

## **A Study on Shareholder's Wealth Maximization of Muthoot Finance Limited**

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### **Abstract**

Wealth Maximisation is a modern approach to financial management that aims to maximize the Wealth of the firm for its shareholders. It is considered a superior objective to the profit maximization goal because it takes into account the time value of money, risk, and other factors. The objective of the research is to measure the wealth maximization of the company and to provide suitable suggestions for the selected company and for the investors for their Wealth Maximization. Many of organizations have entered into the concept of wealth-based management. The Problem taken for this research is that due to the fluctuations in the market price of the shares, it is essential to measure the wealth created by the organization. The researcher has chosen Muthoot Finance Limited is one of the leading non-banking financial corporations in India for a better understanding of the wealth creation of the organisation. In this research there are two financial tools have been used to analyse the data and the findings from the study are Share capital trend has been stable in all study years, while, profit trend has fluctuated and gradually increased the company's value. Based on the analysis of the selected organisation and also of the investors the researcher has been given suggestions. The research finds that the value of Muthoot Finance Limited has gradually increased over the study period, even though profits have fluctuated.

### **Keywords**

Financial management, Shareholders, Profit maximization, Shareholder wealth maximization, Trend analysis, Capital structure, Market price, and Muthoot Finance Limited.

### **1. Introduction**

A firm's primary objective should be maximizing the wealth of the firm, and the owners of a company are its shareholders, the primary financial goal is to maximize shareholder wealth. Shareholder's wealth is capital gains and dividends. so shareholder wealth is maximized by maximizing the amount of

capital gains and dividends that shareholders receive in the long run. The Wealth maximization goal is commonly considered to be superior to the profit maximization goal. Maximization of wealth is based on the assumption that management should strive to maximize the firm value. Therefore, wealth maximization is achieved by maximizing the market price of shares. Specifically, maximization of the market price of shares is the operational substitute for Value/Wealth/Net present value maximization as a decision criterion. The market price of shares reflects on the wealth of the owners. Financial management emphasizes value creation for the owners or providers of equity capital. Corporate India paid less attention to the goal of shareholder wealth maximization until the 1980s. However, it has emerged as the central focus of corporate financial practices in the post-1990 liberalization era.

This study is significant because equity shareholders invest their money in equity shares of a company with the basic objective of attaining good capital appreciation and regular and stable returns (i.e. dividends). Equity shareholders carry more risk than bondholders because they are entitled to the profits remaining only after all other stakeholders and creditors are paid. If nothing is left, they do not receive any return as they are the “residual” claimants of a company’s profits. If a company generates large profits, shareholders enjoy the highest returns. Meanwhile, lenders keep receiving the same interest payment year in and year out, regardless of the level of company profits. By contrast, owners keep whatever profits are left over and therefore can receive a greater return on their capital.

## **2. Company Profile**

Muthoot Finance Limited, India’s leading gold loan company, was established in 1887 in a Kerala Village by Shri Ninan Mathai Muthoot. The company entered the gold loan business in 1939 under the leadership of Shri. M George Muthoot. Muthoot Finance Limited has emerged as India’s largest and most reliable gold loan NBFC. Through its subsidiaries, the Company offers a range of other services, including insurance, money transfers, the sale of gold coins, Foreign exchange, Domestic money transfer, and Microfinance. Muthoot Finance Limited's corporate office is located in Kochi, Kerala, India. The company operates over 4,739 branches across India and internationally, with branches in the UK, US, and United Arab Emirates. Muthoot Finance Limited stocks are listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). As of March 2023, profit after tax reached Rs.34.74 billion.

### **3. Statement of the Problem**

The firm's primary objective is to maximize equity shareholder wealth. However, due to fluctuations in the market price of shares, it is essential to understand the factors that influence shareholder wealth and develop methods for measuring it. The researcher has chosen Muthoot Finance Limited for a better understanding of the wealth maximization of the company.

### **4. Scope of the Study**

The study mainly focuses on analysing financial performance of the firm. The present study develops a financial statement analysis for shareholders' equity and its developments. The study is limited to five years of data from Muthoot Finance Limited and does not take into account other factors that may influence shareholder wealth, such as the overall market environment and industry trends.

### **5. Objectives of the Study**

- 5.1** To test the trend values of the selected finance company over the past five years.
- 5.2** To study the financial position of Muthoot Finance Limited using comparative financial statement and trend analysis.
- 5.3** To provide suitable suggestions for the selected firm and for the investors for their Wealth Maximization.

### **6. Research Methodology**

#### **6.1 Research Design**

Analytical research design is used for this study and the researcher used the facts or information already available and analyzed these to make a critical evaluation of the firm's wealth.

#### **6.2 Sources and Collection of Data**

Secondary data has been used for the analysis, and for the analysis the financial statements are collected through company annual reports, journals, books, and websites.

### **7. Period of the Study**

Five years of data from 2018-2019 to 2022-2023 are being used by the researcher for the analysis.

