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Original Research Paper

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A STUDY ON THE PRODUCTIVITY OF MAHINDRA AND MAHINDRA FINANCIAL SERVICES LIMITED

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ABSTRACT Entrepreneurs require huge amount of investment for the establishment or expansion of their enterprises. When the setting up of business units involves investment in land and buildings, equipments, plant and machinery, the capital required to be invested is very high which is not affordable to small and medium entrepreneurs. Generating funds by issue of securities or financial assistance from banks and other financial institutions requires a lot of time. It is expensive to buy and maintain equipments, plant and machinery of higher value. The financial assistance from banks and other financial institutions will not fetch a hundred percent funds. The entrepreneurs also have to provide margin money. However, if they prefer to procure assets under lease financing, they can easily procure assets with zero per cent cost. Leasing companies are known as leasers and the entrepreneurs who procure assets for possession from them are called leasees. The present paper aims at analyzing the productivity of one of the largest leasing finance company, Mahindra and Mahindra Financial Services Limited for a period of ten years.

KEYWORDS : Leasing; Leasers; Leasees; Productivity.

INTRODUCTION

Leasing is an agreement between the owner of a fixed asset and its user whereby the former allows the latter to use the asset for a fixed period. The consideration to be paid by the user to the owner of asset is known lease rent. The lease rent shall be paid periodically as agreed between them. It is a form of financial assistance provided by the leasing companies. Under this agreement, the title to the asset lies with the owner (leaser) and the user (leasee) is provided with the right to use the asset only. At the end of the contractual period, the lessee has to return the asset to the leaser. If both the parties agree to renew the leasing agreement, they can do so with the modified terms and conditions if any.

The lease can be classified as financial lease and operating lease. The financial lease is also called as capital lease. It is entered into between parties for a long period of time. It could be made for the economic life of the asset to be leased out. The financial lease cannot be cancelled before the expiry of lease term. The total sum of lease rentals paid by the leasee would be greater than the initial cost of the asset incurred by the leaser. Taking a land or/and building on lease for a long term is an example of financial lease.

The operating lease is otherwise called as service lease where the leaser lets the lease to use the asset for a shorter period. The operating lease is not made for the economic life of the asset. The operating lease can be cancelled before the expiry of the lease term. The total sum of lease rentals paid by the leasee would not be greater than the initial cost of the asset. Taking a car on hire for a particular example is regarded as an example for operating lease.

Lease financing is unique in its nature whereby 100 per cent finance is provided to the leasee. He need not pay any down payment and the full cost of asset is financed by the leaser. Hence, the capital investment is saved for the leasee and hence he can utilize the amount for investment in other assets like inventories, etc. It helps to improve the cash flows and lease rental to be paid is flexible and convenient for both the parties. It increases the liquidity of the leasee. However, the leasee has no salvage value at the end of the lease term. He is not supposed to improve or modify the asset without the approval of the leaser.

REVIEW OF LITERATURE

Hena Naaz (2015) has undertaken a study entitled, "Profitability Analysis and Financial Evaluation of Select Leasing Company in India". The objectives of the study included to analyze the overall performance; financial performance; liquidity and solvency position of leasing company. The problems and prospects of lease financing have also been analyzed in this study. The author found that the revenue earned by the selected leasing company has significant impact on the shareholders' fund. The author has concluded that the financial position of the company was quite satisfactory in terms of liquidity and solvency position.

Kaur and Ohri (2016) in their study on "Effect of Lease Structure on Financial Statements and Performance of the company" analyzed the effect of different lease structure on the performance or profitability of the company. They found that the expenses for the financial lease would be higher than that of operating lease in the early years and lower in the later years. They have stated that the payment of rent is the operating cash outflow in the case of operating lease while the interest paid is the operating cash out flow.

STATEMENT OF THE PROBLEM

The success of leasing and hire purchase companies depends to a greater extent on the financial performance of these companies. At the same time, the productivity of these companies has been one of the major concerns of these companies. The productivity is the yield per employee as well yield per office. The number of employees working in these companies and the number offices opened have been increasing every year with a view to expand the business. It is expected that such an effort must bring higher yield to these companies. Under these circumstances, the present study has been undertaken to assess the productivity of the selected leasing company, Mahindra and Mahindra Financial Services Limited.

