MSIL) and Hyundai Motors India Ltd. (HMIL). MSIL is the no. one car maker in India and HMIL takes place second position. The companies were valued on the basis of 9 financial parameters. In the present era of Liberalization, Privatization and Globalization, the Market has become globally competitive; hence the survival of an enterprise depends upon the efficiency and accuracy, it is necessary to evaluate the financial performance of sampled units to know where these companies stand in the market and how these companies can improve further in the future by knowing their shortcomings.

1. INTRODUCTION

It is a basic fact that managers who focus on building shareholder value will create healthier companies that who do not. Healthier companies will in turn, lead to stronger economies, higher living standard and more career and business opportunities. It the objective in corporate finance is the maximization of firm's value, then the relationship between financial decisions, corporate strategy and firm value has to be delineated. The value of a firm can be directly related to decisions that it makes, on which projects it takes, on how it finances them and on its dividend policy.

Basically there are two approaches to valuation. The first and most fundamental approach is discounted cash flow valuation, which extends the present value principles used to analyze projects to value a firm. The value of a firm is determined by four factors:- Its capacity to generate cash flow from assets in place, the expected growth rate of these cash flow, the length of time it will take for the firm to reach stable growth rate and cost of capital. The second way of valuing a firm or is equity is based on how the market is valuing similar or comparable firms. This is called relative valuation.

2. ROLE OF VALUATION

Valuation is useful in a wide range of tasks. The role it plays however is different in different arenas. Valuation is the central focus in fundamental analysis. The underlying theme in fundamental analysis is that true value of firm can be related to its financial characteristics-its growth prospects, risk profile and cash flow.

Some analysts use discounted cash flow models to value firms, while others use multiple such as the price/earnings and book value ratios. Thus valuation plays a key role in many areas of finance in corporate finance, in merger & acquisition and in portfolio management.

- a) **Corporate Finance:** - It the objective in corporate finance is the maximization of firm's value, then the relationship between financial decisions, corporate strategy and firm value has to be delineated. The value of a firm can be directly related to decisions that it makes, on which projects it takes, on how it finances them and on its dividend policy.
- b) **Merger & Acquisition:** - It plays a central in acquisition analysis. The bidding firm or industry has to decide on a fair value for the target firm before making a bid and the target firm has to determine

reasonable value for itself before deciding to accept or reject the offer.

- c). **Portfolio Management:** - The role that valuation plays in portfolio management is determined in larger part by the investment philosophy of the investor. Valuation plays a minimal role in portfolio management for a passive investor, whereas it plays a larger role for an active investor. Even among the active investor, the nature and role of valuation are different for different types of active investment.

3. METHODOLOGY

The data set for the study was collected from the CMIE Prowess database. Two companies, MSIL and HMIL have been taken into study for a period of 2000 to 2009 from automobiles sector. The companies were valued on the basis of 9 financial parameters. The following parameters were utilized for the study:-

1. Average Growth Rate
 2. Sales
 3. Market Capitalization
 4. Research & Development
 5. Cash Flows
 6. Shareholder Wealth
 7. Ratio Analysis
 8. Profitability Analysis
 9. Market Value Analysis
- The values of market capitalization & sales represent the valuation dimension from the perspective of the stock market performance and operating performance.
 - The central focus is on cash flow because they represent the actual economic benefits generated by the assets.
 - The study also uses the liquidity, profitability, efficiency and solvency ratios to examine the top value creators.
 - Liquidity ratios measure the firm's ability to meet current obligations.
 - Profitability ratios measure overall performance and effectiveness of the firm.
 - Efficiency ratios or Activity ratios are

employed to evaluate the efficiency, with which the firm manages and utilizes its assets.

- Leverage ratios are helpful in understanding the long-term financial position of the firm.

4. RESULTS AND INTERPRETATION

i) Valuation on the basis of Average

Growth Rate of Sales : Sales figures for the last 10 years from 2000 to 2009 were taken for the analysis. First the growth rate for each year was calculated and the average of the growth rate for all years was taken.

Table-1 : Higher growth Rate Company

Average growth rate (2000-2009)		
Rank	Company	Growth Rate (%)
1	HMIL	61.67
2	MSIL	13.77

Source of Data: CMIE Prowess database

It is observed that HMIL is having the higher growth rate as compared to MSIL. The growth rate of HMIL is 61.67% in comparison to the 13.77% of MSIL.

ii) **Valuation on the basis of Sales :** The methodology involved finding out the cumulative sales for both the companies to determine the top company in terms of sales for the past 10 years.

Table-2 (i): Top Company in terms of Cumulative Sales

Cumulative Sales (2000-2009)		
Rank	Company	Total Cumulative Sales in (In Crore)
1	HMIL	11312
2	MSIL	6241

Source of Data: CMIE Prowess database

The sales of MSIL is more than the sales of next best its competitor HMIL. It is almost double in comparison to the HMIL's Sales.