### **8. Tools used for the Study**

- 8.1** Trend Analysis
- 8.2** Capital Structure

## **9. Review of the Literature**

- Kirloy (1999) “Shareholder wealth can only be created if the performance of the management is more than the expectations.
- Aswath (2001) “Discussed the reasons why the shareholder wealth maximization objective should be the main objective of a firm”.

## **10. Analysis and Interpretation**

### **10.1 Trend Analysis**

Financial statements can be analysed by computing trends of a series of information. Trend analysis determines the direction of change (upward change or downward change) by calculating the percentage relationship between each financial statement item of the current year and the same item in the base year. A number of years of financial statements information is taken into consideration, and one year, commonly the first year, is selected as the base year. The figures for the base year are set to 100, and trend ratios for subsequent years are calculated relative to the base year. Trend ratios indicate the direction of change in the performance – improvement, deterioration or constancy over the years. This analysis allows the analyst to see the overall trend of the figures, whether upward trend or downward trend. The interpretation of trend analysis involves a cautious study. The mere increase or decrease in trend percentage yields misleading results if studied in isolation. For instance, an increase in sales may not necessarily translate into increased profits if the cost of production has also gone up. Hence, it is important to examine the trend of various financial criteria in conjunction with each other to gain a comprehensive understanding of the company’s financial performance.

$$\text{Trend percentage (\%)} = \frac{\text{Current Period Value} - \text{Base Period Value}}{\text{Base Period Value}} \times 100$$

### **10.2 Capital Structure**

Given the objective of the company to maximize equity shares value, the company should select a financing mix/ capital structure/financial leverage which will help in achieving the objective of financial management. Proportion or mix of different financing sources (debt capital and equity capital) that make up a company's total capitalization. As a result, capital structure should be examined from the perspective of its impact on the value of the company. It can be legitimately expected that if the capital structure decision affects the total value of the company, a company should select such a financing- mix as will maximize the shareholders’ wealth. Such a capital

structure is referred to as the optimum capital structure. The optimum capital structure may be defined as a judicious proportion or mix of debt capital and equity capital that leads to maximum value of the company and provides valuable insights into the company's overall financial strength and its ability to generate value for shareholders.

The capital structure is found out to know about the value of the company (V)

$$(V) = E + D$$

Where: V = Value of the company, E = Market value of Shareholder's Equity, D = Market value of Debt

Earnings available to Equity Shareholders = Earnings before Interest and Tax (EBIT) – Interest

Cost of Equity (Ke) = Earnings per Share / Market Value per Share

Market Value of Shareholder's Equity (E)= Earnings available to Equity Share/ Cost of Equity

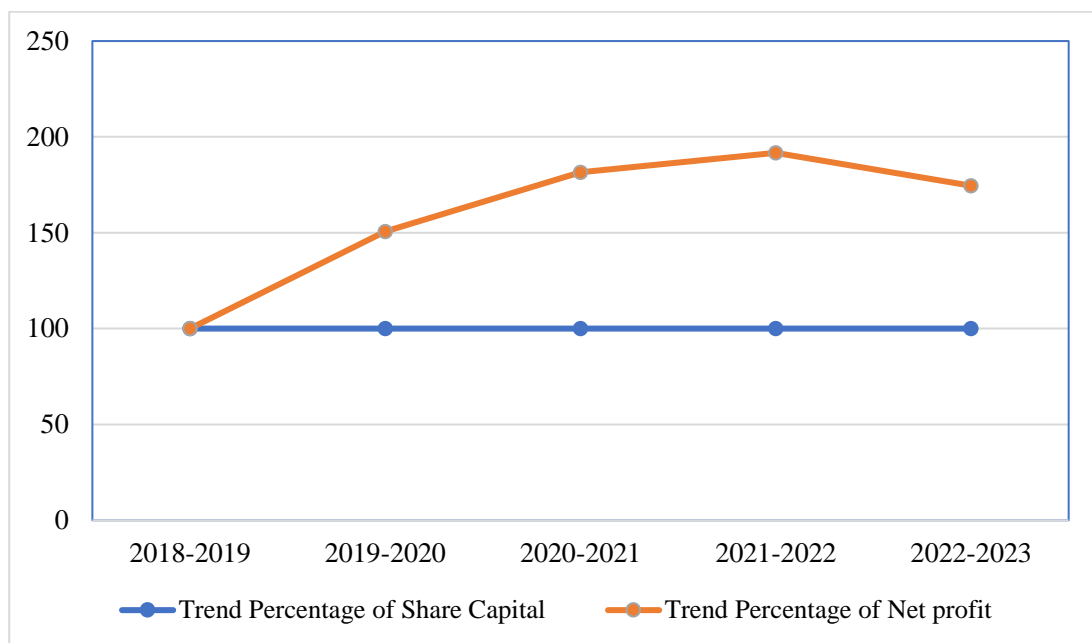
### **Analysis and Interpretation**

**Table 1:- Trend percentage (2019- 2023) (in millions)**

Year	Share Capital		Net Profit	
	Rs.	Trend percentage	Rs.	Trend percentage
2018-2019	401	100	2,103	100
2019-2020	401	100	3,169	150.68
2020-2021	401	100	3,819	181.60
2021-2022	401	100	4,031	191.68
2022-2023	401	100	3,670	174.51

*Source:* (Consolidated Annual Reports of the Company)

The above trend percentage table shows that share capital has remained stable at 100 percent in all study years, while profit has fluctuated between increasing and decreasing, rising from 100 percent to 191.68 percent from 2019 to 2022, but then falling to 174.51 percent in 2023.