OBJECTIVES OF THE STUDY

The following are the objectives of the present study:

1. To assess the productivity of Mahindra and Mahindra Financial Services Limited in terms of the selected measures per employee
2. To examine the productivity of Mahindra and Mahindra Financial Services Limited in terms of the selected measures per office and
3. To offer suggestions for improving the productivity of Mahindra and Mahindra Financial Services Limited.

SCOPE OF THE STUDY

The present study has been undertaken with a view to examine the productivity of Mahindra and Mahindra Financial Services Limited. In this context, the productivity has been analyzed in terms of net profit, value of assets financed and number of contracts. These measures have been examined with reference to number of employees and number offices. Hence, the present study covers the analysis of productivity per employee and productivity per office in accordance with net profit, value of assets financed and number of contracts.

PERIOD OF STUDY

The study covers a period of 10 financial years from 2006-07 to 2015-16. The data relating to the productivity for the above period have been analyzed in this study.

RESEARCH METHODOLOGY

The present study is mainly based on the secondary data obtained from the annual reports of the selected company, Mahindra and Mahindra Financial Services Limited. The data relating to the selected measures of productivity have been obtained for a period of ten years from 2006-07 to 2015-16. The present study is descriptive in nature and aims to find the facts about of the productivity of the selected company.

STATISTICAL TOOLS

The data collected from the annual reports of the company have been analyzed using various appropriate statistical tools such as mean, standard deviation, coefficient ofvariation, compounded annual growth rate and correlation.

LIMITATIONS OF THE STUDY

The present study has been conducted for a particular leasing company only. The period of study has been confined to a period of 10 years from 2006-07 to 2015-16.

ANALYSIS AND INTERPRETATION

The productivity of Mahindra and Mahindra Financial Services Limited has been analyzed in two dimensions – productivity per employee and productivity per office. The productivity has been analyzed with three variables – net profit, value of asset financed and number of contracts. The productivity per employee has been computed by dividing the each of the selected variables by number of employees and the productivity per office has been calculated by dividing each of these variables by number offices. The parameters used to determine the productivity per employee and productivity per office included mean, standard deviation, coefficient of variation and compounded annual growth rate. The results are furnished in the following table:

TABLE 1: PRODUCTIVITY PER EMPLOYEE AND PER OFFICE

Rs. in lakhs

Years	Per Employee			Per Office		
	Net Profit	Value of Asset Financed	No. of contracts	Net Profit	Value of Asset Financed	No. of contracts
2006-07	2.81	115.03	135.54	32.97	1350.11	1590.79
2007-08	3.11	102.81	143.35	40.60	1341.68	1870.79
2008-09	3.59	105.02	162.76	49.20	1440.65	2232.78
2009-10	4.92	127.87	170.66	74.66	1942.34	2592.26
2010-11	5.31	165.31	178.56	84.66	2636.17	2847.57
2011-12	6.38	200.77	208.34	102.16	3213.23	3334.49
2012-13	7.83	211.52	226.90	134.35	3628.40	3892.19
2013-14	6.92	198.19	243.37	99.35	2844.35	3492.76
2014-15	5.86	171.38	256.02	75.07	2195.95	3280.40
2015-16	4.25	168.80	262.75	57.63	2288.46	3562.08
Mean	**5.10**	**156.67**	**198.83**	**75.07**	**2288.13**	**2869.61**
SD	**1.68**	**41.16**	**46.91**	**31.38**	**796.14**	**775.63**
CV (%)	**32.89**	**26.27**	**23.59**	**41.81**	**34.79**	**27.03**
CAGR (%)	**4.71**	**4.35**	**7.63**	**6.40**	**6.04**	**9.37**

Source: Compiled from Annual Reports

From the Table 1 it could be understood that the net profit per employee ranged between Rs. 2.81 lakhs and Rs. 7.83 lakhs with an average of Rs.5.10 lakhs and standard deviation of Rs.1.68 lakhs. The coefficient of variation was found to be 32.89 per cent and the compounded annual growth rate was ascertained to be 4.71 per cent.