Table-2 (ii): Ranking Based on Sales

Position Based on Sales (2009)		
Rank	Company	Total Sales (In Crore)
1	HMIL	20530.10
2	MSIL	15522.55

Source of Data: CMIE Prowess database

When the sales exclusively for the year 2009 is taken, the position remains the same, MSIL leads in the case of higher sales.

iii) Valuation based on Average Market Capitalization : The following table gives a position of both the companies ranked on the basis of market capitalization.

Table-3 : Average Market Capitalization-Valuation

Market Capitalization (2000 - 2009)		
Rank	Company	Average Market Capitalization (In Crore)
1	HMIL	20303
2	MSIL	NIL

Source of Data: CMIE Prowess database

From the above table it can be seen that MSIL has the higher market capitalization as compared to HMIL. The position of HMIL is almost NIL in the case of market capitalization.

iv) Valuation based on Research & Development Expenditure : The following table gives the ranking of the Average R&D expenditure of MSIL and HMIL for the last 10 years (2000-2009):-

Table-4 : R&D Trade

Average R&D expenditure (2000 - 2009)		
Rank	Company	R & D Expenditures (In Crore)
1	MSIL	0.38
2	HMIL	0.06

Source of Data: CMIE Prowess database

From the above table we can see that there is a big difference between the R&D expenditure of MSIL and HMIL. Very less attention has been paid by the HMIL in the last 10 years over the R&D expenditure.

v) Valuation based on Cash Flows: The following table gives a position of both the companies that have topped in the operational cash flows.

Table-5 : Cash flow Valuation

Average Cash flow (2000 - 2009)		
Rank	Company	Average Cash Flows in (In Crore)
1	MSIL	834.71
2	HMIL	429.01

Source of Data: CMIE Prowess database

From the above table we can see that MSIL has higher cash flows followed by HMIL. Figure Rs. 834.71 Crs represents the cash flow position of MSIL whereas the figure Rs. 429.01 Crs represents the cash flow position of HMIL.

vi) Valuation based on Shareholders Wealth : The following table gives a position of both the companies that have topped in the shareholders wealth.

Table-6:Shareholders Wealth Valuation

Shareholders Wealth (2000 - 2009)		
Rank	Company	Shareholders Wealth (In Crore)
1	MSIL	4939.67
2	HMIL	1742.06

Source of Data: CMIE Prowess database

From the above table we can see that MSIL has higher shareholders wealth followed by HMIL. MSIL's shareholder wealth was Rs. 4939.67 Crs whereas HMIL's shareholder wealth was Rs. 1742.06 Crs.

vii) Valuation based on General Ratio Analysis : The ratios used were categorized

into liquidity, profitability, efficiency and leverage ratios. The ratios were calculated for a period of 10 years from 2000 to 2009 on an average basis. The companies were ranked on the basis of each ratio type; points were given to the companies in each ratio type.

was 557.86 in the comparison of 49.78 score of HMIL.
ix) Valuation based on Market Value Ratios : The three ratios of EPS, P/E Ratio and BVPS were taken as indicators of market valuation. All the three ratios were given equal weight age in arriving at a single

Table-7.1 :Ratio Analysis-Liquidity and Profitability (2000-2009)

Points	Company	Liquidity Score	Points	Company	Profitability Score
2	MSIL	3.18	2	MSIL	557.86
1	HMIL	3.15	1	HMIL	49.78

Source of Data: CMIE Prowess database

Table-7.2 :Ratio Analysis-Efficiency and Leverage

Points	Company	Liquidity Score	Points	Company	Profitability Score
2	MSIL	137.98	2	MSIL	45.30
1	HMIL	51.62	1	HMIL	45.13

Source of Data: CMIE Prowess database

Table-7.3 :

Ranking of Companies on the basis of Ratio Analysis points (2000-09)

Rank	Company	Total Points
1	MSIL	7
2	HMIL	5

Source of Data: CMIE Prowess database

MSIL tops the list. MSIL has got the 7 points in comparison to 5 points of HMIL. MSIL has got 6 points for liquidity, profitability and for leverage score, in the case of efficiency score it has got only 1 point.

viii) Valuation based on Profitability : The three ratios of ROI, ROE and ROA were taken as indicators of profitability. All the three ratios were given equal weightage in arriving at a single figure called profitability score that will signify the profitability of the company.

From the above table we can see that MSIL leads the list in terms of profitability followed by HMIL. MSIL profitability score

Table- 8

Valuation Based on Profitability

Rank	Company	Profitability Score
1	MSIL	557.86
2	HMIL	49.78

Source of Data: CMIE Prowess database

Table- 9 : Valuation in terms of Market Value Ratios

Rank	Company	Market Value Score
1	MSIL	4120.05
2	HMIL	229.41

Source of Data: CMIE Prowess database

figure called market score that will signify the market valuation of the company.