**Figure 1:- Trend Percentage (2019-2023)**

**Table 2:- Capital Structure (2019 - 2023) (in million)**

Year	Earnings available to Equity Shareholders	Capitalization Rate (%)	The Market Value of Equity Shares	The Market value of Debt	Value of the Firm
	Rs.	Rs.	Rs.	Rs.	Rs.
2018-2019	3,305	6.81	485	30,128	30,613
2019-2020	4,298	6.47	664	40,952	41,616
2020-2021	5,167	6.35	814	50,414	51,228
2021-2022	5,428	9.41	577	54,569	55,146
2022-2023	4,926	6.79	725	55,804	56,529

Source: (Consolidated Annual Reports of the Company)

The above capital structure table shows that the company's value gradually increased from Rs.30,613 to Rs.56,529 from 2019 to 2023.

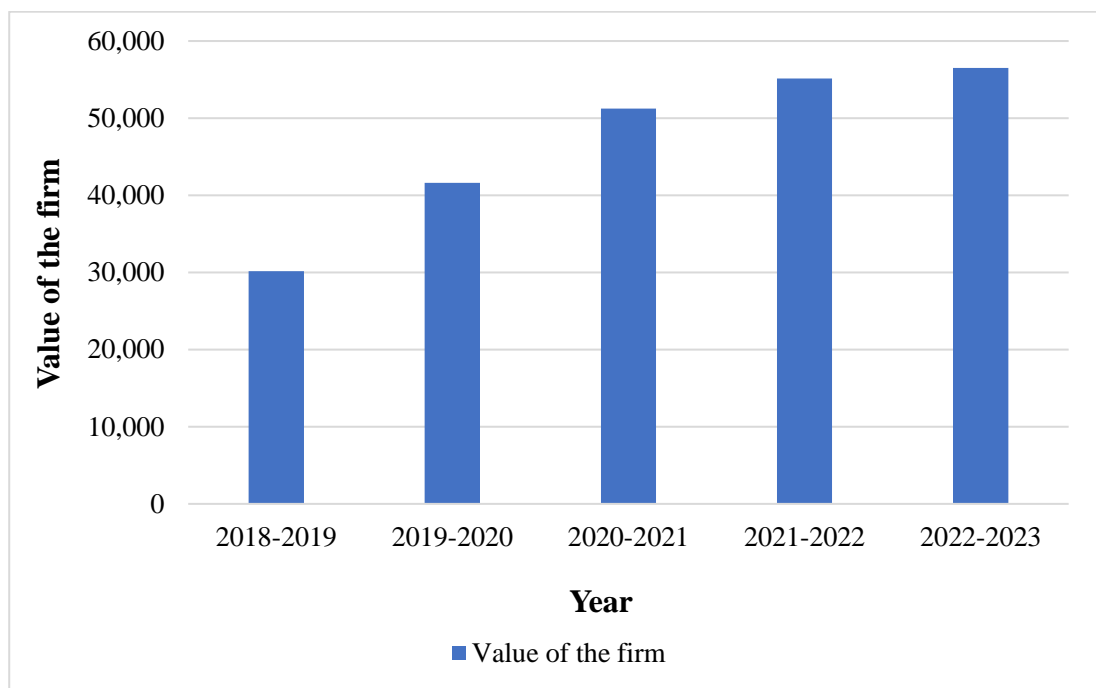


Figure 2:- Value of the Firm (2019 - 2023)

## 11. Finding

Share capital remained unchanged from 2019 to 2023, but profit decreased sharply in 2023 to 174.51 percent, while firm value increased gradually.

## 12. Suggestions

### 12.1 For Muthoot Finance Company

Share capital remained at 100 percent throughout the study period. Improve customer service to attract more customers. Maintain a healthy balance of income and expenses to preserve the organization's profit. Control costs and expenses, focus on growing the core business, and diversify into new markets and products.

### 12.2 For Investors

Investors may consider Muthoot Finance Limited as a potential investment option to maximize their wealth in the long run. Diversify your investment portfolio and monitor investments on a regular basis.

### **13. Conclusion**

Muthoot Finance Limited focuses on wealth maximization, and its financial health was strong throughout the study period. When making investment decisions, investors should analyse the various aspects of a company, such as its economic value, market value, and cash returns, to get a good return on their investment. To minimize risk and maximize return, investors should be able to analyse companies in a particular sector. The study's interpretations will help investors make informed investment decisions about Muthoot Finance Limited.

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