The lowest value of asset financed per employee and the highest value of asset financed per employee during the period of study were Rs.102.81 lakhs and Rs. 200.77 lakhs respectively. The average value asset financed per employee during the study period was found to be Rs. 156.67 while the standard deviation was Rs.41.16 lakhs and the coefficient of variation was 26.27 per cent. The compound annual growth rate of value of asset financed was found to be 4.35 per cent.

The number of contracts per employee at the beginning of the study period was found to be 135.54 and at the end of the study period was found to be 262.75. The number of contracts per employee showed an increasing trend throughout the study period. The average number of contracts per employee was ascertained to be 198.83 whereas the standard deviation was 46.91 and the coefficient of variation was 23.59 per cent. The number of contracts per employee recorded a compounded annual growth rate of 7.63 per cent during the period of study.

It is revealed that the net profit per office ranged between Rs. 32.97 lakhs and Rs. 134.35 lakhs with an average of Rs.75.07 lakhs and standard deviation of Rs.31.38 lakhs. The coefficient of variation was found to be 41.81 per cent and the compounded annual growth rate was ascertained to be 6.40 per cent.

The lowest value of asset financed per office and the highest value of asset financed per office during the period of study were Rs.1341.68 lakhs and Rs. 3628.40 lakhs respectively. The average value asset financed per office during the study period was found to be Rs. 2288.13 while the standard deviation was Rs.796.14 lakhs and the coefficient of variation was 34.79 per cent. The compound annual growth rate of value of asset financed was found to be 6.04 per cent.

The number of contracts per office at the beginning of the study period was found to be 1590.79 and at the end of the study period was found to be 3562.08. The number of contracts per office showed an increasing trend throughout the study period except a few years. The average number of contracts per office was ascertained to be 2869.61 whereas the standard deviation was 775.63 and the coefficient of variation was 27.03 per cent. The number of contracts per office recorded a compounded annual growth rate of 9.37 per cent during the period of study.

TABLE 2: CORRELATION BETWEEN PRODUCTIVITY PER EMPLOYEE AND PER OFFICE

Factors	r	p value	Result
Net Profit Per Employee and Net Profit Per Office	0.976	0.000	Significant @ 1%
Value of Assets financed per employee and Value of Assets financed per office	0.959	0.000	Significant @ 1%
Number of contracts per employee and Number of contracts per office	0.905	0.000	Significant @ 1%

According to the Table 2, there is highly positive correlation between the net profit per employee and net profit per office as indicated by the coefficient of correlation of 0.976 and the same is statistically significant at 1 per cent level of significance. It denotes that the increase of net profit per employee results in increase of net profit per office and vice versa.

Similarly, the correlation between value of assets financed per employee and value of assets financed per employee is highly positive with the coefficient of correlation of 0.959. It implies that an increase in value of assets financed per employee is followed by an increase in value of assets financed per office.

It could be understood that there exists a highly positive correlation between number of contracts per employee and number of contracts per office at 1 per cent level of significance. It reveals that increase in number of contracts per employee and increase in number of contracts per office occur simultaneously.

FINDINGS

It is found that the compounded annual growth rate of net profit per office is greater than that of net profit per employee over the period of ten years of study.

During the same period, the value of asset financed per office also recorded greater compounded annual growth rate than value of asset financed per employee.

The results showed that the compounded annual growth rate of number of contracts per office is higher than that of number of contracts per office.

The correlation analysis revealed that the productivity parameters such as net profit, value of assets financed and number of contracts per employee and per office are highly and positively correlated.

SUGGESTIONS

It is suggested that with a view to increase the net profit the company should increase the number of employees and number of offices so that the productivity will be increased and also the net profit.

On the basis of the findings, it is recommended that number of employees in every office shall be increased so that number of contracts will be increased and as a result the productivity will also be increased.

CONCLUSION

The productivity of Mahindra and Mahindra Financial Services Limited has been constantly increasing during the period of study. In this period, the productivity in terms of net profit, value of assets financed and number of contracts are found to have increased considerably. It is better to increase the number of employees and number of offices with the objective of increased the net profit and value of assets financed. The number of contracts per employee and per office will also be increased.

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