From the above table we can see that HMIL leads the list in terms of market valuation. HMIL market value score was 4120.05 in the comparison of 229.41 of MSIL.

For the given value of V1-1 and V2-18, the F=4.41 and the calculated value of F

Table-10 ANNOVA Table and Sales Growth

Let's take the hypothesis that sales growth is not positively related to the value of firm.

Source of Variation	Sum of Square	Degree of freedom	Mean Square
Between Sample	1508.96	1	1508.96
Within Sample	1348.60	18	74.92

Table-11 ANNOVA Table and Profitability

Let's take the hypothesis that profitability is not positively related to the value of firm.

Source of Variation	Sum of Square	Degree of freedom	Mean Square
Between Sample	11157.22	1	11157.22
Within Sample	11912.56	18	661.81

Table-12 ANNOVA Table and Leverage

Let's take the hypothesis that Leverage is positively related to the value of firm.

Source of Variation	Sum of Square	Degree of freedom	Mean Square
Between Sample	900.90	1	900.90
Within Sample	1921.93	18	106.77

Table-13 ANNOVA Table and Market Value Ratios

Let's take the hypothesis that market value ratios are not positively related to the value of firm.

Source of Variation	Sum of Square	Degree of freedom	Mean Square
Between Sample	77812.73	1	77812.73
Within Sample	45595.56	18	2533.09

(20.14) is greater than this value, so our hypothesis is rejected, and therefore, we conclude that sales growth is positively related to the value of a firm.

For the given value of V1-1 and V2-18, the F=4.41 and the calculated value of F (16.86) is greater than this value, so our hypothesis is rejected, and therefore, we conclude that profitability is positively related to the value of a firm.

For the given value of V1-1 and V2-18, the F=4.41 and the calculated value of F (8.49) is greater than this value, so our hypothesis is rejected, and therefore, we conclude that Leverage is not positively related to the value of a firm, Rather, it is negatively related.

For the given value of V1-1 and V2-18, the F=4.41 and the calculated value of F (30.72) is greater than this value, so our hypothesis is rejected, and therefore, we conclude that market value ratios are positively related to the value of a firm.

5. CONCLUSION AND IMPLICATIONS

- i) The HMIL (61.67%) has the highest average sales growth rate as compared to MSIL (13.77%).
- ii) The most valuable company in terms of average market capitalization was MSIL in comparison to HMIL. The contribution of HMIL was almost NIL whereas MSIL's share was Rs. 20303 crore in market capitalization

- iii) On the basis of ratio analysis, MSIL was the most valuable company. MSIL has got 7 Points 2 for liquidity, 2 for profitability, 2 for leverage and 1 for efficiency analysis, whereas HMIL has got 5 points 2 for efficiency, 1 for liquidity, 1 for profitability and 1 for leverage analysis.
- iv) In terms of profitability MSIL was the most profitable company. MSIL's score was 557.86 whereas HMIL's share was only 49.78.
- v) From the perspective of stock market wealth creation, it can be stated that MSIL was the most valuable company during the period 2000 to 2009.
- vi) In terms of cash flows, which represent the actual economics benefits generated by the assets, MSIL was the largest value maximizers. MSIL's cash flow was Rs. 834.71 in comparison to the Rs. 429.01 of HMIL's.
- vii) In terms of market value HMIL score was more than the MSIL, it was 4120.05 whereas MSIL was 225.00.

REFERENCES

1. Altman, E.I. & T.P. Mcgough (1974), "Evaluation of a Company as a going concern." *Journal of Accountancy*, 12, 50-57
2. Aswath Damodaran, (1996), *Investment Valuation, Tools and Techniques for determining the value of any asset*, John Wiley & Sons, Inc Pp.9-17
3. Bagechi, S.K.(2004), "Accounting Ratios for Risk Evaluation", *The Management Accountant*, (July) Vol-39, No.7-pp 571-573
4. Capaul C, Rowely I and Sharpe W F, (1993), "International value and growth stock returns," *Financial Analysts Journal* Pp. 27-36
5. Jarrod, W Wilcox, (1984), "The P/B-ROE Valuation model", *Financial Analysis Journal*, pp 9-17
6. Liu Jing, Doron Nissim and Jacob Thomos, (2007), "Is Cash flow King in Valuations?" *Financial Analysts Journal*, Vol 63(2), pp 56-56-58
7. Liu Jing, Doron Nissim and Jacob Thomos, (2002), "Equity Valuation using multiples." *Journal of Accounting Research*, Vol.40(1), Pp.135-172
8. Richard E S Boulton, Barry D libert, Steve M Samek, (2000), *Cracking the Value Code, How successful are creating wealth in the New Economy*, Harper Business. Pp.5-25